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MONEYWEEK

MAKE IT, KEEP IT, SPEND IT

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Engineering profits

The British industrial
champions to buy now

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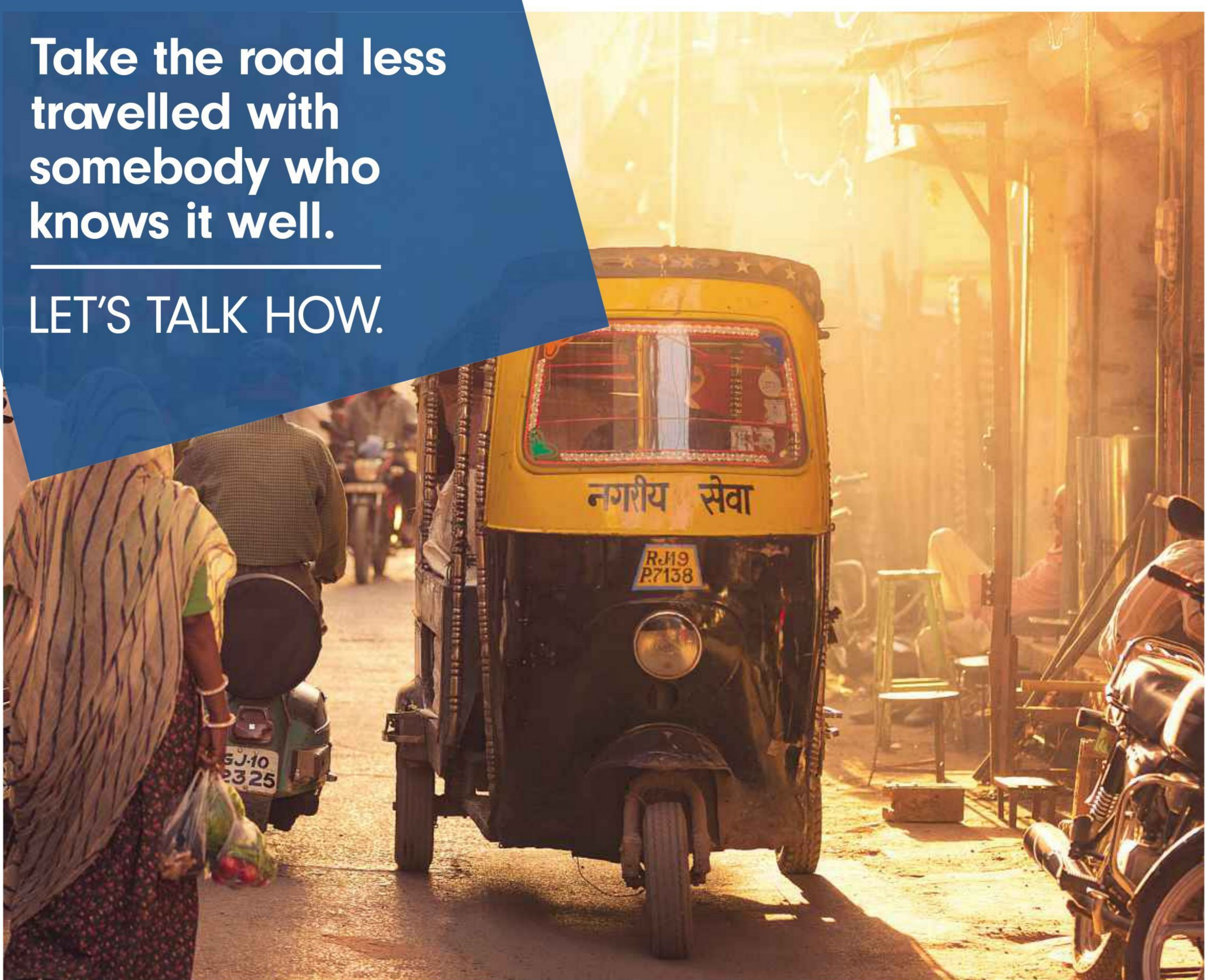
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PAST PERFORMANCE					
	Mar 14– Mar 15	Mar 15– Mar 16	Mar 16– Mar 17	Mar 17– Mar 18	Mar 18– Mar 19
Fidelity Asian Values Net Asset Value	27.9%	1.5%	43.2%	0.4%	8.8%
Fidelity Asian Values Share Price	29.8%	0.1%	57.5%	-0.6%	15.7%
MSCI AC Asia ex Japan	24.4%	-9.0%	35.0%	12.2%	2.0%

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 Source: Morningstar as at 31.03.2019, bid-bid, net income reinvested. ©2019 Morningstar Inc. All rights reserved. The comparative index of the Investment Trust is MSCI AC Asia ex Japan.

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From the editor-in-chief...



Global investors are more bearish today than at any point since the financial crisis. That, at least, is what the latest Bank of America Merrill Lynch (BAML) survey of fund managers tells us. They have, they say, the lowest allocation to equity markets since March 2009. Some data even suggests that, in the US at least, the bond weighting in portfolios exceeds that of equities. That's highly unusual (if you want to make inflation-beating long-term returns, you need equities). So what's spooking managers?

BAML's chief strategist, Michael Hartnett, puts it down to worries about recession; about trade wars; about high levels of corporate debt; and about "monetary policy impotence" – the possibility that central bankers can't do much more to stimulate debt-ridden economies. This makes some sense. But long-term readers will remember that March 2009 was the bottom of the bear market of 2007-2009; and know that stockmarket returns are only partly about these things. Politics (in the form of a trade war, or even a long cold war between the US and China) matters far more to markets than it did a few years ago. But still, barring political apocalypse, the most important factor behind your returns is the price at which you buy.



©Getty Images

Politics matters – but price matters more

"Barring political apocalypse, the key driver of returns is the price at which you buy"

Here it gets complicated. Markets look pricey, says Societe Generale's Andrew Laphorne. But look closer and you'll see a huge "polarisation of value". Stocks that operate as bond proxies (ie, that rise with rising bond prices) have become pricier, while "more cyclical and negatively bond-correlated equities have seen valuations slump to levels normally associated with a recession". There are actually many more stocks trading below average valuations than usual. So much so, you could almost say that while the average equity market isn't cheap, given that the overvaluation is concentrated in fewer stocks than usual, the average stock is. If you know where to look, there's lots to buy.

With that in mind, turn to our cover story. Few people would think of the UK as home to a group of world-leading engineering firms. They should think

again. As Mike notes, the UK is a hotbed of international engineering brilliance. For two reasonably-priced stocks to think about, turn to page 20.

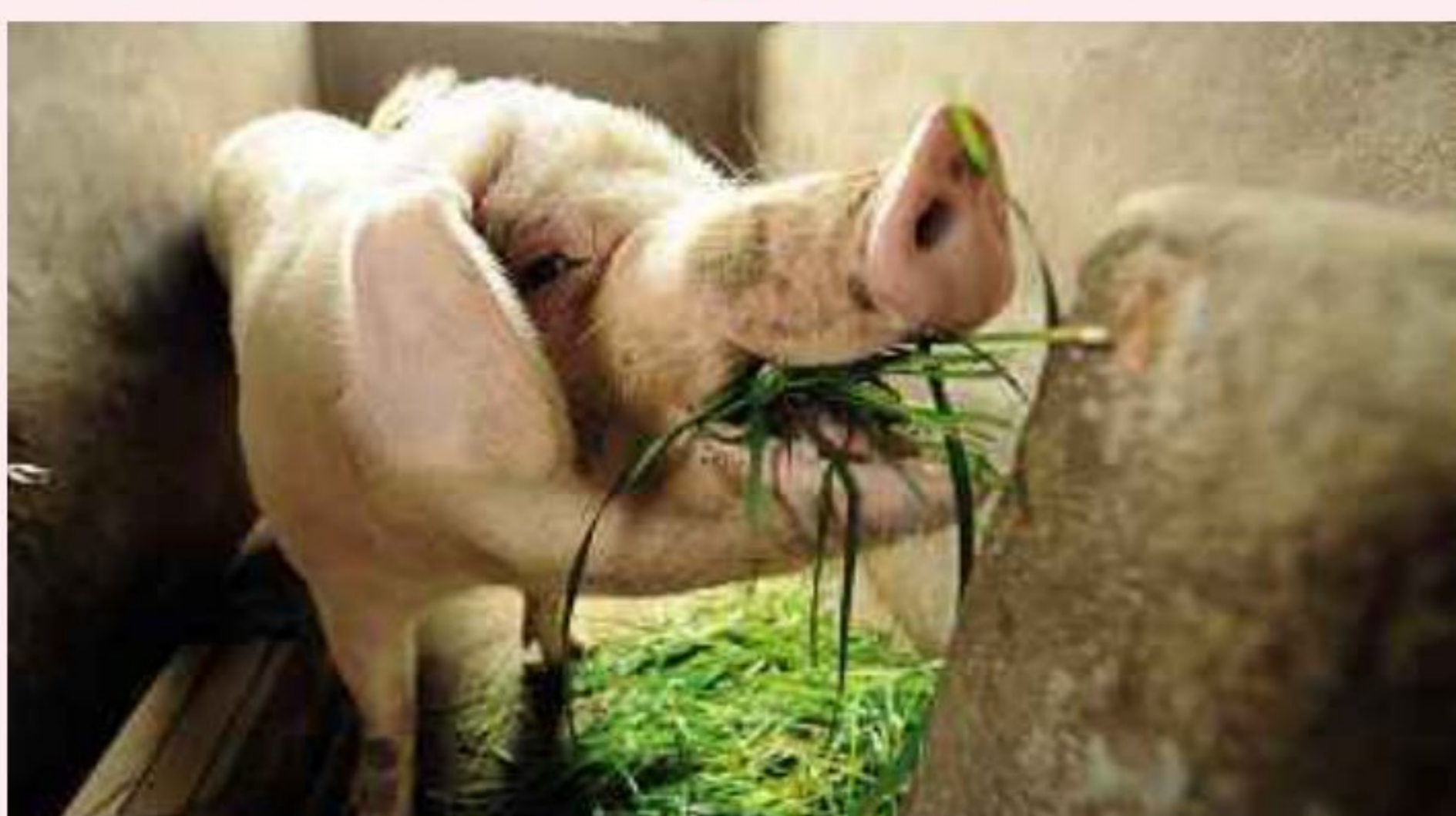
On page 35, we review *Bitcoin Billionaires*, a book on how the Winklevoss twins overcame the disappointment of "derisory" compensation from Mark Zuckerberg (for their contributions to founding Facebook) to make a fortune from cryptocurrencies. Then turn to page 25, where Dominic wonders if Zuckerberg may be about to have the last laugh? Facebook is backing the launch of a new crypto, Libra, one that

(thanks to the 2.7 billion users of Facebook products) could get traction at a speed of which bitcoin bulls couldn't dare to dream.

Bitcoin (now ten years old) hasn't reinvented money, nor improved many people's lives (the Winklevoss family aside, of course). Libra, says Dominic, may not be a particularly pure crypto, but it "could still be world changing". For more, see Anthony Hilton's thoughts on modern payment systems on page 16 (it's all about China) and listen to our latest podcast on the topic (at moneyweek.com). I haven't been especially interested in cryptocurrencies so far. But, as you will hear, I'm very interested in Libra.

Merryn Somerset Webb
editor@moneyweek.com

Misunderstanding of the week



Swiss bank UBS has been excluded from a \$1bn bond sale despite apologising for remarks by its global chief economist, Paul Donovan, which infuriated social-media users in China. In a note, Donovan noted that "sick pigs" are behind rising pork prices. "It matters if you are a Chinese pig. It matters if you like eating pork in China. It does not really matter to the rest of the world." The reference to Chinese pigs was misinterpreted as a racist slur. China Railway Construction Corp says it will now not work with UBS on its bond sale; at least one Hong Kong brokerage has cut ties; and the Chinese Securities Association of Hong Kong has demanded further apologies. Donovan is now on leave while UBS reviews the matter.

Good week for:

Iarnród Éireann, the Irish national rail company, has pledged to give 25 years' free rail travel to a baby girl who was born on the 15:05 train from Galway to Dublin. Two nurses and a doctor on the train helped the mother give birth, after she went into labour on board.

Writers at Mexican-themed eaterie Wahaca

are celebrating after the company agreed to change its policy of docking their wages if a customer leaves without paying. A customer complained on social media when she discovered that a waiter in one of its London restaurants was asked to pay £3 towards a £40 bill left unpaid by people on the next table.

Bad week for:

Kerville Holness, a house hunter in Florida, thought he'd got a bargain when he paid \$9,100 for a property being auctioned off by Broward County for unpaid property taxes. His delight soon turned to despair when he was informed that he hadn't bought the bungalow pictured, but that he was now the owner of a one foot by 100-foot strip grass verge. Officials say he is not entitled to a refund.



The US blacklisting of Chinese smartphone company **Huawei** is beginning to bite. This week, founder and CEO Ren Zhengfei said that sales fell by 40% last month and revenue for the next two years would be £30bn lower than previously forecast. "We didn't expect the US would so resolutely attack Huawei," said Ren. Sales are now expected to stagnate at around \$100bn in 2019 and 2020.

Hong Kong faces a perfect storm



Alexander Rankine
Markets editor

The powers that be might shrug off popular discontent, but they will “listen to money”, says Pete Sweeney on Breakingviews. That explains Hong Kong’s decision to shelve a controversial extradition bill. Plans to allow residents to be sent to face mainland courts have sparked mass protests that ultimately forced Carrie Lam, the city’s leader, to suspend the bill indefinitely. Yet that gesture did not calm the unrest. Organisers claim that up to two million people, nearly 30% of Hong Kong’s entire population, turned out last Sunday regardless.

China’s leaders do not want to kill the fabled golden goose, says Sweeney. Hong Kong accounted for about 12% of the mainland’s exports last year and is the single largest source of “realised foreign direct investment” to China. Its stock exchange gives mainland firms “an independent channel to international capital outside... New York or London”.

East meets West

“Asia’s World City” has long been an attractive destination for international investors wanting to buy “red chips”: mainland firms listed on the Hong Kong exchange, such as tech giant Tencent. Red chips offer exposure to the world’s second-biggest economy, but with a predictable legal system and an expectation of corporate transparency.

Under the “one country, two systems” framework instituted after its return to China in 1997, Hong Kong has retained significant autonomy over its own affairs. Yet recent years have brought a creeping “China-isation”, says William Pesek



The territory is under threat from China and the US

in the Nikkei Asian Review. The latest drama comes against a “fragile economic backdrop”. Growth in the first quarter was the slowest in a decade and rocketing property prices have stoked discontent. But previous bets against the city have proved wrongheaded. Those who sold Hong Kong property before the 1997 handover “are seriously out of pocket”.

Washington’s decisions could prove just as important as Beijing’s, says Ambrose Evans-Pritchard in The Daily Telegraph. The US recognises Hong Kong as having a “special status”, which exempts it from Trump’s tariffs. The Hong Kong dollar is pegged to the greenback. Yet with a trade war raging, moves are afoot in the US Congress to bring those cosy arrangements to an end. The Fragrant Harbour’s role

as the world’s third-biggest financial hub “can no longer be taken for granted”.

Shanghai calling

British investors now have another way to bypass Hong Kong’s financial markets. A link between London and Shanghai went live this week. Shanghai-listed firms will now be eligible to take a second listing in London. UK companies can also sell shares in China, although red tape means that the system remains limited for the time being.

The latest development underlines the threat to Hong Kong’s financial status from the likes of Shanghai and Singapore, says Bloomberg Businessweek. With mounting “instability and fear” in Hong Kong and regional competitors upping their game, the city faces “a perfect storm”.

Emerging markets have grown up

It’s time to move beyond emerging market stereotypes, says investment manager Franklin Templeton in a research note. A bet on developing countries once meant buying into politically-volatile markets dependent on cyclical commodities. But today the biggest sector in the MSCI Emerging Markets index is technology. It accounts for 28% of the market.

The region’s tech players are as likely to be leading global innovation as following it. “Unhindered by sunk investments in legacy systems,” businesses in emerging markets have more freedom to come up with something genuinely new in sectors ranging from mobile banking to electric vehicles,



says Andrew Ness of Templeton’s Emerging Markets trust. “Take Chinese e-commerce,” which today makes up a “far higher percentage of retail sales in China than in the US.” Without legacy credit-card networks,

Chinese consumers are also migrating directly to digital payment platforms run by Alibaba and Tencent.

India is also leading the new tech charge, notes Henny Sender in the Financial Times. The value of the country’s

e-commerce transactions is just a fraction of that of China’s, but a growing middle class means rocketing demand for a wide variety of services and easier ways to pay. The country has plenty of savvy entrepreneurs, although with venture capital playing a big role, “it may still be a while before investors in public markets have a tasty menu to pick from”.

Not all emerging markets are created equal. Materials and energy businesses, once worth 30% of the MSCI index, now make up just 15.7% of it, although that number still goes as high as 27% in nations such as Brazil. Investors will increasingly need to differentiate between emerging markets.

Gold will regain its shine

“The gold bugs are out in force,” says Garry White in The Daily Telegraph. The dash for this “financial teddy bear” suggests that investors see rising risks in markets and are seeking out an asset traditionally seen as the ultimate safe haven. Soft Chinese data and rising tensions in the Middle East have sent gold prices towards 14-month highs around \$1,340 an ounce.

The main drawback of holding gold is that it pays no interest, but with government bond yields continuing to plumb the depths, reflecting fears over global growth, gold is looking more attractive on a relative basis. Interest-rate cuts by the Federal Reserve would also help gold by weakening the dollar. They would make the currency less appealing – and gold more attractive since it is priced in dollars.

Then there’s inflation. MoneyWeek has been pointing out for some time that markets may be underestimating the risks of an inflationary scare in an era of ultra-loose monetary policy. Peter Schiff of Euro Pacific Capital tells Barron’s that if the economy slides into a “severe recession” then we could be in for another round of quantitative easing that is “much larger than prior ones”. That will stoke fears of inflation too. “Gold does well in periods of dollar weakness, inflation, and economic uncertainty,” concludes Schiff. “We are about to get all three.”

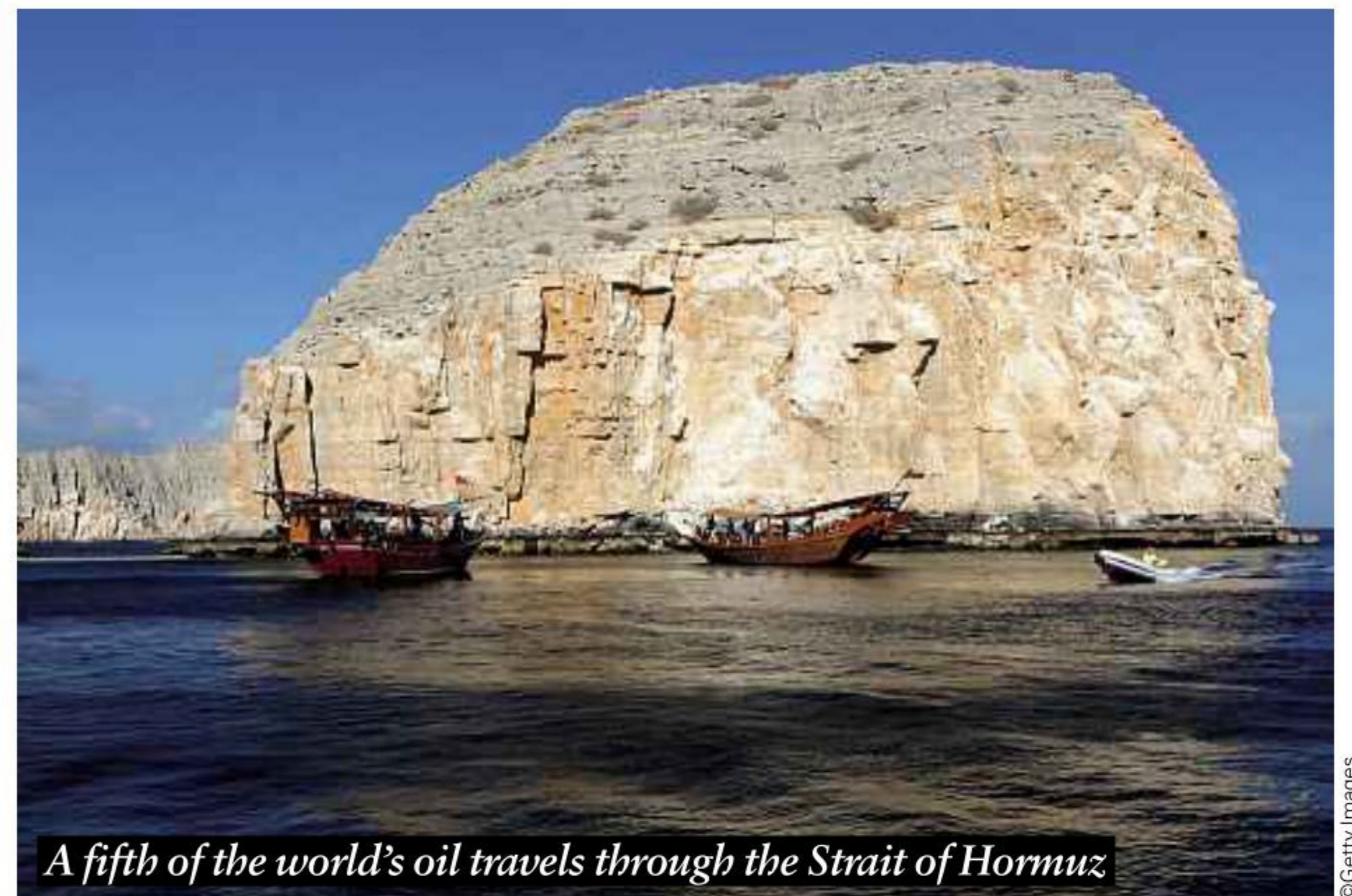
Will we avoid an oil spike?

Last week’s attacks on two tankers in the Persian Gulf are hardly a job for Hercule Poirot, says John Hulsman in City A.M. With Donald Trump’s White House applying “maximum pressure” on Iran’s economy, Tehran “had the motive, means, and opportunity to perpetrate the crime.”

Whoever is responsible, the incident has raised new concerns about global oil supplies. About one-fifth of the world’s oil travels through the narrow Strait of Hormuz, where the attacks occurred. The Economist points out that a 2008 study found that if Iran mined the choke point it would take the US “the better part of a month” to reopen the crucial waterway. The burning ships sent Brent crude up by 4%, yet at \$61 per barrel the price remains well below the April highs around \$75.

Demand trumps supply

Fears that trade tensions are hitting global growth, and hence demand for oil, have kept prices “soft” this month, say Amrith Ramkumar and Ira Iosebashvili in The Wall Street Journal. China’s industrial output growth hit a 17-year low in May. The relatively mild market reaction to a major incident in the Gulf “echoes a broader downdraft” in the prices of such commodities as copper and cotton. With the



A fifth of the world’s oil travels through the Strait of Hormuz

global economy slowing, the International Energy Agency has cut its forecast of this year’s oil demand growth by 100,000 barrels per day.

Along with slowing demand, the other crucial factor keeping a lid on oil prices is the “abundant supply of US shale oil”, write David Sheppard and Harry Dempsey in the Financial Times. US commercial crude-oil stockpiles climbed by another 2.2 million barrels in June.

Swings in the world’s most important commodity price have far-reaching economic implications. On one hand, higher energy costs for business are passed onto consumers through price increases, bolstering inflation. Yet on the other, because an oil-price spike operates like a tax increase on many economic activities it can

end up choking off demand, which is deflationary. An analysis by Oxford Economics has found that Brent at \$100 per barrel would shave 0.6% off global GDP by the end of 2020. The world economy is currently expected to grow by 3.3% this year.

“Every major recession we have seen has been preceded by a ramping up of global commodity prices,” Chris Midgley of S&P Global Platts tells The Guardian. Surging crude prices “would raise a huge recessionary risk”.

For the time being, it appears that weakening demand and US shale supplies will prevent a runaway bull market in oil. Yet with growth weakening across the world and the trade dispute worsening, talk of war in the Middle East is yet another headache for investors.

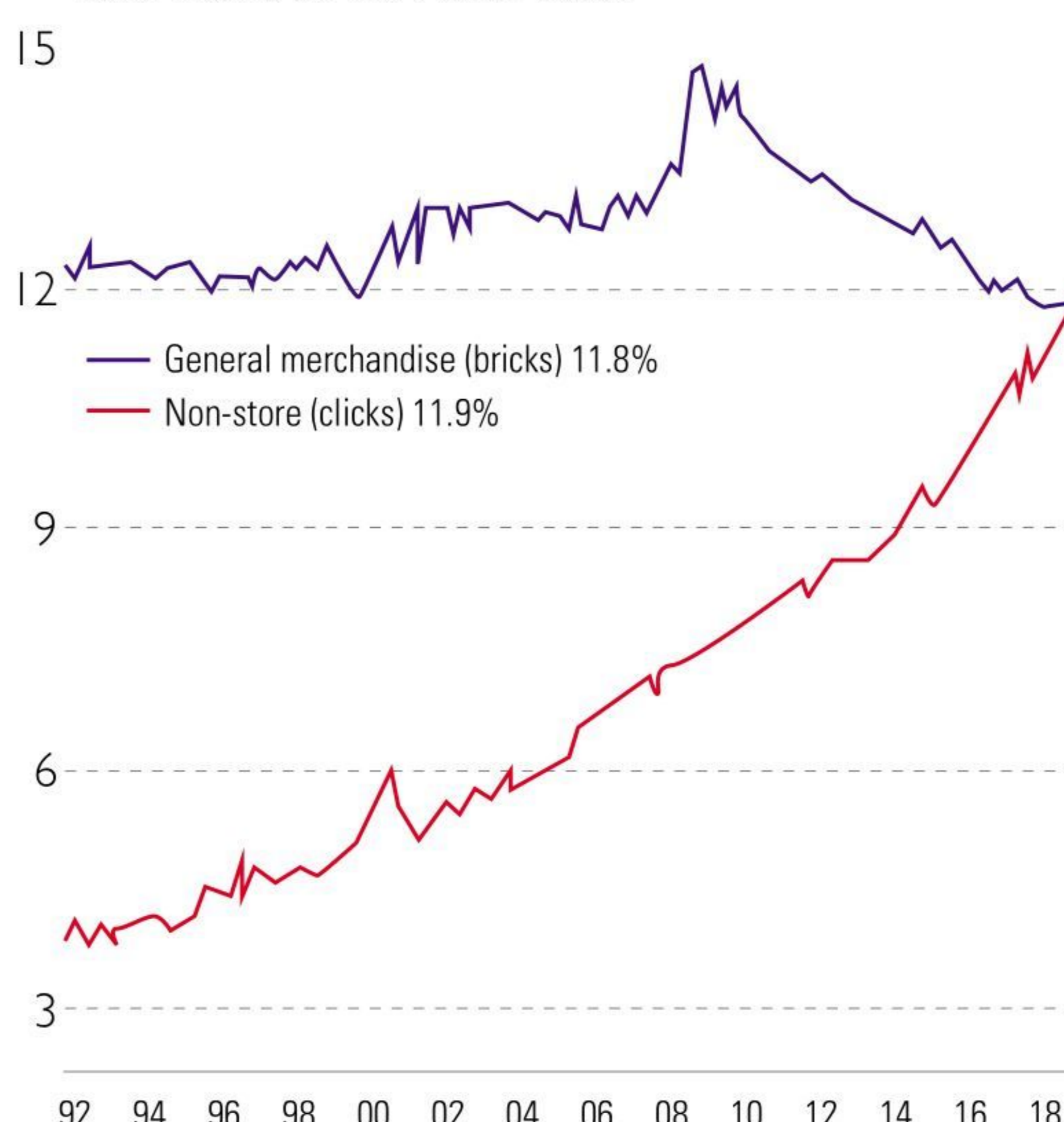
Viewpoint

“Private equity has a rotten track record when it comes to listing companies on the stockmarket. Debenhams never recovered from its ownership by a trio of buyout firms more than a decade ago... the chain flogged off its freehold property, cut costs to the bone, and was lumbered with more than £1bn of debt. It is now in the hands of lenders. It is far from alone. Foxtons, Convatec, and Pets at Home have all flopped as public companies, having spent time in the hands of private equity. But few can match the wretched legacy of Acromas, which spawned not one, but two stockmarket dogs: roadside rescue experts the AA and over-50s holiday specialists Saga.... Private equity’s big play is that it has the freedom to invest in companies away from the glare of the public markets. Yet too often companies return to listed life a shadow of their former selves.”

Ben Marlow, The Sunday Telegraph

Clicks eclipse bricks in US retail

Total share of US retail sales



America’s retail sector has reached a major milestone. In the first quarter, online sales overtook in-store sales for the first time on record, says Justin Walters of the Bespoke Investment Group. The trend was confirmed by the latest figures from the Commerce Department, which noted that the “general merchandise” category comprised 11.8% of overall retail sales in May, compared with non-store sales’ 11.9%. In the US the general merchandise category refers mainly to supercentres, such as Walmart, department stores, and warehouse clubs, such as Costco. Food and drink, cars, petrol and restaurants are counted separately. Cars and car parts jointly make up the biggest sector, accounting for a fifth of overall sales.

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

Three to buy

Renalytix AI

The Mail on Sunday

The travails of Neil Woodford's fund highlight the dangers of investing in early-stage healthcare businesses, but the sector still has promise. This Aim-listed group helps with early diagnosis of kidney disease, which affects more than 850 million people worldwide. Its KidneyIntelX diagnostic system uses a simple blood test to determine which patients are most at risk of developing advanced kidney problems. Revenues should soar

in coming years and city brokers have "high hopes". 240p

Chemring

The Sunday Telegraph

This defence contractor produces countermeasures such as flares, decoys and "chaff" to help jet fighters evade detection. Its also offers cybersecurity and produces equipment to detect chemical, biological and explosive threats. A "heavyweight" management team boosted the order book by a third in the first half. Shareholders have been "put



through the wringer" of late, but things are looking up. 170p

CYBG

The Sunday Times

Clydesdale and Yorkshire Banking Group is one of the

few challengers to have made a dent in the banking sector. A "chunky" £61bn mortgage book gives it scale, which was enhanced by last year's £1.7bn acquisition of Virgin Money. The purchase of a well-known brand is a "huge boost" to efforts to draw in more customers. Integration risks and shrinking margins in the UK mortgage market are key risks, but with shares trading below book value and £150m in cost savings anticipated from the Virgin deal, this stock is a buy. 179p

Three to sell

Codemasters

Shares

Shares in this video games developer have surged almost 40% since the end of November but it is now time to take profits. A deal with Chinese giant NetEase has opened access to the Middle Kingdom's vast gaming market. Full-year revenue growth of 12% is impressive, but if you strip out the NetEase venture it becomes a pedestrian 3%. Recent good news is now in the price and, with the financial benefits unlikely to start

flowing until 2020 or 2021, the "news vacuum" could cause share-price volatility. 251p

J Sainsbury

Investors Chronicle

The failure of Sainsbury's proposed deal with Asda has



given the shares downward momentum. All of the big four supermarkets (the others are Asda, Tesco and Wm Morrison) have been losing market share to discounters Aldi and Lidl, but none more so than Sainsbury. Unfortunately, management has not responded to the failed merger plan with the required boldness and its determination to reduce debt levels will constrict capital expenditure, which will do nothing to reverse recent declines in market share and margins. 202p

Just Eat

The Times

Just Eat's share price has been "suffering a bout of indigestion". Amazon's investment in arch-rival Deliveroo has put the spotlight on ferocious competition in the sector. Just Eat has responded by offering steep discounts and investing in a new delivery network but this is a low-margin business and the final bill is uncertain. On 31.5 times forecast earnings and with no dividend the shares do not look appetising. 621p

...and the rest

The Daily Telegraph

Paris-listed cognac maker Rémy Cointreau has been around since 1724 and remains under family control.

This recipe for longevity looks cheap (€119.80).



this out as a quality business – buy (3,908p). **Countryside Properties** has been buffeted

by souring sentiment towards housebuilders and a connection with

Neil Woodford's Equity Income Fund, but with the shares on just seven times forward earnings there could

be re-rating potential when the "shadow of Woodford lifts" (296.5p). Fewer contract wins and rising debt could drive housing services provider

Mears Group towards a "tipping point" – sell (255p).

Mail on Sunday

Wales-based **Creo Medical** is a pioneer in stomach cancer treatment. It is loss-making, but long-term prospects are bright (194p).

Shares

Fears of slower global growth have driven shares in cruise ship operator **Carnival** down too far. It is a high-quality operator that has delivered £7.6bn to shareholders through

dividends and buybacks since 2014 – buy (3,935p). News of record revenue and profit have sent shares in electronics equipment maker **Halma** to an all-time high – buy on any dips (1,941p). Premium lifestyle brand **Joules** continues to "confound" retail sector doom and gloom and has exciting global growth potential (279p).

The Times

"Remarkable" sales figures from **Gregg's** show that investors underestimate the baker at their peril (2,234p).

A German view

Denmark's **Ambu** is a hidden gem, says *Der Aktionaer*. Few have heard of the 53-year-old company, but its products can be found in operating theatres around the world. Offerings range from face masks and breathing bags to endoscopes and electrodes used in electrocardiograms (ECGs). The long-term outlook for medical devices is encouraging and **Ambu** has just announced a record quarter: sales jumped by 14% to €105m as operating earnings reached €26m. The group's promising product pipeline includes new endoscopes, which should allow it to reach its sales target of 750,000 devices by the end of the year. A recent dip in the share price is a good buying opportunity for long-term investors.

IPO watch

Airtel, Africa's second-largest mobile network operator after **MTN**, will float in London at the end of June. The group will have a free float of at least 25% of the equity and the price range for the initial public offering (IPO) will be 80p-100p, implying a market capitalisation of £3bn-£3.6bn. That is the sort of market value associated with mid caps in the FTSE 250 Index. **Airtel**, which has its headquarters in the Netherlands, will list in Nigeria at the same time. The telecoms and mobile money transfer company operates in 14 African countries and has nearly 100 million subscribers. It is owned by India's **Bharti Aitel International**.

City talk

● The first email was sent in 1971, says James Titcomb in *The Daily Telegraph*. Now the technology is thought to “take up almost a third of the working day”. One alternative is office messaging app Slack, known as the WhatsApp of business, which office workers actually seem to enjoy using. The group is set to receive a \$17bn (£14bn) valuation when it lists in New York today. A valuation of 42 times sales is steep given a loss of \$138m last year. Yet if it can chip away at the tyranny of emails it will be worth every penny.



● Consolidation of the global oncology industry continues apace, says James Dean in *The Times*. US drugs giant Pfizer has agreed to buy Array BioPharma for \$10.64bn. Pfizer is best known for Viagra, but the real money now is in cancer. Array's drugs have been approved to treat skin cancer and are involved in 30 clinical trials for other maladies. The price represents a steep 60% premium to Array's pre-deal share price, but Pfizer is keen to join the takeover party. In January, Bristol-Myers Squibb announced a \$74bn acquisition of cancer specialist Celgene.

● Franco-Israeli cable billionaire Patrick Drahi is nobody's idea of a “dream buyer”, says Stephen Wilmot in *The Wall Street Journal*. The man behind the Altice telecoms empire is best known for “highly leveraged deals and aggressive cost-cutting”. Yet his \$3.7bn acquisition of the 275-year-old Sotheby's auction house looks like a case of “art for art's sake”. The move is not for financial gain but part of a “very French pattern of trophy acquisitions by billionaire entrepreneurs”. People have long sought respectability by buying art. “An art auction house takes the logic a step further.”

Can Kier avoid collapse?

The engineering group has had to bring forward a strategic review to placate anxious investors. What happens next? Alex Rankine reports

Will it be a case of “Kier today, gone tomorrow”? asks Alistair Osborne in *The Times*. New chief executive Andrew Davies, who has only been in the post for eight weeks, has been forced to rush out the publication of a strategic review a month early to calm markets still reeling from this month's profit warning. High debt levels have left the engineering group looking “increasingly rickety” and have prompted comparisons to failed outsourcers Carillion and Interserve. The group's net debt at the end of June will be between £420m and £450m. “Not bad for a company now valued at just £175m”.

The share price has slumped by more than 85% over the past year. Now management will cut 1,200 jobs, with 650 to go at the end of this month. Kier will dispose of its homebuilding division amongst other units as it focuses efforts on infrastructure.

The new strategy – to concentrate on core, cash generative businesses and sell the rest – was the only option left on the table, says Jim Armitage in *The Evening Standard*. Yet doubling down on infrastructure seems “extremely high-risk”. Building highways is a fiercely competitive business and this approach also looks like a “nerve-jangling bet on HS2 and Crossrail 2 happening.” What's more, the suspicion that it is a forced seller means that Kier may not get a good price for its housebuilding and property operations. The most likely endgame of all this is not administration, but a merger with a rival “in this troubled industry”.

“A Carillion-style collapse does not look imminent”, agrees Lex in *The Financial Times*. Freezing the dividend and investment and disposing of the housebuilding division should bring debt down to more manageable levels in due course. Kier has a more diversified contract base than defunct support-service peers, while generous bankers mean that a liquidity crunch is unlikely.



What if Crossrail 2 doesn't happen?

Dividend shocker

The real question is “what were they smoking” in Kier's boardroom last September when they decided to increase the annual dividend by 2%, says Nils Pratley in *The Guardian*. Andrew Davies has quickly learnt that half his job is “to restore confidence” as suppliers and creditors ask difficult questions. His rescue strategy looks sensible. Naturally that means that “the dividend is a goner. There won't be one this year or next.”

Once again, income investors have fallen victim to a “dividend trap”, says Robert Smith in *The Financial Times*. Vodafone's drastic dividend cut last month wrongfooted many. Kier's dividend yield was approaching 40% before this week's suspension – a reminder that returns that look too good to be true probably are. Balance sheet analysis by managers at Henderson's International Income Trust suggests that one in five listed stocks looks like a “potential dividend trap”. Kier will not be the last to serve up a nasty surprise.

Boeing regains altitude

Could Boeing have broken its 737 Max (pictured) curse? The plane is still grounded worldwide following two fatal accidents in the past year and it remains an open question when it will fly again, says Bruno Treviadic in *Les Échos*. Yet the second day of the Paris Air Show brought an “enormous coup de théâtre” in the form of an unexpected order from IAG. The parent company of British Airways and Iberia plans to buy 200 of the troubled planes. The deal is worth \$24bn.

Airbus has been doing brisk business too, say Robert Wall and Andrew Tangel for *The Wall Street Journal*. The European aircraft maker has used the biennial show to



announce plans to develop the A321XLR, “its longest-range single-aisle plane yet”.

Airlines have traditionally focused on making passengers take connecting flights through big hub airports, but a new generation of long-distance, smaller planes will provide more direct connections than ever before. A route such as

Barcelona to Chicago doesn't have enough demand to fill a whole jumbo jet, but there are enough passengers for a “midsize” plane. “Midsize” will be a lucrative market segment in coming decades, and with Boeing still procrastinating about whether to develop its own model “Airbus is likely to beat its rival to the punch”, say Wall and Tangel.

The announcement of a new Airbus jet was an exception to the rule in Paris, says Gwyn Topham in *The Guardian*. The usual “plethora of new products and big-money orders” has been “dampened” by concerns about slowing global growth and the US-China trade war.

Will America and Iran go to war?

A game of brinkmanship is under way, yet neither side wants to risk a conflict. Emily Hohler reports

“A profoundly dangerous game of brinkmanship is under way in the Gulf,” says the Financial Times. An attack on two oil tankers last week in the Gulf of Oman follows a similar attack last month, with the US blaming Iran for both. While Tehran denies responsibility, the country’s Atomic Energy Organisation said on Monday that it would breach the internationally agreed limit on its enriched uranium stockpile on 27 June unless Europe finds a way to ease the pain of crippling American sanctions.

European leaders now find themselves in the “place they have feared” ever since President Donald Trump withdrew from the Iran nuclear deal (Joint Comprehensive Plan of Action or JCPOA) 13 months ago, says Steven Erlanger in The New York Times. The Europeans are eager to preserve JCPOA for security and for the stability of the Middle East. A declaration that Iran is no longer compliant would “kill the deal” and be “deeply distressing for a continent already in conflict” with Washington over issues including trade, climate change and military spending. Caught in the middle, they are now urging restraint while “racing” to get a “weak barter system”, known as Instex, in place. But this is only designed for humanitarian goods and supplies; there is no sign of any major European country wanting to risk US sanctions in return for trade with Iran.

On a knife edge

The current situation shows that one part of the US strategy, at least, is working, says the Financial Times: its desire to exert “maximum pressure” on Iran. US sanctions have caused Iranian oil exports to plummet and the economy to fall back into recession. However, “the other side of the strategy – forcing Tehran to renegotiate



Trump: he'll probably stick to the jaw-jaw

the nuclear deal and to curb its support for regional militias – has failed miserably”. US actions have instead strengthened hardliners in Tehran. Iran has resisted the US offer of “unconditional talks” as its withdrawal from JCPOA has destroyed trust. A “mediation mission” by Japanese prime minister Shinzo Abe last week ended with Iran’s supreme leader Ali Khamenei telling Abe that Tehran would not repeat the “bitter experience” of talks with the US. With other JCPOA signatories now under pressure to help Iran and risk angering the US, the situation is “on a knife-edge”.

“Neither the US nor Iran wants war,” says Colonel Richard Kemp in The Daily Telegraph. Trump, who campaigned against US involvement in unnecessary foreign wars, “knows better” than to engage in a war in the run-up to the 2020 presidential elections. As for Iran, the ayatollahs might wish to give “Great Satan” a “bloody nose”, but they also know the regime would not survive a war with the US. Their aggression

is meant to show that US sanctions come at a price, given 30% of global crude passes through these waters.

A change of tack is needed

Iran may be “banking on the assumption” that unlike some of his hawkish advisers (John Bolton and Mike Pompeo), Trump doesn’t want war, says Vali Nasr in The New York Times. “The challenge for Iran is how to come to the table without the appearance of capitulation.” It will act tough, just as it considers negotiations. Iranians were “keen to hear” what Abe had to say on Trump’s behalf. We don’t know what Abe heard “behind closed doors in Tehran”. But Trump needs to “change tack”. He has to convince Iran that he is serious about talks, and to do that he needs the support of JCPOA signatories and other world powers. “He has to realise that unilateralism and maximum pressure have gone as far as they can.” He now “has to invest in diplomacy”.



Johnson: only a matter of time?

Outsider reshapes Tory leadership race

Boris Johnson, the Tory leadership frontrunner, headed into Wednesday’s third round of voting with a substantial lead. His vote rose by 12 to 126 out of 313 votes on Tuesday, with Jeremy Hunt, Michael Gove, Sajid Javid and Rory Stewart also getting enough votes to make it into the following round. Hunt again came second, with 46 votes, but it was Stewart who “made the biggest stride forward, nearly doubling his backing from 19 to 37 votes”, says the BBC. Once the list is trimmed down to two, 160,000 Tory party members will elect the next party leader, who is “virtually guaranteed to become the next prime minister”.

On Wednesday, Stewart said he was in talks with Gove to combine forces, giving them 78 votes – almost certainly enough to put one of them into the final two – but Gove has reportedly rejected the idea. Their approaches to Brexit differ. Gove wants to negotiate a new deal, whereas Stewart, notes The Daily Telegraph’s Rob Wilson, is planning a “Lazarus-like resuscitation” of May’s deal. Boris, meanwhile, “flailed” on Tuesday’s live BBC leadership debate, “unable to offer any coherent idea, let alone plan, for how he would deliver British withdrawal from the European Union by 31 October, still less cope with the multiple

consequences of crashing out without a deal”, says Jonathan Freedland in The Guardian.

Stewart has “little chance” of victory, but by “exposing the lie that the withdrawal agreement can be renegotiated by force of personality”, he has “reshaped the race”, says Tom Kibasi in The Guardian. His “clarity and sincerity” have also “thrown the mendaciousness and evasiveness of Johnson into sharp relief”. Johnson is still likely to win – the “tag team of... May, Johnson and... Farage has generated an insatiable thirst for a no-deal Brexit” among party members – but Stewart’s campaign means he will “seize a tarnished crown”.



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Guatemala City

Corruption overshadows presidential election:

Guatemala's centre-left candidate, Sandra Torres (pictured), led the first round of voting in Guatemala's presidential election last week, securing 26% of the vote, preliminary results showed. Former prisons director Alejandro Giammattei of the right-wing Vamos party was in second place with 14%. Because neither candidate reached 50%, a deciding vote will be held in August. Torres is divorced from Álvaro Colom, who governed Guatemala from 2008 to 2012. She and her National Unity of Hope party are being investigated for allegedly receiving \$2.5m in illegal campaign funding four years ago. Two other candidates, Zury Ríos, the daughter of the late military ruler, Efraín Ríos Montt, and Thelma Aldana, were barred from running, while a third was arrested in Miami on suspicion of conspiring to import cocaine to the US. Turnout has been low in the impoverished central American country, where a recent survey found that 40% of Guatemalans are considering emigrating to the US, says Juan Montes in *The Wall Street Journal*. In March, US President Donald Trump threatened to cut aid funding to the region if more wasn't done to stem the flow of migrants to the US.

Paris

France's protesters hang up their gilets: After seven months of angry and often violent demonstrations, France's *gilets jaunes* have called it a day. What began as a protest in November 2018 against President Emmanuel Macron's fuel taxes quickly mushroomed into a wide-ranging expression of outrage. At its peak a quarter of a million people took to the streets. At the latest demonstration, just 7,000 turned up. The desired transformation into a political force to be reckoned with at the European elections failed to occur, says Noemie Bisserbe in *The Wall Street Journal*, with candidates for the movement polling less than 1% of the vote. What's more, many of the issues behind the movement have been addressed. Macron quickly overturned the fuel-tax rises that sparked the unrest; unemployment has fallen to its lowest level in ten years; and consumer confidence has "significantly picked up". But in truth, says *The New Republic*, "their motivations and objectives were never particularly clear". In time, the *gilets jaunes* will go down as "little more than a case study in why a political movement needs more than outrage".



The protesters never clarified their objectives

Buenos Aires

Argentina blacks out: A massive power cut plunged nearly all of Argentina, and neighbouring Uruguay, into darkness last Sunday. The outage happened at 7.07am when demand was relatively low. The following morning – a public holiday in Argentina – around 10,000 people were still without power in the capital, Buenos Aires. Gustavo Lopetegui (pictured), the country's energy secretary, told local radio that the cause was a power surge in a major transmission line in northern Argentina that spread to the rest of the grid. Underground trains ground to a halt and traffic lights failed. Persistent blackouts have been an embarrassment for President Mauricio Macri, who cut electricity subsidies as part of an austerity package that led to a sharp rise in utility bills. The outage also raised urgent questions about flaws in South America's creaking electricity grid, says Nick Allen in *The Daily Telegraph*. Sunday's blackout, however, was particularly severe, and came just as voters were heading to the polls for regional elections in four provinces. Macri has seen his popularity plummet and may lose October's presidential election.



The way we live now: demanding a silent cab driver

Uber customers using the premium Uber Black service can now request that their drivers keep talking to a minimum during their car journeys. The new "quiet mode" feature released on the app last month signals to the driver that their passenger is looking for some peace and quiet. Passengers can also select "happy to chat" or "no preference". Quiet mode "is something that people have been asking for for a long time", Uber's product manager Aydin Ghajar told Josh Constine on TechCrunch. The new option has been broadly welcomed by women, many of whom

have shared stories of overly forward male drivers on social media, says the BBC. Others, however, bemoaned the dehumanising aspect of being able to silence someone at the press of a button, while some lamented the decline in "social skills" to the point where such an option is even necessary. One Twitter user insists it means that "wealthy people can buy their way out of interacting with the poor". Ghajar stressed that it was just an option. "It's not mandatory," he said. "We're just communicating the rider's preference. The driver can do with it what they want."



Where's the mute button?

©Getty Images: Alamy

London

Heathrow's 30-year expansion:

Detailed plans of Heathrow airport's expansion were released this week as part of a 12-week statutory consultation process, says Janina Conboye in the Financial Times. The "contentious" third runway is due to become operational in 2026 as part of the first phase of works, which are due to be completed by 2050. The proposals include plans for mitigating the effects on the environment and local communities, such as encouraging airlines to use more fuel-efficient aircraft and a ban on night flights. The House of Commons backed the £14bn expansion plan last June after more than a decade of "delays",

but it is still not a "done deal". There will be a planning inquiry next year and the airport still needs to "secure the transport secretary's approval". Meanwhile, Boris Johnson – who once vowed to "lie down... in front of those bulldozers" – has refused to confirm that he would cancel the scheme if he becomes prime minister. The expansion is "utter madness", according to Justin Francis in The Daily Telegraph. Heathrow is already the largest source of carbon emissions in the UK, producing more than Croatia's entire economy. What's more, 70% of flights are taken by just 15% of us. An expanded Heathrow will provide zero benefit to most of the UK.



An expanded Heathrow is still not a done deal

Hangzhou, China

Alibaba heads to Hong Kong: Alibaba is best known as an e-commerce giant in China – the equivalent of Amazon – but the company also has a portfolio of around 100 investments. Its interests in other companies were in the spotlight this week as the group unveiled its biggest management shake-up since founder Jack Ma announced his departure last autumn. Maggie Wu, Alibaba's chief financial officer, is now overseeing the portfolio of strategic investments. Executive vice-chairman Joe Tsai will be working alongside Wu. He has also been given the responsibility of overseeing mergers and acquisitions with a view to wrapping companies Alibaba takes stakes in "more tightly into the ecosystem", as Louise Lucas puts it on ft.com. Alibaba is keen to invest in new areas, such as cloud computing. Jack Ma will remain as chairman until his retirement in September, when chief executive Daniel Zhang takes over. The rejig comes in advance of a planned secondary listing in Hong Kong, where the company hopes to raise \$20bn to fund the expansion of its investment portfolio. The stock has gained a fifth this year, but Citigroup see more upside, notes Barron's.

Sintra, Portugal

Eurozone bond yields fall on ECB statement: The president of the European Central Bank (ECB), Mario Draghi, said on Tuesday that further rate cuts or quantitative easing (QE, or buying government bonds with printed money) would be required if inflation failed to rise. Eurozone shares rallied on the news, while the euro fell. US president Donald Trump reacted angrily on Twitter, accusing the ECB of acting unfairly to devalue its currency in order to help boost Europe's export-led economy. Bond yields in the currency bloc also slipped as prices rose amid concern over dwindling global and European growth. The yield on the German ten-year bond fell to a record low of -0.32%. And in the next-biggest eurozone economy, France, the yield on the ten-year bond fell below 0% for the first time, meaning that investors are now actually paying the French government to lend it money. Around \$11.8trn of bonds worldwide now offer negative yields, close to the record \$12.2trn seen in 2016.

Qatar



Michel Platini in corruption investigation: Former Uefa president and French football legend Michel Platini (pictured) was detained in connection with a criminal investigation by France's Financial Prosecution Office (Parquet National Financier, or PNF) this week. The PNF is looking into suspected corruption surrounding the awarding of the 2022 Fifa World Cup to Qatar in 2010. More than half of the 22-man panel who voted on the matter have been accused of taking bribes. Platini is alleged to have changed his mind about voting for the USA in favour of Qatar after a lunch with French president Nicolas Sarkozy and Tamim al-Thani, the emir of Qatar. However, he told The Guardian he had already changed his mind before the lunch took place. Platini, who is currently serving a ban from football over a payment of CHF2m he took from former Fifa president Sepp Blatter, says he has done nothing wrong. His lawyers were keen to stress that he had not been arrested but was merely appearing as a "witness", says The Independent.

Is the data protection law working?

Last spring's GDPR is one of the most complex pieces of legislation the European Union has ever devised. But is it achieving what it was supposed to? Simon Wilson reports

What is the GDPR?

It's the EU's General Data Protection Regulation (GDPR), an EU-wide set of rules governing data privacy in the age of the internet. It came into effect in May last year, and will remain part of UK law even after we leave the EU. GDPR took four years to debate and compose (mostly by privacy-conscious German lawyers) and consists of 99 articles and 173 explanatory comments, making it one of the most complex pieces of legislation ever produced by the EU. Its stated purpose is to "protect all EU citizens from privacy and data breaches in an increasingly data-driven world".

How does it do that?

Principally by dramatically expanding the definition of what counts as data; by compelling organisations to secure consumers' explicit consent to various forms of communications and data storage; and by beefing up penalties for data breaches and non-compliance. Until last year, EU citizens' rights over their personal data (everything from addresses and health records to credit data) were enshrined in a directive that hadn't been touched since 1995, when the internet was still in its infancy. GDPR expands the definition of data to photos, posts on social networks, and IP addresses (which identify your computer when you access a website). And it covers virtually any organisation that collects data about EU citizens, anywhere in the world.

What must companies do?

Companies can no longer hide their requests for consent to store or use our data in endless terms and conditions and legalese, or use pre-ticked boxes. Instead, people have to opt in. This explains the flood of messages in the nation's inboxes in the run-up to last May, when shops and hotels and websites we barely remembered visiting got in touch to ask permission for them to get in touch. Under GDPR, consent to allow our personal data to be used must be unambiguous, freely given, current, and for specific purposes. Moreover, firms (or other organisations) that handle large amounts of personal data must appoint a data-protection officer and design their systems around the need for privacy.

What rights do we get?

Consumers, meanwhile (or "data subjects") get several new rights. We can access data held on us within a month, free of charge. We have the "right to be forgotten" by making an organisation erase our data, and the right to be



Google accounts for the vast bulk of the fines levied under GDPR

notified within 72 hours if our data is compromised – and to get compensation more easily. For organisations, the fines for non-compliance are much bigger under the GDPR: a maximum of €20m or 4% of turnover, whichever is the greater. According to Vera Jourova, the EU commissioner for justice, the EU has "handed a loaded gun" to the national regulatory agencies whose job it is to enforce the rules, such as the UK's Information Commissioner's Office (ICO).

How has it been going?

GDPR has greatly increased the number of data breaches reported to the authorities by companies and organisations. In the UK, total reported breaches in 2019 are estimated to be about 36,000, nearly twice the previous annual rate of around 20,000. Doubling that number is no small achievement, reckons Josephine Wolff on Slate.com. Across Europe, the first nine months of GDPR showed 206,000 cases recorded, which included 95,000 complaints and 65,000 data-security breach notifications. That is a valuable trove of information about customers whose personal data has been compromised, and for regulators and technology designers trying to understand and mitigate the root causes of breaches. However, it's much less clear that GDPR has had much impact on corporate fines for mishandling personal data.

What are the figures?

Across Europe, in the first nine months national data-protection agencies in 11 countries had levied €56m in fines. That sounds impressive, but the vast bulk of that figure was a single €50m French levy

on Google in January. Moreover, data for the UK shows that the chances of getting a fine are remote indeed. Between May 2018 and March 2019, 11,468 data-breach cases were resolved but only 29 of these led to a fine, including a £500,000 fine issued to Equifax and another half million issued to Facebook. Clearly, GDPR is a work in progress, but so far the vast majority of firms are not being fined for failing to protect customers' data, and any fines levied have hardly been onerous. Critics also say that the first year of operation has borne out their worst fears about the potentially damaging effects of GDPR.

What are they?

They worry that GDPR is cumbersome, outrageously costly to comply with, and over time is likely to entrench existing oligopolies while discouraging new investment in potential future champions. In other words, it increases the power of the biggest players, such as Facebook and Google – who can easily afford the compliance costs and have used their market power to pass on some costs to others – while making life much harder for smaller players and new entrants. For example, a study last November for US thinktank the National Bureau of Economic Research detected a 17% fall in venture-capital funding rounds for tech firms in Europe after GDPR came into force, and a fall of almost 40% in the overall funds raised. Meanwhile, in the UK Google and Facebook's combined share of the online advertising market has risen over the past year to 64%, compared with 59% in the US. Realistically, it's still very early days in terms of evidence-gathering, and regulators promise that some more big fines are in the pipeline. But for now, the jury is very much out.

Value investing's not dead yet

Rumours of the demise of value investing have been exaggerated. But what could reinvigorate the strategy?



John Stepek
Executive editor

Is value investing dead? The popular investment strategy – which, at the risk of oversimplifying, just involves buying cheap stocks rather than expensive ones – has underperformed the wider market badly (particularly in the US) since the post-financial crisis rally began back in 2009. Josh Brown on The Reformed Broker blog noted last week that no fund manager tells their investors that “we buy the most expensive assets, and add to them as they rise in price and valuation”. A shame, he says, because it’s “the only strategy that could possibly have enabled an asset manager to outperform in the modern era”.

Value is well known as a “factor” (see below) that consistently beats the market over the long run. But frustration with the current state of affairs has led many to claim that we’re in a new era, in which value can no longer work because of big changes in the global economy, ranging from the persistence of low interest rates to the power of the internet, and so on.

And yet, as Larry Swedroe notes on the Alpha Architect blog, “there is really nothing unusual about value’s underperformance over a decade; it’s just that investors have poor memories and/or they don’t know their investment history”. A study by well-known investment researchers Eugene Fama and Ken French, stretching from 1963 to 2016, found that underperformance by value (and other “factors”) is common over three- to five-year periods, and “far from rare” over ten years. More pertinent still, adds Swedroe, is that today’s travails for value investors are similar to the dry spell suffered in the late 1990s. Back then, underperformance



The buy-cheap approach: more life than this parrot

was driven primarily by tech stocks – today it’s again being driven by the technology sector and the likes of Facebook, Amazon and Netflix.

So why has value lagged so badly? One reason, says Swedroe, is that a world of low and falling interest rates and inflation is better for “long-duration” assets (ones that promise to deliver more of their profits further into the future, rather than today) than “short-duration” ones.

Low-profit, high-growth tech companies fit the bill perfectly, while profitable but slow-growing traditional companies lose out by comparison.

What with the US central bank, the Federal Reserve, now deemed more likely to lower rates than raise them, it may seem as though today’s environment of loose monetary policy will never end. Yet perhaps value is now so cheap that it makes sense to have exposure anyway. JP Morgan’s US equity strategist Dubravko Lakos-Bujas notes that value stocks are currently as cheap, relative to growth, as they were in the tech bubble. One cheap exchange-traded fund option is Vanguard Global Value Factor (LSE: VVAL).

“There is really nothing unusual about value’s travails”

I wish I knew what a factor was, but I’m too embarrassed to ask

A factor is a characteristic of a share (or other asset) that has been shown to contribute to market outperformance. Research into factors was largely driven by academics trying to figure out why certain stocks tended to generate higher returns than theories about efficient markets would have predicted.

For example, widely accepted factors include size (the observations that small companies tend to beat large firms over time); value (cheap companies beat expensive ones); yield (high-yielding stocks do better than low-yielding ones); and momentum (stocks that go up just keep on

going up). To be clear, these factors will not always beat the market over any given time period – but looking at historical data over the long run, they have generated superior returns in many different markets across the globe.

“Smart beta” is one trend in the investment industry that tries to exploit this using both the rapid growth in computing power and a growing sense of disillusionment with active fund managers. Smart-beta exchange-traded funds (ETFs) promise to use computer algorithms to build and invest in indices based on various factors. So you might invest in a momentum ETF that continually

rebalances into momentum stocks, or a value ETF that does the same for stocks seen as cheap on measures such as book value.

One problem with the race to find new factors for smart beta to exploit is the risk of data mining – if you look hard enough at historical data, you can find apparently meaningful patterns that are in fact simply statistical flukes. However, it’s fair to say that the most deeply established factors (such as those listed above) are widely accepted as valid – although, as with value, whenever they endure a period of significant underperformance, there will always be people who question whether they still work, or if they ever did.

Guru watch

Paul Tudor Jones, founder, Tudor Investment Corporation



If the Federal Reserve is planning to cut interest rates this year as far as markets are predicting, there’s one trade that should beat the rest, reckons hedge-fund billionaire Paul Tudor Jones. “If I had to pick my favourite trade for the next 12 or 24 months, it’d probably be gold,” he tells Bloomberg News. “I think if it goes through \$1,400 an ounce, it goes to \$1,700... quickly. It has everything going for it in a world where rates in the US are conceivably going to zero.”

It’s not so long ago – most of last year, in fact – that the



US central bank was aiming to keep raising rates steadily. What has happened to derail the process so rapidly?

Tudor Jones blames escalating protectionism and the trade war between the US and China in particular. “This rate-rising cycle was cut short because of the tariffs, so we need to see what impact they’re going to have.” That’s presented both the Fed and investors with a challenge that most of them haven’t seen before.

“Remember, we’ve had 75 years of expanding globalisation and trade, and we’ve built the machine around the belief that that was the way the world was going to be. Now all of a sudden it’s stopped and we’re reversing that.”

Tudor Jones reckons that the consequences could be ugly. “We haven’t seen tariffs since 1929/1930... I think it will have a bigger impact economically than the market thinks” it will. Indeed, “it’s possible that we go into recession... and that rates in the US go back to zero, and of course, in that situation gold’s going to scream”.

Luvvies should stay in London

The idea of spreading them around is well meant, but the regions have their own ideas



Matthew Lynn
City columnist

It probably sounded like a good idea at the time. Last year Channel 4, which is owned by the government but funded privately, decided to move its headquarters to Leeds, as well as opening “creative centres” in Bristol and Glasgow. According to its chief executive, Alex Mahon, the relocation out of London would mean the channel was “even more open to new talent and new voices from underserved areas” and would “better reflect the diversity of all of the UK”.

The only trouble is, no one seems to have bothered to ask the staff. When the moment to pack up their desks and start house-hunting came, nine out of ten staff members decided to stay in London and look for new jobs instead. All its senior executives ducked the opportunity to lead by example and decided to stay put as well.

Channel 4 has revenues of nearly £1bn, so it is a sizeable business, and it can probably survive that. But it is hard to believe the exodus won't have an impact on performance, and recruiting all the new people it needs could be very difficult in a city with no ready-made pool of talent in the broadcasting industry. It would be hard to think of a more catastrophic management decision in the last decade.

For years, the government has been trying to rebalance the British economy. But Channel 4 is making the same mistake as government planners – to try and force people to move out to the regions. There are two problems with that. The first, as the station has just discovered, is that they just don't want to. Any firm making a move out

of the capital risks losing not just its best people, but also the nebulous yet crucial network of contacts and suppliers that made it successful in the first place. The second is that the major cities are doing really well all by themselves, and they don't need a lot of reluctant London television “luvvies” suddenly turning up on their doorstep.

According to a report last year by the Centre for Cities, the fastest-growing cities in the UK between 2002 and 2015, in terms of population and jobs growth, were Manchester, Leeds, Birmingham and Liverpool. London came in 20th place. Growth has been so sustained in some of the growing cities that the issue has been how to find enough space for people and businesses. Regional cities have been growing organically – by creating new businesses, not by uprooting companies from London and plonking them down elsewhere.

Manchester has been expanding in sport, leisure, travel, logistics and design. Bristol has been developing its own tech industry. Liverpool has developed in life sciences and education; Birmingham in financial services and manufacturing.

How to encourage more growth

We need more policies to encourage that growth. Regional corporate-tax rates might help, and possibly income taxes as well. Both Scotland and Wales now have powers

Channel 4 is heading up north – its staff aren't



to vary their tax rates and have started to use them. If firms in Hull or Middlesbrough paid lower rates of corporation tax, they would have more money to expand and could grow a lot faster. We could launch tax-free enterprise zones to stimulate business in run-down areas. A lot of start-ups might decide they liked the look of Sheffield, or Lincoln, or Swansea if it meant they paid a zero rate of capital-gains tax if their business was successful. It has worked in the US and it can work over here as well. More infrastructure would help too. Thriving airports with connections around the world have helped Manchester and Birmingham claw their way back to prosperity. We need more airports across the country, and better rail and road links.

The UK's regional cities have been doing really well in the last decade, restoring much of their former vibrancy and prosperity. The gap with London on wages and house prices is starting to close. There are plenty of ways that trend can be encouraged. What they don't need to do is import Londoners.

“It is hard to think of a more catastrophic management decision in the last decade”

Who's getting what

● **Warwick Brady**, the chief executive of support services company Stobart Group, could be in line for a £30m bonus if the firm can sell Southend Airport for £2trn – the top end of valuations – reports This Is Money. However, a “more likely” sum for the sale is £1.4bn, which will net Brady £23m. The company capped the bonus to “minimise shareholders' anger”, saying it ought to have put the bonus to a shareholders' vote, but its remuneration consultant had said there was no need. A third of shareholders voted



against the remuneration report last year.

● **Mark Carney** (pictured), the governor of the Bank of England, has been handed an “incredibly generous” payment of £149,545 towards his pension, says The Mail on Sunday. The sum took his total pay last year to £883,911. Deputy governors **Ben Broadbent** and **Jon Cunliffe** each received £82,820 in pension benefits; **Sam Woods** was handed £87,046; **Dave Ramsden** and **Jo Place** got £55,214 each.

● **Chris Hill**, the chief executive of fund and investments supermarket Hargreaves Lansdown, is to forego up to £2.1m in bonus payments “until fund manager Neil Woodford's troubles are resolved”, reports the Financial Times. Hill has already apologised to clients who had invested heavily in the Woodford Equity Income fund, which Hargreaves Lansdown had promoted in its “Wealth 50” list of its favourite funds. Hargreaves Lansdown's customers had invested £2bn of the £10.1bn in Woodford's funds, says the Financial Times.

Nice work if you can get it

Bosses at energy firm SSE have seen their total pay fall this year after profits fell short of expectations and board members missed their bonus targets, says Mark Williamson in The Herald. Despite a 3% rise in salary to £890,000, chief executive Alistair Phillips-Davies's total remuneration for the year to the end of March fell to just £1.656m, down from £2.719m the previous year. Finance director Gregor Alexander had his total remuneration cut from £1.989m to £1.261m. However, board members did still receive long-term bonuses of up to £390,000. In the same year, SSE lost around 570,000 customers. Since taking over in July 2013 – a period in which SSE's share price has fallen by a quarter – Phillips-Davies has been paid almost £14m, says Oliver Shah in The Sunday Times. “Any FTSE 100 boss is guaranteed to become a multimillionaire if they can hang on, regardless of performance.”



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Germany's shrinking plutocrats

Editorial
The Economist

If rich Americans think they are too low on the rich-list rankings, they “fume”, says The Economist. Rich Germans complain when their ranking “looks suspiciously high”. The country isn’t short of super-rich people; it has the most of any country after the US and China. In February, Forbes magazine identified 114 German dollar billionaires, more than double the tally in Britain, and the German Institute for Economic Research estimates that the combined assets of the richest 45 Germans are “roughly the same” as those of the bottom 50% of the population. But German business barons dislike the limelight. This is partly because they own “staid businesses” – supermarkets (Lidl, Aldi) or cars (BMW, VW). It’s also because they are nervous of arousing envy or hostility. Much of the German press is left-leaning, and most German billionaires are not self-made but scions of industrial dynasties, and some legacies are “tainted”. The Reimanns, for instance, were “ardent supporters” of Hitler and permitted the “abuse of forced labourers”. Globalisation and the “mingling” of international plutocrats is changing things, but slowly. Take politics. Few have tried to enter the fray, and none has succeeded. “Old habits die hard.”

Fintech must catch up with China

Anthony Hilton
Evening Standard

PayPal handles 250 transactions a second; Visa and Mastercard handle 2,000, according to the Alan Turing Research Institute. But China’s Ant Financial (AF) handles an “astonishing” 250,000 a second, says Anthony Hilton, and that figure is forecast to rise to one million in 2020. It is estimated that some 80% of China’s biggest cities are now cashless, thanks to AF. The app can scan customers’ faces. Even beggars have readers. AF has taken off because it gave retailers the app for “next to nothing” and has then used “every transaction” to refine it. Unlike Europeans, Chinese people don’t care about data harvesting, giving the Chinese authorities a “massive advantage in bringing things to market”. British banks, meanwhile, have been focused on operational efficiency not transformation since the financial crisis, and are falling behind. What happens when AF comes to London, brought over by Chinese tourists who will assume contactless cash systems are the norm? As money is sucked into AF, this could eventually create a liquidity problem for banks. Meanwhile, the data will go to Beijing. The banks “still have the customers”, but not for much longer. They need to digitalise – fast.

“Net zero carbon” won’t work

Dominic Lawson
The Sunday Times

Theresa May is “single-mindedly determined” to secure her legacy in her final few weeks as prime minister, says Dominic Lawson. Such vanity is unedifying. Major investment in education is a “pet scheme” of Boris Johnson, but May is anxious to secure the credit for such an overhaul, even though it is clearly in the interests of the Conservative Party that its next leader gets any credit, given that he or she will be fighting the next general election. But this is “trivial” in comparison to May’s commitment to Britain becoming “net zero carbon” by 2050. Chancellor Philip Hammond puts the cost of this at more than £1trn. New Zealand, which has set a similar target, estimates doing so will cost 16% of GDP annually. Such a figure equates to around 70% of UK current public expenditure. In any case, what Britain does is “almost irrelevant”. We are responsible for around 1% of carbon dioxide emissions. China and India are growing at around 6%-8% a year (effectively an extra China and an extra India by 2030). It is equally “delusional” to think we are leading by example. The reality is that we have de-industrialised, outsourcing our manufacturing to China, which uses a lot of coal. Our policies have actually increased global warming.

Scarcity alarmists get it wrong

George Will
The Washington Post

Alarmists love to use scarcities as an excuse for state expansion, says George Will. Yet they are so rarely right. In 1968, the “Stanford hysteric” Paul Ehrlich predicted that hundreds of millions would starve to death as agricultural production failed to keep up with population growth. In 1972, MIT computer modellers foresaw civilisation collapsing because of “non-renewable resource depletion”. Now, 40 years on, Bjorn Lomborg, the “sceptical environmentalist”, noted that because technological innovations had made mercury largely redundant, consumption (and its price) had plunged. He also pointed out that we had mined far more metals since 1970, including gold, copper and aluminium, than the “known” reserves at the time. “Peak oil” has been “exasperatingly” elusive too. In 1914, the US government said oil reserves would be exhausted by 1924. In 1939, the date shifted to 1952. In 1951, the government again said the world had 13 years of proven reserves. Yet by 2006, reserves were estimated at 1.2 trillion barrels. Then “along came fracking”. The truth is, the combination of unforeseen technologies and population growth make resources “proportionately more plentiful for the rest of us”.

Money talks

“When I was asked to be a model, at first I said no, I wanted to finish studying marketing at college. My mum had



been saving up to pay for it. Then I realised modelling would be a good way to help my family. Money was my main driver.”

Supermodel Irina Shayk (pictured), who grew up in a small village in Russia, quoted in The Sunday Telegraph

“In Britain, the Marxist hatred of profit subsists happily with a Jane Austen-like coyness about where one’s money actually comes from. In Jane Austen, Trade is ungentlemanly; in Marx, it is wicked; in British literary circles, it is both. Given the nature of the output of British literary circles, this wouldn’t matter very much, except for the fact that the attitude has filtered down into the rest of the intelligentsia, and is nearly universal in the public service.”

Theodore Dalrymple, quoted in a Price Value Partners note

“Every time a man expects, as he says, his money to work for him, he is expecting other people to work for him.”

Novelist Dorothy L Sayers, quoted in The Times

“My definition of wealth is the absence of fear about what lies around the corner.”

Stand-up comedian Mark Watson, quoted in The Sunday Times

“I’ve had to learn to say, ‘I’m sorry, I haven’t budgeted for any more unpaid work this month,’ which is a nice way of saying, ‘F**k you, pay me!’ I don’t mind doing things for free for charity, but when it’s a conference at which people are paying a grand to attend and they can’t afford to pay their speakers, I do think: ‘You might want to look at your bottom line, mate.’”

Food writer and activist Jack Monroe, quoted in The Observer

©Getty Images

Let nations go their own way

project-syndicate.org

Donald Trump and other nativist politicians complain that global bodies trample on national sovereignty, says Dani Rodrik. Are they right? And is there ever a case for meddling?

The challenge is to tread the line between areas in which nation states are and should be free to do as they please and those that should be regulated by international agreement. If a country raises its speed limits, for example, that will affect demand for oil and hence prices on world markets. Investment in public education will alter a country's comparative advantage and hence others' trading opportunities. But it would rightly be considered "absurd" for these to be regulated by global bodies.

A new kind of world order

The case for global governance has traditionally been limited

to two classes of problems.

The first concerns "public goods" (or "bads") – policies that benefit the world at large, but produce little or no benefit at home. Controls on greenhouse-gas emissions is a key example. The second concerns so-called "beggar-thy-neighbour" policies – actions that produce benefits at home only to the extent that they harm others. An example is the attempt to extract monopoly prices from trading partners.

The trouble is that real-world problems rarely fit neatly into either box. Subsidies, industrial policies, employment-protecting tariffs, non-tariff measures that deal with health or social concerns, poor financial regulations and inappropriate fiscal policies, for example, are not obviously examples of either problem, and yet they have increasingly become the subject of international



Countries must be allowed to learn from their mistakes

trade agreements and hence of regulation by global bodies.

In fact, many such policies look more like "beggar thyself" mistakes than anything. Trump's trade tariffs, for example, will first and foremost harm the US economy. Enthusiasts of global governance must recognise that most policy mishaps in the world economy today occur as a result of failures at the national level, not because of a lack of international co-operation. "External constraints may

in fact aggravate domestic governance failures, insofar as they empower particular distributional coalitions at the expense of the broad public."

What we should hope for instead is global governance that promotes not globalisation, but democracy. This would leave most policy domains to national regulation, but seek to promote policies on transparency and accountability and so on that "allow for domestic democratic deliberation without prejudging the ultimate outcome".

A historic step towards happiness

bloomberg.com/opinion

New Zealand's government has produced the world's first "well-being" budget, focused explicitly on a single goal – using its limited funds to make its citizens happier, says Cass Sunstein. Among other things, a lot of money will now be devoted to combatting mental illness, child poverty and family violence. New Zealand has clearly been influenced by decades of research on the topic. That research shows that money spent on mental-health interventions and helping people shift away from activities that they especially dislike, such as commuting, will pay dividends. Social-support systems are also critical: self-reported happiness surveys show that this is the most important determinant of how happy people are. But it would be wrong to take this to mean that all this is more important than growth. GDP per capita ranks next to social support in importance and should not be neglected. And legitimate questions remain. It's one thing to know that we should improve mental health, but what interventions work? And too narrow a focus could prove counterproductive. It's hard to know how defence spending affects well-being, for example, yet citizens suffer terribly when their nation is threatened or is at war. Still, this is "an important step in the right direction. Other nations should follow the lead".

Five lessons from rowing

theconversation.com

I followed a team of competitive rowers as they set out on a challenge to cross the Atlantic, analysing their triumphs and their difficulties as they traversed 3,000 miles of ocean, says academic Caroline Rook. The trial tested the team to its limits, and the situations they faced were often extreme, but there is a lot we can all learn from them about how to

moneyweek.com

navigate the challenges of the working world.

1. Get into a routine. That is a good way to cope with stress and make steady progress.

2. Focus on the goal and the task at hand. "The only way of getting through this is getting the rowing done."

3. Take time out to go to your "happy place". This helps you

recharge so you can return to the task with perspective.

4. Take control. If you think about the fact that you're bobbing around in the middle of an ocean you'll terrify yourself. "Build secure processes and structures of team work and focus on managing challenges to create a sense of control."

5. Seek support from others. "Being able to lean on each other and offer support when times are tough is a key skill in any venture."

It helps if the team is all pulling together



How to spot a recession

economist.com/graphic-detail

There is "no shortage of hand-wringing" on Wall Street over the prospects of a looming recession, says The Economist. But precisely when will it strike?

The yield curve, a widely watched economic barometer, is flashing red. The Economist's "R-word index", which counts how often the word "recession" appears in news reports, is also predicting gloom. But a new measure based on joblessness levels, devised by economist Claudia Sahm, gives reasons to be cheerful. Her measure would have correctly called every recession in the US since 1970. It suggests that the chance of a downturn occurring in the next year is just 10%.

Where Sahm's indicator falls short is timeliness. Both the yield curve and the R-word index predicted the 2001 and 2008 recessions a year in advance. Sahm's measure would give investors a head-start of just a few months. Today, the yield curve suggests a recession may be imminent and the US's leading newspapers are discussing recessions more often than at any point since 2012. "Sahm's work may soon be put to the test."

21 June 2019 **MONEYWEEK**

Don't buy the hedge-fund hype

They have a habit of turning clients' money into their own. Steer clear



Max King
Investment columnist

Hedge funds have existed for many decades, but it was in the late 1990s and the early years of the new millennium that they first attracted popular attention. Stripped bare, hedge funds are just flexible investment funds that seek to provide consistent long-term returns while protecting their investors from the volatility of financial markets. The popular perception, however, is far more alluring.

Hedge funds, operating from discreet offices in Mayfair, Geneva and Manhattan, promoted themselves as exclusive investment clubs taking financial innovation to the limit. They made use of financial instruments and strategies such as futures, options and short-selling (betting on a price decline by borrowing an asset and selling it in the hope of buying it back more cheaply later). They jumped between equities, bonds, currencies, commodities and assets – such as carbon permits – beyond the horizon of conventional investors. And by swinging from heavy borrowing to accumulating piles of cash, from “net long” to “net short”, they opened up new dimensions of investment.

Returns from the successful funds (the only ones you heard about) were spectacular,



Ackman's Pershing Square isn't really a hedge fund

apparently justifying the huge fees, conventionally “two & 20”, a 2% annual management fee and a 20% levy on all gains. Private banks, endowment funds and the rich queued up to invest, with the hoi polloi excluded by high minimum investments and their being open only to “sophisticated” investors, given that they operated offshore and outside financial-market regulations. This added to their mystique.

Luck, not skill

Returns in the early years were helped by three factors. Managers used aggressive gearing (borrowing to invest) to enhance returns; a limited pool of capital was chasing

a much-expanded universe of investment opportunities; and hedge funds avoided the millennium bubble in the technology, media and telecommunication sectors. They invested instead in value stocks and thus sidestepped the 2000-2003 market slump.

As the returns rolled in, assets and the number of funds kept growing. New managers, eager for the lucrative fees, cast their nets wider to haul in investors. Pension funds, happy to sacrifice market returns in the good years for downside protection in the bad ones, piled in. Investment trusts managed by hedge fund “masters of the universe” were floated on the stockmarket

to allow “unsophisticated” investors in. But when exclusive clubs for the rich open their doors to all passers-by, it's best to walk past quickly. Funds found it increasingly difficult to generate positive returns while avoiding losses as a growing amount of capital chased after a fixed amount of market inefficiency. The composite index of performance compiled by Hedge Fund Research has underperformed the S&P500 Index for ten years in a row, with respective average annual returns of 4.2% and 13.7%.

Pedestrian returns

The ranks of listed hedge funds have now thinned drastically and the remaining funds have all shrunk. The performance of Bill Ackman's £4bn Pershing Square has rebounded impressively, but it is now an activist equity fund rather than a hedge fund, with no short positions. The chief attraction of Third Point is its 23% discount to net asset value, as its five-year return is only 9%, including the benefit of sterling's drop in 2016.

Hedge-fund managers have been proficient at turning their clients' money into their own. Mark Dampier of Hargreaves Lansdown describes them as “glorified gambling funds that take absurd performance fees from investors when they occasionally do well, and then close when the going gets tough”. Steer well clear: only the managers get rich.

Activist watch



Shares in Sony went up by 3% last week on the news that activist investor Dan Loeb owns a \$1.5bn stake and is pushing for “dramatic changes” at the company, says Bloomberg. Loeb's hedge fund Third Point suggested that Sony sell its insurance business and stakes in stocks such as Spotify, and that it spin off its semiconductor business. The newly independent entity could be worth £35bn within five years, it reckons. “We rarely find companies like Sony that have a depressed valuation, high-quality underlying businesses, numerous options for portfolio optimisation, and a capable management team.”

Short positions... Woodford won't waive fees

■ Neil Woodford has so far resisted calls for him to waive fees – reportedly making the firm £100,000 per day – for investors with money in his suspended Equity Income Fund. “The suspension of trading has provided... Woodford with some breathing room to fix his fund; he should afford his investors the same space and waive the fund's fees while the fund is suspended”, said Nicky Morgan, chair of the Treasury Committee, quoted on the BBC. Morgan has also successfully pushed for the Financial Conduct Authority (FCA), the City regulator, to formally investigate the events leading up to the suspension; an enquiry was announced this week. The “debacle” has raised concerns that the FCA may have been “asleep at the wheel” as the fund manager “tumbled into crisis”, Morgan told The Guardian's Kayleena Makortoff. The FCA says there is no time limit to the suspension; investors will get their money back when the fund can “operate in an orderly fashion”. Shares in Woodford's sister Patient Capital Trust, meanwhile, are trading at a 37% discount to their net asset value.

■ Neil Woodford is not the only open-ended fund manager holding unlisted companies, says Ali Hussain in The Sunday Times. The largest holding of unlisted stocks discovered by the newspaper's Money section was in Invesco Income, which at the end of March held 4.9% of its portfolio in these assets. In September 2018, that figure stood at nearly 7%. Invesco's High Income and UK Strategic Income funds hold 4.3% and 2% respectively in private companies. BlackRock, the UK's largest asset manager, would not detail the exact proportion of unlisted assets in its funds, but said the highest was in its Gold and General fund, at 2.6%.



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Engineering profits: the British industrial champions to buy now

Move over, Germany and Sweden. There are several world-class UK engineers in profitable niches supplying a vast array of industries with vital equipment. Dr. Mike Tubbs picks his favourites



When it comes to engineering, few investors would immediately think of the UK. The “Mittelstand” of successful medium-sized engineering companies is widely known as the backbone of the German economy. There are also smaller countries that boast several excellent engineering companies, Sweden being one example. Yet there is also a set of British engineering companies, they are global leaders in their market niches and are the equal of – or superior to – their German counterparts.

Britain's Mittelstand

Engineering is a broad field. This analysis excludes defence-engineering companies (in which the UK is also strong) and the many successful unlisted UK engineering businesses, such as Dyson and JCB. It concentrates on firms in electrical, electronic, mechanical, fluid, automotive and chemical engineering. They are all market-leading specialists with a global presence. In most cases well over 90% of sales stem from outside the UK and the group has a firm footprint in all three main world regions (Europe, the Americas, and Asia Pacific). Such a wide geographical spread of sales reduces the impact of a downturn in any one world region.

As leaders or strong players in their market niches, they should be able to demonstrate high profitability, defined as an operating margin (operating earnings as a proportion of sales, or EBIT/sales) of 14% or more. That gives us the nine companies in nine different sub-sectors listed in the table below. They range in size from AB Dynamics (with a market capitalisation of £0.6bn) to Halma (£7.6bn). The 2018 EBIT/sales ratio stretches from 14.1% to 39.1% for Victrex.

The nine most profitable specialist engineers

We will now briefly describe what each of the nine companies does, their growth records, their dividend yields and records, and the strength of their balance sheets. We will then select the most promising on the basis of their profitability, long-term focus – judged by investments in research and development (R&D) and capital expenditure (capex) – and long-term profitable growth records. These nine companies are all international in outlook with the vast majority of their revenue coming from outside the UK (over 90% for all but one). All specialise in relatively small niches in which they can be world leaders. AB Dynamics (Aim: ABDP) designs and makes equipment to test systems

for the car industry, including vehicle suspensions, steering, noise and vibration. It also provides services in the areas of design, safety engineering, prototype manufacture and testing. It supplies all the major automotive manufacturers and 95% of sales are made outside the UK. Bodycote's (LSE: BOY) expertise is in the thermal processing of metals to improve strength, durability, and corrosion resistance. It is one of the largest companies offering such services, with 92% of revenue coming from outside the UK. It also offers metal joining, surface treatments and hot isostatic pressing (HIP), which converts metal powders into strong solid components. It serves industries including renewable energy, aerospace, mining and electronics. Major camera manufacturers are among its clients.

A dividend darling

Halma (LSE: HLMA) is a safety specialist across several industries, with products including gas-detection devices, pollution gauges, water-pipeline leakage monitors, and food- and water-quality testing equipment. Halma has a very high return on capital (a key gauge of profitability) and the enviable record of having increased its dividend by 5% or more for the last 40 consecutive years. Renishaw (LSE: RSW) has a global reputation for its precision metrology products and also boasts a small but growing precision-healthcare division (where offerings include robotic surgical systems) that has just moved into profit. The vast majority of its revenue is earned overseas (Britain contributed 5% in 2018). Rotork (LSE: ROR) is the world-leading manufacturer of equipment to control the flow of liquids and gases. It has a worldwide network to provide local services, maintenance and upgrades. More than 94% of its revenue comes from outside the UK.

Spectris (LSE: SXS) helps companies to improve overall quality and productivity. Services include materials analysis, testing and measuring, and industrial controls. Applications include boosting the recovery rates of oil and gas, improving the performance of consumer electronics, and monitoring contamination in the pharmaceuticals and fine chemicals industries. The company combines hardware, software and services to achieve improved productivity and nearly 92% of sales are made overseas. Spirax-Sarco (LSE: SPX) specialises in the control and management of both steam and electrical thermal energy. It is a global business with 127 operating units in 47 countries and 91% of revenue comes from outside the UK.

Fantastic plastic

Victrex (LSE: VCT) is the leading producer of PEEK polymer, a light but mechanically strong advanced polymer resistant to chemicals and wear. It is used by industries such as aerospace, automotive, energy, and electronics. It has also been used in medical implants in more than nine million people. Victrex is a global business with 98% of revenue coming from outside the UK. Finally, Weir Group was formed in 1871 and has always been noted for its innovative pumps. It

“Geographical diversification tempers the impact of a downturn in a particular region”

Company	Sub-sector	Market cap	Sales growth 2017/2018	EBIT/sales 2017/2018
AB Dynamics	Automotive	£0.6bn	+51%	21.3%
Bodycote	Thermal processing	£1.5bn	+5.6%	18.2%
Halma	Electronics	£7.6bn	+11.9%	16.8%
Renishaw	Metrology	£2.9bn	+13.9%	25.6%
Rotork	Flow-control engineering	£2.7bn	+8.3%	18.0%
Spectris	Productivity engineering	£3.1bn	+5.2%	14.1%
Spirax-Sarco	Energy control	£6.5bn	+15.5%	26.0%
Victrex	High-performance polymers	£1.8bn	+12.3%	39.1%
Weir Group	Mining and oil & gas	£4.1bn	+23.4%	14.2%



AB Dynamics produces driving simulators for the car industry

now supplies a wide variety of products, including pumps, centrifuges, valves and controls to the mining, infrastructure and oil and gas sectors. More than 98% of revenue comes from outside the UK.

Narrowing down the list

Companies likely to be good investments will show a record of profitable growth and invest in R&D and capex to maintain their growth edge over competitors. They should also have strong balance sheets and a reasonable price/earnings (p/e) ratio in relation to their growth prospects.

The nine companies split into two groups – the first with 2020 p/e ratios in the range between 12.5 and 17, and the second with 2020 p/es from 21 to 42. The first group consists of Bodycote, Spectris, Victrex and Weir, with Victrex at the top of the group with a p/e of 16.9 and the others in the range 12.5-14.5. Victrex invests around 5% of sales in R&D and has proved able to find new applications for its advanced polymer materials and continuously improve existing ones. Recent progress has been made, for example, in dental applications with an agreement signed last year with Straumann Dental, one of the world's top companies in the sector.

Spectris also invests in the future, with about 7% of sales invested in R&D. However, Spectris has a mixed record of growth with earnings per share (EPS) dropping from 2014 to 2016 and turning negative in 2016. Bodycote's profits also fell a little in each of the two years from 2014 to 2016 and Bodycote invests little in R&D. In the more expensive group we have AB Dynamics, Halma, Renishaw, Rotork and Spirax-Sarco. The two companies in this group with high R&D investment are Renishaw (around 12% of sales) and Halma (with over 5%). R&D as a

percentage of sales is much lower for the others. AB Dynamics works for the automotive industry, which typically squeezes suppliers' margins, so in the long term the combination of low R&D and automotive customers may well reduce margins. AB's p/e of 42 does not therefore make it an attractive investment. Halma, Rotork and Spirax-Sarco are all high-quality companies, but look expensive for now.

What to buy now

Halma has just reported a 2019 pre-tax profits increase of 20% and its shares are up more than 60% since late October 2018, with a 2020 p/e of 36. Spirax-Sarco's stock has jumped by 49% since December and now stands at a forward p/e of 31. Rotork is up 27% since December 2018 and costs 21 times 2020 profits.

Renishaw is an interesting case, since the share price has dropped by more than 30% since last summer, giving a 2020 p/e of 24. The reason for the drop is the cyclical reduction in demand from the electronics sector and a recent fall in sales to China, probably connected with the trade war. However, Renishaw serves cyclical manufacturing industries and has recovered from previous downturns. It continues to invest heavily in R&D during downturns to give its product range a boost for when the upturn comes. And Victrex's share price is down 62% from its high last September.

In summary, the two companies to consider now are **Victrex** and **Renishaw**. I would put **Halma**, **Spirax-Sarco** and possibly **Rotork** on a watchlist for when their valuations are lower. All five pay dividends, with yields of 0.8% for Halma, 1.5% for Renishaw, 1.9% for Rotork, 1.1% for Spirax-Sarco and 2.8% for Victrex; include the special dividend for 2018 and the latter yield climbs to 6.8%.

“Renishaw invests heavily during downturns to boost its product range in the good times”

The FCA falls short

The City regulator lacks the power to police small-business lending



David Prosser
Business columnist

The results of the Financial Conduct Authority's investigation into the treatment of small businesses by Royal Bank of Scotland (RBS) have sparked widespread anger. But while there is fury over the City regulator's refusal to admonish RBS bosses, whose actions the bank itself now accepts were unfair, much of the criticism is misplaced.

For victims of the RBS affair, the injustice is keenly felt, but the bigger issue at stake here is whether such a scandal could happen again. Small-business lending is still not within the FCA's remit. So if you run a small or medium-sized enterprise (SME) and feel you have been mistreated by your bank, your ability to seek redress is limited.

It's not all bad news, however. In April, the government extended the reach of the Financial Ombudsman Service (FOS), which considers complaints from individuals about financial services, including bank lending, and issues rulings with which companies must comply. The scheme was previously closed to all but the smallest businesses, but it has now been broadened to include firms with fewer than 50 employees,

"The regulator can now police business lending more closely"

annual revenues of less than £6.5m and a balance sheet worth less than £5m.

In addition, the FCA points out that its senior managers' regime, introduced in 2016, gives it greater powers to hold the executives of financial-services firms responsible for their actions. This isn't quite

the same as full-scale regulation of business lending, but does allow the regulator to police the sector more closely. Still, the support from regulators remains limited. The maximum compensation the FOS can order has been increased to £350,000, from £150,000 previously, but that may not be enough for some.

In the absence of a regulator or ombudsman to turn to, SMEs do have the option of

suing their bank. But many will fear the odds are stacked against them given the legal resources available to the banking industry. Moreover, firms that go bust face a set-up that means even this option may be off-limits to them. When a company goes under, it is the administrator who must decide whether or not to launch legal action. Sceptics fear that the large firms that dominate the administrator sector are reluctant to take on the banks, from which they receive referrals.

The Supreme Court is considering changing the law in this area to allow small businesses to take action for themselves in such circumstances. However, the government has already rejected the notion that there should be a new tribunal established to consider small businesses' complaints about their banks.



RBS accepts that it treated small businesses unfairly

©Alamy, Getty Images

SMEs shun cloud

Nearly 60% of small and medium-sized enterprises (SMEs) have yet to begin using cloud computing services (where software and other technology is accessed online rather than installed on company premises), according to research by financial-services group Close Brothers. One problem is a lack of understanding: 73% of senior decision makers at SMEs said they did not know enough about what cloud computing entails. Security is also an issue: 36% feared they could not trust cloud solutions.

It's important that SMEs now overcome these hurdles, for cloud computing can level the playing field as they compete against larger rivals with deeper pockets. The pay-as-you-go model employed by cloud platforms means SMEs do not have to make

large upfront investments in technology installations, while they also receive ongoing tech support. When they need to upgrade or acquire greater computing power that can be done automatically.

As for the security issue, many large businesses have now taken the view that cloud computing providers are better equipped to deliver higher standards of cyber security. So the need for enhanced security might be an argument for switching to cloud, rather than an impediment.



Five questions for... Robin Knox, founder, Boundary

● What will your business do?

Boundary will offer a state-of-the-art home-security system that you can install and monitor yourself and control with your smartphone. We want to produce an alarm system with impressive features, unbeatable reliability and seamless integration. We will also offer affordable monitoring plans with no long-term contracts.

You'll be able to choose from self-monitoring or professional monitoring with a police response. This will be possible because our alarm will conform to UK and European standards.

● What is your greatest achievement?

In our last business, we built a software-as-a-service product and not only scaled that into different countries but also built a team of 80

people and successfully exited from the venture.

● What has been your biggest challenge?

Starting my first business was probably the hardest project as I had to overcome specific challenges while learning the general basics of building a business too. I also didn't have a co-founder. In each of my subsequent ventures, I've changed industry and strived to do something new and bigger, which has in turn created more challenges along the way.

● What are your plans for hitting your targets?

When we were starting Boundary, we conducted a lot of research into the size of the market and set our sights on reaching 100,000 installations, achieving 2%-3% market share. This, in combination with the pricing model we have created, will bring the business to an enterprise value of £80m-£100m in four years. We've also researched our cost of customer acquisition through activities such as building a mailing list for Kickstarter; this has allowed us to ensure we

raise enough capital to fuel growth.

● What's the one piece of advice you'd give to fellow entrepreneurs?

It's all a process. Start with your customer. I'm a big fan of Bill Aulet's book *Disciplined Entrepreneurship*. It provides a clear way to test and set up a business. Aside from that: trust your instincts; hire great people and look after them well; and delegate activities to people who will do a better job than you. This will allow you to focus on strategy and direction.

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Nasty surprises in the small print

Look out for the devil in the detail of your travel insurance policy



Sarah Moore
Investment editor

Most people are aware that travel-insurance policies can be fiendishly complex and that you can end up with nasty unexpected bills if you don't get the right level of cover. Most people also, understandably, neglect to read the small print carefully before selecting a policy. Here are some of the key pitfalls to look out for.

In one story, reported in The Observer last year, a woman ended up with a bill for £30,000 to cover the cost of medical treatment abroad for kidney problems. Her insurance provider, Axa, would only cover a third of her care costs because she had not declared a single prescription for sleeping tablets when she bought the cover from broker Coverwise.

When asked if anyone on the policy had in the last five years suffered from a medical condition that required prescribed medication, she had said no, and hence been directed to a basic policy.



She was later reimbursed for the full cost of her treatment, but this was presumably down to The Observer's intervention. So this should not be relied upon as an example of getting away with failing to declare a condition.

Check medical conditions

It is crucial, then, to check your insurer's list of pre-existing conditions it must be informed about before you travel. The most common, according to

Money Saving Expert, include heart conditions (such as high blood pressure), breathing conditions (such as asthma), cancer and diabetes.

Note that if you have, or have had, mild asthma or high blood pressure, you may still be able to get traditional – and therefore probably cheaper – insurance. If you are travelling with someone who does have a pre-existing medical condition, make sure you compare the prices of single and joint

policies, as it may be cheaper to go with two single ones.

Nevertheless, if you do buy a joint or group insurance policy, keep in mind that some insurers charge individual excesses – the amount you must pay before you can claim. So a claim affecting you and your partner could mean a double deduction, as independent consumer group Which points out.

The Guardian warns of a situation where a couple was charged two lots of excess because one partner had their wallet stolen, containing money that technically belonged to both of them.

Similarly, if you got a family policy and claimed cover of, say, £500 because you had to cancel your holiday, this could be split between all family members rather than apply per person.

Finally, have a look at what is covered under each category of cover. With some insurers, for instance, you may have to pay more than one excess if you are unlucky enough to lose both your mobile phone and wallet in the same incident.

5 Reasons to Buy Physical Gold...

- 1 Gold is a safe haven asset** - Gold is frequently used as a safe haven asset in times of economic turmoil or geopolitical uncertainty. For this reason many advisors recommend allocating around 5% - 15% of their portfolios to gold.
- 2 Gold has a history of holding its value** - Unlike paper currency, gold has maintained its value through the ages. It is an ideal way of preserving wealth from one generation to another. Plus, UK bullion coins are not subject to Capital Gains Tax.
- 3 Gold is a hedge** - Gold has historically had a weak correlation to movements in the financial markets and is frequently used as a hedge against inflation or to offset falling stock markets.
- 4 Scarcity** - Deposits of gold are relatively scarce and new supplies of physical gold is limited. This natural scarcity and high production cost is the ultimate reason why gold holds value.
- 5 No counterparty risk** - When you invest in physical gold you own it outright. You are not reliant on banks or financial institutions. In contrast, gold futures, gold certificates or ETF's all involve counterparty risk.

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*Source: Experian Hitwise based on market share of UK internet visits March 2016 - March 2017

Facebook wants to disrupt money

Hayek argued that corporations should compete with governments to issue currencies. Libra is the start



Dominic Frisby
Investment columnist

In his 1976 book, *The Denationalisation of Money*, economist Friedrich Hayek made the case that businesses should issue their own currencies to compete freely for use against government currencies. The result would be a general improvement in monetary standards. Hayek's vision took a step closer to reality this week as social media giant Facebook published the white paper for its own new currency: Libra.

Hayek envisaged that the most successful money in his scenario would be based on a basket of commodities – and thus its value would be relatively stable. Facebook appears to be taking his advice. It is not backing its coin with commodities, however, but with “a collection of low-volatility assets”. Libra will effectively be backed by a basket of currencies. This would make it not dissimilar to the International Monetary Fund's special drawing rights (SDR) – foreign exchange reserve assets

which are part-US dollar, part-euro, part-yen and part-sterling.

It's more like an exchange-traded fund (ETF) than a cryptocurrency. Indeed, rather than follow the bitcoin model, Libra is following the “stablecoin” model, in which cryptocurrencies are backed by actual currencies – where, for example, you might only issue one crypto unit for every \$1 in the bank. Thus Libra will not be highly volatile like bitcoin, but will move more like a major government currency.

What is Facebook planning?

The goal is to create an international payments system which leverages Facebook's vast user base. Facebook says it has 2.4 billion open accounts – one in every three people on the planet. WhatsApp meanwhile has more than 1.5 billion users – as many as 300 million in India alone. Users will be



Coming soon: the bank of Zuckerberg

able to send and receive money using WhatsApp or Facebook messenger, just as they send and receive messages. This could turn Facebook's social network into something far bigger and more powerful: an economic network.

There are many frightening implications. If you fear that Facebook has influenced the outcomes of recent general elections, how much more powerful does it become when it has an international money system with more than two billion users? How can a government hope to tax and regulate it, when it no longer has control of money? And what are the implications for privacy? If you're a Facebook user, it probably already knows more about you than your spouse. How about when it knows the details of your spending too?

Facebook has framed the idea with the usual Silicon Valley guff of helping “the unbanked” – and it is likely that Libra will liberate many of the financially excluded, as soon as they get their first smartphone, just as Kenya's M-Pesa did in East Africa. But one suspects that Facebook's ultimate goal is not nearly so altruistic.

Libertarian purists don't like Libra because it is not properly decentralised in the way that

bitcoin is, despite all sorts of crypto buzz words appearing in the white paper. The left doesn't like it because it signals yet more power and influence heading the way of large tech.

Politics versus convenience

But, whatever ideologues might think, in the marketplace convenience usually wins, and if Facebook can offer a cheap, easy and efficient way of sending money from phone A to phone B, across borders if necessary, then its potential is huge. You'll be able to pay your taxi fares in Libra, your Booking.com hotels and holidays, your eBay purchases, your Spotify subscription, your phone bill – all at cheaper rates than standard banks and credit-card companies. A fully integrated payments system within a social network will create a lot of opportunities for a lot of people. It may also provide a solution to the as-yet-unsolved (to my mind at least) problem of how to monetise digital content online.

Unsurprisingly, the authorities, particularly the European Union, are up in arms. French finance minister Bruno Le Maire said Libra must not “become a sovereign currency”. G7 nations are already establishing a group to examine the risks the currency poses to the financial system. It's as though they already knew it was coming.

But Facebook won't be short of lobbying power – as well as everyone's “favourite” politician, Nick Clegg, Facebook has hired bank lobbying expert Ed Bowles, who joins the company from Standard Chartered in September. Facebook is well aware of its need to get regulatory acceptance for Libra. It has already set up the Libra Association in Switzerland to govern the coin, and has partnered with 28 corporations, including Visa, Mastercard, PayPal, eBay, Spotify, Vodafone and Uber. The presence of these established firms in the governing body is designed to gain trust in the system from both regulators and users. It's also worth noting who is absent from the association. No Apple, no Google, no Amazon and – perhaps most significantly – no banks.

Facebook itself will not be part of the body, though it will appear via its subsidiary, Calibra. Calibra is the Libra wallet (and controller of its users' financial and social data). Like Facebook and WhatsApp, Calibra will be free. Don't forget the golden rule – “When something is free, you are the product.”

In short, Libra is another step in the evolution of Big Tech as it grows more powerful than national governments. The implications are enormous.

Berlin targets landlords

The German capital is set to freeze rents for five years



Sarah Moore
Investment editor

Shares in German landlord Deutsche Wohnen (DW) have fallen by almost a fifth in two weeks following news that Berlin's senate has approved a draft bill for a rent freeze, or *Mietendeckel*, which means landlords will be blocked from putting up rent on residential properties for five years.

"If we don't want to end up like London, where even lawyers and doctors have to live with flatmates because they can't afford their own apartment, then we have to do something about it," Olaf Scholz, Germany's finance minister and vice chancellor, told newspaper *Frankfurter Allgemeine Zeitung*.

Germany is a country of renters. However, monthly rents in Berlin, where 85% of people rent, have gone up by 103% since 2008. This is largely because the population has increased more rapidly than the housing supply, which is restricted by planning laws. Rents in the capital tend to be lower than in other German cities, such as Frankfurt or Munich, but the increase is higher than anywhere else.

The trouble with the rent freeze is that it is likely to deter potential landlords and make the supply squeeze worse, especially if building regulations aren't eased. The measure must still be



Berliners have been squeezed by sharp rent increases

approved by the Berlin regional parliament, but could be made law by early next year, and backdated to 18 June.

Campaign for confiscation

If this wasn't worrying enough for German property companies, campaigners in Berlin are pushing for a referendum on whether landlords with more than 3,000 flats should have them expropriated. They have singled out DW which, with 115,000 flats, is Berlin's largest landlord. Polls suggest the measure could pass, says Reuters.

Berlin has "an unusually high number of big property players when compared with other European capitals such as London, where even the biggest landlord, Grainger, owns

only around 1,500 units", notes Philip Oltermann in *The Guardian*. DW has questioned the legality of the proposal, although three legal surveys (commissioned by the Berlin senate) support it.

London-listed Phoenix Spree Deutschland, whose shares have also slid by a fifth, last week reassured investors that it had adapted to previous rent controls and suggested the freeze may be unconstitutional.

It's also worth considering that with rents frozen, property development is likely to fall, which could push up capital values. However, given that Germany's Social Democrats have raised the idea of a national rent freeze, according to Reuters, if you hold German property funds, we think now is the time to sell out.

Arcadia limps on

Philip Green's retail group Arcadia was granted a stay of execution last week as creditors voted to approve seven company voluntary arrangements (CVAs), a controversial process that allows companies to restructure their debts in order to fend off administration.

CVAs commonly involve a reduction of the amount of rent companies need to pay their landlords. As so many retailers have entered into CVAs in recent years, this has led to accusations that they are using the mechanism merely to duck out of rental responsibilities.

Indeed, the vote on the CVAs was originally postponed when it became clear that not enough parties would vote in favour of the arrangements.

Despite the delay, shopping centre owner Intu, one of Arcadia's largest creditors, voted against the proposal: "we firmly believe that any rent cuts... are unfair to our full-rent-paying tenants and not in the interest of any of our other stakeholders, including Intu's shareholders and the 130,000 people whose jobs rely on the success of our prime shopping centres". Property funds British Land and Hammerson were among the creditors who voted in favour of the CVAs.

The agreement should save up to 17,000 jobs at Arcadia, although realistically it may just be pushing the group's problems down the line. Arcadia can now cut rents by up to 70% at nearly 200 locations, but will close 23 of its 566 shops and axe 520 jobs. Once the arrangement is in place, it will close a further 25 shops and cut 500 jobs.

Guess the price... Bramble Cottage, Bognor Regis, Sussex

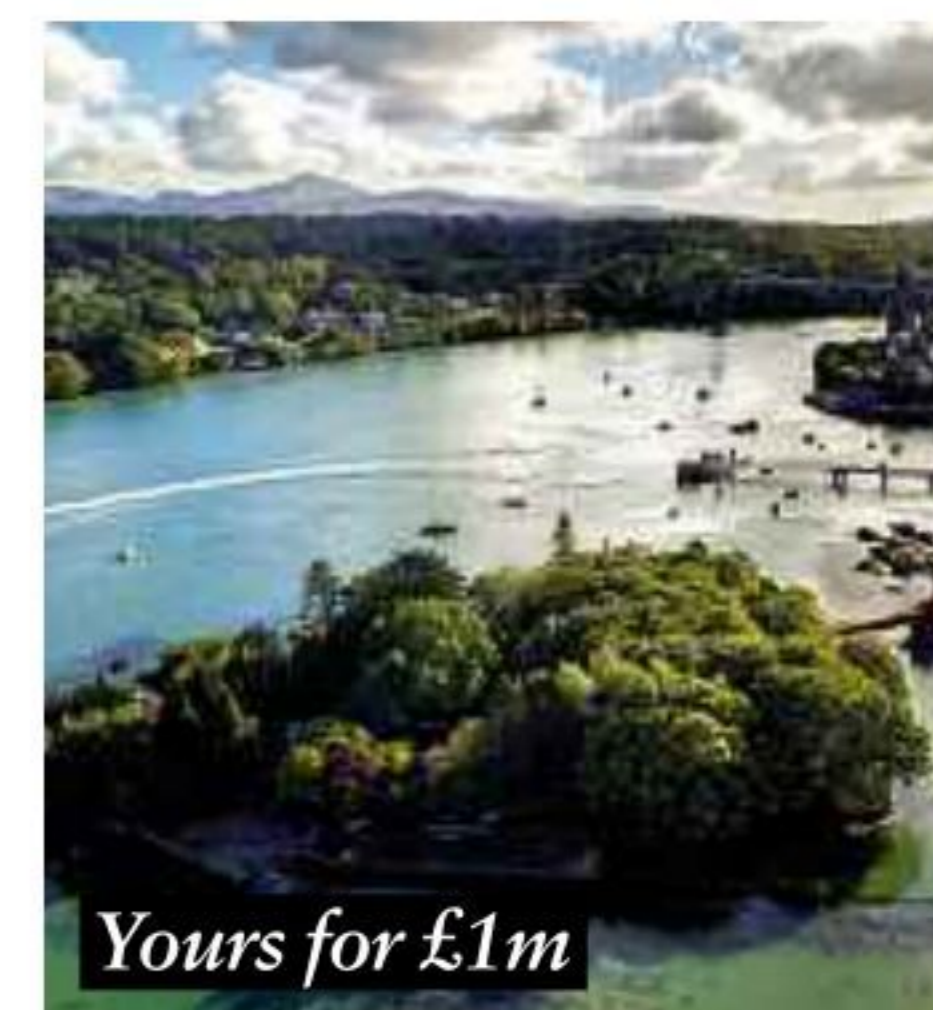
This Grade II-listed, semi-detached thatched cottage was originally a three-bay hall house, and dates from the 16th century. It has been fully restored and retains its original beams, brick floors, and timber frame. It has a dining room with a large inglenook fireplace with a bressumer beam, and a triple-aspect study with a vaulted ceiling. The cottage is set in brick and flint-walled gardens, which feature an enclosed area accessed from the breakfast kitchen, as well as a water pump and nearby well head. But can you guess the asking price? See the side of this box for the answer.



£595,000. Jackson-Stops 01243-786316

Half an island for sale

House hunters looking for seclusion can buy half of a small tidal island in the Menai Strait, North Wales, for £1m. Ynys Faelog is one of a collection of islands off the coast of Menai Bridge town. It boasts "spectacular views" over the "magnificent splendour" of the Menai suspension bridge, according to estate agents Williams & Goodwin. The lot is owned by Bangor University, and the 3,860 sq ft building was until recently used as a base for educational



Yours for £1m

sessions. The near-2.5 acres of land features beach headland and water frontage, as well as woodlands and landscaped areas, while there is also scope for owners to develop the land.

Delve into Trifast's nuts and bolts

This British supplier of fasteners has tightened up its act over the past decade



Richard Beddard
Investment columnist

Bad news in the British car industry breaks almost daily. Plant closures relating to the sudden fall from grace of diesel vehicles, fears for the industry post-Brexit, and falling car prices have been major worries. One company putting a more positive spin on events, however, is Trifast (LSE: TRI), which announced its annual results earlier this month.

Trifast, which manufactures fasteners (nuts, bolts, rivets and screws), reported sales and profit growth of 6% at constant exchange rates in the year to March 2019, but slightly more than half of the gain in revenue came from PTS, a company it acquired at the beginning of the financial year in April.

A third of Trifast's revenue comes from the automotive sector. Trifast fasteners hold dashboards together, for example.

Despite all the bad news, Trifast sold 6% more fasteners by value to automotive customers than it did the previous year. As you might expect, sales in the UK, the company's biggest automotive market, contracted, but Trifast continued to grow its relatively small share of much larger overseas markets.

Expanding abroad

The company's strategy, established in the wake of the financial crisis more than a decade ago, has been to cosy up to big multinational equipment manufacturers – not just in the automotive sector, but also in the domestic appliances and electronics sectors. The multinationals are consolidating suppliers as they standardise component design around the world.

In theory, firms that can supply wherever a manufacturer operates have an advantage over local rivals, both in terms of physically being able to supply equipment wherever the client needs it and in providing technical support, which increasingly,



The group's rivets and screws hold cars together

the company says, drives sales. Trifast's fastest-growing market is also its smallest, the US, where the company is investing heavily.

The numbers bear out the theory. Through acquisitions and its focus on multinationals, Trifast has reduced its

“Cosying up to multinationals is paying off”

dependence on the UK. Five years ago it earned half its revenue here, while today it is closer to a third.

Meanwhile, it has expanded its product range to include more complex fasteners. These are more profitable, and less easily substituted for rival products. Profitability has steadily improved, while the company has kept a lid on debt.

Return on capital in the year to March 2019 was 15%, 2% higher than Trifast's ten-year average, but although Trifast is confident about its prospects, trading is unlikely to be this good every year.

Like many cyclical businesses, Trifast's history resembles the plot of the classic science-fiction story *Nightfall*, which is written through the eyes of a journalist on an exotic planet witnessing what may be the end of civilisation. In the book, scientists have calculated that the planet, which has six suns, experiences a total eclipse every 2,000 years. Archaeological evidence of fire and destruction tells the scientists collective insanity took hold in the unprecedented darkness and wiped out earlier civilisations.

Armed with this knowledge, the scientists hope to stay sane.

Trifast's customers are like *Nightfall's* suns: periodically the light goes out. People buy fewer cars and dishwashers during recessions, and when they do retailers and manufacturers run down stocks instead of ordering and making more.

A more robust business

After the financial crisis of 2008, Trifast experienced a near-catastrophic drop in demand for fasteners, but perhaps memories of that time have inspired the company to build a more robust business. Trifast has impressively loyal employees, many of whom worked through the last down-cycle when, by its own account, the company lost its way, its directors were booted out, and a previous generation of executives was invited back to take over and lead the company's recovery.

The big worry about exporters such as Trifast is that rising trade tensions will bring about another widespread recession. However, the hope is that the company has diversified enough not only to survive, but also to survive relatively unscathed.

To reveal *Nightfall's* ending would spoil a great novella, but Trifast is likely to make a very good investment – if not now, then next time there is a total eclipse.

Kicking the tyres... inflated profits?

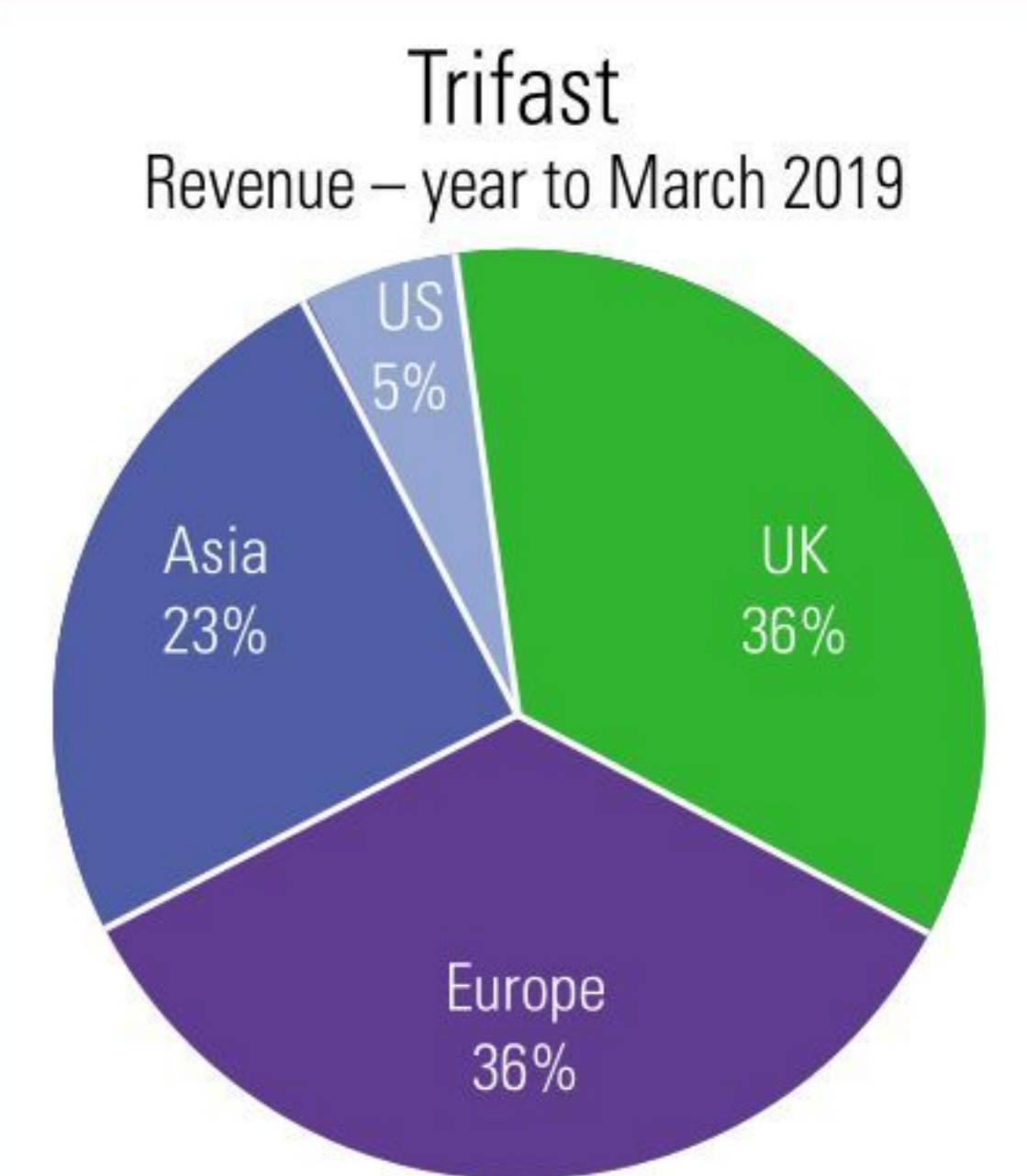
There is a lot of change going on at Trifast, mostly acquisitions and the renewal of the company's internal processes and IT system, expected to cost £15m in total over several years.

The standard accounting treatment of acquisitions such as PTS and “Project Atlas”, its IT upgrade, requires Trifast to deduct the associated costs to arrive at the profit figure. However, the company believes these are one-off costs and do not

reflect the underlying performance of the business.

In 2019 Trifast chose to exclude more than £3m of expenses related to Project Atlas, nearly £1.5m in acquisition related costs, and share-based payment charges of more than £2.5m from its preferred profit figure. Operating profit, so adjusted, was more than £24m, 42% higher than the £17m figure reported in its income statement. Clearly, when making these adjustments, there is

an opportunity for a company to inflate profits. Investors will argue forever about the finer points, but it is reasonable to write off acquisition costs. Big investment projects such as Project Atlas are more of a grey area as companies invest all the time. And there is very little justification for ignoring share-based payments, which are routine incentives. The figures



used in this article include the cost of share-based payments, and on that basis Trifast currently trades on a debt-adjusted price/earnings (p/e) ratio of 18.

Stocks poised to profit from the plastic problem



A professional investor tells us where he'd put his money. This week: Mark Whitehead of the Securities Trust of Scotland highlights three favourites

Global consumer goods companies are prioritising phasing out plastic packaging. The World Economic Forum estimates that 95% of the value of plastic packaging, or \$80bn-\$120bn annually, is lost to the global economy because it is only used once. A large amount of this plastic waste finds its way into our oceans. Around eight million tonnes of the stuff enters the marine environment each year.

With these kinds of statistics making the headlines, plastic pollution has risen to the top of the public agenda. This has forced businesses to adjust their approach to packaging away from a "linear" single-use model towards more sustainable methods.

Consumer activism

Consumer-goods companies have grasped that the tide of consumer activism on plastic waste has been phenomenal and shows no signs of abating. In a sector where brand strength is a key determinant of long-term success, the risk of consumers boycotting certain products because of a lack of packaging sustainability is a real concern – not to mention the increasing regulatory pressure we are seeing from many governments. The European Union's ban on a raft of single-use plastics is due to come into force in two years' time.

Undoubtedly, there are costs associated with moving towards a more sustainable packaging model, including capital expenditure on plant operations, the switching of supply chains, and potentially higher input prices. However, aside from the regulatory and reputational risk of not adapting, there is also an opportunity for companies that innovate in areas such as bioplastics or improved recyclability to capture significant market share.

ESG: key to long-term growth

From an environmental, social and governance (ESG) analysis perspective, these kinds of issues are a vital consideration for us in understanding a company's ability to deliver long-term growth. For many of the consumer goods companies we engage with, moving swiftly to a packaging solution that is more in line with the circular economy – minimising waste through recycling and reuse – is increasingly seen as not only desirable, but imperative for their long-term operations.

For instance, UK drinks manufacturer **Britvic (LSE: BVIC)** last year made substantial investments in recyclable packaging products at its UK plants. According to the company, the result so far has been a saving of 600 tonnes of primary plastic, but the expenditure is also part of a wider commitment to tackle plastic waste as founding signatories to the UK Plastics Pact.

The deal has been adopted by 42 companies who aim to make 100% of their plastic packaging reusable, recyclable or compostable by 2025.

Danone (Paris: BN), another company we actively engage with through our ownership, is supporting initiatives that strengthen circular infrastructure, in particular for countries without formal collection networks. In addition, Danone is launching 100% recycled polyethylene terephthalate (PET) bottles in its major water markets by 2021.

Likewise, **PepsiCo (NYSE: PEP)** is targeting zero waste to landfill across all its direct operations through efficient and responsible waste management by 2025. This includes designing 100% of packaging to be recyclable, compostable, or biodegradable.

“Public concern over packaging is forcing firms to change their ways”

If only you'd invested in...

Puretech Health (LSE: PRTC)

Share price in pence



Puretech Health (LSE: PRTC) is an American biotechnology group specialising in treatments for diseases of the brain, stomach, and immune system. It conducts research through its own internal laboratories and through a network of affiliates, of which it retains "significant ownership". It also has partnerships with universities and pharmaceutical companies, including Roche and Bristol-Myers Squibb. It has yet to make a profit, but US regulators have approved its affiliate Gelesis's Plenity obesity drug, so investors have piled in.

Be glad you didn't buy...

Ted Baker (LSE: TED)

Share price in pence



Fashion brand **Ted Baker (LSE: TED)**, which operates around 500 outlets in the UK and abroad, has had a lousy year. The high-street downturn has seen rivals offer deep discounts on their products, and the "hug-gate" scandal saw its founder Ray Kelvin resign after being accused of forcibly hugging staff. A profit warning in February was followed by another last week. Chairman David Bernstein has told shareholders there is "definitely no crisis", adding he is "very confident" the company will bounce back. The share price is down almost 60% in the last year.



Upset for the world's happiest billionaire

Peter Hargreaves created a FTSE 100 company from scratch without borrowing or acquisition – and without scandal – at least until the Woodford one blew up in its face. Jane Lewis reports

Peter Hargreaves reinvented investment for the masses, banking £4bn in the process. But he also inherited the traits of his frugal father who ran a small bakery in Lancashire. “He hates ostentation, dislikes excessive borrowing, and won’t even live abroad to avoid tax,” observed *The Guardian* in 2011. Last year, Hargreaves – these days a fanatical grower of dahlias and amateur Egyptologist – described himself as “the happiest and most contented billionaire on the planet”. Imagine, then, the hell of the past few weeks. Thanks to its close links with fund manager Neil Woodford, Hargreaves Lansdown (HL) – the firm he co-founded with Stephen Lansdown in 1981 from his spare bedroom in Bristol – is in the eye of one of the biggest storms to hit the investment world in years.

Woodford's cheerleader

HL stands accused of abusing its position as the country's largest investment-fund “supermarket” to promote a poorly performing Woodford fund in its favoured “Wealth 50” list. “The company was not Woodford's only cheerleader,” says the *Financial Times*, “but its meteoric rise from a two-man operation to a pillar of the FTSE 100 Index meant it was the most influential.” HL clients “ploughed billions” into Woodford funds. Hargreaves quit as CEO in 2010 and no longer sits on the board. But he still owns nearly a third of the business, which, according to *Forbes*, has



Hargreaves: a great boss is having his patience tested

“If I could get 1p from everyone in Britain, I would earn £208,000 a year. From there it was a straight line to Hargreaves Lansdown”

(or had) nearly \$116bn under management. With shares down by a fifth in a fortnight, the founder who once chortled he was “as rich as Croesus” has taken quite a personal hit. But it is the besmirching of his baby that will hurt most. “I have wanted to run my own business since my time at Clitheroe grammar school,” Hargreaves, 71, once remarked. “I remember thinking if I could get a penny from everyone in Britain, I would earn £208,000 a year... From there it was a straight line to Hargreaves Lansdown.” In fact, it took a while to get there. Hargreaves trained as an accountant in the 1970s, “but hated it” and ended up “being fired by Peat Marwick” (now KPMG), says *The Guardian*. He calls it “the best thing that ever happened to him”.

After stints with Unisys and Whitbread, he had the idea of using newspaper advertisements to market unit trusts to retail investors, and teamed up with Stephen Lansdown in 1981. They set out to conquer the unit-trust market – deploying “innovative tactics” to attract customers, such as giving rebates on commission – and succeeded beyond their wildest dreams, noted *The Times* in 2007, when HL floated with a £700m valuation. A decade and a technology revolution on, the firm's platform can be used to buy pretty much anything, bar property and cryptocurrencies.

“Very few people have created a FTSE 100 company from scratch, without borrowing or acquisition,” said the *Daily Mail* last year when HL – at the peak of its form – had just paid its co-founder a £60m dividend. From the “discreet splendour” of his idyll in Somerset, Hargreaves could bask in the glory of building a financial firm that had “achieved the unimaginable – success without scandal”. With a promising second venture – Blue Whale investment group – already causing waves, surely a knighthood must be only a matter of time. Well, jinx. Hargreaves has always been renowned as a great boss, once observing that you have to praise staff when they do well “and refrain from castigating them when they make mistakes, because they will already be more upset than anyone else”. Right now, that patience is being sorely tested.

Great frauds in history... Jabez Spencer Balfour

Jabez Spencer Balfour was born in London in 1843 and went on to found the Liberator Building Society in 1868. Thanks largely to Balfour's connections, through his family, with the Nonconformist community, its assets quickly ballooned. Within a decade it was the largest building society in the land. Balfour also set up a variety of

property and development companies, making the most of the fame he had garnered through their apparent success to launch a modest political career.

What was the scam?

The building society promised to invest its depositors' money in building affordable houses for working families. A large chunk was actually lent to speculative property schemes that Balfour was involved in, as well as to other parts of his empire. To sustain the illusion of profitability, Balfour overinflated the value of the assets his firms held. He also set up fictitious transactions between them so that he could

claim they were growing at a fast rate and loot money from them for his own personal use.

What happened next?

The bad management and embezzlement meant that Balfour's companies had to resort to borrowing increasing sums, both from the building society and elsewhere, in order to pay dividends. Eventually, their debt grew so large that no one was willing to lend them any more money, even at interest rates of up to 20%. In 1892 a business run by his friend James Hobbs, who had borrowed £2m from another Balfour bank, imploded, bringing the bank down as well. The receivers quickly spotted

that Balfour's empire was built on fraud, and he fled the country. He was extradited and convicted in 1895.

Lessons for investors

Overall, the Balfour Group owed £7m (£747m in today's money) to creditors, a sum secured against a small amount of mostly worthless assets. Those who put their money into the building society lost almost everything. The trial of Balfour and his accomplices revealed shocking levels of corporate governance. The auditors were friends of Balfour and signed off on things they didn't understand. Watch out for firms that have friends of the CEO on the board – it's a warning sign.



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Spectacular summer wines



I have majored on white wines this month, given the season, and yet the diversity of flavours on offer here shows not only the breadth of the Yapp cellar, but also that well-selected whites can cover almost all flavour-bases when it comes to food and wine-matching. One rosé and one red complete the picture and, for a French specialist merchant, it is exciting to bring Germany and Australia into the mix. However, there is an overarching theme this month which might not

necessarily be apparent and I would like to bring it to your attention. While every wine is spectacular, they are all slightly off-piste in one way or another and this is what keeps one's brain intrigued and engaged as well as one's palate thoroughly satiated. Cheers!

Matthew

Matthew Jukes

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£13.75
£12.75

2018 Reuilly Blanc, Gérard Cordier, Loire, France

From one of the lesser-known villages neighbouring Sancerre, I have followed Cordier's razor-sharp wines for nearly thirty years and this estate always rewards. Super-fresh and unnervingly adult in its dramatic delivery of acidity, this is a daring Sauvignon Blanc for those of you who find regular versions of this grape boring, overly tropical or just downright predictable. If you love action-packed, bone dry wines, this Reuilly is guaranteed to have you quaking, ever so slightly, in your boots.

£76.50 for six bottles



£15.75
£14.75

2017 Les Sorcières du Clos des Fées White, Côtes du Roussillon, France

Everything about this oddball wine is enchanting. The broomstick-riding fairy on the label, the 'white' glass bottle revealing the pale primrose hue and the uniquely engaging fruit notes which are both beguiling and curious, with a flavour which evolves in the glass.

With no oak interfering with proceedings, it's the invigorating cocktail of white grapes that makes this wine so magical. Grenache Blanc, Vermentino, Roussanne and Macabeu combine to give a slippery, wild-flower and near-tropical theme. You'll be amazed at just how lip-smacking this wine is.

£88.50 for six bottles



£13.65
£12.65

2018 Lirac, La Fermade Rosé, Domaine Maby, Southern Rhône, France

The vast majority of Lirac is red and, unlike its near neighbour Tavel, it is not very well known for making rosé wines. Maby is a superstar so it should come as no surprise to hear this wine is a thriller. Silky, clean and with discreet power just humming below the surface, this is a controlled, 'foody' rosé that really impresses the palate. Drink it with any dish you care to mention — it looks the part, too. Step away from the diluted, confectioned stuff seen on every street corner and taste a rosé with true attitude.

£75.90 for six bottles



£24.75
£23.75

2017 Crozes-Hermitage Blanc, Alain Graillot, Northern Rhône, France

You will know that Crozes is a red wine region with only about 10% of production being white. I remember drinking my very first Graillot wine, back in 1988 at Willi's Wine Bar in Paris. I have been a fan since the very first molecule passed my lips. This sensational white, made from 80% Marsanne and 20% Roussanne, is sealed with a screwcap (hoorah) and it is deceptively rich, with restrained, super-classy fruit and a minute's long finish. This is your main course white for top flight fish dishes this month. It will perform at the highest level for two or three years, too, and the screwcap will keep this gradual ageing process under control, too.

£142.50 for six bottles



£19.75
£18.75

2018 Riesling Trocken, Alte Reben, Reichsgraf von Kesselstatt, Mosel, Germany

I love von Kesselstatt wines. This one is a departure from their more familiar style of off-dry, grapey, soothing elixirs. Made from older vines (Alte Reben) and keeping the residual sugar level down to a rather pinched 7g/l, this is a genuinely dry and firm Mosel Riesling. This style is grabbing headlines in top German restaurants and wine bars. I love the tension here, but it is the counterpoint between the classic Mosel nose and then the racy, taut palate. Modern and thirst-quenching (I realise that this is a wine and not a beer), this is a perfect addition to your summer wine schedule.

£112.50 for six bottles



£17.95
£16.95

2015 Forest Hill Estate, Shiraz, Mount Barker, Western Australia

Aussie Shiraz is, obviously, a world class category of wine, but WA is not necessarily a state you would head to in search of this grape. From the cool Mount Barker wine region, some 200 miles southeast of Perth, comes this spicy, tangy, wild-berry-soaked wine which has none of the fruit-sweetness that is often associated with Shiraz from South Australia. Shaped more like a northern Rhône wine, this is a classic partner to barbecued lamb with rosemary and other similarly carnivorous, but summery, dishes. It's Yapp's palate with an Australian accent and so, no surprise, it works perfectly.

£101.70 for six bottles

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Three quiet spots in Europe

Find refuge from the tourist hordes in these peaceful holiday destinations. Chris Carter reports

Enjoying ancient architecture, rich histories, or picturesque beaches doesn't have to mean sailing into overcrowded ports such as Venice, says Emma Featherstone in *The Daily Telegraph*. There are "quieter European beauties" to visit on a cruise. Take Karpathos in Greece, for example. "Small ship cruises (which make up the majority that dock here) tend to anchor off the coast and tender into Pigadia, the island's capital and main port, which has a variety of pastel-coloured, Venetian-era buildings surrounding its shore."

Cruise operator Voyages to Antiquity (voyagestoantiquity.com) offers a 13-day Classical Greece and Islands of the Aegean itinerary from £2,495, which includes a day spent on Karpathos. The island is the second-biggest in the Dodecanese island chain. It is midway between Rhodes and Crete and offers a wealth of beaches and coves to explore. Or you can make a day trip to the mountain village of Olympos to admire its cube houses, windmills and



Enjoy seclusion in the mountain villages of Karpathos

churches. "Even the pickiest of beachgoers should find their perfect spot." Head to the east coast for small, gravelly beaches sheltered from the wind; to the south for fine, white sand; to the west for sandy, sheltered spots; and to the north for quiet beaches mostly reached by boat.

A neglected, but charming, city in northern Spain

The northern Spanish province of Cantabria has quiet beaches – at least, quiet in terms of the number of people. The noise comes from the waves, which are some of the best in Spain, "harnessing the powerful rollers of the Atlantic", says Jessica Cole in *Lonely Planet* magazine. "Surfing rules here." Yet the region of Somo "can feel gloriously empty". This is "the tragedy of the place", Damian Freeman, who runs the local La Curva surf school, tells Cole. "People arrive in Santander on the ferry and immediately leave for Madrid without discovering these gems." A tragedy, perhaps, but also one of its greatest charms.

It's a similar story in Santander itself. This city suffered a devastating fire in 1941, spawning a number of mid-century low-rise buildings. Yet "freed from the burden of its own beauty, the city exudes a reckless authenticity". Make no mistake, "it is unapologetically Spanish". And not all of the original city was laid to waste. El Sardinero is a once-outlying district that was patronised by Alfonso XIII in the early part of the last century, when it became a "Belle Epoque hot spot". At its centre, Hotel Chiqui (£50, hotelchiqui.com) is an Art Deco-fronted hotel with rooms whose sea views overlook the "long, silken sands" of Sardinero Beach. Santander has retained its "cloak of relative obscurity". But not for long perhaps. The city is "on a mission to evolve – and there's precious little holding it back".



Santander: recklessly authentic, unapologetically Spanish

The home of the tiramisù

"Treviso, and kindred cities across Europe, offer an alternative" to the overcrowded tourist hot spots on the continent, says Jason Horowitz in *The New York Times*. The city is located just a half-hour train ride from Venice – "a place to replenish on the culture and modern manners of an Italian-speaking Italian city before rejoining the madding crowd". Such gems exist all over Europe. "You just need to look." Canals flow in Treviso, just like in Venice. But here, trout actually swim in them.

You can still see the water mills that once provided the "fearsome" Venetian navy with bread. Joggers and cyclists set out from the confluence of rivers marked in Dante's *Paradiso*, and the faithful still observe vespers in the packed church of St Francis, where Dante's son is buried across from Petrarch's daughter.

Around the corner from Fishmarket Island, "the beautiful people gather around the tables outside Osteria al Corder... The bohemian crowd prefers Osteria Muscoli, where old men spend the mornings, and soak up the spirits with salted pork sandwiches". Beneath Horowitz's room at Il Focolare (£85, ilfocolarehotel.com), a wine bar draws "a night-time crowd that spills onto the narrow piazza". Opposite is the restaurant where, according to legend, the tiramisù was born.

"Treviso is a place to replenish on the culture and modern manners of an Italian-speaking Italian city"

This week: houses with vineyards or orchards – from an award-winning winery in Somerby, on the edge of the



▲ **The Old Vicarage, Chardstock, Devon.** A Grade II-listed, 1830s former vicarage surrounded by gardens that lead onto an orchard with mature fruit trees and a kitchen garden. It has open fireplaces and a south-west facing terrace. 4 beds, 2 baths, kitchen, 3 receps, study, workshop, 0.88 acres. £950,000 Jackson-Stops 01823-325144.

▶ **Palace, Póvoa de Lanhoso, Braga, Portugal.** This palace was built in 1906 and is set in 98.84 acres of grounds overlooking the River Ave. Its vineyards produce the regional green wine and it comes with a cellar equipped for winemaking. It has handpainted frescoes and grand fireplaces. €7.5m Christie's International Real Estate +351 224 057 008.



▶ **Hill Place, Swanmore, Hampshire.** A restored Georgian villa set in parkland with productive apple and pear orchards. It has a grand reception hall with a sweeping staircase, open fireplaces, and large, Georgian sash windows. 4 beds, 5 baths, 3 receps, library, breakfast kitchen, 1-bed flat, 3-bed lodge, 3-bed cottage, 3 stables, manège, horse walker, farm buildings, woodland, 127.6 acres. £6.25m Knight Frank 01962-677234.



Lincolnshire Wolds, to a Georgian villa with apple and pear orchards in Swanmore, Hampshire



◀ **The Old Rectory, Combyne, Axminster, Devon.** This renovated, detached, late 19th-century former rectory is set in landscaped gardens that include a large kitchen garden and an orchard planted with apple, cherry, and plum trees. The house retains its Victorian fireplaces and large sash windows, but has a contemporary open-plan kitchen and living area. 7 beds, 3 baths, 2 receps, drawing room, playroom, workshop, greenhouse, 2.2 acres. £1.1m Strutt & Parker 01392-215631.

▶ **Beech Bank, Longburgh, Burghby-Sands, Cumbria.** A renovated, period property with a walled kitchen garden and an orchard. The house retains its Victorian tiled entrance hall, open fireplaces and sash windows. 5 beds, 2 receps, 3 baths, cellar. £899,000 Finest Properties 01434-622234.



▶ **Low House, Westerdale, Whitby, North Yorkshire.** A Grade II-listed former farmhouse in the North York Moors National Park surrounded by landscaped gardens that include an orchard with apple, pear and cherry trees. It has beamed ceilings, an open fireplace with a wood-burning stove, and a fitted kitchen with an Aga. 5 beds, 2 baths, 4 receps, stable, barn, kitchen garden, 6 paddocks, 14 acres. £725,000 Savills 01904-617820.



▶ **Somerby Vineyard & Winery, Somerby, Lincolnshire.** A winery on the edge of the Lincolnshire Wolds that has produced award-winning wines for the past 12 years. It comes with 9,000 vines spread across 12.5 acres and a state-of-the-art winery housed in two modern buildings, with a capacity to produce 20,000 litres. A further 2.5 acres of vineyards are available to rent by separate negotiation. £800,000 Savills 01522-507315.

▶ **Il Moro, Montalcino, Siena, Tuscany, Italy.** A restored farmhouse with 9.88 acres of vineyards and a range of outbuildings, including temperature-controlled wine rooms, a barrel room, a bottling room, offices and a staff canteen. The house has beamed ceilings, tiled floors and open fireplaces. 7 beds, 7 baths, 2 receps, kitchen, gated courtyard, studio annexe, pool, gardens, caretaker's apartment, traditional outdoor bread oven, 29.65 acres. €6.5m Knight Frank 020-7629 8171.



A glorious way to get around



Bentley celebrates its centenary with a stunning and sophisticated Flying Spur. Mick Sharp reports

Bentley Flying Spur:
Engine: 6-litre, twin-turbo W12;
Power: 635hp; **Top speed:** 207mph; **Price:** £165,000 (estimated)

This is Bentley's centenary year, and the elite carmaker is determined to let everyone know about it, with festivals and motor shows taking place in every corner of the world.

For motoring enthusiasts one of the highlights of the celebrations will be the launch of the third-generation Bentley Flying Spur, described by its maker as "a unique fusion of breathtaking performance, contemporary design and intuitive technology". This beautiful beast's beating heart was designed and hand-built at the company's Crewe headquarters – a six-litre, twin-turbo-charged W12 TSI petrol engine linked to a dual clutch eight-speed automatic gearbox. The car will transport you in the lap of luxury from rest to 60mph in a mere 3.8 seconds

and on to a "wonderfully pointless" top speed of 207mph, as Steven Dobie puts it in Top Gear.

Volkswagen acquired Bentley in 1988 and started building new cars in 2002. Since hitting the road in 2005,

have a model combining the most powerful Supersports engine with the softest suspension," says Autocar.

The exterior is "sophisticated and captivating" and inside

The bespoke Naim for Bentley audio system offers 2,200 watts of power through 18 speakers. But most of the time "you'll just sit back, relax and be swept along by the whole Flying Spur V8 experience",

says Jethro Bovingdon in Evo. "It's a pretty glorious way to get around."

Bentley's car customisation programme lets you mould the car to your liking.

There are 15 different colours of leather and seven different wood veneers on offer, for example. Bentley will begin taking orders for the new Flying Spur in the autumn, with first deliveries early next year.

"A unique fusion of breathtaking performance, modern design and intuitive technology"



more than 37,000 modern Flying Spurs have been sold. But it's the Chinese market's importance to the Spur – up to 60% of production will end up there – that has been a key factor in the car's development and, ultimately, its ride.

"China likes soft-riding cars and it's the only market to

the central display features a 12.3in HD display while a touchscreen remote sits in the rear console, allowing passengers in the rear access to the "infotainment" functions, to adjust the ventilation and open or close the sunroof.

Wine of the week: a terrific slightly pink sparkler from Sussex

2015 Rathfinny, Blanc de Noirs Brut, Sussex, England

£35.95, reduced to £33.50 each for 12 bottles, Lea & Sandeman, 020-7244 0522, leaandsandeman.co.uk



Matthew Jukes
Wine columnist

This wine is made from 65% pinot noir grapes and 35% pinot meunier, making it a fascinating "white from red" tippie – even my fading eyesight can spot that there is a lot of red fruit in this sparkler because it is ever so slightly pink. This terrific, pale hue catches you unawares and then you are hit with the double-whammy of a haunting cherry-skin nose and a silky, hedgerow-kissed palate, which confounds the senses.

What is going on here?



I can tell you that, although this wine seems to be intentionally playing tricks with your mind, it is also utterly delicious and drinking perfectly already. And just in case you were tempted to think that this must be just a one-off, then try the 2016 Sparkling Rosé Brut (£33.95, reduced to £31.75 each, case price). It has a steely 20% chardonnay in its mix and, while this wine is genuinely rosé in colour, the palate is stern and linear, and the mouth-watering, percussive acidity drags the palate out to

a staggeringly long finish.

This wine needs age and it is shaped like a mighty white sparkler, whereas the "white" is forward and flattering. Confused? You will be, but what a wonderful way to lose yourself in two brilliant newly released wines. The "difficult second album syndrome" was never a problem for Rathfinny. These two wines are a step up on their inaugural releases and I cannot wait to see what happens next.

Matthew Jukes is a winner of the International Wine & Spirit Competition's Communicator of the Year (matthewjukes.com)

Book of the week

Bitcoin Billionaires

A True Story of Genius, Betrayal and Redemption

Ben Mezrich
Little, Brown, £20

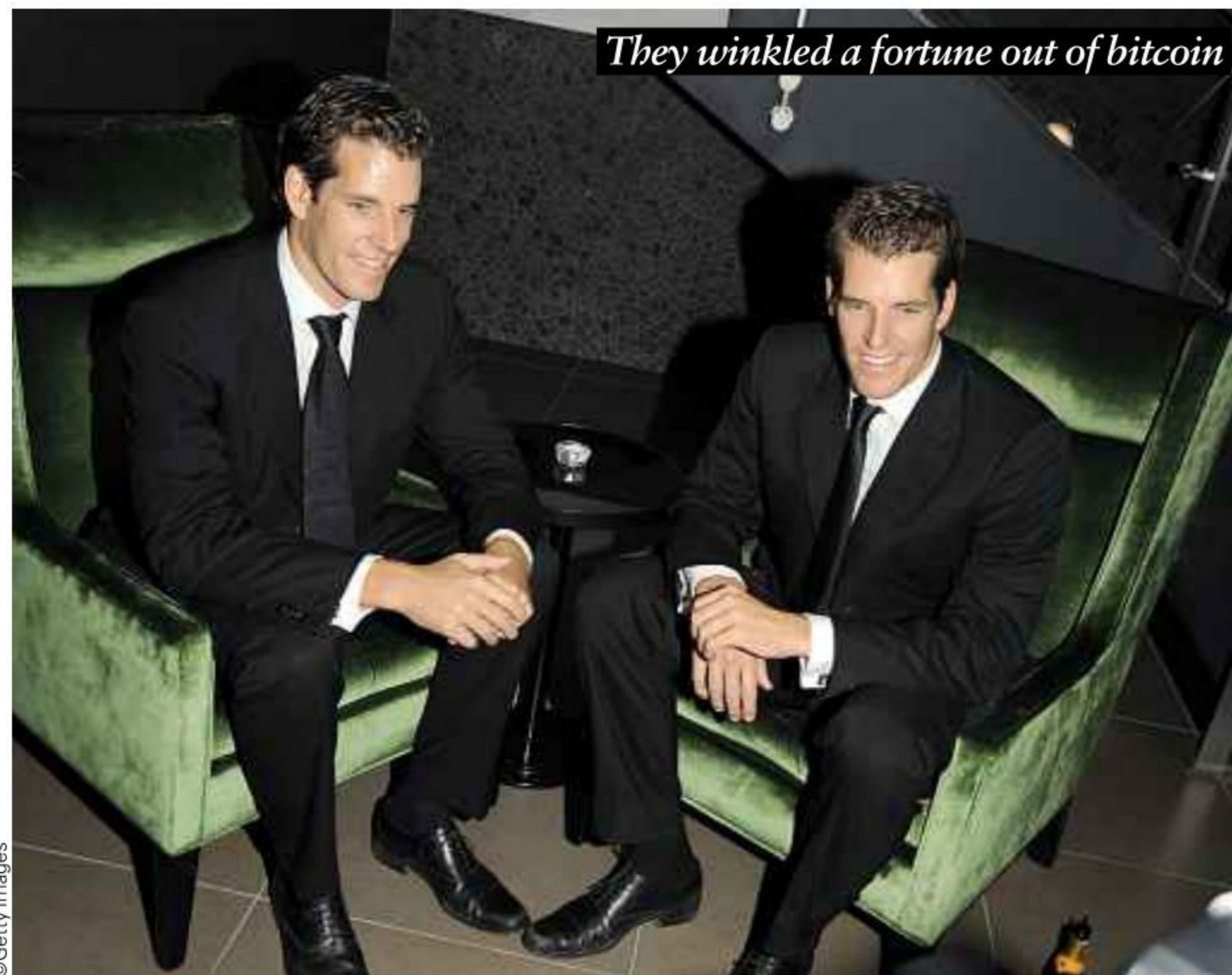


In *The Accidental Billionaires*, later made into the award-winning film *The Social*

Network, Ben Mezrich told the tale of how Facebook was founded. Although the film didn't exactly show Facebook's founder Mark Zuckerberg in a positive light, it had even less time for the Winklevoss twins, who claimed that Zuckerberg stole their idea for a university-linked social network. Indeed, they were portrayed as rather entitled, complacent student athletes, who were outwitted by a person they thought they could control. In *Bitcoin Billionaires: A True Story of Genius, Betrayal and Redemption*, Mezrich details how the Winklevoss twins "regained" their lost fortune by becoming bitcoin moguls.

Like most of Mezrich's other books, *Bitcoin Billionaires* is an attempt to tell a factual story using the devices of literature, such as imagining what the main characters were thinking as events happen. The approach (known as "faction") has been criticised by purists, who see it as distorting the truth, but it makes for an entertaining, pulpy read.

After winning what they considered to be a "derisory" settlement from Zuckerberg,



"This is an extremely fun, readable book that also serves as an introduction to the world of bitcoin"

the twins attempted to become venture capitalists, only to find themselves blackballed by a tech community that didn't want to jeopardise any chances of a buyout by Facebook. A chance meeting in an Ibiza nightclub led them into the world of bitcoin.

The central conflict in the book is between the twins and Charlie Shrem, the Zuckerberg-like figure leading the start-up that they invest in. Shrem and the brothers initially get on well, but the prospect of riches turns Shrem's head, and he falls under the influence of bitcoin pioneer Roger Ver, who sees digital currencies as the first step towards a new libertarian world order. The brothers decide that bitcoin can only survive as a proper financial product if it is accepted by regulators and central banks around the world. Only one side can win.

Given that the book relies heavily on interviews with the twins for its source material, it's not surprising that it takes their side on the various conflicts covered. Indeed, the author tries so hard to paint them in a good light that one ends up feeling some sympathy for their opponents. Shrem in particular comes across as a scrappy underdog, whose worst flaw was being just a little too trusting of Ver.

Partisan leanings aside, this is an extremely fun, readable book that also serves as a very good introduction to one of the most controversial assets in the world. It's a finance-related thriller that happens to be true and will teach you much about the world of cryptocurrencies. Highly recommended.

**Reviewed by
Matthew Partridge**

Thatcher: A Very British Revolution

Available on BBC iPlayer

As one Conservative prime minister prepares to leave office, the BBC is running a five-part documentary about one of her predecessors. On the 40th anniversary of Margaret Thatcher's first election victory, this documentary takes an in-depth look at the reign of the most controversial leader in British history.

The first episode deals with Thatcher's rise from grocer's daughter to education secretary to Conservative Party leader and PM. The second looks at the economic and social tensions that underpinned her first years in office. The third deals with the war in the Falklands and the fourth looks at the mid-1980s before concluding in the fifth with her decline and eventual removal from power. Each episode includes a large number of interviews with some of the key players in the Thatcher government, including ministers, MPs, officials and advisers, including those who became her strongest critics, such as Michael Heseltine.

The documentary has few genuinely surprising revelations, but it does provide a fascinating sense of what it must have been like to have been a minister during the turbulent times of the early 1980s. There is plenty of news footage to remind the viewer of key events and to provide a broader context, but the emphasis is very much on Thatcher as an individual. Whether you agree with her policies or not, she comes across as a disciplined, hands-on and principled leader who was prepared to take on anyone in the way of what she saw as her duty and mission. If you missed the documentary, which finished this week, you can catch up on BBC iPlayer.

Book in the news... a refreshingly optimistic peek into the future

Fully Automated Luxury Communism

A Manifesto

Aaron Bastani
Verso Books, £16.99



Left-wing provocateur Aaron Bastani argues that an updated form of communism should be 21st-century society's organising principle. Given that even Vietnam is now embracing free markets, that might seem like "some

sort of joke: a satire, or a political prank", says Andy Beckett in *The Guardian*. Far from it. In *Fully Automated Luxury Communism*, Bastani makes the case that "artificial

intelligence, solar power, the mining of asteroids and the replacement of most edible meat with synthetic flesh" will make communism viable. Technology, guided by activist left-wing governments, should be used to intensify our "mastery" of the planet, he says. The result will be "the creation of a new world of social justice and limitless abundance, with goods produced at almost no cost, and then freely and equally distributed".

This technological optimism, which echoes that of Marx, makes a nice change from the pessimism of other contemporary left-wing thinkers, says Daniel Finkelstein in *The Times*. But Bastani's book suffers from the same mistakes made by past generations of socialists. He requires capitalism to create luxury and abundance, but at the same

time is against capitalism doing that, for example. Most importantly, he doesn't make it clear what communism is. He doesn't address the problem of how it will work. It's just "assumed that scarcity will disappear and with it every social conflict, restriction and allocation problem".

Bastani's argument is that capitalism "can't cope with extreme supply", says Peter Franklin in *UnHerd* – ie, that it creates abundance that then undermines prices. But history shows this is nonsense. Take electric lighting. Costs have plunged in the years since it was invented, but "capitalist enterprises continue to make lighting products at a profit and to reinvest some of those profits to make light even cheaper". Still, at least Bastani is not afraid to address the big issues. This book is a "passionate contribution" to a much-needed debate.

The new breed of supernanny

Some child carers can now enjoy huge salaries – but the job may be more James Bond than Mary Poppins

Care work isn't the obvious career choice for those looking to earn six-figure salaries, but the demand for highly specialised carers for children, especially for the brats of the super-rich, is giving rise to a new breed of supernanny. Potential applicants need, as always, to have the skills to keep their young charges quiet while the parents are at the opera or cocktail parties, but they are now also expected to have "specialisations, certifications and loads of experience", says Bahney for CNN. There are "a lot of requests for Mandarin and French speakers", for example, as well for those who are "tech savvy".

Naturally, such expertise comes at a price. The demand from wealthier families in America seeking nannies "that are trained in newborn care, child development or languages" means that six-figure salaries are now not unheard-of for in-home caregivers. Nannies can make "between \$150,000 and \$180,000 a year in places such as New York or Los Angeles", and may earn even more in the Bay Area. Some families in San Francisco are paying "up to \$220,000" for someone to look after their children.

The world's poshest nannies

They're wasting their money, says Rachel Johnson in *The Sunday Times*. The only supernannies truly worth considering are those who graduate from the "spanking, multimillion-pound gold-stone campus" of Norland College in Bath. In return for fees of £15,000 a year, "Britain's poshest nannies in training" study everything from



You'd be better off going to Norland

how to teach a baby to swim to emotional coaching and drama. Norland has even employed a "former head of counter-terrorism" to design courses on cybersecurity and skidpan driving – helpful skills when escaping the grasp of would-be kidnappers or the snaps of the paparazzi. The "James Bond meets Mary Poppins" graduates are much in demand from the super-rich and royalty alike, and the average Norland trainee can look forward to an average of seven job offers to choose from when they graduate.

Norland nannies have the prestige, but they can also come with a lot of extra baggage, says Helen Kirwan-Taylor in *The Daily Telegraph*. An attitude of superiority is not uncommon – they may feel they are more qualified to do the job than the people who hire them and may not be slow to imply that their employers are "lazy, spoilt and unfit" parents. They're

a demanding bunch too – they may not command the upfront salaries of their US peers, but "they negotiate contracts and bonuses like a Goldman Sachs partner" and make "all sorts of demands" – for their own cars, for hours of "me time", even gym membership "to deal with all the stress".

Still, whether you go with an over-qualified American, an uptight Norlander or the more friendly Aussies available on the market, the one thing that every wealthy person and celebrity dreads is that the hired help will reveal their innermost secrets to the press. The Duke and Duchess of Sussex, it is reported, have appointed a nanny, but not before she had signed "quite an extensive non-disclosure agreement", says Zoe Forsey in *The Daily Mirror*. Let's hope the James Bond skills are not needed.

Quintus Slide

Tabloid money... the women putting va-va-voom back into film

● It's annoying when writers don't get the recognition they deserve, so "I'm thrilled to bits" that Phoebe Waller-Bridge has been "invented", says Jeremy Clarkson in *The Sun*. She's "become something we've never really had before" – a "superstar writer". Waller-Bridge (pictured) first came to our attention with TV series *Fleabag* and the "brilliant" first series of *Killing Eve*. She's been invited to "liven up" the new Bond film's scripts. In the world of modern-day television and film, "women are cleaning up". They're "not demanding better pay on social media. They're sat at their laptops working long into the night. I hope they're being rewarded for it. Because they're putting some va-va-voom into what is easily the most important part of any production. It's not the direction or the acting or the battle scenes. It's the writing."



©Getty Images

● How dare the BBC strip 3.7 million pensioners of their free TV licence, asks Carole Malone in *The Daily Express*. A third of all pensioners only have their state pension to live on – a "measly" £154.50 a week. I'd like to see the corporation's director-general, Tony Hall, live on that or "any of the 100 Beeb execs who earn more than the prime minister". Hall "will have no problems paying his licence fee as he earns between £450,000 and £499,000 a year". A number of those affected have said they won't pay. They will presumably be hauled through the courts. "Did the BBC seriously think the public would just stand by and let them criminalise the old for the sake of a £154.50 licence while Gary Lineker pockets £1.75m a year?"

● "I'm as concerned as the next person about saving the planet," says Karren Brady in *The Sun* on Sunday. "But I have a major problem with Theresa May's £1trn legacy pledge to reduce greenhouse-gas emissions to net zero by 2050" by paying other countries to plant trees. Yet again, we're stepping up to save the world when others, such as China, the US and India, "don't seem to be bothered". Anyway, "it seems like a mad waste of money to me", when we should be focused on reducing our own emissions. There are so many other issues to consider too – mental health, schools, hospitals, care for the elderly. They also all "need serious and immediate attention. Why are our priorities so mixed up?"

Bridge by Andrew Robson

Deliberately shortening your trumps

Declarer won West's jack of spades lead with the ace. He cashed the bare ace of clubs, crossed to the king of spades, cashed the king of clubs discarding a diamond, and then led a diamond to the (ten and) king, losing to West's ace. West shifted, as he had to in order to prevent the diamond ruff, to his heart, dummy's eight winning the trick as East had to play low to preserve his trump trick. It was time for declarer to make the key play.

Dealer South

East-West vulnerable

♠ J105	♠ K983	♠ Q762
♥ 3	♥ K8	♥ Q764
♦ AJ532	♦ 74	♦ Q10
♣ J975	♣ K8632	♣ Q104

	♠ A4	
	♥ AJ10952	
	♦ K986	
	♣ A	

	N	
W	E	
	S	

The bidding

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

- * Not worth two bids, so responds in the major at the one-level rather than the minor at the two-level.
- ** Needs six cards for this bid – partner's Two Hearts was preference not support.
- *** Could easily have a grubby six points with two low hearts.

At trick seven, declarer ruffed a black card to hand. This he did to shorten his hearts, with a possible Trump Coup in mind. He then led a second diamond.

East won the queen of diamonds and returned a trump to dummy's king (West discarding), but declarer was in control. He ruffed another black card and exited with his last diamond. He had to score both his ace-jack of hearts, sitting over East's queen-seven. Ten tricks and game made.

For all Andrew's books and flippers – including his new hardback *The Next Level* – see andrewrobson.co.uk.

Sudoku 952

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

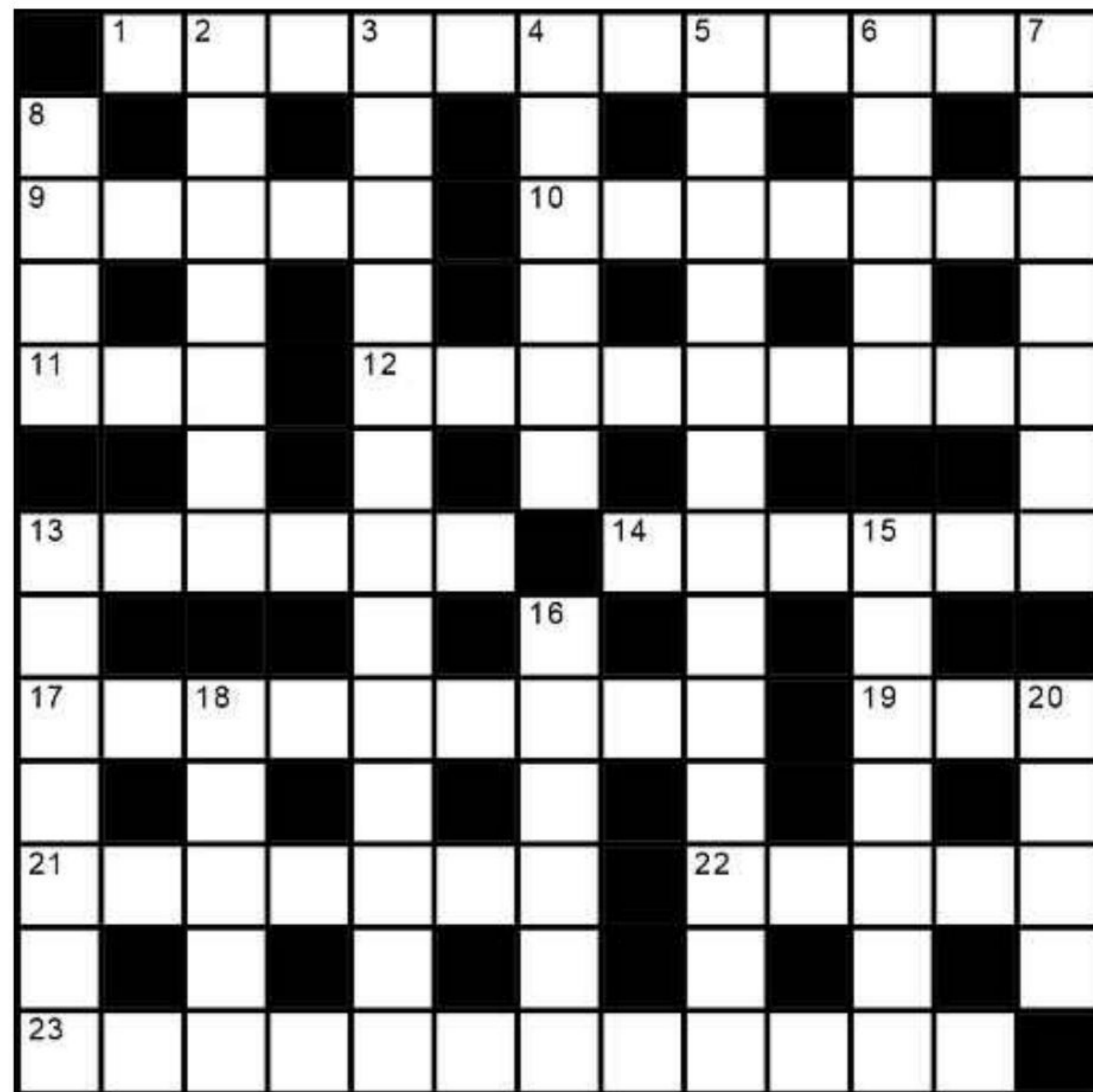
To complete MoneyWeek's Sudoku, fill in the squares in the grid so that every row and column and each of the nine 3x3 squares contain all the digits from one to nine. The answer to last week's puzzle is below.

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

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Tim Moorey's Quick Crossword No. 952

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 1 July 2019. Answers to MoneyWeek's Quick Crossword No. 952, 31-32 Alfred Place, London, WC1E 7DP.



Down clues are straightforward whereas across clues are mildly cryptic

ACROSS

- 1 Difficulty going to opticians? Not initially oddly (12)
- 9 Relish nothing in a strenuous dance (5)
- 10 Official nipped in rear unfortunately (7)
- 11 Tease that's bawdy? Not half! (3)
- 12 So arrangement of three comes before four, one's heard (9)
- 13 Suspect former partner in southern county (6)
- 14 Victory effort is cold and bleak (6)
- 17 Additional fast run is what The Week's set on (9)
- 19 Fury shown in indirect fire more than once (3)
- 21 Bar seen to be rocking in

- 22 Express view ending in "so long" (5)
- 23 Daily paper's trendy getting legal responsibility for issue (12)

DOWN

- 2 Large passenger vehicle (7)
- 3 Easily moved to anger (5-8)
- 4 Pictures (6)
- 5 Shorter versions of long words (13)
- 6 Beginning of piece of music (5)
- 7 Young children's room (7)
- 8 Popular performer (4)
- 13 Flood protection (7)
- 15 Georgian capital (7)
- 16 The rest in Madrid (6)
- 18 Informal term for money (5)
- 20 Heaven on earth (4)

Name

Address

Solutions to 950

Across 7 Pool double meaning 8 At anchor a t anchor 9 Pavement flagstone 10 Plot hidden 11 Gilets Gl lets 13 Sleigh homophone 16 Pea hidden 17 Samosa Samos a 19 Nutter n + utter 20 Eire E ire 21 Elevator deceptive definition 23 Deadline anagram 24 Gals hidden. Down 1 Mona Lisa 2 Alter ego 3 Yale 4 Partisan 5 Chilli 6 Wretch 12 Spare rib 14 Estrange 15 Grenoble 17 Speeds 18 Myriad 22 Eden

The winner of MoneyWeek Quick Crossword No. 950 is Ms K Sarles, Creditor

Tim Moorey is author of *How To Crack Cryptic Crosswords*, published by HarperCollins, and runs crossword workshops (timmoorey.info)

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A recipe for disaster

Countries go bust slowly then suddenly. We're still in the "slowly" phase



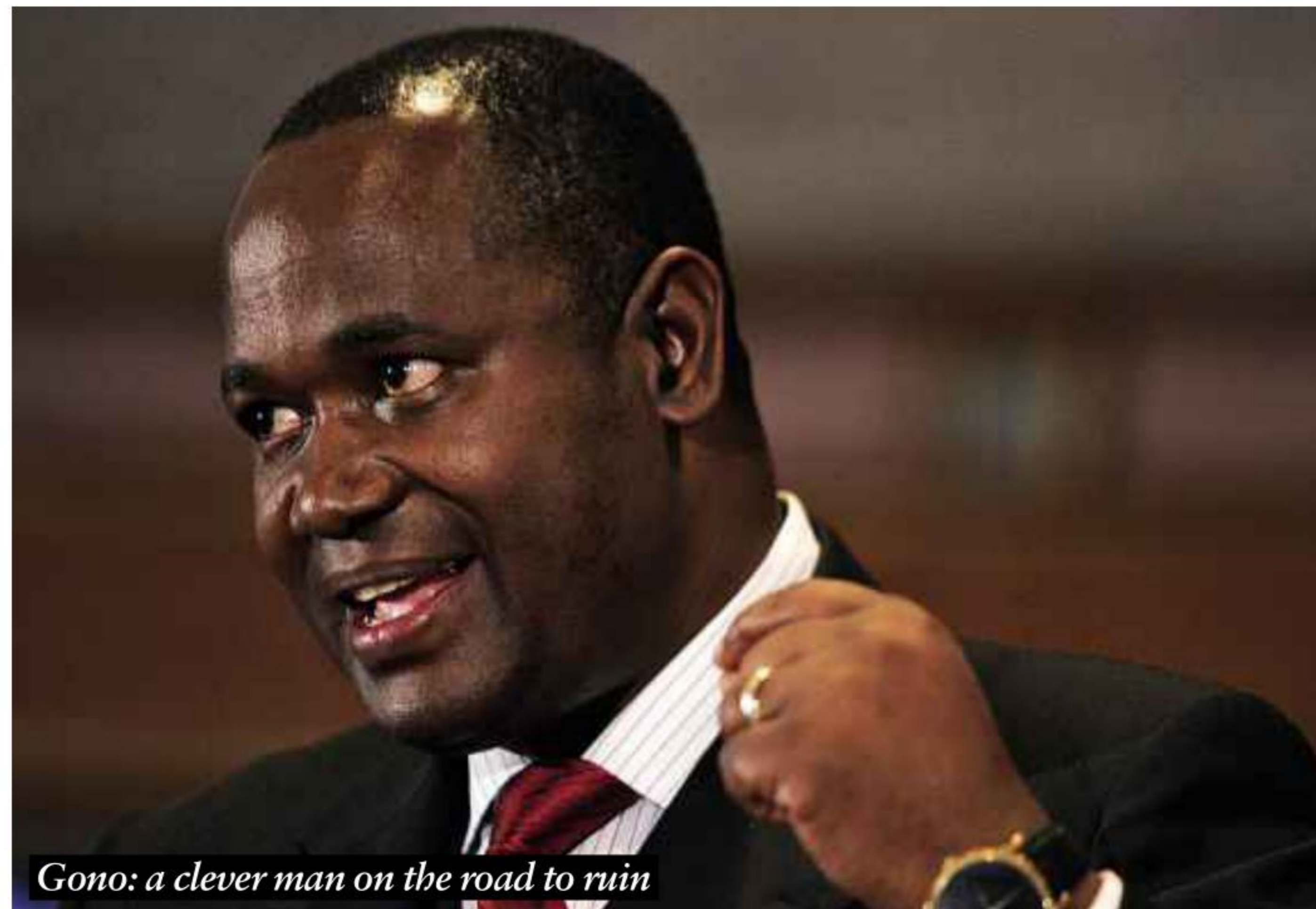
Bill Bonner
Columnist

Venezuela, we learn, is on the road to recovery – it has managed to get inflation down to only about 815,194%, from previous highs of around 1,300,000%, reports Reuters. The feat was managed by restricting the domestic money supply – imagine that. Still, running water remains unreliable, electricity is in short supply in what might be the most energy-rich country on earth, and despite having some of the largest oil reserves on the planet Venezuelans are queuing at petrol stations for days. How did Venezuela get to be such a mess?

Long-term sufferers of our column will know that we are connoisseurs of disaster. The great vintages – a Weimar 1921, for example, or a Zimbabwe 2008, or, of course, a nice Venezuelan blend from 2018 – are always a pleasure to sip and slosh around on the tongue as you wonder: how can smart people foul an economy so badly that people go hungry, riots break out, and governments collapse?

The answer is always the same: slowly... and then, all of a sudden. The "all of a sudden" part is well reported – the object of amusement, ridicule, and finger-wagging. But it is the "slowly" phase that is most interesting and important. For that is where the spadework is

"We are connoisseurs of disaster. The great vintages are a pleasure to sip"



Gono: a clever man on the road to ruin

done, the soil is tilled, and the seeds are planted and watered. It looks to most people like honest labour, trying to coax fruit out of a grudging ground. Few notice that it is not an Eden that is being prepared, but a garden of catastrophe. Zimbabwe planted the seeds before Venezuela. Gideon Gono

led the Central Bank of Zimbabwe over the whole period. Between 2006 and 2008, he increased the nation's money supply 20 million times. Asked why he had done it, he replied that he hadn't done anything the major central banks around the world weren't doing.

An old friend visited Gono in Harare a few years later. He was curious. What kind of man would destroy a whole economy, one that used to be the "Jewel of

Africa"? But instead of a monster, he found himself in the company of a person who was as "friendly, knowledgeable, and intelligent" as Jerome Powell or Elizabeth Warren.

Why, then, do apparently *compos mentis* people do such things? The answer is simple, too. Once the "slowly" part of the formula has run its course – with central planning, falling real GDP, credit crises, price controls, huge debts, and trade restrictions – the "suddenly" phase leaves the planners with little choice. They could admit failure and let the economy collapse in bankruptcies, defaults, crashes and depression. But that is politically impossible. So the feds add more zeros to the currency. Gono was right. Every major central banker is doing the same thing – adding fake money. But they are still in the "slowly" phase. "Suddenly" still lies ahead...

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The bottom line

394.5m The price in Vietnamese dong (£13,400) of the new Fadil hatchback. The car is the first to be rolled out from Vietnam's new carmaker VinFast – a new division within conglomerate Vingroup.

9.78bn The total cost in Indian rupees (£111m) of India's Chandrayaan-2 mission to the moon, set for launch next month, according to Isro, the country's space agency. If successful, India will become only the fourth country after the US, Russia and China to perform a "soft landing" on the lunar surface.

£39.9m The debt racked up by the publicly owned Prestwick Airport, according to Glasgow's The Herald newspaper. The Scottish government bought the struggling airport for £1 in 2013 to prevent closure. Last week, the Scottish government said it would seek buyers.

£200,000 The cost to Allan & Bertram, a calendar company, of having to change the May 2020 page in the calendars it had already printed after the government announced this month it was moving the early May bank holiday next year to coincide with

the 75th anniversary of VE Day. The company complained about the lack of notice.

£4.55m The fine imposed by the Financial Reporting Council (FRC) on PwC for the accountancy firm's "lack of competence" in auditing cloud-computing company Redcentric. The penalty had been £6.5m, but was reduced after PwC admitted to its mistakes.



£116,000 The ransom that hackers demanded from Radiohead for 18 hours of stolen recordings dating from the mid- to late-1990s.

Instead of paying up, the band, led by Thom Yorke (pictured), released the material to the public, promising to donate the proceeds to green protesters Extinction Rebellion.

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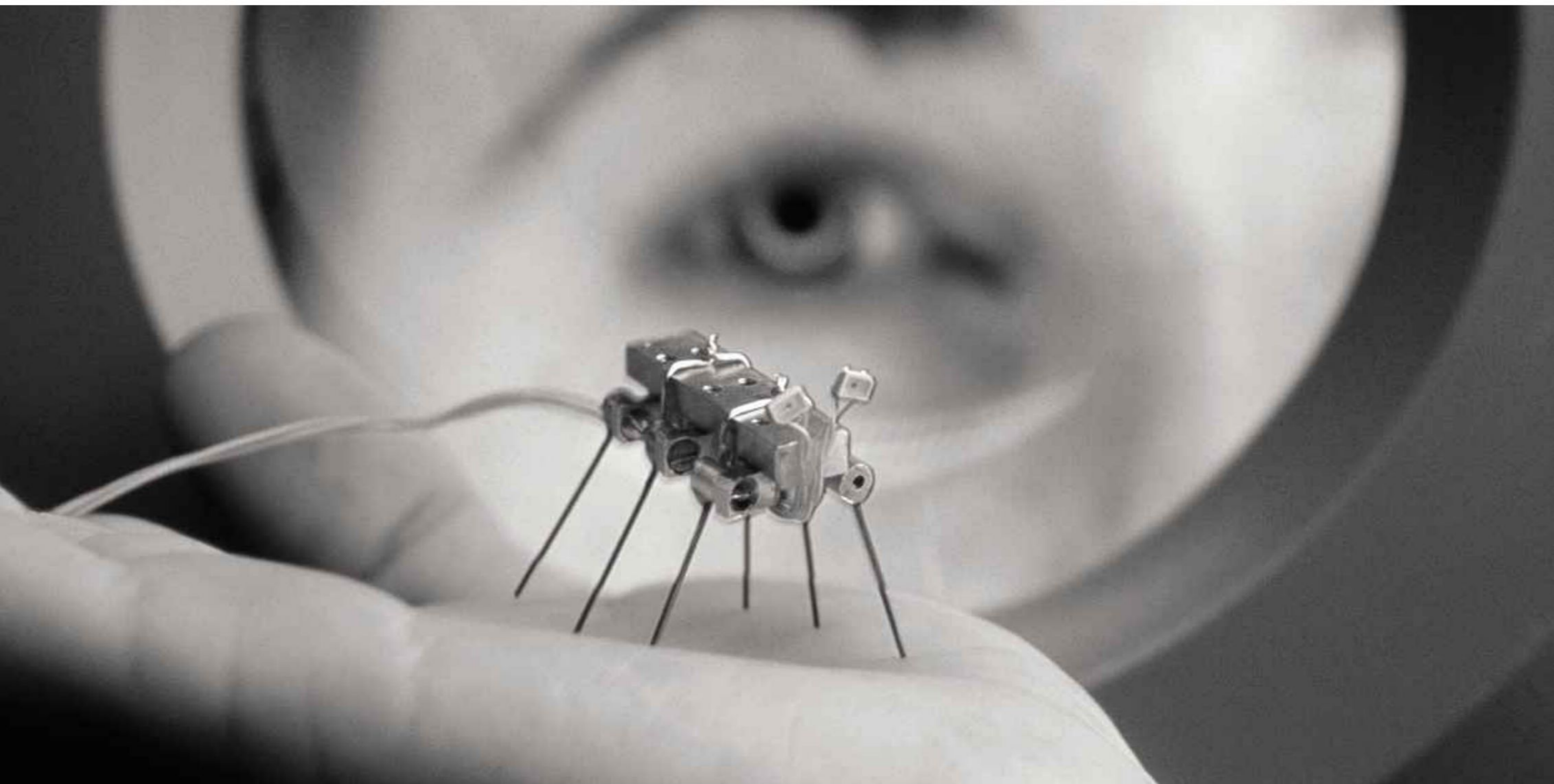


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