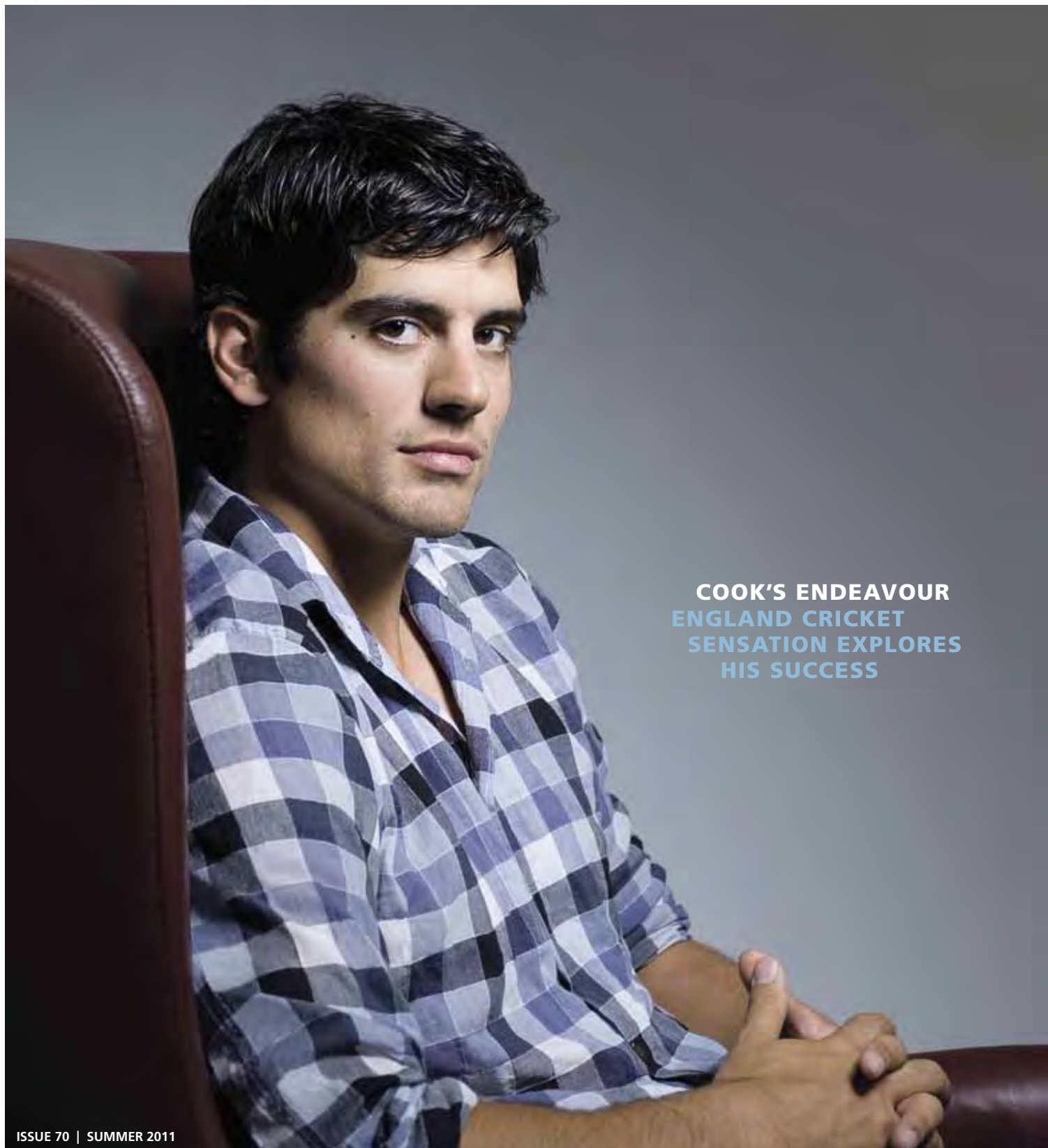




ST. JAMES'S PLACE
WEALTH MANAGEMENT

THE INVESTOR

INVESTMENT NEWS FOR CLIENTS OF ST. JAMES'S PLACE WEALTH MANAGEMENT



COOK'S ENDEAVOUR
ENGLAND CRICKET
SENSATION EXPLORES
HIS SUCCESS

WELCOME



Welcome to the latest edition of *The Investor*.
The best word to sum up the current economic climate is uncertain. Will inflation moderate or continue to rise? Will Europe manage to overcome its financial crisis? How much longer can UK interest rates remain at these record low levels? In this issue we look at the impact of these uncertainties on the global economy and consider how, and when, they might be resolved.

For the England cricket team, by contrast, the key word for the moment is success. We have an interview with one of the key architects of that success, batsman Alastair Cook.

Technology has already transformed our business and personal lives, but the pace of change continues to quicken. Innovations such as smartphones, social networking sites and now cloud computing bring with them more, as yet unknown, changes to come. We report on how technology is helping some new companies steal a march on their more established rivals.

This is my last welcome letter as I am stepping down as Chairman of the Investment Committee and will be handing over to Vivian Bazalgette, who has been a member of the Investment Committee since 2010. I have thoroughly enjoyed my time as Chairman and leave the position in good hands.

I do hope there will be lots in this edition to interest you. If you have any queries, please do not hesitate to contact your St. James's Place Partner.

Sir Mark Weinberg
Chairman, Investment Committee,
St. James's Place Wealth Management



FOR FURTHER INFORMATION ON ANY OF THE ARTICLES IN THIS ISSUE OF *THE INVESTOR*, PLEASE CONTACT YOUR ST. JAMES'S PLACE PARTNER

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All facts and statistics in this issue of *The Investor* are correct at the time of going to press. Cover image: Pål Hansen

Northern European powerhouses still in robust health

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NEWS

PENSIONS

BUILDING A NEST EGG

What will next year's compulsory new pension scheme mean for employers?

You may be aware that a new pension scheme is being introduced by the government: NEST, or the National Employment Savings Trust. What you may be less aware of is how far-reaching the scheme will be.

Starting in 2012, every employee aged over 22 and earning more than the threshold for paying basic rate tax – currently £7,475 – must be offered the opportunity to join a workplace pension scheme. That means NEST will not just cover those working in factories, shops and offices, but also domestic staff, such as cleaners and gardeners.

The introduction is phased over five years, with larger employers going first, but everyone who employs staff should be starting to assess the implications of NEST.

The reason for introducing NEST is straightforward: funding retirement is becoming very expensive. By 2030, a third of the population will be above the state retirement age¹ and a woman reaching 65 in that year can be expected to live for another 25.9 years, and a man 23.4 years.²

Yet only around 40% of us is making any pension savings outside the state scheme³. NEST is designed to plug that gap.

The minimum contribution will increase in stages until 2017, when it will be 8% of employee's salary between

£5,715 and £38,135, made up of 3% from the employers, 4% from the employee and 1% tax rebate.

Employees do not have to join the scheme, but their bosses need to ask them to join again every three years.

For employees, NEST is designed to be simple and transparent. They will be able to take their pot with them whenever they change jobs and they will be able to keep track of their pension pot by logging on to their personal online account.

The maximum annual contribution will be £3,600, which will not provide a particularly generous pension, although this limit may be abolished from 2017.

Employers can also choose to use their own scheme rather than signing up to NEST, provided it meets the criteria for approval. NEST says signing up will be easy and will be done online, but final details have still to be released.

Anyone who is concerned about the implications of the scheme should seek professional advice.

Sources

¹ www.pensionspolicyinstitute.org.uk/default.asp?p=68

² www.pensionspolicyinstitute.org.uk/default.asp?p=69

³ www.pensionspolicyinstitute.org.uk/default.asp?p=81

ECONOMIC OUTLOOK

THE GREAT INTEREST RATE DEBATE

They have been at record lows for more than two years. What prospect is there of rate rises?

Since 1970, interest rates have been less than 4% for just 44 months – the bulk of that in this current prolonged period of record low rates – and the average has been above 9.2%. Small wonder, then, that the most popular game among economists is guessing when, and how quickly, rates will rise from the level of 0.5% plumbed in November 2008. As soon as one piece of economic data seems to pave the way for a rise – stubbornly high inflation, for example – another statistic emerges to underline the need to keep interest rates lower for longer, such as flagging economic growth.

The Organisation for Economic Co-operation and Development supported an increase when it warned that rates would have to rise this year to stave off inflationary pressures. Meanwhile, the respected Ernst & Young Independent Treasury Economic Model (ITEM) Club made a plea to keep rates low until at least November to avoid undermining fragile consumer confidence.

It is a difficult balancing act. While a rise in interest rates would be good for savers, it could hit borrowers hard. An analysis by insurance group Legal & General suggests that as many as 90% of mortgages are now on variable rates, compared with 60% in 2007. Borrowers' spending power could be significantly affected by a rise in interest rates – and remember, even a 0.5% rise is a doubling of base rates from current levels.

The Bank of England is hoping that we consumers will keep spending enough to keep the economy on a recovery track. With tax increases now starting to bite, inflation rising sharply, as explained in our feature on page 10, and the public sector still shedding jobs, there are plenty of reasons for the Bank's Monetary Policy Committee to worry about doing anything to rock consumer confidence.

The statistics for the manufacturing industry, also a key part of the government's recovery hopes, have also become less positive lately. Indeed, some analysts have suggested that this has been the slowest economic recovery of any recession in the past 180 years. The summer is generally a much quieter time on the economic front anyway, so it could be at least the autumn before there is any more clarity about the interest rate outlook.

The European Central Bank has already taken the plunge but, as outlined in our feature on page 6, northern Europe is already enjoying a good recovery. Meanwhile, Britain still has some way to go before it can say the same.



Getty Images, The Guardian



SPECIAL REPORT



A TALE OF TWO EUROPE

The continent's northern countries remain in rude health despite the economic crisis engulfing the south

Government debt as a percentage of GDP as at 2010. Source: European Commission

There is an economic divide running through the middle of Europe and it is getting wider. Southern Europe is struggling with crippling debts and stagnant economic growth while the north is in robust financial health. Expressed at its simplest, the PIGS – the pejorative acronym for Portugal, Ireland, Greece and Spain – borrowed too much when credit was easy and in today's harsh post-credit crunch reality, they are struggling to cut their debts and their spending while keeping their citizens inside.

The northern countries of Europe – Germany, France and Scandinavia – on the other hand, were far more measured in their appetite for credit during good times, and so are suffering less in the lean years. They are also home to some of the best manufacturing companies Europe has to offer, companies that are continuing to find markets for their products in faster-growing emerging and Asian markets. 'In October 2009, the IMF predicted that the German economy would grow by just 0.3% last year. In reality, it grew by 3.3%,' says Alexander Darwall, head of European equities at fund management group Jupiter.

The high level of sovereign debt among the southern countries, in particular, is still worrying financial analysts. Indeed, many question whether countries like Greece can ever pay their debts – and some doubt whether they can remain within the euro. Ruth Lea, economic adviser to the Arbuthnot Banking Group, says: 'The bailouts for Greece, Ireland and Portugal are most unlikely to solve the economic problems of any of these countries. Apart from the unsustainably high debt levels, their economies lack the competitiveness to grow and prosper. At some point, the EU will have to consider much more radical solutions.'

But it is important to differentiate between the fiscal crisis engulfing much of southern Europe from the outlook for European companies. 'The sovereign

debt crisis and economic backdrop – with Europe's share of world trade falling – is not good, but you have to divorce the corporate sector, which people invest in, and the government finance issues in southern Europe,' says Darwall. 'If Greece, Portugal or Ireland defaults it will present difficulties, but their share of European trade is small.'

Darwall emphasises not just the fiscal prudence of much of northern Europe, but the export strength of its corporate sector. 'Should you be excited by listed European companies? You bet – big companies from Germany are the best in the world at what they do. These companies don't care about the PIGS; they have far bigger and more important markets out there to take advantage of,' he says.

China is far more important to Europe's outlook than the PIGS. Fewer than one in 20 Chinese people has a car, but prestige brands like Germany's BMW are in a strong position. Darwall also uses the example of the Swiss watch industry, which has seen a 33% uplift in sales in the past year: 'This just shows the effects the expansion of the Asian economies is having on traditional exclusive brand industries in Europe.'

A default on their debt by one of the PIGS – which is a real possibility – or the departure of one of the countries from the euro would undoubtedly be seen as a setback that could upset investors, but the underlying strength of the north means that should be short-lived.

In conclusion, Darwall says: 'A lot of UK investors have been quite sniffy about Europe in the past, lumping [all the countries] together, but fund managers will probably own very little stock in the countries worst affected by the crisis.'

'When you look at many of the northern European countries, their finances are in a sound condition, as they have made the right economic decisions over the past few years and this is paying off.'

■ JULIAN KNIGHT IS MONEY EDITOR OF THE INDEPENDENT ON SUNDAY

FUTURE OF THE EURO

Can the euro survive in its current form? If some of the PIGS are forced out of the eurozone, what effect will it have? These are the two key questions that are preoccupying economists.

Simon Smith, chief economist at foreign exchange specialist FX Pro, sums it up: 'The concept of the eurozone as a single economic entity is being severely undermined, not only by the divergent fiscal situations, but also by the substantial variations in economic growth performances.'

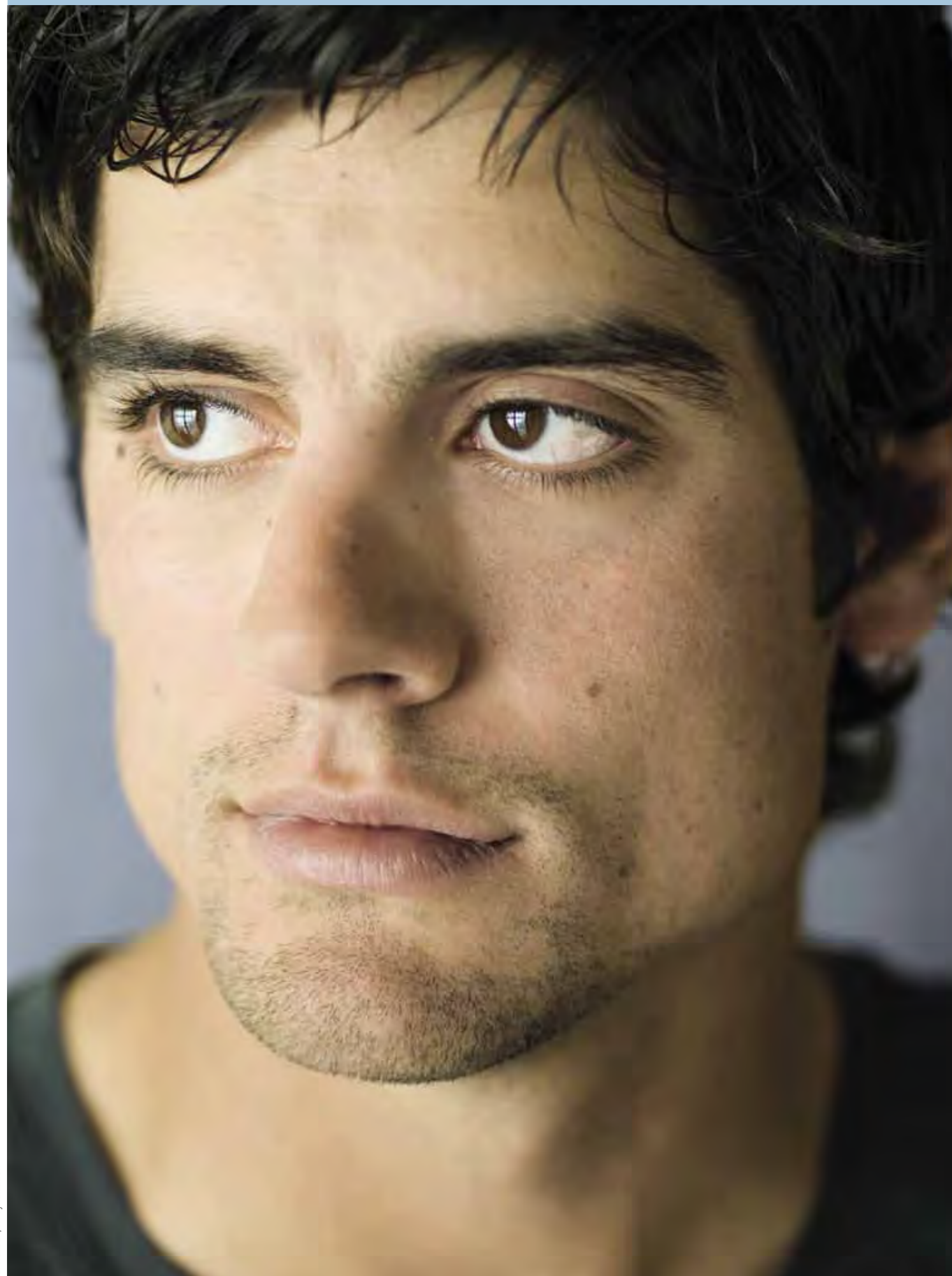
The key question is, how can one interest rate set at the European Central Bank work for all the members of the euro?

The stronger economies of the eurozone are spending huge sums in bailing out the southern European counterparts, hoping to keep them in the single currency. But opinion is still strongly divided as to whether they will need to leave or not.

Balance sheet: Europe seems like a continent riven with public sector cutbacks, protest marches and crippling debts, but these are mainly concentrated in the south; northern countries like Germany are thriving despite the slowdown in global growth. That means there are still plenty of opportunities for investors.



Illustration: Craig Robertson@Debut Art. Photo: iStockphoto



MAN OF THE CENTURY

Cricketing sensation Alastair Cook is tipped to break all English records and, as Heather Connon discovers, the batsman has his eye on the ball financially as well

It has been a stunning year so far for Alastair Cook, the England batsman. It started with his phenomenal performances in the Ashes, where he contributed to England's first series win on Australian soil for 24 years by sending a number of batting records tumbling, and it continued with him being made an MBE and named captain of the one-day international side. He was made a Freeman of the City of London for his performance in Australia. Oh, and he also set a date for his marriage to his long-term partner, Alice Hunt.

'It has been an amazing two years for the England cricket team,' he says. 'In 2009, we got bowled out for 51 in the West Indies, so the turnaround has been pretty spectacular – [we are] undefeated in a Test series since then. To be part of that side is a huge honour.'

It is also a remarkable turnaround for Cook after last summer's fallow patch. He says that by the time he took the crease against Pakistan at the Kia Oval at the end of the summer, he had hit rock bottom and, if not exactly fighting for his place in the England team, he certainly felt he was on trial. Paradoxically, it was being at such a low that gave him the strength to clamber back.

'When you hit that point, when you think it can't get any worse, you almost relax, you stop worrying about it and go back to the basics of just hitting the ball again.'

The recovery started then with a century. 'That 100 didn't exactly save my career, but it certainly gave me confidence when I needed it most.' His confidence grew in a series of warm-up matches in Australia, culminating in a record-breaking run of innings – including 235 not out, 148 and 189 – that saw him set new English records for most runs scored and most

time at the crease without being dismissed.

'It was going as well as it had ever done. That confidence is vitally important for me as a cricketer.'

These recent successes have also boosted the confidence of the England team and, says Cook, there should be more to come. 'Our goal as a team is to be number one. Looking at the strength and depth in English cricket just now, I've never seen anything like it.'

Cook made his England debut at 21 and, still only 26, has plenty of time to break more records. He says he is 'always asked' whether his ambition is to captain the Test side. 'If the opportunity arose, I'd like to challenge myself and see what I can be. If it doesn't, I'm lucky enough to say I have captained England before in a Test match [he deputised for Andrew Strauss in 2010]. But it's not something I crave to do.'

He does accept that his top-flight cricketing career, like any other sport at the highest level, will have a limited lifespan. For the moment, however, he is not worrying about that, but is giving his all to England. The Ashes triumph will certainly have increased his earning power – he has already signed a deal with Samsung, on top of existing sponsorship deals with Buxton Water, Clydesdale Bank, Austin Reed and bat maker Gray-Nicolls. 'Careers are short and you have to make the most of it, but it is what you do on the pitch that matters.'

Cook says he has no interest in

cultivating an Alastair Cook 'brand' to boost his earnings. 'Far from it,' he says. 'I have the best of both worlds. I can go and play cricket, then I can escape back to the farm and help out there' – Alice runs a farm in Bedfordshire.

'I really enjoy that. The sheep don't care how many runs you've made and the work's got to be done.'

All professional cricketers get help from the England and Wales Cricket Board, both with managing their financial affairs and to help avoid the pitfalls that can come with



Batsman Cook has deals with Samsung, Buxton Water, Clydesdale Bank, bat maker Gray-Nicolls and Austin Reed

“Careers are short and you have to make the most of it”

success. 'The Academy system means for an 18-year-old there is a lot more education and management, so that helps people when they turn professional and they know the pitfalls.'

Cook's love of sport dates back to his early childhood. 'When I was four or five, my mother said the only way to keep me quiet was to throw a tennis ball for me to catch.' Although he was a chorister at St Paul's and won a music scholarship to Bedford School, sport was always Cook's first love, and towards the end of his time at St Paul's he was opting to play cricket rather than practise for the choir.

Thankfully he also put to one side any plans for university in favour of a place in the first team at Essex. 'I tell my mother I am on my eighth gap year,' he jokes.

FINDING SOME SHELTER

The rapid rise in commodity prices is fuelling inflation. Joanne Hart looks at what this means for investors

In 2000, crude oil was little more than \$22 a barrel. Today it is around \$100. Over the same timeframe, wheat has tripled in price, natural gas prices have doubled and iron ore is at least ten times more expensive than it was then. The Chinese economic miracle is the principal reason behind this surge in raw materials prices. Demand from China has soared as the country has embarked on its rapid industrialisation and supply has simply not kept pace.

Soaring prices may be good news for raw materials producers, but they cause considerable challenges for anyone who has to buy them, or the goods in which they are used.

A quick glance at UK inflation figures proves the point. The consumer price index (CPI) has risen sharply since the financial crisis and now stands uncomfortably above the Bank of England's 2% target rate. The increase in VAT to 20% has not helped, nor has sterling's weakness. But higher raw materials prices are the main culprits, raising the cost of living for consumers and raising the bar for business.

Investors, too, are ill served by the current climate, particularly those who choose to leave their money in a low-yielding savings account.

'If interest rates are 0.5% and inflation is 5%, then you are getting a negative rate of return of - 4.5%, which is clearly unsatisfactory,' says John Wood, senior fund manager at J O Hambro Capital Management.

Nor is it easy for investors in shares; they need to find stocks robust enough to withstand the economic climate and deliver a total return above the rate of inflation.

'In an inflationary environment, you need to identify companies with pricing power – that is companies that can put their prices up without drastically reducing demand,' says Wood. 'Brands give you

pricing power. The market has focused on luxury brands, but in emerging markets the middle classes are expanding and, for them, aspirational brands are more like Sure or Dove in the personal care category or Smirnoff and Johnnie Walker in the drinks sector.'

Pricing power extends beyond consumer products to areas such as publishing or media. Companies with a high degree of subscription revenue, for example, are more likely to be able to raise prices without seeing a dramatic fall in demand, provided the magazines or programmes they are producing are of sufficiently high quality that consumers or businesses consider them must-have items.

'You need to find companies that are price-makers, not price-takers. These are the ones with a degree of control over inflation,' says Wood.

Companies with index-linked contracts are also more able to withstand inflationary pressure. Obvious examples include regulated utilities, such as water businesses, but outsourcing groups, particularly those involved with the public sector, often have indexation built into their contracts, too.

It is all too easy when inflation is high to look primarily for companies with progressive dividend policies – but this can be misguided.

'If a company is yielding 5% and it does not invest in its future, then all you get is [a] 5% [return], which equates to nothing if inflation is running at the same rate. But companies that deliver a high return on capital can grow their business, whatever the economic environment. If they can make £1.20 from £1 in year one and £1.44 from £1.20 in year two, you can take that inflation hit because the intrinsic value of your investment is still growing,' says Wood.

■ JOANNE HART IS EDITOR OF THE 'MIDAS' COLUMN IN *THE MAIL ON SUNDAY*



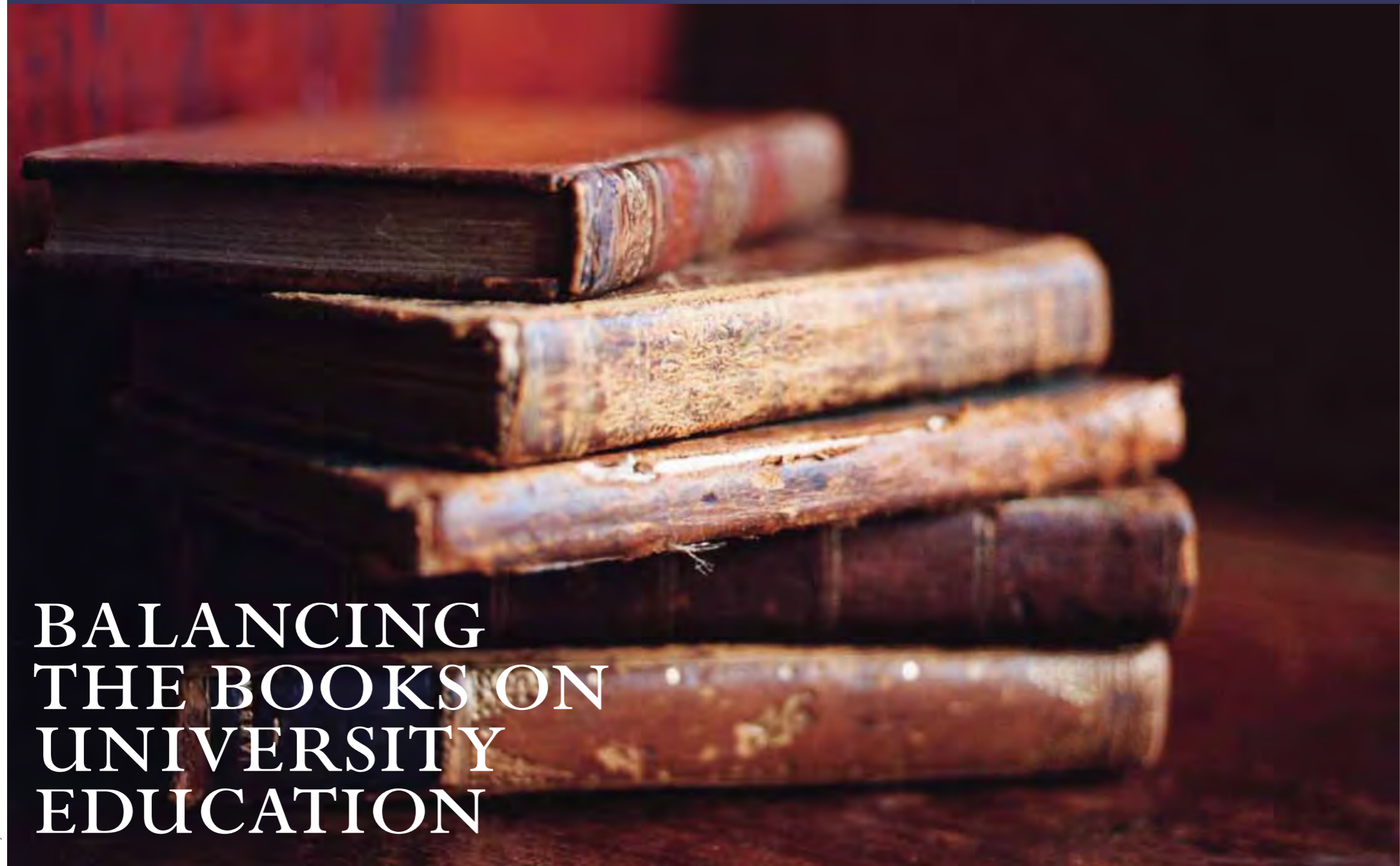
Balance Sheet: Driven, in part, by the Chinese economic miracle, rising fuel and food costs mean that inflation is staying stubbornly ahead of official targets. Inflation can undermine the level of return on investments, so careful planning is essential to minimise the negative effects.

INFLATION DIVIDES OPINION



Economists rarely agree about anything and they are sharply divided on the subject of inflation. Differing views exist even within the Bank of England's Monetary Policy Committee. Departing member Andrew Sentance (pictured left) believes interest rates must rise now to combat inflation; Governor Mervyn King seems more sanguine. In the City, too, opinions vary. 'We believe inflation is mainly due to temporary factors and medium-term determinants point to weak inflation ahead. Wage inflation is just 2%, for example, and broad money

growth, the amount of money circulating in the economy, is negative at the moment,' says Vicky Redwood, UK economist at Capital Economics. Others are less relaxed. 'Inflation is too high and needs to come down. Between 1997 and 2007, the Bank of England kept interest rates low to offset deflationary pressures. Prices were falling and they needed to keep the cost of money down. Now the opposite is true, so they need to raise interest rates to suppress inflation,' says George Buckley, UK chief economist at Deutsche Bank.



BALANCING THE BOOKS ON UNIVERSITY EDUCATION

Changes to the system of student finance mean a three-year degree could end up costing as much as £100,000, says Andrew Humphries

This September's intake of university students will be the last to pay fees of £3,000 a year. Starting next year, universities will be allowed to charge up to £9,000 a year and around three-quarters of them have opted to do just that. Add in the costs of accommodation, books, food and the odd pint of beer, and a three-year degree course at one of the highest-charging universities could easily eat up £50,000 or more.

The move to higher fees has been accompanied by a change to the way that

student loans, which are available to fund fees and living costs, are structured – a change that could also add significantly to the final costs of higher education.

While there has been a rise from £15,000 to £21,000 in the minimum level of income students need to earn before they start paying back their loans, the interest rate that is charged on these loans has also been increased from the current level of 1.5% to inflation, as measured by the Retail Prices Index, plus 3%.

The interest rate will be tapered so that those earning between £21,000 and

£41,000 will pay lower rates. But all graduates earning more than the minimum will have to pay back 9% of their earnings each year for 30 years, or until the loan is paid back – any outstanding balance after 30 years will be written off. Add in these interest costs, and a degree could end up costing more than £100,000.

Traditionally, most parents have aimed to fund university fees from their income as they are incurred.

The escalation in costs, and the long-term debt that will be built up by those opting to take out a loan, mean that university fees

will increasingly become an important part of general financial planning and parents will want to save as much as they can towards the cost. The good thing is that parents should have a reasonable amount of time in which to do so, given that they can be pretty sure the funds will be needed at around the age of 18.

There is no magic about saving for university costs: it is a matter of putting as much money as possible into tax-efficient savings, building a balanced portfolio and ensuring the investments give as much flexibility as possible.

SECURING YOUR FINANCIAL FUTURE

Entrepreneurs must plan ahead to profit from their hard work, says Paul Wilson

There are 4.5 million private companies in the UK, according to the Department for Business, Innovation and Skills, almost two-thirds of which are sole proprietorships. Most of these entrepreneurs will spend their days – and probably many long evenings, too – toiling to maximise the value of their business.

Far fewer of them will have spent time thinking about what will happen to the wealth they have created when they retire or sell their business. But planning for future financial security is as important as setting strategies for the business itself. It is worth devoting time to ensure that the time and effort devoted to growing the business produces the maximum reward.

This lack of forward planning can be exacerbated by the fact that, for many business owners, the business is their sole, or at least their major, asset. They will use the profits they make to finance future growth, secure in the knowledge that they are responsible for determining what is happening to the money. That is understandable, but it can also be dangerous. While investing for future growth is obviously the key to success, having a bit of diversification can help to ensure future financial security.

There are four key issues that business owners need to consider when planning how to extract wealth from their enterprises. First, they need to assess how much wealth they need to secure financial independence for themselves and their families. Second, they need to realistically appraise the prospects of realising value from their business in the future and to estimate how much that value could be. Not all businesses can be sold for money – they may depend heavily on the skills and connections of the proprietor, for example. Those whose businesses are saleable will need to devise a strategy for marketing it to maximise the proceeds when it's time to sell.

The third issue to consider is whether the value of the business will be sufficient to achieve the financial aims – and, if not, how is the shortfall going to be made up?

Finally, what would happen if the owner falls ill, or worse, before they are able to realise the value of their business? How can they ensure that their families can still benefit from their hard work?

Addressing these issues is not straightforward and it is vital that business owners start planning before it is too late. Different rates of taxation might encourage business owners to accelerate their planning. Income drawn from a continuing business is charged to income tax at rates of up to 50%, while gains made by entrepreneurs selling their interest in a business are charged to capital gains tax, with the first £10 million of qualifying gains taxed at just 10%. This anomaly may not last, leading to a greater focus on planning in this area.



TECHNOLOGY COMES OF AGE

Technology companies are once again in demand from investors. Heather Connon analyses the latest innovations

THE DIGITAL DIVIDE

While LinkedIn's shares have soared, those of some of the established technology giants have proved rather lacklustre. Microsoft, for example, was once one of the most admired in the industry. Over the past five years, however, its shares have gone nowhere as analysts have questioned whether its browsers can survive competition from rivals such as Google, and whether its software services will be overtaken by the new Cloud technology. Other established technology giants, such as IBM, Oracle and Dell, have also been lagging behind Cloud computing companies such as Amazon, Salesforce, Savvis and Rackspace. Technology analysts at Gartner estimate that companies will be spending \$112 billion on Cloud computing technologies over the next six years, so the battle for a share of that pie is likely to be intense. Microsoft, for example, has recently splashed out \$8.4 billion to buy Skype, the internet telephony service, which it hopes will help it attract new customers to its existing services, as well as win new ones and develop new services.

Smartphones and a burgeoning library of 'apps'; electronic book readers and tablets; Wi-Fi games that emulate your actions on screen; instant messaging and mobile banking: all the technology innovations that we were dreaming of when dotcom fever was at its height 11 years ago are now part of everyday life – along with things such as Twitter and Facebook, which, for all their current ubiquity, were not even a glimmer in their founders' eyes a decade ago.

Technology is now part of the fabric of everyday life. More than two-thirds of British homes already have broadband access¹ and the government has set a target of bringing superfast broadband services to 90% of the population by 2015²; mobile phones have become so commonplace that Britons, on average, own 1.2³ of them and they are fast becoming the way of doing business in developing countries. Amazon and eBay have

transformed the way we shop; Facebook and Twitter the way we communicate; YouTube and the iPlayer what we watch and how we watch it; Google how we use the internet.

The internet has also transformed the way companies do business. The web makes it easier for companies to communicate with their customers, find new ones, canvass opinion about their products and target advertising to the most effective markets. It makes it easier for employees to work from any location, to hold virtual conferences across the globe.

Cloud computing, the latest innovation, could be even more significant. It means that all processing and data storage is done remotely – actually in huge warehouses stuffed with hardware rather than in the ether. Now that Steve Jobs, chief executive officer of Apple, one of the most innovative companies around, has adopted it in the form of the iCloud, we are likely to be

“Some tech flotations have attracted as much hype as in 1999 – shares in LinkedIn doubled on their debut in May”

WIDE APPEAL OF BROADBAND

The forecast growth (as percentage of population) of broadband coverage in the UK from 2010 to 2015



hearing a lot more about it. In fact, the Cloud is not new – anyone who uses Hotmail or Gmail, for example, will already have their messages and other data stored there. Nor is it as ephemeral as the word 'Cloud' suggests. In fact, the Cloud is shorthand for huge computer servers that store our data remotely for us to access via the internet.

That means companies no longer have to invest in upgrading their systems and constantly upgrading their software. It also means that employees can access information on, say, sales leads in real time wherever they are by logging on to the internet.

The technological coming of age is reviving interest in technology companies – so much so that there are growing fears of a repeat of the technology bubble, which cost investors when it burst in 2000. There are certainly signs of exuberance. Some recent technology flotations have attracted as much hype as in 1999 – shares in LinkedIn, the

professional equivalent of Facebook, doubled on their market debut in May, despite a prospectus littered with health warnings and a very high valuation on the initial offering. Yandex, the Russian search engine, was also enthusiastically received, while the valuations being talked about for Facebook, which has yet to make the move to the stock market, get talked up even higher.

But there is one big difference between now and a decade ago – then, far too many investors barely cared what a company did, never mind whether it made any money. The very mention of the internet in the business plan was enough to generate huge excitement; technology start-ups were attracting valuations far higher than those of long-established businesses. Now there are real, and usually rapidly expanding, businesses behind the high valuations.

LinkedIn's revenue from recruitment – its main source of revenue – has all but trebled

over the past year. Amazon has used its formidable distribution power to offer its services to third parties, and its huge computing capacity to move into Cloud computing; Apple's profits have soared on the success of its iPhone and iPad.

The question, however, is whether these businesses can make profits high enough to justify their valuations. While Apple has a long record of making money, many of the newer internet names are still in the growth phase and have yet to make decent – or, in some cases, any – profits. Attracting media interest and generating internet traffic has so far proved far easier than finding ways to make money from it.

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A DAY IN THE LIFE

KEVIN MURPHY, SCHRODERS

UK EQUITIES FUND MANAGER, DESCRIBES HIS DAILY ROUTINE

06.30 Wake and get into my cycling gear, ready to bike to the office. The roads are quiet and the six-mile ride to Schroders in the City of London is long enough to give me my exercise for the day, but not so long that it's off-putting – and it means I can avoid being sardined into the Underground. A quick shower in the office gym and I am ready to start the day.

08.00 Arrive at my desk to check overnight emails. Our international offices in the US and Japan will have sent emails detailing what has happened in their markets overnight. There will also be information from the UK desk about companies that have reported results. Any companies that we own, I will print off their results releases and read independently so that I really know what is going on without anyone else interpreting. I also keep up to date with a couple of blogs – marketfolly.com and distressed-debt-investing.com. Both are US-based value investing-style blogs that help me keep up to date with what other value managers are doing internationally.

09.00 Once a week, we run our investment screen, designed to highlight companies that meet our criteria of being cheap and where the risk of investing is reasonable. The results don't change that often, but when it does throw up a new company that meets our criteria, we ask our in-house investor centre to send over ten years of reports and accounts for us to analyse. As a team, we already have a big library of all the companies we have looked at in our years of investing. That means we will have, for example, bank reports going back to the 1990s so that we can analyse their performance over a whole banking cycle.

11.00 The other weekly task is to create material for our website, thevalueperspective.co.uk. We talk about our views on the week's issues with a journalist who turns our

jargon into client-friendly articles. This really is time well spent – we have been working with the journalist since January and we are now getting real traction with visitors to the site. It's a really good medium through which we communicate with our clients, investors and others.

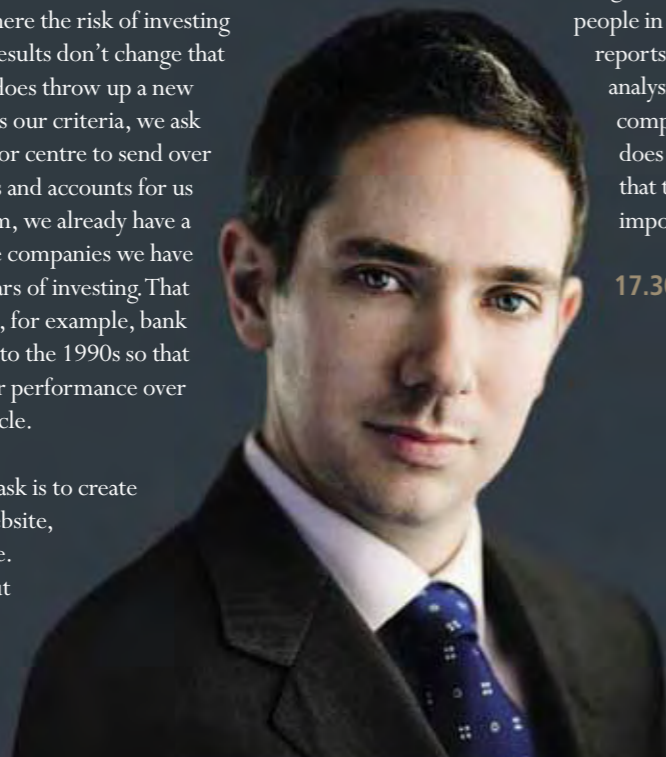
12.00 I prepare for our lunch meeting with Bodycote, the metals engineer, including ensuring our business model is up to date and working out the two key questions we want addressed by the management team. Generally we are trying to understand if there's anything to change our view of normalised profits, or whether the risks facing the business have changed. There are no companies in the portfolio that we have not met face to face.

13.00 Lunch with Bodycote's management. We have more than 150 meetings with companies a year. If the company has operational issues, we may see them as often as four times a year. If they are ticking over nicely, once will suffice.

14.30 I try not to arrange meetings in the afternoon as I like the uninterrupted time to work on investment ideas.

It is not glamorous – in fact I think we are quite sad people in our team. We spend our time reading reports and accounts, working on spreadsheets, analysing figures to try to understand when the company makes money, and why and how it does that. There are several flags in accounts that tell us if they are trustworthy – the most important is cash flow.

17.30 I have to pick up my daughter from nursery, so I leave the office at 17.30 and take her home on the back of my bike. After she goes to bed at 19.00, I indulge myself by reading – generally an investment book! I am currently reading *Investing the Templeton Way* about Sir John Templeton, one of my all-time heroes, but my favourite author is probably Benjamin Graham. Although he was writing in the 1930s, he is just as relevant to today's markets as he was 70 years ago.



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