Athelney Trust plc

HALF YEARLY RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2015
CHAIRMAN'S STATEMENT AND BUSINESS REVIEW

I enclose the unaudited results for the six months to 30 June 2015. The salient points are as follows:

- The overall return, which is the increase in NAV during the half year plus the dividend paid, is 6.4 per cent.
- Unaudited Net Asset Value (NAV) is 236p per share (31 December 2014: 228p, 30 June 2014: 224.8p), an increase of 3.5 per cent for the half year and an increase of 4.9 per cent over the past year.
- Gross Revenue increased by 12.2 per cent to £113,963 compared with the half year ended 30 June 2014 of £101,530 (full year to 31 December 2014 £189,458).
- Revenue return per ordinary share was 4.9p, an increase of 16.9 per cent from the previous half year to 30 June 2014 (31 December 2014: 7.8p, 30 June 2014: 4.2p).
- A final dividend of 6.7p was paid in April 2015 (2014: final dividend 5.5p).

Review of 1 January 2015 to 30 June 2015

John Maynard Keynes essentially said, don't try and figure out what the market is doing. Figure out a business you understand and concentrate. – Warren Buffett.

If you remember nothing else about P/E ratios, remember to avoid stocks with excessively high ones. A company with a high P/E must have incredible earnings growth to justify its high price. – Peter Lynch.

Things are seldom what they seem. Skim milk masquerades as cream. Gilbert & Sullivan, HMS Pinafore.

International stock markets have had to put up with a lot in the first half of 2015: the British general election, protracted negotiations between the hated troika and the Greek government on yet another bail-out but, for thrills and spills, you cannot beat Chinese share markets. Recent wild price swings on the Shanghai and Shenzhen markets and fortunes being made and lost by retail investors have made gripping reading. Progress in most of the rest of the world, however, was rather more prosaic. New York, Tokyo and London rose by 0.8 per cent, 19.6 per cent and 4.2 per cent respectively – Shanghai was up an astonishing 44.9 per cent and Shenzhen more-or-less doubled at one stage. Elsewhere, Hungary, Denmark and Italy led the field with rises of 31.3 per cent, 27.6 per cent and 23.3 per cent respectively. Laggards were Greece, Indonesia and Egypt with falls of 5.5, 5.3 and 5.2 per cent respectively. Smaller companies in London by-and-large did well with the FTSE Smaller Companies, Fledgling and Aim All-share being up by 7.1, 15.6 and 8.2 per cent respectively. The overall return on Athelney Trust shares, by which I mean the growth in the net asset value plus the dividend, was 6.4 per cent.

Question: What do you know about money?

Young man: Not a lot

Answer: It's how they keep score.

Bill James, *Gospel.*

Is the global economy entering a soft patch? We are not in the danger zone yet but there is only a thin safety buffer against any economic shock such as China devaluing the reminbi to make its exports more competitive and thus dealing the rest of the world a deflationary shock. With interest rates at an all-time low, there are alarmingly few tools in the box with which to combat the next down-turn should it come. The recovery from each of the past four US recessions has been weaker than the previous one. The average growth rate has fallen from 4.5 per cent in the early 1980s to nearer 2 per cent this time. The US fiscal deficit has dropped to 2.8 per cent but is expected to climb again as pension and healthcare costs rise even if the economy does well. So the US could not easily launch a New Deal: public debt was only 38 per cent of GDP when Franklin Roosevelt took power in 1933. Over 100,000 lay-offs in the oil and gas sectors seem to have taken their toll on consumer confidence. China accounted for 85 per cent of global growth in 2012, 54 per cent in 2013, 30 per cent in 2014 and probably 24 per cent this year so it is good to see electricity consumption rise and rail freight usage increase as well as property prices in the big cities. Russia, Brazil, Argentina, and Venezuela are all contracting sharply whereas Europe is doing better but hardly booming. To my mind, it is vitally important the central bankers ignore the siren voices which call for a premature rise in interest rates.

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I am indebted to Private Eye *for its Complete Guide to Buy-to-Let:-*

1. *Cash in your pension pot and use that money to buy loads of new-build flats off-plan, utilising record low interest rates.*
2. *Watch the value of your property portfolio surge.*
3. *Buy more flats just at the top of the market, just as the economy starts to tank.*
4. *Watch the value of your portfolio plummet as the housing market crashes, just as it did after the last buy-to-let boom.*
5. *Be forced to re-mortgage your now largely worthless flats at hugely increased rates.*
6. *Hide behind the sofa as the bailiffs arrive to seize your house.*
7. *Lose everything that you own.*
8. *Er….*
9. *That's it.*

HM Revenue & Customs admitted in June that it was being crushed under the weight of hundreds of thousands of postal appeals against the fixed £100 penalty which, to my mind, is a shocking indictment of our tax system. Nearly 1m of us were automatically fined £100 for not submitting a tax return by January's deadline, the number being boosted by rising numbers of the self-employed and parents above the child benefit cap. The last Budget hailed *the death of the tax return* but this will not happen until 2020 at the earliest. As more of us are swept into self-assessment, it is obvious that the system needs a shake-up. A good start would be to take more out of it: currently, 16 per cent of tax returns result in a nil tax liability with a further 8 per cent showing a liability of less than £20. Late-return fines apply to these, of course. The number of taxpayers leaving their tax return to the last minute doesn't help. In January, those registering for on-line submission for the first time may well have thought *a few clicks and it will be done* but not so since they needed an HMRC activation code that had to be – yes, you've guessed it – posted to them before proceeding. How about a small carrot for those filing early which would even out the peaks and troughs of paperwork? There is a risk that the 11m of us within the self-assessment system are losing patience with its complexities, the appeals, contested tax codes and *unavoidable delays* for rebates. If you are left holding on for ever to the help-line, it is tempting to think that the same department will not have the resources to find you. In the millions of letters that HMRC is opening, this is a message that it should not ignore.

How about buying the shares of a company that has just completed another investment round? Its valuation is up 56 per cent, since it first sought backers, to £5 billion. Apparently, it allows users to create messages by moving a stylus across a thin membrane and then send them to a named recipient leaving no electronic footprint. What do you mean, you don't fancy any more Royal Mail shares?

My favourite radio programme by a long way is Radio 4's *More or Less* which shines a clear light on dodgy statistics. But, as far as I know, UK households really do own a total of £1.4 trillion in savings of which £729 billion, about half, is sitting in cash. A rather worrying £329 billion is idling in instant access accounts currently earning between nothing and 0.4 per cent in interest. With rates that low, one might think that savers would switch accounts from time to time but, not so, 85 per cent of instant access accounts have remained unchanged in the last three years. Banks call this, rather unkindly I feel, *muppet money*: banks and building societies are paying less than 1 per cent on the full range of their accounts so households are earning a miserly £7 billion at the moment. Some level of cash is obviously important, say the equivalent of three months' income plus £2,500 or so in case of problems with the roof or car plus savings for children. That would leave £450 billion that should be working much harder than it is. If that were put to work in a mixture of high-quality shares, it would earn £18 billion or £11 billion more than at present – as much as £440 per household. A gradual process of switching into assets offering a much better income could go a long way to increasing prosperity in the UK – we should be muppets no longer!

Most General Election jokes are not funny anymore – even so, I quite like the story about the Mirror *newspaper. It had confidently hired a spoof removal van which the paper had intended to drive as close as possible to Downing Street for a photo-opportunity to mark what it hoped would be David Cameron's final morning in Number 10 (a mock-up of the vehicle, complete with* We Pack While You Chillax *logo appeared on the paper's front page on polling day). Sadly, the actual result – marked by the* Mirror's *first edition with the headline* Five More Damned Years?, *and on subsequent editions minus the question mark – meant that the van stayed firmly in the garage*

Greece has been through the trauma of default and currency collapse before. In 1932, Greece turned to the League of Nations and British bankers in a last-ditch attempt to defend the drachma under the Gold Standard as reserves drained away. No came the answer about three months later so Greece devalued and imposed a 70 per cent haircut on the loans that it had taken out. It must have seemed like getting out of jail for a time but Greek industry was too weak to exploit the much lower exchange rate. Things did not get better: there were four attempted coups d'etat ending in a military dictatorship - political parties were abolished and Greece fell under the spell of Balkan fascism. Does any of this resonate?

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In May, a UK court again refused affordable bail to Navinder Sarao, the independent trader who allegedly contributed to the 2010 US flash crash. *But is a man who lives with his mum and dad in West London really a greater flight risk than previous suspects? These include Polly Peck fraudster Asil Nadir, bailed for £250,000 in 2010 after jumping bail in 1993. Another was Boris Berezovsky whose surety was £100,000 compared with £5m for Navinder. The US has frozen the latter's assets: relatives have scraped together £50,000 and his parents have offered to pledge their house all to no avail. Zeal is one thing, fairness another.*

Phew! What a relief. May saw the foreign exchange fines coming in a little lower than forecast, the settlements provided some certainty and the damage was limited. UBS's combined $545 million of fines (for forex and LIBOR), for example, were equivalent to 1.8 per cent of tier 1 (i.e. core capital) and 2.1 per cent of its annual cost base. No-one was going to lose any sleep over that so up went bank share prices. But relief is deeply wrong-headed: May events were infuriating, partly because total misconduct fines of $5.6 billion will have to be deducted from capital, new lending or shareholder dividends, going instead into government vaults. Then again, the process of fining banks is astonishingly opaque. Lots of US and UK agencies have dipped their paws into the honey-pot over forex. A few hundred million from this bank, a few hundred million from that and it all adds up. But how the agencies decide what fines to impose is a mystery to me and, I suspect, the banks themselves. Other misconduct issues remain to be resolved – the *provisions and contingent liabilities* note in the UBS annual report is, er, ten pages long; Barclays offers up nine pages of *legal, competition and regulatory matters*; JP Morgan's litigation section is seven pages. Big though these fines are, it is not clear to me that they frighten individual bankers enough to change their risky behaviour. We will not know until a number of years have passed without further incident. The fines are material, unfinished, unpredictable and possibly ineffective. Shareholders should be livid.

June saw David Cameron's homily to other EU leaders about re-negotiation/referendum. If we left the EU, we would be the only major country not belonging to a trading bloc. Mr Cameron could, of course, seek membership of ***The European Free Trade Area*** *which is an annex to the EU for countries with commitment issues and includes such power players as Liechtenstein (population 37,000), which is a tax haven just like the UK.* ***The North American Free Trade Area*** *has increased trade by $800bn and the UK's geographical position should be no obstacle in a time when Australia can compete in Eurovision.* ***The European Union*** *is a compelling, if left-field, contender with 27 states and over 400m people. The EU also offers access to third countries such as Korea with which the UK would have to negotiate fiddly bilateral agreements. Given the advantages, one wonders why the UK is contemplating leaving at all……….*

The Committee of the Commissioners for the Reduction of the National Debt will meet in July for the first time since a dinner in 1986 commemorated the 200th anniversary of its establishment by William Pitt. It must have seemed like a good idea in 1786, since the National Debt had ballooned to £250 million and his government wanted to be seen to be doing something about it. That sum would finance the present-day government for about three hours so I guess that most observers would conclude that the committee had failed dismally. The present level of debt is £1.5 trillion, or about £25,000 for every man, woman and child in the country. However, £375 billion of this debt is held by the Bank of England following its quantitative easing programme in recent years. The Bank of England is owned by the government so there is a perfectly respectable argument for saying that the national debt is only £1.125 trillion. So that's all right, then!

Trust in Pollsters Falls, According to New Poll – Scotsman *headline 20 May.*

From the outside, Britain's economy looks as if it is ticking over nicely. Last year it grew by 2.8 per cent, more than any other economy is the G7 group of rich countries, and employment has never been higher. But economists believe that the biggest risk to our growth prospects is poor productivity. GDP per hour is lower now than in 2007 whereas American workers' output is 9 per cent higher and, even in much-derided France, it has increased by 2 per cent. When the economy stumbled into recession in 2008, many firms decided that, rather than sack workers, they would retain them to avoid costly rehiring later. Employing the same number of people while producing less meant that, at the risk of stating the obvious, output per hour fell. As expected, when the economy began to recover, so did output per hour, rising by 3 per cent between 2009 and 2011. Then something strange happened: employers went on a hiring spree so that Britain added 1.3 million jobs between 2010 and 2014. Experience is not uniform across the economy and it emerges that the 345,000 workers producing cars, planes and trains produced 56 per cent more than in 2009 thanks to new technology, supply-chain efficiency and better management. Rolls-Royce has halved the time that it takes to manufacture fan and turbine discs. But a surprising underperformer is chemical and pharma, where productivity has dropped by 11 per cent since 2009 possibly because of a failure to invest. That means that many workers are toiling with out-of-date kit and have scant chance of being more productive. Productivity gains are there if one looks for them but we need lighter planning rules, a social-housing system less reliant on waiting lists would help workers move from region to region and more streamlined bankruptcy laws would allow money to flow out of failing businesses and into growing ones. Without these and other reforms, Britain will grind forward with the hand-brake on.

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Results

Gross revenue increased to £113,963 compared to the same period last year of £101,530.

The Board

Hugo Deschampsneufs resigned as Non-executive Chairman in May after over 20 years of sterling service. I know of no other Chairman who has contributed so much over such a long time-scale. David Horner resigned in January after 12 years- his contribution is gratefully acknowledged. We are delighted to welcome Simon Moore to the board whose C.V can be found on our website.

Portfolio Review

Holdings of *AEW UK, Harworth Group, Japan Residential, Jupiter Fund Management, Record, River & Mercantile and Safestyle Uk* were all purchased for the first time. Additional holdings of *Begbies Traynor Group, Capital & Regional, Charles Taylor Consulting, Picton Property Income and Quarto Group* were also acquired. *Brit, GLI Finance, Hydrogen, ISG, NewRiver Retail, Plus 500, Redefine, Renew Holdings and RWS Holdings* were sold. In addition a total of 4 holdings were top-sliced to provide capital for new purchases.

Corporate Activity

We accepted take-over bids for the holdings of *Catlin and Nationwide Accident Repair*, which gave us a profit/(loss) on book value of 21.5 per cent and (14.1) per cent respectively.

Dividend

As is the Board's practice, consideration of a dividend will be left until the final results are known.

Risks

The Company's assets consist mainly of listed securities and its principal risks are therefore market-related. The Company is also exposed to currency risk in respect of a small number of investments held in overseas markets.

The major risks associated with the Company are market and liquidity risk. The Company has established a framework for managing these risks. The directors have guidelines for the management of investments and financial instruments.

Market Risk

Market risk arises from changes in interest rates, valuations awarded to equities, movements in prices and the liquidity of financial instruments.

Liquidity Risk

Liquidity Risk is the risk that the Company may have difficulty in meeting obligations associated with financial liabilities. The Company has no borrowings; therefore there is no exposure to interest rate changes.
The company is able to reposition its investment portfolio when required so as to accommodate liquidity needs.

Outlook

It is curious to reflect that, when US and UK policy interest rates were cut to their lowest ever levels in March 2009, markets expected them to rise again within the year. More than six years later, rates remain the same and markets are still obsessed with the timing of a rise instead of how slowly or rapidly the rises will take place. My view is such rates will rise very, very slowly with every movement carefully signalled by the Fed and the Bank of England well in advance. Yes, markets do not look particularly cheap but there are still pockets of good value in small companies and major oil and I think that we should continue to hold what we have. Events unfolding in Greece and China, however, must be watched with great care.

Dr. E.C. Pohl