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THE INVESTOR

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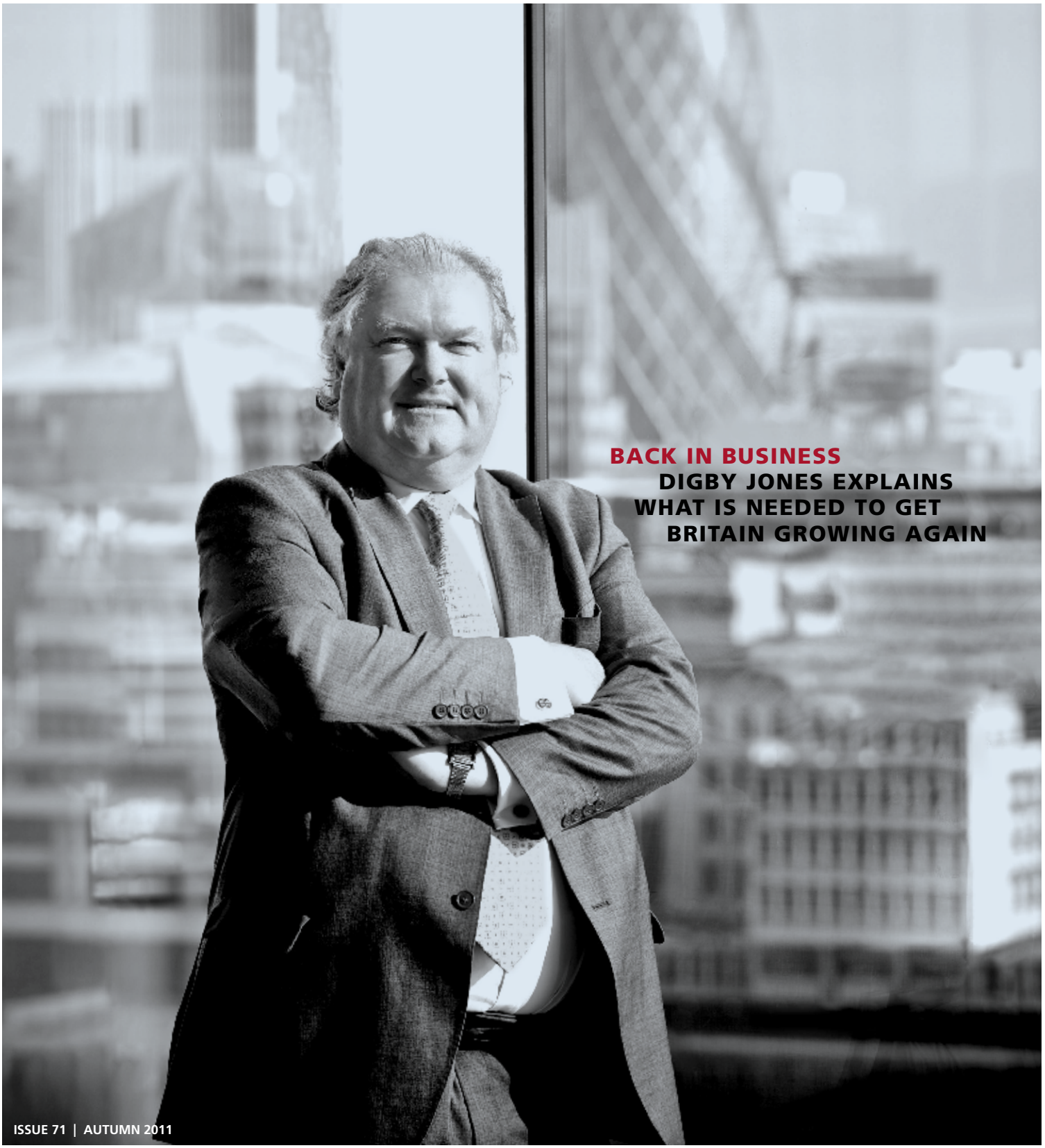

BACK IN BUSINESS

DIGBY JONES EXPLAINS WHAT IS NEEDED TO GET BRITAIN GROWING AGAIN

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ST. JAMES'S PLACE
WEALTH MANAGEMENT

WELCOME

Welcome to the latest edition of *The Investor*.

As governments and consumers across the Western world grapple with the problem of paying off the debts incurred in a decade of excess, markets remain fixed in the twin headlights of falling growth in the developed economies and the continuing problems in the eurozone. In this issue Joanne Hart considers how consumers got into this position and assesses what the focus on debt reduction will mean for economic growth.

Many companies, by contrast, are in relatively robust financial health and some of them are using this to fund generous dividends. With interest rates and bond yields at historic lows, we assess the attraction of dividends as a source of income.

Germany has been one of the few economies to emerge from this debt-fuelled recession relatively unscathed. We look at the secrets behind its long-term success story and consider whether it can continue to shrug off global economic turmoil.

Digby, now Lord, Jones, a former director-general of the CBI, is all too aware of Germany's manufacturing strength. In a typically forthright interview, he gives his suggestions on how we can improve our own manufacturing base.

This is my first welcome letter since I took over as Chairman of the Investment Committee. I hope there will be lots in this issue to interest you. If you have any queries or comments, please do not hesitate to contact your St. James's Place Partner.

Vivian Bazalgette

Vivian Bazalgette
Chairman, Investment Committee, St. James's Place Wealth Management

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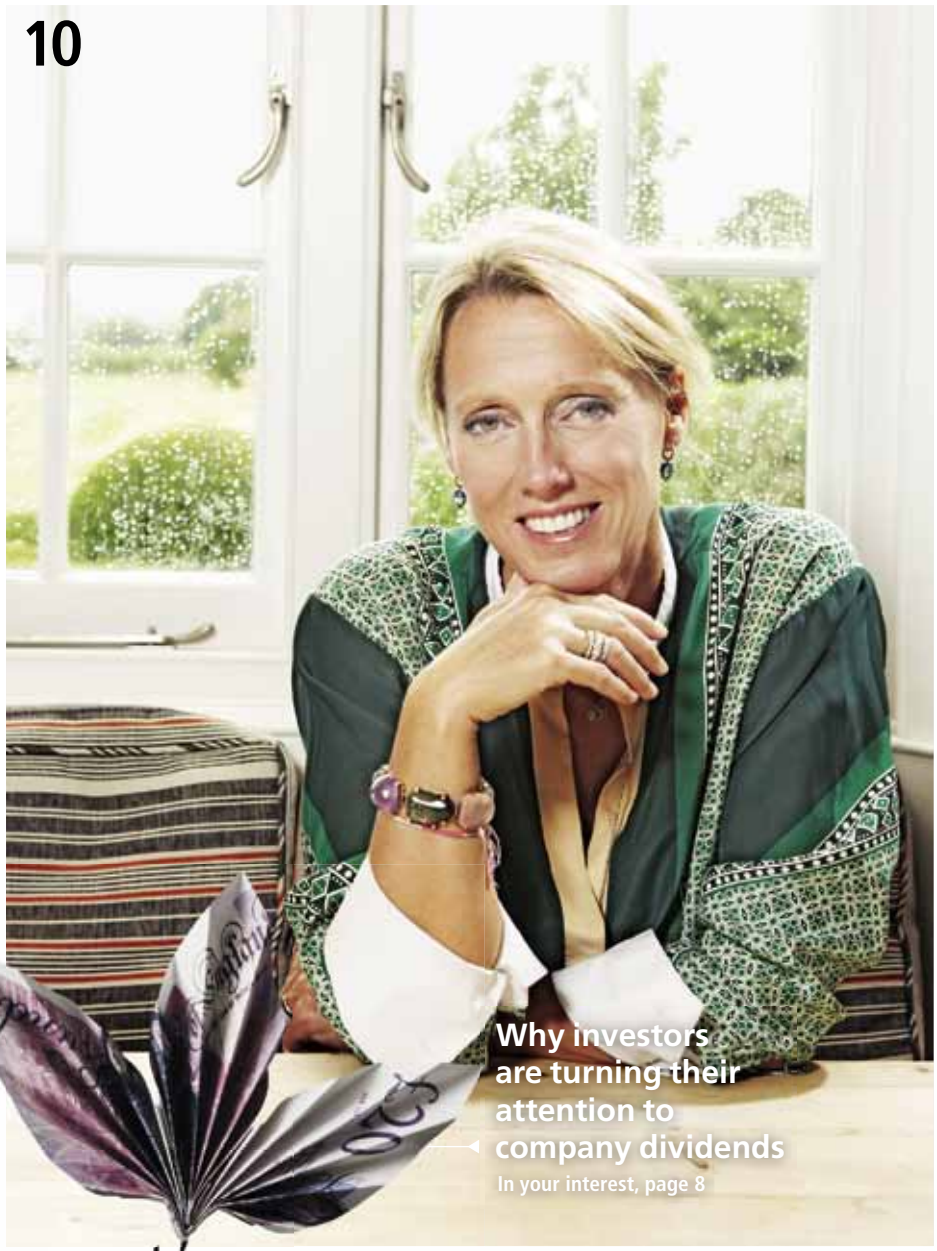


Retail survivors, page 16

PENSIONS

PROTECTING THE PENSION POT

The pension rules are changing and reviewing arrangements is essential

From next April, the maximum amount anyone can take in pension benefits – the Lifetime Allowance – will reduce from £1.8 million to £1.5 million. Those who expect to be affected by this should conduct a review of their retirement arrangements now so that they are prepared for the change and are taking full advantage of the transitional arrangements, if appropriate.

The change is significant: if pension benefits exceed the new limits, the excess will be taxed at 55%. Even those who think their funds are well below the new limit should consider their prospects carefully: a £400,000 pension pot could grow to more than £1.5 million by retirement age, given the long-term track record for investment returns.

HMRC is allowing savers to protect a portion of their pension fund using Fixed Protection. This will exempt pension benefits between £1.5 million and £1.8 million from tax – but anyone taking advantage of it will not be allowed to make any more contributions to the fund. The election has to be made by 6 April 2012.

Deciding whether or not to take advantage of Fixed Protection means weighing the risk of a large tax bill against the loss of the ability to make further contributions. Investors can decide to opt out of Fixed Protection at a later stage by simply making a contribution to their fund.

If you wish to conduct a review of your pension arrangements, please talk to your St. James's Place Partner.

NEWS

ELDERLY CARE

COUNTING THE COSTS OF CARE

The Dilnot report is a useful contribution to the elderly care debate but financial planning will still be essential

At first glance, the findings of the *Fairer Care Funding* commission, chaired by economist Andrew Dilnot, look as if the commission has found recommendations for a fair and sustainable system of paying for adult social care.

The findings suggests a cap on the maximum that anyone would have to pay for care over their lifetime of £35,000, while the threshold above which people would be responsible for their full care costs should be increased from the current £23,250 to £100,000. Dilnot thinks that this should encourage insurers, who currently have no products to cover this area, to enter the market.

The report is a valuable addition to the debate on how elderly care should be funded. At the very least, it should encourage everyone to think carefully about how they intend to fund any care needs they will have as they grow older, and to put in place arrangements to finance them. Dilnot's recommendations are thoughtful and considered, although they may not represent the final solution. Read the small print, and there are plenty of reasons to question whether this attempt to solve the intractable problem of paying for elderly care will be any more successful than the two previous ones.

For a start, the proposed £35,000 cap is based on local authority care rates but those who can afford it are likely to prefer one of the more expensive, privately run homes, where fees can be substantially higher. That means anyone using a private home could be faced with a bill substantially more than the £35,000 cap before state funding kicks in.

Secondly, a £100,000 asset threshold may be more than four times the current level but it is still pretty low: the average house is worth £160,000, so owners of even modest properties could have to contribute. That, combined with the higher costs of private care, means that many elderly people are still going to have to sell their houses to cover the costs of care before the state steps in.

Dilnot hopes that the financial services industry will step in to offer products to fund the £35,000 contribution it recommends but this is not guaranteed. In summary, while Dilnot's aim is to introduce certainty into exactly how much everyone will have to pay for their elderly care, the outcome may not be quite that simple. Everyone will still need to consider their own financial plans.

STOCK MARKETS

CHARTING A PATH THROUGH UNCERTAIN MARKETS

Politicians are struggling to solve the financial crisis but investors should remain calm

Investors, it seems, have suddenly started to wonder whether politicians in Europe and the US have the ability, or indeed the will, to sort out the current economic problems. The shock of a debt downgrade in the US, and continued lack of any real measures to stabilise the peripheral economies in Europe, sent shares tumbling and gold and bond prices soaring on fears that Europe and the US could be headed for Japanese-style stagnation – or even a 1930s-style depression.

But there are still some reasons to be at least relatively cheerful. The principal one is that Asia and other emerging markets remain robust and, while the travails in Europe and the US could mean they slow down, they should still manage to chug along nicely on demand from their own domestic markets.

Companies, too, are in pretty good shape having spent the past five years paying down debt and cutting costs. Many of our biggest companies depend less on our own domestic economy, or even on Europe and the US, than they used to so their profits are less affected by the worries of the Western world. Unilever, for example, says that three-quarters of its sales will come from emerging markets by 2020. As our article on pages 8 and 9 explains, companies are also paying attractive dividends, backed up by their healthy balance sheets. The recent sharp falls in the FTSE 100 have also left shares looking good value.

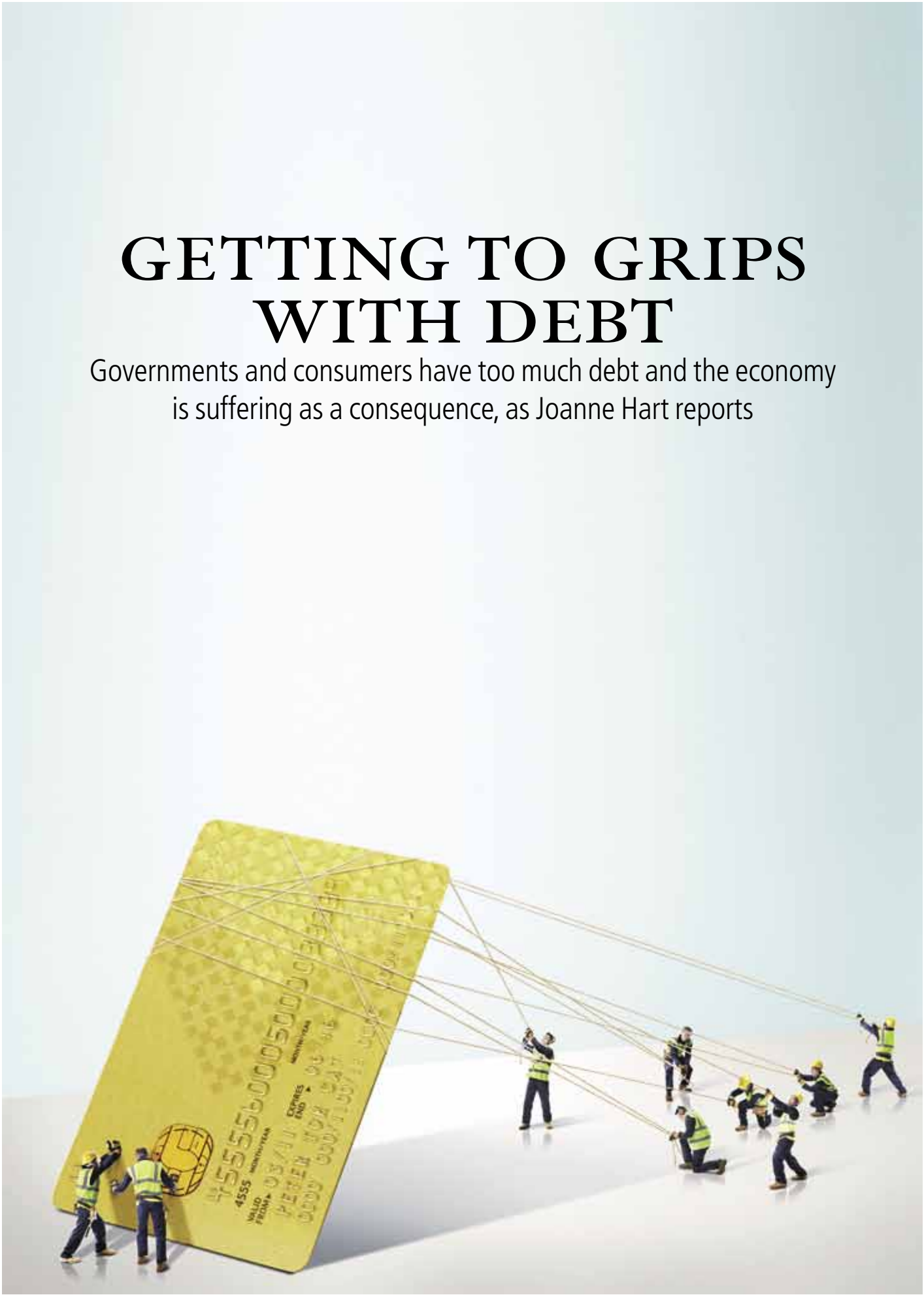
Much of the current uncertainty is due to the failure of politicians to demonstrate they are on top of the issues, but recent events suggest they have finally woken up to the severity of the problem. That said, any recovery is likely to be a long slog and share prices are likely to remain volatile until politicians in Europe and the US have finally worked out a formula for getting their economies stable, and growing, again.

Chancellor George Osborne: facing a double-dip recession or on the upward rise to economic recovery?

Gallery Stock, Getty Images

GETTING TO GRIPS WITH DEBT

Governments and consumers have too much debt and the economy is suffering as a consequence, as Joanne Hart reports



SPECIAL REPORT

The first decade of the 21st century was, perhaps, the most financially and economically dramatic in living memory – a period when boom went spectacularly bust and the theory that cyclicality had been abolished forever was shown to be utterly delusional.

For more than a decade, Western economies indulged themselves with barely a thought for the future. Governments spent beyond their means, expanding the public sector and amassing huge debts in the process. Consumers did likewise, helped along the way by banks that were only too happy to lend, particularly to home owners.

For a while, it worked. According to the Office for National Statistics (ONS), in the UK there were 63 consecutive quarters of economic growth, an unprecedented achievement in modern times. The first 30 or so were genuine but then, for at least seven years, growth was fuelled by debt. During that period, Bank of England data reveals that UK households took out £400 billion of equity from their homes and spent it on cars, holidays, clothing. By the time of the financial crisis in 2008, ONS figures show that household debt was 180% of disposable income – in other words, for every £1 in people's pockets, they owed £1.80. In the US, the figure was 170% and in mainland Europe, it was 100%.

In 2008, the banking crisis erupted as it became brutally clear that too many banks had lent too much money to people who could not pay it back. Governments across the Western world were forced to step in, creating massive budget deficits in the UK, the US and most of mainland Europe. This has made current economic conditions rather different from previous downturns.

'Often, during periods when households and companies are accumulating debt, governments run a surplus, so when bad times hit, governments are in reasonably good shape. This time round, it hasn't happened like that,' says Michael Taylor, senior economist at Lombard Street Research.

'When the financial crisis struck, governments had monetary and fiscal tools at their disposal. They cut interest rates dramatically and provided lots of fiscal stimulus. Now the toolbox is depleted. Interest rates are at historically low levels and fiscal policy is being tightened in virtually all developed economies,' he adds.

The situation is difficult across the Western world. The US is reeling beneath a mountain of debt, the UK is desperately trying to rein in expenditure and mainland Europe is in crisis. No quick fix is in sight.

Jonathan Loynes, chief European economist at Capital Economics, says: 'For five to 10 years, there was above-average expenditure. Now there will be a prolonged period of austerity on the part of households and governments.'

The process has already started. Chancellor George Osborne is determined to balance the books in Britain, cutting back public-sector expenditure. The exercise is far from popular but most economists believe there is no alternative. Neither is the government alone in trying to restore financial balance. UK households are gradually repaying their debts. To date, just over £60 billion of the £400 billion of mortgage equity has been repaid, according to figures from the Bank of England. Looking ahead, however, the situation could become more difficult.

'Many households are being squeezed. Incomes are not rising but energy prices are soaring and inflation is relatively high. A lot of people can't afford to pay off their debts. They'll only really be able to do so when incomes start to grow, which probably won't be until the end of next year or the beginning of the year after,' says Loynes.

On the bright side, however, debt levels in emerging markets remain extremely low: in China and Brazil the average household debt is less than 20 per cent of household income, compared with more than 80 per cent for countries such as the UK and the US. Overall debt levels, including the government and financial sector, are also well below Western levels.

That is important for future economic growth: while the West will be preoccupied with reducing its debts for some years, consumers and governments in emerging markets still have plenty of headroom for expansion – and a growing portion of Western goods and services are being diverted to satisfy that emerging demand. While the debt hangover will mean subdued growth and more economic volatility than we had been accustomed to, when the process is finally worked through, the global economy which emerges should be more stable and sustainable.

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

LIGHT AT THE END OF THE TUNNEL

There are pockets of hope amid the general gloom. While consumers and governments are laden with debt, companies are in pretty good shape. They slashed costs during the downturn and are benefiting from the fact that high unemployment is keeping wages in check.

Emerging markets are also thriving with economies of countries such as Brazil, India and China growing at between 6% and 10% annually. China is the single largest contributor to rising commodity prices but all three nations are also buying both goods and services from the West.

'Emerging markets are buying weapons, pharmaceuticals, hi-tech electrical goods and services from us, such as architectural knowledge, accountancy and logistical know-how,' says Michael Taylor, senior economist at Lombard Street Research.

Optimists hope emerging markets will continue to bolster demand in the West. Less sanguine observers worry that the world's second-largest economy, China, attributes much of its growth to exports, so as Western economies draw in their reins, the People's Republic may suffer.

Balance sheet Economies across the Western world are suffering the after-effects of excessive spending and borrowing over the past decade. The need to reduce that debt mountain means the road to recovery is likely to be prolonged and slow.

Getty Images

REAPING THE DIVIDENDS

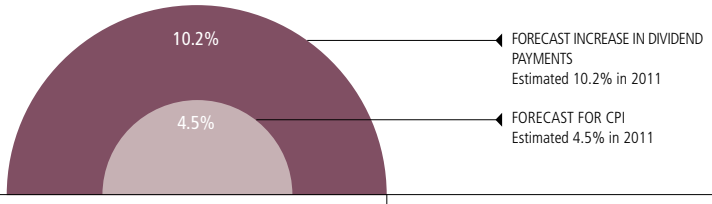
Income seekers are finding company dividends offer better prospects than cash. Heather Connon highlights companies paying generous dividends

Income is the holy grail for many investors, yet the places in which it can reliably be found are becoming ever more scarce. Our sluggish economy, exacerbated by concern about the euro and the slow pace of recovery across the globe, means that interest rates are likely to remain very low for some time. The yield on benchmark government gilts touched new lows in August. With inflation remaining stubbornly above 4%, that means the real value of these investments is being steadily eroded.

Worse, there is growing concern about the safety of some of these investments. Some of the southern European countries that have been hardest hit by the financial crisis have seen their credit ratings tumble as investors worry about their ability to carry on servicing their debts; and even the US has suffered the ignominy of having its credit rating downgraded a notch.

Many companies, by contrast, are paying generous dividends – and offering the prospect of a growing income. Around a fifth of the companies in the FTSE 100 Index offer a dividend yield – the key measure of the income from shares – above the level of inflation. Profits tend to increase over time – albeit with the occasional setback – that should mean dividends, and therefore

SPECIAL REPORT



income for investors, should also increase. And, while consumers and governments are still labouring under the weight of excessive borrowing, many companies have reduced their debt levels dramatically since the financial crisis started in 2008.

Capita Registrars, which produces a regular monitor of dividend payments, predicts that dividends across the stock market will rise by 10.2% in 2011, after allowing for one-offs like share buy-backs. If it is right, that means dividend income this year will grow more than twice as fast as inflation.

Of course, buying shares does mean putting capital at risk, but the statistics show that, over the long term, dividends are a very important part of investment returns.

Ian Lance, an income fund manager at RWC Partners, says that, while stock markets are driven by sentiment in the short term, over the long term, dividends account for between half and two-thirds of total investment returns. His co-manager Nick Purves adds: 'If you can find a high and sustainable equity yield, that ought to be quite attractive over coming years.'

Of course, spotting these opportunities is not always straightforward. Even seasoned professionals were caught out last year when BP, traditionally one of the most reliable and generous dividend payers in the stock market, cut its payout in the wake of the Gulf oil spill. The cuts by banks in the wake of the financial crisis were similarly painful.

That is why Lance and Purves devote so much of their time to analysing how secure a company's dividends are likely to be. The key factor, says Purves, is cash flow: if the company is generating enough cash to comfortably afford its payment – and a surprising number do not – that means there is a greater chance that the dividend will be maintained and, with luck, increased.

Other factors they look at are whether the company's business is very cyclical, so that profits will rise and fall as the economic waves ebb and flow. 'We try to avoid these companies because of the risk that their profits and cash flow could decline [as the economic cycle turns],' says Purves. He also shuns companies with high borrowings, or large pension fund liabilities.

They are managing to find companies that meet these demanding requirements. Most of these, says Purves, are in the pharmaceutical, telecoms, insurance and oil industries. AstraZeneca and GlaxoSmithKline, for example, both offer yield of more than five per cent although their profits should be relatively immune to economic booms and busts.

Purves and Lance worry that the best dividends are in a small handful of companies. But with analysis and a sensibly constructed portfolio, equities can offer a very attractive income.

REINVEST OR SPEND?

Tempting though it may be to rush out and spend the dividend cheque when it arrives, reinvesting it in the stock market will make you far wealthier in the long run. Just look at the statistics in the Barclays Capital Equity Gilt Study, an exhaustive analysis of the returns on investments going back over 100 years. This shows that £100 invested in the stock market at the end of the Second World War would have been worth £7,932 by the end of 2010. Take into account reinvested dividends, however, and that £100 would have become £136,107, or more than 17 times as much.

Balance sheet While many types of investment may be offering disappointing returns, some blue chip companies are paying generous dividends. Around a fifth of the companies in the FTSE 100 Index are paying dividends that beat the rate of inflation. If reinvested the returns can be sizeable over the long term.

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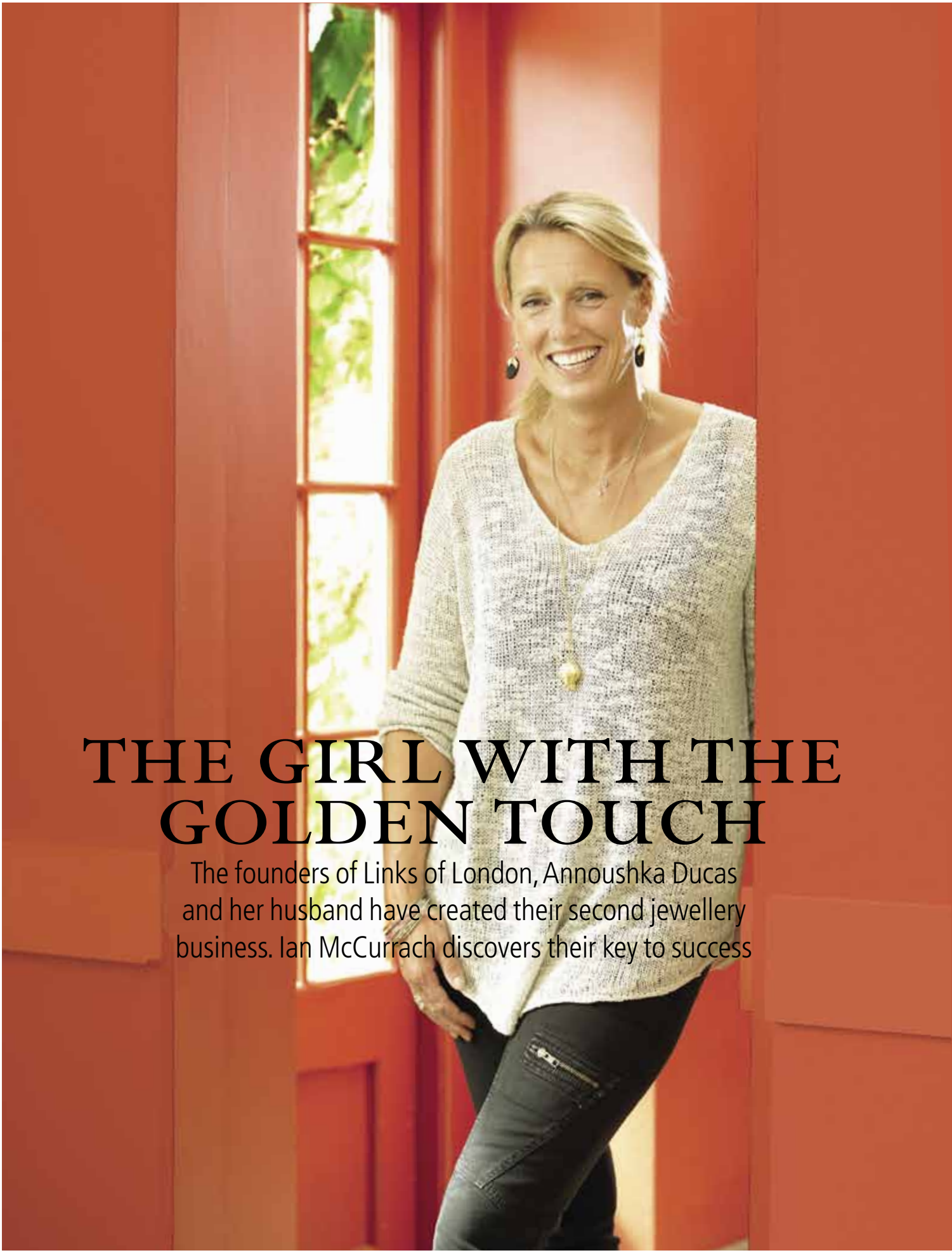

THE GIRL WITH THE GOLDEN TOUCH

The founders of Links of London, Annoushka Ducas and her husband have created their second jewellery business. Ian McCurrach discovers their key to success

Levon Biss

ANNOUSHKA DUCAS:

Most people wouldn't dream of working with their other half, but for Annoushka Ducas and John Ayton it has been a winning formula. Together they founded the high street jewellers Links of London, back in 1991, which became one of the British retail success stories of the decade. Links went global and had stores across Europe, North America and Asia. Fifteen years later, the couple sold it to jewellery manufacturer Folli Follie.

Much has been chronicled about Links over the years and Annoushka and John sound genuinely modest when they explain that they never imagined it would become such a roaring success when it first began, basically as a sideline to selling fish. Annoushka's first commercial venture had originated in her designing fish cufflinks to be given as Christmas presents for customers of her mother's fish business.

As we speak, at their family home in Sussex, it is their new high-end jewellery business venture, Annoushka, which they started two years ago, that they are most excited about. 'My driving force is that I adore what I do and after we sold Links I continued to design jewellery for myself, so it was a logical progression,' says Annoushka.

Business has been in the Ducas family for years. Annoushka's mother was an entrepreneur who thought that nothing was impossible. 'My mother was Russian and at one time she used to import Russian horses to sell here,' remembers Annoushka. 'In fact, the first proper car I remember her having, she swapped for three Highland cattle. My grandfather was in trade, too. I think, coming from that background, I'd have found it difficult to work for anyone but myself. It was just what I knew.'

This seems like a difficult time to start a new business, given the current financial climate. 'It's certainly challenging with the gold price near an all-time high,' says John, 'but we've learned a lot. And, in just two short years, we've achieved what it took us 10 to do with Links in terms of the size of the business and what we are doing.' Already Annoushka pieces are being worn by celebrities such as Beyoncé, Rihanna and Dannii Minogue. Kate Middleton famously wore a pair of Annoushka earrings for her official engagement photos.

Annoushka, the company, is an entirely different animal from Links. 'From a design perspective, Annoushka herself felt quite trapped [at Links] as we created a monster,' says John. 'By launching under Annoushka's own name and dealing mainly in gold and diamonds, the design is far more interesting and has a huge personality in it. A lot of what we do now are one-off pieces.'

Currently they have one store in Cadogan Gardens in Knightsbridge. They also have standalone fully branded concessions over which they have complete control in Harvey Nichols, Harrods, Selfridges, Liberty and Brown Thomas in Ireland. 'A small percentage is online but that's all about brand awareness and it's early days,' says Annoushka. 'For online, you need to build trust and, month-on-month, that's growing very steadily.'

John was at university with their St. James's Place Partner, James Rothman, so they've had a long relationship. 'My world is very entrepreneurial and James is far more cautious when it comes to preserving our wealth. James really acts as my alter ego. He thinks out of the box, which I really admire and respect him for.'

Annoushka and John say they prefer being involved with a relatively new venture, rather than Links, despite the current economic environment – and that's a real sign of their entrepreneurial spirit.

STEPPING STONES

1989
Annoushka and John met at an expats' ball in Hong Kong.

1990
The couple married.

1991
Links of London was born after Annoushka made fish cufflinks as gifts for customers at her mother's fish supply business. With 60 pairs spare she went to Harvey Nichols, in Knightsbridge. The store agreed to stock them if she designed a full collection.

1992
The business plan for the first year of Links totalled £72,000 but this figure was exceeded.

1995
Annoushka gave up the family fish business.

2006
Annoushka and John sold Links of London to jewellery manufacturer Folli Follie.

2009
Annoushka jewellery brand was launched.

GERMAN ENGINEERING

Are cracks starting to show in the legendary exporting and manufacturing machine, asks Jonathan Gregson

There can be no doubt that Germany has been, by far, the most successful of Western economies. According to figures from the World Trade Organization, Germany is the world's third largest exporter, behind China and the US, with exports in 2010 of $1.269 trillion. As its recently appointed economy minister, Philipp Rösler, pointed out: 'Germany is the growth motor among the industrial nations – and not just in Europe.'

The country's finely tuned and hugely competitive export machine has allowed it to recover faster from the last recession than any of its peers. This year has been no exception, as it has been firing on all cylinders. According to Morgan Stanley, first-quarter GDP was up 5.2% on the same period in 2010. That is almost treble the average growth rate across the OECD.

The result is an enviable combination of high living standards, low unemployment, comprehensive social services and a public budget that is close to being balanced.

What has made all of this possible is Germany's focus on export-oriented manufacturing rather than service industries, combined with a profound respect for the skills needed to produce world-beating products.

Take, for example, its widely admired *Lehre* (which translates as 'teaching') apprenticeship scheme. This normally lasts three years, with young people spending half of that time at a vocational college and the remainder with a company qualified to impart the necessary training. And while elsewhere in Europe employers tend to minimise their take-up of national apprenticeship schemes, leading German companies do just the opposite by taking on too many apprentices so that they can cherry-pick the best and then pass on the rest to their sub-contractors or suppliers.

This is in addition to the unusually close co-operation between employers and trade unions, which are often represented on company boards. When the last recession hit, they agreed to temporary factory closures, pay freezes and cuts in working hours – a far cry from the more confrontational stance typical of France or even the UK. In Germany, labour co-operates with management; for instance, on flexible working practices that help maintain a competitive edge despite relatively high input costs. And the population has agreed more readily than most to raising its retirement age to 67.

Moreover, most Germans are less inclined to take on debt – either personally or indeed that issued by government on their behalf – than their Anglo-Saxon or southern European counterparts. Perhaps because more people rent than own property, there has not been a real estate bubble on the scale of that in Spain or Ireland. If anything, the weakness in Germany's economy has been too much restraint, leading to soft domestic demand. Coupled with its strong exports, the net result was that last year Germany's surplus amounted to more than €150 billion.

The German economy was still growing earlier this year but more recently warning lights have been flashing. It has been noticed that German business confidence is weakening, as witnessed by the sharp drop in Markit Economics' latest composite Purchasing Managers' Index. It also showed that the volume of new orders has contracted for the first time in two years, service industries have ground to a standstill, and private sector employment growth is flattening out.

Likewise, a survey by ZEW (Centre for European Economic Research) revealed a far sharper fall than most analysts anticipated in German sentiment on both current economic conditions and what they expect to happen next.

$1.269 trillion exports in 2010

5.2% GDP increase on the same period as 2010

€150 billion in surplus

POPULAR OPINION

The German people have had enough of bailing out southern Europeans. A recent YouGov poll showed 59% opposed to further bailouts. Most want Greece expelled from the eurozone. And a remarkable 44% want Germany to withdraw from the European Monetary Union (EMU) and a return to the deutsche mark.

For German politicians to ignore such sentiments would be political suicide. The present coalition is already looking imperilled as leaders of the conservative Bavarian CSU and liberal Free Democratic Party threaten to withdraw support should Angela Merkel make any further concessions to shore up the European Project.

Yet resistance to further bailouts or to the issuing of eurobonds guaranteed by all eurozone members has frightened the bond markets and made a succession of sovereign defaults more likely. Should that happen, some German banks with large holdings of 'peripheral' sovereign bonds would go under or need to be bailed out by the state.

Moreover, Germany's withdrawal from the EMU would immediately turn its currency into a 'safe haven'. The huge benefits its exporters have enjoyed from belonging to the relatively undervalued euro for more than a decade would evaporate overnight. Instead, they would be like Swiss industrialists, complaining that their overvalued currency was killing off their ability to compete in global markets.

For Germany to abandon the euro now might be popular. But it could also be – as Chancellor Otto von Bismarck described the idea of fighting a European war on two fronts – 'to commit suicide for fear of death'.

Getty Images

Worse still, recent findings by the Munich-based Ifo Institute registered the biggest fall in its 'business climate' index since November 2008 – when the fall-out from Lehman's collapse caused banks to stop lending and global trade to shrink dramatically. Shortly afterwards, Germany entered recession, its GDP falling more steeply than most into negative territory, only to recover more rapidly once stimulus measures took hold. There are some signs that Germany's economy is slowing again as the malaise in Europe is undermining the confidence of its customers, both at home and abroad. But, while its economy may be volatile until the European crisis recedes, its strong manufacturing base and its tradition of sound economic management means that it is better placed than most other economies to weather the storm.

Balance sheet Germany is one of the most successful Western economies with a strong domestic economy and healthy exports, thanks largely to its focus on manufacturing and on building a skilled workforce. That has helped it recover quickly, and strongly, from the global financial crisis so far but, with the weak euro and southern Europe in turmoil, there are some signs that its economy could slow again.

The new 2011 Volkswagen Golf Cabrio is lifted into one of two storage towers at the Autostadt customer reception centre at the Volkswagen factory

KEEPING UP WITH LORD JONES

He's been a tireless campaigner for the cause of British manufacturing. Heather Farmborough catches up with the outspoken Lord Jones

Digby Jones is saddened by the August riots. Having worked tirelessly to promote British business since 2000, when he became the director-general of the CBI, the disappointment in his voice is palpable as he talks about the impression of the UK created by images of flaming city centres and vandalism. He sums it up: 'Brand Britain is looking a bit tarnished.'

At the CBI, he vowed to put British manufacturing back on the map. He did so, not just by expressing his trenchant views on social inclusion and wealth creation. He also visited well over a thousand companies in six and a half years both at home and abroad, repeating his mantra that CBI staff must put its customers – its business members – first.

In July 2007, he became a life peer and minister of state for UK Trade and Investment, although he refused to join Labour, the party of government. During the 45 overseas trips he made in 15 months, any differences in opinion between him and unions or government were set aside to present a solid front, 'batting for Britain', but at home his comments remained as outspoken as ever. One can only imagine the groans that must have emanated from Whitehall and Downing Street following every one of his unguarded and honest answers. He hit the roof, for instance, when he was assigned a Honda hybrid car because it had been made outside the UK.

Fifteen months later, he stepped down and now chairs Business Advisory Boards at HSBC and British Airways, is chairman of Triumph Motorcycles and is a corporate ambassador for Jaguar Cars and JCB.

This passionate commitment to British manufacturing might seem a little surprising for a former lawyer. He spent 20 years with Edge & Ellison, a Birmingham solicitors' firm, joining in 1978, working his way up to senior partner. Where did it come from? 'As a corporate law firm in Birmingham, 90% of our clients made things. If the clients did well, we did. It was quite unlike the city law firms where clients were mainly service companies.'

As a child, he helped in his parents' corner shop. This was a stone's throw away from the Longbridge car factory that made Minis and Austins. 'The parents of almost everyone at school worked there: my parents' business revolved around supplying them,' he says. 'So we were all dependent on manufacturing.'

Reading his book, *Fixing Britain: The Business of Re-shaping Our Nation*, what is striking is the combination of old-fashioned values – calls for greater parental responsibility and the 3Rs in schools – with a call to government for support of apprenticeships and skills training, which is both accessible and flexible, and the transformation of manufacturing processes and services into innovative high-quality brands. His emphasis on the importance of education and innovation, the importance of science, foreign languages and learning about business in the classroom would not be out of place in today's China. His calls for an integrated approach to business and manufacturing from government, industry and education would be taken for granted in Scandinavia or Germany.

> **We have lost our bottle and confidence. We don't see business as a positive contributor to our society**

Britain is the world's sixth largest manufacturing nation, with the parts of half of every Airbus made in different factories across the UK. Only Germany and Slovakia export more cars than us. The most productive car plant in Europe is Nissan's plant in Sunderland. Yet Digby Jones worries that Britain no longer believes in itself as a great industrial nation. 'We have lost our bottle and confidence. We don't see business as a positive contributor to our society. We feel we are owed something by the world. We've gone soft.' His strategy for putting British manufacturing back on top goes further than the government initiative announced this year. 'It has to start at the top where you have a government that says it believes in manufacturing, and it has to start in schools where half of our children can't read, write, add up or operate a computer. We have to stimulate small businesses, help with trade shows, remove taxes on employers – National Insurance is a tax on jobs – and at the other end, there's the issue of government procurement. What other government would turn round and say they were buying trains from abroad because they are 10% cheaper? But that's what our government did when it chose trains from Siemens rather than Bombardier.

'When I was at the CBI, the British embassy in Berlin was going to buy BMWs because they were cheaper. What other country in the world with its own car industry would do that? Of course they were cheaper. BMW was tendering at a lower price because they wanted the marketing.

'We are still the fifth-largest economy in the world, and manufacturing is still the biggest part of our GDP, but it doesn't feel like it.

'The reason for economic wealth is to keep faith with the people who do bother, with families who make their kids do their homework and, most importantly, communication and follow-through.

'Leadership is essential and we need to be skilled and to work. I always say when I give talks in schools, "Do you think Jonny Wilkinson just turns up and plays? Of course not, he practises constantly to make sure he is fit and can deliver when he plays in a match." And that's what all of us in the UK have got to do.'

RETAIL REVOLUTION

Technology is both transforming the way we shop and hurting our local high street. Zoe Wood explains

This year has seen an entire shopping parade's worth of high street names consigned to the dustbin of history as subdued consumer spending definitively separates the winners from the losers. Yet the picture is not straightforward. While Sir Terence Conran's once-great Habitat furniture chain is one of the most high-profile casualties, other middle-class favourites, such as John Lewis and Waitrose, are prospering. Argos, the cheap and cheerful catalogue group (part of the Home Retail Group), is struggling while its stablemate, Homebase, continues to do well.

One explanation is offered by Richard Cathcart, an analyst with Espirito Santo Investment Bank. The split reflects the experience of the haves and have-nots: Argos shoppers are mainly from the C2 and D socioeconomic groups, whereas Homebase's shoppers are better-off homeowners who are benefiting from low mortgage rates and are continuing to spend. 'We have argued for some time that lower-income consumers rather than high-income consumers are more vulnerable in the current environment,' says Cathcart. 'The former is typical of the regular Argos customer base, while the latter is the typical customer of M&S, John Lewis and DIY retailers such as B&Q and Homebase.'

The recession officially ended more than a year ago, but for many households austerity is still a reality as higher food and fuel prices eat into their disposable incomes. The Local Data Company (LDC) estimates one in seven UK shops now lies empty, but that arresting statistic cannot be entirely laid at the door of the downturn. For more than 20 years the country's biggest chains have been quitting town centres for larger stores in retail parks. This has been compounded by the growth of the internet, with the British Retail Consortium estimating the channel represented 8% of total UK retail sales of £293bn last year.

LDC director Matthew Hopkinson suggests that 25% of the country's traditional shops are now surplus to requirements: 'Whatever way you look at it, fundamental structural changes are taking place in UK retail.'

For much of the last decade the major trend was home delivery as the old-fashioned 'bricks and mortar' retail model morphed into 'bricks and clicks'. But the pattern has changed again. Tesco chief executive Philip Clarke recently said that the industry was in a new paradigm as the digital revolution sees online and offline sales collide. 'We now live in a multichannel world,' he said. '[For consumers] their high street, their computer, their smartphone – all these offer different ways of shopping and all are converging.'

Panmure Gordon analyst Philip Dorgan says the internet – as well as social media – is feeding a 'significant, unstoppable structural shift towards shopping online'.

The price transparency offered by the web, as well as the shift to new digital formats, has had a devastating impact on some, with Comet, HMV, Game and Clintons Cards among the specialists experiencing deep-seated change in their marketplace. Dorgan argues that the retail sector is far from a lost cause, but he says the key question is: 'Who are the retailers facing structural decline and who are the ones that will benefit from a cyclical recovery?'

This environment has not deterred the four biggest supermarkets from opening new stores. Property analysts say planning permission for the equivalent of another supermarket chain the size of Sainsbury's has been granted in the past year – aggressive growth that leads Robin Knight, partner at restructuring firm Zolfo Cooper, to predict tomorrow's high streets will follow a 'Tesco and Chanel' model. Grocers will dominate markets such as clothing, books and home furnishings; 'power' brands such as Apple and Disney will attract customers by offering 'experiencial' shopping. 'Everything else in the middle is effectively fighting for survival,' says Knight.

■ ZOE WOOD IS THE RETAIL CORRESPONDENT AT *THE GUARDIAN* AND *THE OBSERVER*

Balance sheet The internet and the downturn in the economy are taking their toll on the high street, with a number of stores closing their doors forever. Other chains, however, continue to prosper. The secret to survival, it seems, is to have a strong brand identity.

AMAZON PROFILE

With a bigger selection than your local high street could ever hope to offer and prices lower than even the supermarkets, Amazon is the 800lb gorilla stomping over the retail sector. Last year, sales at the US-based online retailer jumped 40% to $34.2bn with the success of its e-Book reader, the Kindle, a symbol of its power to disrupt retail markets. While US book chain Borders is being liquidated, sales of the Kindle are accelerating and Amazon now boasts that it sells more e-Books than paperbacks. But books are just one facet of the Amazon juggernaut that is picking off retail market after market, from consumer electronics to clothing and now groceries.

Kantar Retail Insights director Bryan Roberts says Amazon uses 'web crawling' technology to make sure its prices are 'super-competitive'. It also offsets lower margins in categories such as consumer electronics, with gains from more lucrative products, such as the Kindle, enabling it to be a price leader across the web.

Gallery Stock

EQUAL ATTRACTIONS

The new St. James's Place Global Equity fund offers a uniquely diversified approach to growth investing

Launched in September, the St. James's Place Global Equity fund is the first of its kind in the UK to harness an equally weighted core portfolio with the expertise of four specialist, high-quality global equity managers. The result is a fund combining complementary active management skills with a hugely diversified core providing access to the growth potential of the world's developing economies and smaller and medium-sized companies.

Managed by BlackRock, the core portfolio represents 60% of the total fund. It invests directly and in equal amounts in all 2,400 or so companies, which comprise the MSCI All Country World Index. Typically, such portfolios invest in proportion to the size of the companies, inevitably resulting in most weight being given to the largest markets, most notably the US. This alternative strategy gives the same weighting to the smallest companies as to the largest. It also results in a broader geographic spread, with higher allocations to emerging economies such as China and Brazil. The portfolio will be rebalanced every six months to take account of market changes.

Reflecting the growth in emerging markets, over the past decade the equally weighted approach has performed significantly better than the traditional market capitalisation weighted method, although of course past performance is not necessarily a guide to the future.

The balance of the fund is divided equally between four satellite managers – all global equity specialists but with different investment styles, again adding further diversification. Majedie Asset Management is a value investor, seeking quality companies at reasonable prices. New York-based Tweedy, Browne Company is also a value manager, but has an additional focus on strong dividend track records. Also based in the US, Sands Capital is wholeheartedly committed to growth investment, identifying those companies best able to maintain and increase earnings. Taube Hodson Stonex Partners employs a global thematic approach; the ageing population and the changing diet in emerging economies being two current themes offering growth potential.

For more information about this new global growth investment opportunity, speak to your St. James's Place Partner.

GIVING JUNIOR A HEAD START

The Junior ISA is a useful planning tool for parents and grandparents

November sees the launch of the new Junior ISA, designed to encourage saving on behalf of children. Unlike its predecessor the Child Trust Fund – axed as part of the government's austerity programme – there will be no government money to kick off the account. That said, latest figures from HMRC show that of the 851,000 Child Trust Fund vouchers issued by the government in 2010, barely half have been invested by parents. Clearly, the government has high hopes that the Junior ISA will increase the savings habit.

The Junior ISA offers parents, grandparents or anyone else the opportunity to save up to £3,600 a year for each child, a limit that will increase in line with inflation from 2013. It provides the same tax advantages as a standard ISA – tax-free interest and no further tax to pay on income or capital gains – and both stocks and shares and cash options are available. However, unlike the standard ISA, each child can only hold one of each account at any one time.

A Junior ISA is available to any child under 18 who does not have a Child Trust Fund and must be opened by the parent or guardian. The child will be allowed to take control at the age of 16 but the funds are locked in until they reach 18, at which point the account will be rolled over into a standard ISA.

Money isn't everything but the challenges faced by today's children perhaps make a helping hand more of a must. Latest estimates suggest that university students will graduate with an average debt of £53,000. The average deposit on a house for a first-time buyer is now over £40,000.

The flexibility to allow contributions from parents, grandparents, godparents and others makes Junior ISAs a useful addition to the range of savings options available, while also providing an appealing gifting solution for inheritance tax planning. For more information on the new St. James's Place Junior ISA, please contact your St. James's Place Partner.

Alamy

A HEAD START...

The St. James's Place Junior ISA

We all want the best for the children in our lives. However, the reality is that the financial world in which they are growing up is a very different and difficult one.

Of course, money isn't everything but saving money now is one way you can help give them the best start in life. Perhaps it can also help meet some of your financial goals.

Whether investing regular amounts or a lump sum, the new St. James's Place Junior ISA offers a flexible, tax-efficient way to build a fund to help with the challenges that adulthood will bring.

To find out more about the children's savings options available, please contact your St. James's Place Partner.

Please note that the tax treatment of Junior ISAs may be subject to change in the future.