

The Road Well Travelled

Glencrutchery Road is an arterial route to the City of Douglas, a wind-tunnel for the unprepared runner during winter gales, a concourse to Nobles Park and the entrance to Douglas Borough Cemetery.

For four weeks of the year, however, this road is demarked by the crazy, leather-clad mayhem of TT fortnight and the Manx Grand Prix; where the familiar thoroughfare becomes an obstacle course of u-turning bikers, burning rubber, hi-viz marshals and less wary, (often beer-filled) holiday-makers traversing the highway with little warning. The route is the same, but very different, requiring a concentrated approach towards getting from A to B (preferably before the roads close).

Since announcing my planned retirement, I have had plenty of time to reflect on a 32-year career in investment management and the roads I have travelled (either literally or metaphorically) during that time. Sometimes similar paths, with very different experiences and at other times, hardly concrete, but rather, muddy trails and an occasional garbage chute. While there has been trepidation, humility and disappointment, I can honestly say to anyone starting out in an investment management career that these moments have been more than surpassed by a wide range of privileges and opportunities. If I had told my 20-something-year-old self about my undertakings for the next several decades, I simply would not have believed it.

I mention the negatives first. While it might not have seemed so at the time, I learned most from my worst experiences, be it making the wrong investment choices (resulting in loss of capital), choosing promotion to roles for which I was unprepared, or hastily drafting emails which put mouth in-gear before brain. The good news is that the longer one's career, the less frequent these negative occurrences should become. There will be times when one wishes one could wind the alarm clock back to 6am and start the day over, getting out on the right side of the bed, instead of the left. 15th September 2008 was one such day for me when, driving to work, BBC Radio 2 announced the chapter 11 bankruptcy of Lehman Brothers. I usually greet news headlines with a degree of ennui but that day, I nearly drove my car off the road (and not accompanied by Scarlett 'O Hara's ladylike words: 'fiddle-de-dee', either). During the Great Financial Crisis, long hours were spent away from my family, but no matter how bad my day was, I repeated to myself the mantra of my late mother's favourite heroine (pictured): 'After all, tomorrow is another day!'

Plato once wrote that the Oracle of Delphi hailed Socrates to be the 'wisest person in Athens', to which Socrates (because he was wise) concluded that nobody knew anything and that he was only wise because he recognised his own ignorance. As the Book of Proverbs suggests 'any intelligent heart' or 'ear of the wise' will seek knowledge but this does not always equate to wisdom, which comes about only when one successfully mitigates one's own faults or biases. For me, this learning sometimes came from unlikely sources, requiring discerning individuals to place a big mirror in front of my face, be it clients, colleagues or family. Sometimes, it arose from doing absolutely zip. As Albert Einstein once said, 'I think 99 times and find nothing. I stop thinking, swim in silence, and the truth comes to me.' Having lost my job during the dot.com bust of 2003, I was once bitten, twice shy and, subsequently, very late to invest in technology when its constituents no longer represented 'castles in the sky' and valuations were backed by real earnings, assets and cash flow. Undoubtedly, every investment manager faces that

Nietzschean moment, where, gazing into an abyss, 'the abyss also gazes into you'.

As a young and sometimes impetuous young woman, my father would implore me to 'possess my soul in patience' and it has taken some time to realise, mashing metaphors, that good things come to those who realise that Rome wasn't built in a day (ouch, sorry). The behavioural economist, Richard Thaler, once wrote about 'humans' and 'econs' as two theoretical subspecies of Homo sapiens. I always fancied myself as an 'econ'; someone who kept her eye on longer-term goals, but boy was I distracted, over and again, by the constant noise of everyday life. At this juncture, you might suggest that it is an investment manager's job to be aware of the daily noise, be it never-ending market rotations, Trumponomics, the hiring or firing of various Fed/BLS/Government agents (delete as appropriate), Labour's 'Grangela' or Rachel Reeves' obsession with Revolut. While these topics make for interesting reading or vocal debate around the investment desk, it is often a short-term consideration where robust investment strategy is concerned. As investment professionals looking to achieve a lasting balance and follow our clients' stated objectives, we must keep our 'eyes on the prize'.

My successor will appreciate that each member of the FIM investment team has their own voice within our forum, having always encouraged the team to speak up and take ownership. Either by being a victim of reverse psychology or by pure obstinance, I have rarely refused a challenge myself. 'Contrary Mary' was born at University in the early 1990s, where out of pure spite, I wrote an essay on one of my least favourite novels ('Wuthering Heights'...yawn) in the style of a post-structuralist. I achieved one of my lowest ever grades for that essay but it gave me the truculent satisfaction of going against the hysterical Romanticist herd. Sometimes contrariness causes me indigestion, when wallowing in the comfort of confirmation bias with too many opinion pieces and begging the question: Am I still an individual, or have I devolved into a short-tailed rodent which likes to throw itself off cliffs? In almost any context, it's always worth checking your hindmost.

Having experienced some twists and turns in the briar-path over the past three decades, it's worth gaining perspective when in the thick of it. In other words, unless you are dead, there is always a 'Plan B'. As a longtime victim of my pedantic nature, my husband sometimes reminds me of this when I'm obsessing over minutiae, or when I realise that no amount of switching from one healthcare stock to another will fundamentally alter investment performance, perhaps accepting that James Carville was correct when he quipped, 'it's the economy, stupid'. Finally, as many a TT or MGP rider might also appreciate, I leave my colleagues and clients at FIM Capital with a final and sincere Irish blessing, that the wind should always remain at your back and the (well travelled) road rise to meet you.

Mary Tait
CHIEF INVESTMENT OFFICER



Scarlett 'O Hara, always the optimist.

To Hedge Or Not To Hedge? That Is The Question

Looking back over last decade, it is very evident (in the rear-view mirror) that there has been more than a little variance associated with holding US dollars and dollar-priced assets (e.g. Microsoft).

In the 70s, sterling commanded \$2.64, but by February 1982, it only bought you \$1.05. By November 2007, it was back at \$2.10 before reaching \$1.07 in September 2022, driving to \$1.37 by July 2025. In other words, over time, we have seen a pattern which would be quite at home at Alton Towers!

Examining this from another angle, at some point, a US investor would get less than 50p for their dollar, at \$1.05 they were nearly receiving parity, while today, a US investor gets a whopping 74p for every US\$ converted. A strong dollar is particularly good for US purchasing power in the UK, whereas a weak dollar hinders inward investment and capital. But we were not here for that - Florida & US theme parks will always do well because of the fun and sunshine currency!

In the figures above, the reason to question a hedge is this: In November 2007 Microsoft traded a \$35 per share, therefore, if I invested £100,000, I would have cleared \$210,000 and bought 6,000 shares (excluding any charges). Those shares would be worth around \$3,036,000 or £2,248,888 today; an extremely healthy stock return of 1,345%, boosted further by conversion to pounds sterling (+2,148%). Without complicated mathematics, the FX conversion added 803%. Now let us reverse the scenario with slightly different timing. My £100,000 would have bought only \$105,000 in 1985, however if we stick to a purchase price of \$35, I would have bought 3,000 shares, which would be worth \$1,518,000 or £1,124,444 today (+1,025%). The currency adjustment over this alternative timeframe reduced our theoretical return by 1,123%! Given the above example, very simplistically, an investor (not a tourist) needs to evaluate whether to hedge against non-domestic currency exposure. For a sterling-based investor, this would include dollars, euros, Japanese yen, and other main markets where the percentage of exposure warrants the costs of a hedge.

What drives foreign exchange rates? A combination of factors: Supply & demand, economic health, interest rates, inflation, trade, GDP, unemployment and more. Basically, a currency's strength or weakness is a direct view on the health of that particular economy, so let's grab a supersonic jet back to the US and focus on the GBP/USD exchange rate, because that's our biggest currency exposure within sterling mandates, paying our investors handsomely over most investment time periods. Remember that it's the reverse of buying Microsoft, i.e., with currency, we want to buy high (e.g. \$2 to the pound) and sell low.

Over the longer term, a sterling investor has typically benefited from retaining unhedged dollar positions, as confidence in the currency, the US economy and US companies has been high. When Donald Trump was elected, however, we saw a tectonic shift in sentiment (Liberation Day: Remember that complex flipboard?). Tariff announcements will have ramifications for the US economy (and companies) over the remainder of this



President's term. Mr Trump's vocal opinion of the US Central Bank, its policies, and employees has compounded negativity. The GBP/USD FX rate has gone from \$1.25 to \$1.34 this year; a negative return of 7% for a sterling-based investor without any additional stock return or volatility. At the time of writing, a 17.5% return on the Nasdaq translated into a 10.5% return for a sterling-based investor.

So where do we go from here? Is the GBP/USD rate going to decline because of US dollar strength? Or are all the metrics mentioned earlier going to recede and therefore put pressure on the dollar? We could easily see \$1.40 or \$1.50 against the pound, if so. If the weakness is built in, investors would be wise to sit tight in US dollars and avoid the additional hedging costs, where one could argue that a 5% 'tramline' is a fair gauge on whether to hedge or not to hedge. If we believed that the GBP/USD FX rate will exceed \$1.42, we should jump the cost hurdle and make the call to hedge some, if not all our US dollar exposure. If you are a US dollar investor, however, you would sit tight (don't hedge) and enjoy the sterling ride.

At FIM, we are a lean, dynamic, fast acting asset manager with none of the delays typically presented by a larger group with multiple offices and personnel. We manage our clients on a one-to-one basis, and the portfolio manager is just that: A manager, not an implementor. Therefore, as I write with GBP/USD at \$1.34, we are ready to employ our dollar hedging strategy for clients. Over what we think will be a relatively short period of time, it could not only reduce volatility but will potentially add 'alpha' of 1.85% (US exposure multiplied by currency movement excluding costs) to mandates and therefore to portfolio valuations. As with all investment commentary, the scenario could go either way, therefore proceed with caution, however, with the dollar, never forget to buy high and sell low. At FIM, we always welcome your thoughts, opinions and feedback. Our team is here on the Isle of Man, and our investment managers are available in person, by video, telephone, or email to discuss the content of this article, our house strategy, style and how we have benefited thousands of clients, both locally and internationally, with our investment management services.

David Bushe

CHIEF EXECUTIVE OFFICER



Losing Balance

The relentless drip, drip of unsettling news has been almost the only constant in our professional lives in 2025. We recognised last year that a world with a Trump led administration would be disruptive. But few were prepared for the size and impact of trade tariffs, the crude attempts to destabilise the hallowed Federal Reserve Bank and the unstatesmanlike use of social media to bully and cajole political and business opponents.

An overlap of political and business interests is prevalent in all democracies, but the US is the runaway leader. The relationship between the two factions can often be legally strained (as the recent conviction of former French President Sarkozy illustrates). The US electoral system is especially dependent on the ability of political parties to generate revenue in the form of donations. Crude fundraising methods and political rallies can leave many voters feeling queasy. Contrast the endlessly loud political 'messaging' streamed on US media channels in the build up to an election, with the famously dull UK Party Political Broadcasts (a cure for insomniacs) to see how the democratic process can differ between, on the face of it, essentially similar political systems (red vs blue, left vs right).

Successful American politicians are expected to have amassed, inherited or be backed by a business fortune as they move up the political ladder. In the UK, political leaders frequently downplay their wealth fearing a backlash from 'ordinary' voters. Former Prime Minister Sunak was derided as having form here, not only for marrying a wealthy heiress but (far worse), for being an alumnus of Goldman Sachs, the poster child of capitalism. Margaret Thatcher frequently alluded to her social status as the daughter of a retired grocer. Former deputy Prime Minister Angela Rayner recently resigned partly because of poor tax advice on a property transaction, but also because she had the hypocrisy to own several properties whilst criticising Tory members for doing the same thing. In a Labour government, such an outward display of wealth from a trade union-sponsored politician amounts to nothing less than Party heresy, and the guillotine fell, inevitably and swiftly.

Yet politics and business are inexorably entwined. As the UK edges towards its next budget, the incumbent UK Chancellor, Rachel Reeves, requires a background in alchemy rather than finance to balance the books. Taxes of various sorts have already been raised to such an extent that small armies of wealthy capitalists are reportedly leaving the country before the screws are turned even tighter. Taxes are up, the economy is stagnant, yet borrowing is rising too. The latest estimate for the UK's debt to gross annual income (GDP) has breached 100% for the first time in the UK's history. This is lower than the US (124%), France (111%) and Italy (137%) but there is no honour amongst thieves. Bond investors are already demanding higher yields from Euro denominated French sovereign debt than from domestic companies such as L'Oreal and Airbus. In other words, the credit quality of some businesses is now perceived as being higher than the G7 country from which they operate. Quite remarkable. Be careful out there Rachel: Bond markets can bite!

Yet corporate knowhow has limited scope when it comes to politics in much the same way as professional politicians mostly have limited ideas of how to build a business. A politician will try to



Welcome to the Alchemist's Guild, Ms Reeves.

improve worker's rights by lifting the minimum wage. An employer will respond by cutting jobs. The politician will wonder why Plan A didn't work and will borrow more money to finance unemployment benefits. An ambitious president will try to cut deals with despots and will wonder why transactional negotiations (a.k.a. haggling), which worked so well in the New York property market, go nowhere in the complex world of geopolitics. One faction, in business and politics, always needs the other, no matter how uneasy the bedfellow.

In the US and the UK (and parts of Europe) an imbalance has developed. In the US, the need for statesmanlike behaviour in matters of the utmost national importance, is self-evident but visibly lacking. This has not yet damaged the American stockmarket, but it has affected the value of the dollar as well as the intangible standing of the US in the global pecking order. In the UK, the pendulum has moved in the opposite direction. Business is being sacrificed at the altar of state interference. The renowned British entrepreneurial drive is being suffocated by state meddling. Like the US, the UK market has also performed reasonably well in 2025 to date but investors are nervous, and gold is up sharply. This is not usually a harbinger of investment spring.

Investors who have leapt to the sidelines have, however, been wrong-footed by the acceleration in corporate earnings, especially in the technology sector which has driven market returns so far this year. Clearly, such euphoria has to slow at some point, but when? The dull reality is that nobody really knows. Diversity and liquidity are important, the latter perhaps more so right now, when risk seems elevated. But this time the imbalances lie more in the uncertain world of politics than in economics. Holding a little more cash than usual right now for the short-term, therefore, seems the sensible thing to do.

Russell Collister



Honest Politicians Only Please

The addiction western governments have for spending other people's money will eventually end up with a funding crisis and unpalatable cuts in public expenditure, yet market sentiment seems immune to this headwind, even if the strong performance of gold suggests otherwise. Unrelenting issuance of sovereign debt, at a time when natural buyers are becoming more elusive at the longer end, make it impossible to predict how far yields may rise or what the 'new normal' may be. They peaked at over 16% in the UK in the mid-70s and at around 14% in the US a few years later, but this was a world influenced by exchange controls and restrictions on the movement of capital, so the past is irrelevant. Global capital flows are a double-edged sword in a world divided by geopolitics and while the chance of a western government default may be minimal, there is no cap on the cost of money, as strangers aren't always kind.

In a democracy, the electorate is at fault for the spiralling debt situation by failing to engage with the political class and forcing change via the ballot box. Younger generations may have different economic experiences compared to baby boomers and society elders, who have experienced what happens when a government spends beyond its means and even the lessons from the Greek financial crisis are being ignored. Welfare support, triple lock and civil service pensions all have a cost which, typically, the middle class pays. Paul Weller's lyrics to his 80s track 'Going Underground' resonates: 'the public gets what the public wants' but regrettably, the public doesn't understand that this is unsustainable. It is being hoodwinked by a political class seeking power by making false promises and avoiding the truth. This delusion will persist until it reaches a crisis point, or when one party finally confesses the unpalatable truth, which will be painful, but needed for the electorate to grasp the painful economic reality which must be endured to rectify it. Sadly, even in France, where the debt to GDP ratio is 111% (against the UK's 101%), the public has still not reached this point, hence the resignation of François Bayrou, France's fourth Prime Minister in 20 months, for trying to save £38bn (€44bn). It may be a different country, but contagion from France's problems is a risk to all indebted economies, once bond and currency traders get the scent of profits by holding a country to ransom.

Bond markets dictate the heartbeat of capital markets and whilst central banks control interest rates and the cost of short-term money, it is bond investors who set the rate on longer dated paper, based on a nation's fiscal prudence. With yields simultaneously hitting multi-decade highs across many western nations, it is a serious matter when governments ignore these signs. This also makes it difficult for longer term investors to capitalise on higher rates by rotating from one country to another, which would provide some respite. Inflation, historically an effective means for governments to erode debt, is off limits, given the significant issuance of index-linked bonds in recent years, particularly in the UK. At least the UK Treasury has started to curtail issuance, despite solid demand. Indeed, the irony of 2025 is that there is no loss of appetite for government bonds, but investors are demanding much higher returns, which are proving unaffordable. Tax hikes therefore appear inevitable, and investors have



Mark Carney: He warned us not to rely on the 'kindness of strangers'...

good reason to be nervous ahead of November's budget, as they try to protect what's left of their capital. Here, the UK is not alone.

For investors, this is not the time for leverage but for holding real assets; gold and index-linked bonds, whilst being mindful of some debt markets where spreads could widen. Sticky inflation will likely accompany the rising cost of money, suggesting that value investing might prove to be more resilient than growth. Property should retain its value over the long term but could struggle to make real progress until the longer-term cost of money falls. It's all about truly understanding diversification, and investing in government priorities, which will continue to prosper, whilst avoiding those that will be cut from the budget.

How government finances got into such a mess is a longer answer, and they are the exception - households and corporate balance sheets are in a good state of health. The lesson from the past is that the electorate must scrutinise policies ahead of elections and hold politicians to account, as change can only occur when a political party is open and honest. The UK National Insurance fund potentially hits zero in 2043, just 18 years, or three new parliaments away, assuming inflation does not narrow this timeframe further. This is the moment at which the UK government can no longer meet its obligations, and while assuming inflation doesn't make things worse, hiding from this reality is no longer an option.

Is there hope? Always. The Centre for Policy Studies, one of the oldest and most influential think-tanks in Westminster, recently released a paper called 'Breaking the Cycle', suggesting three foundations to boost prosperity, drive growth, and escape the debt trap with the central aim of growing GDP per capita. Fiscal discipline is the obvious foundation upon which supply-side reform creates growth, based on investment, innovation, infrastructure and incentives, removing the long-held notion that only cheap money drives growth. The days of tax, spend and borrow must end and ideally, in the November budget. The UK must save, invest and compete, reducing the size of the state and while we may blame the politicians, the electorate must demand honesty in the first instance. The UK's economic predicament may get worse before it gets better, but ordinary people should never be taken for fools in a democracy. One can sense change.

Paul Crocker

Investment Management Briefing Editor: Mary Tait, Chief Investment Officer

The investment team at FIM Capital Limited hopes that you have enjoyed reading our articles this quarter. If you are not currently receiving our Investment Briefing on a regular basis but would like to do so in future, or you wish to inform us of a change in your contact details, please contact us at enquiries@fim.co.im. Equally, please contact us if you no longer wish to receive our Briefing and we will remove you from our mailing list.

David Bushe - Chief Executive Officer
t +44 (0) 1624 604709 e dbushe@fim.co.im

Mary Tait - Chief Investment Officer
t +44 (0) 1624 604702 e mtait@fim.co.im

Michael Craine - Senior Investment Manager
t +44 (0) 1624 604704 e mcraine@fim.co.im

Pieter Cloete - Senior Investment Manager
t +44 (0) 1624 604705 e pcloete@fim.co.im

Russell Collister
t +44 (0) 1624 604700 e rcollister@fim.co.im

Paul Crocker
t +44 (0) 1624 604701 e pcrocker@fim.co.im

Charlotte Cunningham - Investment Manager
t +44 (0) 1624 604713 e ccunningham@fim.co.im

Barbara Rhodes - Head of Settlements
t +44 (0) 1624 604712 e brhodes@fim.co.im