Professional Paraplanner

The magazine for paraplanners and financial technicians

September 2019

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Professional
Paraplanner

NEW IDEAS

With this issue we introduce some subtle changes to the magazine, as you'll see below, while also kicking off our autumn series of Technical Insight Seminars. We have eight seminars taking place around the country from September 11 to November 26. I'm particularly looking forward to meeting paraplanners in Leeds, Glasgow and Reading, three new venues for us this year. We've had some great comments from attendees so far and I'd like to thank everyone who filled in our post event feedback form. We do take notice of your comments and your suggestions for next year's events.

At our seminars earlier this year, I spoke to a number of you about what you might like to see in the magazine. What was great about those conversations was the overall enthusiasm for the content as is. But you did come up with some ideas and suggestions and we will be covering those over the next few issues. The first is the dedication of a section of the magazine to providing information and insight for paraplanners undertaking investment research and who are involved in their firms' investment committees. The in-depth research we published in the spring into the changes in the role of paraplanners, showed a marked increase in the number of you now participating in investment committees. This is a reflection of the growing influence of paraplanners in general, which also was reflected in the research.

Hence, we've called this section The Investment Committee. With our access to fund managers and their teams, we'll be bringing you a range of insights and interviews, as well as looking at key areas like joining an investment committee, CIPs, CRPs and generating income in retirement.

We will also be running events to complement this section – starting in London later this year (please see box).

For this issue's section, we spoke to fund managers Gary Potter and Rob Burdett, who head up the BMO multi-manager team, and David Harrison, manager of the Rathbone Global Sustainability Fund. Responsible investing is a growing area and one we will be focussing on in coming months. If there is any fund manager you'd particularly like to hear from, please let me know.

Alongside some of the other areas you said you'd like to see covered, we will be continuing our focus on technical articles and our Training, Development and Qualifications (TDQ) features, to help you with your exam revision, CPD and general personal development. Our other regular items, such as Viewpoint and Parameters will also continue.

During the magazine break this summer, we have been focussed on delivering a range of technical and development articles on our website, professionalparaplanner.co.uk. In case you missed any of them, I've listed below eight that we published in the past few weeks. We've a lot to look forward to in coming months and we're particularly excited to be looking at new areas and features, particularly those arising from your ideas and suggestions.

Rob Kingsbury,
Editor, *Professional Paraplanner*
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Investment Committee events

Alongside our new dedicated Investment Committee section in the magazine, we will be running a series of investment events. The first will take place later this year in London. We will then look to take the events out to more locations in 2020. If you are interested in attending the London event or subsequent events next year, please email our events manager louisahooper@researchinfinance.co.uk to register your interest. Further details will be sent to you in due course.

Technical Insight Seminars

We look forward to meeting you at one of our events this autumn.

Nottingham: The Nottingham Belfry, 11 September
Glasgow: Hilton, 18 September
Edinburgh: The Waldorf Astoria, 19 September
Leeds: Oulton Hall, 2 October
Manchester: The Midland Hotel, 16 October
Reading: Crowne Plaza, 23 October
Bristol: The Aztec, 13 November
Newcastle: Crowne Plaza, 26 November

Website features

In case you missed them, here are some of the technical and development articles we published on our website in the summer.

- How top slicing has been changed for ever – and what to do now
- Taxation of trust income
- PROD rules and risk tolerance – an overview
- Property tax – how to tackle it
- Pension offsetting on divorce – not as easy as it seems?
- Maximising tax allowances – key ways clients may mitigate their outlay to HMRC
- Estate planning using Business Property Relief
- The offshore bond 'biscuit tin' solution

In this issue...

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VIEWPOINT

With the ability to freelance and better control your work/life balance, there has probably never been a better time to be a paraplanner, says Jonathan Dawson, 1to1 Paraplanning. But going it alone can be daunting

I remember returning from Austria after a sabbatical deliberating on whether I wanted to return to the front line of being an IFA or a 9-5 in the financial services sector – neither appealed to me. I always wanted to start my own business. With my advice and technical background, I was presented with two options; start a small advice practice or an outsourced paraplanning business.

In 2015, outsourced paraplanning businesses peppered the industry rather than coated it. Fortunately for me, I was able to quickly establish business with several advice firms who provided me with a regular flow of cases. Selling my years of experience working with HNW clients and complex financial planning scenarios, I formed a bond with boutique wealth managers in the City and 1to1 Paraplanning was positioned as a premium paraplanning service to high flying advisers.

The beauty of working for myself was that I could work from anywhere in the world and this yielded the luxury of working remotely in some warm and sunny European cities whilst incrementally building my reputation and portfolio of wealth management businesses. In the summer of 2018, I was working remotely from Aticco a stunning co-working space in the heart of Barcelona. I'm 99.9% sure I was the only paraplanner amongst designers, developers, and fashion heads. I could see that the freelance movement had reached most sectors in a big way but was this is also true for the UK paraplanning sector?

My research showed it was, so earlier this year I started the UK's first Paraplanning Network with the mission and vision of helping those who want to transition from employed to freelance to do so as easily as possible. Our structure, tried and tested, takes a lot of the stress and anxiety out of this transition and enables freelancers to build successful relationships with advisers which will bear long term fruit.

Overwhelming within 12 weeks of launch, we had over 30 enquiries from existing freelance paraplanners or curious employed paraplanners looking for an alternative work/life balance and a route to market which fulfilled their aspirations.

Being a freelance paraplanner provides a high level of flexibility but it's not without its challenges and advisers today expect a high level of professionalism, compliance and business operations awareness, as well as a secure means of sharing and managing data in line with GDPR requirements. For the newbie freelancer, going to market with a suite of re-drafted suitability templates and Dropbox doesn't fly in the current climate with the kind of firms who are going to be your ticket to a sustainable workflow.

My message to wannabe or newbie self-employed paraplanners is don't go it alone and re-invent the wheel, when you don't have to. It burns a lot of money, earning time and energy in the initial stages and the build, measure and learn loop is a prolonged one before you reach a finely tuned outsourced paraplanning structure.

With 1to1 Paraplanning Network I've set out to equip members with a much stronger paraplanning proposition, solid business processes, a wider market reach and as a result, the ability to build relationships with established wealth management businesses far easier and quicker than possible as a single entity.

In addition, freelancing can be a lonely gig if you haven't interacted with another adult for eight hours. The secondary benefit (primary benefit for some) of being in a network is that members are part of a close community of like-minded people who are all in the same boat and facing similar challenges. We've established a buddy system which is working really well.

It's an exciting time to be in financial services and with the opportunities available, what a time this is to be a paraplanner.

Extract from 'What a time to be a paraplanner'. You can read the full article on ProfessionalParaplanner.co.uk

PERSONAL DRIVE

Samantha Gratton, senior paraplanner at Old Mill, talks to Rob Kingsbury about the impact of recent structural changes at the firm and the benefits when paraplanners are empowered to be self-driven

Samantha Gratton, Fellow of the CII and senior paraplanner at Old Mill, says the recent changes to the firm's wealth management team has seen the operational structure go from a linear one, where the consultants (financial planners) had dedicated paraplanners and administrators, to one which works on a pooled basis. This, she says, has been a "fantastic" move for the firm.

"The consultants continue to be focussed on the end clients, building relationships and bringing in new business, supported by individual client managers, and pooled teams of client service associates (administrators) and paraplanners.

"With the new structure, if someone within the team is away from work for any reason and an urgent item comes in, there is a whole bank of people to call upon. It has also helped to broaden our exposure and experience with the clients we are working for and we are able to share information and discuss best practice more easily as a paraplanning team – I feel like we are really gelling."

One of the benefits for Samantha on a personal level has been a freeing up of some of her time to help train a new paraplanner. "Some of the technical work that I used to do has been divided around the team, which has allowed me to spend time on training sessions. It's been great for me as I've really enjoyed it and I think it's also going to be good for the business as it opens up opportunities for people to develop other skills."

Finding the right fit

Samantha took a Master's degree in Business Studies at Edinburgh University, from where she went to work for 'Top 4' accountancy firm Deloitte as an auditor, going into businesses to audit their processes. "I'm ambitious and dedicated and I thought I'd love the corporate environment," she says, "but after 10 months there I knew it wasn't quite right for me." She moved to Lloyds Banking Group, working at its head office in Edinburgh, which was a small office consisting of the Heads of Division. There she worked with spreadsheets, producing year-end and half-year reporting documents. "The office was full of interesting and dedicated people and I saw how hard some people work," she says. "They would start at 5 o'clock in the morning and go on until after midnight. We all had to put in the extra hours."

After 14 months she decided to move back to her roots in the West Country, joining Old Mill. It has been the right fit for her, as she has been there for nearly nine years. "What I learned from my experience is that while you might think a particular job will suit you, not to worry if it doesn't, because when you are young there is plenty of time and in due course what you learn along the way will help you to find where you fit best."

When she joined Old Mill, Samantha says, it was "a small and ambitious firm", which has since capitalised on its ability to offer financial planning, specialist tax advice and accountancy all under one roof. The firm now has four offices and over 300 people working for it. As part of the recent structural change it brought its different back-office systems together in one system (the first UK firm to do so, it says), enabling it to operate a single client relationship management system across the whole firm.

Samantha says she has benefitted from having the different areas of expertise close to hand within the firm – "it's really helped broaden my technical knowledge".

However, she started at the firm in an admin role, helping with the processing of new business. The year before the firm had set up its own model portfolio service run via the Ascentric platform with approximately £600m under management. It celebrated its 10 year anniversary in 2019. With her love of spreadsheets, Samantha began helping

"Pay attention to detail, take nothing at face value, check and check again and never be afraid to ask questions"

Samantha scooped the Paraplanner of the Year (In-house) award at this year's Professional Paraplanner Awards

in this area. "We do all the dealing and administration in-house, which means we can deal quickly with client needs and queries."

Working in that area, Samantha says, reinforced her auditing training. "Pay attention to detail, take nothing at face value, check and check again and never be afraid to ask questions."

Self-driven

After 18 months with the company Samantha had the opportunity to work for a consultant who was without direct paraplanning support. She began writing letters and undertaking other paraplanning tasks. This was not something she was asked to do by the firm, she says, but rather self-driven through her desire to progress and do more within the firm.

"I am lucky in that as an ambitious, forward-looking company, Old Mill is very open to suggestions and people looking to develop their skills and talent. It's enabled me to first become a paraplanner, and now to take on new areas like training."

She then began working with two of the younger consultants who at the time were paraplanners. "They were very competitive and it was a great atmosphere as they drove each other to do better and I learned a lot about being focussed and the commercial side of the firm." Those consultants are now shareholders and directors with the firm.

A "self-confessed geek, who loves exams", Samantha worked through her qualifications to attain Chartered Financial Planner status, being awarded Best Completion of the Certificate in Financial Planning and a distinction with best AF5 paper along the way.

She is now looking at further exams to take in order to add to her experience. She believes there is scope for paraplanners to become specialists, alongside financial planners. As an example, she says she would like to seek accreditation by the Society of Later Life Advisers. "We have SOLLA accredited consultants and I think having paraplanners who are also formally trained in later life advice could be good for financial planning firms."

In terms of her own self-drive and development, Samantha says that while typically at Old Mill paraplanners do not attend client meetings, the chance opportunity to do so changed her view of the role. It arose when a consultant had an accident and was off work for a period. "It was important that clients continued to be serviced, so where they had already been given the advice, I was able to arrange to meet or follow up with them so they were not left waiting for information and the process could continue."

When the consultant returned to work, Samantha drove him to client meetings. "This really was eye opening. To see the client relaxed at home, surrounded by their photographs, you could better understand what made them tick, and what drives them as people. "I'm someone who likes to provide a 5-Star service, whether that is to the planner, client or Old Mill, and having that opportunity gave me a lot more insight and made me enjoy the job more too."

She urges other paraplanners to meet with clients in this way. "If your firm is one where typically you don't meet clients, ask if you can attend a couple of client meetings, or to help in meetings by explaining the technical aspects to the client. All too often as paraplanners we can become stuck behind our screens. It's a way both of learning by pushing ourselves beyond our comfort zones and it's a reminder of why we do the job – the client."

Growing influence of paraplanners

Samantha believes that the influence of paraplanners is growing and will continue to do so; also that for those that have the drive to do more, there is huge opportunity. "There is no way that everyone can be an expert in everything, so it makes sense for financial planners to focus on the client relationships and winning new business.

"Paraplanners are becoming essential members of the team back in the office checking the technical aspects and helping to develop and review the advice. Also, they are becoming ever more important to businesses and the paraplanning role is being seen as important in its own right not just as part of the route into being a financial planner."

This is particularly so where a firm is delivering holistic financial planning, she says. "Our consultants have to have a strong relationship with their clients to deliver this kind of service. They are helping clients in ways that were not expected before – it's more life coaching."

She believes the market will become tougher in the years to come as online advice companies finally begin making in-roads into the traditional adviser space. "Financial advice firms are going to have to offer something unique and different to attract and keep clients. That is going to need strong paraplanning support so the financial planners can focus on the client and are ready for the opportunities when they get them."

CII BUSINESS FINANCIAL PLANNING

This issue Catriona Standingford, managing director of Brand Financial Training, looks at one of the examinable topics within financial planning for businesses – using a SIPP to buy commercial property

Using a pension is popular with small business owners who wish to buy property to run their businesses from; this is therefore a popular topic tested within the CII Business Financial Planning exams both at diploma and advanced diploma level. In this article we look at how it's done along with the pros and the cons.

First the pension wrapper must offer self-investment; so must be either a self-invested personal pension (SIPP) or a company may have a small self-administered scheme (SSAS). In this article we focus only on SIPPs.

If funds are not currently held within a SIPP they will need to be transferred to a provider who allows property purchase. Once the property has been established, a valuation will be needed and with a 'connected property' confirmation that a fair market value is being paid; where a SIPP is buying property from a connected party or renting it to a connected party, ie the SIPP member's business, the transaction must be carried out on an 'arm's length/commercial basis'.

As well as choosing a SIPP provider, a solicitor will be needed to oversee the purchase, just as with any property purchase, and a valuer will be needed too. Investors may be able to choose their own or the SIPP provider may insist on using services chosen by them.

If the pension fund is not large enough to meet the full cost of the property the SIPP can borrow funds of up to 50% of its assets (less any existing borrowings). The lender must be a bank or a building society and most are more than happy to lend to SIPPs.

Example – if the purchase price of the business premises is £900,000 including costs then the SIPP must have £600,000 of assets – it can borrow 50% of this (£300,000) to make up the £900,000.

Alternatively the fund can be boosted by making further tax-relievable pension contributions (subject to the annual allowance and any carry forward that is available from the previous three tax years) or the purchase could be made jointly by the pension and either the business or the business owner.

As well as choosing a SIPP provider, a solicitor will be needed to oversee the purchase, just as with any property purchase, and a valuer will be needed too

There are various costs to be aware of and the SIPP will need to have some liquidity to cover these (rental payments will help build up a fund for these). Charges include:

- SIPP set up fees, property purchase fees and annual fees
- Fee if taking advice from an IFA
- Property management fees
- Solicitor/valuation/any lender fees
- VAT if applicable
- Stamp duty land tax

These charges will vary but the chosen SIPP provider should be able to give an estimate of costs involved for a specific purchase.

There are many good reasons for a SIPP owning existing business premises (and some risks to be aware of too); let's look at the positives first:

- A significant amount of cash becomes available to the business for other investment
- The potential for capital growth with no capital gains tax
- Where the property is rented a commercial rent must be paid to the SIPP: rent should qualify as an allowable business expense to reduce tax on business profits whilst the rental income received by the SIPP is exempt from income tax
- Rent paid to the SIPP can cover any loan repayments
- The purchase cost is effectively reduced by tax relief on pension contributions
- Rent payments do not impact the annual allowance
- If VAT applies to any purchase the SIPP can be registered to reclaim this
- Property held in the SIPP is protected from creditors
- Property can be handed down the generations tax free if death occurs before 75.

As well as the positives there are a few things to be aware of:

- Costs can be significant; buying the property as well as it being held in the SIPP
- If property is rented to the business of the SIPP owner the rent paid must be on commercial terms and a lease must be drawn up by a solicitor set at market rate
- The value of the property could fall
- Selling commercial property can be a difficult and lengthy process
- It might not be possible to cash in the investment when the owner wants to
- If the only asset in the pension is property, consideration should be given to how any future pension income is provided
- Only holding one asset class in a fund is a high risk strategy; no diversification/ exposed to just one asset class (if the business fails how will this affect future retirement plans?).

Common questions in both the J03 and the AF2 CII papers is how much additional pension contribution is needed to fund a purchase, the rules around pension fund borrowing and the advantages of buying through a pension fund rather than buying directly.

PARA-METERS

Our monthly paraplanner survey tracking trends and topical issues

IN ASSOCIATION WITH LIONTRUST

THE TOP 10 IA SECTORS MOST RESEARCHED BY PARAPLANNERS OVER THE PAST MONTH

1. MIXED INVESTMENT 40-85% SHARES
2. MIXED INVESTMENT 20-60% SHARES
3. MIXED INVESTMENT 0-35% SHARES
4. PERSONAL PENSIONS
5. VOLATILITY MANAGED
6. UK EQUITY INCOME
7. GLOBAL
8. UK ALL COMPANIES
9. NORTH AMERICA
10. FLEXIBLE INVESTMENT

SEVERAL PROPOSALS HAVE BEEN MADE THAT NEW CHANCELLOR OF THE EXCHEQUER SAJID JAVID COULD/SHOULD IMPLEMENT TO IMPROVE PERSONAL FINANCES FOR UK CITIZENS. WE ASKED YOU WHICH YOU AGREED WITH AND WHICH YOU THOUGHT WOULD BE IMPLEMENTED

1. SCRAPPING OF THE ANNUAL ALLOWANCE TAPER

AGREE	65%
DISAGREE	19%
UNSURE	16%
WILL BE IMPLEMENTED	9%
WILL NOT BE IMPLEMENTED	35%
UNSURE	6%

> "We already have the LTA; AA penalises the wrong people"

> "The tax position is too much in favour of HMRC to scrap"

2. SCRAPPING OF THE RESIDENCE NIL RATE BAND (RNRB)

AGREE	24%
DISAGREE	58%
UNSURE	18%
WILL BE IMPLEMENTED	5%
WILL NOT BE IMPLEMENTED	31%
UNSURE	2%

> "This is a fair addition to the NRB as it reflects the property value increases and most people's main asset"

> "Either scrap and up the normal bands for everyone or retain for now"

3. RAISE THE INHERITANCE TAX (IHT) THRESHOLD (TO £1M)

AGREE	61%
DISAGREE	26%
UNSURE	13%
WILL BE IMPLEMENTED	10%
WILL NOT BE IMPLEMENTED	29%
UNSURE	6%

> "Should be raised but will not be implemented as is an 'easy' source of revenue for the Treasury"

> "With the RNRB it will move towards £1m anyway"

4. UPDATE GIFTING ALLOWANCES TO ENCOURAGE THE FLOW OF INTER-GENERATIONAL WEALTH

AGREE	77%
DISAGREE	9%
UNSURE	14%
WILL BE IMPLEMENTED	13%
WILL NOT BE IMPLEMENTED	17%
UNSURE	3%

> "So out of date, they definitely need to be updated… if only by inflation"

> "Easy & overdue way to add slight increases, to assuage voters, but not divide opinion as much as £1m IHT"

Professional Paraplanner
Technical Insight Seminars

REGISTER FOR OUR AUTUMN SEMINARS – EIGHT MORE EVENTS AROUND THE COUNTRY

Over 700 paraplanners have registered for our 15 events this year

JOIN YOUR FELLOW PARAPLANNERS THIS AUTUMN:
Our workshop speakers will be covering areas such as Capacity for Loss, pension regulation and tax, SIPP/SSAS due diligence, behavioural investing, cash management, using FE Analytics, generating income in retirement, cashflow modelling, suitability report writing and peer-to-peer lending, among others.

Dates and venues

Nottingham: The Nottingham Belfry, 11 September
Glasgow: Hilton, 18 September
Edinburgh: The Waldorf Astoria, 19 September
Leeds: Oulton Hall, 2 October
Manchester: The Midland Hotel, 16 October
Reading: Crowne Plaza, 23 October
Bristol: The Aztec, 13 November
Newcastle: Crowne Plaza, 26 November

How to register

To register for our Seminars running from September to November 2019: go to the *Professional Paraplanner* website or use this link: https://www.surveygizmo.com/s3/4701291/TechnicalInsight2019SignUp

SETTING THE STANDARD

Reece Edwards, the first person to pass The Paraplanner Standard™ from Standards International, talked to Fiona Bond about promoting the importance of paraplanning as a career and why firms need to throw their support behind paraplanners

Reece Edwards, paraplanner at Hampshire Hill Group, recently became the first person to pass The Paraplanner Standard™ from Standards International, an accolade he describes as an "honour" and one he hopes will inspire other paraplanners to follow suit.

"It was an honour to become the first person to go through the process. I've seen the hard work that has gone into creating The Paraplanner Standard™ and the passion and drive behind it, so to pass was a proud moment," says Reece.

Launched on 1 May 2018, the new Standard was designed to "recognise and celebrate the pivotal role paraplanning plays in the financial planning business of the future", according to Standards International founder Michelle Hoskins. Through its framework, The Paraplanner Standard™ offers applicants an evaluation of the specific set of skills, principles and behaviours needed to excel in the role.

For Reece, the decision to go through the process was partly inspired by the culture of training and development fostered at Nottingham-based Hampshire Hill. Managing director Richard Hampshire and all of the firm's investment advisers have been awarded Standards International ISO 22222 standard.

Reece explains: "Working at Hampshire Hill made me very aware of the benefits standards offer and piqued my interest in the process as a whole. As the only paraplanner in the business, it was especially important for me to receive that external guidance, insight and knowledge."

Prior to going through the process, Reece volunteered to become part of the Standard's sector committee made up of business owners, employers, financial professionals, practice managers, compliance managers, technical and client administrators and other paraplanners. Reece says: "Seeing the fantastic work that Standards International do first-hand made me realise how beneficial The Paraplanner Standard™ is for our industry. The term paraplanning is so vague and open to interpretation, there is often a misconception that it is just a stepping stone to advice. I'm already Level 4, but I have chosen this as a career because this is where I truly believe I can add value."

"I believe that support and encouragement is vital for paraplanners in general if we are to highlight and promote the importance of paraplanning"

Support network

For Reece, achieving the Standard is not only testament to his commitment to industry best practice, but has provided him with a benchmark to return to, reassess and ensure he is improving. He says the support of Hampshire Hill throughout the entire process, particularly from boss Richard Hampshire, has proved invaluable. While the first year's fees were offered with compliments of Standards International

in return for the role Reece played on the committee, from next year on the Standard will be funded by Hampshire Hill.

Reece says: "I am very lucky that I work for a firm that fully supports personal development and there was never a question about who would pay for the process. The whole team has been incredibly supportive and I believe that support and encouragement is vital for paraplanners in general if we are to highlight and promote the importance of paraplanning."

Reece's involvement in the creation of the Standard as part of the committee meant he was immersed in the various different aspects for a while, but says it took two months of "dedicated, hard work" to achieve the Standard.

There is no set timeline for those who choose to go through the process and according to Reece, the time required will vary from person to person. Paraplanners from firms who have some experience of assessments and have the backing of their wider team will naturally be quicker than those for whom the process is alien, he says.

The bigger picture

The Standard is currently divided into two parts; soft skills and technical. The former is very much a personal assessment, exploring how the paraplanner fits into the firm, their thoughts on their role and what exams they would like to do.

For Reece, the experience of drilling down to his personal traits, skills and views was an eye-opening experience.

"I have a tendency to go with a very broad view on things and the industry as a whole and I felt that Michelle wanted me to focus more on where I personally fit into that picture. However, she is great at putting you at ease and encouraging you to talk about yourself," he says.

In contrast, the technical assessment takes a more structured form, with applicants expected to work through the Standard point-by-point with the assessor. Reece was asked to show evidence of his work in the form of four client files which were thoroughly examined.

"If you put the groundwork in, the whole process is fairly straightforward and it was easier than I had expected," he notes. "The most difficult part would be applying for the Standard starting from scratch. It's taken me five years of building up knowledge and experience to get to the point where I was in a position to pass."

Reece is a staunch advocate of the Standard and would highly recommend it to other paraplanners regardless of their experience. "I don't believe there is currently enough for paraplanners to aspire to and work towards or a benchmark in place which encourages them to continuously improve. A lot of the exams available are geared towards financial advice," he explains. "For those who want to be paraplanners not advisers, the Standard is one of the only things out there that celebrates and promotes paraplanning."

Reece describes the whole process from start to finish as "uplifting" and believes more advisers should encourage their paraplanners to apply, which he says will go a long way to building an industry of robust, knowledgeable and dedicated paraplanners. "If paraplanners have the support and backing of their firm, they can add a hell of a lot of value to the business and I think it is time this was recognised," he adds.

Michelle Hoskin, managing director, Standards International comments:

Reece is an amazing example of what a true professional paraplanner is. His hard work, creative thinking and professional approach to his role is outstanding. As a key influencer in the design of The Paraplanner Standard™ it was a personal pleasure to assess Reece against the professional benchmark of excellence. We are excited to see how he grows to add further value to the profession as he becomes instrumental in changing an industry into a true profession.

SSAS AS A LOAN SOURCE

SSAS offer an often untapped finance source available to clients, says Stephen McPhillips, technical sales director, Dentons Pension Management

A small self administered scheme (SSAS) is an occupational pension scheme established by an employer for the benefit of selected employees – usually some / all of the directors of the employer company. In this respect, it is immediately different from a self invested personal pension (SIPP) because a SIPP is a personal pension scheme and, whilst an employer can, and often does, contribute to it, a SIPP is not created by an employer.

The distinction between SSAS and SIPP is an important one to draw. Not only are the legal structures of the two quite different, but also the ways in which they are regulated differ. SIPPs are regulated by the Financial Conduct Authority (FCA) whilst SSAS are not. SSAS with two or more members are, however, overseen by The Pensions Regulator (TPR).

The differences do not end there. In terms of possible investments, SSAS offers the opportunity to make a loan to the founder (and/or an associated) employer and there are restrictions on certain unquoted shares transactions through a SSAS which do not apply to a SIPP. It is the former investment type which this article will now consider in more detail.

Why might a business seek finance from a SSAS?

There could be a number of reasons why an employer might look to borrow funds from the SSAS in which it has an involvement. For instance, the SSAS may represent a friendly, known and quick source of finance for the business. Contrast this with the business having to approach a commercial lender where the parties are not known to each other at outset. Even if the business approaches its own bankers, the fact that the parties are known to each other might not mean that business borrowing is quick or simple to arrange.

Another reason why a SSAS loan may be attractive is that the interest, which must be paid at a commercial rate, is being received tax-free into the SSAS for the benefit of the members, rather than being paid to a third party lender.

> *There are five key criteria which must be adhered to in order to avoid the loan being treated by HMRC as an unauthorised payment to the borrower. If any of these are not met, then the loan may create unexpected and unwanted tax charges*

What are the requirements for SSAS loans?

There are five key criteria which must be adhered to in order to avoid the loan being treated by HMRC as an unauthorised payment to the borrower. If any of these are not met, then the loan may create unexpected and unwanted tax charges. The five criteria are as follows:

- Maximum amount of loan – 50% of the net asset value of the SSAS, including any existing loans to employers
- Interest rate – at least 1% above the average of six leading high street bank base rates, or some other demonstrably commercial higher rate
- Repayments – equal instalments of capital and interest payments, paid at least quarterly
- Maximum term – five years from the date the loan was advanced
- Security – a First Legal Charge over a suitable asset or assets of at least the equivalent value of the loan plus interest.

How does it work in practice?

Provided that there is suitable security available to cover the loan plus interest, the loan can be arranged quickly and easily by the SSAS trustees and the funds can be lodged with the employer within a matter of a few weeks. The underlying use to which the borrowed monies can be put is much more flexible than it was pre-6 April 2006 and can now include cash-flow requirements of the business. However, care needs to be taken if the borrowed monies are being used to acquire taxable property.

In this instance, the taxable property can only be used for the purposes of the employer's trade, profession or vocation or for the purposes of the employer's administration or management. In addition, the taxable property must not be used or occupied by a member of the SSAS or a connected person.

Usually, the bigger stumbling block relates to the security being offered for the loan. Whilst the security need not be offered by the actual borrower of the money, it can be offered by anyone willing to do so, if it takes the form of an asset which may be worth less than the outstanding loan plus interest at the time of default. Otherwise this could result in unwanted and unexpected tax charges.

Take, for example, a situation where a loan of £100,000 is made to the employer. The employer then, unfortunately, fails, leaving £55,000 loan and interest outstanding. If the asset over which the Legal Charge is taken is only worth, say, £45,000 then an amount of £10,000 may not be recoverable from the employer. If it remains unrecoverable, it becomes an unauthorised payment to the employer and taxed accordingly. If the employer cannot pay the tax charge, it will be passed on to the scheme administrator of the SSAS to pay. All round, this is an undesirable position for the employer, SSAS members and scheme administrator.

Some assets represent greater security than others and have more certainty of value, even in the event of demise of the borrower. For example, a commercial property is likely to retain more value than would be found in the form of shares in the borrower's business, plant and machinery owned by the borrower, intellectual property owned by the borrower, etc. In addition, if the SSAS trustees take possession of any taxable / tangible moveable property in the event of default, these also create unwanted tax charges. It is for this reason that some SSAS administrators restrict the security to property only and nothing else. Hence, a SSAS loan to employer can represent a valuable and previously untapped source of financing for a business, but great care needs to be taken in structuring it.

INTER-GENERATIONAL PLANNING

Pension freedoms have rejuvenated SSAS as a structure to facilitate the passing of wealth down through the generations, says Graham Muir, director, Talbot and Muir

George Osborne's introduction of 'Pensions Freedoms' in the 2015/16 tax year was radical and far reaching and has led to significant behavioural changes amongst clients and their advisers. The ability to extract funds without limitation was, at first sight, thought likely to herald a rush to the showroom of the client's nearest Ferrari or Lamborghini dealer but, whilst some may have pursued their dream car, once the dust settled we started to see a new pattern emerge with many clients looking on their pension pots as a long-term IHT planning tool, enabling assets to cascade down the generations.

Leaving aside the bonanza for 'pension scammers' that followed the introduction of the new freedoms (this warrants a whole article to itself!), one of the most positive outcomes of the 2015 reforms has been the ability for clients to thoroughly rethink the destination of death benefits arising from their pension schemes.

The 2015 freedoms allowed not just dependents but also non-dependents ('nominees') to receive an income from a deceased's pension pot and this opened up many new planning opportunities for adviser firms. Further, the ability to take pension benefits tax free where the deceased died pre age 75 has led to yet more options being available. Finally and on the death of the dependent/nominee, the new rules allowed remaining funds to pass down to a 'successor' who, in turn, might leave residual funds in the pension scheme upon their demise to their successors.

This 'cascading' of pension wealth down the generations is particularly useful where illiquid assets such as commercial property are the principal asset of the pension scheme. Often such properties are tenanted by the client's employer and are a cornerstone to the ongoing viability of that business. For these reasons, pension scheme trustees may not wish to be in a forced sale position to generate death benefits upon the death of a scheme member.

> *Many clients have started looking on their pension pots as a long-term IHT planning tool, enabling assets to cascade down the generations*

Using SSAS

The use of Small Self-Administered Schemes (SSAS), often regarded as the poor relation of Self Invested Personal Pensions (SIPPs), has been rejuvenated as a result of pension freedoms and advisers are increasingly turning to SSASs as the structure of choice to facilitate intergenerational planning.

Unlike a SIPP, the SSAS can accommodate multiple members (up to 11) and therefore lends itself to families looking to provide for several generations 'under one roof'. SSAS trustees can acquire commercial property and lease this to the client's employer on commercial terms. Often a sale and leaseback is undertaken whereby a property asset that currently sits on the balance sheet of the employer is sold to the SSAS trustees at market rate and then leased back to the employer. This generates cashflow for the company and houses an income producing asset within the largely tax free wrapper of the SSAS.

Where commercial property is held within the SSAS at the time of a member's death, it may be possible to maintain this investment whilst providing death benefits to dependents and/or nominees. For example, let's assume a client dies and is survived by their spouse and children who also work in the business and are members of the SSAS. At the time of death the SSAS trustees would revalue their assets (including the property) and determine the value of the deceased's pot. Where the deceased has nominated (via an expression of wishes form) a particular beneficiary (in this case let's assume it is the spouse), the trustees will discuss with the spouse the quantum of the death benefits available to that beneficiary and their options for receiving income and/or lump sums.

Option to defer

If the spouse is already independently wealthy and has no immediate requirement for death benefits from the SSAS, then they can defer the drawing of benefits which will continue to roll up largely tax free within the

SSAS (and outside of the client's estate for IHT purposes) during the period of deferral. If the deceased died pre age 75, then at any stage during their lifetime the surviving spouse could request a tax free payment from the trustees of any amount up to the prevailing value of the deceased's pot.

If the surviving spouse requires income and/or ad hoc 'income payments' from the scheme, then these may be funded either from rental income and/or other (non-property) assets of the scheme, thus not disturbing the property investment. Again, due to death occurring pre age 75, these 'income' payments would also be tax free.

In the extreme and where the spouse requires the entirety of the deceased's pot to be paid out on death, then providing the value of the liquid assets (those other than property) covers the value of the death benefit, the property asset could be retained as a scheme investment for the remainder of the family. Failing this, the trustees could consider taking a loan against the property (limited to 50% of the net asset value of the scheme) to create the required liquidity. Other options to create the required liquidity would include the payment of pension contributions for the remaining members and transferring into the SSAS any other pension benefits built up outside the scheme.

Upon the demise of the surviving spouse, the 'successors' (in this example children) would become beneficiaries of both spouse's residual pots and the taxation treatment of these benefits would be dictated by the age at death of the surviving spouse – if they were also aged below 75 at the time of death, then the benefits would continue to be payable tax free and if death occurred after age 75, then these would be taxable at the successor's highest marginal rate when taken. It is important to note that income tax is only payable by beneficiaries when they receive monies from the SSAS and there is no income tax payable whilst benefits are deferred.

In summary, SSASs provide an excellent, long term, inter-generational tax planning tool and should be actively considered for families looking to secure long-term tax advantages and ensure continuing control of valuable assets such as commercial property.

DIVIDENDS AND DISTRIBUTIONS

Understanding different income streams and their tax treatment opens up tax planning opportunities that paraplanners can use for clients, says Andy Woollon, wealth specialist at Zurich

What is the difference between a distribution and a dividend from a collective fund? It is something of a trick question: a dividend would be a distribution, but the opposite is not necessarily the case.

Payments of income (distributions) from collective funds can take different forms, depending upon the underlying structure of the fund. The same is true for the income automatically reinvested in the accumulation units or shares of funds. Generally speaking, there are three categories of distributions that matter to retail investors in UK authorised funds: interest, dividends and property income distributions (PIDs).

Investors need to be aware of the distinction in a world where the tax treatment of interest, dividend and property income has become increasingly differentiated following the introduction of the dividend allowance and personal savings allowance. Whether income is accumulated (for example, in ACC shares/units) or distributed (in INC shares/units) it remains taxable subject to the different rules for the class of income. Not surprisingly, the existence of three distinct income classes opens up some tax planning opportunities, but also creates pitfalls for the unwary. To see both, it is first necessary to understand the different income streams.

Funds making interest distributions

There has long been fairly simple rule determining whether a fund is paying or accumulating interest or dividends. If an OEIC or unit trust holds more than 60% in cash (other than pending investment), fixed interest securities or related investments (such as derivatives) throughout a distribution period, then its distribution is classed as interest. Since 2017/18 such distributions have been made without the deduction of tax, a corollary of the introduction of the personal savings allowance in 2016/17. Accumulations are also made gross.

When the 60% rule was set, interest rates were much higher than they are today. At the time a fund with 60% or more in fixed interest almost certainly received the bulk of its income from interest-paying securities. In today's world, that may not be true – the UK equity market average yield is about 4.2% while UK government bonds yield less than 2%. In practice the funds most likely to be watching the 60% threshold with care are those in the IA Fixed Investment 20%-60% Shares sector.

> ***Not surprisingly, the existence of three distinct income classes opens up some tax planning opportunities, but also creates pitfalls for the unwary***

Funds paying dividend distributions

With the exception of property authorised investment funds (PAIFs) – see more on these below – if a fund does not meet the 60% test, it will be a dividend paying fund. While UK and overseas dividends pass through such a fund with no UK tax charge, any interest or other income received is subject to a special rate of corporation tax set equal to basic rate tax (20%).

In practice, as expenses can be set against income, the amount of tax levied is likely to be close to or at zero unless the fund is an equity/bond fund with a fixed interest allocation near the 40% ceiling.

Property funds

The majority of directly invested property funds now operate as PAIFs having changed from being dividend paying funds (which had meant a 20% corporation tax charge on rental income). A PAIF distribution potentially has three elements, reflecting the various assets it may hold:

1. Property income distribution (PID), paid out of rental income, normally with reclaimable basic rate tax withheld. Real estate investment trusts (REITs) also pay PIDs. Unfortunately, PIDs cannot be set against the £1,000 property allowance;
2. Dividends (typically from property companies);
3. Interest, which is paid without deduction of tax.

Some property fund managers offer feeder funds which are 100% invested in their PAIFs, but do not themselves count as PAIFs and are therefore taxed as dividend-paying funds. As a result, the rental income is subject to 20% corporation tax within the fund. The planning points that emerge from these classes of distribution can be surprising.

Turning interest into dividends

A higher rate taxpayer has only a £500 personal savings allowance and faces 40% tax on interest above that level. Consider the following example. James is a higher rate taxpayer with no remaining personal savings allowance, but £1,000 of unused dividend allowance. He wants to invest £40,000 split equally between global bonds and global equities. Assuming a 3% yield on bonds and 2% on equities, he can choose between investing £20,000 in a bond fund and £20,000 in an equity fund or £40,000 into a single 50/50 bond/equity mixed fund.

Given that he has dividend allowance available, he can save tax by using a mixed dividend-paying fund rather than holding separate equity and bond funds (see table 1).

1: Turning interest into dividends

	Two separate funds £	Mixed fund £
Interest income	600	600
Fund corporation tax 20%	-	(120)
Personal tax 40%	(240)	0*
Dividend income	400	400
Personal tax	0*	0*
Total net income	760	880

*Covered by dividend allowance

2: Turning dividends into interest

	Two separate funds £	Mixed fund £
Interest Income	3,333	3,333
Personal tax	0*	0*
Dividend income	2,667	2,667
Personal tax 7.5%	(200)	0+
Total net income	5,800	6,000

*Covered by savings rate band
+ Covered by balance of savings rate band personal savings allowance

Turning dividends into interest

The opposite transformation – from dividend to interest – can also be achieved by choosing an interest-paying mixed fund. This could be useful in exploiting the personal savings allowance and/or the rarely used £5,000 0% savings rate band.

Let's use Jane as an example. She has a pension income of £12,500 and dividend income of £2,250. She wants to generate £6,000 of income by investing £200,000 she has just inherited in UK bonds and UK equities, with a two thirds/one third split. Assuming a 2.5% yield on UK bonds and 4% on UK equities, that could mean either investing £133,333 in a bond fund and £66,667 in an equity fund or £200,000 into a bond/equity fund with the same investment split. The mixed fund again has the edge (see table 2).

Turning PIDs into dividends

PIDs are fully taxable as income, not dividends. For higher and additional rate taxpayers who have some dividend allowance remaining, using a PAIF feeder fund is better than opting for a pure PAIF as the effective tax rate will only be 20% (the corporation tax within the fund). Once the dividend allowance is exhausted, the PAIF is preferable.

ISAs and pensions

Ideally, dividend-paying mixed funds should not be used in tax-exempt wrappers because any 20% corporation tax levied on interest within the fund cannot be reclaimed. This is not an issue for interest-paying mixed funds. Internal corporation tax can also be a point to watch for property funds held within a SIPP or ISA. A PAIF feeder fund is best avoided in favour of the pure PAIF. However, some platforms will only offer the feeder variant because they are unable to handle the three streams of income from a PAIF.

After tax allowances

If there is no savings rate band, dividend allowance or personal savings allowance left and ISAs have been maximised, then separation of equities and bonds is the order of the day. Any mixing equities and bonds in a single fund can add to tax liabilities. A dividend received via an interest-paying fund is subject to personal tax at the full rate. For a higher-rate taxpayer, that would mean paying 40% on the dividend instead of 32.5%.

Interest received via a dividend-paying fund suffers 20% corporation tax within the fund and personal dividend tax on the interest. For a higher rate taxpayer that would mean an effective tax rate of 46% (100% - (0.8 x 67.5%)) instead of 40%.

Keeping track of income should not be difficult even though some investors struggle to see why tax still applies to income they do not physically receive, because it is accumulated.

Platforms typically provide income statements six monthly and are required to issue consolidated tax certificates each tax year, which will include accumulated income. It is also usually possible to produce ad hoc income reports, which can help advisers and their clients in tax planning.

The differing treatment of collective income is not widely understood, but just because it exists does not mean it must be exploited. As ever, tax considerations should come at the end of the investment process and not determine the asset mix. To borrow a familiar phrase, don't let the tax tail – however ornate and attractive – wag the investment dog.

TEST YOUR KNOWLEDGE

For *Professional Paraplanner*'s TDQ (Training, Development and Qualifications) pages, we have teamed up with key support providers, such as Brand Financial Training, to provide our readers with the very best in training, development and exam support. We will be providing you with valuable advice and guidance materials to help you achieve your training goals, perfect your exam techniques and test your knowledge of the financial services market. These questions relate to examinable Tax year 19/20, examinable by the CII until 31 August 2020.

1. What does the 'general prohibition' rule within s.19 of the FSMA refer to?

A The fact that intermediaries are generally restricted to certain activities
B It is an offence for someone to carry out a regulated activity unless the person is authorised or exempt
C The FCA will seek to stop unauthorised individuals working within the financial services sector
D The powers granted to the FCA by the FMSA in relation to authorising individuals

2. Why might a new company consider the Alternative Investment Market instead of the London Stock Exchange (LSE)? Tick all that apply.

A If the company capitalisation was in excess of the LSE's criteria
B Fewer formalities required than the LSE
C Lower costs than the LSE
D To allow the company to describe their shares as being 'listed'

3. A fund has an average return of 10% per year with a beta of 1.4. This compares to the return on the market of 6% and the risk-free rate of 1.5%. What is the fund's alpha?

A 2.06%
B 1.8%
C 2.43%
D 2.2%

4. An increase in which of the following economic factors implies a greater ability for a country to repay debt?

A Consumer Prices Index
B Current account deficit
C Per capita income
D Retail Prices Index

5. Immediate need annuities are usually sold as a variation of?

A Compulsory purchase annuities
B All benefits are liable to income tax at her highest marginal rate
C Short term annuities
D Impaired life annuities

6. Individuals reaching State pension age on or after the 6th of April 2016 will receive which of the following State benefits?

A The Basic State Pension
B The New State Pension
C The Second State Pension
D The State Earnings Related Pension

7. Jon and Sam want to move to a new area and buy a house there but property prices are such they don't want to sell their existing house. What sort of arrangement would suit them?

A Let to buy
B Rent and buy
C Buy and rent
D Buy to let

8. Which of the following rules apply to a member in capped drawdown on 5 April 2015? Tick all that apply.

A Benefits can stay in capped drawdown for as long as the member wishes
B The maximum permitted income review frequencies of three /one years were re-set with effect from 6 April 2015
C Maximum income is 150% of the basis amount
D It is not possible to transfer an existing capped drawdown plan into a new capped drawdown plan with another provider
E It is possible to designate additional funds into an existing capped drawdown plan

9. The trustees of a family trust have recently bought a house with trust funds and will allow the beneficiary to live in it as their main residence. For Capital Gains Tax (CGT) purposes HMRC will only allow them to claim the principal private residence exemption on a later sale of the property if:

A The beneficiary has an interest in possession
B Holdover relief was claimed on the transfer of the property to the trust
C The trust is held on a discretionary basis
D The beneficiary has an absolute interest

10. Morag is considering a policy that would enable her to maintain her mortgage payments if she was made redundant. She should be aware that such policies:

A Will reduce the amount of cover available by the amount of any savings she has
B Will prevent her applying for any State benefits
C Can provide any amount of benefit she wants to have
D Will only provide benefits for a maximum of two years

Your answers

1. ☐ 2. ☐☐ 3. ☐ 4. ☐ 5. ☐
6. ☐ 7. ☐ 8. ☐☐☐ 9. ☐ 10. ☐

Answers and cross-references can be found under the Development tab on the Professional Paraplanner website.

Brand Financial Training

Need help with your CII exams? For resources including mock exam papers, calculation workbooks, study notes, audio masterclasses and e-learning videos do visit https://brandft.co.uk

NEW SECTION

THE INVESTMENT COMMITTEE

Introducing a new dedicated section providing information and insight for paraplanners engaged in research into investments and for those contributing to their firm's Investment Committee decisions.

The section will cover key areas from individual funds and alternatives, through to themes and market commentaries. We will be particularly focussed on responsible investing. In coming issues, we will tackle areas such as CIPs, CRPs, and generating income in retirement, amongst others.

Investment Committee events

This section in the magazine will be dovetailed with a series of dedicated investment events. The first will be later this year in London. We will look to take the events out to more locations in 2020. If you are interested in attending the London event or subsequent events next year, please email our events manager louisahooper@researchinfinance.co.uk to register your interest. Further details will be sent to you in due course.

INVESTING TODAY

Looking at the global economic road ahead, should we be making each-way bets rather than going for a win? Darius McDermott, managing director, FundCalibre takes a view

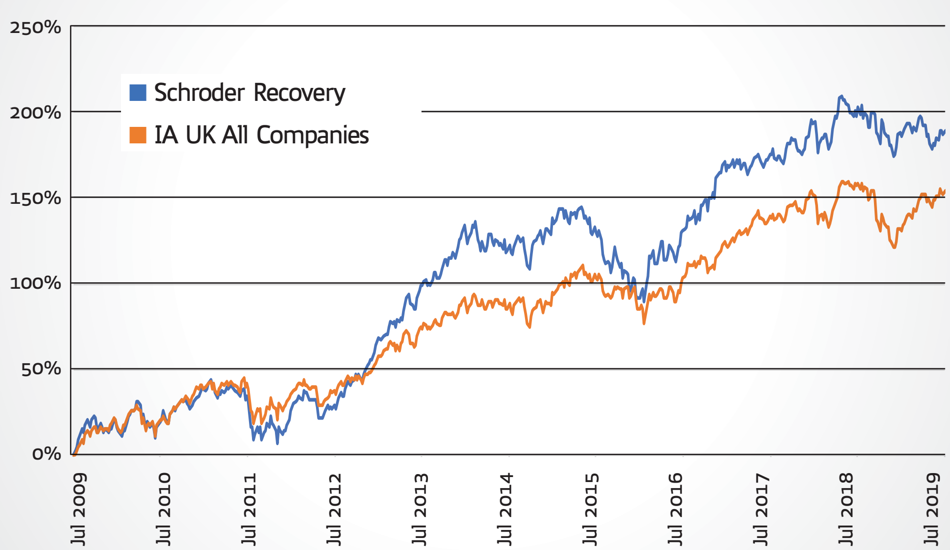
Over the past twelve months, global markets have experienced some wild swings in sentiment. After tanking at the end of 2018 (on the back of trade tensions and worries the Fed would raise interest rates too high and too fast), markets then enjoyed a relief rally in early 2019, as the US central bank became more dovish.

We then saw a brief sell-off, as geopolitical concerns increased, only for markets to bounce again when the US, European and Japanese central banks all signalled their readiness to pre-empt further economic weakness, suppress the potential appreciation of their respective currencies, and keep inflation at a healthy level.

The risk of an outright global recession – at least in the next 12 months – has abated for now. As Fidelity Global Special Situations manager, Jeremy Podger, pointed out recently: "In the past, classic recessions were caused by over-investment and declining industrial returns, but there is no evidence that economies have been adding too much capacity. Indeed, healthy profit margins in many industries are evidence of this."

But we certainly look as though we are heading into a period of synchronised slowdown: global trade data remains soft and cyclical indicators point to waning economic momentum.

SCHRODER RECOVERY 10-YEAR PERFORMANCE



So how to invest at this time?

According to Schroders, the slowdown phase of an economic cycle has historically had considerable implications for the performance of various asset classes. Using the US as a proxy, Schroders says that equity markets not only perform the worst compared to other phases of the business cycle, but also exhibit greater volatility. So while equities may rise, it could be bumpy journey.

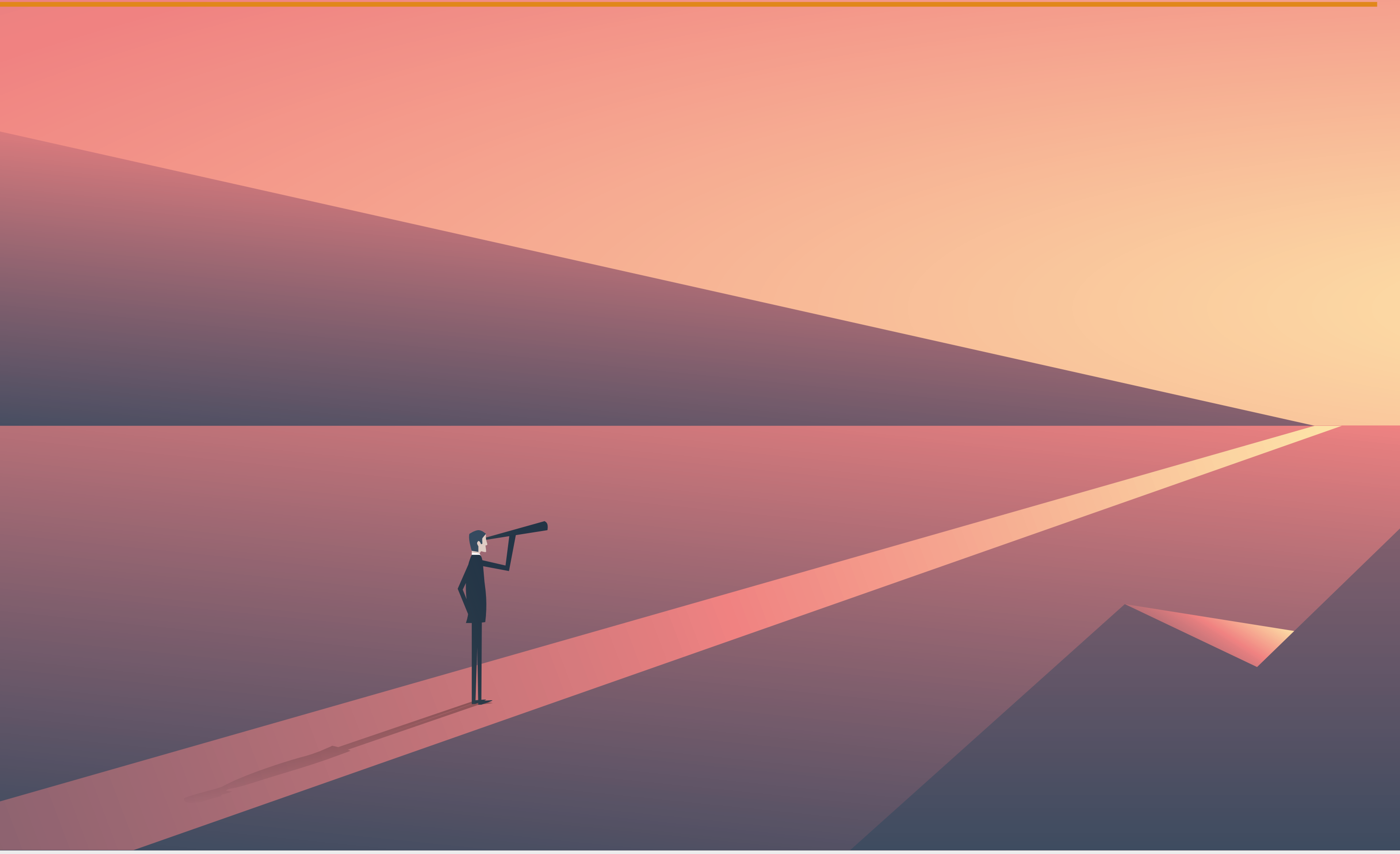
Likewise, periods of slowdown in the past have been the only phase when sovereign bonds out-perform not only equities, but also investment grade and high yield bonds. But can this be the case this time round, when yields are already so low – and negative in the case of European and Japanese government bonds?

Each-way bet rather than the big win

From our own asset allocation point of view, we are quite balanced – we believe there is no point taking big bets when markets are reacting so quickly.

For example, we think it is important to have some exposure to value strategies, even though the style has been out of favour for some time. Growth stocks remain at a premium and, if there is a value rally, the good money will be made in the early days. To illustrate this point, over the past decade Schroder Recovery has returned 189.3%[1] – still managing to outperform the sector average (154.1%[1]), despite the style headwind. But if you look at 2016 – the last time value stocks outperformed – it returned 31.1%[2] in that calendar year alone, compared with a sector average of 10.8%[2].

Obviously, in the UK, we still await a resolution to Brexit – the outcome of which will determine the medium-term outlook for the UK economy. But UK stocks are unloved and cheap. We are concerned about the potential for a bounce-back in sterling, which could



Emerging markets, which have been bruised by a strong US dollar, also look more attractive now the US has cut interest rates – with a big caveat that the trade war does not escalate further

hit overseas holdings, so we also think readdressing any UK and sterling underweight is also important.

Where we have conviction

Japan, like the UK, is very much unloved and therefore better value. But Shinzo Abe, the Japanese leader, was re-elected last year and has another three years to continue with his 'Abenomics' economic stimulus, which has so far been very positive.

And the long-term trends there are very exciting. I met Chisako Hardie, manager of AXA Framlington Japan, recently who spoke in detail about how Corporate Japan has reinvented itself and is in a great place to take advantage of long-term trends – even those the world deems to be negative like its ageing population. Innovative solutions mean good investment opportunities.

Emerging markets, which have been bruised by a strong US dollar in recent years, also look more attractive now the US has cut interest rates – with a big caveat that the trade war does not escalate further. We still have a preference for India, where it too is benefiting from the recent re-election of a pro-business leader. One of our preferred funds in this space is Goldman Sachs India Equity Portfolio.

And, while fixed income started to look more attractive late last year, the expectation of falling US interest rates was subsequently priced into the market very quickly and the attractiveness proved to be fleeting. We prefer the likes of Merian Gold & Silver to add some protection against those central banks getting it wrong...

Because, however we look at it, central bank action will once again be key in the coming months – it is their job to engineer a manageable slowdown that doesn't end in recession.

[1] Source: FE Analytics, total returns in sterling, ten years to 25 July 2019 for the fund at the IA UK All Companies sector.
[2] Source: FE Analytics, total returns in sterling, calendar year 2016 for the fund at the IA UK All Companies sector.
Past performance is not a reliable guide to future returns. Darius's views are his own and do not constitute financial advice.

COMMON SENSE INVESTING

Gary Potter and Rob Burdett of the BMO multi-manager team have been managing funds together for 23 years. Their longevity and success in the market, they say, is down to a common sense, independent and truly whole-of-market approach. Rob Kingsbury spoke to them about their investment ethos

Gary Potter and Rob Burdett, co-heads of the BMO multi-manager team, began working in the industry in the 1980s. They have been working together, along with two other members of the team, Kelly Prior and Paul Green, since 1996. Hence the team members have invested through several market crashes and the global financial crisis. It is a combined wealth of experience that very few asset manager teams can claim to have under their belts.

Since 1996 they have been running multi-manager funds and currently, with BMO, have over £3billion under management. Their experiences over the years have shaped their investment philosophy and led to the development of a method of investment that they describe as taking "a common sense, independent and truly whole-of-market approach".

As Potter and Burdett explain: "We have a very clear vision that we're retail managers managing ordinary investor's hard-earned savings. In the 1987 crash, when the markets fell 35% in two days, we saw first-hand the stress that people felt in their savings. That shaped both of us. We think very hard about the job we have as custodians of the capital entrusted to us, which often is money that cannot be re-earned if it is lost. So, our number one job is to keep the money safe to the best of our abilities, giving savers the benefit of compound interest.

"This year our funds may be second and third quartile, but the return profiles are between 8.5% and 21% (at time of writing). For clients that is great return but in the eyes of the industry we're second and third quartile in the sectors in which we sit. While we need to recognise that so advisers and paraplanners will buy into our funds, we're not managing money for the industry rankings, we're managing money for real people who want it in a safe pair of hands."

The team's investment approach they describe as "traditional, multi-manager fund of funds". It's a philosophy they have held since 1996 and, they say, their fundamental process has not changed over the years. "We are buying fund managers," Potters says. "Fund management is a people business. We don't think there is a right or wrong way of running money – people find the way that works for them. We need to understand that and be the best informed buyer we can be of that product."

They diversify their funds by seeking out the best managers wherever they may be and not imposing a house view or rules on where they invest. "One of our founding ideas was to use a set of flexible principles applied with common sense rather than rigid rules," Burdett explains. "One of the common mistakes we see in multi-manager is where managers impart their own view on a portfolio – expensively.

"We think that the job of the multi-manager is to find great managers and let them run with the money. So we provide an outsourced solution that is a true embodiment of the independent, whole-of-market approach – free of house-style and focussed on the best fund manager talent – which means advisers and paraplanners can use us as such."

The size of their combined funds, with a focus on all managers, also means they are able to access products that are not available directly to advisers and their

Fund ranges

BMO offers two distinct multi-manager fund ranges, with 5 funds in each range. These are the Navigator funds, which Burdett describes as "traditional multi-manager" and includes the Distribution Fund; and the Lifestyle funds, which are risk targeting. "Our job is to offer a suite of products that will meet 95% of clients' objectives and outcomes – which fundamentally are going to be growth and income that is beating inflation and no real shocks," Potter says.

They cite the Distribution Fund as an example of their philosophy of a product "driven by what advised clients need". Launched in October 2007 it is an income focussed product, which sits in the IA Mixed Investment 20%-60% shares sector. It has been built on the managers' ethos of finding the best managers in their respective fields and has generated a yield of around 5% since launch. "If you'd invested £100,000 with the fund just before its first distribution on 30 May 2008, we would have delivered you £57,310 of natural income, with no loss to capital," Potter says.

It may sit down the ranking in the sector "but that is no surprise as it is an income fund with low risk assets," he adds. "What the fund provides for the end client and for adviser firms is the benefits of compounding and low client relationship risk."

clients, such as closed capacity and smaller funds that will not be on typical buy lists.

Fund manager buy-lists, Burdett says, will often require the products to be of a certain size, have a track record and a rating. "All of these have nothing to do with future performance. They are past endorsements or ways that make it easier to invest but they are limiting the independence and potential of that product."

This can lead to funds piling into managers of larger funds, which can lead to liquidity issues, he adds. "There are diseconomies of scale in investment management. It's common sense that smaller funds are easier to run, and most managers will say that. We prefer a large number of small holdings with individually more exciting managers."

Another key advantage of their approach they say, is their ability to buy managers who are in the process of establishing a track record. "In our experience funds often perform best in the early years of their life. Our philosophy of buying people means we can invest in managers who are building their reputations, not living off previous track records," Potter says. "And if you find a good manager you generally want to stay with them, not keep flipping funds over."

Covering adviser costs

Another fundamental principle agreed on when the team came together in 1996, was that the products "had to make sense mathematically", Burdett says. "They have to outperform to cover the costs and make money for the client. Where people need advice, that has to be paid for, and in our view the product should cover that through its net performance."

This is not something they believe the core/satellite approach to investment is set up to achieve, seeing it as "fundamentally flawed", particularly in multi-manager investing.

"Core managers tend to have a target of the index plus one. If they hit that two years out of three, that's not enough to cover manager fees let alone the cost of advice," Burdett says. "Neither can a fully passive portfolio do that against an index. We use active and passive products, there is merit in both, but in our view a product in its entity has to have enough risk and balance to outperform after paying for advice, without taking undue risk with the money."

The team now consists of 10 people and is structured as a limited liability partnership. The bringing on of a defined team is part of the transition process for when the elder statesmen of the group may decide to call it a day. "We are a very strong and inclusive team built around an investment process tried and tested over a 23-year track record."
(l-r) Paul Green, Anthony Willis, Rob Burdett, Wai-Ling Lam, Gary Potter, Adam Norris, Catherine Sauer, Kelly Prior, Scott Spencer (out of picture Rhianna Ford)

Selecting fund managers

By buying managers on their ability to perform going forward, rather than just on their past performance, "which could be luck or judgement or a combination of the two", the team recognises the inherent fallibility of the process, says Burdett. "We are always looking to improve the quality of those decisions. You need good information input, including analysing the performance of the portfolio in many different ways, analysing the underlying holdings, sending questionnaires with carefully crafted questions, using other types of questions when face-to-face – doing the due diligence on a bespoke basis."

They describe their research process as a combination of Art and Science. The Art is understanding the management team, what they believe and do and why, and then to score that against key criteria of fund, business, team and process. The Science involves a forensic overlay.

Potter explains further: "We score managers on qualitative criteria across 16 factors, including size of the assets that they run, whether they are happy in the team they work with, how they are incentivised, how they are motivated, who is the number two, who is the CIO and so on. All 16 factors come into play when we are assessing the quality of the management team running the portfolio.

"It's a dynamic and pragmatic approach. We are constantly reviewing funds and have about 20 per sector waiting in the wings. Because we are willing to invest in new funds we may find something that makes us reassess what we have and whether it is the best for the portfolio. We're always asking, could there be something better?

"What we've seen is that over the years investment has become commoditised and with that has come the trend to buy cheap and to look to the short term. What has been lost along the way is patience. We have the advantage of being able to look long term and to buy managers we feel are going to perform over time.

"Long term, quality managers work. They may be more expensive to buy but if that produces greater net gains than can be achieved by passives and other funds, that is in the investor's better interests."

An important part of the process, he says, "is that we track everything we do to learn from it."

Burdett adds: "With every decision we make, we are trying to stack the risk/reward odds in the investor's favour."

MULTI-CAP AND INCOME

Chris McVey, senior fund manager and lead on the FP Octopus UK Multi-Cap Income fund, explains how the multi-cap approach can offer diversity and dividends

Income investing can be an attractive option for many clients. That's understandable. For those at a point in their life where they need income from their portfolio, the appeal is obvious. Equally, income funds can also be useful for clients who are accumulating wealth, since the compounding of dividend payments can significantly boost returns over time.

But the recent dividend cut by traditional UK equity dividend stalwart, Vodafone serves as a reminder of the potential issues faced by investors with holdings in

companies where the levels of earnings growth is modest, or the level of cover is limited, or in this instance, both.

Clients who are equity income investors can mitigate some of these issues, however, by concerning themselves with two things: that their income portfolio is truly diversified, and that the underlying stocks they hold are in good health, with good levels of dividend cover.

A multi cap approach can help tick both these boxes. Here's how.

A focus on the quality of dividend

When an income fund takes a multi cap approach, a fund manager has more scope to seek out companies that are paying sustainable dividends. That's because many traditional approaches to

To be truly diversified, an investor needs to seek income from outside this small number of large cap companies that the UK equity income sector has traditionally focussed so heavily on

income investing place great emphasis on dividend yield at the expense of other considerations. Of course, dividend yield is an important factor, but it should be recognised that high dividend yields can often mean low dividend cover.

Ideally, when you hold a stock in an income portfolio, you want to be confident that the company can sustain that payment over time. That means seeking a dividend cover of 2.0 or above. This would mean the company has enough profits to cover the dividend pay-out at least twice. As discussed above, traditional income stalwart Vodafone recently announced a cut to its dividend, ending a period of two decades of rising pay-outs. By comparison, in the run up to Vodafone's announcement, its dividend cover was less than 1.0. When we consider that a dividend cover of less than 1.5 would indicate risk of dividend cut, it's little surprise that Vodafone made the decision it did.

Investors need to be aware that this isn't necessarily an isolated case though. Unfortunately, if we take the ten FTSE 100 companies that pay the most to its shareholders, their average dividend cover is less than 1.5. It would appear then, that the sustainability of at least some these dividends is questionable.

Smaller companies can offer faster earnings and dividend growth

What a multi cap approach can also pay greater attention to, is the pace at which a company's dividend has been growing or declining. This is a far better indication of whether a stock is healthy and committed to its shareholders over the long term, when compared to dividend yield. It's also a better indication of whether there is the potential for future dividend increases.

Since a multi cap approach brings the virtues of small and mid-sized companies into play, there's greater opportunity for a fund manager to select businesses that are still fast-growing. Investors do have to recognise that smaller company investing can be higher risk with higher levels of volatility.

But companies with smaller market capitalisation often have faster growing earnings and dividends as a result of being at an earlier stage in their life cycle. Research also shows that over the long-term smaller companies outperform larger companies. By contrast, many of the UK's big dividend payers, by nature of their large capitalisation, have reached a stage where their earnings and dividend growth have slowed significantly.

In fact, the top ten largest dividend generating companies within the FTSE 100, excluding BP and Royal Dutch Shell (since changes in oil prices make their earnings volatile), are expected to see earnings and dividends grow more slowly than the FTSE All Share average over the period from end of 2017 up until 2020.

True diversification

Taking a diversified multi cap approach can also help reduce the level of concentration in a portfolio. Consider that these top ten biggest dividend payers accounted for more than half the dividends paid by FTSE 100 companies in 2018. Now consider that three quarters of traditional UK equity income funds hold these few stocks. What this means, is that no matter how many of these income funds a client holds, significant stock holding concentration remains.

To be truly diversified, an investor needs to seek income from outside this small number of large cap companies that the UK equity income sector has traditionally focussed so heavily on.

So, a client might well want to consider adding other types of income funds to their portfolio to achieve adequate diversification. One way to do this, is through a multi cap income fund that embraces the full breadth of the UK equity market, from smaller companies listed on AIM, right through to the largest dividend-paying companies. By favouring these small and mid-sized companies, a multi cap approach can target predictable income without excluding the benefits that these faster growth smaller companies can add to a client's portfolio.

RESPONSIBLE INVESTOR

The correlation between high-quality, profitable businesses and ethical and environmental sustainability is often pronounced, says David Harrison, manager of the Rathbone Global Sustainability Fund. He describes his investment process to Rob Kingsbury

David Harrison, manager of the Rathbone Global Sustainability Fund, says he looks for two fundamental qualities in a company when researching whether to invest in it or not, how the company is run and its sustainability criteria.

"We look for companies with strong economic moats, i.e. that are well managed and very cash generative; businesses that are going to be around for the long run.

"The other really critical point is whether they walk the walk in terms of sustainability. You see more and more companies talking about ESG, sustainability and SRI, but what we find is that there is a big difference between those that have those badges as a marketing campaign and those that take sustainability seriously, who are living it every day as part of their culture," Harrison says.

What the fund team finds also, he says, is that the relationship between a high-quality business with a strong culture and sustainability is closely interlinked. "Sustainability is how you treat your people; it's how you manage your supply chain. The companies that are strongest in terms of sustainability often have the lowest staff turnover."

Companies focussed on sustainability can enhance their stock performance in two ways, Harrison says. "Firstly, what I see more and more, is companies that think sustainably are opening up new revenue streams – so they are more forward thinking and exploiting top line revenue growth."

But probably more importantly, he adds, "they are reducing that catastrophic tail risk that can destroy trust in a brand and potentially destroy the brand. He points to the incidents with VW and BP as high profile events that have damaged trust in those companies.

"We have a strong understanding of the sustainability criteria of any company we own, and over the long run, we believe those businesses will outperform."

This flies in the face of the association of ethical investing with lower returns for investors. In the past, this was in large part due to the fact that ethical funds simply screened out certain industries like oil and tobacco, i.e. those delivering growth and income for investors in traditional funds.

But, Harrison points out, the Global Sustainability Fund is as much about performance as it is about sustainability. "While it's a sustainability fund it has the characteristics of a global stock picking fund. We are trying to outperform the benchmark and we take a long-term view on the businesses and the sustainability criteria. We find ideas from a bottom-up perspective, stock by stock. We are not a thematic fund. The themes that come out are a result of the in-depth work we do on our stocks."

We have a strong understanding of the sustainability criteria of any company we own, and over the long run, we believe those businesses will outperform

Of 3000+ potential stocks, the fund aims to hold between 30 and 50 of the best companies from anywhere in the world. Currently it is invested in 38. What the fund looks for is "good companies to make better," Harrison explains. "We believe that in terms of our core philosophy that fits what we are trying to achieve. We have the freedom to go and find the best businesses anywhere in the world, whether it be in Europe, the US or Asia, and we have the time as well to really dig down and understand those businesses."

Currently, around 50% of the fund is held in large companies and 40% in mid and small caps.

Three fundamentals

When looking for companies through which the fund can achieve decent returns for investors, Harrison says, it focusses on three fundamentals: the quality of the business and a durable franchise; solutions and impact – are senior management walking the walk when it comes to sustainability?; and corporate culture.

While there are some areas Harrison naturally excludes from the fund, such as oil and gas, mineral extraction and tobacco, the deeper dive ethical screening is undertaken independently of the fund team by well-established ethical research company Rathbone Greenbank. They will undertake analysis on a company and ultimately dictate whether the fund can invest in that company or not.

'When we find a business which is really interesting from a fundamental point of view and the sustainability criteria looks really strong, I will send the idea to Greenbank. They will undertake a deep analysis of the company and have the final call. I can't override that. The Greenbank screening process can uncover things that might not be obvious – for example, something in the supply chain or when we dig into the detail of the management team, how they treat people."

Alongside looking at the senior management team of a business, and whether when planning for the long term, they are thinking about the sustainability of their business, the fund will also look at how the business relates to UN Sustainable Development Goals* (a set of 17 goals including, for example, good health & wellbeing, gender equality, clean water and sanitation, affordable and clean energy).

"What we like to see is when a management team will select several of the UN goals and they will link it back to their core business strategy. We will ask a management team how their business plans over the next five years link to these UN goals. We also ask them to evidence that. The big differentiator is a management team that takes the goals seriously and can evidence that, against a company that is using the goals simply as a marketing ploy."

Company engagement

Also important in minimising risk for the fund is engaging with senior management when buying into a company and on an ongoing basis – "an audit trail of sustainability" as Harrison describes it. "When looking to buy a company, Rathbone Greenbank do the deep dive on the ethical, sustainable side and there might be two or three issues they want clarified. So, before we buy we will speak to the company, and let them know our concerns, the areas on which we would like more clarity. The nature of our engagement is to say, 'these are requirements, can you meet them or evidence them? If not we'll move on'."

Once the company is part of the portfolio, or a potential buy, then monitoring is undertaken on an ongoing basis. "If issues arise, we will speak to the company. We always want to give a company a chance to explain themselves," Harrison says. "We find the companies we contact are really keen to speak to us. We are trying to foster a very long-term relationship. Ultimately we'll be shareholders in their business if we own it so rather than trying to bash them over the head, we take a collaborative approach."

The positive from this type of collaboration is that more and more companies are realising there are benefits to being sustainable. "The more that different shareholders and the asset managers work together, the more powerful it becomes as a catalyst to improve general behaviour."

To this end, the fund publishes on every company in the portfolio that it has engaged with, so all unit holders in the fund know the issues. "It's fully transparent," Harrison says.

Challenges for the fund

If there are challenges for Harrison and his team, they fall into two camps, he says. First is authenticating a company's sustainability credentials. "You don't want to own things that say they are sustainable and they are not, that's one big challenge. The processes we have in place help with identifying the companies we do want to engage with and buy."

The second, is finding good value companies, as the investment world increasingly looks to this area of the market. "We are starting to see the valuations of companies in this area going up because it is a growing industry. We just have to remain very disciplined. We have 38 names we own at the moment, with 20 names on the bench that we could own."

What's important, he says, is not to lose sight of what the fund is trying to do. "It's great if you find the best businesses in the world that are very good on sustainability but not if you then have to pay the wrong price for that business – that is something that we remain very vigilant on.

"As more and more money enters this area that is something we really need to be focussed on. For me those are the two biggest challenges."

You can read more on the Rathbone Global Sustainability Fund on our website: professionalparaplanner.co.uk, including a recent article from David Harrison 'Sustainable Investing – Why ESG just makes sense'

*** You can find out more about the UN Sustainable Development Goals here: https://www.un.org/sustainabledevelopment/**

Sustainable investing philosophy

The Rathbone Global Sustainability Fund investment philosophy follows five key themes:

1. That financial returns are not sacrificed due to ethical constraints;
2. Investment is in high quality companies with durable economic moats;
3. The fund identifies companies with clear commitment to sustainable development, either in the way they operate or the product and services they offer;
4. Focus on sustainable industries; the fund avoids industries that are compromised or cause significant harm;
5. There is engagement with companies to drive change.

Fund Facts

Type: Single-priced OEIC
Launched: July 2018
Size: £4.42m (31/07/19)
Performance: 1 year = 6.3% (05/08/19)
Initial charge: 0%

MiFID II charges

Ongoing Charges Figure as at launch: 0.90%
Transaction costs: 0.13% (est)
Total MiFID II charges: 1.03% (est)
Minimum initial investment: £1,000
Minimum additional investments: £500

The MiFID II charges include the ongoing charges figure (OCF) and transaction costs. PRIIPs compliant. Source: Rathbones and FE

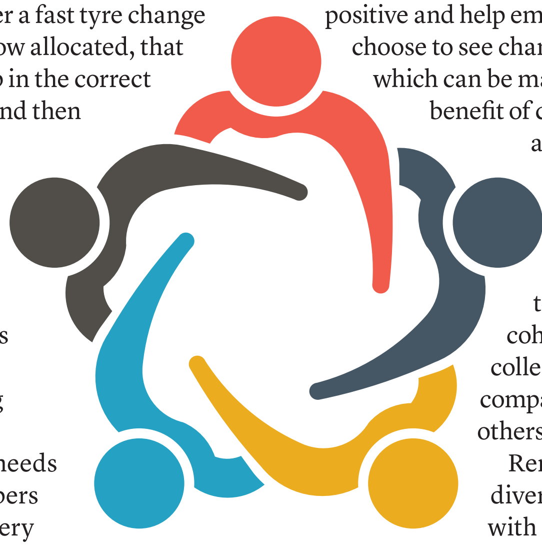
TEAMWORK MAKES A DIFFERENCE

Jacqueline Lockie, head of Financial Planning, CISI, was inspired by how the Mercedes F1 team worked together at the recent Hungarian Grand Prix

I confess to not being a terribly enthusiastic follower of Formula 1 but my husband and son love it. So, we all sat down to watch the Hungarian Grand Prix, the last race before the summer F1 break and whilst it was quite an exciting race, it highlighted some valuable lessons around teamwork for me.

So, let me set the scene... Max Verstappen was in the lead of the race and Lewis Hamilton in second place looking at Max's gear box, driving in disrupted 'dirty' air whilst trying desperately to get past him. My family tell me that overtaking at that particular circuit is extremely difficult; for those of you in the know apparently it's like Monaco but without buildings! So, Lewis was contemplating running the final 30 or so laps behind Max, meanwhile, in the pit lane Max's team were monitoring the car and trying to ensure he stayed in front, whilst Mercedes were trying to plan a route past!

Here's what Mercedes worked out. If they bought Lewis in 20 laps from the end and put him on a fresh set of tyres, he would have to make up one second a lap and then have a chance of passing Max on the final lap, assuming all went well. The plan required real teamwork, someone with the vision, the certainty of the calculations, trust that the pit crew could deliver a fast tyre change in the time window allocated, that Lewis would stop in the correct place in his box and then that he would make up at least one second per lap so that in 19 laps time, he would have fresher tyres than Max and try an overtaking manoeuvre.



Planning this needs trust in all members of the team at every level as well as excellent communication to articulate exactly what needs to happen and when. All those decisions being made and executed at the right time and in the correct order is no mean feat. When this chain of events unfolded every person played their part and trusted their teammates 100%. And, of course, Lewis being Lewis, he made up two seconds on one lap which meant that he could pass Max with relative ease three laps from the end. It made for exciting watching.

Does the team you work in operate with such precision and level of trust? Do you play your part as fully as possible in your team and company's successes?

Your team

So, thinking this through, does the team you work in operate with such precision and level of trust? Do you play your part as fully as possible in your team and company's successes? As many of us have been on holiday, like the F1 teams, now would be a good time to think about how you conduct yourself and the impact you have on your teammates around you as well as the company you work within.

In our profession, change is an everyday occurrence, but you have a choice how you respond to change. Choose to be positive and help embed any change, choose to see change as an opportunity which can be maximised for the benefit of clients, the business and ultimately your professional success. Use change to bring your team together to work more cohesively and commit collectively to share the company's vision and help others around you.

Remember that diversity brings strength with different viewpoints and opinions that should all be considered – no one has the monopoly on the right answers.

Team me

Perhaps, most importantly, see if you can strive to apply these ideas in your personal life too by committing to specific ways that you can obtain a better work/life balance.

Don't forget about 'Team Me' – your own mental and physical wellbeing. 'Team Me' isn't about being selfish, it is about getting the best out of yourself. That might mean getting some alone time, eating a little more healthily, exercising a little more, spending more quality time with your family and friends; above all, celebrating life and your own personal worth. Every person counts.

CONTINUING PROFESSIONAL DEVELOPMENT VERIFICATION TEST

Professional Paraplanner is approved under the Charted Institute for Securities & Investment's CPD accreditation scheme for financial planning to enable paraplanners to accrue CPD points for reading the publication

The amount of credits will be determined by the length of time taken to read the articles within the magazine. Readers requiring Structured CPD points must read the magazine for at least 30 minutes and correctly answer the 10 questions on this page.

Under the CISI CPD Scheme all members must undertake a range of CPD activities in a year to demonstrate that they meet the requirements of the scheme. CPD activities undertaken during the year will fall under the following categories:

- Technical Knowledge
- Ethics
- Professional Standards
- Personal Development
- Practice Management

Members must satisfy themselves that the content is appropriate for their own development when allocating CPD points to their own record. The content will be reviewed on a quarterly basis by the CISI.

Complete and retain a copy of this page from the printed version of the magazine or download the pdf of the page from our digital edition and complete and retain that for CPD compliance purposes.

Professional Paraplanner CPD questions for Structured CPD verification

TDQ (p10-11)
Name one cost of buying a commercial property through a SIPP.

TDQ (p10-11)
Name one risk of buying a commercial property through a SIPP.

Development (p14)
The Paraplanning Standard™ is divided into two parts. What are they?

1.

2.

Pensions (p16)
A SSAS is regulated by the FCA.

☐ True
☐ False

Pensions (p16)
Loans to employers cannot exceed 50% of the SSAS.

☐ True
☐ False

Pensions (p16)
Loans to employers have a maximum term of five years.

☐ True
☐ False

Pensions (p18)
Death benefits from a SSAS can be deferred outside of an estate for IHT purposes.

☐ True
☐ False

Tax (p20)
Name three categories of distributions available to retail investors in UK authorised funds.

1.

2.

3.

Responsible investor (p30)
How many UN Sustainable Development Goals are there?

☐ 15
☐ 17
☐ 19
☐ 21

Data (p34)
The best performing IA sector in July was:

☐ China/Greater China
☐ Global
☐ North America
☐ North American Smaller Companies
☐ Technology & Telecommunications

DATA DOWNLOAD

Monthly facts and figures on investment performance, risk v return, outflows and inflows, and the most analysed areas of the market. Data to 31 July 2019, provided by FE

BEST RATED FUNDS

IA	3 year Cumulative Performance	FE Alpha Manager Rated	FE Crown Fund Rating
TM Cavendish AIM	110.17	✓	5
Morgan Stanley Global Opportunity	88.12	✓	5
Baillie Gifford Global Discovery	86.56	✓	5
T. Rowe Price US Blue Chip Equity in GB	86.18	✓	5
Lindsell Train Global Equity	81.21	✓	5

AIC	3 year Cumulative Performance	FE Alpha Manager Rated	FE Crown Fund Rating
Baillie Gifford Monks IT	100.86	✓	5
Lindsell Train IT	84.87	✓	5
Schroder Asian Total Return	70.13	✓	5
Frostrow Capital - Finsbury Growth & Income	53.49	✓	5
N/A	-		-

BEST PERFORMING FUNDS IN TERMS OF RISK VS RETURN

IA	3 year Cumulative Performance	FE Risk Score
Neptune Global Technology	113.32	157
AXA Framlington Global Technology	110.76	183
TM Cavendish AIM	110.17	119
Polar Capital Global Technology	110.12	173
Baillie Gifford American	102.91	202

AIC	3 year Cumulative Performance	FE Risk Score
Warana Capital Alternative Liquidity	242.42	329
Kubera Cross Border Kubera Cross Border	225.89	313
Leaf Clean Energy Company	213.25	1,583
Allianz Technology	150.97	233
Dunedin Enterprise IT	117.31	214

RISKIEST SECTORS

IA	3 year Cumulative Performance	FE Risk Score
China/Greater China	51.57	167
Japanese Smaller Companies	34.88	144
North American Smaller Companies	55.77	137
Technology & Telecommunications	79.28	135
North America	53.62	124

AIC	3 year Cumulative Performance	FE Risk Score
VCT Specialist: Health & Biotech	7.4	232
Forestry & Timber	-12.98	193
Country Specialists: Latin America	23.75	178
Growth Capital	-9.11	173
Biotechnology & Healthcare	36.86	170

OUTFLOWS

Fund name	Size 1y ago (£m)	Size now (£m)	Performance Effect on Size (£m)	Out (£m)
M&G Optimal Income	23,621.91	3,579.77	-2,480.15	-17,561.99
SLI Global Absolute Return Strategies	17,523.40	8,055.10	204.61	-9,672.91
M&G Global Floating Rate High Yield	4,840.13	662.85	-714.88	-3,462.40
M&G Global Dividend	6,101.63	2,443.45	-503.82	-3,154.36
BNY Mellon Real Return	9,153.21	6,794.90	572.07	-2,930.37

INFLOWS

Fund name	Size 1y ago (£m)	Size now (£m)	Performance Effect on Size (£m)	In (£m)
Royal London Global Equity Diversified	53.83	2,158.83	198.51	1,906.49
Federated Short-Term Sterling Prime	3,500.00	5,100.00	7.78	1,592.22
Vanguard LifeStrategy 60% Equity	4,150.21	6,098.38	358.26	1,589.91
Vanguard FTSE U.K. All Share Index	7,635.48	9,060.68	42.27	1,382.92
TM UBS (UK) Global Balanced	926.22	2,318.21	92.02	1,299.97

FE BE BETTER INFORMED

Data provided by FE

MARKET'S EYE VIEW

Which are the most researched sectors, which the most viewed factsheets and which the most charted funds? FE provides Professional Paraplanner with data for the past month showing where financial adviser and planner firms have been conducting their research.

BEST PERFORMING SECTORS

3 year Cumulative Performance

IA

Technology & Telecommunications	79.28
North American Smaller Companies	55.77
North America	53.62
China/Greater China	51.57
Gloal	42.82

AIC

Technology & Media	113.68
Country Specialist: Europe ex UK	109.73
European Emerging Markets	78.47
Utilities	69.58
Financials	65.29

FE Crown Fund Rating: FE Crown Fund Ratings enable investors to distinguish between funds that are strongly outperforming their benchmark and those that are not. The top 10% of funds will be awarded five FE Crowns, the next 15% receiving four Crowns and each of the remaining three quartiles will be given three, two and one Crown respectively.

MOST RESEARCHED SECTOR

	IA		AIC
1	UK All Companies	1	UK Equity Income
2	Global	2	Global
3	Unclassified	3	VCT Generalist
4	Mixed Investment 20-60% Shares	4	Flexible Investment
5	Mixed Investment 40-85% Shares	5	Infrastructure

MOST VIEWED FACTSHEETS

	IA		AIC
1	Fundsmith Equity	1	Baillie Gifford Scottish Mortgage IT
2	Vanguard LifeStrategy 60% Equity	2	Frostrow Capital Finsbury Growth & Income
3	Lindsell Train UK Equity	3	BMO Commercial Property
4	Vanguard LifeStrategy 40% Equity	4	RIT Capital Partners
5	Lindsell Train Global Equity	5	BMO F&C Investment Trust

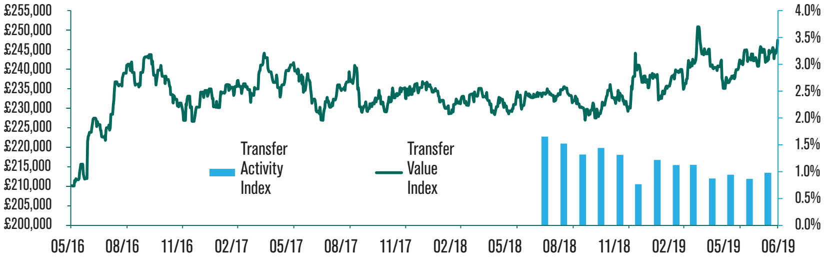
MOST CHARTED

	IA		AIC
1	Vanguard LifeStrategy 60% Equity	1	Baillie Gifford Scottish Mortgage IT
2	Fundsmith Equity	2	Finsbury Growth & Income Trust
3	Vanguard LifeStrategy 40% Equity	3	Lindsell Train IT
4	Vanguard LifeStrategy 80% Equity	4	BMO F&C Investment Trust
5	Vanguard LifeStrategy 100% Equity	5	InfraRed Capital Partners HICL Infrastructure

PENSION TRANSFER VALUE INDEX

XPS PENSIONS GROUP TRANSFER VALUE INDEX: 1 JUNE 2016 – 1 AUGUST 2019

Transfer values rose during July 2019, ending the month at £247,400, from £240,800 at the end of June. The increase was driven by a reduction in gilt yields over the month. The Transfer Activity Index has also seen an increase in the number of transfers processed during July 2019, with an annual equivalent of 0.98% of eligible members, compared to 0.87% in June. However, this remains below the average seen over the last 12 months of 1.13%. The continuing fall in gilt yields is driving transfer values towards record levels but recent slowdowns in life expectancy improvements have stopped the index hitting record levels in July. Despite this, transfer activity appears to be unaffected, remaining relatively stable at an annual rate just below 1%.



Note: The Xafinity Transfer Value index is based on a large pension scheme which invests a significant proportion of its assets in return-generating investments (rather than just investing its assets in Gilts). The index tracks the transfer value that would be provided by this scheme to a member aged 64 who is currently entitled to a pension of £10,000 each year starting at age 65 (increasing each year in line with inflation).

Source: XPS Group