Professional Paraplanner

The magazine for paraplanners and financial technicians

December 2019

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Obtaining fair capital value of pension assets

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Is now the time to rethink clients' exposure?

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Suitability report writing
When engaging with clients it's all about 'you'

Where are they now?

We talk to three Professional Paraplanner cover stars about how their careers have developed since last we spoke to them

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Professional
Paraplanner

EXPERIENCE COUNTS

This month I was talking with paraplanners about graduate schemes and whether paraplanners can be fast-tracked through apprenticeships and training programmes. Those I was talking with believe that while you can fast-track through areas like exams, processes and procedural training, good paraplanners are grown not manufactured. In other words experience and time to develop key skills matters.

Likewise with trainee advisers. One paraplanner said his firm was receiving approaches from graduates who had joined other firms promising to fast-track them into a financial adviser role. They had been put through a one to two year training programme, often including paraplanning, which pushed them to achieve the requisite exams – at which point they were designated as one of the firm's advisers, given a few clients (if they were lucky) and sent out into world to build a client bank. Perhaps not surprisingly many of them (though not all) failed.

The comment was that at age 22-23, while someone may have the qualifications they need to be authorised, they lacked the experience and soft skill training that are so necessary to build rapport with the client and advise them, as well as the sales skills to bring clients in from the cold.

The idea discussed was that while in one to two years you can be trained to be a good salesperson, it can take five years and more to become a good financial planner. This may well be why you need a minimum of five years of 'relevant industry experience' under your belt before you can achieve the Chartered Financial Planner designation.

The problem for the industry, as we know, is that there aren't enough paraplanners to go around. Which means fast-tracking is going to be necessary. It's then how you imbue people with relevant experience to become good paraplanners.

In this issue's Paraplanner Profile, Jonny Stubbs, head of Technical Support at LIFT-Financial, describes how the firm has recently reviewed its financial planner apprenticeship scheme. This is a five-year training programme which used to consist of two years in administration, two years in paraplanning and one year as a trainee adviser. Now they are making the scheme more flexible – graduates will start in administration but will take on paraplanning tasks and receive training in areas such as role play and soft skills, which will help them become better advisers. It will also more quickly identify those who might want to stay as a paraplanners.

I've written before about Para-Sols' fast-track process for their Grad scheme, which puts the graduate with a team of paraplanners so that as they are working their way through the exam process, they are learning on the job, and through listening to and being part of the work going on around them symbiotically gaining experience.

There is no definitive right way to do it but as companies grow and more paraplanners move into management roles, this an issue with which they will have to deal.

Thank you

As this is our last magazine of 2019 I'd like to take the opportunity to thank our contributors, sponsors and advertisers for their support of the publication over the year and you for reading our content in the magazine and on the website, for attending our events and for your comments and suggestions (please keep them coming).

We look forward to bringing you more great quality paraplanner-focussed content and events in 2020.

Rob Kingsbury,
Editor, *Professional Paraplanner*
robkingsbury@researchinfinance.co.uk

TECHNICAL INSIGHT SEMINARS 2020

This year we took the Professional Paraplanner Technical Insight Seminars to 15 venues around the country. It was fantastic to be able to do this – three years ago we had just five events – and to meet so many new faces as a result. Thank you to everyone who gave us feedback on the events – we received some great comments and some excellent ideas for content of future seminars.

Thanks also to everyone who gave me their time at the events to talk about the magazine and the website – you'll see we have already incorporated some of your ideas with the introduction of The Investment Committee section and the 'Guide to...' series of articles.

Our aim in 2020 is to run at least as many seminars again and we will be announcing the dates and locations in the next few weeks. Keep an eye on our daily email and the website for more details. If you don't receive the email and would like to, please use the subscribe link at the top of the website:
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In this issue...

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VIEWPOINT

Suitability report writing: When engaging with clients it's all about 'you', says Dan Atkinson, head of technical at EQ Investors

Have you ever spent hours crafting a beautifully detailed report only for the client not to go ahead? Or perhaps you made an extra effort to use clear language and still nothing came of it? It's not just paraplanners who find this frustrating – advisers do too. So, what can we do to help clients do what has been recommended?

I've just finished reading *Advice That Sticks* by Dr Moira Somers. Those who read this book want to know why people don't follow through with good advice and what to do about it. It turns out that really knowing your client is not just about how much money they have and where they like to go on holiday. Their history with money, friends, immediate causes of stress, and how we interact with them all have a part to play.

Early on in the book she shares the following thought which is really helpful for us as we think about how we can better help our clients. See the box.

It's likely that as paraplanners we won't be able to influence all three areas directly. However, when we write we can certainly pick up on the first two. If we make these clear, then it helps the adviser as they address the last point. It also provides a clear, easy, solid reference point for when the inevitable obstacles crop up to remind the client why they need to stick with the plan.

I think we've all spent time thinking about how we can clearly explain to clients what they need to do to achieve their goals. It might be saving more, using tax wrappers, investing, or taking out protection. Many of the events I've attended over the years have involved sharing about how to write reports.

One of the most important lessons I learnt was that smart people want things put simply. They don't want to be educated to pass an exam in an area they have paid us to help them with – they just want to be able to make an informed decision. Remember your reader has quite possibly been at work all day – would you have the mind space to read a technically brilliant intellectually complex document? So let's focus on clarity and remove unnecessary barriers.

This is a good start but what we really need to develop in our writing is in point one. Having understood our client's motivation, concerns and goals sufficiently to prepare financial advice we need to harness this.

To do this, I think we need to establish at the start of the report that we understand them – not just their circumstances, but how they tick. Personally, I like a slightly more conversational style, but I've seen people do this whilst writing formally. Showing that you (or the adviser) have listened to understand is powerful and one of the best ways is to use the client's own words (or own style of speaking).

The way we now write reports at EQ Investors reflects this desire to communicate that we understand. Our report sections are framed using questions like 'What is important to you?' and 'Why should you do this?'. We have increased the use of the word 'you' to make it clear that this report is all about the client and it connects more directly with them. It's early days, but we think this will help harness our client's motivations, address their concerns better, and enable them to follow through with our advice.

Advice That Sticks by Dr Moira Somers

Giving good advice requires three things of us:

- **That we understand and harness our clients' motivation and concerns;**
- **That we help provide them with clear direction on how to reach their goals;**
- **That we have a plan for dealing with the inevitable obstacles that will crop up along the way.**

UNDERWRITING DIABETES

Obtaining insurance for clients with diabetes is being made easier by improvements in underwriting, explains Helen Dick, senior manager Underwriting and Claims Strategy, Scottish Widows

With cases of diabetes on the rise, access to insurance for those with the condition has never been more important. We know that diabetes is a contributory factor to many serious illnesses and as such has always been a key factor in determining future health.

I asked Dr James McCallum, GP and Associate Medical Director at St John's Hospital Livingston and former Associate Medical Director for Diabetes and Endocrinology in Lothian, about the impact the condition has on wider health.

He said: "Apart from the inconvenience of taking tablets or injections, we know that diabetes significantly increases rates of heart attack, stroke, kidney failure, blindness, sexual dysfunction and abnormalities of pregnancy. Life expectancy is reduced. People with diabetes also spend longer in hospital when they are admitted for other reasons and are more likely to develop other complications. Diabetes remains a huge public health concern."

Two Types of Diabetes

Given it's prevalence amongst the population, it's worth taking a moment to remind ourselves of the facts around the two main types of diabetes to help understand why underwriters need to pay close attention to this condition:

Type 1: This is an autoimmune condition caused by the body attacking the pancreatic cells that produce insulin. Although it can develop at any age it usually presents in childhood/early adulthood. Around 10% of diabetics are Type 1.

Type 2: Here the body either doesn't produce enough insulin to function properly, or the body's cells don't react to insulin. Although there are no lifestyle changes you can make to lower your risk of Type 1 diabetes, Type 2 diabetes is often linked to lifestyle factors with obesity being the main cause. Around 90% of diabetics fall into this category with an extra one million people living with the condition who don't know they have it.

Underwriting philosophy

As more of the population is being diagnosed with diabetes, we've reviewed our underwriting philosophy and acceptance criteria for customers with diabetes. This has resulted in an increased number of customers with diabetes being offered protection cover, and an overall lowering of any additional premiums. This reflects the objectives of the 'Access to Insurance' working group led by my colleague Johnny Timpson, Scottish Widows Protect Technical and Industry Affairs Manager, in making protection cover available and affordable to as many people as possible.

So, what underwriting considerations and improvements have we made?

- **Removal of financial restrictions:** There are now no minimum cover restrictions on applications from diabetics. This will allow us to consider up to nine times as many people for cover than prior to the changes.
- **Underwriting rules:** We have reviewed and upgraded our rules to improve how we assess all customers with diabetes. One specific area of improvement is the removal of cover restrictions when assessing customers who have been diagnosed for a longer period of time. This particularly helps Type 1 diabetics who are likely to have been diagnosed earlier in life.
- **Premium loadings:** Our base rate diabetes loadings have been fully reviewed and have resulted in an overall lowering of any additional premiums that we may apply to a customer's policy.
- **Lifestyle:** We recognise that a healthy lifestyle with regular monitoring helps reduce the risk of further complications such as cardiovascular disease, nerve damage, kidney damage, blindness and so on. We will support a customer's efforts by recognising good control and regular monitoring.
- **Simple journey:** We have simplified our question set by removing complex wording and replacing them with shorter, easier to understand alternatives. We also removed rarely used questions which added little or no benefit.

Increased acceptance rate

Since these changes have been in place we've identified a significant increase in our point of sale acceptance rate. We're delighted that we've been able to open up insurance to so many more people at a time when recent figures from Diabetes UK show that the number of people with diabetes has more than doubled in the last twenty years. There are now almost 3.8 million people living with a diagnosis of the condition with 5.5 million people expected to be affected by 2030*.

With the changes noted above, along with reducing our base rate premium loadings, enable more clients to be able to afford to protect themselves. A speedier and simpler customer journey also makes it easier to guide them through the application.

* Source: www.diabetes.org.uk

WHERE ARE THEY NOW?

For this issue's profile Rob Kingsbury revisited three of our cover stars to see how their careers have progressed since last we spoke with them

Matt Harrison
Paraplanning Manager, The RU Group

When we interviewed Matt Harrison for our October 2016 issue, he was a paraplanner working one-to-one with an adviser at Brown Shipley. Fast forward three years and he is now the Paraplanning Manager at The RU Group, a medium-sized and growing financial advice firm based in Nottingham with offices in Sheffield and Derby, where he is part of a team of 10 paraplanners serving 12 financial advisers.

Just before the interview in 2016, Brown Shipley had acquired Hampton Dean, the firm with which Matt had been for nearly 10 years, working one-to-one with the same adviser for that whole time.

It was partly because of that long standing partnership, he says, that he stayed for three years with Brown Shipley before moving on. But given the more corporate environment and a change to the proposition, he decided it wasn't where he wanted to be, he says. "It was a hard decision to make, to break up a long standing and successful partnership but I started to speak to other companies and I found I had my eyes opened to what was out there and, more importantly, how I could use my skills and experience gained over my career to add value in a new role."

What it particularly highlighted, he says, is his experience. "While I hadn't had a formal management position, over the years I had been gradually taking on more and more training and mentoring as part of my role, while outside of work I was heavily involved with managing and running football and cricket teams. These experiences, I believe had all added to and broadened my skills sets."

So when the position at Russell Ulyatt Financial Services (The RU Group) came to his attention he was keen to pursue it. Five months into the role, he describes it as one of the most challenging of his career to date but also the most satisfying with scope to support in the development and shape of the business.

Management role

Now, while he still undertakes client work and attends client meetings, a large proportion of his day will involve the oversight of the team. "I attend management meetings; I undertake presentations and training. We have also recently changed our back office system to Intelligent Office and our cashflow modelling software to i4C, so I have and will continue to be heavily involved in helping to facilitate these changes. We are also developing an apprenticeship scheme for the company. Something that I am also keen to support."

However, perhaps the most significant part of his role since joining has been working on the restructuring of the paraplanning process to build an improved support proposition. "Coming from outside a company, when you start to follow the workflow and procedures, you can see where there may be gaps and how things could be improved, not just for the business but for the end client," he says.

"The RU procedures were very much task orientated, which meant several people could be working on different aspects of the same client journey. I felt that by restructuring with teams, consisting of a financial adviser, paraplanner and administrator, for example, there would be more continuity and consistency of handling, and therefore, greater engagement and ownership as well as greater job satisfaction for the team members.

"In my experience, the client benefits when there is a good relationship between those three roles in a close-knit structure."

Matt stresses it wasn't that the previous system didn't work, "but I think it is healthy from time to time to challenge the way we operate to see if it can be done more efficiently and more effectively by making some changes."

In the 2016 interview, Matt expressed the view that good paraplanners develop through hard graft and experience and cannot be fast tracked, and that has not changed. "I stick with my view that you need the ability to see the bigger picture, knowing the hard facts as well as the nuances of paraplanning, which is why I believe you need a team working on the client's case."

Matt says he has been revitalised by his move to The RU Group. "It's not until you decide to move outside of your comfort zone and take on a more challenging role that you realise your potential. I feel here that I am able to use my experience and skills learned over 30 years in the industry to add value.

"There are definitely challenges in my new role, in taking on a formal management position as well as working on restructuring the processes and procedures.

They are healthy challenges and ones that I am enjoying. I am someone who stays with a company for a long time, but I am glad I took the decision to look around and I believe I can play a big part in the development of the business. This role is something I can get my teeth into."

Jonny Stubbs
Head of Technical Support, LIFT-Financial Group

"I stick with my view that you need the ability to see the bigger picture, knowing the hard facts as well as the nuances of paraplanning, which is why I believe you need a team working on the client's case"

In March 2018 Jonny Stubbs had just taken on the role of head of Technical Support at the LIFT-Financial Group, "my first proper management position", tasked with growing and developing the in-house paraplanning team. At the time the team consisted of five paraplanners, including Jonny; since then, largely through external recruitment, the team has grown to nine, which he describes as "about right". From now on, he hopes to build the team through internal development.

The firm, which is based in Altrincham in Cheshire and primarily deals with high net worth clients, including professional sportspeople, has been running a graduate training scheme for seven years to bring on its own paraplanners and advisers. Jonny explains that the firm has just reviewed the scheme to make it more effective for the business. "It was a five-year programme where typically the graduate spent two years as an administrator, two years as a paraplanner and a year as a trainee adviser, before becoming a fully-fledged financial planner. We're changing that format to make the process more flexible with a view to introducing the graduates to the various aspects of the overall role sooner. So they may be working in admin but they may also be doing some basic report writing. It means they will be learning more, faster.

"We're also introducing specific training outside of the core work, such as role playing, technical, file review, compliance and suitability assessment training. It's fast tracking them to where they can have greatest effect in the business.

"It is still a five-year programme," he adds, "because we want our advisers to be chartered when they see clients, but it's also about building their experience. We want them to know every aspect of the financial advice process, including working with them on the softer skills they will need to do the job in the right way."

Currently, the firm has around 90 employees, including 17 graduates in the scheme. "That's a big investment from us and I don't know of any other financial planning business, outside of networks and nationals, that has committed so much to bringing new people into the industry."

Changing role

When Jonny joined the firm he stepped into a newly created role, which, unsurprisingly, has developed in the interim period. "A big part of my job has been creating the larger team as well as an environment where paraplanners want to stay." In addition, he has taken on the running of the firm's transfer servicing team, the admin unit focused on obtaining data from providers in order to effect pension transfers. "It's a technical administration team of seven, including a team leader."

Project work also has been a significant part of the role. Major projects have been redesigning the Client Review process – "What we wanted to do is make the entire process pro-active, so the advice team has the full picture of the client in front of them as early as possible" – and development of the firm's Centralised Retirement Proposition (CRP) – "It's a means to document the processes to show that as a firm we acknowledge that difference and the relevant risks involved and that there are formal procedures in place," he says.

Original goals

One of Jonny's goals in March 2018 was to put together a style guide for the paraplanning team. This has grown into a more formal procedures document, stating how the paraplanning team works, setting down the approach to research, analysis and report writing, etc, and setting out standards in terms of style, grammar and punctuation.

"The structural change work I've been involved with has taken precedent over the past 18 months so this has been a work in progress," Jonny says. "But it's needed because every firm does things differently and things change, so you need to have something written down for people to refer to."

Another goal in 2018 was to try to use technology to make the paraplanning process more efficient. "This is another work in progress but we've been able to make small day-to-day improvements, for example, using templates in Intelligent Office and pulling in data from the back office which saves keying in that data to a suitability report. We're also lucky to have a couple of guys who are wizards with Excel and they have put together some really clever spreadsheets which have helped us automate things like MiFID II charges, fund research and so on."

He also wanted to have the firm's paraplanners work more on a one-to-one basis with the advisers. "There is an ongoing debate in paraplanning circles, whether one-to-one or a pooled paraplanning approach works best. We are now almost one-to-one with all our core advisers but we also operate a pooled approach for overflow work or where an adviser's workload doesn't need that full-time support. I think the one-to-one approach helps build good working relationship between the paraplanner and the adviser but I also like the pooled approach because of the flexibility it gives me within the team when we need it. Having built up the bigger paraplanning team we are now able to do that."

Farida Hassanali
Financial Planner, Paradigm Norton

Farida was profiled in our September 2016 issue. At the time she was working for UBS Wealth Management, where she had been for 10 months. When we caught up with her for the current issue, she was 15 days into a new role as financial planner at financial planning firm Paradigm Norton. This new role is a hybrid one, where she is undertaking paraplanning but will also be CF30 to enable her to advise clients on her own in due course. "I feel that a hybrid role is more suitable for me as there isn't the sales pressure and, being a cautious person, this has always been something I want to avoid."

Farida began the training to become client facing whilst at UBS, where client advisers owned the client relationship and dealt with all of the investments. Financial Planners (paraplanners) would attend the meetings to provide advice on other aspects of a client's planning needs. Ultimately, the idea was that paraplanners became fully-fledged financial planners. UBS provided development training including one-to-one role play to help ease people into the adviser role. "They provided a lot of support so that when you did move into advising you would feel comfortable in the role," Farida says.

After two-and-a half-years with UBS Farida moved to Jarrovian Wealth, a start-up financial planning firm that had been in operation for under a year. "The proposition was really interesting and there was a focus on technology to help ease the administration burden and make the business much more scalable," she says.

However, being a smaller company, she moved straight into an advisory role. "Although it was a fairly new company the owners had a steady stream of clients from existing client banks along with professional connections and referrals so again, there was no immediate sales pressure on me to or hit targets, I could concentrate on providing the best advice for the clients of the firm."

Another attraction of the firm, she says, was that she was able to be involved in so many other areas of the business. "I was on the Investment Committee, I chaired the Product and Providers Panel Committee, I created panels for VCT/EIS advice along with being able to have input into various other parts of the business. You really had to muck in and get involved and that was great. I was also involved in creating the investment proposition, seeing the entire process. I learned so much from that."

However, that involvement across the board also turned out to be a negative of the role for Farida. "What it did was make me realise what I really wanted was to do financial planning well and to have the ability to focus on the client experience," she says. "I really love financial planning and being able to help people better manage their money to achieve what they want to in life. So I decided I wanted to find a home where I could focus on just that."

This she feels she has found at Paradigm Norton. "The culture really attracted me to the company. From the start of the interview process and through all the interactions, I quickly started to feel like part of the team.

"It's a firm that feels like it really looks after its staff. For example, they have a monthly refresher day. It's a day in addition to your standard holiday, which you can take off to do with what you like. You have to take it during the month or you lose it. It means that at any time you are only a few weeks away from a day off. Psychologically that is a great perk.

"Also, if anyone doesn't take the day it's a trigger for the company to ask why and make sure the person is not overloaded with work."

While financial planner at Paradigm Norton is a paraplanner role, Farida will be authorised to give advice and she will attend all client meetings so clients have a dual point of contact at the firm. "I will start meeting clients this way and then my role can grow organically into an advisory one," she explains.

"I think a lot of paraplanners can be wary of moving into an advisory role especially where they get thrown in at the deep end. If I am going to be sitting in front of a client definitively saying, 'you should do this', I want to know that is correct. Having the qualifications is one thing but advising is a different skill set. That is where I will be honing my experience and skills in an evolving process."

Asked whether she will step fully away from paraplanning into a full-time advisory role, she says: "My answer is definitely, maybe".

"I know and enjoy paraplanning and I hope I do it well. I also enjoy client interaction. So for the moment this role, where I get to interact with clients as well as the research, is perfect for me. But as I grow in confidence and start to do more in client meetings, I will be able to start to lead that client relationship. So I think, it will be a matter of watch this space.

"Ultimately, I just want to help; it's about the end client for me."

You can read more from our interviews for this issue with Matt, Jonny and Farida on the Professional Paraplanner website

ISA MILLIONAIRES

We might all like to be an ISA millionaire but with it can come a range of financial planning headaches, says John Humphreys, Inheritance Tax Specialist, WAY Investment Services

Who wouldn't want to be an ISA millionaire? Over the past few years a growing number of stories have appeared of people lucky enough to have joined the club. Well, luck is only part of it, because this group have saved and invested regularly and diligently, and their efforts have paid off. They should be understandably pleased.

The trouble is, holding £1 million in ISAs is not necessarily the most sound of financial strategies. ISAs are undoubtedly a core part of sensible financial planning – providing a tax-efficient way to save with an enormous choice of investments available and a generous annual allowance. But investors must remember that tax-efficient is not the same as tax-free. Once ISAs start getting to a certain size there is another side to their story, and clients may need reminding that their £1 million ISA could generate a £400,000 Inheritance Tax (IHT) bill.

ISA millionaire profile

Let's consider the profile of the typical ISA millionaire. On average, they would be expected to be older rather than younger, diligent and organised with their finances, and either a savvy investor or have received sound investment advice. How else could they have reached the million-pound milestone with a tax wrapper with a current annual limit of £20,000. Given that they have £1 million in ISAs, it might be reasonable to assume they also own a property, and it seems unlikely they would still have a mortgage of any substantial size.

As an example, let's consider a married couple who fit this profile, are both age 65 and own a mortgage-free home worth £500,000. Let's assume they have no other property, cars worth £30,000, household contents of £40,000 and £50,000 in their bank account. This brings the total value of their estate to £1,620,000. Their available combined nil rate band (NRB) for IHT is £650,000. If they have children or grandchildren they may also have a combined Residence Nil-Rate Band (RNRB) of £300,000, leading to a current IHT liability of £268,000. Assuming asset growth of 5% per year and IHT allowance increases of 2% a year after 2021, in 10 years' time they could face an IHT liability of £627,847 (see table).

It's worth remembering that people without children or grandchildren will have a higher IHT liability because they won't be able to use the RNRB, and also that the RNRB tapers off for people with estates worth more than £2 million. In this example, if our couple were childless their IHT liability would be £388,000 today and could be £745,223 in ten years' time.

The first question might be whether our ISA millionaire couple are aware of all this, and the second whether they might want to consider options that could reduce the size of the bill?

Using pensions

If they do indeed want to think about alternatives, they might start with

pensions. But given how diligent they have been with ISAs, they might well have already exhausted this option by reaching their lifetime allowance. If they haven't, they could make a gross contribution of 100% of their earnings in the tax year, up to a maximum of £40,000. But as they are 65-year-old millionaires, they might have already retired in which case their maximum contribution would be limited to just £3,600.

We are now approaching an election on 12 December. The parties vying for power have very different views on IHT, although its total abolition seems unlikely

Using trusts

Another option is moving some of their ISA holdings into Trusts. Let's consider the situation if they had each encashed £662,000 of their £1 million ISA and then gifted £331,000 each via a flexible, interest-in-possession trust – this amount being equal to their respective NRBs and unused Annual Gift Exemptions for the current and previous tax year. The gifts into trust are immediately outside of the calculations for RNRB purposes, reducing their IHT liability in seven years to just £3,200, based on today's estate value (see table). Investment growth from the trusts would be immediately outside of their estate for IHT purposes, and seven years later the full value of both trusts would be outside of their estates too.

Using the same assumptions as before, in 10 years' time their IHT liability could have increased again to £146,406. However, they could use their respective NRBs again in seven years' time. They also potentially have the life expectancy, on average, to recycle their NRB's a third time during lifetime (if necessary) and still have their NRBs returned for use on their demise. Trusts may be subject to Capital Gains Tax, but only if the relevant allowances were exceeded.

AIM shares

Some clients may be interested in transferring to an AIM ISA, but a note of caution. By definition, AIM shares are higher risk investments and should only be considered for those people with the appropriate appetite and tolerance for such risk. The investments would need to be held at death (which could be decades later) for any IHT exemption to apply – and there are umpteen reasons why such high-risk investments may not be held continuously for such a potentially long period of time. In addition, as the investor still 'owns' the investment (unlike with gifting), investments in an AIM ISA always form part of the estate for the calculation of the RNRB, so this valuable exemption could be lost.

Planning ahead

In practice, reaching £1 million is arguably too late a trigger point to consider the IHT implications of an ISA. Depending what other assets and liabilities a client has, it may be appropriate to start considering alternative strategies when ISA wealth reaches, say £500,000. Retirement is a natural trigger point to consider IHT, and therefore ISAs – but in fact any discussions about IHT should also involve questions about ISAs, and the sooner the better.

A word on politics. We are now approaching an an election on 12 December. The parties vying for power have very different views on IHT, although its total abolition seems unlikely. There is no indication of any significant changes to ISAs either. In the meantime, plans can only ever be made based on today's rules – and today's ISA millionaires are more than likely to have a potential IHT liability and be of an age when they should be aware of it.

The message is simple. To the growing number of lucky people with ISA pots worth £1 million – congratulations. It may now be time to think about making new plans, and even those with less than £1m should be made aware of the IHT risk.

Potential IHT liability of example ISA millionaires

Assets	Married couple with children	Married couple with children, £662,000 moved from ISAs to Trust
ISAs	£1,000,000	£338,000
Property	£500,000	£500,000
Cars	£30,000	£30,000
Household contents	£40,000	£40,000
Cash in bank account	£50,000	£50,000
Liabilities	£0	£0
Total Net assets	£1,620,000	£958,000
Less current NRB	- £650,000	- £650,000
Less RNRB	- £300,000	- £300,000
Amount chargeable to IHT	£670,000	£8,000
IHT liability in seven years, based on current estate value	£268,000	£3,200
Potential IHT liability in 10 years' time*	£627,847	£146,406

* Assuming asset growth of 5% per year and IHT allowance increases of 2% a year after 2021.
Source: WAY Investment Services Inheritance Tax Calculator, https://inheritancetaxcalculator.wayinvestments.co.uk

SELF-ASSESSMENT: TIMESCALES AND FINES

Self-assessment dates and fines imposed may seem like a fairly straightforward piece of knowledge but that is why they are often forgotten and exam marks are lost, says Catriona Standingford, managing director, Brand Financial Training. Exams include the CII's R03 and AF1

As the end of 2019 looms, many will be aware of the impending end of January deadline for those that return their tax return online. The filing date is the 31 January following the tax year so 31 January 2020 relates to tax year 2018/19. There are three relevant payment dates; two payments on account (31 January in the tax year and 31 July after the end of the tax year) and one balancing payment due the following 31 January. So for the tax year 2018/19 the payment dates would be:

- 31 January 2019 (first payment on account)
- 31 July 2019 (second payment on account)
- 31 January 2020 (balancing payment for 2018/19 AND first payment on account for 2019/20 plus, where applicable, class 2 National Insurance Contributions and any capital gains tax).

According to HMRC 700,000 taxpayers missed the deadline in January 2019 to file their tax return for the 2017/18 tax year. There are of course consequences; the first is a £100 fine. If the return is not submitted within the next three months, a £10 daily penalty is charged for a maximum of 90 days – that's potentially another £900 on top of the fine. Even if the taxpayer doesn't actually owe any tax these fines still apply. If the return still doesn't appear 6 months later there's a further penalty of either £300 or 5% of the outstanding amount of tax, whichever is the higher. The same happens if the tax return is more than 12 months late.

As for the tax payment itself, interest is automatically charged on late and underpayments. As mentioned, penalties are charged if tax remains unpaid after certain time periods after the balancing payment is due on the 31 January – so for 2018/19 a 5% penalty will be charged on the 2 March 2020, again on 1 August 2020 and again on 1 February 2021 if the tax still remains unpaid by then. Interest is also levied if a claim is made to reduce payment on accounts which later turn out to be unjustified, and penalties are also incurred for failing to keep records and documents needed to fill in a tax return.

According to HMRC 700,000 taxpayers missed the deadline in January 2019 to file their tax return for the 2017/18 tax year. There are of course consequences; the first is a £100 fine

Reasonable excuses

These are the published penalties but HMRC does appear to be taking a kinder stance if the individual has a 'reasonable excuse' for a return or payment being late.

Examples HMRC give as 'reasonable excuses' include:

- A partner or close relative dies shortly before the return or payment deadline
- An unexpected hospital stay
- A serious or life threatening illness
- Computer or software failure just before or whilst preparing an online return
- Service issues with HMRC online
- Fire, flood or theft
- Postal delays that couldn't have been predicted
- Delays related to a disability.

The return or payment must be sent as soon as possible after the 'reasonable excuse' is resolved. What won't count as a 'reasonable excuse' include:

- Reliance on someone else to send in a return who failed to do so
- A bounced cheque or payment failure because of insufficient funds
- The HMRC online system was too difficult to use
- No reminder from HMRC
- A mistake was made on the return.

And definitely not these (although these are the funniest excuses revealed by HMRC):

- 'I'm too short to reach the postbox'
- 'My boiler broke down and my fingers were too cold to type'.

HMRC says 93.68% of self- assessment tax returns were completed by the midnight deadline on 31 January 2019. However, those 700,000 who missed it may now be regretting not getting on top of it in time.

CII exam papers

Brand Financial Training provides a variety of free and paid learning resources to help candidates pass their CII exams.
Visit Brand Financial Training at https://brandft.co.uk

guide to...

PURCHASING PROPERTY WITHIN A SIPP

We continue our new series of articles providing guides to key subjects, which we hope will be of use to people new to paraplanning as well as those looking to keep up-to-date up on their knowledge.

In this article, Greg Kingston, group communications director, Curtis Banks, looks at some of the key considerations and steps to be taken when considering property purchase within a SIPP

There are a number of considerations when investing in commercial property for a client with a self invested personal pension (SIPP). There are the tax advantages due to the growth in the property value being free from Capital Gains Tax and the rental income into the SIPP is also tax free.

But buying and managing property can be a complicated and expensive process and it is important that the client works with you and the SIPP operator to ensure everything is managed in accordance with HMRC requirements and the terms of the lease. Below are some of the key considerations and steps that need to be made when purchasing a property within a SIPP for a client.

THE PROPERTY

One of the first considerations is if the property can be held within a SIPP. Subject to due diligence, a client can hold any commercial property be it freehold, leasehold or commonhold. This can range from shops, land, industrial units, leisure facilities, hotels and business offices.

Clients often ask if they can invest in residential property using their SIPP. The general rule of thumb is no. But, some residential property may be allowed if used in conjunction with a commercial property, also owned by the SIPP (or being acquired simultaneously) for employment or business purposes, like a caretaker's home, and is occupied by an employee who is unconnected to the tenant company, and unconnected to the client.. There will also need to be a Contract of Employment in place between the employee and the tenant company, outlining that it is a condition of their employment that they must reside in the property in order to undertake their job responsibilities.

In general terms, properties that wouldn't be accepted by a SIPP operator include overseas property, those benefiting from aggregated income such as hotel rooms and storage pods, property that is considered taxable under HMRC regulations such as holiday apartments, beach huts, and caravans (or any property capable of being used as a dwelling).

HOW CAN IT BE PURCHASED?

There are a number of flexible options in which clients can invest in property, either on an individual basis, a group purchase or a joint title ownership structure where another party holds an interest in a property, alongside a SIPP(s).

FUNDING THE PURCHASE

There are three key ways to fund the purchase of a commercial property.

- **Transfers** Cash or in-specie transfers from other pension plans. In specie transfers are where the investments are transferred without selling them; for in specie transfers of property there will be no Stamp Duty Land Tax payable on the transaction.
- **Contributions** Regular or single contributions may be paid by the client, a third party or an employer, subject to standard regulations.
- **Borrowing** A SIPP can borrow up to 50% of its net fund value, less any existing liabilities. The ability to borrow does not cease when benefits are being paid from the SIPP; it can be put in place at any time for the purpose of purchasing or developing property should there be sufficient borrowing capacity. The income generated from the property must be sufficient to fund all the liabilities associated with the property.

CONSIDER THE VAT POSITION

In certain circumstances the purchase of a property may be subject to VAT. When a SIPP operator buys a property which the seller has already elected for VAT, VAT may be payable on the purchase price. Generally, the VAT can be recovered (assuming the property tenant is not VAT exempt) but it will require funding from the client's SIPP until it

is reclaimed. If required, VAT can be funded by SIPP borrowing. Any borrowing taken cannot exceed 50% of the value of the SIPP.

MANAGING THE PROPERTY

The SIPP operator will most likely manage the property on behalf of the clients. They will do everything from setting up and maintaining the SIPP property records, managing the property bank account, arranging and renewing the property insurance through to paying the bills (including loan repayments), collecting rent, arranging rent reviews, lease renewals and lease end procedures.

THE PROCESS ITSELF

Every property transaction is different and the time it takes to complete is dependent upon many factors. The first step will be the completion of a property form or equivalent document that collects all of the information the SIPP operator will need to start the transaction. Once complete they will then be able to instruct the relevant third parties.

With the purchase of commercial property, there can be unforeseen issues that arise that would need to be addressed before the SIPP operator could proceed with completing the property purchase. There can be multiple parties involved in a transaction, including solicitors, valuers, lenders and accountants, and therefore providing estimated timescales is difficult.

CHOOSING THE THIRD PARTIES

Third party suppliers are needed throughout the life of a SIPP, some are mandatory, some regulatory and others discretionary, but ultimately choosing the right suppliers can influence the performance of the property investment. It is likely that the adviser and client will need to choose professionals such as a:

- Solicitor
- Valuer
- Insurance provider

LETTING THE PROPERTY

The main reason clients look to purchase a commercial property is to let it to their own business or another tenant. To do this there must be a formal tenancy agreement such as a lease. This will set out the obligations of the tenant and the SIPP operator as the landlord. Some SIPP providers require, that the property must have what is known as a Full Repairing and Insuring (FRI) lease which will protect the client's SIPP from liabilities that may arise in connection with possession and upkeep of the property, i.e. the tenant will be solely responsible for maintaining the property and complying with all relevant statutory obligations.

COLLECTING THE RENT

The client may choose to let the property as a whole to a single tenant or, if the property is capable of being divided into parts, to multiple tenants. Requirements differ depending on the type of tenant; if there is a connected tenant a valuer must be involved to advise on the salient lease terms (i.e. duration, annual rent and rent reviews).

Some SIPP operators will allow the acquisition of vacant property but advisers will encourage clients to ensure the property is let so that the SIPP can benefit from the rental income stream.

If the property becomes vacant it is important there is sufficient liquidity within the SIPP to ensure that ongoing costs are met. Likely costs include insurance, third party and SIPP fees and, where applicable, service charges, business rates and loan payments.

DEVELOPMENTS AND RENOVATIONS

It is principally possible to construct, develop or renovate property within a SIPP, using the funds from the invested SIPP(s) or arrange borrowing to do so. In order to assess the acceptability of any type of development works, the following will need to be obtained and considered before any works can be initiated:

- A qualified valuer to confirm which party should pay for the cost of the works (i.e. landlord or tenant)
- Appropriate planning permission needs to be obtained
- Evidence of more than one quotation for the work to ensure that a fair price is paid for the cost of the works
- If the tenant is connected, advice will be required from a RICS qualified valuer as to whether the lease terms would be affected by completion of the works
- The valuer would also need to advise as to whether the insurance reinstatement value would be affected by the works, to make sure that the property remains adequately insured.

Purchasing a commercial property to develop it is a complex area and needs a great deal of thought and input from the adviser. Investment in property is generally for the long-term.

SALE OF THE PROPERTY

The client can choose to sell the property at any point and the proceeds of the sale will be retained within the SIPP.

There are likely to be due diligence requirements when the property is sold. As with a purchase, if the property is sold to a connected party, this transaction must take place at market value as advised by a RICS qualified valuer.

COST CONSIDERATIONS

There are a number of considerations for the client when looking at purchasing a commercial property, not only the running of the SIPP itself but also:

- Fees for acquiring and disposing of a property on behalf of the SIPP
- Ongoing fees associated with the continued ownership of a commercial property including the administration involved with the management of the property
- There will also be third party fees and bills.

Check with the SIPP provider how fees associated with the property will be taken and if this alters when there are a group of clients.

Commercial property is a popular investment for SIPP clients but it can be complex and advisers need to use all their experience and that of their chosen SIPP operator to ensure everything goes smoothly and continues to do so for the time that it is held within the SIPP.

WHAT GUIDES YOU WOULD LIKE TO SEE?

If you would like to see a guide on a particular subject, please let us know by emailing robkingsbury@researchinfinance.co.uk. We'll also be asking this question as part of our monthly parameters survey.

PARA-METERS

Our monthly paraplanner survey tracking trends and topical issues

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

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

WILL 2020 WILL BE A MORE CHALLENGING YEAR FOR THE UK ECONOMY?

YES	76%
NO	14%
NOT SURE	10%

WILL 2020 WILL BE A MORE CHALLENGING YEAR FOR THE GLOBAL ECONOMY?

YES	54%
NO	27%
NOT SURE	19%

WILL BREXIT HAPPEN IN 2020?

YES	36%
NO	14%
NOT SURE	50%

WILL 2020 WILL BE A MORE CHALLENGING YEAR IN TERMS OF PROVIDING ADVICE TO CLIENTS?

YES	39%
NO	47%
NOT SURE	14%

2020 – a more challenging year?

The majority of paraplanners (76%) believe 2020 will be a more challenging year for the UK economy, while 54% see the same for the global economy. Brexit and the uncertainty it continues to cause for the UK, particularly from a political and business perspective, is a major factor in paraplanners' views of the UK economy. Our question around whether Brexit will happen in 2020 reflects that uncertainty with 64% saying they are unsure or it will not happen in the next 12 months and just 36% believing it will go ahead.

Paraplanners commented: "I think the continuation of the Brexit debacle will cause uncertainty for some time to come, with politicians unable to agree on anything." Others add: "I think with all the uncertainty and delays around Brexit it will be inevitable that 20/20 will bring with it a more challenging year for the economy" and "continued uncertainty with Brexit and the political parties and sterling continuing to weaken, means less investment within the UK market – UK equities will fall."

Others see issues even after Brexit: "Once we leave the EU it will upset markets for some time."

The General Election and the potential for an "unstable political situation" in the new year was also a factor paraplanners saw as affecting the economic situation in 2020. "I believe politics has made this volatile," said one respondent. "Brexit, a general election and continued uncertainty over future trade arrangements are likely to keep the UK economy in flux for at least the first half of the new year," another commented.

However, there were also hopes that Brexit would ultimately bring opportunities "which the market will need to be reactive to."

"I expect the first half of the year will be challenging as Brexit is hopefully settled, but then the waters should calm." Or as another succinctly put it: "We won't get a deal, the pound will fall, multinationals will invest, the economy rises."

However, some paraplanners see the repercussions of Brexit not only extending into the future "the agreement with Europe could take years afterwards" but overshadowed by "a further global slowdown". The "serious danger of global recession and possibility of no-deal Brexit" playing on some minds.

Challenges for financial planning?

Despite fears around the UK and global economies, more paraplanners than not were certain 2020 would not be a more challenging year in terms of providing advice to clients. Reasons for the optimism in this respect included firms' ability to reassure their clients around Brexit, political and economic uncertainty and that "they are invested for the long term", as well as the fundamentals: "the advice doesn't change even if the economy does"; "We will still have the clients' best interests at the heart of our advice".

Amongst the 39% who felt it would be a more challenging year in terms of providing advice, clear issues cited were reduced client confidence in the face of political and economic uncertainty and a potential global slowdown, particularly if market performance is affected. "Clients have become accustomed to 'predictible' gains, so a slowing down of the global economy means we would need to readjust client expectations." The negative impact of increased regulation was also seen as an issue, "'ever changing regulations makes the advice process more onerous, allowing less time to actually spend with clients".

Frustrations with the ongoing Brexit situation also came through. As one paraplanner put it: "I am so over this now. I have come to the conclusion that in or out my life won't be impacted greatly, so I'd like them to just make a decision and get on with it."

SURVEY PRIZE DRAW

Congratulations to Alice Hardisty, Novus Wealth, who is the winner of last month's survey prize draw of £50 worth of Amazon vouchers. Don't miss out on your chance to win a similar prize by completing the monthly survey. Keep an eye out for our email. And if you have any questions that you'd like us to pose to your fellow paraplanners, just fill in the section at the end of the survey form.

FIVE MINUTES WITH...

For this issue's 5 minutes with... Rob Kingsbury talked to Andy Schleider, director and paraplanner at Tunbridge Wells-located Haven Paraplanning Ltd

HOW DID YOU GET INTO PARAPLANNING?

I started my career as a financial adviser but from the start it was paraplanning and the more technical side of the role where my best skills lay. After eight years I decided to take a different tack with my career and joined JUST (Retirement), where amongst other roles I prepared and issued drawdown illustrations. I was there for five years before moving into specific pensions roles, including specialising in DB pension transfers, and then back into paraplanning for a small advice firm. It's been a varied career, working for both small and large companies within financial advice but it has given me a good grounding across a wide range of areas and the specialism in DB pensions transfers paraplanning.

WHAT MADE YOU DECIDE TO SET UP YOUR OWN PARAPLANNING BUSINESS?

I'd been reading about the demand/supply imbalance for paraplanning services and I'd been thinking about it for a while. I talked with people I respected in the outsourced market, such as Nathan Fryer and Richard Allum, about setting up my own business and I was able to take on some freelance work for another outsourced paraplanner which gave me some insight. What made me think seriously about taking the plunge was a video where a business owner drives up to his office in a Lamborghini and says to his staff: "We're doing really well. If you keep on working like you are, I'll be able to buy another one of these next year." After watching that video I thought, why shouldn't I do it myself and take responsibility for my own destiny?

WHAT WERE THE MAIN CHALLENGES WHEN SETTING UP YOUR BUSINESS?

Perhaps the biggest shock was the amount of time you need to spend just running the business. I hadn't appreciated the extra hours that would be needed on top of doing the paraplanning. You're paraplanning during the day and doing the business elements at night. My website also took a lot longer to go live than I expected.

WHAT WERE THE FIRST THINGS YOU DID IN ORDER TO SET UP?

I knew from the outset that I wanted to grow the business over time so I set up as a limited company and VAT registered. I didn't want to begin trading and then get to the point where I had to start charging VAT and so bump up my prices by 20% for people I was already working with.

HOW ARE YOU MARKETING YOURSELF AND HOW DIFFICULT HAS IT BEEN TO GET CLIENTS?

When starting off, I had a wide network of people I knew and also used LinkedIn as my main marketing channel. Incredibly, I was at capacity within six weeks of going live – even before my website was up and running. I'd heard from other outsourced paraplanners that it can take a bit of time to get going and I think I was lucky in that I was in the right place at the right time for most of my clients, also I was able to work my network to get leads. Now I am working with advisers across the south east and beyond.

WHAT SERVICES DO YOU PROVIDE AND HOW DO YOU CHARGE?

My advertised services are pensions transfers, investments, estate planning and cashflow modelling. I work primarily on a retainer basis because that gives me a steady and predictable stream of revenue, which you need as a small business owner. When a client comes on board we'll discuss what work they want done on a regular basis, and so their likely business spend and we'll set a percentage of that as the retainer. But I also take on *ad hoc* work. I think that is the way that some people get to know you and whether they want to work with you. In setting the fees, I looked at what others were charging, through either talking to people or seeing what was published on websites, then I set my hourly rate to reflect the income I need and worked out what a piece of work would cost based on that rate. It's about setting reasonable prices that work for you and the client.

You can find out more about Andy and Haven Paraplanning at: www.havenparaplanning.co.uk

A longer version of this interview can be found on the *Professional Paraplanner* website, where Andy also talks about the systems and software he uses and his plans for the future

PENSIONS AND DIVORCE

Obtaining a fair capital value of pension assets to assess a future income stream is crucial in achieving a fair outcome for clients in divorce. But often this is easier said than done. Fiona Tait, technical director, Intelligent Pensions looks at the typical valuation methods

Pensions and divorce is not all about sharing orders. A recent report by the Pensions Action Group (PAG), a cross-functional group of legal and financial professionals, highlights the issues facing solicitors when dealing with the valuation of a pension in a divorce settlement.

Pensions professionals are well aware that any pension sharing order must be based on the Cash Equivalent Value (CEV), however it is not necessary, and sometimes unsuitable, to use the CEV when calculating the actual division of matrimonial assets. It is also true that 60-70% of divorces do not result in any financial order at all and the most common approach is still to offset the value of the pension against other assets. This being the case, obtaining a fair capital value for the future income stream is crucial in achieving a fair outcome for clients.

There are many ways in which this can be done, which can – and does – result in a situation where different pension experts will come up with different valuations. In their report *Apples or pears? Pensions offsetting on divorce* Rhys Taylor and Hilary Woodward found that a panel of 25 different experts came up with 25 different valuations in the same case study. Not surprising perhaps to pensions people who are aware of the variables but less than ideal for solicitors who regard this as "fig-leafing" the true value. This conundrum led to the formation of the PAG which aims to create a measure of consistency of practice, both in the provision of valuations and the standard of information requests from solicitors.

Valuation methods

The aim of the financial procedures is to provide a fair settlement between the divorcing parties. Solicitors will also naturally be looking to obtain the best outcome for their own client, and to do so without incurring unnecessary third-party costs. They will therefore look to find the simplest solution among the options available to them and, rightly, employ a Pensions on Divorce Expert (PODE) for the more complex cases.

1. The realisable value

Since the advent of pension freedoms, it has been possible for individuals with defined contribution (DC) pensions to withdraw their entire pension pot in the form of a lump sum once they reach age 55. This has led some divorcing spouses to request a lump sum settlement in lieu of a pension share. While there is no question that this method provides a quick and easy capital valuation it must be remembered that it will also result in a significant tax penalty which must be taken into account in the calculation.

2. The Cash Equivalent (CE)

The Cash Equivalent Transfer Value (CETV) is another relatively simple method for solicitors to use, as it is relatively easy to obtain from the scheme trustees without

the need for any additional experts. It should be remembered however that in the case of final salary schemes this calculation is still subject to actuarial assumptions which may themselves be open to challenge. In addition the CETV calculation is based on a standard set of circumstances, including the normal retirement date (NRA) of the scheme and a general assumption of the spouse's age rather than their actual date of birth.

The aim of the financial procedures is to provide a fair settlement between the divorcing parties. Solicitors will also naturally be looking to obtain the best outcome for their own client

3. The Duxbury algorithm

The Duxbury tables were created in 1997 by an accountant in order to place an immediate capital value on a proposed series of ongoing income payments between husband and wife. The tables are published centrally and do not require the input of an actuary or other PODE which makes them a familiar and still fairly common method for solicitors to use.

The downside is that the tables are not designed to deal specifically with a pension income, and the lack of any actuarial input means that the results do not factor in the tax treatment, investment strategy or timing of pension payments. A Duxbury calculation is likely to provide a considerably lower result than the other valuation methods, particularly in cases where retirement may be some way off.

4. Equalisation of future pension income

This is a more complicated and individual calculation which seeks to provide equality of income rather than equality of capital, making it suitable for older couples who are already retired or close to it. The calculation requires the input of an external actuary and the additional cost of this must be factored into the decision to follow this route. That said it can result in considerable increases in financial compensation, particularly where one spouse is considerably younger than the other.

Female life expectancy continues to be, in general, greater than that of men and it is still possible to take this into account within an occupational scheme. In a situation where the wife is much younger than her husband it would cost significantly more to provide her with a lifetime income equal to that of her spouse, leading to much greater compensation in the way of offset assets.

5. Buyout cost

For couples nearer to retirement it is possible to calculate the purchase price of an annuity income equal to the spouse's needs or lost benefits. This provides much greater certainty to the recipient spouse, and often a much higher valuation as it includes the cost of guarantees. In the interest of fairness therefore it is only likely to be suitable where an immediate income is required.

Which is best?

The main problem is that there is no agreed standard. Legal practice is largely based on precedent and there has yet to be a case where the family court has been asked to provide a judgement on the calculation used to value a pension. Indeed, anecdotal evidence suggests that discussions around valuation are strongly discouraged at this stage of the proceedings and should be dealt with during the negotiation process. This situation is likely to continue for two reasons:

- It is generally only "big money" cases which rely on the court for the division of excess financial assets
- Unlike the more usual "needs based" scenarios", in "big money" cases the pension assets are usually a relatively minor part of the overall portfolio.

The choice of valuation method therefore remains with the solicitor, however the PAG report does suggest a number of consistent practices.

Good practice

PAG suggests that using the CEV is likely to be sufficient in "standard" cases, for example where only DC pensions are involved, the couple is relatively young and/or pension assets are relatively modest.

Identifying situations where alternative valuations may be suitable is more difficult and PAG recommends bringing in a financial adviser or other PODE early on, in order that they can "look over" the case and identify any complicating factors. Examples of these are given in the report but will naturally be much easier for a pension professional to recognise.

The PODE can also advise on whether aiming for equality of capital or equality of income is suitable to the clients' circumstances, depending on the financial needs of the spouses, their ages and whether there are substantial non-essential assets.

RESEARCH FOCUS: DEFAQTO

Rob Kingsbury spoke to Zahid Bilgrami, chief executive of Defaqto about the ethos of the company and what it offers paraplanners to help provide better outcomes for their clients

Defaqto is an independent financial information business producing data for both consumers and the financial services market. For the financial advice market it offers product ratings, service ratings, events focussed on product knowledge, industry and regulatory developments, publications and commentary, and support in the form of training and webinars.

Building on its research and monitoring capabilities, Defaqto has developed Engage Core, an end-to-end financial planning solution that can be adapted to a firm's specific advice process. It offers this through three primary workflow streams : Accumulation – which addresses risk rating and profiling, model portfolio building and the ability to review existing holdings; Natural Income – for clients in the decumulation phase interested in generating regular or one-off withdrawals; and Research Workflow – which enables research across funds, products and platforms. Engage Core also offers the ability to write suitability reports using data in the core research software. The final element of the solution is a protection product comparison tool.

As a business Defaqto has a 20-year history and in March 2019 it was acquired by SimplyBiz from its private equity owners. We spoke to chief executive Zahid Bilgrami about what Defaqto specifically offers to help paraplanners in providing better outcomes for their clients, with a particular focus on its suitability report writing capability.

PP: How would you describe the raison d'être of Defaqto?

ZB: At our core, we are an independent information business. We empower informed decisions for both consumers and the financial services industry, by providing, information, workflows, functionality and ratings. We spend a large part of our time and resources – over 60 analysts – researching and analysing financial products and structuring the information in a way that it can be easily compared, scored and analysed, making it easier to find suitable products for the end client.

What makes us different from others in the market, is firstly that it is the information at the core of what we do and the technology fits around the information and brings it to life.

Second, is our view of the world and specifically the often fragmented workflow that happens within the financial planning space. We believe that in terms of workflow everything that needs to be done outside of the back-office risk profiling, fund research, platform research, etc – is done more efficiently and faster within a one-stop-shop solution, enabling streamlining of the process.

I am passionate about helping people make informed decisions. There is a disjoint between the product providers who have a lot of knowledge and the end consumer or client who is buying intangible financial products, around which there are lots of words but not a lot of understanding. I think what we are doing is helping make for a better world.

PP: How can Defaqto's service help paraplanners in terms of suitability of advice, investment research and platform due diligence?

ZB: With Engage Core we provide an integrated process, where paraplanners can do all three of those tasks without having to leave our ecosystem. The information can move seamlessly between and from the processes into a suitability report. On the investment research side, for example, we provide fund information and discretionary fund manager information, which can be sorted depending

on the clients mandate and risk profile and the asset allocation within their portfolio. We provide sophisticated tools yet which are simple to use and allow paraplanners to very quickly create the right solutions based on the mandate of the client.

Paraplanners can also do platform research. If they want specific funds and share classes of those funds and have to use a specific platform for the client, we make visible only the share classes available on that platform.

What's important is that everything the paraplanner needs to do research on is in one place – product, platform and investment types. And all of this can be brought together in a suitability report that we make available through the system. This saves the paraplanner having to move information and data between disparate systems, it's all automated and integrated in the one place.

PP: Paraplanners have very different ways of writing reports, so how customisable is the suitability report tool?

ZB: Our system is very flexible. There are some adviser firms that are very prescriptive in the way their reports are structured and what must be in them, while others are more flexible. Our system allows for a wide variety of outcomes very much based upon the requirements of the paraplanners and the businesses they are working in or with.

We have a standard suitability report that paraplanners can use, which we developed in-house with input from legal firm Eversheds, which addresses the reports from a legal and compliance standpoint, or users can set up their own report. Paraplanners can customise the report to the way that they work using the various elements available to them.

The reports are output into a Microsoft Word document, which means that whether they use our default report or a bespoke one, paraplanners can tailor it to suit their needs. I'd say it's several steps better than a blank piece of paper because you've already got something to work with, but you can change or delete items as required, so paraplanners can deliver a report they want for the adviser they are working with and to best suit the end client.

> ***What makes us different from others in the market, is firstly that it is the information at the core of what we do and the technology fits around the information and brings it to life***

PP: One-stop-shop systems have a reputation for being Jack-of-all-trades and masters-of-none propositions. Hence many firms buy 'best-of-breed' for the task in hand. How would you win them over to using Engage Core as the one-stop-shop system for their businesses?

ZB: I disagree with a best of breed approach, which in my mind is where you get different systems and you stitch them together. While each component may be good at delivering its own bit of information, the downside is in the quality of the integrations and what that means for those using the systems, to provide suitability reports, for example.

In the best of breed route you're going to experience fragmentation where there is a lot of manual rekeying of information. Integration, where it exists, means less rekeying but you're still not making it easy for yourself compared to a one-stop-shop where things move seamlessly between the different elements. It's simply more efficient.

It's also how effective you can be in using the various systems and that comes down to training. Our training and support for our users is free. We refer to our support team as our Customer Success team. There is no point in someone subscribing to our services and we are failing to help them succeed. Whether it's face-to-face or webinar training or other support we can offer, that's all included in the service. That's a part of the reason for our success.

There are elements of financial planning which currently we don't cover but we are working on it. Pension switching is one where we have completed development and the solution is being beta tested. Another is a cashflow modeller. We've created the basis of the tool, we'll be improving on that and then launching as a fully integrated element of Engage Core. Customers can either take the whole package or the elements they want to.

What I should emphasise, however, is that we are not a back-office system, nor do we want to be. We integrate with all the main back-office systems. The elements we want to fulfil are around the research and process of decision-making and the record of that decision-making for audit purposes.

PP: What does SimplyBiz ownership give you that you didn't have before?

ZB: We thought carefully before the acquisition about whether it would be the right thing for us and eight months in it's absolutely the right thing, for two main reasons. First, we were promised autonomy; we have our own board which is completely separate to other elements in the SimplyBiz business. We have full control over our budget data and processes, our creativity and the direction that we go in.

Second, we were previously private equity backed and now we have a large listed investor who backs us. The main difference here is that private equity tends to look for short-term return while now and refreshingly, we have owners who want a return but not one around the corner. It's a far more long-term, thought-through discussion around what brings benefit to Defaqto, the larger group and in terms of the services and technology we provide to the industry as a whole.

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. Which of the following has a 30-day cancellation period? Tick all that apply.

- A Electing to take income withdrawal
- B Pension annuities
- C Stakeholder pensions
- D Opening a cash ISA

2. Stefan bought £1,000 nominal value of Treasury 7% 2026. What interest payment can he normally expect to receive?

- A £70 every year
- B £5.80 every month
- C £35 every six months
- D £23.33 quarterly

3. Which of the following is a feature of a Treasury bill?

- A Very illiquid
- B Issued by NS&I
- C Backed by the Government
- D Long-term maturities

4. Adam is 63 and is considering using his personal pension fund to purchase a lifetime annuity. According to HMRC requirements, what is the statutory escalation that must be included?

- A There is no statutory escalation requirement
- B By RPI
- C By RPI or 2.5%
- D By CPI or 5%

5. Which of the following conditions is usually excluded from critical illness cover?

- A Heart valve replacement
- B Major organ transplant
- C Temporary loss of speech
- D Terminal illness

6. As an advisory fund manager, you suggested to one of your clients that they encash a small part of their portfolio and buy futures. What does this suggest that you expect the price of the underlying asset to do?

- A Remain level
- B Fall
- C Price is not relevant
- D Rise

7. Ollie took out a shared appreciation mortgage of £25,000 with one third shared appreciation when his property was valued at £100,000? On his death some years later the property was valued at £160,000 – how much would be repayable to the lender?

- A £25,000
- B £33,333
- C £45,000
- D £53,333

8. Shaun has recently sold his buy to let house for £150,000 having paid £93,000 for it 15 years ago. He has incurred the following expenses; estate agent fees of £1,500; legal fees of £800 and £45 for a plumber to repair the shower prior to sale. What is his gain for capital gains tax purposes?

- A £56,200
- B £55,500
- C £54,700
- D £54,655

9. Maureen's primary need is for continuous health care. Who is responsible for providing this?

- A The Local Authority for the area where Maureen resides
- B The National Health Service
- C Her GP's Clinical Commissioning Group
- D Maureen herself

10. What tends to happen to the price of commercial property when interest rates increase?

- A They decrease
- B They stay the same
- C They increase
- D There is no correlation

Your answers

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

Last issue's answers

Q	Answers	Reference material
1.	C	CII R01 Study Text Chapter 10
2.	A,C	CII R02 Study Text Chapter 9
3.	A	CII R03 Study Text Chapter 1
4.	A	CII R05 Study Text Chapter 5
5.	B	CII R04 Study Text Chapter 4
6.	A	CII J10 Study Text Chapter 12
7.	C	CII J12 Study Text Chapter 4
8.	D	CII ER1 Study Text Chapter 5
9.	C	CII CF8 Study Text Chapter 2
10.	C	CII R07 Study Text Chapter 8

Answers and cross-references for this issue's questions can be found under the Development tab on the Professional Paraplanner website.
Need help with your CII exams? For resources visit https://brandft.co.uk

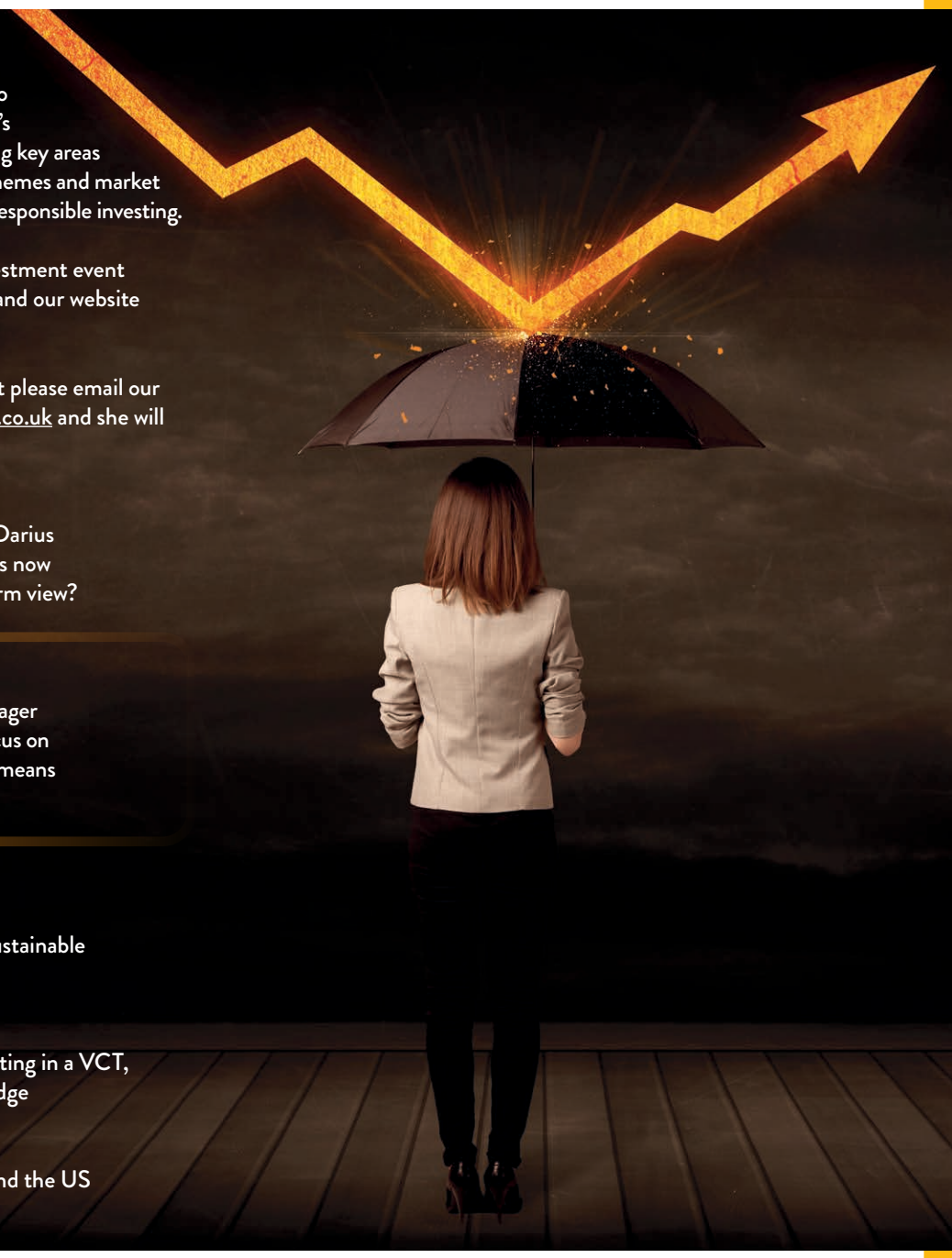
NEW SECTION

THE INVESTMENT COMMITTEE

In our 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, we will be covering key areas from individual funds and alternatives, through to themes and market commentaries. We will be particularly focussed on responsible investing.

The section will be dovetailed with a dedicated investment event to be held in London. Keep an eye on these pages and our website professionalparaplanner.co.uk for further details.

If you are interested in attending the London event please email our events manager louisa.hooper@researchinfinance.co.uk and she will send you further details in due course.



EMERGING MARKETS

The nature of emerging markets is changing, says Darius McDermott, managing director, FundCalibre. So is now the time to be looking at the sector, with a long-term view?

While still fruitful, investing in emerging markets in the past decade has not garnered the same spectacular returns we have seen previously. Recent headlines have been dominated by slowing growth in China, and the geopolitical fallout from trade wars, as well as individual issues in the likes of Argentina and Saudi Arabia.

Sentiment is mixed at best. In October, the International Monetary Fund projected growth of 3.9%[1] for 2019 (down from 4.5% in 2018) for emerging market and developing economies, while Investment Association figures show outflows of almost £500m[2] from emerging market equities between March and August.

Time to rethink exposure?

However, the long-term argument for emerging markets is still clear. They currently account for 74% of global GDP growth, as their stock markets continue to liberalise and grow. They also represent 40%[3] of global activity based on the origination of listed company revenues.

Reforms also continue apace to tackle economic issues. In September, India made about $20bn worth of tax cuts in response to slowing growth – with Indonesia making a similar move. There are also countries taking advantage of the trade war situation within the region, as global manufacturers diversify their supply chains to the likes of Vietnam and Taiwan – who are not subject to tariffs. While US imports to China were down 5% year-on-year in the 12 months to July 2019, they rose 23% and 15% in Vietnam and Taiwan respectively[4].

The move to a dovish stance on monetary policy by the Fed should also help the region by taking pressure off the US dollar and giving emerging economies some breathing room. This will particularly help those countries with both current and fiscal deficits, or significant debt in US dollars. While earnings growth may be muted in 2019, figures from FactSet for 2020 show the MSCI Emerging Market Index is expected to produce double digits earnings growth of 13.4%, greater than the S&P 500 (10.5%).

But there are bigger changes happening in the region, which could give rise to opportunities for investors, such as the shift from export-led to consumption-led growth. For example, services in China accounted for over half (51.7%) of the economy in September 2017, compared to 33.5% two decades earlier[5]. It's a factor supported more widely in the MCSI Emerging Market Index weightings, where the consumer and technology sectors have risen in importance in the past decade. Contrast that to energy and materials, which now account for 14.8% of the index (vs. 29% a decade earlier). Gone are the days when emerging markets ride the commodity cycle.

Country by country

There is also a greater need to evaluate emerging economies on a country by country basis. Nine out of 10 larger emerging markets economies are now classified as investment grade with solid balance sheets – so even when we do see significant sell-offs, they should pose less of a systemic risk to the region. 82% of emerging markets funding is now domestic, also making capital flight less likely.

I recently read a document from Wellington Management which highlighted four key structural changes within emerging markets. It cited the ongoing progression in the region to move away from "growth at all costs" to "economic development". It says

The move to a dovish stance on monetary policy by the Fed should also help the region by taking pressure off the US dollar and giving emerging economies some breathing room

these changes are focusing on greater inclusiveness, enhanced productivity, improved living standards and better sustainability. These changes are set to make a major impact to sectors of the economy such as healthcare, education, recycling and energy efficiency, many of which are under-represented in public markets (although private equity firms are getting onboard). Healthcare is a good example, as pharmaceutical demand continues to rise with an aging population and a growing middle class. Wellington expect healthcare to play a major role in the future, yet it only accounts for less than 2.6%[6] of the MSCI Emerging Markets Index at present.

For investors looking to access these markets for the first time I would suggest the likes of the Magna Emerging Markets Dividend fund, managed by Ian Simmons, which has a slightly lower risk profile than many of its peers, given its focus on companies that pay higher-than-average dividends. Others may want an Asian equity specialist, like Mathews Asia Pacific Tiger, which is run by a strong team who focus on corporate governance and have expert local knowledge. An alternative is a country specific fund. We particularly like the Goldman Sachs India Equity Portfolio, as it is an "all-weather" India fund. It is headed up by Hiren Dasani and has a very long-term time horizon and low portfolio turnover.

[1] Source: IMF World Economic Outlook, October 2019
[2] Source: Investment Association, net retail sales by the investment association sectors, March 2019 to August 2019
[3] Source: Ashmore, The emerging view, October 2019
[4] Source: Lazard Asset Management, outlook on emerging markets, October 2019
[5] Source: T. Rowe Price insights on emerging markets, October 2019
[6] Source: Wellington Management, structural change in emerging markets, June 2019

RISK CONTROL

Rob Kingsbury talked to Jamie Ward, fund manager of the FP CRUX UK Fund, about the fund's focus on risk to capital and why his investment approach means he tends not to meet company management

The FP CRUX UK Fund is an actively managed long-only UK fund, which was established to look after the wealth of a fund manager and his family and was then opened up to retail investors. It invests primarily in UK equities on a long term, unconstrained basis, with a value bias which looks for companies priced below their intrinsic wealth, and control risks measured as the probability of permanent capital loss rather than volatility.

Jamie Ward became a manager of the fund in 2015, alongside the original manager, Patrick Barton. Ward started working as a fund manager at Brown Shipley in Manchester in 2006 but to further his career moved to London, taking a role as an analyst at Williams de Broë (bought in 2012 by Investec). In 2013 Ward had opportunity to work for a start-up hedge fund. "I was 30 at the time so I was long on opportunity and short on responsibilities," he says. However, after a year he was approached by Barton who was looking for someone to take over the running of the fund.

"Patrick set up the fund in 2007 to manage his and his family's wealth, plus his friends who like him are towards end of their career fairly wealthy and possibly retired, with a focus on not losing money. So the fund was set up to be a vehicle via which people could get equity type returns but with reduced downside risk by having a strong focus on risk management. It was designed to be a core fund in a core/satellite type portfolio and as such, sits well within a SIPP," Ward explains. "I had worked alongside Patrick at Williams de Broë. We thought similarly and when he was close to retirement, he wanted to bring someone in to run the fund in a style that was broadly similar."

It was a three-year process with Barton gradually transitioning into retirement. Ward fully took over the reins in 2018.

Creating real returns

Asked how the fund creates real returns at a lower risk to the market, Ward says he looks at where he invests in three distinct ways.

First is stock selection. "We are very quality biased. Quality to us is three things. We tend to like capital light businesses because they have lots of flexibility in terms of what they can do with their excess cashflow, they can pay dividends, they can make acquisitions or they can expand. They tend to have quite a strong balance sheet.

"Second, we tend to favour predictable businesses, those that are going to be comfortably economic over the cycle. We want to understand where the business sits so we are not going to be side-swiped further down the line. For example with DiMaggio we understand the drinks business, the brand and the pricing power they have though owning Johnny Walker.

"Third, is management integrity – do we trust them to do what they say they will? We want to ensure that the people running the businesses have the best interests of shareholders in mind."

As such, he says, typical stock characteristics will include low capital intensity, consumer brands, strong balance sheets, barriers to entry and durability.

> ***"I don't care what the index looks like, I'm not trying to match the index. I'm trying to create real returns for people"***

Analyst approach

Unlike many other active managers, Ward tends not to meet the management teams of the companies in which he is investing. He explains: "As an analyst I came to realise you get a better sense of the integrity of the team by reading over the years what the management say they are going to do and

whether they then carry though on those actions. Whether they refer to it or hide away when maybe things haven't gone too well. Whether they open. Their openness gives a strong sense of their integrity.

"Effectively management are salesmen for the company and if they are good salesmen then fund managers are likely to find them quite interesting, which may give a positive disposition towards them. I look to avoid that."

The CRUX UK Fund invests long term and in businesses that are going to create value but where it is different, Ward says, is on the risk management side and thinking about what risk factors could hurt the long-only portfolio. He uses the example of the energy industry to illustrate his thinking.

"Typically in a high quality stocks portfolio you're not going to have much in the way of energy exposure because commodity businesses aren't predictable. But quality businesses tend to be short energy because when energy prices go up that has an impact on them.

"So when constructing a portfolio we think about a way we can offset that natural bias. Our investment in Intertech is an example. Intertech is a quality provider of assurance, testing, inspection and certification services across a wide range of industries. It tests products at manufacture and distribution and it has about a third of its business in energy testing. So it tends to benefit from higher energy prices because there is greater pricing power from testing and inspection which creates higher flows and growth through that side of the business.

"So just at the time that other parts of the portfolio may be hurting because there is an economic factor – higher energy prices – affecting it, our investment in Intertech picks up. In this way we are trying to create balance for events where if a certain outcome happens we can predict what might be the effect. In doing this we look to reduce the downside risk."

Investment process

As a result the investment process is "very qualitative", he adds. "There is a strong quantitative element of course, in the valuation, looking at the metrics and the accountancy side, and this is a big part of the job. But the actual construction of the portfolio and thinking about risk and what can go wrong and right and trying to balance things, invariably is quite qualitative."

While risk management is an important element of the process, Ward says it is not a matter of purely focusing on the risk controls. "I've always been reluctant to go too positive on risk because that feels like the tail is wagging the dog. If you are just aimied at achieving low risk scores you are compromising the portfolio from a long perspective. What I find is that focusing on the qualitative side the quantitative side tends to fall through as very good in the long run anyway."

A benchmark of the fund's success, although again not necessarily a metric to aim at, Ward says, is the maximum drawdown over certain periods of time. "We score very well here; top decile typically. That's a result of the risk qualitative method rather than the result of me looking to buy low beta stocks."

Ward says while diversification is important he believes the benefits of it "diminish massively" once you get beyond a small number of stocks. Hence the fund holds around 25 stocks at an equal weighting of around 4% each and is unconstrained.

"I think a diversified portfolio should have a balance of risk factors, with properly assessed risk of the individual holdings. The reason people have large holdings in certain stocks is so that they don't deviate massively from the index. I don't think benchmarking against an index is a very good way of constructing a portfolio. I don't care what the index looks like, I'm not trying to match the index. I'm trying to create real returns for people."

He adds: "Also the more tail you have the more it takes your focus away from the things you should be concentrating on. Warren Buffet summed it up when he questioned why he would buy his 20th best idea when he could buy more of his fourth best idea."

The fund is also allowed to invest 15% outside of the UK. There are two reasons of this, Ward explains. "First, is where we have a special expertise and we think we can add something of value that is under appreciated by the domestic market.

"Second is where there is a special case for owning a particular stock, such as to get exposure to something that we can't access in the UK and we think it will be positive from a stock selection portfolio and from a risk management point of view."

Ward says ultimately his focus is "growing the value of the fund" but he sees "no real difference" between value and growth in that respect. "I think it's a false dichotomy that you can be either one or the other. I'm ultimately a value investor because I'm looking for opportunities that I like and I tend to tilt towards the cheaper end while the parts of the portfolio that become too expensive get trimmed. But as a long-only fund manager, quality and consistency are my main focus."

More can be found on the fund here: https://www.cruxam.com/Funds/TM-CRUX-UK-Fund. In October 2019 CRUX Asset Management took over the running of two funds from Sanditon Asset Management, now branded as the TM CRUX European Opportunities Fund and TM CRUX UK Opportunities Fund. Jamie Ward has taken over the running of the UK Opportunities Fund.

TRENDS IN SUSTAINABLE INVESTING

Mike Fox, head of UK Sustainable Investments at Royal London Asset Management, outlines how sustainable investing might develop over the next decade

Looking back at the sustainable investing landscape, and how the sector has changed over the ten years since we launched the Royal London Sustainable Diversified and Sustainable World Trusts, I think of sustainable investing in two ways: products and services that help the transition to a more sustainable society, and companies showing leadership in managing the environmental, social and governance (ESG) issues they face.

Here I look at how the sector might evolve over the next decade. Full disclosure from the outset, however: whatever some fund managers may think, we don't have magic powers to divine the future. So, rather than engaging in 'futurology', I'll consider how current trends are likely to develop. This may sound unambitious, so I'll start with

two bold predictions. First, 10 years from now, all investing will be sustainable. Secondly, all investors will be sustainable. Given only around 1.5% of investments are classed as sustainable at present, how can I make such claims?

Gaining an edge

The first prediction is rooted in the idea that you can't optimise the 'risk-return' trade-off without considering the potential impact of sustainable factors on risk and return. ESG leaders and laggards have different levels of risk – most corporate scandals arise from poor management around ESG factors.

Conversely, returns will be greatly enhanced by identifying products and services that solve society's problems. In simple terms, wind power offers better long-term sustainable potential than fossil fuels; likewise, companies that find a cure for lung cancer are likely to have longer-term viability than companies that sell tobacco products.

The second prediction is based on demographics and the rise of millennials as consumers. However, it's clear from the last few years that a general societal shift is also underway. In a decade, I believe every product and service will have to detail its ESG impact, like food labelling today.

It's clear that ESG and sustainability aren't a fad and the investment industry will respond to these changes. Nonetheless, surely growing from 1.5% to 100% is too ambitious, even over a decade? Looking at UK power generation, I would suggest otherwise.

When I started investing in 2003, there were no commercially-viable windfarms. The vast majority of electricity generation came from fossil fuels, with the remainder coming from nuclear. Yet, in 2017, the UK recorded its first full 'coal free' day since the Industrial Revolution and our first coal-free week came earlier this year. The International Energy Agency believes the next two decades will see offshore windfarms meet all of our energy needs. The world is changing... rapidly.

Beware greenwashing

While it's exciting to consider a 100% sustainable investment landscape by 2029, this will involve challenges. First, will fund managers fall foul of greenwashing? Most sustainable factors aren't binary – given companies will have an incentive to overstate their ESG credentials, how will investors differentiate between genuine and spurious claims? Fund managers will need to develop new skills regarding sustainable factors, not unlike assessing which companies comply with the spirit of accounting standards, not just the letter.

This should be easier for managers with a track record in sustainable investing. Years of experience have taught me many of the pitfalls. There's a real difference between companies that are truly sustainable and fully integrate ESG factors in their businesses, and those which overlay ESG as a secondary consideration. For a time, they may appear similar, but there will come a point where the overlay isn't enough.

To illustrate this, consider how the internet has changed the retail sector. For a while, retailers that set up a website and operated a 'bricks and clicks' strategy looked like they could benefit from the internet. Slowly but surely, however, their businesses have been exposed as 'old school', while the pure internet-only business model of Amazon has triumphed. Similarly, playing at sustainability won't cut it over the longer term.

While it's exciting to consider a 100% sustainable investment landscape by 2029, this will involve challenges. First, will fund managers fall foul of greenwashing?

Other challenges

This raises two interesting questions about the shift to 100% sustainable investing. First, how will passive funds that replicate indices respond? Indices tend to be weighted to the industries of the past, whereas forward-thinking investors should be thinking about investing in the industries of the future. How should fund managers approach oil & gas supermajors, for example?

Should we reward them for higher capital expenditure as they attempt to re-orientate their businesses towards renewables, battery technology and electric vehicles? Or would it be better to accept that the world has discovered all the oil it needs for the future, stop all E&P expenditure and run off the current assets. On a discounted cash flow basis, the shares would soar, yet the business would be self-destructing. However, sustainable fund performance would be impacted by not owning these companies.

Secondly, when should investors buy the future-tech companies that will make up the indices in 2029? One might imagine that sustainable investing is all about buying tech IPOs to get early exposure to the winners. However, I'm a fund manager, not a venture capitalist, and many of our fund's investors can't afford to speculate like that. Instead, by taking low-medium risk and investing well, I may achieve medium-high returns. Tech IPOs are definitely not low risk.

Take Amazon. At its IPO in 1997, its market capitalisation was less than $500m. We didn't buy it until 2013, by which time it was worth around $125bn and the world leader in environmentally-positive cloud computing. But we sold it last year at around $1tn. For our funds, it would have been irresponsible to buy it at IPO or for years afterwards – aside from ESG factors, the risk was simply too high. Sustainable investing is still about striking a balance between risk and return to protect your investors.

The big reveal

My punchy predictions for 2029 are:

- Only electric vehicles will be sold as new, although petrol cars will survive for a few years.
- Smoking will disappear from society.
- Power generation will be 100% from renewables and nuclear.

A less happy prediction is that there could be a point in the next few years when the current explosion in ESG/sustainable investing leads to problems. There are simply too many funds being launched with marketing that is too 'creative'. I'm not predicting a future mis-selling scandal. However, I believe there will be a challenging period, perhaps after a diligent journalist exposes untrue claims about a fund's ESG processes or impact? For a period, this could cast a shadow over all sustainable funds.

Advisers can protect themselves by properly understanding sustainable investing; identifying managers that have established a sustained record of performance in different market conditions; and who have with a clear and repeatable investment process. As ever, don't believe the marketing hype and do your due diligence.

Mike Fox manages Royal London Asset Management's sustainable fund range. Further information at: rlam.co.uk/sustainable

TOP 5 VCT TIPS

There are five core things to remember when investing in a VCT, says Luke Barnett, analyst at MJ Hudson Allenbridge

According to data compiled by the Association of Investment Companies (AIC), VCT fundraising in the 2018/19 tax year reached record levels, amounting to £731 million . Clearly, VCTs remain a popular choice for investors, specifically when considered as part of an overall tax-planning scenario.

The benefits are obvious: up to 30% income tax relief on investment into new VCT shares ; tax-free dividends; and tax-free capital gains on exit. However, VCTs are high risk products and investors should make careful consideration before investing. In order to assist in this process, the team at MJ Hudson Allenbridge has put together a list of the top five things to remember when considering VCT investment.

1. Portfolio exposure

There are a number of different VCTs on offer, employing a number of different strategies and providing exposure to a wide range of portfolios. Firstly, VCTs which provide exposure to AIM will likely invest in later stage companies (by virtue of their listing), and will give the VCT access to higher levels of liquidity, thus reducing the need to hold cash. However, it similarly means that the portfolio will be exposed to higher levels of volatility.

Other VCTs may have legacy portfolios providing exposure to asset-backed or MBO (management buyout) investments. These investments will provide an element of stability in the NAV, and the ability to pay regular dividends. It is unlikely however, that these VCTs will be in a position to pay special dividends.

Finally, there are some VCTs which have seen far more stability in the investment strategy, having undertaken venture style investments for many years. These portfolios will have a more mature portfolio of companies which have the potential to generate significant exits, therefore providing the ability to pay special, and in some cases, substantial dividends.

2. Ability and regularity of dividend payments

An attractive feature of a VCT investment is the ability to receive tax-free dividends. However, the level and regularity of dividends can vary across VCTs and will largely depend on the existing portfolio of each VCT. Investors seeking regular income should consider the existing portfolio of the VCT, its history of paying dividends, and its dividend policy, going forward.

VCTs remain a popular choice for investors, specifically when considered as part of an overall tax-planning scenario

3. Level of share buyback

VCTs are listed on the London Stock Exchange and can therefore be sold in the secondary market. However, investors who buy secondary shares will not benefit from the initial tax relief, and as a result, trading volumes of VCT secondary shares tend to be limited and often at a discount to net asset value. VCT investors should therefore consider the share buyback policy of each VCT manager, as this tends to be the most viable route to exit following the five year holding period. Some managers undertake share buybacks at greater discounts than others, and this can have a material impact on overall return.

4. Fees

VCTs will typically charge investors an initial fee in order to cover the costs of promoting and launching the offer. Some VCTs do offer short term promotional fee rates, such as 'earlybird' or loyalty discounts, and these should be considered. VCTs will typically charge an annual management fee and, on top of this, there will be running costs. These costs include listing, administration and auditing fees, among others and can be as high as £200,000, per annum, if not more. Larger VCTs will benefit from economies of scale, where these costs can be spread across a larger pool of assets, and some VCTs will cap running costs. Investors should take all costs into consideration, not just the headline initial and annual management fees.

5. Finally, do your homework

Not all managers are the same. Products vary in strategy, experience of the investment team, strength of counterparty and, ultimately, quality. Get independent reviews of your shortlisted managers and work out both the quality of the proposed investments and their suitability for your circumstances. A lack of homework now could cost an investor an awful lot down the line.

MJ Hudson Allenbridge has produced a research report to help advice firms invest into VCTs. It can be downloaded at: www.mjhudson.com/download/vct-spotlight-report

SECTOR CONSIDERATIONS: EUROPE AND US

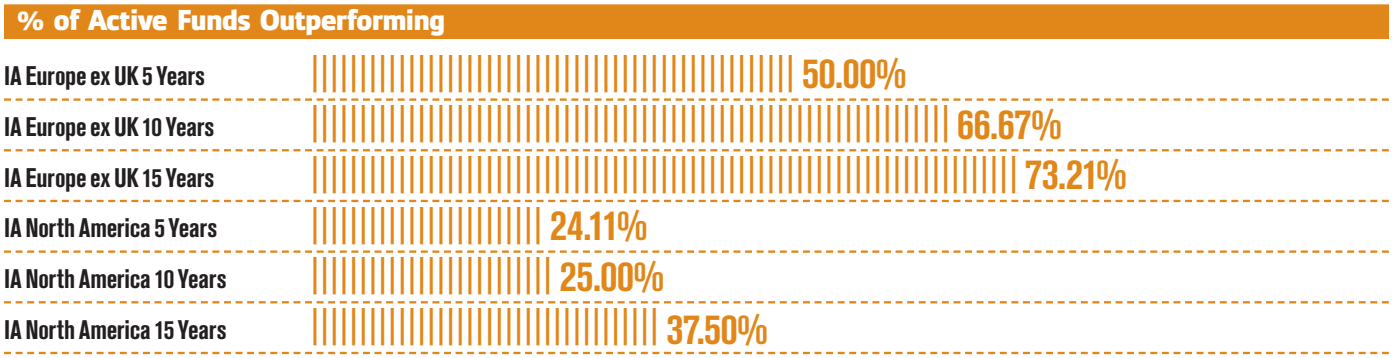
FUND CALIBRE ELITE RATED FUNDS OVER 10 YEARS

FE fundinfo Data provided by FE Fundinfo

Performance Table

	1 month	3 months	6 months	1 year	3 years	5 years	10 years
AXA Framlington American	-4.94	-7.48	1.00	7.74	48.44	115.54	323.80
BlackRock European Dynamic	-1.71	-4.26	4.82	15.40	30.73	83.46	189.86
GAM Star Continental Euro Eqty	-1.32	-4.17	1.21	11.58	9.73	63.75	125.20
Janus Henderson European Focus	-0.80	-2.01	6.30	13.55	22.70	60.14	156.28
Marlborough European Multi-Cap	-1.69	-3.58	0.62	5.79	19.86	105.10	136.60
MSCI Europe ex UK	-1.30	-2.35	3.36	13.21	22.14	55.70	93.67
S&P 500	-3.47	-3.61	3.09	11.45	37.90	104.99	306.41
Threadneedle European Select	-2.92	-5.27	4.55	15.54	24.02	70.17	189.46
TM CRUX European Special Sits	-0.74	-1.99	2.49	11.26	15.02	73.76	175.70
Waverton European Capital Gth	-2.49	-3.35	-1.20	6.14	14.37	62.32	135.39

% of Active Funds Outperforming



Fund Calibre comment:

When it comes to active vs passives, two markets show distinct differences: Europe and the US. Although the US stock market dwarfs those of Europe in terms of capitalisation, it is covered far more thoroughly by analysts and, as a result, it has historically been really hard for active fund managers to add much value.

As you can see from the bar chart, the opposite is the case in Europe. Over 15 years, 73% of actively managed funds have outperformed the stock market index compared with just 37.5% of actively-managed US funds. Over 10 and 5 years, the differences are just as stark.

The US, of course, has one political regime. Europe has more than 40 and almost as many different cultures and languages. So in Europe, active managers are also almost spoiled for choice. Hence, when assessing allocations and exposures in our portfolios, the US is the only market where we will use passive funds – usually Fidelity US Index because it is cheap. But when you find that rare thing – an actively managed US fund that has consistently outperformed the market over the long term – the implications should not be ignored. AXA Framlington American Growth is one such fund.

In Europe, the choice is greater, and there are a number of funds with long-term track records and incumbent managers that have been at the helm for some time. Our favourites are shown in the table above.

VULNERABILITY AND CAPABILITY

Does being vulnerable mean a client isn't capable of making financial decisions? Jacqueline Lockie, head of Financial Planning at the CISI, uses a case study to delve deeper into this question

Last month I wrote about vulnerability and the recent FCA guidance paper. Following on from that I have come across some good examples that I believe are worth thinking through together.

In a nutshell, what do we mean when we say someone is vulnerable? Does it automatically mean that they are not capable of making any financial decisions? Already I can hear you saying: "What is she on about? Of course, we know the difference!" Let me explain...

Recently, I was discussing a case study with a group of advisers. It was a mother and daughter; mother with early stage dementia and daughter keeping an eye on her mum, whilst also being a single mum to a young school age child and holding down a full-time job.

Being in the sandwich generation as we affectionally call it, can bring huge pressures and in this scenario we were discussing who was vulnerable and who might be the most vulnerable; the mum with early stage seemingly manageable dementia, or the daughter charging around trying to do the best she can but feeling the pressures of caring for two generations at the same time.

Well, I think we'd all agree that the mum with dementia is potentially vulnerable. And possibly the daughter too. It depends on how the daughter is managing. Some people manage ok in these sorts of situations and so, whilst I might initially flag her as potentially vulnerable too, I would meet and discuss things through with her at length to assess how she is feeling. I might treat her as vulnerable until I have evidence to the contrary to be on the safe side. But is that right? Shouldn't I treat her as not vulnerable until I have evidence to the contrary?

Let's say now that Mum's health starts to deteriorate and so the pressures ramp up for the daughter. We all agree that both the mum and daughter are now vulnerable. But who is capable of making financial decisions? Classing them both as vulnerable, does that mean both should now be treated as incapable of making financial decisions?

In my experience, the mum might still be able to make decisions and I know that doctors are very reluctant to sign someone off as not being able to make financial decisions. Even if the mum could not make those decisions for large parts of any given day, we should still wait to help her make those decisions at some point. Now you might think, that's not right surely. Well, it most certainly is, and I have personal experience of just this happening. Once doctors sign to say that the mum is not capable, you are into Lasting Powers of Attorney or Office of Public Guardianship territory.

But what about the daughter? Yes, she is vulnerable but if we treat her as incapable of making the financial decisions, both mum and daughter might find themselves in a very difficult situation. The daughter should still be able to make those decisions unless her mental health suffers significantly. But she is still vulnerable. We might offer her more time to think about the ramifications of the advice we are giving. We might offer her meetings at her home or be more flexible on appointment times. We might offer shorter meetings of 30-40 minutes to ensure that the information is digested in bite sized chunks so that she can make the critical decisions first.

Doing all these things to help the vulnerable daughter does not make her incapable of making good financial decisions. Please remember not to mix up your terminology and let's not assume that all those who are vulnerable, are not capable of making financial decisions. And don't forget to evidence it!

What do we mean when we say someone is vulnerable? Does it automatically mean that they are not capable of making any financial decisions?

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

Viewpoint (p6)
Name one of the three items highlighted for giving good advice:

ISA millionaires (p11)
Name a disadvantage of holding £1million in ISAs:

ISA millionaires (p11)
Which option for reducing tax liability on a £1m ISA portfolio poses the most potential risk to a client's wealth?

- ☐ Invest in AIM shares
- ☐ Save into a pension
- ☐ Use a trust

Underwriting diabetes (p13)
Diabetes UK figures show the number of people in the UK diagnosed with diabetes is:

- ☐ 3.8 million
- ☐ 5.5 million
- ☐ 7.5 million

Guide to SIPP property purchase (p14)
Name one third-party professional used in SIPP property purchase:

Guide to SIPP property purchase (p14)
If letting a property what kind of agreement must be in place?

TDQ: Self-Assessment (p16)
What is the first fine for missing a self-assessment payment:

- ☐ £10 for every day payment is overdue
- ☐ £50 flat fine
- ☐ £100 flat fine

Pensions and divorce (p18)
PAG stands for:

- ☐ Pensions Action Group
- ☐ Pensions Actuarial Group
- ☐ Pensions Assessment Group

Pensions and divorce (p18)
Name one disadvantage to taking a lump sum payment from a pension:

Sector analysis (p31)
In which market are active fund managers more likely to add value?

- ☐ Europe
- ☐ United States

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 October 2019, provided by FE Fundinfo

BEST RATED FUNDS

3 year Cumulative Performance | FE Fundinfo Alpha Manager Rated | FE Fundinfo Crown Fund Rating

IA			
TM Cavendish AIM	70.4	✓	5
Lindsell Train Global Equity	61.4	✓	5
Baillie Gifford Global Discovery	60.77	✓	5
Morgan Stanley Global Opportunity	60.42	✓	5
T. Rowe Price US Blue Chip Equity	58.97	✓	5

AIC			
Lindsell Train IT	90.06	✓	5
Baillie Gifford Monks IT	65.03	✓	5
Schroder Asian Total Return Investment Company	44.72	✓	5
Frostrow Capital LLP Finsbury Growth & Income Trust	43.16	✓	5
N/A	-		-

BEST PERFORMING FUNDS IN TERMS OF RISK VS RETURN

3 year Cumulative Performance | FE Fundinfo Risk Score

IA		
Polar Capital Global Technology	77.49	159
TM Cavendish AIM	70.4	115
AXA Framlington Global Technology	69.27	165
Fidelity Global Technology	69.22	142
Baillie Gifford American	69.04	189

AIC		
Leaf Clean Energy Company	220.75	1,394
Alpha Real Capital Alpha Real Trust	113.22	163
Globalworth Real Estate Investments	107.72	150
Dunedin Enterprise IT	102.67	191
Cambium Global Timberland	102.4	127

RISKIEST SECTORS

3 year Cumulative Performance | FE Fundinfo Risk Score

IA		
China/Greater China	26.53	148
Japanese Smaller Companies	21.25	132
North American Smaller Companies	36.81	124
UK Index Linked Gilts	8.63	122
Technology & Telecommunications	54.97	120

AIC		
Insurance & Reinsurance Strategies	-12.59	226
VCT Specialist: Health & Biotech	1.16	204
Growth Capital	-29.4	180
Forestry & Timber	-21.19	168
Country Specialist: Europe ex UK	75.86	162

OUTFLOWS

Fund name	Size 1y ago (£m)	Size now (£m)	Performance Effect on Size (£m)	Out (£m)
M&G Optimal Income	23,219.76	3,461.96	-3,875.05	-15,882.75
ASI Global Absolute Return Strategies	15,162.10	6,944.90	271.83	-8,489.03
M&G Global Floating Rate High Yield	4,911.38	557.25	-1,088.59	-3,265.55
M&G Global Dividend	6,379.55	2,415.12	-1,155.50	-2,808.93
BNY Mellon Real Return	8,516.06	6,496.57	514.45	-2,533.94

INFLOWS

Fund name	Size 1y ago (£m)	Size now (£m)	Performance Effect on Size (£m)	In (£m)
M&G Japan	481.5	41,919.99	6,427.46	35,011.03
M&G Japan Smaller Companies	284.17	10,746.36	574.64	9,887.55
Vanguard LifeStrategy 60% Equity	4,596.45	6,909.84	463.79	1,849.59
Royal London Global Equity Diversified	292.13	2,240.37	260.12	1,688.12
Vanguard FTSE U.K. All Share Index	7,862.96	9,781.41	240.82	1,677.63

Data provided by FE Fundinfo

BEST PERFORMING SECTORS

3 year Cumulative Performance

IA

Technology & Telecommunications
54.97

North American Smaller Companies
36.81

North America
36.26

UK Smaller Companies
32.55

Global
27.78

AIC

Technology & Media
83.09

Country Specialist: Europe ex UK
75.86

Utilities
58.87

Property Securities
57.53

European Emerging Markets
49.26

MARKET'S EYE VIEW

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

MOST RESEARCHED SECTOR

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

MOST VIEWED FACTSHEETS

	IA	AIC
1	Fundsmith Equity	Baillie Gifford Scottish Mortgage IT
2	Vanguard LifeStrategy 60% Equity	RIT Capital Partners
3	Vanguard LifeStrategy 40% Equity	Frostrow Capital Finsbury Growth & Income
4	Lindsell Train UK Equity	Amber Infrastructure Grp Int Public Prtnrship
5	Jupiter European	LF Woodford Patient Capital Trust

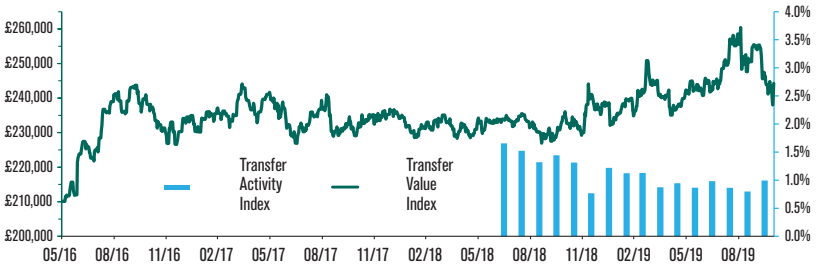
MOST CHARTED

	IA	AIC
1	Vanguard LifeStrategy 60% Equity	Baillie Gifford Scottish Mortgage
2	Fundsmith Equity	Frostrow Capital Finsbury Growth & Income
3	Vanguard LifeStrategy 40% Equity	Octopus Titan VCT
4	Vanguard LifeStrategy 80% Equity	RIT Capital Partners
5	Vanguard LifeStrategy 100% Equity	InfraRed Capital Partners HICL Infrastructure

PENSION TRANSFER VALUE INDEX

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

October was another turbulent month for the financial markets. Transfer values dropped substantially during the month, reversing the significant rises seen over the summer, whilst the number of members transferring has increased, according to XPS Transfer Watch. The Index fell 4% from £254,300 at the end of September to £244,200 at the end of October. The movements were driven by increases in gilt yields and a fall in expected inflation over the month. Transfer activity recorded an increase in the number of transfers completed in October, which is possibly a reaction to the record high transfer values seen over the summer months. The annual equivalent of eligible members rose to 0.99%, up from 0.80% in September. This is the highest rate seen since March, but still broadly in line with long-term rates.



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