

Professional Paraplanner

The magazine for
paraplanners
and financial
technicians
February 2020

Becoming a specialist

Benjamin Fabi talks about the first two years of running his firm, Principled Paraplanning, his ethos and why he has specialised

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GOAL SETTING IN 2020



The 1st of January may be an arbitrary date for setting ourselves goals but this New Year's Day, heralding as it did the start of a new year and a new decade, it seemed

more appropriate than usual to sit down and plan not just this year's strategy and objectives – work and personal – but looking ahead at three, five and 10 years.

Hands up here, my work goals tend to get priority and my personal goal track record is not the best.

Of course, just as with savings and investments, accumulation of activity is the key. Taking small steps forward on a regular basis is the way to crack the bigger goals. Breaking projects down into manageable and achievable chunks, with a

clear view of where you are going and what needs to be done to get there, can not only make the overall task less daunting but also more enjoyable, as each element is ticked off the list and the overall goal comes closer to being achieved.

One way I've found effective (and quite enjoyable – yes, I have an inner geek) this past year in helping to set goals and keep to them is bullet journaling. For the uninitiated, this is a blank book which you can structure to reflect your goals and tasks for the year, and by quarter and month. It's a calendar, schedule, reminder and to do list (I stick to three primary tasks) that is always in front of you in a handy format. It's written, not digital, because the act of writing helps my brain to engage with the information.

I find it helps provide vision, clarity and accountability. As a visual record of what you've achieved it can show where you need to improve your performance but also it shows what you have accomplished. That is something that can be overlooked so easily – our focus being on the next thing we need to do – which is important for positivity and motivation.

In effect it's a 1980s Filofax but created by and to suit the individual (what goes around...). I'll write more on bullet journaling in another article. If any of you are using a bullet journal and also find it useful do get in touch.

Staying on the goals theme, this issue we welcome the first in a series of articles from the Personal Finance Society Paraplanner Panel members. Kat Mock, a Panel new joiner, writes on why she signed up and, appropriately, the goals she has set herself as a paraplanner for 2020.

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PROFESSIONAL PARAPLANNER EVENTS 2020

One of *Professional Paraplanner's* goals for 2020 was to expand our successful series of events exclusively for paraplanners and as you can see from the table below we are doing so with a proposed 16 Technical Insight Seminars around the country, and our new Team Leader and Investment Committee events which we start rolling out from February. Seats at these events will go quickly so make sure you register to secure your place at the event and venue of your choice. You'll find the Registration form on the *Professional Paraplanner* website or click [HERE](#).

Technical Insight Seminars

- 29 April: Exeter, Woodbury Park
- 13 May: Birmingham, Crowne Plaza

- 20 May: Norwich, Park Farm Hotel
- 10 June: London, ETC Venues, Liverpool Street
- 17 June: Cardiff, The Vale Resort
- 9 July: Southampton, Hilton Ageas Bowl
- 22 July: Chester, Double Tree Hilton
- 9 September: Nottingham, Nottingham Belfry
- 23 September: Glasgow, Hilton Glasgow
- 24 September: Edinburgh, Waldorf Astoria
- 8 October: Leeds, Oulton Hall
- 21 October: Manchester, Midland Hotel
- 4 November: Reading, Crown Plaza
- 18 November: Bristol, Aztec Hotel
- 25 November: Newcastle, Crowne Plaza
- 2 December: Colchester, Colchester FC

Team Leader Seminar

- 6 February: London. **SOLD OUT**
- We will be announcing further dates. Keep an eye on our website.

The Investment Committee

- 7 April: London.
- Further details and future events in Manchester and Edinburgh will be announced shortly.

Professional Paraplanner Awards

- 10 June: London, ETC Venues, Liverpool Street



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Sector analysis and data download

You can find this issue's sector analysis and data download on the *Professional Paraplanner* website

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IS CASHFLOW MODELLING KING?

This is a question paraplanner Damian Zhang contemplates as he puts together a cashflow model for a client



I am sitting at my desk ready and raring to go; my adviser has just asked me to complete a cashflow model via Voyant, the modelling tool of choice in my firm. It is a relatively straightforward case, the client is pre-retirement, married and has two financial dependants. The client already owns a main residence as well as three buy-to-let properties totalling over £4 million and has significant sums in pensions. The aim of the game is to complete Bed & ISAs for tax year 2018/19 and 2019/20. The cashflow model is approved by my financial adviser, hurrah, it can be used for the client meeting, not to mention a talking point in regard to IHT.

However, whilst there are supposedly more and more advisory firms using cashflow modelling, not everyone is in favour and questions arise as to when and how it should be used. I have worked for

firms where it was praised as the tool of the gods and other places where it was despised but higher powers in the business said that the tool must be used for each client, so begrudgingly the adviser used it.

Paraplanners have opinions about when best to use cashflow too; for instance, do we use it for a high-flyer stockbroker client and/or a vulnerable client? We may not think it is suitable for the latter, especially if adding complexities to the mix, yet the firm may say that all clients must have it as part of a package and therefore we have limited say with the adviser.

Adviser input

When looking at cashflow modelling I find it can be useful to categorise your financial adviser. Are they belt and braces or are they 'blue and red' kinda people? The latter would be showing clients just the assets (blue) and the shortfall (red).

Would the adviser rather have all the bells and whistles, including the break down expense by expense, as well as 'what

if' situations? Or would they prefer to show the clients the bare basics to demonstrate their current situation? This includes grouping all expenses and income and basically building a skeleton on which a discussion can take place. This way the paraplanner can then build the cashflow model to the advisers specifications but also still ensure that the client gets the best benefit possible from the visual aid.

There are also advisers who like more control than others. These individuals will complete the cashflow model from scratch themselves and, in most cases, will have all the bells and whistles including 'what if' scenarios too.

However, the majority of the time you will be completing the cashflow modelling yourself and in some cases be expected to go into the meeting with the adviser to demonstrate the model.

Then there is the unexpected scenario where the adviser has an idea on what they want to do but the client throws a curve ball into the mix and says, 'actually I want to see the scenario

in another way'. It would be then up to the paraplanner in the meeting normally to create an on-the-spot 'what if' to demonstrate another way their finances could go dependant on the client situation.

In summary

The key question thrown up by all of this is whether cashflow modelling is king or in other words, is it really worth all the cost to the firm... including all the internal training and potentially external training too?

I'd say it is. I am an advocate of using cashflow modelling, I think it is a brilliant way to show another side to financial planning to clients who are looking for a solution or solutions to their problems. It is a visual aid and I have to stress it is an aid not a complete compendium of the client's situation. It adds a talking point to the discussion in relation to their financial planning. It enables the client to see we are trying to engage with them in all areas and our view is holistic and so helps create buy-in with the client.



I am an advocate of using cashflow modelling, I think it is a brilliant way to show another side to financial planning to clients who are looking for a solution or solutions to their problem

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BECOMING A SPECIALIST

Rob Kingsbury talked to Benjamin Fabi about the first two years of running his outsourced paraplanning firm Principled Paraplanning, his ethos and why he has specialised

Benjamin Fabi founded his outsourced firm, Principled Paraplanning, in January 2018, opening doors to clients in March of that year. It was the second time in his 11-year career as a paraplanner that he had set up his own outsourced paraplanning business. The first one he ran between 2010-12 but when it wasn't working out as he wanted, he changed career direction first joining The Time Bank and then going in-house.

In the intervening years, he says, he has put eight exams under his belt, achieving Chartered status and Fellow of the PFS, as well as becoming clearer on the kind of firm he wanted to establish and the kind of adviser clients he wanted to work with, i.e. those who hold the same values as he does.

One of the main differences between 2010 and now, he says, is that previously he was working as a financial planner and a paraplanner as well as serving a range of different advice firms. At the time he described it as being "five different paraplanners at once" because of the spread of work he was undertaking. Now

he is more focused and over the past two years has established a reputation for delivering highly technical and specialist work for clients. "Given the market for paraplanners and my own professional development, I felt there was a real opportunity for me to become the technical expert for firms, working not only as a paraplanning resource for businesses but also as the technical resource for paraplanning teams."

He works primarily with small, directly authorised businesses that need an independent paraplanner to do the technical aspects for them, either because they don't have the time, they lack the resource or the need someone independent to analyse a case from a technical perspective.

"I am leveraging my knowledge and skills sets, my technical expertise and experience of paraplanning gained over the past 11 years, to deliver a service my clients value," Benjamin says. This includes clients who have their own in-house paraplanning teams but who keep him on a retainer

to help with the technical aspect or to undertake in-depth calculations.

"I am working with people who are as qualified as I am and businesses I would like to be running if I were an adviser. They are small and dynamic and want to affect change for the good of the profession. They are the ones doing cashflow planning and who are keeping DB pensions where they are because they are right for the client and not passing assets over a line so they can take a fee."

As the name of his business suggests, the principles and ethics of financial planning matter to Benjamin. "It's about aligning my principles and the Graduation Oath I took when I became a PFS Fellow with the people and businesses I am working with.

"When you've worked across a number of businesses you see the difference between the industry side of the market which is self-serving, the brokerages that are focussed on their bottom line first and which have almost a veneer of doing the best thing for the client, and the professional side, those firms that are truly focussed on advancing the professionalism of what we do, challenging whether everything is right for the end client."

From a business perspective, focussing on his niche and the kinds of businesses he wanted to work with has been a form of marketing. "People can see from my website who I am, what I do and what I believe in. They can get the measure of me and it tends to mean I get approaches from the people I would like to deal with.

"There is a growing community of people who are focussed on financial planning as I think it should be done and I've had a lot of referrals from the people I work with."

NextGen

One of the key phrases that comes through when viewing the Principled Paraplanning website is 'advancing the profession'. Hence, it's no surprise to learn that Benjamin has become involved with the NextGen movement within the financial planning space. "There is an entire wave of NextGen financial planners coming through with exactly the mindset I was looking for when I decided to become outsourced again. There is a common thread for us all which is focussed on what

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the client wants to do, and how we are going to help them achieve that. Everything else, the products and tools they use, in the context of the client's needs, become less important. What's important is the purpose for which they are being used.

"In addition, many NextGen members are going out to universities and sixth form colleges and talking about financial planning as a profession."

Benjamin is a keen participant in the NextGen forums where he is happy to answer his peers' questions and share



the knowledge he has gained, with that view of helping to advance the profession. He does the same in the Paraplanner Powwow Big Tent forum and was recognised with a one-off award for 'Outstanding contribution to the paraplanning community'.

"It's exciting for me to be working now with this type of firm and to be part of this dynamic for change and to be able to feed back into it."

Setting up the business

In setting up the business, Benjamin says the first few months required "some heavy lifting", making sure his proposition was written down "and that I had all the necessary documents in place, the terms and condition, letter of engagement etc, as well as the regulatory elements.

"Then, in the first six months, every time I undertook a task I knew I would need to do again, I would create a spreadsheet or other resource template to save me time when next I came to do it, so I was streamlining my operations as I went along."

Also, he has running the business down to a fine art. "I don't find it takes me a lot of time. I track all my time via Harvest and looking at my time report to date this year, I've spent 85% of my time on billable hours."

While primarily operating a retainer model, Benjamin says he doesn't apply the retainer for a period, usually around three months, while he waits to see if he and the client can work well together and to assess the regular volume of work. He then charges a percentage of the expected work as the retainer and the client pays monthly for everything above that level.

"I've never had anyone not use up their retainer."

Working from referrals and highly focused

marketing channels where he is targeting a particular type of adviser, Benjamin finds most people who approach him to undertake work for them are on his wavelength. "I'm going to attract the kind of firm that needs my level of expertise and experience and will get the value from it; I'm at the more bespoke end of paraplanning, which means costs vary and I don't have a price list.

"When new clients contact me, we'll have a conversation to see if we're a good fit for one another. I won't take on clients unless they are happy that I am going to challenge them on their advice if I think there is a better way for the client. But I can count on the fingers of one hand the number of times I've had to raise something with a client in the past two years. Most of my clients want the security of independent advice on a case. They want critical input. They want me to ask 'Why?'.

In terms of business challenges, a major one he recognises is how he scales the business, when it is built around him doing the work. "The question I have is how to bring other people into the business. I'd need to be 100% sure they have the same foundation and mindset as me. This is something I'll be tackling over the next 12 to 24 months."

Advice for those going solo

If there is one piece of advice he would give people setting up their outsourced business it is "try not to force anything". He explains: "If a potential client talks to me I know they are interested but I'm not going to chase them to sign up. They will come when they are ready. I had a client who first contacted me in November 2018, they followed up in July 2019 and I got my first case from them in October 2019. That was right for them.

"Also, strive to put forward the best version of yourself. If you are honest in your opinion and generous with your time and knowledge to those who will value it, they will better understand who you are and in time that will pay off.

"It's letting people see that you are someone who is going to add value to what they do. And they will be the people you want to work with."

SIPP LOANS

How can a SIPP make a loan to an unconnected party? Stephen McPhillips, technical sales director, Dentons Pension Management, uses a case study to explain



As many readers may be aware, pensions simplification on 'A-Day', 6 April 2006, brought some welcome levelling of the playing field between self-invested personal pensions (SIPPs) and small self administered schemes (SSAS).

For example, it brought with it a common set of rules around contributions, it made property purchase identical across each vehicle including pension scheme borrowing rules, and it set an overall limit of tax advantaged pension scheme saving in either pension wrapper through the introduction of the lifetime allowance (LTA).

However, some key differences remain between SIPP and SSAS and these can drive the advice process one way or another; SIPP or SSAS. For those familiar with SSAS, it will be recognised that a SSAS can lend

monies to the sponsoring employer, or an associated company, participating in the SSAS. That lending has to take place within strict terms imposed by HMRC. These strict terms are in place because of the connection between the parties and the resulting danger of a loan taking place on uncommercial terms.

SIPPs, on the other hand, cannot lend monies to connected parties – either directly or indirectly – and we have a key differentiator between the two products here. It may be something of a surprise to learn that a SIPP member would lend funds from his or her SIPP to an entity that is not connected with them in any way, but it can, and does, happen.

How do SIPP loans work?

A fundamental factor in SIPP lending is the unconnected nature of the borrower. This, in turn, means that the lending can take place on terms quite different to those that would apply if the borrower was a connected party, such as with a SSAS loan to an employer. It stands to reason that the loan should be granted on fully commercial terms because the lender and the borrower are not connected with each other. There is therefore no need for HMRC to impose a pre-determined set

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of terms upon the parties; normal open-market forces should be at work.

It is absolutely critical that the entity borrowing from the SIPP can always be identified. If the borrower cannot be properly identified, how can the SIPP provider be certain that SIPP monies do not find their way to a connected party and hence result in an unauthorised payment taking place? Whilst some lending platforms do allow for the end-borrower to be identified, some do not and those that don't may find that SIPP providers will not allow access to that lending platform through their SIPP products.

Having satisfied the requirement that the borrower is a truly unconnected party, the next considerations tend to be around the amount of loan to be granted, the interest that will be generated on the loan and the level of security being offered to the SIPP as lender.

Lending terms

As we have already covered, the loan terms do not need to replicate those that would apply to SSAS lending, and frequently they don't. For example, a SIPP loan could be granted on an unsecured basis. Contrast this with SSAS loans which



must be secured by a First Legal Charge. The term of a loan may be for more than five years, unlike SSAS, and the interest rate would be agreed between the parties. The interest rate is likely to be reflective of a number of factors, including:

- The borrower's perceived ability to repay the loan plus interest over the term
- The nature of the security (if any) being offered by the borrower
- The borrower's intended use of the funds
- Current interest rates being offered elsewhere, including bank deposit rates
- Likely returns available through other investments and asset classes.

Unlike in a SSAS, there is no HMRC maximum limit on the amount of SIPP funds that can be loaned to an unconnected party. So, in theory, a SIPP member could lend 100% of his or her funds to the borrower, instead of the 50% maximum that applies to SSAS. In practice, however, some SIPP providers will place a restriction on such lending within their SIPPs because of the risk that they may represent. That restriction may vary depending on whether the loan is secured or unsecured, and the nature of the security itself.

Case study: SIPP loan to an unconnected party

John and Carl have been friends for many years. John is a senior partner in a sizeable provincial law firm and Carl runs a property development and construction business. John knows the quality of Carl's work and has been impressed with it over the years they have known each other.

Carl informs John that his limited company business is nearing the completion of two luxury apartments, but that it has encountered a temporary cash flow issue. In turn, this is meaning that Carl cannot finish the construction of the apartments to get them onto the property market. Carl tells John that it will cost around £125,000 to complete the projects. John knows the local property market very well in his capacity as an experienced conveyancing lawyer. He is confident that, once complete, the apartments will sell very quickly.

John speaks to a longstanding financial adviser connection of his to ascertain whether he can assist in any way using his accumulated SIPP pension pot of £375,000. A joint meeting then takes place, at which John, the adviser and a trusted SIPP provider connection discuss the options.

SIPP purchase / part purchase of the apartments is ruled-out because they are residential, and hence taxable if owned by the SIPP. SIPP purchase of shares in Carl's business is ruled-out because John does not want to interfere in the day-to-day running of Carl's business. Both of these options would have provided cash to Carl's business.

Having obtained confirmation that there is no legal connection between John and Carl, the trusted SIPP provider confirms that John's SIPP could lend monies to Carl's business. A loan of £125,000 is agreed between the parties and John's SIPP obtains a Legal Charge to secure the lending. Within around a year, the apartments are completed, sold and the loan is fully repaid with 8% interest into John's SIPP.

DISCOUNTED GIFT TRUSTS

Discounted Gift Trusts are useful IHT planning schemes and are often tested in the CII AF1 Personal Tax and Trust paper. In this article Catriona Standingford, MD of Brand Financial Training, takes a look at their main features

A Discounted Gift Trust (DGT) is a very useful inheritance tax (IHT) planning tool for those individuals who have an IHT problem but would also like to receive an 'income' (remember this is not true 'income' but in fact payments of capital).

A DGT comprises an investment bond held in a trust; the trust can either be a discretionary trust (where the trustees have flexibility over the choice of beneficiary) or a bare trust (where they don't). In this article we assume the use of a discretionary trust.

The trustees hold onto the trust asset for the ultimate benefit of the beneficiaries but in the meantime the settlor has the right to receive an 'income' for life; they do not however have any right to the capital.

Because the settlor is entitled to regular payments of 'income' for the rest of their life the value of the transfer into the trust is discounted for IHT purposes. If death occurs within seven years it is the discounted amount that is included in the estate. There is therefore an immediate

IHT reduction with the discount based on the value of the payments, age and life expectancy calculated through underwriting. The longer the settlor is expected to live the larger the discount. Once seven years have elapsed then the gift becomes an exempt transfer and is outside of the estate anyway.

The gift into the discretionary trust is treated as a chargeable lifetime transfer for IHT purposes but as long as the transfer is below the nil rate band then the 20% upfront tax will not apply (assuming no previous gifts were made).

An example

An investment is made of £100,000 into a DGT. The settlor receives £5,000 per year as an 'income' for life. Based on health the value of their

right to this £5,000 per year payment is £40,000. The amount of the discounted gift is therefore £60,000.

If death occurs within seven years the £60,000 is back in the estate for IHT not the £100,000. Any growth on the bond is also outside of the settlor's estate. However as it is a discretionary trust there are 10 yearly charges and exit charges to consider.

Upon the settlor's death the fixed 'income' stops. The investment bond can continue if there was a second life insured and it can carry on being used as a tax efficient trust investment. If the trustees use their discretion to cash in the bond this is a chargeable event and if this occurs in the tax year after the one when the death

of the settlor occurred the tax charge will be assessed on the UK resident trustees.

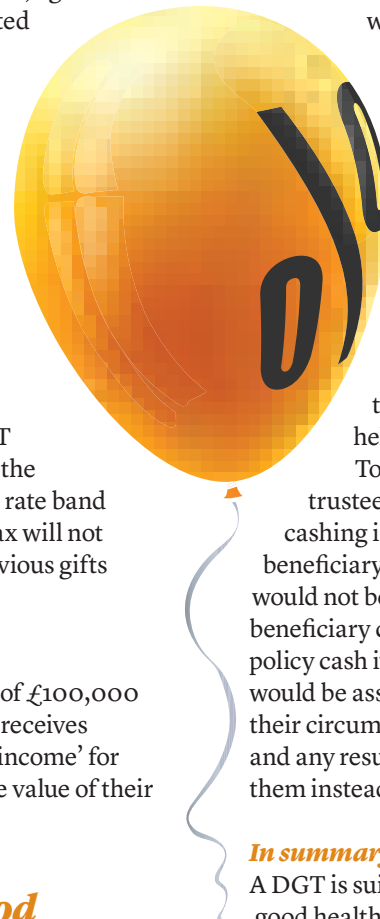
Trustees don't benefit from top slicing and the charge for a discretionary trust is 45% for income above the trust's standard rate band and 20% for income within in. On a chargeable gain that exceeds the trust's standard rate band therefore there is a 25% liability on the trustees, assuming the bond is held onshore.

To avoid this tax charge the trustees could, instead of them cashing in the bond, assign it to a beneficiary first. This assignment would not be a chargeable event and the beneficiary could then as owner of the policy cash it in and the chargeable event would be assessed on them. Depending on their circumstances top slicing may be used and any resulting tax would be charged on them instead of the trustees.

In summary

A DGT is suitable for those people in good health (to secure a good discount) who want to make a gift of assets to reduce IHT (with some immediate effect) but who also wish to receive regular fixed payments from the gifted capital (albeit usually capped at 5%).

To be effective for IHT purposes remember the payments must be spent by the settlor.



A DGT is suitable for those people in good health who want to make a gift of assets to reduce IHT but who also wish to receive regular fixed payments from the gifted capital

PROTECTING CLIENTS' HOMES

Chris Dunne, proposition manager, Scottish Widows, considers the protection needs for homeowners with new or existing mortgages



Financial planning, where a mortgage is involved, should ensure clients have sufficient and the right kind of protection in place for their needs. This is equally important for both new mortgages being arranged and for existing ones in place.

Our homes are usually one of our two largest assets – in most cases a pension being the other. A mortgage will often be the biggest financial debt we take on as individuals and it is important that should death or serious ill-health occur, a client and his/her family are not at risk of losing their family home. Putting in place the right cover can mean people are able to focus on their health and wellbeing rather than worrying about whether they will have a roof over their heads.

There are two types of protection cover we believe should be considered when financial planning for mortgage protection, life and critical illness.

Life cover

Putting in place life cover for their mortgage debt can give homeowners, particularly

those with families, peace of mind. The payout will allow those they leave behind to settle the mortgage, and have the security of their home about them, while they deal with the impact of bereavement.

Protection of this nature can be set up in number of ways, depending on the client's individual needs. Considerations will include whether the cover is:

- For the length of the mortgage or a more extended period;
- Purely to protect the amount of the mortgage or if the client wants to have cover beyond this to, for example, also provide a financial buffer for their partner/family;
- Reducing over time as the amount of the mortgage debt becomes less.

Critical illness

Critical illness cover can provide a significant boost to family finances at a time of emotional and financial stress. These policies are designed to pay out a lump sum, or monthly payments, should the individual be diagnosed with a range of illnesses.



And contrary to insurance myth, the majority of claims are paid out on.

Advances in medical science mean more and more people are surviving critical illnesses but when an individual becomes ill, it can mean they are unable to work for indeterminable periods of time and they may also require ongoing specialist help. If people do return to work, it can be at reduced hours. This can have a serious impact on household finances, not least the ability to make mortgage repayments.

Hence, having cover to protect against the financial consequences of these events can be invaluable.

Flexibility is key and cover should enable an individual to choose the type of protection that best suits their needs. This can be life, critical illness or a policy combining both, and cover that is level term or makes payments that rise with inflation. It should also include the option to choose payment as a lump sum or as a monthly family income benefit. This way clients can choose, for example, to pay off the mortgage with a lump sum, or select a monthly payment to help meet their monthly expenditures and financial commitments.

More than financial stability

It's also not just about meeting financial needs in respect of mortgage payments. Having additional support from professionals able to give advice and emotional support to individuals and their families from day one, is fundamental in our eyes.

As such, I would suggest any financial plan should have a financial back-up including life and critical illness cover, and also include professional support services, so that should an untoward event happen, clients have the right financial protection and assistance when they need it most.

Putting in place life cover for their mortgage debt can give homeowners, particularly those with families, peace of mind

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 69%	3	MIXED INVESTMENT 0-35% SHARES 25%	5	VOLATILITY MANAGED 13%	7	GLOBAL 10%	9	PROPERTY 8%
2	MIXED INVESTMENT 20-60% SHARES 53%	4	PERSONAL PENSIONS 18%	6	SPECIALIST 12%	8	UK EQUITY INCOME 9%	10	UK ALL COMPANIES 8%

WITH AN 11-YEAR BULL RUN TO DATE, WILL WE SEE A MARKET DOWNTURN IN THE NEXT 1-2 YEARS?

YES	50%
NO	15%
NOT SURE	36%

DO YOU CONSIDER THIS WILL BE A MINOR OR MAJOR DOWNTURN?

MINOR	45%
MAJOR	13%
NOT SURE	42%

WHAT PROPORTION OF ACTIVE AND PASSIVE INVESTMENTS DO YOU CURRENTLY USE?

ACTIVE INVESTMENTS	62%
PASSIVE INVESTMENTS	38%

IN (PREPARATION FOR) A DOWNTURN WOULD YOU INTRODUCE GREATER EXPOSURE TO MARKETS THROUGH ACTIVE MANAGEMENT?

YES	38%
NO	36%
NOT SURE	26%

Total number of respondents: 167

Speculation that the current bull run – currently at 11 years – must come to an end soon has been in the air for the past two years and more. Quite clearly from our parameters survey (thank you to everyone who completed it) the majority of paraplanners are watching the markets in anticipation of a downturn, although most believe it will be a minor downturn, with just 13 % expecting a more serious event.

The use of passive investments has been growing exponentially over the 11-year period, with numerous financial planning firms adopting a passive-only strategy, pitching in the simplest of terms, the fact that markets continue to rise – major and minor downturns being temporary events on an otherwise upward trajectory – and the cheaper costs of passive investments affecting overall returns for investors

As our survey shows, however, paraplanners involved in their firms’ investment strategies are using a higher proportion of actively managed funds to passives. In addition, in a downturn, and in preparation for one, 38% of paraplanners would consider increasing their exposure to actively managed funds.

Opinions amongst this group of paraplanners on the use of passives should a downturn look

imminent varied. There was concern that in a downturn or market crash passives will follow the index down, with comments such as “passive investing is foolhardy in a market downturn” and swift review would be undertaken “if we felt there was a likely downturn on the horizon”, with some paraplanners suggesting it was “not a good time to be in passive funds right now”. Active fund managers it was suggested were “more likely to react quicker to market data”.

Use of discretionary fund managers was cited as a means to offset the negative impact on passive investments of a market downturn, as the DFM is able to move tactically out of passives and into actively managed funds without having to obtain client permissions.

Amongst the 36% who said they would not increase their weighting to active fund management in the likelihood of a downturn, an already active stance “which we think is a good position for a market downturn”, and existing use of DFMs and outsourced fund management were given as reasons, as well as holding a balanced portfolio of passives and actives, believing this “would not be much affected by any potential downturn”.

Others pointed out that investments should

be long term and “you cannot time the markets”, that asset allocation was a better strategy for weathering market downturns, as well as what was right for the individual client, i.e. their attitude to risk which had seen them invest into passive funds over active management. “I wouldn’t change investment strategies, especially for accumulation. I might consider for short term but then if it’s that short, you should probably be in cash,” one paraplanner commented.

Paraplanners opposed to a tactical move into active cited “no clear evidence showing active management is any better at protecting values than passive management”; “Our firm’s philosophy is that the academic evidence provides little additional advice premium or ‘alpha’ from active management”; in other words, “Something of a myth I think!”

YOUR QUESTIONS ANSWERED

HAVE YOU SET YOURSELF A MAIN GOAL FOR 2020 AS A PARAPLANNER?

YES 66% **NO 34%**

You can read more on this story on the Professional Paraplanner website)

SURVEY PRIZE DRAW

Congratulations to Warren Bentham of 75point3 Ltd., 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.

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. How many qualifying years are needed to receive the full new State pension?

- A 35
- B 36
- C 38
- D 40

2. David is keen to reduce the risk of his assets, what are the two ways he could achieve this?

- A Hedging and diversification
- B Correlation and standard deviation techniques
- C Systematic and non-systematic risk applications
- D Efficient frontier theory and risk ratios

3. Kevin is a cautious investor but would like to benefit from the potential returns from property. Which of the following might mean he prefers to do this through an insurance company property fund rather than through a Real Estate Investment Trust (REIT)?

- A The insurance fund should be a lower risk as they cannot utilise gearing
- B He would rather be in a pooled investment with other investors
- C He wants to avoid the 6-month potential deferral period on encashment
- D He wants to use his Capital Gains Tax annual exempt amount on encashment

4. Sheila is being advised to place her life assurance policy in trust. If she does this, which of the following statements is true?

- A The policy remains in Sheila's ownership until her death
- B The proceeds will go directly to the beneficiaries on her death after probate
- C The policy is not normally protected from creditors if Sheila is declared bankrupt
- D The premiums and the proceeds are normally exempt from inheritance tax

5. Your client Gerald has a portfolio spread across each of the four main asset classes. If the economy is booming, what effect (if any) is it likely to have on the price the fixed interest securities within Gerald's portfolio?

- A It will have no effect
- B The prices will rise quickly
- C The prices will rise slowly
- D The prices will fall

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

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

7. What benefit might a member of a final salary pension scheme who requires long term care before reaching retirement age under the scheme be able to access?

- A Ill health early retirement benefits
- B All of their benefits paid as an immediate lump sum
- C Waiver of Premium benefit
- D Critical Illness cover

8. Glenda needs to go into residential care following a stroke although she has been told that in a year or so's time she may have recovered sufficiently to return home to her house valued at £250,000, which she does not wish to sell. She needs to release some funds to help fund her care – which of the following would be least suitable in these circumstances?

- A Lifetime mortgage with drawdown
- B Borrow from relatives
- C Short term letting of the house
- D Home Reversion Plan

9. Kim is 60 and has no taxable income in 2019/20. She has a personal pension valued at £300,000 and decides to take £40,000 of this as a UFPLS. What net payment will she receive?

- A £30,000.
- B £32,000
- C £36,370.
- D £36,500.

10. Joanne and Tim are converting a barn into their home. In order to reclaim the VAT on materials they need to ensure it was:

- A Previously a residential property for at least 10 years
- B Built with the environment in mind using only green materials
- C Built within eighteen months of buying the materials used in the build
- D Previously a non-residential property which hadn't been lived in for the previous 10 years

Your answers

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

Last issue's answers

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

Answers and cross-references 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>

FIVE MINUTES WITH...

This issue Rob Kingsbury speaks to Rebecca Lucas, founder of Lime Outsourced Paraplanning, about her decision to take her research on platform comparison and turn it into an App – WrapCompare

WHAT WAS THE CATALYST TO DEVELOP YOUR OWN SOFTWARE/TOOL?

I was doing annual due diligence for one of my clients one day and we were at the stage when we needed to compare costs for different segments of his client bank (having manually done the qualitative research first). In previous years I had tried different tools but this client was never completely happy with them; many things I had tried were overly complicated and expensive. At that point I thought, if I can't find what we need I'll build it myself. And so WrapCompare was born.

IT'S A BIG STEP TO TAKE – HOW DAUNTING WAS IT?

Because I was so passionate about what I was doing, it wasn't daunting to get things started. I just decided to go for it!

DID BEING A PARAPLANNER INFLUENCE THE DESIGN?

It definitely helped me. I started with a sheet of paper and sat down and designed my dream tool. I'm a strong believer in keeping things simple, so the overriding ethos from day 1 was that the tool needed to be quick, simple and effective. I'm also in the fortunate position of working with lots of great advisers and paraplanners so I asked them for features they'd like to see and made a list of key requirements of the ideal tool.

Whilst the tool was in development I was talking to advisers and paraplanners about it and they would say "but does it do x" or "what about this

scenario", then I would go off and get those things added. Feedback from others has been key and it will continue to be key going forward. We are really active in asking current users for feedback and suggestions.

HOW DIFFICULT WAS IT TO DESIGN IN A COMPLEX AND REGULARLY CHANGING MARKET?

This was definitely the hardest part. The reason I started WrapCompare was to make comparing platform costs really simple for people (because they can be so complicated and vary between providers).

Once you really delve into platform pricing you realise how they all vary (lots of them have tiered charges but there are quite a few variations within the tiered providers). The trickiest ones were providers that have different tiers for different tax wrappers – in calculating the tiered charge each month you need to pass the entire portfolio value through each tax wrapper tier. Luckily I enjoy maths and a good challenge but it was a great day when myself and the developers cracked that one!

HOW DOES THE TOOL MAKE PARAPLANNERS' LIVES EASIER?

I've had feedback so far that the tool is saving people lots of time as they can literally log in and do a comparison in a matter of minutes.

WrapCompare does away with the need for spreadsheets and trying to keep these up-to-date and accurate, which in itself saves people time. It's great for annual due diligence but also once you have a panel/short list, it can quickly help you decide which provider from your shortlist would best suit an individual client (we have a filter function allowing users to only search certain platforms). We then provide a PDF for the file which summarises all of the research.

Something else that saves time is that once you have built a set of comparisons, they are stored and you can rerun them next year and the current platform charges will be applied.

HOW IMPORTANT WAS PARAPLANNER/ADVISER FEEDBACK AT THE BETA STAGE?

This was really important. I was so grateful to get detailed feedback from people I really respect – their comments were invaluable. My testers thought of a few things I hadn't thought of so I set about making some changes before launch. I firmly believe in feedback so from day one we have actively sought input from users.

HOW CAN PARAPLANNERS FIND OUT MORE?

Go to www.wrapcompare.co.uk and we will give you a 30 free trial so you can see the system for yourself.



WHEN A CLIENT DIES

Advice firms should make supporting a client's executors their New Year's resolution.

Ben Charrington, head of Estates and Probate, Octopus Investments, explains



It's common for communication to break down when a client dies. I recall one conversation I had with an executor. I'd got in touch to explain my role and how my team could support. It soon became clear the executor didn't realise an investment qualified for relief from inheritance tax. That phone call saved the estate £40,000.

Breakdowns in communication aren't usually so dramatic. And the majority of advice firms I work with are well prepared for when a client dies.

But it is very easy for things to go wrong. It's normal for the distribution of the estate to be held up because the right information isn't to hand, for example. So it pays to revisit the process you have in place.

I've seen first-hand that having a robust process for when a client dies makes a real difference when it comes to ensuring

the estate is passed to beneficiaries smoothly and efficiently.

What to do ahead of time

There's a lot that advice firms can put in place long before a client dies to support executors and beneficiaries.

Executors are responsible for establishing the value of an estate and distributing it to the beneficiaries. Without the right records and information, this can be a long and challenging affair.

It's good practice to help older clients prepare a pack for their executors. It should contain useful information in one place, such as the latest will, annual tax returns and a key contacts list. It's also a good idea to add a clear instruction to call the financial adviser or paraplanner, who are best placed to advise executors on any investments a client has made.

Some providers will offer a helping hand with this. We have an extremely popular document called 'What I own and where I keep it'. It's a simple document that you help clients to fill in, which they can leave to make life easier for the executors of the estate.

It's also a good idea to get you, the adviser, the client and the client's executors all together in a meeting. It will mean that the

first time you speak to executors won't be when your client has passed away. And it's a great chance to explain any planning that's in place and how the probate process works.

Paraplanner's role

Paraplanners are in a great position to refine the process for when a client dies. After all, they're often the ones supporting executors when they need it most and providing an accurate valuation of the estate.

A good first step is to bring up the conversation with advisers you work with about reviewing the process that's in place, and where improvements might be made.

You should also talk to investment providers about their processes and support. Every provider has its own process for when a client dies. And it's a good idea to familiarise yourself with these and to ask what practical support the provider can give you during the process.

Five steps to take when a client dies

When a client passes away, following these steps will help administering the estate run more smoothly and ensure that any estate planning you've done works as it's supposed to.

- 1. Arrange to meet the executors.** You can reassure the executors you are there to support them and let them know how you can help.
- 2. Start requesting date of death valuations from investment providers.** Requesting valuations is a great way to take some of the burden off executors at a difficult time.
- 3. Speak to the solicitor so they know you're involved.** Solicitors won't always think to involve the financial adviser and paraplanner, so this is a good call to make.
- 4. Highlight any tax benefits of the estate planning your client had in place.** You need to make sure all relief is claimed. There may also be tax benefits for the beneficiaries who inherit an investment, which executors and beneficiaries may need your help to understand.
- 5. Arrange to meet beneficiaries.** The adviser and paraplanner can meet beneficiaries to help them understand their options, finances and provide them with any advice they may need.

Paraplanners are in a great position to refine the process for when a client dies. After all, they're often the ones supporting executors when they need it most

SETTING GOALS

As well as setting up her firm Unity Paraplanning, in late 2019 Kat Mock joined the PFS Paraplanner Panel. Here, she talks about why and her goals for 2020



As the newest member of the PFS Paraplanner Panel and a huge fan of New Year's resolutions, I thought I would share why I felt it was important to join and my work goals for the coming year. I've been a paraplanner for nearly 10 years. I started working for a provider in IFA sales support (a technical role not sales!) then despite lack of interest from recruitment companies, set out to secure a role with an IFA firm, where, luckily, my first paraplanning manager recognised that the raw skills were there, and the rest could be taught.

The first few months were a steep learning curve. I had some technical knowledge but no real-life practical application. I relied very heavily on the team around me and this helped me to learn the ropes. It was challenging and difficult at times but exactly the type of work I enjoyed.

I still love paraplanning. Which is why being invited to join the PFS Paraplanner

Panel was an honour and I can't wait to get stuck in. Whilst not a comfortable public speaker, I believe strongly in sharing knowledge and best practice. No single person can be amazing at everything so collaborating and being open to new ideas is an important part of my values. The industry is constantly changing so it's important for us to be flexible enough to change and flex with it, to stay on top of our game.

To that end, I thought I would share what I'm focussing on for the coming year:

UNDERSTANDING THE CLIENT

Planners know their clients. I'm not just thinking about fact find information here, I'm more referring to their personality, their preferences and how they are likely to feel about the options available to them. On top of this, they understand the client's style and how they might respond to specific

forms of communication. Planners are a goldmine of useful information so taking the time to ask questions and understand the background can only make the reports better.

WORKING ON MY WRITING STYLE A big learning point for me this year was tact. I always thought of myself as a fairly

sensitive person but occasionally this can get lost in recalling the facts of the case as I see them. The last thing any of us would like to do is offend or upset a client on the first page of the report! This year I will be focussing not only on being clear and concise but also softening my tone a little to communicate the valuable advice more effectively.

To do this I will be enlisting the help of my team and listening to feedback from the planners I work with. Proofing reports and having your own work proofed is incredibly beneficial. It helps to challenge and improve your own writing style and how to structure ideas and concepts. In the past, this has helped me move from writing paragraph on paragraph, to being much more concise - using simple language to explain things in a client-friendly way.

CPD CPD CPD! Keeping up to date

with technical skills, calculations and legislation has been challenging for me over the years. In particular, since setting up Unity, I've struggled with balancing the need to get the work done well and on time, with keeping on top of self-development.

As a paraplanner, it is monumentally important to keep your knowledge sharp and relevant so this will be a focus for me in the coming year. To

do this, I will be attending several great events, the PFS Purely Paraplanning conferences among them.

TAKING TIME OUT As a paraplanner there is always more you could be doing. There are reports to write, templates to update, clients and planners to look after. However, the quality of these things can suffer without an adequate amount of down time. This year I will be aiming to bring some balance, enjoying my time out of the office so that I can be refreshed and productive in my work.

Making goals and achieving them are entirely different things, I know. But taking stock, being honest with ourselves and making plans to improve are vital to both personal and professional progress. Also, happily, it's a great excuse to make a list.



I believe strongly in sharing knowledge and best practice. No single person can be amazing at everything so collaborating and being open to new ideas is an important part of my values

Professional Paraplanner

The Investment Committee

In association with



This dedicated section within the magazine and on the *Professional Paraplanner* website provides 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 market trends and commentaries

21 Outlook for 2020

David Jane of the Premier Miton Multi Asset team gives their collective assessment of themes and trends to consider in 2020 and beyond

22 Infrastructure investing

Darius McDermott, managing director of FundCalibre looks at the evolution and growth opportunities of infrastructure investing

24 Guide to... Investment trusts

We continue our new series of articles providing guides to key subjects with an article on investment trusts. Elmley de la Cour, communications manager at the Association of Investment Companies (AIC) provides insight into their structure, pricing, their difference from mutual funds and why they should be considered long-term investments.

Investment Committee events

Professional Paraplanner's Investment Committee event will take place on 7 April 2020 in London, where you will hear from some of the top names in UK investment. Places will be limited so register now to secure yours. We will be taking The Investment Committee events to Manchester and Edinburgh later this year. Please keep an eye on our website for further details. To register for a place in London, or to register your interest in our Manchester or Edinburgh events please email: lousia.hooper@researchinfinance.co.uk



OUTLOOK FOR 2020

David Jane of the Premier Miton Multi Asset team gives their collective assessment of themes and trends to consider in 2020 and beyond

As outcome focussed multi asset investors, we do not see much mileage in forecasting economies or markets. We do however need to consider the investment environment globally and what are, and will be, the major drivers of returns in the coming period. At this time of year, we inevitably find ourselves pondering the environment for the current year and beyond.

Our funds are focussed on both the macro environment, factors such as economic outlook and interest rates, and the long-term thematic trends driving the internal dynamics within economies. By combining

the two we can achieve both additional returns, but also extra diversification.

This year we think there will be three main drivers of the market environment: central banks, politics and the economic outlook. Naturally, the three interact but their relative importance changes over time. Central bank intervention has been a dominant theme for ten years now, in the post global financial crisis era. Central banks' traditional role of setting short term interest rates has expanded to include active intervention across asset markets. While this approach is claimed as an attempt to re-inflate the real economy, its principal effect seems to be to inflate asset prices, particularly equities.

We expect this to be an ongoing feature of markets for the foreseeable future. On each occasion that asset markets have weakened materially, central banks have stepped in with large doses of additional liquidity or interest rate cuts.

Politics and risk

Another relatively new driver of asset prices is politics. For an extended period, the broad political environment was settled, at least in the way it impacted markets. This is no longer the case, as evidenced by Brexit, the US-China trade wars and Hong Kong protests, to name just a few. We think this will continue to be a feature in 2020 and beyond. Indeed, we think it may accelerate, driven by ongoing wealth inequality, which itself has been exacerbated by the impact of central bank intervention of asset prices. For our funds, we see this as mainly a risk rather than a return opportunity, hence our main approach is to avoid political risk through diversification.

The economic outlook will always be an important factor in markets, particularly in

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their internal dynamics, such as the relative performance of cyclical sectors versus more defensive areas. Last year saw a general decline in economic leading indicators worldwide, leading to the expectation of slowing growth, or even recession.

Some see the US-China trade tensions as having been the major driver of this slowdown and therefore, expect the partial resolution to lead to a reacceleration. Time will tell, but in the meantime, we have moved from a defensive bias within our equity to a more neutral stance.

Key trends

Turning to the main thematic drivers for our funds, they fall into two main areas: demographic change and technological change. Within demographics, a major theme for us over time has been the ageing populations in the developed world. Hence, we consider healthcare a major growth opportunity as well as companies serving the savings industry. Other demographic changes to consider are the growth of

We think there will be three main drivers of the market environment: central banks, politics and the economic outlook

the consumer markets in the emerging economies, driving demand for both basic consumers goods as well as luxury goods produced in the west.

Technological change is an increasingly important driver of economies. Our two main current areas of focus are the digital revolution, encompassing everything from the internet consumer markets, gaming, as well financial technology, and semiconductors. Online consumption in all its forms continues to replace traditional industries and this is set to accelerate with the introduction of 5G communications technology in the coming years.

The global energy economy is also

undergoing rapid change and we have been interested in the renewable energy transition for many years. The transition to renewables is driven by basic economics, these energy sources are rapidly becoming cheaper, leading to their adoption at the expense of fossil fuels. There are many ways to get involved, such as the wind turbine manufacturers and solar panel producers as well through utilities with green energy fleets.

To conclude, we see numerous opportunities in 2020 and beyond, driven by a predictable central banking environment and numerous attractive themes in which to invest.

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INFRASTRUCTURE INVESTING

Darius McDermott, managing director of FundCalibre looks at the evolution and growth opportunities of infrastructure investing



Whether it is roads, airports, hospitals or schools, infrastructure is an essential element of modern society and plays a major role in the global economy. It's a structural trend which goes beyond any political rhetoric. Infrastructure will always need to be built and renewed. That is what makes it an attractive long-term investment.

Having traditionally been the domain of the institutional investor, the past decade has seen infrastructure and renewables become increasingly available to the retail market. It's come onto the radar for numerous reasons: it is a sector with exposure to essential services with strong pricing power, structural growth, high barriers to entry and steady cashflows.

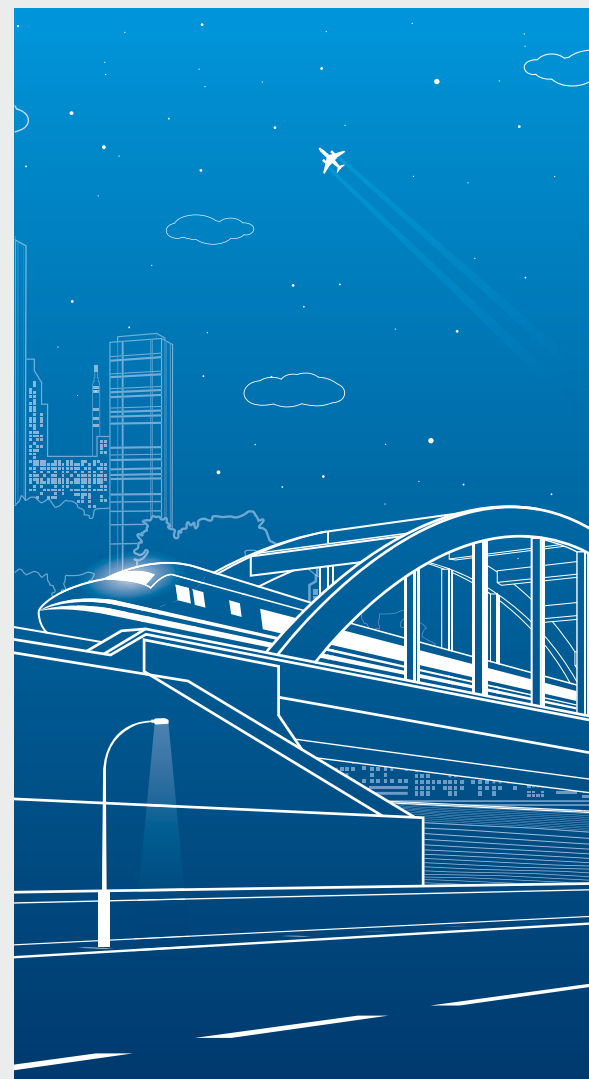
It's also a low beta asset class, which has demonstrated its ability to be lowly-correlated to traditional investments,

while also retaining a number of defensive characteristics. The defensive nature is supported by the fact infrastructure has an explicit link to inflation, courtesy of regulation, concession agreements or contracts. According to figures from First State Investments, 70% of investment assets owned by listed infrastructure companies have an effective means to pass through the impact of inflation to customers, to the benefit of shareholders¹. Utilities, developed roads, oil pipelines, airports, mobile towers and bulk rail are examples of sectors with such protection in place. However, the biggest attraction has been the steady yields in the low interest rate world we've lived in for the past decade. In summary, it has provided security and diversity for investor returns.

Growing opportunity

Income may have stolen the headlines, but it has only been part of the story. I was pleasantly surprised to see that, in what has been a decade-long bull market, the FTSE Global Core Infrastructure sector has outperformed global equities, returning 234.61%, compared to 186.58% for the MSCI World².

With those figures you could argue the opportunity has been missed, but with infrastructure there is a constant



need to build and renovate – and the developed world has fallen woefully short on the care, maintenance and growth of existing infrastructure. Figures from Bank of America Merrill Lynch showed that infrastructure among G6 members – US, Canada, UK, Germany, France and Japan – has been in a multi-decade decline accounting for only 3.5% of GDP in 2018, a 70-year low². McKinsey takes this a step further by stating that global spending on economic infrastructure registered at \$2.5trn in 2015, well below what it believes is the required amount of \$3.7trn³.

While the public sector dominated the infrastructure market until the late 1980s, the rise of private companies has become clearer as time passes and more assets are sold into the sector by governments that do not have budgets to fund projects – the result being a preference for private

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companies to carry the risk. It's important to recognise in this scenario that while they may not be owned, certain types of infrastructure such as hospitals or solar energy (renewables), have been heavily supported by both the UK and other governments globally.

Fully-fledged option?

I expect we will see more listed infrastructure companies in the next decade – which should mean greater liquidity and lower fees for retail investors.

While there has not been a major contraction, the yields in the sector (particularly closed-ended products) have fallen to a degree, which will impact a lot of the “bond tourists” who've simply come into the sector to pick up those yields. That slight compression, coupled with less government support, has not prevented huge amounts of

money flowing into the sector. The demand is also supported by more fund launches into the asset class. We're also seeing large scale infrastructure development in China and India, as they seek to cater for growing populations and increasing urbanisation. Essentially, this is a growth opportunity that is hard to ignore.

Those wishing to access the asset class may want to consider the First State Global Listed Infrastructure fund, which has an historic yield of 3%⁴ and is managed by Peter Meany and Andrew Greenup. The managers build a 40-strong portfolio which specifically targets economically sensitive assets with barriers to entry and pricing power. Largest exposures at present include electric and multi utilities (38%) and highways and rail tracks (11%).

Another option is the VT Gravis UK Infrastructure Income fund, which invests

mainly in investment trusts exposed to different types of UK infrastructure. The fund has an income target of 5% which is distributed quarterly and it can invest in both infrastructure debt and equities. It has a minimum of 22 holdings but will have exposure to around 1,000 separate underlying projects.

¹ **First State Insights – Infrastructure as a hedge to inflation, May 2018**

² **FE Analytics, total returns in sterling, 1 January 2010 to 2 January 2020**

³ **BAML, The Long View, 16 September 2018**

⁴ **McKinsey, Bridging Infrastructure Gaps: Has the world made progress? October 2017**

⁵ **Fund factsheet, November 2019**

Past performance is not a reliable guide to future returns. Darius's views are his own and do not constitute financial advice.

INVESTMENT COMPANIES

We continue our new series of articles providing guides to key subjects with an article on investment companies. Elmley de la Cour, communications manager at the Association of Investment Companies (AIC), provides insight into their structure, pricing, their difference from mutual funds and why they should be considered long-term investments.



Whenever I'm trying to explain what investment companies are, I always start with the ways in which they're similar to open-ended funds. And there are several similarities.

Both investment companies and open-ended funds are collective investments. They are both professionally managed by fund managers and run with specific objectives: generating income for example or targeting growth from a particular business sector or area of the world.

But what makes investment companies interesting, is the ways in which they're different from open-ended funds.

THE 'COMPANY' IN INVESTMENT COMPANIES

The clue to the first thing that makes investment companies unique is in the name. Investment companies are public limited companies (PLCs) and as such are listed on a stock exchange. If you want

to invest in an investment company you buy and sell its shares on the stock market just as you would if you were investing in Tesco or HSBC. What this means for clients is that you can buy and sell investment company shares throughout the day whenever the market is open. There isn't a single daily dealing time as there is for most open-ended funds and there is no prospect of suspensions or lock-ins.

Investment companies are commonly known as investment trusts.

THE CLOSED-ENDED STRUCTURE

One of the biggest differentiators of investment companies compared to funds is that investment companies have a closed-ended structure. They have a fixed number of shares in issue which investors buy and sell, as opposed to the fund manager creating or cancelling units.

As a result, an investment company fund manager doesn't have to deal with inflows and outflows. He or she doesn't run the risk of being given money to invest when prices are high or being asked for it back when prices are low. There's also no need to keep part of the fund in cash to meet redemptions, which can act as a drag on returns.

Instead, investment company managers can make their decisions purely on the investment case and take a genuinely long-term view. This helps them deliver

strong long-term performance, which typically outpaces that of open-ended funds. According to Morningstar for example the average investment company returned 201% versus 106% for the average fund over the past 10 years¹, and comparisons of open-ended funds with investment companies run by the same manager ("sister funds") typically show investment companies coming out on top over longer periods.

DISCOUNTS AND PREMIUMS

The closed-ended structure also means that the price of an investment company's shares is driven by supply and demand in the market. That means it can be higher or lower than the value of the investment company's assets (the net asset value or NAV per share).

If an investment company has a NAV per share of 100p and a share price of 90p, for example, it's trading on a 10% discount. If the NAV is 100p and the share price 110p, it's on a 10% premium.

The most important driver of discounts and premiums is market sentiment. When asset classes and investment companies are out of favour, discounts widen, but when they're popular they can trade at premiums.

Discounts and premiums offer both an opportunity and a risk for clients. There's the opportunity for a greater return if a discount narrows, but the risk of greater loss if a premium shrinks to a discount or if a discount widens.

Because of this additional layer of risk, investment companies should be considered long-term investments, ideally five years or more.

GEARING

Another key difference is that investment companies, unlike open-ended funds, are able to borrow money to invest, known as gearing. In rising markets gearing can give a boost to returns, but when times are more difficult it's likely to drag on performance.

Like discounts and premiums, gearing is expressed as a percentage and calculated as a proportion of an investment company's NAV. Not all investment companies use gearing and across the industry the current average level is 7%, more modest than many imagine. In fact, just over half of investment companies have no gearing at all.

Like discounts and premiums, gearing can make investment company performance more volatile than open-ended funds, but it's a factor that can enhance performance over the longer term.

INCOME

With interest rates at record lows for the past decade, income has been a top priority for many investors and investment companies have powerful advantages when it comes to paying a higher or rising level of income.

As listed companies, they can invest in a wider range of assets than open-ended funds. This includes those with enhanced growth potential like private equity or venture capital, but also higher-yielding assets like infrastructure and renewable energy. Unlike open-ended funds, investment companies can also reserve up to 15% of the income they receive each year and put it into a revenue reserve. This enables them to hold back income in good years and pay it out in leaner times, helping to provide a smoother and more predictable income stream.

Have a look at the record of the so-called 'dividend heroes' (see table), investment companies that have increased their dividends year-on-year for decades in a row, a record unmatched in the world of collective funds.

SUITABILITY FOR ILLIQUID ASSETS

The closed-ended structure truly comes into its own when investing in illiquid assets like property, infrastructure and renewable energy. As investment company shares are bought and sold on the stock market, there are no inflows and outflows and investment company managers don't have to sell illiquid assets to meet redemptions.

If sentiment is poor and there is heavy selling pressure, investment company discounts will widen. This means investors who sell will take a hit, but they can still sell if they want to. The asset manager cannot impose a suspension.

On the other hand, as we've seen with the suspension of open-ended property funds after the EU referendum, the collapse of Woodford Equity Income and the suspension of yet more property funds more recently, open-ended funds and illiquid assets don't go together.

The suitability of investment companies

Investment company dividend heroes as at 19 December 2019 Source: AIC/Morningstar

Company	Sector	No of consecutive years dividend increased
City of London Investment Trust	UK Equity Income	53
Bankers Investment Trust	Global	52
Alliance Trust	Global	52
Caledonia Investments	Flexible Investment	52
BMO Global Smaller Companies	Global Smaller Companies	49
F&C Investment Trust	Global	48
Brunner Investment Trust	Global	47
JPMorgan Claverhouse Investment Trust	UK Equity Income	46
Murray Income	UK Equity Income	46
Witan Investment Trust	Global	44
Scottish American	Global Equity Income	39
Merchants Trust	UK Equity Income	37
Scottish Mortgage Investment Trust	Global	37
Scottish Investment Trust	Global	36
Temple Bar	UK Equity Income	35
Value & Income	UK Equity Income	32
BMO Capital & Income	UK Equity Income	26
British & American	UK Equity Income	24
Schroder Income Growth	UK Equity Income	24
Invesco Income Growth	UK Equity Income	22
Perpetual Income & Growth	UK Equity Income	20

is evident in superior yields and performance too. The average investment company in the AIC's Property – UK Commercial sector currently yields 5.8% whereas the average fund in the IA's UK Direct Property sector is 3.2%². Over the last ten years the average investment company and fund in these sectors returned 101% versus 64% respectively³.

BOARDS

The last key difference is that as investment companies are listed companies they have an independent board of directors who have a legal duty to represent the investors. It's the board who hires the fund manager, so if performance is poor over a sustained period they can fire them too. Boards can also negotiate lower fund management fees for investors. Ultimately, investment company boards add another layer of oversight which other funds don't have.

¹ Investment company performance is % share price total return of the overall weighted average investment company excluding 3i and VCTs. Open-ended fund performance is the IA OE Total Return. The time period

is 1 December 2009 to 30 November 2019. Source: Morningstar.

² Yields are the arithmetic averages for the AIC's Property – UK Commercial sector and the IA's UK Direct Property sector as at 30 November 2019. Source: Morningstar.

³ Investment company performance is % share price total return of the arithmetic average investment company in the AIC's Property – UK Commercial sector. Open-ended fund performance is % total return as an arithmetic average of funds in the IA's UK Direct Property sector. The time period is 1 December 2009 to 30 November 2019. Source: Morningstar.

FURTHER INFORMATION

The AIC's website (theaic.co.uk) has a wealth of investment company information including data on performance, gearing, discounts/premiums, dividends, charges, portfolios and more. The website also contains full details of online and face-to-face training for financial advisers on investment companies, available free of charge and accredited by professional bodies. The AIC invites you to get in touch if you require further information.

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Professional Paraplanner CPD questions for Structured CPD verification

SIPPs (p10)

SIPPs can lend monies to which of these?

- Connected parties directly
- Connected parties indirectly
- Unconnected parties

SIPPs (p10)

Name one of the three considerations for a SIPP loan once the borrower is known:

SIPPs (p10)

The maximum amount of a SIPP that HMRC allows to be loaned to an unconnected party is:

- 25%
- 50%
- 75%
- 100%

Discounted Gift Trusts (p12)

A DGT can be comprised of an investment bond held in:

- A discretionary trust
- A bare trust
- Either of these

Discounted Gift Trusts (p12)

With a DGT the settlor has a right to which of the following:

- Income
- Capital
- Both

Discounted Gift Trusts (p12)

If death occurs within seven years IHT includes:

- The full amount settled into trust
- A discounted sum reflecting income to the settlor

Setting goals (p18)

Name one suggestion made for better understanding the client

Setting goals (p18)

Name one suggestion made for writing better suitability reports:

Outlook for 2020 (p21)

Name one of the three main trends the writer believes will affect the market environment in 2020:

Investing (p22)

Infrastructure as an asset class has demonstrated what two characteristics?

1.
2.

F.I.R.E.

Could this be a new strategy for a new decade? Maybe, says Jacqueline Lockie, head of Financial Planning, CISI



In 2019 what is probably best described as a financial movement became more prominent in the USA. It is called Financial Independence, Retire Early (F.I.R.E.). We love our anacronyms don't we. So, what is it and could it help clients?

The concept isn't really new. It was born from a book written in 1992, *Your Money or Your Life* by Vicki Robin and Joe Dominguez and suggested that for some people a concept of consciously living frugally now and investing more towards their retirement, could drastically reduce their time in work and they could retire very early and enjoy the life that they wanted to lead.

Who might it be suitable for? Well, I'm sure you can think of a few scenarios. Perhaps adults without dependants, perhaps some in extremely stressful jobs or where they know that the job they do cannot last. That could include professional sportsmen and women, fund

managers, professional dancers such as those on Strictly! But they would all need to be earning a substantial amount of money to enable them to cut back severely on their living expenses. There is a bit of a conflict here isn't there, in that often these people often live fairly lavish lifestyles. Many are also younger and so might believe that whilst their current occupations might not last, they would still find alternative occupations which would pay close to the same amount. That concept of rosy coloured specs is one I have come across myself when I used to give advice. If they have a young family, perhaps children at private school, this all makes living frugally very hard to achieve.

But certainly, it does seem that it can be useful for some. I used to have a couple

who were clients and they were both surgeons. Whilst they had one young child, they admitted that as a couple they rarely saw each other and all their dreams for travelling together as they had done prior to marriage, jobs and children, had faded.

They were naturally quite frugal people. They watched and accounted for every penny. Their main reason for doing so, was that they wanted to retire earlier than most of their colleagues. They had things to do! They chose to invest their excess money and also to take on additional private client consultancy work. That private (non-NHS) work was all saved. They made some personal sacrifices along the way. They chose only to have one child, they chose not to move to a new house as their income rose, they chose to pay for their child to go to private school.

So, there were some cutbacks and some outgoing financial commitments. This would not be classed as F.I.R.E. But you could bet that every time we met, every time I ran the analysis and every time they inherited money they would also ask, "Do we have enough?"

What is enough?

That's an interesting concept, enough. When you run analysis for clients, you might come across this

too. But what is enough? Enough is different for everyone. Good cashflow planning will enable you to determine for any given clients, what is enough.

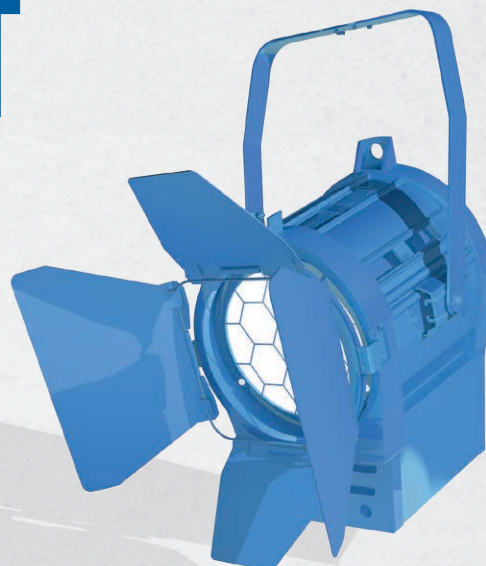
This concept is predicated on giving up things in the here and now and that pay you back in the future. A future which is uncertain and where investment returns, taxes, your health and that of your family are not guaranteed.

Could F.I.R.E. work for some clients? Yes, I expect so. Not that many of mine though. How about you? For me life is the journey that we should enjoy. One that needs living. There are no 'do-overs' as the Americans like to say. But maybe we can take on board some of these concepts and help clients live a fulfilling life now but also a fulfilling future?



But what is enough? Enough is different for everyone. Good cashflow planning will enable you to determine for any given clients, what is enough

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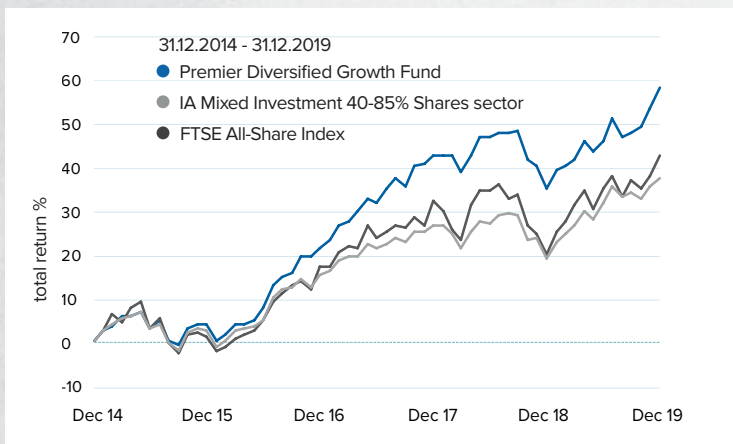


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¹Source: Premier Miton. The historic yield reflects distributions declared over the past twelve months as a percentage of the share price of the fund, class D income shares, as at 02.01.2020, income paid out quarterly. ²Performance source: FE Analytics, to 31.12.2019, based on a bid to bid, total return, UK sterling basis, net of fees, class D income shares. Volatility for the Premier Diversified Growth Fund taken on a monthly basis. The Premier Diversified Income Fund Launched 19.06.2017. UK equities: FTSE All-Share Index. Source: FTSE International Limited ("FTSE") © FTSE 2019. "FTSE" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under licence. All rights in the FTSE indices and / or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and / or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent. The methodology and calculations used by the companies or organisations that provide the fund or fund manager awards and ratings are not verified by us and we are unable to accept responsibility for their accuracy. FE fundinfo Crown Fund Ratings do not constitute investment advice offered by FE fundinfo and should not be used as the sole basis for making any investment decision. All rights reserved. Morningstar ratings do not constitute investment advice. Copyright © 2019 Morningstar. All Rights Reserved. The Defaqto 2019 Diamond Rating is based on the class D shares for the fund. Defaqto is an independent researcher of financial products and is not authorised to provide financial advice. We do not have any influence or control over the Defaqto Diamond Ratings or the methodology used to create them. We are therefore unable to guarantee their accuracy or that these will not change in the future, or that we will continue to use Defaqto ratings in the future. Issued by Premier Miton Investors, marketing name for Premier Fund Managers Limited, Premier Portfolio Managers Limited, Miton Asset Management Limited and Miton Trust Managers Limited, which are authorised and regulated by the Financial Conduct Authority.