Professional Paraplanner

The magazine for paraplanners and financial technicians

May 2020

Writing on the wall

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20:20 VISION

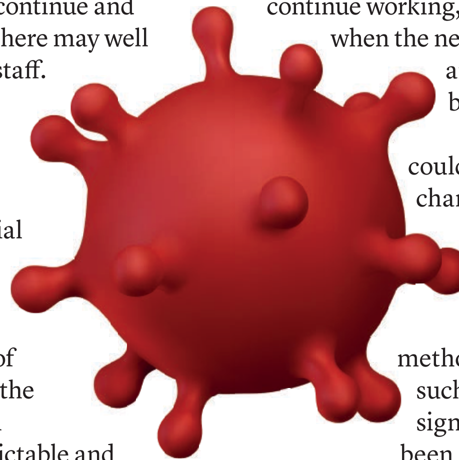
Welcome to the May issue of *Professional Paraplanner*. In four short months the world has been turned on its head – in both negative and positive ways. We have gone from the FTSE 100 happily sitting above 7,500 at New Year to, at time of writing, being c.2,000 points down, having been below 5,000 at the end of March.

Five weeks into lock down we may all be a little more comfortable with the new and very unusual working environment (those of us lucky enough to still be working) and restricted lifestyle but the big question, which no-one can answer at this moment, is to what extent the crisis will continue to impact us? Could the economic ramifications of this event continue into 2021 and possibly beyond?

There remains the possibility that we haven't seen the bottom for investment markets – should a second wave of the virus emerge, for example – and a global recession has not been ruled out either.

The UK fund industry recorded its largest ever monthly net outflow in March 2020, with £8.7bn exiting UK-domiciled funds – no doubt crystallising losses for many investors.

The primary impact on the paraplanning market appears to have been a change of working location, with firms wanting to keep staff fully employed where possible. However, news of paraplanners being made redundant or furloughed has crossed my desk. Paraplanners spoken to over the past couple of weeks are concerned that should the crisis continue and workloads diminish, there may well be further impact on staff. As one pointed out, "paraplanners are not indispensable; paraplanning can be undertaken by financial advisers, especially if they have more time on their hands."



But what are some of the positives? First, is the fact this is an external market event, unpredictable and hopefully, short-lived, rather than a systemic event, such as the financial crisis of 2008, or a cyclical event, such as one caused by inflation or interest rate rises. This provides some hope, based on historical data that shows external events tend to happen quickly but the recovery from them is faster too. Once the lock down is lifted and the various cogs of industry start to turn again, we must hope the economy picks up quickly, with the markets leading the way.

Second, from my conversations, most advised clients seem to have been well schooled in the volatility of the investment markets, and seem prepared to ride out the fluctuations, dramatic as they have been.

Third is that the event happened now, when the available technology means many of us in financial services are able to continue working, and not 10-15 years ago, when the negative impact on firms and jobs would likely have been far greater.

Fourth, the crisis could be a catalyst for change in the way that both the industry and individual businesses work. Common sense changes to traditional methods of working – such as the need for wet signatures – have already been made in some quarters. Remote working and meetings have been proven to work, and firms that had been sceptical about home working could well come to see the advantages, to the benefit of paraplanners who sometimes need that quiet head space to tackle big or complex reports.

We also have to ask; do we want things to go back to just the way they were? Often we need these kinds of radical events to help us and others see new ways of working and potential ways of improving and developing our businesses and the way we live our lives. Now is the time to be thinking about how we can introduce these kinds of positive change.

Rob Kingsbury,
Editor, *Professional Paraplanner*
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PROFESSIONAL PARAPLANNER EVENTS

While the lock down and restrictions on group gatherings are in place our upcoming Technical Insight Seminars are on hold. If you are interested in our events planned for later in the year don't forget to register to claim your place via the Events tab on our website. We will provide further details in due course.

Professional Paraplanner Awards

Due to the current crisis deadline for entries for our six paraplanner awards was extended until 30 April. We will be drawing up the shortlist over the next couple of weeks and will be in touch with everyone thereafter.

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WHEN LIFE & WORK COLLIDE

When our career goals and life goals collide, the impact can be inspirational. Rebecca Kowalski, paraplanner and compliance officer at Cornerstone Asset Management, explains how a new project for work has been key in fulfilling her personal aspirations too

As a paraplanner, I've naturally spent plenty of time considering client goals and helping build plans to help turn them into reality. I have also contributed to company and team goals as well as supporting multiple advisers.

There have also been a few goals of my own fulfilled along the way, exams passed, a few awards, occasionally a pay rise! However, until recently it was the goals scored in my personal life that I've celebrated more than the work ones. Whether successes for community projects I've led, improvements in my 10k time or my children's successes in their endeavours.

For a long time, paraplanning was a job to me rather than a vocation. A role I was good at that was suited to some of my skills and allowed me to pick from a range of employers. Recently, however, I've found the role has led me down an unexpected path which has filled me with pride and enthusiasm in a way financial services never has before.

Since starting to work at Cornerstone Asset Management seven years ago, the company has encouraged my desire to contribute to the business in many ways. This has allowed me to develop new advice propositions, manage others and become heavily involved in Compliance. All of these have been interesting challenges.

New spring in my step

However, nothing quite prepared me for the huge new spring in my step that my latest project would bring. Early in 2019, I started thinking a lot about sustainable investing and began to get very excited about the idea of integrating "investment for a better future" with our clients' wish to pass wealth down the generations.

This thinking coincided with my daughter taking her first post-graduate job in the sustainability sector, at Zero Waste Scotland. The more she worried about climate change, carbon footprints and mass extinctions, the more I threw myself into developing a sustainable investment proposition that could address some of these issues. The strategy, of course, would also have to look after our client's wealth as carefully as a mother looks after her children! Responsible to the planet and its people and to clients and their families.

A few months passed in which myself and a team of colleagues did more research, identified the right discretionary investment managers to build suitable thematic, impactful portfolios and finessed the brand. By November 2019, the Cornerstone Responsible Futures brand was ready for launch. I reached out to the teenage climate striker and Young Scotswoman of the Year nominee Holly Gillibrand to speak at our launch event, and felt so proud when a room full of influential businesspeople and clients listened intently to her clear and urgent message.

I helped write and design marketing material, started attended networking events such as the Global Ethical Finance Initiative and I am about to launch the company's first podcast, covering sustainable investment, the UN Sustainable Development Goals and the UN Conference of the Parties- COP26 - which takes place down the road from our Glasgow office in November. A project suited to all of my skills, not just some of them and that has such limitless value.

Probably the most rewarding aspect of all is when I see my enthusiasm reflected back or beginning to rub off on clients and colleagues. I mentor a trainee paraplanner whose ultimate goal is to become an adviser specialising in sustainable investing. This role is probably pretty rare at the moment but I am full of hope and determination that it will be more mainstream and achievable for her in a few years' time.

While its going to take the commitment of governments, consumers and corporations to meet the UN Sustainable Development Goals by 2030, I'm certainly hoping that our Responsible Futures proposition will make a positive contribution. Having worked in Financial Services a long time, I'm absolutely delighted my traditional paraplanning role has developed into a new vocation and possibly even a mission!

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WRITING ON THE WALL

Tony Slimmings, managing director, Paraplanning Hub talks to Rob Kingsbury about establishing his paraplanning business and why he thinks the days of the freelance outsourced paraplanner are numbered

Tony Slimmings started his working career in a totally different industry, working as a manager for nearly 10 years with Hovis before switching into financial services in 1992, first as a financial planner with Lloyds Bank, then as a financial planning manager with PwC, before setting up and running his own business in 2001. This he then merged with a larger business, Prismatic Wealth in 2010, exiting that business in 2016, when he decided to focus on both being a paraplanner and ultimately, running a paraplanning business.

In 2010 the merged business had no paraplanning function, he recalls. "The company had a typical set up at the time of administrators and IFAs, who were responsible for writing their own reports. I persuaded the other directors to bring in two graduates to train up to effectively undertake a paraplanning role." Almost through default he became responsible for this part of the business, checking the reports, etc and gradually, became more involved in the technical side and less involved in financial planning, until in 2014, he moved fully away from advising. By then the business had a paraplanning team.

In 2016 he left the company and set up as an outsourced paraplanner, almost immediately winning a couple of contracts. He puts that down to being a Chartered Financial Planner "and having been an adviser I was able to talk to my clients as an equal and in the same

language," he says. And from that first iteration the Paraplanning Hub was born.

"I came to the market at just about the right time as advice firms' workloads increased and they needed external resources."

Last year, Tony says, he came to a crunch point. "I hit my mid-50s and I asked myself, do I continue what I'm doing until I retire or should I do something different?"

At the same time, he says, he began to see the 'writing on the wall' for outsourced paraplanning, as it had been for the past few years. "By then, more and more paraplanners were stepping outside of employed roles and becoming freelance and Cathi Harrison launched The Art of Finance to bring more paraplanners into the market. I could see how the high volume of work outsourced paraplanners had been experiencing would decline just as new waves of paraplanners entered the market.

"I could see also, the need for more of a business structure around outsourced paraplanning, alongside the right resources to help paraplanners obtain and service advice firms. So, I looked at how I could develop the Paraplanning Hub as a business which is all about using technology, robust project management techniques and the right person for the right task to deliver cost effective paraplanning solutions."

Tony and his then business partner Ross Mills, who has an engineering background, began to map out the paraplanning process and tasks, breaking everything down using a Six Sigma approach. "We realised we could do everything in a much more efficient, more consistent and cheaper way in every case by turning paraplanning from a cottage industry into a more process-driven operation, which could be a cheaper outsourcing option for independently-minded firms who can't afford their own paraplanners, as well as an agency option for the networks and nationals who need to cover maternity leave or periods of work overflow.

"Early this year I launched a new version of Paraplanning Hub, which is an online paraplanning project management system broken down into 16 tasks, which enables me to allocate each task to the person with the right skills set to get the job done."

> ***"We realised we could do everything in a much more efficient, more consistent and cheaper way in every case by turning paraplanning from a cottage industry into a more process-driven operation"***

How Paraplanning Hub operates

Set up as a project management system, the adviser loads any new cases onto the Paraplanning Hub using the SPARK system – Suitability, Products, Attitude to risk, Remuneration, Know your client. "We want to keep things as simple as possible so we have focussed on the areas we need advisers to populate with the right information. Each of the paraplanning tasks is then allocated to the person best suited to carry it out, in the right order to be completed in the allocated time frame."

The suitability report is then written using Genovo's suitability software, "which means they are consistent and everyone is using the same templates, and then the file is checked by a senior paraplanner," Tony says. "This means that alongside templated process that is consistent and to a set standard, there are two to three sets of eyes that view the work along the way."

Paraplanning Hub is also totally transparent on its fees, publishing by-the-hour charges on the website. "These days people want to research you before they pick up the phone, so our website is all about being up front with people – they can get to know about us, what we offer, the way we work and how much we charge. If they then pick up the phone you're already halfway to working with them."

"It's making the most of technology. Everything can be done online. We have created procedures and processes for everything that needs to be done, all communication can be done via online messaging systems.

"I think people value face-to-face because they are used to it. But I think it can be overplayed. As an outsourced paraplanner I've been working with some clients for a number of years and through the various ways we communicate I feel I know them very well, but I've never met them. I think as more and more people get used to working remotely, there will be less need for people to actually meet face-to-face. We have also added financial administration to our services and in the last two weeks we have recruited two new paraplanners. We also have some things in the pipeline."

Changing market

Tony believes outsourced paraplanning has been going through a demand-driven bubble and the next few years will see change in the market. "To date, the cost of using a paraplanner has been going up, driven by the greater demand over limited supply. But now I think the smaller IFA market has become pretty much saturated with outsourced paraplanners.

"What I think will happen, is advice firms will start to look at things like costs and consistency and they will move away from freelance paraplanners to businesses that can offer the level of service they need at a price they want to pay. The market will change as fees begin to be pushed down by market pressures and we get to a point where people will no longer want to be freelance because they are spending too much time chasing business and not enough time doing what they enjoy, which is paraplanning.

"For an outsourced paraplanning firm to work in that environment, the majority of paraplanning cases have to be made more efficient and process-driven.

"People like to think financial planning is bespoke but if you dig down into it, it is a process. The purpose of Six Sigma is that you aim for 99.7% perfection and that is what we are aiming for in our processes."

INVESTING FOR CHILDREN

It's important to be prepared for a question on investing for children, says Catriona Standingford, MD of Brand Financial Training, as questions can arise in R02, R03 and R04 and could also be included in case studies in R06

Investing for young children makes sense where parents or grandparents are in a position to do so. After all it's not long before young people get to age 18 and face costs such as university fees, rent and eventually wanting to climb onto the property ladder.

Obvious starting point

There are various products to choose from with the obvious starting point the Junior ISA; these work like adult ISAs in that income and capital gains are tax free. Children don't usually pay tax anyway so the main advantage really is for the parents making maximum use of the annual subscription – if this was held in an ordinary savings account any interest would be taxed back on the parent if it was over £100. With a Junior ISA the parental income tax rule doesn't apply.

For a stocks and shares Junior ISA there's no CGT on gains and the investments grow tax free. Investing in equites while the child is young makes sense as the timeframe should be long enough to ride out any short-term volatility.

The annual amount which may be contributed is of course lower than a normal ISA; but one surprise in the budget was the new Chancellor increasing the amount which can be invested by over double, from £4,368 to £9,000 for the 2020/21 tax year.

At 18 the investment belongs to the child (which means they can do what they like

For a stocks and shares Junior ISA there's no CGT on gains and the investments grow tax free. Investing in equites makes sense as the timeframe should be long enough to ride out any short-term volatility

with it). Because of this it may be a more sensible option to invest through a parent's ISA, so they have more control. Remember too that a Junior ISA can be held as well as an adult ISA between the ages of 16 and 18.

Other tax-efficient savings

Another tax-efficient savings option are endowment policies for children bought from Friendly Societies. These 10-year savings plans are also tax free so legislation imposes a maximum amount that can be invested; this is £270 per year or £300 per year if £25 is paid in each month.

A popular investment with grandparents for their grandchildren is National Savings & Investment Premium Bonds. The minimum investment is just £25 so they make ideal gifts. If the child is under age 16, the parent or guardian nominated on the application looks after the premium bonds regardless of who actually buys them. The odds of winning for each £1 bond number from May 2020 is 26,000 to 1, so the more you have the better the chances of winning.

Pensions

For some parents, investing in a pension might be an option for their child. Parents and legal guardians can set up a pension which will automatically transfer to the child when they reach age 18. At that point they can start to save themselves. The maximum amount that can go in is £3,600 a year so the contribution from the parent could be up to £2,880 a year. With the tax relief available this grosses up to the maximum of £3,600. Imagine how much could be in the pot when the child eventually reaches retirement age!

Using trusts

Bare Trusts can also offer a convenient way to invest money for a child's future. They are also known as absolute trusts meaning that the beneficiary cannot be changed and has an absolute right to the trust assets.

A bare trust is a simple arrangement; assets are simply held by a trustee for the benefit of the beneficiary. At age 18 the property can be passed to the child; this is important as the trustees have no discretion over whether or not they should receive the trust property.

There are a number of taxation benefits of using a bare trust, including:

- The income is taxable as the beneficiary's income and at rates that depend on the beneficiary's other income
- The beneficiary rather than the trustee is liable for the tax and must declare income annually through self-assessment
- They can use their personal allowance, the starting rate band, the personal savings allowance and the dividend allowance.

If the capital came from the parent however and the income exceeds £100 gross in a tax year this will be taxed back on the parent as their income. This only applies to income and any capital gains will always be taxed on the child (and they can use their full annual exempt amount). Income of below £100 is treated as the child's for tax purposes. This rule does not apply to gifts from grandparents or other relatives.

A bare trust could be used to provide income to pay a grandchild's school fees – the gift into the trust is a potentially exempt transfer (PET) for IHT purposes so as long as the settlor survives seven years it will be outside of their estate. The trust assets are not 'relevant property' so there are no ten yearly charges.

If a grandparent has an inheritance tax liability they wish to address, they can make gifts to reduce the tax bill. The annual allowance is £3,000 per year and the small gifts exemption is £250 so these amounts can be given to grandchildren without any immediate inheritance tax consequences and will reduce their estate.

Regular gifts out of income are also exempt as long as they don't affect the giver's normal standard of living, are regular and are from true income and not capital. It's a good idea to keep a record of these gifts and the proof that it is normal expenditure out of income as HMRC will want to see this when the person claiming the exemption dies.

BEING HUMAN

In the current climate, it is more important than ever that suitability reports are personal to the client and provide the reassurance they need, says PFS Paraplanner Panel member Rebecca Tuck

Paraplanners are often involved with clients in different capacities. Some sit in on meetings, some routinely take phone calls, while others have only meeting notes or fact finds to try and understand who their clients are, what they want, and how we can best help.

You will have heard it a million times already, but we currently find ourselves, by all accounts, in "unprecedented times". It's clear to me that, over recent weeks, the focus of client meetings has definitely changed – with clients much more concerned about keeping safe (and sane!) than their money. A friendly and understanding conversation with clients is often all it takes to provide some reassurance here but, when it comes to then documenting any advice, do our reports do this too?

A confession

I'll be honest – when I first started paraplanning, the client probably wasn't at the heart of everything I did. Don't get me wrong, I still wanted to do excellent analysis and type it all up into a brilliant report, but was it entirely client focused? Not really. I was on a mission – a person with a point to prove – hungry to learn, develop and be the best. If the client was happy too then that was a win-win, but it wasn't my main motivation. I know. I'm sorry!

You may tell by the fact I confessed all that in the past tense, it's no longer the case. So, what changed? Confession number two: I thought about becoming a financial planner.

A change in mindset

Now, I realised very quickly that I didn't want to be a financial planner, but as part of "dipping a toe in" I joined a client meeting, for the first time ever, and blimey... aren't clients nice?! Real, living and breathing people, with hopes and fears and goals and dreams. Suddenly, it was all about them. Nice Mr & Mrs Client who have put their unfailing trust in our team, me included, to make those dreams come true. I had to do a brilliant job, for them.

It's clear to me that, over recent weeks, the focus of client meetings has definitely changed – with clients much more concerned about keeping safe (and sane!) than their money

A change in action

Since my revelation, I've made a real effort to "be more human" when writing reports. Particularly in times such as this, it's the human touch that will get us through. So, although we might not always be on the front line when it comes to looking after clients, there are still some things we paraplanners can do to help keep them happy and reassured:

- **Get more involved:** You won't be able to physically sit in on any client meetings at the moment, nor will the planner, but if you're looking after clients using video calls, then why not ask if you can join in with those? Or if the meeting can be recorded for you to watch later? It doesn't have to be for every client every time, but if you're there when the planner is conveying the key message (hopefully "don't panic!") then it will be much easier to both gauge how the client is feeling, and to tone the report just right. On that note...
- **Rip up the template:** Okay, maybe not completely, but definitely critique it. Is it really saying what you want it to say right now? Give those "standard paragraphs" a once-over. If it's not all sunshine and rainbows don't pretend it is, but empathise, reassure, do a little written hand holding. Often, the report is the only tangible thing that the clients get following a meeting, so make sure it shows that you understand them – it really will make a difference.

All clients want to know now, more than ever, is that they are in safe hands and that you care. We have the power to show them this through our reports and give them the reassurance we are there for them – both now and in the future.

Rebecca is Certified Financial Planner with Magenta Financial Planning and participates in the Initiative for Financial Wellbeing

AGENT AS CLIENT

Many advice firms use discretionary investment managers to run client portfolios, often on an 'Agent as Client' basis. However, this can increase risks for advice firms, as explained by Steve Bailey, director ATEB Consulting

The issue of Agent as Client (AaC) is one we have been raising with firms for several years as we have seen a continuing increase in advisers' use of Discretionary Investment Managers (DIMs) for client portfolios. A significant number of the relationships between DIMs and adviser firms are based on the AaC operating model.

The AaC model is where the advisory firm arranges for the investment management to be carried out by the Discretionary Investment Manager (DIM) but on the basis the client (the investor) does not have a contractual relationship with the DIM. Instead, the DIM treats the advisory firm as the client, and considers that the firm is acting as the agent of the end investor.

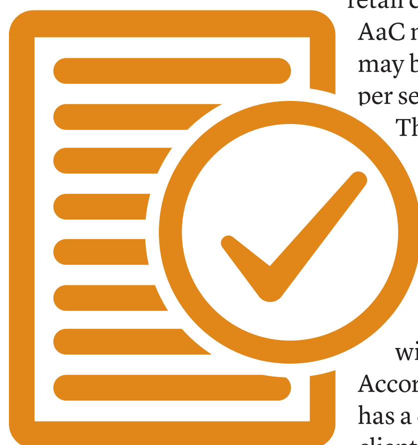
The FCA's Conduct of Business rules (COBS 2.4.3) allow for this model, if the adviser is acting in a genuine agency capacity and has been appointed by the client accordingly. There are benefits of using the AaC model in that the adviser retains control of the client relationship, however, the model also carries risks for advisers – potentially more so than for the DIM.

Risks

However, this operating model carries a number of risks. A primary risk which advisers carry is that there is no direct relationship between the DIM and the client, so any complaints or claims from the end client would come to the advisory firm if something were to go wrong. If there was fault on the part of the DIM, then the adviser could theoretically make a claim against them for any losses but this is likely to be small comfort if they are facing a raft of Financial Ombudsman Service complaints and/or if the DIM fails.

Unsuitable investments

There are investment vehicles that can be promoted to professional clients, but which are not permitted to be used for retail clients. Under the AaC model, the adviser may be considered to be a per se 'professional client'. This may result in the DIM including high risk and/or illiquid investments within the discretionary service that are incompatible with retail clients. Accordingly, the adviser firm has a duty of care to the end client to have appropriate controls and oversight in place, along with the capacity and expertise, to ensure that the discretionary service is, and continues to be, compatible with the actual investor/end client.



Authority to act as agent

It is the adviser, as agent for the underlying client, that is giving the DIM authority to act. This is fine where the adviser's agreements with the end investor/end client have the necessary agency authority. However, in our experience, many adviser firms do not have wording in their client agreements/terms of business that authorises them to act as agent for the client.

Lack of clarity on responsibilities

The investor, i.e. the adviser firm's client, does not have a contractual relationship with the DIM.

Potential liabilities of the AaC model

- The AaC model can expose firms to complaints and claims if the portfolio does not perform as expected – especially if there are investments that are unsuitable for retail clients;
- An additional difficulty arises from the end investor not being the client of the DIM in that the investor might not be considered an eligible complainant;
- It is also possible that the adviser firm may struggle to discharge its responsibilities under this model - overseeing the changes that occur in the portfolios to ensure that the holdings are suitable for retail clients could be a significant piece of work.
- The possibility of liabilities that could arise out of the AaC model might come as unwelcome news to adviser firms. But it is possible that these could also be a surprise to PI providers in the event of claims arising.

As a minimum, firms should identify the nature of any agreements they have with DIMs and, if AaC applies, should work closely with their PI Provider to make sure that cover is in place for such circumstances.

An alternative model – 'reliance on others'

The 'reliance on others' rule (COBS 2.4.4) is an alternative operating model where the advisory firm arranges for the client to have a direct (contractual) relationship with the DIM. Under this model, the DIM relies on the client information provided, and the suitability assessment being done, by the

There is an obligation, both initially and ongoing, to assess the suitability of a discretionary service for the end investor/end client

adviser, with the adviser being responsible for any liabilities arising from those aspects.

Responsibility and liability for the suitability of the portfolio construction, both initial and ongoing, lies with the DIM for a bespoke discretionary service.

Where there are pre-defined model portfolios, it is up to the adviser to select the suitable portfolio from the range of pre-defined strategies. The suitability of the transactions in that portfolio remains the responsibility of the DIM.

Potential liabilities of 'reliance on others'

This model helps adviser firms to de-risk their businesses. However, it is possible that the DIM could struggle to discharge its duties to the individual investor in terms of ensuring a suitable portfolio and transactions – especially bearing in mind that it is likely that the adviser will hold all suitability information. Regardless of whether the roles and responsibilities are clearly articulated to the client, it's a difficult conversation to have with an end investor / end client in the event of a complaint (i.e. it's not my fault – its theirs!).

Equally, under this model the DIM could face the risk of 'bulk complaint' from all the adviser's clients if issues arise.

Ongoing review

There is an obligation, both initially and ongoing, to assess the suitability of a discretionary service for the end investor/ end client. This suitability assessment should happen at least annually.

This means that clients cannot enter a discretionary service without a suitability assessment being undertaken. Equally, either the DIM, or the adviser, must assess ongoing suitability. It should be made clear in the terms of business with the client, and in the adviser / DIM agreement, where the responsibilities and liabilities lie between the adviser and the DIM for assessments of suitability and for other aspects. Where the DIM undertakes the ongoing suitability assessment, advisers should consider the value that their own ongoing service is adding to the client, where one is offered.

Where the DIM doesn't provide the ongoing assessment, then the adviser must. Clients should be made aware of the need / importance of engaging with the ongoing suitability assessment. Continued lack of engagement could result in one of several outcomes, including the discretionary element of the service being stopped by the DIM for the client, and the need for the adviser to consider whether continuing to take an ongoing adviser charge is justified.

DIM and independence

COBS 6.2B, which requires firms to disclose their regulatory status as independent or otherwise, only applies to investment advice on Retail Investment Products & Financial Instruments. DIM is a service and so, strictly, a referral to a DIM is not subject to COBS 6.2B. That said, the now retired FSA guidance paper (Final Guidance - June 2012 'Independent and restricted advice') made clear that, if a discretionary service is 'predictable', including model portfolios, then it would be considered investment advice, as the adviser is effectively recommending particular funds offered by the DIM.

The Independence paper also indicated that although a referral to a DIM does not need to be based on "comprehensive or fair analysis of the market" (MiFID II updated this definition to "a sufficient range that is sufficiently diverse"), firms still have an obligation to undertake adequate due diligence. "However, the firm should undertake sufficient due diligence on a DIM before recommending it to a client, so that it can make a judgment about whether it is the right solution for the client."

As mentioned above, the independence guide has been retired, following a number of updates to the definition of advice and the definition of independence. However, none of these updates appear to include anything which brings a recommendation of using a DIM into the Investment Advice definition (unless 'predictable'). Therefore, in the absence of updated guidance from FCA, ATEB believes that the guidance provided in the Independence paper holds good.

Our view and action points

DIM solutions are widely used by adviser firms, yet we believe that the risks highlighted here are not widely understood. Attention to the following aspects when next reviewing the firm's investment process would be prudent.

- Check all DIM / intermediary agreements that are in place to identify any that are on the 'Agent as Client' basis;
- If AaC applies and the firm is not comfortable with the risks and issues we have highlighted here, the DIM should be asked to amend the agreement and to treat the underlying investor as their client;
- Check client agreements – many do not go as far as giving firms the ability to commit and bind the client to a discretionary management agreement on an AaC basis;
- Full due diligence on the DFM has been undertaken (and a record kept of it), which should be updated periodically.
- Ensure PI insurers know that this model of business is being used. PI policies frequently contain exclusions for certain types of product or investment which could be contained within a portfolio; hence
- Advice firms should keep an eye on the construction of model portfolios to ensure that they match the risk profile of the customers.

Firms that retain the agent as client operating model should ensure that:

- Appropriate systems and controls are in place, along with capacity and expertise, to be able to monitor any risks for the investor;
- PI Insurance covers this arrangement
- Ask the DFM to reclassify you as a 'retail client', so placing an appropriate restriction on the DIM's use of investments that are not compatible with retail clients.

PROOF OF THE PUDDING

Enforced remote working could be the chance to prove how awesome you are, says Michelle Hoskin, managing director, Standards International

So, you've been trusted (although there is not much choice in the matter!) to work at home.

Desk ✅ Laptop ✅ Phone ✅

You're tooled up to the eyeballs and have been cracking on. Granted, you miss your 'work family' but actually this is working pretty well – much to the surprise of the boss who has been battling against home working for years.

Now is your chance; your chance to seize the moment. This is your moment to prove that flexible and remote working is the future. So how can you earn your stripes and be rewarded with the level of trust that has always been yours for the taking?

1. Understand the power of Receptive Delegation™

Receptive Delegation™ is a term I coined to describe 'when one person is open to and leans in to offer support to take tasks from another person without having to wait to be asked'.

It is super powerful and, of course, massively helpful. It is pretty easy to do it when you are literally in the same office as your team but much harder to do when working remotely – and because it takes extra effort when working remotely, the recognition is much greater.

- First, create some space in your own work schedule where you are able to reach out to one of your team and ask them if there is anything you can help them with. You may be surprised that they are feeling at capacity and under pressure so the call (don't email!) will be most welcomed.
- Understand both the absolute and desired outcomes. We don't want to waste the best intensions.
- Be clear about the work you have on so that you can both understand the time involved and the time you can allocate.

2. Deadlines are a must!

Oooh, I love a deadline! Set them and meet them! Everyone needs a deadline and the primary deadline rule is that no task should be delegated to you or requested of others without a deadline attached. We are all really busy, we all have more stuff on our lists than we have hours in the day, so the main purpose of a deadline is to focus the mind – be it your own or someone else's. This is even more important when we have the numerous distractions that come from working from home.

There are only so many hours in the day – don't over-commit or over-promise. If you do, you will only under-deliver

3. Be realistic!

Nobody wins if trust is broken when people don't do what they say they are going to do when they say they are going to do it.

Remember:

- There are only so many hours in the day – don't over-commit or over-promise. If you do, you will only under-deliver.
- Being busy doesn't mean you're being productive.
- Lists and structures (whether held as hard or soft copies) are crucial to keeping you focused.
- There's always a more effective and efficient way of doing something – and there has never been a better time to find it.
- We are not designed to multi-task or multi-focus… so, wherever possible, don't even attempt to.

So, while I know you are still very much finding your own rhythm, remember to take it steady. This is a marathon and not the 100-metre sprint. We are all in this together and you have never had a better time to show your fellow team members and your bosses how simply awesome you are.

FINANCIAL TIDY-UP

There are things to think about today to pre-empt the things we may have to deal with in the future. John Humphreys, inheritance tax specialist at WAY Investment Services, offers up some items for the checklist

In a new working environment, with large swathes of the world order turned upside down, finding focus and order can be challenging. For many, working at home is not necessarily new – but working at home surrounded by family certainly is. One approach that may be helpful is to categorise tasks into two lists – things that can be done now under current circumstances, and things that will need to be dealt with at some unspecified point in the future.

Thinking about things we can do today, it's worth remembering that it is always a good idea to have your financial and legal affairs in order. This was true pre-pandemic and is true now. We can do something about it for ourselves and for our clients, and there is no time like the present.

It's worth remembering that it is always a good idea to have your financial and legal affairs in order. This was true pre-pandemic and is true now

LPAs

For those who haven't already, it is worth considering putting in place Lasting Power of Attorney (LPA) arrangements – which can be created for Health and Welfare, and Property and Financial Affairs.

These can be set up online directly with the Office of the Public Guardian at a cost of £82 each (see www.gov.uk/powerofattorney). The Property and Financial Affairs LPA in particular can enable an attorney to manage a bank or building society account, pay bills, collect benefits or a pension or sell a home in the event that a family member is incapacitated for a number of weeks or months.

Some clients may prefer to use the services of a solicitor to help – and there are plenty of solicitors available online and working from home just like the rest of us. Registering an LPA with the Office of the Public Guardian can take up to 10 weeks according to the Government website. Under current circumstances it is difficult to feel confident even in that timeline, giving further reason to get started sooner rather than later.

Wills

Making, updating or reviewing a will is rarely near the top of anyone's to-do list, but distributing an estate via the intestacy rules will rarely provide an outcome any of us would choose. For those who have a will in place, it is worth checking when it was last reviewed and/or updated. Advice teams might also consider reminding clients that a will is not voided on divorce. If the will doesn't specify what should happen under the new circumstances, intestacy rules may be applied instead.

The way an estate is then divided up might not be what was wished for. Any clients wishing to avoid this situation need to act now and ensure their wishes for how their dependants, new partner and previous partner are provided for, are documented. Again, there are plenty of experts available with a computer and internet connection who can make this happen even if they

cannot get to their usual office. One question we have been addressing is in the witnessing of documents. If this cannot be done in person, we are exploring how this can be done via video conference or other means. Clear documentation, evidence and pragmatism are good principles to follow.

Death Benefit nominations

A third aspect of financial tidying up is making, reviewing, and updating Pension Death Benefit nominations. Again, this is especially pertinent for divorcees, but also for those who are yet to make a nomination.

We all have things on our to-do list that we have never yet quite got around to getting done, but this month we might be able to find the time to work through some of them. Advice teams can help here – by checking, reminding and following up.

IHT

On a technical point, we have found that the current situation has focused the minds of some clients whose advisers have previously identified that they have a significant inheritance tax liability, but so far have procrastinated in addressing it.

Some have been advised that their net estate does not currently qualify for all of the Residence Nil Rate Band (RNRB) available (£175,000 in the current tax year), as it exceeds the £2m threshold where tapering begins – reaching zero at £2.35m for a single person or £2.7m for a married couple/civil partnership.

As an example, if a single person with a net estate of £2.3m were to gift their NRB of £325,000 and, if available their annual gift exemptions of £3,000 for the current and last tax year, thereby gifting £331,000 in total, their net RNRB assessable estate is immediately back below the £2m threshold where tapering commences.

This would 'claw back' all of the available £175,000 RNRB allowance (assuming the other qualifying criteria are met), immediately saving £70,000 in IHT (40% of £175,000). For a married couple/civil partnership, the figure would be £140,000 (40% of £350,000). It is worth noting that investing the same amount in a Business Property Relief (BPR) qualifying investment would not have the same effect, as the RNRB assessable estate would remain above the £2m tapering threshold.

This is because what is included and excluded from the RNRB calculations hinges on who owns the asset. Once something is gifted, the donor (settlor if a trust is used) does not own the asset anymore; they have given it away and therefore the gift immediately reduces their RNRB assessable estate. In contrast, a BPR investment is and always will remain in the RNRB assessable estate as the investor still owns the investment personally (unless it is gifted away, prior to demise).

All of these can be difficult conversations to have under any circumstances, and we need to approach these topics with sensitivity and care. Now however, could be a good time for advice teams to remind clients of their importance.

Changes to UK tax regime

The second to-do list is about looking ahead. At the point people are able to emerge from this period of almost hibernation, we can expect to see notable changes to tax regimes as the Government seeks to restore its financial position.

It is too early to anticipate with any certainty what these might be, let alone plan for them. However, by ensuring the financial affairs of our clients (as well as our own) are organised as much as possible, we will at least be in a better place to deal with changes when they arrive.

It might be more achievable to start planning some of the constructive things we will do at work; a wishlist of projects for when we are all able to return to our normal offices. Further it is comforting to think about some of the normal things that we might look forward to – seeing family and friends, popping to the shops, an unhindered walk, and working closer to colleagues and clients.

Planning ahead can be a great way to introduce a little optimism into an extraordinary time and remind ourselves that today's situation is not forever.

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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. Within the FCA High Level Standards, regulated firms must comply with 'Common Platform Requirements'. What does this refer to?

- A The systems and controls a firm should have that are appropriate to its business
- B The use of mainstream platform and proprietary systems
- C The use of FCA technology e.g. GABRIEL
- D The level and type of management information required

2. When a portfolio is being arranged to meet more than one objective and a client has different attitudes to risk for each objective, this is known as:

- A Mental accounting
- B Risk capacity
- C Accounting planning
- D Mental capacity

3. On which of the following disposals would the sale proceeds be used as the disposal figure in calculating Capital Gains Tax (CGT)?

- A On a commercial sale
- B If an asset is given away
- C On a disposal to a connected person
- D On a disposal, not at arm's length

4. Graeme has set up an accident, sickness and unemployment insurance policy. Which of the following statements CORRECTLY explains the payment of his premiums and the tax treatment of the benefits?

- A There is tax relief available on the premiums but the benefits are taxable
- B There is no tax relief on the premiums and the benefits are tax free
- C There is no tax relief on the premiums and the benefits are taxable
- D There is tax relief available on the premiums and the benefits are tax free

5. The marketing of new company shares is known as:

- A Book building
- B Share offering
- C Book running
- D Share placement

6. Alice has taken out a Home Reversion Plan; she now wishes to rent a room to a lodger to increase her income further. What will she need to do first?

- A She won't be able to go ahead under the terms of her plan
- B No action needed, she can go ahead and let room without permission
- C Arrange for a legal charge to be drawn up
- D Get permission from the Home Reversion Plan provider as property owner

7. David and Susan are married and own their property as joint tenants. They should be aware that on the first death of either of them the property will:

- A Be added to their estate and distributed via their will
- B Be added to their estate and distributed via the laws of intestacy
- C Automatically pass to the survivor and be covered under the spouse exemption
- D Automatically pass to the survivor but only after inheritance tax has been paid

8. Max is a client of yours who has always invested any surplus income in the stockmarket. He now wishes to set up a pension arrangement where he can continue to do this. Which of the following would be suitable for him?

- A A self-invested personal pension.
- B A small self-administered scheme.
- C A retirement annuity contract.
- D A Stakeholder plan or personal pension.

9. Which of the following is part of the Care Quality Commission's role?

- A Paying compensation if a firm is unable to pay claims made against it
- C Using enforcement powers if standards are not being met
- C Settling complaints about care provided by NHS staff
- D Dealing with complaints about the administration of long term care policies

10. A portfolio has a standard deviation of 12% with an annualised return of 13%, this compares to an annual risk-free investment return of 4.1%. What is the Sharpe ratio?

- A 0.74
- B 0.25
- C 1.23
- D 0.42

Your answers

1. ☐ 2. ☐ 3. ☐ 4. ☐ 5. ☐

6. ☐ 7. ☐ 8. ☐ 9. ☐ 10. ☐

Last issue's answers

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

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

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

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The current pandemic is seeing greater focus on ESG issues across the globe. The investment industry may not be the same from now on, says David Smith, head of Corporate Governance, Asia Pacific, Aberdeen Standard Investments

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The return of negative correlation. FundCalibre analysts reveal the effect of the Coronavirus crisis on correlation between sectors and what that means for portfolios.

Investment Committee events

Our planned Investment Committee Event on 7 April unfortunately had to be cancelled due to the lock down. However, we will be running our events as soon as is possible post lock down. If you are interested in attending please register – see the relevant entry under the Events tab.

We will be in touch with all registered attendees once the lock down is concluded and we can confirm when the events will run.

ESG CATALYST?

The current pandemic is seeing greater focus on ESG issues across the globe. The investment industry may not be the same from now on, says David Smith, head of Corporate Governance, Asia Pacific, Aberdeen Standard Investments

The COVID-19 pandemic has heightened our expectations of environment, social and governance (ESG) investing across the globe. Although it has been a mainstream topic for asset managers in the UK for some time, a growing concern for ESG-related issues is spreading further worldwide.

There is increasing demand for disclosure, data and information which is compelling asset managers to integrate ESG analysis more explicitly into their due

diligence and portfolio construction. At the same time, we anticipate that the pandemic will drive an investor flight to quality across the globe – companies with strong balance sheets and good governance. In that respect, it could also act as a catalyst for ESG investing.

As a rule, quality companies are better positioned to sustain earnings growth in the face of macroeconomic headwinds, including ones caused by a global health pandemic. Owning quality remains the best way for equity investors to mitigate risk. There's plenty of research to suggest that companies with high-quality ESG standards outperform over the long term.

Whether driven by societal expectations or recognition that ESG analysis can add meaningfully to returns, increasing ESG adoption would enhance engagement between companies and investors. That would be a major plus for the sustainability of both investment portfolios and the planet.

With climate change forecast to heighten the intensity of weather events further in future, it will become crucial for corporates, institutional investors and asset management companies to answer two key questions:

Fidelity Global Dividend Fund

In uncertain times, it pays to take a prudent investment view. That's why the Fidelity Global Dividend Fund focuses on high quality stocks with strong balance sheets and predictable cash flows that can provide portfolio diversification.

Portfolio Manager Dan Roberts' conservative approach and global remit has helped the fund outperform the index and beat 100% of its peer group with lower volatility and drawdown than the sector average since its launch in 2012 - achieving its aim of a steadier ride through unpredictable markets.

	Mar 15 - Mar 16	Mar 16 - Mar 17	Mar 17 - Mar 18	Mar 18 - Mar 19	Mar 19 - Mar 20
Fidelity Global Dividend Fund	6.1%	23.6%	-4.5%	15.2%	1.5%
MSCI AC World	-1.2%	32.3%	2.4%	10.5%	-6.7%
Peer Group Average	-0.5%	26.0%	-1.3%	8.6%	-9.6%

Past performance is not a reliable indicator of future returns.

The value of investments and the income from them can go down as well as up and clients may get back less than they invest. As a result of the annual management charge for the income share class being taken from capital, the distributable income may be higher but the fund's capital value may be eroded, which will affect future performance. The fund can use financial derivative instruments for investment purposes, which may expose it to a higher degree of risk and can cause investments to experience larger than average price fluctuations. Changes in currency exchange rates may affect the value of an investment in overseas markets.

Performance data source: Morningstar, 31.03.2020, bid-bid, net income reinvested. © 2020 Morningstar, Inc. All rights reserved. Peer group is the IA Global Equity Income sector. Morningstar Rating™ as of 31.03.2020, in the Global Equity Income Category™.

- How does my business/investment impact the environment?
- How does the environment impact my business/investment?

This will likely accelerate investment into renewable energy and sharpen investors' focus on the resilience of infrastructure – roads, railways, ports and airports – prompting a shift in the composition of investment portfolios.

While interest in ESG investing has developed in recent years, asset managers and institutional investors adopt different approaches in obtaining their ESG data; from contracting third-party providers to embedding ESG capabilities into their own teams. Increasingly, asset managers are opting for the latter, recognising the value it can bring in safeguarding the sustained success of portfolio companies.

In terms of the data, we expect to see a meaningful improvement in the quality and consistency of this, as stock exchanges and regulators strengthen disclosure requirements. That will compel corporates to improve the breadth and granularity of information they provide, shifting from quantitative to qualitative data. Investors will want to understand the sustainability of companies' strategies and the improvements these firms could make to enhance their value.

Yet, even now some companies regard ESG as more of a PR activity than a business imperative. That will all change as they come to view factors such as corporate disclosure and resilience to climate change as essential to the sustainability of their business. Management teams will need to know, and be able to demonstrate to their boards of directors and investors, how their business models will remain valid in 10 years' time. To do that they will need to identify and guard against ESG issues that could cause disruption, from data breaches to supply-chain risks to discontent among staff that prompts turnover of key personnel and loss of knowhow. The game-changer will be seeing ESG as a means not only to manage risk, but also to drive returns. Firms able to showcase how they safeguard customer data, prioritise environmental sustainability, foster a good staff culture and maintain standards among their supply chain will resonate with consumers. That will drive profitability, and consequently investor interest.

Finally, we expect institutions will start defining ESG parameters that fund houses must adhere to in managing portfolios over the next few years. While they will feature traditional performance requirements, mandates may also require investment partners to work within a carbon budget; or manage a portfolio of companies that achieve a minimum ESG score; or build a portfolio with quantified environmental or societal impacts.

While this is underway in parts of Europe, growing concern about ESG issues among governments and societies more broadly will dictate that it accelerates across Asia, the US and the rest of the world over the coming years.

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ASIA AHEAD

Darius McDermott, managing director, FundCalibre, considers whether the Covid-19 pandemic will result in an acceleration of the rise of the east, providing greater investment opportunities

There is a train of thought that political, economic and social disasters can often accelerate existing global trends. There are examples throughout history which support this view. One which springs to mind is the rise of the United States as a superpower following the First World War. The US joined the war in 1917, at a time when millions of Europeans had been killed in the trenches, tipping the balance of the conflict towards the UK and France. The American economy boomed, with war spending soaring past many of the ravaged European states. It's ascension to prominence was cemented.

A century later and today's economic trend is the rise of Asia as the world's global growth engine – with the West on the losing end. According to the World Economic Forum, Asia's GDP was set to overtake the rest of world combined in 2020 and the region will account for roughly 60% of global growth by 2030*.

There is an irascible, tweet-happy individual in the White House who may not like it – but the demographics are impossible to deny, as the Asia Pacific region will be responsible for 90% of the 2.4bn new members of the middle class in the global economy[1].

Trade Wars are arguably a side show to the fact that the US economy has large headwinds and the Asian economy has large tailwinds. But I believe the coronavirus could see those trends accelerated as Asia – and particularly China – becomes the dominant force sooner than we think.

As at the time of writing at the start of April 2020, what we know about the long-term impact economically of COVID-19 is somewhat limited, although a recession seems unavoidable. Figures from Schroders estimate the global economy will contract this year by 2.9%, before rebounding by 6.9% in 2021[2].

Much will depend on the quality of response to the pandemic and the early indications are that Asia – and China and South Korea in particular – have done a far better job than Europe and the US of containing the disease. It appears a forceful shutdown is the best solution, rather than any attempts to keep an economy limping along.

According to an article I read from

Andy Rothman at Matthews Asia, the bounceback in China is truly underway, just as Europe and the US continue to falter. The Purchasing Managers' Index (PMI) rose above the threshold level of 50 in March in China (it actually stood at 52.3), up from 35.7[3] in February, although export orders and imports were still below 50 – essentially domestic demand has recovered faster than external demand.

The Chinese economy was also in good health prior to the COVID-19 outbreak. Savings among Chinese families – about 34% of disposable income for urban residents – are also strong, while there is also a relatively low household debt-to-GDP ratio of 54%[4]. By contrast, Americans save 7.9% of their disposable income and the household debt-to-GDP ratio is 75%. From a long-term

What will really help the Chinese economy is the fact that the central bank and finance ministry have not used all the stimulus tools available to them – unlike their peers in the West

perspective, what will really help the Chinese economy is the fact that the central bank and finance ministry have not used all the stimulus tools available to them – unlike their peers in the West.

To be clear, China has taken some steps to ensure adequate liquidity, and to reassure consumers, corporates and investors about their futures. By contrast, the West has used mass stimulus packages to pay people's wages and keep businesses running. All those moves are highly inflationary (including lower interest rates) and are likely to result in currency depreciation versus the renminbi. This would give the Chinese even greater purchasing power.

Low oil prices are also a boon for most countries in Asia, with China and India the first and third largest importers. According to a research note from Alquity, should the low oil price be sustained, it could lead "to a rebound in the local domestic economic situation" adding that this will be far more powerful local stimulus than observers have generally come to realise, particularly when combined with other local fiscal and monetary action.

In summary I would say Asia is a region which is clearly too big to ignore – but the opportunity may just have become greater. Prior to this crisis global growth was being driven by Asia, and this pandemic is likely to accelerate this trend in the future.

Options worth considering include the Matthews Pacific Tiger fund, which has almost half of its allocation in China/ Hong Kong[5], or the Schroder Asian Alpha Plus fund, a well-diversified fund managed by Matthew Dobbs.

Those wanting direct exposure to China may prefer the First State Greater China Growth fund, managed by Martin Lau. It's a 50-60 stock portfolio focusing on quality companies with barriers to entry, pricing power and sustainable growth.

[1] Source: World Economic Forum, 20 December 2019
[2] Source: Schroders - Coronavirus to spark "severe" global recession
[3] Source: ING China: a positive note from PMI
[4] Source: Matthews Asia Sinology: Is China a Safe Haven?
[5] Source: Fund factsheet, 29 February 2020

Past performance is not a reliable guide to future returns. You may not get back the amount originally invested, and tax rules can change over time. Darius's views are his own and do not constitute financial advice.

SECTOR CONSIDERATIONS: THE RETURN OF NEGATIVE CORRELATION

Correlation over 5 years: FE Analytics figures from 30 March 2015 to 30 March 2020 – figures based on returns in sterling

	Bloomberg Gold Sub	IA Asia Pacific ex Japan	IA Europe ex UK	IA Global	IA Global Bonds	IA Japan	IA North America	IA Sterling Strategic Bond	IA Targeted Absolute Return	IA UK All Companies	IA UK Gilts
Bloomberg Gold Sub		0.26	0.00	0.09	0.78	0.08	0.08	0.16	-0.01	-0.22	0.50
IA Asia Pacific ex Japan	0.26		0.74	0.83	0.45	0.78	0.71	0.49	0.61	0.61	-0.01
IA Europe ex UK	0.00	0.74		0.88	0.29	0.79	0.77	0.58	0.87	0.84	-0.11
IA Global	0.09	0.83	0.88		0.33	0.89	0.96	0.53	0.74	0.81	-0.06
IA Global Bonds	0.78	0.45	0.29	0.33		0.30	0.30	0.41	0.19	-0.05	0.56
IA Japan	0.08	0.78	0.79	0.89	0.30		0.83	0.41	0.70	0.71	-0.16
IA North America	0.08	0.71	0.77	0.96	0.30	0.83		0.43	0.62	0.72	-0.03
IA Sterling Strategic Bonds	0.16	0.49	0.58	0.53	0.41	0.41	0.43		0.62	0.50	0.49
IA Targeted Absolute Return	-0.01	0.61	0.87	0.74	0.19	0.70	0.62	0.62		0.77	-0.05
IA UK All Companies	-0.22	0.61	0.84	0.81	-0.05	0.71	0.72	0.50	0.77		-0.17
IA UK Gilts	0.50	-0.01	-0.11	-0.06	0.56	-0.16	-0.03	0.49	-0.05	-0.17	

Correlation recent: FE Analytics figures from 30 November 2019 to 30 March 2020 – figures based on returns in sterling

	Bloomberg Gold Sub	IA Asia Pacific ex Japan	IA Europe ex UK	IA Global	IA Global Bonds	IA Japan	IA North America	IA Sterling Strategic Bond	IA Targeted Absolute Return	IA UK All Companies	IA UK Gilts
Bloomberg Gold Sub		-0.79	-0.14	0.19	0.41	0.03	0.45	0.79	0.04	-0.20	0.94
IA Asia Pacific ex Japan	-0.79		0.71	0.45	-0.88	0.59	0.19	-0.26	0.56	0.76	-0.96
IA Europe ex UK	-0.14	0.71		0.95	-0.96	0.99	0.82	0.49	0.98	1.00	-0.48
IA Global	0.19	0.45	0.95		-0.82	0.99	0.96	0.75	0.99	0.92	-0.17
IA Global Bonds	0.41	-0.88	-0.96	-0.82		-0.90	-0.63	-0.23	-0.89	-0.97	0.71
IA Japan	0.03	0.59	0.99	0.99	-0.90		0.91	0.63	1.00	0.97	-0.32
IA North America	0.45	0.19	0.82	0.96	-0.63	0.91		0.90	0.91	0.76	0.11
IA Sterling Strategic Bonds	0.79	-0.26	0.49	0.75	-0.23	0.63	0.90		0.64	0.44	0.53
IA Targeted Absolute Return	0.04	0.57	0.98	0.99	-0.89	1.00	0.91	0.64		0.97	-0.31
IA UK All Companies	-0.20	0.76	1.00	0.92	-0.97	0.97	0.78	0.44	0.97		-0.53
IA UK Gilts	0.94	-0.96	-0.48	-0.17	0.71	-0.32	0.11	0.53	-0.31	-0.53	

Data provided by FE Fundinfo

Fund Calibre analysts reveal the effect of the Coronavirus crisis on correlation between sectors and what that means for portfolios.

One of the narratives which has stood out in the past few years is that bonds and equities had become increasingly correlated.

As the top table shows, over five years there has been gentle correlation between both. However, the recent sell-off has reversed those trends in style, with negative correlation appearing in abundance. Negative correlation is not just about performance – it also demonstrates diversification and the spread of risk. Most portfolio construction theories cite the need for negative correlation when building a portfolio.

Take the IA Gilts and IA Asia Pacific ex-Japan sectors as a good example – it is -0.96 correlated in the past four months (see lower table) about as uncorrelated as you can be. To put this into context, the average correlation for the past five years is -0.01. Asia has been the standout equity market globally, having fallen earlier given the origins of the pandemic. It has improved recently and now has significant dispersion, from a correlation perspective, to other asset classes.

The sell-off has also breathed some life into the bond market which, until recently, was seen to have an unfavourable risk/return profile. Global bonds is a classic example of the recent negative correlation, as many funds are not hedged in sterling, which has suffered even more due to the Brexit backdrop. The result is a sector which is heavily uncorrelated to most major markets.

The figures are staggering – but diversification looks to be back..

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Professional Paraplanner CPD questions for Structured CPD verification

Viewpoint (p5)
The UN climate change conference – COP26 – was scheduled to take place in which Scottish city?
- ☐ Aberdeen
- ☐ Edinburgh
- ☐ Glasgow

TDQ (p8)
The amount that can be paid into a JISA was increased from 6 April 2020 to:
- ☐ £4,368
- ☐ £8,736
- ☐ £9,000

TDQ (p8)
The money in a JISA can be accessed by the child at what age:
- ☐ 16
- ☐ 18
- ☐ 21

TDQ (p8)
Parents pay tax on money invested for children in an ordinary savings account if the interest exceeds:
- ☐ £80
- ☐ £100
- ☐ £150

Comment (p10)
What is one way the writer suggests paraplanners become 'more involved' with clients?

Development (p13)
What is one way the writer suggests paraplanners are realistic about their productivity:

Compliance (p11)
Which section of COBS relates to Agent as Client:

Compliance (p11)
Name one risk of the Agent as Client operating model:

Compliance (p11)
Duty of care under Agent as Client lies with:
- ☐ The advice firm
- ☐ The discretionary investment manager

Investment (p20)
According to the World Economic Forum, Asia's GDP is set to account for what percentage of global growth by 2030?
- ☐ 20%
- ☐ 35%
- ☐ 40%
- ☐ 60%

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