Professional Paraplanner

The magazine for paraplanners and financial technicians

December 2020

Get involved

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2020 – A WRITE OFF?

When this issue is published we will be close to the end of Lockdown 2.0 (unless Govt thinking changes). There are two confirmed vaccines lined up to go through the regulatory process and into production and another hoped for shortly. Which is great news. Covid-19 will not be eradicated as a result but hopefully, its impact on the world can be significantly reduced and many lives saved. At time of writing, the data show that 1.35million people around the world have lost their lives due to the virus, 52,745 here in the UK, and our thoughts are with those affected by this dreadful pandemic.

While some commentators have written off 2020 as a year we would all like to forget, I'd like to look at aspects of this year with a more glass half-full perspective. First, it has served to highlight the quality and professionalism of staff who stepped up to the plate and in most cases kept firms running with very little more than a hiccough in service to clients. It has proven that flexible working is more than viable and opened eyes and minds to the fact that the way businesses operated before may not be the most efficient and the most cost effective way of doing things. People have also begun to look at what motivates them, to question what is important to them and to plan to do things differently. Family, health and personal finances have definitely risen up priority lists.

Michelle Hoskin's article on page 12-13 is an uplifting read in this respect, focussed on self-determination and motivation. While Dan Atkinson reflects on pages 8-9 on how his life has changed this year, what he has learned and what he is taking forward into 2021 to help improve his work and home life. Dan says: "As we head into 2021, let's remember what we've learned about ourselves this year. Prioritise the things that are important, maintain clarity on your goals and put plans in place to achieve them." I couldn't agree more.

Opportunities

Where market disruptions occur, there are opportunities to be had. Take the example of Para-Sols, where the team used the initial Lockdown period to rethink the business and take advantage of advisers' increased use of digital services to reposition their paraplanning service.

Blake Ellis, interviewed this issue for Where are They Now?, launched his outsourced paraplanning business Prudent Paraplanning just three months before Lockdown 1, and believes the success of home working has already made outsourcing a more comfortable choice for advice businesses. The focus on technology has ramped up also and one of the major benefits of Lockdown looks likely to be greater recognition by businesses of the need to invest in software and services and to look at where tech can help sustain, improve, develop and grow a business.

Words of warning

But there are words of warning too. While markets have risen since their fall in Q1 and there is optimism they will climb again in 2021 as the vaccines come into play, uncertainty remains. The overall effect of the pandemic on global economies has yet to be seen. Inflation is a concern also (see Viewpoint on page 5).

It has been a hard year both physically and mentally for clients and going into the New Year we can expect markets and economies to remain under pressure and investors generally to continue to be concerned and wary. Advisers and paraplanners are in the superb position of being able to help people through these times via the relationship they have with clients and careful wording of communications and suitability reports, particularly where families have suffered under Covid.

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New Year

This issue is the last of 2020 – our next will be published at the end of January 2021. Meanwhile you can stay attuned to all things paraplanning through the *Professional Paraplanner* website and daily email alert, as well as our webinars.

While the world/UK won't have thrown off the effects of the virus by then, let's hope the New Year starts to bring an end to these unusual times and heralds a new era of greater humanity, prosperity and health. Meanwhile, please stay safe.

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INFLATION OUTLOOK

We asked John Calverley, chief economist of newly launched investment support firm Tricio Investment Advisors why he believes there are five reasons to be worried about inflation

Inflation has fallen this year and even in 2018-19, at the peak of the last economic upswing was mostly below the 2% target. But looking ahead, here are five reasons for worrying, not about a return to 1970's style double-digit inflation but a clear move back above the 2% targets and potentially touching 3% or more. This suggests risks for conventional bonds and favours inflation-indexed bonds and real assets including property. Most stocks should do fine as long as inflation does not get out of control provoking a sharp tightening of policy.

A quick bounce back in activity

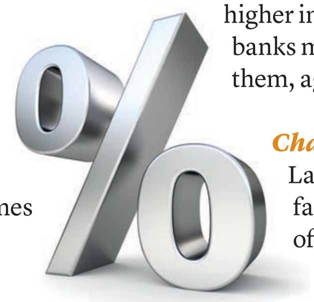
There is a strong chance that over the next six-to-nine months, vaccines will bring most social distancing and lockdowns to an end. If that happens economic activity could roar back to end-2019 levels and beyond, as people go out and spend and socialise. A rapid return to full employment and output will once again raise inflation risks.

Fast money growth

In the UK, money supply M4 is up 12% this year, while in the US it is up an astonishing 24%. Quantitative easing is one reason but the main cause is a surge in precautionary borrowing by companies. For now, companies are holding on to the cash but when Covid-19 is defeated, some of this overhang could be spent on hiring and investment, adding fuel to the recovery and potentially bringing inflation. Over the long run there is a clear relationship between money and inflation.

Dovish central banks

Official interest rates are very low everywhere and central banks are active with programmes to provide additional stimulus. That is all fine and desirable, for now, but there are signs that central banks will remain very dovish well into the upswing. In the US the Fed has switched to a new average inflation targeting regime. This is a specific promise to aim for inflation above 2% and a commitment that it will not necessarily want to tighten policy next time unemployment goes below 4%. The Bank of England is unlikely to formally adopt such a strategy but in reality that is what it did back in 2009-12 when inflation rose above 3% for a while. The danger is that if inflation moves to (say) 2.5-3% central banks will be slow to move against it.



High government deficits and debt

Historically, high government deficits and high ratios of debt to GDP have been associated with high inflation. Deficits will fall considerably when the economy fully recovers. But without further action to cut spending or raise taxes they will likely remain well above 2019 levels. In the UK 'austerity' is officially dead and the government's 'levelling up' agenda points to increased spending. While there are murmurings of higher tax rates, changes are likely to be limited. Meanwhile US net government debt is likely to reach over 120% of GDP by the end of 2021 and the UK's will be well over 100%. High government debt, as well as the higher levels of corporate and household debt emerging, will make society averse to higher interest rates and make central banks more cautious about raising them, again risking higher inflation.

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Changing structural trends

Last but not least, a major factor behind the disinflation of the last 30 years was the opening of China to the world economy. That had the effect of depressing goods prices and holding down wages for low and mid-skilled employees in developed countries. But China's wages are rising and pressures are increasing to reduce offshoring. Another major long-term trend is that both the West and China are ageing rapidly which is inflationary because the number of people working will fall relative to the number of people consuming.

Inflation has been on the retreat for 40 years but that trend may be due for a reversal. Investors should beware and paraplanners should be sure to take inflation risks into account in designing portfolios.

GET INVOLVED

Getting involved, asking questions and stepping outside her comfort zone is the way Aishling Costello, paraplanner with Fidelius Group, has progressed her knowledge and experience, she tells Rob Kingsbury

If there is one piece of advice Aishling Costello, paraplanner with Fidelius, would give someone starting in paraplanning it is: "Get involved as much as you can and ask as many questions as you can think of – because you will learn so much from it."

It's advice she has heeded herself in her career within financial services, first as an administrator and for over five years now, as a paraplanner. Like many people in financial services, it wasn't her planned career path. Growing up, horses were her love. "I used to compete at show jumping, dressage and eventing at various levels until I left university."

She graduated with a degree in Equine Science. "It was a great course; a really good mix between lectures, labs and practical, including dissecting horses' heads and legs." But not wanting to do four more years of studying to become a vet, Aishling looked for a job close to home and landed a role as an administrator with an IFA/accountancy firm.

"I didn't understand what an IFA firm did when I joined but I started working in various parts of the business, in any area they wanted me to work, and in each one I asked questions, which quickly built up my knowledge. Over the two-and-a-half years that I was there, I progressed into doing the research for the paraplanners and then into paraplanning itself.

"And I've never looked back. Paraplanning turned out to be my calling and when I looked to move jobs I looked for a full-time paraplanning role."

That role was in the Bridgwater office of Chartered Financial Management – which was recently acquired by Fidelius Group – where she has been for the past five years. The group provides financial planning to individuals and employee benefit advice to companies. It has over 100 employees, including 30 financial planners and employment benefit consultants, with around £1.2billion in assets under advice.

In the Bridgwater office, there are six financial advisers and four paraplanners. The firm's directors have dedicated paraplanners and the remaining paraplanners operate on a pooled basis for the other advisers, although Aishling says she tends to work mainly with one adviser "because she is very, very busy". The firm operates a buddy system, so when a paraplanner is away there is someone available who can take over the workload.

Describing her responsibilities as a paraplanner, Aishling says it is "supporting the adviser with anything they need to serve the client; so it is not simply report writing. My job includes the usual paraplanner responsibilities, ensuring we research and recommend the most appropriate advice. The financial advisers will provide ideas for the recommendations and then the paraplanners will do the research and calculations and discuss any other areas of planning that may not have

been considered or that may need to be amended as the client's information has come to hand, and then we'll write up the recommendations and follow things through to implementation."

Generally, paraplanners do not attend the client meetings with the adviser, unless the adviser thinks they can add value or support for a particular individual, she explains. "On top of that, I like to get involved in the business. So I'm involved in project work, for example, looking at the processes and systems to see how things can be made to run more smoothly and improved to deliver a better client outcome. I'll get involved in any part of the business, from trialling new research tools and cashflow forecasting tools, to working on report templates."

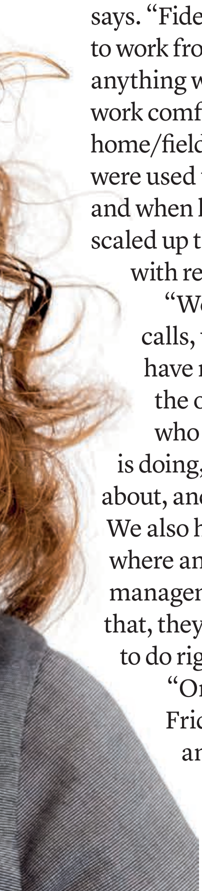
Impact of Covid crisis

Aishling says as she was working three days a week at home pre the Coronavirus crisis, she has been into the office only two or three times since the initial lockdown in March 2020. "There's really been no real need for me to go in but the option has been there to do so, from July to 4 November, in a safe way and only two people at a time."

When the first lockdown was announced the firm responded extremely well, Aishling says. "Fidelius made sure we were all set up to work from home straight away, providing anything we needed to ensure we could work comfortably. Our advisers are mainly home/field based, so as paraplanners we were used to working with them remotely and when lockdown came in we simply scaled up the number of people we work with remotely.

"We keep in contact through video calls, using Teams or Zoom, and we have regular communications with the operations team and managers, who let us know how the company is doing, any changes we need to know about, and updates on the Covid situation. We also have bi-weekly drop-in forums where anyone can asks questions of the management. Fidelius is very open like that, they want to know staff opinions and to do right by staff as well as our clients.

"On a more informal basis, we have Friday socials, including fancy dress and charity fund raising events.



"I'll get involved in any part of the business, from trialling new research tools and cashflow forecasting tools, to working on report templates"

All the work that has gone on has made the adjustment to what is a very unusual situation much easier to deal with."

Cashflow project

One of the projects that Aishling was involved in was due diligence on a new cashflow forecasting system the company was looking to use – i4C. This was before i4C was acquired by Intelliflo to sit alongside the Intelligent Office back-office system, which Fidelius also uses. The group also uses the Cashcalc cashflow tool. "Myself and a couple of the other paraplanners were tasked with looking at how we'd use i4C and how we could adopt it into the overall service proposition. I worked very closely with i4C for quite a long time asking them a lot of questions, getting to grips with the system and making sure we were making use of the tool to its full capability.

Having been so intimately involved in the testing of the system for the company, i4C asked Aishling to take part in the Professional Paraplanner Technical Insight Webinar presented by the company in the summer of 2020, to give a paraplanner's view of the system. "It was a great experience, although I was really nervous beforehand – my hands were shaking. But my view is that if you don't try something new, you stagnate. And I think that is particularly true of paraplanners. I think you need to try new things and get out of your comfort zone because that's the way you learn and develop.

"I think that cashflow is becoming more and more appreciated and essential and it won't be long before all advisers are undertaking some sort of cashflow forecasting for their clients."

Why become a paraplanner?

Aishling sees the role of paraplanner become ever more core and influential within advice firms. "Paraplanning is becoming less of a stepping-stone to becoming a financial adviser and more of a career in its own right, and financial planners appreciate the ability to rely on paraplanners and the technical knowledge they bring to the table. This is important because it means people develop their skills and ongoing professional development to the role of paraplanner rather than focusing their skills on being an adviser," she says.

She sees the paraplanning role as "a great opportunity for people who are analytical and who also want to contribute in a meaningful way to the client proposition, because you are directly working with the adviser and the client.

"If you are that analytical kind of person who likes problem solving and thinks outside the box, who enjoys doing research and process-driven work and is able to sort and analyse large quantities of information while paying attention to detail, then paraplanning is for you."

For anyone who is starting out in the industry and is looking at paraplanning as a career Aishling has three tips:

1. Find an employer who will support your study and your learning because it makes all the difference.
2. A lot of the knowledge you get is only through doing the job, so put yourself forward for everything you can.
3. Listen and learn. Seeing how clients, providers and colleagues interact will help you better understand what's needed.

She adds: "The support I've had from my colleagues and my employers has helped increase my development and my confidence tenfold. It's those conversations that really help grow your knowledge. So do ask questions and do get involved because in my experience that is the way to improve and develop your ability to be a paraplanner."

FACING UP TO 2021

What can we learn from 2020 that can make us better at what we do in 2021? Dan Atkinson, head of Technical, Paradigm Norton Financial Planning reflects on an unprecedented year and what it has taught him

If we look back to this time last year, what were your hopes and dreams for 2020? Perhaps you had some expectations about the year ahead. I think that this year we can agree that it's not quite gone the way we expected!

When I was writing in this edition last year I highlighted the book *Advice That Sticks* by Dr Moira Somers. She drew out three things that are needed to give good advice.

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

As we come to the end of 2020 I thought I'd share what has helped me navigate the challenges which we've faced this year and may continue to face for some time. I think these three points can be adapted to provide a helpful framework.

1) Understanding what is really important

It's easy to go about life settled into a routine. We get up, go to work, come home, go to bed. The events of this year have disrupted these things. Whilst this has been a disruptor, it has made us rethink and review what is important to us.

Do we really miss that flat white in the morning? Have we rediscovered the joy of rolling straight into leisure when we finish work – rather than sitting on a train or in traffic? Or do we miss the chance to read a book, catch up on the news or listen to a podcast?!

Our daughter started school this year. Instead of getting up early and commuting to London, I can walk her to school from time to time. Rather than getting home late, tired, and after her bedtime, I can ask how her day went when she gets back. I miss listening to podcasts on my commute, but it's more important to me to spend time with family – I can catch up on things on my morning walk instead. What have you found to be really important?

Many people wish that 2020 would be erased from their memories. We don't know what 2021 will bring, but we can take stock and refresh our perspective

2) Having goals to focus on and a plan to achieve them

When there is a lot of uncertainty it is tempting to focus on the immediate problems. They can seem very large especially when it feels like they come one thing after another. The journey can get tough. If we can set our focus a bit higher, or further ahead that often helps. Something to look forward to. Whilst it could be meeting up with people, I'd suggest thinking about something which is in your circle of control. What can you work towards and how can you make it happen?

In our London office a few colleagues are undertaking a fitness challenge in the lead up to Christmas. Some of you might be working towards a qualification and studying to pass exams. In our home we've been focusing on getting things like double glazing sorted. At work I've got a number of projects to help me keep my focus off the day-to-day.

Having a goal and a plan helps. What are your goals and how are you working towards them?

3) Dealing with obstacles

Even with knowledge of what's important and clear goals, we will hit obstacles. Some might require a workaround, but others may need a more substantial solution. You can plan for and mitigate some of these (at Paradigm Norton we call this a 'pre-mortem'*), but few people would have predicted the events of this year.

For the things you can't plan for, it's the way you approach them that matters. Do you roll over and give up, or do you see it as a challenge? We might not be able to work around the obstacles, but not trying guarantees failure.

A helpful start for me has been to review whether I am seeing the situation correctly and from the right perspective? Get a second opinion. Take advice. Don't rush to the solution – diagnose first.

What do you do when you hit an obstacle? What questions do you ask yourself? How should we remember 2020 and set the tone for 2021?

Many people wish that 2020 would be erased from their memories. We don't know what 2021 will bring, but we can take stock and refresh our perspective.

- Many of us started to understand what was important
- Some of us established new goals and ways of achieving them
- We all experienced challenges and overcame many of them.

As we head into 2021 let's remember what we've learned about ourselves this year. Prioritise the things that are important, maintain clarity on your goals and put plans in place to achieve them. When challenges come remember we overcame and will overcome again if we approach them well informed and in the best way we can.

*** In business terms, this is assuming a project or task has not succeeded and working backwards to understand why and mitigate against it.**

HIGH INCOME CHILD BENEFIT CHARGE

The Brand Financial Training team examine the detail that can see families become liable to pay this charge and options to help avoid it

The High Income Child Benefit Charge was introduced in 2013 affecting around 1.1 million families, in some cases dragging more people into the self-assessment system. Let's first look at when the charge applies:

- When an individual or their partner gets Child Benefit; and
- Where either person has an 'adjusted net income' of over £50,000 – if this is the case, the charge effectively removes 1% of the Child Benefit received for every £100 of excess 'adjusted net income' over £50,000.
- If income is over £60,000 the child benefit is essentially lost in full.
- It makes no difference if the higher earner is not the child's mother or father nor if the couple are not married or in a civil partnership.

Let's look at an example:

Julia and Ben are not married but have recently started to live together. Ben has a son, Oscar aged 14, from a previous relationship who lives with them permanently. Ben has earnings of £45,000 and Julia has earnings of £58,000.

Ben has always claimed Child Benefit and in 2020/21 will receive £21.05 per week for Oscar (calculated as £1,115.65 for the year by www.gov.uk). Even though Julia and Ben are not married, and Oscar is not Julia's son, because they live together, and Julia has earnings of more than £50,000 there will be a charge on her as the higher earner as follows:

- £1,115.65 x 1% = £11.15 (rounded down)
- £58,000 - £50,000 = £8,000/100 = 80
- £11.15 x 80 = £892 (rounded down) High Income Child Benefit Charge

Ben and Julia effectively have three choices; Ben can continue receiving Child Benefit and Julia pays the charge through the self-assessment system or Ben gives up the Child Benefit and Julia is not charged.

If Ben continues to receive the Child Benefit and Julia doesn't normally fill in a tax return (because all her income is taxed under PAYE), she will need to register by the 5 October following the tax year she needs to pay the tax charge, in other words by the 5 October 2021.

The third option is that Julia reduces her adjusted net income by paying into a pension plan. If she makes a gross contribution of £8,000, reducing her income for Child Benefit purposes to £50,000, this would ensure she would not have to pay the High Income Child Benefit Charge. This is because 'adjusted net income' is income after deducting gross pension contributions (donations to charity under gift aid will also have the same effect).

The gross £8,000 pension contribution would only cost Julia £6,400 as the pension provider re-claims £1,600 of basic rate tax relief and she will also receive an additional 20% tax relief as a higher rate taxpayer.

The result is that Julia has an extra £8,000 in her pension fund which has effectively cost her only £4,800 and Ben gets to keep the Child Benefit payments.

Child Benefit and State Pension

You should note that if a client doesn't think they will be entitled to any Child Benefit payments because either they or their partner is subject to the High Income Child Benefit charge, it might still be worth claiming in some circumstances (and electing not to receive payments). For example, if the child is under 12 and one partner is not working or does not earn enough to pay National Insurance contributions, registering for Child Benefit can provide National Insurance credits. These count towards State pension so there are no gaps in their National Insurance record.

TURBO 'SELF'-CHARGED!

What personal development positives have we learned in 2020 that we can carry forward into the New Year? A focus on motivation – yours and that of others – is a good place to start, says Michelle Hoskin, managing director of Standards International

In my recent webinar with PP editor Rob Kingsbury we covered one of the most important things that has personally and positively impacted my life: self-determination and motivation. I think it is safe to say that at some point in the last nine months many of us have felt at times like we have literally been hit by a bus!

Despite my positive disposition, I have many times been well and truly in that camp – much to my personal disappointment – and because of this I think we all have big expectations for 2021

as, let's face it, 2020 has literally been a write-off. One of the concepts wrapped up in the theories behind self-determination and motivation is that we are all impacted by both extrinsic (external) and intrinsic (internal) motivators. External motivators could include elements such as our physical environment, compliance, rules and regulations, rewards and punishments. While our internal motivators could include interest, enjoyment, satisfaction and of course not forgetting our own personal values.

With 2021 looming, I think we need to continue this conversation.

Self-motivation – thanks, Dad!

My level of personal self-motivation is a gift that I inherited from my dad and thank

goodness I did. It has at many points in my life pulled me out of many situations which at the time felt so unjust and unfair. But I was equipped with a drive and determination to never give up that has served me well and, my goodness, I am going to need it super charged to get me into and through what I believe is going to be a very tricky and turbulent 2021.

According to a 2000 paper by Richard Ryan and Edward Deci ('*Self-Determination Theory and the Facilitation of Intrinsic Motivation, Social Development, and Well-Being*', *American Psychologist*) https://selfdeterminationtheory.org/SDT/documents/2000_RyanDeci_SDT.pdf :

"Human beings can be proactive and engaged or, alternatively, passive and alienated, largely as a function of the social conditions in which they develop and function."

Our social conditions continue to be subject to change and, while I am no fortune teller, I can't see that changing any time soon and as such I think our levels of self-motivation are literally going to be tested to their limits!

My favourite bit of the paper says:

"Specifically, factors have been examined that enhance versus undermine intrinsic motivation, self-regulation, and well-being. The findings have led to the postulation of three innate psychological needs – competence, autonomy, and relatedness – which when satisfied yield enhanced self-motivation and mental health and when thwarted lead to diminished motivation and well-being."

So, let's focus on what you can do, every day, to make a positive impact on the people you work and live with.

> ***External motivators could include elements such as our physical environment, compliance, rules and regulations, rewards and punishments. While our internal motivators could include interest, enjoyment, satisfaction and personal values***

What can you do?

Let's take a look at what can enhance a person's level of motivation by keeping them engaged, on board and moving in the right direction... because the bad days are not over yet!

a) Show people that they matter and that you care

We all matter, we are all currently pulling out all the stops to keep motivated and engaged at work – and for some this is just the start! Keep your eyes and ears well and truly open. Notice what people say, what people don't say and their tone of voice. Check out a person's body language or level of eye contact on your team catch-ups. Check out how big their smile is, how they look, how they are dressed and the state of the environment they are working in. If something doesn't look or feel right to you – say something! Raise it, don't be scared or embarrassed: a simple 'How are you today?' could go a long way.

b) Give them recognition (public or private) and thanks

When we are trying to do it all and seem to be keeping it all together even in a time of crisis, we all want someone to recognise that we are! So, if you see someone in your team doing great work, handling a tricky situation or even just getting through the day without losing it – recognise them. Tell them they have done a great job.

c) Offer to help

I know you are busy, in fact I know you are likely to have enough work to last you a lifetime – but when we feel overwhelmed, we can also feel isolated, low and – in the worst cases – totally useless.

Just knowing that someone is there, that someone has our back, that someone would catch us if we did in actual fact fall, is sometimes all that we need – even if that person never moves a finger to help us ACTUALLY do anything – we know they are there and that is all that really matters.

So, take notice, show you care – and be there and be ready to catch!

WHERE ARE THEY NOW?

Rob Kingsbury caught up with Blake Ellis, PP cover star in October 2018 and now director and technical paraplanner at outsourced firm Prudent Paraplanning

Prudent Paraplanning celebrated its first anniversary on 6 November 2020. "I'm very glad that I set up the company ahead of the Coronavirus crisis and Lockdown, says director Blake Ellis. "I'd known for some time that I wanted to establish an outsourced business but I think it would have been harder starting off when everyone was coming to terms with new ways of working."

Ironically, he feels the crisis may have made outsourcing a more comfortable choice for financial advice firms going forward. "With most in-house paraplanners now operating remotely, like an outsourced paraplanner does, firms are seeing that it is possible and productive to operate paraplanning on a virtual basis. They are also looking at costs of the business, for example, whether they need the same amount of office space.

Outsourced paraplanning services can offer cost benefits as firms only pay for the service they use, so they have no office overheads, salary, national insurance and pension payments, etc. I think firms will keep in-house paraplanners but more and more firms are coming around to the idea of outsourcing, bringing in outsourced skills and knowledge accumulated from supporting multiple financial advice firms, especially for additional, or specific help. "I see outsourced firms being disruptors in the market, making people think about how they do things."

In its first year Blake says the company has picked up a number of new clients, including from the Top 100 financial advice companies. "When I started I literally had zero clients. It really was a test of my entrepreneurial spirit. So I got on the phone and started ringing around and talking to advisers.

" Some want regular work and some use us on an ad hoc basis, some need a full paraplanning service while others want us to undertake specific projects or for cashflow modelling."

While pensions and investment planning is the bread and butter of the business at present, Prudent Paraplanning works across the paraplanning spectrum, from report writing and technical research and analysis to annual reviews and more.

A specialism is cashflow planning – an essential to financial planning that Blake has advocated for years (see previous interview under the Profile tab on the *Professional Paraplanner* website).

"Building a proper cashflow forecast, especially a more complex one, can take time and you need to know what you are doing. Inputting the wrong assumptions, for example, can lead to an overly optimistic or pessimistic outlook for the client. Financial advisers often don't have the time to get to know how to use the system or how to make the most of it, which is where it can make sense to outsource to a firm like us to put a forecast together. We can work with all the tools in the market."

Building the business

Blake says starting with a clean sheet of paper he could build the company as he envisioned. "I want Prudent Paraplanning to be seen as providing a great service in the most efficient way possible, one that adds value to adviser businesses. Our motto is: 'Let us add value to your business, so you can add value to your clients.' We also charge fixed fees for our services so advice firms know what they are paying."

It's a strategy that is clearly working as Blake says he has seen enquiries increase throughout the year, despite Covid, and new business is coming from referrals as well as his marketing campaigns.

"Working across all paraplanning services and a range of advice firms, it means when we get a new client we can hit the ground running," he says.

Blake recently became a member of the CISI's Paraplanner Interest Group. "As paraplanning becomes ever more important in the industry, we have to not only bring in more people to meet demand for paraplanners but also, we need to have in place a benchmark as to what a paraplanner is and should be capable of doing. I think that's the only way we're going to be able to build a real profession and that needs some guidance from a body like the CISI."

Just a year into the business, Blake says he hasn't set a five-year plan as yet but he is clear about one thing: "I want to grow the business but it's important to me that we retain the personal service. I think that is what the kind of firms I want to work with both want and appreciate."

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 20/21, examinable by the CII until 31 August 2021.

1. Clay is a higher rate taxpayer – which of the following would NOT normally be recommended as a tax planning strategy for him?

- A Consider a higher risk investment like an EIS just to qualify for the tax relief
- B Consider taking maximum pension commencement lump sum from a pension when the client's sole requirement is income
- C Delaying investment to qualify for an allowance, e.g. splitting an investment to straddle two tax years for an ISA investment
- D Delaying or bringing forward transactions so that they fall into certain tax years

2. An investment manager who uses arbitrage pricing theory hopes to:

- A Magnify gains through borrowing
- B Identify shares that offer long-term sustainable advantage
- C Identify shares that are mispriced in the market
- D Prove that average opinion is usually wrong

3. Lenny owns an 80% share in the family company and on his daughter Freya's 21st birthday gives her a 20% shareholding. Instead of paying Capital Gains Tax (CGT) on the gain of £50,000 he has made, Lenny instead claims holdover relief. What is the impact of this course of action?

- A There is no impact on Freya but if she disposes of the shares Lenny will then have to pay the outstanding CGT
- B Holdover relief extinguishes Lenny's CGT liability and Freya acquires the shares at the value at the time they are transferred to her
- C There is no impact on Freya but if she disposes of the shares Lenny will then have to pay the CGT but at the reduced holdover rate of 10%
- D Freya acquires the shares at Lenny's acquisition cost and if she disposes of the shares her gain will include Lenny's gain of £50,000

4. A self-employed individual can obtain higher rate tax relief on personal pension contributions by:

- A reducing their first payment on account by the amount of tax relief.
- B reducing their second payment on account by the amount of tax relief.
- C reducing their balancing payment by the amount of the tax relief
- D paying the pension contributions net of higher rate tax.

5. Which of the following is NOT an argument in favour of taking out private medical insurance?

- A It is more suitable for a patient with a chronic medical condition
- B Avoids long waiting lists for NHS treatment
- C Patient is normally able to choose their own hospital and surgeon
- D Likely to have a private room rather than be on a general ward

6. Glen is a fund manager with an impressive track record. His latest fund has a positive alpha. This indicates to potential investors that Glen has outperformed the market after adjusting for:

- A Alpha
- B Beta
- C The Sharpe Ratio
- D The Information Ratio

7. Carly, 69, owns her house valued at £100,000 with no other capital – her income is made up of State pension, additional State pension and State pension guarantee credit. What is a potential risk of releasing equity of £20,000 from her home to provide her with a cash emergency fund?

- A Loss of potential entitlement to Disability Living Allowance
- B Reduction to her State Pension
- C Loss of entitlement to State Pension Guarantee Credit
- D Reduction in additional State Pension entitlement

8. A company has been paid 100,000 euros for goods and wants to convert this to sterling. If the GBP:EUR quote is 1.2503/8 what amount would the company receive?

- A £79,980.80
- B £79,968.01
- C £79,948.83
- D £79,929.66

9.Local authority circulars contain guidance on care and other issues to councils and local authorities. They are issued by the:

- A National Health Service
- B Department of Health and Social Care
- C Court of Protection
- D Clinical Commissioning Groups

10.Home income plans were made up of which of the following?

- A An endowment policy and an annuity
- B A whole of life policy and an annuity
- C Cash and a whole of life policy
- D Cash and an annuity

Your answers

1. ☐ 2. ☐ 3. ☐ 4. ☐ 5. ☐

6. ☐ 7. ☐ 8. ☐ 9. ☐ 10. ☐

Last issue's answers

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

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

SPECIAL REPORT
VENTURE CAPITAL TRUSTS

SPECIAL REPORT

In association with

octopus investments

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USING VENTURE CAPITAL TRUSTS

Fiona Bond talks to paraplanners about when and how they use VCTs and finds they remain an alluring prospect for wealthy clients

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Octopus Investments has years of experience of managing VCTs – its flagship Titan VCT is the largest in the market. Rob Kingsbury spoke to Jessica Franks, Head of Tax at Octopus, about how VCTs can be used for clients and their importance in supporting UK smaller businesses

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GUIDE TO VENTURE CAPITAL TRUSTS

Jessica Franks, Head of Tax, Octopus Investments, provides an overview of VCTs, the tax reliefs, the range of investments, and why they have become more popular in recent years

Using Venture Capital Trusts

Fiona Bond talks to paraplanners about when and how they use Venture Capital Trusts and finds they remain an alluring prospect for wealthy clients

In the 25 years since their launch, Venture Capital Trusts have evolved into an attractive tax-efficient vehicle. Figures from the Association of Investment Companies (AIC) found that VCT investment reached £731 million in 2018/19, marking the sector's most successful year in over a decade.

Many have attributed the growing appeal of VCTs to the cuts to pension allowances that have plagued pension savers in recent years, as well as the introduction of the tapered annual allowance in 2016 for those on higher incomes.

Myka Simpson-Rivas, paraplanner team leader at Aspect8, explains: "The continual changes to pension funding have led to a greater number of wealthy investors – who would have previously received pension tax relief – with excess capital to invest elsewhere."

The tax breaks on offer are arguably a VCT's greatest attraction, says Simpson-Rivas, the most notable of which is the 30% upfront income tax relief. This relief is available on investments up to £200,000 per year, provided shares are held for at least five years. Investors also benefit from tax-free dividends as well as tax-exempt capital gains.

Lee Hastie, paraplanner, Para-Sols says: "We have seen a steady increase in VCTs being recommended over the last few years. It is important to remember that for high net worth clients, the £20,000 ISA allowance could only be a very small portion of their income/savings.

"The £2,000 dividend allowance is minimal and their pension allowance is likely to be tapered so clients earning significant amounts have to turn to specialised products to gain worthwhile tax breaks."

But VCTs should not be considered a like-for-like alternative for pensions and ISA investments, paraplanners warn. While the breadth and scope of sectors included in VCTs may have changed considerably over the past 25 years, their core purpose remains the same – to fund small, up-and-coming and therefore high-risk companies.

Sian Davies-Cole, paraplanner and director, Planworks, says: "VCTs are generally best suited to high net worth sophisticated clients who have experience and understanding of investing. These will be clients who have exhausted all of their tax allowances such as pensions and ISAs, are affected by the pensions taper, and who have extra capital to explore further options."

Davies-Cole says historically, VCT clients she has worked with have tended to be in their 50s and at a point where they have accumulated significant wealth and are in the process of finalising retirement plans, but she says suitability is much more dependent upon individual circumstances than age.

"For some clients investing in VCTs can be something of a final push as they approach retirement, and the tax-free dividends they offer can be very useful for generating income in retirement but suitability really depends on circumstances. You may have a young footballer earning vast sums of money and for whom a VCT investment is a natural next step. Ultimately, it comes down to capacity for loss and those who feel comfortable with the notion of high-risk investing."

"There are a large number of VCTs on the market now with some established providers, and a number of good research tools such as MiCAP to help identify the most suitable ones"

Lee Hastie, Para-Sols

Backing early-stage companies

According to Davies-Cole, very sophisticated clients are often entrepreneurs themselves and therefore enjoy the idea of investing in other start-ups.

Indeed, for many clients, the diversification that VCTs offer and the opportunity to gain exposure to some of the country's exciting new companies can be an alluring prospect. Simpson-Rivas says: "There is certainly a vibe among investors that they like finding out about the companies they're investing in and they enjoy the innovation and development that comes with early-stage companies."

Since their inception in 1995, investors have ploughed more than £8.48 billion into VCTs and the sector has enjoyed various success stories, including household names Zoopla, Graze and Everyman Cinemas. According to the AIC, the social and economic impact of VCTs is also noteworthy, with VCTs responsible for generating over £1.4 billion of exports and creating more than 27,000 jobs over the past 25 years.

But as their popularity grows, successive Governments have been careful to introduce rule changes to avoid VCTs turning into a 'safe' investment used by investors for capital preservation purposes. In April 2018, VCT investments rules were amended to include a 'risk to capital' requirement,

while April 2019 saw the percentage of qualifying investments – those that are considered to meet the stringent rules – increase from 70% to 80%.

Amid this renewed focus upon riskier, early-stage companies, Hastie says clients need to be aware that some VCTs focus on young companies that might not be too profitable as of yet but which have strong potential. "Inevitably, with some of these companies it does not always work out," he says.

Unlike their larger, publicly-listed counterparts, the value of a VCT's underlying investments can also be harder to determine. This can make it difficult to sell VCT shares on the secondary market, although some VCTs offer a 'buy back' facility at a discounted rate. Simpson-Rivas says: "There is the risk that the companies they invest in may collapse, and investors must also be willing to accept their illiquid nature and the possibility that they may not be able to get their money out straightaway."

To mitigate the risk inherent in VCT investing, paraplanners say that diversification is paramount. According to Davies-Cole: "If you're looking at VCTs, you need to decide how many providers to opt for but that, of course, depends on the amount to be invested. Certainly, if someone was going to invest the full £200,000 you would want to ensure that you are dividing that amount between VCTs to reduce the risk."

Hastie says that first and foremost, the level of investment should only be a small portion of the client's overall wealth and should be spread across different providers. "One recurring strategy I have seen is utilising a number of providers for additional diversification. For example, spreading the £200,000 across four VCTs for £50,000 each. There are a large number of VCTs on the market now with some established providers, and a number of good research tools such as MiCAP to help identify the most suitable ones."

Simpson-Rivas adds: "The key is not to put all your eggs in one basket. It's about looking at the wider wealth of the client and ensuring that they are well diversified both in terms of their investment portfolio and within VCTs. "It's important to carry out due diligence and be comfortable with the experience of the VCT provider. We prefer Octopus for that reason."

As the UK seeks to recover from both the Covid-19 pandemic and Brexit, there will undoubtedly be growing attention on the vital role small businesses play in helping the UK economy recover. Against this backdrop, and with ongoing talk that pensions relief may well fall under the Chancellor's axe, it looks likely that VCTs will retain their appeal for the foreseeable future.

Venture Capital Trusts Q&A

Octopus Investments has years of experience of managing VCTs. Octopus manages around a quarter of all VCT money and its Titan VCT is the largest in the market. Rob Kingsbury spoke to Jessica Franks, Head of Tax at Octopus, about how VCTs can be used for clients and their importance in supporting UK smaller businesses

WHAT'S OCTOPUS'S PEDIGREE IN PROVIDING VCTS?

Octopus has a long history of providing VCTs for the market. We have four VCTs – the Titan VCT, which is the largest in the market, with 906m of assets under management; two AIM VCTs; and the Apollo VCT – the combination of which provides investors with a broad coverage of the VCT spectrum.

Titan VCT invests in over 80 smaller unlisted companies, across a diverse range of sectors, which have the potential for high growth. This is currently fundraising, with a 1% discount until 15 December.

Octopus AIM VCTs, which are open for fundraise, likewise feature around 80 established, maturing businesses from a diverse range of sectors. There aren't too many VCTs that are dedicated to investing in the AIM market and we are able to do so successfully, because we have a large specialist and experienced AIM team, including managers who have been investing in AIM since it began 25 years ago.

Apollo VCT invests in a portfolio of around 50 companies. It looks for businesses that have already brought their product or service to market successfully and therefore offers investors a different opportunity and is useful to diversify a client's portfolio of VCT investments. Apollo is currently fundraising, with a 2% discount until 15 December.

Sometimes funds under management can be a poor proxy for quality but this is not the case with VCTs. The larger the VCT, the more companies it is able to invest in, which on a stand alone basis increases diversification within the VCT. More established VCTs will also typically hold companies at various stages of maturity, from very early stage through to those closer to realising an exit, which can help to diversify the investment.

A lot of our investors really like the tax free income that a VCT can deliver. So investing in a VCT with a well-established, long running portfolio can give a greater degree of comfort that they will see a dividend stream, bearing in mind of course that these are higher risk investments.

WHY WOULD A PARAPLANNER WANT TO INVEST A CLIENT IN A VCT?

VCTs offer a way to invest tax efficiently. These investments offer income tax relief equal to 30% of the amount invested up to the first £200,000 of investment each year. This is in the form of income tax relief on newly issued VCT share offers, as long as the investment is held for a minimum of five years. They also offer tax-free capital gains and dividends, provided the VCT maintains its qualifying status.

These reliefs are offered by the government to incentivise investors to put money into the UK's early stage companies, which are higher risk investments and this has to be highlighted when recommending the investments to clients.

When investing in VCTs, there are two elements to consider from a performance perspective, first is the growth in the share price or NAV, and the second is the dividend stream.

HOW IMPORTANT ARE VCTS TO UK EARLY-STAGE BUSINESSES?

Data from the AIC show that VCTs invested more than 900m in 2018/19, which is a substantial chunk of capital going into the UK's smaller companies.

The same data shows that on average 45% of all the businesses invested in have fewer than 25 employees, which means the money invested is likely to have a big impact because of the small nature of these companies.

What's also important to remember, is that the VCT is taking a minority stake in the business, so they are coming in to support it and help it grow and be successful. It's not just the investment of money from which smaller companies can benefit.

A lot of the companies also want the exposure to the experience and knowledge of the investment management team. We work with the companies we back to make their success more likely. Sometimes this can be looking at a business plan and seeing where things could be changed for the better, based on the team's many years of working in this market. It can also include taking a seat on the board, helping them expand overseas or introducing them to industry experts.

IN A WORLD WHERE SMALL COMPANY DISRUPTORS ARE APPEARING IN ALL INDUSTRIES, ARE VCTS LIKELY TO BECOME MORE IMPORTANT FOR THE UK ECONOMY?

Thinking post Covid and post Brexit, smaller and early stage companies are often among the most flexible in the market. They can move faster than larger ones when adapting to new ways of working or new opportunities, so could come out of the crisis well positioned for the next few years. Smaller companies certainly have an important role to play in the coming months and years.

WHAT SHOULD PARAPLANNERS NEED TO BEAR IN MIND WITH VCT INVESTMENTS?

Diversification is the important point here, as is investing with a manager who has experience in the market and works with the companies it invests in.

You'll want to look for a VCT with a well-diversified portfolio that has managed concentration risk through various sectors. That's because it brings the potential for steadier performance across market scenarios. VCTs with a smaller number of investments might see a spike in growth and their share price if one of its companies does well, for example, but that works the same for downside as well.

And of course, do the due diligence as you would for any investment, on the manager, on the product. Don't focus on the tax reliefs, they are just part of the structure. It still needs to be the best product available for the individual client's needs.

Finally, and this may seem a strange one, make sure the investor claims the relief to which they are entitled. As these are long-term investments, it has been known for the tax relief claim to be forgotten.

WHAT RISK IS THERE THAT THE FAVOURABLE TAX TREATMENT OF VCTS WILL BE LOST OR DECREASE SIGNIFICANTLY?

The government undertook the Patient Capital Review three years ago, part of which was to assess the value of financial support for early stage companies and to ensure they would be able to continue to prosper following Brexit. The Review looked at tax relief including VCTs, and concluded that the reliefs available through VCTs were very valuable for smaller companies and in turn for the UK. The report was really encouraged by the positive ecosystem the UK provided for growing companies, of which reliefs such as VCT and EIS play an important part.

This review provides the most recent insight into support for VCTs, which was positive. With the potential impact of the Covid crisis on top of Brexit, logically we would consider reliefs that encourage investment in smaller companies to be very important and valuable.

WHAT LEARNING MATERIAL DOES OCTOPUS OFFER FOR ANYONE WANTING TO KNOW MORE ABOUT VCTS?

What we want to do is make VCTs as accessible as possible so paraplanners and advisers can see when and how they may be applicable to their clients. Octopus has a great team of experts based regionally that paraplanners can speak to; a client friendly guide to VCTs explaining what they are and how the tax relief works; we have client planning scenarios to help paraplanners and advisers better visualise the different client types for which VCTs may be appropriate; and we are running regular webinars which provide further insights from the investment teams running the VCTs.

> *"What we want to do is make VCTs as accessible as possible so paraplanners and advisers can see when and how they may be applicable to their clients"*

Guide to Venture Capital Trusts

Jessica Franks, Head of Tax, Octopus Investments, provides an overview of Venture Capital Trusts, the tax reliefs, the range of investments, and why they have become more popular in recent years

Venture Capital Trusts have been around since 1995. They offer investors attractive tax benefits as an incentive to take on the risks of backing small, early-stage companies. A VCT is a listed company in its own right. It takes in money from investors and uses it to buy stakes in companies that aren't listed on the main London Stock Exchange. Each VCT will have its own mandate and its own set of objectives. So you should find out a VCT's investment strategy before deciding whether to recommend it.

There are three types of VCT: generalist VCTs, AIM VCTs and specialist VCTs. Around three quarters of VCTs fall into the generalist category. Generalist VCTs invest in companies across a broad range of sectors and industries. Some focus on early stage companies yet to make a profit. Others will buy stakes in businesses that are a bit more established.

AIM VCTs, as the name suggests, invest in companies listed on the Alternative Investment Market (AIM), the junior market for the London Stock Exchange. Unlike other VCT-qualifying companies, AIM-listed companies have a daily market price and have to meet certain regulatory requirements to maintain their listing. Because AIM is a stock exchange, VCT-qualifying shares listed on AIM are usually easier to sell than shares of privately owned, unlisted companies.

The third category is specialist VCTs. These invest in specific sectors like energy, infrastructure or biotechnology. This concentration on one sector means specialist VCTs may involve more specific investment risk. That said, they could also deliver higher returns than other types of VCT if the chosen sector does particularly well.

What tax reliefs do VCTs offer?

Investors can claim up to 30% of the amount they invest as upfront income tax relief, on investments up to £200,000. Capital gains and dividends are also tax-free. An investor must hold the shares for five years in order to keep any income tax relief claimed. In addition, tax treatment will depend on individual circumstances, and tax rules may change in the future. Tax reliefs also depend on the VCT maintaining its VCT-qualifying status.

Which companies can VCTs invest in?

There are several rules about whether a company qualifies to receive VCT funding. The rules state the maximum size and age of companies that can qualify, as well as limits on how much they can receive. The idea is to direct capital to those companies that can provide growth and jobs for the UK economy.

To receive VCT funds, a company has to have a permanent establishment in the UK and carry out what HMRC calls a 'qualifying trade'. Although most trades qualify, there are some that the Treasury believes are not in need of additional financing support. These include activities like land dealing, running hotels, farming, financial activities and energy generation. These types of businesses would not be expected to qualify for VCT investment.

The rules on company size state that a company can have gross assets of no more than £15 million at the time of investment to qualify for VCT funding. In addition, gross assets can be no more than £16 million immediately after investment. The company must have fewer than 250 full-time employees when the investment is made.

VCTs should invest in companies that are less than seven years old from the date of their first commercial sale. There are exceptions for follow-on investments, where a VCT invests more money into a company they already have a stake in. Another exception could cover an established company raising funds to enter a new product or geographic market. Companies that qualify can receive up to £5 million of VCT or other tax-efficient funding in any twelve-month period, with a cap of £12 million over its lifetime.

The limits above are more generous for what are called knowledge-intensive companies. These are companies that have a large proportion of highly skilled workers, for example scientific researchers, or that meet certain innovation conditions.

Knowledge-intensive companies can have up to 500 employees and up to twelve years in which to receive their initial VCT funding. There's also a more

generous lifetime investment cap of £20 million. In addition, the 2017 Autumn Budget announced an increase in the amount of tax-efficient funding knowledge-intensive companies can receive in a twelve-month period, from £5 million to £10 million.

Why VCTs have become more popular

Restrictions on pension contributions have left many clients looking for additional tax-efficient ways to invest towards their retirement. While it's true that fewer clients will be affected by the annual allowance after the threshold and adjusted income limits were raised this year, those that are face a lower tapered annual allowance.

Of relevance to more clients is the lifetime allowance, which appears to have been a motivation behind a lot of VCT cases in recent years. This rose to £1,073,100 this year, the lowest level to which the government could have increased it under current rules. The lifetime allowance remains a material constraint on tax-efficient pension saving for a lot of people. And of course, high earners who take advantage of any increase in their annual allowance can expect to find themselves butting up against the lifetime allowance sooner than they otherwise would have.

Clients will typically be in their accumulation phase for twenty to thirty years. High-earning clients could spend around half of this period making enough in income to use up their pension and ISA allowances, or worried about exceeding the lifetime allowance.

That's ten to 15 years during which such clients could benefit from making regular VCT investments, which represent another tax-efficient way to invest for retirement. Multiply that by the growing number of clients affected by the lifetime allowance, and you can see why an adviser who previously didn't consider VCTs worth their time might now decide to research them.

Understanding the risks

The first step with any client is to make sure they understand the risks before making any

> ***"Restrictions on pension contributions have left many clients looking for additional tax-efficient ways to invest towards their retirement"***

investment. VCTs are high risk investments. The value of a VCT investment, and income from it, can fall as well as rise.

Investors may not get back the full amount they invest. Tax treatment depends on individual circumstances and may change in the future. Tax reliefs also depend on the VCT maintaining its VCT-qualifying status. Clients will also need to be comfortable with the idea of holding the shares for five years in order to keep any income tax relief they claim.

And they should keep in mind that VCT share prices can be volatile, and the shares may be hard to sell.

Venture Capital Trust case study: Extracting profits from a business tax efficiently

This tax-planning scenario is designed to help paraplanners and advisers develop appropriate planning strategies for their clients. Paraplanners and advisers should consider, among other things, the value of tax reliefs for their client. You will also need to consider the impact of charges (including initial fee and ongoing fees such as annual management charges) relevant to the products represented and/or any specific product you have chosen.

Vijay is an independent IT contractor. Because he works as a consultant for a number of different companies, he has established a limited company. Vijay chooses to pay himself with a combination of a salary of £9,500 (within his National Insurance Contribution threshold) and a dividend of £40,500. He owes £2,663 in tax, meaning after tax, he'll be left with £47,337 in available cash. Vijay also pays into his pension and chooses to invest in some new technology for his business. However, even after this, he is still left with surplus money which is building up in his business. Vijay is therefore keen to extract an additional dividend from his company but is wary about the additional tax he would owe.

Vijay talks to his financial adviser, who makes an assessment based on his risk profile, investment time horizon (of more than five years) and attitude towards smaller company investing. Given Vijay's goal of reducing his dividend tax by investing tax efficiently, his adviser suggests that he pay himself an additional £50,000 dividend and invest it into a VCT, holding this investment for at least five years.

In the two decades since they were first introduced, VCTs have become increasingly popular with some investors, particularly those who already have personal pensions and Individual Savings Accounts (ISAs), and are comfortable with higher risk investments. They are proving even more popular with individuals like Vijay, following recent changes to dividend taxation. With a VCT, Vijay can claim up to 30% income tax relief on up to £200,000 invested in any single tax year, provided he holds his VCT shares for at least five years. Vijay can also benefit from tax-free dividends and no capital gains tax to pay when he sells the shares.

THE TAX BENEFITS OF INVESTING DIVIDENDS IN A VCT.

The diagram shows how a small business owner can take advantage of the tax benefits associated with investing in a VCT to offset some of their dividend tax bill. VCTs are high risk and if an investor needs guaranteed income, cannot tolerate loss or is uncomfortable losing immediate access to their money, then a VCT will not be suitable. Clearly everyone's circumstances are different, and VCTs won't be suitable for all, but the attractive tax benefits mean that VCTs could be considered as part of a portfolio for some people.

HOW VIJAY REDUCED HIS INCOME TAX BILL BY INVESTING ADDITIONAL DIVIDENDS PAID FROM HIS BUSINESS

If Vijay extracted the extra dividend and didn't invest it into a VCT he would have paid £16,250 in tax.

Note: For purposes of this illustrative example, we have assumed no gain or loss on investments, and it does not take into account any initial fees or ongoing charges that will be incurred. VCTs are high risk and inherently different from pensions and ISAs. When clients choose to sell VCT shares, they are often sold at a small discount to the value of their underlying net asset value, so the impact of this should also be considered when assessing any specific products. Please note, after selling shares in a VCT, it is not possible to claim tax relief on new shares bought in the same VCT within six months of the initial sale.

Professional Paraplanner
The Investment Committee

In association with Fidelity International

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

Investment Committee events

Thank you to everyone who has attended our Investment Committee Events in 2020. We very much hope that in 2021 we can start running physical events again but we will continue to find interesting and valuable webinar topics from experts in their field for you as well. Please keep your eye on our website and the daily email alerts for notification of future webinars.

SOLAR SOLUTION

Investing in renewables can combine financial returns with positive impact, says Michael Bonte-Friedheim, CEO of NextEnergy Capital and investment manager of NextEnergy Solar Fund

What actions we take during this decade will have a significant impact on the future of our planet. This might seem like a dramatic statement, but when we look at the facts, we can see how important it is to create a sustainable future:

- October 2020 global temperatures were the third highest on record
- In 2019, the UK had the warmest day it has ever experienced
- Sea levels are rising at the fastest rate in 3,000 years
- Average wildlife populations have dropped by 60% in just over 40 years
- There is more carbon dioxide in our atmosphere than ever before
- Carbon emissions from energy usage are rising at the fastest rate since 2011.

This data is worrying, and it is crucial that as a society we come together to effect real change. It is incumbent on each of us to act to limit climate change and rehabilitate our environment.

Many of your clients will be concerned about their impact on the environment and the world they will leave to their children and subsequent generations. As they deploy their capital, they will be looking to achieve investment returns whilst supporting good causes and increasing the positive impact of their capital. This leads to conversations about responsible investment and good Environmental, Social and Governance (ESG) practices.

Renewable energy

The renewable energy sector, such as solar or wind power, is an investment area that offers an opportunity to combine financial returns with positive impact. In the UK, the drive to address climate change, along with energy supply pressures, has led to regulatory and market initiatives that encourage the development of renewable energy. As a result, the sector has experienced rapid growth. In the first half of 2020, renewable energy delivered almost half of the UK's electricity generation. Solar power has become a key renewable energy source yet currently only accounts for around 4% of the UK electricity generation.

Solar energy is plentiful, and it is an incredible fact that more solar energy hits the earth in a single hour than is required by the entire human population for a year. Harvesting this free and abundant energy source has the potential to transform energy systems and mitigate climate change. The growth of the solar market and the continuous improvement of solar technologies create an opportunity for investors to participate in powering the economy in a cleaner and greener way.

It is not only about reducing harmful emissions but also about improving the world's biohabitat. One of the little-known benefits of well-managed solar assets is the opportunity for substantial improvement of the biodiversity on the sites and the surrounding areas they occupy.

Biodiversity decline and climate change are the biggest challenges of the 21st century. Biodiversity refers to the variety and number of living species, including plants, animals and fungi. Solar assets' sites are well-placed to aid biodiversity as once they are established, they are fenced off and have very little disturbance over up to 40 years. This means that the asset manager can implement a landscaping and ecological management plan. These plans often involve a dramatic reduction in the use of fertilisers and pesticides, which can quickly improve the fauna and flora. They may also include on-site activities such as growing wildflower meadows, developing an ecosystem conducive to the increased presence of insects and working with local beekeepers to aid bee populations. Honeybees are the world's most important pollinator of food and other important crops. They are currently in decline and solar sites can create an environment that supports bee populations and provides an added benefit to the local farmers.

Solar power can help us address these challenges and change the world we live in for the better, transform our planet and sustain our future and the future of the generations following in our footsteps. And provide attractive investor returns while achieving this progress.

AN UNCERTAIN YEAR AHEAD

After an unprecedented 2020, how might next year pan out and where might the opportunities lie? Darius McDermott, managing director, FundCalibre, considers three investment areas which he considers will prove interesting

When many of us look back on 2020, it may simply be viewed as the year when everything changed: the way we worked, the way we educated, the way we socialised, and even the way we washed!

From an investment perspective, it has been one of – if not the most – challenging in my 25-year career in financial services.

At the start of 2020 we were undoubtedly cautious, given we were still enjoying the longest bull market in history and had been 'late cycle' for some three or four years. But while we were worrying about how an asset bubble might burst, it was another type of 'bubble' that would come to dominate the year. Covid-19 has undoubtedly given many of us a set of unique challenges to overcome.

The unprecedented nature of the virus also unsettled markets – to the point where there was a liquidity squeeze which resulted in the fastest sell-off in history, with global markets falling some 25% in a month. Even if a vaccine were to be delivered soon, it will take some time for the global economy to get back on its feet given the damage that's been done.

So, as we enter 2021, it seems the path forward is uncertain, as it has been for some time. But there are some areas offering both refuge and opportunity to tackle these challenges.

Opportunities in Asia

A good example of this would be Asia, where we feel the strong response to Covid, particularly in Northern Asia, should set it in good stead for investors in the future. According to figures from the International Monetary Fund, Emerging and Developed Asia has a projected growth figure of 8% for 2021, well ahead of the 3.9% touted for advanced economies[1].

While valuations in the region have looked more attractive in the past, we feel there are opportunities on a country-by-country basis. Good options to consider in this space include Fidelity Asia Pacific Opportunities and Matthews Pacific Tiger. The former is a high conviction fund, never investing in more than 35 stocks, while the latter is more diversified but with a tilt towards the growing middle classes and consumer in the region.

So, as we enter 2021, it seems the path forward is uncertain, as it has been for some time. But there are some areas offering both refuge and opportunity to tackle these challenges

Opportunities in infrastructure

The second area is infrastructure. Put simply, it's a great alternative for investors scouring the globe for income, while offering some security in a sense that the asset will always be needed and is an essential part of our everyday lives.

Fiscal stimulus may also provide a favourable tailwind for infrastructure, as governments increase spending in this area to revive the global economy. It's already in the pipeline with the likes of Europe focusing on both green and digital

infrastructure as part of its plans. A recent note I read points out that while Europe, China and Japan have used infrastructure as a key part of their recovery plan, the United States – arguably the place that needs it most – still has much work to do, giving scope for significant further upside[2].

Options in this asset class include M&G Global Listed Infrastructure, which looks for a balance of growth and income from three key areas of the sector: economic, social and 'evolving' infrastructure. This means investments can include anything from utilities and toll roads to health to data centres, payment companies and royalties. Another option is First Sentier Global Listed Infrastructure, whose managers Peter Meany and Andrew Greenup invest in 'hard' infrastructure such as bridges and ports around the world, via listed companies that own the assets. Of around 120 companies that the team has identified and monitor, 40 are included in the portfolio.

Opportunities in European Smaller Companies

The final area caught the eye purely on valuations. One of my investment beliefs is that small and mid-caps outperform large-caps over the longer-term. Therefore, I was surprised to see some research from Credit Suisse, which shows European smaller companies are now trading at their cheapest level relative to large-caps since 2002[3]. A principal reason for this is the benign economic conditions and central bank liquidity within markets, making all stocks more expensive. However, larger companies have been driven higher by structural headwinds and by herding from investors.

This is an example of an environment where a strong active manager can provide once in a generation type returns. Good options to consider would be the Jupiter European Smaller Companies, which was launched in February 2020 but is run by the highly experienced Mark Heslop, and T. Rowe Price European Smaller Companies Equity funds', which is pan-European in nature and has been run by Ben Griffiths for almost five years.

[1] Source: International Monetary Fund – World Economic Outlook – October 2020
[2] Source: M&G - Three years in the pursuit of reliable long-term growth
[3] Source: Downing presentation – October 2020 – sourced from Credit Suisse Holt Data at 27 July 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.

SEEKING TRUTH

The effort required of ESG research, engagement and analysis puts it at the pinnacle of active investing, argues Petra Daroczi, investment analyst, ESG, Fixed Income at Aberdeen Standard Investments

In times of turbulence we often turn to philosophy in search of a higher truth. As much of the Northern hemisphere is changing to a colder season and a warming fire becomes quintessential, it may be comforting to revisit Plato's allegory of the cave.

It seeks to distinguish between ignorance and knowledge by using fire as a metaphor to display shadows on the cave wall which the chained prisoners believe are reality. It is only the most daring of them who actively questions such false images and eventually escapes the cave to find real knowledge.

While not philosophical quite to such an extent, the practice of Environmental, Social, and Governance (ESG) in investing is becoming a divider between those who still believe that ESG is a "nice to do" (the prisoners stuck in the cave) and those who have realised that using ESG actively can unlock information that can materially alter the investment decision and thus result in financial gain (the escaped prisoners). It is for this reason that ESG is the pinnacle of active investing: the effort to obtain the most relevant extra-financial information through research and engagement and the knowledge of how to apply it are the domain of only the most sophisticated active managers.

But how does this happen in reality?

Real-life example: Seaport

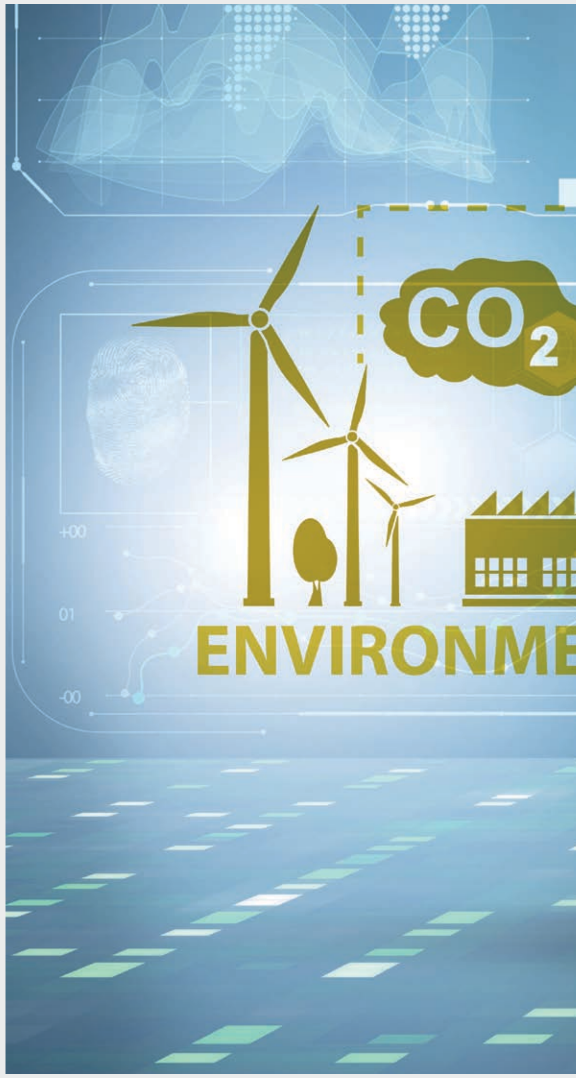
Let's look at three real-life examples of how our efforts as an active manager to research and engage unlocked valuable and financially-relevant insights. In the seaport sector, the risk of climate change is already present. Through research we understood that scenario analysis helps port operators to better understand the impact of sea levels on vessel movement.

As a result they can make the necessary investment to make the port more resilient. During engagement we learnt that only one company had conducted a thorough coastal assessment using the IPCC climate scenarios, made significant investment to alter the port, and has established processes to update information related to rising sea levels. Based on our analysis we were able to quickly unpick the business which we believe has the most climate-resilient operations.

Real-life example: Green bonds

The emergence of a "greenium" for ESG versus non-ESG securities means that in the long-term there may be clear financial benefits to investing in higher "green quality" green bonds. Higher quality use-of-proceeds green bonds may trade tighter than lower quality ones.

Investors who can distinguish between these with strong conviction will reap the financial benefits. There has been a proliferation of green issuance in the China property space and our framework showed us that one issuer in particular was



ESG is the pinnacle of active investing: the effort to obtain the most relevant extra-financial information through research and engagement and the knowledge of how to apply it are the domain of only the most sophisticated active managers

a clear laggard: while the use of proceeds were directed toward green buildings and pollution prevention, the holding company overall lacked quantifiable, science-based targets to limit emissions.

It also provided a low level of transparency regarding how quickly the green funds would be disbursed and whether they would not be used for harmful activities while awaiting allocation. As a result, we distinguished between stronger conviction/high quality green bonds versus lower quality ones.

Real-life example: Transition risk

Transition risk has clear financial implications for asset management. The industry is exposed to stranded assets, or assets that become obsolete much faster than initially planned because more economically viable alternatives exist (for example, renewables replacing coal-fired power generation).

It is also exposed to eroding 'bottom lines' (profits, income and cash flow) due to higher carbon costs associated with complying with emission regulations. We deemed a freight railway operator high risk due to its exposure to transporting thermal coal, for which demand over the medium to long-term is forecasted to diminish, leaving the business vulnerable to a considerable revenue loss. Unless it starts to diversify into other areas, such as container cargo, the very existence of the business may be put to question.

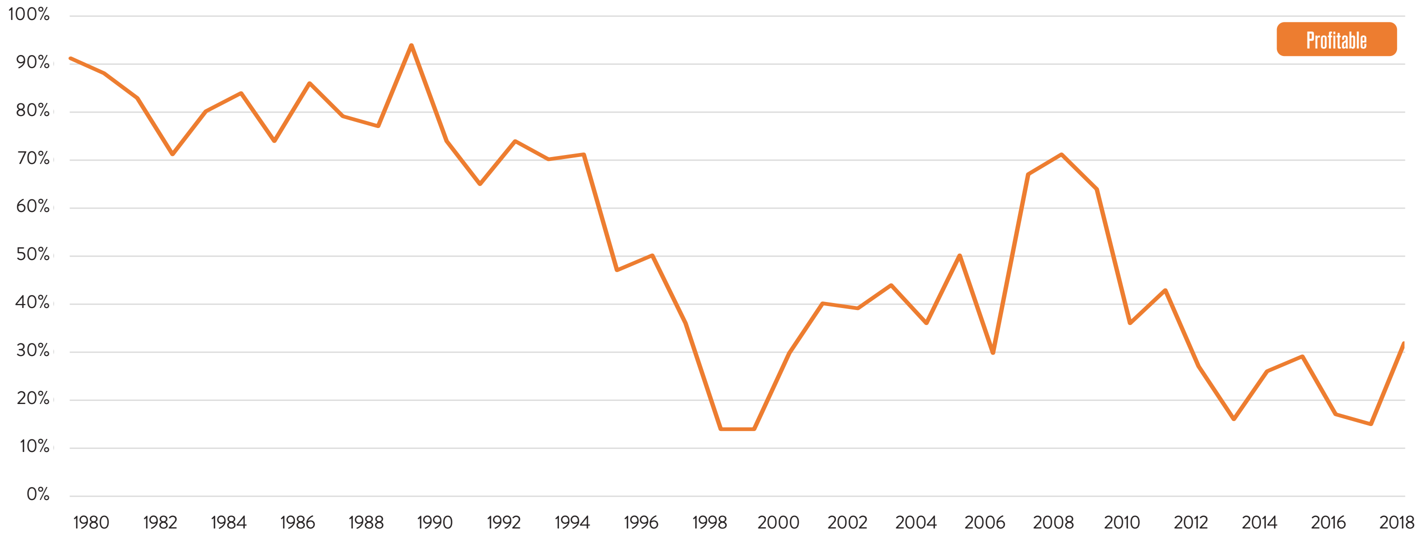
When we engaged, we specifically sought to understand the Board-level oversight of transition risk and the capital allocation priorities to make the business more resilient and diversified. As a result, we obtained extremely valuable information on the business transformation and capital expenditure strategy, such as how the business is dialing down on coal by investing in a logistics terminal that allows it to move containerised freight between warehouses. This offered comfort in that the right capital allocation decisions are being made to ensure the viability of the business.

In Plato's cave many prisoners feel comfortable with the warming fire and the false images displayed on the wall, and so do many investors who claim to be incorporating ESG by relying on, for example, external ratings or taking ESG disclosure from companies at face value. But if Plato was right, the most active and curious prisoners will be the ones attaining the higher truth. And this lesson may very well be valid in the domain of ESG and active asset management.

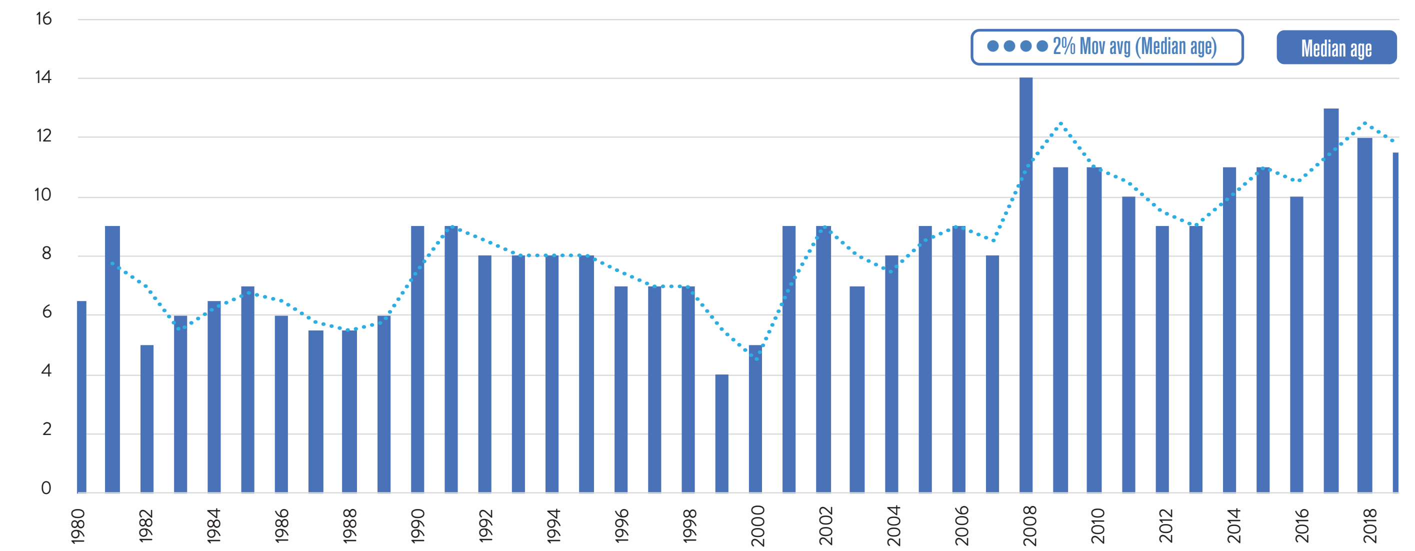
SECTOR CONSIDERATIONS: SMALL CAPS AND IPOS

% Profitability of IPOs from 1980-2019

Charts source: https://site.warrington.ufl.edu/ritter/files/2020/02/IPOs2019Age.pdf



Median age of IPOs from 1980-2019



Fund Calibre comment:

Small-cap funds bring out the best in active management – but separating the wheat from the chaff has never been as important as it is today, especially when it comes to investing in IPOs. The charts above show why. They cover the profitability and age of IPOs coming to market in the past four decades. The blue bar shows the median age of companies when they list – in 1980 it was 6.5 years, almost doubling to 11.5 years in 2019. The orange line shows the percentage of profitable companies undergoing an IPO. Forty years ago, around 90% of companies were profitable versus only 32% in 2019 – a stark difference. And that percentage has come down so dramatically because companies are confident they do not need to make money to be able to attract investors. To be clear, a company which undertakes an IPO when it is not profitable is by no means desperate. It's more a sign of the market being desperate for growth. And a major catalyst for this has been the impact of low interest rates since 2008. Essentially, there is a plethora of choice for small-cap managers today - but only a few choose wisely on a consistent basis.

CONTINUING PROFESSIONAL DEVELOPMENT VERIFICATION TEST

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

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

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

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

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

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

Professional Paraplanner CPD questions for Structured CPD verification

Viewpoint (p5)

Rising inflation favours:

- ☐ Conventional bonds
- ☐ Inflation-indexed bonds

TDQ (p10)

The high income benefit charge is applied where an individual has a salary over:

- ☐ £35k
- ☐ £45k
- ☐ £50k

TDQ (p10)

Child benefit is lost completely where an individual has a salary over:

- ☐ £60k
- ☐ £80k
- ☐ £100k

VCT Special (p18)

VCTs were launched in:

- ☐ 1980
- ☐ 1995
- ☐ 1997
- ☐ 2005

VCT Special (p18)

AIC data shows investment into VCTs in 2018/19 was:

- ☐ £551m
- ☐ £624m
- ☐ £678m
- ☐ £731m

Investment (p26)

Solar energy currently accounts for what percentage of UK electricity generation:

- ☐ 52%
- ☐ 27%
- ☐ 11%
- ☐ 4%

Investment (p26)

A non-energy benefit of solar energy sites is:

Investment (28)

The IMF is predicting what percentage growth for emerging and developed Asia?

- ☐ 3.9%
- ☐ 4.6%
- ☐ 7.8%
- ☐ 8.0%

Sector considerations (p32)

What was the difference in median age of IPOs coming to market in 2019 compared to 1980?

- ☐ 6.5 years
- ☐ 5.5 years
- ☐ 5.0 years
- ☐ 4.5 years

Data (p34)

The most researched IA sector on FE in October was:

- ☐ China/Greater China
- ☐ Global
- ☐ Mixed Investment 20-60% Shares
- ☐ Mixed Investment 40-85% Shares
- ☐ UK Equity Income

DATA DOWNLOAD

Monthly facts and figures on investment performance, risk v return, outflows and inflows, and the most analysed areas of the market. Data to 31 October 2020, provided by FE Fundinfo

BEST RATED FUNDS

IA	3 year Cumulative Performance	FE Fundinfo Alpha Manager Rated	FE Fundinfo Crown Fund Rating
Baillie Gifford Global Discovery	100.91	✓	5
Morgan Stanley Global Opportunity	83.43	✓	5
Brown Advisory US Equity Growth	83.42	✓	5
T. Rowe Price Global Focused Growth Equity C	74.38	✓	5
T. Rowe Price Global Focused Growth Equity Q	70.53	✓	5

AIC	3 year Cumulative Performance	FE Fundinfo Alpha Manager Rated	FE Fundinfo Crown Fund Rating
Baillie Gifford Edinburgh Worldwide	108.18	✓	5
Martin Currie Global Portfolio Trust	46.18	✓	5
Schroder Asian Total Return	31.24	✓	5
Standard Life UK Smaller Companies	22.64	✓	5
Frostrow Capital Finsbury Growth & Income	9.56	✓	5

BEST PERFORMING FUNDS IN TERMS OF RISK VS RETURN

IA	3 year Cumulative Performance	FE Fundinfo Risk Score
Baillie Gifford American	176.03	127
Morgan Stanley US Growth	144.11	142
Baillie Gifford Long Term Global Growth	139.4	105
Baillie Gifford Positive Change	114.33	90
Morgan Stanley US Advantage	106.39	-

AIC	3 year Cumulative Performance	FE Fundinfo Risk Score
Starvest	407.14	332
Seneca Growth Capital VCT	141.68	225
Baillie Gifford Scottish Mortgage	128.14	132
JPMorgan China Growth & Income	122.77	134
Allianz Technology Trust	116.83	138

RISKIEST SECTORS

IA	3 year Cumulative Performance	FE Fundinfo Risk Score
North American Smaller Companies	28.69	104
Japanese Smaller Companies	14.51	98
UK Smaller Companies	-0.5	97
UK All Companies	-12.84	96
European Smaller Companies	1.37	95

AIC	3 year Cumulative Performance	FE Fundinfo Risk Score
VCT Specialist: Media, Leisure&Events	-11.54	167
Country Specialist: Latin America	-7.67	154
VCT Specialist: Health & Biotech	78.39	148
North American Smaller Companies	13.87	144
European Emerging Markets	-20.55	139

OUTFLOWS

Fund name	Size 1y ago (£m)	Size now (£m)	Performance Effect on Size (£m)	Out (£m)
Liontrust Japan Equity	42,164.21	28,998.71	955.63	-14,121.14
Invesco Global Targeted Returns (UK)	10,275.55	6,997.14	-146.70	-3,131.70
ASI Global Absolute Return Strategies	6,536.00	3,800.00	173.62	-2,909.62
Invesco UK Equity High Income (UK)	6,149.13	3,021.40	-1,441.81	-1,685.92
BNY Mellon Global Income	5,757.62	3,817.23	-575.59	-1,364.80

INFLOWS

Fund name	Size 1y ago (£m)	Size now (£m)	Performance Effect on Size (£m)	In (£m)
Vanguard FTSE U.K. All Share Index Unit Trust	9,781.41	10,590.87	-1,807.78	2,617.24
Vanguard LifeStrategy 60% Equity	6,909.84	9,065.96	154.62	2,001.50
BlackRock ACS Japan Equity Tracker	800.83	2,587.96	65.09	1,722.05
State Street ACS North America Index Equity	4,228.11	6,376.67	460.51	1,688.06
iShares UK Equity Index (UK)	10,371.77	10,170.23	-1,785.62	1,584.08

Data provided by FE Fundinfo

MARKET'S EYE VIEW

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

BEST PERFORMING SECTORS

3 year Cumulative Performance

IA

Technology & Telecommunications	71.62
China/Greater China	34.99
North America	32.63
North America Smaller Companies	28.69
Asia Pacific Including Japan	25.58

AIC

VCT Specialist: Health & Biotech	78.39
Infrastructure Securities	66.13
Technology & Media	65.91
Biotechnology & Healthcare	40.09
Environmental	35.52

MOST RESEARCHED

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

MOST VIEWED FACTSHEETS

	IA		AIC
1	Fundsmith Equity	1	Baillie Gifford Scottish Mortgage
2	Vanguard LifeStrategy 60% Equity	2	Fundsmith Smithson
3	Baillie Gifford Managed	3	Baillie Gifford Monks Investment Trust
4	Royal London Sustainable Diversified Trust	4	InfraRed Capital Partners HICL Infrastructure
5	Royal London Sustainable World Trust	5	Frostrow Capital Finsbury Growth & Income Trust

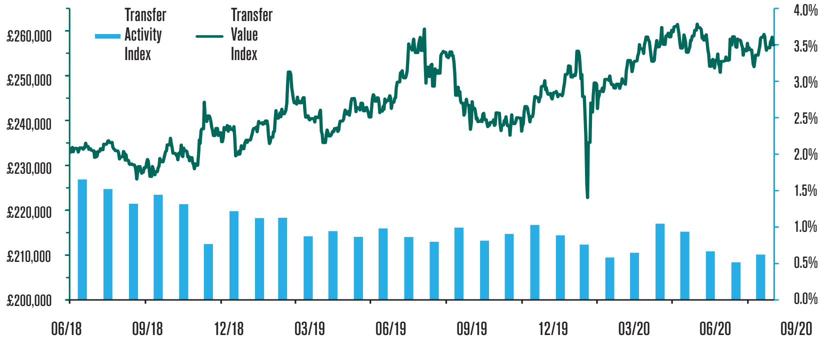
MOST CHARTED

	IA		AIC
1	Vanguard LifeStrategy 60% Equity	1	Baillie Gifford Scottish Mortgage
2	Vanguard LifeStrategy 40% Equity	2	Fundsmith Smithson Investment Trust
3	Fundsmith Equity	3	Baillie Gifford Monks Investment Trust
4	Vanguard LifeStrategy 80% Equity	4	Frostrow Capital Finsbury Growth & Income
5	Vanguard LifeStrategy 100% Equity	5	BMO F&C Investment Trust

PENSION TRANSFER VALUE INDEX

XPS TRANSFER VALUE WATCH: 1 JUNE 2016 - 1 NOVEMBER 2020

XPS Pension Group's Transfer Watch monitors how market developments have affected transfer values for a typical pension scheme member, how many are choosing to take a transfer from their DB pension scheme, as well as how many scam red flags are being identified at the point of transfer. Despite the significant economic uncertainty arising from the Coronavirus pandemic, Brexit and the US election, transfer values remained surprisingly stable during October. Activity picked up from the record low experienced in September. The month's also saw continued high proportions of red flags with over 60% of transfers showing signs of possible scams. Transfer values have moved marginally over the month and activity has increased slightly. November also saw the Pensions Regulator release its pledge, asking the industry to step up to take action to protect members from scams. The pledge sets out TPR's expectations of the industry and the minimum it thinks should be done to combat scams.



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