Professional Paraplanner

The magazine for paraplanners and financial technicians

March 2021

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BIGGER PICTURE

There is plenty I could write about for this issue of the magazine. The good news around the vaccine roll out, with close to 16 million UK citizens having received the first dose, and the potential for an end to lockdown. Or that while UK GDP suffered its largest annual fall on record in 2020, a double-dip recession has been avoided with two successive quarters of growth posted, and output continuing to expand in the last month of the year (January figures awaited). The debate around the possibilities in the UK for inflation or deflation. Neil Woodford testing the water with an article in *The Telegraph* about returning to investment management for sophisticated/institutional investors (although presumably not county council pension funds). And, of course, the imminent March Budget, which could see the Chancellor rip up the current tax rules – or more likely, take what he can without up-ending the economic apple cart.

These are (nearly) all important but near-term events. What I am going to write about is a subject that is increasingly coming across my desk and long term has far more gravitas, and that is responsible investing. I've attended several online meetings and webinars on the subject in recent months and had my eyes opened more than ever not just to the absolutely immense issues we face as a species – sustainably feeding a projected 10 billion people by 2050 being one of them (spoiler alert it can't be done at the rate people are consuming and wasting food today) – but also, the impact that the financial services industry, where and how we invest capital, can have on how the world changes for the better. By investing into companies that are adopting responsible, ESG principles, while avoiding companies that don't or working with them to improve their ESG capabilities, investment capital can be a substantial force for positive change.

For many clients, the old adage 'You don't know what you don't know' will apply. Raising the possibility of investing responsibly and demonstrating that to do so no longer needs to mean a lower level of investment performance, can both help raise awareness of the issues and empower clients in their investment decisions.

With this in mind, I was delighted when Rebecca Kowalski of Glasgow-based Cornerstone Asset Management got in touch recently with an idea to talk in more detail around how she developed a passion for responsible investing and helped drive and implement an RI strategy within her firm, including a monthly podcast. You can find her article on page 13. There are clear issues for advice firms wishing to pursue an ESG investment route, including a lack of consistent data for research and greenwashing, where funds claim ESG credentials which they don't fully follow in practice. These are issues actively being addressed within the industry.

While advice firms must respond to their clients' personal goals and financial needs, if as is becoming clear, the more responsible, ESG focussed companies around the world are where the majority of returns will be made in the future, advice firms that educate themselves on these issues and which asset managers and funds are aligned with positive change, are more likely to reap the benefits, by better serving their existing clients while aligning their ethos with the aspirations and needs of their future clients too (think intergenerational/millennial wealth management). As ever, paraplanners will be at the heart of implementing these changes. It is also a way paraplanners can make their mark within their firms by becoming a specialist in this area (Rebecca's story is a prime example of this).

I'll close with some pertinent remarks from a recent Rathbone Greenbank sponsored discussion between five ESG/climate change commentators, when Tristram Stuart, author of the book *Waste: Uncovering the Global Food Scandal*, said: "Banking, [investments] and pension funds represent the mass democratisation of capital. We are the owners of all the companies that are chopping down rain forests, polluting rivers, creating plastic and spewing it out into the ocean. Be alive to your power as the owner and user of money and where you put your money. The way money needs to flow is downhill into the ecological capital – we need to allow the good economy to thrive."

Needless to say, we will be delving more into the subject of responsible investing (ESG, SRI and related acronyms) over the next few months, helping you to become more informed as we do so.

Stay safe and well.

By investing into companies that are adopting responsible, ESG principles, investment capital can be a substantial force for positive change

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BUSINESS HEAD

Reece Edwards, Technical and Research Manager at Hampshire Hill, tells Rob Kingsbury about the succession plans that will see him and a colleague take the helm at the firm

Within the next five years Reece Edwards, Technical and Research Manager at Hampshire Hill and his colleague, Dale Bowler, Adviser Team Manager, will be looking to take over the reins of the business from current owners, Richard and Sue Hampshire.

Whether that will be a management buy-out or the owners remaining majority stakeholders but taking a big step back from the business has yet to be determined but the succession plans are in place, with a view to maintaining the ethos of the practice and continuity for staff and clients, Reece says.

"Richard has always said that the business isn't for sale and never will be. He wants to do everything right by the staff and clients and look after everyone's interests. As long- term members of the business, Dale and I will become Hampshire Hill."

To that effect, both Reece and Dale are now shareholders in the business and, Reece explains, "since 2018 when the plans were put in place, we have been taking on a lot more of the responsibility and decision-making in the business. Richard has been mentoring us on the running of the business, the areas which Dale as a financial adviser and me as a paraplanner wouldn't have necessarily experienced.

"Dale has taken on more responsibility for the adviser side, and I have been taking on more responsibility for paraplanning, processing, compliance, operations and administration within the business. Over time, I will take on the compliance officer role and be less hands-on as a paraplanner, taking on a more managerial role."

On the current schedule, Reece will be in his early thirties when the plan comes to fruition. "To have the confidence of Richard and Sue to take forward the business they have built is massive," he says, "and a really exciting development for me."

It is a development we could well see reflected in other financial planning businesses around the country.

Nottinghamshire-based Hampshire Hill covers the full range of financial planning, including investments, pensions, protection and mortgages, and will look at clients' circumstances in the round. For this reason, Reece explains, they view themselves as lifestyle planners for their clients.

Every client, personal as well as 'corporate' business owners and board members – receives a cashflow plan on which the advice is based. "Using cashflow, rather than just giving financial advice, makes the planning more real to the client. It helps the client to better see where the benefit would come from our advice and recommendations." Reece says.

"Also, lifestyle planning is not just about the financial side. If a client has an issue we will try to help out where we can. It's about the long-term relationship and being more than just financial advisers."

Adviser to paraplanner…

Reece cut his teeth in financial services following up on leads for a financial advice firm. His job was to contact the lead and take down fact find information to enable the firm to pursue pension business with the client. Not every lead was as warm as he had been led to believe, making the period "an education," he says.

As the business changed from non-advised pension reviews to a full advice service, so his role changed. He qualified to Level 4 and seeing the paraplanner role, decided that was the route he wanted to follow. However, he was moved into an advisory role, spending around a year as an adviser. In 2015 the firm made redundancies and Reece took the opportunity to look for a role as a paraplanner.

"I had offers on the table to go back into advising but the advice role never sat well with me. I was authorised and had a decent conversion rate but I can't say I enjoyed it."

Instead, he looked around for a firm that would take him on as a paraplanner. Eschewing recruitment agents "because of bad experiences in the past", he looked for firms recruiting direct. Hampshire Hill was one of them. "I contacted Richard Hampshire, the owner of the business and told him what I wanted to do."

Hampshire Hill didn't have a paraplanning function at the time. "Richard offered me the opportunity to come into the business as a paraplanner and build a paraplanning proposition. As a 23-year-old that was a massive opportunity. I jumped at it and I've never looked back."

… to manager

Reece is beginning to build the paraplanning function in the business. In 2020, he took on an apprentice – "Jack came for a two-week work placement from college and he was such a good fit we took him on as an apprentice" – and has plans to further recruit a paraplanner and another apprentice in the near future.

On a day-to-day basis, currently Reece will write or monitor all the suitability reports, as well as conduct the annual reviews. "But by the end of 2021 I expect Jack will be doing most of the report writing and mainly I will be monitoring."

In addition, he conducts all the due diligence on funds, portfolios or new products the firm is advising on or is looking to add to the advice process. He is co-chair and lead researcher for the Investment Committee, for the firm's in-house portfolios and any investments and products the advisers would like to use, in line with the firm's investment philosophy.

He built and monitors the training programme for the 13 members of staff, alongside CPD monitoring and currently assists Richard

Hampshire with the compliance function of the firm, as well as advice oversight, with a view to taking over the compliance role in due course.

Industry role

Reece sees paraplanners becoming ever more influential within financial planning firms, particularly in respect of advice decisions and recommendations. This could include paraplanners taking on areas of technical specialism.

He explains: "I think we will see a change in roles, where the advisers become focussed on the client relationship and presenting the advice and recommendations to the client, while the paraplanners will take the responsibility for conducting the technical aspects and helping the adviser explain everything to the client in plain English, so the client can better understand what is being advised.

"To do that I think you are going to need multiple paraplanners working behind the scenes, who can look at the client's circumstances and then do the research from the goal, tax and investment/product perspectives."

My best friend is my calculator

It is a standing joke within the company, Reece explains, that when he joined the firm he brought a scientific calculator with him and whenever anyone wanted to speak with him he would be found "furiously punching numbers into my calculator". "There was an instance when I lost my calculator and I might have overreacted," he adds. "So it became known that my best friend was my calculator and that has stuck."

He doesn't see, as some have suggested, advisers working simply as sales reps of companies but rather the adviser/paraplanner working relationship being more of a synergy and efficient use of respective skills.

That will be an evolution within the industry, he says. "I've been lucky in that I've come into the business Level 4 qualified and I've always been able to give my opinion on a case. Not everyone has that degree of freedom and responsibility in their firm at the moment but I think within the industry the days of the adviser saying to the paraplanner 'here's what I want to do, make it fit', are coming to an end.

"It will be down to the business owners to see where the value lies with their paraplanners and for advisers to have the confidence that they have qualified, trained and trusted paraplanners supporting them. Paraplanners may not be directly bringing in business but given greater responsibility, this can free up advisers and you could end up with more new business than you imagine."

Level 4 paraplanners

As a natural part of this, Reece believes to take the industry forward, it should be a regulatory requirement that all paraplanners are Level 4 qualified and are made accountable for what they do. "I think if we are to see paraplanners become more involved in the decision making, then they have to be accountable in the same way that an adviser would be. That will help drive paraplanning in the right direction and make them more valued within firms."

Part of this process is to question whether the current exam route for paraplanners, "which is to follow the exams being taken by advisers", is the right one for paraplanners, he says.

This was partly the reason Reece became involved in the Paraplanning Standard from Standards International. Both Reece and Richard Hampshire were members of the advisory body that helped formulate the Standard and Reece then undertook and was the first candidate to gain the accreditation.

"As a paraplanner you can take the technical exams but there is a lot more to paraplanning than knowing the technical information. Having a framework that assesses you on the quality of your everyday work and your processes can be more useful than gaining credits for any given examining body.

"For example, one of the pieces of feedback from my first assessment was that while I knew what I was doing, none of it was written down for the business, so if something happened to me, no-one could just pick up the manual and know where and how to carry on. It's now second nature for me that where we introduce change to put things down in the operations manual.

"It's a change of mindset from the way people are assessed in the industry but as paraplanners become more and more important to their businesses, I think we will see a move towards this type of assessment, alongside gaining the technical knowledge."

The Paraplanner Club

Reece is a volunteer mentor with the newly launched mentoring initiative The Paraplanner Club. Find out more here: https://www.theparaplannerclub.co.uk

MORTGAGES

This issue the Brand Financial Training team examine mortgages and what paraplanners need to know for a range of different exams

There are two main ways of repaying a mortgage – capital and interest and interest-only. Being able to identify the differences between the two and the correct type of life cover required is something that could be tested in a number of CII exams, including R01, R05, R06, R07, CF1, CF6 and AF5. In this blog, we take a look at both methods in detail.

Capital and interest mortgages

With a capital and interest mortgage, more commonly referred to as a repayment mortgage, each monthly repayment to the lender is made up of both a return of the lender's capital (the amount borrowed) and an interest charge (the cost of borrowing).

Initially, the repayments are mostly made up of interest with only a small amount of capital being paid back. Over time, this balance changes. As the amount owed to the lender steadily decreases, less interest is payable; a larger amount of each repayment represents capital being paid back and a smaller amount of interest. Assuming the borrower keeps up repayments for the whole of their mortgage term, the debt will be repaid in full on their very last repayment.

Interest-only mortgages

As the name suggests, with an interest-only mortgage, each monthly repayment to the lender only includes the interest charge. The borrower needs to either earmark or establish a repayment vehicle to pay back the capital at the end of the mortgage term. The monthly repayments on an interest-only mortgage are therefore typically lower than for a repayment mortgage. But this is simply because there is no capital being repaid. The borrower is responsible for putting in place and maintaining a separate credible repayment plan to repay the capital. Typical examples of credible repayment plans includes stocks and shares ISAs, pensions, investment bonds, endowments, shares and unit trusts.

Financial protection

With a repayment mortgage, the amount owed to the lender reduces over time. It is for this reason that a mortgage protection policy, a type of decreasing term assurance, is generally considered to be the most appropriate cover. At outset, the sum assured is equal to the amount borrowed. Over time, the sum assured falls in line with the outstanding debt. This makes the cover cheaper than a level term assurance.

One word of warning. The policy will be based on an assumed interest rate, for example, 6%. The borrower should ensure that the interest rate is either the same as or greater than the amount of interest they are being charged. This will ensure that the full amount outstanding will be paid in the event of their death within the term.

With an interest-only mortgage, the amount owed remains the same as the amount borrowed until the very last day of the mortgage term when it is repaid in full. A mortgage protection policy is therefore not appropriate. Instead, a level term assurance with a sum assured equal to the amount borrowed will be required.

Information in this article is correct as at 27 January 2021.

Summary

If we compare the two methods we can see that:

Capital and interest	**Interest-only**
Usually costs less than interest-only overall	Usually costs more than repayment overall
Guaranteed to be paid off at the end of the mortgage term if all monthly repayments are met	No guarantee the repayment vehicle will be enough to repay the capital at the end of the mortgage term
Equity builds up faster as the capital is repaid and negative equity is less of an issue	Equity increases during the term solely down to house price rises
May be able to switch to interest-only or extend the term in the event of financial difficulty	Unable to reduce payments of interest in event of financial difficulties, may not be able to amend term either
May suit risk-averse borrowers who do not wish to be exposed to investment risk	Any reduction of contributions into a repayment vehicle could mean a shortfall at the end of the term
Life cover is required	Life cover may be included in repayment vehicle (i.e. endowment)
No potential for a surplus lump sum at the end of the term	May be a surplus lump sum at the end of the term

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CREATING EXCELLENCE

How might you achieve excellence in everything you do? And continue to do so? Michelle Hoskin, managing director of Standards International, designed a process to help do just that. Here she explains The 4E's of Excellence™

How many of you have ever found yourself in a position where you have clearly over-committed and under-delivered? Whether it is to clients, fellow team members, the boss or, worse still, yourselves... it's easily done! But – before you beat yourself over the head with a big stick – I'd like to reassure you that you are not alone!

When we care, as much as I think we all do, we become masters at believing we can get more done than is humanly possible. I suffer from it – and so do many people I know. Does it make us bad people? Of course not – we are just super keen and eager and we believe that we have the necessary superpowers on hand to get us through.

After 20 years of working within this magical profession, I continue to promote excellence; however, I am very aware that – while many people have a desire to achieve excellence in everything that they do – a large proportion have little idea of how to actually achieve it, never mind knowing where to start.

So, to give you my usual starter for 10, I knew I needed to create a mechanism, a method, a process for achieving the ultimate pot at the end of the rainbow. Plus,

I knew if I really did this right, achieving excellence would be more accessible, and therefore transferable across the profession. A win for one means a win for many.

Just to put my marker in the sand here: I am not talking about technical excellence which seems to still take up airtime in many conversations in this industry... I am talking about excellence in the general sense which can be applied to any area, including but not limited to:

- A structure for the successful completion of any project.
- The process to move from creation to implementation of a new process or workflow.
- The selection and integration of a new back office system.
- The key stages for launching a new client proposition or journey.
- The launch of business improvement projects.
- The basis by which you and the team around you can be trained and developed.

It can be used for literally anything – excellence in means excellence out.

As I was the creator of *The 4E's of Excellence™*, it was only right that we tested the concept first within the walls of Standards International HQ.

We use this cycle at many levels of our internal business and external client offering, and have done so religiously for the past two years. It sits specifically as the basis of our initial and ongoing standards assessments*. Here is the lowdown:

1. The tool is available for universal use, so there is no reason that it can't be adopted by you too.
2. The cycle should be consistently referred to and reviewed and should live firmly at the centre of all initiatives, projects and deliverables.
3. It has no strict timeframes – the duration of the cycle can be tailored to suit you and what you are doing.
4. You must embrace it and appreciate its effectiveness and – most of all – use it as a tool to unite your whole team.

So, grab some paper and a pen, take a moment and write down everything that you are working on right now that is NOT directly client related.

These could be projects you are handling for the business, a new idea you are trying to get off the ground or your own training and development plan. As I've said, it doesn't matter – the cycle works for anything. *The 4E's of Excellence™* is a cycle covering four key stages of a thinking and doing process. Breaking your 'thing' down into four stages means that you don't try to do too much too soon or bite off more than you can chew, which of course leads to the dreaded 'over commit and under deliver'. Nobody really wins when you feel like you've let the side down.

Please trust me and trust the process!

While many people have a desire to achieve excellence in everything that they do – a large proportion have little idea of how to actually achieve it, never mind knowing where to start

The 4E's of Excellence™

1. Establish

Far too often, we can become victims of the 'quick win' culture and we instantly come unstuck. The Establish stage gives you plenty of time to really try to get a feel for what it is you are trying to do, the stages involved, who you may need to involve in the process of implementation and, most importantly, defining what success looks like.

Everything you are trying to achieve should be seen as a marathon and not a sprint – and in fact working through each stage of *The 4E's of Excellence™* could take anything from one day to four years. It all depends on what you are doing.

Those who dive in too quickly at this stage will have missed the opportunity to think things through properly, as they won't have given themselves everything they need to get this step right.

Consider the Establish stage like cementing the foundations for a house into the ground. Rush it and your house will collapse as your planning simply won't be up to scratch.

Once you have established your new way of working, stage one of your project or learning and development, you can then move onto the Embed stage.

2. Embed

Embedding your new practice at a deeper level will give you the opportunity to test, amend, adjust and improve. Again, don't rush, give yourself plenty of time in order to see what is working and what is not. It may feel a bit frustrating but it will mean that you are focusing on doing it right initially and not wrong twice later. Less haste will pay dividends at this stage – and is a must to achieve results faster and more effectively further down the line.

Don't let anyone rush you – people who put unnecessary pressure on you at this stage may not understand your methods and are therefore projecting their own deadlines and timescales on you. If done correctly this shouldn't even be an issue here, as you should have communicated the ideal timescales from the outset at the Establish stage.

This stage takes the longest… it's the slow cooking of the culinary world… the slower, the better.

3. Elevate

Once you have firmly embedded what you are doing now comes the fun part. This is the stage in the cycle is where you really start to see the benefits, the return on your investments (ROI) and the returns on effort made (REM).

Elevate is the stage to leverage everything you have done so far, so that the maximum impact and results can be achieved! Boom! All of the planning, the tweaking and the improving is about to pay off big time.

It's like killing two birds with one stone. Ask, how can you take what you have done and apply it in a way that multiplies your return? A few examples could be:

- Elevating the learning of a new team member to take on more valuable responsibilities in the team.
- Taking the functionality of your now embedded back office system so that you can do more with it but for the same fee you are already paying.
- Making more and different use of your office space or working set-up.
- Revisit that process, procedure or client journey and identifying the improvements needed.
- Applying the learning and development you have undertaken to business improvement.

The list could go on and on.

4. Endless

My whole professional life I have been marginally obsessed with the importance of constant and never-ending improvement. I am somehow hard-wired to believe that there is always a 'better' way of working – which means my job has always been to try to find it.

So, this stage of the cycle for me is my favourite. I continue to feel a sinking in the pit of my stomach when I see individuals and firms settling for what they have or just being happy with the way things are done because 'it works'. Just because 'it works' doesn't mean that it shouldn't be changed.

There is so much to say about this stage but let's keep it simple: The next time you go to say or even hear someone say, 'we just do it like this', or 'it works so there is no need to change it', or 'the "boss" won't let us do it like that', etc., etc., etc., – then it's absolutely time for a review of how things are done.

So, if you have completed a training programme, implemented a new product or service, created and launched a new process, or had a move around in your office, then ask: how can we make this better? How can we improve this to achieve continual and endless effectiveness? The magic comes from the momentum of change. Embrace it!

* https://standardsinternational.co.uk/certification/

5 MINUTES WITH...

Barry Foster joined Curtis Banks at the end of 2020 in the newly appointed position of Technical Sales Manager. We spoke to him about how he will be aiming to help paraplanners in their day-to-day roles

PP: WHAT WILL YOU BE LOOKING TO ACHIEVE IN YOUR NEW ROLE?

I want to continue to raise the Curtis Banks brand awareness amongst adviser firms and to provide technical support.

Curtis Banks has a reputation for clearly communicating technical matters. This really matters to me. When I entered financial services at the age of 25, I didn't have a financial background at all, but I enjoyed learning. Now a number of years later – don't ask how many! – when I present or explain technical matters, I am still trying to explain them to the intellectually curious 25-year-old me. The great thing is that I still get a buzz when I have to conduct research and delve into old legislation and regulations; I learn something new every day.

As part of my role, I often present to groups that include everyone from industry new entrants to industry veterans with vast experience who know more than I do. The simple test for me is, if the 25-year-old me would understand it, then I am explaining the subject methodically with no preconceptions about what my audience do or do not know and with respect for their intellectual curiosity!

PP: WHAT DO YOU CONSIDER MIGHT BE THE KEY TECHNICAL AREAS FOR 2021, OF WHICH PARAPLANNERS SHOULD BE AWARE?

The short answer...who knows? But seriously there are a number of potential changes. Any 'technical' changes in financial planning are likely to be driven by either a targeted policy objective, such as increasing savings, reducing the savings gap, promoting investment, promoting fairness etc. or, by changes to taxes.

From a 'policy' perspective, we were expecting changes to the 'know your client', or KYC rules as they are better known. These are requirements under Mifid II to incorporate ESG preferences, so let's see what now happens. I am sure advice firms will still continue to embrace and develop their ESG investment strategies and their knowledge and understanding of ESG investment issues. It is inevitable that there will be increased client demand in this area and what a great opportunity for the advice profession to be part of the solution.

From a 'tax' perspective, the sector may face changes to income tax, capital gains tax, inheritance tax and potentially a wealth tax. Some of this has been suggested already and there is an argument that there will have to be tax increases, how else can the government pay for the effects of a global pandemic?

The contrary argument of course, is that tax increases may stifle economic growth and economic activity so tax rises should wait until the economy looks like it can bear it, and possibly not this year.

There have been many changes to tax rates, reliefs and allowances during my career but I struggle to remember a time when it wasn't good financial planning to utilise your tax efficient savings allowances – pensions and ISAs. Also, for those able to afford it, holding a diversified portfolio of tax wrappers.

I actually think the biggest technical challenge for paraplanners, is not likely to be what changes may happen, but simply maintaining a level of understanding across various disciplines. If 90% of your work is estate planning related it is easy to forget the essentials, let alone the complexities, of the pension rules and vice versa of course.

This is where I hope we can add value.

PP: HOW CAN CURTIS BANKS MAKE PARAPLANNERS' LIVES EASIER?

Our very DNA is about helping paraplanners and making it easy for them to work with us. We do that by reducing their administration and making things seamless. We also help with due diligence processes: providing paraplanners with the information they need and doing so in a timely manner. This is supported by excellent customer service and we hope this rewards the paraplanners' confidence in recommending us.

I suppose, quite simply, it is about being available and accessible to them. We support them with their PROD requirements by clearly communicating to paraplanners (and the firms they work in) who our products and services are suitable for and who our key/target markets are. We do not want to put square pegs in round holes.

One final area of course is that we help make paraplanners lives easy by being regarded as a source of technical excellence!

MY RESPONSIBLE INVESTMENT JOURNEY

Rebecca Kowalski, compliance manager and paraplanner at Cornerstone Asset Management, describes how she came to be passionate about responsible investing and helped develop the firm's RI proposition

I've worked in financial services for over 30 years. This has included a bit of admin, a little advising, more recently compliance and in between, a very long time as a paraplanner. Of those 30 years of service, 2020 proved to be an unexpected highlight for me It was the year in which my career became a vocation – when the personal and the professional came together and everything fell into place. While my official role at Cornerstone Asset Management is that of compliance manager, with a side order of oversight of paraplanning, the icing on the cake is my ever increasing involvement in and influence over the development of the company's Responsible Investment proposition.

My specialist subject

There are several reasons why I have a passion for Responsible Investing, which I prefer as a more inclusive term than the more widely-used ESG (Environmental, Social and Governance).

On a personal level, the United Nations Sustainable Development Goals which often underpin this style of investing align with my long-standing personal belief in a fairer distribution of economic wealth that has lingered since my student days travelling in developing countries. Around four years ago, I was woken up to environmental issues and the climate crisis, with the call to action coming not from David Attenborough, Greta Thunberg or *'The Day After Tomorrow'* but from my daughter, who is now a graduate working in environmental science, a vegan, an activist, an inspiration who wants the world saved before she ever considers having children of her own.

On a professional level, I raised the idea of developing a Responsible Investment proposition in 2016, after reading articles about the rise of the millennials. I was working as a paraplanner at that point and also a member of Cornerstone's Investment Committee. I have always found intergenerational planning one of the more interesting aspects of financial planning, as well as a key issue for a sustainable advisory business.

I liked the idea of incorporating a Responsible Investment solution with planning for children and grandchildren, offering clients potential to invest for a more protected natural environment and fairer society, as well as a financial stepping stone. Of course, at that stage it was just a high level concept, I had never heard of ESG, stranded assets, transition risk or supply chain emissions!

Gaining Momentum

For a small company with its existing client needs always centre-stage, it took a while for our responsible investment proposition – Responsible Futures – to become the key business initiative that it is in 2021. We launched it as a proactive, rather than a reactive, investment solution in 2019. At that time, after months of research and due diligence, we felt confident that we had a market leading, impactful, thoroughly risk-managed suite of portfolios.

We felt it was time for us, rather than a small number of our clients, to start the conversation about climate change, about risks to nature and the benefits of investing in companies that metaphorically fight fires rather than causing them.

We also felt that it was important to offer more than just a set of thematic investment portfolios but to fully integrate responsible investing into the business and I volunteered to work on client communications and all staff training prior to a public launch event. I also found myself getting invited into client meetings to share with them my passion for the themes, funds, companies and UN goals that they had the opportunity to invest in.

Time for another exam

While enthusiasm and some reading can get you so far, I have always preferred to have some real substance to the knowledge I can share. With Fellowship under my belt, I thought my studying days were over but I put my hand up to study for the CFA Certificate in ESG Investing. The course has helped me gain a better understanding of the history and framework of responsible investment, the risks it seeks to address and the way in which environmental, social and corporate governance considerations are embedded into portfolio management. I sat and passed the test on 6 January 2021.

Content-wise, I found the course pretty interesting, although one or two chapters are perhaps more relevant to a fund or portfolio manager than an adviser. I learnt a lot more about the S and the G in ESG and revision helped me nail what seemed an impossible task at outset – remembering all the many acronyms for the key organisations. Finally, I know what PRI, SASB, TCFD, UNEP FI, UNFCC and UK SIF stand for!

> ***The more that researching and writing suitability reports becomes second nature, the more I would advocate keeping your work rewarding***

The value of knowledge

Continuing with acronyms, I have always found that becoming an SME (subject matter expert) is a great way of building confidence and winning respect. A decent employer (if you don't have one of those, then make that your S in ESG priority) will rely on you and value you if you know more about a key subject than they do. Make sure it's a subject that benefits clients and/ or brings revenue to the business. Working for various small to medium sized firms during my paraplanning career, I have at times become an expert in asset allocation and stochastic modeling, trust and IHT planning, cash flow modeling, RDR, auto enrolment, FCA defined benefit pension rules and SMCR. Having acquired knowledge by reading or watching everything I could lay my hands on, I sought to put that knowledge into practice by integrating it into advice processes and/ or re-writing business policy. When it came to responsible investing, what better way to put my new knowledge to the test than using lockdown to launch a podcast on the subject. Researching questions for expert guests actually became as important a means of learning as my exam studies!

As a paraplanner, as busy as it may get, you do tend to have more time/ inclination to learn than a busy adviser/business owner. The more that researching and writing suitability reports becomes second nature, the more I would advocate keeping your work rewarding, both mentally and financially, by looking to add a valuable specialism.

I am extremely excited about continuing to build expertise in Responsible Investing. It's a challenge I am embracing not just because of my personal interest in the subject and its importance to the business, but also because it's such an ever-evolving field. Academics, scientists, governments, industry leaders and investment experts are all working to develop and refine innovative technologies and practices, new methods of measuring and reporting, groundbreaking solutions to momentous, urgent problems. All with the world watching and the clock ticking.

Unlike subjects such as Defined Benefit pensions or cashflow modeling, responsible investing and its underlying themes are a subject everyone is interested in just now, from Prince to Prime Minister, from mothers to movie directors. The noise is only going to increase with the UN COP 26 on Climate Change coming to Glasgow in November, a stone's throw from the office I'm actually beginning to miss. Also, with the optimistic view that we will either beat this virus or learn to live with it, climate change will be the crisis that remains after the pandemic has passed.

I am well aware that my little Certificate in ESG Investing can only make me a relative expert in this field, within my own small pond, and I'm currently looking into further study. There are many people who have degrees and PHDs, years of debating and discussing among fellow experts, communication with the public and consultation at company and government level. I have been tracking them all over social media and every webinar and workshop I can find a way into through the long months working from home. They will probably always know more than me. However, I'm more than ready to be a small fish in a big sea and do what I can to communicate the importance of harnessing finance to the cause of climate change and to the wider United Nations Sustainable Development Goals.

Playing our part for the planet

I do feel that my contribution has value – as a relative newcomer to the subject of investing for people and planet, I can look to help and encourage others who wish to find out more, without seeming too much of an ivory tower academic. I can combine my fresh knowledge of sustainability in all its forms with my more mature familiarity of personal financial planning and risk management – using this to ensure that clients who invest responsibly look out for themselves, as well as society and the environment. With the analytical eye developed as a paraplanner, I can seek out authentic and impactful solutions and reject greenwashing and the bandwagons.

I listened recently to the popular *Outrage and Optimism* podcast, hosted by Christiana Figueres, former executive secretary of the United Nations Framework Convention on Climate Change (UNFCC). She talked about connecting the personal, the local and the global in the fight against climate change. It struck me that my interest in responsible investing does just that – I have connected a personal passion for this subject to professional activity set locally, in the heart of Scottish COP 26 territory, as well as within the confines of my particular industry. However, the ultimate aim for this meeting of the personal and professional is to have a global impact.

Our clients are investing their funds, under our care and guidance, into companies that will help deliver food, shelter, energy, education, medicine, connectivity and clean water to people all across the planet, whilst avoiding businesses that cannot or will not change negative behaviours. If that's not a reason to be excited about being in my fourth decade in financial services, I don't know what is!

DIGITAL IDENTITY

What is Electronic Verification and why is it important? John Dobson, CEO of SmartSearch explains

The use of electronic verification (EV) as an alternative to hard copy documents for checking customer ID has become much more important in a post-coronavirus world. Not only is it harder to carry out manual checks due to restrictions on movement, but the threat of criminals exploiting the gaps in security as more of us work from home, has also increased.

In fact, the UK's exit from the EU on December 31 has increased the emphasis on EV as the most secure form of ID verification. Despite Brexit, UK businesses are still required to comply with EU money laundering directives and the easiest way for regulated businesses to do this is through electronic verification.

As part of the legislation governing our departure from the EU, the UK Government has amended the legislation to include a passage highlighting the use of EV as the preferred method. This should provide real impetus to businesses looking to make this change as it's now written into UK law. Ensuring compliance with AML legislation is a vital part of any regulated business' operation, and failure to do so will result in significant fines.

Her Majesty's Revenue and Customs (HMRC) has just sent a reminder of this responsibility with a record fine handed out to a money-transfer service of £24 million, for not implementing stringent enough anti-money laundering procedures.

Establishing identity

Financial advice firms need to ensure they are complying, and as a bare minimum, all regulated businesses have to establish who they are dealing with. Now more than ever, they should be adopting electronic ID checks. With another national lockdown causing restrictions on face-to-face meetings, operating remotely with automated processes should be the go-to for all regulated businesses to secure against money laundering and fraud.

Using hard copies of documents such as passports, bank statements or utility bills is now incredibly risky. With identity and financial fraud having risen exponentially, there are now much safer and more accurate ways of checking someone's identity for anti-money laundering purposes.

Few, if any, people would be able to spot a fake passport or driving licence if it passed their desk as forgeries are now so convincing that even an expert can be deceived. Even once lockdown ends the requirement for face coverings to be worn at places of business clearly presents practical difficulties for identifications. Financial advice firms that have not switched to electronic verification could find themselves seriously exposed in a best-case scenario, or in breach of anti-money laundering regulations at worst. Therefore, switching to an electronic system which makes the customer onboarding process incredibly fast should be a priority.

These electronic checks will include all the necessary Know Your Customer (KYC) and Anti-Money-Laundering (AML) checks and can be conducted completely remote and securely.

The latest technology can combine credit reference data, biometric facial recognition, and digital fraud checks. For example, at SmartSearch we incorporate CRA (credit reference agency) data, electoral roll data and other reliable public data sources to establish identity. By triple checking these different sources of information a unique 'composite digital identity' is produced that is virtually impossible to fake. All this can be done online, with no need for in-person meetings, face coverings or hard copies of documents.

This automated approach is quicker, more convenient and more accurate. With the FCA "actively monitoring" fraud risk, now is the time that financial advisers should be adopting a quick and secure approach to AML and KYC checks to help with speed, accuracy and for the security of their own business.

The best and most efficient way to do this is through an automated anti-money laundering solution. This will confirm a person is legitimate in seconds and also screen them against sanctions lists. The reason this is crucial is that if they are trying to launder money, it could result in huge fines for the broker. To do this, all a financial advice firm needs is the client's name and address; a date of birth is optional. Then in just a couple of seconds you will have multiple proofs of identity from independent and robust sources.

Advice firms can be up and running with a full electronic AML platform that delivers completely reliable ID verification with automatic global sanctions and PEP screening with ongoing monitoring in a matter of seconds, ensuring the firm remains AML compliant at all times.

With identity and financial fraud having risen exponentially, there are now much safer and more accurate ways of checking someone's identity

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. Alex has a Junior ISA held on a platform. He can gain access to the funds when he reaches age:

A 16
B 17
C 18
D 19

2. A client is self-employed and has asked you to explain what is included in the balancing payment he has to make to HMRC in January of each year. You tell him the following is included:

A Class 2 national insurance, the balance of income tax and Class 4 national insurance and any capital gains tax outstanding
B Class 4 national insurance and any capital gains tax outstanding
C Class 2 national insurance and any outstanding income tax
D Class 2 national insurance, the balance of income tax, class 1 national insurance and any capital gains tax outstanding

3. Manesh is a member of a defined contribution pension scheme but does not receive an annual Statutory Money Purchase Illustration. This is because Manesh has a:

A Personal pension
B Stakeholder Pension
C Self-Invested Personal Pension
D Retirement Annuity Contract

4. Sean has an income protection policy with a deferred period of 13 weeks. When should he notify the insurance company in the event that he becomes incapacitated and needs to make a claim?

A As soon as possible
B After 13 weeks
C Four weeks before the end of the deferred period
D No later than 30 days after his incapacity starts

5. Apart from the periodic, application and special project fees, what other fees are due from authorised firms?

A Financial Ombudsman Service, Financial Services Compensation Scheme and Money and Pensions Service fees
B Financial Ombudsman Service and Financial Services Compensation Scheme fees
C A tariff and block rate fee calculated at the end of each financial year
D A flat charge of £250 due at the end of each financial year

6. A client's investment objectives need to be clear, unambiguous and achievable and it is the role of the adviser to clarify and quantify these. As an adviser, therefore, you should ensure that client objectives are:

A Long-term only
B Decided by you alone
C Specific and measurable
D Short-term only

7. Dividends from preference shares are:

A Ineligible for inclusion in the dividend allowance but other than that are taxed in the same was as other dividends
B Eligible for inclusion in the dividend allowance and taxed in the same way as other dividends
C Treated as payments of interest and taxed as such
D Treated as payments of interest but are not taxable on the investor

8.Which of the following is an eligibility condition for the Disability Living Allowance?

A To have a satisfactory Class 1 National Insurance contribution record
B Be expected to remain disabled for a period of six months
C Capital assets less than £23,250
D To be over the age of 65

9. What is the basic structure of a Home Reversion Plan?

A The legal conveyance of the property to a finance provider
B A mortgage secured on a property
C A shared ownership scheme
D A loan repayable on death

10. Jon and Sam have their hearts set on a period end of terrace property in a nearby town. However, property prices are such that they don't want to sell their existing house until the property market improves. What sort of arrangement would suit them?

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

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 4
2	D	CII R02 Study Text Chapter 8
3	ACE	CII R03 Study Text Chapter 7
4	D	CII R04 Study Text Chapter 5
5	A	CII R05 Study Text Chapter 5
6	B	CII J10 Study Text Chapter 14
7	A	CII CF8 Study Text Chapter 8
8	C	CII ER1 Study Text Chapter 9
9	B	CII R07 Study Text Chapter 4

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
ENTERPRISE INVESTMENT SCHEMES

SPECIAL REPORT

In association with

octopus investments

PAGES 18-19
WHEN TO USE EIS
Paraplanners tell Fiona Bond why, where and how they use Enterprise Investment Schemes with their clients

PAGES 20-21
UNPACKING EIS
Jessica Franks, Head of Tax, Octopus Investments, tells Rob Kingsbury about the motivation for investors to put their money into Enterprise Investment Schemes, given they are high-risk investments

PAGES 22-24
EIS GUIDE
Octopus Investments provides a guide to help paraplanners research Enterprise Investment Schemes and recommend them to the right clients

EIS in financial planning

Are Enterprise Investment Schemes worth the risk? Fiona Bond talks to paraplanners about why, when and how they use EIS with clients

Nearly three decades on from its launch, the Enterprise Investment Scheme (EIS) continues to garner significant interest from investors. While scheme rules have evolved over the years, its core purpose to help early-stage, high-risk companies raise finance from investors in return for generous tax reliefs has remained unchanged.

To date, 31,365 companies have benefitted from the scheme, with £22 billion invested. With the potential for investment in high growth companies whilst also receiving tax reliefs, the financial planning case for EIS can be compelling.

Sian Davies Cole, director of Plan Works, believes that for a select number of sophisticated investors, EIS offers a very effective tax planning tool. One of the key tax advantages is Loss Relief. This allows losses accrued in the investment portfolio where an individual company may fail, to be offset against the client's marginal rate of income tax or capital gains tax exemption, while also receiving the upfront tax reliefs. These reliefs currently enable investors to claim up to 30% income tax relief, providing they hold the shares for a minimum three-year period and 100% inheritance tax relief after only two years. In addition, any gains made on the shares are Capital Gains Tax-free and investors can also use an EIS to defer a CGT charge. For Davies Cole, this latter incentive can be particularly useful for clients.

"Being able to see the tangible impact of your investment and understand where the money is going can be really positive and helpful for EIS clients"

Sian Davies Cole, Plan Works

She explains: "For clients who have incurred a capital gains tax, say for example on the sale of a second home, EIS offers the only option to offset some of those gains and providing the investor continues to invest in EIS, they can continue to defer. This can be a big distinguisher between choosing an EIS or VCT for a client."

But while the host of tax incentives can be undoubtedly tempting, there is a significant risk/reward trade off. Small, unquoted companies lack the track record and stability of their larger counterparts and as the saying goes, lemons ripen faster than plums.

According to the Enterprise Investment Scheme Association, typically, four companies in 10 will fail before any returns are realised which can make the first couple of years invested in an EIS portfolio unnerving. This means EIS are typically the reserve of high-earning, high net worth investors with substantial assets who are comfortable with a high level of risk.

Matthew Harrison, paraplanning manager, the RU Group, says: "From a product point of view, EIS can be very beneficial if used correctly. For example, I worked with a client who had a high level of income, had recently sold land which had triggered a CGT charge and had an IHT problem. For this client, an EIS was a natural next step and it worked really well as part of their wider portfolio.

"However, you need to have utilised other tax efficient investment vehicles first and be able to outweigh the tax reliefs on offer against a high level of risk and market volatility."

Davies Cole observes: "It's paramount that the client fits the profile and has a very decent risk profile. Paraplanners need to ensure that the client has complete capacity for loss, both emotionally and financially, and would be able to continue to maintain their lifestyle in the event of a loss."

According to Reece Edwards at Hampshire Hill, it's crucial paraplanners fully understand the mechanisms within an EIS before exploring the product with a client.

"Firstly, I believe they must have considered and be able to document other investment propositions first. As these products are high risk, full discussions between the paraplanner and the adviser around why other vehicles have not been used could be more important than documenting why as EIS has been used."

Edwards adds: "Generally, we would only suggest an EIS with a minimum of 10 investee companies. To protect ourselves and the client, we would only recommend an EIS through a provider that is an expert in this field."

Understanding the structure

However, understanding the risk and structure of individual schemes can be challenging and requires a high level of research and due diligence.

For Harrison, this can be a considerable task for paraplanners. "There is huge complexity surrounding the companies an EIS invests in. An

investor could end up with a number of underlying investments which all pay out at different times and that can make it difficult for investors to keep track," he explains. "Paraplanners need to give very careful consideration to which provider to go for and really delve into the individual companies included within the EIS."

Research tools such as MICAP or Martin Churchill reports, while costly, can offer a helpful starting base, paraplanners say.

Davies Cole says paraplanners "cannot and should not" research the entire market by themselves. She says: "There are great resources available, which include a wealth of data, and these can be extremely helpful in whittling down a shortlist of prospective schemes."

For some clients, the opportunity to invest in innovative companies with the potential to transform future industry can be a powerful incentive beyond the tax reliefs and those companies that produce relatable products tend to find favour. "Being able to actually see the tangible impact of your investment and understand where the money is going can be really positive and helpful for EIS clients," says Davies Cole.

And with six million small businesses operating in the UK in 2020, 2.5 million more than in 2000, the need for early-stage investment is only set to grow. Edwards concludes: "If the client understands the high-risk nature of an EIS and realises why the vehicle is being used, I think it is worth it. As always though, it has to be right for the client."

"I worked with a client who had a high level of income, had recently sold land which had triggered a CGT charge and had an IHT problem. For this client, an EIS was a natural next step and it worked really well as part of their wider portfolio"

Matthew Harrison, RU Group

Unpacking EIS

Jessica Franks, Head of Tax, Octopus Investments, tells Rob Kingsbury about the motivation for investors to invest in Enterprise Investment Schemes, as high risk investments and why, almost counter-intuitively, now may be a favourable time to invest

Talking to Jessica Franks, Head of Tax at Octopus Investments, about the nature and scope of Enterprise Investment Scheme (EIS) investing, it becomes clear that EIS is only going to be suitable for specific investors. But the potential for an EIS portfolio, combined with the range of tax reliefs available, can make EIS a powerful addition to a diversified portfolio.

This may be especially so in the current environment, as not only can clients benefit from the range of tax reliefs, but also investments made into early stage, agile companies could be an attractive option as we begin to come out of the Covid crisis.

Starting with the client profile of a typical EIS investor, Jessica says EIS tend to be invested in by wealthy, sophisticated investors who are prepared to invest in an illiquid investment that is high risk, and taking a long-term position. "Investors often are excited by the opportunity to back a portfolio of 10-15 companies which could become the household names in the future. Investors get to feel close to the companies within their portfolio, because it's a relatively small number of investments," Jessica says.

As these are early stage investments, some will fail. The government has allowed for a number of valuable tax reliefs as an incentive for taking on the higher risk associated with EIS, which include: 30% upfront income tax relief, tax-free capital gains, loss relief, capital gains tax deferral, and inheritance tax relief.

Typical investor scenarios include clients who have realised a gain, such as the sale of a second property or a stocks and shares portfolio. Where an investor is facing a large CGT bill, they may want to look at ways to defer that gain while also diversifying their portfolio. When investing part or all of a capital gain in EIS shares, the gain is deferred until the sale of those EIS shares, which can mean that investors have the potential to use their CGT allowance over several tax years as exits from companies are made within their EIS portfolio.

Another scenario might be where an entrepreneur has sold a business and benefited from Business Asset Disposal Relief (formerly Entrepreneurs Relief) for part of their gain, but is interested in the possibility of deferring some of that gain while also backing other businesses.

Jessica sees 2021 as "a particularly interesting time" for EIS. She says: "The level of upheaval we've seen in the economy and for businesses can better suit smaller companies. They can be more agile and adapt to a new environment faster than larger companies. Also, this kind of environment is one where entrepreneurs can spot opportunities to create businesses, especially the kind of companies that our Octopus Ventures EIS Service will look at, which tend to be technology enabled."

Jessica feels it's these kinds of opportunities that sophisticated investors both understand and are willing to invest in, especially because the various tax reliefs act as a cushion against some of the risks, bearing in mind they can never entirely mitigate them. "People can be naturally cautious in times of uncertainty, but it is these smaller and nimbler businesses which have the opportunity to prosper and grow as we come out of the pandemic. These opportunities should interest sophisticated investors at the moment.

"The Patient Capital Review published by the government in 2017, analysed the entrepreneurial framework coming out of Brexit, to ascertain how well positioned the UK was to be a successful nation once it had exited the EU. It found that the UK is a favourable arena for entrepreneurial start-ups and growth companies and part of the rationale for that was the availability of capital through EIS. There is a tangible benefit from EIS having been tried and tested over the past 25 years, which means the scheme is now well established as a means for investing and supporting smaller companies looking to grow – all of which is good for the UK economy."

Jessica stresses, however, that an EIS portfolio is a long-term investment. "While you need to hold EIS for a minimum of three years to retain the tax relief received for entering the investment, they shouldn't be viewed as a three-year investment. You will be investing directly into the shares of small companies that you will back while they look to scale, typically not a short journey. We use five to 10 years as an indicative investment period."

More than investment

Given the nature of its transactions, the Octopus Ventures EIS Service has to be about more than the investment, Jessica says. "The Octopus Ventures team are known in the entrepreneurial community for their high level of experience and specialist skill set. They are well resourced to provide a high level of ongoing support for companies as they grow."

This support, she explains, can include coaching for the management team, and linking management with an external network of experienced entrepreneurs who regularly share their advice and expertise, complementing the knowledge from the investment team. The team also has a network of partners in other countries, who can help UK-based businesses scale into overseas markets. The Octopus team has been an early investor in high profile names, such as Zoopla Property Group, Secret Escapes, Tails.com and graze. "And we are often approached by successful entrepreneurs we have backed previously to invest in their next business," Jessica adds.

The EIS portfolio structure

"EIS is designed to help mitigate risk when structured into a portfolio such as that offered by the Octopus Ventures EIS Service," Jessica explains. "We allocate investors a portfolio of, typically, between 10 to 15 companies. They can claim up front income tax relief of 30% of the amount they have invested into each company. Relief is available in the year the investment is made into the underlying company not the portfolio, but can also be carried back to the proceeding tax year. With these kinds of investments, which have to be carefully researched and selected, it can be a while before the money is invested into the businesses, so being able to carry back can be a useful tool."

A relief that can be undervalued, Jessica says, is Loss Relief. "This is available on a company by company basis. So should one or more company fail, Loss Relief can be claimed on them separately and irrespective of the overall performance of the portfolio. The Loss Relief can be claimed against income tax and also against capital gains tax. So investors will have received 30% upfront income tax relief and can claim 45% on a loss, which can be a cushion against the investment risk.

"This is a unique situation when it comes to investments that come with tax reliefs. With EIS, you're getting relief on the upside and you can also get it on the downside. It's important to never invest purely for tax relief purposes, but as the nature of EIS investing is high risk, which means investors should be prepared for at least some of their portfolio to fail, the reliefs can help mitigate the impact of the losses."

Resources for paraplanners

Octopus has a number of useful tools for advice firms to use with clients and to help with researching EIS. These include: a client facing EIS guide[1]; an EIS illustrator which paraplanners can use to show not just fees and charges but also what the outcome might look like for the client, for example in terms of the tax reliefs; a soon-to-be-launched EIS calculator, which can help paraplanners show the benefits of investing in an EIS for clients; and client case studies to show where EIS may work for particular types of clients.

"We run regular webinars on EIS, not just explaining the structure of EIS investments but also introducing our investment managers. And, of course, we have our business development team, who are able to talk though specific client scenarios," Jessica adds.

"We also have an interactive board game, using a fictitious company with a number of staff members all with different tax needs, which is useful for thinking through different scenarios and solutions.

"We are never product led, we are about the advice firm's clients and what they are trying to achieve and what the right solution is for them. The specialist and high risk nature of EIS mean that the investments are not going to be right for many people, but where they are, we can talk it through with the paraplanner, or help them with their research, to ensure it is a good match for the client's needs."

[1] https://media.octopusinvestments.com/m/62d9e4b604728e07/original/Guide-to-Enterprise-Investment-Schemes.pdf

"Investors often are excited by the opportunity to back a portfolio of 10-15 companies which could become the household names in the future. Investors get to feel close to the companies within their portfolio, because it's a relatively small number of investments"

Estate Planning

EIS investments typically qualify as BPR investments. This can be a useful tool for entrepreneurs who have sold their business, and were eligible for Business Property Relief (BPR) for inheritance tax (IHT) purposes. Investing cash from the business sale into an EIS would be IHT efficient as it immediately qualifies for the relief. However, the cash cannot have been invested elsewhere in the meantime and the investments through the EIS have to be held at time of death to benefit from the tax relief. "For this reason it should not be seen as a primary estate planning tool but it can be a useful benefit for clients," Jessica says.

Guide to EIS

Jessica Franks, Head of Tax, Octopus Investments provides an overview of the Enterprise Investment Scheme (EIS) to help paraplanners research these tax efficient vehicles and recommend them to the right clients

"By investing at the start of a company's journey, investors have an opportunity to share in that potential success. These types of companies are typically innovators finding solutions to everyday problems or creating something that didn't exist before, and investors like being part of that journey"

One of the best ways to significantly increase personal wealth is to make an early investment into shares of a small business that goes on to achieve extraordinary growth. And the earlier a client invests in such businesses, the more value they can get as a shareholder.

Launched in 1994, the Enterprise Investment Scheme (EIS) makes investing in shares in early-stage businesses even more attractive. That's because investing in an early-stage business that is EIS-qualifying gives investors the opportunity to claim a number of tax reliefs alongside their investment, including upfront income tax relief, tax-free capital gains, and loss relief on each investment, should the company fail. The government offers EIS tax reliefs to encourage investment into early-stage businesses with high growth potential. They do this because smaller businesses that mature into successful, established companies create jobs and stimulate valuable economic growth in the UK. Since EIS was launched, more than 31,000 qualifying early-stage businesses have benefited from £22bn of investment[1]. In 2018-19 alone, £1.8bn was raised by companies that qualify for EIS.

How can clients access EIS?

Generally, there are two main routes:

1. A single-company EIS – the most direct method. An investor selects a specific company that they would like to invest in. They'll need to undertake research that requires time, knowledge and expertise.
2. A specialist manager – investors choose an investment manager who will invest the funds on behalf of multiple investors in a portfolio of several qualifying companies. Having a specialist manager provides certain benefits to investors, such as ongoing oversight of the companies in the portfolio, the potential to influence board-level decisions (if the manager is large enough to have a seat on the investee company's board) and the expertise needed to negotiate an advantageous exit.

Why invest in EIS?

There are many reasons people typically invest in EIS. First and foremost is growth. The types of companies seeking EIS funding are aiming for significant growth. By investing at the start of a company's journey, investors have an opportunity to share in that potential success. These types of companies are typically innovators finding solutions to everyday problems or creating something that didn't exist before, and investors like being part of that journey.

Smaller companies normally follow different investment cycles from other parts of the investment market, and because of that can add an extra layer of diversification to a client's portfolio. EIS investments are long term and have unique benefits and risks. As a result, some investors see them as complementary to their existing investments, such as ISAs, VCTs and pensions. However, it should be remembered that EIS is a high-risk investment that should not be considered a replacement to more mainstream long-term investments such as pensions. One of the other big reasons people invest in EIS is the tax reliefs that help to compensate for the risks involved.

What tax reliefs do EIS offer?

INCOME TAX RELIEF: Investors can claim up to 30% annual income tax relief on EIS investments up £1m.

TAX-FREE GROWTH: When EIS-qualifying shares are sold, any growth in the value from an investment is 100% tax-free.

CAPITAL GAINS DEFERRAL: A gain made on the sale of other assets can be reinvested in EIS-qualifying shares and deferred until the EIS shares are sold.

INHERITANCE TAX RELIEF VIA BUSINESS PROPERTY RELIEF: EIS-qualifying shares can also qualify for Business Property Relief (BPR), meaning they can be left to beneficiaries free from inheritance tax, provided they have been held for at least two years and at the time of death.

LOSS RELIEF: Should the value of EIS-qualifying shares drop to nil or, if the shares are sold for less than the original amount invested net of income tax relief, loss relief is available. It allows an investor to offset a loss made on a company against either capital gains tax or income tax at their marginal rate.

An investor must hold EIS shares for three years in order to keep any income tax relief claimed, although they should expect to hold shares until an

exit opportunity which is typically much longer than three years. Tax treatment will depend on individual circumstances, and tax rules could change in the future. Tax reliefs depend on the portfolio companies maintaining their qualifying status.

Which companies qualify for EIS?

There are several rules about whether a company qualifies to receive EIS funding. Before we get into the detail there are a few basic premises which a company needs to follow. 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, and as a result wouldn't qualify for EIS investment. These include activities like land dealing, running hotels, farming, financial activities and energy generation.

The rules state the maximum size and age of companies that can qualify, as well as limits on how much funding they can receive. The idea is to direct capital to those companies that need it the most:

- Companies can't have gross assets of more than £15m at the time of investment.
- In addition, gross assets can be no more than £16m immediately after investment.
- The company must have fewer than 250 full-time employees when the investment is made.
- Companies need to be less than seven years from the date of their first commercial sale.
- Companies that qualify can receive up to £5m of EIS or other tax-efficient funding in any twelve-month period, with a cap of £12m 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.

So what kind of investor is EIS for?

The tax reliefs of EIS investments can be very compelling, but remember why the Government offer them. They offer them to incentivise investments into smaller businesses. Yes, these businesses have the potential to grow significantly but they also typically have a higher failure rate and are illiquid. So, what types of clients could suit this kind of investment?

It's often clients who are experienced investors who are looking to further diversify their portfolios. They might have invested in other small companies via Venture Capital Trusts and be looking for something different. They'll typically be high earners who are comfortable taking risk with a certain portion of their investible money.

They've often maxed out their annual pension and ISA allowances. You'll also tend to see investors with more unique planning needs. Investors who have made capital gains from other assets might look to defer them into EIS investments. Common situations could be gains made from selling a second property or rebalancing a share portfolio.

Understanding the risks

The first step with any client is to make sure they understand the risks before making any investment. EIS is a high-risk investment. The value of an EIS 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 portfolio companies maintaining their qualifying status. Clients will also need to be comfortable with the idea of holding the shares for at least three years in order to keep any income tax relief they claim. EIS shares may be harder to sell than shares listed on the main market of the London Stock Exchange as clients can typically only access their money if there's an exit opportunity such as a sale or a listing on a public market. This can take up to ten years or more. They should also keep in mind that share price of EIS companies can be volatile.

[1] National statistics published by HMRC 29 May, 2020.
[2] Association of Investment Companies, 30 Sept 2020.

For professional advisers and paraplanners only. Not be relied upon by retail investors.

EIS-qualifying investments are not suitable for everyone. Any recommendation should be based on a holistic review of your client's financial situation, objectives and needs and attitude to risk. For more details and information about the associated risks, please see the relevant product literature available at octopusinvestments.com. We do not offer investment or tax advice. Issued by Octopus Investments Limited, which is authorised and regulated by the Financial Conduct Authority. Registered office: 33 Holborn, London, EC1N 2HT. Registered in England and Wales No. 03942880. Issued: February 2021. CAM010761.

For tax planning case study see overleaf.

Enterprise Investment Scheme case study: Looking for high growth investment opportunities

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.

David, 50, is a director in his firm, and a high earner with a salary of £170,000 a year – on top of which he receives a bonus. This year, the bonus is £120,000. Normally, he invests part of his bonus in long-term investments. Every year he utilises his annual pension allowance, and has previously invested twice in Octopus Titan VCT – the largest Venture Capital Trust in the UK[2]. This year he would like to use part of his bonus to diversify his long-term investments, and is looking for something that feels more exciting with the potential for high growth. He understands that investments with significant growth potential are typically high risk. In addition to targeting significant returns, David is also passionate about helping small businesses succeed. So, he is keen to use this money to help fund some innovative companies, whilst being part of their growth story.

An EIS solution from Octopus

David talks to his financial adviser, who makes an assessment based on David's objectives, risk appetite and attitude towards small company investing, and recommends the Octopus Ventures EIS Service. The adviser explains that this investment will provide David with shares in 10-15 exciting, early-stage businesses, each selected for their potential to grow by ten times over the next five to ten years. David knows Octopus from his previous investments in Titan VCT, and that Octopus has backed, supported and exited some extraordinary rising stars which are now household names (including Zoopla, Graze, Secret Escapes and Tails.com).

His adviser explains that investing in companies aiming for such high growth is high risk, and not all early-stage companies succeed. However, to provide an incentive for the risk involved, there are valuable tax reliefs that David could receive.

David is able to claim 30% tax relief on his investment, which is available to offset against his income tax, such as the tax on his bonus. Where a company in David's portfolio achieves the high growth targeted, it will be free from capital gains tax. His adviser explains that where a company fails, David would be able to claim loss relief against income tax or capital gains – even if his portfolio has increased in value overall. As David is an additional rate taxpayer, he could claim loss relief at his marginal rate of tax of 45%. His adviser explains that this can mean that an EIS portfolio is a very attractive way to make high-risk investments in smaller companies in the pursuit of growth.

David chooses to invest £100,000:

- After Octopus' initial fee and an initial dealing fee have been paid, David will invest £97,030.
- Some of the companies in David's portfolio benefit from strong performance over the next eight years, with two delivering very attractive growth when they are sold. One company never achieves success and simply returns the amount David invested when it is sold, and two fail completely, losing all of David's capital. Overall, David's £100,000 investment in the service returns £271,684 of proceeds when each company is sold.
- He claims 30% income tax relief totalling £29,110 (£5,822 per company).
- David is entitled to claim loss relief in respect of his effective loss on the companies that failed, which is the amount invested into each company (£19,600) less the income tax relief claimed (£5,822). This amounts to £13,778 on each failed company.
- David chooses to offset the effective losses of £27,556 against his income in the tax year each loss occurred as an additional rate tax-payer, he obtains relief at 45% totalling £12,400.

OVERVIEW OF DAVID'S OCTOPUS VENTURES EIS INVESTMENT

	Total	Performance of a portfolio of five EIS companies				
Amount invested	£100,000	10x	3x	1x	0x (loses all value)	0x (loses all value)
Octopus initial fee (2%)	(£2,000)					
Dealing fee (1%)	(£970)	(£194)	(£194)	(£194)	(£194)	(£194)
Amount invested in EIS companies	**£97,030**	**£19,406**	**£19,406**	**£19,406**	**£19,406**	**£19,406**
Proceeds from sales	£271,684	£194,060	£58,218	£19,406	–	–
AMC (2%+ VAT) accrued for 8 years	(£21,561)	(£14,739)	(£6,822)	–	–	–
Performance fee[1] (20%+ VAT)	(£51,232)	(£41,917)	(£9,315)	–	–	–
Dealing fee (1%)	(£2,717)	(£1,941)	(£582)	(£194)	–	–
Gain or (loss) on each EIS company		**£115,863**	**£21,899**	**(£388)**	**(£19,600)**	**(£19,600)**
Gain or (loss) on investment	**£96,174**					

EIS tax reliefs on David's portfolio

All growth of the companies in David's portfolio is free from capital gains tax. Had they not been EIS-qualifying he would have owed a total of £42,111 at a rate of 20%.

	Total	10x	3x	1x	0x	0x
Income tax relief (30%)	£29,110	£5,822	£5,822	£5,822	£5,822	£5,822
Loss relief against income tax (45%)	£12,400	–	–	–	£6,200	£6,200
Total tax reliefs	**£41,510**	**£5,822**	**£5,822**	**£5,822**	**£12,022**	**£12,022**

[1] Performance fee is calculated based on the difference between the proceeds from sales and the amount invested into each company. For full details on the fees and charges, please read the Octopus Ventures EIS Service brochure.

This illustrative example should be used for reference only to show the impact of fees and charges on, and the potential tax treatment of, an investment in the service. There is no target for this service so this illustration is based on our experience of investing in smaller companies and an investment in the service may return more or less than this example. The example shows the impact of charges paid to Octopus but it does not include any charges paid to an adviser.

In an illustrative scenario where of five EIS companies, two return the initial amount invested and three lose all value, loss on investment would amount to £61,576, returning £38,424 of the initial amount invested. Income tax and loss reliefs could total £47,710 (if claimed by an additional rate tax payer).

Professional Paraplanner
The Investment Committee

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In this dedicated section within the magazine – and also on the *Professional Paraplanner* website – we provide informed comment and insight for paraplanners engaged in research into investments, in particular for those contributing to their firm's Investment Committee decisions. Throughout 2021 we will be covering key areas from individual funds and alternatives, through market trends and commentaries, keeping you informed.

Investment Committee events

We will be continuing our popular series of Investment Committee online events throughout 2021. Keep an eye on our daily email alert for details of forthcoming webinars. You can sign up to webinars from the email and from the Events page on the *Professional Paraplanner* website.

CURRENCY TWIST?

Will the dollar fall from its perch? Edward Smith, head of Asset Allocation Research, Rathbones, takes a view and what it may mean for global investors

As you may have seen, the US dollar has been tottering a little lately. Is this a short-term wobble or will the dollar lose its perch after decades of dominance? Exchange rates are volatile beasts, whose movements are unpredictable with any accuracy over short time periods. The US dollar is the biggest of them all, and it's been tottering a bit lately. But can we tell if it's heading for a bigger, longer fall? One that could have some very large ripple effects through the global markets and your clients' portfolios?

From a number of perspectives, the dollar looks like it may be overvalued against most major currencies on a longer-term basis and vulnerable to a more sustained fall. These include purchasing power parity (an estimate of fair-value-based relative prices of a basket of consumer goods and services) and our own behavioural equilibrium framework (which looks at relative trade prices, relative productivity and relative savings). That said, dollar weakness at the end of 2020 means that the greenback is not as overvalued as it once was.

Over the next few years, large fiscal deficits (government borrowing funded by central bank bond purchases), large current account deficits (trade and investment income) and low savings rates could push the dollar down, stimulating demand for foreign investors to fund these deficits. While a relaxing of tariffs would probably contribute further to a widening in the current account deficit, Joe Biden has recently said he wouldn't reduce them until the US had gathered more leverage against China.

If, as we expect, US real rates (interest rates minus inflation) remain entrenched deep in negative territory over the longer term, and the current account deficit widens further, the dollar may continue to weaken. But we have less conviction over the next three months and we are sceptical of anyone who claims they do. Currencies just don't have a consistent enough short-term relationship with common variables.

There are tailwinds

A number of tailwinds could work against our longer-term forecast for a weaker dollar over the next few months. First, heading into the new year, there were a large number of speculative short-term positions against the dollar (shorts) relative to history, particularly versus the euro.

At a time when US real yields are rising more than German real yields (as Europe battles against COVID-19 with more stringent lockdowns), this could lead to a lot of dollar buying if these shorts are unwound. Second, while the US Federal Reserve (Fed) is likely to keep monetary policy very loose for the next two to three years, the minutes from the Fed's November meeting discussed the prospect of tapering bond purchases at some point — a slightly hawkish surprise, even though tapering is likely many months away.

Meanwhile, European, UK and Japanese central banks are likely to make further asset purchases, which could be positive for the dollar relative to the euro, sterling and yen. The Democratic clean sweep may also be dollar-positive in the short term because relatively more stimulus could mean stronger US growth.

That said, because stimulus would accrue more to consumers, who spend more on foreign goods and would therefore widen the trade deficit, it would likely be dollar-negative over the longer term. Higher corporate taxes and tighter business regulation could also weigh on the dollar over the long run if it means relatively lower investment flows from overseas.

But headwinds are gathering

However, the dollar faces some potential headwinds too. Data from Citi suggests only half of all overseas investment into dollar-denominated financial assets is hedged through offsetting dollar sales. In 2016, before the Fed embarked on a series of steadfast rate rises, the hedge ratio was around 90%.

The size of the stock of dollar-denominated assets in overseas portfolios is huge, and a change in hedging mindset could add fuel to any dollar weakening. Also, if COVID vaccinations are successful, raising global GDP growth prospects relative to the US, the relative growth advantage that supported the dollar in 2020 could fade. This could be especially dollar negative if emerging market and commodity-backed currencies responded positively too.

At the other end of the spectrum, the pound appears undervalued against most major currencies. The crucial question is whether the UK's already rather poor economic performance becomes so much worse relative to the rest of the world that its exchange rate actually looks overvalued? Our analysis suggests not. Assuming the consequences of Brexit are not extreme, on a three to five-year view, we believe there is more scope for sterling to appreciate than there is for it to fall.

If these forecasts for a weaker dollar and stronger pound come to fruition, they could subtract from returns for any clients who are global investors based in the UK. But these are long-term assessments. It's best not to try to predict where these volatile beasts are heading in the short term.

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HISTORY LESSON?

Darius McDermott, managing director, FundCalibre looks at current markets and asks: Should we be worried about market valuations – or is that the wrong question entirely?

A year on from the fastest global sell-off in history and markets have gone full circle from a valuation perspective. Almost every region across the globe is looking expensive, regardless of which measure you look at. The US, for example, which accounts for 60% of the MSCI All Country World Index, is more expensive than in any point in history, apart from the Dotcom boom.

But the question is: how relevant is history to today's market?

There is no point in comparing any sort of P/E or CAPE chart from today and the 1970s, because there was a very good reason for stocks to be trading with a P/E of 7 in the 1970s – you had double digit inflation and interest rates, while US ten-year treasury yields were over 15%. Today we have a record low risk-free rate, driven by incredibly loose monetary policy. Clearly moving from 15% risk-free to zero will affect prices significantly.

This is why asking questions about valuations is potentially the wrong thing to do. You could argue that equity markets are still cheap relative to bond markets and could go much higher. The bond market has been completely manipulated

The US, which accounts for 60% of the MSCI All Country World Index, is more expensive than in any point in history, apart from the Dotcom boom

by central banks which feeds into the stock market. Remember all financial assets are priced off the risk-free rate.

So what can impact the risk-free rate? That would be a change in monetary conditions and the only likely rationale for that is the big talking point in markets at the moment – inflation.

If inflation were to return to double digits, government debt yields would return to 10% or more – then stock markets would incur significant falls. By contrast, if the market turns deflationary, we can expect the dominance of growth stocks, such as technology, to continue.

Schroders points out there are some mitigating factors behind the high valuations in markets. For example, trailing price/earnings multiples have been distorted as earnings collapsed last year due to the pandemic. The same can be said for dividend yields, with companies cutting dividends across the board[1].

This is commonplace when we have a negative shock to the system, with Schroders citing trailing P/E peaking in 2009 – during the Great Financial Crisis – and not the market peak. But regardless of these distortions, there is an acceptance markets do look expensive from a historical basis.

The risk of inflation is clear. I'd use the example of e-commerce companies: they are trading on phenomenal multiples meaning you have to look a number of years into the future before you see any profits or free cash flow. There is no inflation factored in to those valuations – if there were, then the yields would back up. Investors will be sitting there with their fingers crossed that nothing changes anytime soon.

Murray International Trust manager Bruce Stout says valuations are increasingly polarised at the moment. His team is finding a number of good businesses at reasonable valuations, which are based on the view that the world has completely changed and we are not going to use the likes of commodities, insurance or banks to the same degree in the future. Effectively they have priced in low interest rates forever.

Stout adds there is anecdotal evidence that inflation is everywhere in markets (food, energy and services for example) and although it's not rampant – its existed in the system for the past decade. He says there is nothing priced in the bond market for inflation and if there were, we would see some back up in yields, changing the complexion for cyclical stocks.

TB Wise Multi-Asset Growth fund manager Vincent Ropers says a global economic recovery is not fully priced in yet, pointing to a plethora of cyclical companies which have not recovered last year's losses. He feels broad equity indices can be misleading indicators and are increasingly a reflection of the success of a minority of stocks and can easily hide the disparity between growth and value stocks.

Rathbone Strategic Growth Portfolio manager David Coombs believes the market has got overly excited about the vaccine, indicating that he believes a recovery will be slower than perhaps people think. He is also wary some of the damage to the global economy – which has been hidden by government support systems - is still to play out. "A lot of people have lost their jobs and some of those jobs will not come back," he said. "I think the recovery is overstated and I see little threat from inflation, although there will be pockets."

We cannot ignore the valuations, particularly in the US, but you have to accept some risk in a market where the easy money has now been made.

[1] Source: Schroders - Are any stock markets cheap going into 2021?

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.

ALL BETS ARE OFF

Could 2021 be fixed Income's most challenging year yet? There's the possibility of pain ahead but Central Bank policy could alter the market equilibrium, says James Athey, investment director at Aberdeen Standard Investments

If you go to the casino with the intention of winning you are likely to come away disappointed. Casinos make money for a reason – the odds are stacked in their favour. However, not all casino games offer the same bad deal to the prospective player. It therefore pays to choose your game, and your playing strategy, wisely.

Let's imagine how these choices would differ if the casino offers to refund 10% of losing bets. All of a sudden, player strategies change. Odds turn slightly in their favour and choosing to play marginally unprofitable games becomes a choice to play marginally profitable games. Knowing this gives the player comfort to place larger wagers, with the expectation that, over time these wagers would accrue profits not losses.

This analogy may be a little simplistic, but it's not entirely without merit.

Financial markets have increasingly come to resemble a casino where the house is offering a backstop. Except in markets, it isn't the house – it is the central banks.

For decades now the world's central banks have acted as the market's white knight. With each unforeseen shock or economic downturn, they have stepped in to provide monetary stimulus when markets find that the floor has fallen from beneath them.

Appearing justified at the time, they give investors and market participants the impression that markets are rigged, backstopped and underwritten. This has the effect of changing investor behaviour, increasing risk taking and increasingly setting aside any realities which investors don't like the look of.

2020 is case in point. Following what was the largest global negative economic shock since WW2, we find equities near, at, or through all-time highs and investor confidence and bullishness at decade-long extremes.

And the narrative is along the lines of – 2021 will be a better year for growth, but even if it's not, central banks will be compelled to provide more stimulus through liquidity provision and asset purchases. Either way, equities go up. In this model of the world, the price being paid for risky assets such as equities, isn't very relevant. The central banks have our back so feel free to place your bets accordingly.

In an over-indebted world facing rising funding costs that might give equity investors serious pause for thought, might we see the equity market's underlying fragilities exposed once again?

What does this mean for fixed income?

Whatever models central banks use to calibrate responses, the outcome will be that any future easing will continue to be dominated by asset purchases. That's not a time to be bearish fixed income. We may see governments respond too, which means bigger deficits and more government bond supply.

However, the government responses are likely to be in tune with the economic picture unfolding, at best. To get a bigger fiscal response we will need a greater degree of economic negativity. In that

world, the weak growth and disinflationary forces will overpower any concern about government finances or finding buyers for the increase in government bond supply.

If the market is correct, however, and we see rising growth and inflation, that can be a painful combination for fixed income investors. It's normal to expect yields to rise and yield curves to steepen in such an environment. This expectation is not entirely without merit. The vaccine rollout is beginning apace and with high expected efficacy it's reasonable to think we can see economies returning to more normal modes of operation.

There is also a chance we see inflation rising. Small and medium sized businesses are likely to experience bankruptcies throughout the year. This reduction in supply, particularly at a local level, could easily pressure prices higher – particularly if consumers put to work the 'war chest' of savings built up in 2020.

The oil price is also likely to be a major contributor to headline inflation. Other commodity prices are also rising due to the expected recovery in demand, as well as supply constraints and disruptions due to the COVID pandemic, high debt levels among miners and producers, and the government's enforced lockdown measures.

What of Central Banks?

Monetary tightening seems out of the question. The economic recovery has a long way to go and there's still economic damage which lies beneath the high-water line of the post-crisis liquidity tide. Central banks will be even more cautious at removing monetary accommodation than they were after the Global Financial Crisis.

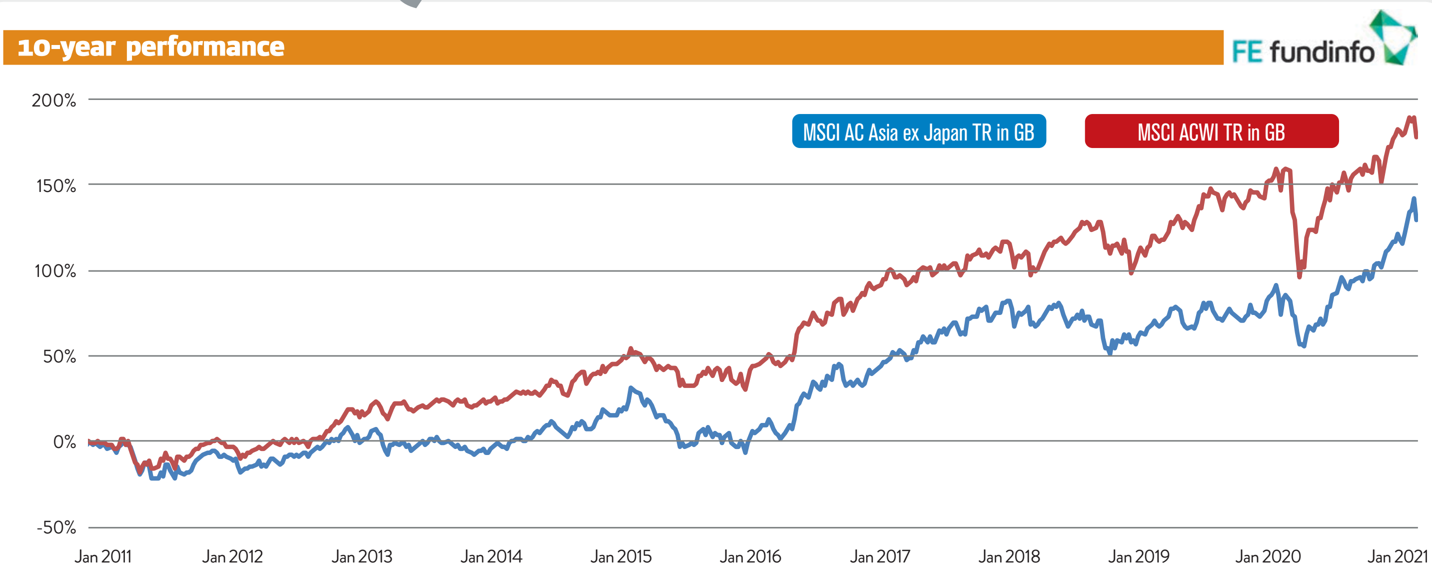
Higher inflation and improving growth, however, can act as a constraint on additional monetary easing. In an over-indebted world facing rising funding costs that might give equity investors serious pause for thought, might we see the equity market's underlying fragilities exposed once again? I don't discount it – and that certainly wouldn't be a bad environment for government bond investors at all.

It makes me wonder how stable the consensus market equilibrium really is. After decades trying to generate inflation, might inflation itself finally be the reality which forces central banks to un-rig the casino?

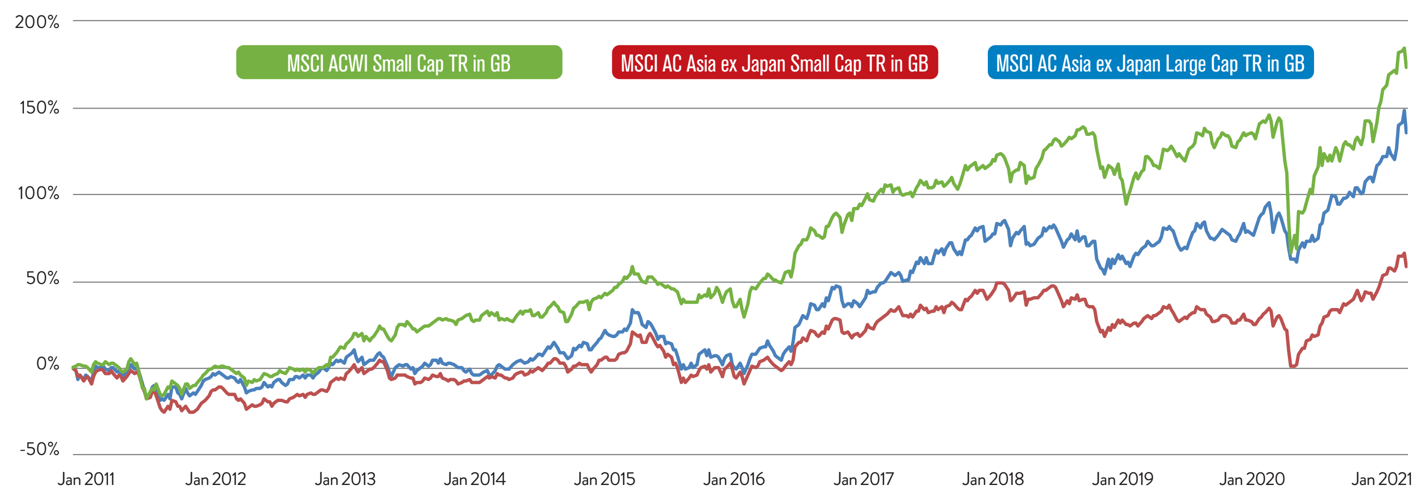
THE INVESTMENT COMMITTEE

SECTOR CONSIDERATIONS: ASIAN EQUITIES

10-year performance



10-Year Performance Asia Small vs Large



Fund Calibre comment: A couple of months into 2021 and Asian equities have been a prominent feature of our recent discussions as we look to take advantage of an economy rapidly recovering from the global pandemic.

The International Monetary fund has tipped Developing and Emerging Asia to lead markets in 2021, with a GDP of 8 per cent projected – more than double what is expected from advanced economies. Perhaps not surprising given the likes of China, Korea and Taiwan have been lauded for their strong response to Covid-19. As the first chart above shows, Asian equities have underperformed global equities for the past decade. This is principally due to the stellar performance of US growth stocks – with US tech companies in particular driving the performance within global markets.

The performance of Asian equities last year was also driven by a handful of larger-tech stocks which have also seen exponential growth. However, we are starting to see increasing commodity growth – while consumer demand shows no signs of slowing down – which we hope are the green shoots of a broadening recovery in the region. With this in mind there may well be an opportunity in the Asian small-cap arena. Smaller companies globally have struggled versus large-caps until recently, but as the second chart shows that underperformance is more pronounced in Asia.

While many parts of the developed world are still in lockdown, Asia is open for business and, with the many investors able to have increased their saving in 2020, the opportunity to tap into the region may well be now. If the GDP projections are accurate, it will benefit small-cap companies given their performance tends to be more tied to these figures than their larger peers.

CONTINUING PROFESSIONAL DEVELOPMENT VERIFICATION TEST

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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.

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- 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.

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Professional Paraplanner CPD questions for Structured CPD verification

Profile (p6)
Reece Edwards was the first paraplanner to pass which qualification?

Mortgages (p8)
Name the two main types of mortgage:
1.
2.

Mortgages (p8)
Which of the two mortgage types can usually cost the consumer more in the long run?

Mortgages (p8)
Name a typical repayment vehicle for a mortgage only charging interest:

Creating excellence (p10)
Name the four steps suggested to help achieve excellence:
1.
2.
3.
4.

5 minutes with... (p12)
Name a potential key technical area for paraplanners to be aware of in 2021:

EIS (p18)
For whom might EIS be suitable as a tax planning investment?

EIS (p20)
What are the main risk of EIS investments?

Markets (p28)
Why does the writer feel investors need to be wary of valuations at present?

Fixed income (p30)
Which two factors may constrain additional monetary easing?
1.
2.

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 January 2021, provided by FE Fundinfo

BEST RATED FUNDS

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

IA	3 year Cumulative Performance	FE Fundinfo Alpha Manager Rated	FE Fundinfo Crown Fund Rating
Baillie Gifford Global Discovery	140.65	✓	5
Morgan Stanley Global Opportunity	86.78	✓	5
T. Rowe Price Global Focused Growth Equity	83.89	✓	5
T. Rowe Price Global Focused Growth Equity	82.21	✓	5
Brown Advisory US Equity Growth	76.85	✓	5

AIC	3 year Cumulative Performance	FE Fundinfo Alpha Manager Rated	FE Fundinfo Crown Fund Rating
Baillie Gifford Edinburgh Worldwide	144.83	✓	5
Lindsell Train IT	65.47	✓	5
Baillie Gifford European Growth Trust	54.43	✓	5
Frostrow Capital Finsbury Growth & Income	19.17	✓	5
Personal Assets Trust	14.82	✓	5

BEST PERFORMING FUNDS IN TERMS OF RISK VS RETURN

IA	3 year Cumulative Performance	FE Fundinfo Risk Score
Baillie Gifford American	220.97	123
Morgan Stanley US Growth	167.4	136
Baillie Gifford Long Term Global Growth Investment	157.71	101
Baillie Gifford Positive Change	152.75	88
Baillie Gifford Global Discovery	140.65	107

AIC	3 year Cumulative Performance	FE Fundinfo Risk Score
Starvest	600	345
All Active Asset Capital Limited	345	768
Baillie Gifford Scottish Mortgage	180.76	129
Agronomics Limited	173.68	333
Downing Four VCT	145.43	203

RISKIEST SECTORS

IA	3 year Cumulative Performance	FE Fundinfo Risk Score
North American Smaller Companies	54.89	102
UK All Companies	2	96
UK Equity Income	-3.79	95
UK Smaller Companies	17.94	93
Japanese Smaller Companies	13.22	92

AIC	3 year Cumulative Performance	FE Fundinfo Risk Score
VCT Specialist: Media, Leisure&Events	-7.86	158
North American Smaller Companies	37.55	139
Latin America	-11.5	128
Country Specialist: Europe ex UK	31.37	128
UK All Companies	9.35	127

OUTFLOWS

Fund name	Size 1y ago (£m)	Size now (£m)	Performance Effect on Size (£m)	Out (£m)
Liontrust Japan Equity	46,091.76	30,730.18	1,086.77	-16,448.36
State Street UK Scrnd Idx Eq	7,991.93	168.80	-1,751.40	-6,071.73
Invesco Global Targeted Returns (UK)	9,539.34	6,239.68	-138.44	-3,161.21
BNY Mellon Global Income	5,695.48	3,748.82	-179.47	-1,767.18
State Street Europe ex UK Scrnd Idx Eq	4,846.55	3,652.84	308.02	-1,501.73

INFLOWS

Fund name	Size 1y ago (£m)	Size now (£m)	Performance Effect on Size (£m)	In (£m)
BlackRock ACS US Equity Tracker	4,716.93	15,062.63	1,253.54	9,092.16
BlackRock ACS UK Equity Tracker	7,053.29	12,158.23	145.68	4,959.26
BlackRock ACS World ESG Eq Tracker	688.18	3,592.05	517.55	2,386.31
iShares Gbl Property Secs Eq Idx (UK)	2,844.08	4,978.24	-198.78	2,332.94
Vanguard LifeStrategy 60% Equity	7,564.55	10,348.31	711.57	2,072.19

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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	93.94
North America Smaller Companies	54.89
China/Greater China	42.1
North America	41.2
Asia Pacific Including Japan	35.93

AIC

Infrastructure Securities	113.48
VCT Specialist: Health & Biotech	81.02
Technology & Media	78.55
Environmental	63.99
Asia Pacific	55.11

MOST RESEARCHED

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

MOSTVIEWED FACTSHEETS

	IA		AIC
1	Fundsmith Equity	1	Baillie Gifford Scottish Mortgage
2	Vanguard LifeStrategy 60% Equity	2	Baillie Gifford Edinburgh Worldwide
3	Baillie Gifford Managed	3	Fundsmith Smithson
4	Vanguard LifeStrategy 40% Equity	4	Baillie Gifford Monks Investment Trust
5	Royal London Sustainable Diversified Trust	5	Impax Environmental Markets

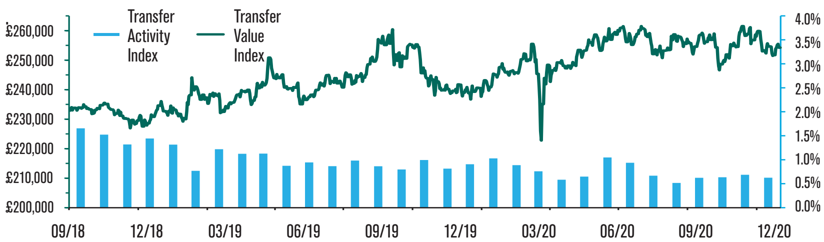
MOST CHARTED

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

PENSION TRANSFER VALUE INDEX

XPS TRANSFER VALUE WATCH: JAN 2021

XPS comments: Transfer values and transfer activity remained stable throughout January. After the record high seen in December, there was a welcome fall in the Red Flag Index. However, the volume of red flags that are seen by XPS's scam protection service remains significant, with 60% of transfers in January 2021 indicating at least one warning sign of a potential scam. While the incidence is down, the breakdown between causes of red flags remains similar. The fall may signal a return to more 'normal' transfers, with fewer members looking to get hold of pension savings quickly, a reason that drove some transfers at the start of the pandemic. We are investigating this as it could reinforce the importance of members being informed and aware of options and costs during the transfer process. With red flags remaining at such a high level, the new powers that will introduced by the imminent Pension Schemes Act cannot come soon enough. The Act will allow future regulations, expected later this year, to impose conditions on a member's statutory right to transfer. Getting these conditions right will be crucial in giving trustees and employers enough power in the fight against pension 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