Professional Paraplanner

The magazine for paraplanners and financial technicians

June 2021

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NEW ADVICE AGE

While the large proportion of the UK's wealth currently sits with the baby boomer generation, as the very last members of that generation head towards their retirement years that is not a situation which is going to last forever. Hence, intergenerational planning is talk of the town at the moment.

It seems nonsensical that looking after family wealth – and keeping it in the advice business – is such a hot topic. Surely it should have been on every adviser's radar well before now. But that aside, the question is, will the old money passed down between the generations naturally filter into adviser businesses and be enough to maintain financial advice firms going forward? I'd hazard a guess that it won't.

This means advice firms need to be looking at where the new money is going to be coming from and how to attract and keep it.

During the pandemic period, some 56,000 companies were founded by those under the age of 24; 320,000 by those aged 24-38[1]. Clearly, not all of these are going to succeed but there is a clear correlation here between digitisation and what it allows individuals to do, entrepreneurial activity and the potential for wealth building.

For advice firms, this should sharpen their resolve to address young innovative business people who will be both internet and business-canny and looking to make the most of their wealth accumulation.

If we look within the paraplanning community and take as an example, the way Para-Sols has developed into the Verve Group, including in particular Apricity, a technology-driven compliance business, we can get more than a hint of where this industry is headed.

Likewise, companies such as Visible Capital – its CEO Ross Laurie writes for this issue of the magazine – is representative of open finance technology that is changing the way advice firms do business. Not as disruptors but as business enhancers, making processes easier, faster and more efficient, so advice firms can focus on client relations, providing the human touch.

And advice firms will need to focus on their differentiators as companies like Australia's Ignition enter the UK market. Launched here on 19 May and integrated with the Bank of Ireland, Ignition is offering hybrid, adviser-led and direct to customer advice solutions for banks, wealth and asset managers, as well as pension and insurance providers – those with big money to spend on building an advice proposition.

A new age of advice is not dawning, it is with us already.

Return to LIVE events

As we head towards the light at the end of lockdown tunnels, we hope that from the autumn we can start running our highly popular Technical Insight Seminar events at selected venues around the country. We've missed getting out and meeting paraplanners around the country and we are champing at the bit to get these events going again. Please keep an eye on our daily email alerts and the *Professional Paraplanner* website for more information. We are fully aware that after the last 18 months there may be some wariness around attending events so if you would like to attend, when you see an event close to you do sign up as soon as possible so we can quickly establish the viability of each event. Meanwhile, we have an array of virtual events lined up for you as part of our Technical Insight and Investment Committee webinars. Again, please keep an eye on our daily email alerts for further information.

FE and Cashcalc

Still on the theme of technology, I've yet to hear an unfavourable comment on the acquisition of Cashcalc by FE Fundinfo. They are a good fit.

Cashcalc has done incredibly well as a relatively new entrant to the market, previously dominated by Voyant and Prestwood Truth. According to research company NextWealth, in late 2020 Cashcalc held 45% of the cashflow software user market.

As industry technology guru Ian McKenna of FTRC put it: "Cashcalc has built a great reputation with paraplanners in recent years as a simple, flexible tool which offers really clear outputs. FE Analytics has long been one of the market leaders in providing investment research. These two systems are entirely complementary and bringing both together should produce an offering that is significantly more than the sum of the parts."

Integration of course, is where things can go wrong – let's trust these two companies not to make a hash of it.

Rob Kingsbury,
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[1] Business data platform mnAI

In this issue...

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RO FOCUS

In a new series for Professional Paraplanner, Bespoke Training Solutions' Luiza Todd addresses common questions the firm has been asked over the years, whilst supporting RO candidates through their regulated exams

How often can the R06 Financial Planning Practice exam be taken?

Unlike R01-R05, which can be sat seven days a week, the R06 exam has four sittings each year. Generally, these are in January, April, July and October. However, the CII always reserve the right to surprise us with sitting dates – in 2021 the January exam sitting was actually in February, whereas October's exam will be sat in September. For each sitting exam times are staggered across candidates, with slightly different start times. If the sitting is scheduled for an afternoon some candidates may start at 12.30, others at 1pm, some at 1.30pm etc... Suffice to say all exams are scheduled around the same time, so all candidates roughly start around the same time, not mixing and matching am and pm starts.

R06 is a written case study exam with two unique case studies released for each sitting. The two exam case studies are usually released two-and-a-half weeks before the exam date. The questions asked will only be revealed on the day of the exam. There are a variety of study

support options available (BTS included) that provide an analysis of the published case studies and a selection of possible questions and answers that may come up in the exam. Attendance on a revision workshop may be a good investment, as candidates can struggle with this paper, as it is so different to R01-R05.

Results are generally available six weeks later. Exam results dates can be found on the CII website: https://www.cii.co.uk/learning/qualifications/assessment-information/before-the-exam/important-exam-deadlines/. Candidates will need to go into the 'My Learning' part of the website to access their results on the day. This will be found on the 'Bookings and Results' page.

Because this exam can only be sat on fixed dates in the year it is a good idea to factor this into your overall Diploma study plan. BTS recommend candidates sit R01 – R05 before attempting R06 due to the level of knowledge of tax, pensions, investment, and financial protection often required in the case studies. The CII recommend 100 hours of study for R06, so getting a target R06 exam date in your Diploma study plan will give you something to work towards.

About Bespoke Training Solutions

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DEFINING WEALTH

Dan Atkinson, head of Technical at Paradigm Norton asks: What does it mean to be wealthy? And, how does that affect the paraplanning role?

If you ask Google the top two definitions of wealth (as supplied by Oxford Languages) are (1) an abundance of valuable possessions or money and (2) a plentiful supply of a particular desirable thing. Interestingly if you hit the 'translations and more definitions' button a further definition appears – well-being.

What is money for?

I think to get a proper appreciation of wealth we need to dial back to the purpose of money. At the root money exists as a way of transferring value. We convert the sweat of our brow into money and then use that to buy things (goods and services). If we went into the supermarket and tried to swap sweat for sausages I doubt that would go well! It also acts as a way of storing value to buy things in the future. So, if we think about it wealth might be a pile of money, but it's really about opening up future options. Hold that thought.

Does money = happiness?

It's been said that money can't buy happiness, but the answer isn't quite as clear cut. If you are struggling to put bread on the table, then having more money would give you more happiness. However,

if you have an extreme amount of money you might be anxious about how your children might spend money (www.apa.org/monitor/2012/07-08/money).

Some researchers have indeed found a link between happiness and having more money (onlinelibrary.wiley.com/doi/pdf/10.1111/j.1751-9004.2008.00140.x). However it's not a given that making more money always results in more happiness (https://li.com/reports/the-commission-on-wellbeing-and-policy/). It's more about how you spend it.

In September 2020 the *Harvard Business Review* published an article asking 'Does More Money Really Make Us More Happy? (hbr.org/2020/09/does-more-money-really-makes-us-more-happy). They set out three ways of spending to maximise happiness.

1) Spend on experiences, not things. After a year of COVID-19 restrictions I can certainly identify with this! I'm looking forward to seeing people in person rather than on a video call and spending quality time with friends and family. That said I do like my shiny new tech – we don't have to be perfect!

2) Buy time. We only have a finite amount of time to do things. So, we need to prioritise how we spend our time. Paying someone else to do a task (or getting a technology solution) frees up your time to spend with others or do more meaningful things. It's why we might pay to have our takeaway delivered rather than spend time driving there to pick it up.

3) Invest in others. At one level this could mean philanthropy, but what they are really getting at is genuine generosity. There's plenty of research showing the link (worldhappiness.report/ed/2019/happiness-and-prosocial-behavior-an-evaluation-of-the-evidence). We get joy out of it when we give freely, feel connected to the recipient, and see the impact.

What does it mean to be truly wealthy?

I think we need to link these two ideas together. Having wealth gives you options about how, what, and when. But to maximise the fulfilment of the purpose of money we need to address what value we really want to exchange it for. In his book, *The Psychology of Money*, Morgan Housel describes this as 'the ability to wake up in the morning and say, "I can do whatever I want today."' True wealth is about having the resources to make that choice, to have that freedom.

What does this mean for paraplanners?

Most of the time we are dealing with making sure that financial resources are there, ready, and optimised for risk, return, and tax. This is important, but not because it results in the client having more money. This work is important because we are looking to maximise options to exchange it for real value.

When we write letters and reports let's remember that the reason why is to enable the client to make life enhancing decisions as a result of having the financial resources at their disposal. It provides a different perspective and impetus to the work we do. We help them achieve and maintain true wealth.

IS IT TIME TO GO OUTSOURCED?

Paraplanners who have been working from home during the pandemic may be eyeing up their freelance and outsourced colleagues and considering whether this is a route they should take. But is now the right time? Fiona Bond talks to outsourced paraplanners about their experiences and views of the current market

The events of the past year have turned the world of work as we knew it upside down. Businesses of all sizes were forced to adopt company-wide homeworking virtually overnight, with employees swapping their daily commute and desks for make-shift home offices and zoom meetings. But, while there have been challenges along the way, lockdown has also triggered a radical rethink about the way we work.

Many of us have seized the chance to learn new skills, gain greater flexibility and independence and strike a better work-life balance. One study discovered that fewer than one in ten people want to return to the office full-time, while separate research from CIPD found that two-thirds of companies plan to develop a hybrid work model going forward. The changing landscape has also given rise to the number of people thinking about striking out on their own.

A recent parameters survey from *Professional Paraplanner* showed that 52% of paraplanners would consider becoming outsourced following their lockdown experience (see pie chart).

The success of homeworking over the past year has opened eyes to the benefits for both paraplanners and businesses and it has also seen advisory firms explore more closely the benefits of outsourcing their paraplanning.

Michelle Wilson-Stimson, managing director at outsourced paraplanning firm eparaplan, explains: "In business, we want and need employees who can be not only self-managing but self-leading. Having our workforce at home has really shown that we should place more trust in people and they are able to work from outside the office walls and deliver. What we need to see is advisers letting go a little and having faith in their team to work from home or indeed for those firms that outsource, relying fully on the outsourced business to manage and run their business."

> ***"Hiring an outsourced firm ensures that advisers receive a great service cost-efficiently, because quite simply if they don't deliver they won't get paid"***
>
> **Blake Ellis, Prudent Paraplanning**

Weathering the economic storm

While on paper, a global pandemic may not sound like the best time to consider starting a business, the paraplanning industry has remained remarkably resilient. Blake Ellis, who launched outsourcing firm Prudent Paraplanning at the end of 2019, experienced the worry of being a new business during a pandemic first-hand. "I think all business owners felt a level of concern when the pandemic hit. No one could predict what would happen and it was a worrying time," he says. "However, our business grew month-on-month and we continued to build our client base throughout the year."

Andy Schleider, who launched Haven Paraplanning in September 2019, admits to having felt nervous when the first lockdown came into place. Andy says: "The business was very new and I distinctly remember starting to feel very worried in March/ April time about how the pandemic would

> *"The pandemic has made outsourced paraplanning more desirable for some advisers because many have seen their business spike"*
>
> **Rebecca Lucas, Lime Outsourced Paraplanning**

affect us. However, my fears proved unfounded with April turning out to be my biggest invoice month."

Wealth of opportunity

Demand for paraplanning has soared in recent years thanks to growing consumer awareness, greater regulatory requirements and increased digitalisation, which has created greater efficiencies within firms, enabling advisers to service more clients.

For many smaller financial advice firms, outsourcing has become an attractive alternative to employing a full-time in-house paraplanner – a trend that the pandemic is likely to have accelerated.

Blake says: "There is a great deal involved in hiring an in-house paraplanner, including the cost of salary, benefits, training and absences. As more paraplanners opt to work from home, firms will also need to measure productivity and ensure that work is being done.

"Hiring an outsourced firm, however, ensures that advisers receive a great service cost-efficiently, because quite simply if they don't deliver they won't get paid. As we come out of the pandemic, I expect to see more advisers using outsourced paraplanners."

Michelle believes advisers may now realise that outsourcing can work for them, "removing the HR risk and cost in having their own team as well as the office costs," while allowing them to outsource the management and workflow of their business to focus on seeing clients.

According to Blake, there is a wealth of opportunity available for paraplanners considering becoming outsourced.

"A lack of awareness and understanding around what paraplanning entails has meant that we now have a shortage of qualified paraplanners at a time when demand for their services is rising. In my opinion, we've reached a really pivotal and exciting time for the profession."

Rebecca Lucas, founder of Lime Outsourced Paraplanning, agrees that the pandemic has made the environment more favourable for outsourced paraplanners.

"I think the pandemic has made outsourced paraplanning more desirable for some advisers because many have seen their business spike and having an outsourced paraplanner allows them to top up their existing in-house provision and switch on the level of paraplanning they need as their business needs have changed," she says.

Employee to self-employed

But while demand for skilled paraplanners is high, making the leap from employee to self-employed is no easy feat and there is no one magic formula that will guarantee its success. Paraplanners agree that preparation is vital.

As a first step, Rebecca suggests carrying out as much research as possible to find out what outsourcing involves.

"It can be very different to working in-house as you are relying on second-hand information and you don't meet the client. You are also working for many different advisers who'll have different preferences and ways of working," she explains.

"I did loads of research by looking at what others were doing and spoke with some existing outsourced paraplanners to find out the pros and cons. I also did many spreadsheets to work out costs and ensure I had sufficient money saved up to cover my salary while starting out."

For Blake, it was important to have a clear 'blueprint' in mind for the business ahead of launch. "I always knew I wanted to run my own business but it's not something you can jump into overnight, you need to have a firm plan," he explains. "Before I launched Prudent Paraplanning, I knew exactly what type of service I wanted to provide and the processes I would use to add real value to clients."

Despite setting up Haven Paraplanning in January 2019, Andy did not officially launch until September that year, using the time to carry out freelance work alongside his job and build up a financial buffer.

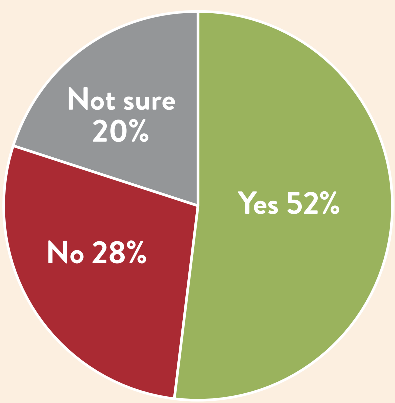
Like many paraplanners, Andy has attracted clients through word of mouth, but he also recommends using social networking platforms such as LinkedIn and the Paraplanner Directory to build professional connections.

For Rebecca, who has been running her business since 2013, building relationships with advisers has been key to the firm's long-term success. "We work with advisers long term rather than on a short-term basis. We get to know them and their support colleagues as people and we take time to establish how they like to work. Many of our advisers we've had for six years or more. We never meet the end client but we write reports for them year after year so we feel like we get to know them."

Aside from building a client base, paraplanners also need to give careful consideration to the more functional aspects of running a business, from researching competitors, to understanding

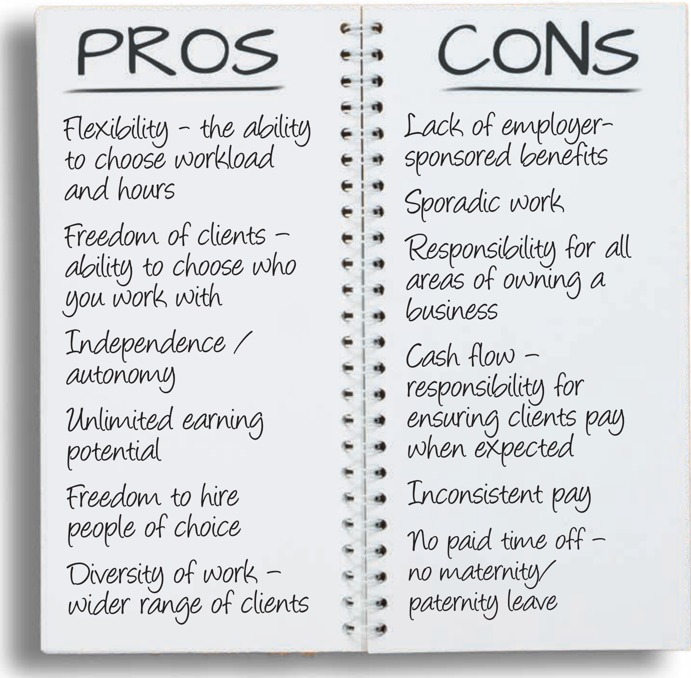
Parameters Survey Results

Given your lockdown experience, would you consider becoming an outsourced paraplanner?



the legal and financial requirements.

Andy admits that it can be challenging at the start. "There are aspects of running a business that you simply learn as you go along, learning from your mistakes. For example, I hired an accountant when starting out but in hindsight I would have been better off with a bookkeeper."



One of the biggest challenges Andy faced was knowing what to charge: "I knew I didn't want to be the cheapest, nor did I want to be the most expensive so it was important to do research and understand what similar firms were charging."

Charging structures can vary from paraplanner to paraplanner, with some preferring to operate a retainer while others charge by the hour. Knowing the right approach comes down to individual choice, but it's important to have an understanding of the business' outgoings and overheads to understand what's feasible.

Rebecca says paraplanners who are considering setting up as freelance/ outsourced must be prepared to take on a number of business roles that may not come naturally. "The hardest thing was the wearing of many hats, from being just a paraplanner to becoming someone's boss, an operations manager, marketing manager and the accounts department. When you run a small business you have to do everything that comes with that. Some bits you enjoy and some you don't but you have to do it all and the buck stops with you.

"Ask yourself the question – do you want to be a paraplanner or do you want to run a business? You have to want to do both and you have to enjoy both. When running a business, there will be good and bad days and you have to embrace them and learn from them."

Reflecting on his own decision to go outsourced, Blake says paraplanners need to be passionate and committed to the idea of being their own boss. "For someone considering setting up alone, they have to really want to do it. It's not easy and it's certainly not plain sailing. You are effectively trialling things in the early days so you need to be creative and willing to take the initiative."

Benefits of being the boss

For paraplanners who understand and embrace the intricacies of running their own business, setting up alone can be an extremely rewarding and positive experience. Andy says the desire for greater flexibility was a key motivator behind his decision to become outsourced. "When you are your own boss and need time off for personal reasons, you no longer have that worry about how you'll make up the hours. You can choose your own working pattern to suit your individual circumstances and work-life balance."

For Andy, no two days are the same and working with advisers across a wide range of clients hasn't lost its appeal. He says: "When you're in the office, there may be days where you're sat twiddling your thumbs waiting for work. When it's your own business, there's always something new to be getting on with. You get to work with a range of advisers across areas of advice that might not have been your remit in-house so it's a great chance to gain exposure and knowledge across other areas."

Andy says there are lots of resources available to help outsourced paraplanners build their knowledge, including CPD, provider websites and webinars, online industry events and qualifications.

For paraplanners unsure of whether to take the leap, Andy believes it's important to follow your gut instinct. "In my opinion, if you're thinking about it you should just go for it," he says. "Of course, it can be daunting at first but I have no regrets. If I had deliberated or waited longer to launch, I would not have the clients I do today."

Blake says he too has no regrets about becoming outsourced. "There are so many positives to setting up your own business. No two days are the same and that can be a real motivation. You have the freedom to work where and when you want with the type of client you want. It has been absolutely the best decision for me."

"In my opinion, if you're thinking about it you should just go for it. Of course, it can be daunting at first but I have no regrets"

Andy Schleider, Haven Paraplanning

SUITABILITY TECH

Technology can be used to both ensure greater accuracy of investment suitability data and speed up the process, says Ross Laurie, CEO, Visible Capital

As Warren Buffett's succession plans become public, we have to wonder if he will be passing on his two top rules for investing to his successor. Rule No. 1: Never lose money. Rule No. 2: Never forget rule No. 1.

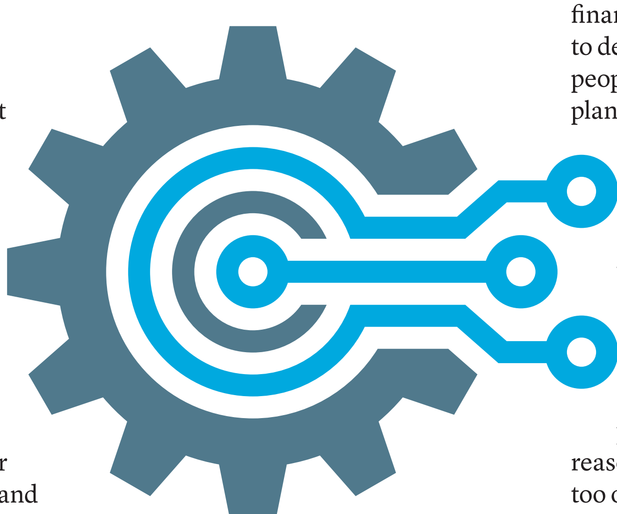
Buffett also famously never buys anything unless he can write down his reasons why he'll pay a certain price per share for a particular company.

It got me thinking that this "looking at the data" approach to investing, which has served Buffett so well over many decades, is very much at the heart of wealth management technology.

As we have seen in the last year or so, our lives and finances are not always smooth and predictable – there are bumpy, challenging times but there are also the sunlit uplands of opportunity. There's a real need to be regularly reviewing and assessing our financial situations, crunching the data and making adjustments – doing our homework as Buffett would probably say.

At the moment MiFID II mandates that IFAs conduct ongoing suitability checks on clients' investment portfolios on at least an annual basis. We would argue that if investment clients are to be agile, in a position to adapt to circumstances and maximise their investments, then suitability assessments need to be carried out more frequently.

In the past, ongoing suitability assessments were onerous. I know of one company in the not too distant past who sent junior staff out to clients in taxis to collect cardboard boxes of bank statements and then worked through them with highlighter pens to record totals for income, expenditure and discretionary spending.



As we have seen in the last year or so, our lives and finances are not always smooth and predictable – there are bumpy, challenging times but there are also the sunlit uplands of opportunity

Those days are gone. Visible Capital's software can do the taxi run and highlighter pen work in minutes. By using a digital solution to securely access a client's data, our technology can collate, categorise and enrich the client's financial data, providing unprecedented insights. That means processes are hugely enhanced at the onboarding stage but also a rich data resource is also available for paraplanners at the click of a button for ongoing suitability assessments.

And because the process is so efficient and straightforward it can be run as often as required in the course of a year – picking up nuances of financial behaviour and stability and identifying opportunities for smart investments or signalling a requirement for a period of restraint.

FCA – accurate categorisation

At the end of April 2021 the FCA published a discussion paper (DP21/1), aimed at strengthening financial promotion rules for high-risk investments and firms approving financial promotions, with an objective to develop solutions to help millions of people "invest with confidence and save for planned and unexpected life events".

One of the paper's objectives is to create discussion on the "responsibility of firms to ensure accurate categorisation". Under this section of the paper the FCA says: "We have previously received feedback that requiring firms to check evidence such as payslips or bank statements could deter potential investors for the wrong reasons, i.e. because the process would be too onerous or intrusive."

We couldn't agree more! And we will be contributing to the discussion paper, presenting some of the ways that technology like ours can drill down into an investor's finances and, within minutes, reveal highly nuanced financial reporting.

And then, with their clients armed with comprehensive income and expenditure insights, financial planners can provide those clients with the very best advice.

I think Warren Buffett would approve.

LIFETIME ALLOWANCE PROTECTION

With so many different variations to consider, lifetime allowance (LTA) protection is now a complicated area of the pension rules. Curtis Banks' pension technical manager Jessica List summarises the key features of each type of protection

Fixed protection (2012, 2014, and 2016)

The simplest form of LTA protection has three versions, for each of the three occasions the standard LTA dropped. The protection works by allowing the holder to keep the outgoing standard LTA for that particular year. For example, in 2012 when the standard LTA dropped from £1.8m to £1.5m, fixed protection 2012 holders kept an LTA of £1.8m. All LTA and tax free cash (PCLS) rules apply to the holders as normal, but with their protected LTA instead of the standard LTA at the time.

It's possible to lose fixed protection, normally by accruing new pension benefits or joining a new pension other than to receive certain types of transfer. A full list of 'cessation events' can be found on online resources such as HMRC's Pensions Tax Manual. Fixed protection 2016 is still open for new applications, as long as the person hasn't completed a cessation event since 6 April 2016 and doesn't already hold primary, enhanced, or an earlier form of fixed protection.

Individual protection (2014 and 2016)

Individual protection works by giving the holder an LTA based on the value of their pension rights on either 5 April 2014 or 2016. There are specific rules for valuing pension rights for this purpose. The pension rights needed to be worth more than the new incoming standard LTA in that year, and the maximum protected amount was the old outgoing standard LTA for that year. For example, in 2014 when the standard LTA dropped from £1.5m to £1.25m, individuals needed pension rights worth more than £1.25m to apply, and the maximum protected LTA they could get was £1.5m. All LTA and PCLS rules apply to individual protection holders as normal, but using their protected LTA instead of the standard. Individual protection can only be lost or revalued if the holder is subject to a pension debit on divorce.

Individual protection 2016 is still open for new applications for those whose pension rights were worth more than £1m on 5 April 2016 and who didn't already hold primary protection or individual protection 2014.

LTA protection was among the most popular topics for technical queries we received during 2020, showing what a complex area it is and how many people are affected

Primary protection

This was one of the original forms of LTA protection from A-Day (6 April 2006), and is arguably the most complex. Individuals received a 'primary protection factor' which works as a multiplier to increase the LTA. The factors used to multiply the standard LTA, but since 2012 have been applied to an 'underpinned' LTA of £1.8m so that primary protection holders aren't disadvantaged by the drops in the

they have normal entitlement but based on an underpinned LTA of £1.5m. However, because of the requirement to have some LTA available in order to take PCLS, enhanced protection holders can sometimes ending up losing the additional entitlement if they crystallise their pension benefits in stages. Again, if you have clients in this position it's worth fully exploring these rules.

Enhanced protection can be lost if the holder undergoes any cessation events, which are similar to those for fixed protection. Full details can be found on resources such as the Pensions Tax Manual.

Enhancement factors

Last but not least, there are a range of enhancement factors available for clients who have funds that don't need to be tested against the LTA. For example, the funds might have come from a pension credit and had already been tested against the original holder's LTA, or the funds might have been accrued in an overseas scheme that didn't receive UK tax relief. Enhancement factors work in a similar way to primary protection, acting as a multiplier to increase the holder's LTA to account for the protected funds.

LTA enhancement factors do not increase PCLS entitlement. It's possible for someone with an enhancement factor to run out of PCLS entitlement long before they use up their LTA. As enhancement factors can be held alongside other forms of protection, someone with an enhancement factor might still have unusual PCLS entitlement from elsewhere.

Enhancement factors normally have to be applied for within five years of 31 January following the relevant tax year – for example, the tax year in which the pension credit or overseas transfer was received. They can't be lost or revalued unless a mistake was made in the initial application.

LTA protection was among the most popular topics for technical queries we received during 2020, showing what a complex area it is and how many people are affected. Here we've touched on some of the key points, but it will be important to check the full details for any affected clients.

standard LTA. For example, if someone had a factor of 0.5, their original LTA in 2006/07 when the standard LTA was £1.5m would have been:

£1.5m + (0.5 x £1.5m) = £2.25m
Since 2012, their LTA has been:
£1.8m + (0.5 x £1.8m) = £2.7m.

Primary protection holders will normally have unusual PCLS entitlement. Some will have that entitlement built into their primary protection, which gives them a monetary protected PCLS amount. Otherwise, primary protection holders are subject to the normal PCLS rules, except that their entitlement is based on (another) underpinned LTA of £1.5m instead of the standard LTA. This helps ensure holders don't have lower PCLS entitlement than they would have had at A-Day. If you have a client with primary protection it's worth exploring full details of how these PCLS rules work, to ensure it's been factored into the client's retirement plans.

Primary protection can only be lost or revalued if the holder is subject to a pension debit – although it's worth noting that the revaluing works slightly differently than the method used for individual protection.

Enhanced protection

This was the second form of A-Day protection, and works differently from any other type. Rather than increasing the holder's LTA, enhanced protection simply exempts the holder from paying LTA charges. It's easy to think this means enhanced protection holders never have to think about the LTA but unfortunately this isn't the case. Enhanced protection holders are still subject to the standard LTA and all related rules and requirements (such as completing benefit crystallisation events and reporting the results); they just don't have to pay any resulting charges.

Enhanced protection can also include PCLS protection, which is expressed as a percentage. That percentage would apply to all of the holder's pension benefits with no upper limit based on the lifetime allowance. Enhanced protection holders without PCLS protection are in the same position as those with primary protection:

WELL AND TRULY UNLEASHED!

Michelle Hoskin recently attended one of Tony Robbins' Unleash the Power Within events. Here she provides some take-aways from the event and why she's booked to take part in the next event in June 2021

As you know I am all about takeaways – I see very little point in spending time, effort, love or money on anything that doesn't pay you back in some way, ideally tenfold!

I've heard about Tony Robbins for years and was recently invited to join a close friend, Stuart Poonawala, as he attended Tony's UPW virtual event in March. I realised this was an opportunity to do something different and something purely for me, and WOWW!® what an amazing few days!

Despite being totally sleep deprived, I loved it.... full 14-hour days where we worked through the night into the early hours of the morning, joined by more than 70,000 people from 136 countries. I'm not sure how much more global you can get.

There were so many people logging in, we actually broke Zoom at one point. We were put into breakout rooms where we got to interact with people from across the world, of all shapes and sizes and with similar challenges in their lives.

We learned we are not unique. We are in fact part of one, big, global family of amazing people who are all trying to have an amazing life by doing what really matters to us. Before I go any further – take a look for yourself: UPW virtual recap on YouTube (https://youtu.be/EhP2AyOsFHA) What did I take away from this marathon of virtual coaching? Here's a snippet...

Don't dim your light

We are all carrying around a ridiculous amount of limiting beliefs... beliefs that quite simply DO NOT serve us. In fact in many cases they hold us back from achieving our absolute potential.

I had a massive limiting belief which was 'I am too much!' but actually what I've realised is that I am absolutely enough and that, by dimming my light, I am simply hiding myself from many who need what I have to give so much. Needless to say I have well and truly snapped out of it... so you'd better hang on to your hats.

Let me ask you, what are you focusing on right now and are the results that you want to achieve crystal clear in your own mind? If they are not, you could literally end up anywhere

The magic power of perception

We can bend time; it is not a set-in-stone 'thing', it is an emotion. This is why time sometimes seems to last ages and other times it seems to pass in a blink of an eye. It's all about our perception of it. What makes work and play different (because let's face it we often love our playtime more than our work time)? It's the emotion behind what we give our time to, or don't. When you hold dear any aspect of your life and what you want to do, your focus becomes so much clearer, and you can always 'find' more time.

Choose your words carefully

Language is key. Whether it is external or internal talk, words matter and the story that you are telling will either catapult you towards your future life or into oblivion. It's our choice. Limiting beliefs and our own frames of reference will have a huge impact on the words that we choose.

So, take a step back, and try to spot and consider what you say and how you say it, both to yourself and to others.

Where our focus goes, our energy flows

Let me ask you, what are you focusing on right now and are the results that you want to achieve crystal clear in your own mind? If they are not, you could literally end up anywhere. Let me also ask you how much energy do you feel you have right now? On a scale of 1–10, are you a 2, or a 10, or somewhere floating around in the middle? Is this where you want to be? These are important questions because our energy is flowing – or not – in the direction of our focus and we owe it to ourselves to make sure we are as energised as we can be and heading in the right direction.

Are your problems real?

In reference to limiting beliefs, Tony asks whether our problems are really problems or just thoughts? We need to know for sure because only then can we decide how to deal with or simply bin them. There's a really great saying: "We don't see things as they are; we see them as WE are." Maybe some of our problems aren't really problems at all, maybe they are exactly what we need right now to make us up our game, step out of our comfort zone and shake up our world a little?

The power of immersion

Tony talked a great deal about the power of immersing yourself fully in whatever you are doing – not only with depth but with absolute focus. I have always said, if you are going to do something do it properly. Now I am going to change that little saying to "if you are going to achieve something awesome, focus on it immensely!"

Being resource-full

It's not about the resources we have, its about how resourceful we are able to become with them. Like many of you, we too are a lean business; we don't have any wastage in resources and often I hear from both clients' teams and my own how busy they are and that they need this or they need that. In part that might be true, but my first question from now on will be this: "Is it actually resources that you need or do you just need to be more resource-full?" In other words, is there a way to achieve what we want to achieve with what we already have? It's so bang on point. So, before you start thinking about hiring, take a moment to reflect upon how resource-full you are as a team.

Final firecrackers!

Last but not least... here are a few firecrackers to close with a bang!:

- "When you break... is the moment that you realise who you truly are!" – Tony Robbins
- "We have one shot at this... and it's all we need!" – Tony Robbins
- "How far are you really prepared to go!" – Tony Robbins
- "Authenticity won't guarantee success, but inauthenticity certainly will!" – Jamie Kern Lima (Founder of It CosmeticsTM and speaker at UPW2021).

To pay it forward, I am doing UPW again in June on UK time (https://www.upw360.com). I have invited three of my closest girlfriends (including the amazing Dee from our team) to share the experience with me and I hope they will get as much inspiration from it as I did!

Maybe see you there?

RESIDENCE NIL RATE BAND

The Brand Financial Training team examine the rules around the residence nil rate band, providing examples to help clarify how the rules apply in practice

The residence nil rate band (RNRB), introduced with effect from 6 April 2017, was probably the biggest change in Inheritance Tax allowances since the introduction of transferable nil rate band in October 2007. It helped to reduce the impact of Inheritance Tax which had increased due to the freezing of the nil rate band from April 2009 at £325,000.

The RNRB was originally set at £100,000 in tax year 2017/18 and gradually increased until by, tax year 2020/21, it had reached £175,000. It is planned that it will stay at this level until the end of 2025/26.

It is designed to protect some or all the value of the family home from inheritance tax with a main condition that the deceased must have owned and lived in the residential property at some point prior to their death. If the deceased had downsized or fully disposed of their property after 8 July 2015 then downsizing provisions apply which we cover later. The other main requirement is that the property must be 'closely inherited' this means inherited by 'direct descendants'. This means:

- The deceased's children, grandchildren or remoter descendants ('Children' includes adopted, fostered and stepchildren).
- The spouses/civil partners of those children/grandchildren.

Direct descendants example: John, a divorcee, died in 2020/21 leaving an estate valued at £800,000 which included his property which was valued at £300,000. He left a 50% share of the property to his partner and the other 50% to the children from his marriage. John's estate will benefit from a residence nil rate band of £150,000 as the RNRB is limited to the value inherited by his direct descendants. John's estate will also benefit from the standard nil rate band of £325,000.

Tapering

The RNRB is reduced by £1 for every £2 that the estate exceeds £2m. The definition of estate for RNRB purposes is different to its general meaning for IHT purposes, so the total estate includes assets that would not be liable to IHT – for example AIM shares and gifts to charity made in the Will.

Tapering example: Sue, a widow, leaves an estate valued at £2.1m which includes AIM shares valued at £150,000 and her property valued at £600,000. Her Will leaves £200,000 to charity and the rest to her two children. Sue's husband used his nil rate bands when he died.

The residence nil rate band is designed to protect some or all the value of the family home from inheritance tax

Sue's total estate for RNRB purposes exceeds the £2m limit by £100,000 so her RNRB will be reduced by £50,000 down to £125,000 giving her estate a total NRB of £450,000. When the IHT liability on Sue's estate is calculated the value of the AIM shares and the gift to charity will be deducted as they qualify as reliefs/exemptions, so her estate will be:

£2.1m less value of AIM shares less gift to charity = £1.75m less NRB (£325,000) and tapered RNRB (£125,000) = £1.3m

Brought Forward Residence Nil Rate Band

The brought-forward RNRB applies to married couples and civil partners but not couples that co-habit. As with the standard NRB, it allows unused RNRB to be transferred to the estate of the surviving spouse/partner. It doesn't matter when the first person died but the second spouse/partner must have died after 6 April 2017. If someone has been widowed more than once then they can transfer any unused RNRBs but only up to the value of one extra RNRB.

- If the first death occurred before 6 April 2017 the residential enhancement at that time is deemed to have been £100,000
- As there was no RNRB at that time none could have been used .
- The brought forward amount is 100% of the residential enhancement in force at the second death .
- Tapering would apply if the first to die left an estate of more than £2m.

Brought forward example: Helen and Ian were married when Ian died in 2019/20 leaving his £2.12m estate to Helen. The RNRB in 2019/20 was £150,000.

- **Ian's estate exceeded the RNRB limit by £120,000**
- **This would have reduced his RNRB by £60,000 to £90,000**
- **£90,000/£150,000 = 60%**

Helen died in 2020/21 leaving an estate of £2.3m which included her home valued at £1.2m which she left to her children.

- **Helen's RNRB (including the brought forward amount) is £175,000 + (60% of £175,000) = £280,000**

- This must be tapered as Helen's estate exceeds the RNRB limit by £300,000
- This will reduce her RNRB by £150,000 to £130,000
- Helen's total NRBs will be:
  - Her NRB - £325,000 plus
  - Ian's transferred NRB - £325,000 plus
  - The total RNRB - £130,000 giving a total of £780,000

Downsizing

An individual may qualify for a downsizing addition if, after 8 July 2015, they:

- Disposed of an interest in a residential property .
- Downsized to a smaller property or stopped owning a home completely.
- Left some of their estate to 'direct descendants'.

Downsizing example: John was a widower when he sold his £240,000 home in September 2018. The RNRB at the time was £125,000. He moved into residential care and died in 2021/22. John's wife died before 6 April 2017 leaving all her assets to him.

- RNRB when property sold + brought forward RNRB on death
  - £125,000 + 100% of £175,000 = £300,000
- Value of home when sold as a percentage of this figure
  - £240,000/£300,000 = 80%
- Subtract value of home in estate – there is no home in the estate on death so 0%
  - 80% - 0% = 80%
- Multiply maximum RNRB at death by this figure
  - 2 x £175,000 x 80% = £280,000
- John's RNRB will be the lower of £280,000 and the assets left to direct descendants

Trusts

Prior to the introduction of transferable nil rate bands in 2007, a commonly used IHT planning tool was for a married couple or civil partners to include a nil rate band discretionary trust in each of their Wills as, if the first to die did not use their nil rate band, then it was lost. The surviving spouse/civil partner could benefit from the trust but the value of the trust would not normally count towards their estate on second death.

Here's an example: Jason and Amy own their property as tenants-in-common. They want to ensure that, on first death, the survivor could remain in the property but, on their death, their share of the property would pass to their children (or other direct descendants)

In their Wills they could include an Immediate Post Death Interest Trust (IPDI). On first death the deceased's share of the property would pass into the trust, the survivor would be able to live there for the rest of their life, but it would then pass to the children. On second death the value of the trust's assets would be included in their estate but their RNRB plus a brought forward RNRB would be available. (If the property had been owned as joint tenants this would not work as the property would automatically pass to the survivor on first death). This arrangement would protect the children of the marriage should the survivor re-marry.

If the property were to pass to a Discretionary Trust then the RNRB would not be available as property would not be deemed to have been 'closely inherited'.

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. Unsolicited real time financial promotions are often termed:

A Direct offer promotions
B Advertisements
C Directive rules
D Cold calling

2. A retail client is interested in investing in lump sum life assurance bonds; you can tell them that: Tick all that apply.

A Most are written as whole of life policies with no specific maturity date.
B Life cover is usually just in excess of the value of the fund on death.
C Any regular withdrawals are considered to be a return of capital.
D Because they are lump sum investments they are classed as qualifying policies.

3. David transferred ownership of his share portfolio to his son realising a gain on which he paid Capital Gains Tax (CGT). Four years later David died, what tax, if any, is now due?

A His son faces a potential CGT charge on the difference between the value at which he acquired the asset and the market value at David's death.
B As a failed PET, there is a potential IHT charge with no credit given for the CGT paid on the earlier transfer.
C There would be no further charge due to the CGT paid on the earlier transfer.
D There may be an IHT charge, but relief would be given for the CGT paid.

4. Cyril had pension benefits already in payment at 'A' day. As he has further benefits to crystallise, the earlier pension will be valued by a factor of:

A 10:1.
B 20:1.
C 25:1.
D Zero.

5. Modern Portfolio Theory (MPT) is concerned with the way in which portfolios can be constructed to maximise returns and minimise risks. What is the underlying assumption central to MPT?

A Investors are irrational and cannot influence prices directly.
B Investors are risk averse and would choose a less risky investment if offered two with the same return.
C Investors have persistent biases, which are motivated by psychological factors.
D Security prices fully reflect all available information, and prices rapidly adjust to new information.

6. Which investment strategy is based on finding companies with long term sustainable advantage?

A Value
B Contrarianism
C GAARP
D Momentum

7. What is the tax position regarding premiums paid for a prefunded Long-Term Care Insurance Plan for an individual?

A Paid net of basic rate tax relief
B Paid net of 15% tax relief if plan taken out before 1997
C No tax relief, payable out of net income of the individual
D Tax relief available if planholder is aged over 75

8. Lilian lives in a flat in London valued at £500,000. She would like to move nearer her daughter Jill who lives in Humberside, where house prices and rents are much cheaper, and to release as much cash as possible to make gifts to her four children. What would be a suitable course of action for her to fulfil these requirements?

A Take out a lifetime mortgage with interest roll up.
B Drawdown mortgage.
C Sell the London flat and rent in Humberside.
D Take out a Home Reversion Plan.

9. Which of the following is a term assurance policy which may be used as an alternative to a whole life policy?

A Whole term
B Term 100
C Life-long term
D Long-term life

10. Gillian is full-time care assistant. Due to low pay, she is unable to afford to buy a home by herself and so is buying a brand-new property with the help of the Help to Buy (Scotland) scheme. She should be aware that she will need a:

A 5% deposit and a combined mortgage and deposit to cover 85% of the property value.
B 10% deposit and a combined mortgage and deposit to cover 90% of the property value.
C 20% deposit and a combined mortgage and deposit to cover 80% of the property value.
D 20% deposit and a combined mortgage and deposit to cover 75% of the property value.

Your answers

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

Last issue's answers

Q	Answers	Reference material
1	C	CII R01 Study Text Chapter 8
2	C	CII R02 Study Text Chapter 10
3	D	CII R03 Study Text Chapter 1
4	BC	CII R04 Study Text Chapter 10
5	C	CII R05 Study Text Chapter 11
6	B	CII J10 Study Text Chapter 7
7	B	CII J12 Study Text Chapter 8
8	D	CII R07 Study Text Chapter 8
9	C	CII CF8 Study Text Chapter 2
10	D	CII ER1 Study Text Chapter 9

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

Professional Paraplanner
The Investment Committee

In association with

Fidelity INTERNATIONAL

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

Our Investment Committee Webinars are in full swing. Over the next couple of months we have webinars from Fidelity, the AIC, Schroders, Scottish Mortgage, and Abrdn. Find out more under the Events tab on the *Professional Paraplanner* website.

BUY AND SELL DISCIPLINES

It's important to minimise emotional input when buying and selling stocks. Anthony Rayner explains the approach adopted by the Macro Thematic Multi Asset Team at Premier Miton Investments

On a simplistic level, all fund managers are trying to do the same thing: buy low and sell high. However, buy and sell disciplines often vary significantly by fund manager.

A key principle underlines our approach to buying and selling, as it underlines our entire investment approach: restrict unhelpful emotional input. This is as true for the macro element of the portfolio, as it is for the thematic element.

We don't want to supress emotions but we do want to be self-aware, so we build some checks and balances into our process. Also we believe it can be helpful in recognising how emotions drive stockmarkets. For example, assets are frequently driven materially beyond what fundamental analysis would suggest, on the upside and downside, by fear and greed.

In terms of our buying discipline, we look for convincing data, both in terms of the broad data environment, be it the economic data, or thematic data, and also in terms of positive price action in potential investments.

For example, in terms of the reflationary argument raging over recent months, economic activity is recovering, inflation expectations are rising and fiscal stimulus is increasingly being added to a very loose monetary policy backdrop. This change in data environment is also evidenced in asset price moves: a range of commodities have moved higher (from industrial metals, to agricultural commodities to energy) and economically sensitive stocks are consistently outperforming defensives. These combined observations have led us to increasingly expose our portfolio to value cyclicals, where there is sustained positive price action.

Arms length research

Unlike many managers, we don't visit companies, we don't speak to companies and we restrict our research to a "due diligence level", these are some of the measures that help keep emotions out of the process. However, keeping companies at "arm's length", means portfolio construction has to be quite distinctive. Specifically, we reduce stock-specific risk, by buying baskets of stocks, and instead build risk around exposure to the idea, be it macro or thematic. We're not looking for perfection, either in the stock, or the timing: we're looking for idea risk, rather than stock risk.

In terms of selling, rarely do we do more than trim, unless the investment is experiencing material negative price momentum, normally this is when the 200 moving day average has been broken. This clear signal, as well as the "arm's length" approach outlined earlier, means it's much less about us admitting we are wrong, and so it's easier to cut and run, and focus energy on the rest of the portfolio.

Unlike many other fund managers, price levels and valuations will rarely lead to a full sell for us. As touched on earlier, we believe trends generally continue much longer than fundamentals would suggest, as human nature tends to overshadow more rationale analysis.

A big part of the buying/selling process is not just when to buy/sell, but how much to buy/sell, i.e. the weight of the initial investment, and when to trim. Here too we try to be mechanistic, rather than thinking about conviction, which inevitably brings some emotional baggage. For us, how much the position contributes to portfolio risk is important.

In the buying, it helps drive the amount we buy, e.g. if an investment has typically low volatility, low correlation with the rest of the portfolio and is highly liquid, this will allow a larger position. In terms of selling, where positions and the aggregate baskets have performed well, they will be periodically trimmed if they start to contribute too much to total portfolio risk.

Paying attention to positive or negative price momentum, in terms of buying and selling, means we aren't wedded to a particular bias, for example a style like growth or value, or a geography. This allows us to be pragmatic and the last year or so has tested these disciplines, with growth leading the market initially and value leading more recently. We have adjusted portfolios accordingly, employing the evidence-based decision making outlined above.

In summary, buying and selling are ripe for "emotional corruption". For us, a clear technical analysis drives our process, using positive and negative price action as triggers. This simplicity helps ensure we are investing in capital, rather than emotion.

EUROPE'S EMERGING TECHNOLOGY SECTOR

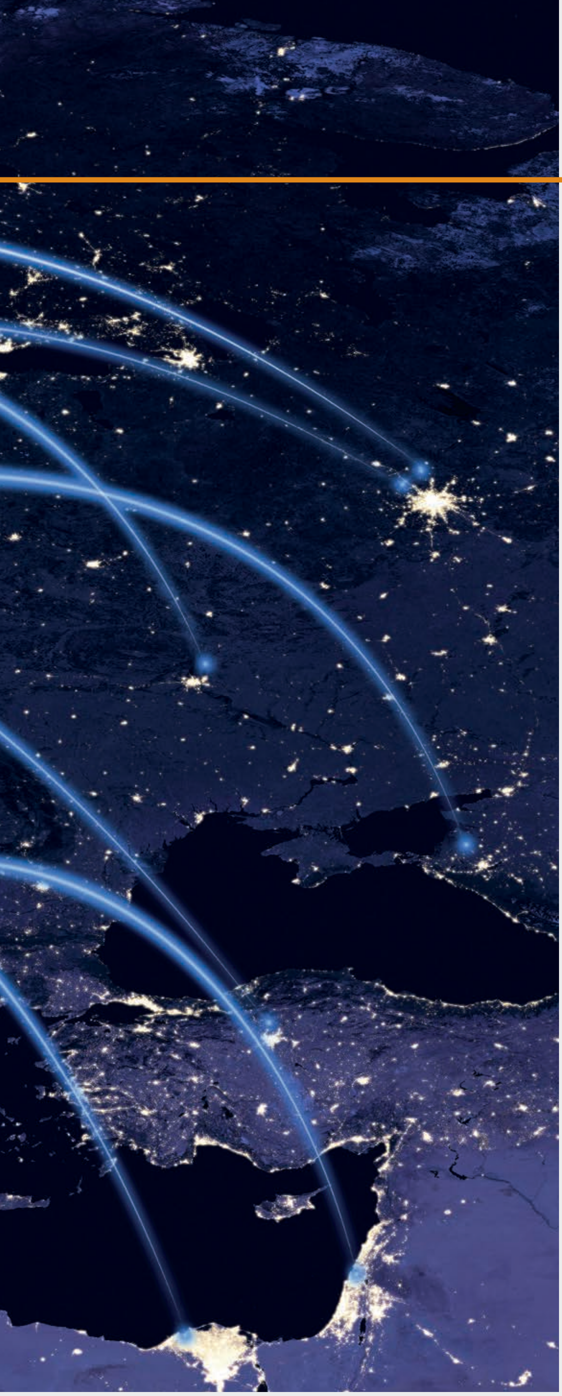
Could Europe benefit from the next stage in tech sector evolution? Jamie Mills O'Brien, Investment Manager at Aberdeen Standard Investments believes it is positioned to do so

Throughout time, human technological progress is often punctuated by periods of intense disruption. Take, for example, the Industrial Revolution. In 1776, the world was transformed by James Watt's invention of the steam engine. Today's revolution is being driven by the exponential growth in computing power. In particular, the increasingly rapid processing of data and the related introduction of multiple new technologies.

Although Europe may still lag behind the US's mega-cap tech winners in the development of consumer platforms, the technology performance gap between FAANGs (Facebook, Amazon, Apple, Netflix and Alphabet (formerly known as

Google)) and their European counterparts is beginning to close. Europe's emergence is intimately tied to the digitisation of manufacturing and the industrial complex. Unlike the industrial internet of the 1990s – and even the mobile internet era of the last decade – this investment will be broad, spanning Artificial Intelligence, industrial sensors, robotics and highly complex factory automation. The causes of this secular shift are powerful. Manufacturing processes are generally continuous and extremely data-intensive. Indeed, the manufacturing sector stores nearly two petabytes of new data each year. That's around twice as much as mobile internet. This aftermarket requires servicing – making the data especially valuable. Further, a number of key technologies (e.g. real-time simulation and automation) are now viable. All this is possible thanks to the emergence of industrial-scale technologies equivalent to the first Industrial Revolution. Welcome to the 'Second Machine Age'.

This revolution is set to grow rapidly. Following two decades of underinvestment, Morgan Stanley predicts



> *The foundations for European leadership have long been in place. Its universities and centres of excellence are among the best in the world. The technology adoption and investment narrative is starting to catch up*

that spending on industrial OEM (original equipment manufacturing) will account for 40% of the c. $1.6 trillion incremental IT investment over the next 10 years. Total manufacturing spending globally will increase 13% as a result.

How Europe benefits

These investments fall into Europe's fields of expertise. For example, in the manufacturing industries, software alone doesn't solve the digitisation equation. Rather, this needs to be paired with deep domain expertise and longstanding customer relationships. It is here that we believe Europe – thanks in part to its rich industrial heritage – has an advantage. The Continent is home to many of the world's major industrial software companies, including SAP, Dassault Systems and Siemens. Another heavyweight to mention is Schneider, the robotics and automation specialist. In core banking, there's Temenos, while Germany's Nemetschek provides building information modelling solutions to architects, engineers and construction firms. The list goes on.

We can also see this transition towards industry as the driver of IT spending in the increasing crossover between capital equipment and software suppliers. Again, Europe is taking the lead in this union of hardware and software. For example, Schneider's acquisition of a stake in software player Aveva demonstrates its intentions in this space. More deals of this nature are likely across the industry.

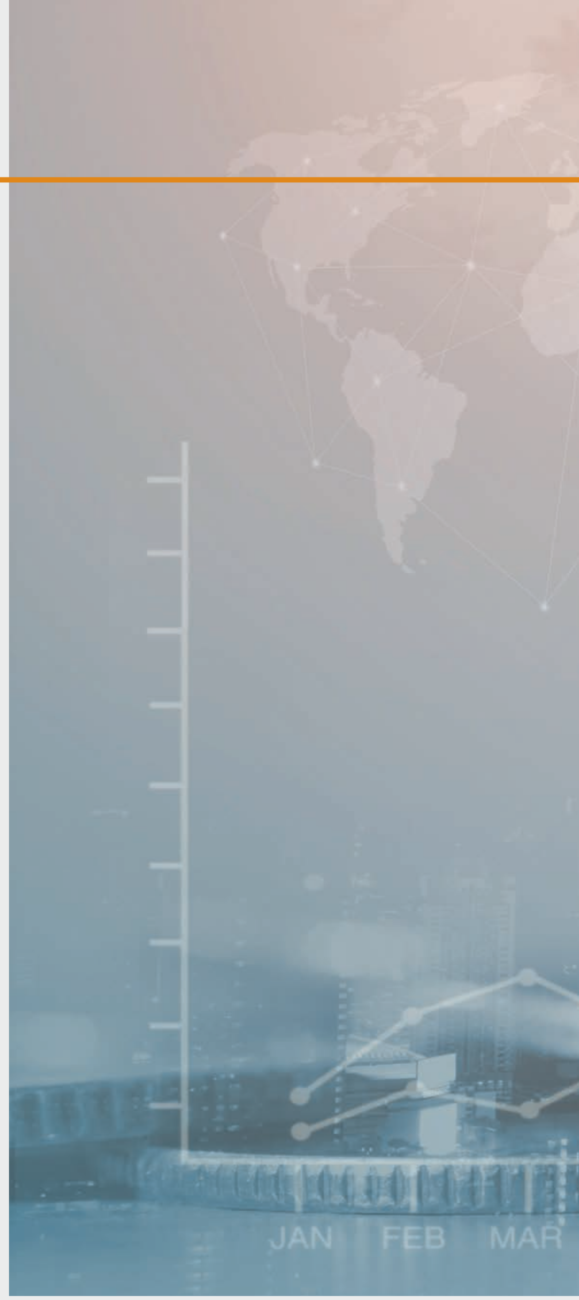
Turning things around

Previously, European markets were difficult to navigate. They were less fluid both in terms of human capital mobility and cross-border/cross-sector innovation. The geographic and political landscapes were complex. There was also a lack of homogeneity, as well as an entrenched industrial heritage. Combined, these were relative disadvantages in an internet age where the digitisation of the consumer trumped all. However, as the manufacturing industries rapidly digitise, these traits become advantages. Now, investors place a premium on a company's understanding of industry-specific complexities and its ability to deliver products to meet specific client needs.

Europe's reputation as an 'old economy' equity market is therefore dramatically being turned on its head. The foundations for European leadership have long been in place. Its universities and centres of excellence are among the best in the world. The technology adoption and investment narrative is starting to catch up. On the markets, over 120 new US$1 billion-plus European tech companies have emerged over the last decade. Since 2016, Europe has produced more tech IPOs (initial public offerings) than the US. Importantly, Europeans are also flocking to join start-ups and new ventures.

Europe's breadth of innovation is surging well beyond these traditional strongholds. Born out of complexity, many companies have transformed into purveyors of globally-leading Business-to-Business (B2B) models in areas such as payments. There are numerous factors supporting this shift. Emerging technology centres in Lisbon, Barcelona and Stockholm are hotbeds of talent. Meanwhile, Europe's different regulatory regimes, alongside myriad payment schemes and customs, are a petri dish for innovative new payment infrastructures and models. Beyond payments, we are also increasingly seeing European companies claim leadership as consumer-facing platforms, for example in online classifieds.

In our view, the pursuit of increasing efficiencies and scope for new revenue streams will continue to drive manufacturers away from traditional assembly-line production and distribution towards data. As a result, we think the technology advantage will increasingly broaden from 'FAANG' disruptors to leaders in industrial digitisation. Here, Europe is in the ascendancy, with numerous high-quality companies operating in areas like industrial software and automation. This, along with the number of businesses helping shape the fast-growing B2B market, creates a wealth of investment opportunities fit for the future.



GLOBAL INCOME

Asia's dividend history has been overshadowed by it's growth story – so don't overlook the region when it comes to dividend recovery, says Darius McDermott, managing director, FundCalibre

While global markets have staged a strong recovery since the pandemic lows in March 2020, global dividends are taking longer to recover. According to Janus Henderson, global pay-outs fell 12.2% in 2020, with one in eight companies cancelling its pay out altogether and one in five making a cut[1].

The UK, Europe and Australia were at the forefront of the reductions, but the area I wanted to look at specifically is Asia and emerging markets – regions which were starting to blossom as a valid alternative for those scouring the globe for income prior to the pandemic.

Dividends returns from Asia Pacific fell almost 12% last year, in line with the global average. Australia was the big contributor to this, with regulators preventing banking dividends being paid. By contrast, Hong Kong and China were among the most resilient globally – with both economies re-opening earlier following the pandemic, limiting damage to company operations. China accounts for 31%* of all emerging market dividends, explaining why dividends only fell 6% in 2020 for that specific asset class.

Three lost points

There are three points I want to make, which have got lost in the past 12 months or so. Firstly, growth in Asia is expected to account for 60% of GDP in 2030[2] – clearly a benefit for those looking for a growing income. Secondly – and perhaps most importantly – numerous attempts are being made by governments across Asia to improve the dividend culture. Korea introducing a penalty tax on excess capital holdings to promote higher dividends in 2014 and the Securities and Exchange Board of India making dividend policies mandatory for the top 500 listed companies in 2016, are two prime examples of this[3].

The third is the most overlooked of all. Did you know that between 1987 and 2018 two-thirds of the long-run equity returns from Asia have historically come from dividends? I was surprised it was that high, but it shows the income story in Asia is nothing new, it has simply been shrouded by the market's focus on share price appreciation[4].

Did you know that between 1987 and 2018 two-thirds of the long-run equity returns from Asia have historically come from dividends? It shows the income story in Asia is nothing new

Jupiter Asian Income manager Jason Pidcock is positive about dividend payments for the coming year – citing the earnings upgrades already seen in the technology, financial and commodities sectors. He says he has been surprised by how many companies have beaten consensus expectations – a good barometer for the remainder of 2021 – where he feels many of the income stocks he looks at will see higher payouts when compared to 2020[5].

However, he is wary of inflation pressure as lockdown eases globally. This is making him think hard about the pricing power of companies in the Asia Pacific region as even companies that can raise their own prices will have to cope with increased input costs.

The importance of active also comes to mind in this environment. I recently read a note from the managers of the Guinness

Asian Equity Income fund, which reflect the uncertainties of the region – such as the uneven vaccine rollout and the lack of clarity about how much life will return to normal in the next 12-24 months. As a result, managers Edmund Harriss and Mark Hammonds say they are targeting "value opportunities rather than seeking to position for a trend which could reverse sharply at any moment", a move which is pushing them towards firms with superior pricing power and strong cash generation[6].

Magna Emerging Markets Dividend manager Ian Simmons says growth outperformed dividends by some 30% in 2020, adding that a return to some sort of normal will significantly boost the prospects for quality, growth compounding businesses in the region, which have been overlooked by the high value growth plays. He say his portfolio is currently trading at less than 15x earnings, despite having a mid-teens earnings growth forecast for the coming three years, adding the return on equity in the portfolio is above 20% with little leverage.

Shift to value

The last point I want to mention is the recent shift to value, and the potential opportunities this may bring to the region – and cyclical sectors within it – should continual central bank support and low interest rates be less influential on the direction of markets.

Asian income funds have had a difficult period on a relative basis, as the market has rewarded those faster growing companies, such as technology, which pay little or no dividends. However, the region is starting to slowly evolve and, as companies mature, they will start to get to a phase where they can return cash to shareholders more freely – meaning more choice.

[1] Source: Janus Henderson Global Dividend Index, edition 29
[2] Source: IMF – World Economic Outlook October 2019
[3] Source: JPM, Merrill Lynch
[4] Schroders – Rate cuts push case for Asian Dividends – August 2019
[5] Source: Jupiter: Notes from the Investment Floor – Taking the 'high' out of high yield – February 2021
[6] Source: Guinness Asian Equity Income fund – Investment Commentary, April 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.

OPPORTUNITIES AHEAD

Rob Murphy, managing director of Financials at Edison Group, examines the trends and opportunities in investment trusts 2021

Despite economic uncertainty in the last year, the structural features of investment trusts/companies ('Trusts') have meant they have been an attractive option for investors. These features include the fact that they are permanent capital vehicles with independent boards, have the ability to smooth dividends through reserves and can employ (modest) gearing to boost returns.

Arguably, these features explain the fact that investment companies have tended to outperform their open-ended counterparts over time. As a result, they should continue to provide investors with excellent opportunities in the year ahead.

Similarly, there are a number of themes which have grown in prominence in recent years which will continue to drive interest into Trusts long into 2021. These include the rapid rise of alternative strategies owning less-liquid assets as diverse as economic and social infrastructure, renewable energy projects, music royalties, digital

infrastructure, venture capital, private equity and debt. Many of these investment themes reflect investors' desire to generate attractive income and returns in a low interest rate environment and are often strongly aligned with an ESG-focused approach to investing. As for much of the investment industry, fees have also been declining through the benefits of competition and scale.

Structural features and dividend growth

Notably, Trusts are permanent capital vehicles or 'closed-ended', meaning that the capital raised is permanent and stays in the fund, with shares trading in the market to provide liquidity. This means that even in distressed periods when some investors might panic and sell their shares, investment trust managers do not have to sell underlying assets at unfavourable prices to meet investor redemptions.

This feature provides investors with the opportunity to invest in traditional liquid investments like UK or global equities as well as illiquid assets that investors can't access easily through investment vehicles like ETFs or unit trusts. Such less-liquid assets include growth areas like economic and social infrastructure, renewable energy, music royalties, digital infrastructure and private equity.

Trusts also come with their own independent board of directors. This means they have a legal obligation to safeguard shareholders' interests. Additionally, by buying shares in an investment trust, and therefore becoming a company shareholder, investors can vote on issues such as the appointment of directors or changes to the

There are a number of themes which have grown in prominence in recent years which will continue to drive interest into Trusts long into 2021

investment policy. Clearly, this provides investors with an opportunity to access these vehicles without the concern of excessive fee taking. Further attractive elements include the robustness of dividends paid by investment trusts. Trusts can retain up to 15% of their income in any year. This can provide extra income in the future and help make their payments consistent.

This has been seen recently with 11 trusts increasing their dividends for more than 45 consecutive years: City of London, Bankers, Alliance Trust, Caledonia Investments, BMO Global Smaller Cos, F&C, Brunner, JP Morgan Claverhouse, Murray Income, Scottish American, and Witan. Research by platform Interactive Investor found just 20% of trusts have cut or suspended dividends in 2020 – a period in which around half of all UK companies have cut pay-outs. This strong history of robust and regular dividend payments being much less impacted by the pandemic means investors can have more confidence in receiving a steady stream of income.

Outperforming their peers and reduced fees

When it comes to short-term performance compared to open-ended funds, investment trust share prices are more volatile than open-ended fund NAVs as the share price can diverge from the underlying NAV. This can make Trusts feel more risky to hold during periods of market volatility in the short-term, but over the longer-term share prices follow NAVs and if the portfolio performs well the shares will perform well. Moreover, in the event of a sell-off, an excessive discount can offer a compelling opportunity to acquire shares significantly below fair value.

Research by Interactive Investor and others has shown that Trusts outperform their open-ended counterparts such as ETFs over 10 and 20-year periods. This is mainly a result of the attractive investment trust structure.

Managers of Trusts do not need to sell assets at fire sale prices during market downturns when open-ended managers may receive a deluge of redemptions. The hidden costs during normal market conditions of constant ongoing subscriptions and redemptions in the form of dealing charges and market impact are never explicitly quantified in open-ended funds but are nevertheless real. Boards have acted in shareholders' interests and changed manager where performance has not been as expected or merged with other trusts. The ability to gear performance in Trusts also has a beneficial impact over the long-term, provided the underlying investments are sound.

Despite the superior net performance there has been continued downward pressure on fees for Trusts, as with the broader asset management industry. The increasing scale and competition in the industry means that fees will be a constant point of battle between Trusts which are actively managed and passive funds long into the future. However, fees should never be the primary decision variable in choosing an investment as it is the net return over the long-term which matters.

The rise of ESG investing

Demand for investment products with strong ESG elements has been a growing trend over the last decade, with the pandemic highlighting investors' focus on the theme. This has been one of the fastest growing areas for Trusts in recent years and we expect this growth to continue into 2021.

Like the open-ended fund sector there has been a rise in specialist Trusts which have an ESG lens. These include renewable energy companies like Foresight Solar Fund, Greencoat UK Wind, Gresham House Energy Storage, JLEN Environmental Assets, PremierMiton Global Renewables and US Solar Fund.

Others with a slightly different focus include Impax Environmental Markets, which invests in a range of mostly listed companies with significant exposure to sustainable activities and SDCL Energy Efficiency Income, which focuses on assets that improve the efficiency of energy usage. Given the huge amount of capital required to build out many of these industries we expect continued growth in the sector in coming years.

A resilient option for investors

Overall, with the structural benefits Trusts offer, their outperformance compared to open-ended peers and access to ESG compliant strategies, the sector is well-positioned to provide investors with attractive income and growth from an increasingly diverse set of investment opportunities.

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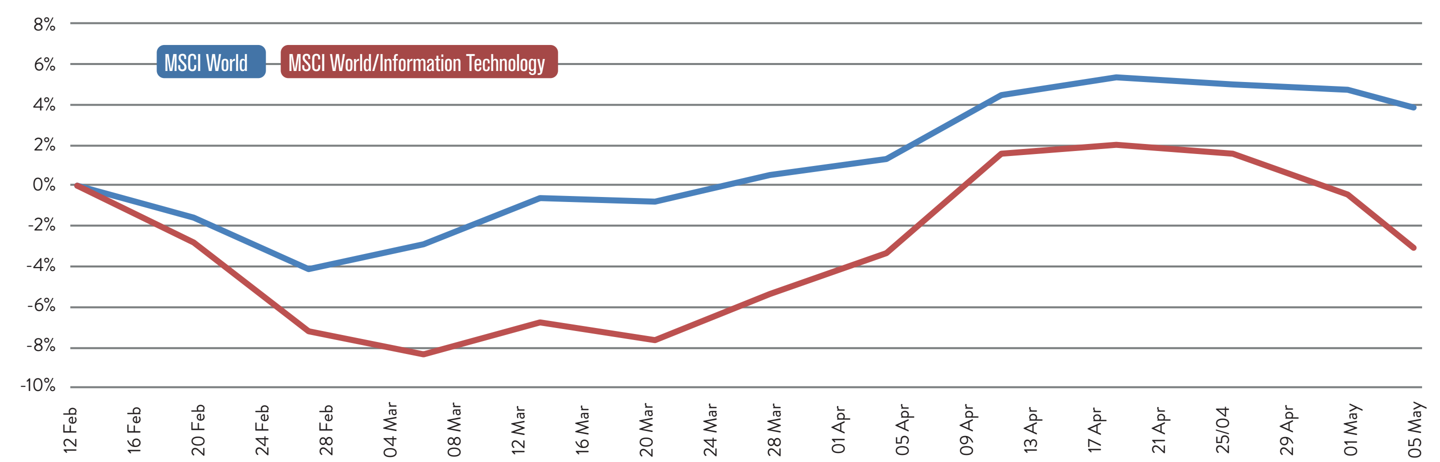
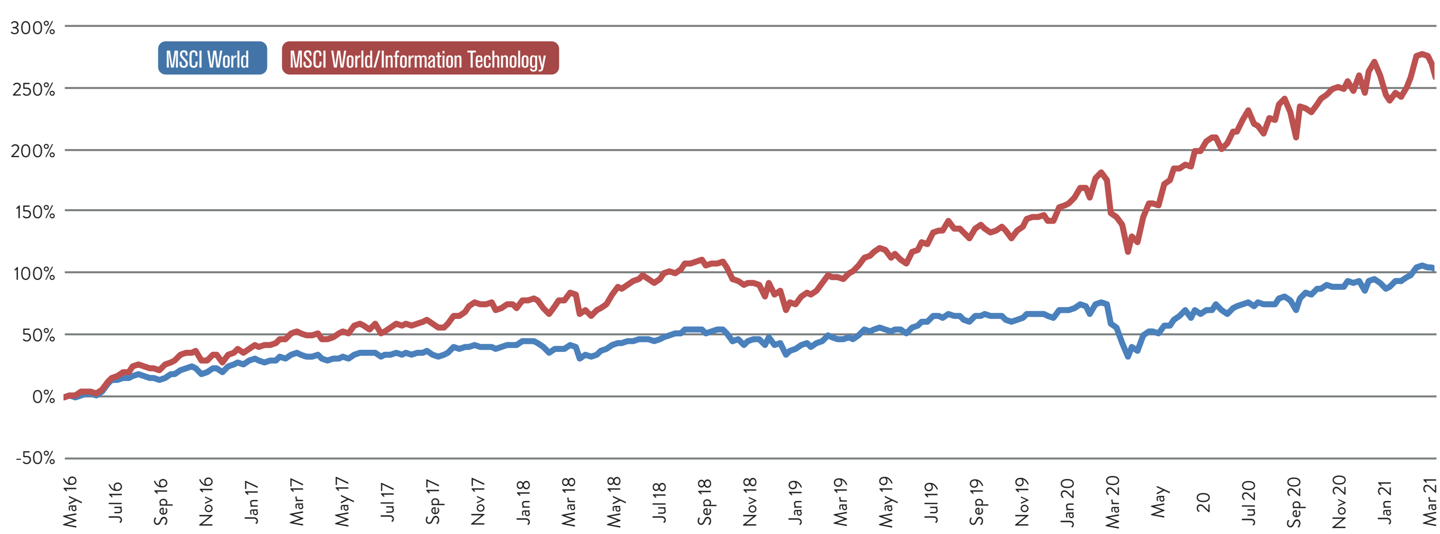
SECTOR CONSIDERATIONS: TECHNOLOGY

1. Global Equities vs Tech last quarter performance



2. Global Equities vs Tech 5-year index performance



Fund Calibre comment: Is big tech one of the most overlooked investment opportunities at the moment? Having seen exceptional returns in the past quarter we would say so given the share prices of these companies have fallen slightly in recent months (see first chart).

The perception is that technology is super expensive (see second chart) – we'd argue technology could almost be the new value, because the multiples are now trading in line with the market (which we think is very reasonable) and are beating the analysts' estimates comfortably. If that continues – even to a lesser extent – we think these stocks look very attractive.

This is no 1999 tech bubble repeat – these large firms are making huge amounts of money. The wider tech sector did see a peak in terms of frothiness in February 2021, when there was lots of praise for the SPAC (special purpose acquisition companies) and excitement for start-ups in the likes of the electric vehicles space.

That's all had a very healthy correction, but the big tech behemoths have also been dragged down, despite having exceptional returns. Take Google (Alphabet) for example. It beat the average analyst estimates by an astounding 68% – while their net income was up over 160% year-on-year – but it is still trading on a PE which is almost in line with the market.

It tells us these tech beasts were affected by the pandemic and are also recovering. Remember Apple had to close all their retail stores and Google gets a huge amount of its revenue from travel related searches. The structural growth for these companies was so strong that we didn't notice the recovery potential until the recent upswing in earnings.

CONTINUING PROFESSIONAL DEVELOPMENT VERIFICATION TEST

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

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

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

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

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

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

Professional Paraplanner CPD questions for Structured CPD verification

Viewpoint (p7)

What does the writer believe defining wealth means for paraplanners?

Business (p8)

Name one pro and one con for becoming an outsourced paraplanner:

Pro.

Con.

Suitability Tech (p11)

What was one of the discussions points of the FCA's DP21/1 consultation paper?

Lifetime Allowance Protection (p12)

LTA protection is open for:

- ☐ 2014 only
- ☐ 2016 only
- ☐ 2014 and 2016

Lifetime Allowance Protection (p12)

How is Enhanced Protection different from other types of LTA protection?

Residence Nil Rate Band (p16)

The RNRB is set at £175,000 per person until at least:

- ☐ 2023/24
- ☐ 2024/25
- ☐ 2025/26
- ☐ 2026/27

Residence Nil Rate Band (p16)

The definition of 'direct descendants' excludes fostered children:

- ☐ True
- ☐ False

Residence Nil Rate Band (p16)

Brought-forward RNRB does not apply to co-habiting couples:

- ☐ True
- ☐ False

Markets (p24)

Globally, dividend payouts in 2020 fell by:

- ☐ 6.7%
- ☐ 8.9%
- ☐ 12.2%
- ☐ 20.1%

Investment trusts (p26)

Name two structural features of investment trusts:

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 30 April 2021, provided by FE Fundinfo

BEST RATED FUNDS

IA

Fund	3 year Cumulative Performance	FE Fundinfo Alpha Manager Rated	FE Fundinfo Crown Fund Rating
Baillie Gifford American	198.56	✓	5
Morgan Stanley US Growth	164.1	✓	5
Baillie Gifford Long Term Global Growth Investment	152.79	✓	5
Baillie Gifford Global Discovery	121.11	✓	5
Morgan Stanley US Advantage	120.42	✓	5

AIC

Fund	3 year Cumulative Performance	FE Fundinfo Alpha Manager Rated	FE Fundinfo Crown Fund Rating
Baillie Gifford Scottish Mortgage	169.57	✓	5
Baillie Gifford Pacific Horizon	132.62	✓	5
Baillie Gifford Edinburgh Worldwide	128.32	✓	5
BlackRock Greater Europe	88.82	✓	5
Baillie Gifford China Growth Trust	59.82	✓	5

BEST PERFORMING FUNDS IN TERMS OF RISK VS RETURN

IA

Fund	3 year Cumulative Performance	FE Fundinfo Crown Fund Rating
Baillie Gifford American	198.56	152
VT Garraway Absolute Equity	177.67	760
Morgan Stanley US Growth	164.1	160
Baillie Gifford Long Term Global Growth Investment	152.79	121
Multipartner SICAV Baron Global Advantage Equity	152.1	125

AIC

Fund	3 year Cumulative Performance	FE Fundinfo Crown Fund Rating
Starvest	768.54	349
Agronomics Limited	602.44	379
Baillie Gifford US Growth Trust	219.32	189
Pershing Square Holdings	203.51	94
Seneca Growth Capital VCT	183.31	300

RISKIEST SECTORS

IA

Sector	3 year Cumulative Performance	FE Fundinfo Crown Fund Rating
North American Smaller Companies	65.68	107
Japanese Smaller Companies	15.67	96
UK All Companies	12.56	94
UK Equity Income	6.11	94
UK Smaller Companies	35.26	92

AIC

Sector	3 year Cumulative Performance	FE Fundinfo Crown Fund Rating
VCT Specialist: Media, Leisure&Events	-4.81	153
North American Smaller Companies	60.12	143
China/Greater China	99.81	139
Infrastructure Securities	113.6	139
Latin America	-6.48	131

OUTFLOWS

Fund name	Size 1y ago (£m)	Size now (£m)	Performance Effect on Size (£m)	Out (£m)
Liontrust Japan Equity	35,236.98	30,752.26	8,306.18	-12,790.90
State Street UK Scrnd Idx Eq	7,084.42	164.19	-797.60	-6,122.62
Invesco Global Targeted Returns (UK)	9,095.51	5,649.96	-276.70	-3,168.85
BNY Mellon Global Income	5,234.63	3,493.34	173.94	-1,915.23
State Street Europe ex UK Scrnd Idx Eq	4,526.53	3,514.14	574.41	-1,586.80

INFLOWS

Fund name	Size 1y ago (£m)	Size now (£m)	Performance Effect on Size (£m)	In (£m)
BlackRock ACS US Equity Tracker	4,396.75	15,287.99	1,639.85	9,251.38
BlackRock ACS UK Equity Tracker	6,340.55	11,932.49	1,211.05	4,380.90
BlackRock ACS Climate Trans Wld Eq	251.07	2,798.11	43.53	2,503.51
iShares Gbl Property Secs Eq Idx (UK)	2,820.98	5,182.08	26.76	2,334.34
BlackRock ACS World ESG Eq Tracker	710.49	3,495.53	539.31	2,245.73

FE fundinfo

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
103.69

North America Smaller Companies
65.68

North America
59.36

Global
44.25

China/Greater China
43.14

AIC

Infrastructure Securities
113.6

China/Greater China
99.81

Technology & Media
89.04

Environmental
66.74

IT North America
66.7

MOST RESEARCHED

IA		AIC	
1	Global	1	Global
2	UK All Companies	2	UK Equity Income
3	North America	3	Flexible Investment
4	Unclassified	4	UK Smaller Companies
5	Mixed Investment 40-85% Shares	5	Global Emerging Markets

MOST VIEWED FACTSHEETS

IA		AIC	
1	Vanguard LifeStrategy 60% Equity	1	Baillie Gifford Scottish Mortgage
2	Fundsmith Equity	2	Fundsmith Smithson Investment Trust
3	Baillie Gifford Managed	3	Baillie Gifford Monks Investment Trust
4	Vanguard LifeStrategy 40% Equity	4	Baillie Gifford Edinburgh Worldwide
5	Royal London Sustainable Diversified Trust	5	Frostrow Capital Finsbury Growth & Income

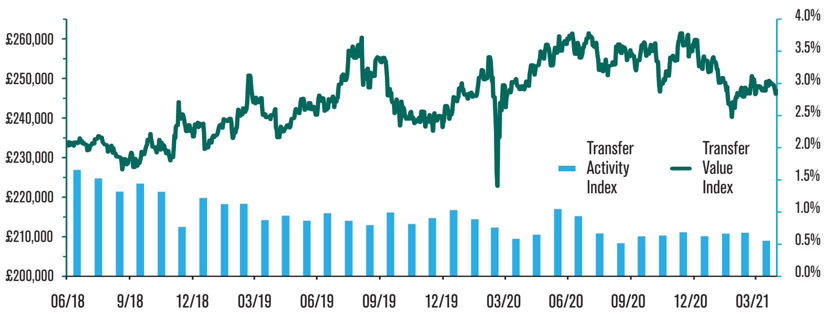
MOST CHARTED

IA		AIC	
1	Vanguard LifeStrategy 60% Equity	1	Baillie Gifford Scottish Mortgage
2	Vanguard LifeStrategy 80% Equity	2	Baillie Gifford Edinburgh Worldwide
3	Vanguard LifeStrategy 40% Equity	3	Polar Capital Technology Trust
2	Fundsmith Equity	4	Fundsmith Smithson Investment Trust
5	Vanguard LifeStrategy 100% Equity	5	Allianz Technology Trust

PENSION TRANSFER VALUE INDEX

XPS TRANSFER VALUE WATCH: MAY 2021

XPS comments: XPS Transfer Watch's Transfer Activity Index fell to the lowest level since September last year, dropping by almost a quarter to a rate of 55 in every 10,000 members transferring per year. The XPS Red Flag Index identified at least one warning sign of a potential scam or the potential for poor member outcomes in 59% of transfers processed in April, up from 52% in March. The Transfer Value Index remained largely unchanged over the month as financial markets remained stable. On the 7 May, the Financial Conduct Authority (FCA) announced its intention to continue scrutinising financial advice on pensions transfers. The FCA has extended its fourth thematic review into the quality of DB transfer advisory firms for at least another year, until Spring 2022.



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

Professional Paraplanner 2021

Live events

We hope to be restarting our highly popular Technical Insight Seminar series and Team Leader Seminars in the Autumn. Keep an eye on our daily email alerts for announcements on dates and venues.

Investment Committee Webinars

For paraplanners involved in investment research and recommendation, our Investment Committee Webinars provide valuable insight, including presentations and Q&As from some of the leading investment managers and research experts in the industry. Find out more under the Events tab on the Professional Paraplanner website.

Technical Insight Webinars

During the pandemic we have developed our Technical Insight Webinar series covering areas such as tax, pensions, personal development and training. This summer we will be introducing some new names to our line up. Find out more under the Events tab on the Professional Paraplanner website.

Technical, Development and Qualification features

Want to deep dive into areas such as the Lifetime Allowance, pension transfers, BPR, SIPP & SSAS, pension death benefits, as well as exam preparation and our regular Test Your Knowledge Q&As? You can find all these and more within the Professional Paraplanner monthly magazine and under the Development Tab on our website.

Professional Paraplanner Magazine

In our monthly magazine you'll find a range of paraplanner focussed articles, including paraplanner profiles, paraplanner viewpoints, technical articles on tax and pensions, personal development insight, exam and study guidance, and a dedicated Investment Committee section, covering research and investment issues. The magazine is available in hard copy and digital format.

Professional Paraplanner Awards 2021

Paraplanner nominations are in; the judging process has begun. Find out more in the next issue of the Professional Paraplanner magazine and on our website.

Professional Paraplanner Awards 2021

PLUS

NEW WEBSITE coming soon

We're excited to announce that in the summer Professional Paraplanner will be launching a new website, including an ESG Academy, dedicated to ESG research and investment. Keep an eye on our daily email alerts for further news.