Professional Paraplanner

The magazine for paraplanners and financial technicians
September 2021

Rising profile

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MARKET DISRUPTION

As we head into autumn, some semblance of normality is appearing after the past 17 months. Offices have or are opening up in greater numbers but with the expectation that management will allow greater flexibility around home/office working. Our current Parameters survey is ascertaining from the paraplanning community just how flexible financial planning firms are being in this regard. In our recent *Paraplanning in a Pandemic* report on the paraplanning market, just 7% of you believed you will work from the office full time from now on. We'll be publishing the results of this latest survey on the *Professional Paraplanner* website shortly.

If there is a silver lining to the pandemic which we can take forward it is that more people appear to have begun to seriously consider their financial situation and financial planning firms have seen increases in client numbers as a result.

In our recent research, 86% of paraplanners said their firm's client numbers had increased and 88% of paraplanners said their workload had increased over the two years since our last major survey.

All outsourced firms I've spoken with recently say interest has increased massively and most have or are looking to take on either freelance help or permanent staff.

Paraplanner salary levels have continued to rise in line with this increased demand for paraplanning services, in-house and outsourced. The question being asked is whether this upward trend is sustainable? There is no doubt that paraplanners are a highly valued asset for businesses but some would argue that salary levels are now stretched too far. As with discussions around what constitutes the paraplanner role, ultimately the market will decide.

Robo-paraplanning

What we are likely to see now, and this was reflected in our recent report as a disruptor, is businesses looking at how they can employ technology to deliver at least part of the paraplanning process. There have been significant leaps forward in what software can deliver, particularly when AI powered, in taking information from fact finds and using tracked and mapped processes from the individual advice firm to put forward a plan and produce a suitability report. Also, we need only look at some of the market movements over the past five months or so, including Vanguard entering the digital advice market, JP Morgan buying Nutmeg and abrdn acquiring Exo Investing, i.e. big players with deep pockets entering the digital space, to see that the market believes digital offerings now have the legs to carry them forward. The same is happening in the back-office space.

Speaking with Nick Eatock, intelliflo's CEO, for this issue, he pointed out that AI needs considerable amounts of data to make informed decisions. But where that data is available, the capabilities and benefits for businesses can be substantial, particularly in respect of Management Information and how that can be used to drive businesses forward.

While not anticipating the full-on robo-paraplanner – it is worth considering where in your business paraplanning technology could be deployed to make your jobs easier.

These changes and disruptors to the pre-pandemic working environment are topics we will pick up on in future issues.

Rob Kingsbury,
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WEBINARS

Keep your eyes on the *Professional Paraplanner* website and our daily emails for news of our upcoming Technical Insight and Investment Committee webinars.

R06 FINANCIAL PLANNING PRACTICE

Date: 6 September
Time: 12.30pm

Presented by Luiza Todd of Bespoke Training Solutions, this webinar is a 'must attend' for any paraplanner that is either sitting September's exam, or those that wish to learn more about the exam itself for a future sitting.

INVESTMENT COMMITTEE WEBINAR
THE RETURN OF ACTIVE MANAGEMENT IN 2021

Date: 7 September, 2021
Time: 10:30am

We are delighted to welcome back Scott Spencer from BMO GAM, one of the 10-strong Multi-Manager team. In this session he will look at: The rise of passive; Why 2021 could be the return of active; What to look for in an active manager; ESG and active.

In this issue...

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RO FOCUS

Continuing her series of articles on R0 exams for Professional Paraplanner, this issue Bespoke Training Solutions' Luiza Todd examines what can make the R01 Financial services, regulation and ethics unit a tricky one to tackle

R01 is the first R0 unit that many students attempt and is sometimes a pre-requirement of the company / academy the individual is looking to join. The R01 Financial services, regulation and ethics unit is a tricky one – you just have to look at countrywide pass rates to see this. And these statistics do not tell you whether the sitting was the candidate's first sitting or a resit.

Year	CII National Pass Rates
2020	69%
2019	64%
2018	64%

Why such low pass rates?

R01 pass rates are low due to several reasons. Firstly, the subject matter can politely be described as a bit dull! There is a limit to the excitement and enthusiasm that can be generated in relation to regulator rules, the FCA handbook and the like. It's easy to see why candidates might read a section of an R01 guide and find nothing has gone in.

Many candidates start their study of the R01 using the examining body's study text which is a technical manual covering the regulation, legislation, and ethical requirements for the sector. This can be heavy going, especially for those candidates studying alone, as many do with R01. Learners need to find the subject matter they are trying to learn interesting otherwise retaining it will be a real challenge.

It is possible to book the exam stand-alone or 'assessment only' on the CII website. Candidates can then choose study materials from other training providers, that may better suit how they like to learn and help you to pass the R01 exam.

Indeed, one of the biggest factors behind these low pass rates is the fact that many practice questions, including the examining body's own, are far easier than the exam ones. A candidate can be scoring 80-90% in these practice tests only to find in the actual exam the questions are a lot harder.

R01 question style

These are tricky to say the least. The first few questions in the exam will be extra horrid. It's like a ruse to put you off. Many an individual will sit there thinking they are in the wrong exam!

Questions tend to be wordy in style – less is certainly not more in the opinion of the examining body. It is common to have tables and calendars in a question stem. These will not be the one-line question stems you see in so many practice questions for sale out in the market.

There is also often no perfect answer. Sometimes there are two answers that could be correct, and with a CII hat on the candidate must select the best one.

It's not always easy to understand what the question is asking (we know that sounds a bit odd). The exam question wording can be very tricky to decipher and understand what is required as an answer. The examining body has a unique use of the English language.

Composition of the exam

The R01 exam is a level 4 unit worth 20 credits. The exam is two hours long and there are 100 questions to answer. 87 of these questions will be standard multi-choice, the other 13 are multi-response where at least two or more of the answers on offer are correct.

The CII syllabus document shows you how many questions relate to each learning outcome. The real standout biggie in terms of question weightings is learning outcome 5 – there are 29 questions based on the subject within this outcome in the actual exam. And funnily enough this learning outcome is all about regulation!

BTS top tips

Avoid answers that are too definitive – words such as 'always' or 'never' are not usually associated with the correct answer. Financial services are filled with shades of grey (surprisingly) so anything too definitive is to be avoided.

When answering multi-response questions, getting rid of the answers that are obviously wrong will usually leave two possibly correct answers. A one in two choice is always a better statistical bet than one in four.

Only go back to questions you have flagged as not being 100% sure on, not the entire exam. It's very easy on a second look to talk yourself out of the correct answer you initially put down. If you have studied hard, used lots of questions to practice on, then trust your gut instinct, and don't go changing it!

About Bespoke Training Solutions

Bespoke Training Solutions (BTS) have been supporting regulated exams for 17 years, specialising in R0 support with outstanding candidate tracked results and feedback. Resources include digital and printed study guides, group and 1:1 training, e-Learning modules and a mobile app of practice exam questions. Visit www.bespoketrainingsolutions.com to learn more on how BTS can help you on your regulated journey.

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SUITABILITY LETTERS

Helena Wardle, Partner & Chartered Financial Planner at Smith & Wardle, gives an adviser's view on suitability reports and how they can bring the focus on clients to life

Despite sterling efforts in some parts of the industry, and paraplanners feature highly here, and some clear guidance from the Regulator, as an industry it seems to me the real purpose of the suitability letters has been lost, as more often than not they have become a compliance tick box exercise, a document to cover firms' backsides from FOS and something the regulator tells us we have to do. All of these reasons have a begrudging feel to them which in this day and age is, quite frankly, depressing.

Also, I believe that great advice can get hidden in overcomplicated suitability letters – some cynics may add, bad advice can be hidden too. But I think we can flip this on its head and start making suitability letters genuinely client focused across the board.

'Compliance says'

At times compliance is overruling the hugely important soft stuff that is needed to help demonstrate and create trust with clients. The area where I feel this is most relevant is in suitability letters.

I don't believe this is on purpose but I think that as an industry we misinterpret requirements and at times feel that we need to justify ourselves to prove we have done the right thing.

Past complaint rulings by FOS can also add to hangover statements being added to letters to cover off a point that was missed off or not covered well enough in the past. Multiple times we have been told by the regulator that suitability letters are unclear, too long, complex and need to be more personalised. The guidance on this has been around since 2011 and if you read the findings you can see some of those points crop up again 10 years later. The Regulator's guidance on 'Assessing Suitability' is not rocket science and some might say it's not very prescriptive, but I think that's the point.

If we focus on the principles that the Regulator is trying to enforce, 'client's best interest' and 'treating customers fairly', we are effectively asking our compliance teams to help us enforce these principles. It's very subjective and can often get looked at from the 'adviser' and 'compliance' points of view. What about the client?

While we can argue that we are heavily regulated, I also think there is a huge amount of self-regulation required and this is the area on which I want to focus.

Let's try to look at this from a client's point of view. How do you prove that you are doing the right thing when no one other than your client is watching?

You will not have every case checked and for the most part clients do not always read suitability letters because they are long and dull. So how do we prove that our advice is suitable for our clients in the document labelled 'Suitability letter'? How do we make this document more engaging and relevant? How do we help an outsider to the process read the story of the advice we gave to the client?

We need to factor in that it is not just FOS or compliance teams that need to understand our advice. Family members might one day, or even at the time of advice, read our suitability letters. Do we reflect our client's story well enough to convince them that we properly advised their loved ones who they know so well?

I don't know of any research that has specifically asked for a client's views of Suitability letters, so I have used research by the consumer website Boring Money entitled '*Financial communications are broken*' (see reference). If you replace the words 'fund factsheet' with the word 'Suitability letter' I wouldn't be surprised if the outcome is the same. If you want to create a truly client focused

business, I would recommend following what they are doing as they have a habit of asking consumers the right questions. Here's some consumer comments from the study:

"I read the document and I wanted to cry. There is so much jargon and I understand very little of it." [Female, 41-50]

"How many people read all the factsheets when they are so long? Can they not present the information in a better, more concise way?" [Female, 41-50]

"Far too verbose, repeated data, too many words. I guess many people would never read it all. Perhaps that is the point." [Male, 61-70]

"They are constantly under estimating the need for clarity. I have been investing for more than 20 years and the documents contain words or phrases which left me baffled." [Male, 65-74]

"It doesn't feel like a company I would want to invest in as they can't even speak my language – plain English! It makes me feel I am being excluded." [Female, 41-50]

If they think that fund factsheets are long, what do clients think about Suitability letters? The study found that the main barriers to understanding were:

- Jargon
- Too many words
- Hard to find information
- Missing information

Do you see why I feel great advice can be lost in suitability letters? We create really formal documents that don't make any sense to arguably the most important person in the process.

How do we improve?

So, how do we improve this experience for clients? We need to build more trust in the industry and a key part of this is how we communicate to our clients. We need to be more transparent with clients and I don't see how we can achieve this through long, complex suitability letters filled with technical jargon.

If we instead write the suitability letters in a simpler format, using plain English and by using visual aids in addition to written text, clients will have a better understanding of what our advice is.

We need to highlight key messages such as risk and charges and document the discussions we had with clients, not skim over them. By being transparent about it they will not be put off – it will help clients trust us more!

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We also need to make it easier for clients to take in our advice without overloading them. We all know when our own attention is waning, particularly on subjects outside our normal scope or that we find dull and boring. We need to find a way to make the content in our suitability letters interesting for clients. The easiest way to do this is to truly personalise the information to them and reduce the amount of written text. Why say in a paragraph what you can show in a single image.

What are the rules?

I have taken some extracts from the FSA (yes this is correct, it's that old!) Finalised Guidance on Assessing Suitability (July 2012). I recommend reading this and you may be surprised that we are nine years on:

"The Conduct of Business sourcebook (COBS) 9.2.1R requires a firm to take reasonable steps to ensure that a personal recommendation, or decision to trade, is suitable for its customer. COBS 9.2.2R requires firms, among other things, to take account of a customer's preferences regarding risk taking, their risk profile and ensure they are able financially to bear any related investment risks consistent with their investment objectives. We use the expression 'the risk a customer is willing and able to take' in this report as a shorthand description of these elements of COBS 9.2.2.R.

Our requirements – assessing suitability

3.2 A firm must take reasonable steps to ensure that a personal recommendation, or decision to trade, is suitable for its customer.

3.3 As part of this, firms must obtain from the customer such information as is necessary to understand the essential facts about them and have a reasonable basis for believing, giving due consideration to the nature and extent of the service provided, that the specific transaction to be recommended, or entered into in the course of managing:

- meets the customer's investment objectives;
- is such that the customer is able financially to bear any related investment risks consistent with their investment objectives; and
- is such that the customer has the necessary experience and knowledge in order to understand the risks involved in the transaction or in the management of their portfolio.

3.4 Information regarding the investment objectives of a customer must include, where relevant, information on the length of time for which they wish to hold the investment, their preferences regarding risk taking, their risk profile, and the purposes of the investment.

3.5 Failure to obtain all the relevant information or evaluate it properly can lead to the recommended transaction or decision to trade being unsuitable for the customer. Overall, firms must ensure that they are acting honestly, fairly and professionally in accordance with the best interests of the customer and treat customers fairly."

Like I said it's not rocket science.

Top tips for better suitability letters

Helena has produced a suggested list of key ways to reduce suitability letter complexity. You can find it on the *Professional Paraplanner* website.

RISING PROFILE

Sasha Wakefield, PFS Paraplanner Panel member, talks about the advancement of paraplanning within the industry and taking on her new role as paraplanning manager at the Paraplanning Hub

"Oh, you are just a paraplanner?!" (**sigh**)

This was one of the conversations I remember from a study day in 2019 for one of my CII Chartered exams. For some reason this comment really stuck with me, I was clearly oblivious in noticing the financial advice hierarchy that seemed to be in place having been paraplanning for under 12 months.

It got me thinking why shouldn't I strive to enhance my technical ability? What's wrong with wanting to be a career paraplanner? If I am deemed a 'Chartered Financial Planner' from my examinations, but I am just a paraplanner then does it mean I am less deserving of the title? To be honest it struck a chord with me and made me feel more passionate about paraplanning than ever, it certainly gave me a kick to attain Fellow of the PFS from zero exams to Fellow in 2.5 years and grab as much exposure as I could in the workplace.

For me it's clear that the process of financial advice is very different to how it was 10 years ago, even five years ago. With the impact of ever-changing regulations and tighter compliance, it's impossible for the adviser to carry the entire load. Financial advice is much more than investment returns now, it's an ongoing process of guiding a client through various life stages. Understanding the client's outlook on life and ever-changing objectives is more and more important.

I may have been watching way too much *Grey's Anatomy* during lockdown, but I feel that the financial advice process is similar to the human brain (stay with me here guys!): Advisers are the right side of the brain that focuses on the creative, emotional intelligence and communication aspect of the advice process. Advisers need the time to delve into the client's needs and objectives through good quality conversations and have the holistic thinking to develop a client's recommendation.

Us paraplanners are the left side of the brain that focuses on the analytical and compliance aspect of the advice process. Like a sponge we take in all the hard and soft facts, hold onto those small details, spend time delving into the technical characteristics of the recommendations and then put them together to understand the whole picture. Our analytical outlook can help the adviser to assess the client's situation from a different perspective and we can even provide little nuggets of technical knowledge along the way.

Given what appears to be the natural skill set of a paraplanner and an adviser, it makes perfect sense to me to work both sides of the brain cohesively to give the client the best advice outcome

Given what appears to be the natural skill set of a paraplanner and an adviser, it makes perfect sense to me to work both sides of the brain cohesively to give the client the best advice outcome.

Evolution of the paraplanner

Usually us paraplanners are known for being relatively reserved individuals and

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whilst I have never known a paraplanner not to jump through hoops to help with a technical query, paraplanners are not known for shouting out about themselves. Despite our somewhat usual reservations, over the last year I have noticed more paraplanners are more willing to celebrate our profession outside of our close-knit community – myself included – by taking part in a webinar for the Paraplanner Club and a Podcast for the Financial Planner Life Podcast.

Although my paraplanning career spans a mere three years, I have already seen a vast increase in the view that paraplanning is a career/profession of it's own, as well as the development of more roles within paraplanning such as paraplanning managers, hybrid adviser/paraplanners and outsourced paraplanners.

It's great to start seeing the advancement of the profession and believe these additional roles, alongside traditional in-house paraplanning, will encourage more individuals to come into paraplanning, as it will give those a further avenue to develop their skill set whilst still being able to keep their foot in the paraplanning world.

The great thing is at whatever stage of your paraplanning career there is so much support available, including the PFS Panel (of which I am a panel member), the Paraplanner Club (of which I have a mentor as external support for my new leadership role), NextGen Planners and the Paraplanners Assembly.

My new role

I had been following Tony Slimmings at the Paraplanning Hub for a while on social media and immediately noticed his passion for celebrating all things paraplanning. It was after an initial conversation with Tony that I felt that the culture at the Hub would be a great fit for me. From the firm offering flexibility in terms of both remote working and hours, it also has a desire to support and encourage individuals who want to be career paraplanners.

Having only been in my new role a few weeks, I am excited to continue in paraplanning but also having the opportunity to lead and mentor other talented paraplanners. I am somewhat a creature of technical comfort (love a tax calculation me!), but I like to be challenged and I feel that my new role will provide me with both.

Having limited leadership experience, I knew before I started that being a paraplanning manager isn't the same as a typical manager in other roles. As a paraplanning manager I need to put my money where my mouth is, technically speaking, by knowing how to do the paraplanning role itself as well as passing on my knowledge. I appreciate that to succeed as a team I need to accept that I won't know every answer, which works perfectly as I want my team to have the space and confidence to share their knowledge between us all.

I hope to add value to each of my team members, whether it be by helping them develop their technical ability or mentoring them through their exams and it's already a given that they will help me grow to be a better paraplanner and leader. I am excited to get stuck in over the coming year and see how my team and the Hub grow.

MARKETING – NOT A DIRTY WORD

Paraplanners are as involved in marketing their firm as their sales and marketing teams, says Michelle Hoskin, managing director, Standards International

Marketing, brand, vision, positioning, targets, sales, referrals, communications, strategy… the list of marketing buzzwords goes on and on. I don't consider myself a marketing expert for one minute; however, what I do have and what I have done over the last 25 years has carved out for myself and for our business a very specialist niche in a vast global market.

Niching is my thing… so much so that I still get mistaken for a financial planner. Why? Because as a person and as a business we have immersed ourselves in our magical sector so much that we have become fully aligned with those who live it and love it as passionately as we do. But this article isn't about me… it's about what I have seen, what I want you to know and what I think you can all do to make a huge difference for the firms you work with.

Marketing and the provision of it within firms is sadly seen as the poor relation

and in the minds of many is linked directly to the 'dirty word' of sales. This in turn means that the need for any sort of strategy gets instantly dismissed and abandoned at the first hurdle.

Thankfully, there are a new breed of firms that do get it – they have engaged with the experts to get their marketing ducks in a row. They have designed a strategy and implemented a tactical plan to kick their business communications and marketing efforts into shape… often with really positive results.

But marketing and communications for me goes deeper than a Facebook ad campaign to get more referrals! In my experience the value of great communication is totally overlooked by many firms – and this is happening both internally and externally.

Authenticy

Great communication starts with being authentic in everything that you say and do – all of the time! Authenticity is key and must be present both within your business and externally to your clients and other key people. I want to be able to walk into your businesses and see the same thoughts, words and actions (your true brand) running through every part, like you are a stick of rock.

It's easier said than done!

Problems can arise where firms are not completely sure of their authentic personality or tone of voice.

Sadly, time and time again we see so many financial planning practices put way too much effort into appearing business-like, all traditional, corporate and navy blue, so much so that they end up losing their personality, not to mention themselves, in the process. This is changing but you only have to google 'financial planning' and you will see what I mean.

Half the battle here is recognising who you are. Whether you call it branding or positioning or something else, it comes down to this question: what sort of business are you? How do you want your clients to feel when they are 'with' you? Are you a firm that's fun, bright and vibrant in your approach, or one that's more traditional and corporate?

To be honest, there's nothing wrong with either, but you've got to be happy that that's what you represent, and then you have to stick to it. Otherwise, if what you're projecting isn't consistent and authentic, then eventually this will trip you up.

If you're not being true to yourself, this will inevitably come out. I know someone who is a great guy, a cheeky chap, sarcastic and witty, a lovely guy with a bucket load of personality. But his business branding reflects nothing about him or who he is.

Then there's a problem when a certain type of person is attracted by his branding but is presented with something totally different – they just don't stick around. If his branding reflected who he is more accurately, he would attract like-minded people who I'm sure would love what they had found!

So, what can you do?

When you are battling against your true self – whether this is via your branding, personality or positioning – you won't sustain the pretence for very long

Internal communications

Good communication has to come from the top. The message needs to be led, and the right communication then needs to be channelled down through the entire business. I had one experience where a firm I was coaching held a really productive board meeting, and later in the day as part of my Head of WOWW! role I gave a debrief to the wider team.

Two board meetings later, I checked in with how things were progressing and asked what the team thought of subsequent developments. The reply was: "We haven't updated the team. They're a bit busy, and we didn't think they'd be interested." But in the meantime, there had been two resignations from staff who felt disconnected from what was happening in their firm.

The message here is to encourage your leadership team and your wider teams to 'talk', 'listen' and 'repeat'. Internal updates and catch-ups are so important to keep the dialogue flowing, and it's why I advocate having a structured internal communications plan. Otherwise, things get lost in translation, there can be misunderstanding, or people will (rightly or wrongly) fill in the blanks for themselves. So, have a think about how well your business communicates authentically and fluidly at all levels.

Do you know the goals and objectives of the business? And do you know what role you play in relation to them, to their successes and to the areas where the business is trying to improve? It's not the day-to-day matters but the big-ticket goals that secure a firm's success.

If all of these work well, then the communication flows. It's not something that happens over your desks, or while emails are pinging around. You need focused time away from the all the stuff that distracts.

Client communications

The starting point for client communications is always to ask: what's the purpose of what I am trying to say? Is it about educating clients, raising awareness about a particular service you offer, engaging existing clients or attracting new business?

Once you've got the purpose, map out a 12-month calendar and plan in the various activities. For example, January might be a technical update, June might be some financial planning tips for the summer, or whatever it happens to be. One of the lovely things to include as part of this are what we call 'client happy' calls. That means picking up the phone to a client and checking in with how they are, and if everything is OK. This doesn't have to be done by the adviser – it can easily be done by the support team. It's a simple thing, but it shows the client you're thinking about them.

If you're wary about whether clients would want to hear from you outside of your regular meetings, it's worth stopping to think for a second whether these are really the right clients for you.

One of the things I've been doing over the past few years is video messaging and voice notes. All you need is a smartphone. Communication can sometimes end up very stiff, but a quick voice note or video message gets back to that more impromptu sense of talking to one another, rather than just working from stilted emails.

Being true

As a business, we've come up with different ways of working and communicating because we know who we are and who we're not. When you're trying to be something you're not, you end up having an identity crisis and nobody wins when that happens.

When you are battling against your true self – whether this is via your branding, personality or positioning – you won't sustain the pretence for very long. But if you can get this right, everything is easy. The tone of your emails will be better, letters may be a bit quirky or show off your personality a bit more. Anything else won't feel authentic or real.

It's all about being authentically you. Be you in every word written, every word said, every image and every colour used! Trust your personality and tone of voice to set the scene and the rest will follow.

PENSION PLANNING

It is important that clients understand the importance of pensions and how they work, particularly in respect of death benefits, says Richard Cooper, Business Development Manager, Professional Education at LIBF

If you're like me, you'll have a collection of pensions scattered wide and far. Some aren't worth enough to bother with, others are doing well, and others appear okay on the surface but might not be worth the effort of consolidating.

According to the University of West London, the average person in the UK will have six different jobs throughout their working life. If they accumulate a pension in each role, that's a lot of pensions to look after – statements, funds, charges, and ensuring personal details remain up to date. There are also the potential death benefits to understand if the worst happens.

Taking clients on the pension journey

When it comes to financial planning, it's critical to ensure clients understand what pension provision they have and what instructions they need to leave to protect their families. If they're not sure what they've got, then it's unlikely they'll have considered potential death benefits that could be left unclaimed.

The Pension Tracing Service estimates there are over £3 billion of unclaimed pension benefits in the UK, and the associated death benefits have a high probability of being lost over time.

So it's important when laying out a plan for clients to go through:

- the pension process
- the importance of uncovering where all their funds are
- what will happen to their money depending on different circumstances.

Paraplanners have an increasingly important role in establishing the current position of existing pension benefits in the event of death and checking they meet clients' objectives.

Your questions to the adviser need to be clear to understand what the client wants to happen with pension plans in the event of death. Unfortunately, whilst there are plenty of options, not all providers allow all options on their pension plans. You'll need to establish the position for each – particularly with older pension plans.

Death benefits

Money purchase or Defined Contribution (DC) pension schemes can pay a wide range of death benefits. As a general rule the fund remaining at death is available to provide death benefits, although this can be reduced by tax and fund charges where they apply.

Pension legislation allows money purchase schemes to pay both pension and lump sum death benefits. However, as each scheme decides which of these is available to the beneficiaries of scheme members, it's important to clarify what each scheme allows. In summary these fall into two types: income or lump sum death benefits, or a combination of these.

If the member dies before age 75, and benefits are paid within two years, then death benefits are usually free of tax if below the lifetime allowance. If they died after age 75, or benefits are paid after two years, then they are taxable at the recipients' marginal rate of tax.

For defined benefit (DB) schemes a lump sum death benefit may be paid and a pension is normally offered. The lump sum death benefit will usually be a set amount or a multiple of salary. The lump sum death benefits are tax-free so long as the member dies under the age of 75, and the lump sum amount is below their lifetime allowance. It must also be claimed within two years of the scheme administrator becoming aware of the member's death.

The scheme pension is usually based on a percentage of the member's pension entitlement and is taxable regardless of the member's age when they die.

Lump sums

A lump sum death benefit can be paid from crystallised or uncrystallised money purchase funds. These can be:

- uncrystallised funds lump sum death benefit
- annuity protection lump sum death benefit
- flexi-access drawdown fund lump sum death benefit
- drawdown pension fund lump sum death benefit.

The lump sum death benefit will normally be a payment of the remainder of the pension fund to the beneficiary or beneficiaries. There is no restriction on who can receive a lump sum death benefit, which means they can be paid to non-dependants who are not on the nomination of beneficiary form. So it is vitally important for members to keep their nominations up to date to guide the scheme as to who should receive benefits.

Income options

Beneficiary flexi-access drawdown

The introduction of flexi-access drawdown gave members of money purchase schemes who had reached their minimum pension age full access to their retirement fund.

Alongside this change came the introduction of beneficiary flexi-access drawdown (BFAD) – an equivalent vehicle to provide death benefits.

Before 6 April 2015, drawdown – whether for retirement or for death benefits – was normally some form of capped drawdown, although flexible drawdown was available subject to the member or dependant meeting a minimum income requirement.

After that date, all new death benefit drawdown arrangements must be flexi-access drawdown. Existing capped drawdown arrangements could continue as capped drawdown or could convert to flexi-access.

Flexible drawdown automatically converted to flexi-access. There is no benefit in retaining a capped drawdown death benefit arrangement as it can be converted to flexi-access at any time and does not trigger the money purchase annual allowance.

A further change from 6 April 2015 was that it became possible for schemes to set up drawdown for any beneficiary, provided they are either a dependant or are nominated to receive death benefits.

A beneficiary in receipt of drawdown can now nominate a further beneficiary – known as a successor – to receive drawdown after their death. Before April 2015 only a dependant could benefit from drawdown.

The combined effect of these changes is that BFAD can be used as a tax-efficient estate planning vehicle. The fund itself is held within a tax-privileged environment, usually outside of the member's inheritance tax (IHT) estate and can be passed on to any dependent or non-dependent beneficiary, allowing the funds to pass down through the generations without IHT consequences.

Passing on pension benefits

How do you ensure that the right person gets the money after a customer passes away? When a scheme member dies, it is solely at the discretion of the scheme administrators as to who receives the benefits. If a member completes a nomination form, normally called an Expression of Wish form, this will help the administrators with their decision making. They will investigate all cases further but are more likely to follow the nomination unless there is a compelling reason not to.

All clients should complete nomination forms clearly, so that the administrators are aware what the member wished to achieve, and that they are regularly reviewed and updated.

Key points

- Do your research into each scheme to ensure that your client makes informed choices for their situation, they understand what benefits are paid and the potential taxation position.
- Build in contingencies and regular reviews to take account of the potential tax implications and changes in family situations in later life.
- Ensure advisers are well informed and their information is up to date. Advice firms need to demonstrate that existing plans can provide the death benefits that meet the client's expectations and objectives. If not, then clients need to be guided on what action to take. Paraplanners are critical in enabling them to do that.

LIFETIME IHT

This issue, the Brand Financial Training team examine IHT planning, in respect of lifetime transfers of wealth and how the tax rules apply

Lifetime transfers fall into the following four categories:
- Exempt from IHT
- Potentially Exempt
- Chargeable but not taxable
- Chargeable and taxable.

An **exempt transfer** is one that is not liable to IHT and not counted in the cumulation for the future. The main exemptions are:
- The spouse/civil partner exemption - married couples and civil partners that are UK domiciled can pass all of their estate to each other free of IHT with no limit
- Gifts within the annual exemption of £3,000 per tax year - the unused balance from one tax year can be carried forward to the next (note this only applies to lifetime transfers and not to transfers on death)
- The small gifts exemption of up to £250 to as many people as the donor wishes (although not the same person who has received the £3,000 annual exemption)
- Normal expenditure out of income – regular gifts that leave the transferor with sufficient income to maintain their normal standard of living
- Gifts on marriage within specified limits – £5,000 to children, £2,500 to grandchildren, £1,000 to anyone
- Gifts to charities or political parties – tax free during lifetime and on death (and a reduced IHT rate of 36% where at least 10% of the net estate is left to charity)
- Gifts for the national benefit for example, to museums, libraries etc.
- Estates of members of the armed forces whose death can be attributed to injury or illness suffered whilst on active service
- Estates of members of the emergency services and humanitarian aid workers responding to emergency circumstances.

A **potentially exempt transfer (PET)** is one that is not liable to IHT at the time of the gift but is counted in the cumulation for the future and is a favourite topic to be tested within the R03 and AF1 exams. These are gifts, not covered by exemptions, by individuals to:
- Other individuals
- Bare trusts
- Disabled trusts
- Interest in possession trusts set up prior to 22 March 2006.

If the transferor dies within seven years of making the gift, the transfer becomes chargeable with taper relief available on any tax where death occurs within three to seven years, as below:

- Between 3 and 4 years – 20% reduction
- Between 4 and 5 years – 40% reduction
- Between 5 and 6 years – 60% reduction
- Between 6 and 7 years – 80% reduction.

Note that taper relief only applies to the tax originally due on the gift (not to the value of the gift) so therefore any gifts that fall within the nil rate band (NRB) are taxed at zero and therefore taper relief cannot apply. Any IHT is payable by the recipient (the donee).

Chargeable lifetime transfers are those which are neither exempt nor potentially exempt – the most common are gifts to trusts which are neither bare trusts nor for disabled beneficiaries.

If such gifts are made within the NRB, then they are chargeable, although no IHT is payable at the time of the gifts. They would however be taken into account on the donor's death within seven years and would mean less of the NRB available to set against the death estate.

Complications arise when PETs are also made and subsequently become retrospectively chargeable on death, increasing the cumulation to take it over the NRB. Chargeable lifetime transfers in excess of the NRB will result in a tax charge of the lifetime rate of 20% of the excess, with no further IHT to pay if the donor survives seven years. The IHT on a CLT can be paid by the trustees but if paid by the settlor then the transfer will need to be grossed up.

If the donor doesn't survive seven years, then the death rate (40%) will apply retrospectively, with relief given for the lifetime tax paid.

Typical AF1 question

Let's look at what could be a very typical question found within the AF1 exam. Kate has made the following gifts:

Date	Gift made
June 2018	£290,000 to her son
January 2019	£68,000 to a discretionary trust for her grandchild

No other gifts have been made in Kate's lifetime and she dies in October 2021, leaving an estate of £525,000 to her son, including the family home worth £450,000. Her husband pre-deceased her, leaving the full value of his NRB to their son in cash. The remainder of his estate went to Kate.

The question is, calculate, **showing all your workings**, Kate's IHT liability. The first thing to note is that the gift made in 2018 to her son is a PET. As we are told that Kate has not made any other gifts, we can straight away deduct two annual exemptions.

- Gift in 2018 to her son = PET
- Use current and previous year's annual exemption – total £6,000
- PET is £290,000 - £6,000 = **£284,000**.

The gift into the discretionary trust in 2019 is a chargeable lifetime transfer (CLT). CLTs result in an immediate IHT charge if they, along with the previous seven years' cumulative total of CLTs, exceed the available NRB. This CLT is within the NRB and therefore there is no immediate IHT liability. (Note that although a PET was made within the seven-year period before the gift into the discretionary trust was made, it is ignored for the purposes of assessing whether any IHT is due in respect of the CLT).

- Gift in 2019 to discretionary trust = CLT of **£68,000.**

On Kate's death in October 2021:

Lifetime transfers:

Transfers made in the seven years before death are used against the NRB in the order in which they are made:

- The PET was made three to four years before death
- The PET of £284,000 was within the NRB and so is not liable for tax
- However it does reduce the available NRB by £284,000, leaving **£41,000**
- The CLT to the discretionary trust is within three years of death, so tax at the death rate applies
- Taper relief potentially applies but because the transfer was made between two to three years before death, the tax due remains at 100% of the calculated figure
- Amount chargeable to IHT = **£68,000 - £41,000 = £27,000 @40% = £10,800**.

Balance of estate

- **£525,000 - £350,000** (2 x £175,000 Residence NRBs) = **£175,000 @ 40%** = **£70,000.**

The final IHT liability is the total of the amount due on the estate on death plus the tax on the CLT. Remember that the legal personal representatives will be liable for the IHT on the estate, whereas the trustees of the discretionary trust will be liable for the IHT on the CLT.

About Brand Financial Training

Brand Financial Training provides a variety of immediately accessible free and paid learning resources to help candidates pass their CII exams. Their resource range ensures there is something that suits every style of learning including mock papers, calculation workbooks, videos, audio masterclasses, study notes and more. Visit Brand Financial Training at https://brandft.co.uk

PURPOSEFUL ALIGNMENT

For the fourth time intelliflo scooped the Professional Paraplanner Best Back-Office System award this year. We spoke to CEO Nick Eatock about the company's developments over the past year and the win

To all intents and purposes, as a company delivering its services online, it was business as usual when the pandemic struck in early 2020, says intelliflo CEO Nick Eatock. There were two major exceptions; usage of the system by advice firms increased around 60% and usage of the intelliflo personal finance portal increased 300%.

"We saw users discovering and using areas of the system that they never had before. Working virtually and having to think about how they operated and how technology could help them do that better during the pandemic, advice firms and individuals were actively seeking out new ways of working and improving their service to clients," Nick says.

"The use of the portal also was remarkably high, as consumers increased their use of digital services. Now, one in 200 UK adults uses the intelliflo personal finance portal, which is a great expression of how the end client is engaging with the services of their financial advice digitally.

"Before the pandemic I think the jury was out with a proportion of advice firms about using digital within their businesses. What happened in the pandemic was that those firms got great responses from their clients, who were able to access their adviser and information posted about their portfolios/plans in real time despite everywhere being in lockdown. Realistically, there's no going back from there."

User voice

It's the alignment of intelliflo's purpose with that of paraplanners to which Nick attributes the company's year-on-year success at the *Professional Paraplanner* awards. "We're both focussed on helping the advice firm to deliver an outcome in the best way possible for the benefit of consumers.

"Paraplanners are both advice technical and IT technical, which is why they are important to us as a business. They often are the ones making most use of our system, exploring what it can do and pushing it to do more. Many paraplanners are part of our community portal and provide good ideas for enhancements."

intelliflo regularly updates its service – introducing an enhancement or change once every three days, Nick says – a large proportion of which are put forward by users, via the community portal. "Through the intelliflo personal finance portal they can raise ideas which can then be rated and voted on in terms of importance by the community. This gives our users a voice in what needs to be changed, improved or added to, which we take into our development programme. The business has grown significantly over the past 18 months, so now we have a lot more engineering effort behind us that is pushing the products much faster than ever before."

Recent and upcoming developments

During the past year, developments useful to paraplanners have included work on the software's document designer, "adding a lot of capability to help in the production of advice documentation, including suitability reports," Nick explains. "It takes out the pain of re-keying, double keying and formatting, and so on, to speed things up and give paraplanners and advisers more time to deal with the advice.

"Also, we've made enhancements to the fact find on the intelliflo personal finance portal to make completing it easier, which has seen an uplift in the frequency with which clients are contributing the information. We've also enhanced the communication between adviser and client, improving secure messaging, and putting in message trails while giving more people access to contribute to the trail, which has proved very effective.

"In addition, we've introduced open banking, which enables advisers to draw in information on more than just the client's advised assets, to give a better and more holistic view of the client's wealth. Our third-party integrations also have grown significantly, largely through our Developer Hub and our open API, which means that the tools paraplanners use which complement what we do can be more easily integrated with our services." In the pipeline, he says, are a new Management Information capability which is being launched in conjunction with Amazon.

On winning the *Professional Paraplanner* award, Nick says: "We're delighted. We take our role of helping advice businesses become more effective and efficient and to deliver more advice very seriously, so when the people who are right at the core of providing that service vote for us that's very humbling."

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. Which of the following elements would you NOT expect to see within a firm's framework for embedding an ethical culture into the firm?

- A No commitment to a professional ethical body
- B Ethics code or values statement
- C Methods of measuring and evaluating ethics
- D Process and structures to embed ethics

2. John is employed full time in a local school but in his spare time makes children's toys. His earnings for this are £100 per week. Which of the following National Insurance Contributions must John pay on these self-employed earnings?

- A Class 2 only
- B Class 3 only
- C Class 4 only
- D He is not obliged to make any contribution

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. Belinda, a single parent, has 2 children aged 8 and 10, has taken out a personal accident and sickness policy for herself. If she wanted to extend the cover of the policy to cover her children, what restriction might there be?

- A The lump sums payable on the events covered will be half the amount paid to her
- B The cover may be restricted to a ccidents only
- C The cover may exclude permanent disablement
- D The children can only be covered if they live with her permanently

5. A company is likely to be considered as having a high operating leverage if fixed costs are above what percentage of total costs?

- A Over 20%
- B Over 40%
- C Over 60%
- D Over 80%

6. What is a buyer of a covered call warrant actually buying?

- A The right to buy the underlying security at a predetermined price and date
- B The right to sell the underlying security at a predetermined price and date
- C An obligation to buy the underlying security at a predetermined price and date
- D An obligation to sell the underlying security at a predetermined price and date

7. Which body deals with complaints against the NHS which CANNOT be resolved at a local level?

- A Patient Advice and Liaison Service
- B Parliamentary and Health Service Ombudsman
- C Local Authority Ombudsman
- D Healthcare Commission

8. The Mortgage Conduct of Business sourcebook (MCOB) rules specify that customers must be given reasonable notice of "event driven" information. Each of the following falls into this category with the exception of which one?

- A The firm's right to enter the property to carry out essential repairs and maintenance
- B Any material changes in terms and conditions that can be varied unilaterally by the firm
- C The initial rate of interest charged on an equity release mortgage
- D Any changes in payments that are required

9. 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

10. If a company's share price rose from 175p to 225p, what effect would this have on its Price Earnings Ratio?

- A It would increase.
- B It would decrease.
- C It would remain the same.

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 11
2	AC	CII R02 Study Text Chapter 10
3	B	CII CF8 Study Text Chapter 5
4	ABC	CII R03 Study Text Chapter 9
5	D	CII R04 Study Text Chapter 4
6	B	CII J10 Study Text Chapter 10
7	D	CII J12 Study Text Chapter 5
8	B	CII R05 Study Text Chapter 4
9	C	CII ER1 Study Text Chapter 9
10	A	CII R07 Study Text Chapter 1

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

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Professional Paraplanner

The Investment Committee

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

New presentations under our Investment Committee webinar series can be found on the *Professional Paraplanner* website under the Events tab.

Our Next Webinar: Tuesday 7 September 2021: 10.30am

BMO's Scott Spencer, investment manager from the 10-strong multi-manager team will look at:

- The rise of passive
- Why 2021 could be the return of active
- What to look for in an active manager
- ESG and active

THEMATIC INVESTING

David Jane of Premier Miton Investors outlines how the multi-asset team invests in longer-term themes that drive global economies and why they are investing in two themes that do not sit neatly within that strategy

The main drivers of our investment process are macro and thematic ideas. Macro tends broadly to deal with such factors as regional economic performance, interest rates and inflation. These are thought to drive high level asset class performance, such as overall government bond market and regional equity market performance. More accurately these days, macro outcomes tend to drive sector level performance within equity markets, the sector mix of a country or region driving the country level performance. This can be seen as the traditional approach of asset allocating fund managers.

The thematic aspect of our process deals with the underlying longer-term themes that drive global economies. Most of our long-term themes are driven by two structural forces which are always prevalent, technological change and demographics. Technological change is always a feature of economic progress, innovation being a feature of free societies since the enlightenment. Demographics is also an ever-present feature, with the age structure of the global workforce and consumer base being known many decades into the future. However, two of our current long-term themes which drive markets do not sit easily within that framework: ESG investing and commodity markets.

ESG investing

While ESG factors might always have been important when considering the long-term drivers of company performance, they have now become a significant additional factor driving investment flows and hence, the cost of capital. Most funds are now formally or informally ESG rated, and most investment firms have an ESG process alongside other investment activities. This inevitably will affect investment decision making and increase the valuations of firms seen as positive and reduce that of firms seen as negative.

While part of our investment thinking for some time, we have avoided including ESG formally as one of our themes, as many of our 'ESG' driven investments fit into our renewables theme. Our other favoured 'ESG' investments have been the rating agencies. These benefit from the huge investment being made by businesses to improve their compliance, as well as the money being spent by investment institutions to get funds rated. To be clear, we see ESG as a long-term trend to exploit rather than being a way we seek to invest, but its impact is unlikely to reduce in the future.

Commodity markets

The second theme which sits less well in our framework is the long-term cycle driving commodity markets. This could be argued to sit in the macro part of the process but given their long term and global nature perhaps it sits more naturally in the thematic side.

The commodity markets, particularly industrial metals have been in a down cycle since the end of the 'rise of China' cycle in the first decade of the 21st century. These markets are generally thought to have 20-year cycles, as a result of the very long lead times that are required to develop new resources. It takes a long time for the demand signal to feed through to the market and eventually be met with additional supply, hence the huge boom and bust cycles in the industry.

Capex in the industry peaked in 2012, five years after China's GDP growth peaked in 2007. Following many years of muted capex, and hence, reduced supply growth, metals prices have recently been moving higher.

At the same time, another demand cycle may be emerging as the world embarks on an aggressive programme to re-engineer the energy economy in favour of renewables.

There is, therefore, a good case that a new long-term industrial metals cycle may be emerging. Following many years of reduced investment and a pick-up in demand growth, it is likely to take some time for capex to improve supply to meet growing demand.

When investing in these long-term themes, the fact that we invest directly in individual equities really comes into its own. Few of our preferred long-term themes have available funds or sector ETFs to gain exposure, and even where they do the exposures are generally very diluted by fund and ETF companies need to provide a scalable product. We can use six to ten individual investments to give us effective exposure to a theme. Across a number of themes and macro ideas this gives us a diversified portfolio but one which is only exposed to areas with an attractive following wind of positive macro or thematic forces.

David Jane is a member of the Premier Miton Macro Thematic Multi Asset team


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EUROPEAN EQUITIES

Is now the time to invest in Europe? Darius McDermott, managing director, FundCalibre looks at factors underpinning what may be a European recovery

There always seems to be trouble around the corner for European equities. Ever since the Global Financial Crisis, they have been burdened by one challenge after another; first it was fiscal austerity, then sovereign debt, the overhang of Brexit and now a global pandemic.

The bottom line is, European equities have lagged many of their counterparts, particularly the US, for the best part of 15 years. But could this be about to change? I recently read that the last time we had a prolonged period of global growth was between 2003 and 2007 – a period when

European equities not only outperformed global and US equities, but European value fared even better[1].

Halfway through 2021 and Europe's challenges have continued to be highlighted. At a time when its peers in the UK and the US have been praised for the vaccine efficacy, Europe has been blighted by "vaccine nationalism", as countries scramble to look after their own – not the best advert for the European Union.

But there is optimism with economic data across Europe coming in considerably better than expected. In June, the European Central Bank's projections for the eurozone economy were upgraded with growth pencilled in at 4.6 per cent this year, and 4.7 per cent in 2022, up significantly compared with its previous March forecast of 4 and 4.1 per cent, respectively[2].

As markets like the US and the UK move from an early-to-mid cycle, Europe could well be the place to be, given the slow vaccination response has delayed the recovery

I recently spoke with GAM Star Continental European Equity manager Niall Gallagher, who says Europe's pace of recovery has been stronger than expected, indicating that he expects a fairly serious rebound across the remainder of 2021.

Many expect the region to push on from here – as markets like the US and the UK move from an early-to-mid cycle, Europe could well be the place to be, given the slow vaccination response has delayed the recovery. Europe is also tied to global earnings more so than many of its peers – which should aid a recovery as we return to the "new normal".

However, there are three specific areas where I feel the longer-term prospects for Europe look particularly strong.

The first of these is the role of the consumer in the re-opening of the European economy. We've already witnessed a 'V-shape' recovery in the industrial economy, and there is an argument the next 'V-shape' will be led by consumers.

Janus Henderson European Focus and European Selected Opportunities fund manager John Bennett believes that, after a slow start, Europe has now made significant progress on vaccinations and this will speed up the progress towards the re-opening play, which fits into the consumer theme, where many have accumulated record-high savings due to limited consumption opportunities during lockdown. He says the US, UK and Israel – with the most advanced vaccination programmes – offer glimpses of the consumer revival with clothing, cosmetics, holidays, homeware, eating and drinking all featuring on wish lists – something he feels will be replicated in Europe once the vaccination process catches-up[3].

This taps into the cyclicals play – earnings growth has been particularly strong in sectors sensitive to the economic cycle: industrials, banks and consumer cyclicals. The improvements have already seen analysts start to upgrade their earnings forecasts. Europe has a relatively high exposure to those cyclical sectors - compared to the US - which tend to benefit most when the economic cycle starts to turn more positive[4].

The final area is undoubtedly the one with the greatest long-term focus – climate change. Inequality and climate change are very much at the top of the agenda across Europe. The pandemic forced Europe into radical policy responses, most notably the creation of a €750bn European Recovery Fund – but interestingly, Member States have chosen to focus on a green recovery and use the funds to meet the challenge of climate change.

This means the European Commission is guiding this spending to focus on the likes of sustainable use and protection of water; transition to a circular economy; and pollution prevention and biodiversity protection. Europe leading the way on climate change and ESG is not new, but this focus allows them to consolidate this position – the idea being that by incentivising companies to innovate and embrace climate change, Europe can become a global exporter of Greentech products and services to the rest of the world and enjoy the benefits.

Europe, not for the first time, seems a bit behind the curve, but if the recovery trajectory continues it could well be the place to invest towards the end of 2021 and beyond. Investor's may want to consider experienced managers like John Bennett or Niall Gallagher, while the Barings Europe Select Trust or the LF Montanaro European Income fund offer alternatives in the small-cap and dividend space.

[1] Source: Invesco – Why invest in European equities
[2] Source: Marketwatch
[3] Source: Janus Henderson – Consumer revenge – the next stage of recovery in Europe
[4] Source: Schroders – How European corporate profits powered ahead in Q1

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.

VIEW FROM THE TOP

What's happening to UK plc? Here six managers from JO Hambro Capital Management provide their insight into the UK market – past, present and future

The past

Political uncertainty has made the UK stock market a pariah in recent years. Starting with the tremors of the Scottish referendum and then the Brexit earthquake of 2016, including the subsequent tortuous negotiations and fluctuating possible outcomes over the next four years, investors have had plenty of reasons to shun UK stocks.

Throw in a pandemic that disproportionately affected the UK, and it is easy to see why allocations to UK equities among international investors have been at multi-year lows. Indeed, J O Hambro Capital Management's UK Profit Index, which tracks the fortunes of the whole UK stock market every six months, found the pandemic caused a record decline in UK plc revenues, down £349bn or 19% in the first 12 months covering the outbreak (April 2020 to March 2021). Profits were even harder hit, down 61% to £55.3bn.

Low weightings to UK stocks accompany low valuations and mean the UK now looks very attractive in a global context. Compared to the US and Europe, UK stocks are around a quarter and a seventh cheaper respectively based on forward price/earnings ratios. With low valuations and a solid rebound underway, now is an exciting time to be investing in the UK stock market.

The present

A CHANGING MOOD

Insight from James Lowen and Clive Beagles, Senior Fund Managers of J O Hambro Capital Management's UK Equity Income Fund

The change of mood in company boardrooms is palpable at present. The rebound from the Covid-19 recession, the economic support from the Bank of England and the Treasury, and a sense of clarity about what Brexit finally means, have unleashed an appetite to capitalise on the upswing by focusing on what management teams can do better – whether on driving sales, taking market share, controlling costs, finding attractive acquisitions or making new investments. Commodities, financials, construction, consumer discretionary stocks and a few global cyclicals, like WPP, are all to play for over the next 12-18 months.

BUSINESS TRANSFORMATION

Insight from Alex Savvides, Senior Fund Manager of J O Hambro Capital Management's UK Dynamic Fund

Companies with a solid transformation strategy, carried out well, can reap major benefits and create a real investment opportunity. They can become better companies, turning them from backward-

From l-r: Clive Beagles, Vishal Bhatia, Mark Costar, James Lowen, Rachel Reutter, Alex Savvides looking organisations saddled with problems to forward-looking firms with clear growth prospects. Right now, we currently see a lot of value in media, in broadcasting, advertising, print and online, as companies dispose of underperforming assets and focus on those that will prosper in the new media landscape.

> *"With low valuations and a solid rebound underway, now is an exciting time to be investing in the UK stock market"*

GROWTH

Insight from Mark Costar and Vishal Bhatia, Senior Fund Managers of J O Hambro Capital Management's UK Growth Fund

We look for undiscovered, mispriced growth assets, for companies that are fundamentally misunderstood. Covid-19 has wrought disruption and change, which we believe the market still hasn't fully recognised or priced correctly. This can mean changed working practices, cyber security, accelerated digital transformation for offices, retail and even healthcare. And there has been no let-up in the green revolution.

We own a host of very attractive, wrongly-priced assets that are exposed to these important structural changes and many others. There are, for example, far more high-growth tech assets on the London market than people realise, often because they are buried inside other companies.

We think growth opportunities in the UK will continue to surprise on the upside, a scenario that is nowhere close to being discounted by the valuations on offer.

ALL EYES ON ESG

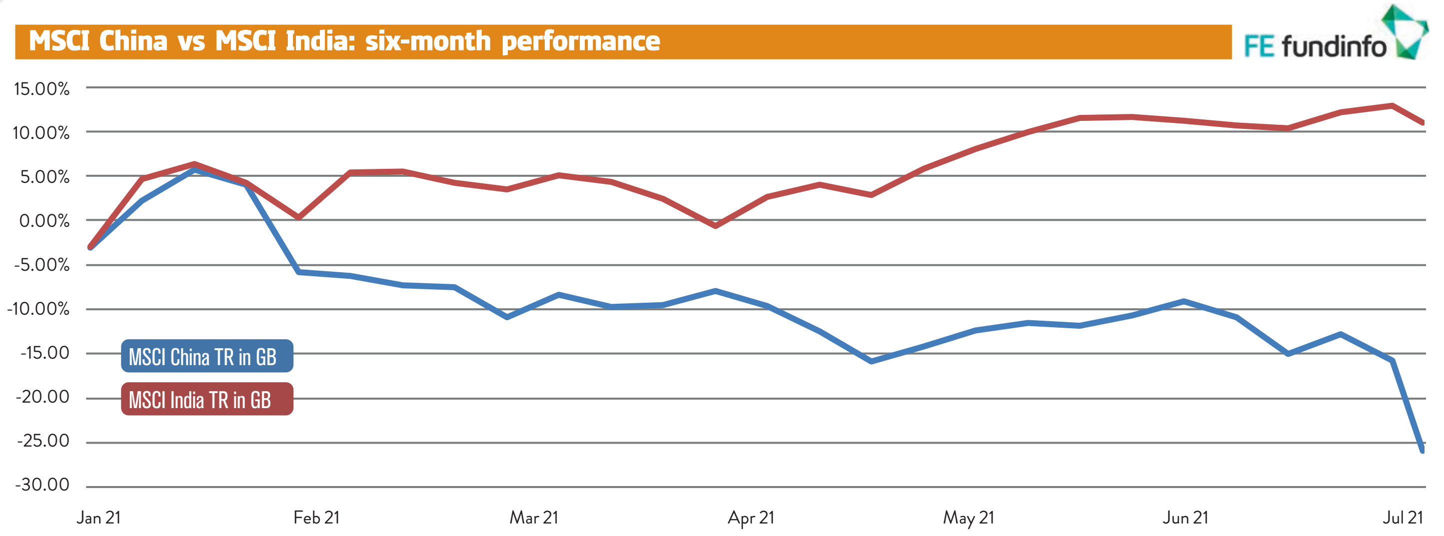
Insight from Rachel Reutter, Senior Fund Manager of J O Hambro Capital Management's UK Opportunities Fund

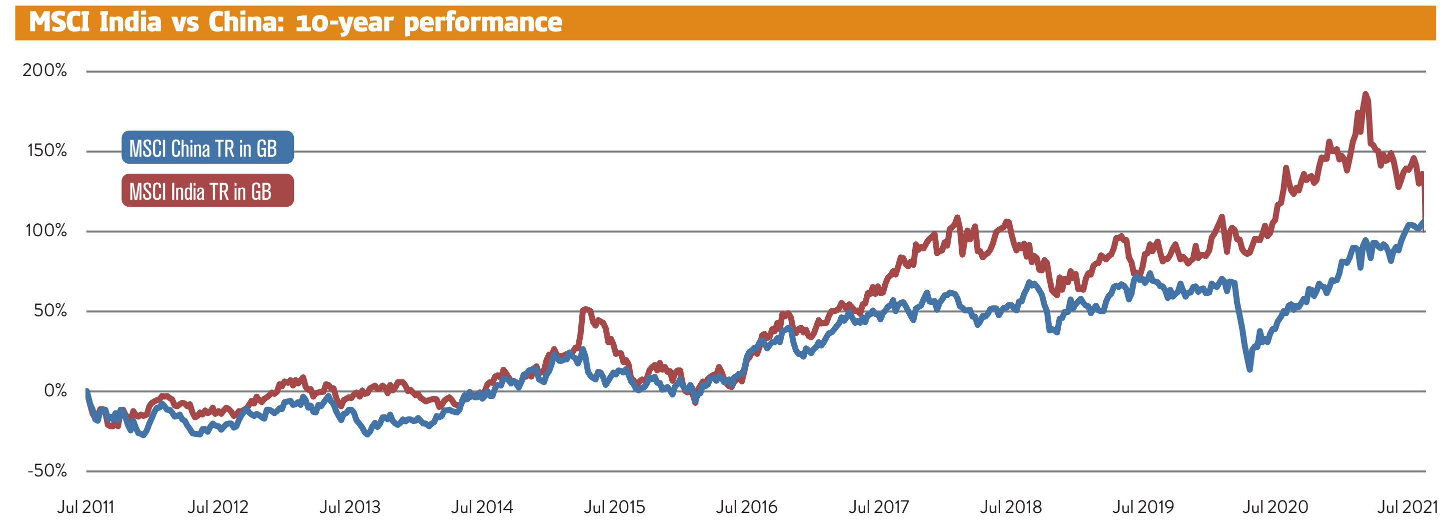
Thinking long term and investing in companies with attractive and sustainable business models that want to invest their cash for future growth, rather than devote it to dividends and share buybacks, is the name of the game. When it comes to sustainability, there are financial as well as societal benefits in taking this approach. Household product manufacturers that are committed to responsible consumer choices and eco-shopping behaviours will benefit the most in the future, as we know globally people are more conscious of single-use plastics and want alternatives.

The future

Recessions often bring real clarity to company management teams, presenting opportunities for renewal and the energy to do things leaner, better and faster – and the pandemic is no different. Extremely loose monetary and fiscal policy, supported by pent-up consumer demand backed by pandemic-forced savings, rising employment and wages, and a buoyant housing market, suggest the recovery has some way to run. This means that profits are now growing very fast, certainly much faster than previous consensus expectations. Insights from J O Hambro's UK Profit Index research indicates UK plc earnings could roughly double to about £110bn by March 2022, and they could regain their pre-pandemic levels by March 2023 – making UK equities a highly attractive long-term proposition for investors from this year onwards.

SECTOR CONSIDERATIONS: CHINA VS INDIA





Fund Calibre comment: Lauded for its management of the pandemic and having returned to growth – six months ago China was viewed as the place to be for investors. By contrast, India was struggling amidst the challenges of the Delta variant of the disease.

Fast forward to today and no one would've predicted how dramatically things could change, with India significantly outperforming China in that time. Clearly China has struggled recently due to the regulatory crackdown, which surprised markets, but there have been concerns around the tech sector since last year, when Jack Ma could not get his Ant Financial IPO away. The wider tech sector did see a peak in terms of frothiness in February 2021 – something which has since fallen back.

Technology is such a large part of the Chinese index now – so talk of higher inflation and the rotation into value have hit hard. The first chart above shows the tech concerns were a catalyst for falls in China, and the bad news got worse when the government essentially wiped out all of the value in educational stocks.

China is also struggling with Covid again, with its vaccine programme lagging and concerns over efficacy rates.

By contrast, India has been resilient, with growth starting to come through, aided by less exposure to tech companies. However, it also reaffirms the long-term opportunities in India. It's a bit like investing in China 10 years ago in terms of the growth through the likes of urbanisation and infrastructure. Importantly, India also has better corporate governance and higher returns on capital businesses. This perhaps explains why – despite the rapid growth in China – India has actually been the better performer in the past decade, although valuations are more expensive.

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

R0 Focus (p6)

The CII R01 exam is a level 4 unit worth how many credits?

- ☐ 10
- ☐ 15
- ☐ 20
- ☐ 25

R0 Focus (p6)

Name one technique recommended when take in the R01 exam.

Suitability reports (p8)

Which of these have been highlighted as barriers to understanding what is written in suitability reports? Tick all that apply.

- ☐ Hard to find information
- ☐ Jargon
- ☐ Missing information
- ☐ Personalisation
- ☐ Too many words
- ☐ Visual aids

Development (p12)

The writer encourages leadership and wider teams to do what three things?

1.
2.
3.

Pension planning (p14)

The Pension Tracing Service estimates there are over what value of unclaimed pension benefits in the UK?

- ☐ £750 million
- ☐ £1 billion
- ☐ £3 billion

Pension planning (p14)

Name two ways a lump sum death benefit can be paid from crystallised or uncrystallised money purchase funds.

1.
2.

IHT Planning (p16)

Name the four categories into which lifetime transfers fall:

1.
2.
3.
4.

IHT Planning (p16)

With a potentially exempt transfer (PET) taper relief only applies to the tax originally due on the gift (not to the value of the gift):

- ☐ True
- ☐ False

Thematic investing (p22)

Name one of the long-term themes favoured by the Premier Miton team.

UK Equities (p26)

Would you say the JO Hambro Capital Management teams' views of UK markets are:

- ☐ Positive
- ☐ Neutral
- ☐ Negative

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 May 2021, provided by FE Fundinfo

BEST RATED FUNDS

IA

Fund	3 year Cumulative Performance	FE Fundinfo Alpha Manager Rated	FE Fundinfo Crown Fund Rating
Morgan Stanley US Growth	156.21	✓	5
Baillie Gifford Long Term Global Growth Investment	137.73	✓	5
Morgan Stanley US Advantage	109.92	✓	5
GAM Star Disruptive Growth	98.8	✓	5
Baillie Gifford Pacific	86.78	✓	5

AIC

Fund	3 year Cumulative Performance	FE Fundinfo Alpha Manager Rated	FE Fundinfo Crown Fund Rating
Baillie Gifford Scottish Mortgage	149.9	✓	5
Baillie Gifford Pacific Horizon	121.03	✓	5
BlackRock Greater Europe	95.83	✓	5
Aberdeen Fund Managers Dunedin Income Growth	38.43	✓	5
Frostrow Capital Finsbury Growth & Income	17.01	✓	5

BEST PERFORMING FUNDS IN TERMS OF RISK VS RETURN

IA

Fund	3 year Cumulative Performance	FE Fundinfo Crown Fund Rating
Baillie Gifford American	175.62	166
Morgan Stanley US Growth	156.21	173
Baillie Gifford Positive Change	141.87	116
iShares Global Clean Energy	141.63	198
Baillie Gifford Long Term Global Growth	137.73	134

AIC

Fund	3 year Cumulative Performance	FE Fundinfo Crown Fund Rating
Starvest	478.95	349
Seneca Growth Capital VCT	290.37	328
Independently Managed Adams	257.04	513
Belvoir Group	208.96	200
EPIC Private Equity EPE Special Opportunities	196.6	131

RISKIEST SECTORS

IA

Sector	3 year Cumulative Performance	FE Fundinfo Crown Fund Rating
North American Smaller Companies	48.08	110
China/Greater China	29.31	101
Japanese Smaller Companies	14.26	99
Technology & Telecommunications	92.47	96
UK All Companies	11.81	94

AIC

Sector	3 year Cumulative Performance	FE Fundinfo Crown Fund Rating
China/Greater China	68.49	153
North American Smaller Companies	40.46	144
VCT Specialist: Media, Leisure&Events	7.53	140
Infrastructure Securities	69.59	138
Latin America	-0.31	133

OUTFLOWS

Fund name	Size 1y ago (£m)	Size now (£m)	Performance Effect on Size (£m)	Out (£m)
State Street UK Scrend Idx Eq	7,684.28	172.30	-426.10	-7,085.87
Liontrust Japan Equity	28,300.03	30,718.95	8,918.07	-6,499.15
Invesco Global Targeted Returns (UK)	7,519.24	2,482.04	-124.43	-4,912.76
BlackRock NURS II Overseas Equity	2,346.29	236.46	367.20	-2,477.03
BlackRock ACS World ex UK Eq Trckr	10,158.53	10,628.15	2,369.46	-1,899.85

INFLOWS

Fund name	Size 1y ago (£m)	Size now (£m)	Performance Effect on Size (£m)	In (£m)
M&G Japan	245.69	27,824.28	278.70	27,299.88
M&G Japan Smaller Companies	68.09	14,587.55	3,002.06	11,517.39
BlackRock ACS US Equity Tracker	5,160.72	17,219.19	3,073.49	8,984.99
SPW MM Global Investment Grade Bond	0.00	3,094.52	54.36	3,040.16
BlackRock ACS UK Equity Tracker	6,647.58	12,131.61	2,559.52	2,924.50

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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
92.47

North America
50.97

North America Smaller Companies
48.08

Global
39.97

UK Smaller Companies
36.6

AIC

VCT Specialist: Health & Biotech
100.27

Technology & Media
76.52

Infrastructure Securities
69.59

China/Greater China
68.49

Property UK Logistics
65.28

MOST RESEARCHED

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

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	Impax Environmental Markets
4	Vanguard LifeStrategy 40% Equity	4	Baillie Gifford Monks Investment Trust
5	Vanguard LifeStrategy 80% Equity	5	BMO F&C Investment Trust

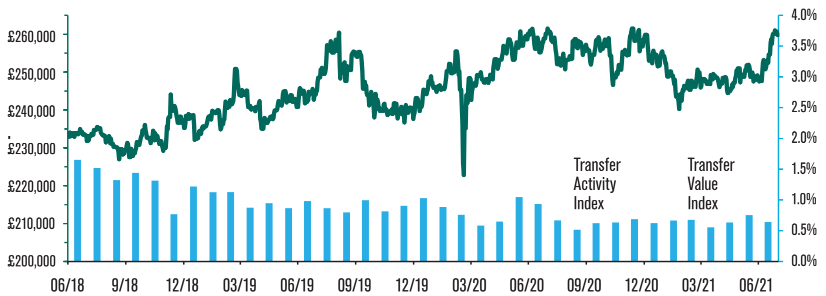
MOST CHARTED

	IA		AIC
1	Vanguard LifeStrategy 60% Equity	1	Baillie Gifford Scottish Mortgage
2	Vanguard LifeStrategy 80% Equity	2	BlackRock Throgmorton Trust
3	Vanguard LifeStrategy 40% Equity	3	Fundsmith Smithson Investment Trust
2	Fundsmith Equity	4	Baillie Gifford Edinburgh Worldwide IT
5	Vanguard LifeStrategy 100% Equity	5	Baillie Gifford Monks Investment Trust

PENSION TRANSFER VALUE INDEX

XPS TRANSFER VALUE WATCH: AUGUST 2021

The Transfer Value Index rose sharply during July to end the month at £260,000, just short of the record high of £261,500 seen in July 2020. This increase was driven largely by a reduction in gilt yields and marks the end of a period of relative stability for transfer values. DB pension transfer activity dipped slightly over the month. The Transfer Activity Index showed that an annualised rate of 64 members out of every 10,000 transferred their pension. The Scams Red Flag Index in July remained at a similarly high level to last month, with 54% of transfers showing at least one warning sign of a potential scam or poor member outcomes. On 9 July, the Department of Work and Pensions (DWP) launched a consultation on a 'stronger nudge to pensions guidance'. This proposes that pension schemes should be obliged to refer members to Pension Wise guidance before they access their benefits, as well as offering to arrange the appointment on their behalf.



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