Professional Paraplanner

The magazine for paraplanners and financial technicians

November 2021

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TIME FOR CHANGE?

On entering this industry it struck me as rather incongruous that the Chartered Insurance Institute (CII) should be the main qualification/professional body for the financial advice market. Today, when financial planning has developed into so much more than a transactional business, somehow it seems even more out of alignment.

The falling out, shall we call it, between the CII and the Personal Finance Society (PFS) has brought that incongruency into sharp relief. It is perhaps no surprise therefore, that the CII is reaching out to its members to, in its own words, make itself, "more modern, relevant and diverse".

The PFS has laid into the CII in respect of its educational offering including its qualification framework and pathways, which the PFS says "has not kept pace with the needs of the profession".

The PFS has added that "in the light of the CII Board's attempt to deregister the company (the PFS) that the status quo is no longer an option and welcomes the implicit recognition of this in the consultation document" and has encouraged "all members to contribute their views on their relationship with the PFS and the CII by responding to the consultation".

Opportunities to help shape a professional institution in this way occur very rarely, if at all. With the majority of paraplanners undertaking CII qualifications, as members it is important you make sure you have your say and input your views on improvements you think are necessary. When an institution dominates a market for many years it can become complacent (if not arrogant). With the profile of other professional bodies increasing in the industry, in particular in respect of alternative qualification routes, there are now many more and for some, potentially more attractive pathways for industry members to follow. The PFS has delivered some sterling initiatives in the past few years, not least the setting up of the PFS Paraplanner Panel, and hopefully will continue to do so into the future. The bigger question here is, should the financial advice profession be looking to divest itself of the CII? Or can the tanker be turned?

Talking of turning tankers, publication of this magazine will coincide with the 26th United Nations Climate Change Conference (COP26). We have to hope that governments of the world will do our planet proud when they meet and follow the UK's lead in taking decisive action. The evidence is overwhelming that we need to change how we utilise the Earth's resources if we are to tackle climate change and sustain an ever-growing human population. Getting politicians to think beyond four years (or the political equivalent in other countries) is a challenge in itself, but there is no doubt that inaction will have a profound effect on maybe not ourselves but most definitely future generations.

Awareness of the issues is being increasingly reflected in the investment world of late. In the past few years we have seen a significant shifting of money into responsible investment strategies. Investment Association figures show that since 2018, £24.4 billion has been invested against a total of just £2.7 billion in the previous five years; while 129 responsible investment funds have been launched in the past four years, against 69 in the previous five years.

Greenwashing aside, there is a fantastic opportunity for the financial services industry, which has been lambasted on many occasions for its ethical principles, now to be a significant driver for positive change – because after all, money talks. And big money talks louder.

Rob Kingsbury,
Editor, *Professional Paraplanner*
robkingsbury@researchinfinance.co.uk

Two new Investment Committee webinars for you

ESG IN EMERGING MARKETS

Date: **3 November 2021** Time: **10:30**

The latest in our Investment Trust Insights series. Learning objectives:

- **Navigating regulatory concerns in EM and specifically in China**
- **The relevance of corporate culture to long-term corporate performance**
- **Opportunities in the small and mid-cap space in emerging and frontier markets**

FIDELITY'S JAMES BIRD RETURNS TO PRESENT ON: THE INCOME DILEMMA: FINDING AN INVESTMENT SOLUTION TO SUSTAIN RETIREMENT

Date: **24 November 2021** Time: **10:30**

Learning outcomes:

- **Recognise some of the key macroeconomic themes that are contributing to the outlook for income-generating assets in 2021 and beyond.**
- **Gain an insight into how to navigate the uncertain environment through strategic asset allocation and different income options.**
- **Understand the benefits that risk-controlled solutions offer investors nearing retirement.**

Details of both events can be found under the Events tab on our website.

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In this issue...

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RO FOCUS

Luiza Todd, director of Bespoke Training Solutions, looks at the different options available for candidates to achieve a Level 4 financial services qualification

Since the Retail Distribution Review (RDR) back in 2012 the minimum requirement for giving advice to retail clients is to have a RQF level 4 qualification. There are a variety of examining bodies offering this qualification, including the Chartered Insurance Institute (CII), the Chartered Institute for Securities and Investment (CISI) and the London Institute of Banking and Finance (LIBF). So how does an individual know which option is the best one for their personal needs?

CII Level 4

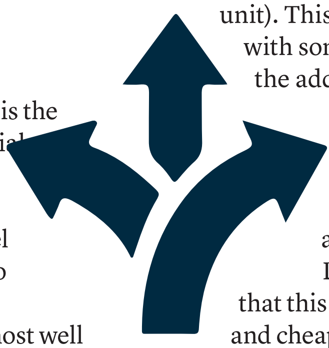
The CII's level 4 qualification is the Diploma in Regulated Financial Planning. It consists of six R0 units which combined give candidates their required level 4 qualification and the right to use the DipPFS moniker.

This route is probably the most well know, however that's not the same as being the most well-loved! The six CII R0 papers are far from easy. CII examiners are renowned for having an unusual grasp of the English language when phrasing their question stems!

Candidates can easily 'defer their success' with the tougher R0 units and end up ploughing through a large budget to achieve this qualification. R01 to R05 can be sat weekly, R06 has four annual sittings. BTS has helped many individuals with these units but especially R03 Personal Taxation and R04 Pensions and Retirement Planning. Many adviser Academies use this route as their preferred option.

CISI level 4

Three units are required for this qualification known as the Investment Advice Diploma, which entitles the candidate to use the moniker ADSI on successful completion. There are two mandatory units – UK Regulation and Professional Integrity and Investment, Risk and Taxation. Both are tough papers combining standard multi choice questions with questions stems that can be shorter or more scenario based.



From there candidates have a choice of one out of four further units (anyone wanting to be a financial planner must select the Financial Planning and Advice unit). This examining body is popular with some city firms as some of the additional unit choices relate more closely to the roles they will be carrying out. Additional papers cover subjects such as securities and derivatives.

Don't however start thinking that this is going to be a quicker and cheaper route. CISI papers are notoriously tough. And unlike the CII version if a candidate 'defers success' in a unit three times they then must wait six weeks before having another go, unless an appeal is submitted and accepted. BTS have seen too many candidates having multiple attempts at these units, to buy into the 'it's an easier route' theory...

LIBF level 4

There are three units required for this qualification known as the Diploma for Financial Advisers. Successful candidates can then use the moniker DipFA. Unit 1 is known as FRSE and is broadly based on regulation, compliance, and ethics. Unit 2 consists of course work and an assessed assignment. Unit 3 is a case study-based exam like the CII's R06 exam.

The LIBF route has grown in popularity as it is potentially a cheaper option, can take less time and appeals to candidates used to a university study approach. Academies such as the one offered by Quilter use this route as their preferred level 4 option.

Future of the industry

The financial services industry needs to develop its next generation of advisers, paraplanners and other associated financial planning roles. There are many established advisers currently in their 50s and over, many of whom are looking forward to their retirement. So fresh blood is essential for our industry, and such individuals need their level 4 qualification.

Part of achieving success in qualification-based exams is about selecting the right training provider. Thankfully there are now a variety of choices out there, including BTS who offer alternative study guides, e-Learning modules, workshops and the BTS App R0 Study Buddy. Pick wisely as the wrong selection in both your level 4 provider and support materials can end up costing you dear in both time and monies spent.

About Bespoke Training Solutions

Bespoke Training Solutions (BTS) have been supporting regulated exams for 18 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 R0 Study Buddy which provides practice exam questions. Visit www.bespoketrainingsolutions.com to learn more on how BTS can help you on your regulated journey.

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DEATH BENEFITS

Michael Pashley, managing director of Practical Financial Exams Limited, looks at how paraplanners can use the state pension to meet death benefit objectives

Regularly investing your state pension as a legacy for your loved ones can be both effective and tax efficient. Often, financial advisers are confronted by clients with death benefit objectives, but the humble state pension so often takes a back seat in favour of alternative strategies, sometimes including the transfer of a defined benefit pension scheme. But if regularly investing your state pension, how do the numbers stack up?

The simple cashflow model below demonstrates the nominal value of accumulated state pension assuming:

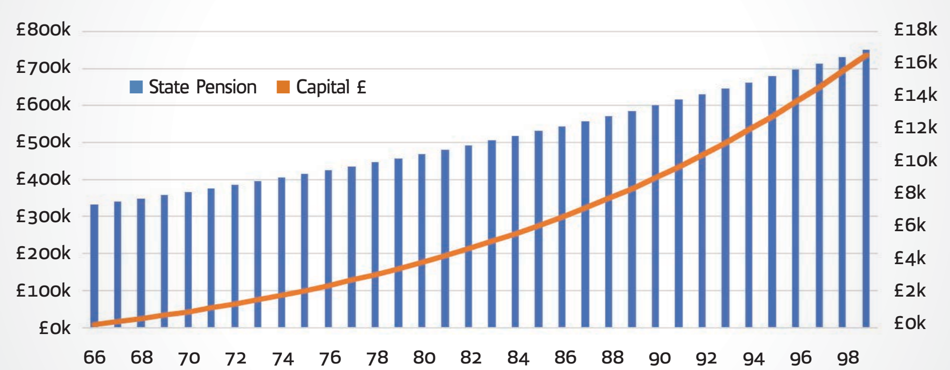
- The full single tier state pension of £9,339.20 per annum is paid, and subject to 20% Income Tax.
- The state pension increases 2.5% pa.
- The accumulated investment achieves a 4% annualised compound return, net of charges.
- State pension starts being paid at age 66.
- The regular contributions to the accumulated investment are made annually in arrears.

The client's age is represented by the horizontal axis. The blue bars correspond to the right vertical axis and demonstrate the state pension increasing each year at a fixed rate of 2.5%. The orange line corresponds to the left vertical axis. As we're about to turn 87, broadly speaking average life expectancy in the UK for someone at retirement, our accumulated investment stands at £298,449. This more than doubles if we make it to age 97.

The challenge with accumulating state pension like this is tax. Accumulation into an ISA each year could be highly tax efficient from an Income Tax and CGT perspective but could attract IHT at 40%. Once you're into your late 80s, based on our model, your nil-rate band has been used up purely by the state pension accumulation. IHT could be avoided using Business Relief qualifying investments. Furthermore, investment into EIS qualifying shares would provide Income Tax relief. However, we'd be limited according to our risk profile.

Gifting the money each year would be exempt from IHT because it's a normal expenditure out of regular income[1 2 3].

STATE PENSION ACCUMULATION



However, if we're gifting into a discretionary trust to invest and accumulate, it could be complex and tax inefficient to use collectives. We could use an investment bond, but there may be a limited number of regular premium investment bonds to choose from. We could avoid this problem by using the state pension to fund a Whole of Life assurance policy, in trust, to provide a known legacy. Alternatively, we could gift away our state pension income as we receive it, so we can watch our loved ones enjoying it in our lifetime.

Pension contributions of up to £3,600 (gross) could be made, and tax relief provided, up to age 75[4 5]. This would provide £720 relief at source and gross roll-up within the pension wrapper.

The point of all this is that state pension accumulation, or the use of the state pension to provide regular gifts to loved ones or to fund a Whole of Life assurance policy, is often overlooked. As per our cashflow model, once we hit our mid-70s, this ain't chump change. This is a lifechanging amount of money. The deposit on a house. University costs. Private school fees...

So don't count it out – the state pension is a great pension!

[1] Valuation Office Agency, "Inheritance Tax Manual Section 6: exemption," 01 09 2021. [Online]. Available: https://www.gov.uk/guidance/inheritance-tax-manual/section-6-exemption. [Accessed 07 10 2021].

[2] HM Government, "Inheritance Tax Act 1984, Section 21," 1984. [Online]. Available: https://www.legislation.gov.uk/ukpga/1984/51/section/21. [Accessed 07 10 2021].

[3] The Technical Team, "The Inheritance Tax, normal expenditure out of income exemption," Prudential, 02 01 2020. [Online]. Available: https://www.pruadviser.co.uk/knowledge-literature/knowledge-library/normal-expenditure-out-of-income-exemption/. [Accessed 07 10 2021].

[4] HM Revenue & Customs, "PTM044100 - Contributions: tax relief for members: conditions," 15 08 2021. [Online]. Available: https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm044100#ruki. [Accessed 07 10 2021].

[5] The Technical Team, "Tax relief on member contributions," Prudential, 06 04 2021. [Online]. Available: https://www.pruadviser.co.uk/knowledge-literature/knowledge-library/tax-relief-members-contributions/. [Accessed 07 10 2021].

WHERE ARE THEY NOW?

When Professional Paraplanner last spoke with Ashley Wiltshire she was about to up sticks and move to Texas, USA, while also running Wiltshire Paraplanning in the UK. We caught up with her to see how things have panned out in the intervening couple of years

Ashley Wiltshire, owner of outsourced paraplanning business Wiltshire Paraplanning, was the *Professional Paraplanner* cover star in October 2019. At the time, the business, which primarily but not exclusively serves financial advice firms under the St James's Place (SJP) banner, had been operating for six years and Ashley was about to take a leap of faith, moving from the Cirencester to Wylie, a small town in Texas. The town was somewhere she had lived before and family connections were part of her reasons to return there. She intended to run the paraplanning business from the US, while also setting up a local canine hydrotherapy service.

Catching up with her two years later, Ashley says things have gone surprisingly well, despite the disruption caused by the Covid pandemic. "When I first made the move and we were setting up the new business in Texas, I did suddenly think, 'Have I done the right thing?" Then I came across a Tony Robbins article on being an entrepreneur, in which he pointed out that spreading risk by diversifying your business was a good thing, just like when investing. That re-assured me," she says.

Around Brexit in January 2020, paraplanning work slowed down as investors grew more cautious, she says, but it then picked back up again and they had one of their best months – just as Covid hit. "We survived Covid as a team. Work dropped off considerably to start with so I stepped away from suitability report writing, giving the other members of the team more revenue from the work coming in and I focussed on case checking," Ashley explains.

In one way, Covid provided a silver lining, as being less hands-on with paraplanning allowed Ashley the opportunity to focus more time on setting up the canine hydrotherapy business, Scuba Sams, which opened in June 2020 (see inset photo).

Texas is six hours behind the UK, so Ashley effectively starts work at 2pm UK time. Typically, she works half the day on Wiltshire Paraplanning and half the day on Scuba Sams. "Scuba Sams, named after our dog Sam, now has a strong community of people using us, who recommend us to others, and we've been able to build up the business despite Covid. Also, there are only two other rehab services in the whole Dallas/ Fort Worth area (the fourth largest metropolitan area in the US) and I know that if I needed to return to the UK I could most likely sell the business. So it's worked out well."

"We survived Covid as a team. Work dropped off considerably to start with so I stepped away from suitability report writing, giving the other members of the team more revenue from the work coming in"

In terms of paraplanning, the company currently serves around 35 SJP partners. There is a team of six paraplanners plus

Ashley, an office manager and an administrator who undertakes data and information gathering, leaving the rest of the team to focus on paraplanning. Ashley says she has also been using Intuitive Support Services, run by Debbie Condon, for admin support.

Although Ashley works from the States, the company operates entirely from the UK. "Our systems are all UK-based, accessed through the cloud. We spoke to SJP before we left to ensure we conformed to all data protection/GDPR rules and that they were happy. My laptop, for example, I bought before we left Cirencester and it still runs on GMT, so I know exactly what time it is when I'm talking to people in the UK."

Staying in touch

Ashley has ensured she is permanently in touch with her team and paraplanning in the UK. Her team has two What's App groups, one for work and one for everyday life, "where we can share pictures and have fun conversations."

She has also set up a Facebook group for paraplanners working with SJP. "I wanted to provide support because SJP has its own systems and ways of working and I felt it would be useful to give other paraplanners a way to talk with their peers and pose questions and get help if they need it."

And prior to leaving the UK Ashley was involved with the London Institute of Banking and Finance (LIBF), helping with content and questions for the Level 4 Paraplanning qualification and writing blogs. She continues to help the professional body with the exam course and as a consultant on paraplanning issues.

Looking to the future

As with many outsourced paraplanning services, Ashley has seen an increase in workload in the aftermath of lockdown, as advice firms have seen a rise in interest in financial advice. But, she adds, Wiltshire Paraplanning carefully manages the number of firms it will work with at any one time in order to maintain its service standards. "We keep a close eye on our workloads and what we can undertake if we are to maintain our quality standards." Building the business organically is her aim and currently, she is looking to increase the administrative function, to help paraplanners take on more work.

Looking ahead, Ashley says she wants to build the paraplanning business to around ten paraplanners – "as a nice round number" – and the team is working on the SJP Paraplanner Accreditation "so we will have that under our belts soon too".

She is also training up two assistants to work in the Texas business, to enable Ashley and her husband to step back from physically working in the business all the time, and she will take a more overarching role across the two businesses.

As more consumers look to financial advisers for help with their finances, Ashley expects advice firms to look more to outsourced services as a flexible and economical way of working. "What's important is that they find a firm with experience that is the right fit for them and their business," she emphasises.

Asked what her secret is for success, she says: "It's about professionalism, the way you approach things, and how you deal with people. Also, you've got to enjoy what you do."

CAREER PATHWAY

Paraplanning has evolved organically to become an essential part of financial planning. Now it needs to be given the career status it deserves, says Lyndsey Fraser, member of the PFS Paraplanner Panel

Paraplanning as a career has evolved massively over the last 15 years. Where it used to be seen as a rather nondescript administration role and a stepping stone for those who saw advising as the only way to progress, it has now become a career in its own right, and also has the potential to take people in other directions such as management, compliance, training and marketing.

Paraplanners are now in great demand but there is still some confusion as to what a paraplanner is and what we do on a day-to-day basis. Experience shows that the role of a paraplanner varies massively depending on the size of the firm and the responsibility level, workload and experience of the paraplanner in question. As things stand currently, it is the individual financial advice firms that decide what a paraplanner does and who can become a paraplanner.

Most firms will expect their paraplanners to carry out research, write reports and provide analytical support for advisers and clients. However, some firms have their paraplanners complete and submit applications, whereas other firms want their paraplanners to provide technical expertise on areas such as tax and legislation, with the ability to question and ensure the advice is correct. Some paraplanners are also expected to attend client meetings with the adviser and train other members of staff.

There are paraplanners that are relatively new to the role and starting to work towards an appropriate qualification, whereas others are classified as Chartered Financial Planners, and some have been working as paraplanners for in excess of 10 years.

Whilst many firms require their paraplanners to have achieved or be working towards an appropriate

qualification, officially there is no minimum qualification requirement like there is for becoming an adviser. The qualification route itself can also be quite confusing, with no defined pathway and a number of different exams and certificates to choose from. For example, both the CII and the CISI now offer level 4 Certificates in Paraplanning. And the London Institute of Banking & Finance (LIBF) offers a Diploma in Paraplanning.

Paraplanners tend to fall into two groups; those who see paraplanning as a career in its own right and those who see it as a stepping stone to becoming an adviser

Paraplanning also allows for a lot of variety in terms of work set up – full or part

time, office or home-based, employed or self-employed, in-house or outsourced and hybrid adviser/paraplanner roles, etc.

It's all very inconsistent and this means that career progression will not be the same for every paraplanner.

Career pathway

In most industries, the career path tends to be very clearly laid out from outset. You join a company, you follow the predetermined career path, and you start moving up the career ladder and, most of the time, this means your job will steadily progress in terms of difficulty and responsibility, with the rewards of increasing pay.

Jump into law, for example, and your boss will explain how to progress from a paralegal to an associate over the course of a few years. Unfortunately, financial advice firms do not tend to sit down with their paraplanners to go over this career progression and that is because there simply isn't a well-defined career pathway.

Paraplanners tend to fall into two groups; those who see paraplanning as a career in its own right and those who see it as a stepping stone to becoming an adviser. Career pathways need to be developed for both groups to encourage all paraplanners to develop their own career aspirations and goals.

For the career paraplanner, firms need to look at ways in which they can take on more responsibility. This could be, for example, by helping to mentor and develop trainee paraplanners, to help recruit paraplanners or perhaps by becoming a product specialist or concentrating on one technical area of expertise, such as estate planning or tax advantaged investing.

Whether or not your firm has a defined career path in place, it is always worth sitting down with your manager to talk about what they envision the firm's growth will look like over the next year years and what you would like to contribute towards the firm. Do not hesitate to bring up your skills and ideas for future progression. Communicating your goals and interests will help your manager to start guiding you towards the types of opportunities you seek.

How the Panel can help

As paraplanning becomes ever more important, clearer role definitions and career paths would make it easier to market paraplanning as a career to both a younger generation and a more diverse market. I think this is the only way we are going to be able to build a real profession and this needs guidance from a body like the PFS's Paraplanner Panel.

The Paraplanner Panel's first step in this process has been to put together a guide to help people learn more about paraplanning and how to take the first steps into the profession, which you can access via the following link: https://www.thepfs.org/media/10122021/getting-you-started-in-paraplanning.pdf.

I think we also have a responsibility to help promote career paraplanning to the wider world. How many school leavers, or adults for that matter, would even know that paraplanning existed as a career choice? This will not change unless our industry helps to promote itself.

SSAS: 'NOT SO BASICS'

Having gone 'back to basics' on SSAS in his website article for Professional Paraplanner, Stephen McPhillips, technical sales director, Dentons Pension Management Limited, now looks at some of the more complex elements of this pension vehicle

In my recent article published in *Professional Paraplanner*, I scratched the surface of the SSAS pension vehicle, which is sometimes shrouded in mystique but can be a highly useful tool for company directors and key employees of small and medium sized limited companies. This article aims to explore some of the finer detail involved in SSAS. In turn, that might help to explain why the SSAS market operates in various forms.

Registered Pension Scheme

If we take it as a given that we are referring to a SSAS that has been accepted and registered by HM Revenue & Customs (HMRC), then the scheme will have a "scheme administrator" and HMRC's Pensions Tax Manual (PTM) states: "To be registered by HMRC, a pension scheme must have a scheme administrator. This is the person appointed in accordance with the scheme rules to be responsible for complying with the functions and responsibilities of a scheme administrator under Finance Act 2004."

Hence, a scheme administrator is a fundamental aspect of Registered Pension Schemes.

Who can be a scheme administrator?

HMRC requires that all parties appointed as the scheme administrator for the purposes of the pension tax legislation, are able to declare themselves as "fit and proper" persons.

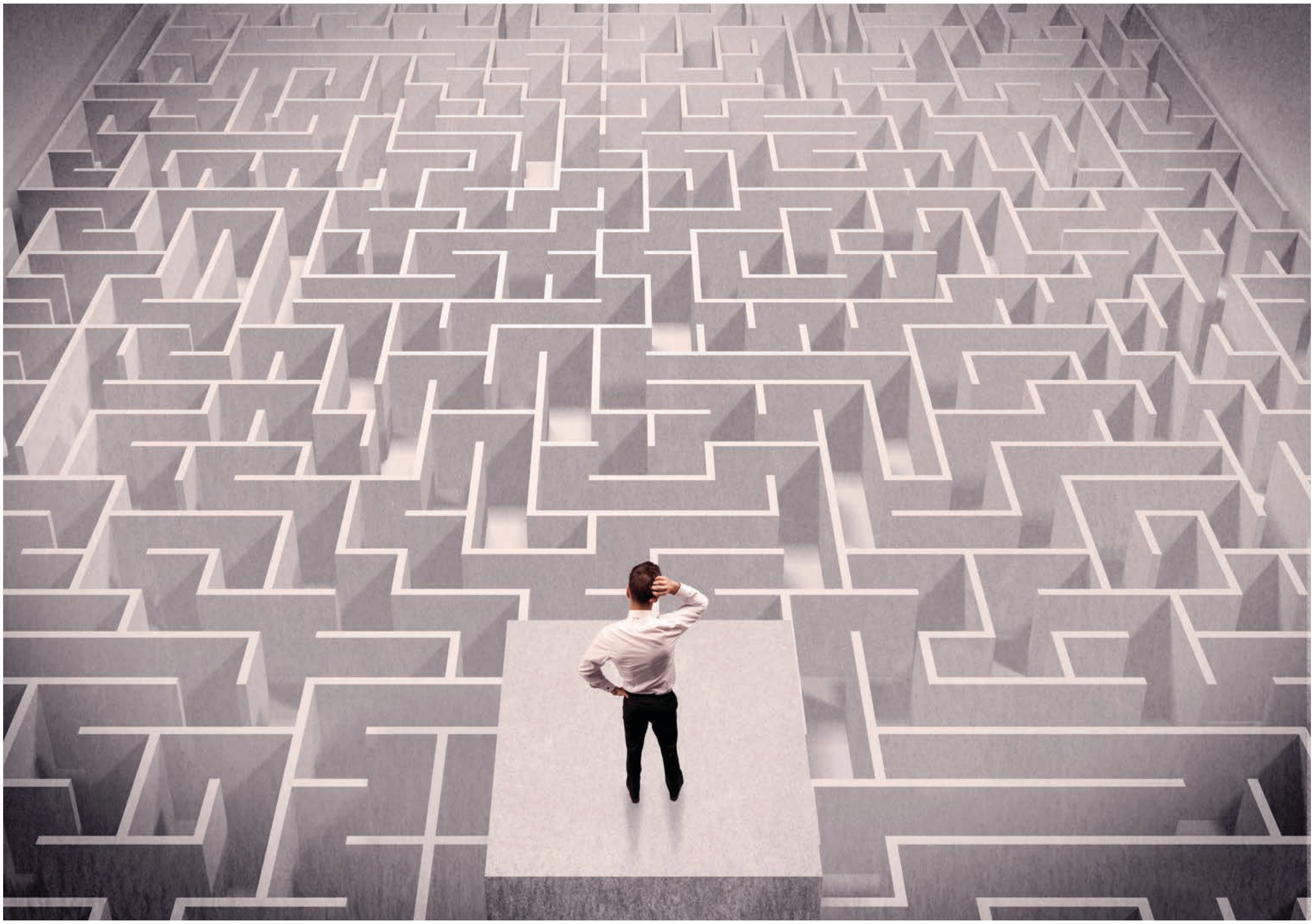
The scheme administrator is likely to be a fit and proper person if they are familiar with, and capable of competently performing, the scheme administrator's responsibilities and there is nothing in their past behaviour to suggest that they should not be responsible for the financial management of the pension scheme.

> *Given the substantial tax advantages that apply to Registered Pension Schemes, it's not surprising that significant responsibilities are accordingly placed on the shoulders of the scheme administrator(s)*

A scheme administrator might be an individual or several individuals acting together (such as the trustees), a corporate body or public sector body. The scheme's trust deed and rules will usually set out who the scheme administrator is. Within a SSAS, the member trustees might act jointly with an experienced and knowledgeable professional trustee as joint scheme administrators, although this is by no means universal across the SSAS market; some member trustees choose not to use a professional trustee.

There is no test or qualification to pass and, whilst not setting-out a definition of who, or what, a fit and proper person is, HMRC does provide plenty of guidance on factors that would lead them to believe a person or parties are not up to the tasks, which include that the person:

- Does not have sufficient working knowledge of pensions and pensions tax legislation to be fully aware and capable of assuming the significant duties and liabilities of the scheme administrator, or does not employ an adviser with this knowledge.
- Has previously been involved in pension liberation.
- Has previously been the scheme administrator of, or otherwise involved with, a pension scheme which has been de-registered by HMRC.
- Has been involved in tax fraud, abuse of tax repayment systems or other fraudulent behaviour including misrepresentation and/or identity theft.
- Has a criminal conviction relating to finance, corporate bodies or dishonesty.
- Has been the subject of adverse civil proceedings relating to finance, corporate bodies or dishonesty/misconduct.
- Has participated in, or been connected with, designing and/or marketing tax avoidance schemes.
- Employs as an adviser a person who has been involved in pension liberation or tax avoidance.
- Has been removed from acting as a trustee of a pension scheme by the Pensions Regulator or a Court, or has otherwise seriously contravened the pensions regulatory system, or the regulatory system of any other professional/governmental regulatory body.



- Has been disqualified from acting as a company director or is bankrupt.

What are the scheme administrator's main roles?

Given the substantial tax advantages that apply to Registered Pension Schemes, it's not surprising that significant roles and responsibilities are accordingly placed on the shoulders of the scheme administrator(s). The main roles are as follows:
- Registering the pension scheme with HMRC.
- Paying certain taxes to HMRC.
- Operating tax relief on member contributions under the relief at source system.
- Reporting events relating to the scheme and the scheme's administration to HMRC.
- Making formal returns to HMRC.
- Providing information to the scheme members, and others, about Annual Allowances, Lifetime Allowance usage and other benefits and/or transfers.

Whilst some of these roles might not appear too onerous for the lay trustee, some are far more difficult and challenging. The existence, for example, of 13 different benefit crystallisation events (BCEs) is likely to cause a headache for most lay trustees. Complex rules around the Annual Allowance, Lifetime Allowance and the various forms of protection from its effects are also likely to be a major challenge. Added to these within a SSAS is a very wide range of possible investments – some of which might give rise to unexpected and unwanted tax charges if not researched and structured properly.

Going it alone

Given that there is no longer an HMRC requirement for a SSAS to have an independent trustee's involvement, and nor is there a legal requirement for a professional scheme administrator to assist lay trustees acting in that capacity, it's almost inevitable that some clients choose to operate their SSAS without any assistance – formal or informal. Informal assistance might take the form of a "practitioner-only" proposition where the practitioner has no formal responsibilities to the scheme. Formal assistance might take the form of a full, hands-on, service proposition which includes roles of co-trustee, joint scheme administrator and co-signatory.

Regardless of which route is adopted by the client, one fact remains constant; failure to meet HMRC's requirements can result in expensive penalties and tax charges, all of which could be avoided with very careful stewardship of the scheme.

LISTEN WITH INTENTION

The skill of listening could be one of the most important for paraplanners and financial planners alike. Yet in a world of almost perpetual 'noise' it can be the skill we nurture the least, says Michelle Hoskin, managing director Standards International

One of my favourite sayings in 2021 has been "seek to understand before you are understood". I think in a world of so much noise, it is actually very hard to hear what is actually being said. One of the most important aspects of the professional role of paraplanning is to really pay attention. Listen and understand what is being said; but more importantly in many cases, listen for what is not being said at all.

Confused? Let me explain.

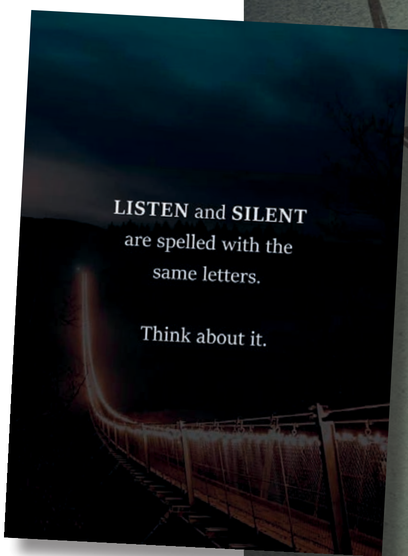
A few months back I stumbled across a Facebook post which asked the question – what key skills do you believe today's financial planners need to have?

After sitting there pondering for some time, my mind flooded with an extensive list of must-haves, I realised that the one skill I believed was needed over all others is the skill of listening.

This seems so simple, so basic and so obvious, but frequently, even in the conversations I have with planners, their teams and often their clients, while the desire to listen remains strong the ability to understand is sadly not.

The sector has for sure come a long way, and with the introduction of financial planning, life planning, lifestyle planning and now life-centred financial planning, it would appear that we've cracked it. Or maybe not?

I think, if we were honest, most of us, including me at times, really only listen for words that trigger in ourselves some form of action, whether that be action to respond or action to advise or action to fix. But that's not really the real reason we need to listen. Our words and the words of others are extremely powerful; they are a doorway into our hearts, our souls and ultimately our lives. Personally, I am always fascinated by what's not said. The words and statements that are missing from sentences, missing from stories and missing from the conversation – this is where I believe the magic of true listening lies.



So the question is: Do you really listen? Do you hear what is and is not being said? Do you have this skill nailed?

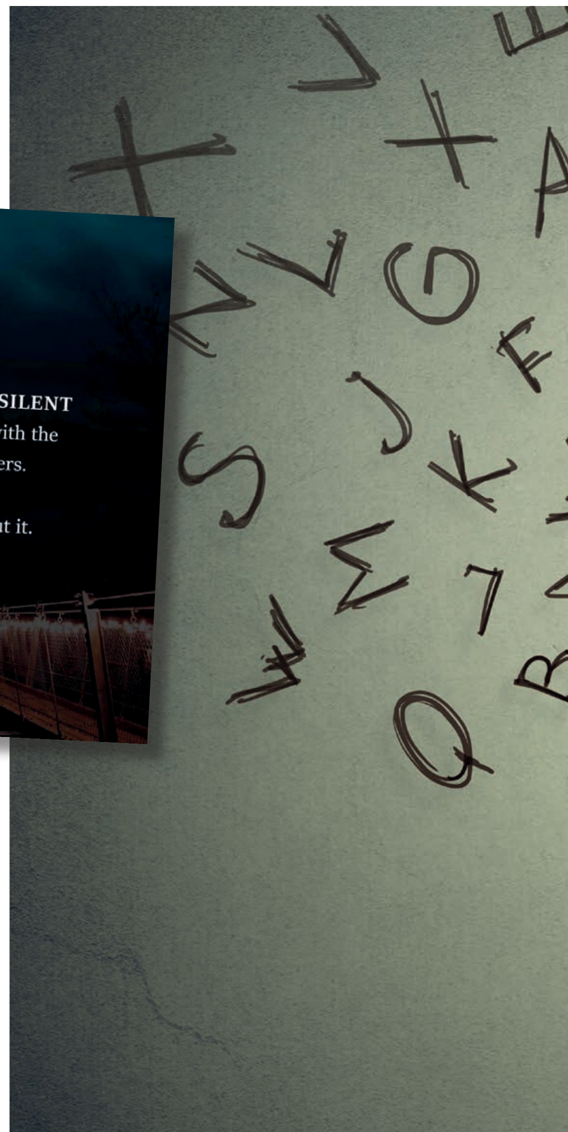
Maybe you do, maybe you don't; but with this skill I think it will go a very long way in putting you in a wonderful position to add value in the most important way.

1. Pay attention

When someone is talking, pay attention, remove all possible distractions, lose the devices, the laptops and the screens, make eye contact, engage with the person and listen. Listen so hard that if there were a test asking you to recite that person's conversation word for word, you would pass with flying colours.

2. Hear the words that are not being said

We often listen at a heightened level – a level that allows us to get the main points of what is being said, but at times the choice of words and the words that are missing hold the key to what is really going on. A friend recently told me that her husband has given



up everything for her and the children. Now, in the context of what we were talking about, the sentence could appear to be true – factually accurate in her mind, and most people would have no reason to question what was being said. But lucky for her, I am not 'most people'.

I wasn't happy with the words she chose. While that statement may have been true, I knew that the choice of words and the context in which they were said were the key to unlocking many limiting beliefs that I believed were preventing her from moving forward with a fulfilled, happy and full life.

3. Be brave

If you hear something that you feel uneasy about, question it. If you hear something that you don't believe is true, question it. If you hear something that doesn't make sense to you, question it. Remember the statement "seek to understand before being understood"! In order to show that you're truly listening, ask questions – not just easy questions but the hard questions that may open up a can of worms that have been buried for some time. Do it even if some of the questions that you ask make you feel a little bit uncomfortable. Some of my most important breakthroughs have come when someone has asked questions that made a huge difference to me but made them feel a little scared and a little uncomfortable. When you're brave, amazing things happen to and for you and others around you.

4. Recognise your own frames of reference

If life is tricky for others, it's likely to at times be tricky for you. Look at your own journey – every step of your life has formed your own beliefs, your own set of values, your own opinions about how things should be and should not be.

While I know it would never be your intention to impose any of your beliefs or opinions on others, unfortunately it's something that cannot be helped. The truth is there is very little we can do about our own hardwiring, but what we can do is be aware that we carry it around with us all of the time.

Taking the opportunity to clear your mind, put your own life challenges to one side and focus solely on the person and situation sitting right in front of you makes you perfectly placed to help some of the most important people in your life navigate through the challenges that their life presents.

The role you hold when you're in front of your clients, your team, even with your own friends and family, is a beautiful gift that should never be taken for granted. Quoting Winston Churchill as Under-Secretary of State for the Colonies in 1906, "where there is great power there is great responsibility".

COP26 AND BEYOND

Richard Cooper, business development manager at The London Institute of Banking & Finance, looks at the challenges for paraplanners to stay abreast of the evolution of ESG

By the time you read this the 26th UN Climate Change Conference of the Parties (COP26) in Glasgow will be about to commence.

Embedding of 'environment, social and governance' (ESG) has continued to develop at pace over the last 18 months with more organisations introducing ESG portfolios into their central investment proposition. There have also been many new and relaunched ESG funds from investment managers and providers.

In the UK, we've already committed to two things in this area that will impact the role of paraplanning: we were the first major economy to put into law that we will reach net zero carbon emissions by 2050; and we're making climate-related disclosures mandatory across the economy by 2025, with most requirements coming

in by 2023. One of the biggest hurdles for paraplanners has been how to keep up to speed with all the changes, compare funds and match them to the ESG profiles of clients. For the UK to meet its commitment to achieve net-zero carbon emissions by 2050 – and the five-yearly goals and targets – greater regulation is likely to be introduced, possibly quite soon.

The Financial Conduct Authority (FCA's) recent consultation paper – Enhancing climate-related disclosures by asset managers, life insurers and FCA-regulated pension providers – gives an insight into what is likely to change, why and when.

Why the FCA consulted

In November 2020, the Government published a Roadmap towards mandatory climate-related disclosures across the UK economy by 2025, which aligned with the recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD).

The FCA are proposing a climate-related financial disclosure regime for asset managers, life insurers and FCA-regulated pension providers consistent with the TCFD's recommendations. The proposals aim to increase transparency. High-quality information on how climate-related risks and opportunities are being managed will help clients and consumers make better

> ***One of the biggest hurdles for paraplanners has been how to keep up to speed with all the changes, compare funds and match them to the ESG profiles of clients***

decisions about their investments. This should, in turn, help to:

- Enhance competition in the interests of consumers
- Protect consumers from unsuitable products
- Drive investment towards greener projects and activities.

The key elements of the proposals are 'entity-level' and 'product or portfolio-level' disclosures. This means that firms could be required to publish an entity-level TCFD report each year on how they take climate-related risks and opportunities into account, when managing or administering investments on behalf of clients and consumers. And they'd be required to annually produce a baseline set of consistent, comparable disclosures in respect of their products and portfolios, including a core set of metrics.

Timing of the changes

The FCA are proposing a phased implementation, depending on the size of the organisation and funds under management, as follows:

- **FIRST PHASE:** From 1 January 2022 for the largest, most interconnecting firms, with an initial publication deadline of 30 June 2023 and annually thereafter.
- **SECOND PHASE:** From 1 January 2023, for the smaller firms, with an initial publication deadline of 30 June 2024 and annually thereafter.

Product or portfolio-level disclosures

The FCA are proposing a baseline set of core, mandatory, carbon emissions and carbon intensity metrics that in-scope firms would be required to disclose. Their approach aims to promote consistency and comparability that would both provide clients and consumers with decision-useful information about their investments and support the onward flow of information to clients.

Clients and consumers could compare the carbon-related attributes of their products over time, to measure progress and hold their providers to account. The core metrics being proposed are a subset of the metrics listed in the TCFD's recommendations. These are undergoing consultation now, so they might change.

The proposed core metrics are:

- **SCOPE 1 AND 2 GREENHOUSE GAS (GHG) EMISSIONS:** Metrics that are already widely used in the market – including as part of disclosure regimes in the UK and internationally – and will be required when the rules come into force.
- **SCOPE 3 GHG EMISSIONS:** A widely recognised metric, though methodologies differ. There may be significant data gaps among investment companies, at least in the short term, until the further disclosure requirements are implemented in the UK and internationally. It is proposed that firms should disclose Scope 3 emissions from no later than 30 June 2024.
- **TOTAL CARBON EMISSIONS:** The sum of the GHG emissions referenced above, the FCA consider it appropriate to mandate that this metric be disclosed to the same timeframes. Scope 3 emissions would therefore need to be included in the total figure from 30 June 2024.
- **CARBON FOOTPRINT:** Another widely used metric in the market, it's proposed this be disclosed on a mandatory basis as soon as the proposed rules enter into force.
- **WEIGHTED AVERAGE CARBON INTENSITY (WACI):** The TCFD is currently proposing that asset managers and owners should disclose a financed emissions metric based on WACI – and the Partnership for Carbon Accounting Financials (PCAF) methodology, if relevant, or a comparable methodology – as it has acknowledged limitations with this form of carbon foot-printing due to data availability.

As a paraplanner you're likely to be required to compare and explain the core set of metrics, so it would be a good idea to familiarise yourself with them now. Whilst there is a proposed deadline, there is nothing to stop firms using and publishing these metrics early.

As regulation increases, the requirement and pressures to reduce our carbon footprint and green-house emissions will start to intensify. Greater scrutiny will be given to any selection of funds to ensure they are in line with a client's requirements and are meeting their obligations. As a paraplanner, you can stay ahead of the game by understanding the likely developments.

FUTURE PLANNING

Professional Paraplanner spoke to Victoria Barber, head of Strategic Partnerships at TIME Investments, about the impact of the pandemic on the advice sector, the growing urgency for IHT solutions and how TIME is supporting paraplanners and advisers

It's fair to say Covid-19 has disrupted and impacted our lives in unprecedented ways and for many, it has served as stark reminder of the importance of being financially prepared. "I read a statistic that showed there was a 267% rise in people making Wills during the pandemic, which is truly phenomenal," says Victoria Barber, head of Strategic Partnerships at TIME Investments.

"One of the massive impacts of Covid is that people have become so much more concerned about their own mortality and it's one of the first times in a long time that many people's employment has also been threatened. As a result, we've seen people much more inclined to get their finances in order and financial planners I've spoken to have said they've never been so busy.

"I think we are seeing a really interesting turn for the advice industry," she adds.

While the pandemic may have accelerated people's desire to safeguard their finances, the importance of planning for the future is a drum that TIME Investments has been beating since its inception 10 years ago. Founded in 2011 by Nigel Ashfield, when Alpha Real Capital acquired the property fund management business of Close Brothers Group plc, TIME has built its reputation on delivering tax-efficient investment solutions that seek to provide clients with "peace of mind" for the future. "Our USP as a business is that we are conservative and considered in our approach. We never try to do anything outlandish or rash, our ethos is caution and patience," explains Victoria.

The business was originally launched with two long-standing successful offerings – a long income ground rent fund which launched in 1993 and a first-of-its-kind inheritance tax planning service which launched in 1995. Building on this foundation, TIME launched further funds and now offers clients five income funds and three inheritance tax solutions. Despite volatile markets, TIME has enjoyed steady growth over the last decade, with the group surpassing £4bn in assets under management this year.

IHT solutions

Victoria joined the company in June 2021 where her role is building relationships with and supporting advisers, service providers, paraplanners and industry bodies. She says she is excited about what the future holds for the advice industry. "There's been much talk about the concept of the Great Wealth Transfer between generations, but it's happening now and there's never been such a need for estate planning," says Victoria. "The Baby Boomer generation has benefited hugely from large investment gains and a phenomenal rise in house prices. Those who bought property 30 years ago, particularly in London, could now be finding themselves sat in houses worth more than £1m.

"It has created a generation of 'accidental millionaires' who still have the mindset that they're not wealthy and may not even be aware that their estate is subject to IHT. In reality, they need to be giving serious consideration to their tax liabilities."

A nationwide study carried out by TIME revealed that 52% of over-55s do not know what their IHT liability is and nearly a third (31%) have never checked the rules on IHT or how it applies to them personally.

To help clients protect their assets from inheritance tax, TIME specialises in providing inheritance tax solutions using Business Relief, which can allow qualifying shares to be passed on free of IHT after just two years. By opting for this route, clients can avoid gifting large sums of money and are able to retain access to their investment, subject to liquidity. It's also much quicker than the traditional planning routes which can take up to seven years to be effective, notes Victoria. TIME's flagship solution TIME Advance focuses on investing in asset-backed businesses , targeting a net return of between 3% – 4.5% per year.

Victoria says of the solution: "The main aim of the portfolio is to protect assets from inheritance tax through the use of Business Relief; we aim to achieve returns of between 3 and 4.5% per annum which is currently just above inflation. Investors currently have access to a well-diversified range of different sectors, including secured lending, self-storage, forestry and renewable energy."

Indeed, renewable energy is a big focus for the portfolio, with investments in solar and wind energy as well as biomass and hydro energy. TIME also provides clients with the option of a second IHT solution, TIME AIM, which invests in a portfolio of AIM-listed companies. "TIME AIM takes a slightly different approach to traditional portfolios in the market," Victoria explains. "It's actively managed but follows a disciplined, data-driven process to select companies. It will typically invest in around 30 companies but a key criterion is that those companies qualify for Business Relief."

It is an approach that has paid off, with returns of over 50% over the past 12 months, despite volatility in the markets.

In addition, TIME also administers TIME CTC designed for businesses that are concerned the amount of cash they are holding might threaten Business Relief qualification should the owner pass away. "It was really important for us that we offer a solution that allows business owners to get their money working for them in a more efficient way," says Victoria.

For Victoria, IHT planning is only set to become more important going forwards, particularly as the Government looks for ways to balance its books in the wake of its vast pandemic spending.

"We're seeing a lot of rumours around changes to IHT rules and capital gains tax and it's inevitable that we will see further tax rises in the future," says Victoria. "From our perspective, if IHT receipts continue to rise there will be an increased need to look at options such as Business Relief investments for clients.

"One thing we are seeing a lot of in discussions with advisers is the need to have the conversation around estate planning much earlier. Whether or not that leads to actions being taken immediately, it's crucial that advisers understand their client's long-term goals in their 50s rather than wait until their late 60s/70s."

Estate planning has also become a more pressing concern given the longer life expectancy that younger generations face. Victoria says: "Life expectancy continues to increase and more and more people are living to see their 100th birthday. We are likely to see multi-stage lives evolve so there will be a need for more flexible financial planning to cater for these different stages.

"People will think of finances in a different way and having financial planners and paraplanners who understand this change will be really important."

"Our USP as a business is that we are conservative and considered in our approach. We never try to do anything outlandish or rash, our ethos is caution and patience"

Supporting paraplanners

"We have one of the largest adviser support teams in the market," says Victoria. "We have a client service team to help with all post-sales enquiries as well as in-house technical specialists and regionally-based sales people who can travel to advisers' offices. We also run lots of training online. Our aim is to help advisers and paraplanners."

Over the Covid period, TIME ran 'bite size planning' made up of 30-minute technical sessions per week which attracted over 1,000 attendees. Not surprisingly, Will provisions proved to be one of the most popular. "It wasn't product focused at all, it was really about looking at estate planning differently and helping advisers and paraplanners by providing technical advice and it went down really well," says Victoria.

TIME is also helping advisers and paraplanners meet the needs of a growing cohort of environmentally aware clients with its impact investment report.

Explaining the reasoning behind the report, Victoria says: "Our report, which sits alongside our standard illustration, shows investors the output of their investment, for example if they invested X amount in TIME Advance, how much carbon would that offset? How much renewable energy would be generated? How many lightbulbs would that power? It looks at the positive impact element and breaks it down for clients in a really clear way.

"We felt it was a really nice thing for advisers and paraplanners to look at when considering solutions for their clients, as we're seeing more and more people concerned about the positive impact credentials of their investment. Being able to demonstrate this impact can offer them clarity and comfort."

TIME also offers an online IHT calculator which not only considers a client's liability today but makes assumptions based on future growth including house prices and fluctuations in investments.

And it doesn't end there. In its bid to make its service as simple and accessible as possible for advisers and paraplanners, TIME is on the cusp of launching a new adviser portal. Victoria adds: "We are really excited to offer more support to the paraplanning community and this portal will allow so much of our process to be brought online in an easy to navigate way. I think it will be a real game changer."

[1] 'The Year In Wills Report', Farewill, January 2021
[2] 'Passing on the Pounds: The rise of the UK's inheritance economy', Kings Court Trust, February 2017
[3] 'Property millionaires double in a decade', Savills, June 2017
[4] Research conducted by independent market research company Consumer Intelligence among 1,019 UK adults aged 18-plus between February 19th and 22nd 2021
[5] TIME Investments, data correct as at 31 August 2021
[6] www.thetimes.co.uk/article/record-number-of-people-aged-100-and-over-in-britain-96jd9gplp

INFLATION AND ECONOMICS

This issue, the Brand Financial Training team looks at inflation, stagflation and the Misery Index

We all know that keeping our money safe in the bank can provide us with security but we also know that it will be subject to inflation risk, even more so currently with interest rates still at an all- time low and the rate of inflation significantly higher.

Inflation is simply a measure of how much the price of food or travel or even the cost of a haircut has changed over a given period of time. The Office for National Statistics (ONS) uses a 'shopping basket' of goods and services to calculate the UK's consumer price inflation. The basket contains over 720 goods and services and changes regularly to ensure it's up to date and reflects current consumer spending patterns.

In 2021, 17 items were added to the basket which included smartwatches, hand weights for home exercise, coffee sachets, hand sanitiser and couscous. 10 items were removed including, white chocolate bars, ground coffee and 9ct gold chains. The full list can be found here on the Office for National Statistics website: Consumer price inflation basket of goods and services.

The ONS publishes its data each month and according to their latest figures, the Consumer Prices Index including owner occupiers' housing costs (CPIH) rose by 3% in the 12 months to August 2021, up from 2.1% in the 12 months to July.

This increase of 0.9% is the largest increase recorded since January 2006, although the ONS do note that this is likely to be a temporary change. They state that the largest upward contribution to the August CPIH rate came from transport, with further contributions from restaurants and hotels, housing and household services, as well as recreation and culture. What we must remember is that inflation rates today are reflective of the effects of lockdown during 2020. In particular, many meals taken out were discounted because of the Government's Eat Out to Help Out scheme.

Stagflation

One term that has hit the headlines recently is 'stagflation'. This is a combination of price inflation and low economic growth and is something that is hard for the Bank of England to resolve. If they try and tackle one side of the problem, then it makes the other side of the problem worse. High inflation is normally corrected by raising interest rates, but in periods of low growth this weakens the economy further. In contrast, cutting interest rates to boost growth results in more inflation.

One economic indicator closely linked with stagflation concerns is the Misery Index. This was originally created by Yale professor and economist Arthur Okun back in the 1960's when the cost of living was high and there was high unemployment. The index adds together the inflation rate and the unemployment rate and the resulting figure gives an idea of how much the average American is suffering. High unemployment and high inflation both result in a cost to the consumer and the higher the combined figure, the greater the misery it is thought will be felt by individuals.

The original index had been criticised by some as being too simplistic, whilst other economists such as Steve Hanke expanded the theory and added in bank lending rates to inflation and unemployment and subtracted the percentage change in GDP. His results are publicised and, in 2020, the country topping the Index was Venezuela with a Misery Index of 3,827.6.

Out of 156 countries, the UK ranked number 87 with a score of 21.5. The lowest score was achieved by Guyana with a negative result of -3.3, making them economically the least miserable country in the world. This was made up of:

- Unemployment 11.8%; plus
- inflation 1%; plus
- bank lending rate 9.7%; minus
- real GDP growth 25.8%.

Source: 2020 Misery Index: Venezuela Tops List, Again | National Review

The Office for National Statistics (ONS) uses a 'shopping basket' of goods and services to calculate the UK's consumer price inflation. The basket contains over 720 goods and services

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 21/22, examinable by the CII until 31 August 2022.

1. Gary holds a share account with his local building society branch. What benefits might Gary expect in the event of demutualisation?

A Lower interest rates on borrowings
B Higher interest rates on savings
C Increased product range
D Cash or shares in the new company

2. James has one buy-to-let property and is currently looking to invest in a second. He has been warned that he may suffer liquidity risk. You can tell him that this refers to:

A The risk of the tenants' being unable to pay the rent and him having to take legal action.
B A new government changing fiscal policy resulting in a reduced rental yield.
C The potential of his being forced to sell a security at a price below its fair value.
D The risk of his not being able to find tenants when an existing tenant vacates the property.

3. Simon makes payments to his occupational pension scheme by deduction from his pay. What is this method known as?

A Net pay arrangement
B Relief at source
C Gross pay arrangement
D Relief by claim

4. Priscilla took out a lifetime mortgage with interest roll up some years ago and her lender is not a member of the Equity Release Council or its predecessor Safe Home Income Plans, thus does not have a "no negative equity" guarantee. If on her death her loan plus rolled up interest is more than the value of her house, what likely course of action will the lender pursue?

A Continue the mortgage with her next of kin
B Write off the debt
C Attempt to retrieve the outstanding debt from her estate
D Rent out the property to recoup the debt using rental income

5. Gordon has decided to use a SIPP to save for retirement. His adviser should make him aware that (tick all that apply):

A Loans to an employer cannot exceed 50% of scheme assets.
B Assets such as wines and antiques could give rise to tax charges.
C The SIPP could be used to buy a commercial property from a "connected person".
D Loans to an employer are permitted.

6. To qualify for a full new State pension an individual must have a total of how many years' National Insurance Contributions or credits?

A 26
B 30
C 35
D 39

7. Kelsey, a fund manager with a medium-sized investment firm in the city, has decided to take a significant divergence from his fund's benchmark and gone overweight in emerging markets. What could this mean?

A It would suggest Kelsey is seeking out-performance and represents an opportunity for further investment into the fund.
B Kelsey is an effective fund manager, and this is evidence the fund is actively managed.
C Kelsey is adopting a contrarian approach to fund selection.
D The divergence represents greater risk, so greater short-term volatility would be expected in Kelsey's fund.

8. Ed holds a call covered warrant with a strike price of 85p and a parity of 1. At expiry, the underlying shares are trading at 97p. What is the cash payout, if any, to Ed?

A Nil, Ed has made a loss in this instance
B 12p
C 15p
D 85p

9. What is considered to be best practice for an attorney under an EPA/LPA to avoid potential financial abuse of the donor?

A Employ an accountant to monitor the donor's finances
B Run all choices past the donor's financial adviser
C Keep the donor's money and finances completely separate from the attorney's
D Ensure that other family members don't know what is going on

10. Alex sells a buy-to-let property in this tax year and makes a gain of £35,600. The total costs incurred during both purchase and sale was £16,400. He has NOT used his annual exempt amount. Alex remains a basic rate taxpayer after the sale. How much CGT is due?

A £690
B £1,242
C £1,380
D £1,932

Your answers

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

Last issue's answers

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

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 webinars

ESG IN EMERGING MARKETS
Date: 3 November 2021 **Time:** 10:30
The latest in our Investment Trust Insights series. Learning objectives:
- Navigating regulatory concerns in EM and specifically in China
- The relevance of corporate culture to long-term corporate performance
- Opportunities in the small and mid-cap space in emerging and frontier markets

THE INCOME DILEMMA: FINDING AN INVESTMENT SOLUTION TO SUSTAIN RETIREMENT
Date: 24 November 2021 **Time:** 10:30
Fidelity's James Bird returns to present on this important topic. Learning outcomes:
- Recognise some of the key macroeconomic themes that are contributing to the outlook for income-generating assets in 2021 and beyond.
- Gain an insight into how to navigate the uncertain environment through strategic asset allocation and different income options.
- Understand the benefits that risk-controlled solutions offer investors nearing retirement.

Details of both events can be found under the Events tab on our website.

TO HEDGE OR NOT TO HEDGE?

Wayne Nutland, head of Managed Index Solutions, considers the implications of currency exposure in diversified portfolios

When an investor changes the geographical make up of their portfolio, the portfolio's currency exposure is also changed. Currency exposures can play a useful role in increasing portfolio diversification and potentially reducing risk at the whole portfolio level. However the decision to accept currency exposure or hedge it out is not straightforward and needs to be considered from several different angles, indeed different investors may come to different conclusions depending on their

home currency, objectives, risk profile and access to currency hedging instruments.

Currency of exposure is what counts

Although it sounds obvious, it's the currency of exposure which matters and this may be different to the currency the asset is denominated in. For example, US equity funds or ETFs can often be bought in unit or share classes priced in US dollars or sterling (unhedged). Both will deliver the same return when measured in the same currency, it's just that in the sterling priced share class the fx conversion happens within the unit price so can appear not to have fx risk, whereas for the US dollar priced share class the fx conversion happens on the investor's platform and is visible. When measured in the same currency performance is the same.

> *Currency exposures can play a useful role in increasing portfolio diversification and potentially reducing risk at the whole portfolio level*

Cost of hedging

Hedging can incur costs and these can be confusing. Hedging can incur transactional type costs, e.g. an extra few basis points for a currency hedged share class, this type cost is visible and largely predictable. However when investors discuss the cost of hedging they are usually referring to the interest rate differential between the two currencies. For example when hedging US dollar exposure to sterling, we are paying

US interest rates and receiving sterling interest rates, this may lead to a negative or positive cost of hedging. In addition to practical problems, this is fundamentally why emerging market currencies are rarely hedged. The higher interest rates in emerging markets makes the negative cost of hedging prohibitive.

> *A straightforward and intuitive method which links the currency exposure to investor risk tolerance can be to link the currency decision to the asset class*

Risk profile

There are various ways of considering portfolio currency exposure, but a straightforward and intuitive method which links the currency exposure to investor risk tolerance can be to link the currency decision to the asset class. Specifically, currency hedging overseas bond exposures but leaving overseas equity exposures unhedged by default, with adjustments taken where there are strong currency or portfolio construction views.

Bonds

Bonds are typically lower volatility investments where cash flows are known in advance (not withstanding credit risk). Therefore adding currency risk to bonds almost always increases the risk of the bond holdings and fundamentally changes their role in the asset allocation. For example, short-dated US Treasuries are a very low risk investment where prospective returns are relatively predictable. Here, exchange rate fluctuations could turn a low risk, modestly positive returning investment into a materially negative returning one.

Therefore currency hedging overseas bond holdings is a sensible default for most investors in order to preserve the risk profile of the asset allocation. Emerging market local currency bonds are a key exception where hedging is not practical or cost effective, whilst investors may also chose to hold some unhedged bonds as a specific currency position, e.g. to benefit from the safe haven qualities of the US dollar during times of stress.

Equities

In contrast equities are relatively higher volatility investments where currency risk is unlikely to materially change the risk profile of the investment. For equities the decision is more nuanced than for bonds due to some complicating factors. Equities are real assets – the economics and business models of individual companies may adjust to currency fluctuations in their revenue and cost lines. Also for equities, the currency of a share price may not equal actual currency of exposure, for example a multinational corporation listed in the UK will have actual currency exposure very different to its sterling denominated shares.

Sterling has tended to be a pro-risk currency, which has historically weakened during times of stress. Hence falls in sterling (with corresponding strength in other currencies) can moderate losses in global equity holdings during such periods. For example, from the start of 2020 until the market low on the 23rd of March 2020 global equities fell by 31.8% in US Dollars but 21.8% in Sterling (Source: MSCI ACWI Index, Bloomberg). As currency risk doesn't materially alter the risk profile of equities, for sterling investors, holding overseas equities unhedged should probably be the default due to the complicating factors discussed above, and in order to allow the portfolio to potentially benefit from weakness in sterling during periods of stress, although of course this is not guaranteed.

How to currency hedge

For most institutional investors currency forwards are likely to be the most cost-effective way to hedge currency exposures, but this comes with the burden of additional operational complexity for the investor. Alternatively currency hedged mutual fund unit classes or ETF share classes are often available, avoiding the operational complexity which comes with using currency forwards.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UK EQUITIES

Investors must be patient with UK equities, argues Fund Calibre's Darius McDermott

A successful vaccine roll-out and the conclusion of a Brexit trade deal saw optimism for the UK economy burst into life earlier this year, prompting many experts to point to an opportunity for UK equities to pull back some of the 40 per cent discount they were trading at versus their global peers.

As recently as July, the International Monetary Fund was projecting the UK economy would grow by 7 per cent in 2021 – the largest of any developed economy alongside the US[1]. Fast forward a few months, and optimism has given way to concerns once again. According to ONS data, UK GDP rose 0.1 per cent month-on-month in July 2021, a significant contraction on the 1 per cent growth in June and significantly below the 0.5 per cent expected[2].

Although the UK's economic momentum has remained positive following the relaxation of most of the pandemic's restrictions, Lazard Asset Management says staff shortages have weighed on the UK's recovery, compounded by supply chain disruptions and self-isolation requirements that had been in place for contacts of people who had tested positive for Covid-19. All of which has resulted in the hopes for UK growth estimates returning to pre-pandemic levels being pushed back to mid-to-late 2022[3]

One area which has picked up is M&A activity, with UK companies in demand from private equity firms. In the first half of 2021 we've seen almost £30bn worth of private equity deals take place – to put that into context we've not seen more than £15bn in a year since 2007[4]

Schroder Income Growth manager Sue Noffke says UK-listed companies are being picked off by overseas private equity buyers and overseas industry peers, all of whom are taking advantage of the valuation discounts which are often "completely unwarranted".

I think investors have to be patient with UK equities a little longer – but one thing I feel they must do is split UK investing into two distinct categories, one of which looks far more attractive than the other. The golden rule is not to let the unattractive sector shroud sentiment for UK equities on the whole.

I'll start with the unattractive option. There is no getting away from the fact the FTSE 100 is full of boring, old economy stocks. A major reason why the index has gone nowhere for two decades is because half of the value of the FTSE 100 is represented by commodities, financials and consumer staples. Before anyone shouts at me, I am fully aware this was the case two decades ago, however 30 per cent of the index was also in technology, telecoms and media stocks – this is significantly smaller today[5].

There is a strong argument that the only trigger for an upturn for the blue-chip index would be a prolonged value rally. We've always pointed towards inflation as a catalyst for this – and the ongoing supply and demand concerns do indicate that inflation may be more endemic than many initially thought. The likes of energy and financial companies are a good hedge against inflation.

But it's a big call to back inflation at a time when the Bank of England is fighting

Although the UK's economic momentum has remained positive following the relaxation of most of the pandemic's restrictions, staff shortages have weighed on the UK's recovery

against it, I can see rates going to 1.5 per cent in the mid-term but the economy can't stand much more than that.

Which brings me to UK mid and small-caps, an area where there are plenty of opportunities. While the FTSE 100 has been stagnant in the past 20 years, the FTSE 250 has, by contrast, risen 3.5 fold. Figures from Fidelity also show that while the FTSE 250 looks more expensive than the FTSE 100 - with a price that's 17.7 times expected earnings versus 12.5 for the blue-chip index – the outlook justifies those numbers and more. Forecast figures from Goldman Sachs estimate FTSE 250 earnings will grow five times faster than those in the FTSE 100 (53 per cent vs. 9 per cent).

Then there are UK small-caps, the most resilient of sectors in the past five years. If we are entering a stockpickers market, these are likely to be the prime hunting grounds for future upside returns.

We've always felt small and mid-caps are the best way to generate long-term returns, but that case looks even stronger in the UK. We just have to be patient as M&A activity, coupled with the addressing of supply side issues, starts to turn sentiment around as investors realise the opportunities within certain segments of the UK market are attractive.

Investors may want to consider options like the LF Gresham House UK Multi-Cap Income fund or the Schroder Income Growth trust, as a way to tap into a diverse range of UK companies, whilst preserving the income element.

While those specifically targeting mid or small-cap UK equities may prefer the Axa Framlington UK Mid Cap or the TB Amati UK Smaller Companies fund respectively.

[1] Source: IMF World Economic Outlook – July 2021
[2] Source: Yahoo Finance article – dated 10 September 2021
[3] Source: Lazard UK Equities Outlook – October 2021
[4] Source: Schroders - Q&A: why are so many investors still ignoring the UK stock market?
[5] Source: Fidelity – Stockmarkets around the world – at 30 September 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.

DISCRETIONARY FUND CHARGES

Lee McDowell, head of Business Development, Psigma Investment Management, looks at how paraplanners can get greater clarity on DFM costs and charges

Paraplanners have become indispensable to many financial adviser firms today. They provide vital skills and support in many areas including accounting, administration, reporting, and, increasingly, in selecting a range of third-party managed portfolios and a panel of Discretionary Fund Managers (DFMs) for financial advisers, so they don't have to run model portfolios in-house.

But selecting the right DFMs can be a particularly challenging area for paraplanners – particularly as it is often

hard to understand the different models of costs and charges some DFMs provide. This in turn can make it challenging to give clients a complete overview of their costs, charges and performance.

On 3 January 2018, regulations regarding costs and charges disclosures – MiFID II – came into effect. Since then, firms have had to meet strengthened requirements on disclosing information about costs and charges. While there has been a drive to ensure transparency over the total costs borne by a client, there has been a myriad of interpretations of the guidance as to what needs to be fully presented at outset.

To add to this confusion, how costs and charges are displayed on client-facing material may not necessarily be consistent

While there has been a drive to ensure transparency over the total costs borne by a client, there has been a myriad of interpretations of the guidance as to what needs to be fully presented at outset

across DFMs. This lack of consistency has made it difficult for paraplanners to easily break down the costs associated with different portfolios from different providers on a like-for-like basis.

What are the charges?

- All DFMs will have an Annual Management Charge, which is a fee levied for their portion of the management of an investment portfolio.
- Within a portfolio there are underlying costs associated with holding investments. These are Ongoing Charges Figures (OCF) and Products Costs, which are fees paid on the investment holdings within a portfolio.
- Other costs associated with investing include the Custody, Settlement and Execution costs, which are fees paid for holding and exchanging assets.
- Finally, clients are charged Transaction Costs. This is a key fee highlighted by the changes to the new regulations which state that Transaction Costs must be reported correctly as they make up a percentage of the OCF. The two key elements of Transaction Costs include Explicit Costs (broker commissions, taxes, and levies) and Implicit Costs (the difference between the order price and the execution price).

Navigatus, a small firm of professional paraplanners based in Salisbury, is one firm that has found getting to grips with the costs and charges presented by DFMs challenging. Company founder and chief paraplanner, Aleksandra Sasin, explained, "Financial advisers rely on us to disclose all the costs and charges that DFMs present to us so that they can make the best decision on who to work with. However, it just isn't a case of comparing apples with apples; often it is a complete minefield in terms of the different approaches that firms take

"Having greater clarity and transparency over costs and charges was a clear goal of MiFID II, but there are often discrepancies over how the guidance is being interpreted, and how costs and charges are presented. This can make it harder to work out the total portfolio management fees. Because of this, we train all our paraplanners to really scrutinise charges, and check that everything has been clearly costed out. Some DFMs are presenting their Transaction Costs separately, which leaves the Ongoing Charge Figures amounts looking lower than their true value to the untrained eye. But our experience tells us that, if first-glance figures look too good to be true, they usually are."

Aleksandra and some of our other clients had spoken to us at Psigma about the need for a standardised way of checking the costs and charges being disclosed, and we came up with a solution. We have put together some simple questions for paraplanners to ask to see if there is any disparity in the transparency of costs and charges presented by DFMs. These are our five key questions:

1. Is VAT applied to the AMC?
2. Are Custody Settlement and Execution charges disclosed?
3. Are Transaction Costs included in the OCF and reported accordingly?
4. Are Transaction Costs inclusive of both explicit and implicit fees?
5. Is Performance reported net of all fees, including AMC?

We are big advocates of transparency, and so on top of these questions we have also created a 'clear charges' checklist, so that paraplanners like Navigatus can easily compare DFMs when doing their research. If their chosen DFM cannot or will not disclose this level of detail, then there may be additional fees that a client will have to pay.

Aleksandra has told us that our checklist has made a huge difference to her firm, particularly as they have recently recruited more junior team members who use the template to guide their research. It is saving them a huge amount of time and resources, and ensuring that they can provide complete transparency over DFM costs and charges. This enables them to present their client reports with complete confidence.

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 September 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 Long Term Global Growth Investment	130.88	✓	5
Morgan Stanley US Growth	128.24	✓	5
Baillie Gifford Pacific	97.17	✓	5
GAM Star Disruptive Growth	94.87	✓	5
Morgan Stanley US Advantage	91.27	✓	5

AIC

Fund	3 year Cumulative Performance	FE Fundinfo Alpha Manager Rated	FE Fundinfo Crown Fund Rating
Baillie Gifford Pacific Horizon	168.21	✓	5
Baillie Gifford Scottish Mortgage	167.66	✓	5
BlackRock Greater Europe	92.75	✓	5
Dunedin Income Growth Investment Trust	46.51	✓	5
Personal Assets Trust	26.51	✓	5

BEST PERFORMING FUNDS IN TERMS OF RISK VS RETURN

IA

Fund	3 year Cumulative Performance	FE Fundinfo Crown Fund Rating
iShares Global Clean Energy	150.76	198
Baillie Gifford American	136.86	170
Multipartner SICAV Baron Global Advantage Equity	131.96	145
Baillie Gifford Positive Change	131.94	123
Baillie Gifford Long Term Global Growth Investment	130.88	141

AIC

Fund	3 year Cumulative Performance	FE Fundinfo Crown Fund Rating
Starvest	644.18	355
Independently Managed Adams	574.36	505
Edge Performance VCT	379.23	277
Seneca Growth Capital VCT	266.99	326
Belvoir Group	170.25	229

RISKIEST SECTORS

IA

Sector	3 year Cumulative Performance	FE Fundinfo Crown Fund Rating
Latin America	-4.25	127
North American Smaller Companies	44.39	112
Commodity/Natural Resources	20.1	111
China/Greater China	35.11	107
Japanese Smaller Companies	21.01	107

AIC

Sector	3 year Cumulative Performance	FE Fundinfo Crown Fund Rating
China/Greater China	63.56	163
VCT Specialist: Media, Leisure&Events	19.56	147
North American Smaller Companies	30.02	144
Infrastructure Securities	95.33	136
UK Equity & Bond Income	18.22	136

OUTFLOWS

Fund name	Size 1y ago (£m)	Size now (£m)	Performance Effect on Size (£m)	Out (£m)
State Street UK Scrend Idx Eq	7,191.21	178.03	-322.38	-6,690.79
Liontrust Japan Equity	28,283.37	30,007.75	7,563.89	-5,839.51
Invesco Global Targeted Returns (UK)	7,423.98	2,157.04	-37.52	-5,229.42
M&G Japan	20,261.90	26,564.93	9,138.05	-2,835.02
BlackRock NURS II Overseas Equity	2,506.16	249.28	281.18	-2,538.06

INFLOWS

Fund name	Size 1y ago (£m)	Size now (£m)	Performance Effect on Size (£m)	In (£m)
BlackRock US Equity Tracker	5,359.24	17,709.83	3,832.04	8,518.56
SPW MM Global Investment Grade Bond	0.00	3,171.35	73.94	3,097.41
BlackRock Climate Transition Wd Eqty	654.16	4,686.51	1,139.14	2,893.21
BlackRock UK Equity Tracker	6,605.97	12,442.09	2,973.09	2,863.03
Vanguard LifeStrategy 60% Equity	8,927.69	13,228.03	1,504.50	2,795.85

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
88.46

India/Indian Subcontinent
53.19

North America
47.06

North America Smaller Companies
44.39

Financials and Financial Innovation
41.1

AIC

VCT Specialist: Health & Biotech
120.7

Infrastructure Securities
95.33

Property UK Logistics
66.75

Environmental
64.39

Global Smaller Companies
63.78

MOST RESEARCHED

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

MOST VIEWED FACTSHEETS

IA		AIC	
1	Vanguard LifeStrategy 60% Equity	1	Scottish Mortgage Investment Trust
2	Fundsmith Equity	2	Smithson Investment Trust
3	Baillie Gifford Managed	3	Finsbury Growth & Income Trust
4	Liontrust Sustainable Future Managed	4	Baillie Gifford Edinburgh Worldwide
5	Vanguard LifeStrategy 40% Equity	5	Fidelity China Special Situations

MOST CHARTED

IA		AIC	
1	Vanguard LifeStrategy 60% Equity	1	Scottish Mortgage Investment Trust
2	Vanguard LifeStrategy 80% Equity	2	Monks Investment Trust
3	Vanguard LifeStrategy 40% Equity	3	Capital Gearing Trust
2	Fundsmith Equity	4	Allianz Technology Trust
5	Vanguard LifeStrategy 100% Equity	5	Personal Assets Trust

STRUCTURED PRODUCTS

STRUCTURED PRODUCT MATURITIES AUG-SEPT 2021

The table shows maturities data for the 'Preferred Plans' selected for clients by Lowes Financial Management, publisher of StructuredProductReview.com

Provider	Maturity Date	Term (Yrs)	Underlying	Change in underlying %	Plan Gain %
Reyker Securities	14/09/2021	6	FTSE 100 Index	15.6	70
Societe Generale	31/08/2021	6	FTSE 100 Index	13.95	65
Investec	01/09/2021	6	FTSE 100 Index	15.36	34
Investec	23/08/2021	4	FTSE 100 Index	-2.7	30
Mariana	18/08/2021	4	FTSE 100 Index	-2.11	29.52
Investec	23/08/2021	4	FTSE 100 Index	-2.7	28.8
Investec	23/08/2021	4	FTSE 100 Index	-2.7	26
Walker Crips	04/08/2021	4	FTSE 100 Index	-5.16	26
Walker Crips	22/09/2021	4	FTSE 100 Index	-3.12	26
Mariana	23/08/2021	2	FTSE 100 Index	0.2	23.5
Investec	16/08/2021	3	FTSE 100 Index	-5.33	23.1
Walker Crips	02/08/2021	2	FTSE 100 Index	-4.39	16.6
Walker Crips	06/09/2021	2	FTSE 100 Index	-1.31	16
Dura Capital	16/08/2021	2	FTSE 100 Index	0.09	14

Source: StructuredProductReview.com

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Ratings and awards correct as at 31.08.2021. *Morningstar rating correct as at 04.09.2021. Performance source: FE Analytics, to 31.08.2021, based on a total return, UK sterling basis, net of fees, class D income shares. Fund volatility is based on weekly data.

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