Professional Paraplanner

The magazine for paraplanners and financial technicians

December 2021

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CHANGE AS OPPORTUNITY

In his opening speech at COP 26 Sir David Attenborough said: "Is this how our story is due to end? A tale of the smartest species doomed by that all too human characteristic of failing to see the bigger picture in pursuit of short-term goals." This for me captured all that COP 26 is about. Pointing to the macro problem and the solution.

On a more micro level, these sentences struck me as pertinent to financial planning. Smart people whose financial future is determined by whether they take a short term or a long term view of their finances. Not 'doomed' by the actions they take *per se*, but having a need for education, to listen to the experts and to take action.

If we look at the advice gap in the UK, how many people remain uneducated on their finances, unable to get access to experts (you guys and your advisers; for reasons we all know) and so fail to take action, leading to a potentially unhealthy financial future?

OpenMoney's *The Advice Gap* report 2021, published this month, found that around six million people in the UK want advice but think it costs too much. That's six million potential clients if advice firms could find a way to serve them at a decent price and profitably for the business.

Also, we should remember, this six million people are likely to be the mass affluent, wealth accumulators, including future HNWs. So this is not just about helping more people to deal with their finances and build their financial futures, there are sound business reasons to look at this area too.

That's why I'm excited by the rise of hybrid advice models within the financial advice market, which may help to partly fill this gap. Hybrid advice can enable firms to offer straightforward, technology-driven guidance for simple saving and investing needs, through to full-service advice/planning.

It can cover triage, investments, retirement and pensions. The systems use chatbot-facilitated interaction, which can be undertaken without advisers getting involved, such as for simple ISA investing and pension set up, and stepped up where the client needs greater help or where their wealth or complexity of their situation makes them a good fit for face-to-face financial planning. And it can be done in line with advice firms' investment and pensions policies.

Also, it can be used for both existing and potential clients, allowing existing clients to self-serve on their ISA investments for example, and offering an appealing self-serve option for new clients who are used to banking and investing online, allowing financial advice firms to operate in the lower value market which has been unprofitable until now.

Recently both M&G and Quilter announced they are launching hybrid advice services. Where one large advice company leads you can expect others to follow. Banks also will be leading the field here, using the reams of valuable data they have and regular contact with their customers to promote their services.

The market is changing. Good quality face-to-face personal financial planning will always be required, to my mind, but technology is opening up opportunities (and potentially creating threats) about which financial advice firms need to be thinking.

You can find out more about hybrid advice in our webinar *How technology will change the financial advice market over the next five to ten years* with Wealth Wizard's Nick Hall. For access to the recording please email: info@researchinfinance.co.uk

Finally, as this is our last issue of 2021, I'd like to thank you all for reading the magazine and visiting our website, our sponsors and advertisers for their support, our contributors for their expert words and sharing their wisdom, and all the paraplanners who have spared their time to be interviewed and have provided comment for our articles.

We'll see you all again in 2022.

Rob Kingsbury,
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Technical Insight Seminars 2022

Plans are well under way to bring back our Technical Insight Seminars in 2022. Full details will be announced shortly – so keep an eye on our daily email alerts to make sure you secure your place at the event closest to you. We are pleased to announce that to date we have confirmed speakers from FundsNetwork, Transact, Dentons, NS&I, Bespoke Training Solutions, TIME Investments and Waverton Investment Management, with others in the pipeline.

Companies interesting in speaking at our events should contact: richardley@researchinfinance.co.uk

In this issue...

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RO FOCUS

As we head towards a new year, Alex Langhorn, head of Business Support, sums up some of the main questions BTS has been asked by exam candidates over the past year

For this month's Ro focus article we look at four of the top 10 questions we commonly get asked by candidates when they are getting started with their Ro exams (you can find the full set of 10 questions and answers on the *Professional Paraplanner* website).

Q: What are the exams like?

A: R01 – R05 are on-screen multi-choice exams. R01 and R02 are both two-hour papers with 100 questions, R03, R04 and R05 are one-hour papers with 50 questions per paper. R06 is a three-hour written paper based on two case studies which are released to candidates two weeks before the exam date.

Q: Where do I start with the material if I have no prior knowledge?

A: Studying for the Ro exams with no prior knowledge of the sector can be daunting, but not impossible. A big benefit is that candidates are a blank slate and absorb the CII way and take on financial services like a sponge. A drawback is they often lack the experience that can help when looking at some of the tricker worded questions.

Always start with a study guide, ideally one that brings the learning to life. The more engaging the guide the more likely you are to understand and enjoy the subject matter and the more likely you are to retain and be able to apply it. Build in more study time – CII recommended study hours are only a guide – you are likely to need more if you have little or no base knowledge. And be kind to yourself – these are tough exams that take time and a lot of effort to get yourself ready. If it takes you a few goes, having 'deferred your success' a few times initially, so what…

Q: How do I build a study plan – and stick to it?

A: Putting together a study plan will help your intentions become reality. Start by looking at the examining body syllabus to get an understanding of the breadth and depth of knowledge required for the unit. Next, check the weighting of the syllabus in the exam – which learning outcomes carry the most marks? This will help you to prioritise your study time. Have a date in the diary for your intended exam sitting, this gives you something to aim for.

Have a look for revision workshops, these are commonly offered remotely using an online platform like Zoom now. Revision workshops can really help candidates understand some of the trickier concepts and have the added benefit of introducing you to other candidates on the same journey. As your exam date gets closer, you should practise as many exam-standard questions as you can. The CII is notorious for tricky question wording so the more sample questions you can have a go at, the better. Make sure the questions you are using are exam-standard, as many on the market (including the examining body's) can be either too easy, or too difficult and don't represent the questions on a real exam paper.

Q: What order should I sit the Ro exams in?

A: There is no one recommended panacea in relation to the order candidates sit their Ro exams in. Some candidates follow the numerical order, so start with R01, then R02 and so on. BTS's preferred order starts with R01, then R05, R03, R02, R04 and finally R06.

There are some exams that should ideally be sat in a certain order. Take the R04 pensions exam – this has within its syllabus rules relating to income and capital gains tax, plus a whole learning outcome on alternatives to using a pension. Therefore, it makes sense to ideally have sat and passed both the R03 personal taxation and the R02 investment and risk unit before attempting it.

About Bespoke Training Solutions

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LOOKING AHEAD

Professional Paraplanner spoke to paraplanners both in-house and outsourced to reflect on the events of the past year and look at what 2022 might have in store for paraplanners

The year 2021 has undoubtedly been a challenging one, with the UK plunged into further lockdowns and ongoing economic uncertainty. But despite the difficulties, there have also been many positives. The pandemic has influenced attitudes to wealth, encouraging more people to think about the importance of planning for the future, while firms have been given an unprecedented opportunity to rethink how they work and embrace new practices.

In-house paraplanning

After many months of homeworking, this year has seen a question mark raised over whether remote working will become a way of life for financial planning firms in a post-Covid era. Are businesses embracing the opportunity to work in new, more flexible ways or does a permanent shift to remote/hybrid working pose challenges?

For Aram Kupelian, paraplanning manager at Holden & Partners, success lies in a combination of remote and office working. Kupelian explains: "We've always acknowledged the benefits of home working, especially for a role like paraplanning which lends itself quite well to this. However, we should not forget the many benefits of having a presence in the office and we have recently asked staff to come into the office for a minimum of two days per week.

"More clients are starting to return to the office for face-to-face meetings and their experience is important."

Holden & Partners also believes that onboarding and training new recruits is easier in person, providing them with a better opportunity to integrate themselves into the firm, meet people and familiarise themselves with the company culture."It is really surprising how much information and useful 'titbits' you can pick up by listening in on conversations around the office that would otherwise go unheard in a remote working environment – that is a benefit for existing staff as well," he notes.

Indeed, the ease of sharing resources and information has also led the majority of staff at financial advice firm Hampshire Hill to return to the office full time.

But while working patterns may have reverted to pre-pandemic ways, technical and research manager Reece Edwards says the pandemic prompted a welcome step-change in the way that paraplanning is viewed. Edwards says: "The past year has shown just how much could go wrong if the paraplanning and administrative side of the business are not given the time and respect they deserve. It's a core part of the business and as we've returned to the office there's been a definite shift to provide me with more time to carry out the work I need to do with less interruptions."

Navigating choppy waters

No one could quite have anticipated how the last two years would play out and the focus upon economic uncertainty, unemployment and market volatility has naturally raised concerns among clients, particularly with the Bank of England recently forecasting inflation to rise as high as 5% next year.

But according to Kupelian, inflation is just one of many risks a client may face over their lifetime. He explains: "Whilst inflation might be a challenge in the short

I'd like to see advisers building paraplanning teams that all have their own area of expertise and can build proper solutions for clients accordingly

Reece Edwards, Hampshire Hill

term, financial plans are built over the long term and we encourage our clients to stick to the plan we have implemented as closely as possible, even where macro concerns exist."

However, Edwards says advisers must be prepared to field questions around the economic landscape, as the wealth of information at clients' fingertips fuels demand for greater advice.

"Whenever we experience a market crash or volatility, we find clients are armed with information and questions. To deal with this, firms need to take a proactive approach to reassuring clients, whether that's through the use of emails or newsletters, and reach out to those clients who might be personally affected by changes."

But for Edwards, it is vital that all client-facing staff within a firm share a common view. He says: "Everyone must be singing from the same hymn sheet because having different views will not be helpful to clients. Firms should also think about who is best placed within the firm to take a view on certain aspects and play to individual strengths."

Future challenges

One of the challenges that has long plagued the paraplanning industry and continues to pose a challenge is the lack of awareness around paraplanning as a profession.

While there has been growing recognition of the importance of the role of paraplanning, with paraplanners emerging as an integral role within financial advice firms, the role of paraplanner continues to differ greatly between firms and at best remains a niche career option.

To remedy this, Edwards believes more should be done to highlight paraplanning as a fully-fledged career in its own right rather than a stepping stone to financial advice. Edwards says: "I would like to see more apprentices entering the industry going forward and the best way to do this is to bring young people into firms who are adaptable and willing to learn. In doing so, apprentices will be able to find the path best suited to their skillset and firms will be able to create their own talent pool from which to grow and evolve their business."

He adds: "In the future, I'd like to see advisers building paraplanning teams that all have their own area of expertise and can build proper solutions for clients accordingly."

Kupelian believes a lack of financial education also poses a deep challenge for the industry. He says: "Whilst it is difficult to put a monetary value on this, I think a greater level of financial knowledge from an early age could make a real difference to people in later life as they become more proactive, good behaviours are taught and common pitfalls dodged."

Looking to the new year

Despite the uncertainty of 2021 and headlines warning of high inflation and unemployment in 2022, paraplanners are optimistic in their outlook for the year ahead. Hampshire Hill has started to have more conversations with clients around their retirement plans, with many clients who have spent the past 18 months working from home now considering a permanent end to work. As such, the pandemic has served as something of a 'shake up' says Edwards, and clients are now considering different strategies and methods of achieving their desired retirement.

The biggest challenge for advisers, however, will be the need to make fast decisions around whether something is just a threat or whether it is likely to happen.

According to Edwards: "Things have been priced into the markets that have so far never materialised, such as interest rate hikes and additional lockdowns. It's important that advisers talk to industry experts – someone they really trust – to get a feel of whether something is going to happen and whether that will be a factor for client portfolios."

The pandemic has also seen a sharp acceleration in digitalisation across the advice industry, with the majority of firms swapping in-person meetings for Zoom calls with clients. The growth of technology has undoubtedly brought with it many benefits, driving efficiencies across businesses and enabling advisers to service more clients without the worry of travel time. But despite this, the 'personal touch' remains important, says Kupelian, who says a return to face-to-face seminars and wwwwconferences would benefit the paraplanning industry. "These are valuable for sharing ideas with other paraplanners. The best networking is done face to face, where interaction comes more naturally than over Teams or Zoom where you have dozens of attendees," he says.

Outsourced market

Booming interest in outsourced paraplanning has seen the sector go from strength to strength over the past year. Andy Schleider, who co-founded Haven Paraplanning in 2019, says demand is greater than ever. "We have seen a number of existing clients come to us with greater amounts of work and we've also attracted new clients so we're busier than ever," says Schleider.

More clients are starting to return to the office for face-to-face meetings and their experience is important

Aram Kupelian, Holden & Partners

If you ignore all the noise and just focus on what matters, which is doing the very best for each and every client, then the challenges simply become opportunities

Aleksandra Sasin, Navigatus

Laura Siddall, director of AYCE Planning, believes the pandemic has prompted growing awareness of financial advice among consumers, which in turn has increased the demand for outsourced paraplanners. Siddall explains: "A good paraplanner was tough to find pre-pandemic which was increasing the demand in the outsourced market but an environment where employers were forced to embrace working from home has given advisers the reassurance that a paraplanner doesn't have to be sat in the office to do their job. This, coupled with the increased workload advisers have seen, has forced them to explore alternative options."

Siddall adds that the increased use of technology, which has enabled advisers to service a greater number of clients remotely, is also likely to increase the need for front-office staff and outsourced help going forward. "I think attracting and retaining talent is a big concern for advisers at the moment as demand currently exceeds supply so this may well continue to boost the outsourced market," says Siddall.

Aleksandra Sasin, founder of Navigatus, also expects the outsourced market to continue to grow well into next year. She says outsourced paraplanning has increasingly become more recognised and accepted over the past few years, evolving from the exception to the norm.

Sasin says: "It is no longer simply a choice between being an in-house paraplanner or a freelancer running a business. There are now many more outsourced paraplanners in employed roles which makes outsourced paraplanning a much more viable option for those looking for a new challenge.

Sasin adds: "There also seems to be a shift, driven by communities such as NextGen Planners, towards smaller financial planning firms. While large financial advice providers will always have their place, there is now access to fantastic technology and a range of support services at affordable prices to help financial planners set up smaller firms and outsourced paraplanning is an ideal solution for such firms."

Perhaps not surprisingly, growing demand for outsourced paraplanning is leading firms to recruit. Haven Paraplanning has taken on a number of freelancers over the past year and is set to welcome its latest member of the team over the coming weeks, while Navigatus is currently in the process of growing both its admin and paraplanning teams. Two members of its existing team recently embarked on a paraplanning apprenticeship and the firm will be looking to take on more staff in the future to keep up with growing demand, says Sasin.

Juggling act

But with growing demand comes growing pressure and for those running their own outsourced firms, it comes with the added responsibility of managing the day-to-day running of the business. Schleider says: "The biggest challenge for me at the moment is meeting the needs of my clients as my workload continues to increase. I would like to grow my business to a point where I have sufficient staff to look after my clients and ensure the business is fully functioning to enable me to take time off."

For Sasin, ensuring all aspects of the business run smoothly can be challenging. "I certainly didn't expect Navigatus to grow so quickly," she says. "Maintaining the momentum and juggling the many aspects of running the business, leading the team and being actively involved in the paraplanning community takes up a lot of my mental space but I absolutely love what I do. However, I made a conscious decision to spend time this year developing my own leadership and business management skills which means I can now confidently take the business and my team into 2022."

Challenges and opportunities

As we approach 2022, many are hoping that it will be the year of post-Covid recovery, as the vaccine rollout continues to take effect and the economy stages a better-than-expected recovery. But it will undoubtedly be a game of two halves, according to paraplanners. As inflation rises, investors must prepare themselves for interest rate hikes which will have a knock-on impact on spending power.

Siddall warns that uncertainty will continue to pose a challenge, despite most financial advice firms experiencing a rise in client numbers and assets under management. Siddall says: "Costs have continued to increase and there is still uncertainty around regulation. For client's portfolios, despite seeing good returns over the last 12 months, investors are still nervous."

Despite this, Siddall believes there is still much to be positive about for 2022, as markets continue to recover and those consumers who have accumulated more savings as a result of the pandemic look to engage with financial advice. Paraplanners also expect to see growing interest in ESG investing, following the recent COP26 conference and growing political onus on greener investments.

Schleider says: "While we've seen a lot of talk around ESG, ethical funds have up until now remained fairly niche. However, with COP26, I expect we will see much more focus upon these funds, particularly among younger investors. This is a great opportunity for the advice sector but it will also be a huge learning curve."

Sasin says: "I don't see any particular challenges for the profession. Things change all the time but if you ignore all the noise and just focus on what matters, which is doing the very best for each and every client, then the challenges simply become opportunities."

However, Sasin says she would love to see providers become more efficient in their handling of client enquiries in the future. "Being able to obtain correct and reliable information from providers without a long wait would change our lives," she adds.

PARAPLANNING TOOLS

Need a good system when researching tools for paraplanning? Dan Atkinson, head of Technical, Paradigm Norton Financial Planning, provides some suggestions based on the approach he takes to the due diligence process

We often think about due diligence on platforms and financial products. There is lots of wisdom, guidance, and sources of data to help do this. However, what should we be thinking about when we are reviewing the tools of our trade. I'm looking at risk profiling at the moment (no sales calls please!) and have spent some time thinking about this.

What do I mean by tools?

These are the bits of software that we use to analyse a client's situation, identify potential solutions, and present it to them. This might include cashflow, risk

profiling, pension analysis, investment analysis, graphs, word processors, template providers, technical resources, secure messaging. They won't all apply to every business, but quite a few will.

In the same way that paraplanners are often a key decision maker for financial products and platforms, we are also key stakeholders in these decisions. These are the tools that we will be using day in day out. We aren't the only stakeholders though.

What do you need the thing to do?

This sounds like a daft question. However, if we don't answer it, we will be susceptible to shiny object syndrome. We need to start with why do we want this category of tool? Does it provide something which will lead to better client outcomes (financially or in terms of ease of understanding)? Does it save time? Does it help your business manage risk better?

At this point you might want to think about integrations with your other tools. Rekeying information can waste a lot of time and introduce errors. So, for some tasks it is very attractive to be able to pass data seamlessly between systems. There is often a gap between theory and practice, but it's an important consideration. Getting clear on this at outset will help you drill down to a more manageable selection to research. It will help avoid you getting distracted by a super new feature that you get shown which might not be right for what you need. By all means be open to other ideas but have a clear objective.

It is also worth being clear what you do not want the 'thing' to do. A great example is in risk profiling. Many tools have incorporated assessments of capacity for loss which is great. However, this might not match up with the way you have decided to assess this as a firm. It's interesting to see what is happening in this space, but, as an example, it wasn't something that we were looking for the tool to do for our business.

Your firm may also have strong views on where client data should and should not be processed. For example whilst there are some interesting tools emerging from the US you and your compliance team might not be comfortable with potential privacy risks for client data.

> *By starting with the value to your clients and business processes you are in a better position to assess value for money*

Where might you start?

Having worked out what you do and do not want the tool to do where do you find your options. I took a similar approach to researching funds. I want to identify the 'universe' and then filter down. I found the following two websites particularly helpful for this part of the exercise:

- Advisersoftware.com is a website run by Ian McKenna who also runs ProtectionGuru. The Ecosystems tab has helpful image of many of the tools available to UK financial advice businesses. It gives a great overview of the market from which you can dive in using the directory and insights.
- NextWealth is a financial services consultancy headed up by Heather Hopkins. I used their nextwealthdirectory.co.uk website to find out a bit more about the firms and reviews from advisers. They also provide information about integrations.

Narrowing it down

You do need to be quite brutal here. Having started by working out what you needed you should be in a better position. Remove any providers that don't provide the features that you need. If the product requires commitment to use other tools as part of an end-to-end workflow that doesn't match up with what you want then remove these too. If there are poorly rated providers, then you may wish to remove these as well. Document why you have removed each provider in case you get asked in the future.

Hopefully this will have given you a shortlist of three to four including your current tool. Do detailed research on what they do, their methods, what people think about them. Visit their websites and look at any outputs that they have available. From this work out what extra information you might need to know such as GDPR and information security.

Speak to them

Arrange a call with the sales team to discuss what you need and go through your questions. Make sure you are clear on the likely timescales for a decision and whether you are the person signing off the bills. From this call you are looking to assess whether the tool meets your needs, whether it is usable, and whether the provider seems trustworthy and able to provide you with ongoing support. They should show you a demo of the system and offer you access to a trial.

You might need a few calls to answer all your questions and they will probably suggest this. Communities like the Paraplanners Assembly are a great way of getting feedback about how well systems work. However, you may also want to ask the provider to connect you with an existing user to give their honest opinion.

The elephant in the room - cost

Warren Buffet is often miscredited with Benjamin Graham's quote "price is what you pay; value is what you get". I am not saying that you mustn't approach tools with an unlimited budget approach. This is not realistic. Instead, we must think about what the benefit of the tool is for the cost within our budget.

The cheapest tool might not be the best. The most expensive might not provide the best value for money. You almost need to come up with a benefit per unit of cost measure. By starting with the value to your clients and business processes you are in a better position to assess value for money. It also puts you in a much better position for the next step when you have identified the tool you want to recommend.

Presenting the ask

If you lead with the cost (which might be negotiable and could be a big number) then it will be harder to get agreement to proceed. You might not even get the opportunity to explain the problem or why the suggested tool would be a prudent investment.

However, if you give clear context and benchmark your solution to it's peer group (especially your current tool if you have one) this is more helpful and you are more likely to get agreement to proceed.

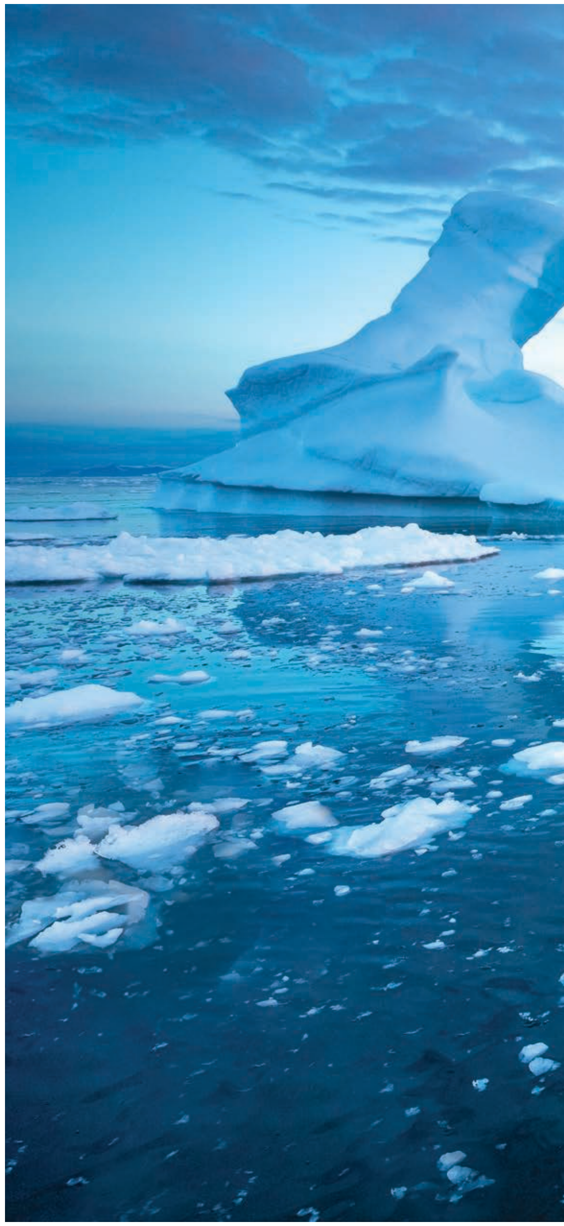
Summary

Researching tools is quite similar to the processes we use as paraplanners when working for clients. We have the necessary skills, knowledge of what we want, and access to others in the profession who can share opinions. Start by being clear on what you do (and do not) need. Narrow down the options. Research thoroughly. Assess value for money. Present the ask clearly.

Lastly, do not underestimate the impact of change on people. Changing tools will require learning, changes to processes, and time to let people get used to them. Pick your moment and be aware of other changes, projects, and challenges that might be facing your colleagues. This needs to be factored in.

ESG QUALIFICATIONS

ESG is expected to grow in popularity, so where do paraplanners start to acquire sufficient knowledge on this quite complex area? Catherine Esland, senior paraplanner at Succession Wealth and member of the PFS Paraplanner Panel, considers some of the formal qualifications which may help



It is increasingly clear that climate change is one of the most important global risks, not only in terms of potential impacts on individuals and communities, but also in terms of financial impacts on businesses, supply chains and the wider economic system.

We are seeing increased momentum on tackling social inequalities across the globe. Improving working and living conditions, not only helps individuals but is also as a way of potentially improving economic growth and maintaining global stability.

Given such context, it is hardly surprising that Environmental, Social & Governance (ESG) investing and other forms of responsible investment are becoming increasingly popular. However, as a paraplanner, it can be difficult to know where to start when trying to understand the potential benefits and pitfalls.

Having recently reviewed the qualifications options available when looking to further my own knowledge, the following is a brief overview of the main options which paraplanners might want to consider.

The first qualification available in the UK and is probably the best known is the **CFA Certificate in ESG Investing**. This is a level 4 qualification designed to deliver the knowledge and skills required to understand how ESG factors can be integrated into the investment process. It is a multiple-choice, online exam typically taking 130 hours study.

The course and exam currently cost £485. Having recently studied and passed this certificate, I found it a useful and thorough introduction. The current syllabus is focused on investment management, as opposed to wider financial planning, but is pitched at a level that most paraplanners would probably be comfortable with. A digital certificate and badge are available on passing to evidence the qualification.

We are still in the early stages of ESG integration in mainstream investment and we can probably expect to see further developments in terms of qualifications over time

In addition to the ESG Certificate, the CFA are now offering a new **Certificate in Climate and Investing** which will open at the end of January 2022 with the first online exam sessions available from March 2022. Again, this is a level 4 qualification, but specifically focused on understanding climate as it relates to investing and how to integrate climate change considerations into the investment process. The course and exam currently cost £495.

Another climate focused option is the new **Certificate in Climate Risk** a joint

enterprise between the CII, CISI and Chartered Banker Institute (CBI) via the Chartered Body Alliance.

This is again a multiple-choice exam, currently costing £595. After covering similar climate background to the CFA awards, this certificate focuses on the skills needed to measure, monitor, and report climate risks. This is most likely to be relevant to investment managers but may be of interest if you build your own portfolios in-house or want to understand more of the detail around the investment processes.

The CISI and CBI also offer a **Green and Sustainable Finance Certificate** which is the first global, benchmark qualification in the green finance sector.

This has been designed by the banking industry to develop and demonstrate the specific knowledge and expertise needed to help direct investments to support the transition to a low carbon world, so comes from a perspective of finance raising. It is again multiple choice and online, costing £595.

This is the shortest exam at only one hour and is designed to be possible to study in as little as 12 weeks. Upon completion, candidates will be entitled to use the designation Green and Sustainable Finance Professional.

We are still in the early stages of ESG integration in mainstream investment and we can probably expect to see further developments in terms of qualifications over time.

Before selecting a qualification, I would certainly recommend reviewing the syllabus to check you are comfortable with the course coverage.

I would however strongly encourage anyone interested in ESG and or climate change issues to consider looking at some of the qualifications listed above as a good introduction to a fast growing and increasingly relevant area of financial services.

PENSION SHARING

What happens when a client receives a pension credit? Jessica List, Pension Technical Manager, Curtis Banks suggests three things for paraplanners to consider

It's more than 20 years since pension sharing was introduced, and yet recent research from the University of Manchester suggests that only 12% of divorces and dissolutions involve splitting a pension. As such, the effect of receiving a pension credit on the recipient's retirement plans is not as widely discussed as it could be. Here are three considerations for clients receiving pension credits and reassessing their retirement savings plans.

1) Lifetime allowance (LTA) protection

If the recipient already has LTA protection for their own pension savings, it's important to remember that receiving a pension credit could affect this protection. Both enhanced and fixed protection can be lost if a person opens a new pension arrangement, except for in specific situations (such as to receive a transfer of their existing benefits, or where a previous scheme is being wound up). As such, if someone with either of these protections receives a pension credit and does not wish to remain in the original scheme, they need to make sure the transfer does not cost them their protection. This may involve transferring the credit into one of their existing pension schemes.

Receiving a pension credit won't invalidate individual or primary protection. However, the protections also won't be revalued, so some or all of the pension credit may end up being over the client's lifetime allowance and consequently subject to the normal LTA excess charges.

2) Enhancement factors

Pension credit factors are a type of LTA enhancement factor intended to mitigate the effect of a pension credit on the recipient's LTA entitlement. However, pension credit factors aren't always available. To be eligible for a pension credit factor, three conditions must be met:

- The credit was acquired on or after 6 April 2006 (A-Day) from a registered pension scheme
- The credit came from crystallised funds
- The original pension holder had crystallised the funds on or after A-Day.

A different pension credit factor for pre A-Day funds was available until 5 April 2009. HMRC has a late notification process, however, twelve years later there's likely to be very few exceptional circumstances that HMRC would accept as 'reasonable excuses' for not applying sooner.

If a client isn't eligible, the credit will be tested against their lifetime allowance as normal. If they are likely to incur significant LTA excess charges, this may need to be considered when splitting the pension to begin with.

If you have a new client who received a pension credit in the past, it's worth remembering that the application window for a pension credit factor is relatively long. Individuals can apply for up to five years from 31 January following the end of the tax year when the pension sharing order took effect. For example, individuals whose pension sharing orders took effect in 2015/16 still have until 31 January 2022 to apply.

Pension credit factors also don't have any of the planning restrictions associated with some of the other LTA protections. For example, there are no restrictions on accumulating further benefits or joining new pension schemes. Even if the client doesn't have an immediate LTA issue to mitigate, there shouldn't be any harm in applying for a pension credit factor just in case.

3) Benefit options

Pension credits from crystallised funds are known as 'disqualifying pension

credits'. The funds are treated as uncrystallised again in the recipient's hands, except that there's no PCLS (tax free cash) entitlement. This is extremely easy to overlook, particularly if the credit is held alongside the recipient's own pension funds, as it might not be obvious in normal paperwork and reports. It could make a huge difference to a person's retirement plans if they accidentally plan on receiving PCLS from a large disqualifying pension credit.

Pensions are often among a person's largest assets; often second only to housing wealth. It's therefore extremely important for them to be taken into account when couples separate their finances

Such credits can also affect the benefit options available. Uncrystallised funds pension lump sums (UFPLS) are not available from funds attributable to disqualifying pension credits, because it would allow the individual to get the tax free element of a UFPLS in a situation where they wouldn't be entitled to PCLS. This shouldn't be a problem if the pension scheme also offers drawdown; otherwise, the client may need to transfer to take benefits. Where a disqualifying pension credit is held in the same scheme as a person's own uncrystallised funds, the provider must track how much of the pension is attributable to the credit and not make UFPLS payments from this amount.

Pensions are often among a person's largest assets; often second only to housing wealth. It's therefore extremely important for them to be taken into account when couples separate their finances during a divorce or dissolution, and for the recipient of the pension credit to think carefully about how the new funds will affect their future plans.

It's yet another complex area of pensions where financial advice often proves invaluable to an individual's future success.

TECHNICALLY SPEAKING

The ability to be able to convey complexity in a way that makes sense and is easy for clients to understand, marks good paraplanners from great ones, says Melissa Kidd, creator of the "Communicate for Impact programme"

The glazed eyes. The furrowed brow. The confusion written all over their face. We've all been there. It's frustrating and awkward when clients don't understand what we're saying, especially if we've tried to explain the concept a couple of different ways.

Some clients won't admit they're not quite following along, other clients might begin to sink under their confusion. And we want to avoid this at all costs because it's hard to trust someone we don't understand.

Explaining technical concepts to someone without investment experience is challenging because once we know something, we find it hard to imagine not knowing it. We slip into using shorthand – jargon, we miss out crucial parts and details because we think they are too obvious.

Crossing the gulf of experience and expertise that exists between you and your audience is no mean feat.

So, what to do? How do we start to build the bridge of understanding?

Crossing the gulf of experience and expertise that exists between you and your audience is no mean feat

Begin differently

When faced with explaining a technical concept, it seems logical to start by explaining what this thing is. And we might begin with a definition so that we are all on the same page about what these terms mean. However, I want to offer you another starting place. One that makes it much easier for those with no experience to understand and follow you. And this is to start with what this concept DOES not what it IS.

For example, take compounding: "I want to explain how you can make your money grow, while you do nothing." (What it does for you). Contrast this with: "Compounding is the return you get on your original investment and the return you get on your return". (What it is, not what it does).

Here's another example that relates to wrappers: "To pay less tax on your investments, you can take advantage of a wrapper. (What it does) There are 2 types of wrappers - ISAs (Individual Savings Accounts) and pensions. The government gives these tax breaks to encourage more of us to save and invest." Rather than: "The most common tax wrappers are ISAs and pensions." (What they are, not what they do.)

If you're a bit stuck, here are some questions to help you start:

- What's the purpose of ....?
- What's the intention of ...?
- What is this trying to achieve?
- Why do they need it?
- What's the result of this...?
- Who is this for?

Our first thoughts can be to dive straight into the nitty-gritty detail. But this can make it hard for clients to understand because, as John Medina writes in his book *Brain Rules*, "Normally, if we don't know the gist – the meaning – of information we are unlikely to pay attention to its details." You can also use the above questions to zoom out, if you've headed too quickly into the detail.

When we understand what this does – we pay attention? As a client, we'll realise why this is important and relevant to our

objectives. We are bought in. When you explain what something does, you are also providing context.

Context is crucial.

Why? Here's an illustration: For emaxlpe, it deson't mttaer in waht oredr the ltteers in a wrod aepapr, the olny iprmoatnt tihng is taht the frist and lsat ltteer are in the rghit pcale (Cenotxt). The rset can be a toatl mses and you can sitll raed it wouthit pobelrm.

Context is the container within which we perceive more meaning. So, to help clients easily understand the concept, paraplanners have to discern which context to set. For example, I've seen reports that include detail about legislation changes. You could argue that this is context. However, you also have to ask: does my client care about this level of detail?

Let's move onto some techniques for illustrating the concepts.

Use examples

As Stephen Pinker says, "an explanation without an example is little better than no explanation at all". Examples bring concepts to life. One way to turbocharge your example is to include comparisons. Again, this provides context. The numbers need to relate to something to give them meaning.

Here's how Holly Mackay from Boring Money illustrates compounding: "In the first year, an investor puts £100 into an investment and receives, say, 5% in interest or dividends, bringing the investment to £105. In the second year, if he makes 5% again, he not only receives 5% on his original stake, but on the extra £5 he has made. By the end of the second year, his investment is worth £110.25.

Use metaphors and analogies

Metaphors work because we are borrowing something already familiar and applying it in a new way. For example, I've heard paraplanners liken themselves to a Sat Nav – where the adviser will agree the destination, the paraplanner plots the route.

Neil Parker, CEO of PlanHappy Academy, uses a range of analogies in his first meetings when talking about pensions. An annuity, he says, is like a steel box, which churns out a set amount of money each month. And he contrasts that with a drawdown, which can be exhausted. At this point he draws a barrel with a tap.

Neil uses a small whiteboard in his meetings so that clients can visualise what all these concepts and scenarios mean and look like. This brings us onto another important technique.

Use visuals

Have you ever tried to explain the workings of a discounted gift trust in plain English? It's much easier to use a diagram to explain who, when and how much money goes to who. And it helps us remember. Here's John Medina again: "If information is presented orally, people remember about 10%, tested 72 hours after exposure. That figure goes up to 65% if you add a picture."

Get to grips with the Smart Art feature in Powerpoint. Or else use the diagrams from the provider's literature. You can use the snipping tool or screenshot and add them to your reports. In summary, when trying to bridge the gulf of expertise, start by showing what the concept does and provide some context – this helps to give your clients the gist. Then illustrate with examples, metaphors and diagrams to bring it alive.

You are no doubt extremely talented and skilled in what you do. However if you can also turn complicated concepts into something your clients can easily understand, feel reassured by and act on, then you'll be strides ahead of the pack.

As Sydney Harris said: "The two words information and communication are often used interchangeably, but they signify quite different things. Information is giving out and communication is getting through."

Communicate for Impact is an online self-paced programme, specifically for financial advisers, paraplanners and support staff. It includes six steps which have shown to increase efficiency engagement and confidence. More information can be found at www.motem.co.uk

References: Stephen Pinker, *The Sense of Style*; John Medina, *Brain Rules*; Sydney Harris, American Author and Journalist

PLAN, DO, CHECK AND ACT!

Michelle Hoskin, MD of Standards International, looks at this fundamental methodology and how it can be applied effectively by paraplanners as an enhancer and enabler within a business

The plan–do–check–act (PDCA)* cycle is a high-level methodology for achieving continuous improvement in all areas of your business that are not achieving the required level of performance. Typically this approach has been used for decades in organisations such as Toyota Production System and Tokyo Institute of Technology as a tool to manage the improvement of processes and procedures.

Now I know generally paraplanners have to endure the daily battle of getting their fellow team members – and even more surprisingly the financial planners and owners of the firms – to grasp and then accept the importance of setting standards, structures, processes and procedures but, as you know very well, these are the foundation and the bedrock of an amazing business.

For decades the Plan-Do-Check-Act cycle has remained – and will remain – at the heart of many ISO, BS and sector-specific standards. Why? Because, as we know, if you are not improving everything that you are doing on a regular basis you will simply slip back and within a blink of an eye be behind the tide, with an old-fashioned approach and out-of-date ways of working.

This cycle was the initial draw for me to create and continue to develop the many standards of excellence that we have today in financial services. This determination will support us to shift the backward thinking across the profession and to help educate those who miss this point frequently; that we need to replace expectations with standards.

Now, I am sure you have heard and read me saying this on a regular basis – but in the main financial planners are not natural business owners.

Even this week I have spent time with a wonderful firm that pride themselves on their evangelical approach to delivery; a true financial planner who without question has and will continue to put their clients at the heart of everything they do... BUT, as a result, their business is not in great shape.

They don't have a clear business vision for the future, their team are lost with little to no direction for their development and growth, and structures and processes to secure efficiency and consistent delivery at the desired standard are patchy at best.

So, what to do? Well off the bat you could look at how the suite of standards specific to financial services could help you and the firm you work with. And then I suggest that you review everything you do in line with our recommended approach.

Luckily for you, this is where we come to the rescue.

Over the years, I have seen a lot of time being spent and sadly wasted on trying to find the best way of working, when some of the best practice standards already exist.

We have all come across people who are resistant to change, which often includes adopting new processes.

Some of the scepticism comes from a fear of more red tape, or that having more systems and controls will somehow put unnecessary limits and restrictions on the day-to-day job of being a planner and/or running a business.

But having good processes and a robust framework for the business isn't about any of that. Done right, these systems should serve as an enhancer and enabler to your business, not a limiting factor.

When people first come to either adopting standards or approaching business development more strategically, there tends to be an acceptance that they don't have all the answers, and that can require a bit of a switch in mindset.

Financial planners spend most if not all of their waking hours charging in and changing the lives of their clients, but they may not necessarily have the

required skills when it comes to their own business.

So, what can you do?

Often, the compliance support role is one of the most trusted in the team. Everyone knows that your main function is effectively to keep everyone out of jail, so I would say we know you have our back!

A small warning and I know you know this, but I'll say it anyway.

There can be wariness around making changes to a business within a team, perhaps due to an unfounded fear that someone is going to be done out of their job. Where people fight us on change, it can be those who are fearful for their own roles. Making efficiencies can uncover those who perhaps haven't been doing their job properly, but these business improvements don't have to mean someone effectively becomes redundant. If you flip this idea on its head, it's more the case that if you make improvements and efficiencies, there's more opportunity for everyone. The scarcity mindset of "I need to have lots of work to do to keep my job" isn't helpful – busy work is not smart work.

Blank sheet of paper!

First of all, when you are improving and developing any business, you have to start at the inside and work your way out. Also, I recommend as you approach each of the areas that you intend to review that you start by imagining that you are designing this process or procedure from scratch.

Within Standards International we have designed and use a process called The 6R Revolution!™ which can be helpful when going through a cycle of change and development. This is also the structure we encourage all of our clients to use, which is explained in the diagram below.

Phase 1 – Rewind

1. Establish ideal outcomes and requirements – "What does best look like?"

2. Identify the current process or way of working – look at any challenges that may exist

3. Review and analyse the gaps – 'ideal' vs 'real'

4. Present real vs perceived issues to all stakeholders and key persons

5. Document and share. Draft the new processes, share with all stakeholders and key persons, and get their buy-in!

Phase 2 – Review, Rethink and Redesign

6. Review and amend processes and procedures as required. Make sure you involve other people in this work: share the workload, agree what is required, allocate responsibilities, timeframes and key dependencies, and get moving!

7. Present and launch the plan – including who is doing what – to all key people.

Phase 3 – Reignite and Relaunch

8. Implement the ways of working, stick to your plan and make sure that everyone involved is pulling their weight!

9. Measure progress, record and compare results to 'best' – keep your project plan up to date

10. Sign off and establish your process for continual improvement in each newly designed area.

When going through this process, it's important not to focus only in one part of the business. All elements of the business are so closely linked you must remember that many of your processes and procedures will be interrelated and interlinked. This is why this process is so important!

A word of caution!

Make sure you take one area, process or layer at a time. Review them conceptually but don't get bogged down in how you need to make changes at this stage.

Then once the high level is agreed, you can turn your attention to the more detailed levels of the area you are trying to improve.

It's about keeping that momentum going, and not losing focus on what you are trying to achieve overall!

*https://en.wikipedia.org/wiki/PDCA

UNDERSTANDING THE RNRB

David Downie, technical manager at abrdn, examines what paraplanners need to know about the Residence Nil Rate Band

Property prices continue to rise. The average UK home has grown in value by 10.6% over the year to August 2021. This, combined with the freezing of the inheritance tax (IHT) nil rates bands until 2026, means more clients are at risk of paying IHT on their estate in the years to come.

If someone dies and their estate is worth more than the basic Inheritance Tax threshold, their estate may qualify for the residence nil rate band (RNRB) before any Inheritance Tax is due.

But it is complex and often poorly understood – so much so that the Office of Tax Simplification (OTS) found that some solicitors were choosing not to advise clients on it; a choice that could mean some married couples paying as much as £140,000 in tax unnecessarily.

With more individuals at risk of facing an IHT bill due to property value, understanding how to get maximum benefit from the RNRB is key. Here we explore three key areas that often cause the most confusion – who qualifies as a beneficiary, how much can be claimed, and what happens if a home is sold or gifted before death?

Who is a qualifying beneficiary, and how much can be claimed?

The RNRB can only be claimed when an individual dies and a direct descendant inherits the 'home' in accordance with a will, or under intestacy rules.

Broadly, a direct descendant refers to a child or grandchild of the deceased, but also includes stepchildren, adopted children and anyone married to – or in civil partnership with – this group.

It is also worth noting that a 'stepchild' is considered a child who was born to their husband or wife during a previous relationship. Unmarried couples could miss out on the RNRB, as a partner's children from an earlier relationship won't be treated as stepchildren unless they have been adopted.

For deaths after 5 April 2020, the full RNRB each individual can claim is £175,000. In addition, the executors of the deceased can also claim the unused part from a spouse or civil partner who died earlier, irrespective of the date they passed, even if this was before the RNRB was introduced in April 2017. The spouse or civil partner also doesn't need to have owned any part of the qualifying property to claim the RNRB.

While navigating the RNRB can be a complicated concept for advisers, dealing with the issue can save clients a significant amount of tax

The rules aren't the same for unmarried couples, however. The unused part from a deceased unmarried partner cannot be transferred, even if the couple had children together. The value of the deceased's estate can affect the amount of RNRB available. Wealthy individuals who die with an estate of more than the £2,000,000 taper threshold could lose some or all their RNRB.

However, confusion can arise because the value of the estate assessed against the taper threshold is different from the estate subject to inheritance tax. For the purposes of the RNRB and tapering,

the 'estate' is broadly the value of everything the deceased actually owned when they died, after liabilities, but before taking into account any exemptions or reliefs. Carefully considering what is, and isn't, included in the estate calculation will be important.

For example, gifts made shortly before death are not included, even if they're subject to IHT because death occurred within seven years of making the gift. There is therefore an opportunity for 'deathbed' planning where a lifetime gift is made to reinstate some or all the RNRB.

Selling or gifting a home before death – what happens then?

It is not uncommon for people to sell the family home and move into a smaller property when they retire. Others may gift their home or sell up completely and either move in with family or into care. Provided the sale or gift of the house was completed after 7 July 2015, a 'downsizing addition' may be available to make up for the lost RNRB.

While the formula to calculate this is complicated, the outcome for many will be that they are still entitled to an amount equal to the full RNRB at the time of their death – if the value of the disposed home was greater than the RNRB at the time of disposal.

Of course, where a downsizing addition is claimed, the property it's based on is no longer owned at death. An amount equal to the lost RNRB must therefore be left to direct descendants to be able fully use up the downsizing addition.

For wealthier clients with estates over £2,000,000, the downsizing allowance will be tapered in a similar way to the RNRB. Where the deceased had downsized more than once since 7 July 2015, the executors can choose which transaction they wish to base their calculations on. Importantly, it doesn't have to be based on the most recent move.

Finally, it is worth noting that the RNRB is not available on any lifetime gifts to children or grandchildren – a basic condition is that the property must pass to direct descendants on the death of the parent of grandparent.

In essence, while navigating the RNRB can be a complicated concept for advisers, dealing with the issue can save clients a significant amount of tax. With rising property prices set to cause more individuals to face IHT liabilities, being prepared to help individuals make the most of the RNRB will be more important than ever.

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. One of your clients has recently been asked to be a trustee on a discretionary trust which has the bulk of its investment in equities. He is concerned about the taxation of any dividends for the trust and the beneficiaries. You tell him that:

- A The trust is liable for 38.1% income tax after they have exceeded their standard rate band and the beneficiary is deemed to have received trust income not dividend income.
- B The trust is not liable for any income tax and the beneficiary pays an extra 22.5% if they are a higher rate taxpayer.
- C The trust is liable for 37.5% Income tax with the first 10% covered by the tax credit and the beneficiary is deemed to have received trust income not dividend income.
- D The trust is liable for 38.1% Income tax after they have exceeded their dividend allowance and the beneficiary is deemed to have received trust income not dividend income.

2. You are reviewing the financial planning needs of a young couple, Simon and Jess, with two children under the age of 5. What would your general priorities be for them before they considered saving and investment?

- A Pay off all debts and put any required protection plans in place immediately.
- B Pay off expensive debts, protect the family, then put an emergency fund in place.
- C Complete an income and expenditure analysis to determine any surplus income.
- D Put an emergency fund and protection in place first.

3. Helen has made a chargeable gain of £4,500 on the surrender of her non-qualifying life assurance policy. If her taxable income in 2021/22 is £40,000 she will be liable for which of the following taxes on the gain?

- A Capital gains tax at 10%
- B Capital gains tax at 20%
- C Income tax at an extra 20%
- D Income tax at an extra 40%

4. The house style employed by the investment management firm you work for is based on finding companies with long term sustainable advantage. What is the name given to this particular approach to investment management?

- A Value
- B Momentum
- C Contrarian
- D GAARP

5. Gertrude is considering taking out a home reversion plan but is concerned that if she dies within the next few years her children will lose out financially from the value of her property. What feature should she ensure her plan has?

- A No negative equity guarantee
- B Kitemark guarantee
- C Minimum inheritance guarantee
- D Safe Home Income Plan guarantee

6. Julia, a newly qualified teacher, is in the process of buying her first home near where she works using a housing association's shared ownership scheme. What is the advantage of her paying stamp duty land tax as a one-off payment?

- A She can receive tax relief on the payment.
- B She will only have a further liability if she utilises staircasing.
- C She will not have a further liability if she buys a bigger percentage of the property.
- D The rate of stamp duty land tax is reduced by 1%.

7. The following investments have been made to a VCT, an EIS and a SEIS:

Name	Taxpayer Status	Investment	Amount
Karen	Basic Rate	VCT	£10,000
George	Higher Rate	EIS	£30,000
Henry	Additional Rate	SEIS	£205,000

What is the total amount of tax relief?

- A £62,000
- B £73,500
- C £114,500
- D £116,500

8. How does the role of a Deputy differ from that of an Attorney under a Lasting Powers of Attorney?

- A A Deputy is appointed by the Court of Protection whereas an Attorney is appointed by the donor
- B A Deputy can make gifts on behalf of an individual whereas an Attorney cannot
- C An Attorney can sell property whereas a Deputy cannot
- D A Deputy must keep financial records whereas an Attorney does not need to

9. Simon, who is a director-shareholder in the business, is retiring in the tax year 2021/22 and will receive a pension based on his 25 years' service in a 1/60th defined benefit pension scheme. Simon's total remuneration consists of:

Basic salary	£20,000
Commission	£10,000
Bonuses	£4,000
Dividends	£6,000

If the scheme's definition of pensionable remuneration includes all of his earnings as an employee, Simon's pension will be:

- A £16,667.
- B £15,000.
- C £14,167.
- D £8,333.

10. Which of the following is a feature of a Treasury bill?

- A Very illiquid
- B Issued by NS&I
- C Backed by the Government
- D Long-term maturities

Your answers

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

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

Professional Paraplanner
The Investment Committee

In association with

Fidelity International

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

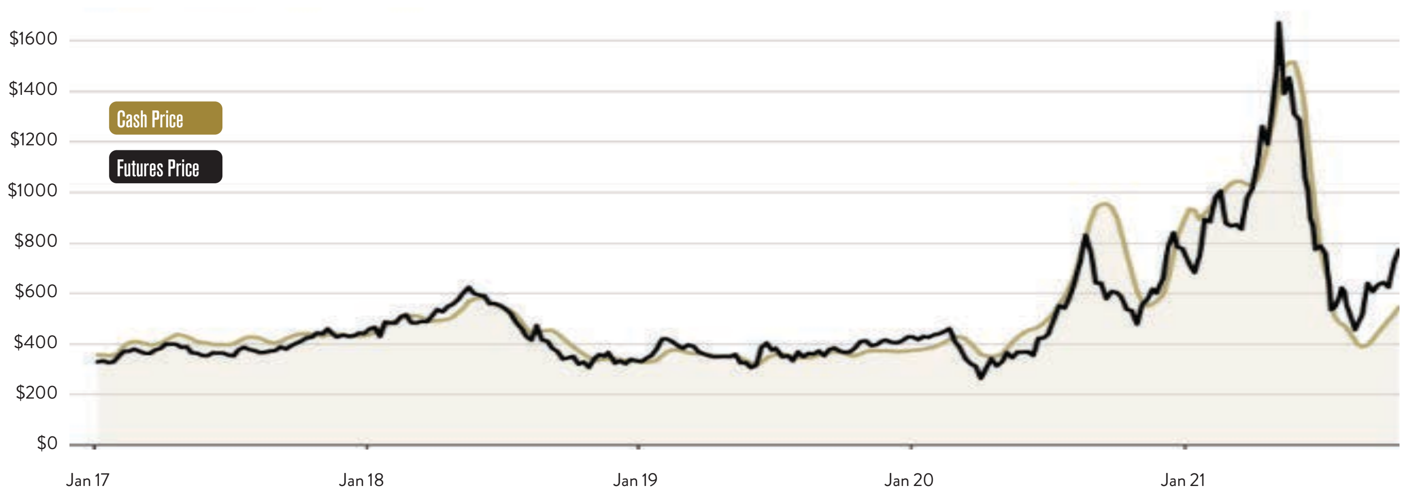
Investment Committee events

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

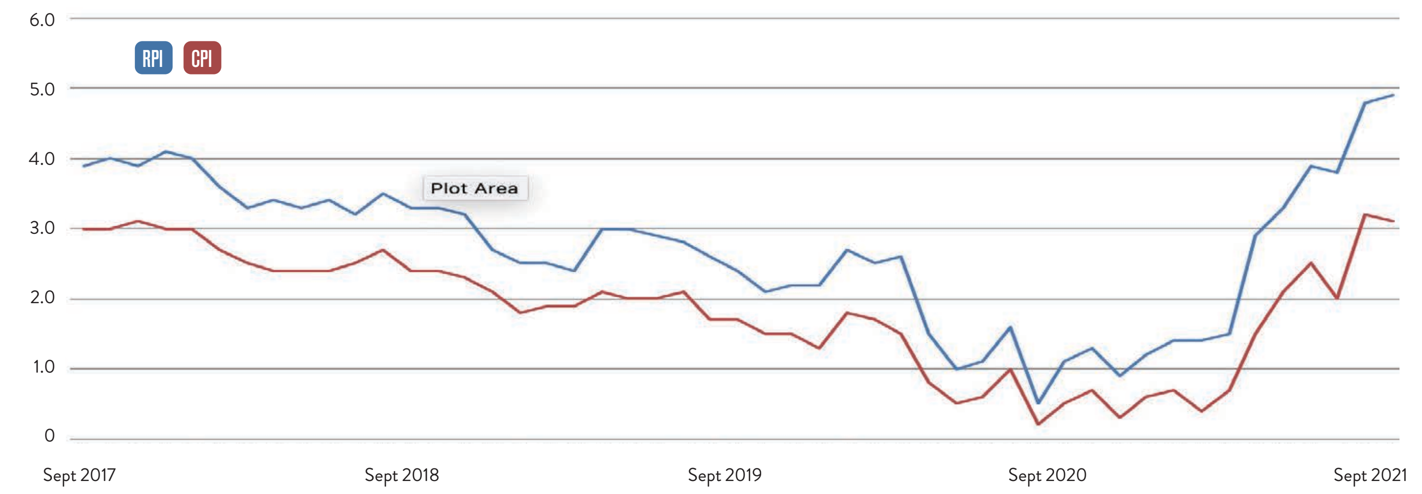
We are looking forward to recommencing our Investment Committee Events programme in 2022. We will provide further details in due course.

SECTOR CONSIDERATIONS: INFLATION

Wholesale lumber prices (Price per thousand feet of lumber)



UK CPI and RPI



Fund Calibre comment: Whether it is gas, petrol, copper or shipping – the last few months of 2021 have been all about prices shooting up. The reasons have been very similar: disrupted supply chains and labour shortages in the aftermath of Covid. The big question is whether these price rises are transitory or embedded in markets?

A pattern emerging in one commodity – lumber – may offer some insights. The first chart shows lumber prices shooting up in May, as demand picked up from housebuilders. This occurred just as supply restrictions began on the back of the pandemic. Prices then plummeted, as supply was eventually brought back into play. However, in recent weeks the price has begun to jump again amid rising demand and labour issues.

Whilst not a major industry, this does show how we are trapped between two narratives of transitory and sustained inflationary pressures. Could this happen in other sectors and lead to a volatile inflation picture? You'd be very brave to bet against it.

There has been huge disruption over the past 18 months, and with inflation a measure of price changes year-on-year, depending on when you analyse the data, many sectors could see big upwards or downwards price changes.

We are now focusing on areas of stability to tackle this, where we can capture growing inflation when it comes, but not lose as much if it fades – with specialist commercial property a good example. We generally prefer areas with stable demand – supermarkets, care homes and logistics – while generally avoiding retail and offices. This way, we get some price rise protection, without having to comb through intra-commodity price movements.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AN UNCERTAIN YEAR AHEAD

How do we invest if the music stops in 2022? Darius McDermott, managing director, FundCalibre, looks at what might lie ahead

I never thought resiliency and uncertainty could go so hand in hand, but both seem to have been the story of 2021 from an investment perspective. On the one side, markets continue to climb ever higher. Year-to-date global equities have returned over 20 per cent, despite huge uncertainties surrounding the likes of the pandemic, Brexit fallout and Chinese regulation[1]. In fact, every major global market has recorded positive returns thus far*, with Europe and the UK a particular surprise.

But with all markets (bonds, equities and many alternatives) now expensive, and central banks starting to withdraw their stimulus, uncertainty remains as prominent as ever. We know from history that when markets are expensive it takes very little to unnerve them. I recently saw an article which described financial markets being a bit like the final orders at a stag-do! We've all had a great time following the sell-off, but there is an awful mess that still needs to be cleaned up when the music has stopped.

Bonds are a perfect example. Following the huge opportunities seen in 2020, they have now gone back to pre-pandemic levels, with yields at historic lows. Simply put, no one can expect the unprecedented amounts of fiscal and monetary stimulus in places like the US to not have an impact on yields at some point.

We've had something of an economic imbalance courtesy of the past decade of free money. It does feel like the strong recovery we've seen, coupled with inflationary concerns, has created a tipping point. A recent market update from Bank of America says investors should prepare for a more challenging 12 months ahead - adding that "we are on the cusp of a policy pivot from pro-growth to anti-inflation"[2].

I agree with most commentators that the market looks set for some type of correction in 2022. We can't ignore the strong gains in the past 20 months or so in what has been the most artificial of markets, courtesy of central banks. A large part of next year will be about capital protection, whilst eking out some returns above inflation, and there are a few areas which can help with both.

A large part of next year will be about capital protection, whilst eking out some returns above inflation, and there are a few areas which can help with both

Investing for income

Income is always a priority – but it could become an even greater challenge in an inflationary world. I think the UK could

become an attractive option again in the next 12 months.

UK equity income investors faced a double whammy in 2020, as not only did dividends paid to investors fall 44 per cent on a headline basis[3], but the average fund in the sector saw its assets fall more than 10 per cent[4]. However, this year has seen a revival of sorts, with the latest figures showing dividends recovering nearly 90 per cent year-on-year in the third quarter of 2021.

We know about Brexit and the vaccine bounce, but rising M&A activity also indicates the UK is being perceived to be undervalued versus its peers. I would look to the multi-cap space for a diverse range of UK-dividend payers, with the likes of LF Gresham House UK Multi-Cap Income and Marlborough Multi Cap Income coming to mind.

Another maligned sector which could offer safety and some growth is absolute return funds. Their purpose is to manage the cycle for investors and to smooth returns as the cycle progresses, outperforming in a bear market, although they will often underperform in a bull market. They tend to have high flexibility and make the most use of diversification, avoiding pure directional market plays to achieve a low correlation to the broader markets.

With a growing expectation that traditional funds will struggle as monetary policy is tightened – and inflation potentially rises – I'd consider a diverse offering like the SVS Church House Tenax Absolute Return Strategies fund, while a total return offering in the fixed income space, like TwentyFour Absolute Return Credit fund, is also worth considering.

The final area really does underline the uncertainty in markets. We saw value investing show great signs of recovery in the early part of this year, before growth investing once again took over in markets.

The question of whether inflation is transitory or not looms large over which market style is likely to lead the way from this point. So, I'd also look to incorporate a few managers who truly operate a style-agnostic, pure stockpicking approach to markets. For this I'd consider the likes of Janus Henderson European Selected Opportunities and Fidelity Global Special Situations. The funds are managed John Bennett and Jeremy Podger respectively, both of whom have excellent long-term track record across different market conditions.

I'd just like to finish off by wishing everyone a Merry Christmas and a Happy New Year.

[1] Source: FE fundinfo, total returns in sterling, 30 December 2020 to 2 November 2021
[2] Source: BusinessInsider.com
[3] Source: Investment Association
[4] Source: Link Group – Global Dividend Monitor – Q4 2020

Past performance is not a reliable guide to future returns. You may not get back the amount originally invested, and tax rules can change over time. Darius's views are his own and do not constitute financial advice.

CORRELATIONS

Anthony Rayner of the Premier Miton Macro Thematic Multi Asset Team asks: How effective has the 60-40 equity-bond model been and will it continue?

A large proportion of the investment community, and their clients, have been well served by the 60-40 equity-bond approach to portfolio construction. As such, it has a strong following, underpinned by a belief that it is an effective way to diversify portfolios.

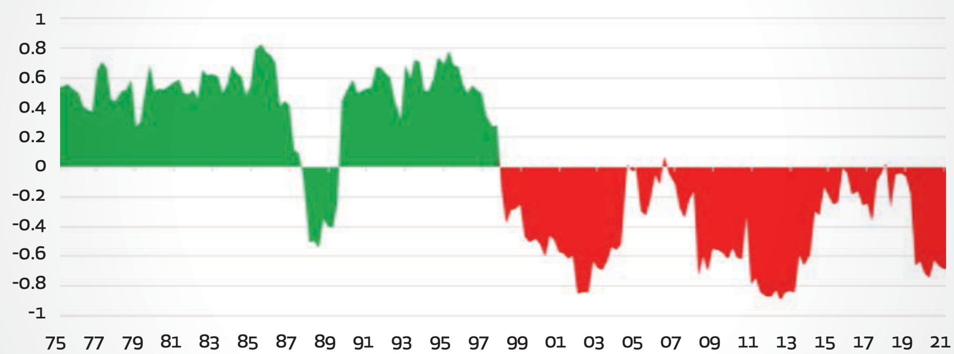
As pragmatic investors, we place great importance in challenging assumptions, particularly ones that have been embraced by conventional wisdom. In this piece we look at the historical environment for the model and what challenges the approach might face going forward.

Let's start off by looking back as to how these two assets have behaved over the last fifty years. The chart below shows how the S&P500 and US Treasuries (Bloomberg US Long Treasuries) have behaved relative to each other. In short, it is a story of two halves. During the first period, the two assets were broadly positively correlated, ie. bonds did not behave as a diversifier to equity. In stark contrast, the second period was characterised by the two assets being broadly negatively correlated, with bonds diversifying equity. It is this second period that drives the current narrative, with the collective memory being driven by recency bias.

Of course, there are numerous differences between the two periods but a key difference is the inflationary environment and, in turn, what that meant for monetary policy. Specifically, the first period was characterised by episodes of meaningfully elevated inflation. So much so, that central banks were encouraged to raise rates. The second period was dominated by a disinflationary dynamic, driven by factors such as globalisation, demographics and technological change. Whatever your view on the key drivers of disinflation, the dynamic itself is irrefutable, and it had a crucial impact on monetary policy.

In short, it allowed policy makers the freedom to come to the rescue of falling equity markets, and thereby limit the negative impact on economic growth, by

CORRELATION BETWEEN US EQUITIES AND US TREASURIES: BONDS DO NOT ALWAYS BEHAVE AS A DIVERSIFIER



Source: Bloomberg, 30.09.1975 – 01.11.2021.

reducing the price of money (lowering rates). Later on, as rates could be cut no more, policy was eased by increasing the quantity of money (quantitative easing). These actions had the effect of driving bond prices higher and therefore, indirectly, providing some diversification to equity market falls. Hence the very clear picture of diversification illustrated in the graph.

Current situation

That brings us to the present. One of the key concerns for investors and policy makers currently is inflationary pressures. The debate around the scale and duration of inflation rages on, although many of those arguing that it will be transitory have been quietly retreating. We don't forecast economics, markets or politics, as we think it is too often glorified guessing. That said, we have felt that markets have been somewhat inflation-complacent and too willing to believe the central bank "transitory" narrative.

There are many reasons why the consensus doesn't want to believe that inflation will be elevated for an extended period. Not least the recency bias mentioned earlier, with the last few decades dominated by disinflation. Just as in the 1970s, when the belief was that it was just a series of one-offs, until it wasn't. Also, many have a vested interest in the status quo: with financial assets having done remarkably well over the last few decades, there is a reluctance to believe that central bank liquidity won't be such a support for markets.

Either way, the inflation debate won't be decided here. If we get an extended period of elevated inflation, the 60-40 approach will look particularly challenged, with both bonds and equities looking stretched, in part as Fed liquidity will be less plentiful. Even if inflationary pressures dissipate in the short term, it is a large step to believe that inflation is permanently dead. It's an even larger step to believe that any asset's behaviour, relative to their history or relative to another asset, such as bonds and equities will continue to behave in the same way for ever.

Our preference is for a more pragmatic approach to portfolio construction. We build portfolios based on how assets are behaving, rather than how they have behaved historically, as the way assets behave is not static over time.

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	3 year Cumulative Performance	FE Fundinfo Alpha Manager Rated	FE Fundinfo Crown Fund Rating
Baillie Gifford Long Term Global Growth Investment	182.52	✓	5
Morgan Stanley US Growth	163.53	✓	5
Morgan Stanley Global Insight	128.22	✓	5
GAM Star Disruptive Growth	126.65	✓	5
Baillie Gifford Pacific	123.87	✓	5

AIC	3 year Cumulative Performance	FE Fundinfo Alpha Manager Rated	FE Fundinfo Crown Fund Rating
Baillie Gifford Scottish Mortgage	216.07	✓	5
Baillie Gifford Pacific Horizon	207.66	✓	5
BlackRock Greater Europe	119.54	✓	5
Dunedin Income Growth Investment Trust	52.34	✓	5
Personal Assets Trust	28.09	✓	5

BEST PERFORMING FUNDS IN TERMS OF RISK VS RETURN

IA	3 year Cumulative Performance	FE Fundinfo Crown Fund Rating
UBS Luxembourg Selection Active Solar	357.49	232
iShares Global Clean Energy	198.17	205
Baillie Gifford American	188.58	171
Baillie Gifford Long Term Global Growth Investment	182.52	145
Multipartner SICAV Baron Global Advantage Equity	165.23	145

AIC	3 year Cumulative Performance	FE Fundinfo Crown Fund Rating
Starvest	685.72	360
Independently Managed Adams	574.36	502
Edge Performance VCT	379.23	277
Seneca Growth Capital VCT	244.41	325
Scottish Mortgage Investment Trust	216.07	176

RISKIEST SECTORS

IA	3 year Cumulative Performance	FE Fundinfo Crown Fund Rating
Latin America	-15.42	131
North American Smaller Companies	61.97	116
Commodity/Natural Resources	37.61	111
Japanese Smaller Companies	27.65	109
China/Greater China	53.51	108

AIC	3 year Cumulative Performance	FE Fundinfo Crown Fund Rating
China/Greater China	89.05	162
North American Smaller Companies	44.45	149
VCT Specialist: Media, Leisure&Events	19.56	149
UK Equity & Bond Income	18.14	140
Infrastructure Securities	109.68	137

OUTFLOWS

Fund name	Size 1y ago (£m)	Size now (£m)	Performance Effect on Size (£m)	Out (£m)
Liontrust Japan Equity	28,998.71	30,526.16	8,007.29	-6,479.83
State Street UK Scrend Idx Eq	6,545.41	241.05	-204.93	-6,099.43
Invesco Global Targeted Returns (UK)	6,997.14	1,648.14	-6.57	-5,342.43
M&G Japan	21,486.23	27,800.20	8,968.03	-2,654.06
BlackRock NURS II Overseas Equity	2,421.64	247.56	279.27	-2,453.35

INFLOWS

Fund name	Size 1y ago (£m)	Size now (£m)	Performance Effect on Size (£m)	In (£m)
BlackRock ACS US Equity Tracker	5,231.75	17,344.08	3,587.77	8,524.55
MI Somerset Emerging Markets Discovery	8.61	5,203.27	1,389.32	3,805.34
SPW MM Global Investment Grade Bond	0.00	3,183.12	39.72	3,143.39
BlackRock ACS UK Equity Tracker	6,305.37	12,482.24	3,081.83	3,095.04
BlackRock ACS Climate Transition World Equity	733.48	4,805.72	1,072.71	2,999.52

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
111.88

North America
62.55

North America Smaller Companies
61.97

Financials and Financial Innovation
56.59

India/Indian Subcontinent
55.95

AIC

VCT Specialist: Health & Biotech
113.91

Infrastructure Securities
109.68

China/Greater China
89.05

European Smaller Companies
86.32

Technology & Media
84.05

MOST RESEARCHED

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

MOST VIEWED FACTSHEETS

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

MOST CHARTED

IA		AIC	
1	Vanguard LifeStrategy 60% Equity	1	Scottish Mortgage Investment Trust
2	Vanguard LifeStrategy 80% Equity	2	Edinburgh Worldwide
3	Fundsmith Equity	3	Octopus Titan VCT
4	Vanguard LifeStrategy 40% Equity	4	Brevan Howard Capital Management
5	Vanguard LifeStrategy 100% Equity	5	Smithson Investment Trust

STRUCTURED PRODUCTS

STRUCTURED PRODUCT MATURITIES SEPT-OCT 2021

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

Provider	Maturity Date	Term (Yrs)	Underlying	Change in underlying %	Plan Gain %
Reyker Securities	19/10/2021	6	FTSE 100 Index	12.08%	80
Reyker Securities	14/09/2021	6	FTSE 100 Index	15.60%	70
Societe Generale	11/10/2021	6	FTSE 100 Index	11.39%	63
Investec	01/09/2021	6	FTSE 100 Index	15.36%	34
Investec	12/10/2021	6	FTSE 100 Index	10.81%	33
Societe Generale	26/10/2021	3	FTSE 100 Index	4.87%	31.8
Walker Crips	27/10/2021	4	FTSE 100 Index	-3.35%	26
Walker Crips	22/09/2021	4	FTSE 100 Index	-3.11%	26
Societe Generale	26/10/2021	3	FTSE 100 Index	4.87%	25.5
Mariana	11/10/2021	6	FTSE 100 Index	11.39%	22.78
Societe Generale	18/10/2021	2	FTSE 100 Index	0.74%	20.5
Investec	22/10/2021	3	FTSE 100 Index	2.34%	18
Walker Crips	06/09/2021	2	FTSE 100 Index	-1.31%	16
Walker Crips	04/10/2021	2	FTSE 100 Index	-2.02%	16
Societe Generale	18/10/2021	2	FTSE 100 Index	0.74%	15.6
Investec	22/10/2021	3	FTSE 100 Index	2.34%	13.5
Meteor	25/10/2021	6	FTSE 100 Index	12.08%	12.69

Source: StructuredProductReview.com