Professional Paraplanner

The magazine for paraplanners and financial technicians

May 2022

Ro Focus
R03 income tax calculation

Consumer Duty
Impact on paraplanning

Dan Atkinson
Pragmatist or perfectionist?

Pensions
Practicalities of pension sharing

Planning for the future

Sanlam UK's Hugh Johnson on building a hybrid advice service and what it means for the paraplanning team

PLUS: SPOT THE DIFFERENCE: IN-HOUSE OR OUTSOURCED PARAPLANNER?

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Professional Paraplanner

A FINTECH FUTURE

I recently attended an industry conference focussed on digital integration in the wealth management/financial advice market. Aside from providing some interesting insights into how quickly digital and automated processes are being deployed into the industry, my attention was particularly pricked by two of the presentations. They specifically pointed to 'reduced reliance on paraplanners' as one of the benefits experienced by financial advice firms and banks when implementing digital strategies within their businesses.

Most hybrid advice/digital/automated software offerings these days have the ability to take the information provided by the client through a digital fact find and pre-populate a templated suitability report. Some can add further detail from the adviser's digitally recorded meeting notes. Add in Apps that can bring in a client's bank account details and you have a very rich data stream.

What they can then do is map against a firm's advice policy a course of action which will take the client through the advice process with minimal contact with an adviser, until it is needed. Not only can this type of software produce suitability reports, but it can also make simple recommendations, again in accordance with the firm's advice policy.

With this in mind, for this issue I took the opportunity to interview Hugh Johnson, who is head of Proposition Delivery and in charge of the 19-strong paraplanning team at Sanlam UK. Hugh was a PP cover star in 2017 when head of Paraplanning at the company. I spoke to him about the transition into his current role – further proof of how paraplanners can move into other interesting areas of the business – and also how it developed into his involvement in building the company's hybrid advice system and service. His take is that hybrid advice is where all financial advice firms are headed – "It's the future of financial planning." You can read the full article on pages 8-9.

However, paraplanners shouldn't panic. When I collared the presenters at the conference for more detail, they quickly explained that what the systems do is take away the need for paraplanners to become involved in the more 'humdrum' areas of report writing.

The tech will allow paraplanners to focus on the value-adding aspects of their role, the technical support to advisers, more contact with clients, and the more complex advice cases, where they are properly using their Level 4-6 qualifications. This way paraplanners become of greater value to their company and so maintain higher salaries.

Hugh also explained that, similarly, the technology frees up advisers from collecting facts and the admin of the fact find, allowing them to focus more on building existing client relationships, bringing in new business, and talking about the elements of advice that the clients really value, i.e., meeting their financial goals and ambitions.

What is clear also is that what is being developed is not fully automated 'robo-advice' but advice as a human process 'digitally enabled'.

The idea of a fully automated saving and investment process with no human intervention can make for an exciting business case for companies, but engagement, understanding and empathy, are the elements that people want and need when they are investing for their financial future, and when they want to know they are making the right decisions at the right time.

There is no doubt that technology is going to play a far bigger part of the advice process going forward, but that should make the world a more interesting one for paraplanners.

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

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5 October: Manchester, Midland Hotel
19 October: Leeds
9 November: Bristol, Aztec Hotel & Spa

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In this issue...

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RESEARCH IN FINANCE

Address
80 Coleman Street, London EC2R 5BJ
T: +44 (0)20 7104 2235 **E:** info@researchinfinance.co.uk
W: professionalparaplanner.co.uk

Editorial

Editor
Rob Kingsbury
E: robkingsbury@researchinfinance.co.uk

Designer
Pascal Don Design
E: pascal.don@mac.com

Editorial inquiries: editorial@researchinfinance.co.uk
Production inquiries: production@researchinfinance.co.uk

Research analytics

Research Director
Adele Gray
T: +44 (0) 20 7104 2237
E: adelegray@researchinfinance.co.uk

Head of Insight
Annalise Toberman
T: +44 (0) 20 7104 2238
E: annalisetoberman@researchinfinance.co.uk

Events

Event Manager
Louisa Hooper
T: +44 (0) 7990 823423
E: louisahooper@researchinfinance.co.uk

Management

Founding Director
Toby Finden-Crofts
T: +44 (0) 20 7104 2236
E: tobyfindencrofts@researchinfinance.co.uk

Founding Director
Richard Ley
T: +44 (0) 20 7104 2239
E: richardley@researchinfinance.co.uk

Advertising and sponsorship enquiries: sales@researchinfinance.co.uk

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Ro FOCUS

In this article, Jeff Scholes director from BTS explains how to use a process approach to an R03 Personal Taxation exam question

The R03 Personal Taxation exam can be a really challenging paper, not least because candidates are faced with 50 exam questions to complete in 60 minutes. For an exam that often features many calculation-based questions, this time pressure can feel quite stressful.

One of the reasons that calculation questions cause R03 candidates so much stress is candidates tend to feel the need to dive straight into the detail and very quickly find themselves lost in all the figures.

The best approach with this type of exam is to have a process for dealing with calculation questions, starting with taking a deep breath before attempting each one! Having a process that you have practised in advance will help to reduce calculation errors caused by missing out key steps and will help you to feel more in control of the exam.

Each of the tax calculations has a logical process that you can follow to arrive at the right answer. For income tax it's an eight-step process, for CGT it's a six-step version.

The points are in the PROCESS

If we look at the steps for an Income Tax calculation, these are:

1. Gather all the incomes that are taxable, ignore the ones that are not, and group the taxable incomes into Non-savings, Savings, Dividends and Chargeable gains.
2. Make sure you are dealing with Gross figures. If any income has already paid tax, turn it back into the gross equivalent before you start the tax calculation. In R03, this is usually PID income from a REIT or Trust income from either an Interest In Possession or Discretionary Trust.
3. Deduct any reliefs that are available from the taxable income, such as pension contributions made gross via the Net Pay arrangements or to S226 schemes (Retirement Annuity Contracts) or interest on qualifying loans.
4. Check to see if the Personal Allowance can be left at £12,570, or should it be reduced due to the individual's Adjusted Net Income being over £100,000.
5. Check to see if any of the tax bands need to be expanded due to payment of personal pensions or charity donations using Gift Aid.
6. Carry out the tax calculation (remembering to check if any 0% savings starter rate is available).
7. Apply any tax reducers such as the Married Couple's Allowance, the Married Tax Allowance or investments into EIS, SEIS or VCTs.
8. Deduct any tax already paid (the amounts that you grossed up in step 2).

Let's apply these steps to a specimen question – Bella is an employed structural engineer who has received income from various sources in the current tax year. Her incomes are: Salary of £56,040, Benefits in kind £5,000, Rental income from buy to let (after expenses) £38,000, Dividends £2,100, Interest £400, and net PID income £160. What is her income tax liability for the current year?

- First, gross up the PID income as it is received net of 20%; £160 ÷ 0.8 = £200
- Then, work out her Adjusted Net Earnings:
  - Salary £56,040 + BIKs £5,000 + Rent £38,000 + Dividends £2,100 + Interest £400 + PID income £200 = £101,740 ANI.
  - This is £1,740 over £100,000, so Personal Allowance will be reduced by £1,740 ÷ 2 = £870
- £12,570 - £870 gives her a Personal Allowance of £11,700
- Then calculate the tax in order:
  - 1st £11,700 of salary at 0% (PA) = £0
  - Next £37,700 of salary at 20% (basic rate band) = £7,540
  - Remaining salary £6,640 x 40% = £2,656
  - Benefits in Kind £5,000 x 40% = £2,000
  - Rent £38,000 at 40% = £15,200
  - Interest is within her Personal Savings Allowance, so no tax to pay
  - Dividends can use £2,000 DA, so £100 x 32.5% = £32.50
- Total £27,428.50
- But tax has already been paid on PID income, so this can be deducted from tax bill: -£40
- Total £27,388.50

BTS tip: The CII examiners have a good idea of the mistakes that candidates are likely to make along the way with calculation questions. Watch out for incorrect distractors in the answer options, it's very easy to miss out one part of the calculation process but still arrive at an answer that is listed in the possible answers!

Learning and practising all the steps for each of the calculation types and knowing which steps should be considered BEFORE you pick up the calculator, are skills that will serve you well to pass the CII R03. The more exam-standard calculation questions you can practise in advance, the stronger the brain muscle-memory for applying the process.

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We are excited to launch the third edition of the hugely popular **An Adviser's Guide to Business Relief**

To assist you with your research and understanding of Business Relief (BR), we sponsor a technical guide by Intelligent Partnership, a leading independent tax-efficient research house. The guide is designed for both those seeking an introduction to BR and those already familiar and experienced with using this valuable tax relief. It offers practical advice covering Inheritance Tax (IHT), estate planning options and BR.

The guide covers recent developments and legislative changes in the IHT landscape and looks at some of the key drivers for estate planning. The due diligence support will help you analyse the different BR investment structures and look under the bonnet at the underlying assets.

The guide also includes expert commentary from industry leaders, including SOLLA and STEP, and **qualifies for four hours of CPD**.

The cost of deferring a BR investment

The latest edition of our guide has a new section that looks at the potential costs to the client of deferring making a BR investment. It offers suggestions on how to overcome some of the barriers an adviser may face when discussing IHT and BR, including guidance on how to initiate conversations around estate planning and engage with the next generation.

HMRC's 2021 statistics show that, in 2018/19, the average IHT tax bill stood at £209,000*. With sufficient tax planning, in many cases it may have been possible to reduce this bill substantially - possibly even to zero in some cases.

A big issue, however, is that IHT planning needs to be done well in advance of the client's death (or loss of capacity) and may not be their top priority. The guide looks at some of the reasons why clients may put off their IHT planning, and a few tips around how you could broach the subject with them.

Learn more about the potential cost of deferring in our guide

*Source: 'Inheritance Tax statistics: Table 12.3 - estates notified to HMRC, numbers and tax due', HMRC, July 2021

This invaluable guide offers:

- Insight on the Inheritance Tax landscape
- Support on due diligence best practice
- Dozens of practical case studies showing BR in action
- Guidance on how to compare positive impact credentials

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Rob Kingsbury spoke to Hugh Johnson, head of Proposition Delivery, Sanlam UK, on building a hybrid advice service and what it means for the paraplanning team

PLANNING FOR THE FUTURE

When *Professional Paraplanner* profiled Hugh Johnson in our April 2017 issue, he was head of Paraplanning for the company. Fast forward to April 2022 and Hugh is head of Proposition Delivery, Sanlam UK, demonstrating how the skills and knowledge acquired being a paraplanner and running a paraplanning team, and a lot of hard work along the way, can take paraplanners into very different roles.

The head of Proposition Delivery role developed out of necessity rather than design, Hugh explains. “2017 was the point at which demand for paraplanners grew exponentially and salary levels started rising. This made it more difficult to recruit good paraplanners, just at the time when, in January 2018, MiFID II doubled our workload. It led me into designing a new service proposition for the business, using technology to create efficiency.”

This was done in two ways, he says. “First was recognising the need to make more efficient the way we imported data into the system and produced reports. We spent a lot of time reviewing our templates and digitising them so they could be automated, as well as ensuring we had better quality data coming in at the top end so it could be used more efficiently downstream.”

The second development was to build from scratch a desk-based advice service, which Hugh was tasked with structuring and running. This enabled the company to take ‘orphan’ clients that the company had acquired over the years and serve them more effectively, profitably and in line with the new MiFID regulations, through an at-a-distance proposition. “So, by end of 2018 my role had changed, and I had accountabilities for three regulated advisers and a support person, as well as the paraplanning team of 17,” Hugh says.

At the same time, Hugh decided to become authorised himself. “I wanted to have the experience of advising, because I think you can best build a better process having done the work yourself. So I became authorised and took on some clients.”

Other responsibilities

Now, as well as running the desk-based advice team and the support for it, he still has oversight of the paraplanning team of 19 people, but says he is less involved in the day-to-day running of the paraplanning team, as he now has two paraplanning team leaders reporting into him.

The role has more far-reaching managerial responsibilities also. “I sit on committees and forums that are helping to build out the next phase of Sanlam UK as a business. I input into the projects and then through my teams, I ensure the various elements for which we are responsible are delivered.”

As a role it can be very varied day-to-day. “On any one day I could be involved in what to do with a client case, and next mapping the client journey and deciding what functionality we want on our client portal.”

"Adoption of hybrid advice is happening already in firms that are engaging with technology, as they are seeing the opportunities it presents... It's the future of financial planning"

Over time, Hugh sees the role becoming more focussed on the proposition side.

Hybrid advice proposition

A key area which falls squarely within his area of Proposition Delivery is developing the company's hybrid advice offering. Phase one of the development started with digital onboarding, Hugh explains. "We digitised the fact find, making it more slimline and client friendly, so people can enter their details online; risk profiling is done in the same way."

Having the data in this templated and structured way, and thereby of a more consistent quality than it may have been in the past, means the information can be digitised and the production of suitability reports can be automated, to a large extent.

"So much of the onboarding process, particularly the elements that advisers and paraplanners traditionally have undertaken, can now be taken care of through technology," Hugh says, with the adviser and to some extent the paraplanner, remaining responsible for the human contact and the relationship building. This applies also to the desk-based advice team, who provide remote advice via Teams.

Phase two, he says, is to put on an overlay, that through algorithms "can start picking up on fact find information and start to flag a client's needs". As a simple example, he cites the case where a new client couple put down that they have a mortgage and children. "The system will highlight that they are likely to have a need for protection and legacy planning. So, the system is already starting to stimulate the advice before an adviser has even looked at the case."

Beyond phase two, he adds. "is where we take simple needs and provide advice through a purely digital experience from start to finish."

Paraplanning role

Hugh sees hybrid advice increasingly gaining traction, "which will mean paraplanners will be doing less of the basic tasks that they do now. The work paraplanners will be given will better reflect their knowledge and skills base – they will be dealing with the more complex cases, which have a higher value to the business."

As a result, he says, he sees the overall paraplanning role developing and paraplanners taking on more responsibility in their firms. "I see the paraplanner being the co-pilot of the adviser. Technology will take the heavy lifting out of the report writing process and the paraplanner will be there to review the report, build the cashflows, and to make sure everything that needs to be covered has been, as well as having more contact with the client alongside the adviser."

It is also future proofing advice firms as they seek to attract different generations of advised clients. "How do you service the next generation of clients in a way that meets their needs and expectations from a digital perspective? I think it has to be a hybrid service – not fully robo – it will be digitally based with the adviser and paraplanner providing the human contact."

Observing the financial advice market, Hugh says: "Adoption of hybrid advice is happening already in firms that are engaging with technology, as they are seeing the opportunities it presents. I think we will see a scramble now to build out this kind of technology and it will filter out into all firms over the coming years. It's the future of financial planning."

PRAGMATISM OR PERFECTIONISM

Should paraplanners be pragmatists or perfectionists? Or both? Dan Atkinson, head of Technical, Paradigm Norton Financial Planning, considers the 'painful pursuit of pragmatic perfectionism'

Can you be both a perfectionist and pragmatic or are these polar opposites? If you take a pragmatic approach does this mean that you throw out accuracy? I'd argue that to best serve our clients and the businesses we work in we should pursue a pragmatic perfectionism – even if it is a painful journey.

Paraplanners = perfectionists?

If I had to give two characteristics of a typical paraplanner it would be (1) an inquisitive mind, and (2) attention to detail. I suspect that's why you are reading *Professional Paraplanner*. You want to understand the detail and learn more. This is a great thing to pursue.

When we prepare reports and work on recommendations, we want them to be our best work. We want to make sure that everything is explained and all planning opportunities are explored. A proper, thorough job. We want it to be perfect and will often keep iterating to get closer and closer. Many paraplanners are indeed perfectionists, but does that make us right?

Perfectionism = being right?

You might be involved in the preparation (and often presentation) of cash flow models. The principle of Garbage In Garbage Out applies strongly here. If the inputs are wrong the output will be wrong. If the assumptions and handling of taxes are wrong the output will be wrong. It is vital that you have assumptions which are reasoned, reasonable and realistic. Researching them and documenting is an important part of that process. The tool could then calculate an expected net worth 20+ years into the future.

We can drill down to the nth degree to come out with a precise answer, but we must recognise that it is not necessarily going to be the right answer. Your assumptions about investment growth (and pretty much everything else) will almost certainly be wrong in practice. Your precisely perfect answer is not incorrect, but it is not necessarily the 'right' answer.

Pragmatism = lazy guesswork?

So, if precise isn't necessarily 'right' (and we might well have taken a while to get to that answer) what should we do? Do we just put a finger in the air and guess? Absolutely not!

Our examination of perfectionism in practice shows that even our carefully modelled systems are just an approximation of reality. The world we inhabit and engage with includes the unexpected, changes, and humanity. This tells me that in our pursuit of the 'right' answer we need to combine our hunger for accuracy with a recognition that

> *Financial planning is not just about solving a client's pension problem, or saving tax, or arranging protection*

it is an approximation. We need to recognise the value in quickly coming to a practical workable answer rather than an elongated process of iteration leading to false precision.

This is being pragmatic in the current sense of the word. The *Oxford Advanced Learner's Dictionary* describes it as "solving problems in a practical and sensible way rather than by having fixed ideas or theories". The word origins include the Greek word pragmatikos 'relating to fact', pragma 'deed', and prattein 'do'. Being pragmatic as a paraplanner means knowing the facts and relating them to action.

In the case of our cashflow example, this means knowing that a figure 20 years out is at best a guide to the direction of travel. So rather than fine tuning a retirement income strategy down to the pound that far out, we use broader (but still technically correct) brush strokes.

We need to recognise that there will be a range of outcomes and so come to a 'right' answer which best helps clients. This requires work and is far from lazy.

A painful pursuit

In the late 16th century the word pragmatic had a very different meaning and I think we sometimes jump to it when we are told to be pragmatic. That meaning was "busy, interfering, conceited". Our desire for detail interprets it as a suggestion to be lazy and rallies against it. Perhaps we feel that the person suggesting we take a more pragmatic approach is interfering with our process.

As we've seen above, we need to pursue pragmatic perfectionism. A desire for being right means that our pragmatism is rooted in correct facts. The tension between them means the pursuit of pragmatic perfectionism is painful but it is also worthwhile.

Serving the client

Financial planning is not just about solving a client's pension problem, or saving tax, or arranging protection. These are all elements of the financial planning process, but they are not the goal. Financial planning is about identifying what clients want to get out of life and finding solutions for that rather than any of those separate elements.

Life is messy. Circumstances change. Goals change. We experience both pain and pleasure. The unexpected happens. With this clear in my mind the pain of pursuing pragmatic perfectionism is absolutely worth it. With this lens it becomes the only sensible way to work and the only way we can truly serve our clients. Paraplanners need to become pragmatic perfectionists.

PENSIONS AND DIVORCE

Grant Blakey, technical consultant at AJ Bell, looks at the practicalities of planning around pensions sharing when dealing with clients looking to divorce

According to the ONS, there were almost 1.2m divorces in the UK between 2010-2020. The statistics also show that there is an increase in divorces between individuals over 65. As unpleasant as those figures are, it's clear that divorce and the corresponding financial planning impactions remains prevalent in day-to-day advice and paraplanning. Especially considering the increase in divorce in older age where the pension would usually represent a significant portion of total assets.

What are the options?

There are three options when it comes to dealing with pension rights during the divorce process:

Offsetting

Offsetting is the most popular way to deal with pension rights on divorce. This works by valuing the pension benefits as an immediate asset and the value is taken into account when the assets (and liabilities) of each spouse are considered. The offset could be in form of physical assets or by providing an income, such as maintenance payments or a lump sum. When the assets are being offset the figure used also makes an allowance for the income tax payable on the pension withdrawals. The age of the scheme member would also be relevant for DB schemes. There is no impact on either the scheme member or the ex-spouse's lifetime allowance as there has been no change in the ownership of the pension. As the offset is made at the time of the divorce, there is no impact on the pension if either party re-marries or dies.

Earmarking

The ex-spouse can have benefits earmarked in the member's pension scheme through what is known as an attachment order. This allows for the ex-spouse to receive an income and / or a lump sum payment in future. This can be on either the retirement or death of the scheme member.

Under earmarking, the scheme member retains ownership of the whole pension fund. The pension provider pays some of the benefits to the ex-spouse when the benefits commence. There are two types of earmarking order:

- Earmarked periodic payment order
- Earmarked lump sum order

For both, the ex-spouse receives a portion, expressed as a percentage, of either the income or lump sum when withdrawn by the scheme member

Pension Sharing

Pension sharing was introduced by the Welfare Reform and Pensions Act 1999, to give a 'clean break' option for dealing with pension rights on divorce or dissolution of marriage. This is the only way to reassign pension rights from one person to another during their lifetime. The amount of pension to be shared is expressed as a percentage and is confirmed within an annex to the main divorce order. The aim is typically to ensure equal income in retirement, accounting for other assets.

Advantages and disadvantages of each option

Offsetting	✔ Keeps the resulting transactions relatively simple along with a clean break ✔ One party may have need for the use of other assets ✔ Avoids lengthy process of splitting the pension which may be disproportionate for small pension values ✔ Offsetting orders are unaffected by remarriage or death	✘ One of the parties may be left with little or no provision in retirement ✘ May not fully account for the tax situation of the respective assets ✘ May not always be possible if there aren't enough other suitable assets to offset against the pension
Earmarking	✔ No money or assets exchanged at the point of divorce ✔ Order ceases if ex-spouse re-marries or dies ✔ Member has full control over investment, transfer and timing of withdrawals	✘ Benefits do not become payable until member commences the benefits ✘ Courts cannot set a date by which the member must take benefits, so ex-spouse has no control over this ✘ Easy for ex-spouse to lose track of the earmarking order (transfers etc) ✘ Ex-spouse has no control over investment decision
Pension Sharing	✔ Provides a clean break between parties ✔ Each party has independent pension benefits in their own right ✔ Scheme member able to retain more of the non-pension assets ✔ Neither party is affected by the other's subsequent death or remarriage	✘ Member may not be able to replace the lost pension funds ✘ Member can lose primary or individual protection (in certain circumstances) ✘ Ex-spouse receives less non-pension assets

BARE TRUSTS

What is a bare trust? And where and how should they be used? Gerry Brown, consultant with QB Partners, looks at what is and is not a bare trust and the rules around its use

A bare trust is one in which each beneficiary has an immediate and absolute entitlement to both capital and income. If a trust imposes conditions that need to be satisfied before the beneficiaries become entitled to the trust funds, then it will not be a bare trust. However, if the terms of the trust simply defer payments until the beneficiary reaches a specified age it will be a bare trust.

Mrs A left her share portfolio to such of her grandchildren as were alive at the date of her death. Her will specified that the grandchildren were not to receive any payment until they respectively reached 21 years of age.

This is a bare trust. All of her grandchildren who were alive when Mrs A died are entitled to an equal share of the portfolio. There are no other conditions to be fulfilled. The deferral of payment until attainment of age 21 does not affect entitlement.

Mr B left £100,000 to 'such of my grandchildren as survive me and attain age 21 years'. If any grandchild dies before age 21, his/her prospective share goes to the other grandchildren who do attain that age.There are two conditions to be met before a grandchild becomes entitled to a shares of the £100,000:
(a) they must survive Mr B; and
(b) they must attain age 21 years.

The grandchildren have no immediate entitlement on B's death. This is not a bare trust.

Income Tax

As the beneficiary has an 'immediate and absolute entitlement to capital and income' it must logically follow that the income generated on the trust fund is taxed as income of the beneficiary. There is an exception to this treatment where the trust is a 'parental settlement'. In the context of bare trusts, a parental settlement is one where a trust has been set up by a parent and the beneficiaries include their children who are unmarried and under 18 years of age. All of the income arising in such a trust is treated as income of the settlor where it exceeds £100 per annum.

Capital Gains Tax

Again because of the beneficiary's immediate and absolute entitlement to capital, any chargeable capital gains on assets in the trust fund are taxed as gains of the beneficiary. The beneficiary's annual capital gains tax exemption could be set against such gains. The 'parental settlement' rules do not apply to capital gains tax.

Inheritance Tax

As the beneficiary has an immediate and absolute entitlement to capital, a transfer to trustees of a bare trust is treated for inheritance tax purposes, as a transfer to the beneficiary. It is therefore a potentially exempt transfer (PET). The value of the trust fund is in the beneficiary's 'estate'. Inheritance tax 10 yearly and 'exit' charges are not levied on trustees of bare trusts.

Trust Registration

Most bare trusts will be 'express trusts' and as such will be required to register unless they come within the specific exclusions.

Certainty v Flexibility

The key advantage of use of a bare trust is that it gives certainty – once a beneficiary has been selected he/she can't be changed. The flip side of this certainty is the lack of flexibility. As flexibility is the main reason for using trusts, use of bare trust structures has largely, but not exclusively, been confined to providing gifts for minors – children or grandchildren.

SPOT THE DIFFERENCE

What are the main differences when moving to an outsourced paraplanning firm from in-house paraplanner role? Sasha Wakefield, member of the PFS Paraplanner Panel, provides insights from her own experience

Having been a faithful in-house paraplanner for several years, when the opportunity arose in August 2021 to join an outsourced firm I jumped at the chance. Although naturally excited, I was somewhat apprehensive on how different my working day would be. Although I felt that I had the technical experience, did I have the right transferable skills to adapt to an outsourced paraplanning way of life?

So nearly 10 months on, I thought I would share what I have learnt so far:

1. Prioritisation and time management is key

As we are working alongside numerous financial planning firms at any one time, being able to prioritise the workload between firms, which could come in at any time, is fundamental to ensure that they are delivered to a high standard but also within our SLAs. Typically, in house you could be managing one or perhaps two financial planners, whereas outsourcing you are likely to be balancing many planners and firms.

Therefore, ensuring that you are a paraplanner who can prioritise and provide the financial planners with regular communication and meet expectations is vital. In an outsourced firm it's also important to understand how to manage your time and capacity to ensure you can deliver an efficient and effective service.

2. No financial planning firm is the same

Having previously worked in paraplanning roles for several financial planning firms, I knew getting to grips with several firms' processes at one time could be a potential challenge. However, it's one of my favourite parts of working at an outsourced firm. We spend time during the first few meetings to really get to know a new firm, to really understand their core values and maintain alignment with their business strategy (and of course ensuring we achieve the right client outcome).

In an outsourced firm it's important to understand how to manage your time and capacity to ensure you can deliver an efficient and effective service

3. You still get the opportunity to build great working relationships

I was pleasantly surprised by how much daily interaction you have between financial planners and outsourced paraplanners. Whether it's chatting about a legislation change over coffee, emailing to say that the sun is shining (oh and your report is ready!), or popping on a zoom call to catch up on how things have gone the last month, building a great working relationship with each other forms a massive part of what outsourcers do.

We currently have a close-knit team of 15 paraplanners, all of whom work remotely across the UK, meaning we get to build great relationships internally too. Sometimes you can be the only paraplanner working at a firm and whilst that can have its perks, there were times when I longed to discuss a meaty technical case with another paraplanner to get their perspective – whilst of course getting excited over an IHT calculation together!

So, it's great having an in-house support network as we get to bounce ideas off each other all day and remain blissfully happy in a pool of our own geekiness. This in tandem with the external support such as the PFS Paraplanner Panel where we regularly have networking events, helps to build a sense of community.

4. No two days are the same

For me, I love a challenge and I really enjoy the variety that our paraplanning profession brings. One minute I could be file reviewing a DB transfer case, then the next having a conversation with a financial planning firm about refreshing their CIP.

In summary, transferring to outsourced paraplanning has been a great way to enhance both my technical and soft skills, with the bonus of progression within my role. In addition, outsourced paraplanning continues to provide a further avenue and role diversity to our profession, which I hope will encourage and retain more individuals within the paraplanning community.

Sasha is director of Paraplanning at WeParaplan.

BUSINESS RELIEF

There's a key point missing from the advice most IFAs are giving on business relief – and it could be costly, says Ben Mason, CEO of Kinherit

We all know business relief can be a powerful tool when it comes to IHT planning, and with more people now being taxed on death, the potential to grow this side of your business is huge. But what if the advice you're giving isn't as watertight as you think it is? We've discovered there's a gap between the recommendations you may be giving your clients on business relief, and the reality of actually being able to put this into practice. In other words, your clients may not be able to achieve the IHT savings you're saying they will. And it's all because of a simple business clause that needs to be added to their Will.

Why a business clause is so necessary

When advising on IHT, you're probably working on the basis your clients will benefit from maximum relief on their business assets upon death (100% for certain assets, 50% on others). But these maximum amounts can only be guaranteed if business assets are separately identified in their Will in a particular way.

A clause needs to be included to state that business assets are to be gifted to a specific beneficiary who preferably has no other tax exemptions. If they're not separated out in this way, they'll be considered part of the client's residual estate, where there are often other tax breaks at play (spousal exemption for example). This can lead to doubling up on exemptions and wasting the business relief available – which could be a lot of money.

Under an illustrative scenario, with £900k business assets as part of a £2m estate and distributions to spouse and children, the failure to amend the Will could add a tax liability of over £100,000. Adding a business clause is therefore critical (and simple to do). But the problem is, most Wills don't.

Why do many Wills not contain this clause?

We have reviewed hundreds of Wills that should have had a business clause (or business trust) in place, but under 5% actually included it. This wasn't a huge surprise. Unlike financial services, the Will industry isn't regulated, which means the quality of Will-writing in the UK is alarmingly low. Many people become Will-writers without the STEP qualification and other training necessary to produce effective Wills.

Unlike financial services, the Will industry isn't regulated, which means the quality of Will-writing in the UK is alarmingly low

Why haven't you heard about this before?

We believe this oversight has arisen because it sits in the gap between financial and legal advice. IFAs would (understandably) assume that a Will written for a client with business assets would include all the necessary clauses to protect their interests. But because the quality of Wills is often poor, financial advisers are placing more confidence in the Will-writing process than is perhaps prudent.

What are the risks for IFAs?

Well, it raises some awkward questions. If you're recommending a tax break that doesn't deliver what's promised, can this be considered mis-advice? It's unclear where the legal obligation lies but if you advise your clients to get their Wills checked it will certainly give you peace of mind you've done your bit.

Take it one step further with a trust. Whilst a business clause in a Will is the key to maximising tax relief, it's worth being aware of the extra benefits a business trusts can bring. Ringfencing assets in a business trust on death will ensure the maximum relief is obtained, but also protects these assets for immediate and future beneficiaries against threats like divorce and bankruptcy.

So, what should you do?

You'll need to ensure any client you've advised on business relief in the past gets their Will reviewed for a business clause as soon as possible. And when advising in the future, you can make it clear from the start that this clause – or a trust – will also be needed to guarantee your advice will work.

About Kinherit

Kinherit is registered as an Agent and has launched TruReg (trureg.uk) to help IFAs and their clients with their trust registration. View a free CPD session on trust registration at www.kinherit.co.uk/CPD (select 'Trust Registration').

YOUR GLOBAL SUPERPOWER!

While the majority of the UK has embraced the value and contribution made by paraplanners, many pockets of the sector globally have yet to catch up, says Michelle Hoskin, managing director, Standards International

For our qualification-focused community of planning and advisory firms, the value of standards as a method to raise the game and a framework to be measured is still being overlooked. Why? Because, for so many, professional standards for paraplanning at an international level may just be a little too far for them right now.

While many firms across the world have these 'superpowers' (paraplanners) currently working tirelessly every day in their businesses, they still go unnoticed and are therefore sadly undervalued. On a global scale the sector continues to be crippled by factors beyond its control.

- The regulators are well and truly awake, the global wave of change continues to make its mark!
- The regulators continue to conduct reviews, audits and sector surveys.
- New policies are being introduced to raise professional standards.
- Qualifications, designations and industry achievements are mistakenly becoming a global obsession.
- Administration is overwhelmingly restrictive, time-consuming and in many cases totally unnecessary.
- Commissions are being cut, and even banned in some countries.
- Consumers are becoming smarter, more demanding and more powerful.
- Employees and people in general are no longer motivated solely by money and significance...
- ... and most importantly, your clients, due to their complex and often overwhelming lives, continue to have a deeper reliance on their intimate relationship with their planners and advisers.

With time against us, the profession needs to find the critical changes that could tackle – or, even better, eliminate – some of the global game-changing challenges that we face. I believe that enhancing our understanding and depth of engagement with a new world of financial planning is the solution that will do exactly this.

So, what is The New World of Financial Planning?

Think about your typical client's journey and think about the key stages that they go through during their relationship with you. You will recognise that, in one way or another, most of these stages rely on the financial planner or adviser. This dependency has come about because of a lack of thought-through processes and planned growth in the support teams that surround them.

Perhaps in the past they could just about pull off all the tasks that were considered to be theirs – but not anymore! With the constant onboarding of new clients, the increase in administrative demands and the greater intimacy their clients require… it's simply too much. But they still struggle to let go!

The answer is – we fundamentally have to change the way we think and work as a global industry and profession. The New World of Financial Planning shows a new way of supporting prospects and clients through that journey and to do that we must start by breaking down each stage of the journey… one step at a time.

First of all, the sale!

It's not a dirty word – and it's a function that exists in every profession and sector on the planet. The sale needs to become a function of the business, not the function of one person. It's time to consider 'sales' as a team sport. To help, the business needs a marketing strategy and plan that promotes the brand and generates awareness and interest to 'pull' new prospects, clients and partnerships towards you.

Then we have the building and nurturing of relationships. Again, this is a team sport which involves every member of the team – each and every one should engage with the clients, in whatever structure works best. And remember… a happy team makes happy clients. It doesn't work the other way round.

Then it's coaching.

Over recent months – thanks to the passions and work of so many – coaching has been gaining traction and making a positive impact in many people's lives. Living in today's world can be challenging and life seems to be getting busier and more complicated every day – which is why a truly independent and objective view of the world (and the clients) is winning both the hearts and minds of those who need it the most.

Next comes strategy.

It's becoming more and more popular for financial planners to spend extended time, talking with clients about their life dreams, aspirations, future plans, future goals, and things they would love to achieve in their life. This holistic approach is the job of a financial planner: planners plan and financial advisers advise (I will come to that role next). The role does not need high technical designations or accolades; it needs skills in mentoring, coaching, and life and lifestyle planning.

Then we have the tactical.

This is where a new shift will happen. The tactical task of moving the pieces around the chessboard of the client's life is the job of the financial adviser. This approach is more logistical, less high level, more factual and more about execution. This role has traditionally required the skills held only by a financial adviser – but I believe that is about to change.

Then there's the technical.

The technical element of their current role continues to put more and more pressure on financial advisers – if, of course, it hasn't broken them already. We all know that compliance has increased, as well as a need for knowledge about a broader range of products and solutions.

This is where I believe the paraplanner really comes into their own. Now, if you are reading this and your firm has this sussed, then that's great. However, with the challenges due to remote and distant working, we have seen many financial planners and advisers taking back elements of the work that should have well and truly stayed delegated.

The role of a true international professional paraplanner creates super leverage and value for the firm that they support. They are geniuses in their area and, quite frankly, I know that those financial planners and advisers who have remained focused on maintaining the right work patterns and relationships with their paraplanners have no idea how they would manage without you.

I believe that, globally, over time, paraplanners are likely to replace the role of the financial adviser – clearing a path for financial planners to truly take the right place in the lives of their clients while creating a career path for paraplanners to become an unlimited profession in their own right. This is a global professional superpower that will emerge!

Next up, administration.

Administration requires the highest level of organisational skills. Administrators generally have some basic technical knowledge and are reasonably IT literate. They love paperwork, application forms, and typing letters/emails and general correspondence to clients and those they support; they love organising filing systems, and they love clients.

Then you have relationships again, and that same job of maintaining and nurturing those relationships is a team job. It's about the business, and about the business's way of getting stuff done; it's not about his, her or your way – it's the business's way.

Think about this new way of working as a massive business relay race where one person/role starts the job, and then hands over to the next person/role and the next. It is this collaborative approach to the delivery of financial planning and advice services that will make the difference. Consider these the key players in the game!

A hand-picked, highly skilled, super capable team, a team working together by design to deliver positive outcomes for the business and for the clients, is what is going to change the future of financial services. So many of your current team are in limbo. If you don't believe me, ask them to describe their role.

For decades, financial planners and advisers have been justifiably respected and celebrated, but while we've been telling the world how great they are, we have also been suggesting that anyone who isn't a financial planner or adviser simply isn't worthy.

Our mission is to continue to build a global marketplace of paraplanners, all certified to the international standard for professional paraplanners* and all working to a consistent role profile at the same level of professional excellence. They would support financial planners and financial advisers across the world, enabling them to do the job that they came into this magical profession to do – that is, to change the lives of their clients.

Without a high level of support for and clarity about the roles within their team, this is merely a pipe dream. As much as they want it, they won't get it by simply hiring more of the same type of people doing the same types of tasks. Without the right team, a business will never achieve its true potential on its own.

It's time for the change to happen…

*** http://standardsinternational.co.uk/certification/theparaplannerstandard/**

CONSUMER DUTY

Richard Cooper, business development manager at the London Institute of Banking & Finance considers the implications of the new Consumer Duty and in particular, what they mean for paraplanners

The Financial Conduct Authority (FCA) has carried out extensive consultation on their proposals to raise the standard of consumer protection in retail financial markets. The final response to their updated consultation paper CP21/36 on the new Consumer Duty is imminent. And we may see updated rules being implemented by 31 July 2022.

The consultation paper was a significant document which included a draft handbook and non-handbook guidance. Whilst the consultation period has now closed and we await the final publication of the new rules, many compliance experts are not expecting significant changes.

However, we can be sure that the new Consumer Duty will lead to a significant shift in the culture and behaviour of firms. Sheldon Mills, Executive Director of Consumers and Competition at the FCA, said as much last December when he predicted, "The new duty will drive a change in culture at firms."

So, we know that regulated advice firms will have to consider the new measures at every stage of their processes and every level of their organisational structures.

The new rules will apply to all firms involved in the production and distribution of consumer communications – regardless of whether the firm has a direct relationship with a retail customer. That means any paraplanner, whether in-house or in an outsourced company, will need to be aware of the new Consumer Duty and understand the potential impact of the third of four new outcomes – 'consumer understanding'.

The new 'consumer understanding' outcome means that, as a paraplanner, you need consider:

- how you communicate with customers
- ensure your communications can be understood
- monitor how effective your communications are.

Customer communications

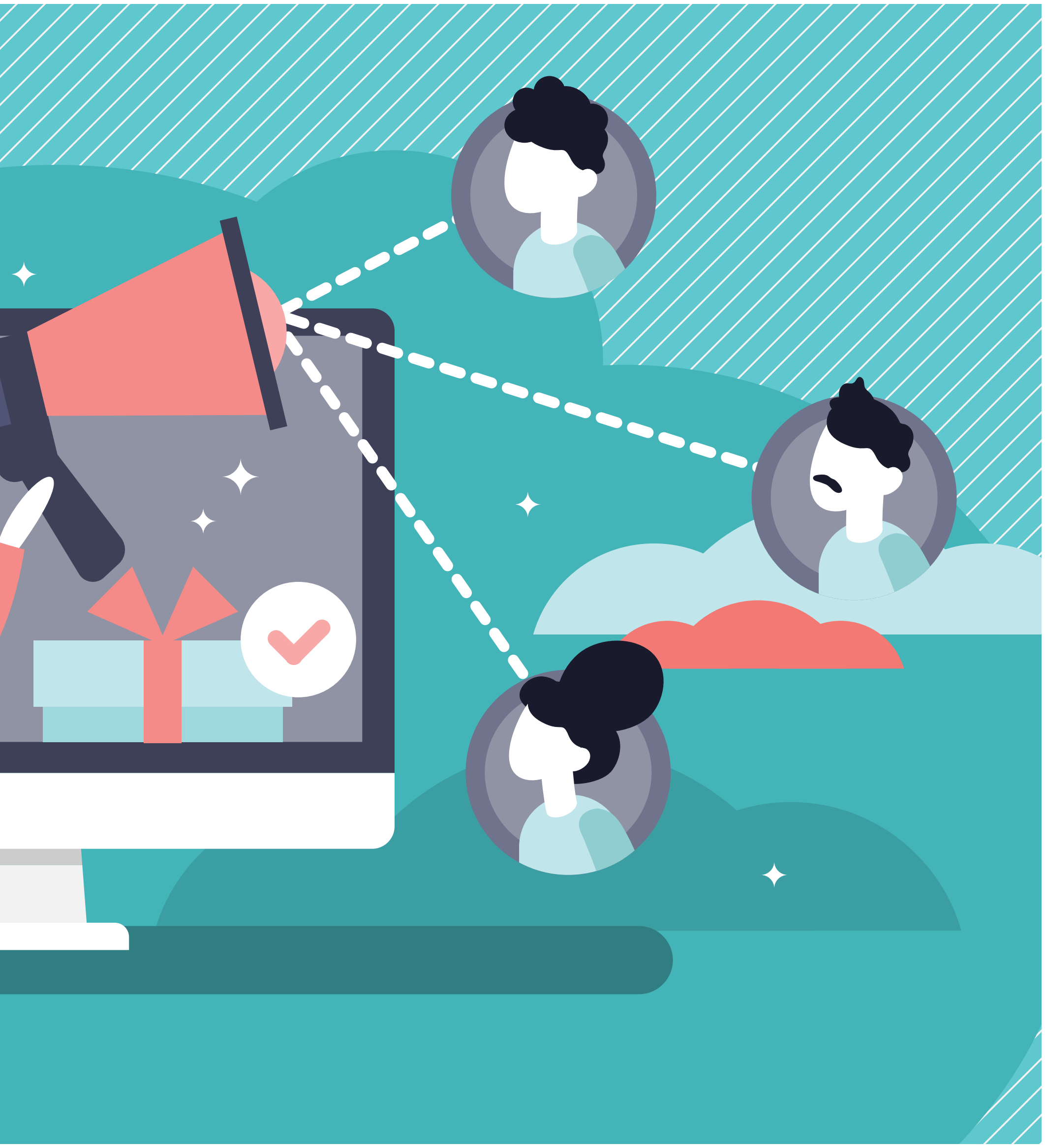
The FCA recognises that there are other legislative and regulatory requirements

We know that regulated advice firms will have to consider the new measures at every stage of their processes and every level of their organisational structures

that set out what, when and how firms should communicate information to consumers. Firms should continue to follow these requirements as they're necessary to achieve specific outcomes, such as demonstrating suitability or enabling consumers to compare products across a market.

But, under the Consumer Duty, firms should take a step back and think more widely about how their communications promote understanding, help customers avoid foreseeable harm and enable them to pursue their financial objectives – throughout the life of products and services.

The new rules build on, and go further than, the existing Principle 7. They require firms to support their



customers' understanding by ensuring that communications:

- give customers the information they need
- are likely to be understood by the average customer who receives them, and
- help customers make good decisions that are "effective, timely and properly informed".

Customer understanding

Firms must ensure they communicate information clearly, fairly, and without misleading, and that information is accurate, relevant, and provided on a timely basis. And they must tailor communications for customers, "taking into account the characteristics of the customers intended to receive the communication". Importantly, this includes any "characteristics of vulnerability".

Firms have a duty to check that the customer understands the information, where appropriate, when a firm is interacting directly with a customer on a one-to-one basis. They're also required to test, monitor and adapt communications to support understanding and good outcomes for customers.

By adopting good practices that generally enhance the clarity of communications, the FCA believes, firms will be better able to help customers select products that help them pursue their financial objectives.

According to the non-handbook guidance, communications can be more effective when they are:

- layered, that is, key information is provided upfront with cross-references or links to further detail, which can be particularly useful for explaining complex planning solutions
- engaging, to encourage consumers to pay attention to them
- relevant, with an appropriate level of detail – taking into account what consumers need to know, what the target audience is considering and where confusion could arise
- simple, presenting information in a logical manner, avoiding jargon and technical terms where possible, and explaining them in plain language when they're unavoidable.

The non-handbook guidance is detailed and gives helpful and specific examples of good and bad practices.

Monitoring communications

In the non-handbook guidance, you'll find a whole chapter setting out the FCA's expectation on monitoring communications. Firms will be required to:

- consider the impact they expect their communications to have
- monitor whether this is the case in practice, and
- carry out further investigation where this is not the case and then identify and put right any issues.

To do this they will need to:

- demonstrate they have a system or process for monitoring communications
- understand and evidence the outcomes their customers are experiencing as a result of their communications.

Next steps

The new Consumer Duty is a major change which will have a big impact on customer communications going forward. You will need to monitor the effectiveness of your communications and be able to demonstrate their impact as and when required. You should also be prepared to adapt and change your communication content if it's not working as you expected. At the very least, if you haven't yet, it's worth taking an hour to read sections seven and nine of the FCA's non-handbook guidance and start thinking about how the new rules are likely to affect your role – and your firm – going forward.

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. GlenMcFarrars Advisers are moving offices. When should they notify the FCA of their address change?

- A Should inform the FCA immediately
- B No requirement to inform the FCA
- C Within 6 months of the address change
- D In advance of the change in address

2. Jenna's portfolio was valued at £30,000 at the start of the year. £3,000 was withdrawn after six months. At the end of the year, the portfolio was valued at £34,000. Jenna's adviser is calculating the rate of return. It is true to say that: Tick all that apply.

- A Jenna's adviser is measuring the performance of the portfolio
- B Jenna's adviser is evaluating the performance of the portfolio
- C The money-weighted rate of return for Jenna's portfolio is 3.17%
- D The money-weighted rate of return for Jenna's portfolio is 24.56%

3. Brightline's accounts show the following:

Dividends paid to ordinary shareholders (£)	Current share price	Number of ordinary shares in issue
270	175p	3,500

What is the dividend yield?

- A 1.54%
- B 13.5%
- C 22.6%
- D 4.41%

4. A personal independence payment (PIP) comprises of?

- A A care component and a mobility component
- B A mobility component only
- C A daily living component and a mobility component
- D A daily living component only

5. Earnings per share (EPS) is a valuable investment valuation ratio – which of the following can we say are true?

- A It is calculated as profits available to ordinary shareholders divided by the number of ordinary shares in issue
- B It is calculated as the current share price divided by the projected earnings per share
- C EPS is a measure of the profitability of a company expressed in an amount per share
- D EPS measures how highly investors value a company in its ability to grow dividend yields and share price

6. Boris took out a long-term care bond some years ago. How are any 5% 'income' withdrawals under the bond taxed?

- A They will all be tax free
- B The same as a normal investment bond but with no top slicing relief
- C They can be made without an immediate tax liability
- D They will be subject to Capital Gains Tax

7. What are the main factors that have been the cause of annuity rates falling in recent years?

- A Inflation and global financial crisis
- B Demise of final salary pension schemes
- C Interest rates and trends in life expectancy
- D Rate of interest on long term gilts only

8. For the first time, Julian is drawing up the accounts for his buy-to-let properties having decided that it was not worth paying an accountant to do so as he feels he is quite capable of doing them himself. He should be aware that HMRC require these records to be kept for at least:

- A 12 months
- B 3 years
- C 5 years
- D 6 years

9. Gordon has decided to save for his retirement using a self-invested personal pension (SIPP). 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

10. How does Jane receive basic rate tax relief on her individual personal pension contribution?

- A She must claim the tax relief back via self-assessment
- B She receives basic rate tax relief at source
- C She makes a gross payment and tax relief is deducted from her total income
- D She is only entitled to tax relief if payments are made via her employer's payroll

Last issue's answers

Q	Answers	Reference material
1	C	CII R01 Study Text Chapter 6
2	CD	CII R02 Study Text Chapter 11
3	C	CII R03 Study Text Chapter 1
4	B	CII R05 Study Text Chapter 11
5	AC	CII R04 Study Text Chapter 10
6	C	CII J10 Study Text Chapter 14
7	A	CII J12 Study Text Chapter 4
8	B	CII CF8 Study Text Chapter 9
9	C	CII ER1 Study Text Chapter 6
10	A	CII R07 Study Text Chapter 2

Your answers

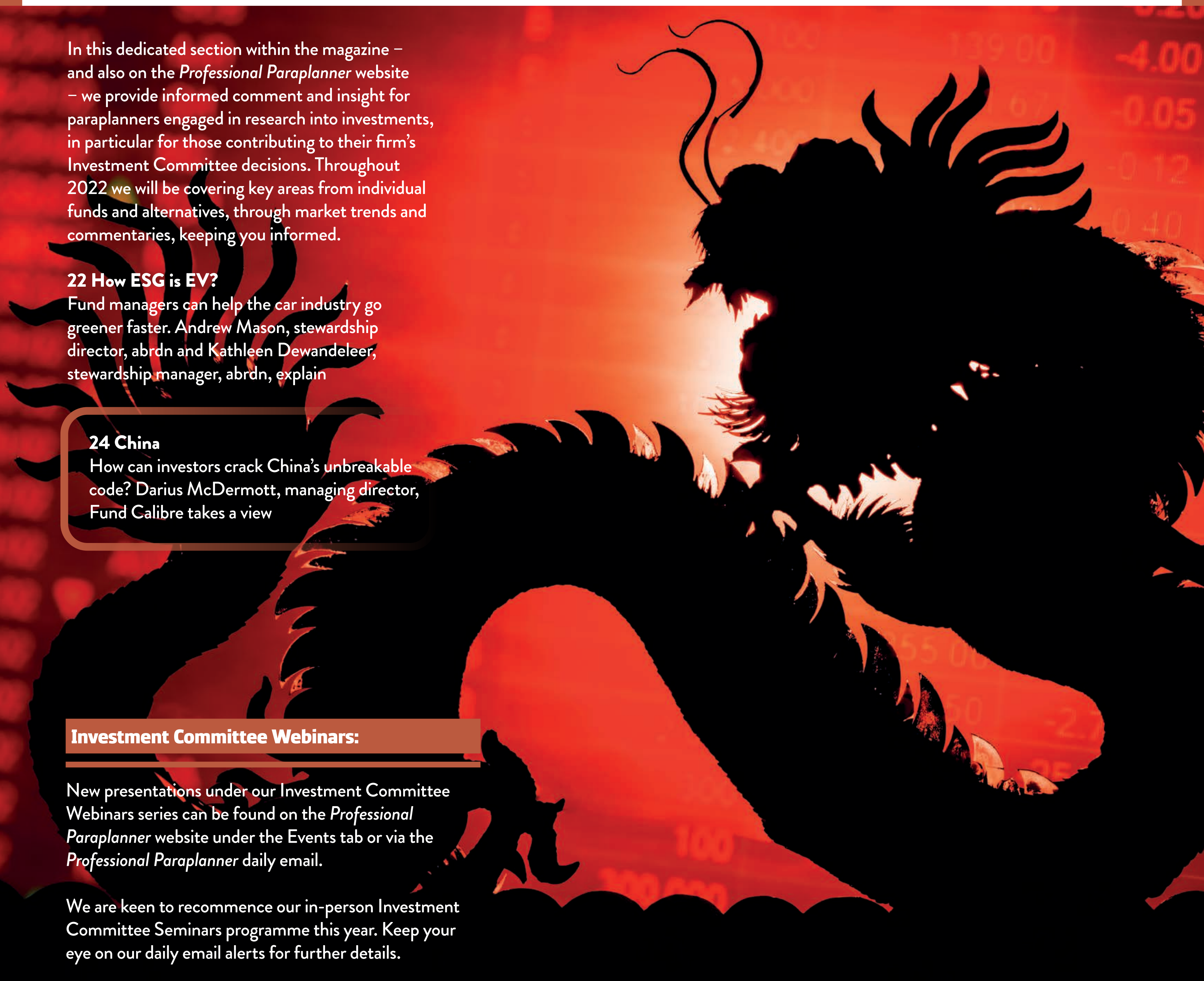
1. ☐ 2. ☐ ☐ 3. ☐ 4. ☐ 5. ☐ ☐
6. ☐ 7. ☐ 8. ☐ 9. ☐ ☐ 10. ☐

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 2022 we will be covering key areas from individual funds and alternatives, through market trends and commentaries, keeping you informed.

Investment Committee Webinars:

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

We are keen to recommence our in-person Investment Committee Seminars programme this year. Keep your eye on our daily email alerts for further details.

HOW ESG IS EV?

Fund managers can help the car industry go greener faster. Andrew Mason, stewardship director, abrdn and Kathleen Dewandeleer, stewardship manager, abrdn, explain

There is still a long way to go before the internal combustion engine, which has powered economies since the steam age, gives way to vehicles powered by electricity or hydrogen, but the sea-change has begun.

The car industry, which has long been a capital intensive, cyclical and low margin business, is beginning to show signs of undergoing a transition. Although it's not yet profitable for car companies to make electric vehicles (EVs), nor are the vehicles at a mass-market price point, the regulatory environment is positive and capital is being invested. All car companies are committed to being carbon neutral by 2050 and the European Deal has set the blueprint for transformational change. By 2030, there should be a 55% reduction in emissions from cars and 50% from vans, compared to 1990 levels. From 2026, road transport will be covered by emissions trading, putting a price on pollution, stimulating cleaner fuel and re-investing in clean technologies.

Changing vehicles from fossil fuel use to electric and hydrogen is not a magic bullet that will turn the industry green. The automobile sector was responsible for 13% of global CO_2 emissions, with vehicle tailpipe emissions representing nearly 80% of this footprint. With electric vehicles, the emissions question remains, it just moves from tailpipe to energy source. As responsible investors, we also want to highlight other crucially important considerations for sustainability, including – how will the industry source all the raw materials required for electric vehicles as responsibly as possible? How will the industry's workforce be prepared for the EV transition, which may result in a significant reduction in headcount?

Examining ESG credentials

When we examine car companies on their environmental, social and governance (ESG) credentials, these are factors that we now must take into account. Our recent in-depth analysis of the car industry led us to conclude that car companies are doing more for the sustainable and responsible future of their industry than they may get credit for.

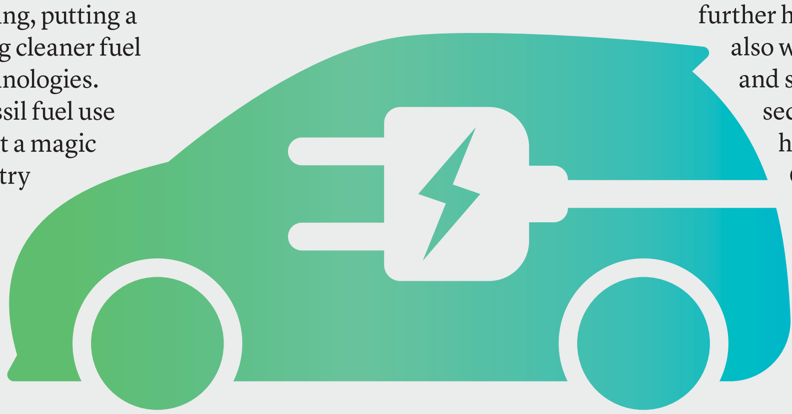
When we are assessing how well a car manufacturer is reacting to the move to electric vehicles, it makes sense to scrutinise its governance closely. Does the board have the skills to oversee the transition to EVs and is it linking remuneration to overall reduction in emissions? We also want to see diverse and independent boards, which will look after the interests of all stakeholders, and with diversity reflected in the workforce.

We are also carefully considering how the car company is managing the shift to producing electric vehicles. These vehicles involve industrial materials such as cobalt, tin and aluminium that must be sourced with due care and attention to the full supply chain. So far, all of the companies we spoke to could give details on their significant reduction in the use of raw materials, but they had little-to-no detail on the upstream impacts from sourcing materials. So, this is an area that needs much greater focus.

The recycling of batteries also needs better initiatives. Currently, because of the hazardous materials involved, only 5% of batteries are recycled. Longer term, there is sure to be a push for greater rates of recycling, so there is opportunity for car companies to partner, or create their own recycling methods, driving circular economy initiatives.

Making electric vehicles will involve a smaller workforce, so we want to be sure car companies are taking care of their workforces now and in the future. There need to be plans for re-training, early retirement pathways and full engagement with unions in order to avoid strike action and poor relations with employees. Auto companies also need to consider the workers involved in the wider supply chains. Are the raw materials being sourced without any violation of human rights? We were reassured to find that manufacturers did have growing awareness of these risks.

Following our wide-ranging engagement with seven major car companies, we're increasing the risk rating around human rights in the supply chain, in order to further highlight it to the industry. We also want to include data protection and security as a risk across the sector, as cars are become far more high-tech and able to collect data. Currently, most car companies have a low ESG score, but we want to suggest an overall raising of scores for the industry, because awareness by car companies of the ESG risks faced is greater than investors may credit.



The Investment Manager's focus on securities of companies which maintain strong environmental, social and governance ("ESG") credentials may result in a return that could, at times, compare less favourably to similar products without such focus. No representation nor warranty is made with respect to the fairness, accuracy or completeness of such credentials. The status of a security's ESG credentials can change over time. There is a risk that the issuers of bonds may not be able to repay the money they have borrowed or make interest payments. When interest rates rise, bonds may fall in value. Rising interest rates may cause the value of your investment to fall.

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CHINESE WHISPERS

How can investors crack China's unbreakable code? Darius McDermott, managing director, Fund Calibre takes a view

I'm sure most of you would've watched The Imitation Game at some point in the past few years. For those that haven't, the film stars Benedict Cumberbatch as Alan Turing, the mathematician, computer scientist and cryptanalyst, who heads a team tasked with trying to break the Enigma machine, which the Nazis used to send coded messages during the Second World War.

Enigma was deemed to be unbreakable – because at midnight its codes would change, meaning the team would often have to start

again. I won't ruin the end of the film but having watched it again a few weeks ago it did remind me a bit of the conundrum facing investors in China at the moment – because every time you think you have a grasp of the economy, the government changes the landscape overnight.

> ***The year ahead also looks mixed – China is turning more accommodative in its policies, but new Covid variants and persistent inflation remain key risks***

Last year was an *annus horribilis* for anyone investing in China, following a regulatory crackdown by the Chinese government that adversely affected companies in sectors such as technology and property. The average China equity fund lost 10.7 per cent during 2021, while the MSCI China fell 21 per cent[1].

The year ahead also looks mixed – China is turning more accommodative in its policies, but new Covid variants and persistent inflation remain key risks. So, can the market return to its previous successes? Clearly there are dangers. The first is geopolitical risk, which is rife, with China threatening the US' supremacy as the world's leading superpower – the latter will not take that lying down and is already looking to limit China's growing military power and push sanctions onto China following the Trade War.

Investing in China – Pros and Cons

Pros

✓ Valuations now look attractive
✓ The Chinese government will not want to push away foreign investors
✓ Rapid growth of the middle-class and move to a consumption-led economy
✓ Rise of A-shares market

Cons

✗ Geopolitical concerns are rife
✗ Bursting of the property bubble
✗ Government can change rules rapidly – wiping value off stocks/sectors overnight
✗ Poor demographics

Funds to consider

FSSA All China – We believe China has significant upside from here and the team at FSSA are vastly experienced. This is a flexible offering of 30-50 stocks.
Allianz China A-Shares – This 50-70 stock portfolio has a stellar track record and is ideally placed to tap into future growth in the A-Share market
Fidelity China Special Situations – Aided by a well-resourced team, this investment trust has a bias towards small and medium-sized companies. The trust also has reasonable exposure to A-Shares.

We have also to consider the bursting of China's property bubble – history suggests recession is imminent when this happens. Property accounts for around 80 per cent of Chinese household wealth, which compares with the likes of Tokyo at 65 per cent in 1989[2] – the bubble has been deflating there ever since!

You must also prepare for the unexpected. Anyone who is risk averse is making a Faustian Bargain when they invest in a country with such an overbearing state. We saw this with the 'Common Prosperity' goal last year, but it was not the first time the government caught the market out. If your company ends up in the firing line, so be it – as technology, gaming and education stocks all found out.

However, the opportunity is also every bit as compelling, particularly as investors continue to de-risk from the region. We know the rapid growth of the middle class – as it moves to a consumption-led economy – is a long-term tailwind for Chinese equities.

Simply put, the market is significantly cheaper. As Fidelity China Special Situations manager Dale Nicholls points out, some stocks with lesser regulatory risk have also been sold off. For example, many smaller companies have fallen despite the fact they will actually be beneficiaries of regulatory action in areas like anti-trust. He also says the valuation gap versus global peers is now excessive, despite similar regulatory challenges in several markets[3].

There's a strong argument we've already seen the worst of the regulatory tightening from the Chinese government – and we have seen these types of actions before, for example in the online gaming sector in 2018. Ultimately the Chinese government will want a robust private sector and foreign investment to help it reach its long-term economic goals.

Nicholls also highlights the differing approaches to monetary policy between China and the west. He says: "China is certainly at a different stage in the cycle with an easing bias, that history shows often supports markets. Having approached the initial Covid-19 pandemic differently to the loose monetary policy of western governments, China's central bank has more levers to pull to encourage growth after the slowdown of 2021."[4]

We have also to consider the potential of A-Shares, a relatively new story to retail investors globally. They open the door to a huge number of untapped opportunities across the entire market and are also significantly uncorrelated to global equities.

To me China looks a good, long-term opportunity – you just need to prepare for major bumps on that journey.

[1] Source: FE fundinfo, total returns in sterling, calendar year 2021 for the IA China/Greater
[2] Source: FE fundinfo, MSCI China, total returns in sterling, calendar year 2021
[3] Source: FSSA Investment Managers – Can China claw back performance in the year of the Tiger – February 2022
[4] Source: Fidelity – Three reasons why China could roar in the year of the Tiger – January 2022

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.

DATA DOWNLOAD

Monthly facts and figures on investment performance, risk v return, outflows and inflows, and the most analysed areas of the market. Data to 31 March 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 Positive Change	112.15	✓	5
GAM Star Disruptive Growth	81.71	✓	5
Baillie Gifford Pacific	73.90	✓	5
BlackRock Continental European	71.68	✓	5
Janus Henderson Global Sustainable Equity	71.61	✓	5

AIC	3 year Cumulative Performance	FE Fundinfo Alpha Manager Rated	FE Fundinfo Crown Fund Rating
Baillie Gifford Pacific Horizon	127.09	✓	5
Baillie Gifford Scottish Mortgage	102.94	✓	5
Baillie Gifford US Growth	93.70	✓	5
BlackRock Greater Europe	69.21	✓	5
Baillie Gifford European Growth	41.41	✓	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	217.03	230
Invesco CoinShares Global Blockchain UCITS ETF	149.40	185
iShares Global Clean Energy	123.7	198
L&G Battery Value-Chain UCITS ETF	118.56	135
SSGA SPDR S&P U.S. Technology Select Sector	117.53	126

AIC	3 year Cumulative Performance	FE Fundinfo Crown Fund Rating
Edge Performance VCT	650.97	253
Independently Managed Adams	499.43	420
Starvest	409.44	353
New City Investment Managers Geiger Counter	227.65	369
Seneca Growth Capital VCT	207.05	287

RISKIEST SECTORS

IA	3 year Cumulative Performance	FE Fundinfo Crown Fund Rating
Latin America	4.68	133
North American Smaller Companies	45.88	115
China/Greater China	10.44	112
Technology and Technology Innovations	74.26	111
European Smaller Companies	36.12	111

AIC	3 year Cumulative Performance	FE Fundinfo Crown Fund Rating
China/Greater China	21.01	173
VCT Specialist: Media, Leisure&Events	87.36	169
Property Securities	22.47	154
European Smaller Companies	58.39	150
North American Smaller Companies	36.66	149

OUTFLOWS

Fund name	Size 1y ago (£m)	Size now (£m)	Performance Effect on Size (£m)	Out (£m)
Invesco Global Targeted Returns (UK)	5,649.96	1,062.76	-64.78	-4,522.41
BlackRock ACS US Equity Tracker	15,287.99	15,224.66	2,567.81	-2,631.13
BlackRock ACS UK Equity Tracker	11,932.49	11,238.40	1,552.65	-2,246.75
BlackRock ACS World ex UK Equity Tracker	11,238.95	10,348.96	1,205.37	-2,095.36
BlackRock NURS II Overseas Equity	2,255.59	246.30	76.43	-2,085.72

INFLOWS

Fund name	Size 1y ago (£m)	Size now (£m)	Performance Effect on Size (£m)	In (£m)
Liontrust Japan Equity	30,752.26	36,450.07	-608.73	6,306.54
BlackRock ACS Climate Transition World Equity	2,798.11	8,414.58	425.83	5,190.64
M&G Japan Smaller Companies	12,985.77	18,006.54	880.92	4,139.85
LGIM Future World Global Equity Index	1,622.50	6,200.91	591.46	3,986.95
MI Somerset Emerging Markets Discovery	10.24	5,203.27	1,557.30	3,635.73

FE fundinfo

Data provided by FE Fundinfo

MARKET'S EYE VIEW

Which are the most researched sectors, which the most viewed factsheets and which the most charted funds? FE Fundinfo provides Professional Paraplanner with data for the past month showing where financial adviser and planner firms have been conducting their research.

BEST PERFORMING SECTORS

3 year Cumulative Performance

IA

Technology & Telecommunications
74.26

North America
58.64

Commodity/Natural Resources
57.05

North America Smaller Companies
45.88

Global
43.17

AIC

VCT Specialist: Health & Biotech
92.55

Property UK Logistics
90.00

Infrastructure Securities
87.67

VCT Specialist: Media, Leisure&Events
87.36

Commodities & Natural Resources
83.94

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MOST RESEARCHED

	IA		AIC
1	Global	1	Global
2	UK All Companies	2	VCT Generalist
3	Mixed Investment 40-85% Shares	3	Flexible Investment
4	Volatility Managed	4	Private Equity
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	Smithson Investment Trust
3	Vanguard LifeStrategy 80% Equity	3	Edinburgh Worldwide IT
4	Vanguard LifeStrategy 40% Equity	4	RIT Capital Partners
5	Royal London Sustainable Diversified Trust	5	Ruffer Investment Company

MOST CHARTED

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

STRUCTURED PRODUCTS

STRUCTURED PRODUCT MATURITIES JAN - MARCH 2022

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	Plan	Maturity Date	Term (years)	Change in underlying %	Plan Gain %
Societe Generale	UK Kick-out Plan (UK3) Issue 3	25/01/2022	3.00	8.26%	36.9
Mariana	10:10 Plan February 2019 (Option 2)	22/02/2022	3.00	4.40%	36.84
Societe Generale	UK Kick-out Plan (UK3) Issue 4	01/03/2022	3.00	3.14%	36.3
Meteor	FTSE Kick Out Plan January 2019	18/01/2022	3.00	8.54%	31.5
Mariana	10:10 Plan March 2018 (Option 1)	09/03/2022	4.00	-0.47%	28.8
Societe Generale	UK Step Down Kick-Out Plan (UK3) Issue 3	25/01/2022	3.00	8.26%	28.5
Mariana	10:10 Plan February 2019 (Option 1)	22/02/2022	3.00	4.40%	28.32
Societe Generale	UK Step Down Kick-Out Plan (UK3) Issue 4	01/03/2022	3.00	3.14%	27
Mariana	10:10 Plan March 2019 (Option 1)	22/03/2022	3.00	3.73%	26.43
Walker Crips	Semi-Annual Step Down Kick-Out Plan August 2018 GSI	03/02/2022	3.51	-1.70%	24.5
Walker Crips	Semi-Annual Step Down Kick-Out Plan September 2018	28/03/2022	3.50	-0.49%	24.5
Walker Crips	Semi-Annual Step Down Kick-Out Plan August 2018 MS	03/02/2022	3.51	-1.70%	24.5
Mariana	10:10 Plan February 2020 (Option 2)	21/02/2022	2.00	1.09%	21.8
Walker Crips	UK 95% Quarterly Kick-out Plan January 2020	24/01/2022	2.00	-3.81%	16
Walker Crips	UK 95% Quarterly Kick-out Plan March 2020	07/03/2022	2.00	7.69%	16
Investec	/ Lowes 8:8 Plan 15	10/02/2022	2.00	3.03%	14.5
Walker Crips	UK 7Y Step Down Kick-Out Plan February 2020	28/02/2022	2.00	13.34%	14
Investec	/ Lowes 8:8 Plan 16	16/03/2022	2.00	41.56%	14

Source: StructuredProductReview.com. Underlying for all plans = FTSE 100 index

The Investment Manager's focus on securities of companies which maintain strong environmental, social and governance ("ESG") credentials may result in a return that could, at times, compare less favourably to similar products without such focus. No representation nor warranty is made with respect to the fairness, accuracy or completeness of such credentials. The status of a security's ESG credentials can change over time. There is a risk that the issuers of bonds may not be able to repay the money they have borrowed or make interest payments. When interest rates rise, bonds may fall in value. Rising interest rates may cause the value of your investment to fall.

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