Professional Paraplanner

The magazine for paraplanners and financial technicians

July-August 2022

Nathan Fryer
How can we define value?

Comment
Financial wellbeing

Investment
Japan – boarding the rollercoaster

Exams
My experience of AF5

Where are they now?

Former PP cover star Sarika Dhanjal, head of Advice Quality at Progeny, talks processes, training and staying at the top of your game as a paraplanner

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IN PERSON WINS OUT

I'm writing this issue's opener overlooking the Ageas Bowl in Southampton, home to the Hampshire county cricket team, during our last Technical Insight Seminar of the summer. It has been three-years since we were able to physically host our events around the country and it has been fantastic to be running in-person seminars again and to have the opportunity to talk to paraplanners face-to-face. Video calls are time and cost efficient but not quite the same. Financial services often is depicted in terms of products and services, but it is very much a people to people industry.

With these events, alongside being able to bring our expert speakers to talk on a range of topics – including pensions transfers, lifetime allowance calculations, trusts, bonds, intergenerational advice, and investment in a high inflation/rising interest rate environment – one of the key benefits, paraplanners have told me, has been the opportunity to network again with their peers. We've had some great feedback on the events to date.

At the events I have been conducting a show-of-hands survey amongst delegates to see how many in the audience are working in the same way now as they were in 2019. Overall, a majority of people are now working differently to pre-pandemic – up to 100% of one audience. To date, the 'new normal' seems to be winning out.

My thanks to everyone who has attended an event so far and to all who completed our feedback forms, they are important to us in ensuring we are delivering what paraplanners want and to help us build out our future events.

We will be resuming our Seminars in September. The remaining four events are:
Edinburgh: Waldorf Astoria - 14 September
Manchester: Midland Hotel – 5 October
Leeds: The Queens Hotel – 19 October
Bristol: Aztec Spa and Hotel – 9 November

You can register for an event by clicking the link on our daily emails, which will take you to the registration form, or the form can be accessed via the Event tab on our website. We look forward to seeing you in-person at a Technical Insight Seminar near you later this year.

In addition, we are running a new series of Investment Committee Seminars in the autumn, with the first scheduled for Thursday 13 October 2022, in London.

If you are inputting to your firm's Investment Committee or you research investments for client portfolios, MPS, CIPs or CRPs, I'd suggest these are must-attend seminars. Already lined up are Fidelity International, the AIC, TIME Investments, and Ninety One, with others in the pipeline. We will keep you informed. We expect these events to be very popular and spaces will be limited, so if you're interested in attending do register as soon as possible.

Technical Insight Seminar, Ageas Bowl, Southampton

Professional Paraplanners Awards 2022

I am always highly encouraged by the quality of the entries received for the *Professional Paraplanner* awards. The standard is high at nomination level let alone amongst the paraplanners who get through to the shortlist stage. Our judges then put each candidate through a rigorous interview process, including a technical question to see how they respond to thinking on their feet. Congratulations to our six winners this year.

Congratulations also to the companies who were nominated for an award by paraplanners in each of our Provider Awards. The winners are the companies which received the most nominations. Winning providers can be encouraged to know that paraplanners who use their services and/or products voted for them to win. We will be publishing our Awards supplement in mid-July, including interviews with the winners. Keep a look out for it via our daily email alert.

Summer break

The magazine is taking a summer break but we will be back at the end of August with our September issue. And we will of course be delivering a range of topical, technical and development articles on the website daily.

Rob Kingsbury,
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In this issue...

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R0 FOCUS

R0 exam candidates often consider progressing onto the AF exams. In this article, Luiza Todd one of the BTS Directors shares her experiences of sitting the CII AF5 Financial Planning Process exam

Despite already having sat and passed the CII AF5 exam to achieve her Fellowship and Chartered Financial Planner status, BTS Director Luiza Todd decided the May 2022 sitting was time to give the exam another go, as she believes in not just talking, but also walking the walk with candidates.

As you can imagine Luiza went into the remote sitting well prepared although a few things turned out to be not as expected:

- No-one checked Luiza's ID
- There was no mirror check
- No-one checked Luiza's blank scrap paper

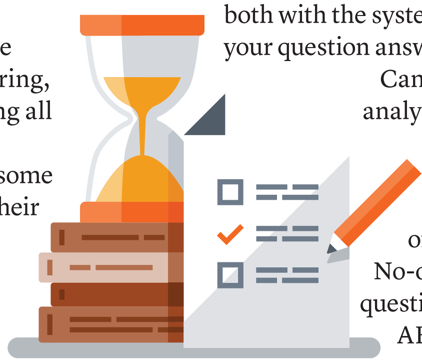
Candidates often report anomalies like this after their remote exam sittings (both R0 and AF). Reporting these to the CII support desk immediately after the sitting is always best practice.

What was the exam like?

The AF5 Financial Planning Process is the mandatory unit of the CII's Advanced Diploma in Financial Planning. It's an exam that focusses on the advice process, so is similar to the level 4 R06 exam, but AF5 asks questions relating to one fact find rather than two shorter case studies. To pass AF5, you'll need to demonstrate detailed analysis and critical evaluation skills, as you would expect for a level 6 exam.

Navigating between questions was easy. Typing answers was as expected – anyone expecting the functionality of MS Word will be sorely disappointed. Luiza is a huge fan of bullet points and tables in answers, but the system does not have these options.

It took Luiza a few minutes to realise that she had to save her answers as she went along (!) before she was allowed to go onto the next question. But answering, saving, and then reviewing all worked as it should.



Anyone that had put in some hard graft and practised their exam question answering techniques should have been fine with the questions. There were two 'recommend and justify' questions in relation to Mike and Emma's savings and investments and Emma's SIPP. Two analysis questions cropped up, one relating to keeping the couple's level term assurance policy, and another about their existing PMI policy and why replacing it might not be a good idea.

There were questions around additional information required – both a generic one relating to the couple's savings and pensions plus a specific one about keeping or cashing in Mike's investment trust. Plus, the usual 'what areas would you review' style question – however this one was strangely worded and asked 'in relation to the couple's personal circumstances'.

A few of the questions had two parts to the answer; one question on share incentive plans asked candidates to both explain why such a scheme might be suitable for Mike and how it operated. So, it was important to take a moment with each question to check what it was asking you to do – and if it had two parts to it to ensure both parts were answered.

Luiza practised what she preaches – with each question she identified the key words and planned her answer before typing a thing. She looked at the fact find throughout noting down the information it gave her before starting her answers.

Is 3 hours plenty of time?

Once in, the three hours given for the exam flew by! Luiza finished with four minutes to spare so used up almost every single second.

Going forward what advice can BTS give AF5 candidates?

The CII recommend a minimum of 150 study hours for this mandatory unit. Make sure you don't wing it – preparation is key both with the system, your knowledge and your question answering techniques.

Candidates who buy an analysis and learn questions and answers are not giving themselves the best possible chance of a first-time exam pass. No-one knows exactly which questions will come up, and AF5 is designed to test your analysis skills to the limit. Buy and work through a study guide, attend a workshop, gets lots of practice and buy a decent fact find analysis.

AF5 is an advanced paper – your knowledge, question answering techniques and preparation all must be first class to have a chance of passing.

About Bespoke Training Solutions

Bespoke Training Solutions (BTS) have been supporting regulated exams for 19 years, Luiza Todd is a founding director with a wealth of experience in this field. BTS AF5 resources for the September 2022 sitting include a study guide, an e-Learning module and an exam preparation workshop. Visit https://www.bespoketrainingsolutions.com/af5-financial-planning-process/ to view options available to candidates in more detail.

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FINANCIAL WELLBEING

How can paraplanning enhance a financial wellbeing service? Rebecca Tuck, paraplanner at Paradigm Norton and member of the PFS Paraplanning Panel takes a view

Financial wellbeing is still a relatively new phrase in financial planning. It means different things to different people, but at its core can be defined as the study and application of how money can make us happy. The five key pillars of financial wellbeing are:

- A clear path to identifiable objectives
- Control of daily finances
- Ability to cope with financial shocks
- Having financial options
- Clarity and security for those we leave behind

One thing I've noticed as a paraplanner is that the discussions around financial wellbeing are largely around tips and tricks that can be employed by financial planners, advisers or coaches, to change the conversation with clients during meetings. Asking better questions to help get better outcomes.

On the one hand, this makes perfect sense – within an advice firm, often it will be the financial planner who is responsible for talking with the clients and gaining an understanding of their drivers, goals and priorities. On the other hand, it makes me wonder how much better client outcomes could be if everybody involved in the planning process, from start to end, had a better understanding of financial wellbeing and the clients' core values.

At the Initiative for Financial Wellbeing conference in May, I hosted a breakout session looking at this through a paraplanning lens: How can paraplanning enhance a financial wellbeing service? Although there were more non-paraplanners than paraplanners in the room, it was really encouraging to see the level of engagement across the board, and enthusiasm for paraplanners to get more involved within the process. Some of my favourite tips were:

Record the meeting: Whether in-house or outsourced, paraplanners can't always attend client meetings, but we do all appreciate the value of hearing things in the clients' own words. We might not need to see the whole thing, but recording meetings allows us to hear the discussions first-hand and gain a deeper understanding of client motivations. One firm mentioned sending clients a short video summary to confirm the key discussions following the meeting, which could be a great tool for paraplanners too!

Shake-up your notes template: Meeting notes are still standard practice in most firms but can sometimes be seen as a box-ticking exercise for the benefit of compliance, rather than a place to record some of the genuinely important non-financial information. Do you currently have a prompt to document any discussions around wellbeing? Can you add one? If there's a space for it, you're far more likely to get some useful information documented.

Update your reports: I have a bone to pick with cut-and-paste reports. Automate to a degree, sure, but make sure you're leaving space for some personalisation. Clients deserve to feel that you're writing to them, and have a full understanding of what they are looking to achieve. If you had the best meeting in the world, followed by a report that looks like it could have been written for anyone, then you're really missing a trick when it comes to truly embedding a focus on financial wellbeing throughout the firm.

While I've seen some good ideas so far, I don't think that I have all the answers, and I'd love to see financial wellbeing discussed and embedded more widely in the paraplanning community.

As part of the PFS Paraplanner Panel, we're planning a lunchtime networking session around this topic for a little later in the year, so keep an eye out if you'd like to learn more!

> *It makes me wonder how much better client outcomes could be if everybody involved in the planning process, from start to end, had a better understanding of financial wellbeing*

WHERE ARE THEY NOW?

It's always a pleasure to revisit one of our PP cover stars to find out where they are now. This issue Rob Kingsbury talked again to Sarika Dhanjal, now head of Advice Quality at Progeny

When I spoke to Sarika Dhanjal in summer 2018, she was Paraplanning Team Manager at the advice network Tenet. At the time her role was running the team but also promoting it to the advisers using the network as well as outside of the business, as an outsourced paraplanning operation.

What came across from our first meeting was how very detailed and process driven she was, with a natural tenacity to find better ways of working and bringing greater efficiency into the process and the business. As she says: "I became known as the person to turn to if a problem needed sorting."

It was no surprise to find, therefore, that soon after we spoke her talents were recognised, first with a move to operations manager and then, in September 2020, as head of Training and Mentoring at Tenet.

"There is no doubt that being process driven and wanting to find better ways of working has helped me in my career, because people have brought me in to work on projects and other tasks," she says. "I've dealt with everything from project management, through marketing, training, business support to revising processes and establishing templates. The latter was a small thing comparatively speaking but it helped save the company a lot of money."

One initiative she implemented when head of Training and Mentoring at Tenet, was to reduce the need for long in-person induction training, instigating instead a modular, digital induction programme with learning pathways. "That way we could match the technical knowledge and competency levels of the inductees with the modules they needed to take to bring them up to speed on what we needed them to know. The modules were interactive and we tested everyone throughout the modules, with a trainer on hand if they needed further help. This enabled us to focus training where it was truly needed; also the training and competency supervisor could see immediately what additional resource might help any one individual."

The on-demand training modules , were not just for inductees. Anyone who felt they needed to brush up on a technical area, for example, could do so, because it offered 24/7 access, at a time convenient to them. This technical area was initially created through the events programme with the support of providers. "The idea was that they didn't have to wait to see a T&C supervisor for guidance and it helped people take responsibility for their own learning," Sarika says.

In July 2021, Sarika was offered the opportunity to join Progeny Group as head of Training and Competency, including responsibility for the induction programme and developing Progeny's Adviser Academy.

Progeny Group offers a suite of professional services including independent financial planning, investment management, tax services, property, HR and legal counsel. Sarika explains. "As a client you can come in the door, tell your story once, say to your financial planner, and then have access to expertise for tax, legal, investment, pretty much everything you could need. With everything in house, it helps avoid miscommunication, data is shared centrally and it's a better client experience. We can look after everything for them."

The Adviser Academy is Progeny's initiative to bring on young, talented individuals, in the main internally, who are already Level 4 but want to extend their learning pathway and become financial advisers. "We're looking at, say, a wealth administrator who wants to progress. We will have a one-to-one with them to ascertain what they want from their career, then we will help them with taking their exams and progressing to trainee paraplanner and paraplanner, and then they can join the Academy to become a financial adviser."

Advice Quality

As the compliance area of Progeny expanded in 2021, under which sat the head of Training & Competence role, Sarika was given wider responsibilities and in March 2022, the role evolved to become head of Advice Quality at Progeny. "Now I have T&C, the Academy, and file checking within my remit. My area is the first line of defence in compliance; we are looking at the processes, the MI and spotting issues we may need to address."

The other areas in the division are Policy and Compliance, and Audit and Risk. "With this three-pronged approach, we have a defined and efficient structure."

As well as tackling her expanded role at Progeny, Sarika believes more should be done to raise the profile of financial planning as a profession. To this end, she has been into schools to talk about financial planning and what it offers school leavers, and how there are options other than going to university. "I'm trying to open up students eyes to what else is out there."

She is working also with the committee at her local Sikh temple, to show how women in particular can get into financial services as a career.

Staying top of your game

With her experience of managing teams, as well as heading up T&C and quality areas, we asked Sarika for her key points on how paraplanners can make sure they are top of their game. She says:

- Know your fact find inside out.
- Work on all kinds of cases. Don't get pigeon-holed, particularly when you are starting off. When you have a lot of general experience under your belt, then it can pay to specialise in a certain area.
- If and when you can, it helps to sit in on the client meeting. At Progeny, our paraplanners will help take file notes and fill in the fact find, as it helps them better understand the meeting and what the client wants, and they can write a better report off the back of it.
- Learn cashflow modelling so this is your skill which you can present to the client.
- Paraplanning is about more than technical knowledge. As well as Chartered status we're introducing Certified Financial Planning exams for the Academy candidates, as that is more about getting under the skin of the client and asking the right questions.
- Make sure you have good communication channels with your adviser(s).
- Be open and able to adapt when changes happen around you.

> *"There is no doubt that being process driven and wanting to find better ways of working has helped me in my career, because people have brought me in to work on projects and other tasks"*

- It's important to keep up CPD and attend technical seminars, not just for the technical information but also for the networking opportunities and keeping up with what other people are doing and their approach to business and cases.
- Work closely with compliance. Have the confidence to approach compliance and talk through complex cases so you know you are on the same page.
- Don't be afraid to ask other members in the team and learn from their experience. Know who and where to go to if you need more information or a second opinion.
- Look at more ways of taking esponsibility. If you are an experienced paraplanner, can you support and mentor another less experienced member of your team?
- Find a mentor outside the business, to help you by providing another view and to help with your career strategy.
- Use MI to identify where improvements need to be made and how training can help address them. Feed back into the whole team as everyone is responsible for the overall client journey.

Best practice working

We also asked Sarika how paraplanners can become more involved in the advice process and work better with their Adviser. Here are her thoughts:

- Sit in on meetings where possible and where a paraplanner can't be in the client meeting, have a debrief between the planner and the paraplanner. It can help the paraplanner understand what was said, and where the planner wants to go with the advice. It's also the opportunity to ask questions for clarity or where the paraplanner may feel they need further information to personalise the suitability report, for example. This helps the paraplanner to really understand the client's objectives.
- Work with advisers to improve the quality of the information they are giving you as paraplanners. At Progeny we have KPIs for the information the planners are giving their paraplanners.
- Learn to collaborate, by working as a team and all having the one focus which is ensuring the right outcome for the client.
- And don't be afraid to challenge if you feel it is in the best interests of the client. Often there is no right or wrong answer. It's finding a way that is suitable for the client.
- If you can, sit in on the follow up meeting where the planner presents the report to the client, to see how the client responds to the recommendations. How did they react? Did they feel the recommendations aligned with their goals? Were they happy? What could you have done better for the client? Being there can really help get a better feel for the advice given and its effect on the client.

THE MEANING OF VALUE

Delivering value is key to the FCA's Consumer Duty paper but how can we define 'value'? Nathan Fryer, director of Plan Works considers what it may mean in the context of financial planning

The consumer duty consultation paper CP21/13 talks a lot about fair value so I thought it would be useful to try to understand what value means and perhaps what the FCA are looking for. The purpose of the paper is to promote a fairer, more consumer focused level playing field where consumers get the products and services they need, which are fit for purpose, provide fair value and do not cause them harm

The paper used the word "value" 349 times, which I think highlights the importance of what the FCA are trying

to achieve with this paper. Chapter 8 goes on to say:

- "The specific focus of the price and value outcome rules is on the relationship between the price the consumer pays to the overall benefits they can reasonably expect to obtain from a product."
- "Value needs to be considered in the round and low prices do not always mean fair value. "
- "We expect firms to think about price when assessing fair value but not at the expense of other factors. The price and value rules do not prevent firms with an innovative product that provides additional benefits to customers charging more for it. It is not our intention for the price and value outcome – or any aspect of the Consumer Duty – to hinder innovation."

	Product	Portfolio	Advice
Does it do what the client needs?	Yes / No	Aligned to risk profile	Does the client need advice?
Does the provider offer the service expected by the consumer?	Yes / No	Yes / No	Yes / No
Can the same thing be achieved at a lower price?	Yes / No	Yes / No	Yes / No

So what is value?

In terms of financial planning and advice, the table to the left shows how value can be considered. So if we take each segment in isolation:

Product: In this example let's consider that the client needs a pension: Does it do what the client needs?

ACTIVE VS PASSIVE

We need to consider what the Client needs from the pension. Are they of an age where they need to be able to flexibly access their pension and if so, is flexible access in the client's interests? If the answer to these questions are no, then a pension that offers these features might not represent good value at this stage.

However, if you can find a pension that offers these additional features at the same price as a pension that doesn't, then I would consider this to be good value as the client has the benefit of being able to use these features in the future, should they need to.

Portfolio: This is rather more tricky and I would suggest it depends upon your investment philosophy. If your philosophy dictates that you are an advocate of active investment management, I would suggest that you would need to demonstrate that value within your CIP. Obviously, this would likely be backward looking.

I would suggest that providing you can demonstrate that the portfolio delivers the client what they expect and the cost is not excessive, then you can demonstrate value.

Above is a chart of two funds in the UK All Companies sector, one is active and one is passive. The active portfolio costs 1.74%, whereas the passive portfolio costs 0.06%. I think in this instance, you might struggle to demonstrate the value of the active fund over the passive fund, especially given the difference in performance over the period is 70%.

Over the past few years, we have seen a gradual shift from fully active to a blended or fully passive approach in many firms.

Advice: I think this will be the controversial point and I like to think of the value that advisers bring as peace of mind.

My analogy for this would be watching YouTube videos to learn how to change the engine in my car. This will be different for different people, but I for one, would not change the engine in my car after watching YouTube videos through fear of making things worse and the whole thing costing me a whole lot more money.

This is the fear that consumers have when it comes to pensions. Guaranteed annuity rates, protected tax-free cash and flexible access drawdown could be likened to the components in a car. Whilst I have a basic understanding of an engine, if someone challenged me to change the clutch on my car, I would not have the first clue of where to start and this is the value that we as advisers/paraplanners all too often forget. We forget that this is our area of expertise.

This reminds me of a great story about a giant ship's engine that failed, the owners tried many, many different things to try and fix it. Then they brought in a mechanic who had been fixing ships since a young age.

The mechanic carried a large bag of tools and inspected the engine very carefully, top to bottom. After looking things over, the mechanic reached into the toolbox and pulled out a small hammer. The mechanic gently tapped something. Instantly, the engine lurched into life.

A week later, the owners received an invoice from the mechanic for $10,000.

What?! the owners exclaimed. "The mechanic hardly did anything...!!!".

So they wrote to the mechanic; "Please send us an itemised invoice."

The mechanic sent an invoice that read:
Tapping with a hammer... $2.00
Knowing where to tap... $9,998.00

The value that advisers provide is knowledge and the price that you put on that needs to offer value. The value in this example is the fact that the engine is now working. Some might consider the price paid to be unreasonable, but it depends upon what impact having that boat working might have on the owners.

So I think for advisers, we need to deliver a service to clients that imparts knowledge through implementation of a working plan. For me, that's making sure that Plan Works is the value, not the time or number of pages in a suitability report.

FUTURE VIEW

How might retirement planning change over the next few years? Richard Cooper business development manager at The London Institute of Banking & Finance, considers areas on which paraplanners should keep an eye

What will our role and the sector look like in five or ten years time? It's a big question and one that came up at the *Professional Paraplanner* Technical Insights seminar I was lucky enough to attend in May in Birmingham. It was a wonderful opportunity to have some really interesting discussions with paraplanners about this and many other issues. And, as part of that, I was delighted to present on the changing face of planning in retirement.

Retirement and later-life planning

Investors are becoming increasingly knowledgeable and more aware because they're able to learn about potential investments online. In fact, recent surveys have shown a higher-than-expected percentage of people are turning to online sources of information rather than seeking and taking financial advice from professional planners.

For example, the abdrn Class of 2022 Survey revealed that more than four in five people (82%) have not sought any professional advice about their plans to retire this year – with almost one in ten (9%) admitting they've not spoken to anyone about it, including friends or family. In 2021's Interactive Investor Great British Retirement Survey, 65% of respondents said they'd used online search tools to find out information on retirement. These figures may reflect the numbers retiring each year who are not able to access advice due the limited size of their retirement pots.

Retirement and later-life planning is increasingly complex

We should also acknowledge that some advisers are quite selective about who they advise. But, as advisers become more selective, they're more likely to have clients with more complex needs. That means the scope of advice is likely to develop. And when you consider that clients are also likely to have more detailed and varied objectives, well, you begin to see the scale of the task.

As an example, it's not unusual to have a client who's retired and living off a pension but still keeping their hand in because they enjoyed their career. So they're earning an income from some part-time or contracted employment. Or a client may receive money from a property or other income stream. And what about their goals?

As the population ages, paraplanners would benefit from a greater understanding of how to tailor tax-efficient income from the right sources at the right time

They may wish to travel or pick up a latent interest, hobby or unfulfilled creative ambition. It's not unusual for people to enjoy an active period in early retirement before they slow down and become less active. This is when their costs usually fall. However, because people are living longer, your clients should also consider the possibility of how they might fund long-term care.

All of that means that paraplanners and advisers need to join up retirement and later-life advice and offer clients a more holistic planning service. Clients need to understand exactly how making a financial decision in one area can impact their overall objectives in later life.

The future of retirement advice

At retirement, later-life planning advice will likely cover one or more areas, such as:

Richard presenting at the Professional Paraplanner Technical Insight Seminar

- tax efficient income planning
- effective cashflow modelling
- inheritance tax (IHT) and intergenerational planning
- long-term care planning
- equity release / later-life lending.

That's not forgetting areas that will become more important due to regulatory change, like 'environment, social and governance' (ESG) and the impact of the new Consumer Duty of Care.

Advisers – and more importantly paraplanners – are going to require more understanding of a wider range of planning areas, which is one of the reasons why LIBF developed a Level 6 qualification in Financial Planning in Retirement.

The tools we use are also evolving. We've already seen a huge change in cashflow forecasting. As technology in gathering information improves, this is likely to include more details of personal expenditure in retirement forecasting, and a facility to be annually updated.

The increasing retirement pool

The Office of National Statistics (ONS) provides data and projections that can inform future planning. The key data in their recent projections on the UK population demonstrates that the size and scope of the retirement pool is going to increase significantly over the next 20 years.

Even after taking into account the planned increase in the State Pension age to 67 years, by the mid 2030s, the number of people of pensionable age is projected to increase by 1.3 million (11.3%). By 2045 the number of people of pensionable age is expected to grow to 15.2 million, an increase of 28% on the level in 2020.

The average size of pension and investment pots at retirement are also expected to significantly increase. This is because more people are saving greater amounts towards retirement thanks to initiatives like auto-enrolment and potential changes to minimum funding levels in future.

Income sources in retirement

At the *Professional Paraplanner* Technical Insight Seminar, I took the opportunity to ask about income sources during retirement. Between those of us who were at the session, we identified around 19 different or potential sources.

What came across loud and clear is that retirement is not just about pensions. And retirement planning is about ensuring that clients have sufficient income, from whatever sources they have available, to afford the retirement they want.

As outlined above, an increasing number of people are continuing to work into and beyond the state pension age – either to supplement retirement income or because they are not yet ready to stop altogether.

Tax-efficient income

Finally, tax efficiency is an important part of the picture, especially for those with multiple and varied income streams.

It's possible to generate a tax-efficient income of over £54,000 per annum for a couple – excluding any income from ISAs or tax deferred income from investment bonds – by using annual allowances such as the:

- personal allowance
- savings allowance
- dividends allowance
- capital gains tax allowance

So, as the population ages, paraplanners would benefit from a greater understanding of how to tailor tax-efficient income from the right sources at the right time. Many advisers already hold income planning meetings each year to identify where income streams.

It's likely they will start to plan tax in the same way and include how to make the best use of the available allowances. For that, they will rely heavily on their paraplanners no matter what the future holds.

DUE DILIGENCE

In the light of market events, great care needs to be taken with the selection of a SIPP provider for clients, argues Stephen McPhillips, technical sales director, Dentons Pension Management Limited

Paraplanners will be very familiar with the need for careful due diligence, as it forms a key part of their day-to-day roles. Indeed, outside of the financial services world, we all carry out analysis of some kind before making a purchase - be it researching a holiday destination, assessing the features of a new mobile phone and so on. When it comes to SIPP providers, however, things may not be quite as straightforward as we might like them to be when it comes to due diligence.

It's an unfortunate fact that SIPPs (and some providers of these) have not enjoyed the best of reputations in recent years. There have been some relatively high-profile court cases and SIPP provider failures that have afflicted the sector. In addition to this, there have been knock-on effects for the wider industry in the form of Financial Ombudsman Service (FOS) determinations and claims on the Financial Services Compensation Scheme (FSCS), the latter of which has directly impacted on levies for financial advice firms. Even if an advice firm does not get involved in establishing SIPPs for clients (although most would), their existence cannot be ignored. Of course, the perennial question of "what is a SIPP?" rears its head at this juncture.

Accepting the fact that most, if not all, advice firms will have clients with SIPPs in some shape or form, the question of SIPP provider due diligence comes to the fore – both in terms of reviewing providers existing clients are exposed to, and researching the market for a different/new providers.

What due diligence considerations might there be?

The following is not intended to be an exhaustive list of considerations that might apply, but hopefully it will be of some assistance to paraplanners, particularly where the client's investment needs extend beyond a limited range of life company/ platform funds:

- Is the provider capable / competent?
  - is it experienced in handling complex investments?
  - does it offer local business development support?
  - is it willing to conduct necessary due diligence on investments?
  - will it do so fee-free?
- What is the provider's capital adequacy position i.e. does it meet or exceed the requirements of the FCA's "cap-ad" rules for SIPP providers?
- Does its permitted assets list allow the client's desired investment?
  - and does it outline unacceptable assets?
- Does the provider have a robust investment due diligence process of its own to follow?
  - does it have specific investment questionnaires for a range of investments?
  - does it operate an investment committee to review non-standard investments?

As the population ages, paraplanners would benefit from a greater understanding of how to tailor tax-efficient income from the right sources at the right time

- does it retain the services of external due diligence specialist to supplement its own research?
- Does the provider have a track record of profitability and a strong financial position?
- Does the provider have exposure to a significant number of distressed / non-standard assets?
- Does the provider have a number of FOS complaints / FSCS claims - historic and / or ongoing against it?
- Has the provider historically accepted volume business from unregulated introducers?

These are just some of the aspects that paraplanners and advisers may wish to consider when reviewing and/or selecting a provider. Sadly, some of these aspects are ones that have led to a number of provider failures in the past few years.

How might clients be affected by a provider failure?

The failure of a SIPP provider is an unfortunate event. In the short term, there might be no noticeable impact on clients. However, as time goes by, the impacts may become far more noticeable. There are various ways in which a provider's failure might be dealt with, but history has often shown that the failed provider's book is taken on by another provider, with the new provider's staff dealing with the failed provider's former clients.

This can lead to poor service levels, poor understanding of the client's requirements, prolonged delays in obtaining information, administration errors and a change of charging structure – none of which the adviser firm had recommended initially and none of which the client wanted to experience. If a decision is made to try to move the client away from a failed provider (or from its acquirer), that in itself can be beset by delays.

Ultimately, great care needs to be taken with the selection of a SIPP provider for clients and sound due diligence is key. Strangely, it is the very fact that we have witnessed a number of provider failures that should make that due diligence work a little easier; there has been a clear direction of travel that a number of providers have taken in the past and it should be possible to identify any that still exist – and to take action before it's too late.

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. Greater Fool Theory' refers to:

- A A financial bubble where investors expect prices to carry on rising
- B A financial situation where there is limited liquidity in the marketplace
- C A global market correction as a result of increased inflation
- D A boom in a particular sector of the UK and US economies

2. With regard to taxation, trustees of an interest in possession trust where the asset is a rental property should be aware that:

- A They will only ever be charged to basic rate tax on the rental income
- B A higher rate taxpaying beneficiary will not owe any extra tax on rental income
- C They are entitled to tax relief for the expenses they incur in managing the trust
- D As trustees, they will be entitled to a personal allowance

3. Being "fit and proper" to undertake the role is a test that could be used by the Pension Regulator in assessing the appropriateness of the:

- A Scheme Administrator
- B Scheme Trustee
- C Employer
- D Scheme Actuary

4. Matthew has surrendered an offshore life assurance policy. What rate, or rates, of income tax will he be potentially liable for on any chargeable gain?

- A Higher and/or additional rates only
- B Basic rate only
- C Basic rate, higher rate and/or additional rate
- D Any gain will be free of income tax

5. As a newly authorised investment manager you understand the importance of diversification and how this can help your clients manage investment risk. On a practical basis, diversification can be achieved at the highest level:

- A Through accessing different tax wrappers
- B By using different life offices and providers
- C Spreading equity investments to include overseas
- D Holding investments across the main asset classes

6. A member firm of a stock exchange executes a trade and acts as principal. This tells us the firm is buying the shares for:

- A Their clients
- B The stock exchange
- C For their own account
- D For other member firms

7. Cora is planning to take out a lifetime mortgage and use the funds released to buy an annuity which does not increase over time and this will be her main source of income. She wants to pay the interest on the mortgage so that the debt does not increase over her lifetime – what interest rate option is likely to be best for her?

- A Tracker rate
- B Discounted rate
- C Capped rate
- D Fixed rate

8. Which of the following types of care provision never needs to be self-funded?

- A Accommodation costs in an NHS hospital
- B Domiciliary care
- C Respite care
- D Residential care in a nursing home

9. James got frustrated at how long it was taking for his local planning authority to process his most recent application. He has therefore built a large extension to his property without planning permission. This is known as:

- A An unpermitted development
- B A legal development
- C A development breach
- D A planning breach

10. Corporate culture within an organisation is often reflected in a company's:

- A Report and accounts
- B Headed paper
- C Individual job descriptions
- D Values statements and ethics codes

Last issue's answers

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

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. For resources visit https://brandft.co.uk

prepare to pass Brand FINANCIAL TRAINING

SPECIAL REPORT GUIDE TO ESG

SPECIAL REPORT

In association with

FE fundinfo

Advising on ESG

While paraplanners may find that identifying the right ESG and sustainable investment fit for clients brings challenges, as Fiona Bond discovers, there are paths to follow

"Engagement has an important role to play. We want to be part of the solution, holding companies to account and influencing decisions made"

Dan Atkinson, Paradigm Norton

Once largely the domain of institutional investors, environmental, social and governance investing has ballooned in popularity among retail investors over the past few years. Data from Morningstar showed that £37 billion was invested in sustainable UK domiciled funds in 2021 alone.

Dan Atkinson, head of technical at Paradigm Norton, says: "In the past year we have seen a huge shift of investment from traditional portfolios to ESG portfolios. There seems to be a general growing awareness that we simply can't afford to be unsustainable for future generations."

Research by OnePlanetCapital showed that 85% of investors now consider climate change as the greatest long-term threat and 12% plan to transfer into ESG funds this year as a result.

Rebecca Kowalski, founder of Overstory Finance, expects demand to increase going forward. "There is growing interest among investors to consider sustainable investing, but many lack the confidence or knowledge and rely on their adviser to steer them. However, as younger investors with greater conviction emerge we are likely to see demand rise. Younger generations are more inclined to find information online and are more comfortable challenging the status quo and the traditional advice route."

Understanding client preferences

While growing interest in the ESG space has seen it move from niche to mainstream, it does not come without its challenges. A lack of consensus on terminology poses one of the biggest hurdles. Research from the Association of Investment Companies found the majority (58%) of advisers were supportive of ESG but found it hard to research investments' ESG policies and credentials.

And as more tools and options emerge, it creates a fresh set of challenges for clients and advisers alike. Atkinson explains: "The terminology around ESG still hasn't been fully defined so companies and funds will interpret terms differently. I would like to see much more consistency in the terms used, not just within funds, but across data tools."

Understanding what clients truly care about is the first step, according to Atkinson. The ESG investment spectrum ranges from funds where ESG is considered part of the traditional financial analysis all the way to funds designed specifically with the aim of achieving positive, measurable ESG impact.

The key is for advisers to know exactly what their client is seeking. "Advisers need to understand if a client is looking for broad exposure to ESG themes in general, or whether they wish to avoid certain industries or would prefer to take a thematic approach such as investing in clean energy," says Atkinson.

He adds that clients need to be aware that ESG investing incorporates different approaches. He points out that clients may be surprised by the inclusion of some companies within so-called ESG funds, but they have been chosen so that shareholders can enter into proactive engagement, using their voting rights to challenge and influence behaviour. "If you choose to divest, those shares don't simply disappear, rather someone else will buy them. As such, engagement has an important role to play. We want to be part of the solution, holding companies to account and influencing decisions made."

With a wealth of nuanced options available, advice firms expect ESG to become a standard part of the client fact find. Paradigm Norton asks clients about their ESG preferences as standard process but is working alongside Oxford Risk to create a more rigorous approach, which would see clients referred to a website and asked a series of questions using behavioural science. Depending on a client's answers, the firm will have a deeper conversation in person to explore possible investment routes.

Kowalski says: "I think it will become increasingly difficult for advisers to ignore. However, it's important that clients are not influenced by their adviser. Clients should be given a guide on ESG investing and the time and space to think about how strongly they feel about it. It can be helpful to let clients reflect on how they feel without feeling pressure to answer a certain way."

Challenges of researching ESG

As the ESG space continues to evolve, there are a variety of fund research tools available. In a recently published article on the *Professional Paraplanner* website, Grant Callaghan, head of paraplanning at

Para-Sols, said free resource fundecomarket can be a useful starting place, covering a wide range of criteria to filter ESG funds. For clients with specific ethical inclusions or exclusions, fund research tool synaptic has extensive options that can be filtered. However, there is not yet a standardised right and wrong when it comes to researching ESG and there can be discrepancies in the way ratings agencies rank companies' ESG scores.

As such, in-depth research is incredibly important to understand if funds are aligned with client's objectives and to avoid the risk of greenwashing.

Louisiana Salge, senior sustainability specialist at EQ Investors, says: "Most advisers are now thinking about ESG and we have seen demand grow substantially over the past year but what some of them can't do is sustainable investing in-house. They simply don't have the resources to carry out the extra layer of analysis that's required.

"There are differences in disclosures from fund managers and ratings agencies often give different weighting to the different elements of ESG which can skew the outcome. We delve deep to check if funds are following the process they have outlined and cut across the greenwash. We don't place much emphasis on the name of the fund, for us it's important to closely study the underlying holdings to see if they align with the objectives of our portfolio."

Paradigm Norton takes a similarly rigorous evidence-led approach. Atkinson says: "Can fund managers show that they are engaging with the companies within the fund? How and what are these companies doing to meet their ESG goals? Our priority is to find evidence and ensure that the information investors are receiving is credible."

Performance versus 'doing good'

There has been a long-held belief that investing in sustainability means foregoing financial returns. While the sector has experienced lower performance this year, hampered by rising interest rates and inflation, experts point out that sustainable funds are not expected to outperform continuously but companies that embed sustainability into their operations will build stronger, more resilient businesses over the longer-term.

Kowalski says: "There are investors who are naturally spooked by underperformance, but it's important to remember that every kind of fund will have a good and bad period and ESG funds can perform very differently to traditional funds. Sustainable investing is a long-term investment and should never be a matter of make money and run. While you need growth to justify the whole process of investing it should be about making a return rather than seeking to be the best performer."

Salge echoes the notion that clients need to take a long-term view and understand the nuances of sustainable investing. "I believe that ESG investing can be justified on performance alone but it's crucial that clients understand what they are investing in. Some funds may be very restrictive and omit key areas from their holdings which may impact financial returns. It's also important not to consider returns quarter by quarter; investors should take a long-term approach," she says.

Experts agree that ESG will gradually become part and parcel of companies' financial analysis going forward, as company operations, business models and financial returns become increasingly interconnected and companies recognise the need to create value for all stakeholders. As with any investment, a client's financial goals should be at the heart of any decision, but it is looking increasingly likely that ESG will create a new generation of investors who no longer have to make a choice between financial gains and their social and environmental conscience.

The shape of things to come

Changing regulations are putting ESG at the heart of the advice process, says Edward Margot, Head of Client Investment Strategy, FE Investments

The way advisers and paraplanners have to treat ESG investments is about to get an overhaul as several pieces of regulation will force a significant change in the way ESG is treated by asset managers and by financial advice firms. Last October, the government published Greening Finance: A Roadmap to Sustainable Investing . This outlines the government's strategy to drive sustainable investing and ensure the economy meets the target of cutting greenhouse gas emissions by 78% by 2038 and to be net zero by 2050. To do this the strategy focuses on the way information around sustainability is measured and disclosed.

The government's plan is split into three parts:

- Ensuring decision-useful information on sustainability is available to financial market decision-makers.
- Making businesses and investors use this information in business and financial decisions.
- Driving financial flows to companies which align with a net-zero and nature-positive economy.

Sustainability Disclosure Requirements

The first part of the government's plan, to improve the information available for financial decisions, is being based on new Sustainability Disclosure Requirements (SDR) which are already in development . The Financial Conduct Authority launched its consultation on sustainability disclosure last November and has outlined initial plans to improve the visibility of the impact of the underlying holdings in investment vehicles, as well plans for a new set of labels to describe the way investments deal with ESG. The initial consultation closed in January and the FCA should be issuing policy proposals for further consultation soon, but it is likely that the UK's SDR will stay pretty close to the rules set down by the EU Sustainable Finance Disclosure Regulation.

Green Taxonomy

Alongside the disclosure regulations being developed by the FCA, the government is currently developing the UK Green Taxonomy to create a framework to determine which activities can be considered environmentally sustainable. This work is expected to produce an outcome similar to EU regulations which class investment funds under three categories. Article 6 funds do not include any element of ESG in the investment process. Article 8 funds, also known as environmental and socially promoting funds, are funds which include "environmental or social characteristics, or a combination of those characteristics". These could also be described as light green funds. Finally, Article 9 funds that have sustainable investment or reduction in carbon emissions as a clear objective. These funds have to align with at least one of the EU Taxonomy criteria and have no adverse impact on the other criteria.

Consumer Duty

Another factor when considering ESG and the suitability of advice is the new Consumer Duty requirement from the FCA. A policy statement is due at the end of July outlining the new regulations. Although ESG and sustainability are not mentioned specifically in the consultation, the FCA is looking at a general requirement to ensure that customers are able to pursue their financial objectives. The FCA's proposals also include a requirement for firms to clearly communicate all the information that clients need to make effective decisions.

Even if clients have no interest in their investments contributing to improved sustainability, ESG factors have a clear impact on the performance of underlying investments and so clients will need to be aware of how ESG-factors will potentially affect investment performance.

Embedding ESG in an advice process

There are several practical steps that financial advice businesses can take to get ahead of future regulatory requirements. These include:

- Consider all sustainability risk that might cause a negative impact on investment/advice.
- Disclose how sustainability was included in the investment selection process.
- Include responsible investments as part of a centralised investment proposition (CIP).
- Consider using a sustainable benchmark to track.
- Be able to point to ESG and sustainability research/data used in the advice process.
- Disclose the ESG and sustainability approach used by the firm and its policies.

Advice firms should also begin to align clients with the appropriate level of engagement with ESG as part of PROD suitability. This is likely to see clients fall into one of four broad approaches to ESG and sustainability:

1. ESG and responsible investing is not a primary concern. The client has expressed no interest in ESG or responsible investing. ESG is still important as it relates to investment risk and performance – stranded asset risk, for example.
2. Considers ESG important and wants to invest in products that display good ESG processes and outcomes, but it is not a priority over other features. In our opinion this will rapidly become the default category as ESG is becoming more integral to overall investment management. However, it is still possible to identify products that take ESG seriously and ones that don't. It is also possible that regulation enforces this as the default option.
3. ESG and responsible investing is a somewhat important and the client wants it included in investment selection, but not exclusively. This means a client either wants to avoid investing in things they consider unethical or not aligned with their values. This describes your classical ethical investor and would include products with a negative screen. It could also mean a client wants their portfolio to contribute to solving some or all of the issues facing the world. This encapsulates impact investing and includes products that either have a positive screen or are dedicated impact products. Impact in this segment is increasingly coming to mean contributing to the UN Sustainable Development Goals, which include reducing hunger, combatting climate change and preventing pollution, among others.
4. Clients have a highly developed set of personal beliefs and values and want them completely incorporated into their portfolio. This segment will include people who may have specific issues they want addressed – for example, zero animal testing – or have a set of exclusionary criteria that differs from most of the mainstream negative screening products – for example, they want zero exposure to industrial agriculture. This segment is likely to need a specialist solution or even a bespoke portfolio rather than an off-the-shelf portfolio.

The next steps

From individual companies, through asset managers and finally through to end investors, the government's roadmap is going to see much greater disclosure of the sustainable practices and impact of companies and investments.

So far, the government's roadmap to sustainability has focused on the first of the three steps outlined in its roadmap. However, the intention to drive more investment towards sustainable outcomes means that there is a shift to make ESG an integral part of financial decision making and encourage greater flow of funds towards sustainable objectives. The introduction of new regulations is unlikely to stop therefore, with the measures currently in development.

In short, there will be a lot more information available about how investment funds operate and much greater scrutiny over how investment vehicles treat ESG issues in their investment process and impact of their investments.

The FCA has been clear that although some of the new regulations will not initially be apply directly to financial advice it is looking at how these regulations should be rolled out and it should be considered good practice to embed the new level of disclosure into the advice process initially by understanding the new disclosure requirement for investment funds as the appear and aligning client desired outcomes with appropriately labelled investment vehicles as the new labelling system is introduced.

"Even if clients have no interest in their investments contributing to improved sustainability, ESG factors have a clear impact on the performance of underlying investments"

Cut through the greenwash

Paraplanners need access to clear, detailed and comparable reporting on ESG, if they are to meet both clients' needs and regulatory requirements, says Edward Margot, Head of Client Investment Strategy, FE Investments

Paraplanners and advisers are already faced with a huge amount of information when it comes to ESG and investments. The big increase in interest from investors has transferred to strong flows of retail investor money into ESG or sustainable funds. According to the Investment Association, between Q1 2020 and Q1 2021 retail investors placed a total of £11bn in responsible investment funds. This was 38% of all new retail money during this period.

With this amount of investor interest, it is unsurprising that some investment managers have seized the marketing opportunity available and paraplanners, advisers and investors are facing a deluge of material advertising investments as ESG or sustainable.

The different approaches and definitions used by investment managers has created additional confusion and this is compounded by the lack of commonly agreed standards and classification for sustainable investments. This opens up a significant space for greenwashing – using ESG and sustainability as a marketing story rather than an investment approach – and the risk of greenwashing has already prompted the Financial Conduct Authority (FCA) to warn about its rise.

This is being addressed by the FCA's work on Sustainability Disclosure Requirements (SDR) and the government's UK Green Taxonomy. Some of the measures being considered as part of the SDR are the introduction of a common system for labelling sustainable funds and forcing firms to clearly back up claims of sustainability when promoting these funds. But confusion is likely to persist in the short-term while these new regulations are developed.

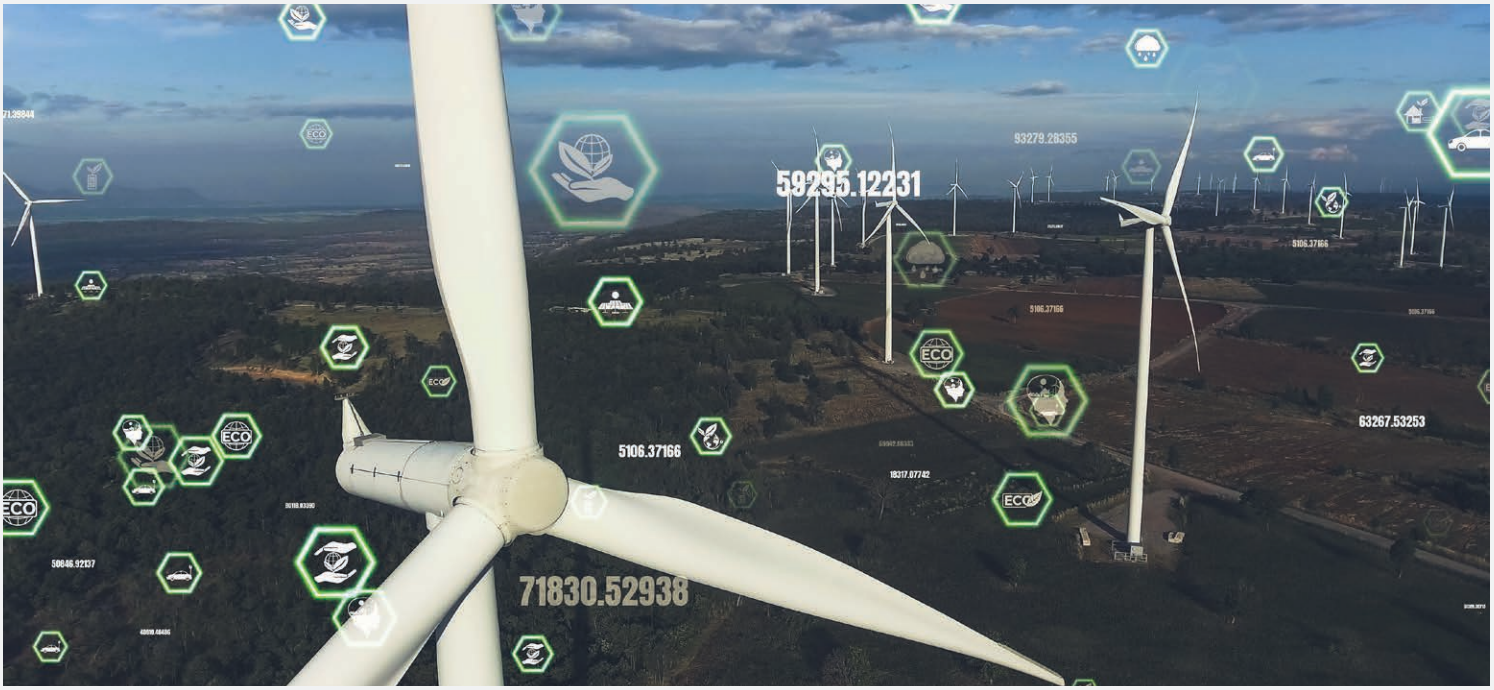
Understanding the investment process

There is a wide range of investment approaches and styles that can be described as responsible, sustainable or ESG. Understanding the investment process used by different funds and model portfolios is key to avoiding solutions which have been greenwashed. However, to truly establish whether investment solutions are living

The Responsible Investment Spectrum of Capital

Approach	No ESG	Ethical	Responsible	Sustainable	Impact		Philanthropic
					Finance First	Impact First	
Financial Goals	Deliver competitive risk-adjusted financial returns					Accept lower risk-adjusted financial returns	No expectation of financial returns
Impact Goals		Exclude unethical/immoral industries or activities					
			Mitigate and/or manage ESG risks				
				Pursue ESG opportunities/outcomes			
					Deliver positive environmental and/or social change		
Client Relevance/ Intentions	*There are inadequate processes to mitigate ESG risks for clients.*	*I want to avoid investments in tobacco/alcohol companies.*	*I want my investments to manage and/or mitigate risks such as water scarcity.*	*I want my investments to pursue positive outcomes and sustain long-term returns.*	*I want my investments to address climate change. I want my investments to provide additional support to excluded or marginalised populations.*		*I want my investments to focus on giving back to the community and environment without any consideration for profits*
FEI Model Portfolios			FEI Hybrid, Mosaic and Income Ranges	FEI Responsibly Managed Range			

STEWARDSHIP



up to their billing it is necessary for investment managers to back up their claims. At the moment there is no regulatory minimum standard to meet so the level of ESG data disclosure can vary widely and even well regarded third-party ESG fund ratings from the likes of Morningstar, ISS or yourSRI only tell part of the story. In order to see the real ESG characteristics of an investment you need to see the underlying data.

Earlier this year, FE Investments launched ESG disclosure reports to cover the ESG characteristics of all our portfolios, not just our responsible investments. We believe this is best-in-class reporting which will provide advice businesses with the detail necessary to carry out their research, and should also provide investors with a better understanding of what they are invested in. The reports show a full breakdown of where their money is invested by themes, such as education, alternative energy or clean water, and show how the portfolios align with the UN's Principles of Responsible Investing. They also provide company level reporting showing the contributions made by individual stocks in the portfolio.

In addition, the reports provide advisers and clients with reassurance about the governance process at work on their behalf by showing the results of our monitoring of controversies involving their investments.

Finally, our reports show where our portfolios have exposure to industries which are usually subject to ethical screens. Although we don't use blanket negative screening in any of our portfolios, it is important that paraplanners, advisers and clients are given full view of what they are invested in. Our position on ESG is slightly different than much of the investment industry. We believe that ESG is a framework for analysis. It is a key part of an investment research, but it is not an investment style in its own right. ESG factors can be used to identify investments that will have a material impact on the world, good or bad, and allow this to be considered as part of an investment process.

Putting ESG analysis to work

We use ESG as a factor in the analysis in all of our portfolios, but only our Responsibly Managed Portfolios are designed to provide a positive outcome in addition to the financial returns our investors are seeking to achieve. Our view is that no retail clients want an 'ESG'-labelled portfolio. They want investments which adequately reflect their beliefs. ESG and the grouping together of disparate and sometimes conflicting investment styles, solutions and themes is an institutional solution which is not meeting client demand. Instead, investors want to know their investments are doing less harm, doing more good and delivering on risk and returns.

Ensuring that clients are invested in the most appropriate solution means advisers and paraplanners need to fully understand the investment process at work and the impact of the underlying holdings. In order to do this properly means having access to clear, detailed and comparable reporting so advisers and paraplanners have reassurance that they are meeting their clients' needs and their regulatory requirements.

> ***"Ensuring that clients are invested in the most appropriate solution means advisers and paraplanners need to fully understand the investment process at work and the impact of the underlying holdings"***

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.

NEW Investment Committee Webinars:

Professional Paraplanner is pleased to announce the return of the Investment Committee Seminars for the autumn 2022.

These will be must attend in-person events for all paraplanners sitting on their firms' Investment Committees or who are involved in researching and recommending investments for client portfolios, MPS, CIPs and CRPs.

Our first event will take place on Thursday 13 October 2022, in London. We expect these events to be very popular and spaces will be limited. We recommend registering your interest in attending in advance.

TO REGISTER your interest in attending see our daily email alerts or go to the EVENTS tab on the Professional Paraplanner website.

RIDING THE EBBING TIDE

Where to invest now that the tidal wave of 'free money' is ebbing? David Hambidge, investment director, Multi-Manager Funds, Premier Miton Investors, explains his team's thinking

As anyone who follows our market commentaries will know we have been warning for some time that markets would not act favourably to tighter monetary policy, although even we have been surprised at the size and speed of the decline in certain assets.

That said, the fall in both equities and bonds should be looked at against a backdrop of huge gains, particularly in recent years, on the back of unprecedented monetary and (during the pandemic) fiscal stimulus. This tidal wave of virtually 'free money' lifted all boats with bonds and growth stocks being amongst the greatest beneficiaries.

Once the dust has settled, I am sure there will be some soul searching amongst the investment community and particularly those who felt the need to keep purchasing bonds at tiny or in so many cases, negative yields. Government bonds have provided wonderful diversification over the last four decades and I for one wish I had owned a lot more of them in my career that spans a similar time frame. However, probably at the top of the list of things learned over the years is not to compound one mistake with another. Certainly the relatively low interest rate risk in our portfolios is one of the reasons why our funds have enjoyed another strong period of outperformance versus their respective benchmarks since the start of the year (as at 31.05.2022).

Within equity markets, so called growth stocks are also hating higher interest rates although the decline in the more speculative unprofitable names started last year. However, this year the damage has moved to the large cap stocks which have seen a significant de-rating even though profits and cash flow generation have in the main remained robust. A lesson if ever it was needed, that valuation does matter.

UK Equities and property

On a more positive note, UK equities, or at least the FTSE 100 Index has held up well this year. In our last note we talked about the relative attractions of the UK stock market from a valuation perspective and we believe that UK large caps remain better suited to weather the current storm than many other markets.

One asset class that is proving to be a very useful hedge in the current period of high inflation and rising interest rates is UK commercial property, with the sector up a further 1.5% in May, resulting in a total return of 8.2% so far this year*. As has been the case for the last few years, industrial property has continued to perform exceptionally well, rising a further 11.5% since the beginning of the year and a staggering 79.2% over the last 3 years. This compares with a gain of 17.8% for offices and just 4% for retail property over the same 3 year period**.

In spite of these gains we continue to favour the UK commercial property space and particularly those funds that can potentially offer relatively high and sustainable dividends with some in built inflation protection. Examples of these include the primary healthcare names and care home operators which continued to pay (and in most cases increase) their dividends throughout the pandemic.

Looking ahead, the recent decline in stock markets across the world is certainly throwing up some interesting opportunities for long-term investors although we would be surprised to see any meaningful pick up in prices until inflation is seen to have peaked. As for credit, we think there could be a decent entry point later this year, particularly in higher quality corporate bonds which are likely to be relatively immune to rising defaults which seem highly likely over the next year or so.

As for government bonds, it could be said that the pick up in yields currently improves their diversification benefits and I wouldn't argue against this. However, yields remain very low compared to historic levels and I suspect have more upside as central bankers struggle to get to grips with inflation which is proving to be anything but transitory.

The recent decline in stock markets across the world is certainly throwing up some interesting opportunities for long-term investors

* Data source: CBRE as at 31.05.2022
** Data source: Premier Miton Investors based on CBRE data as at 31.05.2022

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JAPAN

Tickets for the Japan rollercoaster are getting cheaper, says Darius McDermott, managing director, FundCalibre

Investing in Japan has never been an easy ride – with last year being no exception. Not only did Japanese equities fall 5 per cent (at a time when global equities returned 23 per cent)[1], but we also saw change from a political perspective as Shinzo Abe's successor, Yoshihide Suga, lasted just one year in the role before Fumio Kishida took over in October.

They often say it is the hope that kills and investing in Japan is no exception. The Japanese were hailed as one of the 'masters of modern capitalism' in the 1980s and, on 29 December 1989, the Nikkei 225 stood

at a record high of 38,957. It didn't exceed 30,000 again until February 2021[2].

War in Ukraine has heightened volatility in markets. And, although Japan has little exposure to the area, its economy and corporate profits are sensitive to global growth and commodity prices, both of which have been significantly impacted by the crisis. But there is room for optimism, even for a market as uncertain as Japan. In fact, I'd argue that, alongside the UK, it is one of the few areas where there might be significant valuation opportunities.

Japan's manufacturing prowess means that roughly half of the major global robotics companies are listed in Japan

Matthews Asia portfolio manager Shuntaro Takeuchi says Japanese companies may be on the verge of delivering a combination of attractive valuations and growth opportunities to investors.

He says Japan's earnings growth and general improvements in cash flow generation – courtesy of innovation, productivity and capital efficiencies – have not been reflected in valuations compared with other regions in the past decade. He says growth in many other regions has been supported by multiple expansion, while Japan's has come through earnings performance. The average P/B ratio over the past 10 years in Europe was 1.8x, in Asia ex Japan it was 1.5x, in China it was 1.6x, and in

Investing in Japan – Pros and Cons

Pros

✓ Markets look cheap, aided by weakened yen
✓ World leaders in robotics and automation
✓ Improving corporate governance
✓ Businesses have lots of cash on their balance sheets (potential for greater dividend payments)

Cons

✗ Stagnant shrinking economy
✗ Economy weighed down by massive government debt and poor demographics
✗ Has stayed cheap for so long

Funds to consider

Baillie Gifford Shin Nippon – Shin Nippon means 'new Japan' and this trust focuses on emerging or disrupted sectors where manager Praveen Kumar sees innovative growth opportunities that he believes offer above-average growth prospects. Recent performance has suffered, but the trust has produced exceptional long-term returns.

AXA Framlington Japan – AXA Framlington Japan invests in Japanese companies of varying sizes but tends to have a slight bias towards smaller companies. The manager likes firms with long-term growth prospects which are independent of short-term news flow or what is going on in the wider economy. The portfolio usually contains around 100 holdings which limits the impact of any one stock on the portfolio.

FSSA Japan Focus – FSSA Japan Focus is a high conviction fund investing predominantly in large and medium-sized Japanese companies, with a heavy emphasis on quality. The team has regular discussions on potential new secular themes and new ideas are generated through more than 300 company meetings a year. Companies which are deemed good enough make it onto the fund's 120-strong watchlist.

Japan it was 1.3x[3]. This has scope to change in an environment of inflation and rising rates – due to downward pressure on multiples as investors search for safer, high yielding assets. The fact Japan's valuations are cheaper limits that pressure to some degree.

A sharp depreciation of the yen may also have made it a challenging period for foreign investors in Japan. However, figures show Japanese equities have been relatively resilient in local currency terms (falling just 5 per cent in the first four months of this year)[4].

Schroders equities specialist Simon Keane says local currency terms give a picture of how the underlying market has performed as it "strips out the impact of exchange rate moves that non-yen investors feel". He adds that Japan's resilience versus some other developed markets perhaps partly reflects hopes that a lower yen will boost Japan's export-heavy economy.

There are also a couple of longer-term tailwinds for investors to consider. Firstly, the reforms in the past decade, like the Stewardship Code and Corporate Governance Code, which mean Japan now has some of the strongest protections for shareholders globally. These corporate changes also mean Japanese boards are more likely to pay a dividend based on a percentage of profits – a reality with the large cash sums on their balance sheets.

There is also the wider adoption of tech, with Japan's leading manufacturing companies potentially experiencing significant growth as the increases in computing power create opportunities in automation. In fact, the major index constituents are increasingly technology-focused and Japan's manufacturing prowess means that roughly half of the major global robotics companies are listed in Japan.

Japan's new Digital Agency, launched at the start of September 2021, could also play a major role. The lack of digitalisation in government services for the public has caused problems during the pandemic, for example, delaying the handling of applications for financial support and slowing the transmission of medical data[5]. Many schools also struggled to switch to online teaching. The use of digital technologies more extensively has the potential to contribute to economic growth through improved productivity across both the public and the private sectors.

[1] Source: FE fundinfo, total returns in sterling, MSCI World and Nikkei 225, 01/01/21-31/12/21
[2] Source: Baillie Gifford, September 2021
[3] Source: Matthews Asia – The Return of Japan – March 2022
[4] Source: Schroders - What does a weaker yen mean for investors in Japan? May 2022
[5] Source: T. Rowe Price – 2022 Outlook – Prospects for Japan look bright

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 May 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	80.41	✓	5
Baillie Gifford Pacific	75.6	✓	5
GAM Star Disruptive Growth	58.5	✓	5
IFSL Marlborough Global Innovation	55.97	✓	5
Janus Henderson Global Sustainable Equity	53.76	✓	5

AIC	3 year Cumulative Performance	FE Fundinfo Alpha Manager Rated	FE Fundinfo Crown Fund Rating
Baillie Gifford Pacific Horizon	110.4	✓	5
Baillie Gifford Scottish Mortgage	62.24	✓	5
Baillie Gifford US Growth	30.23	✓	5
Schroder Asian Total Return Investment Company	27.92	✓	5
Dunedin Income Growth Investment Trust	25.38	✓	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	182.02	237
L&G Battery Value-Chain UCITS ETF	121.2	135
Guinness Sustainable Energy	106.74	136
BlackRock BGF World Mining	104.37	196
iShares Global Clean Energy UCITS ETF	104.05	204

AIC	3 year Cumulative Performance	FE Fundinfo Crown Fund Rating
Edge Performance VCT	1164.99	257
CATCo Reinsurance Opportunities Limited	783.54	6,050
New City Inv Mgrs CQS Natural Resources Growth and Income	190.49	227
New City Investment Managers Geiger Counter	160.27	422
BlackRock World Mining Trust	159.33	188

RISKIEST SECTORS

IA	3 year Cumulative Performance	FE Fundinfo Crown Fund Rating
Latin America	-1.29	138
China/Greater China	16.3	126
North American Smaller Companies	34.51	117
Technology and Technology Innovations	54.37	116
European Smaller Companies	27.83	114

AIC	3 year Cumulative Performance	FE Fundinfo Crown Fund Rating
China/Greater China	26.65	189
VCT Specialist: Media, Leisure&Events	215.6	180
Property Securities	5.57	156
European Smaller Companies	40.96	152
North American Smaller Companies	22.65	150

OUTFLOWS

Fund name	Size 1y ago (£m)	Size now (£m)	Performance Effect on Size (£m)	Out (£m)
BlackRock ACS US Equity Tracker	16,570.76	15,280.64	1,784.94	-3,075.06
Invesco Global Targeted Returns (UK)	3,991.30	996.05	-79.13	-2,916.12
BlackRock ACS 50:50 Global Equity Tracker	6,227.25	4,353.33	344.64	-2,218.57
State Street ACS Multi-Factor Gbl ESG Idx Eqty	2,137.04	272.67	278.04	-2,142.41
BlackRock ACS UK Equity Tracker	12,042.60	11,338.54	964.06	-1,668.11

INFLOWS

Fund name	Size 1y ago (£m)	Size now (£m)	Performance Effect on Size (£m)	In (£m)
Liontrust Japan Equity	30,702.41	36,888.95	-1,113.71	7,300.25
M&G Japan Smaller Companies	14,463.39	20,754.12	605.63	5,685.10
BlackRock ACS Climate Transition World Equity	3,555.68	8,715.69	449.59	4,710.42
LGIM Future World Global Equity Index	2,498.15	7,172.75	352.24	4,322.35
MI Somerset Emerging Markets Discovery	10.24	5,203.27	1,597.17	3,595.86

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

Commodity/Natural Resources
69.84

Technology & Telecommunications
54.37

North America
47.12

North American Smaller Companies
34.51

Global
34.11

AIC

VCT Specialist: Media, Leisure&Events
215.6

Infrastructure Securities
94.72

Commodities & Natural Resources
84.59

Insurance & Reinsurance Strategies
75.88

Property UK Logistics
61.93

MOST RESEARCHED

	IA		AIC
1	Global	1	Global
2	UK All Companies	2	Flexible Investment
3	Mixed Investment 40-85% Shares	3	UK Equity Income
4	Unclassified	4	Renewable Energy Infrastructure
5	Volatility Managed	5	Private Equity

MOST VIEWED FACTSHEETS

	IA		AIC
1	Vanguard LifeStrategy 60% Equity	1	Scottish Mortgage Investment Trust
2	Fundsmith Equity	2	Ruffer Investment Company
3	Vanguard LifeStrategy 80% Equity	3	Capital Gearing Trust
4	Vanguard LifeStrategy 40% Equity	4	Smithson Investment Trust
5	Baillie Gifford Managed	5	Edinburgh Worldwide IT

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	Ruffer Investment Company
4	Fundsmith Equity	4	Personal Assets Trust
5	Vanguard LifeStrategy 100% Equity	5	Smithson Investment Trust

STRUCTURED PRODUCTS

STRUCTURED PRODUCT MATURITIES MAY 2022

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

Provider	Plan	Maturity Date	Term (years)	Change in underlying %	Plan Gain %
Reyker Securities	FTSE 100 Supertracker Plan April 2016	03/05/2022	6.00	22.24	70
Reyker Securities	FTSE 100 Supertracker Plan May 2016	31/05/2022	6.00	22.10	70
Societe Generale	UK Defensive Growth Plan (UK Four) Issue 10	20/05/2022	6.00	20.04	58.5
Meteor	FTSE Kick Out Plan May 2017	31/05/2022	5.01	1.08	45
Mariana	10:10 Plan May 2019 (Option 2)	10/05/2022	3.00	0.55	32.4
Mariana	10:10 Plan May 2018 (Option 1)	04/05/2022	4.00	-0.97	29
Mariana	10:10 Plan May 2020 (Option 3)	23/05/2022	2.00	25.36	25.3
Mariana	10:10 Plan May 2019 (Option 1)	10/05/2022	3.00	0.55	24.6
Investec	FTSE 100 8 Year Kick-Out Plan 1	04/05/2022	2.00	30.47	23
Mariana	10:10 Plan May 2020 (Option 2)	23/05/2022	2.00	25.36	21.2
Mariana	10:10 Plan May 2020 (Option 1)	23/05/2022	2.00	25.36	17.5
Investec	/ Lowes 8:8 Plan 17	04/05/2022	2.00	30.24	14.5

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