Professional Paraplanner

The magazine for paraplanners and financial technicians

October 2022

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THE TECH CONUNDRUM

This month I attended the launch of the latest white paper from the lang cat, *A Fragmented World*. This covered areas close to paraplanner and administrator hearts – how well systems and software work with one another and which are the process 'frustrators' within the advice journey.

The report was a follow up to *A Disconnected World*, published in 2019, which highlighted the lack of integration between systems being used by advice firms. *A Fragmented World* was intended to show how the industry had moved on since 2019, except that it became quickly apparent that it hadn't, so the focus then became on why. There is plenty to read in the white paper but its key finding was that there are two opposing forces – those trying to integrate systems and processes within the advice journey and those fragmenting that journey.

Chief driver of fragmentation, unsurprisingly, is commercialism. Providers, platforms, systems and software vendors all want you to use their system, leaving advice firms in the centre trying to make sense of it all – whether they are adopters of technology, those who buy technology and try to use it in the best way possible, or adapters of technology, those who have the time, money and resource to adapt technology more to their way of working. 90% of firms lie in the first camp.

The situation is exacerbated by advice firm themselves wanting to use best-of-breed technology for each of the different tasks within the business. This is understandable but can add to the frustration when those technologies don't talk to one another and it requires a lot of manual intervention – typically by paraplanners and administrators – to make things work and facilitate the client journey. So, what's the answer? The industry has responded, Origo's Integration Hub now has 45 providers able to log in once and integrate for things like valuations, bulk valuations, bulk transaction history, account opening, remuneration and transfer tracking. And Finio from Sprint Enterprises is a hub enabling the flow of investment data.

Vendors have responded. The increasing use of APIs (Application Programming Interfaces) is creating opportunities for better connectivity, but as was pointed out at the launch, there are APIs and then there are APIs; some are just too complex for the average financial advice firm to implement.

The answer is probably to use one system that does as much as it can as well as it can. True Potential, with its vertical integration of systems, processes and offerings, was flagged as probably the best example of technology that delivers that smoother experience for advice firms and clients.

The question for advice firms, as posed by the white paper is: 'If something that was fully integrated did 90% of [what you needed], could you live with the 10% if it meant you had greater efficiency?'

In this respect, there is no doubt that digitisation, automation and use of machine learning are going to be huge facilitators in the move to greater efficiencies in the advice market over the next few years. See what Wealth Wizards' Turo system does for the client journey. But unfortunately, for the time being, paraplanners and administrators are going to have to continue to stitch processes together by hand.

Biggest frustrator

The white paper pointed to the Letters of Authority (LoA) process as hands down the process causing most frustration within advice firms and damaging their ability to deliver great service to the end client. The paper found that when onboarding a client, between 5 and 15 LoAs and transfer agency forms can be generated, and it can take up to six months or more to obtain the correct data. Where's the customer care in that?

There is a clear need for standardisation and digitisation of this process. Unipass Letter of Authority is trying to achieve this and maybe, ahead of Consumer Duty, more providers will now get on board.

Rob Kingsbury,
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NEW TEAM LEADER SEMINAR – 29 November 2022 – LONDON

Professional Paraplanner is delighted to announce we will be running a second Team Leader Seminar this year, on 29 November. Our May event proved incredibly popular and places are limited, so if you are interested in attending, please register as soon as possible to avoid disappointment. Further details and the registration form can be found under the Events tab on our website or keep an eye on our daily emails.

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Ro FOCUS

In this article, Luiza Todd from BTS looks at some of the challenges faced by candidates sitting the R06 unit and shares some tips on how to approach question styles that appear on the paper

The R06 Financial Planning Practice unit is different in style to its five predecessors. Gone are the useful exam strategies of 'ip, dip, sky, blue' or the equally useful 'eeny, meeny, miney, mo' for those questions where you have no idea what the examiner is asking you!

R06 candidates are faced with the case study (there are two in the exam), the question, and a blank space in which to type all their glorious answers.

Can I just buy a provider analysis and learn the questions and answers?

No provider (including BTS) knows exactly what questions will come up, which command verbs will be used in the question stem etc. so this approach is more likely to lead to a 'deferred success' situation than a pass. Candidates looking at past R06 examiner reports often report back to us that there is nothing difficult about the answers the CII examiner is looking for. That's true but producing answers from your own grey cells, with the pressure of the exam situation and nothing to prompt you, is a whole different story.

Candidates need strategies to approach the types of questions that regularly appear in the exam.

What is the R06 exam based on?

The R06 exam is based on the advice process – establishing the adviser / client relationship, fact finding, analysis, recommendations, and reviews. Questions that come up tend to be around these stages in relation to the two exam case studies (occasionally there is a generic question).

Let's take a couple of question styles and consider what candidates need to be thinking about.

Fact finding R06 question styles

These tend to concentrate on either a generic area such as pension arrangements or savings and investments, or something specific that the client has such as a life policy or investment such as a bond.

Before starting to type an answer, candidates must identify the key words in the question stem. Take this question below, from the July 2022 paper:

"State the additional information that a financial adviser would need to obtain about X and Y's current pensions and investments to enable them to provide appropriate financial advice."

Can you spot the key word here? We would say it's the word 'current'. Before answering this question, first look at what the couple currently have and what you don't know about these pensions and investments. Make a list from the case study of what they have currently, what you know and then list the gaps as your answers.

If you missed this key word who knows what glorious answers you would have put down. This then leads to a situation where you type a lot, think you have bagged all the marks, only to get a horrid shock when it comes to results day.

Factors based R06 question styles

Factors questions are an examiner favourite. Some exams have had as many as four of these beauties included in them. These can be generic or specific question styles.

What would a generic style factors question be looking for?

The examiner is likely looking for short, sharp factors such as age, state of health, planned retirement age, budget, expected inheritances and so on...funnily enough a bit of a generic list.

What would a specific style factors question be looking for?

Here the examiner wants to see factors linked specifically to the client circumstances. So rather than state of health, a specific factor could be that the client is in poor health with reduced life expectancy. Rather than planned retirement age, a desired retirement age of 65, which is in seven years' time.

Don't assume that the CII R06 examiner will use the word 'factors' in this type of question – another popular choice is 'issues' so don't let that put you off.

Passing the R06 exam is not all about technical knowledge.

A big part of passing this unit is your question answering technique – it's not the volume but the quality of what you type down that will score you the marks.

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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DEFUSING AN IHT TIMEBOMB

More mature taxpayers pay the lion's share of inheritance tax. Why might this be? One reason is their tendency to retain readily realisable funds, says Paul Wilcox joint founder and chairman of the WAY Group

The recent HMRC report on the collection of Inheritance Tax (IHT)[1] makes unusually interesting reading.

For financial planners it highlights aspects of common demographics that many are already aware of but possibly focus too little on.

Whilst most of the statistics relate to the impact on the collection of IHT, it clearly also defines which taxpayers suffer the most and *de facto* which clients need help.

The report confirms that taxable estates of £0.5 million, £1 million or more are likely to pay an unfair share of the ever-increasing revenues finding their way into HMRC coffers from IHT. Even more interesting, statistics from the report indicate that more mature taxpayers are paying the lion's share of inheritance tax even though quite large proportions of their assets appear to have remained either in cash or investments.

Statistics from the report indicate that more mature taxpayers are paying the lion's share of IHT even though quite large proportions of their assets appear to have remained in cash or investments

What this means is that those taxpayers must have some common motives for retaining these readily realisable funds, in most cases that means in ISA's, which have been advised and managed with the assistance of conscientious advisers.

Most taxpayers do this as an insurance against costly unforeseen future circumstances that might impact them or their families. Of course, ISAs are great vehicles, promoted by the government to encourage saving by means of exemptions from higher rate income tax and capital gains tax. Superb vehicles for accumulating wealth but not for protecting it.

There comes a time, unfortunately, when these very useful but minor benefits are dwarfed by the later impact of inheritance tax at a full 40% of total asset value.

The benefit scales turn against ISAs at about the ages of 65 to 70, maybe slightly earlier, because life expectations at that age can allow the seven-year rule to extinguish that nasty potential IHT bill altogether. Many taxpayers will survive 14 years and may therefore be able to have two bites of this beneficial cherry.

The 'assurance' aspects required in later life – family access to those funds if and when needed – can be secured by surrendering ISA funds up to the taxpayers remaining IHT Nil Rate Band[2] and reinvesting in the same assets within a family discretionary trust.

No insurance funds required, just switching the same funds, managed by the same adviser, into an appropriate settlement (trust) managed by trustworthy corporate trustees operating with guidance from the Settlor.

As an example of the benefits – trust versus ISA – on death after 10 years, the net funds available (identically invested and assuming normal trustee fees) would likely be 44% higher than if retained in ISAs, by avoiding the death taxes.

Clearly, advice firms should take this issue seriously in order not to disadvantage longstanding and loyal ISA clients. If advisers are shy of offering trust advice, then professional trustees will assist those clients, leaving the adviser to offer the ongoing investment advice, as before, with ongoing fees paid by the trust.

Notes: An explanation of these principles is clearly laid out on the website www.acrobattrust.co.uk

[1] www.gov.uk/government/statistics/inheritance-tax-statistics-commentary -
[2] The Nil Rate Band for Inheritance Tax is currently a 'frozen' £325,000 per person (excluding the Residence Nil Rate Band, which cannot be used in advance).

Key Statistics from the HMRC report

Annual increase in deaths leading to an IHT charge – 4% more taxpayers paying IHT than previous year:

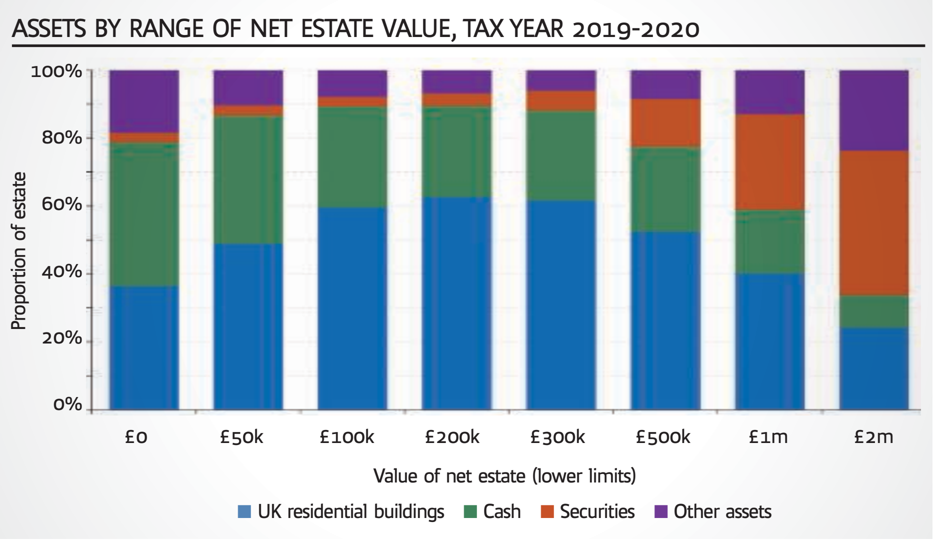
- The amount of tax collected in the tax year 2019/20 amounted to £4.96 billion
- The following year 2020/21 saw an increase of 14% to £6.1 billion.

Of the £4,960m total IHT collected in 2019/20, the following amounts were collected from deaths:

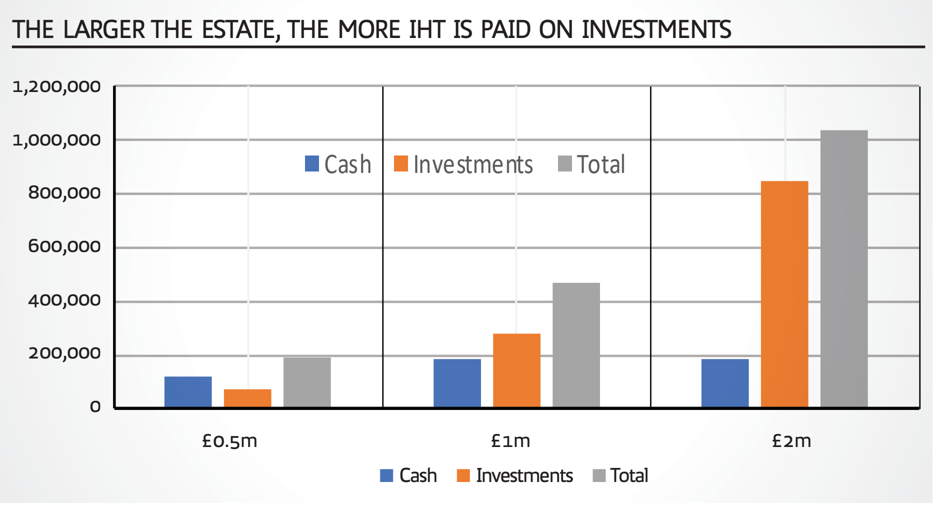
- 18% or £860 million was collected from those who died aged up to 74 years
- 24% or £1,200 million was collected from those aged 75 to 84 years
- 58% or £2,900 million was collected from those aged over 85 years

(Is this an indication that the wealthier live longer – and have more time to plan?)

The report indicates that the amount of wealth held in cash/investments rises dramatically with both age and overall wealth. The following chart appears in the report:



Put another more understandable way (not included in this format in the HMRC report):



A large proportion of this IHT taxable 'investment wealth' is very often held in ISA accounts and thereby unnecessarily suffers 40% tax on death. The above chart does not include property assets.

BEYOND A TECHNICAL EXERCISE

We can help clients better understand their estate planning if we reframe how we approach it, argues Dan Atkinson, head of Technical, Paradigm Norton Financial Planning

As paraplanning professionals, often the work we do is deeply technical. It is our responsibility to know and understand the detail. Recently I spent some time looking at estate planning. Here are just a few of the rabbit holes you could dive down:

- Inheritance tax calculations
- Pension death benefit nominations
- Trusts
- Gifts
- Protection
- Tenants in common v Joint tenants
- Business relief
- Life expectancy analysis.

This is an area which can get complicated very quickly. For paraplanners this is quite exciting, but for clients it can be rather daunting. Rather than being a technical exercise I think we have an opportunity to have a tremendous impact if we reframe things.

Financial planning includes the technical aspect, but what we really want to deliver is the empowerment of clients to make great decisions. Yes, some decisions may be slightly technical, but the important ones relate to how they live their lives. The money is the means of funding the bringing to life of these decisions.

One of the key tools we use is a timeline. We collaborate with clients to identify the things they anticipate happening or desire to bring about. This might be retirement, long term care, education funding. Or it might be items from a bucket list, aspects of the world they want to change, or something which keeps them up at night. Having clarified both what and when, we can put a cost (or change in income) against it. Having established this, we can delve into detail and technical solutions to serve these priorities.

Financial planning includes the technical aspect, but what we really want to deliver is the empowerment of clients to make great decisions

It strikes me that when financial planning professionals approach estate planning, we tend not to take this approach – or at least not with the same rigour. Often our work revolves around identifying the current IHT liability and building tax planning strategies to mitigate it. We start with the detail and the solution rather than fully exploring goals. The opposite to our normal approach.

My reason for exploring estate planning was to create a new guide to the subject for our clients. Having made the observation above I decided to start from the other end. How can we establish and understand what they want to achieve? What helpful questions, structures, or tools can we provide to explore this?

Only once this has been established is it appropriate to move on to sharing any technical concepts like the Nil Rate Band and gifts.

The document we put together does precisely this. We start with a handful of simple questions to establish who (and who not), what impact they want to have on the recipient, and timing. Having started the conversation, we use the familiar framework of a timeline and introduce the dimension of control/access. This isn't about rigid science, but more about brainstorming and making it easier to put pen to paper. As people think in different ways, we have provided clients with a few different styles of tool. Of course, we include technical information for those who want to read it, but they approach it having thought about what they want to see happen rather than just the tax.

Taking this approach will give us greater clarity around objectives which will translate into more engaging (easier to write and hopefully shorter!) reports. Estate planning is about leaving a legacy – not avoiding tax! So why don't we try to tackle it that way?

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DISCUSSION ON THE DANCE FLOOR

In their second article for Professional Paraplanner, Sara Hickman and Rhi Baxter of the We Are BRAVE training consultancy, look at how people can assess their approach to create better conversations

Do you find it hard to get your voice heard or are you the one who dominates a meeting? Do you know how to speak 'up' and how to speak 'down'? Does it even matter? In the overall financial planning process, it really matters. Better discussions lead to better customer outcomes.

When discussions work well, when we contribute (speak 'up') and when we listen (speak 'down'), we leave meetings better informed and with a personal sense of achievement. The latter is not only good personally but is key to help teams avoid the current phenomenon of 'silent quitting'.

Too often we pay attention to what we want to say but not necessarily how we have the discussion. Think about a conversational dance floor. When you're chatting with your friends there is a dance happening: you make space for each other, you contribute in time to the music, you might even do things to encourage each other such as smiling at their (hilarious) dance moves. There's a possibility you may take the floor for a while when you bring out your signature move (Caterpillar, anyone?) but at some point you know it's time to step back and let someone else have their turn.

These dance moves are critical conversational skills: listening, contributing appropriately, encouraging each other, taking up space when needed, allowing others their turn.

So, why is it hard to translate these skills to more challenging work discussions? Well, it appears we forget the art of the dance.

We know that can be for a number of reasons; maybe you're just not interested in what that person has to say, maybe you (occasionally) do it on purpose because the relationship is damaged? In our experience it can be as simple as a preference for how you contribute. That 'how' is a preference and it can increase in strength when a conversation involves a level of disagreement and therefore a level of discomfort. We are simply not comfortable with being uncomfortable and as a result, certain communication characteristics jump forward and take us by surprise because we're out of our comfort zone: the skills we subconsciously rely on during a friendly conversational dance, will leave us high and dry when it gets more difficult.

You can read our article on comfort zones, *Being brave to grow*, in the September issue of *Professional Paraplanner* and on the website.

> ***Like that signature dance move, own it and be proud of it and at the same time take steps to ensure you don't inadvertently kick your friends in the shins***

Where to start?

Step 1: Identify the preference

The first place to start is self-awareness. Take a moment and see if you can identify your behaviours in any of the following characteristics.

When in discussion:

- You actively share your knowledge and ideas with others: you may be one of the first to speak.
- You find yourself saying a lot as it helps you clarify your thinking: you might describe it as thinking outside of your head.
- When you speak, it's not always a final decision or conclusion: though people sometimes mistake it for that.
- You worry about or dislike the silence (and often fill it).

Or, when in discussion:

- You pay close attention when others are talking: you may be one of the last to speak.
- You find yourself thinking a lot to get words in order before speaking: you might have full conversations inside your head.
- When you speak, it's often when your ideas are fully formed: in general you do not contribute 'top of head' responses.
- Silence is helpful as you can hear your thoughts more clearly: people sometimes mistake it for no contribution or a lack of interest.

In our experience, if you identify more with the first set of characteristics you are likely to speak 'up' more in conversations. If it is the second set, you are likely to have a preference to speak 'down'.

What does that mean for me?

Speaking 'up' is a great skill. You are likely to express yourself in meetings and be comfortable with getting your point across. However, on the flip side

you may dominate discussions and leave no space for others to contribute. You may also place less value on the speak 'down' preference: expecting immediate responses rather than allowing time for reflection, perhaps misunderstanding reflection for a lack of contribution.

Speaking 'down' is a great skill. You are likely to listen to others and process information before you add to the discussion, making sure your input is well-considered. However, on the flipside you may wait for others to start a discussion and if they don't, you may leave without having contributed. You may also place less value on the speak 'up' preference: waiting for them to make space for you and perhaps misunderstanding their energy for a lack of consideration.

What can i do?

Step 2: Own it: yes, all of it.

Our strongest recommendation is not to change the brilliance that comes with your preference but to become aware of the impact of that flipside.

Like that signature dance move, own it and be proud of it and at the same time take steps to ensure you don't inadvertently kick your friends in the shins. Remember, it's highly likely that you do some of these things quite naturally during comfortable conversations.

It's when we get uncomfortable that we need to take conscious steps to work with our preference.

For those who speak 'up' more naturally, actively take steps to speak 'down':

- Ask a trusted person in your meetings to nudge you verbally: ask them to say "we've not heard from everyone yet" as a gentle reminder.
- Take a back seat: let others speak first or if that's not possible ask a question and write down what they say first rather than responding verbally.
- When you ask a question, add the statement "it's OK if you want to reflect on this first" or "let's take a few minutes to reflect before we go any further".
- Make it explicit when you're organising your thoughts outside your head as it helps people to know what they need to pay attention to. For example say "this is my first thinking, not my final conclusion" or "I need to say this to get it clear in my head".

For those who speak 'down' more naturally, actively take steps to speak 'up':

- Ask a trusted person in your meetings to nudge you verbally: ask them to say "I know (Sara) has some thoughts to add".
- Actively contribute even if it feels as though you're interrupting: be prepared to jump in and say "I'd like to add my thoughts to this discussion" or if you're missed out "I did not have a chance to add my point of view".
- If you are asked a question and you're not certain of your response state you need time to reflect first. If pushed, you can always respond with a caveat for example: "this is not my full answer" or "I'm only 50% sure about this".
- When you speak 'up', make it explicit that you have spent time thinking about your contribution so it can be weighted appropriately in the discussion. For example "I have spent time considering this" or "this is not a top-of-head response".

Above all else, remember it's a dance floor not a boxing ring. Think of these techniques as helping the flow of the conversation, helping how it happens not just focussing on what is being discussed. You are creating space, not kicking shins.

What's in it for me?

Step 3: Remember the purpose

These techniques are not about changing you, it's about better conversations. Speaking with confidence, clarity and vision is key to better discussions and making space for those discussions is everyone's responsibility.

We know that better discussions lead to well-informed decision-making and the skills to speak 'up' and speak 'down' are critical to this process. In the end, regardless of our roles, the purpose of better conversations is to achieve quality financial outcomes.

You can learn more about a whole host of topics and thought leadership on the We Are Brave LinkedIn page or website. www.wearebrave.co.uk

IMPOSTER SYNDROME

Everyone can have moments of self-doubt but are they a bad thing? Alan Gow, director Argonaut Paraplanning and PFS Paraplanner Panel member takes a view

We all have a bad day at the office from time to time. It might be because of a colleague, the boss, or a case you're working on. Sometimes the reason can be clearly identified, but on other occasions you might have a general sense of discontent and you can't quite put a finger on the cause.

One particular source of consternation for me is a topic that's getting talked about more and more – and I don't think I'm alone in saying – I sometimes find myself wrestling with imposter syndrome.

For me, right now, as my business has grown to a great little team of five paraplanners, imposter syndrome has taken the form of self-doubt around my management skills. After all, I'm a paraplanner, not a manager. On other days, it might be something else. I'm a bit of a worrier at the best of times, but as far as I can tell, this is something lots of people experience. Is anyone immune to self-doubt?

We work in a complex industry, with lots of moving parts. FCA papers, guidance, legislation, court cases; things seem to be changing all the time. There are lots of trip hazards out there. Sometimes your confidence takes a knock. Maybe you made a mistake on a case. Maybe there are complex technical points you don't fully understand yet. Perhaps you've never written a report for (insert your nightmare planning scenario here) and one day soon, you're going to get found out.

Unless you're some kind of super-paraplanner with a photographic memory and an ego of reinforced concrete, you've probably found your internal monologue telling you you're not as good as the next person. Maybe it's rare, or maybe your self-doubt eats away at you almost daily.

To add to this, and the pressure of work, our days are topped and tailed by personal issues and worries. Some days you wonder how come you're an adult now, responsible for paying rent/mortgage, maybe raising kids – and you've generally had no formal training for that stuff. It's a bit much isn't it?

It's only in recent years, as we've become both more open and more tolerant in society (at least in terms of mental health) that I've realised imposter syndrome is common. Widespread, even.

It's good to have self-doubt. It keeps our feet on the ground. It opens our eyes. It motivates us to engage. If you suffer from imposter syndrome, remind yourself of the following:

- Absolutely everyone gets stuff wrong. Sometimes badly wrong. This might not make it ok, but at least you're not alone.
- There's a constant push and pull between accepting who you are and trying to be better. As I learned at a recent event aimed at improving my management skills – seek progress, not perfection.
- There's no benefit in comparing your weaknesses to someone else's strengths.
- Everyone has room for growth.
- You don't need to know everything; but it helps to know where to look for answers.

It's also helpful to surround yourself with your peers by attending events such as the PFS Paraplanner HQ monthly networking sessions and the Purely Paraplanning conferences. As I see it, the three main benefits are:

- Learning new things, whether it's technical point or ways to work smarter.
- Sharing stuff that you know with other people.
- Re-establishing the areas where you're pretty solid and which don't really need your attention.

There's a cycle here, because the more you learn, the more you can share, and the more you share, the more your sense of achievement, and the more confident you become.

Of course, I don't really know how anyone else feels inside, and I'm not sure what gives me the right to write an article on imposter syndrome; I'm just an imposter after all. Like you.

It's only in recent years, as we've become both more open and more tolerant in society (at least in terms of mental health) that I've realised imposter syndrome is common. Widespread, even

CASH SAVINGS

Richard Cooper, business development manager, The London Institute of Banking & Finance, examines what the recent rise in cash account rates means for clients with cash, in terms of tax liability and protection of assets

In August, as inflation soared to the highest rate in over 40 years, the Bank of England Monetary Committee raised the base rate of interest by 0.5% – from 1.25% to 1.75%. This is the biggest single increase in 27 years. September saw rates increased by another 0.5% to 2.25% and economists are expecting further rises in the coming months.

This is also the first time since January 2009 that the base rate has been above 1.5% – a speedy rise since the historic low of 0.1% less than a year ago in November 2021.

Month	BOE Base Rate %
22 Sept 22	2.25
04 Aug 22	1.75
16 Jun 22	1.25
05 May 22	1.00
17 Mar 22	0.75
03 Feb 22	0.50
16 Dec 21	0.25
19 Mar 20	0.10

Of course, there's a knock-on effect on mortgage and lending rates. And while the spending power of cash savings is eroding, savings rates are starting to go up, so now's a good time to review your clients' savings.

This is for two reasons. The first is to ensure your clients are getting the best

possible rates. Only 18 months ago you'd get better rates on instant access accounts than you would on individual savings accounts (ISAs). In addition, not all banks and building societies have passed on the full interest rate rise to savers and many are limiting the amount that can be held on deposit that receive the best rates.

Secondly, you'll want to make sure your clients are using the most tax-efficient savings vehicle. Saving rates, like mortgage rates, are almost changing weekly and they are going up. A growing number of savings accounts are offering between 3% and 4% interest. Cash ISA rates are also increasing and are now approaching 3% for two-year fixed rate with access. However, the more interest a client gets from savings, the more likely they are to have to pay income tax on their savings.

Why savings may become taxable

Interest on savings is mainly paid gross, but, due to historically low rates, most savers have not earned enough interest to pay any income tax on savings from bank and building society deposits in recent years. The introduction of the 'personal savings allowance' in April 2016 introduced two limits on the amount of interest earned before individuals were liable to income tax on their savings:

- basic rate taxpayers can earn up to £1,000 interest a year before tax
- higher rate taxpayers can earn £500 interest a year before tax.

Additional-rate taxpayers have no personal savings allowance' and are liable to pay tax on all their savings interest.

While the spending power of cash savings is eroding, savings rates are starting to go up, so now's a good time to review your clients' savings

Client example

Our client, Paula Brown is a 67-year-old widow and a basic rate taxpayer, with:

- investments of £250,000
- cash ISAs valued at £100,000, and
- savings of £125,000.

Because of low rates on her ISA savings, Paula has not added to her cash ISA for the

last three years. Her cash ISA is with the same provider as her savings and only pays interest of 0.45%, which comes to £450 a year. This is, of course, tax exempt.

Her savings are distributed between two accounts. In one – an instant access account – she has £25,000 on which she received 0.4% (£100) and now receives 0.7% (£175). In the other, £100,000 was in a two-year fixed savings bond with the same bank at 0.75% (£750). Her bond providers have offered a new two-year fixed rate at 3% with interest added twice a year, in February and August.

Last year, the total interest from her savings was £850. She had no further tax liability on her savings interest as it was below the £1,000 personal savings allowance. This tax year, due to the increase in savings rates, the gross interest received from her savings will be £2,050. Next tax year it will be £3,175. In other words, her savings income has now become taxable.

After allowing for the personal savings allowance, the additional tax liability will be 20% in:

- 2022/23, 20% on £1,050 = £210
- 2023/24, 20% on £2,175 = £435.

Assuming no further changes to savings rates, the net income from her cash ISA and savings accounts will be £2,290 in 2022/23 and £3,190 in 2023/24.

Are savings safe?

Deposits in UK authorised banks, building societies and credit unions are protected by the Financial Services Compensation Scheme (FSCS) up to the value of £85,000 per person in case they go bust (£170,000 for joint accounts).

However, if banks are part of the same UK-authorised banking group, the total protection may be shared should that banking group (or multiple subsidiaries) fail. You need to make sure your clients are aware of that. In Paula's case we could suggest the following changes:

- add £20,000 from her current fixed-rate bond to her ISA portfolio, split equally with £60,000 over two unconnected banks each paying 2.75% on a two-year access cash ISA
- only add £60,000 from her current fixed-rate bond to the two-year roll-over bond at 3%
- add another £20,000 from her current fixed-rate bond to a one-year bond in an unconnected bank, interest paid annually at 2.5% and move into a cash ISA next year
- keep the instant access account.

This would mean that Paula Brown's tax free income from her ISA and net income from her cash savings would increase significantly:

- from £2,290 to £3,375 in 2022/23, and
- from £3,190 to £5,315 in 2023/24.

And another bonus is we've removed the institutional risk of losing her savings by ensuring she has £85,000 or less in any connected UK bank or building society.

PARAMETERS

Parameters returns and this issue we asked you for your views on the M&A/ consolidation/ private equity activity occurring in the market

DO YOU BELIEVE THE M&A/ CONSOLIDATION/ PRIVATE EQUITY ACTIVITY IN THE FINANCIAL ADVICE MARKET IS BENEFICIAL FOR FINANCIAL PLANNING AS A PROFESSION?

YES	23%
NO	32%
UNSURE	46%

Nearly a third of paraplanners do not believe that consolidation and M&A activity in the financial advice market is beneficial for financial planning as a profession, according to *Professional Paraplanner*'s latest Parameters survey.

The benefits of consolidation

Among those who felt consolidation and M&A activity was of benefit, many felt it presented more opportunities for smaller firms, helping them to achieve economies of scale.

One commented: "The attraction of private equity to business owners in the wealth management sector lies in the ongoing expertise, capital and access to networks which the private equity investor is able to provide, enabling wealth management business owners to take their business to the next step whilst retaining overall control of their day-to-day business."

Others noted that the rising cost of professional indemnity can make it harder to run a profitable small advisory firm, while increasing regulation and administrative demands are taking their toll on small firms.

According to one respondent: "The increasing amount of regulatory responsibilities on directors for advice firms from SM&CR and Consumer Duty as well as the withdrawal of PI cover for defined benefit transfers by providers are very onerous for smaller firms. M&A and private equity have the potential to add to the compliance and financial stability of a firm."

Many paraplanners also agreed that consolidation would ultimately benefit clients. One said: "The cost of providing decent suitable advice is high and this will help fund systems, tools, processes and indeed well skilled staff, which in turn can only result in better client outcomes."

Another added: "I think there are too many small and one-person businesses and with an ageing profession, I would hope that mergers / consolidations would invigorate the advisory sector, bring in new talent and improve the standard of financial advice."

The cons of consolidation

Amongst the 32% of paraplanners who did not feel consolidation benefits the financial planning profession, many expressed concerns that deals were driven by money rather than a desire to improve client outcomes.

One said: "There needs to be a good level of choice for consumers. Not everyone needs the full service, however consolidation leads to a smaller marketplace. Private equity is not a good thing in financial advice as they are generally only interested in making money to then sell on – they're not interested in actual client needs and objectives which is what financial advice should be about."

Another paraplanner commented: "A lot of consolidations are done to increase assets under management and the service level to the clients gets worse. Also, private equity often has a short-term timeframe where they will try to sell the business on in a couple of years."

The sentiment was echoed by a fellow respondent, who noted: "Larger companies care less about people – both employees and clients – because they are too far removed. Private equity only cares about shareholders. Greed and distance are a giant magnet next to your moral compass."

There was also concern that greater consolidation in the market would lead to a lack of competition and diversification in the long term.

"I feel too much activity in this area would take away the competition and could end up becoming more costly for clients / end consumers. Too many companies are becoming too big and that impacts massively on the quality of customer service they are able to offer," said one respondent.

Another who said they had experience of consolidation, commented: "Clients are being shoehorned into a proposition without any consideration as to personal circumstances and suitability assessment appears to be a tick-box exercise. The firm provides little to no customer service value and the clients are unaware of the difference this will make until it's too late." They added that clients were already transferring out of the new proposition.

Others expressed concern that consolidation will "quash the creative flair of independent planning", with "small independents eventually driven out as the supermarket style bigger players take over".

"We will end up with fewer larger firms. Advice will become less personal and more process driven. Square pegs will be banged into round holes."

TWO INCOME TAX BREAKS

This issue, the Brand Financial Planning team consider tax reductions which exist for those who are married or in a civil partnership

We all want to make sure that we are paying no more than the correct amount of income tax. This means ensuring that we use all of the tax reliefs and allowances available to us.

In this article, we look at the two income tax breaks that are available to those who are either married or in a civil partnership. Although both are called allowances, they are actually tax reducers.

The Married Couple's Allowance (MCA)

For those eligible, the MCA can reduce income tax liability by between £364 and £941.50 in the current tax year.

To claim the MCA:

- The individual must be married or in a civil partnership; and
- living with their spouse/civil partner (although a claim can still be made if one is in residential care).
- Also, one of the couple must have been born before 6 April 1935 (i.e. they must be at least 87 this tax year).

For those that married before 5 December 2005, it is the husband's income that is used to work out the amount to be received; after this date it is the highest earner's income that is used. The maximum amount given as a reduction in someone's income tax liability is 10% of £9,415. If someone has adjusted net income of more than £31,400, then the MCA is reduced by £1 for every £2 over this amount, until the MCA is reduced to its minimum floor of £3,640.

Example:

Sidney, aged 83, qualifies for the MCA because he is married to Mabel and Mabel is aged 88. He has pension income of £29,000 and he also receives interest from his building society account of £4,200. Mabel receives a State Pension of £9,400 so does not pay income tax.

As Sidney's total income is more than £31,400, the MCA is reduced by £1 for every £2 his income is over £31,400.

£33,200 - £31,400 = £1,800 / 2 = £900. The MCA therefore reduces from £9,415 - £900 = £8,515. Remember, this is a tax reducer, so £851.50 is deducted from Sidney's income tax liability.

The Marriage Allowance

The marriage allowance gives income tax relief as well, but it only applies to couples who meet the following conditions:

- Couples need to be married or in a civil partnership.
- The spouse wishing to transfer must have an income of less than £12,570.
- The spouse receiving the transferred allowance must not be a higher-rate taxpayer.

This therefore only benefits couples where one doesn't earn enough income to use their full personal allowance (less than £12,570) and the other one is paying tax at no more than the basic rate. The amount that can be transferred this tax year is £1,260 (rounded up from £1,257)

Example:

Barbara receives an annual State pension of £4,000. Her personal allowance is £12,570 so she can transfer the full £1,260 to her husband Michael, assuming he is eligible to receive it. Michael is also retired and receives £20,000 per year made up of private and State pension.

After we deduct Michael's personal allowance of £12,570, he has a 20% income liability on £7,430 which is £1,486. The personal allowance tax reduction of £252 (£1,260 x 20%) can then be taken from this leaving him with a total income tax liability of £1,234.

In summary, both allowances are tax reducers for those married or in civil partnerships (neither can be claimed if couples are just living together). For those born before 6 April 1935, it is more beneficial to claim the (more generous) MCA. In this tax year, the MCA will reduce income tax by at least £364, whereas the marriage allowance only gives a reduction of £252.

It is not possible to receive the marriage allowance and the MCA at the same time.

About Brand Financial Training

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

IT'S TIME TO BE BETTER!

How do we measure how good we are at our roles outside of success in exams? Michelle Hoskin, founder and director at Standards International believes standards are one way to measure and elevate performance at individual and firm level

In a world where professional qualifications have become a global obsession it's time to change our approach. Qualifications have, and will always have, their place. They are the foundation of financial professionals', including paraplanners', expertise.

But given the increase in demands from regulatory and professional bodies and consumers, there needs to be a greater focus on quality over qualifications.

It is true that many of us could study, sit and pass many of the academic technical examinations that are available today. In fact, if we study hard enough we may even pass with flying colours. However, does this make us any good in our roles?

Qualifications alone do not equip us with the skills and abilities to make us amazing at our jobs – there is so much more to it than that. As a profession we are becoming more demanding.

This, combined with a cut throat and highly competitive recruitment market, means firms are struggling to find great quality people who can actually do the job. Added to that is the fact that people are struggling to find firms that are actually as good on the inside as they look on the outside.

Professional standards for best practice give an idea about what this quality should be. For more than 10 years, financial services has had its own international standard. BS ISO 22222:2005 Personal financial planning – Requirements for personal financial planners was designed by global sector experts and took more than seven years to create. Once it was launched, it opened up the flood gates for more professional standards.

Qualifications alone do not equip us with the skills and abilities to make us amazing at our jobs – there is so much more to it than that

Financial services has four of its own international, British and sector specific standards. These all set the benchmark for excellence in business and practice management, compliance, financial planning and paraplanning.

Design of any sector specific standard is always demand led, driven by an industry's marketplace, and these standards were no different. The current process of standards certification validates that you can, and do, what you say you do. A broad and deep review of 'evidence' is the only proof that you and/your business have met the highest possible standards in everything that you do, all of the time. So how can these help focus on quality and elevate adviser businesses? Below are a few ideas.

1) Broaden your view of who the client is. You have both internal and external clients. Inevitably when you focus on serving only the needs of your external clients, you put unnecessary pressure on your internal clients: your team.
2) When designing anything new, whether that be a client mailer, a new role or a new process, consider a more rounded view. Prioritise what you are trying to achieve, to add value to the intended client.
3) Capture all feedback – good, bad, internal, external – and log it. As a profession we are still scared of feedback (one of Treating Customers Fairly's lesser positive outcomes) because of its connection with complaints. It has to be relevant, timely and compliant so vary the questions. This will enable you to get to the heart of what you are trying to find out.
4) Once you have your feedback, review it at team and leadership meetings. Make sure communication is fluid and consistent between key people, and always agree as a team what corrective actions are needed. This ensures that whatever you did that was so positive can be repeated, and anything that didn't go so well can be adapted to avoid it from happening again.

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 2023.

1. Which of the following can be directly attributed to the impact of taxation?

- A The difference in growth rates between property and cash
- B The individual's ability to make investments
- C The cost of providing State benefits to those in financial difficulty
- D The use of quantitative easing following the financial crisis

2. The COVID-19 pandemic can be regarded as what type of risk?

- A Beta risk
- B Non-systematic risk
- C Systematic risk
- D Specific risk

3. Suzy has recently become employed following a period of self-employment and has discovered she has paid too much in National Insurance contributions through her employer's payroll. What can she expect to happen to rectify this situation?

- A She will automatically be credited with the overpayment as a lump sum at the end of the tax year
- B Her National Insurance code will be adjusted immediately to reflect the overpayment
- C Her Pay As You Earn code will be adjusted immediately to reflect the overpayment
- D The over payment will be used to cover any underpayment that occurred whilst she was self-employed before any repayment is made to her

4. Madeline has made a successful claim for Bereavement Support Payment at the higher rate. This is because she:

- A Has earnings under the primary contribution threshold
- B Is claiming child benefit for her two children
- C Has paid National Insurance contributions at the higher rate for 25 weeks
- D Is over State pension age and has been UK resident for at least 12 months

5. Vivienne wants to apply for a mortgage payment protection insurance policy. A typical eligibility condition is that she must:

- A Be aged between 21 and 60
- B Have been employed/self-employed continuously for the last 6 months
- C Be currently working for at least 30 hours per week
- D Not have any pre-existing medical conditions

6. Neil has the following investments:

Share	Beta
A	1.0
B	1.2
C	1.5
D	1.8

From this information, we can say that:

- A Investment D is more volatile than the others
- B Investment D will give the best returns
- C Investment B and C are also known as defensive securities
- D Investment A is also known as an aggressive security

7. On liquidation of a company, which of the following is given the highest priority ranking if there are NOT enough funds to satisfy all demands?

- A Ordinary shareholders
- B Redeemable preference shareholders
- C Unsecured creditors
- D Secured creditors

8. Roberta has been assessed as needing residential care and has a portfolio of unit trusts valued at £250,000 – how could this be used to fund her care needs?

- A The capital could be used
- B The dividends could be used
- C The dividends could be used to fund a protection contract
- D Both the dividends and the capital could be used

9. What happens to the maximum loan to value (LTV) that a lender will consider offering under a lifetime mortgage as a borrower gets older? The LTV:

- A Increases
- B Reduces
- C Stays the same
- D Has no correlation to the client's age

10. Guy is considering entering the buy-to-let market for the first time with a view to supplementing his income and maybe making a profit on the sale of the property in a few years' time. Which of the following could hinder a successful application for a buy-to-let mortgage?

- A Guy is planning to let the property through a local registered letting agency
- B Guy's intention is to let the property under a shorthold tenancy agreement
- C Guy has worked for the same company for 10 years and earns £78,000 per year
- D The purchase price of the property is £240,000 and Guy has a deposit of £15,000

Last issue's answers

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

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

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 SEMINAR: 13 OCTOBER 2022

Register now for our first LIVE Investment Committee Seminar of 2022, taking place in London on 13 October 2022. Speakers include, Fidelity International, Scottish Mortgage, Ninety One, the AIC, TIME Investments and Apricity Compliance on Consumer Duty and paraplanning. If you are researching and recommending investments for client portfolios, MPS, CIPs and CRPs, this is must attend event for you.

REGISTER TO ATTEND via our daily email alerts or under the Events tab on the Professional Paraplanner website.

INCOME VS INFLATION

If inflation is now structural, investors need well-run income-paying funds, says David Jane of the Premier Miton Macro Thematic Multi Asset team

Inflation is one of the single most important challenges facing portfolio managers. If inflation is a temporary, cyclical phenomenon, as a result of pent up demand and consumer support programmes during the lockdowns, then the old investment paradigms will reassert. However, if we have gone through a structural change, I believe portfolio construction needs to change.

The arguments in favour of temporary inflation surround the nature of the interventions which took place during lockdowns. Obviously, the closing of much of the global economy was a temporary measure, as were the income support measures which to some degree sustained demand during and after lockdowns. These disruptions are now settling down and working their way through the system. Income support measures are rolling off, supply chain disruptions are beginning to ease and consumer desire to get out and spend is abating. Indeed, the global economy appears to be heading for a contraction, which is inevitably disinflationary in the near term.

However, these deflationary trends need to be considered in the context of some more structural factors. Let's start with the basic nature of the global economy. From the late 1980s until the last 5 or 10 years, the bulk of the world's economy could be considered to be free market or moving in a more free market direction.

Recent trends, however, have been much more in the managed economy direction. A more top-down interventionist world is likely a more inflationary world.

An example of structural inflationary trends, is the interventionist energy policy that has aggressively been pursued in the west. Subsidies for renewables, combined with discouragement of fossil fuels and nuclear have given rise to higher inflation and lower productivity. The same can be said of the policies that have prevented investment in other heavy industries in the west. A lack of flexibility has been built into our economic systems as a consequence of policy, which ultimately has structurally increased inflation.

Now inflation has become an issue, I see governments the world over making the same mistakes as in previous inflationary periods. Inflation at its heart is too much demand (money) chasing too little supply. Yet nothing is being done to address the supply side of the problem. Interventions are taking place which support people's incomes, thus boosting demand. This will only exacerbate inflationary pressures. However, these are the only politically acceptable interventions as long-term solutions are politically painful.

There are many other potentially inflationary factors at play in the world economy, including the retreat of globalisation, lack of investment in new mineral production, structurally increased transport costs due to regulation, and so on. We lean towards the higher for longer view on inflation for the coming years.

Need for a different approach?

If inflation is structural, investors, particularly those close to or post retirement may need to consider taking a different approach than the current norm. At present many investors, even those post retirement, are given a total return portfolio. The idea being that capital gains can be booked to provide cash income in retirement. There are two increasingly obvious problems with this approach.

Firstly, in a higher inflation environment growth as a strategy typically underperforms value and real assets. This exacerbates the potential problem with a drawdown strategy for income in retirement. In drawdown, investors who want a fixed monthly income must sell more units or shares of their investment when markets are weak and less when they are high. This is the reverse of pound cost averaging and can be a very damaging strategy. This can be especially damaging in more volatile markets.

The second problem is that in higher inflation periods, investors will also potentially need to draw a higher level of income from their portfolios and will face the same problem of having to sell more units or shares of their investment when markets are weak and less when they are high.

Much simpler is to use natural income strategies, receiving the income paid out from underlying holdings, for example from dividends, rather than chasing capital gains. You can also seek natural income strategies that focus on providing a growing income over time.

This may be a very good time to consider whether your retirement income propositions are well positioned to meet the needs of income-seeking investors in different types of investment and economic environments, including periods of higher inflation.

UK SMALL CAPS

While UK small caps are considered a riskier investment, paraplanners can take advantage of volatility in the sector, says Darius McDermott, managing director, FundCalibre

It's been a case of feast or famine for UK small caps in recent years. The left-right combination of Brexit and a global pandemic could justifiably floor any small company in that time – as ongoing concerns impacted both sentiment and cashflow (liquidity). But to me, small caps have shown incredible resiliency to survive and, in many cases, flourish.

The past 20 months or so really have encapsulated the sector's fortunes. A stellar return of 23 per cent in 2021[1] has been followed by an exceptionally challenging year-to-date as inflation and the threat of recession has seen the average fund fall over 25 per cent in that time[2].

The challenge for us is at what point does the hammering these stocks have taken become too big an opportunity to ignore? As investment managers we've always backed the view that mid and small-caps outperform long-term – they also historically lead markets out of a recession.

The Numis UK Smaller Companies Index has now fallen by 22 per cent from its September 2021 peak, while trailing seven-year returns from UK smaller companies are now approaching the lowest level since the benchmark was created in 1955 – with historical figures showing returns from small caps have never been negative on a seven-year view[3].

However, the pessimist in me questions just how close to the bottom we are. Whenever I hear the words "a lot of bad news is now in the price" I'm tempted to think the exact opposite. It was only in early August that the Bank of England predicted a 15-month recession, which will no doubt bring liquidity issues into play if the BoE is less willing to underpin the market. There's a reason why active management is particularly important in this sector.

TM Tellworth UK Smaller Companies manager Paul Marriage says the current

> ***We've always backed the view that mid and small-caps outperform long-term – they also historically lead markets out of a recession***

Investing in India – Pros and Cons

Pros
- ✓ Heavily under researched part of the market
- ✓ The average fund beats the index over all time periods
- ✓ Lots of diversification in terms of stocks and sectors
- ✓ Sold off, so valuations are more attractive

Cons
- ✗ Tend to be more domestic and underperform in difficult markets
- ✗ Performance can be extremely volatile
- ✗ Illiquidity can be a major issue

Funds to consider

Liontrust UK Micro-Cap fund looks to tap into early-stage companies with the potential for significant growth. To do this, the team only invests in profitable companies, which also have at least one intangible asset – these include a strong distribution network, high recurring revenues, or a strong brand.

Unicorn UK Smaller Companies is a high conviction fund with around 40 holdings. The manager focuses on company fundamentals and aims to make long-term investments, while avoiding low quality, cash-burning businesses. All companies must be profitable at the point of investment.

TB Amati UK Listed Smaller Companies focuses on structural growth businesses, which the managers believe can add value in the under-researched small and mid-cap part of the market. Valuation is important, and the managers love to buy cheap businesses when they can, but they think it is much more important to find the right companies first.

focus must be on the companies that have survived well in the past six months – having shown some pricing power. He highlights two specific issues. The first is that the market has been prone to ignoring good news for small companies in recent times – unless there has been a bid made on a specific business. This brings him to his second point – the uptick in M&A in the sector, something which he says has historically resulted in UK small-caps outperforming[4].

Artemis UK Smaller Companies fund manager Mark Niznik says although small caps have significantly underperformed the wider UK market recently, prolonged periods of underperformance have been rare, with UK small caps having historically outperformed two in every three years. As a result, he sees the current sell-off as a great buying opportunity, particularly as valuations now seem to be discounting a recession that is by no means certain in his view.

A recent research update from Franklin Templeton says UK small-caps are currently pricing in a lot of downgrades, with investor sentiment swinging to pessimism – as a result the team are finding opportunities in four specific market areas: digital economy, decarbonisation, consumer brands and content and IP creation[5].

Much will end up depending on a company's balance sheet strength. These firms have the flexibility to invest and grow in these uncertain periods in markets. It's effectively consolidation as the strong get stronger.

The final point I would like to make is the catch-up trade – which makes UK small-caps particularly attractive versus their global peers. Essentially, the discrepancy in performance between UK mid and small caps versus large in the past 12 months is even more pronounced because of the strong performance of the FTSE 100 due to its value tilt. In a nutshell, it could give UK small caps an even greater tailwind in the recovery phase.

Waiting for markets to bottom-out is a foolhardy strategy. Despite being battered, UK small caps have historically shown a great ability to bounce back quickly. They've also been incredible performers in the long-term. In my opinion, investors who shun them completely at these valuations do so at their own peril.

[1] Source: FE fundinfo, total returns in sterling, Investment Association UK Smaller Companies sector, 31 December 2020 to 31 December 2021
[2] Source: FE fundinfo, total returns in sterling, Investment Association UK Smaller Companies sector, 31 December 2021 to 1 September 2022
[3] Source: Artemis – UK Smaller Companies update, 4 August 2022
[4] Source: Tellworth UK Smaller Companies fund update, 4 March 2022
[5] Source: Franklin Templeton – Opportunities in UK-small and mid-cap equities, June 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.

UK OPPORTUNITIES

With the obvious headwinds of rising inflation and negative consumer sentiment, to what extent does the UK still present opportunities for investors? Rob Kingsbury spoke to Rachel Reutter, senior fund manager and analyst Eoghan Reid on the JOHCM UK Opportunities fund to see how they are positioning in the current market

Taking a realistic view of the market will be vital for UK investment as the country moves into recession and investors come under pressure from negative headlines and sentiment, according to the JOHCM UK Opportunities fund management team.

"The UK is a very unloved market at the moment, with outflows feeding into valuations – currently, the UK All Share is trading on around 15 times earnings," says Rachel Reutter, senior fund manager, JOHCM UK Opportunities fund. "UK companies are looking very cheap for where they are, particularly when compared to the over-valuations happening in other geographies. It's a great time to be looking at UK equities. I have been working on the fund for 10 years and I've not seen these levels of valuation opportunities in that period."

Nevertheless, when investing in the UK you have to be "incredibly selective and forward thinking", she adds. "There is a lot of binary thought around the UK in terms of is it growth or is it value and as a fund we've trodden a line in between that. We don't believe in growth at any price, because some high growth companies don't have recurring cashflows or business models we like, and we won't speculate with our clients' capital by investing in them.

"On the other end of the spectrum, neither will we invest in companies in the deep value end, companies with too much debt or disintermediation risks." Banks are one example of this, she says, with the team believing they face disintermediation headwinds.

The fund holds 29 companies in its portfolio and is benchmark agnostic, with a focus on multi-product, multi-geography businesses – 70% of earnings in the fund come from overseas.

It's a great time to be looking at UK equities. I have been working on the fund for 10 years and I've not seen these levels of valuation opportunities in that period

The perception of the FTSE 350 is that it is dominated by low growth sectors, Reutter says, but looking at the index in terms of the number of companies by sector, paints a different picture. For example, technology may only account for 4% in terms of sector weighting, against banks with 9%. Yet there are 20 technology companies against only 9 banks*. Viewing investment through this framework is where the team sees opportunities.

Reutter says the fund is currently trading on an 8% free cashflow yield. "This equates to a p/e of just over 13 times, which is currently cheaper than the All Share." On conservative forecasts the team believes the companies in the fund can grow cashflows at around 14% per year for the next three years. "We have a

cheaper valuation and a better growth profile than the average of the UK market," she says.

Three-part process

The team looks for companies with good thematic tailwinds – it has around 10 different themes in the fund – which promise sustainable cashflow over the longer term, with the aim to help grow and preserve clients' capital.

When it comes to finding the right companies, Reutter says, there are three parts to the team's investment process.

The first is finding structural growth tailwinds – "we want to be owning the companies with the strongest growth credentials" – opportunities where changes in society and demand are occurring; themes that will help companies grow despite the negative outlook. She cites here, companies involved in energy transition – "this is an area where the UK is on the front foot" – from utility companies building wind farms in Scotland through to engineering companies which are essential to building products needed to improve energy efficiency.

The second is finding quality companies with management teams who will invest and run appropriate balance sheets. "We're looking for management teams with backbone, who have been investing in the good times and are prepared to focus their cashflow on investing and opportunities rather than share buy backs and M&A.

Here, companies that will engage heavily with the team are also top of the list. "We have live engagements with 24 of the 29 companies in the fund. Sustainability is a huge part to what we do. This is not box ticking but engaging at incredible levels of detail. For example, we are talking with Next about plastics use. People think that is what every active manager is doing but we've found we are in the minority. We feel our role in holding management to account is very important."

The third part of the process is valuation control and not overpaying for a company.

The team invests in companies with reliable cashflows and it expects and encourages management to invest back into their businesses to sustain future growth. "Those companies who have invested in the good times, and have a strong balance sheet, strong recurring revenues, we see as being well positioned and will be the ones to gain market share in this period of economic downturn."

In terms of perception when it comes to individual companies, Next is one highlighted by Reutter and Reid, as being thought of as a retail store business, but which in fact is well placed for the future. "Next is one of the largest online retailers in the UK. It's benefitted hugely from the ecommerce tailwinds in the last couple of years. It's logistical operation and platform is so efficient that it is now partnering with other brands, such as gap in the UK, and they have become the 'go to' platform for brands to distribute online in the UK," says Eoghan Reid.

In summary, Reutter says the team sees the inevitable headwinds as short-term and that fund managers need to be looking through them to the bigger picture and the longer-term opportunities. "We are looking at themes and companies that can benefit from those enduring themes. Then taking a conservative approach and being highly selective in what we hold, investing in the quality companies with strong management teams.

"As a fund I think we are incredibly lucky in that we don't have to think about what's in the benchmark. Each of the 29 stocks in the portfolio is a positive decision in its own right, made irrespective of the benchmark, which gives us the ability to focus longer term. It's going to be a bumpy ride short term, but we feel we are well positioned and just have to be patient and not allow headlines to shorten the time horizons."

*** Source: JOHCM at 27 May 2022**

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 August 2021, provided by FE Fundinfo

BEST RATED FUNDS

IA	3 year Cumulative Performance	FE Fundinfo Alpha Manager Rated	FE Fundinfo Crown Fund Rating
Fidelity Global Technology	81.65	✓	5
Stewart Investors Indian Subcontinent Sustainability	68.48	✓	5
Baillie Gifford Pacific	61.35	✓	5
IFSL Marlborough European Special Situations	54.75	✓	5
Matthews Asia ex Japan Dividend I Acc GBP in GB	45.88	✓	5

AIC	3 year Cumulative Performance	FE Fundinfo Alpha Manager Rated	FE Fundinfo Crown Fund Rating
Baillie Gifford Pacific Horizon	101.03	✓	5
Liontrust Edinburgh Investment Trust	22.45	✓	5
Dunedin Income Growth Investment Trust	21.05	✓	5
Personal Assets Trust	18.82	✓	5

BEST PERFORMING FUNDS IN TERMS OF RISK VS RETURN

IA	3 year Cumulative Performance	FE Fundinfo Crown Fund Rating
Premier Miton UK Smaller Companies	61.77	114
VT Teviot UK Smaller Companies	46.39	110
Liontrust UK Micro Cap	45.61	87
LF Gresham House UK Smaller Companies	43.18	103
Fidelity UK Smaller Companies	36.55	119

AIC	3 year Cumulative Performance	FE Fundinfo Crown Fund Rating
Markel CATCo Investment Management CATCo Reinsurance Opportunities	2140.94	5,410
Edge Investment Management IT Edge Performance VCT	978.09	325
New City Investment Managers Geiger Counter	220.75	458
New City Investment Managers CQS Natural Resources Growth and Income	164.26	264
BlackRock Investment Management (UK) Ltd Blackrock Energy & Resources Income Trust	117.35	249

RISKIEST SECTORS

IA	3 year Cumulative Performance	FE Fundinfo Crown Fund Rating
Latin America	-4.66	149
Technology and Technology Innovations	45.4	135
Financials and Financial Innovation	10.17	131
North American Smaller Companies	32.12	131
Commodity/Natural Resources	56.9	130

AIC	3 year Cumulative Performance	FE Fundinfo Crown Fund Rating
VCT Specialist: Media, Leisure&Events	168.97	271
China/Greater China	17.09	182
Property Securities	-5.93	168
Commodities & Natural Resources	63.31	162
European Smaller Companies	21.22	159

OUTFLOWS

Fund name	Size 1y ago (£m)	Size now (£m)	Performance Effect on Size (£m)	Out (£m)
BlackRock ACS US Equity Tracker	17,709.83	15,524.54	386.32	-2,571.61
State Street ACS Multi-Factor Gbl ESG Idx Eq	2,415.16	244.01	36.45	2,207.60
BlackRock ACS 50:50 Global Equity Tracker	12,442.09	10,460.53	130.22	-2,111.79
PUTM ACS Lothian UK Listed Equity	10,564.24	8,853.40	202.97	-1,913.81
Vanguard FTSE U.K. All Share Index Unit Trust	13,665.79	12,137.89	181.75	-1,709.65

INFLOWS

Fund name	Size 1y ago (£m)	Size now (£m)	Performance Effect on Size (£m)	In (£m)
M&G Japan	26,564.93	47,915.37	3,523.67	17,826.77
PUTM ACS Sustainable Index US Equity	0	4,392.79	1.98	4,390.81
LGIM Future World Global Equity Index	3,129.49	6,831.52	-488.19	4,190.22
BlackRock ACS Climate Transition World Eqty	4,686.51	8,912.07	57.03	4,168.53
Liontrust Japan Equity	30,007.75	35,344.80	1,709.87	3,627.17

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
56.9

India/Indian Subcontinent
50.11

Technology & Telecommunications
45.4

North America
40.59

North American Smaller Companies
32.12

AIC

VCT Specialist: Media, Leisure&Events
168.97

Infrastructure Securities
85.28

Commodities & Natural Resources
63.31

Insurance & Reinsurance Strategies
62.64

India
52.59

MOST RESEARCHED

	IA		AIC
1	Global	1	Global
2	UK All Companies	2	Flexible Investment
3	Unclassified	3	Private Equity
4	Mixed Investment 40-85% Shares	4	Renewable Energy Infrastructure
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	Personal Assets Trust
3	Vanguard LifeStrategy 80% Equity	3	Smithson Investment Trust
4	Vanguard LifeStrategy 40% Equity	4	Ruffer Investment Company
5	Royal London Sustainable Diversified	5	Capital Gearing Trust

MOST CHARTED

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

STRUCTURED PRODUCTS

STRUCTURED PRODUCT MATURITIES JULY-AUGUST 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 %
Societe Generale	UK Defensive Growth Plan (UK Four) Issue 12	29/07/2022	6	10.39%	51.97
Mariana	10:10 Plan August 2017 (Option 2)	18/08/2022	5	2.97%	44.7
Mariana	10:10 Plan August 2019 (Option 3)	23/08/2022	3	5.54%	43.2
Walker Crips	Annual Growth Plan Issue 52 (Kick-out)	11/08/2022	5	2.13%	37.5
Hartmoor	FTSE 100 Deposit Growth Plan 5 May 2016	25/07/2022	6	8.88%	34
Mariana	10:10 Plan August 2018 (Option 1)	17/08/2022	4	-0.57%	30
Mariana	10:10 Plan August 2019 (Option 1)	23/08/2022	3	5.54%	27
Walker Crips	UK 95% Kick-Out Plan Issue 2 (MS028)	19/07/2022	3	-2.83%	25.5
Mariana	10:10 Plan August 2020 (Option 3)	15/08/2022	2	23.30%	20
Investec	FTSE 100 8 Year Kick-Out Plan 3	10/08/2022	2	23.51%	19
Investec	FTSE 100 Defensive Kick-Out Deposit Plan 4	29/07/2022	4	-4.61%	18
Mariana	10:10 Plan August 2020 (Option 2)	15/08/2022	2	23.30%	17.5
Meteor	UK Kick Out Plan July 2020	01/08/2022	2	25.70%	17
Mariana	10:10 Plan August 2020 (Option 1)	15/08/2022	2	23.30%	14

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

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