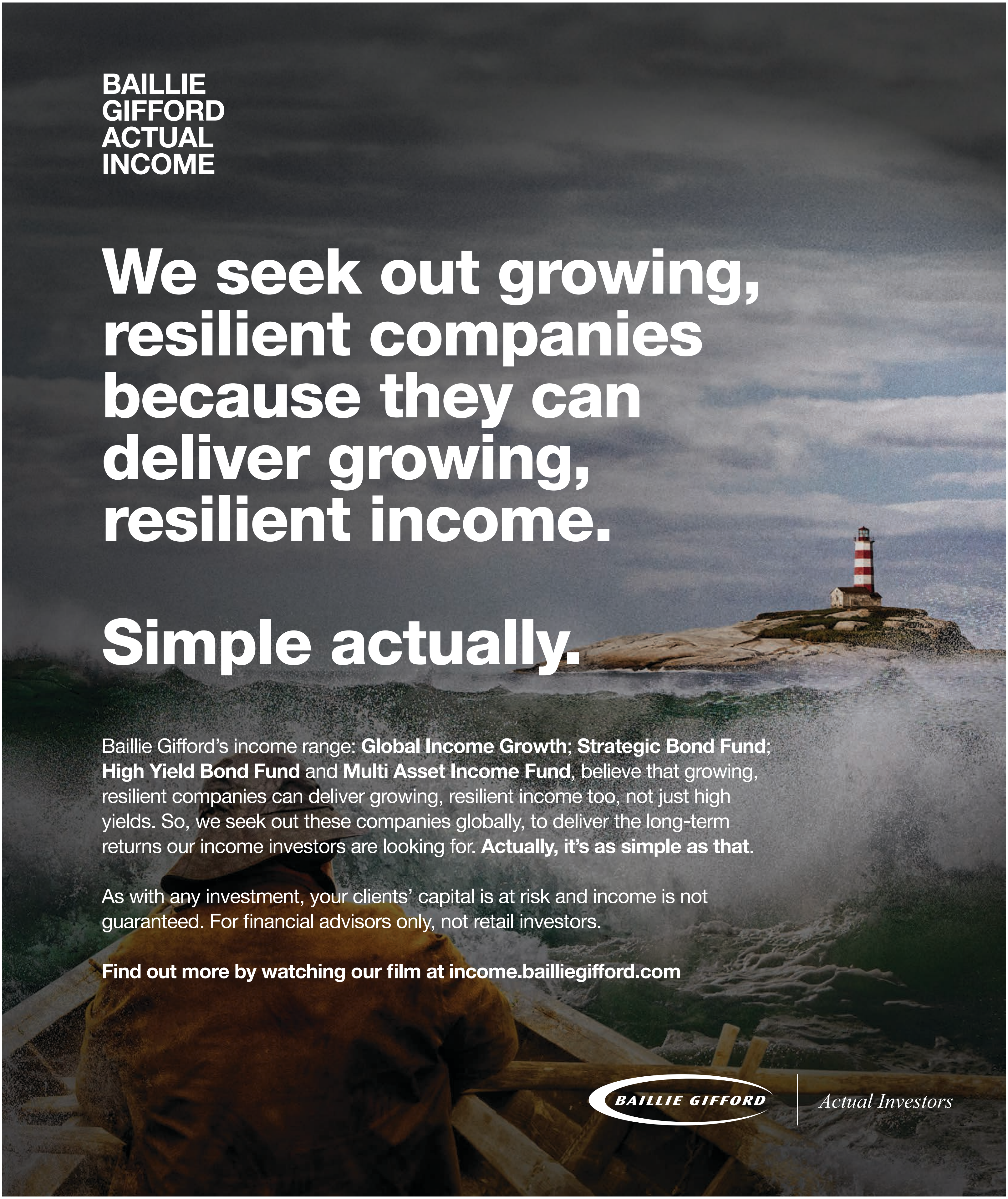
Professional Paraplanner

The magazine for paraplanners and financial technicians
November 2022

Consumer Duty

CATS' Melony Holman looks at how paraplanners can help their firms be compliant with the new regime

PLUS INVESTMENT COMMITTEE SEMINAR REVIEW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DRIVERS OF CHANGE

ESG investments have gone through their own u-turn this year in terms of investor sentiment. Reading headlines from less than a year ago, they were the place to be – now there's a 'told you so' element to some commentary.

A past argument against investing in ESG funds had been that since they avoided some of the biggest growth and value companies in the markets, they would always lag on performance compared to a generalist portfolio.

But ESG investments did incredibly well in 2021 largely as many 'green' funds were holding technology stocks, which were key drivers of growth that year. As those stocks' performance dropped off, so did ESG funds' returns. Also, growth investments were replaced in generalist portfolios by more defensive investments – tobacco companies among them, which are avoided by sustainable funds.

But reliance on market trends is not what ESG investing is about – sustainability funds are drivers of change. They enable investors to positively affect not just the investment environment but industry practices across sectors.

As Matt Evans, portfolio manager at Ninety One, said at our recent Investment Committee Seminar, consumer views, society, employees, as well as regulation, all affect how companies now must operate. "The traditional focus, purely on shareholder returns without any other considerations, is being replaced with a view that you invest for returns but not at the expense of all other stakeholders," he said.

The key question is how can investors best access the 'good' companies, the ones that will deliver sustainability and decent returns in the years ahead? Recent research carried out by the AIC* has highlighted that investor trust in ESG claims from providers has slipped considerably. Some 58% of respondents said they are not convinced by ESG claims from funds, up from 48% last year. Greenwashing is a major concern, exacerbated for investors by confusing terminology and the inconsistent approach of ratings agencies to the sector.

This argues for specialist managers and a bottom-up approach to finding the best opportunities in the market. A fundamental, boots-on-the-ground, kicking-the-tyres, management engagement approach, which is best delivered by active managers prepared to invest on the strength of their convictions.

ESG investment, like most others, has to be viewed as a long-term strategy. But the positive impact it can have today on companies and sectors will pay off massively in the long run, not just for us as investors but for the world at large.

*This survey was carried out by Research in Finance, publisher of Professional Paraplanner

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LIVE EVENTS

It has been a real pleasure touring the country again with our Technical Insight Seminars, as well as running live investment Committee and Team Leader events. Thank you to everyone who has attended an event so far.

As much as video conferencing was a major boon over the pandemic, so much more can be learned from a meaningful conversation face-to-face with six to 10 people around the table. That's one reason we structure our events as part plenary presentations and part workshops. And it's not surprising that paraplanner feedback tells us that alongside hearing from our expert speakers, peer networking is a big attraction when attending our events.

We are starting to plan our 2023 roadshows, so if you have any major topics you would like us to cover, please let me know – my email address is on page 4. But please may I ask one thing of delegates; if you can't make it to an event do let us know as soon as possible. While we are able to put our events on at no cost to you as paraplanners, we have to pay venues/catering in advance for every person expected to attend. It's galling at the end of an event to see all those cakes going to waste!

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In this issue...

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Ro FOCUS

Caroline Evans, business development adviser, BTS, looks at the difference between taking an R06 Level 4 and an AF5 Level 6 exam

When candidates start to explore the Advanced Diploma as their next step to develop technical expertise, a common question is, 'how different are the exams and do I need to take a different approach to the one that got me through the R0s?'.

The differences between Level 4 and Level 6 level can seem vast. A comparison between R06 and AF5 is a good example as these two exams take a similar format; a written paper based on pre-released information – case studies for R06, and a fact find for AF5.

For those who have recently taken the R06 examination, although the style can seem familiar, AF5 requires more in depth, more challenging and more critical thinking. The level of detail required is substantially higher.

How can you reach the next level?

You need to display that you fully understand all the technical details behind any statement. If it is not written in your answer the examiner will assume you do not know it.

An **R06** style answer may be: "By paying a spouse a low wage, you can save on National Insurance payments."

In contrast, an **AF5** style answer may be: "By paying a spouse a salary between the lower earnings limit and the primary threshold, the spouse would not have to pay employee National Insurance contributions but would qualify for benefits such as the single tier pension. As an employer, by keeping earnings under the secondary earnings threshold, employer National Insurance could also be avoided."

You can see in the example where Level 6 critical analysis is coming into play. You need to demonstrate that you have focused on information-gathering and fact-analysis. It's all about understanding and relating back to your client(s) fact find. If you want the fact find analysis to be professional and accurate, you must have a clear understanding of the financial objectives/aims that your client(s) are facing. **Read the fact find thoroughly. Be analytical, not descriptive**.

Be prepared for the 'good, the bad and the downright ugly' questions you might get asked. It's a good idea to look at some past exam reports to see the themes that come back regularly.

Being prepared for the Level 6 exams in comparison to the multi-choice Level 4 exams, is much harder when there are no answers in front of you to select from. Instead, you must come up with enough quality answers on your own! Remember the quality and depth of answers needs to be there, plus you need to avoid the pitfalls mentioned in past examiner comments.

Using what's already in your 'toolbox'

With your Level 4 Diploma under your belt, the next step is to develop your existing skills so you can adapt to Level 6 more independently and effectively. The people who reach the top level have one key attribute in their toolbox – they know they must practise, over and over, and over again!

Dig deeper to level up

To help you visualise the 'depth' and 'breadth' approach needed for you to jump from Level 4 to Level 6 status let's take an analogy. Start by imagining you are standing on a beach and have been asked to study it. At Level 4 you stand and look at the soft sandy beach in front of you. You can see the sand and the ocean beyond and you know what you are dealing with. At Level 6 you need to go and get a whopping big spade (and possibly some people to help you) and dig an enormous deep hole. You start by studying the sand, you move onto the shells buried in the sand, you study the creatures that use the sand, you take note of the sunbathers and ice cream eaters, you look at the tides and anything else that lies above, below, and beyond.

Passing the AF exams is not all about technical knowledg

A big part of passing these exams 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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CONSUMER DUTY

Consumer Duty rules will apply from July 2023. Melony Holman, managing director, Compliance and Training Solutions (CATS), looks at how paraplanners can help their firms ensure they are compliant with the new regime

Everyone knows that the regulatory buzz at the moment is all about the Consumer Duty. All firms who are involved somehow with retail clients will have to have a high level action plan identifying what they need to address by the end of October 2022 with the Consumer Duty firmly embedded into the firm's processes by the end of July 2023.

For many firms the Consumer Duty will not mean a fundamental shift in what they are doing currently – it is not another MiFID II or RDR implementation but be in no doubt that work will have to be done. However, we do see this as an opportunity for firms to look at the client journey from the mindset of the consumer, not from a compliance angle.

To be clear, the purpose of the Consumer Duty is not to put more onus on firms and take away responsibility from the end client. In fact, it is the complete opposite. The Consumer Duty is about empowering the consumer so that they are in an informed position to make an informed decision.

If a client has received timely advice which has been communicated effectively, then it will be hard for them to say that they were not in an informed position and they will need to own their decision. Consumer Duty is not about removing risk from the client, but it is about ensuring that the client understands the risks they will be taking on.

There will be a new principle of business practice of 'A firm must act to deliver good outcomes for retail customers'. This is important as there has been no change to the principles since they were first published when regulation came into effect. This principle is then supported with three cross cutting rules which are that firms must:

1. Act in good faith toward retail customers
2. Avoid foreseeable harm to retail customers
3. Enable and support retail customers to pursue their financial objectives.

Consumer Duty is not about removing risk from the client, but it is about ensuring that the client understands the risks they will be taking on

These are further fleshed out with four outcomes that firms must be able to demonstrate they are meeting which are:

1. Products and services
2. Price and value
3. Consumer understanding
4. Consumer support

Isn't this all just TCF? You could be forgiven for thinking so, but this is more than dusting off the original TCF gap analysis and using that as your plan. The Consumer Duty is far more reaching than TCF and is supported by specific rules under PRIN 2, which TCF is not. Furthermore, underpinning all of this the handbook is saying that firms must be especially mindful of all of these requirements when working with a vulnerable clients.

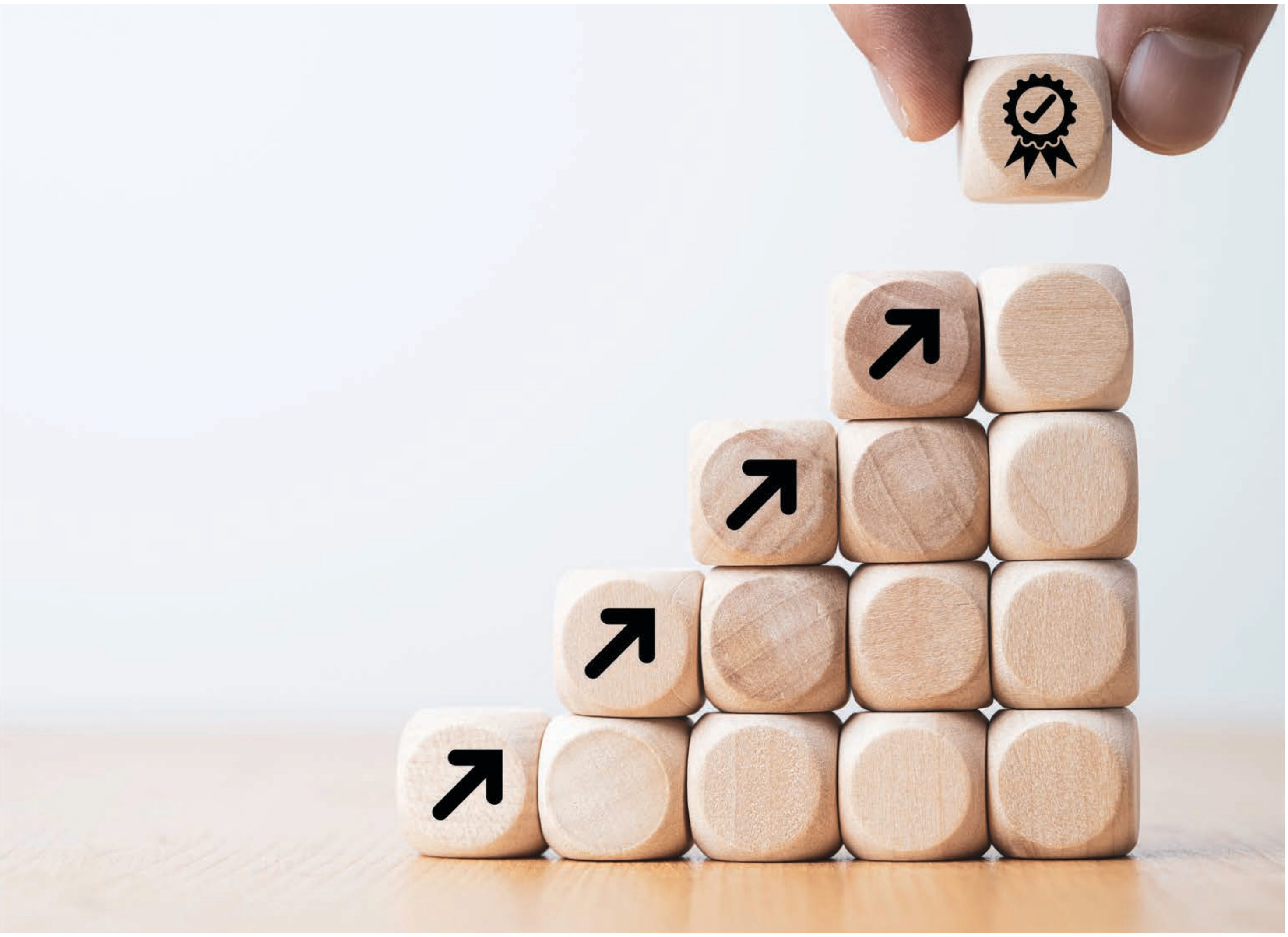
Suitability reports

For anyone who will be involved in the Consumer Duty preparations, then you really need to read FG22/5 Final non Handbook Guidance for firms on the Consumer Duty. This sets out what the FCA is expecting to see from firms – it sets the tone. A key area for firms to get to grips with will be the Consumer Understanding outcome. The FCA states that 'We want customers to be given the information they need, at the right time, and presented in a way they can understand'. This is a great opportunity for firms to really look at how they are communicating with their clients.

It's the opportunity to be looking at the templates used for suitability reports, for example, and breaking them down. Are they engaging, relevant and simple to understand? Firms often tell us that clients don't read the reports that are sent to them. This is the time to ask clients why aren't they reading the reports? What can the firm do to encourage them to read the report?

Client feedback is going to be a big part of the Consumer Duty preparations. I am sure that many of you have already heard of Melissa Kidd from Motem. She teaches how to use the written word more effectively with clients – to make the reports more personal to them.

Of course, one quick win is to make sure that the client objectives are actually bespoke to them using, as much as possible, the client's own words. This shows that



the planner has listened to the client. It also helps to demonstrate that the firm is meeting the cross-cutting rule of enabling and supporting clients to pursue their financial objectives.

Another question to ask is: Are we overwhelming clients with too much reading material and documentation? Could this be done more effectively and efficiently whilst being compliant? This is the type of thing that firms need to have on their action plan with the aim of spending some proper time focusing on this area.

For firms who send out the suitability reports after the application form has been signed/submitted, consideration should be given to switching to pre-sale reports, so that the firm can show they are equipping the consumer with timely communications.

Firms will be expected to test their communications and client understanding. We would suggest that some time is spent in this area so that everyone is on board with the approach being taken.

To be clear, a statement to the effect that 'I have read and understood this report' which the client signs is unlikely to hold much weight especially with the Financial Ombudsman Service.

However, if the client is asked to confirm at the end of the report in their own words their understanding of the recommendation, how it meets their objectives and what the risks are, this will have far more of an impact. This requires educating clients to complete this part of the form; but for firms who master this, it works really well.

Another way of checking and evidencing the client's understanding of the report is for the planner to check verbally with the client their understanding of the report with the planner writing down the client's own words and keeping this on file.

Moving on from this, the firm should track client's responses – do the clients understand the recommendations or is the planner having to talk through the recommendation again with the client? Is this specific to one planner or the whole team? Is training required?

Firms may also want to re-visit their disclosure documents – can they be made more engaging whilst keeping all the relevant compliance bits and pieces? Can they be re-written to use more engaging language? Can/should the documents include graphics for example?

The Consumer Duty is going to be a large project, but these areas are where paraplanners can show their expertise and have the opportunity to show their flair for client engagement.

I CAN'T SAY THAT!

Yes, you can. Sara Hickman and Rhi Baxter of the We Are BRAVE training consultancy, provide advice on how to have BRAVE Conversations

I can't say that! This is a statement we hear regularly when it refers to having difficult conversations or raising issues with a colleague, a manager or a client (even friends & family). Why? Quite simply we worry that what we have to say may come across as too challenging or that we won't be clear and as a result it might make the situation worse.

Here's what we believe to be true; most people don't go into conversations to upset the other person we'd much rather speak in a way that helps us be heard and understood. Yes, there are always exceptions but in our experience most people want a conversation to go well.

As discussed in our last article*, at We Are Brave we encourage people to see conversations with a positive and constructive mindset – to remember it's a dance floor not a boxing ring. Speaking up (but doing it well) is an act of bravery and an act of

kindness. Psychologist Adam Grant's quote underpins this idea: 'People speak honestly to help you do better tomorrow. Candor is an act of care.'

Sound good? Once we've decided we want to raise something in our next conversation and we've accepted it's a good thing to tell the other person (an act of care), the next question is: 'HOW do I have the conversation?'.

The answer is a process of: Structure + Discipline + Skill

- **Why Structure?** Well, our mantra is "Structure gives Confidence" (trust us, it's true)
- **Why Discipline?** It's needed before and during a conversation to ensure it stays on track
- **Why Skill?** This may be stating the obvious but you need good interpersonal skills during any conversation (with friend or foe).

Let's break this process down into some simple steps.

Step 1: Fair chance, fair warning

- People respond better when they know about a conversation in advance. It helps to overcome the fight-flight-freeze reaction.
- Tell them what you want to discuss as clearly as possible so they have time to think about the topic. For example "I'd like to discuss how we come to decisions on a critical recommendation" rather than "I want to talk about our last conversation"

By adding structure, being disciplined and honing your interpersonal skills you will begin relax into what you need to say

- When we say fair warning, we mean more than 5 minutes – it should be at least 24 hours.

Step 2: Do your own thinking & preparation

- Give yourself some time to gather your key points and any reasoning or evidence.
- Double-check your intentions and your thinking. Ask yourself: 'Am I raising this to help?' or 'Do I just want to win'?" Again, remember this is a conversational dance floor not a boxing ring.
- Preparation isn't about second guessing yourself it's about holding yourself to account and trying to get some objectivity. Objectivity is something that often leaves us if we're in that pesky fight-flight-freeze mode and it will derail us and the conversation.
- Consider what their point of view might be and adjust your notes accordingly. It's OK to stretch your thinking, it doesn't mean it's the truth it's simply giving you a chance to think better.
- Here's the first bit of discipline: Write it all down! Accept that you will not remember your points in the moment no matter how good you think you are. All good conversations happen with conscious effort and making notes is that effort.

An extra tip: Practice!

At We Are BRAVE we enable you to experiment and practice difficult things. We know it's so much easier to speak up in a conversation if you have said the words a number of times before your meeting. The written word is different to the spoken word so say it out loud. Say it to a mirror, talk it through with a trusted friend, your dog or cat – whatever works for you!

Step 3: Show discipline & skill

- Set a time limit to the discussion and stick to it. The quality of a conversation is not in direct proportion to the time spent on it.
- If needed, take a break – either a whole day or at least 10 minutes.
- LISTEN as well as SPEAK. Ensure each person has the time to be heard – this is a critical skill
- Use expressions like "I'll describe what happened for me and then I'm interested to hear from you".

Step 4: Skilful Summaries

- Continually note where you agree for example "I didn't realise we thought the same on that" or "it's great to know we see it in a similar way".
- Ensure you are clear on what's happening after the conversation and who is responsible for any actions. Take the time to clarify as this is often where we lose momentum.
- Say thank you: it goes a long way to recognise the effort someone has put into conversation and that thankyou will make the next chat feel a little easier.

The BRAVE process: Structure + Discipline + Skill

We know for many of you reading this article elements of this process will be an unconscious competence. You may be responding with "Well, I already do that" to which we say "great" and we strongly recommend you now do more. Take steps to make it a conscious choice for each difficult conversation - don't leave it to luck, create the luck.

For those of you who see this process as brand-new we encourage you to have a go. We know that BRAVE conversations do not feel comfortable but we promise you by adding structure, being disciplined and honing your interpersonal skills you will begin relax into what you need to say rather than worry about how to say it. To borrow the words of Luvvie Ajayi-Jones, from her TED Talk, you can start to 'get comfortable with being uncomfortable'.

Use these tips in your next conversation and we'll change "I can't say that!" to "I know how to say that" and who knows what great things might happen!

*** Discussion on the dance floor: Professional Paraplanner October 2022 issue**
**** https://www.libf.ac.uk/news-and-insights/news/detail/2022/04/26/how-to-have-challenging-conversations-with-advisers-(the-paraplanner-series-ep.30)**
If you're interested in learning more about how our BRAVE methodology gives you Structure + Discipline + Skill, listen to our interview on the LIBF paraplanner podcast or visit our website www.wearebrave.co.uk**

LEARNING MORE EFFECTIVELY

Richard Cooper, business development manager at The London Institute of Banking & Finance, shares advice on how to make your learning stick

Like most paraplanners you may be keen to keep up with trends, technical detail, how to use software and the latest financial planning concepts. But do you ever wonder what might be the most effective way to do this?

Knowing how to learn well is not something that happens overnight. Having an awareness of the best strategies can help you get the most out of the time you spend studying – whether that's for a new qualification or continuing professional development (CPD). It's not always about the speed of learning. It's just as important to be able to accurately remember what you learn, be able to recall it later, and be able to apply it to a variety of situations.

Improve your memory

It's well known that good lifestyle choices can help your memory and brain stay healthy – along with the rest of you! For example, when you're studying it's important to get enough exercise and sleep.

However, there are also several other tricks that will help you remember what you learn and concentrate, such as:

- eliminating distractions so you can focus on what you are learning
- structuring your learning time
- organising the information you're learning so it's easier to access and remember
- using 'elaborative rehearsal' – that is, when you learn something new, spend a few moments describing it to yourself in your own words
- using visual aids like flowcharts, graphs, and charts, and
- reading the information you are studying out loud.

Combining one or more of these will help make learning more focused and fun. Over time, these techniques will also improve your memory.

Keep learning new things

Research shows that the brain can produce new brain cells, a process known as neurogenesis. However, many of these cells will die unless a person engages in some type of effortful learning. In short, the brain needs exercise. By learning new things, these cells are kept alive and incorporated into brain circuits that remain active. If you want what you've just learned to stay in your head, keep practising and repeating it.

> ***You may have a preferred learning style. Most of us do. However, one of the best ways to learn is to try doing it in a different way***

Learn in different ways

You may have a preferred learning style. Most of us do. However, one of the best ways to learn is to try doing it in a different way. For example, instead of just listening to a podcast, which involves auditory learning, find a way to repeat the information both verbally and visually. This might involve describing what you learned to a friend, taking notes, or drawing a mind map. By combining these approaches, you're cementing the knowledge in your mind.

Learn in short sharp bursts

The process of returning for brief sessions over an extended period is one of the best ways to learn efficiently and effectively. It's known as 'distributed practice'. So, instead

of trying to cram all your learning into a few long study sessions, try brief, focused sessions, with plenty of breaks.

Build on previous learning
Another fantastic way to become a more effective learner is to use relational learning, which involves relating new information to things that you already know. For example, if you're learning a new software system, you might think about how it relates to the software and processes you already use and what you know about them.

Test your knowledge
While it may seem that spending more time studying is one of the best ways to maximise your learning, research has demonstrated that taking tests helps you remember what you've learned – even if it wasn't covered on the test. This phenomenon, known as the testing effect, suggests that spending time retrieving information from memory helps you remember that information long term.

Get practical experience
For many paraplanners, learning typically involves reading technical bulletins, watching webinars, listening to podcasts, attending technical sessions, or doing research online. While seeing information and then writing it down is important, putting new knowledge and skills into practice can be one of the best ways to embed learning.

If you can, take the opportunity to apply your new learning to a client case you're working on or have worked on recently. You may need to ask a colleague or supervisor to check your understanding of what you've applied, to avoid any mistakes being made.

Don't be afraid to make mistakes
Research suggests that when we make mistakes as we learn, we learn and remember more. This is especially true if you spend some time correcting the mistake and examine how you arrived at the incorrect answer. This strategy can help foster critical thinking skills and make you more adaptable in learning situations that require you to change your mind.

Finding the right learning techniques
Becoming a more effective learner can take time, and it always takes practice and determination to establish new habits. If you want to learn more effectively, it's important to explore different learning techniques. That way you'll find the ones that suit you best. Why not start by trying just a few of these tips to see which work for you?

CHANGING COMPANY

Catherine Esland, senior technical consultant, HFMC Wealth, talks about what she learned when moving company and how she adapted to the new environment

I've worked in financial services for a long time: I started temping at a life company after university, before spending time in administration and becoming a paraplanner just as the role started to develop.

I have worked in firms of various sizes over the years, and each had their own culture and strengths and weakness; however, until recently, it had been a long-time since I actively changed jobs. When I decided to look for a new employed role last year it felt both like the end of an era and the beginning of a positive (if slightly scary) new stage. Now nearly six months into my new role I have been reflecting on what I have learnt moving firms.

Changing jobs can be physically and mentally tiring

Now, I am the first to admit that being in my mid-40s, I am no longer new in the workplace, but I was still surprised how physically and mentally tiring I found the first few months. A new commute (even though it was only on some days), lots of training and new processes to absorb, a whole office full of new people to meet and get to know. It was a lot to take in and surprisingly tiring.

I would definitely recommend anyone changing jobs isn't too hard on themselves and accepts their normal routine may slip a bit at first as you might need to build in more "me time" to adjust – especially for introverts or ambiverts like me!

Be flexible and adapt to your new environment

Changing jobs can be a bit like starting at a new school – at your last place you knew everyone and how everyone worked; you may have had your stresses, but you knew where you fitted into the scheme of things.

Changing jobs you are basically starting from scratch, you don't know anyone or any of the unspoken office rules, and at least to start off with, you need to be tentative in finding how everything works and how you fit in. I found it helpful to accept I just needed to roll with it and enjoy the process, as a natural organiser and slight control-freak this was slightly outside my comfort zone, but it made settling in a lot easier.

Assessing what is fundamental to the advice process

What falls under paraplanning in one firm, can be totally different in another and every firm will have its own internal processes. Having said that, the fundamentals of the advice process don't really change that much – providing support to clients and putting together a compliant file are pretty much the same wherever you go.

Looking at the processes in a new firm has given me a clearer perspective on what is, and what isn't important. I suppose I had got into habits at my old place and changing jobs has prompted me to analyse how I work - which can only be a good thing!

Taking stock and making positive choices

You never really know what a new role will be like before you start it and sometimes you might have some false starts when taking the next step. I am really enjoying my new role but appreciate not everyone will be so lucky changing jobs. With the benefit of hindsight, I appreciate much more that taking time to regularly review how a job is going and looking at what you like and don't like about your role can bring benefits, regardless of whether you are looking to move or not.

Keeping motivated and engaged in a role you have been in for a long time can be hard, but rewarding, as you will be building deeper relationships with both colleagues and clients. Equally, you can be clearer on when there is a fundamental gap somewhere that needs addressing.

If your own company aren't great at internal reviews and you don't feel comfortable with self-analysis, I would really recommend finding a mentor. The CII Connect mentoring platform and other similar services can be a great way to get this type of support.

> ***You never really know what a new role will be like before you start it and sometimes you might have some false starts when taking the next step***

INVESTMENT BONDS

How tricky can an investment bond be? When you've not dealt with many in the past, the answer is very, says Paula Butrynska, paraplanner, PlanWorks

I think most paraplanners realise that dealing with an Investment Bond – whether that's reviewing an existing one, recommending a new one or completing a surrender calculation – is a tricky business. As with most of what we do, the more we deal with them, the more comfortable we get, but, as I found recently, even years of experience sometimes doesn't help.

I've recently had the pleasure of reviewing an existing Investment Bond. I've not had much experience in reviewing existing, older legacy plans like this so what I found out blew my mind. If only the study books covered this!

Whilst I haven't come across many Investment Bonds during my career, I read a fair bit about them whilst studying for my diploma. I expected that they would be arranged primarily as an investment (even though they are usually classed as a single-premium life insurance policy due to the small amount of life insurance upon death). However, I did not expect to see a Transact General Investment Account (GIA) and a Barclays cash deposit account as part of the Investment Bond, so at this point I took a step back and quickly reached for my CII RO2 book...

I've read that Investment Bonds are provided by insurance companies who usually have a variety of funds on offer. They can either offer funds that are unique to life assurance policies (i.e., With-Profit funds) or funds that are broadly equivalent to Unit Trusts and OEICs, which are usually mirror funds of those available outside Investment Bonds. Regular Unit Trusts and OEICs are also often available, but I couldn't find any reference to platforms or cash deposits.

Restricted Vs Open Architecture

I turned to Google, and it soon became clear what was missing, i.e.that Investment Bonds can be restricted or open architecture. All new terminology to me.

If an Investment Bond has a restricted architecture, it will usually offer insured life funds. These types of funds are generally managed by the insurance company itself, although some bond providers will offer external funds from different fund management companies. A restricted-architecture Investment Bond would typically look like Table 1.

> ***If an Investment Bond offers open architecture, you'll be able to choose from any fund, investment trust, ETF, cash deposit and so on***

However, if an Investment Bond offers open architecture, you'll be able to choose from any fund, investment trust, ETF, cash deposit and so on.

The underlying investments might be available directly within the Investment Bond or through a GIA on a number of different platforms. Take HSBC's Onshore Investment Bond as an example: it can be

accessed directly from HSBC Life or it is available through a number of platforms, including M&G Wealth, Fusion and True Potential. Canada Life offers Offshore Investment Bonds with agreements with platforms such as Transact, Parmenion, Nucleus or Fundment, to name a few.

This provides access to a much wider selection of funds, including access to Discretionary Fund Management (DFM) propositions. Canada Life's Offshore Investment Bond can be looked after by a number of DFMs, such as Rowan Dartington, Brewin Dolphin, EQ Investors or Rathbone Greenbank.

Table 1: Typical restricted-architecture Investment Bond

Fund	Number of Units	Price of Unit (Pence)	Value
Balanced Life	115.45	11,400	£13,161.30
Far Eastern Life	407.06	18,700	£76,120.22
Japanese Life	1,941.68	4,200	£81,550.56
UK Growth Life	2,555.31	1,200	£30,663.72
Total			**£201,495.80**

Table 2: Typical open-architecture Investment Bond

Investment	Value
General Investment Account – Transact	
DFM Portfolio	£201,495.80
Vanguard LifeStrategy 60% Equity	£20,560.00
Cash Account	£6,661.67
Cash Deposit Account	
Barclays Notice Account 1.20%	£55,000
Total	**£283,717.47**

There may also be times when it's suitable to hold some investments in cash. Investment Bonds that have open architecture allow a wide selection of cash deposit accounts with a range of major banks and building societies. If an Investment Bond was taken out in US dollars or euros, the cash on deposit could also be held in the same currency. Different deposit accounts with different banks or building societies will have different terms and interest rates.

An Investment Bond with open architecture may therefore look like Table 2:

What is confusing about this?

For me, the confusion starts when beginning to look at and understand charges and reviewing the cash transactions.

Investment Bonds will always have a cash account or the potential to hold cash to allow the Investment Bond provider charges, Ongoing Adviser Charges and withdrawals to the client to be paid out.

Where a platform GIA is also held, this will often have a cash account too, with investments being bought and sold from this account and cash often being sent to the Investment Bond cash account to provide money to pay fees or fund withdrawals.

Where there is a platform GIA, the platform usually offers a report per account that details the contributions and withdrawals; however, what I quickly figured out is that these are not actual contributions and withdrawals to or from the client but to and from the Investment Bond cash account. Therefore, when looking to understand what the client has paid in or taken out, it will always be the Investment Bond cash account which you need to spend time analysing.

There can often be a lot of transactions on these types of arrangements, as many Investment Bond providers require a minimum cash balance, so will instruct auto-sells from the platform GIA. Some providers allow the cash account to go overdrawn and some providers add a charge for using this, so it is something to watch, and some do not continue paying the Ongoing Adviser Charge if the cash account is overdrawn.

Just to add further complexity, many Investment Bond providers do not have a real-time valuation of the platform GIA, whereas we are likely to be able to get one by logging into the platform, so here it is about understanding which valuation we are going to use and from were.

As I get involved in more and more complex cases, I find that this type of structure is very similar to the more complex SIPP and SSAS arrangements with assets like property within them, so understanding this structure I found can really help.

PARAMETERS

Our latest paraplanner survey asked for your views on hybrid advice

Just 30% of paraplanners see a hybrid advice structure as the way most financial advice firms will develop their business going forward. Hybrid advice uses technology to serve the client as far as possible, with the adviser's time being used where it is most valued by the client and most valuable to the business.

Of those who agree hybrid will grow in popularity, one told *Professional Paraplanner*: "We need to keep up with the trends of the generations. Younger generations are more digital so to have the benefit of both hybrid and human is a move that we need to embrace."

Others cited the cost benefits to firms and consumers alike, while one respondent said it will offer clients the best of both worlds.

"This is what I hope to see more of in coming years; clients willing and able to use clear interfacing to provide the reporting information they need to feel like they have their finger on the pulse, with an adviser to guide their decisions."

Another added: "I do think it's the way forward. By automating some parts of the process and continuing to maintain the adviser relationship, this could be an effective way to give advice in the future, however, it would need to be tailored to each client's needs and managed on an ongoing basis."

Others felt that hybrid advice would largely be the reserve of bigger advice firms with the scale to invest in a new model.

Benefits of hybrid advice

When asked about the main benefits of a hybrid advice structure, the most popular answer (35%) was that advisers and paraplanners can focus on where they add value for clients. Just under one in three (29%) said it will enable firms to offer advice to a wider group of UK consumers and a quarter (26%) agreed it will bring advice firms more into the digital age. Just over a fifth (22%) believe it would help to free up advisers and paraplanners to deal with more clients and 24% said it would help paraplanners focus on more complex cases.

Two thirds (67%) of paraplanners said they did not feel threatened by hybrid software's ability to do part of their role, such as deliver suitability reports. One paraplanner said: "I agree it has its place for smaller pieces of advice such as mortgage protection or ISA top ups – however I feel there will always have to be oversight."

Another commented: "Some paraplanner roles may evolve as hybrid advice increases and I think the younger generation of advisers may be much more geared towards the digital side of things with less personal contact but many advisers still believe that a personal advice service is better all round."

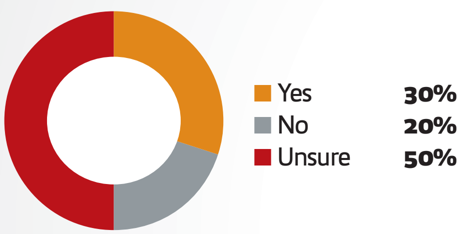
However, 20% of paraplanners felt the paraplanner role could be threatened as technology continues to evolve.

"In around 10-15 years, I could see machine learning being at such a stage where a lot of the need for a paraplanner may have been removed. A lot of what we do is rules based and eventually machines will be able to do that fairly accurately."

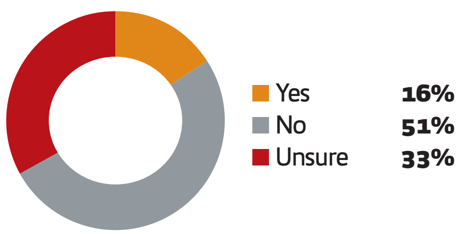
Survey prize Draw

Paraplanners who participate in our monthly survey are entered into a prize draw to win a £50 Amazon voucher. Congratulations to Peter Best, Lyonhurst Wealth Ltd the winner of this month's Parameters prize draw, a voucher is on its way to you.

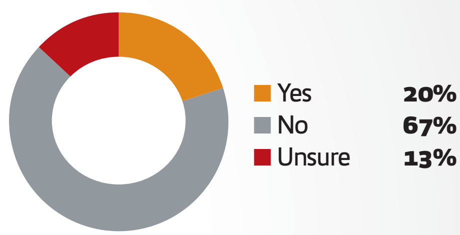
IS HYBRID ADVICE HOW ADVICE FIRMS WILL DEVELOP THEIR BUSINESSES?



DO YOU SEE THE COMPANY YOU WORK FOR IMPLEMENTING HYBRID ADVICE?



IS THE PARAPLANNER ROLE THREATENED BY HYBRID SOFTWARE?



WHAT DO YOU SEE AS THE MAIN BENEFITS OF A HYBRID ADVICE STRUCTURE?

Advisers and paraplanners can focus on where they add value for clients	35%
It will enable advice firms to offer advice to a wider group of uk	29%
It is bringing advice firms more into the digital age	26%
Frees up advisers and paraplanners to deal with more clients	22%
Paraplanners can focus on more complex cases rather than simple cases	24%
Suitability reports can be finalised in a fraction of the time	9%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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. Jane is in receipt of State pension credit. If she receives support for mortgage interest loan payments, they will be paid:

A Immediately, up to £100,00 of any mortgage covered with no limits on the length of claim
B After 39 weeks and until her mortgage is paid off
C After 26 weeks for interest on mortgages up to £100,000
D After 39 weeks for a maximum of 2 years

2. A trader invests £5,000 in a contract for difference, trading at a 10% margin. She bought the shares when they were £6 and sold when they were £8. Ignoring charges, the profit on the transaction is

A £1,667
B £5,000
C £10,000
D £16,667

3. Timothy is considering investing a lump sum followed by regular contributions into either a unit trust or an investment trust. What is the key difference between these two types of collective investments?

A Regular monthly investment can only be made via a unit trust
B There is greater fund choice via a unit trust
C An investment trust is closed ended while a unit trust is open ended
D Unit trusts are generally used for short to medium term investments, whereas investment trusts are used for long-term investments

4. Jim has recently died with a large portfolio of stocks and shares ISAs. Income and gains will remain tax free up until the earlier of the estate being administered, the ISA being closed or:

A Three years from the date of his death
B The first year anniversary of the date of his death
C Two years and one day from the date of his death
D Three years and one day from the date of his death

5. Jason has a holding of corporate bonds and his friend Michael has a holding of gilts. Jason wants to know how his holding differs from Michael's. You can tell him that:

A Only corporate bonds are exempt from CGT on any profit arising from a sale
B Only the interest from corporate bonds is taxable as savings income
C Only the interest from corporate bonds is always paid gross
D Only corporate bonds can be traded on the stock market

6. Clare has a stakeholder pension invested in the default investment fund with a lifestyle arrangement. Clare should be aware that (tick all that apply):

A Switching begins between 15 and 20 years before Clare's selected retirement age
B As she approaches her selected retirement date her fund is moved away from riskier investments such as equities into more secure investments such as gilts
C Clare will need to remember to switch her funds as her retirement date approaches
D Switching occurs at pre-set times and does not allow for market conditions

7. The following shares are held by Jill, Mark and Ned.

Name	Share	Beta
Jill	A	0.6
Mark	B	1.3
Ned	C	0.8

If all three investors hold their shares for the same amount of time, which of the following applies?

A If the stock market rises by 4%, Jill's share is likely to fall (but less than 4%).
B Ned is holding an 'aggressive' security.
C Jill is holding the most volatile share out of the three.
D If the stock market falls by 4%, Mark's share is likely to fall more.

8. Which of the following is required for a will to be valid?

A To be witnessed by one or more people
B It must be in writing whether print, type or handwritten
C For any previous wills to be physically destroyed
D The testator's full signature

9. Which of the following product features is applicable only to lifetime mortgages?

A Method of repayment
B Rent to be paid
C Whether a part share of the property can be sold
D Tenancy obligations

10. Which of the following is a factor to consider when holding commercial property?

A There are always plenty of buyers and sellers
B Prices are more predictable than residential prices
C It can be held and managed directly or indirectly
D Short-term trading is helped by lower costs

Last issue's answers

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

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

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Professional Paraplanner

The Investment Committee

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.

RATIONAL INVESTING

Valuations have not been looking good but, asks Wayne Nutland, fund manager-Multi-Manager Funds, Premier Miton Investors, are we about to see the flip side of the coin?

2022 has seen disappointing returns from most of the major asset classes across geographies. For UK investors, currency weakness has improved negative returns, for example, for 2022 to the end of September the MSCI World Index returned -9.3% when measured in GBP but -25.4% when measured in USD. Whilst welcome for sterling-based investors, from the perspective of these investors, sterling weakness has masked the true underlying weakness in the assets.

These negative returns, from relatively high starting valuations in 2020 /21 have been caused as central banks have raised interest rates, which mechanically lowers many asset valuations and has also led to fears of recession.

Higher rates and fears of recession occurring at the same time are important. In many previous periods of equity market weakness bond yields have fallen (and prices risen) in anticipation of central banks cutting interest rates in response to economic weakness. However, in 2022, central banks are primarily concerned with fighting inflation, hence interest rates and bond yields have risen despite fears of recession.

This combination has been critical for multi-asset performance in 2022 as it has meant that bonds have delivered negative returns alongside equites, with UK gilts and GBP corporate bonds returning -26.4% and -24.5% respectively for 2022 to the end of September. Higher bond yields have also contributed to underperformance from growth focused equity funds where valuations tend to be more sensitive to movements in interest rates and bond yields compared to broad equity indices. During the same period MSCI World Growth returned -32.4% compared to -18.5% for MSCI World Value, both in USD terms.

Interest rates and bond yields had been in a downward trend for decades. Whilst it's impossible to forecast what will be the new normal for rates, it seems likely that in contrast to many years of downward trending interest rates and yields, the risk is at least now two-way, which may argue for structurally lower weightings to bond duration and growth equities for many portfolios compared to recent years.

The flip side of the coin

Asset valuations have primarily fallen due to higher interest rates, or discount rates, which tends to be positive for future expected returns. This is most clearly visible in bonds. UK gilt yields have increased significantly, with the yield on the Bloomberg UK Government bond index hitting a low of around 0.25% in 2020 increasing to about 4% at end September 2022. Yields on global investment grade corporate bond indices have seen a similar move from under 1.5% to over 5% at end September. Other assets where yield plays a prominent part, such as property, have also seen meaningful increases in yields.

As equities aren't typically discussed in yield terms, the effect is less immediately obvious. The falls in equity markets have been caused by valuation compression as opposed to falls in company earnings which have proved reasonably resilient so far, which is another way of saying discount rates or expected returns have improved.

Equity price earnings ratios have seen meaningful declines. For MSCI World, the forward-looking price earnings ratio is in low double digits, from highs of over 20 in 2020 and 2021. Some markets are even lower with single digit ratios. The US remains more expensively valued, but even here ratios have reduced materially. Future corporate profits are of course at risk of decline, and it's likely that analyst profit forecasts remain too optimistic and need to decline, but given the moves in multiples, a decent sized decline in equity earnings has likely been priced.

Taking the reciprocal of the price earnings ratio, the earnings yield (earnings / price), shows an increase in earnings yield similar to the yield increase of the Bloomberg Global Aggregate Bond index.

Care needs to be taken in comparing bond yields (which reflect fixed coupons) and equity earnings yields (which reflect variable but typically long-term growing earnings), but in terms of change, it's clear that both are more attractive now than previously.

As a consequence of this re-pricing, expected returns are now better across the multi-asset complex. Investors tend to be pro-cyclical in their attitude to risk, looking to add funds after strong returns and being reluctant to do so after a period of weak returns. However, whilst valuations can still fall further, a rational investor should be more positive about investing now than they were at many points over recent years.

A longer version of this article can be found on the *Professional Paraplanner* website.

SEMINAR REVIEW

Professional Paraplanner's latest Investment Committee Seminar took place in London in October 2022. In this review, we look at what was covered

For any paraplanners wanting to help clients protect their wealth and retirement income in times of market volatility, with the added pressure of rising inflation and a recession, as well as those regularly researching and recommending investments for client portfolios, MPS, CIPs and CRPs, this was a must attend event. It brought together a range of speakers to cover topics from retirement income planning, through ESG, use of alternatives and investment trusts, to investment drivers going forward, and preparing for the Consumer Duty rules.

James Bird, Fidelity International

You've got to speculate to decumulate

Kicking off the event, James looked at the factors that can affect clients' retirement, specifically in the turbulent times we are currently facing, and the decumulation challenges this presents.

Decumulation investing is more complex than when accumulating assets, James pointed out, as it needs to focus not just on the median outcome but on the best and worst outcomes too, taking into account the threat from sequencing risk. With over 570,000 recorded centenarians in the world in 2020 the need for effective decumulation strategies in retirement planning is staring us in the face. Long term themes in retirement remain but are evolving, and as such there is a need to re-evaluate clients' decumulation journeys.


James Bird, Fidelity International

There are some key concerns for decumulators, James said. Currently we have the double whammy of market volatility and rising and likely, long-term inflation. "That has introduced further complexities. It is crucial to protect client capital."

Fixed income is the traditional mainstay of the retirement strategy and despite the current correlation between equities and bonds, it will continue to offer portfolio diversification, James suggested. Higher yields on debt will also benefit retirees' fixed income investments.

However, he added, real equity returns in the next ten years are unlikely to match the last ten, which is why active management is going to be key, with volatility presenting active fund managers with opportunities. But a key factor that has not been present in recent downturns will be geopolitics.

In this environment, the asset allocation mix is going to be more important than ever, James argued, moving from the traditional 60/40 portfolio to one using a wider range of assets, including alternatives. Finally, sustainability as a theme will continue to play a vital role in decumulation and he outlined five key themes that Fidelity is using in this area.

> ***"Real equity returns in the next ten years are unlikely to match the last ten, which is why active management is going to be key"***

Nick Britton, The AIC

Using investment trusts to access alternatives

Use of alternatives in portfolios was the theme of the presentation from Nick Britton of the AIC. In today's inflationary, volatile investment climate, he argued, investment trusts offer a tried and tested way of gaining exposure to different and often less liquid assets, which can provide diversification and defensive ballast in portfolios.

Alternatives can play both a bond-like role (for example via infrastructure) and an equity-like role (via growth and private equity) within portfolios, but advised investors often experience restricted access to alternatives, Nick said. This is due to a variety of reasons including high minimum investments, illiquidity and the fact they are harder to trade and value, and they are often unsuitable for open ended funds.

The number of investment trusts with investments in alternatives has been growing year on year, he said, making trusts a way for investors to access these kinds of investments. Using infrastructure as an example, Nick pointed to the long contracts, fixed, often inflation-linked payments, and the ability of trusts to access these projects though special purpose vehicles or operating companies, as well as social purpose, as reasons to invest in infrastructure through an investment trust.

Diversification is another key benefit of using alternatives, with infrastructure having a 0.42 correlation with UK equities, for example.

Henny Dovland, TIME Investments

Unlocking the Power of Alternatives - de-risking and diversification

In post pandemic markets and particularly with current volatility and economic pressures, investors have been seeking safety. Henny continued the theme of using alternative strategies by looking at how alternatives investments can be an integral part of de-risking portfolios, having the ability to diversify and deliver a consistent income. Underlying a successful alternative strategy, Henny said, was the need for long-


Matt Evans, Ninety One

term structural demand drivers. Three themes TIME Investments focusses on in its portfolios are healthcare, housing and education.

Within these are sub sectors, with different underlying drivers, delivering returns with a low correlation to each other. Examples are retirement homes – ideally new builds to offer appropriate accommodation, facilities and access – leased to care companies; and properties rented by the NHS on long leases.

Using the case study of a retirement home, Henny outlined how insufficient and inadequate supply, combined with a capacity constraint due to public sector financing, could deliver a long-term investment, providing strong yields, with the prospect of further growth through RPI-linked rental increases. In addition, this kind of investment delivers positive social impact through defined ESG considerations.

Stewart Heggie, Scottish Mortgage

Our circle of competence

"Know your circle of competence and stick within it – the size of the circle is not very important, knowing its boundaries however its vital" – Warren Buffett.

"This quote," said Heggie, "provides us with a useful frame of reference when thinking about our investment philosophy in the current environment. We know our limits.

"Scottish Mortgage's 'circle of competence' is anchored around providing long-term funding and support for the companies and entrepreneurs building the future of our economy. We focus less on the noise in the markets, and more on identifying the big drivers of change in the world and building relationships with the exceptional growth companies taking advantage of them."

Current economic pressures have been well documented, including inflation, interest rates, sterling devaluation, supply chain disruption and geopolitical tensions. It's a tough market environment "where short term certainty is being demanded", Heggie added. "This means there is a massive disconnect between share prices and fundamentals which creates a massive opportunity for those investors with a long-term view."

The core of what the trust does, he added, is to try to identify the big drivers of change and exploit those opportunities. "Only a small number of companies matter, what we aim to do is find the few that generate those extreme returns."

He added: "Progress is rarely a straight line; we are comfortable with the notion that extreme returns and smooth performance are mutually exclusive."

Matt Evans, Ninety One

Investing with all stakeholders in mind - Sustainability

"Investment can deliver greater value for all stakeholders if it takes all stakeholders into account." This was the main theme of the presentation from Matt Evans portfolio manager at Ninety One. It underlies the sustainability ethos of the firm's investment teams, and it reflects a movement in the market, Matt said.

"We genuinely believe there is a fundamental shift occurring. It is now becoming unacceptable to have the traditional focus, one purely about shareholder returns. It is being replaced with a view that you invest for returns but not at the expense of all other stakeholders."


Henny Dovland, TIME Investments

There are three pillars to Ninety One's sustainable investment process which enables the teams to pick the best opportunities, Matt explained. These are financial stability, internal sustainability, and positive impact. "We have a fundamental belief that if you can consider these criteria within all your investments, that sets you up to find good compelling opportunities. But you must invest with conviction in companies that can deliver those financial returns over time."

With ratings agencies producing inconsistent data, the team has developed a bottom-up approach to researching companies. This includes engagement with senior management of companies, to know how they are thinking and to help guide them onto a more sustainable path, Matt said. "Using a bottom-up approach, it is now possible to set up investment strategies with sustainability central to the approach, without giving up the core reason for investment, which is to generate financial returns for investors."

Christian Markwick, Apricity Compliance

Staying onside with Consumer Duty

With the first deadline for the new Consumer Duty rules set for the end of October 2022, firms need to be addressing what the new rules mean for their business. It is not tick box regulation and will need to be part of the culture of every advice firm.

Christian looked at the effect of the new rules and provided pointers for paraplanners on how to ensure they and their firms stay compliant with them.

Alongside a clear roadmap, Christian said, an advisory business needs to be able to assess its current policies and procedures and understand which of those will need to adapt to the new Consumer Duty Principles and Outcomes. Firms should map out which business processes need to be tackled and how. Key for consideration, are the four areas highlighted by the FCA: Products and services, pricing and value, consumer understanding and consumer support.

Christian emphasised that the culture of the business is fundamental to delivering on the Consumer Duty principles and staying compliant. The firm's purpose should be consistent with the principles of Consumer Duty. Segmentation of clients, as well as processes and procedures will need adapting to identify where the firm is not delivering good outcomes for its customers, and it should have a strategy in place to understand and tackle the root causes and manage and mitigate any poor outcomes. Documentation of this is also essential. Above all, Consumer Duty starts at the top with the leaders of the business who should be demonstrating commitment to the principles and delivering good outcomes for customers.

GO GLOBAL

Darius McDermott, managing director, FundCalibre, considers whether taking a global approach could be the simple answer we need to investment uncertainty

What's the biggest risk to investors and the wider investment industry? To me, the answer is simple: the latter has a penchant for overcomplicating things, often to the detriment of the former.

Take this year for example. To steal the words of our late Queen, it has been something of an *annus horribilis* for investors as inflation, geopolitical concerns and, latterly, the threat of recession, have dominated markets. I remember reading an article from Ruffer, which highlighted that in the first quarter of this year - the best-case scenario for a stock and bonds investor was a loss of 4.5 per cent from high yield bonds[1]. Every asset class fell, there was nowhere to hide. Interestingly, this was the first time this had happened since 1990.

> *The outlook appears so murky, that you could forgive investors looking high and low across asset classes for a position of safety*

At the time of writing, the UK is currently in a malaise courtesy of the Government's 'mini'-budget – a move which has de-stabilised Sterling, the mortgage market, and pensions. The outlook appears so murky, that you could forgive investors looking high and low across asset classes for a position of safety.

But perhaps the obvious answer is staring us in the face: diversification. This brings me to global equities, which are often seen as a one-stop shop for investors who don't want to have to worry about deciding geographical allocations in their portfolios. With more than

Investing in India – Pros and Cons

Pros

✓ Takes money out of sterling and diversifies investments across the globe
✓ Global stock markets have fallen significantly, making valuations attractive
✓ A global fund gives a manager freedom, particularly with a high conviction approach

Cons

✗ Sterling has weakened so you are not getting as much for your money/may lose out if the pound rallies
✗ Dominated by US equities, which is still a relatively expensive market
✗ It's a huge universe to cover – a manager's style could be out of favour for periods of time

Funds to consider

Core – JOHCM Global Opportunities Managed by Ben Leyland, this fund has a strong bias towards larger and medium-sized multi-national businesses. With a philosophy of 'heads we win, tails we don't lose too much', the fund can also hold large cash positions if valuations appear unattractive.

High Conviction – Brown Advisory Global Leaders This 30-40 stock portfolio targets companies with a dominant market position and either a 20 per cent return on invested capital or a pathway to it within five years. Company management must demonstrate that is has allocated capital skilfully and ethically in the past, while valuations must also be appealing.

Small-cap approach – Baillie Gifford Global Discovery Manager Douglas Brodie focuses on businesses which are highly innovative and capable of changing the world in some way; this means the fund tends to have significant weightings in the technology and healthcare sectors. As such, it is positioned very differently from its peers and can be more volatile, so is not for the faint-hearted.

41,000 stocks listed on stock exchanges worldwide[2], the opportunity is both vast and complicated – making it the ideal place for an active manager to flourish – and if active managers ever wanted to prove their worth, now is the time.

When it comes to the global approach – the proof is in the pudding. Research from Vanguard found that volatility within an investor's portfolio was reduced with a 35 and 55 per cent allocation to international equities – yet there remains a strong demand from investors to stay tied to their home market[3]. This has its issues. I'd be less than happy to have purely invested in the FTSE 100 for the past decade or so and missed out on those big gains from some the tech behemoths in the US.

Many true active managers will not pay any attention to the benchmark and will simply invest where they find the best opportunities, regardless of where a company is listed. At times this could mean an even larger weighting to the US – something global investors must be wary of.

The MSCI World, which captures large and mid-cap representation across 23 developed markets has just shy of 70 per cent allocated to the US[4]. 6.2 per cent is in Japanese companies, 4.2 per cent in the UK, 3 per cent in France, 3.5 per cent in Canada and 13.5 per cent in the rest of the world.

There are so many ways to approach a sector with over 300 funds to choose from. Our starting point tends to be which investment style we favour, but we also focus on how much exposure we want to US equities; whether the best value is to be found further down the market cap and income exposure.

There are other drawbacks – currency hedging can work for and against you in a global portfolio (unfortunately it is the latter following the 'mini'-budget), while there is also an argument that many companies in each home market (take the UK for example) are already multinational in nature – therefore you are already getting that global exposure. Year-to-date global equities are down 8 per cent[5], but I'd expect further falls as we head into a global recession. Ultimately, I think this sector is likely to form the bedrock of an investor's portfolio on the other side. There will be lots of opportunities for high conviction managers to tap into great companies at attractive valuations.

[1] Source: Ruffer: Nowhere to Hide – May 2022
[2] Source: Fidelity.com
[3] Source: Vanguard – Global Equity Investing: The benefits of diversification and sizing your allocation
[4] Source: MSCI World Index, 31 August 2022
[5] Source: FE fundinfo, figures in pounds sterling for MSCI World, 31 December 2021 to 29 September 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.

FUTURE VIEW

Russell Barlow, Global Head of Alternatives, abrdn, explains the role of blockchain and tokenisation in the future of investment

Imagine an investment world where you can own an area of a piece of artwork, such as the smile on Leonardo Da Vinci's Mona Lisa. Or perhaps one square inch of a luxury Manhattan penthouse, or one hundredth of a single Microsoft bond. This is what the world of tokenised investment promises.

Crypto-assets, blockchain, tokenisation and other distributed ledger technology are all still in their infancy, but the exciting technology being developed in this sphere is going to revolutionise the investing landscape. In this space, there's three key trends to watch out for: the growth of digital securities (or tokens), the growth of digital exchanges and service providers, and a rise in digital funds and products.

Ultimately, we could see the majority of "traditional" investments brought onto blockchains, opening up a wider range of opportunities to a much bigger audience of investors. In the future, it's likely that asset managers will offer funds in token form, as well as having the ability to convert the ownership of assets such as private debt and real estate into digital tokens.

So how to begin to understand this complex world full of new jargon?

Let's start with Distributed Ledger Technology (DLT) often referred to as blockchain, but in reality blockchain is just one type of DLT. This refers to information being recorded on a ledger; but unlike a traditional ledger, the DLT uses encrypted computer code and can't be altered.

If we can get technical for a moment, DLT's are a 'shared, immutable ledger' that can be used to record transactions and asset ownership in a network. These ledgers are seen as secure enough to create new crypto-assets, such as Bitcoin and the tech allows people to buy, sell and trade these assets 24/7 online. DLTs are also seen as secure and scalable enough to create and record other activity such as ownership or to verify that an action has been taken. It is fully traceable and can't be altered, meaning that others can rely on the information stored on the ledger to be a reflection of 'truth'.

So what is a token, or 'tokenisation'? This is a process that allows a private piece of data, such as bank card details, or ownership rights of an asset, to be replaced by a 'token'. The sensitive data is still stored securely for reference and still needs strong security. The digital token can be securely registered using DLT and it can also be fractionalised, meaning that in the future, you could own a square foot of a farm, or 10% of a vintage bottle of wine or 0.5% of a bond.

Crucially, tokenisation means that, should you wish, you can then sell that square foot of a farm relatively simply and without the expense and admin that goes with selling physical land. The ways in which tokens could be used is limitless.

One important concept to grasp is that a token can represent either a real, physical asset or a 'virtual' asset that exists only on a DLT network ('on-chain') such as a crypto coin, or a piece of digital art (also known as a non-fungible token or NFT).

"We could see the majority of "traditional" investments brought onto blockchains, opening up a wider range of opportunities to a much bigger audience of investors"

This is what investors are beginning to get excited about, as real assets can now be 'tokenised' and then that token can be fractionalised into much smaller parts.

This evolving technology requires new financial infrastructure and that's where digital trading platforms come in. Archax for example, is the first ever digital securities exchange regulated by the FCA in the UK, bringing together the benefits of DLT to provide access to these new investment opportunities alongside applying this technology to the existing investment space.

As you would expect, the speed of execution when it comes to digital trading is 'atomic' – meaning that settlement is instantaneous - trading 24/7, 365 days of the year. This allows investors to trade irrespective of the time zone they're located in and they benefit from instantaneous settlement, which not only enables faster access to their capital but also brings greater operational efficiencies.

In an era where cybercrime is a huge concern for all, instant access to markets any time of any day and the speed of settlement can be a concept that's hard to fathom. However, DLT security should make transacting much more secure as there will be a digital 'ledger' or record of transactions and ownership, which can speed up buying and selling and make the admin and record-keeping around transactions much more straightforward.

It doesn't stop there. As well as assets, loans could also be 'tokenised'; a start-up looking for funding could issue asset tokens for much smaller amounts than before and raise money more quickly.

With the potential to offer greater transparency, greater speed and less trading friction by using these digital technologies, the future of investing is looking exciting. Indeed, the scope of the opportunity here is limited only to the creativity of issuers and the assets available.

DATA DOWNLOAD

Monthly facts and figures on investment performance, risk v return, outflows and inflows, and the most analysed areas of the market. Data to 30 September 2022, provided by FE Fundinfo

BEST RATED FUNDS

IA	3 year Cumulative Performance	FE Fundinfo Alpha Manager Rated	FE Fundinfo Crown Fund Rating
Stewart Investors Indian Subcontinent Sustainability	68.76	✓	5
Fidelity Global Technology	64.93	✓	5
Baillie Gifford Pacific	43.50	✓	5
IFSL Marlborough European Special Situations	39.80	✓	5
GQG Global Equity	36.12	✓	5

AIC	3 year Cumulative Performance	FE Fundinfo Alpha Manager Rated	FE Fundinfo Crown Fund Rating
Baillie Gifford Pacific Horizon	87.92	✓	5
Personal Assets Trust	14.69	✓	5
Dunedin Income Growth Investment Trust	11.69	✓	5
Liontrust Edinburgh Investment Trust	8.10	✓	5

BEST PERFORMING FUNDS IN TERMS OF RISK VS RETURN

IA	3 year Cumulative Performance	FE Fundinfo Crown Fund Rating
Active Niche Luxembourg Selection Fund Active Solar	181.29	238
L&G Battery Value-Chain UCITS ETF	106.14	152
Guinness Sustainable Energy	98.61	150
iShares Global Clean Energy UCITS ETF	98.56	216
Polar Capital Biotechnology	78.19	171

AIC	3 year Cumulative Performance	FE Fundinfo Crown Fund Rating
CATCo Reinsurance Opportunities Limited	1869.67	5,237
Edge Investment Management IT Edge Performance VCT	293.94	280
Starvest	255.56	362
New City Investment Managers Geiger Counter	169.79	453
Natural Resources Growth and Income	129.85	265

RISKIEST SECTORS

IA	3 year Cumulative Performance	FE Fundinfo Crown Fund Rating
Latin America	-5.98	165
UK Index Linked Gilts	-30.46	140
Technology and Technology Innovations	34.42	135
Commodity/Natural Resources	46.36	134
Financials and Financial Innovation	4.99	132

AIC	3 year Cumulative Performance	FE Fundinfo Crown Fund Rating
VCT Specialist: Media, Leisure&Events	93.91	262
China/Greater China	1.75	179
Property Securities	-22.32	179
Property UK Logistics	12.41	167
Commodities & Natural Resources	52.55	163

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	386.31	-2,571.61
State Street ACS Multi-Factor Gbl ESG Idx Eqty	2,415.16	244.01	36.45	-2,207.60
BlackRock ACS UK 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	182.18	-1,710.07

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	56.93	4,168.64
Liontrust Japan Equity	30,007.75	35,344.80	1,685.49	3,651.56

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	46.36
India/Indian Subcontinent	45.73
Technology & Telecommunications	34.42
North America	34.05
Healthcare	34.00

AIC

VCT Specialist: Media, Leisure&Events	93.91
Infrastructure Securities	60.21
Commodities & Natural Resources	52.55
VCT Specialist: Health & Biotech	46.78
Insurance & Reinsurance Strategies	45.93

MOST RESEARCHED

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

MOST VIEWED FACTSHEETS

	IA		AIC
1	Vanguard LifeStrategy 60% Equity	1	Scottish Mortgage Investment Trust
2	Vanguard LifeStrategy 80% Equity	2	F&C Investment Trust plc
3	Vanguard LifeStrategy 40% Equity	3	Smithson Investment Trust
4	Vanguard LifeStrategy 100% Equity	4	Capital Gearing Trust
5	Fundsmith Equity	5	InfraRed Capital Partners HICL Infrastructure

MOST CHARTED

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

STRUCTURED PRODUCTS

STRUCTURED PRODUCT MATURITIES AUGUST-SEPTEMBER 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 13	02/09/2022	6.00	5.61%	56
Mariana	10:10 Plan August 2017 (Option 2)	18/08/2022	5.00	2.97%	44.7
Reyker Securities	FTSE 100 Defensive Supertracker Plan September 2016	26/09/2022	6.00	2.98%	43.25
Mariana	10:10 Plan August 2019 (Option 3)	23/08/2022	3.00	5.54%	43.2
Walker Crips	Annual Growth Plan Issue 52 (Kick-out)	11/08/2022	5.00	2.13%	37.5
Investec	FTSE 100 Enhanced Kick-Out Plan 79 (UK Four Option)	12/09/2022	4.01	0.63%	36
Mariana	10:10 Plan August 2018 (Option 1)	17/08/2022	4.00	-0.57%	30
Societe Generale	UK Kick-out Plan (UK3) Issue 7	13/09/2022	3.00	0.25%	27
Mariana	10:10 Plan August 2019 (Option 1)	23/08/2022	3.00	5.54%	27
Investec	FTSE 100 Kick-Out Deposit Plan 79	12/09/2022	4.01	0.63%	24
Mariana	10:10 Plan August 2020 (Option 3)	15/08/2022	2.00	23.30%	20
Investec	FTSE 100 8 Year Kick-Out Plan 3	10/08/2022	2.00	23.51%	19
Investec	FTSE 100 Defensive Kick-Out Deposit Plan 5	12/09/2022	4.01	0.63%	18
Mariana	10:10 Plan August 2020 (Option 2)	15/08/2022	2.00	23.30%	17.5
Meteor	UK Kick Out Plan July 2020 (Exclusive to clients of Lowes)	01/08/2022	2.00	25.70%	17
Investec	FTSE 100 Kick-Out Deposit Plan 87	16/09/2022	3.00	0.13%	16.5
Investec	FTSE 100 8 Year Kick-Out Plan 4	28/09/2022	2.00	18.72%	16.5
Mariana	10:10 Plan August 2020 (Option 1)	15/08/2022	2.00	23.30%	14

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