eQ investors newsletter

Certified B Corporation

CEOS' UPDATE: NAVIGATING AN UNCERTAIN WORLD

What a year it's been. Rising interest rates, the cost-of-living crisis, and volatility across the global financial markets driven by various unsettling events and dynamics.

Despite multiple challenges, the ability to restructure wealth and place more effort into future planning is within our control. There are lots of factors that go into a well-thought-out financial plan. Our role is to help you fit together all the moving pieces – dreams, income, outgoings, and an uncertain economic landscape – to create a cohesive plan that aims to help you achieve your goals.

Having a financial plan in place – and in action – can provide real peace of mind that you'll be able to cope with whatever challenges come your way. In a time when we all crave certainty, this feels like a particularly appealing prospect.

Over the course of the last year, you've been asking questions such as:

- Is it smart to keep money invested during market uncertainty?
- I haven't invested yet but is now a good time to invest?
- How much risk am I currently taking and how much do I need to take to achieve my objectives?

These questions are central to our ongoing discussions with you. Often it leads to an enriched financial plan, and increased confidence, knowing that your decision to stay invested is grounded in sound financial principles.

At EQ, we do not make short-term bets against movements in prices. We invest by matching our investment strategies with the long-term nature of our services. We believe in time in the market, rather than trying to time the market.

Developing and maintaining strong relationships with our clients has always stood at the heart of EQ's ethos. With our financial planning as a consistent, ongoing process, you always know where you stand.

Please continue to check our blog and emails for updates and please be assured we're all working hard to provide you with the best service possible. As always, please do not hesitate to reach out to us

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Thank you for your continued support.

Sophie Kennedy

Sophie Kennedy,
Co-CEO

Toby Walker

Toby Walker,
Co-CEO

FEATURING:

CIO view: 2024 outlook

Capital gains tax - act now

State pension top-deadline extended again

CIO VIEW: 2024 OUTLOOK

If 2023 was the year of rate hikes, 2024 could be when higher-for-longer rates play out globally. Here's what EQ's CIO Kasim Zafar has to say about the year to come and your portfolios.

What's the single most important piece of advice for the year ahead?

Markets will continue to face bouts of volatility as they grapple with shifting expectations for when central banks may change from a restrictive to a more supportive stance.

With wage growth currently higher than core inflation, in the absence of a recession we believe central banks will be cautious about cutting interest rates lest they stoke the inflation fire they have fought so hard to put out.

When markets are volatile, we all tend to focus on the short term and to seek greater certainty. But it is precisely in markets like this that one finds the best long term investment opportunities.

> "The world is changing at pace, but for long-term investors the core message remains consistent: stay invested and stay diversified.

How are you approaching cash within portfolios?

With interest rates having risen, the returns available across all asset classes have increased too. So, although holding cash looks attractive at 4 – 5%, we find returns of 6 – 7% available on short dated corporate bonds and asset backed securities which carry marginally greater risk, more compelling and we have been increasing exposure to these assets within portfolios.

> "Cash once again offers an investment alternative. However, it's unlikely to be the answer to meeting one's long-term financial goals.

How is EQ positioning portfolios for an environment where interest rates may be higher-for-longer?

We have been increasing our investments in funds with a greater focus on income, strong balance sheets and high quality of earnings. These features will mean companies within portfolios will be able to adapt to the higher interest rate environment and the higher cost of capital, which should be reflected in more robust share prices.

We also continue to back our conviction in various technology themes, where the underlying businesses tend also to be very high quality, many with net cash on their balance sheets and with strong earnings outlooks as businesses elsewhere seek technological solutions for productively improvements.

In addition, for the first time in a decade, bonds offer compelling returns and so they rightly feature prominently in portfolios. We don't think we are completely out of the woods with inflation just yet, so we are keeping a bias towards short term maturities (around three years or less) for now. As we look ahead, the returns available in this segment of the market form a key contribution to overall total return.

More generally, we prefer more nimble fund managers who can be more adaptive to the market environment as it evolves.

How will geopolitical events affect investors in 2024?

It is quite clear that the world is more unsettled today than it has been for much of the last decade or longer. Importantly this applies both to developed markets (with the root cause of populist politics still very much unresolved) as well as to emerging markets and of course in regions engaged in conflict.

As the US and UK both gear up for elections in 2024, we expect to see much of the hardship faced by individuals in the last few years form political front lines in the battle for peoples' votes, which could lead to increased political fragmentation. This comes at a time when the global community faces many challenges, like limited access to scarce resources, changing access to the latest technology and the impacts of climate change, to name just a few.

Other than bouts of short-term volatility, geopolitics could influence the investment outlook more persistently if it affects inflation, such as through supply chain disruption and commodity price volatility or through restrictions on certain companies and/ or sectors through sanctions and trade restrictions.

> " In a market burdened by uncertainties, a flexible approach should help to mitigate these risks

Where are we finding attractive investment opportunities?

As mentioned, given an uncertain outlook, we find the fundamental corporate earnings profile and financial health of high-quality companies very attractive. Recent share price weakness has allowed us to increase our exposure to these traditionally defensive companies. Given they are usually priced at a 10-20% premium to the market overall, we see their current valuations (in line with the market) as very attractive.

We are also excited by how cheap small and medium sized companies have become relative to large companies and this is an active area of research for us. We think many of these companies still need to adjust to the higher interest rate environment and so it's probably still too soon to invest. This will likely be a key source of outperformance when we get closer to central banks signalling a loosening of monetary policy.

Although infrastructure assets have underperformed this year, this still is one of our highest areas of conviction. In the investment trust space, share prices are at the cheapest levels since the financial crisis which gives a substantial cushion for any potential downward adjustments to asset values.

However, we keenly note the value of similar assets have been bought and sold in private transactions at premiums (upward adjustments) to current market pricing.

In a nutshell, what should we expect in 2024?

Overall, while 2023 was about a fundamental shift in the cost of capital, we see 2024 being more about adjusting to this higher cost. This is likely to present some economic and operating challenges for companies. We believe there is a risk of slowing economic growth, but we also expect inflationary pressures to gradually recede.

Our key focus is on balance sheet strength and resilience of earnings. This stable core will give us the base from which to seize on investment opportunities as and when they arise.

Kasim Zafar,
Chief Investment Officer

CAPITAL GAINS TAX – WHAT DO THE CHANGES MEAN FOR YOU?

Act now to offset Budget tax changes.

What are the changes?

In the 2022 Autumn Budget, Chancellor Jeremy Hunt announced changes to the Capital Gains Tax (CGT) system. CGT is payable on the increase in value of assets including investments and property at the point of sale or gift. Main residence properties are exempt from CGT.

The changes will be to the annual exemption amount (AEA) – often referred to as a CGT allowance i.e., the amount of gains you can make in a tax year before paying CGT. In 2022/23 the AEA was £12,300 for individuals (£6,150 for trustees) and this reduced to £6,000 for individuals (£3,000 for trustees) at the start of the 2023/24 tax year.

From the 6th of April 2024, the AEA will reduce again to £3,000 for individuals and £1,500 for trustees.

Capital Gains Tax rates

Type of asset	Basic rate	Higher rate
Shares	10%	20%
Residential property	18%	28%

What you need to do

It is expected that this move will provide an additional £275million of revenue for the Treasury in the 24/25 tax year. Historically, smaller unwrapped portfolios were not liable to CGT as their gains were with the AEA each tax year.

By the 2024/25 tax year, the Government estimates that an additional 260,000 individuals and Trusts may be liable for CGT, that otherwise would not have, had these changes have not been implemented.

The level of growth in any tax year will have a significant impact on the liability for CGT. From 2024/25, a portfolio of £100,000 will be liable to CGT if growth exceeds 3% in that tax year.

When do I pay CGT?

Gains within an investment portfolio will usually be declared on your Self-Assessment. This will need to be submitted and any tax owed to HMRC will need to be paid by the 31st of January following the end of the tax year.

Gains from a property sale such as a second home or investment property need to be paid to HMRC within 60 days.

Are there any ways to minimise CGT going forward?

There are several strategies for reducing a potential CGT liability:

1. Be aware of any losses within your portfolio, these can be used to offset any gains. You can carry losses forward to future tax years.

2. Remember to make use of your tax efficient allowances each tax year and use your ISA and pension allowances.

3. Assets can be transferred between spouses/civil partners without incurring any CGT. Make sure to use both of your CGT allowances each tax year.

4. Also ensure that the spouse/civil partner with the lowest tax rate incurs the gains to reduce the level of tax payable.

5. Contributing to a pension may move you into a lower tax bracket which means you pay a lower level of CGT.

6. Invest money into an Enterprise Investment Scheme (EIS). This can reduce or delay your CGT liability.

Zohaib Mir,
Chartered Financial Planner

A VIEW FROM THE CHAIR

EQ's Chair, John Spiers discusses why a short-term focus has driven most businesses to forget about the important long-term role they have in taking care of people and the planet.

When I started my working life (in the early 1970s) the corporate environment in the Western world was very different from today. Risk taking was discouraged and change occurred at a glacial pace. There were three main reasons for this. Tax systems bore down heavily on high earners; in the UK at one point unearned income attracted a rate of 98%. Trade unions held huge power and were generally opposed to change, especially if it might result in job losses. Finally the corporate culture encouraged steady progress, keeping your nose clean, rather than pushing for radical change.

Under the Thatcher and Reagan governments in the 1980s the tax system changed, union power was restricted by legislation and entrepreneurial risk taking was encouraged. Private equity capital increased dramatically, bringing with it much more generous incentive arrangements for senior executives. In order to prevent a loss of talent other corporations followed suit, even those that had previously been sleepy public sector utilities. This led to an acceleration of growth and initially the benefits were felt broadly across the population, as long as you were in work.

In the US the ratio of CEO pay to the average production worker was around 20 in the 1950s and 1960s, rose to over 40 in the 1980s and is now around 200. In contrast, the standard of living of the median employee stagnated after 2000, or even fell. The concept that increased wealth would trickle down to the masses hasn't worked. Furthermore, the incentive to reap massive short term rewards has encouraged a disregard for long term damage to the environment.

Consequently there is a growing sense that capitalism is not working. That's driving a polarisation of political views as people search for extreme solutions. These are dangerous times in which business as usual is not the answer EQ's investment processes and culture are designed to reflect this.

We want to invest in businesses that have sustainable operating models and to press for change where necessary. I'm proud of the work that we are doing in conjunction with organisations such as ShareAction and ClientEarth in this regard.

In the US the ratio of CEO pay to the av
The Benefit Corporation movement (of which EQ was an early UK member) is another attempt to address systemic failures of capitalism by broadening the remit of corporations beyond profit to include having a positive impact on society and the planet. It's growing fast with membership now exceeding 7,500 companies in more than 90 countries but if it's going to have a real impact that reach needs to be extended. I encourage everyone to favour B Corps with your business wherever possible.

John Spiers

John Spiers,
Chair

5 TIPS FOR SMALL BUSINESS OWNERS

Being self-employed offers numerous benefits, but it also requires diligent financial planning to ensure stability and success. Without the financial safety nets of traditional employment, it's crucial to take control of your finances. Below are five points to consider when developing your financial plan.

1. Define financial goals

Effective financial planning starts with setting clear and attainable financial goals. Consider short-term objectives like managing taxes and long-term goals such as retirement planning. Having well-defined financial goals provides direction for your financial decisions.

2. The importance of a safety net

As a business owner, you have a responsibility to make sure that if disaster strikes, you're leaving those you leave behind with security and stability. There is no Statutory Sick Pay for the self-employed, which may mean a reduction or halt to your regular income. Have you considered the impact of this?

As a director of a limited company, you can take life insurance out through the company. Like pension contributions, this will be an allowable expense, which will reduce your corporation tax liability.

You should also consider protection for the other key people in your business. Key person insurance protects businesses against the loss of profits if an employee becomes terminally or critically ill or dies. The money can be used to find a replacement. Key person insurance can help keep the business trading.

3. Make the most of pensions

You may think of your company as your retirement plan, but this can be very risky because as you know, owning a business can be unpredictable. As a business owner you do not benefit from a workplace pension. However, as a business owner there are still very generous tax benefits available if you contribute to a pension which will help you build a secure future.

As an example, if you were to take £100 out of the business as a higher rate taxpayer, you would receive just £54 after corporation tax and dividend tax. If you contributed that £100 into a pension, the full £100 would be applied to the pension.

Furthermore, if you have been employed before it's likely you will have company pensions through your previous employers, and it is worth reviewing and potentially consolidating these plans to keep things simple and to make sure they are invested in line with your goals.

4. Investing

Where do I invest my money? Will I lose it all? What products do I use? These are questions we hear all the time and understandably so, investing money can be very confusing. At EQ Investors (EQ) we invest your money for you based on factors such as your goals, your attitude to investment risk, sustainability preference & how long you're investing fo

5. Plan your exit

If you want to sell your business in the future, you may have a sale value in mind, but will this number meet your income needs for the rest of your life? Or vice versa, you may have a retirement income figure in mind, but you may not be sure how much you need to fund that retirement income figure. Alternatively, you will be so busy with running the business you haven't considered this at all.

I appreciate that planning for years from now may not be top of your priorities as you work hard to build your business, and this is where a good financial adviser can help you. A financial adviser can help you understand and establish your goals, make plans to meet your goals and then help keep the plan on track as time goes on, giving you more time to concentrate on the things you enjoy.

Peter Hargreaves,
Financial Planner

STATE PENSION TOP-DEADLINE EXTENDED AGAIN

For those who may have missing NI years between 2006 and 2016 (to qualify for a full state pension), there's now more time to plug the gaps. The deadline has been extended to **5 April 2025.**

Background

At times like these an inflation-proofed income is worth its weight in gold. One such income that most of us can expect to receive is the State Pension. The full State Pension is currently £203.85 per week and is proposed to rise to £220.15 from April 2024. To qualify for the full State Pension, you must have paid National Insurance Contributions (NICs) or received NICs credits for 35 years.

The government recognises that some individuals may have gaps in their NICs record for a variety of reasons.As such, they provide the opportunity to purchase additional years to ensure an individual can obtain the full State Pension at State Pension age.

National Insurance contributions & entitlements

When the new State Pension was introduced in April 2015, the years needed to qualify for the full State Pension changed from 30 to 35. In acknowledgment of the government moving the goalpost they allowed a small window for men born after 5 April 1951 and women born after 5 April 1953 to purchase additional years NICs going all the way back to 2006 to assist in obtaining the full State Pension.

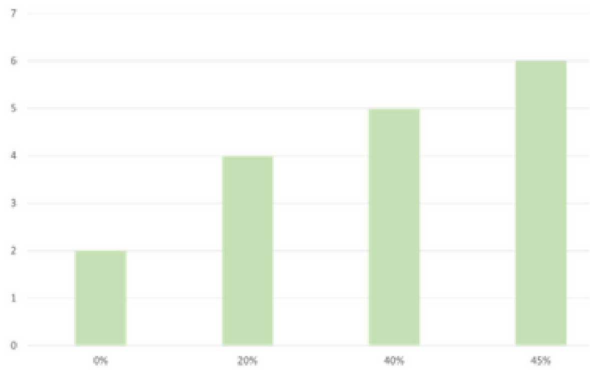
What you need to do

The first step is to assess if there are any gaps in your NICs record. To do this you need to obtain a state pension forecast online. This will confirm if you have already accrued entitlement to the full State Pension or are likely to do so by State Pension age. If you do not have full State Pension entitlement, then you need to check your NICs record for 'incomplete' years.You will find a link to your NICs record on the State Pension forecast statement.

The cost of purchasing additional State Pension

Now that you know the position of your State Pension, you can consider the value of maximising it. The current cost of purchasing extra State Pension is £824 per £27 of annual State Pension income. Considering average life expectancy of 86, the State Pension may be payable for 19 years. Assuming inflation at 2%, your purchase of £275 annual income for £824 could provide you with £6,682 of income over an average lifespan.

Years until break even



The chart above shows that it would not take long before the extra income from the State Pension is higher than the amount paid upfront. It would take somewhere between three to six years depending on your tax bracket.

There is no blanket answer; everyone's circumstances are different. If you need help with this decision,then please do get in touch with your EQ planner.

Zoe Brett,
Senior Technical Consultant

CELEBRATING OUR COMMUNITY IMPACT

EQ Investors team up to support Panathlon

A team of volunteers from EQ Investors (EQ) recently lent a hand at a Panathlon North London competition in Walthamstow. EQ Investors, through the EQ Foundation, has provided funding for Panathlon over several years which has helped the charity expand its reach and include many more children with disabilities and special educational needs across its sporting programmes.

Other EQ Investors volunteers also raised money for Panathlon, by taking part in the Nuclear Races event in Brentwood, Essex. The team took part in a 7K 'race' across fields, lakes and swamps involving 65 obstacles that severely tested the physical and mental stamina for all those involved. Freddie Cleworth (second from right in the picture below) said after the Panathlon competition in North London:

> "We saw in real-time the positive effect Panathlon has for the children, building their confidence through the enjoyment of competitive sport.

Leave us a review

If you've had a positive experience with us, we'd appreciate it if you could leave us a review on Google or TrustPilot.

We value your honest feedback so we can continue striving to improve our planning and investment services. We know that you need advisers that you can trust with your finances.

> "Over the years our financial planning business has been built from existing clients recommending us to people they know, so we understand the value of a personal introduction.

That is why we spend the time getting to know our clients, their needs, and their goals. Online reviews are often a person's first port of call when searching for a wealth management firm. So, by taking just a few moments to record your experience with us, you could help someone else in their time of need.

To those of you who have left us a review previously, we'd like to extend our gratitude. Thank you for continuing to trust us with your finances and allowing us to help you meet your long-term goals.

To instantly leave a review, click on the links below:

- Leave a review on Google
- Leave a review on Trustpilot

AND THE WINNER IS...

Investment in young people award

In July we celebrated Resurgo Spear's 20th anniversary as a charity. The Spear programme supports 16–24 year olds facing barriers to employment with the skills and mindset they need to step into their full potential and thrive in work.

EQ Investors has worked with the Spear Programme for over seven years, employing seven Spear graduates (10% of our workforce), and it was an honour to collect an 'Investment in Young People Award'.

NextGen Leaders

Congratulations to our Head of Sustainability, Louisiana Salge, who has been named as one of TheWealthNet's 2023 PAM NextGen Leaders.

Wealth For Good Awards 2023

We're very pleased to share that EQ Investors has won two awards at the WealthforGood Awards 2023. These were collected in the 'Best Sustainability and ESG Thought Leadership' and 'Best Sustainability Offering' categories.

Philip Greenwood achieves fellowship of the Personal Finance Society

We are absolutely thrilled to be able to congratulate Philip Greenwood, Head of Technical Consulting at EQ on the distinction of achieving Fellowship, the highest qualification awarded by the Chartered Insurance Institute (CII).

To achieve the qualification, Philip has had to show immense dedication and a high level of technical knowledge, passing numerous exams requiring around 1,600 hours (or 66 days) of study.

THE EQ FOUNDATION

The EQ Foundation awards makes grants towards charities and charitable projects within its three priority areas - social mobility, early intervention, and the environment.

The Green Match Fund

The Green Match Fund is a match funding campaign for charities which are working on environmental issues as part of their core mission. All public donations made to participating charities via the **BigGive website** during the week of the campaign are matched up to a specific amount. Donations were made to two charities this year, and both reached their matching targets.

Blue Marine Foundation is a charity dedicated to restoring the ocean to health by addressing overfishing, one of the world's biggest environmental problems.

BLUE MARINE FOUNDATION

Rainforest Trust is a non-profit environmental organisation focused on the purchase and protection of tropical lands to strategically conserve threatened species. Rainforest Trust's goal in the Brazilian Amazon is to permanently safeguard 20 million acres of intact forest as new protected areas and Indigenous territories.

RAINFOREST TRUST

West London Zone

West London is one of the most unequal and economically disadvantaged areas of the UK.

West London Zone work with children and young people who would benefit from additional support and opportunities in order to fulfil their potential and flourish into adulthood – we've been working them for several years.

We recently supported their Champion's for Children Campaign which raised funds to provide summer support to the children in the programme.

WEST LONDON ZONE for children and young people

Discover the best charities to give to

Giving is Great is a website dedicated to making it simpler to identify highly effective charities. We established Giving is Great partly because we were finding it so hard to find effective charities in our preferred areas of focus.

More than 75% of all voluntary donations in the UK are directed at a few thousand charities, most of which are household names. There are tens of thousands more impactful organisations out there below the radar that lack the marketing budgets to become household names.

We have continued to develop the functionality and believe it is now the 'go to' source of information on registered UK charities, used by numerous professional advisers, foundations, and members of the public.

As well as holding data on every registered charity it has a growing list of 'rated' organisations that we have examined in detail and, in most cases, donated to ourselves. Helped by the availability of Google non-profit free ads we have expanded the reach to over 13,000 visitors a month.

Please visit the site and let us know your thoughts:

https://givingisgreat.org/

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