EQ investors Newsletter

Spring 2016

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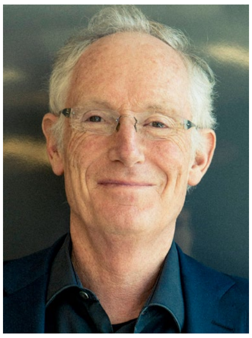
The year ahead



2015 was a pretty tough year for markets. Legendary investor Warren Buffett lost over 11% for his shareholders, so in that context I was pleased to see that all of EQ's model portfolios posted positive returns. 2016 looks like being even tougher now with most major markets officially in 'bear' phases. This round of jitters is continuing to puzzle many commentators as growth prospects appear to have only deteriorated slightly and with negative interest rates becoming more widespread most alternatives to equity investment look even less appealing.

We understand that clients will be worried at times like these. It would be great if we could be definitive about what lies ahead but markets just do not operate in that way. What we do know is that they always recover and providing there is no immediate need for liquidity it is best not to panic. Anyone trying to second guess a market downswing has to be brave enough to reinvest when the outlook is even worse.

As usual we have tried to cover a range of topics for clients in this newsletter. Next month we will hear the Chancellor's plans for pension tax relief and it seems likely that this will be bad news for those on higher incomes. Indeed, it seems possible that saving via a pension in the future might not make any sense for anyone who expects to pay more than basic rate tax in retirement.

In recognition that clients will be looking at other types of tax shelters we have launched a VCT research service. I have been connected with VCTs since their beginning in 1995. Performance varies greatly so high quality independent research is vital and I am confident that our team will deliver that.

Our aim is to be the best in our business, not the biggest. I am confident that we have strengthened our proposition over the last year but we cannot be complacent. Please don't hesitate to let me know where we can do better.

John Spiers

John Spiers
Chief Executive

EQ named as a top 100 adviser firm

EQ has been named in New Model Adviser's Top 100 financial planning firms. The annual survey lists the best advisers in the UK and we're delighted to be included.

New Model Adviser TOP 100 2015

New series of guides

We have recently launched a series of informative guides to help you make the most of your investments – from market insights to product-specific information.

The first three are available from the EQ website:

- 10 common investment errors and how to avoid them
- 10 common financial planning mistakes
- Guide to Venture Capital Trusts

To download the guides visit: eqinvestors.co.uk/guides – we'd welcome any feedback.

A good idea... for almost nobody

***Dan Atkinson**, Senior Technical Consultant, shares his concerns around the secondary annuity market.*

The Government has confirmed that they are pressing ahead with reforms that will give more than 5 million pensioners the flexibility to trade their unwanted annuities for cash. Under the plans, a 'secondary annuity market' will be created allowing pensioners to trade their income on the open market.

Seen as a further extension of pension freedoms, the secondary market is estimated to bring in nearly £1bn in tax take in its first two years. For a Government battling with a deficit, you can see the attraction. For consumers this will give an opportunity to revisit past decisions in the light of new options and information, but there are significant problems around value and costs.

Valuing annuities for resale is very difficult: how do you make a fair – unbiased – assessment of life expectancy at an individual level? The skill set for this assessment is expensive, requiring both actuarial analysis and medical assessment. It would be difficult to find a doctor to certify a healthy person's life expectancy, while the 'data' available to actuaries is based on populations.

Our biggest concern is either that 'fair value' will not be fair, or that the cost of getting there will be disproportionate

It is likely that insurance underwriters will be involved, but then it's hard to see how they wouldn't be acting in the best interests of the insurer. I doubt that individuals would be prepared to pay for an 'independent' underwriting process.

Moreover, the cost of running an annuity is spread over the lifetime of the payments by the insurer; these costs include distribution, commission,

underwriting, investment and profit. It would be naive to think that the outstanding costs and profits will not be deducted from its 'value' by the insurer.

Our biggest concern is either that 'fair value' will not be fair, or that the cost of getting there will be disproportionate. To protect consumers the government is proposing a similar mechanism to transfers from Final Salary Pension Schemes: if the surrender value exceeds a certain amount then financial advice must be sought. However, this will be a highly specialist role and the cost of a review is likely to be measured in thousands of pounds, not hundreds. Pension Wise will be covering this area, but it will only be guidance.

Keeping an annuity will be the right decision for the vast majority, but those that do want to take advantage of the option to trade in must be protected. This initiative is a great example of an idea that has good principles and intentions, but hasn't been thought through properly.

3.

Beware the Ides of March: maximise your pension contributions before the budget!

***Jeannie Boyle**, Technical Director, warns about impending changes that could cost taxpayers thousands.*

Last summer, the Government carried out a consultation on pension tax relief and we are expecting the Chancellor George Osborne to announce the outcome in next month's budget. The consultation examined two proposals:

- A single rate of pension tax relief
- The creation of a pension ISA

Whilst nothing has been confirmed yet, reputable sources (including The Telegraph and Financial Times) are reporting that higher rate tax relief is to be scrapped, to be replaced with a flat-rate 'savings incentive' of between 25% and 33% for everyone. That would clearly be bad news for those currently able to claim relief at 40% or 45%. In fact, it's even worse than it appears because the rate mooted is calculated as a 'top-up'. A 25% top-up is equivalent to 20% tax relief, 33% is the same as 25% relief! A 25% rate would save the exchequer an estimated £6.1 billion initially – highly attractive for a Chancellor short of revenue.

Higher Rate and Additional Rate taxpayers seem to be in the Last Chance Saloon for making contributions while they can. The only potential silver lining is that we might see the much-maligned lifetime allowance removed.

Higher Rate and Additional Rate taxpayers seem to be in the Last Chance Saloon for making contributions

ISA to pension transfer

If you are short of the funds needed to make maximum use of your pension contribution allowance it might be worth considering withdrawing some funds from your ISA.

The introduction of the Uncrystallised Fund Pension Lump Sum (UFPLS) facility has made it easier to access your pension. If you are nearing retirement, you can take advantage of a triple whammy: tax-free ISA withdrawals, tax relief on pension contributions and tax free cash to boost your savings. This is most effective for 40% and 45% taxpayers who are likely to pay tax at 20% in retirement.

Once UFPLS is used, the Money Purchase Annual Allowance is triggered, so a maximum of £10,000 can be contributed in future years. Provided you don't make any further significant contributions, this is unlikely to be relevant. Leaving the funds in the pension wrapper means they are also free of inheritance tax. The following two examples demonstrate some of the possibilities:

Example 1. An overnight return of 6.25%

Profile

- ISA fund: £10,000+
- Pension fund: £50,000
- Age 55+
- Salary: £30,000+

Currently making 3% matched pension contributions

	ISA	Pension	Income
Start with...	£10,000	£50,000	-
Withdraw £10,000 from ISA and top up pension.	(–£10,000)	(+£10,000)	-
Government tops up pension contribution.	-	(+£2,500)	-
Retire and withdraw £12,500 from pension as UFPLS. Receive 25% tax free cash and remainder as income (£9,375 less 20% tax).	-	(–£12,500)	(+£3,125) (+£7,500)
End with...	-	£50,000	£10,625
A net gain of £625 (6.25%)			

Example 2. A two-year return of 31.25%

Profile

- ISA fund: £32,000+
- Pension fund: £100,000
- Age 64 (retiring at 65)
- Salary £100,000

No current pension contributions

	ISA	Pension	Income
Start with...	£32,000	£100,000	-
Withdraw £32,000 from ISA and top up pension.	(–£32,000)	(+£32,000)	-
Government tops up pension contribution. Claim additional tax relief via Self Assessment.	-	(+£8,000)	(+8,000)
Retire at age 65, and withdraw £20,000 from pension as UFPLS. Receive 25% tax free cash and remainder as income (£15,000 less 20% tax).	-	(–£20,000)	(+£5,000) (+£12,000)
At age 66, take a second UFPLS of £20,000.	-	(–£20,000)	(+£17,000)
End with...	-	£100,000	£42,000
A net gain of £10,000 (31.25%)			

4.

Investment outlook: the search for value

***Kasim Zafar**, Portfolio Manager, explains how an important part of EQ's role as an investment manager is to work out which markets offer the highest potential returns.*

Assessing valuation is the largest single factor in EQ's approach to asset allocation

This has never been easy, differences in accounting policies, political stability and potential for growth are just some of the possible explanations for discrepancies in value between, say, the UK, Japan and Brazil. However, in this era of global companies a much bigger issue has become the sectoral biases in most stock markets.

The FTSE 100 index is perhaps the most obvious example. Standing now well below its level of 1999, it gives an impression of dismal investment performance. However, this is largely due to its high exposure to certain poorly performing sectors, notably banks, energy, mining and telecommunications, and its low weighting to IT. Over that same period when the FTSE 100 has declined, the FTSE 250 (the next largest companies) has more than doubled!

When we look internationally there are similar issues. The US stockmarket invariably appears more highly rated than most others, but this is partly due to its comparatively high weighting to IT companies. In order to make sense of this we need to look at how the various sectors are valued in each market.

In the table opposite we show a 'heat map' of each sector and each major market where we compare the 'price to book' ratio (which compares the stock market value of a company with its net asset value) relative to its average over the past 10 years. Low percentages and green cells indicate undervalue, red the opposite. This suggests that:

- The presumed 'safe' sectors of Consumer Staples and Telecoms look expensive
- The cheapest sectors appear to be Energy, Materials and Financials
- The cheapest markets are Emerging Markets, Europe, Asia & the UK.

It's no surprise that the cheapest options are also the ones that are facing the most challenging outlook at present.

Assessing valuation is the largest single factor in EQ's approach to asset allocation. However, this will often lead to buying into markets well before they reach their bottom, so we also look at Momentum and Sentiment to smooth our asset changes. This should mean that we start to increase our weightings gradually on the way down and reduce steadily when they become expensive.

	All Sectors	Cons. Discretion	Cons. Staples	Energy	Financials	Health Care	Industrials	IT	Materials	Telecoms	Utilities
World	41%	79%	89%	1%	18%	50%	53%	52%	7%	89%	54%
US	45%	86%	79%	1%	37%	48%	89%	50%	84%	87%	62%
UK	12%	81%	97%	2%	10%	45%	39%	99%	1%	78%	45%
Europe	8%	58%	84%	1%	14%	48%	52%	44%	6%	74%	32%
Asia	12%	22%	97%	1%	0%	99%	20%	23%	5%	50%	19%
Japan	30%	35%	96%	9%	8%	83%	26%	23%	15%	74%	22%
E Mkts	3%	9%	61%	1%	1%	85%	9%	10%	1%	3%	20%

Fund in focus: Impax Environmental Leaders

The latest addition to our Positive Impact Portfolios is the recently launched Impax Environmental Leaders Fund. Impax is a specialist investment manager dedicated to investing in the opportunities created by the scarcity of natural resources and the growing demand for cleaner, more efficient products and services.

This fund invests globally in companies which have >20% of their underlying revenue generated by sales of environmental products or services in the energy efficiency, renewable energy, water, waste and sustainable food and agriculture markets. Encouragingly, Impax research supports the contention that investing in companies that score highly in terms of ESG (Environmental, Social and Governance) factors also produce higher investment returns.

Investment spotlight

***Andrew Rees**, Investment Manager, says don't panic – now is the time to watch out for opportunities.*

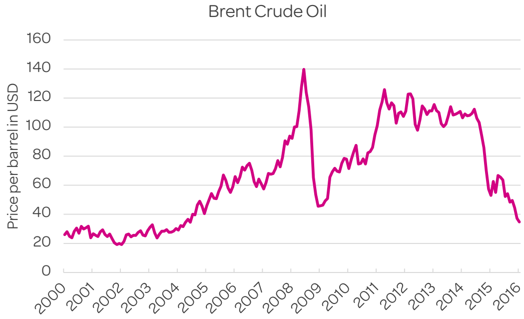
We believe that the global economy, especially the consumer in the West is in OK shape

Sudden sell-offs in equities markets are always uncomfortable be it as a retail investor or experienced portfolio manager. The trigger for the recent sell-off was two-fold: China and oil.

In terms of China, nothing has changed since our last update as the country makes the transition from a manufacturing based economy to a consumer driven economy. The stock market in China had surged too far in 2014/15 (up over 150%) and has been declining since then, despite heavy-handed state intervention.

The Chinese currency (the renminbi) will be admitted to the International Monetary Fund's special basket of currencies in October, joining the US dollar, Euro, Japanese Yen and British pound. One of the conditions of entry was for the Yuan to be more freely valued than singularly linked to the US dollar. This will support the ongoing reforms in China and push the economy to be more open and market-driven.

The oil price weakness has seen a barrel of oil drop below $27 a barrel in February, with the market trying to find a floor. The dramatic fall of over 75% since mid-2014 is partly because of OPEC and other oil increasing supply but also demand weakening as the past marginal consumer of energy, the emerging



market economies, transition to a lower growth trajectory. The end result – more oil being pumped out of the ground than we need.

Millions of barrels of unsold oil are being stored on supertankers, leading to record high rates – booking a tanker on a one-year time charter has spiked to over $50,000 a day – double the rate last year.

Though these are concerning we believe that the global economy, especially the consumer in the West is in OK shape. We continue to see record employment in the US and the UK, while the Eurozone is finally showing signs of growth. The main beneficiaries of low oil prices will be consumers in the developed world: the less we pay at the pump, the more disposable income we have, which will ultimately help support GDP growth.

Though we will continue to be wary, we do not believe that we face the same issues as in 2008 during the Global Financial Crisis, or in 2011 where there was a real risk that the Eurozone and its central currency would be disbanded. However, fears over Brexit are likely to overhang sterling for the next few months.

We will continue to monitor markets and look for opportunities where we can buy assets at attractive values.

EQ in the media

EQ is enjoying a growing media presence, with recent coverage on:

- BBC Radio 4: John Spiers featured on The Today Programme discussing likely changes to pensions in the March budget
- The Evening Standard: Anthony Hilton praises EQ's "level-headed fund managers" in an economic opinion piece
- Money Observer: John Spiers discusses why the FTSE 100 is a poor indicator of performance for most investors
- The Guardian: the launch of Simply EQ is reviewed by Patrick Collinson in this piece on affordable financial advice

Auto-enrolment checklist: 10 points to consider

Hayley Jarvis lists 10 key points for all companies to consider before their staging date.

The new auto-enrolment rules require all employers to automatically enrol some or all members of their workforce (depending on age and salary level) into a pension scheme which meets certain minimum standards. The legislation has already come into force for large businesses and smaller employers are now following – in the next three years, around 1.8 million small and micro employers will have to comply with the legislation.

As an employer you have a number of responsibilities to make sure you comply with the new regulations. Companies who have tried to implement auto-enrolment without professional support have found navigating the rules a real challenge.

In the next three years, around 1.8 million small and micro employers will have to comply with the legislation

To help you decide, use our auto-enrolment check-list below to see what decisions and actions you will need to take – before and after your staging date:

1 Know your staging date

To find out your pension auto-enrolment date, visit The Pension Regulator's staging date tool at: www.thepensionsregulator.gov.uk/employers/staging-date.aspx

2 Provide a point of contact

The Pensions Regulator will write to small and medium sized firms (SMEs) asking them to confirm the most senior person or business owner as the 'primary contact'.

3 Understand your responsibilities

The responsibility for complying rests with you the employer. If you do not comply, penalty notices will be issued.

4 Developing a project plan

In preparation for auto-enrolment, create your own timetable to make sure you meet your staging date.

5 Know your workforce

You need to be very clear who you have to enrol and who you don't. There are three different categories of staff to consider:

- Eligible job holders
- Non-eligible jobholders
- Entitled workers

To find out more please contact **Hayley Jarvis** on 020 7488 7110 or email hayley.jarvis@eqinvestors.co.uk

6 Communication

You will need to write to your workforce to let them know how they will be affected by auto-enrolment, when the changes will occur and what to expect next.

7 Calculate the costs

The minimum contributions begin at 1% for the employer and 1% for the employee this will rise to 3% for the employer and 5% for the employee by April 2019.

8 Arrange a pension scheme

You may be able use your existing pension scheme (providing it meets certain criteria), or you can set up a new scheme especially for automatic enrolment.

9 Administration of the scheme

Auto-enrolment will impact upon your internal processes and procedures. You will need to review the following and identify if any changes are necessary:

- Terms and conditions of employment
- Existing payroll systems, are they compatible with new requirements.
- Record-keeping, member data must be maintained for 6 years.

10 Complete the *Declaration of Compliance* and understand your ongoing duties

You need to complete the declaration within 5 months of your staging date, failure to do so will result in a penalty from The Pensions Regulator. You must make sure that you comply with your ongoing responsibilities. Going forward, you will need to monitor your employees' ages and earnings on an on-going basis and to re-enrol employees who are not in pension saving, broadly every three years, known as re-enrolment.

How we can help

EQ can help your business transition to the new auto-enrolment regime.

Our service covers:

- an audit of your existing pension scheme
- administrative support
- employee communication requirements,
- and guidance for your staff.

7.

New VCT analysis & investment service

We have recently launched an investment service for experienced investors who are interested in taking advantage of the multiple tax reliefs offered by VCTs.

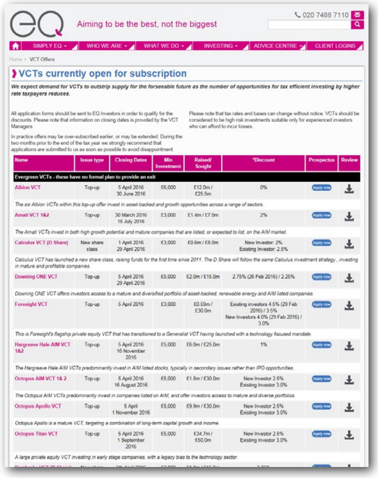
The new service offers:

- A comprehensive listing of all VCT offers on the EQ website, including details of amounts raised and EQ's top picks.
- A detailed review by the EQ research team on each individual VCT share offer, including both qualitative and quantitative analysis.
- Discounts on the standard charges

Our VCT research is led by **Sophie Muller**, a leading analyst on VCTs and one of Citywire's *Top 30 under 30*.

For more information please visit:

eqinvestors.co.uk/vct



Aiming to be the best, not the biggest

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SIMPLY EQ | WHO WE ARE | WHAT WE DO | INVESTING | ADVICE CENTRE | CLIENT LOGINS

Home > VCT Offers

VCTs currently open for subscription

We expect demand for VCTs to outstrip supply for the forseeable future as the number of opportunities for tax efficient investing by higher rate taxpayers reduces.

All application forms should be sent to EQ Investors in order to qualify for the discounts. Please note that information on closing dates is provided by the VCT Managers.

In practice offers may be over-subscribed earlier, or may be extended. During the two months prior to the end of the tax year we strongly recommend that applications are submitted to us as soon as possible to avoid disappointment.

Please note that tax rates and bases can change without notice. VCTs should be considered to be high risk investments suitable only for experienced investors who can afford to incur losses.

Name	Issue type	Closing Dates	Min Investment	Raised/ Sought	*Discount	Prospectus	Review
Evergreen VCTs - these have no formal plan to provide an exit							
Albion VCT	Top-up	5 April 2016 30 June 2016	£6,000	£12.0m / £25.5m	0%	Apply now	
The six Albion VCTs within this top-up offer invest in asset-backed and growth opportunities across a range of sectors.							
Amati VCT 1&2	Top-up	30 March 2016 15 July 2016	£3,000	£1.4m / £7.0m	2%	Apply now	
The Amati VCTs invest in both high growth potential and mature companies that are listed, or expected to list, on the AIM market.							
Calculus VCT (D Share)	New share class	1 April 2016 29 April 2016	£3,000	£0.6m / £8.0m	New Investor: 2% Existing Investor: 2.5%	Apply now	
Calculus VCT has launched a new share class, raising funds for the first time since 2011. The D Share will follow the same Calculus investment strategy , investing in mature and profitable companies.							
Downing ONE VCT	Top-up	5 April 2016 29 April 2016	£5,000	£2.0m / £15.0m	2.75% (26 Feb 2016) / 2.25%	Apply now	
Downing ONE VCT offers investors access to a mature and diversified portfolio of asset-backed, renewable energy and AIM listed companies.							
Foresight VCT	Top-up	5 April 2016	£3,000	£0.59m / £30.0m	Existing investors 4.5% (29 Feb 2016) / 3.5% New Investors 4.0% (29 Feb 2016) / 3.0%	Apply now	
This is Foresight's flagship private equity VCT that has transitioned to a Generalist VCT having launched with a technology focused mandate.							
Hargreave Hale AIM VCT 1&2	Top-up	5 April 2016 16 November 2016	£5,000	£6.0m / £25.0m	1%	Apply now	
The Hargreave Hale AIM VCTs predominantly invest in AIM listed stocks, typically in secondary issues rather than IPO opportunities.							
Octopus AIM VCT 1& 2	Top-up	5 April 2016 16 August 2016	£5,000	£1.5m / £30.0m	New Investor 2.5% Existing Investor 3.0%	Apply now	
The Octopus AIM VCTs predominantly invest in companies listed on AIM, and offer investors access to mature and diverse portfolios.							
Octopus Apollo VCT	Top-up	5 April 1 November 2016	£5,000	£9.9m / £30.0m	New Investor 2.5% Existing Investor 3.0%	Apply now	
Octopus Apollo is a mature VCT, targeting a combination of long-term capital growth and income.							
Octopus Titan VCT	Top-up	5 April 2016 1 September 2016	£5,000	£34.7m / £50.0m	New Investor 2.5% Existing Investor 3.0%	Apply now	
A large private equity VCT investing in early stage companies, with a legacy bias to the technology sector.							

VCT investors enjoy generous tax reliefs... of particular interest to those seeking an income

Exploring the world of VCTs

Venture Capital Trusts (VCTs) were created in 1995 to boost investment in smaller, unquoted companies by offering multiple tax incentives.

A VCT is a company, broadly similar to an investment trust, that is listed on the London Stock Exchange with individuals holding shares. The VCT invests in a spread of small unquoted companies, enabling investors to spread their risk.

Approved by HMRC, VCTs and their investors enjoy generous tax reliefs, which may be of particular interest if you're an investor liable to higher rates of income tax and are seeking an income from your investments.

They include an initial 30% income tax relief, tax free dividends, and they are not subject to Capital Gains Tax. There are different reliefs and restrictions depending on whether you subscribe for new shares (by far the most common approach) or buy existing shares in the market. The tax relief is available on investments up to £200,000 in any tax year, so long as the shares are then held for at least five years.

The investment approach followed depends partly on how the VCT plans to distribute returns to investors. There are two options:

- Evergreen: VCTs that plan to exist indefinitely and generate dividend income. Exit will only be possible by selling shares in the market. This type of VCT will largely invest in 'real' businesses where the intention is to profit from a successful realisation in the future and/or a rising stream of dividends.
- Limited life: VCTs that intend to liquidate their portfolios after five years and return the proceeds to shareholders. These VCTs will invest in enterprises which are designed to be self-liquidating, typically projects with a limited time period.

Download our FREE guide to Venture Capital Trusts:
eqinvestors.co.uk/vct

Looking after the next generation

Junior ISA now available via Simply EQ

Junior ISAs (JISAs) have become a popular way for families to build up tax-efficient savings to help with the cost of university or provide a deposit for a house.

- Anyone can contribute
- Same tax benefits as an adult ISA - no capital gains tax, and no further tax to pay on income
- Withdrawals possible from age 18.

If you're looking to invest on behalf of your children or grandchildren, call the Simply EQ team on **020 7488 7171** or email **simply@eqinvestors.co.uk**

Mike Neumann to join EQ in March

New Head of EQ Bespoke

We are looking forward to the impending arrival of ***Mike Neumann*** *as Head of Investment Management.*

Mike joins EQ on 8th March and will focus on investment strategies for our EQ Bespoke clients, with responsibility across all areas of Bespoke service design and delivery. Mike was formerly Director of Investment Management at Tilney Bestinvest.

eQ bespoke

Things to consider

- *Is Simply EQ of interest to a relation, friend or colleague?*
- *Have you maximised your pension contributions ahead of the expected budget changes?*
- *Have you maximised your ISA allowance for the 2015/16 tax year?*
- *If you're concerned about drawdown in retirement, then perhaps it's time for that financial health check?*

Important information

This newsletter does not constitute advice or a personal recommendation. It does not take account of the specific circumstances of individual investors. If you wish to establish if any of the products or services described herein may be suitable for you, you should contact us for advice. Specifically, VCTs are complex products. If you are at all uncertain about their suitability for your circumstances please seek our advice. Remember that the value of your investments can do down as well as up and that you could get back less than you invest. The levels and bases of taxation can change at any time.

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