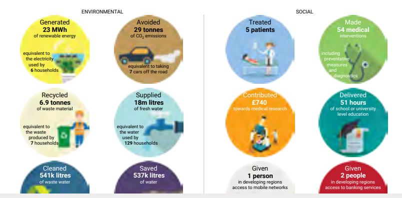
EQ investors Newsletter

Winter 2019

FEATURING:



Certified B Corporation

TOP 100 2018 EDITION

It's hard to get away from all the speculation about Brexit at present but while this is a very significant issue for UK residents, it's not so important for us as global investors and citizens. In fact, most of the world population have never heard of Brexit and really couldn't care what happens. Many more will have witnessed the impact of climate change, environmental destruction and other adverse events arising from capitalism being practised without conscience. In my opinion, when we look back in ten years' time these will be the ongoing themes that still interest people.

Impact investing is still a relatively new concept. Many people will be thinking that seeking impact inevitably results in lower returns but this is not necessarily the case. Our 2018 Impact Report showed that impact companies have grown revenues and profit significantly over the last 5 years and much more than FTSE 100 companies. This is no surprise to us as impact companies are usually innovative by nature and are taking advantage of fast-growing markets such as energy efficiency, healthcare or education. So there should be a positive overall impact on financial returns from taking this approach.

The area in which there is potential for a negative impact on performance is by excluding or minimising investment in certain sectors, such as armaments & tobacco and fossil fuels, which have periods in which they deliver above average returns. We believe that the net effect should still result in outperformance but we can't be certain about that.

All EQ clients have some exposure to impact investing because many mainstream fund managers now take these factors into account when selecting stocks for their funds. We also include some specifically impact focused funds in our Best Ideas portfolios. But if you really want to participate in this movement you should consider allocating at least part of your overall portfolio to Positive Impact. Perhaps even more so if you are saving for a young person via a Junior ISA or SIPP.

EQ is a leader in Positive Impact investing. We've been running these portfolios for more than six years and they've not only been doing good, they've also been producing attractive returns. In November we won the award for top discretionary fund manager at the 2018 Impact Awards.

Let me be clear this suggestion is of no financial benefit to EQ – the fee we charge for managing portfolios is exactly the same for Positive Impact portfolios. I'm suggesting it because I think that it will give you more satisfaction to know that you are contributing to solutions of the problems facing us. You can find out more about this, including our innovative Impact Calculator, on page 12.

John Spiers

John Spiers
Chief Executive

Upcoming events – we'd like you to join us!

EQ holds a series of complimentary seminars on a wide range of investing, financial planning and charitable topics. It's a great opportunity to meet with our experts, ask any questions you have and make valuable connections.

To register online, visit: eqinvestors.co.uk/events

#PlanForRetirement

Wednesday 27 Feb 2019, 6:00 pm – 7:30 pm

We spend much of our lives working towards retirement so it's important to be well-informed when you get there. Since the pension freedoms were introduced in 2015, UK retirement planning has changed out of all recognition.

Are you on track for retirement?

Do you understand the options available to you?

What decisions can you take now?

Our advisers will discuss some of the options you need to consider to fund the retirement you want, covering:

- Practical steps to help you prepare for retirement, what do you want out of it?
- Managing your retirement savings, how much will you need?
- Annuity vs. Drawdown: pros and cons
- Passing on your wealth
- Making your money last

Going green with your money

Wednesday 20 Mar 2019, 6:00 pm – 7:30 pm

Adopting a greener approach to life doesn't have to be difficult. There are small changes you can implement into your daily life that take little to no time or effort and can actually save you a lot of money in the process.

Join us as we layout simple steps to make your money work for you and the planet:

- Why go green?
- How eco-friendly are you?
- Ways to go green:
  - ✓ Reducing your carbon footprint
  - ✓ Buying from ethical brands: B Corp companies / Good Egg Kitemark
  - ✓ Impact investing

EQ in the news

EQ is continuing to grow its media presence. Recent coverage includes:

- The Times: What the Brexit uncertainty means for your money
- The Telegraph: Money Makeover: how do I prepare for retirement?
- Mail Online: The only way is ethics: can a socially responsible approach to investing really make you money?
- Independent: Is yet another ISA the answer to the care crisis?
- Investors Chronicle: Find the right defensive income
- Lovemoney.com: Common mistakes to avoid when you're about to retire
- YourMoney.com: Five common impact investing myths debunked

What to expect when you are investing

Angus Branfield, Chartered Financial Planner

Whether you are investing money for the first time or have a wealth of experience it is helpful to go back to basics from time to time.

Investments are only ever a means to an end – they exist to help you achieve your goals in life. Typically, people invest money because they want to obtain or maintain financial freedom for the future.

There will be times when returns are high, but there will also be times when your portfolio falls in value. These are short term changes and it is important to understand from the start that you will not receive the same return every year. Over the long term, history shows that investment portfolios (e.g. equities and bonds) tend to increase in value.

With this in mind, we've published a short guide that (we hope) is suitable for complete beginners, and covers topics such as:

- What is investment risk?
- How much risk should I take?
- How risky are my investments?
- Spreading your risk
- Why we invest through funds at EQ
- What are the main asset classes that you are likely to find in your portfolio?


EQInsight

What to expect when you are investing

Whether you are investing money for the first time or have a wealth of experience it is helpful to go back to basics from time to time.

Investments are only ever a means to an end – they exist to help you achieve your goals in life. Typically, people invest money because they want to obtain or maintain financial freedom for the future.

There will be times when returns are high, but there will also be times when your portfolio falls in value. These are short term changes and it is important to understand from the start that you will not receive the same return every year.

Over the long term, history shows that investment portfolios (e.g. equities and bonds) tend to increase in value. We will work with you in good times and hard times as your trusted adviser. We will remind you of why you are investing and help you keep your long-term goals in mind.

In this guide we will explain what to expect when you are investing.

This guide provides general information about investing and is not a personal recommendation. The value of investments and the income derived from them can go down as well as up, so you could get back less than you originally invested.

Whether you're brushing up on your investment know-how, or have a family member who is new to investing, we'd love to hear your feedback. To download your copy please visit:

eqinvestors.co.uk/library/what-to-expect

EQ scoops best discretionary fund manager award

EQ has been recognised at the inaugural Worthstone Impact Awards. The awards were presented at The Conduit Club in London in November by Elizabeth Corley CBE, Non-Executive Vice Chair of Allianz Global Investors and chair of the Implementation Taskforce for Social Impact Investment.

Collecting the award, Damien Lardoux, Head of Impact Investing at EQ said: "The calibre of entries to these inaugural awards was incredibly high and to be recognised as a winner is hugely important to us, particularly with a panel of judges so knowledgeable in the impact space. It's a real testament to the hard work and commitment from the impact investing team at EQ.

"We also would like to thank all of the clients that use the EQ Positive Impact Portfolios. It's their ongoing support and feedback that helps us to continuously improve our offering."

Protect yourself and your family

Alexandra Davies , Senior Technical Consultant

We've published a new guide to help people understand how protection insurance works. 'How to buy protection insurance', outlines what you need to need to consider when it comes to buying this type of insurance.

Available to download from our website, the guide is designed with beginners in mind and offers practical guidance for those new to the subject.

Protection should always be considered as part of an effective financial plan. Nobody knows what the future holds and your financial plan should ensure that you are prepared for any unexpected bad times as you progress towards your financial goals.

Our new guide explains the major types of protection insurance, and provides tips on how to buy them. To download the guide, visit:

eqinvestors.co.uk/library/
buy-protection-insurance

If you are not sure whether you have the right protection insurance in place, please do not hesitate to contact your EQ adviser! They will be able to answer any questions you might have, and can review your individual or family protection arrangements, either on an ad hoc basis or on an ongoing basis, as part of your annual finanicial review.


eQ Insight

How to buy protection insurance

to protect yourself and your family

Protection should always be considered as part of an effective financial plan. Nobody knows what the future holds and uncertainty can be scary.

Financial planning is about giving ourselves the best chance of achieving our financial goals, and at the same time preparing for any unexpected bad times.

This guide explains the major types of protection insurance, and offers a step-by-step guide on how to buy them.

Contents

eQ investors

Controversial new probate fees approved

Dan Atkinson, Head of Technical

The Government has announced changes to probate fees which means some will pay almost £6,000 more from April.

What is probate?

Obtaining probate is one of the first steps in the process of distributing someone's estate. It provides a legal document that confirms that you are the person responsible for implementing the requests left in the Will. Part of the process involves working out how much the estate was worth and how much (if any) Inheritance Tax is due. You will normally be expected to pay at least some of any Inheritance Tax due. You cannot start to distribute someone's estate until you have probate.

As well as the fees that a solicitor might charge, there is a charge for obtaining probate – which was intended to recover the administrative costs of the Probate Service. Since 2015 this has been £215 in England and Wales (£155 if you use a solicitor). However, the Ministry of Justice has decided that those who are financially able to should make a larger contribution to the running of court services.

From April 2019 the way the fee works in England and Wales will change, with estates over £1 million experiencing significantly higher fees.

What can you do?

The fees can be paid from the estate if there is sufficient cash. In some circumstances the Probate Service might let you sell assets to fund the fee and guidance will soon be released about this.

Whilst it can be possible to move part of your wealth into a trust to reduce your exposure to Inheritance Tax (and probate fees) this is unlikely to be suitable for everyone. Their primary purpose is to provide control about where and when your money benefits people.

Far better is to put in place a plan to ensure that cash is readily available to those dealing with your estate. One option to explore is taking out a life assurance policy – with proceeds to be paid into a trust. This money could be accessed by your beneficiaries without needing to apply for probate: e.g. it can be used to cover some of the fees, taxes, and costs involved in distributing your wealth in the way you describe it in your Will.

Your EQ adviser can help you put a plan in place, or alternatively email: **enquiries@eqinvestors.co.uk**

What are the new charges?

From April 2019, probate fees will be based on the value of the estate:

- £0 for estates up to £50,000
- £250 for estates up to £300,000
- £750 for estates up to £500,000
- £2,500 for estates up to £1 million
- £4,000 for estates up to £1.6 million
- £5,000 for estates up to £2 million
- £6,000 for estates over £2 million

Top 5 Financial Planning Tips for 2019

Jeannie Boyle, Chartered Financial Planner

With 2019 upon us, the New Year is a great time to get to grips with your financial affairs. Here are five tips to help you highlight any areas for action.

1 Set goals for the life you actually want

Work out what you want from life and make your money work towards that, rather than vice versa. Your priorities will naturally change over time, so taking the time to differentiate your short, medium and long term goals will help keep you focused and on track through the inevitable bumps in the road.

2 Make the most of your tax-free allowances

With tax allowances, it's a case of use them or lose them. Ensure you and your partner are using all available allowances; personal, savings and dividends. If you haven't taken advantage of this year's ISA, Junior ISA, Lifetime ISA or annual pension allowance, the 5th April is your last opportunity to do so in the 2018-19 tax year.

3 Get pension savvy

An increasing number of individuals will be affected by the tapered annual allowance as carry forward is used. For those with taxable incomes of over £100,000 per annum, it's worth having a review to check employer and employee contributions remain appropriate. From April, the pensions 'automatic enrolment' regime will see the minimum amount paid in rise from 5% to 8%. The Lifetime Allowance increases with CPI inflation from £1,030,000 to £1,055,000. Also make sure that your expressions of wish for pensions are regularly updated.

4 Build a picture of your current and future finances

Financial planning is all about anticipating the consequences of different choices and situations. By looking at your income, outgoings, savings and other assets, you can crunch the numbers to create a long-term projection of your finances. Identifying trends (positive or negative) can help to give you the best chance of achieving your goals and have a huge impact on how in control of your finances you are.

5 Peace of mind

One person in the UK develops dementia every three minutes, so stay in control and plan ahead by setting up a Lasting Power of Attorney (LPA) and allow powers for discretionary management. Every adult with assets should look at getting an LPA, otherwise your loved ones will need to apply through court. And don't keep putting off getting or updating a will.

Having touble working out your pension annual allowance, or whether you are affected by the Lifetime Allowance? EQ can help.

Your EQ adviser will be able to answer any questions you might have and ensure that you are on track for 2019.

Demystifying impact investing

Louisiana Salge, Impact Specialist

It's time to bust some myths: here are five common misconceptions about impact investing, and what's really going on.

Impact investing is just like ESG investing

These are actually quite different approaches: ESG (environmental, social and governance) investing focuses mainly on a company's operations, while impact investing focuses first on its products and services.

ESG investing aims to invest in companies that show efforts to reduce their negative effects on (some of) their stakeholders (for example their employees). Impact investing aims to allocate capital to companies that provide solutions to social and environmental problems while operating in a responsible way.

It will sacrifice my investment returns

Impactful companies turn big societal challenges into profitable business opportunities. These companies benefit from the growing global demand for their products and services, greater regulatory support, and by avoiding reputational and stranded asset risks. While it has a shorter track record than traditional investing, the evidence suggests that impact investment can produce market rate returns or better. And by targeting sustainability themes that are by definition long-term societal needs, impact investments also have much greater long-term return growth potential.

Impact investing mostly targets early-stage companies

Impactful investment opportunities exist across a range of asset types and company sizes. EQ's Positive Impact Balanced Portfolio shows a healthy split between 14% small-cap, 39% medium-cap and 47% large-cap companies. The median founding year of the companies within our Positive Impact Portfolios is 1996 (compared to 1998 for the FTSE 100 index). While a number of those impactful companies may have been small in size ten years ago, thanks to above-average growth they have now become mid- and large- cap companies. A good example being DS Smith, which recently joined the FTSE 100 index.

It is a narrow investment universe

Opportunities are larger than some might assume, and the universe is expanding. The EQ Positive Impact Balanced Portfolio has exposure to more than 630 companies. In 1999 Impax Asset Management (one of our impact fund managers) had an investment universe of 250 companies that generated more than 50% of their revenues from environmental solutions. In 2019, this universe has now grown to 1,100 companies.

Our own research shows that while the weighted average valuation (P/E ratio) of our Positive Impact holdings is higher than for FTSE 100 companies, the average earnings growth is two times higher. As a result, their valuations when adjusted for growth are cheaper than the FTSE 100.

Impact investing is too volatile for private investors

Impact investment is an investment strategy, not an asset class in itself. As discussed, opportunities exist from small to large companies, equity, debt and real assets – and risks vary between these. Therefore, portfolio managers can adhere to normal risk categories and create options for different 'risk appetites'. So whether you are a cautious or an adventurous investor, there is an EQ Positive Impact portfolio for you!

For more information about impact investing and the Positive Impact portfolios, download our 2018 Impact Report at:

eqinvestors.co.uk/positive

Delivering value for money

Mark Howlett, Executive Director

Over the next few months you will receive statements from platforms providing you with more information than you will have seen before about the charges you are paying.

Our industry has a (deserved) reputation for being obtuse about disclosing fees, but we like to be fully transparent and to give all our clients plenty of flexibility to decide on the service you need. Below we list the most common services that we offer. If you don't feel that the service we currently provide to you is optimal, please let us know.

Services provided by us

Financial advice*

- ✓ Creating a financial plan that puts you on track to achieve your life goals
- ✓ Keeping this under review as your circumstances change
- ✓ Cashflow modelling to test the resilience of your objectives
- ✓ Ascertaining your appetite for risk
- ✓ Reviewing the overall balance of your assets and liabilities
- ✓ Reviewing your protection arrangements
- ✓ Making optimal use of tax advantaged investments such as ISAs, Pensions, Offshore Bonds, EIS, VCTs etc.

Investment management

- ✓ Designing a portfolio that reflects your appetite for risk
- ✓ Selecting the best possible funds after carrying out intensive research
- ✓ Keeping your portfolio in balance, reflecting our views on the markets
- ✓ Keeping you a step away from irrational responses that are inevitable during market setbacks and typically cost DIY investors around 2% per annum (source: Dalbar)

Servicing & administration

- ✓ Being available to deal with any queries that you have
- ✓ Providing regular reviews
- ✓ Meeting with you
- ✓ Providing access to the EQ portal

Services provided by third parties on our behalf

Custody & execution

- ✓ Executing transactions
- ✓ Holding your investments as the legal owner
- ✓ Dealing with income received
- ✓ Dealing with reorganisations, takeovers and other corporate actions
- ✓ Providing reports to help simplify completion of your tax return

External fund managers

- ✓ Selecting the most attractive investments within their own area of expertise
- ✓ Monitoring the balance of their investment funds
- ✓ Communicating information about their decisions and reasoning

Paid to HMRC

VAT

- ✓ Chargeable on most services provided by EQ

* elements depend on service being provided

What's up with these external fund manager charges?

It's important to realise that these are not a new, additional cost. Fund charges have always been reflected in your net returns, and are priced into the value of each fund on a daily basis. However, the new regulations mean that they must be spelled out in black and white.

Firstly, we keep these as low as possible

On passive index tracking funds the ongoing costs will usually be less than 0.15% per year. Our default preference is to select these funds unless we are confident that active fund management can add value. The scope for that varies considerably with the mandate: it's very difficult in large developed equity markets like the US, it's less difficult when investing in smaller companies or fringe markets.

We will usually also invest part of your portfolio in funds with what are loosely called 'Alternative' trading strategies. These hedge funds are invariably more expensive – which means we need to be even more confident in the ability of the manager. We mainly hold these to control the overall risk in your portfolios. In more normal market conditions we'd do that mainly by using bond funds but we are worried that bond prices have been artificially boosted by technical factors so we have wanted to keep our exposure low.

Don't be misled by transaction costs

One of the most important changes due to new legislation is that funds must now disclose their transaction charges. These are aggregated with other running costs to show an overall cost of investment. We agree with the notion that transaction charges should be visible, but we think that aggregating them in this way can be misleading.

Some fund managers add value by holding securities for a long time (e.g. Terry Smith of Fundsmith), so his transaction charges are likely to be low. Others trade more frequently (e.g. Rathbone Global Opportunities), as this forms part of their strategy. Their transaction costs will be higher, but that doesn't really say anything about their net performance.

High performance fees are usually a good thing

Some funds do have a performance related element to them. In principle we think that can be a good idea, potentially creating a greater alignment of interests, but when such fees are paid they can be a big difference to the overall costs. However, as an investor you should be pleased about this: it means the manager has done well.

In conclusion

If you see what looks like a large figure being shown for fund costs it doesn't necessarily mean that you are being ripped off. It may be a consequence of good performance. If you have any doubts then ask us to explain the detail.

Transforming the way we give

John Spiers, Chief Executive

When I first started taking a closer interest in supporting charities, I assumed that it would be pretty similar to finding good investments. By carrying out research I would soon be able to identify those doing the best job. How wrong I was! Selecting good charities is one of the toughest tasks that I've encountered. But if that sounds rather negative, don't be put off. Helping others is THE most rewarding activity available to us and I recommend it heartily.

Most people give money to charities reactively: someone asks you for a donation, sometimes you say yes. Usually you have very little idea as to whether this charity is really doing a good job.

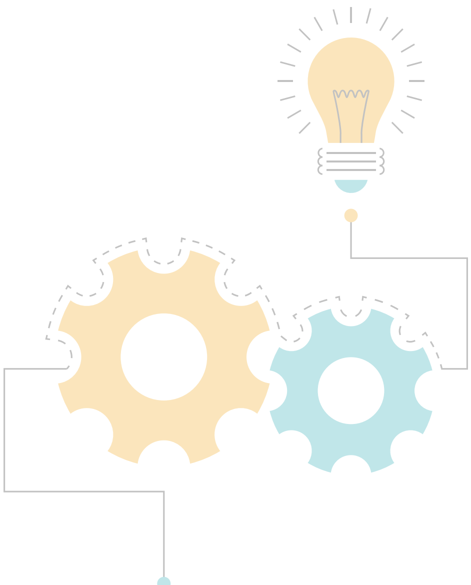
I'm on a mission to change that. To make information available that makes it easier to identify the real achievers and thereby help to lower their fund-raising costs.

The first step towards that is already in place. At EQ Foundation we've built a search facility that looks at more than 190,000 charities registered in the UK. In addition to fairly standard filters, such as areas of activity, size and type of beneficiaries we've added three factors that we believe are new and can be early indicators of success:

- Rate of growth
- Award winners
- Backing from major grant makers.

The latter indicates that the charity has satisfied the due diligence requirements of some of the UK's professional givers.

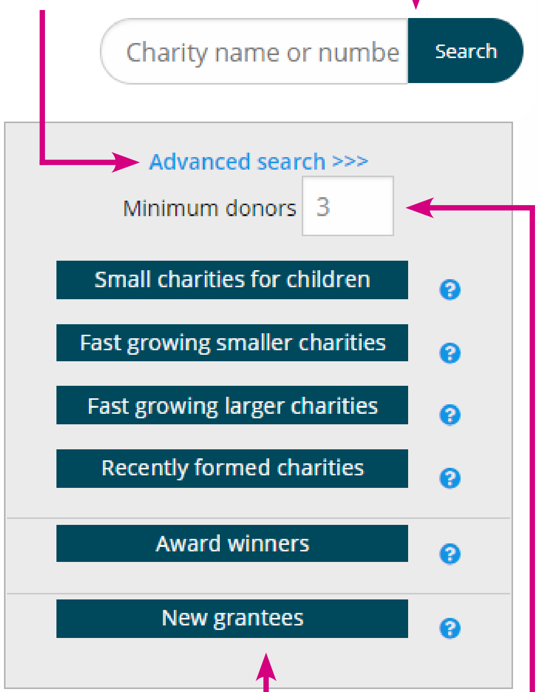
You can try this out now by going to **givingisgreat.org**



The next part of our mission is to stimulate the production and publication of impact measurement data. This will allow all of us to see what charities are achieving and specifically what our donations generate. If you search for 'Resurgo' (one of our favourite causes) on **givingisgreat.org** you can take a look at their impact.

Use the charity search box to find a charity

Create your own criteria using 'Advanced search'



Filter charities by type

Filter charities based on past donations from other donors

Top tips for choosing effective charities

Together with the Giving is Great website, we've published a free handbook available online, aimed at anyone who is thinking about giving money to charitable causes. Here are some of the key ideas that the book builds on.

Engage your brain as well as your heart

Your heart needs to be touched to make you give hard earned money away but it's also important to do some rational analysis to check the facts. Although almost all charities set out to do good work, many fail to achieve it. Smooth talking fund raisers will focus on what the charity is doing. They'll usually avoid talking about the outcomes.

Don't worry about overheads

It's perfectly understandable to be worried about efficiency but analysing overheads is often a misleading way of evaluating this. Charities can save money by cutting corners but in the longer run that will reduce effectiveness. Focus on the ability of the management team, then trust them to spend wisely.

Look at who else is supporting

In the UK we are fortunate to have many highly professional grant making charities. They are inundated with requests for funding, so they are able to pick and choose the best. If you are tempted to support a charity that has failed to attract any funding from these organisations, ask why? Don't be swayed by comments that they only support well established and larger charities.

Early intervention pays dividends

In the long run it's much cheaper to build a fence at the top of a cliff than provide an ambulance when people fall over. Re-election priorities often discourage politicians from funding programmes that do not produce results before the next poll but that provides an opportunity for charities to intervene early at the first sign of trouble ahead.

Look for Matched Giving opportunities

Matched giving happens when someone else promises to top up your donation. It's valuable for two reasons: it means that the value of your donation is increased and that someone else is sufficiently confident in the programme to provide the matching. A great example is the Big Give Christmas Challenge.

At EQ we also promote this through our Matched Giving Scheme for clients. Last year we gave more than £14,000.

Donations go further in the developing world

For example in Africa:

- Less than 50p can provide a deworming treatment that will massively improve a child's quality of life
- Less than £50 restores sight to a blind person
- Less than £4,000 saves a life by providing mosquito nets, as well as improving life prospects for many others.

High profile disaster appeals rarely offer the best value

Tragic though these are, in the overall scale of human deprivation disasters are relatively minor. Every day, on average, more than 15,000 children aged under 5 die and most of these deaths are preventable. If you are tempted to support these appeals then check out fts.unocha.org first to see which are most in need of funding.

To download the handbook, visit:

givingisgreat.org

From the lab: personalised impact reports

Nath Papadacis, Head of Technology

How do your investment choices impact on the environment and society? If you're invested in the EQ Positive Impact Portfolios then you can find out using our online impact calculator.

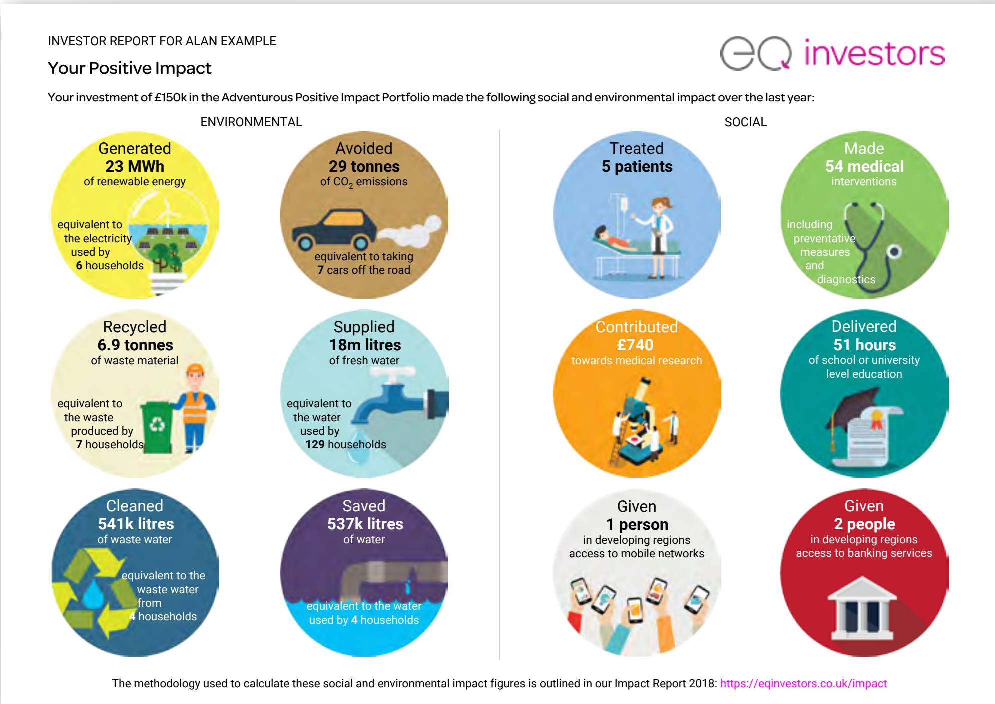
Visit **eqinvestors.co.uk/positive** to get started.

Scroll down to the section entitled *What impact could you make* and enter the amount you have invested and your risk profie. The circles will then change to show the impact of your individual portfolio – using up to 12 different social and environmental indicators. You can also download this report as a PDF (example below).

The methodology behind this calculator was developed for our **2018 Impact Report**, which looked in detail at the c.800 holdings in the Positive Impact Portfolios.

The introduction of absolute impact metrics marked a significant advance in our ability to measure the overall impact of these portfolios. For more details, and to download the report, visit:

eqinvestors.co.uk/positive



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 then you should contact us for 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.

eqinvestors.co.uk 020 7488 7110 enquiries@eqinvestors.co.uk @eqinvestors EQ Investors

EQ Investors, Centennium House, 100 Lower Thames Street, London EC3R 6DL

EQ Investors is a trading name of EQ Investors Limited ('EQ') which is authorised and regulated by the Financial Conduct Authority. FCA number 539422. Company number 07223330. Registered address: 6th Floor, 60 Gracechurch Street, London EC3V 0HR. EQ/0119/337