EQ investors Newsletter

Summer 2019

FEATURING:

Certified B Corporation

TOP 100

Celebrating five years of EQ

It's almost 5 years since I bought the business that has become EQ. Time for a little reflection and to check that we are heading in the right direction. It's been rather different from my experience in building up Bestinvest, where I started from zero and the business needed to reinvent itself several times to deal with changing opportunities.

Back then the emphasis was on providing a professional investment service – something almost totally missing in the private client world of the 1990s. Today most private client advisers have got their act together, so it's harder to stand out in terms of investment proposition (although I'm confident that we do!).

One noticeable trend is that far more clients now care about the impact their money is having on the environment and on other people. In the early days of ethical investing, based entirely on screening out certain sectors, that approach led to periods of significant underperformance; staying true to your principles hurt your pocket.

That doesn't seem to be true now: EQ Positive Impact Portfolios have produced even better returns than our Best Ideas over the last six years (see back page). There may be several reasons for that but one of the more plausible is that companies which have a core principle of trying to do good rather just maximise their financial returns actually achieve higher growth. Also, they don't tend to get fined by regulators and their staff are more committed.

That's been our experience. Staff turnover is phenomenally low and their commitment is awesome. Most have bought shares in EQ. Clients like the fact that we have committed that the business will not be sold – thereby providing much more confidence that there will be continuity.

Today the pressing need for many of our clients is advice on how to start spending their capital. That's why we've been developing our capabilities and offering cashflow modelling tools to clients. We are finding this really helps to bring peace of mind that goals can be achieved, especially during periods of market volatility.

These 5 years have been tougher than I'd expected in 2014 but I think we are stronger as a result and we now have a profitable business that I'm really proud of. On to the next 5!

John Spiers

John Spiers
Chief Executive

Johnson wins race to become next PM

Britain now has a Brexiteer Prime Minister who promises to 'get Brexit done'.

Just before we went to press Alexander Boris de Pfeffel Johnson was installed as Prime Minister, arousing strong feelings from most of the electorate. Forecasting what might happen next is a fool's game when the range of possible outcomes is so broad and the factors so unpredictable. Johnson could be the shortest serving PM in history – but he could win a landslide election victory before Christmas on the back of euphoria that a deal with the EU has been achieved. We think there is slightly more chance of the latter but in that case we must warn clients: the value of your portfolios will probably fall!

This may seem perverse but the biggest factor on valuations for UK investors is likely to be the level of sterling. On many economic measures it has fallen too far because of Brexit fears and a resolution of those could lead to a sharp bounce – Citibank reckon 'fair value' versus the US dollar is $1.59. That will be good news on terms of holiday spending but bad for the sterling value of many of the investments that we hold.

At the other extreme if we see a 'No Deal' exit from the EU or a hard-left Labour government sterling is likely to tumble. In that case our exposure to foreign equities plus the large proportion of overseas earnings from FTSE 100 stocks will bring considerable protection, as we saw in the aftermath of the referendum vote.

In order to try and minimise our downside risks we have been reducing our exposure to smaller and more cyclical companies. We will be monitoring our weightings and adjusting them as we see events evolve and markets move. We won't be trying to be clever about timing but we will aim to take advantage of mis-priced risks.

EQ collects ESG innovator award

Damien Lardoux, Head of Impact Investing

EQ wins inaugural Environmental, Social and corporate Governance (ESG) Award from Portfolio Adviser magazine.

We proudly collected the platinum award for ESG Innovator at the annual Portfolio Adviser wealth manager awards. The main rewards for our positive impact approach will be felt in the returns our portfolios make for investors and the impact these investments have on the world in which we live. However, it is pleasing when our efforts are recognised in their own right.

The EQ Positive Impact Portfolios (launched in 2012) are a unique proposition for investors who care about how and where their money is invested. The portfolios invest in funds which can show that they are supporting companies taking steps to achieve a social or environmental impact as well as a financial return.

EQ in the news

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

- The Times: **Why giving to charity bring rich rewards**
- The i newspaper: **ISAs versus savings accounts – which is better for your cash?**
- Good with Money: **Green Finance Strategy neglects UK's most important asset: us**
- IFA Magazine: **Aligning clients values with their investments**
- What Investment: **Financial Planner of the Month – Jeannie Boyle**
- Investors Chronicle: **Help your children and grandchildren get a financial headstart**

Meet the EQ team

Naomi Friend, Client Director

Naomi has recently joined EQ after holding senior positions at Rothschild & Co. and Cambridge Associates.

What is your role at EQ?

My role is to introduce our sustainable and impact investing proposition to a wider audience and to encourage broader adoption of a values aligned approach to investing. I'm a strong advocate for sustainable and responsible investing and was already a big fan of EQ's approach to investing for positive impact before I joined the firm. My work will be to build on the excellent foundations already laid by the team.

What's keeping you busy at the moment?

My main focus currently is developing long-term relationships with institutions, families, individuals and intermediaries who are interested values aligned investing. This includes building relationships with families and endowments that would like to build bespoke sustainable/responsible investment portfolios as well as increasing awareness of EQ's fast-growing Positive Impact DFM service to intermediaries.

The last few years have seen a rapid increase in interest from investors who are keen to invest more sustainably. More and more people are realising that "business as usual" supports a system that is unsustainable, and that urgent action is needed to avert social and environmental collapse. It's our job to make it easy for our clients to align their investments with their values, without sacrificing their long term investment returns.

What do you like doing in your spare time out of work?

I grew up in Cornwall and so after spending most of the week in the office in London I like to spend my spare time outdoors in the fresh air. At the weekends I'm usually to be found by the sea, in the woods or up a mountain. I'm also kept busy with my involvement with a number of social enterprises and grass-roots community groups, and am an external member of the Investment Committee for Access – the Foundation for Social Investment.

EQ signs UN-supported Principles for Responsible Investment

In the last few weeks, EQ has become a signatory of the United Nations-supported Principles for Responsible Investment (PRI).

The PRI is recognized as the leading global network for investors committed to integrating environmental, social and governance (ESG) considerations into their investment decision-making.

The initiative reached 2,232 signatories in 2018, a 21% increase on the previous calendar year. This reflects the growing desire among many investors to embed sustainability into their investment decision-making process, and we are proud to be a part of this movement.

Signatory of:

PRI | Principles for Responsible Investment

Investment outlook: Trade War Update

Kasim Zafar, Chief Investment Strategist

We have been writing about the US-China trade war since April 2018. Our view remains that the nub of the issue is more about technological rivalry and alleged intellectual property theft than about the trade in goods, which nonetheless form a significant part of the altercation.

Made in China industrial policy

China has placed several high tech industries at the centre of its "Made in China 2025" industrial policy, which puts it in direct competition with the key growth industries of the US. Chinese companies in these industries are expected to benefit from various forms of state aid, while the US believes they should be open to fair competition from international peers.

President Trump's favoured tool in the altercation has been raising tariffs on the trade in goods. There is now a 25% tariff on $250 billion worth of Chinese imports and a threat to impose the same tariff on the entirety (another $250 billion worth of goods) if a satisfactory resolution is not found. In retaliation, China has imposed 25% tariffs on $110 billion worth of US exports to China.

Negotiations had been progressing reasonably well. By some reports, agreement had been reached on rebalancing goods trade, lowering of tariffs and even on higher standards for intellectual property rights and protections. The latter are in fact being implemented into Chinese law.

In our view, the sticking point was the US demand for a reduction in Chinese state aid for key industries. Indeed, in May, both sides walked away from negotiations with the US blaming China for backtracking on prior commitments and China blaming the US for being indignant towards it.

But then in June, on the side lines of the G20 meeting, Presidents Trump and Xi agreed to resume negotiations which remain ongoing.

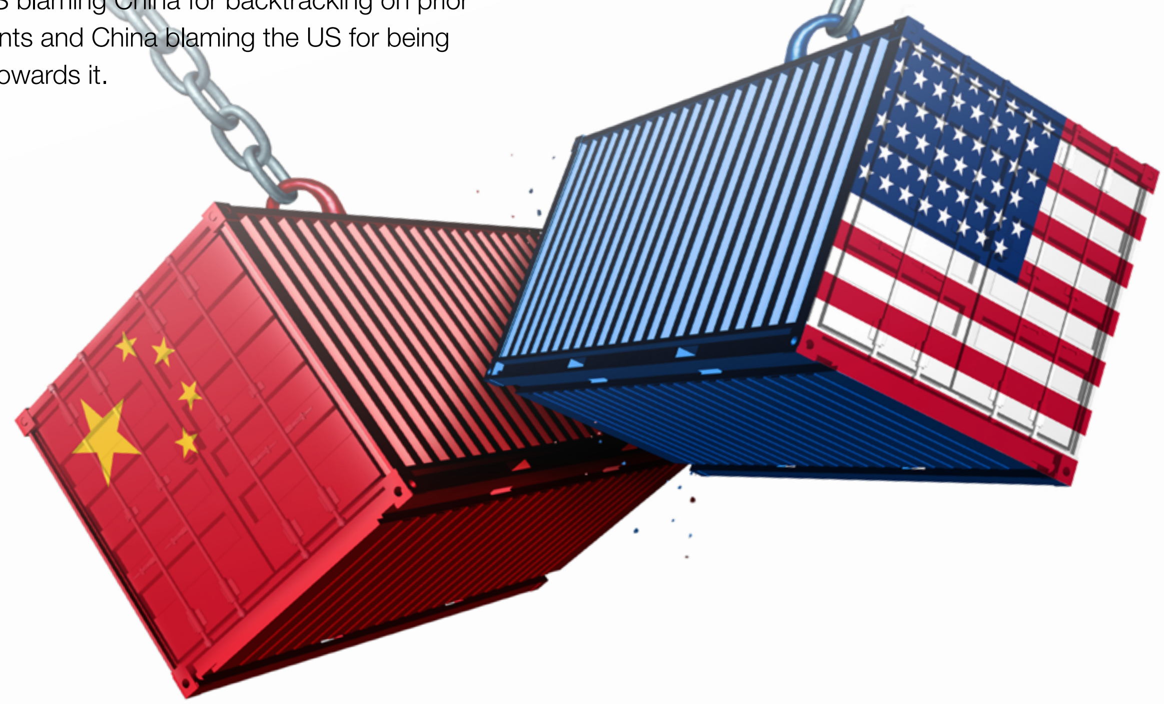
Further tariffs?

The (President) Trump card has been the threat of 25% tariffs on another $250 billion worth of goods trade. However, the composition of these goods is very different to those in the initial set of tariffs.

The initial set was biased towards "intermediate goods" which are items bought by companies during the intermediate stages of production. In other words, the impact has primarily been on companies which could choose to absorb higher costs in the short term, hitting profit margins.

The remaining goods trade under threat are comprised mainly of "capital goods" and "consumption goods". These are typically finished items (like washing machines) or items that are consumed (like food and energy). These would be felt directly by voters.

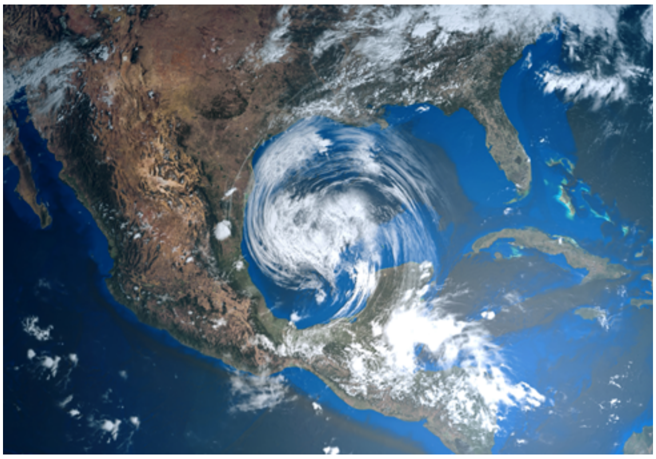
In the run up to the 2020 election, that creates a very different calculus.



No hurry on deal

We don't profess to have any skill in predicting President Trump, but our best guess is that he will aim to keep the negotiations going. However, there is a high risk of upset along the way. We also think he may turn his attention to Europe, possibly seeking better market access for US farmers, one of his core voter bases.

The trade war has caused a slowdown in world trade, but the biggest impact has been on business investment intentions which have plummeted. The uncertainty means companies are holding back on investing for the future. If companies get any more cautious, it could create weakness in the jobs market. That could seriously risk further economic weakness.



Portfolio changes

These concerns have led us to improve portfolio defences. We have improved the quality of both equities and bonds in portfolios by targeting companies that are more robust against fluctuations in the economic cycle.

We believe there is a chance of some resolution to the trade dispute (even if the question of subsidised sectors remains unanswered) and there is a chance of monetary policy easing to combat economic weakness. Each of these could send equities higher and so we remain neutral on our overall level of equity exposure, ready to move more decisively based on incoming data.

Star fund managers

Tertius Bonnin, Investment Analyst

Stars are born in a cloud of dust that collapses in on itself under the force of gravity. A reaction ignites, emanating a bright glow throughout the universe. Their constancy and twinkling beauty has made them the subject of numerous sonnets. But towards the end of their lives stars have a habit of going supernova, exploding in a wild display of the forces of nature.

In an analogous fashion, many star fund managers are born through wise investment decisions taken in a cloud of dusty uncertainty. The success of their decisions causes other investors to gravitate towards them. Before long their reputation shines brightly throughout the investment universe, attracting ever greater numbers of star gazers. Occasionally though, star fund managers can lose their way.

As we pointed out in our recent blog on the woes of Neil Woodford (former UK star fund manager) one of the key signs we look out for is when a manager drifts away from the investment strategy that served them well up to now.

The hype of investment success can impede a manager if they have historically done well selecting small companies. This style is incompatible with large investment sums, so managers may drift into larger companies with less success. Or, they may instead become significant investors in the smaller companies, creating other problems like not being able to sell easily. Or they may simply capitulate in the face of pressure to deliver repeat success, and redefine their style, trying to capture returns by chasing the latest thing.

These signs were all reasons why we didn't invest in Woodford Funds. One of the benefits of having a seasoned investment team is that we've seen a few failures. Occasionally we see things that make us wary enough to steer away completely. Sometimes, those investments turn out fine, but occasionally they're the ones that go supernova.

Creating a lasting legacy through effective philanthropy

Guest post: Emily Collins-Ellis, I.G. Advisors

Leaving a legacy is important for many of our clients, and we're excited to be able to work with you on this vital part of your financial plan. This summer our planners have been upskilling themselves with some bespoke philanthropy training from a fellow B Corp, I.G. Advisors.

Be evidence based

It's so important to do your homework beyond simply listening to whoever is asking you best, or loudest, for money. Use available data to make decisions, and make sure you're consulting widely with people who know the field, to really understand what works. For more information on the cutting-edge work that the EQ Foundation is doing in this area, please visit givingisgreat.org

Build the evidence base

Being evidence-based is important, but if the cause area you are passionate about is nascent, or complex, don't forget about the very urgent need to build the evidence base, too. A lack of impact data collection, evaluation, storage and sharing can hold very effective projects back, and keep you from knowing they are effective, and often funding a proof of concept can lead to greater investment from other donors. Underwriting the space and time organisations need to establish robust evaluation processes can be a game changer.

Build capacity

Often metaphors for philanthropy focus on plants or nature – growing, nurturing, feeding – and they work well, sometimes you can be the water on an already growing plant, sometimes you can be the seed that starts the whole thing off, and it feels great to see your contribution bear fruit. But often philanthropists can forget to fund (or be!) the other essential elements of this allegory: the training for the gardener, the rent for the garden, the campaign to stop next-door's use of toxic pesticides. Successful charities need the skills and knowledge to build a sustainable operation, and philanthropy can provide this where other sources of funding can't, or don't.

Take a partnership approach

Just like in business, success in philanthropy and charity work rests on more than just good ideas. At I.G., we recommend always approaching giving as a partnership to make sure you're providing the right value, getting the most value, and you feel valued. This isn't without its challenges, of course, so it's suggested that you start with the basics:

Assess your own value – we often find clients like the idea of being very hands-on with their giving, contributing their ideas and taking action as well as purely cash. In some cases, this can create clashes of expectations, so having frank and honest discussions about what the charity's needs are (which really might just be cash) and what skills, assets and time you could realistically offer them, can help you make sure you're not overwhelming them, and you're giving the most valuable thing to them, which could be cash, your opinion, your contacts, or your time as a trustee.

Assess leadership – just like you would with any investment decision, make sure you take the time to get to know the leadership you'll be partnering with, who can make or break the success of any initiative. It might not be the CEO, it could be a project manager, or a fundraiser, but any organisation needs someone with fire, vision and passion to drive progress.

Giving is Great

Transform the way you give. Make positive choices about which charities you support, based on evidence of the impact you will achieve:

Visit givingisgreat.org
an initiative of the EQ foundation

Networking

Any successful business person knows it's not what you know, it's who you know, and the charity sector is a whole world of its own. Spend time connecting with its leaders to keep yourself ahead of the game, partnering with ideas before they're public, understanding front-line risks and challenges, and building yourself the connections you need to drive real progress.

Use, but also drive, leverage

There are a lot of smart ways to make your philanthropy go further, in terms of literal pounds, and impact too. These can include making use of innovative matched funding mechanisms like The Big Give, contributing to pooled funds or donor circles, or supporting re-granting organisations who create a portfolio of giving much like an investment manager would. But, no matter which you choose, always recognise the role you have to play – all of these models rely on you not being the only donor! If you aren't a part of driving attention, profile and support to the campaign or project too, then the matching or pooled effect might not exist. So, make sure you're also helping to make the process a success, and not just relying on charities to do all the work!

Connect with peers

Philanthropy can sometimes be a little lonely, and it can be hard to know where to turn for advice. As well as working with advisors, connecting with others who have personal experience of giving can make a real difference, and help you along your journey. I.G. has a podcast called What Donors Want, which is a great no-pressure place to start hearing the experiences of other donors, and learn from their early mistakes and challenges!

Look at the system

Deciding how, when and where to give is a daunting task at any level of giving, and a trend we're seeing across the philanthropy space is the idea of 'systems thinking', which is – at its most simple – understanding the landscape, the system, of what you're trying to fund. Not just seeing what already exists, but what the need is overall, where the gaps are, where charities don't already exist or are struggling to scale, and what is stopping progress. It's also imported to assess what might happen elsewhere in the system if you fund a specific project, who is being excluded from decision making, and what level of support could overwhelm the system. This type of thinking has the benefit of avoiding big mistakes, unintended consequences and missed opportunities.

Investing for children

As the costs of university, houses and wedding dresses continue their relentless upward march, saving for kids has never been so important.

We've recently updated our *Investing for Children* guide and some of the stats show the challenge for younger generations:

- UK students now graduate with the highest levels of debt in the English Speaking world – up to £50,000.
- Mortgage deposit for first time buyer now stands at £44,653.
- Lower employer contributions to pensions, despite auto-enrolment – just half as generous as final salary pensions.

There's a plethora of options for investing for children. Our guide outlines the main options available and includes a number of case studies for parents and grandparents.

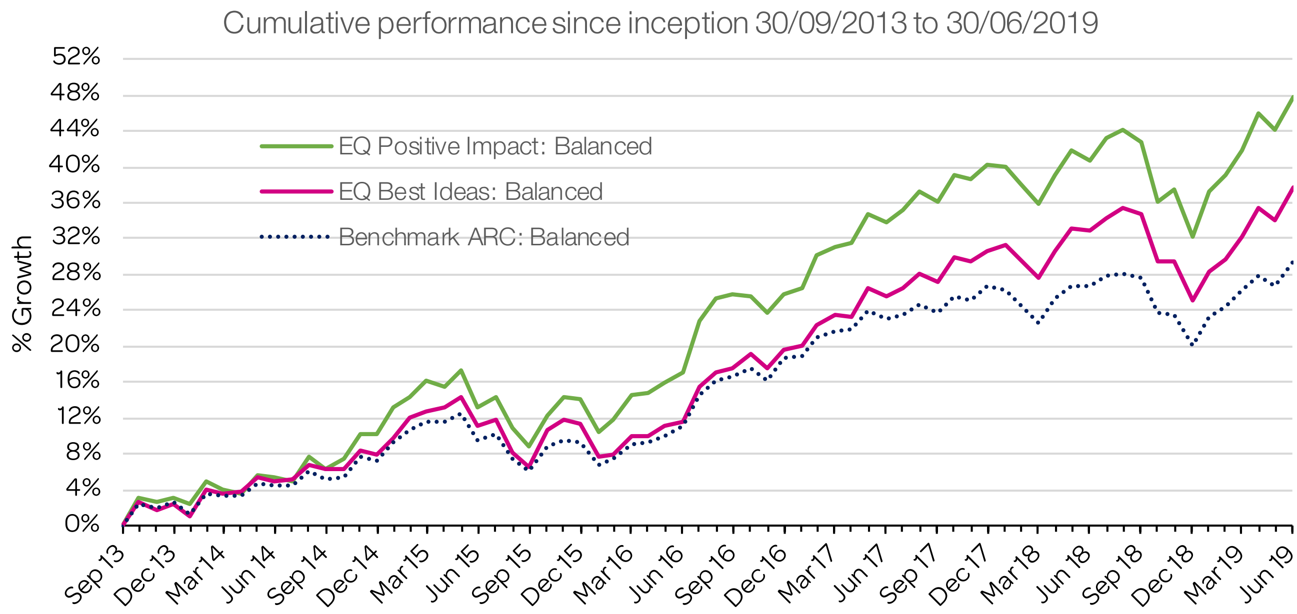
Download your copy here:
eqinvestors.co.uk/library/investing-for-children/

EQ continues to outperform

Achieving outstanding performance in the uncertain investment climate of the past few years is not easy. However, as you can see below we have managed to beat our peers in growing the assets that you have entrusted to us.

We benchmark our portfolios' performance against Asset Risk Consultants' Private Client Indices (ARC). These composite indices are based on real performance figures provided by over 70 investment houses for their discretionary private client portfolios. **Across the board, our Positive Impact and Best Ideas portfolios (solid lines) have outperformed their corresponding benchmark (dotted line).**

Annual performance	Jul 18 - Jun 19	Jul 17 - Jun 18	Jul 16 - Jun 17	Jul 15 - Jun 16	Jul 14 - Jun 15
Positive Impact Balanced Portfolio	4.98%	5.16%	14.18%	3.58%	7.39%
Best Ideas Balanced Portfolio	3.76%	5.76%	12.45%	0.54%	5.81%
ARC Balanced Benchmark	2.27%	2.98%	10.57%	1.59%	4.71%



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 able 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 Best Ideas and Positive Impact Portfolios are available in seven different risk profiles. Inception dates may vary. Please see factsheets for full details.

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