EQ investors Newsletter

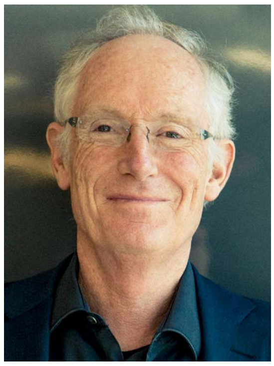
Spring 2020

FEATURING:

Certified B Corporation

TOP 100 TOP DFM

It's time for a change



Over the long course of my adult life I've witnessed a transformation in corporate culture. Back in the 1970s, opportunities to get rich quick were few and far between. Financial success generally required decades of gradually ascending the organisation ladder, hoping to acquire the coveted key to the executive toilets eventually. It created a climate of risk aversion – one mistake could ruin your prospects for life – but it also fostered a culture of thinking long term.

Fast forward four decades and the pendulum has swung to the other extreme. Executive pay is so barmy that failure can (and usually does) result in life changing payments. Encouraging gung ho behaviour with scant regard for the consequences. I've been banging on about this for some years but even I hadn't realised until recently quite how dire it has become.

Last month I read Bad Blood – a riveting account of the rise and fall of Theranos. Founded by Elizabeth Holmes it promised to revolutionise blood testing and at its peak was valued at $9 billion. It collapsed in 2018 when it became clear that its technology did not work. But what was truly frightening was that this company had started providing test results to people despite knowing that these were unreliable.

Then we have the still unraveling story of Boeing. Formerly the proudest aircraft manufacturer in the world, it now looks as if it may have turned a blind eye to safety concerns in order to meet financial targets. Risking human lives in order to secure a bonus is a sign that capitalism may be terminally ill. It explains why there is so much anger and distrust among populations. But before we write off capitalism I hope it will have a chance to redeem itself, to get back to looking after all of its stakeholders. That's what the B Corporation movement is about and I'm proud that EQ was one of the founder UK members.

In this issue, we bring you details on a new climate change initiative and insight on how we are adjusting your portfolios to address changes occurring in the global economy. You can also read about recent award success and details on the next EQ Foundation event. Please drop me a note if you have any thoughts or comments at: john.spiers@eqinvestors.co.uk

John Spiers

John Spiers
Chief Executive

Meet the new additions to the EQ team

It's always exciting to see the team at EQ grow! We've taken on five new members of staff this year, and we'd love to introduce them to you:

Dale Scorer, Financial Planner

"As an EQ financial planner, my focus is on communication without the jargon: giving people a clear understanding and feeling that they are well informed to make financial decisions. I've been working in financial services for over 10 years and started my career in South Africa as a currency futures trader. But I soon made the move into financial planning, because I enjoy working face to face with clients so much more."

Owen Catling , Client Relationship Manager

"I've joined EQ to help deliver our 'Simply' service, which is aimed at younger professionals who are starting out on their investment journey, and investors who do not need full-blown financial advice. Many younger investors are especially keen to invest in a way that does good for people and for the planet, and we're happy to help them do this through our Positive Impact strategy."

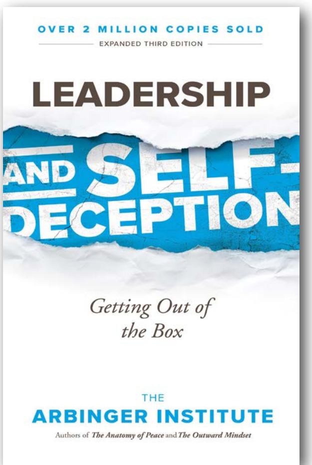
Technical Consultants: Kasia Saunders, Will Maloney and Zoe Brett

Our highly skilled team of technical consultants play an essential role in helping our financial planners put together personal recommendations and reports for our clients. They are experts in a wide range of areas, from tax to cashflow modelling to investment risk. We're delighted to welcome Kasia, Will and Zoe on board.

Book review: Leadership vision

Alexander Michelsen, Head of People Development

Leadership and Self-Deception: Getting Out of the Box



At EQ we believe that we can only achieve great results if we pay attention to the quality of our relationships.

This is a brilliant little book that we will be using as the basis for our leadership development work in 2020. It describes a fictional company, Zagrum, whose leaders are aware of a problem we all face, that lies at the root of human conflict and tricky relationships. It's a tale about how to treat people as people, both in and out of the office – and what happens when we don't. Using simple language, it explains how to 'get out of the box', avoid blaming others and stay focused on results.

Each member of our executive team has a copy, and we'll be rolling out a programme of workshops and seminars over the coming months. We know that people who come to EQ are looking for a business with a human face, so it's great when we find tools to help us nurture that underlying sense of purpose.

Next time you're in the office, why not grab a copy from the library?

Award success for EQ!

Ben Faulkner, Marketing Director

Since EQ's relaunch in 2014, we've had a vision to establish a financial advice and investment management firm which believes in business as a force for good and puts you, our clients first.

It has been these strong core values which have been key to recent awards success:

For the third year running, EQ has been recognised by New Model Adviser magazine as a Top 100 financial planning firm. This year, New Model Adviser has gone further to highlight a few key areas of best practice. We are extremely proud to have been highlighted as Top DFM (discretionary fund manager). Our range of model and bespoke portfolios were mentioned, including our well-established Positive Impact Portfolios. It is particularly pleasing that the judges drew upon our culture and ethos as a Certified B Corporation, as we challenge financial service stereotypes.

Last month, we were named as one of *thewealthnet* Top Financial Planning Companies. We are delighted that our planning team's client-first approach, professionalism and commitment to providing expert advice has been acknowledged amongst some of the largest financial planning firms in the UK.

To complete the awards hat-trick, Lindsay John picked-up the coveted 'Paraplanner of the Year' at February's Professional Adviser Awards. This is a huge achievement given the thousands of Paraplanners in the UK and fully deserved.

EQ signs up to climate-change investing pact

Louisiana Salge, Impact Specialist

As a B Corp we are looking to lead on climate change and have signed-up to the Climate Action 100+ investor initiative.

This influential group of 370 investors, represents around $41 trillion (£31.4 trillion) in assets and is aimed at engaging with the world's largest corporate greenhouse gas emitters.

The group pressures fossil fuel producers and other companies responsible for two-thirds of annual global industrial emissions to show how they will reduce carbon dioxide pollution. It has successfully pressured oil giants Royal Dutch Shell and BP to set targets to reduce emissions and disclose more data.

As part of its investor-engagement efforts, I recently visited Rolls-Royce to discuss their carbon footprint as they look to transition the business. Rolls-Royce has already committed to net zero carbon by 2050 and is accelerating the development of disruptive technologies such as hybrid-electric.

The turbine hall at Rolls Royce's factory in Derby.

Future-proofing your portfolios: a more global outlook

Kasim Zafar, Chief Investment Strategist

After careful analysis we've decided to make a fundamental change to the way we construct our portfolios. The bottom line is that over the next year we will be reducing our allocation to UK equities because we believe that will deliver better risk adjusted returns for clients. In this article we explain why.

It all started a long time ago

Back in the 1960's UK private client portfolios consisted almost entirely of UK blue chip companies, gilts and possibly one or two investment trusts with an overseas bias. As restrictions on investing overseas were lifted, portfolios started to include more overseas content – back then markets were less interconnected so this helped to increase diversification. But it also increased the exposure to currency risk – and in those days sterling was very volatile – so portfolio managers understandably still wanted more UK equity exposure than would have been justified if they had just considered the size of the UK stockmarket compared to the rest of the world.

How the UK stockmarket has changed

There are at least four big factors to consider:

1 The UK stockmarket no longer represents the UK economy

Just look at the constituents of the FTSE100 and you'll find companies with nil revenue in the UK (Antofagasta, Anglo-American, PolyMetal, BHP) or where it is a minor part of their operations (BP, Shell, GSK).

2 The UK stockmarket has a significant bias

Because the FTSE100 is made up only of companies listed on the London Stock Exchange, regardless of where they operate, it's become increasingly concentrated on sectors like mining and energy. It's also become very under-exposed to technology.

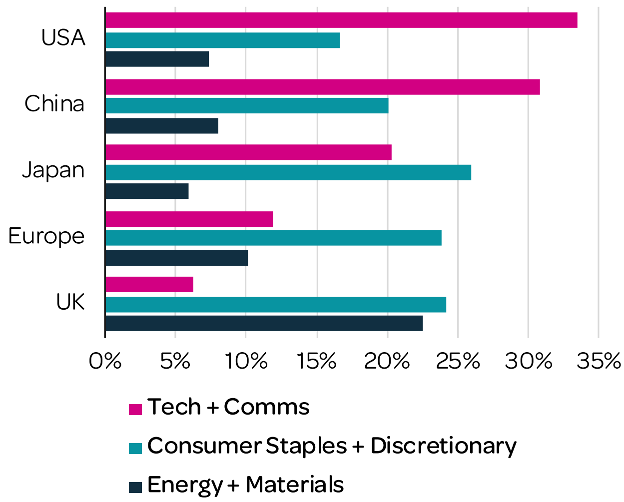
3 The UK economy is more globally connected

These days most listed companies trade on an international basis: external trade now accounts for 61% of the UK's GDP. So, its health is inextricably linked to what is happening elsewhere.

4 Sterling is less volatile

In an era of much more vigilant central banks, huge moves in major currencies have become rare (except in very unusual circumstances such as Brexit).

Sector exposure across world markets



Why now?

All market timing decisions involve risk. UK equities have underperformed global equities over the last 5 years, which is partly due to the uncertainties associated with Brexit but also partly from having a lower sector exposure to technology, which has performed very strongly. Going forward, we must give due consideration to the possibility that technology could underperform, and Brexit could go very well. Indeed, there may be periods where the UK outperforms other regions.

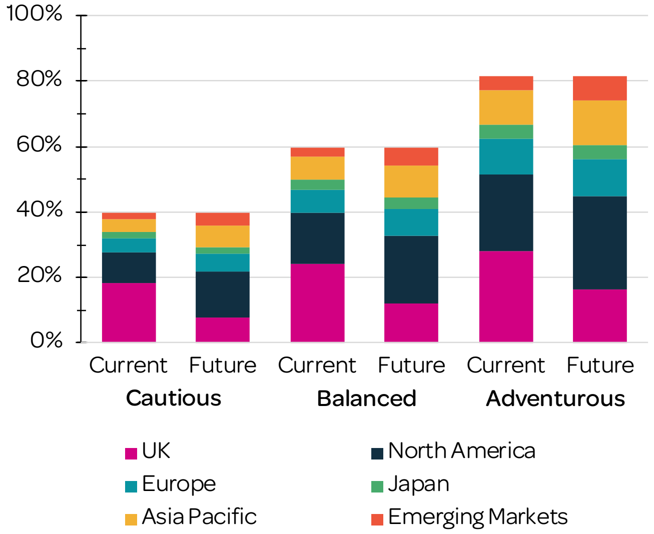
However, given the long term structural changes underway in the global economy, we think the sectoral composition between the UK and other regions will continue to be a major headwind for UK equities. Over the long run it is very hard to see that returns from fossil fuels and mining will be superior to those from technology. And Brexit could go horribly wrong.

Phasing the change over time

We are going to take the prudent view and phase our rebalancing over at least four quarters – and we may revisit our plan if market conditions change.

In practice this means that – while the total proportion of growth-focused assets in your portfolio will not change significantly – the proportion invested in the UK will decrease and this will be reinvested across other regions:

Current vs. future allocation to regional growth assets



While the actual extent and timing of the change will depend on market conditions, the net result will be to increase portfolio exposure to some sectors (including technology and communications) and decrease exposure to others (including energy and materials).

What will be the impact on returns?

We can't be sure but we have looked back at the data over 30 years. From this we can see that a lower UK content would have been positive for returns (in large part due to the sector impact). Until about 20 years ago it would have resulted in considerably more volatility but that has been much less pronounced since then.

If you would like to read more about this there is a more detailed article on the EQ website:

eqinvestors.co.uk/blog/future-proofing-your-portfolios-a-more-global-outlook/

Fund in focus: Baillie Gifford Positive Change

Tertius Bonnin, Investment Analyst

Some still believe investing ethically means sacrificing performance. We certainly don't believe that to be the case. The Baillie Gifford Positive Change Fund is a new addition to your portfolios. The fund aims to contribute towards a more sustainable and inclusive world while generating strong returns – a prime example of the type we favour.

Investors familiar with the Baillie Gifford approach to investing will see that this fund bears the group's hallmarks. A high-conviction, concentrated portfolio (31 holdings currently), which increases risk as well as return potential, a search for exceptional growth businesses, and a low turnover of holdings resulting from investments being kept for the long term.

The fund is aligned with the UN Sustainable Development Goals and investments fall into four main areas:

- Environment & resource needs
- Healthcare & quality of life
- Social inclusion and education
- Base of the pyramid – needs of the world's poorest.

With nearly 90% of the stocks within the fund also held by other Baillie Gifford funds, the managers are using the broad expertise of the whole company. Each company within the fund is expected to double its share price over the next five years and we are excited to add this strategy to our Best Ideas and Positive Impact portfolios.

EQ in the news

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

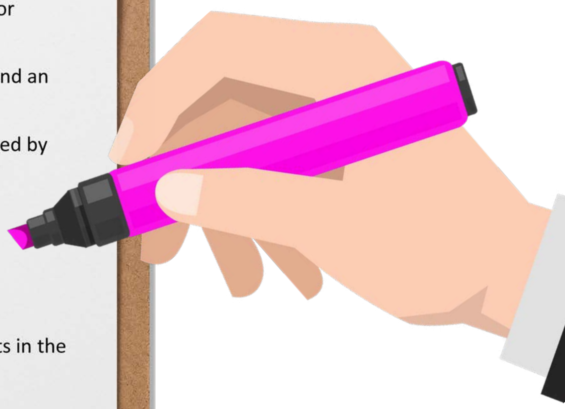
- Citywire: EQ Investors is going full impact
- The i: How to reduce the strain by planning ahead
- The Times: How to invest your pension ethically*
- New Model Adviser: EQ Investors hits £1bn in assets under management

*Requires subscription to view.

Financial planning checklist

Angus Branfield, Executive Director

Often at this time of year, people take stock and get their financial house in order. So we've put together a quick checklist for you to consider.

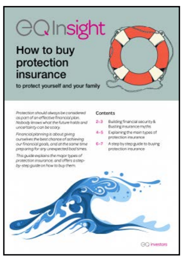


- [ ] Have you used your ISA allowance for 2019/20?
- [ ] Have you or your family used the JISA and LISA allowances for 2019/20?
- [ ] Did you know 16 and 17 year olds can invest in both a JISA and an ISA in 2019/20?
- [ ] If your earned income is over £110,000 you could be impacted by the annual allowance taper. Do you know if you're affected?
- [ ] Have you reviewed your utility costs in the last 2 years?
- [ ] Have you reviewed your mortgage costs in the last 2 years?
- [ ] Have you reviewed the interest rate on your savings accounts in the last 2 years?
- [ ] Have you reviewed your Will and Lasting Power of Attorney recently?
- [ ] Have you reviewed the expression of wishes for your pension recently?
- [ ] Have you reviewed your life cover and protection recently?
- [ ] Have you reviewed your choice of beneficiaries of your life cover recently?
- [ ] Do your savings exceed the FSCS compensation limit of £85,000 with any single banking licence?
- [ ] Have you reviewed the interest rate on your credit card recently?
- [ ] Have you taken advantage of the IHT gifting allowances in 2019/20?
- [ ] Have you reviewed your expenditure recently?

If you have any questions about the tasks on the checklist, then please get in touch.

The EQ Library

Over the years we've put together a library of guides and resources on our website, which are available to download for free. So if you're looking for useful tips on any of these areas, why not head over to eqinvestors.co.uk/guides *to take a look?*



How to magnify the impact of your charitable giving

Dan Atkinson, Head of Technical

The key motivation for giving money to charity is to see it do good. Our EQ Foundation has some helpful resources to enable you to find causes that resonate with you. But did you know that there are tax breaks that reward this behaviour? Here are a few we think you should bear in mind.

Gift Aid

This is the most well-known tax break and provides a 25% uplift to the charity receiving your gift (effectively replacing the basic rate income tax you paid earning this money). The registered charity will ask you to declare that you have paid enough tax to cover the relief they will claim. From much simpler beginnings we now have charities claiming Gift Aid on:

- Cash gifts
- Fundraising
- Donated goods
- Entrance fees

If you pay higher or additional rate tax you can claim further relief personally. The way this works is that more of your income will be taxed at basic rate than at these higher rates. So, a higher rate taxpayer saves a further 20% tax; for an additional rate taxpayer it's 25%.

You can claim this through your tax return or by contacting HMRC[1].

Example

James is a higher rate taxpayer. He gives £500 to charity. They claim £125 Gift Aid bringing the amount up to £625. As James pays Income Tax at 40%, he can claim back 20% of the £625 = £125.

Paying less Inheritance Tax

If you decide to leave money to a charity in your Will this comes off the value of your estate before Inheritance Tax (IHT) is calculated – an immediate saving of up to 40% on the gift. However, if you decide to leave more than 10% of your net estate (assets less liabilities) the rate of IHT reduces from 40% to 36%. So not only would the charity benefit, but your other beneficiaries would lose less money to HMRC[2].

Example

Penny is planning on leaving her £2.5 million estate to her niece, Violet. If she died in March 2020 the first £325,000 would be tax free. The remaining £2.175 million would be taxed at 40%. Violet could expect to receive around £1.63 million.

Instead, if Penny left £250,000 to a charity, then the rate of tax would fall from 40% to 36%. Violet would receive £1.557 million, which is just £73,000 less than she would otherwise have received.

Giving land, property or investments

If you give these to a charity, as well as getting Income Tax relief (the value of the gift is deducted from your total taxable income), you won't have to pay Capital Gains Tax. Most investments qualify, but you should check the detail first[3].

What's right for me

When we think about our giving, we need to balance our desire to be generous with taking responsibility for our own finances. Our financial planners can help you explore your options and use cashflow modelling to run through different scenarios.

Giving is Great

Transform the way you give. This handbook helps donors to make better decisions when supporting charities and social enterprises, based on evidence of the impact you will achieve.

Download here: https://eqinvestors.co.uk/library/giving-is-great

[1] https://www.gov.uk/donating-to-charity/gift-aid
[2] https://www.moneyadviceservice.org.uk/en/articles/the-tax-benefits-of-giving-to-charity
[3] https://www.gov.uk/government/publications/charitable-giving-hs342-self-assessment-helpsheet/hs342-charitable-giving-2019

The EQ Foundation presents: Three ways to save the planet

We're committed to helping donors find the most effective charities.

At our next event we've invited three leaders of charities with an environmental focus to talk about the big issues they are tackling, and how they make an impact:

Laura Winningham is Founder & CEO of City Harvest. Set up in 2015, last year they collected over 1,000 tonnes of food approaching its sell by date from supermarkets and food manufacturers and distributed it to charities that provide meals for the homeless and others in need.

David Jordan, a former executive director of the Environment Agency, is chair of Excellent Developments. They help local communities in Africa to build Sand Dams which can transform the availability of water, both for drinking and farming.

Pete Lewis is Director of Fundraising at Surfers against Sewage – he's on a mission not only to reduce pollution on our beaches by 50%, while also educating schoolchildren about the evils of plastic pollution.

We have limited seating capacity and expect high demand for this event so we've set a ticket price of £25 (optional for EQ clients).

All of this will be distributed to the above charities as donations and will be matched by the EQ Foundation. So by attending not only will you be learning more about pressing problems – you'll also be generating £50 of charitable donations.

Event details

Date: Wednesday, 18 March
Time: 6:00pm – 7:30pm
Location: EQ Investors, Centennium House, 100 Lower Thames Street, London EC3R 6DR
Format: Presentations, followed by drinks and canapés

To register, visit:
three-ways-to-save-the-planet.eventbrite.co.uk

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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