equinox

half yearly investment magazine

Time to Invest

Pensions:

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Business Property Relief

equilibrium

April 2013

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Welcome

It may be a cliche but it really is hard to believe that it has been 6 months since I last wrote the Introduction for this magazine.

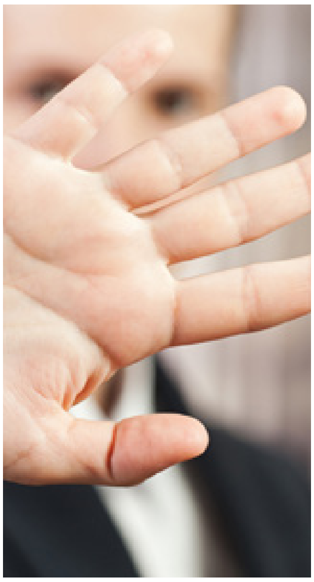
What a 6 months it has been, markets have rebounded strongly, portfolios have performed well and our proactive portfolio management has enhanced results.

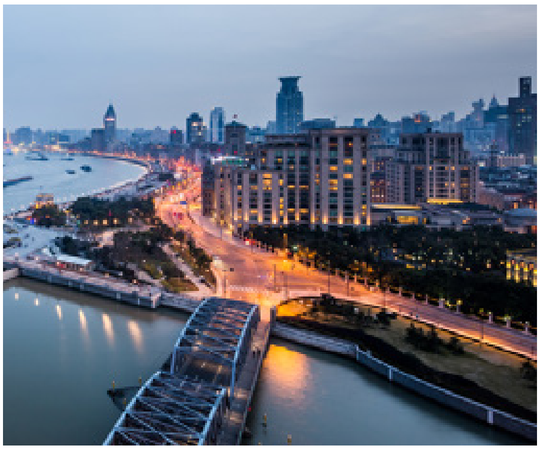
We have invested in new software including a financial planning system that many clients have said is life changing. It provides a window into your financial future providing the confidence to make different and better decisions to benefit yourself and your family, now and over the years to come.

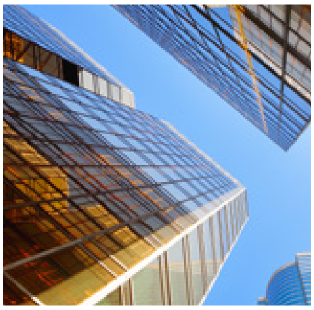
It has also been a great six months for the business as a whole, the pinnacle of which was winning the Money Marketing "Wealth Manager of the Year" award. This is a national award and having been runner up on two previous occasions, to finally get the win was very satisfying.

As always, I hope you enjoy this issue and I look forward to seeing you at one of our many events. In the meantime, if you would like to get in touch with me directly, please email colin@eqasset.co.uk.

Colin Lawson
Managing Partner







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Time to Invest

By Mike Deverell

The potential return on any investment is determined by a number of factors.

Some of the main drivers of return are:

Risk, Price, Time & Luck!

We can't do anything about the fourth factor, but an understanding how the other three aspects interact is key in order to make returns much more predictable.

Risk

We all know that the greater the potential return, the greater the risk you will have to take.

It is worth thinking about why this is the case, since it illustrates how risk interacts with the other factors.

Assume there are two potential investments, each with the same potential return but one with greater risk than the other. No rational investor would buy the riskier asset (not that all investors are rational of course!).

The price of the riskier investment should decrease (therefore increasing potential return) until a point where the return is now worth that additional risk.

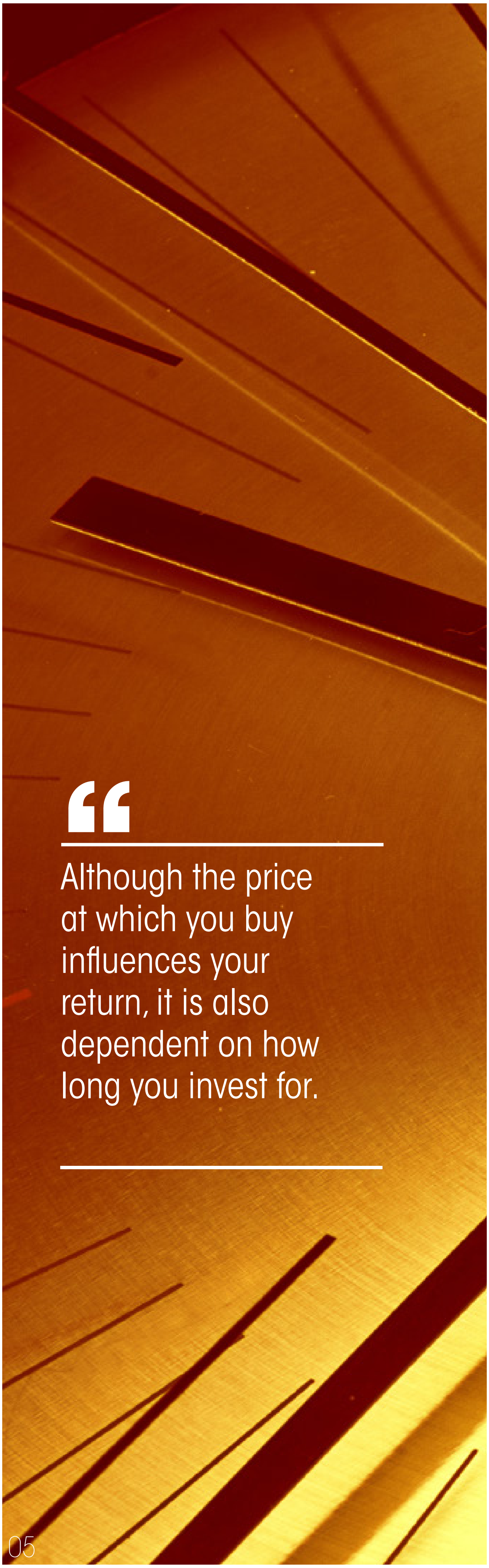
Many risks apply to different investments, the major one being the risk of loss. Other factors, such as the risk of returning less than inflation apply to virtually all asset classes, including cash.

Risk in equities can be broken down into various categories. The more of these risks present, the greater the return required:

- **Stock specific risk**
  The risk that one stock will underperform another. This can be diversified away by holding enough stocks and should not be a problem in a properly constructed portfolio.
- **Market risk**
  The risk that the market will fall. This can be mitigated by holding a diverse portfolio of assets like fixed interest, property, cash and alternative equity. Asset allocation is THE key determinant of returns.
- **Currency risk**
  The risk that currency movements will reduce returns. If your US stocks rise in value but the dollar falls, your returns are diluted.
- **Political risk**
  The risk that politics will affect returns. The European debt crisis, corruption in Russia, or government interference in China, are all examples.

We require a much higher potential return from emerging markets, which arguably have all these risks, than we do from investing in the UK.

Risk needs considering in context with the other two factors which affect returns, price and time.



> Although the price at which you buy influences your return, it is also dependent on how long you invest for.

Price

As explained earlier, risk is often reflected in the price. For example, the Chinese equity market currently trades on a multiple of 8 times earnings (the price/earnings ratio), whilst the UK trades on 15 times at 1 April 2013 (source: Thomson Reuters Datastream). The Chinese market is “cheaper” and arguably has a higher potential return than the UK, but with greater risk.

Price/earnings ratios are a key determinant of market returns. I stress market returns rather than stock specific returns, since individual shares are very unpredictable and many factors need to be taken into account.

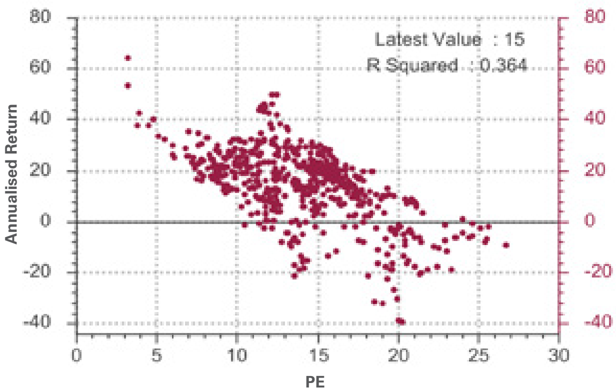
The lower the P/E ratio of the market, the higher your potential return. However, this is itself affected by our third factor, time.

Time

Although the price at which you buy influences your return, it is also dependent on how long you invest for.

The scatter charts below show the historic correlation between the P/E ratio and the return of the Thomson Datastream UK total market index (an industry proxy for the UK market) over different time periods.

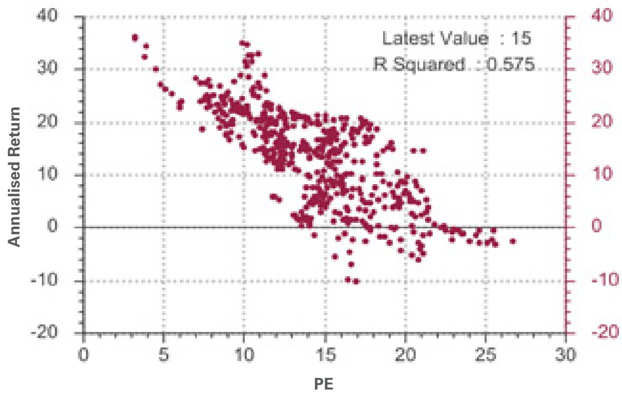
The P/E ratio at the start of the period is shown along the horizontal axis. The annualised return over the period is shown on the vertical axis. Each dot represents a different period of returns.



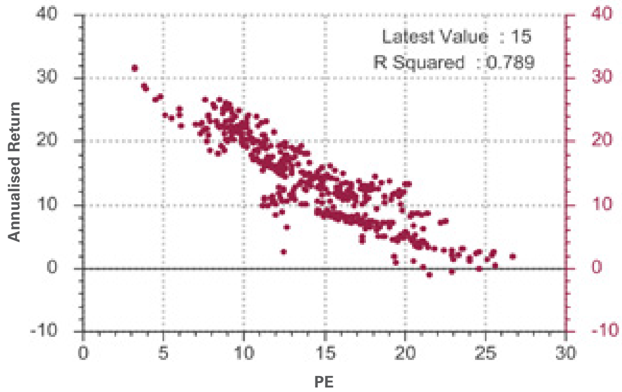
Over a two year period you can see a reasonable relationship, the lower (further left) the P/E was, the higher the return (higher up the vertical axis).

The r-squared, which is a way of measuring correlation, is 0.36. An r-squared of 1 represents a perfect (100%) correlation, a zero is 0% correlation. An r-squared of 0.36 effectively means there is a 36% correlation. If you are going to invest over two years, it is very much worth paying attention to the P/E, but it is not the be all and end all.

If you look at the second chart, the pattern becomes clearer. Over a five year period the r-squared is 0.58. This is a strong correlation, so P/E has a big influence on returns if you are investing for five years.

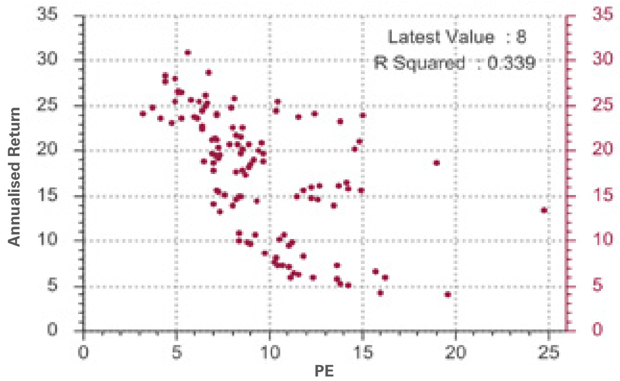


Now look at the third chart, over 10 year investment periods. The chart now shows almost a straight line with only a few outliers. The correlation is almost 80%. The P/E at the start of the investment period makes a huge difference to returns.



Note that if we extended the time period to 15 years, the relationship starts to break down again.

In the UK, the relationship is very strong. However, in other markets like China, the relationship is weaker. Over five years the correlation (Datastream China Total Market index) is 0.28, rising to 0.34 over 10 years.



Our aim is to produce more consistent returns by increasing exposure to asset classes we think are cheap...

The correlation in China between P/E and returns over a 10 year period, is only about as strong as over 2 years in the UK. This is partly because of the greater uncertainty in Chinese investing. However, you can see from the chart that the returns have typically been higher than from investing in the UK.

Our three factors are all intertwined, and it is our job to consider each of them all carefully before investing.

Asset Allocation

Whilst this article focuses on equity investing, we carry out a similar process in other asset classes. Each asset class needs looking at in a different way, but they each have indicators that can help us assess value.

The asset allocation decision is the one that makes the biggest contribution to returns and so is where we concentrate most of our time. Our aim is to produce more consistent returns by increasing exposure to asset classes we think are cheap, reducing exposure to those that are expensive. In this way, we aim to buy low and sell high.

This process helps us not only to increase potential returns, but also to reduce risk when appropriate.

This article has been adapted from one originally featured on Citywire.co.uk

> We actually have no plans for world domination despite rumours to the contrary!

In Profile:

Colin Lawson

Equilibrium

You started Equilibrium (then known as Applewood) in 1995 from your back bedroom. What motivated you to start the firm?

In my previous role I had spent five years as a consultant for an insurance company looking after other Independent Financial Advisers of various shapes and sizes based from north Wales through to Manchester city centre.

During that time I observed the things that firms did very well and the things that they did poorly – believe me, some firms did things very poorly indeed! I could also see the opportunities that were being missed and felt that I had learned enough to create my own firm that would be distinctly different.

What has been the biggest challenge since then?

Building the firm from a standing start to where we are today has been a constant challenge! However, the biggest challenge has to have been dealing with two major market crashes in the space of just ten years. Keeping clients informed every step of the way when others were burying their heads in the sand was really appreciated.

How much of Equilibrium's growth since then has been planned out and how much has been a happy accident?

We have always had a detailed plan as to where we want to be and how we are going to get there. Whilst we have occasionally hit a few dead ends and have taken many diversions, the overall plan has always remained the same. We fundamentally believe that the only way to get bigger is to get better and to constantly evolve the service that you provide.

Who has been your biggest influence along the way?

There has been no single biggest influence, but I have been lucky to find the right person, organisation, course, or book to provide the right inspiration and guidance at the right time.

What do you think sets Equilibrium apart from other wealth managers?

I truly believe that what sets us apart is that the business has been created from the ground up around the needs of our clients. We have shaped the service to match the clients, rather than trying to shoehorn prospective clients into what we want to do!

It's for this reason we do not benchmark investment returns against an index – who cares whether or not we beat the FTSE for example, especially if it falls! Instead we strive to hit the returns that our clients need to be confident about their financial future. We believe in making a positive difference for our clients so that they can enjoy life.

Where do you see Equilibrium in 10 years' time?

We actually have no plans for world domination despite rumours to the contrary! However we would like to help as many people as we can and, as I said earlier, to get bigger by getting better. If we ever get to the point where we feel the business is losing its friendly approach, then we would stop growing in a heartbeat and go back to basics.

You recently began running seminars in Knutsford and are extending this to Chester this year. Are there plans to open permanent offices?

Although our aim is to be the dominant market leader in the regions in which we operate, we plan to stay relatively local to our base in Handforth.

The offices that we utilise in Knutsford and Chester are purely to meet with clients close to their own homes, however we have no intention of basing any staff there permanently for the foreseeable future.

What challenges does expansion create?

We have always put our existing clients first and that is why we have such an excellent client retention rate. Over 85% of our income comes from our existing clients, so it is vital we keep them happy!

I am proud that we still work with so many clients who joined us right at the beginning. My own role now is to look after my existing clients primarily and to set the strategy for the business going forwards.

How long do you plan on doing this for?

I cannot imagine doing anything else at any point in time. I have no desire to retire, however I would like to gradually work less so that I can spend more time with the family and enjoy various hobbies.

As Managing Partner, how much of what happens at Equilibrium is down to you? What would happen to the firm if you were hit by a bus?

We have an excellent management team and there is a plan in place to cover a number of potential risks. If I were to be hit by the proverbial bus, I am confident that the business would continue to thrive.

Pensions:

Pointless or Part of the Plan?

By Andrew Hirst

If I were to ask you "What do you need to do when you are working to ensure that you have a comfortable life in retirement?" I would hazard a guess that many would answer that you should save into a pension. Being a Financial Planner my answer would be, unsurprisingly, to have a financial plan.

I believe that in the wake of endless tinkering with pension rules by politicians, many more people will start to come up with the same answer as me. I also believe that the concept of retiring on a set date, never to work again, is now a thing of the past. People now require flexibility. As we live longer, people will require the flexibility to gradually reduce work until they reach full retirement. As their income changes through these stages it will be vital to have other flexible sources of income to ensure that their standard of living is maintained. This where a financial plan is required.

Of course, pensions will no doubt form a part of the plan, but it could also include many other types of investment such as ISAs, Share Save Schemes at work, even a Buy To Let property , each plan will be different.

The planning will start with an estimation of the level of income required in the future and when it may be required. Flexibility will be built in to allow changes to be incorporated as we go along, no one has a crystal ball after all. We can then allow for inflation and calculate, taking into account any current arrangements, any income shortfalls and how best to reduce or eliminate them.

> "
>
> I also believe that the concept of retiring on a set date, never to work again, is now a thing of the past.

With tax relief available, a pension plan is still a very attractive savings vehicle. The tax relief provides an immediate injection of growth to funds invested, helping to bridge these shortfalls.

For example, for a 40% taxpayer it would cost 60p for each £1 invested into a pension. Pension contributions reduce your gross annual income and therefore provide several opportunities.

1

For those individuals earning between £100,000 and circa £118,880 per annum, the amount they can earn tax free (Personal Allowance) is reduced on a sliding scale to zero. Individuals affected could make pension contributions to reduce their gross annual pay back below £100,000 to retain their personal allowance. Pension contributions in this band in effect receive tax relief at 60%.

2

Individuals claiming Child Benefit with earnings between £50-60,000 will lose their benefit on a sliding scale. Pension contributions can be used to reduce gross salary levels to gain tax relief and also return of some or all of their child benefit.

3

Anyone under age 75 can pay up to £3,600 per annum into a pension and get tax relief of 20%, even if they don't have earned income. So a £3,600 contribution will only cost £2,880. This is an excellent opportunity for estate planning. For instance, Grandparents can build pension funds for Grandchildren whilst reducing their own Inheritance Tax liability.

Recent changes to bring in a flat rate State Pension of £144 per week should also be broadly welcomed. Yes, there will be winners and losers and people will have to wait longer before they receive their pensions, but after all we are all living longer, and it will bring to an end the current complexity. At present we have the Basic State Pension, State 2nd Pension, SERPS, Graduated Pension and Tax Credits, all to be replaced with one flat pension.

There has been a lot of negativity in the press about the recent pension changes, but in relation to financial planning the one thing that has improved over recent years is flexibility.

The Positives for Pensions

Before we look at any negatives, here are the positives:

- An extremely wide range of investment choices from bank accounts, direct shares, investment funds to commercial property.
- Tax efficient investment returns whilst invested.
- You don't need to hand over your pension fund to a life assurance company by age 75 to buy an annuity for life anymore. You can remain invested and take a flexible income from the fund as required with no age limit. You can even take up to the 25% tax free cash withdrawal amount and leave the remainder invested to grow until an income is required at a later date.
- The Income Limits for individuals in Drawdown has been increased back to the previous level at 120% of GAD (Government Actuary Department) rates. The GAD rate is broadly equivalent to an annuity. Offering some help for people relying on their pension fund as a main source of their income.
- Individuals able to demonstrate that they have Secured Income from Annuities, Occupational and State Pensions of £20,000 per annum have no limit to the amount of withdrawals that can be taken from any remaining pension funds. This is known as Flexible Drawdown.
- You can still pay up to £50,000 per annum into a pension (Annual Allowance) and get tax relief at your marginal rate, reducing to £40,000 per annum from 06/04/2014. Individuals can "carry forward" unused relief from the previous three tax years.
- You can still build up a fund of £1.25 million without worrying about being hit by a Lifetime Allowance tax charge (see later for protection available for pensions funds close to, or exceeding this limit).
- If you die prior to taking benefits from a personal pension, the fund is payable to your nominated beneficiaries without tax deducted (as long as the fund is below the £1.25 million Lifetime Allowance Limit) further planning can also be introduced to nominate a Trust so that benefits can remain available to a spouse but do not form part of their estate on death and are then not subject to Inheritance Tax.

Things to be careful of:

Whilst the changes will have a broadly positive impact, there will clearly be people negatively affected.

Pensions are complicated and without the right advice you may face serious consequences. With the introduction of the new Flat Rate State Pension, individuals will need to have 35 years of NI contributions (increased from the current level of 30 years) to qualify for the full benefit. At present, each year that Child Benefit is claimed counts as a year's accrual under the Home Responsibilities Protection rule. Individuals earning above £60,000 per annum with non- tax paying spouses may want to continue claiming the benefit to continue to accrue these years for their spouse's State Pension entitlement.

However, the group affected in particular are high earners making large pension contributions and individuals with pension funds at or near the new Lifetime Allowance level.

The first danger will be exceeding the Annual Allowance, resulting in a tax charge that is basically a reclaim of all the tax relief received for the pension contribution. Even making the contribution is not straightforward as it will be based on the "input period" (the pension scheme year), which may not be in line with the tax year. Bearing in mind that when pensions are in payment they are taxed at your marginal rate of tax, it makes little sense to make a payment into a pension that receives no tax relief only to receive a taxable pension at a later date. Therefore it would be critical to get advice prior to making large contributions.

> "The group affected in particular are high earners making large pension contributions and individuals who have pension funds at or near the new Lifetime Allowance level.

Individuals with Defined Benefit/ Final Salary Pension Schemes have their assessment against the Annual Allowance charge based on the increase in pension benefits, above inflation, accrued in a scheme year (multiplied by a factor of 16) NOT the actual amount contributed into the pension scheme itself. This is a key difference and can lead to problems in particular to individuals who have accrued a high number of years' service and are awarded a significant pay rise, perhaps on a promotion. Bearing in mind that pension benefits in these schemes are based on final salary levels, this could result in a spike of benefit accrual in that particular year, resulting in a breach of the Annual Allowance and creating a tax liability. It is expected that individuals earning in excess of £150,000 should expect a tax charge every year.

The reduction in the Lifetime Allowance from £1.5 million to £1.25 Million in the 2014/15 tax year, a further fall from the £1.8 million reduction on 06/04/2012, will bring many more people into the scope of the Lifetime Allowance charge. Pensions are tested against this allowance only when benefits are taken. Where pension funds exceed the allowance a tax charge is levied on the surplus amount. If the surplus is taken as a lump sum the charge is 55%, 25% if taken as an income. However, that pension is then taxed annually at an individual's marginal rate, bringing it back to circa 55% in most cases.

The Government is currently considering a 2014 Fixed Protection and Personalised Protection to allow people to protect funds close to or over the new Lifetime Allowance level. The finer details are still to be announced but it is intended that these protections will be similar to the Primary and Enhanced Protections made available when the Pension Simplification Rules (you couldn't make it up) were introduced on April 6th 2006.

This brings me on to another pitfall, one which I would place under my unforeseen circumstances rule.

The Fixed (existing and proposed) and Enhanced Protections will be revoked by HMRC if further contributions are made into any pension plan/ scheme. With the introduction of Automatic Enrolment into workplace pensions, individuals with these protections could find themselves inadvertently enrolled and by default make a payment to a pension. This would result in the protection being revoked and lead to a very large tax liability on the pension fund. Anyone finding themselves in this dilemma only have one month after the enrolment date to opt back out. The employer by law will have to enrol them automatically every three years, so this will be an on-going risk to be aware of.

Also individuals with Enhanced Protection could see their level of tax free cash reduced from £375,000 to £312,500 when the Lifetime Allowance reduces. For these groups, it would be prudent to discuss these pension changes with their Financial Adviser as soon as possible to see if they are affected now or may be in the future.

These complexities highlight how, when thinking about retirement in general, it is not sufficient to just save into a pension. I believe it would be would be prudent for everyone to have their own individual financial plan, maximising flexibility and their income options in the future.

China

By Mike Deverell

In 2010, China became the second largest economy in the world by Gross Domestic Product (GDP), overtaking Japan after a decade of spectacular growth.

When we discuss China in investment terms we tend to talk about it as being a far away, speculative place to invest, only suitable for a small portion of portfolios.

However, China has a global financial significance second only to the USA. China is vital to global trade, and hence has an impact on all areas of investment.

The table below shows where revenues of some of the major European stockmarkets come from:

Geographical split of revenues (%)

	Domestic	Europe	Americas	EM	Others
FTSE 100	19	23	24	24	11
CAC 40 (France)	27	38	13	13	9
DAX (Germany)	30	32	17	16	5

Source: Goldman Sachs Global ECS Research, IBES, Worldscope and FactSet

Emerging markets account for 16% of revenues of companies in the main German index, 13% of France and a massive 24% of FTSE 100 revenues. Nearly a quarter of the earnings made by the top 100 "British" companies are from emerging markets, principally China. That's more than comes from Europe, and the same as is derived from the Americas.

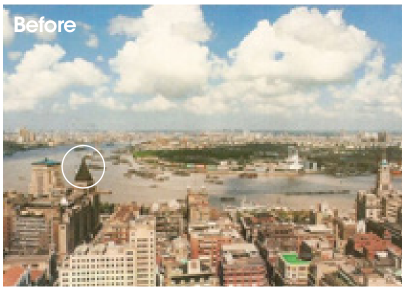
Only 19% of FTSE 100 revenue comes from the UK. If you buy a FTSE 100 tracker, you have more exposure to China than you do the UK.

China's Global Impact

China's stunning growth over the past decade or so has had a huge impact on commodity markets in particular.

According to the IMF, in 2010 China consumed around 40% of all base metals used. This includes copper and steel, as the drive to urbanise and modernise the country continues.

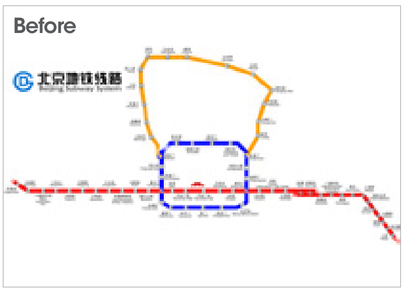
The two pictures below show the Shanghai skyline from 1990, and that from 2010. In 20 years the city has become unrecognisable. We have highlighted one of the few original buildings that can still be seen on the second picture:



Before

After

The development of Beijing's subway system from 2006 until now is phenomenal, and it is frightening to think just how much steel and other resources this must have taken:



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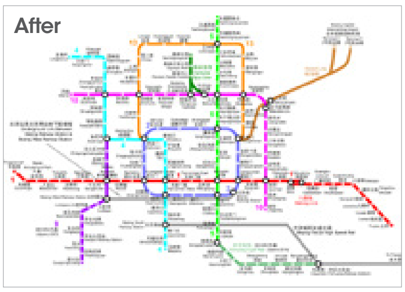


After

Given its global impact, perhaps we should have spent a lot more time over the past few years worrying about China than about what is going on in the Eurozone, for example? After all, the total population of Greece is only 11 million, less than half of Shanghai alone (23 million people), and far below a city you may never have heard of, Chongqing, which has 28 million citizens!

This is not to say the Eurozone problems are not serious, and of course they seem much closer to home.

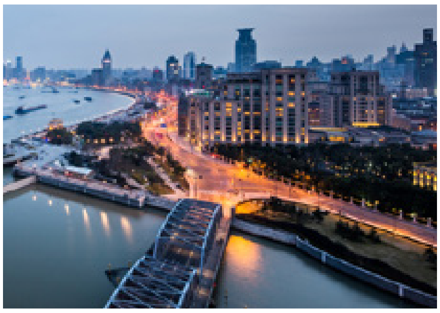
However, one of the reasons equity markets have moved higher in 2013 so far is not just improving conditions in Europe or the avoidance of the US fiscal cliff, it is China's improving economy.

> China's slowdown now appears to have turned around and this has been a big boost for markets.

During much of 2011 and 2012 China's economy was slowing, and there were fears of a "hard landing" (or economic "crash"). This weighed on markets in a much quieter but more consistent way than the European crisis.

China's slowdown now appears to have turned around and this has been a big boost for markets.

Investing in China



Looking over the past decade, investment returns have been phenomenal. Over 10 years the Chinese market is up over 474%, compared to the FTSE Allshare which is up 171% (including dividends reinvested):

Source: 04/04/2003 - 05/04/2013 Data from FE 2013

A - MSCI China (444.40%)
B - FTSE All Share (154.84%)

However, you can see that the market peaked in 2007 and is substantially down from there. This underperformance in recent years underlies the lack of correlation between the economy and the markets. Despite being a strongly growing economy, the Chinese stockmarket has underperformed. However, of late it has really started to pick up and, in our view, looks excellent value based on the earnings of Chinese companies.

It's all in the numbers

We are often asked how reliable are the earnings numbers and other data published by the Chinese government and companies. The answer is, "not very!"

As outlined in our feature article ("Time to Invest"), Investing in China contains all the risks you can think of, from currency risk to political risk. As a result, you would not wish to pay the same for a Chinese share as you would for a UK share with similar numbers. You would want to buy at a discount.

With the Chinese market trading at around 8x earnings compared to 14x in the UK, that discount does appear to be present.

However, we don't compare the Chinese market just with other markets, but with itself. In some ways it doesn't matter if the earnings numbers are not accurate, as long as they are consistently inaccurate!

The long term average PE ratio in China is 11.5, far lower than the 14 average of the UK. The Chinese market is currently at a discount compared to its long term average, and that average is well below that of most developed markets. The risk is therefore "priced in" to some extent.

In our portfolios we currently hold a specialist China fund for the first time, having previously gained exposure through global emerging market funds.

Since its purchase within model portfolios in October, the DBX MSCI China ETF is up 20% (from 9 October 2012 to 5 April 2013). In that time the PE ratio of the market has increased from 7.6 to 8. Despite the dramatic performance of the fund, we still believe there is substantial value yet to be realised and plan to hold it for some while longer.

Even when we eventually sell this, we will intend to retain substantial China exposure, whether this is via Asian or Emerging Market funds, or even via a UK equity tracker! China as a world power is here to stay and trends within their economy and population will be a key driver of global market and economic performance.

The Press, Privacy & You...

By Leanne Wheeler, Manleys

Leanne Wheeler, Senior Solicitor at Manleys, a specialist media and litigation practice in Chester and London, explains her views and comments on recent media law developments and how they might affect you.......

In Media Law circles, 2012 certainly gave us lots to look back on, and much to consider going forward - not least the continuing disclosures of the activities of the late Jimmy Saville, the hunts for paedophiles, a revolving door at the Director General's office at the BBC, plebs & policemen, Twitter libels and imprisonments, the Lord McAlpine mistakes and a radio phone prank tragedy. Oh and of course – how could we forget Kate's boobs in an Italian magazine and Harry's bum in Las Vegas!

But in terms of content no-one gave us more to digest than Lord Leveson, who published his 20,000 page report in November.

The Leveson Inquiry was a well-publicised judicial inquiry into the culture, practices and ethics of the British press following the News International phone hacking scandal, chaired by Lord Justice Leveson. There has been and continues to be much debate about the recommendations made in the Report.

Press Regulation & Behaviour:

Leveson recommended the creation of a new press self-regulation body backed by legislation to assess whether the press does its job properly. He suggested that it should have the power to issue fines of up to £1million. Leveson also recommended that there should be a system by which people can complain and seek redress without recourse to courts. There would also be involvement from OFCOM. The report also recommended that the regulating body should be independent of current journalists, the Government and commercial concerns, and not include any serving editors, Government members or MPs.

Leveson suggested a whistle-blowing hotline for journalists who feel under pressure to engage in unethical practices.

It is dangerous to tar everybody with the same brush. There are some fantastic 'blood-hound' journos in the UK who work long hours to tirelessly keep us all well-informed and to expose crimes. They have been described, fairly, in the past as "the eyes and ears of society". Sadly however, there are those whose pursuit of sensationalism and scandal have crossed the line. Maybe the fallout from phone-hacking will, and should, impact upon journalistic practices. We should all however be careful and alive to the possibility that there remain threats to our privacy. Some of those phone-hacked were media lawyers!

You - The Public:

A fact that has been well publicised is that Leveson reported that the press had caused "real hardship and, on occasion, wreaked havoc with the lives of innocent people" and that press behaviour "can only be described as outrageous".

He reported also that "there has been a recklessness in prioritising sensational stories, almost irrespective of the harm that the stories may cause and the rights of those who would be affected..."

The Effect of Leveson - What Makes News?

Immediately post publication of the Leveson report we saw a chilling effect on the activities of the press. However, news is news and Leveson long term, will not change what the Great British Public wants to know – and the commercial desire on the part of the media to quench that thirst.

Perhaps more than anywhere else in the world, we, as a nation, are now obsessed with 'celebrity'. We want to know about the lives of others whether that be from living soap operas, observational documentaries, reality TV, Facebook or Twitter. Newspaper editors are alive to that thirst for scandal, gossip and titillation. In a world where news comes in all kinds of online formats and where most of the hard copy paper publications are in decline, the press will seek to fill the newspapers with intrusive celebrity coverage or interviews for as long as they believe it is what we want and will buy. And

for those righteous enough to say it's all fish and chip paper and they 'ain't interested' – the sales figures for the red tops compared to the broadsheets would suggest otherwise! Hopefully in the post-Leveson era there will be greater care and protocol about how they get these stories.

The consequences of wanting to satisfy "pushing the boundaries" and providing entertainment can sometimes be unforeseen and devastating. Two Australian DJs who made the hoax telephone call to the King Edward VII Hospital for private information about the Duchess of Cambridge would now no doubt agree. For a few days some sections of the British press hailed their "coup". Hero status was of course short-lived. Some hacks who only days earlier were applauding this stunt as brave and innovative, following the tragedy that ensued, were all too ready to turn vulture: brave became foolish and innovative, irresponsible.

It's not likely that we have seen an end to investigative journalism for all the right reasons. For example, questions about Starbucks' tax issues and The Times' two-year investigation into the targeting, grooming and sexual exploitation of teenage girls by predatory groups of men.

I'm a celebrity…

Some of us want to be in the headlines, some of us don't. How do you deal with the media?

The press look to balance up the kiss and tell, celeb exclusives with stories and exposés that really are in the public interest; dishonest public officials and councillors or unprincipled organisations and companies deceiving customers.

New, original and rare stories with an element of human interest will also always be newsworthy for those wishing to court the press for positive public exposure. Indeed the skilled media can craft a human interest angle to even the most mundane business stories.

Organisations need to be alive to the journalists' desires to get their exclusives and take steps to secure data and private information. Staff and colleagues need to be briefed and trained on what to do if they are probed about business matters or indeed the private, home and family lives of employees and business owners.

> "
> You only have one reputation.
> It's important.

We may have seen the end of phone hacking, but journalists will not hold back, particularly when they think the story is in the public interest. They will be looking for their killer quote and exclusive scoop. Social media policies for staff are now almost obligatory to protect corporate reputation and employee.

The Internet

2012 provided journalists with a beating and their reputations have been tarnished, however they are pussy cats compared to the might of the largely uncontrolled internet.

Leveson was criticised for the fact that very few pages of his report dealt with the internet. He referred to it as a "moral vacuum".

Manleys Solicitors is seeing a huge increase in claims involving blogs and social networking sites. The internet presents a huge threat to companies and individuals alike, not least because it provides a quick and easy mechanism for journalists to discover private and confidential information for publications. Journalists have also been known to befriend disgruntled employees and children of key figures under investigation.

The internet provides the opportunity for news to become viral and out of hand much faster. The quick, free and easy ability to exchange information with relative anonymity creates huge reputational risks for individuals and organisations alike. We recommend that regular checks of the internet for references to you and your business should be conducted.

Leveson was and still is big news. The level of implementation of his recommendations will be interesting to observe. Regulation of the media may be changing, but one thing is certain: the media will continue to be investigatory, will eke out sensation and no doubt will still invade the private lives of some of those it features.

Social media means it's not just the media which needs to understand some rules and protocols. The law is likely to change regarding the control of social media – but presently, it's almost a free-for-all.

Our experience is that media enquiries need to be handled with a degree of caution.

You only have one reputation. It's important. Author Joseph Hall seemed to get it just right: "A reputation once broken may possibly be repaired, but the world will always keep their eyes on the spot where the crack was." A good media lawyer either makes sure the crack never appears – or uses the right tools to cover the crack!

We're here to help!

The team at Manleys protects the reputations of our individual and corporate clients in relation to their personal and business affairs and brands. We are dedicated to giving first class service and building rapport with clients. We focus on achieving results.

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In Profile:

Nick Blake

Head of Retail, Vanguard

Although one of the largest fund providers in the world, Vanguard is relatively new to the UK.

Vanguard was started by John C (Jack) Bogle, a visionary who had a passion for ensuring that investors received the best deal. Jack's thesis on investor returns, when studying at Princeton in the 1950s, was the blueprint for Vanguard's philosophy and business model.

Today, Vanguard is one of the world's largest asset management companies, managing over $ 2 trillion for 20 million clients in over 80 countries.

Vanguard is based in Pennsylvania in the US and also has offices in Australia, Asia, Canada, South America and Europe. Our London office is the International headquarters for Vanguard.

What makes Vanguard different to other fund groups?

Vanguard's unique difference lies in its ownership structure. The Vanguard Group, Inc. is owned by the investors in its US funds, not by a public or private company or family.

This 'mutual' structure means that it only serves one master: clients. Every decision and action we take is in their best interests and nobody else's. This allows Vanguard to take the best long term decisions for clients and not to have to react to short term demands of shareholders.

Based on this heritage, Vanguard operates with a mutual philosophy and mindset around the world, including the UK. This allows investors to benefit from Vanguard's global scale.

This mutual philosophy also means that Vanguard always stands firmly on the side of investors. Our Core Purpose is .."To take a stand for investors, treat them fairly and give them the best chance of investment success".

Vanguard was the first firm to launch index tracking funds. Why did you do so and how revolutionary was this at the time?

The Vanguard Group, Inc. launched its first index tracking fund in 1975. This broke new ground at the time because, until then, fund managers had charged high fees for attempting to beat the market. An increasing body of research, including Jack Bogle's, showed that investors were being ill served in that the majority of fund managers failed to deliver, despite their high fees. The research showed that a simple index fund, charging low fees, would beat the majority of managers.

How important is cost when it comes to investing?

Costs matter. A lot.

We're all taught about the magic of compound interest at school. Earning 'interest on interest' is a great way of accelerating the growth in your savings. Sadly, compounding is just as powerful on costs, and investors are only just realising how corrosive costs can be to their portfolios.

Nobody can predict the future, especially when it comes to the markets. But the one thing that an investor can control is the fees they pay. Every pound taken by the fund manager is a pound less in the investor's return... and they add up. The more of the return kept by investors, the quicker they will meet their goals.

While many fund managers claim they can beat the market, their fees act as an anchor dragging the investors' return down. This is why index funds traditionally beat the majority of managers, returning more to investors.

> "
> Nobody can predict the future, especially when it comes to the markets. But the one thing that an investor can control is the fees they pay.

Are you purely advocates of passive investing and are you against active management?

Vanguard is not anti-active management but we are anti high costs. Being a consistently top-performing active manager is a hard job, made more difficult by the fees charged. There are some terrific active managers who have demonstrated a consistent ability to outperform and, indeed, Vanguard employs the services of some of these managers in the United States.

How important is asset allocation to investment success?

Vanguard believes there are four very important principles to help investors achieve success.

1. Having a clear and appropriate investment goal that is measurable and attainable, not dependent on unrealistic investment returns or impractical savings requirements.
2. Developing a suitable asset allocation using broadly diversified funds, built on reasonable expectations of risk and returns.
3. Minimising costs, because you can't control returns, but you can control how much of that return YOU keep.
4. Maintaining discipline and long term perspective, remaining committed to your longer term goals and avoiding the temptation to make short term impulsive decisions.

We believe asset allocation to be a very important component of the financial plan. Furthermore, it is critical to occasionally check that an asset allocation matches a client's ongoing longer term objectives, and re-balance where necessary.

Founder Jack Bogle is a fierce critic of many of the practices of the financial services industry, believing that investing is inherently simple and is made unnecessarily complicated. Is this something that concerns you? What practices should investors look out for?

Jack challenges practices that he believes are not in investors' best interests, and rightly so. Too often investors are subject to marketing messages and market noise that tempts them into 'the next best thing'. We believe the majority of investors are best served by sitting down with an adviser, creating an appropriate plan, and allowing their adviser to keep them on track with a long term, low cost, re-balanced approach.

How has the firm had to adapt to the Retail Distribution Review (RDR) and the banning of commission? Did you welcome these new rules?

Vanguard has been a very strong supporter of the Regulator's rule changes. The RDR is designed to increase professionalism, increase transparency and ensure that advisers always act in their client's best interests. The best advisers were already meeting these standards and Vanguard, as part of our investor advocacy, is very keen to see the whole market meets these standards. Being a company that has never paid commission, Vanguard has always worked with advisers who were focussed on their client's best outcomes and not their own. We welcome the RDR changes and hope it leads to many more investors achieving a better outcome.

Business Property Relief

helping to relieve the burden of inheritance tax

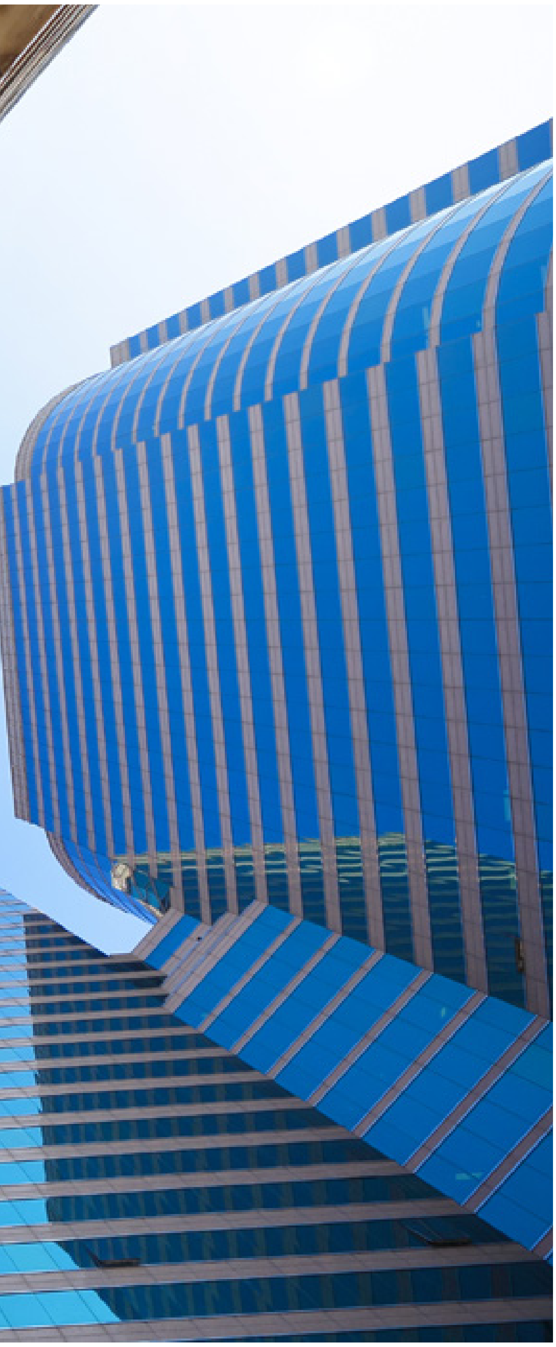
Paul Latham, Managing Director at Octopus Investments, considers why estate planners should look beyond the traditional trust and gift solutions to reduce a client's inheritance tax liability

Taxation is never popular but if there's one particular tax that is guaranteed to raise the ire of most UK residents, it's inheritance tax (IHT). No one embraces the prospect of giving away 40% of their estate to the Government when they die. Yet despite being one of the most resented taxes among the British public, few people take steps to address it during their lifetime. According to the latest Tax Action Report from unbiased.co.uk, Britons paid a total of £448 million in unnecessary IHT last year. Combine this statistic with the finding that nine out of ten people in the UK have taken no action in the last year to reduce the amount tax they pay and you have a huge number of people who are doing nothing to reduce the amount of IHT their estate is liable for.

This seems extraordinary. Not only because IHT is one of the few taxes that is avoidable, but also because effective IHT planning could save families significant amounts of money, enabling older generations to pass on greater levels of wealth to their children and grandchildren.

The Government's decision to freeze the current IHT nil rate band (NRB) at £325,000 until 2015 makes IHT planning all the more important. If the deceased's estate is valued over the NRB, the amount over £325,000 will be subject to the 40% IHT rate. Given that the number of people with estates valued above the NRB has increased in recent years, IHT will continue to have huge implications for individuals and their families, making it an essential part of financial and estate planning, particularly for clients in later life.

> “effective IHT planning could save families significant amounts of money...



Are traditional IHT solutions too inflexible?

The more traditional IHT planning methods, such as 'gifting' or placing money into trust, come with their own problems. For example, if you choose to go down the gifting route you only have an annual gifting allowance of £3,000 except in the case of increased allowances, for specific circumstances i.e. marriages, and also gifts out of income. Beyond this, everything else will be taxable. With a trust, it typically takes seven years for the estate to become fully exempt from IHT and often requires you to permanently sacrifice control of and access to your money.

Business Property Relief (BPR), on the other hand, can be used as an effective way to speed up the process of getting full IHT exemption. Its greatest advantages over more traditional IHT planning methods are speed, simplicity and control.

> With a trust, it typically takes seven years for the estate to become fully exempt from IHT and often requires you to permanently sacrifice control of and access to your money.

Business Property Relief - the basics

Introduced by the 1976 Finance Act, BPR originally enabled family businesses to be passed down through generations without incurring an IHT liability. Its scope has been widened in subsequent years, making it a significantly more attractive way to address potential inheritance tax liabilities.

BPR is no longer restricted to family businesses. Qualifying investments include unquoted UK businesses, and those quoted on the Alternative Investment Market (AIM), although some specific industries/activities are 'excluded'. But most importantly, rather than having to wait a full seven years for IHT exemption, any BPR qualifying investments benefit from 100% IHT relief after just two years. At Octopus we've found the majority of our IHT investors are greatly appreciative of BPR focused solutions capable of drastically cutting down the time it takes for their investment to become fully IHT exempt.

Keeping control over your money

A portfolio of qualifying BPR investments also delivers several other benefits over and above a traditional trust. For example, unlike with a traditional trust, BPR can help investors retain access to their investment, allowing them to build capital value, take a regular income, or sell their holding if their personal circumstances change.

In addition, BPR-based products have been structured to allow individuals to invest without having to participate in the sort of client underwriting or medical surveys that would be required to invest in a Discounted Gift Trust. Moreover, BPR-qualifying assets can be transferred between spouses upon the first death, without 'resetting the clock' on the BPR qualification period. As a result, within a marriage or civil partnership, only one spouse or partner needs to survive for two years for their BPR-based investment to be exempt from IHT.

For many people, understanding IHT and making financial plans to deal with the circumstances after their death, involves first acknowledging some uncomfortable truths. But just as with making a will, people who make use of good IHT planning will undoubtedly have greater peace of mind that their inheritance will go where they intended it to.

OCTOPUS
INVESTMENTS

Octopus is the UK's largest provider of IHT products based around BPR, and currently manages more than £500 million across its entire inheritance tax product range.

For more information on Octopus and its range of tax-efficient investments, call **0800 316 2295** or visit **octopusinvestments.com**

ADVERTISEMENT

The Value of Financial Advice

By Gavin Lumsden

The need for financial advice has never been higher. The after effects of the 2008 banking crisis have left the State in retreat with many people realising they must make financial provision, without necessarily knowing how to do so.

A recent survey conducted for Standard Life, the investment and pensions group, found people who took financial advice retired with nearly double the pension pot of those who did not take advice. It seems financial advisers keep their clients on the straight and narrow and encourage them to save more and for longer.

Goodbye Commission

The debate around the value of advice stepped up a gear this year with the Financial Services Authority abolishing commission as its last major act before being replaced in a shake-up of the regulatory system.

The FSA's move means that since January all financial advisers have had to stop being paid commission by the companies whose financial products they recommend and instead must be paid by their clients.

Changing the way financial advice is paid for is an historic achievement because the commission system was badly flawed. First, it confused many people into thinking financial advice was free, when in fact they paid for it in higher product charges. Secondly, it undermined confidence in the adviser. Was he or she working for the client or the product provider?

Those advisers who didn't prepare for the end of commission have got the challenge of explaining to customers why they now have to pay for a service they didn't think they were paying for.

I think that's going to be a difficult conversation.

New Model Adviser

However, those firms that were ahead of the game and adopted adviser charging because it was the right thing to do, rather than because their regulator wanted it, have got a huge opportunity to promote their service to the wider public, now there is a level playing field among financial advisers.

I've got a personal take on this because I used to edit New Model Adviser, a weekly magazine that championed the emergence of a new breed of professional financial planners.

In my job I spoke to hundreds of advisers about how they were placing clients at the centre of their businesses and striving to improve their service and expertise.

Although the advisers were a varied bunch doing lots of different things, there were five key areas where I could see they added value and justified their fees.

Setting Goals & Achieving Them

Money is not an end in itself for most people, rather it is a means to an end that enables us to do things.

All good advisers help clients step back and look at their lives with some perspective. With an adviser's help a person can get in control of his or her money rather than letting it control them.

A qualified adviser will know how to analyse a person's current financial situation and calculate what it will take to achieve their lifetime goals and ambitions.

> “Changing the way financial advice is paid for is an historic achievement because the commission system was badly flawed.

Investment Guide

An in-depth conversation with an adviser may yield 'the Number' or amount of money someone needs to gain financial independence.

The next step is to put in place an investment plan that will ensure that sum is provided when it is needed.

In financial services jargon this is the 'accumulation phase' of a person's life. Whether the adviser handles investment management in house or outsources it to another firm, he or she plays an invaluable role in guiding a client through volatile stock markets and a myriad of investment options.

At Retirement Guide

Possibly the most vital time to take financial advice is when a person approaches retirement.

The 'decumulation' phase when individuals turn their savings into an income involves important decisions

that will affect the rest of their lives. Broadly speaking, the more money a person has the greater their options. Advisers are worth their weight in gold at this point because they keep abreast of the complex and continually changing rules around retirement planning.

Problem Solver

All good financial advisers are experienced problem solvers. I remember one adviser telling me how he helped a client with a long-standing business get funding for new machinery after his loan application was turned down by his bank. The solution involved transferring several old pensions into

a Sipp (self-invested personal pension) which then purchased the freehold of the premises of his business.

> My favourite example is an adviser in Wokingham who continued to fight for a client after she died.

Your Champion

Above all other things, I'd say the value of a financial adviser is having someone on your side who you can talk to and rely upon.

Advisers are a friendly bunch and are good at sending cards, flowers, chocolates and even magazine subscriptions to clients on their birthdays and other significant anniversaries.

One adviser in the City of London even organised a retirement lunch for a client and presented him with a gold watch to mark the occasion.

You could say this is no more than good customer relations. However, on a more serious note many advisers help clients gain compensation from various institutions after they've received poor financial advice around investments and tax planning.

But my favourite example is an adviser in Wokingham who continued to fight for a client after she died. He began a five-year legal battle ending in a High Court victory after one of the beneficiaries of his client's will wrongly claimed to be entitled to the full proceeds. 'No-one was there to fight her battle for her and I wanted to make sure a wrong was put right,' he said.

Gavin Lumsden is editor in chief of Citywire Financial Publishers.

Views from the Frontline

In this section, we ask the managers from some of our favoured funds in each asset class to comment on markets and give us their outlook for the future.

Equities

Alistair Mundy

Fund Manager, Investec UK Special Situations

While most investors spend an inordinate amount of time trying to second guess the actions of central bankers and politicians and their subsequent effects on economic data, we believe these actions are ultimately futile. We prefer to focus instead on events over which company management have more control. Can they reduce their costs, lower their prices, operate with fewer assets or achieve margins generated by their peers?

In recent years operating conditions have slowly improved for most companies. However, we believe that companies are fast running out of costs to cut and that profit margins may therefore be running at unsustainably high levels.

In recent months, we have been gradually reducing our holdings in mid-sized companies. In general, these companies have performed very well over the last decade and their valuations stand at a premium to the largest companies in the market. These large companies such as GlaxoSmithKline and HSBC have been in the doldrums for some time and now seem to be generating better results although have valuations which suggest investors are either reluctant to embrace this improvement or feel their time is more productively spent looking for investments in smaller companies. Either way, we think big is beautiful and that much of the value available in the UK equity market is focused on a reasonably small selection of stocks.

Equilibrium View

Alistair Mundy's investment style is an interesting one in that he tends to focus on companies that have lost substantial value. He looks for companies which he believes can turn their fortunes around and recover their lost ground.

This is a style which you would expect would result in a high risk/return profile. In fact, the fund tends to be less volatile than the UK market whilst still providing above average long term return. We believe Mundy's style will continue to provide excellent returns in a time where stock selection may become more important.

Equities

Andrew Rose

Fund Manager, Schroder Tokyo

Following a disappointing middle two quarters of 2012, the Japanese market has surged since November. The trigger was the announcement of a general election and subsequent landslide win for the Liberal Democratic Party. These strong returns have been diluted somewhat for non-Japanese investors by the weakness of the Yen.

The new Prime Minister, Mr Abe, has set out an agenda centred on economic revival based, in the short term, on more flexible fiscal and monetary policy and, longer term, on measures geared towards boosting the underlying rate of growth of the economy. It is an ambitious platform and there is some scepticism still as to whether the new administration will be able to deliver. This is unsurprising given the disappointments of the last decade.

Between now and the summer, more positive news flow is likely to be forthcoming. With the market valuation not yet stretched, this is likely to be supportive for the equity market. Beyond that, sustainability of the recent rally will hinge on whether Mr Abe does implement structural reform and how successful companies use the following wind of Yen weakness to boost return on equity and dividends.

Equilibrium View

We have been underweight Japan for some time but have recently increased our weighting back to "neutral". The falling value of the Yen has been key to the recent recovery in Japanese equities, as it makes exports much more competitive.

We favour the Schroder Tokyo fund in Japan as it has been extremely consistent over the years. It may underperform in a strongly rising market, but provides solid returns from what can be a difficult asset class.

Fixed Interest

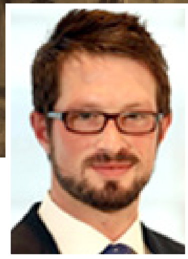
Mark Holman

Managing Director, TwentyFour Asset Management

The last 20 years has seen fixed interest benefit from a strong rally, fuelling the performance of gilts and investment grade corporate bonds. These returns are now largely behind us and investors must look to other areas of fixed income to provide attractive returns.

We believe there is still income available in abundance from other areas of fixed interest, including financials, high yield and asset backed securities, which are still trading on a significantly wider spread (the premium above government bonds) than historical averages. Central government policy is focused on reducing borrowing rates. This 'lower rates for all' is a key objective and in this environment we expect spreads to continue to narrow.

The economy is not without headwinds and the discrepancy in returns for different companies will be wide, meaning stock selection will be key to delivering returns going forward. Our Dynamic Bond fund is small and nimble enough to make the most of these opportunities.



Fixed Interest

Ben Lord

Fund Manager, M&G UK Inflation Linked Corporate Bond

Inflation-linked bonds made a strong start to the year, driven by the surprise announcement that there would be no changes to the calculation of the Retail Prices Index (RPI). The market had been expecting a reduction in the RPI – the index to which UK inflation-adjusted debt is linked – following a three-month consultation.

I believe that UK breakeven rates – which reflect the market's expectations for future inflation – still underestimate longer-term inflationary pressures and that inflation-linked bonds continue to provide cheap protection against a rise in prices.

The enormous amounts of money printed by the world's central banks have yet to enter the real economy fully because the supply of credit from banks remains limited. When the velocity of money eventually improves, this massive increase in supply is likely to lead to higher inflation.

What's more, central bankers now appear to be less focused on keeping price rises under control, and more interested in stimulating economic growth and generating employment. In fact, policymakers in the UK and the US have said they would be willing to tolerate higher inflation, at least temporarily, to reduce the jobless rate and the risk of financial crises.

Equilibrium View

We believe the major returns in fixed interest have already been made and some areas of the market could suffer some capital losses. Other parts of the market could still provide a good yield and very positive total returns, but it will require a good fund manager to achieve these sorts of returns.

We like TwentyFour who are a specialist fixed interest fund manager. Their Dynamic Bond fund is very flexible and can invest in any part of the fixed interest markets. It is small enough to take advantage of opportunities and exit positions when required, unlike some of the larger funds which may find liquidity more of an issue.

Equilibrium View

We are concerned that inflation could remain much higher than the Bank of England's target. In this environment we believe inflation linked bonds could do better than conventional fixed rate bonds.

We believe this innovative fund is one of the best ways of providing inflation protection in an investment portfolio. We believe that it should outperform index linked gilts due to the additional premium for lending to companies rather than the government. What's more, due to the way the fund is run there is much less risk from rising interest rates than a typical index linked gilt fund.

Investment Review

Welcome to the investment review section of our magazine.

Before a recent setback, the last 6 months of returns in equities had been little short of stunning. At close on 5 October 2012 the FTSE 100 Index was at 5,871. On 5 April 2013 the FTSE closed at 6,249, almost 400 points higher than 6 months ago. However, this does not tell the whole story with the FTSE reaching 6,529 on 14 March, higher than it has been since November 2007.

In this section, we will review what has happened in the past 6 months and tell you how we've adapted your portfolios to profit from this rally and guard against future challenges.

Mike Deverell
Investment Manager

6 Monthly Review

Towards the end of 2012 one of the main topics of discussion with clients was the obstacles that were preventing equity markets moving ahead.

In our opinion, there were three main issues causing concern to markets:

- The Eurozone crisis
- A slowdown in China
- The US "Fiscal Cliff"

Our view was that markets should have been substantially higher than they were back then, as they looked cheap based on the earnings of the companies and several other fundamental factors. The reason they weren't moving forward was these three hurdles.

As we approached the Christmas period, the issues in Europe were no longer concerning markets to anything like the extent they had been, and the Chinese economy had started showing signs of life. I recall rather flippantly saying to clients that if we could only get the fiscal cliff out the way then markets would "fly"!

My flippant remarks looked quite prophetic, at least up until the past few weeks, even if I didn't expect such a rapid rise!

One of our mantras is the Warren Buffett quote: "Be fearful when others are greedy, and greedy when others are fearful." You will have often heard us refer to this when markets are low. When sentiment is at its worst and markets have sold off dramatically, that is often the time to top up equity.

As markets moved higher and others began to get "greedy", we naturally started to get "fearful" and started considering what could go wrong!

In particular two events were in our minds which we felt could put a spanner in the works. The first was the Italian elections, where we were worried that a victory for Berlusconi or a major vote against austerity could reignite issues in the Eurozone.

When the election results were announced, markets had a "wobble" and the FTSE 100 dropped over 100 points before then making that all back.

The other potential "spanner" was what spending cuts would be introduced in the US. A spin-off from

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the US Government will have to raise their debt ceiling again or will be unable to pay their bills.

both the fiscal cliff and debt ceiling discussions back in 2011, automatic spending cuts were due to come into play on 1 March unless an alternative agreement was reached. No agreement came, but this time markets didn't even blink.

However, events in Cyprus where bank depositors have been hit for pretty much the first time in the Eurozone crisis, have spooked investors. In addition, as I write, Italy still does not have a government. If Italy backs away from austerity measures then they are no longer eligible for much of the support measures put in place by the EU and the European Central Bank. Whilst relatively unlikely, this still has the potential to cause a big market sell-off.

The economic data that has been released since January has typically been beating expectations, fuelling the stockmarket's rise. However, recent employment numbers in the US were very disappointing, and there are signs that some of the spending cuts being made by the US Government could be having an impact on the economy.

The recent dip in markets illustrates that investors remain in "crisis mode". The economic setbacks have been relatively minor but when added to news of bird flu and tensions in Korea, they were enough to trigger nervousness in investors, many of whom have been expecting another round of bad news sooner or later!

Whilst we hope this pullback is only a short term dip and believe equities should move higher, we have made contingency plans should the dip become anything more serious. We also have our eye looking forward to May when the US Government will have to raise their debt ceiling again or will be unable to pay their bills. Once more, these negotiations will probably go to the wire and cause more than a mild attack of nerves amongst investors.

Outlook

We remain optimistic towards equities taking an 18 month view. Whilst the valuation argument is no longer as compelling as it was 6 months ago, with markets looking around "fair value" based on reported earnings, we can still see many reasons to be cheerful.

If we are to believe the predicted earnings growth over the next 12 months, markets still have plenty of room to grow. We are always wary of believing anyone's predictions (guesses?) but with the global economy slowly recovering we do expect companies to be able to grow their earnings.

That potential for a recovering economy actually spells danger for another asset class, namely fixed interest. A stronger economy reduces the appeal of safe haven assets such as gilts or other government bonds. As many corporate bonds are priced relative to gilts (the difference in yield being known as the "spread"), a sell-off in gilts would have a knock on effect to other fixed interest assets.

The other danger is inflation. With the unprecedented monetary stimulus, if the economy improves then inflation could move upwards quite sharply. This makes a bond paying a fixed level of interest look relatively unattractive.

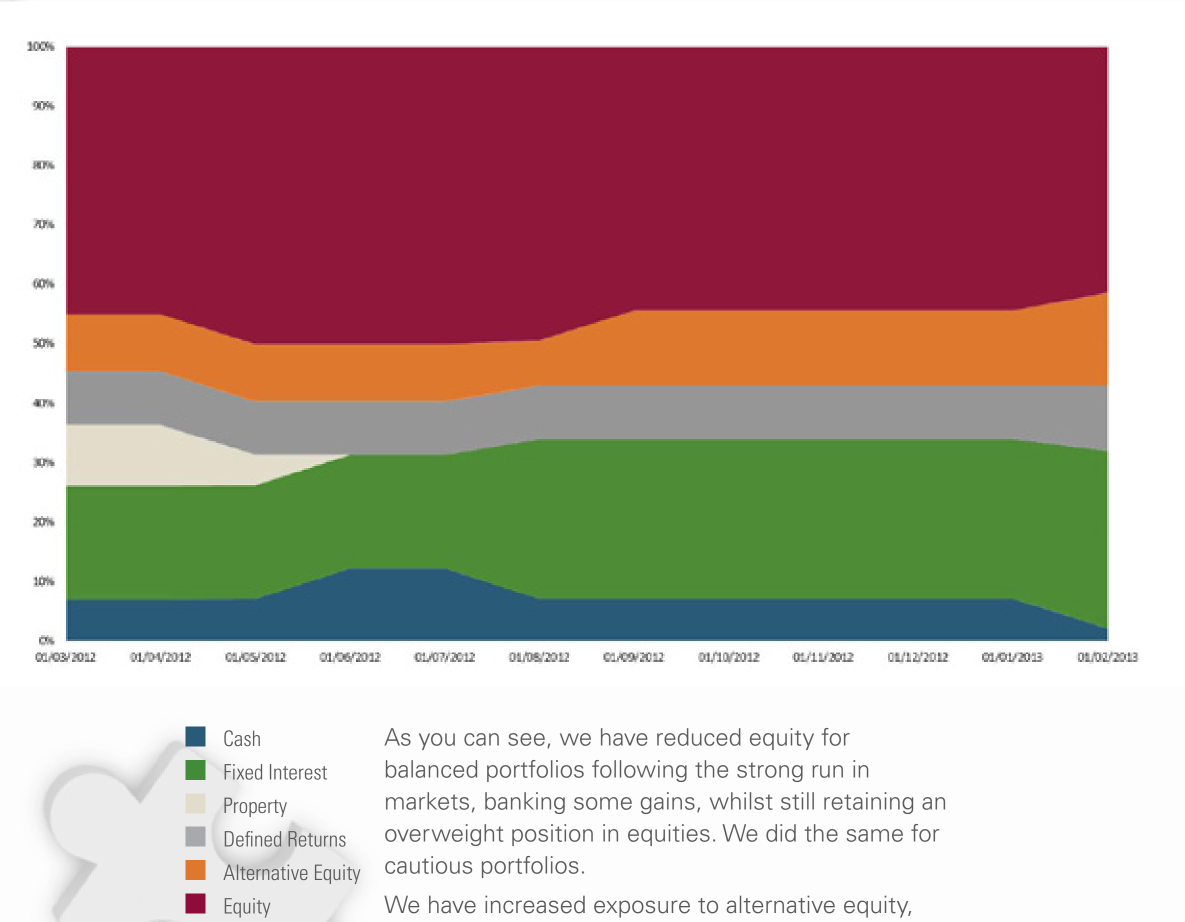
We have already adapted our portfolio in anticipation of this potential outcome, although we do not expect a dramatic sell off as yet. However, at some point this year we may well reduce exposure to this sector.

These danger signs for fixed interest can actually be interpreted as positives for commercial property, whose growth is highly correlated to the economy. Property also provides some inflation hedging.

We have not been investing in property for a while, despite relatively attractive rental yields, as capital values have typically been falling. However, these falls appear to have slowed and may soon turn into marginal gains. Stable prices and a steady income yield would be attractive to investors switching out of bonds, especially given the potential for that income to rise with inflation.

Asset Allocation

The chart below shows how our balanced model portfolio asset allocation has changed over the past 12 months:



As you can see, we have reduced equity for balanced portfolios following the strong run in markets, banking some gains, whilst still retaining an overweight position in equities. We did the same for cautious portfolios.

We have increased exposure to alternative equity, where we hold funds that should benefit from rising equity markets but should be more defensive than traditional equity should markets fall back.

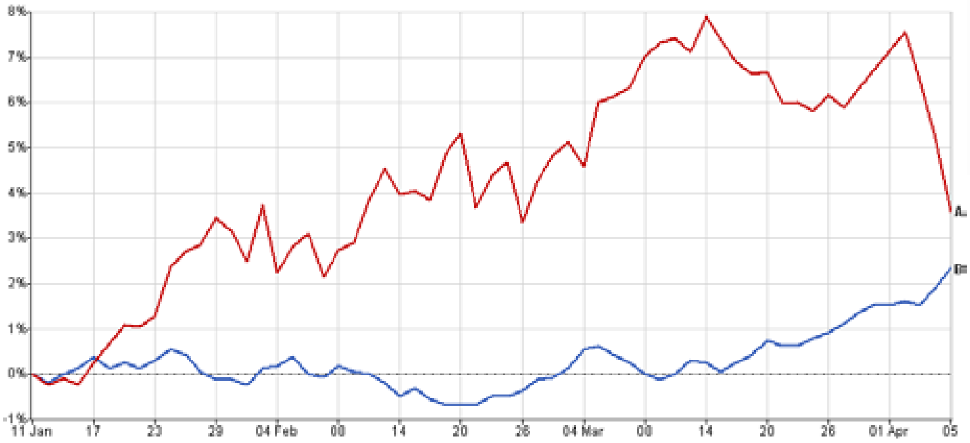
In a similar vein, we are holding 11% of the portfolio in defined returns plans (structured products held with three different banks).

At times during 2012, we had held even more in equities, buying in as markets dipped and selling on the way back up. For most of the past 12 months we held cash to enable us to carry out volatility trading. In January we invested this cash for most investors into the Standard Life Global Index Linked fund, which is the increase to the green fixed interest section you can see at the end of the chart.

The reasoning for holding this fund was partly to provide inflation protection, but we also felt it would provide a hedge against equity exposure (possibly rising if equities fell) and would beat cash even if it did little else.

With equity markets dipping recently this typically cautious fund has rallied. The chart below shows how the fund (blue line) has performed relative to equities (FTSE Allshare – red) since purchase on 11 January:

> At times during 2012 we had held even more in equities, buying in as markets dipped and selling on the way back up



A - FTSE All Share (3.59%)
B - Stan Life Inv - Global Index Linked Bond Ret Acc in GB (2.34%)

With the fund gaining 2.34% since then and with us becoming more concerned about an equity pull back, we have decided to sell this fund to cash, allowing us to top up equities if markets dip.

We instructed the sale on 5 April and are expecting the transaction to go through on 8 April. By the time you read this, we may have invested the proceeds into equities if markets have dipped further, or should they have recovered, we may buy back into the Standard Life fund.

Performance

Despite the recent market setback, we are very pleased with performance over the past 6 months, our model balanced portfolio being up 7.26% over 6 months and 10.58% over a year to 5 April 2013. This compares favourably with our 7.6% annual target and is also ahead of the average discretionary manager's balanced portfolio at 9.7% (ARC Sterling Balanced PCI) and a typical managed fund at 10.21% (UT Mixed Asset 20%-60% Shares). Note that the ARC figures are to 1 April as it is only published monthly.

As we always say, we do not benchmark ourselves against these indices but instead quote them to give you some sort of context. Our aim is to achieve your objectives, targeting an appropriate rate of return in order to meet your goals.

Looking over a 4 year period since we launched our discretionary service, returns are well ahead of the typical 7.5% pa target we have discussed with clients. The chart below shows returns of 48.92% since 3 April 2009 (blue), again ahead of the competition and well in excess of the target return of 7.5% (orange line). This works out at an average of over 9.75% pa:

> “
>
> Our aim is to achieve your objectives, targeting an appropriate rate of return in order to meet your goals.

If we look back to the launch of the portfolios in their current form in January 2008, returns are averaging at around 5% pa (total return of 27.25%). Initially run on an advisory basis, this period includes much of the credit crunch including the collapse of Lehman Brothers.

Returns over this period are also now well ahead of RPI (black line). Again, providing a return well above inflation is a primary objective, rather than beating a specific benchmark or sector.

We believe this powerfully demonstrates that an appropriate asset allocation strategy can work through the most difficult of times, and capture returns when markets recover.

Investment Themes & Strategies

One of the main themes running through our investment strategy until recently was how to make gains in sideways markets. For that reason, we were holding cash for "volatility trading", where we invest when markets dip and sell again once they recover.

We also began to use Defined Returns products for a similar reason, as these provide a positive return provided markets don't fall – they don't need them to rise.

This sideways or volatile market theme is now less prevalent, although as outlined earlier we have recently sold a fund to create cash in case of a further market dip.

One benefit of the Defined Returns products we purchased for most clients is that they can be traded on a daily basis. For example, the Barclays product will provide a 10% return in November provided the FTSE is above 5,767. These products are daily traded and as I write the product has already gained 7.5%, leaving only a potential 2.5% over the next 7 ½ months or so.

As a result, we may well sell Barclays and reinvest into another asset class; property. We are considering purchasing the SWIP Property Trust which invests in UK commercial property. We may well be slightly early to re-enter this sector but we feel it should outperform both cash and hopefully the Barclays product. We are looking to do this early in the new tax year to utilise the new capital gains tax allowance, providing the price remains attractive.

We are also being very selective about which property fund we buy. Not only are we buying our most favoured fund in this sector, but it is also more attractively priced than some competitors.

> "One benefit of the Defined Returns products we purchased for most clients is that they can be traded on a daily basis

Long term investors will recall that property funds are able to change the way they are priced depending on whether they are seeing inflows or outflows from the fund. This meant, in 2007 for example, that once investors started selling the funds, the prices dropped by typically around 5%. This reflects the potential transaction costs from selling properties, which is an expensive business.

However, re-pricing also works the other way. The SWIP fund is currently priced on a "bid" basis and if they return to an "offer" basis then the price could bounce back up by 5%. We are certainly not relying on this and any re-pricing may not happen for some time. However, we feel that there is little chance of the price being dropped further due to outflows.

Inflation

Some of the new themes running through our investment strategy at present are economic recovery, and inflation.

The global economy, principally driven by the US and China, is recovering. Europe and the UK are still struggling but only play a small part in the global picture. UK equities derive much of their income from overseas, so the UK economy is not so important as the rest of the world from an investment point of view. As we move back towards more normal global growth rates, even though they may remain subdued, investors will need to change strategy.

Equities are well placed to benefit if economies do pick up, helping drive profits. Bonds may look less attractive. This has led some commentators to tip a "great rotation" out of bonds and into equities. We are sceptical and can see no real evidence of this so far. However, if they are right then this should also benefit property, although this may take longer to be reflected in values than equity markets.

However, as mentioned earlier, recovery is likely to bring along a less welcome friend to the party; inflation.

There are many reasons why we believe inflation will move significantly higher. Firstly, the amount of stimulus (or money printing) that has been provided. Most of this cash is still sitting in banks. It has not found its way into the wider economy.

Those of you with a vague knowledge of economics may remember that inflation is largely a function of two factors; the money supply (how much money is in the system) and velocity of money. Simply put, velocity is how much money goes round the economy and how quickly! Whilst the money supply is being increased by quantitative easing, there has not been any real velocity as people prefer to save rather than spend.

> “In the UK, the weak pound is a further inflationary cause, as imports become more expensive.

If velocity returns to normal, the effect of all this money printing on inflation could be dramatic.

The Bank of England's inflation remit has been tweaked so that they do not have to aim for 2% inflation in the short term if this would be detrimental to the economy. They do, however, have to bring it down towards the target over time. Some commentators think the Bank will explicitly try to generate a certain level of inflation, as this helps keep the debt down.

In the UK, the weak pound is a further inflationary cause, as imports become more expensive. We have all seen our utility bills go up and food prices continue to rise.

Finally, having imported deflation from the Far East for a decade prior to the credit crunch, workers over there are now (rightly) demanding better pay and conditions and so the goods they make will have to increase in value. We are more likely to be importing inflation from overseas than deflation overall.

If we are right then the cash in savings accounts is going to be losing money in real terms, with interest rates not likely to go back up for some time yet.

Sector Performance

UK Equities

The past 6 months has seen both our UK Large Companies and UK Dynamic portfolios outperform the FTSE Allshare Index.

The "journey" for these two portfolios has been very different during the period, with UK Dynamic initially doing extremely well before falling back somewhat. Conversely, UK Large Companies initially lagged before a strong last couple of months, driven partly by the Invesco Perpetual Income fund, which performed very strongly after a poor start to the year.

Both portfolios have therefore behaved as expected; UK Dynamic is designed to outperform when markets are rising, whilst the more defensive UK Large Companies portfolio is more likely to do better in more difficult markets.

The performance of UK Dynamic would have been much better but for the M&G Recovery fund which has lagged the index dramatically. This has historically been a fantastic fund, but shorter term performance is very disappointing and it is currently under review.

Whilst we still believe further gains are likely, we are less positive towards UK equities than we were previously, relative to other regions. This is because valuations such as price/earnings ratios look more attractive in some of the other regions. We may therefore reduce UK exposure slightly.

Global Established

Over the past year, Europe has been the best of the established markets (also including North American and Japan), as it recovers from some of its woes driven by the debt crisis.

By contrast, over 6 months it is Japan that has outperformed. This has been due to the weakening Yen which helps exporters. We have been underweight Japan but despite this our portfolio has outperformed its benchmark due to the above average performance of the individual funds.

Over 6 months our portfolio beat its benchmark (a composite of the Europe, North American and Japan equity sectors) returning 15.59% compared to 14.67%.

We are now planning to increase our Japan holding back to neutral, as the current environment is more favourable for Japanese companies. For most clients, this will most likely come from UK equities.

Global Speculative

Our Global Speculative portfolio has outperformed the Global Emerging Markets sector over 6 months returning 7.88% compared to 7.44% for its benchmark.

Performance was initially helped by the decision to switch into a specific China fund, the DB X-Trackers MSCI China ETF. As markets have dipped this meant the portfolio, which had been outperforming by a much wider margin, moved back towards the benchmark.

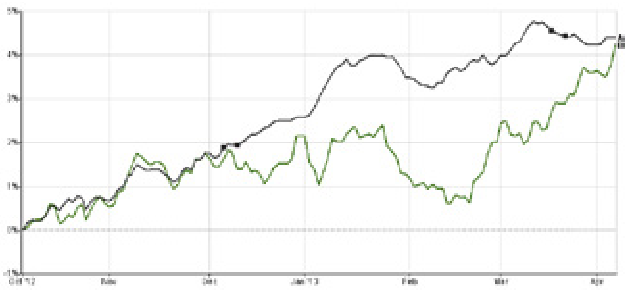
We remain positive towards emerging market equities, particularly the Asian markets and China in particular.

Fixed Interest

Fixed interest continues to provide above average returns, with our portfolio returning 11.31% over a year, well ahead of our target 6% return.

The portfolio returned 4.38% over 6 months, only slightly ahead of the Sterling Coporate Bond sector at 4.15%. However, that is only half the story.

We have been able to deliver this return with much more consistency and less volatility than the sector, as can be seen from the chart below:



A - Equilibrium Fixed Interest (4.40%)

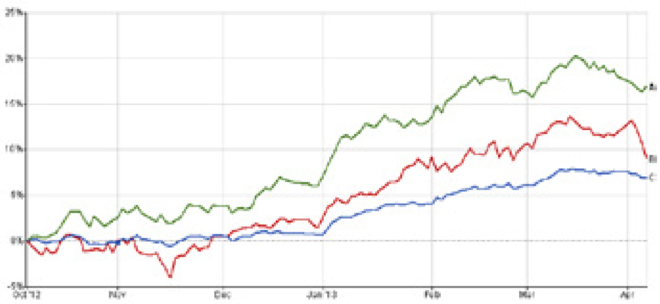
B - UT Sterling Corporate Bond (4.24%)

We are holding much more in inflation linked bonds which we believe will outperform conventional bonds. For more details of our new funds, the TwentyFour Dynamic Bond and M&G UK Inflation Linked Corporate Bond funds, turn to page 27 to read the thoughts of their respective fund managers.

Alternative Equity

Alternative equity is designed to provide some exposure to the equity market but to provide some protection in falling markets. It will tend to lag in strongly rising markets but should hold its value when markets fall.

Over a year performance is very pleasing, with the portfolio returning 12.46% over 6 months compared to the FTSE Allshare Index which returned 14.73%. The portfolio (blue line on the below chart) captured much of the upside of rising markets over the past 6 months but with much lower volatility:



A - CF Odey - UK Absolute Return Ret GBP in GB (16.94%)

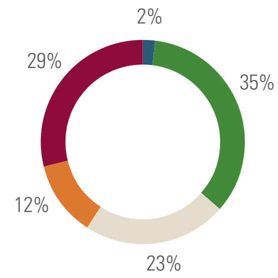
B - FTSE All Share (9.09%)

C - Equilibrium Alternative Equity (7.03%)

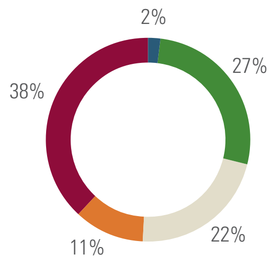
The standout performer continues to be the Odey UK Absolute Return fund (green line on the chart), which returned more than the FTSE at 16.94% over 6 months and 28.86% over a year. The other two funds, Troy's Trojan fund and Standard Life's Global Absolute Return Strategies (GARS) fund are much more defensive and less correlated to the equity market. We are happy with the blend of funds which provides the risk and return behaviour that we want from this portfolio.

Model Portfolio Returns

It is very pleasing to note that all our models with the exception of one are well ahead of both the average managed fund and average discretionary manager since their launch.

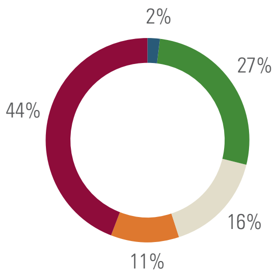


Cautious Models	6 Months %	1 Year %	3 Years %	Since Launch* %
Cautious Portfolio	6.06	10.31	16.70	27.96
Mixed Asset 20-60% Shares Sector	7.26	10.21	17.19	19.49
ARC Sterling Cautious PCI	4.78	6.74	13.25	20.34



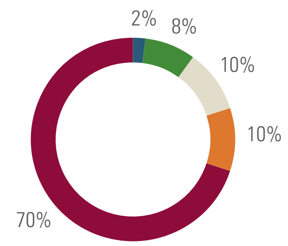
Balanced Models

Balanced Portfolio	7.01	10.58	16.67	27.21
Mixed Asset 20-60% Shares Sector	7.26	10.21	17.19	19.49
ARC Sterling Balanced PCI	7.82	9.7	17.29	20.51



Adventurous Models

Adventurous Portfolio	7.21	10.20	15.61	25.11
Mixed Asset 20-60% Shares Sector	7.26	10.21	17.19	19.49
ARC Sterling Balanced PCI	7.82	9.7	17.29	20.51



Speculative Portfolios

Speculative Portfolio	8.25	11.39	15.53	30.76
Mixed Asset 40-85% Shares Sector	9.76	12.03	19.23	35.40
ARC Sterling Steady Growth PCI	10.41	12.11	20.38	34.91

* Launch date 1 January 2008 except Speculative Model AA 10 launched 1 September 2009

All data to 05/10/12

Cash Fixed Interest Property Alternative Equity Equity

Figures are highlighted in green where they are in excess of the relevant "Mixed Asset" sector

Sector Portfolio Returns

	6 Months %	1 Year %	3 Years %	Since Launch* %
Equity Portfolios				
UK Large Companies	9.83	17.59	31.01	22.13
UT UK Equity Income Sector	**10.32**	**17.29**	**29.81**	**20.33**
UK All Companies	9.07	14.66	24.27	19.76
UK Dynamic	9.31	13.31	22.65	18.57
UT UK All Companies Sector	**10.68**	**15.90**	**26.65**	**19.59**
Global Established	15.59	19.16	24.89	26.39
Global Established Benchmark **	**14.67**	**17.45**	**23.25**	**23.87**
Global Speculative	7.88	3.71	-2.44	6.51
UT Global Emerging Mkts Sector	**7.44**	**4.94**	**6.35**	**15.25**
Cautious Equity Mix	10.41	15.48	24.47	20.19
Cautious Equity Benchmark ***	**11.36**	**15.64**	**24.54**	**18.86**
Balanced Equity Mix	11.07	14.88	20.64	19.42
Balanced Equity Benchmark ***	**12.57**	**15.65**	**22.81**	**19.43**
Adventurous Equity Mix	10.92	13.67	17.66	19.09
Adventurous Equity Benchmark***	**12.35**	**14.37**	**20.31**	**19.02**
Alternative Equity	7.03	12.46	24.66	30.73
UT Mixed Asset 20-60% Shares	**7.26**	**10.21**	**17.19**	**19.49**
Fixed Interest Portfolio	4.38	11.31	22.51	41.61
UT Sterling Corp Bond Sector	**4.15**	**11.42**	**24.10**	**32.24**

* Launch date 1 January 2008 except Property Portfolio 1 July 2009

** Global Established Benchmark is 40% UT North America, 40% UT Europe Ex UK, 20% Japan

*** Cautious, Balanced and Adventurous Equity benchmarks are an appropriate composite of the benchmark for each component of that equity mix

Market Returns

	6 Months %	1 Year %	3 Years %	Since Launch* %
Equity Markets				
FTSE 100 Index (UK)	8.32	13.44	21.06	26.86
FTSE Allshare Index (UK)	9.09	14.73	23.99	29.99
FTSE 250 Index (UK Mid Cap)	12.90	21.94	41.97	53.77
MSCI Europe Ex UK Index	13.94	20.50	9.29	6.50
S&P 500 Index (USA)	14.80	18.19	38.43	61.72
Topix (Japan)	23.91	13.59	10.10	23.81
MSCI Emerging Markets Index	8.20	4.92	6.29	31.48

Fixed Interest

IBOXX Sterling Corporate Bond Index	4.84	13.96	29.38	47.13
UT Sterling Corporate Bond Sector	4.15	11.42	24.10	37.66
FTSE British Government Allstocks (Gilt) Index	2.42	6.55	28.32	43.85
UT Gilt Sector	1.89	6.03	26.74	41.03
UT Sterling High Yield Sector	6.07	12.34	24.82	48.85

Property

IPD UK All Property Index	1.23	2.17	20.62	4.50
Property Benchmark*	1.24	2.06	18.32	4.55

Other Measures

Bank of England Base Rate	0.25	0.50	1.51	5.65
RPI Inflation	1.39	2.82	12.19	16.74

* Property benchmark is a composite of all eligible funds in the UT Property sector

Risk Warnings and Notes

Past performance is never a guide to future performance. Investments may (will) fall as well as rise.

Any performance targets shown are what we believe are realistic long term returns. They are never guaranteed.

None of the information in this document constitutes a recommendation. Please contact your adviser before taking any action.

Unless stated otherwise:

- All performance statistics are from Financial Express Analytics on a bid-bid basis with income reinvested.
- All performance data is to 5 October 2012.
- Model portfolio performance is stated after a 1.5% Equilibrium fee and a 0.35% platform charge, but with the discounts we receive from fund managers factored in.
- Your own performance may vary from the model due to transaction dates, contributions and withdrawals.
- Actual performance may also differ slightly due to constraints over how we can reflect fees and discounts from fund managers. These are assumed not to change over the whole investment period. In reality, discount levels change as we change the funds in which we invest.
- Individual sector portfolios are shown with no charges taken off or fund manager discounts applied.

For details of your own portfolio performance, please refer to your half yearly statement from the wrap platform on which you are invested. We will also provide personalised performance information at your regular reviews.

Ideal Funds

Below are the funds currently in our different portfolios and the charges that apply to each fund.

Equity Portfolios

Portfolio	Fund name	Initial Charge %	Annual Management Charge %	Total Expense Ratio %
UK Large Companies	Artemis Income	0	0.750	0.790
	Invesco Perpetual Income	0	0.750	0.930
	Investec Special Situations	0	0.750	0.940
	Vanguard FTSE UK Equity Income Index	0	0.250	0.250
UK All Companies	Vanguard FTSE UK Equity Index	0.5	0.150	0.150
UK Dynamic	Artemis UK Special Situations	0	0.750	0.810
	M&G Recovery	0	0.750	0.910
	Schroder UK Alpha Plus	0	0.750	0.910
Global Established	BlackRock European Dynamic	0	0.750	0.930
	Schroder Tokyo	0	0.750	0.900
	Threadneedle European Select	0	0.750	0.940
	Vanguard US Equity Index	0	0.200	0.200
Global Speculative	DB-X MSCI China ETF	0.6	0.200	0.650
	Dimensional Emerging Markets Core Equity	0	0.500	0.810
	Vanguard Emerging Markets Stock Index	0.4	0.550	0.550

Fixed Interest Funds

Portfolio	Fund name	Initial Charge %	Annual Management Charge %	Total Expense Ratio %
Fixed Interest	JPM Strategic Bond	0	0.500	0.680
	Twenty Four Dynamic Bond	0	0.750	0.920
	Invesco Perpetual Tactical Bond	0	0.625	0.935
	Jupiter Strategic Bond	0	0.630	0.890
	M&G UK Inflation Corporate Bond	0	0.500	0.670

Alternative Equity

Portfolio	Fund name	Initial Charge %	Annual Management Charge %	Total Expense Ratio %
Alternative Equity	CF Odey UK Absolute Return	0	0.500	0.600
	Standard Life Inv Global Abs Ret Strategies	0	0.750	0.850
	Troy Trojan Fund	0.5	1.000	1.030

* Most fund managers do not charge an initial fee but other charges may apply such as stamp duty, dilution levy, or other dealing costs. These are included in the initial charge column above.

These are the funds in use in our standard portfolios at 5 April 2013. These will change periodically and have not all been held throughout the whole period covered by this document.

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equilibrium

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