equinox

half yearly investment magazine

Taxing Times

From Pigeons to Paintings

Wealth Planning for Business Owners

equilibrium

October 2013

PLUS: Hot Property | In Profile: Gervais Williams | What's all this hype about Peer to Peer?

Welcome

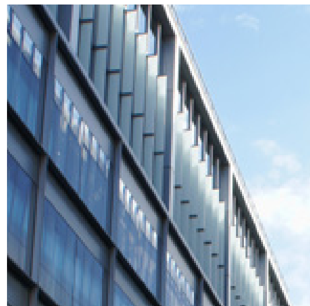
I am proud to say that Equilibrium has just celebrated its 18th birthday. During that time, the only consistent factor has been constant change.

Indeed, the pace of change has increased dramatically of late. Investment markets continue to be volatile and the UK tax regime endures perpetual interference. In addition, whilst you may have thought that interest rates on deposit accounts could not get any lower, there have actually been a staggering 1,000+ rate cuts in the last year alone!

As a result, we are constantly evolving Equilibrium so that our results and service not only keep up, but stay ahead.

I hope that you find this issue interesting, informative and, as always, if you have any questions please contact me directly at **colin@eqasset.co.uk** or call me on **0161 486 2250.**

Colin Lawson
Managing Partner



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Taxing Times

By Colin Lawson

Whenever we consider any investment recommendation we always focus on four crucial factors:

Costs, Risk, Returns & Taxation!

Surely if we are able to reduce costs, minimise risks, increase returns and improve tax efficiency, a client would be crazy not to follow the recommendation?

Where we find that one or more of these factors has a negative impact on a portfolio, we then need to carefully consider the effect overall.

> "I cannot remember the last time I had a meeting with a potential client whose tax position could not be improved upon dramatically

In my experience, the area that is neglected in the majority of cases is taxation. I have never met a client who would choose to pay more tax on their portfolio than is absolutely necessary! However, I cannot remember the last time I had a meeting with a potential client whose tax position could not be improved upon dramatically.

Our aim for client portfolios is to pay a maximum overall tax rate of 20% regardless of the size of the portfolio. We are often able to keep this effective tax rate as low as 10%, even for portfolios of £10m or more.

It staggers me that many advisers only pay lip service to mitigating the tax burden and this seems to be particularly apparent for clients who have £1m or more invested. In fact, I have often come across tax planning solutions that may have looked attractive initially but then actually result in more tax being paid in the long term.

I have also seen numerous cases where the tax planning was correct when the portfolio was established but because there was no on-going active tax management, the position slowly deteriorated over time.

Tax planning in relation to investment portfolios seems to fall through the “advice gap” between the investment adviser, who is focussed on the returns and risk of the portfolio, and the accountant who assumes the adviser is taking care of it. Having presented to a number of accountants across the board from the Big Four to regional firms, it is clear to me that there is a lack of understanding in the area of investments to enable them to give effective, proactive advice.

7.6% Net of Fees & Taxation

Our typical target for a balanced portfolio is to achieve a 7.6% pa net return over rolling 5 year periods. So let's for now assume that this return is achievable after fees and concentrate on the challenge that different tax rates can bring.

The table below shows how much extra return we would need to achieve based on different rates of tax vs a tax free ISA.

TAX FREE ISA	7.6%
BASIC RATE CGT @ 18%	9.26%
BASIC RATE INCOME TAX @ 20%	9.50%
HIGHER RATE CGT @28%	10.55%
HIGHER RATE INCOME TAX @ 40%	12.66%
ADDITIONAL RATE TAX @ 45%	13.8%

It is clear to see that at the highest rate of tax we would need to achieve an additional 6.2% return year in year out to achieve the same net result as an ISA.

Whilst, clearly, different tax rates apply to different elements of a portfolio I would strongly suggest that it is easier and less risky to focus on reducing the impact of tax before trying to increase the returns to compensate for its effect. This is because aiming for higher returns means accepting higher levels of investment risk.

Perhaps, therefore, wealthy investors should be asking their investment advisers how they plan to mitigate the tax before they even begin to discuss how they are going to achieve the returns.

The Strategy

Creating a tax mitigation strategy does not involve using complex schemes that will attract the attention of HMRC or that may come back to haunt you. It simply involves taking a holistic view of your overall affairs and a proactive approach that constantly evolves over the years.

To manage tax effectively, you need:

1. The expertise to fully understand and micro manage all of the options available
2. The foresight to overlap strategies so that they interact together to create the desired result
3. The freedom to create an evolving plan over rolling 5 year timescales
4. A full understanding of the growth patterns of each asset class or fund and the ability to identify the right tax wrapper accordingly
5. The flexibility to move between tax wrappers with no cost or penalty as the shape of returns or the tax rules change.

The Solutions

We need to use a range of techniques to achieve a comprehensive solution. These can include one or more of the following:

Onshore Investment Bonds

Often mis-sold and almost always misunderstood, investment bonds can be incredibly tax efficient *if* they are used in the right way. They are taxed in two ways, tax ***within*** the bond (before you make any taxable withdrawals) and tax on encashment (or part encashment).

Taxation within the bond has the following interesting features:

- Any gains within the contract benefit from indexation relief meaning that they are first offset against RPI before they are taxed. So if RPI is 3% and there is a capital gain of 3% then there is no tax to pay on gains within the bond. The higher the level of RPI, the more tax efficient they can be.
- Dividends received are not subject to any further tax within the contract, over and above the normal withholding tax. This is the same as for an ISA or pension.

When you encash all or part of the bond, tax of up to 20% can be payable if the individual falls into the higher rate tax bracket. However:

- Up to 5% of your original investment can be taken each year without tax at that point in time.
- On a full encashment, to calculate whether tax is due, the total gain can be divided by the number of years the bond has been held. When added to the individual's income, if this "top slice" is below the higher rate threshold, no tax is due.
- Bonds can be assigned to a non-tax paying spouse prior to any encashment.
- The period the gain can be top sliced over is the life of the contract and not the period of investment. Setting up contracts today to accept money in the future is a powerful strategy.

Investment Companies

These share the first two features of investment bonds with any gains above RPI being subject to corporation tax at the prevailing rate. The company "wrapper" provides the ability to defer further tax and decide the most effective time to pay a dividend and which family member to pay it to.

The range of investments that can be held is virtually unlimited and adding family members as shareholders can assist with IHT planning (for further information on this type of arrangement, please ask us for a copy of Equinox dated April 2012).

Capital Gains Tax

It is surprising how many people do not utilise their CGT allowance every year. In order to do so, we recommend holding a significant proportion of your assets in high growth low income funds such as defined return (growth oriented structured product) plans and emerging market funds. You can then make a big enough encashment each year (such as to fund ISAs or pensions) to utilise the CGT allowance.

Pensions

The current pension rules provide a great deal of flexibility to help both retirees and workers alike. If you are retired you can defer taking your pension benefits to assist with efficient tax planning and you can even defer your State Pension twice.

If you have a drawdown plan, you can alternate the years where you take income, taking zero income one year whilst you crystallize gains elsewhere, and then take the maximum income the following year.

The process works in reverse if you are working. Rather than contributing every year you can, for example, make large contributions every three years – which has the effect of potentially reducing your status to a nil rate tax payer - whilst we crystallise other gains.

aiming for higher returns means accepting higher levels of investment risk.

Summary

This is just a very broad overview of a few of the strategies and angles we can utilise to keep tax in client portfolios to a maximum of 20% and, in some cases, significantly below. This does of course depend upon an individual's specific set of circumstances though.

Where clients have portfolios of significant value, we create a tax plan detailing the strategy for at least the next five years and then we constantly evolve the strategy to ensure it delivers the results we need.

I put it to you and all advisers out there that to take more risk than is necessary in order to achieve higher returns, simply to pay more tax than is necessary, is a dangerous strategy.

Before you decide to invest, I suggest everyone ask their wealth manager four questions:

1. What do you benchmark your returns against?
2. Why is this relevant to me and my life?
3. What rate of tax do you add to the benchmark to make the returns comparable?
4. What net rate of return are you targeting over both the short term ie next 18 months, and the longer term ie five years?

I would be very interested to hear the response you get back.

As always if you would like further clarification or information on any of the points raised please email me directly **Colin@eqasset.co.uk**

Gervais Williams

Managing Director, Miton Capital Partners

With the UK economy picking up, many investors are now turning to smaller UK stocks, with a focus on the domestic economy. We talk to Gervais Williams, Fund Manager and Managing Director at Miton Capital Partners, about the prospects for small cap investing.

You are best known for your long track record running smaller companies' funds. What is the advantage of investing in smaller firms rather than large companies?

The great advantage of small companies is their ability to become much larger. It is easier for a £20m company to double in value than a £20bn one. During the credit boom, larger companies were able to expand rapidly because of the easy availability of debt, especially given interest rates were falling. But we are now seeing sub-normal world growth. It is harder for large caps to expand.

Even the Government is getting behind the trend. Smaller companies tend to be the key area of employment growth and their expansion tends to feed into domestic growth, rather than overseas economies. Since they aren't as sophisticated as multinationals they don't often have operations in the tax havens overseas, and therefore pay their taxes too. Government is seeking to support them in every way they can, including the recent inclusion of AIM stocks in ISAs.

Anecdotally we hear that small firms still find it difficult to obtain funding from the banks. Are the management teams you speak to finding this and what challenges does this cause?

This has been the case ever since the credit crunch although the effects have been very interesting. What it has meant is that many smaller businesses have had to become leaner and less debt dependent to survive.

Many smaller cap stocks therefore entered the period of austerity with a near perfect balance sheet, with little or no debt. Meanwhile some offer tremendous investment prospects as they have learnt to survive in very tough times and yet are seeing renewed access to capital at time when many competitors are insufficiently capitalised.

In due course the mainstream banks will remember why they liked lending to small PLCs. They tend to carry less risk as they can often call upon external shareholders to raise extra equity when they get caught out. Each loan tends to be fairly modest too. In time the banks will relearn to lend to smaller businesses and that will enhance their prospects further.

How difficult is it to analyse small company stocks as opposed to large companies? Is it more difficult to obtain accurate data and does this make your life more difficult?

Generally larger corporates are more complex than smaller businesses. So in straight analytical terms it is often the smaller the better.

On top of that the Directors of smaller companies are usually closer to the coal face so they are better able to outline the key trends in the industry. There is also a lot less stock broker research on the smaller stocks, this gives us an analytical advantage on small caps as compared to larger stocks.

What about liquidity. How difficult can it be to buy or sell stocks within your funds?

During the credit boom it often proved troublesome for institutional investors to get out of smaller companies. Typically they get into small companies quite easily, but getting out was a challenge.

Many of the smallest companies are at sub-normal valuations

Interestingly, what I am now seeing is the reverse. In many cases it is easier for me to sell our full holding of a particular stock since there are a number of new potential buyers. I believe I could sell our entire holding tomorrow, just like that, but if you want to get in there's a great queue of buyers looking to get into these stocks.

Illiquidity is actually working in our favour. And the more that small caps move, the more people want to get involved in these companies.

Equity income funds have traditionally invested in very large companies. Your Multi Cap Income fund is one of the few that invests in small cap stocks. Is small cap the right place to find income?

Being a multi cap fund we can invest across the market cap range of UK companies. At present we have roughly a third of the portfolio in mid and large cap stocks and the remaining two-thirds in the smaller cap end of the market because that is where we see the best opportunities. Smaller companies often have better scope for dividend growth.

Many of the smallest companies are at sub-normal valuations meaning that some growth businesses are so cheap they have attractive yields too. With investors presently preferring more income (to pure growth stocks) we are also seeing smaller companies increasing their payout ratios. These three trends are coming together and boosting dividend growth.

Income investors are often cautious investors, yet small cap is traditionally seen as high risk. What makes your fund appropriate for more cautious investors?

It is true that investors have perceived small cap stocks to be higher risk but there are two important points to be borne in mind in relation to our fund. The first is that it is a diversified portfolio with about 120 stocks, covering roughly 30 sectors. The fund has a much less concentrated portfolio than many other UK income funds which tend to hold a relatively short list of large cap businesses.

A second factor is that the investment universe is very much wider than many other funds. A key advantage is that the fund is able to concentrate on stocks with unusually strong balance sheets. The portfolio therefore carries much less financial risk than many other UK income funds.

Both of these factors come together in the volatility of the portfolio which is amongst the lowest in the sector, and contrasts with the returns that have been amongst the best.

You recently published your book, Slow Finance. What is the book about and why did you decide to write it?

Slow Finance explores how the growing scale and complexity of the financial system has undermined it. During the credit boom the financial sector became more remote from the interests of savers, as it allocated more of our capital into volatile and esoteric products.

The book explores the trends that might dominate in the post credit boom period:

1. Investing for good and growing dividend yield as opposed to trading for a capital profit.
2. The link between high growth markets and return is highly tenuous at best. The book anticipates that the best returns will be found in developed economies rather than emerging markets.
3. The book explains why smaller companies might be expected to outperform larger companies again. This would represent the re-establishment of the trend that persisted for decades prior to the credit boom.

In a parallel with Slow Food the book anticipates that investors will start to take a much greater interest in the ingredients in their portfolios!

Wealth Planning for Business Owners

By Colin Lawson

I am privileged to meet with successful individuals whose talent and dedication in the business world has reaped substantial rewards and allowed them to accumulate a decent sized investment portfolio.

Unfortunately, these portfolios are often suffering from serious neglect. In many cases, they are paying more tax and charges than necessary and achieving below average returns despite taking above average risk. This is surprising given that these individuals are generally intelligent, well informed and focused on getting results.

It is somewhat perplexing how they can manage their business to deliver fantastic financial performance and yet neglect the money they have accumulated in their own portfolios.

Over the years, I have identified five common themes that, when combined, can lead to such a sorry state of affairs.

1. Too Busy Making Money to Manage Money

With all of the pressure of modern day life, it is easy to see why managing personal finances falls into the "mañana mañana" category of things to do.

We all know what this is like, when we know we should do something but despite our best efforts, it keeps getting put back. When we eventually decide to do "something" about it, we don't allocate sufficient time in order to do it properly.

All I ask clients to commit to their finances is eight hours a year which equates to just one of their approximately 225 working days. In return, they are likely to find this to be the most profitable day of the entire year!

Let's imagine that Mr Client earns £100,000 pa, equating to £444 gross income per working day, and has accumulated £200,000 in various investments. By taking eight hours in the year to concentrate on and restructure his finances, he sees the return on savings increase by 2% - that amounts to £4,000 over the year, equivalent to nearly 10x his normal daily rate.

2. Risk

As a successful individual, it's probable that you will have a higher tolerance to risk than average. You might even actively seek risk out in terms of the business decisions you make.

However, making investment decisions with the same kind of approach can have disastrous consequences, potentially leading to catastrophic loss in a portfolio and causing a loss of faith in investing as a whole.

One of our key phrases at Equilibrium is that excess risk is pointless risk. In other words, don't take more risk than is necessary in order to achieve your goals.

3. A Lack of Vision

As the saying goes "If you don't know where you are going, any road will get you there"!

Many portfolios I review are on the proverbial "any road". In their professional lives, individuals are disciplined and used to having a long term vision, setting short term goals and even a daily to-do list. But when it comes to their personal financial plan ...well, there isn't one!

Our priority is to establish what our clients' aims and objectives are, then create a personalised route map to get them to their destination.

4. Neglect

The area most often neglected is pensions. The problem could be as simple as paying too little in or as dangerous as paying too much and suffering a 55% tax charge as a result.

It also baffles me that people will spend time and effort investing a £50,000 ISA portfolio across a number of funds with specialist investment houses and yet will leave their £200,000 pension fund languishing in just one poorly performing managed fund.

The right amount, in the right place, in the right funds can make a huge difference.

5. Lack of Proactivity

"Even if you are on the right road, you will get run over if you just sit there"!

On the rare occasions when people do take the time to adopt a strategy and create a portfolio that is aligned with it, they often fail to review their progress against the plan. Over time, everything becomes completely off track. If you are just 1° off course and don't correct it, you will soon end up somewhere you shouldn't be!

Regular reviews and on-going investment management ensures that portfolios remain on track despite the changes that will inevitably happen in your lives and the investment world in general.

The Next Step

If any of these five characteristics apply to you, then at the very least I suggest you -

1. Take out your diary and block out sufficient time in your schedule to review your current circumstances
2. Consider what your shorter term priorities are, and then longer term aims and objectives
3. Be specific about the financial position you would like to be in 3 years from now, and 10 years from now – this will help you put into the context the level of risk you need to take to achieve your goals
4. If you don't already have one, research and seek out a quality financial planner who can create a plan for you to meet those goals and with whom you can work over the years ahead
5. Commit to investing 2 hours per quarter to review your finances, ideally with a 3rd party to bring discipline to the table in terms of actually doing the review as well as the decisions that need to be made to stick to the plan!

Hot Property

By Mike Deverell

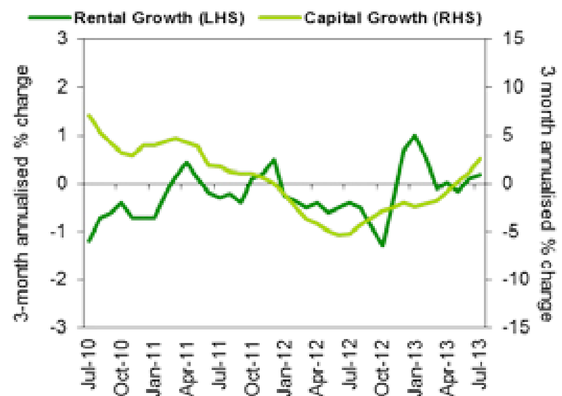
After several years in the doldrums, commercial property has recently re-emerged as an exciting investment.

When we talk about property most people think of house prices, and whether they are rising or falling. Whilst the capital return is important, returns from commercial property are typically driven by rental income, much more so than in the residential market.

The current rental yield on the CBRE UK commercial property index is around 6.2% pa. An income of 6.2% looks pretty attractive in a world where interest rates are 0.5% and, even after recent movements, a 10 year gilt still yields less than 3% pa.

In simple terms, a 6.2% annual yield, that means a property owner would make around 0.5% per month in rent. Despite the increase in vacant properties, this rental yield has remained relatively stable over the past few years. However, until recently we have been avoiding this asset class, because we felt falls in capital values would offset all or part of this income.

The chart below shows the 3 month annualised growth of capital and rents. The light green line shows how capital values have been falling since late 2011 but has recently moved back into positive territory.



Source: CBRE UK Monthly Index July 2013

We are not expecting massive capital growth and in fact we do not need to see this in order to invest. We want to see stable capital and a steady return from rental income. If capital values are actually falling then we do not generally wish to invest, but strong capital growth is merely a bonus.

With capital values and rental incomes going in the right direction, this is a good indicator of positive returns from commercial property.

One other thing we like to see if we are to invest in property is rental growth. The dark green line on the chart shows rents have recently begun growing again after a period when they have been falling.

With capital values and rental incomes going in the right direction, this is a good indicator of positive returns from commercial property.

Property returns are highly correlated to the economy. With such low economic growth in the past few years, some companies have been struggling to pay their rents, demand for buildings has been muted, and vacancy rates have been high.

As the economy improves, vacancies should fall, increasing the rental income.

Note that the yields quoted above are for a property index that at present is impossible to track. Property funds have to keep perhaps 10% to 20% of their assets in cash, which reduces the returns but means the funds can meet withdrawals. Despite this cash drag, we still believe that the asset class can return perhaps 5% to 8% pa over the coming 18 months or so.

Diversification

One of the benefits of property is diversification. We have been in a world where quantitative easing (QE), in particular in the US, has been directly affecting both bond and equity markets. As the Federal Reserve began to talk about reducing QE this has caused something of a wobble in equity markets and more sustained falls in government bonds (gilts) and many corporate bonds. Whilst Equilibrium's fixed interest portfolio has been less affected, we have been diversifying out of bonds and into property.

Property has not been directly affected by QE in the way bonds and equities have been. As the economy improves the outlook for property improves. The chart below shows the performance of our fixed interest and property funds, compared to the corporate bond and gilt unit trust sectors, over the past quarter.

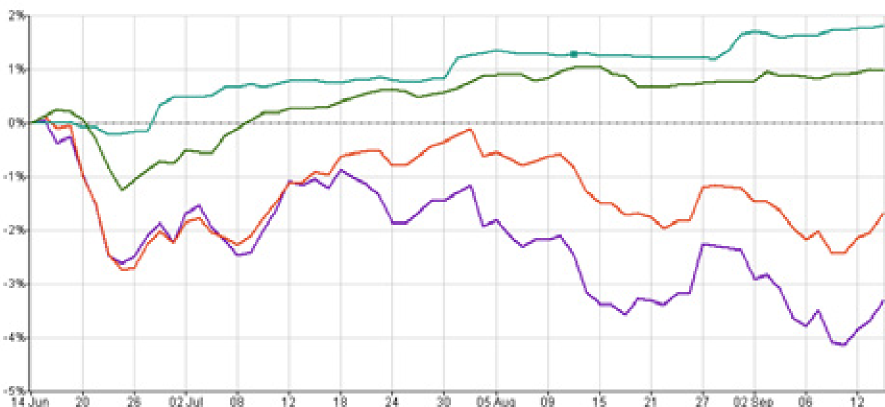
You can see that our property portfolio has returned 1.8% over the quarter (an annualised rate of over 7% pa) during a period when bonds have fallen.

Property has other benefits, such as providing inflation protection. For example, some properties have index linked rents, which rise with RPI every year. More commonly, rents are reviewed every five years or so, and often have an "upward only" clause meaning rental income should typically increase (although this does depend on the local economy and market).

In addition, property prices tend to increase in times of inflation.

Liquidity

Long-time Equilibrium clients will remember some very difficult times for property investors over the past few years. Those of you with even longer memories will remember some fantastic returns before that!



A - Equilibrium Property Portfolio (1.83%)
B - Equilibrium Fixed Interest (0.99%)
C - UT Sterling Corporate Bond (-1.68%)
D - UT UK Gilts (-3.30%)

Property has other benefits, such as providing inflation protection

Property is one asset class we have not been afraid to remove completely from the portfolio when required. This is partly because it can be illiquid and in difficult times properties can be difficult to sell.

In the financial crisis, commercial property prices fell substantially and they generally remain well below where they were in 2007. Some funds instituted lock in periods where investors could not get their money out, whilst many others "re-priced" effectively imposing a penalty for withdrawing.

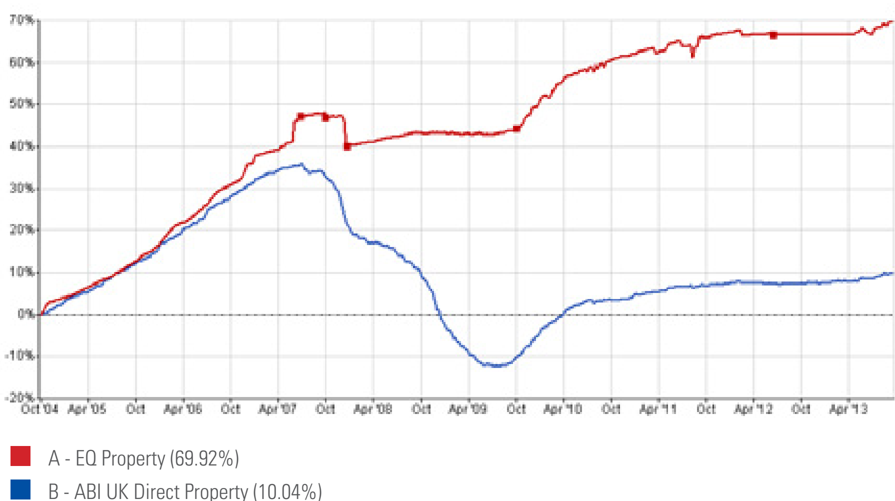
Whilst we did not avoid the falls completely, we managed to get most clients entirely out of property by the beginning of 2008. Back then we operated on an advisory basis rather than being discretionary, and many clients may remember virtually queuing out the door to give us your signed forms to switch out!

Property is one asset class we have not been afraid to remove completely from the portfolio when required

The chart below shows what happened to a typical property fund (blue line) from 2004 to date, whilst a typical Equilibrium client's property portfolio is shown on the red line. This assumes investment in our most commonly recommended properties funds prior to 2007, moving to cash in 2007 and reinvesting into our new discretionary property portfolio in 2009. We then exited property again in 2012, only reinvesting again recently.

Returns were excellent up to mid-2007 but then the market crashed. However, we do not foresee another move in the property market like there was in the financial crisis. This was a very rare event, and a time when equities and corporate bonds also fell substantially. Unlike equities and bonds, property has not returned back to previous levels and so is possibly less at risk of a setback than other asset classes.

However, should we become concerned about the prospects for the asset class, we won't hesitate to get clients out again.



Changing Trends in Commercial Property

When we talk about commercial property, most people immediately think of high street retailers. I am often asked why we should invest in shops when the traditional high street seems to be dying, killed off by the internet revolution.

However, commercial property encapsulates many different areas, including out of town shopping centres as well as high street, warehouses and industrial units, and offices whether large or small.

According to Ainslee McLennan, fund manager of the Henderson UK Property fund: "British townscapes are changing rapidly as the high street is challenged by the advent of superfast broadband and the uptake of smart devices.

Online spending accounted for 10.6% of retail spending in 2012 and is projected to grow quickly, taking it from a £31 billion to a £47 billion industry within the next four years. Commercial property landlords need to be adept at investing in properties that play into current and future shopping trends."

As a result, McLennan has typically avoided traditional high street stores in her fund which are more vulnerable to the new trends, preferring to own out of town units. However, she says there are many other ways to play the growth of internet shopping:

"While the internet was supposed to revolutionise the way we shop, the inconvenient reality is that we need to be at home when parcel drops occur. *Which?* found that 60% of people shopping online last year encountered delivery problems.

The growing popularity of click-and-collect, whereby customers pick up in-store or other local drop points, is testimony to this. It mitigates the twin problems of stock availability and going the 'final mile'. It makes sense for commercial property landlords to have exposure to retail warehouse parks, storage facilities, and distribution hubs that support this growth area."

One of the benefits of property is that it is a physical asset rather than a piece of paper. In times of crisis, pieces of paper can be worthless, but bricks and mortar always has some value.

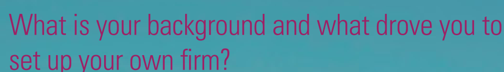
Companies will always need buildings out of which to operate, but the type of premises required may change.

...a very different type of law firm

In Profile:

Darryl Cooke

Owner & Partner, gunner*cooke*



What is your background and what drove you to set up your own firm?

My background is in private equity law, advising both management teams and investment houses on their investment in or exit from growing companies.

Increasingly I felt that the legal services sector had become self-serving - in other words, it didn't best serve the needs of its clients. In my view any firm that fills in timesheets is self serving. I wanted to set up a business that would be entirely focused on delivering a service that put the client first, not only in its mission statement, but through really taking the time to listen to what businesses want from their lawyers. Our entire model has been developed with this in mind. We developed our model only after we had had 56 meetings with clients or potential clients.

How long have you been in business?

I have practiced law for longer than I would like to share! Our business was set up in September 2010, and from a standing start, as of today we are 30 partners.

What makes you different from other law firms?

Senior lawyers and transparent fees. Before we set up the business, we spoke to circa 60 Financial Directors, CEOs and Private Equity investors, asking them issues they had faced in buying legal services, and what they wanted from a lawyer. Their responses were commonly two things; they wanted senior advisers and transparency and clarity over fees.

To this end our model is partners only. The minimum experience to join our firm is 10 years post qualification, and on average our lawyers have 22 years practicing experience.

We charge on an entirely fixed fee – we do not record timesheets, and we do not make assumptions. Our partners are trained to fully scope a matter at the outset and to set a fee that will never change. The change in culture that follows this is dramatic. Our lawyers are efficient, commercial dealmakers – it is in their interest to get to the close of a matter as swiftly as follows, and this in turn drives lawyers on the other side of a transaction to work more efficiently as well.

We have also moved on and are so confident in our model that we offer a guarantee that you will be happy with the service or you don't pay.

You operate a "fixed fee" model. How does this differ from other firms? How do you avoid being caught out if a case is more complicated than expected? What if a case proves less difficult than expected?

The way we approach fees is very different to other firms. Other firms may suggest that they can charge fixed fees, when in reality these fees are based on a number of assumptions and caveats – all based on time still! At gunner*cooke* we do not time record, we use our experience and our knowledge of what work will be required to reach the client's objective, and that's the way that we scope the fee. Our experience and our approach to fees drives a far more efficient culture more closely aligned with our clients objectives.

> The minimum experience to join our firm is 10 years post qualification

I think being 'caught out' is the wrong term. Our partners are all very experienced advisers, so they are expert at asking the client the right questions and getting a feel for a project right at the beginning. They may take slightly longer in scoping the matter, asking more questions about what is really important to the client, and what's driving the project, but once our fee is fixed it will never change. We speak a lot internally about how to scope, and in cases where the outcome is more uncertain – such as litigation, we will scope and fix the fee in stages. We believe we are the only firm in the country to offer fixed fee litigation.

What is your vision for your firm?

We are very ambitious as a firm; our vision is to be the number one firm in the country for corporate and commercial legal services, and we will define this by brilliant client service. We also aim to be the firm of choice for partners of a certain level of experience and commerciality to join. We have already begun to make waves in the market place, with extremely experienced lawyers approaching us wanting to join, and a growing client base that has now reached over 400 including numerous plcs and institutions. We have also won a host of prestigious awards and have again been shortlisted for the FT Legal Pioneer Award .

What characteristics do you look for in your partners?

Our partners all share our vision and serve the same goal - to offer the best legal and commercial representation possible, in a manner that represents the best value for clients. We select them primarily for their ability to act with authority and for their ability to 'actually advise' clients. We look for people who are able to both 'rain-make' and make a deal happen, who constantly seek to do things better, to do things differently and ultimately – people who are fantastic, quality ambassadors for our brand. We like to think of them as 'trusted advisers' and 'dealmakers'.

How important is technology in running your business and how do you use it?

When we established our business, we knew that we should incorporate technology early on, so that as we grew it would become engrained in our culture. To this end all of our systems are run from the cloud. This means that partners can access our system anytime, anywhere - they can share documents with clients through the cloud, they can post news updates to each other, they can view reports. It keeps us very well connected, and more importantly, it enables us to communicate and respond to clients rapidly, which is the most important thing. But we will never lose our personal touch. You can't be 'trusted advisers' otherwise.

What are you most proud of? Personal and professional?

Professionally, well we recently celebrated three years of gunner*cooke* with an anniversary dinner. Looking around the room you realise that we have now built a 'real' law firm - we have 30 partners, over 400 clients, a host of national and international awards, and we are very much continuing to grow. It's very different to when we set out, just my business partner Sarah and myself in a tiny office. I do feel proud of what we have achieved so far.

Personally, I have two boys who make me very proud.

Who is your role model?

Do you really want to know this? I have a few, some business such as Jack Welch and Bill Gates and also the Dalai Lama. I admire people who use their business influence for the benefit of others.

If you could invite 5 people to dinner, dead or alive, who would you invite and why?

I'm a big reader of business books, so I think I would have a few of my favourite practitioners; Jack Welch, ex-CEO of GE, achieved 4000% growth during his tenure at the helm of the company. I'd love to pick his brain on how gunner*cooke* could achieve the same! Peter Drucker, the Godfather of management, is someone whose books I often turn to for ideas on how to support our partners, and how to continually improve on management skills. Jim Collins; another favourite of mine, talks a lot about building and growing a sustainable business, would love to get his views on ours.

Do you have a motto? If so, what is it?

I do. 'Action is the antidote to despair'. First coined by Joan Baez but I use it a lot. I also think the comment once made by JP Morgan 'there's the reason people tell you and then there's the real reason' is very profound.

What would your grave-stone say?

Oh, how depressing – certainly not 'I wish I'd spent more time at the office'.

Where does the 'gunner' in gunner*cooke* come from?

I was contemplating setting the firm up during a bad time in my life. My father was dying and we spoke a lot about establishing the firm and the future. His nickname was 'gunner'. It seemed fitting and a client said to me "if it motivates you every day, it is the best reason for a name".

Our partners all share our vision and serve the same goal - to offer the best legal and commercial representation possible

From Pigeons to Paintings

Entrepreneur-turned-art-dealer and gallery owner, Bill Clark - of Clark Art Gallery, in Cheshire and London - discusses how he has applied the lessons he learned building up an international product supply business to his successful art business.

It was whilst working as a Wildlife adviser for the Ministry of Agriculture in the 1980s that graduate Biologist Bill Clark came up with an idea for a niche business.

"I'd been called in by lots of local authorities where urban birds were causing millions of pounds worth of damage," he recalls. So in 1989, he borrowed £5,000 from the bank and set up a business designing and supplying physical urban bird deterrent systems to the pest control industry.

These specialist products are used to protect buildings from pigeons, starlings and gulls.

Despite "making it up" as he went along, Bill managed to turn the nets and spikes and other products he designed in his dining room in 1989 into a major international business run from a distribution centre in Warrington. It would earn him millions when he sold the company nine years later, enabling him to "retire" in his early 40s.

He still enjoys the unusual distinction of being able to see his products from within 100 metres of the centre of almost any town in the UK, and on buildings including the White House and Buckingham Palace.

"It was all run by the seat of my pants," he says. "I had no business background, I'm a biologist by training but I learnt a hell of a lot very quickly about marketing, manufacturing, staff management and product distribution".

The indecision of the novelist Jeffrey Archer led to Bill making another counter-intuitive career switch, this time from battling birds' mess to dealing in art.

While browsing in a gallery following the sale of his pest control business, he spotted an LS Lowry painting called "The Cricket Match". He bought it, despite the £200,000 price tag and the competing interest of Lord Archer - who wanted to go away and think about it.

"I'd grown up with images of Lowry and I never thought I'd be able to buy one. It was like owning a piece of history. Also I thought that a Lowry oil painting depicting a Mill Scene and a Cricket Match would be an easy thing to sell in the future."

He was proved right when, bored with retirement, he eventually sold the painting to cricket fan John Paul Getty for £400,000 just six months later. The Cricket Match is currently on show in the Lowry exhibition at Tate Britain.

"I saw this as a great low overhead business to keep me occupied in my retirement. After that I went mad and bought all the Lowrys I could. At one stage I had 50 oils and drawings by Lowry, suddenly I was an art dealer".

Trading in the paintings from his living room and via a website delivered sales of £2m in the first year of the new company, Clark Art.

L.S.Lowry, The Derelict House

He now has an appointment-only space in London's Bond Street as well as his main gallery in Cheshire and is an acknowledged expert on L.S. Lowry. He also deals in works by other established Northern artists such as Theodore Major, John Thompson, Helen Bradley and William Turner and has published two best-selling books on Northern artists. He also represents a select band of exciting new Northern artists including Liam Spencer, Reg Gardner, Ben Kelly, Phil George and Stephen Campbell.

Selling them is just a way to buy more. The business is basically a hobby that's gone mad.

The thrill comes from finding and buying the pictures, he says: "Selling them is just a way to buy more. The business is basically a hobby that's gone mad."

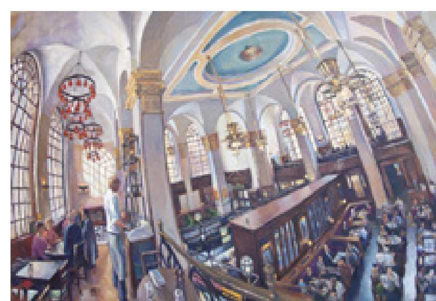
As lifestyle businesses go, it's rather lucrative: annual revenues are typically around the £5m mark, he says.

Art and Pest Control might not sound like natural bedfellows, but Bill's lack of industry experience proved a boon: "I used things I learnt in my last business. Customer service is paramount, we want our collectors to have an enjoyable experience when they visit the gallery. Our website is always up to date and we add new work regularly. We also actively market the gallery and have regular features on TV and radio and articles in the press. We also make extensive use of social media to keep our clients up to date with what is happening in the gallery".

Bill has been running Clark Art now for nearly 15 years, and over the past few years there have been an increasing number of people looking to buy art for the first time. At a time where bank deposits, property and most conventional investments are producing poor returns, more and more people are turning to art as an alternative investment. As a medium to long term option, collecting art can be both an enjoyable and profitable investment, but buyers need to do their research and buy from reputable sources.

Bill says "Northern art is currently being bought by collectors from all over the country. In my opinion Lowry is the number one artist to buy for investment. His prices have risen steadily over the past decade but he is still undervalued when compared to other major 20th century artists. The current Lowry exhibition at Tate Britain can only help to increase his prices.

"In terms of return on investment, a client who bought a small Lowry



Stephen Campbell

Liam Spencer

oil painting with figures in it from me for £40,000 five years ago could now expect to get £120,000+ for it. A typical Lowry Mill Scene painting would now set you back £1 million+. Prices of Lowry pencil drawings are also rocketing, one recently sold at auction for a record £211,000, 10 years ago I was selling similar works for £30,000. Works by Lowry's teacher Adolphe Valette have also increased in price, his small Manchester studies were selling for around £3,000 to £4,000 ten years ago. I recently sold one for over £30,000".

"If your budget won't stretch to a Lowry, there are a growing number of promising up-and-coming Northern artists whose paintings are selling for far more attractive prices. For £1,000, £5,000 or £10,000 you can acquire a work from an established Northern artist or a promising newcomer. Who knows one of these new artists may be the next Lowry".

Apart from having your investments hanging on your wall where you can keep an eye on them and enjoy their aesthetic qualities, investors are turning to art as gifts. An increasing number of parents and grandparents are buying art for their children as part of inheritance tax planning. A painting gifted to your children is free of inheritance tax provided you're alive for seven years after the gift is given.

There are also a number of other tax advantages to buying and selling art. Paintings come under chattels taxing, so sales below £6,000 are tax free. You can also use your annual capital gains tax of £10,900 (£21,800 per couple) against the sale of paintings.

Clark Art is now one of the most successful galleries in the country. Exhibition opening nights at the gallery in Hale are major events. Over 600 people came to the Opening night of the Lowry and his Legacy exhibition on the

An increasing number of parents and grandparents are buying art for their children as part of inheritance tax planning

13th June and 125 paintings were sold during the exhibition including 15 Lowrys. Several of the Lowry oils in the show sold around the £500,000 mark and all the paintings by the new Northern artists sold out.

"I've been incredibly fortunate to have this new career", Bill says, "I'm privileged to own wonderful pieces of art which we sell to collectors from all backgrounds and professions but all of whom share a passion for Northern art."

Clark Art Ltd

155 Ashley Road
Hale
Cheshire
WA14 2UW

T : 0161 929 5150
E : art@clark-art.co.uk

www.clark-art.co.uk

Theodore Major

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What's all this hype about Peer to Peer?

Peer to Peer is a recent financial phenomenon that's growing at an unrivalled rate, fuelled by the lack of lending from the banks and historically low interest rates for savers.

We speak to Lee Birkett CEO of Cheshire based Peer to Peer platform eMoneyUnion.com to discuss the risks and rewards.

Lee Birkett
eMoneyUnion, CEO

Well how does it work?

I suppose you could say we are similar to eBay, in that the platform brings buyers and sellers together.

eMoneyUnion provides individuals who seek alternative ways to improve their savings yields, the opportunity to become private lenders. We have developed some matchmaking technology to bring these private lenders together with pre-qualified personal borrowers.

Sounds interesting, is it safe?

All private individuals' monies are held in a ring-fenced UK clearing bank client account, and all loan repayments from borrowers are paid into this account for disbursement.

The Financial Conduct Authority acknowledges the service and we are in a regulatory transition from the Office of Fair Trading to the Financial Conduct Authority, due for completion by April 2014.

What if people don't pay the loans back?

We diligently underwrite the borrowers to make sure that they can. We are however completely aware that people lose their jobs and their income circumstances change. We have 2 back-ups in place should a borrower not be able to pay.

1. We have taken the prudent stance of insisting that every borrower sources a very credit worthy, home-owning personal guarantor to sign and personally guarantee the borrowers loan repayments, so if the borrower doesn't pay, the personal guarantor has to.
2. eProvision Fund. In the unlikely event that the Personal Guarantor is unable to pay, we have created a fund that's topped up on the creation of each loan and each monthly loan repayment. This fund is paid into by the borrowers, for the lenders protection. Should the borrower and guarantor not pay, the fund will make the repayments to the lender, subject to sufficient monies being in the fund.

What yields are you paying?

We currently have three profiles of borrower, AAA, AA and A.

Lenders can choose their own appetite for risk on the platform.

If a lender is happy to lend their money to personal borrowers between 2 & 5 years, they can receive their monthly interest on;

- AAA 0.83 % pm 10% pa
- AA 0.91 % pm 11% pa
- A 1.00 % pm 12% pa

If a lender only wants to lend for between 1-2 years, then their monthly interest receivable;

- AAA 0.50 % pm 6% pa
- AA 0.58 % pm 7% pa
- A 0.66% pm 8% pa

What inspired you to set up the platform?

I have been involved in the provision of financial services and advice for 25 years, and I have never known savers and borrowers to be served so badly. I couldn't see any change forthcoming, so with some friendly techies we embarked on some in-depth research to see if there was a banking alternative going on anywhere else in the world. An online alternative to Burnley's Channel 4 hero "Bank of Dave" if you like.

I stumbled across an American tech-movement called crowdfunding, this is basically an internet term used to bring together people, mainly techies (crowd) to help raise money for good causes (funding) via an internet platform. Crowdfunding or Peer to Peer as it's now more commonly known, brings together lots of people willing to lend/invest/gift small amounts, but with the objective of achieving big results.

I thought to myself, we have a big problem with the lack of lending in the UK and lots of small people getting little or no return on their savings, and I suppose you could say that's when I had my light-bulb moment and set about building eMoneyUnion.com

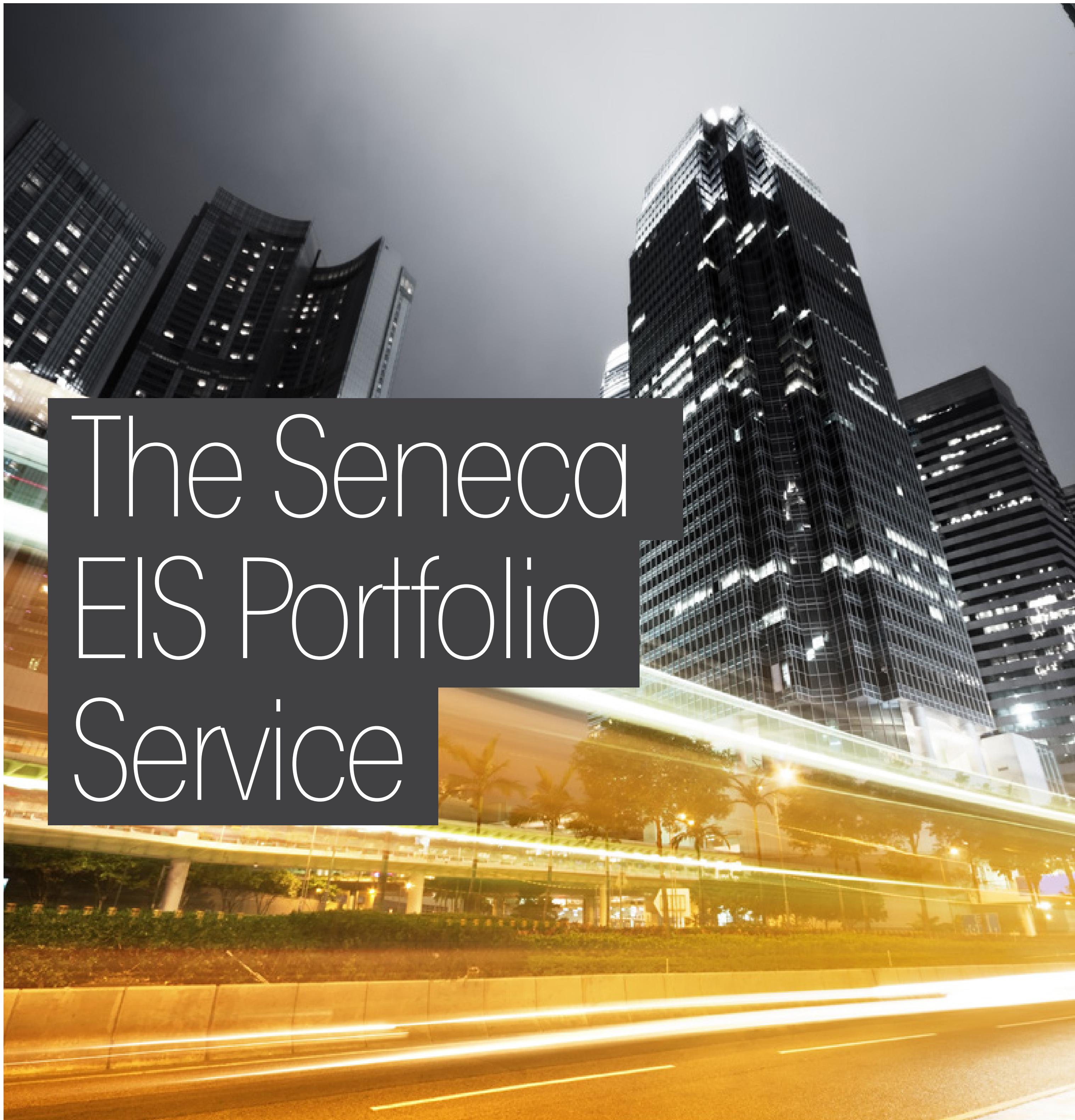
What about the future?

Both in the US and UK, the sector is receiving fantastic levels of governmental, public and institutional support. Growth over the coming years is expected to be dramatic.

As the banks are deemed to be unable to change their lending activities and our new Bank of England governor set to keep rates low, the current banks and building societies offerings look set to be stagnant for many years to come.

The biggest internet firm in the world Google has just paid $150 million for a 10% stake in the US' largest Peer to Peer platform Lending Club and the UK government has just placed £100 million on a UK platform for small businesses Funding Circle. So I would say that Peer to Peer is here to stay and we look forward to playing our part in this financial revolution.

Growth over the coming years is expected to be dramatic.



The Seneca EIS Portfolio Service

Since 2008 the UK economy has been enormously challenging. The impacts of the financial crisis have rippled through the economy and caused massive underinvestment in smaller UK companies. Bank finance, a traditional source of funding for many UK small and medium sized companies, has been extremely constrained and almost non-existent at times and private equity funds have tended to focus on much larger deal sizes.

Whilst the lack of funding options available to smaller UK companies in recent years has caused challenges for these businesses at an operational level, it has also created strong demand for alternative sources of finance such as those provided by Seneca Partners. We are currently seeing more and more good quality smaller UK companies with excellent growth prospects who have not been able to secure funding from traditional sources. As a result we believe this is an excellent time to invest in smaller UK companies.

We are not however investing in high risk start-ups, but rather we are investing in companies that are profitable, or have profitability within reach, and have good growth prospects.

The smaller company sector on which Seneca Partners focus has been largely ignored by other professional investors. We therefore rarely compete on our deals with other investment houses which allow us to negotiate attractive investment terms for our investors.

The strong deal quality and attractive

deal terms we are negotiating are enhanced by the generous tax incentives available to investors when investing in smaller companies using the Enterprise Investment Scheme (EIS).

EIS is a government scheme that allows investors to further reduce their investment risk by providing a 30% up front income tax relief on any investment made under the scheme up to a maximum of £1m. In addition any gains are exempt from capital gains tax (assuming the investment is held for 3 years) and the investment in EIS shares will also qualify for Business Property Relief after two years giving an investor 100% relief from inheritance tax at that point.

Whilst the combined impact of these tax benefits is compelling, at Seneca Partners we will only make an investment under the EIS scheme if we would make the same investment without these tax benefits being available. The tax incentives only serve to increase the attractiveness of investing in smaller companies rather than provide justification to invest.

we believe this is an excellent time to invest in small and medium sized companies

So why can Seneca find these opportunities? Seneca Partners is an independent investment and alternative asset management business for private individuals, families, entrepreneurs, and companies. We believe we have the capability, experience and deal flow to provide investors with an excellent opportunity to invest in smaller UK companies.

In addition to our EIS Portfolio Service, Seneca Partners also have a number of other investment opportunities; we have property backed secured loan notes paying 10% per annum, a turnaround investment fund and a special situations fund. In addition to our investing activities, Seneca Partners have an experienced Corporate Finance advisory business and a specialist team that advises our corporate clients in relation to mis-sold interest rate hedging products.

Our team brings together decades of success in providing investment and advisory solutions for our clients across all aspects of finance. Operating from Manchester, Leeds and Birmingham our strength is in our team and network. Our network of operating partners, non-executives, industry experts and professionals allows us to access sector specific commercial and technical expertise for each investment decision. Referencing a potential investment opportunity with someone in this network is a critical part of our due diligence process – the insight provided by someone who has operated in the same or a closely related sector to the investment under consideration can be invaluable and is a key part of ensuring that we only back the best opportunities.

By example, we invested in the Mexican fast-casual restaurant business Barburrito several years ago, but only did so after referencing the opportunity with Richard O'Sullivan who was also appointed Chairman at the time we invested. Richard was the Founder of Millie's Cookies and successfully grew that business to more than 100 outlets before selling out to Compass Group. His input and experience both before and after our investment in Barburrito was critical in our decision to support the business.

Seneca Partners' presence in Manchester, Leeds and Birmingham is key and provides us with a competitive advantage – the vast majority of our competitors are London based whilst the smaller company heartland is the UK regions. Our regional presence ensures we can maintain strong local networks, service these markets quickly and efficiently, and be regularly on site to monitor the progress of each investment.

We have exceptionally strong deal flow and received over 500 investment introductions during 2012 leading to more than 230 company meetings and 17 investments. Seneca Partners' reputation as a smaller company investor is well established and the Senior Management team at Seneca Partners have been involved in EIS and smaller company investing for many years and have many successful exits between them.

In summary we believe this an excellent time to invest in small and medium sized companies as we are now seeing companies with excellent growth prospects that can't get funding from banks. The tax benefits of EIS just add to the attraction.

For more information in relation to **Seneca Partners** or the Seneca EIS Investment Portfolio please contact Steve Charnock, Director on **07770 363683** or at **steve.charnock@senecapartners.co.uk**

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.

Fixed Interest

Paul Read & Paul Causer

Invesco Tactical Bond

Over the past few months, investors have been faced with the prospect of a tapering of Federal Reserve (Fed) asset purchases (quantitative easing). The impact has been felt well beyond the US and the assets the Fed has been purchasing.

From a low near 1.6% at the beginning of May, the yield of the 10 year gilt rose to 3% in early September. In the same period, the aggregate yield of the sterling investment grade corporate bond market rose from 3.3% to 4.2%. As yields rise, capital values fall.

The sterling corporate bond market, like the gilt market is highly sensitive to interest rate changes. It's been getting even more sensitive as gilts have rallied over the past few years. Unchecked, a portfolio that tracks the sterling corporate bond market will be very sensitive to the negative impact of rising interest rates.

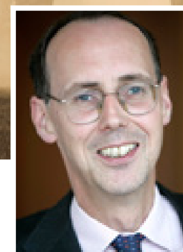
With yields relatively low, we believe this sensitivity to changes in interest rates (known as duration) is now the key risk in the sterling corporate bond market. An important part of our approach as portfolio managers is to carefully manage this risk. This has allowed us to hedge away some of the interest rate risk of our portfolios and to mitigate the negative impact of the recent spike in gilt yields.

Our corporate exposure is concentrated in subordinated bank capital. The market continues to be supported by the efforts of the banks to strengthen their balance sheets, by the imposition of new, more rigorous capital and liquidity requirements and by efforts by banks to retire less efficient debt instruments through calls and tenders. We have little exposure to non-financial corporate debt as we see limited value in many areas of the market at current levels.

Equilibrium View

Corporate bonds and especially government bonds have been in a long term bull market. This now appears to have come to an end and fund managers will now find returns much harder to come by.

However, there are still opportunities for skilled fund managers such as Read and Causer, who are very flexible in their approach and alive to the risks of investing in fixed interest.



Equity

Matthew Dobbs

Schroder Asian Alpha Plus

2013 has, thus far, been a disappointing year for Asian markets. They have lagged global averages, with the summer being particularly challenging in the wake of the initial musings from Ben Bernanke on the tapering of asset purchases by the US Federal Reserve.

A tightening of global liquidity has had a particularly dramatic impact on those Asian markets and economies seen as more vulnerable. In some ways, this shake-out is an entirely healthy one, and is throwing up some highly attractive long-term opportunities.

At a stock level, we are seeing a growing number of attractive opportunities – perhaps not so surprising when one considers that aggregate valuations in the region are not so different from levels last seen during high stress periods such as the global financial crisis in 2008.

At present investors appear to be ignoring the favourable implication for many Asian companies and markets should we see a recovery in exports. The United States and Europe remain key export destinations, and for many Asian companies a combination of stronger sales volumes and subdued input costs will have a powerful impact on corporate profits.

Equilibrium View

Asia and emerging markets have underperformed developed markets so far in 2013. As a result, we believe they look much cheaper than other markets and there are some compelling opportunities, albeit with higher risk than in developed markets.

In this type of environment we believe a truly active, high conviction fund manager such as Dobbs can add a lot of value.

Property

Ainslie McLennan

Co-Manager, Henderson UK Property Trust

In the current low growth, low interest rate environment solid levels of rental income and the potential for capital appreciation continue the appeal of UK commercial property.

Moreover, returns from property funds that invest directly in bricks and mortar are typically less correlated to the returns from other asset classes, making it a good diversifier for a balanced portfolio.

Commercial property investing does not just centre on location, location, location. The quality of the building and the types of tenants they attract are also of paramount importance. High-quality buildings in good locations with great specifications are highly sought after by both occupiers and investors. This means they typically command attractive leases, which can offer the potential to keep pace with or even outstrip inflation.

Despite recent improvements in UK macroeconomic data, certain occupational markets are still struggling, which is why we remain cautious on the economy. We look for low-risk tenants on long leases that have strong financial resources to reduce the risk of tenant default and of having vacant properties. After all, it is the robust income stream of UK commercial property that will keep it in the frame as an attractive diversifier for portfolios.

Equity

Giles Hargreave

Fund Manager, Marlborough Special Situations

In February this year I gave a presentation entitled 'Why Every Portfolio should include a Small Companies Fund'. I quoted the excess performance of smaller companies over the previous ten years but pointed out that this performance had been achieved despite a consistent outflow of funds from the sector.

I then posed the question what would happen if that outflow reduced or indeed turned around. Well it's been a stellar year for small caps and I suspect we will see net inflows into the sector for the year.

This year the Treasury decided to increase the tax breaks available for AIM listed companies, by adding to the existing freedom from Inheritance Tax (IHT). Since August AIM stocks can be included within an ISA, and as from next year no stamp duty is payable on AIM share purchases. A powerful cocktail which has spurred the AIM index since the ISA inclusion was allowed on 5th August.

Looking forward, it would be unduly optimistic to expect the recovery to continue without setbacks along the way, but there are clear signs of improvement and this, coupled with very low interest rates, means a promising outlook.

Each week my colleagues and I meet dozens of management teams running some of the UK's strongest small companies and whilst not everyone is uncorking the champagne quite yet, the overall picture is definitely one of growing optimism.

Equilibrium View

We are becoming more positive about property as outlined in our article on page 11.

Whilst we are optimistic about the prospects for the asset class, it will be important to choose the right types of properties in the right locations, and so the selection of the right property fund is of the utmost importance. The Henderson fund has one of the lowest vacancy rates around, giving it a higher yield than many funds.

Equilibrium View

We currently like the small cap sector (see also Gervais Williams profile on page 7) and Giles Hargreave is one of the most respected managers in this part of the market.
His Special Situations fund has a long history of outperformance without taking undue risk. This means it might underperform in a strong market rally but should provide solid returns from a part of the market which tends to do well in an improving economy.

Investment Review

Mike Deverell
Investment Manager

Welcome to the investment review section of our magazine.

Despite another volatile period, it is pleasing to see client portfolio valuations being well above where they were 12 months ago. In this section we will look at what has been happening in markets, explain what we've been doing and share our thoughts on the future.

We are constantly testing our results to make sure that what we do is adding sufficient value to our clients. Our most recent "valued added" analysis has thrown up some pleasing results and we thought we would share a few highlights:

- Our model portfolios have outperformed a typical managed fund and discretionary managed portfolio with significantly less risk over 12 months.
- 80% of the funds in our portfolios have outperformed or equalled their own benchmarks since we purchased them.
- 54% of those beat their benchmark by 25% or more.
- Of 13 major portfolio changes in the past 12 months, 11 of these (84%) boosted returns.
- Portfolio changes added over 1% to a typical portfolio's performance.
- Our equity portfolios have typically outperformed the FTSE over 12 months with much less volatility.
- Our fixed interest portfolio produced strongly positive returns over 12 months in a period when gilts actually lost money.

We will expand on some of these areas in the next few pages as well as explaining what has been happening in markets.

6 Monthly Review

It has been another volatile period for equities. The FTSE 100 was 6,249 at close of business on 5 April and had risen to 6,453 by close on 4 October, however this does not tell the whole story.

Whenever we sit down to produce this magazine, there always seems to be a new theme which has dominated the previous 6 months. In the period ending April this year it was the "great rotation" - the supposed sale of bonds to buy shares.

However, the buzzword of the past half year has been "tapering", as talk of the US reducing their quantitative easing (QE) programme has totally dominated returns in both equity and bond markets.

We have been saying for some time that we felt government bond yields were too low and needed to rise.

Quantitative easing, on both sides of the Atlantic, had pushed down the yields on US and UK government bonds (gilts) by pushing their prices up. QE is effectively a central bank such as the Bank of England or US Federal Reserve (Fed) electronically "printing" money, which they then use to go out and buy mainly government bonds.

Pushing up the price is the intention, as it pushes down the future return and encourages investors to go out and invest the money on something which could produce a higher return. This invariably means riskier assets such as corporate rather than government bonds, or equities. In turn, this is meant to stimulate the economy (in theory).

As a result of this, bond prices have been kept artificially high. However, all this began to change in May this year, when Ben Bernanke (the Fed Chairman) gave a speech hinting they were about to taper quantitative easing.

Tapering means reducing the pace of bond buying, not stopping it altogether. It certainly doesn't mean putting up interest rates or selling the bonds back into the market. They are talking about reducing economic stimulus, but are still stimulating. However, even the hint of this was enough to send both bond and equity markets into a tailspin.

After hitting 6,840 at close on 22 May, the FTSE 100 dropped as low as 6,029 on 24 June, a startling move of over 11% in little more than a month.

Whilst we felt it was rational that bonds should fall (although perhaps not as sharply as they did), we felt this was a massive over-reaction from stock markets. As a result, we instigated our first "volatility trade" of 2013, buying a FTSE Allshare tracker in our discretionary portfolio as the market fell and selling it again as it recovered.

if the debt ceiling is not increased, the US government will not have enough money to pay their bills.

We typically bought a tracker fund at a FTSE level of around 6,240, selling again when the FTSE recovered to just over 6,600. This is something we often look to do when we think markets have over-reacted.

In the government bond market, the effect of tapering talk has had a more prolonged effect. On 8 April, the 10 year UK gilt had a yield of 1.71%. On 10 September the yield had risen to 3.04%, before falling back to 2.74% by 5 October. The FTSE UK Allstocks Gilt Index was down over 6.5% from 8 April to 10 September, a big loss in a supposedly "risk free" asset class.

Markets had expected the Fed to begin tapering in September. It came as a big surprise to many investors that they instead decided to delay, which means that bond markets have rallied slightly since then.

It should not really have come as a surprise. The Fed had always said the decision to reduce or even increase stimulus was "data dependent" and they would only taper should the economy prove to be strong enough. In particular, the Fed wants to see evidence that unemployment is falling, and the data has since been disappointing.

In our view, it seems likely they will now delay tapering until the end of the year or possibly even wait until 2014. This is partly because we have another issue in the US which we need to get over, the US budget and debt ceiling.

In the US, there is a legal ceiling on the amount of debt the government can have. This ceiling can be moved by Congress subject to a vote, and in the past this has typically happened with little resistance or discussion.

However, the Democrats and Republicans have become more polarised and the debt ceiling discussions have now become negotiation points over other policies. For example, the Republicans are trying to kill the "Obamacare" policies that the Democrats have instituted. They will not agree the budget and are threatening to block the increase to the debt ceiling if they do not get their way.

As I write, the US government is in partial shutdown to save money. This is because, if the debt ceiling is not increased, the US government will not have enough money to pay their bills. As a result, many government employees are now on unpaid leave and certain non-essential services are suspended.

Whilst this is clearly a crazy situation it is actually not that uncommon, with the US government being in shutdown several times in the past, the last time being 17 years ago. The longer this goes on, the bigger the impact on the US, and therefore the global economy. Goldman Sachs estimates a three week shutdown could shave around 0.9% off US GDP in this quarter, and so it is in everyone's interests to come to an agreement sooner rather than later.

On balance, it seems likely a deal will eventually be reached. It is just a question of how much damage will be done in the meantime.

With this uncertainty in the air, it could continue to be a bit of a bumpy ride in both equity and bond markets. However, the uncertainty makes us think that QE tapering is less likely in the short term.

Outlook

When this political posturing comes to an end, we believe equity markets will move higher again.

We are less positive about the US market than some others, as not only is much of the uncertainty centred on the US, but it has also been one of the best performing markets over the past few years (at least in dollar terms). As a result, it no longer looks "cheap" and could be considered slightly expensive on several metrics. That's not to say it will fall back, but company earnings need to continue growing in order to justify share price growth.

In other markets, we are much more optimistic. In our view, emerging markets still look highly undervalued based on company earnings. These markets have lagged developed markets in 2013 and so we think they have some catching up to do.

The UK stock market looks around fair value based on historic earnings, but provided companies can grow their earnings in line with predictions, the market could move much higher. However, there is no doubt that most markets are nowhere near as cheap as they were 12 months ago. As a result, our positive outlook for equity markets is tempered with a note of caution, and we certainly don't expect the markets to rise as much as we have seen in the past 12 months or so.

Turning to fixed interest, as you will read into my comments above, we have a somewhat more negative outlook. However, it is perhaps not as negative an outlook as you may imagine, in fact we are now "less negative" than we were a few months ago!

In December we changed our fixed interest portfolio quite radically as we were worried that government and corporate bond yields would rise. As a result, the funds you own as part of our ideal portfolios are a mixture of inflation linked corporate bonds and ultra-flexible "strategic funds" that can look for individual pockets of value. In particular, the funds we are invested in have proved much less sensitive to rising interest rates or increases in government bond yields than most funds over the past few months.

"We are less positive about the US market than some others

These changes have paid off and the chart below shows our ideal fixed interest portfolio (blue line) compared to the Sterling Corporate Bond (green) and UK Gilt (red) unit trust sectors, from 1 January to date. You can see that our portfolio has held up well and remains in profit for the year, whilst corporate bonds have returned only 0.28% despite the recent rally, and gilts have lost 2.72%.

A - Equilibrium Fixed Interest (2.84%)
B - UT Sterling Corporate Bond (0.27%)
C - UT UK Gilts (-3.26%)

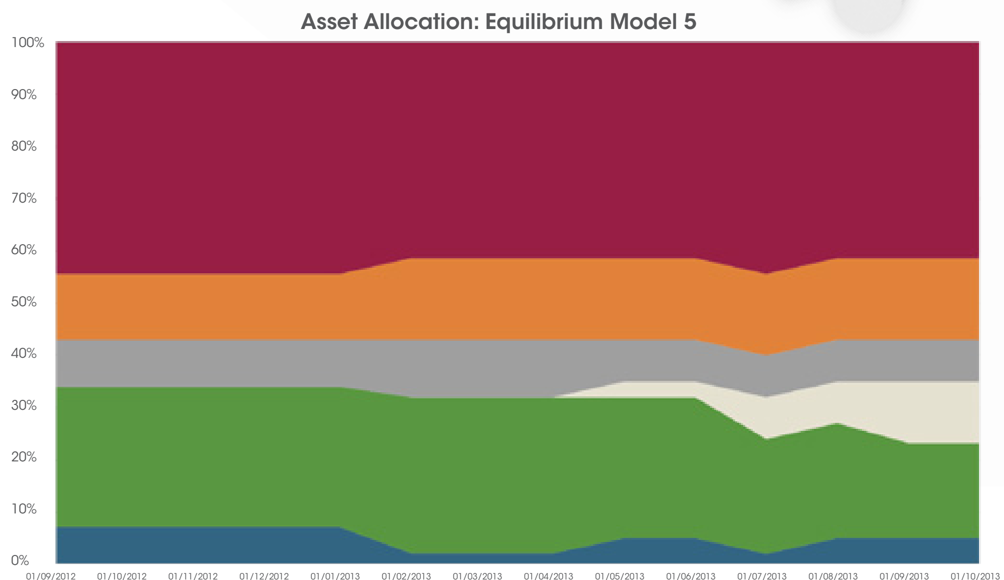
In addition, government and corporate bonds have already slipped quite a long way in historical terms. The 10 year gilt rising from 1.7% to almost 3% in such a short period is a big move and so these types of bonds are not as expensive as we thought they were previously.

Given the way our funds have held up and as there have already been some big moves in the asset class, we may not make much in the way of further reductions.

Where we have reduced fixed interest it has been in favour of commercial property. The article on page 11 gives some detail about why we are now very optimistic about property returns and you can read the comments of Henderson fund manager Ainslie McLennan on page 28. Suffice to say, we think returns could be quite attractive and, crucially, it has so far proved totally immune to concerns about QE or the US debt ceiling.

Investment Review

Over the past 12 months we have been relatively active in our asset allocation changes. The chart below shows how our balanced portfolio has changed since September 2012. The column on the right shows our "strategic" position – where we would invest were everything "normal".



Cash
Fixed Interest
Property
Defined Returns
Alternative Equity
Equity

In the past 6 months since the last edition of Equinox, we increased equity as markets fell, reducing again as they rose (the volatility trading as outlined above).

We also sold a Defined Return product from Barclays. This would have provided a 10% return in November should the FTSE be above 5,767. However, by April it had already risen around 8%. We therefore sold this, banking the gain and switching into property, as we felt this could provide a better return than the likely 2% still to come from the Barclays product. To date, the property fund we purchased has already returned more than 2%.

We also reduced fixed interest, increasing property from a zero weighting at the start of April, to around 12% for a balanced portfolio now.

Performance

We are very pleased with the performance of portfolios and we hope you are too.

However, when discussing investment performance it is important we remember the objectives.

For example, we often reference the FTSE in terms of returns but our objective is not to beat the FTSE, rather to provide stable returns ahead of inflation. We believe a balanced portfolio should be able to return around 7.5% pa over an average 5 year period.

It's fair to say that the last 5 years has been far from average! Since 2007 there has been substantial turmoil in the financial world, with the credit crunch the catalyst for losses in equity, corporate bonds and property markets all at the same time. However, things are gradually returning towards normal.

The chart below shows the 5 year performance of a typical balanced portfolio (blue line) after charges (and, as you will see from Colin's article on page 3, often net of tax too). This is now showing a return of over 7.5% pa (green line) over 5 years despite encompassing much of the turmoil following Lehman's collapse.

You can also see this is well ahead of inflation (Retail Price Index – red line), another key objective. It is also well ahead of the typical equivalent managed fund over this period (UT Mixed Investment 20% - 60% Shares sector).

Turning to the period since the last edition of Equinox in April and despite the turmoil outlined above, it is heartening to see portfolios substantially higher over the period. A typical balanced portfolio is up around 3.1% over 6 months and 11.41% over a year.

The chart below shows the performance of the balanced portfolio against a typical managed fund over 12 months. Also shown is the Asset Risk Consultants (ARC) Balanced Index, which is an average of discretionary balanced portfolios. What is pleasing to see is that since the market selloff in May and June, a real gap has opened up between Equilibrium performance and these two benchmarks.

- A - Equilibrium Balanced Portfolio (1.5%) (45.77%)
- B - Interest 7.5% in GB (43.59%)
- C - UT Mixed Investment 20%-60% Shares (35.06%)
- D - ARC Sterling Balanced Asset PCI (34.80%)

As outlined above, it is not our objective to try to outperform these benchmarks but they do serve as a useful comparison. One of the disadvantages of a typical managed fund is that they have much more restrictions on their underlying holdings. For example, they often have to keep at least 30% in fixed interest at any one time.

By contrast, we do not have any such restrictions. We simply want to achieve our target return at the lowest possible risk. This means we can, for example, reduce fixed interest and increase property holdings, hold structured products or alternative equity. These are just some of the things that have differentiated our performance from a managed fund.

Investment Themes & Strategies

You may have gathered from other articles in this magazine, that two of the areas we are most positive about at present are commercial property and small cap equities.

Both of these strategies play on the same investment theme, an improving economy. That is not to say the economy, whether focusing on the UK or looking globally, does not still have many challenges. We still expect growth overall to be much lower than it was before the financial crisis. However, we are at least expecting growth.

The past couple of years has seen the UK dip in and out of recession and when growth has been positive it has been barely so. In effect, we have been a few basis points either side of zero, effectively "flat-lining".

We are now seeing the economy moving away from a flat line and it is expanding again, up 1.3% from the end of the second quarter last year to second quarter this year. This is below the long term trend of 2% per annum or so and perhaps we are not likely to see growth move much higher for some time. However, it is a real change in dynamic from 12 months ago.

Commercial property is strongly linked to the economy as demand for buildings improves as companies find life easier. The 'help to buy' scheme is aiding residential markets which has a knock on effect to commercial property. We expect capital values to move slowly higher, or at the very least stay stable and allow funds to make money from their rental income.

We are now seeing the economy moving away from a flat line and it is expanding again

Smaller companies are typically exposed to the domestic UK economy rather than making money from overseas, as is often the case with a FTSE 100 company. As Gervais Williams points out on page 7, smaller companies have a much greater chance of growing organically than a larger company, without needing a lot of borrowing to do so.

In addition, many large companies have done extremely well of late as investors looked for what they perceived as the safest part of the market.

Both of these investment strategies should help us achieve returns ahead of inflation. In an inflationary environment, property is a nice asset to hold since not only do capital values tend to rise when we see inflation, but so does rental income.

Inflation has fallen back recently as emerging market growth has slipped, generating less demand for commodities and therefore many commodity prices have fallen. In addition, the pound strengthening has helped inflation fall back. However, despite these disinflationary conditions, CPI at 2.7% pa remains well above the Bank of England's target of 2%.

CPI (Consumer Prices Index) has not been below 2% since late 2009 as we emerged from the financial crisis. If it has remained above target even in a period of very little growth, we suspect it will move higher as the global economy recovers.

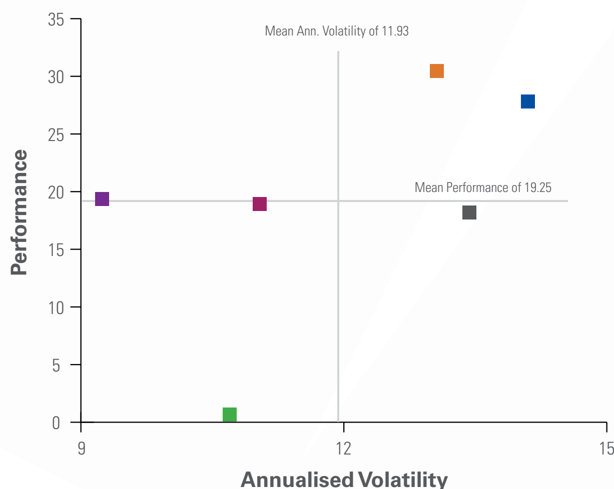
Whilst inflation could well fall back in the short term, it is important to have inflation protection in the portfolio. As well as the above strategies, 25% of our fixed interest exposure is in inflation linked bonds.

Risk & Return

Whilst part of our job is to focus on providing returns, a major part of it is about managing risk.

We never make an investment decision without weighing up the potential risks. Rather than looking for the best possible return whatever the risk, we instead work out how to achieve our desired return (or target return), with the lowest possible risk.

The scatter chart below shows the typical mix of equities for a balanced client, compared to the major markets around the world. It shows the return over the year on the vertical axis, so the higher up the chart the higher the return has been. On the horizontal axis it shows the risk, so the further to the right the higher the volatility.



We never make an investment decision without weighing up the potential risks.

		Performance	Annualised Volatility
■	A - TSE TOPIX (Japan)	19.36	9.24
■	B - MSCI EUROPE ex UK	0.69	10.70
■	C - Equilibrium Balanced Equity Mix	18.93	11.04
■	D - FTSE All Share (UK)	30.48	13.06
■	E - S&P 500 (USA)	18.21	13.43
■	F - MSCI EM (Emerging Markets)	27.83	14.10

Typically, we expect a pattern from bottom left to top right, with lower risk meaning lower return, higher risk meaning higher return. What we like to see is a dot in the top left, with low risk and high return.

As you can see, Equilibrium's balanced equity mix has had lower volatility than any of the major markets. It has also achieved returns greater than the FTSE Allshare (UK), S&P 500 (USA) and MSCI Emerging Markets. We could have improved things had we invested all of the portfolio in Japan (Topix) or Europe (MSCI Europe ex UK) but if we had we would have taken far more risk!

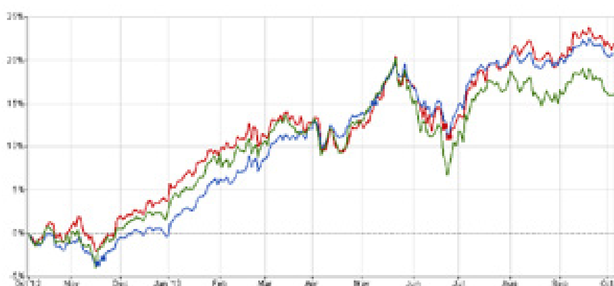
It is always about blending assets together in such a way as to minimise risks and maximise returns. We take this further when we look at the other asset classes, buying different funds we think will do better at different times, in the aim of a more consistent return.

Sector Performance

UK Equities

Over the past 12 months, the FTSE Allshare is up 16.07% whilst our UK Large Companies portfolio has made 20.67% and our UK Dynamic portfolio has made 21.94%. All our UK funds with the exception of one beat the market over this period.

What is also pleasing is that our portfolios behaved exactly as they are designed to do, as the chart below shows.



A - Equilibrium UK Dynamic Portfolio (21.94%)
B - Equilibrium UK Large Companies (20.67%)
C - FTSE All Share (16.07%)

In the strongly rising market from November last year until March, our more aggressive UK Dynamic (red line) outperformed the FTSE (green) whilst the more cautious UK Large Companies (blue) portfolio lagged the market.

As the market then hit a bit more volatility, UK Large Companies caught up. This is exactly what is planned for each portfolio, with UK Dynamic designed to outperform in a rising market and UK Large taking a more slow and steady approach.

Global Established

In overseas markets, Japan was the best performing of the major established markets over the past 12 months, followed by Europe and then the US.

Our performance has been mixed, with our US fund and one of our European funds beating their respective indices. However, we took a more cautious approach to the often volatile Japanese equity market and our fund (Schroder Tokyo) therefore lagged its sector. Our more cautious European funds also slightly underperformed, as we would expect in a strongly rising market. This means the portfolio has slightly underperformed its benchmark (a mixture of the relevant unit trust sectors) over 12 months, 22.03% to 22.95%.

Global Speculative

Emerging markets have had a dreadful 12 months, not only lagging developed markets but barely turning a profit. For example, the Global Emerging Markets unit trust sector returned only 2.5% over a year.

Our Global Speculative portfolio outperformed this benchmark significantly over the past year, returning 6.21%. Our decision to put more money in Asia and China in particular aided performance, particularly late last year and in the past month or so. As outlined earlier, we think emerging markets should improve after such a disappointing run.

Alternative Equity

Our alternative equity portfolio is designed to provide a slow and steady approach. It will benefit in a rising equity market but should not see losses to the same extent in a falling market.

The portfolio has achieved exactly what it is meant to do, returning 14.2% compared to the FTSE Allshare at 16.07%.

Performance has come mostly from the more aggressive Odey Absolute Return fund which returned an astonishing 46.04% over 12 months, whilst our much more cautious holding in Standard Life Global Absolute Return Strategies returned 2.64%.

Unfortunately, the Odey fund has now "soft closed" as the fund manager was worried about the fund becoming too big. This means new investors have to pay a 4% initial charge, although existing holders are unaffected.

Fixed Interest

As outlined earlier, we amended our fixed interest to a much more cautious approach in anticipation that gilt yields would rise. However, whilst we tried to minimise risk from this event, we were happy to back fund managers to take credit risk by lending to firms who pay a good level of interest relative to the chance of them defaulting on the loan.

This has meant the portfolio has returned a pleasing 5.38% over 12 months, only marginally below our long term assumption for that asset class of 6% pa, compared to the corporate bond sector which returned 2.27%. Crucially, it has also done so with much lower volatility.

Property

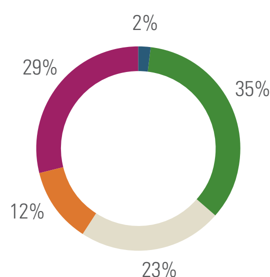
We reintroduced property to portfolios in April this year, subsequently increasing our position in two stages over the past 6 months.

Our property portfolio has returned 2.63% since 11 April when we first bought back into this asset class, and 1.85% over the past quarter (5 July to 4 October 2013). Based on the last quarter, the annualised return is currently running at over 7% per annum, our long term growth assumption for property.

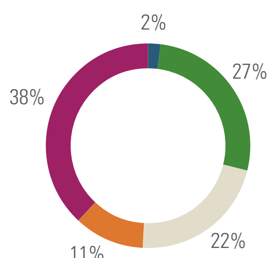
Our 2.63% return compares to 1.86% for our composite benchmark, made up of the average return of other eligible property funds in the unit trust sector. This benchmark excludes those funds which invest predominantly in property shares (which act like equities) as well as those funds not widely available (such as those specifically for charities).

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.

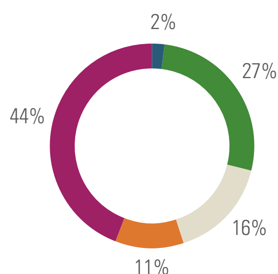


Cautious Models	6 Months %	1 Year %	3 Years %	Since Launch* %
Cautious Portfolio	2.88	9.90	18.63	32.42
Mixed Asset 20-60% Shares Sector	0.34	8.16	16.62	20.37
ARC Sterling Cautious PCI	-0.68	4.54	11.27	20.66



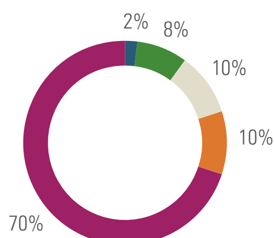
Balanced Models

Balanced Models	6 Months %	1 Year %	3 Years %	Since Launch* %
Balanced Portfolio	3.10	11.41	20.26	31.79
Mixed Asset 20-60% Shares Sector	0.34	8.16	16.62	20.37
ARC Sterling Balanced PCI	-0.23	7.97	16.08	21.40



Adventurous Models

Adventurous Models	6 Months %	1 Year %	3 Years %	Since Launch* %
Adventurous Portfolio	2.67	11.37	19.11	29.84
Mixed Asset 20-60% Shares Sector	0.34	8.16	16.62	20.37
ARC Sterling Balanced PCI	-0.23	7.97	16.08	21.40



Speculative Portfolios

Speculative Portfolios	6 Months %	1 Year %	3 Years %	Since Launch* %
Speculative Portfolio	2.78	13.19	21.67	36.40
Mixed Asset 40-85% Shares Sector	1.14	11.81	20.79	38.87
ARC Sterling Steady Growth PCI	0.26	10.39	19.70	35.97

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

All data to 4 October 2013 except ARC indices to 1 October 2013 as they are published monthly.

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

Cash | Fixed Interest | Property | Alternative Equity | Equity

Sector Portfolio Returns

	6 Months %	1 Year %	3 Years %	Since Launch* %
Equity Portfolios				
UK Large Companies	7.91	21.17	41.23	34.18
UT UK Equity Income Sector	**6.24**	**19.72**	**37.75**	**30.17**
UK All Companies	4.70	16.87	32.34	27.36
UK Dynamic	8.10	22.41	35.44	32.27
UT UK All Companies Sector	**6.51**	**20.86**	**35.27**	**30.07**
Global Established	3.16	22.03	40.57	34.02
Global Established Benchmark **	**5.35**	**22.95**	**38.64**	**32.30**
Global Speculative	-3.40	6.21	-7.45	4.86
UT Global Emerging Mkts Sector	**-6.43**	**2.50**	**-3.32**	**9.89**
Cautious Equity Mix	4.71	18.23	33.01	28.26
Cautious Equity Benchmark ***	**5.04**	**19.46**	**32.36**	**27.09**
Balanced Equity Mix	4.29	18.68	30.38	27.33
Balanced Equity Benchmark ***	**4.84**	**20.37**	**32.17**	**27.28**
Adventurous Equity Mix	3.15	17.17	25.20	25.60
Adventurous Equity Benchmark* **	**3.70**	**18.83**	**27.71**	**25.49**
Alternative Equity	6.54	14.20	30.99	39.12
UT Mixed Asset 20-60% Shares	**0.34**	**8.16**	**16.62**	**20.37**
Fixed Interest Portfolio	1.02	5.38	17.68	43.07
UT Sterling Corp Bond Sector	**-1.24**	**2.27**	**15.36**	**30.10**
Property Portfolio	2.63	2.63	6.48	20.30
Composite Property Benchmark ****	**2.06**	**1.86**	**4.24**	**21.75**

* 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.

**** Composite Property Benchmark is an equal weighting of all eligible funds in the UT Property Sector. Property portfolio switched to cash 15 June 2012 to 11 April 2013 as we did not hold property funds in this period.

Market Returns

	6 Months %	1 Year %	3 Years %	5 Years %
Equity Markets				
FTSE 100 Index (UK)	3.71	14.89	29.53	56.39
FTSE Allshare Index (UK)	4.75	16.95	32.92	63.40
FTSE 250 Index (UK Mid Cap)	9.68	27.49	52.82	114.06
MSCI Europe Ex UK Index	8.81	25.91	25.52	42.34
S&P 500 Index (USA)	1.77	16.62	51.31	81.22
Topix (Japan)	6.11	31.16	28.05	48.51
MSCI Emerging Markets Index	-5.48	2.46	-2.64	68.01

Fixed Interest

	6 Months %	1 Year %	3 Years %	5 Years %
IBOXX Sterling Corporate Bond Index	-0.30	4.24	20.95	55.08
UT Sterling Corporate Bond Sector	-1.24	2.27	15.36	41.48
FTSE British Government Allstocks (Gilt) Index	-3.86	-3.13	12.96	33.53
UT Gilt Sector	-4.30	-3.64	11.79	29.95
UT Sterling High Yield Sector	1.56	7.84	20.84	62.20

Property

	6 Months %	1 Year %	3 Years %	5 Years %
IPD UK All Property Index	3.59	5.25	18.39	17.20
Composite Property Benchmark*	2.06	1.86	4.24	0.68

Other Measures

	6 Months %	1 Year %	3 Years %	5 Years %
Bank of England Base Rate	0.25	0.50	1.51	3.37
RPI Inflation	0.92	2.78	11.41	14.93

* 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 4 October 2013.
- 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	Invesco Perpetual Income	0	0.750	0.930
	Investec UK Special Situations	0	0.750	0.940
	Miton Multi Cap Income	0	0.750	0.790
	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
	Marlborough Special Situations	0	0.750	0.780
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
	Schroder Asian Alpha	0	0.750	0.950
	Vanguard Emerging Markets Stock Index	0.4	0.550	0.550

Fixed Interest Funds

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

Property Funds

Fund name	Initial Charge %	Annual Management Charge %	Total Expense Ratio %
Henderson UK Property	0	0.750	1.090
Ignis UK Property	0	0.750	0.770
SWIP Property Trust	0	0.675	0.785

Alternative Equity

Fund name	Initial Charge %	Annual Management Charge %	Total Expense Ratio %
Investec Cautious Managed (new investments only)	0	0.750	0.850
Standard Life Inv Global Abs Ret Strategies	0	0.750	0.850
CF Odey Absolute Return (no longer purchasing due to soft closure)	4	0.750	0.950

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 4 October 2013. These will change periodically and have not all been held throughout the whole period covered by this document.

equilibrium

Equilibrium is the award winning wealth management company that offers a genuinely personalised financial and investment management service, giving clients confidence now and in the future.

Head-quartered in Wilmslow, Cheshire, we oversee more than £300 million worth of assets for over 500 clients and the firm now has offices in Knutsford and Chester.

Since 1995, Equilibrium has been providing friendly expertise on wealth and investment management, pensions and estate planning strategies. Going beyond just providing advice on investments, we develop long-term financial plans for clients, making a positive difference to people so that life can be enjoyed.

The business has been built on transparency, which is reflected in our fee structure. Coupled with the face to face service, our in-house investment team and dedicated support for every client, we are pleased to be going from strength to strength.

We are proud of the awards that we have won and, adding to the growing collection in our trophy cabinet, we are delighted to have been named 'Best Wealth Manager' at the Money Marketing Awards 2013.

To learn more about Equilibrium and find out about our series of seminars, please visit **www.eqasset.co.uk**.

Your Future Financial Confidence

Equilibrium Asset Management LLP

Brooke Court, Lower Meadow Road,
Handforth Dean, Wilmslow,
Cheshire, SK9 3ND,
United Kingdom.

t : +44 (0)161 486 2250
t : +44 (0)800 168 0748
e : askus@eqasset.co.uk
w : www.eqasset.co.uk

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