equinox

half yearly investment magazine

Beat the barriers to helping your children

Around the world in 80 words

Coach Barrow's lessons from The Island

equilibrium

October 2014

PLUS: EQ blog too! | In Profile: Neal Foundly | The only time to plan for inheritance tax is now

Welcome

Our primary focus as a firm is to ensure that our clients have financial security for the rest of their lives regardless of their changing needs, the changing economic climate and changing legislation.

Once that goal has been accomplished, we can then move on to look at what we do with surplus funds and in this issue of Equinox, we have several articles which look at intergenerational planning, inheritance tax planning and charitable giving. I hope that you find them to be thought provoking.

The investment section of Equinox covers the period to 5 October; however, it would be remiss of me not to mention the volatility of the stock-markets in the week or so since then. Despite the nervousness that this has undoubtedly provoked amongst many investors, there are opportunities to be had that we intend to take advantage of.

And talking of opportunities, further recent proposals announced by the government in relation to pension funds are to be welcomed with open arms. The intended changes will open up some great planning possibilities for the majority of our clients and their families.

You may already be aware that we marked our 19th year in business at the end of August and I would like to thank all of our clients for their continued support and the confidence that you place in us.

If I have not yet had the privilege of meeting with you, I hope to see you at one of our events or hear from you soon.

Colin Lawson
Managing Partner





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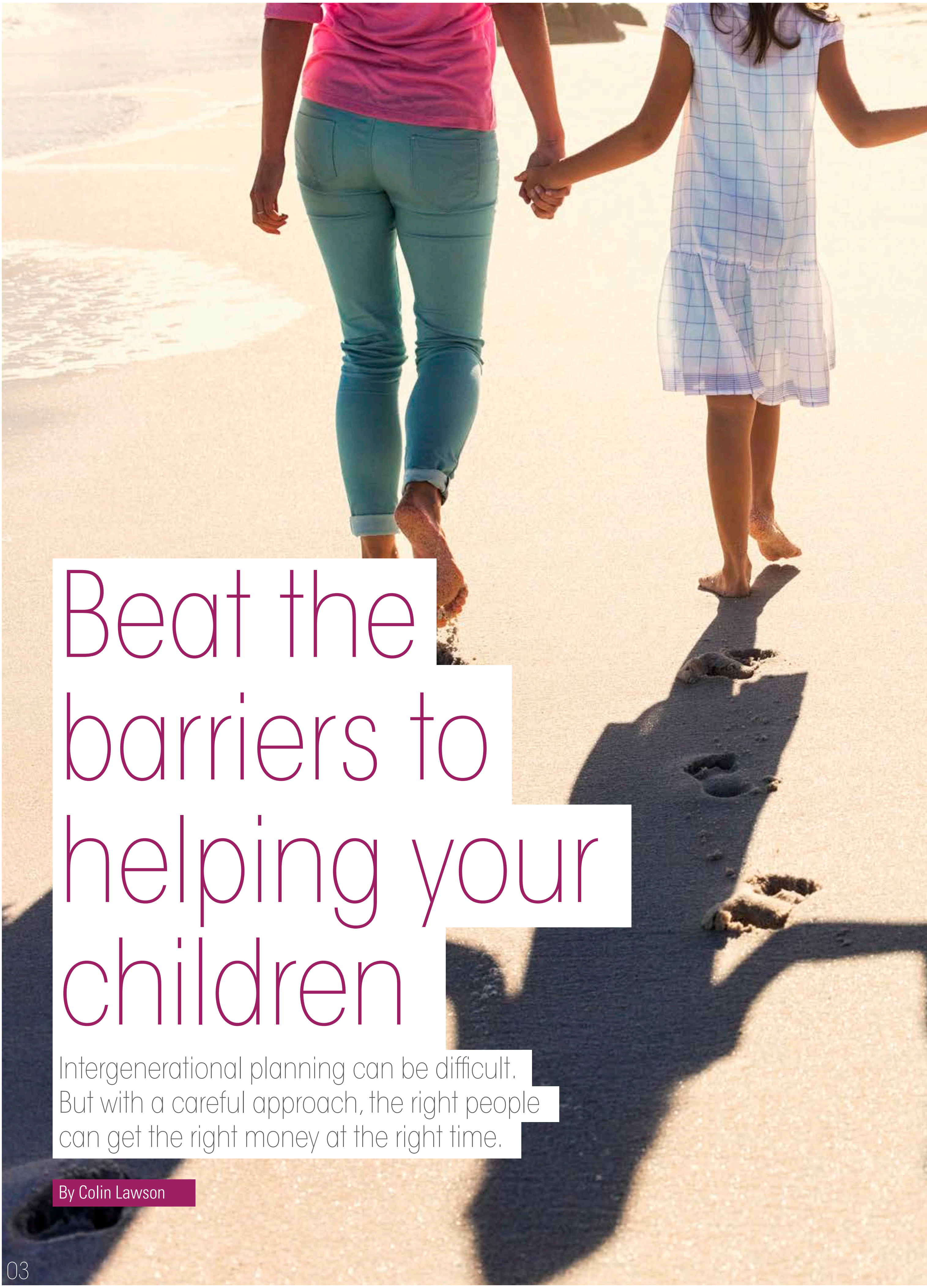


Beat the barriers to helping your children

Intergenerational planning can be difficult. But with a careful approach, the right people can get the right money at the right time.

By Colin Lawson

As parents, we wish for our children to be healthy, wealthy and happy. Fortunately many of our clients are in the financial position to be able to help their children, even though it can sometimes be fraught with conflicts and conundrums.

Intergenerational planning is not just about inheritance tax planning. It is about making sure that the right people get the right amount of money at the right time. It is easy to simplify it in these terms, but it can be hard to achieve.

We are all living longer and as a result our children are likely to inherit relatively late in life - I have clients who are receiving inheritances in their 60s and 70s.

In many cases, they are receiving significant sums of money at a time in life when that money is not needed. Is that the legacy that you want to create? Is the life lesson you want to pass on that money should be retained rather than put to good use today?

Many families are under increasing financial stress due to rising house prices, stagnant wages and the enormous burden of child care. This can have a huge impact in many areas, forcing people to work longer hours, stay in a job that they don't enjoy and have less time for family and for fitness. Sometimes just a little financial help can relieve this pressure and make people happier and healthier as well as wealthier. In extreme circumstances, it can even keep families together.

Why do we not help our kids out more financially if it can help to achieve everything that we wish for them?

Let us look at some of the barriers that hold us back, along with some strategies to overcome them.

Fear

Unless you are confident that you have enough money to last the rest of your life - regardless of what happens to markets or your health - then you are unlikely to feel confident enough to give money away.

The solution lies in having a clear understanding of your position and a detailed plan for the future. In Equinox April 2014 edition, we explained how we use lifetime cash flow forecasting to provide a glimpse into the financial future, and empower clients to make better financial decisions around money.

Beliefs

Every generation has a different attitude towards money and this can cause conflicts. If you were born between 1945 and 1955 your attitude towards money is likely to be very different to that of your kids born in the 1960s and '70s. They are likely to have bigger televisions and spend more on computers and phones than you can even comprehend.

This is something that should be talked through to reduce potential conflict and you can always provide assistance just for specific issues.

The kids

When parents do try to talk to their grown-up children about giving them money the number one response is: 'Thanks but why don't you and Mum spend it? You deserve it.'

Unfortunately they often have no idea about the amount of money involved or that your spending habits have been built up over decades and are unlikely to change now.

The solution to this is simple. Tell them that you have a robust financial plan in place and you know that you will have more money than you will ever need for the rest of your life.

Divorce

There is always a fear when providing major financial assistance that half of it could be lost on divorce, should your child split with their partner.

There are many ways to protect funds, including loans, trusts and combinations of these. If the financial assistance reduces stress, it may even help prevent a divorce from happening.

> Every generation has a different attitude towards money and this can cause conflicts.

Independence

Many parents are happy to help with things like house deposits and education. But that aside, they want their kids to be independent and to make their own way in life.

While giving children too much, too early might reduce their motivation to succeed, by the time people get to their mid-30s they are likely to be on a fixed career path. At those times of life, financial assistance can provide the flexibility to have a career change to either earn more money or to simply do a job that they love.

Would you really want your child stuck in a job they hated for 30 years which caused untold stress, only to receive a large inheritance just after retirement? Wouldn't you rather support them while they retrain and change career or switch to a lower paid job that they love?

It may be that you don't even need to provide assistance today. Sometimes, just being open about money and the inheritance they are likely to receive may allow them the freedom to plan differently.

Everyone is equal?

If you have three children, they may have very different financial situations. Perhaps one will be on track to be more financially secure than you, one in a similar position and one much worse off. This is certainly the case in our family and our parents have always wanted to treat us all equally.

The best way to solve this is through an open discussion and debate. We are brought up to believe that it is impolite to talk about money at the dinner table, yet discussing money is one of the best things a family can do.

It may be that the child who is better off is very happy to support the one who is not. The conflict often resides in the minds of the parents and not the children.

A great example

A relatively modest amount of money can have a huge impact and produce amazing financial results.

Imagine that your daughter and her husband live in a house worth £235,000 that they bought five years ago. Their

mortgage is just coming to the end of its fixed rate term and they are looking at new rates with the lender.

The mortgage outstanding is £192,700 which is 82% of the value. As this is a large proportion of the house value, the lender is charging 4.04% interest, which on a repayment mortgage equates to £1,185 per month. Over Sunday lunch, they explain to you how frustrating it is because if their mortgage was reduced to £176,250 (75% loan to value) the rate would reduce to just 2.89% and the payment to £977.

You reach for your calculator and quickly work out by gifting them £16,450 to reduce the mortgage they would save £2,496 a year (15.1% of the value of the gift). Over the 20 year term of the mortgage, they would save a whopping £49,920.

At your recent Equilibrium review, your financial plan showed clearly that you could afford to give them that amount. If you do not, they will receive it when you die but it would be subject to inheritance tax (IHT) at 40% and therefore they would only get £9,870 after tax.

So you retire to the kitchen to discuss things with your spouse while you make the coffee.

Do you keep £16,450 in the portfolio so that your daughter can inherit £9,870 in 20 years or so? Or do you gift it to her now so she is better off by £208 a month?

The answer is simple and so you return to the dining room and deliver the good news. They are over the moon and explain that they had been holding back on starting a family as they did not feel they could afford the child care costs. But with your son in law's recent promotion and this saving, they should be ok.

Every family situation is unique and whatever the barriers you may be facing, we have the experience to help you overcome them.

Intergenerational planning may be difficult, but it is worthwhile. As I like to say, it is a lot easier to see them smile while you are alive.

In Profile:

Neal Foundly

Fund Manager
Equilibrium Asset Management LLP

> Sometimes you get a feel that something is right and I feel that about Equilibrium.

Equilibrium's new fund manager Neal Foundly talks about the skills and experience he will bring to the team.

In each edition of Equinox we profile a leading light from the fund management industry. Recently, Equilibrium recruited our own fund manager Neal Foundly. Neal previously ran the Income with Growth fund at Co-operative Investments where he was awarded a prestigious Citywire A rating. In this edition, we introduce Neal and look at how we plan to use his skills.

How long did you work at the Co-op and why did you leave?

I worked at the Co-op for nearly 25 years. While there, I learned how to analyse companies and to manage life funds, pension funds and unit trusts across a variety of asset classes.

The Co-operative Group has had a number of major issues recently. These resulted in them selling some businesses including the asset management operation to Royal London. It decided to move some funds into its London operation and announced some redundancies, of which I was one.

Why did you join Equilibrium?

I had conversations with many institutions before I met with Equilibrium. What struck me was the culture of openness and customer focus. When I discussed opportunities with the partners, it became evident that these attributes lie at the core of everything they do. Everybody was genuinely friendly and there is a great buzz about the place. Sometimes you get a feel that something is right and I feel that about Equilibrium.

The fund you ran at CIS mainly invested in direct equities and bonds. How different is this from the way that Equilibrium manages investments?

When you manage any multi-asset portfolio, the overwhelming driver of returns is asset allocation. Holding the right asset classes outweighs any improved performance you may garner from picking the right investments in any one asset class.

There are many similarities between the unit trust and the way Equilibrium's portfolios are managed. It is just as important to keep risks in check and you can improve performance markedly over time by avoiding losses.

Equilibrium generally invests in unit trusts and OEICs. As a former fund manager, I can spot some of the good and bad traits of managers and understand their underlying holdings and risks.

Hopefully my experience will be helpful as we plan to set up our own funds in early 2015.

“ I had conversations with many institutions before I met with Equilibrium. What struck me was the culture of openness and customer focus.

Are there any plans to start investing directly in individual stocks and shares?

Not in the main portfolios. The current structure gives access to the best fund managers in each asset class.

That said, we are always looking out for ways to invest more efficiently. Within the funds, we will be able to use a number of investment instruments and may use them selectively.

Another project I am working on is the development of an Alternative Investment Market (AIM) portfolio. Many AIM stocks qualify for Business Property Relief (BPR) which has significant advantages for inheritance tax. A portfolio of BPR qualifying stocks could be out of a client's estate in two years, rather than a gift which usually takes seven years.

This is a good illustration of Equilibrium's client focus - we can use our investment skills by investing directly in good quality companies while also providing a valuable tax mitigation service.

Meetings with company directors and fund managers can occasionally be challenging. Who is the most interesting character you have met in your career?

I have had the privilege of meeting many characters across the personality spectrum.

Tony Pidgeley was one of the most interesting. He was adopted from Barnardo's at the age of four by travellers and lived with his parents in a disused rail carriage until he left home and school at the age of 15. He found his way into house building and set up Berkeley Group in 1976. It went on to become one of the most prestigious house builders in the UK.

Tony was always the perfect gent but was at his best whenever we went on site visits. Walking around a housing development he would invariably break away from the group to help a struggling bricklayer or shout at a foreman who wasn't doing something quite right.

And finally …

What's the last film you watched?

The Railway Man.

What's on your IPod or car stereo?

Ed Sheeran's X.

What are you reading?

Brain at Work by David Rock. A fascinating insight into helping your brain cope with the processing needed for 21st century living.

What are your plans for the weekend?

Cheering on Alderley United Under 10's on Saturday and running a 10k on Sunday

Around the world in 80 words (or less)

An overview of developments in the global economy and stockmarkets - covering each region in 80 words or less.

UK

The economy is recovering well but wage inflation is still low. This means that many individuals are not yet feeling the benefit of the recovery.

Interest rates are likely to start increasing slowly in 2015 despite low inflation, although it could pick up next year.

The main UK stockmarket is looking slightly expensive and we see greater value in smaller companies. These companies are experiencing greater earnings growth than larger companies and have more exposure to the UK economy.

USA

The US economy has recovered from its weather related setback in the first part of 2014.

Quantitative easing is tapering off slowly and will finish by the end of the year. Interest rates are likely to go up in 2015. This could cause some volatility in both bond and equity markets around the world, not just in the US.

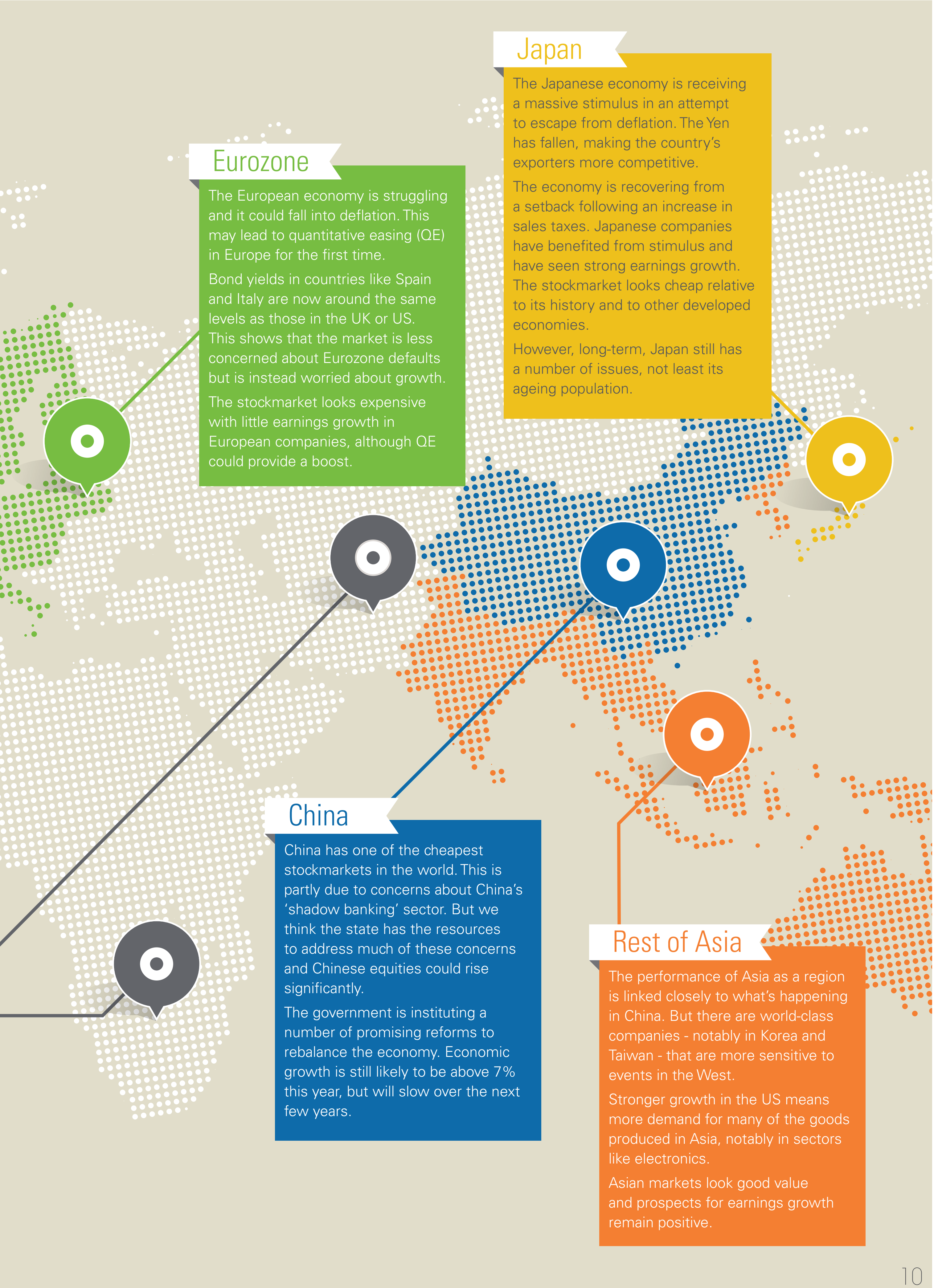
The US stockmarket looks expensive but companies are growing their earnings, supported by the recovering economy.

Global Emerging Markets

Economic growth in emerging markets has slowed recently and there are a number of challenges.

Different emerging regions are now acting very differently after the decade-long boom linked to growth in China and commodities. Each country has its own issues. Russia in particular is seeing a setback and issues in the Middle East are also causing concerns.

Despite this, global emerging market equities still look reasonable value.



Eurozone

The European economy is struggling and it could fall into deflation. This may lead to quantitative easing (QE) in Europe for the first time.

Bond yields in countries like Spain and Italy are now around the same levels as those in the UK or US. This shows that the market is less concerned about Eurozone defaults but is instead worried about growth.

The stockmarket looks expensive with little earnings growth in European companies, although QE could provide a boost.

Japan

The Japanese economy is receiving a massive stimulus in an attempt to escape from deflation. The Yen has fallen, making the country's exporters more competitive.

The economy is recovering from a setback following an increase in sales taxes. Japanese companies have benefited from stimulus and have seen strong earnings growth. The stockmarket looks cheap relative to its history and to other developed economies.

However, long-term, Japan still has a number of issues, not least its ageing population.

China

China has one of the cheapest stockmarkets in the world. This is partly due to concerns about China's 'shadow banking' sector. But we think the state has the resources to address much of these concerns and Chinese equities could rise significantly.

The government is instituting a number of promising reforms to rebalance the economy. Economic growth is still likely to be above 7% this year, but will slow over the next few years.

Rest of Asia

The performance of Asia as a region is linked closely to what's happening in China. But there are world-class companies - notably in Korea and Taiwan - that are more sensitive to events in the West.

Stronger growth in the US means more demand for many of the goods produced in Asia, notably in sectors like electronics.

Asian markets look good value and prospects for earnings growth remain positive.

Coach Barrow's lessons from The Island

Taking part in survival challenge 'The Island with Bear Grylls' has taught acclaimed dentistry coach Chris Barrow some profound lessons about business and life.

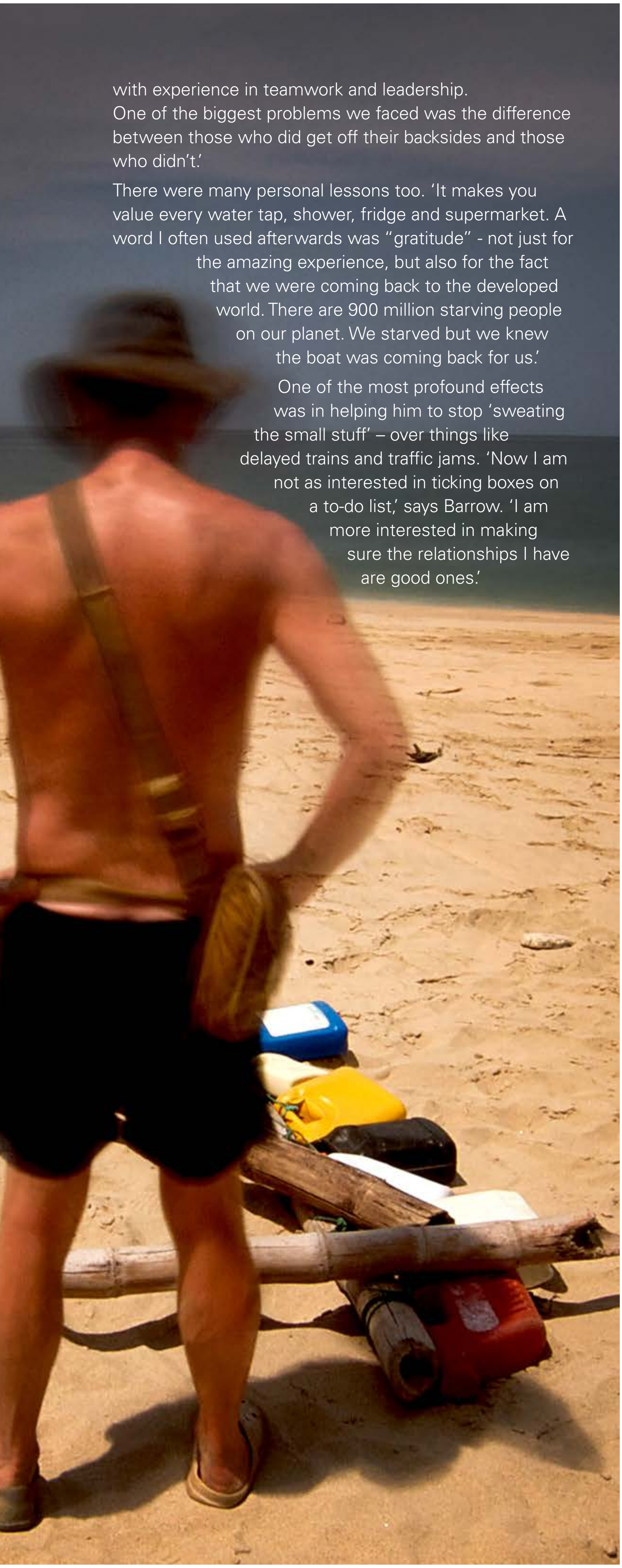
By Tim Cooper

Chris Barrow has been well-known as a dentistry coach for many years, but in 2014 he became recognised by the wider public after taking part in the TV survival challenge 'The Island with Bear Grylls'.

Barrow did not treat the reality show – which involved 13 men being left on a remote island to survive for 28 days - as a publicity vehicle however. On the contrary, says the charismatic and outspoken businessman: 'Some people said I was quiet on The Island compared to my usual self – that was deliberate. I wasn't trying to get on Big Brother. It was about the personal experience.'

The Island has benefitted his business life tremendously though. Since the show aired in June, Barrow has been invited to dental conferences to talk about business lessons from his experiences; and to write articles about it for the dental press.

Having celebrated his 60th birthday in September 2013, Barrow viewed The Island as a personal survival challenge and as an item on his burgeoning bucket list. 'But I was also there as an observer,' he says. 'I learned lots about management, systems and team building. The simplest tasks – lighting a fire, finding water, foraging for food - were made more difficult by dehydration, starvation and exhausting heat. In that environment, getting people to do their bit presented a fresh challenge to anyone



with experience in teamwork and leadership. One of the biggest problems we faced was the difference between those who did get off their backsides and those who didn't.'

There were many personal lessons too. 'It makes you value every water tap, shower, fridge and supermarket. A word I often used afterwards was "gratitude" - not just for the amazing experience, but also for the fact that we were coming back to the developed world. There are 900 million starving people on our planet. We starved but we knew the boat was coming back for us.'

One of the most profound effects was in helping him to stop 'sweating the small stuff' – over things like delayed trains and traffic jams. 'Now I am not as interested in ticking boxes on a to-do list,' says Barrow. 'I am more interested in making sure the relationships I have are good ones.'

Innovation in dentistry

Barrow started his career 43 years ago as a financial adviser. But for the last 21 years, he has worked as a consultant, coach and trainer to the dental profession, achieving many accolades along the way including second most influential person in UK dentistry in 2010 and 2011.

He has done this through a number of different companies and his latest venture, 7 Connections, has seen him team up with other experts in the industry to provide a more comprehensive service to dentists and others in the field. This includes marketing and lead generation systems for dentists; and brokerage services for investment and innovation in dentistry.

'There is a huge amount of innovation in the profession' says Barrow. 'One of the next big things in this country will be digital – teeth made by CadCam and printed digitally and smiles created by digital imaging. We aim to be seen as thought leaders in that process. This time, it is a team effort, not just me.'

Highs and lows

Barrow doesn't do things by halves. He is a physical endurance addict and has just entered his 19th marathon. He has also taken time out of work before to travel the world – the wanderlust actually lasted seven years in total. Although born in Manchester, he settled in Hale in 1986 and raised five children there.

The Island experience had many high points but also had some profound lows as well.

Apart from the starvation, the worst part was the stress of being stuck between two conflicting groups of men, says Barrow. 'In the last week, we were not getting on as a group and decided to settle our differences and show the viewers that 21st century man can adapt and move from survive to thrive' he says.

'We decided to elect a leader to address the divisive behaviour. That turned things around and on the last night we built a bonfire, put on a cabaret and ended as friends.'

Surviving on an island is tough, but surviving in business can be even tougher, he says. 'In 42 years, I have had three spectacular successes and three spectacular failures, so I am hoping 7 Connections will make the score line 4-3,' says Barrow. 'Small business can be a game of snakes and ladders. But I am a gold medal survivor. I have come out of so many scrapes relatively unharmed.

'Another thing The Island made me realise was that I am happier at square one in business. It's the journey that's fantastic. I want to die [on stage] just like Tommy Cooper. Retiring from working life has never occurred to me and setting up 7 Connections has been a very exciting time.'

The only time to plan for inheritance tax is now

The earlier you start planning to avoid inheritance tax, the better your chance of avoiding the seven-year trap.

By Colin Lawson

'Inheritance tax is, broadly speaking, a voluntary levy paid by those who distrust their heirs more than they dislike the Inland Revenue'

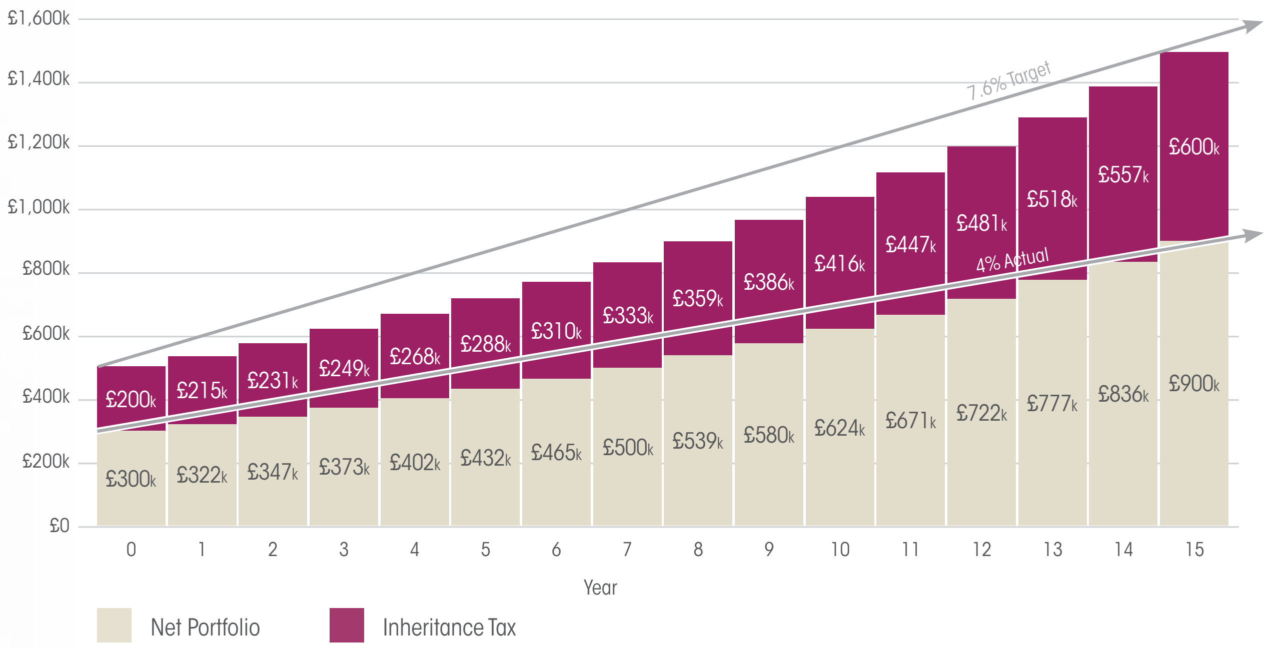
This is my favourite quote on inheritance tax (IHT) planning from former chancellor Roy Jenkins.

While the quote is a little harsh, I sympathise with his thinking. I point out to all clients that, if they start planning early enough, then inheritance tax can in almost all cases be eliminated entirely.

Like many people, I am loath to pay taxes that I don't have to. Having worked hard all my life and paid my fair share, I do not want to lose 40% of my entire portfolio in tax on death. I know that it only applies above £325,000 per person and I plan to be married, so between us that becomes £650,000. However, I am also planning to live in a house that is at least equal in value to two nil rate bands, so it will be 40% of everything else that I have ever worked for.

Some people may think that to achieve the goal of paying no IHT, I would somehow have to calculate my expenditure, the growth on my portfolio and work out the date of my ultimate demise.

Clearly that is not possible and nor is it possible to solve most people's IHT issue overnight. Inheritance tax planning is a long and continuous journey. But I do promise that by embarking on that journey early enough in life, you will not have to pay any tax unless you want to.



The most common objection to addressing the problem is simply that some people believe that it is 'not their problem'. I find this frustrating as in many cases I will have worked with clients for years trying to minimise tax, reduce charges and increase returns - and in doing so achieve the targets to meet their goals.

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Let us be clear, giving 40% of an entire portfolio to the tax man is careless.

The chart above illustrates the impact of IHT on a portfolio of £500,000 and assumes that, through our hard work, we achieve an average annual return of 7.6%. Over 15 years, this turns £500,000 into £1.5 million. Then along comes the IHT sledgehammer and crushes the return to just 4.6%. It costs the beneficiaries £600,000 in tax, which is more than the original investment amount.

It is almost heart breaking to watch that killer blow arrive after the client has worked hard for 40 years, and together we have worked hard for 15 years to protect and grow the money.

Beneficiaries often cannot understand why when their parents were so careful with money during their lifetime, they were so careless with it on death. Let us be clear, giving 40% of an entire portfolio to the tax man is careless.

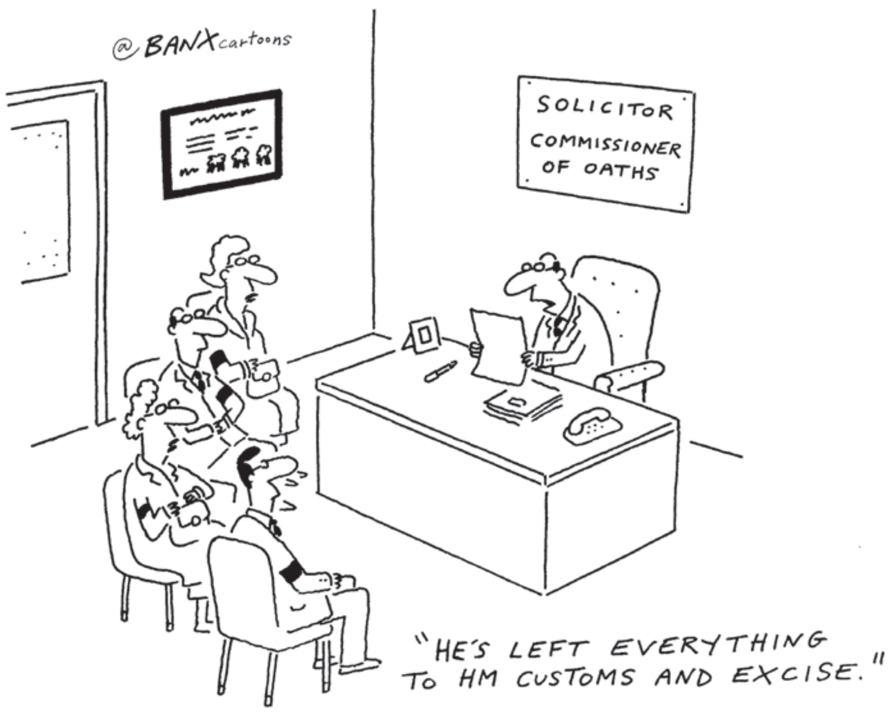
The seven-year trap

While the government is constantly making it more difficult to avoid IHT there are solutions available, regardless of your circumstances.

The key is to start early because a number of schemes rely on you surviving for seven years after they begin. The frustration with the rule is that clients seem to believe that they will live for much more than seven years until the point they suddenly realise that they will not. There seems to be no gap in between.

That is why the seven-year rule is so clever. Many people fall in to the trap of believing that it is too early to start and then wait until it is too late. The only right time to deal with inheritance tax planning is now.

The best plan is to create a timeline highlighting the strategies that will be considered at different ages and what the triggers are for taking action. The plan will change as circumstances change. But 'failing to plan is planning to fail' - when it comes to IHT this cliché is true.



Incentive scheme can help more than triple gifts

The Community First programme, in combination with good financial planning, enables you to give much more efficiently and leave a lasting legacy – but you need to act quickly.

By Colin Lawson

One of the things that I enjoy most about my job is meeting such a wide variety of people. Recently I was lucky enough to meet David Briggs who is the Lord Lieutenant of Cheshire.

David is passionate about his charity work and shared with me a government incentive for giving that has huge potential to create a lasting legacy - something that any family would be proud of. It is called the Community First programme and is designed to support charities within specific communities.

Turning a £9,000 inheritance into a £35,000 legacy

The government has agreed that for every £2 committed to the scheme, they will match it with £1. In addition, gift aid is added to the amount and you can then reclaim higher rate tax on the gross gift via your tax return. The gift would also be instantly outside your estate for inheritance tax (IHT).

So if you are a higher rate tax payer and donate £15,000, then through a combination of matched funding under this programme and tax relief this gift can become a fund of £35,000, before costs. This can happen almost overnight.

£15,000 retained in the estate and subject to inheritance tax would have netted just £9,000 after 40% IHT. Instead, we can create a fund of almost four times that amount through good planning.

The flow chart below illustrates how it works in practice. The set-up fee of 5% is taken from the gift aid.

£20,000
Donation
Less tax relief of £5,000 = £15,000 net cost

+ £10,000
Matched Donation

+ £5,000
Gift Aid

− £1,000
Set up costs

= £34,000
Net Fund

Distributions to charities

The fund would be created in your family name, or any name you wanted to give it. It would be invested professionally - but not by us, so no bias here. The dividend income and growth in the fund above the retail prices index (RPI) would be donated to charities every year.

It gets even better, as you can set the criteria for the type of charities that you want to support. Each year, your family will receive a statement showing the value of the fund and detailing all of the gifts that have been made. It's a bit like creating your own charity without all of the hassle that comes with it.

By only gifting the income and growth above RPI this ensures that the legacy will last forever.

We talk about the importance of intergenerational planning on page 3 and on the steps you can take to reduce IHT on page 13. Through good financial planning we can work out exactly what the needs of the family are and therefore identify how much surplus there may be for charitable giving.

I believe that families need to talk more about money as, through open dialogue, amazing results can be achieved. If, like the majority of our clients, you have a sizeable estate, perhaps you could consider the impact of leaving a little bit less to your children and creating a charitable fund in the family's name instead? On the basis that your offspring will be receiving a significant sum anyway, would they each agree to inherit £9,000 less (as in the example above) in the future to create a legacy that any family would be proud of?

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> If you are a higher rate tax payer and donate £15,000, then through a combination of matched funding and tax relief this gift becomes a fund, before costs, of £35,000.

For instance, if you have three children who would be happy for you to take this approach, you can establish a fund of a huge £102,000 to help your local community for years to come. If your children each inherited £18,000 less, your bequest could reach a whopping £204,000, providing a bigger fund to help those who need it, now and in the future.

Give now while stocks last

There is one snag as this matched funding initiative only runs until March 2015 and is currently limited to £40 million. I am told that funds are rapidly running out and so it is a case of ‘give now while stocks last’.

Community Foundations are an example of the type of programmes to which the government will make the matched donations. There are 48 foundations across the UK and our local programme is the Cheshire Community Foundation. To see the great work they do visit www.cheshirecommunityfoundation.org.

You can be assured that the money will be managed professionally, the charities selected carefully, and that your family will be able to watch every year as your gift keeps on giving.

You may not be able to take it with you when you go but you can do a lot of good with it while you are here.

If you would like more information please get in touch. It would be great to see what a collective difference our clients can make for those in our community who are less fortunate than ourselves.

EQ blog too!

As part of our recent rebrand we have a new website which was built with the client in mind. It is much easier to navigate, ensuring ease of access to all the latest news and updates from Equilibrium.

We also have an exciting new blog page. On this, our friendly experts write about a variety of topics - including the latest financial news, changes within the industry, updates about the company and much more - ensuring that you're always kept up to date.

Here is a flavour of what we have been blogging about.

27 JUN

A Night Enjoyed by All

Laura Robinson

Last night saw the first investment dinner of the year, which took place in the private dining room at The Belle Époque restaurant, Knutsford, a perfect venue for our 20 attendees. The response to the event invitation was outstanding, and our guests arrived at the restaurant to enjoy an evening of drinks, dinner, conversation and debate…

03 JUL

Equilibrium Included Again in FT Wealth Management Survey

Laura Robinson

Once again we are delighted to have been included in the FT Private Client Wealth management survey that profiled 46 of the UK's leading wealth managers who collectively manage £150bn of assets. This is the third consecutive year that Equilibrium has been included in the survey which speaks to the top financial houses and asset management companies to give a unique insight into...

01 AUG

2 Up 2 Down

Graeme Black

Just skimming over the headlines and house prices seem to be going through the roof, no pun intended! Last month property sales hit their highest monthly total since the financial crisis began. Apparently, depending where you look, we are facing a property bubble blown up by irresponsible and speculative lending by banks as well as Government policy. From one side there are cries for rates to go up to curb this. From the other side come warnings that.....

25 AUG

Charity Giving

Mike Deverell

I have just read the news about the collapse of the company behind the website "Charity Giving". This site is similar to more well-known sites like Just Giving or Virgin Money Giving. They allow people to set up personalised fund raising pages, collect money electronically, then they claim gift aid and pass it on to the charity. The company behind Charity Giving has just gone out of business apparently owing around £1.7m in charity donations to around 2,000 good causes. There is supposedly a shortfall of £1m in their bank accounts, meaning charities may only receive...

25 AUG

Investing on a WIM?

Graeme Black

Having previously been long term investors in Neil Woodford's Invesco Income fund we, like many investment managers, were very interested to hear about plans for Woodford Investment Management (WIM). Last week I got to see just how one of biggest names in recent UK fund management is doing out on his own when I visited his office. It soon became apparent that...

27 AUG

Judging a Book by it's Cover

Mike Deverell

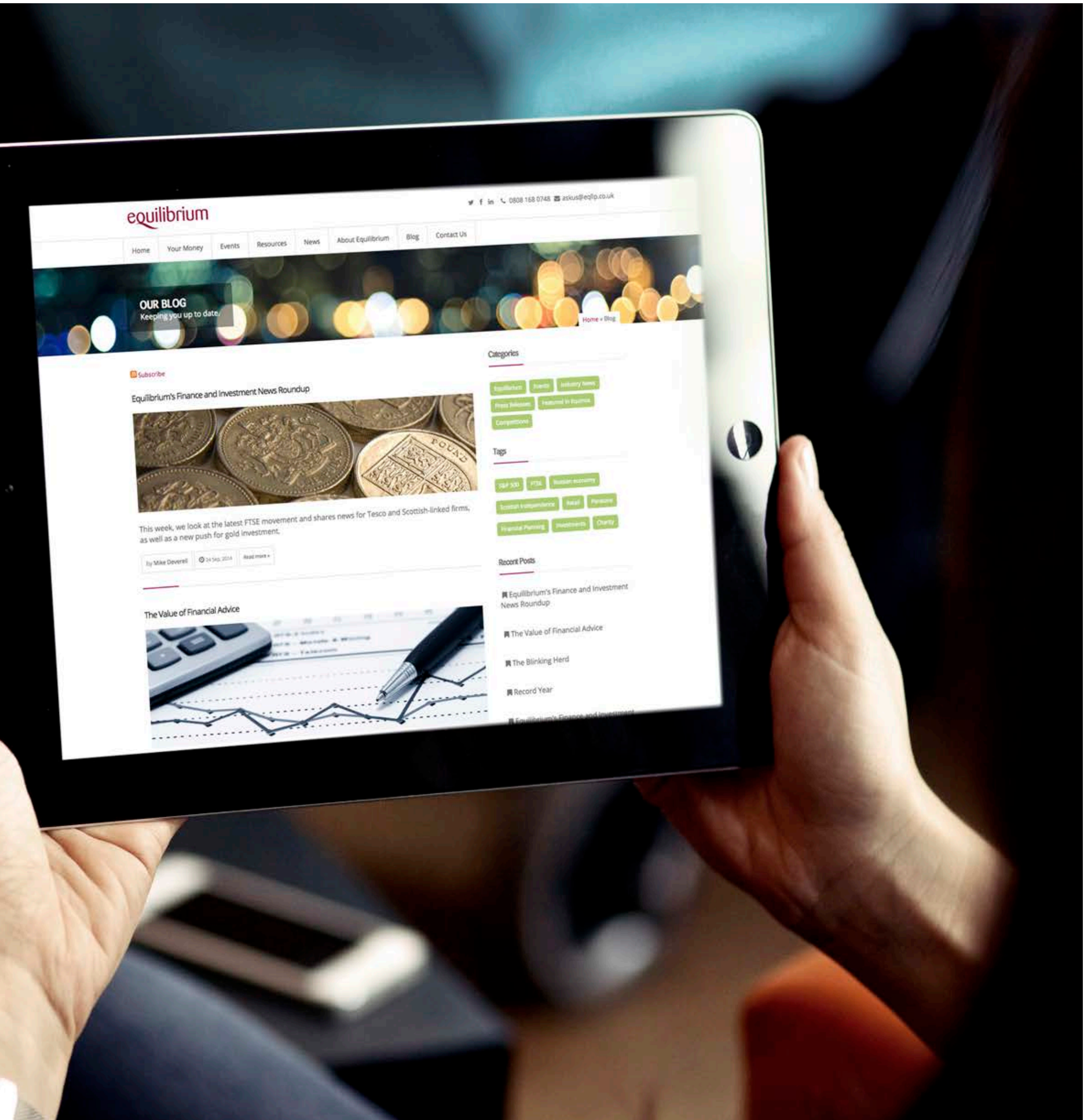
In investing as in life, not everything is always as it seems! I was recently asked by a journalist to compare a couple of UK smaller companies funds, one of which we use in our portfolios and one we don't. The one we don't use is the biggest fund in the smaller companies sector and is run by a very well respected fund manager. It has a good long term track record but we have always been...

29 AUG

No Mugs

Neal Foundly

You can never tell for sure. Yes, a company can have the outward appearance of being great and the best at everything but is the reality very different once you get past Reception? As anybody who has driven past a nuclear power station will attest, from the outside you cannot tell if it's going full pelt, about to be decommissioned or on the verge of blowing up. So, as a new employee joining last week, it was my chance to experience the real Equilibrium. Whilst I would love to be the blogger that blows the whistle I am here to say.....



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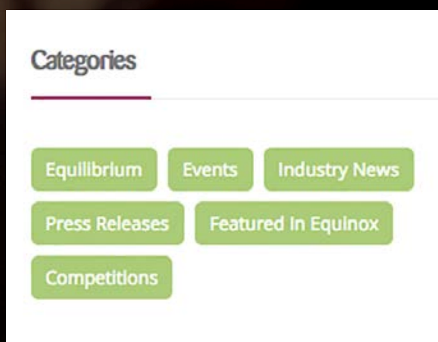


Equilibrium plans own funds to boost performance

Fund of funds wrapper will bring range of benefits for appropriate clients.

At Equilibrium we are planning to set up our own funds in the near future. These will be Open Ended Investment Company (OEIC) funds regulated by the Financial Conduct Authority. Within these funds we will invest in all the things we do now - mainly other OEICs and unit trusts in asset classes such as equity, fixed interest and property. This approach is known as a fund of funds.

We will invest the money in exactly the same way that we do now, and nothing will change in the way that we run portfolios, nor in our investment principles or approach. However, we feel there are benefits to running investments within a fund 'wrapper' rather than via a platform.

We are partnering with a firm called Investment Fund Services Limited (IFSL), part of Marlborough Fund Managers (MFM). This administers funds for third parties including Barclays Wealth, Brooks Macdonald and Slater Investments. If you come across a fund whose name is prefixed with IFSL or MFM - for example, the MFM Slater Growth fund – then the fund is administered by the same firm. Within the fund your money will be kept safe by an independent custodian, which is likely to be HSBC Bank.

Potential benefits

We believe that running investments within a fund structure is a more efficient way of managing portfolios. Ultimately, we believe this will lead to better performance.

Some of the ways in which running portfolios in a fund structure could be beneficial are that it:

- Eliminates time out of the market when we change portfolios.
- Reduces cash drag as there will be no need to hold this for charges or for tactical purposes.
- Improves market timing through real-time trading in exchange traded funds (ETFs), where appropriate.
- Increases consistency in client performance. For example, some funds we invest in are closed to new investors, so while longer-term clients benefit from holding these funds, some newer investors do not. All investors in a fund would achieve the same performance.
- Increases efficiency when investing new money. As clients invest into the fund, we can invest into the most appropriate asset class at the time, buying more assets at relative lows, which could enhance performance.
- Potentially adds tax efficiency. Trades within the fund do not give rise to a capital gains tax (CGT) liability. This arises only on sale of the fund. We can still use your annual CGT allowances by switching into individual savings accounts (ISA) once a year as we do now (without time out of the market).
- Simplifies communication. You will only see one holding on your statement and far fewer transactions.

> “We believe that running investments within a fund structure is a more efficient way of managing portfolios.

Potential for lower costs

The charges for administering a fund can vary depending on the size of fund as some are tiered according to fund size and some are fixed. We estimate that at the outset costs, ignoring Equilibrium's charges, will be around 0.29% a year. This could reduce as the funds increase in size.

For general and ISA investments, holders of the fund would no longer need a platform to administer their investments. The Nucleus platform costs 0.35% a year. As a result, general and ISA investments are likely to have slightly lower charges than they do now. We would still need a platform for pension and bond investments.

The cost of underlying investments will be similar to what they are now and Equilibrium's charges would also generally be paid out of the fund. Fund management charges have the added benefit of being exempt from VAT.

Who it will be suitable for

We will assess suitability on an individual basis. The fund is likely to be suitable for anyone who currently invests in our model portfolios as they will be run with the same objectives and holdings as our models do now.

If suitable for you, we would typically try and move your assets in specie. This means transferring stock rather than selling it and buying back within the fund. It eliminates any potential trading costs or issues related to being out of the market.

We aim to set up the funds in early 2015 and will be in touch with clients on an individual basis if we believe it may be suitable for them.

Future shines brightly for Prestons

Karl Massey of Prestons has put some sparkle into an old brand and is taking it to some exciting new places.

When the renowned Prestons of Bolton jewellery store went into administration in 2005, Karl Massey saw it as a once in a lifetime opportunity to buy the business and restore it to its glory days.

A £1 million renovation, coupled with Karl's unique, award-winning touch for store design and customer service, has seen Prestons become an iconic brand once more. It has also spawned an exciting chain of Prestons stores - focusing on diamonds, wedding rings and top brand watches.

Anyone born in the North West of England and over the age of 40 will remember the television commercials promoting Prestons of Bolton. These ran throughout the 1970s and early 1980s and advised: 'It's always worth a journey to the diamond centre of the North'.

> “
> This store has been described as an 'art deco masterpiece and temple of style.'

Karl Massey, the son of a clockmaker, went on to run his own store, Cottrills in Wilmslow. This store has been described as an 'art deco masterpiece and temple of style', featuring a 6,000 litre marine aquarium, surrounded by a champagne bar where customers can have a drink while they browse. It was voted by Retail Week as 'One of 100 most inspirational stores in the world'.

When deciding whether to purchase Prestons of Bolton, Karl says he took a deep breath and debated whether he could restore it to its glory days. He decided he could. After shutting the store for nine months of renovation, it reopened for business in early 2006 with the kudos of having the first instore Rolex room outside of London.

A suite of television commercials followed and this famous and historic store began to build its reputation and once again attract customers from all over the North of England and further afield.

The strength of the resurgent Prestons brand persuaded Karl that it would make commercial sense to re-badge his Wilmslow store.

So in June 2012, he re-branded Cottrills as Prestons and, like its sister in Bolton, put the focus on diamonds, wedding rings and watch brands Rolex and Patek Philippe. In the same month, Rolex at Prestons in Leeds was opened, the first Rolex boutique outside of London.

In February next year, the company will open Prestons Guildford. Karl says the interior will be as exciting as any of his other stores and Rolex will again be a partner.

In the last ten years, the business has changed beyond all recognition from its humble beginnings when Karl bought Cottrills. It has grown and prospered despite the financial crisis and recession.

Karl says his retail philosophy is simple - create stunning environments staffed by enthusiastic and knowledgeable people who love what they do; offer the very best jewellery and wristwatches; then focus on customer relationships.

The Prestons brand is as big today as it ever was and the future of this historic jewellery house is sparkling brightly.

> “
> One of 100 most inspirational stores in the world.

Fast plant business flourishes

Richard and Jessica Rowlands of I Want Plants have tapped a growing market for mature tree and plant rentals in Cheshire.

By Tim Cooper

Husband and wife team Richard and Jessica Rowlands of I Want Plants have nurtured their plant rental concept and grown it into a flourishing family business.

Richard's father Keith started the company selling plants and flowers in 1975. Richard joined him 20 years ago, Jessica nine years ago and Richard's brother Charlie also started with the firm last year. Together they have developed the offering into a comprehensive range of services, including sale, rental and maintenance of plants, trees, green walls and Christmas trees.

The firm has two brands 'I Want Plants' for interior plant rentals and 'I Want Trees' for exteriors. They are designed to make the point clearly that this is for people who want instant plants and trees, says Richard.

www.iwantplants.co.uk | www.iwanttrees.co.uk

> We can plant 10-metre-high trees immediately – some are 150 years old.

Converted barn show room

The business has its roots in Chester, but is now based in a beautiful, grade II listed barn conversion in Ashley, Cheshire. The building, which dates back to the 1500s, required a time consuming restoration and the firm plans to open a show room there shortly.

As Cheshire has gradually become more affluent, demand for the services has blossomed and the firm now has 20 staff. I Want Plants now provides showpiece greenery to stadiums, hotels and shopping centres to name a few, in the UK and abroad. Top clients include Manchester City FC, Manchester International Festival, UK Fast, Bruntwood Estates and Bentley Motors.

'We find many people in the area don't want to wait for the garden to grow and establish,' says Jessica.

'They want things a certain way, especially for privacy and security,' adds Richard. 'We can plant 10-metre-high trees immediately – some are 150 years old.'

Jessica says the best moment in the business was when they took on Manchester City as a client. 'It is great to tell other clients about and we now do [interiors and gardens] for about half the team's players. That is huge. We never thought it would be as amazing as it is now.'

Richard also enjoyed the time they supplied a shopping centre in Tblisi, Georgia. 'That was awesome,' he says. 'We had to send everything on an eight hour flight and make sure it was picked up and taken to the centre on time.'

Perhaps the worst moment was at the start of the barn restoration. 'We agreed to do it a month before the recession started,' says Richard. 'Suddenly you see business slowing. But when it was finished, it was one of the best things as well.'

Specialist and unique

Jessica says demand has been 'manic' over the last year. One area of recent expansion is green walls, which are particularly popular in London, she says. But they intend to keep their base in Cheshire, as it enables them to keep costs and prices low.

'Customers want family set ups and to know things will get done,' adds Richard. 'You can buy or rent anything on the internet – but we are specialist and unique.'

They are still on the up and future plans involve expanding the sales force and adding products like garden furniture.

Jessica says: 'It has been hard work. We are learning to be a bigger company - to delegate and to organise ourselves more. Richard left school at 16 to work here, and started watering the plants. His dad said he had to work out why he was doing what he was doing.'

Luckily Richard was able to answer this easily.

'It is a great product. It is good to deal with people - and not many people want to deal with six-tonne trees,' he says with a grin. 'The reaction when they say "it looks as if it has always been there" is special.'

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

Gary Kirk

Founding Partner & Portfolio Manager
TwentyFour Asset Management Dynamic Bond Fund

The last 6 months for fixed income markets have been quite mixed.

The first part of the year was positive, but the period from mid-June proved to be challenging as geo-political risks intensified. Events included an escalation of tensions between Russia and the Ukraine, the collapse of Banco Espirito Santo in Portugal, default by Argentina, hostilities between Israeli and Palestine, and the IS atrocities in Northern Iraq & Syria. In addition, comments by Yellen regarding the expensiveness of leverage loans had an effect on US high yield bonds especially.

By mid-August, most bonds had cheapened significantly. Investors began to slowly put cash to work again to take advantage of the cheaper yields and markets slowly returned to a more benign mode.

Our expectation for the remainder of the year is that slowly but surely the market will rely less on the support of Central Bank liquidity and focus more on fundamentals. During this transition period we expect the coming months to be inter-dispersed with periods of volatility.

As a result, we are keeping our interest rate sensitivity low and building up our cash. This will give a greater degree of certainty and predictability of income, as well as capturing natural capital gains as bonds "roll down" the credit curve to their natural maturity date.

While the outlook is likely to be volatile, the medium to long term trend is still in place and our Dynamic Bond Fund is well positioned to take advantage of this.

Equilibrium View

Fixed interest returns partly depend upon interest rates. The asset class tends to perform poorly when rates go up and as a result we have an underweight position in this asset class.

It is also important to choose funds with a low sensitivity to interest rates, but which still have an ability to provide a high return. The TwentyFour Dynamic Bond fund fits that criteria very well and its ultra flexible style allows it to adapt to different market conditions.

Equity

Mike Shiao

Fund Manager
Invesco Perpetual Hong Kong & Greater China Fund

We believe China's macroeconomic condition is showing sequential improvement. China's second-quarter gross domestic product (GDP) growth slightly accelerated to 7.5% year-on-year. More encouragingly, we are seeing leading indicators, such as the official Purchasing Managers' Index, continue to strengthen, indicating a broad-based business expansion.

One of the recent spotlights is the central government's announcement of the capital market development blueprint to further broaden and deepen capital markets.

Over the past two decades, the Chinese government has started to loosen its control over State Owned Enterprises (SOEs) and/or restructure them via public listing.

Despite enjoying government financial and policy support, SOEs' profit margin is still trailing behind private companies. This can be attributed to the legacy problem of operational inefficiency. We believe the SOE reform can help make resource allocation in the overall economy more efficient.

The SOE reform also encompasses more direct ways of rewarding shareholders. SOEs are currently paying a lower return on equity than private enterprises. In light of this, the Chinese government has announced plans to raise the dividend payout ratio of wholly controlled SOEs by five percentage points to as much as 25% of the companies' profits, starting in 2014. This move will render a higher dividend yield, which will contribute positively to shareholders' total return, and over time, help raise the attractiveness of investing in SOE companies.

Equilibrium View

China remains one of our favoured equity regions as it remains one of the cheapest markets in the world based on company earnings relative to price. China has been out of favour for some time with concerns over their financial system. This has changed somewhat recently with China rebounding strongly. Recent reforms may aid market returns.

We favour an actively managed fund to target those companies that will benefit most from the reforms and the fund manager has a very good long term track record of investing in China.

Equity

Matthew Brett

Co-Manager
Baillie Gifford Japanese Fund

Full year results to the end of March for Topix listed companies exceeded analyst forecasts. In aggregate, sales and net profits rose 10% and 71% respectively. The latter has now reached a record level.

One wrinkle is that corporate estimates for the current financial year are notably cautious. This caution appears somewhat incongruous with impressions we have gained from company meetings and indeed with management actions. For example, in the first five months of 2014 Japanese companies bought back more stock than in each of the past five calendar years.

Turning to the outlook for the Japanese economy, we remain encouraged by recent developments: notably the progress towards price stability, improvement in income and employment conditions, the resilience of domestic activity in the wake of the consumption tax hike and the continued revival of business sentiment – most recently demonstrated by stronger than expected guidance on capital expenditure from large Japanese companies.

The Abe administration is committed to escaping the persistent deflation that has hampered the domestic economy for over a decade and raising the structural growth rate of the economy.

We would reiterate that his achievements should be judged over several years and we do not intend to provide an update on the progress of the various policy initiatives on a quarterly basis. We are supportive of Abenomics, but the ability of our holdings to grow their earnings and cash flow is not dependent on Japan's return to a sustainable growth path.

Equilibrium View

We retain a positive outlook towards Japan. At a time when other central banks are tightening monetary policy, the Bank of Japan is carrying out massive stimulus. More importantly, the Japanese market looks cheap relative to both its own history and to other equity markets, and Japanese earnings are growing strongly.

The Baillie Gifford fund is a new holding for us, its growth bias complementing the "slow and steady" Schroder Tokyo fund, for example by having more holdings in smaller and medium-sized companies.

Property

Phillip Nell

Fund Manager
Aviva Property Trust

The strong turnaround seen in UK commercial property last year has extended as we have progressed through 2014. We expect the market will continue delivering strong returns in the near term before moderating.

While the pressure increases on the central bank to raise interest rates, they are likely to be relatively low for a few years yet.

In terms of performance, the office sector has been the strongest, led by London and the South East. However, we expect industrials to become the outperformer by the end of this year. While the retail sector has lagged behind throughout the recovery so far, the sector is now experiencing rental growth after a prolonged period of decline.

Investor demand for UK commercial property remains buoyant with figures from Propertydata.com recording over 400 transactions in the second quarter of this year worth around £15bn. UK institutions are particularly active this year and overseas investors are still significant net purchasers.

In general, we believe UK commercial property remains attractively priced relative to other income-producing assets. As the search for yield continues, further capital growth is likely in the near term. In most property sectors very wide yield gaps remain between prime and secondary assets, though these are narrowing as risk appetite improves.

A combination of falling yields and rental growth should sustain strong total returns in the near term. We believe UK real estate will deliver annualised returns of just under eight per cent over the next five years.

Equilibrium View

Property remains one of the most attractive asset classes with potentially above average returns and with relatively low risk. As the UK economy improves we believe this can provide support for commercial property via increases in rents and reduction in vacant properties.

It is important to have a spread of property funds across different regions and property types. The Aviva fund has more of a focus on "secondary" property and could do well as sentiment continues to improve.

Investment Review:

Navigating Turbulence

Steering a steady course through choppy seas

By Mike Deverell

Welcome to the investment section.

It's fair to say its been an interesting six months, especially in the last few weeks when equity markets fell back considerably. For example, on 4 September 2014 the FTSE 100 closed at 6,878. By 3 October it had fallen back to 6,527, meaning it returned precisely zero over six months, even including dividends.

Here are a few of the highlights and lowlights of the six-month period:

The frustrating:

- portfolios have typically gained less than 1% over six months
- UK equities have been the main drag on performance. Over the period: the FTSE 100 was flat; the broader FTSE Allshare Index was down 0.89%; and the "mid cap" FTSE 250 index - the 250 largest companies outside the FTSE 100 - was down 5.26%
- gilts rallied in a period where we avoided them. The FTSE Allstocks Gilt Index returned 5.09% over six months.

The pleasing:

- Areas where we have been overweight – that is, had a higher than usual holding in portfolios - have typically fared much better. For example:
    - property has been the best asset class and our property portfolio returned 5.54% over six months.
    - our Global Speculative (emerging markets) portfolio has been the best performing equity sector, up 5.92% over the period.
    - Japan did well, with our favoured Japan fund Schroder Tokyo gaining 6% since April.
- Avoiding or reducing exposure to the right areas can also add value. We were underweight in the poorly performing European market, where our favoured fund Blackrock European Dynamic lost 9.6% over six months.

Sometimes markets are choppy and the outlook is unclear. We steered a steady course through this six-month period, which is often a sensible strategy in such conditions.

This steady approach comes into its own when we look at 12-month performance and longer. For example, the Balanced portfolio returned 5.56% over the year to 3 October, whereas an average managed fund (UT Mixed Investment 20-60% Shares sector) returned 4.71%.

Eight out of ten of the sectors we invest in have beaten their individual sectors over 12 months.

The following pages go into detail about how portfolios and markets have performed, and the strategies we are employing to navigate the turbulence.

Added Value

One reason for us holding a steady asset allocation is that markets have been 'range bound' – for example, the FTSE 100 has stayed mostly in a range of around 6,600 to 6,900 over the period.

At the end of the period we saw this trading range broken, with the FTSE 100 dropping to 6,446 on 2 October. As a result, we carried out a 'volatility trade' for clients, using this opportunity to purchase a UK index tracker. Typically this trade was placed on 3 October at around 6,500 and will likely sell again if the market moves back to where it was previously, around 6,850.

This is the second time this year that we have made a volatility trade. Having bought on the last big market dip in February, we then sold near the market peak in May.

Our aim is always to turn volatility into an opportunity rather than a problem. Even in a quiet period, where markets tend to move sideways, there are short-term opportunities to add small amounts of value here and there which can compound up to a big number over time.

We have always tried to ensure that our interests and those of our clients are aligned. We make it clear that we are 'paid to manage, not to move' your investments. We are paid a simple percentage management fee that grows or falls as your investments grow or fall.

We are not paid to move your investment around. We do not charge transaction fees, unlike much of the wealth management industry. So we will never do anything to earn transaction fees or simply to look busy. So you can be sure that we only do things when we believe they will boost the value of your investments or reduce your risk of losses.

> Our aim is always to turn volatility into an opportunity peak.

Our views regarding many asset classes and regions have remained steady over the past six months, so we have made few changes to portfolios.

Lack of changes does not mean lack of activity. The research and review cycle continues and whether the decision is to make a change or to make no changes the process is the same.

It is easy for us to assess how much value or otherwise we add when we make a change. For example, in the April edition of Equinox we reported that, over the previous 12 months, we had made 20 changes to a balanced portfolio which, in aggregate, had added around 2% to performance. In other words, portfolios would have been 2% worse off had we not made those changes.

Over the 12 months to 1 October, we made 15 adjustments to portfolios and added approximately 0.71% to the performance of a balanced portfolio through changes.

We remain pleased with the amount of value added through changes made. However just as much value can sometimes be added by not making a change, which is less easy to quantify.

The easiest way to look at this is to see how funds held in portfolios have performed since they were bought. At present, out of 26 funds, 21 (81%) are either equal to or ahead of their benchmarks. Of those, 12 funds (46% of funds held) are beating their benchmark by more than 25%.

Six Monthly Review

The past six months were eventful in terms of global news.

Markets are always forward-looking and reacting to possible future events. Some potential events that initially worried markets failed to occur. For example, the potential for Scottish independence and escalation of the Ukrainian situation caused plenty of market jitters. However, as these events either failed to happen or simply continued to rumble on, markets generally returned to their previous paths.

Other events driving market movements are those that may or may not happen in the future.

One reason for the recent market wobble has been a lack of action by the European Central Bank. The ECB has been hinting that it was finally going to copy other central banks around the world and carry out much-needed quantitative easing. Europe's economy has been struggling and there are fears of deflation. Many believe QE is the only way to address these issues.

After these hints of large-scale action, the reality turned out to be a damp squib. This let down, coupled with disappointing results from the US and turmoil in Hong Kong, led the market to pull back. However, in our view these events are not major enough to have a more permanent effect.

Many of the areas we favour are seeing positive momentum, but this remains in relatively early stages, which is another reason for holding steady.

Property

We have kept our exposure to UK commercial property - which is above our typical long-term exposure - the same. We have held less fixed interest, such as gilts and corporate bonds, than usual in order to fill the additional property exposure. This has paid off well, despite a recent rally in gilts.

Over the 12 months to 3 October, our property portfolio is up 12.2% relative to our fixed interest portfolio which has returned 5.87%. Over six months, property has returned 5.54% and so has shown little sign of slowing down. As we explain later, we still think this asset class has some way left to run.

Equity

We have had a long-term positive position in emerging market equity, particularly in China. In 2013, these markets performed poorly but it has been a different story in 2014.

For example, the Invesco Perpetual Hong Kong & China fund that we hold is up 5.92% over six months. By comparison, the main UK equity FTSE Allshare index is down 0.89%. The difference was much greater before emerging markets suffered a pullback. From 4 April to 8 September our Chinese fund was up 15.46%, before it dipped back substantially over the past few weeks. This illustrates both how potentially rewarding emerging markets can be but also that they can be risky.

We have also had more exposure than normal to Japanese equities. Again, these performed poorly last year but started to do better from around March this year. Over six months, the Schroder Tokyo fund that we hold is up 6%.

We were also underweight in Europe over the period which proved an excellent call, with the benchmark MSCI Europe ex-UK index down 5.92% over the six-month period.

Conversely the US has done phenomenally well and that worked against us. At the end of last year, we reduced exposure to below our normal weighting in the US, so that has detracted from performance.

US outperformance was compounded in August and September by the strong dollar. For example, over six months the Vanguard US Index fund we use is up a respectable 4.96% in dollar terms. However, when this is converted back to sterling this rises to a more spectacular 9.1%.

We think that China and Japan remain undervalued whereas the US and Europe look expensive. Such characteristics can remain for a long time but when the trend changes it can change quickly.

Timing the market accurately is impossible. As we always say, when making an investment decision you will either be too early, too late, or just plain lucky. If we cannot be lucky all the time then we would rather be too early.

Fixed Interest

Fixed interest has surprised us over the past six months.

With interest rates likely to go up we have typically gone for funds that have very low 'duration' or sensitivity to interest rates. These funds typically hold short-dated bonds with maturity dates only a few years away.

Increasing interest rates tend to be negative for the capital values of bonds, which fall as the yield increases. As we get closer to the first rate rise, you would therefore expect yields to increase, which is what we have seen in shorter-dated bonds.

However, longer-dated bond yields have actually fallen, meaning prices have increased. Longer-dated gilts and corporate bonds did remarkably well over the six-month period. This surprised many people, including us.

The chart below illustrates this neatly. This is called a yield curve. The vertical axis shows the yield of UK gilts and the horizontal axis shows the maturity of those gilts. Generally, the longer until maturity the higher interest rate you receive.

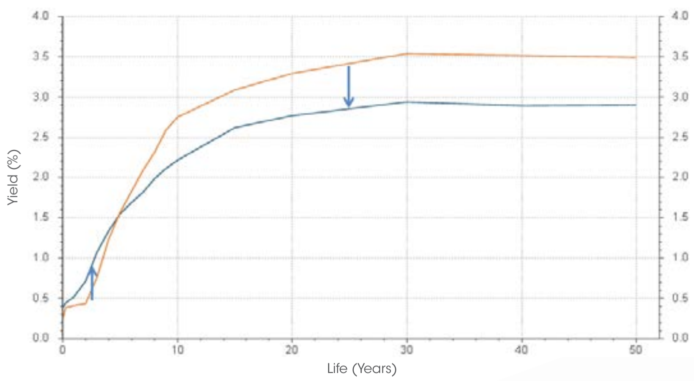
There are two lines on this chart. The orange line shows the yield curve from a year ago and the blue line shows the yield curve as it is now.

The curve has flattened over the past 12 months. The market is expecting interest rates to go up sooner but not as dramatically; and that rates will end up being lower than it had previously thought.

We broadly agree with this but think longer-dated bonds yield far too little. A 20-year bond yields around 3%. Are interest rates never likely to get back towards 3% at any time over the next 20 years? That is unrealistic, so we think long-dated yields should rise and capital values fall.

At the short end of the curve, where our funds invest, rate rises appear mainly 'in the price'. We therefore intend to remain cautious and stick with shorter-duration bonds. This has been a good position to hold over the last two years, but over six months it has led to us underperforming gilts.

UK Benchmark Bonds



Source : Thomson Reuters Datastream \ Equilibrium Investment Team

Latest
1 Year Ago

Outlook

Property

UK commercial property remains our most-favoured asset class.

Property is one of the few assets where capital values remain below their pre-credit crunch peak. The chart below shows the IPD UK All Property index over the eight years to the end of August 2014 - the data is published monthly in arrears, so figures to the end of September are not yet available as at the time of writing.

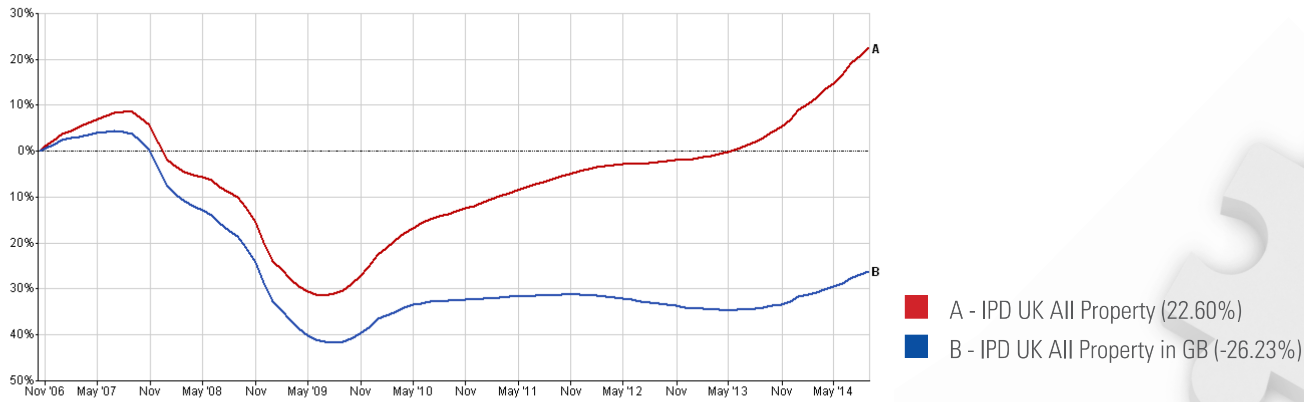
The blue line shows the capital value of the property index. Over eight years, the actual value of the buildings is down over 25%.

However, the biggest driver of returns from property is the rental income. If we factor that into our calculations, an investor would have made over 24% over the same period, as shown by the red line.

The main risk with property investing is liquidity. With funds seeing big inflows at present, this is not an issue. In fact, when there is high demand for assets and you are already invested in the sector, illiquidity is your friend. Demand is pushing up prices and if you wanted to sell it would be simple to do so.

However, when markets become more difficult liquidity can be an issue. As always, we are thinking well ahead and to diversify portfolios we plan to add in another three property funds, making eight property funds in total. This means it would be easier to reduce property again in the future but we do not think it will dilute returns.

> “Property is one of the few assets where capital values remain below their pre-credit crunch peak.



Source : 31/08/2006 - 29/08/2014 Data from FE 2014

Capital values are going up but, despite attractive rental yields, we have not seen much rental growth recently. There are still plenty of vacant properties. However, as the economy continues to recover we expect vacancies to start falling and rents to start rising. We have noted before the strong correlation between the strength of the economy and returns in commercial property. The recovery can continue to drive returns.

While we see property returns continuing for some time - as this sector becomes more popular and more ‘hot money’ turns to property - we want to guard against potential risks further down the line.

Equity

We have maintained a roughly neutral outlook for some time now, only altering our scores marginally as markets rose or fell. We normally expect a long-term average return of around 10% a year from equity and, over the next 18 months, our best guess is that total returns will be around this level.

However, different regions could perform very differently. The table below gives a brief overview of our views on each region. Red text shows a negative indicator, green shows positive, and black is neutral.

This table gives our opinions based on economic and market data. The valuation column gives our view of whether a region's market is above or below its long-term average based on a combination of price/earnings, forward price/earnings and price/book ratios.

Certain regions have the potential to deliver well in excess of 10% a year, while others look expensive and are not seeing the earnings growth required to justify those valuations.

After reading this table, you would not be surprised to hear that we hold less of our UK FTSE Allshare tracker than we would normally, but more in actively managed funds that have a bias towards smaller companies.

We hold less Europe and US than usual, but are overweight in Japan and emerging markets, with a bias towards China and the rest of Asia.

We could be wrong. But all our research shows that you are more likely to achieve decent returns buying when markets have lower ratios of price-to-earnings - or book value - than when they have high valuations.

Region	Valuations	Earnings Growth	Economic Outlook	Central Bank Outlook	Verdict
UK main market	Slightly expensive	Falling slowly	Economy growing	Rates to increase	Neutral
UK smaller companies	Fair value	Steady growth	Economy growing	Rates to increase	Positive
USA	Expensive	Growing more slowly	Economy growing	QE tapering and rates to increase	Negative
Europe	Expensive	Falling quickly	Negative very low growth	Still no QE	Negative
Japan	Undervalued	Growing more slowly	Recovering from dip	Massive QE program	Positive
Global Emerging Markets	Undervalued	Growing more slowly	Slower growth but stable	Mixed; likely to follow US rates	Positive
Asia ex Japan	Undervalued	Growing more quickly	Slower growth but stable	Mixed; likely to follow US rates	Positive
China	Extremely undervalued	Stable growth	Potential for growth slowdown	Mixed; likely to follow US rates	Positive

Fixed Interest

As mentioned earlier, longer-dated bonds have done remarkably well and there is a danger that these could fall back as interest rates rise. However, shorter-dated bonds should not carry the same level of interest rate risk.

With corporate bonds, interest rate risk is only part of the equation. The other part is credit risk. By buying a corporate bond, you are lending money to a company. Credit risk reflects how likely it is that the company you lend to is unable to repay your loan.

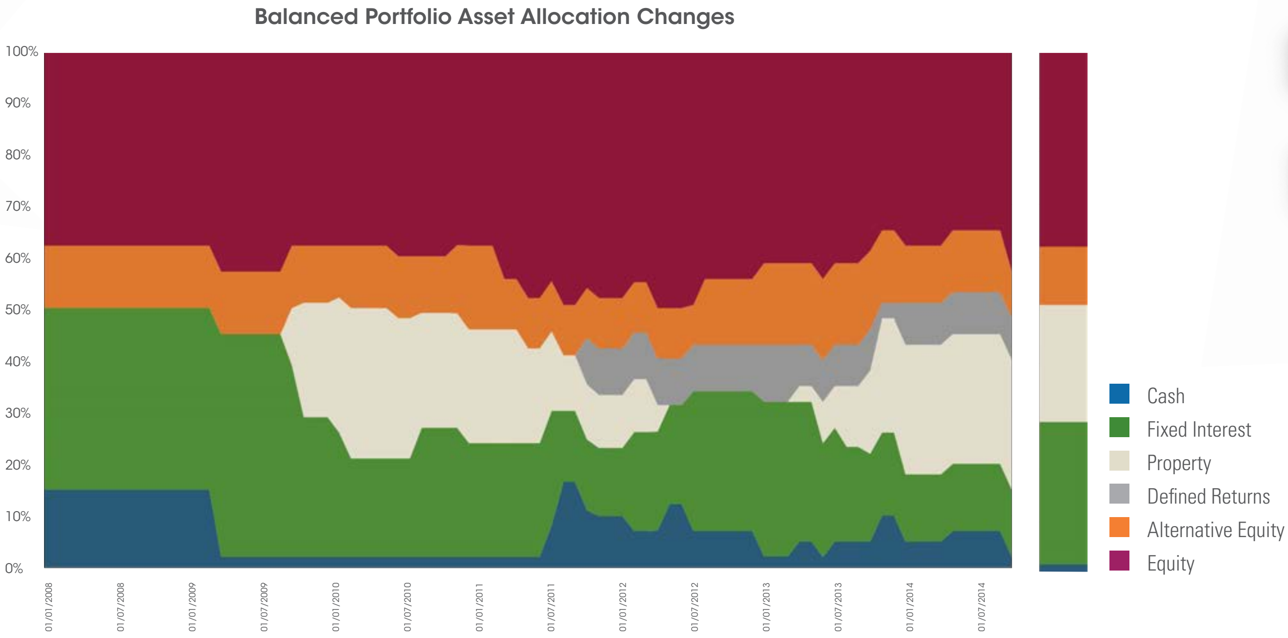
Default rates remain low and, with the economy improving, we remain comfortable lending money to companies. We think it is possible to get some decent returns from lending to the right companies, without taking on too much interest rate or credit risk.

We believe a portfolio constructed in this manner might provide 4% to 5% annualised over the next 18 months. This is below our long-term expectation of 6% a year but still worth holding.

For some longer-dated government bonds, we think returns could be negative over the same period, so fixed interest investors need to be cautious and choosy about where they invest.

Asset Allocation

The chart below shows the asset allocation changes we have made over the full history of the balanced portfolio.



As discussed earlier, we have not made many asset allocation changes over the past six months. The only adjustment since April has been the closing out of a 'volatility trade' which we carried out in February and sold in May.

In February, the UK market dropped significantly and we switched some of our holdings in alternative equity into a FTSE Allshare tracker. We sold this on 13 May on a day when the FTSE 100 closed at 6,873. On 3 October, the FTSE 100 closed at 6,527 and so is well below the level at which we sold.

In the previous six months we were very busy - increasing property and reducing fixed interest. We had also reduced equity as markets continued to hit new highs and looked less attractive as a result.

We are now overweight property, underweight fixed interest and marginally underweight equity. However, most portfolios also have alternative equity and defined returns which also provide some equity exposure in a slightly lower risk way.

Over the next few months, we do not plan any major asset allocation changes. If equity markets drop back substantially, we might top up equity. Or if they move much higher we might reduce exposure further.

We also have the potential kick out of one of our defined returns plans next month. If the FTSE 100 is above 6,694 on 25 November then the Barclays product will kick out with an 8% return.

Given where markets are this is by no means assured. However, that is not a problem because if the product does not kick out then it will roll on another 12 months. It could then possibly end in November 2015 and give a 16% return if the FTSE is above 6,694 on that date. There are six chances of getting the return at each of the first six anniversaries of the product's start date.

The recent market volatility shows the value of these investments. If we end the 12 month period flat, then our clients will get an 8% return despite markets going nowhere. These products work well in this scenario.

Should this product kick out, we may invest in a new defined returns product. Whether or not we proceed will depend on potential rates and the market levels at the time. Other options may be a further top up to property or to equity depending on market levels and our views at the time.

Most clients also hold a second product with Credit Suisse. This might kick out in February should the FTSE 100 be above 6,449 and the S&P 500 in the US be above 1,755, with a return of 11.5%. As I write, the FTSE remains above this level and the S&P 500 significantly above, and so kick out on this product looks more likely.

The returns quoted are those that investors may receive had they bought when the products were launched. Some clients have bought these products on the secondary market which would mean buying at different prices.

Performance

Over the past 12 months to 3 October, our Cautious and Balanced portfolios returned 5.58% and 5.56% respectively after fees, while the Adventurous portfolio returned around 5.2%. This compares well to a typical managed fund as the Mixed Investment 20%-60% Shares sector returned only 4.71%.

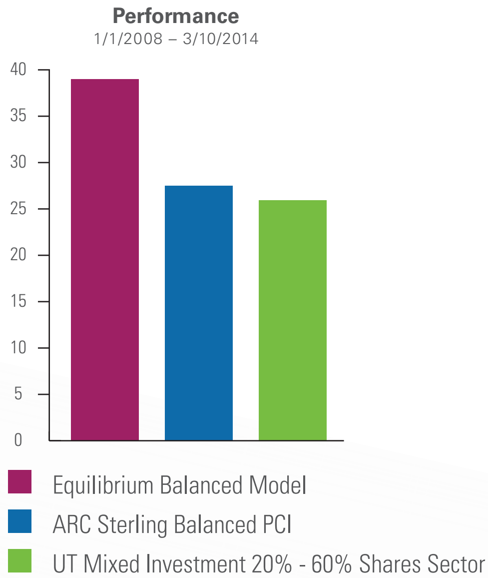
To compare to the average discretionary manager's balanced portfolio (Asset Risk Consultants (ARC) Sterling Balanced PCI) we have to look at figures to 30 September as ARC only publish their figures monthly. Over the year to 30 September the Equilibrium Balanced portfolio returned 6.24% for the 12 months to this date whilst the ARC index returned 5.58%.

As you can tell, the importance of comparing over exact dates cannot be understated when times are volatile. The two figures are from dates just three days apart but make a big difference to performance. If you ever compare performance of different funds, managers or indices, please ensure you use the same dates for comparison.

Our Speculative portfolio returned 4.95% over 12 months. Given that stock markets are volatile, the portfolios with more equities performed less well than those with higher weightings to property. Full details of performance are shown on page 38.

Over six months, our portfolios were generally slightly behind the average managed fund as the recent rally in gilts aided the sector average. Because of the sector rules, most funds in this sector have around 40% of their assets in fixed interest and much of this in gilts. Our greater freedom to move our asset allocation should aid performance over the longer term. But by not holding gilts we have underperformed in the short term.

The chart below shows the performance of our Balanced portfolio since launch in 2008. Over this period, the portfolio has achieved substantially higher returns than the typical managed fund and the average discretionary manager's balanced portfolio.



Our equity weightings have typically helped performance over the past 12 months. Generally, we would expect the equity holdings of a balanced portfolio to provide returns similar to the FTSE over the long term, but with lower volatility (how much the values fluctuate).

Even though a balanced portfolio invests in equity sectors which are in theory riskier than the FTSE - for example smaller companies or emerging markets – we can achieve lower volatility by having a diversified spread of such investments.

Over 12 months, a typical balanced equity mix has returned 5.87%, ahead of the FTSE Allshare which returned 4.9%. The volatility of our portfolio has been over 20% less than the FTSE at 7.2 rather than 9.2.

Sector Performance & Analysis

UK Equities

Over 12 months, our actively managed UK equity portfolios have outperformed the index.

UK All Companies, which tracks the FTSE Allshare, has returned 4.79% since 4 October last year. By contrast, UK Conservative equity returned 6.47% and UK Dynamic 6.87%. Normally we would expect UK Conservative to outperform in more difficult markets and fall less when markets dip, while UK Dynamic is more aggressive and should outperform in a rising market.

Generally, in a rising market small and medium-sized stocks will outperform large caps. If the market falls back then the reverse is true.

Over the past two years, small and mid-cap stocks have largely outperformed the FTSE. However, in April this year we saw an interesting period where the FTSE 100 rose while the rest of the market fell sharply.

The FTSE 100 performance was mainly down to a few select stocks, such as AstraZeneca which was the subject of a bid from Pfizer. This means that over six months very few actively-managed UK equity funds have outperformed the index.

This means that our UK All Companies portfolio has been the best performing UK portfolio over six months, down 0.94%, while our UK Conservative and UK Dynamic equity portfolios are down 2.81% and 4.56% respectively. By comparison the FTSE 250, which is the 250 largest companies not in the FTSE 100, has fallen 5.26% over the same period.

Global Established

Over six months our Global Established portfolio has done well relative to its benchmark.

The portfolio invests in the established overseas markets of Japan, Europe and North America. Over six months, it returned 1.39% while the benchmark (40% UT North American sector, 40% UT Europe ex UK, and 20% UT Japan) lost 0.35%.

However, over 12 months it has marginally lagged behind at 7.05% relative to 8.39% for the benchmark.

In this market, it has been a year of two halves. From 4 October to 4 April our favoured European fund (Blackrock European Dynamic) returned 14.65%, whilst our favoured Japanese fund (Schroder Tokyo) was down 3.66%. From April that all changed and since then Blackrock European Dynamic has lost 9.64% whilst Schroder Tokyo has gained 6%.

Over the full 12 months, Blackrock European was up 3.6%, Schroder Tokyo was up 2.1%, while our American fund the Vanguard US Index gained 17.02%.

The strength of the American market has taken us by surprise as it has looked expensive for some time. Last year, we reduced exposure as the market rose in favour of Japan. This has worked against us as the US has powered on. However, we also went underweight in Europe in December 2013 and this has helped performance.

Global Speculative

All three funds in our Global Speculative portfolio beat our benchmark over six months, with the portfolio as a whole returning 5.92% relative to the UT Global Emerging Markets sector at 4.1%.

Emerging markets have done better in 2014 after a difficult 2013. Our portfolio also outperformed the sector over 12 months, returning 3.14% relative to the sector at 1.58%.

Global Speculative has been helped by our exposure to China and Asia as a whole, which have outperformed the wider global emerging market regions over the past six months especially.

Alternative Equity

Our Alternative Equity portfolio has achieved its objective of providing equity-like returns with less volatility over the past 12 months.

Over a year, it returned 5.23%. That was ahead of the FTSE Allshare at 4.83% but with much lower volatility. It also outperformed the UT Targeted Absolute Return sector, which returned 3.4%.

Over six months, the portfolio lost 2.47% relative to the FTSE Allshare, which was down 1.5% and the sector, which was up 0.19%.

Our Alternative Equity portfolio invests principally in funds that badge themselves as 'absolute return' funds.

We dislike this name as it implies they will produce positive returns in all market conditions. While the funds have the potential to do this in both rising and falling markets, it depends on the manager getting their calls correct, like any fund.

A good example of this is the Odey Absolute Return fund, our best performing fund since we bought it in 2010. Over the six months to 4 April it returned 8.9%, but from April to October it lost 6.36%. This means over 12 months the fund has gained only 2.01%.

As mentioned, in April the FTSE 100 went up while much of the rest of the market fell. One of the ways Odey achieves its returns while mitigating volatility is to bet on some stocks to fall (called going 'short') and some to rise (going 'long'). Provided that the stocks it favours outperform the ones it does not, it will make money whether the market as a whole goes up or down.

In April, Odey had 'short' positions on the FTSE 100 and on UK gilts which both rose, so it lost money. The stocks it had gone long on mainly fell. This had a double whammy effect, reversing the previous pattern where this had helped Odey's performance. Despite this, the portfolio returned more than the FTSE over 12 months.

Some clients do not hold Odey as it has been closed to new investors for some time.

Fixed Interest

As outlined earlier, corporate bonds and gilts have done remarkably well over six months, particularly those with longer maturity dates.

The chart below shows the effect over 12 months. As you can see, until June our portfolio (blue line) was well ahead, but has since flattened while gilts (green) and corporate bonds (red) have rallied.

Source : 04/10/2013 - 03/10/2014 Data from FE 2014

- A - UT Sterling Corporate Bond (6.73%)
- B - FTSE Actuaries UK Conventional Gilts All Stocks (5.99%)
- C - Equilibrium Fixed Interest 08/10/2013 (5.79%)

Despite this, our portfolio has only just fallen short of the usual 6% a year that we expect from fixed interest in the long term. This is a much better return than we thought we would get from fixed interest.

Property

Over 12 months, our portfolio has returned 12.2% and over six it has risen 5.54%. This is in excess of the normal 7% a year we expect from property.

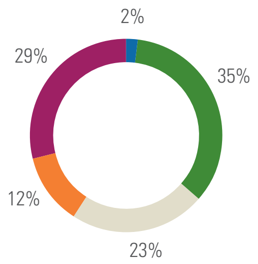
This is broadly in line with our benchmark, which is a composite of all the true bricks and mortar funds in the UT Property sector. The benchmark returned 12.5% and 6.08% over 12 and 6 months respectively. There are 12 funds that fit our criteria and we hold five of them. This means outperformance is difficult.

As always, our first thought is to mitigate the risks such as liquidity, while capturing as much of the upside as possible. We will not take excessive risk to try and chase an extra few percentage points of return.

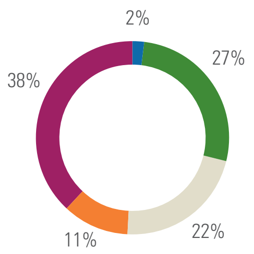
Model Portfolio Returns

All our model portfolios, with the exception of one, are well ahead of both the average managed fund and average discretionary manager over all time periods.

Strategic Asset Allocation

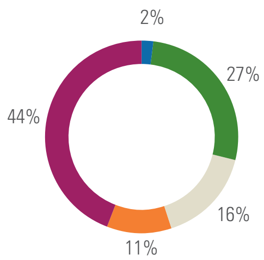


Cautious Model	6 Months %	1 Year %	3 Years %	5 Years %	Since Launch* %
Cautious Portfolio	0.70	5.58	30.00	36.22	39.67
Mixed Asset 20-60% Shares Sector	0.98	4.71	24.26	31.96	25.93
ARC Sterling Cautious PCI	na	na	16.82	23.18	25.63



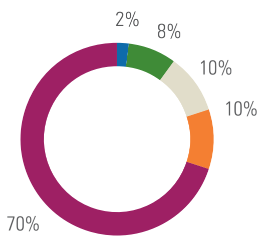
Balanced Model

Balanced Portfolio	0.53	5.56	32.15	37.38	38.89
Mixed Asset 20-60% Shares Sector	0.98	4.71	24.26	31.96	25.93
ARC Sterling Balanced PCI	na	na	24.84	31.79	27.51



Adventurous Model

Adventurous Portfolio	0.79	5.22	31.85	36.40	36.27
Mixed Asset 20-60% Shares Sector	0.98	4.71	24.26	31.96	25.93
ARC Sterling Balanced PCI	na	na	24.84	31.79	27.51



Speculative Portfolio

Speculative Portfolio	0.52	4.95	35.98	38.64	42.62
Mixed Asset 40-85% Shares Sector	0.61	4.94	30.82	39.26	44.43
ARC Sterling Steady Growth PCI	na	na	6.12	30.72	43.64

Six month and one year returns compared to ARC are shown in the table below. These are given to 30 September 2014.

- Cash
- Fixed Interest
- Property
- Alternative Equity
- Equity

	6 Months %	1 Year %
Cautious Portfolio	1.55	6.10
ARC Sterling Cautious PCI	2.19	4.64
Balanced Portfolio	1.58	6.24
ARC Sterling Balanced PCI	2.17	5.58
Adventurous Portfolio	1.92	5.99
ARC Sterling Balanced PCI	2.17	5.58
Speculative Portfolio	1.93	5.90
ARC Sterling Steady Growth PCI	2.13	6.12

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

All data is to 3 October 2014, except ARC indices to 30 September 2014 because they are published monthly. ARC figures are not given for six month and one year periods because different reporting dates distort performance.

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

Sector Portfolio Returns

	6 Months %	1 Year %	3 Years %	5 Years %	Since Launch* %
Equity Portfolios					
UK Large Companies	-2.81	6.47	53.94	68.97	42.92
UT UK Equity Income Sector	**-1.96**	**5.55**	**50.49**	**64.76**	**37.41**
UK All Companies	-0.94	4.79	47.68	60.07	33.38
UK Dynamic	-4.56	6.87	55.52	64.84	41.52
UT UK All Companies Sector	**-3.73**	**3.86**	**50.77**	**62.05**	**35.17**
Global Established	1.39	7.05	56.1	58.59	42.19
Global Established Benchmark **	**-0.35**	**8.39**	**59.53**	**61.70**	**43.66**
Global Speculative	5.92	3.14	21.76	17.87	7.45
UT Global Emerging Markets Sector	**4.10**	**1.58**	**21.05**	**21.29**	**12.44**
Cautious Equity Mix	-0.69	5.40	48.26	57.98	34.82
Cautious Equity Benchmark ***	**-1.77**	**4.87**	**48.31**	**57.50**	**33.42**
Balanced Equity Mix	-0.41	5.87	47.80	53.20	34.12
Balanced Equity Benchmark ***	**-1.37**	**5.11**	**48.73**	**55.71**	**33.94**
Adventurous Equity Mix	0.60	5.54	43.99	48.36	31.81
Adventurous Equity Benchmark***	**-0.99**	**4.69**	**45.94**	**51.36**	**31.61**
Alternative Equity	-2.69	5.04	38.91	42.00	46.39
UT Mixed Asset 20-60% Shares	**0.98**	**4.71**	**24.26**	**31.96**	**25.93**
Fixed Interest Portfolio	1.24	5.87	30.26	38.11	51.40
UT Sterling Corp Bond Sector	**4.33**	**6.84**	**22.88**	**35.7**	**38.76**
Property Portfolio	5.54	12.21	15.75	33.17	37.29
Composite Property Benchmark ****	**6.08**	**12.53**	**14.94**	**33.41**	**39.52**

* 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 was 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)	0.00	4.83	43.60	56.36
FTSE Allshare Index (UK)	-0.89	4.90	47.40	61.51
FTSE 250 Index (UK Mid Cap)	-5.26	5.22	69.69	96.04
MSCI Europe Ex UK Index	-5.24	3.22	50.95	32.48
S&P 500 Index (USA)	7.84	19.15	79.70	103.51
Topix (Japan)	4.43	-0.09	23.58	31.53
MSCI Emerging Markets Index	4.88	2.47	21.78	23.74

Fixed Interest

IBOXX Sterling Corporate Bond Index	5.52	8.05	30.97	46.73
UT Sterling Corporate Bond Sector	4.33	6.84	22.88	35.70
FTSE British Government Allstocks (Gilt) Index	5.09	5.66	10.18	27.55
UT Gilt Sector	5.60	6.19	10.51	25.42
UT Sterling High Yield Sector	0.15	5.31	34.05	45.88

Property

IPD UK All Property Index	8.23	17.72	29.66	72.82
Composite Property Benchmark*	6.08	12.53	14.94	33.41

Other Measures

Bank of England Base Rate	0.25	0.50	1.51	2.53
RPI Inflation	0.86	2.02	8.03	19.37

* 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 3 October 2014.
- 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 dividend pay dates, 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.

Portfolio	Fund name	Initial Charge %	Annual Management Charge %	Total Expense Ratio %
Fixed Interest	Invesco Tactical Bond	0	0.815	0.815
	Jupiter Strategic Bond	0	0.630	0.870
	M&G UK Inflation Linked Corporate Bond	0	0.500	0.660
	TwentyFour Dynamic Bond	0	0.750	0.850
Property	Henderson UK Property	0	0.750	0.870
	Ignis UK Property	0	0.750	0.770
	Standard Life UK Property	0	0.850	1.000
	Aviva Property	0	0.620	0.750
	SWIP Property Trust	0	0.675	0.795
Alternative Equity	Invesco GTR	0	0.870	0.870
	Odey Absolute Return	4*	0.750	0.950
	Old Mutual GEAR	0	0.750	0.980
Equity - UK Conservative Equity	Investec UK Special Sits	0	0.750	0.840
	Miton UK Multi Cap Income	0	0.750	0.890
	Vanguard FTSE UK Equity Income Index	0.5**	0.220	0.220
Equity - UK All Companies	Vanguard FTSE UK Equity Index	0.4**	0.080	0.080
	HSBC FTSE AllShare Tracker	0	0.100	0.170
Equity - UK Dynamic	Artemis UK Special Sits	0	0.750	0.810
	Miton UK Value Opportunities	0	0.750	1.120
	Marlborough Special Sits	0	0.750	0.800
Equity - Global Established	Baillie Gifford Japanese Co.	0	0.650	0.700
	BlackRock European Dynamic	0	0.750	0.930
	Schroder Tokyo	0	0.750	0.920
	Vanguard US Equity Index	0	0.100	0.100
Equity - Global Speculative	Invesco Hong Kong and China	0	0.940	0.940
	Schroder Asian Alpha	0	0.750	0.940
	Vanguard Emerging Markets Index	0	0.270	0.270

* Not purchasing Odey Absolute Return for new clients due to imposition of 4% initial charge

** Stamp duty charge paid to the fund as opposed to the fund manager

These are the funds in our standard portfolios at 3 October 2014. These will change periodically and have not all been held throughout the period covered by this document.

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