equinox

half yearly investment magazine

It's good to grow

Finding the freedom

Supercar showcase

equilibrium

October 2018

PLUS: A winter's tale | The business owner exit map | B.O.S.S.

Welcome

All of our clients have worked hard for the wealth they have accumulated and a good proportion of them did so by running their own businesses.

Often, people get into business because they love their trade, their product or their sector but there are many obstacles to overcome in the process of creating a successful company. Then, once you've dealt with all the challenges and you've built a thriving business, thoughts inevitably move onto how to exit that business.

In this issue of Equinox, there are a range of articles designed to help business owners develop their own thoughts on how to make an elegant and profitable exit.

To this end, Equilibrium are also launching a new standalone advice module called the Business Owners Strategy Service, or B.O.S.S for short! You can find out more information on this by turning to page 20.

And, if you manage the exit well and get a great price for your business, you might want to splash out on a new car. For inspiration, take a look at pages 22-23 where we've profiled the new Rolls-Royce and McLaren dealership, based in Wilmslow.

I hope you enjoy this issue. As ever, if you have any questions, feedback or comments, then please get in touch.

Colin Lawson
Founder

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How to live a long (business) life

Launching a successful business is one thing, but managing its growth is another challenge entirely. Here, Equilibrium Founder Colin Lawson discusses why it's good to grow and how to avoid a premature demise.

By Colin Lawson

Growth is incredibly important for any business. Without it, I believe that a company will stagnate and eventually die or be taken over by a more forward-thinking rival.

When I established Equilibrium in 1995, there were many other professional services firms springing up around the same time that, like mine, had high hopes for the future and were enjoying the initial growth curve. Why is it then, that when I look at many of these businesses today, they seem to have reached their peak and started to decline?

If revenues stay the same but your costs increase, it stands to reason that your profits will decline, blocking any intention that you had of reinvesting in the business to help it grow. It seems obvious but, for some, the path isn't always clear. One saying that I think sums it up nicely is 'even if you are on the right road, you will get run over if you just sit there'.

It's great to grow…

Why is it good to grow? For one, it means you can recruit talented, qualified and well-motivated people to create a team that can deliver a first-class service. Without opportunities for progression, your great team will move elsewhere, leaving you with average people working in your average business providing an average service. Average is something we have no intention of becoming.

As a company grows, the ability to spend more on systems and software increases, allowing it to continue to provide an up-to-date, efficient and effective proposition.

Greater economies of scale also allow a firm to improve its competitive edge, create unique products and deliver better results.

But not too quickly…

There are of course growing pains along the way. Whilst a fast-growing business may sound great, with it comes what we call 'speed wobbles'. This is where the speed of growth starts to cause a few vibrations. It could be that you are struggling to recruit or train new staff quickly enough to match the pace of expansion.

The solution is simple. Take a step back, slow down a bit and work on fixing whatever the issue is. This is something that we have done several times over the years as we are totally committed to only growing at a pace that will allow us to continue delivering an excellent service to our clients. We therefore keep a very close eye on feedback from our clients and monitor mistakes or errors. It's natural for humans to make mistakes and our job is to ensure these are kept to a minimum.

We also monitor feedback from our team on a regular basis and invest both time and money into training and development.

Five golden rules

As you may have gathered, if you're a business owner, the chances are your business is either growing or dying.

Finding the balance between ambitious growth and maintaining a stable business can be tricky. Sometimes the journey is difficult and one that will continue to produce new challenges as a firm develops. To manage that growth effectively and side-step an early grave, here are my essential top tips:

1 Have a powerful 10-year vision supported by a three-year plan and 90-day actions

If you don't know where you're going, if your vision is vague and wishy-washy, then you're going to have a vague and wishy-washy business.

2 Don't be reluctant to reinvest profits for future growth

Every business needs to constantly reinvest in better people and technology, improve the brand, explore new premises. The list is never ending. Reinvestment needs to be constant but be prepared for significant outlay every three years or so perhaps due to a rebrand, major hire or office move.

3 As founder, don't let the value of the business revolve around you – build an effective management team that you can trust

It's important for the founder to have time to work 'on the business' rather than 'in the business' and to slowly build a team that will excel in the founder's areas of weakness.

When a founder starts their company, they may be in their 30s, full of energy and, more importantly, full of new ideas that embrace the latest thinking and technology. Fast forward 20 years and they may still have the energy but the ideas are no longer fresh and, as for the technology, I think it's fair to say they've fallen behind.

Without the right people in place, this will go unchecked and cause the company to fall behind the new forward-thinking firms that are constantly emerging.

4 Don't allow the standard of recruits to slip

If your business is not growing, then you are not creating opportunities for your team to grow and are therefore unlikely to recruit or retain the right talent. To truly grow a business, you need to be engaging people more intelligent than you.

5 Establish a strong culture based on your beliefs, values and drive

The culture of a firm is of vital importance. Another word for it is mojo and, in a business, this is a bit like charisma in an individual. If your business has great mojo, it will naturally attract great people to it just from its energy and personality.

Communication is key to this. When you are small, every team member will interact with the leader on a daily basis. But as you grow this familiarity will invariably fade away to some degree. Find new ways to communicate so that your team knows what the plans are, how things are going and is reminded of the values and attitudes that made the business successful in the first place.

Building a business is hard and managing that growth is even harder. No two companies are the same and, as well as these general challenges, you will encounter sector specific hurdles. That said, if done correctly, it can be one of the most rewarding achievements you will experience, and I've enjoyed every day of it since I founded Equilibrium in 1995.

Finding the freedom

Describing it as the 'biggest deal of his life', Conrad Broadbent sold his business nearly a year ago but was then still working as the boss. He has since decided to walk away and embrace retired life, so Equinox caught up with him to find out more.

By Jon Yarker

A few months ago, Conrad Broadbent, Equilibrium client and Managing Director at First Capital Cashflow, found himself at a crossroads. He had just sold his majority stake (along with two other significant shareholders) of the direct debit management company he had worked at for 16 years. The deal, which saw the company taken over by NASDAQ-listed Bottomline Technologies, meant Conrad benefitted from a sizeable windfall and was on a five-year contract. But Conrad had reached an unexpected decision.

"I guess a lot of it boils down to freedom of choice which is what I've been realising these past few months," says Conrad. "Once you have the exit and you have your funds, it's life changing. We've had a good life out of the business these last few years but it's nice to reach that stage where I can follow my dreams and just have much more freedom."

Equinox met with Conrad in early August. He has since handed in his notice and, after 17 years, walked away from the business for good in October. Conrad is still very happy the deal took place as it came at a necessary time from a business standpoint.

First Capital Cashflow is a fintech firm and with a growing demand for electronic transactions (seasoned *Equinox* readers will remember last issue's look at the phenomenon of a cashless society), the business was requiring more investment.

"I don't know anyone who has been involved in the world of business clear exit plan from day one other than hoping that one day the exit would happen, and I'm no different," says Conrad. "After some further deep analysis of our market and what our three-year plan was looking like, it was then we started seriously considering what our exit could be and the steps we would need to take to ensure we received the maximum value possible.

"Our business is a specialist fintech firm operating in the world of payments. The sector was experiencing rapid change. At the highest level, the Bank of England was behind a huge shake up in the UK payments system architecture which would impact all service providers in our sector. As a smaller niche regulated provider with a solid record of sustainable profitable growth, the interest in our business was on the rise. Within the fintech space, organisations are paying considerable sums for businesses that haven't even turned a profit yet but are attracting some very handsome bids. We began to receive some offers that were becoming difficult to ignore especially given the background of the huge changes rolling through the sector, so it was becoming an exciting time."

Conrad was happy with the deal. It meant greater investment in the company and allowed it to keep its own identity. And on a personal level, he knew it was time to sell.

Conrad says: "I was very glad I got to stay on and work which helped me realise what I wanted to do next. I wanted to manage my own time – the money is great, but time is the most precious thing."

The importance of financial advice

At Equilibrium, we meet with many business owners – much like Conrad – who are considering exiting and moving onto the next stage of their lives. We spend a considerable amount of time sitting down with them to discuss what their financial future could look like.

"I was always hoping I would be in this position," says Conrad. The first time he met the Equilibrium team was at one of our investment dinners which we hold several times a year. Although he had an existing adviser, Conrad was interested in learning about other options as to how his wealth could be managed after he received a windfall from the sale of his business.

At Equilibrium, we find many business owners – though savvy – are time poor and neglect their own personal plans. Therefore, our Equilibrium Business Owners Strategy Service (or B.O.S.S.) helps these people take the reins of their future through two stages; knowing their numbers/how much they need to earn to retire and live, and extensive tax planning which also takes into account ramifications of the business sale.

Conrad adds: "It's a big decision, you have your family's future sat in your bank account so you need to understand the firm and what their ethos is. The thing I liked about the team at Equilibrium is every time I met with them the story didn't change, no matter who I was talking to. Some firms made promises about big returns and high growth etc, but I liked that Equilibrium just wanted to listen to me and protect my assets for the future. They said they'd take the minimum level of risk to achieve my goals which always resonated with me. For instance, when the guys did their analysis of my old portfolio, they explained to me most of my assets were in equities which are pretty high risk. So, I'm glad things are much more diversified now."

Looking ahead, Conrad will be turning his efforts towards his other business interest; Patient Plan Direct, a dental plan administrator he has had a majority stake in for some time. Although he won't be working there full time, it's a challenge he's looking forward to.

> Money is great, but time is the most precious thing

Conrad says: "It's a good solid business but it also has plenty of scope to grow. I'm looking forward to getting more involved in that business, and I think I can bring a lot of experience to the table and possibly make some additional investment in its resources to accelerate the growth. That will probably take me up to a full and final retirement, though I'm only planning on being involved a few days a month."

Just because Conrad won't be enjoying a 'full' retirement yet, doesn't mean he's not allowing himself to relax after a career of long hours and demanding meetings. The months ahead will definitely feature some sunshine – he hasn't decided where yet - and the start of more time on some of his side projects.

These include rebuilding his residential home, renovating a property in Portugal and – something that Conrad seems most excited about – playing more golf: "I now have plenty of time to perfect my game, and I'll need it!"

But in the end, he is looking forward to the freedom this new stage in life offers him. Having signed a successful deal and ironed out his long term financial plan with Equilibrium (see box on left), he is now excited about what's next: "I'm fortunate that I've been able to spend plenty of time with my family but I'm glad I can spend even more time with them now and less in the office. That is the single best thing about the business sale."

Find out more online...

To find out more about the Equilibrium Business Owners Strategy Service (B.O.S.S.), please email Financial Planner Ben Rogers at **ben.rogers@eqllp.co.uk** or visit **www.eqllp.co.uk/our-services/boss**.

Exiting your business the right way

There is rarely a more emotional and stressful time for a business owner than when they come to sell. Here, Terry Hayward of The Alternative Board shares his own experiences.

By Terry Hayward

We've all heard the expression about life's certainties and most would agree that tax and death fit well into this category. Well, if you're a business owner, there is one other certainty: at some point you will exit your business and that exit can either be planned or unplanned.

Unplanned exits are messy affairs. By their very nature they are unexpected. They do however have the advantage of not having to go through the upheaval and stress of the planning needed for an orderly exit.

If you're a business owner, there is one other certainty: at some point you will exit your business

For me (and I've been through the process twice already) the starting point is a "personal vision". What is it I'm trying to achieve for myself? For some people a business is simply a means to an end – if you want to be rich and retired and you have a buyer who can provide those things then the decision might be quite simple. But the reality is that we may have spent many years building the business and we have now developed an emotional attachment to the business itself, the employees and even the customers.

When I sold my first business (and I was one of five shareholders) the issue was simply about financial security for my family. I hadn't started the business (it had been going for seven years when I joined) but I saw an opportunity that with three to five years of hard work I, along with my fellow directors and shareholders, could build something with enough value to achieve the aim of financial security. We put the plan in place and achieved it.

However, as the sale got nearer I began to have doubts. Had we valued the business at the best possible price? What was going to happen to the staff? Would any other job or business give me the enjoyment and the challenge that had driven me and been such a big part of my life? Doubt had arrived!

So, part of the process of exiting your business must be planning for how you will cope with it. It's not about deciding not to bother after all, it's about preparing for the inevitable:

Learn from others – whether you have a trusted adviser, a coach, a mentor, a non-executive director or a friend you can rely on, discuss your plans and get their input. It helps if that person has already been through the process since nothing beats real-world experience.

Clarity – be clear what, if any, role you are going to have in the business after the transaction. It will no longer be your train set (unless there is an earn-out period), so can you cope with somebody else making the decisions? If you can't, be honest.

Don't change everything – a change of job is one of life's most stressful occasions. Give yourself time to enjoy the break, reflect on what you've achieved and plan for the next stage in your life.

As the sale got nearer I began to have doubts

Filling your time – most business owners I come across work significantly longer hours than average, so how will you fill this time? Only a couple of weeks ago a friend told me he'd had enough and wanted out. But his thought process was tainted by the fact that for the last four weeks he's been golfing, cycling and walking in the sunshine everyday – what happens in the winter? Just like not going shopping when you're hungry, don't make such a monumental decision when the sun is shining!

Out of the frying pan and into the fire – the decision to sell your business should be one that has been planned over a period of time in a strategic way. When times are tough it's easy to think "I've had enough, I want out". But fire sales rarely achieve true value and almost always end in regret.

For a business owner, selling your business is possibly one of the biggest decisions you'll ever make, so give yourself the time to get it right. You might not get a second chance.

About the author

Terry Hayward runs The Alternative Board (TAB) in South Manchester, Cheshire and the Peak District. TAB supports business owners to take their business to the next level through supportive advisory boards made up of other local business owners, expert 1-2-1 coaching and a suite of business tools.

TAB's coaching and mentoring sessions are designed to give business owners the time and space they need to gain more clarity and focus on their businesses. With the additional support of the TAB Business Builder's Toolkit they have everything they need to exceed their goals and set new ones.

Find out more online...

Visit The Alternative Board's website at **www.thealternativeboard.co.uk/stockport-peak**.

Selling your company - seeing the wider picture

Selling up can mean a significant cash windfall for business owners, but Inheritance Tax at 40% can take a hefty bite out of this. To find out more about how business owners can protect their wealth to pass onto the next generation, Colin Abrahams – Partner at accountancy firm CLB Coopers – takes a closer look at this area of tax planning.

By Colin Abrahams

When the time comes to sell your company, understandably the focus is on achieving the lowest possible Capital Gains Tax rate possible. With the availability of Entrepreneurs' Relief, it is now possible to sell your trading company and pay tax at just 10% on the gain arising.

Arguably business owners focus too narrowly on the Capital Gains Tax consequences and do not give enough consideration to the longer term Inheritance Tax implications. When contemplating a sale, business owners need to evaluate the predicted outcome and consider what they wish to do with the money they expect to make from this. It is not uncommon for a shareholder to want to pass on an element of this windfall to the next generation. It is similarly not uncommon for them to not trust the next generation to deal with that wealth wisely!

Arguably business owners focus too narrowly on the Capital Gains Tax consequences and do not give enough consideration to the longer term Inheritance Tax implications

In these circumstances the use of trusts can be an effective wealth protection tool (putting powers in the hands of the trustees rather than the beneficiaries) whilst at the same time delivering significant tax benefits with effective forward planning. This forward tax planning involves the gifting of shares into a trust just before a third party sale, rather than gifting cash after the sale.

For as long as an individual holds shares in an unquoted trading company (and has held them for the qualifying two-year period), those shares should be excluded from the individual's chargeable estate for Inheritance Tax purposes on the grounds that they are relevant business property. However, once the individual sells the shares, turning their asset wealth into cash, that cash squarely becomes part of the individual's potential chargeable estate for Inheritance Tax purposes.

If there is indeed a desire to pass wealth onto the next generation through the use of trusts, there is a limit on how much cash an individual is able to transfer into a trust without suffering a lifetime charge to Inheritance Tax of 20%. The limit is the unutilised nil rate band which is currently £325,000 in full.

However, if you were to make a gift of shares in your unquoted trading company just before the anticipated sale to a third party, then because the shares are relevant business property, there is no limit on the value of the shares that an individual can transfer into trust while still avoiding the lifetime Inheritance Tax charge. The trust shareholding would then be sold to the third party as part of the overall sale. The option to transfer greater wealth out of an individual's estate in this manner gives a bigger opportunity for mitigating Inheritance Tax which may otherwise be suffered at the punitive 40% tax rate on death.

Care does need to be taken when making a gift of shares just prior to a sale to a third party. In particular, at the time of the transfer into trust there must be no binding contract for sale in place for those shares. That said, the closer the transfer is to a third party sale the better, in terms of maximising and protecting the shareholder's Entrepreneur's Relief entitlement. The transfer/gift into trust can also be made without incurring a stamp duty charge.

The use of trusts can be an effective wealth protection tool

As can be seen, when it comes to planning for a trading company sale there is more to it than meets the eye. In my experience, no two transactions are the same and no matter how clued up you are on tax or how a business sale would happen, taking professional advice in this area can be hugely beneficial both in the short and long term.

Disclaimer: The information provided is based on the writer's understanding of current tax law and practice which may change, and its application will depend on individual circumstances. This article should not be regarded as a substitute for advice in any particular case and the writer assumes no responsibility to the reader. Please seek professional advice when addressing your specific tax circumstances.

Equinox Live: what a day!

Equilibrium educated, informed and entertained nearly 200 guests on 16 May 2018. Here are the highlights.

By Sam Richards

This spring saw Equilibrium host its first ever wealth conference, Equinox Live, a full day of education, information and entertainment. The jam-packed day included six presentations ranging from the infamous rogue Barings trader, Nick Leeson, discussing the importance of compliance and risk management, to TV star Alexis Conran revealing the tricks of the scamming trade.

The event, inspired by the success of *Equinox*, aimed to present an array of engaging topics from a diverse range of sectors, tied together by the single theme of maximising your assets.

Nick Leeson kicked off the day, recounting the tale of how he single-handedly brought down Barings Bank in 1995 to the audience of nearly 200 guests, before warning of the serious risks of unchecked trading.

Next was Michael Bell of JP Morgan Asset Management. Described in his own words as an 'unusual economist', he nevertheless gave a riveting talk on global markets. In particular, he explained the signs that can indicate an oncoming recession, comparing it to the lead up to a volcanic eruption.

Then there was Debate Mate, an educational charity that teaches children valuable life skills through the form of debate. Children ranging from primary school to university level debated 'should the rich pay more tax'. At the end, audience members were asked to applaud for their favourite side to decide the winner. Though young, the children dazzled our delegates and the auditorium was filled with applause!

After lunch, behavioural expert Greg B Davies took to the stage to discuss the psychological motivation behind investment decisions, using visual hallucinations to demonstrate the unreliability of human perception.

Next up was Alexis Conran, from the popular BBC TV show, The Real Hustle. His knowledge of scams stunned the audience, explaining that the easiest way to fall victim to a con-artist is to believe that you're too smart to be fooled.

Gervais Williams, Chairman and fund manager at asset management firm Miton, finished off the day. He explained the importance of a diversified portfolio, which can prevent you from falling prey to the risk of highly correlated assets.

Don't be disappointed if you missed out on the day, as plans for the next conference are already underway! This will be held at Alderley Park on 8 May 2019, the theme being 'Tomorrow's World'.

Find out more...

To keep up to date about Equilibrium's upcoming events, visit **www.eqllp.co.uk/events**.

Starting a new chapter

The Equilibrium team is growing, and we're excited to open our doors to a wider range of candidates than ever before.

By Sarah Warburton

Client Managers (our version of the traditional paraplanner role) are a vital ingredient to our company's service, so we're always on the lookout for potential recruits. However, there is a shortage of the skillset required for this role in the industry and it was apparent that if left unaddressed, this could become a huge barrier to the growth of the business.

We knew that we needed to find a solution. So, back in 2014, Managing Partner Gaynor Rigby proposed the implementation of a graduate programme. We wanted intelligent, articulate people with a passion for wealth management and so we started to link with local universities.

In the summer of 2015 we recruited our first tranche of fresh-faced graduates. The first year of the programme was a learning curve for all involved – I don't think they would mind me saying that whilst they had boundless enthusiasm, there was a lot they needed to learn. Not just about the role, but about the finer skills of working in an office with other people and as individuals.

Throughout the past three years we continued to recruit graduates and now have five fully qualified paraplanners and two well on their way.

Equilibrium has big growth plans and it's crucial that we continue to provide a first-class service to our clients regardless of our increasing size. To do this, we'll require a large team of skilled paraplanners, and so this year we have reviewed our programme again.

It has always been our ethos to hire people based on attitude and provide training for skills and we realised that we could apply this to our programme. A positive outlook can come from all walks of life and, if harnessed correctly, can create great results. Our Founder, Colin Lawson, didn't go to university – in fact, none of our equity partners did! So clearly a degree isn't essential to success.

There are plenty of alternative routes into employment that can add huge value into a business and so we have opened our newly titled Equilibrium Diploma Academy to a wider scope of candidates, from school leavers to those looking to retrain. The academy runs over two years, offers salaries that reflect individual experience and results in those taking part being fully diploma qualified at the end of the two years.

We focus heavily on training, re-skilling and advancement at Equilibrium and we want our academy to reflect that, whilst also serving our original purpose of filling a skills gap. We believe in focusing on talent and ability rather than blinkering ourselves by judging candidates based on the university they went to. We know from our own experiences over the past four years that professional and life experiences can be just as, if not more, valuable than academic ones, so we're adapting our approach to reflect that.

Find out more...

If you're interested in the Equilibrium Diploma Academy or would like more information, drop me an email: **sarah.warburton@eqllp.co.uk**.

A company owned by the people who work for it? Equinox explores how this new way of managing a business could be set to take over in the UK - by talking to the person who wrote the book on this, expert Chris Budd.

By Jon Yarker

> "
>
> It is about creating a sustainable business

There is an argument this can help drive business performance and innovation, while also allowing the (previous) owner of the business to continue profiting from it

It might sound odd at first, but a relatively new structure is allowing employees to own the company they work for. Called an Employee Ownership Trust (EOT), it allows business owners to hand over ownership to their employees and enable fairer distribution of profits (though the original owner still receives an income from this).

So how does this work? In a nutshell, a company first establishes an EOT and is then independently valued. The owner sells their shares to the EOT, which pays for the shares from reserves and out of future profit.

Once the payments for the shares have been completed, the net profit is available for the employees. Now they have a greater stake in the company via the EOT, employees will be more engaged with the company's outlook and more committed to helping create a profitable and sustainable business for the future. There are also tax benefits (according to current laws which are subject to change) and these are that employees can receive up to £3,600 each tax year from an EOT free from income tax – though not national insurance – and no income, inheritance or capital gains tax liabilities can arise from selling a controlling interest to an EOT.

There is an argument this can help drive business performance and innovation, while also allowing the (previous) owner of the business to continue profiting from it. What's more, the owner who has sold the business can do so without the pain of selling it to a competitor or to a larger firm that will simply swallow it up (and with it, all of its character). This is what drove Chris Budd to adopt the EOT structure.

Chris is a financial adviser who until recently headed up his own business, Ovation Finance. Chris didn't know how he was going to handle his business's succession and then came across the EOT phenomenon which – after a bit of research and due diligence – he fully embraced. Now Chris still receives an income via the EOT but is free to work on his new business - The Eternal Business Consultancy - and has even written a book about it ('The Eternal Business', reviewed on page 21). To find out more, Equinox sat down with Chris to find out what struck him about this structure.

"The most important thing about an EOT is that it's not simply about an ownership structure," says Chris. "It is about creating a sustainable business. I recently set up as a business consultant and many people ask about tax benefits of an EOT but that is not what this is about. Pursuing an EOT is part of a long-term plan."

The EOT allowed Chris to walk away from Ovation Finance, leaving it in the hands of his former employees who are now owners. Proud of what he had built, he was glad he didn't have to sell to a competitor or a consolidator. However, while the actual establishment of an EOT doesn't take long, preparing a business for the process can take years. Chris says "The owners need to make themselves the least important people in the business. They cannot walk away if they still need to run the business!"

Instead, everyone in the business has to have a clear sense of purpose and be working towards the same goal so it can take time to develop employees to this degree of responsibility. More specific steps, Chris notes, can include the delegation of decision making throughout the business and the spreading of responsibilities but refraining from announcing EOT plans too early.

"It is important owners do not announce an EOT until the business is ready," says Chris. "Keep things quiet, otherwise you'll make an announcement that is very difficult to work back from!

"The EOT is about creating a sustainable business. Once an owner sells to an EOT, they will be paid out of future profits that are coming from a business they no longer control. If that makes you feel nervous then you haven't done enough. That is the ultimate test for if your business is ready for the long term."

The EOT idea is starting to gain more coverage in the press and, with growth outlooks for British business looking sluggish amid growing uncertainty, more management boards and owners could come to consider it as an option. More EOTs are being established and John Lewis is arguably the most high profile business to take it up. Chris is bullish about how far the EOT could go as an option for business owners throughout the country and the benefits it could bring on a wider scale.

"The EOT works for businesses with 10-250 employees, and there are around 280,000 of these in the UK but only 320 EOT businesses, " says Chris. "I think this is going to take over. Employees will have a choice; work for the boss who makes the decisions and keeps all the profit or be one of the bosses, have a say and receive a share of the profit. The decision is easy! Given that employees gain fulfilment from being engaged with the company they work for, and that profit is shared amongst all employees, I genuinely think the EOT could bring about societal change."

Find out more online...

If you want to learn more, why not get in touch with Chris at www.theeternalbusiness.com.

The business owner exit map

Most owner managed businesses don't consider their exit options until it's too late. Here, Steven Lindsay, Corporate Finance Partner of accountancy firm Kay Johnson Gee - experts in advising on business sales – looks at the options available.

By Steven Lindsay

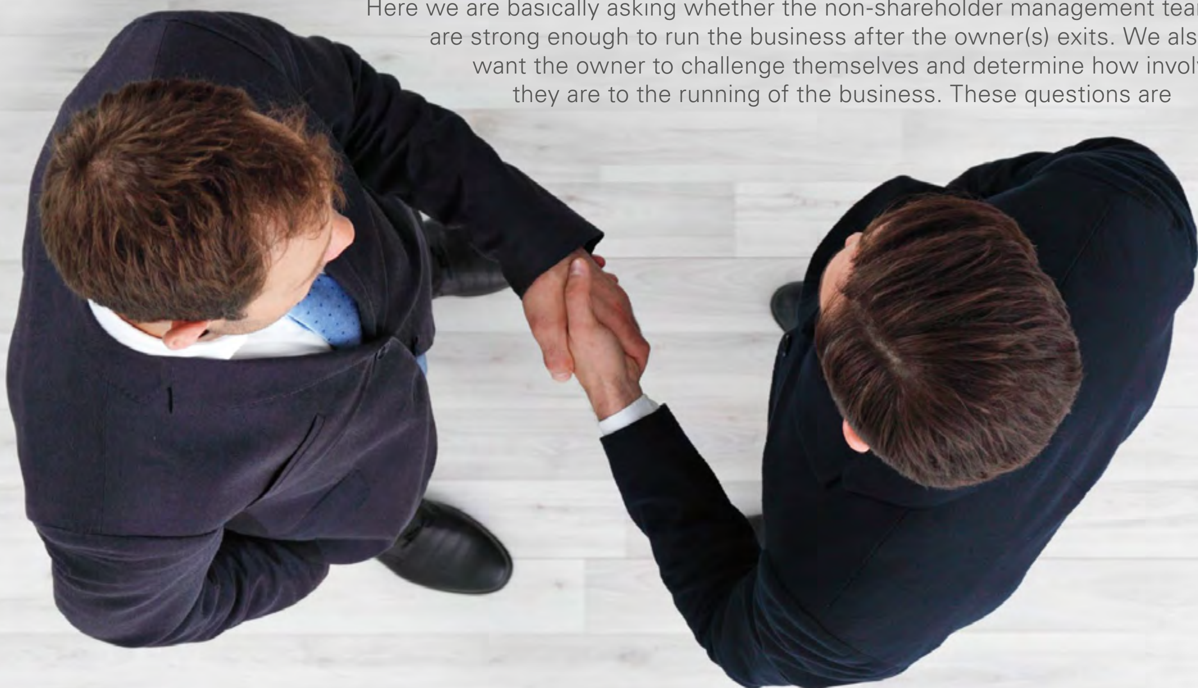
When a business owner is considering exiting their organisation, they will be faced with many decisions and dilemmas. The team at Kay Johnson Gee (KJG) use the map diagram - to the right - to put important questions to business owners in a methodical manner. Importantly, the map does not cover all options but is intended to be a helpful guide - allowing business owners to consider the questions they may need to ask of themselves. I'm going to go through some of these in more depth.

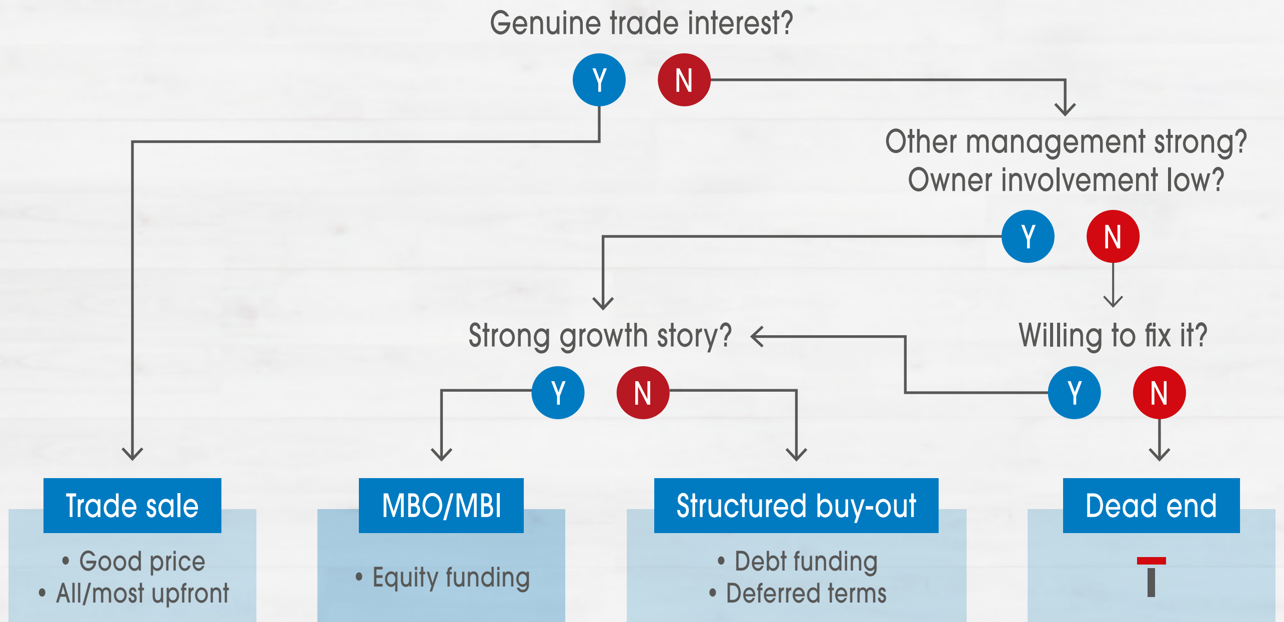
Q: Is there genuine trade interest?

First, is there a demand for the business and could a trade (i.e. corporate) buyer be easily found? If a business owner can sell to a trade buyer they normally will because the deal value and structure will usually be financially superior. At KJG, we use a 10-point evaluation of 'sellability' to quickly help business owners assess how likely this option is. However, we find that the majority of businesses cannot go down this path and instead they have to consider the alternatives. If this is the case, this brings us to our next big questions;

Q: Is the business's management strong? And how involved is the owner?

Here we are basically asking whether the non-shareholder management team are strong enough to run the business after the owner(s) exits. We also want the owner to challenge themselves and determine how involved they are to the running of the business. These questions are





crucial in deciding if the owner can consider handing the reins over to their colleagues and ultimately if the business is ready for them to exit.

Unfortunately, if management isn't strong and the owner is still very involved then the business is not in shape for sale. There is usually no quick fix for this and the owner will have to realise at that point their exit plan is at a 'dead end' (as you can see on the diagram!). However, if this isn't the case, then we have another question for the owner;

Q: Does the business have a strong growth story?

So, if the management team is able to run the business without the current owner then it needs to be established if the firm's growth story is strong enough to attract equity investors to help facilitate a buy out. If this is the case, then a complete exit is possible.

Some still mistakenly believe that a management buyout team join together and pool resources to gather the required amount. However, in the vast majority of cases, the management team will not raise the full funding from their own personal means. Even for a moderately sized business, this would probably not be possible. And if the business was small enough to make this theoretically viable, it would still probably represent too much personal risk for the management team.

If the management team needed additional funds for a buyout, the rest of the capital could be raised from third party sources. These can include:

- Private equity or venture capital
- Bank debt
- Invoice based (or asset based) finance

Another option can be a vendor deferred consideration (also sometimes known as a structured deal), where the vendor agrees to a proportion of the payment being delayed, sometimes subject to future profit levels. This can help make a sale possible if the right amount of funds aren't immediately available at that moment in time. These kinds of deals can depend on an array of different criteria being met but they can offer flexibility to help get a sale over the line.

Again, it is important to note that the map described above does not cover all options. Other possibilities include a voluntary winding up order or an employee ownership structure (see pages 14-15).

Whatever the journey and wherever these questions take the business owner, it is important to consider professional advice when considering a business exit. KJG are experts in the evaluation of exit options and can help owners consider the best way to achieve this.

Find out more online...

To find out more about how Kay Johnson Gee works with business sale projects, and the firm's other areas of expertise, visit their website at **www.kjgllp.com**.

Trade sales: a guide

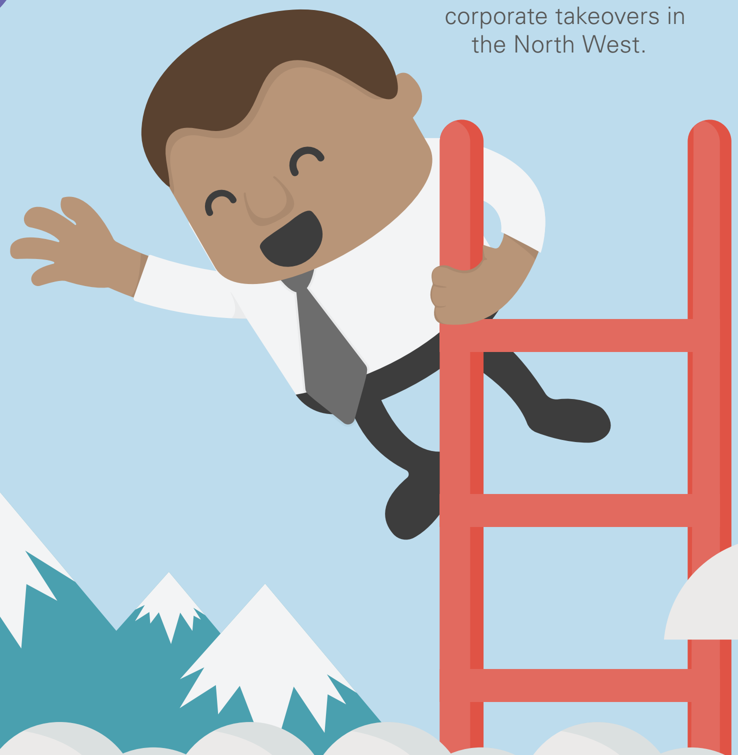
Selling a business can be a daunting prospect, especially when to a competitor. With so much at stake, Equinox spoke to Sam Mabon, of law firm Brabners LLP, a leading expert in this field to find out more.

By Jon Yarker

Many business owners will have a vague idea of how they will exit one day. Often, the goal is to simply sell the business and retire on the proceeds.

However, the sale process can be extremely complex. As Equilibrium's Ben Rogers points out on page 20, if not properly executed then business owners can miss out on the full potential of their sale. In some cases, they can end up working longer and harder than they originally planned, with possible impacts on the sale value of the business.

So, what can be done to avoid this? Unfortunately, each business is different, and last time we looked, there was no handy guide to this process. Therefore, *Equinox* decided to find out more from an expert on the topic. Sam Mabon is a partner at Brabners, one of the most experienced law firms in corporate takeovers in the North West.



Sam explains that the key to a successful trade sale is preparation; there can be a notable difference between wanting to sell and being ready to sell. Preparing for a sale is often much trickier than the sale itself – and takes a lot more time.

"As a rule of thumb, a typical transaction with a motivated buyer and seller and sensible advisers, can complete in six to eight weeks from issuance of the first draft of the purchase contract," Sam explains. Yet he suggests beginning to prepare for a sale 18 – 24 months before exit, starting by consulting a lawyer and accountant to iron out any issues or barriers to avoid the risk of potential claims and maximise the value of the business. This 'housekeeping' can take even longer if there are structural deficiencies to be addressed. Sam says: "For example, rarely will a purchaser want to acquire anything other than 100% of the business. Owners need to consider if there are minority shareholdings and what arrangements are in place to ensure that the whole of the business can be sold."

A major advantage to achieving the best price in a trade sale, as in any sale, is competition. Sam says: "One of the surest ways to achieve maximum value, but also the greatest opportunity for cultural alignment, is to create a competitive environment, with multiple buyers competing for the acquisition. Again, this takes some time to engineer, most often with the help of a corporate financier."

Trade sales can be extremely beneficial to companies in certain sectors, offering a fast pass to greater profits and growth by benefiting from economies of scale. But this is not applicable to all sectors, as Sam explains: "Localised businesses that require duplication of resources (for example an independent retailer or restauranteur) will find it harder to find a strategic acquirer on a buy and build strategy. The same could be said of a niche business where the pool of potential acquirers will be smaller than in a more mature market. Similarly, where there is no obvious underlying market value in the brand or intellectual property, this may also be of detriment."

Assessing value in certain sectors can also be an issue. While the majority of companies are priced based on their profits, the speed of advancement in the technology industry means that a company's value can plummet in a flash, while pre-revenue businesses can be worth millions purely in opportunity. "Facebook's acquisition of Instagram at $1 billion is an obvious example," Sam tells Equinox. "When the deal completed in 2012, Instagram had 30 million users, zero revenue and just 13 employees. However, the acquisition represented an opportunity for Facebook, coinciding with its IPO, which it has turned into a multi-billion dollar ad business with more than 700 million active monthly users."

Another issue for buyers to consider can be the excellent relationships already in place within a business; if significant value lies in the relationships between clients and staff, a buyer may require reassurance that these relationships are securely tied to their purchase. There are possible methods to achieve this, Sam advises: "Perhaps through incentives, by bonus, option or share awards facilitating participation in the sale, together with robust restrictive covenants in the employment contract."

Sam can't think of many sectors which Brabners have not advised in. He has been (and is currently) involved in numerous trade deals, of various shapes and sizes. Though there are differences in size and sector, according to Sam, trade sales have one common factor – the process is extremely demanding. With the potential to last years, trade sales can be time-consuming projects which isn't easy for business owners who still have to run their businesses in the meantime!

"The distraction cannot be underestimated," Sam advises. "It will help if you are able to lend one or two key stakeholders with a full knowledge of the business to devote themselves to the process on an almost full-time basis."

Sam's advice for those considering the trade sale route is to manage expectations from the start and be honest about any skeletons in the closet before a price is negotiated to prevent any problems, or even a decrease in price, further down the line.

He adds: "Finally, the vendor who is able to negotiate with the confidence of being able to away from a deal will most certainly win the most favourable terms."

How does a trade sale work?

No two trade sales are the same, but here is the basic route from ambition through to completion.

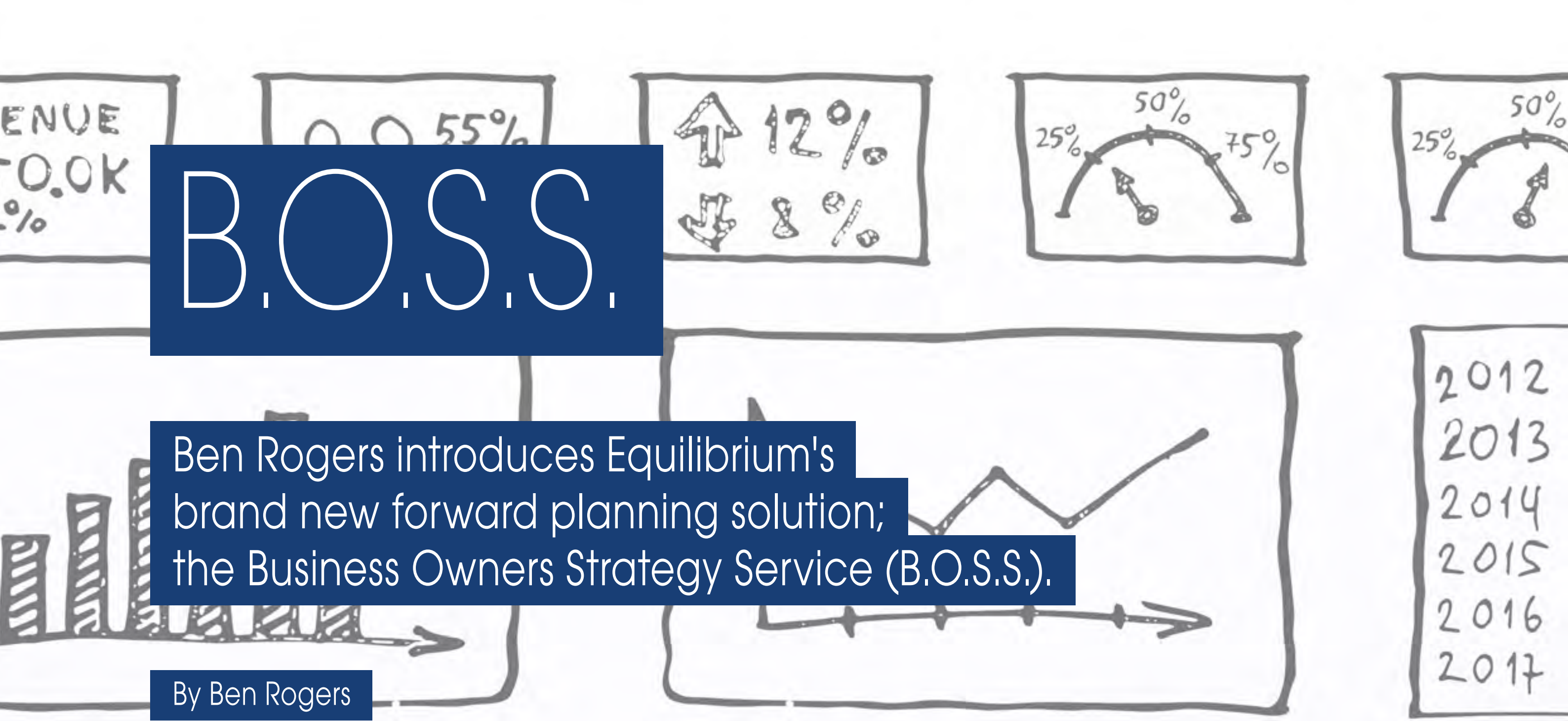
1. Finding a buyer – instead of putting a business on the open market, the most common tactic is to have buyers in mind first. Appointing a corporate financier or specialist sales broker is usually the first step. If there are several potential buyers, even better – as previously mentioned, a competitive environment is the surest route to maximising the value of a business.

2. Creating an Information Memorandum – this can be used as the basis of preliminary discussions around price and headline terms (if appointed, an adviser will help put this together).

3. Invitations for offers – once a potential buyer (or hopefully buyers) have been identified, offers are invited and heads of terms (or headline terms) are prepared and negotiated with the preferred suitor.

4. Legal stage – here a buyer will engage with their lawyers and accountants to commence legal, financial and tax due diligence. Subject to the deal size and sector, additional specialist commercial and technical due diligence may also need to be carried out.

5. Contracts – at this point long form agreements are issued, negotiated and – hopefully – concluded!



B.O.S.S.

Ben Rogers introduces Equilibrium's brand new forward planning solution; the Business Owners Strategy Service (B.O.S.S.).

By Ben Rogers

With time-starved business owners there can sometimes be a tendency to neglect personal forward planning. The business owners I meet generally have a clear focus on their business goals and how they are going to achieve them. After all, growing their business should do the same for their wealth.

However, the transition from 'business-owner' to 'wealth-owner' can present a vast array of opportunities but also present a number of pitfalls. Ensuring you can navigate a successful business exit means understanding two key elements:-

- What's it all for?
- How will my wealth work for me?

This is why Equilibrium has created the Business Owners Strategy Service (or B.O.S.S.). The service is designed to help you identify priorities for your life after exit and then lay the financial foundations for your future wealth to achieve them.

What's it all for?

Before your exit, taking a moment to consider yourself as an individual rather than as a business owner is invaluable. Asking some simple questions can give you a real sense of direction before you enter the hectic business sale stage. Not only can this provide a realistic idea of what you need in pounds and pence, it can also help you find the best exit strategy for you.

During the one-off meeting, the first stage of the B.O.S.S. is designed to help you sketch out an idea of what life post exit looks like, by identifying top level priorities such as;

- What will make it the right time for me to sell?
- What do I want for my business and staff? What are my priorities when it comes to exiting?
- What will I do after exit? Will I reinvest into other enterprises? Or will I enjoy a well-earned retirement?
- What do I want my legacy to be? How are my family prepared to receive wealth in the future?

How will my wealth work for me?

Once you understand what you want your wealth to do for you, there are simple steps that can be put in place which can have a massive impact on your future financial position. There are simple and straightforward tax planning strategies which, if established early, can have a massive impact on your total tax paid and therefore the overall returns and risk needed to meet your future goals.

As part of the B.O.S.S. we will provide actionable advice now so that when the time arrives to sell your business, you'll have a focused strategy in place to meet your future needs. This allows you to focus on what you do best; growing your business.

How does it work?

Following the meeting, you will receive full details of our discussions and the recommended actions. We can implement these as part of the service or you can take them to your existing adviser.

As with any aspect of financial planning, the sooner you engage the better. As such, the service is ideally targeted at business owners who are within five to ten years of selling their business or ceasing trading. But even with a shorter timeframe, there are still valuable steps you can take to prepare.

To find out more about the service and how it can help you create a firm financial plan for your future, please contact me at **ben.rogers@eqllp.co.uk** or visit **www.eqllp.co.uk/our-services/boss**.

What we are reading this month...

Jon Yarker, Marketing Executive

The Eternal Business

by Chris Budd

An interesting theme at the heart of 'The Eternal Business', by financial adviser Chris Budd, is that of legacy. Chris takes a deep look at why people go into business in the first place and it's refreshingly positive that the main reason isn't money (although this obviously plays a role).

Instead, the author looks at the goals of leaving a legacy and making a positive change to society. You can clearly tell from these pages that he is passionate about building a business and wants to help others to do so.

Chris writes from experience and this is very clear from the text - he walked away from his business by setting up an employee ownership structure (something we explore in more detail on pages 14-15).

Admittedly the book's subject matter may be quite niche for some readers, but he writes in an engaging and interesting manner. With a sprinkling of real life anecdotes in here (names and places have been changed), this can be a thought-provoking read provided you have an interest in business leadership and succession.

Dylan McLaren, 14 year old student

You Are Awesome

by Matthew Syed

'You Are Awesome' by Matthew Syed is a very motivational book for children and adults alike. Its colourful design really brings to life the motivational message Syed is trying to get across, which is about achieving your dreams and working towards life goals no matter how large they may be. The book is written to challenge ideas that hold you back from life aspirations, help you to gain a strong mind-set to go forward and make a positive impact to the world around you by showcasing your talents. There is a section in the book about famous people such as Mozart, Serena Williams, Jay Z and David Beckham, and how they overcame prejudice and followed their dreams regardless of their family background, race, reputation or skill. This really helps within the book as it tells everyone, no matter what the odds, your dreams are never impossible.

Reading this book, I learned not to give up so easily and continue working hard to be the best version of me I can be. Personally, I believe anyone who wants to achieve should read this book as it seems to help your dreams come closer to reality.

Driving the future of supercars

McLaren and Rolls-Royce: two iconic British brands, both synonymous with luxury and style. Now, the two global companies share a brand new home in their stunning, state-of-the-art dealership in the heart of Wilmslow, Cheshire.

By Sam Richards

McLaren Manchester and Rolls-Royce Motor Cars Manchester, both previously based in Knutsford, have relocated to a joint facility owned by Sytner Group. Following 18-months of renovation on the property, operations are now in full swing at the Wilmslow-based dealership. Its glamourous opening in April featured several TV stars among the attendees.

Stretching 18,000 square feet over two storeys, the showroom proudly displays a wide selection of supreme vehicles, exhibiting the super-luxurious and technological nature of the brands.

Jon Crossley, Managing Director at McLaren and Rolls-Royce Motor Cars Manchester, is thrilled with the new showroom, stating: "This elegant location is a true flagship for the Sytner Group as well as a hub for the business, allowing us to continue delivering the unparalleled service that we are famous for."

The dealership is just one of six McLaren retailers in the UK and the first in the world to feature certain elements of the future corporate identity, which will be rolled out

worldwide in the next 12 to 18 months. Manchester is a significant location for the global company, being one of the longest-standing and most successful McLaren retailers since it began operations in June 2011.

The relocation to their new facility highlights the growth of McLaren in the North West region on their journey to provide customers with not just luxury supercars, but an aspirational lifestyle brand. North West customers are able to commission bespoke McLaren vehicles designed perfectly for their needs and desires, providing a truly tailored service.

Manchester is also a key location for Rolls-Royce, with Rolls-Royce Motor Cars Manchester being in the top 10 dealers worldwide regarding sales volume and making up for 25% of UK sales. The Wilmslow dealership presents a sophisticated and welcoming experience for visitors to the showroom, which offers the entire collection of Rolls-Royce motor cars, including the all-new Phantom. The eighth and latest generation of the model is defined on the Rolls-Royce website as "the signature Rolls-Royce" and "an iconic and enduring interpretation of the modern motor car".

Regional Director at Rolls-Royce Motor Cars, Julian Jenkins said: "We manage our showroom locations with tremendous care and precision. We are thrilled that our North West presence in the brand's robust domestic market has relocated to this highly desirable location. This will help us continue to meet customers' expectations of unmatched service befitting of our super-luxury motor cars."

The facility has a specialist team to accommodate potential buyers, combining forward-looking technology and expert knowledge to create a truly superior customer experience. The dealership also offers a bar, a boardroom and business meeting

facility and spectacularly landscaped grounds for customers to enjoy.

McLaren Manchester was kind enough to loan a selection of their spectacular vehicles, as well as vehicles from their Bentley Manchester dealership in Knutsford, to the recent Annual Equilibrium Jamie Arnold track day, and we can attest that attendees were certainly not disappointed with their performance!

Find out more...

You can contact the dealership on **01625 416 250** for Rolls-Royce or **01625 416 260** for McLaren, or you can pop in at their new address: Deanway Technology Centre, Wilmslow Road, Wilmslow SK9 3FB. You can also find out more at **@mclarenmanchester** and **@rollsroycemcr** on Instagram.

Introducing... THE ANTHOLOGIST

Meet Jillian MacLean - the brains behind Manchester's newest city centre bar and restaurant, The Anthologist.

By Alex Bell

The Anthologist, Drake & Morgan's 23rd nationwide bar and restaurant venue and second in Manchester, is now open. Located inside One St Peter's Square in Manchester city centre, The Anthologist offers a relaxed all-day bar and restaurant environment, perfect for everything from breakfast meetings to after work drinks.

As the 'big sister' to The Refinery in Spinningfields, The Anthologist brings a flow of new drinks and dishes from across the globe, a unique range of innovative cocktails and all-day dining.

Scottish-born Jillian launched Drake & Morgan during the global recession in 2008 when she was 42. She tells *Equinox*: "Manchester is wonderful. The lovely sense of humour, the style, attitude and edge have all added up to The Anthologist receiving a very warm welcome. St Peter's Square is exquisite and fits our business model, which is to be at the base of buildings that have both office workers and locals nearby."

Open seven days a week, The Anthologist boasts an open kitchen and a striking cocktail bar. The venue also positively encourages dog-owners to bring along their beloved pooch when they pop in for some overdue R&R.

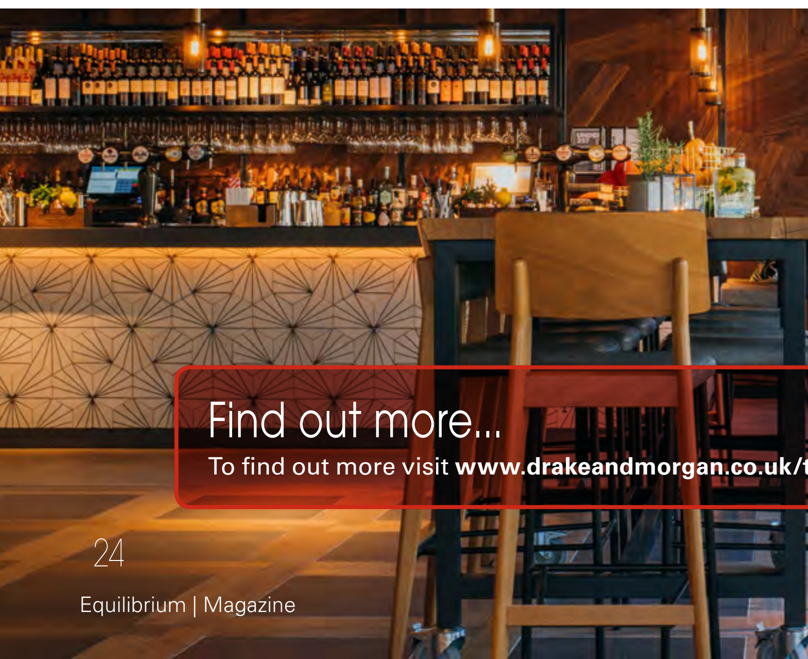
Proving no salad ever needs to be boring, the restaurant has taken inspiration from the 'godfather of fusion' – chef, restaurateur and food writer, Peter Gordon. Inspired by Peter's book 'Savour – Salads for All Seasons', there are five salads to showcase Peter's legendary flair for fusing interesting global ingredients and flavours to create delicious dishes.

Must-tries include baby beetroot with broad beans, goat's curd and hazelnuts; kohlrabi with watermelon, tofu, mangetout and candied walnuts; and roast cauliflower with seeds, olives, broad beans, peas and olive tapenade.

Then there's The Anthologist's small plates, sharing boards, burgers and mains, featuring impeccably sourced meat, fish and seafood such as a seabass with wilted greens and beurre blanc or chicken wings with maple, ale and chilli glaze.

Business breakfasts and brunches never looked better with dishes such as fritters with poached egg, labneh and mint; ricotta bruschetta with lemon, basil and honey; and grilled pink grapefruit with crème fraiche and pistachios.

With 45 of Drake & Morgan's 800 employees now serving food and drink to customers frequenting The Anthologist, Jillian says: "If someone had said to me 10 years ago that Drake & Morgan would have 23 sites by 2018, I would have laughed."



Find out more...

To find out more visit **www.drakeandmorgan.co.uk/the-anthologist-manchester.**

A winter's tale

Every year, thousands of elderly people in the UK are forced to choose between heating and eating. Here, Debbie Jukes discusses Equilibrium's innovative strategy to do more for those who need help.

By Debbie Jukes

According to the charity Age UK, one elderly person dies from the cold every seven minutes during winter, and the numbers dying from a cold-related illness have doubled since 2013/14 for those aged over 65.

Despite the Winter Fuel Payment being introduced in 1997 to address fuel poverty amongst pensioners, there are still over a million households in England who are classed as 'fuel poor', some of whom resort to reducing their food bills to cover the cost of keeping warm.

Ranging from £100 to £300 per person, the Winter Fuel Payment is made to over 8 million households currently, which equates to 12 million individuals. That is a significantly greater number than those who fall into the category of genuinely needing the benefit, as highlighted by the Work and Pensions Committee in 2016, who said that, "The Winter Fuel Payment is a universal benefit that is not focused on those who need it most".

In the boroughs of Cheshire East, Cheshire West and Chester, there are over 160,000 households that automatically receive the annual payment which, we estimate, amounts to over £27 million. How many of those really need the money, and how can those that don't, help those that do?

Baroness Joan Bakewell famously tried to send her payment back but "they wouldn't have it". So, what's the alternative? She proposed that wealthy pensioners could give it to charity, and Equilibrium would like you to do just that!

We have over 800 individuals amongst our clients that receive a Winter Fuel Payment and who, dare we suggest, do not rely upon this money to stay warm – it's certainly not included in our cashflow modelling and financial forecasts! That accounts for at least £87,000 per year which could cover the fuel poverty gap for over 200 less fortunate households in the local area.

That's why we're encouraging our clients to donate their Winter Fuel Payments to The Equilibrium Foundation which will, in turn, share them with various organisations to aid their efforts in helping the most vulnerable this winter.

For example, Age UK Stockport will be hosting a Winter Warmth Event, a lunch which provides useful information and a goodie bag of resources (including items such as hats, gloves and a thermometer) to help people keep warm in the winter months. Just one Winter Fuel Payment would get at least six people the help they need, so every donation can make a real difference.

Find out more...

To find out more about this initiative, contact Debbie Jukes at **debbie.jukes@eqllp.co.uk**.

Views from the frontline

In this edition of Equinox we ask four fund managers what they think are the main challenges and opportunities for their asset class at present.

Gervais Williams

Chairman and Fund Manager
Miton Multi Cap Income

UK Equities

What are the challenges?

After a decade of Quantitative Easing (QE) and easy market liquidity, many investors have grown used to it being part of the market landscape. As it is phased out, and conditions move back towards those that existed prior to the Global Financial Crisis, we are entering a period of market adjustment. Hence 2018 has been a period when stockmarkets have been more volatile. We have seen companies, with both geared balance sheets and disappointing trading, suffering particularly adverse share price movements on profit downgrades.

What are the opportunities?

We continue to identify company shares where the prospects for recovery are, in our view, overlooked. Interestingly, at times of elevated risk internationally, we believe the less correlated nature of UK quoted small and very small companies are becoming more appreciated. Certainly this is one of the reasons why many investors are increasing their holdings in FTSE AIM-listed company shares, and even though Brexit is becoming more imminent, returns amongst UK small company strategies have continued to outperform over the current year.

Equilibrium view

Whilst there are many challenges in UK equities, not least Brexit, we agree with Gervais that there are opportunities amongst smaller companies. The UK is currently fairly unloved by international investors, which makes parts of the market relatively cheap in our view.

Matthew Dobbs

Fund Manager
Schroder Asian Alpha Plus

Asian Equities

What are the challenges?

Asian equities currently face challenges on a number of fronts. Headlines have been dominated by the trade dispute between the US and China. Meanwhile, the Federal Reserve is raising interest rates while growth outside of the US has been decelerating, and expectations for earnings in Asia have started to be revised downwards. This has led to a sharp adjustment in investor expectations since the start of the year. However, the external trade balances of most countries across the region are in reasonable shape and, in the corporate sector, many companies have low levels of gearing and strong cash flows.

What are the opportunities?

Despite the trade issues, we are still finding a number of good opportunities among selected Asian exporters. We like companies that have complicated supply chains which makes it very difficult to source alternatives for their products elsewhere. A number of domestically focused growth stocks in areas like leisure, healthcare, internet services and education have come back to attractive levels. We also still like a number of the banks across the region. These are very strongly capitalised and as we don't expect there will be a very severe loan/loss cycle, we see an attractive combination of solid growth and undemanding valuations.

Equilibrium view

Concerns about the strong dollar and the trade dispute between the US and China have hit Asian markets this year. Over the long term we would expect growth in Asia to outpace much of the developed world. Given this and the recent sell off, Asian stocks look good value in our view.

George Shaw
Fund Manager
Standard Life Investments UK Retail Estate

UK Commercial Property

What are the challenges?

Brexit uncertainty continues to cloud outlooks and confidence in a range of asset classes. Whilst the UK economy bounced back in the second quarter after a weak start to the year, this amounted to little more than a return to trend growth rather than making up any 'lost ground'. London office markets remain broadly static with uncertainty around Brexit regularly cited as a factor for occupiers. The retail sector continues to face significant long-term structural challenges with few expansionary retailers in the market away from the value end and a continuing trend of store network rationalisation for poorer trading locations.

What are the opportunities?

UK commercial property continues to provide positive total returns with the industrial sector remaining comfortably the strongest part of the market in terms of occupier sentiment and fundamentals. Whilst London is challenging, the trend is slightly more positive in the 'big six' regional office markets, with the modest but steady upward trajectory of rents continuing and the vacancy rate being gradually eroded. The asset class continues to offer a comparatively elevated yield in a low growth environment.

Equilibrium view

UK property remains extremely polarised with sectors like industrial performing well and parts of the retail sector performing poorly. In our portfolios we have less property than usual and prefer funds with little exposure to London offices and to the high street.

Mark Holman
CEO and Portfolio Manager
TwentyFour Asset Management

Fixed Interest

What are the challenges?

The key challenge for fixed income investors now is knowing how long this credit cycle, the second longest in US history, can continue. If the geopolitical risks (political uncertainty in Europe, a US-China trade war etc) ease, focus will return to the relatively robust economic fundamentals and the cycle will extend. This would typically mean that corporate bonds would do well relative to government bonds. However, if these issues persist the US yield curve will likely invert, with longer dated yields below shorter maturities. Historically that has been seen as an indicator of recession. For us, it is still too early to make a decision on the end of the cycle. A portfolio positioned for the end would look completely different to a portfolio positioned for an extension, so the cost of being wrong is too high at the moment.

What are the opportunities?

We believe the best stance right now is to stay highly liquid in order to react quickly to changes in economic conditions. In doing so we would seek to maintain an attractive yield, but with a focus on the yield to duration relationship. Long duration bonds tend to underperform when rates increase. We will focus on shorter dated risk, higher credit quality and geographies furthest away from the end of the cycle, such as Europe and, opportunistically, the UK. Being nimble and highly liquid means we are able to take advantage should markets exhibit signs of volatility, as recently witnessed in early October.

Equilibrium view

It is a challenging time for fixed interest with interest rates going up in both the UK and US this year. However, now that rates and consequently bond yields are higher, returns may start to pick up. When that may happen depends partly on how close we are to the end of the economic and rate hiking cycle.

Investment review:

A new chapter: what's next for markets?

Welcome to the investment review section of this edition of Equinox.

By Mike Deverell, of Equilibrium Investment Management

8000
7800
7600
7400
7200
7000

Fed increases rates

£1 = $1.43

US announces major tariffs on Chinese products

FTSE 100

Source: Thomas Reuters Datastream / Equilibrium Investment team. Data from 5 Apr 18 to 5 Oct 18.

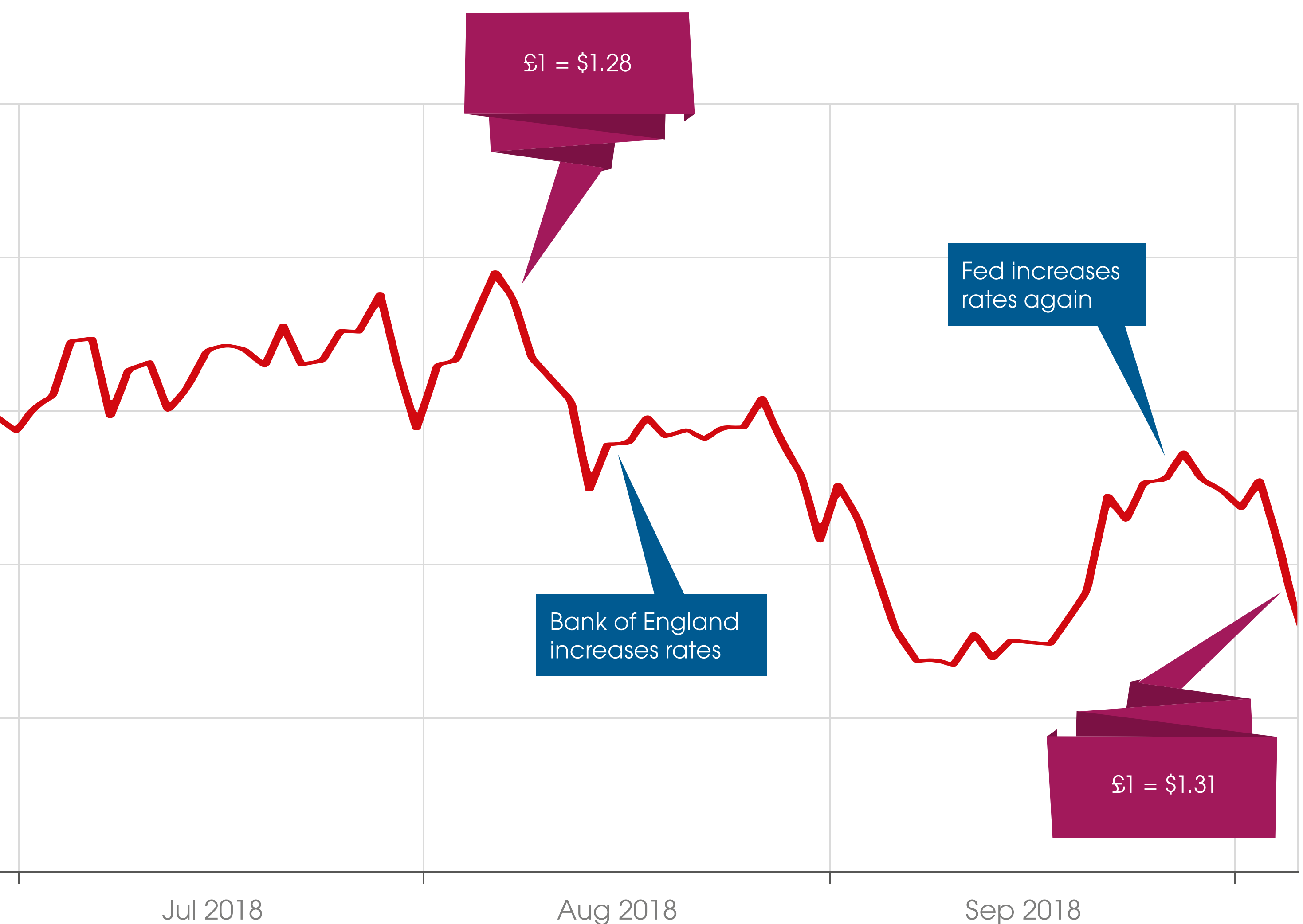
Apr 2018
May 2018
Jun 2018

32 **Market outlook**
With the headlines full of Brexit and Trump related stories, we look at how markets could be impacted (and have been so far).

33 **Asset class outlook & asset allocation**
Taking into account each asset class's headwinds, we explain the changes made to our portfolios and the reasons behind these.

Over recent times we seem to have been paying much more attention to global politics and central banks. Markets seem to be paying less attention to underlying fundamentals such as how well companies are doing, and focusing more on trade, taxation and currency fluctuations!

In this edition we'll look at how these factors all join together to drive markets and explain how this has affected portfolios over the past six months or so. As usual, we'll also give our thoughts on what might happen in the future and how this might impact returns.



36 Fund performance & sector analysis
Here we look at how our selected funds have held up in comparison to their relative benchmarks.

39 Portfolio performance
Over five years, all our portfolios have returned at least 5% above inflation and have outperformed their benchmarks.

Introduction

The past 12 months have been difficult for many investors. On 5 October 2017 the FTSE 100 closed at 7,507. A year later, on 5 October 2018, it finished the day at 7,318, down 2.5% in price terms. Factor in dividends, and the index is up 1.57% over 12 months.

Bond investors have had just as tough a time of it, as central banks put up interest rates. The FTSE UK Conventional Gilts Index has fallen by 0.23% over the same period (Total return. Source: FE Analytics).

In this context it has been difficult to achieve any sort of positive return, so in many ways we are quite pleased that a typical balanced investor has seen returns of 1.66% after all charges and platform fees. This has come with much lower risk with our portfolio having volatility around 25% less than gilts (3.74% vs 4.65%) and with just a third of the volatility of the FTSE 100 (11.25%).

In this environment every small way we can eke out additional returns can be extremely important. In particular, we are proud of our fund selection, where the funds held in portfolios significantly outperformed the equivalent index trackers (see page 36). In fact, since purchase, 79% of the funds we have invested in have beaten their sectors or benchmark by 10% or more, with 69% outperforming by at least 25%.

Meanwhile, our strategy of being active with asset allocation has enabled us to quickly capture opportunities, for example by purchasing equities and defined returns on market dips.

Over the coming pages we'll look at the factors driving markets and the positive effect of some of these points in more detail.

Predictably unpredictable

Markets have always been hard to call in the short term.

Over the long term, the price of a company's shares eventually reflects what has happened to that company. It reflects how much the firm's profits have risen or fallen, how much they have been able to pay out in dividends etc.

However, over the short-term, markets largely respond to changes in sentiment. This can be specifically to do with the company, a particular industry, or the overall economy. Share prices bounce all over the place as investors take into account all these factors and try to estimate the impact on future growth.

At present, both economic and company specific factors are even more unpredictable than usual because of the current political climate.

Some of the biggest drivers of market dynamics this year have been President Trump's policies around global trade and taxation. For us in the UK, Brexit has been a dominant driver. Between them, they have influenced the behaviour of virtually every asset class we invest in.

Sometimes politics has a direct impact on an asset class, but often the effect is indirect. In the middle is often the movements of currency markets.

Sterling takes a pounding

The movement of sterling clearly has a significant impact on our portfolios.

Sterling has been exceptionally volatile since the EU referendum when it fell sharply. It has remained below its pre-referendum level ever since but has bounced all over the place based on the direction that markets think Brexit is going. It seems as if every time a prominent politician opens their mouth, the currency moves 1% one way or the other!

In the past 12 months, sterling has gone from around $1.31 against the US dollar to a peak of $1.42 in April. It then fell to around $1.27 in August before returning to the $1.31 level it had been 12 months before. It went up over 8%, then down over 10%, before ending the year roughly flat. That is an exceptional set of moves for a developed market currency.

The biggest impact of sterling's fall has been on equities. When we buy overseas equities we don't hedge currency and so when we buy American shares we are also exposed to the dollar. Since we buy shares in multiple regions we have exposure to various currencies, so currency risk is partly diversified away.

However, when sterling makes broad moves there is an impact on all our overseas holdings. As the trend for sterling has mainly been downwards, this has generally had a positive impact. A fall in sterling means a rise in the relative value of other currencies, hence an increase in the value of our overseas shares. Of course, the opposite can be true when sterling strengthens.

The movement of sterling also impacts UK stocks. Approximately three quarters of the revenues of companies listed on the FTSE 100 come from outside the UK. A fall in sterling (for example) means that those revenues increase when they are converted back into pounds.

The movement of sterling is one of the key drivers of the FTSE 100 as can be seen in chart 1. This shows the market vs the pound since the referendum – one is a virtual mirror image of the other!

The other main driver of the FTSE is commodity prices, seeing as energy and mining stocks are a relatively large

Chart 1: FTSE 100 vs sterling

Source: Thomson Reuters Datastream / Equilibrium Investment Management LLP

proportion of the index. These are possibly even more unpredictable than currencies.

Over the long term, we have tended to get broad UK market exposure in portfolios by holding an index tracking fund. However, given the extent to which the FTSE as a whole is being driven by commodity and currency movements, a UK tracker is not something we particularly want to hold right now (with the exception of short-term tactical trading).

Instead, in our UK equity portfolios we want active funds where the managers look for good quality companies where such factors will not be the key driver of returns. In particular, we hold a higher proportion of smaller UK companies than usual.

Smaller companies tend to grow faster than large ones over the long term. At present, many investors are deliberately avoiding the more 'domestic' UK stocks which makes them relatively cheap. Whilst Brexit is an issue, many of these stocks tend to be in 'niche' companies which are outstanding in their field and can therefore do well regardless.

Within equities, we believe the best defence against Brexit uncertainty is diversification. By having a mixture of overseas and UK stocks, a big shift in currency in either direction should be absorbed by portfolios.

The dollar Trumps all other currencies

Whilst in the UK we have felt the effects of sterling, for the rest of the world it has all been about the US dollar.
Donald Trump's tax and trade policies have been one of the key drivers of global markets this year.

Firstly, his corporate tax cuts have boosted the net profits of US companies which have resulted in share price increases. In our view this is a key reason for the US stockmarket's outperformance this year.

The second main effect of Trump's tax reforms was encouraging US firms to repatriate cash that they hold abroad. For many years, the large US corporations have kept the profits accumulated outside of America in cash held offshore. Doing so meant they avoided paying US corporation tax on these profits.

However, the tax reforms also imposed a one off 'repatriation tax', essentially stating these accumulated profits would be taxed regardless of whether or not they are brought back to the US. As a result, many companies have begun winding down their overseas holdings and converting them into dollars.

Trump has also created demand for dollars through his trade policies. He believes America gets a raw deal through global trade and is determined to reset the balance. His main weapon has been to impose tariffs on imports.

One of the main criticisms of using tariffs to influence trade is that the currency market adjusts to take them into account. Imagine you are a Brazilian manufacturer, for example, selling your widgets solely into America. If the US imposes a tariff of 10% on all Brazilian imports, then your product will cost the American public $1.10 to buy a widget where it had previously cost $1.

In theory, of course Americans might switch to buying US widgets instead. However, in practice American widgets might still be more expensive or widgets might simply not be made in America.

What therefore tends to happen is the exchange rate between the two countries will move to offset the impact of the tariff. If the Brazilian real depreciates by 10% against the dollar, Brazilian widgets will cost the American public the same as they always did.

As a result, the dollar has gone up sharply against virtually every other currency. To put it another way, the currencies of some countries have fallen sharply.

Whilst these types of currency movements help protect a country's exports, it causes other issues, not least that import prices increase and thus inflation will rise.

Even more problematic is that many emerging market countries and companies still have a large proportion of their debts denominated in dollars. This means the cost of servicing those debts increases, exacerbating other structural issues in some emerging economies.

The strong dollar has had a significant impact on global stock markets, particularly emerging markets. For equity investors, so far 2018 has very much been about America vs the rest of the world.

Chart 2 illustrates how the US stock market has diverged from the rest of the world in 2018. The blue line shows the S&P 500 whilst the red line is the MSCI World ex USA. Both are shown in dollar terms.

You can see that these markets tracked each other closely until May which was around the time the first major trade tariffs on China were announced. Since then, the lines have gone in different directions.

The only stockmarket that has done well of late has been in the US. You might conclude that President Trump's policy of putting 'America first' is working, for the time being at least.

Chart 2: S&P 500 vs MSCI World ex USA

Market outlook

At the beginning of this year, we were concerned that stockmarkets were getting well ahead of themselves.

Many markets were trading on very high multiples of the underlying earnings of the companies. In essence, their share prices had grown at a much faster rate than profits, leading many markets to look expensive in our view.

The good news is that the correction in some of these markets now makes them look much better value again.

Chart 3 shows our own proprietary indicator of value for each market. This combines a number of factors such as the ratio between price and earnings, and comparisons between the market value of companies with their book value.

The green bar for each region shows the current valuation relative to history. The higher the bar, the more expensive the market. The line across the middle is the long-term average.

Earlier this year, several markets were at, or higher than, one standard deviation above their long-term averages. For non-statisticians that simply means it is quite unusual for us to see markets around those levels.

Now, most markets are somewhat cheaper. The UK and Japan are back below their long-term averages and China is also back to 'fair value' on this indicator.

The US market stands out. If anything, it has become more expensive this year and remains more than one standard deviation above average.

Whilst earnings have grown solidly in America over the past couple of years, helped by the tax reforms, their share prices have grown too. With markets this high it would not be surprising if we saw a sharp correction in our view.

Looking at historic data, when our indicator has been at similar levels in the past the returns over a typical five year period have been very low, sometimes even below zero.

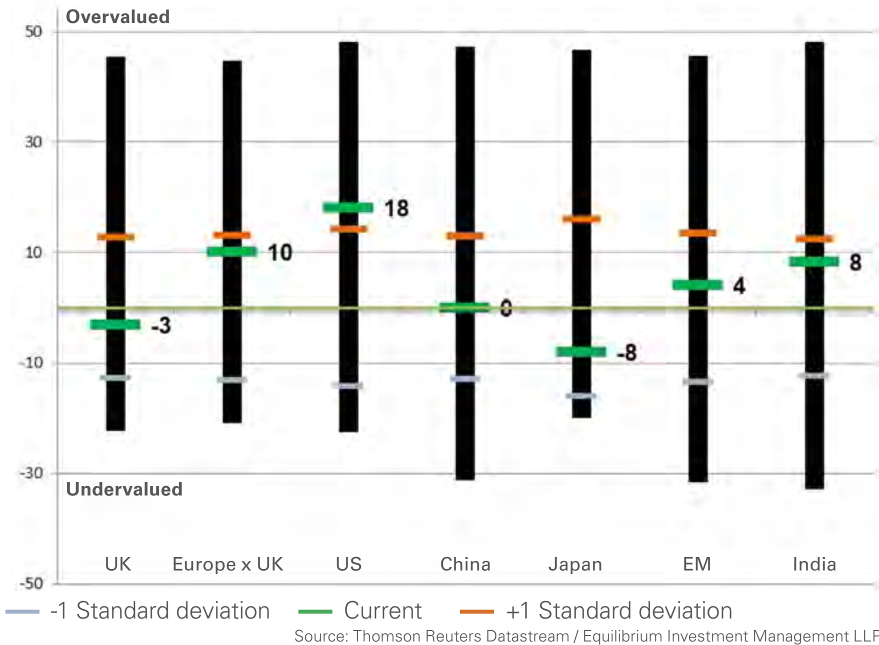
Of course, things might be different in the future however it does illustrate our current caution. Whilst other markets look better value, if there is a correction in the US then it is difficult to imagine other markets avoiding a similar dip. Global markets tend to go up and down together, it's usually just the magnitude which changes. Periods such as that we have seen recently, where markets have gone in totally different directions, are quite unusual.

The end of the cycle?

Another reason to be cautious, particularly with respect to the US, is that we think it must be nearing the end of its current economic expansion.

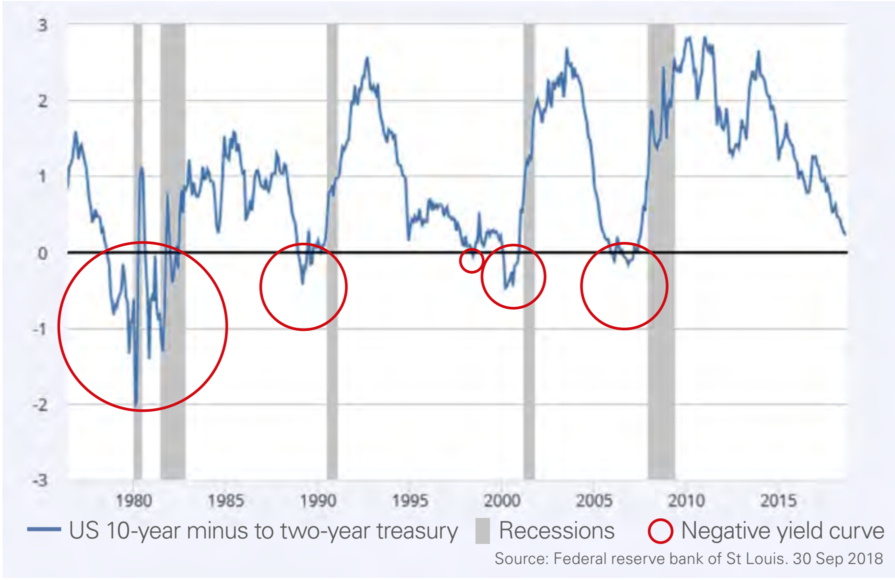
Economies move in cycles, from boom to bust. These words are quite emotive and imply spectacular movements. That is not always the case and some expansions can be relatively muted, whilst some recessions can be quite shallow.

Chart 3: Market valuation



Source: Thomson Reuters Datastream / Equilibrium Investment Management LLP

Chart 4: Recession looming?



Source: Federal reserve bank of St Louis. 30 Sep 2018

What we do know is that the current expansion has been relatively long with the US growing steadily since the end of the financial crisis in 2009.

When an economy is at relatively full employment, as it is now, we tend to see wage growth, which can eventually lead to inflation. Central banks try to get ahead of the curve, aiming to control inflation by increasing interest rates, consequently making borrowing more expensive for companies and individuals.

Importantly, the level of current and expected interest rates sheds some insight into how market participants think the economy may grow in the future.

Government bonds (such as UK gilts and US treasuries) generally reflect what will likely happen to interest rates in the future. Normally, longer dated bonds tend to yield more than shorter dated bonds, as investors demand a 'term premium' for lending to governments for a longer period.

Occasionally, this 'yield curve' can invert with long-term interest rates below short-term rates.

When this happens it essentially means that market participants think that rates will need to be cut at some point in the future. Rate cuts normally happen when an economy is slowing or going into recession.

This means that the bond market has historically been a great indicator of recessions. Chart 4 shows the yield premium of a 10-year US treasury relative to a two-year bond going back to the 1970s. Most of the time there is a yield premium but occasionally this inverts and the blue line goes below zero (black line).

The grey shaded areas are when the US economy has been in recession. You can see that the yield curve tends to go negative before a recession.

We can also see the yield curve has been flattening this year as the Federal Reserve (The Fed) has been putting up interest rates, pushing up the yields of short-term bonds. However, the yields of long-term bonds have not risen nearly as much. As of the end of September, the 10-year bond only yielded 0.24% pa more than a two-year bond. Not much of a term premium.

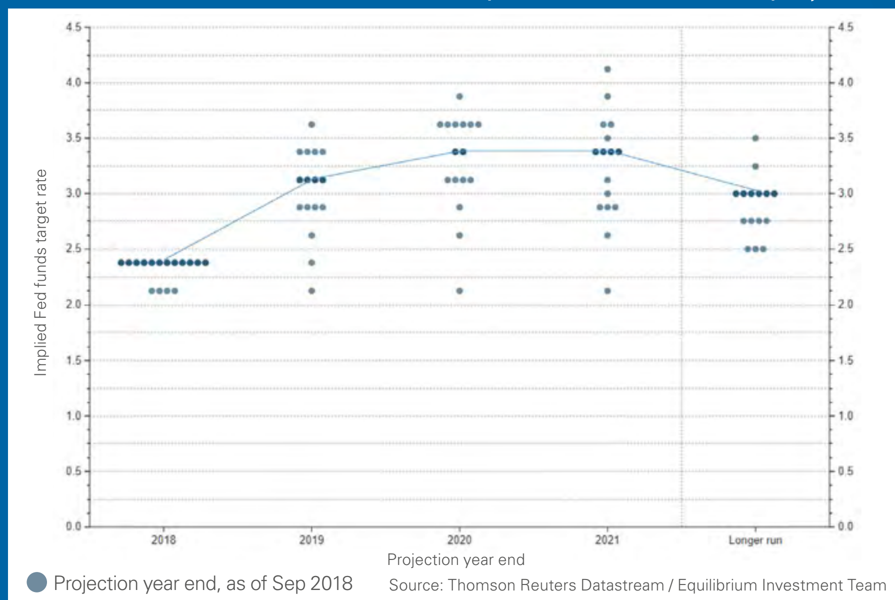
At the current pace this yield curve could invert by the end of the year. Does this mean a recession will follow?

Many people argue that the yield curve is no longer such a good indicator as it is distorted by quantitative easing which has pushed down long-term bond yields. Also, as with many financial indicators, the fact that it is so well known means it may well be less effective.

All of this is perfectly true. However, one reason why it may still be worth watching is the way it reflects what the Federal Reserve are saying themselves.

Chart 5 shows the Fed's 'dot plot'. At every Fed meeting, each member of their committee states where they think rates will be at the end of each of the next few years, and in the longer run. Each member's prediction is plotted on a chart.

Chart 5: Federal open market committee projections



The blue line on the chart simply joins up the median vote for each year. What this shows is that the Fed thinks it will increase rates again a few times next year, followed by perhaps one further hike in 2020. They think rates will stay the same in 2021, before having to be cut slightly in the longer run.

The Fed is saying a similar thing to the yield curve; longer term rates may have to be lower than short-term rates. The time to stop increasing and start cutting is getting closer.

It's possibly not coincidental that the fiscal stimulus of Trump's tax and spending reforms, which has boosted the US economy in the short term, will expire in 2020. Unless this temporary spending boost is repeated, this will act as a drag on growth.

The majority of forecasters think that the US could enter recession within the next two years. We also know that stockmarkets often peak well in advance of recessions, (perhaps nine months on average) which could mean we're not far from that point.

We've focused on the US here, the size of their economy and the way it affects the rest of the world means that a US recession would have a global impact.

UK asset classes

We talked earlier about some of the impacts of currency movements. The outcome of Brexit negotiations seem certain to have a big impact on sterling, in one direction or another.

Schroders Economic Group recently surveyed a range of forecasters, asking them where sterling might be in a "no deal/cliff-edge Brexit" scenario and in a scenario where we have a 'withdrawal agreement and transition period'.

The most common answers were $1.10 in and $1.40 respectively. This is an extremely wide range of outcomes.

Given the link between the pound and the stockmarket, UK equities could fall sharply if the pound hits $1.40. On the other hand, an exchange rate of $1.10 would mean high inflation which could hurt the UK economy.

In many ways the property and bond markets are much more likely to be directly affected by any slowdown in the UK economy.

After the referendum in 2016, the Bank of England cut interest rates and instigated additional quantitative easing. This gives us a potential template for how they may react in a no deal Brexit scenario.

Some speculate that a particularly sharp fall in the pound may force the Bank to put rates up to defend the currency. However, we think the Bank would only do so reluctantly if the depreciation was particularly sharp, and certainly not at first.

If rates were cut, gilt prices would probably rise in the short-term. True, if global investors became worried about the long-term government finances they might see the UK as a credit risk, but that is probably a long-term implication rather than short-term.

If we have falling rates and rising inflation then index linked gilts could do well. That is why we have a small position in portfolios, as a 'Brexit hedge'.

Commercial property outlook

Setting Brexit to one side for a moment, the prospects for commercial property are mixed to say the least.

Chart 6 shows the latest forecasts from the Investment Property Forum, a group of property investors and fund managers. This represents what they believe the most likely possible returns are from each class of property over the next five years.

The chart gives a range of forecasts, with the median being where the red and purple lines meet.

In particular, we can see that the prospects for shopping centres and standard retail is poor. Meanwhile, the prospects for industrial buildings is seen as very positive.

The main driver for this is the digitisation of our shopping habits. As we do more shopping online, traditional shops suffer and we have seen a number of retailers enter administration this year.

However, online retail still requires buildings such as warehouses and distribution centres. Right now the focus is on 'last mile' delivery as they attempt to reduce dispatch times. This means there is demand for small units in local industrial parks as well as the large 'sheds' we see springing up by the side of motorways (think Airport City near Manchester Airport, for example).

We hold less property than normal as we are being very selective about the types of funds we hold. As well as more industrial and less retail, we also want very little London office exposure which is most vulnerable to Brexit.

We also have to be somewhat wary because property is perhaps the asset class most directly linked to the real economy. Property prices fall in a recession and when growth is strong they rise. Given the potential outlook for the UK economy if Brexit goes badly, we have to limit our exposure.

Asset allocation

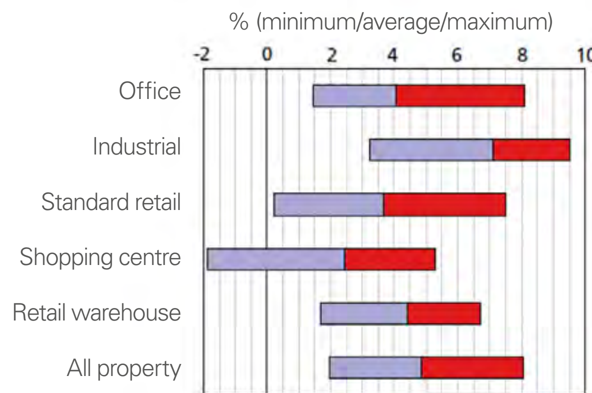
Given all the risks we've discussed, it won't surprise you that we remain relatively cautiously positioned. The important word there is 'relatively'. Despite multiple risks we still think some decent returns can be achieved with careful allocation.

Chart 7 shows our current estimated returns, or as we like to call it our 'best guess' for the annualised returns of each of the main asset classes we invest in over the next 18 months. It also shows the potential range of outcomes we think are possible in a likely positive or negative scenario.

The dots on the chart show our average estimated returns whilst the bars indicate the range of potential outcomes. These are, of course, only our views and we could be completely wrong and we can't guarantee returns as investments can fall as well as rise. However, going through this exercise helps us make asset allocation decisions. You should also note the range of potential returns given don't reflect the more extreme possible outcomes but only those we think fall within roughly a 70% 'confidence level'.

Based on our best guesses for returns, a typical balanced portfolio may return around 7.3% over the next 18 months, which is in line with long-term target returns.

Chart 6: Property price forecasts



Source: Investment Property Forum

Chart 7: Estimated 'best guess' asset class return predictions (annualised)

Source: Equilibrium Investment Team

However, you will note that the range of potential returns extends a lot further below this target return than it does exceed it. In financial jargon, 'the risks are skewed to the downside'.

It is also important to note that the expected returns are based on our current positioning in each asset class. For example, within equities we hold less US stocks than most investors and more in Asia, including China and Japan. We think this increases the potential return which is reflected in the our estimates.

Defined returns and alternative equity

You will note that our best guess for returns from equities is around 8.7% per annum.

You can also see that our expected return for alternative equity and defined returns is around the same level. However, the expected losses in our more pessimistic case are less steep for these asset classes.

We take into account both risk and return when making portfolio decisions. If two assets have similar expected returns but one has less risk, we will always opt for the one with less risk.

Defined returns are structured products based on stock markets. These products provide pre-defined returns in a given outcome.

For example, in September when the FTSE 100 fell sharply, we asked one of the investment banks we work with to set us up a new product for us at a relative market low. If the FTSE 100 is at or above 7,318 on its first anniversary on 6 September 2019, our new product will end giving us a 10.35% return before charges.

If the market is down over that first 12 months, the product simply rolls on to the next anniversary. This can happen for up to six years, the potential return increasing by 10.35% each year.

> If two assets have similar expected returns but one has less risk, we will always opt for the one with less risk

Providing the markets don't go down over but simply go sideways, we therefore can achieve a return of around 10% pa. Given we think that markets are most likely to rise over time (but perhaps less than 10% pa) this looks attractive to us. If markets are down over six years we simply get our money back, unless the index is down by 40% or more on that date.

Our expected return for defined returns as shown in chart 7 is based on the prices as of 5 October and assuming they kick out (mature) within the next two years.

However, these products come with credit risk. For example, the latest product is with JP Morgan and if they ran into trouble then they could default on this debt, as with any bond. Alternative equity falls into a similar category as we think the downside risk is lower than traditional equity. The funds tend to describe themselves as 'absolute return', but this does not mean they are without risk. What makes them attractive is that they are lowly correlated to other asset classes, and can potentially make money even if stockmarkets fall. Many can make money from stocks falling as well as rising so we hold more in this area given the current risks in traditional stocks.

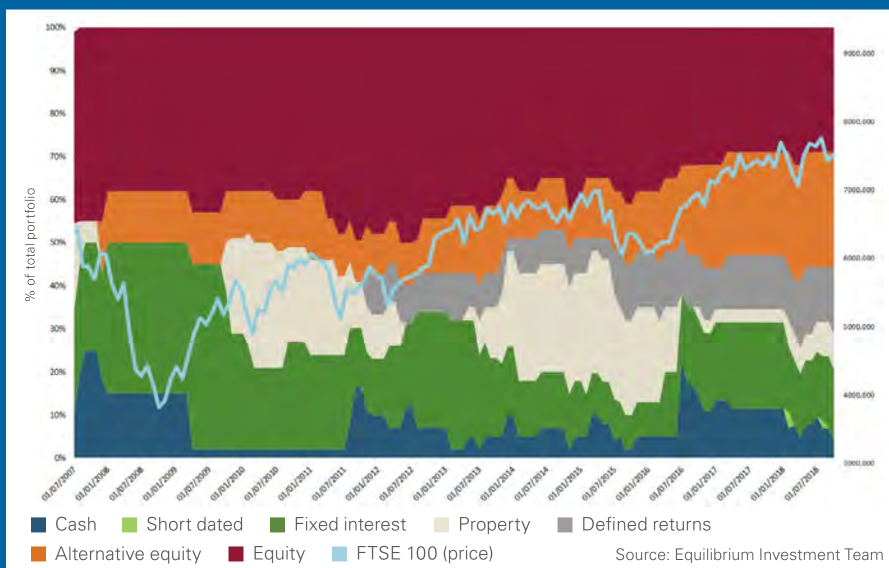
Volatility trading

The other tactic we use to deal with the ups and downs of markets is what we call 'volatility trading'. Essentially, we hold a small amount of money to one side in cash or other low risk assets.

We set a target level of the market at which we plan to switch. If this is triggered we purchase an index tracker which we then sell when markets recover. We have done this regularly over time and it helps to eke out extra returns in volatile times, whilst controlling the risk.

Whilst this commentary is meant to be as of 5 October before we went to print, we carried out a volatility trade on 10 or 11 October 2018 (depending on how clients invest with us). We purchased a FTSE 100 tracking fund when markets got to our trigger level of 7,200.

Chart 8: Equilibrium balanced portfolio asset allocation



Source: Equilibrium Investment Team

Chart 8 shows how the asset allocation of our balanced model portfolio has changed since it was launched in 2008. The red area is equity. When it is larger, we hold more equity as a percentage of portfolios.

The light blue line shows the FTSE 100 over the same period. You can see that we typically hold more equities when markets are low and sell as they move higher.

This process makes sure we sell high and buy low, which a surprising number of investors struggle to do! Often investors get carried away chasing returns when markets are going up. Meanwhile, in a bear market the instinct is often to sell. Much of the time, this is precisely the wrong thing to do.

Sector performance & analysis

Fund selection

We constantly review the funds we hold to ensure they are doing the job we want them to do. Of course, the most important point is how they are performing compared to the relevant market.

A lot of academic research has been done into whether active funds outperform the market consistently over time. Much of this research shows that very few funds do so and most investors are usually better off buying an index tracking fund.

We invest in both active and passive funds. Most of the research into the subject is based on the US market, and we do only hold index funds for our US equity exposure at present. However, our own research shows that in other, less efficient markets active funds can outperform. In our opinion, we consider UK small companies to be a less efficient market.

If we buy active funds, the bare minimum we require is that they beat their passive equivalent on a risk adjusted basis.

Table 1 shows how the equity content of a balanced portfolio has performed over five years. It also shows how our equities would have performed had we solely used index tracking funds, taking into account all the same regional allocation and changes that we carried out over time.

The FTSE All-Share is also shown in the table. This returned 6.88% pa over five years, whereas the more global passive equity mix returned 8.57% pa. However, the funds we actually bought returned 10.43% pa.

The table also shows that measures of risk like volatility and maximum drawdown (the most you could have lost over this period if you bought at the top and sold at the bottom) was much lower in our portfolio.

Whilst we focus mainly on asset allocation, which historically has the biggest impact on returns, the difference between investing in a good or an average fund can also be significant.

UK equities

As discussed earlier when we looked at sterling, currently we only hold actively managed UK funds and we particularly like those that focus on smaller companies. This has helped returns over the past year.

We split our UK funds into two main buckets; UK Conservative Equity, which we would expect to be less volatile than the market, and UK Dynamic, which can be more volatile but offers higher potential returns.

In Table 2 we can see both of these portfolios have done well over the last 12 months, beating their respective sectors.

Table 1: Equilibrium balanced portfolio performance

Portfolio	Return annualised % pa over 5 years	Maximum Drawdown	Volatility
EQ balanced equity	10.43	-12.75	10.42
Hypothetical balanced Equity with passive trackers*	8.57	-18.86	11.98
FTSE All-Share Index	6.88	-16.32	12.30

* Hypothetical portfolio follows our equity allocation but using index tracking funds from iShares and Vanguard. Details available on request.

Source: FE Analytics, five years ending 5 October 2018

Global established

At a pure index level, the US stock market has blown away the other established markets in terms of returns (we define established markets as those in North America, Western Europe and Japan).

For example, over 12 months the average US fund is up 15.84%, whilst the average Japanese fund has gained 8.71%. The European sector has actually lost 2.55% over the same period.

We have gradually reduced our US exposure over the past couple of years as the market there has become increasingly expensive. By contrast, we have held more in Japan than usual as we feel this market is relatively good value.

In Table 3, we can see over six months this has slightly hurt performance, but the portfolio remains ahead over 12 months and three years. This is partly because our fund selection in each region has generally been very positive. For example, the Miton European fund has returned almost 4.5 times the average fund in its sector over six months.

Global speculative

It has been a difficult period for emerging markets since the start of 2018.

The strong dollar and the US trade policies have been some of the main drivers.

In Table 4, we can see our preference for Asian markets has helped relative performance compared to the global emerging markets benchmark. Our Hong Kong and China fund has actually gained over 12 months even though the emerging market sector is down 7.85% over this period. Unfortunately, the Indian position established relatively recently has so far detracted from returns.

There are still compelling reasons to invest in selective emerging markets, which continue to grow faster than

Table 2: UK equity fund performance

	6 months %	1 year %	3 years %
LF Miton UK Multi Cap Income B Inst Inc TR in GB	4.61	3.66	24.43
Rathbone Income Inst Acc in GB	6.16	0.37	20.97
Royal London UK Equity Income M Acc TR in GB	6.88	3.11	30.51
Equilibrium UK Conservative Equity	5.75	2.51	21.82
Sector : UT UK Equity Income TR in GB	5.00	1.03	21.49
LF Miton UK Value Opportunities B Inst Inc TR in GB	3.27	-0.24	23.40
Lindsell Train LF Lindsell Train UK Equity in GB	6.24	7.13	43.92
Marlborough Special Situations in GB	6.99	9.48	53.63
Equilibrium UK Dynamic Portfolio	5.86	6.30	41.87
Sector : UT UK All Companies TR in GB	5.56	2.45	27.48

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

Source: FE Analytics. All data as of 5 October

Table 3: Global established fund performance

	6 months %	1 year %	3 years %
Baillie Gifford Japanese B Inc TR in GB	6.96	11.90	85.65
Schroder Tokyo A Inc TR in GB	5.08	6.55	52.60
Sector : UT Japan TR in GB	5.53	8.71	60.34
BlackRock European Dynamic FD Inc TR in GB	5.92	0.63	52.32
LF Miton European Opportunities F Acc in GB	13.09	Not held	Not held
Sector : UT Europe Excluding UK TR in GB	2.94	-2.55	39.92
Vanguard US Equity Index A Inc TR in GB	16.28	14.53	75.41
Sector : UT North America TR in GB	17.58	15.84	73.81
Portfolio : Equilibrium Global Established Portfolio	9.36	8.63	66.15
Portfolio : Global Est. Benchmark TR in GB**	11.49	8.32	59.60

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

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

Source: FE Analytics. All data as of 5 October

many established economies. Given the recent moves, we think many also look relatively cheap.

AIM

The primary purpose of this portfolio is for inheritance tax planning. The portfolio only invests in stocks which we believe qualify for business relief (BR).

Investors have been more cautious over the last 12 months in comparison to the same period last year. A number of factors, including concerns over trade wars and the Brexit negotiations, have served to raise the risks for corporate profitability. As a result the portfolio returned just 1.12% over 12 months. The FTSE AIM Index returned 6.21% over the same period.

The index has done a little better than the portfolio largely due to the performance of a few large stocks such as Boohoo Group (which is up 19.45%) and Hurricane Energy (up 75.6%) which are not held as we believe they do not qualify for BR. For comparison, the FTSE All-Share returned 1.6% over the period.

In terms of the individual stocks held in the portfolio, four stocks had strong returns of more than 50% over the year, namely, Burford Capital (litigation finance), Dart Group (the operator of Jet2 holidays), GB Group (internet security) and Gamma Communications (a telecoms provider). This broad mix of companies underlines the diversity of businesses held in the portfolio.

Looking at the negative attributors, two stocks stand out as having fallen by more than half. Mulberry, the leather goods company, has been weak on the back of the Debenhams closures and by lowered expectations of Chinese demand for luxury items. The other stock was Conviviality which went into administration after a series of managerial blunders.

Fixed interest

In the past year, the Bank of England has increased interest rates twice and the Fed four times.

Such an environment is usually a difficult one for many corporate and government bonds. As they pay a fixed level of interest, as cash rates increase they have begun to look less attractive by comparison. This means that the price of the bonds tends to go down, and therefore the yield goes up.

Given this environment, our fixed interest portfolio has made only 0.67% over 12 months. It has at least done better than gilts and the average corporate bond fund over this period, which have lost money. Our portfolio has also been a lot less volatile.

The outlook for further interest rate increases partly depends on what happens to the economy as a whole. In the UK, that is of course dependent on what happens in terms of any Brexit deal.

Property

Property has had a relatively solid year despite headwinds in the UK economy.

Our portfolio has returned 5.17% over the past 12 months, slightly below the average direct property fund (excluding charity funds etc) which returned 5.3%.

Our funds invest in physical buildings, and the price of these is much more stable than equity prices. Returns are mainly driven by rental income, so we usually see a fairly slow and steady return.

The trade-off for this stability is liquidity. If property funds experience outflows then they may need to sell buildings, which can be a slow and expensive process. To facilitate this, the funds are able to impose a moratorium on withdrawals in extreme circumstances. Therefore, we are limiting our exposure at present.

Alternative equity

Alternative equity has had a disappointing period of late.

The funds in this part of the portfolio are selected so that they do something that is both different to the main asset classes and to each other. However, during August we had three of these funds underperform for three entirely different reasons.

Our infrastructure fund was invested in the company that operated the bridge which collapsed in Italy. Another of our funds held Italian bonds, whilst the third suffered as its largest equity holding fell sharply.

Over five years, the performance of the portfolio has lagged the FTSE All-Share (returning 26.22% and 40.38% respectively). This demonstrates the sort of behaviour we'd expect from the portfolio over the long term. In particular, it has tended to protect well when markets have fallen sharply. However, over 12 months it is down 0.54% whilst the FTSE All-Share is up 1.63%.

Table 4: Global speculative fund performance

	6 months %	1 year %	3 years %
GS India Equity Portfolio I GBP TR in GB	-15.30	-15.61	Not held
Invesco Hong Kong & China Z Acc in GB	1.13	1.77	66.05
Schroder Asian Alpha Plus Z Inc TR in GB	-3.66	-2.83	66.06
Portfolio : Equilibrium Global Speculative Portfolio	-5.38	-4.88	57.40
Sector : UT Global Emerging Markets TR in GB	-7.41	-7.85	49.74

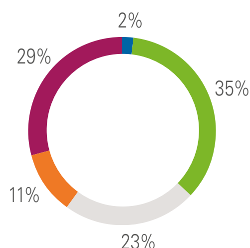
Figures are highlighted in green where they are in excess of the relevant sector.

Source: FE Analytics. All data as of 5 October

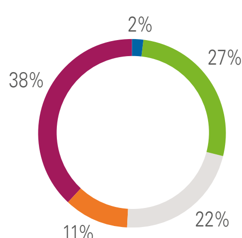
Model portfolio returns

Despite volatile markets, we're pleased with our returns especially when viewed on a risk adjusted basis.

Strategic asset allocation

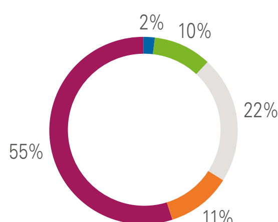


Cautious Portfolio	6 Months %	1 Year %	3 Years %	5 Years %	Since Launch* %
Cautious Portfolio	2.00	0.87	15.05	26.41	67.42
Mixed Asset 20-60% Shares Sector	2.93	1.28	20.05	28.10	54.26



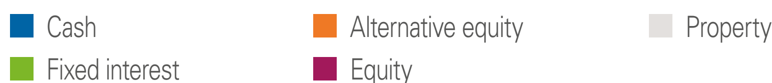
Balanced Portfolio

Balanced Portfolio	6 Months %	1 Year %	3 Years %	5 Years %	Since Launch* %
Balanced Portfolio	2.55	1.32	18.45	31.29	73.09
Mixed Asset 20-60% Shares Sector	2.93	1.28	20.05	28.10	54.26



Adventurous Portfolio

Adventurous Portfolio	6 Months %	1 Year %	3 Years %	5 Years %	Since Launch* %
Adventurous Portfolio	3.24	1.80	26.49	39.43	81.10
Mixed Asset 20-60% Shares Sector	2.93	1.28	20.05	28.10	54.26



We also show returns compared to the Asset Risk Consultants (ARC) indices made up of other discretionary managers' portfolio returns. These are shown in the table below and are given to 1 October 2018 as ARC indices are published on a monthly basis:

Model Portfolio	6 Months %	1 Year %	3 Years %	5 Years %	Since Launch* %
Cautious Portfolio	3.06	2.29	17.33	27.53	68.59
ARC Sterling Cautious PCI	1.55	0.89	11.18	17.22	40.74
Balanced Portfolio	3.72	2.99	21.08	32.67	74.47
ARC Sterling Balanced PCI	3.62	2.68	19.83	27.15	53.56
Adventurous Portfolio	4.56	4.00	29.93	41.33	82.89
ARC Sterling Balanced PCI	3.62	2.68	19.83	27.15	53.56

* Launch date 1 January 2008. All data to 5 October 2018.
Figures are highlighted in green where they are in excess of the relevant 'Mixed Asset' sector.

Sector portfolio returns

Equity Portfolios	6 Months %	1 Year %	3 Years %	5 Years %	Since Launch* %
UK Conservative Equity	5.75	2.51	21.82	40.80	88.93
UT UK Equity Income Sector	4.93	0.97	21.41	37.77	79.44
UK Dynamic	5.86	6.30	41.87	77.90	135.50
UT UK Equity All Companies Sector	5.53	2.42	27.44	40.56	82.92
Global Established	9.36	8.63	66.15	95.75	163.86
Global Established Benchmark **	11.46	8.29	59.56	85.26	146.54
Equilibrium AIM	5.64	3.03	70.76	143.97	108.52
FTSE AIM All Share ***	5.79	6.21	52.09	45.88	57.12
Global Speculative	-5.38	-4.88	57.41	58.17	66.09
UT Global Emerging Mkts Sector	-7.46	-7.90	49.66	33.45	48.89
Balanced Equity Mix	4.95	3.82	45.45	65.65	111.19
Balanced Equity Benchmark	6.59	3.98	41.04	56.49	99.88
Adventurous Equity Mix	4.39	3.66	50.09	68.41	111.82
Adventurous Equity Benchmark	5.67	3.42	44.18	56.78	97.68
Alternative Equity	-0.50	-0.54	10.84	26.22	75.59
UT Mixed Asset 20-60% Shares	2.93	1.28	20.05	28.10	54.26
Fixed Interest Portfolio	-0.24	0.62	13.83	21.00	73.17
UT Sterling Corp Bond Sector	-0.66	-0.57	12.17	22.99	59.87
Property Portfolio	1.94	5.17	18.36	44.73	74.10
Composite Property Benchmark *****	2.49	5.78	8.92	33.39	63.16

* 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.

*** Performance data prior to 17 March 2015 (launch date) is calculated using the backtested model portfolio.

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

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

Market returns

Equity Markets	6 Months %	1 Year %	3 Years %	5 Years %
FTSE 100 Index (UK)	3.97	1.57	31.05	37.37
FTSE All Share Index (UK)	3.41	1.81	26.31	53.46
FTSE 250 Index (UK Mid Cap)	3.88	1.63	30.46	40.38
MSCI Europe Ex UK Index	2.29	-3.62	38.96	46.70
S&P 500 Index (USA)	16.77	15.15	75.99	125.50
Topix (Japan)	6.18	8.30	60.28	79.27
MSCI Emerging Markets Index	-6.62	-6.64	51.60	37.35
Fixed Interest				
IBOXX Sterling Corporate Bond Index	-0.68	-0.67	15.40	29.15
UT Sterling Corporate Bond Sector	-0.66	-0.57	12.17	22.99
FTSE British Government Allstocks (Gilt) Index	-1.91	-0.23	8.16	23.48
UT Gilt Sector	-2.23	-0.35	8.29	23.71
UT Sterling High Yield Sector	1.20	0.91	18.07	22.47
Property				
IPD UK All Property Index	3.31	9.24	24.37	71.93
Composite Property Benchmark*	2.49	5.78	8.92	33.39
Other Measures				
Bank of England Base Rate	0.29	0.52	1.24	2.25
UK Retail Price	2.12	3.31	9.48	12.82

* 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 will fall as well as rise.

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

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

Unless stated otherwise:

- All performance statistics are from Financial Express Analytics on a bid-bid basis with income reinvested.
- All performance data is to 5 October 2018.
- 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 in which you are invested. We will also provide personalised performance information at your regular reviews.

Ideal funds

Portfolio	Fund Name	Initial Charge %	Annual Management Charge %	Ongoing Charges Figure %
Liquidity	Cash	0.00	0.00	0.00
Short Dated Fixed Interest	Royal London Short Duration High Yield	0.00	0.50	0.63
	Threadneedle Sterling Short Dated Bond	0.00	0.40	0.45
	TwentyFour Absolute Credit	0.00	0.40	0.66
	L&G Sterling Short Dated Bond Index	0.00	0.14	0.14
Fixed Interest	iShares Corporate Bond Index	0.00	0.15	0.17
	Jupiter Strategic Bond	0.00	0.50	0.73
	Royal London Extra Yield Bond	0.00	0.75	0.83
	TwentyFour Dynamic Bond	0.00	0.75	0.80
	L&G Allstocks Index Linked Gilt Index	0.00	0.15	0.15
Property	Aviva UK Property	0.00	0.74	0.83
	Kames Property Income	0.00	0.75	0.96
	Standard Life UK Real Estate	0.00	0.75	0.84
Alternative Equity	H2O Multi-returns	0.00	1.00	1.00
	Odey Absolute Return	0.00	0.75	0.92
	Henderson UK Absolute Return	0.00	1.00	1.06
	Invesco GTR	0.00	0.87	0.87
	Carmignac Long Short European Equity	0.00	0.85	1.22
	Merian GEAR	0.00	0.75	0.82
Infrastructure (alternative equity)	Lazard Global Listed Infrastructure	0.00	0.85	1.03
Defined Returns	Societe Generale FTSE Autocall Dec 2017	0.15	0.00	0.00
	JPM FTSE Autocall September 2018	0.15	0.00	0.00
	Credit Suisse FTSE/S&P Autocall Jan 2018	0.15	0.00	0.00
	Morgan Stanley FTSE/S&P Autocall Feb 2018	0.15	0.00	0.00
	Atlantic House Defined Returns	0.00	0.55	0.78
Equity - UK Conservative Equity	Royal London UK Equity Income	0.00	0.62	0.68
	Miton UK Multi Cap Income	0.00	0.75	0.82
	Rathbones Income	0.00	0.00	0.75
Equity - UK All Companies	iShares FTSE 100 ETF	0.00	0.07	0.07
Equity - UK Dynamic	Lindsell Train UK Equity	0.00	0.65	0.75
	Miton UK Value Opportunities	0.00	0.75	0.83
	Marlborough Special Sits	0.00	0.75	0.80
Equity - Global Established	Baillie Gifford Japanese Co.	0.00	0.60	0.63
	BlackRock European Dynamic	0.00	0.75	0.92
	Miton European Opportunities	0.00	0.50	0.66
	Schroder Tokyo	0.00	0.75	0.91
	Vanguard US Equity Index	0.00	0.10	0.10
Equity - Global Speculative	Goldman Sachs India	0.00	0.85	0.99
	Invesco Hong Kong and China	0.00	0.94	0.94
	Schroder Asian Alpha	0.00	0.75	0.96

These are the funds in our standard portfolios at 5 October 2018. These will change periodically and have not all been held throughout the period covered by this document.

We hope you enjoyed reading all our Equinox issues as much as we did producing them. Thank you to all our contributors and readers. We're already working on our next issue!

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equilibrium

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