Issue **112**

"Act as if what you do makes a difference. It does."
William James

Annuity rates hit 25-year low

MONEYFACTS RECENTLY REPORTED THAT ANNUITY rates had fallen to the lowest level since its records started in 1994. For every £10,000 put into an annuity today, a retiree would get around £410 a year. In the 1990s, this was up to £1,100 a year.

The alternative retirement income strategy, drawdown, lets an individual keep their money invested in the stock markets, while 'drawing down' income as they need it. Also, money in drawdown can be passed on to beneficiaries –typically not the case with annuities.

However, drawdown needs careful management of the investment portfolio and a strategy to help protect the capital used to generate income.

Mad world – negative interest rates

RECENTLY SOME COUNTRIES HAVE CUT RATES INTO negative territory. The idea of negative interest rates is bizarre. Simply put, you pay banks to hold on to your money and they pay you to borrow their money.

Since the financial crisis, central banks have used this tactic in extreme situations to slow down deflation, stimulate lending activity, get people to spend rather than save, and so kickstart economies.

The downsides can be that the country's currency is devalued making imports more expensive; it causes uncertainty, so people get more defensive and hoard rather than spend their cash.

It has been predicted that zero or negative rates could be one of the consequences of the UK leaving the EU without a deal.

Legal rights issues for cohabiting couples

RECENT OFFICE FOR NATIONAL STATISTICS (ONS) DATA revealing that there are 3.4 million people cohabiting in the UK, has highlighted misconceptions around the legal rights of co-habitees in terms of wealth and pensions.

While the Cohabitation Rights Bill is in the early stages of the Parliamentary process, cohabiting couples do not currently have the same benefits as married couples, such as tax exemptions and automatic entitlement to benefit from their partner's pension or life insurance. The concept of 'common law man and wife' does not exist in law.

Cohabiting couples lose out with inheritance tax too, as, unlike for married couples, money or property inherited from an unmarried partner is not exempt from inheritance tax; neither do cohabitees inherit their partner's inheritance tax allowance. Also, if someone dies without making a Will the process of probate can take longer and incur significant additional costs.

For those not wanting to marry, it is essential they write a will making clear who they want to be their beneficiaries in the event of their death.

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Lowes Financial Management

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Make your money work. Best bank & building society accounts

Type	Amount	Provider	Account	Gross Rate	Contact
Unrestricted instant access accounts					
Online and branch	£1,000+	Kent Reliance	Easy Access Account Issue 35	1.43%	www.kentreliance.co.uk
Accounts with first year bonus					
Online, telephone, branch or post	£1+	Coventry Building Society	Triple Access Saver	1.46%[1]	www.coventrybuildingsociety.co.uk
Fixed rate bonds					
Online, telephone, branch or post	£1,000+	Al Rayan Bank	12 Month Fixed Term Deposit	2.07%[2]	www.alrayanbank.co.uk
Online, telephone, branch or post	£1,000+	Al Rayan Bank	24 Month Fixed Term Deposit	2.32%[2]	www.alrayanbank.co.uk
Online, telephone, branch or post	£1,000+	Al Rayan Bank	36 Month Fixed Term Deposit	2.42%[2]	www.alrayanbank.co.uk

Notes
[1] Rate includes a bonus of 0.31% until 31 March 2021. [2] This is the 'expected profit rate' rather than an interest rate, as it follows Shariah principles.

Measures of inflation - The average change in prices of goods and services over a 12 month period to September 2019

Retail Prices Index (RPI) 2.6%	Consumer Prices Index (CPI) 1.7%

Sources: Providers' websites, Office for National Statistics, www.thisismoney.co.uk, www.moneysupermarket.com, www.moneyfacts.co.uk 09/10/2019.
All accounts subject to terms and conditions.

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Lowes UK Defined Strategy Fund 'Highly Commended'

THE LOWES UK DEFINED Strategy Fund (UKDSF) was awarded 'Highly Commended' status in the recent Investment Life & Pensions Moneyfacts Awards.

The Fund was nominated for the Innovation Award and despite tough competition from the likes of Zurich, VitalityInvest, Santander, LV, Novia and Openwork, the Lowes UK Defined Strategy Fund received the runners up prize.

The Moneyfacts Awards are respected for their independence with winners and runners up selected from a combination of analytical expertise of an independent judging panel and 'front line experience' reported directly to Moneyfacts from their readers and subscribers.

Obviously the team at Lowes are immensely proud that the Fund has been recognised in this way.

The Lowes UKDSF, launched in December, draws upon Lowes' structured products expertise and invests in a range of strategies which collectively replicate a diversified portfolio of structured investments.

For further information about the Lowes UKDSF, see page 10.

Sudoku

When you've finished reading the Lowes magazine why not try your hand at this issue's Sudoku. To complete the puzzle fill the grid so that each row, column and 3x3 block contains the numbers 1 to 9. The solution to the puzzle can be found on page 11.

				9		7		
	1			6			3	8
	6	3					2	
3	2	8						
							9	
								1
		6		5				
	8		2	3	1			6
			7	8		9		5

Source: www.printmysudoku.com

Doing good with our money

WHY DO WE INVEST? CLEARLY, IT IS TO MAKE MONEY. How we invest, in which products and the way we allocate that money between markets and asset classes will determine the potential return we receive.

For most of us, the returns that we make are put towards our goals, such as providing income in retirement. Our ability to impact the world we live in, to do good, through spending our money is constrained by our practical needs. But what if we could do good in the way we make money, through our investments?

One of the arguments against 'ethical' investing is that it delivers sub-average returns. That is no longer the case. The FTSE 4Good UK index, which measures performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices, has recently started to demonstrate out-performance compared to the FTSE All Share Index.

I have written before about a paradigm shift that is occurring in areas such as technology and social consciousness and we see it also in the development in attitudes to responsible investing.

In the institutional world, particularly amongst pension schemes, focus on principled investing has been increasing every year and statistics from the Investment Association on retail investing, show that while funds with 'ethical' mandates currently account for just 1.6% of total industry assets, the volume of money going into ethical investments has risen 17% in a year.

Clearly interest is growing among ordinary investors – but to what extent?

At the end of September the Government published the results of what it described as "the largest and most comprehensive study of the UK public's demand for sustainable investment opportunities". This demonstrated high levels of interest in responsible investing and identified key barriers as well. The research surveyed around 6,000 people, using census data to ensure the results should be an accurate representation of the UK population, and included 1,018 people with at least more than £25,000 of investable assets.

The report found that 68% of investors said they wanted their investments to consider the impact on people and planet while also making them a return. Interest was highest among people with investible assets over £25,000, millennials, and women.

What was holding people back the survey found was a lack of the availability and accessibility of products, misconceptions on risk and return, confusing terminology and a lack of clear and simple information about sustainable investing.

This is something the asset management industry is tackling. Our research shows that more and more investment companies are embracing responsible investing, with a recent and notable market swing away from companies that operate counter to ethical principles and the UN Sustainable Development Goals. Companies that have positive policies and practices in respect of key issues, such as climate change, use of plastics, how they treat their staff, and their trading partners, are going to be the beneficiaries of future investment.

What we see is an investment market that is changing, making it ever more possible to align our personal principles with responsible investments that deliver returns. It is a positive change that I for one welcome.

Ian H Lowes,
Managing Director

If you would like to receive further information on any of the subjects featured in this issue please call: **0191 281 8811**, fax: **0191 281 8365**, e-mail: **client@Lowes.co.uk**, or write to us at: **Freepost LOWES FINANCIAL MANAGEMENT**. Lowes® Financial Management Limited. Registered in England No: 1115681. Authorised and Regulated by the Financial Conduct Authority.

Tax allowances and shelters

THE INTRODUCTION OF NEW TAX ALLOWANCES AND exemptions in recent years, as well as increases in rates from April 2019, means the tax system has become more complicated for earners, savers and investors.

While the landscape has changed, there are various ways taxpayers can legitimately save tax through knowing where tax reliefs exist and how to benefit from them.

You will receive some allowances automatically as part of the tax process. These include:

The personal allowance

The personal allowance has been rising over the past few years, fulfilling a manifesto pledge from the Tory party. In April 2019 the threshold under which people pay no tax, rose to £12,500, a year earlier than pledged. The higher rate threshold rose to £50,000 at the same time. In the 2010/11 tax year the allowance was £6,475. Since 2010/11, anyone with an income of £100,000 and above will see their allowance tapered by £1 in every £2 of adjusted net income above that amount.

Personal savings allowance

The personal savings allowance allows you to receive savings income free of tax up to a set sum. For basic rate taxpayers that is £1,000; £500 is tax free for higher rate taxpayers; £0 for additional rate taxpayers. One thing to note is that it is not really an allowance; the income still counts as income within the band in which it falls, it is simply taxed at 0%.

Dividend allowance

In the 2019/20 tax year the dividend allowance enables investors to receive £2,000 of dividends (UK and/or overseas) free from tax, regardless of the individual's marginal income tax rate and no matter what non-dividend income they may have. Over the £2,000, basic rate taxpayers will pay 7.5% on dividend income; higher rate taxpayers 32.5%; additional rate taxpayers 38.1%.

Actively managing tax liabilities

Effective tax planning is essential to ensure we are not paying more tax than we need to. The ever more complicated tax regime means it is very easy to be caught out. A well-constructed financial plan will include both the means to protect wealth as well as build it, including use of:

Capital gains tax annual exemption

The annual exemption for capital gains tax (CGT) for the 2019/20 tax year is £12,000. The CGT exemption can be overlooked in financial planning because it applies solely to gains from growth returns on capital not income. However, for anyone needing income, in addition to using their personal allowance, by taking capital growth gains as a lump sum beneath the CGT limit they can boost the money they have to use as income by up to £12,000 a year, tax free.

ISAs

There are now numerous ISA wrappers in existence – some say too many – which enable individuals to save within the wrapper free of income and capital gains tax, or to receive a payment from government equivalent to a tax rebate. The most commonly used are cash and stocks and shares ISAs, which shelter any growth and income against tax. ISA savings are not exempt from inheritance tax (IHT) as they fall within a person's estate for IHT purposes.

In the 2019/2020 tax year, the total amount you can save into an ISA is £20,000; that can be split across any of the ISA wrappers. The closing date for this year's ISAs is 5 April and if you don't use the tax shelter for that year you lose it.

Currently, cash ISA rates are often lower than inflation. A stocks and shares ISA, carefully invested, can provide more return while non-ISA high interest savings accounts also often pay better rates of interest. So for cash savings there can be more benefit in taking advantage of the personal savings allowance of up to £1,000 of interest payments before investing in a cash ISA.

5 types of ISAs

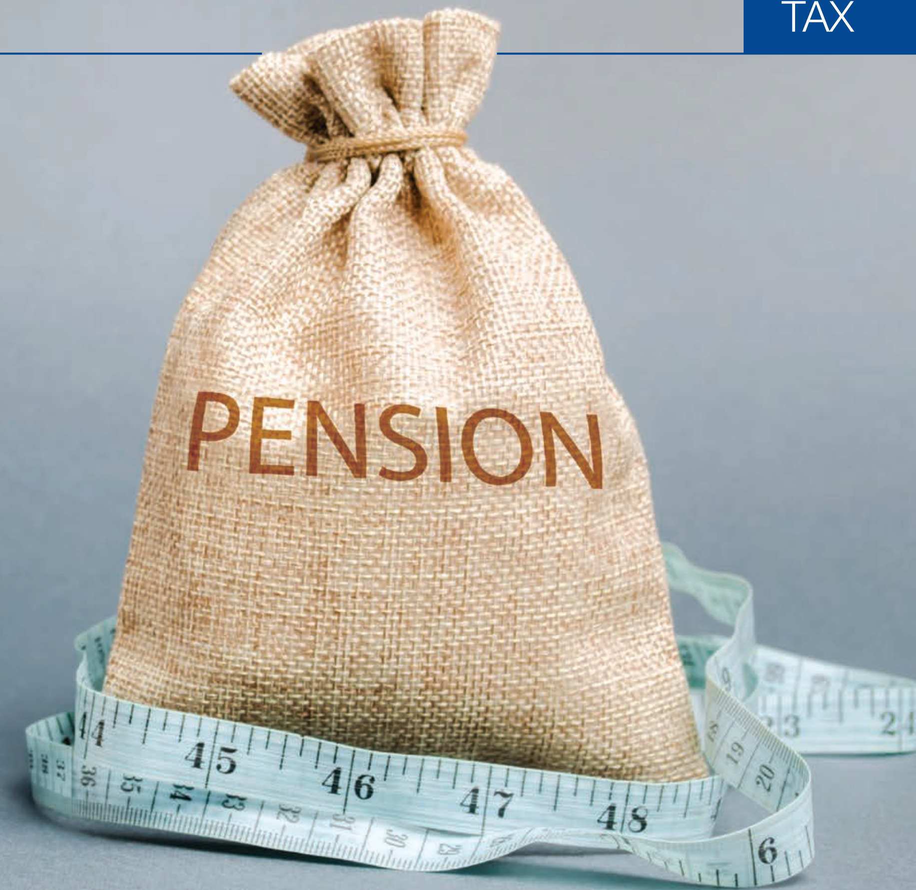
- **Cash**
- **Stocks and Shares**
- **Innovative finance**
- **Lifetime** *(available only to those age 40 and under)*
- **Help to Buy ISA** *(closes to new money on 30 November 2019)*

Lowes Consultant Andrea Leask says:

Whilst you can arrange your affairs to maximise income within the thresholds, it still might pay you to avoid tax altogether, through the use of tax shelters, so that if the situation changes in the future you are in a tax exempt environment.

The point here is that tax allowances and reliefs are not guaranteed and can and do change depending on the political will of the presiding Government and the needs of the Treasury.

Overtaxing of money drawn from pensions



ONE OF THE ISSUES ARISING FROM THE 'pension freedoms' is that people who take lump sums out of their pension funds have found themselves over-taxed on an 'emergency' basis. This can leave them with considerably less money than they expected while they seek to reclaim the overpaid tax from HMRC.

Outside of the 25% which may be taken from a pension fund, free of income or capital gains tax, we pay tax at our marginal rate of income tax on all other money taken from the fund.

The problem arises where lump sums are taken, because HMRC has pension providers deduct tax as if you were going to take out this sum every month. So if you draw £15,000 out, even if you are normally a basic rate taxpayer, HMRC assumes you will draw that sum out every month and taxes you at the higher rate.

Quarterly figures published by HMRC in their August Pension Schemes Newsletter revealed that more than 17,000 people had reclaimed some £46m in tax in the period April-June 2019.

The total amount which taxpayers have had to claim back is now around £480m and is expected to pass the half a billion pound mark.

The figures show the extent to which the HMRC rules are catching people out. It can come as a nasty shock to draw money out from a pension for a specific purpose only to find HMRC takes a large proportion in tax.

Reclaiming is not made easy; one of three different forms needs to be completed to claim the tax straight away, or people have to wait until the end of the tax year to claim back the excess tax via the self-assessment form.

Where large sums are involved, it can pay to seek advice before taking money out of a pension, both to avoid emergency tax but also in respect of the new death benefits that now apply to pensions, which allow them to be passed on to beneficiaries tax free or at their marginal rate of tax, depending at what age the benefactor dies.

Don't get penalised by pension rules

People taking a hybrid retirement - i.e. continuing to work part-time while also accessing a pension pot as needed - who are able and/or wanting to keep paying into a pension while they can, can find they are penalised by HMRC.

Since the introduction of 'pension freedoms' in April 2015, savers aged 55 or above have been able to draw money out of their pensions in tranches rather than turn the whole pension pot into an inaccessible annuity.

However, to prevent people from repeatedly taking money out of their pension, on which they have benefited from tax relief, and putting it back in again, thereby receiving the benefit of tax relief on the money twice, HMRC introduced a limit on the amount people could pay into a pension once they had started drawing taxable cash.

This limit, known as the Money Purchase Annual Allowance (MPAA), was originally set at £10,000 per year but has since been cut to £4,000 per year. This compares with the standard annual allowance which allows people to pay in up to £40,000.

In general, someone taking money out of a pension pot is affected by the MPAA if they draw money out beyond the 25% tax-free lump sum.

With data showing that many more people are taking the hybrid retirement route, drawing income from their pension but continuing to work because it best suits their lifestyle or needs, it can make sense for them to continue paying into a pension and replenishing their pot. This rule therefore can penalise them for wanting to continue to save for their future retirement years.

Where people can get caught out is when they are part of their employer's auto enrolment scheme, which adds employer contributions to their own and so can breach the £4,000 limit.

This scenario shows that planning how we take money from our retirement savings is ever more important in the new pension environment, to ensure we do so as tax efficiently as possible and in our best interests.

Responsible investing

LOWES CONSULTANT GERSHOM CHAN looks at the growing popularity of responsible investing and why it is becoming ever more important to investors.

There is no doubt that there is a growing awareness and interest in ethical and environmental concerns; people are changing the way they live to reflect those issues.

You only have to look around the supermarkets and restaurants, to see that most now offer vegan sections or menu options. Veganism is now mainstream where just a few years ago it would have been considered an alternative lifestyle.

This is a high profile example of a growing phenomenon in Western culture, namely the increasing willingness to take action around ethical and environmental issues – often referred to as the 'Blue Planet' effect, being a reference to environmental champion Sir David Attenborough's iconic programme of the same name.

Social, environmental and technological change is happening at a faster rate than ever before, affecting the world's climate, demographics and the way we live. It is no wonder that in light of this, people are assessing the way they invest, re-aligning their investments to better match their values, concerns, and to have a demonstrable impact on the world.

This is certainly an area where there has been growing interest, not just amongst investors but fund management companies as well. An environmental, social and governance (ESG) policy and accompanying fund(s) is now almost *de rigueur* for any asset manager in the UK market.

But what does this mean for investors in practical terms?

Ethical investing was once seen as very niche and typically, funds in this space would simply apply an ethical screen to filter out certain types of investments – the blanket exclusion of investments into tobacco, oil and mining companies, arms manufactuers, and so forth. The funds were often categorised in a range from light green to dark green, depending on the stringency of the level of screening. This could severely limit where they could invest and as a result could affect performance by pushing them into areas of the market, delivering lesser returns or taking greater risk.

These days, responsible investing takes many forms, giving people different ways in which they can 'invest for good', including the various levels of 'green' funds, ESG funds, socially responsible investments (SRI), sustainability funds and impact investing, to name a few. This range of options means investors can more readily find investments that suit or match their views, while also delivering market comparable returns on their investments.

Investment terms

The different types and terms of responsible investing often overlap or work in conjunction with one another. Some funds will talk about, for example, ESG and sustainability in the same breath, while others will use them to differentiate themselves in the market.

ESG is probably the most commonly used acronym at the moment, as this covers three major areas which can be linked to the United Nations Sustainable Development Goals – environmental, social and governance (the UN goals are displayed in the graphic above). Funds following this ethos will analyse how companies interact with society and their environment as well as analysing where and how they make their profits.

Sustainable funds can also be focussed on the UN goals and will look at the company in respect of elements such as its reputation, corporate culture, position in the market and long term future.

Some ethical funds will not necessarily eschew companies that an ESG or green fund would rule out through screening. Instead they will greater analyse what the company may be doing to improve its culture and reduce its impact on the environment and help continue that development.

Impact investing as a type of responsible investment is more niche, as it can be far more focussed, looking to fund specific projects, such as bringing water producing facilities to an area of Africa.

While these are very broad brush descriptions, as can be seen there are different ways investors can put their money to work. But as investors, invariably, we are looking for our investments to make us money as well as to do good.

Performance

One of the key differences between investing for good now and a few years ago is that investment performance does not have to suffer as a result. In the past strict ethical screening often meant ethical funds trailed behind in performance tables because the companies filtered out for ethical reasons were amongst those providing the best growth and dividend returns.

Nowadays, fund managers tend to adopt a more pro-active strategy, using their influence as stock buyers to engage with companies to make them adopt better practices and actively work to, for example, reduce their carbon emissions, change their suppliers or generally look at their working practices and how they can be made more environmentally and socially responsible.

Often this will take a collaborative approach where a fund will engage with senior management, speaking to the company before they buy in to let them know of any concerns or to seek greater clarity on certain areas, and monitor on an ongoing basis. Ultimately, if the fund buys in it will be a shareholder in the business and fund managers can assert considerable pressure on a company's board through their voting rights.

Importantly, it is recognised that companies that can adapt to the changes – who have, for example, clear policies on the UN goals, such as climate action; health and well-being of their employees, consumer and suppliers; gender equality; responsible consumption and production, i.e. those which are often within the ability of companies to influence within their operations – are more likely to thrive, as they will attract customers and employees, thereby growing their business.

In contrast, companies that do not move with the times and continue polluting or failing to adopt inclusive employment policies, are more likely to lose out in a connected world where news of bad practices can be quickly spread. Get it wrong and the cost to reputation and bottom line can be high, as Volkswagen found out when it altered its diesel emissions results.

A company that ignores the clear messages it is receiving could risk a large fund manager pulling its investment, with a consequent impact on share price.

Hence, most companies are willing to engage and collaborate, with a direct positive from this type of engagement being that more and more companies are realising there are benefits to being sustainable.

Nowadays, investing ethically can often mean investing in the companies which will be sustainable, profitable and potentially the leading companies of the future.

Greenwashing

Some fund managers are warning that given the sudden rush for fund houses to offer responsible investments, investors need to dig down beneath the surface of each fund to ensure that their commitment to ESG or sustainability is not just a marketing stance. There is no doubt that some fund houses have a culture of responsible investing, built on years of experience, while others are still developing theirs.

Individual choice

As can be seen, responsible investing can be undertaken in many ways and at many levels. Some investors want to apply a strong exclusion filter to where their money is invested whilst others will look to help effect change in industries by favouring the companies who are making commitments to become more responsible in their culture and operations. It really is down to the individual's views, concerns and choices.

Lowes sees the rise of responsible investing as a positive movement that has the power to progress change because both investors and fund managers want it. Often it can be pressure from the marketplace, rather than the big stick of regulators and government, that can truly make a difference.

A sustainable fund

Characteristics of a sustainable fund might include:

- That financial returns are not sacrificed due to ethical restraints
- Investment is into high quality companies with a long-term future
- Companies must have a clear commitment to sustainable development, either in the way they operate or their products or services
- Avoiding companies that are compromised because of past actions or who do significant harm
- Engaging with companies to drive change

UN Sustainable Development Goals

Responsible investments will often link their investment philosophy to the United Nation's Sustainable Development Goals, which aim to achieve significant impact in 17 different areas. The funds will look also for the companies they invest in to evidence they are taking action in respect of the goals pertinent to their operations.

If you or anyone you know would like to know more about responsible investing, please talk to your usual Lowes Consultant or call 0191 281 8811 and we will arrange for a consultation.

10 facts about IHT

INHERITANCE TAX (IHT) DATES BACK AS FAR AS 1694, when it was a duty on probate. It then took a number of forms, including the Estate Duty introduced in 1894, until it was named Inheritance Tax in the Finance Act of 1986.

At its highest, the marginal rate of tax was a hefty 85% of estates in excess of £750,000, with the duty being limited to 80% of the value of the estate.

Originally IHT was a tax on the wealthiest estates in the UK. However, in recent years, many people's wealth has increased through rising house prices, while the nil rate band has been frozen since 2009, which means more and more people are seeing the value of their estates exceed the nil rate band threshold.

In a speech at a recent Conservative party conference fringe event, Chancellor of the Exchequer Sajid Javid alluded to potential changes to IHT. He said reforms were being considered that acknowledged people were already paying tax on income earned throughout their working lives, as well as on their investments and their capital gains, and who were frustrated that their descendants then had to pay 40% tax to the government on the wealth they had accumulated through their lifetime.

With a Budget due before the end of the year, we will have to see exactly how this translates into policy.

What we can be fairly sure of is that government is not about to abolish IHT, and there will be a continuing need for people to consider their potential IHT position. Without forward thinking people can find their estates are caught in the IHT net. Independent Financial Advice can help mitigate the effect of IHT on an estate.

1. HMRC data shows that in the 2008/09 tax year Treasury's receipts for IHT were £2.8 billion. In 2018/19 they were nearly double that, at £5.36 billion.
2. The Office of Tax Simplification estimates the annual number of tax paying estates is 24,500. This number has been steadily growing since 2009, when the IHT nil rate band was frozen.
3. An individual's IHT nil rate band (NRB), i.e. the amount allowed before IHT is applied, currently is set at £325,000. With house price inflation and growing wealth, more and more people in the UK have become potentially liable for IHT, as reflected in the figures above.
4. The basic nil rate band of £325,000 is frozen until the end of the 2020/21 tax year. With the review date so close, unfreezing and raising the threshold could be a reform the Chancellor is considering.
5. In April 2017 the Residential Nil Rate Band was introduced, which recognised the effect of house price inflation on ordinary estates and added £125,000 to an individual's NRB, with certain conditions applying, notably that it was only applicable where a home was passed to 'direct descendants'. The Residential Nil Rate Band for the 2019/2020 tax year is £150,000.
6. While money in cash or stocks and shares ISAs is free of income and capital gains tax, many people make the mistake of thinking it is also free of IHT. This is not true. ISA investments form part of your estate for IHT.
7. Pension funds usually fall outside of your estate for inheritance tax purposes. Hence, when taking income in retirement, it can pay to first use non pension wealth, such as in ISAs, before taking money from a pension, which can be passed on to beneficiaries without incurring IHT.
8. Any unused Nil Rate Band and Residential Nil Rate Band can be transferred between spouses and civil partners to be used when the survivor of them dies. This means such estates can benefit from a combined Nil Rate Band of £650,000, plus another £300,000 Residential Nil Rate Band.
9. If you leave at least 10% of your IHT taxable estate to charity your rate of IHT is reduced to 36%.
10. You can gift away your surplus income through regular payments free of IHT, subject to certain conditions.

■ ***If you believe IHT is an issue that will affect you or someone you know, then your Lowes Consultant can help or please call 0191 281 8811 and we will arrange a consultation.***

How we have helped clients

Lowes Consultant Scott Beattie outlines one of the situations where a client requires advice and Lowes is able to help

A REGULAR SITUATION WE SEE which causes an issue for clients is where they have suddenly come into a large inheritance or windfall and have to deal with that.

This might seem a nice situation to be in but we find that beneficiaries who come into a large sum of money on the death of a parent or relative, or through a windfall, can be overwhelmed by the task of knowing what is the right thing to do with the money and where best to place it for their future.

There is a famous story which was made into a BBC documentary called *Spend Spend Spend*, of a couple who in 1961 won the equivalent of over £3m in today's money on the football pools. Within a few years, through a lavish lifestyle, they had spent the money which should have set them up for life. The wife later admitted that she found it hard to cope with the psychological effect of the win and how to manage the money.

There have been similar stories of people who have won the UK National Lottery and through the financial choices they made saw it diminish to nothing, when again it should have made them comfortable for life.

There is no doubt that anyone who comes into money in this way should seek the best advice, which we suggest should include talking to a Chartered Independent Financial Adviser, who is best positioned to give impartial recommendations.

Everyone's case is different but from a practical perspective there are some core issues to address.

Helping family

Many people who come into a large sum of money would like to help out their family in some way. We always recommend that the first step is to work out the implications of the inheritance/windfall from a personal perspective, from an individual's own financial situation and in particular their financial future, before giving away any money. Once that has been planned, a better picture can be obtained of how and to what extent family members may be helped.

Sound financial strategy

Having the right financial plan in place applies as much to anyone with a large sum of money as it does to someone with less money to their name. This will include the usual tax efficient wrappers such as pensions and ISAs but it might also require looking at other tax efficient investments, such as Venture Capital Trusts (VCT), Enterprise Investment Schemes (EIS) and investment bonds. Wealth preservation is important because wealth deprivation is easier to achieve.

Thinking about the future

An inheritance or windfall can put an individual in a very good financial position to provide for a comfortable future life. That requires planning for, taking into account what an individual might want to achieve later in life, such as in retirement. It is to be hoped that with proper management it will enable wealth to be passed on to future generation(s) or other beneficiaries. Inheritance tax (IHT) planning therefore, is essential and should form a significant part of any financial advice.

Other requests/approaches

Those receiving inheritances/windfalls can find they receive requests from seemingly worthy causes, friends in need, as well as people offering opportunities to help someone or to invest in a too good to be true scheme. We would suggest all of the above points need to be addressed before giving consideration to any of these such requests and advice sought before parting with any money, certainly in respect of investments.

■ ***Lowes clients are able to draw on the experiences and expertise we have built up over almost 50 years of helping people sort and plan their savings and investments. If you know anyone who would benefit from becoming a Lowes client please pass on their details to your usual Consultant or have them call 0191 281 8811 for a free first consultation.***

Lowes UK Defined Strategy Fund – recent trade

LOWES HAVE BECOME SYNONYMOUS IN THE UK WITH structured products. We have successfully navigated the market for over two decades and have played a not-insignificant role in shaping it into what it is today. There aren't many long-term clients of Lowes who haven't had significant benefit from this expertise.

We have now taken our expertise and packaged it into a fund which invests primarily in the type of strategies commonly found in auto-callable structured products, such as the 10:10 and 8:8 Plans, which we helped create and which are now used by hundreds of adviser firms around the country.

The Lowes UK Defined Strategy Fund now consists of a diversified portfolio of eighteen such strategies, plus UK gilts and cash (see chart for the counterparty / credit exposure). All of the structured strategies are linked to the FTSE 100 Index, and they have a range of potential maturity trigger levels. As far as contingent capital protection barriers are concerned, the closest is at a FTSE 100 level of 4577 to be observed in November 2024 albeit at current levels, at the time of writing, that contract will mature this November with a 10.11% return to the Fund. Full details of each holding in the Fund can be found at www.UKDSF.com/portfolio where you can also register to receive notifications each time a new trade is added.

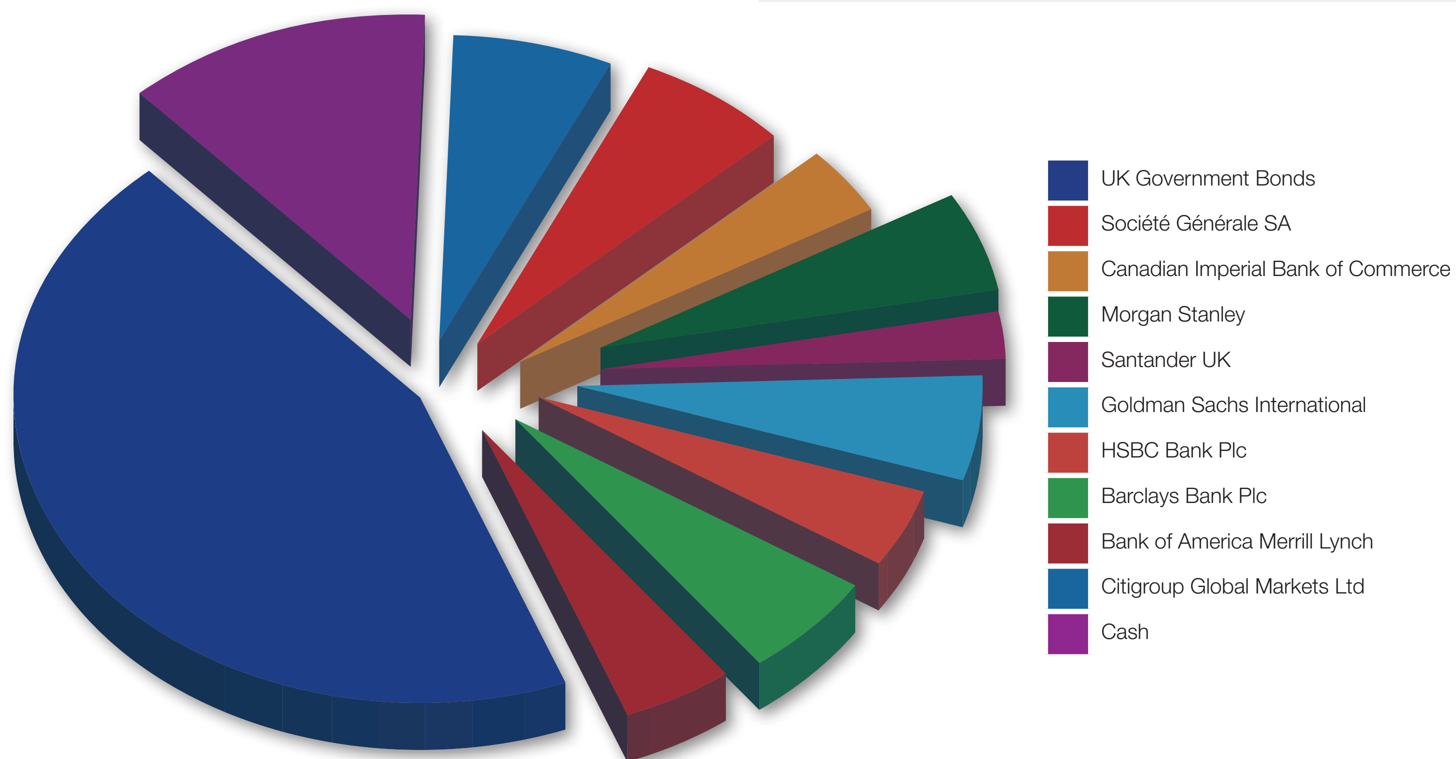
We take this opportunity to showcase the most recent strategy acquired by the Fund, which is an example of the particularly attractive terms that we have been able to acquire for the portfolio UKDSF Strategy 18.

- **Potential maturity (within the fund) on 28 August 2020 and each anniversary thereafter up to 2029.**
- **Requires the FTSE 100 to be above 7114.70 on a potential maturity date to deliver a gain.**
- **Will return a gain of 11.36% if it matures on the first anniversary, increasing by a further 11.36% for each subsequent year.**
- **Will mature at a loss only if the FTSE 100 is below 7114.71 on every potential maturity date and below 4980.297 on 28 August 2029.**
  - Any loss will be in line with percentage fall from 7114.71 on 28 August 2029.
- **Counterparty / Credit Exposure: UK Government Bonds.**

Whilst a fund of structured investments has different characteristics to individual plans, clients familiar with the sector and the types of plans on offer will hopefully appreciate how attractive these terms are.

Please note that the strategies within the fund cannot be invested in as stand-alone structured products.

If you would like to receive details of the Lowes UK Defined Strategy Fund, please either talk to your Lowes Consultant, call our dedicated Investment Team on 0191 281 8811 or email us at Fund@Lowes.co.uk.



The pie chart shows the Lowes UK Defined Strategy Fund's credit / counterparty exposure as at 10 October 2019. No more than 10% of the portfolio will ever be exposed to a single financial institution.

Lowes 'Preferred' plan maturities

THE QUARTER TO THE END OF SEPTEMBER 2019 saw 95 structured products maturing giving an average annualised return of 5.53% over an average term of 3.45 years.

The sector performance was dragged down slightly by two plans maturing at a loss. These are the first loss making maturities to occur in over two years. Of the 95, Lowes had 'Preferred' 20 at the time of launch and all of these matured with healthy returns. The table below shows those that were most commonly held by Lowes clients.

Our lowest performing maturity in the quarter was a deposit-based plan from Investec. Despite being a deposit and as such, providing ultimate protection to invested capital, this plan returned annual interest of 5% per annum for each of the last six years.

The average annualised return of all of the Lowes 'Preferred' maturities in the quarter was 7.25% over an average term of 3.55 years.

If you'd like to learn more about structured products please talk to your Lowes Consultant or ring 0191 281 8811.

Provider	Maturity date	Index	Durations (years)	Gain
Investec	17/07/2019	FTSE 100	2	15.50%
Societe Generale	17/07/2019	FTSE 100 & Eurostoxx 50	4	38.40%
Investec	22/07/2019	FTSE 100 & Eurostoxx 50	4	40.00%
Morgan Stanley	29/07/2019	FTSE 100 & 20 shares	6	54.76%
Focus	29/07/2019	FTSE 100	2	13.00%
Mariana	02/09/2019	FTSE 100	3	21.30%
Investec[1]	02/09/2019	FTSE 100	6	30.00%
Mariana	02/09/2019	FTSE 100	3	28.20%
Walker Crips	16/09/2019	FTSE 100	2	17.00%
Meteor	23/09/2019	FTSE 100	2	17.00%

[1] *Deposit based*

Sudoku solution

We hope you enjoyed the Sudoku puzzle we published on page 3 of this issue of the Lowes magazine. Here is the solution to the grid.

8	5	2	1	9	3	7	6	4
7	1	9	4	6	2	5	3	8
4	6	3	8	7	5	1	2	9
3	2	8	5	1	9	6	4	7
5	4	1	6	2	7	8	9	3
6	9	7	3	4	8	2	5	1
1	7	6	9	5	4	3	8	2
9	8	5	2	3	1	4	7	6
2	3	4	7	8	6	9	1	5

Spotlight on the Lowes team

DOUG MILLWARD, LOWES' INVESTMENT Manager, is another of the company's long serving members of staff, with 23 years under his belt during which time he has progressed through the organisation leading to where he is today.

Doug has a degree in aeronautical and astronautical engineering (rocket science to the rest of us) a good indication of his analytical and numbers-driven mind. Doug's early years at Lowes were spent in the Technical and Pensions departments, during which time he started taking his financial services exams, including investment qualifications. Playing to his knowledge and skills saw Doug subsequently transfer to the IT department. "I'd always had a leaning towards IT as a large part of my degree was computer work, so I moved across, learning on the job, and I stayed there for 11 years," Doug says.

"I continued to take further investment exams because they fuelled my interest," he says, "but then an opportunity arose to work with the then Investment Manager Melvyn Bell. As part of my work in the IT department I had worked closely with Melvyn and Ian Lowes in building the investment analysis system that we still use today and when the opportunity arose to work in the investment team I jumped at the chance."

That was in April 2010. He worked alongside Melvyn for 18 months, during which time they launched the Diversified Strategy Fund, and when Melvyn retired in 2012, Doug took over the role of Investment Manager. Paul Milburn, the team's Investment Analyst, joined in 2013.

On a day-to-day basis, the investment team undertake portfolio construction and management, analysis of funds and client portfolios and run the Diversified Strategy and Lowes UK Defined Strategy Fund. They meet with fund managers and attend conferences and seminars, to ascertain more details on funds. "I also discuss matters with the Consultants and attend senior management meetings," Doug adds.

He points out that having a dedicated in-house investment team makes Lowes stand out in the market. "We do this full-time, which means we are able to spend the resource needed to understand what the funds are doing and how they are likely to perform in different circumstances. We're not trying to pick funds from past performance tables. Having that depth of analysis means we can take a longer term view, which helps us to build well balanced and diversified portfolios for clients.

"Also, because of Lowes' size as a company and the reputation of Paul and myself, fund managers are far more willing to spend time with us, either coming here or at their offices."

When the team researches funds they do so through quantitative analysis, "the number crunching" as Doug puts it, and qualitative research, which often is meeting the managers face-to-face.

"We look for certain attributes in fund managers, such as a clear process for managing the fund, conviction in their approach, and a history of that process being applied in a consistent manner. The two aspects to the process provide us with as comprehensive a picture as possible of the manager and the running of the fund."

Having been with Lowes for 23 years, Doug has seen various stock market cycles. After a 10-year bull run he feels a market correction could be an unknown event for many people. "They may panic, but I think the experience we have within Lowes will stand us in good stead in that kind of situation."

A question of style

Doug Millward, Lowes' Investment Manager, looks at the success of growth and value investing and asks, which is best?

WHEN IT COMES TO INVESTING, NOT ONLY ARE THERE different asset classes to consider, such as bonds, shares, or property, but within each asset class there are also different styles of investing.

When investing in shares, for example, there are styles such as momentum, growth or value. Momentum investors are looking for upward trending prices in markets and invest in those in the hope that the trend will persist over a period of time. Jumping on the bandwagon, so to speak.

Growth and value investors are taking a more analytical approach. Growth investors are looking for the companies with high earnings growth, with bigger profit margins, and are prepared to pay more for these companies in the hope that this above average growth will continue into the future. Effectively paying today for those future returns.

Value investors, on the other hand, are looking for the unloved companies in the market. Those with the lowest valuations compared to their earnings. This can be a more problematic investment style as often those companies are unloved for a very good reason, and the trick is to identify which are capable of being turned around rather than being in a long term decline, and perhaps more importantly, what it will take to affect that turn around.

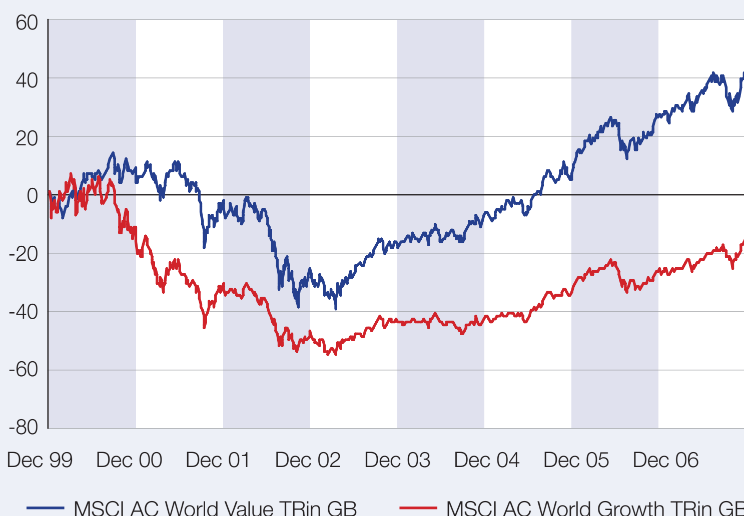
As with asset classes, not all investment styles perform well at the same time. The chart below shows how value investing outperformed growth investing from the turn of the century to just prior to the financial crisis in 2007, as shown by the MSCI World Growth and Value indices.

The last ten to twelve years, however, have told a very different story. As quantitative easing around the world pushed down bond yields to their current low levels, investors seeking to maintain their returns have been forced to move up the risk scale and begin purchasing equities. Not surprisingly they have chosen to invest in those companies who have a history of providing growth year on year. This, of course, favours growth investing as a style, and the change in fortunes can be seen in the second graph.

In fact, value investing has become so out of favour that according to a recent report by JP Morgan and Morningstar, the proportion of actively managed funds in Europe with a value style has dropped from 56% in December 2009 to just 10% in June this year. Given this shift in assets to a growth style of investing, it could be argued that growth has become the latest momentum style.

So, is value investing dead as an investment style? Well, no, of course not, and despite the trend of the last ten years, there have been pockets where value has outperformed growth. In the second half of 2018, for example, whilst all markets around the world fell, the MSCI World Value index only fell half as much as the MSCI World Growth index, 3.79% down compared to 7.5%.

The problem is it is impossible to know exactly when the trend will turn until after the event, and even then it is hard to determine if it is a short term flip or a long term trend. Over the years at Lowes we have learned that timing the markets is impossible with any consistent success. Instead we try to find the best fund managers, both in each different asset class and each different investment style, and blend them together when building our portfolios. We don't expect them all to perform well all the time, but we do expect that way the investment returns will continue to be determined by the time in the market, rather than the timing of the market.



Source of all performance figures and charts: FE Analytics. Total Return. Bid-Bid.