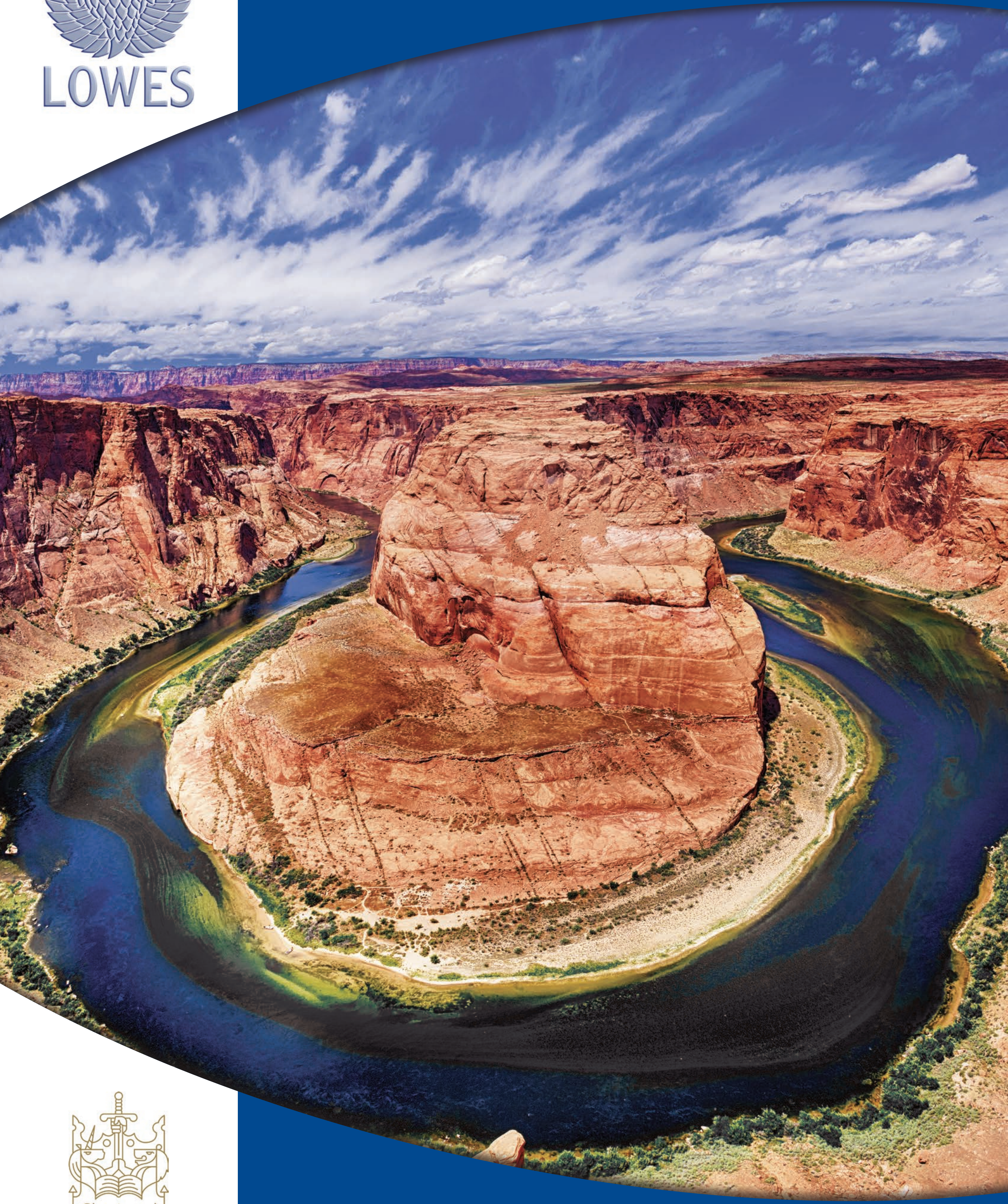
Issue 110



"Change is hardest at the beginning, messiest in the middle and best at the end."
Robin Sharma

Lowes Tax Table 2019-2020

We are delighted to once again include your complimentary copy of our tax table within the April issue of the Lowes magazine.

If you would like further copies to pass on to family, friends or colleagues, please call 0191 281 8811 or email enquiry@Lowes.co.uk

Financial crisis still haunts investors

THE GLOBAL FINANCIAL CRISIS CONTINUES to play on the minds of UK investors, with over half basing their investment decisions on their perceptions of events that took place a decade ago, according to findings recently published in the Legg Mason Global Investment Survey.

Since the financial crisis, markets have recovered strongly – albeit with anticipated dips along the way – with balanced, diversified portfolios delivering attractive risk adjusted returns. So it might be expected that this would have redressed people's views. For many, this is not the case and reflects the fact that negative events burn more into our psyche than positive events.

It also highlights how crucial investment advice can be in helping prevent people from making common mistakes with their investments based on fears of past events.

As an International Longevity Centre-UK study found, when analysing advised and non-advised financial strategies over a set period of time pre and post the financial crisis, people were around £40,000 better off where they had sought financial advice.

HMRC loses pensions case

HMRC RECENTLY LOST A COURT CASE ARGUING THAT A MAN should lose his £1.8 million lifetime allowance fixed protection because he accidentally failed to cancel a direct debit, so continued paying into his pension fund.

Fixed protection was introduced in 2012 following the cut in lifetime allowance from £1.8 million to £1.5 million, as a means to ensure people who risked exceeding the new, lower threshold were not unfairly penalised by the new rules. However, those who applied were not allowed to make any further pension contributions as doing so would potentially open them up to a large tax bill.

In the case, HMRC argued that the appellant's failure to cancel his standing order should render his fixed protection certificate void. Rules, after all, are rules.

The Judge took a more practical approach, ruling in favour of the appellant stating that the accidental nature of the breach meant the protection remained valid. HMRC could appeal the decision but at time of writing had not done so.

The UK pensions system is complex and requires careful and experienced navigation both from a technical and tax perspective, in particular when it comes to the rules around the annual and lifetime allowances.

Inheriting an ISA

SINCE 2015, THE SPOUSE OR CIVIL PARTNER OF SOMEONE WHO HAS DIED CAN INHERIT THE deceased's ISA within a portfolio tax shelter. According to figures recently obtained by Zurich, only 21,000 people – an estimated 14% of the people entitled to do so – have taken advantage of the tax break.

This means the remaining 86% of widows and widowers could be paying more in tax than they need to. On an ISA amount of £55,000 Zurich calculates that for an ordinary tax payer that would be at least £110 per year – eating into their potential overall returns. The ISA allowance for the 2019/2020 tax year is £20,000.

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Covershot: Horseshoe Bend on Colorado River at Sunrise, Utah. By: Istock.

Make your money work. Best bank & building society accounts

Type	Amount	Provider	Account	Gross Rate	Contact
Unrestricted instant access accounts					
Online	£1+	Kent Reliance	Easy Access Account Issue 33	1.50%	www.kentreliance.co.uk
Accounts with first year bonus					
Online and telephone	£1+	Marcus by Goldman Sachs	Online Savings Account	1.50%[1]	www.marcus.co.uk
Fixed rate bonds					
Online	£1,000	BLME	1 Year Premier Deposit Account	2.20%[2]	www.blme.com
Online[3]	£1,000	Shawbrook Bank	1 Year Fixed Rate Bond Issue 58	1.97%	www.shawbrook.co.uk
Online, branch, telephone and post	£1,000	Al Rayan Bank	24 Month Fixed Term Deposit	2.40%[2]	www.alrayanbank.co.uk
Online	£1,000	PCF Bank	2 Year Term Deposit Issue 17	2.26%	www.pcf.bank
Online	£1,000	Gatehouse Bank	3 Year Fixed Term Deposit	2.55%[2]	www.gatehousebank.co.uk
Online	£1,000	Aldermore	3 Year Fixed Rate Savings Account	2.40%	www.aldermore.co.uk

Notes
[1] Includes a 0.15% gross bonus for the first 12 months. [2] This is the 'expected profit rate' rather than an interest rate, as it follows Shariah principles.
[3] Once opened, the account can be operated online through secure message, by email or by telephone.

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

Retail Prices Index (RPI)	Consumer Prices Index (CPI)
2.5%	1.9%

Sources: Providers' websites, Office for National Statistics, www.thisismoney.co.uk, www.moneysupermarket.com, www.moneyfacts.co.uk 08/04/2019.
All accounts subject to terms and conditions.

Waking up to pensions

PENSION HOLDERS ARE OFTEN DESCRIBED AS 'sleep walking' into their retirement, with the vast majority choosing to take the default retirement income option offered to them by their pension provider, without researching the market to see if they could get a better deal. And often they can, for example, smokers or those in ill-health can often receive larger monthly income payments through enhanced annuities.

From 1 November 2019 the rules will change, putting an onus on pension providers to ensure pension holders approaching retirement have a better understanding of the options open to them.

Under the new rules, each pension holder will receive appropriately named 'wake-up' packs, at various points in their run-up to retirement. The packs will be standardised to ensure consistency and better comparison across the market.

The first wake up pack will be issued from age 50, aligning it to the date at which consumers can first access guidance through the Money and Pensions Service.

Further information will then be supplied at five-year intervals until the pension holder has fully accessed their pension benefits. Where people have multiple pension plans, they will receive similar content from each pension provider at the same intervals.

Lowes clients have the advantage of being fully informed about their retirement income options and the further security of being able to ask questions of their Consultant where needed.

If you know anyone who would benefit from better planning around their retirement income options, please get them to call 0191 281 8811 and we will arrange a free consultation.

Sudoku

As we enter the new financial year we hope you don't find our new sudoku puzzle too taxing. As usual, in order to complete the puzzle you will need to 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.

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

Source: www.printmysudoku.com

COMMENT

Avoiding bad deals

I HAD EXPECTED THAT MY COMMENT THIS ISSUE WOULD HAVE been focussed on Brexit but as I write, the EU have just granted the UK another extension, putting the 'final' date back to 31 October. In that six months, we will no doubt see more deal wrangling as the politicians try to resolve the issues set in motion almost three years ago and cut a good deal with the EU – a process, of course, over which the ordinary citizen now has no direct control.

So, I am turning my attention to an area where as Independent Financial Advisers we can have an impact and that is in avoiding bad deal investments.

I was disappointed but not surprised by the recent collapse of London Capital & Finance (LCF), which left thousands of retail investors facing losses of 80% or more.

I was disappointed because many of these people were first time investors and events like this damage the public's faith in financial services, which is bad for savers and investors and for the industry. But I was not surprised because no Independent Financial Adviser worth their salt would have exposed their client's capital to the arrangement.

Promoted via slick marketing as a "Fixed Rate ISA" offering interest of up to 8% over three years, there were enough 'red flags' to alert any professional that it may not be as secure as the promotions would have had you believe. A quick look 'under the bonnet' and we were certain it was not something we would invest our own money in, and as such, certainly not something we would let our clients near.

At Lowes, we start from the premise of being very sceptical and risk averse – with close to a fifty-year track record of successfully guiding our clients towards safe profits, we will not risk our reputation, let alone our clients' money.

The LCF bonds were a breed of Peer-2-Peer (P2P) investment, a sector that we have been following for well over a decade. Despite the sector becoming regulated by the Financial Conduct Authority in 2014, it is only recently that we became comfortable recommending any P2P solution.

Peer-to-Peer uses technology to match lenders with borrowers with the objective that both parties will receive a better deal by cutting out the traditional banks and building societies. Lenders can obtain a potentially higher rate of return than from a typical bank deposit and borrowers get a cheaper loan, as well as the whole process being faster.

Some P2P arrangements will lend investors' money for almost any purpose, some concentrate on lending only to businesses – and most lend without obtaining any security to protect against the borrower defaulting. As you might expect, the higher the risk of the borrowers defaulting, the higher the returns on offer.

We review and test platforms by investing our own money and providing feedback to help improve the platform propositions, before we expose any client. To date, there is only one P2P solution we are prepared to recommend to clients, if asked to do so, and only because of its unique features that serve to safeguard investors / lenders capital, including only making loans that are secured against UK property. That does not mean it is without risk but may be appropriate as a part of a diversified portfolio.

There are people who do not appreciate the value in employing the services of an Independent Financial Adviser, but we are sure that many of those London Capital & Finance investors may have just learned the hard way that the cost of not doing so, can be very considerable indeed.

As ever, if you know someone who will benefit from our services please do not hesitate to put them in touch.

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.

Saving enough for retirement

RESEARCH BY LIFE ASSURER AEGON REVEALS THAT 38% of individuals are not confident about their ability to retire comfortably, with many in the dark when it comes to their pension savings and arrangements for funding their retirement.

Getting into the savings habit early allows people to retire when they are ready, instead of having to extend their working life out of necessity rather than as a choice.

The research found that a quarter of people don't know how much they hold in pensions, over a third have never estimated their income needs for retirement and amongst people aged 55-64, i.e. those fast approaching retirement, most could expect a reduction in lifestyle.

At the same time, with the phasing out of final salary pensions the onus is very much with the individual to properly plan for their retirement. The introduction of auto-enrolment is no panacea; even with the increase in contributions from April, many individuals will find that what they are putting into the schemes is not enough and they will need to have additional savings.

We cannot emphasise enough how important it is to plan ahead in order to ensure sufficient provision for the lifestyle you desire in retirement.

There are key questions to ask:

- What you want your retirement to look like?
- How much of a pension pot you will need to achieve that?
- How much of your income you need to save for retirement?

Lowes Consultant Scott Beattie says:

Whenever I hear about people underfunding their retirement, especially when they have decent salaries or other income streams, I know this is where an Independent Financial Adviser can help.

Retirement planning is not only about making sure you regularly put away enough of your wealth to accumulate a pension pot of sufficient size to have a decent retirement lifestyle. There are issues such as annual pension savings allowances, the lifetime allowances, areas such as inheritance tax and expression of wishes forms that require careful planning and attention also.

The situation intensifies when people approach the last 10-15 years before retirement. This is when balancing pension saving and other tax efficient savings needs to be undertaken, looking ahead to when an individual will want to start drawing an income from their savings and investment in retirement and how best to do that tax efficiently.

Also, now that some pension wealth can be passed on to named beneficiaries free of tax, pension funds offer more than just retirement planning opportunities.

Planning a phased retirement

There are a record number of people aged over 50 in the workforce, making up almost a third of all workers. With life expectancies having risen in recent decades, for many people the notion of stopping work abruptly at retirement age is fading, with half of over-50s preferring or needing to take a phased approach to retirement.

A point to bear in mind is that with the rapid rise of robotics and artificial intelligence, the part-time jobs people may be considering may not exist in a few years' time. It is important to focus on saving now.

Certainly, for anyone looking to take a phased retirement, we'd advise talking to their Consultant. This particularly relates where they intend to take a lump sum payment from their pension or pension income and continue working in a part-time capacity, as there could be issues around tax planning.

Why proper inheritance tax planning matters

THERE ARE SOME INHERITANCE TAX (IHT) SAVINGS strategies that everyone with reasonable size estate should consider. We'll illustrate this using a simple case study to show how much IHT might be due and what can be done about it.

Jim has been living with Trudy for over 20 years, they are both independently wealthy, their house is jointly owned and valued at £390,000 and they have no children. Jim also has savings, investments and assets worth over £310,000.

Unfortunately, Jim has just had the worst possible news from the doctor and the couple have contacted Lowes with a view to put his affairs in order. Despite Trudy having her own savings and investments, because they have no children, Jim intends to leave everything to her.

Taking into account half the value of their property, Jim's estate is valued at £505,000. After deducting the Inheritance Tax Nil Rate Band (which is currently £325,000), this will leave a taxable estate of £180,000 meaning a potential tax bill of £72,000. Whilst this still means that Trudy will end up with the whole of the house and £238,000 of Jim's assets, let's see what a little bit of last minute planning can do.

First of all, if Jim gifts Trudy £6,000 now, by utilising this year's and last year's annual gifting exemption he will reduce his estate by the same amount and thereby immediately save £2,400 of tax.

Trudy wants Jim's legacy to mean more than an increased wealth that she neither really needs or wants, so they agree to support a charity that is close to their hearts. As a result, they decide to give the charity £17,500 that will be used to build a school, bearing the family name.

As the £17,500 is more than 10% of Jim's net inheritance taxable estate a special exemption applies to the extent that the IHT due on the balance of the estate is reduced from 40% to 36%.

Following Jim's death, after tax, rather than Trudy inheriting Jim's share of the house and £238,000, she now inherits his share of the house and £236,160. With appropriate action, Jim's school has cost £17,500 to build, and ultimately came at a cost to Trudy's inheritance of just £1,840: that's around £1.05 cost to her, for every £10 that the charity benefited from.

Now, whilst this all may seem perfect, it is important to note that even if Jim had tragically died without any warning, much of the above could still have been achieved after his death, solely at Trudy's behest, even without having to choose the ultimate charitable beneficiary until a later date.

Furthermore, in the example as it stands, with just one more step, we could have achieved an outcome for Trudy to receive a net inheritance of £2,000 more than she would have originally received, while providing the opportunity for the charity to build not one, but four schools in Jim's name.

The sooner Inheritance Tax planning is started, the more effective it can prove to be. Yet as demonstrated above, it's never too late to consider effective IHT planning and it can even be concluded up to two years after the date of death, literally saving families fortunes and also potentially supporting worthy causes.

If you know of anyone who would benefit from a free consultation to talk about their inheritance tax issues, or the best way to pass on their money to charity, please have them call 0191 281 8811 and we will arrange for a Consultant to get in touch.

Planning for long term care

Changes to Government policy around Long Term Care have been a long time coming – and it seems we're not going to have any clear decisions on this in the near term.

Lowes Consultant Nicola Wrightson looks at the current situation.

IN THE SPRING STATEMENT ON 13th March 2019, the Chancellor of the Exchequer Philip Hammond made a small reference to long term care, announcing a three-year spending review to be published alongside the next budget.

This suggests the promised and long overdue Green Paper on this important subject is going to be further delayed. With an ageing population in the UK, the continued uncertainty around the Government's position is far from satisfactory.

In 2013 the Government announced what it termed would be "sweeping reforms" on how care would be paid for; this included proposals from 2016 to cap the overall amount anyone would have to pay themselves for long term care to £72,000. This figure was not as clear cut as it first seemed and in any case, by autumn 2015 the cap was postponed and the Green Paper announced.

The concern of being able to pay for care cannot be underestimated. We know it can weigh heavily on people. With no clear picture as to how much the government will spend on social care and at what level any cap might be set, and consequently with no clarity on what the state will pay for and what individuals will have to fund themselves, it is more difficult to effectively plan ahead for the provision of care, should it be needed, as well as for matters such as passing on of wealth to beneficiaries.

Without these clear guidelines, the wealth management and insurance industries have greater difficulty structuring products that will help people in their planning.

Long term care funding is a major issue for the country and for a growing mass of people who may be in need of these resources. We can only hope that by the next Budget, the uncertainty around Brexit will be over and the Government can turn its attention to major challenges for the nation such as social care funding.

The need for advice

The Government has made it clear that people should seek professional advice when choosing how to finance their long term care, saying: "in most cases it's crucial to do so".

Funding long term care can be complicated; having someone with experience to explain elements like the costs and the risks involved is essential to ensure appropriate action is taken.

An Independent Financial Adviser can help maximise the income for meeting care costs while, as far as possible, preserving original capital, with inheritance in mind.

There are different types and levels of care, depending on the needs of the individual. These range from domiciliary care in an individual's own home, through residential care to full-time nursing in a care home. Which of these are required will affect what is received and so the costs an individual may need to pay.

The Money Advice Service indicates that provision of 24-hour live-in care at home could cost from around £50,000 a year. In comparison, it estimates the average cost of a care home place in the UK at around £30,000 a year, and £40,000 if nursing care is required. The costs will depend on where you live in the country – prices are likely to be higher in the South East of England.

Some medical conditions, which require full time nursing, can come under full NHS funding, although the criteria are strict. Where someone is assessed as needing to live in a care home permanently, there can be an initial 12 weeks of free care to give people time to think about their future before making any final decisions and before the local authority can include the value of a property in the financial assessment.

Care funding assessment

The first step when someone needs care is for a needs assessment to be undertaken. This ascertains the type of help needed and is followed by a financial assessment.

The latter looks at areas such as regular income from:

- Pensions, benefits or earnings;
- Capital, such as cash savings and investments, land and property (including a person's home and overseas property),
- Business assets.

It is worth noting that savings in joint accounts are viewed as being owned 50:50 and might be included in the assessment.

In respect of whether an individual will have to pay for or contribute to their own care, there are three key savings threshold figures for local authority funding in 2019/20. In England, if a person has savings and assets worth in excess of £23,250 they will have to pay full fees. If they have less than £14,250, the local council will pay; and for savings and assets between those figures payment will be a mix of funding from the local council and the individual. Figures differ slightly for Wales, Scotland and Northern Ireland.

Just how much an individual might have to pay will depend on a number of factors, including the value of their savings, assets and income, what local authority or NHS funding they might be entitled to, and what level of help and support they need, which will be affected by their health and mobility.

It is important to be aware that most people find they have to pay for some or all of their own care.

Local councils take a dim view of people who pass on their assets or transfer ownership of their property to someone else in order to avoid paying the full cost of their care. This is called 'deprivation of assets'. Where councils believe this has happened, they will include the value of the assets in their financial assessment.

It is important to get a care needs assessment, even if initially savings are too high to get help with funding, so that down the line if savings fall below the threshold, the authority will pay for the right kind of help.

Funding long term care

In many ways, paying for long term care will be the same as paying any other bill in later life, it will come from pension payments, or assets such as savings and investments.

Depending on the type of care needed the costs could be considerably greater than for someone in good health. This could mean that savings and investments are depleted to the point where other options are required.

Other means of funding include insurance policies (such as critical illness and terminal illness policies) and equity release plans, of which there are two types, lifetime mortgage and home reversion plans. Downsizing a property is another way that money can be freed up to pay for care costs without losing a home and a means to pass on some wealth.

Planning considerations

Long term care is a complex area and can be a confusing one to navigate, particularly from a financial perspective.

We strongly advise planning ahead by putting a long-term financial plan in place. Government procrastination around its social care policies should not enter the equation. There is action that can be taken now, such as putting aside investments and savings in specified vehicles solely for this purpose or taking out insurance, which will help should they be needed.

It is important also to be aware of tax, benefit and inheritance implications of the options mentioned above. For example, equity release arrangements work only where a person is staying in their own home as these policies require repayment of the loan in full if someone moves permanently into a care home.

Lasting Power of Attorney

An important step that can be taken to help protect families and individuals as they get older is to put in place a Lasting Power of Attorney (LPA). This ensures that should someone, for whatever reason, become unable to make their own decisions and deal with their affairs, their chosen representative can help them or take over things on their behalf.

There are two types of LPA: one covering property and finances, and one covering health and welfare. They should be set up while the individual is in sound mind. It is possible to set up an LPA after a person has lost mental capacity but this requires going to court and makes the process far longer, at what could be a very emotional time for those involved.

More information on setting up an LPA ca be found at **gov.uk/power-of-attorney** and your Lowes Consultant also can help.

Likewise, it is important to have an up-to-date Will in place and for any pension, that an Expression of Wishes form has been lodged with the pension scheme stating the preferred beneficiary of the pension in death.

Favourite fund managers

WE'RE OFTEN ASKED IF WE HAVE FAVOURITE FUND managers. The simple answer is No.

The industry – and in particular the media – like to band about terms like Star or Alpha and Elite managers, to describe those seen to have a track record of doing particularly well over a period of time – usually 3, 5 and 10 years.

Ratings agencies pour a lot of resource into assessment of fund manager performance. They analyse how much a good track record is the result of the skills of managers and their teams and how much is attributable to market movements, then rate and rank the managers accordingly.

Managers have different styles, skills and resources available to them. Any manager can have a good track record in rising markets – although surprisingly, not all do. Hence, lists and rankings of top managers can change significantly from one year to the next. Recently, a list of 200 alpha managers saw 54 changes, as some fund managers lost their 'alpha' status and new ones came in. Of the 54 entering the ranking, 16 had been in the list before but 38 were being included for the first time. That in itself, indicates how a fund manager's status in the industry can change and therefore, how important it is to be constantly analysing fund managers and their performance.

The Lowes award-winning Investment Team uses the ratings agencies' data but we conduct our own research and analysis to identify the right solutions for our clients. We construct portfolios as well as use individual funds. Whether we use portfolios or funds, they will take into account the different circumstances of our clients are and the type of risk they feel comfortable taking. For example, many of our clients are in or approaching retirement and may want to be more cautious with their investments. We tailor our portfolios accordingly to the different levels of risk.

Doug Millward, Lowes Investment Manager says:

There are fund managers who we have used for many years because they consistently perform well for our clients. Do we favour them? No. Every fund and every fund manager is assessed on their performance on an ongoing basis. As an Investment Team we meet or hear presentations from a large number of fund managers in a year – over 150 in 2018. We use the information and market views from these meetings, alongside our many years' experience of monitoring the markets, analysing data and asking the right questions of fund managers, to ensure we select the right funds for our portfolios.

Investments not actively managed

While Lowes is a strong advocate of actively managed funds, confident that the skills and resources of the fund managers we select are the among best for our clients, we are also firm believers in the benefits of investment diversification, both in helping to build and preserve our clients' wealth. In this respect we use our 20+ years' experience in researching and utilising structured products – as contract-based investments which have defined investment timeframes, returns and risks – to help diversify the portfolios which our investment team build for clients and for our range of Lowes funds.

Baby boomers in need of advice

A RECENT STUDY AMONG THE UK'S 'BABY BOOMERS' – those aged 55-75 years – showed a high degree of caution in their investment and also a lack of confidence that the investments they hold will deliver strong returns for them over the next five to ten years.

People in this age range primarily held their wealth in the value of their property, pensions and savings. Many had an aversion to taking too much investment risk, and the study revealed that 44% preferred to avoid risk at all costs.

When asked the reasons behind their lack of risk appetite, over a quarter attributed it to fear of making a wrong investment decision. Just 3% felt 'highly confident' their chosen investments would deliver strong returns over the next five to ten years.

A significant number couldn't say what they considered as investment success, unable to say what they viewed as a good return on an investment over a 10 to 20-year period.

This excessive caution has resulted in the shunning of investments and holding their savings in cash accounts. With returns on almost all cash deposits at a lower rate than inflation in the UK, this exposes their hard-earned money to the eroding effects of inflation, reducing their buying power year on year. It is the reverse of what should be happening: their money should be cumulatively increasing, if solely to maintain that buying power.

We found these results disturbing. It came as no surprise that three quarters of those surveyed had never sought advice from a financial adviser.

Selecting the right investments can only be achieved if you have a defined strategy – this determines how much growth or income you need from your investments and accordingly, how much risk you will need to take. Helping you set out that strategy – and managing investments in accordance with it – is fundamental to the role of an Independent Financial Adviser and helps provide a benchmark for success.

Often people without an adviser will take an overly cautious approach. While taking more risk with investments can be like stepping out of the comfort zone, it can be done in a structured way and in the current climate we would say it is can be essential to maintain long term income and lifestyle goals.

Using our years of experience of monitoring and analysing the markets, we can help guide you in this respect. We see our role as Independent Financial Advisers as not only helping to select the right investment but helping to protect our clients' wealth and manage expectations both in times when stockmarkets are going up and on those occasions when they fall.

If you or anyone you know would like the benefit of retirement advice, please call 0191 281 8811 and we will be pleased to arrange a consultation.

Beating the cash ISA conundrum

FOR SOME PEOPLE, INVESTING IN A STOCKS AND shares ISA can seem like a step too far. A Cash ISA looks and feels safer. While it is true there can be less risk involved placing money into a Cash ISA, the fact is that rates on cash deposits are a fraction of what they were prior to the financial crisis ten years ago, while, even accounting for recent falls, the stockmarkets have performed strongly over the same period.

Research conducted by Scottish Friendly and the Centre for Economics and Business Research revealed that if a saver utilised their full cash ISA allowance from 1999 to October 2018 they would have accrued an average of £20,628 in tax-free interest. In comparison a stocks and shares equivalent would have seen them achieve £70,987 in returns – a significant difference.

A key fact that must also be factored in is the effect of inflation, which at current level of interest, is continually eroding the purchasing power of cash savings over the short and long term.

There are ways to reduce the risk to capital while gaining from equity-like returns, including, of course, use of structured products – one reason why Lowes advocates these investment vehicles.

They offer both deposit-style investments, where capital is protected and inflation beating returns can be gained as growth or an income stream; and stockmarket-linked investments, where capital is protected provided the index to which it is benchmarked does not fall below a certain percentage from the level when the investment was initiated. These days that is around 30-50%, although it will be dictated by the individual product. What the latter allow for is higher rates of return, because there is more risk involved. As we know, higher risk tends to equate to higher levels of reward.

Lowes tracks the performance of all structured products available through financial advisers and we produce regular reports for the industry. Our 2018 annual report showed that none of the structured products we tracked resulted in a loss for investors. To receive your free copy of the Structured Product Annual Review 2018, visit: **Lowes.co.uk/maturityreview**.

One of the difficulties people sometimes find with investing in structured products is that the minimum investment amounts for each product, and a cumbersome, non-platform based investment process, mean they don't invest across as wide a range of products and so diversify their portfolio, as much as they would otherwise want. These are two main reasons behind the launch of the Lowes UK Defined Strategy Fund.

As with a typical collective investment fund it offers the opportunity to participate in a pooled investment, which is then invested across a more widespread selection of products, hence having greater diversification. It can also be held in a tax sheltered wrapper such as an ISA or pension.

When held outside of a tax wrapper, a potential capital gains tax charge only occurs when the investment is sold.

As with any stockmarket-linked investment there are risks involved, and these are fully explained in the fund's literature and website **UKDSF.com**.

Of course, the fund also benefits from Lowes' many years expertise in selecting structured products that perform well, and as with a typical fund, it can be bought and sold on a daily basis.

Latest trades for Lowes UK Defined Strategy Fund

HAVING LAUNCHED IN DECEMBER 2018 THE LOWES UK DEFINED STRATEGY FUND HAS RECENTLY ADDED TWO NEW TRADES.

Both are autocalls with the FTSE 100 as the underlying index, one of 7 years maximum term, the other 8 years, with the potential to return 9.2% and 10.28% per year respectively.

Trade 7

Potential maturity on the 2nd March 2020 and each anniversary thereafter up to 2026.

Requires the FTSE 100 Index to be at or above 7462.07 on the first observation, 7106.73 on the second observation, 6751.39 on the third, fourth, fifth and sixth observations or 6396.06 on the final observation to trigger maturity with a gain.

Will return a gain of 9.2% on first maturity date, increasing by 9.2% for each subsequent year.

Will mature at a loss only if the FTSE 100 is below the required early maturity trigger on every potential maturity date and below 4264.04 on the 2nd March 2026.

Loss will be equivalent to percentage fall from 7106.73.

Counterparty Bank: Canadian Imperial Bank of Commerce; rated as 'A+' by Standard and Poor's

Trade 8

Potential maturity on 27th March 2020 and quarterly thereafter up to 2027.

Requires the FTSE 100 Index to be at or above 7194.19 on any potential maturity date to trigger maturity with a gain.

Will return a gain of 10.28% on first maturity increasing by 2.57% for each quarter thereafter.

Will mature at a loss only if the FTSE 100 is below 7194.19 on every potential maturity date and below 4316.51 on 30 March 2027.

Loss will be equivalent to percentage fall from 7194.19

Counterparty Bank: HSBC Bank Plc; rated as 'AA-' by Standard and Poor's

Lowes 'Preferred' Plan Maturities

THE FIRST QUARTER OF 2019 SAW FEWER structured products mature than in many previous periods. In part, this was because the markets were slightly down earlier in the year, which meant that some autocall maturities were deferred. They will now run on and be observed at their next anniversary date.

Of those plans that did mature, seven were 'Preferred' by Lowes at outset and utilised in client portfolios. These included all three options of the Lowes / Mariana Capital product collaboration; the 10:10 Plan, which continued its clean sweep, with every issue to date maturing at its first opportunity.

The period also saw two Investec deposit-based plans mature at the end of their fixed, five-year terms. Being deposit based, these carried virtually no risk of loss, yet they could out-perform the stock market if it rallied strongly. As it was, the FTSE 100 rose only slightly over the respective holding periods, to the extent that the interest generated by the Investec plans was modest, however, at an equivalent of 1.41% per annum it was still somewhat better than most deposit accounts over the same period.

The Morgan Stanley plan was a capital-at-risk plan and clearly demonstrates the correlation between risk and reward. Over the holding period the FTSE 100 posted a gain of not much greater than it did for the Investec deposits, albeit over six, rather than five years. The fact that the index was above 90% of the initial level at maturity triggered the 60% gain by the Morgan Stanley plan.

Provider	Maturity Date	Index	Duration	Gain/ Income
Investec[1]	21/01/19	FTSE 100	5 Years	7.27%
Mariana Capital	12/02/19	FTSE 100	3 Years	21%
Mariana Capital	12/02/19	FTSE 100	3 Years	27%
Mariana Capital	12/02/19	FTSE 100	3 Years	34.35%
Investec[2]	01/03/19	FTSE 100	6 Years	41.76%
Investec[1]	01/03/19	FTSE 100	5 Years	7.37%
Morgan Stanley	22/03/19	FTSE 100	6 Years	60%

[1] Deposit Based; [2] Income Plan

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.

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

Spotlight on the Lowes team

KEITH HANNA, RETIREMENT PLANNING Manager, is part of our Pensions Team, specialising in helping Lowes clients to structure their retirement plans, a large part of which is dealing with the ever complex and integrated areas of pensions and tax.

Keith's career in financial services started as a graduate trainee with a large insurance company, continued with various multi-national companies and, immediately before joining Lowes in 2016, he ran his own financial advice company. "For most of my career I have been involved in the pensions side of things, which given the amount of regulatory and legislative changes we have seen over the years is far from dull," Keith says. "This is even more so since the pensions freedoms were introduced in April 2015. They have revolutionised the way people think about their pensions and to my mind, they have made the need for Independent Financial Advice essential."

Keith and the Pensions Team are a crucial element of the behind-the-scenes support, working with Lowes Consultants on a range of pensions work. They support the Consultants in helping clients to structure their retirement plans in terms of tax efficiency, building a retirement fund and planning for the future as well for specific objectives, and helping clients nearing, or in retirement to most tax efficiently draw their benefits.

"Pensions are a complex area and governments over the years have kept on moving the goal posts, which means there are numerous pitfalls which could see people paying more tax than they need to and so depleting their retirement fund unnecessarily," he says.

There are many challenges that people face when planning for retirement, Keith believes, but if he had to choose three, they would be:

- Understanding the pensions landscape and what it means to someone's individual circumstances. "It's important we cut through the terminology to help clients maximise tax reliefs and flexibilities and get the future they deserve," Keith says.
- Understanding that retirement planning is significantly affected by tax legislation and that while the opportunities available currently – such as being able to flexibly draw pensions benefits to suit people's needs and wealth planning between the generations – may never have been as great, the complexities around making the right decisions also are as great.
- For the younger generation, he sees the challenge being how to put away meaningful savings for their retirement, or to be prepared to work for longer.

His best piece of pension advice is to "know what you want your retirement to look like, so that you can plan ahead and save efficiently to achieve it."

This may seem obvious, he says, but everyone has their own view of retirement depending on their individual circumstances, and having that focus means a defined strategy can be put in place."

For people who may be coming to pension saving in their 40s and 50s, he suggests maximising savings while they are still working and making the most of the available tax reliefs, "so the money you are saving is working it's hardest for you.

"Above all, I see retirement planning as an area where Independent Financial Advice is now so important, as it helps people make sense of it all and to get the best outcome for them."

What's in a name?

AS PART OF OUR INVESTMENT RESEARCH WE REGULARLY meet with fund managers to discuss their investment philosophy and try to really understand the nuts and bolts of their investment process. We feel this is important when building portfolios, to make sure that the different components complement each other, rather than just picking the latest winners.

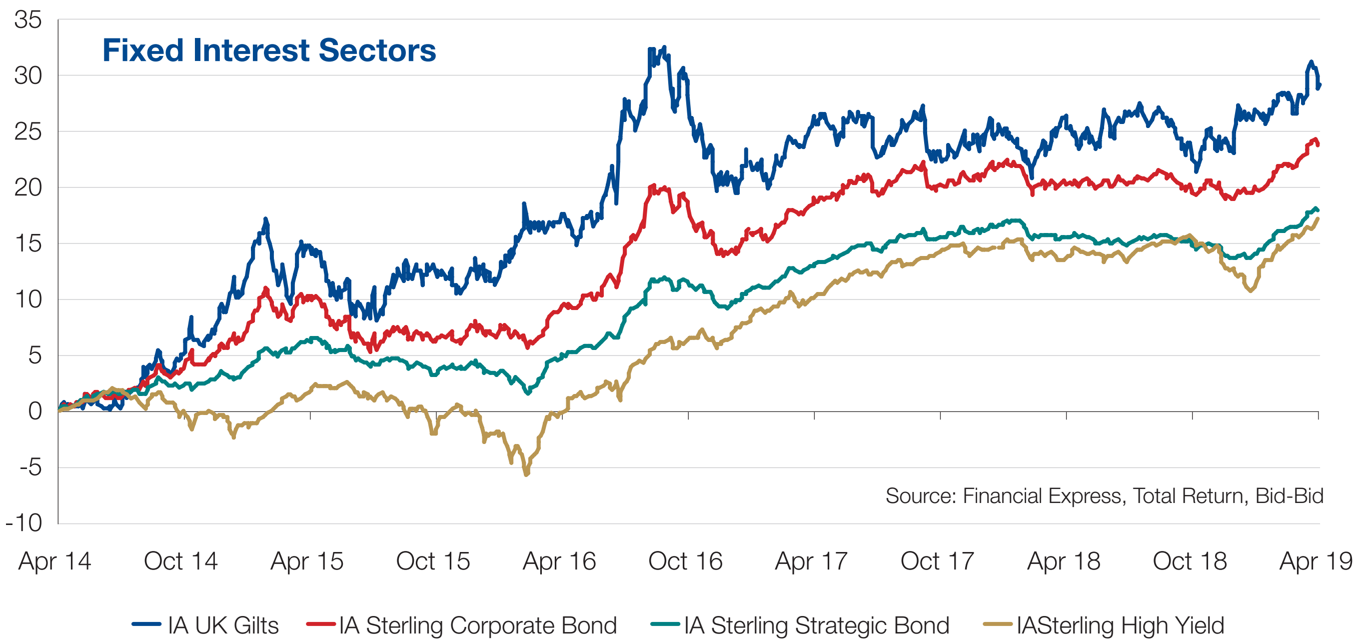
This was brought into particular focus for us recently, when we met with a manager who had come in to discuss their Sustainable Growth fund. Sustainable funds are the latest incarnation of ethical investing, where the focus is three areas, namely Environmental impact, Sustainability and corporate Governance – or ESG as it is commonly known.

As with ethical investing, there are many different approaches to ESG investing so we were keen to understand exactly how this manager worked as his fund had performed well compared to what we thought were its peers. As we had expected, they had a strong quantitative analysis approach, where they scored each potential company in four key areas. Only those that scored well would be given further scrutiny before possibly being added to the fund's portfolio.

We quickly established that the fund would not be suitable for inclusion in an ethical portfolio. The manager freely admitted that his system led to a rather pragmatic approach to stock selection, which could lead to the inclusion of some companies which ethical investors would question.

That did not stop our interest in the fund, however. Putting aside it being named as a sustainable fund, and it being promoted as an ESG approach to investing, the manager's process was of interest as a general investment, and it had produced a history of good performance which warranted further investigation as a possible component of our more general portfolios.

This was not the first time we had come across funds with misleading names. In the world of Fixed Interest investing, for example, there are four main categories of funds. Sovereign debt funds, investing in things such as UK gilts; corporate bond funds, investing in bonds issued by high quality, investment grade companies; high yield funds, investing in lower quality, sub-investment grade companies; and strategic bond funds, which can invest across all these categories, changing the focus as the manager sees fit.



As you can see in the chart which shows the average performance over the last five years for each of these sectors, they all perform differently at different times, so it is important to know which you are investing in. Yet we have come across funds investing only in investment grade corporate bonds which had Strategic Bond in their name, and strategic bond funds, investing across the whole spectrum, which were named as Corporate Bond.

A similar situation can arise when looking within sectors. The UK All Companies sector, as the name suggests, is the home for funds investing in companies listed in the UK, but of those some only invest in smaller companies, while others invest only in the larger companies within the FTSE 100. These are very different funds, with very different performance and risk profiles.

All this re-affirms our commitment to our investment process. By having a dedicated investment team here at Lowes, we can take the time to really understand how a fund works, and more importantly how we would expect it to perform in relation to other funds within a portfolio. Without this knowledge it can be difficult to ensure proper diversification. It is fine having all your investments moving in the same direction when markets are rising, but it is the last thing an investor wants when markets fall.

If you would like to receive occasional reviews of this nature on other funds, then please let your Lowes Consultant know or send an email to **FundReviews@Lowes.co.uk** stating your surname, first line of address and postcode.