TPO Insight

AUTUMN/WINTER 2019

THE YIN AND YANG OF CHARITABLE GIVING

HOLDING YOUR BUSINESS PREMISES IN YOUR PENSION

MISSED THE HELP TO BUY ISA WINDOW?

WHAT IS ESG INVESTING?

tpo
the private office

Contents

Welcome to our autumn/winter newsletter

Welcome to the latest edition of our Insight newsletter, bringing you news, features and opinion from The Private Office (TPO) and the world of money and finance.

In this edition we have the follow up article to our behavioural investing feature that appeared in our summer newsletter, this time looking into the emotional biases which affect investment decisions. Other articles include:

- An overview of Environmental and Social Governance (ESG) in investing;
- The third article in our business series, which discusses the benefits of holding your business premises in your pension;
- An article explaining the tax benefits of charitable donations, produced in collaboration with UK charity Mencap who have described how they use donations to improve the lives of people with learning disabilities;
- A look back at the Help to Buy ISA as it is withdrawn from sale on 30th November.

Our regular features include the usual saving rates tables with data from Savings Champion, the investment market update from our Investment Committee and adviser Chris Reed describes a day in his life.

In October we were thrilled to announce the acquisition of the London based firm John Lamb Wealth Management Limited, which is now an appointed representative of The Private Office Limited and will be incorporated into the Private Office in the coming months. We are very happy to be expanding our TPO family and to welcome their clients and colleagues into our business.

As you may have seen in the previous newsletter, we will soon be launching our online client portal, TPO Wealth. This will give you greater access to your financial information and allow you to manage your wider financial needs all in one place. Alongside TPO Wealth we are delighted to launch our own investment service, TPO Invest. With TPO Invest we will be able to provide consolidated investment services in a safe and secure environment. While this is similar to other wrap platforms such as Ascentric and Novia, the key difference is that The Private Office will be taking operational control, giving us the ability to deliver the highest standard of service to you. We are excited to take these bold new steps in our client offerings and to continue to find new ways to improve our service.

Other recent changes include the launch of our investment webinars, 'TPO: Markets Matter', to our professional contact audience. Hosted by Financial Journalist Sam Shaw with our investment experts: Senior Partner, Robert Morse, and Head of Investment, Angad Lota, these are off to a flying start and give us a great new way to share our knowledge wider.

Also launched recently was our new and improved website. If you have already had chance to visit, we hope you found it easier to use and have enjoyed exploring the new content across our key topic areas. We are delighted with the changes made and are looking forward to using it to share our expertise with our existing clients as well as new audiences.

This will be the last Insight newsletter of this year, and as we head into December, we would like to wish you an enjoyable and prosperous Christmas and New Year.

We hope you enjoy this edition of Insight and welcome any feedback you may have.

Best wishes,

Stuart & Alistair

Stuart Phillips
CHIEF EXECUTIVE
THE PRIVATE OFFICE

Alistair Callander
CHIEF EXECUTIVE
THE PRIVATE OFFICE

Market overview

ROBERT MORSE
SENIOR PARTNER
TPO INVESTMENT COMMITTEE

Central bank rhetoric has changed yet again, and the Fed have cut rates for the first time in 10 years and ended quantitative tightening. No sign of quantitative easing yet but we suspect the markets may force the Fed's hand. Government bonds are very expensive – but the flight to quality aspect has not yet disappeared, certainly for short duration assets. Spreads on corporate bonds, both investment grade and high yield, have begun to rise albeit slowly, but we suspect this will accelerate. There is also significant concern over liquidity risk, despite central bank buying (Europe and Japan) and regulatory stress testing.

Western equity markets are long overdue a significant correction, although we don't know what central bank responses will be. It is likely that if this correction manifests itself in Europe that there may be continued accommodative policies, with the new European Central Bank President, Christine Lagarde, firmly in the dovish camp. However, this day may be a way off; US markets have been hitting new all-time highs, partly on hopes of a reversing of US/China trade tariffs. Will Trump agree? We will have to wait for the Tweet.

Spotlight on Japan

Japanese equities have lagged behind global equities for 29 years; something that has coincided with a falling bond yield. The most recent low occurred over the summer and Japanese equities have started to pick up. The market breadth readings are the strongest since 2016 and we are seeing the banks, brokers and cyclicals break higher. The market signals have got our attention, and the next step is to dig into the detail.

The derating and underperformance of Japanese stocks coincided with a falling Japanese Government Bond (JGB) yield which was the first to offer a negative yield in 2016, but JGBs have turned the corner this summer. Just as falling yield led to Japanese equity underperformance, it stands to reason that rising yields will lead to outperformance.

They have had a weak economy held back by a weak banking sector and unfavourable demographics. But unemployment is 2.3% with 1.6 jobs per applicant; higher than 1990. Office space is tight with the lowest vacancy rate on record. Bank deposits and lending are growing, and the economic surprise index is buoyant.

The valuation is also attractive, trading on 12x earnings. Dividends are now 2.4%; a level last seen in 2012, only higher during the credit crisis. Earnings should grow by 7% a year for the next two years. Importantly, foreign investors who are significantly underweight Japanese equities may have to sharply reverse if Japan performs.

There have been many false dawns for Japanese equities, but when the banks, steel and shipping stocks lead the way, you can't ignore the potential for a value rally. Fabulous hosts of the Rugby World Cup and next the Olympics in 2020, all eyes will be on Japan.

Emerging and Asia Pacific markets are not overly expensive, but they remain volatile, impacted by dollar machinations, currency devaluations, trade wars and Chinese economic weakness.

Commodities: Oil has fallen significantly; a bearish indication for the global economy, or due a rebound on Federal Reserve QE. Gold remains an insurance policy against policy mistakes, but a resumption of higher real yields means a corrective phase for the shiny metal.

Property: Property is a real asset offering a higher spread than fixed interest markets, but liquidity gives us sleepless nights. We also worry about any asset where the largest recent purchases have been by local Council's using borrowed money. REITs are equities in disguise, but long-term infrastructure is another potential inflation hedge.

Global economies are still fragile and any shock to the system is likely to be met with further central bank "largesse". As ever, we observe closely for signs of success… or failure.

The table below shows our current view across all asset classes in terms of the relative weighting of each asset class against our own strategic asset allocation:

TPO VIEW
ACROSS ALL ASSET CLASSES

ASSET CLASS VIEW		TPO VIEW	LAST MONTH	NOTES
Government Bonds	Developed market conventional	⇩	⇩	Central bank narrative suggesting that the tightening bias maybe over. Negative long duration.
	Developed market inflation linked	⇩	⇩	A hedge against future inflation? But be mindful of duration risk short term negative.
	Emerging market conventional	⇔	⇔	Approaching fair value again - positive if weaker dollar trade war doesn't escalate.
Corporate Bonds	Investment Grade	⇩	⇩	Too expensive, even with the Draghi "put" in place for European corporates.
	High Yield	⇩	⇩	Yields too low to justify risk other than very short duration issues.
Equities	UK	⇧	⇧	Cheapest relative to global markets since the 1990s. Value strategies especially attractive.
	US	⇩	⇩	Markets are still very expensive, a correction anticipated.
	Europe ex-UK	⇧	⇧	Cheaper than it was but still a lot of issues to contend with.
	Asia ex-Japan	⇔	⇔	Attractive long term, especially with a weak dollar.
	Japan	⇧	⇧	In a trading range but still upside potential especially for value stocks.
	Emerging Markets	⇔	⇔	Attractive long term, especially with a weak dollar.
Commodities	Gold & Precious	⇩	⇔	Insurance against central bank policy errors. Short term neutral, but rising real rates suggest a correction.
	Industrial Metals	⇔	⇔	The commodity complex has not turned up yet. Short term neutral.
Currencies	US Dollar	⇔	⇔	The Fed may shift back to a more accommodative phase but dollar shortages in the short term mean a strong dollar until the Fed actually restart some form of QE.
	Euro	⇔	⇔	Brexit concerns in the short term threaten sterling. Fiscal spending is a more likely option than QE so long term we may see surprising strength.
	Japanese Yen	⇧	⇧	Currently the "go to" risk off currency.
	Sterling	⇧	⇔	Brexit concerns in the short term threaten sterling. Fiscal spending is a more likely option than QE so long term we may see surprising strength.

Please refer to page 22 for an additional note from our Investment Committee.

Key

⇧ Overweight compared to strategic allocation

⇔ Neutral position compared to strategic allocation

⇩ Underweight compared to strategic allocation

Past performance is not a reliable guide to future performance.

Important regulatory information

CLAUDIA CLAY
RISK AND REGULATORY DIRECTOR

As a result of the ongoing Brexit negotiations, we have taken the opportunity to complete a review of our regulatory structure, permissions, and client base. We have considered the political climate and recent regulatory changes, as well as the needs of our existing and prospective clients.

This review has resulted in a change of regulatory permissions, meaning that from 31 October 2019, we are no longer in a position to 'passport' our services across borders from the United Kingdom into other EEA states.

Previously, we have provided our advice and service to some clients on a cross-border basis, and from 1 November 2019, we are unable to maintain this arrangement.

No action is required of the affected clients, who we have already contacted to discuss their individual circumstances. However, if you would like to discuss this matter further or have any concerns, please contact your usual TPO adviser in the first instance; alternatively, please email our Regulatory Team at regulation@theprivateoffice.com.

Stop press

Proposed increase in Probate fee axed

In mid-October it was confirmed that the proposed increase in Probate fee has been axed, following months of procrastination.

At the end of 2018 a hike to Probate fees was expected following controversial plans that would have seen the fees on some estates increase by over 2,500%.

At the moment a flat fee of £215 applies if a Probate application is submitted by a non-professional such as a family member. The fee is reduced to £155 if a solicitor or probate specialist is involved as this generally reduces the work needing to be completed by The Probate Service.

The new system would have seen the fee increase on all estates worth over £50,000 and would be in addition to any Inheritance Tax which was payable. For those with estates worth less than £50,000, the news is less welcome as probate fees will continue to be payable for estates valued above £5,000 (England and Wales).

However, due to a change of focus caused in the main by Brexit negotiations, confirmation of the proposed changes was delayed twice and the Justice Secretary, Robert Buckland, has since announced that the proposal has been scrapped.

Robert Buckland stated "While fees are necessary to properly fund our world-beating courts system, they must be fair and proportionate. We will withdraw these proposals and keep the current system while we take a closer look at these court fees as part of our annual wider review".

Although that sounds as though this is simply another delay to a review to raise the fees significantly, officials have insisted that the review will only involve small adjustments to cover costs.

Holding your business premises in your pension

TONY PADGETT
ADVISER

Many business owners see rent as lost money and would prefer to own their premises rather than lease it from a third party. Using the benefits built up within your pension to purchase your business premises could be a potential solution.

How can I use a pension to buy my business property?

Self-Invested Personal Pensions (SIPP) and Small Self-Administered Schemes (SSAS) offer far more flexible investment opportunities than ordinary personal pensions. This includes the ability to invest in direct UK Commercial Property.

As a business owner or if you are self-employed, this flexibility may be particularly beneficial as your pension can hold the property from which you run your business.

What type of property is allowable?

Most SIPP and SSAS providers permit the purchase of commercial property, such as offices, retail units and factories. Unfortunately, you cannot invest in residential property like houses, flats, holiday homes and holiday lets.

However, many properties can consist of both – such as a shop with a residential flat above. There are special rules for this and, whilst more complex, it may still be possible to purchase such a property. It is always worth exploring this option before fully discounting such an opportunity.

The property can be leasehold, freehold or commonhold, although it may be difficult to arrange a mortgage on a short-term leasehold.

What are the benefits of holding your business premises in a pension?

There are a number of significant benefits for both you and your business:

Tax benefits within the pension

- Income tax is not payable on rent received
- Capital gains tax is not payable on any increase in value if the property is sold
- It is outside your estate for Inheritance Tax purposes
- As rent accumulates, it is available for investment into other non-property assets

Benefits for your business

- Rent from the business is paid into your own pension plan rather than to a third party
- Rent is treated as a company expense so reduces corporation tax payable (or income tax in the case of the self-employed/partnerships)
- If the business fails, the property will be protected from creditors
- It retains control as it stops the possibility of a third-party landlord either:
    - increasing rent above the market rate
    - selling the property; and/or
    - you being forced to move premises

How can I fund the purchase?

The purchase cost is typically met using the existing value built up within your pension. There are a number of different options available to help towards the purchase:

1. Consolidate your pensions – most people have built up pension savings in a number of pots over the years. It may be possible to transfer and consolidate these into one single pot
2. Make further pension contributions – if you have cash available, either within the business or personally, further pension contributions can be made which would also benefit from tax relief within allowable limits

   The net cost of the property after tax relief, to you or your business, could therefore be considerably less than the amount actually contributed
3. Borrow money – a key benefit of a SIPP or a SSAS is that you can borrow up to 50% of the value of your pension less any existing borrowing. This can only be secured against the property being purchased or any existing pension assets

This means that if your SIPP or SSAS was worth £200,000 and assuming no existing borrowing, you could borrow up to £100,000 and have a total of £300,000 to go towards the purchase cost.

Can I purchase a property with somebody else?

Yes – and with the current limits that you can pay into a pension each year, this is becoming increasingly common.

You can purchase the property jointly along with several people's pension schemes – for example with your spouse or business partners' pensions - as well as with you as an individual, your business, or almost any other third party. Importantly, the joint owners do not have to hold equal proportions of the property.

How much will it all cost?

Costs are always an important consideration and these can generally be split into two parts – initial and ongoing.

Initial Costs

There are a number of initial costs that can be incurred and these vary depending on the complexity of the transaction. These are likely to include:

- VAT
- Solicitor's costs including search fees and land registry fees
- Valuation fee
- Mortgage arrangement fees (if applicable)
- Fees for set up of the Pension and management of the property purchase
- Financial planning fees
- Stamp Duty Land Tax (SDLT) is payable if the purchase value is more than £150,000. The current rates of SDLT are shown below with an example of how these are applied if purchasing a freehold property:

Purchase Price	SDLT	Example SDLT on a purchase value of £300,000
Up to £150,000	Nil	£0
£150,001 to £250,000	2%	£2,000
Over £250,000	5%	£2,500
Total		**£4,500**

If you are purchasing a leasehold property you pay SDLT on both the:

- Purchase price of the lease (the 'lease premium') using the rates in the previous table
- The value of the annual rent you pay

These are calculated separately and added together. A calculator is available on the HMRC website to assist in these calculations at: *www.gov.uk/stamp-duty-land-tax/nonresidential-and-mixed-use-rates*

Ongoing Costs

Annual costs and management fees will also be payable. These generally cover items such as rent invoices, rent reviews, renewing leases, annual insurance cover and the repayment of any borrowing.

Some pension providers may allow you to manage the property yourself which can help to keep ongoing costs down.

What about VAT?

VAT rules are very complicated so it is important to get it right.

Your pension can register for VAT where the property is (or will be) subject to VAT. This allows the pension to reclaim the VAT paid on the purchase and/or any development of the property.

If the property is subject to VAT with an existing lease in place that will continue after the purchase, it may be possible to treat the purchase as a Transfer of an Ongoing Concern (TOGC). In doing so, no VAT is chargeable on the sale and no reclaim of VAT is necessary. This can be beneficial as it means that less capital is required up front to meet the purchase costs.

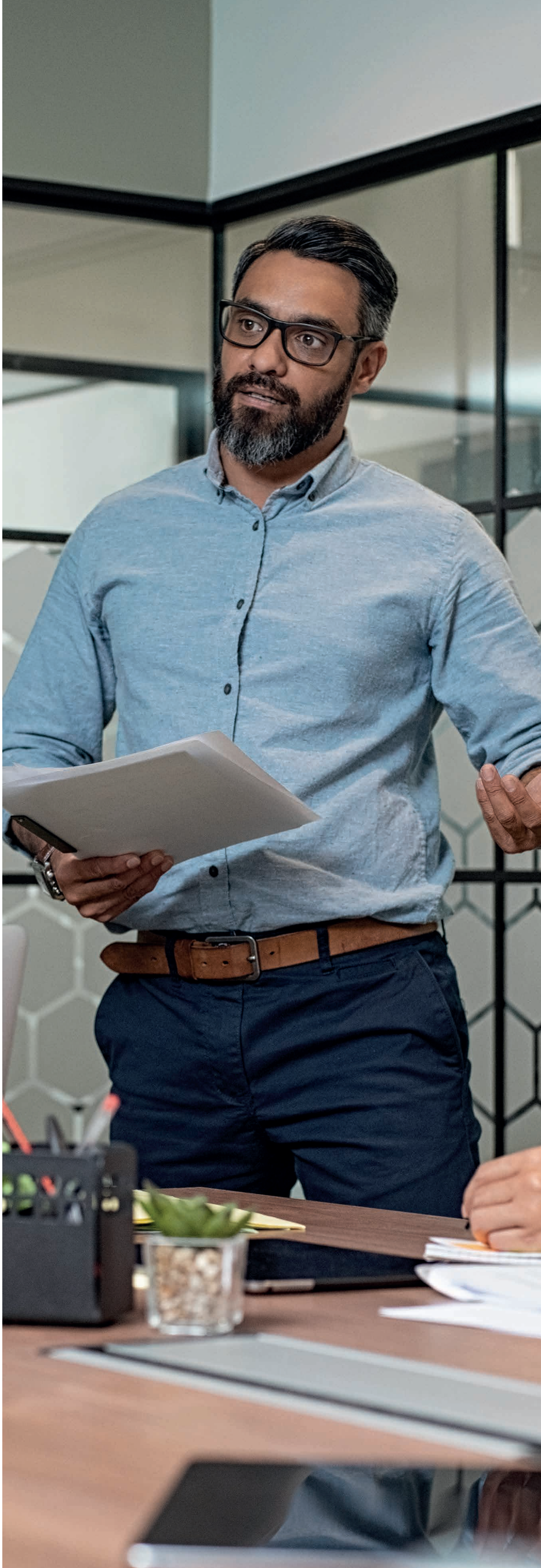
What are the potential disadvantages of holding business property within a pension?

Whilst there are significant advantages there are also a number of potential disadvantages that must be taken into account:

- Charges for a SIPP or SSAS will be relatively high when compared to a standard personal pension plan
- Direct investment in property is illiquid, meaning that it can take time to sell particularly at a price you are willing to accept. It is important to think ahead. If commercial property is the only pension asset how will you create liquidity to pay tax-free cash or an income at retirement?
- Holding a significant proportion of your pension in one asset increases the investment risk due to the lack of diversification. What effect would a downturn in commercial property have on your retirement? We would encourage you to spread this risk by holding other assets alongside the property for example cash, bonds, shares and alternative investments
- A formal lease must be arranged on commercial terms. In other words, you can't give your business a better deal than would otherwise be available in the open market
- If the business previously owned the property outright beforehand, no rent would have been due. Commercial rent to the pension would be a cost increase to the business and would have to be affordable and taken into account
- If the business fails and you can't find another tenant, there would be no income but you would still have ongoing costs to pay

Buying a commercial property can be a complex task, but we can help you decide whether buying your business premises with your pension is right for you and your personal circumstances, and we can help make the process as straightforward as possible.

If you would like to discuss this in further detail please contact your usual adviser.



The yin and yang of charitable giving

Ian, one of our Chartered Financial Planners, and Lucy, a Philanthropy Manager at learning disability charity Mencap, have teamed up to give their respective views on charitable giving. Hopefully this will provide more of an understanding of the tax benefits of making charitable gifts, and an insight into how those gifts might be put to great use by a charity such as Mencap.

Financial planning and charitable giving

IAN HAWKES
ADVISER

Giving away money is rarely at the forefront of financial planning, but philanthropic giving is an exception as the tax benefits of making charitable donations either during your lifetime or upon death can be significant for UK taxpayers.

Lifetime Gifts

Aside from the obvious "feelgood" factor associated with charitable giving, there are several tax benefits associated with making donations to registered UK charities, including:

- Relief from higher and additional rate income tax
- Reclaim of your personal allowance if you have lost it due to high earnings
- Exemption from capital gains tax on the donated assets
- Immediate exemption from Inheritance Tax for donations made to charity

Income Tax Relief

Whenever you make a cash gift to charity using Gift Aid, the gift is allowable for income tax relief, albeit one with a twist. While the basic rate of income tax is reclaimable, it is the charity which reclaims this amount, not the individual. This means that if you gift £800 to a charity, they will be able to boost this to £1,000 if you apply Gift Aid.

Take care if the gift is worth more than four times the amount of your combined income and capital gains tax for the year, as HMRC will send you an additional tax bill if your chosen charity claims more tax relief than you actually paid in tax in the first place.

If you are a higher or additional rate taxpayer, the remainder of the relief is yours to keep. Using the same example, a relievable gift to charity of £800 would result in the charity receiving £1,000 total and you would also receive income tax relief of £200 as a higher-rate taxpayer or £250 as an additional rate taxpayer, reducing the net cost of the gift from £800 to £600 and £550 respectively.

Reclaim of Personal Allowance

For those of you with taxable income between £100,000 and £125,000, you will likely be painfully aware of the tapering of your personal allowance, which results in an effective 60% income tax rate within this band. In your case, charitable donation is an even better deal because your adjusted income is deemed to be lower after making the gift, resulting in an increased personal allowance in addition to the normal reliefs listed above. Continuing the above example, your £800 gift would allow the charity to receive £1,000 with you claiming a £400 income tax rebate, resulting in a net cost to you of only £400.

Capital Gains Tax

Although capital gains tax is currently only 10-20% on investments, it can still be disconcerting to see a proportion of gains vanish. While there are other means of mitigating this tax, if you are planning to make a charitable gift anyway you may wish to consider gifting assets that are expecting gains, as your capital gains will be extinguished by the gift.

For example, if you wish to make a £5,000 gift to charity and are faced with the choice of making the gift from cash or from shares currently showing a gain, gifting the shares allows you to shed the accrued gains without using your capital gains tax allowance for the year.

Timing

One interesting and little-known fact about charitable giving is that you can make gifts effective for the previous tax year if you have not yet submitted your tax return for that year. This makes charitable gifts one of the few actions that can be taken after the end of the tax year which affects your income tax calculation.

Inheritance Tax

Normally if you make sizable gifts during your lifetime they can come back to haunt you (or more precisely your executors) if you are unfortunate enough to die within seven years of making the gift. However, charitable gifts are exempt from inheritance tax calculations as soon as you make them. That said, you may wish to consider leaving assets in your Will as well as making gifts during your lifetime, for reasons that will become clear shortly.

Bequests on Death

If you leave assets to charity upon your death, your gift is still exempt from inheritance tax and no longer considered part of your taxable estate, however there is a little-known additional benefit if you plan to leave a significant gift to charity upon your death.

Where the value of the gift is 10% or more of the value of your taxable estate, the rate of inheritance tax applied to your estate is reduced from 40% to 36%. This mitigates the loss to your estate somewhat, which may benefit your heirs, and also leads to some interesting scenarios.

For example, if you expect to have a taxable estate of £100,000 and were planning to leave £6,000 to charity, this would represent 6%, leaving your estate with £94,000 before tax, with inheritance tax to pay of £37,600. If the gift is increased to 10% of your taxable estate, the total gift is £10,000, the estate is reduced to £90,000 and the inheritance tax is reduced to £32,400. This means that the estate leaving 6% to charity is worth £56,400 to the heirs while the one leaving 10% is worth £57,600 – an uplift of £1,200 inheritance by increasing the amount of charitable giving.

My conclusion from this is that anyone already planning to gift 4-10% of their taxable estate to charity should consider increasing this to 10%, as the charity may receive more in total without your heirs receiving any less - indeed the charity and your heirs could actually receive more by increasing this figure to 10%.

The benefits to charities

LUCY REX-HAWKES
PHILANTHROPY MANAGER
mencap
The voice of learning disability

Ian has already mentioned the "feelgood factor" of charitable giving, but people donate to charity for many reasons – affinity with a cause, wanting to give back to society, recognising the importance of their work, or utilising the tax benefits of making such a gift. Whatever motivates the gift, donating to charity should be a positive experience for the donor.

Donations from individual supporters are the lifeblood for many charities, and Mencap is no exception. Mencap's mission is to improve the quality of life for the 1.5 million people in the UK with a learning disability and their families through personal support, helplines, campaigning and support.

People with a learning disability face inequality and discrimination in every aspect of their lives from healthcare to employment. Mencap is trying to change all that. Its vision is a world where people with a learning disability are valued equally, listened to and included. Whilst we are working on that, we have support programmes to help with all aspects of life for people with a learning disability including employment, relationships and friendships, education, sport, health and wellbeing. People's valuable donations give us the resources to provide support ranging from round-the-clock care, to helping someone who has become socially isolated to join in with activities in their community; it means we can staff our helpline to give advice and information, give access to employment and education, and assist someone to live independently for the first time.

As a Philanthropy Manager, I work with donors who make major gifts to the charity. For Mencap this is any donation from an individual over £5,000. Major gifts are a valuable source of income for several fundamental reasons.

Impact

A major gift can be transformational for a charity. Just within Mencap, in the past year philanthropists have funded employment support programmes, launched a family support scheme and helped to engage hundreds of people with a learning disability in community sport clubs.

Imagine knowing that your gift had helped someone with a learning disability to develop the skills that led them to employment. Or enabled us to answer a desperate phone call from a new parent with nowhere else to turn for information. Or ensured a lawyer could fight for a family whose loved one is locked away in a "modern day asylum" due to cuts in social care budgets. Just one major gift can make that crucial difference.

No matter the size of the organisation, a four-, five- or six-figure gift will have a significant impact for their work, and as Ian demonstrated above, adding gift aid only increases that impact.

Engagement

Donors have two options when they make a major gift. The first is to give it unrestricted, meaning it will be used wherever the charity needs it. Unrestricted donations are essential to charities, giving us the ability to direct the donation to the areas in greatest need of funding. If you have an interest in a charity but don't know where your donation would add the most value, an unrestricted donation will allow you to get to know them more whilst supporting their valuable work.

The second type of gift is restricted, when a donor specifies that it should be used for a certain area of work. This might be loose (limiting the gift to being used in London, for example), or tight (specifying that it funds a particular project). If you know exactly what you want to fund, a restricted gift will ensure that you're contributing to the work you are interested in.

Philanthropists can get to know the charity they support at a deeper level than most donors. We want the people who give most generously to our work to understand the value of their gifts, and what that really means for the people we support. When someone makes a significant donation to Mencap, I want to introduce them to the people who have grown in confidence, made friends, accessed healthcare and learned new skills through Mencap's programmes, and to the teams who deliver this life-changing work.

If you're not sure how best to direct your donation, get in touch and ask. Many charities have a dedicated Philanthropy team who will be delighted to answer your questions.

Sustainability

A learning disability is a lifelong condition, and people with a learning disability will need support throughout their lives. There is so much we want and need to do to improve the lives of people with a learning disability and with social care funding so precarious, we need to plan for the future, and that means having funds to do so.

Many philanthropists choose to pledge a gift over multiple years. This allows them to continue significantly supporting the charity and, with a restricted gift, to watch a project grow and strengthen, knowing that they have been instrumental in this development. Not to mention, making a multi-year pledge builds in tax relief across those years!

Leaving a legacy

You may not be in a position to make a major gift now, but still want to ensure that you can support a charity. If this is the case, leaving a legacy is a wonderful way to give a significant donation to a cause that you believe in. Letting your chosen charity know that you intend to leave them a bequest allows them to plan for the future.

Planning a legacy doesn't mean that you can't be involved with the charity now. At Mencap, we update legacy pledgers throughout the year on our work, ensuring that they feel connected to the charity and the people we support.

Conclusion

Giving to charity should be a beneficial experience for both parties. This is only enhanced by knowing that you are giving in a way that not only provides the maximum possible support for your charity's beneficiaries but is also tax efficient for you. If you have a charity you want to donate to, reach out to them, ask them any questions you have, and explore how they can make the best use of your gift. And when you do donate, keep in touch and hear about the difference your support has made.

If you would like to get in touch about the content of this article, please email marketing@theprivateoffice.com, or speak to your usual TPO adviser. More information about Mencap can be found at www.mencap.org.uk

Missed the Help to Buy ISA window?

ANNA BOWES
CO-FOUNDER
Savings Champion

First time buyers who want to take advantage of the generous Government bonus offered by the Help to Buy (H2B) ISA may have missed the boat, as the product will be withdrawn from sale on 30th November this year.

Anyone who managed to open a H2B ISA account before the deadline can continue contributing to it until 30 November 2029. The only other deadline is that the Government bonus, paid when you use your account to buy your first home, must be claimed by 1st December 2030 or you'll lose it.

The H2B ISA was introduced on 1st December 2015 to provide "direct government support" to help "generation rent" get onto the housing ladder, and with a generous 25% bonus on the amount saved, which is added at the point of completion of the property, many first-time buyers have taken advantage.

So, should future first-time buyers be disappointed that they won't be able to open a new account after 30th November?

The good news is that the launch of the Lifetime ISA (LISA) in April 2017, has really superseded the H2B ISA and, in many ways, the LISA is actually a far better product.

Help to Buy ISA versus Lifetime ISA?

As the name suggests, the H2B ISA is a savings account designed to help first time buyers – so the bonus is paid on the completion of the purchase of your first home. The LISA has two objectives - to save towards the purchase of your first home and/or to help boost your retirement income.

Both of these ISAs offer an excellent Government bonus of 25% on each deposit made. However, the maximum bonus available on the H2B ISA is £3,000, compared to as much as £33,000 on the LISA. The LISA bonus is added each year on up to £4,000 deposited per annum from the age of 18 to 49.

In fact, as the H2B ISA is a cash ISA and the Lifetime ISA is a stand-alone ISA type, you could open both in the same tax year without falling foul of the ISA rules. However, crucially, you could only use the 25% bonus from one of these vehicles for the purchase of your first home. If you do hold both accounts and use the H2B ISA for your first home, you'll have to keep the lifetime ISA until at least the age of 60 – or suffer a steep penalty for earlier access.

If you are just looking to save towards the purchase of your first home, arguably the LISA is still the better bet. You can deposit more each year (£4,000 per annum as opposed to £200 per month) and the 25% bonus is added to the LISA the month following each deposit that is made, so that the deposit and the bonus can earn interest until the account is cashed in. This compounded interest could make a big difference over time. The bonus on the H2B ISA is simply paid on the completion of the property and is based on the amount in the account.

With the LISA, the price of the property you are able to buy can be up to £450,000 regardless of where in the country it is, as opposed to the H2B ISA, which restricts the price of any property outside London to £250,000.

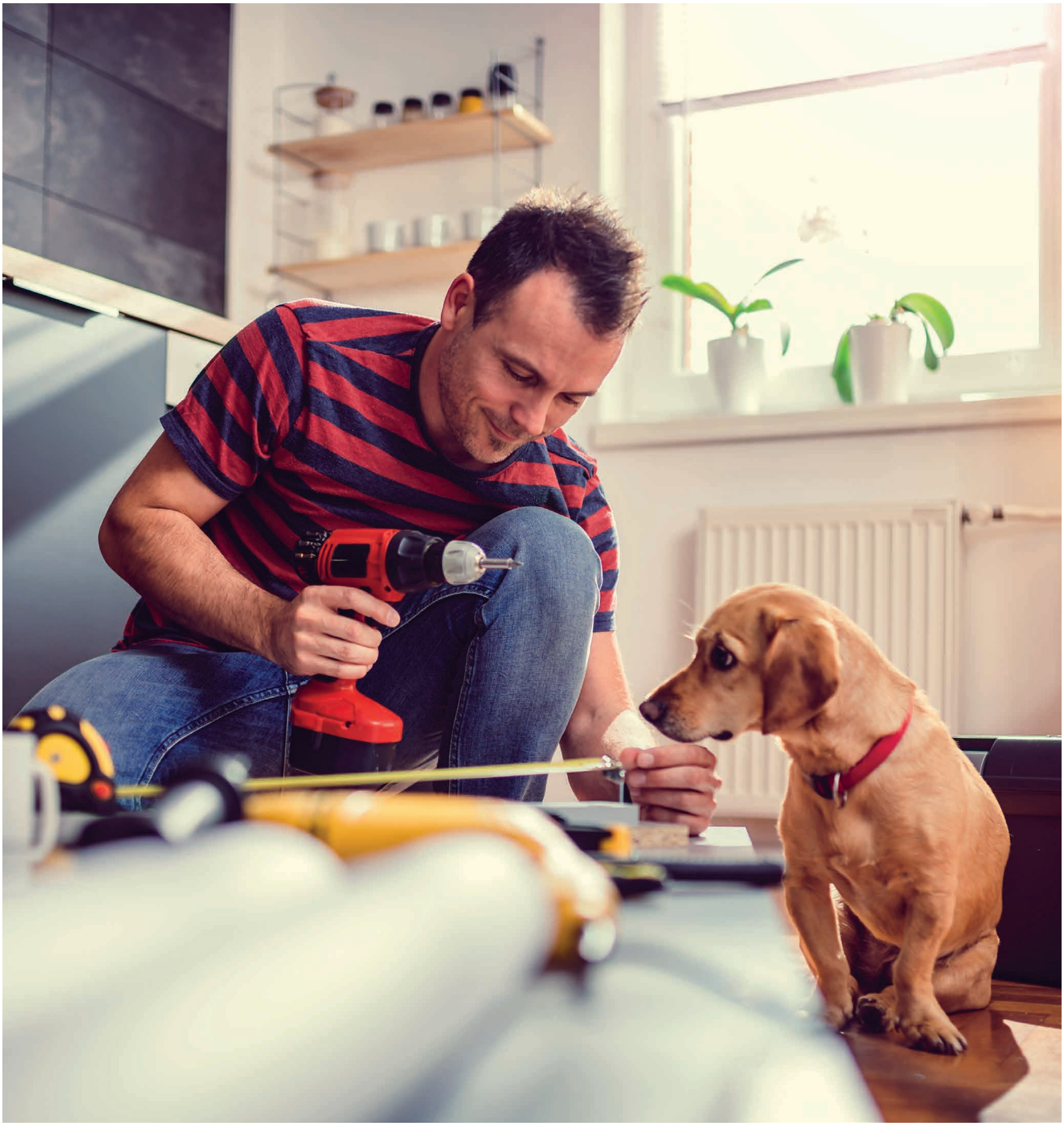
However, you have to hold the LISA for at least 12 months before you can use the bonus, so it would not be appropriate for those looking to buy their first home sooner than this. Although the LISA can be used to save for a first home or retirement, it can only be cashed in before the age of 60 if it is to be used for the purchase of your first home. If you try to take money out before the age of 60 for any other purpose, there will be a hefty penalty of 25% of the value, which would more than wipe out any benefit of the Government bonus.

With the H2B ISA you can choose to cash it in at any stage and if the proceeds are not for the purpose of a first home purchase, you'll simply not receive the bonus – but any interest earned will be yours.

H2B ISAs are paying far more competitive rates – up to 2.55% from Barclays – than the LISA, or indeed standard cash ISAs or savings accounts. In fact, there are only four LISAs to choose from – the best being available via a financial app called Moneybox, paying 1.40% tax free/AER.

So, if you've missed the window of opportunity to buy a H2B ISA, all is not lost. As long as you are aged 18-39 you can take advantage of the LISA instead. But remember to remind yourself of the rules, so that you don't open something that isn't fit for purpose.

For more information about H2B v LISA please contact your adviser or visit www.savingschampion.co.uk



What is ESG investing?

QUENTIN HOLLAND
PARTNER

The Government has declared a Climate Emergency and the recent Extinction Rebellion protests around the country mean environmental issues are headline news at present, but what can we do within the investment world to make a difference?

One way in which you can help to make a difference is by choosing to invest your money in funds where the managers have chosen to invest in companies that work towards improving the Environment, addressing Social inequality or Governance improvements, also known as ESG investing.

It might seem that the investment world has just woken up to these issues, but ESG investing has been around for some time. In the past 25 years, there have been various labels such as ethical, green, stewardship, sustainable and responsible, but they have now mainly converged under the banner of ESG. The ESG investing world can be confusing; the terminology is not yet set, the regulatory framework is being built and processes and practices are still evolving. There are challenges, but these are outweighed by the opportunities. My aim here is to try to provide you all with some clarity as to why you might consider ESG investing and what it all means.

ESG investing is also known as sustainable investing and many investment managers select companies which aim to support one or more of the seventeen sustainable development goals that the United Nations has rolled out to support their 2030 agenda.

The Department for International Development recently published a comprehensive report on the matter, 'Investing in a better world'. The key findings were fascinating, some of which were:

- Over 70% of people say they want their investments to avoid harm and achieve good for people and the planet
- 52% of people say they would be motivated to save more if they knew their savings and investments made a positive difference in the world

E is for Environmental

The environmental component requires research into a variety of elements that illustrate a company's impact on the Earth, in both positive and negative ways. A company that is an actively good steward for the environment might be deserving of your investment.

Environmental topics include:

- Climate change policies, plans, and disclosures
- Greenhouse gas emissions goals and transparency into how the company is meeting those goals
- Carbon footprint and carbon intensity (pollution and emissions)
- Water-related issues and goals, such as usage, conservation, overfishing, and waste disposal
- Usage of renewable energy including wind and solar
- Recycling and safe disposal practices
- Green products, technologies, and infrastructure

S is for Social

The social component consists of people-related elements like company culture and issues that impact employees, customers, consumers and suppliers, both within the company and in greater society. For information on social aspects, ESG investors should look to sustainability reports that go beyond environmental issues to include information on employee, supplier, and community elements, too.

Social Topics include:

- Employee treatment, pay, benefits, and perks
- Employee engagement and staff turnover/churn
- Employee training and development, safety policies and sexual harassment prevention
- Diversity and inclusion in hiring and in awarding advancement opportunities and raises
- Ethical supply chain sourcing, such as conflict-free minerals and responsibly sourced food and coffee

- The mission or higher purpose of the business (or lack thereof)
- Consumer friendliness, customer service responsiveness, and history of consumer protection issues including lawsuits, recalls, and regulatory penalties
- Public stance on social justice issues, as well as lobbying efforts

G is for Corporate Governance

The corporate governance component relates to the board of directors and company oversight, as well as shareholder-friendly versus management-centric attitude. ESG investors analyse how corporate managements and boards relate to different stakeholders, how the business is run, and whether the corporate incentives align with the business's success.

Governance topics include:

- Executive compensation, bonuses, and perks
- Compensation tied to metrics that drive long-term business value, not short-term earnings per share growth
- Whether executives are entitled to 'golden parachutes' - agreements which specify certain significant benefits if the executive loses their job
- Diversity of the board of directors and management team
- Board of director composition regarding independence and interlocking directorates -- which can indicate conflicts of interest
- Proxy access
- Whether a company has a classified board of directors
- Whether chairman and CEO roles are separate
- Dual- or multiple-class stock structures
- Transparency in communicating with shareholders, and history of lawsuits brought by shareholders

There is good academic evidence that integrating ESG factors into investment processes improves returns, mainly around the issue of "future proofing" your portfolio, in that companies with strong ESG profiles may be better positioned for future challenges and experience fewer instances of bribery, corruption, and fraud. Most importantly there is of course the overpowering mantra that investing for "good" surely cannot be "bad" for the world.

There is a simple truth that regulation is also likely to push investment advice to incorporate sustainability considerations and disclosures. Traditional investment approaches paid no heed to ESG issues, regarding them as relevant only to ethical investing. More important though, is the future regulatory requirement for advisers to incorporate sustainability preferences into the advice process.

In January 2019, the EU commission published draft rules on how investment companies should take sustainability issues into account when providing advice to their clients. These include amended delegated acts under MIFID II (Markets in Financial Instruments Directive). We want to be ahead of regulators in our advice to you.

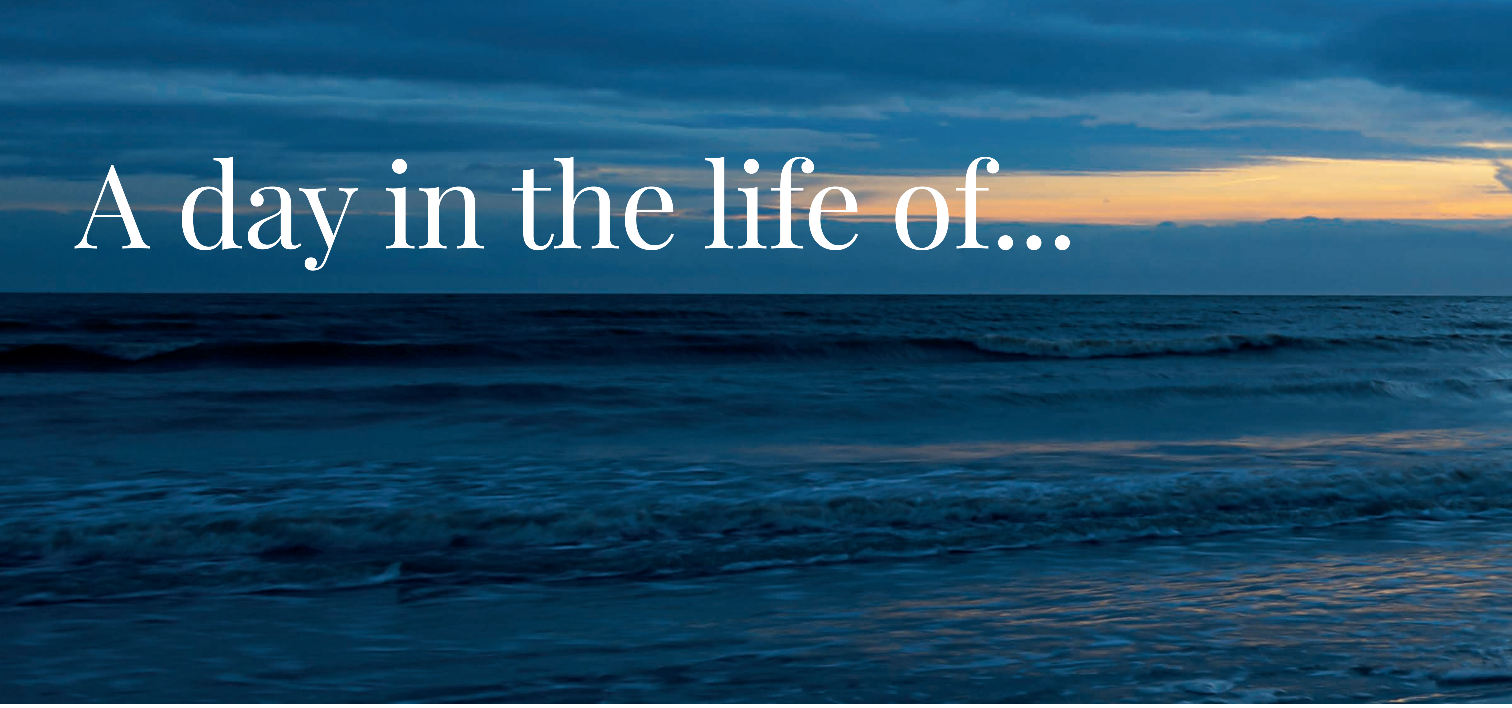
We classify ESG as sustainable investing:

- A responsible investor takes ESG factors into account because of the impact they have on financial returns
- A sustainable investor also understands the materiality of ESG considerations and the impact on financial returns but aims to invest in a way that actively captures the investment opportunities presented by the transition to more sustainable economies
- An impact investor goes one step further by investing in a way that positively contributes to the development of a more sustainable system, seeking a financial return as well as a positive impact on one or more of the UN's sustainable development goals

As an adviser I should of course tell you that in employing an ESG filter on your investments we do significantly reduce the number of available funds that can fit within an ESG portfolio, currently some 200 funds fit (and we only select a few of those), but it is growing almost exponentially.

We will start to ask you if you want us to incorporate ESG criteria within your portfolio. We are ambivalent as to your decision on that, but what our Investment Team have come up with is a range of ESG portfolios sitting alongside our preferred portfolios that you and your family and friends can access in exactly the same way. It may be that a blended approach with a mixture of traditional and ESG investing will suit you too.

If you would like more information, please speak to your usual adviser.



A day in the life of...

CHRIS REED
ADVISER

4.58am (yes – 4.58am!)

The alarm goes off and I immediately question the sense in living down on the South Coast and working in Central London – realise it is a bit late for all that, so I get up!

5.25am

I leave the house and head to the station to catch my train up to Blackfriars – it's a 2-hour commute but this gives me a good opportunity to either catch up on the day's news or work my way through the latest Netflix series!

7.30am

I arrive at the office, grab a cup of tea and some breakfast and start to work through any outstanding emails and plan the day ahead.

9am

I have now caught up with my admin support, Jo, and covered off the priorities for the day. Today, it was firstly to take a final look at a client presentation for an annual review meeting later that morning and to make sure that all the cash flow scenarios are working correctly. I also needed to get organised for my second meeting of the day, another annual review meeting with a famous UK musician who is always difficult to pin down for a meeting!

10.15am

It's that time when I have to head off to the location for my meetings, on Great Titchfield Street, and that requires a trip on my nemesis…the Central Line!

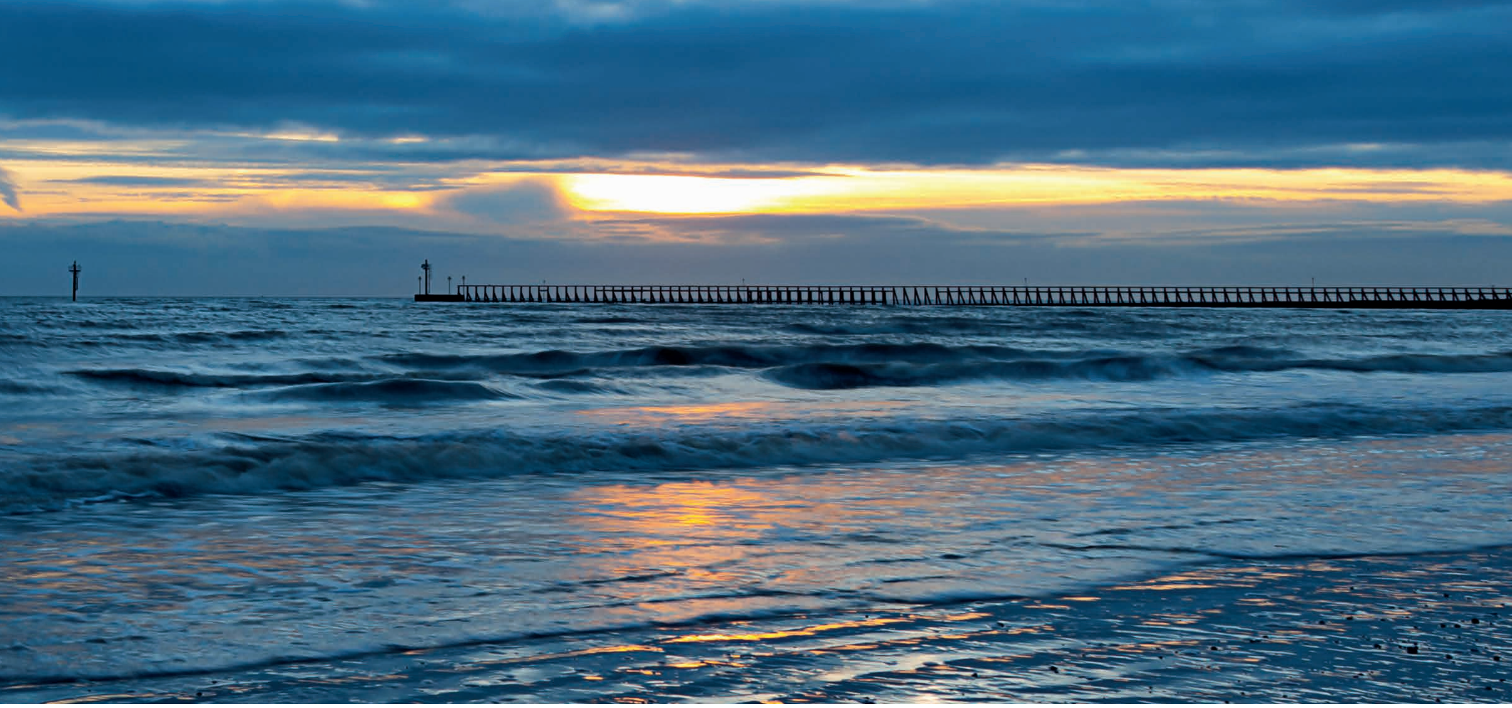
20 minutes later, having experienced what a pre-packed chicken in a microwave must feel like, I re-emerge from the Central Line, take a big breath of fresh air and head to the office.

11am

My client arrives and as usual, the accountant goes through her current cash balances, expected income and confirmation of her tax bill in January! This is usually met by 'are you sure it's that much' and 'well I won't have any money to invest!'

We meandered through her review (the client gets easily distracted with details of her latest TV appearance!) and concluded that she was actually in good shape financially and that our annual recommendations were well within her reach!

My meetings are always animated, with lots of standing up and pointing at the screen, the subject matter may be dry, but I always try to inject some energy into my meetings as this really helps with getting the client engaged and get the most out of the meeting!



12.30pm

We completed the review and the client left, giving me 30 minutes to recharge (that's code for tea and hoovering up any remaining client biscuits) before my next meeting.

1pm

My next client is a very well-known musician and the purpose of the meeting was to provide them with a reality check as to how their money would run out if they didn't stop spending at the rate they were!

Having to tell a client that their spending habits are likely to put their longer-term plans in jeopardy is never fun, however we are fortunate to have the tools at our disposal to not only demonstrate the long-term impact of their behaviour, but also to hopefully provide some realistic solutions.

On the back of our meeting, the client committed to putting a monthly budget in place with our help. A good end to what could have been a difficult meeting.

3.30pm

I had a quick catch up with a couple of the Partners of one of our Accountancy partner firms, SRLV, whilst trying to avoid a couple of former colleagues who want to chat about the 'good old days', and then prepared myself for another trip on the Central Line (did I mention I hated it?).

5.30pm

Having caught up with Jo again, and the afternoon's emails, I headed off to Blackfriars to start the journey home.

8pm

Touchdown at home, dinner and collapse on the sofa!

Best behaviour

IAN HAWKES
ADVISER

MERVE ORAL
FINANCIAL PLANNING EXECUTIVE

In the last issue of Insight, we explored the emerging subject of Behavioural Economics, specifically the errors in thinking which can adversely impact investment decisions. We will now continue to explore this by considering the emotional factors which can have similar influences on us.

Emotional Biases

Let's remind ourselves of the definition of a bias; a bias is a statistical error or preference caused by systematically favouring some outcomes over others. Emotional biases stem from impulse or intuition, arising spontaneously as a result of attitudes and feelings that can cause decisions to deviate from the rational decisions of traditional finance.

In our previous article we focused on errors of thought, which are believed to be more easily corrected than emotional biases. Individuals are better able to adapt their behaviours if the source of the bias is logically identifiable. Because cognitive errors stem from faulty reasoning, better information, education and advice can often correct for them. Therefore, most cognitive biases can be "moderated".

As emotional biases often stem from personal and sometimes unreasoned judgements, they are less easily corrected.

An individual may wish to control their emotions, but often he or she cannot. As a consequence, it may only be possible to recognize an emotional bias and "adapt" to it.

The main emotional biases we will explore today are as follows:

- Loss Aversion
- Self-Control
- Status Quo
- Endowment
- Regret Aversion

As before, we will have a look at each of these in turn below. You will no doubt appreciate that these emotional biases are very common indeed, and may even affect those of us who try our best to be rational.

Loss Aversion

None of us like to lose something that is important to us; this is pretty obvious. It is quite normal to fear loss, but loss aversion is more than that. With this bias, we as individuals are conditioned to react more keenly to a loss than to an equal but opposite gain. In other words, if we invest £10,000 into two shares and these change to £5,000 and £15,000 respectively, we are more likely to look at selling the £15,000 share and holding the "loser" to try to get back to even money, even if the poor-performing share has little chance of getting back to the original buy in price.

This phenomenon can be partially mitigated by considering what you would do if you had the cash value of the share and had to choose whether to buy that share, buy something else or stay in cash. Such an exercise is aided by looking at the fundamentals of that asset (gathering as much hard data as possible to avoid a cognitive bias from replacing the emotional one). This re-framing of the problem can lead to positive insights in many situations, though it is by no means a panacea for this bias.

Self-Control

We all have impulses to do something that, rationally, we know is a bad idea. Within the investment space, this can manifest in a couple of obvious ways. In the first, you may chase after an investment strategy that appeals for reasons which aren't entirely rational. For example, you may choose to put 100% of your portfolio into an extremely high-risk strategy which could go spectacularly wrong. In most cases this strategy would not in fact be a good idea, but the appeal of those high returns can be difficult to resist. Applying a sound investment approach will help address this issue.

Secondly, it may be that life gets in the way of funding investments. Rationally we all know that putting money aside for the future is sensible, but we are also tempted to splash out from time to time which can ultimately lead to problems if self-control is frequently lost. The ability to set up regular contributions can help with this, as regular contributions then form part of normal expenditure. Managed appropriately, this results in investments building over time, with surplus cash left over for whatever impulses take our fancy.

Status Quo

As humans, we like our comfort zones. Once we establish a routine it can be very difficult to change, and this is no different when it comes to investment decisions. Remaining in a long-standing strategy can feel comforting even if the world has moved on and the strategy itself is no longer sound.

This can also have an impact on risk exposure. Portfolios set up initially will almost certainly have winners and losers, some investments growing fast and others slower, or even falling in value. Left alone for long enough, the higher-growing investments will increase their influence over the portfolio by growing more, and if the status quo is maintained this will result in a significant increase to the overall risk to a portfolio over time, assuming the higher-risk investments generally result in higher returns.

Dealing with this requires some discipline, both in terms of a suitable rebalancing strategy and a changing target asset allocation as time passes and circumstances change.

Endowment

When we buy investments, we usually hope for some element of growth on that holding (the exception being high-income investments which might stand still). This is generally with good reason, but if you suffer from Endowment bias, you might instead assume that the simple nature of you owning an asset or investment increases the value of that asset.

Within traditional economics, value is simply what the market is willing to offer, and investors should broadly be happy to either buy or sell at the exact same price depending on their need for either capital or investment growth.

This becomes particularly relevant with inherited assets, where an intangible sentimental value may be ascribed to investments that previously belonged to a loved one. Unlike many other emotional biases, this does not have an easy solution, and sometimes the only solution is to simply grit one's teeth and order the sale, reinvesting the funds. Perhaps it could be helpful to do so with a goal in mind that honours the memory of your loved one.

Regret Aversion

Somewhat similar in appearance to Status Quo, Regret Aversion is an emotional bias which can prevent effective decision-making. In this case, however, rather than being stuck in a comfort zone, the individual is so focused on possible negative outcomes of their decision that they choose poorly.

This can manifest with a "Fear of Missing Out" (FOMO) type of reaction, leading to over-exuberance and following of trends or hypes just in case they do extremely well. Perhaps the best recent example of this is cryptocurrency, where many people invested heavily into tokens which had no reasonable chance of long-term success purely because they didn't want to risk missing out on huge returns that might have occurred.

This can be addressed with a sound investment strategy selected by a trusted third-party, as this should take any risk of being over- or under-exposed to risk out of the equation and reduce the decision to a simple "yes or no" question.

Is There a Better Way?

The common theme across both of the articles on Behavioural Economics is the need for a sound investment strategy, good discipline and making decisions based on all available information. Our in-house investment strategies all meet these requirements, setting up a solid investment strategy tailored to client requirements. Our analysts track markets and economic conditions and recommend suitable reactions regularly, taking the emotional biases and cognitive errors out of the equation for you.

If you would like to learn more, contact your TPO adviser.

A note from the TPO Investment Committee (TPOIC)

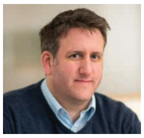
Corporate actions

The committee would like to reassure you that it monitors actions initiated by investment houses which may have an impact on your investments (known as corporate actions) on an ongoing basis. Rather than contact you directly about each and every action, there is a dedicated section on our website, to which all updates will be posted, accessible via the following link which may be typed into your browser:

www.theprivateoffice.com/key-investor-information/corporate-notifications

Whilst all corporate actions are posted on the website, we will take additional steps to highlight any changes which we believe are potentially significant, or require you to take action.

Latest savings rates



TOM ADAMS
HEAD OF RESEARCH
Savings Champion

Each quarter we bring you a review of the best rates for cash deposits on behalf of our sister company, Savings Champion. Please note that as well as personal and business accounts, Savings Champion also offer services for both charities and trusts.

For more information visit **www.savingschampion.co.uk** or contact Tom Adams on **0800 321 3581**.

Personal Accounts

Account	Provider	Minimum	Gross	AER	Notes
Easy Access Account	Coventry Building Society	£1	1.46%	1.46%	Apply and access online, in branch, by post or by telephone. A maximum of three easy access withdrawals can be made each year. Any additional withdrawals in that year are subject to 50 days' loss of interest on the amount withdrawn. Rate includes a fixed bonus of 0.31% tax-free p.a./AER until 31 March 2021.
Notice Account	Gatehouse Bank	£1,000	1.82%	1.82%	Apply and access online. Withdrawals are subject to 120 days' notice only; no earlier access is allowed. In order to comply with Sharia Law the rate listed is an expected profit rate.

Personal Fixed Rate Bonds

Account	Provider	Minimum	Gross	AER	Notes
1 Year Term (Sharia compliant)	BLME	£1,000	1.85%	1.85%	Apply online. No access within the term. In order to comply with Sharia Law, the rate listed is an expected profit rate.
1 Year Term	Metro Bank	£500	1.80%	1.80%	Apply online or in branch. No access within the term.
2 Year Term (Sharia compliant)	Al Rayan Bank	£1,000	2.15%	2.15%	Apply online, in branch, by post or by telephone. No access within the term. In order to comply with Sharia Law, the rate listed is an expected profit rate.
2 Year Term	Zenith Bank UK	£1,000	1.85%	1.85%	Apply online. No access within the term.
3 Year Term (Sharia compliant)	Al Rayan Bank	£1,000	2.30%	2.30%	Apply online, in branch, by post or by telephone. No access within the term. In order to comply with Sharia Law, the rate listed is an expected profit rate.
3 Year Term	Zenith Bank UK	£1,000	2.00%	2.00%	Apply online. No access within the term.
5 Year Term	United Bank UK	£2,000	2.36%	2.36%	Apply in branch or by post. Withdrawals are allowed only at the provider's discretion, subject to 365 days' loss of interest.

Personal ISAs

Account	Provider	Minimum	Gross	AER	Notes
Easy Access Account	Virgin Money	£1	1.36%	1.36%	Apply and access online. Maximum of two easy access withdrawals are allowed per year. Transfers in of previous cash ISAs are allowed.
Notice Account	Charter Savings Bank	£5,000	1.39%	1.39%	Apply and access online. Withdrawals are subject to 95 days' notice or loss of interest. Transfers in of previous cash ISAs are allowed.

Personal Fixed Rate ISAs

Account	Provider	Minimum	Gross	AER	Notes
1 Year Term (Sharia compliant)	Al Rayan Bank	£1,000	1.60%	1.60%	Apply online, in branch, by post or by telephone. Withdrawals are allowed, subject to the expected profit rate reducing to a rate equal to the lowest savings account available on the last 90 days' of profit. In order to comply with Sharia Law, the rate displayed is an expected profit rate. Transfers in of previous cash ISAs are allowed.
1 Year Term	Charter Savings Bank	£5,000	1.51%	1.51%	Apply online. Withdrawals are allowed, subject to 150 days' loss of interest. Transfers in of previous cash ISAs are allowed.
2 Year Term (Sharia compliant)	Al Rayan Bank	£1,000	1.80%	1.80%	Apply online, in branch, by post or by telephone. Withdrawals are allowed, subject to the expected profit rate reducing to a rate equal to the lowest savings account available on the last 90 days' of profit. In order to comply with Sharia Law, the rate displayed is an expected profit rate. Transfers in of previous cash ISAs are allowed.
2 Year Term	Charter Savings Bank	£5,000	1.62%	1.62%	Apply online. Withdrawals are allowed, subject to 180 days' loss of interest. Transfers in of previous cash ISAs are allowed.
3 Year Term	Hinckley & Rugby Building Society	£500	1.76%	1.76%	Apply in branch or by post. Withdrawals are not permitted until the end of the first year. After this withdrawals are subject to 180 days' loss of interest. Transfers in of previous cash ISAs from other providers are not allowed.
5 Year Term	United Bank UK	£2,000	2.01%	2.01%	Apply in branch or by post. Access on closure or full transfer out only, subject to 365 days' loss of interest. Transfers in of previous cash ISAs are allowed.

Business Accounts

Account	Provider	Minimum	Gross	AER	Notes
Business Easy Access Account	Saffron Building Society	£10,000	1.02%	1.02%	Apply and access online. Easy access.
Business Notice Account	Redwood Bank	£10,000	1.75%	1.75%	Apply online or by post and access online, by post or by telephone. Withdrawals are subject to 95 days' notice only; no earlier access is allowed.

Business Fixed Rate Bonds

Account	Provider	Minimum	Gross	AER	Notes
1 Year Term (Sharia compliant)	Al Rayan Bank	£1,000	1.85%	1.85%	Apply online, in branch, by post or by telephone. No access within the term. In order to comply with Sharia Law, the rate listed is an expected profit rate.
1 Year Term	Masthaven	£5,000	1.80%	1.80%	Apply online. No access within the term.
2 Year Term (Sharia compliant)	Al Rayan Bank	£1,000	2.15%	2.15%	Apply online, in branch, by post or by telephone. No access within the term. In order to comply with Sharia Law, the rate listed is an expected profit rate.
2 Year Term	Cambridge & Counties Bank	£10,000	2.00%	2.00%	Apply by post. No access within the term.
3 Year Term (Sharia compliant)	Al Rayan Bank	£1,000	2.30%	2.30%	Apply online, in branch, by post or by telephone. No access within the term. In order to comply with Sharia Law, the rate listed is an expected profit rate.
3 Year Term	Hampshire Trust Bank	£5,000	2.10%	2.10%	Apply online or by post. No access within the term.
5 Year Term	Cambridge & Counties Bank	£10,000	2.50%	2.50%	Apply by post. No access within the term.

All information is correct as at 8 November 2019

Leeds | London | Bath

Head Office
No 2 The Bourse, Leeds LS1 5DE

T: 0333 323 9060
E: enquiries@theprivateoffice.com
W: theprivateoffice.com

tpo
the private office

11/2019

Chartered
Financial
Planners