TPO Insight

SUMMER 2020

A LOOK BACK AT A FRIGHTFUL SIX MONTHS FOR SAVERS

COULD THE "BANK OF MUM AND DAD" FIX THE PENSION CRISIS?

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THE 'NEW NORMAL' OR JUST NORMAL

tpo
the private office

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Welcome to our summer 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.

Since our last Insight we have continued to follow the latest Government advice to prioritise the safely of our colleagues whilst also continuing to provide advice to our valued clients and maintaining ‘business as usual’ where possible. Although lockdown measures are being reduced and some areas of life are returning to normal, it is natural to still have some worries and reservations. If there is anything you feel we could help with and you would like to get in touch, please be assured that all of our usual channels of communication are open and we will continue to do our best to help.

In this issue of our newsletter:

- We are continuing our business series, looking at the aspects to consider when selling your business;
- A look at phasing investments and the benefits of pound-cost averaging;
- Keeping it in the family - an overview of intergenerational wealth planning;
- How ‘the Bank of Mum and Dad’ could start early to make serious savings for their children;
- Also continuing is another look at Environmental, Social and Governance (ESG) investing, this time looking at how ESG funds have fared during the recent market turbulence;
- A round up of the savings news from the first half of 2020 by Savings Champion’s Anna Bowes.

Our regular features include the usual savings rate tables with data from Savings Champion, the investment market update from our Investment Committee and a “day in the life of” Partner Alex Hatfield.

In TPO news, we have continued to host some of our usual events by turning our seminars into webinars. It is a delight to be able to continue to share our knowledge with our audience digitally.

Topics we have covered recently are:

- Inheritance Planning: what about pensions?
- Business Financial Planning and Risks
- ‘All About Pensions’, presented to over 400 members of the Chartered Institute of Management Accountants
- Keeping it in the family: Intergenerational Wealth Financial Planning Parts 1 and 2
- Our regular Investment Markets podcast

Recordings of previous webinars are available in the News section of our website, and please keep an eye out for future invitations if you are interested in attending.

Despite awards ceremonies being delayed, we can still celebrate our successes as our Head of Operations, Kay Park, was recently named as a finalist for ‘Woman of the Year - Fintech’ at the Women in Financial Advice Awards 2020. This is a fantastic achievement and we wish her the best of luck.

In June we relaunched our client referral scheme, making it easier for our clients to refer friends and family to us. We have updated the scheme to make the process simpler and offer a wider range of rewards, including flowers to your door for a year, a Michelin-star rated dinner, and charitable donations. You will receive your gift once your referral has been fully qualified by your adviser for an initial meeting.

Visit **www.theprivateoffice.com/about-us/refer-a-friend** for more details. We hope this update to our scheme shows how grateful we really are that you value our service enough to recommend us to others.

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

Stuart Phillips
CHIEF EXECUTIVE
THE PRIVATE OFFICE

Market overview

ROBERT MORSE
SENIOR PARTNER
TPO INVESTMENT COMMITTEE

So… that was the first half of 2020. What an extraordinary 6 months. A record panicked tumble followed by a record exuberant rise. The next half is likely to prove just as … Exciting? What the Pandemic/Lockdown co-dependency is demonstrating is that nothing is predictable.

The markets main preoccupation is the rise of COVID cases in the US following the release from lockdown and everyone is looking for the next clue as to how this pandemic unfolds. Historically they tend to last between 18 months and two years so we may just be in the early stage. A vaccine is the main weapon on the hope agenda, but with no success yet for this or similar viruses. A joint Pfizer and BioNTech press release in early July was encouraging but inconclusive yet the market rallied strongly. The algorithmic trading systems that trawl for news on things like vaccines and respond instantly aren't yet capable of judgment so expect continuing market volatility.

What can we say about the future shape and course of the recovery?

- Recovery will prove stronger than the worst case predictions.
- Government pandemic support measures have successfully laid foundations for a renewal of economic activity. Coronavirus fatigue is making it easier. There is much pent up spending power.
- Recovery won't be V-Shaped. U-shaped is looking more probable.
- Some sectors are likely to suffer a longer slow-down, but will likely adapt accordingly.
- Some sectors will actively benefit as new technologies, working practices and supply chains are more quickly adopted.

On the other side of the coin:

- There are major market risks - which should be mitigated by QE infinity measures, fear of missing out and the weight of investment funds available.
- Rising non-performing loans and market risk could impact banking and financial services – requiring long-term Central Bank interventions.
- Highly overvalued stocks and the level of corporate and sovereign debt will remain major investment concerns.

It has always been a mistake to assume markets are a perfect reflection of the real economy; no more so than now. A consequence of more QE is that markets have become completely untethered from the real economy. There are some obvious reasons for this; low discount rates and the fact that solvent businesses with liquidity to draw on should not see long-term impairment of value as a result of the virus. But, as with the great financial crisis, policy geared toward owners of financial assets has been implemented quickly and decisively. Much more decisively than policy geared toward vulnerable small businesses. This will have social and political consequences.

The US election is still on course for November, but the bookies now have Biden as firm favourite and with the Democrats to regain control of the Senate. The markets don't seem to be that concerned, maybe because Biden is to the right of the Democratic Party compared to Bernie Sanders or Elizabeth Warren who are far to the left. If Trump can conjure up a rising stock market all the way to Election Day he might have a chance.

Flexibility is key here for portfolio positioning. Currently the monetary and fiscal environment makes it very difficult to ignore the gravity of monetary and fiscal policy – "don't fight the Fed". That said markets have rallied since the March lows partly based on improving news about the virus as well as the fear of missing out and some rampant retail speculation. Economic news which has been nothing short of dire has been completely ignored. Lockdown is coming to an end, although the famous Churchill quote springs to mind reminding us that this is going to be a long haul back to normality, whatever that is. So we expect some volatility along the way and opportunities for bargain hunting.

To read our full monthly market commentary please visit www.theprivateoffice.com/marketcommentary

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	⇧	⇧	Dollar bonds attractive relative to gilts. USTs look to be headed towards negative yields.
	Developed market inflation linked	⇩	⇧	UK inflation has declined substantially but remains elevated relative to its developed market peers. We favour gilts in the UK. We are in a deflationary environment waiting for inflation to make an appearance.
	Emerging market conventional	⇩	⇩	Hard currency bonds are attractive relative to gilts but a slowdown in global growth and falling commodity prices keeps us on the sidelines.
Corporate Bonds	Investment Grade	⇩	⇩	Limited additional return for bearing credit risk. The quality of the asset class has deteriorated significantly as a larger percentage consists of BBB issuers.
	High Yield	⇩	⇩	HY bonds still offer long term returns over that of IG bonds but again holders are not getting enough compensation for the risk they are taking.
Equities	UK	⇧	⇧	Attractive valuations and a dividend yield (albeit now down to 3%) allow a patient approach to UK equities. Domestic companies are particularly cheap and could benefit from stimulative fiscal policy.
	US	⇔	⇔	Still expensive given likely significant earnings downgrades but when economies recover US stocks will be the first to be bought.
	Europe ex-UK	⇔	⇔	Struggling with internal issues and a weak banking sector let alone the current global economic dislocation.
	Asia ex-Japan	⇔	⇔	Long-term beneficiary of GDP per capita growth and rising savings. Near term concerns around dollar strength and global growth keep us neutral.
	Japan	⇧	⇧	Japanese equities underpinned by loose monetary policy and attractive valuations.
	Emerging Markets	⇔	⇔	Weak global growth and commodity prices remain a headwind despite attractive valuations.
Commodities	Gold	⇔	⇔	Safe haven asset underpinned by ultra-loose monetary policy and declining real yields.
Alternatives	Industrial Metals	⇧	⇧	Attractive relative to other assets classes especially on a risk adjusted basis.

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.

Could the "Bank of Mum and Dad" fix the Pension crisis?

PAUL SANDERS
SENIOR ADVISER

The Bank of Mum and Dad is apparently one of the UK's largest lenders but is now the time for it to become a savings bank too?

Even before the pandemic, the UK faced an apparent pension funding crisis with many people not saving enough for retirement and now, with the threat of an increase in joblessness with under 25s looking to take the biggest hit, parents and grandparents may once again need to step in to support their children.

For many parents and grandparents, rather than lending the money, or passing it on when they die, regular gifting out of income could be the answer.

By starting early, it is staggering what a difference you can easily make to their financial future.

If parents and/or grandparents were to contribute towards savings of £9,000 a year in a Junior ISA for those children who are eligible, assuming a return of 5% per annum, at 18 years your child could be sitting on a tax free nest egg of £275k! ^

If, however, at age 18 they were to leave their Junior ISA funds in an 'adult' ISA and leave that until retirement, at age 55 they could have a small fortune of almost £1.7m! *

This is all without your child adding anything more to the original investment themselves. This figure shows the power of compounding, as the amount invested over the 18 years would have been £162,000 in total.

If the older generations are worried about their children squandering money before they are responsible enough to use it wisely – or wise enough to use it irresponsibly – they could instead contribute into a pension for their child so that the money can't be accessed until the age of 55. **

Although it's unlikely their child will be a taxpayer when they are young, even where the child/grandchild has no earnings at all, the pension contributions will receive basic rate tax relief on total contributions up to £3,600 per annum gross from the parents/grandparents.

These smaller amounts may well be within the reach of many families. For a maximum gross contribution of £3,600 per annum until the age of 18, this will cost the parent just £2,880 net per year (£51,840 in total) and the government will add tax relief of £720 per year (£12,960 in all).

As above, assuming a growth of 5% until the age of 55 – and assuming the parents stop contributing at age 18 and the child makes no further additions, they could have access to a pension fund of £669k. ***

Remember this comes from a net contribution of just £51,840!

Summary of contributions

Parent Contribution	Money In – for 18 years	Money Out - at age 55
Junior ISA/ISA		
Parent	£162,000	
Compound growth at	£1,509,480	
		£1,671,480
Pension		
Parent	£51,840	
Government	£12,960	
Growth	£603,792	
		£668, 592
SUB TOTAL		**£2,340,072**
Child contribution		
(from age 30 to age 55 assuming income of £30,000)	£125 pm gross (£100 child plus £25 tax relief) (£37,500 total)	£73,529
Employer contribution	£125 pm gross (£37,500 total)	£73,529
SUB TOTAL		**£147,058**
TOTAL		**£2,487,130**

There are many ways you can support your children financially over their lifetime but putting money aside for their retirement takes away a huge burden. It may seem like a crazy idea when they're just a baby but having money invested for the longer term and with the long term effects of equity markets, potentially this means they wouldn't need to save a penny themselves in order to enjoy a comfortable retirement. With tax benefits on pension contributions, this becomes even more affordable for many.

In reality they will most likely make their own and employer's contributions at some point which would enable them to consider retiring earlier with the benefit of more time with family and friends in their old age. What an amazing gift to give to your child.

When the child is old enough to make their own contributions to a pension, assuming a 5% personal contribution from age 30 plus matching employer's contributions for someone earning £30,000 a year, that's an additional £147k added to the overall pension pot over 25 years. ****

So the total pension at age 55 is over £815k! Plus the JISA/ISA investment.

Even in the awful event of an early death the whole pension sum could be free from tax to any nominated beneficiaries.

As defined benefit pensions have all but disappeared, many parents will be aware of how little has been saved for their own retirement and just how important it is to put money aside. The financial pressures on younger generations, with high education costs, expensive housing and the threat of unemployment mean that saving for retirement early in their lives may simply be unaffordable. It's worrying then that increasingly children are relying on an 'inheritance' to help them in later life. But maybe parents can provide that 'inheritance' before they die.

Cash Flow Forecasting – the key to planning your retirement

Cashflow forecasting - or planning ahead - will allow you to start planning with the end vision in mind for both you and your loved ones, to see in pictures and in numbers what is needed and what is achievable in your financial future. It will create a personal plan with various different scenarios around which you can make sensible decisions. It's a bit like your personal financial crystal ball!

- If you are ahead of the curve you might have a luxury set of issues to deal with (better retirement, ability to spend more, retire earlier, or take less risk with your investments).
- If you are behind the curve, it can demonstrate the hard actions you need to take (work longer, save more, spend less, take more risk).

The Private Office is currently offering all those with £100,000 or more in savings, investments or pensions, the opportunity for a cash flow forecasting retirement review worth up to £500 for free. Talk to your adviser for more information.

Please note

The Financial Conduct Authority does not regulate Tax Advice, Estate Planning or Cash Flow planning.

The value of investments and the income derived from them can fall as well as rise. You may not get back what you invest.

Notes

The initial numbers are all in today's money. If we were to assume inflation of 2.5% over the next 55 years the inflation adjusted amounts are in brackets.

^ £274,851 (£219,496 inflation adjusted)

** £1,671,480 (£522,615 inflation adjusted)*

***Under current pension rules.*

**** £668,592 (£209,046 inflation adjusted)*

***** £147,059 (£103,025 inflation adjusted) assuming flat salary of £30,000 for 25 years.*

Keeping it in the family

JASON WOOD
ADVISER

The Coronavirus pandemic has allowed many of us time to ponder how our wealth can be passed down through the generations. A vast amount of wealth is being accrued by individuals and acquired by beneficiaries each year and at TPO we have seen an upsurge in the requirement for advice on the most tax-efficient ways of passing assets to children and grandchildren.

Despite the introduction of the transferable Nil Rate Band in 2007, the facility to pass your pension fund to successive generations outside of your taxable estate on death in 2015 and the establishment of the Residence Nil Rate Band in 2017, inheritance tax (IHT) receipts have continued to rise year on year since 2009.

More individuals than ever are now able to leave behind sizeable assets and over the next 30 years, approximately £5.5 trillion will be passed between generations in the UK[1]. With an increasing number of estates expected to incur an IHT liability in the future, reviewing your wealth succession plan has never been more important.

Addressing the taboo

Discussing inheritance tax and succession planning requires a careful balancing act: many families know what they want for the next generations and why they should be planning ahead but there are also a number of 'why nots' that are preventing them from addressing this challenging topic.

[1]Passing on the Pounds report, Kings Court Trust, 2017

Whys

1. Clients often talk of a long-standing sense of **responsibility** towards their loved ones. They want to provide for their family, even when they're no longer there by helping them to buy their first home, kick-start a business or pay for their grandchildren's education.
2. **Security** is another principal concern for our clients who wish to ensure that their wealth benefits their family so that their successors can enjoy a good standard of living and are protected against emergencies.
3. Passing on an inheritance can also be an **opportunity**; some benefactors want to ensure their family has the financial security and freedom they need to be happy and to be able to make important decisions, such as career choices.
4. Often clients wish to ensure a **legacy** is left for several generations.
5. **Philanthropy** can also play a part in IHT planning. Many of our clients have causes and charities that they are passionate about, and they may wish to leave a part of their estate in support of this.
6. **Tax** is perhaps the most explicit reason for wanting to discuss inheritance tax planning. Without skilful management, an IHT bill can account for a large proportion of your estate.

Why nots

1. **Family conflict** is a great concern for many families when discussing inheritance and different family members will have different ideas about what is 'fair'.
2. Individuals can also be deterred from planning because of their own **expectations**, worrying that beneficiaries will become complacent, unambitious and unfulfilled if they have little incentive to work for themselves.
3. Just as leaving a **legacy** is a motivating factor, it can also be a debilitating one. Families are often wary of the potential dissolution of their wealth, particularly if there are concerns about the capabilities of the beneficiaries.
4. The reluctance of clients to consider their own **mortality** can encroach on their ability to plan for their own death. Beneficiaries may also be reluctant to bring up their concerns about a potential tax bill for example for fear of seeming too 'eager' to take control.
5. There are often intricate, financial planning **technicalities** associated with successfully passing down wealth that can be overwhelming and disconcerting.

Planning Opportunities

There are a number of ways in which you can plan ahead and protect your wealth:

Wills
Make sure you have an up-to-date will to ensure that your assets pass to those whom you would want to benefit.

Inheritance tax-free gifts
Based on current legislation, there are a range of gifts that can be made that would immediately fall outside of your estate. This includes charitable gifts and notably, IHT will be charged at 36% (reduced from 40% currently) if 10% or more of your net estate is left to charity.

Potentially inheritance tax-free gifts
Other gifts, known as Potentially Exempt Transfers (PETs), made during your lifetime may be exempt from, or eligible for, a reduction in IHT, however, you must survive for seven years after making the gift for it to be completely outside of your estate.

Trusts
Trust planning is often complex but can be a very useful tool in reducing the inheritance tax payable on your estate, whilst also allowing the person passing on their assets to maintain control over how and when these are apportioned. There are several different types of trust, such as Bare Trusts, Discretionary Trusts, Discounted Gift Trusts and Loan Trusts, that could be employed and that may be treated differently when calculating IHT liabilities.

Pension Planning
Thanks to the 'pension freedom' rules introduced in 2015, the tax treatment of pensions on death has vastly improved for those schemes that have adopted the new rules. Not only can beneficiaries inherit pension funds that would sit outside of their estates for IHT purposes, but if death occurred before age 75, the beneficiaries could also draw the benefits tax-free either as a lump sum, via drawdown income or an annuity. If death occurs after 75, the beneficiary could draw the funds taxed at their own marginal rate.

Life Cover
Consider making regular premiums to an insurance policy that would pay out on death to cover an IHT liability.

Reliefs
You may be able to claim Business Relief on your IHT bill by up to 50% or 100% where you are an owner of, or have an interest in, a business after an initial qualifying ownership period of two years. Enterprise Investment Schemes (EIS) and Alternative Investment Market (AIM) shares may also qualify for Business Relief.

Only give away what you can afford
Despite the array of efficient ways to and arguments for passing on your wealth, the first step should be to consider how much you will need for the rest of your life. Lifetime financial forecasting is an essential exercise to help determine your affordability and financial objectives.

Action Points

Start sooner rather than later
Give you and your family the time to have those challenging conversations, work out the finer details and understand the options.

Communicate
All of the 'why nots' can be alleviated or even eliminated through conversation. Whether with your family, your adviser or both, talking about your wishes and plans for the future can not only help to extinguish any doubts or problems, but can also help towards starting to shape your succession plan.

Educate and involve the family
Share your experiences and educate your children about wealth to develop their understanding and, when the time is right, include them in meetings with your advisers.

Write or revisit your will
Remember to revisit your will at every 'big life event', such as marriage, a death in the family, a new child/grandchild, a business exit, or retirement so that it accurately reflects your wishes.

Consider every option
There are a plethora of options available to someone looking to secure their wealth for future generations and you should not discount any of them without first speaking to your trusted professional advisers.

Keep records
Whenever you engage in any form of estate planning, it is vital to maintain prudent records that can be passed to your legal representatives or executors; this is especially important should HMRC review any historic gifting.

As outlined, there are many ways to start planning for your own future and for the future of those closest to you. Your financial adviser can help you to put the most appropriate plans in place.

The Financial Conduct Authority (FCA) do not regulate estate planning, tax or trust advice.

Venture Capital Trusts (VCTs) are high risk investments and there may be no market for the shares should you wish to dispose of them. You may lose your capital.

Enterprise Investment Schemes (EISs) are very high-risk investments and may not be suitable for all clients. An EIS investment is usually concentrated in one single unquoted trading company. Often there is no market for the shares and it may therefore be very difficult to make a disposal. There is a strong possibility of the chosen company failing.

Phasing your investments
why investing isn't an all or nothing game

MERVE ORAL
ADVISER

MATTHEW BROWN
FINANCIAL PLANNING EXECUTIVE

Financial markets have been notably more volatile over the past few months. The knock-on effects of coronavirus have been acutely felt in financial markets, subsequently triggering significant movements in the price of many assets.

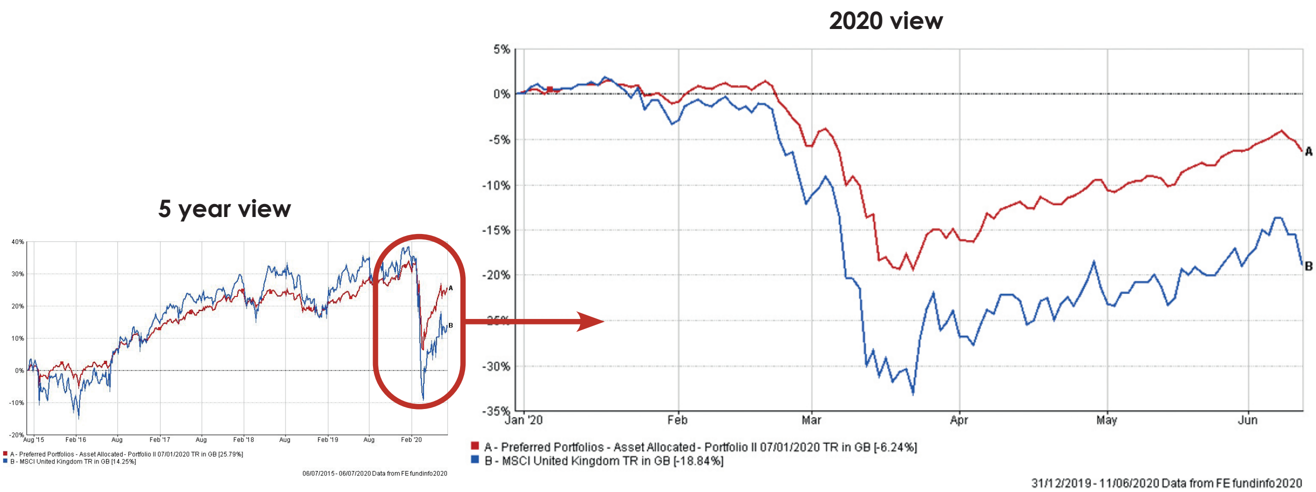
After seeing one of the sharpest falls in equities in history, it is somewhat comforting to see some rebound through April and May. Some stocks have even returned to levels seen at the start of the year, and beyond.

Whilst the broad up-tick in financial markets is good news for many investors, what isn't such good news is the volatility that markets may still face. To give you a flavour of the sheer scale of the price movements in assets, the graph below illustrates the performance of the UK equity market, against our TPO Asset Allocated Portfolio II, aligned to a balanced investor. The graph shows that despite a recovery in markets since the start of the year, indices have been susceptible to pronounced price movements, sometimes fluctuating wildly on a day-to-day basis.

Quite naturally, the broad market sell-off that took place a few months ago has triggered some feelings of unease. Whilst that unease has somewhat abated, it is also natural to be concerned that this level of volatility may be here with us for some time, given the general economic uncertainty across the world.

Some investors may have cited the easing of financial markets as an opportunity to invest. Whilst other investors remain concerned about what the future may look like, and are cautious about investing in the current climate.

As Financial Planners our role isn't to recommend when the right time is to invest. However, what we can do is recommend an investment strategy that may be suitable for you based on your own circumstances. One avenue that can offer you exposure to financial markets, and potentially mitigate against the recent market volatility, can be found in a technique called pound-cost averaging.



Pound-cost averaging is a relatively simple concept, which involves gradually investing relatively small amounts in a very regular, staggered way, as opposed to investing an entire sum at once.

The best way to explain pound-cost averaging, and to subsequently illustrate its pros and cons, is to consider an example.

Imagine you were to invest £100,000 into a diversified portfolio, perhaps one built by TPO. Assume that over the next 12 months the value of your portfolio falls, and you lose 10% of your initial investment, leaving your portfolio valued at £90,000. You'll now have to grow your investments by over 11% to recover the portfolio's initial value.

Now consider the exact same scenario, but instead of investing that same £100,000, in one go, you choose to gradually invest £10,000 each month. The market again falls by 10% over the course of the year. However, as the market falls, the investor can buy more assets at a lower price, and the assets invested spend less time in a falling market. As a consequence, the final value of your portfolio is £93,560 – you have experienced a reduced loss as a result of gradually phasing your investments rather than if you invested the single lump sum.*

The effect of pound-cost averaging is, as the name suggests, that the cost at which you buy assets will average out over time. When prices are falling, you will be able to buy more units. When prices are rising, you will be able to buy fewer units. The result is that pound-cost averaging is often an effective way to invest, and to mitigate against potential losses when investments are falling. However, when markets are rising, the money that you invest later may also miss out on market gains, so the growth of your portfolio might be dampened.

The importance of developing a routine

One of the main benefits of phasing your investments is that it instils good habits. Many investors will agree that one of the hardest parts about investing is actually doing it.

One of the easiest ways to develop a really good habit of investing is to make the process automatic. Setting up regular monthly direct debits is a brilliant way of ensuring that you are putting money away for your unknown future. Most products such as Stocks and Shares ISAs, General Investment Accounts and Self-Invested Personal Pensions, can facilitate regular direct debits, some from as a little as £25 per month.

Another benefit of following process is that it reduces the chances of any knee-jerk reactions which may arise from the noise you hear in the financial press. When you've invested a lump sum and seen it increase substantially, the temptation might be to pull your money out, realising the profit. Conversely, when markets are falling, the temptation may be even stronger. Ultimately, getting into the routine of regularly investing will reduce these temptations.

Pound-cost averaging in the context of Financial Planning

Pound-cost averaging isn't relevant to all investors. You may be in a position where you've invested a lump sum held within a pension and you're now looking to see its value grow. The benefit to you is that should markets increase, your portfolio is likely to capture all of the upside, perhaps experiencing superior returns than if you were gradually phasing money into your investments.

However, pound-cost averaging is likely to be very relevant to many investors. For those of you who have personal pensions, whether that's arranged on an individual basis or through your employer, you will be benefitting from pound-cost averaging because your pension provider will be purchasing units within your chosen investment funds with your employee and employer contributions on a monthly basis.

Another way you may be reaping the benefits of pound-cost averaging is if you are making gradual contributions to a Stocks and Shares ISA, for example. Again, you'll be buying more units when markets are falling, and fewer units when markets are rising, thus being able to mitigate against some of price volatility that we have recently experienced.

Should I consider phasing my investments or investing a lump sum?

Choosing to phase money into your investments really depends on your own current circumstances. As Financial Planners, one of the first strands that we touch on when recommending an investment strategy, is ensuring that you have sufficient cash to meet your short to medium term spending needs. Typically, we recommend having cash on hand to meet 6 to 12 months of your expenditure needs.

If you're in a position where you have a large amount of cash on deposit, that you are ready and willing to invest, then committing the lump sum with a long-term investment strategy in mind may be an appropriate avenue for some of the reasons we've mentioned.

In contrast, if you're in a position where you have readily available cash to invest but you are unsure whether to invest or not, or you're in the stage where you want to start growing your wealth, considering following a process that involves gradually phasing your investments may be appropriate. That way, you'll have money in the bank should you need to access it for any future uncertain circumstances, whilst benefiting from some exposure to the market and being able to mitigate against risks that may arise when investment prices are fluctuating as significantly as they are at the moment.

If you would like to find out more about developing an investment strategy, and how we might be able to help you achieve your financial goals, then please speak to your adviser.

Past performance is no guarantee of future returns. The value of investments and the income from them can fall as well as rise, you may not get back what you originally invested.

**Important - Please note that both of the examples included in this article have excluded the effects of investment management and adviser charges. Therefore, the portfolio values will be less than the values stated in this article.*

The ‘New Normal’ or just Normal

ALEX HATFIELD
PARTNER

Do you remember what working life was like before COVID-19? I lose track of how many weeks it is now - perhaps 16 as I write this. I first heard of the emergence of a new Virus in Wuhan Province, China, on Radio 4 on New Years Eve. It registered with me but then I went out and forgot about it as we celebrated the arrival of a New Year.

Who would have thought that from that 30 second news story, a local outbreak would soon sweep into Europe and spread across the whole world, changing our way of life, claiming lives, and affecting people in so many different ways. Closer to home, as the news flow got gradually worse, there was a feeling that lockdown was coming. London was getting nervous. We took the decision to close our offices in mid-March, internal discussions escalating rapidly in line with the frequency of Government announcements.

On a personal note, I had to drop everything for a couple of days and drive up to Durham to pick up one child from University. The next day, it was Norwich to pick up another. On the third day, there was a knock on the door. A lorry had pulled up outside my house, and two blue crates lay before me. I hauled them inside and up to my study.

As a business we decided several years ago to transition our infrastructure into the cloud. As someone who has commuted to London most days, I have been used to lugging my laptop from train to bicycle to office, plugging it into a screen on arrival and then having access to everything I need. How would I cope from home?

As you would expect, TPO has a well-developed Business Continuity Plan. The frequency of management meetings intensified as the lockdown neared and then we pressed the go button. Staff would work from home. The blue crates that lay outside my front door contained my IT kit.

When I was a young boy I watched a lot of James Bond films. I had this vision of secret lairs, someone controlling events from a desk with many screens, as events unfolded in real time. Aside from cables, my blue crate had two screens within it. I clamped them to my desk and set them up with my laptop. That’s three screens. Then I shuffled my iMac along next to those, so that was four screens. I put my phone down. Five. And then my tablet. Six. I had enough screens and reflected that the young boy that I once was would be mightily impressed with this. I switched it on, it worked first time. I started to work in my study. 16 weeks later I am still doing so.

I will be 50 this year and have been a financial adviser for nearly 29 years. Pre-lockdown, I used to think that working from home was what people did if they were tired or liked day-time television. I commuted every day. Now I wonder if I did that to try and prove some ridiculous point. I appreciate that it is now a very old-fashioned view.

So how does an Adviser at TPO cope with the new normal? Well, it is not new any longer. It is now just normal. I suspect we will be working in this way for a long time to come due to both circumstance and design.

The simple fact is that we can work today as we did in February and March.

- We meet our clients and have review meetings. We just do this over video call or the phone now. Whatever your platform of choice (Microsoft Teams, Zoom, Whatsapp, Facetime), we have done meetings on them.
- We are very busy providing advice to new clients, whom we have never physically met, as demand for advice rises in times of uncertainty.
- We continue to produce expert financial planning reports.

We have also adapted some of our practices to use the benefits of technology. We can share screens with clients, build financial models remotely and tweak these in real time. In some ways we can now offer more than we did before because we have utilised the benefits of technology.

Productivity in certain parts of the business has increased since lockdown, just going to show how out of touch my views on working from home were. We have reclaimed some of our time. Personally, I am no longer commuting for 15 hours a week. 15 hours! That's almost a whole waking day!

It's not all easy. I have noticed that email traffic has dramatically increased and I am sure that my younger colleagues look at me as some sort of King Canute, inevitably struggling to hold back the tide. Some people have forgotten that we have phones and can just ring someone for a chat. I miss the social aspects of the office, although we are very good at organising events remotely from virtual pub quizzes to online cookery lessons. The virtual Rising Sun is not as good as the real Rising Sun, however. It is also important to check in with colleagues and have those little chats that we used to do over a coffee or in passing.

Above all else, I have noticed the talent that exists across our whole team. It's one thing having a Business Continuity Plan. It is another being able to execute it well in challenging times. Our staff have shown huge resilience and initiative and I am immensely proud of every single one of them.

Coronavirus is strengthening the call for ESG Investing

DEAN MCSLOY
PARTNER

The coronavirus pandemic has been a global human tragedy and for some time will impact our lives on a daily basis. It is still too early to say how this will play out and the impact this will have on generations around the world, however one area that we know it is likely to change forever is our focus on sustainability. Investors are going "all in" on Environmental, Social and Governance (ESG) themes — and so far their bets have paid off. If anything, the pandemic has only reinforced fund managers' belief that ESG is worth worrying about.

The pandemic is a wake-up call for the world around global sustainability. The world's largest environmental and social challenges will not be able to be solved by government policy alone. Whilst governments can create legal backdrops and policies towards a more sustainable future, we will ultimately require innovative change and the financial capacity of the private sector and the global population working together towards the common goal of conquering coronavirus. This will drive us towards a more sustainable future.

What is a more sustainable future?

The UN has created 17 Sustainable Development Goals (SDGs) for governments and companies to aspire towards. The goals (which can be viewed at sustainabledevelopment.un.org/sdgs) are an urgent call for action by all countries - developed and developing - in a global partnership. They recognise that ending poverty and other deprivations must go hand in hand with strategies that improve health and education, reduce inequality, spur economic growth whilst tackling climate change and working to preserve our planet.

We are already seeing private company executives put this universally at the top of their agendas and considering how well they perform against these goals, which is due to investor pressures with regards to a company's ESG credentials. Prior to this crisis there was already a meaningful and increasing focus on ESG investing to help create a more sustainable world. It is likely that this focus will now surge due to how the pandemic has altered society's values.

Investors have been voicing their concerns about sustainability for several decades however until recently they have not translated their words into action. It is now clear that investors will soon be holding corporate leaders accountable for not just financial performance but also on their ESG performance as is already being seen.

We have previously discussed the fundaments of ESG Investing in the Autumn/Winter 2019 issue of Insight, where you can find a list of some of the factors which contribute to a company's ESG credentials.

Does investing with an ESG mandate have an impact on investor returns?

Although investors historically voiced concerns around sustainability there was a view around a perceived performance trade off should they invest via an ESG mandate, therefore for decades investors have avoided this approach. ESG investing has also been made more difficult for investors to access due to the lack of retail investment funds available to private investors to gain exposure to a suitably diversified portfolio.

In theory, any limiting of an investor's opportunity set could have negative consequences but in practice, investments screened on environmental, social and governance (ESG) criteria have performed well. There are now a proliferation of sustainable (ESG) funds available to retail investors in the UK with new launches from global fund houses almost on a weekly basis. This has enabled globally diversified portfolios to be constructed for investors across a range of asset classes whilst allowing them to invest for a more sustainable future.

With this increased investment choice investors are also monitoring performance. There is a growing body of research globally showing a positive link between the ESG score of a company and its financial performance. In effect the research is showing that companies built for the future with a high ESG score naturally promote sustainable long-term returns.

The research is starting to show early on that companies with the strongest ESG practices relative to their peers are by definition higher quality companies with stronger cash flows. Various studies are now showing that ESG screened companies tend to have healthier balance sheets, stronger competitive advantages and lower volatility than their mainstream counterparts. These studies are becoming more consistent and are starting to show that investments that score well on ESG are linked to a positive long-term investor experience.

One study by global research agency Morningstar shows that ESG considerations are material to a company's financial results:

Environmental
Environmental stewardship is not just good for the planet but it is also about controlling costs, avoiding damaging incidents and positioning for tomorrow's economy.

Social
Treating workers well and practising diversity not only benefits society but also helps a company attract and retain talent which is critical in a knowledge-based economy

Governance
Good governance leads to better corporate decision making. Companies that consider ESG are likely strategic in nature and focused less on beating the next quarter's earnings and more on creating an enduring long-term business.

So how do the performance of ESG screened investments compare?

Shown here is the performance of the MSCI ACWI Index versus the MSCI ACWI ESG Leaders Index over the last 5 years:

As can be seen above, the perceived trade off in performance has been unfounded and during the recent pandemic we have seen ESG investments perform better than investments not screened on an ESG mandate with less volatility.

Morningstar has also recently published a report which looked at 745 sustainable funds and compared them against 4,150 traditional funds. The ESG funds outperformed traditional funds across the board, beating them since the start of the pandemic as well as in the 10 years up to and including the coronavirus sell-off. The report found that returns were matched or bettered in all asset class categories – whether bonds or shares, in the UK or abroad.

How can I invest for a more sustainable future ?

One way in which we can all help to make a difference is by choosing to invest our money into funds where the managers are investing in companies that work towards improving the environment, addressing social inequality or improving corporate governance.

ESG focused portfolios can deliver results in a wide range of market conditions and more and more investors are now looking to invest with ESG credentials.

We at The Private Office can provide you with advice around structuring your investment portfolio for a more sustainable future if this is important to you, and can provide you with access to a portfolio that is suitable for your views on investment risk and reward. We can also 'blend' some ESG exposure into your existing exposures.

The coronavirus pandemic is a global human tragedy but the unintended consequence of this deadly virus is that it may well speed up our global drive to a more sustainable future and a better world for humanity and nature both now and in the future.

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

Past performance is no guarantee of future returns. The value of investments and the income from them can fall as well as rise, you may not get back what you originally invested.

What to think about when selling your business

TONY PADGETT
ADVISER

LUKE NORMAN
FINANCIAL PLANNING EXECUTIVE

Selling your business can be a laborious process, but throughout the exercise of preparing, valuing and negotiating, try not to lose sight of what you personally want to gain from it. In the current climate when the coronavirus pandemic has disrupted many business sales, it could be a useful time to reflect on your desired outcome.

What do you want from the sale?

There are many different reasons as to why you might be considering selling your business; you may be looking to retire, maybe you want more free time, a new challenge, or you have just been approached with an attractive offer.

Whatever that may be for you, it is important to put your 'reasons why' at the centre of your focus when considering selling your business. Focussing on the 'why' will help to guide how best to structure the sale, tailoring it to what you personally want to get out of it.

The Value of your Business
From a monetary perspective, there are many different methods of valuing your business and your accountant or corporate finance specialist will help you choose the most suitable method.

However, many business owners don't explore exactly what impact that monetary figure could have on their lifestyle and overall financial position following completion.

You might have a target monetary figure in mind, but how much is enough? Will it be enough to allow you to retire comfortably? Will it allow you to purchase that new home you wanted, whilst still saving enough for your future? Will it allow you to take some well-earned time off to think about your next steps?

We use cash flow forecasting software to map out your financial future, helping you answer these big questions. The interactive forecasting exercise helps to bring the sale process to life, by creating your personal post-sale financial plan, which can be built around a number of different scenarios to help you decide which route fits best with your personal financial objectives.

Having answers to these important questions can give you clarity on what you want to get from the sale, giving you peace of mind throughout the process.

What will the tax position be?

Tax can ultimately reduce the amount of consideration you are able to keep, so it is important to be aware of any personal tax consequences that could leave you with less in your pocket than you might have expected.

Capital Gains Tax
Capital Gains Tax (CGT) is a tax on the profits made when disposing of an asset that has increased in value. CGT is charged at 10% for profits falling into the basic rate tax bracket, or 20% for profits in excess of that*. Each individual also has a tax-free allowance for capital gains (annual exemption). This is currently £12,300 in 2020/21.

**Note: different rates apply for residential property.*

In some cases, you may be able benefit from Entrepreneurs' Relief. Entrepreneurs' Relief reduces the rate of CGT payable to 10% on the first £1million of any profit you make when you sell shares in your business. However, there are certain conditions you must meet in order to qualify for the relief.

It is also possible to defer capital gains by investing a portion of the proceeds into a qualifying Enterprise Investment Scheme* (EIS). These investments were introduced by the government as an initiative designed to help certain small and medium sized companies raise finance by offering tax benefits to investors. However, given the nature of the companies they invest in, they are perceived to be high-risk investments.

**Note: These are high risk investments and not suitable for all investors. There is a risk that all of your capital could be lost and you should not invest into these types of plans without seeking expert advice from a reputable firm of independent advisers such as The Private Office.*

Inheritance Tax
If your business meets the criteria to qualify for Business Relief, 100% of the value of your shareholding prior to the sale could be outside of your estate for inheritance tax (IHT) purposes. This means that the value would not be taken into account for IHT purposes on your death and could be passed to your beneficiaries free from tax.

However, once you have a binding contract for sale, the value of your shareholding will instantly be deemed to be inside of your estate for IHT purposes. This means that IHT could be payable at a rate of 40% on the full sale proceeds.

It is important to be aware of this change, as planning ahead will give you the broadest range of potential solutions. For example, if you wanted to consider transferring a portion of the shares to a trust for your beneficiaries, which would continue to be outside of your estate, this would have to happen before the sale becomes binding.

Income Tax
Whilst the consideration received on the sale of a business will often be in the form of cash, it may also include an element of deferred consideration. This could be in the form of an earn-out arrangement that allows for the seller to receive further sums in the future depending on the performance of the business.

This could become particularly relevant if you are to remain employed by the company post sale, as the earn-out payments could potentially be viewed as disguised employment income, which could lead to them being subject to income tax and national insurance up to a maximum of 47%.

Safety First
If you are due to receive consideration as a cash lump sum, or series of lump sums, a sizeable deposit could be vulnerable to the threat of your chosen bank or building society failing.

This is because only £85,000 per bank or building society would be protected by the Financial Services Compensation Scheme (FSCS) in this event.

For larger sums, it is therefore prudent to consider spreading the funds across a number of different banks to ensure the £85,000 limit is not exceeded. Alternatively, National Savings & Investments products can be considered for this purpose as any funds deposited with them are guaranteed by the Treasury, although there is a limit on the maximum deposit amounts.

Getting the appropriate advice
For many, selling their business will be a one-off life event, so you don't want to be left regretting missed opportunities. It is important to ensure you are getting reliable expert advice from a financial, tax and legal perspective.

Although it may seem unnecessary to have your advisors in each of these areas involved in the process from the beginning, each adviser's expertise will bring a different viewpoint to the process to ensure that the end-solution delivers the best possible outcome for you.

At The Private Office, we are no strangers to working collaboratively alongside other professionals on behalf of our clients.

How can we help?
If you are considering a sale, we would encourage you to get in touch with us at the earliest opportunity.

Through a free initial consultation with one of our advisers, we can get to know more about you and your business to demonstrate how we might be able to add value throughout the sale process, whilst helping you to establish a suitable strategy for when you receive the sale proceeds.

The Financial Conduct Authority (FCA) does not regulate cash flow planning, estate planning, tax or trust advice.

A look back at a frightful six months for savers

ANNA BOWES
CO-FOUNDER
Savings Champion

We are already more than halfway through 2020 and so much has happened – not least the Bank of England base rate plummeting to its lowest ever level.

I know it has been a tough time for everyone, but for savers this collapse in the base rate means that the last six months have seen things go from bad to worse.

We know that a base rate reduction will always see a significant number of rate cuts – and a double base rate cut means that very few accounts have been left unscathed. That said, there are some accounts that have been affected more badly than others. What is really disappointing though is the number of accounts that have been cut by more than the total 0.65% base rate reduction.

It's hard to fathom just how those providers can justify such shoddy treatment of their customers, especially when it means that, in some cases, loyal savers are now earning virtually no interest on their hard-earned cash.

Since March this year, around 3,000 existing variable rate accounts have been cut – which is over 70% of the market – and there are now over 700 accounts that are paying less than the current base rate of 0.10%.

Many of these accounts had already suffered previous cuts - even before any reduction in the base rate – so will have experienced a double whammy.

As a result, there are many accounts paying as little as 0.01% - and these are not obscure, little-used providers. These so-called savings accounts are being offered by the high street banks.

Lloyds, HSBC, NatWest, Barclays, Halifax and Santander, to name just a few, are all paying 0.01% on their popular easy access accounts. On a balance of £50,000 that means earning just £5 a year – little more than a pint of beer!

Savers have to keep a close eye on their accounts to make sure that they are not simply allowing the interest earned to dwindle to almost nothing.

What is interesting so far this year, is that closed 'off-sale' accounts seem to have been less badly affected than existing on-sale accounts. For example, the average easy access on-sale account has dropped from 0.51% at the beginning of the year, to 0.22% today. Whereas the average off-sale easy access account rate is 0.33%. So, it's worth examining your accounts carefully to see if you have a gem amongst them.

For example, Shawbrook Bank's closed Easy Access – Issue 17 is still paying 1.41%, as the bank is yet to cut the rate on this account.

Best buy rates have suffered badly too

It's not just existing savers who are feeling the pain. Best buy rates have fallen heavily too – with cash ISAs really taking the brunt of the cuts. At the beginning of the year, the best 1 year fixed rate ISA was paying 1.40% - today the best you can do is 0.76% with Charter Savings Bank, nearly half the best rate on offer just seven months ago.

Non-ISA accounts have not fared much better. Fixed rate accounts have fallen to the lowest level that we have seen, certainly since Savings Champion launched back in 2011.

Those who opened a five-year bond in July 2015 will be in for a nasty shock when their bond matures. They could have been earning over 3% AER – today the best five year bond is paying less than half that – at 1.40%.

Little did we know just how bad things could get.

The only tentative good news is that the falls do seem to have slowed more recently, so perhaps we have already seen the worst of it – now what we have to hope for is an injection of competition. We do know that there are some new banks waiting to launch into the market, which will hopefully bring some much-needed competition, even if this may end up being short lived.

The unexpected hero

The most important thing to remember is that you can still make a real difference to the interest in your pocket by choosing from the best accounts available. For example, you could earn far more in interest by choosing the best easy access account available rather than one of the shocking accounts from the high street banks mentioned above.

Whether you have new money to deposit or you are reviewing accounts you already hold, NS&I has remained steadfast amongst the receding competition.

As lockdown started, NS&I announced that it would cancel planned cuts to its easy access accounts, which has seen the Income Bonds, Direct Saver and Investment Account increase in competitiveness as the rates on other accounts have fallen.

NS&I now has three easy access accounts in our top five and the Income Bonds account is paying a market-leading monthly rate of 1.15% gross.

So, on a balance of £50,000 you could either earn £5 gross over the next 12 months with a high street bank paying 0.01% or £575 with NS&I assuming these rates remain the same.

So, here's to the rest of 2020. At the moment things aren't looking too bright but keep an eye on the savings accounts so that you can get as much interest as you possibly can in the challenging times we find ourselves in.

The latest savings rates are available on page 23 of this newsletter and updated regularly on www. savingschampion.co.uk.

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

All rates quoted are correct as at 27/07/2020.

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	National Savings & Investments (NS&I)	£500	1.15%	1.16%	Apply and access online, by post or by telephone.
Notice Account	Bank of London & the Middle East (BLME)	£10,000	1.10%	1.10%	Apply online and access online and by email. Withdrawals are subject to 90 days' notice only; no earlier access is allowed. In order to comply with Sharia Law, the rate displayed is an expected profit rate.

Personal Fixed Term Accounts

Account	Provider	Minimum	Gross	AER	Notes
1 Year Term (Sharia compliant)	Bank of London & the Middle East (BLME)	£1,000	1.00%	1.00%	Apply online. No access within the term. In order to comply with Sharia Law, the rate displayed is an expected profit rate.
1 Year Term	United Trust Bank	£5,000	1.00%	1.00%	Apply online. No access within the term.
2 Year Term (Sharia compliant)	Bank of London & the Middle East (BLME)	£1,000	1.35%	1.35%	Apply online. No access within the term. In order to comply with Sharia Law, the rate displayed is an expected profit rate.
2 Year Term	Close Brothers Savings	£10,000	1.15%	1.15%	Apply online or by post. No access within the term.
3 Year Term (Sharia compliant)	Bank of London & the Middle East (BLME)	£1,000	1.40%	1.40%	Apply online. No access within the term. In order to comply with Sharia Law, the rate displayed is an expected profit rate.
3 Year Term	United Bank UK	£2,000	1.30%	1.30%	Apply in branch or by post. No access within the term.
5 Year Term (Sharia compliant)	Bank of London & the Middle East (BLME)	£1,000	1.50%	1.50%	Apply online. No access within the term. In order to comply with Sharia Law, the rate displayed is an expected profit rate.
5 Year Term	United Bank UK	£2,000	1.40%	1.40%	Apply in branch or by post. No access within the term.

Personal ISAs

Account	Provider	Minimum	Gross	AER	Notes
Easy Access Account	Cynergy Bank	£1	0.90%	0.90%	Apply and access online. Transfers in of previous cash ISAs are allowed.
Easy Access Account	National Savings & Investments (NS&I)	£1	0.90%	0.90%	Apply and access online or by telephone. Transfers in of previous cash ISAs are not allowed.

Personal Fixed Term Cash ISAs

Account	Provider	Minimum	Gross	AER	Notes
1 Year Term	Charter Savings Bank	£5,000	0.76%	0.76%	Apply online. Withdrawals are allowed, subject to 150 days' loss of interest. Transfers in of previous cash ISAs are allowed.
2 Year Term	United Bank UK	£2,000	0.90%	0.90%	Apply in branch or by post. Access on closure only, subject to 180 days' loss of interest. Transfers in of previous cash ISAs are allowed.
3 Year Term	United Bank UK	£2,000	1.10%	1.10%	Apply in branch or by post. Access on closure only, subject to 270 days' loss of interest. Transfers in of previous cash ISAs are allowed.
5 Year Term	United Bank UK	£2,000	1.21%	1.21%	Apply in branch or by post. Access on closure 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	Al Rayan Bank	£500	0.70%	0.70%	Apply and access online, in branch, by post or by telephone. In order to comply with Sharia Law, the rate displayed is an expected profit rate.
Business Notice Account	Allica Bank	£1,000	1.10%	1.10%	Apply and access online. 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	Allica Bank	£1,000	1.10%	1.10%	Apply online. No access within the term.
2 Year Term	Allica Bank	£1,000	1.20%	1.20%	Apply online. No access within the term.
3 Year Term	Masthaven	£5,000	1.20%	1.20%	Apply online. No access within the term.
5 Year Term	United Bank UK	£2,000	1.40%	1.40%	Apply in branch or by post. No access within the term.

All information is correct as at 27 July 2020

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