Integritas Financial Planners Ltd
Nurture · Grow · Protect

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Is investing all about making money?

The aim of investing seems quite simple; to grow your money over time. However, have you considered that through sustainable or ethical investing your investment could benefit society as well as yourself?

Sustainable investing is in no way niche. Over the last decade, sustainability has become increasingly important in the investment world. More and more investors now want to know where their money is going and what it's being used for. They believe it's important to know that their investments are comfortably aligned with their values.

In response, more and more governments, corporations and investors are adopting the principles of sustainable investing. In effect, increasing demand is driving the mass growth of these types of investments.

As well as sustainable investing, you'll come across lots of other different terms. There's ethical investing, environmental, social and governance (ESG) investing, impact investing, socially responsible investing (SRI), values-based investing, conscious investing and green investing.

While they broadly mean the same, there are some key differences in the way they work which are important to know before choosing to invest.

- **Ethical investing**
  Ethical investing actively avoids companies or industries that have a negative impact on society and the environment. This is called negative screening. You can expect sectors such as tobacco, animal testing, gambling and oil & gas to be excluded from this type of investing.

- **Sustainable investing**
  Sustainable investing actively selects companies that have a positive impact on the world. This could be anything from green technology to social initiatives in developing countries. It's less restrictive than ethical investing as it allows for the fact that companies are often neither all good or all bad – such as oil companies that invest in clean energy.

- **Impact investing**
  Impact investing actively selects companies whose positive impact on the world can be measured. This can be anything from generating a specific amount of recycling or saving a certain amount of water

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How do we expect them to perform?

- **Ethical funds**

Ethical funds have the potential to perform well over the long-term but their performance will differ to that of more conventional funds. If areas that ethical funds can't invest in are performing well, ethical funds could underperform compared to unrestricted funds. But ethical funds could do well if these areas suffer a setback.

Lots of the areas where ethical funds can't invest, like tobacco and some healthcare businesses, tend to be the ones that make money whatever shape the economy is in. Ethical funds have to invest more in cyclical businesses, like those in the technology or financial sectors, whose share performance tends to mirror the health of the economy. Profits and dividends rise during the good times but suffer during slumps.

- **ESG integrated funds**

Investing in a fund that looks at ESG (environmental, social and governance) factors in its investment process is one of the least restrictive ways to incorporate your values into your investments. That said, some will still avoid investing in certain areas, like mining and tobacco, even though they technically could invest here.

When analysing a company, a manager of an ESG integrated fund will consider environmental, social and governance factors as part of their wider research. Their main goal is to invest in companies with the strongest prospects, but they think ESG factors play an important part in the long term performance of a company.

ESG integrated funds can invest in any part of the stock market, as long as a company meets their criteria. This means they have the potential to perform just as well as funds that don't place specific importance on ESG factors.

- **Sustainable and impact funds**

According to United Nations studies, the global population will grow more than 20% to 9 billion by 2050. That means we'll need to make major developments in areas like clean water, sanitation, energy generation and healthcare. Funds investing with sustainability at the heart of their approach have the potential to benefit from these trends.

But spotting long-term trends is the easy part. Identifying companies that can benefit most from them is harder. There are lots of factors that will affect a company's performance over the long term which is why it's also important to invest with a talented fund manager. Please remember that all investments fall as well as rise in value, so you could get back less than you invest

The value of investments and income from them can go down as well as up. You may get back less than the full amount invested. The tax treatment of ISAs depends on your circumstances and may change in the future

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The value of protecting your partnership

One of the great risks of a business partnership is that a colleague may die, with his or her share of the business passing to someone else.

That person may have little interest in the business or- at worst- may be hostile to your objectives. Equally, a partner who suffers a serious illness may want to retain the option of continuing in the business or be compensated for their exit from the business.

The safety net is a pre-arranged scheme to ensure the surviving partners have enough funds to buy out the interest in the business or compensate the deceased's family.

In the event of the death or serious illness of one of your partners, you'll want to ensure that the business continues as smoothly as possible. Partnership Protection sets out the procedures and policies to help you retain control:

- Agreements, insurance, and trusts can be established to protect the business against the financial and practical implications of a partner's death or specified critical illness
- Arrangements which can help to ensure your partnership is not automatically dissolved
- Helps to protect your business interests against hostile parties, or disinterested inheritors
- Funds available to buy out the deceased's interest in the business at fair market value
- Avoid the sale of assets to repay the departed partner's interest in the business
- Help retain confidence of employees and customers

Taking the long view with your investments

Trade wars between the US and China together with Brexit and other tension in various parts of the world, have made markets more volatile in recent months. Unsurprisingly, private investors have become more nervous

A recent survey by leading investment house Schroders revealed that almost three-quarters of UK investors said they were influenced by political developments and market movements and check their investments at least monthly. Nearly one in five investors said that they were waiting for the dust to settle before making investment decisions.

So is it the wisest choice to allow political uncertainties and market swings to colour your investment judgements?

Five-year plans
Most investment experts agree that an investor should expect to hold share or bond-based funds for a minimum of five years.

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The longer the holding period, the more likely it is that funds invested in shares will outperform cash deposits or bonds – although there is no certainty that this will happen. Over five years or more, most of the headline-grabbing news normally fades away or is overtaken. The value of taking a longer-term approach is well illustrated in a table from the latest Barclays Equity Gilt Study.

	Number of consecutive calendar years				
	2	3	4	5	10
UK shares outperform £ cash	69%	71%	73%	76%	91%
UK shares outperform £ bonds	68%	74%	75%	72%	77%

Source: Barclays Equity Gilt Study 2019

For example, UK shares outperformed cash deposits in nearly three-quarters (73%) of four-year periods over the 118 years from 1900 to the end of 2018. Shares outperformed cash in over nine out of ten periods of ten years. Look back at the past five years from the start of 2014 to the end of 2018. The UK experienced two general elections, two referendums, the resignation of a prime minister and the election of Donald Trump in the US. Despite all these upheavals, investors in UK shares who stayed the course received an overall return of 22.2% against just 1.8% from cash.

Of course, stock markets can fall and sometimes they can drop very quickly. But the rebounds from falls can also happen quickly and are likewise hard to predict. A very small number of days have historically generated a surprisingly large proportion of total long-term returns. Over the last 30 years to 2018, about 0.2% of days generate roughly half of total performance. So if you come out of the market, you could be missing out on key growth moments. Ignoring the short-term noise in favour of paying attention to longer-term developments has two other benefits: your investment turnover will be lower, reducing overall costs, and you can stop worrying unnecessarily about the daily changes in investment values.

Retirement – It's all in the planning!

With many things to consider as you approach retirement, cash-flow modelling can be key to helping make the right decisions.

When you start to plan for your retirement, there are a number of questions you will be considering:-

- when do I want to retire?
- when can I afford to retire?
- should I semi-retire first?
- what income will I need?
- what will be my expenditure?
- will my lifestyle have to change?

The uncertainty in your financial outlook can always shift, especially when you come up to retirement and therefore the use of long-term cash flow planning to project expenditure and your income needs can help future-proof your finances.

You may not wish to extend your working life to fully protect against future financial challenges so you made need to think about how stopping or reducing work will impact your lifestyle and spending habits.

Working out your expenditure is essential so you can establish your income needs and where this is to come from such as earnings from work, state pension, private pension and other investments and savings. When assessing expenditure, it is certainly worth considering what is essential and discretionary spending in case financial resources change.

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Cash flow projections pull together these possible expenditure and income outcomes to show whether you are likely to have a deficit or a surplus over your expected lifetime. A surplus could allow you to increase your expenditure, such as making gifts to your family or increasing luxury spending.

A deficit forecast may mean that you should consider your spending plans and see where you could make cost savings. As an alternative, if you have the choice you may wish to rethink your retirement date or focus on increasing pension contributions or other savings.

Long-term cash flow modelling has grown into one of the most valuable planning tools and we recommend that this is something you seriously consider as you approach retirement.

If you are interested in arranging a meeting to discuss cash-flow modelling, please do get in contact.

Time to simplify our inheritance tax rules?

Major changes proposed to inheritance tax (IHT) could alter your estate planning.

The Office of Tax Simplification (OTS) has spent 18 months looking at IHT and has produced a report containing a wide range of proposals that could have a big effect on your estate planning.

These include:-

- You should only have to live for five years, rather than the current seven before a lifetime gift ceases to be subject to IHT. Taper relief should also be abolished.
- The rules for IHT business property relief (BPR) should be aligned with those for capital gains tax (CGT). This would result in fewer businesses qualify for relief. CGT rules on death also to be reformed.
- A new single "personal gift allowance " should replace the current £3,000 annual exemption and the marriage/civil partnership exemption. Inflation-linking to be added.
- The level of the small gifts exemption (still £250 as in 1980) should be reconsidered. Again, inflation linking should be added
- The rules for normal expenditure gifts should be reformed or replaced by a higher personal gifts allowance.
- Term Assurance pay-outs should be free of IHT. Currently, it is necessary to write such contracts under trust to keep them out of the policyholder's estate on death.

As with most reforms, the OTS proposals will create winners and losers. To understand how it might affect you and whether there are any pre-emptive actions that can be taken, please do get in contact.

Tax laws can and do change.

Levels and base of taxation and tax reliefs are subject to change and their value depends on individual circumstances

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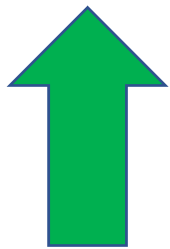
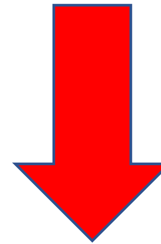
What is currency risk?

Whether it is your pension fund, your ISA or GIA, you are likely to be invested in overseas assets and therefore the value of sterling could significantly impact on your returns. This is known as currency risk, but can it, and should it be avoided?

Many popular investment funds are invested globally around the world in order to provide a diversified portfolio rather than focusing on UK based companies and therefore own assets that are denominated in a currency other than GBP. When income from these overseas assets is collected and converted back into to GBP, the exchange rate will impact the performance of the fund. When sterling is low, returns will be artificially increased and reduced when sterling is high.



Low GBP =
Inflated Returns



High GBP =
Deflated Returns

Many advisers and industry commentators believe that fund performance should really be driven by the invested underlying assets rather than being influenced by currency movement whilst others will argue that currency movements are an acceptable "built-in" level or risk, particularly when investing in equities.

Looking at the two extremes, you could have strong asset performance coupled with low sterling providing the best-case scenario. The worst-case scenario could see poor asset performance with losses then increased due to a high sterling and unfavourable exchange rate. In between you could have strong performance pegged back by high sterling or poor performance masked by a low sterling.

As you can see, whilst you are exposed to currency risk, the performance of your portfolio will be influenced by both the asset performance and value of GBP.

Can currency risk be removed?

Over the last few years and in particular since the EU referendum, GBP has been falling and therefore many investors have been artificially benefitting from currency gains which has been a good story. However, should expectations be that GBP is set to rise, the opposite could happen with less popular outcomes.

Investment managers do have the option to remove currency risk using a technique call currency hedging which effectively neutralises any exchange differences. Some investment fund managers will take a flexible view on currency and will provide hedging protection when they believe it is appropriate. Other investment manager will not hedge and accept currency risk while others will actively remove the majority currency risk by hedging.

Please do let me know if you would like to discuss further the pros and cons of a currency hedged portfolio.

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How to combat the hidden dangers of income drawdown

The popularity of income drawdown continues to grow, but there are significant risks to consider.

The pension freedoms introduced in 2016 means more savers can keep their pension investment fund into retirement and draw down money as they need it, instead of buying an annuity that guarantees them an income for life. This is a complex issue facing retirees, and any decision to use drawdown must be carefully considered.

Drawdown offers extra flexibility and the potential for better returns and more income from your pension pot - given the relatively low returns on offer from annuities today. However, drawdown is also a risky option. Keeping your pension fund invested means the value can fluctuate according to what markets are doing. You also need to be careful about how much you draw out and when to ensure you leave enough for future needs.

Volatility drag

This is an ugly term for the simple idea that if a portfolio falls in value, it needs to work harder to get back to its initial value. For instance, if a £100,000 portfolio falls 10% in one year and rises 10% in the next, it will not return to £100,000, it will be £99,000.

Experienced investors tend to get used to volatility, and accept that in the long run the destination is more important that the journey. However, for those in drawdown, the journey is just as important as the destination. High volatility increases the chances that you will be taking money out when the portfolio is falling, locking in losses and reducing the chance of there being enough money to meet future needs.

Sequencing risk

When you are drawing a flexible income from your pension pot it is not just the long-term average return that matters but the sequence of returns. Negative return in the early years can have a particularly detrimental impact on the value of a drawdown fund, even if they are then followed by good returns. Essentially, they have a disproportionate effect on the eventual outcome.

Pound cost ravaging

Pound cost ravaging is a term used to describe how the effects of volatility drag and sequencing risk are amplified by withdrawals, potentially wrecking retirement plans. Losses created by selling assets to meet income requirements can never be recovered, and taking too much out of a fund just after market falls can damage your wealth and run the risk of exhausting the fund too early

How to help combat the risks

- Keep investment volatility low
- Take a sustainable level of income
- Adapt to changing conditions where possible
- Keep a cash reserve

Drawdown offers great flexibility and the chance to increase income, but it isn't right for everyone. If you do not have sufficient secure resources to cover your essential expenses, or you cannot accept that your income could fall, or even run out, then drawdown is unlikely to be for you and an annuity should be considered.

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What impact does inflation have on your savings and investments?

We've all heard of inflation, but it can be tricky to grasp the real impact it has on our money.

Inflation effectively shrinks the value of your money over time, making it particularly important to find ways to potentially boost the returns on your long-term savings.

According to latest figures from the Office for National Statistics, the UK's Consumer Prices Index (CPI) measure of inflation, which tracks how the prices of hundreds of household items change over time, rose to 2.1% in July, up from 2% in June.

If inflation were to stay at this rate for the next 12 months, this would mean a £100 spend on the high street would cost you £102.10 in a year's time.

The impact of inflation on your savings and investments

If inflation is higher than the interest rate paid on your savings account, this essentially means that the value of your money is falling over time.

With the Bank of England base rate currently at 0.75%, it is particularly tricky to find savings rates that keep pace with living costs.

Inflation can also chip away at investment returns, because investments must also keep up with the rate of inflation to increase real purchasing power. For example, an investment that returns 3% in an environment of 3% inflation will effectively return 0% when adjusted for inflation.

It can be particularly harmful to fixed income returns. Fixed income investments, such as bonds, aim to produce a stable income in the form of interest, or coupon, payments. As these payments are fixed, if inflation rises, their purchasing power declines.

One option for investors seeking inflation-beating returns is index-linked gilts, which are government bonds whose interest payments and value at redemption are adjusted for inflation. However, if they are sold before they expire, known as the 'redemption date', their value could have fallen as well as risen – bond prices can change, as bonds are bought and sold on the open market.

Investors wanting exposure to bonds can either invest in them directly, or via a bond fund, which will hold a wide variety of fixed income assets to help spread risk.

How can you beat inflation?

Investing in shares can potentially provide better protection against inflation than deposit accounts or bonds which aren't index-linked. That's because the companies that you invest in via shares or funds can often raise prices to cover higher costs – this should, in theory, enable them to grow at the same rate or higher than inflation over time. That said, not all companies will be able to do this; some may see their profits fall or end up with losses that could even see them go out of business.

One of the most popular options for income-seeking investors looking for inflation-beating returns is equity income funds. These pool your money among a wide range of companies which pay an income in the form of dividends, or a slice of company profits. Some of Britain's biggest blue-chip companies listed on the FTSE 100, for example, currently pay dividends of 4% of more a year. This may of course not continue in future, as dividends can change and so may be lower or higher than they are now

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