Whitechurch
Financial Consultants
A Division of Whitechurch Securities Ltd

Whitechurch
INSIGHT

Q3 2017

www.whitechurchfc.co.uk

Are you fit for the future?

As the saying goes, if you fail to plan, you are planning to fail. We can achieve so much more with a plan - whether we are planning a great holiday, schools for the children or home renovations.

One thing that is fundamental to most plans is finance. As such, it would seem sensible to ensure that you have a clear financial plan in place, to support your goals for the present and the future.

Financial planning is more than buying financial products such as a pension or an ISA. It is an ongoing process; achieving, and maintaining financial fitness can be a multifaceted challenge. People are living for longer, are concerned about outliving their savings, and are facing a range of changing circumstances and financial regulations.

Fundamentally, considering and answering the following questions can help shape your financial plan:

- What are my values and my goals?
- How much do I need to achieve my goals?
- What level of investment risk can I take to support my goals?
- When can I afford to stop working?
- What level of lifestyle can I maintain when I stop working?
- How much can I pass onto my children?
- Will I need to sell any assets?

The achievement of long-term financial security requires careful planning and a holistic approach – whether it is for wealth management or retirement planning; long-term care provision or passing wealth onto the next generation.

At Whitechurch, we are passionate about helping people who want to improve their standard of living and a financial future for themselves and their families. We help clients every step of the way, from the start, in accumulating assets, through to the transition and de-accumulation of assets for retirement.

The focus of our wealth management service is to ensure that you follow an investment strategy that is suitable for you as your future unfolds.

With changing circumstances, you may benefit from professional reviews of your financial status.

Please get in touch if you would like to talk to an adviser about your financial plans. You can:

- Fill in and return the Information Request form
- Email us at wfc@whitechurch.co.uk
- Call us on 0117 916 6194

In this issue

Common misconceptions about Inheritance Tax

By Mark Stone, Financial Planning Director

Inheritance Tax (IHT) can often be a subject that is sensitive to approach. Let's face it; most people don't like to think about life after they are gone. Because of this, it is an area of financial planning that is often ignored or set aside to think about at another time – sometimes it is then too late.

At Whitechurch, we also come across some misconceptions about Inheritance Tax which stop people from planning and being able to reduce their potential liability.

It doesn't have to be like this. Under current legislation, IHT is perceived as a voluntary tax. This is because with careful planning, it is possible to reduce or remove liability altogether. That's why we have compiled the following to dispel some misconceptions about Inheritance Tax.

"I will gift my money away nearer the time"

It is possible to gift up to £3,000 per year and not have to pay Inheritance Tax on it. You can also gift £5,000 to a child when they get married, grandparents can gift £2,500 and you can gift sums of £250 to as many people as you like. There are also some other scenarios in which you can gift money free of IHT - such as to charities, political parties and museums.

However, you can't simply give away all your wealth shortly before you die and escape IHT. HM Revenue & Customs (HMRC) is wise to such tricks. You have to survive at least seven years after making a gift for its value to fall out of your estate. Until then it is known as a Potentially Exempt Transfer and may fall back into your estate and be liable for IHT if your estate's value exceeds the nil-rate threshold of £325,000 when you die.

"I can now pass on £1m free of tax"

The new limit introduced by the last government came into effect from April 2017. However, the move to raise the IHT allowance to £1,000,000 isn't quite as straightforward as it seems. The additional nil-rate allowance applies only if you gift your home when you die. Also, it starts at only £100,000 for the tax year of 2017-18. That's £325,000 + £100,000 = £425,000.

This additional allowance will then increase by £25,000 in each of the next three tax years until it hits £175,000 in 2020-21. That's £325,000 + £175,000 = £500,000. But it's still not £1,000,000! That's because only couples who are married or in civil partnerships will be able to combine their personal allowances of £500,000 each to reach the magic number of a £1,000,000 nil-rate allowance.

And that's not the end of the story. Certain criteria will also apply to the property being gifted, your relationship to your chosen beneficiaries and the size of your overall estate.

The reality is that the tax free amount of £1m is neither unequivocally nor immediately available.

"I don't need a Will as my assets will automatically go to my partner when I die"

Many couples think that they don't need to worry about IHT as their partners will inherit everything free of tax. However, without a valid Will in place, under the rules of intestacy, a portion of an estate will go to existing children and this could trigger an Inheritance Tax liability – one that could have been avoided with a Will in place.

"It's too late; it takes 7 years for any gift to leave your estate"

This notion prevents elderly people from considering Inheritance Tax planning. Whilst the seven year period is true, the statement itself does not tell the whole picture.

Gifting into a trust can mitigate tax liability and there are financial planning products that can assure you for the risk of dying prior to the 7 years it takes for a gift to be excluded from your estate.

It is also possible to reduce IHT liability if an asset is gifted three years or more before death. In certain circumstances, gifts made 3 to 7 years before death are taxed on a sliding scale, which is known as 'taper relief'.

Years between gift and death:	Rate of relief
0-3	0%
3-4	20%
4-5	40%
5-6	60%
6-7	80%
More than 7 years	100%

"I don't want to lose control of my money in case I need it"

This is often a major dilemma for people. They either want to try to spend their IHT liability or keep it set aside for future costs.

The issue of losing control of funds can be true, particularly if gifting into an absolute trust, where the beneficiary has instant rights to all the income and capital.

However, there is a type of trust called an Interest in Possession trust where the settlor can be the 'income beneficiary' and is able to receive income payments which could be used for care home costs or perhaps even a holiday or new car – depending on the terms of the trust. At the settlor's death the capital would then go to the 'capital beneficiary.'

Interest In Possession
Settlor places capital sum in this trust

→ Settlor is the 'income beneficiary' and receives income from the capital

→ Under normal 7 year rule, the capital sum, reduces IHT liability and goes to the 'capital beneficiary.'

"I am too young to begin planning for my children's inheritance, I've only just retired!"

You have only just entered the life stage of retirement, you're planning how to take benefits from the money you have saved your whole working life. The last thing you want to think about right now is giving it away!

However, there are advantages of planning Inheritance Tax mitigation earlier on. For a start, you are more likely to live longer so you can fully benefit from the 7 Year Rule for gifts.

Lifetime gifting is an established means of mitigating IHT. Other than Exempt Transfers or Potentially Exempt Transfers, you can also make use of a Chargeable Lifetime Transfer. However, with this type of gift it is possible to be caught out by the lesser-known 14 Year Rule! Hence, it is another reason to start your IHT planning mitigation sooner rather than later.

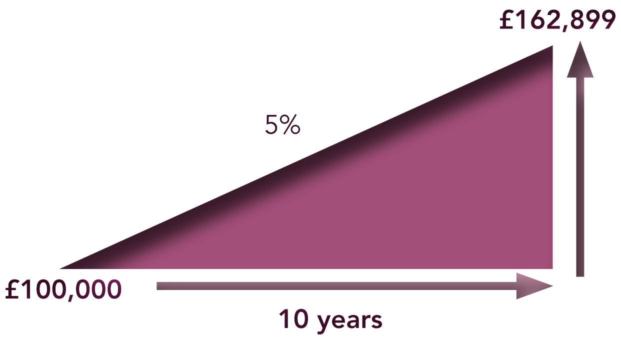
It is also possible to cover your IHT liability with a life assurance policy that pays out to your beneficiaries on your death. The premiums are more manageable when the policy is started earlier in life.

"ISAs are the most tax efficient form of investing!"

The more accurate statement would be: "ISAs are one of the most tax efficient forms of investing!" An ISA may not be the best option if there is a sizeable amount of other assets. This is because of the impact that Inheritance Tax would have on a deceased person's ISA. The impact of IHT could reduce the value of the estate to less than the outcome of an alternative investment strategy. Take a look at the two following scenarios.

Scenario 1:

A transferred ISA with a value of £100,000, plus growth achieved over 10 years - based on a 5% pa growth rate.

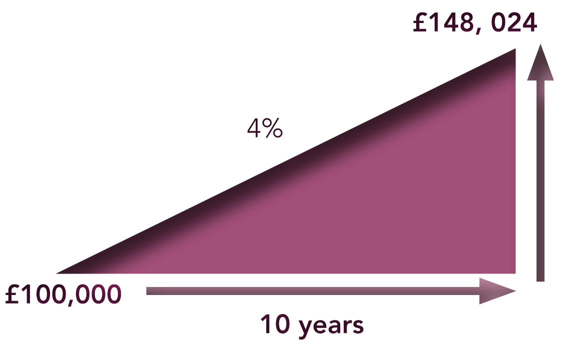


In this scenario, over 10 years the ISA builds up to £162,899. However, ISAs are not exempt from Inheritance Tax. As such, after this person dies their nil rate allowance will be used up by other assets and the value of the ISA will be reduced by IHT.

£162,899 x 40% IHT = £65,160 Inheritance Tax liability
This means that after 10 years of growth, the value of the ISA is now £97,739.

Scenario 2:

An inheritance tax-efficient investment – written into trust. Starting value of £100,000 plus growth achieved over 10 years – based on 4% pa growth (5% less 20% internal tax):



In this scenario, over 10 years the investment builds up to £148,024. However, because it is in an IHT tax efficient investment, when this person dies there is no IHT to pay so the investment remains at £148,024 for the beneficiary.

This is a potential saving of £50,285 due to using an IHT efficient solution instead of an ISA.

If you would like to receive more information about Inheritance Tax, you can download the IHT Guide from the Literature Library on our website.

You can also get in touch to discuss your circumstances:

- Fill in and return the enclosed Information Request form
- Email us at wfc@whitechurch.co.uk
- Call us on 0117 916 6194.

There is no time like the present!

The solutions for reducing Inheritance Tax liability will vary. Concerns may be addressed by one of the scenarios mentioned here or a mix of solutions may be required.

It is important to obtain professional and specific advice. Ultimately, we want to make sure that everyone starts to think about their Inheritance Tax liability as it will almost certainly be the biggest bill levied on any estate.

Dispelling the Myths: Fund Managers vs Index Trackers

By Gavin Haynes, Managing Director

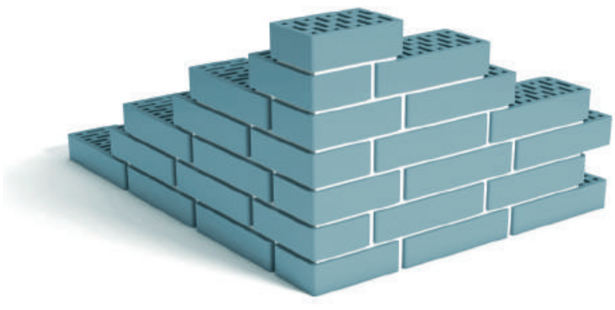
There has been a long-running debate amongst investment academics as to what is the best approach to investing in funds. Is it better to choose the cheapest index trackers (Passive funds) or better to pay a fund manager to try and beat an index and manage risks (Active funds).

Given that the Whitechurh Investment Management team spends all their time building portfolios and researching funds, you'd expect us to provide a definitive answer. But the truth is that there is no definitive answer!

Building a Portfolio

When building a portfolio, once the asset allocation is determined, to meet the risk and return objective of the client, we look to find the best fund in each area to optimise returns. Our starting point is to look at the passive options available - as they do provide the cheapest and most transparent access to market returns.

We use index funds as the benchmark and if clients are going to incur the extra cost of an active fund then we have to demonstrate with a reasonable degree of confidence that it is going to provide better risk adjusted returns.



Value vs Cost

There is an increasing focus on costs and we realise that keeping the overall cost down for the client is imperative. But the cheapest option is not always best.

In their recent review of the asset management industry, the Financial Conduct Authority refuted the notion that a cheap passive option is always a better way to invest [1]. When selecting funds, I take legendary investor Warren Buffet's approach that; *"the price is what you pay, value is what you get"*.

Active funds are held in Whitechurch portfolios where they have the potential to deliver higher risk adjusted returns, if not then we use a passive fund.

[1]. FCA Asset Management Market Study, June 2017

I do believe strongly that the rise in popularity of passive funds is a good thing for everyone (except underperforming fund managers!). The increasing competition they provide is driving down costs for clients and leading to a survival of the fittest amongst active managers.

Best of Both Worlds

Within all Whitechurch portfolios our focus on how we blend both active and passive funds has proven to be very successful.

Our numerous industry awards for risk-adjusted returns in Whitechurch portfolios have been achieved through this focus on investing in the best of breed in each area, whilst taking an active asset allocation approach with stringent risk management.

Dynamic Portfolios

We offer six Dynamic model portfolios, including a balanced portfolio for ethical investments.

These are labelled as Dynamic because their risk levels are independantly rated by the Dynamic Planner service - a sophisticated industry assessment process.

More importantly, our Dynamic portfolios are hybrids which provide access to more diversification than pure Passive funds whilst maintaining a lower cost structure than pure Active funds.

The Whitechurch Investment Management team works with financial advisers to provide this service to individual clients - providing a range from low cost entry model portfolios to bespoke investment solutions.

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All Change? Investing Ethically

By Amanda Tovey, Head of SRI & Direct Equities

Many of us would like to be able to reflect our personal values in our investments but have been held back in the past because of a lack of choice and perceived poor performance of available funds in the 'ethical' space.

This article provides an overview on the evolution of the sector – the different approaches, increasing options and the reality of possible returns.

Investing in a changing world

Historically, ethical investing focused on excluding stocks or sectors of the market such as alcohol, tobacco, gambling, defence or companies with poor environmental or human rights records.

This exclusion has in the past led to underperformance of such funds versus the wider market. As there was little choice of proxy investment so when areas such as tobacco or mining outperformed, these funds underperformed.

The world is changing rapidly; climate change and an increasing global population are increasing demands on healthcare and water, and food shortages are placing new demands on infrastructure and agriculture. Many of the funds now look to invest in new technologies and companies that provide sustainable solutions to these problems.

The changing face of business

The way many businesses are run is also changing, increased global news coverage and use of social media highlights business practices that many find unacceptable and many companies are now making changes to address this. For instance, the Rana Plaza disaster in Bangladesh in 2013 was a wakeup call for the fashion industry to look more carefully at supply chains and the rights and safety of workers.

Events like that can affect a company's share price through brand deterioration, reparatory costs or fines.

By applying a high level of screening for Environmental, Social and Corporate Governance many funds in the ethical space seek to mitigate exposure to such companies which may have left themselves open to issues such as these.

Changing performance

As the market has evolved many funds now seek out companies they consider to be making positive contributions to society, such as those providing social initiatives or clean energy.

This style is often referred to as Socially Responsible Investing or SRI. In many cases a fund will combine the two approaches; starting with a negative screen to exclude certain areas and then applying a positive screen to help identify the most attractive companies. This can have a positive impact on performance. An example of this is the Henderson Global Care Growth fund, as shown in the graph below.

Blue line - Henderson Global Care Growth I Inc TR in GB [124.19%]
Green line - MSCI World TR in GB [107.02%]
Red line - IA Global TR in GB [89.21%]

Is ethical investing for me?

The decision will depend on your values - which differ from person to person. What one person considers a cause for concern may not be an issue for another. I would recommend speaking to your adviser to find out more and to discuss your interests and goals.

Please get in touch if you would like to discuss any ethical investment matters. You can:

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- Call us on 0117 916 6194

Recommend a friend or relative and receive Marks & Spencer vouchers worth £100

We pride ourselves on the quality of our service and the satisfaction of our clients. If you are happy with our service, we would welcome your recommendation of a friend or relative to us.

To do so, please complete the **Referral slip** and return it to us in the **Pre-paid envelope** - both enclosed with this magazine.

As long as your friend/relative is not already a client of ours we will get in touch with them for a no obligation meeting. If they conduct business with us during the next twelve months we will send you Marks & Spencer vouchers to the value of £100 – as a thank you. There are no limits to the number of recommendations you can make.

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Data protection notice – Whitechurch may have received your personal data from a third party. If you invest through us we may use your information together with other information for administration, marketing and to make money laundering checks. We may disclose your information to our service providers and agents for these purposes. We may keep your information for a reasonable period to contact you about our services. We may share your information within the group of companies. They, or we, may contact you to let you know about any goods, services or promotions, which may be of interest to you. By responding to this magazine you consent to our processing your sensitive personal data for the above purposes. If you do not wish to receive such information from us please contact us by post, telephone or e-mail. Remember, this will preclude you from receiving any of our special offers or promotions. You have a right to ask for a copy of your information and to correct any inaccuracies. To make sure we follow your instructions correctly and to improve our service to you through training of our staff, we may record telephone calls. When you give us information about another person you confirm that they have appointed you to act for them, to consent to the processing of their personal data, including sensitive personal data and to the transfer of their information and to receive on their behalf any data protection notice.

Whitechurch In The Press

Whitechurch Securities has an enviable reputation with financial services journalists of all the quality newspapers and specialist journals; who regularly contact the Investment Team for information on financial markets, products and services. Extracts below are just a few recent comments showing the relationship and rapport we have built with the national press over the years.

Money Observer
1st July 2017

Gavin Haynes, managing director at Whitechurch, gives examples of 'under-the-radar' investment trusts. He recommends TwentyFour Income, a specialist fixed income trust, suitable for investors seeking a high income and prepared to take accept the associated risks; and Ecofin Global Utilities & Infrastructure Trust which focusses on large cap utilities and infrastructure companies – good for income diversification.

Citywire
1st July 2017

Ben Willis, Head of Research, addresses the mix of active and passive investing. He said, "Earlier in the year we decided to reintroduce what we call the 'barbell' approach to our US and European equity exposure within our portfolios. Quite simply this meant complementing our long-term core positions in these markets with satellite positions which we believe will add alpha over the next 12-18 months."

Daily Mail - This is Money
16th June 2017

Gavin Haynes comments on technology stocks; "... shown exceptional gains over the past year, and by all accounts look very expensive as investors focus on areas of the stock market that can demonstrate strong levels of growth in what continues to be a low-growth global economic climate." He added that; "a correction in the price would be a good opportunity to gain access to the best members of a sector that will remain a key driver of global growth."

The Daily Telegraph
2nd June 2017

Senior Investment Manager, Ben Willis, provides insight on the type of funds that can't make money unless the market crashes. He said; "The backdrop since the financial crisis could not have been worse for absolute return bond funds. The least that these funds can do is beat cash or inflation over a three-year period". He adds that; "these funds will likely perform if a crisis hits and investors sell out of shares to pile into safer investments."

Money Observer
3rd May 2017

On the subject of 'seasonal timing of the market, Gavin Haynes, Whitechurch Managing Director offers a tip on weathering seasonal volatility... Bank profits after a period of strong performance, and drip-feed money into markets when redeploying capital"

This is Money
5th April 2017

On ethical investing, Ben Willis says, "it is worth trying". Ethical investing has moved on considerably. It used to be focused on avoiding controversial activities but now fund managers seek companies working in areas such as climate change, human rights, Fairtrade and conflict avoidance."

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Award winning investment expertise

PAM Private Asset Managers AWARDS WINNER Investment Performance - Defensive

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Portfolio Management Service

defaqto 2017 DFM MPS on Platform
Models on Platform

Improving our communications to you

We are committed to helping our clients improve their financial future for themselves and their families. This applies to the service we provide and the information and insight that we share.

OUR MISSION

- To share relevant information in a manner that is timely and efficient.
- To keep you informed about changes in services, investment markets, legislation and financial planning.

YOUR ACTION

We need your help to do this but all you need to do is ensure that we have your correct email address.

To do this, please complete and return the Information Request slip in the pre-paid envelope (both enclosed) or sign up via the gold button at the top of our website pages - *www.whitechurchfc.co.uk*

OUR PROMISE

We will not share your email address with any other organisation.

Whitechurch Securities Limited operates, and is a controller, under the UK Data Protection Act 1998.

Whitechurch in the community

At Whitechurch we are committed to helping our clients improve their financial future for themselves and their families. We are also passionate about supporting people in the community around us.

We do this by donating five percent of our profits to charities, nominated by staff each year; and by taking part in numerous fundraising activities - from bike rides to cake bakes; fun runs to long hikes.

We also help promote the charities by sharing information about their vital services. The spotlight for this quarter is the highly commendable local charity - **See Change**.

See Change is the new name for Julian House in Bristol. The charity recently rebranded to See Change as a statement of what they aim to achieve in helping vulnerable men and women that have experienced domestic abuse, addiction and have been at risk of homelessness to rebuild their lives again.

See Change run more than 25 services across the region including supported accommodation, homeless outreach services and social enterprises that helped more than 140 people move closer to their employment goals last year alone.

To find out more please visit *www.seechange.org.uk*. Please also look at their Dragon Boat Festival and Colour Fun Run to see if you might be interested in supporting the charity too.

see change

To find out more about the charities we support please visit the About Us section at www.whitechurchfc.co.uk

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WEALTH MANAGERS

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