equinox

half yearly investment magazine

There Has Never Been A Better Time To Invest

Pension Reforms - More Radical Changes Could Follow

Seminars Help Educate Clients

April 2014

PLUS: An Enterprising Budget | In Profile: Mark Holman | Is The Independent Label Meaningless?

Welcome

During the 6 months since the autumn edition of Equinox, the increased pace of change I referred to back in October has continued unabated.

The investment climate remains a tricky one to predict and stock markets continue to be volatile. However, I genuinely believe that the current landscape relative to previous conditions means that there has never been a better time to invest. For a more detailed explanation of my opinions, please turn to the article on page 3.

From what was expected to be something of a non-event, the Chancellor pulled a few rabbits out of his hat to surprise us all with revolutionary pension reforms and benefits for savers. In fact, I cannot remember a previous Budget where the outcomes can have a positive effect for virtually every single one of our clients and we intend to make sure that everyone takes advantage of the opportunities now available.

In-house at Equilibrium, the team continues to expand and, as a result, I'm delighted to announce that we have secured additional space on Brooke Court where all client meetings will be held with immediate effect.

As is always the case, I hope you enjoy this issue of Equinox. Please feel free to contact me directly by email to colin@eqllp.co.uk or by phone on 0161 486 2250 if you have any comments or queries.

Colin Lawson
Managing Partner





Contents

There Has Never Been A Better Time To Invest

The credit crunch medicine is working. Investors should take advantage before any long-term unintended consequences take effect.

By Colin Lawson

When central bankers and policy makers are faced with a financial crisis, the solutions they put in place often have unintended consequences that sow the seeds of the next crisis.

When the crisis is huge and the medicine prescribed is still at an experimental stage, as it has been following the credit crunch, the side effects are likely to be severe. They are still largely unknown.

The measures that policy makers put in place to address the problems created by the credit crunch amount to the biggest economic experiment in history. Five years on from the lows of the financial crisis, the questions we all need to ask are 'what will the next crisis be?', 'when will it arrive?' and 'how will it affect our lives and investments?'

The interest rate tool

14 years ago, the bursting of the technology bubble was quickly followed by the 9/11 terrorist attacks and the Iraq war. The US Federal Reserve was worried that the economy would plunge into recession, so it reacted quickly and decisively. Using its favourite policy tool, it slashed interest rates from 6% to just 1%.

The medicine worked and the feared recession was avoided. Unfortunately, the unintended consequences followed quickly. Low mortgage rates fuelled the biggest house price boom we had seen in a generation and consumers went on a credit card shopping binge.

The demand for borrowing was so high that banks simply ran out of money to lend. This forced them to come up with a new solution which was to package up existing debts and sell them into the market. This gave them the opportunity to mix in some bad debts without anyone noticing.

Faced with this rapidly expanding credit bubble, the Fed had no choice but to act quickly and decisively again. It raised interest rates rapidly from 1% to 5%. Some people had been lent more than they could afford to repay at 1%. When rates were increased fivefold, it meant a lot of people were in trouble.

This time the unintended consequences nearly brought down the entire financial system. The sub-prime crisis led to the credit crunch which, in turn, led to the almost total collapse of the global banking system.

Strong medicine

So, faced with the biggest financial crisis in living memory, US policy makers once again acted quickly by slashing interest rates to 0.25%, and other central banks took similar action. But this time their number one tool wasn't enough and they resorted to printing money - so far, central banks around the world have injected more than $6 trillion into the system. Even that wasn't enough in the UK, where the government launched the funding for lending scheme and, more recently, the help to buy scheme.

So far, it has worked. Stock markets have recovered, house prices are rising again, unemployment and inflation are falling and the economy is back on track.

But with medicine so strong and so experimental, there have to be some unintended consequences. When they materialise, they will be severe.

Great time to invest

Before we consider what the next crisis may be, let us examine investment markets today and the outlook for the next five years. When investing, our primary aim is to get a return higher than the relatively risk free return we get from a bank deposit.

Deposit accounts now pay around 1.6%, net of basic rate tax, which is significantly below the RPI of 2.7%. Mark Carney, the Governor of the Bank of England, has helpfully provided us with some forward guidance as to how this may change. He said that, when rates rise, they will do so gradually over the next two to three years. Even when the economy is back on track, rates will be materially below the 5% they were before the crisis began, according to Carney.

He could have said 'below' or 'slightly below' but he specifically said 'materially below'. The press have widely speculated that this means interest rates will peak at 3%, but I believe their maximum level will be just 2.5% for the next five years at least.

Typically, deposit rates are 1% above base so that would equate to gross interest of 3.5%, just 2.8% net of basic rate tax.

Investment yields compare well. Some corporate bonds are yielding 3.2% net - almost double the cash rate. A FTSE tracker is yielding 4% and a commercial property fund is yielding a whopping 5%. This position is unprecedented as usually the stock market will yield less than cash. You could throw a dart to pick which asset class to invest in and, even without any capital growth, beat cash over the next five years.

That is why I think there has never been a better time to invest. I am not necessarily predicting fantastic returns, just stating that the decision as to whether to leave money in cash or invest it is easier now than at any time in my career.

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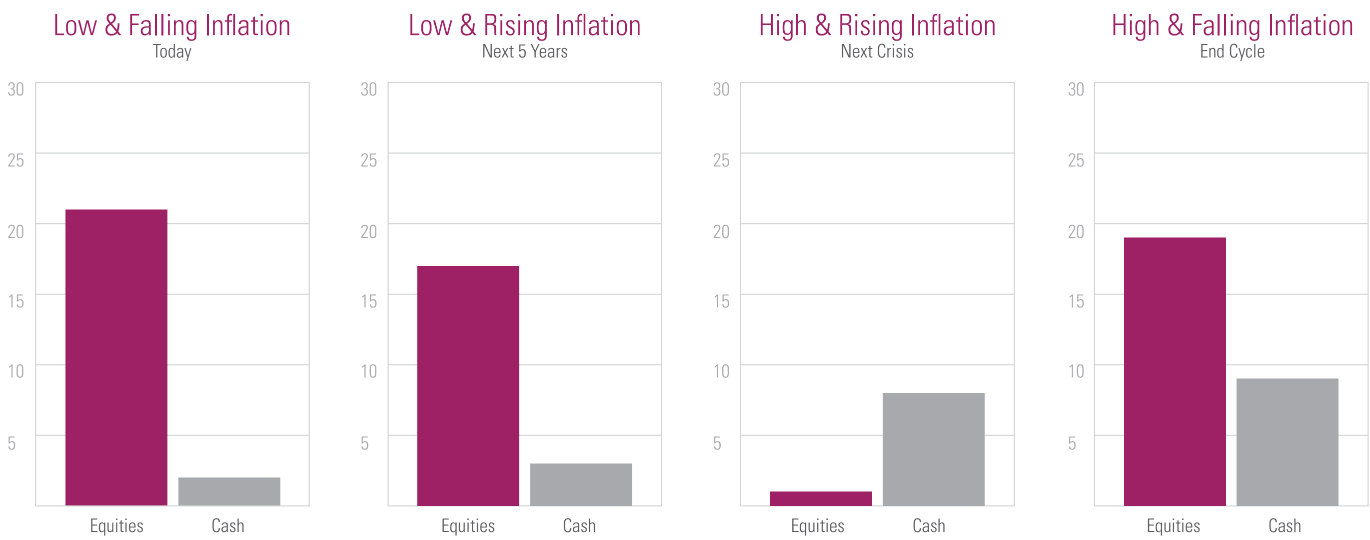
Stock prices linked to inflation

If just the income will outperform cash, what is the prospect for capital growth? The stock market moves in cycles that are linked closely to inflation.

This is because inflation erodes the value of companies, so stock prices rise when inflation is low and fall when inflation is high.

The table below looks at different inflationary cycles and what the returns have been from the stock market during each of the four stages. Inflation is currently low and falling. In this environment, returns have typically been around 20% a year for equities.

When we move into the next phase of low and rising inflation, returns still hold up well at over 15%. But when



> "High inflation may be bad for investors but it is the medicine that is needed to solve the global debt problem.

we move into high and rising inflation, equity returns become almost non-existent and cash comes to the fore again.

Over the next five years, inflation will gradually pick up. Money will flow from deposit accounts into investments, thereby driving up capital values and decreasing yields accordingly. The fear that raising interest rates too soon could derail the economy may force the Bank of England to leave them too low for too long, leading to inflation picking up and potentially becoming difficult to control.

The outlook for the next five years is for excellent returns across almost all asset classes. However if, as I suspect, this forces yields down and inflation picks up strongly, then we could face another major market crash.

It is time to take maximum advantage of the current market opportunities while keeping an eye on the distant horizon and looking out for the inflation genie. Because once it gets out of the bottle, it is a challenge to get it back in. High inflation may be bad for investors but it is the medicine that is needed to solve the global debt problem.

In Profile:

Mark Holman

Founding Partner, CEO,
TwentyFour Asset Management

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We started with zero assets, and this has grown steadily each year and we are now running approximately £2.5bn for clients.

Most of our clients won’t know much about TwentyFour Asset Management. How long have you been around and why did you decide to start the firm?

TwentyFour is a specialist fixed interest boutique based in London.

We started the business in September 2008, which transpired to be the same week that Lehman Brothers collapsed! That certainly focussed the mind and presented a huge challenge, but in an unforeseen way presented great opportunities for a new business with no legacy issues to deal with.

Our rationale for starting the firm was that there was, and still is, a lack of specialist fixed interest managers in the market. We felt dedicating all of our resources to one asset class would give us a natural advantage. The partners are all fixed income practitioners and have on average 21 years of fixed income experience, both of asset management and trading.

We started with zero assets, and this has grown steadily each year and we are now running approximately £2.5bn for clients.

The firm’s name is unusual – where does it come from?

I’d like to give a really smart answer like it’s because we work 24 hours a day looking after your money! The real answer is we used the number of the street our office is on Cornhill!

Why should investors continue to hold bonds given the recovering economy? Will interest rates be increased soon?

Fixed interest is a very diverse asset class. At different points in an economic cycle some parts of fixed interest will perform better than others. However they rarely all perform negatively at the same time, so by moving risks to the changing environments, fixed interest should be able to fulfil its important roles – to provide a good level of income, stability and a positive total return.

At the moment for example we are recommending that investors avoid interest rate risk and focus their holdings in credit (lending to companies) which should continue to perform well as the economy improves. Our own view is that rates will eventually increase in the UK in the first half of 2015, however investors need to act well in advance.

Inflation has come down below the Bank of England’s target for the first time in years. In your opinion, is it likely to stay there? How would you invest to combat rising inflation?

Our view is that inflation could stay low for quite some time in the UK. The primary tool for managing inflation is interest rate policy, so our positioning for inflation is very similar to our positioning for interest rates.

Many funds are finding that when funds get too big they become more difficult to manage. Is this an issue for you?

Yes this is definitely an issue. Liquidity in bond markets does limit how much can be invested in any given opportunity, particularly in credit. Therefore to be genuinely unconstrained, funds have an optimum size, beyond which performance is likely to be affected. Our Dynamic Bond Fund for instance, is still relatively small at £260m, but I don’t think we could continue to deliver the same outperformance if it was £1bn in size, consequently we would want to protect the performance for our clients and soft close the fund before performance is compromised.

What does your typical week involve?

Typically I leave home around 6am for my commute from Sussex. The first part of my routine rarely changes, which is getting up to speed with the markets and overnight news flow. We then have a market meeting at 7.30am to exchange views.

As the CEO my job is quite varied. Lunch tends to be on the desk, but to compensate for that I do try and get to the gym 2 or 3 times a week. By 5pm trading has typically finished, so in the absence of any meetings, on a good day I am usually on a train back home at around 6pm and home by 7.30pm.

And finally …

What’s the last film you watched?

I rarely get to choose what we watch at home, but over the half term week we managed to watch the entire Harry Potter series (again)!

What’s on your IPod or car stereo?

I have all sorts on my iPod, but The Who would be one of my favourites.

What are you currently reading?

My favourite non business author is crime writer Peter James. Most of his thrillers are set in Sussex.

What are your plans for the weekend?

Mainly running around after my three boys, but I will be going to support my local football team on Saturday, Brighton and Hove Albion.

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Our view is that inflation could stay low for quite some time in the UK.

Precious Metals Change Their Qualities

Gold and silver lose their lustre but palladium sparkles.

By Tim Cooper

Many investors wonder whether they should have gold or other precious metals in their portfolios. But these metals are controversial investments – especially in the case of gold.

Some view gold as a safe haven and protection against inflation. Others think it is a highly volatile gamble.

Gold did act as a useful diversifier for equities and other assets following the credit crunch, when intense demand sent prices rocketing. Since then, demand for the metal as an investment – rather than for example, for use in jewellery - has become a much more powerful factor affecting its price. This effect appeared to be confirmed when the gold price made a sustained fall of 27.5% last year, while equities recovered strongly.

Some argue that we should not forget fundamental demand for physical gold - as this rises in places like China, it could play a secondary role in boosting the gold price. Others say this kind of demand has an insignificant effect on the price these days.

While the gold price recovered slightly in the first two months of 2014, this rally was supressed by the wide range of positive global economic data. At the time of writing, the broad sentiment was that growth indicators were still good and therefore still negative for gold.

Adverse events such as a deepening of the emerging market crises; or a tightening of monetary policy in major economies could, of course, tilt sentiment in favour of gold once again.

Palladium holds its own

Other precious metals such as silver, platinum and palladium may be able to perform a different role in investment portfolios, as they have greater fundamental demand for use in areas such as manufacturing. So while gold is not a good way to benefit from the economic recovery, these metals could be.

For example both platinum and palladium are used in motor appliances such as catalytic converters. The current rising demand for new cars in countries such as China and US should therefore be positive for these metals. Platinum is of course used in jewellery as well. Silver also has several technological uses such as in cell phones or solar panels.

However, all these metals' prices rose steadily following the credit crunch suggesting that they may have been used to an extent as a safe haven.

The silver price over the last five years have in fact closely mirrored that of gold, suggesting that demand for the metal as an investment hedge has come to dominate other factors as it has with gold.

Meanwhile the price of platinum also rose steadily between 2009 and 2011, but quickly fell back after that and has stayed at a similar level since.

Palladium has performed the best of all four. It too rose steeply after the financial crisis but has maintained a level close to the high it reached in 2011. Furthermore, palladium is the only precious metal that performed well in the six months to March 2014 and that has maintained its position over the previous 12 months.

In conclusion, precious metals make for volatile investments whose price is affected by a wide range of factors. As with all other specialist asset classes, they require a high level of knowledge to assess effectively.

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The gold price made a sustained fall of 27.5% last year, while equities recovered strongly.

Pension Reforms - More Radical Change Could Follow

The radical changes in the budget create great opportunities. But their unintended consequences will likely lead to even more radical reform.

By Colin Lawson

The pension reforms announced in the latest budget are ground breaking. The new rules open up considerable opportunities and create some unintended consequences. Even more radical reform may be needed after the consultation period ends in June this year.

A sweeping change

Everyone in a defined contribution pension scheme who has reached the minimum pension age of 55 will now be able to take as much as they want from their pension plan.

They can, if they want, withdraw the whole fund in just one year. The first 25% of this will still be tax free and the balance will be taxable at the individual's highest marginal rate in that year. This is a paradigm shift in thinking as until now the government and The Pensions Regulator have insisted that pensions are to provide an income in retirement. As such, the amount of income you have been able to take has been limited to sensible levels.

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> The government would be foolish not to introduce new restrictions. But it has been foolish in the past and may well be foolish in the future.

We are now trusting people to make responsible decisions about their own money. While this is admirable, I'm not the only person who thinks that large portions of the population will blow their pension fund in the first few years of retirement.

The Treasury seems to think so too.

Perhaps the reason for its apparent generosity is the predicted £3 billion of extra tax revenues between 2015 and 2018 that could be generated by the vast numbers of people who are expected to exercise their new found freedom to spend.

It will be interesting to see how this moral debate develops.

The opportunities

Here are a few case studies assessing the impact.

John the IT specialist

John has just turned 55 and is currently earning £40,000 a year. He now has the opportunity to pay £40,000 into his pension and take it all back out the next day.

He will receive full tax relief on his contributions but when he takes the money back out, he will only pay tax on 75% of it, as 25% is tax free.

Because of the way tax relief works, this increases his net "income" by £2,000. This is because he receives tax relief on the pension contribution that he will be taking out as tax free cash.

A £32,000 net pension contribution turns into a gross pension contribution of £40,000. 25% of this is taken tax free which equates to £10,000. The tax free cash amount was generated from a pension contribution of (£32,000 x 25% = £8,000), the difference of £2,000.

John can do this every year. He can even do it monthly by making a pension payment and taking a matching pension income in the same month. There is no drawback apart from the fact that John is using up some of his £1.25 million personal allowance but, unless he is close to the limit, this will not affect him.

Peter the IT manager

John's boss is aged 58 and is earning £80,000 a year. He also now has the opportunity to pay in £40,000 to eliminate his higher rate tax and then, just like John, have 25% of this paid to him tax free. Again, the calculations are complex but the effect is an increase to his net income by £4,000. This is because Peter will receive higher rate tax relief on his pension contribution that he will be taking out as tax free cash. The tax free cash of £10,000 will have cost £6,000 (£24,000 net pension contribution after higher rate tax relief x 25% = £6,000)

If Peter didn't need all this income, he could take just the tax free element of £10,000. He would be down on his net earnings but will have £30,000 extra in his pension pot which he can take whenever he wants.

The benefits don't need to stop there. As John and Peter work for a small company, they can ask their boss if they can sacrifice a portion of their salary in exchange for an employer funded pension contribution. This saves the employee and the employer the national insurance contributions on the salary, which is used to boost the amount paid into the pension.

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> If you are considering a transfer out of a final salary scheme, I would explore the options now.

Peter's wife

Peter's wife is also 58. She previously worked part time and has not contributed into a pension. She is no longer working, but is still able to pay £3,600 a year into a private pension scheme which will only cost her £2,880 due to basic rate tax relief.

Her income from savings is below the £10,000 personal allowance and so she can withdraw the £3,600 straight away and pay no tax - leaving her £720 better off immediately. She can do this every year.

Benefits and unintended consequences

So far, our three individuals are £6,720 better off every year. I don't think this was what the Chancellor George Osborne had in mind with the reforms and more radical reform will be needed.

The first unintended consequence that the reforms could have is the impact that a fall in the sale of annuities could have on the investment market.

Insurance companies that provide annuities invest the money in long-term corporate bonds and gilts in order to match assets with liabilities. The annuity market is worth around £11 billion a year and therefore the impact of a large reduction in purchases could cause a severe drop in bond prices. This money is likely to flow into the stock market, which could slowly but steadily drive up stock market values.

The second unintended consequence is that individuals in final salary schemes are likely to be tempted to transfer out in order to "unlock" the value that has been accumulated. Whilst the decision is complex, there is a temptation that individuals will simplify it to a prize winning question - "would you prefer £30,000 a year for life or £1 million today?" Given that choice, I would suggest most people would opt for the £1 million.

We could see huge numbers of transfers out of final salary schemes and this could also impact on investment markets as the bulk of final salary schemes also invest in corporate bonds and gilts. There could be mass sales in this sector and again this could lead to billons pouring into equities.

Consultation period

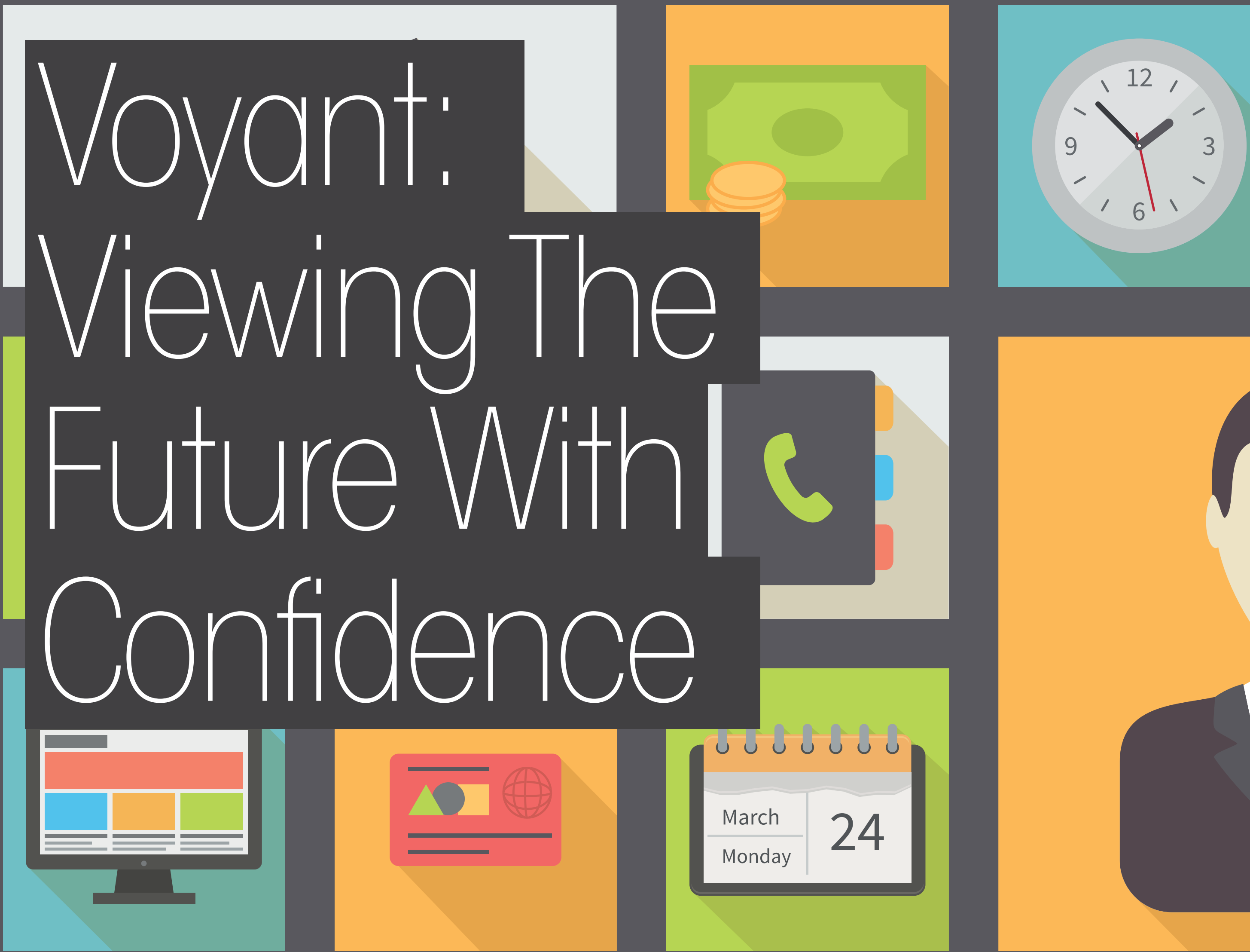
There are three things that the Government could do to at least partially address these issues:

1. abolish the 25% tax free cash option for new contributions
2. only allow pension contributions if you have equivalent earnings, in other words scrap the £3,600 allowance for those who pay no tax
3. cease to allow transfers out of final salary schemes.

The government would be foolish not to introduce new restrictions. But it has been foolish in the past and may well be foolish in the future.

I would however be reluctant to give clients advice until the consultation period has ended and the details are clear. The exception to this is that if you are considering a transfer out of a final salary scheme, I would explore the options now, before the drawbridge is raised.

Voyant: Viewing The Future With Confidence



Cashflow planning system helps bring financial plans to life.

Voyant is a cashflow planning system that can play a key part in a client understanding their financial future. In the hands of skilled advisers, and in close collaboration with clients, Voyant is a powerful tool. It helps bring financial plans to life in a clear and visually engaging way.

Voyant presents complicated financial planning calculations in a way that is easy to understand and to access. It enables financial advisers to help clients plan their future cashflow by forecasting income, expenses, assets and liabilities, taking a wide range of other variables into account.

The system can determine how to invest assets based on current circumstances, financial goals and attitude to risk.

Voyant's tax planning capabilities can help advisers develop a strategy to minimise tax payments while complying with relevant legislation. The system's award-winning estate and inheritance tax module can show how to maximise the value of estates by reducing taxes and other expenses.

Voyant can create reports in PDF, Excel and Word. It is also a highly collaborative system and supports secure sharing of information. It even allows clients to adjust variables themselves at any time to model outcomes.

This is just a small snapshot of what the system can do.

> Most importantly, Voyant shows that - accounting for all your concerns - your plan will provide enough income throughout your life.

How it works

A financial planners' primary role is to create personalised plans, taking account of the client's circumstances, aspirations and concerns. A robust financial plan brings the confidence to make better financial decisions.

Creating this plan is a complex task and takes account of many factors - including outgoings, capital replacements and changes in circumstances. It is further complicated by wider uncertainties, such as inflation and investment returns.

Voyant creates an interactive plan that accounts for all these factors. It helps make the future tangible by plotting your direction. The system enables advisers to discuss cashflow projections with clients and change any variables that they choose.

For example, what if you want a new car; to travel the world; or help pay for your grandchild's education? What if you are concerned about the cost of long term care, or if one partner predeceases another? Those variables can be changed easily in Voyant to show the effect on income, expenditure and capital.

In this way the system creates a realistic and personalised plan. Most importantly, Voyant shows that - accounting for all your concerns - your plan will provide enough income throughout your life. It thus gives you the confidence to spend as you need, safe in the knowledge that your financial future is secure.

Case studies

Voyant in action

1 Safe Gift Giving

A couple from North Wales were concerned about their potential inheritance tax liability. They wanted to make gifts to their children to avoid this without jeopardising their own financial security, particularly if they were to cover potential long-term care costs in the future.

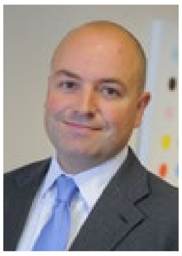
Using Voyant they could see that gifts of £200,000 could be made in the next three to four years, mitigating the inheritance tax liability while leaving sufficient funds to cover living expenses and care costs if required. Voyant showed that an annual 5% return on their investments would support this. The gifts meant that their children could afford a deposit to buy their first home.

2 Informed Retirement Choice

A gentleman from Cheshire had recently completed a consultancy role. He considered retiring completely, but was concerned that he had insufficient assets to support his standard of living.

Voyant demonstrated that he could afford to retire as long as expenditure was no more than £2,000 a month and that pension investment returns were above 6.5%. He felt this was insufficient income, particularly as he had children who were still financially dependent.
So he took another role for two years, bridging the income shortfall until his state pension started. Voyant had facilitated an informed decision.

voyant



Dan Wright
Chief Operating Officer
North Edge Capital LLP

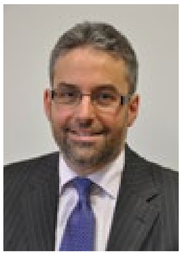
NORTH EDGE

NorthEdge Capital, which operates from Manchester and Leeds, has over 100 years' experience in structuring and financing private equity transactions focusing exclusively on Northern-based companies seeking equity investment.

"The emphasis on manufacturing in this year's Budget announcement will prove a boost for the North. Britain, and more specifically the North, is home to some of the world's leading export-led manufacturers, like Fine Industries that NorthEdge backed with a £26m investment in late 2013. The economic contribution of the Northern manufacturing, and specifically export, sector is significant and this Budget has provided a stable and competitive tax platform, some growth stimulus and some rare examples of regulatory roll-back.

Furthermore, with the North contributing over £60bn in exports last year from hubs from Liverpool to Newcastle, the scheme to double the finance available to exporters will help our cities expand their sales penetration in overseas markets and grow the regional economy. Businesses, particularly SMEs, will also benefit from the doubling of the Annual Investment Allowance, with increased access to private funding, such as that provided by NorthEdge, promoting additional investment in dynamic clusters like MediaCity and Airport City in Manchester.

This Budget is a welcome step in the right direction in providing the North and its' manufacturing powerhouses with the support they require."



Colin Abrahams
Partner
CLB Coopers

CLB coopers Chartered Accountants

The importance of the penultimate Budget before a General Election cannot be underestimated. It is the time to engender a 'feel-good' factor with voters rather than just before an election when any giveaways may be viewed with scepticism.

George Osborne therefore delivered a 'smart' Budget with wide appeal. Specifics included:

- further encouragement to UK manufacturing by way of enhanced accelerated capital allowances to help address the Achilles heel in our economic recovery, that of weak production;
- hope for savers with various measures focused on improving returns to halt the erosion of the 'real' value of capital;
- optimism for pension stakeholders by providing greater flexibility in the use of pension pots;
- a further nail in the coffin of the productised tax avoidance industry.

The latter point is a popular message to play to the tax paying public. Targeting 'high risk' scheme promoters and the new 'pay first, argue later' approach swings the pendulum firmly in favour of HMRC, leading to significant acceleration in the collection of tax revenues.

Less welcome is HRMC's introduction of measures allowing them access to our bank accounts to claim unpaid tax.

Another disappointment was the introduction of new rules aimed primarily at Limited Liability Partnerships. Consequently, certain members of LLP's will now be treated as employees rather than self-employed, resulting in a significant adverse tax impact. A House of Lords Finance Bill sub-committee had recommended these changes be postponed for twelve months – to no avail!

Overall though, 8 out of 10 for the 2014 Budget. Well done George!

An Enterprising Budget

John Ashcroft
Economist & Chief Executive
Pro Manchester

pro·manchester
BRINGING BUSINESS TO PROFESSIONALS

This was a budget for the makers, the doers and the savers but above all a budget for the voters, in a country which does not invest enough, export enough or save enough apparently. With just over twelve months to go to the election, the Chancellor could not have hoped for a better economic backdrop with which to revisit the polling stations in May next year.

Growth is up, inflation down, employment up, borrowing down, investment up, just the trade figures will continue to disappoint, as the structural deficit trade in goods will continue to provide a drain on net trade.

The biggest giveaway was certainty for savers with a new composite ISA for cash and shares, new higher yielding pensioner bond, yielding 4% on a three year investment. The end to the iniquity of the forced purchase annuity and an end to caps and drawdown limits on pensions will have a far reaching impact. People will have the right to access their own savings at a time of their own choosing and best of all, the abolition of the 10 pence tax rate for savers altogether. It is a vote winner for hitherto disillusioned pensioners.

The Chancellor claims this is a budget for the makers, the doers and the savers. Above all the savers appear to have done remarkably well, the makers and the doers, less so. Above all it is a clever budget for the electorate.

This is a budget which will do little harm to the economy but a great deal for Tory spirits and voters in this critical pre-election phase.

It is a budget which should be commended to the House but above all to the Tory back benchers, particularly MPs and prospective candidates in marginal seats.

Ruth Shearn
Managing Director
RMS PR

RMS
pr design marketing web

Ruth Shearn, managing director of Altrincham-based PR agency RMS PR, believes the Budget has promise - the green shoots of economic recovery are returning, but George Osborne's measures for businesses simply didn't go far enough.

"Hats off to George Osborne, his Budget generated a mostly positive response – but there's still much to be done where businesses are concerned. Economic growth must support businesses as well as temporary customer spending. His focus on savers and the 'hard-working' British public was certainly a people pleaser but we mustn't forget what forms the backbone of our country's economy – small and medium sized businesses. The doubling of the Annual Investment Allowance (AIA) and extension until December 2015 is welcomed by many businesses. These types of allowances allow companies to invest with greater confidence – something which is essential to the UK economy.

"I'm interested to see what's going to happen with pensions; the potential to drawdown your pension pot upon retirement is going to change the way many people save for the future. With the idea of a lump sum of money available once you retire, will workers now be less careful about saving for the future?

"Overall, a promising Budget, however in my opinion there is still more to be done for UK SMEs, the key to the UK's long-term economic prosperity. Many of the measures highlighted for businesses are temporary solutions, and I'm concerned they won't be enough to encourage the business investment this country needs."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Regions Hold Key To Unlocking Property Investment Value

The local property markets offer some of the best investment opportunities, according to research from Savills.

The international real estate adviser, which has offices in Manchester, Wilmslow, Chester and Liverpool, forecasts a broad-based recovery for the property markets this year, with increasing investor interest in regional hubs such as Manchester. Savills also predicts increased attention for investment into the commercial, residential and rural property sectors from both domestic and non-domestic buyers.

For the commercial and residential real estate markets, the growth story will no longer just be about London and the South-East, with business and consumer confidence rippling outwards to prime regional locations.

Peter Mallinder, investment director at Savills Manchester, comments: "Equity rich buyers will continue to dominate the property market during 2014, but growing confidence in the stronger prime regional centres is likely to encourage more debt-funded investment.

"This will be the year that commercial property investors rediscover the regions and the appeal of the secondary asset."

Top performing property assets growth forecasts for 2014:

The top areas to invest this year include:

Commercial

- The top seven regional city office markets of Edinburgh, Glasgow, Manchester, Birmingham, Bristol, Leeds and Cardiff, where falling vacancies, recovering tenant demand and a lack of development activity will drive a rental recovery from 2014.
- Large sheds and local hubs – continued growth of internet retailing and delivery will drive demand for large warehouses. Challenge of last mile delivery will drive interest in local hubs.
- Prime London offices and retail offer the best prospects for double-digit rental growth this year, with the West End remaining heavily undersupplied and City yields looking attractive. Top retail picks are luxury fringes including the streets off Bond Street, Crossrail nodes and new office locations.

Residential

- London and the South East will continue to offer the highest capital growth prospects, but in straight residential investment terms the regional cities - particularly those in the North - offer the greatest income yield potential.

Mark Holden, head of residential at Savills Wilmslow, comments: "There is likely to be a greater emphasis on residential property as an investment class, largely underpinned by growing demand for rental accommodation and the growth of the private rented sector. There will be increased focus on income returns, despite short term projects for house price growth."

He adds: "Headline house price growth figures are always good for homeowners to read, however in the last five years the local prime homes market has decreased by -7.1%. Our market is also dependent on demand from wealth generated in the local economy, with the ripple effect from London taking longer to arrive. Then there is the assumption that no further changes will occur to the taxation of high value property."

Charlie Kannreuther, residential director at Savills Chester adds: "That said, our research shows that 76% of our Cheshire buyers are upsizing, showing that people have the confidence to invest now in their dream 'forever' home. The general confidence that the market has bottomed out, coupled with a buoyant rental market, also provides an appealing mix to expats, who we're seeing more of in the last few months. Other reasons for their interest include the continued favourable exchange rate, political unrest abroad and worries over changing tax laws in certain European countries. This all shows a real confidence returning to the Cheshire housing market, though we do not think it signals the start of a housing bubble in the region, but simply a return to more normal transaction levels. In 2012 there were half the number of transactions of 2007. Prices are still at least 10% below peak levels and pricing to reflect this will remain a key factor for owners looking to sell."

> For investors looking to park equity, farmland is the asset of choice

Agricultural

- Large commercial arable farms which tend to be located in the East will continue to benefit from a flight to quality, with buyers focusing on cropping flexibility and yield.
- Quality rural estates – signs of an economic recovery will encourage lifestyle buyers for estates which have a diverse property portfolio offering income potential unaffected by commodity price volatility.
- Residential farms – forecast improvements to the country residential market may offer some opportunities, but location and quality will remain key.

"The success story of agricultural land, which has increased in value by 270% over the past decade, is set to continue with five-year growth of 47% forecast. For investors looking to park equity, farmland is the asset of choice," says Ian Bailey, head of Savills Rural Research.

savills

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Is The Independent Label Meaningless?

Big picture view and chartered status become best ways for advisers to stand out.

By Tim Cooper

Last year, the financial regulator introduced a distinction between financial advisory firms that are 'independent' - in that they choose investment products from the 'whole of the market' - and those that use a 'restricted' range. However, after a long discourse with the advisory profession, the regulator admitted recently that further guidance on what constitutes independent advice would be helpful.

Many feel there have been confusing or even contradictory messages in the regulator's pronouncements on what constitutes ‘independent’. The labelling has become so unclear that a swathe of advisers, including Equilibrium, have taken the safer option of becoming restricted in regulatory terms.

However we still offer a bigger picture view of clients' finances and adhere to the highest standards of professionalism. So has the distinction between independent and restricted become meaningless?

Professional & trustworthy

The regulator has expressed its scepticism that an advisory firm would be independent if it only used one investment platform.

Equilibrium tends to use one of two investment platforms for clients. We don't scour the whole market for platforms for every new client, as that would be inefficient and not helpful to the client or to the firm.

We chose both the investment platforms that we use carefully and review them and the wider platform market regularly. Both platforms allow us to select investments from the whole of the market, without limitation. If a platform is not appropriate, we may also recommend an off-platform investment solution, which would also be from a whole of market position.

Equilibrium also refers some work, such as enhanced annuities, to other specialists, which could be interpreted as not providing 'whole of market' advice. But we are specialists. We refer anything we are not specialist in to someone who is. This ensures that clients get the best service to meet their requirements.

A large number of Equilibrium's advisers and support staff have chartered status, helping to ensure the highest quality of individual advice. We have also just applied for chartered status for the whole firm. We always take a wide view of your finances, to help give you the confidence to achieve your life goals.

These are now the most important ways for advisers to stand out as professional and trustworthy.

Butcher & Caterer Synergise Services

Owning both The Butchers in Hale and caterer "For One Night Only" helps Paul Allman provide a uniquely joined-up offering.

Paul Allman has been passionate about cooking and catering ever since he was a boy. He has now been in the business for 25 years and is the owner of two successful, local businesses - The Butchers in Hale and caterer "For One Night Only".

Allman studied catering at college but was also taught to butcher in his family's business. Five years ago, he branched out on his own to set up The Butchers, which specialises in local, free-range produce and is unashamedly traditional.

Allman says: 'The way I look after my meat - dry-age, hang correctly for the right length of time and then butcher it - is all done to old-fashioned standards. It is the best and the only way.'

Originality & Choice

"For One Night Only" caters for all palates and budgets - from formal parties to barbeques and spit roasts. It also specialises in exclusive, bespoke dinner parties, before which Allman typically meets clients at their home to discuss their requirements and create a menu.

'We take over the kitchen, prepare and serve everything,' he says. 'We can even help provide entertainment and child care. We usually leave everything cleaner than we found it and slip away as clients are enjoying their coffee at the end of the evening. It is a very discreet service. If you invite friends for dinner, you don't want to be stuck in the kitchen. Our clients just have to sit back and enjoy it.'

Clients particularly like the originality and freedom of choice, he says. 'Whatever the customer wants, we provide it. If they wanted foie gras to start, beans on toast for main, followed by rhubarb and custard, we would give them the most amazing version of each course.'

Guidance & Creativity

Running two closely-related businesses creates fantastic synergies on both sides, says Allman.

'We give The Butchers customers lots of guidance and creative ideas. Anyone can put meat on shelves in a supermarket, but can they tell you the traceability and how to cook it? The better quality of meat from an independent butcher speaks for itself.'

"For One Night Only" clients are also often interested in the provenance of ingredients in his dishes, and in how the meat is reared – 'I can provide all that information,' says Allman.

Both businesses have a fun side too. 'We have had some fantastic times,' he says cheerfully. 'My living is also my passion. I put my heart and soul into it. Clients get a great service and get spoilt because of that. I love food, and pleasing people, so it is my ideal occupation.'

"

Anyone can put meat on shelves in a supermarket, but can they tell you the traceability and how to cook it?

The Butchers is at
34 Park Road, Hale WA15 9NN.

For enquiries about The Butchers or "For One Night Only" call **0161 928 8365**.

Seminars Help Educate Clients

Equilibrium is well known for its varied educational seminars. These are held 15 times a year across three different venues with over 1000 guests attending annually. Financial journalist Tim Cooper talks to Equilibrium Managing Partner Colin Lawson to find out more.

Why did you start running seminars? Describe the first one you did.

I realised that shopping around for good advice was traumatic. We wanted our seminars to be our shop window, allowing people to browse our services in a relaxed environment while learning about investments and the industry.

The first one was in 1997. It was entitled 'Live well and leave a legacy' and we still run a developed version of that.

> "If you know your topic, believe in the message and are passionate about what you do, you should never need notes

How has the seminar concept evolved?

The early ones were more focussed on promotion. Now we make them more educational and invite existing clients as well. It works well because potential clients get to meet existing clients in an informal environment.

We now have a variety of topics that are updated constantly [see box] and hold seminars at Adlington, Chester and Knutsford.

What do people get from attending? Is it true some people come just for the free lunch?

They get:

Facts - financial and investment markets are constantly changing. Keeping up to date is a struggle.

Opinion - our views on where markets are at.

Insight into the culture - the seminars show that we are expert, friendly, trustworthy.

There are always one or two who come for a delicious lunch and a lovely, sociable day out that allows them to meet like-minded people.

Which is your favourite topic and why?

'The Crash, The Recovery, Our Outlook' has been fascinating to put together and well received by the audience. Writing it has helped us shape our views.

There has never been a better time to invest. Interest rates will stay low. Confidence will keep growing. However, I can foresee another asset bubble in six or seven years.

What is the biggest challenge in running seminars?

Seminars run February to May and in September and October. So our team runs nearly one a week during those times, which is a logistical test. The other challenge is to take a complex subject and make it interesting, informative and entertaining for investors of all levels.

You have presented at over 100 seminars. What was your most embarrassing moment?

Someone forgot to plug the laptop in and halfway through the screen went blank. I had no notes but luckily knew my stuff and continued talking for five minutes until power was restored. That was our only hiccup in over 15 years.

You present for an hour and a half with no notes. How do you remember it all?

If you know your topic, believe in the message and are passionate about what you do, you should never need notes.

Do you have any new topics in the pipeline?

Always. With all the pensions changes, we are looking at producing a seminar around drawing retirement income and all the options available. I would also like to do a series of workshops for wealthier, more knowledgeable investors on specialised topics. Plus we are looking at adding additional dates for the summer; morning and evening seminars; and shorter presentations for those who are working.

Equilibrium Seminar Topics

Investing for Income
Creating an investment strategy to provide a sustainable income while maintaining capital.

Protecting Your Estate
Ensure your heirs benefit from your estate, while retaining confidence in your financial future.

The Crash, The Recovery, Our Outlook
Lessons from the past and the financial issues that may affect you in future.

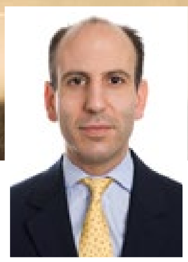
Successful Lifetime Investing
How to assess future needs, including retirement income, and meet them.

Live Well & Leave a Legacy
Converting modest capital into a fortune for you and future generations.

For dates and more information on our seminars please visit **www.eqllp.co.uk**

Views From The Frontline

In this section, we ask the managers from some of our favoured funds in each asset class to comment on markets and give us their outlook for the future.



Fixed Interest

Ariel Bezalel

Jupiter Strategic Bond

In the Nixon era, the US Treasury Secretary John Connelly famously said "the dollar is our currency, but your problem". Back then he was rebutting the concerns of European officials. Now, the US Federal Reserve's (Fed) commitment to tapering quantitative easing at the risk of weakening already fragile emerging market economies echoes this sentiment. However, unless weakness in these markets start to hurt US growth, it is unlikely the Fed will alter course.

No one can predict how deep the current problems will become in emerging markets, especially in light of recent political turmoil in Ukraine. However, should current market concerns prove too pessimistic, we believe yields of US Treasury bonds could drift higher in the second half of the year as the US economy continues to heal.

While the prospect of rising rates poses challenges for bond investors, taking an unconstrained "go-anywhere" approach gives us the potential to face a more difficult policy backdrop well. We are particularly attracted to high yield corporate bonds in Europe where interest rates are low and companies are focused on improving their balance sheets.

Given the outlook for US interest rates, we do not expect high yield bonds to gain in capital value much this year. However, investors have been benefiting from very healthy coupon payments from these bonds. We also have taken steps to help insulate the Fund against the prospect of a rise in yields by holding a portion of floating rate notes (where coupon payments change with interest rates) and a large hedge in US Treasury bonds.

Property

Nigel Chapman

Fund Manager, Standard Life UK Property

The UK economy's recovery is becoming more firmly entrenched and provided that the economy continues to strengthen, UK real estate is poised to reap the benefits.

Business confidence is improving and companies are beginning to act more opportunistically, relocating because of business expansion rather than simply due to lease expiration. In turn, this should lead to increased upward pressure on rents and capital growth.

Investors have identified this trend and have positioned themselves to take advantage of this positive momentum, as evidenced by the increasing weight of capital targeting the UK real estate sector.

In an environment of improving confidence, upward pressure on rents, improvements on capital growth and a reduction in void rates, we are optimistic on UK real estate. Our confidence also comes from the strong yields available when compared to other asset classes and the constrained pipeline of future new developments.

We prefer major cities such as London along with large regional shopping centres and expect that income will be the main component of returns in 2014.

Equilibrium View

Whilst we believe fixed interest returns are likely to be lower than normal over the next 18 months or so, ultra flexible funds such as this from Jupiter still have the opportunity to make decent returns for clients.

More importantly, they are also able to hedge the risk of rising yields (which means falling capital values) as a result of expected increases to interest rates and reduced quantitative easing.

Equilibrium View

We are very positive about the prospects for UK commercial property. The second half of 2013 saw particularly good returns in this asset class and we are optimistic this will continue through much of 2014.

We have been steadily topping up property throughout the past 12 months and the Standard Life fund is our latest purchase. Good fund management is important in this asset class to select the right type of building and achieve the optimal rental income.

Alternative Equity

David Millar

Head of Multi Asset & Fund Manager, Invesco Perpetual Global Targeted Return Strategies

Multi asset investing aims to ensure exposure to the right asset type and region at the right time. However, currently a number of the traditional ways of assessing which financial markets to have exposure to are absent. For example in the past, interest rates provided a fairly reliable trigger for timing the switch between equities and bonds.

Extraordinary stimulus by policy makers has meant that these economic drivers are having a different effect on markets. We believe that interest rates will remain low for an extended period of time but the reduction or "tapering" of quantitative easing is likely to continue over the next couple of years.

If tapering continues at a time when growth metrics start to stabilise and improve then this could have the same effect as when interest rates have risen in the past – equities should outperform fixed income investments. But if tapering continues whilst growth looks vulnerable, when to make that switch is not quite as obvious.

At the moment, bonds are not providing the level of diversification they once did because they are displaying correlation with equity markets. But some currencies are negatively correlated with equities and are, at least for now, taking up the diversification baton.

Another strategy to use when markets are directionally challenging is to take conditional views within asset classes. For example we can go long one equity market and short another. All of this economic uncertainty provides an interesting backdrop for investing. Achieving genuine diversification in these markets is a challenge for all investors.

Equilibrium View

The Invesco Global Targeted Return Strategies fund aims to provide equity like returns over the long term with much lower volatility. They do so by combining different strategies and ideas together with the aim of producing consistent, "absolute returns".

David and his team were formally instrumental in the Standard Life Global Absolute Return Strategies fund. This Invesco fund was launched last year and we had sufficient confidence in the team to switch away from Standard Life soon after launch.

Equity

Gervais Williams

Chief Executive & Fund Manager, Miton UK Multi Cap Income

UK equities in general had a strong 2013. What is really interesting however was the variance in returns from different areas of the market. The largest companies as represented by the FTSE 100 Index returned a very respectable 18.7% but it was the smaller end of the market that really powered returns with the FTSE Small Cap Index (ex ITs) returning 43.9%.

We believe there is a fundamental shift in investment trends which is increasing interest in the smaller end of the market.

One of these is that as a consequence of the weak macro environment, smaller companies have the potential to grow regardless of this wider perspective. Many of these companies have strong balance sheets as a result of finding ways to grow without relying on credit. We are finding some incredibly robust companies which are under-researched. This enables stock pickers to invest in companies whose true value may not be reflected in their share price.

What many investors are asking, as we move into 2014, is whether this strong performance can be maintained. Whilst we can't predict future performance, we are greatly reassured that we are continuing to find unloved companies with compelling fundamentals. Clearly markets will zig and zag in the coming years, but fundamentally we believe we are at the start of a multi decade investment trend where small and micro cap companies will be the main beneficiaries.

Equilibrium View

We continue to back smaller company investing within the UK, and Gervais Williams has an enviable track record in this sector stretching back to the 1980s.

We feel the UK economy will continue its recovery which should continue to support smaller companies which tend to have more of a domestic focus than their large cap counterparts.

Investment Review:

Positive Returns Keep Coming

Most assets have performed well and many opportunities still exist.

By Mike Deverell

In the past few editions, I have written about positive returns for investors and pleasingly I am able to do the same this time.

In the last six months, positive returns have occurred despite some stock market volatility, but most equity markets ended the period in positive territory. However, as we often remind clients, investing is not just about the stock market. For example, property has had a phenomenal six months, with an annualised return of around 13%, and has been completely unaffected by equity volatility.

Global politics has had a huge impact on markets lately, from the situation in Ukraine to the actions of the US Federal Reserve. The fundamentals of investing - such as whether companies are increasing their profits or not - seems to have been forgotten temporarily.

In this section, we will explain more about how we see the investment world, how we have been able to turn difficult situations into profits for our investors, and outline what we have been doing with your portfolios over the past six months.

Looking back further over the five years since 6 April 2009, our balanced portfolio has returned over 10% a year, after all fees. We're determined to hold on to those gains and continue with positive returns. We can't promise 10% a year every year unfortunately, but we do believe that we can continue to hit the target returns of each portfolio over the next five years.

In the next few pages, we will explain how we think this can be achieved.

Here are a few other highlights:

- Our balanced portfolio doubled the return of the average discretionary portfolio and average managed fund with similar levels of risk over the past 12 months (8.03% versus 4.02%).
- The changes we have made to a balanced portfolio over 12 months have added around 2% to returns.
- 85% of the funds we hold in portfolios have equalled or outperformed their benchmarks since they were purchased. 50% of them have outperformed by 25% or more.

Six Monthly Review

All assets gain despite volatility

If we were to be purely invested in equity index tracking funds, we would have seen a very volatile six months.

Stock markets have remained highly sensitive to political events. On 4 October 2013, the date of the last edition of this magazine, the FTSE 100 closed at 6,453.

At close on 4 April, the FTSE 100 was at 6,695, 242 points and 3.75% higher. However, this does not illustrate the volatility. The FTSE has been as high as 6,865 on 24 February, only a couple of weeks after it had dipped down to 6,449 on 4 February.

Despite this volatility, our investors have seen decent profits in all asset classes over the period. For example:

- our balanced mix of equity funds was up 5.8%
- our alternative equity portfolio gained 7.89%
- our fixed interest portfolio was up 4.57%
- our property portfolio gained 6.3%.

Equity: active funds beat FTSE

The outperformance of our equity portfolio relative to the FTSE is pleasing.

In particular, all of the actively managed UK equity funds in our portfolios have beaten the FTSE over the past six months. For example, our poorest UK equity fund has returned 6.05% over six months and our best has returned 19.36% compared to 5.47% for the FTSE when you include the effect of dividends.

Some of this outperformance comes from our decision to invest in smaller companies in the UK. As the UK economy has recovered, smaller companies - which tend to be more exposed to domestic markets - have benefited.

Outside the UK, the US and European funds in our portfolios have also produced some excellent returns over this period. Unfortunately, our investments in Japan and emerging markets have not performed so well.

Political issues have had a very pronounced effect on emerging markets. In some ways it has been a perfect storm. For example:

- the situation in Ukraine, which caused the Russian market to drop over 11% in a day at one point
- signs of economic slowdown in China
- the signalling of the end of quantitative easing (QE) in the USA.

The first two points have an obvious impact. While it is difficult to predict what will happen in Ukraine, we believe it will settle down at some point as none of the parties want a conflict.

In China, there are whispers of a mini stimulus programme by the government, which may boost growth. More important is whether it delivers on reforms to introduce more competitiveness to China's economy.

The impact from the US 'tapering' of QE is more complicated. In effect, QE and ultra-low interest rates mean liquidity has been plentiful and borrowing cheap in the US. Meanwhile, higher rates in emerging markets and, in the case of China, a currency that has consistently risen, have led investors to borrow in the US and invest in emerging markets.

The withdrawal of stimulus has removed the benefits of this 'carry trade'. Investors have taken their money out of emerging markets, affecting currencies as well as stocks.

Currency movements have affected Japan to a lesser extent. Many investors have viewed the level of the yen versus the dollar as the key to Japanese equity markets. A weak yen is good, as exports become cheaper. A strong yen is bad. As the yen has stopped weakening over the past six months or more, the market has stopped rising, regardless of how well companies are doing.

> "Commercial property has seen some fantastic returns over the past six months.

We got our timing wrong on these investments in the short term, but we will explain later why we believe holding is the right decision.

We tend to beat ourselves up when investment decisions don't go to plan, but it is important to remember that it is the overall portfolio that matters. We always try to balance risk and potential reward. In riskier regions such as these, we do not take big positions. As a result, the performance of the funds in the UK, US and Europe have offset the value detracted from these positions.

Property and fixed interest deliver

While equities have been volatile, commercial property has seen some fantastic returns over the past six months.

There is a very strong correlation between economic growth and property returns. This is illustrated in the chart at the bottom of the page. The blue bars represent the monthly total return from the IPD UK Commercial Property index, and the black line is UK gross domestic product (GDP). You can see that the two follow each other closely over the longer term.

We felt returns would be strong for property because of the economic recovery in the UK, and because the level of rental income remains very high relative to low interest rates and bond yields. The IPD index still has a rental yield of well over 6% a year.

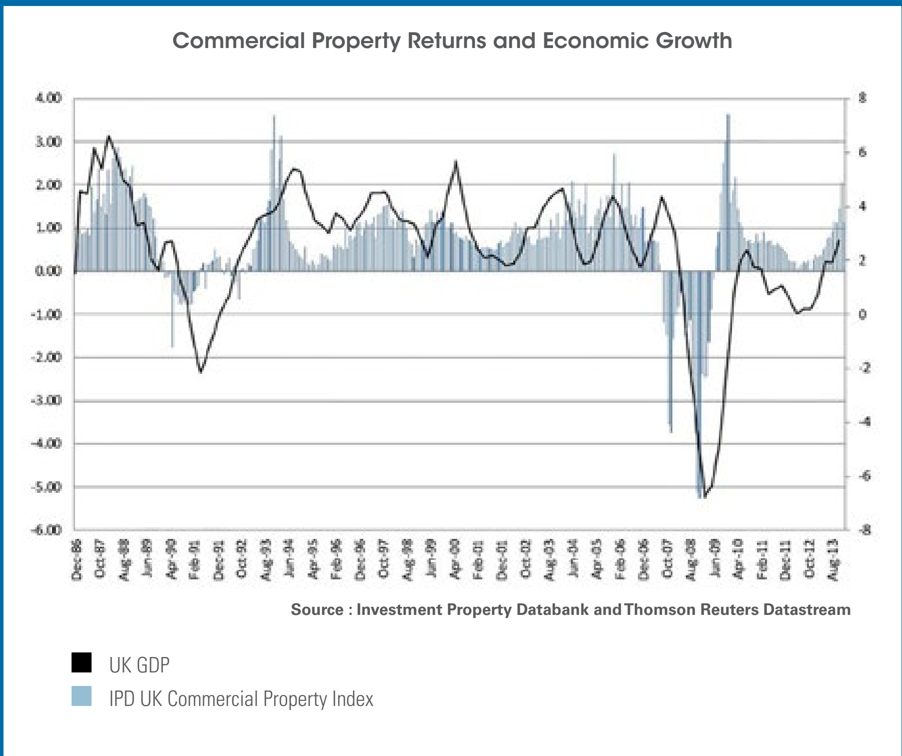
The withdrawal of QE has caused volatility in equity markets and impacted on bond markets. QE works by a central bank buying bonds, such as UK gilts, using digitally ‘printed’ money. This pushes up their prices. Withdrawal of QE means the withdrawal of a large buyer from the bond market, which could lead to falling prices.

Property has the attraction of being totally unaffected by tapering. Over the 6 months to 4 April 2014 our property portfolio has returned 6.33%, which works out at almost 13% annualised. This is a good return for an asset class that we normally expect to return 7% in a full 12 months.

This may slow down, but we believe returns will stay strong over the next six months at least.

Turning back to fixed interest, another generally negative factor is an increase in interest rates. While this is still some way off, markets are forward-looking so potential rate rises are already being factored into bond prices.

For that reason, we cut exposure to fixed interest and have also been careful to have very low sensitivity to interest rates in our fixed interest portfolio. This has worked well and our portfolio has made 5.67% in the 12 months to 4 April, only slightly below our long-term expectation of 6% a year.



Outlook:

Low Rates Set To Boost UK

QE may be ending, but more cheap borrowing will continue to help the economy stabilise. Equities should remain positive.

The Federal Reserve will continue to taper QE and will probably finish it by the end of the year. However, this is not the same as increasing interest rates which should be held down for some time.

In the UK, we think interest rates will not increase for the next 12 months at least. The Bank of England has stated that when it increases rates it will do so slowly. It said it will likely settle at 'materially below' the 5% level that rates had been at before the credit crunch.

'Materially below' is open to some interpretation, but in our view it means not much more than 2.5%.

In summary, we believe that borrowing costs will remain low even as the economy stabilises. This means that property markets, both residential and commercial, ought to remain strong even as rates slowly increase.

In addition, it means that companies should be able to borrow at cheap rates. Banks are now more willing to lend as balance sheets have strengthened and schemes like 'Funding for Lending' have made it more profitable for them.

Increases to interest rates mean higher yields on corporate bonds, which reflect the higher cost of borrowing. This means that existing bond prices have to fall. But if rates are only to increase by a limited amount, these falls ought also to be limited.

Most investments are partially valued relative to cash and to government bonds. If the rates on these are to remain low, this means that yields on commercial property and equity should remain at a large premium above gilt yields or rates on cash.

When we talk about equity, we often talk about the price/earnings (PE) ratio. This is calculated by dividing the price of a share by the earnings per share of the company. However, we can express this as a yield by instead dividing earnings by price. This would be your gross income yield, were all of a company's earnings paid out as a dividend.

The long-term average PE ratio on the UK market is around 14 and, at present, it trades at around 15 times earnings. This means it is above its long-term average.

> "Emerging markets face challenges but they remain cheap.

Expressing this another way, the UK market has an earnings yield of 6.6%, slightly below the long term average of 7.1%. However, interest rates are currently 0.5%, whereas prior to the credit crunch they were 5%, and much higher at times in the 1980s and 1990s. Relative to the returns you can get on cash, the 'risk premium' of the stock market still looks high.

We think that equity market returns should remain positive. While shares are no longer cheap in the UK, they are not generally expensive either. In addition, the economy appears to be stabilising and this should allow companies to continue to grow their earnings.

The same applies in the US, however shares are more expensive there and so earnings growth needs to be stronger in the US to justify further share price increases. This could well happen but we are more cautious now about the US than we have been.

Europe is similar but the economy there is more fragile. While this is to some extent already factored in to predicted earnings growth, we feel caution is required with respect to European markets.

Emerging markets face challenges but they remain cheap, based on company earnings, relative to the rest of the world and to their own history. When you buy equities, you ultimately buy companies, and it is how well the companies perform that should matter.

We believe a small change in conditions or sentiment could lead to a big turnaround, however we will monitor risks carefully.

Japan has underperformed. But, as with emerging markets, valuations look attractive and company earnings have been growing strongly. This has been aided by a cheap currency but also by domestic demand.

Along with positive valuations and growing earnings, other factors we look for in equity markets are an economy that is growing strongly or at least improving; and positive central bank policy. Japan ticks all of these boxes at present.

Japan is the only major region where monetary policy is getting looser, not tighter. The Bank of Japan is continuing with a massive amount of quantitative easing, unlike the US and UK. It is trying to create inflation in Japan, which has suffered from deflation for some time. If it succeeds, this should encourage spending and if the economy starts to grow more strongly as a result, so will Japanese shares.

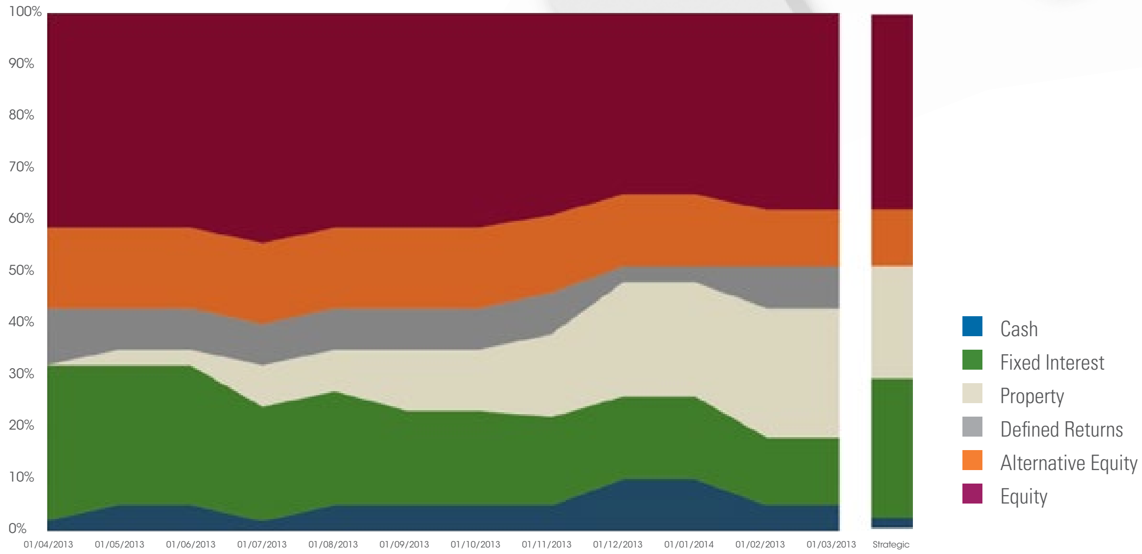
In the UK, the consumer price index (CPI) has come down and is now 1.7%, which is below the Bank of England's 2% target. However the retail price index (RPI), the other main measure of inflation, remains high at 2.7%. Low interest rates and a recovering economy could lead to this increasing in the future, but for now CPI below the target rate gives the Bank another excuse to keep rates low.

Asset Allocation

Over the past six months, we have continued to add to property. This has come partly through reductions in fixed interest and equity, although we subsequently topped up equity as markets fell.

The chart below shows the changes we have made to our balanced asset allocation over the past 12 months.

Balanced Portfolio Asset Allocation Changes



The bar on the right shows where we would have invested had all asset classes been expected to produce their 'normal' returns. This is known as our strategic position. We are now significantly underweight in fixed interest relative to our strategic allocation. We are 'neutral' equity and overweight property. This contrasts with the beginning of 2013 when we were overweight fixed interest and equity, and held no property.

The grey area is defined returns. These are 'structured products', which provide a return defined in advance. For example, our investors own a product from Barclays that will potentially mature in November and provide an 8% return should the FTSE 100 be above where it was in November last year (6,694). These products are a good way to play equity markets when we feel they are unlikely to rise strongly. A return is provided even if the market goes sideways.

The products are subject to the credit risk of the bank and there is also the potential for loss should the market be down over a six-year period. Please get in touch if you would like further details of how these products work.

At the end of 2013, having bought the Barclays product, we decided to hold off on any further purchases. At this time, we were offered a potential return of around 9% from Credit Suisse based on both the FTSE 100 and S&P 500 - when the FTSE was over 6,800 and the S&P over 1,850. Rates are usually higher for such 'dual index' products. We felt this was quite a high market level and too low a return for this level of risk.

When the marked dipped in late January and early February, we reconsidered and had a bespoke product created by Credit Suisse with a potential return of 11.5% a year, again based on both the FTSE 100 and the US S&P 500.

On 4 February, this product had a 'strike' of 6,449 for the FTSE and 1,755 for the S&P 500. We achieved a higher rate and a lower market price by waiting until then.

In addition, as markets dipped we increased equity by buying a FTSE All-Share index tracking fund, switching from alternative equity funds. We bought this in two tranches at an average FTSE 100 level of 6,577 and we will sell if markets get back to their previous highs.

Performance:

Portfolios On The Up

All three portfolios beat the typical managed fund with less risk.

Performance of the portfolios has continued to be positive.

Over six months, our balanced portfolio is up 4.77% after all fees and it is up 8.03% over 12 months. This is ahead of the average 7.6% return we expect from a balanced portfolio over the long term.

Our main objective with each portfolio is to achieve the target growth at the lowest possible risk. We do not 'benchmark' against other indices, but we are happy to be compared to appropriate industry measures. For example, our balanced portfolio can be compared to a typical managed fund with a similar risk profile or a typical balanced discretionary portfolio.

> "Our balanced portfolio has doubled the return of a typical managed fund and returned around two and a half times a typical balanced discretionary portfolio.

A typical managed fund (UT Mixed Investment 20%-60% shares sector) would have returned 4.02% over 12 months while the average discretionary portfolio (ARC Sterling Balanced Index) has returned 3.17%. This means our balanced portfolio has doubled the return of a typical managed fund and returned around two and a half times a typical balanced discretionary portfolio.

While all the core portfolios have made decent returns, there is a slight anomaly in that the most adventurous portfolio has underperformed.

Over the long-term, we normally expect the highest risk portfolio to outperform. In falling markets, the cautious portfolio should perform the best. It is unusual to see adventurous investments making smaller profits when markets have risen.

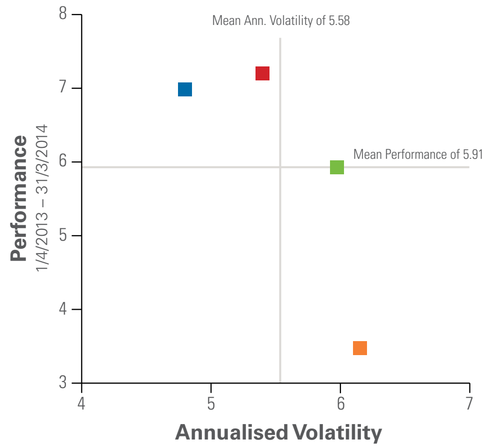
This is mainly because the adventurous portfolio has more exposure to overseas equities and particularly to emerging markets, which have underperformed.

However, when we look at risk and returns relative to a typical managed fund, this is put in perspective.

The chart below shows our cautious, balanced and adventurous portfolios relative to the mixed investment sector, for the 12 months to 31 March 2014. Each dot represents a portfolio and risk is shown along the bottom axis. The higher the risk, the further to the right. Returns are shown along the vertical axis and so the higher up the chart, the higher the returns.

We would normally expect a pattern from bottom left to top right, with lower risk portfolios seeing lower returns, higher risk bringing about higher returns. Over the past 12 months, the pattern has almost been reversed.

All three of our portfolios have outperformed the typical managed fund, and all three have taken less risk. The highest risk dot on the chart - the mixed investment sector - is the lowest returning:



		Performance %	Annualised Volatility
	Equilibrium Balanced Model	7.21	5.39
	Equilibrium Cautious Model	6.99	4.80
	Equilibrium Adventurous Model	5.93	5.97
	UT Mixed Investment 20%-60% Shares	3.49	6.15

Source : Powered by data from FE

This illustrates our philosophy, which is to achieve target returns at the lowest possible risk, rather than chase the highest possible return, which may lead to taking undue risks. We will try to maximise returns by taking advantage of opportunities when they arise, however we are often able to add value even while keeping risk down.

An example is adding property to the portfolio, which has boosted returns but also reduced volatility.

Added Value Leaves Clients 2% Better Off

75% of changes made have added value.

We are constantly monitoring our investment decisions to see what value is added, or otherwise, by the changes we make.

We won't get all our decisions right or our timing may be off. We want to ensure that we not only get more decisions right than wrong, but that we also add substantially more value in those correct decisions than we detract with the wrong ones.

Over the 12 months to 4 April 2014, we made 20 changes (or combination of changes) to a balanced portfolio. Of these, 15 (75%) have added value which is a reasonable hit rate over such a short period.

More importantly, the net effect of all these changes was to add around 2% of value. In other words, had we not made those changes clients would have been around 2% worse off.

This is an imperfect measure as it only considers value added by making changes and not by the things we didn't change.

For that we can look at how well each fund we hold has performed since we purchased it. At the beginning of April, over 85% of funds have equalled or outperformed their benchmark over the period held. 50% of funds have outperformed their benchmark by more than 25% and only four funds have underperformed.

Asset allocation is a key driver of performance and perhaps accounts for 90% of returns over the long term. For example, if a portfolio returns 10% a year then 9% of this will come from the asset allocation and only 1% from the fund selection.

However, we do not ignore the other 10% (fund selection) as it still makes a substantial difference. That extra 1% in the above example, compounded over time, would make a huge difference in the long run.

Likewise, 2% of added value from portfolio changes over a year, if we can do this consistently, will add up to a big number over time.

Investment Themes and Strategies: Selectivity Is Key

Growth will slow, so our natural pickiness is even more important.

There are several interlinking strategies running through our decision making. If we were to sum them up in a theme, we would call it selectivity.

We are always very selective about what we buy for our clients. However, this is now more important than ever. For example, we don't expect equity indices to increase anything like as quickly as they have in the past. As outlined earlier, regions like the US and Europe are looking slightly pricey while the UK is no longer cheap.

We have therefore reduced exposure to index funds which simply track the market, as we think it is important to be more selective about which underlying stocks we buy.

> "The defined return holdings are a good way to play a sideways market.

We also think it is important to be more selective about our regional allocation, because only a few markets still look cheap from a valuation point of view.

Within fixed interest, being highly selective is vital. We expect government and investment grade bond yields to rise, which would mean capital values falling. We would only hold fixed interest funds which have the ability to manage this risk, and have bought only those that have low sensitivity to interest rate increases.

Given that we believe equity markets will rise less strongly, the defined return holdings are a good way to play a sideways market. They will provide a profit if the index just remains where it was when the products were created.

One other theme that is still 'in play' is that of UK economic recovery, which we outlined in the previous edition of Equinox. This should benefit our UK commercial property and UK smaller company equity holdings.

Sector Performance & Analysis

UK Equities

Our actively managed UK Equity portfolios have done far better than the index over recent times.

For example, over 12 months to 4 April, the FTSE 100 is up 8.63% and the FTSE All-Share up 10.79% while our normally quite defensive UK Large Companies portfolio has achieved 18.75%. The more aggressive UK Dynamic portfolio has returned 21.35% over the same period.

Each of the six funds within these portfolios has beaten the index over this time period as shown in the table below. Two have more than trebled the return of the index.

Fund	12 Month Return to 4th April 2014
Miton UK Multi Cap Income	35.23%
Marlborough Special Situations	32.36%
Artemis Special Situations	18.58%
Investec UK Special Situations	13.28%
Vanguard UK Equity Income Index	11.71%
M&G Recovery	8.67%
FTSE 100 Index	8.63%

We believe that actively managed funds can continue to outperform for the time being and so will keep exposure to tracker funds to a relative low.

Global Established

Our Global Established portfolio of funds from North America, Europe and Japan has seen mixed results.

In relative terms, each of the funds we hold has fared reasonably well of late. For example, the European fund has outperformed its benchmark significantly over six months, returning 14.65% compared to 9.02% for the sector.

The US fund has slightly underperformed the sector over six months (7.26% to 8.24%) but over a longer period it has outperformed.

The Japanese fund - Schroder Tokyo - has beaten its sector over six months. However, the Japanese market has dropped over this period, with Schroder falling 3.66% and the sector dropping 4.51%.

The portfolio as a whole has underperformed its benchmark (40% UT North America, 40% UT Europe ex UK and 20% UT Japan) because we have given a higher weighting to Japan. The portfolio returned 4.09% over 12 months, whereas the benchmark has returned 8.24%.

We are sticking to our guns on Japan for now. However, we have split our holding away from just holding the more defensive Schroder Tokyo into the Baillie Gifford Japanese fund, which we would expect to outperform in a rising market.

Global Speculative

Emerging markets have had a torrid time.

Our Global Speculative portfolio has lost 6.34% over 12 months. Although disappointing, to give this context the UT Global Emerging Markets sector has dropped 8.15%.

We are looking at making one or two changes in this sector away from index tracking funds and into active funds. Over the long term, index funds tend to have outperformed in emerging markets but with different regions performing very differently, we think we need to be more selective.

Within China, new reforms may mean better opportunities for companies that are not such a big part of the benchmark, so again we are looking at a move to an active fund.

Alternative Equity

Our Alternative Equity portfolio has continued to perform well.

Alternative equity funds are sometimes called 'absolute return' funds, but we do not like this term. They are funds that have links to equity markets but have the ability to make money in all market conditions, even in falling markets. They are not without risk as they can still lose money. In general, they tend to increase less in a growing market but fall less when markets dip.

Over the 12 months to 4 April, our portfolio has returned 14.95% which was well ahead of its benchmark (the UT Mixed Investment 20% to 60% Shares sector) which returned 4.02%. It is also well ahead of the FTSE All-Share which returned 10.79%. It has returned this with much lower risk.

We made some changes to the portfolio towards the end of last year. Over six months, each of the three funds in this sector has performed well relative to this portfolio's benchmark.

Fund	**6 Month Return** to 4th April 2014
Odey Absolute Return	8.93%
Old Mutual Global Equity Absolute Return	7.24%
Invesco Perpetual Global Target Return Strategies	5.34%
UT Mixed Investment 20%-60% Shares Sector	**3.62%**

The best performer is the Odey Absolute Return fund. Unfortunately, this has now closed to new investors. Existing investors can continue to hold but we cannot top up holdings or buy for new clients. This may lead to clients experiencing differing performance depending on whether they hold Odey. While this is disappointing, the other funds can continue to be purchased and they are doing the job we want them to do well.

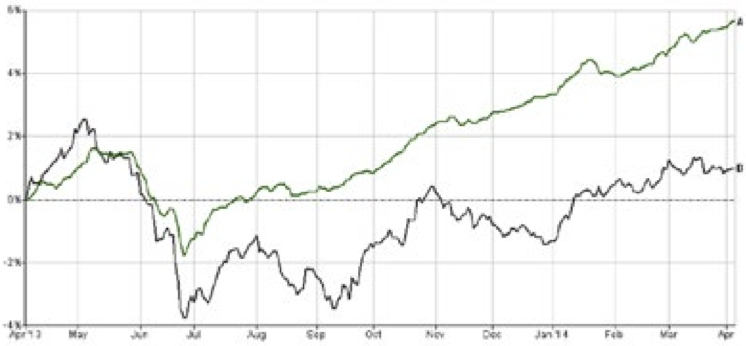
Fixed Interest

As outlined earlier, the environment for bonds has been difficult with the withdrawal of stimulus like QE and more focus on increases to interest rates.

This means our benchmark - the UT Sterling Corporate Bond sector - has only returned 1.01% over 12 months. However, our decision to change our portfolio to reduce sensitivity to interest rate movements, and to increase exposure to inflation linked bonds and to higher yield bonds, has added to returns.

Our portfolio has returned 5.67% over the same period and has done so with lower volatility. This can be seen in the below chart showing a much steadier return for our portfolio than the sector.

Equilibrium Fixed Interest Portfolio Performance



Source : 04/04/2013 - 04/04/2014 Data from FE 2014

A - Equilibrium Fixed Interest (5.67%)

B - UT Sterling Corporate Bond (1.01%)

Property

As outlined earlier, property has performed extremely well of late.

We only starting buying property funds in April last year, topping up as the year progressed. The chart below shows how our portfolio has performed since we started buying property funds again.

Equilibrium Property Portfolio Performance

Source : 04/04/2013 - 04/04/2014 Data from FE 2014

A - Equilibrium Property Portfolio (9.13%)

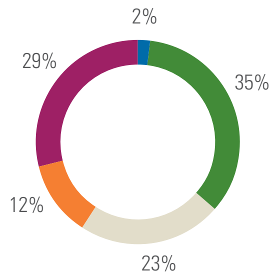
Over the past year, property returned 9.13% which is ahead of our usual 7% expectation over 12 months. Returns have generally been pretty steady, with some big 'tick ups' from time to time as property prices are revised upwards.

Property prices will continue to increase over the next 12 months or so, rental income will keep growing and the number of vacant properties will continue to fall.

Model Portfolio Returns

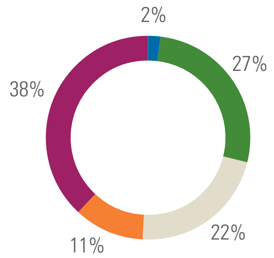
It is very pleasing to note that all our models with the exception of one are well ahead of both the average managed fund and average discretionary manager since their launch.

Strategic Asset Allocation



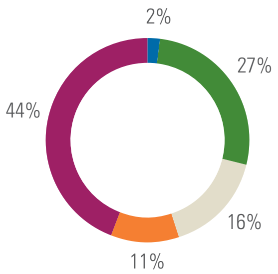
Cautious Model

Cautious Model	6 Months %	1 Year %	3 Years %	5 Years %	Since Launch* %
Cautious Portfolio	4.78	7.79	20.77	59.05	38.74
Mixed Asset 20-60% Shares Sector	3.62	4.02	16.30	52.74	24.78
ARC Sterling Cautious PCI	2.63	1.93	11.22	29.86	23.21



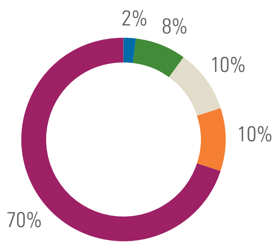
Balanced Model

Balanced Portfolio	4.77	8.03	20.21	61.82	38.09
Mixed Asset 20-60% Shares Sector	3.62	4.02	16.30	52.74	24.78
ARC Sterling Balanced PCI	3.32	3.17	14.59	47.08	24.79



Adventurous Model

Adventurous Portfolio	4.07	6.86	18.14	61.97	35.15
Mixed Asset 20-60% Shares Sector	3.62	4.02	16.30	52.74	24.78
ARC Sterling Balanced PCI	3.32	3.17	14.59	47.08	24.79



Speculative Portfolio

Speculative Portfolio	3.97	6.88	18.29	n/a	41.84
Mixed Asset 40-85% Shares Sector	4.28	5.53	18.14		43.69
ARC Sterling Steady Growth PCI	3.91	4.54	17.35		40.64

* Launch date 1 January 2008 except Speculative Model AA 10 launched 1 September 2009.

All data to 4 April 2014 except ARC indices to 1 April 2014 as they are published monthly.

Figures are highlighted in green where they are in excess of the relevant "Mixed Asset" sector

Cash | Fixed Interest | Property | Alternative Equity | Equity

Sector Portfolio Returns

	6 Months %	1 Year %	3 Years %	5 Years %	Since Launch* %
Equity Portfolios					
UK Large Companies	10.04	18.75	48.02	113.39	47.66
UT UK Equity Income Sector	**7.82**	**14.61**	**37.15**	**108.54**	**40.43**
UK All Companies	6.42	11.42	27.90	104.43	35.54
UK Dynamic	12.16	21.35	37.39	125.44	48.49
UT UK All Companies Sector	**8.04**	**15.12**	**33.33**	**112.80**	**40.59**
Global Established	4.09	7.38	28.88	85.20	39.59
Global Established Benchmark **	**8.24**	**14.71**	**32.56**	**97.65**	**44.05**
Global Speculative	-3.41	-6.34	-14.28	59.59	1.67
UT Global Emerging Mkts Sector	**-3.32**	**-8.15**	**-10.09**	**60.91**	**7.87**
Cautious Equity Mix	6.11	11.13	30.24	96.25	36.15
Cautious Equity Benchmark ***	**6.70**	**12.37**	**29.61**	**98.91**	**35.96**
Balanced Equity Mix	5.80	10.38	25.64	90.91	34.79
Balanced Equity Benchmark ***	**6.37**	**11.91**	**28.25**	**94.44**	**35.86**
Adventurous Equity Mix	4.30	7.66	20.13	87.14	31.13
Adventurous Equity Benchmark* **	**5.44**	**9.86**	**23.27**	**90.69**	**32.94**
Alternative Equity	7.89	14.95	32.45	60.89	50.09
UT Mixed Asset 20-60% Shares	**3.62**	**4.02**	**16.30**	**52.74**	**24.78**
Fixed Interest Portfolio	4.57	5.67	24.28	60.26	49.66
UT Sterling Corp Bond Sector	**2.37**	**1.01**	**19.94**	**56.40**	**33.06**
Property Portfolio	6.33	9.13	11.84		27.92
Composite Property Benchmark ****	**5.87**	**8.11**	**8.60**		**28.97**

* Launch date 1 January 2008 except Property Portfolio 1 July 2009.

** Global Established Benchmark is 40% UT North America, 40% UT Europe Ex UK, 20% Japan

*** Cautious, Balanced and Adventurous Equity benchmarks are an appropriate composite of the benchmark for each component of that equity mix

**** Composite Property Benchmark is an equal weighting of all eligible funds in the UT Property Sector. Property portfolio switched to cash 15 June 2012 to 11 April 2013 as we did not hold property funds in this period.

Market Returns

	6 Months %	1 Year %	3 Years %	5 Years %
Equity Markets				
FTSE 100 Index (UK)	4.74	8.63	23.43	97.88
FTSE Allshare Index (UK)	5.77	10.79	27.56	107.91
FTSE 250 Index (UK Mid Cap)	11.17	21.94	51.21	170.52
MSCI Europe Ex UK Index	8.14	18.52	21.13	83.38
S&P 500 Index (USA)	9.06	12.45	44.35	115.60
Topix (Japan)	-4.23	1.52	18.71	38.83
MSCI Emerging Markets Index	-3.14	-7.65	-11.97	63.04

Fixed Interest

IBOXX Sterling Corporate Bond Index	2.62	2.09	25.21	74.22
UT Sterling Corporate Bond Sector	2.37	1.01	19.94	56.40
FTSE British Government Allstocks (Gilt) Index	0.86	-3.04	17.39	26.31
UT Gilt Sector	0.61	-3.71	16.42	23.71
UT Sterling High Yield Sector	5.14	6.77	21.98	102.24

Property

IPD UK All Property Index	7.09	12.21	22.67	58.05
Composite Property Benchmark*	5.87	8.11	8.60	28.41

Other Measures

Bank of England Base Rate	0.25	0.50	1.51	2.53
RPI Inflation	0.91	2.21	9.33	20.30

* Property benchmark is a composite of all eligible funds in the UT Property sector.

Risk Warnings and Notes

Past performance is never a guide to future performance. Investments may (will) fall as well as rise.

Any performance targets shown are what we believe are realistic long term returns. They are never guaranteed.

None of the information in this document constitutes a recommendation. Please contact your adviser before taking any action.

Unless stated otherwise:

- All performance statistics are from Financial Express Analytics on a bid-bid basis with income reinvested.
- All performance data is to 4 April 2014.
- Model portfolio performance is stated after a 1.5% Equilibrium fee and a 0.35% platform charge, but with the discounts we receive from fund managers factored in.
- Your own performance may vary from the model due to transaction dates, contributions and withdrawals.
- Actual performance may also differ slightly due to constraints over how we can reflect fees and discounts from fund managers. These are assumed not to change over the whole investment period. In reality, discount levels change as we change the funds in which we invest.
- Individual sector portfolios are shown with no charges taken off or fund manager discounts applied.

For details of your own portfolio performance, please refer to your half yearly statement from the wrap platform on which you are invested. We will also provide personalised performance information at your regular reviews.

Ideal Funds

Below are the funds currently in our different portfolios and the charges that apply to each fund.

Equity Portfolios

Portfolio	Fund name	Initial Charge %	Annual Management Charge %	Total Expense Ratio %
Equity - UK Large Companies	Investec UK Special Situations	0	0.750	0.940
	Miton Multi Cap Income	0	0.750	0.790
	Vanguard FTSE UK Equity Income Index	0	0.250	0.250
Equity - UK All Companies	Vanguard FTSE UK Equity Index	0.5	0.150	0.150
Equity - UK Dynamic	Artemis UK Special Situations	0	0.750	0.810
	M&G Recovery	0	0.750	0.910
	Marlborough Special Situations	0	0.750	0.780
Equity - Global Established	BlackRock European Dynamic	0	0.750	0.930
	Schroder Tokyo	0	0.750	0.900
	Baillie Gifford Japanese	0	0.650	0.650
	Vanguard US Equity Index	0	0.200	0.200
Equity - Global Speculative	DB-X MSCI China ETF	0.15	0.200	0.650
	Schroder Asian Alpha	0	0.750	0.950
	Vanguard Emerging Markets Stock Index	0	0.400	0.400

Fixed Interest Funds

Fund name	Initial Charge %	Annual Management Charge %	Total Expense Ratio %
Invesco Perpetual Tactical Bond	0	0.625	0.935
Jupiter Strategic Bond	0	0.630	0.890
M&G UK Inflation UK Corporate Bond	0	0.500	0.670
TwentyFour Dynamic Bond	0	0.750	0.920

Property Funds

Fund name	Initial Charge %	Annual Management Charge %	Total Expense Ratio %
Henderson UK Property	0	0.750	1.090
Ignis UK Property	0	0.750	0.770
Standard Life UK Property	0	0.850	0.970
Aviva Inv Property Trust Inc	0	0.625	0.740
SWIP Property Trust	0	0.675	0.785

Alternative Equity

Fund name	Initial Charge %	Annual Management Charge %	Total Expense Ratio %
Invesco Perpetual Global Targeted Returns	0	0.700	0.900
Old Mutual Global Equity Absolute Return	0	0.750	1.260
CF Odey Absolute Return (no longer purchasing due to soft closure)	4	0.750	0.950

Most fund managers do not charge an initial fee but other charges may apply such as stamp duty, dilution levy, or other dealing costs. These are included in the initial charge column above.

These are the funds in use in our standard portfolios at 4 April 2014. These will change periodically and have not all been held throughout the whole period covered by this document.

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