equinox

half yearly investment magazine

A once in a lifetime opportunity

Turbo charge your giving

Trust issues

equilibrium

October 2017

PLUS: Platform 7(IM) for all services | Pay it forward | Creating shining stars

Welcome

Welcome to the 12th edition of our half yearly investment magazine, which must mean it's been six years since Equinox first went to print!

There are many risks which affect investment and during the last six years we have lurched from one risky set of circumstances to another.

On the political front we have seen a military coup in Turkey, Russia's annexation of Crimea, the Syrian crisis, the Scottish independence referendum, the Brexit vote, the rise of populist politicians and more recently, the furore surrounding North Korea's weapons programme. In particular, Brexit has resulted in huge volatility to currencies making life tougher for both consumers and businesses alike.

From an environmental perspective, we have witnessed record numbers of hurricanes causing huge amounts of damage, several earthquakes including the one which led to the Fukishima nuclear disaster, the Ebola epidemic and even a meteorite crash.

Yet despite all the turbulence, markets have continued their steady march upwards and our clients have enjoyed some great returns as a result. No doubt the next six years will be equally unpredictable, but one thing you can always be sure of is our total commitment to delivering outstanding risk adjusted returns while providing a first class, personal service to our clients.

As always, I hope you enjoy this issue and if you have any feedback please do get in touch with me directly.

Colin Lawson
Founder & Partner

Contents

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A once in a lifetime opportunity

Transferring out of a final salary scheme can be life changing – but ensuring suitability is tricky.

By Colin Lawson

Three of my friends became millionaires overnight recently. They did not win the lottery. They simply transferred their final salary pension benefits into a private pension.

Falling government bond yields have led to transfer values from employers' final salary pension schemes rocketing. Many have doubled over the last five years and can often exceed 30 times the promised pension.

An estimated 80,000 people have taken a final salary transfer over the last year and with values so high, this major shift in wealth looks likely to continue.

It is human nature to prefer a capital lump sum today over the promise of an annual income for life, especially after high-profile cases of such promises being under threat or not honoured, for example in the BHS pension scheme.

No going back

If you decide to transfer out of your final salary scheme, there is no going back. It is a potentially life-changing decision that I fear many are not equipped to make. For instance, they may lack the required investment knowledge; underestimate their longevity; not appreciate how they will feel when their fund falls in value significantly, as it will at some point; or lack the discipline to moderate the income they take.

The greatest risks are around longevity and spending. People in their early 50s now have a 14% chance of living to 105. That means a staggering 11,200 of the 80,000 who transferred last year may reach 105. But I bet none of them think that they will. If you have calculated your pension figures to age 90, but then live another 15 years, your fund could run out.

> A staggering 11,200 of the 80,000 who chose to transfer last year may reach 105. But I bet none of them think that they will.

If you have just become a millionaire, you may have a natural desire to spend more. Let's assume that you transferred your pension at age 57, the transfer value was £1 million and that it grows at an annual 6% for three years until your 60th birthday, when your pension was originally due to start. By then, it would be worth £1,191,000.

Your original pension would have been £30,000 a year, so you withdraw that amount for the first year. Markets have a good year and you achieve a 12% return, increasing your pot to £1.3 million after income. The next year you want to take a dream vacation and your daughter is getting married. Things are going so well, so you decide to withdraw £60,000.

The following year, markets are still doing well, adding another 10% return. Your pot is now worth £1,375,000, even after your bumper spend. So you take out another £60,000, this time for a new car and some home improvements.

This is natural human behaviour and the returns reflect the approximate levels you may have enjoyed over the last six years.

The problem comes when the markets are less kind the next year and fall 10%. Do you put some money back in; take nothing out; or take out only £15,000? No, you will probably take out the £30,000 to which you feel entitled. In my experience, there is a real risk of people overspending in the good years when they should be building a buffer for the bad ones.

If you transfer at age 55 and live to 95, that is 40 years of market ups and downs. Market crashes of 20% or more happen every five years on average, so you could be investing through a scary eight crashes.

Four-stage process

I am not against transferring. I just believe that you should get the right advice at the time of transfer and throughout your life to keep you and your investments on track.

That is why we have developed a final salary pension review service that I believe is unique and one of the most thorough, wide-ranging and informative processes available.

We have broken the service into four stages, each accompanied by an easy to read report and, where needed, an appointment or phone call.

Stage 1 - Assessing your transfer suitability

This stage aims to assess your investment knowledge, risk appetite and tendency to budget carefully or overspend. We look at your health, other assets, income streams and many other factors. These come together in one simple report, which determines whether you have a high, medium or low suitability to transfer. Low suitability does not automatically mean that a transfer is not an option. But it might highlight areas where we need to spend more time bridging a gap in your knowledge or explaining more about the risks and how you might handle them in different scenarios.

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> If you decide to transfer out of your final salary scheme, there is no going back. It is a potentially life-changing decision that I fear many people are not equipped to make.

Stage 2 - Scheme analysis

In this stage, we review the scheme and the generosity or otherwise of the transfer value. We calculate the returns you will need to not run out of money - even if you do live to 105. Again, we grade suitability as high, medium or low.

Stage 3 - Lifetime cashflow modelling

We construct lifetime cashflow models to include all your assets and other sources of income such as the state pension. We create two models to demonstrate the effect of staying in the scheme and of transferring out. Of course, it's also important to consider potential portfolio losses and drops in the market.

We can also create scenarios around different spending levels at different times throughout retirement and identify the most tax efficient way of taking income, including timing and source. This enables us to determine if and when the Lifetime Allowance charge becomes a problem. We also grade this section for suitability.

Stage 4 - Making a recommendation

Our panel of experts review the first three reports and decide whether a transfer is in the best interests of the individual or whether it is more suitable for them to remain in the scheme.
If we recommend a transfer and you decide to proceed, we start our ongoing management service which is designed to ensure that you and your pension stay on track regardless of what the economy or life throws at us.

If you or a friend are considering a final salary scheme review, please get in touch. This decision is so important, it is worth getting the best advice possible.

Laying the foundations

By Debbie Jukes

As many of you may know, The Equilibrium Foundation was established in 2010 with a view to raising, and more importantly donating, £250,000 over 10 years to assist worthwhile causes.

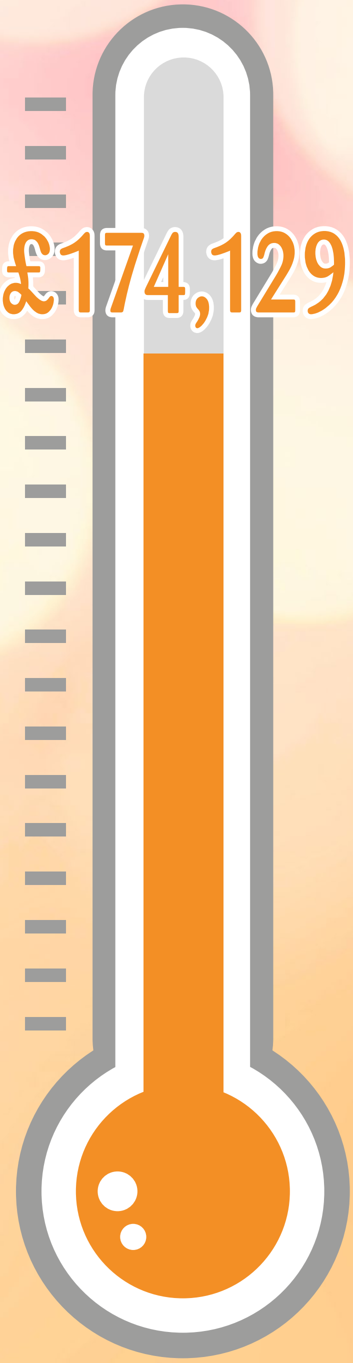
The Foundation's primary objective is to help the young, the vulnerable and the elderly in the local community. Equilibrium is also proud to support charities that have been nominated by our team and clients that are close to their hearts, for whatever reason that may be.

We have supported close to 100 organisations over the last seven years and on behalf of the trustees, I would like to thank everyone that has taken part in the many and varied challenges in a bid to help us towards our target.

As well as some of the larger, national charities, we are delighted to have been able to help local projects such as Francis House Children's Hospice, the Seashell Trust, the Enthusiasm Trust and the New Mills Volunteer Centre.

We have also launched a Community Support Scheme that gives local charities and not-for-profit organisations the opportunity to apply for grants of between £100 and £500 to help support the valuable work they do in their region. So far the scheme has helped smaller organisations with specific requirements such as the provision of lifejackets for a rowing club and an automatic entrance door for Bollington's Bridgend Centre, which aims to enhance the lives of individuals, some of whom feel isolated, by positive interaction with others.

For those that don't already know, if you raise funds via our Foundation, we will double the amount before donating it to your chosen charity. If you are planning on fundraising please take advantage of this opportunity and get in touch the next time you are running, walking, cycling, baking, falling out of a plane etc for a good cause.



equilibrium foundation

Read more online...

For more information please visit **www.eqllp.co.uk/the-foundation**

Turbo charge your giving

Donating to charity can be rewarding, enabling you to give something back to a cause close to your heart. You might also be able to reap some tax rewards. Here we consider the potential financial benefits of gifting to charity.

By Colin Lawson and Katy Littler

Charities need our support more than ever nowadays with government grants and subsidies drying up at an alarming rate. Happily, the population of the UK is one of the most generous in the world when it comes to charitable giving, ranking eighth in the World Giving Index (and first among European countries)[1].

Helping those less fortunate is the main reason that people give their hard-earned money away. However, there are also some interesting tax benefits that can be gained if you take a little extra time to consider how you give to charity.

The importance of Gift Aid

Most people are familiar with the concept of Gift Aid, as well as the sinking feeling you get when asked to fill out a Gift Aid form when dropping clothes off at a charity shop. Gift Aid means that charities can claim an extra 25p from the government for every £1 you give.

Higher and additional rate taxpayers should take note as they are also able to claim back 20% or 25% of the donation respectively via a tax return. For example, the graphic below demonstrates that if you were a higher rate taxpayer then a gift of £100 to a charity would end up costing you just £75. If the charity then claims Gift Aid then they can end up receiving £125 in total.

When it comes to completing your tax return it is certainly worth taking the time to gather details of the donations you have made to charity throughout the tax year. While this might not be possible for every £1 put in a collection tin, it can really add up if you have several monthly donations being made by direct debit.

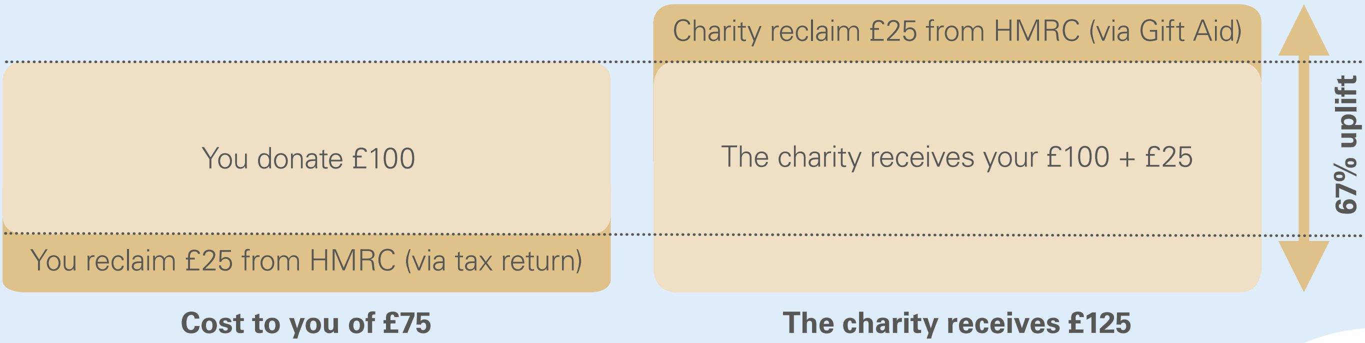
Leaving a legacy

People have always liked to leave gifts to their favourite charities in their wills and it is widely known that any bequests will go straight to the charity free from inheritance tax.

A less well-known fact is that by simply giving a gift to charity you can reduce the rate of inheritance tax that you pay on the rest of your estate from 40% to 36%.

The rules are relatively straightforward. If you leave at least 10% of your estate, after any exemptions, to charity then your inheritance tax rate becomes 36%.

You might imagine that this won't apply to you as you are planning on leaving what you consider to be a modest amount to a charity with your remaining assets going to your children. However, the scenario in Example 1 demonstrates that the donation does not have to be as large as you might think. With careful planning, children can potentially end up receiving virtually the same amount, even though a much larger charity donation has been made – with it being HMRC that picks up the tab.



Example 1: Legacy charity gifting

	No charity donation	**A smaller charity donation** (4% of the net estate)	**A larger charity donation** (10% of the net estate)
Estate on second death	£1 million	£1 million	£1 million
Net estate after nil rate bands have been deducted*	£150,000	£150,000	£150,000
Charity donation	£0	£6,000	£15,000
Amount subject to IHT	£150,000 at 40%	£144,000 at 40%	£135,000 at 36%
HMRC receives	£60,000	£57,600	£48,600
Charity receives	£0	£6,000	£15,000
Children receive	£940,000	£936,400	£936,400

* Two nil rate bands of £325,000 each and two main residence nil rate bands of £100,000 each in 2017/18. £850,000 in total.

Leaving more doesn't have to cost more.

In this example the children receive £3,600 less than if there had been no charity donation in the will. The charity receives £6,000.

Here the children still receive £3,600 less than if no donation had been made, but the charity receives a donation 2.5 times larger (£15,000).

Example 2: Making a large donation to charity

	No charity donation	An immediate gift of £400,00
Estate	£2.4 million	£2.4 million
Charity donation	£0	£400,000
Revised estate	£2.4 million	£2 million
Standard nil rate band x2	£650,000	£650,000
Main residence nil rate band x2	£0	£350,000
Taxable estate	£1,750,000	£1,000,000
HMRC receives	£700,000	£400,000
Children receive	£1,700,000*	£1,600,000**

* £2.4 million less £700,000 tax
** £2 million less £400,000 tax

£400,000 has been given to charity, but the amount that the children eventually receive is only £100,000 less than if no donation had been made.

Upping the charitable bequest in our hypothetical client's will from £6,000 to £15,000 has minimal effect on the amount that their children eventually receive, even though the charity is being given more than two and a half times as much. If this is something that appeals to you, make sure to speak to your adviser who will be happy to work through some examples based on your existing will. It is also worth remembering that a will can be altered after death by a deed of variation.

New opportunities

You will have probably heard about the recently introduced main residence nil rate band, which is designed to 'top up' the standard nil rate band so that by April 2020 a couple will have a combined inheritance tax allowance of £1 million. It is being phased in gradually, so in the current tax year it is £100,000 per person, meaning a couple's joint allowance is currently £850,000.

Of course, it couldn't possibly be that simple. HMRC take this additional allowance away at a rate of £1 for every £2 that an estate is over £2 million. So this tax year, if a couple were to have an estate worth £2.4 million then they would lose all of the main residence nil rate band and be back to the standard £650,000 between them.

The good news is that a simple 'snapshot' of your estate is used for this exercise – our couple could give £400,000 away, and although it would still be in their estate when it comes to the inheritance tax charge (thanks to the seven year rule), the 'snapshot' on death will show an estate worth £2 million and the couple will be entitled to full main residence nil rate bands.

> Upping the charitable bequest in our hypothetical client's will from £6,000 to £15,000 has minimal effect on the amount that their children eventually receive.

Our couple might want to consider giving the £400,000 to charity. Of course, it means that their assets fall and their children will eventually receive less but the effect is not as pronounced as you might think, as shown in Example 2 (which assumes that death occurs after April 2020 when the main residence nil rate band has been fully introduced).

In reality, investment growth could mean that the estate is eventually back to being above £2 million within a year (of course there are no guarantees and investments can go down as well as up), but this is something that can be monitored and further gifts can be made if necessary.

Probably the best thing about this approach is that the charity donation is made during your lifetime, meaning you would get to see your generosity at work. If the amounts involved are high enough then it could even be possible to set up a foundation in your family's name, which is surely something to be proud of.

1. https://www.cafonline.org/docs/default-source/about-us-publications/1950a_wgi2016_infographic_251016.pdf?sfvrsn=3709d540_2

A toy story
#giveachildachristmas

By Fiona Bousfield

Since 2013, The Toy Appeal has been providing toys at Christmas to children living in poverty across the North West and Cheshire.

Operated by Dee and Chris Drake, the Appeal has provided more than 4,000 toys to underprivileged children. On average each child receives eight things in their bag of presents so that they receive a selection of toys at Christmas, all presented in a festive red sack.

The organisation takes referrals from schools and social workers to provide gifts to those children who might not have anything to open on Christmas day.

Equilibrium supports the Appeal and members of the Equilibrium team will be volunteering in December to help sort the toys and get the sacks ready to be given to children.

How can you help?

The organisation collects toys all year round and are usually low on presents for children aged 8 to 12 years old.

Any presents donated should not be wrapped. You can find out what types of toys are needed and where the drop off points are at: www.thetoyappeal.com

The Appeal team are aiming to raise £25,000 this year and greatly appreciate any donations.

Read more online...

To donate simply visit The Toy Appeal Just Giving page at **www.justgiving.com/crowdfunding/TheToyAppeal**

Trust issues

Trusts can have many advantages, but trustees must understand their powers and duties.

By Debbie Jukes

There are numerous tactics available to financial planners looking to help clients protect their wealth, with one of the most popular being to set up a trust. Placing assets in trust can provide many worthwhile benefits. Depending on your circumstances, setting up a trust for your assets could be a tactful way of investing money to help mitigate inheritance tax liability. Trusts can also enable you to control assets, for example, by allowing the passing of assets to children or grandchildren at an appropriate time.

Trusts themselves are relatively simple concepts but it is important to know how they work, the powers they convey and the limitations they can have in certain situations. Here we will go over the influential role that trustees, with their many responsibilities, can play.

> Trusts can also enable you to control assets, for example, by allowing the passing of assets to children or grandchildren at an appropriate time.

What is a trust?

There are various kinds of trusts, but at their base level they revolve around the same concept. Trusts involve someone else looking after your assets to benefit another person or people later. They have legal documents that outline who you would like to benefit and how the trust is to be managed. It doesn't have to be just money that is put into a trust. Many people use them to protect assets such as property and antiques.

What is a trustee?

A trustee is basically a person who manages trust funds on behalf of the settlor (the person who sets up the trust) for the benefit of all the beneficiaries (those who benefit from the trust itself).

Being a trustee carries with it a lot of responsibility and all trustees must ensure that their actions are in the best interests of beneficiaries. As a starter, trustees must be over 18 and mentally capable.

They have duties and powers given to them either by general law, the trust deed, the will, or a combination and are the legal owners of the assets in the trust. It is essential that, on becoming a trustee, the individual understands their duties and powers.

The main duties of a trustee

Duties are obligations imposed on trustees and deal with the day-to-day running of a trust. These include acting impartially and administering the trust in accordance with the trust deed or will. All trustees must account for any letters of wishes set out by the settlor and must always act fairly and impartially towards all the trust's beneficiaries.

Also, trustees must find out what assets are in the trust, take control of them and ensure their preservation. Securing trust property might, for example, mean that they would have to recover a debt owed to the trust. Trustees are also responsible for paying any tax liabilities that arise.

Another important duty for trustees is the responsibility to keep records of what they do to prove that the trust has been managed properly. Trustees must not benefit from the trust themselves and timely and concise records can help prove that everything regarding the trust has been run responsibly and above board.

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Trusts involve someone else looking after your assets to benefit another person or people later.

This is vital as they have a statutory duty to act with reasonable care and skill when carrying out certain functions.

Trustees are also required to review investments and to consider the circumstances of the trust, its beneficiaries and investments both carefully and regularly.

The powers of a trustee

Powers allow the trustees to do certain things, and the trust deed will usually contain details of these. While these can be wide-ranging on an individual basis, there are also powers given by general law.

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(Trustees) have duties and powers given to them either by general law, the trust deed, the will, or a combination.

A significant power given under general law is the ‘power of investment’ which means that trustees have overall oversight for the investment practice and progress of the trust. In short, with this, trustees have the same powers as individuals regarding assets, but they must also consider the diversification and suitability of the investments, keep the investments under review and obtain proper advice.

They also have the power to delegate some of their functions to an agent, such as an accountant, solicitor or wealth manager. The law requires that they write guidance as to how the investments should be managed and that they review the performance against objectives regularly.

However, it should be noted that there are several powers that trustees cannot delegate. These include:

- dispositive powers - the settlement of trust property
- decisions about whether payments should be made from income or capital
- appointing new trustees
- power of delegation itself.

Professional remuneration

Anybody can be a trustee and sometimes family members can establish private trusts for the benefit of inheritance planning (via the use of Family Investment Companies). However, being a trustee can be a professional service. Professional trustees, such as solicitors or accountants, can charge for their work. Importantly, this is only possible where there is more than one trustee and all the other trustees agree.

Finding out more

This list of duties is not exhaustive. The role of trustee is important and it is recommended that you seek expert advice to help you understand the process and responsibilities.

Additionally, there are several different types of trusts with some more suited to certain individual requirements than others. Equilibrium can help, guide and make the role easier.

Platform 7(IM) for all services

SEVEN Investment Management

By Neal Foundly

Seven Investment Management (7IM) is an investment business that was set up 14 years ago by seven individuals including the effervescent Justin Urquhart Stewart. Since then, the company has grown rapidly and the platform now administers around £4bn of clients' money.

Equilibrium has used the 7IM platform for the last seven years and in terms of ease-of-use and flexibility, the service scores highly. For example, it offers a broad range of wrappers, provides a low-cost currency exchange service and there is a wide assortment of portfolio reports.

Family affairs

One particularly useful function, for example, has been the indexation calculator.

Calculating any capital gains tax over and above inflation for an investment portfolio can be very complicated, especially if the fund has been managed over time with regular switches, along with contributions and withdrawals.

While the allowance is no longer applicable to individuals, this facility can be particularly helpful for Family Investment Companies in tracking and monitoring gains, potentially saving expensive accountancy costs.

Invest to borrow

Another feature of the platform is the ability to borrow against a portfolio. The majority of the funds held in Equilibrium portfolios qualify as security, against which loans can be arranged with the platform.

While the loans cannot be used for house purchases, for all other uses it provides an easy to arrange facility (up to 50% of the value of the portfolio) with no fixed term and at competitive interest rates, currently 3.5% above base rate.

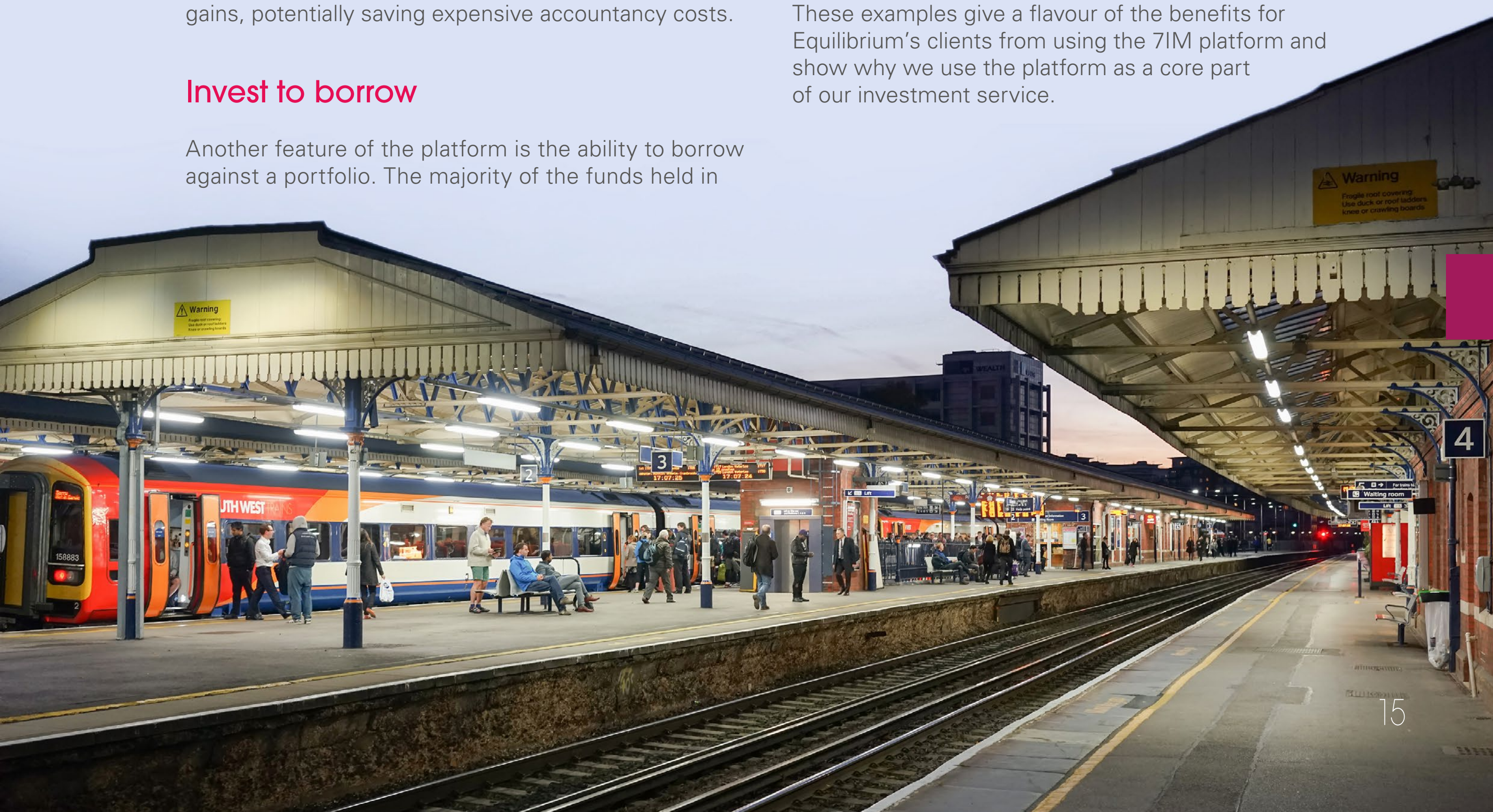
Taking AIM

Two years ago, after careful review of an array of options, 7IM was also chosen as the platform that Equilibrium would use for its EQ AIM Portfolio. Designed to help clients mitigate inheritance tax, the portfolio needed a platform that offered great trading in small AIM stocks but at a low cost for our clients.

7IM fitted the bill perfectly. Not only does the platform have great 'market access' – swiftly and efficiently executing the buys and sales – it has no trading charges at all. A win-win for our clients.

In train

These examples give a flavour of the benefits for Equilibrium's clients from using the 7IM platform and show why we use the platform as a core part of our investment service.



And another thing...

Following the introduction of an EU directive, we explore the new reporting obligations and what they might mean for Equilibrium clients.

By Rachel Howe

2017 has been a busy year for new regulations. June saw the publication of the first money laundering regulations in a decade and hot on its heels in July, we saw the publication of the Financial Conduct Authority's long-awaited final consultation on the implementation of the Markets in Financial Instruments Directive II (MiFID II), ahead of its 3 January 2018 deadline.

You would be forgiven if you had not heard of this new EU regulation or had not been aware of the rife speculation and mad preparation amongst most financial services firms. You might even raise an eyebrow and question why we are even talking about an EU regulation following the UK's Brexit decision. But to us here at Equilibrium, MiFID II represents one of the biggest changes to our internal processes in recent years and some of these changes will have an impact on you.

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> The implementation of the global LEI database and the underlying EU directive pre-dates Brexit and has been many years in the making.

Legal Entity Identifier

MiFID II and its implementation within UK law represents a new focus on consumer protection and market integrity. It will look to improve the functioning of financial markets and the transparency of clients' costs and charges, mitigating the chances of financial fraud and market abuse.

One of the biggest changes clients may experience is the introduction of transparency in transaction reporting obligations for legal entities. A legal entity is often defined as a structure, rather than an individual or 'natural person', and would include:

- trusts
- companies
- corporate SASSs
- family investment companies
- governments
- charities
- partnerships.

From 3 January 2018, financial service firms, including Equilibrium, have an obligation to ensure that clients who qualify as a legal entity, who are also invested in reportable financial instruments, hold a unique identifier before we can execute any transactions. A Legal Entity Identifier or 'LEI' is a 20-digit alphanumeric code unique to a legal entity issued through the London Stock Exchange Group (LSEG). An LEI is the entity equivalent of a National Insurance number and once issued it allows every legal entity or structure that undertakes a financial transaction to be identified anywhere in the world via a global database.

Transparency and market integrity

While the height of the financial crisis may now seem like a distant memory, it exposed weaknesses in the transparency and functionality of the financial markets. Following the crisis, there was a global desire for a regime that underpinned financial stability, one that improved consumer protection and risk management in financial service firms, providing a better assessment of micro and macro prudential risks. The aim was to prevent the same weakness from impacting the markets in the event of another global financial meltdown.

Backed by the G20, the introduction of a global LEI data system (GLEIS) will be key in identifying and managing financial risks including market abuse, financial fraud and systematic risk. It is hoped that the roll out of LEIs will promote market integrity, superior accuracy and overall quality of financial data. The LEI initiative is designed to create a global reference data system that uniquely identifies every legal entity or structure that is party to a reportable financial transaction.

But what about Brexit?

The implementation of the global LEI database and the underlying EU directive pre-dates Brexit and has been many years in the making - the proposals were initially published back in 2011. It took a further three years for the final directive to be published in June 2014.

As with all EU directives they are binding on member states, however, the actual interpretation and implementation into domestic law is down to each individual country to decide. In the UK, the consultation and ultimate implementation was overseen by the Financial Conduct

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> Backed by the G20, the introduction of a Global LEI system will be key in identifying and managing financial risks including market abuse, financial fraud and systematic risk.

Authority (FCA) and the publication of their finalised guidance marks the culmination of six years of political debate and consultation. Much of UK law is based on EU regulation, from a financial services perspective, and this will continue to be the case following the UK's formal exit from the EU, as it is seen to be within the best interests of consumers and markets.

Client action stations

There is only a requirement for an LEI where the trust or other entity is investing in financial instruments that have to be reported. This means that not all investments will be impacted by this change. These reportable investments can include (but are not limited to) stocks, shares, derivates, structured products, exchange traded funds (ETF), gilts and investment trusts.

If you hold a portfolio that is wholly invested in collective investments, such as open-ended investment companies (OEIC) or unit trusts, you are not required to provide an LEI to transact after the January deadline. If you are affected by this change then you must supply your financial advisor with a valid LEI by 3 January 2018, otherwise the ability to transact as an entity after this date will be restricted. Equilibrium will be contacting entities who we believe will be impacted. In the meantime, if you have any questions or concerns regarding these changes, please contact your Client Manager who will be happy to assist.

Delayed reaction

What can parole decisions in Israeli jails and football penalty shoot-outs teach us about making better investment decisions? Greg B Davies PhD revealed this and much more during a fascinating speech at the Equilibrium Wilmslow head office entitled 'Understanding the psychology of financial decision making'.

By Alex Bell

"It's about building tools that help us make better decisions," said behavioural economist Greg B Davies, during a speech in front of all 63 Equilibrium Asset Management staff.

Greg, who holds a PhD in Behavioural Decision Theory from Cambridge and for a decade led the banking world's first behavioural finance team as Head of Behavioural-Quant Finance at Barclays, is also the founder of Centapse.

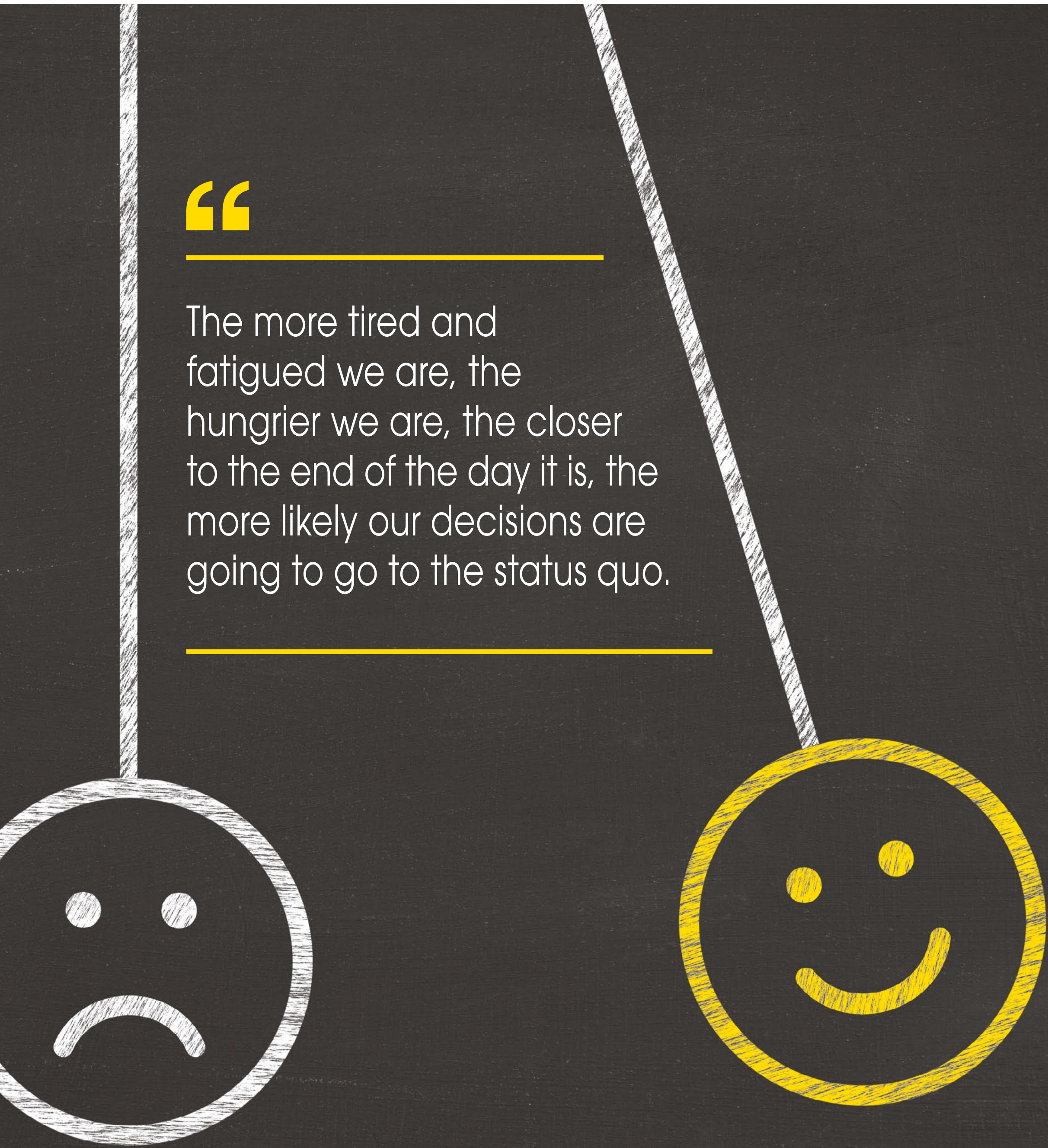
He was invited to Wilmslow by Equilibrium Founder Colin Lawson and first spoke to staff, before later giving a presentation to some of Equilibrium's clients.
But why touch upon parole decisions in Israeli jails and football penalty shoot-outs?

In the early stages of his appearance, Greg, a specialist in applied decision science and behavioural finance, alluded to what he calls the 'cycle of investment emotions' and said that people buy stories, not numbers.

He says: "There is a cycle of investment emotions people go through, including reluctance, optimism, excitement, irrational exuberance, denial, fear, desperation, panic, capitulation, despondency, depression, apathy, indifference and back to reluctance. What's important to recognise is that our emotional brain lives in the present. Our emotional brain doesn't see things 12 years from now, we make decisions in the present. What also comes into play is PPCB (post purchase confirmation bias) or looking to feel good about the decision we have made."

On building tools that help us make better financial decisions, Greg used research studies on Israeli jails and football penalty shoot-outs to enhance his point.

He said: "It turns out that goalkeepers in professional football dive to the left or right about 90 per cent of the time, yet about 40 per cent of the time the ball goes down the middle. On a pure statistical basis, goalkeepers could probably save penalties more if they did less. The problem with this is it's one thing to fail to save a goal while diving spectacularly in the wrong direction. It's quite another not



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> The more tired and fatigued we are, the hungrier we are, the closer to the end of the day it is, the more likely our decisions are going to go to the status quo.

to save a goal when you’ve stood in the middle like an idiot doing nothing. For most of us in all walks of life there is this action bias. The temptation, particularly under moments of stress, is to be seen to be doing something rather than doing nothing.”

He linked shoot-outs to making investment decisions in times of market crisis, explaining that during these times many investors will want to be doing something about it, but often the best thing can sometimes be to “sit tight and wait it out.”

Greg added: “In a study on parole decisions in Israeli jails, the researchers were looking at a whole load of variables and wanted to understand the biggest influencing factors to whether someone was granted parole or not. Maybe it’s the quality of the lawyer, how strong the case is etc?

"They found quite the opposite. The most significant variable was how long your case came up after the judges had had a meal. If the judge has just had a meal the chance of getting parole is in the 60 per cent region. If it’s just before the next meal when glucose levels are low, the chances of being paroled are close to zero per cent. What I do know is that the actual responses should not vary according to the judge’s degree of hunger. It’s a completely irrelevant factor. The more tired and fatigued we are, the hungrier we are, the closer to the end of the day it is, the more likely our decisions are going to go to the status quo.”

Linking to investments, Greg explained that when it comes to investment decisions we have some control over when we make them. We are able to schedule important decisions at times when we know we are better decision makers which can have significant influence, concluding that “these things can make a surprising amount of difference.”

Greg B Davies is an Associate Fellow at Oxford’s Saïd Business School, a lecturer at Imperial College London and author of Behavioral Investment Management.

He is also the creator of Open Outcry, a ‘reality opera’ premiered in London in 2012, creating live performance from a functioning trading floor.

The grape escape

Following the adage do what you love and you'll never work a day in your life, David Croft was looking to combine his passion for South Africa, travel and wine with a view to launching a new business venture in retirement.

By Fiona Bousfield

After working in media for more than 25 years, Equilibrium client and former Managing Director of ITV Yorkshire David was searching for a new challenge.

David already owned a holiday home in South Africa and when a friend - Andy Bartholomew - sold his business they started exploring the prospect of purchasing a vineyard together in the spring of 2011. After viewing more than 30 properties, the pair stumbled across the Andreas Wine Estate nestled in the Bovlei valley, just outside Wellington - an hour's drive from Cape Town.

Owned by a Swedish couple, the 13.5 hectares of grounds were beautifully landscaped around a 1799 Cape Dutch house, with 4.5 hectares already under vine. It produced a full-bodied, peppery Shiraz with hints of spice, berries and excellent ageing potential. David and Andy liked what they tasted and the duo knew this could be something special.

Everything from growing the grape to bottling the wine was done at Andreas and with the increasing trend toward provenance and people wanting to know where their products come from, David and Andy saw the marketing potential.

The pair crunched the numbers. “I'm very much led by my heart, whereas Andy is guided more by his head,” says David. At the time, the exchange rate of the South African Rand to Sterling was R11/£1, adding an extra layer of risk and complexity to the idea.

By 2015, the exchange rate had swung heavily in Sterling's favour and David could not resist seeing if the estate was still up for sale. And to his surprise, it was. An offer from a South African purchaser had recently fallen through and, with the exchange rate improving to R22.5/£1, it now became a feasible option.

After receiving financial advice, David pitched the idea to friends and business associates. 23 investors signed up and David set the wheels in motion. All the investors officially signed on the dotted line across the summer of 2015 and the purchase was finalised in October 2015.

David shares: “It has certainly not been plain sailing and there have been some steep learning curves along the way. There was so much to get my head around. Not only did we need to understand HMRC regulations but also the South African Revenue Service (SARS). It's been a lot of work to get where we are but it really helps having investors with such a variety of experiences and skills.”

Production currently stands at around 32,000 bottles a year, the majority of which find their way on to the wine lists of restaurants. Although David explains it's not as simple as just getting your wine listed: “You need to get traction. We spend a lot of time with restaurant owners for them to be able to taste Andreas and appreciate its quality.”

David has not stopped there. He says: “There are lots of exciting things in the pipeline. We spotted a gap in the market for affordable luxury accommodation and designed four luxurious bedrooms in the main house. It's such a beautiful spot for people to be able to stay for a couple of nights before exploring South Africa's famous Garden Route.”

With David's media experience the team is also exploring renting the estate out for the filming of commercials. South Africa is a popular location for the industry due to the long hours of sunlight, low labour costs and world-class post-production facilities.

Bookings for small, bespoke weddings have also begun and consideration is being given to the creation of lodges in the grounds and for converting the main terrace into a restaurant in collaboration with a local chef.

But for David, the real joy is being on an exciting new adventure with like-minded friends and business associates to build something together. That and sitting down to dinner for a nice steak with a bottle of his very own Andreas.

To find out more about the Andreas Wine Estate visit **www.andreas.co.za**.

Exclusive offers for Equinox readers...

David is offering Equinox readers two special discounts:

1) 25% off the minimum UK retail price of Andreas Shiraz for orders of 12 bottles or more received by 31 December 2017. The discounted price is £14.99 per bottle inclusive of VAT and free delivery within mainland UK. Contact David on **07770578468** or at **dmbcroft@hotmail.com**

2) A free bottle of Andreas Shiraz for one night stays and a free magnum of Andreas Shiraz for stays of two nights or more in the luxury accommodation at Andreas before 31 December 2018. Contact **accommodation@andreas.co.za**

Pay it forward

By Sam Massey

Photo credit: Gerardo Jaconelli

Tom Murray

As Founding Director of independent philanthropy service Charityflow, Tom Murray is determined to help people fulfil their benevolent goals. For the former lawyer, the key to philanthropy is not what you put in, but the difference you want to make.

Charityflow's service is based on the premise that people should apply the same discipline to their philanthropy as they do to the rest of their business life. Having a clear vision about what they want to achieve; careful planning; a calculated approach to risk and reward; constant monitoring and evaluation; finding the right partners and seeking advice from appropriate specialists are all part of the process.

Working with individuals, families, businesses and charitable trusts, Charityflow helps clients establish their core values, as well as what they can contribute – not just in a financial sense but in terms of time and talent.

CHARITYFLOW

Your philanthropy management partner

From there, Tom can devise a clear plan to help make their benevolent goals a reality.

"Every client is unique and so is every philanthropy plan. But at the heart of any plan is each client's vision for change. Too often charitable giving is driven by 'what can I give' whereas the real question should always be 'what do I want to achieve?' Dedicating time to think about this and reviewing clients' goals will make their giving far more effective and therefore, far more rewarding," says Tom.

"It is also important to understand people's motives for giving. For some it can be out of a sense of gratitude; for others, it can be a means of instilling philanthropic values in the next generation. There are many different drivers."

His wealth of experience in this sector means Tom can also identify and build fitting partnerships to help clients achieve their goals.

He adds: "It is very rare that any single charity can achieve great change. Change requires charities to work with one another, civil society and businesses.

"Charityflow helps identify appropriate charities and other strategic partners who share their clients' values and with whom they can build a relationship to achieve their vision.

"We also work with the clients' teams of advisers; their lawyers, bankers, accountants and wealth managers to put in place the right structures and ensure their giving is tax efficient."

Tom's experience in the charity sector is huge. As well as running Charityflow, he is an accredited specialist in charity law by the Law Society of Scotland, is Chairman on the Mercy Corps, an international NGO working in 40 of the world's most disrupted countries and he works with the BIG Lottery Jessica Trust, which develops new forms of social investment. He has also co-authored the book 'A Practical Guide to Charity Law'.

> Too often charitable giving is driven by 'what can I give' whereas the real question should always be 'what do I want to achieve?'

As well as witnessing some philanthropists achieve amazing highs, he has also seen some fall short of achieving their goals – which formed part of the inspiration for Charityflow.

Tom says: "A lot of people have been advised to set up their own charitable trusts, but once they do, some struggle to make a real impact while others completely lose their way.

"And with Government cuts to public sector spending, benevolence has never been more important. There is a greater need now, more than ever, for organisations such as Charityflow which will help philanthropists, trusts and businesses achieve their desired goals."

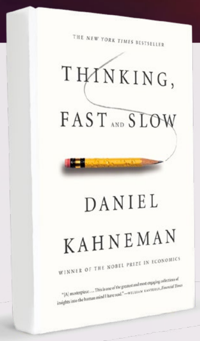
Recent projects for Charityflow include creating a partnership to drive small business investments throughout fragile rural communities; helping a family to establish a foundation and working with businesses on their corporate social responsibility.

And while organisations like Tom's are fairly new in the UK, they are well-established in other areas of the world.

Tom adds: "I started to think about launching Charityflow around a year before I actually did. Philanthropy management is far more developed in other countries, such as America, so I researched a lot of their thinking before creating the organisation.

"Philanthropy is very individual, very personal. And if you get it right, it is very rewarding to all involved."

What we are reading this month...



Ben Rogers, Chartered Financial Planner

Thinking, Fast and Slow

by Daniel Kahneman

Investing is simple, right? 'Buy low, sell high!', 'Don't put all your eggs in one basket!' etc. So why do so many investors make irrational decisions and how can I avoid being among them?

Kahneman unravels the inherent mechanisms that govern how we make judgements and the weaknesses our minds are predisposed to. At the core of his research, Kahneman proposes that our brain operates two systems. System one acts quickly but is prone to errors. System two is more deliberate and considered but is more tiring to use. While we would all probably like to think we use the second system when making important decisions, the truth is that our minds have developed a range of shortcuts to help us rationalise the snap judgements of the first.

By considering the tricks of our own minds, we can better equip ourselves with strategies to limit their impact on our decision making processes. The varied real world anecdotes and examples make it accessible for anyone looking to better understand their own mind.

Rachel Howe, Compliance Associate

Julie and Julia: My Year of Cooking Dangerously

by Julie Powell

Occasionally I get the chance to read something that has not been issued by the Financial Conduct Authority and is not part of my CII diploma course. This month I read Julie and Julia: My Year of Cooking Dangerously. I'll admit I'd already seen the 2009 film starring Meryl Streep, but a chance encounter in a charity shop resulted in a copy being thrown onto my holiday reading pile. Originally published as a blog and later adapted into a memoir in 2005, the book is Powell's very honest and amusing experience of cooking all 524 recipes in Julia Child's Mastering the Art of French Cooking.

As an avid collector of recipe books that gather dust on my kitchen shelf, I found the idea of working through the 524 recipes exhausting. Undeterred, Julie sets herself a deadline of one year and we follow as she struggles with burnt beef bourguignon and brains in butter sauce. While Julie's temper tantrums over beef in aspic, family disharmony and rogue kitchen appliances become a little commonplace, I ultimately finished the book feeling uplifted (if hungry) seeing Julie challenge her mundane life. The book is well written, witty and at points downright delicious!

Creating shining stars

By Fiona Bousfield

In 2009, Jane Kenyon set up Girls Out Loud, a social enterprise with a mission to raise the aspirations of young girls between the ages of 13-18.

The organisation facilitates a variety of interventions in schools. The Little Sister programme is one of their flagship programmes, which involves the organisation recruiting and training role models from diverse backgrounds to mentor teenage girls for a 12 month period.

The aim is to target 'invisible girls' - those teenage girls that sometimes get lost in the middle and are trying to find their way. Jane explains that it is this group of young women that can get lost in the system. Jane says: "If we can show these girls that someone is truly invested in them, then they can absolutely blossom. These are our future leaders and if we don't invest in them then we will miss so much potential."

The programme is as much a development opportunity for teams and businesses too. Victoria Pearce, Compliance Manager at Equilibrium recently signed up to be a 'Big Sister' and says: "I stumbled across Girls Out Loud after looking at how I could spend the two charity days a year that Equilibrium provides. I thought it looked like a great opportunity to help teenagers increase their confidence. It has really opened my eyes to some of the challenges that young girls face in today's society, particularly with the increased influence of social media."

Girls Out Loud are always on the lookout for new mentors and volunteers to help their work.

Jane Kenyon

Some Little Sister participants presenting at a workshop

Read more online...

To find out how you can support visit **www.girlsoutloud.org.uk**

Views from the frontline - UK stockma

We asked four fund managers and strategists from major investment houses to answer the following question:

While some fear a collapse, others are confident the FTSE's recent meteoric rise will continue. In which direction do you think the market will go over the next 18 months and five years and what do you think the major drivers will be?

Justin Urquhart Stewart

Co-Founder,
Seven Investment Management

Four specific indices – the FTSE 100, FTSE 250, FTSE Local UK and FTSE Fledgling - all plot what I see happening in UK stock markets and the future is best flagged using terms usually associated with fireworks.

The Bang in the FTSE 100 following Brexit most likely boosted investors' hopes as many see this as *the* proxy for the UK economy. However, given that just 29% of the FTSE 100's overall revenues come from the UK, its fortune is much more linked to future fluctuations in the value of Sterling. What happens to the currency is largely dependent on Brexit negotiations.

Then we have the FTSE 250 – a better proxy for the UK economy, but still only 50% of investments here are UK-focused. After the initial stumble, it's largely followed its bigger brother, producing a bit of a Fizz.

The meteoric rise in the FTSE Fledgling index is probably because it's an investment lottery. Only one or two rockets in this weighted index have to go off for there to be dramatic returns. The smallest businesses may show some excitement and go Pop, but that'll have little impact on mainstream investors.

The most relevant index therefore should be the FTSE Local United Kingdom index whose companies derive more than 70% of their revenues from the UK. Unfortunately, this index has largely gone Phut – a bit like our economy.

So my view on markets over the next 18 months is probably 'more of the same'. Five year returns will probably be equally dependent on how well divorce negotiations go with our largest trading partner. So rather than wait for the next market fireworks, we believe investors should be light on UK stocks and instead broadly diversified. Yes, investors may miss out on some stockmarket 'upside', but that leaves them less exposed on the downside. Quite good to know given that stockmarkets are at near record highs…

Andrew Jackson

Fund Manager,
CF Miton UK Value Opportunities

As a stock picking fund manager who concentrates on investing for the merits of individual companies, I tend to spend relatively little time cogitating on overall stock market levels.

In fact, the less time I spend forecasting markets and the more time I spend studying businesses the better my fund performs. With just 18 companies accounting for about half of the FTSE All Share Index it could be postulated that forecasting the stock market might be straightforward. However, the trouble with that line of reasoning is these companies are often fiendishly complex, operating in many international markets, and yet their share prices are often simply at the mercy of global sentiment and cash flows.

In the short term, the doomsters will provide a long list of reasons to be cautious: a relatively sluggish economic recovery after the great financial crisis of 2008; the high level of personal and government debt; interest rates that 'must' rise from their historic lows; inflation; deflation; Trump and Brexit. I haven't included anything new there, yet the market has proved remarkably resilient over an uninspiring summer. Many shares have been held up by their dividend yield, which continues to appear to offer attractive returns compared to fixed interest securities, to many eyes their nearest comparator.

It is highly likely that markets will trade lower at some point but history would suggest that, barring an investment made at the very top of a speculative bubble (and I don't think we're there yet), over the longer term the ownership of equities will deliver positive real returns.

Forecasting with certainty on a five-year time horizon is strictly for the brave or foolhardy, but I will state that a selected portfolio of shares in thriving and soundly financed companies, purchased at prices based on a realistic assessment of the current trading will stand the investor in good stead.

James Hanbury
Fund Manager,
CF Odey Absolute Return

Current stock market valuations are unattractive relative to history, which is perhaps of little surprise given we are in the ninth year of a bull market. The duration of this run has been made possible by a low starting point, a supportive global macro backdrop, weak sterling and, crucially, low bond yields that have fallen almost every year since 2009.

The key question for me is what happens to interest rates, wage inflation and productivity from here? On the balance of probabilities I feel the market is under-pricing the risk of a higher-rate environment. We are currently seeing almost record-low levels of unemployment in major developed market economies (for example in US, Germany, UK and Australia).

We believe that the impact of the reduction of central bank balance sheets is under-appreciated by the market. Higher bond yields (which are used as discount rates for stocks) would negatively impact equities, the cost of borrowing and the underlying demand for products, which has been pulled forward by central bank policy.

The stock market is being valued on the assumption that low discount rates are here to stay forever with current levels of demand. I find this inconsistent because if current levels of demand continue then rates will go up and if demand falls then equities are likely to fall too.

If wage inflation picks up without a pick-up in productivity then corporate margins will be pressured, a likely scenario in my view. Overall we are nervous about stock market levels and are therefore market neutral in our absolute return fund and are invested in more idiosyncratic stocks in our long only fund.

Martin Cholwill
Fund Manager,
Royal London UK Equity Income

When thinking about stock market prospects over the longer term, I believe the key driver is likely to be profit growth, which over time is dependent on the health of both the UK and global economies, as so many UK companies have significant overseas earnings.

In recent years, I have been constructing portfolios around the assumption of lacklustre economic growth and I see nothing to change that view. There is a lack of clarity on what the UK government are trying to achieve in their EU divorce settlement and a prolonged period of political uncertainty is likely.

Cash returns are likely to stay very low over the next five years. Gilt returns will be equally low and consequently, the yield of over 3.5% offered by the UK stock market continues to look attractive in my opinion. The role of the fund manager is to identify those companies offering a sustainable dividend that can grow over the longer term, against a background where a number of high profile companies have cut their dividends in recent years.

We will continue to monitor events closely and I expect to keep a significant overseas earnings element within my portfolio. Stock selection remains critical. Realistically, over the next five years, I would expect dividends to grow in line with nominal GDP, which should result in mid to high single-digit annual returns for the UK stock market. I would expect the market to grind higher over the next 18 months, as the hunt for income persists and so many people sit on cash while waiting for the dip.

Equilibrium View

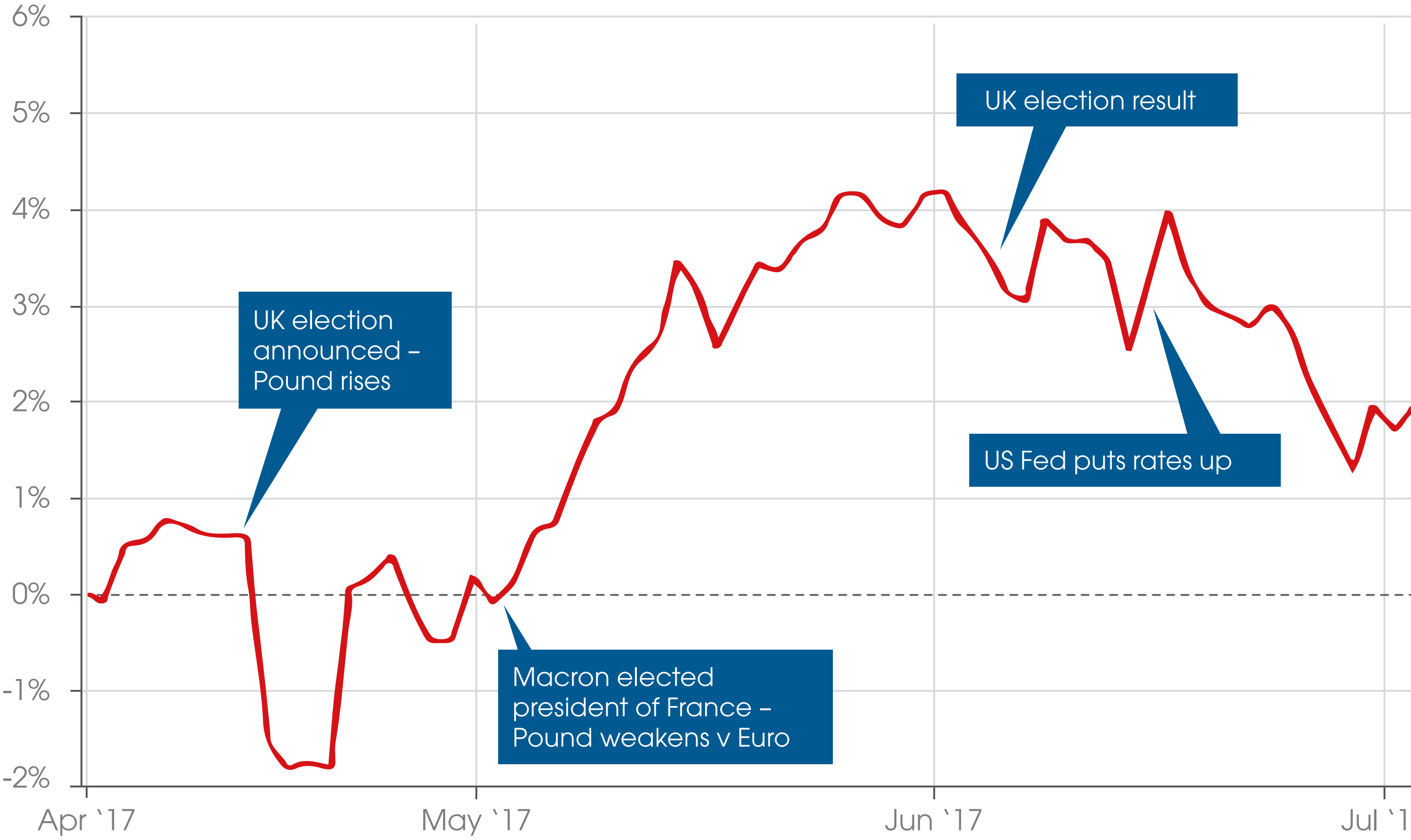
It's never possible to forecast what will happen to markets with any certainty, but there are a few things that we do know... Firstly, we know that market corrections happen frequently. Normally, markets drop at least 10% during every 12 month period, regardless of whether the market ends up higher or lower over that 12 months. We haven't had such a correction since the EU referendum which is an unusually long time. Secondly, returns from equities tend to be higher when valuations are lower and lower when valuations are high. Looking at indicators such as the price/earnings ratio, we are definitely towards the higher end of the range. Therefore, it seems likely that returns over the next year or two will be lower than we have seen lately. It also seems probable that things will get more volatile, but it's likely that any significant correction would be a buying opportunity rather than the start of a major bear market.

Investment review:

Expensive markets need creative solutions

Welcome to the investment review section of this edition of Equinox.

By Mike Deverell



32 Asset class outlook
In general, given market valuations we are cautious about equities, less pessimistic about fixed interest and more cautious about some property funds.

35 Portfolio changes & added value
Over the past six months we have been creative to achieve returns.

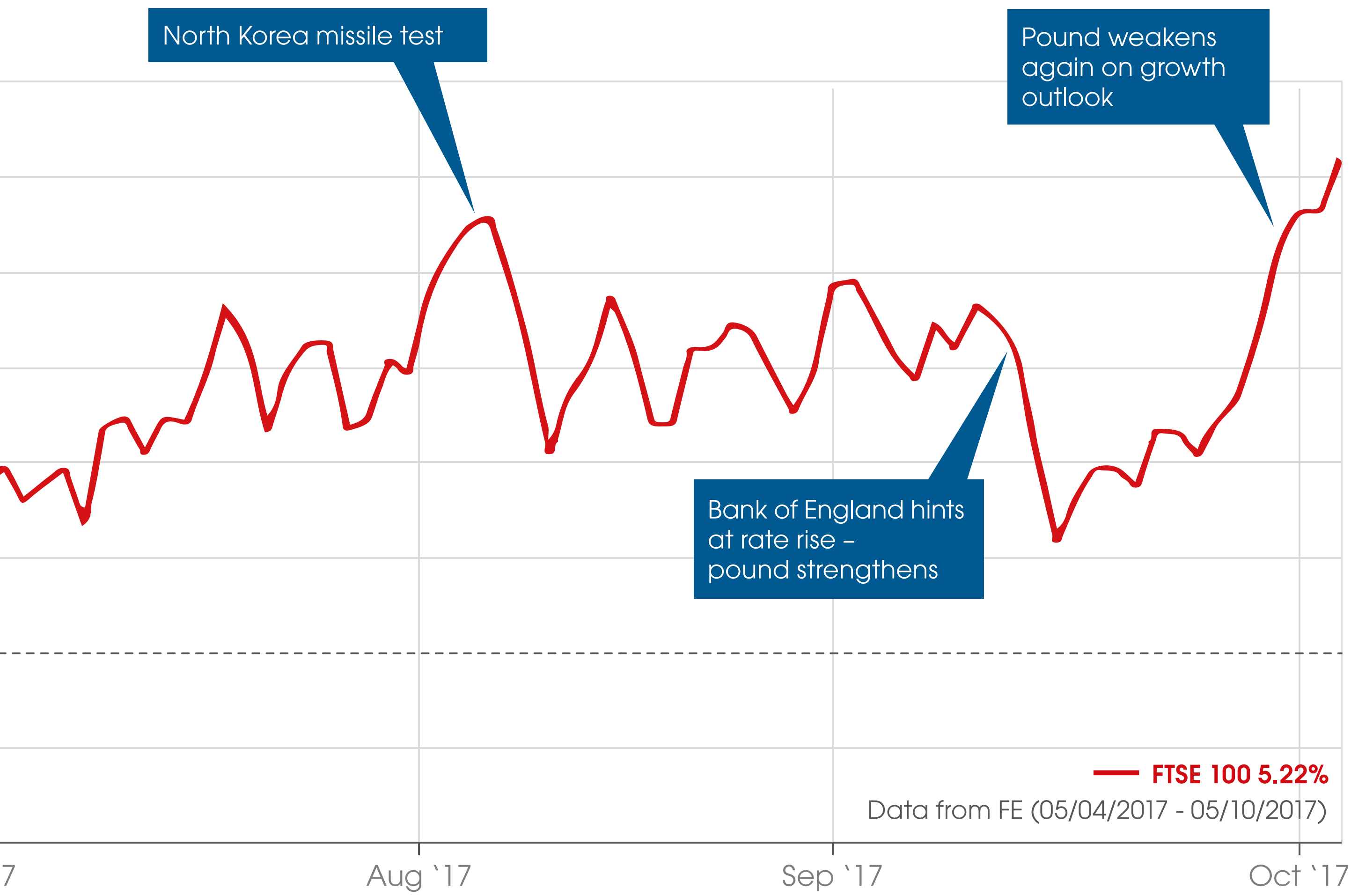
It's quiet – perhaps too quiet?

In this section we look at what has happened in the investment world over the past six months and explain what actions we have taken in managing portfolios.

In previous editions, the period in question has often been dominated by significant events such as the Brexit referendum or Donald Trump's election as US president. These have coincided with significant movements in markets.

In contrast, while we have seen recent elections in the UK and Germany as well as tensions with North Korea, markets have been incredibly quiet. There have been very few days where markets have moved significantly up or down. Like the weather, markets can often be at their calmest just before the storm!

In the meantime, portfolios have generally edged slowly upwards. The chart on this page shows the FTSE 100 over the past six months together with some of the key events over this time period.



36 **Fund performance & sector analysis**
Over the long term the performance of our funds looks strong.

39 **Portfolio performance**
Over five years all our portfolios have returned at least 5% above inflation and have outperformed their benchmarks.

Slow and steady wins the race

Markets have generally been moving slowly upwards over the past six months, even if there has been little to shout about. The FTSE 100 ended 5 April at 7,331 and by 5 October it had advanced to 7,507.

In many ways these market conditions suit our investment style as we generally focus on trying to make portfolio returns as consistent as possible. Our emphasis on controlling risk as well as maximising returns means we often do better in relative terms when returns are hard to come by rather than when markets are flying.

Table 1 shows the performance (%) of our three core model portfolios over both the past six months and one year. The portfolios are ahead of their benchmark over these time periods despite our relatively cautious approach. In many ways, we think equities look expensive relative to the profits being made by the underlying companies. Returns could therefore be subdued going forward and there is a significant risk of a pullback at some point.

However, the potential returns on fixed interest (corporate bonds and gilts) and property also seem likely to be below average over the next few years. If correct, this means investors will need to work that bit harder to eke out returns and be more creative when looking for opportunities.

“

In our view, the current market conditions make it all the more important to actively manage portfolios.

For example, one of our key investment decisions over the past year or so has been to have less invested directly in the stock-market but instead have more in ‘alternative equity’. This is our term for funds which are lowly correlated to mainstream stocks and tend to be less volatile. They often describe themselves as ‘absolute return’ funds which we think is misleading as they are not without risk.

Table 1: Portfolio performance

Portfolio	6 months	1 year
Cautious	3.47	6.62
Balanced	4.04	7.68
Adventurous	5.27	10.01
Mixed Investment 20% to 60% shares sector	2.56	6.14

Chart 1: FTSE all share vs Equilibrium alternative equity

A - FTSE all share (11.78%)
B - Equilibrium alternative equity (10.19%)

05/10/2016 - 05/10/2017 Data from FE 2017

Chart 1 shows the performance of our alternative equity portfolio (blue) against the FTSE All-Share index (red) over the past 12 months. Alternative equity has pretty much kept up with the market but more importantly it has produced these equity-like returns without equity-like volatility.

This chart is a pretty good illustration of our focus on risk adjusted returns. We’d much prefer to see a line like the blue one than the red one. Even though the blue line is slightly behind over the period, it has not seen the ups and downs which translate into potential losses.

In our view, the current market conditions make it all the more important to actively manage portfolios. Over three years, the changes we’ve made to a balanced portfolio have added 6.05% to returns (to end September 2017), or roughly 2% pa.

Of course we don’t just add value by making changes. Amongst other things, we also need to ensure that the funds we select are able to consistently outperform their benchmarks. As of the end of September, 96% of funds we invest in are in line with or ahead of their benchmark, with 70% of funds beating their sector by more than 25%.

Over the next few pages we’ll outline the outlook for each asset class and explain how we’re managing portfolios in this difficult environment.

Record highs, record lows

Over the six days up to and including 5 October, the S&P 500 (the main US stock market) hit a new record high each day. That is the first time in more than 20 years that this has occurred.

At the same time, volatility in the market hit an all time low. Chart 2 shows the 'Vix' index, which essentially measures how much US stocks have been fluctuating. There has been a trend of reducing volatility over a number of years and this measure is now at its lowest level on record.

Another way of looking at risk is maximum drawdown - the biggest peak to trough loss you could have made had you bought at the top and sold at the bottom. Chart 3 shows the biggest loss you could have made on the S&P 500 in any calendar year going back to 1914. The red bar is this year. If 2017 carries on the way it has done to date, this will be another record low maximum drawdown.

We are looking at the US market here since there is greater data history, but we can see similar patterns across other developed markets.

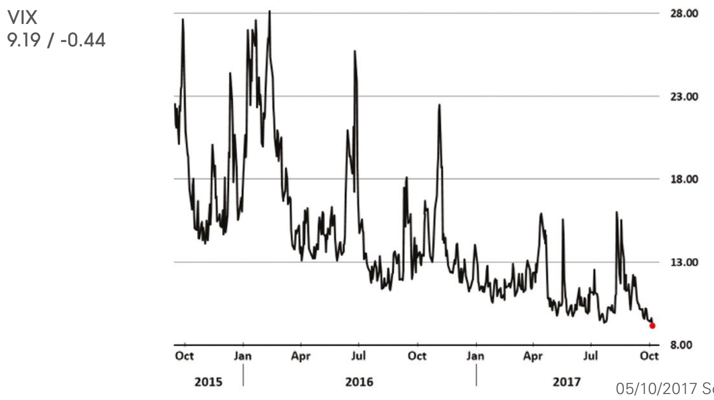
So if the market has carried on going up and all measures of risk are at historic lows, what's the problem? Perhaps a better way of looking at these indicators is not to describe them as a measure of the risk inherent in the market, but as a measure of complacency. Investors are not reacting as much as we might expect to risk factors. For example, when North Korea carried out missile launches and nuclear tests, there was only a very small reaction from markets.

If investors are not worried about risk factors, is this because there is compelling value in the market? In our view the answer is a definite no.

One of our favoured ways to assess value in the market is to look at the ratio between the total value of the companies in the market (price), divided by their total profits (earnings). While future returns cannot be guaranteed, the price/earnings (PE) ratio has historically been a good indicator of future returns.

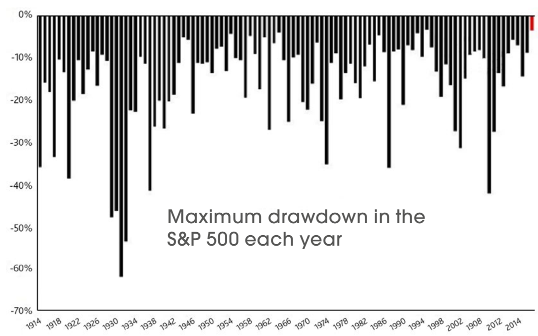
> Investors are not reacting as much as we might expect to risk factors.

Chart 2: Fluctuation of US stocks



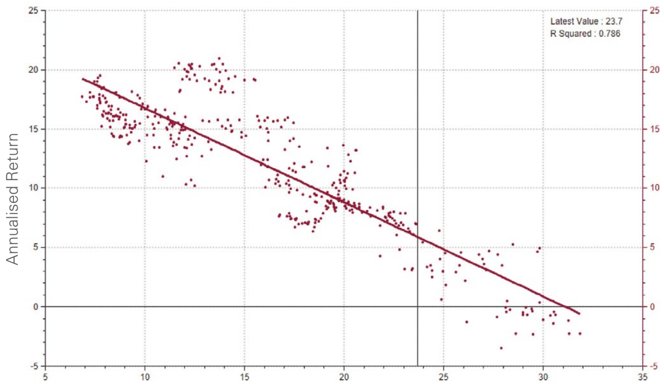
05/10/2017 Source: The Daily Shot

Chart 3: Drawdown in the S&P 500



Source: The Daily Shot

Chart 4: US PE ratio vs 10 year annualised returns



Source: Thomson Reuters Datastream / Equilibrium Team

Chart 4 looks at the PE ratio of the US stock market and compares it to returns. Each red dot shows a different 10-year period. The higher up each dot is on the chart, the higher the returns were over that period.

The horizontal axis shows the PE ratio at the start of the 10-year period. The further to the left, the lower the ratio was at the time. There is a clear pattern showing typically higher returns when the PE is low and lower returns when it is high.

The vertical black line shows the latest PE ratio, which is almost 24 times the profits of the companies. The long-term average is around 16 times for the US market.

In the past, when ratios have been at this sort of level we've typically seen returns of perhaps 4% to 6% pa over the next decade, well below the long term expected return of equities which is 10% pa. We're using the US market here for consistency but we see a similar pattern when looking at UK or European markets.

It's all relative...?

So why is it that investors are still buying into the market given these valuations?

Perhaps because it's so hard to find a compelling alternative. For example, certain bond markets are arguably even more expensive than the stock-market.

We remain in a very low interest rate environment and the returns on cash are likely to be very low for the foreseeable future. It is also highly possible that inflation levels will generally be lower in the future than they have been in the past, with the exception of short term currency-led spikes such as we're currently seeing in the UK. Therefore, perhaps the real return (after inflation) might not be too dissimilar to previous real returns?

You can certainly make an argument that stocks look better value in relative terms. However, that does not get around the fact that at current market levels the risk of a significant loss from stocks has increased. It's those possible losses that we want to avoid as best we can. While we might accept lower returns going forward if the risks are correspondingly lower, at present we think the potential returns are low AND the risks are high in many parts of the stock market.

The end of stimulus?

One big risk which could affect both equities and bonds is the potential end to monetary stimulus.

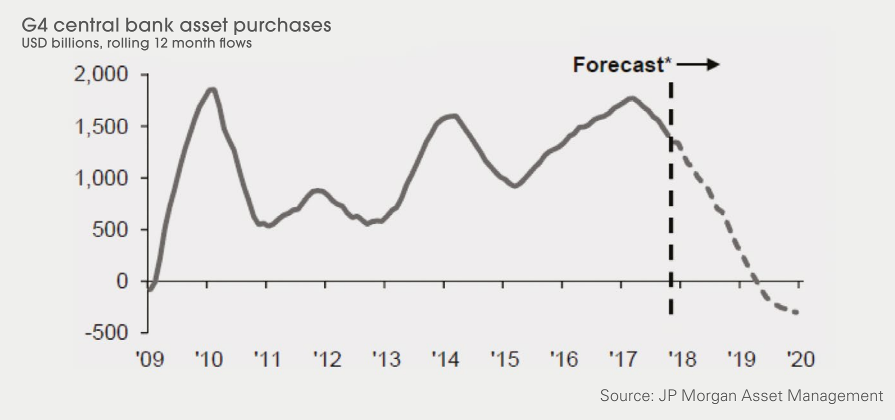
Since the financial crisis interest rates across most developed markets have been, give or take, zero. In addition, central banks have carried out vast amounts of quantitative easing (QE). Essentially, this means they electronically 'print' money – creating it out of thin air – which they then use to go out and buy assets, usually government bonds. This drives up their price and drives down the yield, which reduces the cost of borrowing.

Whilst QE has stopped and started in different regions, globally there has always been at least one central bank pumping money into the system. This has supported economic growth to some extent and arguably has supported asset prices to an even greater extent!

However, it seems that things are about to change with the US Federal Reserve set to start shrinking their balance sheet as well as increasing interest rates. Meanwhile, the European Central Bank will start reducing the amount of bonds they purchase.

Chart 5 shows the total amount of assets bought each year by the major central banks since 2009. These purchases are expected to reduce in the future and central banks may even be selling more bonds than they are buying by mid 2019.

Chart 5: Major central bank asset purchases

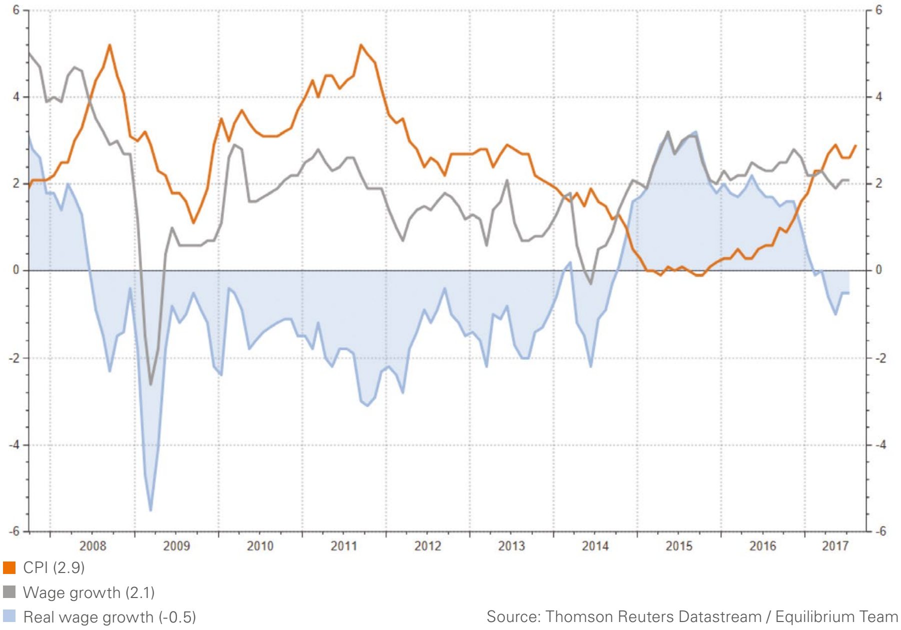


Source: JP Morgan Asset Management

QE has coincided with strong bond markets as you would expect given how it works. However, it has also had a knock on effect to equity markets. This is partly due to a 'search for yield' as the high price of bonds means they now produce much lower levels of income in percentage terms. This lack of income has made investors more inclined to allocate money to equities instead.

If QE has driven up the price of both markets, there is a serious question mark as to what will happen when QE goes into reverse.

Chart 6: UK prices and wage growth



Source: Thomson Reuters Datastream / Equilibrium Team

Taxing Trump

Staying with the US for the time being, one key driver of future returns could be whether President Trump will ever be able to follow through on two of his election promises; boosting infrastructure spend and cutting taxes.

There is still little detail about his plans other than his desire to reduce the federal corporation tax from its current 35%. He has now stated he wants this to be set at 20%, higher than the 15% he promised on the campaign trail. It is worth pointing out that the actual rate of corporation tax paid currently by US companies can vary wildly from the nominal 35% rate as there is a complex system of allowances and state-specific taxes. Some companies pay a lot less than this, some pay more.

Of course, a cut to corporation tax would be positive for stocks since it would mean an increase to company profits. It might also encourage some of the large tech companies who hold much of their cash offshore to repatriate this and either reinvest or return more to shareholders.

However, confidence in Trump's ability to enact such changes is waning. Companies paying the highest tax rate outperformed the rest of the market immediately following Trump's election back in November 2016, however this was quickly reversed. Throughout 2017 the performance of high tax companies has fallen. After more details were released in September, there was a short period where high tax companies began to catch up, however this appears to have waned again.

Of the other part of Trump's economic plan – to stimulate the economy by investing in infrastructure – we have heard very little. Given the difficulties Trump has had passing legislation so far, we remain sceptical that this will happen any time soon.

The UK economy

Back on this side of the Atlantic, we expect interest rates to increase in the UK in the near future, despite fairly anaemic economic growth.

In the second quarter of 2017 economic growth was 0.3%, up from only 0.2% in the first quarter. Total growth of 0.5% in the first half of this year puts the UK as one of the weakest developed economies.

One of the main issues in the UK has been the weakness of the pound since the EU referendum. This of course increases the price of everything that we import from overseas, which has therefore increased inflation. Chart 6 shows Consumer Price Index (CPI) inflation over the past decade (orange line).

At the same time, we have seen wage growth (the grey line on chart 6) stagnate which means that prices are currently growing faster than wages. The blue shaded area on chart 6 shows real wage growth – the difference between prices and wages – has turned negative after two years of positive growth. This means people's incomes are essentially falling in real terms.

As many people now have less disposable income this has an effect on spending, which has been a major driver of UK growth in recent years. A number of indicators such as retail sales and car sales are pointing to a consumer slowdown, which we think could have a lingering effect on the economy.

The Bank of England is meant to target inflation, keeping it as close to 2% pa as possible. Given CPI is now 2.9% they seem likely to act by increasing interest rates from the current 0.25%.

In our view this will have little effect on inflation which is mainly being generated externally. While the potential for higher rates has pushed up the pound somewhat, there is a limit to how much impact this can have. The future prospects for the pound will largely be determined by the outcome of the Brexit negotiations. Given the current weakness in the UK economy it seems a risk to increase rates at the current time.

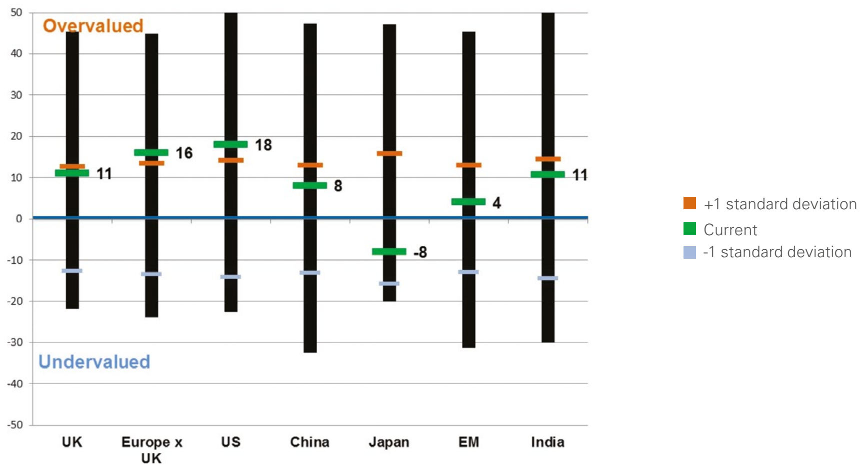
Asset class outlook

Equity

We have already touched on our concerns about the US market. Many other markets around the world share the same issues as the US, in particular the high valuations.

When we assess value we look at several indicators and we combine them to give each of the regions we invest in a score. Chart 7 is what we refer to as our 'graphic equaliser' which shows our score for each region.

Chart 7: Regional market values



The green bar shows where each region is currently valued relative to its own long-term history. The higher up the bar, the more expensive the market. Only Japan is currently below the long-term average.

Those that are statistically minded may be interested to note that both the US and European markets are more than one standard deviation above their own long-term average (as shown by the orange bar on the chart). The UK is only marginally below. We would normally expect the valuation indicator to be within one standard deviation of the average more than two thirds of the time. It is therefore pretty unusual to see such high valuations.

We see better value in Japan and, to a lesser extent, elsewhere in Asia including China. Not only do the markets look better value, but also their economic strengths have perhaps surprised many commentators. As a result, we hold less in the UK, Europe and US than usual and more in the Far East.

Most recently, we reduced our US exposure and added a very small position into India. This market is not cheap either but the future prospects for growth are very positive in our view, with India's demographic advantage and a more business friendly culture being introduced. We have more confidence in the long-term returns of the Indian market at current levels than we do in the US.

Fixed interest

The potential for reduced QE or even reversed QE, as well as higher interest rates, is a significant risk for fixed interest markets.

A bond generally pays a fixed level of interest in monetary terms for a fixed period of time. If interest rates fall, that fixed interest looks more attractive in relative terms and so bond prices tend to rise. This reduces the level of interest as a percentage of the bond price.

As interest rates rise, the reverse is true and the yield of the bond looks less attractive by comparison, meaning the price tends to fall.

In the UK, recent hints from the Bank of England about increasing rates have led to a short but sharp sell off in gilts and certain corporate bonds.

A two year gilt is a UK government bond so there is very little chance of default and as such it merely reflects interest rate expectations.

Prior to the Bank of England's September meeting the yield on a two year gilt was less than 0.1%. With current interest rates at 0.25% that was implying that markets believed interest rates would go down over those two years.

Chart 8: IPD property index returns

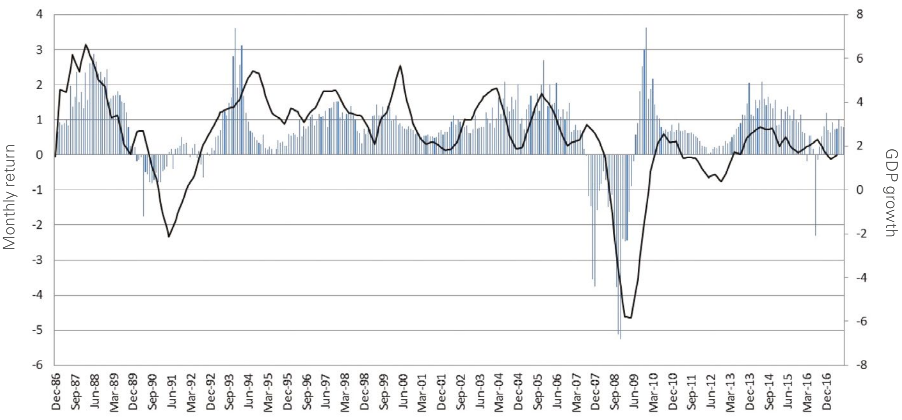
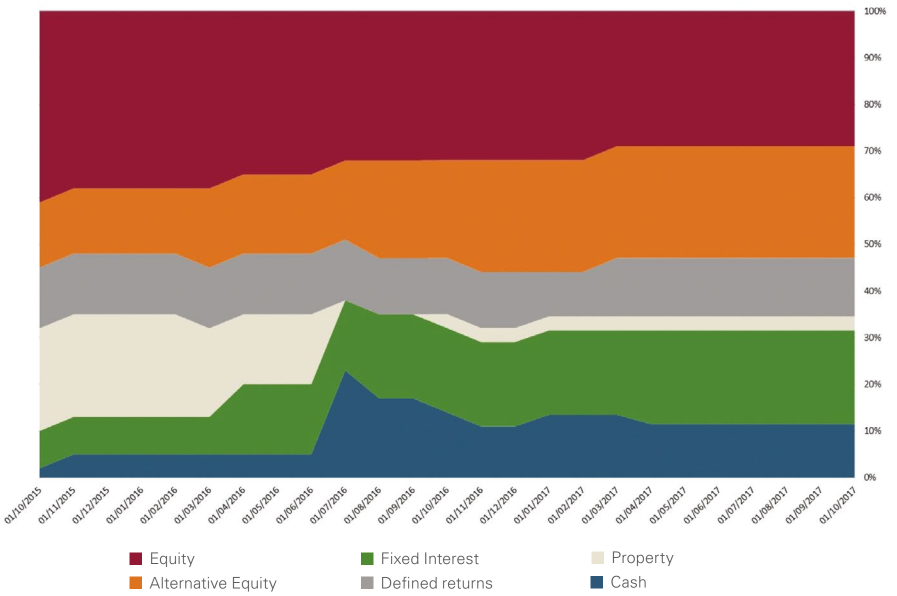


Chart 9: Asset allocation



Over the few days following the meeting that yield jumped to 0.41%, instead implying a near certainty that rates will go up to 0.5% in the near future.

This shows the interest rate risk inherent in bonds and for now we think it makes sense to keep exposure to bonds that are sensitive to interest rate changes to a minimum.

Having said that, we do hold a small position in index linked gilts where the possible return is linked to inflation. We describe this as our 'Brexit hedge'. Should negotiations with the EU end badly, the pound could fall further, pushing inflation up even more. At the same time, it is possible that gilts would be in demand as they are often seen as a safe haven.

Commercial property

We currently hold very little in commercial property.

A typical commercial property has a rental yield in the region of 5.25% which looks attractive relative to rates on cash and bonds. However, we are concerned that property prices may fall given the current economic outlook.

Chart 8 shows the monthly total return (both income and capital) of the IPD Property Index going back to the mid 80s (blue bars) compared to UK economic growth (black line).

The current levels of growth in the UK imply very low returns from property.

We also think there is a significant risk to property prices from Brexit, particularly in London. Many City firms are looking at moving staff to offices elsewhere in Europe as it could become difficult to run EU-wide operations out of London after Brexit.

Asset allocation

Chart 9 shows the asset allocation of our balanced portfolio over the past two years.

As markets have risen we have generally reduced equity (the red area) and in fact, we currently have the lowest proportion in equities we have ever had. You can also see how prior to the EU referendum we had been reducing property (light grey), before selling it altogether the day after the result. We subsequently reinvested a small amount which we continue to hold.

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> We therefore keep exposure to any one bank down to a maximum of 5% of a portfolio and choose only those banks that we feel are relatively strong.

As mentioned earlier, as we reduced equity we also increased exposure to alternative equity which over the long term, we feel can provide returns not too dissimilar to traditional stock market funds, but with much lower risk.

Also on that theme has been our continued use of defined returns products, which is the grey area on the chart.

Defined returns are what are also known as 'structured products'. These provide a pre-defined return in a given set of circumstances. In our view these products are good places to invest if you think the market is unlikely to move much higher in the short term, but that returns will not actually be negative over the next couple of years. For example, in January we reduced exposure to traditional equity funds by around 3% of a portfolio, instead buying a defined return product with Morgan Stanley.

This was set up on 27 January when the FTSE 100 was at 7,185 and the S&P 500 was at 2,294. Should both those markets be at or above these levels on 27 January 2018, the product will end and provide a return of 11.55%.

Crucially, the market does not actually need to go up to make this return – it only needs to go sideways. If the market goes down over the first year the product rolls on to the second anniversary when the same test is applied. At that time, if the markets are the same or higher than the starting levels, then the potential return is 23.1% (11.55% x 2). If not it rolls on to the third year when the possible return is 34.65% (11.55% x 3) and so on. It doesn't matter if markets drop in between times and then recover before an anniversary date.

There are six chances to achieve the return. If the market remains down over six years then investors just get their money back unless one of the indices is down by more than 40% on that date. If this happens then we lose money on a 1:1 basis. In other words, if the worst market is down 45% then we would lose 45%. To date we've never seen one of these markets down to that extent over a six year period but that does not mean it couldn't happen in the future.

When we set this product up we were concerned that we could see a sharp pullback in the short term (and we remain concerned) but we were reasonably confident that over a two year period or more markets would probably be up.

We also reasoned that if we were wrong and markets carried on going, we felt it unlikely they would go up by more than the 11.55% pa potential return of this product.

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> Every month we review the performance of each of the funds we hold relative to the sector or benchmark that we compare them to.

The risk with such products is counterparty risk. We have essentially lent money to Morgan Stanley by buying this product (which is similar to a bond in structure, even if the returns are determined by the stock market) and so if Morgan Stanley are unable to repay the money we could lose it all. We therefore keep exposure to any one bank down to a maximum of 5% of a portfolio and choose only those banks that we feel are relatively strong.

Fund performance

We use a mixture of actively managed funds and passive index trackers. Some investors only use one or the other but we don't like to be too prescriptive. We believe it depends on both the market in question and the current outlook. Given current market levels, we are holding more in active funds than we would if we felt returns would be easier to come by. In that scenario, we would probably use more index funds.

Every month we review the performance of each of the funds we hold in portfolios relative to the sector or benchmark that we compare them to. As well as looking at short and long-term performance the crucial metric is the return the fund has made since the date we added it to portfolios.

We split funds into categories:

- **Blue** – if the fund has beaten its benchmark by 25% or more since we bought it
- **Green** – if the fund has outperformed by more than 10% but less than 25%
- **Amber** – if the fund is within 10% of the benchmark either way
- **Light grey** – where the fund has underperformed by more than 10%
- **Dark grey** – where the fund has underperformed by 25% or more

As of the end of September, 96% of the funds we hold are amber or better, with 70% beating their benchmark by at least 25%. The average outperfomance is around 5% pa.

The only underperforming fund has only been in portfolios for a month and so it is a little early to judge it!

We are very pleased with this result and good fund selection has really helped add value of late.

Sector performance & analysis

UK equities

UK equity markets have seen a strange couple of years in terms of performance, particularly around the time of the EU referendum.

For much of the period, smaller and medium-sized companies have outperformed those in the top 100. That is partly due to the number of oil and mining stocks in the FTSE 100, during what has been a volatile time for commodities.

After the referendum result, the larger multinational companies within the top 100 significantly outperformed the small and mid cap stocks, which tend to be more UK focused. The sharp fall in the pound following the vote meant that those stocks which make most of their money overseas saw a one-off jump in profits and a knock-on effect to their share prices.

However, since the beginning of 2017 we have seen a return of the outperformance of those smaller companies. This has helped drive the performance of our UK Dynamic portfolio, which has done extremely well against both sector and index.

Our UK Conservative Equity portfolio has struggled somewhat to keep up in a rising market. This is not unexpected in many ways, since we select funds which we expect will take less risk than the market. We would expect them to outperform in more volatile markets. However, the main reason for the portfolio's relative underperformance was our holding in the Woodford Equity Income fund.

While manager Neil Woodford has a great track record, we are concerned that at present he has added too many risky 'cyclical' stocks which are dependent on a strong economy. This means the fund is taking more risk than we would like in a UK Conservative fund and so we have decided to switch this out in favour of the Rathbone Income fund.

Table 2 shows the performance of our actively managed UK funds and portfolios over various time periods. Each has done very well with the exception of our Woodford holding.

Overseas equities

After previously leading global markets, US stocks have taken more of a back seat of late to those in Europe and Japan.

Over the six months since the previous edition of Equinox, our US index tracking fund is up only 4.13%.

Table 2

	6 months %	1 year %	3 years %
CF Miton UK Multi Cap Income B Inst Inc TR in GB	8.49	14.09	43.45
Royal London UK Equity Income M Acc TR in GB	4.72	8.49	36.91
CF Woodford Equity Income (now sold)	-2.30	-0.82	27.73
Sector : UT UK Equity Income TR in GB	**4.56**	**9.28**	**29.27**
Index : FTSE All Share TR in GB	**5.22**	**11.78**	**31.76**
CF Miton UK Value Opportunities B Inst Inc TR in GB	10.61	22.50	55.36
Lindsell Train CF Lindsell Train UK Equity in GB	7.87	12.65	57.25
Marlborough Special Situations in GB	11.43	25.41	69.92
Sector : UT UK All Companies TR in GB	**6.00**	**12.36**	**32.05**
Index : FTSE All Share TR in GB	**5.22**	**11.78**	**31.76**

Figures are highlighted in green where they are in excess of the relevant sector.

By contrast, our European fund holding is up 17.21% and one of our Japan funds has made 9.51% over the same period.

Our preference for Japan over the US, as well as good fund selection, has helped the performance of the Global Established portfolio to do well against its benchmark. The individual funds have beaten their own sectors over all time periods shown in Table 3, with the exception of the Schroder Tokyo fund. This has struggled of late although it has a great long-term track record.

Within the emerging markets area we are invested solely in Asia at present, including specific Chinese and Indian holdings. Interestingly enough, the South Korean market has continued to do well despite worries about their neighbour to the north!

Our preference for Asia has helped our Global Speculative portfolio to beat its benchmark substantially, returning 61.85% over three years relative to a typical global emerging markets fund at 43.59%.

Alternative equities

We have been pleased by alternative equity's recent period of performance.

As mentioned earlier, what we want from this area is to produce returns close to those available from equities over the long term but with much less volatility. Ideally, with low correlation to traditional equity funds and greater diversification.

The portfolio has more than done its job returning 10.19% over 12 months, just behind the FTSE All-Share which returned 11.78%.

Despite keeping up well with traditional equities, the alternative equity portfolio has had only around one third of the volatility of the FTSE All-Share over this period. The maximum drawdown of the portfolio over this period (the most you could have lost) was 0.98% compared to the index where you could have lost 4.58% at worst.

The correlation between the portfolio and the FTSE was only 0.12 over this period, where 0 is no correlation and 1 is perfect correlation. This is exactly the behaviour we'd like to see from this portfolio.

Fixed interest

The past 12 months has been a difficult period for investors in UK government bonds who will generally have lost money.

Corporate bond investors have done better but even they have taken a recent hit after the Bank of England hinted at a likely increase in interest rates.

Our fixed interest portfolio is largely in corporate bonds and especially biased towards those that are less sensitive to interest rates. This has helped returns over 12 months which are more than double the sector average as can be seen in chart 10.

Chart 10: Equilibrium fixed interest portfolio, UT sterling corporate bond and FTSE actuaries UK conventional gilts all stocks

A - Equilibrium fixed interest (3.44%)
B - UT sterling corporate bond (1.46%)
C - FTSE actuaries UK conventional gilts (-3.64%)

05/10/2016 - 05/10/2017
Data from FE 2017

Table 3

	6 months %	1 year %	3 years %
Baillie Gifford Japanese B Inc TR in GB	9.51	18.82	83.08
Schroder Tokyo A Inc TR in GB	4.15	12.23	59.38
Sector : UT Japan TR in GB	6.09	13.51	63.34
BlackRock European Dynamic FD Inc TR in GB**	17.21	26.74	71.92
Sector : UT Europe Excluding UK TR in GB	11.28	20.56	54.28
Vanguard US Equity Index A Inc TR in GB	4.13	16.61	65.53
Sector : UT North America TR in GB	2.87	15.43	60.90
Portfolio : Equilibrium Global Established Portfolio	8.42	18.72	69.95
Portfolio : Global Est. Benchmark TR in GB	6.14	17.32	58.31
GS India Equity Portfolio I GBP TR in GB**	Not held for full 6 months		
Invesco Perpetual Hong Kong & China Z Acc in GB	19.44	23.94	70.00
Schroder Asian Alpha Plus Z Inc TR in GB	12.97	24.15	67.55
Portfolio : Equilibrium Global Speculative Portfolio	14.95	22.89	61.85
Sector : UT Global Emerging Markets TR in GB	8.98	18.52	43.59

Figures are highlighted in green where they are in excess of the relevant sector.

> Within a couple of weeks of the (EU referendum) vote, several property funds had to suspend redemptions as cash reserves were quickly exhausted.

Property

We have held little property in portfolios since the EU referendum.

Within a couple of weeks of the vote, several property funds had to suspend redemptions as cash reserves were quickly exhausted.

Most of these funds did eventually re-open but this action helped us avoid short-term losses. We bought back into property in September 2016 and since then have only held around 3% in property in most portfolios. We typically only hold one fund, the Kames Property Income fund.

This fund has returned 13.07% over 12 months compared to our property benchmark (an average of physical property funds we consider eligible for our portfolio) which returned 5.05%.

While property has not seen a major downturn, we have seen little in the way of capital gains with returns coming largely from income. One of the reasons we prefer the Kames fund is due to its high income yield and because it has virtually nothing in London, the region most vulnerable to Brexit-related issues.

Chart 11 shows the return of the income share class of the Kames fund from the beginning of 2017. The blue line is the total return assuming income is reinvested. The red line shows the price of the fund excluding that income. As you can see, virtually all the returns this year have been driven by income. We don't see this changing going forward and so will remain light on property and very selective over the type of fund we hold.

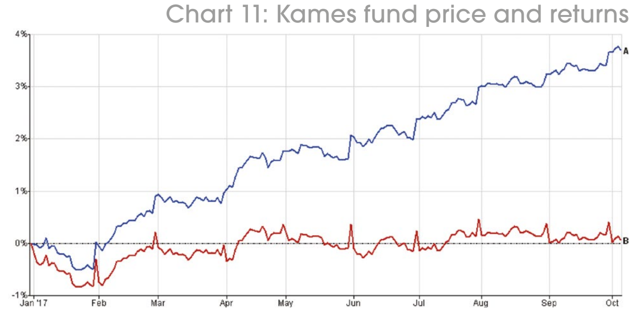
AIM portfolio

Our AIM portfolio invests into stocks listed on the Alternative Investment Market (AIM) which we believe qualify for Business Property Relief. The primary purpose of the portfolio is in relation to inheritance tax planning. We originally looked for a specialist AIM manager to manage this type of portfolio. However, we found it impossible to find an external manager who successfully balanced risk and reward, while keeping charges low. We therefore decided to create our own portfolio on a 'smart beta' basis. Essentially we use a rules based system to select the stocks, based on their size and payment of dividends.

The FTSE AIM Index has performed well returning 25.1% over the last 12 months as compared to 11.8% for the FTSE All Share Index. Many of the stocks that initially drove the AIM Index up after the Brexit vote last year, such as those involved in commodities and financials, have consolidated in recent months while the broader range of industrial companies have taken up the baton. This has helped lift the performance of the EQ AIM Portfolio stocks with a total return of 35.0% over the same period. It is important to note that AIM stocks are much more volatile than standard markets and can fall as well as rise, therefore should only be used for IHT mitigation or by experienced investors with a high capacity for loss.

Looking ahead, the strong trading results and outlook statements announced this year give reason to be confident that earnings have good forward momentum. Table 4 shows the top five and the bottom two performing stocks in the portfolio over the past 12 months:

Chart 11: Kames fund price and returns



A - Kames - Property income B (3.70%)
B - Kames - Property income B (0.06%)

30/12/2016 - 05/10/2017
Data from FE 2017

Table 4: AIM portfolio - stock performance

Top stocks by total returns

156%	Burford Capital
131%	Fevertree Drinks
97%	Conviviality
80%	Keywords Studios*
74%	Scapa Group

Bottom stocks by total returns

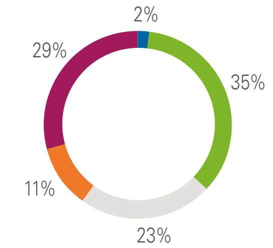
-22%	Impellam Group
-6%	Redde

*Since purchase in July 2017

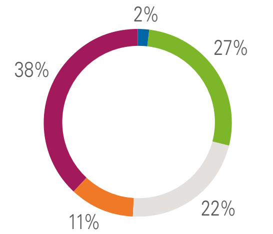
Model portfolio returns

It is pleasing to note that all of our portfolios are ahead of the average fund manager over the majority of periods shown.

Strategic asset allocation

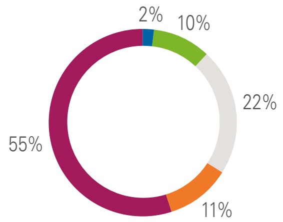


Cautious Model	6 Months %	1 Year %	3 Years %	5 Years %	Since Launch* %
Cautious Portfolio	3.48	6.63	18.68	37.48	65.97
Mixed Asset 20-60% Shares Sector	2.56	6.14	20.92	36.71	52.31



Balanced Model

Balanced Portfolio	4.05	7.69	22.83	44.14	70.84
Mixed Asset 20-60% Shares Sector	2.56	6.14	20.92	36.71	52.31



Adventurous Model

Adventurous Portfolio	5.28	10.02	30.35	52.32	77.92
Mixed Asset 20-60% Shares Sector	2.56	6.14	20.92	36.71	52.31

Cash
Fixed interest
Alternative equity
Equity
Property

We also show returns compared to the Asset Risk Consultants indices made up of other discretionary managers' portfolio returns. These are shown in the table below and are given to 1 October 2017 as ARC indices are published on a monthly basis:

Model Portfolio	6 Months %	1 Year %	3 Years %	5 Years %	Since Launch* %
Cautious Portfolio	2.93	6.48	17.44	37.54	64.81
ARC Sterling Cautious PCI	1.28	3.83	11.68	21.43	39.46
Balanced Portfolio	3.36	7.58	21.29	44.07	69.41
ARC Sterling Balanced PCI	2.02	6.44	18.03	34.20	50.00
Adventurous Portfolio	4.34	10.10	28.35	51.79	75.90
ARC Sterling Balanced PCI	2.02	6.44	18.03	34.20	50.00

* Launch date 1 January 2008. All data to 5 October 2017.
Figures are highlighted in green where they are in excess of the relevant sector.

Sector portfolio returns

	6 Months %	1 Year %	3 Years %	5 Years %	Since Launch* %
Equity Portfolios					
UK Conservative Equity	4.04	7.76	28.96	65.74	84.30
UT UK Equity Income Sector	4.56	9.28	29.27	62.94	77.72
UK All Companies	5.15	11.62	31.34	59.54	75.18
UK Dynamic	9.90	19.73	56.55	104.25	121.55
UT UK Equity All Companies Sector	6.00	12.36	32.05	65.30	78.61
Equilibrium AIM	20.25	36.05	125.15	221.96	102.92
FTSE AIM All Share ***	10.37	25.06	43.90	53.36	47.93
Global Established	8.42	18.72	69.95	119.68	142.89
Global Established Benchmark **	6.14	17.32	58.31	110.75	127.67
Global Speculative	14.95	22.89	61.85	76.86	74.62
UT Global Emerging Mkts Sector	8.98	18.52	43.59	50.70	61.66
Balanced Equity Mix	7.97	15.76	51.40	88.77	103.42
Balanced Equity Benchmark ****	6.12	14.30	43.40	81.19	92.23
Adventurous Equity Mix	9.51	17.88	55.11	90.40	104.9
Adventurous Equity Benchmark ****	6.57	15.29	45.11	80.44	91.15
Alternative Equity	6.57	10.19	20.60	44.53	76.53
UT Mixed Asset 20-60% Shares	2.56	6.14	20.92	36.71	52.31
Fixed Interest Portfolio	1.75	3.44	13.53	26.70	71.89
UT Sterling Corp Bond Sector	1.12	1.46	15.95	26.62	60.78
Property Portfolio	2.71	13.07	22.23	41.23	65.53
Composite Property Benchmark *****	2.32	5.05	11.85	28.65	54.25

* 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.

*** Performance data prior to 17 March 2015 (launch date) is calculated using the backtested model portfolio.

**** 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.

Figures are highlighted in green where they are in excess of the relevant sector.

Market returns

	6 Months %	1 Year %	3 Years %	5 Years %
Equity Markets				
FTSE 100 Index (UK)	4.64	11.13	29.12	54.24
FTSE All Share Index (UK)	5.22	11.78	31.76	60.32
FTSE 250 Index (UK Mid Cap)	7.24	13.49	43.11	90.46
MSCI Europe Ex UK Index	10.82	21.35	49.16	90.07
S&P 500 Index (USA)	3.72	16.23	64.67	131.81
Topix (Japan)	5.85	13.57	65.19	117.40
MSCI Emerging Markets Index	8.04	16.84	34.33	34.67

Fixed Interest

IBOXX Sterling Corporate Bond Index	0.81	0.73	20.44	35.62
UT Sterling Corporate Bond Sector	1.12	1.46	15.95	26.62
FTSE British Government Allstocks (Gilt) Index	-2.36	-3.64	16.77	20.61
UT Gilt Sector	-2.39	-4.15	16.97	20.26

Property

IPD UK All Property Index	4.16	9.24	30.01	66.08
Composite Property Benchmark*	2.32	5.05	11.85	28.65

Other Measures

Bank of England Base Rate	0.13	0.25	1.21	2.23
RPI Inflation	2.01	3.70	6.64	12.49

* 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 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 5 October 2017.
- 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 dividend pay dates, 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 in which you are invested. We will also provide personalised performance information at your regular reviews.

Ideal funds

Portfolio	Fund Name	Initial Charge %	Annual Management Charge %	Ongoing Charges Figure %
Fixed Interest (short dated)	Royal London Short Dated High Yield	0.00	0.50	0.63
Fixed Interest	BlackRock Corporate Bond Tracker	0.00	0.15	0.17
	Jupiter Strategic Bond	0.00	0.50	0.73
	Royal London Extra Yield Bond	0.00	0.75	0.85
	TwentyFour Dynamic Bond	0.00	0.75	0.81
	L&G Allstocks Index Linked Gilt Index	0.00	0.15	0.15
Property	Kames Property Income	0.00	0.75	0.90
Alternative Equity	H2O Multi-returns	0.00	1.00	1.00
	Odey Absolute Return	0.00	0.75	0.92
	Invesco GTR	0.00	0.87	0.87
	Old Mutual GEAR	0.00	0.75	0.85
Infrastructure (alternative equity)	Lazard Global Listed Infrastructure	0.00	0.85	1.03
Defined Returns	Barclays FTSE Autocall Nov 2014	0.15	0.00	0.00
	JPM FTSE Autocall June 2017	0.15	0.00	0.00
	Morgan Stanley FTSE/S&P Autocall Jan 2017	0.15	0.00	0.00
	Atlantic House Defined Returns	0.00	0.55	0.76
Equity - UK Conservative	Royal London UK Equity Income	0.00	0.62	0.67
	Miton UK Multi Cap Income	0.00	0.75	0.82
	Rathbones Income	0.00	0.75	0.79
Equity - UK All Companies	Vanguard FTSE All Share Index	0.20	0.08	0.08
Equity - UK Dynamic	Lindsell Train UK Equity	0.00	0.65	0.77
	Miton UK Value Opportunities	0.00	0.75	0.87
	Marlborough Special Sits	0.00	0.75	0.80
Equity - Global Established	Baillie Gifford Japanese Co.	0.00	0.65	0.68
	BlackRock European Dynamic	0.00	0.75	0.93
	Schroder Tokyo	0.00	0.75	0.92
	Vanguard US Equity Index	0.00	0.10	0.10
Equity - Global Speculative	Goldman Sachs India	0.00	0.85	0.99
	Invesco Hong Kong and China	0.00	0.94	0.94
	Schroder Asian Alpha	0.00	0.75	0.96

These are the funds in our standard portfolios at 5 October 2017. These will change periodically and have not all been held throughout the period covered by this document.

equilibrium

Your future financial confidence

Our commitment to excellence and the high standard of service we provide is recognised by the many awards we have won. Below are just some of the words used by clients to review our services. To find out more about who we are, what we do and why we do it, visit our website at **www.eqllp.co.uk** - here you can read regular blogs on topical issues, register for one of our events and read our newsletters.

Enthusiastic
Confident
Holistic Views
Cheerful
Positive
Well Presented
Brilliant
Approachable
Exceptional
Detailed
Expert
Responsive
Trustful
Polite
Sensible
Useful
Good Preparation
Reassuring
Straightforward
Personal
Satisfaction
Faith
Adapt
Excellent Service
Prompt
Important
Pleased
Thorough
Pleasure
Precise
Well Thought Advice
Satisfied
Good Service
Accommodating
Thoughtful
Friendly
Engaged
Interest

Friendly Manner
Prepared
Superb
High Quality
Welcoming
Listen Carefully
Great
Reliable
Trustworthy
Honesty
Committed
Considerate
Sociable
Expertise
Systematic
Tuned In
No Pressure
Outstanding
Listens
Second To None
Clearly
Simple
Awareness
Happy
Open
Pleasant
Organised
Hardworking
Feel Valued
Explanation
Courtesy
Straight Talking
Competent
Effective
Exceeded
Capable
Proactive
Transparent
Quick
Personalised
Achieved
Balanced
Well Handled
Honest
Jargon Free
Concise
Credible
Good
Clear
Active
Professional
Well Prepared
Invaluable
Straight Forward
Diligent
Efficient
Comprehensive
Comfortable
Warm
Informed
Commendable

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