equinox

half yearly investment magazine

Cashing out

The Northern Powerhouse – powerful enough?

Starting a new chapter

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PLUS: Safe as houses | Taking care of business | The perfect finish

Welcome

During the past 12 months, we have been warning clients that volatility doesn't simply go away and that a fall in markets was highly probable. It can be lonely holding that view when investors are chasing returns and their enthusiasm is fuelled by irrationally optimistic commentators.

From the recent highs, markets then fell around 10%, and our cautious approach has been proven correct. The earlier sell-off of equities that we made has provided us with the opportunity to buy into the dip. However, it's worth remembering that it's been nearly 10 years since we have had a 20% fall in equity markets. Such falls usually happen on average every five years, and with price/earnings ratios still way above average, it's possible that we could see the FTSE 100 fall to 6,250 before too long.

If that does happen, we will be taking full advantage of the situation and looking to reduce the impact of any losses felt by falls in the markets. It will also be interesting to see how the more bullish firms who headed into the dip already overweight equities hold up in this environment. As Warren Buffet famously quipped 'It's only when the tide goes out that you can see who's wearing trunks'. At Equilibrium, we don't like to leave our clients over exposed!

With Manchester on track to be Britain's strongest performing city over the next couple of years, we also take a look at what's happening in our local region. I hope you enjoy this edition of Equinox and that it provides you with an insight into our strategy and portfolio positioning as well as a broader view on topical issues.

As always if you have any questions, feedback or comments please let me know.

Colin Lawson
Founder & Partner

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Cashing out

With the rise of cryptocurrencies, is now the time to embrace a cashless society?

By Colin Lawson and Mike Deverell

Once upon a time, money was real - in fact we used to bite it to make sure. It was a tangible, shiny thing made of gold, silver and bronze. However, today the only vestige of this system remaining is in Olympic medals.

After the metal we created paper money, but we still made sure that it was underpinned with gold bullion. Then we abandoned the gold standard and created fractional banking, which was literally a licence to print money. We maybe should have stopped there, but once the concept of creating money out of thin air was realised, the temptation was too great and this became turbo-charged with the advent of 'quantitative easing'. After this, we began to print new money at an unprecedented rate.

It is hard to grasp just how much has been printed, but the US Federal Reserve has printed over $4.5trn since 2008, with the Bank of England putting about £375bn into the market. This pales in comparison to the Bank of Japan, which has been injecting an epic 80trn yen (£527bn) into its economy per month since 2013. To put that all into perspective (if that's even possible) if you were to go back in time by one trillion seconds it would take you to the year 29,693BC !!

So if things weren't silly enough already, we then decided to create more money out of thin air by creating a whole series of 'cryptocurrencies' which are allegedly worth $100bn ($41bn of this is in Bitcoin alone). More about those later.

Next up on the evolutionary money trail is the abolition of cash altogether, and secretly that is exactly what our Central Banks want to happen. The reasons why might surprise you.

Firstly it's about interest rates. During past recessions the Bank of England has cut interest rates typically by around 5%, but with today's rate standing at just 0.50% it has lost the ability to use this safety valve.

As bizarre as a world without cash may seem, it may not be too far away at all

The Bank of England would like to have the ability to make interest rates negative but if it was to cut rates to -4% tomorrow, then savers would withdraw physical cash from their accounts and hold it in a safety deposit box instead. Imagine you had £100,000 on deposit and your bank wanted to charge you £4,000 for the privilege of keeping it there, what would you do? Many would find that unappealing to say the least. There are two problems with this; firstly, there probably isn't enough physical cash available to cope with the withdrawals, and secondly, the last thing that Central Banks want is for billions to be withdrawn from circulation and then lie idly in safes and under mattresses.

The next reason to abolish cash is taxation. The most common form of tax evasion isn't done by large corporations or by billionaires, it's done by people who work 'cash in hand' and gladly pocket cash, declaring only a fraction of what they earn. Abolish cash and income becomes a lot harder to hide, potentially allowing governments to raise seriously large amounts of previously unpaid tax.

Finally, a cashless society would make life so much more difficult for criminals and terrorists. Cash is untraceable, easy to exchange and completely anonymous; for this reason, it is a favourite tool of criminals the world over to conceal or disguise the origin of their ill-gotten gains. In 2010, the now defunct SOCA found that €25,000 in €500 notes can be concealed in a cigarette packet, making large denomination cash notes one of the biggest risks in the physical movement of criminal money over national borders. Without access to cash, criminals would have to transfer funds in a non-physical – and therefore much more traceable – way.

In conclusion, as bizarre as a world without cash may seem, it may not be too far away at all. So what is the alternative? That brings us to the bizarre world of cryptocurrencies.

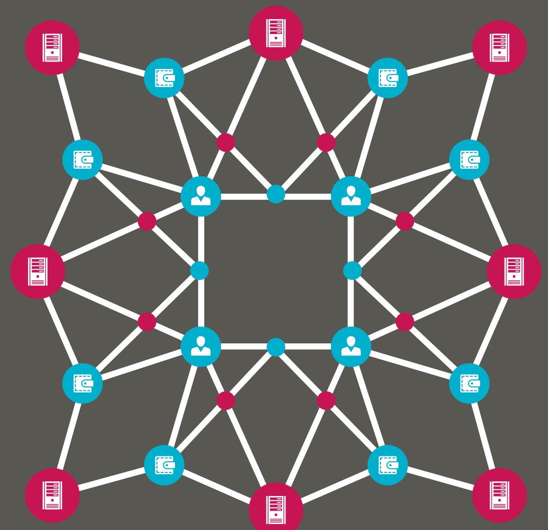
What is blockchain?

Blockchain is a digital 'ledger'. Essentially, it is a public record detailing all Bitcoin transactions.

Bitcoin is different from traditional currencies where all transactions have to go through the traditional banking system. If you own some Bitcoin, what you actually own is the private key – essentially just a really long password – to its address on the blockchain. You can use this password to send or sell your coins to someone else.

Transactions are known as 'blocks', and every time Bitcoin changes hands, a new block is automatically added to the chain.

The blockchain is not held in any one centralised place. Essentially it's maintained by everyone who owns or transacts in Bitcoin.



Cryptocurrencies (or 'cryptos' as they're known) are digital assets which can be used as a medium of exchange or as an investment. Unlike a traditional currency, they aren't controlled by any one state, bank or government.

Taking Bitcoin as an example, because it is arguably the most well-known crypto, each coin is created through data 'mining'. Essentially, computers are used to solve complex equations which – once solved – give the miner a coin. The way Bitcoin is designed means that it is becoming increasingly harder to solve the equations as time goes on, requiring more computing power and more investment. Due to the rise in this crypto's price, Bitcoin mining has become a very lucrative business but one that requires a lot of investment.

According to some reports, the amount of electricity consumed by the entire Bitcoin network is now more than the total annual use of the Republic of Ireland.

Interestingly, the total number of Bitcoin which will ever be created is limited to 21 million coins. This grounds the crypto in some semblance of reality, meaning coins cannot just be produced incessantly.

Is Bitcoin a currency?

A currency is usually defined as a unit of exchange which can be used to buy or sell other items. Bitcoin is someway there, as it can be used to pay for some things but try to use it to pay for things in most shops and you'll be greeted by a quizzical look at best.

With each coin being worth thousands, most purchases would cost a fraction of one coin, making it difficult to keep track.

Bitcoin therefore doesn't really meet the definition of a currency as yet. Its popularity is spreading rapidly so it may become more accepted by vendors over time, but also the price will need to become less volatile.

As well as backing a currency, a government compels individuals to hold their currency by the way they levy taxes. UK individuals can hold their money in whatever currency, commodity or cryptocurrency they like, but when it comes to paying your tax, you'd better get some Sterling or you might end up in prison!

So, is it more like gold?

Gold has plenty of similarities to Bitcoin. Gold is often seen as a quasi-currency in that it can sometimes be used as a unit of exchange.

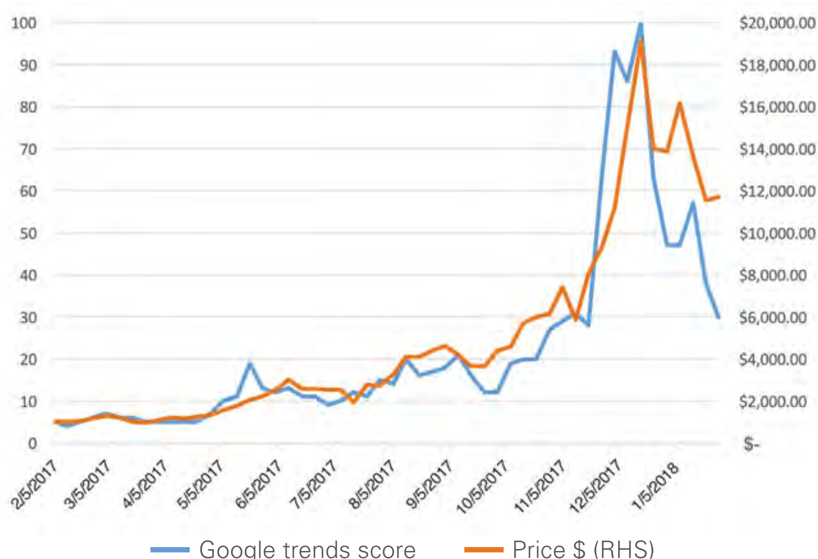
Losses and thefts

Like with anything new in finance (or indeed anything), there are mistakes and opportunities to be encountered. Bitcoin and cryptos are no different as people start to work it out and in some ways, they find out the hard way. For instance, in 2010 Laszlo Hanyecz completed what is believed to be the first 'real life' trade using the cryptocurrency when he bought two pizzas for 10,000 bitcoins. He may now regret that, when valued at Bitcoin's peak of around $19,000, those pizzas cost him approximately $190m.

In 2013 James Howells from Newport threw away his old computer, forgetting that the hard drive held his digital wallet containing 7,500 Bitcoins. Treasure hunters have been searching his local landfill site to try and find this valuable prize, which at one point was worth over $142m.

Things took a sinister turn in 2014 when 850,000 Bitcoin were stolen from what was then the world's largest Bitcoin exchange, Mt.Gox. The company went under and those coins, worth over $16bn at Bitcoin's peak, have never been recovered.

More recently, in January 2018 a South Korean exchange called Coincheck was hacked, and Bitcoin worth around $530m was stolen. Coincheck has promised to partially refund users out of its own funds.



Bubbles and busts

As people begin to figure out crypto and how they can use it, the price (note, not the value) begins to rise. This brings about more interest, fuelling more transactions and further lifting the price. However, Bitcoin in particular is tinged with volatility and has experienced several serious crashes in its short history as a result. It fell over 80% from August to November 2011 and a similar amount from December 2013 to January 2015. From its peak on 17 December 2017, Bitcoin has dropped around 68% as of 6 February 2018. However, despite this fall as of New Year's Eve Bitcoin was still up 1,244% over 2017 as a whole.

Interest in Bitcoin

Chart 1 shows how interest increased over the course of 2017 by analysing the number of Google searches for 'Bitcoin'.

Interestingly, the blue line which is the Google trends score correlates very strongly with the price of Bitcoin. As publicity around the cryptocurrency increased people's interests, more and more people jumped on the bandwagon and pushed the price up.

Searches dropped off during the first weeks of 2018 and the price of Bitcoin has followed.

The Google trends score is based on the number of searches for Bitcoin relative to total Google searches. 100 = peak interest.

Interest in cryptocurrencies has recently caused some strange movements in some stocks, especially those that have rebranded to include the word 'blockchain' or similar.

In December 2017, Long Island Iced Tea Corp. rebranded as 'Long Blockchain Corp.' Its shares promptly rose 289% after it stated its intention to partner with or invest in companies which develop blockchain, rather than sticking to making soft drinks. Note that this is just its intention, it hasn't actually done anything about it yet!

Is it all just a giant scam?

Well not quite, but the structure of cryptocurrencies does make them popular targets for criminals. As with anything new, people are bound to be cautious especially if they are still trying to understand the concept.

The less liquid cryptos have become popular targets for so-called boiler room scams. This involves the fraudsters initially placing some large buys themselves in order to push up the price. They then target gullible investors by phone or email and persuade them that they can't lose, pointing to the recent gains as evidence.

Once they've found enough punters to push the price up even more, the fraudsters sell their original holdings at a huge gain. Usually, the price then crashes and those individuals who were targeted end up with huge losses.

This is also known as a 'pump and dump' scheme. It works on the same principle as the scam practiced by Jordan Belfort on whom the film Wolf of Wall Street is based. He used 'penny stocks' but the principle is still the same here.

Whilst Bitcoin is larger and less susceptible to such scams than some cryptos, its structure does mean that some of its price movement follows similar patterns. As the price increases, so too does the publicity, which means more people buy, which pushes up the price, when means more publicity…. And so on, until eventually it crashes.

According to Credit Suisse, 97% of all Bitcoins are held by just 4% of Bitcoin addresses. This means there is a pyramid like structure and so a very small number of people benefit from everybody else's purchases.

Should I invest in it?

Investing in Bitcoin is purely speculative. All asset classes can go down as well as up, so as with any investment you might make money or lose all of it.

For a traditional investment it is possible to make some assessment of value. For example, when looking at a share an investor can look at company profits and dividend yield, make some assumptions for future growth, and arrive at an estimate of 'fair value'.

However, Bitcoin doesn't generate anything or do anything. The only determinant of value is supply and demand, which can fluctuate wildly and cannot be predicted.

If you fancy a gamble and can afford to lose your stake, then by all means put a small amount in Bitcoin. If it is money you need for the future then a diversified portfolio is far and away the best option in our view. Knowing how much risk you can take on, and therefore how much you can afford to lose, is crucial for all investments. It is important to talk to your financial planner first to decide whether or not this is a venture you could consider.

Bitcoin history

2008
A paper is published called 'Bitcoin – A Peer to Peer Electronic Cash System' by someone calling themselves Satoshi Nakamoto. His or her real identity is still unknown.

2009
Bitcoin itself is launched and mining (but not trading) of the cryptocurrency begins.

2010
The first active trading in Bitcoin begins.

2011
Other cryptocurrencies are launched, including Litecoin and Namecoin.

2013
Bitcoin briefly reaches $1,000 per coin for the first time. It then crashes to as low as $210 by early 2015.

2017
Bitcoin peaks at over $19,000 in December.

2018
Bitcoin drops as low as $6,000 on 6 February, around 68% from its peak.

It's not all about the money

Jon Pickering speaks to Equinox about NorthEdge Capital's investment strategies.

THIS WAY

By Sam Richards

Jon Pickering

Jon Pickering, Partner and Head of North West at NorthEdge Capital, explains that although the potential profitability of a company it looks at investing in is important, the key to the private equity firm's success lies in the underlying management team it backs on each investment. "We back the management teams that run businesses, not businesses themselves per se; we want to help the teams to accelerate the rate of growth of the business in order to create shareholder value for all of those concerned," says Jon. "The beauty of private equity is that there is full alignment between the investors and the management team, as all shareholders are bought into the growth plan, and everyone is focused on collectively maximising shareholder value."

Describing NorthEdge as "sector agnostic", Jon explains that the company, which manages over £540m of assets, is open to investing in any type of business that has the potential to grow and the right management team in situ: "It's about 'can we work with

> The beauty of private equity is that there is full alignment between the investors and the management team, as all shareholders are bought into the growth plan

the team, do they want us or an investor involved, can we influence them?' As for the teams we back, they should be asking, 'have they got the funding to support growth? What value is the investor going to add? Can they make local decisions?' NorthEdge is a local based private equity house that is owned by the people who lead deals and sit on the boards, so one thing I can definitely say is that we can make decisions."

In 2017, NorthEdge partially exited their investment in the energy software company, Utiligroup, resulting in a return of 5.7 times the amount originally invested. "We supported management in a fast-growing market," Jon says. "We helped them recruit a further seven directors to the board to increase the bandwidth of the team in situ and help address growing pains."

The company's turnover grew from £5m at the point of NorthEdge's investment, to over £20m at the point that they sold – but the four-fold revenue increase was the easy part. The expansion of the company required more staff – a lot more staff. The number of employees soared from 60 to 220, which also meant that two new properties were needed to house the expanding team. "You need a very good board of directors to help oversee that kind of rapid growth," Jon adds.

NorthEdge partially exited to Energy Services Group LLC, a global software business backed by Accel-KKR, an American private equity house. Jon shares his pride in the success of the exit: "They were a great local management team from Chorley in Lancashire, it was a brilliant success story for them and for us, and really demonstrates the strength of the business community within the North West of England."

When asked about the potentially troubling horizon of a post-Brexit world, Jon replies with confidence and positivity: "2018 has gotten off to a busy start which tells us that from a North West point of view, the local economy, the opportunities and the confidence levels are still there, even with Brexit, the stock market – a whole raft of issues. People are still looking to partner with investors to help them grow. The market is still positive."

Jon adds: "Obviously, Forex can cause issues if you're buying from abroad, and as a firm we're conscious of those headwinds, but good firms managed by good management teams will find a way to navigate those headwinds and deliver what they need to deliver."

Starting a new chapter

Seeking a long and happy retirement, entrepreneur Tom Kelly sold his business in 2015. But what was his experience of selling up and walking away from his life's work? Equinox met up with him to find out more.

By Jon Yarker

Tom Kelly

Just over ten years ago, Tom Kelly, the founder and boss of TKC (a trade supplier to the kitchen and bedroom industry), was at a crossroads. A driven entrepreneur, he had built a successful family business with a respected brand name and loyal workforce. At that point in time, he and his partners were considering significantly expanding the business. This would have meant nearly £10m worth of investment, six new depots throughout the country and new headquarters for the business (not to mention many more years of service).

"That really nailed me into the mindset of selling the business," says Tom. "I realised it was time to get out. The decision was age-led, and I wanted to retire with more of my life to live."

Manchester-born Tom, who resides in Stockport, loved working at TKC and took huge pride from what he had achieved with the business. However, embarking on this new investment and expansion project would have meant him working well into his sixties, and Tom knew it was time to walk away. "In some ways, a business is always up for sale," Tom tells Equinox. "But we didn't want to sell it to just anyone. The lightbulb moment then happened when I turned 60, it was all about timing."

Despite having turned down a number of very handsome offers for TKC over the years, Tom recruited a business consultancy agency to help with the sale of the business. He describes them as an extremely proactive team: "They knew what they were doing. They weren't the cheapest but they definitely helped me get more money for the business."

It was this team who introduced Tom and his partners to the private equity firm, which manages £540m of investments, which would eventually end up buying TKC in December 2015. However, before the deal was sealed Tom and his partners went through a grueling year of pre-sale preparations.

The biggest satisfaction I've ever gotten out of my money was providing for my family

"The hardest thing when you sell a business is hitting the projections," he reveals. Though the business was in great shape, Tom and his team had to hit their targets in order to satisfy the buyer's requirements for the deal and to ensure the balance sheet was as healthy as possible.

"I was under a lot of pressure in those 12 months. It was a clean and tidy business so luckily, we didn't have any headaches there. We got exactly where we needed to be which was 20% growth and increasing the profit margin."

The only negative is once the euphoria of the sale and the windfall fades you have to decide what you are going to do next. You can't just sit at home and stare at your bank balance

After 12 months' of hard work, the private equity firm was satisfied and the papers were signed. However, Tom didn't celebrate and admits there were mixed emotions as he was about to walk away from his life's work.

"I was gutted to walk away. There were a lot of tears when we sold up. It was a tough one. I'm still in touch with a lot of staff though, there's a lot of good people there. I didn't celebrate after the sale, after 12 months of aggravation I was just happy that the pressure was off."

Soon enough, Tom started to embrace his retirement and the windfall of the sale. After signing up to become a client of Equilibrium Asset Management, he immediately set about putting aside portions of his wealth and set up a trust fund for his children and grandchildren: "The biggest satisfaction I've ever gotten out of my money was providing for my family."

Then came the fun stuff. A true petrolhead, Tom treated himself to some new cars and now has a 190SL Mercedes Benz, two Ferraris and a Mini Moke (with new land being purchased for the garage to make space for them all!). As well as throwing himself into his hobbies (his tennis skills are getting better but he admits there's room for improvement when it comes to golf) and regular sums being given to charity, including a significant donation to an animal rescue society, Tom has begun to dabble in property investment.

"A little while ago I realised my brain was going a bit rusty," he says. "So I made a significant investment to build six houses in Anglesey. The properties are still being built but four of them have already been sold off plan. These houses take up my time and I am enjoying learning about property development."

Tom has achieved what he set out to do, he capped off a successful career with a lucrative buyout and is now free to enjoy his retirement and reap the rewards of his hard work. But what words of advice does he have for those who are considering selling up their business?

Tom says: "The main thing is, providing your business is run well and there is nowt under the carpet, it's all about getting the right people in to market your company. You also need the right calibre of people to give tax advice. We benefitted from entrepreneur tax relief but the government is continually going after new taxes so it's important to be up to date and know how much HMRC might ask of you."

"The only negative is once the euphoria of the sale and the windfall fades you have to decide what you are going to do next. It is easy to spend money on the wrong things. You can't just sit at home and stare at your bank balance."

If you're in a similar position to Tom before he sold his business, interested in exploring the options open to you and potentially bringing your retirement forward, Equilibrium can help you make these decisions. Our expert team of financial planners can sit down with you and help work out your objectives and create a financial plan that is right for you. If you're interested in having a chat and learning a little more about what we can do for you, please get in touch with our team.

Taking care of business

Asset rich but time poor, business owners have particular financial planning needs. Here, Founder Colin Lawson explains how Equilibrium helps these clients.

By Colin Lawson

Successful business owners are financially astute, comfortable with risk and often great strategic planners.

On the face of it, they should make great investors, yet in my experience they often neglect financial planning to the extent that it causes them major financial detriment.

The core reason for this is that they are 'time poor' by nature and so focused on their businesses that they have little mental space left for anything else.

The typical business client that we meet has accumulated a 'rag tag' collection of savings, investments and property but no real thought has been given to how it all fits together.

We typically meet these clients after their business has been sold. It is always frustrating to me (and my team) that if we had met them a few years earlier, we could have put in place the steps to potentially help them save significant costs, mitigate their tax liabilities and improve their overall returns. In some cases our advice could even have led to them making different decisions about the business sale itself.

If you could afford to, would you sell it for slightly less to a more suitable buyer who will keep your team and business intact?

It is these missed opportunities that have led us to launch a new service targeted specifically at business owners, that is designed to deal with all these issues.

It is designed to be quick, efficient and offered at a reasonable cost. We have tried to remove as many barriers as possible, with no huge compliance hurdles or the need to invest large sums, just straightforward common sense advice designed to have the maximum impact with the least possible time commitment.

There are many different elements to the service and some of the key points are as follows:

1 Know your numbers

We will help you to discover exactly how much capital you will need at different ages. This often helps to decide when you sell the business, potentially how much for and how the deal can be structured.

If you could afford to, would you sell it for slightly less to a more suitable buyer who will keep your team and business intact? Would you accept slightly less to exit the business on the day of the sale rather than becoming an employee, when you know at heart that you are unemployable? These are important questions, and we can offer valuable insight and perspective, if consulted. We can also help identify some of the steps that you need to take in the business today in order to maximise its value later.

2 Forward tax planning

It may surprise you that tax is based on personal circumstances, so with careful planning you can have greater control over the tax you pay and when. This could be achieved by establishing small investments today in order to invest far larger sums in the future. The earlier you establish a plan the greater the tax savings could be.

A simple strategy can have a huge impact; tax planning should not be complex but it is often dependent on current taxation laws which are subject to change, so it is vitally important to sit down with a financial planner and get a thorough understanding of what the rates are.

3 Pensions – too little or too much

Saving into a pension is a great way to benefit from tax relief but it is all about ensuring you don't have too much saved in your pension. If you have built up too large a fund, you may be heading towards a hefty Lifetime allowance charge of 55% based on current tax rules. However, with clever use of tax relief on your contributions, you can both save for the future and avoid higher than necessary taxes. If you have no pension, then paying just a few hundred pounds in now could allow you to accumulate tens of thousands later, with a good long-term investment stratergy. Without that small contribution today, the door could be closed to you in the future.

Tax rules and rates can be very difficult to navigate, especially as they change so frequently, so it is important to have these discussions early on with a financial planner. If you are heading towards the 55% charge due to the current lifetime allowance, we can make suggestions that could reduce or even eliminate the liability.

4 Knowing your estate

Here we will discuss everything from the basics of wills and powers of attorney, to the more complicated issues of the structure of your shareholdings in the business. The importance of a legally-binding and thorough will is paramount, ensuring your estate is divided up how you want it to be and helping provide for your loved ones after you're gone.

Aside from the obvious IHT planning benefits of a will, this kind of forward planning can ensure everything is confirmed and ironclad on paper. As part of an estate, business ownership can be a particularly complicated issue so it is vitally important to have these conversations now before it's too late.

No business is the same and neither are our financial plans for any business, this is just a sample of the issues we will look at and the value that we can add. Our service is designed to deliver the most for your financial future while taking up the least amount of your time.

Do you own a business and want to create a firmer financial plan for your future? Then get in touch with one of the Equilibrium team for a quick chat, with no obligation to sign on as a client, to find out how the firm could be of assistance to you.

Safe as houses

Exploring the impact £44bn of government funding will have on North West housing development.

By Alex Bell

(Manchester's) population is growing almost 15 times faster than homes are actually being built

The Government's pledge to plough £44bn into a homebuilding programme could potentially create 300,000 new houses a year across the UK.

Coming in the form of loans, guarantees and capital funding, the money should go a long way to meeting the rise in demand that has been growing rapidly for the past few years – as it will be invested in skills, resources and building land.

In the North West, the Chancellor's Autumn Budget announcement last year to introduce the vast pot of housebuilding cash, was welcomed with open arms.

But it will only continue to be discussed positively if this region lands a fair share of the pot.

This is because there's undoubtedly a housing crisis in the North West which needs to be addressed.

Tellingly, the Federation of Master Builders (FMB) reacted instantly to the Chancellor's pledge.

Brian Berry, Chief Executive of the FMB, said in November 2017: "The Government has set itself a new target of building 300,000 new homes a year by the mid-2020s. And today the Chancellor has put small and medium-sized builders at the heart of ambitious plans to tackle the growing housing crisis.

"The Chancellor appears to be putting his money where his mouth is with the announcement of £44bn of capital funding, loans and guarantees."

Taking Manchester as an example in relation to housebuilding, the city's population is growing almost 15 times faster than homes are actually being built.

That's according to official figures which showed 290 homes were built in Manchester city centre in 2015/2016, taking the total number of homes to just short of 220,000.

In comparison Manchester's population grew by more than 10,000 people in 2014/2015, meaning more than 530,000 people were living in the city centre.

Translating this to percentages shows the following results:-

- Manchester housing grew by just 0.13% between 2015 and 2016
- Whereas population grew by 1.94% in 2015 compared to the year before.

Sadly, Manchester is a relevant case study for the wider North West region and indeed the UK in that housebuilding is trailing the number of people.

Drilling down into the Chancellor's pledge, it's important to look at how this might stimulate both the sector and the economy.

And that's because his plans could help bring supply in line with demand. Part of the £44bn plan includes £630m of investment in 'small sites'. This will go towards 'unsticking' the delivery of 40,000 homes and the smoother delivery of building new homes.

On top of that, £2.7bn will be used to more than double the Housing Infrastructure Fund, while £400m will be pumped into 'estate regeneration'. The 'unlocking of strategic sites' (including new settlements and urban regeneration schemes) is another interesting pledge which, according to the Chancellor, will come at a cost of £1.1bn.

In the North West the only way to overcome the housing crisis is to ramp up housebuilding.

That 'ramping up' will bring new jobs and new skills, along with improved skills that will have to last if this pledge is to be achieved. Looking further ahead, these homes need to be built to allow for Manchester's working population to continue to grow. We've already seen unemployment fall in the region and the city's population swell, but in order to allow this to continue the infrastructure needs to adapt and grow as well. And this package of housebuilding investments could play a significant role.

The perfect finish

Equilibrium client Lee Turner talks to Equinox about making a career out of his passion for cars.

By Jon Yarker

Standing to one side in his workshop, Halo Automotive Co-Founder and Equilibrium Asset Management client Lee Turner watches a gleaming black Maclaren Sport Series being backed into one of the treatment booths – a separate, pristine clean environment where finishes and detailing can be carried out. The business offers an array of detailing, window tinting and paint protection services to cars, recently expanding into vinyl wrapping which allows vehicle colours to be changed and bespoke designs to be applied to them. Lee, who used to work in digital marketing, has brought the business a long way since co-founding it in March 2017.

Lee says: "The most important thing is to do something you're passionate about, and if you get that, you've cracked it.

"I did a job I enjoyed, but now I can honestly say I do what I do because it makes money and I absolutely love it. As you get older and wiser, even though I'm not that old, you start to think that way."

Lee Turner

The most important thing is to do something you're passionate about, and if you get that, you've cracked it

Looking back, he explains that after selling his digital marketing business he decided to turn his hand to his passion: cars.

Lee says: "Both Mason Lennick, my business partner and I have a love for cars, and that's how it came about. From a young age I've always had a love and interest in cars."

Throwing themselves into the world of car detailing and paint protection film - learning about different finishes and techniques - Lee and Mason invested heavily and set up Halo Automotive. Named 'Halo' after the protective qualities of an angel's halo, the business has since made a name for itself with dealerships (such as Ferrari and Porsche) and private car owners.

"We are not particular about the type of cars we work with," says Lee. "We can cover everything from Volkswagen Golfs right up to supercars. Ultimately, we are all car fanatics here."

But was he nervous about setting up shop in a new industry? Lee replies confidently: "You can't be too nervous setting up a business, you have to have that grit and determination to get it over the line. I'm extremely happy with how the first year went, it was important to establish ourselves and get our first clients. Word of mouth is hugely important with what we do."

The business has evolved rapidly in its first year, with new staff and expansion into vinyl printing and vehicle wrapping, allowing Halo to design and implement more bespoke requests. As well as being a Gyeon Approved Centre and Xpel Paint Protection Film accredited, Halo has maintained pristine standards with staff that really listen to what the clients want. This is something that Lee says raises the business above the competition.

Lee explains: "We sit down with the client and it's really important to find out how the car will be used. That lets us decide what the best job is to do for the car. Paint Protection Film (PPF) has to be put on in a certain environment, very clean and temperature controlled. You'd be surprised how many of our peers work in grungy garages."

Lee and his team are now looking to expand into setting up a training centre at Halo to spread the knowledge and expertise about how they work and how car paintwork should be properly treated. As demand increases, Lee knows at some point he will have to look into new premises too.

"When we outgrow this building, I should be able to cut out 50% costs because I'll know what I'm doing," says Lee. "You learn in life from your mistakes. For instance this past year I've learnt a lot about lighting, it took me a lot of research to be able to produce the right environment to bring out the defects in certain paints."

For now though, Lee and his team continue to work on clients' cars and spread the word. With each job being different and the challenges enjoyable, Lee already knows his immediate business targets.

"The cars I'd love to get in here?" says Lee. "That's easy, I love Ferraris and so getting a LaFerrari or F355 Spider in here would be great. Not to mention a Lamborghini Aventador and Huracan Performante – it wouldn't be a shame to have them in here either!"

To find out more...

If you're a car owner who is interested in Halo's services, you can get in touch with Lee and the team at **07799 626874** and **0161 6365130**. Or email at **lee@halo-automotive.com**.

AIM to have your cake and eat it

AIM and Equilibrium both launched in 1995, but how and why does the latter invest in the former?

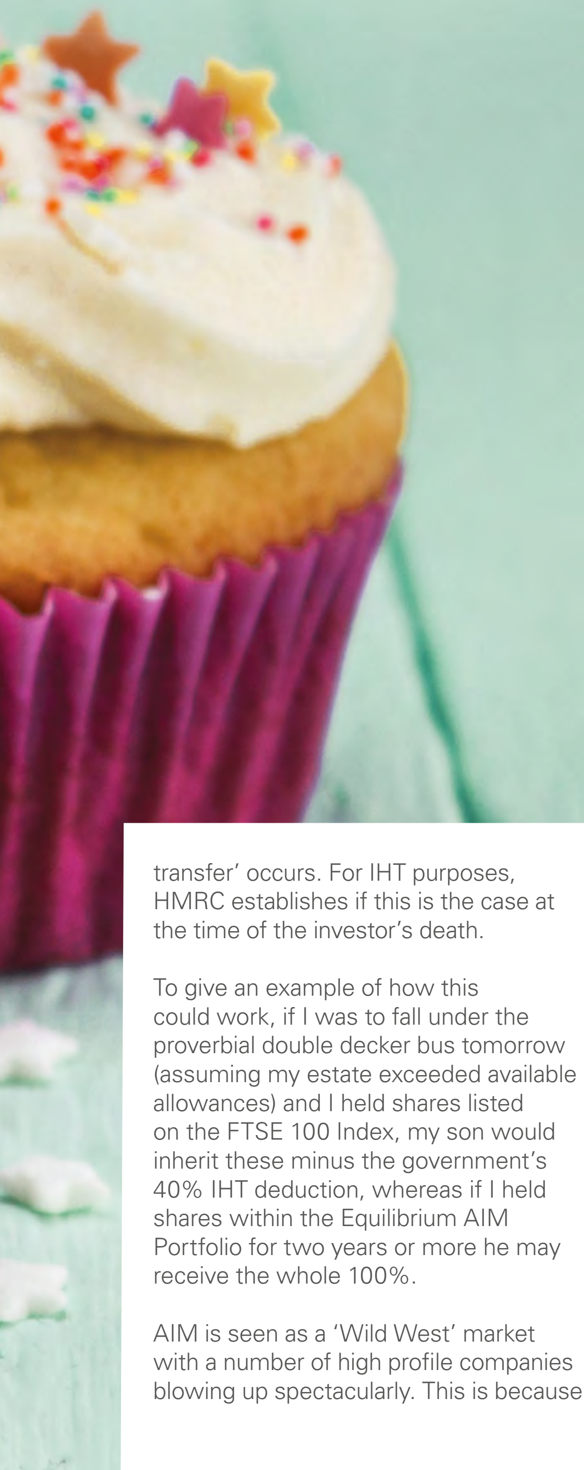
By Neal Foundly

Have you ever indulged in a double choc sponge cake with a macchiato at a Patisserie Valerie cafe? Ordered a bottle of Sauvignon at The Ivy restaurant? Requested a tonic water on a British Airways flight?

If you have, then on behalf of many of our clients, thank you – you have enjoyed the delights of just a few of the companies held in the Equilibrium AIM (Alternative Investment Market) Portfolio.

The AIM Portfolio - managed by Equilibrium Investment Management for clients of Equilibrium Asset Management - was created three years ago to offer an equity portfolio that would potentially help to mitigate Inheritance Tax (IHT) liabilities under business property relief (BPR). Under current tax legislation (which can change), companies on AIM could qualify for BPR if investment in the company has been held for at least two years before a 'chargeable

AIM isn't just a market for small start-ups anymore, the average (size of a company in our portfolio) is £770m



transfer' occurs. For IHT purposes, HMRC establishes if this is the case at the time of the investor's death.

To give an example of how this could work, if I was to fall under the proverbial double decker bus tomorrow (assuming my estate exceeded available allowances) and I held shares listed on the FTSE 100 Index, my son would inherit these minus the government's 40% IHT deduction, whereas if I held shares within the Equilibrium AIM Portfolio for two years or more he may receive the whole 100%.

AIM is seen as a 'Wild West' market with a number of high profile companies blowing up spectacularly. This is because AIM was originally launched as an easier way for smaller and younger companies to obtain investment. As a result there is a greater risk of failure with these less mature and established businesses. As with all investments, these can fall as well as rise so there is always a risk of total loss. The risk of this market is one of the reasons that the aim (pun intended) of the AIM Portfolio is to primarily offer clients an IHT mitigation tool.

AIM isn't just a market for small start-ups anymore, the average company in our AIM Portfolio has a market capitalisation of £770m, at least three stocks held in the Portfolio are over £2bn in market capitalisation and seven are over £1bn – that's even bigger than established names like the AA and transport company Stagecoach.

A thousand stocks offer a lot of choice too. Whilst we have strict criteria for stock selection and carefully construct the portfolio to manage risk, that does not mean we miss the big performers.

At the half-year rebalance last July we included Keywords Studios in the portfolios. Keywords provides services such as language translation and video artwork for digital games. As these games get bigger with global releases, such services have skyrocketed and are expected to grow massively with emerging augmented and virtual reality games. No wonder, given this growth, the stock did well – we still hold it but reduced the holding in the most recent rebalance. At the time we included Keywords, we divested from marketing agency M&C Saatchi because it had dropped somewhat in our ranking of criteria. The main reason was M&C Saatchi's size had fallen which impacted the liquidity of its shares.

Of course, at the end of the day, this is an equity portfolio and it comes with the associated risks. Some of the Portfolio's holdings, such as Utilitywise and Conviviality, have seen falls of similar magnitude to the gains seen on the Keywords Studios investment and it should be borne in mind that losses, especially in the event of an economic recession, may be significant.

In case you're wondering, the portfolio rebalance plays an important role for the Portfolio. Every six months, profits are taken on stocks that have done well, like Keywords Studios, and the proceeds re-invested in those that have performed less well. If we hadn't done this the AIM portfolio today would have five stocks making up half the portfolio and the top 12 stocks comprising 75% of the Portfolio, instead of 30 equal weighted stocks – a very skewed and risky portfolio.

Whilst the AIM Portfolio does include some treats highlighted at the start, it's not all champagne and chocolates. The variety of companies in AIM is rich, and the Portfolio includes hardcore industrial companies involved in providing antibodies to the bioscience sector; providing online identity verification; decommissioning of nuclear power stations and treating contaminated land; manufacturing advanced wound care products and modern lighting systems for everything from museums to Greggs.

The AIM Portfolio was created three years ago to offer an equity portfolio that would potentially help to mitigate IHT liabilities under business property relief (BPR)

It isn't about the returns on offer though, we offer clients access to AIM as part of a holistic inheritance tax planning strategy, for those who have the capacity to lose the investment. Even with our thorough process it is worth remembering there is still risk in this portfolio and investments can still fall as well as rise. No investment is devoid of risk, and the Equilibrium AIM Portfolio is no exception.

If you'd like to learn more about the Equilibrium AIM Portfolio and other Inheritance Tax Planning Strategies please call one of the Equilibrium team.

Disclaimer: The content contained in this article represents the opinions of Equilibrium Investment Management. The commentary in this article in no way constitutes a solicitation of investment advice. It should not be relied upon in making investment decisions and is intended solely for the entertainment of the reader.

The devil is in the detail

What the removal of indexation allowance could mean for you.

By Colin Lawson and Debbie Jukes

You may be aware that as part of the Autumn Budget last year, the Chancellor Philip Hammond announced that the indexation allowance in corporate capital gains was to be scrapped from 1 January 2018.

What you may not be aware of is the impact this has on individuals who hold an investment bond. Despite initial assurances that the measure 'would have no impact on individuals', a subsequent HMRC statement confirmed that life assurance companies would be affected – and as savers effectively invest in a life company if they have an investment bond, then they will suffer as a result. This all depends upon the rate of growth within the fund, the rate of inflation (RPI) and the rate used by the life company to cover its eventual tax liability.

Up until 1 January 2018, tax was only paid on the 'real' gain after inflation. So, put simply, if the growth within the bond was 3% and RPI was 3%, then no tax would be paid. Now though, insurance companies have to deduct tax on the entire return. In practice, this means that returns could be diminished - for example by 0.6% assuming a 3% rate of inflation. Nothing too horrendous but something you should be aware of.

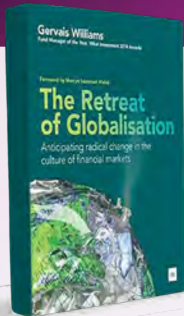
> "The gains on this type of investment are subject to special rules which mean that life companies can spread the charge over a seven year period

The gains on this type of investment are subject to special rules which mean that life companies can spread the charge over a seven year period. For our clients who hold a bond via the Nucleus platform, you will know that the estimated tax liability is held in a separate reserve account until it is due, and the effect of the new changes will result in this account retaining a higher amount.

There are still a number of good reasons to hold investment bonds especially if active use of the 'top slicing facility' is utilised. However, given that the current levels on capital gains tax are just 10% for a basic rate tax payer and 20% for a higher rate tax payer, in some cases an unwrapped account may now be more suitable. We will of course be reviewing the suitability for our clients on an ongoing basis as part of our normal tax review service.

Disclaimer: The information provided is based on our understanding of current rules and regulations, which may change. The impact of any tax changes will depend on individual circumstances.

What we are reading this month...



Jon Yarker, Marketing Executive

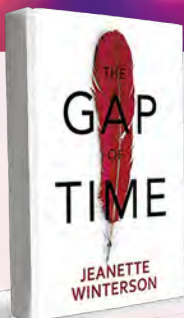
The Retreat of Globalisation

by Gervais Williams

This may shock you, but I wasn't hugely excited to be reading a book about the retreat of globalisation and how financial markets have been impacted by this. That said, I was pleasantly surprised this book was such a page turner. No, really.

Gervais Williams, award-winning fund manager and speaker at our Equinox Live event, is an accomplished author who is able to explain quite complex economic and financial concepts in a way that is both accessible and engaging. The subject matter, which spans numerous decades and crosses economics, finance, business, culture and more, would be tricky to sum up for some authors but Gervais does it effortlessly here. It didn't feel like I was reading a book on economics which is a personal plus for me. Indeed in an unchartered world of Trump and Brexit, it makes fascinating reading how the retreat of globalisation played a central role in the rise of populistic voting and changing attitude towards international relations.

It helps if you are interested in these topics in the first place, but The Retreat of Globalisation is an engaging and thought-provoking read that you'll enjoy more than you might think you will.



Sam Richards, Marketing Executive

The Gap of Time

by Jeanette Winterson

The Gap of Time sees Manchester-born author Jeanette Winterson take on one of Shakespeare's classics, The Winter's Tale. The book is part of the Hogarth Shakespeare series, in which various authors rewrote a selection of Shakespeare plays into a 21st century setting to mark the 400th anniversary of the playwright's death.

Propelled into modern-day London, King Leontes is now Leo, a wealthy hedge fund manager working in the City, whose paranoia results in him rejecting his own child, mirroring the tragedy of The Winter's Tale. The story moves quickly, and the emotions are raw, gripping you from the very first chaotic chapter. Despite the fast pace, there is still a poetic feel to the text that allows a seamless transition from script to novel. Winterson manages to successfully combine the contemporary setting and modern language with the original themes of jealousy, betrayal and the desire to cross 'the gap of time' to change the past.

If you appreciate the tangled plots and dramatic twists that Shakespeare so masterfully employed in his plays, then you will undoubtedly enjoy this refreshing take on one of his great works.

The Northern Powerhouse – powerful enough?

Equinox talked to senior North West business figures to find out if this policy can achieve what it is aiming for.

By Jon Yarker

Few government economic policies are arguably as divisive as the 'Northern Powerhouse'. Introduced in the 2015 Budget by then Chancellor George Osborne, the policy includes a huge array of investments and infrastructure projects. Writing in the 2017 spring issue of Equinox, Osborne claimed that – if fulfilled – the Northern Powerhouse could bring about an extra £100bn to the Northern economy.

But is this true? A few years have passed since the initiative was first announced, with the Northern Powerhouse Partnership being formed in 2016 and Osborne's successor, Chancellor Philip Hammond, taking up the mantle and promising even more financial commitments to the policy. Supporters of the scheme hail it as much-needed balance being returned to the UK's economy. Meanwhile, critics have dismissed it as folly and argued different tactics need to be adopted in order to stimulate the North's economy. So who is right?

One noted critic is Mayor of Greater Manchester Andy Burnham. Writing for The Guardian in late 2017, Burnham argued that the real driver for economic change in the North could only come from greater autonomy outside the M25. He wrote: 'The truth is, we have a political system that is inherently biased towards London and the devolved nations – and against Northern England. Until we all own up to that, nothing will change.'

Devolution in England has taken strides in recent years, and towards the end of 2017, London hosted the first meeting of the country's seven regional mayors. Though from different regions and opposing political parties, all

agreed the best strategy was for more powers to be devolved to their offices. Tellingly, the regions they represent are responsible for 39% of all British growth, up from 35% in 1997.

But is the Northern Powerhouse the right way to target concerns of those in the business community? Steven is unsure and is opting to remain grounded.

Osborne claimed that – if fulfilled – the Northern Powerhouse could bring about an extra £100bn to the Northern economy

Some senior business figures in the North West feel that the Northern Powerhouse initiative is targeting the right areas, but that funding needs to follow through. John Ashcroft, CEO of Pro Manchester, told Equinox: "The need for investment in HS2, HS3, the Northern Hub, TfN and TfGM is critical. It should not be a choice; all of these services need investment.

"Improving the travel to work time and experience for our workforce across Manchester, the North West and the North generally is critically important. For the sake of the Northern economy, we need to compete with other areas of the country."

Elsewhere, John wants the Northern Powerhouse to target areas such as high speed internet, education, skills training and apprenticeships.

Steven Lindsay, Corporate Finance Partner at Kay Johnson Gee (and Vice President of local charity Forever Manchester), agrees that these priorities need to be targeted and hopes the North West starts to resemble the capital's infrastructure: "Transport has suffered horribly from a completely disjointed approach locally and nationally. If London can have an integrated transport system (including the Oyster payment system) then so can we all.

"The privatisation of public transport in all of the country apart from London means this is harder but local and regional transport is much, much more important for our region than the huge vanity projects like the current version of HS2."

Steven adds: "We need investment in all areas in the North to be the same per head as in London. The danger is that [the Northern Powerhouse] is just a hyped-up name. So, I hope it's a real change in thinking in Whitehall."

John is somewhat more optimistic but says the investment needs to follow through and not stall: "The Northern Powerhouse investment fund has already deployed significant investment into the region for small to medium sized enterprises. The scale of ambition is huge, dwarfed only by the funding needed to meet the objective.

"Without significant infrastructure spending from national government, the objectives of the Northern Powerhouse will be thwarted. In the interim, the Northern Powerhouse must be careful not to promise too much or business will become disappointed with the reality of delivery falling short."

Fran Eccles-Bech, CEO of the Manchester Law Society, is an advocate for more grass roots investment but feels the North West is developing fine as it is.

"Many see [Northern Powerhouse] as just a brand," says Fran. "The northern economy has been stimulated for a long time and is on a set course. You only have to walk around the city of Manchester, which by the way is the fastest growing city in Europe at this moment, to understand the pace of development. The extent to which the Northern Powerhouse brand is responsible for this is difficult to say, but I believe that Manchester's development was set on course by our civic leaders long before the phrase was coined."

Northern Powerhouse in numbers

£100bn potential benefit to Northern economy

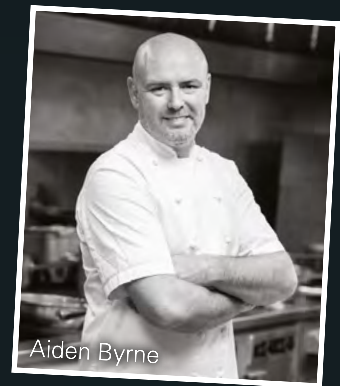
£3.4bn in growth deals

£70m in schools strategy

£13bn in transport

High dining

Manchester's highest restaurant, 20 Stories, pushes fine dining in the city to a new level.


Aiden Byrne

By Jon Yarker

Manchester's food and drink scene has seen a remarkable surge in recent years. As cities across the North have regenerated, Manchester has become a hub of fine dining and world-class bars. The city has long been a hotbed of music, art and football but Manchester's restaurants are making a name for themselves. One of the newest (and certainly the highest) additions is 20 Stories, another sign of the city's cosmopolitan revolution.

Sitting atop the 19-storey building No.1 Spinningfields, the restaurant is owned and operated by restaurant group D&D and offers unparalleled 360-degree views of the city. As well as having the chic and stylish décor you'd expect in any upscale restaurant, the restaurant and grill also has a rooftop garden and outside bar.

Though London is still the epicentre of fine dining in the UK, it says a lot that Manchester is increasingly able to retain its top culinary talent and 20 Stories demonstrates this. The restaurant is headed up by Michelin Star winner Aiden Byrne who was Head Chef at Manchester House before he left to join 20 Stories.

In his team he has local chefs Ash Salmon – formerly of Michelin starred L'Enclume - and Paul Leneghan – formerly of Nigel Haworth's pubs – who head up the restaurant and grill kitchens respectively. Already popular since its opening in March, Aiden has been keen to offer customers both classic British cooking and fine dining cuisine.

"A lot of chefs want to do one or the other, but I'm quite passionate about both," Aiden told the Manchester Evening News in January 2018.

"To be able to deliver a plate of scallops and truffles, and on the other side of the pass there's a macaroni cheese or a cottage pie going out – I want to be able to stand there and think, I don't know what I'd choose because they both look just as appealing."

Aiden and his team have been striving to create a dining setting full of atmosphere and delicious food across two menus. It has already proved a success with diners who have streamed through its door since it opened, but what will you think?

Read more online...

You can find out more about 20 Stories and other D&D restaurants, by going to the following site:
www.danddlondon.com/restaurants

No degree? No problem!

Fancy a career change? Or have you just left college or university? Perhaps you'd just like to gain a respected industry qualification. Whatever your background, the Equilibrium Diploma Scheme could well be for you.

By Sam Richards

In a constantly evolving company like Equilibrium Asset Management, a highly skilled team is crucial to maintaining the best possible service. However, in recent years the talent pool in the North has dwindled, partly due to the contraction of the insurance industry which has historically provided a volume of experienced candidates. To help tackle this problem Equilibrium set up a diploma scheme in 2015 with the aim of finding and developing new talent.

The two-year programme provides candidates with the opportunity to become diploma qualified paraplanners upon completion. It also offers invaluable on-the-job experience as a trainee client manager in an award-winning financial advice firm. In fact, this year *The Sunday Times* rated us the ninth best small company to work for! Paid exams and study leave (not to mention free breakfast every day) make it an exceptional opportunity for ambitious individuals hoping for a career in the financial services industry.

Since its inception in 2015, the programme has taken on eight trainees. While five of these are still working through the programme, the other three successfully passed in the summer of 2017 and now work as fully qualified client managers at Equilibrium. We accept people from any background - all that's required is a passion for wealth management, a thirst for knowledge and the desire to succeed.

Trainee client manager Ben Harrison, who joined the programme in October 2017, says the experience has been a huge learning curve: "The time I've spent on Equilibrium's programme has been an intense but extremely enjoyable insight into paraplanning for a variety of clients. Everyone in the company is keen to help, from exam preparation to technical elements – even showing me how to use the scanner properly! The programme is perfect for anyone who enjoys a challenge and wants to embark on a career within financial services."

Equilibrium is always on the lookout for new talent, so if you or someone you know is interested in working in a challenging but fun and inclusive environment with plenty of opportunities for growth, get in touch with Equilibrium's head of culture, Sarah Warburton, at **Sarah.Warburton@eqllp.co.uk**. You can also find out more about career opportunities at **www.eqllp.co.uk/careers**.

Views from the frontline - India vs

In this edition we concentrate on Asia and compare and contrast two of the major powers in the region, China and India. According to most forecasts, India is set to grow quicker than China over the next few years. Given this, should we be looking to India for investment opportunities or is China a more fertile hunting ground?

Hiren Dasani

Lead Portfolio Manager
Goldman Sachs India Equity Portfolio

India will be the second largest contributor to global growth in coming decades. In our opinion, India's outlook continues to stand out relative to other emerging and developed market peers.

Though China's political landscape provides higher stability, India is undergoing a once-in-an-era transformation and offers investors a more entrepreneurially-driven corporate universe. The investment case for India is underpinned by consumption growth and infrastructure investment that comes with the nation realising its demographic dividend. In India there are 1.3 billion people striving for a better quality of life. This would inject momentum across the economy with both per capita income and GDP forecasted to more than double over the next 10 years. This would make India the world's third-largest economy.

India's government has passed tough structural reforms such as demonetisation and Goods and Services Tax (GST), which should have meaningful longer-term benefits from a reduction in corruption and formalisation of the economy. This has also contributed to India's 30 places jump in the World Bank's 2018 'Ease of Doing Business' Rankings.

As the government's 'Make in India' initiative realises its true potential, India would also be able to adopt a more balanced and prudent approach to growth.

We believe a considerable number of opportunities exist, especially in domestically oriented sectors which are benefitting from increased demand and scale. We further believe more inefficient parts of the market like small and mid-caps constitute an attractive investment set.

Mike Shiao

Chief Investment Officer
Asia Ex Japan, Invesco Perpetual

Contrary to the turbulence in the past few years, investors have warmed towards Chinese markets, for what we believe to be good reason. These markets continue to be supported by healthy earnings growth: in 2018, Chinese companies are expected to deliver earnings growth of 15.4%.

Liquidity trends also remain supportive in both Hong Kong and mainland China due to the Shanghai-Hong Kong Stock Connect. This channel, which allows for mutual market access between the two markets, has seen cumulative flows into the market reach US$104bn since its launch in November 2014.

On valuations, the MSCI China Index is trading below long-term historical levels, and at a 22% discount to developed markets.

Economic growth in China remains stable and is well on track to deliver the government's target of around 6.5% growth; an impressive expansion compared with other major economies. While China's growth is expected to moderate, there is encouraging progress on deleveraging and reforms that can help China achieve a more balanced economy. We believe the Chinese government will continue to place emphasis on the quality rather than the quantity of growth, which will help shift the economy towards a more sustainable path, driven by domestic consumption.

Looking ahead, we believe consumption and services will continue to drive the economy, underpinned by urbanisation and rising income trends. Companies that are exposed to the new drivers of China's GDP growth, such as consumer-related areas, are expected to be growing at multiple times nominal GDP growth. We continue to find good stock opportunities in the consumer sectors, favouring industry segments such as automobile, tourism, education and retailers.

Equilibrium Investment Management view

With many Western stockmarkets looking quite expensive relative to history, investors need to look further afield for opportunities.

India and China are both fast growing economies and companies based in these countries can tap into this and potentially grow their earnings faster than in many other regions. Each country has different features which could be positive for investors. India has favourable demographics and a growing workforce, and the ongoing political reforms brings opportunities.

Avinash Vazirani

Fund Manager
Jupiter India Fund

We believe that the series of economic reforms in India being introduced by Prime Minister Modi's administration are helping to lay the foundation for strong growth for the country's economy over the long term. India's unique demographic should also be supportive for economic growth. As well as being one of the largest populations in the world, it is also remarkably young, with 45% of the total population under 25. The population is becoming increasingly financially and digitally aware, and the market dynamics are changing very fast.

There are several factors that we believe should drive long-term profitability of Indian companies: the ongoing benefits of the Goods & Services Tax, the introduction of direct benefit transfers, increasing access to high-speed internet and financial inclusion. The latter point includes the introduction of the 'India Stack', a comprehensive government-run software platform which combines infrastructure for biometric identification, digital lockers, e-signatures and digital payments. We think companies that are linked to domestic consumption, such as fuel retailers, asset managers and domestic airlines, have the most to gain from these themes.

In the short term, the series of major economic reforms introduced over the last year will likely remain disruptive to India's economy. In addition, upcoming state elections could increase the volatility of the Indian stock market. However, the ruling party, the BJP, saw success in recent state elections in Gujarat and Himachal Pradesh, and this bodes well for the general election in 2019. We believe Modi's re-election is the likely outcome, and would allow him to roll out further reforms.

Matthew Dobbs

Fund Manager
Schroder Asian Alpha Plus Fund

In recent months, the headline growth rate of India has been stronger than the growth rate of China. However, this has not led us to change the positioning of our pan-Asian portfolios, which continue to have a far greater weighting towards mainland China and Hong Kong registered stocks.

We see the slowdown in growth in China as a broadly healthy development, reflecting a maturing economy taking steps to ween itself off its dependence on borrowing to boost activity. Indeed, we think that a more productivity focused China, growing at a more sustainable rate of around 4%, compared to an unrealistic target dependent on excess credit growth, offers a more attractive and stable long-term investment backdrop.

India, meanwhile, has a number of difficult challenges to negotiate in its development, with a need to redeploy a (still largely agricultural) workforce with a basic level of education to compete in increasingly technology-dependent industries. This means that while the demographics of India may on the surface appear more favourable than those of China, with larger numbers of young people, this may turn out to have a less significant impact on their comparative longer-term growth than the vast sums that China has been pouring into cutting-edge research, automation and greater value added.

Also, in terms of stock choice, the Chinese and Hong Kong markets are well ahead of India. To give this some context, the A share market in China, which is increasingly open to external investment, now contains over 3,000 companies. It also has more companies with a turnover of more than $10m a day than any other emerging market. Good quality stocks in China are not particularly cheap, but neither are many of the better quality domestically focused stocks that are our long-term favourites in India.

Meanwhile, the Chinese markets look somewhat cheaper than the rest of the world and many Chinese companies are now leading the world in technological innovation.

In our view, it is not a question of India or China. Both countries offer the potential for positive returns whilst offering diversification to other markets. We currently invest in both regions and are likely to do so for the foreseeable future.

Investment review:

Expensive markets need creative solutions

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

By Mike Deverell

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7600
7400
7200
7000
6800

Trump announces tax reforms

Bank of England increases interest rates

US Fed increases rates

FTSE 100

Source: Thomas Reuters Datastream / Equilibrium Investment team. Data from 5 Oct 17 to 5 Apr 18.

Oct 2017
Nov 2017
Dec 2017

34 **Market outlook**
We are cautious about equities, less pessimistic about fixed interest and more cautious about some property funds.

35 **Fund selection**
Over the past six months we have been creative to achieve returns.

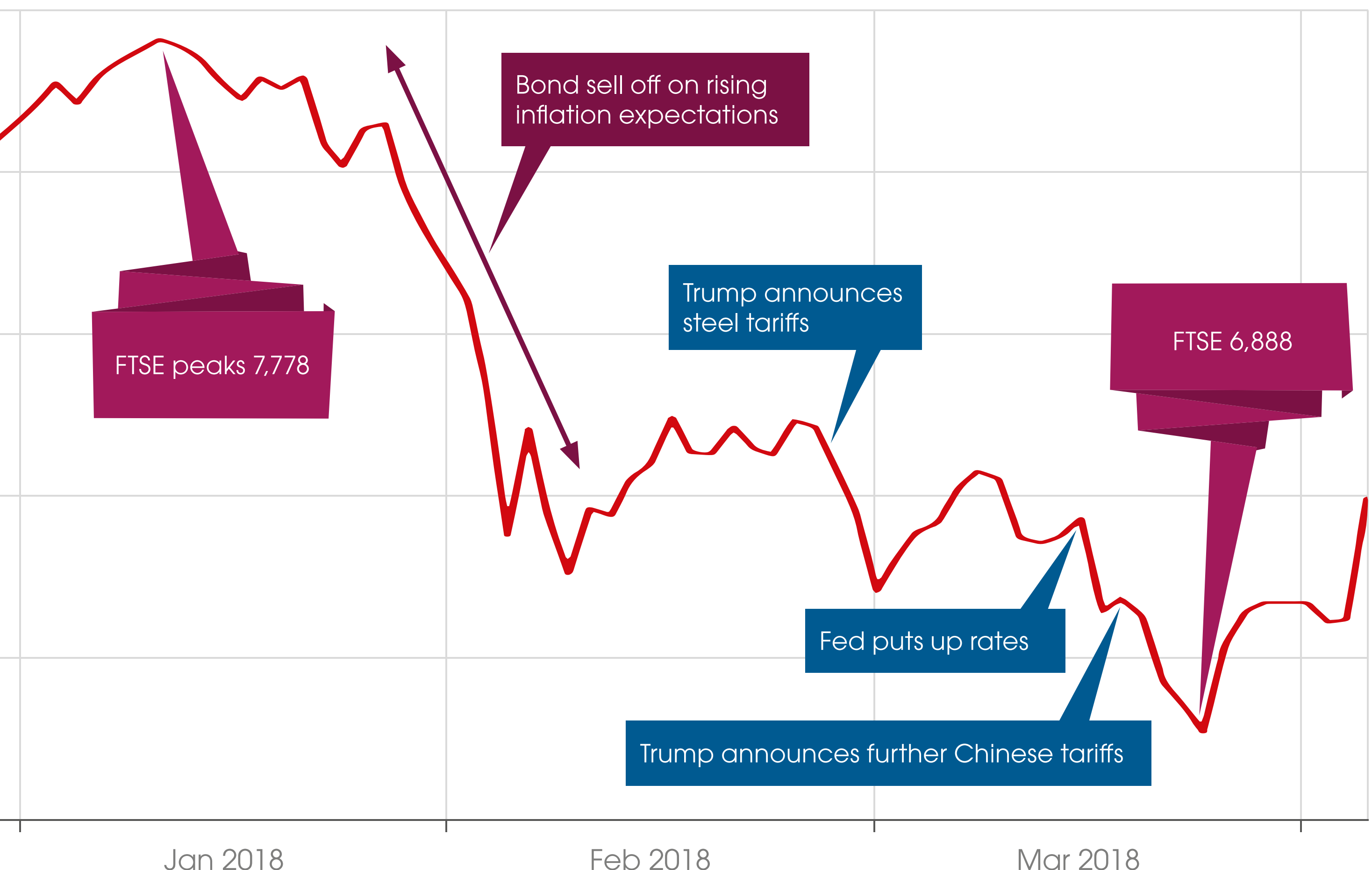
The return of volatility

There were many times last year when we were commenting on just how quiet markets had been! The past few months have seen that change. Whereas previously markets were ignoring big macro and political events, now they are getting more attention.

In particular, events in the US such as President Trump's tax and trade policies, plus the Federal Reserve's changes to its monetary policy, have started having a greater driving effect on markets.

In this edition of Equinox, we'll look at why volatility has returned, and why perhaps that's not necessarily a bad thing.

As usual, we'll also look at the various asset classes, explain how we've reacted to market events and discuss what we think could happen in the future.



36 **Sector performance & 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.

Normal service is resumed...

One of the things we know about stockmarkets is that they can be risky. In the UK, most calendar years see a fall of at least 10% at some point during the year, regardless of whether the market ends the year up or down overall.

Table 1 shows the calendar year returns of the FTSE All Share Index in the right-hand column, going back to 1986. The left-hand column shows the biggest intra-year decline during that calendar year.

You may notice from the table below that last year was extremely unusual as it saw a maximum decline of only 4%.

Table 1: FTSE All Share Index intra-year declines vs. calendar year returns

Year	Intra-year declines %	Calendar-year returns %
1986	-9	22
1987	-37	4
1988	-8	6
1989	-14	30
1990	-22	-14
1991	-12	15
1992	-18	15
1993	-4	23
1994	-18	-10
1995	-4	19
1996	-6	12
1997	-10	20
1998	-25	11
1999	-11	21
2000	-12	-8
2001	-30	-15
2002	-31	-25
2003	-17	17
2004	-6	9
2005	-7	18
2006	-10	13
2007	-13	2
2008	-43	-33
2009	-23	25
2010	-17	11
2011	-19	-7
2012	-12	8
2013	-12	17
2014	-10	-2
2015	-15	-3
2016	-12	12
2017	-4	9

Source: FTSE, Thomson Reuters Datastream, JPM Morgan Asset Management. Data as of 21 December 2017. Figures are price only and exclude dividends.

Other measures of 'risk' were also extremely subdued. The volatility of the market (how much it moves up and down each day) hit record lows across most major stockmarkets in 2017. Whenever there was news which would normally adversely affect stocks, reactions were generally muted.

To some people this apparent lack of risk in the markets can be comforting, making them feel confident enough to increase equity exposure. However, it makes us nervous. Often, the longer such a benign period carries on, the sharper the reaction can be when it ends.

The beginning of 2018 has seen normal service resume. The FTSE 100, which peaked on 12 January at 7,778, fell by 11.4% to 6,888 as of 26 March before recovering to 7,199 on 5 April.

Whilst this is never nice for investors, it is important to remember that such corrections are 'normal' for the stockmarket. The recent falls are not necessarily the start of a prolonged bear market. We would never say never, but our view is that this return of volatility was necessary, perhaps even, would we dare say, welcome?!

In our portfolios, we have certainly used this volatility as an opportunity to top up equity exposure at relative lows. Prior to the falls we had been positioned relatively defensively, holding less equity than normal.

This means our portfolios have held up well in the recent volatility as shown in table 2.

Over the coming pages, we'll look at how we try to make returns as stable as possible, whilst capturing as much of the gains as we can when markets rise.

Risk controls

Our strategy is relatively simple. We believe in asset allocation which means we invest in a mixture of different assets, not just equity.

We also adapt this allocation to market conditions so, for example, if stockmarkets begin to look expensive, we begin to reduce equity exposure. As they start to get cheaper we then look at adding more exposure. Essentially, we sell on the way up, and we buy on the way down.

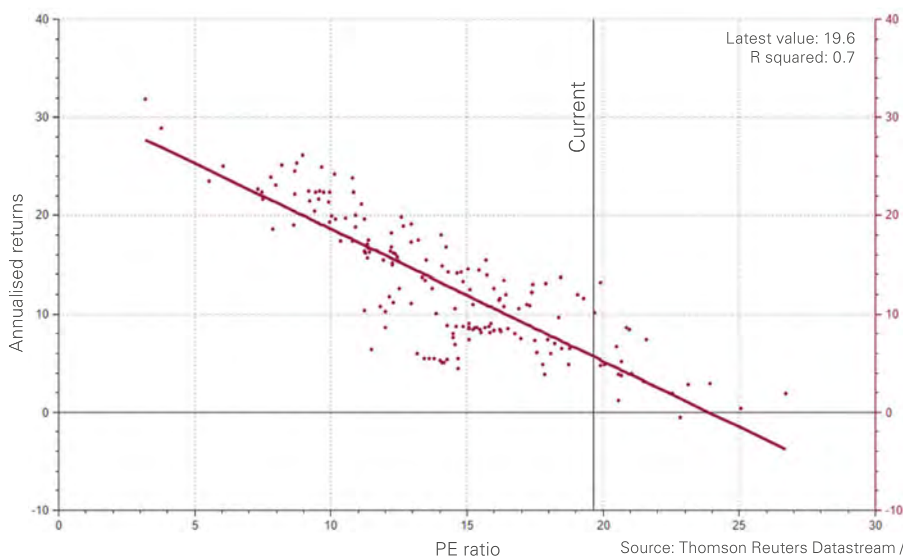
This approach is not about market timing but about risk control. We will never be able to accurately time either the top or the bottom of the market, and therefore our decisions to buy or sell will often look too early in the short

Table 2: Portfolio returns

Portfolio	6 months %	12 months %
Equilibrium Cautious Portfolio	-1.23	2.36
Equilibrium Balanced Portfolio	-1.66	3.87
Equilibrium Adventurous Portfolio	-1.37	2.83
UT Mixed Investment 20%-60% Shares Sector	**-1.86**	**0.94**
FTSE 100 Index (TR)	**-2.5**	**2.49**

Source: FE Analytics

Chart 1: UK: PE ratio vs 10-year annualised returns



Source: Thomson Reuters Datastream / Equilibrium investment team

term. However, until recently, markets have been growing far quicker than the underlying earnings of the companies which meant price/earnings (PE) ratios had become very high.

Historically, such valuations have been a good indicator of what returns you might expect from the stockmarket and this can be seen on chart 1. Each dot on chart 1 represents a different 10-year period on the UK stockmarket.

Along the horizontal axis is what the PE ratio of the market was at the start of that 10-year period. Along the vertical axis is the annualised return the market saw over that period. We tend to see much lower returns when the market starts at a high PE than when it starts with a low PE.

Given this clear historical relationship, we are much more comfortable holding higher levels of equity when PE ratios are low, and we will tend to hold less than when they are high. Again, we should stress that this is not an indicator of timing but has historically been a good indicator of future returns. There are several others we also look at.

Earlier this year, the UK PE ratio was around 22 times earnings, which is very close to the right hand side of chart 1. There have not been many periods when the markets have been so expensive and historically we have tended to see low single digit returns at best after such high valuations. As a result, we have been holding much less in equities in our portfolios than we do normally (particularly UK equities). In fact, until the recent volatility we had never held so little in equities within our core portfolios

This approach is not about market timing but about risk control

After the recent correction, the market dropped back to just over 19 times earnings. This is still far from cheap but is somewhat better value, and so we have added some equities on the dip. By doing so we hope to benefit from volatility in markets, rather than be hurt by it. We will reduce equities again should markets recover close to previous levels.

Markets may still have further to go, and we continue to hold somewhat less in direct equities than usual. However, should they fall even further, we still have investments in other asset classes which have held up well.

Table 3: Asset class returns

Portfolio	Year to date %	12 months %
EQ Alternative Equity	1.47	6.46
EQ Property Portfolio	0.98	5.77
EQ Fixed Interest	-0.74	2.47
EQ Balanced Equity	-3.85	7.05
FTSE 100 Index	-5.23	2.49

Source: FE Analytics

Finding alternatives

Over the past year or two we've preferred to hold more alternative equity in portfolios and less traditional equity. Alternative equity is our term for funds that don't fit into the main asset classes. Often these funds describe themselves as 'absolute return' funds but it can also include other lowly correlated assets such as infrastructure funds. Essentially, these are funds which we believe can provide diversification and, over the long term, a return not far behind that of traditional stocks (but with significantly less risk).

For much of the past year we would have been better placed to have more money in traditional equity instead, however since the return of volatility these funds have really come into their own.

Table 3 shows the returns of our various different asset class portfolios. These are the underlying building blocks that we use to build up an overall asset allocation.

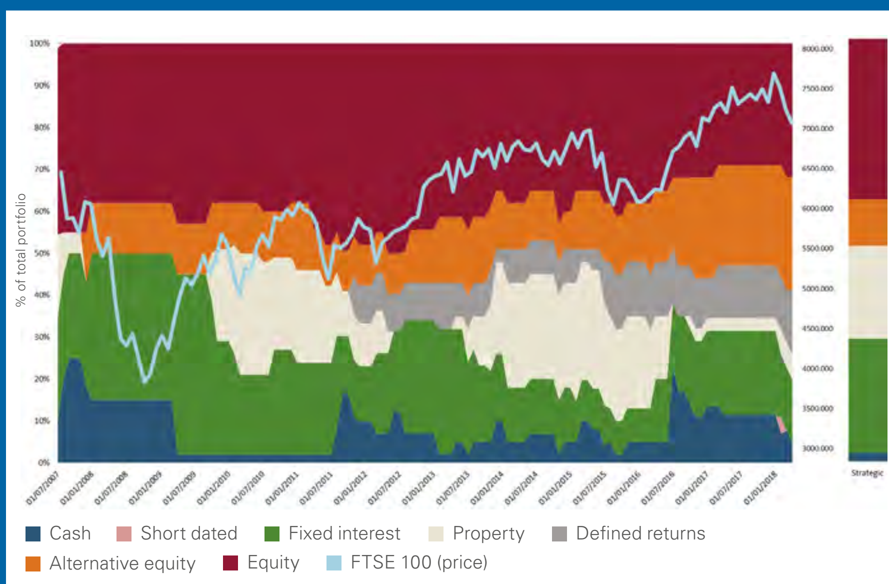
From the beginning of 2018, both our alternative equity and property portfolios have made money even though equities have fallen.

This shows the benefits of diversification, as not only does it reduce losses in negative markets, but it also means we have money available to switch into stocks at relative lows.

You can see how we've implemented this consistently in chart 2. This chart shows how we've adapted the asset allocation of our balanced portfolio from 2008 to date, and the light blue line overlaying it shows the FTSE 100 price over the same period.

The red area corresponds to the amount of equity held in the ideal balanced portfolio at a particular time. The larger the red area, the more equity is held. As you can see, this area tends to get larger when markets fall, and as they rise we tend to gradually reduce it.

Chart 2: Asset allocation changes over time



Trump trades

To find out what's been driving markets of late we need to look across the pond.

The US is the world's largest economy, and what their politicians and central bankers do affects virtually everything across all asset classes. Our globalised world means the US economic picture affects stocks listed in virtually every country, and their monetary policy impacts bond markets globally. In addition, currencies around the world respond to what happens to the dollar.

To our mind there are three key things which are currently driving markets:

- Trump's tax reforms (especially the tax cuts for corporations)
- US monetary policy which includes rising interest rates and the unwinding of quantitative easing
- Trade tariffs and the potential for trade wars

All of these factors are intertwined.

The background to this is a US and global economy which has been relatively strong for some time, with benign inflation, accommodative monetary policy and gradually decreasing unemployment rates. This environment has been described by many as a 'Goldilocks economy' as it is not too hot - with little danger of overheating – and not too cold.

Stocks have performed well until recently given the economic background is positive for company earnings. However, bonds have also done well given the low interest rates and inflation.

Trump's tax reforms were the first big shock to the Goldilocks narrative. This may sound strange, given the potential stimulus to the economy. However, an economy which is already doing well doesn't necessarily require much stimulus. In fact it adds to the danger of overheating.

The initial reaction to the reforms was extremely positive for stockmarkets which performed very well in December and the first weeks in January. A tax cut essentially means a company's net profit has suddenly increased, and so it is hardly surprising that share prices should also rise.

However, given the levels of market valuations, arguably much of this was already at least partially priced in. A tax cut is also a one off and isn't likely to be repeated next year, so this could arguably only have a one-off effect on share prices.

Many of the companies are likely to pass on the benefit of the tax cut to shareholders through share buy backs. A few are planning to use the extra money to increase employee remuneration, whilst some others may well reinvest back into their businesses in different ways.

Each of these plans could provide some stimulus to the US economy, and so many economists have increased their forecasts for US growth as a result.

In addition, a weak dollar and strong employment on top of this stimulus means forecasts for inflation have also increased. As a result, the Federal Reserve may be forced to put up interest rates quicker than had been anticipated.

A tax cut essentially means a company's net profit has suddenly increased

Fed up

The positive momentum from the tax cut very quickly turned to fears about the impact of tighter monetary policy.

Not only was the Federal Reserve (Fed) likely to increase rates more aggressively, but attention turned to their plans to start reversing quantitative easing (QE).

Since the financial crisis, central banks around the world have pumped vast amounts of money into the financial system. They do this by electronically 'printing' money which they then use to buy bonds on the open market. In the case of the US Fed they mainly bought US Treasuries, whilst the Bank of England mostly bought UK gilts under their own QE programme.

One of the main ways this was meant to stimulate the economy was by pushing up the price of those bonds. This pushed down the yield which had a knock-on effect on interest rates in the real economy, such as those on mortgages and commercial lending. It also had an impact on other asset classes such as equities, with investors taking profits on those bonds and investing in stocks in search of a higher return.

Whilst the Fed stopped carrying out QE a couple of years ago, other central banks such as those in Europe and Japan have carried on. The Fed may not have added to their bond holdings, but until recently they have reinvested the proceeds from any bonds that mature.

However, the Fed are now beginning to reduce the amount they reinvest as and when bonds mature. When bonds mature they are now beginning to cancel the money they receive rather than replace their holdings with new bonds. This is essentially a reversal of QE.

Nobody really knows what effect this may have. The assumption is that, given QE pushed up the price of bonds and reduced the yield, reverse QE may potentially lead to falling prices and rising yields.

Whilst this is a very gradual process, bond yields began to rise quite sharply during late January with stockmarkets selling off at the same time. In our view this is something which could continue to impact both asset classes throughout this year.

Trade off?

However, the relationship between stocks and bonds changed suddenly during March when President Trump decided to launch a 'trade war'.

Perhaps the term 'trade war' is too dramatic, but his threats to start to levy tariffs on imports from China was quickly followed by retaliations by the Chinese on selected American products.

Seen as a potential negative for the global economy (something which stockmarkets were bound to dislike) this was then compounded by a number

The US is the world's largest economy, and what their politicians and central bankers do affects virtually everything across all asset classes

of economic data releases coming in below expectations. That's not the same as being actual bad news, but just not as good as the very high bar being set by the market.

However, if that is a negative for the economy then the potential for a sharp increase in rates is reduced. In the short term, at least this has had a very different impact on the bond market to stocks. Given the higher yields after the prior sell off they also look more attractive to risk averse investors, and so they have rallied somewhat towards the end of the period.

This changing dynamic between bonds and equities acting together, and then suddenly moving in opposite directions, is very difficult for a traditional asset allocation strategy which only invests in those two asset classes. That is why we prefer to include the likes of alternative equity and property for additional diversification.

One final impact that Trump has had on the market has been his attack on some of the big technology firms for not paying enough tax. There has been a sharp sell off in tech stocks around the world, after a very strong 2017.

Markets have previously ignored political risk and carried on regardless. In our view, it is about time they woke up and started listening.

And we haven't even mentioned Brexit yet…

UK economic outlook

Whilst the global economy was very strong last year, the UK suffered by comparison.

That's not to say the economy was particularly bad, but the UK was the slowest growing of all the major economies. After the referendum the pound fell sharply against other major currencies, and this led to a spike in inflation. Whilst wages have been growing solidly, they have been growing by less than inflation, meaning many people have seen their incomes fall in real terms over the past year or so.

The UK consumer is a big driver of economic growth in this country, and various measures of retail spending have been very anaemic.

The good news is that inflation now seems to be on the way down, as the pound has stabilised and the previous falls have worked their way through the system. The official consumer price index (CPI) measure of inflation peaked at 3.1% in November 2017 and fell to 2.7% in February 2018 so real wage growth should soon turn positive again.

As of April 2018, CPI is still above the Bank of England's target of 2% and so there is a very good chance they will look to increase interest rates. However, the Bank will need to be extremely cautious about doing so as this could further reduce the amount of disposable income for those with variable rate mortgages.

Increasing rates could also prove difficult for highly indebted companies, particularly in the retail sector. This part of the market is suffering with mid-range restaurants like Jamie's Italian and Byron Burger closing many of their outlets in a bid to rein back costs. Elsewhere, other high profile retailers such as Toys 'R' Us and Maplin Electronics have suffered even more so and have entered administration.

To our mind these issues are not isolated cases but potential red flags that we need to pay attention to.

Whilst many of these companies are in the retail sector, what they all had in common was that they were highly indebted. Increasing rates too much could push other companies into difficulty.

That's not to say that there aren't some great companies in the UK. Many share prices look relatively cheap given that sentiment towards UK investing has been arguably poor of late. As a result we actually think there's some good value within the smaller company sector of the UK stockmarket.

However, where we do need to be careful with investments is in UK commercial property. Returns in this asset class are highly correlated to economic growth.

Given the current environment we certainly do not want to invest a great deal in retail property, as it has been hit not just by the consumer downturn but by changing trends in how we buy products. On the flip side, the move to online retail activity has been a positive for certain parts of the industrial property market, notably distribution warehouses set up to facilitate speedy delivery of your online orders. Those of you based in the North West may well have seen the huge new Amazon warehouse by Manchster airport, for example.

Meanwhile, London offices continue to be hit by ongoing uncertainty over Brexit. All of this means that we only want selected property funds, limiting our exposure in portfolios.

Market outlook

After the recent sell off in stockmarkets, there is marginally more value, in our opinion, than there had been previously.

Chart 3 shows our own valuation indicator that we use to assess the relative value of different markets. This combines many common metrics, such as the price/earnings and price/book ratios, and gives each region an overall score.

We display this as a graphic equaliser. The black area for each region is the full range the indicator has ever been in its history. The green bar shows where the score is now – the higher up the chart this is the more expensive the market is.

The blue line across the middle shows the long term average for each region. All of the markets we look at, with the exception of Japan, are above their long term average.

Whilst most of the markets look far from cheap, they are cheaper than they were at the end of 2017 when several of the regions were more than one standard deviation above their average (represented by the orange bars on the chart). For those that aren't statistically minded, that simply means it is very unusual for markets to be that expensive.

Given the relative valuations, we continue to hold more in Japan and in selected emerging markets than we normally would do. By contrast, we hold less than usual in the US, Europe and in large cap UK stocks.

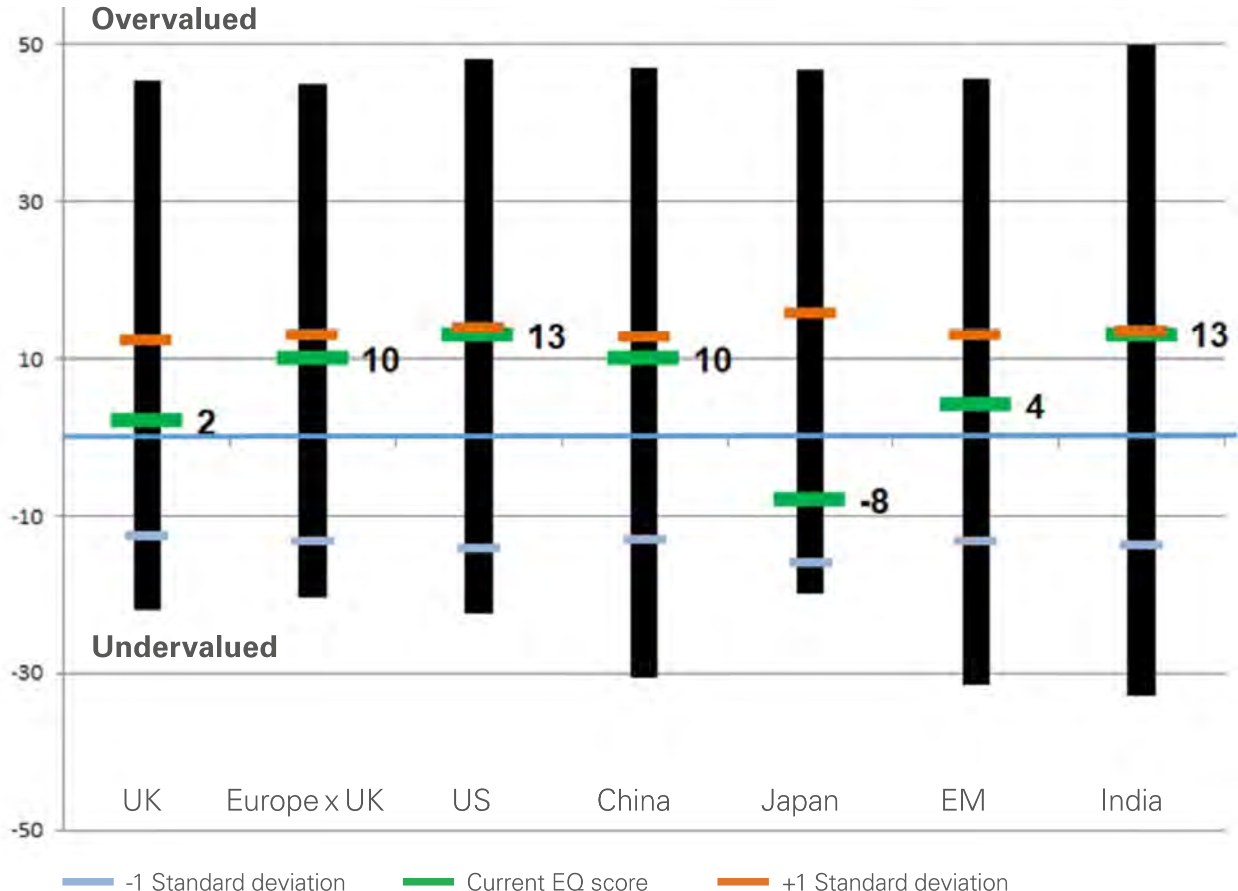
These indicators have historically been a fairly decent gauge of future returns over a five-year period. Chart 4 shows the indicator for the UK going back to the early 1980s (the blue line). The green line shows the five-year annualised return over the following period (the right hand axis).

We continue to hold more in Japan and in selected emerging markets than we normally would do

The lines fit each other extremely well although you may notice that they diverge in 2003. Since then, five-year returns have continued to track the indicator but at a lower level than before the tech crash. Based on recent history, our 'best guess' for returns from the UK market over the next five years might be low to mid single-digit total returns.

In fixed interest, the best indicator of future returns is the yield. Whilst these have risen in some sectors of the fixed interest market, they remain low relative to history. The current

Chart 3: Market valuation



Source: Thomson Reuters Eikon / Equilibrium Investment Management LLP

yield on the fixed interest funds we hold in portfolios is around 3.8% pa at present, which would indicate returns well below long-term averages of 6% pa or so.

In commercial property, returns are principally a function of economic growth. With UK growth currently ok but a bit anaemic, we should expect relatively low property returns, principally driven by rental income with little in the way of capital growth.

Given the outlook for the traditional asset classes, we continue to invest more than usual in alternative equity and in defined returns products. Defined returns are linked to the stockmarket but are designed to provide a fixed rate of return. In essence, they provide that return should the market simply not fall over the life of the product. This does cap the possible gain compared to traditional equity but it increases the likelihood of achieving a positive return.

Chart 4: EQ score vs five year UK market returns

Source: Thomson Reuters Eikon / Equilibrium Investment Management LLP

Fund selection

In periods when the markets struggle, what we really want to see is the funds that we hold outperforming their sectors. We are delighted to note that this has very much been the case of late.

We monitor all the funds we hold on a regular basis. In particular, we look at whether the fund has outperformed over the period it has been held in portfolios. We group funds into categories depending on how they have done relative to the benchmark we have set for them. Table 4 shows how many funds fall into each category.

In total, 85% of funds are 'neutral' or better over the period they have been held which is a very pleasing result.

The average outperformance of all the funds we hold across a variety of sectors is 3.5% pa. During the next section we will look at the performance of some of the individual funds across different sectors.

Pleasingly, looking at the performance of our individual sector portfolios, each of them across multiple asset classes have beaten their benchmarks over various time periods.

Whilst we believe asset allocation is the key driver of returns, the selection of individual investments has also been extremely beneficial in terms of both risk and return. For example, if we can continue to select equity funds which outperform strongly it allows us to take less risk in terms of the amount of equity held and still capture positive returns.

Table 4: Fund performance

Category	Number of funds	Funds %
Outperforming by >25%	20	63
Outperforming by between 10% and 25%	4	13
Neutral – within 10% of benchmark	3	9
Underperforming by between 10% and 25%	1	3
Underperforming by >25%	4	13

Figures correct as of 29 March 2018 from the dates which various funds were first included in portfolios. Data from FE Analytics.

Sector performance & analysis

UK funds

In the UK, our preference for smaller companies over large companies helped performance. In particular, our UK Dynamic portfolio of more aggressive UK funds has done very well, returning over 10% over 12 months relative to its benchmark (which returned less than 3%).

Conversely, traditional UK equity income funds have performed poorly, which has affected the returns of our UK Conservative Equity portfolios. Normally, where markets are looking expensive we would tend to hold more of this type of fund as they typically outperform in more volatile markets.

However, these types of stocks have been in demand over the past few years as the low yields on bonds have caused investors to look elsewhere for yield. As a result, these stocks have been more vulnerable in the recent sell-off than in most corrections.

Again, we have tilted this part of portfolios towards smaller companies which has helped the portfolio to outperform its benchmark.

Global established

In the more established overseas markets, we have maintained our preference for Japan whilst holding less than usual in Europe and the US.

This has helped performance despite one of our funds underperforming relative to the Japanese sector. Our fund selection in Europe has also really aided returns. In the US we only hold an index tracker given the poor record for active managers in this region. This has underperformed active funds marginally during the recent downturn but still has provided returns ahead of sector over the long term.

Table 5: UK equity fund performance

	6 months %	1 year %	3 years %
LF Miton UK Multi Cap Income B Inst Inc	-0.91	7.50	30.69
Rathbone Income Inst Acc	-5.45	Not in portfolios	Not in portfolios
Royal London UK Equity Income M Acc	-3.53	1.03	18.61
Equilibrium UK Conservative Equity	-3.06	0.86	16.35
Sector : UT UK Equity Income	-3.78	0.61	13.41
Index : FTSE All Share	-2.17	2.94	19.69
LF Miton UK Value Opportunities B Inst Inc	-3.40	6.85	37.38
Lindsell Train LF Lindsell Train UK Equity	0.84	8.77	33.14
Marlborough Special Situations	2.33	14.03	62.61
Equilibrium UK Dynamic Portfolio	0.41	10.35	48.01
Sector : UT UK All Companies	-2.95	2.88	17.55
Index : FTSE All Share	-2.17	2.94	19.69

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

Source: FE Analytics

AIM

The EQ AIM Portfolio invests in stocks listed on the Alternative Investment Market (AIM) which we believe qualify for Business Property Relief. The primary purpose of the portfolio is for inheritance tax planning.

Over the last 12 months, the relatively benign economic conditions have provided a positive backdrop for most of the companies held in the EQ AIM Portfolio. Over the year to 5 April 2018, the Portfolio has returned 15.21% as compared to 10.82% for the FTSE AIM Index. For comparison, the broad main market benchmark index, the FTSE All Share, has returned 3.06%.

In terms of individual companies, the video game services company Keywords Studios has been an outstanding performer and is seeing very strong growth both in the gaming market and the business itself as it broadens the range of services it offers. Similarly, Burford Capital (litigation finance) and Fevertree Drinks are going from strength to strength in their operations which has been reflected in strong share price performance over the year.

In the detractors, the issues at Conviviality (drinks retailer and wholesaler) underline the risks in investing in early-stage companies in this market, although many of the portfolio construction features, such as the equal weighting and the half-yearly rebalancing of portfolio, helped mitigate some of the risk to capital.

Despite the sluggish pace of UK economic growth predicted for this year, the investee companies in the Portfolio are seeing a much rosier outlook for their businesses. Since the end of 2017, many have reported good trading updates, underlined by average dividend increases of around 15%, which point to a more upbeat outlook for the year ahead. Like all investments, AIM stocks can fall as well as rise. Investors may not get back all of their original investment and returns are never guaranteed.

This table shows the top 5 and bottom performing stocks in the portfolio over the past 12 months:

AIM portfolio - stock performance

Top stocks by total returns

Return	Stock
111%	Keywords studios*
77%	Burford Capital
74%	Fevertree Drinks
58%	Dart Group
55%	Restore

Bottom stocks by total returns

Return	Stock
-100%	Conviviality
-34%	Mulberry Group
-28%	Impellam Group**
-20%	Nichols
-18%	Staffline Group

*Since purchase in July 2017

** Returns ending 10th January 2018 when it was replaced by Hotel Chocolat in the rebalance

Table 6: Global established fund performance

	6 months %	1 year %	3 years %
Baillie Gifford Japanese B Inc	4.62	14.57	54.94
Schroder Tokyo A Inc	1.40	5.60	34.47
Sector : UT Japan	2.98	9.25	40.19
BlackRock European Dynamic FD Inc	-5.00	11.35	38.23
Sector : UT Europe Excluding UK	-5.34	5.34	26.94
Vanguard US Equity Index A Inc	-1.50	2.57	41.43
Sector : UT North America	-1.48	1.34	36.67
Equilibrium Global Established Portfolio	-0.67	7.70	41.55
Global Est. Benchmark	-2.84	3.12	32.88

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

Source: FE Analytics

Table 7: Global speculative fund performance

	6 months %	1 year %	3 years %
GS India Equity Portfolio I GBP	-0.36	Not in portfolios	Not in portfolios
Invesco Perpetual Hong Kong & China Z Acc	0.63	20.19	50.57
Schroder Asian Alpha Plus Z Inc	0.87	13.95	48.91
Equilibrium Global Speculative Portfolio	0.53	15.56	45.66
Sector : UT Global Emerging Markets	-0.47	8.47	33.28

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

Source: FE Analytics

Global speculative

We have been holding more in global speculative – our term for emerging markets – than we usually do of late. In particular, we have a preference for Asian and Chinese stocks, which has helped returns over the past 12 months.

We have also added an Indian fund in the last year, based on our belief in future growth in this region. The Indian market underperformed during the early part of 2017 but has bounced back sharply, and so it has also outperformed global emerging markets over six months.

Fixed interest

Gilts and some corporate bonds fell in the early months of 2018.

Over the year, our preference for corporate bonds over gilts aided performance. In particular, some of our 'strategic bond' funds which can invest in government, corporate and high yield bonds from around the globe, helped performance.

Alternative equity

Alternative equity performed well over 12 months and over the period has beaten not just its benchmark but traditional equities as well (as represented by the FTSE All Share Index).

Towards the end of 2017 the portfolio disappointed us by losing money during December at a time when the stockmarket rose sharply. However, this at least proved the diversification that the portfolio brings! If markets fell what we hoped to see was the opposite, and since the beginning of 2018 this is indeed what we've seen, with the portfolio providing positive returns despite equities being down over that period.

Property

Our property portfolio produced a solid 6% return over 12 months, slightly ahead of its benchmark (a composite of other 'bricks and mortar' UK property funds).

For much of that period we only held one fund, although we recently added a second. This is because there are only selected parts of the commercial property market which we currently like, and we also want to limit London exposure. This therefore restricts the amount we can hold in property.

Chart 5: Fixed interest

05/04/2017 - 05/04/2018
Data from FE 2018

A - Equilibrium fixed interest (2.51%) B - UT sterling corporate bond (1.21%) C - FTSE actuaries UK conventional gilts (-0.69%)

Chart 6: Alternative equity

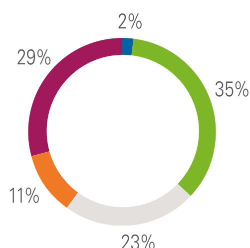
05/04/2017 - 05/04/2018
Data from FE 2018

A - Equilibrium alternative equity (6.53%) B - FTSE all share (2.94%) C - UT mixed investment 20-60% shares (-0.91%)

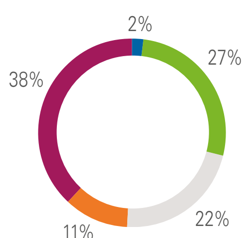
Model portfolio returns

We are delighted that all of our portfolios have beaten the average fund manager over all the time periods shown below.

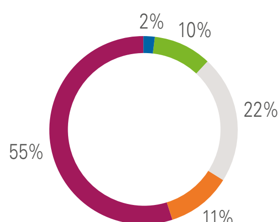
Strategic asset allocation



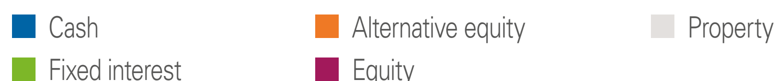
Cautious Model	6 Months %	1 Year %	3 Years %	5 Years %	Since Launch* %
Cautious Portfolio	-1.23	2.36	11.40	28.21	64.14
Mixed Asset 20-60% Shares Sector	-1.86	0.94	11.10	25.46	49.86



Balanced Model					
Adventurous Portfolio	-1.37	2.83	13.99	33.17	68.78
Mixed Asset 20-60% Shares Sector	-1.86	0.94	11.10	25.46	49.86



Adventurous Model					
Balanced Portfolio	-1.66	3.87	19.80	40.18	75.42
Mixed Asset 20-60% Shares Sector	-1.86	0.94	11.10	25.46	49.86



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 5 April 2018 as ARC indices are published on a monthly basis:

Model Portfolio	6 Months %	1 Year %	3 Years %	5 Years %	Since Launch* %
Cautious Portfolio	-0.74	2.17	11.43	26.85	63.59
ARC Sterling Cautious PCI	-0.40	0.89	6.58	14.93	38.93
Balanced Portfolio	-0.70	2.63	14.00	31.35	68.21
ARC Sterling Balanced PCI	-0.48	1.23	10.50	23.06	48.85
Adventurous Portfolio	-0.53	3.76	19.99	37.98	74.91
ARC Sterling Balanced PCI	-0.48	1.23	10.50	23.06	48.85

* Launch date 1 January 2008. All data to 5 April 2018.
Figures are highlighted in green where they are in excess of the relevant 'Mixed Asset' sector.

Sector portfolio returns

Equity Portfolios	6 Months %	1 Year %	3 Years %	5 Years %	Since Launch* %
UK Conservative Equity	-3.25	0.89	16.35	46.29	78.66
UT UK Equity Income Sector	-4.23	0.61	13.42	42.21	71.01
UK All Companies	-2.49	3.38	19.77	43.64	72.02
UK Dynamic	-0.01	10.24	48.01	87.63	122.47
UT UK Equity All Companies Sector	-3.41	2.84	17.55	45.08	73.34
Global Established	-1.22	8.11	41.55	88.78	141.27
Global Established Benchmark **	-3.89	3.37	32.88	78.77	121.19
Equilibrium AIM	-3.00	17.38	100.16	169.51	291.69
FTSE AIM All Share ***	0.22	10.82	48.43	52.32	9.35
Global Speculative	-0.76	15.93	45.51	66.01	75.55
UT Global Emerging Mkts Sector	-1.48	8.79	33.27	39.71	60.90
Balanced Equity Mix	-1.65	7.05	34.07	68.28	101.23
Balanced Equity Benchmark ****	-3.19	3.72	24.94	57.15	87.51
Adventurous Equity Mix	-1.53	8.84	37.05	70.48	103.17
Adventurous Equity Benchmark ****	-2.92	4.52	27.02	57.32	87.08
Alternative Equity	-0.08	6.46	14.67	34.98	76.46
UT Mixed Asset 20-60% Shares	-1.86	0.94	11.10	25.46	49.86
Fixed Interest Portfolio	0.78	2.47	11.20	22.25	73.14
UT Sterling Corp Bond Sector	0.27	1.37	9.06	21.62	60.92
Property Portfolio	3.13	5.77	19.96	45.71	70.79
Composite Property Benchmark *****	3.19	5.57	10.05	33.01	59.19

* 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 'Mixed Asset' sector.

Market returns

Equity Markets	6 Months %	1 Year %	3 Years %	5 Years %
FTSE 100 Index (UK)	-2.50	2.49	18.48	39.11
FTSE All Share Index (UK)	-2.39	3.06	19.69	43.77
FTSE 250 Index (UK Mid Cap)	-1.92	5.13	23.05	66.10
MSCI Europe Ex UK Index	-6.19	4.32	22.53	59.21
S&P 500 Index (USA)	-1.92	2.22	43.09	102.24
Topix (Japan)	1.22	9.62	39.50	77.60
MSCI Emerging Markets Index	-0.68	10.55	33.06	43.05

Fixed Interest				
IBOXX Sterling Corporate Bond Index	-0.02	0.89	11.96	28.36
UT Sterling Corporate Bond Sector	0.27	1.37	9.06	21.62
FTSE British Government Allstocks (Gilt) Index	1.51	-0.67	9.60	19.78
UT Gilt Sector	2.32	-0.25	9.15	20.23
UT Sterling High Yield Sector	0.27	1.37	9.06	21.62

Property				
IPD UK All Property Index	4.80	10.28	27.94	72.96
Composite Property Benchmark*	3.19	5.57	10.05	33.01

Other Measures				
Bank of England Base Rate	0.23	0.35	1.20	2.21
UK Retail Price	1.09	3.27	8.17	11.82

* 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 April 2018.
- 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 %
Liquidity	Cash	0.00	0.00	0.00
Fixed Interest (short dated)	Royal London Short Duration High Yield	0.00	0.50	0.63
	TwentyFour Absolute Credit	0.00	0.40	0.66
	L&G Sterling Short Dated Bond Index	0.00	0.14	0.14
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	0.83
	TwentyFour Dynamic Bond	0.00	0.75	0.80
	L&G Allstocks Index Linked Gilt Index	0.00	0.15	0.15
Property	Kames Property Income	0.00	0.75	0.96
	Standard Life UK Real Estate	0.00	0.75	0.84
Alternative Equity	H2O Multi-returns	0.00	1.00	1.00
	Odey Absolute Return	0.00	0.75	0.92
	Henderson UK Absolute Return	0.00	1.00	1.06
	Invesco GTR	0.00	0.87	0.87
	Old Mutual GEAR	0.00	0.75	0.82
Infrastructure (alternative equity)	Lazard Global Listed Infrastructure	0.00	0.85	1.03
Defined Returns	Societe Generale FTSE Autocall Dec 2017	0.15	0.00	0.00
	JPM FTSE Autocall June 2017	0.15	0.00	0.00
	Credit Suisse FTSE/S&P Autocall Jan 2018	0.15	0.00	0.00
	Atlantic House Defined Returns	0.00	0.55	0.78
Equity - UK Conservative Equity	Royal London UK Equity Income	0.00	0.62	0.68
	Miton UK Multi Cap Income	0.00	0.75	0.82
	Rathbones Income	0.00	0.75	0.79
Equity - UK All Companies	L&G UK 100 Index Trust	0.00	0.10	0.10
Equity - UK Dynamic	Lindsell Train UK Equity	0.00	0.65	0.75
	Miton UK Value Opportunities	0.00	0.75	0.83
	Marlborough Special Sits	0.00	0.75	0.80
Equity - Global Established	Baillie Gifford Japanese Co.	0.00	0.60	0.63
	BlackRock European Dynamic	0.00	0.75	0.92
	Miton European Opportunities	0.00	0.50	0.66
	Schroder Tokyo	0.00	0.75	0.91
	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 April 2018. These will change periodically and have not all been held throughout the period covered by this document.

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