equinox

half yearly investment magazine

Are your kids ready for your money?

The Attenborough effect

Timeless trusts

equilibrium

October 2019

PLUS: Spend it wisely | Acting locally, not thinking globally | Giving your best

Welcome

It sometimes feels as though I repeat the same introduction to this magazine every six months. Whilst it would be a nice change to say that it's been quiet since our last edition of Equinox, it has, once again, been anything but.

Sterling has been compared to 'a Third World currency' by the Governor of the Bank of England, Mark Carney, causing our eagerly awaited summer holidays to put more of a strain on our wallets than we might have hoped.

The world is always unpredictable, but Trump's tweets and trade wars alongside Boris's Brexit make it even more so.

As always, our investment strategy aims to find the best path through the minefield and produce the most stable returns possible. Our commentary on the various asset classes and the decisions we've made can be found from page 28 onwards.

I hope you will find the articles in this issue relevant yet timeless. We have focused in particular on the theme of preparing your money for your children along with the often neglected (but equally important) topic of preparing your children for your money. As always, if you have any thoughts, questions or feedback, please do not hesitate to get in touch with me directly at colin.lawson@eqllp.co.uk.

Colin Lawson
Founder

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Contributors Mike Deverell, Neal Foundly, Andrew Hirst, Debbie Jukes, Colin Lawson, Jessica Read, Sam Richards, Jo Watmore

Editors Sam Richards, Gaynor Rigby

Design Paul Davis

Print Paragon

Are your kids ready for your money?

Preparing your money for your kids is important, but have you considered whether your kids are ready for your money?

By Colin Lawson

Our purpose as a business is 'to make people's lives better', and whilst that might seem like a grand goal for a wealth management business, it's one that we take very seriously.

Essentially, we want to provide our clients with confidence and clarity around their finances, so that they can hopefully make better financial decisions and ultimately improve their own and their family's lives.

One of the areas where we can make a great impact is in relation to their inheritance tax (IHT) and intergenerational planning. Although they sound similar, these two areas are in fact totally different, but usually clients and their advisers focus on the IHT aspect, paying little or no attention to the intergenerational planning.

So, let's first consider the difference between the two. IHT planning is simply about doing everything we can to keep your hard-earned wealth out of the tax man's hands. All it aims to do is keep your wealth intact; by its very nature it's all about the numbers. It's a logical process about legislation and technical solutions. It's certainly the easier of the two to solve.

In many ways it's dull and soulless and, whilst it makes the beneficiaries wealthier, that in itself does not always lead to making their lives better. I describe it simply as 'preparing the money for the children'.

Intergenerational planning on the other hand is about making sure that 'the right people get the right money at the right time'. It is often about emotions, deep-rooted beliefs and unspoken (or even unconscious) conflicts.

The difficulty with both elements is that it usually involves giving your money away, and that is never an easy or comfortable thing to do.

In order to even consider giving money away, you need to have the confidence that you have enough money to meet all your needs going forwards, regardless of how long you might live, of what the economy or markets are doing, or of what unexpected things might crop up.

We aim to achieve clarity on this using an in-depth lifetime cashflow analysis, with a variety of different scenarios. The goal of this is to identify if you have surplus funds either now or in the future. Once this is identified we can get stuck into the real challenges that all families face.

But knowing you can afford something is very different to actually doing it. Let me ask you to consider a simple question: would you give a 13-year-old £250 per week pocket money in cash?

I am guessing that your answer is a definitive no. The reasons for this vary, but usually include:

- They don't need it
- They won't spend it wisely
- It would spoil them and wouldn't enhance their lives
- It could attract false friends

The interesting thing is that most of us believe that the number of reasons diminish as our children/ grandchildren get older, yet in my experience the opposite is usually true. As they get older, the list of reasons not to give them money actually gets longer and the emotional barriers to gifting get stronger.

It's what I call the gifting conundrum, and it is outlined in table one below.

Essentially, we want to provide our clients with confidence and clarity around their finances

Table one: the gifting conundrum

Age(ish)	Reasons for reluctance
0 to 21 years	• Don't want them to have access to a lot of money • Unsure of who they will be when they are older • Can you trust them not to blow it? • Will it spoil them?
21 to 35 years	• Don't want to take away their drive • Want them to find their own feet in life • Don't want to make it 'too easy'
35 to 55 years	• They already have enough money • You don't agree with their spending habits • You don't like their spouse • You do like their spouse but are worried about divorce • Worse still, all of the above
All ages	• You want to treat all your children equally • You may want to help one child but not another • Children's needs are not always equal

So, we're worried they will blow it when they're young, but as they mature we don't want to take away their drive. Then, if they use that drive to achieve success, we don't end up giving them any money anyway because they already have enough. It seems like they can't win!

Unfortunately, as a result, 'inertia' kicks in for many people so they do the minimum, only helping out financially when it's absolutely necessary. They then die with a huge tax bill, leaving the kids with a big lump of money on some random date in time (as demonstrated in graph one below), often when it's no longer really needed.

This leads to some interesting questions. My favourite is simply this: if you are uncomfortable gifting modest amounts during your lifetime whilst you have influence and can offer guidance and support, why would you give them all of it on death when you have no influence at all?

When we are undertaking financial planning for younger clients who are in their 40s and 50s, their key goal is to repay debt and save enough for a reasonable retirement. We always ask about expected inheritances, and yet every time they refuse to take them into account. This is logical as usually they have no idea how much it will be, plus they definitely don't want to think about when it will be.

When I ask for an estimate of how much it might be, the usual answer is something along the lines of, 'not much, they live in a modest house and don't spend much'. One thing I know for certain is that you cannot guess the wealth of a person based upon the size of their house, the car they drive or whether they fly business class or economy.

> he would've changed career, but he didn't believe that was possible

The result is that younger clients who are likely to receive a significant inheritance are working on a financial plan that is wildly inaccurate. Often, they will be saving more than they need, sometimes funding this through two jobs when one partner could be at home with the kids if they wished. Or, they may stay in a higher paid job that is causing stress both for the individual and the family as a whole, purely because they mistakenly believe that they need the money.

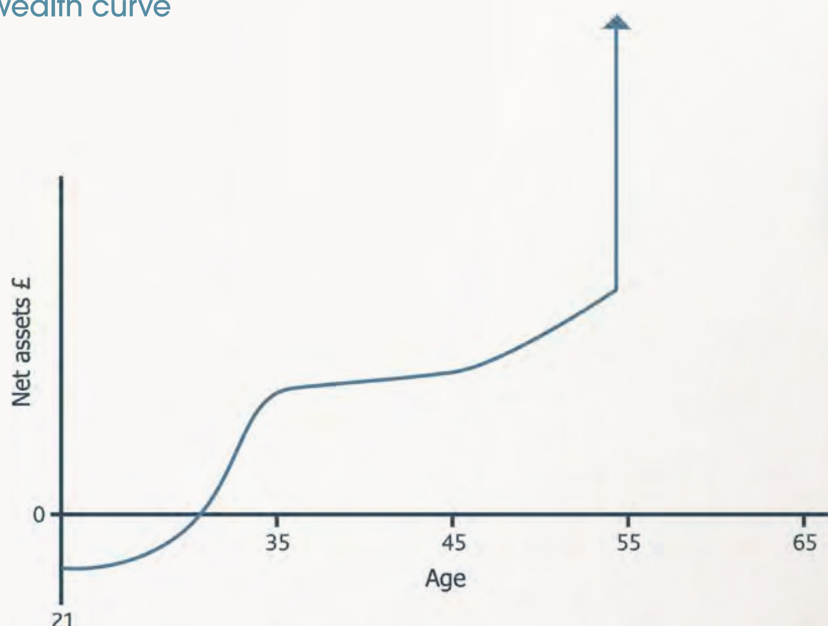
We had a case recently where we were introduced to a client's son (their only child) but were asked (initially) to keep the parents' finances confidential. He was a high school teacher in his late 40s. The parents had helped him to purchase a house years ago and were also helping their grandchildren with university costs. His aim was to retire as soon as possible; after 25 years of teaching he was stressed and no longer motivated to do the job. In his ideal world, he would've changed career, but he didn't believe that was possible without failing to reach his retirement goal. In short, he was trapped in a job he now despised.

His parents (mum at age 72 and dad at age 78) had surplus funds of over £1 million and he would inherit £2 million (if we could solve the inheritance tax issue). If we assume that his mother lives to 90, then he will receive his inheritance in his mid-60s when he will likely already be retired.

The transformation at this point would be akin to winning the lottery. He would go from having struggled to save for years (the parents believe he spends too much on holidays and cars, plus he spends more on a bottle of wine than they do, a potential source of conflict) suffering in a job which he came to loathe to suddenly having more money than he would know what to do with.

The danger is that he repeats this cycle by retaining the money and continuing his modest lifestyle (his expenditure habits have become fixed by now), only helping his kids with the basics of house purchase etc. Ultimately, this path would lead him to fall into the exact same trap that his parents did, leaving all of his wealth to his children when he dies, when they too don't need it anymore.

Graph one: the wealth curve



To me, this is not a great intergenerational strategy. Even if we solved the IHT issue, all we would achieve is a greater sum of money. The money itself is not being put to good use, and unless we can put it to good use so that clients can do something differently, then we are not being true to our core purpose of making people's lives better.

So, we went back to the parents and asked them if they would like to take advantage of our new IHT and intergenerational planning module (it's no extra cost for existing clients) and they willingly agreed. We sent them a questionnaire and asked them to either complete it before the first meeting or to simply consider the issues so that we could talk through them in the meeting.

Over the next three meetings we considered every option and angle. We discussed their values and how they would most like to help their family, and we managed to create a long-term plan that would both help their son and create a legacy that they were proud of.

The end result was a strategy that could be adapted over the years as circumstances changed and that eliminated their inheritance tax liability. They agreed to have a family meeting (which they asked us to facilitate) to openly discuss their finances and how they could help. Their son changed his job, reduced his mortgage and the parents are funding his pension so that he can retire on schedule.

A good coach does not have all the right answers, but they do know all the right questions to ask

One of my favourite quotes is that 'every problem exists in the absence of a good conversation'. That, in essence, is what intergenerational planning is all about. A good coach does not have all the right answers, but they do know all the right questions to ask so that you, as a family, can find a solution that works for you.

We are now offering the service as a standalone module so that those who manage their own investments, for example, or have an adviser who is not a specialist in this area can take advantage of the service. There is a one-off fee for this service if you are not an existing client, and it is based on the complexity of the circumstances.

But, the value that can be added by intergenerational planning can be immense and often immeasurable, as it can truly enhance the life of every member of your family.

Spend it wisely

With the digital age in full swing, how can we use this to engage children in good financial habits?

By Debbie Jukes

One in five adults cannot correctly identify the available bank balance on a bank statement. We've shared this statistic on numerous occasions and, as a firm that is passionate about helping people make the right decisions about money, it's rather worrying.

For people to make good decisions about money, they need a good level of financial literacy. Unfortunately, research shows that only 6% of parents learnt about money in school and one-fifth had no-one to teach them, they simply picked up their knowledge (or lack of) by themselves. The old mantra 'money doesn't grow on trees' seems to have been the limit of financial education that many of us received.

So, what can we do to help the next generation avoid financial disaster? Children can start to understand money by age three, and by age seven, they can start to form 'money habits', so it's important to start the conversations with our offspring as early as possible.

Firstly, kids need to realise that to get paid, you need to work. Over three quarters of people surveyed believed that pocket money should be earned in order to cement the relationship between work and money. Setting tasks for children to complete and get paid for is a great way to start this.

An easy method is to use an app. Although I was originally hesitant to encourage screen time, the growing use of mobile banking and a shift towards a cashless society convinced me that using digital technology is the way to go. If an electronic device is involved, there's a much better chance of engagement – in my house at least! One such app is GoHenry. It's used by a number of parents here at Equilibrium, as it's easy to use and a great way to teach kids about managing money. It costs £2.99 per month and you can cancel at any time.

Parents can quickly and easily open an account online. A customisable debit card is then issued for your child – they can choose their own design from a wide range of options. But don't worry, the card comes with parental controls so there's no danger of debt or overdrawn accounts. You are able to set up a weekly, automatic pocket money allowance and set up tasks or chores for them to complete to earn their 'wages'. This is done via the parent account which is effectively the control centre for your child's accounts and allows tasks to be ticked off once they are done.

It's very flexible and means you can tailor limits and rules to each of your children and change them at any time. GoHenry allows you to set single and weekly spending amounts, choose where the card can be used (online, cash machines, in-store etc), block or unblock cards at the touch of a button and receive notifications of what your child is buying in real time.

Children can access their details on a tablet, phone or PC allowing them to learn to earn, save and spend in a way that suits them, giving them the independence to manage their own allowance. However, that doesn't mean that they don't need any guidance from those that know better (particularly when it comes to choosing what exactly to spend their money on!). The app allows them to set up one or more saving goals for specific items and automatically save a percentage of their pocket money each week. They can then monitor their progress against their target which shows them how far they've got until they reach their goal.

It's also important to start discussions around charitable giving to encourage their understanding of helping those less fortunate. There is the facility within the GoHenry app to automatically donate a small amount to charity each week or, through a separate savings goal, for them to pay a larger sum in one go to a cause they care about.

There are of course other similar applications to choose from, but whichever you choose, the main goal should be to lay the foundations for meaningful conversations with your children about money and financial pressures later in life.

gohenry

Future fortunes

Rather than treating your child or grandchildren to a new phone, why not take steps to make sure they're taken care of after you're gone?

By Debbie Jukes

The ability to set up a pension for a child (and other non-taxpayers) was introduced in April 2001. Since then, as many of our clients will know, our Financial Planners have recommended this opportunity on many occasions. During the last year alone, our clients have invested over £300,000 into pensions for children or grandchildren who are under 18 years of age.

Pensions in general are rarely seen as exciting or 'sexy' investments. For the younger generation, retirement is too far off to be seen as anything other than a distant landmark. Particularly in today's culture of instant gratification, why should setting up a policy for your grandchildren be considered when they, of course, want everything now?

There are lots of reasons for you to grasp the mettle regardless of what your child or grandchild might think initially. Firstly, there's the benefit of tax relief. The maximum contribution you can make on behalf of a child is £3,600 gross, however, that contribution would only cost you £2,880. The remaining £720 (20%) is added by the government - free money, why not!? With austerity taking its toll in plenty of other areas, make the most of government generosity where you can!

Secondly, the time factor. This is, of course, a long-range investment that is likely to be 40 - 50 years in the making. That's a long time to be invested, but also a long time to gain the benefit of compound growth. We usually suggest that only four contributions are made for youngsters, but over the course of several decades that can mount up to a significant sum that can make a big difference to the enjoyment of your grandchild's retirement.

That time factor is key for another reason too. As Colin Lawson outlined in his article on pages 4-7, many people are reluctant to give money to their children or grandchildren as young adults for fear that they might fritter it away or spend it unwisely. By the time your grandchild reaches retirement, you would hope that they may have acquired a more sensible head on their shoulders. And even if they don't have the benefit of hindsight in terms of managing their money previously, there's some comfort to be had from the fact that they'll benefit from a tidy sum when they're a bit more mature!

Intergenerational planning as a whole is a hot topic at the moment with our regulator, the Financial Conduct Authority (FCA), having recently held a conference on the subject and produced a discussion paper for the industry to comment on. Millennials, those born between 1980 and 1994, are the first generation in several decades to be worse off than their parents. Increases in wages are not as prolific, houses are harder to acquire and employer pensions are not as generous. Coupled with a more flexible and less stable working environment plus higher debts (including student loans), it's much harder for the younger generation to build up equity or accumulate savings.

The FCA is calling for intervention from the industry, the government and other public bodies to help address the situation. In the meantime, if you haven't already, you can potentially help to make your grandchildren's lives better in the future by setting up a pension for them.

However, it's very unlikely that you'll be around to tell them just why you did what you did. Even their parents (your children) might not know. That's why we encourage our clients to write a simple letter explaining their reasoning – why they made the investment and what they wished for their family. Many find it surprisingly easy to articulate, having benefitted from a great pension themselves, and maybe having retired early and/or enjoyed their later years. For others, we're happy to help them clarify. It may be as simple as hoping their descendants can sit on a beach someday with no worries and raise a glass to their grandma and grandad!

The Attenborough effect

Many of us are becoming increasingly concerned about whether our investments are socially responsible, but how exactly do you define ethical investing?

By Mike Deverell

They call it the 'Attenborough' effect. Scenes of turtles entangled in plastic netting and albatrosses swallowing plastic bags shocked viewers of the 2017 BBC series, Blue Planet II. The programme opened the eyes of many to the environmental threat that plastic poses, highlighting dangers such as micro-plastic particles which can be ingested by fish and therefore make their way back into the human food chain.

The series made such an impact that it was debated in Parliament and companies were lining up to commit to reducing their plastic use. Theresa May even gave Chinese President Xi Jinping the DVD box set on her trip to China.

The Attenborough effect is clear to see; 53% of individuals in the UK and US had reduced their single use plastic over the previous 12 months to April 2019. Meanwhile, paper straws have replaced plastic ones in most bars and cafes, and promotions by major chains such as Starbucks and Costa Coffee encourage us to buy reusable coffee cups.

We've also seen the controversial Extinction Rebellion movement hit the headlines with their 'occupation' of areas of London. Regardless of whether you agree with their actions, we undoubtedly saw an increase in media coverage of climate-related issues.

If environmental concerns have recently become much more mainstream, the same is true about what we now call environmental, social and governance (ESG) investing.

Ethical?

What is sometimes called socially responsible investing (or SRI) has been around for many years under various names and acronyms.

It used to be known as 'ethical investing'. Ethical investing is extremely hard to do properly, not least because what is ethical to one person is anathema to another.

Many traditionally ethical investment funds were targeted at religious investors and avoided sectors such as gambling and alcohol. Other funds may be targeted at investors who have no problem with such sectors but do want to avoid weapons, for example. It can become an extremely difficult area to navigate. The UK government arguably benefits from weapons sales to the Middle East – is a UK gilt therefore an ethical investment?

There is also a difference between what we call positive and negative screening. Negative screening filters out investments that don't meet our specific ethical criteria. For example, negative screening may identify Royal Dutch Shell as an unsuitable investment due to it being an oil and gas producer which has a large carbon footprint.

Positive screening, on the other hand, aims to look for the best companies in a sector or those trying to make a positive difference. Such funds might not hold BP but often do hold Shell. Shell relies more on gas than oil (which produces less CO2) and has also been investing in renewable technology.

You can see how the definition of 'ethical' can very quickly become rather unclear. A truly ethical investment service requires a tremendous amount of resources, as it needs to be completely bespoke in order to cater for an individual's own ethics, right down to individual stock level. Ethical investors should also consider whether their advisers' values match their own. For example, even if we were to avoid investing in beverage producers, we can't promise that Equilibrium staff won't spend some of their wages on alcohol!

In our view this can become something of a minefield and as a result, whilst we have tried to accommodate clients where possible, we've never offered a comprehensive ethical service.

Risk and return

Traditional ethical investing has often led to lower returns compared to investing in mainstream funds. Screening out whole sectors can lead to missing opportunities for growth.

We can also end up with portfolios concentrated in just a few areas, which tends to mean higher risk as well as lower return potential – not an attractive combination!

Old school ethical funds are very much a blunt instrument. Whilst a green investment fund may well avoid oil and gas, it ignores the fact that every single company produces some sort of emissions. Everyone has a carbon footprint, so we cannot completely avoid all CO2 producers or there'd be nowhere left to invest!

That's where modern ESG investing is different. Rather than viewing everything as black or white, it acknowledges that there are shades of grey in between (or should that be shades of green!?).

Companies are given scores on various metrics covering not just environmental impact, but social factors such as how well workers are treated. Governance factors are also important, such as whether a company has non-executive board members who provide independent oversight of a company's conduct.

The icing on the cake is that, rather than detract from returns, it can actually be argued that companies with good scores in these areas are often better run companies, who will therefore be more successful in the long run.

Many of the mainstream fund managers we invest with already embed ESG scoring into their process. This is not particularly because of ethical concerns as such; they instead see it as sensible from a risk management and portfolio construction point of view.

A focus on ESG has proven extremely important in the past when investing in emerging market companies, which have often had poor governance and a poor track record on workers' rights. By considering ESG factors, emerging market fund managers can hopefully avoid the blow-ups that hit companies in these markets from time to time. Sometimes just avoiding the worst investments can lead to better returns than the market overall.

There is increasing evidence that companies with good ESG ratings can actually make better investments than those with poor track records.

Equilibrium's approach

We have recently begun screening our portfolios for ESG factors, obtaining the full holdings of every fund that we invest with and pumping this data (which equates to well over 4,000 individual stocks), into the Eikon system provided by Refinitiv (formerly Thomson Reuters).

We use this to assess our portfolio's exposure to different investment factors, sectors and trends. The system's scenario testing tells us how the portfolio would perform in various situations. For example, how much would the portfolios fall if there was a re-run of the financial crisis? It also provides attribution analysis so we can see how much risk and return each individual investment has contributed to the portfolio as a whole.

The same system will also score each company for ESG factors. Each company is given is a rating from 0 to 100, which is then converted to a grade from D- to A+. Based on our analysis, the equity content of a typical balanced portfolio has an overall ESG score of 65 at present, which equates to a B grade.

Purely focusing on emissions, the portfolio scores a little better at 72 which is a B+. To achieve an A grade, the score must be anything above 75, and so it is not far away from meeting this threshold.

We are only able to screen equities to this level of detail at present but are in the process of building up the same capabilities for bonds, property and all the other asset classes we invest in.

Equilibrium is beginning a project to determine which ESG factors are seen as most important to our clients in order to see how well our entire portfolios (not just the equity content) match up to those criteria.

There are several routes we may then explore. We may find that our current portfolios meet the criteria of the vast majority of clients as they are now. Or, that they will do so with a few minor tweaks. If this is the case, we may look to set formal targets for our preferred ESG measures and try our best to meet those targets with our core portfolios, without sacrificing return potential.

Alternatively, we may find it more appropriate to set up completely new portfolios to accommodate those clients for whom ESG factors are more important.

As always, we will listen to clients and make sure what we offer matches what they actually want, continuing to evolve our service and stay ahead of any emerging investment trends.

Acting locally, not thinking globally

Is there a solution to the widening gap between the world's richest and poorest?

By Neal Foundly

The wealth of the eight richest billionaires on the planet is equal to that of the 3.8 billion people who make up the poorest half of the planet's population.

That figure was presented at the start of this year in a report by Oxfam to highlight the growing concentration of wealth in the world. In 2016, it was the 61 richest individuals. Indeed, the report shows that between 2017 and 2018 a new billionaire was created every two days.

More to the point, the report shows the contrast between the 12% increase in the wealth of the very richest last year and the fall of 11% in the wealth of the poorest half of the world's population. As ever in these debates, questions arise as to what can be done about it.

Oxfam point out that a tax of 1.5% on the wealth of the world's billionaires today could raise $74bn. This would be enough to fill the annual gaps in funding needed to get every child into school in the poorest 49 countries. They argue that such a tax implemented in 2009 could have saved 23 million lives in the poorest 49 countries by providing them with money to invest in healthcare.

Many other economists and commentators have suggested similar measures to rebalance the wealth within economies. As economist Thomas Piketty demonstrated in his book *Capital in the Twenty-First Century*, without government intervention the market economy tends to concentrate wealth in the hands of a small minority, causing inequality to rise.

By popular demand

Chart one shows how in the 36 years since 1980, real income growth for the top 1% increased by over 200%. Significantly, however, there are large segments of the population - shown as the 'squeezed bottom' in the US and Europe - that have seen the lowest real income growth.

It is widely believed that this unequal distribution of wealth within many economies has led to the rise of populism.

The large squeezed portion of the population is seen as the driving force for the emergence of populist political movements. As far as this electorate is concerned, they're able to register their disapproval by making protest votes to bring in more extreme (and usually more charismatic) politicians to shake things up. Look at Beppe Grillo, the comedian who co-founded Italy's anti-establishment Five Star Movement and the success of others such as Boris Johnson, Donald Trump, Jair Bolsonaro in Brazil,

Geert Wilders in the Netherlands and Mischaël Modrikamen in Belgium.

Pop!

Interestingly, and defying conventional wisdom, research on populist governments so far shows that they are actually effective in wealth re-distribution. Team Populism, a network of academics, has undertaken detailed analysis to produce the Global Populism Database based on data from 2000 to 2018. The work suggests that, overall, levels of inequality within the respective nations have been reduced to a much greater extent under populists than under other types of governments.

Reflecting the general surprise in the findings, David Doyle, an Associate Professor at Oxford University who headed the research remarked, "This was contrary to what I expected".

If we accept these findings, then perhaps a solution has been found?

Well, maybe.

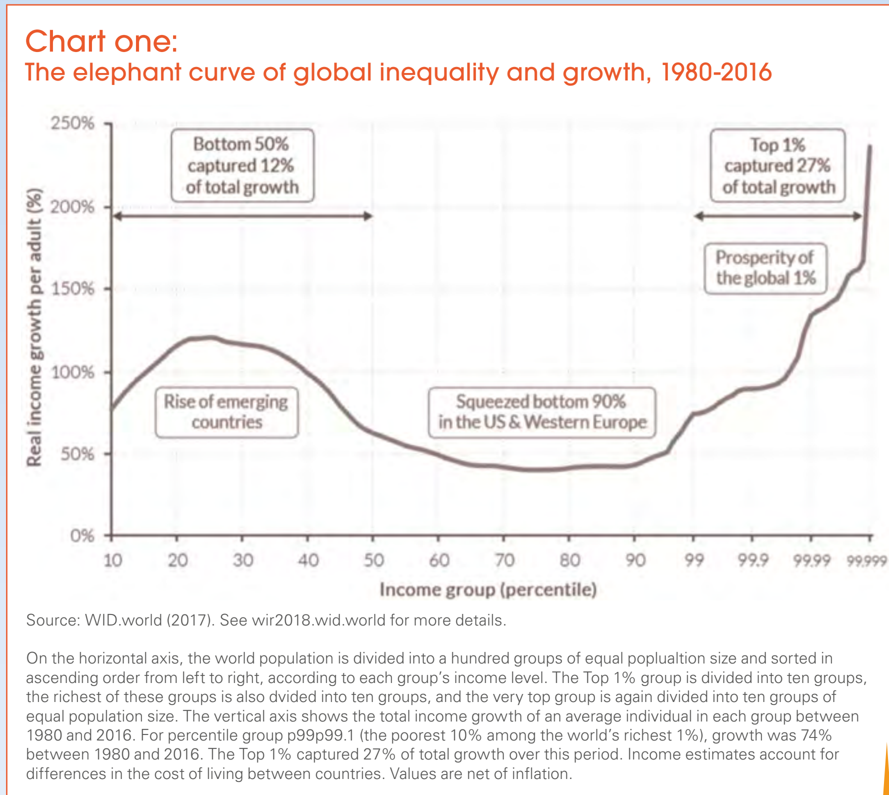
Left alone

The trend to populism has resulted in many left-wing political parties being isolated and in a much weaker position.

In countries where traditional left-wing voters have been attracted by the policies of the populist right, the left has struggled to counter with effective responses. Populist right-wing parties deliberately target these voters whilst claiming popular support across the political spectrum.

This matters because the emergence of right-wing populist parties brings other narratives that have wider implications. Such parties often have robust policy positions on anti-globalisation and anti-immigration and/or refugee issues. We offer no judgement but merely point to this direction in the political discourse, but clearly such strong views have implications.

Chart one:
The elephant curve of global inequality and growth, 1980-2016



Source: WID.world (2017). See wir2018.wid.world for more details.

On the horizontal axis, the world population is divided into a hundred groups of equal popluation size and sorted in ascending order from left to right, according to each group's income level. The Top 1% group is divided into ten groups, the richest of these groups is also dvided into ten groups, and the very top group is again divided into ten groups of equal population size. The vertical axis shows the total income growth of an average individual in each group between 1980 and 2016. For percentile group p99p99.1 (the poorest 10% among the world's richest 1%), growth was 74% between 1980 and 2016. The Top 1% captured 27% of total growth over this period. Income estimates account for differences in the cost of living between countries. Values are net of inflation.

Right thinking?

As globalisation has grown rapidly over the last two decades, there has been a significant rise in the movement of goods and people across borders. Yet, given the wide income differentials, developed nations remain attractive for many in emerging markets. This has driven large movements of people, especially from poor and oppressive regimes. Average income level in high-income countries is more than 70 times higher than low-income countries, so it's unsurprising that many in the developing world opt to try their luck elsewhere.

Many populist governments and movements point the finger at immigration and the perceived threats of an influx of refugees. Headline-grabbing narratives tap into the xenophobic fears of the 'squeezed bottom' as these factors are blamed for their economic situation. Thus, international aid becomes a target.

According to the Organisation for Economic Co-operation and Development (OECD), overseas development assistance to the least-developed countries fell by 3% in real terms from 2017, aid to Africa fell by 4%, and humanitarian aid fell by 8%.

As a government, the US gives less as a percentage of its gross national income than other countries - only 0.17%, well below the 0.3% average for developed countries. However, because the US economy is so large, it still provides more foreign aid in total than any other country, although about 40% of it is considered security assistance, rather than economic or humanitarian aid - but this is changing.

Aid fade

After Congress didn't back the Trump administration's cuts to foreign aid in 2017, the administration has been attempting to restructure foreign aid based on its own national interests in a form of quid pro quo in return for foreign policy support.

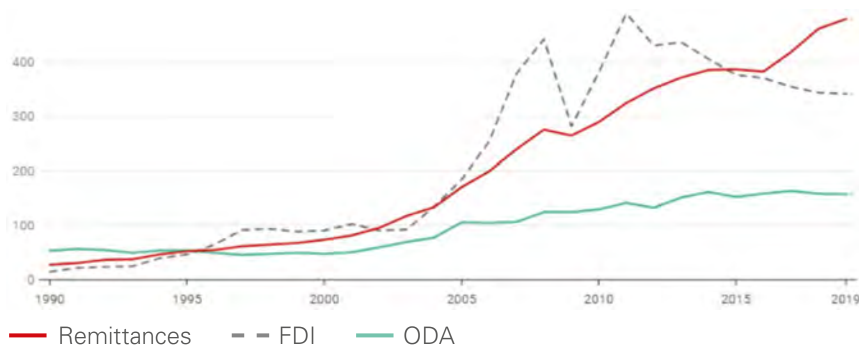
"Only go to America's friends," in the words of President Trump.

The US is not alone. In the UK, a recent report by the National Audit Office highlighted that only 58% of the aid budget was spent in the least developed countries in 2017, with 28% going to lower middle-income countries and 14% going to upper middle-income countries. Indeed, nearly a third of the UK foreign aid budget is now spent by departments other than the Department for International Development, in areas like business and the Foreign Office.

Of course, aid can come in many different forms. The most important form of aid is now in the form of remittances, which is the transfer of money by a foreign worker – usually in an advanced economy – to his or her home country. As Chart two shows, remittances significantly outstrip official development aid (ODA) and foreign direct investment (FDI) as a source of aid.

Global migrant numbers are now at their highest since records started in 1950. The World Bank estimates that there are 266 million migrants (including refugees) which, whilst comprising only about 3.4% of the global population, contribute more than 9% of gross domestic product (GDP).

Chart two:
Remittance flows to low- and middle-income countries (excluding China) are now larger than FDI and development assistance



FDI = foreign direct investment. ODA = Official Development Assistance; Data for 2018 are estimates and data for 2019 are forecasts.

Source: Global Knowledge Partnership on Migration and Development (KNOMAD)

Reversing the flows

But there's the rub - the workers that are sending the remittances are the same immigrants in the advanced economies that are the targets of the populist backlash. The danger is that walls are built and immigration gates are closed to reduce the inflow of workers which, combined with the changes in the levels and forms of aid, serves to exacerbate the wealth differences between rich and poor nations. Approval rates for refugee and migrant worker applications are already falling in many developed economies, whilst deportation numbers rise.

Thus the OECD finds that, in addition to the gap between rich and poor countries rising, the gap between the rich and poor within the countries has also been rising.

The long-run increase in income inequality not only raises social and political concerns, but also economic ones. It tends to impede GDP growth due to the rising distance of the less wealthy from the rest of society. Equally, widening gaps between countries can result in civil unrest and failed states that are mired in debt.

The problems that can entail from these widening margins are clear to see. The pressures of greater internal wealth concentration and diverging global wealth will mean many less-developed nations will struggle to pull ahead. Unfortunately, it's not as simple as taxing eight individuals.

The good news is that not all of the 2,000 billionaires in the world today are evil robber barons. Ten years ago, a dinner meeting between Microsoft founder Bill Gates and investor Warren Buffett spawned the Giving Pledge programme to persuade their fellow billionaires to pledge at least 50% of their wealth to charity. So far, around $600 billion has been pledged for a wide range of good causes.

Whilst it is not dictated where the pledge is spent (for example, it could simply go to build a new wing at the billionaire's alma mater) high profile endowments such as the Bill & Melinda Gates Foundation demonstrate the effects of benevolence and global thinking.

Money doesn't grow on trees

How can we prevent the next generation from joining 77% of adults in the UK who feel stressed about money?

By Sam Richards and Debbie Jukes

As mentioned on page 8, one in five adults cannot correctly read a bank statement. In addition to this, 40% have less than £500 in savings.

How have we, as a society, become so bad at managing money?

Only a few decades ago, people were paid in cash on a weekly basis, but now personal finance is becoming increasingly digitised. Rather than tangible piles of notes and coins that could be allocated to different expenditures, we now have credit cards that allow people to spend thousands of pounds they simply don't have.

Studies have suggested that handing over physical money is quite literally more painful than using your debit or credit card. This appears to be true considering that the average credit card debt per household in March 2019 was over £2,600.

How can we prevent this fate befalling our children?

Two in three teachers say that they feel financial education in the UK is somewhat or entirely ineffective, and two in three also say that their school lacks the skills needed to teach financial education effectively.

As a firm whose purpose is to make people's lives better, Equilibrium introduced *Libby's Big Aeroplane Adventure* in September 2017, a workbook and project which was specially designed by financial and primary education experts and is completely free to schools.

> "I found it very beneficial and it has really got me thinking about how to expand the children's understanding of finance
>
> Amanda Wright, teacher at Spalding Primary School

The booklet aims to improve children's financial literacy and skills such as budgeting and currency conversion. It was created specifically with the key stage two curriculum in mind and has plenty of opportunities for cross-curricular activities.

So far, *Libby's Big Aeroplane Adventure* has reached over 2,750 children in over 40 schools and will continue on its mission to educate the nation.

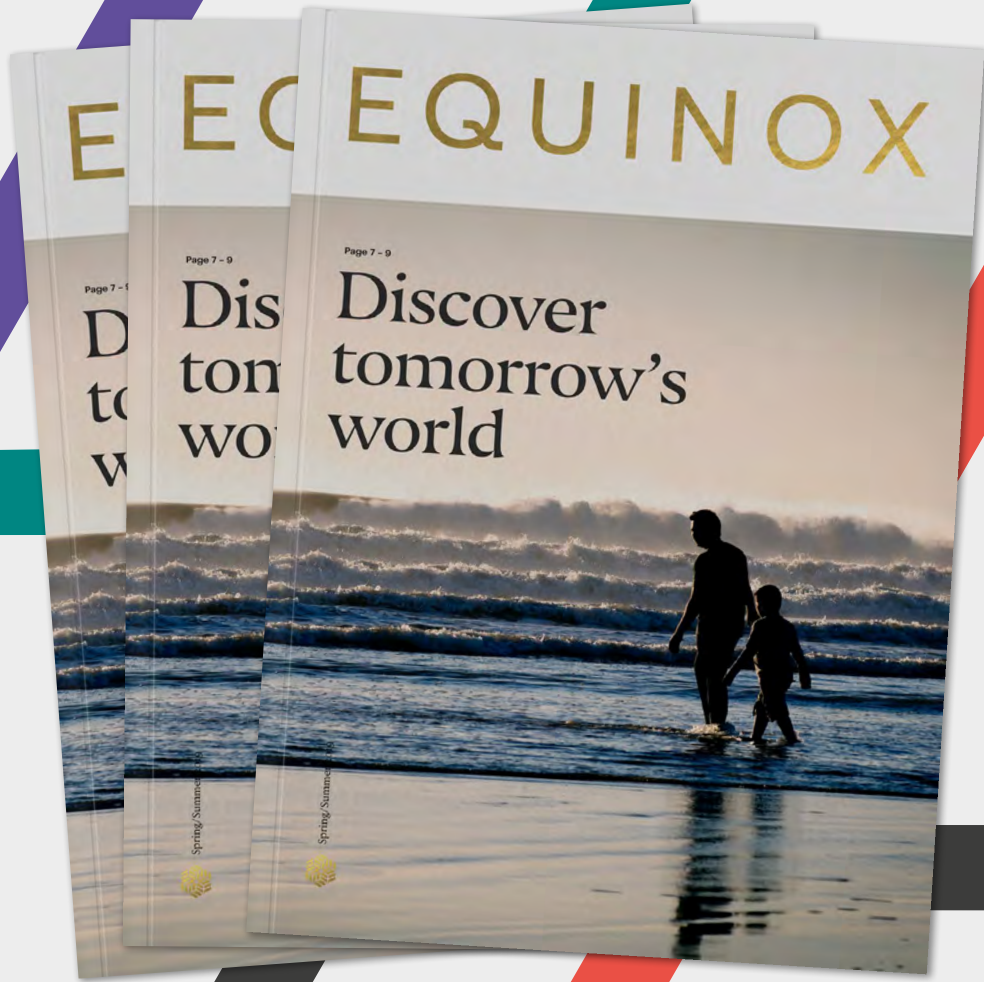
Find out more...

If you know of any primary schools who may benefit from *Libby's Big Aeroplane Adventure*, contact Sam Richards at **sam.richards@eqllp.co.uk** or visit Equilibrium's website to learn more: **www.eqllp.co.uk/educating-the-nation**.

Next time...

The next issue of Equinox to come through your letter box might look a little different – in fact, you'll probably notice quite a few changes to Equilibrium's 'look' in 2020.

By Sam Richards



EQUILIBRIUM

Abraham Maslow, the American psychologist who created the famed hierarchy of needs required for self-actualisation, once said, “One can choose to go back towards safety or forward towards growth. Growth must be chosen again and again; fear must be overcome again and again.”

Equilibrium has grown quite a bit (or quite a lot!) since Colin Lawson founded the company as Applewood Financial in 1995 from his back bedroom. As he said in our 2018 autumn edition of Equinox, “Growth is incredibly important for any business. Without it, I believe that a company will stagnate and eventually die or be taken over by a more forward-thinking rival.”

If you are familiar with Equilibrium, you will know that we pride ourselves on being forward-thinkers in our sector, unafraid of change and new ideas. Naturally, this has led the company to evolve over the years in our pursuit of being the best we can be.

This means that we are a very different company from the one that was created in 1995. Therefore, it’s important that we ensure our brand is reflecting the company accurately and making our values clear to clients, employees and anyone else who interacts with us.

Part of this process was establishing the core purpose of the firm, which Colin explained at our recent annual team briefing: “Making wealthy people wealthier is part of what we do… but it is not our purpose. Our core purpose is to ‘make people’s lives better’, whether that be our clients’ lives, our employees’ lives or the lives of those in our community.”

With this in mind, Equilibrium embarked on a brand refresh earlier this year to ensure that our image embodies our values as much as we do.

David Newton, Creative Director at BGN Agency, the company who collaborated with Equilibrium on the rebrand, says, “The purpose of ‘making people’s lives better’ comes across in the messaging and photography style. The illustrations we created really differentiate the company from their competitors and communicate their values of excellence, integrity, simplicity and growth. The overall feel is one of quality, depicting Equilibrium as a trustworthy adviser and experts at what they do.”

The new look will be launched early next year – but in the meantime, hopefully this article will serve as an introduction and sneak peek.

Our logos

Take a look at how our logos have changed throughout the years below:

What we are reading this month...

Jo Watmore, Financial Controller

The One Minute Manager

by Kenneth H. Blanchard and Spencer Johnson

I first read this book over 20 years ago, and sadly I didn't recall much. However, as with many books, the second read has been worth it.

The book tells the story of an entrepreneur who is struggling with her team, their motivations and her own time management. It takes her through a journey of meetings with the 'one minute manager' and some of his team, explaining their differing strengths and development needs. The key principle of this was 'situational leadership', meaning that every person and situation is different.

An individual can be competent and confident in one skill which requires more of a hands-off leadership style, but at the same time, they may need much closer leadership on another task.

I loved that the book reiterates the positive message that 'people inherently want to do their best', therefore the role of the leader should be more of a collaborative partnership to help them achieve this. In the words of Ken Blanchard, "Everyone is a potential high performer. Some people just need a little help along the way."

Colin Lawson, Founder

Doing Good Better

by William MacAskill

In my opinion, the best non-fiction books are informative in surprising and interesting ways. They challenge the status quo and our own thinking, hopefully leading us to do something differently as a result.

Judged on these criteria, I would give this book a five-star review.

If you are interested in learning…

- Why buying goods made in a sweat shop is a good thing
- Why buying fair trade is possibly a bad idea
- Why you shouldn't donate to disaster relief funds

…then I suggest you pick up this book.

I'm always on the lookout for new books to read, so if you have any recommendations, I'd very much appreciate them. Please get in touch with any thoughts or comments at colin.lawson@eqllp.co.uk.

A w-holistic approach to health

It's common knowledge that as we get older we get more aches and pains – but what if it didn't have to be that way?

By Sam Richards

Eight years ago, Tony Taylor decided to retire at 55 years old. He had made a success of his career in golf retail, and now it was time to do the same for his retirement – but how?

A few self-inflicted injuries (involving a road bike, some après-ski table dancing and a dodgy French surgeon) led to three visits to the hospital in as many months, where Tony noticed the amount of older people waiting for their physiotherapy appointments following a fall or fracture.

As we get older, our muscles deteriorate at a faster rate. Combined with a weakened immune system, this makes keeping fit a much greater challenge than in our youth.

"Many people have forgotten what it feels like to be healthy and live without a lack of energy, low libido, seasonal allergies, chronic muscle and joint aches and more," says Tony. "They don't realise that they don't have to live that way."

His interest was well and truly sparked. He began researching ways to improve health and found it so inspiring that he decided to launch a business as a holistic health coach. A holistic health coach refers to a person who does not treat symptoms but instead improves function in critical areas in the body.

Whilst he is very clear that he is not a doctor and therefore does not diagnose conditions or treat symptoms, his suggestions seek to improve overall health factors such as hormone balance, the immune system and the liver and gut.

Whilst offering fitness classes and personal training, he also successfully completed his training as a Functional Diagnostic Nutrition (FDN) Practitioner in September. FDN Practitioners use functional lab testing to provide clues to the root cause of health problems and can indicate hidden stressors in the body.

Following the results of these tests, Tony works with his clients over six months using a personalised natural protocol including diet, rest, exercise, stress reduction and supplementation.

"Helping others takes time and patience," says Tony. "But when I succeed it makes me happy. Retirement is about reinventing yourself, finding new passions and definitely expanding your comfort zone."

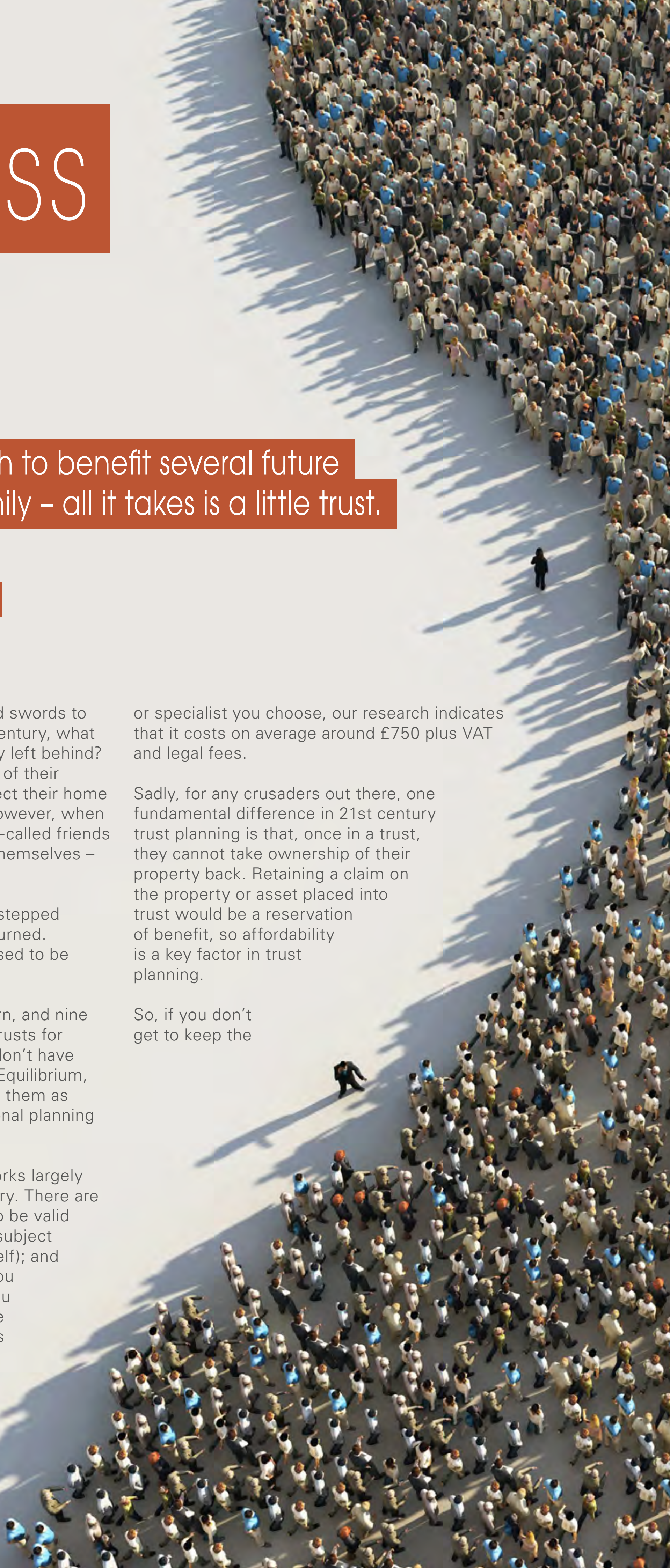
Find out more...

Book your free 20-minute health consultation today. Call Tony on **07967 498526**.

Timeless trusts

You can use your wealth to benefit several future generations of your family – all it takes is a little trust.

By Andrew Hirst and Colin Lawson



When crusaders hoisted their spears and swords to forge war on their enemies in the 12th century, what happened to the land and properties they left behind? Many chose to leave it in the safe hands of their friends and family, trusting them to protect their home and property for them and their heirs. However, when they returned, some found that those so-called friends and family had taken the properties for themselves – they had betrayed their trust.

Thankfully for the crusaders, the courts stepped in and ordered that the properties be returned. The temporary owners were only supposed to be guardians or 'trustees' after all.

With that, the concept of a trust was born, and nine centuries later there are many types of trusts for many purposes. These days, whilst we don't have too many crusaders setting up trusts at Equilibrium, we do have a number of clients who use them as part of inheritance tax and intergenerational planning strategies.

The process of setting up a trust still works largely the same way as it did in the 12th century. There are "three certainties" required for a trust to be valid which are: the intent to create one; the subject matter (that is, the property or asset itself); and the object (who is going to benefit). If you have these three posts covered, then you have a trust. These certainties should be outlined in a trust deed and, whilst costs will vary depending on the solicitor or specialist you choose, our research indicates that it costs on average around £750 plus VAT and legal fees.

Sadly, for any crusaders out there, one fundamental difference in 21st century trust planning is that, once in a trust, they cannot take ownership of their property back. Retaining a claim on the property or asset placed into trust would be a reservation of benefit, so affordability is a key factor in trust planning.

So, if you don't get to keep the

all agreed they might have remembered if their great grandparents had paid for their education or helped them onto the property ladder

property, then who does? The decision of which beneficiaries get what and when lies with the trustees. An individual creating a trust (known as the settlor) can name themselves as a trustee to retain some control, they can also create an 'expression of wishes' to guide any other trustees as a trust can continue beyond their death. Beneficiaries can be named individually, or can be a class, for example children, grandchildren and remoter issue (your grandchildren's children). Naming a class of beneficiary provides greater flexibility and in some cases protection of the assets from, for example, divorce, as there is no named beneficiary with an entitlement to the trust assets.

The inheritance tax rules are not always simple, but tax planning can be relatively straightforward:

- Keep the level of gifts to a discretionary trust within £325,000 per settlor (the nil-rate band) within a seven-year period and you will not be subject to the 20% entry charge.
- From day one, any growth in the value of the gift does not count towards your estate. The original value will fall out of your estate seven years after you initially make the gift.

Whilst tax charges can apply throughout the life of a trust (and are dependent on individual circumstances of the settlor, trustees and the beneficiaries), a simple trust strategy like this using tax allowances and rates in 2019 could save up to £260,000 in inheritance tax after seven years if made by a married couple using their combined nil rate band of £650,000.

What's more, a discretionary trust can last for up to 125 years, meaning you are creating a legacy for your children, their children and beyond. As an experiment, at one of our recent inheritance tax seminars we asked attendees to stand if they could remember their parents' first and middle names and then their grandparents'. No one was standing by the time we got to great grandparents, but they all agreed they might have remembered if their great grandparents had paid for their education or helped them onto the property ladder.

Much like the legacy given to us by the crusaders, a modern-day discretionary trust invested over the long term, taking advantage of the potential for compound growth, can be capable of life-changing results for future generations of your family.

The family travellers

Your family holiday isn't about destination alone. The more important factor is its ability to strengthen the bonds of family affection. Carrier Travel are well-versed in creating the right balance of relaxation, adventure and playtime so that you and your clan can focus on simply reconnecting and discovering each other.

By Jessica Read, Private Client Manager at Carrier Travel

Day 1 – 4

Combining everything that is wonderful about California, there's no better way for you and your family to experience the coast together than in an action-packed 17-night adventure that caters for all ages.

We would suggest starting your trip in the diverse city of San Francisco where there's something for every type of traveller. Stay at the St. Regis hotel and enjoy evening visits to Alcatraz Island, or see the beauty of the San Francisco Bay on a thrilling three-hour sailing trip on a former America's Cup yacht. The kids can help the crew to raise the jib, and for the adventurous members of the group, you can even take turns at driving the high-speed yacht as you sail under the iconic Golden Gate Bridge.

For the less daring, you can cycle across the bridge during your guided bike trip exploring the charming city of Sausalito. Whilst San Francisco is known for its breath-taking city skylines, those more at home with nature will not be disappointed. A visit to the stunning Muir Woods for a redwood tree immersion experience offers the chance for you and your loved ones to stand amongst some of the oldest living trees on Earth and reconnect with the wonders that our planet offers.

But the thrill seekers needn't worry. To add a touch of excitement, you can board a private seaplane for a 30-minute flight across the Golden Gate boasting views like no other.

Day 5 – 9

The adrenaline rush needn't stop there for those in pursuit of adventure. After a scenic drive en route to Yosemite, the true adventurers of the family will be in their element with white water rafting on Tuolumne's most notorious rapids and hiking through Yosemite National Park with your Yosemite Conservancy Naturalist.

After the excitement of the fierce rapids, Monterey Bay Aquarium offers a more relaxed activity that the entire family will love – viewing a whole range of marine species including stingrays and sea otters. We'd highly recommend a private guide to take you behind-the-scenes, showing you exclusive areas and talking you through the exhibits.

But the aquatic adventures don't end there. Speed through deep blue waters on a private eco-raft ocean safari from Moss Landing. All ages will be in awe of the up-close, magnificent marine life including whales and dolphins.

Day 10 – 16

Heading further down the coast to Santa Barbara, the Four Seasons The Biltmore Santa Barbara epitomises the glamourous California lifestyle and is the perfect stay. Whilst there, you can spend afternoons horseback riding along beautiful beaches as the sun sets and mornings kayaking in and out of breath-taking sea caves as your guide provides insight on the marine ecology.

The West Coast wouldn't be complete without a visit to the glamourous Los Angeles and the famed Beverly Hills Hotel – make sure you keep an eye out for any Hollywood stars! A private VIP tour of Universal Studios Hollywood will provide fun for all the family; you'll go behind-the-scenes to sites that are closed off to the general public. You'll also be able to skip the lines to secure the best seats on all the park's rides and attractions, so there won't be any lulls in the excitement whilst waiting in a queue!

Finish with a driver-guide's tour of Hollywood and Beverly Hills exploring popular sights like the Hollywood Sign, the Walk of Fame and Rodeo Drive.

Last but not least, travel onward to San Diego to experience the ultimate in coastal luxury living. Take a historic tour of the city with an expert guide and finish your trip with a VIP tour of the world-renowned San Diego Zoo that's sure to provide every member of the family with unforgettable memories.

Find out more...

Allow Carrier to curate your next family holiday. We are always looking beyond the place you visit to craft exceptional experiences just for you.

For more ideas and inspiration, call Jessica, Private Client Manager: **0161 491 7614**.
Email: **Jessica.read@carrier.co.uk**. Explore: **carrier.co.uk**.

Giving your best

‘Donor-advised fund’ – maybe not the most exciting phrase, but they offer a smart and effective solution to creating a legacy that’s worth exploring.

By Debbie Jukes

Deciding who should benefit from your estate can be a challenge, especially as it’s not an easy topic to raise with your loved ones.

However, discussing it with your family is the best place to start and might even change your mind about the best way for your wealth to make a positive difference.

For example, let me introduce Simon and Judy.

Judy has a large estate that she would like to pass on, but she is widowed with no children.

Her brother Simon is a successful business owner and has two children; a son (47) and daughter (45) who are both successful in their own right.

But, when Judy broached the topic of leaving the majority of her wealth to her niece and nephew, Simon took the stance that they already had more than enough – in fact, he was considering not leaving anything to them himself!

Judy was eager to leave a legacy that she could be proud of but was at a loss of how to do it. So, she brought the subject up at one of her meetings with Equilibrium.

Whilst she still wanted to involve her family, clearly the original idea of making them beneficiaries was off the table.

So, we introduced her to the prospect of a donor-advised fund (DAF).

These vehicles allow donors to make a tax efficient gift and then make recommendations as to how the money is used. The account can be established in the family name and a board of family members created to discuss charitable projects that might be suitable beneficiaries, so Judy could involve her niece and nephew in the process from the beginning.

> the family can agree how, when and over what time period to distribute the funds

With the help of an adviser, such as Equilibrium, the family can agree how, when and over what time period to distribute the funds.

In some cases, the legacy can last for generations if the donation is invested wisely and it is agreed that, for example, only the growth will be given away. This can be done by the creation of a mission statement or a mandate which gives specific instructions for the board and/or family to take into account.

As well as providing a solution for inheritance tax planning, the structure solved both Judy and Simon's problem; Judy needn't worry about what would happen to her inheritance and Simon knew that his children wouldn't receive more money they didn't need.

It also provided the opportunity to actively engage Simon's children (and potentially grandchildren further down the line) in charitable giving whilst also teaching them about investing.

When Judy introduced this option to Simon, his reaction was much different to the first time she discussed her inheritance with him.

In fact, after hearing how the structure works and the benefits it can provide, he is now considering using the same DAF.

Whilst there is much to be gained from involving the family in this process, a DAF also has several advantages over other ways of making a philanthropic impact, including:

- Simplicity – the provider will handle all the administration
- Flexibility – you and your family can choose which causes to support, the amount you wish to give and the frequency of donations
- Tax efficiency and estate planning without high legal fees

In short, a donor-advised fund provides a cost effective and flexible way of donating to selected charities either in the short term or over many years to come.

Find out more...

If you are interested in exploring donor-advised funds as an option in more detail, get in touch with one of our friendly experts at askus@eqllp.co.uk or speak to your financial planner.

Views from the frontline

We've seen some pretty dramatic moves in the bond markets so far in 2019, with government bond yields around the world dropping to record lows. We've even seen a so-called inverted yield curve, where long-dated bonds are yielding less than short-dated bonds. This has historically been seen as a recession indicator. So, where can bond yields go from here? Is the only way up or are there further depths to which they can plunge? And is the bond market really signalling a recession? We asked fixed interest experts for their views.

Jonathan Platt

Head of Fixed Income
Royal London Asset Management

Our view is that current yields do not reflect long-term fundamentals (rule of thumb: real growth + inflation = nominal yield). However, with major central banks pursuing quantitative easing and ultra-loose interest rate policies, the old guidelines are not presently working.

Perhaps more risky assets have fallen out of favour? This is not supported by evidence; demand for higher yield credit is strong and equity levels in many markets are approaching record levels.

Yes, global yields could fall further, but we believe that this is not sustainable in the medium or long term. Investors have become too risk averse, driven by experiences during the global financial crisis, regulatory pressures and, to some extent, complacency about future inflation. We believe that the long-term cashflows available from higher yielding assets will ultimately lead to asset allocations away from negative yielding assets.

So, is the market indicating imminent recession? We think there is a danger of over-interpreting these financial market dynamics and under-appreciating real economic developments. We have inversion because investors believe that central banks will do whatever it takes to avoid recession and are betting that this will not ignite inflation. It is difficult to position against central banks ("don't fight the Fed") – so, whilst yields could fall further, reality will bite at some point.

Mike Riddell

Portfolio Manager
Allianz Global Investors

For the last year our view has been that the global economy is heading for the rocks, and we are almost certainly approaching the death throes of the economic cycle. A flat or inverted US yield last year (which has always predicted a sharp slowdown in growth or outright recession) was just one factor driving this view. Many other lead indicators, such as money supply growth, were saying similar things.

A year ago, there were four US rate hikes priced in. Given the above views, it was an easy call for us to be bullish government bonds.

This year, bond yields globally have plummeted as markets have moved to price in rate cuts almost everywhere. The US is currently pricing in three rate cuts. As bond investors, it's now a much more difficult call.

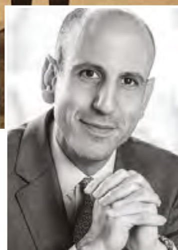
If you told me that we couldn't actively manage our portfolios for a couple of years, I'd probably still be bullish bonds. Yes, yields have hit record lows in the UK and much of Europe, and they almost got there in Japan but the US bond market still has some way to go. US interest rates are currently 2%, and during previous recessions they fell to 1% under in 2004, and 0.25% (with lots of quantitative easing) post 2008.

However, speaking more short term, we're now worried the global bond rally has got a bit ahead of itself. There are some economic signals flashing things other than red, and we think central banks might just go into wait-and-see mode. If so, bond investors could be disappointed given the rate cuts now priced in.

Equilibrium Investment Management view

With yields so low the potential for further gains from government bonds remains limited. Remember that if you hold a 10-year German bund until maturity, you will lose 0.7% a year. That doesn't mean it will lose money overnight of course. For example, if the ECB cuts rates then the yield could drop even further, meaning the investor will make a short-term capital gain. A capital loss will come at some point, the difficult part is knowing when.

In our view, there is more value in certain corporate bonds which still pay a yield at relatively decent 'spreads' above government bonds.



Ariel Bezalel

Head of Strategy
Jupiter Asset Management

Despite currently being at record lows, we think bond yields could go much lower, especially in those countries where rates are relatively higher, like in the US or Australia.

We believe rates will be cut further because we think we are very late in the economic cycle. An added driver of much of the weakness we are currently seeing is the slowdown in China, which is feeding through into Europe and elsewhere. It's a broad-based weakness; currently around 60% of global Purchasing Managers' Indexes (PMIs) are below 50 (75% of PMIs below the 50 mark would signify a global recession). As the slowdown takes hold in GDP numbers, we expect central banks like the Fed will be cutting rates aggressively.

The inverted yield curve is one of the indicators with the most predictive power of recessions. According to our calculation the yield curve inversion (10-year minus one-year yield) has an 85% success rate in predicting recessions in the US. The question now really is timing. It can take several months between when the time curve inverts and when the recession happens.

The inversion is simply telling the Fed that short rates are too high and that the market doesn't believe in the inflation/growth forecasts of the central bank. It is also worth pointing out that the current cycle is the longest in American history. Odds are against anyone who would be forecasting a much longer cycle.

Mark Holman

CEO
TwentyFour Asset Management

It is worth noting how far we have come since the widespread risk asset sell-off of Q4 2018. 10-year US Treasuries have made positive returns in seven of the last nine months. Remarkably, US high-yield bonds have also posted positive returns in seven of the eight months of 2019 so far. Both the world's foremost risk-off asset (US Treasuries) and a decent proxy for a global risk-on asset (US high-yield) have made investors money on a consistent basis this year!

In our view, we have been experiencing a global, synchronised economic slowdown for around 12 months now. However, rates markets appear to be spooked, whilst credit markets don't.

Central banks appear determined to engineer an extension to the cycle, with the Fed back in easing mode and the European Central Bank unleashing fresh stimulus measures in September. Government bond yields can certainly go lower, though we would caution that the power of extraordinary monetary policy measures appears to be waning, particularly in Europe.

Whilst the yield curve doesn't guarantee an imminent recession, there are enough key market participants using it as a guide for it to influence behaviour. US GDP growth is in reasonable shape, though it has been slowing for around 12 months now. However, consumption accounts for around 70% of US GDP, so if the US consumer reins in their activity, a recession will become much more likely.

We are skeptical about whether the inverted yield curve in itself means a recession is imminent. The bond market is distorted by quantitative easing and ultra-low interest rates, and so it is much easier for the curve to invert than it has been historically. We prefer to watch the real economy, and there are certainly signs of a slowdown. Whether that will turn into an out-and-out recession partly depends on the actions of politicians when dealing with things like global trade conflicts and Brexit.

Investment review:

Is everything we thought we knew wrong?

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

By Mike Deverell

7700
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Trump announces additional tariffs on China

Trump delays further tariffs

Theresa May resigns

FTSE 100

Source: Thomas Reuters Datastream / Equilibrium Investment Management. Data from 5 Apr 19 to 5 Oct 19.

Apr 2019 May 2019 Jun 2019

30 **Explaining our approach**
With Trump, Boris and the ongoing Brexit saga affecting markets, we explain our approach and decisions.

32 **Asset class outlook**
Here we evaluate each asset class and explain their role in our investment strategy.

There's an old Chinese curse: 'May you live in interesting times.' Things are rarely dull in the investment world, but at present they are perhaps more interesting than usual!

We live in a highly uncertain time, both politically and economically. Many of the old rules (or at least conventions) that govern how the world and the markets work are changing, and this makes predicting market movements harder than ever.

We always like to put a timeline on these pages to show how key events have moved markets over the last six months. In this edition, the market moving events are largely political in nature.

Over the following pages, we'll explore the factors moving markets in more detail and consider whether everything we thought we knew about the world was wrong!

36 **Performance and sector analysis**
After a turbulent few months in markets, here we look at how our selected funds have performed compared to their relative sectors.

39 **Portfolio performance**
Here you can find a thorough breakdown of how each portfolio has performed in both the long and short term.

Summary

It has been a volatile few months for stock markets, particularly those in the UK.

For example, since the last edition of Equinox on 5 April, the FTSE 100 has fallen by 1.52% (total return including dividends).

Our portfolios invest in a range of assets and have therefore fared somewhat better, with the Balanced Portfolio up 1.56% over the same time period after fees.*

The best-performing asset class over this period has been fixed interest. Our Fixed Interest Portfolio is up 5.89% over this six-month period – a pretty decent return for a so-called low risk asset class. Whilst we can't guarantee returns, we'd expect this class to contribute 5% per year over the long term!

In hindsight, we haven't had as much fixed interest as we could have since the start of 2019. However, for us it is all about risk and potential reward; after such a strong run, future return (the yield) on bonds is low, whilst their sensitivity to changes in sentiment is high.

Our portfolios invest in a range of different asset classes, and we want to make sure we're not too exposed to any single factor, be that Brexit, changes in interest rates, or whatever investment style is in vogue.

Our aim is not to outperform a particular benchmark, but to make sure we beat inflation by a significant amount over the long term without taking an undue amount of risk. Our Balanced Portfolio aims to beat inflation by around 5% pa over an average five-year period. That does not mean every five-year period and some will be better than others.

Table one shows the performance of our three core portfolios (after charges) over the last five years. It also shows the average managed fund which takes a similar level of risk to us, Unit Trust (UT) Mixed Investment 20%-60% Shares sectors, and the FTSE All-Share Index by comparison.

Over this particular five-year period, the real returns are slightly below our long-term target returns, but they are still very positive, especially in view of the risk taken.

Chart one shows the portfolio risk against the return. The higher up a portfolio is on the chart, the higher the return. The further to the right, the higher the risk taken.

Our aim is to be towards the top left. If we draw a line between our three portfolios, you can see that relative to the mixed sector and the FTSE All-Share Index, the portfolios provide a good level of return for the amount of risk taken. The Adventurous Portfolio even outperformed a 100% equity portfolio (as represented by the FTSE), despite taking significantly less risk.

Over the next few pages, we'll explain what we think has been moving markets, look at some of the risks we are concerned about and tell you where we think the opportunities lie.

Why everything we thought we knew is wrong

'This time it's different.'

The renowned investor Sir John Templeton once said that these are the four most expensive words in the English language.

In investing, it can be dangerous to believe in new paradigms. For example, during what we now call the tech bubble in 1999/2000, many in financial services convinced themselves that the internet had changed everything. They were right in many ways, but wrong in many others.

During the midst of this mania, the fact that a company didn't make any money was no reason not to buy the shares.

Chart one: Portfolio risk against real return

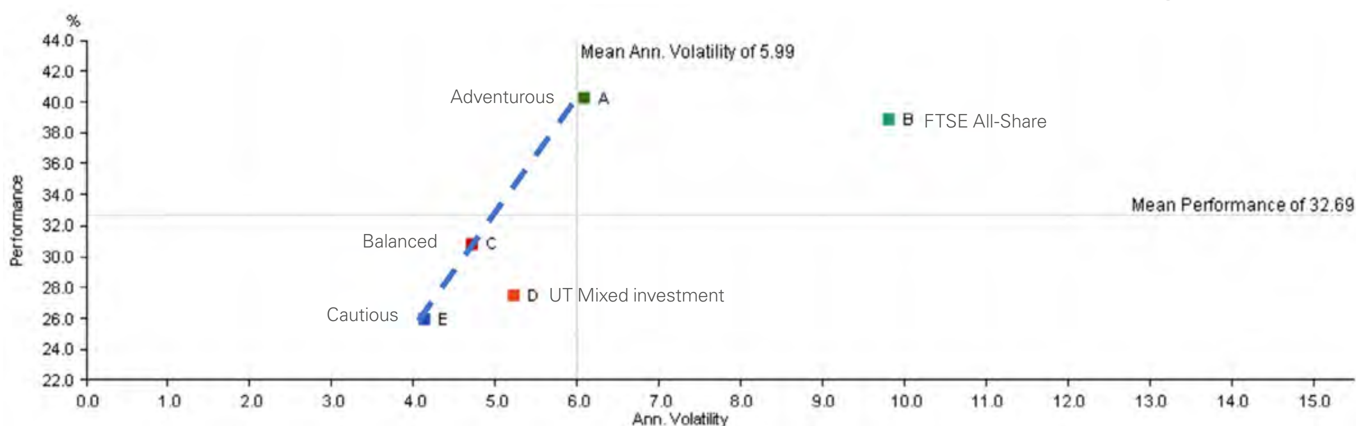


Table one: Portfolio performance over the last five years

Key	Name	Five-year total return (%)	Return pa – five years (%)	Real return pa – five years (%)	Annualised volatility
A	EQ Adventurous	40.28	6.73	5.16	6.08
B	FTSE All-Share	38.89	6.41	4.84	9.80
C	EQ Balanced	30.83	5.33	3.76	4.71
D	UT Mixed investment 20-60% shares	27.50	4.85	3.28	5.22
E	EQ Cautious	25.96	4.53	2.96	4.13

Source: FE Analytics. 30/09/2015 - 30/09/2019. Based on CPI at 1.57% pa over this period.

*After 0.75% financial planning and 0.25% investment management fees.

If it was an internet-related company, it couldn't possibly fail, and the shares of such companies rocketed.

Eventually of course, it became apparent the emperor wasn't actually wearing anything and boom turned to bust.

But what if, this time, things actually are different? What if everything we thought we knew about the investment world is wrong?

Here are a few 'truths' that those building portfolios have always been able to rely upon, but which no longer seem so rock solid…

Truth number one: bonds and equities move in different directions

When the economy is great, stocks do well and government bonds do poorly.

When the economy suffers, bonds do well and stocks do poorly.

In a booming economy, company earnings go up, helping drive stocks higher. Inflation tends to rise which makes the real (inflation adjusted) yield on bonds lower. Interest rates go up to keep a lid on things, making the fixed interest payments on bonds look less attractive, and so their prices fall.

In a slump, company earnings fall and stock markets underperform; inflation falls and interest rates are cut, making bonds more attractive – and so, their prices go up.

In recent times, both the Federal Reserve (the Fed) and the European Central Bank (ECB) have cut interest rates, even though their economies are still growing (but slowing). Further cuts from the Fed are expected.

This has led to a big rally in bonds throughout 2019, but also to a rally in stocks. Bonds and equities, especially a particular type of equity, have moved together.

We used to think that interest rates could never go below zero

Truth number two: interest rates can never go below zero

We used to think that interest rates could never go below zero.

Now, rates are negative in Europe and Japan. According to Bloomberg this means that, as of the end of August, roughly $17 trillion worth of government bonds had a negative yield – that's about one third of the investment grade bond market!

Bonds have done phenomenally well this year. Six months ago, a 10-year German government bond (or bund) had a yield of about zero. If you bought the bond back then and held it until maturity your return will be precisely nothing. Nada. Zilch. Who in their right mind would buy that?

However, by the end of August that yield had dropped to MINUS 0.7% pa. The fool who bought a nil yielding bond would have made a capital gain over six months of around 8%. Now they just need to find a greater fool to buy it from them!

The reason a fool might want to buy it is because cash interest rates in Europe are also negative. If the European economy enters recession, perhaps rates could fall even further into negative territory, and then the German bond yield would go down even more?

Truth number three: there's no political risk here...

If central banks have been one of the primary drivers behind the market direction, politics has, if anything, been even more significant.

Political risk is meant to be an emerging market phenomenon. There's no political risk in the UK, the US, the Eurozone... right?

Wrong. Political events are making markets swing wildly.

Donald Trump moves markets via his Twitter feed, ramping up his trade war with China or de-escalating seemingly on a whim.

Depending on the outcome of Brexit, the pound might move to perhaps $1.40 per US dollar or $1.10 (or even parity). UK domestic stocks will probably either rally sharply or fall hard. I will not even attempt to predict what will happen with Brexit, not least because anything written here will be well out of date by the time you read it!

According to the dictionary 'conservative' means 'averse to change', but what self-identified Conservatives on both sides of the Atlantic are doing at present is actually extremely radical. The UK's relationship with Europe and the rest of the world, along with our UK constitution, is being torn up and re-written (or at least it would be if it was written down…).

Conservatives are also traditionally seen as keeping a tight rein on government finances, but both Prime Minister Johnson and President Trump have made big spending commitments.

This isn't to make a political point, but to emphasize that what's happening right now is a fundamental change to what we are used to.

Chart two: MSCI World Value and MSCI World Growth performance comparison

Source: FE Analytics. 31/12/1998 - 04/10/2019

Truth number four: value stocks will outperform growth stocks over the long term

We can simply split stocks into two camps.

Value stocks: those that trade on a low multiple of current earnings or assets. These stocks are cheaper than the market, usually because the company or sector is out of favour.

Growth stocks: those that trade on a high multiple of current earnings or assets. This is usually because the companies are expected to grow their earnings faster than the market, therefore justifying a higher multiple.

Markets tend to revert over time – cheap stocks will become less cheap, and expensive stocks will become less expensive. This means value tends to outperform growth in the long run.

On the previous page, chart two shows the performance of the MSCI World Value and Growth indices over the long term. Whilst value is still just about ahead, we can see growth has all but caught up.

In fact, over the past 10 years, the MSCI World Growth Index has returned 265%, almost 100% more than the MSCI World Value Index which returned 166% (2 October 2009 to 4 October 2019).

A sub-set of growth, which we call 'quality' stocks, has returned even more, producing 303% over 10 years (MSCI World Quality index). The US stock market is packed with growth stocks, which may explain why the US has vastly outperformed pretty much every other region over this period.

One possible reason for why growth has done so well is the ultra-low interest rates we've seen since the financial crisis.

When an equity analyst is working out what a company is worth, they will look at future cash flows (earnings) and discount them back to today's terms. The discount rate used is often based on bond yields or interest rates.

A lower discount rate implies a higher value for the stock. Low and falling interest rates have therefore pushed up the price of growth stocks. What present value is implied for future company earnings if the discount rate you use is negative?

Truth number five: central banks are, and should remain, independent!

There are only a few people who disagree with this statement, but one of them is the President of the United States.

Trump doesn't actually say that the Fed shouldn't be independent as such, he just thinks they should do what he tells them. He is constantly putting pressure on them to cut interest rates. He even recently asked (via Twitter of course) who was the greatest enemy of the United States – President Xi of China or Jerome Powell, Chairman of the Federal Reserve?

> The world is constantly changing, and we therefore need to constantly adapt

When the president thinks the Fed Chair, who he himself appointed, is one of the greatest enemies of the country, we're living in unusual times!

It's how politics and monetary policy interacts that is crucial. If Trump's trade war slows the US economy, should the Fed bail him out by cutting interest rates? The former head of the New York Fed, William Dudley, recently suggested in a piece for Bloomberg that "(Fed) officials could state explicitly that the central bank won't bail out an administration that keeps making bad choices on trade policy, making it abundantly clear that Trump will own the consequences."

But is it really different this time?

The world is constantly changing, and we therefore need to constantly adapt.

Given all of the above issues, it is difficult to build a balanced portfolio right now. What makes this particularly difficult is what we call 'tail risk'. The market has always struggled to price an unlikely, but significant event.

Unfortunately, unlikely but significant events seem to be happening more and more frequently!

One way of achieving a balanced portfolio is what we call a 'bar bell' approach. All the positions are at opposite ends of the spectrum with very little in between, giving an overall impression of balance.

This is fine in normal markets, but it can be hard hit by sudden changes in direction or the relationships between assets.

A portfolio of stocks and government bonds has historically been seen as fairly balanced. But if all your stock exposure is in growth stocks and interest rates go up, will your equity and fixed interest both fall together? They have certainly gone up together so far this year!

This is why we think true diversification is absolutely key. We own a mixture of growth and value equity funds. We hold government and corporate bonds. We have 'real' assets like commercial property and infrastructure in the portfolio plus alternative equity funds, which can make money from assets going up or going down (long and short).

Whilst we feel like we're living in extraordinary times at present, the world is rarely ordinary.

We're not in recession (at least not at the moment). We're not at war. The world is going through a slowdown, exacerbated by the actions of politicians but supported by central banks. However, the bond market is acting like we're in a severe downturn. We hope that bond investors will be disappointed, politicians will reach sensible compromises and steep interest rate cuts and huge amounts of quantitative easing won't be required.

If this happens and some sort of certainty returns to the investment world, there is the chance of a rapid reversal of some of these recent trends. For example, bonds and growth stocks might sell off together.

However, value stocks, particularly those in regions which have been hardest hit by political concerns, such as the UK and Asia, could do very well.

As ever, we must remain vigilant and ready to act as required.

The uncertainty principle

The outcome of Trump's trade war will have a major effect on the global economy, and the outcome of Brexit will have a major effect on the UK economy. In both cases these are binary events, and we have no way of predicting the outcome.

Such uncertainty causes a lack of confidence and makes people put off decisions. Businesses in the UK are holding back investment until they know what is happening with Brexit. A similar effect is starting to be seen in the US as tariffs begin to bite.

Remember it is American companies and consumers that pay the tariffs on Chinese goods. In theory, that might prompt a switch away from Chinese products and towards American ones. Unfortunately, if you are a US manufacturer, many of the components you need to buy have a good chance of coming from China. You often have no choice but to pay the higher prices and decide whether to pass this onto consumers or take the hit in terms of profits.

The risk of recession is certainly rising, and we have seen the dreaded inverted yield curve in many major bond markets. This simply means that long-dated bond yields are below that of short-dated bonds. That tells us that markets are expecting some big rate cuts, which normally only happen in a downturn.

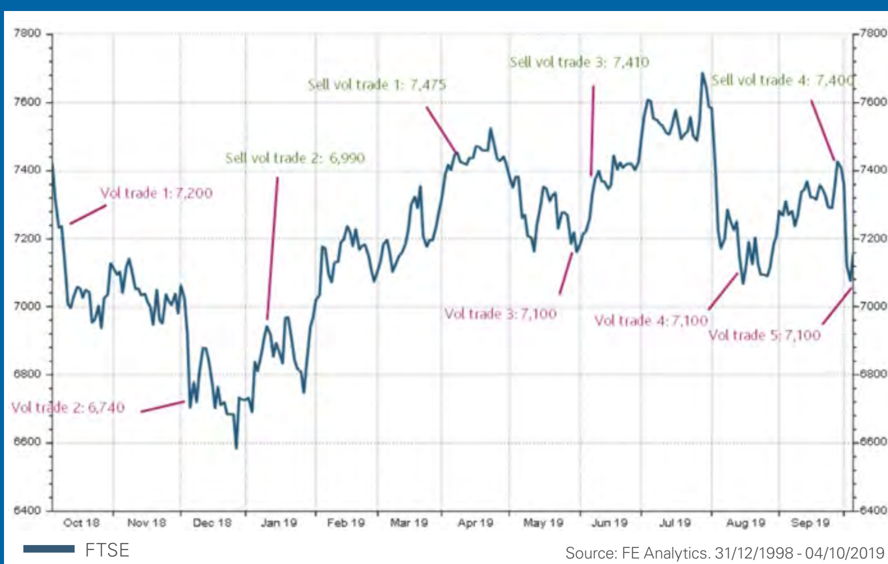
Volatility also brings opportunity

Historically, the yield curve has inverted before recessions. The blue line on chart three shows the difference between a US 10-year bond and a three-month bond. The grey shaded areas are recessions.

Chart three: Recessions and the difference between US 10-year bonds and three-month bonds

Source: Federal Reserve Bank of St. Louis

Chart four: Volatility trades over the last 12 months



Source: FE Analytics. 31/12/1998 - 04/10/2019

The blue line has gone below zero before each of the last major recessions.

We don't think this is a perfect signal by any means, particularly given the impact of quantitative easing and ultra-low interest rates, which have distorted the bond market. However, it is showing that bond investors are feeling pretty cautious about the economy.

Whether they are right may depend on what happens with the trade war. We believe Donald Trump has a huge incentive to sign a deal with China. In particular, we know he wants to be re-elected next autumn. Whether US presidents get re-elected tends to depend quite heavily on how the US economy is doing. He therefore needs to engineer a re-acceleration somehow.

Whilst recession risk is rising, there is also a not-entirely-insignificant chance that a deal could be signed, the economy could re-bound and the expected rate cuts therefore don't happen.

Likewise, here in the UK, any sort of Brexit deal (even if the deal itself is a bad one economically) would at least bring certainty back to the economy. Businesses can then deal with that uncertainty and make decisions about the future, with at least some degree of confidence about what the future might look like.

Uncertainty is certainly a fact of life in investing and brings extra volatility to markets. However, volatility also brings opportunity.

We like to carry out what we describe as 'volatility trading'. When markets fall to a pre-defined 'trigger point', we move a small amount of money out of lower risk assets and use it to buy an equity index tracker. When markets recover, we sell it again, aiming to bank lots of small gains.

Chart four shows the volatility trades we've placed over the past 12 months.

More recently, having bought again at 7,100 in August, we then sold at just over 7,400 in September. Again, about a week later we were having to trade again after markets dropped back to 7,100 on 3 October.

We can track many of these inflection points in markets to remarks made on Twitter by President Trump and others to announcements around Brexit.

Asset class outlook

We have mentioned the ultra-low interest rates several times already. Chart five puts this in context.

This shows the yield on various 10-year government bonds and how they changed over the past 20 years. Yields on all the bonds have essentially never been lower. German and Japanese bonds have negative yields, which means you are guaranteed to lose money if you hold these bonds until maturity.

Whilst we accept there are economic risks, we believe this pricing is too gloomy an outlook – it assumes a long-term economic stagnation. We think it is possible that yields could move higher, which would mean bond prices move lower. We remain underweight fixed interest, as we think these risks are rising and the potential returns are low.

We think the stock market, in contrast, represents pretty decent value on the whole, despite the risks. Chart six is Equilibrium's own composite indicator of market valuation. This looks at common ways of valuing stocks such as price/earnings and price/book ratios, combining them into a single score for each region.

The black lines show where this indicator is currently. The higher up the chart the line is, the more expensive the market. There are some pretty expensive regions which we think look particularly vulnerable if the slowdown continues, notably the US and Europe. However, there are also some areas such as the UK, China and Japan, which look pretty cheap.

It is no coincidence that sentiment to these areas has been poor, it is due to Brexit and trade concerns. There is therefore the risk they could get even cheaper (which is another way of saying fall further!). However, this also means there is a potential opportunity if we gain some certainty around these issues.

We remain underweight US equities compared to most of our contemporaries, who often have more than half of their equities in the region, based on market cap weightings. We think this is an odd way to allocate capital, and it represents excessive country specific risk. However, we have to acknowledge just how well US equities have done recently.

The US economy has done very well over the past few years whilst other regions have had their ups and downs. In addition, the market has more than its fair share of technology stocks which have been seeing faster growth than the market as a whole. As mentioned earlier, such stocks have also benefited from ultra-low interest rates.

Should there be fewer or shallower rate cuts than the market currently expects, and if the US ceases to outperform, then we think this trend could reverse.

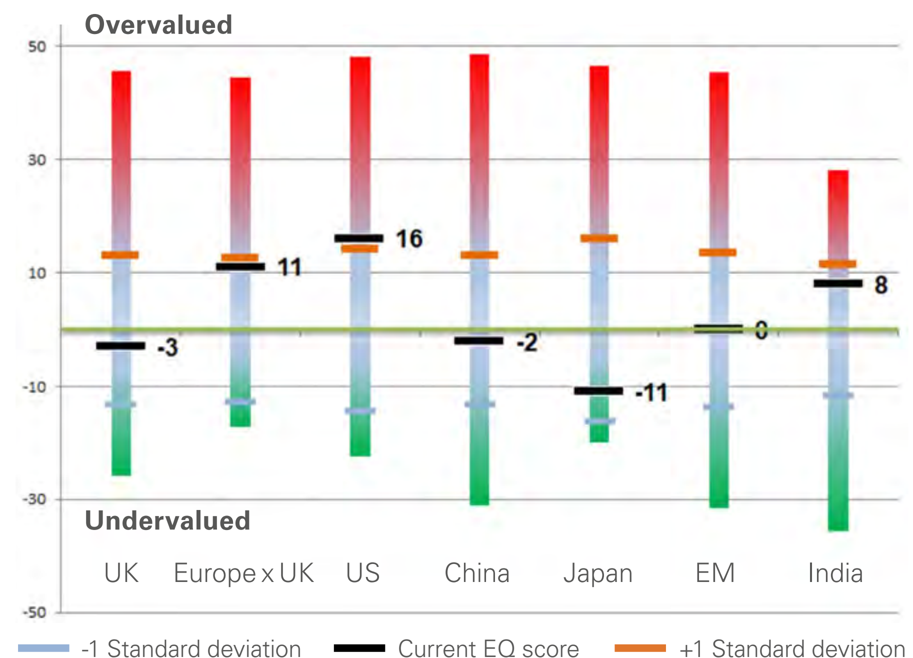
Defined returns

One way we like to access US equity markets is via defined returns products. These are structured products which pay a pre-defined return based on what the market does over a set period. For example, on 3 January 2019 we bought

Chart five: 10-year government bond yields over 20 years

Source: Refinitiv data stream

Chart six: Equilibrium's composite market valuation indicator



Source: Refinitiv data stream / Equilibrium Investment Management

a product with Citigroup. On that date, the FTSE 100 was at 6,693 and the S&P 500 was at 2,448. Should both markets be at or above these levels on 3 January 2020, the product will end on that date and pay out a 16.05% return.

Both markets are currently well above these levels. However, should they fall back and be below on the first anniversary, the product would not kick out but would instead roll onto the second year, at which point the same test is performed. The potential returns on various anniversaries are shown below:

- Year one – 16.05%
- Year two – 32.1%
- Year three – 48.15%
- Year four – 64.2%
- Year five – 80.23%
- Year six – 96.3%

If the markets are below the starting prices on the sixth anniversary then we receive back our initial investment with no gain or loss, unless one of the markets is 40% or more below the starting level on that date. If that is the case then the product loses money in line with the worst performing market.

The products also have counterparty risk, and so in this example, if Citigroup went bust we could lose the lot! Whilst this seems highly unlikely, we limit our exposure to any single bank for this reason.

Not only do these products have an attractive potential return, a diverse portfolio of such products tends to be less volatile than the market. The products increase the likelihood of getting a positive return, although they do of course cap the potential upside. With the risks around at present, this is a trade-off we're happy to make.

Asset allocation

We always adapt our portfolios to current market conditions.

Whilst we're reasonably positive about stock markets, we hold less traditional equity than we would do normally, preferring to hold defined returns instead.

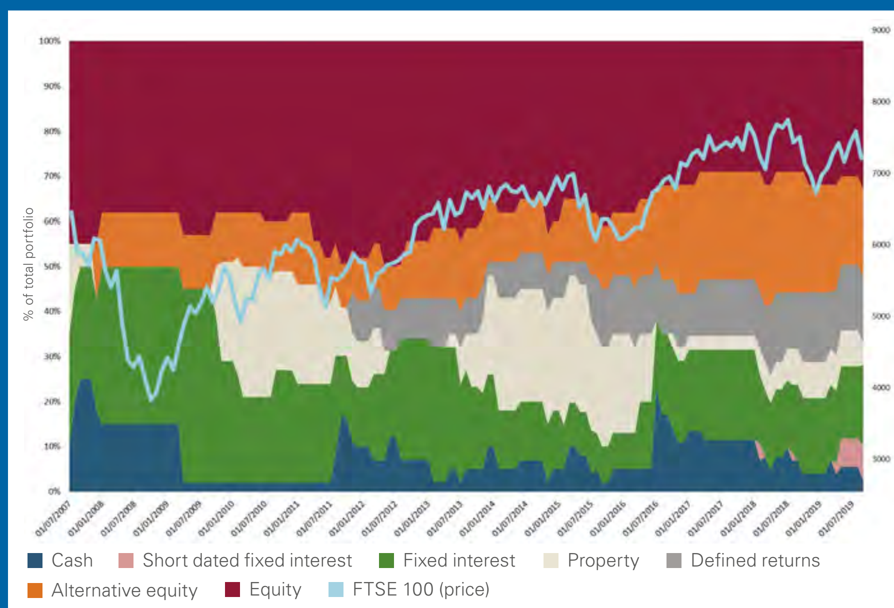
We hold less standard fixed interest funds and instead more in what we call 'short dated fixed interest'. These are bonds which generally mature in the next couple of years which means they have less sensitivity to changes in interest rates, plus there is less chance of default than a longer dated corporate bond. We don't expect amazing returns from this asset class but aim to beat cash with limited chance of loss.

We also hold only a small amount of UK commercial property at present, given how sensitive this asset class is to the UK economic outlook and because we have some concerns about their liquidity.

At present, we hold much more than usual in alternative equity, which includes assets like infrastructure and so-called 'absolute return' funds. We never use the term 'absolute return' if we can help it, as some of the funds in this category are just as risky as traditional equity. What sets them apart is their ability to make money in falling markets as well as rising ones; this is still not a guarantee of returns as this depends on the fund manager getting their positioning right.

Chart seven shows how our asset allocation has changed since 2008, when we started managing our portfolios on the current basis. The blue line across the chart shows how the UK stock market has moved over the same time period. This illustrates how we adapt the portfolio to changing market conditions.

Chart seven: Asset allocation since 2007



Fund selection

The active versus passive debate will continue. Should you select actively managed funds where a manager tries to beat the market? Or just accept that for every outperforming manager there's an underperformer and instead aim to be consistently average by buying an index tracker?

For us, there's no hard and fast rule. We use both types of funds. It depends on the market, where we are in the market cycle and how the fund in question complements other funds in the portfolio.

Where passive advocates are 100% correct, is that costs make a huge difference. We therefore spend a lot of time focusing on cost. We are fortunate that we are able to use our scale to actively negotiate with fund managers and obtain discounts on their management fees in many instances.

Whilst cost is important, value for money is vital. We will therefore select active managers where we believe they offer superior quality and where they complement other funds in the portfolio.

Of course, we monitor performance on an ongoing basis. As of 1 October, 91% of funds in our portfolios had matched or bettered their benchmark over the period since we have bought them. 64% of them had beaten their benchmark by more than 25% since purchase.

Whilst asset allocation is the key driver of returns and therefore where we focus a lot of our efforts, good fund selection can also make a big difference over the long term.

Sector performance & analysis

UK equities

UK equities have continued to underperform compared to many other global markets, as international investors stay away on Brexit fears.

There also continues to be a marked difference between large and small companies within the UK. The FTSE 100 has not done particularly well over 12 months, up just 2.33%. However, smaller companies have done terribly, down 8.15%.

Large cap UK equities tend to make more of their revenues from outside the UK and have benefited from the weak pound as well as slightly better sentiment. Smaller companies tend to be more domestically focused and remain extremely unloved.

We think there are some fantastic companies in the UK which are being ignored by investors. We therefore have a bias towards smaller companies in our UK portfolios and this has not helped performance over the past 12 months.

Having said that, we always try to balance our exposures and the larger cap funds we hold such as Lindsell Train UK Equity and Royal London UK Equity Income have done well. This means that despite our preference for small caps, the UK portfolios have beaten their respective benchmarks over six months and one year, as seen in table two. For example, UK Dynamic made 3.8% over six months despite the small cap exposure, whilst the average UK fund lost money over this period (the UT UK All Companies sector).

Overseas equity

The past couple of years has really been a story of US equity versus everybody else!

For example, table three shows that over 12 months the average US fund (UT North America) made 4.85% whilst the average European fund made just 0.45% (UT Europe ex UK). The average Japanese fund lost 0.44% (UT Japan).

We have been worried that the US stock market has looked expensive for some time and hold less US stocks than usual. Whilst this has not helped performance in the short term, our fund selection has been positive with our European and Japanese funds beating their benchmarks over the long term by significant amounts.

Over 12 months, our best performing overseas fund was actually in India. This has struggled over the past couple of

Table two: UK portfolios and benchmarks

	6 months %	1 year %	3 years %
Rathbone Income in GB	-0.55	-0.68	Not held
Royal London UK Equity Income M Acc TR in GB	-0.25	-0.05	10.54
LF Miton UK Multi Cap Income B Inst Inc TR in GB	-1.00	-6.92	9.89
Portfolio : Equilibrium UK Conservative Equity 01/10/2018 TR in GB	-0.60	-2.56	6.99
Sector : UT UK Equity Income TR in GB	-2.38	-3.13	7.19
LF Miton UK Value Opportunities B Inst Inc TR in GB	4.25	-2.23	19.03
Lindsell Train LF Lindsell Train UK Equity in GB	8.56	14.33	39.37
Marlborough Special Situations in GB	0.84	-10.93	20.42
Portfolio : Equilibrium UK Dynamic Portfolio 01/10/2018 TR in GB	3.80	-1.45	25.13
Sector : UT UK All Companies TR in GB	-0.85	-2.38	12.57

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

Source: FE Analytics

years but has recently outperformed after the Indian election and tax cuts for corporations.

Our Asian and China funds performed okay, but this area struggled with the ongoing trade war. Again, this is a part of the world that we think has some great opportunities for long term investors.

Fixed interest

As alluded to earlier, fixed interest has had a phenomenal run since the beginning of 2019 as investors began to anticipate rate cuts.

However, this has come after a pretty poor couple of years for the asset class. Chart eight shows our Fixed Interest Portfolio in green against the UT sterling corporate bond sector (red) and the FTSE actuaries gilt index in blue.

All three have done very well since January. However, for the two years prior to that, gilts had lost money and corporate bonds were flat.

In relative terms, our Fixed Interest Portfolio has done well compared to both gilts and corporate bonds over this period.

Alternative equity

Over the past few years, we have held more alternative equity than usual, holding less than normal in traditional equity and fixed interest.

Since the beginning of 2019, this has not been positive for relative returns given how well bond markets have done. However, taking a long-term view, alternative equity has been of great benefit to the portfolios.

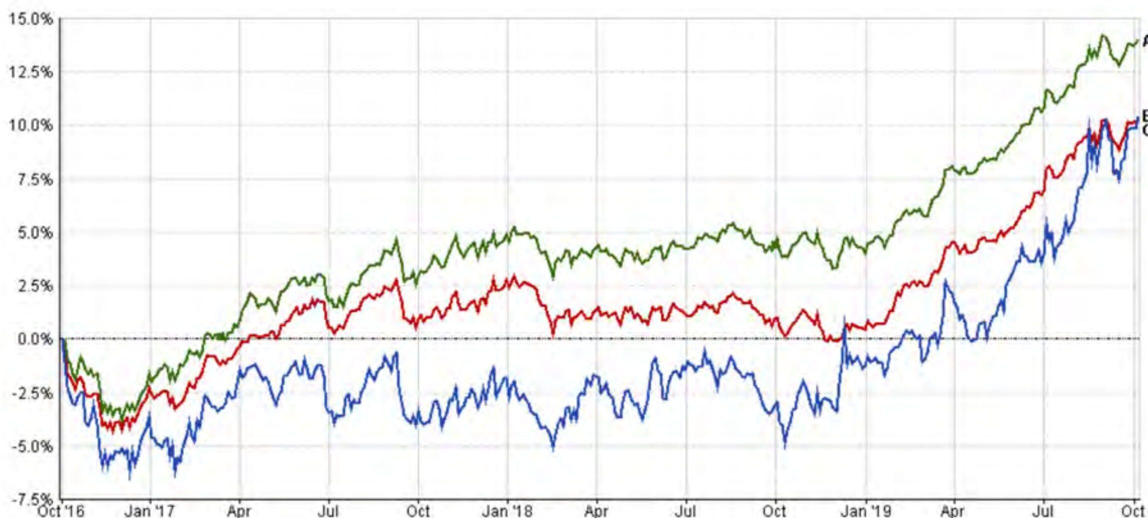
Table three: Global portfolios and benchmarks

	6 months %	1 year %	3 years %
Baillie Gifford Japanese B Inc TR in GB	8.72	0.37	35.06
Lindsell Train Japanese Equity B Sterling Quoted GBP TR in GB	Not held for full period		
Sector: UT Japan TR in GB	8.72	-0.44	23.95
BlackRock European Dynamic FD Inc TR in GB**	6.41	2.55	33.2
LF Miton European Opportunities in GB	9.23	7.1	Not held
Sector: UT Europe Excluding UK TR in GB	4.18	0.45	20.32
Vanguard US Equity Index A Inc TR in GB	9.08	8.46	47.11
Sector: UT North America TR in GB	7.52	4.85	41.8
Portfolio: Equilibrium Global Established Portfolio 01/10/2018 TR in GB	7.79	2.44	33.99
Glbl Est Benchmark	6.38	3.1	32.95
GS India Equity Portfolio I GBP TR in GB	0.48	16.31	Not held
Invesco Hong Kong & China (UK) in GB	1.37	6	36.73
Schroder Asian Alpha Plus Z Inc TR in GB	-4.03	4.89	28.59
Portfolio: Equilibrium Global Speculative Portfolio 01/10/2018 TR in GB	-0.75	8.73	30.07
Sector: UT Global Emerging Markets TR in GB	1.88	8.93	20.99

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

Source: FE Analytics

Chart eight: Fixed Interest Portfolio, UT sterling corporate bond sector and FTSE actuaries gilt index



A - Equilibrium fixed interest (14.05%)
B - FTSE actuaries UK conventional gilts (10.46%)
C - UT Sterling corpoerate bond (10.18%)

Data from FE 2019. 04/10/2016 - 04/10/2019

Chart nine shows alternative equity (in orange) over three years, compared to the FTSE All-Share Index of UK equities (in blue), and the average targeted absolute return fund (in green).

We want alternative equity to be an alternative source of return, with low correlation to the traditional asset classes. Whilst the FTSE All-Share has beaten alternative equity over this three-year period, it has been substantially more volatile. Alternative equity has shown low correlation to the stock market and avoided the large drawdown you can get from traditional equities. Our portfolio of alternative equity has also outperformed what we consider to be an average absolute return fund (shown in green) over this period.

Property

We hold a lot less in property funds than usual, typically having only around 5% in portfolios at present. UK commercial property funds continue to struggle, particularly those most exposed to retail property, given the sluggish UK economy and Brexit-related uncertainty.

Our property portfolio has returned just 0.34% over 12 months. The average property fund returnd 0.04% over the same period. Our portfolio was hit by a reprice to the Kames Property Income Fund in December, however it has recovered relatively well since then.

Had we not reduced exposure to retail and added in more exposure to 'long income' properties, we would have lost 2.28% over 12 months.

AIM portfolio

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

The total return for the FTSE AIM Index for the last 12 months has been -19.0%, whilst the Equilibrium AIM Portfolio return was -14.3%. As these negative numbers imply, it has been a tough year for the AIM market.

The fourth quarter of last year saw a very sharp sell-off. The first half of 2019 saw a decent recovery, especially once it became clear that the initial Brexit deadline of the end of March was to be pushed back. However, since June much of this recovery has reversed as the second Brexit deadline looms and concerns over global growth have risen.

Whilst the geopolitical situation has become more acute with Brexit and the US/China trade talks in clear focus by the markets, it is important to remember that the investee companies are getting on with business.

In the portfolio, three stocks (workwear provider Johnson Service Group, intellectual property services company RWS Holdings and telecoms services company Gamma Communications) have seen their share prices rise by nearly a third over the last year. Resilient demand for their services plus self-help programmes have significantly improved profitability for these companies. This helped lift dividends by double-digit percentages over the past 12 months.

As always, there have also been weak performers in the portfolio. Burford Capital, provider of finance for legal cases, saw its share price fall sharply on the publication of a hedge fund's report that questioned the company's business model. Such 'bear raids', as they are known, can often be brutal but investors are usually best served by being patient and letting the market realise the underlying value of the company rather than panicking and selling.

Over the last 12 months, it has often been difficult to rationalise some of the weak share prices with the relatively good news narratives from the portfolio's investee companies. There are many uncertainties in the global economy but with the well-diversified spread of businesses that are held in the portfolio, we believe that it is well-placed to weather most storms. The table below shows the five top- and bottom-performing stocks in the portfolio over the past 12 months:

Top stocks by total returns

32%	Johnson Service Group
31.9%	RWS Holdings
31.0%	Gamma Communications
24.0%	James Halstead
18.5%	Hotel Chocolat Group

Bottom stocks by total returns

-55.6%	Burford Capital
-55.3%	Scapa Group
-38.6%	Redde
-38.1%	Keywords Studios
-37.4%	Craneware

Chart nine: FTSE All-Share, alternative equity and UT targeted absolute return

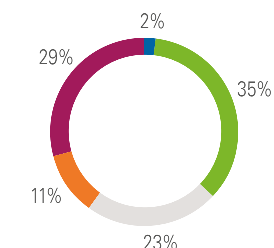
A - FTSE all share (15.08%) B - Equilibrium alternative equity (10.12%) C - UT targeted absolute return (2.99%)

Data from FE 2019
04/10/2016 - 04/10/2019

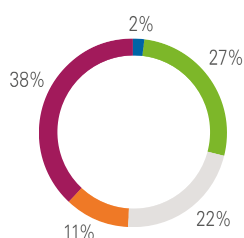
Model portfolio returns

Below is the performance of our Cautious Portfolio, Balanced Portfolio and Adventurous Portfolio.

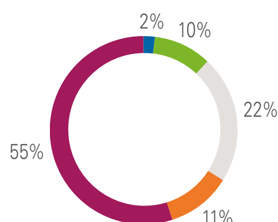
Strategic asset allocation



Cautious Portfolio	6 months %	1 year %	3 years %	5 years %	Since launch* %
Cautious Portfolio	1.46	2.17	11.02	24.82	80.63
Mixed Asset 20-60% Shares Sector	2.75	3.52	11.28	26.77	59.68



Balanced Portfolio	6 months %	1 year %	3 years %	5 years %	Since launch* %
Balanced Portfolio	1.56	2.07	12.50	29.64	86.58
Mixed Asset 20-60% Shares Sector	2.75	3.52	11.28	26.77	59.68



Adventurous Portfolio	6 months %	1 year %	3 years %	5 years %	Since launch* %
Adventurous Portfolio	1.85	2.26	15.68	38.47	95.56
Mixed Asset 20-60% Shares Sector	2.75	3.52	11.28	26.77	59.68

We also show returns compared to the Asset Risk Consultants indices made up of other discretionary managers' portfolio returns. These are shown in the table below and are given to 1 October 2019 as ARC indices are published on a monthly basis:

Model Portfolio	6 months %	1 year %	3 years %	5 years %	Since launch* %
Cautious Portfolio	3.62	2.82	13.05	25.96	82.89
ARC Sterling Cautious PCI	3.94	3.71	9.10	17.34	46.53
Balanced Portfolio	4.01	2.71	14.87	30.83	89.08
ARC Sterling Balanced PCI	5.23	4.15	13.96	26.37	60.59
Adventurous Portfolio	5.11	3.19	19.11	40.28	98.73
ARC Sterling Balanced PCI	5.23	4.15	13.96	26.37	60.59

* Launch date 1 January 2008. All data to 5 October 2019.
Figures are highlighted in green where they are in excess of the relevant sector.

Sector portfolio returns

Equity Portfolios	6 months %	1 year %	3 years %	5 years %	Since launch* %
UK Conservative Equity	-0.86	-2.09	8.16	29.43	84.97
UT UK Equity Income Sector	-2.62	-2.39	7.70	27.40	75.15
UK Dynamic	3.45	-0.30	27.05	66.11	135.09
UT UK Equity All Companies Sector	-1.15	-1.41	13.45	33.33	80.34
Equilibrium AIM	0.40	-9.11	27.22	110.29	276.92
FTSE AIM All Share ***	-5.60	-18.06	8.84	25.24	-5.22
Global Established	6.98	3.69	33.76	91.48	173.66
Global Established Benchmark **	5.64	4.56	32.84	79.25	157.78
Global Speculative	-1.57	10.66	29.25	70.23	83.66
UT Global Emerging Mkts Sector	0.89	10.86	21.02	46.62	65.06
Balanced Equity Mix	2.59	2.32	22.93	60.77	116.02
Balanced Equity Benchmark ****	2.05	1.74	20.92	51.7	103.35
Adventurous Equity	2.87	3.64	26.18	66.03	119.32
UT Mixed Asset 20-60% Shares	2.47	2.80	22.58	54.28	103.22
Alternative Equity	-0.24	0.52	10.19	20.59	76.53
UT Mixed Asset 20-60% Shares	2.75	3.52	11.28	26.77	59.68
Fixed Interest Portfolio	5.92	9.64	14.52	25.68	90.28
UT Sterling Corp Bond Sector	5.92	9.71	10.68	26.49	75.39
Property Portfolio	1.16	0.34	19.41	29.09	74.82
Composite Property Benchmark *****	0.10	0.03	11.15	18.35	63.21

* 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)	-1.52	2.33	15.51	34.20
FTSE All Share Index (UK)	-1.00	1.90	15.76	36.46
FTSE 250 Index (UK Mid Cap)	1.59	0.78	16.45	46.84
MSCI Europe Ex UK Index	5.13	6.88	25.00	53.65
S&P 500 Index (USA)	8.74	10.37	47.71	109.28
Topix (Japan)	8.33	1.87	25.30	82.25
MSCI Emerging Markets Index	-1.03	8.66	21.21	46.21

Fixed Interest				
IBOXX Sterling Corporate Bond Index	6.62	11.76	11.82	33.70
UT Sterling Corporate Bond Sector	5.92	9.71	10.68	26.49
FTSE British Government Allstocks (Gilt) Index	9.42	15.50	11.05	34.56
UT Gilt Sector	9.76	15.36	10.18	34.47
UT Sterling High Yield Sector	2.78	4.32	13.32	21.42

Property				
IPD UK All Property Index	0.31	0.86	13.88	26.48
Composite Property Benchmark*	0.10	0.03	11.15	18.35

Other Measures				
Bank of England Base Rate	0.37	0.75	1.53	2.51
UK Retail Price	2.31	2.68	10.12	13.24

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

Risk warnings and notes

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

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

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

Unless stated otherwise:

- All performance statistics are from Financial Express Analytics on a bid-bid basis with income reinvested.
- All performance data is to 5 October 2019.
- Model portfolio performance is stated after a 0.75% financial planning fee, 0.25% investment management fee and platform cost of 0.2% per annum.
- 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
	Semper MBS Total Return	0.00	0.45	0.70
Fixed Interest	Allianz Strategic Bond	0.00	0.60	0.79
	iShares Corporate Bond Index	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	Aviva UK Property	0.00	0.75	0.83
	Kames Property Income	0.00	0.75	0.96
	Standard Life UK Real Estate	0.00	0.75	0.84
	Time Commercial Long Income	0.00	0.98	1.29
Alternative Equity	Carmignac Long Short European Equity	0.00	0.85	1.22
	H2O Multi-Returns	0.00	1.00	1.00
	Henderson UK Absolute Return	0.00	1.00	1.06
	Polar Capital UK Absolute Equity	0.00	1.00	1.17
Infrastructure (alternative equity)	Foresight UK Infrastructure Income	0.00	0.65	0.65
	Lazard Global Listed Infrastructure	0.00	0.85	1.03
Defined Returns	Direct Defined Returns	0.00	0.00	0.00
	Atlantic House Defined Returns	0.00	0.55	0.78
Equity - UK All Companies	iShares FTSE 100 ETF	0.00	0.07	0.07
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 Dynamic	Lindsell Train UK Equity	0.00	0.65	0.75
	Polar Capital UK Value Opportunities	0.00	0.75	0.86
	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
	Lindsell Train Japanese Equity	0.00	0.65	0.85
	Vanguard US Equity Index	0.00	0.10	0.10
Equity - Global Speculative	Goldman Sachs India	0.00	0.85	0.99
	Invesco Hong Kong and China	0.00	0.94	0.94
	Schroder Asian Alpha	0.00	0.75	0.96

These are the funds in our standard portfolios at 5 October 2019. These will change periodically and have not all been held throughout the period covered by this document.

Financial planning | Investments | Tax planning
Retirement planning | Inheritance tax & intergenerational planning

"Having money can bring its own anxieties; my adviser has acted to remove much of that so I can enjoy life to the full. All my children and grandchildren are also in the Equilibrium 'family' so I am happy knowing their future is as financially secure as I can make it. I only wish I had taken a friend's recommendation years earlier."

Eileen Furr, client since 2014

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Head Office
Brooke Court, Lower Meadow Rd,
Handforth Dean, Wilmslow,
Cheshire SK9 3ND

Chester Office
19a Telford Court,
Chester Gates Business Park,
Chester CH1 6LT

t : 0808 168 0748
e : askus@eqllp.co.uk
w : www.eqllp.co.uk

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