EQUINOX

PAGES 04 - 05

Keep your finances shipshape

Welcome

My introduction to Equinox a year ago referred to the fact that guessing what might happen in the future was harder than ever. Whilst that comment may have related to the political climate at the time, I certainly wouldn't have predicted the current state of affairs!

As I write this in the middle of March, COVID-19 is impacting all of our lives, and many of us are understandably concerned about ourselves, our loved ones and our friends.

We will be sharing our in-depth views on the virus itself within our separate, real time investment section, so please do sign up to receive this. You can find further information on the back cover of this magazine.

On a lighter note, I'm excited to confirm that Equilibrium will be moving offices shortly and we look forward to welcoming you to our new premises – hopefully in the not too distant future!

We've also recently launched our new branding, which not only better reflects the service that we provide but also represents the company more accurately as we have grown. The goal was for the overall look, feel and messaging of the new brand to depict the quality and expertise of Equilibrium, which I think we have achieved. I hope you agree!

I also hope you enjoy the range of articles included in this edition. If you have any feedback, I would love to hear from you at colin.lawson@equilibrium.co.uk.

Colin Lawson
FOUNDER

Contents

Articles

04 Keep your finances shipshape

06 Clients know best

07 I'm worried about mum

08 Danger ahead: lifestyle investing

10 Hope for the best, prepare for the worst

12 Global equity strategy

15 Perfecting probate

16 That special something...

18 What we are reading this month...

19 What's in an award?

20 A force for good

22 Double dips and top tips

24 Moving on up

26 Sifting for gold

28 Be fearful when others are greedy...

Contributors Andy Baker, Mike Deverell, Neal Foundly, Debbie Jukes, Colin Lawson, Mark Littler, Diana Majko, Sam Richards, Ben Rogers, Sally Smith

Editors Gaynor Rigby, Sam Richards

Design Paul Davis

Print Paragon

Keep your finances shipshape

Nobody can predict the future, but constantly updating your financial plan is the best way to stay afloat in stormy waters.

We can't predict when your roof might leak for example, but we can make sure you'll have enough money to fix it

At Equilibrium, we are strong believers in the merits of a financial plan. We devote a lot of time to making sure we understand what our clients want their wealth to do for them. We organise their wish list, prioritise different objectives and create an overall strategy to meet their goals.

Ultimately, our aim is to give them clarity and confidence around their finances so that they can make informed decisions about their money and enjoy peace of mind.

It's only when we know *what* needs to be built that we can make sure we're providing clients with the right tools for the job.

The best way to make fate laugh is to show it your five-year plan

The first thing to recognise with any financial plan is that you know it's wrong the moment you make it.

You know it's wrong because none of us can accurately predict what is going to happen in our own lives over any reasonable timeframe, let alone the wider economy and stock markets.

But does that mean you shouldn't have a plan? As American financial planner and author Carl Richards wrote, "Don't be committed to the guess, be committed to the process of guessing."

Ultimately, if you make one financial plan and try to follow it for the rest of your life, it will inevitably be wrong. It's almost like trying to use a road map from 1980 to drive across Europe; half the countries aren't there anymore, and you'll probably get lost.

This is why your financial plan needs to be updated regularly. That way, it can act more like a GPS. You know where you're trying to get to and you know you won't get there in a straight line; but at least it will tell you if you start driving in the wrong direction.

Beware of GIGO

GIGO stands for 'garbage in, garbage out". Essentially, if you put the wrong inputs into a spreadsheet, then you're likely to get the wrong outputs. The same is true of a financial plan.

As I said before, part of planning for the future is accepting that the future is uncertain. We can't predict how long we'll live or whether or not we'll need additional care in later life. And, as the prospect of living for 100 years is no longer confined to science fiction, these uncertainties can become fairly daunting.

So, if our aim is to give clients confidence, it's vital that we put every plan through its paces by including robust assumptions for expenditure. We can't predict when your roof might leak for example, but we can make sure you'll have enough money to fix it.

What's more, we can go a step further by stress testing for different scenarios and looking at the consequences.

"What if I need to go into a care home?"; "What if my children need support?"; "What if my partner dies earlier than me?"

These aren't always the happiest scenarios to talk about, but spending a little time discussing them can provide reassurance and confidence for a long time.

"Everyone has a plan until they get punched in the face."

These memorable words from ex-heavyweight champion boxer Mike Tyson are true of all plans, and financial plans in particular.

When we're building plans with our clients, we're planning over a lifetime, but that doesn't stop us worrying when we're faced with economic and geopolitical uncertainty and volatile times. The current crisis has certainly put this in the spotlight.

As a financial planner, I do many different jobs for my clients. Arguably, one of the most important ones is keeping a calm head and helping them to navigate testing times.

It's important not to confuse risk with volatility

The only risk that matters is not having enough money at the time you need it to the live the life you want.

Would you still have the capacity to live your life if an investment failed? Markets will always involve volatility. It is the nature of the beast.

Here at Equilibrium, we don't want you to be exposed to more risk than you need to achieve the life you want.

Keeping a level head and a long-term view in a time of panic, with market volatility setting off alarm bells in your head, is not an easy thing to do. Despite everything, you'll still be going up against human nature.

Staying focused on your long-term financial plan and your end objectives is crucial. This is where a financial planner can play a pivotal role.

So, if you're panicking about markets and feel worried your plan may not be shipshape enough to weather another storm, please get in touch with one of our team at askus@equilibrium.co.uk.

Clients know best

Earlier this year, we invited a small number of clients to take part in our 'client advisory board' pilot project.

1 **It's all about you, not about the numbers**
2 **We provide simplicity in a complex world**
3 **We will make you feel special**

These are our service promises to clients, and we take them very seriously – so seriously, in fact, that we offer clients their fees back if they feel we haven't delivered on them.

Asking for and acting on feedback is important for any business to accurately understand their clients' preferences and expectations. After all, who knows your service better than the people receiving it?

Surveys are a great way of obtaining information and generating statistics on how people feel about different aspects of your business. However, for more detailed feedback, it is hard to beat a facilitated discussion to really find out about what clients are looking for and how you can enhance what you deliver. A group provides the opportunity for clients to listen to and add to the thoughts and ideas of others, hence our new client advisory board.

As the name suggests, a client advisory board is a group of clients that meets several times a year to discuss a predetermined agenda of questions dealing with the nature and quality of the services we provide. The goal is to help us appreciate and fully understand what we must do to meet the needs and expectations of our clients. This, in turn, will steer our business and strategic direction going forwards. To do this, we aim to:

1 **Engage with clients and discover how they really feel about the service they receive**
2 **Find out what is of most value and the best way of delivering it**
3 **Learn what clients are looking for and how we can enhance our proposition**
4 **Obtain guidance on marketing messages to help connect with a wider audience**

During our first meeting, the group discussed:

- The reasons for approaching Equilibrium and why we were appointed
- Ideas and areas for improvement
- Risks to the business

I'd like to take this opportunity to thank everyone who participated. We felt very privileged to have such a knowledgeable and informed group of people give up their time and share their experiences with us. The feedback and insights that we gathered proved to be both reassuring and valuable, but also provided some food for thought.

At future meetings, we expect to talk more about our strategy, our value propositions, the changes in our markets and the global developments that will drive innovation in how we operate.

Our plan is to hold three meetings per year at our offices, with a couple of different groups of up to 10 clients in each. There will be a few representatives from Equilibrium at the sessions depending upon the topics we expect to discuss. Importantly, we have appointed an independent facilitator, Andrew Carroll, to lead and steer the conversations.

Andrew read philosophy, politics and economics at Oxford and also studied for a Masters in Economics. He subsequently taught economics before joining a management consultancy firm in the 1980s. He is now an independent consultant, a lecturer for the Institute of Directors and has extensive board level experience in both the public and private sectors.

Ultimately, our goal for the board is to have richer, deeper and higher-level conversations about the growth of the company and strategic developments which will hopefully result in changes that benefit everyone.

Find out more

If you'd like to be involved in the project, please get in touch with Debbie Jukes, Head of Client Care, at **debbie.jukes@equilibrium.co.uk**.

BY ANDY BAKER

I'm worried about mum

Old age can bring with it a whole host of worries. What options are there to ensure your loved ones are looked after?

Getting older is fraught with worries, many of which revolve around health.

For those providing support, whether it's for a partner, a friend or a relative, knowing how best to help as someone gets older comes with its own difficulties.
When it becomes clear that help is needed, just knowing where to start can be daunting.

An additional layer of complexity is added when helping someone to manage their finances. While the state offers some financial support, such as attendance allowance or disability living allowance/personal independence payments, the array of what is offered and requirements to apply and qualify can be confusing.

You may also have to think about their environment. What's the right chair? What aids are available? Getting these seemingly small things right can transform someone's life.

Clearly, there is a lot to think about at a time that may already be emotionally stressful and when you may be juggling wider family needs and work alongside caring.

Sourcing help

You'll often need to establish what help is needed compared to any entitlement, tailoring financial and personal support from both the public and private sectors to fit an individual's needs whilst being mindful of the wishes of the person receiving the care.

Though support may be available from the state, people with means are not typically used to accessing social support, even though they may often be entitled to various benefits.

In addition, social workers can sometimes be perceived to be intrusive and are stigmatised in the minds of some. Social work departments are often overstretched. Because of this, they emphasise need, dealing with the most pressing, current crisis. This means you may not get access on your own terms.

Private support

An alternative option for families and individuals who need support and advice could come via a private social worker or adviser.

We recently met up with Sally Smith who founded 'I'm worried about mum'. Equilibrium have no commercial or organisational relationship with Sally, but we were impressed by her knowledge and passion for what she does. Our clients often express concern for their loved ones, so it is a topic close to our hearts.

Sally qualified as a social worker over 25 years ago. However, it's her personal experience of caring for her own family that allowed her to see the issues from both sides. Sally works with families to ensure that care is properly thought through and an appropriate, personalised plan is put in place for each person and their family.

At a time that can often feel overwhelming, the support of people like Sally can take pressure off families. This may be through simple practical advice around state financial support and help completing forms, through to carrying out a mental capacity assessment, or providing guidance and advice when selecting a residential care home.

As a professional service, there is a cost. However, the benefit of taking away the worry that comes with providing support, along with the reassurance that you are doing the right thing and your loved one is receiving the best care, could be priceless.

Find out more

You can learn more about Sally's services at www.imworriedaboutmum.com or contact her directly at **sally@imworriedaboutmum.com** or on **07923 184 316**.

I'm worried about mum...

Danger ahead: lifestyle investing

Autopilots can be extremely useful – but what happens when the autopilot's faulty and there's no one at the wheel?

It sounds great – like an autopilot for your investments.

'Lifestyle' (or 'target date') investment products systematically shift your investments over time as you get older or near retirement date. They were designed to help investors benefit from stock market growth in the early and middle part of their career whilst protecting them from the risk of losing money in case of a stock market crash just before retirement.

Chart one on the opposite page shows typical examples of the asset allocation changes of a lifestyle fund, whereby the 'risky assets' (shown in purple and red) are gradually replaced with the 'safe assets' of cash (mauve) and government bonds (black) by the date of retirement in the far-right column.

This move from relatively risky equities towards low-returning but safer bonds was seen as a great solution, meaning that the investor would be sitting on a nice nest-egg of low-risk government bonds and cash by the time they hold their retirement party.

Originally, the idea was that the nest-egg would be used to buy an annuity to provide an income in retirement, but new pension freedoms and much lower incomes on offer have resulted in plummeting sales of annuities.

These investment products were introduced in the late 1980s but have become particularly prevalent as the number of defined contribution pensions have ballooned, with around 90% of these pensions invested in them.

Risk-less returns?

However, markets have moved a long way since the products were launched and the investment world is very different. Let's have a look at table one to see how the picture has changed at each of the 10-year anniversaries of the products since they began.

The 'cash savings rates' column tells us what we all know which is that we now get very little, if any, interest on our savings and invariably less than the inflation rate (shown in the next column). Contrast this with the nearly 13% savings rates received at the end of 1989 and, although the rate of inflation was higher than now at 7.8%, it was substantially less than the savings rate of 12.7%.

Now look at the 'UK government bond yields' column – this is the really important bit. Like the savings rates, yields were in excess of 10% in 1990 but now stand at only 0.4%. The final column really underlines these numbers. Essentially, the return from a government bond is its yield – let's say you buy a 10-year government bond on the day of your retirement and hold it for 10 years – over that time, your return will be 10 times the yield.

Instead of a return of 103% that a retiree could expect in 1989, the return over the 10 years from today is now only 4%! Remember, not only is this figure before any costs and expenses but it's considerably lower than the current rate of inflation of 1.5%, leaving the investor significantly worse off in real terms.

Indeed, a £1m pension pot in a portfolio comprising 80% government bonds and 20% cash when lifestyle products were launched in 1990 could have provided an annual income (pre-costs) somewhere in the region of £108,000. Today, that would be down to a mere £6,000.

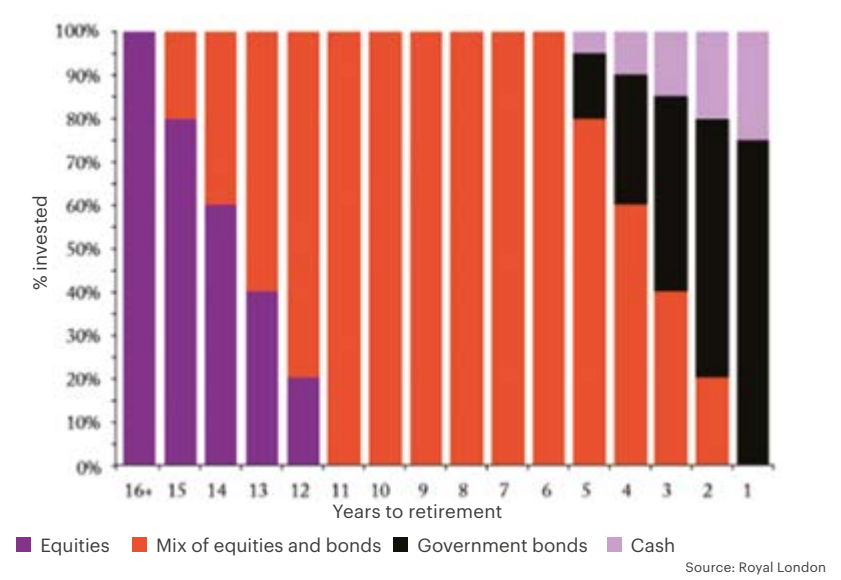
This is a very real problem. Worse, bond yields could easily fall even further and potentially, like European government bonds, go negative - your pension pot could end up paying out interest, rather than receiving income.

Return-less risk?

The other reason that 'lifestyle products' gradually shifted to government bonds and cash was that they were considered very low risk.

Whilst there is still negligible risk of a UK government or bank going bust, capital risks have become more acute for holders of government bonds because bond 'duration' is much higher. 'Bond duration' is simply the sensitivity of a bond to interest rates. In 1990, the duration on 10-year government bonds was 6.5%, which meant that if interest rates increased by 1%, the bond (because of the inverse relationship between a bond price and its yield) would lose 6.5% in value. Whilst painful, this was more than offset by the 10.3% pa income the investor was receiving (giving a 10.3% - 6.5% = 3.8% total return).

Chart one: Typical asset allocation changes of a lifestyle fund



Source: Royal London

Table one: Products at 10-year anniversaries

	Cash savings rates	Inflation	UK government bond yields	UK government bond 10-year returns
End of 1989	12.7%	7.8%	10.3%	**103%**
End of 1999	5.0%	1.5%	5.5%	**55%**
End of 2009	2.0%	2.2%	4.2%	**42%**
End of 2019	1.4%	1.5%	0.4%	**4%**

Source: Refinitiv, 10-year UK gilt yields; savings data http://www.swanlowpark.co.uk/savings-interest-data

Your pension pot could end up paying out interest

Today, the same government bond would lose the investor much more – 10%. And, the much lower 0.4% income would mean a straightforward total return loss of around 9.6%.

So, aside from the fact that lifestyle products invest blindly without regard to individual circumstances and the dangers of inflation eating away the real value of the returns, there is also the large and tangible risk of capital loss.

If you are an investor, what can you do?

If you are still more than 10 years from the target retirement date, your portfolio will probably not have started moving significantly into government bonds, but you should consider different investment options.

However, do not wait to be contacted by your pension provider; in 2017, the industry regulator (the Financial Conduct Authority) looked into the providers of these products and concluded, "We are concerned, however, that some firms claim they have little or no responsibility for such strategies and have no plans to proactively communicate with third parties."

Speak to your adviser to explore solutions – the danger with faulty autopilots is in doing nothing.

Hope for the best, prepare for the worst

Few of us think of making arrangements in case we lose our mental capacity, but what can happen if we don't?

Many people believe their spouse or next of kin will automatically have the right to make decisions for them if they can't do so for themselves.

But, unfortunately, this is not the case. It sounds alarming but the truth is that, if you are taken into a nursing home, your loved ones may not have any say in the details of your care, or even what you can eat. If you have lost mental capacity, your bank may also shut down accounts and freeze assets. Even if the bank takes no action, your next of kin could face a lengthy legal process to access your money.

So, how can you ensure your next of kin is able to make decisions on your behalf?

Registering a lasting power of attorney (LPA)

You can give someone a pending right to make decisions for you by registering a legal document called a 'lasting power of attorney'. It names who you choose to make decisions for you, if you cannot. There are two types of LPA: a property and financial affairs LPA and a health and welfare LPA. We strongly advise that you register one of each type. You can delegate decision-making to two different people if you choose.

Many people think about their LPA later in life, but the unfortunate reality is that it's possible to lose capacity through injury or illness at any age. An LPA is like an insurance policy: you hope you'll never need it, but if and when you do, you need to have one already in place.

Under a health and welfare LPA, your 'attorney' can make decisions about your medical treatment, where you're cared for, the type of care you receive and day-to-day things like your diet, how you dress and your daily routine. They can consider if you need new clothes, hairdressing or some extra support so you can go out more, and they can also make decisions about where you live. If you were being poorly looked after in a care home, for example, your attorney could transfer you to a better one or overrule your carers if they believed their decisions were not in your best interests.

In a nutshell, they make the choices you would make for yourself if you could.

What if I don't have a health and welfare LPA?

The health and welfare LPA is the most often overlooked, as people aren't always aware of how much their daily life, care, and interactions with their partner or family could be affected. Without one, healthcare professionals make the decisions. We have heard some poignant examples, such as one client was not allowed to give her husband cake (which she said always brought a smile to his face) or even assist with daily baths despite the fact that he would have preferred to have his wife taking care of this very intimate part of his routine.

Next of kin can only gain control of these matters by going through the Court of Protection to become a 'personal welfare deputy'. Usually this is only granted if there's a dispute in the family about what's best for the person in question or if major long-term decisions need to be made, such as where they will live.

One of the major benefits of LPAs is to prevent disputes in the family. Some families disagree over

where a dependent relative should live or how a loved one should be treated medically, and this discord can make a stressful situation even more upsetting.

A 'statement of wishes' can give you extra influence

An LPA can do more than just name the people you trust and leave it at that. Your 'statement of wishes' document, referred to in your LPA, could cover any preferences that you want to make sure your attorney knows. You may specify, as one of our own clients did, that if you end up in a care home, they must provide 'fresh flowers, fresh coffee (in bone china cups) and good wine in a large glass'!

You'll need to choose whether or not you want your attorney to make decisions about life-sustaining treatment; if not, such decisions will be made by your professional healthcare team (some people make an advance decision instead, also sometimes called a living will).

How to get started

Whilst you can draw up an LPA yourself online, most clients find it easier to do so through a solicitor. If you don't have a pair of these essential documents already, we recommend you put arrangements in place to make sure your nearest and dearest can protect your interests, no matter what.

Key facts at a glance

1. There are two separate LPAs: one for health and welfare and one for property and financial affairs.
2. You must sign your LPAs while you are still mentally competent.
3. To become valid, your LPAs are registered with the Office of the Public Guardian (OPG).
4. A 'statement of wishes' is a separate document in which you write any preferences that matter to you.
5. Having an LPA does not mean your attorneys can take control of your affairs against your will. If there's any room for doubt, as might happen during the onset of dementia for example, the diagnosis of two independent doctors is needed.
6. Your financial LPA can be used on a one-off basis for your attorneys to sign on your behalf if you cannot leave the house or are on holiday. The activation can be reversed.
7. Under a financial LPA, your attorney can only spend your money on you. Making gifts to other people is very limited through an LPA. A joint bank account may be an important safety net for couples and a family trust might be useful for some people.

Global equity strategy

For many of us, the past few years have felt pretty uncertain... but does uncertainty also lead to opportunity?

For the past few years, we seem to have been using the word "uncertainty" a great deal!

Currently, we are all worried about the impact of the COVID-19 coronavirus, both on a human and an economic level.

However, even before we heard about this virus, political and economic uncertainty was elevated. For the last few years investors have been concerned about the impact of Brexit and the so-called trade war between the US and China.

What all these things have in common is that they are highly unpredictable, with a wide range of possible outcomes in terms of seriousness and impact.

The International Monetary Fund runs a 'World Uncertainty Index' which measures economic and political uncertainty. Every year the IMF produces reports outlining the outlook for various countries across the globe. It simply looks at how frequently words like 'uncertainty' are used in these reports.

The data goes back to 1996. According to this index (chart one), uncertainty as of the end of 2019 was higher than it had been at any other time in that period.

After the trade agreement between the US and China and the UK general election, we thought this uncertainty might come down in 2020. So far we have been proven incorrect on this one!

Supposedly, the Chinese word for "crisis" is made up of two characters. One is the symbol for "danger" the other for "opportunity."

This may be a Western misinterpretation, but even if incorrect it sums up the way we feel about uncertainty.

We firmly believe that those investors who can afford to take a long-term time horizon or have a high tolerance for risk now have a great opportunity.

There is the potential to buy into those admittedly higher risk but higher potential return investments, at a much cheaper price than we have seen for several years.

In most walks of life, when things are on sale for 20% cheaper than before, we think it's a bargain. In the stock market, as humans we find it much harder to buy after a market fall,

even though the same principle still applies. At Equilibrium, we believe that a crisis means there are some potential bargains to be found.

Your future financial confidence

We see giving clients clarity and confidence around their finances as one of our key roles.

In the face of the unsettling environment the 'confidence' element of our job has been made much more difficult! Over the past couple of years, some clients have wanted to reduce risk in their investment portfolios in order to reduce some of the uncertainty.

Given the way things have panned out so far in 2020, those clients who did so are most likely to be better off. Higher risk investments have naturally been hit hardest by the recent market turbulence.

Whilst the virus is highly concerning, the economic effects are likely to be in the shorter rather than long term. On the other hand, we now have a bit less uncertainty around Brexit and global trade, and have governments and central banks that are providing massive levels of stimulus.

Over the very long term, equity and related investments have tended to outperform lower risk investments by a significant margin. Investors who can afford to take that long-term view may therefore see market sell-offs as a buying opportunity.

Risk assessment

Deciding how much risk to take is an art, not a science. We need to take into account your emotional tolerance (how losses make you feel), your capacity for loss (can you still pay the bills if the portfolio goes down?), the return you need to achieve your goals over the long term and your desire for risk.

However, one of the key variables is the time horizon.

If you need a chunk of money out of your portfolio in the next year or two, then it makes sense to keep an appropriate amount in cash. We simply don't know what will happen in markets over the next couple of years and we don't want people to be forced to sell at the bottom if they need the access to funds.

However, if you are in your forties and not planning to retire until your sixties, then you may have twenty years until you need to touch your pension portfolio. In such circumstances, many investors can probably take more risk than would be indicated by a simple risk tolerance questionnaire!

Our global equity strategy

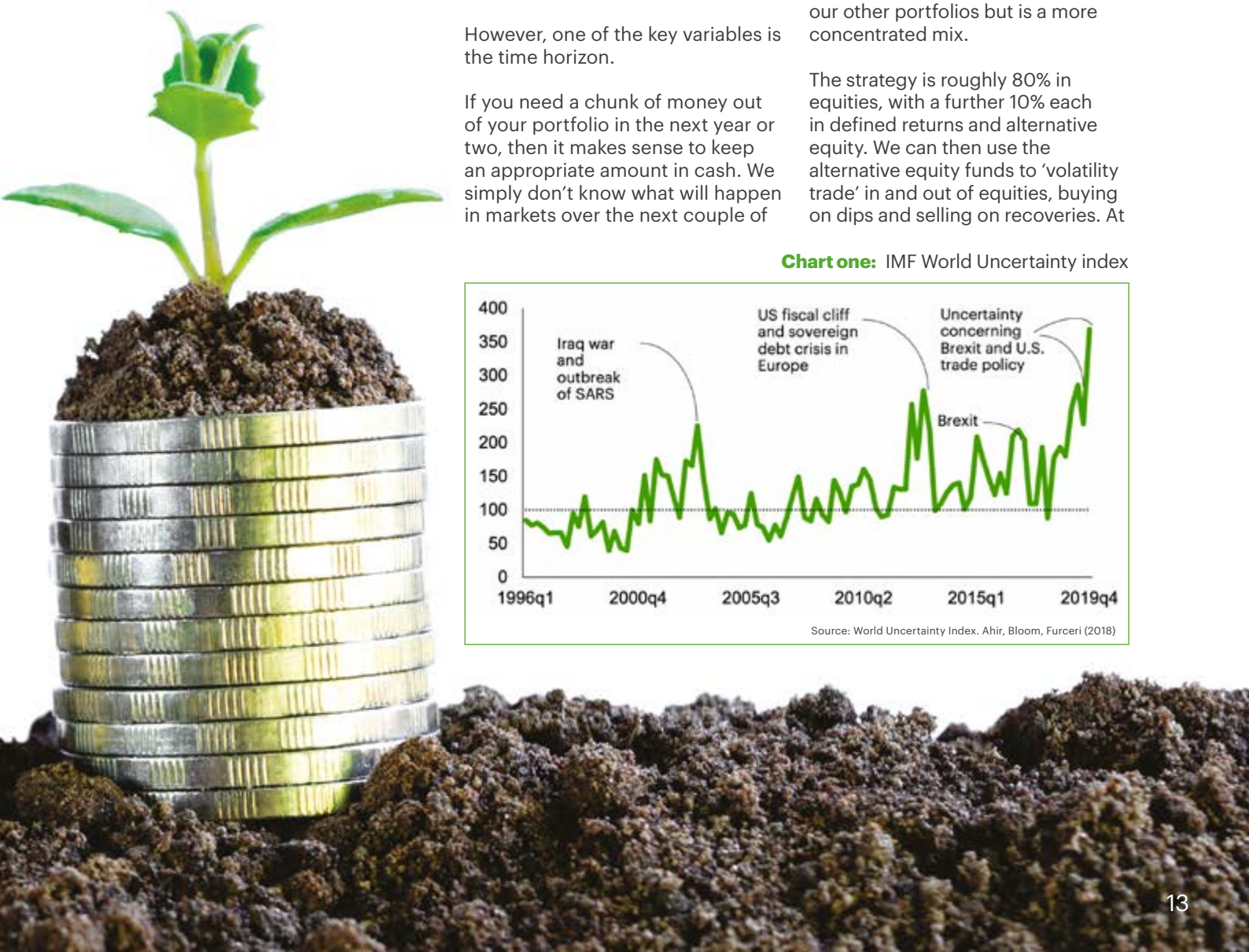
We believe now is a good time to be launching our new investment strategy.

This strategy is designed to produce long-term growth and aims for returns in line with (and hopefully in excess of) global equity markets, but with less volatility. Our global equity strategy is made up of funds that are contained within our other portfolios but is a more concentrated mix.

The strategy is roughly 80% in equities, with a further 10% each in defined returns and alternative equity. We can then use the alternative equity funds to 'volatility trade' in and out of equities, buying on dips and selling on recoveries. At

Chart one: IMF World Uncertainty index

Source: World Uncertainty Index. Ahir, Bloom, Furceri (2018)



times of market lows the portfolio could be 100% in equities if we felt that was the correct approach.

Because of the way it is constructed, we can produce some meaningful backtesting based on actual investment decisions we made in our other portfolios.

Based on this backtesting, we believe that the portfolio can produce equity-like returns but with roughly 80% of the volatility of a typical global equity fund.

Time in the market or timing the market?

We believe that now is as good a time as any to launch this strategy.

Whilst we are in the middle of a turbulent period, markets tend to over-react and this creates value for selective investors.

In particular, we think there are fundamental reasons why emerging markets and the UK should outperform, given some of the concerns about such regions have eased.

Whilst stock markets have got cheaper so far in 2020, bond markets have become more expensive. At the time of writing, a 10-year UK gilt yields just 0.3% pa. This is the return you would get if you bought a UK government bond and held it for an entire decade. It would almost certainly lose you money in real terms.

As a result, those building up a pot for the future certainly can't rely on bonds. The only way to increase the returns is to increase risk, and often that means holding more equities. However, we believe we can still diversify a portfolio by also using alternatives such as infrastructure and absolute return strategies.

We can also make extensive use of defined returns.

Defined returns

Defined returns are structured investments which can provide a fixed level of return depending on what happens with stock markets.

For example, we have recently struck a new product with Goldman Sachs in many of our portfolios. The product was set up on 11 March 2020 when the FTSE 100 was at 6,000 and the S&P 500 was at 2,808. If both markets are at or above this level on 11 March 2021, the product will end on that day and provide a 20% return.

markets tend to over-react

This means the markets can go sideways for a year and we still get a very high return. Of course, that rate is particularly high because we struck the product when the markets were extremely volatile, but we aim to buy products with headline returns in excess of at least 10% per annum even in less volatile times.

If the market is below 6,000 (FTSE 100) and/or 2,808 (S&P 500) on the first anniversary, the product rolls on to 11 March 2022. Should both markets be above their start point on that date the possible return is now 40%.

There are six chances for this kickout to happen. If the market only just scrapes back above 6,000 / 2,808 in six years' time, we have a potential return of 120%!

If we are still below those levels after six years the investment provides an assurance of return of capital, unless one of the markets is down 40% or more on that date. Credit risk is also a factor. By purchasing defined returns products we are entering into a contract with an investment bank and as such the products also have counterparty risk. Please speak to your usual Equilibrium contact for more details of the risks

By purchasing defined returns products, we are entering a contact with an investment bank and, as such, the products also have counterparty risk. Please speak to your usual Equilibrium contact for more details of the risks.

In our view, by using defined returns and other alternatives, our new strategy should be able to produce equity-like returns but with less risk overall.

Launch date

We are aiming to launch this new strategy as a fund with a current target date of mid-May. The IFSL Global Equity Portfolio Fund will sit alongside our existing range of three fund portfolios. Investment Fund Services Limited (IFSL) are part of the Marlborough Group and, as with our existing funds, will provide ACD (authorised corporate director) services to run the fund on our behalf.

However, the opportunity to buy at such low prices may be short lived. We have therefore decided to launch a model portfolio with immediate effect, so that our clients can switch in to the strategy at relative lows.

This will involve a little more work for us in the short term, but we believe it is the right thing to do for our clients.

For existing clients, if we believe you are suitable for our new strategy, we will be in touch at the appropriate time. We may then recommend you switch out of the model portfolio and into the new fund once it is launched.

In the meantime, if you have any queries please get in touch with your usual Equilibrium contact.

Find out more

If you are not an existing client, you can get in touch at **askus@equilibrium.co.uk** to learn more. We would love to hear from you.

BY SAM RICHARDS

Perfecting probate

Equinox spoke to Mark Littler to find out more about this often-undiscussed topic and how his company can help...

If you find yourself as the executor of an estate, completing probate will be one of your core duties.

Whilst the process is relatively straightforward, there can be a few challenges that you may face.

Let's say you find yourself as the executor for your Aunty Mabel.

Mabel owned a cottage filled to the brim with all sorts of old furniture, paintings, jewellery and more. Every nook and cranny is filled with 'stuff'.

The property is straightforward enough to deal with – you must arrange for three independent valuations to be done by an RICS (Royal Institution of Chartered Surveyors) registered estate agent. These can then be compiled to create an average that can be submitted as an official valuation for the property.

But the 'stuff' can be a bit more complicated. Whilst there will be many objects that hold sentimental value, you may need to enlist the help of a professional to work out what's valuable and what's not in a monetary sense in order to decide which bits to keep, throw and sell, ultimately clearing the house.

This is where Mark Littler can step in and not only take the burden away but potentially unlock hidden value.

Mark's company, Mark Littler Ltd, provides independent valuations, advice and sales for antiques, collectable items and whisky casks and bottles, through both auctions and private sales.

The first step they would take in this scenario would be to produce a valuation and report of the chattels. Chattels are tangible possessions that may be removed from the property without causing damage. This includes all household items, antiques, collectors' items, wine and whisky, cars etc. HMRC only requires individual items with a value of over £500 to be listed separately, so there is no need to prepare an inventory for anything under that threshold.

Once a grant of probate has been acquired showing that the client (i.e. the executor) has the necessary permissions, Mark's company can help sell any items that are no longer needed in the most profitable manner.

"Most of our clients assume that auctions are the best way to sell. However, the average auction house in the UK now charges the buyer 30% and the seller 20%, meaning you only net 50% of what the buyer was prepared to pay," Mark says. "Brokering private sales is one way to ensure you net a much higher proportion of the sale price. We help arrange these private sales when appropriate.

"In some instances, for example a collection of Chinese porcelain, auctions are best suited. However, rather than just sending items to the most local auction, we arrange for items to be sold in the most appropriate saleroom – one with a specialist Chinese porcelain sale for example."

Finally, Mark's company can arrange a house clearance, removing all of the remaining low value items to a household auction, disposing of non-commercial items and leaving the client with a clean and empty property ready to market.

The process of probate comes at an already difficult time but, hopefully, with the help of Mark Littler Ltd, it can be made a little simpler.

Mark Littler Ltd.

Mark Littler is an independent antiques consultant and whisky broker (and husband of Equilibrium Client Manager, Katy Littler). Mark has been providing private clients and solicitors with probate valuations of antiques, jewellery, watches, whisky and classic cars for over 10 years. Get in touch with Mark at **mark@marklittler.com** or on **01260 218718**, or you can visit www.marklittler.com to find out more.

That special something...

Chris Brindley MBE joined Equilibrium last year as their first ever Non-Executive Partner. Equinox learnt more about his background and what drove him to join forces with the company.

Why do banks chain their pens to the desk?

Chris Brindley MBE has a theory. With over 30 years of experience in building customer relationships at names such as British Gas and Natwest, Chris has become, in his own words, 'obsessed' with the customer experience.

"It's because they don't trust their customers," he says simply. "Why else would they do it?"

Chris started his career with Natwest at 18 years old, printing chequebooks. After a few years and a lot of hard work, he found himself working as the Managing Director of North England and Scotland, overseeing 500 branches and over 5,000 staff.

During his time at Natwest he achieved some impressive accolades, including most outstanding place to work and, quite contrary to the stereotypical banker image, Britain's best boss. These successes led to him being asked to join British Gas, which he accepted.

"I didn't know then and I definitely don't know now what a Worcester Bosch 300 with a telescopic flue does," he admits, "but that was never my job. My job was to lead the team."

Chris examined every inch of the customer journey. From engineers taking their shoes off when they entered the house to ensuring the vans they drove were clean, Chris wanted every single encounter a customer had with British Gas to demonstrate excellence and, most importantly, care.

"When you're dealing with gas, you're dealing with something that could potentially blow someone's house up. So, for example, if somebody sees a British Gas van

run an amber light on the road, they might think, 'is that their approach to safety?'. These moments matter," he explains.

So, when Metro Bank was founded in 2013 and Chris was appointed as Managing Director, his experience had taught him a lot - including that chaining pens down to the desk was probably not the best way to establish a welcoming environment and positive relationship.

The bank aimed to revolutionise the banking industry and, from his years of experience making waves at Natwest and British Gas, Chris knew that putting the customer's needs first was absolutely essential to their success. After all, who is a bank meant to serve? Looking at the traditional structure of a bank, it would be hard to tell. The 9 - 5 Monday - Friday structure certainly didn't serve the public by opening just after most people went to work and closing just before most people finished!

Chris was determined to make Metro Bank different: "We opened 8am to 8pm on weekdays, and we were open 7 days a week. We were also open on Bank Holidays except Easter Sunday and Christmas Day because they're legal requirements and also New Year's Day – because what kind of employer would we be if we made our staff come into work after New Year's Eve?

"We had customer toilets and baby changing rooms; we had no steps into the building so that it was accessible to all; we had an ATM in the lobby because we wanted our customers to be safe, warm and dry; we welcomed dogs - not just service dogs - and had dog biscuits available; we had games that kids could play and win a spot prize; and we gave away around 1.4 million pens over the course of a few years."

The approach worked. Metro Bank, which started out as the first high street bank in over 150 years, reported a customer base of over 1.7 million last year and is rated number one in the UK for store and digital services.

Back when he was 18 years old, Chris had told a friend the day before he started at Natwest that he wouldn't work for anyone by the time he reached age 50. So, after four great years at Metro Bank, he stepped down as Managing Director to pursue other ventures, just one month after his 50th birthday.

"I'd always wanted to explore sport and charity work more when I got the chance," he said. That was a goal he certainly achieved; in 2018, Chris received an MBE for his services to community sport and has also been appointed Chair of the Board of the 2021 Rugby League World Cup!

But alongside this, Chris still wanted to work with businesses that he felt were truly creating something special with their clients, which is what brought him to Equilibrium:

"There's something special about Equilibrium. I'm asked to work with a lot of companies, and I say no to the vast majority because they aren't teachable and they aren't committed to being the best they can.

"On that basis, Equilibrium stand out by a country mile, and I think not only is that a reflection of Colin and Gaynor's leadership, but of the whole team and how they truly get a buzz out of meeting customer needs."

Equilibrium has a huge focus on creating a great working culture and has featured in the top 10 of the Sunday Times Top 100 Best Small Companies to Work For four years in a row, as well as receiving special prizes for innovation in engagement and employee wellbeing.

Chris knows this isn't a coincidence: "You see companies chasing the dollar and neglecting their people and it doesn't work. Your staff are the ones creating relationships with your clients and building those bonds.

"I'm just here to help build those great life experiences for more and more clients – not only for themselves but also their grandchildren.

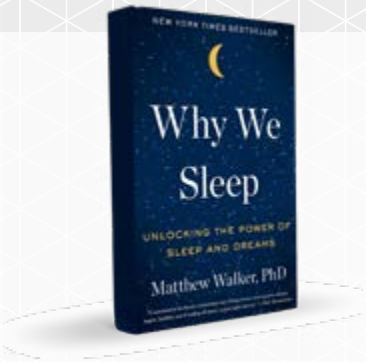
"Those stories, to me, are what is so special about working with a company like Equilibrium."

What we are reading this month...

Diana Majko
CLIENT MANAGER

Why We Sleep

by Matthew Walker



'Sleep is such a luxury, which I can't afford' - we've all felt like this at times. Only a few truly realise this is one of the most important aspects of human life, wellbeing and longevity, yet it has been increasingly neglected in 21st century society.

Matthew Walker, a professor of neuroscience and psychology, explores in detail the science behind the importance of sleep and explains the destructive impact sleep deprivation has on our mental and physical health. Inadequate sleep hygiene can lead to brain and immune system impairment and damage to coronary arteries. Long-term repercussions include the increased possibility of Alzheimer's, cancer, diabetes, heart disease and stroke. Analysing multiple studies from across the human and animal kingdom, Why We Sleep determines what happens during REM and NREM sleep, how alcohol and caffeine affect sleep, why sleeping tablets don't work and how sleep patterns change across a lifetime. The content of the book can provide a greater appreciation of the extraordinary phenomenon that safeguards our existence.

Regrettably, *Why We Sleep* does not provide a magical remedy on how to get to sleep (unless you find it very boring!), but it does indeed discuss ways to improve sleep and what affects the ability to sleep.

Colin Lawson
FOUNDER

The Happiness Advantage

by Shawn Anchor

Some people are told that if you study hard, achieve good qualifications, get a good job, earn well and become successful then you will be happy.

This book turns that on its head and advocates the idea that, in actual fact, just being happy in the first place is one of the greatest indicators that you will become successful.

Given the levels of anxiety and depression in the modern world, this book is not just a fascinating read - it's also a how-to guide for both happiness and success.

The experiments and studies provide eye-opening insights into the workings of and huge potential that our human brains possess.

It is without a doubt one of the best books I have read in over a year and I would recommend it to people of all ages and backgrounds.

I'm always on the lookout for new books to read, so if you have any recommendations please get in touch with me directly at colin.lawson@equilibrium.co.uk. I would love to hear from you.

BY COLIN LAWSON AND SAM RICHARDS

What's in an award?

A lot of time and effort goes into winning awards – but who really cares?

We are proud to have won numerous awards over the years, and we'd quite like to win many more!

We find that, generally, awards fall into three broad categories.

1. "You've been chosen for the Best Company in the World Award by the Greatest Awards Ever, simply pay £5,000 for your press package to use our logo."

Unbelievably, we get many approaches for accolades such as this and, needless to say, we never engage.

2. Survey based awards

These awards rely on internal and/or external feedback on your company. For example, the Sunday Times and the CX awards. The CX awards provide us with a score based on feedback from both our staff and clients. Whilst it would be easy enough for us to take our (pretty damn good) score of 9.12/10 and run, we believe it's important to go through that process every two years. Why? Because it holds us accountable. If our score suddenly drops, it means we've dropped the ball somewhere and we need to do something about it.

Similarly, the Sunday Times Top 100 Best Small Companies to Work For gives all those who take part a score which determines their position on the list. This year, whilst our achievement of 7th place didn't beat our all-time record of 5th place, our score was actually higher than ever, meaning that we're a better place to work than ever. As a nice bonus, we also won a special prize for workplace wellbeing!

3. Submission based awards

Whilst these take the most time and effort, they can also be the most rewarding.

We are currently shortlisted for four categories for the North West Business Awards: Business of the Year, Best Customer Service, Community and Social Responsibility and Employer of the Year.

Each entry required a comprehensive submission from which we were then shortlisted for an interview which was filmed. The interview is watched and scored separately by a panel of judges who decide the top three submissions (bronze, silver and gold). We will find out whether or not we have been successful at the award ceremony in July.

However, regardless of the outcome, the true value comes from what you learn in the process. Each question in the submission and interview forces us to think about what we are doing well, what we can do better and the different approaches we could adopt. It's a genuinely steep learning curve, and each entry makes you improve for the next.

It's a true case of 'it's taking part that counts' – we only enter awards that we think are worth winning and that will challenge us. Our hope is that we get better as a result and that the awards we do win provide a pat on the back for our amazing team, as well as confidence for existing and prospective clients.

Not to mention, the awards themselves will look quite pretty in our brand-new office!

A force for good

Big businesses have long been seen as the bad guys, but as pressure increases on social and environmental issues, are we finally reaching a pivot point?

The negative perception of big businesses is nothing new. Victorian factory workers were commonly exploited through poor conditions, long hours and low pay. Fast forward to today and media attention has focused on zero hours contracts and reduced workers' rights, with low staff wages and long hours still on the agenda.

Add to that a series of banking scandals, high street retail collapses and a clutch of online behemoths paying tiny tax bills and it's no surprise the majority feel like they're being left high and dry.

But with great executive power comes great responsibility...

Ripples of Hope

At the recent Ripples of Hope Business and Investment Summit (which Equilibrium were proud to sponsor and attend), leaders from across the North West were brought together to discuss how businesses can work to create a more sustainable, successful and human-focused version of capitalism.

The summit was presented by Robert F. Kennedy Human Rights UK – but why would a human rights organisation be affecting change within the business world? In short, because businesses are so big. In fact, there are now 25 companies in the world bigger than well-established countries. Walmart, for example, is bigger than Belgium!

Doing the right thing is, and always has been, part of the Equilibrium culture. This event shone light on how other organisations are addressing these responsibilities and provided inspiration for how we can potentially do things even better.

With great power comes great responsibility

Financial institutions hold a unique position of power in the economy, as they control the capital that keeps businesses going.

One leader of change is Larry Fink, CEO of investment company BlackRock. He sent an open letter to the CEOs of all companies in which his business invests to explain that he's putting climate risk front and centre of investment policy decisions. He's taking governance extremely seriously too and warned that companies must take care of their employees and communities.

BlackRock clearly means business. So far, the company voted against 4,800 directors and 2,700 companies based on factors they didn't think were sustainable or ethical.

There are others also forcing change... Goldman Sachs have said they won't help any firm to float on the stock exchange unless the board of directors includes someone from a BME (black and minority ethnic) background or a woman.

UK Companies Act 2006

Within section 172 of the UK Companies Act of 2006 it states that the director of a company must act in the way they considers would be most likely to promote the success of the company for the benefit of its shareholders. In other words, it actually tells company directors to put profits above all else.

I, along with many others, have signed an open letter, supporting a change to the UK Companies Act of 2006. The letter, written by an organisation called 'How do Companies Act', wants to change this to put 'social, environment and employee interests on an equal footing as shareholders'.

You can read the full letter at www.socialvalueuk.org/the-time-for-change-is-now where organisations can also sign up to support the initiative.

The UN Principles for Responsible Investment

You know it's serious when the United Nations gets involved.

Launched after a proposal by Kofi Annan, the UN Principles for Responsible Investment (PRI) is an independent body created to promote more responsible investing around the world. It developed six principles to offer a range of possible actions for incorporating environmental, social and governance (ESG) issues into investment practice. Signatories agree to incorporate ESG issues into their investment analysis and decision-making processes.

Equilibrium recently signed up to the PRI agreement. It's a commitment we're taking seriously and will be reporting on our progress annually.

But that's not all we're doing.

Responsible investing at Equilibrium

At Equilibrium we monitor our portfolios for ESG factors including carbon emissions, business in controversial sectors like fossil fuels and evidence-based ESG scores (see the Attenborough effect in the autumn 2019 edition of Equinox which explores this further).

Would Equilibrium opt for a BlackRock tracker fund rather than one from another company, if the price was the same? The answer is yes. We're engaging with fund managers and asking them to engage in turn with the underlying companies, creating our own 'positive ripples' which we hope will expand throughout the metaphorical pond that is our industry.

The growing list of Certified B Corps

Speaking of ponds, there's a similar movement across the water, building up America's list of certified 'B Corporations'. Essentially, B Corp is a community using their businesses as a force for good.

Already filled with household names, these businesses balance purpose and profit. They aim for zero net carbon emissions by 2030 and consider the impact of their decisions on their workers, customers, suppliers, community, and the environment.

This is another organisation that we are looking at getting involved with.

Why is this all so important?

Integrity is one of Equilibrium's core values – we always try to do the right thing. When we started to focus on creating a great working environment, we immediately saw an uplift in the happiness of our team and that, in turn, led to improved productivity and profitability.

I also think it's the right thing to do from a sustainability perspective. Protecting the environment makes future profits more predictable. How competitive will the industries that pollute the environment or mistreat their staff be against a backdrop of increased taxation, lower productivity and stiffer competition?

So, for us, the route forward is clear. Rather than taking unsustainable shortcuts to profits that will create problems down the line, all business leaders and those in positions of power should be focused on making choices that will create long-term value for all stakeholders and have a positive impact on the future.

Double dips and top tips

Whilst most clients appreciate the need to have a will in place, the importance of updating it regularly is often underestimated.

We recently had an annual review for a couple whom we will call Mike (age 79) and Wendy (age 77). Their wills were only completed three years ago, and they felt confident that they correctly reflected their wishes at the time. However, a quick review by Equilibrium highlighted that, whilst they did indeed reflect their wishes on who they wanted to benefit from the estate, there were some simple changes that could make a big difference.

Let's look at each in turn.

Business property relief

Any asset that qualifies for business property relief (BPR) is automatically outside of an estate for IHT once it has been owned for two years, plus, the owner can still have full access during their lifetime.

On Mike and Wendy's second death, there would still be a substantial IHT liability despite them having already made significant gifts and utilised trusts. As a result, we have recommended that Mike invests £300,000 into our AIM portfolio which qualifies for BPR and so will hopefully save them the £120,000 that they would have paid in tax on the amount. There are, of course, risks associated with AIM, and it is not suitable for everyone, especially those with a low emotional tolerance for volatility.

On first death, their wills both leave £50,000 split between five charities and the balance to each other. Therefore, if we assume that Mike dies first then Wendy will inherit the AIM portfolio which she would have to continue to hold until her death in order to get the IHT benefit.

there were some simple changes that could make a big difference

The problem with this is twofold. Firstly, BPR legislation could change in the future. Secondly, given the high-risk nature of AIM, Wendy might ideally prefer a lower risk strategy.

If we changed the wording of the will to say that any assets that qualify for BPR are to be left in a trust, this provides two key benefits:

1 Crystalizing the IHT benefit

Once the £300,000 of BPR assets are settled into the trust, these can be sold and the IHT benefit has been secured. Future changes to legislation will no longer impact the strategy. The monies will not form part of Wendy's estate, and she is free to reinvest them anywhere she pleases. As a beneficiary and trustee, Wendy will still have full access to the monies.

2 The double dip

If Wendy was comfortable owning £300,000 of AIM holdings, we would still recommend that they are sold within the trust and that Wendy then repurchases them via her personal portfolio.

If Wendy survives for two further years, that £300,000 will also be outside of her estate, saving another £120,000 in IHT, bringing the total saved to £240,000.

Winning by giving

You may have read in previous editions of Equinox where we discuss the effect of charitable giving, if you leave 10% of your taxable estate to charity, then the charitable gift is exempt from IHT and the balance of the estate is taxed at a reduced rate of 36% (instead of 40%). This can create some fantastic results.

our purpose of making people's lives better really comes into its own

As mentioned earlier, Mike and Wendy each planned to leave £50,000 to charity, so £100,000 in total. Upping the amount they leave to charity to 10% of their taxable estate increases the donation by over £140,000 whilst the children inherit slightly more - a win win strategy! It seems counterintuitive that by giving more, you keep more, but in some circumstances, such as this example, that really can be the case. In any event, it will save money from going to the inland revenue and therefore, overall, saves the estate money.

There are some complicated calculations behind this, and it certainly isn't always the case, but if you would like to learn more, you can contact us at askus@equilibrium.co.uk.

We agreed to drop Mike and Wendy's solicitor a line to make the necessary updates to the will.

I love an annual meeting like this where our purpose of making people's lives better really comes into its own.

We actually achieved much more during the meeting, however, this was the highlight. Over £140,000 given to charity and a substantial reduction to their IHT bill – not a bad outcome from reviewing a will!

Risk warning: The content in this article is purely for entertainment purposes and under no circumstances constitutes a solicitation of advice. AIM is not a suitable investment strategy for the risk-averse or those with a low emotional tolerance for volatility.

Moving on up

Take a sneak peak inside our new office...

After nearly 15 years, we have finally outgrown our offices at Brooke Court and will be moving to our swanky new building on 17 April.

We hoped to be snug in our new office by the time you read this edition of Equinox – but as it's landed on your doorstep a little earlier than usual (as explained in the cover letter that accompanied this magazine), that is not the case!

So, until you can visit the new office in person, we thought we'd give you a sneak-peak inside the new building...

Just around the corner...

Take a look at the map below to see where our new office will be in relation to our current office (a two minute drive).

From Tuesday 21 April, all client meetings will take place at our new address

If you are an Equilibrium client, you will be unaffected by the move (other than having a lovely new office to visit), but if you have any questions, your Client Manager will be more than happy to help.

Sifting for gold

Our investment fund screening process

We are extremely disciplined when it comes to finding the right funds for investment.

Following your heart or your gut instincts can lead to all types of trouble in investing. That's why we leave sentiment out of the equation and focus on the cold, hard data when screening for fund opportunities.

There are literally thousands of different funds to choose from. Our asset allocation process narrows these down to a specific geographic area (like Japan) or theme (like technology) or other particular areas that could drive returns but with a close eye on risks. Using our systems we can then list all the possible candidates for consideration.

Then the data-crunching begins. This not only eliminates any emotional bias we may have from one fund manager to another but is also core to our evidence-based approach to investing. Indeed, the inclusion of all relevant candidates in the screening means we are agnostic as to whether the funds are actively managed, index-trackers, smart beta or any other portfolio type.

We use a custom screening process we have built from experience over time – it sifts through the data showing us which funds can produce the desired returns but also, crucially, the amount of risk they take. A wide range of factors are included such as looking at their track record throughout economic cycles, and asking how persistent is their performance or are they a flash in the pan?

The screening process spits out our shortlist, and then we roll up our sleeves.

The funds from the list will be divided up across the investment team and the detailed due diligence process begins. There are a number of elements to this: a full analysis of the fund; research into how it has performed in different market and economic conditions in the past; meetings or conference calls with the fund managers to understand their approach and a request for a list of the current holdings.

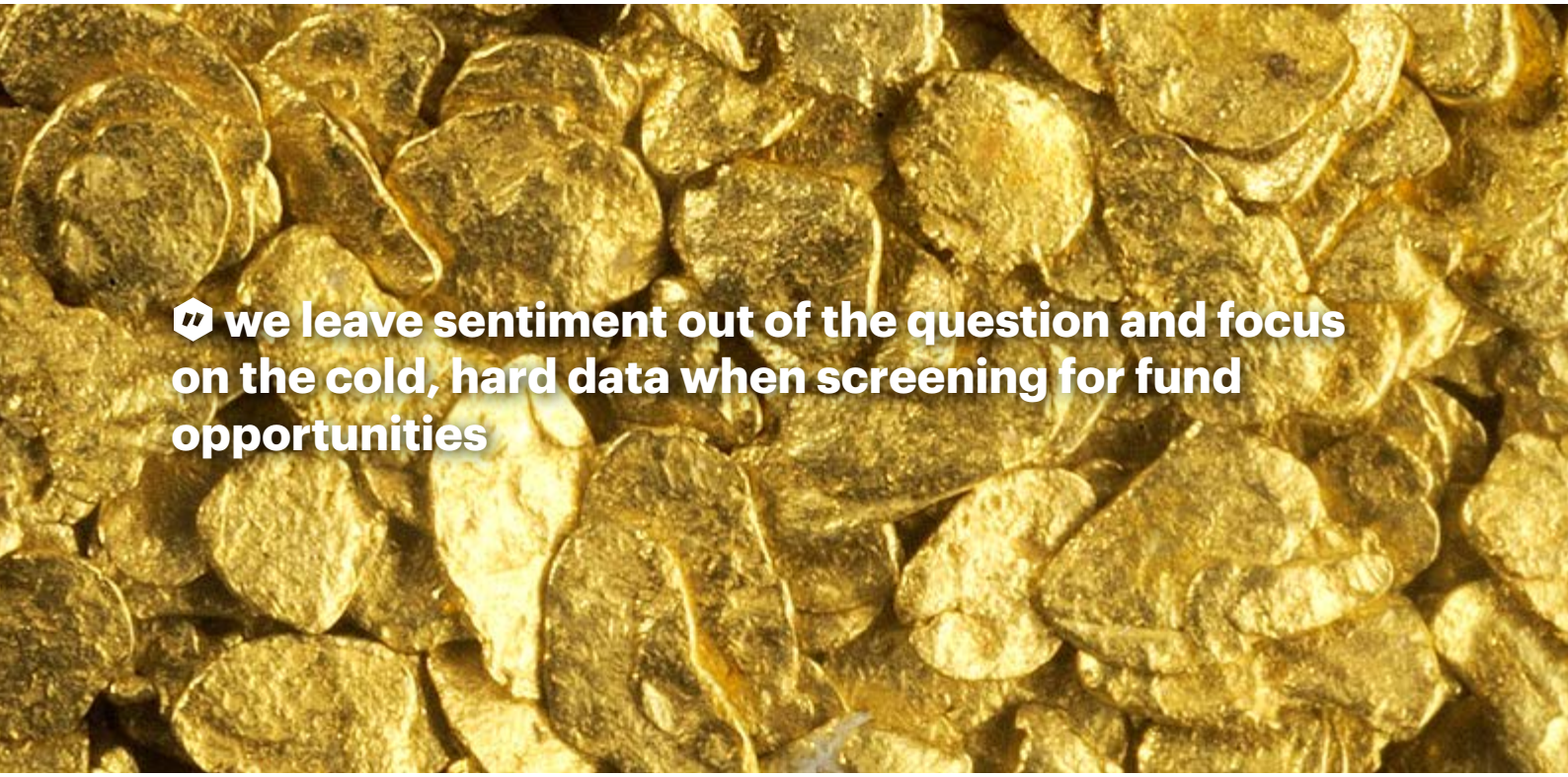
That last request might seem like a mundane piece of box-ticking but it is pivotal to the whole process.

By lifting the lid and seeing what is actually held in the fund we can determine if it really does what it says on the tin. Using our systems, we can not only track and monitor our existing fund holdings, but will combine the data on any proposed new assets with our existing holdings to see what the new blend looks like – have we suddenly inadvertently increased the exposure to something? Increased diversification? Reduced environmental ratings? Reduced liquidity?

Indeed, we can run scenarios on the data (such as a re-run of the credit crisis) to get an insight into how the new and combined assets may behave should the same happen again.

It was an early version of this system that was used to scrutinise the original investment in the Woodford UK Equity Income Fund in 2015 but which raised a number of red flags in 2017 that led to us to divest of the fund in August of that year.

This rigorous testing of the data and understanding of the fund manager's process and philosophy is essential. Only once we have this information will we have a sufficient picture to sit down as a team and thoroughly challenge the proposed new fund from a 360˚ viewpoint to decide whether it is right for our clients.



we leave sentiment out of the question and focus on the cold, hard data when screening for fund opportunities

Foresight UK Infrastructure Income Fund – Power Play

In his book focusing on climate change and environmental conservation, *There Is No Planet B*, published last year, Mike Berners-Lee stated that "we desperately need investment in the following: Renewable energy, particularly solar, and the accompanying technologies to store and distribute electricity...".

Clearly, he is writing from a perspective beyond the sphere of pure investing, but the greater demand for renewable energy and the improving economics of solar energy (even without government subsidies) led us to look into this area at the start of 2019. We had established a portion of the portfolio for infrastructure, such as railways and toll roads, two years prior and we considered adding to this position given it was ripe with opportunity.

Our screening process kicked up a number of candidates and we reviewed them all. The problem we found was that many managers lacked the track record, or were 'wildcatting' with risky, unproven technologies, or had too wide a definition of infrastructure.

Since 2017, Foresight has managed the UK Infrastructure Income Fund which looks to derive a steady income (it targets a 5% yield) from investing in investment trust companies specialising in infrastructure. Not all of it is renewables but we believe they know what they are doing when selecting where their investors' money goes.

They have deep and broad experience in this field – funds managed by Foresight include the ownership of more than 100 solar projects around the world, 22 onshore wind projects, 35 bioenergy and waste facilities in the UK and Europe and 22 reserve power assets. Together their projects have a generating capacity of over 2.0 gigawatts, enough clean renewable electricity to power a city the size of Newcastle. In addition, they invest in wider renewable infrastructure markets including battery storage and smart metering.

With the focus on deriving returns from income, rather than capital gains this has avoided many of the speculative projects and only investments which have strong enough cash generation to pay cash dividends qualify for inclusion. This shows up nicely in the volatility figures for the fund which, at 4.7%, are less than half those of the FTSE All Share Index of 11.5% since the inception of the fund.

We are pleased to report that the fund has performed well since inclusion into our portfolios and is not only fulfilling our investment objectives but also playing its part in funding cleaner energy for the future.

"Be fearful when others are greedy, and greedy when others are fearful"

This quote from the great investor Warren Buffett is one we've used in client presentations for many years. We feel it sums up our investment approach pretty well!

Stock markets can be very volatile, as anyone who's been invested over the past couple of years can vouch for! So, how do you deal with volatility? How do you turn it from something we simply need to suffer into an opportunity?

All our portfolios hold a mixture of different asset classes including equities (shares in companies), fixed interest securities (corporate and government bonds), property, infrastructure and various other so-called 'alternative' assets.

The aims of our portfolios are to provide a real return above inflation of (typically) 4% to 5% pa over the long term. We look at long-term historic data for returns, risk and the correlations between each of the asset classes. We use all this data to work out what we think is the optimal mix of assets for each level of target return, giving us the best chance to achieve the goal at the lowest realistic level of risk.

Having designed our long-term framework, we then make shorter term adjustments to it. When stock markets begin to look expensive (when others are greedy) we will hold less in equity than usual (being fearful).

Like everybody else, we unfortunately have no crystal ball and can never tell you whether the market will go up or down over a particular period. However, we can make judgements based on value and risk.

At other times, when markets look cheaper (and investors are fearful) we will hold more equity than usual.

This means, when markets are falling, we tend to be buying on the way down, and, when they're rising, we tend to be selling on the way up. Over the long term, we believe this enhances returns but, unfortunately, sometimes it can hurt in the short term!

The past few years

The past few years have posed a challenge for investors, as well as presenting us with opportunities.

Here in the UK we have had a great deal of uncertainty caused by Brexit. Globally, the trade war between the US and China has also had a big impact. Economic growth in the UK virtually ground to a halt towards the end of 2019, and all around the world we saw signs of a slowdown.

However, in the weeks before and after Christmas we got more clarity on these issues, with the UK election result and with a trade deal between the US and China. Businesses in the UK geared up to start investing again after two years of holding back, whilst the government promised big infrastructure spending. Global economic data and business surveys all started to pick up, particularly in emerging markets, making us optimistic about 2020.

Then, COVID-19 changed everything.

With a situation like a global pandemic, anything I write about it will be out of date in a few hours and may be totally irrelevant in a month. For that reason, this investment commentary is deliberately short, and we are instead delivering

Then, COVID-19 changed everything

regular updates via the speedier medium of email! You can sign up to receive our investment commentary at www.equilibrium.co.uk/signup.

Leaving aside the human cost of the pandemic, we know it is going to cause an economic downturn and this will in turn affect investments of all shapes and sizes. What we don't know at this stage is how steep or how long this downturn will be.

What we do know is that at some point this will all be over and we will see a recovery. There is then a very good chance that in the first few months of that recovery we could see quite a sharp increase in economic activity, as companies and individuals spend the money they had held back.

What is important is that governments and central banks use every weapon in their arsenal to support companies to stay solvent through this temporary downturn. If they can do this successfully and support jobs, as well as helping individuals in other financial ways, then the bounce back could be sharp.

Bear with us...

Recessions happen from time to time and so do bear markets. They are a simple fact of the capitalist system and something long term investors have to navigate their way through. They are never fun!
It is important to remember that downturns create winners as well as losers. For example, one company may gain market share as a competitor goes out of business.

Whatever the cause of an economic downturn, the same investment principles still apply. We can't predict the future but if we get the opportunity to buy something that we think looks good value taking a five-year view, at a much cheaper price, then we will continue to buy on dips.

However, it is important to note that a recession caused by a pandemic may mean some of the normal "rules" might not apply.

For instance, there are certain stocks which tend to be more 'defensive' in a normal downturn. One example is alcoholic drinks manufacturers, as even when people lose their jobs one of the last luxuries they give up is their booze!

Even so, if people are worried about their health or even in quarantine, then perhaps they won't be buying so much alcohol? Unlike some other spending, people are unlikely to buy twice as much booze when things are back to normal to make up for lost time!

However, we might want to buy a movie on Sky, upgrade our package or play more online video games if we're stuck at home, so perhaps these companies might do ok?

Because this is not a normal downturn, we also need to be careful about correlations between asset classes.

One of the reasons the financial crisis was so bad for investors was not just that stock markets dropped sharply, but that virtually everything else lost money too.

Corporate bonds and property funds, which are usually lowly correlated to stocks, fell almost as sharply as equities in some cases.

This means we need to be doubly careful when determining the mix of assets in our portfolios. Remember that they are designed partly based on historic correlations. We need to make sure that if asset classes become more correlated as we saw in 2008, that portfolios don't become more vulnerable than usual.

What if this is another 2008?

What if the worst came to the worst and the economic hit was similar to 2008?

As we said earlier, we think this is unlikely as policymakers and central bankers will have learnt lessons from that crisis. Nevertheless, as always, we need to ask ourselves "what happens if we're wrong?"

Firstly, it is important to note that whilst our portfolios fell sharply during the credit crunch, they also recovered relatively quickly.

Our long-term average target return of 4% to 5% pa above inflation is based on our expectation for the average five-year period. This works out as in the region of 6% to 7% pa in nominal (not inflation adjusted) terms.

how do you deal with volatility? How do you turn it from something we simply need to suffer into an opportunity?

What we hope to do is to not lose clients' money over even the worst five years

However, we don't expect to achieve this return in every single five-year period. Some will be better than others, some worse than others. What we hope to do is to not lose clients' money over even the worst five years.

We have long-term performance data on our portfolios going back to 2008 and we have analysed every single five-year period in our data, and that's over 140 five-year data sets which include the credit crunch, the Eurozone crisis and Brexit. Table one below summarises these results.

The average return has been in line with expectations and we have seen some five-year periods with much better returns.

Some periods have been lower than target, but the worst return we've seen so far over a five-year period is an average of 4.2% pa, which is what we saw during the five years beginning in 2008. Even though 2008 was painful, returns were still ahead of inflation when taken as part of a longer-term view.

The other concern people have in a downturn is whether their money is safe? Whilst some of the assets we buy MAY be worth less, at least temporarily, they will still exist.

In our equity portfolios we have exposure to thousands of different companies. It is highly unlikely that they will all go bust.

Our corporate bonds are often secured on a company's assets and so even if there are large scale defaults, we should recover a large proportion of those loans.

We also hold funds which invest in physical assets like property and infrastructure (toll roads, power generation, railways etc). They will still exist.

Likewise, our investments are held in a secure way. Ultimately, the money that investors put into the IFSL Equilibrium funds is held by its custodian, HSBC Global Investors. It is ring fenced money held completely separately from Equilibrium's own assets, and those of HSBC bank. Similar procedures apply with the platforms we use, such as Nucleus, Transact or Seven Investment Management.

We have plenty of experience of investing through downturns. Our investment team have collectively experienced the credit crisis, the European debt crisis, the bursting of the tech bubble in the early 2000s, and even Black Monday of 1987 (for one of us anyway!).

Our approach has seen us safely navigate such crises and we will continue to navigate our way through future ones in a similar fashion.

Table one: Average 5-year annualised balanced portfolio returns since 2008

Balanced portfolio returns since 2008	Average 5-year annualised return % pa
Average	**7.4**
Best	**11.2**
Worst	**4.2**

Source: FE Analytics / Equilibrium Investment Management after 1% total Equilibrium fee and adjusted for platform charges. Figures based on rolling five-year periods starting each month from 01/01/2008 - 31/12/2019. Background data is available upon request.

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.

The information contained in this publication is based on the opinions of Equilibrium companies and does not constitute advice. Please contact your adviser before taking any actions.

Where is Equilibrium's full investment commentary?

You may have noticed that this issue of Equinox looks a bit different and is missing our full investment commentary...

This is not how the newly branded magazine will look in the future.

We know how much value people take from the investment commentary included in Equinox. Given the volatility of markets, we want you to receive our full investment commentary as close to when it is written as possible.

So, instead of being included in this issue of Equinox, the investment review will be available in real time and will include a special section on COVID-19, our views on how things have unfolded and what we think the future might hold.

However, as we are communicating the investment review electronically to speed up the delivery of the information, we do require your email address (if we don't already have it) to send it to you.

Visit **www.equilibrium.co.uk/signup** to receive the investment commentary as soon as it comes out.

The fully rebranded autumn edition of Equinox will arrive on your doorstep in November as usual.

Head office
Ascot House, Epsom Avenue,
Handforth, Wilmslow,
Cheshire SK9 3DF

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

0161 486 2250
0808 168 0748
askus@equilibrium.co.uk
www.equilibrium.co.uk

EQUILIBRIUM

Chartered
Financial
Planners