ASSET

THE NEWSLETTER OF MURDOCH ASSET MANAGEMENT

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Market matters

So far this year, the Dow Jones Industrial Average (DJIA) index has experienced a record high and the largest daily points fall in its history – and the second largest five days later: a total loss over an eight-week period of 11.6%, which is technically a bear market. It has since recouped 5.8% of those losses. The FTSE 100 initially copied the US market, reaching its peak at 7,778.64 before dropping 11.4% over just nine weeks. The UK market's recovery though was more remarkable, rising 12.1% over the following six weeks.

Despite the doom-mongers' predictions, developed markets as a whole have outperformed emerging markets, with the former returning 1.99% since the start of the year whilst the latter returned 0.85%.*

(Continued on page 2)

IN THIS ISSUE

This edition includes an overview of the markets and the key influencers, a look at the investment arena, and insight into one of our fund managers. We also outline a new IHT tax break and how you can benefit, and give you some useful pointers on investment ISAs, Power of Attorney fees and making the most of our services.

Market matters – pages 1 & 2
Power of Attorney fee refund – page 2
Inside investment – page 3
Fund manager news – page 3
Extra £125,000 each IHT free – page 4
Notes and updates – page 4
Company update – page 4

> This year the Dow Jones Industrial Average index has seen a record high as well as the largest and second largest daily points fall in its history

(Market matters continued) For those of you trying to time the markets or avoid the falls, market events would have been impossible to predict, and many investors have crystallised substantial losses. As always, our guidance remains the same: accept – even embrace – the volatility, and focus on good managers investing in good companies that can endure geopolitical, economic and market upheaval for potentially greater returns over the long term.

Janet Yellen, the first female chair of the US Federal Reserve, attended her final interest rate-setting meeting in January 2018 before being replaced by Donald Trump's chosen successor, Jerome Powell, who remains relatively unknown in the central bank world. Markets expect the US Federal Reserve to increase interest rates three to four times during the course of 2018 as the economy continues to perform well, and so far Powell hasn't disappointed, increasing benchmark interest rates by 0.25% to 1.50%-1.75%.

In the UK, chancellor Phillip Hammond delivered the Spring Statement, with economic growth forecasts upgraded from 1.4% to 1.5% for 2018 and inflation declared to be slowly falling – down to 2.5% in March 2018 from its 3.1% high in December 2017, helped by Sterling's recent appreciation. Concerns over Brexit negotiations continue to weigh on growth predictions but a transition period has been agreed in principle, which should give both the UK and the EU time to work out the finer details of the UK's departure. Despite these marginal macro-economic improvements, the consumer appears to be hard-pressed, with a number of high street operators either entering administration or accepting a company voluntary agreement (CVA), and Toys R Us and Maplin collapsing on the same day.

In China, President Xi Jinping was voted in for a second five-year term, with the constitution changed beforehand to allow him to remain president for life. Western investors have a favourable view of President Xi, and his new position should enable him to continue capital market reforms and further environmental improvements. Russia is a different story as the re-election of Vladimir Putin has resulted in an exodus of foreign investors, who believe that the country ranks poorly for corporate governance, regulatory oversight and corruption.

In recent months, media attention had shifted towards crypto currencies, with Bitcoin catching the eye of global regulators who became concerned about the asset class following dramatic price rises throughout 2017. The Bank of England recently downgraded its assessment of crypto currencies, believing that they do not pose risks to the world's economy, with the price of Bitcoin falling from over $19,850 in December 2017 to $6,926 in March 2018.

*Source, all figures: Financial Express Analytics, Total Return, Bid to Bid, GBP£, 1st January 2018 to 11th May 2018

Power of Attorney fee refund

Those who registered a Power of Attorney with the Office of the Public Guardian between 1 April 2013 and 31 March 2017 can claim a partial refund, as the cost was higher than necessary. This applies to Lasting Powers of Attorney (LPA) and Enduring Powers of Attorney (EPA) made in England or Wales. The donor or attorney can claim, and between £37 and £54 will be repaid to the donor for each Power of Attorney registered plus interest at 0.5% per annum.

You can claim online at https://claim-power-of-attorney-refund.service.gov.uk/when-were-fees-paid, or call 0300 456 0300 (choose option 6).

Inside investment

The UK fund industry is obsessed with the passive versus active fund management debate, with proponents on each side arguing why their approach is better.

With the evolution of Exchange Traded Funds (ETFs), the cost of passive strategies has come down markedly, forcing active managers to earn their keep and prove they provide 'value for money'. Value has unfortunately been confused with cost, with a number of financial advisers choosing passive portfolios as this makes it easier to justify their own fees.

A perfect tracker fund will underperform the benchmark it is tracking, however, beyond marginal underperformance there is a darker side. In order to close the underperformance gap, passive managers have increasingly turned to stock-lending, where they are paid a fee to lend their shares to hedge funds, which are betting that the price will fall (called 'shorting'). In other words, they are helping those who want to benefit at the expense of the value of their own fund and to the detriment of their investors.

We remain strongly in the active fund manager camp. Our experience shows that there are active fund managers who can deliver above average returns over the long term, which means better outcomes for their investors. With more money flowing to passive managers, this creates opportunities that active managers can profit from, and we want to be positioned to benefit our clients accordingly.

Unilever
FTSE 100 tracker funds may become forced sellers of Unilever, the twelfth largest company in the UK, because the company chose Rotterdam for its global business over London. Normal investment rationale dictates only selling an investment in a company if you no longer want it, not because technical issues force you to do so.

Fund manager focus

Cormac Weldon has managed the Artemis US Select fund since its launch in September 2014. We invested with him during his previous tenure on the Threadneedle American fund and followed him to Artemis shortly after his move there.

The US is arguably the hardest market for an active manager to outperform, which makes finding a manager who can deliver above average returns over the long term highly difficult. We want a manager who can outperform every single year, regardless of market conditions, but we have to be realistic and accept that there will be short-term periods of underperformance on the quest for long-term growth.

After a strong start, the Artemis fund endured a difficult 2016 (it returned 26.62%) as focus shifted towards lower risk investments due to fears of a recession – a view that was short-lived. Weldon didn't change his portfolio and was rewarded the following year when it went up 15.21%, and he is ahead of the pack so far this year, returning 0.51% whilst the US market lost –3.82%. Since inception, the Artemis fund has returned 71.09% compared to 60.77% for its benchmark and 53.75% for the Investment Association (IA) North America sector average. This is a sizeable difference but we will continue to monitor Weldon's investment process and performance.

> There are active fund managers who can deliver above average returns over the long term, which means better outcomes for investors

ISAs: act now for greater returns

Over fifteen years, you will make an extra 9.31% return if you invest new money in an Investment ISA now compared to waiting until the end of the tax year.

(Assumes a 6% compound annual return, net of charges)

Source: Financial Express Analytics, Total Return, Bid to Bid, GBP£, as at 31st March 2018

IN-HOUSE

More qualifications

Collectively, we hold a raft of academic and professional qualifications and we all work hard to continually enhance our knowledge and skills. Here are some recent achievements:

Austen Robilliard, who was made Head of Investments last year, is now a Chartered Member of the Chartered Institute for Securities & Investment (MCSI) after passing his final CISI Chartered Wealth Manager Qualification exam.

Emma Ayres, trainee financial planner, has gained the Chartered Insurance Institute's Certificate in Financial Services.

Hannah Pulleyn has gained the Chartered Insurance Institute's Certificate in Financial Services and has moved to our financial planning team.

Mark Collard, investment analyst, has been awarded the Investment Management Certificate (IMC) – the most widely recognised qualification of its kind in the UK and a benchmark qualification for investment professionals.

Three new people have joined us this year:

Josh Jones, trainee investment analyst, recently graduated from Winchester University with a BA (Hons) in Business Management and is keen to start working towards gaining the Investment Management Certificate as part of his new career in finance.

Elina Wright is a financial planning administrator with over 12 years' experience in the industry. She holds a Bachelor's degree in Linguistics from University of Latvia and is fluent in three languages.

Alexander Anthon is a trainee financial planner. He holds a BSc (Hons) in Business Management from the University of Birmingham and has worked as an analyst during internships at a hedge fund and fund management companies in Norway, Singapore and London.

An extra £125,000 each IHT free

The residence nil rate band (RNRB) now allows £125,000 of the value of a residence left to direct descendants – children, including step, adopted and fostered, and grandchildren – to be passed on free of inheritance tax (IHT). When added to the standard nil rate band of £325,000, this makes a potential total of £450,000 IHT-free.

Just like the standard nil rate band, the RNRB allowance can be transferred to a spouse or civil partner if unused on first death. However, unmarried couples leaving the house to each other or those putting it into discretionary trust will not be able to benefit from RNRB.

If you have downsized since 8 July 2015, you can claim a credit against the £125,000 but if your estate is worth more than £2m on death, the allowance is reduced by £1.00 for every £2.00 over that level. A single person loses the full amount at £2.35m and a couple at £2.7m. If you are over these thresholds, you can avoid losing the allowance by setting up a trust, which removes money from your estate immediately – a great tax-saver even if you don't live the necessary seven years for full inheritance tax gifting efficiency.

Should you rely on this tax break?

With recently announced plans for a review of IHT aimed at simplifying its huge complexities, and with IHT allowances considered by some to be too generous for those who are already wealthy, the current tax breaks may change. Apart from spending your money, the only certain way to reduce IHT liability for your beneficiaries is to give it away, either directly or to a trust fund, seven years before you die or under the small gift and regular giving exemptions. Business property relief assets are exempt from IHT after two years, which could be very attractive if you are short of time and able to tolerate high risk, but they do still count as part of your estate for the residence nil rate band eligibility valuation.

Notes and updates

New client portal. MurdochView, our new client portal, is now available via our website at www.murdochasset.co.uk. It replaces our client hub, which is no longer available.

You can view daily-updated valuations and performance figures for your portfolio, and a direct messaging system means that you can receive and authorise fund switch recommendations quickly and securely. Additional features are being developed in the coming months.

Your MurdochView account details your individual holdings as well as jointly held accounts. If you would like to view a spouse's accounts or those for other linked people, it may be possible to do so on request. To ask about this or if you haven't received your new login details, please email our website team at Murdochview@murdochasset.co.uk.

Aviva's new technology. In January, Aviva changed the provider powering its investment platform and as a result, we have experienced some administrative and reporting problems. We are continuing to work closely with Aviva to resolve matters, meanwhile if you are having any issues with your account, please call or email your personal administrator at our office.

Quicker response. If you have any queries, please call your personal administrator in the first instance or copy them in if you email your adviser, as they are best placed to give you the quickest response. They can also arrange a time that's convenient for you to speak to your adviser – either in person or on the phone – and will make sure that all relevant information is to hand.

MURDOCH
ASSET MANAGEMENT

6 Oriel Court, Omega Park, Alton,
Hampshire GU34 2YT
T: 01420 83517 F: 01420 86180
E: info@murdochasset.co.uk
W: www.murdochasset.co.uk

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