ASSET

THE NEWSLETTER OF MURDOCH ASSET MANAGEMENT

MARCH 2017

Who will be the winners – or losers?

Market matters

Sterling is continuing its struggle against the euro, the US dollar and the other global currencies, and whilst the impact is only just starting to be felt by the everyman, the significant cost to the UK of the Brexit vote is starting to take a heavy toll on the country's finances.

With sterling reaching a 30-year low against the US dollar – the shock Trump win only revived its spirits temporarily – and close to near record lows against the euro, the financial system has been creaking. Defence procurement, which is mostly in US dollars, is reportedly now £750,000,000 a year (£0.75 billion) more expensive than before the referendum; and the Bank of England has halved the cost of borrowing, putting further pressure on deposit interest, and is buying back bonds to the tune of £70 billion in quantitative easing.

Fossil fuels, from coal to oil, trade in US dollars. Consequently the price of a litre of petrol or diesel at the pumps has risen by nearly 15%, which can only impact further on the amount of money that people have available to spend. Added to which, OPEC members have agreed to reduce oil output in order to drive up the dollar price. (Continued on page 2)

IN THIS ISSUE

With the new pension rules now in force, this month we weigh up the market picture post Brexit vote and Trump win, and what it means for our investors, and we outline the asset and fund changes and moves we've made during 2016. We also shine a fresh light on ethical investing, look at the family-wide benefits of Junior ISAs and help you reduce your taxes for 2016/17.

For our investors, the fall in the pound post Brexit vote has generally been good news

(Market matters continued) Chancellor of the Exchequer, Philip Hammond, plans further borrowing and expenditure, more house-building, a reduction in austerity-driven cuts and further stimulation to the economy through infrastructure spending. This is unusually left wing for a Conservative but needs must and this money has to be found from somewhere, raising questions about the stated policy of lowering taxation. Equally, Donald Trump has some heady plans to bolster the US economy, helping the Dow Jones to power through the 20,000 points barrier for the first time and the FTSE 100 to remain steadily clear of 7,000 points.

For our investors, the fall in the pound following the Brexit vote has generally been good news, as has the record bull run in the US. However, our portfolio has always been invested in a way that does not rely entirely on the health of the internal UK economy and we opt for companies that have a broad global remit or are UK-centric but typically better placed to weather financial storms. Our non stock market investment choices, whether infrastructure, student accommodation, ground rents or fixed interest, have also fared well as cash investors have looked to take additional risks in an attempt to improve their investment returns.

We are always delighted to have a good year for investment returns but we are not resting on our laurels, as we believe that significant headwinds remain both economically and in investment terms. We will therefore continue to rigorously assess the suitability of our managers and their investment choices in order to maximise our clients' returns whilst minimising the level of risk to which they are exposed.

Ethical and socially responsible investing

Historically, ethical and socially responsible investing has been considered the right thing to do but at a cost to an investor's returns. After extending our research in this area, however, we found that we can apply our principle of following good fund managers and stringent selection criteria here as well.

This means that the gap between an out and out profit-driven portfolio and one trying to 'do no harm' or 'do good' is now smaller than ever before. In fact, a good number of our investment choices are already adhering to ethical and socially responsible practices but without the funds promoting this as a key selling point. One example is International Public Partnership Infrastructure fund. It is considered to be socially responsible as it's delivering much needed public infrastructure development for the good of society and the wider economy and is considered ethical as it's not investing in the traditional no-go areas of tobacco, armaments and alcohol.

Our focus is on bringing together risk-based portfolios that are able to deliver growth, income or a combination of the two whilst meeting ethical and socially responsible values. If you would like all of your portfolio invested in this way or just a proportion of it, we would be happy to discuss this with you at your next annual review or sooner if you prefer. Given the range of funds and the number of holdings in each, we can't eliminate individual companies or assets for you but we can readily adjust your portfolio as a whole.

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Family planning

Savings for children with inheritance tax benefits

One of the ways of reducing inheritance tax (IHT) liability is to gift money into a Junior ISA – a tax-free savings account for the under 18s that currently allows up to £4,080 to be paid in each year. Subject to the normal gifting rules for IHT exemption, you could, for example, gift your annual £3,000 IHT-exempt allowance into a Junior ISA whilst building up savings for your grandchildren and top it up with £90 per month out of surplus income.

Control of a Junior ISA stays with the parent and a child can't withdraw the money until age 18, when the account automatically converts to a normal adult ISA. However, by making children aware of the savings account and how it is growing, it can act as a valuable educational tool.

Those preferring to retain control or who don't want grandchildren to know that they will be receiving money can set up a very simple bare trust. This type of trust allows investments to be held on behalf of a grandchild by the trustees – usually the grandparents – until they are 18.

Gifts that are not subject to IHT include an annual £3,000 gift allowance; a gift worth up to £250; and giving out of surplus income. If you'd like more information about inheritance tax mitigation or setting up a Junior ISA, please call us.

Asset and fund choices: 2016 roundup

In May last year we switched out of Standard Life UK Equity Unconstrained fund, following a decline in fund manager Wes McCoy's performance and a change to his process, in favour of more global equity exposure from Fundsmith Equity fund – or the SVM UK Opportunities fund for those already with this fund.

In August we stopped buying the International Public Partnerships investment trust as it was trading at too high a premium to its underlying value. Instead we initially chose the GCP Infrastructure fund and then either the Empiric Student Property trust or the GCP Student Living trust, depending on the products held, as they offered better long-term value. International Public Partnership's premiums have now normalised so the investment trust is included as a 'buy' again depending on your portfolio aims and risk profile.

With the UK investment grade credit market unsustainably priced, gilt yields reaching record lows and most EU bonds offering negative interest rates, we moved primarily into UK residential ground rents – the TIME Freehold Income fund and the TIME Commercial Freehold fund. However, as TIME isn't accommodated by all platforms, some clients were switched into either the Marlborough Global Bond or Royal London Short Duration Global High Yield Bond funds.

Protective measures

Fraudsters posing as clients have been targeting financial advisers by email and attempting to get them to move 'their' money to a new (fraudulent) bank account. Given our vigilance, none of our clients have been affected but we nonetheless decided to make things even more secure by adding an extra step to our procedure for client requests for money.

We will now only send the request forms to you by post or securely via our client hub, and we will need an original completed and signed hard copy in order to proceed. In addition, the company that you are making the withdrawal from may telephone you to make sure that the forms they have received have come from you.

Whilst this may delay matters slightly, we hope you agree that it's a small price to pay for keeping your wealth ultra safe.

IN-HOUSE

New staff

Emma Bowden, financial planning administrator. Emma worked in insurance and claims administration, then spent four years working for an accounting and advisory firm in New Zealand before joining us.

Rachel Bell, financial planning administrator. With an MA in Writing, a BA (Hons) in English and American Literature, Rachel joined us after working in Moscow and for a global investment firm in London.

David Mountford, trainee investment analyst. With a BA (Hons) in Economics and Politics, David has worked in customer services and for a financial services company.

MORE QUALIFICATIONS

Austen Robilliard, head of investment research, has been awarded the Chartered Institute for Securities and Investment (CISI) Investment Advice Diploma.

Mark Collard, trainee investment analyst, has completed the first of the two-part Investment Management Certificate.

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CHARTERED FINANCIAL PLANNERS CII

5th April tax year deadline looming...

Our handy checklist shows the actions and transactions that could help you reduce your tax bill for the 2016/17 tax year. All of these must be completed before the 6th of April 2017 so the earlier you act, the more certain we can be of ensuring that they are in place before the deadline.

PENSIONS

- [ ] Pay in the maximum allowed this year
- [ ] Carry forward the previous three tax years' allowances
- [ ] Use contributions to increase the basic rate tax band and reduce tax on capital gains and investment bond gains
- [ ] Fund pensions for children and grandchildren

ISAs

- [ ] Invest up to £15,240 in each
- [ ] Pay up to £4,080 into Junior ISAs for the under 18s

INHERITANCE TAX (IHT)

- [ ] Gift the annual £3,000 exemption (plus last year's if not used)
- [ ] Make regular gifts out of surplus income

ENTERPRISE INVESTMENT SCHEME (EIS) INVESTMENTS

- [ ] Claim income tax relief of 30% on up to £1,000,000 invested plus get tax-free dividends and capital gains tax relief. Exempt from inheritance tax if held for at least two years at the date of your death.

It's also worth considering taking out a joint life, last survivor life assurance policy for paying the IHT bill if you can't mitigate it any other way. The death benefit is free of all taxes if held in trust, and your heirs won't need to wait for probate to receive it.

VENTURE CAPITAL TRUST INVESTMENTS

- [ ] Invest up to £200,000 and claim income tax relief of 30% plus get tax-free dividends and capital gains tax relief

SEED EIS INVESTMENTS (SEIS)

- [ ] Very high risk but income tax relief of 50% and capital gains tax exemption on disposal

INVESTMENT BONDS AND PENSIONS

- [ ] Stop pension withdrawals for a tax year to pay a lower rate of tax on chargeable gains from investment bonds

CAPITAL GAINS

- [ ] Use 2016/17 annual capital gains tax exemption of £11,100 (£5,550 for trusts)

GIFT AID

- [ ] Claim back the difference between basic rate and higher or additional rate income tax on gift aid donations

If you are considering any of these transactions or need advice on how to use them, please get in touch as soon as possible as the deadline is looming.

GOLD AWARD

PORTFOLIO ADVISER
WEALTH MANAGER AWARDS 2017
GOLD
Aggressive, Boutique firm
LAST WORD

We are thrilled to have won a Gold award at the Portfolio Advisor magazine Wealth Manager Awards 2017, which recognise top performance outcomes based on investment choices. With all of our portfolios performing extremely well, our Aggressive Portfolio – our high risk, high reward proposition – was singled out for its excellence.