# INSIGHTS

Nº 5

KLO Financial
SERVICES

ETHICAL & SUSTAINABLE INVESTING

## LUCY MINTON

£1 trillion of assets is set to pass between generations over the next 9 years. But according to research, 70% of family wealth is lost by the end of the second generation and up to 90% by the end of the third.

+ **FINDING INCOME IN A CHALLENGING MARKET**
By Blackfinch Asset Management

**BLASER MILLS LAW KLO FINANCIAL SERVICES Q&A**
With Karen Woodison

# DIRECTOR'S WELCOME

A warm welcome from KLO's London HQ to the latest edition of Insights Magazine. We are actively looking to expand our base in London, and we look forward to bringing news on these developments in future editions.

The feedback from professionals, business leaders and individuals who receive and read Insights has been extremely positive and I trust whether a new reader, or a regular, you will find this Autumn edition as helpful and stimulating as previous issues.

I could use many adjectives to describe the past few months but if you're anything like me, you will have heard them all far too frequently. However, I am pleased to report that the articles in this issue cover many of the important subjects that will continue to be at the forefront of people's minds.

In our opening article, KLO Director Andy Green focuses on the positive outcomes that have emerged from the year so far.

I have made a valiant attempt to simplify the basics of inheritance tax, outlining the important considerations for both you and your professional and legal advisers.

Continuing the theme of succession planning, I was delighted to have the opportunity to interview (via Zoom of course) Karen Woodison of Blaser Mills Law, a leading firm of solicitors here in the South East.

As you will see, during our discussion Karen covered issues such as the importance of having a suitable will and the benefits of Lasting Powers of Attorney.

Our cover feature has Lucy Minton of Tilney Investment Management providing a clear and thoughtful analysis of ethical and sustainable investing - something that I expect will actually become the 'new normal' for today and future generations.

There have been plenty of negative headlines concerning the wider economic outlook with much impenetrable jargon used in the process. Happily, KLO adviser Dan Styles walks us through what 'Bull' and 'Bear' markets actually mean, how they can be navigated, and why it may not be all bad news. In addition, BlackFinch Asset Management present a strategy for finding income in the current challenging market, where we have seen dividends reduced significantly across a wide range of sectors.

Finally, an article of particular interest to owners of small or medium sized businesses. Paul Atkinson of Finance 4 Business explains how important it is to prepare for the future following the widely used government backed loan schemes.

Preparing for the future is an essential aspect of all financial planning and I and everyone at KLO look forward to assisting with the preparations important to you.

James Glavey

**JAMES GLAVEY**

Financial Planner
KLO Financial Services



INSIGHTS Nº 5

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> IF LIFE WERE PREDICTABLE IT WOULD CEASE TO BE LIFE AND BE WITHOUT FLAVOUR.
>
> — ELEANOR ROOSEVELT

# WHAT'S NEXT FOR 2020?

As we entered the year 2020 and approached the anniversary of our fourth year in business, little did we know what troubles lay ahead. It appeared the recent political uncertainty had been resolved, Brexit was on the way, the global investment markets were pleased with what they were seeing and even Donald Trump and China were getting along.





Then on the 21st January, the World Health Organisation confirmed human-to-human transmission of 2019-nCov, now commonly known as Covid-19. Just ten days later, we had our first two confirmed cases in the UK, and now it's hard to believe that the tally stands at just short of 30 million worldwide cases. Who would have thought that as we chinked champagne glasses and waited for Big Ben to strike midnight, we would be experiencing such unprecedented events in the forth coming months.

From pub and school closures to a shortage of toilet roll, the last 6 months have been in many parts unbelievable. However, through such difficult times, we have also witnessed so many heart-warming moments. Neighbours have been brought together, clapping and cheering for the fantastic work of our doctors and nurses. Communities are walking, cycling and running instead of bumper-to-bumper school runs and frustrating commutes. A genuine hero was lauded throughout the UK - Major Tom, a war veteran, a hundred years young decided to walk 100 laps of his garden and raised over a phenomenal £32m in the process. The centurion also added a UK Number 1 song for good measure!

With overnight market crashes, government bailouts, live sport with no crowds, holiday cancellations, high-street ghost towns and the introduction of furloughing, we have experienced some unique and remarkable situations.

The nation became stay at home tutors, transfixed on banana bread and PE sessions with a fitness trainer dressed in super-hero outfits. Organisations and celebrities gave their time and expertise to help, and we've also had the humorous commentary from the likes of Donald Trump - suggesting that everyone could drink bleach to cleanse themselves from the virus, and also Boris' infamous and somewhat confusing speech, suggesting the public should not go to work if they can, but go to work if they can't!

## "STRENGTH DOES NOT COME FROM PHYSICAL CAPACITY. IT COMES FROM AN INDOMITABLE WILL.

— MAHATMA GANDHI

## "THE ONE UNCHANGEABLE CERTAINTY IS THAT NOTHING IS CERTAIN OR UNCHANGEABLE.

— JOHN F. KENNEDY

## "SOMETIMES YOU FIND YOURSELF IN THE MIDDLE OF CHAOS, AND SOMETIMES IN THE MIDDLE OF CHAOS, YOU FIND YOURSELF.

— BOONAA MOHAMMED

Confined to our homes, technology became everyone's best friend. Even across generations, it became essential for both entertainment and to stay in touch with loved ones, which is testament to our ability to change and adapt where necessary. The beloved tradition of the pub quiz continued despite the closures, thanks to the medium of Zoom and the Internet.

Throughout all of this, our team have continued to deliver the service we pride ourselves on; working from home to continue to provide uninterrupted contact with our clients. The feedback received during this time is evident to the professionalism and dedication of our team of advisers and support staff. For this we we are truly thankful. As the fear of a second wave hangs over us, like the summer rain clouds threatening to dampen our growing positivity, I write this article, wondering whats next?

So many positives have emerged from these unprecedented times, such as increased closeness of families and beneficial environmental impacts, to a growing redirection of priorities towards things that really matter.

I can't help but have a sense of pride for those around me that have just carried on as 'normal' in these highly 'un-normal' of times.

I hope that myself, my colleagues, our clients and the world in general, take the good from this all, and when Covid-19 becomes a time reminisced upon, once this is all over we are able to move forward into a better world; one more unified, joyful, mindful and appreciative of everything around us.

I look forward to reviewing the second half of the year, hopefully free from the virus but maybe not so free from the good it has inadvertently brought.

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# MARKETING IN THE FINANCIAL SECTOR

**When it comes to marketing, adaptability is crucial. The financial sector is no exception, with many businesses experiencing their fair share of twists and turns over the past few months as a result of the coronavirus crisis.**

Many financial professionals are likely to meet new clients through referrals or recommendations from existing ones. This fact combined with the rollercoaster that 2020 has been so far might lead you to ask, "does my financial business need to adapt its marketing strategy right now?".

Our answer, obviously, is yes. An ever-changing landscape punctuated by burgeoning social and environmental change is a huge indicator that businesses within the financial sector should be adapting their marketing strategy.

2020 has seen dramatic change across all areas of the financial landscape, with an increased focus on digital collaboration, remote working and adaptability across the board. Specifically, businesses have had to shift their face-to-face meetings to Zoom, and working from home has been the norm for the past few months. Aside from the obvious, why should your business be focusing on your marketing efforts right now?

## BUILDING TRUST WITHIN YOUR COMMUNITY

Past financial events such as the crisis of 2008 combined with the future's unforeseen impact of COVID-19 have rocked the public's trust in many financial services providers. This, combined with a the changing marketplace and rampant digitisation of services has made it challenging for newer, and even more established financial services providers to build a sense of trust within their community.

With financial protection and security against unforeseen circumstances at the forefront of a lot of savers' minds, it's now more important than ever that businesses in the financial sector demonstrate why potential clients should place their trust in their services.

Building trust with your audience involves being visible, being transparent and being there for your clients. Digital marketing tools such as online chat and social media allow businesses to build this sense of loyalty through an "always-on" approach, meaning whenever your clients need advice, your business is there to respond.

By adapting your marketing to suit the current climate, businesses can explain through thoughtful messaging and advertising their brand values and how they align with the extra help they may be offering right now. This will help to build a sense of trust for new clients and drive loyalty with existing ones, as well as strengthen your reputation.

**BUILDING TRUST WITH YOUR AUDIENCE INVOLVES BEING VISIBLE, BEING TRANSPARENT AND BEING THERE FOR YOUR CLIENTS.**

## DEMONSTRATING EXPERTISE

In order to place trust within a financial services provider – whether that's an IFA, lender or broker - a client will need to be aware of the firm's expertise. Financial decisions, as we all know, are not to be taken lightly – so it will take more than a brief phone call for a client to trust an individual with their money. Not every firm has decades of experience under their belt, but it's still important to promote the extensive knowledge of your team backed up by examples of the help you've given to clients already. For example – has one of your clients had a particularly successful period of financial growth thanks to your work? Or has a client been able to reach a key milestone as a direct result of your expertise?

Your marketing strategy will also need to give clients access to relevant information about your team. Especially given the current climate, your potential clients will benefit from getting to know who they'll be getting in touch with, and trust in their ability to assist them. How can your team help? Here, it's key to give advice and reassurance to clients when presenting options to them.

Businesses within the financial sector can do this through team videos, Q&A's, increasing social media presence, promoting case studies and sharing knowledge with their audience through podcasts that focus on key pain points and common areas of concern for clients. Your business could also increase transparency and trust through team surveys. Surveys can help your business get positive feedback from the team which can then be shared across your marketing materials (with permission, of course!).

## VENTURING INTO NEW MARKETS

While referral from existing clients is beneficial in terms of providing similar services, it can be unreliable if your team is looking to expand further afield into different specialisms. For example, younger age brackets or those looking for a more digital approach to financial services.

By taking a closer look at your marketing strategy and how it aligns with competitors, financial firms can adapt their brand and messaging to help expand into different markets. What's beneficial here is extensive analysis of current trends and establishing customer personas, as well as setting up email funnels to gather data and make communicating with clients that much easier.

## WHY EDGE CREATIVE?

As we are a fully integrated agency, we work on all areas of our financial clients' marketing strategies, from creating websites, apps, adverts, brand development, social media management, product launches, digital campaigns, through to video production, risk profiling, quarterly fact sheets and secure log-in areas.

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We like to come up with fresh and creative ideas for each client we work with. The difference with our financial clients is that it is imperative that we work with compliance in mind with every task encountered. We do this to a high standard, meeting the deadlines and budget set.

If you're considering taking a closer look at your marketing strategy, we're offering a complimentary consultation with a Marketing Director.

**LOUISE PANAYIDES**
Founder/Creative Director

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# BULL AND BEAR MARKETS

## WHAT DO THEY MEAN FOR YOUR INVESTMENTS?

### WHAT IS A BULL OR BEAR MARKET?

A bull market is a market that is on the rise, while a bear market is a market where most stocks are declining in value. A bull market is typically understood to mean a rise of more than 20% from a recent low, and conversely a bear market a fall of more than 20% from a recent high.

The actual origins of these expressions are unclear, but one reason could be that bulls attack by bringing their horns upward, while bears attack by swiping their paws downward.

The Covid-19 pandemic caused the biggest stock market sell-off since the great financial crisis of 07/08. During March this year, global stocks saw a downturn of at least 25%, and 30% in most G20 nations. All indices experienced wild volatility and had entered 'bear market' territory. What was interesting was the range of reactions to this volatility amongst my clients.

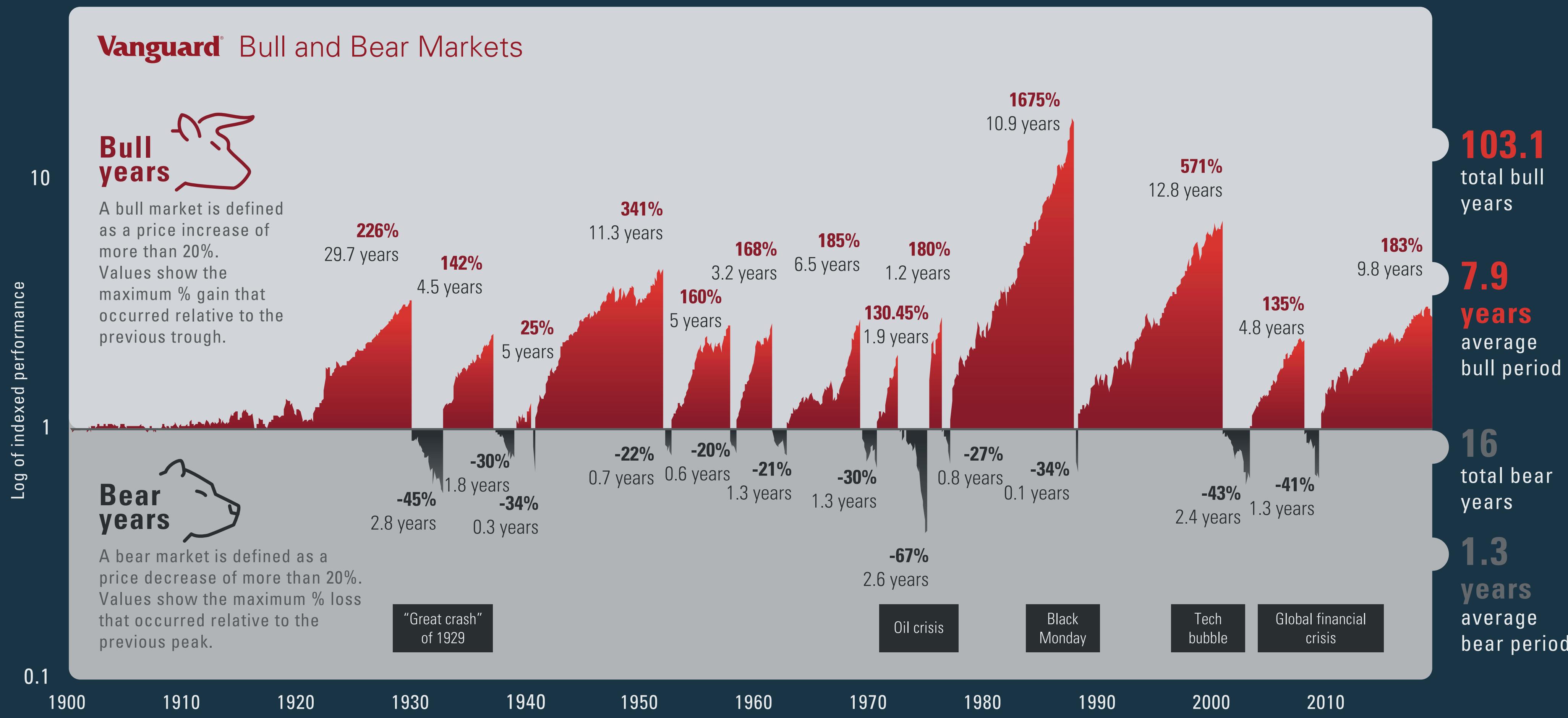
Some, understandably, became fearful and I received several calls from clients asking whether it was a good time to sell investments down to cash. This kind of reaction is known as 'loss aversion' - the instinct that if they remain invested, they stood to lose even more money. Remember, you only actually lose money when you sell assets that are worth less than they were when you bought them. This is why it's so important as an adviser to impress upon clients at outset that they must be prepared to see the value of their investments go down, as well as up, and that short-term volatility is a normal part of investing. More experienced investors have learned that even though it can be scary to watch your portfolio value fall in a declining market, it is worth it to sit tight and wait for the upturn to come, because it will come.

Some of my clients are looking to retire over the next year or so and there are some who are already making regular withdrawals from their investments. Those clients may not have time to wait for markets to recover, but they understand from our previous conversations that it is important to be flexible, if possible, in the timing of taking benefits. This led, in some cases, to clients deferring their retirement plans and/or reducing or suspending their withdrawals until markets fully recover. By using cashflow modelling software I am able to help my clients understand the sustainability of their future withdrawals, and how the rate at which they take benefits (and the timing of when they do so) can impact on their financial plans.

## BEAR MARKETS ARE ALMOST ALWAYS FOLLOWED BY BULL MARKETS

Take a look at the graph on the following page. This shows every bull and bear market over the past century (pre-Covid 19). The average bull market lasted 7.9 years. The average bear market? 1.3 years.

CONTINUE READING




Notes: Calculations are based on FTSE All Share (GBP Total Return). A bear market is defined as a price decrease of more than 20%. A bull market is defined as a price increase of more than 20%. The plotted areas depict the losses/gains ranging from the minimum following a 20% loss to the respective maximum following a 20% appreciation in the underlying index. Time period: 31 January 1900 to 31 December 2018. Calculations based on monthly data. Logarithmic scale on y axis.
Source: Global Financial Data.

**Past performance is n ot a reliable indicator of future results. The value of investments, and the income from them may fall or rise and investors may get back less than they invested.**



The most important thing to keep in mind during an economic slowdown is that it is normal for the stock markets to have negative return years—it's part of the business cycle.

A bear market is only ever temporary. Perhaps the most famous investor of all time, Warren Buffett, said that it is wise to be "Fearful when others are greedy and greedy when others are fearful." In other words, be contrarian – don't follow the herd. Often investors 'pile-in' to the markets when there has been a sustained period of growth because they want to enjoy some of those returns, but by that stage much of the upside may have already happened. Better to enter the market when everyone else is selling and prices are depreciated. Accept market volatility as a buying opportunity, rather than buying overpriced assets that will deliver weak returns.

Some of my clients, taking the long-term view, saw the February/March equity selloffs as great time to deploy surplus cash. Always bear in mind though that it is notoriously difficult to time the market. What you may think is the bottom of the curve may go on to test new lows. A second wave of Covid-19 infections, a trade negotiation with the EU and forthcoming US presidential elections could all throw up significant challenges.

Beware holding off an investment until things get 'back to normal'. Historically, six of the ten best days in the market occur within two weeks of the ten worst days. Since the February/March bear market, many indices have in fact now entered a new bull market. For example, at the time of writing the S&P, 500 (the leading US share index) had recovered to where it was at its previous end of February peak, led by technology stocks such as Facebook, Amazon, Netflix and Google, all of which have benefited from lockdown. Invariably this remarkable recovery has been less widely reported by the mainstream media than the downturn that preceding it.

Finally remember the importance of portfolio diversification. Put simply this means including within your portfolio assets that do not necessarily have a positive correlation. Take for example gold. Typically seen as a 'safe-haven' asset, it will tend to increase in value when stock markets decline.





A money manager might include gold in a portfolio as a hedge against falling share prices. The aim is to reduce volatility, particularly important for clients close to, or already in, retirement. During recent portfolio reviews, some of my more cautious clients were surprised to have seen positive returns over the past six months, given the pandemic. Typically, they were in portfolios with a higher exposure to UK Gilts, US Treasury stocks and other 'defensive assets' that often gain when more aggressive assets, such as shares, are being sold.

So, are you 'bullish' or 'bearish'? Risk on or risk off? Let's hope that the 'bulls' are right, and we are at the beginning of a new and prolonged cycle of stock market growth.

## ARE YOU 'BULLISH' OR 'BEARISH'?

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TILNEY

# TIME TO CONSIDER THE NEXT GENERATION

**£1 TRILLION OF ASSETS IS SET TO PASS BETWEEN GENERATIONS OVER THE NEXT 9 YEARS[1] BUT ACCORDING TO RESEARCH, 70% OF FAMILY WEALTH IS LOST BY THE END OF THE SECOND GENERATION AND UP TO 90% BY THE END OF THE THIRD[2].**

**ONE SOLUTION TO HELPING FAMILIES ENGAGE COULD BE TO CONSIDER ETHICAL OR SUSTAINABLE INVESTING.**





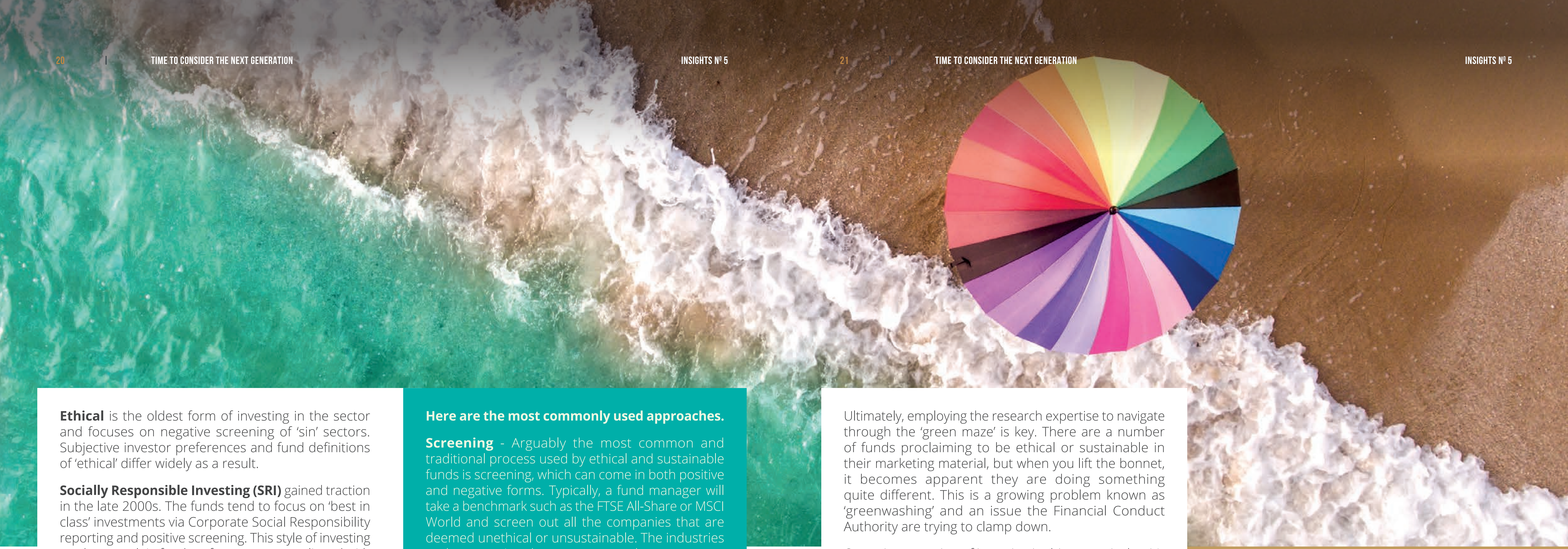
“ACCORDING TO A RECENT SURVEY, 67% OF MILLENNIALS VIEW THEIR INVESTMENTS AS A WAY TO ‘EXPRESS THEIR SOCIAL, POLITICAL, OR ENVIRONMENTAL VALUES’

The main contributor to this is a lack of communication between families. Intergenerational transfers can be charged with emotion and highly stressful creating a greater need for financial advice – to both reassure the donor and prepare the recipient.

Nearly two thirds of clients’ children do not take on their parent’s adviser[2], so engaging with the next generation now and initiating the conversation could ensure the family wealth continues to grow and help advisers maintain and expand their client base.

One solution to helping families engage could be to consider Ethical or Sustainable investing. In a survey carried out 67% of millennials view their investments as a way to ‘express their social, political, or environmental values’ and over 50% consider the impact of their investment decisions on society as important.[3] This does not come as a huge surprise with television programmes such as Blue Planet and the rise of environmental advocators such as David Attenborough and Greta Thunberg dominating the media in the past couple of years.

Ethical and Sustainable investing are not new, but the investment approaches and sector definitions have certainly evolved which can cause some confusion and consequently deter advisers and investors alike. At Tilney, we refer to this as the ‘green maze’ of acronyms and buzzwords, but they can be easily explained.



**Ethical** is the oldest form of investing in the sector and focuses on negative screening of 'sin' sectors. Subjective investor preferences and fund definitions of 'ethical' differ widely as a result.

**Socially Responsible Investing (SRI)** gained traction in the late 2000s. The funds tend to focus on 'best in class' investments via Corporate Social Responsibility reporting and positive screening. This style of investing tends to result in fund performance more aligned with mainstream benchmarks.

**Sustainable and impact** styles of investing involve integrated **Environmental Social and Governance (ESG)** risk analysis, where a company's actions are reviewed alongside their measurable environmental and social outcomes – 'the triple bottom line'.

The United Nations' 17 Sustainable Development Goals for 2030, which cover a wide range of issues such as the climate, environment and global poverty, sets a clear blueprint for how we achieve a better and more sustainable future for all. This provides business and consumers with a useful framework and a number of fund groups have been working hard to measure their investment impact relative to the UN's goals.

The crucial point is that the approach to ethical and sustainable investing, which is chosen for each individual fund, works alongside the standard fund management techniques to form the overall investment strategy.

**Here are the most commonly used approaches.**

**Screening** - Arguably the most common and traditional process used by ethical and sustainable funds is screening, which can come in both positive and negative forms. Typically, a fund manager will take a benchmark such as the FTSE All-Share or MSCI World and screen out all the companies that are deemed unethical or unsustainable. The industries and companies that are screened out can vary, but most tend to be related to health (alcohol or tobacco), the environment (oil and gas or mining), and companies with poor employment practices.

Positive screening is when companies are included because they make a positive contribution to society or the environment, such as renewable energy. Many funds use both forms of screening when selecting companies.

**Best in class** - The best in class approach is when a fund selects a company that has better ESG policies than industry peers. For example, if the investment policies allow a fund manager to invest in the banking sector or the oil and gas sector, the fund manager would be expected to select the oil and gas company with the best environmental record or the bank with the best ethical policies. This is very much a case of weighing up the pros and cons of each company and its individual corporate responsibility.

Ultimately, employing the research expertise to navigate through the 'green maze' is key. There are a number of funds proclaiming to be ethical or sustainable in their marketing material, but when you lift the bonnet, it becomes apparent they are doing something quite different. This is a growing problem known as 'greenwashing' and an issue the Financial Conduct Authority are trying to clamp down.

One misconception of investing in this sector is that it's a trade-off between value and 'values', that you have to compromise investment returns to align your investment morals. Whilst past performance is not an indication of future performance, many sustainable funds have kept up if not outperformed their standard equivalent over the last few years. What has also developed in recent years is the ability to build a sustainable portfolio for a client with the same sector and regional diversification as you would afford a standard mandate. This has previously been a challenge with a limited ESG investment universe available within certain asset classes.

The themes of sustainability are now mainstream. As consumers, how we think and how we act all point in this direction of travel. There is $17.5 trillion[4] invested in the ESG market currently and as resources continue to become scarce and more companies consider the impact of their daily operations then this sector will only continue to grow. At Tilney, we are ready to help clients and their advisers considering the next generation.

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**Sources:**
1 Cebr and Kings Trust Court, 10 May 2017
2 The great wealth transfer is coming, putting advisers at risk, Liz Skinner, 13 July 2015.
3 US Trust insights on wealth and worth, 2014 Harvard Business Review
4 Global Sustainable Investment Alliance's Review 2018

Finance 4 Business

# LIFE AFTER CBILS: PREPARING FOR THE FUTURE

**THE CORONAVIRUS PANDEMIC HAS BROUGHT WITH IT MANY PROBLEMS, ESPECIALLY FOR SMALLER BUSINESSES.**

Drops in sales, cash flow and supply chain disruption were all key concerns for companies affected by the virus, and with over 5.9 million small and medium businesses in the UK, the government needed to react quickly to provide access to much-needed financial relief.





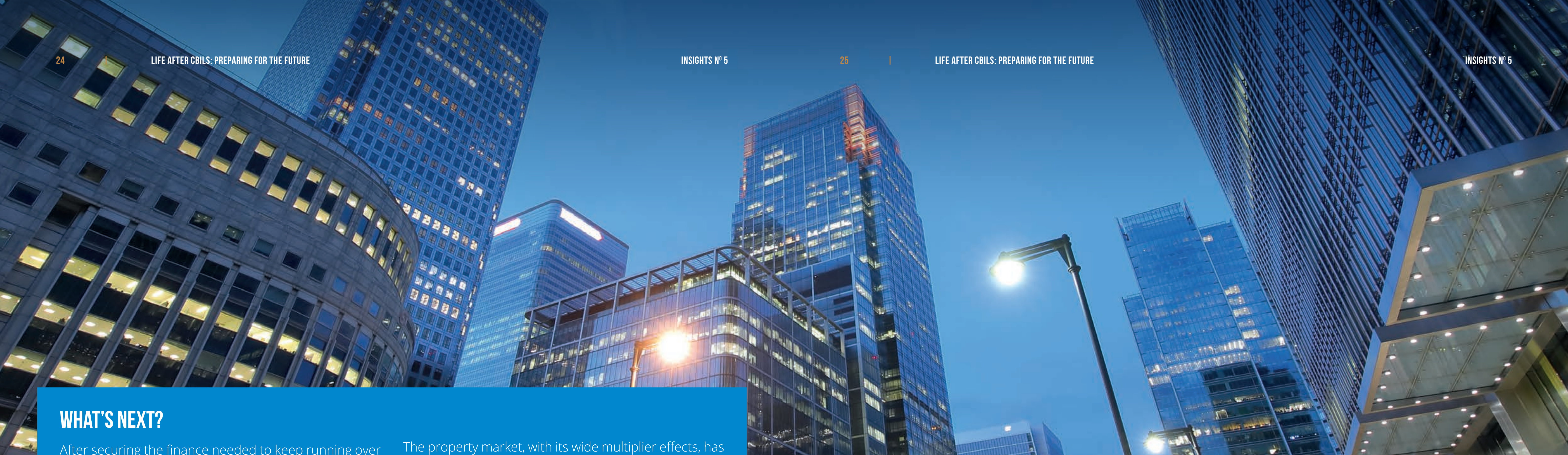
## FINANCIAL RELIEF

This support came in the form of Bounce Back Loans and the Coronavirus Business Interruption Loan Scheme (CBILS). Launched earlier this year, these forms of finance have been critical in providing financial support to smaller businesses that had lost revenue or had their cash flow disrupted.

Unfortunately, we found that many clients were finding the application process frustrating, with many businesses struggling to navigate through the 40+ different lenders that were providing the funding.

Not only this, but there were also concerns surrounding government advice, with two in five businesses believing the government's advice to be unclear, with senior decision makers unsure where they could get relevant and timely advice (Opinium, 2020).

Across the UK, SMEs needed advice and support from experts to understand their general finance options and how the government could support them. During this time, our CBILS online platform simplified this process, helping our clients gain access to the finance they desperately needed.



## WHAT'S NEXT?

After securing the finance needed to keep running over the last few months, businesses now need to look to the future and plan for life after CBILS. 2020 has offered business owners more time for themselves and the opportunity to reflect on their processes, and now is the time to get business moving and growing again.

Commercial finance offers business owners the chance to do just that, providing the funds necessary to achieve their goals by investing in assets and keeping a healthy level of cash flow.

Commercial finance can be used to secure against a wide range of business-related properties. For example, you may want to purchase, build or develop a property to be used for specific trading purposes or professional enterprises.

Exciting opportunities are also available for landlords and property investors looking to navigate their way out of the previous lockdown and start preparing financially for the future. Perhaps you are a commercial landlord looking to increase your property portfolio, review existing borrowing facilities or purchase or refinance your own trading premises.

The property market, with its wide multiplier effects, has been able to help negate some of the dramatic effects on the UK economy caused by the coronavirus. For this reason, the property market remains an exciting investment opportunity.

There are a range of different finance options available, each specifically tailored to meet your needs and requirements. A wide landscape of opportunity remains for businesses and individuals looking to save money, and navigate through the unusual financial environment we now find ourselves in.

> **"WITH A SPECIALIST FINANCIAL BROKER, YOU CAN REST ASSURED KNOWING THAT YOU ARE TAKING THE BEST STEP FORWARD.**

We currently have lenders in the market who are keen to support a variety of industries with the growth and development of their commercial businesses. At Finance 4 Business, we understand that 2020 has been a trying year, but we are always keen to support our clients in navigating through tricky waters.

We can support you in developing a solution that is bespoke to your personal situation. We are not tied into any product provider, however our strong relationships with lenders on our extensive panel mean that we can match your requirements to the right lender for you and maximise your potential for success.

Not only this, but our partnerships with Innovation 4 Business, Liquidity Club, Caliber Land and Walker Doble within the Finance 4 Business group of companies allow us to provide an array of solutions. Innovation 4 Business offer consultations on multiple tax allowances, Liquidity Club can provide support with cash flow lenders, Walker Doble offer services covering the residential development process and Caliber Land can provide a complete service for land developments. Together, we can find you competitive, flexible financing and offer unrivalled support all under one roof.

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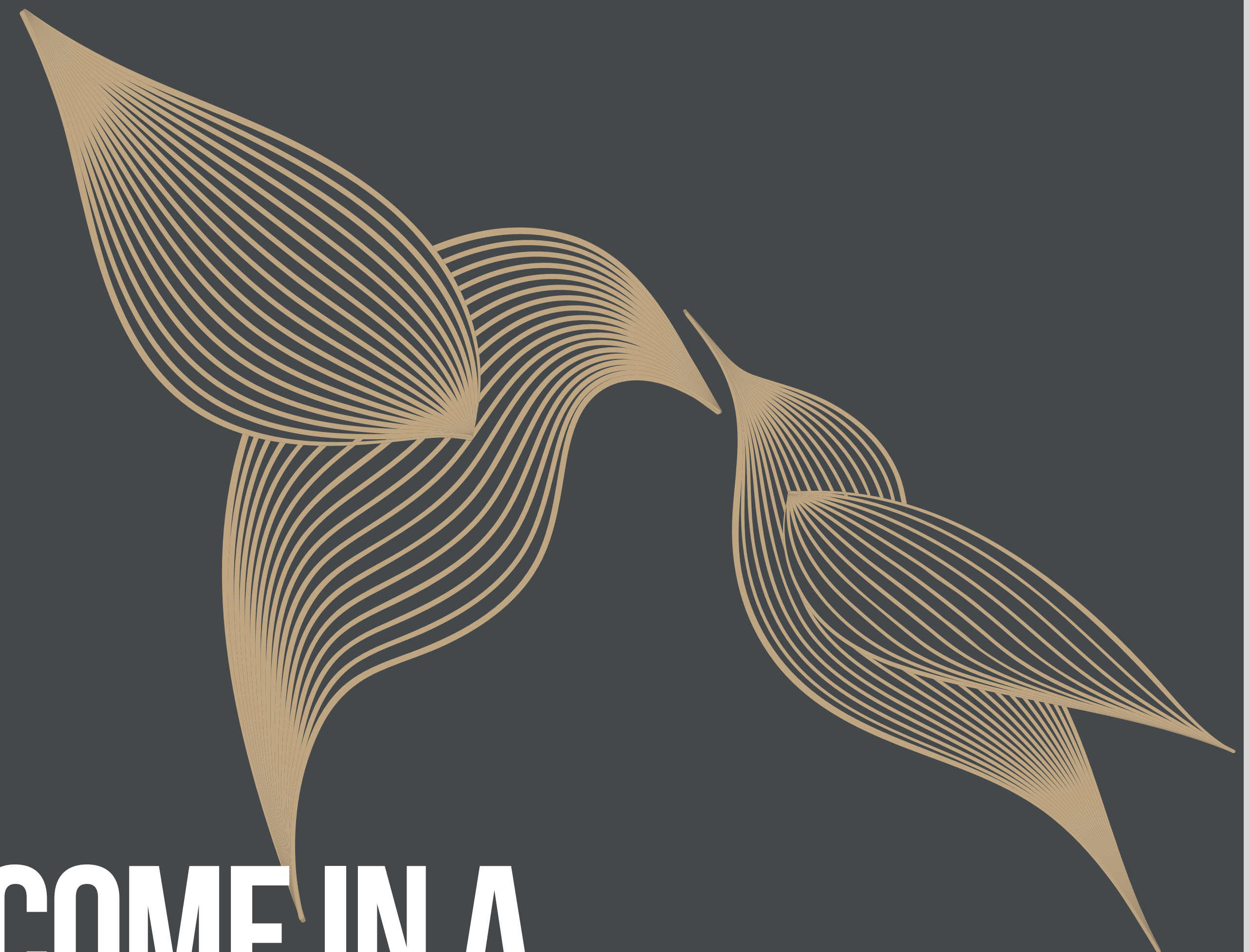
BLACKFINCH ASSET MANAGEMENT



# FINDING INCOME IN A CHALLENGING MARKET

**THE GLOBAL PANDEMIC AND DROP IN OIL PRICES HAS PUT IN EXCESS OF £400BN OF DIVIDENDS AT RISK. INCOME INVESTORS ARE FACING EXTREME UNCERTAINTY AND HAVE ALREADY STARTED TO SEE THE EFFECTS OF REDUCING INCOME FROM CONVENTIONAL SOLUTIONS.**





The UK market, which is widely regarded as a steady source of income, has been particularly adversely affected due to substantial cuts in dividends from two major sectors; Oil & Gas and Financial Services. In addition to this, historically reliable dividend payers have reduced pay-outs significantly, which means finding a reliable source of income is likely to remain a challenge for some time to come.

In view of the challenge we now face, we recognise the importance of diversifying income sources; not just from different sectors, but also from different geographies and asset classes.

## THE BLACKFINCH ASSET MANAGEMENT INCOME PORTFOLIO HAS TWO FUNDAMENTAL OBJECTIVES;

| 01 | 02 |
|---|---|
| To deliver a net income yield of 3.5% per annum as a minimum | To produce sufficient capital growth to cover fees |

We have designed the portfolio from the ground up, solely with these objectives in mind and, just like all our portfolios, do not ‘buy in’ or replicate a generic asset allocation from a third party. The asset allocation is truly bespoke, designed specifically and repeatedly stress tested to achieve the objectives of the portfolio.

Importantly, for clients, fees are not taken from the income. Rather, the portfolio will seek to provide enough capital to cover the fees so as not to erode the net return.

Through this approach, the Blackfinch Income Portfolio benefits strongly from a highly diversified approach to seeking secure and sustainable income away from the more conventional sectors.

## WHERE DO WE FIND INCOME?

Our approach to asset allocation has led us to look ‘outside the box’, finding income in more alternative, uncorrelated and defensive areas. A key area of exposure is to ‘critical infrastructure’ assets. These are assets such as bridges, schools, police stations, roads, mobile phone masts and doctors’ surgeries.

The key attraction of these assets is they can continue generating an uninterrupted income regardless of the macro backdrop.

## MOBILE PHONE MASTS

Take a mobile phone mast for example, the mast is owned by a company who leases out space on the mast to mobile phone operators. The demand for space on the mast is unaffected by what is happening in the world regarding COVID for example, so this asset will continue to generate its income regardless.

## RENEWABLE ENERGY

Another area of exposure in the portfolio is renewable energy, an asset class we already have considerable knowledge and experience of within Blackfinch. Our income portfolio has exposure to these types of assets through wind and solar farms located across the world. Again, the demand and usage of energy is critical to life and so provides the portfolio with a source of income that is not reliant on the performance of equity markets.

The renewable energy that is generated is sold to governments or blue-chip companies on 10-15 year contracts which again provides the types of income stream we seek in our portfolio.

## E-COMMERCE

The changing usage of commercial property is also something the team have capitalised on from within the portfolio. The rise of e-commerce has meant the demand for logistical warehouses and distribution centres has risen exponentially. Through careful selection, we have identified assets that focus on owning and leasing out these distribution centres and warehouses to large food and retail providers such as Amazon and Ocado.

## A GLOBALLY DIVERSIFIED PORTFOLIO

Additionally, to control risk even further, we ensure that exposure to these assets is globally diversified. This helps us achieve greater diversification between counterparties and subsidies across various governments and regions.

As well as the areas highlighted above, the income portfolio also seeks income generation from actively allocating to key asset classes such as equites and fixed income. The pandemic has affected the economy globally, but the impact on dividend income varies significantly by region. Only a fraction of the 500 largest US corporations have cut or suspended their dividends, but an alarming 34% of the 600 largest European and UK companies have suspended payments entirely.

Being an active, independently owned asset management company means we have the freedom to select from funds across the market without fear of conflict. This results in a portfolio that is highly diversified and holds investments that complement, rather than replicate, each other. This approach means we do not rely on a single asset class, geography, sector, fund or investment style to generate our income returns.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

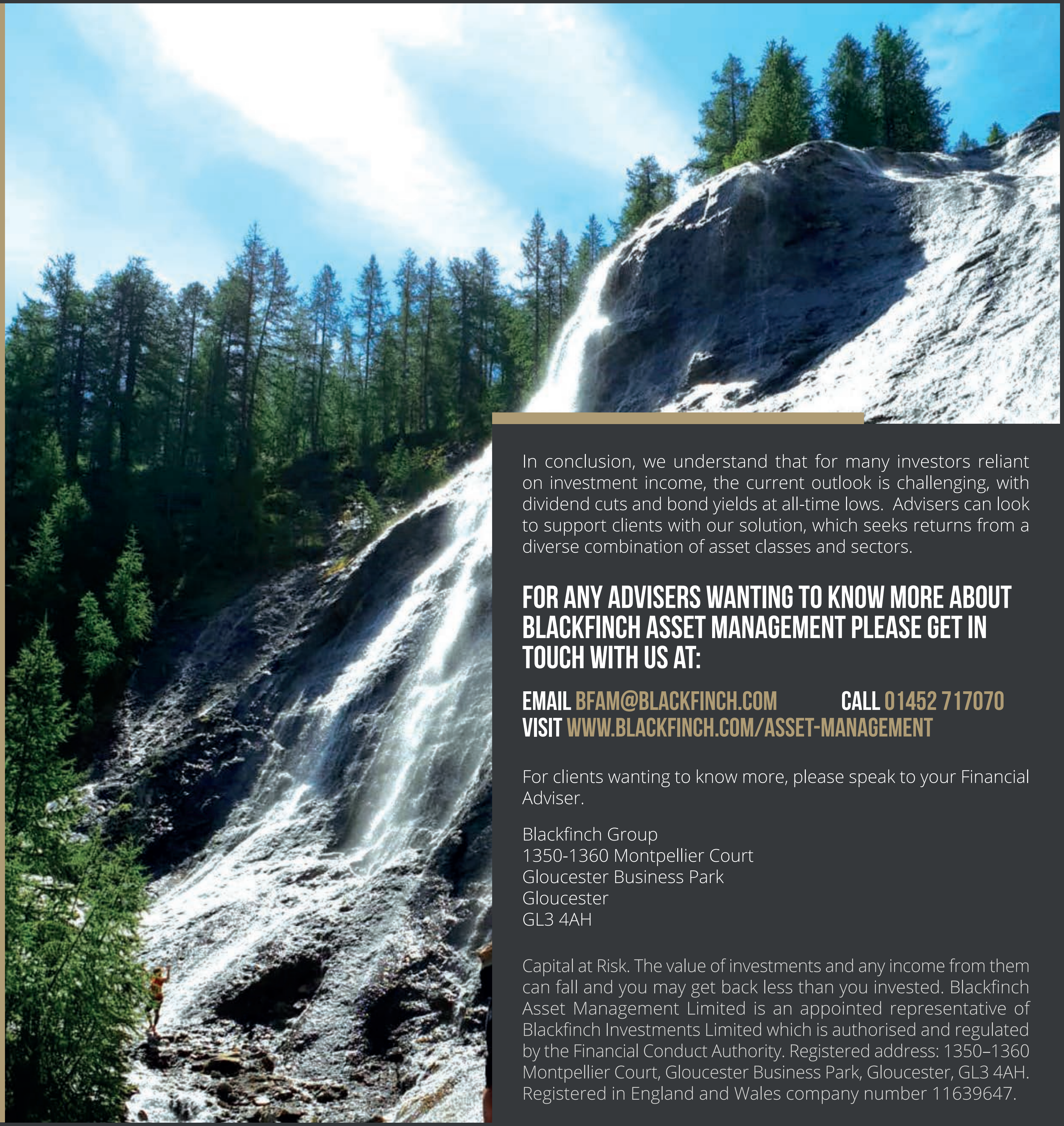
Crucially, and core to the management of any portfolio within Blackfinch, the Income portfolio places ESG factors at the centre of the investment selection process. The examples highlighted above show how income generation can be an attractive and superior source of income compared to the more conventional sectors.

**“ BY INVESTING IN A WIDER REMIT WE CAN SCRUTINISE DIFFERENT APPROACHES TO ESG AND BENEFIT FROM ONLY SELECTING FUNDS THAT ADHERE TO OUR ESG POLICY AND FRAMEWORK.**

The ESG implementation methods and asset classes that we use to construct our income portfolio are only set to grow further and this is an area of particular interest for the investment team as we continue to ensure the portfolio delivers on its core objectives.







In conclusion, we understand that for many investors reliant on investment income, the current outlook is challenging, with dividend cuts and bond yields at all-time lows. Advisers can look to support clients with our solution, which seeks returns from a diverse combination of asset classes and sectors.

## FOR ANY ADVISERS WANTING TO KNOW MORE ABOUT BLACKFINCH ASSET MANAGEMENT PLEASE GET IN TOUCH WITH US AT:

**EMAIL** BFAM@BLACKFINCH.COM **CALL** 01452 717070
**VISIT** WWW.BLACKFINCH.COM/ASSET-MANAGEMENT

For clients wanting to know more, please speak to your Financial Adviser.

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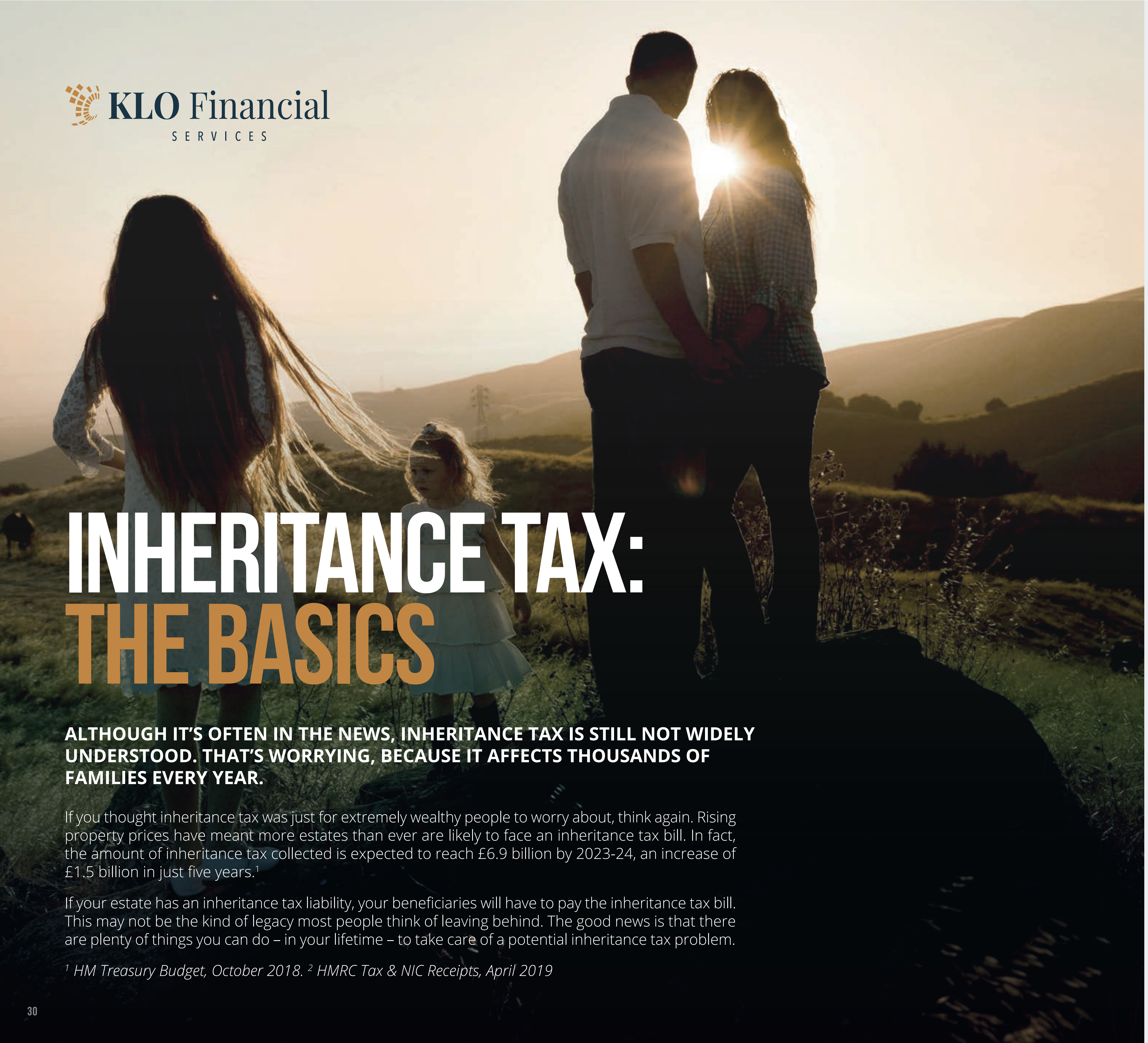

KLO Financial SERVICES

# INHERITANCE TAX: THE BASICS

**ALTHOUGH IT'S OFTEN IN THE NEWS, INHERITANCE TAX IS STILL NOT WIDELY UNDERSTOOD. THAT'S WORRYING, BECAUSE IT AFFECTS THOUSANDS OF FAMILIES EVERY YEAR.**

If you thought inheritance tax was just for extremely wealthy people to worry about, think again. Rising property prices have meant more estates than ever are likely to face an inheritance tax bill. In fact, the amount of inheritance tax collected is expected to reach £6.9 billion by 2023-24, an increase of £1.5 billion in just five years.[1]

If your estate has an inheritance tax liability, your beneficiaries will have to pay the inheritance tax bill. This may not be the kind of legacy most people think of leaving behind. The good news is that there are plenty of things you can do – in your lifetime – to take care of a potential inheritance tax problem.

*[1] HM Treasury Budget, October 2018. [2] HMRC Tax & NIC Receipts, April 2019*





**Inheritance tax is paid on the value of the assets that a person leaves behind when they die. It can also apply to some gifts that are made before someone dies. When you die, your 'estate' is the assets you leave behind.**

If you are married, or have a civil partner, then you can leave your entire estate to your spouse or partner free of inheritance tax. But if you want to leave some or all of your estate to family and friends, then it may be liable for inheritance tax.

## NOT EVERYONE IS REQUIRED TO PAY INHERITANCE TAX

But if the value of your estate is worth more than £325,000 (known as the 'nil-rate band'), then HMRC will expect you to pay inheritance tax at a rate of 40%[2] on the total value of assets in your estate over that amount.

**Your estate can include:**

- Your house and any other properties you own.
- Any savings or investments (remember, some types of pensions are excluded from your estate, but other investments, including ISAs, are taxable).
- Any other assets.
- The value of any life insurance policies in your name.

## HOW TO WORK OUT WHAT YOUR ESTATE IS WORTH

After adding up all your assets, your next step should be to subtract any outstanding debts. These could include credit cards, loans and mortgages. You can also deduct the value of some gifts you make during your lifetime, charity donations left in your will and the reasonable costs of your funeral.

*2 Note: You can reduce the rate of inheritance tax payable from 40% to 36% if you leave at least 10% of the value of your estate to charity. Donations made to charity upon your death are not subject to inheritance tax.*

**After calculating the potential value of your estate for inheritance tax purposes: Is the potential value of your estate less than £325,000?**

Your estate isn't facing an inheritance tax bill right now. However, it's worth keeping an eye on the value of your assets, as any changes between now and when you die could mean an inheritance tax bill for some of the assets you leave behind.

**Is the potential value of your estate more than £325,000?**

Then your nil-rate band will be fully used up, and the remainder of your estate will be subject to inheritance tax.

## HOW MARITAL STATUS AFFECTS INHERITANCE TAX

How the inheritance tax rules apply will differ depending on whether you are single, married or in a civil partnership.

## SINGLE

If you're single and your estate is worth more than £325,000, anything over that amount will be liable for up to 40% inheritance tax.

## MARRIED/CIVIL PARTNERSHIP

If you're married or in a civil partnership, the assets you leave to your spouse will be transferred without any inheritance tax to pay. Also, leaving assets to a spouse does not use up your nil-rate band. If you pass on any of your estate to someone other than your spouse or civil partner, and your estate is valued at more than £325,000, then the excess will be subject to up to 40% inheritance tax. The estate of your surviving spouse, now widowed, will be subject to inheritance tax as outlined below.

## WIDOWED

When someone dies, their unused nil-rate band can be transferred to their spouse or civil partner. For example, if your spouse left everything to you before they died, you could potentially have a combined nil-rate band of £650,000 applied to the value of your estate.

## UNMARRIED COUPLE

If you are part of an unmarried couple, you are still treated as single for inheritance tax purposes. This means that each of you has a separate nil-rate band of £325,000 which cannot be combined upon death.

## THE RESIDENCE NIL-RATE BAND

**A new inheritance tax allowance was introduced in 2015. But the headlines that claimed it will give people a £1 million nil-rate band need closer scrutiny. Inheritance tax is a problem for homeowners.**

After years of rising house prices, more people are now facing an inheritance tax liability on their estate, thanks to the increase in the value of their home. What's more, the current nil-rate band of £325,000 for inheritance tax is expected to remain frozen until 2021.

In 2015, acknowledging the inheritance tax problem faced by large numbers of homeowners, the Government introduced an additional inheritance tax allowance of up to £175,000 to apply to the family home in certain circumstances. However, even with this, forecasts show that HMRC's inheritance tax receipts are expected to continue to rise.

## THE RESIDENCE NIL-RATE BAND

- The residence nil-rate band applies to the estates of people who die after 6 April 2017.
- You must plan on leaving a home to your children or grandchildren.
- The allowance was phased in and reached the maximum of £175,000 per person for deaths that occur after 6 April 2020 (£350,000 per couple).
- Adding this to a couple's nil-rate band equals £1 million per couple.
- From April 2021, it will increase in line with inflation every year.

## WHO CAN CLAIM THE NEW ALLOWANCE?

The intention is that married couples and civil partners can pass on assets worth £1 million, including the family home, without paying any inheritance tax at all. However, not everyone will benefit, and there are a few rules to be aware of:

- As the name suggests, this allowance will apply where the person who has died owned a property that was at one time their home.
- It will also only apply if the property is being left to the deceased's direct descendants (children or grandchildren).
- It won't help you if you don't own a property. Also, anyone without direct descendants, or who wishes to leave their home to someone other than a direct descendant, cannot benefit.
- Anyone without a property worth at least £175,000 per person, or £350,000 per couple, will only partially benefit.
- The residence nil-rate band will be reduced by a rate of £1 for every £2 by which the estate exceeds £2 million. This means that larger estates may not benefit.
- Anyone who disposed of their property before 8 July 2015 – for example, because they are in residential care or living with their children – will not benefit from the new allowance at all.

## WHAT ABOUT SPOUSAL TRANSFERS?

The existing nil-rate band works so that if the first spouse or civil partner to pass away leaves their entire taxable estate to their surviving partner, then the estate of the second spouse can claim a total nil-rate band of £650,000 – double the individual nil-rate band. In a similar way, the estate of the second spouse or civil partner to pass away will be entitled to claim double the residence nil-rate band applicable in the year of the second death, where their partner's estate did not make such a claim. The maximum amount of the claim will still be limited to **(a)** the greater of the allowance at the time of the second death, and **(b)** the value of the home owned by the deceased.

Although touted as a 'million-pound inheritance tax allowance', the number of clients who will be able to claim this level of exemption could be far fewer than originally anticipated.

> **OUR ADVISERS UNDERSTAND THAT EVERY PERSON HAS A UNIQUE FINANCIAL SITUATION, MEANING YOU WILL REQUIRE A SOLUTION TAILORED TO YOU.**

## TALK TO YOUR ADVISERS ABOUT:

- Making a Will (see my interview with Karen Woodison on page 34).
- Leaving pensions as part of your estate.
- Making gifts to reduce an estate's value.
- Setting up a trust.
- Taking out life insurance to pay in inheritance tax.
- Investments in Business Property Relief (BPR) qualifying companies.

With early preparation and planning, you can achieve peace of mind confident that your loved ones will benefit from your legacy in a tax efficient manner. In conjunction with your solicitor, our financial advisers provide estate planning solutions that aim to preserve your assets. If you have any questions, our team is on hand to assist.

KLO Financial SERVICES

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BlaserMills Law

# KLO FINANCIAL SERVICES Q&A
## WITH KAREN WOODISON

**PARTNER | THE WILLS, TRUSTS & PROBATE TEAM**

**INTERVIEWED BY: JAMES GLAVEY**





**At KLO, we work with many professionals including accountants and lawyers to assist their clients, whether as individuals, business owners or company executives.**

One such firm I deal with here in the South East is Blaser Mills Law, a leading law firm with offices in High Wycombe, Amersham, Silverstone and London.

Karen Woodison is a Partner in the Wills, Trusts and Probate team. I recently took the opportunity to catch up with her over a Zoom call, to find out more about her work, the challenges they have faced in the wake of Covid-19 and the opportunities and key considerations for personal clients and business owners alike.

**Q Karen, whom are the main types of clients you deal with and what are the main services and issues you work with them on?**

A I deal with a wide variety of clients, including individuals (both UK-domiciled and non-domiciled), families and business owners. My clients come to me for a variety of reasons, from those that are looking at retirement and estate planning, to their children who are just buying their first property or starting a family. I assist my clients with Wills, Lasting Powers of Attorney, Administration of Estates, Trusts and Court of Protection matters.

**Q Law covers a whole range of competencies, what was it that attracted you to working in this particular area?**

A The work is constantly varied, which means there is never a dull day in the office! The main attraction though is that the work is intrinsically client focused, which means that compared to other practice areas, I spend more of my time speaking to or meeting with clients. Some clients come to me following the loss of a loved one and it is rewarding to know that you have provided them with peace of mind at a particularly upsetting time.

**Q How has Blaser Mills adapted during the Covid-19 pandemic and what effect has it had on how you work with clients?**

A Everyone in the firm has been amazing and have all pulled together to ensure we have been able to adapt quickly, whilst still maintaining a high level of client service. Our IT department did a great job and worked tirelessly to ensure a smooth transition to home working. Covid-19 has meant that I've been in contact with clients via email and phone even more than usual, as well as having a lot of meetings on video calls, which has worked well. It has been nice to still be able to see clients when talking through matters with them.

> “COVID-19 HAS ALSO BROUGHT SIGNIFICANT CHANGES TO THE WAYS WE WITNESS WILLS. WITH SOCIAL DISTANCING IN PLACE WE HAVE HAD TO GET CREATIVE, OFTEN WITNESSING A WILL THROUGH A WINDOW OR OVER A GARDEN FENCE!

**Q** **As an adviser, one of the first questions I ask a new client is whether they have a Will. What would you say makes it so important that someone has a Will in place?**

**A** A Will gives you and your family certainty, which is so important following the loss of a loved one. It ensures nothing is left to chance and that the right people have been chosen to manage your affairs. It also ensures that your estate passes in a tax efficient way, which means that there won't be any nasty surprises for the surviving family member. A Will doesn't only deal with the distribution of your estate, it can also be used to appoint guardians for minor children.

**Q** **What happens if you pass away without a Will?**

**A** If you do not have a Will in place, then your estate will be governed by the Intestacy Rules. This can have adverse tax implications and may not make the best provisions for your family members. For example, if you were to pass away leaving a spouse and children, your estate would be split between them rather than everything passing to your spouse. This may not be in line with your wishes and can cause complications.

**Q** **Why is it important for business owners, particularly in consideration of business assets to ensure they have a Will?**

**A** If business assets form any part of your estate then it is extremely important to ensure you have a Will in order to protect these assets. Your business assets may be eligible for business property relief (BPR).

The main aim of BPR is to reduce the risk of inheritance tax charges resulting in the breakup of a viable business in a succession situation e.g., where the owner of a family business passes control on to his children or grandchildren.

Where the conditions for the relief are met, BPR reduces the value of the business or its assets for the purposes of calculating any IHT due. The reduction in value will be either 100% or 50% depending on the type of asset and who owns it.

With proper estate planning you could pass on such an asset in your Will to a chargeable beneficiary to ensure that the relief is not lost on a beneficiary who is already exempt, such as a spouse.





**Q** **Are there any considerations for senior professionals who don't have business assets?**

**A** Even if you do not have business assets to consider, a Will is still extremely important. As mentioned, a Will can still ensure that your estate remains tax efficient. Without a Will, your estate will pass in accordance with the intestacy rules, which can mean that a large Inheritance Tax bill could be due. A Will would help to avoid this, whilst ensuring that your estate passes to your loved ones.

**Q** **The current situation has focused many people's minds on sorting out their affairs in order to protect their family and loved ones. One of the ways to do this is through a Lasting Power of Attorney. Can you explain the different types of LPA's and how they can help achieve this?**

**A** There are two types of LPA; one for property and finances and another for health and welfare decisions. The LPA's can be tailored to each individual's wishes and allow you to make it clear when your Attorneys can act and what decisions they can make on your behalf.

Before the pandemic, most people assumed they only needed an LPA in place in case they lost mental capacity in the future. However, following the lockdown restrictions we have been under since March, a lot of people have been unable to assist family members in the usual way, and many are unaware that this could have been made much easier with an LPA in place. For example, it would be quite difficult for an individual who was used to visiting their high street bank to suddenly have to start using online or telephone banking. However, with an LPA in place, the Attorney would have been able to deal with this on their behalf, without having to leave their own home.

**Q** **What if I don't have a Lasting Power of Attorney?**

**A** If you do not have an LPA in place and you were to become unable to make your own decisions, the only alternative is for an application to be made to the Court of Protection for a Deputy to be appointed. The disadvantage of this is not only the time scales involved (currently upwards of 8 months), but the decision is taken away from you as to who is appointed. Furthermore, Deputies have narrower powers than Attorneys and they may have to keep applying to the Court for permission to make certain decisions, if they are not covered by the original Order. This may mean that decisions concerning your property or finances cannot be made for some time, which may cause unnecessary stress for family members.

**Q** **Who can set up an LPA?**

**A** Anyone who is over the age of 18 and has mental capacity can make an LPA. Once completed and signed by all parties, the document has to be registered with the Office of the Public Guardian before it can be used by the Attorneys. Even once registered, you can decide that your Attorneys are only to act for you once you have lost mental capacity.

**Q** **How can Blaser Mills Law help personal and business clients on these points?**

**A** Our expert lawyers can provide you with transparent and objective advice to ensure your LPA is robust and effectively protects your best interests. In addition, if you are in need of a Will, we can provide you with an up to-date, tax efficient Will.

"

**OUR TEAM WILL TAKE THE TIME TO UNDERSTAND YOUR NEEDS AND OFFER A SERVICE THAT ENSURES YOUR WILL COMPREHENSIVELY REFLECTS YOUR WISHES.**

**GET IN TOUCH WITH KAREN WOODISON**

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