IFA magazine

INVESTMENT SPOTLIGHT 2017

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Welcome – the business of investment

Successful financial advice and financial planning firms will have a robust and systematic investment advice process in place to supplement their financial planning process. It all sounds straightforward enough, but in practice getting the detail right isn't always easy.

Yet having a detailed investment strategy in place is a powerful business driver. Behind that strategy will be evidence of objective research and analysis which shows how you have come to a particular decision regarding particular recommendations provided for clients.

Build value in your business

Having a clear strategy in place means that not only do you build strong value in your business but most importantly, it ensures that you can consistently deliver the services which your clients expect. This all supports the development of highly successful long-term client relationships based on trust.

Decisions such as to whether or not to outsource investment decisions to a third party discretionary manager, how and when to carry out rebalancing or the balance between active and passive approaches will all be made individually by firms as they focus on the approach which best suits their business model. Similarly, firms will decide how to best ensure that appropriate risk assessments are carried out and that the resulting portfolios recommended are appropriate to clients' needs and attitude to risk. Being able to demonstrate a well thought out asset allocation strategy will support clients' understanding of the management of their portfolio and also help to manage business risk too.

Adding value for clients

Investment performance is clearly something which is beyond your control as an adviser. However, what is within your control is the ability to demonstrate clear, long-term value through your client proposition. Ensuring that it focuses on helping clients to identify and prioritise their all-important goals in life and to optimise their chances of successfully achieving those goals, will create a win-win situation. Your business will benefit hugely from having satisfied clients who are willing to pay ongoing fees for the peace of mind, clarity of purpose and genuine value which your service delivers. They understand that the value of their investments will go up and down but that over time the benefits of having a well-diversified portfolio will give them the best chances of achieving their goals and living the life they want to lead.

As an adviser, making appropriate investment decisions will depend on having sound information on which to base those decisions. Uncertainty and change are significant factors here. The considerable uncertainty in today's markets and across the global economy makes investment management decisions currently even more challenging than perhaps they have ever been before.

By reviewing your procedures and committing the time and resources to due diligence will ensure that an effective process can be integrated.

In this book we have been delighted to work with a number of experts who have provided their insight and analysis to help you to deliver excellence in investment advice. We thank them all very much for their contributions and we hope you find the information useful.

Sue Whitbread, Editor IFA Magazine

Where Do We Go From Here?

Fasten your safety belts, says **Michael Wilson** Editor-in-Chief of IFA Magazine. It's going to be a bumpy ride.

The last time people talked about a New Economic Paradigm, nearly 20 years ago, most of them meant the phrase in a positive sense. That pretty little myth that new technology had somehow engineered a permanent step-change in global wealth was, of course, destined to crash and burn as soon as the harsh new millennium started. But heck, at least we were all singing from the same hymn sheet in those days about international trade, co-operation and stable power blocs….

How time flies. This year's New Paradigm is no less ill-fated, but it isn't even superficially pretty, let alone positive. Donald Trump's swaggering arrival in the White House marks an ugly shift away from multilateralism, internationalism, loyalty to traditional allies or free trade. If it doesn't make America richer, says the new President, it's actively bad. Tax it 'til the world shows respect, and use the cash proceeds to rebuild America's rustbelt. Reject all the subtlety of international diplomacy, reject the World Trade Organisation's authority - and generally, use attack strategies whenever in doubt.

Now that's what you might call a Paradigm. The rest of us will have to get along as best we can. For Britain and the embattled European Union, as it happens, the timing could hardly be more awkward. And for British financial institutions, with the banking passport still in limbo, it's doubly serious. But more of that anon.

What, you might ask, is a financial adviser to do about all this? For many clients, the answer comes back to: sit it out and wait. Timing the market cycles might work (for some clients and some situations), but this time it's

> The world's economy seemed to enter 2017 in surprisingly reasonable shape, considering the range of uncertainties that were unfolding in every direction

the cycles themselves that look like being swamped by US actions. Past performance is no guarantee of future results. As they say.

It would be easy to get bogged down with all the bad news, but we've tried to pick up some of the positives as well. How have we done? Let's compare notes next year.

So what does 2017 promise?

We need to be brave enough here to say that we don't know. Populist nationalism isn't just a US phenomenon – the same revanchist sentiments which fired Britain's (now finalised) choice to abandon the single market are also ripping into the structure of the EU itself. France, Germany, Italy and the Netherlands are also getting the alt-right bug. Can the union even survive?

And where will the dollar go under Trump? Can we predict the course of interest rates and bond yields? How will it all impact on the oil price, and what other factors might sway it? Will Trump's attempt to force US manufacturers back onshore have an impact? And, specifically, which industries seem set to benefit from Trump's measures and which will flounder?

Global economic growth

THE PRESENT

Current growth estimates from multinational sources such as the International Monetary Fund (IMF) or the OECD point toward a generally satisfactory level, with the OECD predicting a healthy 3.34% GDP growth for 2017. Importantly, the agency rates OECD members at only 1.98% - suggesting that it still expects emerging markets to outpace the developed world.

US growth is forecast at 2.27% by the OECD, but the UK rates only a miserly 1.24% (somewhat less than the 2% from the Bank of England), and Germany rates just 1.65%.

THIS YEAR'S SITUATION

Clearly, the uncertainties emerging from America's departure from globalisation have undermined some of these assumptions, with particular concerns about the impact of any defensive or protectionist trade tariffs from the United States. (Donald Trump has explicitly rejected the World Trade Organisation's rules.) Britain's intended exit from the EU has cast further doubts about trade with the EU, although we should not see any real impact until 2019 at the earliest.

THE MARKET'S VIEW

Clear expressions of anxiety from fund analysts at the start of the year have given way to more thoughtful appraisals as Trump's intentions have become clearer. It is likely that his plans will deliver a short-term boost to US economic growth.

The IMF's view

We may as well start our investigation by looking at the expert view. The world's economy seemed to enter 2017 in surprisingly reasonable shape, considering the range of uncertainties that were unfolding in every direction. According to the IMF's January update to its World Economic Outlook, the global economy enjoyed three quarters of broadly 3% growth in 2016, with the fourth quarter also looking broadly similar. And the IMF said it believed 2017 would see a pick-up in growth. With one or two qualifiers…..

Those qualifiers, it went on to say, are the assumption that President Trump will indeed act on his pledges to boost the US economy using substantial fiscal outlays – specifically, the $1 trillion he wants to spend on infrastructure. But also that US stock prices will continue their upward path as the effects of the stimulus filter through to US companies. We'll return to that one in a moment, because it's not so simple as it sounds. Oil prices will firm, it says, and tighter lending conditions will result in higher bank rates and bond yields at a time when this may be damaging for the euro area.

The IMF says it's also expecting growth to be weaker in emerging markets this year, as capital gravitates toward the US. But it's making no assumptions yet about the impact of trade disputes, import quotas and punitive levies. That's a pretty big gap to have left unfilled. The next IMF update is due in April. It should make interesting reading.

Reasons to be cheerful

THE PRINCIPLE

It's too easy to get sucked into pessimism about the correlation between economic development and financial market performance, say some observers. The bounding performance of Wall Street since 2009 has been only partly a reflection of either economic growth or consumer sentiment: issues such as market confidence, flight-to-safety cash transfers, jobs performance and consumer debt are equally important.

THIS YEAR'S SITUATION

Investment Analyst Ken Fisher, probably the most ebullient enthusiast for equities, has been insisting for five months now that 'history's most joyless bull market has further to run': forget the scepticism, he says, and focus on the fundamentals, because no US president has ever managed to get his most extravagant plans past Congress. As he reminded the *Financial Times* last November, Barack Obama couldn't achieve any more of his abundant policy agenda than healthcare reforms and some financial market regulations. 'I once heard Ronald Reagan say that great presidents get only three or four important things done in four years' he says. ...'So channel your inner Reagan, and remember: Presidents can't do more than a few big things. That will be [the] markets' great surprise next year. Buy it.'

THE UK?

A tougher call, in our view. By mid-February, emerging reports of poor footfall in UK retail outlets was feeding speculation that consumers had been bringing forward high-ticket purchases in anticipation of higher prices after any further sterling depreciation. But strong UK dividends are well covered at present, and confidence – as expressed by the various market confidence indices – remains positive both in Britain and in the Eurozone.

May's dilemma

The UK's own financial markets haven't done as well this year as America's, where the Dow Jones burst through its psychological 20,000 threshold during January – but on balance, the FTSE's wavering around the 7,200 mark suggested to many that we're in good economic spirits for 2017. Objectors, however, point out that we haven't seen the full impact of Theresa May's hard Brexit, which they say looks likely to put a chill on many companies' expansion projects.

More significantly, perhaps, they believe that strong UK stock markets have been boosted since last June by foreigners cashing in on the cheap pound to buy British blue chips on the cheap - and not, in fact, by any intrinsic strength from the UK economy. Feathers were further ruffled by the British Retail Consortium's February report, which said that sales had grown only 0.1% in January and that the Christmas quarter's sales growth had been the slowest since 2009.

> The UK's own financial markets haven't done as well this year as America's

In theory, the Prime Minister has little scope for more fiscal stimulus when Chancellor Philip Hammond stands up to deliver the spring budget on 8th March. In practice she'd be well advised to deliver a boost before she invokes Article 50 at the end of March. We're betting on more help for smaller companies. But a consumer tax grab remains on the table for the autumn if things look bad enough.

Europe's pain

You don't need us to tell you that the European Union is in more trouble than it likes to admit. With the Eurozone's growth projections for both 2017 and 2018 set at a lowly 1.5% - markedly less than the Bank of England's 2% for the UK – there are few enough reasons to expect strong organic growth.

More to the point, perhaps, those growth levels have been based on what even Germany is calling a cheap euro. (An opinion which an angry President Trump is more than keen to agree with.) But even the export advantage that the weak euro confers hasn't helped to reduce Eurozone unemployment below 9.6%. That's a problem which is feeding the Euro-secessionist sentiment at grassroots level.

The first challenge to the EU's bars will come from the Netherlands, where the March elections may well produce an untidy coalition that's beholden to weakening the EU and fighting Islam and the free movement of people. France will start rattling the bars of the EU cage in April/May, Brussels, as the Eurosceptic Marine Le Pen launches a far-right assault on the Elysée Palace in presidential elections where she has an undeniably fair chance of winning. And the third assault will come to Germany's Chancellor Angela Merkel in September/October, when the far-right Alternative für Deutschland presses home its demands for Germany to quit the euro and stop cushioning the lazy, spendthrift Mediterranean region.

It would be easy to dismiss all of these as Faragiste fantasies, but nobody should doubt the softening effect they are already having on industrial sentiment. The very base structures of the EU's integrated economic planning system are being undermined, and we won't see any change in stock market sentiment until the second half, if then.

Best sector prospects?

THE PRINCIPLE

Although the effect of disruptive technologies on traditional industries has coincided with a particularly shaky spell for worldwide financial institutions, the core equity investment for many continues to be in established blue-chip companies. Many believe that the gradual transfer of basic manufacturing to emerging regions such as China, India or Latin America is now complete; but strong engineering traditions in America, and to a more telling extent Germany, are offering a different story.

THIS YEAR'S SITUATION

Trump's election and Britain's intended exit from the EU present two of the strongest challenges to the market's assumptions because the probable trade disruptions will interfere with established models and expectations. To that extent, all bets remain open. But infrastructure looks strong, especially in the US - as do many tech stocks. The IMF says it expects a strengthening energy market, and European automobile markets are touching multi-year highs.

Can the banking scene sort itself out? Opinions are divided. Fidelity Investments declared the 'improving' sector in December to be worth watching for developments, particularly on the technological end as newcomers jostle for advantage with the traditional players.

Chemicals and (especially) pharmaceuticals are under the lens; on the one hand, a wave of mergers and acquisitions is consolidating the sector, but on the other, Trump is campaigning hard against 'price-gouging' drug manufacturers who supply the lucrative US market.

UK equities

THE PRINCIPLE

The familiarity, liquidity, ease of purchase and low trading costs of UK equities speak for themselves. But, according to Germany's Star Capital, UK markets are also affordable. London is running one of the lowest cyclically-adjusted price/earnings (P/E) ratios in the developed-market world, Star Capital says, with a cyclically adjusted P/E (CAPE) of 14.8 in December 2016 – compared with 18.6x for Germany, 18.3x for France, 24.9x for Japan and 26.4x for the United States.

THIS YEAR'S SITUATION

There seems little doubt that the recent weakness of sterling has stimulated demand from foreign investors for UK equities; the difficulty is to say whether the rush for sterling-denominated instruments has obscured a sluggish domestic demand. It has certainly boosted demand for gilts.

THE MARKET'S VIEW

Opinions are divided at present, but larger dividend-paying companies have been under pressure because of the export uncertainties surrounding a hard Brexit. Retailers have had a good run but have reported weak Christmas trading. And Schroders warned last summer that cyclicals were likely to suffer from the Brexit vote. Although, it said, banks and real estate were expected to struggle while defensives such as healthcare and utilities made good progress.

Financials

THIS YEAR'S SITUATION

In themselves, British financial institutions appear well enough placed to meet the demands of the coming year. Well capitalised and generally well regulated – although with some equally well-publicised lapses of conduct in the past - the sector can consider itself relatively well regarded. And the approaching end of PPI mis-selling liabilities (currently proposed for June 2019) is a further plus for balance sheets.

All of this, however, seems slightly beside the point against the bigger question of the European banking passport in the light of the government's hard Brexit decision. By confirming in January that Britain would not be attempting to stay in the Single Market – of which the banking passport is an integral element – the Prime Minister has awakened fears that London may lose market share to Paris or Frankfurt. And not just for banks: the Treasury Select Committee reported last September that 5,476 UK-registered firms hold at least one passport to do business in another EU or EEA member state.

THE SECTOR'S RESPONSE

It was apparent by mid-February that there was truth in the reports of British institutions preparing to rebase, at least partially, within the EU. HSBC, JP Morgan Chase, UBS and Morgan Stanley have already broken cover. After a brief government flirtation with the idea of 'buying' special UK access to the passport, the FCA is currently aiming for an 'equivalence' deal whereby individual firms can be granted access, based on British compliance with EU norms.

Small and mid-caps

THIS YEAR'S SITUATION

If there were worries last year that the Brexit approach might dent confidence among smaller companies, they have not been greatly in evidence so far this year. By mid-February the FTSE smallcap index had recovered from last November's selling period and had advanced by some 3%. Mid-caps, however, had returned to their December levels after a brief upward movement.

KEY ISSUES

Smaller caps tend to be more UK-focused than indices like the FTSE-100, which include many large dividend-carrying international stocks, and their relative lack of liquidity can sometimes be an issue.

The Italian Job?

And so to the wildcard that's been keeping Europe's finance ministers awake at night, slightly more than they might like to admit. Italy's failed referendum on constitutional reform in December has opened the way to another populist, nationalist alliance that has little time for the Eurozone.

> The lost vote may have meant the end of ambitious plans to toughen up the rather cushy supervision that the banks have enjoyed from the Bank of Italy

Specifically, the lost vote may have meant the end of ambitious plans to toughen up the rather cushy supervision that the banks have enjoyed from the Bank of Italy until now. The Bank of Italy says that private bank bondholders shouldn't have to suffer if a bank fails. (For information, Italian banks are holding €350 billion of bad debts.) Whereas the government is struggling to insist that yes, they should. And the threat is certainly real: when Monte dei Paschi di Siena, the world's oldest bank, went almost insolvent in December, there was nothing for it but for the government to funnel in some €20 billion, on pain of a possible banking default.

We hardly need to say that the chances of a bank run extending to the government itself are not small. And that €350 billion is a lot of money. And that Italian 10 year paper is getting on for 200 points higher that the equivalent German yield. And 64 points higher than Spain. No wonder Frankfurt is getting twitchy.

The US market

THE PRINCIPLE

The theory, as you'd expect, is that the world's bellwether economy is in strong shape, with a particularly beneficial workforce demographic, and that growing uncertainty elsewhere ought to bring in investments from other parts of the world this year. At the same time, US multinational companies are effectively being ordered to repatriate their profits and some of their capital.

THIS YEAR'S SITUATION

Trump's promised incentives, combined with tax cuts, ought to feed the bottom lines of US businesses during 2017, while the prospect of large fiscal deficits should be at least partially mitigated by imposition of hefty import duties from Mexico, China and any countries which export goods to the US where they could have been built inside the USA. But the implementation of these policies is still politically uncertain.

THE MARKET'S VIEW

In the third week of February, as worries about the immigration issue continued to heighten, markets were taking a raincheck as the Dow flattened off. The ten year cyclically adjusted P/E on the S&P 500 had soared to 30x, against a historical average of around 15x. Expectations of fatter corporate earnings were underpinning the growth. But Goldman Sachs were already calling a top to sentiment, as the dollar started to weaken.

Late spring: America's gain

There's plenty that we can say about America's economy – mostly, that Trump's proposed changes seem likely to work. The promised $1 trillion stimulus to the country's battered infrastructure is a pretty fair echo of the Keynesian expansion which finally hauled America out of the 1930s depression – and the trickle-down employment benefits should indeed work well.

There is, however, an open question as to who is going to pay for all this. We would probably be wrong to expect that it will all go onto the Treasury's debt pile: Trump has toyed with the idea of soliciting private funding for the scheme, which would presumably entail the partial privatisation of the network. Either way, construction companies look well set to benefit, while pharmaceutical companies are under presidential attack for rip-off drug pricing. Well, that's this month's position, anyway.

One major point of contention, however, surrounds the feasibility of the promised focus on rustbelt industries which formed one of Trump's key election platforms. There is hardly an economist anywhere who believes that the north-west's coal mines, steel mills and derelict car factories can be realistically revived even with protectionist walls to defend them – or not, at least, for several years. I wonder who's told the voters that the promised jobs bonus will be slow in arriving?

The other important conflict zone is Trump's impact on large companies, especially multinationals. You'll have gathered that the President doesn't like the way that companies like Google, Apple or Facebook spread themselves around the globe so as reduce their tax burdens. Indeed, Donald doesn't like global operations, full stop. The tech firms themselves, who tend to favour Democrat strongholds like California or Washington State, are really not on his wavelength about anything much. That's looking like a show of force that he might lose.

Bond yields

THE PRINCIPLE

The traditional wisdom that fixed-interest should form part of any well-balanced portfolio still holds as well as ever, but the recommended ratios have changed. The absurd overvaluation of bond markets since 2008 has driven real yields to the point of occasional negativity in countries such as Germany, and in Britain too the impact of foreign demand for gilts has reduced annuity payouts to painfully low levels. Meanwhile, the unfamiliar volatility of bond prices has introduced an undeniable element of capital risk to a sector which once prided itself on its stability.

THIS YEAR'S SITUATION

The last two years have demonstrated that it may still be too early to talk about a retreat from bonds: US benchmark yields which had plummeted from 5% in 2008 to 1.5% in 2012, then up to 3% and back down to 1.4% last summer, have introduced huge volatility. In February 2017 the yield had dropped back to 2.35% from 2.6% in December – another sign that the era of high prices might ot be over yet.

Early summer: Whither the dollar?

As we've said, Trump's plans for financing his economic expansion plan have been magnificent in their absence. But, coming on top of in the face of promised tax cuts (which he would be foolish not to implement soon), the market's default assumption needs to be that the federal debt will pick up some of the tab. That ought to mean a sizeable bond issue, even if the infrastructure plan is privately funded.

And that in turn ought to mean a sharp increase in the yield curve (as also expected by the IMF), and then – what? Conventional economics has assumed that more dollar debt will weaken the dollar, but Reagan proved that it can do the opposite if it can whip up a storm of global demand for what looks like one of the world's strongest recovery stories.

Conventional economics has assumed that more dollar debt will weaken the dollar, but Reagan proved that it can do the opposite

That would annoy the President quite a lot, because he's recently turned to railing against any currency that he says is pitched too low. He might, of course, opt to finance the whole shebang with his 35% and 20% import tariffs; but his advisers will probably point out quickly enough that these price increases would only hurt the poor. Contradictions, contradictions. He's got a million of them.

Late summer: Bashing Iran

Iran is just another of those awkward contradictions for the President at the moment. It's easy enough to rant about the nuclear non-development pact, under which Iran agreed to stop its nuclear programme in return for the right to export its oil – but less easy to assimilate the fact that Iran is a staunch ally of President Assad of Syria, who's a staunch ally of Russia, whose leader Vladimir Putin is a staunch ally of President Trump.

Don't even ask how Trump will square this self-perpetuating circle; ask instead what will happen if Iran's 4.35 million barrels per day (January 2017) are suddenly banished from the market?

That's 12% of the OPEC cartel's current production, or 5% of the world's global demand – more than enough to put a critical squeeze on world prices if it happened. And what else would happen? That's right, America's shale oil producers would be able to move out of the red ink and back into profitability.

Energy

THE BEDROCK ISSUES

A lot of the urgency around 'peak oil' has dissipated in recent years, as energy prices have been dampened by increasing petroleum finds (especially outside the OPEC group), improved extraction techniques for existing resources, and – increasingly – a perception that new fuel-efficiency technologies really can reduce the planet's future consumption of fossil fuels.

THIS YEAR'S SITUATION

For the moment, the talk is all about (mainly loss-making) US shale oil operations, but, as discussed here, the potential for Middle East supply disruptions is great. Fossil energy is as much of a political football as ever, mainly because global buffer stocks are deliberately kept at very low levels. And Trump's proposed expansion of US coal mining adds another layer of pressure on oil. Progress toward renewable energy remains impressive, however – especially in continental Europe.

Autumn: Russia

It would also come as a welcome surprise to Vladimir Putin, whose struggling Russian economy is heavily in thrall to the oil price. And to the Saudis, who Trump is keen to keep onside, despite objections from the liberal benches that the Kingdom is financing Sunni terror groups like Islamic State in Iraq, Syria and Yemen. But that's well above my diplomatic pay grade. Let's just observe that Russian stocks, which have been doing very well in the last two years, may well respond favourably to a rebounding oil price.

It would also come as a welcome surprise to Vladimir Putin, whose struggling Russian economy is heavily in thrall to the oil price

Emerging markets

THE PRINCIPLE

Investing in emerging markets was always a popular option for the long term in the halcyon days when the United States still espoused the globalisation agenda. Even very high P/E ratios could be tolerated for as long as investors were confident of the long-term growth prospects from EMs.

THIS YEAR'S SITUATION

That perception, however, was under attack even before President Trump began his planned withdrawal from globalisation. For some 15 years now, China's equity markets have shown little correlation with strong underlying economic growth, and markets in India or Latin America have fluctuated more in line with political agendas or with mining industry production than with the prosperity of their populations. Conversely, the fastest growing industrialised stock index in the world is very possibly Moscow's MICEX, which has gained 30% in 12 months (on top of a 19% rouble appreciation) and 80% since May 2014.

THE MARKET'S VIEW

Trump's policy of fining China, Mexico and (possibly) Germany for "unfair" trade practices has introduced new uncertainties into the EM game. But players such as Templeton or Bank of America have expressed confidence in the long-term prospects. And some insist that now, while investors are withdrawing as much as $1.5 billion a week, may prove to be a buying point.

November: China

It might have escaped your notice that one of the biggest political and economic events of the year is due to take place on the other side of the world, and in relative isolation from the Western environment. The 19th Communist Party Congress in Beijing, which will set out the economic direction of the billion-strong nation over the next five years, has the power to exert huge pressure both on Europe and on President Trump. He just doesn't know it yet.

The 18th Congress in 2012 showed how important the changes can be. Then, the Communist Party leadership instructed Chinese producers to stop focusing so much on the export industry and direct their output instead towards the Chinese consumer, because it feared letting the foreigners have too much say in the away the export economy was run. And guess what? They did.

This time, of course, the leadership will be working out how to deal with whatever Mr Trump has thrown at it during 2017. Should it, for instance, continue with its weak yuan programme, which has so annoyed the Donald? Should it be prepared to scale back its US exports, and would that mean settling for less than 6.5% economic growth?

Or should it simply remind the President that it owns $1.25 trillion of US government debt – enough to finance the whole infrastructure programme, and amounting to a third of the $4.5 trillion of US debt that's owned by foreign governments? And that it's the world's biggest holder of US debt, and substantially bigger than US households, which between them own barely $900 billion.

Trump has been guilty many times of using words like 'rape' for America's treatment at the hands of his Chinese creditors. A change of tone would be a welcome start.

That was then – this is now: investing for income in a low return world

With the yield from bonds under increasing pressure, where can advisers turn to for a growing investment yield? **Ryan Hughes**, head of fund selection at A.J Bell, shares his thinking on this dilemma and provides some fund solutions for advisers looking to create a well-diversified and income-focused portfolio for clients.

In the halcyon days before the financial crisis, investing for income was relatively straight forward; simply put together a diversified portfolio of cash, bonds and perhaps a couple of reliable equity income funds and it wasn't unreasonable to deliver a solid yield of around 5% per annum. Today, the quest for reliable income has become as elusive as the Holy Grail with investment experts seemingly coming up with ever more unusual methods of generating high levels of income to satisfy the insatiable demand for yield.

As the financial crisis took hold of the global economy in 2008, governments and Central Banks of the western world saw the remedy as the bailing out of the leveraged few by the frugal majority, with the consequence being that yields on cash and fixed interest investments collapsed. This prolonged multi-year journey culminated in 2016 in a plethora of negative interest rates on government bonds and high quality corporate bonds in Europe and the bizarre spectacle where savers had to effectively pay the bank for the privilege of looking after their money.

In 2017, it feels like we may have turned a corner. Inflation is picking up and looks likely to continue to do so, governments and Central Banks have changed direction and stopped driving yields down further, while companies have repaired their balance sheets and started to once again think about dividends and dividend growth.

The risk factor

When putting together a portfolio to generate income today, we clearly have to rule out the ability to get anything from cash on deposit. This immediately indicates that to generate income you have to take risk with capital.

One of the biggest conundrums facing advisers and clients today comes in the form of the government bond market. In theory a source of steady coupons in return for taking limited risk, this arena is now home to negative yields – which guarantee the holder a loss over the lifetime of the bond if it is held from issue to redemption. And yet the world has never been more indebted and the supply of bonds never higher. This should be a recipe for soaring yields and low prices, not record prices and plummeting yields.

Not so gilt-edged gilts

Today, it is accepted that even when investing in government bonds, there is now an element of risk. While it may seem a remote possibility that the UK government will not meet its obligation to pay back debt, the volatility seen in the government bond market is a stark reminder that unless you are able to hold bonds to their final maturity date, then your capital value can fluctuate significantly. This was exemplified in the final quarter of 2016 when UK gilts fell over 6%. From an income perspective, the 10 years gilt is offering a yield of 1.5% at the time of writing and while this is better than is available on deposit, it is fixed for 10 years with no ability to grow with inflation.

What about gilt alternatives?

Away from government bonds, other elements of the fixed interest market do still have a part to play in generating income but of course the trade-off is increased risk to capital. There do seem to be pockets of value in fixed interest, particularly when taking a long-term view.

For those still seeking security, investment grade bond funds can still look attractive relative to cash and gilts. Yields are lower than those from high yield bond funds, but this brings greater capital security. With interest rates and inflation potentially increasing, experience is key here. As a result, two funds managed by veteran managers stand out; the Invesco Perpetual Corporate Bond fund and the Fidelity Moneybuilder Income fund.

> Successful portfolio construction lies in understanding the long-term attributes of each portfolio building block

Looking away from the mainstream, one area of interest, if you'll excuse the pun, are bonds issued by financial companies. I like the GAM Credit Opportunities fund which specialises in investing in bonds such as those issued by banks and other financial institutions and these remain unloved as a consequence of the financial crisis. As a result they still offer higher yields than other sectors with this fund currently yielding 4.9%.

It is also worth considering strategic bonds funds that have a greater emphasis on high yield bonds and here James Foster, manager of the Artemis Strategic Bond fund, has proven over many years that he can navigate the choppy waters of the financial markets. This fund currently yields 4.2%.

Before moving away from fixed interest, high yield bonds have a place in an income portfolio. They are more correlated to the equity market and less sensitive to interest rate moves and of course have the added attraction of a higher income. To take out some of the risk associated with investing in these companies, I like to look at short duration high yield bonds as this reduces the default risk. Here, the Royal London Short Duration Global High Yield Bond fund is attractive. It is well priced, focuses on bonds with less than three years to maturity and currently yields 5.2% in early 2017.

Equity income funds – the old favourite

Equity income has been the traditional hunting ground for income seekers for many years. With the ability to grow dividends, it is the ideal way to keep up with inflation and helpfully over recent years, the options available to investors have increased significantly. In the UK, the culture of the dividend is one of the strongest in the world, but more recently, the importance of dividends has been recognised by company management the world over giving rise to a far greater choice of income strategies around the world.

What is clear is that with equities comes increased risk of fluctuation but the potential rewards are capital growth and a growing income. However, despite the positive case that can be made in favour of dividends, there is the risk that dividend payouts could be cut in the event of a recession or sudden profit shock at a company. In the case of the FTSE 100 Index, dividend cover looks a lot thinner than ideal. In a perfect world, cover would be more than two times, to leave some slack in case an earnings downturn or recession hits, but cover hit barely 1.4 times in 2016 and is not expected to reach two times until 2018 at the earliest.

In the event of an economic downturn this could leave dividend payments exposed to the risk of further cuts, bearing in mind that we have already seen some well-known UK companies cut dividends in recent months.

That said I'm still comfortable looking at high quality UK equity income funds as a core part of an income generating portfolio. Neil Woodford has proven to be one of the most successful investors in the UK over the past 20 years. His patient, long-term approach has paid dividends (pun absolutely intended) for investors. His Woodford Equity Income fund would be a solid core holding for any income portfolio. Alongside this, the team at Threadneedle have an exemplary track record and their UK Equity Income fund has proven to be a reliable performer in even the most challenging of conditions.

Smaller cap funds can still deliver on yield

It is often thought that smaller companies are all about growth and finding the next big idea. However, the dividend culture in small companies is very strong, not least because these businesses often tend to be owner managed with these owners wanting to take a cash flow from the business. This creates opportunities for investors who are looking not only for income, but also for the potential for that income to grow over time and possibly some capital growth as well. With many investors often already having exposure to the big, well-known equity income funds, looking down the capitalisation scale to smaller companies brings some welcome diversification. The standout player in this market is Montanaro with their UK Income fund. One of the biggest independent smaller companies research teams in Europe, they have unrivalled expertise in this area. Proof that smaller companies can deliver a valuable income stream is seen as the yield on this fund at 3.8%, only a fraction behind the typical yield on a fund investing in blue chip companies.

> With many investors often already having exposure to the big, well-known equity income funds, looking down the capitalisation scale to smaller companies brings some welcome diversification

Go global

Away from the UK, income investing has become hugely popular given the scarcity of income from other sources already mentioned. Companies in the US, Europe and Asia all offer attractive dividend yields and good diversification away from the UK where most investors will be based. One of the early movers in this space was the Newton Global Income fund which has benefited from its strong focus on investing in reliable dividend payers. This approach could provide a useful core to build other strategies around. Alongside this, the smaller and far less well known Saracen Global Income & Growth fund looks interesting as a way of accessing companies that offer higher potential for dividend growth. It is much smaller and more nimble and certainly looks like one to watch.

The case for commercial property

So far, I have only looked at fixed interest and equity funds as a way of delivering income. However, commercial property funds have always proven to be popular as an alternative asset class, but this not without its critics following the well-publicised suspension from transacting during the fall out from the Brexit referendum in 2016. Here, retail investors rapidly withdrew money over fears that the UK economy would falter leading to a knock-on impact in property values, particularly in central London. While the issue of Brexit looms large on the horizon, the UK commercial property market has started to normalise and strategies have re-opened.

I wouldn't dismiss the benefits that this asset class brings to an income seeker. Property has a very low level of correlation to both equities and fixed interest and therefore offers real benefits of diversification in a portfolio. As ever, it is important to take a long-term view, but that being the case, then a small allocation to this asset class could be appropriate. With the majority of returns coming from income (i.e. rent), it sits naturally with income seekers. In this area, the Henderson UK Property fund is a strong proposition with an experienced team and it currently yields 3%.

Alternative strategies

Over recent years, there have been a significant number of 'alternative' income strategies launched with a view to attracting investor's attention with a high level of income. We have seen the growth of peer-to-peer lending, aircraft leasing and solar farms amongst other things as investment managers look to lure investors away from low yielding investments and cash.

While such investments looking interesting and will, no doubt, become more common in the coming years, I remain cautious on such ideas. Importantly, these strategies have grown since the financial crisis and have yet to be fully tested in a major market correction. They are often structured in an investment trust which brings potential liquidity issues should many investors wish to sell at the same time. While these niche investments certainly have a place, I view them as very much at the periphery of a portfolio of income generating investments. Once you have a core of mainstream, tried and tested investment strategies in place, it may be appropriate to bring additional diversification to a portfolio by allocating to alternative income. However, I believe that this should only account for a small part of your portfolio and you should very carefully consider the risks of investing in such approaches.

By taking a traditional approach to portfolio construction and focusing on fixed interest, equity and property, it is still possible to design a well-diversified and balanced portfolio to generate income. Using the strategies I've discussed here, an allocation of 40% to fixed interest, 55% to equities and 5% to commercial property has the ability to generate an overall yield of circa 3.8%. This yield is higher than is currently available on the FTSE All Share Index, and is certainly significantly more diversified with income sources from across the world and across different sectors and strategies.

Whatever approach you decide to follow for your clients' portfolios, I believe the following factors are currently crucial for your thinking:

- There is no such thing as a free lunch – to generate any return, whether income or capital, you have to take risk
- The global outlook is uncertain therefore look to diversify your income generation across multiple sources
- Factor in inflation and look for ways of growing income over time
- Avoid value traps – there is little point in simply exchanging capital for income

Where to search for fixed income in 2017

The next 12 months will be overshadowed by central bank interventions, political risk and the potential for rising defaults, all of which will impact fixed income in the developed world, says **BNY Mellon**

Outside of monetary policy decisions, what do you see as the biggest challenges for the year ahead for corporate debt investors?

From a top-down perspective, investors increasingly need to be aware of political event risk. The surprise outcome of the UK referendum and US election highlighted this. In 2017, Germany and France both go to the polls in an environment in which fringe separatist political movements are looking to consolidate their growing support, says Peter Bentley, Head of UK and Global Credit at BNY Mellon.

One important challenge is the rise in idiosyncratic credit risks in investment grade markets. A significant contributor is a wave of M&A, which often benefits a company's shareholders at the expense of its bondholders. In a low growth environment, management teams struggle to deliver shareholder growth organically and so M&A or shareholder buybacks become a natural solution. However, this usually leads to an uptick in leverage ratios, which is a risk for credit investors, says Lucy Speake, Head of European Fixed Income at BNY Mellon.

Issues surrounding corporate governance are another factor. Examples include last year's Volkswagen scandal and the controversy surrounding Deutsche Bank and the US Department of Justice.

Do you believe default rates will increase in 2017? Which sectors look vulnerable?

We expect the default environment for investment grade issuers to remain benign in 2017, with positive growth and low yields allowing issuers to refinance their debt at attractive levels. Strong investor demand is also evident, even at these low yield levels, says Bentley.

An uptick in defaults has been evident in the US high yield market but this was mostly related to energy companies struggling with lower oil prices. Should commodity prices fall further, this would put additional pressure on this sector. In Europe and the UK, there is still support from central bank purchases.

What do you see as the biggest tailwinds for your asset class in 2017?

We expect stable, positive growth across the US and Europe next year and this should create a supportive environment for credit. At the same time, some of the tailwinds that drove the asset class in 2016, notably the European Central Bank (ECB) corporate bond purchase programme, are likely to fade away, and we are mindful of that, according to Speake.

We expect stable, positive growth across the US and Europe next year and this should create a supportive environment for credit

What's the outlook for central bank intervention in the next 12 months and how might this affect your market?

We expect global monetary policy to remain accommodative across the developed world over through 2017, says Speake.

In the US, the pace of interest rate hikes is likely to be slow. In Europe, we believe the ECB could well maintain its current negative interest rate policy for the foreseeable future.

Meanwhile, monetary policy is showing signs of reaching its limits. The ECB and the Bank of Japan (BoJ) are finding eligible government bonds increasingly scarce and may need to adjust the rules or expand the universe of eligible assets. However, policy makers have also shown increased concern about the impact of negative interest rate policies and flat yield curves on their banking sectors. The Bank of England (BoE), for example, has ruled out a negative interest rate policy and the BoJ has added flexibility to its annual purchases to target higher yields at longer maturities.

While we expect monetary policy to remain supportive of credit markets we believe speculation over policy decisions may create volatility in credit spreads, adds Bentley. We think investors able to implement absolute long or short directional exposure could exploit this. Credit easing initiatives, such as targeted long term refinancing operations (LTRO) in Europe and the term funding scheme (TFS) in the UK will relieve pressure on banks from the low policy rate environment.

In the UK, the package of accommodative measures already announced to combat Brexit risks has important implications for sterling and the path of inflation. Those able to adopt active currency exposure may be able to add value through periods of currency volatility.

Notably, the TFS will be supportive of the mortgage market and this may feed through to sentiment in UK structured credit markets such as residential mortgage-backed securities (RMBS), which we believe offer excellent value.

FIXED INCOME

> In an increasingly complex and uncertain environment, clients need innovative investment solutions. BNY Mellon delivers expertise at each stage of the investment lifecycle

FIXED INCOME

One of the world's major financial services groups

About BNY Mellon Investment Management

BNY Mellon Investment Management is the global investment management arm of BNY Mellon, one of the world's major financial services groups with operations in 35 countries serving more than 100 markets. Started by Alexander Hamilton in 1784, BNY Mellon is one of the longest-lasting financial institutions in the world.

At BNY Mellon Investment Management, our goal is to build and manage investment strategies that address the ever changing needs of our clients. With over $1.7 trillion in assets under management we are rapidly becoming a trusted investment manager of choice for investors globally.

Our clients include some of the world's largest pension funds and institutions, governments and local authorities, treasuries and family offices. We are a leading provider of sub-advisory services and have strong partnerships with financial institutions throughout major global markets.

How we work

Our distinctive multi-boutique model is driven by a unique and compelling approach to investment management.

BNY Mellon Investment Management provides a robust corporate foundation, together with worldwide resources and administrative support whilst our investment boutiques are free to concentrate on what they do best – delivering specialist and focused investment performance.

Each has its own unique investment philosophy, proprietary investment process and each is a leader in its field. It is a structure that encourages an entrepreneurial, focused approach to investment. This creates an environment in which each investment manager can best perform and build on its individual experience and organisational strengths in the development of new products. Through our multi-boutique investment management model, BNY Mellon enables access to a comprehensive range of investment capabilities, covering every major global asset class.

In an increasingly complex and uncertain environment, clients need innovative investment solutions. BNY Mellon delivers expertise at each stage of the investment lifecycle. Drawing on our comprehensive range of investment capabilities, we collaborate with our clients to deliver our expertise, including tailored solutions and strategies designed to meet the objectives of individual investors.

JUPITER Asset Management

GEM: mid and small caps emerging as winners this year

Jupiter Asset Management believes there are opportunities for advisers in the small and mid-cap global emerging market sector this year

Identify the main opportunities you see for investors in this sector in 2017 and beyond?

We are optimistic about the outlook for emerging markets in 2017. We continue to see some compelling opportunities, particularly among mid-and small-cap companies. Across a diverse range of sectors and countries, we find companies that are likely to deliver healthy earnings growth this year and for which valuations remain low relative to history and relative to developed market peers. Some of our highest conviction ideas come from within the consumer and healthcare sectors and also from within frontier markets.

What are the key risks/challenges that you see ahead for the sector?

The risk posed by China's substantial debt burden remains a concern for investors. Another obvious risk for 2017 is on the political front, given the rhetoric from US President Donald Trump on Mexico and China. However, we find that there are times when the market's preoccupation with negative headlines can, in fact, create opportunities for investors to buy into companies with strong prospects at attractive valuations.

> We find that there are times when the market's preoccupation with negative headlines can, in fact, create opportunities for investors to buy into companies

We saw this last year with Brazil, a market which was very much out of favour at the start of the year due to concerns over politics and the economy but one which offered some very strong return opportunities at the stock level. Today we find a number of Chinese and Mexican companies with strong balance sheets and good medium and long term growth prospects, which trade at what we consider to be very attractive valuations.

What are the aims and objectives for your fund/s?

The objective of the fund is to achieve long-term capital growth through investment in shares of companies that are incorporated in, or exposed to, emerging market economies worldwide.

How is it benchmarked and how do you measure success?

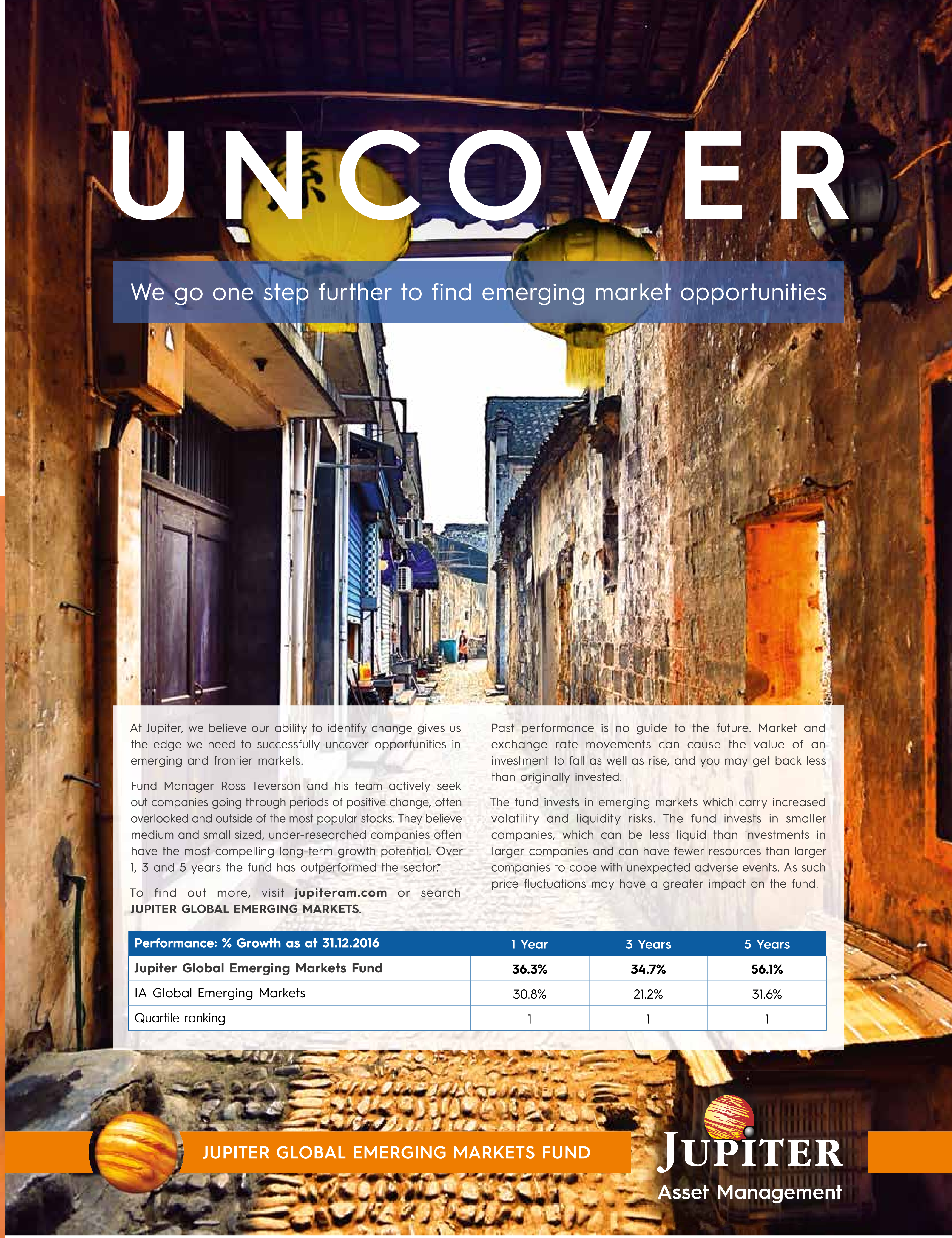
Our approach is unconstrained, which means that we do not use benchmarks as a starting point when building a portfolio. Instead we focus on what we believe are the best opportunities in emerging markets, regardless of whether or not those companies are in the benchmark. For performance comparison purposes only, the fund is benchmarked against the MSCI Emerging Markets Index. We measure the success of the portfolio by its ability to deliver long-term outperformance for our investors.

> We believe we have a clear, disciplined and repeatable approach focused on companies which are, in our opinion, experiencing positive change

What is your process for managing your fund/s and selecting an appropriate asset mix that maximises the opportunities for returns whilst minimising the overall risks and volatility?

We believe we have a clear, disciplined and repeatable approach focused on companies which are, in our opinion, experiencing positive change that is currently underappreciated by the market. We look beyond just the large companies in the market, also selecting what we believe are the most attractive of the medium-sized and smaller companies.

Company meetings are our primary source of investment insight and we frequently visit emerging market countries to meet with company management teams. The fund is relatively concentrated (typically fewer than 50 holdings) and built from the bottom up - that is to say it is a portfolio of our highest conviction stock ideas and is not driven by any macroeconomic views. However, we do look to ensure that economic risk is diversified in the fund and, as a consequence, the fund tends to offer quite broad exposure in terms of countries and sectors in which it is invested.



Investing is simple, but not easy

Advisers deliver material value to clients that goes well beyond portfolio construction. **Tim Hale**, managing director at Albion Strategic Consulting, argues the case.

It is always tempting for clients to judge the value of their adviser on the short-term performance of their investment portfolio. That is unfair as no-one can control the returns that the market delivers. Anyone who thinks they can time when to be in or out of markets successfully, over time, is probably deluding themselves and their clients. Research on multi-asset managers in the US, UK and Canada reveal this to be the case.

While an adviser's value – from an investment perspective – starts with the structuring of a robust portfolio that will weather varied and unknown future market storms, their true value, over time, lies in avoiding the dangerous combination of investor emotions and bad, yet often tempting, investment ideas. A good adviser can earn their ongoing fee several times over, simply by helping clients to have the patience, fortitude and discipline to stick with the programme.

In this article we will explore the different areas of value that a good adviser will bring to the client's investment programme, which starts with, but goes well beyond, structuring a portfolio.

Value level 1: Building a robust portfolio for all seasons

The first step in the investment process is to decide how and what to invest in. There are an infinite number of ways to construct a portfolio and no absolute right or wrong answers to doing so. However, there are certainly better and worse ways of doing things.

In practice, astute advisers i.e. those willing to look at and be guided by the deep empirical evidence available, can build portfolios around an elegantly simple set of risk choices, using institutional quality, low cost, systematically managed funds that seek to deliver the return of each market risk selected as effectively as possible.

Most would agree that the primary portfolio construction decision is gauging how much to invest in growth assets, such as equities, and how much to invest in defensive assets, such as high quality bonds offering protection against large falls in the value of the growth assets the investor owns. The Sandler Review, commissioned by HM Government over 15 years ago, concluded:

Successful portfolio construction lies in understanding the long-term attributes of each portfolio building block

'For the individual investor, the asset allocation decision is by far the most important factor in determining returns.'

A good adviser will have a disciplined asset class screening process to ensure that each chosen investment is worthy of its place in the portfolio. As David Swensen - Chief Investment Officer of the Yale University Endowment - states:

'By understanding and articulating the role played by each asset class, investors avoid making allocations based on the fashion of the day.'

Successful portfolio construction lies in understanding the long-term attributes of each portfolio building block and how it contributes positively to the overall robustness of the portfolio.

Owning a diversified portfolio inevitably means that some elements of the portfolio will do well and other elements less well, from time to time. Markets will do what they do and no investor can control them, or even second guess them with any degree of persistence. The sound advice provided by William Bernstein, who is a prolific author on investing and an adviser, is as follows:

'Since the future cannot be predicted, it is impossible to specify in advance what the best asset allocation will be. Rather, our job is to find an allocation that will do reasonably well over a wide range of circumstances.'

These days, building a robust portfolio structure and populating it with high quality, low cost products that capture the rewards for the risks taken on, is perhaps the easiest part of the investment process, which is becoming increasingly commoditised. That is great for investors, but means that advisers need to help clients to understand the broader value they deliver.

Value level 2: Maintaining the efficacy of the portfolio and avoiding fads

Once a portfolio has been established, the next level of value that an adviser delivers is often hidden from sight. Given that a long-term portfolio structure has been put in place, and best-in-class funds have been selected to execute the strategy, it is quite usual that from one period to the next, nothing much changes on the portfolio. Some investors may even begin to feel that their adviser is not doing much for their money.

It is worth remembering the wise words of the renowned investment consultant and author Charlie Ellis: 'In investing activity is almost always in surplus.'

Behind the scenes a good advisory firm will have an investment committee that meets regularly to: monitor how each fund is performing; look at any new funds that might compete for best-in-class status; review new asset classes and investment ideas using the same rigorous and disciplined process used to select the incumbent investments in the portfolio; and generally challenge the status quo.

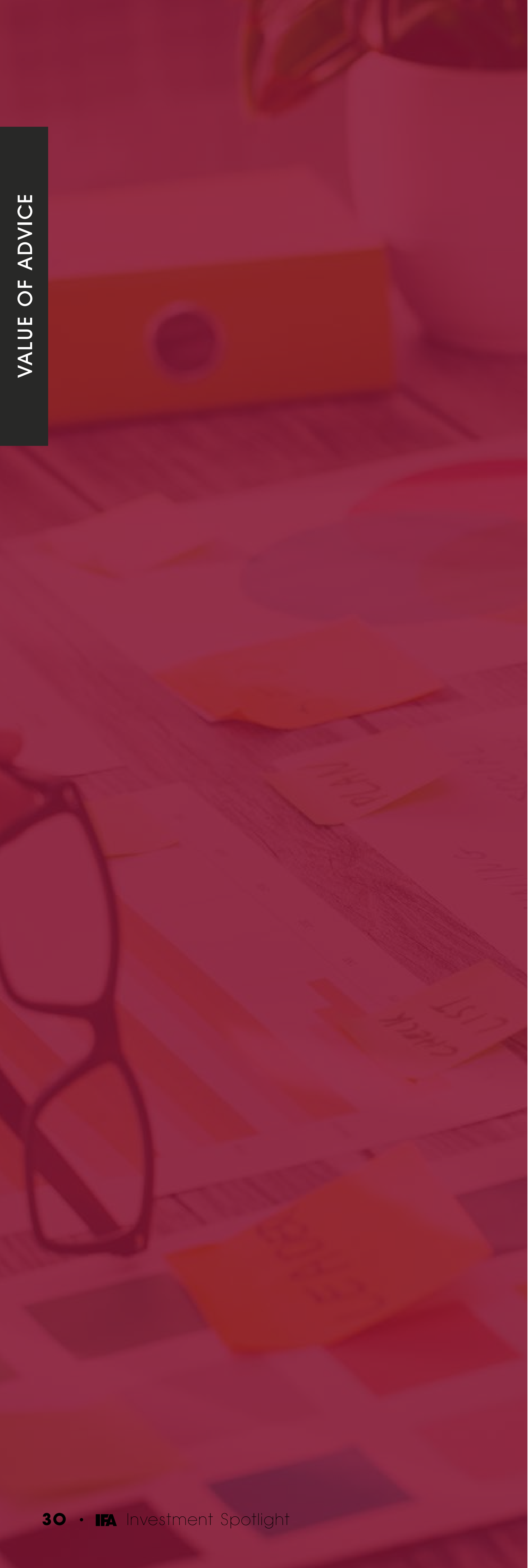
High-level client communications around the role of, and decisions taken in, the investment committee can be useful in demonstrating the work being undertaken behind the scenes.

It is the discipline of the investment committee that stops clients getting sucked into investment fads and flavour of the month investment ideas: these might range from more esoteric investments in, say, Ecuadorian rainforests to the pursuit of yield using sub-investment grade bonds. As Donald Trump is reputed to have stated - before he became quite so (in)famous - is actually very astute:

'Sometimes your best investments are the ones you don't make'

Value level 3: Providing support and guidance along the way

The harder part of investing is having the confidence and emotional fortitude to stick with the programme through thick and thin. A good adviser will take every client through a disciplined risk assessment process, which takes into account both the emotional and financial consequences of the trade-off between hoped-for returns and possible losses. They will also take time to explain the role that each of the assets plays in the portfolio.



Even so, when markets are either going up or down with great magnitude, as they inevitably do from time to time, a client's emotions will kick in either in the form of greed or fear. As human beings, we simply can't help it. Given that investors feel the pain of losses twice as much as the pleasure of gains, they are most vulnerable at times of market falls. A good adviser needs to act as an emotional counter-weight at these times and reinforce in the client's mind (engaging the logical side of their brain) that the portfolio is structured as it is for a specific reason and knee-jerk reactions should be avoided at all costs. As the legendary, Jack Bogle – founder of Vanguard – once stated:

'If I have learned anything from my 52 years in this marvellous field, it is that, for a given individual or institution, the emotions of investing have destroyed far more potential investment returns than the economics of investing have ever dreamed of destroying.'

While most investors probably acknowledge these feelings, evidence reveals that we are, collectively, truly hopeless at stopping ourselves from engaging in wealth destroying investment decisions that result in buying at the top of markets and selling out at the bottom.

It is possible to quantify this by looking at the difference between the returns that funds deliver (where the impact of investor flow, into and out of the funds, are ignored) and the returns that investors in funds actually achieve (which take into account the timing of when they get in or out). The former returns are known as time-weighted returns and the latter as money weighted - or investor - returns.

Research by Morningstar/Russel Kinnel in 2014 entitled Mind the Gap, reveals that across a number of different categories of funds in the 10 years to December 2013 the average difference on an annual basis between the returns of a fund and those that the average investor receives is -2.5% per annum to the detriment of investors, on account of their poor entry and exit timing.

Given that most advisers charge 1% as an ongoing fee, which should also include comprehensive financial planning and regular goal tracking, it is easy to see the value of employing a steady hand to guide an investor through choppy waters.

Value level 4: Instilling the fortitude and discipline to rebalance

At the outset of a portfolio, the appropriate level of portfolio risk is established for each client. Over time, and accentuated by rapid market rises or falls, the balance between riskier growth assets and defensive assets can drift away from the desired balance. The credit crisis, that began in late 2007 and reached its nadir in early 2009, provides a good example of this drift. A portfolio with 60% in UK equities and 40% in short-dated UK gilts would have ended up with around 44% in equities and 56% in bonds at the end of February 2009.

Given the emotional pressures at the time, some would have been tempted to sell even more equities to avoid further pain. Rebalancing the portfolio structure back to the original asset allocation would have been the sensible thing to do, restoring the right level of risk to the portfolio. Yale's David Swensen describes the value and challenges of rebalancing as follows:

'The fundamental purpose of rebalancing lies in controlling risk, not enhancing return. Rebalancing trades keep portfolios at long-term policy targets by reversing deviations resulting from asset class performance differentials. Disciplined rebalancing activity requires a strong stomach and serious staying power.'

Rebalancing forces investors to sell assets that have done well and to buy assets that have done less well. That is surely better than a buy-high, sell-low strategy driven by emotion. As the legendary investor Warren Buffett says about his investment strategy at Berkshire Hathaway:

'We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful'.

Those who rebalance their portfolios are in good company. Good advisers will have the discipline, process and stomach to make sure that their clients rebalance just at a time when they think that this is the last thing they want to do. Optional rebalancing leaves advisers exposed to the same emotions that their clients face. A systematic, disciplined approach takes out the emotion.

Value level 5: Doing the boring stuff

The final level of value that an adviser delivers is undertaking some of the menial, yet highly valuable, administrative functions such as ensuring that ISA allocations are made use of and that capital gains are taken in a controlled manner, avoiding as little time out of the market as possible. We all hate paperwork, so letting someone else take care of it makes good sense. It is worth reminding clients of this, from time to time.

In conclusion

Whilst the structuring of a robust 'portfolio for all seasons' is the primary step in the investment process, the true value of the adviser, goes way beyond this. It is highly likely that if a client took the portfolio that the adviser set up and decided to manage it themselves, they would end up with a less favourable outcome in the long run; new, better funds might be available that would be missed, the portfolio might need to be refined over time, all sorts of new investment fads and ideas might tempt them without the proper due diligence to understand what the risks and rewards are likely to be, and when markets crash, it is unlikely that they will have the fortitude to rebalance and may bail out altogether.

Rebalancing forces investors to sell assets that have done well and to buy assets that have done less well. That is surely better than a buy-high, sell-low strategy driven by emotion

Making use of ISA allowances and managing capital gains is also an important administrative function that matters, which take knowledge and discipline to execute. Failing to do so would be costly. Investing is never easy, but a good adviser will make it easier and the chances of success are higher than going it alone. That must be good value.

TIM HALE

Tim and his team at Albion are passionate about good investing. They work with high quality, financial planning boutiques around the UK to build robust, systematic, risk-focused investment strategies – and ongoing governance structures - to use with their wealthy family clients.

Tim loves investing and working with clients. He is passionate about the social utility that good investing delivers. His key aims are to simplify investing and build belief. He can't think of anything much better than a good piece of investment research!

He wrote Smarter Investing – now in its third edition - after seeing the mistakes made by investors, both institutions and private clients, when working for what is now JP Morgan Asset Management.

He lives in Devon and loves his girls, the Exeter Chiefs and beer (obviously in that order).

VALUE OF ADVICE

Multiple opportunities across multi-asset

Rising tides can no longer be relied upon to float all boats, meaning multi-asset managers can add real value in 2017, says **GAM**.

Since the major central banks launched quantitative easing (QE) several years ago, pushing down interest rates and supporting equity prices along with bond prices, investors have had the benefit of strong returns from both equity and fixed income investments.

However, since the summer of 2016 there has been a change in this relationship with bond prices falling but equity prices continuing to rise. Various reasons exist for this including interest rate increases in the US and, since Donald Trump's election as President, an expected infrastructure boost and tax reforms which would support US businesses.

Broader opportunities for multi-asset

This shift from the unnatural support of monetary policy to a more fundamentally driven approach with additional fiscal stimulus provides investors in the multi-asset space with a broader opportunity set than the recent past, as it will no longer be a case of 'the rising tide lifts all boats'.

The rise in dispersion gives multi-asset managers the opportunity to take advantage of valuation changes between and within asset classes. Managers need to ensure that asset allocation, and underlying manager selection, are primed to benefit from a potential global reflation story - the winners over the last few years are unlikely to do quite so well going forward.

Challenging times

There are a number of challenges for the sector, both from an investment perspective and an industry outlook. After several years of very low inflation due to low global growth, an unexpectedly rapid increase in inflation has the potential to surprise markets. If this were to happen, interest rates would have to rise faster than anticipated and this has the potential to derail any economic recovery that is still in the early stages.

Within the industry, the 'passive versus active' discussion has been brewing for some years now and running alongside this sits 'cost versus value'. Management fees have, quite rightly, decreased, however a race to the bottom on fees could be detrimental to the end client – as fundamentals become more important in

There are a number of challenges for the sector, both from an investment perspective and an industry outlook

driving asset returns (rather than monetary policy), active managers have more opportunity to add value above and beyond the index returns that a passive investor can expect.

Cost, while hugely important, should not be the only decider when it comes to choosing allocations for a multi-asset portfolio. Expert active managers, with the ability to generate alpha in their specialist areas, should also feature where appropriate.

When it comes to GAM, the five funds are risk-profiled and sit within the Distribution Technology Dynamic Planner range. So, each fund has a specific volatility target that we look to achieve over the long-term as is shown below:

GLOBAL EQUITY

Focus on capturing returns available from global equity markets; volatility target of 12.6% - 14.7%

GROWTH

Strong focus on participation in equity market growth with an element of capital protection; volatility target of 10.5% - 12.6%

BALANCED

Balance of capital protection and participation in equity market growth; volatility target of 8.4% - 10.5%

CAUTIOUS

Focus on capital protection with a moderate participation in equity market growth; volatility target of 6.3% - 8.4%

DEFENSIVE

Strong focus on capital protection with a limited participation in equity market growth; volatility target of 4.2% - 6.3%

Our measures of success

When it comes to success, a strong positive return for the end-client over the long-term, achieved in accordance with their risk objectives, would certainly be a successful outcome.

We also measure the funds' performance against the respective Investment Association Mixed Asset peer groups. Success here does not mean first quartile performance at all times as this would be an unrealistic expectation. It is very likely that there will be times when performance drops into the lower half of the group. We would hope that our asset allocation decisions and fund manager selection would see us sit in the upper half more often than not and most certainly over the longer term.

Minimising the overall risks and volatility

When the funds were set up in 2012, we referenced the suggested Dynamic Planner asset allocations provided by Distribution Technology and made some alterations to give a more globally diversified portfolio. In addition to DT's prescribed asset classes, we also use Absolute Return in the funds we manage to leverage GAM's history in the hedge fund space.

We then make strategic allocations to the various asset classes and regions and more tactical allocation changes as the economic, risk and return outlook changes. These decisions are made by the management team on a continual basis.

As well as monitoring the level of risk in the fund range ourselves, Distribution Technology provides a quarterly review confirming that we continue to sit within the specific Dynamic Planner profiles.

Putting clients' capital to work

About GAM global asset management

Putting clients' capital to work to help them achieve their aspirations has been GAM's guiding principle since its inception in 1983.

GAM manages assets for institutions, financial advisers and private investors. Its investment professionals, with more than 17 years of industry experience on average, work with integrity, conviction and an entrepreneurial mindset.

GAM has a long track record of building close partnerships with professional advisers. It bases its success on a commitment to personal service and the virtues of quality, integrity and reliability.

The company's strategies cover a range of risk/return profiles, from capital preservation to more substantial equity market participation. It believes a diversified portfolio is vital to balancing risk and return, given the huge variation in how asset classes perform from year to year.

Which asset class will be tomorrow's winner is beyond our control as investors, but GAM manages portfolios to volatility targets to ensure its models operate within defined risk parameters and meet clients' expectations, as it believes risk is a far more predictable metric than return.

Where commonality is often the norm across model portfolios, GAM is proud to offer a distinctive solution that provides an active approach to asset allocation in order to drive returns.

Since GAM was established in 1983, its fund managers have been given the freedom to allocate at their discretion, independent of benchmarks or market consensus. It has the confidence to avoid mainstream asset classes or popular trades when it sees better opportunities elsewhere.

This philosophy also underpins GAM's multi-asset strategies. The model portfolio service team utilises GAM's c.60-strong research staff to find the best managers globally, often seeking out specialist, nimble names to power the portfolios, all while continuously monitoring exposures to ensure they are in line with their risk targets.

> GAM's c.60-strong manager research team is one of the most well regarded in the world

Reasons to work with GAM

Champions of active management: since inception, GAM has championed active investment management. This approach extends to its active selection of managers and asset allocation, and has allowed it to develop nimble portfolios that can capture short-term opportunities and meet long-term risk targets

Unique business structure: GAM holds a unique position in the marketplace, having both a leading asset management business and an established private client offering. This allows it to offer clients access to its skills in investment management and research, as well as its expertise in servicing and portfolio construction.

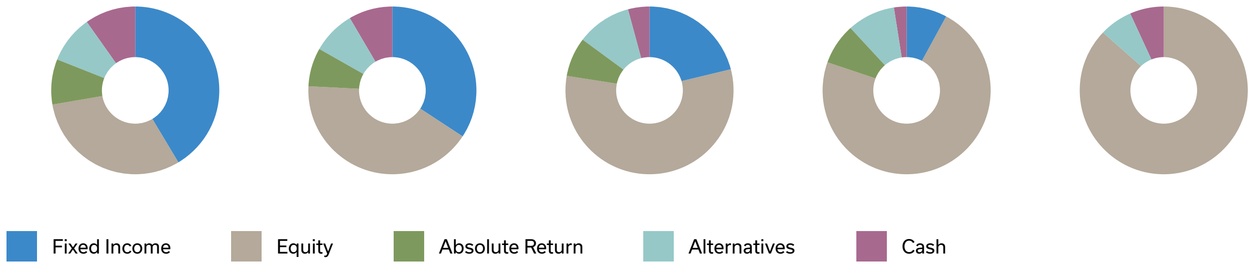
Leading research: GAM's c.60-strong manager research team is one of the most well regarded in the world. It has never believed the UK holds a monopoly on talent, so it utilises its global presence to source the best managers, regardless of locality and sector.

Power of scale: its scale allows 'institutional access' to leading investment talent. It is not only able to deliver solutions in a cost-effective manner but can also offer access to smaller, boutique managers that are not available to individual investors.

Multiple routes of access: as well as crafting a robust investment proposition, GAM has sought to provide multiple ways for clients to access its solutions. Whether directly with GAM or through platforms, advisers and clients can find a route and structure that best suits their needs. This includes GAM's unique 'personalised collective account', which allows access to its risk-rated strategies in a cost-effective fund structure, alongside 'DFM-style' reporting and service.

GAM's five model portfolios

GAM MPS Defensive	GAM MPS Cautious	GAM MPS Balanced	GAM MPS Growth	GAM MPS Global Equity
Volatility Target[1]	Volatility Target[1]	Volatility Target[1]	Volatility Target[1]	Volatility Target[1]
Strong focus on capital protection with a limited participation in equity market growth	Focus on capital protection with a moderate participation in equity market growth	Balance of capital protection and participation in equity martket growth	Strong focus on participation in equity market growth with an element of capital protection	Focus on capturing returns available from global equity markets



OUR INVESTMENT TEAM

CHARLES HEPWORTH, INVESTMENT DIRECTOR

Charles has 23 years' industry experience. Before joining GAM in May 2012, he managed portfolios at Quilter and Albert E. Sharp, where he specialised in looking after the money of private clients. He began his career at SG Warburg and is a CFA and CAIA charterholder.

LARRY HATHEWAY, GROUP CHIEF ECONOMIST AND HEAD OF GAM INVESTMENT SOLUTIONS (GIS)

Larry oversees GAM's multi asset and alternative investment solutions teams. He is also a member of the GAM Group management board. Prior to joining GAM in September 2015 he was managing director and chief economist at UBS Investment Bank. He holds a PhD in Economics from the University of Texas, a MA from the Johns Hopkins University, and a BA from Whitman College.

JAMES MCDAID, INVESTMENT MANAGER

James has 15 years' industry experience. Before joining GAM in 2012 he managed portfolios for private clients at Quilter. James is a CFA and CAIA charterholder, a Chartered Wealth Manager and holds a BA in Accountancy and Finance

Investment Due Diligence

Making sure that investment recommendations do not just meet client requirements but also keep the regulator on side are both key requirements for financial advisers and planners. Compliance specialist **Tony Catt** takes a look at the due diligence process and examines some of its limitations.

Investment due diligence is a subject close to the heart of any investment adviser. IFAs are proud of the fact that they can consider and subsequently use any provider/product in the market, where they deem it appropriate. The big question is in the decision-making process to identify the products which will be most suitable to recommend for an individual client's circumstances.

The FCA is keen to see that advisers' decision-making process on this important matter is robust, complete and repeatable on a consistent basis. Normal proof of this would be documentary evidence.

The Financial Conduct Authority (FCA) wants the adviser's research for each client to be undertaken and evidence retained in the client file. However, the production of sufficient detail is an ongoing problem. How much detail is needed? Should it be client friendly? Or simply held on file to satisfy a regulator at some point? For many, this conundrum is settled by the simple need to appease the regulator; to have something on file that looks complete. For many advisers, this will be sufficient. For some advisers, there will be academic curiosity and the acquisition and maintenance of knowledge.

> How much detail is needed? Should it be client friendly? Or simply held on file to satisfy a would-be regulator at some point?

DUE DILIGENCE

Research – how far do you go?

So that leads us to ask, just how much information is required? Investment information and research will be obtained on various levels:-

- Provider
- Product
- Range of funds.
- Underlying investments

When looking at funds, the following information is available.

- Investment mandate
- Content – asset allocation
- Past performance
- Management charges

So how much of this would be considered useful? The answer is that it is all useful, but there must be some limit to the depth of information which is researched, otherwise, you could spend all your time researching investments and not advising clients.

What about the detail?

While many of us are information anoraks, we need to be careful how much information is shared with the client. The worst thing for an adviser is to see your client's eyes glaze over with information overload during a meeting. Whether this reaction occurs or not will depend upon how interested the client is in the information they receive and also upon their investment experience. At one end of the scale will be the client who is expert and will share in the decision-making process. At the other end, the client simply wants to give you £1,000 and get back £1,100 without being too bothered about how it is achieved.

> The worst thing for an adviser is to see your client's eyes glaze over with information overload during a meeting

Every time we arrange an investment for a client, we seem to want to provide all the background information. Even for repeat investors. If we look at an analogy with the car industry, it would be for the car salesman to run through the workings of the combustion engine and an inventory showing where all the car parts are sourced. All we want is a car that runs well, looks quite nice and has a few fancy controls to make it more fun.

The FCA is keen that we gauge the level of information which is suitable to the individual client to enable them to be in an informed position to make their investment decision.

Independent research

It is impossible for any adviser to be aware of all the investment providers and all of their products that would be suitable for a client's needs at any one time. So, various companies have set up portals to enable access to information to enable a choice to be made. In the consumer retail world, there are portals such as MoneySupermarket or GoCompare, among others. In the professional world we have Defacto, Synaptics, AdviserAsset, Iress, Assureweb, Trigold, O&M and Selectapension among others. Each of these aims to provide information about various providers/products so that they can be compared to other products within that market.

Theoretically, use of such research will enable the adviser to choose the most suitable product and approach for their client and their particular needs at that time. The system is reliant upon the data collected by the software provider being kept up to date with information from all the providers. This is fine in principle. The snag is that some providers are reticent to provide their information to portals, particularly in the mortgage and general insurance fields - for example banks - that deal with their own clients or companies such as Direct Line that makes the point that it is not on comparison sites as a positive thing. Platforms such as the SEI-based platforms, such as True Potential and Fusion, do not provide information about assets under management or profitability, although they will confirm charging structures. So by definition, the search will not be entirely whole of market. While, this is not perfect, it is the best that an adviser can be expected to do for their research.

Most advisers will complete the search criteria when they first use the system based on their system requirements. Then for each new search, they will only need to change the name, amount and type of investment and the funds to be used (which can be preset). Thus after the first search which takes quite a long time to set the criteria, further reports can be produced very quickly. This is good news for busy advisers.

Once advisers have selected the products for their centralised investment proposition (CIP), they would rather have the research prove the choices that have been confirmed, rather than receive information that their CIP is no longer competitively priced. If this were to become the case, they would then be tempted to use subjective criteria, such as service received from the provider to justify their choice.

The results we want

The research portal systems that filter product features do an excellent research job, but they are fairly easy to manipulate to get certain results. There is anecdotal evidence of advisers who have asked whether the system can identify their favoured provider for new business. Due to the binary nature of these systems, the software will identify whether a product offers a certain feature or not. So if you want a certain result, simply put in a feature that you know is unique or a combination of particular features - hey presto, the system will identify your favoured provider/product.

So it is possible for an adviser to obtain the required results from the portals to confirm that their CIP continues to be most suitable to their clients. This would not be the intention of the FCA or indeed the portal providers, as they would expect the searches to offer genuine whole of market research. But in the real world, advisers simply do not have the time (or often, the inclination) to undertake a generic, unfiltered search for each client.

Problems in practice

The FCA guidance is that it considers it unlikely that a single platform would be suitable for all the clients of an IFA practice. On the other hand, IFAs use their CIP to make their service more efficient and help them to work with more clients, more regularly. The CIP enables the adviser to access all of the investments of their client and to administer their portfolios all in one place.

Once an adviser has opted for particular product providers and the client accepts the recommendation to proceed with that advice, it is then quite difficult to change such providers. The temptation would be to try to make a bulk transfer, transferring all clients from one provider to the next. However, bulk transfers would not satisfy the Treating Customers Fairly principle of the FCA as it would expect each client to be considered on an individual basis.

We are where we are

The FCA requires IFAs to prove their independence by carrying out and evidencing good quality research to back up the investment recommendations being made to clients. Advisers want to show as far as possible, that they are undertaking the research, as they want to be seen to be compliant. The portal providers supply a very efficient way of undertaking a more complete analysis than individual advisers would be able to do without them.

Once we understand the limitations and malleability of the portals, we realise that although they are not perfect, they are as good as we can reasonably expect. Like any computer, the principle of garbage in, garbage out applies. The search will only be as complete as the user wants it to be.

Computers, as ever, are the victims of human nature.

DUE DILIGENCE

Reviewing your firm's investment strategy: a checklist for advisers

We ask **Melony Holman** of Compliance and Training Solutions to give us some pointers and questions you can ask yourself to find out whether your investment strategy really does tick all the boxes.

When it comes to having a robust investment strategy in place, most advisers will feel that their existing approach works well and delivers sound long term results for clients - and all in keeping with their risk profile too.

However, when it comes to the matter of proving compliance with the regulatory requirements, being able to evidence that your investment strategy meets clients' needs is a wholly different matter. It might be great – but if you can't prove it, you are likely to face the kind of scrutiny you would prefer to avoid.

Investment strategy review checklist

'As compliance consultants,' says Holman, 'we are very used to carrying out annual audits with advisers, and an important part of this process is to discuss the firm's investment approach. The ten questions which we are asking our adviser clients are as follows':-

1. What is the firm's investment approach? Is it documented? How often is it reviewed and who is responsible?
2. Is everyone following the process? (This sounds like an obvious thing but there are occasions when an adviser is joining a new firm and wants to stick with their preferred approach and the new firm is willing to accept this).
3. Do all the advisers present the firm's investment approach in the same way to clients? Do all advisers understand the investment strategy and what inherent risks the portfolio has? This could be evidenced by use of observing live client calls or role plays.
4. How do the results of the risk profiler used by the firm (if they use one) correspond to the investment approach used?
5. When due diligence is conducted on platforms, is there a consistent process followed? Can the firm be accused of 'status quo bias' i.e. they want to continue the same platform that they currently use as they do not want to move clients away? Is using a platform in the client's best interests? Has the firm documented when a platform would not be used?
6. Is there an investment committee in place within the firm? If yes, how often does it meet, who attends and what do they bring to the party? Are the meetings minuted?
7. What is the asset allocation? How was it derived and is this documented? – note the Financial Conduct Authority (FCA) do not determine what the asset allocation should be but do say that firms should have some kind of asset allocation in place. Interestingly, if Financial Ombudsman Service (FOS) recommend that redress should be paid to a client due to incorrect investment in line with the client's attitude to risk, they tend to use the asset allocation recommended by the Wealth Management Association (WMA).
8. How are funds selected? What tools are used? What filters are used? Are the filters used consistently? If not, why not? Is the process documented?
9. Does the adviser know when they do not have to follow the firm's investment approach i.e. the firm can demonstrate that shoehorning is not taking place?
10. Does the firm have a documented due diligence process when considering new products?

Holman summarises, "These questions help to guide the firms to the areas which they might not necessarily have considered. I'm pleased to say that most of the firms that we see do have an investment approach which is backed up with evidence of due diligence. Where the shortfalls tend to lie, is in firms not having an overall defined process and having the end conclusions documented."

MELONY HOLMAN

Melony Holman has been working in compliance for the last 20 years. Melony established Compliance & Training Solutions in 2005. The firm now works with over 145 firms nationwide, helping them to meet their regulatory requirements. Melony is a Certified Financial Planner and Chartered Financial Planner.

LEGG MASON
GLOBAL ASSET MANAGEMENT

Building attractive investments over the long term

Infrastructure investing has been increasing in popularity in a low interest rate environment but as yields rise, there is still a place for the risk-adjusted, stable returns offered by the sector, says **Legg Mason**

As equity markets become more volatile and unpredictable, and fixed income rates sit at or near historical lows, investors who seek dependable income and growth are facing shrinking possibilities for quality investments in their home markets. This has led to increased interest by investors actively seeking alternative options that provide stable, inflation-linked and risk-adjusted returns in the current economic environment. Such return characteristics can be found through investing in global listed infrastructure.

The value of infrastructure globally is expected to grow by 124% to $110 trillion by 2030. In the developed markets investment in existing and ageing infrastructure is required to meet future needs, while emerging markets require infrastructure to be built to satisfy their increasing demand. We therefore see significant opportunities for investors in the infrastructure sector, which is only set to grow.

Our largest regional exposures are in US and Europe. Looking ahead to 2017, we enter the New Year with an unconventional US president who has promised a program of fiscal stimulus, increased infrastructure spending, corporate tax cuts and less onerous regulation. We believe that Donald Trump's appointment will have a net benefit to the infrastructure sector. In Europe, we expect the continued low bond yield environment to provide an attractive investment environment for select infrastructure stocks.

Managing the risks

In 2017, investors need to become used to a world of rising yields after a long period of structural decline. For infrastructure, such a scenario does not need to be feared, but rather understood and managed. When expectations of an interest rate rise build, market sentiment drives the share price of regulated infrastructure assets down (whilst the long term value of such assets is often unchanged). This presents a unique opportunity to those who have a strong understanding of how regulated assets operate (and how regulators treat changes to a company's own cost of capital) to buy high-quality assets with strong and sustainable dividend yields at attractive prices.

Real total return focus

The RARE Global Infrastructure fund has an internal aim of delivering a total return of G7 CPI inflation + 5.5%, over a market cycle. We have chosen to use a real total return aim due to the strong underlying inflation linkages found within the infrastructure companies in which we invest.

Alongside this, we are targeting a higher level of income to be produced from the fund, which we expect to be c.5% per annum (net of withholding tax, over a market cycle).

An unconstrained approach

The fund has been constructed as an unconstrained fund. This is because we have found that there are no indices in the marketplace that view infrastructure in the same manner as us - we see infrastructure companies as businesses with hard assets, that provide an essential service, with some degree of certainty that you're going to get paid for providing that service (for example, through regulation or concession contracts). As none of the indices out there match this definition, we opted to structure the fund in an unconstrained fashion instead. We do however have a number of metrics against which we evaluate performance, these include the G7 CPI Inflation + 5.5% objective, whilst also highlighting the MSCI World Core Infrastructure Index as an illustrative index of how a broad base of infrastructure stocks has delivered.

The value of infrastructure globally is expected to grow by 124% to $110 trillion by 2030

RARE balance

Our name RARE stands for Risk Adjusted Returns on Equity, and this reflects our approach to infrastructure investing, where we believe focusing on both the risk and return side of a stock is equally important. We approach the analysis of infrastructure companies by analysing the return we expect to achieve from holding a stock, and then comparing this to the risks that we expect to need to be compensated for when holding the stock. This analysis includes both stock level data, and the wider top-down perspective which we feed into all of our estimates. We construct our portfolio to have an appropriate balance between 'regulated' stocks which are subject to regulation (and typically are more defensive, and pay a steady level of income) and 'user pay' stocks (which are typically more growth-orientated and thus more volatile), enabling us to strike an appropriate balance between income growth and capital growth, with an acceptable level of volatility.

INFRASTRUCTURE

LEGG MASON
GLOBAL ASSET MANAGEMENT

ABOUT LEGG MASON

Whether you're an institution, a wealth manager, or a financial adviser, Legg Mason's global, diversified portfolio of independent investment managers provides a range of expertise to support your long-term goals.

Our distinct multi-subsidiary model offers a range of investment solutions, product and vehicle options. Each of the skilled investment managers in our global network is recognised for time-tested performance and outstanding client service.

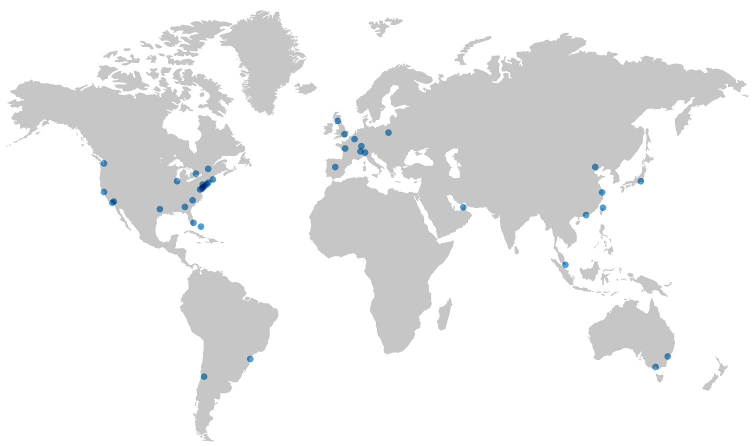
Designed for What You Imagine™

Legg Mason is one of the world's largest global asset managers. Designed around nine independent investment managers, we bring you expertise across equities, fixed income and alternatives. Legg Mason has helped clients achieve what they imagine for over a century.

Key facts

- **Expertise:** Legg Mason brings together a family of well-established investment managers.
- **Independence:** Our investment managers are among the industry leaders in their respective specialist areas and use their unique investment approach to identify the best opportunities.
- **Global coverage:** A broad spectrum of equity, fixed income, liquidity and alternative solutions to suit a wide range of investment needs.
- **Active:** Focus on long-term, actively managed strategies that aim to create sustainable value and a balance between risk and return.

Global presence with approximately 3,100 employees, including 360 investment professionals in 31 offices.



Q4 2016

AUM breakdown

Assets under management of $710.4 billion as of 31 December 2016, 2016.

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GROWTH INVEST

Pension allowance cap opens up EIS in 2017

The EIS sector faces some constraints when its comes to capacity but the pension contribution cap will widen the investor net, says **David Lovell**, Operations Director at **GrowthInvest**

Identify the main opportunities you see for investors in this sector in 2017 and beyond?

The rule changes and the removal of renewables from the EIS market have hit the headlines, and we are now already seeing a number of EIS funds reach capacity, so the early season predictions are certainly proving correct.

However, we believe that the pension contribution allowance cap opens up a great opportunity for the industry to take the wider benefits of EIS, and earlier stage investing, to a much broader marketplace. Despite the impressive growth of EIS investments - £1.82 billion raised in 2014/15 - the number of investors taking advantage of these are relatively small - as few as 30,000 - and we believe that there is a much wider marketplace out there.

There are some incredibly good and experienced sector specialist management teams in the marketplace, and we believe that there are potentially good returns across all sectors, though one's attention is drawn towards higher growth opportunities within the technology sector where there is the potential to get in on the ground floor of something that turns into a major player in this quickly evolving sector.

Our deal pipeline is very strong as always and we are excited to be bringing to market some specialist start-up funds, with clear sector focus based around the significant experience of the investment team. One sector that we are particularly excited about is the gaming sector, which continues to grow significantly with the UK being a global leader.

The continued growth, inexpensive market entry coupled with the additional government tax credits up to 20% make this sector a compelling investment proposition in our view.

What are the key risks/challenges that you see ahead for the sector?

As a result of last year's rule changes the market is not operating efficiently. Many managers are experiencing issues in terms of investment qualification exacerbated by a lack of clarity on HM Revenue & Customs' (HMRC) interpretation of those rules.

We believe that both the Enterprise Investment Scheme Association and HM Treasury are in regular dialogue with HMRC in attempt to ensure that some of the more questionable interpretations are addressed. If this is successful it should enable the product providers and the market as a whole to act more efficiently going forward.

On a wider level, there is far too much administrative overhead at every step of the way, and given the excellent technology out there that is becoming commonplace, we believe that this is substandard and detrimental to the industry as a whole. Platforms such as GrowthInvest can pick up a huge amount of the administrative and remove much of the paperwork, but this needs to be part of a concerted industry effort. We welcome steps being taken by all parties, such as the online application for 'advanced assurance' recently introduced by HMRC, that can assist in bringing the digital technology up to speed.

> We expect stable, positive growth across the US and Europe next year and this should create a supportive environment for credit

What are the aims and objectives for your platform?

Over the last 12 months we have been refining our offering based upon feedback from the adviser marketplace. This culminated in our relaunch as GrowthInvest in October 2016.

We previously, as Seed EIS Platform, offered a curated range of single company SEIS and EIS offers to a network comprised of direct clients, advisers and their clients. As GrowthInvest we now offer an increasingly wide range of managed portfolio and fund offers alongside single companies. We also provide an independent platform for advisers and their clients to consolidate all alternative assets, in one place, for the first time.

During this period of change we have seen continued inflow of investment capital, increasingly through the advised market as we continue to engage new advisers. The uptake across the adviser space has been significant and feedback has been very positive from advisers through the process of account opening, training and on-boarding clients.

Our objectives are:

- To help our growing adviser client base to efficiently consolidate manage and build their clients' tax efficient portfolios
- To introduce GrowthInvest and EIS /SEIS and alternative assets to a wider audience of investment-focused financial advisers.
- To continue bringing a pipeline of exciting investment opportunities and products to the Platform from our ever-expanding industry network and beyond
- To launch a Managed Portfolio Service to bring together the most interesting single company offers from our platform.

How is the Managed Portfolio Service benchmarked and how do you measure success?

The portfolio service will be benchmarked separately and will be laid out in the Portfolio Information Memorandum. The platform's success will ultimately be measured in straight financial terms around investment facilitated, but also in achieving the objectives laid out above

What is your process for managing your fund/s and selecting an appropriate asset mix that maximises the opportunities for returns whilst minimising the overall risks and volatility?

Our model has always been based around early stage growth companies. We have a large and increasing deal pipeline, a robust and efficient filtering process and a strong track record in investing in these companies.

In terms of the products we list, we have always been sector agnostic and generalist, catering for a wide range of investment objectives. In recent history we have closed deals in sectors as diverse as catering and hospitality, and technology, which currently makes up around 40-50% of our deal pipeline.

Our Managed Portfolio will continue this theme with a generalist and highly diversified investment approach, selecting companies that have performed well through our internal due diligence process. This will be run and overseen by a very experienced management team and investment committee.

All investments go through a process of platform due diligence and receive a short report and analysis produced by an experienced analyst. We also make independent due diligence reports available where possible from research houses Hardman, Churchill, Allenbridge, and Micap, and would normally insist on an independent report before any consideration before the investment committee.

A Unique, Independent Platform

GrowthInvest is a unique, independent platform which provides access to tax efficient investments to a growing network of UK financial advisers, wealth managers and investors.

The platform aims to bring the advantages of early stage investing to a wider audience of investors and advisers, who are in a position to benefit from the higher returns these companies potentially offer and tax efficiency via government sponsored schemes. The purpose-built technology allows clients to consolidate, control, build and enhance their investment portfolio within a single, secure online portal.

Originally founded by financial advisers in 2012 as the Seed EIS Platform, the company rebranded as GrowthInvest in October 2016 in order to better reflect the wider range of products and services available.

OUR INVESTMENT TEAM

DANIEL RODWELL

Daniel was a founding investor in GrowthInvest and Chairman of the Investment Committee since 2012. He became Managing Director in late 2014. Prior to this he worked in finance for nearly 20 years, managing institutional and private funds focusing on equities and derivatives. Daniel has been an Angel Investor for over 10 years, mentors high growth businesses and sits on numerous panels across the UK assessing such businesses. He is passionate about increasing efficiency in the alternative investment sector.

DAVID LOVELL

David is an experienced strategic director who has worked in the UK financial services industry for over 20 years, in a variety of distribution and consultancy roles.

Our Expertise

The platform provides access to a wide range of 'single company' EIS & Seed EIS opportunities with representation across all industry sectors.

We traditionally specialised in offering access to single company investments, and have dedicated our resource to ensuring that we have a deep understanding of each and every company listed on our platform. However, we have now broadened our offering to include a growing number of funds and managed portfolios, with close to whole of market access now available.

The much-anticipated launch of our Portfolio Service is the culmination of a great deal of work in this area. We are proud to put forward an investment proposition with a highly experienced investment team, with access to constant stream of quality investment opportunities from our platform, each of which has been passed through our stringent due diligence procedures.

Our investment strategy

The platform provides access to a wide range of 'single company' EIS & Seed EIS opportunities.

There is also a growing number of funds and managed portfolios. Access to a number of other alternative assets is planned for Q1 2017.

Our impact

We have quickly made a significant name for ourselves as the only platform in the tax efficient investments sector with access to single company offers in a whole of market setting. Our streamlined asset transfer process also delights advisers who are looking for a simple way to consolidate and report on their clients' off-platform portfolios.

The launch of our Portfolio Service will only enhance the positive impact we're having by giving advisers the peace of mind to be able to recommend a tax efficient investment solution which spreads the risk whilst still offering up-close involvement and exposure to the individual entrepreneurs.

Working with advisers

We have recently embarked on a co-ordinated adviser outreach programme, which includes regular events, weekly emails and a dedicated adviser area on our GrowthInvest.com website.

Our events range from pitch sessions in which entrepreneurs pitch for seed funding from advised clients through to regular roundtable lunch sessions for the adviser community. Our regular newsletters and emails keep our extensive database of advisers informed about the latest companies to sign up to the GrowthInvest platform and any developments in the tax efficient investment sector. Our website is geared towards the needs of the adviser, and features an online portal which allows advisers to register their clients' off-platform EIS and SEIS investments in one place, while offering advice and hints to advisers with varying levels of experience in the sector.

> For the first time, there exists an environment where advisers can help their clients investigate and invest in a wide range of single companies

Our USP

The launch of GrowthInvest marked a key milestone within the tax efficient investment landscape. Our platform offers transparency, flexibility and value to UK advisers and their clients. For the first time, there exists an environment where advisers can help their clients investigate and invest in a wide range of single companies, now available alongside a growing number of fund and managed portfolio offerings that have traditionally been the focus of adviser-led tax efficient investment in the UK.

The platform itself consists of a set of dashboards from which the adviser can manage all aspects of a portfolio including the transfer of any existing historical assets, portfolio analysis, new investments, reporting, and access all relevant documentation on each investment.

The GrowthInvest platform brings the functionality, flexibility, transparency and value that advisers and their clients take for granted in the traditional investment platforms into the tax efficient marketplace for the first time.

IFA magazine

www.ifamagazine.com