Insights

Quarterly Newsletter

Spring 2021

Featured in this issue:

Integrity 365

COO Round Up

Welcome to our first quarterly newsletter of 2021 and with it my first update as COO. The past 12 months have been an unprecedented time and we send our thoughts to everyone who has experienced first hand the effects of this awful virus.

In a time that has presented challenges for both businesses and individuals, I am proud to say that Integrity365 has developed strongly during the pandemic and despite market fluctuations, the advice of our advisers has proven to provide clients with positive outcomes despite the volatility experienced.

The overall stock market has had an extremely volatile year however, whilst 2020 was one of the worst years since the 2008 financial crisis, the market as a whole finished the year in positive territory, making up ground since the pandemic-induced crash in March 2020.

The advice we provide is always for the medium to long term and whilst I appreciate the concern an unprecedented event like the pandemic can cause, it is exactly the reason why planning is so important, to ride the storms with a positive trajectory.

There have been a number of milestones over the past few months for Integrity365 and I am pleased to say that we have completed the move of our High Wycombe office to new modern premises a short distance from Eagle House. Our adviser and support teams continue to go from strength to strength, with all of our advisers now out of covenant restrictions from their previous employment. We are also pleased to announce the recruitment of three new advisers, who we look forward to welcoming in the very near future.

In addition to the adviser news, the strategy to attract talented and experienced support staff to deliver our advisers with the very best back office structure has now been completed and our focus to provide clients with an excellent service remains our paramount priority.

Personally, I joined the business in late October and have been incredibly impressed with the team and their adaptability during these turbulent times.

Investment houses and providers, in a large proportion of cases, have been very slow to react to remote working, which itself causes us obstacles beyond our control, however our advisers and support teams have climbed mountains to achieve what was needed. For this very reason, I would encourage anyone considering investing prior to Tax Year End to do so as a matter of priority as I can foresee providers extending their internal cut off deadlines to maximise their own processing time.

It is certainly an awakening time for our industry and the requirement to move forward to more modernised working practices is a little overdue. However, I am pleased to say that the foundations of Integrity365 has been built with those practices in mind and we look forward to launching our client portal with you later this quarter.

With regards to this newsletter, I hope you find the contents written internally by our team of interest. Please let us know if there is anything, you would like us to cover in future issues.

Matt Goy COO
Integrity365

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Market Overview

BROOKS MACDONALD

In each issue, a provider from our Central Investment Proposition will highlight key points to note from the previous quarter's market activity. The review of the fourth quarter of 2020 comes from Brooks Macdonald.

- Vaccine developments improved sentiment during the quarter.
- Markets rallied as expectations of a post-Brexit trade agreement increased.
- The Technology sector continued to post strong returns.

Global equities continued to rise in December as a number of countries started COVID-19 vaccinations and the UK and European Union (EU) finally sealed a trade deal. The increases in equities came despite the emergence of a new, highly contagious strain of COVID-19 in the UK, which rattled markets worldwide.

UK stocks moved higher during the month as the EU-UK trade agreement ended years of uncertainty, while the UK became one of the first countries in the world to start COVID-19 vaccinations. The market slumped – albeit briefly – after the government said it had detected the new variant of the virus and restrictions were tightened further. UK GDP growth over the third quarter was revised up to a record 16.0% from a previous estimate of 15.5%, although government borrowing also hit a record of £240.9bn in the first eight months of the fiscal year[1].

European markets advanced as news of the UK-EU trade agreement and the start of vaccinations boosted sentiment. The European Central Bank (ECB) increased and extended its emergency bond-buying programme, which further supported shares. Markets slumped as many European countries shut their borders to UK traffic after the new COVID-19 variant was detected. The eurozone composite purchasing managers' index rose strongly in December, to 49.8 from 45.3 in November[2] , an early estimate showed, while the unemployment rate fell again in October.

Asia-Pacific stocks (excluding Japan) moved upwards on optimism about a global economic recovery. Chinese equities were helped by news that Beijing had agreed an investment deal with the EU, although continued tensions with the US limited the gains overall. In South Korea, vaccine fuelled optimism and gains in technology stocks drove up the market.

A technology-led rally also fuelled increases in Taiwanese equities. Australian stocks rose strongly early in December, as mining stocks benefitted from commodity price rises. However, the MSCI Australia Index was little changed in Australian dollar terms over the month as a whole as a rise in trade tensions with China unsettled investors.

Yields on core government bond markets were mixed. US benchmark 10-year Treasury yields rose while those of UK 10-year gilts and German 10-year bunds declined. Eurozone bond yields, including those on Italian, Spanish and Portuguese 10-year bonds, moved close to record lows after the ECB expanded its asset-purchasing programme. In the corporate debt market, US investment-grade and high-yield spreads continued to tighten. Further corporate bond defaults in China heightened concerns about the state of the country's credit market.

1 Bloomberg, 22 December 2020 (https://www.bloomberg.com/news/articles/2020-12-22/u-k-deficit-hits-323-billion-with-economy-facing-recession)

2 Bloomberg, 16 December 2020 (https://www.bloomberg.com/news/articles/2020-12-16/euro-area-services-slump-eased-before-new-german-lockdown)

Tax-Year End Planning

by Tom Lloyd-Read
Senior Paraplanner

With a vaccine hopefully bringing respite against the Covid-19 pandemic, the UK government will turn its attention to the issue of balancing the books following a year of supporting the UK economy. The Office for Budget Responsibility estimates that to meet the cost of increased government expenditure, and reduced tax receipts, borrowing in the current financial year will be £394bn. To provide some context it was estimated prior to the pandemic to be around £55bn. Whilst some of the debt will be managed through monetary policy, there will inevitably be a cost borne by the taxpayer.

Income Tax, National Insurance and VAT

The Chancellor of the Exchequer, Rishi Sunak, is expected to deliver a budget in March with his hands tied by the Conservative Party manifesto. This included a commitment not to increase Income Tax, National Insurance and VAT, the three biggest contributors to the UK economy by a significant margin, raising almost 56% of total taxes in 2019/20.

If rumours are true, Boris Johnson has insisted that this pledge be kept despite the events of 2020, and therefore expect to see tinkering, rather than wholesale change. Fiscal drag will play a part, meaning current allowances and Income Tax bands are likely to be maintained. The government had committed to broadly aligning the National Insurance allowances with Income Tax allowances although this might be shelved in the short term.

Whilst there is not expected to be a change to rates of VAT, effective from 1st Jan 2021, the ability for non-UK residents to reclaim VAT on purchases made in England, Wales and Scotland has largely been abolished. In addition, tax-free sales of goods including clothing and electrical items for UK passengers leaving the UK has also been removed.

Capital Gains Tax

The budget comes hot on the heels of an Office of Tax Simplification (OTS) review of Capital Gains Tax (CGT), the content of which was picked up with gusto by the mainstream press. CGT is however a relative minnow, raising just over 1% of all tax receipts in 2019/20.

Speculation is rife that rates of CGT, currently 10%, 20% and 28%, will be aligned with income tax, 20%, 40% and 45%. Simply doubling the rate in isolation will not double the tax take; holders of assets will wherever possible simply choose not to sell if almost half of their profit is paid to HMRC.

Secondly, whilst Income Tax is charged in the year in which income is received, gains can be accrued over many years and it would be perceived as unfair to tax them in the same way. Although the annual exemption, higher than in many other countries, is seen as a way of addressing this, if rates were aligned with Income Tax we may see some form of indexation or taper relief being re-introduced.

Three areas of CGT where we might see change are:

1. A reduction in the current allowance (currently £12,300). Halving the allowance would be politically acceptable given it is seen to only impact those with well above average wealth, but is unlikely to change people's behaviour.

2. Removing the 10% band and tax all gains at 20%, or 28% for second homes. This would simplify the administration of CGT and is unlikely to have much impact on behaviour.

3. Remove the CGT uplift on death. Currently when a person dies, any gains effectively die with them. It is thought investors feel obliged to hold onto assets they might otherwise choose to sell, and this seems a likely target for the Chancellor. Indeed, removing the uplift also allows greater freedom to increase rates, as investors will have to choose whether it is they or their beneficiaries who ultimately pay the tax.

Inheritance Tax

Prior to its CGT overview, the OTS also reported on Inheritance Tax. This was followed up by a more radical paper by the All-Party Parliamentary Group for Inheritance & Intergenerational Fairness. Both to date have been put on ice, but Rishi Sunak may choose to address this area as a means of raising additional funds.

Proposals include:

- Removal of the CGT uplift on death for assets which qualify for both the uplift and Business Relief.

- Replacing the numerous gift allowances with a single, annual exemption.

- Gifts in excess of the annual gift allowance to suffer an immediate Inheritance Tax charge of 10%.

- Reducing the period for gifts to become exempt from 7 years to 5, but also removing taper relief (which in its current form reduces the inheritance tax liability).

- Reviewing the use of Business Relief and considering whether the current rules continue to meet policy aims.

- Removal of the Residence Nil Rate Band, a complex and discriminatory piece of legislation, which is poorly understood and costly to administer.

- Like CGT however, Inheritance Tax raises relatively little for the Treasury, just £5.2 billion in 2019/20, 0.6% of total tax receipts.

Pensions

Talk of complete reform of the pension tax relief system has been mooted for the past few years as it continues to favour higher earners, despite the significant reduction in the annual allowance (the maximum tax relievable pension contribution per tax year). The move to a flat rate will be seen as fairer and could, if the relief is targeted and promoted correctly, encourage lower earners whilst still providing support to high earners. Moving to a flat rate is not as simple as it might appear and would require lengthy consultation before being implemented. That said, the wind is blowing towards change in this area.

The removal of tax-free cash is often discussed and has been for at least the past 20 years. Despite this, only Pensions Simplification in 2006 had a notable impact.

The problem with the speculation is it often leads scheme members to take their tax-free cash when in many cases, this is unlikely to be in their best interests. Whenever significant changes have occurred in the past, protection has usually been enacted to secure benefits accrued. If tax-free cash were to be abolished, expect to see benefits earned to date protected in some form.

Tax-Year End Planning

Where affordable to do so, you should consider the following prior to the Budget:

- Make use of your CGT allowances. Spouses and civil partners can transfer assets freely between each other, meaning a couple can realise gains of up to £24,600 in the current tax year.

- The threat of increases to CGT rates means there may be benefit in realising gains within the 10% band if other income permits. Higher and additional rate taxpayers may consider realising gains at 20% for the same reason.

- For those who can, consider crystallising losses which can be carried forward indefinitely to offset against gains in future years.

- Make use of your ISA allowance to protect against all taxes; individuals can invest up to £20,000 each year in any combination of cash and stocks and shares.

- For higher rate and additional rate taxpayers, ensure you are contributing as much as possible to pensions to benefit from the higher reliefs whilst they are available.

- For very high earners where pension contributions are restricted, consider the use of Venture Capital Trusts and Enterprise Investment Schemes. These types of investment are higher risk and will not be suitable for all but offer a range of very generous tax incentives.

As always, please speak to your financial adviser who will be able to provide professional guidance around these issues and steer you on the most suitable path.

What is Sustainable Investing?

The current definition of sustainability in the Oxford English Dictionary is "The property of being environmentally sustainable; the degree to which a process or enterprise is able to be maintained or continued while avoiding the long-term depletion of natural resources".[1]

But what does this mean when you see it mentioned in relation to investments? Well, to answer that we have to look at what sustainability relates to and with all of the major events that took place in 2020 it is difficult to find any main story that was not in some way linked to sustainable issues.

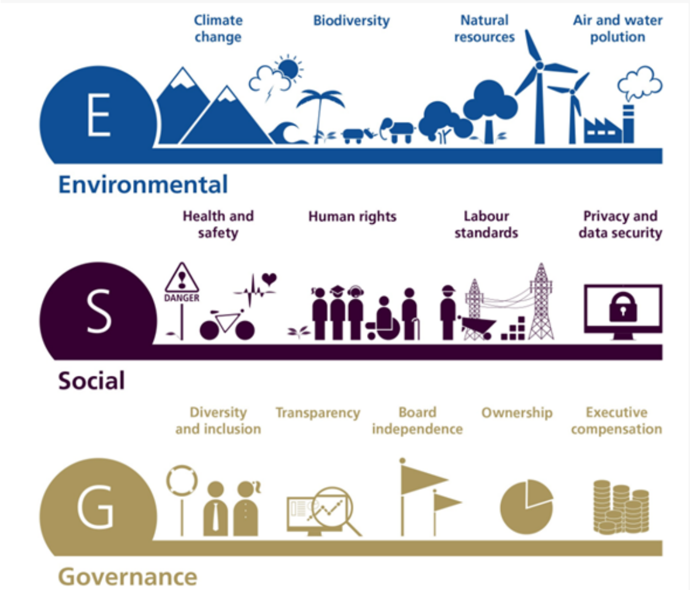
It is easy to consider how these factors impact on our daily lives, but how do we then invest into markets that will benefit from these advancements and shift in focus? The answer lies within three letters:

E - Environmental

S - Social

G - Governance

ESG summarises the non-financial factors that can be incorporated into the valuation of a business, or into an investment process. Using ESG analysis alongside financial analysis is a more holistic way of assessing risk and opportunities. Within ESG, there are many individual metrics or data points, examples of which are shown below:



Sustainable investing

Sustainable investing is a broad overarching term, incorporating both ESG analysis to understand the operational sustainability of a company, and analysis to assess the positive contribution the business makes through the goods and services it produces.

Global Policymakers' commitments:

The new US President looks to deliver altogether more ambitious and detailed climate goals for the US, one of the greatest emitters of carbon dioxide. Biden hopes to commit the US to becoming carbon neutral by 2050, and for the economy to be both more resilient and more sustainable. In President Joe Biden's first day in office, he signed the US back into the Paris Agreement, although this is likely to be the easy bit.

To deliver his carbon neutral ambitions, Biden is targeting $2 trillion of infrastructure. If approved, the spending will be focused across a range of sectors:

- Infrastructure
- Transit
- Power sector
- Buildings
- Innovation
- Agriculture and conservation

Biden is also planning the creation of a new Advanced Research Projects Agency for Climate; this new cross-agency looks to target affordable, game-changing technology to get the US to their 100% clean energy target.

Similarly, China is planning for carbon neutrality by 2060, which will mean reducing carbon emissions by as much as 90% and offsetting the rest through natural systems or through technology that absorbs carbon. Whilst China is the world's largest producer of carbon, the country is also by far the largest investor, producer and consumer of renewable energy.

by Debbie Packer Dip CII, MCSI
Founding Financial Adviser

Meanwhile, a couple of weeks ago, Putin formally ordered the Russian government to cut Greenhouse Gases by 30% by 2030, from 1990 levels. Whilst Russia is economically dependent on fossil fuels - with energy being the country's largest export - climate change is a threat to Russia. 65% of Russia's landmass is the Arctic, representing 10% of Russia's GDP, according to The Arctic Institute.

We had the positive news on successful Vaccines being approved:

For most of us 2020 has been a year we would rather forget and write off. It has brought about devastation for many and disruption for all. Our lives have been put on hold for almost a year, whilst governments and the healthcare industry worked together to contain COVID-19 and invent a vaccine. No government seemed to have the secret ingredient for pandemic prevention, but through unprecedented collaboration between pharmaceutical businesses, universities and International organisations, by mid-November three vaccines were being prepared for distribution.

Collaboration of these international organisations have seen the production and approval take place at a speed never before known and this is all possible because of the advancements of new world methods and technology.

The knowledge and advancements made in these sectors will not only benefit our quest to rid populations of this terrible virus, but also provide a sense of what is achievable when technology and pharmaceuticals work together for a common cause.

The developments brought about by this urgent need will create opportunities in these sectors for many other applications.

Did you know...

Taking Flight: 968kg
Flying from London to New York and back generates about 968kg of CO2. In countries such as Burundi and Paraguay the average person emits less CO2 in a whole year.

Forest and Trees: 178m
The world's forest area has decreased by an estimated 178m hectares since 1990 – that is roughly the size of Libya[2]

Disappearing Ice: 600bn tonnes
Greenland lost 600bn tonnes of ice in 2019 alone more than double the Island's average losses between 2002 and 2019.

12 Years
A UN report in 2018 warned that we have just 12 years to avert a "potential climate disaster" when temperatures would rise beyond 1.5C.[3]

Global Heating
Average UK temperatures have risen by 1C over the past century. In July 2019 the UK recorded its highest ever temperature of 38.7C

Job Creation
The UK government's plan for a "green industrial revolution" forecasts the creation of 250,000 jobs in industries including offshore, nuclear, and electric vehicle manufacture.

1 Oxford English Dictionary

2 Food and Agriculture Organization of the United Nations 26 January 2021 (www.fao.org/news/story/en/item/1298907/icode/)

3 Intergovernmental Panel on Climate Change, 26 January 2021 (https://www.ipcc.ch/sr15/)

Why Invest Sustainably?

by Debbie Packer Dip CII, MCSI, Founding Financial Adviser

After setting the scene on sustainable investing, it seems only right to ask the question 'Why invest sustainably?'. We believe that all companies wishing to achieve long-term success should consider their impact on the environment and society.

In our opinion, tackling the issues that our global community faces is one of the key responsibilities of all businesses, across all industries. We believe that financial markets need to play an integral part in the global transition towards a more sustainable future for our society and the environment.

One of the major investment themes we are seeing in sustainable investing is that of the 'green revolution'. There are many investment opportunities across the entire lifecycle of the green transition - from electrical vehicle manufacturing, to lithium recycling plants, to renewable energy.

Since the start of the year, momentum behind the green transition has continued to gather pace. We believe this is part of a sustained long-term trend that will continue to attract attention from policy makers and an increasing number of investors[1].

Whilst we have an Investment Committee responsible for researching the marketplace independently this is a sector of investing that cannot be ignored.

We strongly believe that by investing in these areas, clients will capture these major multi-decade trends that are part of policy maker's announcements.

Climate and sustainable growth are at the heart of their strategies and by investing, with a consideration of these global issues, will undoubtedly continue to add a lot of value for portfolios for years to come.

We have an independently reviewed range of funds that we actively advise our clients upon and also consider Sustainability at all levels within our core proposition. Sustainability should not start and end with an investment process. Investment houses offering sustainable portfolios to clients should also have business-wide environmental and social initiatives in place, to minimise the negative impact of operations, and even generate positive impact.

Businesses should be using their resources and talent to generate this positive impact, be it offering specialist in-house expertise to other industries or allocating profits to organisations in desperate need of funding.

For us, it is important that sustainability is embedded within our company culture and ethos.

Interested in hearing more about sustainable investment options? Get in touch with your Integrity365 adviser to discuss.

1 LGT Vestra, Sustainable Model Portfolio Service, 2021

Later Life Planning

by Coreena Dutton FPFS, Chartered Financial Planner

Many people in later life have been as affected if not more by the current economic downturn as anyone else. People are living longer and looking closer at their retirement, particularly around whether they will have enough funds to enjoy a comfortable standard of living in the third trimester of their lives - a time in life where for many, enjoyment and exploration become a core focus.

I have a large proportion of clients who are retired or of retirement age and require assistance on estate planning, care fees, equity release or advice on their pensions and investments.

It is vitally important that clients reach out to receive the right advice when approaching the complexities of later life, it is never to early to start planning. I would encourage you to start discussions with your adviser if you haven't already done so.

"It is never too early to start planning."

Investment options for clients in later life:

A lot of clients who decide or end up having to live in a care home often have to sell their assets or their home, potentially leaving them with a large amount of money in the bank account.

A client of mine recently had just this scenario where the property had been sold, care home fees were high and my client did not have enough to pay for these fees each month. A lot of the money in the bank account however, would not have been needed for at least five years, even taking into account the care home fees which were being paid.

Although my client was in her 80s, the family who were also acting as her power of attorney, did not want a considerable amount of money sitting in a bank account earning very little interest. Therefore, it was important to ensure that they had the right advice on suitable investment options for some of this money.

The first thing that was important to consider, was to ensure that enough money was left in available accounts to pay the care home fees for the short-term. Once they knew there was a short-term plan in place, they were able to consider longer-term options for part of the money released from house sale.

One of the main concerns we discussed in this case was in the event of the client passing away during a period of poor stock market performance, whether the client's family would be forced to encash the investment at an inopportune time.

One way around this issue is to set up an investment bond with the family members who are also acting as power of attorney, as lives assured on this bond. This would effectively allow the investment to continue in the event of my client's death, therefore, if this had happened during a market downturn, the funds would not need to be encashed and could remain invested until a more appropriate time.

This will likely attract much higher potential growth compared to a bank account and will also allow the family to choose when to access this money in the event of my client's death. Not only this, but there is the ability to start taking a regular income from this kind of investment, as a tax deferred withdrawal, should it be required.

There are many strategies and products available for clients approaching later life planning, please contact your adviser for further information.

SOLLA
Society of Later Life Advisers
ASSOCIATE

Helping You Sleep at Night

At Integrity365 we take the responsibility of recommending where you invest your money very seriously. We are conscious that this underpins your family security and aspirations for the future.

This is why we have set up our 'Centralised Investment Proposition' to ensure we have a consistent and rigorous framework in place for how we select and govern the investment solutions we recommend.

This is overseen by Integrity365's Investment Committee, which meets at least six times a year. The Committee sets policy guidelines for recommended portfolios and approves portfolio strategies. One function is to oversee the fund managers on behalf of all our clients, to ensure they are managing the investments as expected and that they remain in line with the agreed mandate.

In practical terms, the Committee sets an investment policy, objectives and investment parameters. It then evaluates performance, cost and risk on an ongoing basis. Through close monitoring and regular reviews, we can ensure that the fund managers that we work with continue to meet the investment objectives that they have set out to achieve for our clients.

"We feel that it is incredibly important that our clients are informed and understand the level of due diligence and expertise we employ on their behalf."

Diverse and experienced membership

Integrity365's Investment Committee is made up of six financial professionals within the business who between them have an extensive amount of industry experience.

An independent consultant is also employed to provide an additional layer of independence and impartiality to ensure our ongoing governance framework is operating effectively and in the interests of our clients.

Because the world of investments is complex and fast moving, as a business we feel that it is incredibly important that our clients are informed and understand the level of due diligence and expertise we employ on their behalf.

This in no way compromises our independent status. In fact, it enhances our commitment to regularly reviewing the investment market to identify, monitor and benchmark Investment Manager credentials on scale, rather than as an individual cost to our clients on a case-by-case basis.

by Nick Gwilliam DIP PFS
Founding Financial Adviser

At Integrity365, we firmly believe that the needs of the client must come first, and therefore our Centralised Investment Proposition is just one of the investment options available to you alongside those available in the whole of the investment market.

What is the role of the Investment Committee?

The Committee's role is primarily to:

- Create and operate under strict Terms of Reference
- Appoint the most appropriate investment managers
- Continually monitor those managers against their appropriate benchmarks and to ensure they continue to meet their investment objectives
- Manage ongoing relationships with relevant fund managers
- Replace fund managers if this becomes necessary
- If required, to introduce new funds to the portfolio to ensure clients' needs are fully met
- Monitor costs and negotiate reductions where possible
- Review ongoing compliance of all regulatory rules

Each Investment Manager approved for investing your money regularly presents a detailed summary of their investment performance, investment activity, costs of the investment, risk management, investment outlook and any changes made to personnel or their corporate structure.

What are the benefits to me?

The primary benefit of the Integrity365 Centralised Investment Proposition is the access we can provide to world class fund managers and fund management companies.

This incredibly diverse investment approach results in our clients benefitting from the collective knowledge and resources of managers who are responsible for £Billions of investments. The structure we have created provides access to a varied range of investment managers, at a cost that is generally only available to institutional investors. We leverage the negotiating power of all our clients in order to keep costs low, so your money works more efficiently for you.

"We leverage the negotiating power of all our clients in order to keep costs low, so your money works more efficiently for you."

As part of our transparent reporting, the Investment Committee will be summarising any changes, additions and investment highlights as part of these quarterly newsletters.

Should you have any questions in the interim, our Financial Planners are more than happy to assist.

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