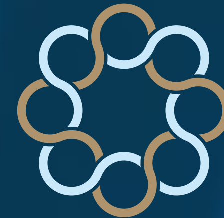

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Market Overview from Sanlam UK

We're shaping up for a flat 2015, but 'flat' in the sense of 'no overall profit or loss' instead of 'calm markets'. We've seen plenty of up and down movement: strong gains up to April, nasty falls up to mid-August, and then a moderate autumn rally sufficient to leave us back- more or less- where we started on January 1st.

November did little to change that. None of the major asset classes, and so none of our portfolios, moved very much over the month. This is surprising, because there were several news events which might have given markets direction on another day.

The Friday 13th attacks in Paris were shocking in their brutality, and on the following Monday market watchers were comparing the massacre to the events of September 11th 2001 in the USA and July 7th 2005 in London. Seven days later, Turkish forces shot down a Russian fighter. This was the first engagement of its type between Russia and a NATO member since the 1950s. Either or both of these events could one day be told as 'chapter one' in a new global conflict. But their true geopolitical impact will take years to emerge. Parliament looks set to vote on extending British air strikes against ISIS into Syrian territory during December, and Russia- for now- seems content to respond to Turkey only with economic sanctions.

November also brought the UK's annual Autumn Statement and spending review. Commentary beforehand focused on where the fiscal axe would fall. The tone of the Chancellor's statement, however, was benevolent. Budgets went up for the NHS and defence, were protected for education and the Police, and the basic state pension saw its biggest real-terms increase in 15 years. And yet a budget surplus of £10bn is still forecast for 2019-2020. How? The key to the maths is the economic growth targets agreed on by the Office for Budget Responsibility: the UK needs to grow at around 2.4% for the next five years or, all else equal, the plan will fail.

So it's been an eventful year in the news and yet a disappointing one for investors.

Few will have gained or lost much. Look out for some market action in the final five trading days of the year. Gains in this period (called 'Santa Claus rallies' since the term was invented in 1972) happen more often than chance would allow*, and they often bode well for the year to come.

*according to research published in the 2015 Stock Traders' Almanac.

Source: Sanlam UK Market View December

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How to divide your wealth when you divorce in retirement

Divorce among people aged 60 and over in England and Wales has steadily been on the rise since the 1990s*. According to the Office for National Statistics, in 2011 nearly 9,500 men aged 60 and over divorced - an increase of almost three-quarters on the figures for 20 years earlier. The trend for women follows a similar pattern.

Many couples decide to go their separate ways in their later years and to begin a new life. But divorce rarely comes without complications, and many of these can be financial. Divorcing or dissolving a civil partnership comes with financial planning complexities, particularly when it comes to dividing pension incomes. It also creates a new need to restructure your finances for the future, and sometimes to re-invest your share of the wealth in order to secure a reliable income independently for the rest of your life.

If you are considering getting divorced or dissolving your civil partnership, take advice from a solicitor and a financial adviser to make sure pensions and other financial assets are valued and divided correctly.
Here are six ways in which your financial adviser can help:

1. In many relationships there is disparity in the amount of pension contributions paid and income received between partners. How pension income is split when you are in retirement depends on many factors. If you used the new pension freedoms and invested pension savings to provide an income, then money can be divided and re-invested without constraint in many cases. If an annuity was bought then it is more complicated. In these situations a couple may choose to settle their financial arrangements fairly using other assets, such as one person taking a greater share of a property in return for not taking a cut of a pension income. It becomes complex if there are beneficiary arrangements on death set up with the annuity, and a financial adviser can direct you to the rules and arrangement for your individual scheme. It may not be possible to change beneficiary arrangements.

2. If you receive a lump sum in lieu of a pension income, you may want to take advice about investing it in order to provide you with a retirement income. Alternatively if you would be more comfortable with a secure income for life or if you have health problems, your financial adviser may discuss options such as an annuity, which will provide you with an income for life with no investment risk in exchange for your lump sum (poor health can mean that the company is willing to offer you an 'enhanced' level of income which can be financially worthwhile).

3. Although it's possible to divide your Additional State Pension (SERPS and/or the State Second Pension) when you get divorced or dissolve your civil partnership, it is not possible to divide the basic State Pension. However, you may be able to claim a basic State Pension using your ex-partner's National Insurance contributions record. You lose your entitlement to this pension if you remarry or enter into a new civil partnership before you reach State Pension age.

4. If you have a shortfall in your State Pension, it may be possible to pay voluntary National Insurance contributions. You can find out more about how to pay voluntary National Insurance on the GOV.UK website, but it may also be worth seeking advice to ensure this will be of benefit in your particular circumstances.

5. Many people see divorce or separation as the chance to start life again. Wealth planning is about enabling wealth to provide you with security but also the freedom to live a life which you want to enjoy. This means re-considering what your own attitude is to taking investment risk, deciding how much income you need to live on

and shaping your other policies to provide more funds when you need them, such as for a significant holiday trip. A financial adviser will work with you to ensure your financial arrangements are in line with your goals.

6. When a marriage ends there is often a fear of who will look after you in the final stages of life. Working with your solicitor, your financial adviser can talk to you about setting up a Lasting Power of Attorney and, depending on your age and wishes, can advise you on the options of funding assisted living or long term care either for now, or in the future if you wish.

In all situations of divorce, it is important that you seek legal advice to ensure an estate is divided fairly. You can appoint a financial adviser to help you with restructuring your finances at any time to help you with both short and long term wealth management needs.

Source: Sanlam UK

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Do you know the dangers of not having a Will?

According to recent research, 58 per cent of the UK's adult population have not yet written a Will*. By not doing so, these people are potentially leaving their assets according to the law, and not according to their wishes.

The reports published from unbiased.co.uk unveiled that 65 per cent of those aged 40 to 49, have not made a Will. This figure increased to a staggering 76 per cent for those between the ages of 30 to 39.

This may be due to a variety of reasons, such as people feeling it is not important and also not wanting to think about what might happen if they passed away. However, the main reason is likely to be that people presume that in the event of their death their entire estate will pass to their spouse or their children whether they have a Will or not. Unfortunately this is not the case.

If you were to die without a Will you would be said to have died "intestate". What this means is that your estate will be distributed according to the rules of intestacy and unlike popular beliefs, this does not mean the whole estate passes to your spouse.

The rules of intestacy are quite extensive and depend on various factors such as whether you are married and also whether you have children. For example, if you are married with children the first £250,000 of your estate will pass straight to your spouse or civil partner, plus half of the remainder. The remaining amount will go to your children.

On your spouse's death the remaining value of the estate will be passed to your children.

However, if you are not married, have no children and your parents have previously passed away then your estate in its entirety will pass to your brothers and sisters if you have any.

These are just two examples of the rules of intestacy and both are very differen[SI1] t. It is unlikely that the rules of intestacy will provide the distribution of your estate that you are happy with and this is one of the reasons why a Will is so important.

Although it is possible to write a Will by yourself it is always recommended that qualified advice is sought to ensure that your Will is valid and it is put into safe keeping so people know where to find it quickly.

In conjunction with having a Will, Inheritance Tax Planning can also help pass on assets to your chosen beneficiaries. This becomes relevant where an individual's estate exceeds the 'nil rate band' and can include a number of measures such as the use of Trusts, but also more simply by making use of gift allowances.

A Wealth Planner will be able to discuss with you the implications of Inheritance Tax and how best to reduce the amount that will need to be paid to HMRC in the event of your death. The current Inheritance Tax (IHT) threshold (or nil rate band) is £325,000, meaning that if the value of the deceased's estate – including any assets held in trust and gifts made within seven years of death – is more than this, IHT will be due at 40% on the amount above. Another important 'nil rate band' was introduced earlier this year, and applies when property is passed on death to direct descendants such as children or grandchildren.

This can be a very complex area, so it would always be recommended to seek professional advice.

Source: Sanlam UK

Conventional teaching is that an Index by definition should be transparent, replicable and therefore predictable, and for the major markets this tends to be the case. However the predictability element does create advantages as well as disadvantages for investors.

Interestingly there is also potentially a disconnect between what investors think their passive funds do to replicate an index and the actual investment methodologies that are often adopted on a day-to-day basis, and this represents a risk that passive investors may not be fully aware of.

The growth in assets amongst passive fund providers has been eye opening over recent years. Driven by a combination of post RDR reforms and the move to abolish revenue commissions, keener price competition amongst passive fund providers, and the QE fuelled markets that have supported momentum driven strategies since 2009, passive funds have collectively done well, which has been to the benefit of passive investors.

However, it is prudent to revisit the potent truths of passive funds, which is that they not only follow the reference index on the way up but also on the way down. This has been evident in recent market activity where active managers protected capital better than the index in the sell off as well as offering lower volatility, see chart opposite.

Comparison of IA UK All Companies TR with MSCI UK TR Index over last three months

Notwithstanding these points, adopting a long term investment horizon and accepting that markets tend to mean revert affords an investor to walk away from the worry of trying to identify consistent alpha generating active managers and instead rely on receiving index returns less an annual management fee by using passive funds. This seems a sensible and pragmatic approach with the investor benefiting from the pass through of lower costs as passive fund providers avoid expensive market research, portfolio managers and risk analysis. Yet the fact that indexes are transparent, replicable and predictable is leading to more active elements entering into passive fund management processes than might initially be perceived to be the case, and therein lies the risk.

For example the FTSE All Share is a well-known and commonly followed

benchmark which is highly transparent, replicable with good liquidity and offers good predictability. It is curious therefore why there is such variation in returns and tracking error of passive funds that use it as their benchmark when their method of replication, we are told, is the same. The answer boils down to what they are doing given the predictability element of the index.

Given their portfolio managers know when a stock will go ex-dividend or when a stock will enter or fall out of the index, they move in anticipation of the event to try and capture outperformance – really, in a passive fund?! Clearly, so long as this is done in a carefully controlled and managed way the risk should be minimal as the standard benefits of diversification of active fund management will kick in, however is this really what most investors think they have bought in their passive fund?

In large liquid markets the risk from such activity is relatively minor but moving into smaller less liquid markets is a different ball game. Emerging market equities, for example, is an asset class where the scope for error from such strategies meaningfully increases.

Therefore, in our opinion, careful, deep and thorough due diligence is a necessity of all funds in a portfolio regardless of whether they be active or passive. At PIM we undertake a full review of all passive funds every six months to keep up-to-date with the fund manager's investment processes and seek to identify where untoward risks may lie. In doing so we avoid the risk that price becomes the overriding determinant of which passive fund to invest in. As a result of our deep and thorough due diligence processes, we are confident that the chosen passive fund providers within our solutions are the best in the market so as to deliver the risk adjusted returns in line with expectations as agreed between the client and their adviser.

Source: First published 29th October 2015 by Peter Dalgliesh of Parmenion Investment Management.

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