CHAMPAIN
FINANCIAL SERVICES

Bawtry
Selsfield Road, Ardingly
Haywards Heath
West Sussex RH17 6TJ

T: 01444 229 520
F: 01444 229 521
info@champain.co.uk
www.champain.co.uk

Technical Update No. 45 21st November 2019

Investor / Saver

A matter of trusts

The investment trust sector may be more than 150 years old, but it has not stood still. The types of trusts available to private investors have changed markedly over the years, and in particular, during the past decade. Perhaps the most striking development has been the huge increase in trusts that hold alternative assets — covering a vast range of non-equity based investments such as infrastructure, renewable energy, property and debt. By July this year, total assets under management in this area exceeded £80bn, according to the Association of Investment Companies (AIC) — an increase of over 150% since 2009. Trusts focused on alternatives comprise around 40% of assets under management across the entire investment trust universe. The growth of this sector has been fuelled by investors seeking higher income investments. But some of these trusts are higher risk as well as higher yielding, so investors must weigh these risks carefully when deciding how much to allocate to them — if at all — and which trusts to pick. While it is good that there is an increasing range of options on offer, as well as being higher risk than traditional trusts focused on mainstream equities, alternatives trusts invest in assets that are hard to understand so thorough due diligence is called for.

Investor / Saver / Retired

Woodford client losses revealed

Trapped investors in the £3 billion Woodford Equity Income fund are forecast to lose a third of their remaining investment according to modelling of the wind-up process commissioned by administrator Link Fund Solutions. The modelling, conducted by private equity specialists PJT Park Hill last month, outlines a base case forecast of 32.5% losses as the fund is liquidated. Under the worst-case scenario, the fund's value would fall by 42.6%. Woodford Investment Management, the sacked former managers of the fund, had claimed the impact on the fund had it reopened would have been much less severe. In a presentation for Link prepared by Woodford in October in a bid to retain the mandate, it estimated worst-case losses of 9.3% from the remaining repositioning it believed was required for the fund to reopen in December. The fund group was sacked before it was able to deliver the presentation. This estimate did not however account for the likely impact of the large scale withdrawals expected. Woodford Investment Management was anticipating the fund would shrink to around £750 million had it reopened, retaining some support from financial advisers who had signalled their backing. Link said its decision to wind-up Woodford Equity Income was based on 'insufficient progress on the repositioning of the fund'. The fund's wind-up is set to add to the mounting losses already suffered by investors trapped in the fund. Since the fund's launch in June 2014 to the announcement of its wind-up last month, investors have lost 18%, while the FTSE All-Share has risen 33%. In the last two years the fund is down 37% as the portfolio has unwound dramatically, including a 19% fall since the fund was suspended in June.

Investor / Saver / Retired / Property Owner

Labour to hit buy-to-let investors

Labour is planning a £23 billion raid on savers and buy-to-let investors alongside tax rises on the family home and school fees. The party’s manifesto reveals a £14 billion two-pronged attack on investors, with a pledge to tax share dividends and capital gains such as second-home sales at the same rate as someone’s income tax. Experts warned that rather than targeting only the wealthy, the unintended consequences could be that millions of self-employed workers and pensioners on low incomes would be hundreds of pounds a year worse off. Jeremy Corbyn also announced a financial transaction tax on share and investment trades that would net Labour £8.8 billion. Experts warned that the cost would be passed on to anyone with a pension or stock market investment.

All

What Labour’s manifesto threatens to marriage tax allowance

More than 3 million couples earning less than £50,000 could have an up to £250 a year tax break snatched away from them if Jeremy Corbyn's Labour party get into power. Hidden in the small print of the Labour leader's manifesto is a hint that the party will scrap the so-called "marriage tax allowance" in a bid to save £535million. But this will see the millions currently benefiting from the scheme lose out - despite Mr Corbyn's promise not to raise taxes for those earning more than £80,000. The perk currently applies to married couples and those in a civil partnership where one is a non-taxpayer and the other is a basic-rate tax payer, meaning they earn £50,000 or less. Under the system, couples can transfer 10 per cent of their personal allowance - the amount you can earn tax-free each tax year - between them in order to reduce their annual tax bill. As the personal allowance is now £12,500, it means the non-tax paying spouse can transfer £1,250 to their spouse who can add this to their tax-free income. This means a tax saving of £250. Back in February, the government said the perk was available to 4.2million couples across the UK, but only 3.5million couples had applied for it. It was first introduced back in 2015 and has risen each tax year since then. Personal finance expert Laura Suter, from financial firm AJ Bell, says the move by Mr Corbyn seems to be more of a personal decision than one that will boost Treasury coffers.

All

Doubts over Conservative national insurance pledge

Doubts have arisen over a Conservative pledge to raise the threshold at which national insurance contributions have to paid, partly because of the botched nature of the announcement. Boris Johnson announced during a visit to a factory in the north-east of England that the threshold would be raised to £12,000. It later transpired that he figure he’d meant to reveal was £12,500, which would align the threshold with income tax personal allowance. The current national insurance contribution threshold is £8,628. However, the Conservative Party later revealed that the true figure was £9,500 and that the threshold Johnson had revealed – prematurely it turned out – was aspirational and would not be in the next Conservative government’s first budget. A £9,500 threshold would keep the cost to the Treasury within the limits laid down by Chancellor Sajid Javid, which stipulate the government can borrow up to 3% of national output for public investment and spending will be matched by tax revenues by the middle of the next parliament. It was unclear whether the pledge would apply to employers’ national insurance contributions in addition to employees’. The move to increase the threshold is aimed at helping low- and middle-income earners because their gains as a proportion of their income would be greater. Better off workers would actually gain more cash, however.

All

Financial education fails to cut through to young adults

Five years after its introduction onto the national curriculum, students still say they are not getting enough access to a comprehensive financial education and that they worry about money. They want to learn more about the practicalities of managing money – budgeting, debt management, tax and how products work. And well over half (60%) would like this to be a separate subject.

The findings are from the latest Young Persons' Money Index, an annual research tracker run by The London Institute of Banking & Finance to assess the take-up and impact of financial education in schools. The research found:

- Today, 64% of students say they have access to financial education compared to only 29% in 2015. That's a big difference.
- However, most are taught financial education as part of other subjects and the majority don't receive financial education regularly.
- Only 18% had access within the last month
- 16% only in the last term
- 17% only in the last year
- 15% more than a year ago
- The numbers who say they get most of their financial knowledge and understanding outside of school – from their parents and/or self-learned online – remain high (86%).
- It is significant therefore that the majority also say they would like to learn more in school (82%) and regularly worry about money and their personal finances (69%).
- When asked how they would like to learn more about money, 60% would prefer to learn this as a separate subject.
- Learning more about financial products such as mortgages and credit cards, tax, budgeting and debt management are their top priorities.

All

Tories target business

Boris Johnson is set to unveil tax cuts the Conservatives say are designed to help companies "make the most of Brexit". A Conservative government would cut business rates, launching a fundamental review at their first budget, under the plans. The party said they will increase the employment allowance from £3,000 to £4,000, providing a tax cut of up to £1,000 for more than half a million businesses. The R&D tax credit rate will increase from 12% to 13%, which the Conservatives say will boost manufacturing and the professional, scientific and technical services sectors in particular. They have also promised to increase the structures and buildings allowance (SBA) from 2% to 3% to increase the tax relief on the purchase, building or leasing of a structure. Meanwhile, CBI director general Dame Carolyn Fairbairn has been critical of both Conservative and Labour policies ahead of the conference. Dame Carolyn said December's election is an "extraordinary" one for business, hailing 2020 as the most important year in a generation due to recent uncertainty over Brexit. She said Labour leader Jeremy Corbyn's nationalisation plans will "freeze investment", and called on him to work with business. Asked if Mr Corbyn was a "friend to business", and told Sky News' Sophy Ridge On Sunday: "We look at the policies on the table and we have real concerns that they are going to crack the foundations of our economy." Labour has already announced plans including free full-fibre broadband for all, a boost to NHS spending and a minimum wage hike to £10 an hour. With parts of BT to be taken into public ownership under the broadband plan, further nationalisation proposals are expected.

Retired

70 is the new 65

Viewing 65 as the marker for old age is an outdated notion, a report from the Office for National Statistics (ONS) has said, as new data suggests the health of a 70-year-old today is comparable to that of someone five years their junior a decade ago. The report has renewed calls from experts for employers to reconsider their attitudes towards older workers and those who choose to work beyond the traditional retirement age. The analysis of health data and life expectancy by the ONS found that men in England and Wales aged 70 in 2017 had the same remaining life expectancy – 15 years – as a 65-year-old did in 1997. Similarly, women aged 70 had the same remaining life expectancy as a 65-year-old in 1981. The report also found that men and women were now comparably healthier in their older age. In 1981, 45% of people aged 65 to 85 had poor general health, compared to 39% today. Levels of poor health for women aged 70 in 2017 were the same as those aged 60 in 1981, while men the same age had comparable health to those who were 65 in 1997. While highlighting the limitations of its own analysis, the report said the age of 70 now "appears to be the new 65 (or even younger) in terms of health". The ONS predicted that, by 2050, those over the age of 65 will make up almost a quarter of the population, while the number of people aged 85 and over is growing faster than any other age group.

All

Boris Johnson softens on proposed tax cuts

Boris Johnson has told high earners they will have to wait for his promised tax breaks if he wins the election, vowing instead to focus on cuts to national insurance payments to help those on lower incomes struggling with the cost of living. Mr Johnson set out the "ultimate ambition" to raise the threshold for national insurance payments to £12,500, a move that would cost the exchequer at least £11bn, but would be spread over an unspecified number of years. An initial commitment to raise the NI threshold to £9,500 next April would put an extra £104 into the pockets of 31m workers at a cost of £2.8bn a year. Mr Johnson said his plan would give a "tax cut for everyone". The first step in the plan would be eliminating a tax of 12 per cent on income above £8,632 up to the new starting point, according to the Institute for Fiscal Studies. If the threshold was ultimately raised to £12,500, the gains for low income workers would rise to £464 a year. The prime minister had previously promised big income tax cuts for those earning more than £50,000, and cuts to stamp duty, while Chancellor Sajid Javid had said he was interested in cutting inheritance tax.

But Mr Johnson, speaking on a campaign visit in the north-east, declared: "The priority must be to help those who need help with the cost of living." The policy will be confirmed in the Tory manifesto to be published on Sunday.

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