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# H&P Review

# ETHICAL INVESTMENT

Under water?

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A birds-eye view of Impact Investing

ISSUE 5

> *Our view at Holden & Partners is not to panic, but to sit tight and see how things progress over the next few months.*

**Welcome** to the fifth edition of H&P Review. It has been a bad few months for ethical investment. Henderson Investors effectively got rid of their 'ethical' investment team, replacing the research capability and installing a fund manager, previously at Gartmore, who has not managed an ethical fund before. While Aviva Investors announced, after a strategic review, that they no longer wish to manage 'ethical' funds. The financial crisis in many ways was brought on by the relentless pursuit of profit over everything else, and somewhat ironically one of the casualties of this crisis has been the ethical fund managers.

Henderson Investors downsizing and Aviva Investor's withdrawal has been a significant blow to ethical fund management and the strategy of employing specialists to engage with the companies in which investments are made. Henderson and Aviva have been very prominent members of the ethical fund management community in the last ten years. According to Worldwise Investor at 31st December 2011 Aviva were managing £1.1bn of SRI assets in retail funds - only £35m less than F&C and significantly larger than Henderson Investors with £455m.

What does this mean for investors? Our view at Holden & Partners is not to panic, but to sit tight and see how things progress over the next few months. With George Latham (formerly the fund manager of Henderson Global Care Income) and Peter Michaelis (Head of Socially Responsible Investment at Aviva Investors) both on the move we may see new investment houses taking ethical investment more seriously and renewed vigor in the market. What is clear from the reaction of Henderson and Aviva is that the ethical funds have not been attracting new investors at the rate that management would have liked and standing still is not tolerated by company management.

Of course the ethical market has changed a lot since the financial crisis and encompasses a wider range of funds as different as chalk and cheese. 'Ethical' or 'green' funds can include environmental, water, clean energy, forestry, amd agriculture funds as well as funds which simply exclude certain stocks, or parts of the market. Our new site www.worldwiseinvestor.com helps both investors and other advisers understand these differences.

While new money into the old ethically screened funds may not be growing, there has been an explosion of money from private investors in new themes such as wind, water and solar. Solar, in particular, continues to be an opportunity through companies like Goldfield Partners with their EIS companies. Other possibilities continue to emerge through outfits such as Foresight Group, Oxford Capital Partners and New Earth Solutions – all of whom our clients have supported recently. In this newsletter the charity Scope outlines the potential of social impact investing, an area that takes ethical investing to a new and more direct level.

In conclusion it seems that the old ethical investment world is under pressure, but in a wider sense ethical investment is buoyant and is more diverse than ever. It is not like it used to be, that is true, but then nothing ever is and maybe… it will be for the better.

**Article by Mark Hoskin.**

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# American dream versus U.K. nightmare

## Has austerity worked?

The respective economic recoveries of the United States and the United Kingdom could be likened to the Dickensian tale of two cities, but the reality is closer to a tale of two fiscal policies. Who is right? Or can they both be right?

The U.K., (and Europe for that matter), have adopted austerity. The logic being that we cannot return to prosperity before we have addressed our debts. The U.S. has taken a different approach and allowed public debt to rise. Recent economic data might suggest the U.S. is right. While the U.K. is posting a contraction in GDP, possibly resulting in a recession (watch for next quarterly figures), the U.S. has seen positive GDP growth.

Similarly while unemployment is falling in the U.S., it continues to rise in the U.K. This is particularly painful for the younger generation, with some speculating the overall jobless figure could eventually hit the three million mark. So while the U.S. seems to be on course to trade out of the financial crisis, is the U.K. on course for a double dip recession with a 'W'and not 'V' shaped recovery? Mervyn King does not think so. He predicts that the U.K.'s recovery will be "zigzag"in shape with intermittent small contractions.

So would the U.K. and Europe have been better off adopting the short sharp shock approach that appears to have benefited the U.S. (an approach also favoured by Iceland who recently saw their credit rating increased by Fitch rather than downgraded)? The jury is still out. It is worth noting the U.S. economy does tend to perform well in an election year and this may well be a factor as any fiscal belt tightening will be delayed until after the election has taken place.

The U.S. is also fortunate that the dollar is still the world's reserve currency, meaning there is less impetus to address both monetary and fiscal issues. In short, people will keep buying the dollar almost no matter what - Sterling does not enjoy such a privilege.

The U.K. is very affected by its closeness to Europe and the debt crisis which is consuming southern Europe and most recently Greece. And clearly a greater proportion of U.K. GDP and exports is tied to Europe (nearly 10% of GDP and 60% of exports compared to approximately 2% of GDP and 20% of exports for the U.S.)[1]. There is also a perceived cultural difference between the continents, with the 'American Dream' focused on driving entrepreneurial activity which reflects a bigger private sector relative to GDP compared with the U.K.. Only time will tell whether the different fiscal policies are right, or wrong, or if they both can be right. Many in the U.K. remain sceptical that austerity is the way to go.

*"I am now convinced,"* said former MPC member David Blanchflower after the 2010 U.K. budget, *"that as a result of this reckless Budget the U.K. will suffer a double-dip recession or worse, not least because there is no room for interest-rate cuts, although lots of additional quantitative easing (QE) from the Bank of England could soften the blow…. I believe this Budget will stifle the British recovery in its infancy."* [2]

It may be that the U.K. and U.S. need to take different fiscal approaches, but we must all hope that Mr Blanchflower will be proved wrong!

**Article by Stuart Ryan.**

1 IMF Direction of Trade (DOT) database. Average between 2006-10. Updated 28/10/11
2 New Statesman June 24th 2010

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# A Wider View
# of social investment

According to the Government and many leading economists we are about to embark on the decade of Social Investment. But what exactly is it? **Article by Tom Hall: Head of Philanthropy and Social Investment at the Disability Charity Scope.**

As with most ideas, the answer depends on who you speak to. For some, Social Investment (or Impact Investing) is about investing and receiving a market rate return, much like you would achieve from other investments depending on factors such as risk and maturity, whilst also achieving a social 'impact'. For example, the impact could be getting young people into work, or funding vital communication aids for disabled children. Social investment can therefore be seen as an extension of Socially Responsible Investment (SRI).

Also known as Ethical Investment, SRI has been around for over a decade. The majority of pension funds and other investment vehicles offer an 'ethical fund' whereby investors can choose companies that have been screened according to various ethical considerations. However Ethical Investment is arguably a negative screen; it gives the investor some security that the companies selected are not doing really bad things, but it does not guarantee a positive social good. This is of course aside from the positive social good of job creation and providing goods and services that people want to buy! Social Investment, on the other hand, is about solving social problems; measured by social impact.

The real debate in defining Social Investment is the extent to which an investor is prepared to pay for that social impact. For some, there is no compromise; Social Investment must bring a social impact and comparable market rate financial return. The problem with this view is that few charities and social enterprises can deliver these types of returns. The addressable market for this type of social investment is between £200M-£400M per year, with the majority being in secured loans from banks.

Social Investment could be seen as an extension of Philanthropy. When viewed this way we can see that Social Investment in the widest sense is not new. People have been 'investing' to solve social problems and achieve an impact, usually at financial return of -100% for hundreds of years. Indeed, the very size of our Voluntary Sector in the U.K., c.£38bn in grants and non-repayable contracts, is testament to the legacy of this approach. The question from this perspective is how can we deliver the same or a better social impact in a more efficient way? By framing the question this way you give room for charities and social enterprises to improve their business models. If they develop a way of solving the same social problem for a -50% financial return, their donors and investors are repaid some of their capital which could be recycled into new initiatives thereby delivering greater social impact for less money.

At Scope, the U.K.'s leading disability Charity, we have been developing 'Social Investment' propositions across the spectrum of financial return; all delivering a vital social impact. Some of our approaches ensure donations are multiplied in value by investing them in income generating activity or by using them as a deposit to leverage commercial credit. Other products, like the Scope Bond, listed on the Luxembourg Stock Exchange, is firmly in the 'financial return space'. Paying a fair yield of between (2-3%) investors in the Bond will know that for every £50,000 investment, they could enable Scope to sustainably support at least 60 new families with a disabled child every year. Whilst the yield on this investment might be slightly lower than can be received at some banks its success to date shows it is a price many people are willing to pay for this kind of social impact. After all it is a long way from a -100% return!

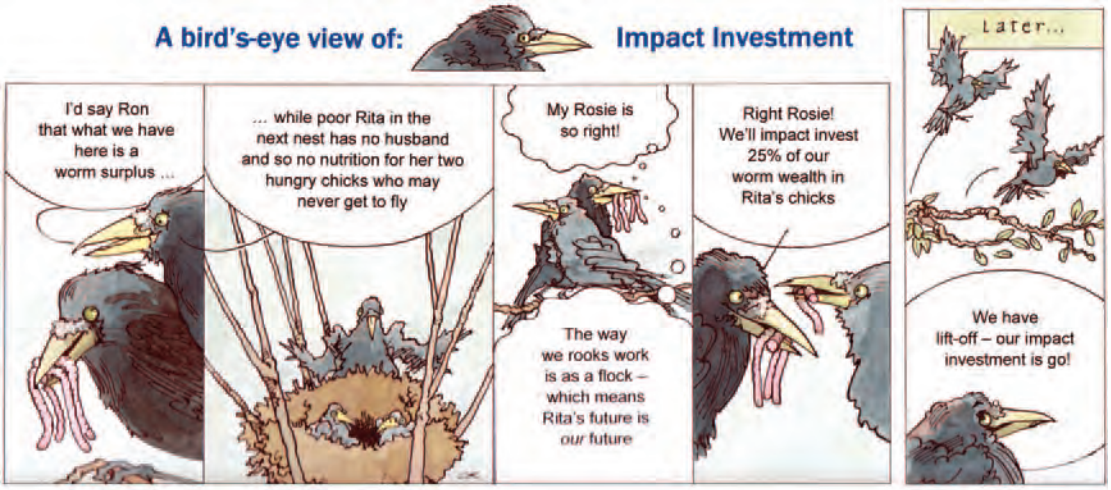



**Illustration by Chris Radley.**

# Navigating the pensions landscape

## The future is always unknown, but when it comes to retirement it pays to be in the know

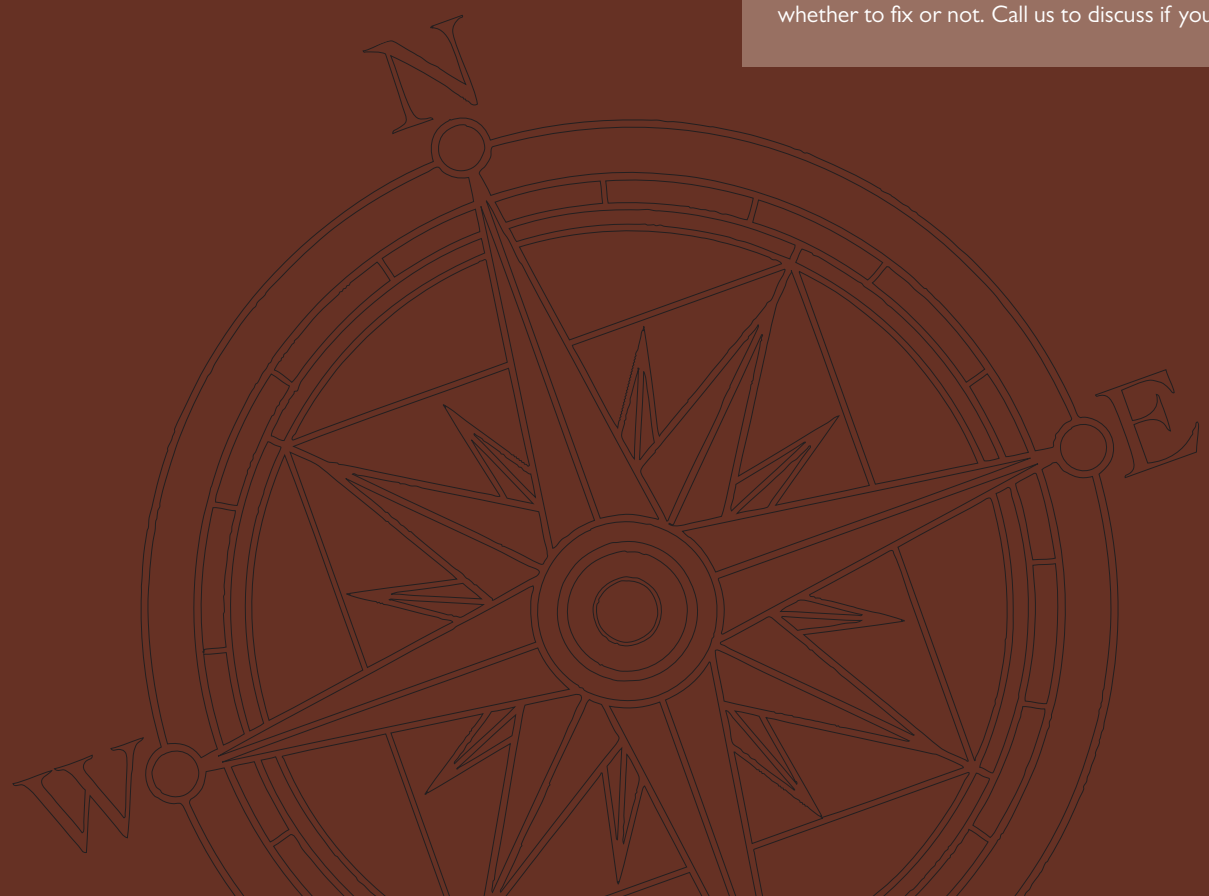
**The end of the tax year is fast approaching and marks a significant period of pension change as a result of the Finance Act 2011. The future is unknown, but when it comes to retirement it pays to be in the know.**

These are some of the areas where clever pension planning between now and 5 April 2012 can save you money and make it easier to get the retirement you want.

- Maximise your pension contributions that are eligible for 50% relief.
- Adjusted relevant income over £114,950 – pay personal contributions to registered schemes to reduce taxable income below £100,000, enabling your full personal allowance to be regained and providing marginal rate tax relief of 60 per cent on contributions paid between £114,950 and £100,000.
- Carry forward of unused annual allowance from 2008/09 – this will be lost if not used. You must ensure the full £50,000 annual allowance for the 2011/12 tax year is used first, ensuring the pension input period for this contribution ends no later than 5 April 2012.
- Employer contributions to reduce taxable profits in trading periods ending before 5 April 2012 – these can be used for carry forward of unused annual allowances, for the current annual allowance and for the 2012/13 tax year.
- Recycling of unused income withdrawals as allowable contributions – minimum £3,600 if you're aged under 75, but could be higher if you have relevant earnings.
- Gifting income using 'normal expenditure' from drawdown funds – reduces potential 55 per cent tax charge on death from drawdown fund, whilst ensuring future growth is with the beneficiary and not part of taxable drawdown fund. Funding third-party contributions to pension arrangements of children or grandchildren is an option.
- Early crystallisation – for some people aged over 55 crystallising benefits this tax year while the lifetime allowance is £1.8 million will create higher retained lifetime allowance for future use.

### Last chance - fixed protection!

You only have until 5 April 2012 to apply for fixed protection. If you have pension savings of c.£1 million you must consider whether to fix or not. Call us to discuss if you have any questions.



# Intestacy - one size fits all?

## Will dying intestate have the effect that you want

**Few of us enjoy contemplating our own mortality. That is perhaps why so many people die without making a Will. Dying without a Will can cause considerable upset and distress for surviving family members - particularly if the outcome does not provide what they expected, or if it is perceived to be unfair and not what the deceased would have wanted.**

The Law Commission, which recommends changes in law to the Government, has acknowledged that: "The intestacy rules are a blunt instrument with which to achieve a fair outcome in individual cases. Of course it is always open to a person to make a will and thereby devise a solution that suits the particular circumstances of his or her case, and we recommend that people should do so."

The intestacy rules are the state's answer to the question: "Who will inherit my assets if I die without a Will?". The rules have been amended from time to time to try to keep pace with social trends, inflation and increased home ownership, but they are still based largely on legislation from 1925.

The intestacy rules were last revised on 1st February 2009. Currently, where an intestate leaves:

- a surviving spouse (or a same-sex, registered civil partner) and children - the surviving spouse or civil partner would receive a legacy of £250,000; all household and personal goods; and a life interest in half the balance left over. The deceased's children would share the other half outright at the age of 18, plus the surviving spouse/civil partner's half when he or she dies.
- a surviving spouse/civil partner and parents or siblings, but no children - the surviving spouse/civil partner would receive a legacy of £450,000; all household and personal goods; and half of any balance outright. The parent(s) would receive the other half outright. If neither parent survives the intestate, the intestate's brothers and sisters would inherit that half outright.
- children, but no surviving spouse/civil partner - the deceased's children would inherit the whole estate at the age of 18 outright.

Spouses may find that the value of their share of the estate is insufficient to enable them to stay in the family home.

Difficulties and unintended consequences can arise when couples have children from previous relationships. Some people are not aware that marriage normally revokes an existing Will, leaving them intestate.

The myth of the "common law spouse" persists in the minds of many people. Co-habitees and unmarried partners (who are not same-sex, registered civil partners) currently have no right to inherit under intestacy. Without adequate provision, a co-habiting partner may feel they have little option but to make a claim against the estate.

There is no substitute for reviewing carefully the nature, extent and ownership of one's assets and liabilities. It is vital to understand how each asset or liability would be dealt with after death. Assets in joint names may pass automatically to the surviving joint owners (depending on the type of joint ownership) regardless of the terms of a Will or the intestacy rules. Assets held in trust will normally pass in accordance with the terms of the trust itself.

Those who own property or investments in different jurisdictions need to take particular care to ensure that their assets will pass as they intend. The potential impact of UK and foreign taxes should not be overlooked.

***Making your Will is the first, important step. Keeping the Will up-to-date as family and financial circumstances change is of equal importance.***

Having reviewed your Will, relatively minor changes can be made with a Codicil (which supplements, rather than replaces, the existing Will). However, a new Will may be desirable if the changes are substantial or complex and a new Will is often considered to be more diplomatic when removing beneficiaries.

Making a Will enables you to:

- pass your estate to the people you wish to benefit;
- choose trusted individuals to administer your estate and to act as trustees after you have died;
- appoint people to assume the role of guardians for any children under the age of eighteen;
- direct assets in a way which optimises tax reliefs for your beneficiaries; and
- make gifts of particular items or sums of money to friends, relatives or charities.

All of us should therefore aim to write a Will that suits our particular circumstances and achieves the desired result.

**Article by Andrew Parry of Hunters Solicitors.**

# Saving Tax

A review of your financial and tax planning to maximise your net income, business and family assets should now be high on your agenda prior to the tax-year end on 5 April 2012. Proper tax and financial planning could lower and defer the tax you pay, freeing up cash for investment, business or personal purposes. With the 40 per cent threshold coming down as the tax personal allowance goes up, there are still ways for higher-rate taxpayers to maximise their allowances ahead of the tax-year end.

## Making sense of your planning and your finances

From 6 April 2012 the threshold for higher rate will be taxable income of £35,000, down from £37,400. So, even after including the increase in the basic personal allowance from £6,475 to £7,475 the normal higher rate threshold will still be reduced from £43,870 to £42,475.

We can help you make sense of the areas you need to consider for your planning and your finances, which is essential with the ever-changing tax laws and the wide range of financial products and solutions available. These are some of the main areas that you might wish to consider before the tax-year end.

## Married couples

Married couples should consider whether equalisation or joint ownership of investments will transfer income to the lower-taxed spouse. This can be done capital gains tax-free (CGT) for married couples and registered civil partnerships.

Unmarried couples can equalise non-CGT assets such as bank accounts and may find it possible to equalise or transfer assets on which gains are less than their annual CGT exemption. Even if an asset is only put into joint ownership the day before it produces income - for example, through interest or a dividend - that income will still be split equally between both owners.

## General planning and tax shelters

Reduce exposure to the 50 percent tax rate and/or minimise the loss of personal allowances by deferring income into 2012/13 where possible, or accelerate expenditure into 2011/12.

Consider selling assets that stand at a loss in order to crystallise that loss for use against current year gains.

Review your investments to see if any have become of negligible value which could crystallise a useable loss.

If you have more than one residence, make sure you don't miss the opportunity to minimise CGT tax by electing within two years of any change in combination of residences.

For withdrawals from 6 April 2012, currency gains and losses will be taken out of the tax net so avoid crystallising gains early, but be sure to trigger losses before that date.

## Revisit deceased estates

If a relative has died within the past two years a rearrangement of their estate could put income into the hands of family members whose income level is below the 40 per cent or 50 percent income tax threshold.

## Venture Capital Trust (VCT), Enterprise Investment Scheme (EIS), and Individual Savings Account (ISA)

These investments may all be worth considering if appropriate to your particular attitude to investment risk. Each year, up to £200,000 can be invested into a VCT with 30 percent tax relief. An EIS investment of up to £500,000 gives relief at 30 percent and, additionally, with CGT deferral there is the prospect of up to 48 percent relief or (60 percent relief on gains before 6 April 2008). An ISA provides saving and investment in a tax-efficient environment. The current annual ISA subscription limit is £10,680. Up to £5,340 can be invested in a Cash ISA, the balance held in a Stocks and Shares ISA.

The tax credit on an ISA Dividend is not recoverable.

## Pension rule changes

**Making pension contributions reduces taxable income.**

Pension rule changes and the transition to the new annual and lifetime limits in 2011/12 provide opportunities. In particular people who have been prevented from making pension provisions greater than the £20,000 special annual allowance may be able to increase their pension provision in 2011/12 by using unused allowances brought forward under the new pension regime's transitional rules.

The annual allowance for contributions is £50,000. Any unused allowance may be carried forward for three years, but anything unused from 2008/09 will be lost after 5 April 2012.

The lifetime allowance reduces to £1.5m from April. Consider if benefits should be taken or registered for fixed protection before 6 April 2012.

## Inheritance Tax (IHT)

Use the annual exempt amount of £3,000, the small gifts exemption of £250 per recipient and make regular gifts out of income.

Any death benefits from pension arrangements and life assurance policies should be written in an appropriate trust so any proceeds are outside the estate. Consider lifetime gifts so the seven-year clock starts to run to mitigate IHT on death. Review Wills, powers of attorney and estate planning arrangements.

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