holden&partners

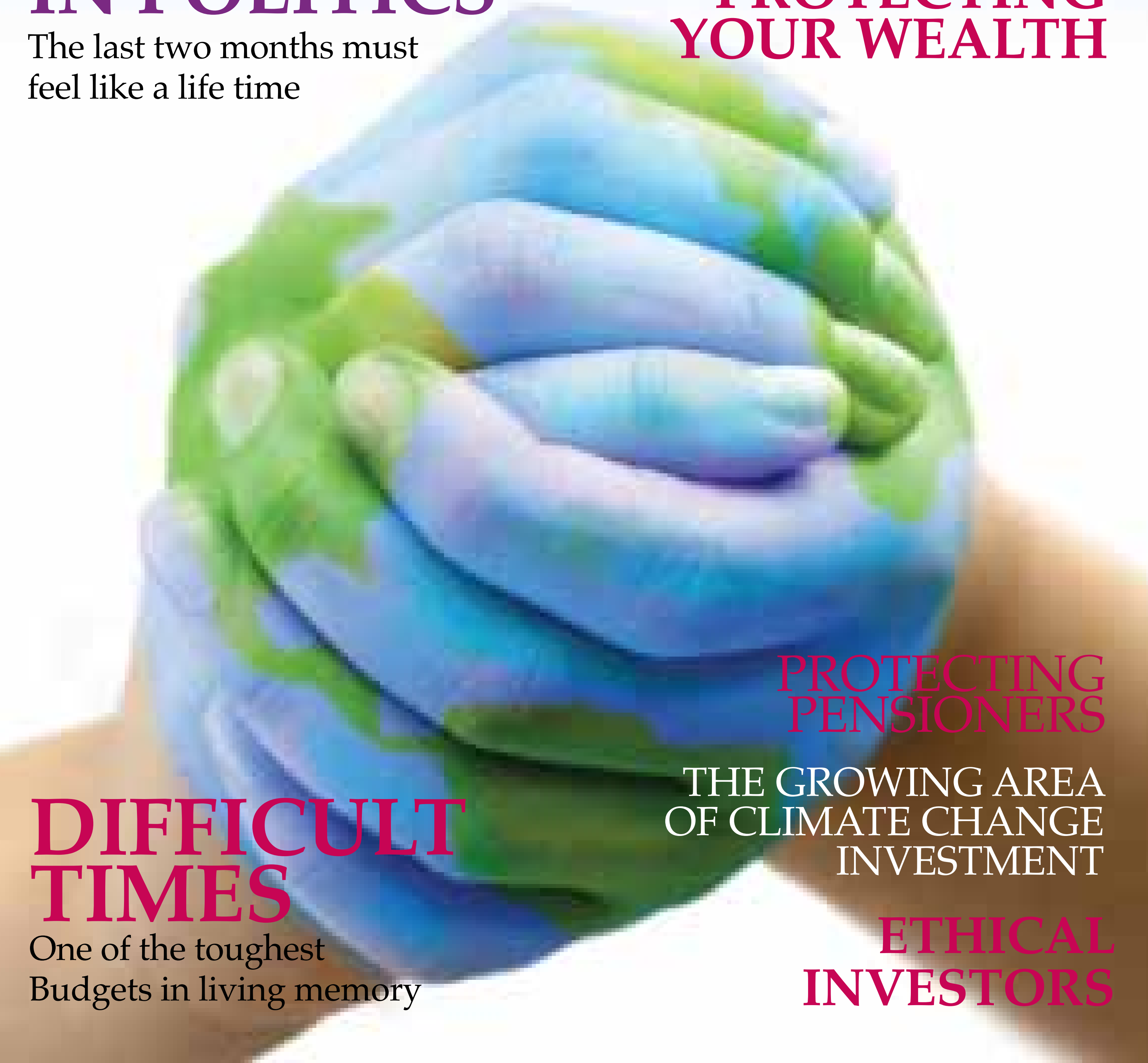
H&P Review

ISSUE 1

IF A WEEK IS A LONG TIME IN POLITICS

The last two months must feel like a life time

PROTECTING YOUR WEALTH



PROTECTING PENSIONERS

THE GROWING AREA OF CLIMATE CHANGE INVESTMENT

DIFFICULT TIMES

One of the toughest Budgets in living memory

ETHICAL INVESTORS

Difficult times

One of the toughest Budgets in living memory

Welcome to our first edition of H&P Review, the Holden and Partners magazine. As we are all very aware, the domestic and global economic situation remains fragile and at home we are only just coming to terms with one of the toughest Budgets in living memory. There is no doubt equity markets will continue to remain volatile and it is more important than ever that clients hold a diversified pool of investments, encompassing both cash and all of the main asset classes.

The importance of a range of asset classes

As always, a sensible asset allocation is crucial and as a firm we meet quarterly to review our model portfolio positions/asset allocations in the light of the changing economic environment. A variety of global and UK economic factors are taken into account in order to give us a "top down" view on how we think our client portfolios should be invested. Consequently, it is more likely than ever that we will suggest periodic adjustments to client portfolios, which reflect our current thinking on how the different asset classes should be combined.

Above all, we always encourage clients to maintain a significant cash buffer and we have always advocated a mix of deposits and National Savings. Unfortunately, due to their ever increasing popularity and in a surprise move, National Savings Certificates have now been suspended. This is disappointing news for many savers as recent index linked issues had been paying a rate equivalent to 10.5 per cent gross for a higher-rate tax payer. Existing customers who already have a savings certificate will not be affected, and their money will continue to grow as normal. The only real winners here are the banks who will no doubt be "rubbing their hands" with the news.

We continue to advocate that, when appropriate, our clients should hold "alternative investments" in order to provide further diversification. In the past we have supported investments in wine, teak plantations, wind energy, ethical commercial property and energy from waste. We will come back to these areas in future editions of the H&P Review and also give you an idea of those alternative areas of investment that we are likely to consider in the future. As a firm, we continue to maintain our commitment and expertise in both ethical and climate change investment; and later this year will release our fourth Guide to Climate Change Investment.

What's happening at H&P?

Despite the tough conditions, since we set up nearly seven years ago, we have continued to grow at a steady pace. This year we are delighted to have welcomed Mark Dodd, a Chartered Financial Planner who brings a wealth of financial planning experience and joins us as an Associate Partner. Mark's areas of expertise include tax-efficient investment planning, complex pensions (including pensions and divorce) and retirement planning, family protection, including inheritance tax mitigation planning and business protection solutions.

We have also been joined by Sharon Wrighton who has over seven years experience as a mortgage broker and is training with us to become Holden and Partners' first female adviser. Whilst she is training Sharon will continue to use her experience as a mortgage adviser to run our own mortgage desk. As we all know, banks are not being anywhere near as generous as they have been in the past when it comes to rates and terms so it is even more essential than ever that you make sure you talk to someone who knows the whole market place before taking our a new mortgage. If you have any questions on your own mortgage or the current deals that are available in the market place please feel free to contact Sharon on 020 7812 1459 or swrighton@holden-partners.co.uk.

At the beginning of June we welcomed Stuart Ryan who joins as a trainee adviser and we would also like to congratulate Vicky D'Uva who has successfully completed her probationary period as a member of our administration team.

Most recently, in July Andrew Johnston joined the team as an Associate Partner. He is a Certified Financial Planner and a Resolution Accredited IFA advising on complex financial planning matters. He specialises in pre- and post-retirement planning and financial issues relating to divorce.

We continue to invest in our back office systems and it is now nearly two years since we launched our remote access client valuation service. Incredibly, we had to develop this feature ourselves in conjunction with an industry software company as the technology didn't exist in a format that enabled us to display the full range of a client's portfolio.

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Existing annuity rules to end

Making more flexible use of pension savings

The rule that requires all pension savers to purchase an annuity by age 75 will cease next year, the government announced on 22 June.

Retired workers will no longer be required to use their pension pot to purchase an annuity once they reach 75. Initially at least, the age will be revised up to 77, with a consultation process on whether the rule should be removed altogether. According to the emergency Budget document released: 'The government will end the existing rules that create an effective obligation to purchase an annuity by age 75 from April 2011 to enable individuals to make more flexible use of their pension savings'.

'The government will shortly launch a consultation on the detail of this change and will introduce transitional measures for those yet to secure a retirement income who will reach 75 in the meantime', it said.

Protecting pensioners

Link with average earnings reinstated

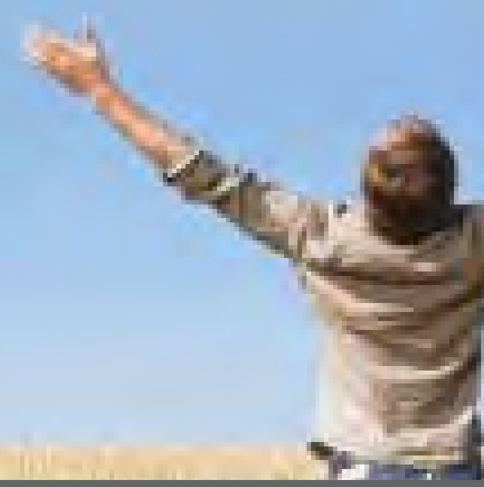
The Chancellor of the Exchequer, George Osborne MP, on 22 June announced his intention to reinstate the link between the state pension and earnings from next April.

The decision to increase the state pension in line with average earnings rather than inflation is expected to lead to a considerable improvement in the real value of the state pension in the coming years.

The Chancellor said that in the future pensioners would be protected by a "triple lock" guarantee that the state pension, currently up to £97.50 a week for a single person, would rise by the greater of either average earnings, inflation measures by the retail price index or 2.5 per cent.

The link between the state pension and prices was originally broken in 1980, leading to a considerable fall in the value of the state pension in real terms. It has meant that the state pension has failed to keep pace with the cost of living in Britain.

Mr Osborne said: 'There will be no more 75p increases to the state pension. We will provide dignity in retirement'.



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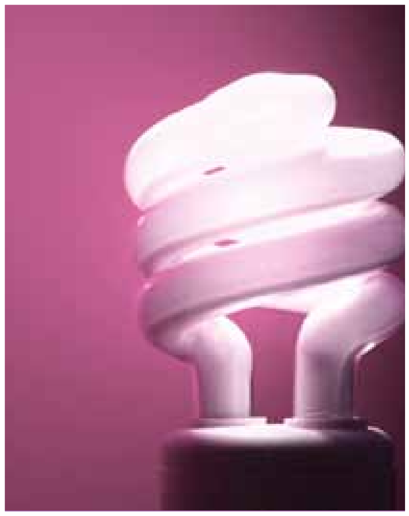


Ethical investors

A principled approach

Ethical investors have been rewarded for their principled approach after it was revealed that the performance of the ethical funds sector had improved over the past year.

The latest survey from Moneyfacts showed that ethical investment funds had enjoyed strong returns over the last 12 months. The Ethical Investment Research Service (EIRIS) also recently revealed that investments into green and ethical funds in the UK had hit a record high.

EIRIS defines an ethical fund as 'any fund which decides that shares are acceptable, or not, according to positive or negative ethical criteria (including environmental criteria)'.

Since ethical investment, by definition, reduces the number of shares, securities or funds in which you can invest, it tends to increase the volatility of the portfolio and therefore the risk profile. This can be mitigated by diversifying between funds, and between different styles of funds and fund managers. Like their non-ethical equivalents, some ethical funds are much higher risk than others.

Protecting your wealth

Valuing an estate for inheritance tax

Helping you protect your wealth is an important part of what we do, and one thing is certain, you need to plan to protect your wealth from a potential Inheritance Tax (IHT) liability. Benjamin Franklin once said that 'nothing is certain but death and taxes', and thanks to IHT, they're not only certain, they're intrinsically linked. Once only the domain of the very wealthy, the wide-scale increase in home ownership and rising property values over the past decade have pushed many estates over the IHT threshold. However, in recent years we have also seen property price reductions.

IHT applies to your entire worldwide estate, including your property, savings, car, furniture and personal effects. You should also consider all of your investments, pensions and life insurance policies and ensure that life polices are held in an appropriate trust so they do not add to the value of your estate.

When valuing a deceased person's estate, you need to include assets (property, possessions and money) they owned at their death and certain assets they gave away during the seven years before they died. The valuation must accurately reflect what those assets would reasonably receive in the open market at the date of death.

Valuing the deceased person's estate is one of the first things you need to do as the personal representative. You won't normally be able to take over management of their estate (called 'applying for probate' or sometimes 'applying for a grant of representation/confirmation') until all or some of any IHT that is due has been paid.

Valuation process

This initially involves taking the value of all the assets owned by the deceased person, together with the value of:

- Their share of any assets that they owned jointly with someone else – for example, a house that they owned with their partner
- Any assets that are held in a trust, from which they had the right to benefit
- Any assets that they had given away, but in which they kept an interest – for instance, if they gave a house to their children but still lived in it rent-free
- Certain assets that they gave away within the last seven years

Next, from the total value above, deduct everything that the deceased person owed, for example:

- Any outstanding mortgages or other loans
- Unpaid bills
- Funeral expenses

If the debts exceed the value of the assets owned by the person who has died, the difference cannot be set against the value of trust property included in the estate.

The value of all the assets, less the deductible debts, gives you the estate value. The threshold above which the value of estates is taxed at 40 per cent is £325,000 for the 2010/11 tax year.

The growing area of climate change investment

Expertise in ethical investment has always been fundamental to our business. Giles Chitty, an Associate Partner with Holden & Partners has long been viewed as one of the pioneers of ethical investment in the UK. Giles co-founded The Financial Initiative Ltd, the first UK ethical institution in 1984 and Barchester Green, the first Green IFA in 1989.

Holden Meehan, of which Peter Holden was a founding partner were also well known for their expertise in ethical and socially responsible investment. Since then ethical investment has evolved and we at Holden and Partners were one of the first firms to identify climate change Investment as an emerging area.

It is important for investors to note that climate change investing is very different from ethical investing. Although one of the key drivers in climate change investment may be the movement towards sustainable energy production, most funds do not employ the same screening process as their ethical compatriots. Over the last four years, we have advocated that all investors should have exposure to this emerging area as a core theme within their portfolio.

We have seen governments around the world move to save the banks and now there is a growing consensus that governments also need to protect our environment. The BP Gulf of Mexico disaster has shown that investors need to understand environmental risk and how this will impact on their own holdings. Current stock valuations do not generally take into account the impact of legislation and climate change.

As part of our magazine, we intend to draw attention to key developments in the area of climate change investing. As you will see from the following snapshots, things are moving forward rapidly.

China

The Global Energy Efficiency and Renewable Energy Fund, or Geeref, mainly invested by the European Union, will put 10 million euros ($12.5 million) in a private Chinese fund.

China officially started transmitting power on 6th July from its biggest offshore wind farm to the mainland grid. The 102-megawatt Donghai Bridge Wind Farm off Shanghai's coast may generate 267 million kilowatt-hours of power a year. That could meet the needs of more than 200,000 households in the city.

The Donghai Bridge project has won initial approval for additional wind turbines totalling 100 megawatts in capacity, according to Xinmin. Shanghai also plans to build another four offshore wind farms.

Solar in US

President Barack Obama announced $1.85 billion in loan guarantees to Abengoa SA's Abengoa Solar unit and Abound Solar Inc. to build sun-powered facilities in the US that he said will create thousands of new jobs.

In his weekly address on the radio and internet, Obama said the money from the Department of Energy will help the US transition to a "clean energy economy" that creates hundreds of thousands of jobs in the future.

UK

A partnership of public organisations and charities launched a £3.8 million master plan for the UK's first climate change public park in Barking, East London.

Scientists at the University of East Anglia, who were at the centre of an international debate over the quality of climate change research, were mostly cleared of wrongdoing by investigators except for having avoided disclosing data to the public. The most recent of three "climategate" probes into the theft and leaking of emails at the University of East Anglia's Climatic Research Unit, or CRU, found that while the honesty and rigour of the scientists weren't in doubt, they may have deleted emails to avoid having to make them publicly available.

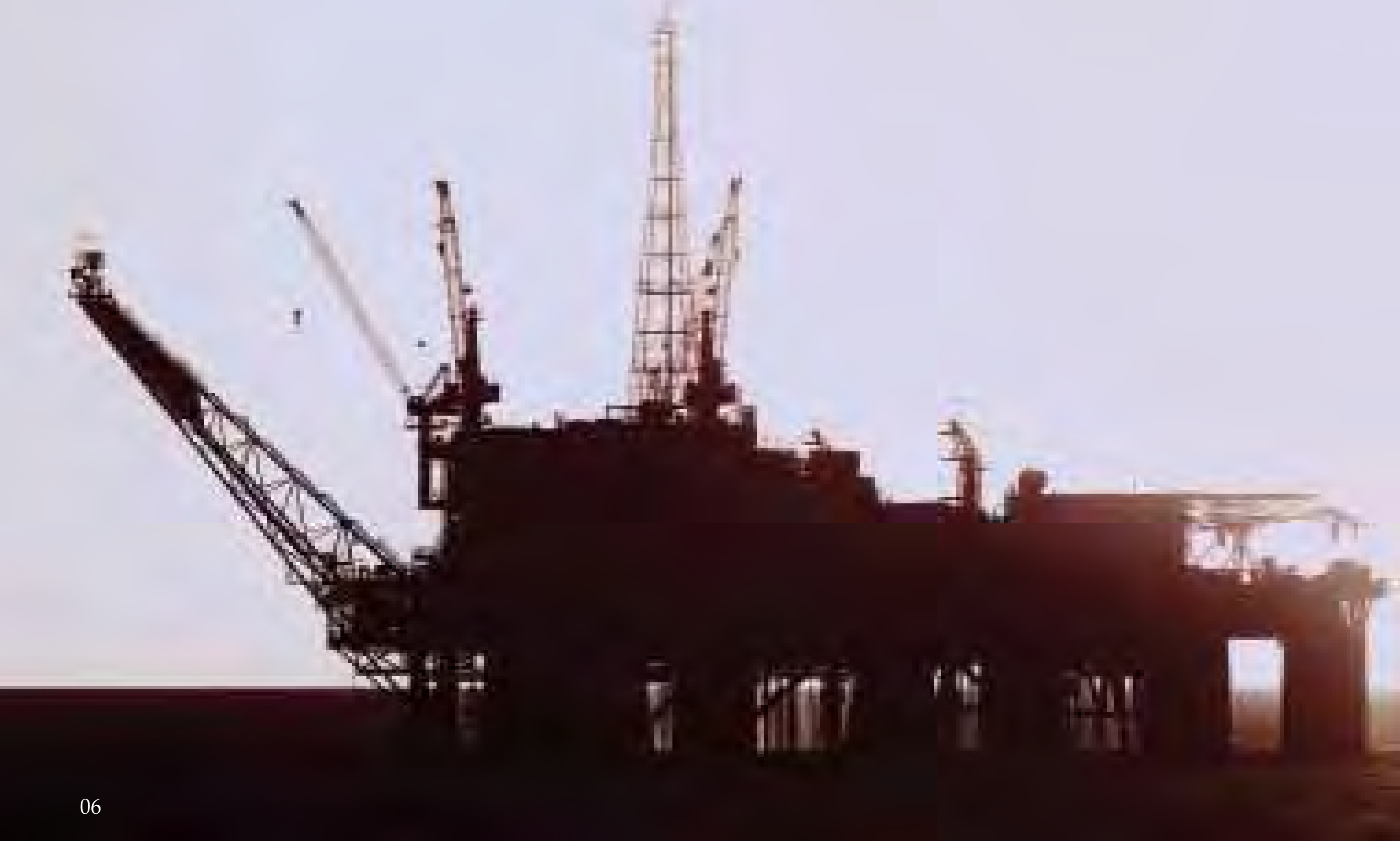
The UK plans to allow local councils to sell power they generate from renewable sources such as wind to the electricity grid.

Scottish & Southern Energy Plc, the UK's second-largest power generator, plans to demonstrate the capture and storage of carbon dioxide emissions at a gas-fired plant in Scotland after it shelved a similar project in 2007. The utility wants to test post-combustion technology at Peterhead, which catches emissions after fuel has been burnt, generating up to 400 megawatts of electricity.

If a week is a long time in politics

The last two months must feel like a life time

If a week was a long time in politics for Harold Wilson, the last two months must feel like a life time in the case of both the former flag ship institution that is BP and its shareholders.



With the oil spill in the Gulf of Mexico still very much in the news, the cost of ignoring environmental risk has been brought firmly into focus. Will the explosion of Transocean's Deepwater Horizon rig off the coast of Louisiana in April be to oil stocks what the collapse of Lehman Brothers was to banks in 2008?

Over a period of just under two months, the share price of BP has dropped from a 52 week high on the 20th April 2010 of £6.55 to a 52 week low on the 16th June 2010 of £3.04.

In their search for future revenues western oil companies are having to target potentially uneconomical sources of oil, and these bring ethical and environmental costs which society has yet to quantify. The Gulf of Mexico has highlighted the risks of deep water drilling, but equally hazardous to the environment and shareholders is the extraction of oil from tar sands.

There is now a widening chasm in society, illustrated by our political leaders who on the one hand, talk encouragingly about environmental processes and fuels, whilst at the same time sanctioning mineral and oil extraction with ever intensive carbon processes from environmentally sensitive areas of the world.

It has been a frustration of the environmental lobby that the oil industry has not been honest either about the financial cost of oil extraction or how it has quantified the environmental consequences in the planning process. These are questions which oil companies have successfully sidelined, in the main because there is still such a thirst for the supply of oil, particularly in the US.

The BP spill will perhaps bring a tougher line of questioning from oil companies' shareholders and a tougher regulatory regime, but perhaps more significantly may have shifted the focus of the debate in society about oil.

The focus has been, in recent months on BP for obvious reasons, but for those UK investors who are simply switching their investment into Shell they should think again, because while it might not quite be moving from the frying pan into the fire, it might moving into something which may have difficulties in the future. As we have pointed out in the past, Shell has some 30 per cent of its proven oil reserves in Canadian tar sands, which, as environmental legislation strengthens both in the US and globally may be equally damaging to its share price. The question is perhaps not if, but when?

Mark Hoskin, Managing Partner at Holden & Partners, expressed concern about the oil companies' focus on tar sands in 2008:

"The recent banking crisis has shown how the financial markets can totally misjudge both the risks and values inherent in company balance sheets… oil companies depend on oil reserves for their market values. BP and Shell are two of our most trusted UK stocks, but it is a shocking fact that 30 per cent of Shell's oil reserves are in tar sands".

> "Mark Hoskin, Managing Partner at Holden & Partners, expressed concern about the oil companies' focus on tar sands in 2008."

There is much work for analysts to do now in regard to oil and the risks each oil company is running. Investors need to be asking more questions than simply what can be done to improve safety and engineering techniques on deepwater drilling. What will be the impact of tightening legislation on oil company future cash flows? How are oil companies going to generate future revenues and what risks are being forced upon them due to lack of supply? Does the promised return sufficiently compensate investors for the risks they are taking? There will be many at BP now who might think not. The share price has fallen 50 per cent in less than three months. Interestingly Neil Woodford, manager of the leading Invesco Perpetual High Income fund sold out of BP & Shell in October 2009 citing concerns over the sustainability of their revenue streams as the reason.

While it is perhaps unlikely that the fall out from the BP tragedy will impact on other oil companies quite as the collapse of Lehman's did on the banks, there are similarities in practice which suggests the fall out will be wider than just BP. And who now will ignore environmental risk in their value assessments?

Families banking more money

Savings ratio rises for the first time in more than 20 years

Families are banking more money than they are borrowing for the first time in more than 20 years, a Bank of England report shows.

Households last year put £24 billion into deposit accounts and took out £20 billion in new loans. It is the first time since 1988, when the current records began, that savings exceeded new borrowing.

Overall savings, including pensions and investments, rose last year from 2 per cent of household income to 7 per cent as families prepared for leaner times, according to the Office for National Statistics. This year, the savings ratio has risen further, to 8 per cent, a level not achieved since 1998.

At the same time borrowing has fallen dramatically. With cheap credit readily available, borrowing hit an all-time high of £125 billion in 2004. At its peak, in 2007, net mortgage lending hit £108 billion. Last year, by contrast, households borrowed just £20 billion, the lowest level since 1993.

The shift from loans to deposits has occurred despite the relatively low rates on offer in traditional savings accounts, which are now offering up to 3 per cent compared with 5 per cent before the crisis.

However, the Bank of England pointed out that savers were getting a good deal compared with the Base Rate, which remains at an historic low of 0.5 per cent.

Income and how commercial property has an important part to play

If Cash is King… Income is Queen. A lump of cash may protect you from a market downturn. It may provide for you in an emergency, it can repair the roof, pay for an operation or a new car, but not many have enough cash to rely on it for the rest of their lives once they stop working.

With deposit rates falling to close to zero and with the continued threat of inflation in the future how does anyone sustain, or plan to sustain their lifestyle once they stop working. Interest on cash is not a long-term solution. At Holden & Partners we see this as the biggest challenge our clients face and hence it is one which constantly occupies us.

There are two main parts to the income in retirement challenge. The first part is saving enough while you are working. Advice here is invaluable because good advice provides three important pillars to future financial security. Firstly, advice should present the risk/return dynamic of different investment options, secondly it should attempt to mitigate the corrosive nature of tax on long-term saving; and lastly and often forgotten good advice provides a discipline and a reminder each year of the challenges ahead.

The second part to the income challenge is, what to do with your capital once you near retirement, or are in retirement, to provide a good level of sustainable, inflation linked income. This is in some ways more difficult and the time at which many people seek advice for the first time. The main problem is to provide a high enough income from capital, whilst also providing some level of inflation protection. Annuity rates (the income you are given in exchange for a capital lump sum) for a 60 year old with a spouse have hovered around 6 per cent for ten years now, whilst annuities with inflation protection start at a yield of about 3.5 per cent. This annuity inflation protection is at a cost to initial income which most pensioners are unable to stomach. There are a range of investment linked annuities available which can defer the final income solution, or provide some inflation protection and there is always the alternative of riding the equity market, or bond market roller coaster which for many is a step too far.

At Holden & Partners we have offered our clients a persuasive alternative – the collective purchase of budget hotels with long term, inflation linked leases. On 23rd April 2010 our clients completed the third such purchase – a Premier Inn in Norwich.

By grouping clients together in syndicates, Holden & Partners have enabled clients to make institutional style investments with large and regular quarterly income payments at yields of between 5.5 per cent and 5.75 per cent after costs, rising every five years with inflation. This goes a long way to meeting the income challenges presented above, provided a client is prepared to accept all the risks associated with owning commercial property.

The Norwich Premier Inn deal is the first Premier Inn that Holden & Partners have purchased. The previous two deals in St Austell and Camberley were Travelodges. All of the hotel purchases though are in the budget hotel market and work on the same business model.

Our investors own the freehold land and building, leasing it to Travelodge and Premier Inn over 25 to 35 years, with options given to the hotel chain to extend this further. The leases are subject to five yearly reviews on an upward only basis. Rent is paid for this lease quarterly, with the result that income distributions to the members of the syndicate can seem very similar to that which might be received by an annuitant.

Of course it is not quite this simple. Ultimately, an investor in one of our syndicates is also making a judgement on the sustainability of the budget hotel business model, with the ultimate security provided by owning a peace of real estate. Budget hotels sell rooms in advance much cheaper than a booking that is made the week before, all bookings are taken over the internet and cash is paid by the customer upfront when the booking is made. Thus the budget hotel has strong positive cash flows. In return the customers know what they are paying for whether they are staying in Norwich, London or Cornwall – a clean, affordable bed to sleep in. It is not a risk free investment in that the budget sector could get into trouble and this could threaten the longevity of the investment, we are however of the opinion that this is a risk worth taking and can be a sensible alternative to having all of your monies in the conventional equity and financial markets or buying an annuity.

The Norwich Premier Inn was purchased by 21 Holden & Partners' clients, for an initial purchase price of £3.62m, but the final price will depend on a rent review currently being undertaken. It is expected the final purchase price will be approximately £5.3m. This would bring the total value of hotels purchased by clients of Holden & Partners to £17m, the number of beds to 250 and the annual rent roll to £1.07m per annum. Thus every quarter clients of Holden & Partners will be receiving £270k, rising over time with inflation. Budget hotels are thus very much a part of our investment armoury.