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H&P Review

GOING NUCLEAR

Nuclear energy: renaissance, interrupted?

Saving for the future

Launch of the Junior ISA

New tax-efficient savings for children in Britain

NS&I Index-Linked savings

Re-introduction of the inflation-beating savings product

The Spousal Bypass Trust

Ring-fencing assets to protect against the ravages of time

GRAPE RETURNS

The case for fine wine investment

ISSUE 3

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“It is difficult to argue against the view that for man-kind to continue to prosper, qualitative growth has to take the place of quantitative growth.”

As mankind continues in its profligate use of natural resources, the obvious question to ask is not whether but for how long unabated economic and population growth can continue.

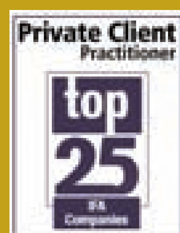
Over the last two hundred years, in the west, the discovery of hydrocarbons has led to an abundance of food supply, dramatic increases in wealth and also unparalled scientific breakthroughs. However, whether we move successfully towards a more sustainable way of living, remains to be seen. Evidence that climate change is increasing at an irreversible rate continues to mount. It is difficult to argue against the view that for man-kind to continue to prosper, qualitative growth has to take the place of quantitative growth.

Good companies that are directly involved in the drive for energy efficiency and clean energy production will surely become more valuable as time goes on. In our view, despite their short term volatility, excellent investment opportunities in all areas of clean energy still remain. However, renewable solutions cannot replace our fossil fuel dependency overnight.

Until Fukushima, Nuclear Power was increasingly being recognised (with some controversy) as part of the solution to the potential energy crisis we all face. The arguments against Nuclear Power are well rehearsed; can the waste ever be disposed of safely?, the possibility of uranium being used by rogue states or terrorists, the vulnerability of power stations to attack and unforeseen extreme geographical events etc. In this issue of H&P Review, post Fukushima,we look at whether there is now any case at all for investing in nuclear energy.

On a lighter note, we examine an area of investment which H&P has supported at various times over the last six years – that of fine wine. The Wine Investment Fund has produced good returns for some time. We look at why and whether the performance can be maintained.

Moving away from investment, we are delighted to announce that we have been recognised as a Top 25 IFA for the second year running by Private Client Practicioner, the professional services magazine used by lawyers, accountants, tax advisers and IFAs. The award should help reinforce our standing as reputable financial planners amongst both our private client and professional connections. In addition, it has just been confirmed that Holden & Partners have been awarded Chartered Financial Planner status by the CII. We will have a detailed feature on what this means in our next issue.



Finally, with our 8th anniversary due in September, we have grown to eighteen in number. Our latest recruit Arabella Murphy, joined us earlier this month and will be responsible for our online profile and operations. Welcome aboard, Arabella!

If you would like or prefer to receive a PDF version of our magazine in the future please email us at ewinn@holden-partners.co.uk

Saving for the future

Two products recently made available are sure to be of interest to families and those seeking inflation-beating returns.

Junior Individual Savings Account (ISA)

Savings for children in Britain

A new tax-efficient children's savings account, known as the Junior Individual Savings Account (ISA) will be available from 1 November 2011. The decision to introduce the Junior ISA was unveiled last October following the announcement that Child Trust Funds (CTFs) would cease for children born after 2010. Parents can either save in a Cash ISA or invest in a Stocks and Shares ISA.

Parents, family and friends can contribute up to £3,600 a year for any child resident in the UK who isn't eligible for a Child Trust Fund:

Children born on or after 3 January 2011
Under 18's born before September 2002

However, unlike CTFs, there will be no Government contributions to the Junior ISA.

National Savings & Investments

Reintroduction of index-linked savings certificates pegged to the retail prices index

National Savings & Investments (NS&I) has recently re-launched index-linked savings certificates pegged to the retail prices index (RPI). NS&I withdrew the certificates last July after they became over subscribed. Currently they are only open to those who have certificates that are maturing.

Returns will continue to be linked to RPI and tax-free. The maximum that can be saved is £15,000 per individual per investment. Typically certificates pay a specified rate plus RPI linking.

In this issue

New savings products 03
A summary of the latest launches and re-launches in the savings product market

Grape returns 04
The case for fine wine investment, by The Wine Investment Fund

Going nuclear 06
Is the renaissance of nuclear energy over?

Life in the old dog yet 08
How the Spousal Bypass Trust can help protect your assets for future generations

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Grape Returns
the case for fine wine investment

by Andrew della Casa of The Wine Investment Fund

The notion that wine investment is about buying two cases of young wine so that you drink one case and sell the other to finance both may have a certain romantic appeal. But serious investors understand that investment is all about risk. Good decisions are made when the exposure to risk is clearly understood. In the fine wine market, such understanding is becoming more commonplace as both institutional and private investors conclude that a holding in fine wine is an important diversifier.

As an asset, fine wine has shown three consistent features:

Double digit annualised returns - the annualised growth rate of the benchmark index, the Liv-ex 100, has been around 14.6% since its inception in 2001. In 2010, the index rose by 40.5%;

Low volatility - the wine market has shown lower volatility (which translates to lower risk) than equities and other commodities such as gold and oil; and

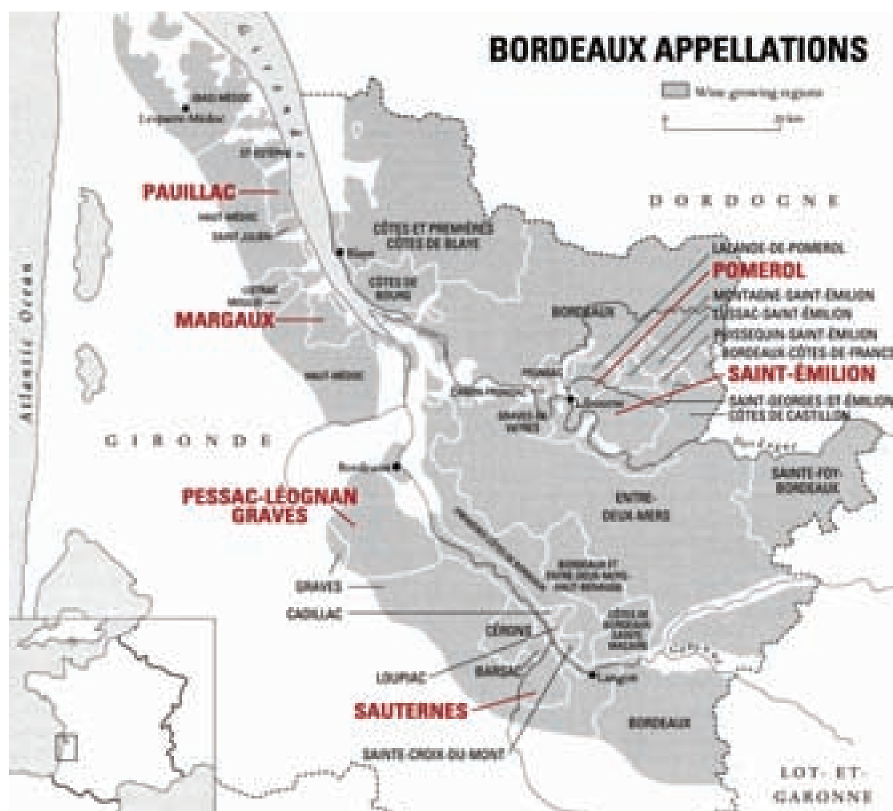
Low correlation to equities - using the longest reliable monthly data series, the correlation between the wine market and the FTSE 100 is +0.02 (where +1.00 represents a perfect positive correlation and -1.00 a perfect negative correlation). In other words, the returns to fine wine are generally unaffected by movements in equity markets.

In fact, in the post-financial crisis era (from end 2008 onwards) there is some evidence than wine is becoming more negatively correlated with equities - and, commensurately, more positively correlated with other physical assets, notably gold. This is perhaps not surprising as many of the characteristics which make gold attractive to investors also apply to fine wine as we define it - supply is by definition limited, it cannot be debased and it has inherent value.

At The Wine Investment Fund, we define fine wine as being only from the top 35 wine producers (châteaux) of the Bordeaux region. Bordeaux is a finite geographical area of approximately 120,000 hectares of vineyards, home to approximately 8,650 wine producers.

There are a number of classifications which cover most (but not all) of the properties, of which the most famous was the Médoc classification prepared in 1855, at the request of Emperor Napoleon III for the Paris Great Exhibition of that year. This list has remained almost unchanged to this day, except for some minor alterations (mostly due to the division of some estates and the loss of others) and the elevation of Château Mouton-Rothschild from a 'second 'growth' (deuxième cru) to a premier cru in 1973.

The 35 châteaux which we define as producing 'investment grade' wine amount



to only around 1% of the total production of Bordeaux - some 6 million bottles per year. Critically, no matter how good the vintage, the number of bottles can only reduce over time as the wine is consumed, creating an 'inverse supply curve'.

Moreover, while supply is decreasing, demand is actually increasing because, as the wine matures, it improves. These forces act together to push up prices. Global demand for fine wine continues to rise - steadily in the case of the traditional markets of Europe and North America, and more rapidly in newer markets such as Russia and most recently China, which has seen phenomenal growth. In fact, sales of Bordeaux to China have doubled every year since 2005, overtaking the UK and Germany to become the number one destination for exports of Bordeaux by volume.

What lies behind this growth in the Asian market?

Initially, it was probably fair to say that it was not the taste of the wine but the social cachet attached to drinking it. As time has gone on the wine 'scene' has matured, although it is still undoubtedly true that brand is king - and Lafite is the most important brand. Prices for the château's wines have rocketed: a case of Lafite 2004 which cost around £2,200 in December 2008 is around £8,000 just two years later.

The future path of the market now turns most importantly on this question: of the wines which are currently being exported to China, are large amounts of it being drunk, or are they being held for future resale? To the extent that there is a consensus, it is that drinking constitutes the rationale for a large majority - perhaps 80% - of purchases, which is comfortably high enough to keep prices rising for some time yet.

In the meantime, an intimate knowledge of the market enables us to identify the wines which have changed their risk/return profile in recent months. As the market evolves, so we will continue to monitor and rebalance portfolios to maintain an appropriate overall risk/return profile. With these professional management techniques, we look forward to the prospect of more tasty returns!

> "Perception is an issue; for example more is spent in the UK to prevent rail deaths, but more people die on the roads over a weekend than on the railways in a year. Nuclear Power has the same problem."

Going nuclear

Nuclear power: renaissance, interrupted?

Nuclear power is an issue which polarises opinion. In our own experience the nuclear debate splits even the most ethical of investors. Leading environmentalists such as George Monbiot and James Lovelock have both in recent times controversially lent their voices to the pro nuclear lobby. Significantly, recent events in Fukushima may have strengthened the arguments of the anti-nuclear lobby but whether this proves to be a defining moment remains to be seen. Here Robert Allinson, our external investment consultant, examines the investment case for nuclear power:

In 2004, Professor James Lovelock (originator of Gaia Theory) wrote "Global warming is now advancing so swiftly that only a massive expansion of nuclear power as the world's main energy source can prevent it overwhelming civilization". Critical to Lovelock's argument is that, firstly, the exceptionally harmful CO_2 emissions from burning fossil fuels are staggering in their volume, and are almost impossible to control and capture, whereas the waste products from uranium fission are very modest in volume and can be fully captured and controlled. Secondly, the number of human fatalities arising from nuclear contamination of one form or other, are simply insignificant compared to the vast number of people that have died, or will die, as a result of the impact of global warming. Furthermore, he states that there is simply not enough time for renewable energy sources to take the place of coal, gas and oil-fired power stations.

The political reaction that has followed the near-meltdown at Japan's Fukushima has been predictable. Germany, for example, having decided in 2010 to extend the life of its 17 reactors (supplying 25% of the country's electricity), has now pledged to shut them all down by 2022. Switzerland has made a similar announcement. In contrast, France, currently deriving around 80% of its electricity from nuclear and has reaffirmed its commitment to nuclear power.

As one might expect, investors have responded to this uncertainty by aggressively cutting their exposure to related investments. The share price of companies that mine for uranium have been heavily impacted - the largest, Cameco, has fallen around 35%, with the shares of smaller mines falling between 50% and 75%. Given that current annual uranium demand exceeds mine supply, and that only a handful of new mines have been opened in the last decade, sellers are betting on increased political risk, and also a steady dismantling of the world's nuclear power capacity.

Perhaps unsurprisingly, China has now emerged as a key nuclear protagonist because its future energy needs are so vast. At present, 80% of the country's electricity is derived from coal, which accounts for a large proportion of the country's air pollution. China's nuclear power ambitions are significant. It currently has 13 plants in operation, supplying just 2% of the country's electricity. 27 new plants are under construction, and a further 160 are in the planning or proposal stage. A further influence will come from India, which has only 20 reactors in operation but has planned and proposed at least another 60. All of the growth in demand from China and other emerging nations will more than offset the contractions that take place in Japan and Europe.

Technology has moved on significantly since the Fukushima, 'light water reactor' (LWR) was built in 1970. In modern reactors (like the new pebble bed reactors being planned in China) active safety systems have been replaced by passive safety systems, which do not require external power sources or equipment in order to cool the reactor post-shutdown. This design eliminates the possibility of a 'meltdown'.

In the shorter term, it is clear that not only renewables, but also natural gas/LNG will be significant beneficiaries of the sudden shift in public and political opinion against nuclear. Government policy across the globe, calls for a huge expansion of all sorts of non-carbon intensive energy. Yet it is still only nuclear and very large dams that can be truly relied upon to provide baseload electricity without burning hydrocarbons. With the UN calling for a reduction in CO_2 emissions of at least 10-15 billion tonnes by 2020, there seems little chance that nuclear power, which saves around 2 billion tonnes of CO_2 emissions annually, can be removed from the energy mix.

The collapse in price of uranium related holdings following Fukushima provides investors with an opportunity to look beyond the ongoing short term uncertainty which surrounds nuclear power. Whilst many will never be able to justify an investment in nuclear power because of their ethical stand point, there are certainly still compelling reasons for some investors to look at the industry more closely. It may be that nuclear energy does, after all, enjoy a climate change-led renaissance.

Life in the old dog yet?

The Spousal Bypass Trust

For over 20 years until 9th October 2007, the "nil-rate band discretionary will trust" was a tax planning staple for married couples. Failure to use the inheritance tax nil rate band on the death of the first of the couple to die could result in the payment of £120,000 in additional tax (at 2007 rates).

Because most married couples couldn't afford to see ,say, £300,000 left directly to the children on the first death, most Wills provided that, on the first death, assets equivalent to the nil rate band passed to a trust of which the survivor and children were potential beneficiaries. This made good use of the nil rate band while still allowing the survivor access to the money. Indeed, the best of both worlds.

In the 2007 pre budget report, the then Chancellor, Alistair Darling announced that with immediate effect, the nil rate band of the first to die would be transferable and could be carried forward to the second death. In a stroke, this removed the need to use a gift or trust to ensure the benefit of the nil rate band available on the first death was not lost.

While the need to incorporate a nil rate band discretionary trust in Wills to utilise both nil rate bands has disappeared and the majority of new Wills by married couples just leave all to the other on the first death, this doesn't mean that those with nil rate band discretionary trust wills need to rush to make changes. If a husband or wife dies, the assets falling into the nil rate band discretionary trust can merely be "appointed" to the survivor.

But the transferable nil rate band hasn't seen the demise of the nil rate band discretionary trust – leaving assets equivalent to the nil rate band (currently £325,000) in a discretionary trust- particularly where there is a desire to bypass the surviving spouse. It is still possible to include the spouse as a potential beneficiary, say for income purposes, whilst capital is held for other beneficiaries – say children from a previous marriage.

Leaving assets in a trust ring-fences them against the ravages of future death, mental incapacity, divorce and the attentions, generally of a future spouse. The first to die can be assured that assets are being preserved for the next generation or for the children of an earlier marriage. The assets will be outside the scope of "accessible capital" targeted by a local authority in working out the contributions to the costs of a nursing/residential home and the availability of means tested benefits.

The growth in the value of the assets will be outside the survivor's estate for inheritance tax purposes which will more than counterbalance the loss of any capital gains uplift to the date of death.

And finally, a discounted gift trust can, for cash flow purposes, provide access for the family to a fund (including pensions) immediately after the death of the survivor without the need to wait for probate, which can be very useful in meeting funeral costs, paying debts and meeting any residual IHT liability. So as we can see, there is perhaps still plenty of life in the old discretionary will trust…

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