

Paradigm Norton for Charities*

Having long proven our ability to serve the financial planning needs of private clients, including, where required, those who have set up their own charitable trusts, we have now begun to look after the needs of charity trustees.

“Peace of mind”,
a phrase familiar to our private clients,
is equally important for charity trustees.

How do we deliver this?

As financial planners our main interest is in the client themselves, rather than in their money, and it is no different in the case of a charity. Each has its own short, medium and long term goals, and also has recognised sources of income. As with private clients therefore, rather than focusing purely on making a charity as much money as possible, we see our main task as being to ensure, as far as we are able, that a charity’s goals can be met via the financial resources at its disposal.

We will therefore produce a plan, using agreed assumptions, which will enable trustees to assess whether or not their goals are achievable using the resources available to them, and, if not, what action needs to be taken: reduce expenditure, increase revenue, change the goals, or a combination of all three.

Our award-winning investment strategy, so valued by our private clients, is extremely well suited to the needs of trustees, in that our twin emphases of risk reduction and cost reduction provide them with the peace of mind they require, in the light of their statutory obligations. In addition, we will gladly assist with the formulation of an investment policy statement if required.

Our low rate of staff turnover combined with the value we place upon building long-term client relationships means that trustees can be confident of continuity and consistency in the service we provide. Trustees are introduced to the team that will be looking after them at the outset, and this team will stay with them.

From a financial planning perspective we are also prepared to offer an additional service to key donors who may wish to understand their potential to give without compromising their other finance related life goals. Here, however, we would be acting for the donor and not for the charity itself.



As a trustee of four UK charities and as Head of Giving and Philanthropy within Paradigm Norton, I understand the trustee perspective. It therefore seemed a logical step to provide a financial planning led service to trustees which was designed with this perspective in mind.

If you, or someone you know, are a trustee of a charity which requires a “paradigm shift” in its investment management please contact your Paradigm Norton adviser, or me directly at: rchild@pnforcharities.co.uk

Richard Child — Director

* Paradigm Norton for Charities is a trading name of Paradigm Norton Financial Planning Ltd

Keeping Clients' Assets Safe

Cash is supposed to be the safest asset class, yet paradoxically it was the banks that were at the heart of the 2008/09 financial crisis. Had governments not stepped in to save banks then depositors would have learned the hard way that cash is only as safe as the bank that it is deposited with.

By contrast, company shares are considered the riskiest of assets and yet the collective investment vehicles (units trusts, investment trusts and Open Ended Investment Companies) that are commonly used by investors to hold shares on their behalf, kept investor's assets completely safe (albeit those assets obviously fell in value). Of course, collective vehicles are not anything new; Foreign and Colonial created the first investment trust in 1868, while M&G launched the first unit trust in 1931. These are tried and tested investment vehicles which have protected investors for over a century.

We are often asked by clients: how safe are the collective investment funds that you recommend? Please be reassured that these funds keep your assets completely safe. I always recount the story of Barings Bank brought down by Nick Leeson. Ironically, depositors in Barings were the least protected, while investors in Barings' funds were completely safe. This is because the collective investment vehicle structure is built on a separation of asset ownership, asset custody and asset management. Barings were simply managing assets on behalf of their fundholders and they had absolutely no access to the underlying assets.

Exchange Traded Funds (ETFs)

Over the last decade or so, a new investment structure has evolved that now competes with collective investment vehicles – the Exchange Traded Fund (ETF). ETFs do have many advantages over more traditional collective vehicles; for instance they are continuously priced throughout the day which is an enormously useful innovation for a trader.

However, there has been a lot of adverse press about ETFs recently. The Financial Services Authority, Financial Standards Board, Bank of International Settlements and most recently the Serious Fraud Office have all voiced concerns in recent months about certain risks posed by ETFs.

The key point to note is that not all ETFs are the same. There are two main types:

- Physical ETFs are very similar to collective investment funds. As an example, the iShares Developed Markets

Property Yield fund physically holds all the global property companies in the FTSE EPRA/NAREIT property index. We are entirely comfortable that all the iShares physical ETFs we recommend offer the same extremely stringent level of protection as the more traditional collective investments.

- A second type of “synthetic” ETF is typically managed by investment banks who promise to swap the return of the index they track in return for a management fee. Like a bank deposit, this adds counterparty risk (the risk that the bank fails and cannot make good its promise).

The recent concerns from regulators lie more with these synthetic ETFs. Commodities futures exposure is the only asset class that we recommend which falls into this category (via ETFS and Deutsche Bank funds). Although in theory this does entail counterparty risk, in practice the funds we recommend are governed by extremely rigorous UCITs III regulations, which impose strict limits on minimum collateral to be held with a third party custodian to protect against this risk. This regulation requires minimum collateral of 90%, or maximum counterparty risk of 10% of the invested capital. In practice the funds we recommend post collateral in excess of 100% to provide greater protection than the minimum that is required.

Clients may remember that this protection was tested during the financial crisis. The ETFS All Commodities fund counterparty was AIG. AIG was, of course, one of the biggest victims of the crisis; however, the collateral protection worked and UBS have since replaced AIG as the counterparty providing the index return to ETFS All Commodities investors.

Securities Lending

There is one other final area worth covering on the issue of asset safety and counterparty risk. For a fee, all of the equities funds we use have a policy of lending the underlying company shares held in the portfolio. The stock is typically lent to hedge funds or those that wish to sell those shares “short”, in essence betting that the price of the share will fall. We view securities lending as



positive and an area which adds tremendous value for fundholders:

- Both Dimensional and Vanguard return 100% of the fees generated by securities lending to fundholders (most other fund management companies keep this revenue for themselves!). This reduces the fund management charges in our portfolios and is ultimately a source of enhanced performance.

As an example, Dimensional European Value fund received income in 2009/10 from securities lending equating to 0.22%, effectively reducing the fund charge from 0.60% to 0.38%.

- Securities lending is clearly not risk free – what if the borrower defaults? Both Vanguard and Dimensional have decades of experience in this area, making careful assessments of counterparty risk and imposing strict collateral requirements on borrowers to protect fundholders.
- Securities lending makes particular sense for passive managers, who are not in the game of trying to outperform markets by predicting which companies will do well and which will do poorly. Remember, Vanguard will hold every company in an index. As a permanent holder of shares (they only ever sell a share if it leaves the index), it makes total sense to lend these to earn additional income for fundholders.
- Securities lending and particularly short selling (the opposite side of the transaction) often get a bad press, particularly during crisis periods, but this unquestionably benefits financial markets: by enhancing liquidity in markets, by allowing market makers and traders to hedge their positions, which in turn reduces trading costs and spreads, and by generally improving market efficiency.

Lee Dunn — Senior Financial Planner

GUEST ARTICLE

Keeping it in the family: Asset Protection on Divorce



Divorce settlements in England and Wales can be hugely unpredictable. Courts exercise a wide discretion according to the principle of sharing and a starting point of an equal division of capital. They can make a wide range of orders for transfer of property, lump sum payments, maintenance for spouses and children, and sharing of pensions. They can look behind corporate and trust structures to achieve this.

Inherited assets can be a reason to depart from an equal division or to ring-fence a particular asset, but how the assets are held during the marriage, and even how income from it is applied, as well as whether there is a marital agreement, is key to raising this argument with any force. Advice from financial and legal advisors prior to marriage or to receiving an inheritance is crucial.

Asset protection is therefore an important issue for estate or succession planning; what would happen if a beneficiary were to divorce?

WHAT CAN YOU DO?

Marital Agreements: Pre- and Post-Nups

There is a presumption that these agreements should be upheld, whether entered into before or after a marriage, if they are entered into properly, that is with advice, disclosure, no undue pressure, and they meet the couple's basic needs at the time of the marriage breakdown. It is important to consider this option as it is the strongest form of asset protection.

Initial advice is recommended to under-

stand how a pre- or post-nup may assist in certain circumstances, including where you may be looking to hand assets onto the next generation, but are concerned that they should remain in the family in the event of the beneficiaries' divorce.

Take practical steps to bolster arguments in the event of divorce

If a pre- or post-nup is too big a step, there are practical points to bear in mind. In general, inherited assets or property should remain in the recipient's sole name and not transferred into joint names, which can contradict advice given for tax purposes. There is therefore a balance to be struck. There are also important aspects in relation to the incorporation documents for family companies or the terms of trusts that should be considered.

For further advice, information or other options that may be available, please contact Sarah Woodsford on 0117 902 7743 or sarah.woodsford@burges.salmon.com.

Sarah Woodsford —
Senior Associate Burges Salmon LLP

Anning and Co

We are delighted to announce that Paradigm Norton has acquired the personal tax business of Anning & Co, a highly respected Chartered Accountancy practice based in Westbury-On-Trym, Bristol. Paul Anning and his team of three "moved in" to Paradigm House on 5 September. Between our two West Country offices we now employ a team of 37.

In a recent press release, Paul Anning commented "I am delighted that the private client tax business of Anning & Co has been merged with Paradigm Norton, a firm which I have admired for many years. They enjoy an excellent reputation, and I look forward to the opportunity to work with them and to build the tax and estates practice with Steve Griffiths and the existing Paradigm team.



In our press release I added: "I am thrilled with this development. Paul and his team have built a strong business over the last 14 years and, by doubling the size of our tax and estates team to eight members, their arrival further enhances our ability to offer to clients a comprehensive financial planning and personal taxation service".

Barry Horner — Director

Deki – A great alternative to traditional charitable giving

Deki is an amazing charity which we have been supporting via the Paradigm Norton Trust for some time. It helps people in developing countries build their own economies independently and sustainably through small sums of money or micro-loans. The concept is relatively simple. You choose who you'd like to support from the entrepreneurs listed on the Deki website and then you choose the amount of your planned loan. As they repay your loan, you'll receive updates and repayments. It really is that straight forward.

In developing countries, people often live hand-to-mouth with barely enough to feed their families, let alone pay for education or deal with natural disasters. Combined with the training offered by their field partners, Deki microloans are used by entrepreneurs to buy stock such as grain, or equipment such as sewing machines. Hence, with small sums of money, combined with the commitment of the entrepreneurs, sustainable incomes are generated, enabling lives and communities to be transformed.

"While other ethical schemes invite you to send a goat to a developing-world village, Deki gives you the opportunity to offer a microloan." *Lucy Siegle - The Observer*

Deki is keen for donors to be able to see the impact that their money is making. They have therefore created an online community whereby, once you have made a donation, you can follow your entrepreneur's progress, upload personal details and see other lenders contributing to "your" projects. Once a loan is repaid, there's the opportunity to reinvest elsewhere, or you can donate it to Deki to help them connect more entrepreneurs with investors across the globe.

Deki takes no commission from loans and relies solely on donations to cover running costs. Carefully vetted field partners pass on loans to borrowers in their local currency.

If you are interested in finding out more, visit their website: www.deki.org.uk

Barry Horner — Director

From Cradle to Care Home

In this article I want to look at a number of reports that have been published in recent months that address issues that will affect us throughout our lives.

The first report is LV's 2011 Cost of a Child Report. This examines the average UK cost of raising a child from birth to age 21. LV publishes this report on an annual basis and when the first report was published in 2003, the average cost of raising a child was £140,398. In 2010 this figure had grown to £210,848 which is just over £10,040 a year.

LV breaks this figure down into a number of expenditure items, with the top three costs being childcare and baby-sitting (£67,430), education (£55,660) and food (£18,518).

The most expensive age for raising a child is between the ages of five to ten, followed by the one-to-four age group. For the first year, LV estimates the cost of a child to be £9,491. Unsurprisingly, London remains the most expensive place to raise a child whereas Yorkshire & Humber is the most cost effective.

The purpose of this report is to highlight the need to ensure that clients have considered how best to secure their family's financial security should anything unexpected happen. This could be by way of existing assets or a protection policy. When we assess our client's protection needs, it is often difficult to know how much cover one should have so LV's Cost of a Child Report is a useful reference point when we put together our financial plans.

The second report I want to highlight is the report published by the Dilnot Commission on Funding of Care and Support.

The Dilnot Commission examined the current state of adult social care funding in England and found that it was often confusing, unfair and unsustainable. They found that the process for assessing people's care needs was complex and opaque, and differed between local authorities.

They also identified that one of the major problems with the current system was that people cannot protect themselves from future costs of care because there are very few financial products available.

The Dilnot Commission came forward with a number of recommendations, which included:

- Capping the lifetime contribution towards care costs at £35,000. Where costs exceed this figure, they should be met by the State.
- Means-tested support should continue and the asset threshold for those in residential care should increase from £23,250 to £100,000.
- People should contribute a standard amount to cover their general

living costs in residential care – around £7-10,000.

- The eligibility criteria for care entitlement should be standardised across England and assessments should be portable across health authorities.
- Government should develop a major new information and advice strategy on long-term care which should involve charities, local government and the financial services sector.

The provision of long-term care, in particular for older people, is a key issue that needs to be addressed. We are increasingly asked to model the impact of long-term care costs within our client financial plans, and the impact this has on a client's assets can be significant. We hope the Dilnot Commission's report and recommendations will stimulate the financial services industry into introducing suitable products to help clients insure against future long-term care costs.

Many insurance companies have published reports looking at the current state of the retirement market. Most conclude that people are not saving enough and, as such, many people are facing difficulties as they transition into retirement.

Rather than focus on all of the negative sentiments surrounding retirement we prefer to focus on the positive. We believe that by developing a suitable retirement plan, our clients can enjoy a full and productive retirement, achieving all of their long-held goals whether that includes more travel, taking up a new hobby or spending more time with the family.

By starting the retirement planning process sufficiently early, we can help our clients to plan ahead to identify whether their pension fund is on track to provide the level of income they need in retirement. Our retirement planning process is designed to maintain as much flexibility as possible so that clients can take advantage of the most suitable benefit options available.

All of these reports highlight the need for greater financial literacy amongst the wider public. Our aim has always been to identify the most suitable financial products to help our clients achieve their financial goals, as well as to ensure that clients understand how these products work and all of the potential risks involved. It is clear that most people remain largely ignorant of the need to adequately protect their family from anything unexpected happening to them, to adequately save for their retirement and to plan for the impact long-term care costs could have in later life.

Matthew Kneller — Senior Financial Planner

Had some good news? Due a tax refund from HMRC?

A number of our clients have advised us that they have received a welcome email from HM Revenue & Customs explaining that they are due a tax refund. Unfortunately we have to break it to them (gently) that HMRC simply do not advise taxpayers of refunds in this way and that the email they have received is a scam. In fact HMRC (almost) never correspond with taxpayers (or agents) by email.

Some of these emails can look genuine, including the HMRC logo to make it look official; others are amusingly amateurish and obviously fake.

The refunds mentioned are usually only a couple of hundred pounds – which is large enough to bother with but not so large as to be unrealistic.

If you receive one of these emails from HMRC it should be deleted immediately, and if you think you might be due a tax refund you can always check with us! Incidentally HMRC have a fraud department and are happy to receive forwarded copies of any scam emails: phishing@hmrc.gsi.gov.uk

Tracy Clamp — Tax Consultant

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All articles in this newsletter are of a generic nature and are not designed to be read as specific recommendations or advice.

If you would like advice on any of the areas covered, however, please do contact us to discuss a strategy that is appropriate to you, your goals, and your circumstances.