

# Summer 2016 Investment Guide

**BREXIT: IS YOUR MONEY SAFE?** / Pensions / Sustainable investment / Fintech



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# Uncertainty and opportunity



**F**or Remain voters there was grim satisfaction to be had in watching, during the hours and days after the Brexit vote, as the economy proved the worst predictions of 'Project Fear' to have been, if anything, not scary enough. Never before has one decision been so quickly proven to be so catastrophically misguided, in economic terms: in a single day, the Standard & Poors Global Broad Market Index recorded losses of \$2.08trn. This is about as much money as India makes in a year.

But most people are not Forex traders. The wild swings of the exchange markets are not felt so quickly or so keenly in the aisles of John Lewis, where spending for 2016 so far is up on previous years, or Tesco, whose shares are up 20 per cent on their price the start of the year. Consumer confidence was impacted by the Brexit vote, but it has rebounded for the moment. After the frenzy of resignations and the divebombing graphs, we are only just beginning to find out what this all means for real money.

There are still plenty of reasons to be hopeful. Britain remains a country defined by its inventive nature, and hundreds of UK start-ups are busy revolutionising finance: robo-advisers, crowdfunding and peer-to-peer lending are democratising investment, offering diverse, managed portfolios to normal people with modest savings. Both Anna Soubry and Julie Lake point to the fintech movement – of which London remains the global centre – as a seam of opportunity. In government, too, there is an appetite for change, with increased personal control of pensions and new options, such as Workplace ISAs, on the cards.

There is only one certainty in today's economics, which is that the use of money is never an amoral act. Our future selves deserve prudent management of our savings, and future generations – as you'll read from Angus Hanton and Fergus Moffatt – deserve to inherit not only a stable economy, but one in which profit is made responsibly.

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First published as a supplement to the *New Statesman* of 22 July 2016. © New Statesman Ltd. All rights reserved. Registered as a newspaper in the UK and US.

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The economic and political landscape is changing fast, but technological solutions are arising that can help small businesses stay ahead of the game, says [Anna Soubry MP](#)

# Welcome to the age of the citizen investor



**S**o, you're ready to start or grow a business, but where do you go to get the money to invest?

For most of my life the answer was simple. You would phone up and book a meeting with your bank manager. They would sit you down, offer you a cup of tea – if you were lucky – and ask you to set out a business plan.

Bank managers used to know everyone and did not always make decisions based on cold, hard sums – trust, personality and relationships came into it. Then the rise of algorithms replaced expert judgment with a one-size-fits-all approach that left many budding entrepreneurs frustrated. Now technology, often blamed for eroding the personal interaction, has brought it back to business lending.

Crowdfunding has been sending shockwaves through the finance industry for years. People fund ventures

on platforms like Kickstarter not just because they make good business sense, but because they are interesting, amusing or will do some good in the world. Now equity crowdfunding on platforms like Crowdcube, where people get shares in a business for investing at an early stage, is growing by around 80 per cent every year. Pitches to potential investors are highly personal, setting out their visions and values as well as bottom lines.

This also shows we are shifting away from the idea that getting money for your business means getting into debt. Why get a loan from a bank and pay interest when you could offer an investor who knows the ropes a stake in your business in return for funding? This has long been a popular route to finance for Silicon Valley entrepreneurs – and we have lagged behind the US. It might not seem very British to give a part of your company away, but holding on to it all

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**Wisdom of the crowd: Yancey Strickler's Kickstarter has raised almost \$2bn in pledges from over nine million backers**



## Crowdfunding is growing by 80% per year

and losing out as a result is not the route to success. Everyone's been given the shot to be in their own version of Dragon's Den.

The problem with the bank manager was that you stood less of a chance of getting what you wanted if you grew up on the wrong street or lived on the wrong estate. One of the reasons government launched the start-up loans programme was to give people who couldn't get a loan from a bank the chance to follow their dream of starting a business.

We've now given out almost 40,000 loans through the British Business Bank, with around a quarter of these going to people previously on unemployment benefit through referral from the New Enterprise Allowance scheme. Alternative funding sources have the potential to open these doors in a similar way, putting an end to postcode

prejudice by connecting people with great ideas from all over the country with investors willing to back them.

We are also building on our rich history of innovation to boost the UK's Fintech sector – already worth more than £6.5bn – and compete with the likes of California, New York and Singapore. One of our main jobs is to make sure the big banks work together with the new players so that consumers, businesses and entrepreneurs reap the rewards.

A good example of this is the work going in to APIs – or application programme interfaces – which allows for the quick and safe transfer of data between different platforms.

Most of us use them when signing into websites using a Facebook profile or getting an insurance quote from a comparison site. But when applied to finance they can transform the way we handle money.

Of course, safety and security is vital for any new finance product and the FCA has a dedicated team to make sure regulation matches the speed at which the Fintech sector innovates. We need to give confidence and certainty to the market, while allowing the ecosystem to grow and thrive.

Most of all we need to keep looking outward and to the future, to overcome any challenges that lie ahead.

I was lucky enough to join some new Fintech businesses on a trip to Asia last year. What struck me most was how dynamic and comfortable they were in unfamiliar surroundings, interacting with people from different cultures, sharing and collaborating. Business brings people together from all walks of life and from every corner of the globe. We must embrace fresh thinking, innovation and disruptive technologies, and harness the talent that can lead to the next Airbnb or Skyscanner. And as a country, we must keep our doors open to the entrepreneurs with the great ideas, who create jobs and growth, because business is a universal language.

*Anna Soubry is Minister of State for Small Business, Industry and Enterprise and is the MP for Broxtowe*

# The rising stars of the fintech scene

Investment by algorithm, app-based accounts, globalised savings and even artificial intelligence are revolutionising financial services. **Julie Lake**, co-founder of the FinTech 50, picks the companies to watch

**F**orget fintech. No really. Forget it. As a descriptor (a conflation of the words finance and tech) it's an industry-insider term that's unfamiliar and alienating. Or so it would seem. According to a recent poll, 90 per cent of fintech's target audience – the young, who according to legend would rather visit their dentist than their bank – have never heard of it. But strip away the tech speak and they may well be familiar with its user-friendly innovations. The app + card combo that allows you to send or spend money abroad at little or no cost. The online service that provides access to the best interest rates across Europe. Smartphone Banking. Student Finance. This is not, to use a popular fintech trope, money's Uber moment – whatever that actually means. Managing other people's money will always require their trust, but none of the services featured here are high-risk financial instruments. They

are simple to use, fresh-faced financial services designed for people who want easier access to their money and the opportunity to waste less on fees. They might not allow you to outsmart the market, and we may only be talking modest amounts, but at this uncertain moment in time every little helps.

#### A smart new bank

"Today's money is digital," says Anthony Thomson, founder of Atom Bank, a key player in the new wave of 'smartphone' banks. None has a branch (their customers are unlikely to use them), but their ambitions are every bit as big as their physical counterparts. Mondo, with no shortage of aspiration, wants to build "the best bank in the world" and hopes to get a full banking licence later this year. Then there is Starling and Tandem and, in Germany, Number26. Confused? You possibly will be. But if a superabundance of

choice is the problem, new app on the block, Bud, is setting out to sort it. The independent, universal financial app store (sign up for early access) wants to help people build their own banking experience by matchmaking their financial "problem" with a solution. It might be aimed at 'young people', but the new democratised finance is not just for the 18-35s. One digital bank planning to launch later this year, Dublin-based Cogni, is aimed squarely at small to mid-sized enterprises. The 'data-driven smart business bank' will provide services such as multiple currencies, integrated payment solutions, financial and business insights and an AI-driven marketplace – potentially the power of your branch on a smartphone.

#### Investing online

Nutmeg kick-started it, in 2011, with its belief that everyone who wanted to invest should have access to a good quality service: a professional investment team; a diversified, regularly rebalanced portfolio. The online investment manager now offers investors the ability to buy fractions of funds, and as a result has lowered its minimum investment from £1,000 to £500. If your portfolio is smaller than £5,000 you may have to make a monthly contribution of at least £100. Wealthify uses algorithms based on a proven investment theory called the Sharpe Ratio (check the website). Like Nutmeg, it invites investors to create a personal investment plan by deciding how much you want to invest, how long you want to invest it for and by choosing an investment style. Five levels range from 'cautious' to 'adventurous'. Minimum investment is £250 and investors can cut fees further by persuading friends to invest with the platform. Get one person to join your 'circle' and you'll get a 5 per cent discount on your fees. The discount increases to 20 per cent if you get 50 people to sign up. MoneyFarm, the fast-growing Italian digital wealth adviser that launched in the UK earlier this year, offers a minimum investment of just £100. Keep an eye out, too,

for yet-to-launch Moo.la. Founded by a former investment head for an AIM-listed wealth management firm, Gemma Godfrey, Moo.la's mission is accessible investing regardless of wealth or expertise.

### Dollars wrapped in love

One field visibly targeted by the financial pioneers is sending and spending money globally. I don't care if my bank delivers cash to my door by unicorn express: I do not want to lose money on the transfer. Revolut's founder Nikolay Storonsky didn't want to do that either. His solution, a multicurrency prepaid card and app combination, lets its customers load money from their domestic bank account, at no cost, and spend it in over 90 currencies around the world at the best exchange rate available. Right now it's free, to sign up and to transfer money via the app. Fees of 2 per cent apply to ATM withdrawals over £500 per month, and there is 3 per cent to pay for USD debit card top-ups. Both are charged only to cover third party costs. You can check live currency rates on your phone, and if you lose your Revolut card you can block and unblock it from the app. Centtrip is aimed at the higher-end individual traveller and business market. It offers access to the live currency market at the true interbank rate and its multi-currency prepaid cards have exceptionally high limits – it claims to have had real success in the luxury yachting, HNW and Global Music touring sectors. Centtrip's set load fee on the way in is 0.5 per cent, which can reduce dependence upon annual volume. But this is not just a mini-break thing. The global remittances market, where people working overseas send money home to their families, is currently worth over \$500bn. See also top brands WorldRemit, TransferWise, CurrencyFair, WorldFirst. Economist Dilip Ratha called this phenomenon "dollars wrapped with love", and rightly so. The extra savings from low (or non-existent) fees translates into more opportunities for those receiving these monies.



**Kasisto uses conversational AI to communicate with banking customers**

### Savings

Raisin (RAIS + INterest) is the first pan-European marketplace for savings, making the best interest rates across Europe accessible to over 500 million savers. Customers use a fully online process to deposit money in accounts with higher interest rates than those available in their home country. Interest rates of up to 1.5 per cent p.a. AER on a fixed term deposit [fixed-rate bond] compare well to average interest rates of just 0.6 per cent across the Eurozone. All deposits offered via Raisin are 100 per cent guaranteed up to 100,000 euros per saver and bank by each national Deposit Guarantee Scheme, in accordance with EU Directives. With interest rates likely to stay low, Raisin allows customers to make the most out of their savings, be it savers wanting to secure higher interest rates or savers wishing to move towards euro rather than sterling investments. Raisin's 45,000+ customers have invested over 1.2bn euros with Raisin's 19 partner banks from 14 countries in the past 2.5 years. Raisin is accessible across Europe with localised platforms in Germany and Austria (under the brand WeltSparen) as well as France (raisin.fr).

### Hello, chatbot

So, what next? Are banks now all technology companies, or are technology companies becoming banks?

There is no space here to look at the way technologies are about to transform financial services and our experiences with it – for a truly visionary take on the future, read Chris Skinner's *ValueWeb* – but here is one final example. Digibank is an Indian online bank staffed entirely by chatbots – a computer programme that can answer thousands of questions submitted via chat.

The machine-learning-based technology is the product of New York start-up, Kasisto, which trained its artificial-intelligence platform with millions of questions asked by customers during their banking experiences.

If you're not yet ready to trust your hard-earnings to a bot, there is one area where this technology is delivering real saving – to the significant tune of \$4m.

Chatbot lawyer, DoNotPay – a free online service available in London and New York – has helped appeal that amount in parking fines in just 21 months. The world may well be its oyster.

# Make money from property, without being a landlord

Buy-to-let isn't the only option, says **Christian Faes**, co-founder and CEO of LendInvest

**P**roperty has always been seen as a sound investment choice. It's hard not to be attracted to the prospect of regular rental returns and ever-growing capital gains. There's something comforting, too, about investing in houses or homes. When you invest in bricks and mortar, you can see what money spent looks like.

For a long time, the only way to do this was to become a landlord, a choice that's been popular since the first buy-to-let mortgages were introduced in the mid-1990s. But dealing with difficult tenants and unexpected repair bills can quickly take the gloss off attractive rental yields. Buy-to-let has become less rewarding, too, as a result of recent government changes: an additional 3% stamp duty now applies to investment properties and the tax relief on offer to landlords has reduced.

But buy-to-let is no longer your only option: online property investing platforms now offer an alternative. So how do these work?

The LendInvest platform lets people invest in secured mortgage loans in return for great rates, and offers borrowers specialist finance to fund property purchases, renovations and developments. Investors can look through a range of mortgage loans and choose which ones they want to invest in. Each loan varies in terms of size, location, duration and risk profile. To date, our loans have delivered an average annual interest rate of 7.2 per cent, based on a 12-month historical rolling average. What's more, our loans are pre-funded before becoming available

on the platform, meaning investors start to earn interest from the day they invest.

When a loan ends, the borrower repays and the investor's capital is returned, with any remaining interest on top, ready to be withdrawn or reinvested. Our loans are available for up to three years and each is rigorously underwritten and serviced by our team of credit and risk specialists.

So why does online property investing beat buy-to-let?

## **You can rely on consistent returns**

The interest rate you sign up to is the rate you will receive for the duration of the loan. There are no unforeseen bills or unpaid rents.

## **You don't have to deal with tenants**

Unlike landlords, LendInvest investors will never get a call on a Sunday night from a tenant who says the boiler has broken down. The only people you'll speak to are our experienced team that understands property investments inside and out.

## **You can diversify**

Whatever you're investing in, it's important to diversify allocations to spread the risk. With LendInvest, we encourage investors to build a diverse portfolio across several mortgage loans, each with their own durations, risk profiles and rate of return.

## **There's no upfront default risk**

We pre-fund all our loans, showing our confidence in our ability to select and lend only to borrowers able to repay. What's more, all loans are secured against the borrower's own property. This means that if they fail to keep up with their repayments, we can take possession of the property to recoup any losses for our investors.

## **You help solve the housing crisis**

Since 2013, LendInvest investors have helped borrowers build or rebuild over 2,300 homes. There's a massive housing shortage. By supporting LendInvest borrowers, investors are helping to contribute more homes for people across the UK.

**To find out more, visit [www.lendinvest.com](http://www.lendinvest.com)**

IN ASSOCIATION WITH





JOE DYER

# **Brexit: what does it mean for your money?**

# Your pension

By Steve Webb

**I**n the first few hours after the result of the EU referendum became known, savers could have been forgiven for being in a state of shock. Stock markets slumped, Sterling crashed and long-term interest rates fell to their lowest level ever – hardly the most propitious backdrop for investment. But once the immediate turmoil is over – and stock markets have already recovered much of their early losses – what does this mean in the long-run for different forms of pension savings?

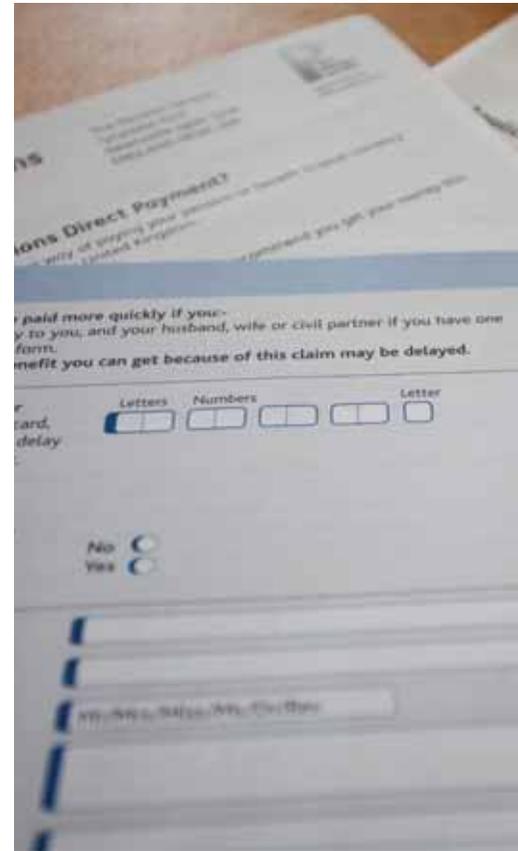
The first thing to say is that strong pensions depend on a strong economy. A strong economy will generate the tax revenue to pay decent state pensions, will see investors in businesses get good returns and will enable employers to pay good wages and provide decent workplace pensions. Regardless of the short-term volatility of markets in response to the EU vote, the key question is whether,

in the long-run, the UK economy performs better or worse outside the EU.

Supporters of the Remain camp argued that bigger trade barriers will reduce inward investment and will damage growth, while the Brexit camp argued that the UK will prosper as a more lightly regulated nation, able to sort out its own trade arrangements with the rest of the world. The consensus of most economists was very much in the former camp, and there can be little doubt that the current period of uncertainty is bad news for the economy, but it is too early yet to see what the lasting impact will be.

The impact of Brexit on pensions will depend on the sorts of pension rights which people hold and the things that they are invested in.

Starting with state pensions, which remain a major part of most people's retirement plans, the main uncertainty surrounds the relatively generous 'triple





## The value of diversification has been shown again

lock' arrangement for uprating pensions. If there is pressure on public spending then it has been suggested that commitments such as this will be pared back. However, if the referendum reminded us of anything it is the power of the 'grey vote'. I am therefore rather sceptical of the argument that politicians who want to get re-elected will choose to balance the books by breaking a manifesto commitment to the group most likely to turn out and vote.

In terms of private pensions, those who had their money invested in UK companies clearly took a hammering in the early hours of 24 June. But relatively few people have all of their money invested in this way, especially if they are benefitting from financial advice. The fundamental value of diversification or 'not putting all your eggs in one basket' has been shown to be true again. A well-diversified pension pot will include a wide range of assets (such as government bonds, corporate bonds, equities, commodities, property etc.) and in a range of markets at home and abroad. While any one of these investments might take a hit, a balanced portfolio should be able to withstand a shock.

In this context, it is vital to remember that pensions are a long-term business. A new worker starting out today will be enrolled into a workplace pension at the age of 22, will probably not retire until they are 70, and will probably live into their mid 90s. Over that period they are likely to see a series of stock market booms and busts, and the important thing is not to over-react. Private investors notoriously sell after a slump (hoping to minimise their losses) whereas history suggests that this can often be the best time to invest. Knee-jerk reactions to volatile markets are unlikely to be the best response.

There are however two key areas where the fall in interest rates, reinforcing a prolonged period of unusually low returns, is likely to cause problems.

The first of these is in company pension schemes. While relatively few workers in Britain today are building up new rights in salary related pension

schemes, there are still thousands of such schemes in operation and the vast majority of these were already in deficit even before the latest events. When interest rates fall, the rate at which future pension liabilities are 'discounted' is reduced. In simple terms, you have to put more money aside today to pay for a pension liability in the future because today's money will not grow as quickly as you previously thought. The fall in interest rates since the referendum has already added tens of billions of pounds to the deficits of UK pension schemes.

The consequences of the rise in deficits will not be felt immediately. In general, companies are given a decade or more to fill any hole in their pension fund. But large employers are already spending billions of pounds topping up pension funds and those bills will increase. This will mean less money for investment or wages and will increase the chance of more firms going to the wall with a hole in their pension fund. Fortunately there is a lifeboat 'Pension Protection Fund' which covers most of the rights of pensioners in these circumstances, but it does not provide full compensation.

A second knock-on effect of low interest rates is a further fall in annuity rates for those wanting to turn a pot of savings at retirement into an income for life. Annuity rates have been falling steadily for years, partly because people live longer, and partly as rates of return have fallen. Since the referendum, the rates available to those planning to buy an annuity have fallen further. Again, fortunately, savers are no longer forced to buy an annuity with their pension pot, but people with modest means may have limited options.

It is very hard to see recent events as good news for pensions. If Brexit brings long-term damage to our economy then pensions of all sorts will inevitably suffer. But those who invest for the long-term and who diversify their savings probably stand the best chance of riding out the storm. ●

*Steve Webb was pensions minister 2010-2015 and now works as director of policy at Royal London*

# Your shares



ANDREAS POIKE

## By John Hunter

**S**o we face the most fundamental structural change in this country's commercial and trading relationships for three generations. What does that mean for private shareholders?

The first surprise, maybe, is that there is nothing that can be usefully said about whether, or what, to buy or sell. With modern markets a British citizen can invest in almost any business in almost any major country with a few taps at a terminal. What general statement can we make about such a diverse activity? Are the prospects for the \$60trn worth of companies listed on the world's exchanges reflected in prices? And if not, why not? If your answer is that the market has got it wrong, then by all means back your judgment, but don't expect me to recommend that you do so.

A better question to ask is: has Brexit changed the fundamental relationship between shares and the other asset classes – the relationship causes us to decide how much to spend and how much to save, and within that how to distribute our savings between different

asset classes? Have shares become more risky relative to cash, making them a less desirable asset to own? Well possibly, but with gilt yields falling maybe the risk premium of shares over cash (the compensation that investors receive for owning a risky asset) has widened. In other words, maybe it's in the price.

In short, who knows?

But there is an aspect of Brexit that is more important for private shareholders than the direction of markets; and that is the legal basis of their shareholding. And Brexit could potentially have a profound and adverse impact on this.

Some digression is necessary. If you own a picture there is no ambiguity about its status, your rights to do with it what you want, or your needs to protect it. But if you own a share all you've got is a piece of paper (or, more likely, some bits in somebody else's database). Four things give those bits value: the nature of the obligations that others have undertaken in your favour (called 'shareholder rights'); the degree of certainty that those obligations will be honoured (usually called 'counterparty risk'); the security of the ownership chain connecting you to the bits in the database ('transaction

risk'); and the underlying regulations and law that secure this structure.

The UK has one of the most sophisticated, powerful and influential financial services industries in the world. The taxes on its earnings amount to £66bn – over 10 per cent of tax revenue. This position of political and economic power gives the industry leverage with government, translated into a reluctance to regulate in favour of the individual and against the interests of the industry.

Individual investors increasingly invest through online accounts. But, uniquely for the UK, such a private investor does not become a shareholder. 'Shareholders' are those whose names are on the Register of Shareholders. But in the UK the broker buys shares on behalf of the investor using what's called a nominee account, and not in the name of the investor. The investor has no rights as a shareholder and no right of action against the company. What he has is a contract with his broker. He has taken on counterparty risk (mitigated by segregation rules but dependent on the broker's internal systems of segregation) and transaction risk. He has no voting rights. Some brokers offer to vote their shares

according to the investor's instructions, but even here there is no third-party control of the process and no check on whether it has done so.

You'll not find this properly explained in any public arena that I have seen. Brokers ignore it if they can. The London Stock Exchange describes nominee account investors as 'legal owners' and does not mention the voting issue.

Why does this matter? Because the votes are left in the hands of financial institutions who have no skin in the game and may have less-than-worthy reasons for exercising that vote in ways that reward the suppliers of financial services at the expense of the best interests of long-term investors.

This is where Europe comes in, or would have. Through the Shareholder Rights Directive (SRD) the EU is pursuing a course of harmonising basic principles. This requires rules of behaviour for the intermediation chain – the trail of transactions that links the shareholder (the 'name on register' in UK terms) with the beneficial owner (the investor, who carries the financial risks and rewards of ownership). Broadly, financial institutions in the EU are less influential than in the UK and concern for the individual investor is correspondingly stronger. (In the UK campaigning groups for private investors can boast 4,000 members. In Sweden the figure is 65,000.) Consistent with that spirit, the SRD set out a basic principle of intermediation: that intermediaries should be able to identify the ultimate owner. This would ensure that the company could identify its real investors (a UK quoted company cannot, except via a laborious one-off discovery routine) and would remove all barriers to prompt shareholder communication and to voting.

This would have changed the tenor of the debate. As it is we must hope that the new attention to be paid to the 'disregarded middle' of voters following the Referendum might be matched by a new consideration for the rights of real shareholders.

*John Hunter is chairman of the UK Shareholders' Association (UKSA)*

# Your savings, and your house price

By Robin Fieth

**I**t is hard to predict how the UK economy will react to the Brexit vote over the next few months, but economics do have some effect on consumer confidence. One thing we do know is that leaving the EU will be a long, slow process taking two years once notice is served under Article 50. This means there is plenty of time to prepare: Life goes on and it is business as usual.

People still need somewhere to live, so the need to buy, sell or rent property remains. The supply of mortgages is good, rates are attractive and the approach to assessing how much a customer can afford to borrow is unchanged. There may be blips in demand if confidence causes some consumers to put decisions to buy or move on hold for a while, but so far there is little evidence of consumers in the process of buying changing their minds.

House prices reflect developments in the wider economy, and the market is sensitive to a number of local variations, not just the UK's position in the EU. Prices are primarily a function of supply and demand though, and in many areas of the UK we don't have enough homes so prices will be supported.

If demand falls, prices may move down a little but there is no reason to expect anything dramatic. Fixed rates, which account for about 80 per cent of new lending are likely to remain popular, although shorter terms around the two-year mark may become the period of choice.

We anticipate that the next change in the Bank Base Rate will be down, with a clear signal from the Bank of England

that this is may happen over the summer. With savings rates low and some mortgage rates under 1 per cent already, it is unlikely that we will see any wholesale rate changes from providers as a result.

Savings are just as safe today as they were before the Referendum result. The Financial Services Compensation Scheme continues to operate as it has done for years and protect the same level of savings as it has done since December 2015 – £75,000 cover for single name accounts and £150,000 for

## The supply of mortgages is good, rates are attractive

joint accounts. Interest rates on savings, including cash ISAs, have continued to move on individual products since the Bank Base Rate moved – to 0.5 per cent in 2009. Variable rates on ISAs and other savings products are affected by many factors including competitor rates, levels of liquidity and the appetite to lend of individual institutions. Cash ISAs remain a valuable part of a savings portfolio and we do not foresee any change in the tax advantages they have. ●  
*Robin Fieth is chief executive of the Building Societies Association*

# Mind the savings gap

**Commercial real estate is coming of age with institutional investors but needs to open up to return-starved individuals, says Ric Lewis of Tristan Capital Partners**

All investors face a common challenge in the hunt for returns in a world of negative interest rates. Equity markets have struggled to sustain a bull run in the face of continued geopolitical risk. In commodities, the oil price remains depressed following January's plunge to a 13-year low, concerns remain over China's cooling economy and the UK and EU are just starting to digest the implications of Brexit. For fixed-income investments, low or negative yields are driving investors to assets that offer better long-term returns.

It's partly for these reasons that commercial real estate investing has enjoyed an upswing in popularity with major global financial institutions in recent years. But for individual investors; there is still no easy way to access this growing asset class.

European commercial real estate exploded onto the international investment stage almost 18 years ago, following the birth of the euro. The industry emerged stronger, leaner and more credible from the global financial crisis and today, it's thriving thanks to record inflows from major global financial institutions such as pension funds, family offices, foundations, endowments and latterly sovereign wealth funds, which increased allocations to real estate by 29% over the last year, according to the Sovereign Wealth Fund Institute.

Big inflows from sophisticated investors have headed to 'value-add' real estate strategies, where assets are typically actively managed, improved and sold on. But individuals largely remain locked out of the opportunity

to buy into an asset class that delivers them the very things they need most – income and duration.

Many individuals already invest in homes or buy-to let properties, but neither of these options offers the ability to spread risk. The great advantage of investing in a portfolio of properties via an expert manager is diversification. Spreading the risk over a number of properties means that if there's a problem with one, the impact is reduced.

There are currently very few pathways for non-professional investors to access diversified private investment vehicles, despite a clear need. Retirement investors, for example, represent a huge market that is looking for ways to generate additional income following the end of compulsory annuitisation in the UK. Billions of pounds are fed into equities and even hedge funds, despite the fact that there are aspects of property that are, on a risk-return basis, better suited to those investors' long-term needs.

For the commoditisation of the real estate space to work, two things are required – innovation and regulation. Creating a new range of products that offer investors an approved way to invest in build-to-rent housing or build-to-own housing would, for example, offer an alternative to buy-to-let investments. This would also provide alternative financing, facilitating flows from professional managers to house builders to help stimulate developments in supply-starved areas such as Greater London.

Obviously this scenario requires safeguards so that we have approved products with monitored performance. That's the only way for great managers to distinguish themselves. It's certainly not a case of less regulation, but of thoughtful and productive regulation.

The opening up of real estate investment management will require persistence. Individuals should push their financial advisers in this return-constrained environment and demand access to professionally managed alternatives, to help close the savings gap.

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# The Workplace ISA: reinforcing auto-enrolment

Millions of workers are being defaulted into workplace schemes. What are the consequences?

Michael Johnson takes a look



The pensions industry's cultural attachment to opacity, and its talent to complicate, has led to it becoming widely distrusted. This deters engagement. In addition, many people value ready access to savings above the up-front incentive of tax relief on pension contributions: pensions products are just too inflexible. Consequently, as confirmed by savings statistics and surveys, many people prefer to contribute to an ISA, which means that they miss out on tax relief.

The government has responded with the Lifetime ISA, to be introduced in April 2017, a move widely welcomed by the under 40s, in particular. Savings of up to £4,000 per year, made with post-tax income, will be topped up by a 25 per cent bonus, paid irrespective of tax-paying status. The Lifetime ISA's pending popularity is reiterated by several major industry providers, including Standard Life and Hargreaves Lansdown, which have been quick to commit to marketing it. However, others within the pensions industry have been less enthusiastic, not least because the Lifetime ISA will provide competition in the private pensions arena.

Meanwhile, in respect of occupational pension provision, the government is pursuing its auto-enrolment (AE) agenda. Millions of workers are being defaulted into workplace schemes that requires contributions from both them and their employers. However, a concern has been expressed that some workers may opt out, preferring instead to contribute to the Lifetime ISA (and lacking the disposable incomes to

contribute to both). They would then lose their employers' contributions under AE. To remove this risk, the Workplace ISA should be introduced to complement the Lifetime ISA.

## Key features of the Workplace ISA

The Workplace ISA, included within the AE legislation, would be specifically to accommodate employer contributions made under AE, taxed at the employee's marginal rate. However, these would be accompanied by the same 25 per cent Treasury bonus as the Lifetime ISA (economically equivalent to basic rate tax relief on pensions' contributions). Withdrawals from the Workplace ISA should not be permitted until the age of 60, but thereafter they would be tax-free.

In parallel, auto-enrolled employee contributions, made from post-tax income, may be paid directly into the employee's Lifetime ISA, subject to the same rules already planned for general contributions to the Lifetime ISA. Thus they would be eligible for a 25 per cent Treasury bonus, and would be subject to the same tax, withdrawal and penalty rules as other Lifetime ISA savings.

As a simplification measure, the Workplace ISA could be housed within the Lifetime ISA, leaving the individual with a single retirement savings vehicle. In addition, Workplace ISA assets should enjoy the same Inheritance Tax treatment as today's pension pots, and should be excluded for means testing purposes, as per today's pension assets.

## ISAs as part of auto-enrolment: to discourage opt-outs

Including the Lifetime and Workplace ISAs within the AE framework would enable employees to choose where AE-related contributions would be accumulated. The choice would be between a Lifetime ISA (for employee contributions), a Workplace ISA (for employer contributions) and the employer's own occupational pension scheme (for either, or both, contributions). Auto-enrolled Lifetime ISA contributions would provide employees with the benefit of flexible ►



**Will the new Chancellor, Philip Hammond, continue George Osborne's work on auto-enrolment?**

► access to their own AE-inspired contributions, which would likely discourage them from opting out of auto-enrolment. This is important, given that within the next three years employees' statutory minimum contributions are set to quintuple, from 0.8 per cent to 4 per cent of band earnings. Being in control is closely allied to being motivated (perhaps, in this case, to save more), and therefore engaged.

#### **Affording the bonuses**

The Lifetime and Workplace ISAs should share an annual cap on contributions of £10,000, say, subject to Treasury cost modelling in respect of bonuses. The £14bn annual spend on NICs relief on employer contributions to pensions should be redeployed to help pay for this. Today, NICs relief goes to shareholders rather than savers, so employees are oblivious of it. Consequently, as an incentive to encourage individuals to engage with saving, it is an ineffective use of scarce Treasury resource. Far better

for it to be paid directly into employees' ISAs: thus visible, it would be more appreciated by the individual.

#### **The employers' perspective**

Employers are integral to auto-enrolment's success, and they are likely to support the Workplace ISA. They have long complained that their pension contributions are undervalued by employees, and therefore represent poor value for shareholders. The Workplace ISA, by residing within employees' Lifetime ISA, would be more personal to the individual.

#### **And remember the self-employed**

More than half of the working-age population is ineligible for AE, notably the 4.6 million self-employed, but also 23 per cent of employees. The DWP should sponsor a Workplace ISA for them, perhaps delivered through the National Employment Savings Trust (NEST), the workplace pension set up by the government.

## **We need to encourage more people to save more**

#### **The Workplace ISA: in the national interest**

The UK has one of the lowest net household savings ratios among OECD nations. The pensions savings model is broken. More than ever, we need to encourage more people to save more, helping to close the savings gap, to the benefit of the individual, UK plc and the industry. The Lifetime and Workplace ISAs, operating together, would help many people achieve one simple goal at the point of retirement: to be a debt-free home owner (and ideally free of any consumer debt). Thereafter, they could perhaps downsize to top-up their retirement income, and perhaps finance long-term care. Ideally, the Workplace ISA will be announced in 2017, after a thorough assessment of the public's response to the Lifetime ISA, perhaps for 2018 implementation. It would, of course, compete with today's occupational pensions savings schemes. *Michael Johnson is a Research Fellow at the Centre for Policy Studies*

# The insider threat: where investment meets risk

There's one kind of risk to which all investments are exposed: cyber crime. The best defence begins with education, says BeCyberSure's Carolyn Harrison

**W**e are living through a transformative era, in which the world of finance and investment faces massive disruption.

As recent PwC survey states, 'Firms that continue to resist digital innovation face becoming less competitive.... and creating a sector vulnerable to fintech incomers.'

But the technology market place is a confusing space. Vendors everywhere offer 'the answer' to both managing your business and protecting the large amounts of sensitive data that any business produces. Add to this the demands of the 'informed' client, the changes in regulatory pressure and the current global economy and the boardroom can begin to look scary.

Many organisations rely heavily on their IT departments or outsourced IT service suppliers for support, especially with regard to the risks of cybercrime.

This needs to change.

Cyber security is an element of Information Security. Information Security is an element of Risk Management. Risk Management must be overseen by the board. It must never reside in the IT Department, and putting it there massively raises risk.

Organisations regularly seek investment and partnerships. The old-fashioned way of protecting investment opportunities or Merger and Acquisition deals is to use codenames to protect confidentiality. Simply applying a codename will not protect you from those intent on exploiting your vulnerability. You may bind the parties to confidentiality and

exclusivity whilst a due diligence process from both sides takes place. But what if someone is sitting in the 'virtual room'? Watching, listening and gathering vital information around the process – names, contact details, contracts and procedures? As happened recently, this can lead to sudden, frantic emails: the press have got wind of our acquisition, we must action the due diligence immediately, please release the £1m reserved into the agreed account... This is exactly the same as 'invoice redirection', a crime now perpetrated daily against both SMEs and large organisations.

Similarly, crowdfunding is by its very nature an open system, with everything out in the clear. It needs publicity and exposure to a wide audience of potential investors, but this openness brings its own risks.

A recent report by Accenture found that 'Of those surveyed, a majority (69%) of respondents experienced an attempted or successful theft or corruption of data by insiders during the prior 12 months.' Most people are so busy worrying about a technology silver bullet they completely overlook the weakest link – people.

The EU's General Data Protection Regulation (GDPR) takes effect on 25 May, 2018. This regulation is a seismic step change in how we must look after data in our care – and Brexit or not – the Data Commissioner has already warned that directors could face heavy fines for loss of data.

A well-constructed governance framework, ongoing education, proactive management and a dynamic security culture should be at the heart of any information security regime. Effectively executed, this will go far in countering the 'insider' threat, with more trained eyes supporting enterprise security efforts. Crisis management capability and business resilience will improve, and investment will be protected.

**Think human, before you think cyber.  
Think security, not compliance.  
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# Is buy-to-let investment dead?

Recent tax changes on buy-to-let have made investors wary. But **Paul Mahoney**, managing director of Nova Financial, says with good advice it can still be a great investment

## What's led to this perception that buy-to-let is in trouble?

There have been two significant changes. First, anyone on the higher rate of tax is no longer able to offset their mortgage interest against the income they're receiving from a property. They receive a tax credit at the basic rate of tax, but in some cases, this can more than double landlords' tax liability. The second change is an extra 3 per cent Stamp Duty, on top of the current brackets, for all second homes and buy-to-let properties. For someone buying a £500,000 property this adds up to £15,000 capital cost, on top of the purchase price.

These changes have led to a lot of negative media. It's viewed by some as an attack on landlords, or as a way to stop 'mum and dad' investors – people who don't have professional advice on how best to deal with these changes.

## What can be done to work within these rules?

Many people now invest in property using a limited company, which avoids the change to mortgage interest. If you are earning more than £45k, the limited company option is viable because your mortgage interest is then deductible against the income from the property. Mortgage interest rates are higher for companies, but they're becoming more competitive because this approach is becoming much more popular – *This is Money* recently reported that before the tax changes, only 5 per cent of mortgage applications were for limited companies, and in 12 months it's risen to over 35 per cent.

Another route is to buy the property in a partner's name. If one partner is in

the low tax bracket, the tax-deductibility change doesn't affect them.

There is a more positive way of dealing with Stamp Duty, too. The fact that it's a capital cost means you're able to claim it back against capital gains tax, so it's not completely lost. If you write it off against the capital gains tax that you pay when you sell the property, you'll get up to 28% of it back.

Given these changes, investing in property is now more complicated. Qualified advice from an independent professional is more valuable than ever.

## What makes a good adviser?

Independence is key. And it is rare in property investment, because most of the industry is estate agents and property marketers. When someone's selling you a product, their advice is going to be biased towards that product. When it comes to property advice, Nova doesn't have any bias – we have access to the whole market.

It's also very important that advice is well qualified. Our management team has over 100 years of combined experience in property and financial services. We use detailed knowledge of a client's situation, combined with research and due diligence, to source investments for each individual, and we provide our clients with that research to enable them to make an educated investment.

## Is property still a good investment?

A report called *Buy to Let Comes of Age*, published in 2013 by Wrigglesworth, found the average buy-to-let property across the UK over that period (using a 25 per cent deposit) generated a return of over 16 per cent per annum on the applied funds. The average return from the FTSE All-Share index was around 6 per cent. Properties performed differently, but when you're generating those sorts of returns, some extra fees don't change things much.

**For a complimentary personal consultation with Nova Financial regarding property investment (normal cost £500-£2500), visit: [www.nova.financial](http://www.nova.financial)**

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# Pension reform in the aftermath of Brexit should not be a race to the bottom

**Left and right need to bury their differences and work together for the benefit of all pensioners, now and in the future, says**

**Angus Hanton**

**I**t cannot be said that the current pension settlement in the private sector is intergenerationally fair. Retired workers' "gold-plated" final salary pensions are receiving contributions that are 20 times more expensive than those for younger staff, and are ruinously expensive in the light of ageing populations and low returns on investment.

That so many older people on final salary pensions also chose Brexit – in spite of expert warnings of the turmoil it would cause to the financial markets, leading to massive losses for the pension schemes' investments – just makes the case for intergenerationally fair pension reform that much more pressing.

With hindsight it's easy to identify the reasons why the gap between older and younger workers' pensions has widened so sharply. Increases in longevity mean companies are having to pay final salary pensions (also known as defined benefit (DB) pensions) for much longer; the pension promises made were too generous; employees did not contribute enough; government tinkering, pension scheme holidays, high management charges, the new normal of low interest rates, poor pension scheme investment returns, and past government tax raids – these have all played a part.

The harder issue is how best to level

the playing field in the fairest way for all generations. The current cross-party parliamentary inquiry led by Labour MP Frank Field is, therefore, much welcomed by those of us seeking a fairer settlement between the generations. It is an opportunity to draft a new social contract that is fairer on younger generations, who are left out of the debate even though they will end up footing most of the bill.

All too often the debate is hijacked by the political rhetoric of the left or right. Any attempt to start a debate on intergenerational pension reform with many on the left is met with howls of protest, and accusations of stoking intergenerational conflict that will result in a race to the bottom for all pensions. But the argument of the political left is undermined by the "we're alright Jack" final salary pension recipients, who have made it over the drawbridge and are sitting pretty on their index-linked final salary pensions.

Meanwhile those to the right of centre baulk at the cost for companies of running expensive final salary pension schemes, and view them as an unfair burden on business. As one finance director said when surveyed on final salary pensions, "We do not have a defined-benefit scheme. God help any company that does." This is because the sums involved are very large indeed. ►

► In 2015 alone companies spent £120bn covering the shortfalls in their pension scheme liabilities. According to pension analysts, BT will need to take £1bn out of the business each year until 2030 in order to redress its pension liability.

However the die is cast, the losers are invariably the young, left having to contribute more and take less – if they are lucky enough to have access to a company pension scheme – while also paying for the final salary pensions of older colleagues through lower pay, insecure employment conditions and lack of investment or expansion in the businesses they work for.

It's also far too easy to blame the bankers and corporate tax-dodgers for the intergenerational inequity in pensions. Governments, both left and right-leaning, have failed to protect younger workers.

Where are the quality jobs offering access to in-work benefits and pensions? Governments have overseen a move towards the casualisation of the labour market, with the result that younger generations, loaded down with graduate debt and high housing and living costs, now find themselves increasingly under-employed in precarious jobs. Locked out of company pension schemes, they have also lost out on valuable pre-tax company pension contributions that help to build up a pension nest egg for the future.

This in no way excuses corporate greed. Corporate social responsibility has a part to play in balancing the interests of different generations in the workforce. Younger workers deserve the same access to pension saving as their older colleagues and should also be able to reap the rewards of their employer's success through pension contributions. However younger workers have already taken a pensions hit in order to make pensions more affordable in the long term by moving to career-average pensions and retiring later.

Government too has worked to encourage greater pension saving among the young with the implementation of auto-enrolment in large- and medium-sized businesses. Getting the young

#### PENSION FUNDING

## By the numbers

Total company spending on final salary (DB) pension scheme shortfalls in 2015:

**£120bn**

Annual spending by companies on DB pensions:

**£42bn**

Annual DB pension contributions for the average older worker:

**£23,600**

Annual DC pension contributions for the average younger worker:

**£1,200**

## Younger workers have taken a hit to their pensions

saving is to be applauded but, unless contribution levels by both employers and employees rise substantially, young people today will be the impoverished old of tomorrow. As long as funding past pension scheme liabilities trumps contributions to today's employees, little reform can be achieved.

It therefore seems only fair that the over-generous pensions in payment to older generations be reformed. Of course, older workers should be entitled to some financial gain from a pension they have paid into for years. They too should reap the rewards from their employer's success. But, as the turmoil surrounding the collapse of BHS (pension deficit £571m) and inability to sell Tata Steel (pension deficit £770m) reveal, finding buyers willing to take on final salary pension scheme "entitlements" is like trying to re-float the Titanic; there may be simply too much risk of further increases in life expectancies to make salvage an attractive proposition.

It's here that left and right need to put their ideologies to one side and ensure that "pension law and regulation can adapt to the issues of the future, rather than the problems of the past", as stated by Field.

While it may seem unfair, final salary pension scheme members are stuck between a rock and a hard place. Accepting reform to pension entitlements by conceding that pensions-in-payment indexation is unaffordable, older workers in some of the businesses at risk could in theory make these companies more attractive to buyers, and thereby help to save more of their pension pots, while holding out for the pensions they think they were promised could put more of their pension at risk, if companies fail and the schemes are put into the Pension Protection Fund (PPF).

We have to find a third way – one that allows companies to reduce final salary pension entitlements so they are no longer, in the words of Paul Johnson, "a burden on the young". And it will take brave politicians on all sides to grasp the nettle of DB pensions and stand up for younger generations.

# Why follow the crowd, when you can be in the club?

Join the growing number of private investors adding private equity to their portfolios, writes Chelverton's David Horner

A funding gap exists for good quality UK SMEs seeking to raise finance of between £0.5m and £5m. This gap first emerged in the late 1990s, when 3i Corporate Finance wound down its regional focus. It widened further when banks reduced lending following the crisis in 2007, and it remains today, because companies of this size are too small to warrant the attention of private equity funds, but too large to be supported by family and friends.

This is where co-investment steps in. As evidenced by the growth in popularity of crowdfunding and peer-to-peer lending, investing in private companies is no longer the sole preserve of financial institutions and corporations. Spurred on by low interest rates, private investors are choosing to be more entrepreneurial with their money. Many support businesses in which they believe, see value and with which they wish to share success.

But crowdfunding tends to focus on pre-startup, startup and early-stage companies. With less than half of new businesses in the UK surviving beyond five years, investing so early in a company's lifecycle is not without risk.

Chelverton's co-investment approach is to support the more established SMEs in the funding gap. In 2013 the company launched the Chelverton Investor Club, with the mission of putting private equity in the hands of private investors. Investor Club companies are fully vetted and appraised by Chelverton's unquoted

equity team and, in a typical year, six companies are put forward to the membership. The minimum investment is £25,000 per company, and the choice is to participate in all, some or none. Regular meetings are held to update on existing commitments and appraise new opportunities. There are significant tax mitigation advantages available, which vary depending on the specific company.

With crowdfunding, investors are spoilt for choice among concepts and pre-revenue startups, particularly in the consumer and technology markets. Chelverton believes that by focusing on a segment of the market that is largely ignored by others, its investors can make impressive returns with less risk. Chelverton does not offer 'get rich quick' money or promise ten times an investment on exit, but decent returns that reward investors for the illiquidity and risk profile associated with private equity transactions.

Chelverton Investor Club transactions do include providing growth capital for certain post-revenue startups, because generous government tax advantageous schemes available to investors for doing so, including the Enterprise Investment Scheme (EIS) and the Seed Enterprise Investment Scheme (SEIS), make them difficult to ignore. But more traditional private equity structures, such as development capital for more mature businesses, or acquiring a business in conjunction with a management team through a management buy-out (MBO) also feature.

Members of Chelverton Investor Club are high net worth investors, with a likeminded interest in building a self-selected private equity portfolio of companies with sensible and pragmatic management teams, but want to leave the leg-work of sourcing, structuring and executing their investments to the experts.

So, why follow the crowd when you can be in the Club?

**For more information, visit [www.chelvertonic.com](http://www.chelvertonic.com)**

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# At times like this, spread your bets

**Ambitious investors should diversify into different countries, says CEO and co-founder of Cogress, Tal Orly**

**Y**ou can never be sure, with any specific investment, that something won't go wrong with it. It's important to recognise that there are always external factors that can affect your investment, so given the choice between one investment or five different investments, I would always spread them. This is as true for property as it is for anything else.

Risk becomes more significant the more ambitious you get. Buying a flat – as a home, or as a buy-to-let – is passive investing: you wait and hope that the market will do the work for you. It's not a major gamble, but also not a major play, in terms of creating value. If you want to create more value, there are more factors to control, and thus more risk. If you're developing property and you're not a professional, you're never going to be completely sure how much of a risk you're taking. The first thing you should do is to find a qualified adviser with the right knowledge and background, a demonstrable rate of success and a solid reputation. Don't look at the marketing, look at the facts, the proven track record and the legal structure people use to invest. Only take advice from people who will supply you with this information. If they're good, the next thing they will advise you to do is spread the risk and diversify.

This is what we do at Cogress: we supply non-professionals who want to invest in the highly lucrative field of property development with the knowledge, experience and understanding to do so.

What's more, we give people the

ability to diversify. It's a good idea to spread your investments in the same city, but it can be even better to invest in different cities: in London, New York, Moscow and beyond. London is the most obvious example – investors recently lost money because of what the Brexit vote did to the currency. But if you were buying in London from another country, you might be able to buy more cheaply because of the exchange rate. So, by spreading investments in this way you're not just investing in different properties, you're also diversifying into different currencies, too.

At Cogress, we offer our investors the chance to invest here in London, other parts of the UK, all over the States, in Israel, and soon in Spain. To do this yourself, as an individual investor, would be very difficult. The fact that we are one company makes things much easier – we use the same legal documents and the same due-diligence process, adjusted for local factors. We understand the local property market, which architects and solicitors to use, we know the developers and how to monitor them.

Acting as an individual would also require a very large investment, but we act on behalf of groups of investors. So let's assume a developer wants £5 million to build nine flats in Mayfair. We group the investors, collect the money, monitor the project and perform due diligence, acting as the general partner in the transaction until the project is complete and the investors get their returns. The investors are protected – legally, they own the property, not us.

We invest collectively in something where value is being created, over a relatively short period – buildings that are being improved in some way. It's a way for anyone to invest in the property development process – and share in its returns – without needing to go through the years of experience and training needed to become a professional property developer.

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# Beware! Pensions scammers are after your nest egg

**Pensions fraud is not new but it is evolving, writes Andrew Warwick Thompson**

**T**housands of pension scheme members are victims of scammers. It is not known how much has been stolen, but estimates vary from half a billion to several billion pounds.

As the pensions landscape evolves, so too do the methods of the scammers. They used to offer to “liberate” pension funds so members could access them as cash. Now it is more likely to be enticement through investments offering unfeasibly high rates of return, or exotic sounding opportunities overseas.

Last year the Government’s ‘freedom and choice’ initiative relaxed the rules around how people can draw their pension benefits. Essentially, people over 55 can now draw their pension in a variety of ways, including taking it all as cash, subject to tax. Since then, one of the questions that we get asked more than any other is:

## **Are there more scams now?**

There are signs that scammers have shifted focus to enticing people over 55 to draw their benefits out of legitimate pension schemes, and those who have a pension fund to transfer as cash and invest it with them. Often these investments are of a highly risky, speculative nature, and sometimes they don’t exist at all – the pensioner’s money is just stolen.

However, there is no clear evidence of a rise in scams following the introduction of the freedom and choice reforms. The scams are just different.

Scammers are chameleons, and will adapt to their environment. Whatever the law is, they will seek to exploit it – so

we expect the scams we see to continue to evolve.

## **So what are we doing to fight scams?**

In 2013 we launched our Scorpion campaign to raise awareness among those who manage pension schemes that scammers were targeting their members.

Most pensions professionals are now aware and are vigilant. However, we continue to update the Scorpion campaign, and from last year gave it more of a consumer focus. Our objective is to give consumers the information they need to spot a scam, and to protect themselves from scammers.

We also lead a taskforce of government departments, other regulators, financial services bodies and criminal justice agencies in Project Bloom, with the objective to disrupt and shut down scams. Bloom members work together so that the right agency intervenes where appropriate to bring scammers to book.

As the scammers change their approach so do we. We have changed the way in which we intervene in suspected scam pension schemes. Rather than just shutting schemes down, we aim to disrupt further scams by targeting individual scammers. Often, they are serial offenders. Our action now includes prohibiting scammers from operating a pension scheme again, and putting their names, and those of other individuals whose behaviour we have concerns about, into the public domain once we have completed our legal actions.

## **So what have we actually done?**

We continue to lead a number of investigations into suspected pension scams. These investigations are often lengthy and complex. And even after we have taken action, it can take many years to track down where victims’ money has gone, if it can be tracked down.

In one case, we put a stop to five connected pension “liberation” schemes that received transfers totalling over £134m from over 1,400 individuals, but new scams are being created. If in doubt, **visit [www.pension-scams.com](http://www.pension-scams.com) for more information.**

# Fintech is not just useful – it’s vital

The investment industry is ripe for technological disruption, says **Adam French**, co-founder of Scalable Capital



**T**he investment industry as it currently exists is broken. Britain has one of the largest pension gaps in Europe, so private savings will need to step in where the state cannot. Yet the majority of British investors prefer a Cash ISA paying close to zero interest over a Stocks and Shares ISA. A further £700bn is sitting in savings accounts without a chance to grow.

Why is that? We believe the investment industry is failing retail investors badly, despite recent reforms that were imposed by new regulations. It still lacks transparency and burdens investors with excessive costs.

### Lack of Transparency

For decades, the asset management industry has sold actively managed funds to retail investors who didn't want to or didn't have the skills to invest on their own.

These funds are designed with a promise to beat the market, but investors have little means to check what assets the funds were invested in at any given point in time. As a result, if a fund underperforms the market, they have no idea if it is due to bad investment decisions or if it was just

an expensive way to be invested in the markets, because the fund manager just replicated the market for a high fee.

Share of GBP-Denominated Funds Outperformed by Benchmarks

(2005-2015, in %)



Source: S&P Dow Jones.

### High Costs

At least the Total Expense Ratio (TER) makes the cost truly transparent and comparable, doesn't it? The problem with the TER is that it is not a total and it is not even a ratio. The calculation behind it is all but transparent and can sometimes represent less than half of

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the full costs incurred by the funds. Studies of the HM Treasury suggest that the average cost of actively managed equity funds are in the region of 3%, making it very hard for them to generate a positive return for investors. They can hardly be considered a meaningful alternative to a Cash ISA.

### Why Technology Can Be a Solution

New technologies, such as cloud computing, have enabled new ways of investing, measuring financial market risks and substantially reducing the cost of doing business. At Scalable Capital, our use of technology empowers retail investors to benefit from a better way to invest:

1. Better transparency
2. Lower costs
3. Smarter investment decisions
4. More personalisation
5. Better accessibility

### Better Transparency

We only invest in passive index trackers, so-called ETFs. They give our clients the transparency they deserve, as they know at any given point in time exactly what assets they hold in their portfolios.

Using state-of-the-art technology, we

also give our clients real-time access, via our online platform and mobile apps, to all account information, such as performance, fees, asset allocation and transactions made for them.

### Lower Costs

Any costs our clients incur accessing the markets, is money they are not investing and that is therefore not working in their favour in the markets.

That's why we not only invest into low-cost ETFs, but also use technology to cut costs by replacing manual processes with automations that only require human oversight. At 0.75 per cent p.a. the all-in fee for our service is cutting the cost of investing by more than 50 per cent compared to traditional asset managers.

### Smarter Investment Decisions

We also use technology to power our risk-targeting approach to monitor that the investments we make on behalf of clients are in line with their risk tolerance at all times and in all market conditions and, if necessary, make adjustments. To do this, we have to rely heavily on data – amounts of data, in fact, that a single human brain could never process. We therefore use cloud computing to run thousands of risk simulations for every portfolio each day and to make data-driven decisions on

required portfolio adjustments to keep them in line with the desired risk level.

### More Personalisation

Technology allows for mass-customisation not just for cars, but also for investment portfolios. In the past, the average retail investor didn't have the opportunity to get access to a personalised portfolio, as they had to content themselves with buying a share in a standardised fund.

Scalable Capital, on the other hand, uses technology to tailor portfolios to each client's individual risk tolerance, and we optimise the timing of portfolio adjustments with each client's individual savings plans in mind in order to improve returns.

### Better Accessibility

The minimum investment amount for our service is just £10,000, about 99 per cent less than the minimum of a traditional wealth manager.

The days of only choosing between low-yielding savings accounts or expensive asset and private wealth management solutions are over. Technology enables private investors to start building their wealth at low cost and with an intelligent investment process monitoring their risk.

Impact of fees on performance

Performance of two portfolios of £100,000 invested over 30 years subject to the fees of Scalable Capital and a traditional investment manager, respectively, under the assumption that both have an annual return of 6%; neither past performance nor performance projections are indicative for actual future performance.

— Scalable Capital  
— Traditional Investment Manager



Scalable Capital cost: 1% p.a. (0.75% p.a. all-in fee + 0.25% p.a. average cost of ETFs).

Total Expense Ratio for a selection of major UK wealth managers: 1.85% p.a., composed of an average charge of 1.37% p.a. paid to the wealth manager and an average fund charge of 0.48% p.a..

Source: Numis Securities pricing model Feb-2015, own calculation for averages.

# Fintech: how to use it wisely

Technology offers great opportunities for investors, says **Chris Day**, director at STOA Financial, provided you follow the right advice

**T**here is a creeping suspicion that capitalism may be in need of a reboot. Capitalism is not dead – far from it – but it is reinventing itself, becoming digital, democratised and disintermediated.

Let's address that ugly word, 'disintermediation'. Capitalism works by moving excess capital (usually held by individuals) to the efficient users of capital (usually companies), who offer a return. The better the company, the more capital it attracts. This capital is moved by intermediators – banks, stock markets and investment funds. The problem at the moment is that the banks are effectively closed to many companies, interest rates are at a 200-year low, returns from stock markets have become volatile and there is a feeling that investment funds cannot keep up. What a mess – and what an opportunity.

It's an opportunity that technology is racing to grab. By connecting investors directly, fintech products such as minibonds can provide companies with the investment they're missing, and investors with returns previously enjoyed by traditional lenders.

Hardly a day goes by without another company joining the fintech ranks. New investment platforms let you directly buy packages of loans, find tax-efficient private equity opportunities or even crowdfund your mortgage. Everywhere the lumbering traditional players are too slow to act, technology provides a solution. At the same time, investors are being encouraged by government to participate, by managing their own pensions, using tax-efficient savings 'wrappers' and seeking higher returns outside the traditional investment

sectors. By releasing the money under the mattress, so to speak, capitalism gets a kickstart.

The downside is risk. Traditional intermediators perform detailed due-diligence on the companies in whom they invest. If you understand that there is always risk, identify it and try to mitigate it, your disappointments should be fewer and smaller.

A few helpful pointers may be useful here. Everyone says 'diversify', but what does it really mean? Diversification matters when things go wrong. In times of crisis, investments that looked separate can become horribly correlated. Buying equities listed on different stock markets is a common mantra but, come the deluge, you may find they're not as diversified as you'd thought. Different types of equity offer further diversification – unlisted or listed, for instance – across different businesses and economic sectors.

Don't forget that banks require collateral on their loans, so you – the new lender in the market – should expect the same security. It isn't foolproof but insist on collateral that can be seized and sold on your behalf. This is why STOA only promotes secured bonds.

Try to understand, too, the business you're investing in. You don't need to undertake a full financial analysis of a company, but at STOA we only invest in a company if it has a brilliant idea, an established business model and if we're confident that it will increase in scale. Don't be swayed by a household name – be clear how your money is to be used and secured.

Most of all, invest through people who will implement these rules on your behalf. This is what makes STOA minibonds attractive to our clients – the product itself is as easy to use as any digital offering, but the investment is diverse and secured. It is entirely possible to enjoy the high returns that fintech promises, but don't dive in without insisting on the security of traditional banking.

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# How whisky became almost as good as gold

A trading platform for gold and silver has begun trading whisky – not for drinking, but as a commodity.

**Adrian Ash** explains why he sees Scotch as a reliable investment

**G**old has become sought after once more. Jumping by one-fifth against the pound in the five hours it took for the Brexit bombshell to burst on 24 June, gold has since risen further as the pound slumps to three-decade lows, reaching £1,060 per ounce – a level only exceeded in the global financial crisis.

But financial insurance cuts both ways, as many of summer 2011's buyers learnt to their cost when stock markets recovered. By the end of 2015 gold prices had fallen over 40 per cent, and some coin retailers went to the wall while many online outlets and dealers tried to promote Bitcoin. The world's largest online precious metals exchange, BullionVault, turned to drink. Specifically, to maturing Scotch whisky.

Originally inspired by the peer-to-peer platform of Betfair, where sports fans sidestep the bookmaker's profit margin by laying and backing odds directly with one another, BullionVault lets private investors of any size buy and sell physical gold and silver already delivered inside vaults. Instead of paying the fabrication, shipping and retailing costs of gold coins, they trade grams of fine gold held inside warranted-quality Good Delivery bars – the large bars traded by central banks.

Under English law, each client's gold is the subject of a bailment (related to Medieval Latin's *bajulare*, to carry or care for), meaning they place it into BullionVault's care but retain full title and can withdraw their property.

BullionVault's 61,000 users across 175 countries now own more than £1.2bn of physical gold between them, plus another £300m of silver, stored in their

choice of London, New York, Singapore, Toronto and – most popular – Zurich. Given this success, could BullionVault's model of bailed goods being traded P2P online be applied to other tangible assets?

Last year the French drank 40 times as much Scotch as they did Cognac. Mexico in 2015 spent nearly as much on Scotch as it did on tequila, while Japan's own whisky industry relies on Scottish supplies of new spirit, buying 82 per cent of all Scotch exported younger than three years old since 2010. The unsung workhorse of this £4bn industry is blended Scotch. Typically mixing 60-70 per cent of a plainer grain whisky with 40-50 different single malts, this smoother drink accounts for nine out of 10 bottles of Scotch sold. According to the broking data collated by the Scotch Whisky Industry Review, Scotch still in the barrel sold at eight years old has on average doubled after all costs over the last decade, and more than tripled if sold at 12 years old. Unlike other tangible assets, such as real estate, collectible cars, stamps, fine wines and indeed precious metals, new buyers can wind back the clock and acquire young spirit at the same starting prices.

Until last year there was no access for investors outside the Scotch industry (small distillers' cask programmes are more for gifts, and roll all final costs and prices into your initial outlay), but WhiskyInvestDirect now applies BullionVault's trading and custody software to this singular asset. Investors can buy and sell maturing Scotch, bailed in the same specialist warehouses as the big distillers use. To avoid any chance of 'double-counting' (the biggest risk facing owners of property in third-party care), WhiskyInvestDirect also repeats BullionVault's public reconciliation of the independent warehouse lists with its client records.

As with gold, future prices are not guaranteed, and – Brexit's immediate threat to exports aside – a downturn in emerging economies could slow or dent the industry's underlying growth. But no other UK industry finds such ardent buyers abroad.

*Adrian Ash is head of research at both BullionVault and WhiskyInvestDirect*

# How to spot the next Andy Warhol

Spend wisely and the primary art market can offer the security of diversification, the pleasure of collecting beautiful works of art – and some very impressive returns. **James Nicholls**, managing director and curator at Maddox Fine Art, explains how he picks winners

**A**bout 15 years ago I saw a work of art on the floor of an antiques shop in Nice. I could only see the top of it at first, but I could see that it was a Cubist work, and I thought, I like that – I like the colours, I like the composition. It was by an artist called Albert Gleizes. I didn't have any real knowledge of him at that time, but I liked the composition. I talked it through with my wife and, after deciding that it could be an investment, I bought it for €4,000. Albert has increased in value – four years later, a friend of mine told me they really liked the piece, and offered me £10,000 for it. Last year, at Sotheby's, they sold the sister piece to that painting for £76,000.

This is the element of buying, selling and collecting art that I really enjoy – that



our whole team enjoys – finding artists who are on their way up. They can be like Albert Chubac, who was mostly unheard of outside of France when I began selling his work but who is so well known now, or Bradley Theodore, a world-leading emerging artist whose works are so reasonable now, but they're going up and up. Wouldn't you have liked to have met Warhol when he was selling pieces for £5,000, or even £70,000? That's the range that Bradley is at now.

I've worked in contemporary art for many years, buying art for clients, and I've personally dealt with the sale of major Impressionist works and even a Caravaggio. I appear on TV, I give presentations and write about investment art, and the principles,

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whether you want to buy something for £100 or £10 million, are the same.

When you're looking at a piece of art for the first time, the first thing you have to ask yourself is how much it resonates with you. Every day I see so much art, and you get a feeling for the trends, whether it's postwar contemporary art, or today's contemporary art, and you see how things fit into genres. Our management team also looks very carefully at the analytics. We look at return on investment and market trends, we look at sales, there are so many factors that we go through.

The artists themselves have a big part to play, too. Something I find fascinating about the art in the south of France is the group of friends they had – Cocteau, Matisse, Picasso, the whole School of

#### NEW ARTISTS

### Three to watch

**Bradley Theodore (1, *The Queen*)**

**Art is all about the story, and Bradley Theodore's big, colourful paintings are full of stories, classical references and comedy.**

**Simafra (2, *Natura in Oro*) Riccardo Proserpi, who works under the name Simafra, lives and works in Florence. He uses a rich palate of colours, particularly gold.**

**Dan Baldwin (3, *Migration*) We've just signed Dan, and we are delighted – he does ceramics, and these magnificent paintings, quite extraordinary.**

Nice – and I think, why do some make it, and some don't? Of course, some have this great talent, take Matisse, who sent his son Pierre to New York to promote and sell his works with huge success, and Picasso was a master promoter. And you can see this trait in Bradley Theodore, who has built a devoted following as he knows how to market himself, how to conduct himself, he's international, he's positive, he's a pleasure to work with.

It also helps to look at the reaction an artist is getting. We have another artist who paints almost like Klimt, with gold. He's called Simafra, and he's Cameron Diaz's favourite artist, his work is in her New York apartment. He lives in Florence, in the same area where Michelangelo lived and worked, but he paints modern works with golds and lush colours. He's one of our highest-selling artists, and he's already exhibiting in museums, so you know by the reaction of his fans, the public, and by how many of his paintings we sell, that his work is going to appreciate. Another of our artists, Dan Baldwin, has this great following – Damian Hirst collects his work – and Robi Walters is collected by Paul McCartney, Adele and others. It's a good sign if famous people are collecting an artist's work. And when people are waiting for an artist to complete new works so they can buy them, that's another excellent sign.

We're careful with our recommendations to clients – we say that in our considered opinion this is an emerging artist, and that we believe in them for these reasons, and we give detailed backup information. We're also exceptionally careful about authenticity – the higher the value, the more careful you have to be – and we use a network of trusted academics worldwide.

Ultimately, though, art is for everybody. I like the fact that when you go into the National Gallery and the Tate Modern, most of the people walking around are young people. There is such a hunger, such an interest, and that's where the real value – and pleasure – comes from.

**For more information, visit the Maddox Gallery at 9 Maddox St, London W1S 2QE or at [www.maddoxgallery.co.uk](http://www.maddoxgallery.co.uk)**

**There doesn't have to be a trade-off between your morals and your bank balance; sustainable investment actually makes solid business sense, as Fergus Moffatt explains**

# There's more than one kind of return



**R**eflecting values in the way business is conducted or money is invested is not new. 'Responsible investment' can trace its roots to 18th century Quakers who were prohibited from participating in the slave trade.

Investors have come a long way since then. Over the past 25 years we have witnessed sustainable and responsible investment (SRI) moving from a niche to an increasingly mainstream approach for retail and institutional investors. The most recent European SRI study shows the UK as being the biggest market in Europe, second globally only to the US, and SRI is on the agenda of more institutional asset owners and fund managers than at any time for 30 years.

In part this is because of positive policy developments in the UK over the past few years. A Law Commission review into the concept of "fiduciary duties" in certain types of pension funds was

a welcome step in promoting SRI. It said that those funds should consider factors like climate change, human rights or executive remuneration where they are financially material. The Law Commission's view was adopted earlier this year by The Pensions Regulator in guidance, and in making new rules for the Local Government Pension Scheme the government has set similar criteria.

Yet one of the biggest challenges faced by the sector is defining exactly what sustainable and responsible investment means. Vicki Bakhshi, head of governance and sustainable investment at BMO Global Asset Management explains that for those considering their options, a key element is to understand the different 'styles' of responsible investing.

"If the aim is to avoid certain activities that conflict with morals or principles – such as tobacco or weapons producers – then 'ethically screened' or exclusion-

based funds are the way to go.

"If the focus is more on picking the companies that are the sustainability leaders of the future, then look for a fund with a thematic orientation, focussed on sectors such as healthcare, clean technology or natural resources."

She explains that the two approaches are not mutually exclusive. Some funds – including BMO's own Responsible Global Equity fund – combine the two.

In October polling commissioned by UKSIF for Good Money Week showed that 54 per cent of people with investments wanted both a financial return and a positive social or environmental outcome. Yet Bakhshi highlights the fact that despite a trebling of retail ethical assets under management over the past decade to £15bn, this represents only 2.5 per cent of the overall UK retail market.

So why aren't people putting their



money where their mouths are? Part of the reason is a view that responsible investment involves trade-offs.

“People care about sustainability, yes, but they also want a secure pension. The good news is that there is now compelling evidence that not only is the trade-off a myth, but that caring about sustainability actually makes good business and investment sense. Companies that treat their workforce well, have systems to manage their environmental impacts, and have strong, empowered Boards are just good companies, and are more likely to be a more sound long-term investment proposition than those who neglect these issues and subject themselves to unnecessary risks. Increasingly the academic evidence backs this up. The University of Oxford reviewed over 200 studies, and found that 88 per cent showed a positive link between strong

management of environmental, social and governance (ESG) issues and company-level operational performance.”

The idea that companies which take SRI issues into account are better governed and therefore better long-term investments is one that has gained traction in recent years as more data has become available. For the SRI sector this means properly pricing externalities. Incorporating SRI concerns into investment processes enables investors both to mitigate risk and seize opportunities. Proactively addressing these issues leads to benefits for investors, and rewards more sustainable companies.

This is a sentiment that Charles Clarke, head of communications at HSBC Global Asset Management shares: “Companies which have a clear understanding of the key sustainability challenges their business faces, both in terms of risks and opportunities, and who have taken the appropriate steps to manage these challenges are better placed to deliver superior returns to their investors. But this does not necessarily mean that SRI funds will outperform the rest of the market as investment performance is comprised of a number of aspects such as factor exposure, portfolio manager judgement or currency.”

Following the COP21 climate summit in December, we have seen investors focus more on the challenges presented by increasing global temperatures. According to the International Energy Agency, over US\$16tn will be needed over the next 15 years if signatories to the deal are to meet their commitments. Governments cannot afford to pay the bill and are looking to private finance. Significant capital will be needed to replace fossil-fuel power stations with zero-carbon sources of energy including wind, solar and nuclear. This is the kind of opportunity responsible investors are well placed to exploit, and Clarke explains that this has been reflected in the market.

“Climate-change-themed products which have limited their exposure to fossil fuels have benefitted from the decline in the oil price as they had fewer energy firms in their portfolio. In the

run up to COP21, climate-change related products saw a lot of interest, as did funds which can incorporate the Sustainable Development Goals (i.e. the closest thing the world has to a ‘business plan’) into their portfolios to some extent.”

Demand for climate-related products may well be driven by Millennials, the generation born after 1980. UKSIF-commissioned polling shows that 52 per cent wanted the option of investing fossil free (compared with 26 per cent for over 45s) while a Standard Life Investments poll found over half of 18-24 year olds want their investments to minimise environmental damage.

Amanda Young, head of responsible investment at Standard Life Investments said she has seen a growing demand for understanding how the environment, as well as human rights, labour and business ethics are considered within investment strategies. “Our research into what is driving the younger generation of investors has demonstrated a direct link between youth and values. The younger the investor, the higher the demand for the companies we invest in to be delivering positive benefits for society.”

According to Department for Work and Pensions figures, automatic enrolment into workplace pensions means that by 2020 there will be 9 million more people investing for retirement. Many will be millennials and providers have the opportunity to create new products to satisfy the demand for investment which benefits society.

Samuel Mary, ESG research analyst at Kepler Cheuvreux, has some top tips for savers looking to invest responsibly. “First, responsible investing isn’t only about screening out controversial companies and sectors as per ethical criteria,” he said. “This is a diverse place, with as many approaches as investors’ preferences. Second, ensure you know your priorities. Clearly state both your sustainability and financial goals, which will help to determine the most suitable strategy. And remember that climate change remains the most mature and rapidly developing theme.”

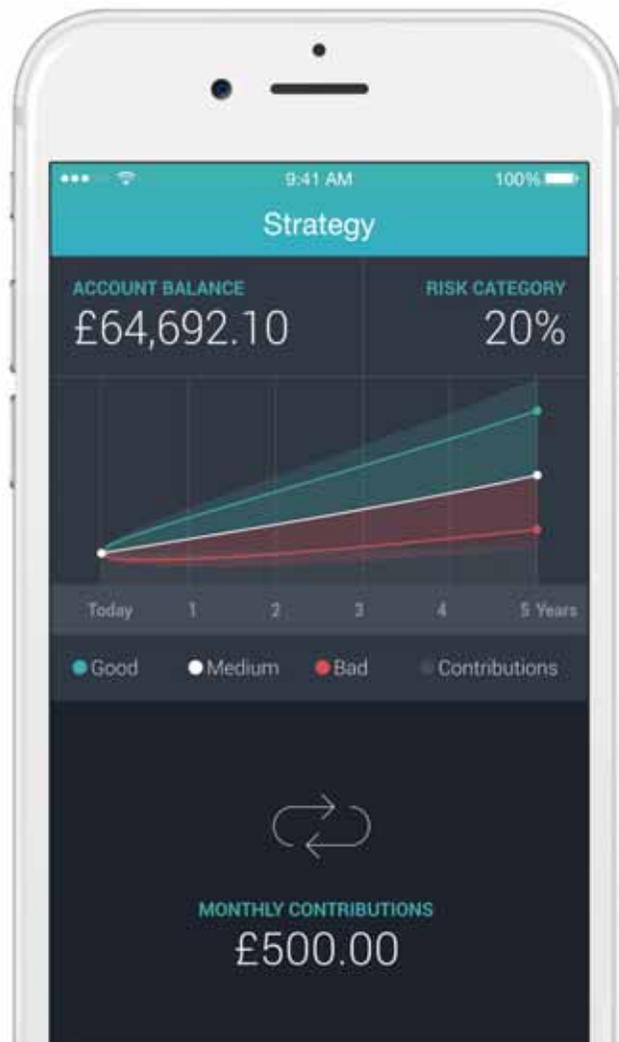
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