A welcome and introduction from Managing Director, Piers Mepsted to your latest Financial Advice Centre newsletter.

We are keen to keep you informed about what is happening in the global investment marketplace and the forces impacting on your investments.

As your IFA's, we also want to keep you abreast of changes in the market including regulations that affect you. To help you make sense of the wealth of information available we have developed this newsletter into three sections:

Markets and Investments

Looking at the broad overview of the market including a market review and investment overview, performance highlights and an investment outlook.

Our Advisers Discuss

Our technical specialists and partners investigate specific issues and services to help keep you informed. In this issue we explain how recent changes to inheritance tax regulations affect you and provide some news from our trusted partners on the importance of making a Will and the mortgage market.

Recommended Service Providers

We regularly get asked by our clients to recommend reputable companies for them to assist in making their **Wills** and **Power of Attorney**, or for family members to obtain Mortgage advice.

In this issue, I am pleased to introduce below Clare Burden of **Worcestershire Wills** and George Roberts of **SterlingRock** Mortgages. Although they are not part of Financial Advice Centre, we have been pleased with their service, approach and professionalism and we are happy to recommend them. They have both agreed FAC Ltd clients can receive initial assessments at no charge. Their contact details are below.

We hope you find this information useful and as always, please let us know if you have any feedback by emailing us at: **office@face-uk.com**.

Market and Investments

Market Review

Market conditions have become more volatile following the summer break as markets struggle to price in the changing economic landscape. This, along with the continuous risks from non-economic sources, means equity markets have exposed investors to more down periods than previous months. This is not all bad as it allows good fund managers to top up existing holdings or invest in new holdings at a better price.

The central bankers of the major western nations were in the spotlight again through August and September as they attempt to brace the market for the unwinding of quantitative easing going forward. The US is the furthest forward in the race to normalisation and will begin unwinding the balance sheet in October. It is anticipated that this will be followed by an increase in interest rates later in 2017 into 2018.

The Bank of England will be next as the Governor is continuing to use his hawkish tone to try and raise rates as soon as possible. A November rate increase for the UK is now expected. However, this will be data dependant. As expected as inflation data slows and consumer data becomes more negative the Bank of England raised interest rates from .25% to .5% in November for the first time in 10 years.

The European Central Bank will start to engage with the market regarding tapering scheduled in its next meetings and the Bank of Japan will bring up the rear and not look to make any changes to its underlying policy until after this.

August and September also saw heightened volatility as investors took stock of the terrible consequences that the hurricane season across the Caribbean and US created. The destruction not only caused monetary damage but the casualties of life show how devastating these natural disasters can be. The markets did have a short sell off following the disasters but recovered quickly.

Finally, the risk of a nuclear war increased with North Korea continue to defy and sending further explosives across Japan's northern territory. The Trump administration reacted, as predicted, with anger. The tension has decreased slightly after the UN increased sanctions on North Korea. However, the problem is far from being solved.

The global equity markets produced a positive return from an equity perspective over the quarter. Global bonds suffered in August and September as yields rose with the changing central bank rhetoric. This increase in yields has not changed the market view on prospects for returns in Bonds especially long duration assets which are negatively priced going forward.

Property produced mixed returns depending on the area of investment. Office rental growth globally has been positive but retail space has suffered in certain areas as demand has been lower and spending reduced.

Investment Overview Q3 2017

- Most asset classes gave positive returns over the quarter
- Emerging Markets equities delivered the strongest performance – up 4.4% over the period
- European equities were up 3.2% and the UK market returned 2.3%
- North America was up 1.1%
- Asia ex Japan was the weakest area, returning 0.3% in the quarter while Japan returned 0.6%
- Alternative investments were up, with Other Alternatives increasing by 1.5%, though Property rose only 0.2%
- Gilts were down 0.4% over the quarter but corporate bonds were up 0.2%

Performance Highlights Q3 2017

What worked and why?

- **Underweight Bonds**

This was a positive contributor over the quarter as central banks indicated a willingness to raise rates against a backdrop of stronger economic data.

What didn't work and why?

- **Being overweight Asia ex Japan**

Concerns persist that President Trump's trade and foreign policy are a risk to growth and stability in the region. The ongoing tensions around North Korea, in particular, impacted sentiment to parts of the region.

Investment Outlook

Outlook	Asset Class	Reasoning
↗	UK equities	While the UK's economic performance has held up relatively well since the decision to leave the EU, we await more clarity on the likely future relationship with the EU to determine the long-term economic impact. The UK stock market has performed strongly due to the weaker pound. But with the prospect of a hard Brexit priced in to shares, we feel that now is a good time to be slightly overweight the UK. The UK market also provides a dividend yield of around 3.5% which is particularly attractive at a time of very low interest rates.
↗	US equities	The US market responded positively to Donald Trump's election as president although we are still awaiting details of the new administration's policy agenda. Trump's promised mix of tax cuts and infrastructure spending could provide a boost for equities and the US economy appears to be able to withstand the expected series of interest rate increases by the Federal Reserve, the US central bank. However the US market has been approaching "expensive" levels.
↗	European equities	Despite political risks, the immediate threats to the EU project appear to be receding. Rising US interest rates are often associated with European shares outperforming other stock markets. We are therefore slightly overweight.
⇄	Japanese equities	Japanese shares have long looked cheap and the economic backdrop is finally starting to improve.
↗	Asian equities	Valuations across Asian equity markets look relatively attractive, whilst corporate earnings have been improving.
↗	Emerging market equities	After an extended period of underperformance, emerging markets have been volatile thanks to changing sentiment towards China, commodities and the changing fortunes of the dollar. However, there are signs that the economies in some of the more challenged parts of the region are bottoming out and there appears to be an appetite for much needed structural reforms.
↗	Absolute Return	With some traditional metrics suggesting both equities and bonds are towards the richer end of their historical range, a weighting to absolute return will provide some diversification to portfolios if the two asset classes sell off together.
↙	Bonds	Rising inflation is a negative and we are underweight. But despite low yields, we still feel that bonds have a role to play in portfolios where they provide a vital counterbalance for portfolios in a "risk-off" environment.
↙	Cash	The return on cash is negligible. A position is required to provide portfolio liquidity and for opportunistic allocation if there is a market correction

"Keeping wills up to date is essential to ensure you take advantage of changes in regulation."

Inheritance Tax (IHT) and the new Residence Nil-Rate band

Adam Smith, Technical Pensions expert from FAC discusses how changes to (IHT) Inheritance Tax and the new Residence Nil-Rate Band could affect you.

At the beginning of 2016, the number of UK families paying inheritance tax (IHT) was at a 35-year high, as rising house prices pushed the value of family assets above the tax threshold. From April 2017 an additional allowance came into force which has seen these numbers recently being driven down by the introduction of the new Residence Nil-Rate Band (RNRB) allowance.

So what do these changes, along with myriad of other tax complexities, mean to you and your family?

This allowance will eventually add £175,000 to everyone's inheritance tax nil-rate band by April 2020 – the first tranche of £100,000 became a reality on 6 April this year, this table below illustrates how the move from £100,000 to £175,000 will happen.

	Residence Nil Rate Band (£)		Main Nil Rate Band (£)		Total (£)	
Year of death	**Individual**	**Couple***	**Individual**	**Couple***	**Individual**	**Couple***
2017/18	100,000	200,000	325,000	650,000	425,000	850,000
2018/19	125,000	250,000	325,000	650,000	450,000	900,000
2019/20	150,000	300,000	325,000	650,000	475,000	950,000
2020/21	175,000	350,000	325,000	650,000	500,000	1,000,000

* 'Couple' refers to individuals legally married or in a registered civil partnership.

The extra nil rate band is fully available to anyone who:

- **passes the family home to 'direct descendants' - broadly their children/grandchildren and/or their spouses on death; or**
- **had a family home, then downsized on or after 8 July 2015 (passing on assets of equivalent value to children/grandchildren); and**
- **has an estate below £2M.**

Inheritance tax facts: what is IHT and who does it affect?

Inheritance tax, or IHT for short, is in simple terms a tax payable on the assets (money or possessions) you leave behind when you die, so it's often referred to as 'death duty'.

The assets making up your estate can include:

- **Cash and savings in the bank**
- **Investments**
- **Property and valuables, such as art, jewellery etc.**
- **Vehicles**
- **Businesses you own**
- **Pay-outs from life insurance policies not held in trust**

Many estates that are now subject to IHT in the UK belong to those who would not necessarily call themselves wealthy – in fact it is only if the value of your estate is below the threshold of £325,000 there is no IHT to pay.

Inheritance tax facts: who pays the IHT?

If you make certain kinds of gifts during your lifetime, but die within seven years after making them, the recipients of the gifts may be liable to pay IHT.

What are my options when it comes to managing IHT?

Of course, there are ways that you can legitimately reduce or even fully mitigate the impact of IHT. Here are some of the options:

- **Spend or give it away** – this is the simplest and easiest option, as long as you live for another seven years after the date of the gift; just make sure you don't give everything away!
- **Give away your excess income regularly** – unspent income that otherwise increases the estate can be distributed. You could also use it to pay for the cost of life cover.
- **Life cover** – this is another simple way of mitigating the impact of an IHT bill. The premium and amount of cover will normally be fixed, giving you control of your estate, rather than having to make substantial gifts. You can use the annual £3000 exemption or surplus income to fund the cost of cover.
- **Using trusts** – this is important if you don't want to lose control of your capital. Some trusts will pay a fixed level of income, while others can offer additional benefits, such as protection for your beneficiaries from divorce or bankruptcy.
- **Specialist investments** – it's possible to invest in a range of permitted UK companies and achieve IHT exemption after only two years by attracting Business Property Relief. This is a higher-risk approach when compared to the alternative options, but it offers quick relief and you don't have to give any assets away –which means you have ongoing access to your capital.

An example of how the RNRB will work:

Steve was married to Valerie when he died in Jan 2017 bequeathing his entire estate to Valerie. This included the family home worth £500,000. In June 2020 Valerie dies and leaves her entire estate worth £1m to her two children.

Valerie's estate can use the RNRB of £350,000 together with her nil rate band of £325,000 and Steve's nil rate band of £325,000, totalling £650,000, which was transferred to Valarie on his death – meaning when you add the allowances of £650,000 to the RNRB of £350,000 you reach £1m and therefore no IHT will payable on her death.

If this situation had occurred prior to the RNRB being brought in then Valarie's estate would have faced an IHT tax of 40% on the £350,000 above the £650,000 nil rate allowance or £140,000.

Recommended Service Providers

Introducing in this issue, two companies we work closely with providing a Will writing service and whole of market Mortgage advice.

As part of all IHT plans we would always suggest that clients make sure their Wills are up to date and they seek independent mortgage advice.

We asked Clare Burden at Worcestershire Wills why it's important to have a Will and George Roberts from Sterling Rock, mortgage advisers about the importance of building mortgage advice into long term financial planning objectives.

For further information please contact them directly to discuss your needs.

Clare Burden
Director, Worcestershire Wills
Will writing service

George Roberts
Director, Sterling Rock
Mortgage advice

Why do you need to make sure your will is up to date?

Building mortgage advice into long term planning

Each and every one of us should give serious thought to putting a Will in place, particularly at key moments in life such as purchasing properties, marrying, divorcing or having children or grandchildren.

Many of us assume that those we want to benefit will do, but this simply isn't the case. If you don't have a Will, the law decides what happens and there is every chance this will not be in line with your wishes. A Will can also be important in terms of Inheritance Tax planning - making sure there isn't any unnecessary tax paid on the property and money you leave, so that those you care about benefit fully. It is particularly important if you have children or other family who depend on you financially, or if you want to leave something to people outside your immediate family circle – or if you have a partner and are not married.

We take a personal approach to working with you and will come and discuss your needs at a location to suit you. We visit most of our client in their homes. With no expensive office facilities to maintain, it also means we can keep our costs highly competitive. Please give us a call to discuss your needs and how we may be able to help.

Email Clare Burden
T: 01905 670 513

WORCESTERSHIRE WILLS

Buying a property can be very exciting as well as daunting. However, selecting the most cost effective mortgage products does not have to be.

At Sterling Rock, we believe you should receive personal, professional, cost effective and independent mortgage advice from an industry expert not aligned to specific products or banks.

What makes us unique is that we focus on helping you plan for what's important today and to help you work towards realising your long-term property goals - whether they be for your next move or succession planning for children and grandchildren.

Our team are passionate about the local community and our success is due in large part to our satisfied customer base and their personal recommendations of our services.

Based in central Worcester, our paper free advisers are completely mobile and organise appointments to suit you - in your home or our offices. For a free initial consultation please click here or give us a call.

Email George Roberts
T: 01905 723 058

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As part of our service proposition for clients we have developed professional arrangements in respect of Mortgage Advice and Will Writing. These companies operate independently from Financial Advice Centre Ltd and therefore we are not responsible for the advice provided in these areas.

About Financial Advice Centre Limited

Since its inception in 1999 Financial Advice Centre Limited has grown to become one of the UK's leading firms providing progressive thinking, independent, financial advice. Our team of Independent Financial Advisers have deep technical expertise across a range of areas including wealth management, inheritance tax planning, bespoke investment strategies and public sector pensions. We offer financial advice of the highest standard as seen through our proven pedigree of successfully managed pension and investment funds.

We are active advisors with a unique charging structure and holistic perspective that focusses on building long term relationships and consistently adding value to our clients' investment propositions. Our aim is to provide a service that is both forward-thinking and objective to help clients' achieve their financial objectives.

Our clients choose to work with us because we demystify the increasingly complicated financial environment and consistently deliver results in a way that's easy to understand.

financial advice centre

independent face to face advice

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