We have pleasure in issuing our newsletter for April 2018 that includes a detailed monthly commentary covering world equity markets in March together with other topical articles that we hope you find interesting.

The Chancellor of the Exchequer's Spring Statement included an improved forecast for the UK's economic growth during 2018 however equity indices around the world dipped sharply in March amid fears that an escalating trade war could undermine economic growth.

The first Quarter of 2018 started strongly, with the rapid growth in equity markets that started in December continuing into January. This enthusiasm didn't last and a sharp sell off at the start of February, blamed in part on computer trading and some dodgy derivatives, erased most of these gains. To end the quarter, the UK and EU finally agreed a 21-month Brexit transition deal, which has provided some assurance that a cliff-edge Brexit will be avoided next year.

Whilst the FTSE 100 fell by over 7% in Q1, the maximum fall in any of our higher risk portfolios was 4.3% highlighting the benefits of being invested in a fully diversified portfolio in volatile market conditions. Over the longer term all of our Model Portfolios remain comfortably ahead of their respective benchmarks over 1,3 & 5 years with the exception of our Adventurous Portfolio over 1 year and our Aggressive Portfolio over 5 years.

As always, please get in touch with us if you need help or advice on any of the topics covered in our newsletter.

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AM&A Model Portfolios, Indices & Benchmarks, Recommended Investment Funds
Performance Data to 31 March 2018

The following tables show examples of percentage returns of AM&A risk rated model portfolios and market benchmarks and indices using prices at the end of the last calendar month over 1 month, 3 months, 6 months and over 1, 3 and 5 years. Please note that these examples are for illustrative purposes only and exclude the effect of fees on the actual returns. Please note that pension fund and life fund performance can differ from unit trust/OEIC performance due to the underlying taxation treatment that past performance is not a reliable indicator of future returns and the value of investments can go down as well as up. We endeavour to ensure that the data below is accurate to the best of our knowledge. However, we rely on information that is provided to us by third parties and this may therefore not always be correct and/or up to date. As such, we cannot accept liability for any reliance placed on this third party-produced information.

	1m	3m	6m	1yr	3yrs	5yrs
AM&A Model Portfolios						
AM&A Defensive Portfolios						
Cash Alternative Portfolio	-0.8	-1.9	-0.4	1.2	7.8	15.8
Defensive Portfolio	-1.4	-2.4	-0.2	1.4	9.8	24.0
Benchmark IMA Mixed 0-35% Index (Defensive)	-0.9	-2.2	-0.7	0.4	7.9	17.4
AM&A Cautious Portfolio						
Moderately Cautious Portfolio	-1.9	-3.0	0.2	2.5	16.0	34.3
Benchmark IMA Mixed 20-60% Index (Cautious)	-1.8	-3.2	-1.0	0.8	11.1	25.0
AM&A Balanced Portfolio						
Balanced Portfolio	-2.4	-3.7	0.1	2.7	19.4	42.2
Benchmark IMA Mixed 40-85% Index (Balanced)	-2.7	-4.2	-1.0	1.5	15.4	34.9
AM&A Moderately Adventurous Portfolio						
Moderately Adventurous Portfolio	-2.7	-4.0	0.2	3.1	24.0	47.4
Benchmark IMA Flexible Managed Index	-3.0	-4.0	-0.5	2.4	16.6	36.2
AM&A Adventurous Portfolio						
Adventurous Portfolio	-3.0	-4.3	0.5	3.4	28.4	54.3
Benchmark AFI Aggressive	-3.0	-4.3	-0.2	4.4	25.4	46.8
AM&A Aggressive Portfolio						
Aggressive Portfolio	-3.7	-4.0	0.5	9.8	32.1	40.0
Benchmark IMA Global	-4.3	-5.0	-0.4	2.7	27.5	57.4

Source Financial Express 1 April 2018

Market Overview March 2018

Investor sentiment during March was marred by mounting levels of US protectionism. President Donald Trump announced tariffs on steel and aluminium imports, and also revealed plans to impose tariffs of up to US$60 billion on imports from China. Equity indices around the world dipped sharply amid fears that an escalating trade war could undermine economic growth.

The US subsequently tempered its controversial decision by temporarily exempting some key players – including EU member states – from the tariffs on steel and aluminium. President Trump will decide by 1 May whether this exemption should be permanent. With regard to China, however, the White House's relationship appears set to sour further as China warned it would "fight to the end to defend its legitimate interests with all necessary measures".

As expected, the US Federal Reserve (Fed) raised interest rates in March, increasing the key federal funds rate by 0.25 percentage points to a range of 1.5% to 1.75%. The Fed also indicated that it was prepared to instigate further tightening if necessary. The US economy grew by 2.9% year on year during the first quarter of 2018, compared with earlier readings of 2.6% and 2.5%. The Dow Jones Industrial Average Index fell by 3.7% during March.

In the UK, the Chancellor of the Exchequer's Spring Statement included an improved forecast for the UK's economic growth during 2018; despite this, the UK's prediction of 1.5% remains lower than the growth forecasts of many other leading economies. Meanwhile, borrowing is forecast to fall in every fiscal year from 2018/19 to 2020/21. Elsewhere, the UK and EU managed to reach agreement on "a large part" of the terms of the Brexit transition, but the issue of Northern Ireland remains a sticking point. The FTSE 100 Index fell by 2.4% over March as a whole.

The European Central Bank (ECB) dropped its previous longstanding commitment to increase the scale of its bond-buying programme if necessary. The move suggested that ECB policymakers are becoming more sanguine about the eurozone's economic prospects. Nevertheless, the ECB was at pains to emphasise its continued support for the region's economic recovery, pointing to the fact that eurozone interest rates remain exceptionally low and the ECB is continuing its bond-purchase programme of €30 billion per month. The Dax Index fell by 2.7% in March, while the CAC 40 Index dropped by 2.9%.

A Simple Spring Statement

The Chancellor's Spring Statement on 13 March was, as promised, a low-key event. Last autumn, Mr Hammond announced he would have only one 'fiscal event' each year – an Autumn Budget. The Spring Statement would become a response to revised projections from the Office for Budget Responsibility (OBR).

The Treasury has had to provide an economic commentary at least twice a year since the Industry Act 1975 was passed. Many Chancellors have taken this to mean they can have two Budgets a year – one formal Budget and another informal mini-Budget.

On 13 March the Chancellor stuck firmly to the principle of one annual fiscal event and did not announce any new spending or tax measures. It still took Mr Hammond 25 minutes to deliver his speech, however, owing to 13 new consultation papers. Amongst the consultations were several focusing on the digital economy and the loss of tax revenue, particularly from traders based outside the UK. One paper will also review "the future role of cash", with hints that copper coins and the £50 note may not survive much longer.

The OBR's economic projections were marginally better compared to the Autumn Budget, but much worse than two years ago, before the Brexit vote. Unsurprisingly, the OBR's calculations suggest there will be very little scope for tax cuts. The government is forecast to borrow £21.4 billion in 2022/23, ending the period with a total debt of just under £1.9 trillion.

With so much red ink, if you want to cut your tax bill, acting yourself is more likely to deliver savings than waiting for the chancellor.

New risk criteria for Venture Capital Schemes

Important changes for venture capital schemes and enterprise investment have recently come into effect.

New 'risk-to-capital' conditions apply to investments in venture capital trusts (VCTs), enterprise investment schemes (EISs) and seed enterprise investment schemes (SEISs). The changes took effect on 15 March 2018, when the Finance Act 2018 received Royal Assent.

Broadly speaking, an EIS or SEIS company, or a company in which a VCT is investing must both:

1. Have objectives "to grow and develop its trade in the long term".
2. Carry a "significant risk that there will be a loss of capital of an amount greater than the net investment return".

The changes are intended to end venture capital schemes – particularly EISs – which often did little more than return the investor's original capital at the end of the tax relief clawback period. Such schemes were usually asset-backed, typically focusing on pubs, ship ownership/chartering or film production, where pre-sales were in place.

For many years the Treasury tried to exclude such 'safe' trades, only for other low-risk options to emerge. The new risk-to-capital condition, and its somewhat subjective criteria, is designed to put an end to this cycle.

The minimum percentage of 'qualifying holdings' (risk investments in small unlisted companies) for a VCT has also increased from 70% to 80%. This, along with other measures in the Act, aim to increase the level of risk undertaken in such schemes. The Chancellor has also issued a consultation paper on a new form of EIS fund aimed at knowledge-intensive companies. The document suggests possible restructuring of the EIS tax incentives, with a greater backdating period and/or tax-free dividends after a minimum period.

The VCT, EIS and SEIS offerings in 2018/19 are likely to differ from earlier years. They may also be thin on the ground as promoters acclimatise to the new higher-risk regime and digest the heavy flow of fresh capital in 2017/18.

More than ever, if you want to invest in this area, expert advice will be vital.

Taking the early view on ISAs

There are advantages to planning your ISA investments around the start of the tax year. With ISAs all the taxation benefits occur after investment is made, yet the focus is often on year-end contributions. Various articles on ISAs filled the weekend press in March and are set to re-emerge like a financial sign of spring in 12 months' time.

For other investments, such as venture capital trusts and pensions, there is a logic in waiting until the end of the tax year – you have a better idea of your income for the year and hence your tax position. The same is not necessarily true of ISAs. Indeed, it is sensible to contribute to ISAs as *early* in the tax year as possible, to get the tax benefits for as long a period as possible. As a reminder these are:

- No UK tax on dividends, an important factor as the dividend allowance has been cut from £5,000 to £2,000 for 2018/19.
- No UK tax on interest earned.
- No UK capital gains tax on any profits realised.
- Nothing to report to HMRC on your tax return.
- Allowing a surviving spouse or civil partner to inherit your ISA benefits, effectively treating your ISAs as joint investments.

Making an ISA contribution does not necessarily mean paying in cash. It can include selling an existing investment you hold personally and repurchasing it within an ISA. You may crystallise some capital gains in the process, but at the start of the tax year you almost certainly still have your full £11,700 annual exemption available.

What does the pension lifetime allowance buy?

The importance of pension contributions has been bolstered by the rollout of auto-enrolment pension schemes. However, it is not as clear what your savings will give you when you come to retire.

For example, Louise, a healthy, non-smoking 65-year-old, reaches retirement with £1,000,000 in her pension plan. If she uses the entire fund to buy herself an inflation-proofed income, what will be her first monthly pension payment before tax is deducted?

A. £2,500
B. £3,000
C. £3,500
D. £4,000

The answer is A, based on current pension annuity rates. After tax, if Louise has no other income, her monthly payment will be about £2,200. Include a 2/3 widow's pension and the gross amount drops by about £400 a month (roughly £320 after tax).

This may be a surprise as the National Living Wage is nearly £1,200 a month for a 35-hour week. Especially when you remember Louise forgoes a tax-free lump sum of up to £250,000 in favour of a higher income.

The income of £2,500 a month (£30,000 a year) is only 3% of the pension pot, but it is RPI-linked. Importantly, because it is an annuity payment, it is also guaranteed throughout life – however long that may be.

Whilst annuities have gone out of fashion, the rates set a base line for retirement planning. Alternative retirement incomes, such as income drawdown, all carry some form of investment risk, meaning the potentially higher income available does not have the same degree of security.

This means the rise in automatic enrolment contributions from April is a necessary start on the way to building up adequate retirement funds. However, a realistic level of contributions will still be much higher for most people.
Why not ask us what yours should be?

International investments and Brexit

With Brexit now less than a year away, how insular are your investments? Brexit – or more accurately the start of the transition/implementation period of the UK leaving the EU – begins on 29 March 2019. By the end of the following year, the UK's remaining links to the EU are due to be cut.

Since June 2016, when the Brexit referendum took place, the FTSE 100 has been one of the world's poorest performing major indices. So it is perhaps no coincidence that, in March 2018, a survey by the Bank of America (BoA) of 163 global investment managers found the UK stock market was least popular of 22 wide-ranging investment asset classes.

If you live and work in the UK, then naturally enough you tend to think in terms of UK-based investments, be they shares, bonds or property. The BoA survey is a reminder that taking such a parochial view of investments may come at a price.
Diversification is one-way investment professionals limit risk and potentially increase returns. For example, the most recent report from the Pensions Regulator showed that in 2017 the average UK defined benefit pension scheme had only one fifth of its total shareholdings in UK quoted shares.

International investment offers:

- Access to industries not represented on the UK stock market, such as Amazon or Daimler-Benz.
- The opportunity to benefit from different economies and different stages of the economic cycle, e.g. emerging markets. Both are especially important when UK economic growth is forecast to remain weak.
- Exposure to foreign currencies, which can provide an additional boost to returns when sterling is weak, as it was in the 12 months following the Brexit vote.

There are many ways to increase the international element of an investment portfolio, whether it is held directly or via an ISA or pension arrangement.
For the strategy appropriate to your circumstances, please talk to us.

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The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances. The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax or trust advice.

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