We have pleasure in issuing our newsletter for March 2019 that includes a detailed monthly commentary covering world equity markets in February together with other topical articles that we hope you find informative.

The UK ended February with the question of Brexit still unanswered. The month was dominated by political newsflow as concerns over Brexit were compounded by the resignation of eleven MPs who left the Conservative or Labour parties to form "The Independent Group". A second "meaningful vote" on Prime Minister Theresa May's Brexit deal will take place on 12 March. If the Government is defeated, MPs will face a vote on whether they support a "no-deal" Brexit; if this vote is rejected, the Government will take steps to move the 29 March Brexit deadline to the end of June at the latest.

If you do have any concerns about the possible effects of a no deal Brexit on your investments or any other articles in this month's newsletter, please do not hesitate to contact us to discuss your situation in greater detail.

Stephen Goldman
Managing Director

David Marks
Head of Investments

Kinetic Business Centre
Theobald Street
Borehamwood
Herts WD6 4PJ

Telephone 020 8387 1231
Fax 020 8387 4004

Contacting us via email: deborahgoldman@amaipp.com
David Marks: davidmarks@amaipp.com
Stephen Goldman: stephengoldman@amaipp.com

AM&A Model Portfolios
Performance Data to 28 February 2019

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, year to date, 3 months, 6 months, 1, 3, 5 and 10 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	ytd	3m	6m	1yr	3yr	5yr	10yrs
AM&A Model Portfolios								
AM&A Defensive Portfolios								
Cash Alternative Portfolio	0.1	2.6	0.8	-1.9	-0.2	6.0	13.0	
Defensive Portfolio	0.3	3.1	-0.1	-3.3	-0.1	12.0	23.2	87.7
Benchmark IMA Mixed 0-35% Index (Defensive)	0.6	2.3	1.3	-1.0	0.3	12.9	17.1	56.2
AM&A Cautious Portfolio								
Moderately Cautious Portfolio	0.5	3.9	-0.9	-5.6	-1.8	19.3	27.9	125.9
Benchmark IMA Mixed 20-60% Index (Cautious)	1.1	3.7	1.2	-2.2	-0.1	18.2	22.2	73.3
AM&A Balanced Portfolio								
Balanced Portfolio	0.5	4.6	-1.2	-6.5	-1.2	25.6	37.9	169.7
Benchmark IMA Mixed 40-85% Index (Balanced)	1.5	4.8	0.8	-3.8	0.0	25.0	30.4	101.3
AM&A Moderately Adventurous Portfolio								
Moderately Adventurous Portfolio	0.6	5.3	-1.2	-7.2	0.0	29.9	44.5	209.4
Benchmark IMA Flexible Managed Index	1.6	5.0	0.8	-4.0	-1.0	27.5	32.3	106.6
AM&A Adventurous Portfolio								
Adventurous Portfolio	0.9	5.7	-1.6	-8.1	-0.4	34.8	48.9	233.9
Benchmark AFI Aggressive	1.3	5.5	-0.1	-6.4	-1.7	32.7	40.5	135.9
AM&A Aggressive Portfolio								
Aggressive Portfolio	2.5	7.2	0.0	-5.3	4.3	49.9	58.2	233.9
Benchmark IMA Global	2.3	7.0	-0.1	-5.5	1.7	44.8	55.8	150.6

Source: Financial Express, 1 March 2019

Market Overview February 2019

With Brexit still unresolved and the clock counting down to the 29 March deadline, Prime Minister Theresa May announced that a second "meaningful vote" on her Brexit deal will be held by Tuesday 12 March. If the Government fails to win the meaningful vote, it will table a motion asking MPs if they support leaving the EU with "no deal". If MPs reject this motion, the Government will seek to extend the Brexit deadline beyond 29 March, but no later than the end of June. Nevertheless, the Prime Minister stressed: "An extension cannot take "no deal" off the table. The only way to do that is to revoke Article 50, which I shall not do, or agree a deal". Public sentiment was further rattled during February by a raft of resignations from the Conservative and Labour parties, which threw both the Government and the Opposition into disarray. The FTSE 100 Index rose by 1.5% over the month.

The US announced it would delay its planned tariff increases on Chinese goods – which was due to take effect on 1 March – although the two countries had failed to reach a trade agreement during their meetings in February. Meanwhile, after Congress rebuffed President Donald Trump's demand for funds for a US/Mexico border wall, the President declared a national emergency in a bid to circumvent Congress by using military funds. The House of Representatives subsequently voted to overturn his controversial declaration, which will have to face a vote in the Senate. The US economy grew at an annualised rate of 2.6% during the fourth quarter of 2018, having expanded by 3.4% in the third quarter. The Dow Jones Industrial Average Index rose by 3.7% over February.

Consumer confidence in France rebounded in February to its highest level since before the "gilets jaunes" protests began. Sentiment rose as President Macron's stimulus measures began to take effect; these policies were expedited in response to the damaging protests. Concerns about unemployment eased to pre-protest levels, although consumers remain cautious about their scope to make major purchases. The benchmark CAC 40 Index rose by 5% during the month.

Japan's economy expanded at an annualised rate of 1.4% during the final three months of 2018, having shrunk by 2.6% in the previous quarter following a series of natural disasters. During February, the Nikkei 225 Index rose by 2.9%.

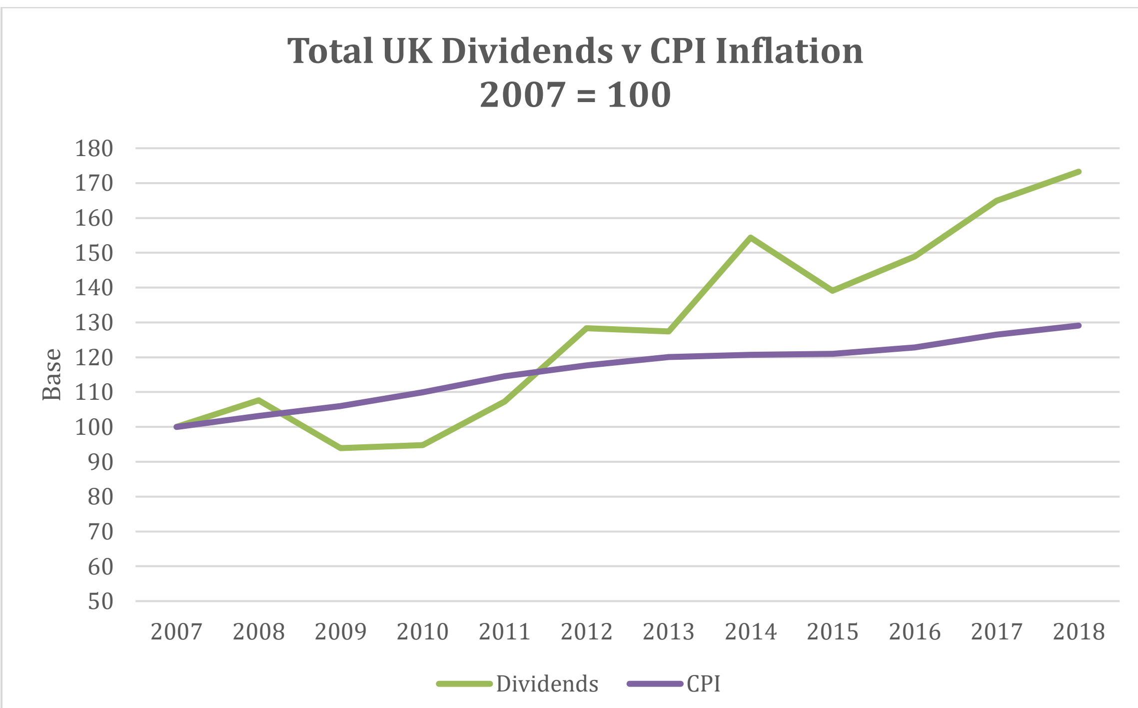
The Reserve Bank of Australia (RBA) left its key interest rate unchanged at 1.5% for a 30th consecutive month in February. RBA Governor Philip Lowe sounded a slightly more cautionary note on the country's economic prospects, and the RBA cut its forecasts for economic growth to 3% this year and 2.75% next year. Downside risks to the outlook include falling property prices and a subdued outlook for household spending; on a global basis, headwinds include ongoing trade tensions and China's economic slowdown. Although inflation is forecast to pick up, this is likely to take longer than previously anticipated.

The International Monetary Fund (IMF) expects Australia's economic growth to remain above trend in the short term; however, medium-term growth could be undermined by a softer global economic environment, high levels of household debt, and weaknesses in the housing sector. The housing market is cooling, but debt levels remain high. The IMF predicts that economic growth of 3% in 2018 will ease to 2.7% in 2019 and then to 2.6% in 2020. During February, the ASX All Ordinaries Index rose by 5.3%.

South Korea's benchmark index dipped as February drew to a close as the nuclear summit between the US and North Korea broke up without reaching agreement. The Kospi Index fell by 0.4% over the month. As expected, the Bank of Korea (BoK) maintained its key interest rate at 1.75%.

The rise and rise of UK dividends

Dividend payments from UK companies in 2018 once again outpaced annual inflation.



Your income could have increased by more than double the rate of CPI inflation in 2018.

Link Asset Services, a leading share registrar, reported a 5.1% growth in total dividend payments of UK companies last year. Their January dividend monitor showed that in 2018 UK companies paid out £99.8bn in dividends, £4.8bn more than in 2017.

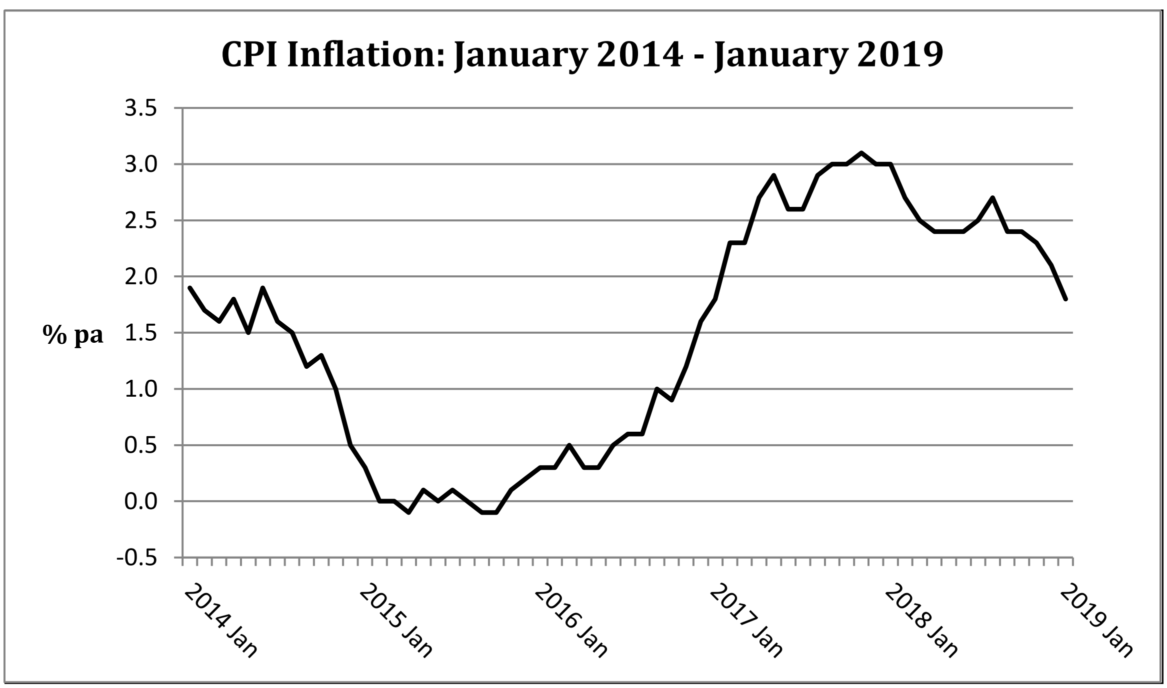
As the graph shows, since 2012, total dividend payments have comfortably outpaced inflation. The dividend line is not as smooth as the inflation line for two reasons:

- To a degree, what companies will pay in dividends depends upon financial conditions. The graph's dip in 2009 and 2010 calendar years reflects the fallout from the great recession of 2007/08 when some major companies, e.g. clearing banks, suspended dividend payments completely.

- Total dividend payments represent the addition of regular dividends – what companies pay each year – and special dividends, which are one-off payments. From year to year, the 'specials' vary much more than regular dividends. A good example is 2014, when Vodafone sold out its US business interests and made a one-off dividend payment of nearly £16bn.

In its latest monitor, Link notes that rising dividends and falling share prices in 2018 meant that the yield on UK shares in December 2018 hit the highest level since March 2009. The 4.8% yield recorded by Link compares with an average over the last 30 years of 3.5%. In Link's view, that level of dividend seems ''overly pessimistic" and is more likely to represent an undervaluation of UK stocks due to Brexit uncertainty as well as difficulties in the global market. It is hard to disagree.

Inflation dips below the Bank of England's target



January 2019 saw the lowest level of inflation since January 2017, with the rate recorded at 1.8%. The data was slightly better than had been expected, with the CPI rate falling to below the Bank of England's 2% target for the first time in two years. One of the major contributors to the fall from December's 2.1% rate was the drop in gas and electricity prices prompted by the introduction of the price cap on "standard variable" tariffs. The cap, operated by Ofgem, came into effect at the start of 2019.

However, shortly before the January inflation figures were released in mid-February, Ofgem announced that the utility price cap would be rising by 10.3% from April due to a rise in wholesale energy costs. The unfortunate timing was partly down to the fact that the cap has a six-month summer/winter cycle, so the initial winter cycle has an abbreviated three-month lifespan. All of the big six energy suppliers have since responded with price increases to take effect from April. All other things being equal – which they are almost certain not to be – that means a blip up in annual inflation will occur in April.

Despite the vagaries of the utility pricing, the outlook for inflation is relatively benign. The Bank of England's most recent Inflation Report, also published in February, projects a slight rise in 2020, but only to 2.3% before fading to 2.1% in 2021 and 2022. Those projections are in turn derived from market expectations for base rate, which suggest it will not be until 2021 that base rate reaches 1%.

The Bank does hedge its forecast on future interest rates, with the inevitable proviso about Brexit: "The monetary policy response to Brexit, whatever form it takes, will not be automatic and could be in either direction." This means that the Bank of England has no pre-set plans and could move interest rates up or down. Realistically, few economists believe that rates would rise, even in the most difficult scenario.

For investors, the main conclusion to draw from all this is that short term interest rates are expected to remain well below a rate of inflation that will be around 2%. As has been the case for most of the past ten years, keeping more than needed on deposit will continue to be a way of eroding wealth.

Old case throws up pension protection risk

On 17 May 1990, the European Court of Justice decided that gender equality should be applied to non-state pensions. The case, Barber v GRE, prompted a major overhaul in UK pension provisions. At the time most pension schemes had different pension ages for their male and female members, echoing the 65/60 differential that applied to state pensions.

The Court's judgement posed a particular problem for schemes that contracted out of SERPS, the old state earnings-related pension scheme. To contract out, the private scheme had to offer at least a guaranteed minimum pension (GMP) that, broadly speaking, matched what SERPS would have provided. This posed a classic Catch-22: the GMPs were unequal because SERPS was based on state retirement ages, but Barber said pensions had to be equal.

The fudged solution was to equalise total pension benefits. But this didn't fully resolve the problem as pre- and post-retirement escalation rates were not the same for the GMP and non-GMP portions. As might be expected, the matter ended up in the courts and last year – 28 years after the Barber decision – the UK High Court ruled that GMP benefits had to be equalised. Equalisation will mean that some people will see their pension benefits increased, although the amounts will generally be small.

Cue a new problem, which has just emerged: if you have fixed protection (2012, 2014 or 2016) for your lifetime allowance, any benefit increase outside the normal inflationary adjustments means that the protection is lost. In extremis, for somebody with fixed protection 2012, a small GMP equalisation adjustment could cut their lifetime allowance from £1.8m to £1.03m (£1.055m from 6 April 2019). The newly unprotected sum would then potentially be subject to a tax rate of up to 55%.

HMRC is aware of the problem but has not acted so far. The situation serves as a reminder that if you benefit from one or more of the various forms of pension protection, their loss can be highly expensive and that great care is needed with any pension changes, even involuntary ones...

Buy-to-let investors will be hit by another notch up of the tax ratchet.
When George Osborne announced in his summer 2015 Budget a variety of tax changes aimed at discouraging buy-to-let (BTL) investment, they came as a surprise. To ease their impact, the then Chancellor phased in the most significant reform, a revised treatment of interest relief, over four years and deferred its start date to April 2017. Anecdotal evidence suggests some BTL investors did not know what had happened until they found a larger than expected tax bill in January.

April 2019 will see the start of the third year of the phasing process, which will mean in 2019/20:

- Three quarters of any interest paid on BTL borrowing will be eligible for a 20% tax credit; and
- The balance of interest is deductible from rental income, meaning it is fully tax relievable.

If that all sounds rather arcane, the impact becomes more obvious when you look at a simplified example. Suppose a higher rate taxpayer had rental income of £12,000 and interest on a BTL mortgage of £8,000. The investors' net income position is as follows:

Tax Year £	Rent £	Interest £	Rent – Interest £	Tax Due £	Net Income £
2016/17	12,000	8,000	4,000	(1,600)	2,400
2017/18	12,000	8,000	4,000	(2,000)	2,000
2018/19	12,000	8,000	4,000	(2,400)	1,600
2019/20	12,000	8,000	4,000	(2,800)	1,200
2020/21	12,000	8,000	4,000	(3,200)	800

In practice, the situation might be worse than the table suggests if, for example, the disappearance of the deduction for interest increases the investor's gross income to the point that it trips over the £100,000 threshold, at which the personal allowance is phased out.

Sales by BTL investors could pick up this year due to the interest relief changes and poor short-term prospects for capital growth. There is another tax incentive to sell on the horizon, too. From April 2020, capital gains tax on residential property (at 18% and/or 28%) will have to be paid within 30 days of sale, whereas the current rules effectively give a minimum of nearly ten months' grace.

If you are a BTL investor and are considering leaving the market, please talk to us about your options, on both the tax planning and reinvestment fronts.

Check your April pay slip

Your April pay may look much the same as March's, but it is worth giving your pay slip a close look. If you are an employee, your April pay slip is always worth checking, even if you pay little attention to the other eleven you receive over a year. The items to check include:

Salary: Many employers change pay rates from 1 April, often coinciding with the start of their new financial year. If you were notified of a pay increase in March, it is worth making sure the number on the April pay check agrees with what you were promised.

Tax code: Your April pay check will be the first for the 2019/20 tax year and your PAYE tax code will have almost certainly changed from what was on your March pay slip. If you are entitled to a full personal allowance and have no deductions, your code number should increase by 65, reflecting the £650 increase in the personal allowance.

If you have a company car, then it is likely to move your code in the opposite direction. For most cars (other than those with the highest emissions), the percentage of list price that is taxable rises by 3% - £300 per £10,000 of list price. A £22,000 car will therefore more than counter the rise in the personal allowance. The higher scale percentage also means a similar increase in taxable value of employer supplied fuel. In practice you might be better off paying your own fuel bills, even if your employer pays you nothing in compensation.

National insurance contributions (NICs): The primary threshold (that is, the starting point) for NICs rises by £4 a week while the upper earnings limit (the top level of earnings on which you pay full 12% NICs) jumps by £70 a week. As a result, if your annual earnings are more than £46,600 a year, you will be paying more NICs from April. If you earn over £50,000 a year, your extra NICs will be just over £28 a month.

Pension contributions: These are generally linked to salary, although not necessarily your full pay, so should increase if you have an April pay increase. If you are in an automatic enrolment pension scheme, your contributions are usually based on "band earnings", which were £6,032–£46,350 in 2018/19 and are £6,136–£50,000 in 2019/20. The contribution rate will rise, too. How much will depend upon your employer's contributions: you might see the rate increase by two thirds to 5% of band earnings (4% after basic rate tax relief). If your pay in April is lower than in March, the auto enrolment change could be the culprit.

For more insight on the tax, NICs and pension deductions from your pay and options to limit their impact, please talk to us.

Issued by AM&A Investment & Pension Planning Limited which is authorised and regulated by the Financial Conduct Authority. The contents of this newsletter do not constitute advice and should not be taken as a recommendation to purchase or invest in any of the products mentioned. Before taking any decisions, we suggest you seek advice from a professional financial adviser. All figures and data contained within this document were correct at the time of writing.

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.

www.amaipp.com
Kinetic Business Centre | Theobald Street | Borehamwood | Hertfordshire WD6 4PJ
Tel. 020 8387 1231 | Fax. 020 8387 4004 | Email. info@amaipp.com
Registered in England & Wales Company No. 5275457
Registered Office: First Floor, Winston House, 349 Regents Park Road, London N3 1DH