ISSUE 42 ■ AUTUMN 2023

INFORMED

Working with professional partners

by Clayden FINANCIAL
INDEPENDENT FINANCIAL ADVISERS

RESPONSIBLE ASSET SELECTION

Supporting responsible practices and contributing to a sustainable future

ARE WE ENTERING AN INVESTMENT BOND RENAISSANCE?

Exploring why they are an attractive option for investors

LUMP SUM VS REGULAR CONTRIBUTIONS

Choosing the right pension payment strategy

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In this issue...

WELCOME TO OUR AUTUMN ISSUE

Sadly, the summer in the UK has been somewhat disappointing weather-wise, with some of the wettest July figures ever on record.

In the world of investment, the sun has not been shining too often recently, and volatility continues to be evident with inflation continuing to have an impact on market performance. In these challenging times for investors, it is important to invest for the medium to longer term.

Workloads here continue to increase and to assist with the extra administration needed we have welcomed new staff to Clayden Financial.

Hannah Browning has fitted in well as a senior Administrator/Paraplanner and is proving a great asset to the company, having recently passed the R03 exam. She is now just two exams away from being Level 4 qualified.

You will see an article opposite about Karen Last, who has decided to retire. We are so grateful to Karen for all that she has contributed to the firm over many years, and we are relieved not to be completely losing her as she will now assist us in a different capacity with compliance support and staff training.

Every summer staff members are treated to a summer away-day and this year we held a fun event at Ufford Park Crazy Golf. Everybody enjoyed it, and certainly benefited from a relaxing time together away from the pressured environment of the office. Angela Smith, Chris McGlone and James Brooks were the triumphant winners, but I am told that the scoring wasn't all that precise!

Leigh Clayden

CONGRATS!

Many congratulations to our administrator Grace, who married Chris Roberds at Butley Priory on Saturday 26 August.

The sun shone all day for the couple, so they were able to go ahead with their outdoor ceremony. The day went perfectly and they are now getting excited for their honeymoon in late October to the Maldives!

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Karen with her husband Nick on a recent holiday in Canada, living the dream.

KAREN LAST

After 47 years in the financial services industry, our experienced Adviser, Karen Last, has decided to hang up her well-worn boots and take retirement from the responsibility of advising clients.

She would like to travel more to her home in France and needs more time to care for ageing parents here in the UK. She is also ever hopeful that one of her children will produce some grandchildren at some point… although signs are not good so far! As any working mum will tell you, she regrets not taking more time off when her own children were young, so will relish any time she is able to spend with any future grandchildren.

However, you have not heard the last of Karen (forgive the pun!) as she will still work part-time at Claydens supporting the Directors with the important compliance and regulatory work that is necessary to maintain an efficient, secure and reliable customer service.

(Karen was recently heard to say, with a wry smile, if you take the client contact out of the job, what you are left with is absolutely necessary, but oh so dull!)

For those of you that have had the pleasure, you will know her to be an efficient, knowledgeable and caring adviser, with a wicked sense of humour, always ready to offer a sage opinion on any matter – she is a woman, after all. We know you will miss her support, as many of her clients are now good friends. We wish her well for a long and happy SEMI-retirement...we don't want her to go completely, not just yet!

Responsible asset selection

Supporting responsible practices and contributing to a sustainable future

Environmental, Social and Governance (ESG) investing is a strategy that focuses on companies that prioritise environmental, social and governance factors in their operations. Investing in these businesses aims to support responsible practices and contribute to a sustainable future.

By focusing on companies with high ESG scores, investors can support sustainable and ethical businesses while enjoying the potential for superior financial performance.

HERE'S A BREAKDOWN OF THE THREE ESG CRITERIA:

Environmental: This criterion evaluates a company's impact on the environment. Factors such as energy use, sustainability policies, carbon emissions and resource conservation are considered when assessing a company's environmental performance. Companies with strong environmental practices often have lower environmental risks and demonstrate a commitment to reducing their ecological footprint.

Social: The social aspect of ESG investing examines how a company treats its employees and interacts with the communities in which it operates. Businesses prioritising employee welfare, workplace safety and community engagement are more likely to have a positive social impact and maintain a good reputation. Supporting companies with strong social values can promote fair labour practices and foster a more inclusive society.

Governance: Governance factors relate to a company's leadership, management and overall corporate structure. Key considerations include executive compensation, audit processes, internal controls, board independence, shareholder rights and transparency. Companies with robust governance structures are more likely to be accountable, trustworthy and better prepared to manage potential risks.

By considering ESG factors in investment decisions, investors can support companies that demonstrate a commitment to sustainability, ethical practices and strong governance.

FOCUSED ON SUSTAINABILITY, ETHICAL PRACTICES AND STRONG GOVERNANCE

ESG factors are increasingly essential for investors when evaluating companies and making investment decisions. Investing in high-scoring ESG companies allows for responsible and ethical investments without sacrificing returns. Numerous studies have shown that companies with strong ESG performance tend to outperform their counterparts with lower ESG standards.

High ESG scores indicate that a company is focused on sustainability, ethical practices and strong governance, which can lead to long-term success and reduced risk exposure. These companies are more likely to be resilient in market fluctuations and other challenges.

On the other hand, businesses with low ESG standards have often faced consequences like declining share prices and reputational damage. Examples of such companies include those causing significant environmental harm, engaging in unethical practices or attempting to cheat regulatory systems. These events can lead to financial losses for investors who hold shares in these companies.

CHALLENGES OF ESG INVESTING: GREENWASHING AND SUBJECTIVITY

ESG investing has gained significant traction recently as investors increasingly seek to align their portfolios with ethical values. However, the varying interpretations of ESG categories and the rise of 'greenwashing' can make it challenging for investors with specific ethical requirements to navigate this space.

THREAT OF GREENWASHING

One of the main challenges facing ESG investors is the phenomenon of 'greenwashing,' where companies or funds market themselves as environmentally friendly or socially responsible when, in reality, they do not meet these standards. This deceptive practice can lead to investors unwittingly supporting businesses that do not align with their values.

To combat greenwashing, investors must conduct thorough due diligence on the companies and funds they are considering. This may involve reviewing third-party ESG ratings, examining a company's sustainability reports and scrutinising the portfolio holdings of ESG-focused funds.

SUBJECTIVE NATURE OF ESG

Another challenge of ESG investing is the subjectivity in evaluating companies based on their environmental, social and governance policies. What is considered a responsible investment for one person could be viewed as unethical by another. For instance, a sugary drinks manufacturer may have an excellent recycling policy, earning them high marks in the 'E' category. However, some investors might argue that sugary drinks are detrimental to society, making the company an unsuitable investment choice.

This subjectivity makes it difficult for investors to find a universally agreed-upon standard for determining whether a company or fund meets their ethical criteria.

NAVIGATING ESG INVESTING CHALLENGES

Despite the challenges posed by subjectivity and greenwashing, ESG investing remains an essential tool for those who wish to align their financial goals with their ethical values.

To successfully navigate these obstacles, investors should:

- Clearly define their values and priorities when it comes to ESG issues.
- Conduct thorough research on companies and funds, utilising third-party ESG ratings and other available resources.
- Be cautious of companies or funds that make bold sustainability claims without providing concrete evidence to back them up.
- Diversify their investments across ESG-focused companies and funds to mitigate the risk of inadvertently supporting unethical businesses. ■

TIME TO BUILD A MORE ETHICAL PORTFOLIO?

As awareness and interest in ESG factors continue to grow, the trend towards responsible investing will only strengthen. Starting a portfolio and filling it with environmentally, socially and governance-minded investments doesn't need to be difficult. To find out more, speak to us today.

THIS ARTICLE DOES NOT CONSTITUTE TAX OR LEGAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH.

THE VALUE OF YOUR INVESTMENTS CAN GO DOWN AS WELL AS UP AND YOU MAY GET BACK LESS THAN YOU INVESTED.

Are we entering an investment bond renaissance?

Exploring why they are an attractive option for investors

Onshore investment bonds typically carry a lower risk and contribute significantly to a well-rounded portfolio. Historically, numerous investors have opted for a 60% equities and 40% bonds split in their portfolios, as these two assets often (keep in mind, not always) exhibit contrasting performances under varying economic circumstances – a beneficial attribute during market volatility.

Following the Capital Gains Tax (CGT) changes announced in last year's November Autumn Statement, many investors are likely to be considering investment bonds as a more attractive option. The Chancellor's decision to reduce the CGT allowance to £6,000 this year and to £3,000 in April 2024 means investment bonds are more attractive to investors who previously held money in OEICs and unit trusts.

INVESTMENT BONDS OFFER SEVERAL BENEFITS:

- Onshore bonds are not liable to CGT. Onshore bonds are treated as having already paid 20% tax on any gains when calculating a chargeable gain. In reality, the tax deducted is likely to be less than this.
- They can be ideal for Inheritance Tax (IHT) planning and are exempt from IHT after seven years if held in a trust.
- Investors can withdraw up to 5% of their initial investment annually without triggering a chargeable event or any immediate tax liability.
- Top slicing relief is available to reduce tax liability, which can eliminate or significantly reduce any tax liability when a chargeable event is incurred – helpful if investors are in the accumulation phase and are preparing for retirement (maybe a higher rate taxpayer while owning the bond, but a basic rate taxpayer when encashing).
- There are options to assign a bond (for example, between husband and wife as a genuine gift). For tax purposes, the assignment will generally be treated as if the new owner had always owned it – if one is a basic rate taxpayer, they could have no tax to pay on encashment.

HAVE YOU EXHAUSTED YOUR OTHER TAX ALLOWANCES?

Changes to CGT and the tax-free dividend allowances are also likely to appeal to investors looking to reduce IHT liabilities and those who have used their Individual Savings Account (ISA) allowances or received a large windfall payment. ■

WANT TO LEARN MORE ABOUT INVESTMENT BONDS?

If you would like to arrange a no-obligation consultation to discover your investment options, please get in touch with us to discuss your distinct needs.

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THE TAX TREATMENT IS DEPENDENT ON INDIVIDUAL CIRCUMSTANCES AND MAY BE SUBJECT TO CHANGE IN FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE.

Lump sum vs regular contributions

Choosing the right pension payment strategy

When planning for your future, consider increasing your pension savings. But should you do this through a lump sum or by raising your regular contributions? In this article, we look at each option.

WHY INVEST IN YOUR PENSION PLAN?

First, it's crucial to recognise the advantages of investing in your pension plan. Saving is essential for your future financial independence and security, and your pension plan is one of the most tax-efficient ways to do it.

Pension tax relief on your contributions, employer contributions (especially if they offer a matching scheme) and investment growth potential are just a few of the benefits of investing in your pension plan. All these factors make contributions to your pension plan an effective way to maximise your savings.

SHOULD I MAKE A LUMP SUM PAYMENT INTO MY PENSION PLAN?

If you suddenly receive a large sum of money, such as an inheritance, work bonus or tax refund, should you invest it in your pension plan?

Boosting your pension contributions can bring you closer to achieving your retirement savings goals. A lump sum payment is a quick and straightforward method to enhance your plan while utilising your pension annual allowance before the end of the tax year.

Investing your lump sum as soon as possible allows it more time to grow, giving you more money during retirement. Additionally, depositing a work bonus into your pension plan could save you on tax and National Insurance deductions.

However, ensure that your payment doesn't exceed your pension annual allowance to avoid tax charges. For the 2023/24 tax year, the pension annual allowance is set at £60,000, and this is the total value that can be paid into all your pensions each tax year before triggering a tax charge. Lower limits may apply if you're a high earner or you've already accessed a pension.

SHOULD I INCREASE MY REGULAR PENSION CONTRIBUTIONS?

If you can't afford a lump sum payment but still want to save more for your future, consider increasing your regular contributions. This is an excellent habit to develop, as even small increases can accumulate over time when combined with tax benefits and potential investment growth.

WHAT IS POUND COST AVERAGING?

Pound cost averaging involves investing smaller sums at regular intervals instead of a more significant amount as a lump sum. This strategy can reduce the risk and impact of investing a considerable sum just before potential market drops.

Let's say you have £12,000 to invest. If you put the entire amount into the market and then experience a 10% drop over the next year, your investment would decrease in value significantly. However, if you decide to invest £1,000 each month across the year and the market experiences the same drop, you would buy into the market at a lower price each time. This means your overall investment may only decrease by 5% in total.

Of course, if the market rises instead of falls during that period, you'll make smaller profits than you would have with a lump sum investment. But it's important to remember that markets tend to recover long-term. While pound cost averaging might not necessarily yield better returns, it could make it easier for you to handle significant market drops.

It is a valuable investment strategy for those looking to minimise risk and manage the impact of market fluctuations. Investing smaller amounts at regular intervals can reduce losses and maintain a more balanced portfolio.

SPOUSE'S OR PARTNER'S PENSIONS

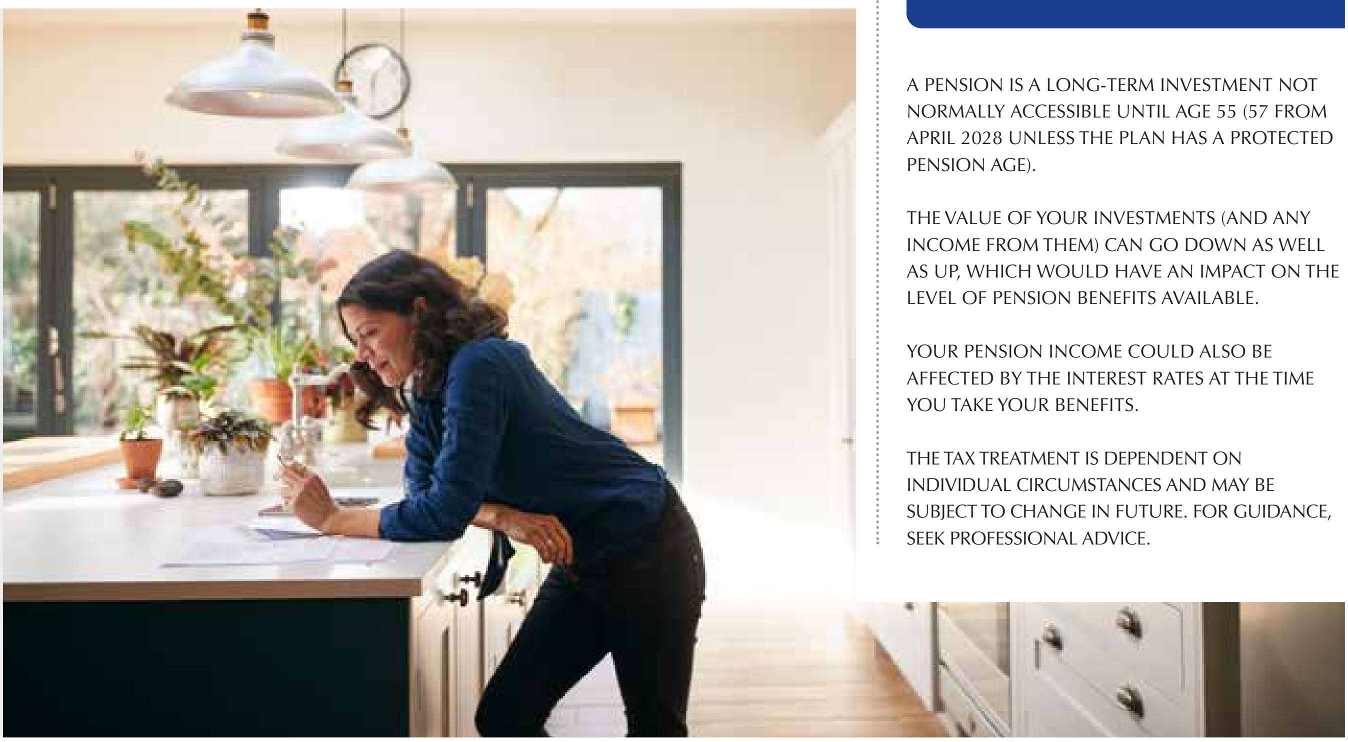
You can also make contributions to your spouse's or partner's pension. These contributions will count towards their annual allowance, not yours – so it's essential to make sure they have enough allowance left before making any payments on their behalf. You can contribute up to £2,880 a year to the pension of a non-earning spouse, partner or child which becomes a contribution of £3,600 into the pension with tax relief.

WHICH OPTION IS RIGHT FOR ME?

Deciding on the best pension strategy for your future can be daunting. Ultimately, your best choice depends on your financial situation, goals and risk tolerance. Take the time to assess your current circumstances and evaluate each option thoroughly. And keep in mind that the last day of the tax year is 5 April 2024; that's your deadline for maximising your pension annual allowance for the 2023/24 tax year. ■

WANT TO GET YOUR RETIREMENT PLANNING ON TRACK?

By planning ahead and choosing the right strategy, you can secure a comfortable and financially stable retirement. We will dedicate our time, expertise and experience to creating a retirement plan centred on what you want your retirement to be. To discuss your options or to find out more, please get in touch with us.



A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS THE PLAN HAS A PROTECTED PENSION AGE).

THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

THE TAX TREATMENT IS DEPENDENT ON INDIVIDUAL CIRCUMSTANCES AND MAY BE SUBJECT TO CHANGE IN FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE.

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