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Saver / Investor

Exchange Traded Funds get active

Active managers are beginning to take Exchange Traded Funds (ETFs) seriously. Last month one of the biggest holdouts to the vehicle, Dimensional Fund Advisors, announced it would offer strategies as active ETFs for the first time and it is far from alone in making the move. Another giant, T. Rowe Price, has already filed for a series of ETF versions of some of its most popular mutual funds, which are set to go live later this year. The growth of ETF assets, particularly in US equity categories, has been staggering and hardly unreported – assets in US-listed ETFs and Exchange Traded Products hit $4.23tn at the end of May according to ETFGI, but the vast majority of that money is in index funds. Active managers have avoided running their strategies in an ETF format because of the daily holdings transparency ETFs have required until recently. Mutual funds are required to report their portfolios only quarterly, giving active managers a sense of security that others can't easily front-run their moves when they're accumulating or shedding positions. Now, with last year's Securities and Exchange Commission (SEC) approval of different trading mechanisms that allow ETFs to avoid daily transparency, active managers no longer have a reason to avoid using ETFs for their strategies. The SEC rule has cleared a path for so-called active non-transparent (ANT) ETFs. At the start of the year, before Covid-19 struck, two of the ETF industry's best-known commentators – Bloomberg's Eric Balchunas and CFRA's Todd Rosenbluth, made a bet over how many assets these new types of ETFs would take in this year. Rosenbluth said more than $10bn and Balchunas said less.

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All

Base rate held at 0.1%

The Bank of England's Monetary Policy Committee (MPC) voted unanimously to maintain the Bank Rate at 0.1%, it was announced. The Bank also said it would maintain its current quantitative easing programme at £745billion. It came as the BoE warned that it expects UK unemployment to jump by 7.5% by the end of the year. Andrew Bailey, Governor of the Bank of England, confirmed that the bank is not looking to introduce negative interest rates at the moment. However, negative interest rates were not ruled out. Following the announcement, there continued to be speculation about the potential for negative interest rates in the coming months. And, it's something which Matthew Yeates, Head of Alternatives & Quantitative Strategy at 7IM, has also addressed. According to Mr Yeates, consumers in the UK could have a part to play in terms of whether the Bank of England makes the move to negative interest rates. Commentators, though, believe looking at the bond markets suggest there may be more to come though. The yield on a five year gilt, which can be thought of as the expectations for the average base rate over the next five years, currently sits in negative territory. Essentially the market is saying interest rates in the UK will go negative at some point. From an investment standpoint negative bond yields pose a huge problem though. It means an allocation within portfolios to traditional UK government bonds is expected to deliver a negative expected return (at least for those maturing in the next five years). This is part of the rationale for fund managers preferring to look at alternative assets and bonds issued by corporates to provide diversification in portfolios.

Saver / Investor

Costly Fund Management practices

Fund managers have had to switch more than 320,000 customers on to cheaper versions of their products after failing to justify their fees. Analysis of the value assessment reports, which the Financial Conduct Authority (FCA) this year forced the industry to publish, shows the value to investors of the regulator’s action. These reports, which require investment companies to demonstrate how their funds provide value, were one of the FCA’s remedies introduced after its two-year market study of the asset management industry. It found that the industry was making excessive profits — nearing 40% compared with about 4% for energy firms — and said that the charges were not always clear to customers.

All

The motherhood penalty

When we look back on lockdown, there will doubtless be myriad lessons to be learned, but top of that list must be the cautionary tale of what happens when women aren't in the room. Of what happens when we don't see childcare as infrastructure and we don't hear women's voices. Or worse still, they are excluded entirely. So much so that we don't even recognise the perfect storm of the collective "return to the office" bravado with the onset of summer holidays and a childcare sector on the brink of collapse. The motherhood penalty is having a devastating impact on women's careers. Research across almost 20,000 women from Pregnant Then Screwed showed almost half (46%) of employed mothers who have been made redundant, or expect to be made redundant, said that a lack of childcare provision played a role in their redundancy, while 72% of mothers have had to work fewer hours because of childcare issues. In addition, 65% of mothers who have been furloughed said that a lack of childcare was the reason. Creative Equals and Campaign's Covid-19 Inclusion Pulse shows that women and minority groups have reported higher levels of psychological stress and unfair treatment at work during the Covid-19 crisis. Women were also more likely than men to report unfair treatment, with 16% of women feeling this way – rising to 22% of working mothers – compared with only 7% of men. Percentages that are difficult to swallow but the stories behind them are harder still. From the new business director conducting a pitch from her kitchen, while her son, who has autism, proceeded to climb over her garden fence into her next-door neighbour's garden, to the single mother whose back-to-back Zoom calls and boundary-free working days led to impending burnout and antidepressants, the crisis demands empathetic leadership, not lazy, masculine rhetoric.

All

House prices reach record highs

Rishi Sunak's emergency stamp duty holiday has sent property prices soaring to an all-time high.

The average cost of a home in the UK jumped 1.6% in July alone to £241,604, according to latest figures from Halifax. That pushed the annual rate of gain to 3.8% after four months of falling prices. Britain's biggest mortgage lender said the property was in the throes of a "surprising spike" driven by a wave of demand since the end of the lockdown. The Chancellor announced in early July that stamp duty will be waived on the first £500,000 of any transaction until March saving buyers up to £15,000 in tax. The Halifax figures came as property portal Rightmove said it has seen record levels of traffic on its website since estate agents were allowed to reopen on May 13. The company said in a statement: "Since 13 May we have recorded 65 days beating Rightmove's previous traffic record set on 19 February 2020. Between 1 June and 31 July demand for sales properties has been 50% higher than the same period in 2019 with rental demand being over 20% higher. As pent-up demand from the period of lockdown is released into a largely open housing market, a low supply of available homes is helping to exert upwards pressure on house prices. Supported by the government's initiative of a significant cut in stamp duty, and evidence from households and agents However, looking further ahead, there is still a great deal of uncertainty around the lasting impact of the pandemic. The key question now is whether the post-lockdown jump in buyer interest will translate into a steady stream of sales, and whether it will maintain the upward momentum on prices. As government support measures come to an end, the resulting impact on the macroeconomic environment, and in turn the housing market, will start to become more apparent. In particular, a weakening in labour market conditions would lead us to expect greater downward pressure on prices in the medium-term.

Estate Planner / Saver / Investor

Getting ready for likely CGT changes

It was inevitable that sooner rather than later Chancellor of the Exchequer Rishi Sunak would put the nation on red alert that taxes will have to rise to pay for the £190billion of support the Government has given the economy to steer it through lockdown and beyond. The alert came just a few weeks ago, a week after delivering his mini-Budget aimed at staving off a massive jump in unemployment and encouraging people to go out and spend money on the high street and in pubs and restaurants. First, he set the cat among the pigeons by commissioning a review into capital gains tax. Although nothing may come of the work, designed to 'ensure the system is fit for purpose', it is surely no coincidence the review will be completed before Sunak delivers his Autumn Budget – thereby enabling him to follow through with any changes. While refusing to be drawn on whether he intended to break promises made in last year's Conservative General Election manifesto – namely, no raising of rates in income tax, national insurance or VAT – it seems unlikely that he will incur the wrath of Tory supporters by going down this route. His mention of the need for a 'sensible conversation' on taxation suggests other taxes will be targeted instead – which leads us back to capital gains tax. A possible way forward would be for Sunak to tax capital gains at the same rate as that applied to dividend income. Currently, any annual dividend income from shareholdings (admittedly a rarity these days as listed companies have pulled in their reins) above £2,000 is taxed at 7.5%, 32.5 per cent or 38.1% – dependent on whether an investor is a basic, higher or additional rate taxpayer. These rates sit between current capital gains tax rates and income tax rates. Capital gains tax on the sale of a main home would surely be a step too far. Although some experts believe higher tax rates on capital gains would raise much-needed tax revenue and represent a least worst option impacting primarily on wealthy investors, not everyone agrees. Professor Philip Booth, senior academic fellow at the Institute of Economic Affairs, says it is a 'complicated and damaging tax' that should be abolished. Capital gains made within taxf-friendly savings vehicles such as Isas and pensions are free from capital gains tax. Also, all withdrawals from Isas are tax-free. So it makes sense for investors to utilise these capital gains tax-free zones as much as possible. One often overlooked tidying up exercise is to 'bed and Isa' – selling shares or investment funds held outside an Isa and then repurchasing them within the plan. This means the holdings are then immune from capital gains tax. Investors should also consider crystallising gains between now and Sunak's Budget in November, taking advantage of their £12,300 tax-free capital gains allowance. The proceeds could then be used to fund an Isa or pension. Those who are married or in a civil partnership could transfer assets to the partner who is paying a lower rate of income tax.

All

The cost of social care tax

Everyone over 40 would start contributing towards the cost of care in later life under radical plans being studied by ministers to finally end the crisis in social care. Under the plan over-40s would have to pay more in tax or national insurance, or be compelled to insure themselves against hefty bills for care when they are older. The money raised would then be used to pay for the help that frail elderly people need with washing, dressing and other activities if still at home, or to cover their stay in a care home. The plans are being examined by Boris Johnson's new health and social care taskforce and the Department of Health and Social Care (DHSC). They are gaining support as the government's answer to the politically perilous question of who should pay for social care. Sources say the principle of over-40s meeting the cost of a reformed system of care for the ageing population is emerging as the government's preferred option for fulfilling the prime minister's pledge just over a year ago to "fix the crisis in social care once and for all". Social care is a devolved matter but the plans could apply to the whole of the UK as they may involve the tax system. Matt Hancock, the health and social care secretary, is a keen advocate of the plan. He has been championing it in discussions that have resumed recently about the government's proposals to overhaul social care. Officials say there is a "renewed urgency" in Downing Street and the DHSC to come up with a solution. The system that officials are considering is a modified version of how Japan and Germany fund social care. Both are widely admired for having created a sustainable way of financing social care to deal with the rising needs an ageing population brings. In Japan everyone starts contributing once they reach 40. In Germany everyone pays something towards that cost from the time they start working, and pensioners contribute too. Currently 1.5% of every person's salary, and a further 1.5% from employers or pension funds, are ring-fenced to pay for care in later life. Adopting a similar approach would let Johnson say he has ended the situation whereby some pensioners deemed too wealthy to qualify for local council-funded care have to sell their homes to pay care home costs, which can exceed £1,400 a week.

Saver/Investor

Property fund investors face six month wait

Investors in property funds should wait up to six months before they can get their money back to avoid a stampede for the exit leading to widespread suspensions in rocky markets, Britain's Financial Conduct Authority proposed on Monday. UK-regulated open-ended property funds offer daily redemptions to entice investors, but nearly all those targeted by Monday's proposal are suspended following market volatility in March due to the pandemic, trapping more than $7.5 billion (5.7 billion pounds) in assets. Policymakers have warned that property funds should not be viewed like a bank account that can be tapped at will, given they contain "illiquid" assets such as commercial real estate that can take several months to sell even in normal market conditions. Concerns over daily redemptions began when several property funds were suspended after Britain voted in June 2016 to leave the European Union, as investors pulled out money. The Financial Conduct Authority (FCA) proposes that property funds publish a "notice period" or irrevocable pre-agreed gap of between 90 and 180 days from the request for redemption to the return of cash. It would affect new and existing customers, but also mean that property funds don't have to hold as much cash as they do now, the FCA said. The public consultation is open until Nov. 3 and the watchdog said it would publish final rules as soon as possible in 2021.The Association of Real Estate Funds said the consultation was an opportunity to reflect on ensuring that the funds continue to meet the needs of investors. Investment platform Willis Owen, however, said the change would make property funds unappealing for many investors.

Property Owner

Eviction day looms

Government restrictions on tenant evictions by landlords are to be lifted on 23rd August. But experts say there is unlikely to be an immediate spike on evictions following new eviction protocols and a backlog of cases. The government introduced its moratorium on tenant evictions in March and extended it further in June. The moratorium expires on 23rd August, although we should not rule out a further extension. Once the moratorium expires it is unlikely that we will see an immediate spike in evictions and certainly not tenants kicked out onto the streets the following day. Landlords are bound by strict rules designed to slow the process down. Landlords that started eviction proceedings before the 3rd of August must now serve what is called a 'reactivation notice'. If they do not, any claim will not be relisted by the courts or heard by a judge. And even when a reactivation notice is served, in fault-based evictions the courts will allow more time between the claim and hearing, typically eight weeks, and given the backlog of cases that is likely to be significantly longer. Eviction claims that started on or after the 3rd of August now require landlords to enter into what is called a 'pre-action protocol', with landlords needing to attempt to agree a resolution with their tenants before issuing a possession claim. Landlords will also need to provide the courts with information on what impact the coronavirus pandemic has had on a tenant, which may have an impact on how much time a tenant is given by the court to vacate a property. The guidance on what this means for landlords, what information is needed and what happens if it is not provided is unclear and could leave eviction claims stuck in the courts for many months to come, leaving landlords in limbo.

All

The end of the Bank of Mum & Dad?

Lenders are introducing new rules that mean first-time home buyers cannot rely on the "Bank of Mum and Dad" stumping up most of the cash for their deposit. The controversial new policy states that borrowers looking to get a mortgage that will cover 90% of the cost of their home must prove that no more than a quarter of their deposit was gifted to them. The rule does not apply to customers looking for deals at 85% loan-to-value or lower. With around 40% of first-time buyers thought to have received financial help from family members last year, the change could affect significant numbers of potential homeowners. According to estate agency Savills, gifts and loans from parents to help their children onto the property ladder totalled £5bn last year. Lenders have not commented on the reasons behind the rule but it comes as economic uncertainty has cast doubt on the future of Britain's housing market. A number of lenders removed their highest loan-to-value deals after the pandemic hit amid fears that property prices could fall, pushing many homeowners into negative equity. Nationwide tripled the minimum deposit it required from borrowers from 5% to 15%, before reducing it to 10% when the government announced last month that stamp duty would be suspended. Checking that buyers have saved money for their deposit themselves, rather than relying on their parents, is one way for banks to ensure they restrict lending to borrowers they consider to be less likely to experience problems in future paying back their debt. But some housing market analysts criticised the move, arguing that first-time buyers could still show that their monthly mortgage repayments even if they have accessed the "Bank of Mum and Dad". Commentators believe that whilst commercial organisations should be allowed to set their own terms of business there must be some very serious questions asked as to why the Nationwide has decided to do this. The impact will be significant and it undermines most people's understanding that they can and should be able to help their kids to scramble onto the lowest rungs of the housing ladder.

Saver / Investor / Retired / Estate Planner

No inheritance tax on pensions

The Supreme Court has ruled that there should be no charge to inheritance tax on a transfer to an individual's personal pension plan. The case was brought to the Supreme Court when Mrs Rachel Staveley who, before she passed away in 2006, transferred her pension fund from a company pension under section 32 of the Finance Act 1981 to an Axa personal pension plan. If she had remained in the company scheme, her pension would have been exempt from inheritance tax (IHT), however, transferring it to a personal pension plan meant it was subject to the government tax. The court found that the intentions of this transfer before Staveley's death was to avoid any pension funds reverting to the business and consequently providing these funds for her divorced husband, who is a partner at the business that they both founded. Because Staveley was terminally ill with cancer, HM Revenue and Customs (HMRC) treated her actions as a transfer of value, followed by an omission to act as she did not draw any benefits during her lifetime. Therefore, it was concluded that this transfer was not intended to reward these funds to her sons, the beneficiaries primarily, but to avoid these funds going into the business' hands. Despite this, the court found that the decision to neglect income benefits during Staveley's lifetime did create an increased value of the funds, however, HMRC appealed this, and the appeal was allowed. The Supreme Court decision in the Staveley case has clarified that intention is crucial when a pension transfer or switch is made in terminal ill health. Where there is an intention to give benefits which didn't exist before, such as a DB to DC transfer, it will be subject to IHT. But a discretionary DC to DC switch may be completed without worry of IHT if it is for genuine commercial reasons and the beneficiaries on the expression of wish form stay the same. As always, financial advice is key.

All

Property boom and bust on the cards?

The housing market in Wales and England could be heading for a boom followed by a bust, according to feedback gathered by surveyors. The Royal Institution of Chartered Surveyors (Rics) said anecdotal evidence suggests that the temporary stamp duty holiday introduced from July 8 in England and Wales is playing a significant role in lifting demand. The stamp duty threshold for homes has been temporarily raised to £500,000, saving some buyers as much as £15,000, but the threshold will be lowered back to £125,000 from April 1, 2021. But Rics' July survey of property professionals found that the recent impetus seen in the housing market is not expected to continue as wider government support measures are gradually phased out later in the year.

It said some contributors are "even referencing the possibility of a boom followed by a bust". Rics chief economist Simon Rubinsohn said: "It is interesting that there remains rather more caution about the medium-term outlook, with the macro environment, job losses and the ending or tapering of government support measures for the sector expected to take their toll. A separate report from Halifax last week found that average UK house prices hit a new record high of £241,604 in July. Rics' survey found that house prices lifted in July in most parts of the UK, with London being the exception as values there were reported as continuing to fall. It also said that an overall net balance of 75% of professionals noticed an increase rather than a decrease in the number of home-buyers during the month. It marked the second month in a row of buyer demand rebounding firmly, after the housing market was put on pause earlier this year as part of measures to limit the spread of coronavirus. Looking ahead, surveyors expect sales to continue to pick up over the next three months. But in a year's time, surveyors foresee sales tailing off, the report said, amid concerns about the prospects for the UK economy and the impact this will have on employment as the furlough scheme expires.

All

HMRC homes in on tax evasion

The amount of extra tax collected by HM Revenue & Customs (HMRC) through agreements with tax evaders that give immunity from prosecution increased 25% in the year to 31 March 2020 to £119.4 million, up from £95.8m in 2018/19, according to figures obtained by Pinsent Masons. If HMRC suspects a taxpayer of tax evasion they can offer the opportunity to enter into a contract under the Contractual Disclosure Facility (CDF). Alternatively, a taxpayer who wants to admit tax evasion that HMRC has not discovered can apply to HMRC to make a voluntary disclosure using the CDF. The CDF gives the taxpayer immunity from criminal investigation in return for making a full, complete and accurate admission of tax evasion and paying back any money that is owed. A wide range of taxpayers can use these agreements, from ultra-high net worth individuals with complex offshore tax affairs through to people on average incomes who only owe small amounts of tax. Using the CDF has benefits to both sides – taxpayers avoid prosecution and HMRC saves time and money. If a taxpayer meets their side of the deal under the CDF and makes a full disclosure, then they will also face significantly lower penalties than if they waited to get caught. Taxpayers may also avoid being publicly 'named and shamed' as a tax evader. HMRC investigations are expected to pick up as the UK government seeks more tax revenue to pay for the cost of coronavirus-related economic assistance. HMRC receives information automatically under the Common Reporting Standard about financial accounts held by UK residents in more than 100 jurisdictions. As HMRC gathers more UK and overseas data on suspected tax evaders the net is being tightened. The CDF is a route out that can avoid a possible prison sentence.

Saver / Investor

A new breed of Exchange Traded Funds the tonic for volatile times?

Actively managed, non-transparent Exchange Traded Funds (ETFs), or active non-transparents (ANTs), are fresh on the fund industry scene, but the universe is already growing, indicating there's a captive audience for blending the benefits of active management and ETF tradability and liquidity. The new active non-transparent ETF products come with many of the same benefits we have enjoyed with traditional ETFs, but the new structure reduces the need for daily disclosures, which may help bring more stock-picking managers into the ETF space. ANTs' most distinctive feature is that they do not disclose the contents of their portfolios to the public on a daily basis. This helps prevent their managers from tipping their hand to the market. These ANTs offer investors meaningful benefits over traditional actively managed mutual funds. They also differ from conventional ETFs in nuanced but important ways. Unlike standard ETFs, which are required to disclose their holdings daily, non-transparent ETFs will only be required to disclose their holdings once a quarter, giving active managers, who opt to keep their investing methods under wraps to avoid getting front-run, another vehicle through which they may execute their strategies. While portfolio performance still falls squarely on the shoulders of fund managers, the reduced costs associated with ETFs could be helpful to managers. ANTs' most durable advantage over retail share classes of mutual funds is their lower fees. No different from the overwhelming majority of traditional ETFs, ANTs' fees do not have embedded marketing or distribution costs, and their shareholder recordkeeping costs are much lower. These benefits are shared with investors in the form of a lower price tag. Of the ANTs on the market today, each one carries lower fees than the retail share class of the equivalent mutual fund. ANTs could be a compelling middle ground between ETFs and old school active funds. For investors allocating new money in taxable accounts that want to invest with a particular manager, they may become their vehicle of choice. They are easier to access, cheaper, and have the potential to be more tax-efficient than retail share classes of mutual funds.

All

The end of peer-to-peer lending

Last December, the chief executive of the peer-to-peer lending platform RateSetter, Rhydian Lewis, described new rules designed to better protect casual investors in the sector as 'a Darwinian process… that will lead to a stronger industry'. But just eight months later Lewis' platform, one of Britain's 'big three' in peer-to-peer investing, announced it had been snapped up by Metro Bank - one of the high street lenders P2P platforms were launched to take on - and that it would close its doors to everyday personal investors. Rather than emerging stronger, the world of casual peer-to-peer investing appears to have done nothing but shrink since those new rules were introduced late last year, with the 'big three' leading the way. While RateSetter has been picked up by a bank, Zopa, the UK's first ever peer-to-peer platform launched in 2005, in June finally secured the licence to become one. And publicly listed business lender Funding Circle has temporarily closed both the 'in' and 'out' doors to everyday investors, pausing the secondary market which lets investors sell off loans before they mature and barring savers from putting new money into the platform as a condition of being able to hand out government-backed loans. It insists it will reopen its doors to retail investors, but having originated £300million by the end of June and facilitated 16 per cent of all coronavirus business interruption loans, there is something of an irony in a platform which helped pioneer the model of matching borrowers with individual investors seeing so much business after the latter were no longer allowed to invest. Eight months on from the start of that 'Darwinian process', there is the question of whether casual peer-to-peer investing is an endangered species, or even already extinct. Big platforms have dealt with higher default rates, even before the coronavirus crisis, and struggled to hand anxious investors back their money. And the collapse of the platform Lendy has cast a shadow over an industry sometimes seen as the Wild West of investing, even if last year's regulations tightened things up.

All

Transfer scam victims treated unfairly says Which?

Many victims of bank transfer scams are being treated unfairly and the chances of them getting their money back is often a lottery, according to Which? The UK consumer association is pressing for the voluntary code that is supposed to protect consumers to be made mandatory, and said the number of people being reimbursed by their bank was "woefully low". Fraud in the UK payments industry has soared in recent years, with a sharp rise in authorised push payment (APP) scams, where email accounts are hacked in order to trick people into sending money to bank accounts operated by criminals. Many people have had large sums stolen. In July, the Guardian featured the case of a woman who lost more than £300,000, though she eventually received all her money back. Most of the big high street banks signed up to a voluntary code in May 2019 that requires them to reimburse customers who fall victim to APP scams. Only those who, for example, were "grossly negligent" or ignored their bank's warnings would lose their money, consumers were promised. Which? says, however, that many people have been being treated unfairly or inconsistently when trying to recover their cash, and that the voluntary approach has failed. It said its investigation had found that some banks were "regularly blaming customers for missing warnings or not doing enough to realise they were being scammed" and consequently denying people reimbursement. Which? said its analysis had found that four of the eight banks signed up to the code had fully reimbursed victims in 6% or fewer of cases, and that one bank had only fully refunding 1% of victims. Another had given 59% of victims all of their money back.

Past performance is not a guarantee to future performance. You may get back less than invested.
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