KENNEDY BLACK
WEALTH MANAGEMENT

QUARTERLY PRIVATE CLIENT NEWSLETTER ISSUE 17: FEBRUARY 2014

Welcome to the first Kennedy Black Wealth Management Private Client Newsletter of 2014.

In this edition, we highlight some important changes to pension rules happening in April, with some suggestions about how to plan accordingly. We would urge anyone with total pensions worth £500,000 or more to get in touch since the new rules may cause problems later down the line. Action may be required by 5th April and providers can be slow to respond so please get in touch immediately.

We conclude with a quick update on the investment performance of Kennedy Black's model investment portfolios over the three complete years since their inception. We are pleased with both the performance (absolute as well as relative to some industry benchmarks) and the consistency of the performance across the board.

Finally, please wish us luck at the Money Marketing Awards in March, where we have been short-listed for a Best Use of Technology Award.

NEW PENSION RULES IN FORCE FROM APRIL

There are important changes to pension legislation coming into force in April, where specific action may be required in good time.

We set out the salient points below, but we would strongly urge anyone who thinks they have built up pension benefits of more than £500,000 to get in touch immediately just in case (a quick email will suffice). Providers can be slow to respond so we envisage it taking a few weeks to establish exactly what steps might be required in advance of the April deadline.

In short, the rules are changing in two ways. First, the amount that an individual can contribute to a pension and still claim tax relief (the "Annual Allowance") is reducing from £50,000 to £40,000 a year.

Secondly, the total amount that an individual can build up in a pension over their working life without incurring substantial tax charges (the "Lifetime Allowance") is also reducing from £1.5 million to £1.25 million from 6th April.

This second point is potentially the more significant and the one more likely to catch out the unsuspecting (and unprepared).

The oft-misunderstood point about the Lifetime Allowance is that it is tested at the point of retirement. So while you may be under the threshold today, a few years (or more) of strong investment growth could give rise to a significant tax charge later on.

For instance, a high-earning 45-year old with £500,000 in a pension and annual contributions of £25,000 a year is likely to be hit with a £400,000 tax charge at the age of 65 if he or she does nothing about it. This assumes 5% annual growth and that the Lifetime Allowance remains at its new level of £1.25 million – ignoring calls from the Liberal Democrats to reduce it to £1m.

Here we offer a few suggestions to help negotiate your way through the changes:

1. It goes without saying that the most important element of effective planning in this area is to **review your pensions regularly**. Consolidating your various pension arrangements may make this easier.

2. Think about whether it might make more sense to divert pension contributions into another, less restrictive investment vehicle.

3. If your employer makes pension contributions, ask them whether they would be prepared to turn these off and make payments in lieu. These payments will of course be taxable, but with careful tax planning this could work out to be much more effective (and flexible) compared to the onerous 55% tax charge.

4. Consider opting for 'Fixed Protection 2014' and/or 'Individual Protection 2014' if you are close to the Lifetime Allowance limit already. This is a use-it-or-lose-it opportunity to protect one's entitlement to the current Lifetime Allowance limit of £1.5m. If you are affected, this protection could save you up to £137,500 in tax.

Kennedy Black Wealth Management Ltd • 41 Lothbury • London • EC2R 7HG
Tel: 020 7125 0224 • enquiries@kennedyblack.com • www.kennedyblack.com

5. Review your investment strategy. One suggestion might be to de-risk your pension and increase the level of risk with your non-pension investments.

6. Consider making ongoing pension contributions in your spouse's name.

7. Consider other tax-efficient investments such as ISAs, offshore bonds and, for the more adventurous investors out there, VCTs and EIS investments which attract tax reliefs similar to pensions.

Of course, final salary or other, more complicated pensions make matters harder. Phased retirement (where different schemes are crystallised at different times) may be an answer.

On all of these points, and on all aspects of retirement planning for that matter, we would urge you to seek professional advice.

We need your help

We hope that you have noticed by now that we are a finalist at the Money Marketing Award for the second time in three years. Not only are we immensely proud, but we would like your help in helping spread the good word.

If you know someone you think might benefit from our (hopefully-award-winning) comprehensive INTELLIGENT WEALTH MAP™ financial planning service, you will not only help them get on top of their finances but we will send you a complimentary bottle of *Meerlust Rubicon*, our favourite bottle of South African wine, to say thank you.

The clients we find we work best with are busy executives, successful business owners and senior City professionals who simply lack the time (and inclination) to get and stay on top of their finances. We would welcome the opportunity to demonstrate the power of the INTELLIGENT WEALTH MAP™ in person.

KBWM model portfolio investment performance

In this newsletter 18 months ago, we published a performance update on Kennedy Black's risk-rated model portfolios. We vowed to do so on a regular basis, so we are pleased to update the data below now that our portfolios have a full three-year track record (having been launched on 1st January 2011).

As you will see from the data on the page overleaf, we are particularly pleased by the consistent performance across the board in both good and bad years.

	Cons	Mod	Adv
KBWM portfolios	**+15.8%**	**+21.8%**	**+25.1%**
IMA sectors	+13.6%	+19.5%	+15.7%
FE AFI	+18.7%	+17.9%	+15.3%
ARC indices	+10.5%	+14.2%	+20.3%

Source: Morningstar, Financial Express, ARC (01/01/11-31/12/13)

Notes:
IMA = IMA 'Mixed Investment' sectors (i.e. index of multi-manager fund performance)
FE AFI = Financial Express 'Adviser Fund Indices' (i.e. index of adviser fund picks)
ARC = Asset Risk Consultants Private Client Indices (i.e. index of discretionary fund manager performance)

And it is probably worth reiterating that our approach is based on a simple, long-term, diversified, low-cost, buy-and-hold approach – and NOT our fleeting 'ability' to pick the next hot investment or star fund manager.

Irrational behaviour #7:

"Framing"

The manner in which questions are asked or situations presented can significantly influence human behaviour.

In a 1981 study, Daniel Kahneman presented a group of subjects with a life-threatening situation involving 600 people. Would they choose a guaranteed outcome of saving 200 people or a risky option with a 1-in-3 chance of saving everyone but a 2-in-3 chance of everyone dying? 72% chose the guaranteed option.

He then asked another group a similar question: would they prefer an outcome where 400 were guaranteed to die, or a 1-in-3 chance of saving everyone but a 2-in-3 chance of losing all 600? 78% chose the riskier option.

The two situations are identical, of course. But in each case the natural emotional response overpowers the rational answer (which is indifference). Another example of emotions clouding rational thinking.

Kennedy Black Wealth Management Ltd • 41 Lothbury • London • EC2R 7HG
Tel: 020 7125 0224 • enquiries@kennedyblack.com • www.kennedyblack.com

KENNEDY BLACK
WEALTH MANAGEMENT

Model Portfolio Benchmark Performance Comparison

31st December 2013

	Performance since inception*	Performance 2011	Performance 2012	Performance 2013	Specific benchmark
CONSERVATIVE RISK					
Kennedy Black 'Conservative' Portfolio	***+15.8%***	***+3.5%***	***+5.3%***	***+5.8%***	
Average multi-manager fund	**+13.6%**	+1.4%	+6.9%	+4.8%	IMA Mixed Investment 0%-35% Shares
Typical IFA portfolio	**+18.7%**	-1.2%	+9.4%	+9.8%	FE AFI Cautious Index
Average discretionary fund manager	**+10.5%**	-0.5%	+5.8%	+5.0%	ARC Sterling Cautious PCI
Top quartile discretionary fund manager	**+14.8%**	+1.3%	+6.5%	+6.4%	ARC Sterling Cautious PCI *Top Quartile*
MODERATE/BALANCED RISK					
Kennedy Black 'Moderate' Portfolio	***+21.8%***	***-2.5%***	***+9.3%***	***+13.5%***	
Average multi-manager fund	**+19.5%**	-5.5%	+10.2%	+14.8%	IMA Mixed Investment 40%-85% Shares
Typical IFA portfolio	**+17.9%**	-4.3%	+9.9%	+12.1%	FE AFI Balanced Index
Average discretionary fund manager	**+14.2%**	-2.9%	+7.7%	+9.2%	ARC Sterling Balanced PCI
Top quartile discretionary fund manager	**+19.3%**	-1.4%	+8.7%	+11.3%	ARC Sterling Balanced PCI *Top Quartile*
ADVENTUROUS RISK					
Kennedy Black 'Adventurous' Portfolio	***+25.1%***	***-7.9%***	***+12.0%***	***+20.3%***	
Average multi-manager fund	**+15.7%**	-8.6%	+10.3%	+14.7%	IMA Flexible Investment Index
Typical IFA portfolio	**+15.3%**	-10.3%	+11.4%	+15.4%	FE AFI Aggressive Index
Average discretionary fund manager	**+20.3%**	-5.9%	+10.1%	+16.1%	ARC Sterling Equity Risk PCI
Top quartile discretionary fund manager	**+26.1%**	-4.0%	+11.2%	+18.1%	ARC Sterling Equity Risk PCI *Top Quartile*
OTHER					
FTSE 100 Total Return Index	**+27.6%**	-2.2%	+10.0%	+18.7%	
FTSE All World Net Return GBP Index	**+24.7%**	-7.0%	+11.4%	+20.4%	

Explanatory notes/sources: IMA = Investment Management Association (Source: Morningstar); FE AFI = Financial Express Adviser Fund Index (Source: Financial Express); ARC PCI = Asset Risk Consultants Private Client Indices (Source: Asset Risk Consultants).

The figures in the table refer to past performance, which is not a reliable indicator of future results. The value of your investment and any income from it may go down as well as up. You may not get back the original amount you invested. Tax treatment is dependent upon individual circumstances and may be subject to change in the future. The 'Model Portfolio Benchmark Performance Comparison' is not intended to be an offer to buy and sell, or a solicitation of an offer to buy or sell and products or invest in certain funds. The figures shown are intended only to demonstrate performance history of the funds net of fund management fees and take no account of other product charges. Fund performance is based upon the movement of daily fund prices. These portfolios will only suit clients with a particular appetite for investment risk and capacity for loss. * "Inception" refers to inception of KBWM Model Portfolios on 1st January 2011.