BRI Wealth Management PLC

BULLETIN

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We hope you enjoy our **Newsletter**

Contents

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Market Commentary

Financial commentators can usually find interesting topics to write about, but we really are spoilt for choice at the moment. Reams of paper could be devoted to the ongoing Sino-American trade war, the efficacy of global monetary policy or the slowing of the global economy. However, I'll try and distil these complex issues into the salient points and focus on what this has meant and what this might mean for investments.

The trade war between China and America has been rumbling on for nearly two years now, with no prospect of a resolution in sight. What started out as minor tariffs on solar panels and washing machines has evolved to encompass thousands of products affecting nearly $750bn worth of trade between the two countries. Neither country seems willing to de-escalate the situation and the tariffs, which average over 20%, are starting to negatively impact consumers and companies. Whilst exporters do feel some pain from tariffs, it's important to remember that it is importers that pay the tariffs, and these are often passed on to consumers in the form of higher prices. Whilst the stock market has tended to overreact in the short-term to the escalation of tariffs, the American economy has been more resilient. However, with global growth starting to slow, the tariffs are exerting extra pressure on the already beleaguered economy. In the absence of any reversal of the tariffs, we would expect US stocks to remain volatile due to deteriorating economic fundamentals. This has already led to interest rate cuts by the Federal Reserve, but we would anticipate that interest rates will keep falling to try and stave off an economic downturn. Whether lowering rates will be enough is the trillion-dollar question.

Questions over the efficacy of monetary policy in the future have been asked by many in the market for some time; and in essence the conundrum is, 'How can central banks fight recessions if interest rates can't move much/any lower?' It's a very valid question. In prior economic downturns, central banks would lower interest rates in an effort to ease financial conditions and kick-start the economy.

Supporting Myton Hospice

On 27th September BRI sponsored Myton Hospice's 'Thank You' event intended to thank their donors for all they had done for the charity.

This was a great opportunity for us to look back over the past year at all the ways in which we as a firm have helped raise money for their fantastic cause. Our goal was to raise enough money to enter a team of eight in the Mudnificent 7 charity race on 17th August. It costs Myton Hospice £84 per patient to provide their meals for one week, so this was the target we set ourselves to raise per Mudnificent 7 team member.

Our fundraising efforts included our office-based Fry-Days, a Bake Sale and a Plant Sale. On 28th June, a group of staff enjoyed a fun day in the sun at Myton's It's A Knockout fundraiser event, where we competed against other companies to complete a course of inflatable and obstacle challenges. The cost of our entry to this event contributed an additional £360.

Lastly, we hosted a BRI Quiz and Curry night which helped us hit over 100% of our target; and collectively, we raised a total of £1,087 for the charity.

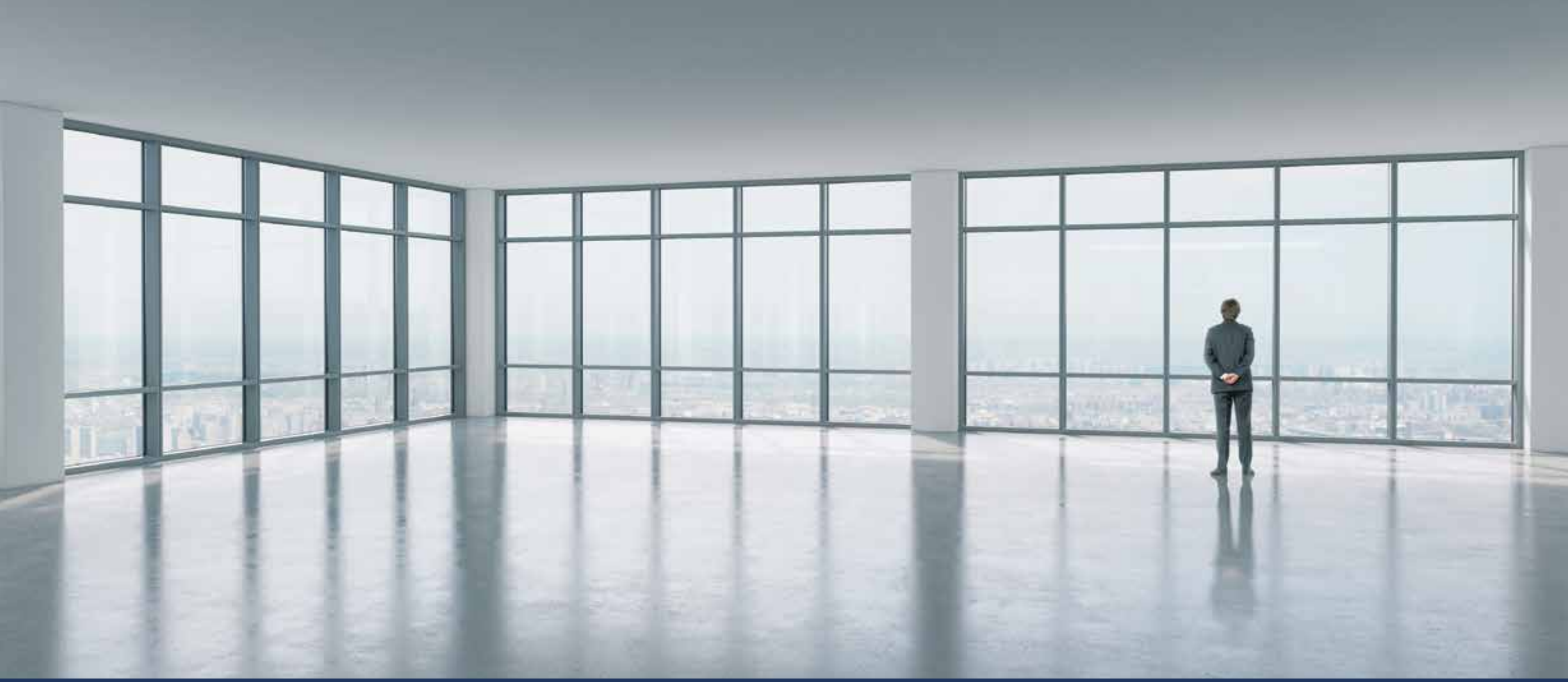
If rates are -0.1% in Japan or -0.5% in the Eurozone, then the scope to reduce interest rates is very limited. Quantitative Easing could be utilised to a greater extent but there is little evidence that this actually stimulates growth in the underlying economy, but instead just props up asset prices. The only other available tool is the more aggressive utilisation of looser fiscal policy. However, governments are already heavily indebted and the scope for lower taxes and higher public spending seems restricted.

Whilst we're not at the point where monetary and fiscal policy tools have been exhausted, it would not surprise us if we get to that point over the next few years. Central banks and governments will have to be imaginative as to how they can combat the next recession, as the future efficacy of conventional monetary policy is limited. Whilst interest rates remain low, or move lower, it is easy to see a relative valuation argument for equities over bonds; but it does depend on the stability of the economic outlook.

The global economic outlook has certainly deteriorated over the past year with many metrics such as industrial production, gross domestic product or business confidence sharply declining across many economies. The deterioration of economic fundamentals in the past has been greeted by rising stock markets since lower interest rates increase the valuations placed on companies and improve corporate profitability.

However, the market has taken little solace from the recent pieces of poor data, as they have been far worse than in previous years. The market is also starting to question how much further interest rates can fall from the current level and how effective these future rate cuts may be. In light of these factors, we would expect companies with earnings that are less exposed to the economic cycle to perform better than companies that are more cyclical in nature.

Whilst the outlook may appear gloomier than it has done in the recent past, it is important to remember that there have been many times over the last ten years where uncertainty has been high: the Eurozone debt crisis (chapters one, two and three), the 'Taper Tantrum' of 2013, the vote on Scottish independence, US debt ceiling negotiations, the collapse in commodity prices of 2016, the aftermath of the Brexit referendum and the election of Donald Trump, to name but a few. Uncertainty is always prevalent, and it is likely that we are in for a period of heightened volatility. However, it is important to take a long-term view on investments and take advantage of market volatility as and when it arises.



Investing for the Long (Lease) Term

In a world of higher volatility and lower returns, where can investors turn to find consistent total returns?

In the UK, political uncertainty is still at a peak, and sterling is yet to recover to pre-referendum levels; and that's before we begin looking at UK economic data, which is beginning to trend downwards.

The UK property market is estimated to be worth circa £6.8 trillion; property should play an important part within portfolios. It's important that clients get exposure to the most promising sectors within the UK property market. At BRI, two of the themes within our property basket are Long Lease commercial property and Urban Logistics.

Long Lease Commercial Property

Commercial property leases in the UK typically range from five to fifteen years in length, with the market average currently being around seven years. Finding long leases and good quality tenants who are prepared to commit to leases of fifteen years or more can prove tricky, particularly in the current uncertain environment; however if found, they provide a stable income return with modest capital appreciation. Typical tenants of long leases include Government buildings, supermarkets, universities and hotel chains.

Investing in long-term assets does bring a different set of risks when compared to typical shorter-term products. Tenant risk is a primary risk in long lease property. However, this can be mitigated if the occupants are high-quality tenants. Another consideration is obsolescence risk, since it is vital that the property is kept fit for purpose. Liquidity is also a key consideration.

However, a long lease property investment vehicle does give your portfolio genuine diversification that is less volatile than equity markets, and is complemented by a reliable income source with the potential for yield compressions.

To gain access to this area of the market we use a Real Estate Investment Trust of which we have been supporters since it was listed on the market in February 2017. The product invests in a diverse portfolio of UK property that benefits from long-term index-linked leases (typically twenty years) with institutional grade tenants, only investing in assets with leases containing regular, upward only rental reviews, whilst paying a growing dividend yield of 4.5%.

Urban Logistics

The other theme we invest in is Urban Logistics space, primarily used for e-commerce. Demand for purpose-built warehouse space has grown sharply alongside the change in consumer buying habits. 2018 saw record investment in industrial and logistics assets.

Buying online has led to a growing requirement for distribution centres, ranging from the so-called big boxes that can be as big as 1.5 million square foot to the smaller building required for last-mile delivery.

Consumers in the UK spent over £175 billion online in 2018 (up 18.2% from 2017). Consumer e-commerce now accounts for over a quarter of the total retail market in the UK and continues to grow.

Sourcing these distribution centres close to large populations surrounded by sufficient transport infrastructure is a challenge. Over the years supply has not kept up with demand, which is why we continue to see rental growth and valuation uplifts within the sector as well as some consolidation between competitors.

Putting additional pressure on this demand, the threat of a 'disastrous' no-deal Brexit is forcing businesses to stockpile. All over the UK, firms have needed to prepare extensive contingency plans for a no-deal departure from the EU. Warehouse capacity across the UK is being stretched to capacity as companies try to plan for Black Friday and the Christmas period, both just a few weeks after the October 31st deadline. For example, the Guardian recently reported that Domino's Pizza has been stockpiling seven million pounds' worth of topping ingredients in preparation for a no-deal Brexit; and companies such as car makers, pharmaceuticals and supermarkets have all reported that they are stockpiling inventories ahead of Brexit.

The exposure we have at BRI is in Real Estate Investment Trust which is tailored towards small-to-medium sized warehouses with good transport links, predominantly catering for tenants carrying out so-called 'last mile' delivery services, whilst paying a generous 6% dividend yield.

Dematerialisation of Paper Share Certificates

Millions of people own shares in the form of certificates – paper proof of their ownership of the company they have invested in. Certificates provided comfort because they displayed your name and could be filed away neatly. Estimates suggest that there are around 15 million still held by private shareholders.

But owning share certificates can become burdensome – and there is a risk that they can be lost, damaged or stolen.

European Securities and Markets Authority (ESMA), the pan-European regulator, is soon to make share certificates obsolete, with a date to be confirmed for the phasing out of paper certificates altogether in favour of share certificates being dematerialised and held electronically within a nominee account.

When shares are held in a nominee account, the investor remains the beneficial owner, but their name does not appear on the company's share register. ESMA explains that the aim of dematerialisation across Europe is to harmonise and bring discipline to a number of aspects of the post-trade settlement cycle.

Whilst many investors feel a sentimental attachment to their share certificates, the immediate advantage of a nominee arrangement is that the investment manager/stockbroker handles the administration side of buying and selling your shares for you.

This means that your transactions are settled much more quickly. Electronic handling removes postal delays or the risk of certificates being lost in the post. Dealing costs are cheaper, too. Further advantages and administrative improvements include live pricing of the security so that you know the value of your holding, the automatic collection of dividends, ease in preparation of annual consolidated tax vouchers, and time efficiencies regarding corporate actions.

If you have any paper share certificates and would like to discuss the possibility of moving these into a BRI portfolio, please contact one of our advisers on 01676 523 550 or email invest@brigroup.co.uk.

Onshore Investment Bonds

In the present uncertain times for the UK economy, companies may be holding back on potential business opportunities and as a consequence could be holding significant sums in cash. Given that interest rates are currently negligible on cash, companies may be losing out to inflation, depending on how long the cash remans idle.

One alternative for putting your company cash to work is investing into an Onshore Investment Bond which has multiple taxation benefits whilst the funds are accruing and on encashment. For a company, the bond would be taxable at Corporation Tax rates which are lower than the Income Tax rates which apply to individuals holding the same bond.

Accounting

For accounting purposes, the bond can either be disclosed on a 'historic cost' or 'fair value' basis. The principle applied will depend on the turnover, balance sheet and number of employees within the business; and this must be discussed and agreed with your accountant.

The 'historic cost' basis means that the bond does not need to be revalued on an annual basis. Only the original value of the bond needs to be shown on the company balance sheet each year until the bond is encashed or a chargeable event arises; this therefore means that the bond benefits from tax deferral. Any increase in value can be deferred for tax purposes until the entire bond or part of it is realised. By controlling the point at which tax is paid, it is possible for a company to improve their cash flow position or take profits from the bond in a year in which their overall profits are lower.

The alternative accounting principle of 'fair value' will show the total (surrender) value as at the accounting date. This will be based on the original investment amount plus any growth or alternatively any loss incurred. Any gain or loss for the bond in that year will then be disclosed in the profit and loss account and Corporation Tax may then be payable or relievable.

Tax Credit Benefits

When a chargeable event occurs – i.e. you need to make a surrender – the taxable gain includes a basic rate tax credit of 20%, which reflects the tax paid internally by the life fund. Typically, these investments are held by individuals who may or may not have further tax to pay depending on their tax status at the time of surrender. In other words, basic rate taxpayers (20%) would not incur any further tax, whereas a higher rate tax payer (40%) would have an additional 20% to pay on the surrender proceeds.

Where the onshore bond is held by a company, Corporation Tax is applied. This rate is currently 19% and it is anticipated that this will drop to 17% in April 2020 – this therefore results in a tax credit for the company, which, depending on the size of the bond, could be a meaningful sum to reclaim*.

*Please be aware that this is based on current legislation which could always be subject to change and it is therefore unknown how long this reclaim will be available. You should check with your accountant and financial planner before proceeding with any investment to assess suitability.

If you would like further details on a potential company investment into a bond, please contact one of our Financial Planners who would be happy to discuss this with you.

Market and Political Updates

BRI will be hosting two market update seminars on 24 January 2020: a breakfast seminar in Worcester and a lunch seminar in Meriden.

Mark Garnier, MP for Wyre Forest and co-chair of the Conservative Party's Global Britain task force, will be presenting his thoughts on the political landscape at both events. BRI's Chief Investment Officer, Dan Boardman-Weston, will also be on hand to provide an overview of markets and what this will mean for investors.

More information on these events can be found on our website at www.brigroup.co.uk/media-centre/events. If you would like to attend either of these, please contact our marketing team on 01676 523 550 or email marketing@brigroup.co.uk.