



## Pensions



15th November 2018

### Why invest in a pension?

With increasing life expectancy, as much as a third of your life could be spent in retirement. It is natural that you will want to enjoy this time after years of hard work. Whilst money doesn't necessarily bring happiness, lack of it can cause misery. It is up to you to decide on the kind of lifestyle you want in retirement.

Investing in a pension is more important than ever in today's environment of increasing retirement ages and companies closing down their defined benefit schemes as fast as they can. Not to mention the tax advantages where investors are generally able to contribute up to a specified percentage of their salary in any tax year, thereby significantly reducing their tax bill.

Whether we make pension contributions ourselves, or our employers do it for us, the size of our retirement income is likely to depend on how the stock market performs. This is because the stock market is widely regarded as the most appropriate investment vehicle for building a pension pot. The FTSE All-Share has returned 7.2% per annum since 1962 and that does not include the average 3.8% dividend yield earned on top. Considering inflation averaged 6.2% over the same period it is vital that an investor invests in equities in order to preserve the purchasing power of their money.

The power of compound interest and the importance of reinvesting dividends are illustrated

by the following example. An initial investment of £10,000 becomes £81,480 after 30 years assuming an investment return of 7% p.a. Including dividends reinvested that £10,000 turns into £231,591, a return of 2,216%.

### Investment Strategy:

We all have a stake in the health of the stock market and with that in mind we at Gibraltar Asset Management ("GAM") approach stock market investing with the following principles in mind:

#### *Regular contributions*

Contributing regularly into a pension plan (known as pound-cost averaging) will negate the volatility inherent in the stock market as you are buying more units when prices are cheap.

#### *Diversification*

The first rule of investing is diversification, i.e. not putting all your eggs in one basket. By spreading your assets not just over different shares, but also different sectors, countries and asset classes you build a portfolio with asset classes that are not overly correlated with one another. Thus should one asset class fall, another may rise - thereby reducing the portfolio's volatility whilst increasing performance. Also, by investing in emerging markets, an investor can participate in faster growing economies as well as shield themselves from a weak pound. Thus we recommend clients spread their assets across developed and emerging markets as well as precious metals and corporate bonds.



## Pensions (cont)

### **Investment Strategy (cont):**

In order to achieve this diversification, GAM advocates the use of investment trusts and exchange traded funds (“ETFs”), particularly for smaller portfolios where it is uneconomical to hold direct investments.

#### *Investment Trusts*

Investment trusts have historically outperformed unit trusts for a variety of reasons - the ability to use gearing, lower investment management fees and the simple advantage of managing a closed-ended portfolio in that it encourages long-term decision making as the fund manager doesn't have to hold cash to meet redemptions.

#### *Exchange Traded Funds*

ETFs are funds that trade on the London Stock Exchange and generally track an index, such as the FTSE All-Share, at a very low cost. Historically, Independent Financial Advisors have recommended their clients invest in expensive unit trusts for the simple reason that they receive trail commission every year. With investing, costs are one of the most important factors to consider. They are in fact the only factor known at the outset (performance is variable) and have a disproportionate impact on performance as their effect is compounded. Besides that, unit trusts have a poor record of beating their chosen benchmark. ETFs on the other hand track the underlying benchmark with very little tracking error and thus with little risk of underperformance.

#### *Rebalancing*

We recommend investors rebalance their portfolio sparingly, certainly no more than once a year. Portfolios may become unbalanced by strong or poor performance in certain areas and rebalancing helps impose discipline on your portfolio. Profiting from the asset that is doing well and buying more of the one not doing so well might seem counter-intuitive, but it means you're always selling high and buying low, thereby avoiding the short-term noise in the market.

### **Summary:**

Investing into a pension gives investors the ability to invest in a diverse range of low-cost investment trusts & ETFs at a fraction of the cost of traditional investment options such as unit trusts or endowment policies. Having the pension registered in the name of a regulated professional trustee and in the custody of a FCA-regulated custodian also provides security to the investor. As Gibraltar's Member firm of the London Stock Exchange, GAM has the expertise to offer its clients a range of model portfolios that suit different clients' time horizons and attitudes to risk.



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## Pensions (cont)

### Rate Card

The important parts of our Rate Card to note are:

#### Execution Fees

Execution-Only & Advisory Accounts	Equities & Funds	Fixed Interest
on the first £10,000	1.65%	1.25%
thereafter	0.50%	0.25%
subject to a minimum of	£45	£45
Discretionary Accounts	Equities & Funds	Fixed Interest
on the first £10,000	1.00%	0.50%
thereafter	0.50%	0.25%
subject to a minimum of	£40	£40

A compliance charge of £2.50 will be levied on every transaction

#### Nominee Fees

Custody Fee (Payable quarterly in advance. Includes a GBP cash account)	£120.00 per account
Additional currency ledger (e.g. EUR, USD etc)	£60.00 a year

#### Miscellaneous Fees

General administrative matters carried out by GAM	£60.00 per hour
Online Password Reset	£20.00

#### Investment Management

Discretionary Investment Management Service - Annual fee	0.75% of portfolio value
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#### Payment Fees & Interest Rates

BACS (maximum £100,000) / Faster BACS (payments of £10,000 and below)	£15.00
CHAPS/SWIFT	£25.00

#### Transfer Fees

Settled in Crest	£10.00 per stock *
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\*There is no fee applicable to securities transferred into GAM via CREST. A fee of 0.25% will be applied to transfers out where the security was originally transferred free of payment into GAM

Please see our latest Rate Card for current rates



## Pensions (cont)

### Financial Questionnaire

#### 1) Time Horizon

Please give an indication as to what year you will likely draw down your pension:

#### 2) Attitude to Risk

It is important that you understand the risk involved in investments. Please select one of the following categories to indicate the maximum level of risk you are prepared to accept in relation to your account:

- Low Risk - Investors who are seeking returns above that available from short-term bank deposits, whilst simultaneously aiming to preserve capital. This will limit the potential returns to the portfolio
- Medium Risk - Investors who are looking to benefit from the long-term growth potential of equities, whilst limiting the volatility of returns over the shorter term through exposure to fixed interest. Equity like exposure will not exceed 70% of client portfolios
- High Risk - Investors who are prepared to invest predominantly in equity like investments. The portfolio is likely to display significant volatility, but will suit those who are prepared, or can afford, to accept the increased risk in order to achieve the potential of superior returns over the longer term

#### 3) Base Currency

- GBP
- EUR
- USD

#### 4) Ethical Investments

Do you wish to only invest in ethical investments?

- Yes
- No

### Service Required

Please select one of the following:

- Discretionary**  
We manage your portfolio on your behalf, taking investment decisions on the basis of your chosen objectives & desired level of risk
- Advisory**  
We may provide you with investment advice on your transactions, with the final investment decision always being yours
- Execution-Only**  
You will select yourself a number of investments from a menu of funds. GAM will rebalance on a yearly basis where it feels it is required and adjust the asset allocation appropriately as drawdown nears



## Pensions (cont)

### Model Portfolios

#### 1) 'Low Risk' Portfolio

**Time Horizon** All time horizons (<2 years, 2-5 years & >5 years to retirement)

**Asset Class** **Allocation**

Equities	0%
Alternatives	0%
Fixed Interest	<u>100%</u>
	<b>100%</b>

**Benchmark** 100% FTSE UK Gilts

#### 2) 'Medium Risk' Portfolio

**Time Horizon** < 2 years to retirement      2-5 years to retirement      >5 years to retirement

<b>Asset Class</b>	<b>Allocation</b>	<b>Allocation</b>	<b>Allocation</b>
Equities	10%	35%	50%
Alternatives	20%	15%	20%
Fixed Interest	<u>70%</u>	<u>50%</u>	<u>30%</u>
	<b>100%</b>	<b>100%</b>	<b>100%</b>

**Benchmark**      30% FTSE All Share  
70% FTSE UK Gilts      50% FTSE All Share  
50% FTSE UK Gilts      70% FTSE All Share  
30% FTSE UK Gilts

#### 2) 'High Risk' Portfolio

**Time Horizon** < 2 years to retirement      2-5 years to retirement      >5 years to retirement

<b>Asset Class</b>	<b>Allocation</b>	<b>Allocation</b>	<b>Allocation</b>
Equities	10%	35%	50%
Alternatives	90%	65%	50%
Fixed Interest	<u>0%</u>	<u>0%</u>	<u>0%</u>
	<b>100%</b>	<b>100%</b>	<b>100%</b>

**Benchmark** 100% FTSE All Share      100% FTSE All Share      100% FTSE All Share

*For their portfolio, investors can select from the following suggested list of investments between 1 & 10 equally-weighted investments from each asset class. Note that this list can change, however any new investment trust/ETF is required to be listed on a Recognised Stock Exchange.*



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## Pensions (cont)

### Investment Suggestions

Equities	Symbol	TER	Yield	Note
<u>World</u>				
Vanguard All-World ETF	VWRL	0.25%	1.94%	Direct investment in companies from developed and emerging countries
iShares MSCI World £ Hedged ETF	IGWD	0.55%	0.00%	Diversified exposure to developed companies, hedged back to GBP
Perpetual Income & Growth IT	PLI	0.60%	3.60%	Investment Trust investing in global blue-chips
<u>UK</u>				
iShares FTSE 100 ETF	ISF	0.07%	3.82%	Targeted exposure to the 100 largest UK stocks
Dunedin Income Growth IT	DIG	0.62%	4.60%	Investment Trust investing in UK blue-chips
iShares UK Dividend ETF	IUKD	0.40%	4.64%	Exposure to 50 FTSE 350 companies with the highest dividend yields
iShares FTSE 250 ETF	MIDD	0.40%	2.52%	Direct investment into 250 UK mid-cap companies
iShares MSCI UK Small CAP ETF	CUKS	0.58%	0.00%	Direct investment in small capitalisation companies
Mercantile Investment Trust	MRC	0.47%	2.90%	Investment Trust investing in small & medium-sized companies
<u>US</u>				
iShares S&P 500 ETF	IUSA	0.40%	1.34%	Direct investment in 500 leading US companies
iShares S&P 500 £ Hedged ETF	IGUS	0.45%	0.82%	Exposure to 500 leading US companies, hedged back to GBP
iShares S&P SmallCap 600 ETF	ISP6	0.40%	1%	Direct investment in 600 small capitalisation US companies
<u>Europe</u>				
iShares Eurostoxx 50 ETF	EUE	0.35%	3.31%	Direct investment into the 50 largest Eurozone companies
iShares Europe ex-UK £ Hedged ETF	EUXS	0.40%	2.10%	Diversified exposure to European companies, hedged back to GBP
iShares EuroStoxx Mid ETF	DJMC	0.40%	1.97%	Direct investment into mid capitalisation Eurozone companies
iShares Eurostoxx Small ETF	DJSC	0.40%	1.93%	Direct investment into small capitalisation Eurozone companies
JPMorgan Japan Smaller Cos IT	JSC	1.09%	5.10%	Investment Trust investing in small & medium-sized companies
<u>Japan</u>				
iShares Core MSCI Japan ETF	SJPA	0.20%	0.00%	Exposure to Japanese large, mid and small cap companies
iShares MSCI Japan £ Hedged ETF	IJPH	0.64%	0.00%	Diversified exposure to Japanese companies, hedged back to GBP
iShares MSCI Japan Small Cap ETF	ISJP	0.58%	1.22%	Direct investment in small capitalisation Japanese companies
<u>Asia Pacific</u>				
iShares Asia Pacific Dividend ETF	IAPD	0.59%	4.39%	Exposure to 30 Asia Pacific companies with the highest dividend yields
iShares Far East Small Cap ETF	ISFE	0.74%	2.25%	Direct investment into a broad range of small caps from East Asia
<u>Emerging Markets</u>				
iShares Emerging Mkts Dividend ETF	SEDY	0.65%	4.09%	Exposure to 100 emerging markets companies with the highest yields
<u>Ethical</u>				
iShares Gbl Sustainability Screen ETF	IGSG	0.60%	0.00%	Gbl companies screened for economic, environmental and social
iShares MSCI Emg Mkt SRI ETF (\$)	SUSM	0.35%	0.00%	EM companies screened for environmental, social & governance
iShares MSCI Europe SRI ETF (\$)	IESE	0.30%	0.00%	European companies screened for environmental, social & governance
iShares Global Clean Energy ETF	INRG	0.65%	2.73%	Exposure to 30 global clean energy companies
iShares Global Water ETF	IH2O	0.65%	1.66%	Exposure to 50 global companies related to water businesses



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## Pensions (cont)

### Investment Suggestions (cont)

Alternatives	Symbol	TER	Yield	Note
<u>Commodities</u>				
ETFS Physical Precious Metals Basket	PHPP	0.44%	0.00%	Exposure to basket of precious metals (gold, silver, platinum & palladium)
Gold Bullion Securities ETF	GBSS	0.40%	0.00%	Exposure to physical gold
ETFS Physical Silver ETF	PHSP	0.49%	0.00%	Exposure to physical silver
<u>General Financial</u>				
Carador Income Fund IT	CIFU	1.86%	11.70%	Investment Trust invested in secured loans to US & European companies
SQN Asset Finance Income IT	SQN	2.11%	7.50%	Investment Trust invested in revenue-producing equipment
<u>Alternative Energy</u>				
John Laing Environmental Assets Grp	JLEN	1.00%	5.70%	Investment Trust invested in wind, solar, waste & water projects
Impax Environmental Markets IT	IEM	1.13%	0.85%	Investment Trust invested in clean energy, water & waste companies
<u>Property</u>				
Impact Healthcare REIT	IHR	1.69%	5.80%	Investment trust invested in a portfolio of residential care homes
iShares UK Property ETF	IUKP	0.40%	2.79%	Direct investment into listed real estate companies and REITS
Regional REIT	RGL	0.00%	7.40%	Real Estate Investment Trust investing in UK regional offices
NewRiver REIT	NRR	0.00%	5.90%	Real Estate Investment Trust investing in UK shopping centres
TR Property IT	TRY	0.76%	0.00%	Investment Trust investing in listed Pan-European real estate companies
<u>Global Infrastructure</u>				
iShares Global Infrastructure ETF	INFR	0.65%	2.86%	Direct investment into 100 international infrastructure companies
<u>Fixed Interest</u>				
<u>Government Bonds - UK</u>				
iShares Core UK Gilts ETF	IGLT	0.20%	1.87%	Diversified exposure to UK government bonds
iShares UK Gilts UK 0-5yr ETF	IGLS	0.20%	0.74%	Targeted exposure to short and medium term UK government bonds
iShares £ Index-Linked Gilt ETF	INXG	0.25%	0.65%	Targeted exposure to sterling inflation-linked government bonds
<u>Government Bonds - Emerging Markets</u>				
iShares Emg Mkts Local Gov Bond ETF	SEML	0.50%	5.40%	Exposure to local ccy emerging market government bonds
<u>Corporate Bonds - Global</u>				
iShares Gbl HY Corp Bond £ Hedged	GYHS	0.55%	4.88%	Diversified exposure to high yield bonds, hedged back to GBP
JPMorgan Gbl Convertibles Income IT	JGCI	1.02%	5.0%	Investment Trust invested in a portfolio of convertible securities
<u>Corporate Bonds - UK</u>				
iShares Core £ Corporate Bond ETF	SLXX	0.20%	2.93%	Diversified exposure to sterling investment-grade corporate bonds
iShares iBoxx £ Corp Bond Ex-Fin	ISXF	0.20%	3.21%	Diversified exposure to non-financial corporate bonds issued in GBP
iShares £ Corporate Bond 0-5yr ETF	IS15	0.20%	2.36%	Diversified exposure to short and medium term GBP corporate bonds
iShares £ Ultrashort Bond ETF	ERNS	0.09%	0.81%	Diversified exposure to very short maturity sterling bonds
CVC Credit Ptnrs Euro Opps IT	CCPG	1.21%	4.90%	Investment Trust investing in loans, high yield bonds & structured credit
City Merchants High Yield IT	CMHY	1.02%	5.20%	Investment Trust investing in predominantly bonds & structured credit
<u>Corporate Bonds - Europe</u>				
TwentyFour Income Fund IT	TFIF	0.75%	6.3%	Investment Trust investing in European Asset Backed Securities
<u>Corporate Bonds - Retail</u>				
Investors can purchase corporate bonds, as long as they are listed on the London Stock Exchange. Exposure to any individual bond is restricted to 10% of the portfolio value and no more than 3 bonds can be purchased from the same sector.				