EQUINOX

HALF-YEARLY INVESTMENT MAGAZINE

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Welcome

In the six months since our last edition, world events and political change have continued to move at what has, at times, felt like an unrelenting pace. That pace seems set to keep up for at least a little while.

We have recently celebrated 27 years in business and throughout that time, we have witnessed a great deal of change. However, we have also been blessed with one constant, the loyalty of our clients. For that, I want to say a huge thank you.

Our first clients, whom we welcomed on board in August 1995, are still clients today. I hope you enjoy reading about them and their journey with us on pages 16-17. Our evolution over those 27 years has created the business we have today, one that I am delighted to say has a 99.9% client retention rate.

Through bountiful times and periods of uncertainty, we have continued to grow, primarily through the recommendations you make to your friends and families. It is a privilege that so many of those families now have four generations of their wealth and legacy entrusted to our care.

Whatever the future holds, we promise that we will continue our evolution, developing always, with the aim of best meeting your needs, both now and over the years ahead.

I hope you enjoy this issue and as always, if you have any feedback, please email me at colin.lawson@equilibrium.co.uk. I would be delighted to hear from you.

Colin Lawson
FOUNDER

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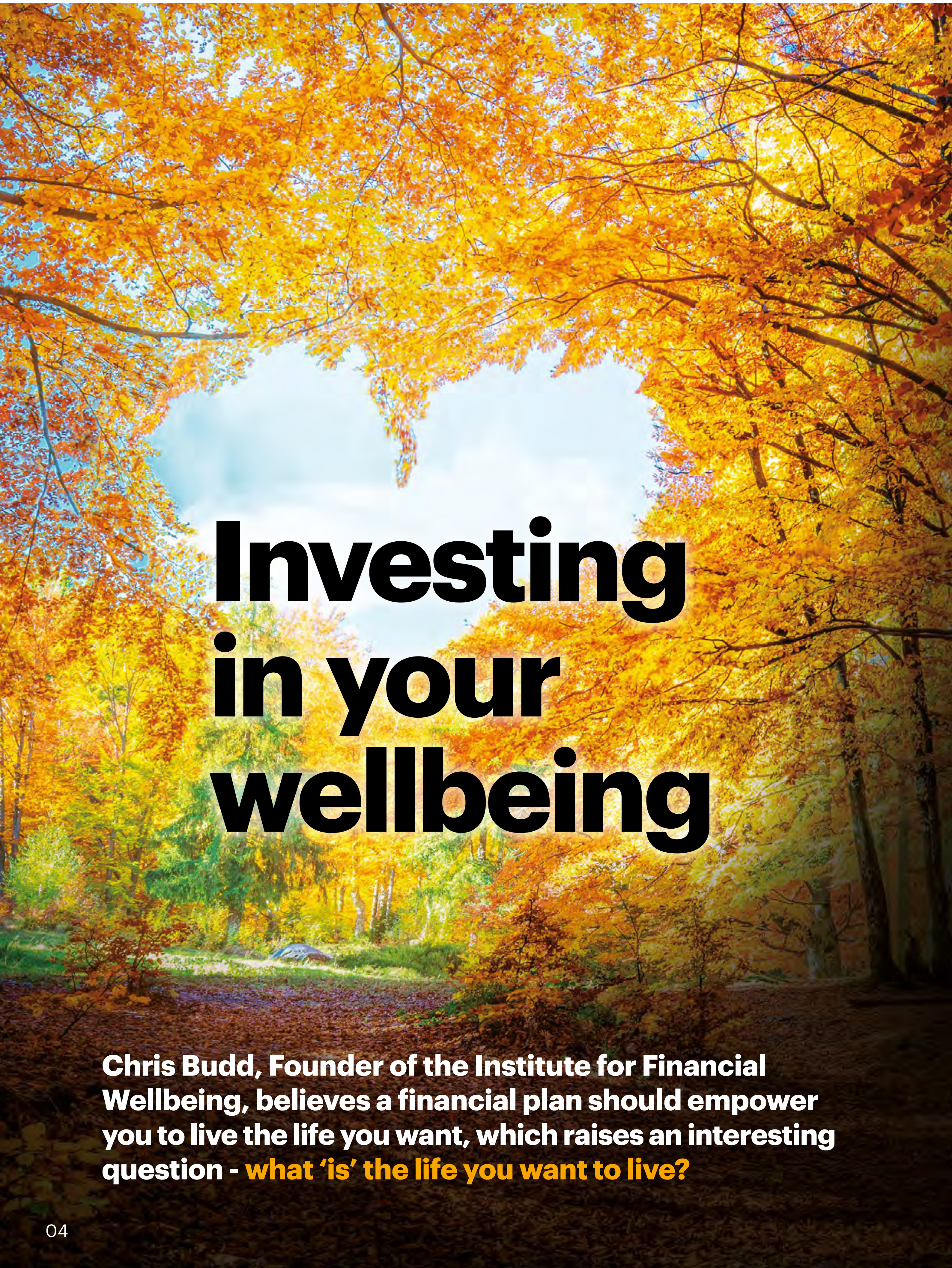
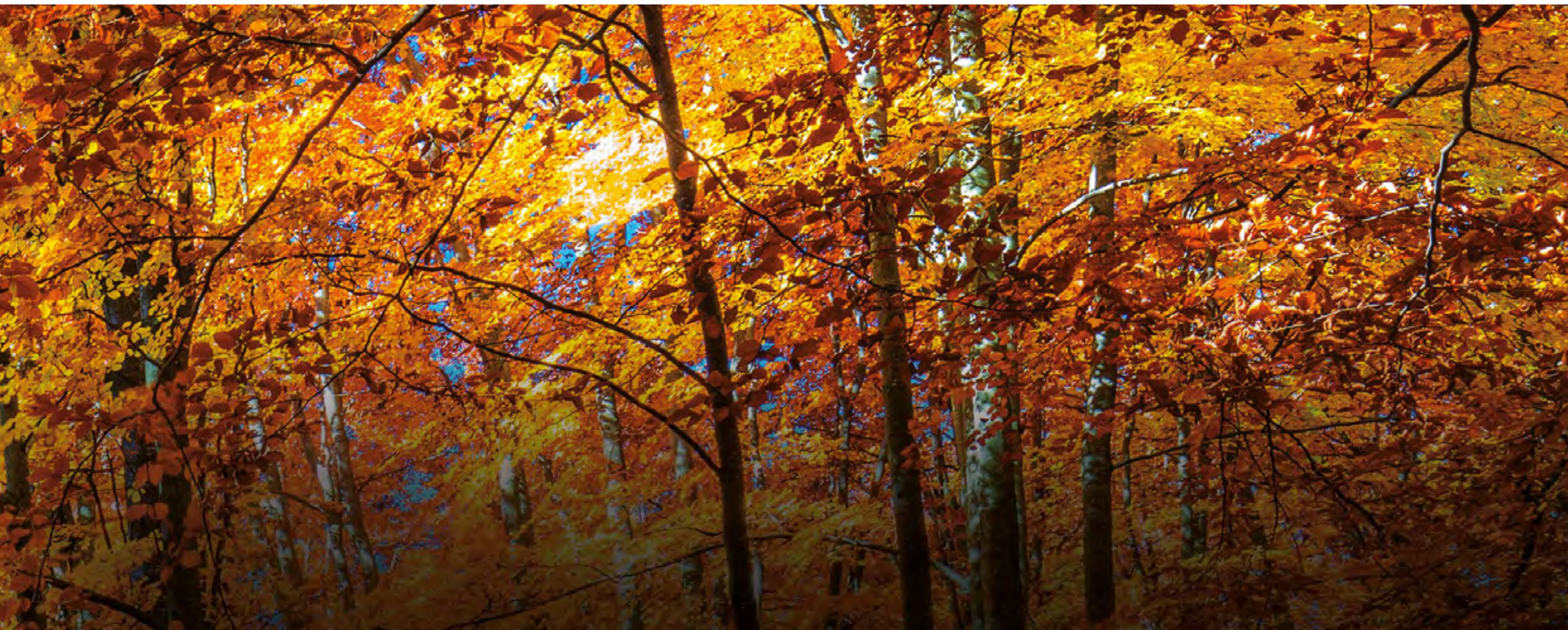


Investing in your wellbeing

Chris Budd, Founder of the Institute for Financial Wellbeing, believes a financial plan should empower you to live the life you want, which raises an interesting question - what ‘is’ the life you want to live?



The question 'what makes us happy?' is one that has troubled scholars, philosophers and poets throughout the centuries.

This question is difficult enough to answer, but when we add all the distractions that money brings, it becomes even harder.

Financial wellbeing looks at all aspects of the relationship between money and happiness. It explains why we might not be very good with money; how our money might be making us less happy; and how we can change our relationship with money to live a life of wellbeing.

Being confident, happy and healthy in the relationship we have with our finances is a significant contributor to our overall state of wellbeing.

Are we good with money?

Financial planning is simply not in our DNA. Throughout history our decision-making has been based on a 'fight or flight' response.

Historically, we have needed to be more concerned with surviving, than saving for our future selves.

As recently as a century ago, few people lived past working age. As a result, there was little need for financial planning.

It is only since the 1980s, with the introduction of private pensions, the closure of private company pension schemes, plus longer lifespans, that we have faced the challenge of having to fund for a long retirement. Add the fact that financial education is a topic often overlooked in schools, it's understandable that having a healthy relationship with money isn't something that we are equipped for.

> **Happiness is easy to find, but difficult to hold on to."**

What is happiness?

I tend to think of happiness (or joy) as something short term, whereas wellbeing (or contentment) is much longer lasting.

Happiness is easy to find, but difficult to hold on to.

With our fight or flight mentality, we tend to focus on the short term. We seek gratification now and we are not keen on delaying our joy for a later date. Consequently, we tend to spend money on bursts of happiness, by buying stuff and ignoring how this might be affecting our long-term wellbeing. There is even a name for this: retail therapy.

We need to find a new attitude to money, one that moves us away from buying short-term hits of happiness and onto longer-term wellbeing.

The five pillars

There are five parts to financial wellbeing:

1. **A clear path to identifiable objectives**
2. **Control of daily finances**
3. **Having financial options**
4. **Clarity and security for those we leave behind**
5. **Being able to cope with financial shocks**

Some interpret financial wellbeing as solely being in control of your daily finances. While this will be a focal point for many, given the current economic landscape, it is just one element.

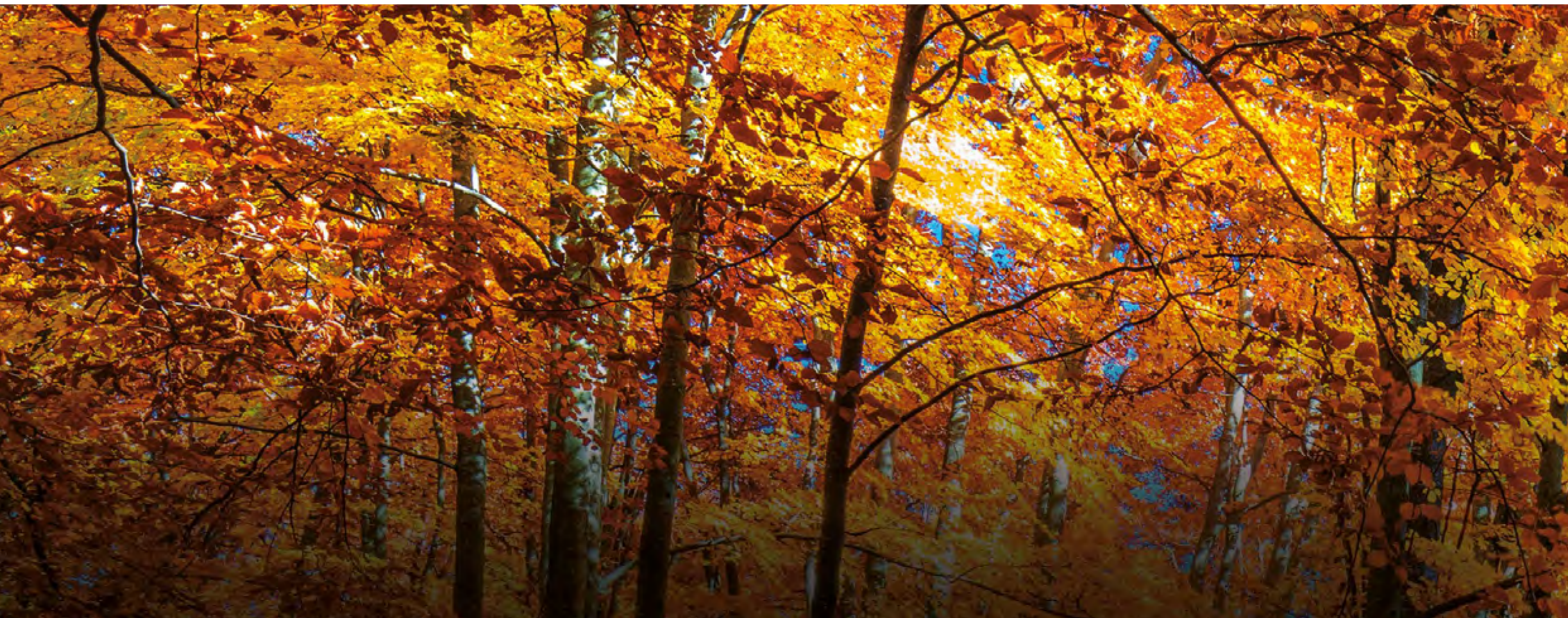
To move away from the short-term approach to money, we need to understand what brings wellbeing. Only then can we see the role that money has to play.

Identifiable objectives

Let us look closer at the first pillar: a clear path to identifiable objectives.

We choose our objectives by what we are motivated to do. If we understand what motivates us, we will start to see what makes us happy.

There are two types of motivation: extrinsic and intrinsic. An extrinsic motivation is something that we do for other people. It might be



for status or reward; for applause or praise; to achieve a target or to avoid a deadline.

Achieving an extrinsic motivation brings only short-term wellbeing. Once the applause has died down, we seek further gratification.

An intrinsic motivation, however, is something we do just because we want to. It often involves helping others or doing something creative. When we achieve intrinsic motivations, our wellbeing lasts considerably longer as it gives our life meaning and purpose.

Loss aversion

We then have loss aversion to consider. This describes how we feel the loss of something far greater than we feel the equivalent gain. If the stock market goes up, you may barely notice; if it goes down, you may feel panicky.

Research suggests we feel the loss of something over three times more than the equivalent gain (Source: Neil Bage of BeIQ). If we aim for an intrinsic motivation, but fail to achieve it, then this might make us three times more unhappy than if we hadn't aimed for it in the first place.

We, therefore, need to make sure that the intrinsic motivations we are aiming for are achievable.

Challenging assumptions

Asking ourselves: "How can I live the life I want?" might not be such an easy question to answer after all. Our tendency to focus on the short term, to buy happiness, leads us away from considering the needs of our future selves.

"Seeing money as the objective of life is an extrinsic motivation and as such, can never be achieved."

This is made worse by the fact that it's not easy to challenge our own assumptions. If it were, they wouldn't be assumptions.

We go through life accumulating experiences, reaching certain conclusions. We test them, leading us to amend or confirm our initial thoughts. If the latter happens repeatedly, they may become beliefs.

It is important to remember that beliefs are not truths. Just because we believe something to be true does not necessarily mean that it is.

Our beliefs define who we are. If they go on to lead to poor outcomes, then they are known as self-limiting beliefs.

We all have certain beliefs about money. You might hear someone say: "I'm not very good with money" or "The stock market isn't for me."

These statements are not reality – they are beliefs. Without going back to the source, it is extremely difficult to change them. Indeed, we may not even be aware of them. These can be exacerbated when you consider all the differing beliefs held between couples and within families. A skilled financial planner can help us to understand where our relationship with money might not be producing outcomes which increase our wellbeing.

Barriers to wellbeing

There are other barriers; for example, the way society equates success with money and money with success. Yet research shows us that a person who sees money as an objective will be less happy than they might otherwise be (Source: summary of Schwab's Circumflex in Hyper Capitalism by Professor Tim Kasser).

Seeing money as the objective of life is an extrinsic motivation and as such, can never be achieved. Each time we get more money, we spend more (known as 'income creep'). To work out how much is enough, you first need to understand what brings meaning and purpose to your life. Your intrinsic motivations.

What value can we put on financial wellbeing?

We can see that living the life we want is easier said than done. The good news is that there are principles to follow, research to help us live a life with meaning and purpose, and financial plans that will make us happier, not just wealthier.

Our new Financial Wellbeing Officer

Meet Chris Budd, Founder of the Institute for Financial Wellbeing (IFW) and renowned author, podcaster and mentor.

Chris introduced the concept of financial wellbeing to the financial services industry and wider audiences when he published 'The Financial Wellbeing Book' in 2016. A book full of advice but with a twist; to structure your finances in a way that suits you by first understanding what you want from your future.

"To run a healthy aquarium, you need to look after the water, not the fish"

He went on to hold his own Financial Wellbeing Conference in 2019 and after this proved so popular with financial advisers, he founded the IFW.

At Equilibrium, we place our client's wellbeing at the heart of what we do, by enabling them to live the life they want, look after those they love and leave a powerful legacy.

It, therefore, seemed logical that we become a corporate member of the IFW to enhance our client experience and embed the relationship between money and happiness into our financial planning processes.

The next natural step was to ask Chris to join us as our Financial Wellbeing Officer and we were delighted when he accepted. We will now be guided by his expertise when determining how we can go further in making our clients' lives better.

Chris likens financial wellbeing to keeping fish:

"To run a healthy aquarium, you need to look after the water, not the fish.

"Equilibrium combines financial planning, investing and tax planning to deliver a seamless offering that allows for a successful lifetime of investing. They have huge expertise and experience in looking after the technical aspects of your money giving you time and space to live the life you want."

Chris adds: "Financial wellbeing takes this one step further – by helping you to understand your own sources of joy and wellbeing, as well as bringing awareness of behaviours and beliefs which can sometimes lead to poor financial decisions. In doing so, you can discover what a life with wellbeing could mean to you."

The Equilibrium way

Through our new partnership with the Institute for Financial Wellbeing, our client-led service has just got even better.

You've just finished a wonderful day on the golf course, returned home from a trip of a lifetime or enjoyed afternoon tea with some of your dearest friends.

How do you feel in that moment?

Comfortable, happy, healthy?

Having these same feelings plus confidence in the relationship we have with our finances is a significant contributor to our overall state of wellbeing, including our mental health, physical health and even our relationships.

Money doesn't (always) buy happiness

Financial wellbeing goes beyond money basics; it's about understanding what brings joy to your life and how to use your money to do those things. Sound financial wellbeing means not just feeling secure in your future, but also being able to make the choices that create enjoyment in the present. And it isn't based on income.

We experience financial wellbeing - or lack of it - regardless of our income

In research carried out by Salary Finance (Backing your people through the cost of living squeeze – 2022), their findings confirmed there was little correlation between rates of pay and levels of financial worry, meaning that a higher salary doesn't necessarily mean fewer money troubles.

Why?

Because we associate money with a huge amount of feelings, emotions and beliefs.

This is something evidenced by the Institute for Financial Wellbeing (IFW), a leading not-for-profit organisation. The IFW helps those in the financial sector to improve their client's financial wellbeing by helping them become more fulfilled and not just more affluent. And the Institute cites some universal truths around financial wellbeing.

One such universal truth is that money, in isolation, doesn't make us happy. According to research, the value of accumulating wealth for its own sake, is in direct contradiction with happiness. (Source: https://initiativeforfinancialwellbeing.org.uk - what is financial wellbeing)

Owning a level of assets which far exceeds yours and your family's needs, even beyond your lifetimes, doesn't necessarily mean that you feel a sense of contentment and are free from financial anxiety.

Selling a successful business may result in securing the financial future of your family, but the move from a lifetime of 'working and earning' to 'early retirement and spending,' may change the relationship you have with your money, bringing an unfamiliar sense of unease.

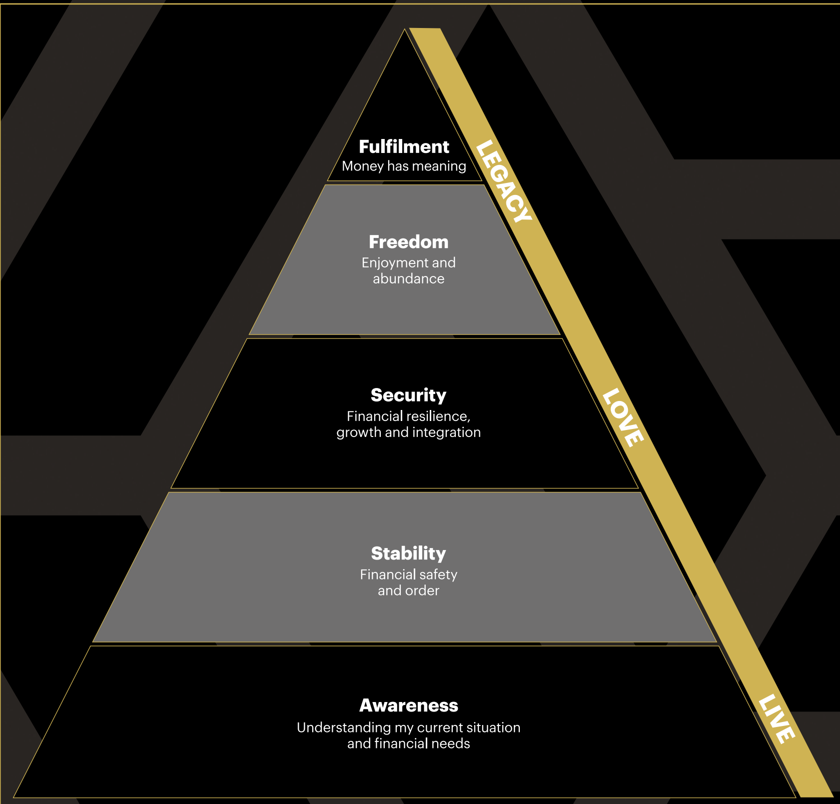
When markets change, it's not uncommon for those who dedicate time and energy to building the value of their assets, to worry about their portfolio. Thinking 'this time is different' and that the market will continue to fall, may well fuel anxiety - despite the hard facts and statistics evidencing otherwise. (Source: This Time Is Different: Eight Centuries of Financial Folly – Carmen M. Reinhart and Kenneth S. Rogoff, 2009)

Financial wellbeing – like any relationship - is different for everyone

Financial wellbeing is a highly personal state and not something that can be described or evaluated in objective financial measures. Good financial wellbeing is not linked to, or measured by, the value of assets, or the performance of your portfolio. It is linked to our intrinsic motivations around money.

Only by taking the time to discover and articulate how we want our money to help us, are we able to build a meaningful financial plan capable of supporting our wellbeing. How is our money helping us to live the life we want, look after those we love and leave a powerful legacy? These are just three elements that we already pose to clients to ensure their financial objectives are built around what's important to them.

Figure one: The Equilibrium way... to financial wellbeing



Source: Equilibrium Financial Planning

As a business, our purpose is to 'make people's lives better' and the ultimate outcome is to support and promote the financial wellbeing of our clients.

This remains our ambition.

To ensure that we can do it brilliantly, we are partnering with the IFW, as we become one of the first financial planning and wealth management businesses in the UK, to place financial wellbeing at the centre of what we do. For us, it is a natural fit.

The Equilibrium way to financial wellbeing (Figure one), offers the opportunity for clients to reflect on their current level of wellbeing and to consider how, by working with our advisers through the financial planning process, they can plan their path to a state of fulfilment.

What value can we put on financial wellbeing?

The benefits of high levels of financial wellbeing reach beyond the individual. There is unmistakable evidence of the way it supports communities and the economy. A financially healthy nation means a country with better physical health. Employees who experience financial wellbeing are more productive at work. Over 500,000 private sector workers have had to take time off in the last year due to financial distress, leading to a loss of 4.2 million days of work, yielding a cost to employers of £626m each year. (Source : www.aegon.co.uk - Our insight to the nation's financial wellbeing, 2022)

Of course, it is with our individual clients that we can make the biggest difference and ultimately, make their life better. Welcome to financial wellbeing...The Equilibrium way.

Saving our financial wellbeing from our energy-saving brain

Over the centuries, our brains have evolved to become as efficient as possible, but do they help or hinder our decisions about money?

The realisation of having driven a familiar route, with no memory of the journey you just made, is one of the wondrous ways in which our energy-saving brains pilot our lives, without requiring much hard thinking.

Our subconscious brains use patterns stored from our prior driving experience to predict the actions we need to take.

They operate at a speed that is 20 times faster than conscious thinking.[1] They enable us to identify and make sense of relevant patterns in complex data, almost instantaneously. And, by deferring to them, they save us having to consume up to 50% more calories by thinking – in an organ that already consumes up to 30% of our daily calorie intake.[2]

The origin of the behaviour gap in our wellbeing

That said, when our subconscious brains recognise the patterns contained in financial markets that are falling, they are frequently less helpful. Infused with stress and emotion, they all too often trigger us to sell when prices are low - before our high-energy thinking brains get the chance to consume the scarce calories required to override them.

Conversely, when stress takes the form of a fear of missing out, we are also inclined to overcommit to markets when prices are high.

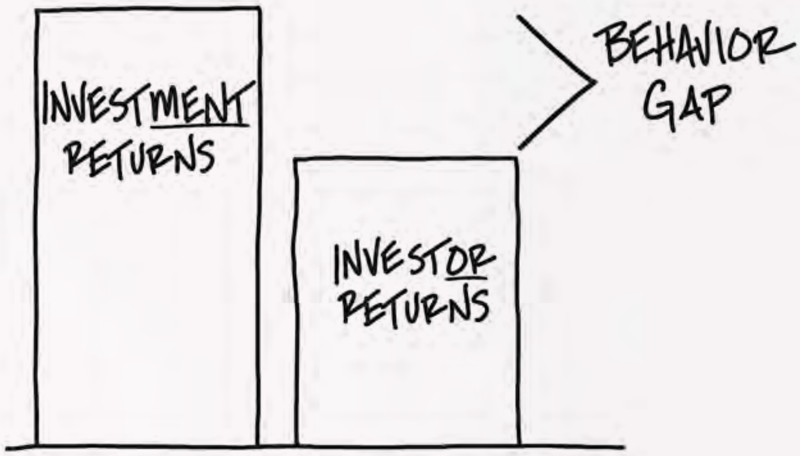
And this battle for calories is one reason why a ‘Behaviour Gap’ has been typically found between the rate of return an investment produces over the long term, and the rate of return investors actually earn on that investment.[3]

Professor Steve Peters likens our emotional brain - which is one of the calorie-light agents of the subconscious ‘decision making’ that drives much of this behaviour - to a Chimp.[4]

Each of us has a Chimp. On constant alert for risk and opportunity, it evolved to do the heavy lifting of survival by telling us what situations we should approach and the ones we should avoid, before we get a chance to think rationally about them.

When stress takes the form of a fear of missing out, we are also inclined to overcommit to markets when prices are high.”

Figure one: The Behaviour Gap



Source: Carl Richards, The Behavior Gap: Simple Ways to Stop Doing Dumb Things with Money (2012)

And therein lies the origin of the Behaviour Gap that can damage our wellbeing.

Once we experience an emotion, we tend to look for the information that rationalises its existence.

This means, how our Chimps feel about financial markets can become what ‘we’ think of them – which is how we may rob ourselves of the full rate of return that economies can provide, as we seek to shape the life we wish to live, look after those we love and leave a powerful legacy.

Managing our emotions to manage our wellbeing

There is a better way of approaching your finances with your energy-saving brain in mind. This involves accessing the part of your brain that mental health experts refer to as the ‘Observing Self.’

You can no more suppress a strong Chimp reaction to a dramatic financial event than you can stop a bruise from forming should you bang your head.

As a starting point to managing this inevitability, Peters suggests giving your Chimp a name. In my experience, you can go one step further and learn to notice how your Chimp is feeling, to put you back in touch with what your thinking brain understands of the situation, enabling you to plan and approach the future with appropriate confidence.

When you tell a doctor that you’re in pain and they ask you to score it on a scale of 1 to 10, it is your Observing Self that looks at the pain from the outside to find an answer.[5]

When you can laugh at your own ridiculousness, it is the Observing Self that inserts time and space between you and the experience, to see the humour in your folly.

And, in the heat of the moment, when your Chimp is telling you to flee from falling asset prices, or rush into an overheated market, it is your Observing Self that puts psychological distance between you and how you are feeling.

Critically, your Observing Self is not there to engage in a conversation about what it is seeing.

The Observing Self is there to sedate the Chimp, allowing you to access your thinking brain and plan as though ice itself is running through your veins.

For it is our high-energy, thinking brain, that enables us to appraise financial markets rationally and to look after our wellbeing: guided by reason and analysis, and now with full access to our problem-solving skills and memory for details.

In terms of managing behaviours and beliefs, which can sometimes lead to making poor financial decisions, we are now able to ask ourselves the golden Chimp management question and re-engage the power of our thinking brains:

This may be how I *feel* about financial markets, but what do I *know* about them?

We are aware that there is much for our Chimp-informed, pattern spotting, and energy-saving brains to fixate on in the current economy.

However, by observing those feelings, putting distance between ourselves and our emotions, and parking them, we can remind ourselves of at least three things we clearly know about markets that will never change [6]:

- As seen in Figure two, economies are remarkably resilient to external shocks and setbacks
- Volatility is so normal that we should really frame it as the cost of admission to obtaining investment returns greater than simply cash and bonds.
- Compounding is enormously powerful if given appropriate time to work. $81.5bn of Warren Buffett's $84.5bn net worth came after his 65th birthday, because he had the peace of mind to stick with his investments, for example.

Past performance is for illustrative purposes only and cannot be guaranteed to apply in the future.

Sources

1 Prof Steve Peters, *The Chimp Paradox: The Mind Management Programme to Help you Achieve Success, Confidence and Happiness*, Vermilion, 2012

2 Suzana Herculano-Houzel, *The Human Advantage: A New Understanding of How Our Brain Became Remarkable*, The MIT Press, 2016

3 Carl Richards, *The Behaviour Gap: Simple Ways to Stop Doing Dumb Things with Money*, Portfolio Penguin, 2012

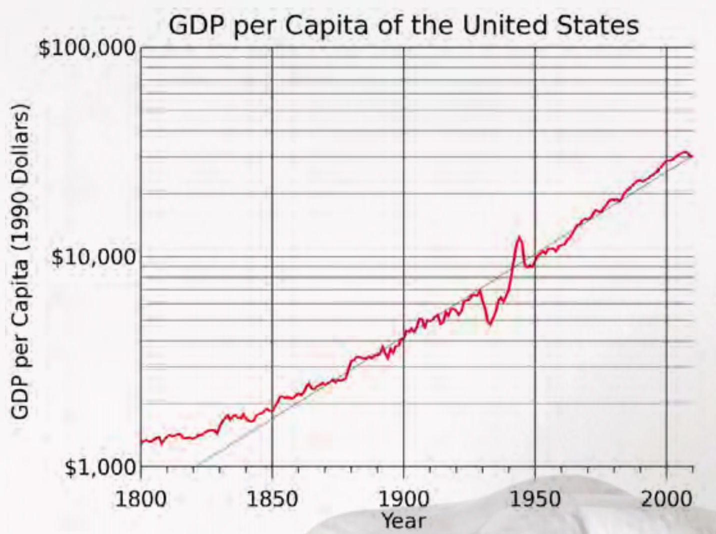
4 Prof Steve Peters, ibid

5 www.unk.com - 3 ways to activate your clients observing self

6 Morgan Housel, *The Psychology of Money: Timeless lessons on wealth, greed, and happiness*, Harriman House, 2021

Figure two: Economic resilience in US GDP per capita growth [6]

Long-term resilience



Despite

- 9 major wars
- 99.9% of business closing
- 30 separate natural disasters
- 33 recessions lasting a cumulative 48 years
- Stocks losing a third of their value at least 12 times

Source: File:GDP per Capita of the United States-semilog.svg Wikimedia Commons 16 December 2014

Find out more

James O'Loughlin is the author of *The Real Warren Buffett: Managing Capital, Leading People*, and the founder and CEO of JOL Consulting, a firm that specialises in using insights from neuroscience to improve individual, group and company-wide performance on complex tasks.

Of the books referenced above, James recommends reading (first) The Chimp Paradox by Steve Peters and Morgan Housel's The Psychology of Money.

If you would like more information, please email **james@jolconsulting.com** and he will be more than happy to help.

Top 10 happiness tips

Managing and nurturing our wellbeing is an integral part of our lives. Jo Fletcher, Wellbeing Services Lead at Wilmslow Youth, provides her top 10 wellbeing tips.

1. Keep connected

Keep building meaningful connections with those closest to you. Pick up the phone and call or message a friend or relative who you haven't seen for a while.

2. Acknowledge emotions

Keeping a mood journal can help you spot patterns in your wellbeing, showing you things that regularly impact your emotions in positive and negative ways.

3. Practice self-acceptance

Think of a time when you felt angry or upset with yourself. Now think about what you would say if a friend was telling you about this situation. How would you reassure them and show kindness? Can you repeat those words to yourself?

4. Try something new

Is there a hobby or activity that you would like to try? Maybe there's a DIY job you've been meaning to do or a new recipe to cook.

5. Engage with meaningful causes

Consider how you can bring more meaning to your life. Is there a cause you would like to support or a group that you can help? Whether you can provide your time or skill set, organisations are appreciative of the extra pair of hands.

6. Build resilience

Can you think of a time when you faced difficulty? What helped you deal with that situation and what did you learn? The resources we develop during challenging times can help us to build resilience for difficulties we face in the future.

7. Be thankful

It can be helpful to recognise the good things which happen each day, no matter how big or small. Each night before you go to bed, try to identify three to five things which are worth celebrating from the day.

8. Exercise

Physical and mental health are intrinsically linked. Consider simple ways to get your body moving each day, be it a walk or a swim, or even something new.

9. Give

When we take time for others, it improves our own sense of wellbeing. Consider someone you can buy flowers for, make a cake for, or give to in another way.

10. Direction

Think of a few small goals that you would like to work towards. It might help to break them down into smaller steps. Make a list, set deadlines and then work out what resources you will need. Celebrate each time you complete a milestone, however small that may be.

Front of house: two becomes four

Meet the two newest members of our front of house team.

"The strength of the team is each individual member. The strength of each member is the team." *- Phil Jackson (basketball player of the New York Knicks and head coach for the Chicago Bulls)*

In 2020, we were due to move into our brand-new office, Ascot House, the same day the whole country went into lockdown. At the time, we did what we do best – we carried on regardless and seamlessly moved to virtual client meetings. However, as soon as it was safe to do so, we were eager to welcome our clients back in person once again.

We soon realised that with having a bigger office, set across two levels, our current front-of-house team, consisting of Julie-Anne Jackson and Emma Mutch, could certainly do with a couple more helping hands. And that is how our team of two became four.

If you've visited us at Ascot recently, you may have already met our two new faces, Ella MacDonald and Helen Dobson. Not only are they surprisingly similar in nature, but they are also both married to long-serving members of our team.

Here, we chat to our new recruits....

What inspired you to work for Equilibrium?

Ella: "Both our husbands championed it as a wonderful place to work. As soon as I started, I was welcomed by the whole team. It has such a great culture and the added benefits of a generous holiday entitlement, as well as flexible hours, are a bonus. Now I know why it continues to be accoladed with awards, such as '#1 best financial company to work for', as it is genuinely the best place I have ever worked."

Helen: "I feel the same as Ella. Here we're not just a number, instead, we are made to feel a valuable part of the whole team."

Ella, you're technically not new to Equilibrium, are you?

Ella: "That's right. I am also a trained fitness instructor and I provided virtual boxercise classes to the team during lockdown. It was strange meeting them for real when I first came into the office."

Both of your husbands work here, how has it been working at the same company?

Helen: "We don't see them often as we work in different areas, but it was good to have a familiar face on the first day. Our husbands are both easy-going, so they were there if we needed them, but then left us to it when they saw how comfortable we were with the rest of the team."

What does your normal day look like?

Helen: "Every day is different. I love greeting the clients as they come in. When we're not answering calls or setting up for the next meeting, we help the Culture team with varied tasks, such as setting up the Mess (our version of a staff area) for team meetings. We really enjoy helping others wherever we can."

Ella: "There's always something to do and as we're both from a fashion background, we love being able to get creative. I learnt early on in this role that the personal touch is something the company prides itself on, so in my first week, I offered to bake some cakes for clients to have with their coffee whilst they waited for their meeting. Somehow, my shortbread recipe became a bit of a talking point."

Why not try making Ella's shortbread recipe at home?

Ingredients

225g plain flour
100g semolina
225g caster sugar
100g butter cubed

Instructions

- Preheat oven to 180˚C.
- Mix the flour and semolina in a large bowl.
- Add the sugar and cubed butter.
- Mix the ingredients together using your fingers until the butter is incorporated.
- Using your hands squeeze mixture together to make a ball of dough.
- Gently roll out the dough on a floured surface and cut into shapes using a biscuit cutter.
- Transfer the biscuits onto a lined baking tray and chill in the fridge for 15 minutes.
- Bake for 15 minutes, or until pale golden brown.

Meet Equilibrium's first-ever clients

On 10 August 1995, Equilibrium was born, and Ray and Sylvia Lord became our first clients. Here, Colin Lawson chats to the couple as they share their story.

My relationship with Ray and Sylvia spans an incredible three decades. From Applewood to Equilibrium, Warsaw to Dunham Massey, we have celebrated many a milestone together.

Ray and Sylvia first came to me as they were looking to buy a flat in Altrincham. They needed a UK base to visit family whilst they lived and worked in post-communist Poland. I remember, Sylvia and I visited multiple banks and building societies on the high street to secure a mortgage. At the time, lenders were particularly hesitant to loan money to them as Ray was a) self-employed in another country and b) only had Polish złotych to his name. Fortunately, after much perseverance, I obtained a mortgage (with Halifax) and the purchase of the flat went through.

Ray explains how their story began: "We had sold our home and everything we owned so I could set up an advertising business in Poland with my Polish business partner and friend, Piotr. Having previously worked for an international advertising agency, I saw, what I thought, was a terrific opportunity, although my mother found it a questionable move at the time. We found it extremely exciting as the country was undergoing profound change and radical economic reforms (known as the Balcerowicz Plan).

"When we first arrived in 1990, shelves were bare, and luxury items, such as vinegar, were few and far between. However, when Lech Wałęsa was elected President and his government formed, the country experienced exponential growth. Global brands such as McDonald's and KFC debuted in the capital, and trips to the supermarket became something of a talking point when favourites such as Mars bars, HP sauce and PG Tips started to appear. Our agency flourished under the new government policies, and Piotr and I started another two businesses.

"We lived in Warsaw for 12 years in total. I was so pleased we managed to persuade you to visit us, Colin, and I remember the pleasurable evening we shared in Castle Square. I will never forget how, one year, we received a bottle of champagne from you and the 'then Applewood' team for our wedding anniversary, which was no mean feat through Polish customs.

"Trust is what our relationship is built on. The way I see it, you look after our money so we can lead the life we want and we do just that."

Ray, Paul (son) and Sylvia

Returning home

From living in a Marriott hotel room to living next door to the President, Ray and Sylvia certainly made the most of their time in Warsaw. However, when grandchildren came along, the couple wanted to be closer to family and returned to the UK in 2002. Ray retired and, not being one to relax, he turned his attention to his roots and greatest passion, carpentry.

The National Trust property they rented on their return handily came with a workshop. A little haven, where Ray's ideas became a reality, from crafting exquisite tables to his most epic creation, a rowing boat. More recently, Ray felt he could make a difference with a cause close to his heart, to help Ukraine.

"When Russia invaded Ukraine and images of war-torn cities infiltrated our news, it really struck a chord with Sylvia and me. You see, we were born in Coventry, and whilst we didn't experience the bombings, we did experience the aftermath, the condemned buildings, and the overpowering stench of war. We are now amongst the few in England who still remember how it truly feels and smells to experience war," explains Ray.

"So, when I saw a picture of a small stepping stool, I thought I could make some of those and sell them to raise money for Ukraine. With the help of my friend, Piotr, and his Ukraine connections, we were able to ensure any money raised went directly to the Ukrainian army."

Here at Equilibrium, we are always keen to support worthy causes so when I heard what Ray was doing, I purchased one of his unique tables. Featuring warm tones and a striking grain, the new coffee table is the perfect addition to our reception area.

"Trust is what our relationship is built on."

Find out more

If you are interested in purchasing any of Ray's pieces, visit **WoodStuffCraft** on **www.etsy.com**. Alternatively, if you have any questions, please contact the Marketing team on **0161 486 2279** and we will put you in touch.

If you would like to donate to Ray's cause in helping the Ukrainian army, please visit our JustGiving page by visiting **equilibrium.link/Helping-Ukraine** or scanning the QR code.

BY MATT WILLIAMSON

Foundation spotlight: Wilmslow Youth

Since the pandemic, a growing number of young people have faced mental health struggles. Chief Executive of Wilmslow Youth, Matt Williamson, explains the many ways they have managed to support those aged 11-18 living in Wilmslow and surrounding areas.

The famous proverb ‘it takes a village to raise a child’ captures much of what research tells us about how to effectively promote wellbeing amongst young people. Providing them with a community to belong to, where they can find healthy role models and strong friendships, is just as important as ensuring they have easy access to free, professional mental health services.

We are a youth support charity called Wilmslow Youth, and our work began in 2016 by bringing together teenagers, parents, teachers, police, community groups and charities to have one big community conversation to help us understand the self-expressed needs of our local young people.

The reason we wanted to include as many voices as possible in this conversation is that the solution to the mental health crisis affecting our young people isn’t one-dimensional. Support is at its best when it is multi-stranded, with professional therapeutic support being offered alongside wrap-around care, with opportunities to make friends, be active and adventurous and enjoy new experiences.

"I wanted a like-minded person to understand what I was saying and how I was feeling and to help me understand and do something about my depression."

For that reason, our counselling and mentoring services have always been accompanied by our youth café, friendship groups, wellbeing workshops and alternative education programmes – all of which are free for young people to access. We partner with other local community groups and charities to encourage shared thinking and signposting. The idea of all of this is that when a young person comes for one-to-one support, they never finish without something in place to offer ongoing care and community, for as long as they need it.

The need for this kind of support is now greater than ever. The effect of the last couple of years on young people has been staggering, with record waiting lists for mental health services. Large numbers of young people are struggling with the emotional toll of loss, isolation, uncertainty and worry. This picture has been well documented in the media and has certainly been true for the young people right here in our town.

Referrals for our one-to-one support services have doubled in the last two years. The help given to us through the Equilibrium Foundation has made an enormous difference in ensuring we can keep waiting times low. The money has all gone directly to funding an expansion of our mentoring and wellbeing workshops. It has meant that young people, like Millie, who came to us last year, can address difficulties before they reach a point of crisis. The kind of help Millie sought reflects what many other young people are looking for:

"I wanted a like-minded person to understand what I was saying and how I was feeling and to help me understand and do something about my depression. I didn't want someone who was boring or didn't seem engaged in my problems; I wanted someone who would help and be interested in me. I had a mentor who I connected with because they seemed really genuine and wanted to help as much as they possibly could" - Millie.

We're also hugely fortunate to have a wonderful community of volunteers who work alongside our staff team to help young people like Millie. Our volunteers ensure that the young people who come through our doors are welcomed warmly, listened to, supported and, importantly, fed some truly excellent food.

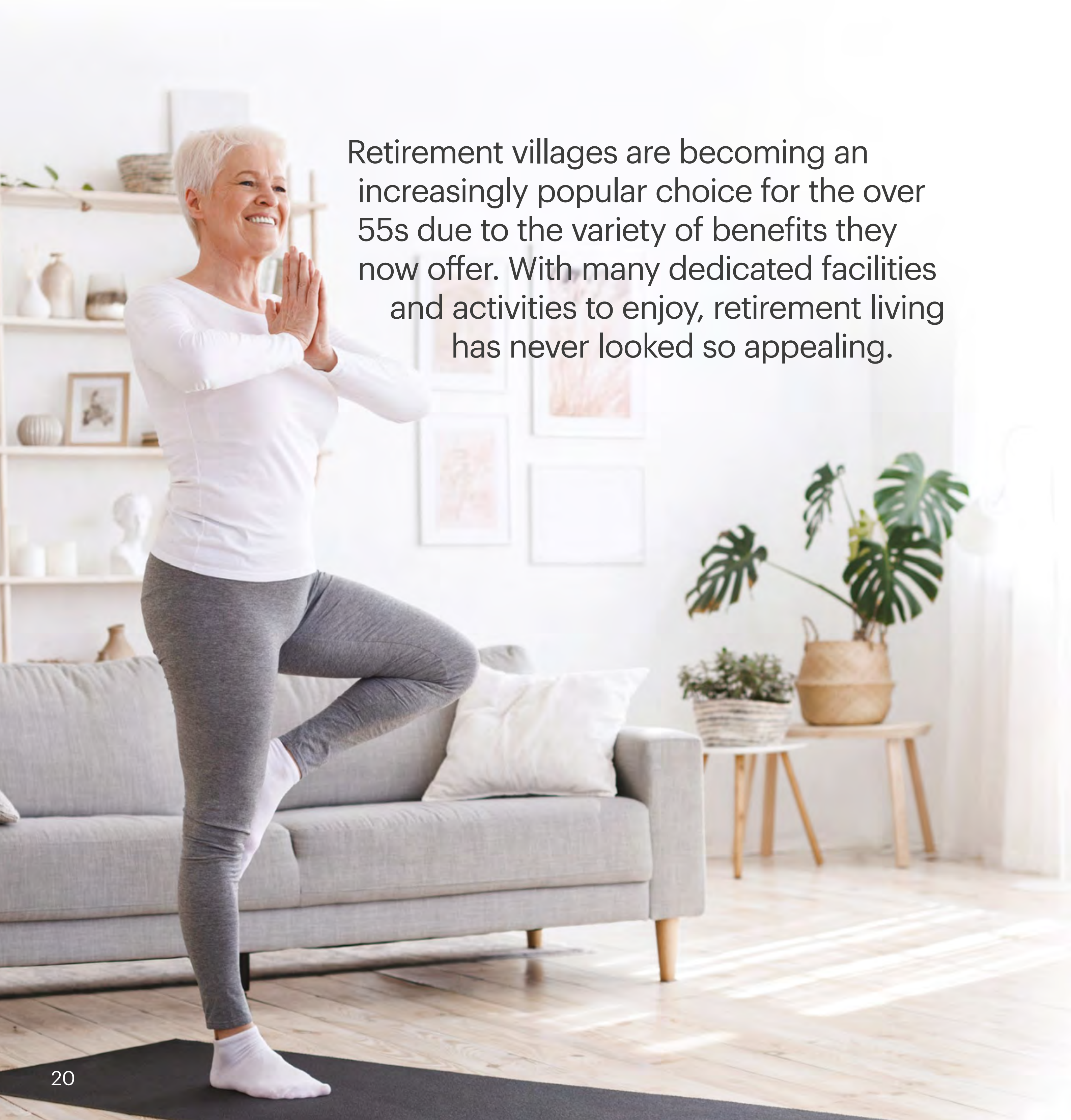
One example is two retired volunteers called Peggy and Mary, who help with a number of our groups and projects. To say that they have a magical way with our young people is an enormous understatement. Not only do they rustle up a delicious meal every week for the young people who come to our wellbeing workshops, they also take time to sit and listen to anything our young people need to talk about. They befriend them, ensure they feel welcome and at home, and help them work through life's challenges by simply listening and empathising. One of the wonderful things about Peggy and Mary is that they are totally, and disarmingly, themselves – and allow everyone else to be themselves too.

Young people need community, they need healthy friendships, they need adult role models and they need 'grandparent' figures too. These people don't have to be relatives, they can simply be kind-hearted volunteers who will give their time to sit and listen. Our mission is to do all we can to facilitate this kind of community for as many young people as we are able.

If you would like to know more, please contact **hello@wilmslowyouth.com** or visit **www.wilmslowyouth.com**.

BY FIONA WHITFIELD

Retirement villages: the balance of cost and comfort



Retirement villages are becoming an increasingly popular choice for the over 55s due to the variety of benefits they now offer. With many dedicated facilities and activities to enjoy, retirement living has never looked so appealing.

A recent survey carried out by CW Retirement Living found that roughly half their survey population is either 'very' or 'quite' attracted to the idea of living in a retirement development[1].

Retirement villages often go above and beyond in what they offer, as well as providing a sense of community and a better quality of life.

You may be at the start of your journey, debating whether this is the right option for you. To make your decision easier, here's our key costs to consider:

Property prices – often retirement villages are positioned as a place which offers a luxury lifestyle, with facilities such as swimming pools and restaurants on site. You can expect the retirement property to have a higher price than the equivalent size in the same area.[2]

Service/management fee – this can range from £500 - £1,000 per month[3], covering anything from the running of the village, to health club membership, to a management team, who look after everything and everyone. In the event of selling the property, these charges may continue until the property is sold.

Parking fees and ground rent - are usually charged on an annual basis. It may be worth checking historical costs as there have been instances where companies have increased ground rent by a vast amount at very short notice.

Additional care costs – if you think you may need extra care and support, find out the cost and if you're required to use their in-house care service, or whether you can use external resources.

Bills which are not included – you will still have to pay for household amenities such as gas, electric, water, TV license and council tax.

Lease renewal – most retirement properties are sold on a lease basis. Check the remaining term on the lease, as it can be costly to renew and having a short-term lease will affect the property's value.

Exit or Transfer fee – your lease may have a clause which requires you to pay a fee in the event of selling, sub-letting or transferring ownership. You may wish to enlist the help of a solicitor to go through the terms with you.

Conditions of sale – when re-selling the property, you can usually choose between using your own estate agent or their in-house sales team. However, some freeholders make it a condition that you must resell through their company.

Retirement villages often go above and beyond in what they offer."

These costs may seem daunting, however, this life-changing decision comes with immeasurable benefits:

Security is a top priority - from having staff on hand to assist you if needed, to providing all residents with their own unique key passes.

Less stress, more pleasure - not only do you get to experience the benefit of living in beautiful surroundings with a variety of amenities available, but it also removes the burden of mundane and strenuous property upkeep, which may currently lie with you or your family.

Sense of community - this environment provides the independence of living in your own home, with the benefit of being surrounded by others of similar age. The opportunity to join like-minded individuals in a multitude of classes, activities and groups, combats social isolation and loneliness. Spending time doing what brings you the most enjoyment can create a real sense of wellbeing.

Positive outcome - a report by ProMatura International and Associated Retirement Community Operators[4], found those that moved to retirement communities:

- stay healthier for longer
- are more active
- less lonely
- have a greater sense of safety
- ultimately, enjoy life more.

If this is something you are considering for yourself or a loved one, see our top tips below.

Look for companies signed up to one of the following Codes of Practice:

The Associated Retirement Community Operators (ARCO): the main body representing the retirement community sector in the UK, so this is a useful place to start your search.

The Associated Retirement Housing Managers (ARHM): Private Retirement Housing

National House Building Council (NHBC): Sheltered Housing Code

Check if there's a residents' association:

Check that the management organisation works with a residents' association, which helps ensure residents' views and needs are considered.

Think of it as an investment into your wellbeing:

With the range of ongoing fees, it can be viewed as an expensive move and one which may not necessarily result in a financial gain when selling the property. Consider whether this could benefit your life and then decide if the costs are justifiable.

This article is intended as an informative piece and does not constitute advice. If you have any further questions, please do not hesitate to contact us.

Sources

1 CW Retirement Living – Perceptions of Retirement Living report www.clarkewillmott.com

2 Research by the real estate company, Jones Lang LaSalle, suggested that, on average, a retirement apartment in England costs around 17% more than a standard apartment of the same size in 2018.

3 Financial Times - Retirement village life: your own Thursday Murder Club? www.ft.com

4 Associated Retirement Community Operators - Housing, health and care; The health and wellbeing benefits of Retirement Communities. www.arcouk.org

Could equity release now be a valid option?

Equity release is a way to free up funds from your home, without having to downsize or relocate. Perception of this market has improved significantly over recent decades and the industry is now fully regulated, making it a much safer option. Richard Levell from Professional Mortgage Services outlines how the market now operates.

Equity release in previous decades

Looking back to the 1990s, equity release built itself a bad reputation. Many of the old schemes saw borrowers effectively sign over the ownership of their home to the lender. Furthermore, the level of debt would often rise in line with any future increases in the value of the property, leading to horror stories, whereby unsuspecting borrowers might have seen the size of their mortgage run away with itself, as the property market boomed.

The market as it is now

In recent years, much has changed. Equity release loans, like traditional 'high-street' mortgages, are now regulated by the Financial Conduct Authority (FCA). Any lender operating within this industry must be a member of the Equity Release Council, an independent trade body committed to ensuring that all 700+ products within the market adhere to the following strict guidelines: (Source: www.equityreleasecouncil.com)

- Interest rates must be fixed for the lifetime of the loan.
- The borrower may remain at the property for the rest of their life.
- The right to move home and to 'port' the mortgage over to the new address.
- A 'no-negative equity' guarantee.
- The option to service the interest or make penalty-free payments against the loan, usually up to 10% of the mortgage balance per year.

Rates start from around 1% more than you might pay for a market-leading 'high-street' mortgage. In these times of high inflation and steadily increasing interest rates, the ability to fix a rate indefinitely may appeal to those looking to safeguard against any future rise in the cost of borrowing. Set-up costs are low, with many products having no arrangement fees and often being enhanced with a free valuation.

It should be noted, however, that unlike traditional mainstream mortgage products, equity release loans carry significant redemption penalties, typically for at least the first eight years of the plan. Also, if no payments are made to service the interest, then the debt will 'roll up' over time and the equity in the borrower's home will be eroded as a result.

Who can benefit?

Any UK homeowner (aged 55 or above) can apply for equity release and it is even possible to raise funds against a second home or a rental property. Depending on an applicant's age, a lender might be able to offer as much as 60% of the value of their home, although market-leading products tend to be available at a lower 'loan to value'.

Some borrowers will simply be looking to raise capital to help supplement their incomes as they head into retirement. For those, the fact that modern products now allow funds to be drawn in stages, as and when required, is ideal. On the other hand, some may wish to raise capital for a one-off expenditure such as buying a second home or rental property.

Then again, borrowers might wish to delay the repayment of their interest-only mortgage, which may be nearing the end of its term, with their original plan having been to downsize as they head into retirement or to draw from investments to repay the debt. They might now prefer to remain in the family home for the foreseeable future, or to leave well-performing portfolios untouched in the background.

Table one: example of IHT saving

	Before	After
Estate	£2,300,000	£1,700,000
Less joint nil rate band	£650,000	£650,000
Less joint residence nil rate band*	£200,000	£350,000
Taxable estate	£1,450,000	£700,000
IHT liability	£580,000	£280,000

*Residence nil rate band is tapered by £1 for every £2 that the total estate value exceeds £2million.

Inheritance tax planning

Increasing numbers of borrowers are keen to plan for any future inheritance tax (IHT) liability that might be incurred by their beneficiaries. With IHT charged at 40%, the tax-free allowance having been frozen at £325,000 per individual since 2009 and fixed until April 2026 and with UK house prices having increased by over 50% over the course of the last decade, homeowners are increasingly finding themselves caught in the 'IHT trap'.

Equity release can have a direct impact on an IHT liability as the debt will be offset against the value of the estate upon death. For example, an equity release borrower with a £2.3m house as their sole asset and a loan of £600,000 would then be worth £1.7m for estate planning purposes, cutting the IHT bill from £580,000 to £280,000 in the process, as shown in Table one below.

Note that where funds released via equity release are gifted, the full IHT saving is only achieved once the donor has survived for 7 years. Until that stage, the gift will still attract an IHT liability, albeit on a tapered basis.

With this in mind, more property owners are choosing to 'gift' some of the equity to their family now, to see them enjoy the benefit of their early inheritance.

Please note that this is a lifetime mortgage. To understand the features and risks, ask for a personalised illustration. Taking out an equity release scheme may have an impact on state or local authority means-tested benefit entitlements (both now and in the future).

Find out more

At Professional Mortgage Services, our team of experienced specialists will be delighted to help you. We are members of the Equity Release Council and have a long-standing relationship with Equilibrium, having assisted their clients with their mortgage needs for many years.

Please contact Richard Levell **0161 237 755** or **rl@pms-uk.org** or Martin Sloan **0161 237 7526** or **msl@pms-uk.org**.

Positive impact portfolio

For many years, investors have been given a choice: do they want to do some good with their investments (or at least avoid doing harm) or do they want to maximise their potential return? But, can we have both?

The theory goes, that if you want to maximise your returns, you can't restrict yourself to selected sectors. For example, sometimes so-called sin sectors, such as oil & gas, gambling or tobacco, can produce decent returns. And of course, what is ethical to one person is not necessarily always perceived that way to another.

This is why so-called ethical investing has not really made it into the mainstream, despite being around for a very long time.

However, there's a newer form of investing which we think is a better way to do some good. It's called impact investing and it works in a completely different way to old-fashioned ethical portfolios.

Why impact investing?

We believe that over the long term, companies that can make a positive difference to the world are also likely to be successful investments.

For example, there is a huge weight of capital being invested in technologies to fight climate change. The most successful technologies are likely to be very profitable for the companies that produce them.

Impact investing is different from ESG (environment, social & governance) or ethical investing. Primarily, ESG and ethical funds aim to avoid investing in companies that are doing harm.

By contrast, an impact fund aims to invest in companies or investments that may actively do some good.

ESG screening is backward-looking and considers how companies or investments have done in the past. Impact investing is forward-looking.

A good example is a company called Orsted, which today is a leading provider of renewable energy and is found in many ESG funds. However, 15 years ago, the company was called Danish Oil & Natural Gas, and most of its profits came from fossil fuels.

An ESG fund would not have invested in Orsted 15 years ago. However, in our opinion, there can be a greater impact and potentially, a greater financial return, by supporting a company through transition, than by investing in a company which has already undergone changes.

We have recently launched our Positive Impact Portfolio, with the aim of capturing some of these opportunities.

What is the portfolio aiming to do?

The portfolio aims to provide long-term capital growth and to invest with the intention of generating a positive social and/or environmental impact.

The portfolio will be invested mainly in equity and related securities and, whilst we think there are attractive long-term growth prospects, it is likely to be volatile (see risks section).

At present, the portfolio is currently available as a discretionary managed portfolio.

How do you assess impact?

A fund can only be included in the portfolio if we believe it meets four key criteria:

- **Intent** – does the fund manager intend to make a positive impact?
- **Materiality** – is the positive impact potential a material part of the fund?
- **Additionality** – does the fund screen for assets which are additional – which means the impact would not occur to the same extent, if that company or asset did not exist?
- **Measurability** – is the fund measuring the positive impact and reporting it?

> "an impact fund aims to invest in companies or investments that may actively do some good."

Once we're happy a fund meets the criteria and is included in the portfolio, we then monitor it on an ongoing basis.

We typically assess impact relative to the United Nations (UN) Sustainable Development Goals – a set of objectives defined by the UN to provide a blueprint for shared prosperity for people and the planet, both now and into the future.

For more information, see **https://sdgs.un.org/goals**

What are the risks?

Whilst we believe impact funds can provide attractive long-term returns, the portfolio is likely to be riskier than our other portfolios, for several reasons:

1. There are only a small number of funds which meet our impact criteria, meaning the portfolio will be more concentrated. For example, at present there are 10 funds in the portfolio, compared to 30 holdings in our Global Equity portfolio.

2. The portfolio will also be concentrated in a smaller number of sectors than other portfolios, in particular technology and healthcare related sectors. By nature, some of the investments will be relatively early-stage or unproven technologies. The fund will therefore be biased towards smaller companies and long-term growth investments.

The portfolio may behave very differently from other equity funds due to these factors. There is, of course, no guarantee that either the growth or the impact objectives will be achieved.

Investing in the portfolio

Because of the riskier nature of the portfolio, we anticipate that most people would invest in it as part of a diversified portfolio strategy.

As part of our horizon planning approach, we aim to identify what capital a client may require access to in the short, medium or long term. The Positive Impact Portfolio would be suitable for capital you don't need to access for perhaps 10 years or more.

For example, many clients have invested a small portion of their portfolios, such as money they intend to leave for their children or grandchildren, whilst investing most of their assets in one of our core funds.

The detail within this article is for information only and does not constitute a recommendation to invest. If you are interested in making a positive impact with your investments, please let us know and we can discuss if the portfolio is suitable for you and if so, how much would be a sensible investment.

Notes & risk warnings

Past performance is never a guide to future performance. Investments may (will) fall as well as rise and you may not get back your original investment. Changes in currency exchange rates or interest rates may have an adverse effect on the value of your investments.

Equilibrium Investment Management LLP (a limited liability partnership) is authorised and regulated by the Financial Conduct Authority. Equilibrium Investment Management is entered on the Financial Services Register under reference 776977.

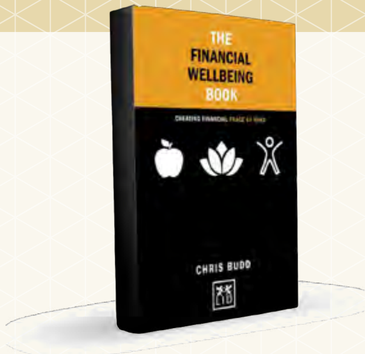
Investment Fund Services Limited (IFSL) is the Authorised Corporate Director (ACD) of the IFSL Equilibrium OEIC. IFSL is registered in England No. 06110770 and is authorised and regulated by the Financial Conduct Authority. Registered office: Marlborough House, 59 Chorley New Road, Bolton, BL1 4QP. Copies of the Prospectus and Key Investor Information Document are available in English from www.ifslfunds.com or can be requested as a paper copy by calling 0808 178 9321 or writing to IFSL at the above address. Investors should refer to these for further details on the fund's investment objectives, policy and associated risks.

What we are reading this month...

Lucy Woolrich
HEAD OF TALENT

The Financial Wellbeing Book: Creating Financial Peace of Mind

by Chris Budd



The term 'wellbeing' may seem like a current buzzword, but it is essential to our health and happiness as it encompasses our physical, mental, social and financial welfare. Stress poses a significant threat to wellbeing; and not feeling secure and in control of our money can result in even the most resilient of us feeling anxious.

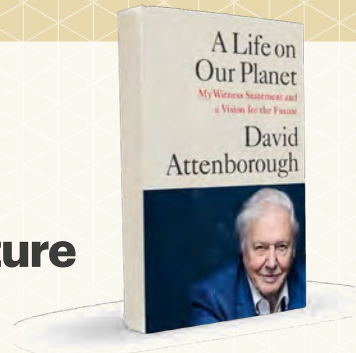
This book separates financial wellbeing into five elements, with the underlying mantra of 'know thyself' embedded into each stage. With the help of practical steps and suggestions for notes along the way, Budd uses his expertise to walk you through a process that covers how to lessen the effects of shocks, like the current inflationary pressures and rising energy prices, as well as how to create your own unique motivations and goals.

A key takeaway for me is that financial wellbeing isn't about being wealthy, it's about aligning the life you want for yourself and your finances. It's about feeling in control, enjoying options and choices, and providing much-needed clarity and security for those we leave behind. In essence, it aims to create peace of mind – surely, there's no greater wealth in this world than that?

Colin Lawson
FOUNDER

A Life on Our Planet: My Witness Statement and a Vision for the Future

by David Attenborough



I am an avid non-fiction reader and whilst I like to think this encompasses a wide variety of genres, I wouldn't have naturally bought this book. Fortunately, my ten-year-old son gifted it to me and out of the 22 books I've read this year, I found this one to be the most impactful.

In the first half of the book, David chronicles how he has seen the planet change over the nine decades he has been on it, charting the unrelenting rise of humanity and our ever-growing impact on the natural world around us. It's a heart-breaking, shocking and thought-provoking account.

The second half happily proves uplifting and motivating. David moves on to how we can and must fix things, by looking at various strategies and technologies, which could transform the world we live in. The solutions required could well create some of the largest and most profitable companies of the future. So for me, there's also an underlying investment theme developing.

If you only read one non-fiction book this year, I recommend this one. If, come the last page, you are disappointed, I will gladly refund you the cost.

INVESTMENT REVIEW

Uncertainty and opportunity

Welcome to the investment review section of this edition of Equinox.

Mike Deverell
PARTNER & INVESTMENT MANAGER

We live in highly uncertain times.

Most of the major asset classes have fallen in 2022, including most major equity and bond markets.

Much of this is being caused, or at least exacerbated, by geopolitical events. Inflation was rising as economies recovered from the pandemic but has been pushed much higher by the war in Ukraine, and the associated sanctions against Russia, which have increased energy prices.

This means that interest rates – which were likely to rise anyway – have had to go up faster than anticipated.

And here in the UK, the increase in the cost of borrowing has been magnified by the government's (as yet) unfunded tax cuts and spending promises, making international investors worry about UK government finances, as well as our economy.

Many of these factors are highly unpredictable, making short-term market movements virtually impossible to forecast.

However, we are not investing for the short term. The good news is that past long-term returns from investing have been positive and we think there are many reasons to be optimistic about future returns too.

Volatility inevitably throws up opportunities. As well as trying to capture these opportunities, our focus at present is also to seek as much 'certainty' as is possible in investing, in what is a very uncertain world.

Over the next few pages, we'll explain how we are going about this.

There is often too much focus on the short term when it comes to investing.

These days it is all too easy to check the market or your portfolio online on a daily, hourly or minute-by-minute basis.

We all know in our rational brains that investing is for the long term – it is written on virtually every fund fact sheet or prospectus and every suitability report from your financial adviser. Markets can be volatile and short-term losses are common. The more frequently you check your portfolios, the more likely you are to experience a loss. However, if you can afford to wait long enough, it will give portfolios time to recover and to profit.

But as humans we aren't always rational and short-term market movements can trigger emotional reactions. In particular, when markets are going down, it triggers fear and worry. Often investors consider cashing in right at the bottom of the market when these fears are at their highest.

These emotions come to the fore when we can see how the issues that are affecting our investments, are affecting our real lives too.

The main cause of market falls - whether that's in equity, bond or even in real estate - has been higher inflation and higher interest rates.

In real life, this translates into higher electricity and gas bills for all of us, an increase in the cost of travel and our weekly shop. For many people, higher rates will result in higher mortgage repayments.

It is all too easy to imagine how this could render an economic downturn, as we all have less to spend on non-essentials and companies offering such services seem set to struggle.

We share these worries in the short term. However, we are convinced that the long-term outlook is very positive, as most of the major asset classes look cheap relative to their own history. We will explore the long-term future returns we expect in more detail on page 31.

In this edition of Equinox, we will not spend too much time covering what is driving markets in the short term.

We are all aware of the current issues as they are in the mainstream press every day.

Furthermore, things are moving extremely quickly and whatever we write today may be completely superseded by tomorrow.

The short-term drivers are also extremely unpredictable. Unfortunately, we don't know what Vladimir Putin plans to do next, what the response will be from the West, or what financial surprises governments plan to spring on us.

Past long-term returns

What we do know is that, over the long term, investing has worked very well in the past.

For example, since its inception in 1928, the S&P 500 (the main US stock market) returned 11.8% p.a. on average up to the end of 2021 (according to data from Professor Aswath Damodara at the New York School of Business).

So far this year, the US market is down just shy of 20% (Source: FE Analytics, 1 Jan 2022 to 5 October 2022 total return in US dollars), but similar falls have happened many times in the past.

Since 1928, there have been 26 'bear markets' when the market has dropped by more than 20% (according to US asset manager Hartford).

Over this period, there have also been at least 15 recessions (including the great depression), a World War and a global pandemic, as well as numerous other conflicts and crises.

We are using US data here since we have more available data than other markets, although we of course invest globally and in many different asset classes. Unfortunately, most of those asset classes have dropped this year. Again, this should be set in context.

Table one shows the returns of several of the major asset classes we invested in so far this year, as well as the annualised return over the past 20 years.

One of the best performing assets over 20 years is the FTSE 250 (medium sized UK companies) which has returned over 10% p.a.

We tend to have a bias towards small and medium sized companies in portfolios, as we think they are likely to outperform over the long term, but they can be riskier than large companies. It is worth re-stating that this 10% p.a. average return includes the drop of over 23% so far this year.

We take a similar view with emerging market equities, which we think can provide higher long-term growth, despite being seen as riskier. They returned 9.69% p.a. over 20 years, despite an 18.1% fall this year.

Meanwhile, US equities returned 9.58% p.a. over this period, well ahead of the FTSE 100, which only returned 7.02% p.a. By contrast, the FTSE has outperformed this year, given the number of oil and commodity stocks in the index which have benefited from higher energy prices.

Perhaps the most shocking thing in 2022 has been the return on

Table one: Main asset class returns

Portfolio	Past 20 years (average % p.a.)	2022 so far (%)
FTSE 250	10.37	-23.57
MSCI Emerging Markets	9.69	-18.10
S&P 500	9.58	-19.95
FTSE 100	7.02	-1.45
FTSE Actuaries UK Conventional Gilts All Stocks	2.96	-26.62
UK CPI Inflation	**2.52**	**6.95**

Source: FE Analytics to 30 September 2022. Total return in local currency bonds. Gilts, often thought of as one of the safest investments since they are guaranteed by the government – have lost an astonishing 26.62% so far this year – even more than the FTSE 250. However, even here, the return over the past 20 years remains above inflation.

Equilibrium's returns

For our own part, our core portfolios all aim to outperform inflation as their number one priority.

Over the long term (10 years or more), they aim to beat inflation by various degrees.

Our cautious portfolio aims to beat inflation (UK Consumer Prices Index (CPI)) by 4% p.a., balanced by 5% p.a. and adventurous by 5.5% p.a.

These are targets and not guarantees. Given the recent rise in inflation and fall in markets, our portfolios have fallen below these tough targets recently.

Chart one shows the returns of our balanced portfolios over the past 10 years in blue. The green line is the cumulative effect of inflation over this period. Meanwhile, the orange line shows inflation plus 5% p.a.

Our balanced portfolio remains ahead of inflation over this period, despite the recent downturn in markets and acceleration in consumer prices. The portfolio was also ahead of the CPI+5% target until the beginning of 2021.

It also outperformed similar portfolios from our competitors – the red line is the average mixed investment fund (UT Mixed Investment 20-60% shares sector), which has a similar level of risk to us.

Table two shows the annualised return of our three core strategies over this period, which have beaten inflation over this period by between 2.06% and 3.49% p.a. It also shows the average fund has only outperformed inflation by 1.37% p.a.

So far this year, markets and portfolios have gone down, but if we take a long-term view, those recent losses pale into insignificance compared to long-term gains.

Chart one: Equilibrium Balanced portfolio 10-year returns

Table two: Annualised return of our three core strategies

Portfolio	10-year total return (%)	10-year (% p.a.)	Real return (% p.a.)
Cautious	55.62	4.52	2.06
Balanced	65.21	5.14	2.68
Adventurous	78.35	5.95	3.49
UT Mixed Investment 20-60% shares	45.67	3.83	1.37

Source: FE Analytics 5 October 2012 to 5 October 2022, based on CPI averaging 2.46% over this time period

Whilst this long-term focus is important, the short-term volatility has thrown up what we think are some very attractive opportunities.

Seeking certainty in an uncertain world

We are aware that many investors are nervous right now.

If we carried out a survey to ask if investors thought the stock market would be higher or lower over the next six months, I suspect we may get a very mixed response.

However, if we instead asked whether the market was likely to be higher or lower over the next five years, perhaps we might get a more optimistic result.

For our part, we think it's unlikely that major markets such as the FTSE 100 or S&P 500 will be lower in five years' time than they are today. It is of course possible, but in the past 79% of 5-year periods, we have seen positive returns according to our analysis (Source: Refinitiv Eikon / Equilibrium Investment Management, based on FTSE Allshare). And of course, these markets have already dropped significantly from their peaks.

This is where defined returns come in. We have recently invested in a product which will pay 15.2% p.a., provided the market is the same or higher than its starting level over five years.

Even if the market drops sharply and remains below where we started for four years and 11 months, provided we get back to the starting levels by the fifth anniversary, we will get a return of 15.2% p.a.

The product will also kick-out and provide this return early, should the market be higher on any one of the first five anniversary dates.

In the event that the market doesn't recover over five years, then there is an element of capital protection that kicks in.

Unless the market is down by more than 40%, we get our original investment back. If the market is down more than 40%, the losses

The strategic asset allocation of our balanced portfolio is the mix of assets which we think gives us the best chance of achieving the target return, within the risk limits allowed for that portfolio."

are in line with the market, so if the market is down 45%, then we lose 45%.

However, in many ways, the downside of such products is in missed opportunity. If stocks go up by 20%, we still just get 15.2%. This is the pay off – we cap our potential gain but increase the likelihood of getting that gain. In the current environment, we are happy to do this for an element of our portfolios.

The other downside is credit risk. The product mentioned earlier is provided by Morgan Stanley. In the unlikely event that Morgan Stanley defaults on their debts, we could lose our whole investment. For this reason, we only usually invest a small amount with a single bank, even though our view is that such banks may be considered 'too big to fail' by governments.

If you are still not confident that markets will be higher over five years, then I have a different question for you...

Do you believe that markets will be down by less than 20% over the next six years?

If so, then our other defined return product might still seem appealing.

This product potentially pays 10.42% p.a. However, the level at which it will kick-out drops by 5% per year from the second year, until it reaches 80% of the starting level after five years.

The product was struck when the FTSE 100 was at 7,052 and the S&P 500 was at 3,783.

If the market falls below these levels, but at the second anniversary they are above 95% of their start point (which would be 6,699 on the FTSE), the product will kick-out and pay the 10.42% p.a. return. On the third anniversary, this drops to 10% below strike.

By five years, the kick-out level drops to 20% below where we started, which equates to a FTSE level of 5,641. Provided the market is above this level on the 5th or 6th anniversary, we still get our 10.42% p.a. return.

In our analysis, the worst five-year period we can find for the FTSE Allshare, saw losses of less than 10% (Source: Refinitiv Eikon / Equilibrium Investment Management), so we think the risk/return ratio of this product is strongly in our favour.

If the market is down below 5,641 over the full six-year term, but less than 40% down, it functions in the same way as the Morgan Stanley product mentioned earlier. This time, we have a contract with Goldman Sachs International and again, the product is subject to credit risk.

We have added defined returns exposure to all our core funds, with a different mix of the more defensive or more adventurous product, depending on the risk profile of the fund. Both products mentioned are based on the FTSE 100 and S&P 500 and require both indices to be above the levels quoted.

We are aware that it is now possible to get fixed rate cash accounts that pay north of 3% p.a. if you are willing to tie your money up for some time.

Whilst defined return products are of course riskier than cash, for investors who are willing to tie their money up for a period and can stomach the extra risk, we think the current rates of these defined returns products are extremely attractive.

Strategic decisions

For many years, we have used this quote from Warren Buffett in several of our presentations:

"To invest successfully over a lifetime does not require a stratospheric IQ. What's needed is a sound intellectual framework for making decisions and the ability to keep emotions from corroding that framework."

Our framework is built around what we describe as our 'strategic asset allocation.'

Each of our portfolios has a target return objective. For example, our balanced portfolio aims to beat inflation over five-year periods. Over the long term (10 years or more), we aim to return 5% p.a. ahead of inflation.

The portfolios also have strict limits on the amount of risk we can take, including how much we can invest into equities.

The strategic asset allocation of our balanced portfolio is the mix of assets which we think gives us the best chance of achieving the target return, within the risk limits allowed for that portfolio.

It is based on a passive 'buy and hold' strategy. In other words, if we could only buy index tracking funds and were happy to simply buy and hold for the next decade - making no changes along the way - the strategic asset allocation is what we would buy.

Having come up with this long-term framework, we can then make short-term 'tactical' changes around it. For example, if we think bond yields may go up (and therefore bond prices go down – as we have felt for the past year or two), we may go underweight in fixed interest and instead put more money into absolute return strategies.

If equities drop and become better value (as has happened recently in our view), then we could top up at relative lows. We can also use actively managed funds, where we think it likely the fund will beat an index tracker.

The strategic asset allocation framework is very important and we think it is worth sharing how we arrive at this position.

Long-term expected returns

Each year, we carry out a piece of research to determine the potential future returns for all the major asset classes.

Unfortunately, we don't have a crystal ball. There are assumptions that go into our forecasts that will no doubt be incorrect. As they say about economic forecasts: *"All models are wrong, but some are useful"* - George E.P Box.

Table three: Expected returns

Asset class	10-year expected return (%)
UK inflation	2.5
UK cash	2.8
Gilts	2.8
Corporate bonds	5.8
UK equities	9.8
US equities	7.2
Europe ex UK equities	6.6
Japan equities	6.2
Global Emerging Market equities	12.2
China equities	14.6
India equities	4.2
Real estate (investment trusts)	6.0
Infrastructure	8.0

Source:Equilibrium Investment Management as of 31 August 2022. These are our 'best guess' based on available data and are in no way guaranteed

The purpose of this exercise is not to be proved right, but to determine our strategic framework and give us the best chance of long-term success.

The good news is, for most asset classes, there are metrics which have in the past given you a good idea of what future returns are likely to be.

Table three shows our best guess for 10-year returns for the main asset classes we invest in, as of the end of August 2022.

Given how markets have moved since the end of August, we think the returns of most of the asset classes are likely to be higher than in the table. All the figures have an element of uncertainty within them, but some are more uncertain than others.

The assumption of inflation at 2.5% p.a. is based on the approximate level of inflation that markets were pricing in at the end of August. Clearly the outlook for inflation is one of the most uncertain factors, as well as potentially a big driver of returns in other asset classes.

In this instance, we are assuming that the current market pricing is correct, rather than trying to come up with our own forecast. The Bank of England targets inflation at around 2% p.a., so this assumes they don't quite achieve this objective.

At the other end of the spectrum, we think we can be much more confident about our assumed return for UK government bonds (gilts).

At the end of August 2022, had you bought a gilt with exactly 10 years to maturity (meaning it will mature in August 2032), the yield to maturity would have been 2.8%.

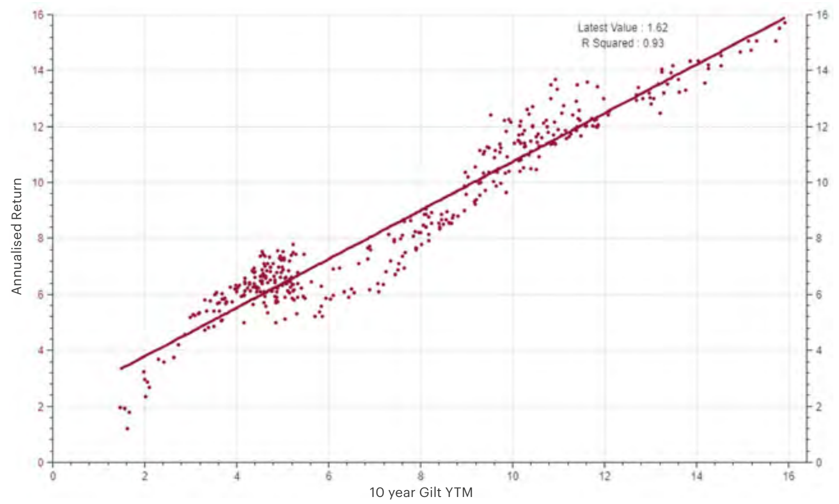
This means, that if you buy and hold this bond until it matures, you know exactly what your return will be (2.8% per year). This is because the UK government guarantees to make the interest payments and to repay the loan at the end of the period.

Even if the UK government runs into financial difficulty (which may seem more of a realistic proposition than it might have done a few weeks ago), it would still be able to repay this debt.

The Bank of England (BofE) issues the UK's official currency, the British pound sterling, therefore in extremis, the government could order BofE to print enough money to repay the loan. Of course, the value of a pound may be worth a lot less in that scenario compared to other currencies. However, all our forecasts are in sterling. We also think it extremely unlikely that the UK government finances would deteriorate to that extent - a few weeks ago, most people wouldn't even have thought to discuss it.

The price of a UK gilt may fluctuate a lot over that 10-year period. If investors want a higher yield than 2.8% to buy a gilt, the price at which you could sell the bond to someone else will go down.

Chart two: 10-year gilt yield vs 10-year annualised returns



Source: Refinitiv Datastream / Equilibrium Investment Management - 31 August 2022

The short-term return is highly uncertain, but the long-term (10-year) return is fixed.

In fact, the short-term return has been extremely poor since we produced these figures. As of the end of September 2022, the fall in the price of gilts means the yield is now 4.1% p.a. The expected return has therefore increased to over 4% per year.

When we invest in gilts, we normally buy a basket of bonds, rather than a single 10-year bond. This introduces a bit more uncertainty, however the yield still has a very good indicator of returns in the past.

Chart two (on page 31) shows the relationship between the yield on the 10-year gilt and the returns on a basket of gilts over different 10-year periods.

Each dot on the chart represents a different 10-year period. The higher the dot, the higher the returns.

Across the horizontal axis is the yield at the beginning of the 10 years. The dots form a fairly straight line, with only a few outliers.

For those who are statistically minded, the r-squared figure between these two metrics is 0.93. In essence, this means there is a 93% correlation (where 100% is a perfect relationship and zero means no relationship).

Risk & return

Of course, the other asset classes don't come with a government guarantee and the potential returns are therefore more uncertain.

If we are willing to lend our money to a company rather than the government, then we could buy a corporate bond instead. This works in the same way as a gilt, but there is more risk since the company could go bust and not be able to repay our loan.

The yield on a typical 'investment grade' company – a relatively secure company with a credit rating of BBB or more – was 4.8% p.a. at the end of August. Again, the yield has been a decent indicator of likely returns as we can see in **Chart three**, albeit not as strong as for gilts.

In the past, when yields have been at those levels our typical return has been above 5% p.a.

Again, we believe the potential return has only increased since the end of August, with the yield moving up to 6.6% p.a. as of the end of September. We think this more than compensates for the increased default risk.

As we go further up the risk spectrum, the uncertainty around the expected returns increases. However, even in equities, there are metrics which in the past have been a good indicator of returns.

These include price/earnings (PE) ratios, which look at the relationship between the profits made by the companies within the market and the market price. Typically, a lower price/earnings ratio (cheaper market) has signalled higher returns over the long term.

PE ratios can be calculated either based on the last reported earnings (from the latest company accounts) or based on forecast earnings.

There are other metrics which compare price to book value (the value of assets minus liabilities in the accounts) and price to cash earnings (which are less easy to manipulate than profit figures).

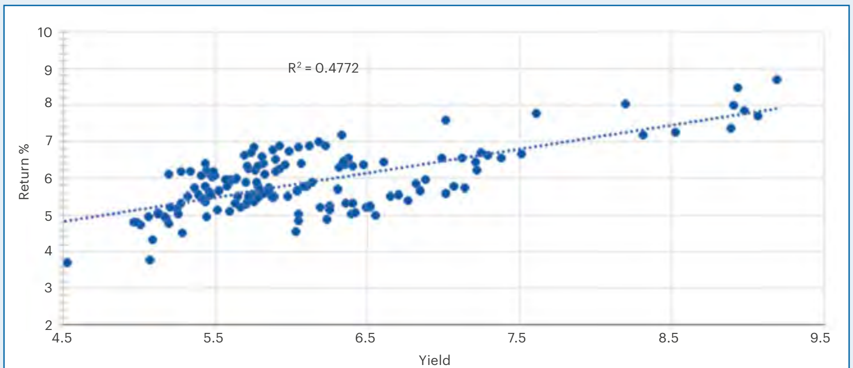
We combine all these ratios into a single metric for each different equity market.

We have found that our valuation scores have historically had a good relationship with long-term returns, especially when we consider 10-year periods. In addition, by looking at returns relative to the returns on cash, the correlation is especially strong.

Chart four shows the relationship between our valuation indicator for the UK stock market and the returns.

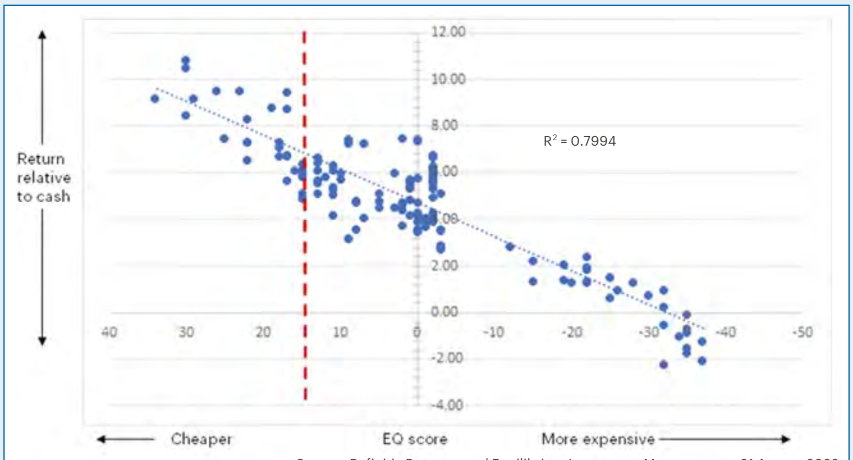
Each blue dot represents a different 10-year period for UK stocks. The vertical axis shows the return of the market minus the return on UK cash (using Bank of England base rate) – the higher the dot, the higher the return.

Chart three: Corporate bond yields vs 10-year returns



Source: Refinitiv Datastream / Equilibrium Investment Management - 31 August 2022

Chart four: UK equity valuation score vs 10-year returns over cash



Source: Refinitiv Datastream / Equilibrium Investment Management - 31 August 2022

" There are no guarantees that history will be repeated, but we believe that looking at data and evidence from history is important."

The horizontal axis represents our valuation metric at the start of the 10-year period – the further to the left, the cheaper the market.

The relationship is very strong with a correlation of nearly 80% (r-squared 0.799).

The dashed red line shows where our valuation metric was at the end of August. Historically, returns have typically been around 7% p.a. more than cash over 10 years, when the metric has been at these levels in the past.

Chart five shows the same things in a different way. The blue line represents our metric but this time it is cheaper when the blue line is higher. The grey line is the rolling 10-year return. Note, this ends in 2012, as we have not had a full 10-year period since then.

Chart five: UK composite score and subsequent 10-year returns over cash

Source: Refinitiv Eikon / Equilibrium Investment Management - 31 August 2022

From looking at the data in this way, we can see visually that the two lines follow each other closely.

There are no guarantees that history will be repeated, but we believe that looking at data and evidence from history is important.

We have carried out the same exercise for all the asset classes to arrive at the numbers in the earlier table. We have tried to remove as much of our opinion from these figures as possible and have simply gone with what the spreadsheet highlights.

Table four: Potential asset allocation - balanced portfolio

	Allocation (%)	10-year expected return (% p.a.)
Equities	**50.00**	
UK	20.00	9.80
US	13.00	7.20
Europe	5.00	6.60
Global Emerging Markets	8.00	12.20
China	4.00	14.60
Fixed Interest	**35.00**	
Gilts	5.00	2.80
USTs	5.00	3.20
Corporate Bond (IG)	15.00	5.80
High Yield	10.00	5.80
Real Assets	**15.00**	
Real Estate	5.00	6.00
Infrastructure	10.00	8.00
TOTAL	**100.00**	**7.60**
UK CPI		2.50
NET REAL RETURN		**5.10**

Source: FE Analytics 5 October 2012 to 5 October 2022, based on CPI averaging 2.46% over this time period

Table four shows what we then do with this data. This shows a potential asset allocation for a balanced portfolio.

The expected return numbers are of course only part of the picture. As mentioned earlier, the higher potential returns are generally subject to much higher levels of risk.

The table shows what we think is the best blend of these asset classes to give us a return roughly in line with the target return for balanced, within the risk parameters allowed in this portfolio.

Clearly, we could boost our potential return by allocating everything to Chinese equities – however this would be an extremely risky thing to do since it also has the highest degree of uncertainty.

Instead, we try to achieve the target at the lowest realistic level of risk. Crucially, the above table doesn't assume any value added from active management – for these purposes we have assumed that this simply offsets the investment management fees.

The short term remains highly uncertain. However, long-term historic returns have been very good for investors that are willing to be patient and our analysis makes us very confident that the same will be true in future. It is important to have a strong framework and to stick to it.

Tactical opportunities

Having come up with our strategic framework, we often make some shorter-term tactical trades to take advantage of any opportunities that arise.

Sticking with the long-term theme of this edition of Equinox, we will not spend too long discussing all the trades we have made so far this year. There have been many of them, some of which have already added value, but some have not worked out yet.

We are often buying assets when they are on the way down. For example, if equities fall 10%, then we might decide to top up, with the view that markets are 10% cheaper and more attractive in the long term.

However, a 10% fall might then turn into a 20% fall. By buying when we did, we have made losses worse in the short term.

Unfortunately, it is not possible to time such purchases at the exact bottom of the market, or sales at the very top. Our framework encourages us to continually buy in small sizes on the way down and sell on the way up. This process means we buy at relative lows and sell at relative highs, which ought to boost long-term gains.

As well as defined returns mentioned earlier, we think it is also worth highlighting a few other trades we have made since the mini-Budget set off a renewed period of market turmoil.

In most portfolios, we have topped up our FTSE 100 exposure. Whilst the companies in the top 100 are UK listed stocks, roughly 80% of their earnings are made from outside the UK. The fall in the pound relative to other currencies boosts the value of these profits when converted back to sterling. The global focus also means these companies are more insulated against a UK economic downturn than other UK stocks.

We therefore think that buying at around the 7,000 level is an attractive opportunity, especially given the long-term expected returns.

As stated above, UK 10-year gilts now yield over 4% and US government bonds also reached similar levels towards the end of September. In our view, this more than reflects the likely interest rate hikes that central banks will potentially make, so we think this is an attractive entry point for a government-backed investment.

After the mini-Budget, the Bank of England felt forced to step in to stabilise the gilt market, as the sharp increase in yields led to many pension funds (which invest in bonds) being forced to start selling.

Whilst this is in many ways a concern, to us it also highlights that there may be a limit on how high rates can go before it causes major issues in the financial system. It is possible that we may be very close to this limit and that central banks will not be able to follow through with all the rate hikes or quantitative tightening they had planned.

We have also been able to purchase corporate bonds at roughly an 8% yield. Whilst this is riskier as we are lending money to companies, again, we believe this more than compensates us for this level of risk. The fund managers we use spend a lot of time digging into the underlying companies to make sure they are secure.

Whilst volatility in investments can often make us feel uncomfortable, it also nearly always throws up opportunities.

Risk warnings and notes

Past performance is never a guide to future performance. Investments will fall as well as rise.

Any performance targets shown are what we believe are realistic long-term returns. They are never guaranteed.

None of the information in this document constitutes a recommendation. Please contact your adviser before taking any action.

Unless stated otherwise:

- All performance statistics are from Financial Express Analytics on a bid-bid basis with income reinvested.
- All performance data is to 5 October 2022.
- Model portfolio performance is stated after a 0.5% investment management fee with no adjustment for financial planning or platform charge.
- Your own performance may vary from the model due to dividend pay dates, transaction dates, contributions and withdrawals.
- Actual performance may also differ slightly due to constraints over how we can reflect fees and discounts from fund managers. These are assumed not to change over the whole investment period. In reality, discount levels change as we change the funds in which we invest.
- Individual sector portfolios are shown with no charges taken off or fund manager discounts applied.

For details of your own portfolio performance, please refer to your half-yearly statement from the wrap platform in which you are invested. We will also provide personalised performance information at your regular reviews.

Sector performance & analysis

UK equities

Within UK equities we have seen some great contrasts between smaller and larger companies.

In general, the FTSE 100 (the largest 100 companies listed on the London Stock Exchange) has done relatively well of late. This is partly because most of its earnings come from outside the UK and so they have been boosted by the weak pound.

There is also a high weighting towards energy (oil and gas) and natural resources, with the largest stocks in the index - BP and Shell - up 43.5% and 52.6% so far this year.

Outside the top 100, things have been much more difficult. Whilst the FTSE 100 is down only 1.45%, the next 250 largest stocks (the FTSE 250) have fallen 23.57%. Meanwhile, the FTSE AIM Allshare of small companies is down 32.3%. (Source: FE Analytics to 5 October 2022).

We hold a FTSE 100 tracker fund in many portfolios, as well as defined returns linked to this index. These have therefore done reasonably well.

However, most of our actively managed funds focus more on small and medium sized companies.

Table five shows the active funds we currently hold in portfolios and their returns over different time periods, relative to their own sector.

Given the focus of these funds, it is not surprising to see that short-term performance has typically been behind sector, but most of the funds have outperformed strongly over the long term.

Global equities

Most equity markets around the world have fallen in the last 12 months as shown in **Table six**.

Table five: UK equity fund performance

	6 months (%)	1 year (%)	3 year (%)	5 year (%)
Premier Miton UK Multi Cap Income	-13.11	-16.41	14.28	11.01
UT UK Equity Income	-9.19	-5.37	5.67	4.14
FP Octopus UK Micro Cap Growth	-21.92	-32.91	19.47	30.85
Sector: UT UK Smaller Companies TR in GB	-19.47	-29.21	6.35	5.82
Liontrust Special Situations	-8.41	-11.75	9.76	22.63
Premier Miton UK Value Opportunities B Inst Inc GBP	-18.42	-28.34	3.02	1.32
Sector: UT UK All Companies	-10.61	-11.41	3.87	4.89

Source: FE Analytics to 5 October 2022. Numbers are in green where they are ahead of the benchmark shown. Note that the fund may not have been in all portfolios for the full time period shown

Table six: Global equity fund performance

	6 months (%)	1 year (%)	3 year (%)	5 year (%)
Baillie Gifford American	-25.95	-43.17	35.24	86.07
L&G US Equity (Responsible Exclusions) UCITS ETF USD	-4.35	1.25	Not held	Not held
Sector: UT North America	-4.24	2.04	40.28	72.65
Premier Miton European Opportunities	-18.41	-25.58	21.68	47.65
Sector: UT Europe Excluding UK	-9.39	-12.28	12.34	11.64
Morgan Stanley Global Brands Inst	-1.91	4.32	27.79	70.62
Royal London Global Equity Select	-2.13	12.88	59.38	Not held
Schroder Global Recovery	-5.04	-3.04	17.83	20.5
Sector: UT Global TR in GB	-7.07	-6.11	22.58	37.92
Baillie Gifford Emerging Markets Leading Companies	-8.22	-16.54	10.35	19.98
Federated Hermes Global Emerging Markets	-10.19	-15.15	7.09	Not held
GS India Equity Portfolio	1.47	2.32	60.75	62.42
Allianz China A-Shares	-7.56	-19.34	44.69	Not held
Sector: UT Global Emerging Markets TR in GB	-8.01	-11.98	4.41	6.66

Source: FE Analytics to 5 October 2022. Numbers are in green where they are ahead of the benchmark shown. Note that India and China funds are being compared to the Global Emerging Market sector since this is our benchmark for this part of the portfolio

As UK investors, when we invest overseas, we are also exposed to currency movements. For example, when we buy US equities, our return is partly determined by the return of those stocks, but also by what happens to the dollar relative to the pound.

It is currency that has made most of the difference in returns between different markets. For a sterling-based investor, being weighted more towards the US would have helped performance, not because US stocks have done well, but because the dollar has been strong.

In the US, most of our exposure is via a low-cost passive fund, which tracks the S&P 500 minus what it describes as a few 'responsible exclusions.' Whilst the tracker holds more than 480 of the 500 stocks in the index, these exclusions have led to some slight underperformance relative to the S&P 500 in the short term, due to the exclusion of energy stocks.

Also, in the US, we hold the Baillie Gifford American fund. Again, this is largely exposed to technology stocks and has performed very poorly so far this year, although it has outperformed over the long term. Tech stocks are widely seen as being driven by changes in interest rates as well as the fundamentals of the companies.

Outside of the US, our global funds have generally done very well of late. Morgan Stanley is focused very much on so-called 'quality' companies, which tend to be resilient in a downturn. Meanwhile, Schroder Global Recovery is more 'value' focused – a style which tends to do better when rates rise - and had more commodity exposure than most funds. The Royal London Global fund is essentially a hybrid of these approaches. All three have beaten the sector over the past year.

However, our European fund has struggled in the short term, mainly due to its focus on mid-cap stocks, but again has outperformed over the long term.

In emerging markets, returns have also been quite mixed. India has done very well and has made money this year at a time when most assets have fallen. It has also done extremely well over the longer term, as have the other funds we hold in this part of the portfolio.

Real assets

Real assets are those investments which are backed by something physical, such as a property or infrastructure.

We have increased exposure to such assets in the past year or so, as the income they receive tends to increase with inflation, whether that's from rent in the case of a building, or from (for example) selling electricity in the case of a wind farm.

In general, infrastructure funds have done well this year due to the rise in energy prices. However, many real estate funds have struggled, particularly those that are listed on the stock market (real estate investment trusts). This is because rising interest rates have made investors worry about the property market.

Chart six shows the performance of our property and infrastructure portfolios against their respective benchmarks over the past 12 months.

Note that in property we largely hold real estate investment trusts, but we also have a small position in a property unit trust – the Time Commercial Long Income fund.

This has helped our property funds to outperform the average REIT fund, but they have still fallen a long way, especially since August.

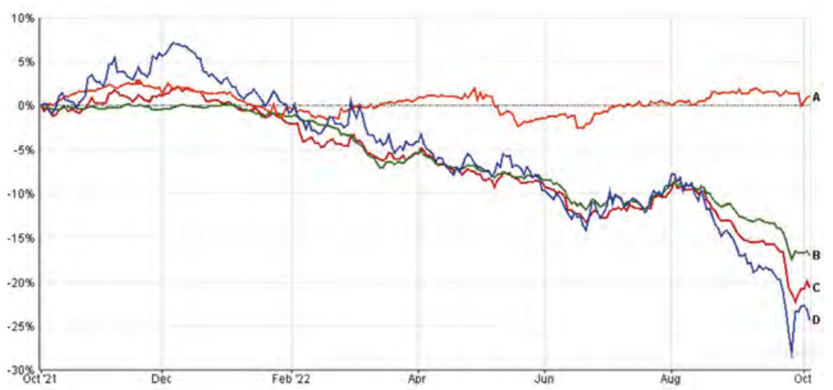
Meanwhile, infrastructure has done relatively well, producing positive returns over 12 months with

Chart six: Property and infastructure vs benchmarks

A - Equilibrium Infrastructure (3.95%)
B - FTSE Developed Core Infrastructure (0.00%)
C - Equilibrium Property (-22.63%)
D - FTSE UK Real Estate (-33.94%)

Source: FE Analytics / Equilibrium Investment Management. 05/10/2021 - 05/10/2022

Chart seven: Fixed Interest and alternatives vs benchmarks



A - Equilibrium Alternatives (1.09%)
B - Equilibrium Fixed Interest (-16.91%)
C - UT Sterling Corportate Bond (-20.55%)
D - FTSE Actuaries UK Conventional Gilts (-24.27%)

Source: FE Analytics / Equilibrium Investment Management. 05/10/2021 - 05/10/2022 relatively low volatility and ahead of the benchmark.

We still like both asset classes given the solid income we think they can produce. In the case of property, we think markets have overreacted and many of the trusts we hold are currently trading at a significant discount to their true value.

Fixed interest & alternatives

As discussed elsewhere, it has been a very difficult year for bond investors.

As interest rates go up to deal with rising inflation, bond prices have fallen. In fact, we've seen a quite perverse situation where the higher quality bonds seem to have largely fallen further.

As can be seen from **Chart seven**, gilts have fallen by more than 24% over the past 12 months. Meanwhile, supposedly riskier corporate bonds have lost less, at just over 20%. So-called high yield (higher risk) corporate bonds have lost even less (the UT Sterling High Yield sector lost 14%), despite being even more at risk of default. (Source: FE Analytics to 5 October 2022).

This is essentially because the sell-off has been all about rates and not about credit risk. Typically, higher-yield bonds have less sensitivity to changes in rates as they tend to be shorter duration.

Our fixed interest portfolio has fallen 16.91%, significantly less than corporate bonds and gilts, but still a very painful loss.

However, over recent times we have generally been underweight in fixed interest, in favour of real assets and alternatives. These are typically low-risk absolute strategies, or strategies that we think might go up if equities go down. In other words, they are designed to fulfil the function in portfolios that many investors use bonds for.

These funds have held up well, producing a positive return over the past 12 months.

Equilibrium AIM Portfolio

The Equilibrium AIM Portfolio returned 2.5% in 2020 and then pushed ahead again last year, returning 14.8%, as life normalised after Covid. This year has seen a large pull-back in returns, however, as investors have become increasingly concerned over the rise in inflation, higher interest rates and weak economic growth, or even the chance of a recession.

AIM stocks, and smaller companies in general, tend to perform poorly in these circumstances and in the last six months, total returns from the FTSE AIM Index have been -22.2%, compared to the main market FTSE 100 Index which has returned -5.4%. In comparison, the return from the Equilibrium AIM Portfolio over the period was -18.9%.

Many of the investee stocks have fallen sharply as a result of investors blindly selling. This disconnect between fundamentals and share prices is understandable in view of the uncertainties facing the global economy, but does result in very low valuations for the stocks.

Already this year, a handful of companies in the Portfolio have been bid for - two of the top five attribution stocks are takeover situations - and it would not be surprising to see more being acquired, especially given the weakness of sterling which makes valuations super-cheap for US buyers.

Top stocks by total returns

63.2%	Ideagen
39.8%	EMIS Group
25.1%	AB Dynamics
11.9%	Judges Scientific
3.7%	Smart Metering Systems

Bottom stocks by total returns

-72.2%	Hotel Chocolat
-53.4%	Alliance Pharma
-49.8%	Fevertree Drinks
-44.2%	Focusrite
-40.4%	Next Fifteen Comms

Source: Equilibrium Investment Management 5 October 2022

Equilibrium Positive Impact Portfolio (PIP)

The Equilibrium PIP returned -8.89% over the past 12 months, underperforming the benchmark IA Global sector which returned -5.95% during the same timeframe. The model portfolio has however outperformed the benchmark over three years (as shown in the table on page 38).

The equity content within the portfolio was hit by rising interest rates, as inflation rose due to the invasion of Ukraine. The long-term nature of the stocks in the portfolio and the technology focus of some of the companies, means that these stocks can be particularly sensitive to movements in interest rates.

Subsequently, as a result, all but one of the funds within the portfolio are currently in negative territory for 2022. However, the Trium ESG Emissions Impact fund has done its job in returning +12.64% so far this year, providing diversification through its long/short approach (meaning it can benefit from stocks falling as well as rising).

The portfolio was rebalanced in April to reflect what we believe are more attractive impact and return opportunities, as we enhanced our impact framework during the period.

Past performance is never a guide to future performance. Investments will fall as well as rise.

All performance data is up to 5 October 2022.

None of the information in this section constitutes a recommendation. Please contact your adviser before taking any action.

Please also refer to our risk warnings and notes on Page 34.

Model portfolio returns

Below is the performance of our Cautious, Balanced, Adventurous, Global Equity, Defensive, AIM and Positive Impact portfolios.

Model Portfolio	**6 months %**	**1 year %**	**3 years %**	**5 years %**	**10 years %**	**Since 1 Jan 2008* %**
Cautious Portfolio	-8.94	-9.87	0.85	5.96	55.63	95.52
Balanced Portfolio	-9.63	-11.20	1.70	7.22	65.21	104.28
Adventurous Portfolio	-11.95	-14.18	3.30	9.64	78.35	116.50
Mixed Asset 20-60% Shares Sector	-8.19	-8.47	1.62	6.28	45.67	62.29

Global Equity Portfolio	**6 months %**	**1 year %**	**3 years %**	**5 years %**	**10 years %**	**Since 1 Jan 2008* %**
Global Equity Portfolio	-12.81	-17.07	Not enough data			
UT Global Sector	-6.08	-5.95				

Defensive Portfolio	**6 months %**	**1 year %**	**3 years %**	**5 years %**	**10 years %**	**Since 1 Jan 2008* %**
Defensive Portfolio	-7.95	-9.41	Not enough data			
UT Global Bonds Sector	-7.31	-11.03				

AIM Portfolio	**6 months %**	**1 year %**	**3 years %**	**5 years %**	**10 years %**	**Since 1 Jan 2008* %**
AIM Portfolio	-18.87	-31.93	-7.52	-18.57	142.45	Not enough data
FTSE AIM Allshare Sector	-22.19	-32.20	-2.60	-15.23	30.00	

Positive Impact Portfolio	**6 months %**	**1 year %**	**3 years %**	**5 years %**	**10 years %**	**Since 1 Jan 2008* %**
Positive Impact Portfolio	-4.90	-8.89	31.86	Not enough data		
UT Global Sector	-6.08	-5.95	22.59			

We also show returns compared to the Asset Risk Consultants indices made up of other discretionary managers' portfolio returns. These are shown in the table below and are given to 30 September 2022 as ARC indices are published on a monthly basis:

Model Portfolio	**6 months %**	**1 year %**	**3 years %**	**5 years %**	**10 years %**	**Since 1 Jan 2008* %**
Defensive Portfolio	-7.43	-9.30	Not enough data			
Cautious Portfolio	-8.78	-10.32	-0.30	6.83	56.98	95.70
ARC Sterling Cautious	-9.05	-10.13	-2.98	1.60	23.41	41.73
Balanced Portfolio	-9.72	-11.88	0.17	7.95	66.26	103.90
ARC Sterling Balanced	-10.09	-11.13	-0.92	5.79	41.56	58.22
Adventurous Portfolio	-11.79	-14.83	1.75	11.15	80.13	116.90
ARC Sterling Steady Growth	-10.75	-12.02	1.04	10.30	60.32	76.66
Global Equity Portfolio	-12.86	-17.88	Not enough data			
ARC Sterling Equity Risk	-11.67	-13.49				

Note: performance shown is after a 0.5% investment management fee with no adjustment for financial planning or platform charges
* Launch date 1 January 2008. All data to 5 October 2022. Figures are highlighted in green where they are in excess of the relevant sector.

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