

# Wealth Suitability Report - Error Spotting Exercise 2 - (James)

## Investment Bond Replacement

### Fact finding

- James is age 52, married to Jane and they have two children Harvey and Harriet
- James earns £35,000 per annum
- James is looking to retire at age 65 and has made pension provision already and has money saved to send his children to university.
- James has an existing Onshore Investment Bond with ABC limited which he took out over 10 years ago.
- James originally invested £100,000 and it now has a fund value of £120,000 which James is disappointed with.
- James has not seen an adviser for a number of years and wants to know if he can invest in something which will be tax efficient and hopefully give him a better return.
- James really is only looking for capital growth and has no real need for access although that could be a consideration.
- James has some other investments to consider but he wants you to sort out his Investment Bond first because it has been worrying him.
- James has limited fund choice on his Bond and the charges according to him are “quite expensive”, 1% for the Bond wrapper and 1.5% for the fund which hasn’t done very well.
- There are no penalties to moving his ABC Investment Bond
- James wants this sorted and he will then consider his other investments.
- James isn’t too concerned about putting more into Pensions and is looking for something which “may” provide access but not a main factor tax efficiency and performance are the priorities.
- James has sufficient emergency funds
- James has completed an ATR with you and his risk profile is Moderate.
- You have discussed fund solutions and James likes the idea of Active Management with a multi-manager, multi-asset solution.

### Recommendation

- Move James’ Investment Bond to a more tax efficient solution on a platform to make use of his ISA allowance for 2017/18 and place the remainder into the CIA.
- James has 13 years before taking he intends to take benefits so you would base your advice charges on this term.
- You will be able to look after his Pension plan and other investments when he decides to move them across. Consider family linking with Jane.
- Limited fund choice on his existing plan so platform will provide fund solutions to match his investment needs and ATR and reduced charges.
- James is concerned about paying tax to move so you need to work on the Chargeable Event and any potential gain.
- Put into the Old Mutual Cirilium Moderate fund to match his fund objectives.

### Exercise Navigation

- |  |                                      |
|--|--------------------------------------|
| 1. Charges for Advice                                  | 10. My Recommendations               |
| 2. My Review Service                                   | 11. Investments                      |
| 3. Cancellation of Provider Facilitated Ongoing Charge | 12. Alternative Solutions Considered |
| 4. Your Current Situation                              | 13. Fund Selection                   |
| 5. Instruction on Wills                                | 14. Fund Recommendation              |
| 6. Your Needs, Objectives and Priorities               | 15. Policy Replacements              |
| 7. Retirement Provision                                | 16. Periodic Contact                 |
| 8. Investments   | 17. Cancellation Rights              |
| 9. Your Attitude to Investment Risk                    | 18. Next Steps                       |

Mrs Jane Bond  
123 The Street  
Any Town  
AB1 C23

6th April 2017

Dear James,

At our meeting on 1st March we discussed your financial planning needs. The aim of this report is to explain my recommendations and the rationale for it.

As you will remember, I recorded a lot of details about your personal and financial information, as well as discussing your preferences, your thoughts on financial matters including inflation and interest rates, your short term goals and longer term ambitions.

It is important that you fully understand my recommendations in this report and I would ask that you read it carefully and let me know if there is anything you do not fully understand. You should read this report in conjunction with all the additional documents I gave you including Key Features Documents and any Illustrations and Fund Factsheets.

## 1. Charges for Advice

We discussed and agreed the charge payable for this advice and this is confirmed in the Authority to Proceed Document you signed, I have enclosed a copy.

## 2. My Review Service

We strongly recommend that your plan is reviewed on a regular basis.

We have also agreed that you would like your plan to be reviewed on an annual basis. Typically, our annual review will comprise the following services:

- As assessment and review of investment performance and markets relative to your specific pension investment as well as a wider economic overview
- A review and appraisal of prevailing interest rates and annuity rate movements as may be applicable to your circumstances at that time
- A summary of the impact of any legislative or statutory changes that might impact on your retirement strategy, for example, changes in taxation law or State pension benefits and applicable qualifying rules
- An update and appraisal of your financial and personal situation, needs, circumstances and objectives

A review of your attitude toward investment risk and volatility linked specifically to the performance of your pension funds, to ensure continued appropriateness.

This will help ensure that your risk tolerance continues to match the asset allocation model adopted and the choice of investment funds being used.

## 3. Cancellation of Provider Facilitated Ongoing Charge

As outlined above, payment for the review service offered will be received by ABC Financial Services for the foreseeable future from Old Mutual.

If however you no longer wish to receive the review service you are at liberty to cancel this charge at any time and can do so by contacting the provider directly and confirming your wish for this payment to cease.

Please be aware that should you do so I will no longer be in a position to review your affairs as agreed.

## 4. Your Current Situation

James, you told me when we met that you are keen to start getting your financial objectives in place to ensure that your money is working harder for you and are keen on making plans for retirement.

You are 52 years of age and currently work as an office manager at a local printing firm. Married to Jane, your two children, Harvey and Harriet age 17 and 14 respectively are both in full time education and looking forward to the next steps in life. Harvey the eldest is not too sure what he wants to do next but may consider University and you have already made provision for this and for Harriet as they inherited some money many years ago and this is all taken care of.

Both you and Jane are in good health and hope over the coming years to enjoy the good things in life such as travelling a bit more and your love of motor racing gives you a lifetime ambition to go to the all the Grand Prix that taken place around the globe. You have crossed a few off but have many more to go and fortunately Jane shares your passion for speed!

Your annual income is £35,000 making you a Higher Rate Tax payer and this is derived from your job at ABC Printers Limited where you have worked for the past 15 years.

We discussed what possible financial emergencies might arise. I recommended you need a suitable, readily available, emergency fund that should be regularly reviewed. We agreed that based on your monthly outgoings that an emergency fund of £6,000 would be suitable and this is covered by the money you currently hold in your local building society account.

We discussed the importance of clearing debts, particularly those with high interest rates such as credit and store cards. We agreed that this was not applicable to you and Jane as you only have one credit card between you which you use to cover travel costs each month, which are minimal and is cleared at the end of each month.

## 5. Instruction on Wills

Both of you told me you have made a Will and the intent for each Will is that initially you will leave everything to each other and in the unfortunate event of both of you dying at the same time, there is provision in the Will for the children to be cared for by your brother John Bond.

## 6. Your Needs, Objectives and Priorities

I recommend that we should review all your financial needs and look to address them in the following priority order:

1. Protection on death
2. Income protection
3. Critical illness
4. Retirement
5. Savings
6. Investments
7. Estate planning
8. Mortgages and other liabilities

I have completed a comprehensive review of all these financial needs taking into account your current circumstances and the following section of this report confirms your needs, objectives and priorities in more detail.

You have specifically asked me to advise you on your Investments as you have an “old plan” that you were recommended many years ago and you feel unsure it is suitable for you.

The performance has not been what you would have expected and you now want to review this as this money forms a significant part of your own plans for retirement.

You have not received any advice for many years on this and I have focused my advice in this report on these needs.

You decided not to review the other areas mentioned above, although we have agreed that once we have resolved your initial concern around your Investments, we will carry out a more “rounded” review of all your financial needs and objectives.

To begin with though you want to sort out your Investment as it is starting to worry you and you want this resolved.

Both you and Jane keep your own investments separate as “you both like it that way” but you want to make sure your money would be working hard and should anything happen to you, that investment would provide some provision for Jane and the children.

## 7. Retirement Provision

We discussed retirement planning e.g. when you plan to retire, your objectives in retirement and what provision you may need.

Having reviewed this need area you do not wish to receive any further advice or take any action at this time because as we have discussed you have told me you want to resolve the concerns you have with your investments before considering anything else.

You do know you want and need to look at this and we will discuss this next time we meet.

## 8. Investments

You currently have the following Investments:

Owner	Product	Provider	Estimated Value
James Bond	ABC Offshore Investment Bond	ABC Limited	£120,000
Total			£120,000

You have asked me to look at your lump sum of £120,000 to reinvest over the medium to long term and you asked me to review your options.

You would like to look at how this money could be invested in the most tax efficient manner in order to maximise capital growth. This is the main purpose of your investments to provide capital growth.

You have not asked me to review your retirement needs yet as you want this resolved first, but you do understand that this investment money could form part of your retirement provision. You initially want to explore how this money from your ABC Investment Bond “could do better” in your own words.

You have been disappointed with the performance of the Bond as you have held it for 10 years and you have only made “20% on £100,000” and have little fund choice or service on the Bond since you took it out.

As you have approximately 13 years before you retire you want some capital growth to compliment your Pension planning and whilst you do not need access during the term, you do like the idea of being able to access it if necessary and not pay any tax.

## 9. Your Attitude to Investment Risk

We discussed your circumstances in relation to the principles of risk and reward and agreed your risk profile is Moderate.

### **Moderate**

Balanced investors typically have modest levels of knowledge about financial matters. They may have some experience of investment in riskier assets.

In general, Balanced investors prefer not to take much risk with their investments, but will do so to an extent. They prefer lower risk assets, but realise riskier investments are likely to give better longer term returns.

Balanced investors can take some time to make up their mind on financial matters and can often suffer from regret when decisions turn out badly.

Risk attitude is only one factor in determining a suitable investment strategy. You must also consider your ability to withstand short term losses, and your need to take risk to achieve your financial goals.

It is not a broad-based risk tolerance level that necessarily applies to other areas of your financial planning, which will be addressed separately.

## 10. My Recommendations

This section outlines my recommendations and how they meet your needs and objectives.

It is important you read this section in conjunction with the Key Features and Illustrations I gave you for each product recommended, as they provide you with full details of the product features and benefits.

### Platform Account

As part of your investment strategy I have recommended you establish a platform account, a secure online account where you can review some or all of your investments in one place, whenever you wish. A platform offers a range of 'tax wrapper' accounts that support the different tax treatments available for invested money including ISAs, Pensions, General investments (such as in OEICs and Unit Trusts) and Bonds as well as the ability to hold cash and shares. These tax wrappers provide you with access to a wide range of investments funds with a simple charging structure. It can also be used to record other assets such as residential and other property, antiques or cars that you may have and which make up your total net worth.

So rather than holding your investments in different places a platform brings all your investments and pensions together so you can view everything at a single glance, giving you a clearer picture of how your entire portfolio is performing.

Having considered your individual circumstances and objectives I have identified the Old Mutual Wealth Platform is suitable for you because you have other Investment and Pension plans that you may wish to consider reviewing and transferring in the near future and like the idea of having them all in one place. Jane also has her own investments and pension plans which she is keen to review and these could also benefit from a platform solution and the family linking benefit that Old Mutual offer which could further reduce your charges.

When making my provider recommendation I have selected from a panel of investment, pension and platform providers based on your needs and circumstances. The costs of managing an investment varies between providers and platforms and can be affected by the amount of the investment, the type of investment 'wrapper' and the anticipated frequency of transactions. Based on your requirement to transfer your ABC Investment Bond into an ISA for this tax year and for the remaining funds to be placed into a General Investment Account to facilitate your ISA allowance over the coming years I am pleased to recommend the Old Mutual Platform.



## Platform Account (Continued)

Intrinsic Financial Services believe that this platform account is an efficient cost effective solution to a client's investment needs over the long term based on centralised research. A platform offers a range of 'tax wrapper' accounts that support the different tax treatments available for invested money including ISAs, Pensions, General investments (such as in OEICs and Unit Trusts) and Bonds.

These tax wrappers provide you with access to a wide range of investments funds with a simple charging structure. Rather than holding your investments in different places a platform can bring your investments and pension arrangements together so you can view everything at a single glance, giving you a clearer picture of your entire portfolio and its performance.

Old Mutual Wealth is the largest wealth management business in the UK. They help people secure their financial future by providing:

- Financial advice and support via the Intrinsic network, as well as access to the wider financial adviser community
- A range of financial products such as ISAs, bonds, pensions and life assurance
- Bespoke investment management via Quilter Cheviot
- A wide range of investment funds via Old Mutual Global Investors.

Old Mutual Wealth oversees £104.4 billion in customer investments (as at 31 December 2015).

Old Mutual Wealth is part of Old Mutual plc a FTSE 100 group that provides life assurance, asset management, banking and general insurance. Old Mutual is trusted by more than 18.9 million customers across the world and has a total of £327.9 billion assets under management (as at 31 December 2015).

Old Mutual Wealth's platform is an innovative way to manage your investments. It provides access to a wide choice of funds, together with a range of tax-efficient ways to hold them, within a single consolidated portfolio.

The use of a Platform solution, rather than holding individual plans, will be of benefit to us both in that once it is set up, it will be simpler and faster to access your platform investments, thereby enabling me to provide you with a service support across all of your various holdings. It is possible that the value of my business will be improved, as it might with any tools that support an efficient operation to look after the needs of its clients.

I think it is important to acknowledge the potential benefits for my business but assure you that they are not a driver in my recommendation.

## Platform Account (Continued)

I have recommended a Platform solution to meet your needs and objectives in the following areas:

- We discussed how charges work. You felt happier that charges were more transparent and understood that you would be paying for a fund, a product or platform and my services. Whilst you preferred the features of a platform, it is still important that you fully understand what you will pay and you are committed to pay.
- Your existing plan packages up the charges for everything including old commission and fund charges. It is not clear whether all the costs and charges for the funds are included in the illustration they have provided because it is not transparent
- Most investment plans reduce their charges the more you pay in and this is the same with Platforms. The key difference is that platform charges also reduce when you pay into other investments such as ISAs or pensions on the same Platform. Clearly the chance of these discounts applying to you in the future are increased dramatically when it applies to more investments.
- You have other investments that you have asked me to review and consider moving to this Platform to benefit from lower charges for which I will write to you separately
- We also discussed how as part of our ongoing service we could make sure that you do not miss out on any tax reliefs or pay any unnecessary tax on your investments by using different 'tax wrappers' at different times depending on your circumstances and the tax rules in each of your future years
- Of the three things you are paying for by transferring on to a Platform you are only committing to the platform costs and my initial advice charge. Should you decide to cancel my service you would be able to stop paying the ongoing service charge and should your needs, requirements and preferences mean a change of fund, then alternative funds could be more or less expensive.

The main costs and charges for the Old Mutual Wealth Platform is 0.32% for the cost of holding your ISA and GIA wrappers and 1.24% for the cost of the Old Mutual Cirilium Moderate fund.

The primary risks associated with the recommended Platform are that you are only covered up to a certain amount under the FSCS compensation scheme and you may not be fully covered by holding all your investments in one place.

Please ensure you read the Platform Account Key Features Document I gave you for full details of all the charges that apply to the platform.

## 11. Investments

### Old Mutual Wealth Platform – ISA and GIA James Bond

I recommend you invest £120,000 into the Old Mutual Wealth platform from the proceeds of your ABC Investment Bond, the reasons for this to be detailed later in this letter.

We will invest £20,000 in the Old Mutual ISA and the remaining £100,000 will be invested into the Old Mutual General Investment Account (GIA).

You only have an individual ISA allowance of £20,000 to use in this tax year 2016/17, but we fully intend in future years to transfer money from your GIA each year into your ISA to make use of the tax efficient benefits that the ISA will provide.

I will make contact with you each year to ensure that this is completed.

Whilst the GIA is potentially liable to Capital Gains Tax (CGT), we do not believe it is likely that this will create a tax liability when switching to your ISA as you have an annual CGT allowance which will mean you should have no tax liability on this transaction.

You currently do not hold any other assets or investments which mean that you make use of your CGT allowance.

I am recommending these investments for the medium to long term i.e. five years or more. I have recommended the ISA because it is most tax efficient vehicle that is currently available and you have yet to invest in an ISA and make use of the tax efficiency that it offers.

## 12. Alternative Solutions Considered

## 13. Fund Selection

When making my fund recommendations I have followed the process I explained during our meeting. Intrinsic Financial Services operates an Investment Committee, whose role is to review the process of fund selection and to ensure that recommended funds are appropriate for the needs of our clients.

The Committee works closely with the independent investment analysts, Old Broad Street Research Ltd (OBSR) and all of the funds which have been chosen are considered best of breed within their sector or investment type.

When assessing whether a fund is best of breed and likely to meet its objectives over the longer term the following factors are taken into account:

- The fund objectives and aims
- Performance of the fund is in line with expectations and is consistent with the investment objective
- The fund volatility profile
- Strategic asset allocation in alignment with the manager's view of changing market conditions
- Quality of fund manager and their individual investment process
- The experience, skills and strength of the investment team
- The organisation's attitude to risk and the fund manager's appreciation of the trade-off between risk and reward

The funds contained in the Intrinsic recommended fund matrix have been chosen on the basis that the Investment Committee believe that the investment teams responsible for each fund have the relevant skills and experience to manage funds of this nature.

Our discussions have led us to conclude that a multi-manager, multi-asset approach to investment is most likely to be suited to you, and your approach in aiming to achieve your investment objectives because you like the idea of not having all your eggs in one basket by investing with one fund manager and one asset class.

This will enable you to have a wide spread of funds managed by numerous fund managers and remaining within your risk profile of Moderate. The funds will be actively managed to try and achieve superior performance but you understand that this is not guaranteed but you have a good level of investment knowledge and based on your understanding will be happy to take this level of risk.

We will of course monitor your investment and consider any changes should we feel necessary should your circumstances change.

## 14. Fund Recommendation

Having discussed your personal attitude to risk and investment objectives I have recommended the following to meet your needs:

Fund Name	Amount Invested %
Old Mutual Cirilium Moderate	100%

### Cirilium Multi-Manager Funds

The key to balancing investment risk and reward is maintaining an appropriate mix between the various asset classes and investment sectors. The proliferation of funds accessing diverse investment areas adds to the complexity of achieving suitable balance. It also makes the task of building an appropriate and effective portfolio all the more important. The Cirilium Multi-Manager Portfolios are truly multi-asset class investment portfolios.

Research suggests that the selection of investment sectors, referred to 'asset allocation', has a much greater impact on overall returns than pinpointing individual securities or funds. From an investment fund perspective, it has often been better to choose a fund boasting average investment performance in the best performing sector than it has been to choose a top performing fund in an under-achieving sector. The difference in returns between the best and worst sectors can be substantial.

As of 1 December 2014, the Cirilium portfolios are managed by Old Mutual Global Investors (OMGI), a leading provider of goal-orientated investment solutions. Paul Craig, manager of the Cirilium portfolios has joined the Old Mutual Wealth multi asset Investment Division which combines capabilities from Quilter Cheviot (QC) and Old Mutual Global Investors (OMGI) to form one dedicated unit focused on multi-asset investment solutions.

Led by Ben Mountain (QC) and Anthony Gillham (OMGI), the unit comprises portfolio management, fund research, asset allocation and the Managed Portfolio Service. This 24-strong multi-asset investment solutions unit is one of the largest and most experienced multi-asset capabilities in the UK. With over 250 years of combined investment experience, the depth and breadth of talent and skills across these teams is unparalleled.

### **Cirilium Multi-Manager Funds (continued)**

Intrinsic understand the importance of asset allocation, fund selection and portfolio construction. The fund portfolio is made up of a range of Institutional Funds, Electronic Trading Funds, Private Equity, Hedge and Commodities as well as Equities. Having established your appetite for, and attitude toward investment risk and volatility, I am pleased to recommend the Old Mutual Moderate fund for your investment.

Your investment will be held in a single fund.

An alternative would have been to hold various funds individually and potentially have them managed by a discretionary fund manager. Holding your portfolio in a single fund allows OMGI to invest tactically and actively using wider asset classes.

When you receive your statements your portfolio will appear as a single fund, the underlying assets will be available and communicated from time to time as discussed at our review.

Please see the Illustration, Key Features Document and Fund Factsheet provided for details of how the charges and risks may impact on your investment.

It is important to note the value of your investment can go down as well as up and past performance will not necessarily be repeated.

## 15. Policy Replacements

In order to give you the greatest possibility of meeting your objectives, I have reviewed your existing investment bond to see whether you are losing out due to tax or charges that can be saved by taking advantage of new alternative investments that are now available.

We have discussed in detail your financial circumstances and established it is in your best interests to replace your existing Investment Bond with ABC Limited for the following reason:

**Tax** -Your bond is invested in its own life assurance funds, some are managed by their own managers while others 'Mirror' popular external fund managers. All the growth and income from the investments inside these life funds is taxed inside the fund before it gets to you or appears on your statement.

**Clarity** – Where you have a Life Assurance fund that 'Mirrors' another actual fund; the performance, price and other measures will be different. Some clients like to check their funds online or via broadsheet newspapers; they could then be confused or disappointed when this doesn't match the results of the fund they are invested in.

With the increase in tax free allowances for Individual Savings Accounts and capital gains tax allowances and the introduction of a savings rate allowance you can now invest much more without paying tax in your name. This means that there is a clear disadvantage in the Life Fund paying tax within the fund that you cannot reclaim or save through these allowances.

The development of Investment Platforms allows you to hold your investments and funds in one place, withdraw money regularly or periodically and switch between funds at no cost, thereby achieving the benefits of your existing plan.

The consequences of cancelling your existing policy are that you have made a "gain" from when you invested the money to when you will be surrendering it and this could lead to a potential liability to Income Tax at Higher Rate.

We have been able to assess your plan and note that you invested £100,000 in March 2007 and the surrender value is now £120,000, this means you have made a gain of £20,000 over 10 years and we need to assess if that gain will create any additional tax to pay.

As you have already paid life fund tax on your investment we have to assess your gain together with your own income needs to determine if you have any additional tax to pay.

## 15. Policy Replacements (continued)

Inland Revenue current legislation allows you to “top-slice” your gain of £20,000 by the full number of policy years you have had your plan which is 10.

Therefore we need to divide £20,000 by 10 and this is £2,000.

However, as you earn £35,000 and are already a Higher Rate Tax payer you do not qualify for “top slicing” and this means your full gain of £20,000 will be liable to taxation of £4,000.

Whilst this is not great, you are unhappy with your investment and are happy to take the tax hit to move it away.

This is based on my understanding of taxation and you may wish to seek independent advice from an accountant to confirm this.

The disadvantages of cancelling your existing policy are that you will have to pay new costs to enter into your new plans, however, these should be out-weighed by the lower costs and tax efficiency of the products that I am recommending to you.

We looked at the current and future costs and charges of replacing your existing policy, and these are that you are currently paying 1% for the Investment Bond and 1.5% for the fund. By moving your investments to the Old Mutual Wealth platform you will pay a platform charge of 0.32% and 1.24% for the Old Mutual Cirilium Moderate fund so you can see that these will be cheaper.

We discussed the possibility of making changes to your existing policy to meet your new requirements. However we discounted this because your new products are more tax efficient, cheaper in cost and provide the fund solutions which are applicable to you, unlike your existing Investment Bond which has limited fund choice and are mainly single manager funds with single asset classes.

## 16. Periodic Contact

It may be that we contact you at times other than those specified at outset for e.g. to draw your attention to investment matters or provide an update on current markets however we are not obliged to do so.



## 17. Cancellation Rights

Please be advised that you have the right to cancel any policy within 30 days of the receipt of your policy documents.

Should you decide to cancel an investment policy within the cancellation period, depending upon market fluctuations you could receive back less than you invested.

## 18. Next Steps

I will continue to provide you with a personal service which includes the efficient processing of your plans, liaison with the Product Providers as required and answering any further questions you may have with respect to my recommendations.

If you have any queries or questions about this report or if any of the information differs from your understanding of our discussions, then please let me know.

I look forward to speaking with you again in the future.

Yours sincerely,

Mr A Adviser  
Financial Planning Adviser  
ABC Financial Services

Enc: Authority to Proceed