ISSUE 05

SPRING 2022

INVESTOR

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HAWKSMOOR
INVESTMENT MANAGEMENT

WELCOME

Back in February when we published the last edition of ***Investor***, we had lived through our second turbulent festive season with the threat of the new Omicron variant of Covid-19, and we were eagerly awaiting the promise of spring and the end of government restrictions.

As we approach the summer, having finally exited almost two years of pandemic-related restrictions, Hawksmoor has embraced the 'new-normal' as we all continue with a mix of office and home working. This has proven beneficial for many of our colleagues in achieving a greater work-life balance, whilst continuing to put clients at the heart of everything we do.

I hope you are enjoying the warmer weather and have summer plans with friends and family – indeed, the first summer in two years that many of us will have been able to travel abroad.

As always, this newsletter has been written with the aim of providing you with an overview of what has happened in markets over the previous three months, as well as including articles which will help you with your investments. In this edition, our CIO Private Clients & Head of Research Jim Wood-Smith discusses how it has become habitual to profess that 'this is a year unlike any other', reflecting on the pandemic-induced turbulence over the last year, together with high inflation and military conflict.

Elsewhere, Investment Analyst Ben Luck and Research Assistant Emily Cave look at the market dynamics within the semiconductors industry, providing their view on the best way to gain exposure to this theme.

In our regular 'Dear Hawksmoor' feature, Senior Investment Manager Greg Sellers responds to a client query about yield curves, explaining what they tell us and whether there is any truth in the prediction that an inverted yield curve is pointing towards a recession in America.

I hope you enjoy reading the newsletter and, as always, if you have a question about any aspect of our service to you, please don't hesitate to contact your Investment Manager.

Sarah Soar
CEO

IN THIS ISSUE

MARKET UPDATE

A WOUNDED BEAR

Jim Wood-Smith
Chief Investment Officer

It is becoming habitual to profess that 'this is a year unlike any other'. The past couple of years have been dominated by the Covid-19 pandemic, the lockdowns and the steady easing of health-related restrictions on economies. We can now throw generationally high inflation into the mix, together with a military conflict that threatens to escalate to nuclear proportions. It should be little surprise that financial markets are struggling to know if they are coming or going, and occasionally find themselves doing both at the same time.

We begin with inflation. We would argue that modern inflation history should be traced back 40 or so years to the elections of Margaret Thatcher and Ronald Reagan in 1979 and 1980, respectively. The successful purge of the inflation of the 1970s evolved into an era of very low and steady inflation rates, supported by technological advance, free trade and modestly expanding money supplies. As a slight over-simplification, no one needed to worry too much about inflation as there was none to worry about, nor any prospect. Indeed, from time to time markets even fretted about the possibility of deflation.

That time has passed. Markets will not adjust to a change of this magnitude overnight and it is no surprise that 2022 is proving to be a year of volatile asset prices. Our time and attention may be taken by Ukraine, but the inflation fire was well alight before the Russian tanks stumbled across the borders. The huge rise in the cost of energy has exacerbated the magnitude of the rise in inflation, but it is not the cause. That is Covid-19. The secular change in inflation comes from a combination of the amount of money printed to support economies through the lockdowns and the shortages of both goods and labour as we try to return to normality. There is too much money chasing too few things, with not enough people to make or deliver them.

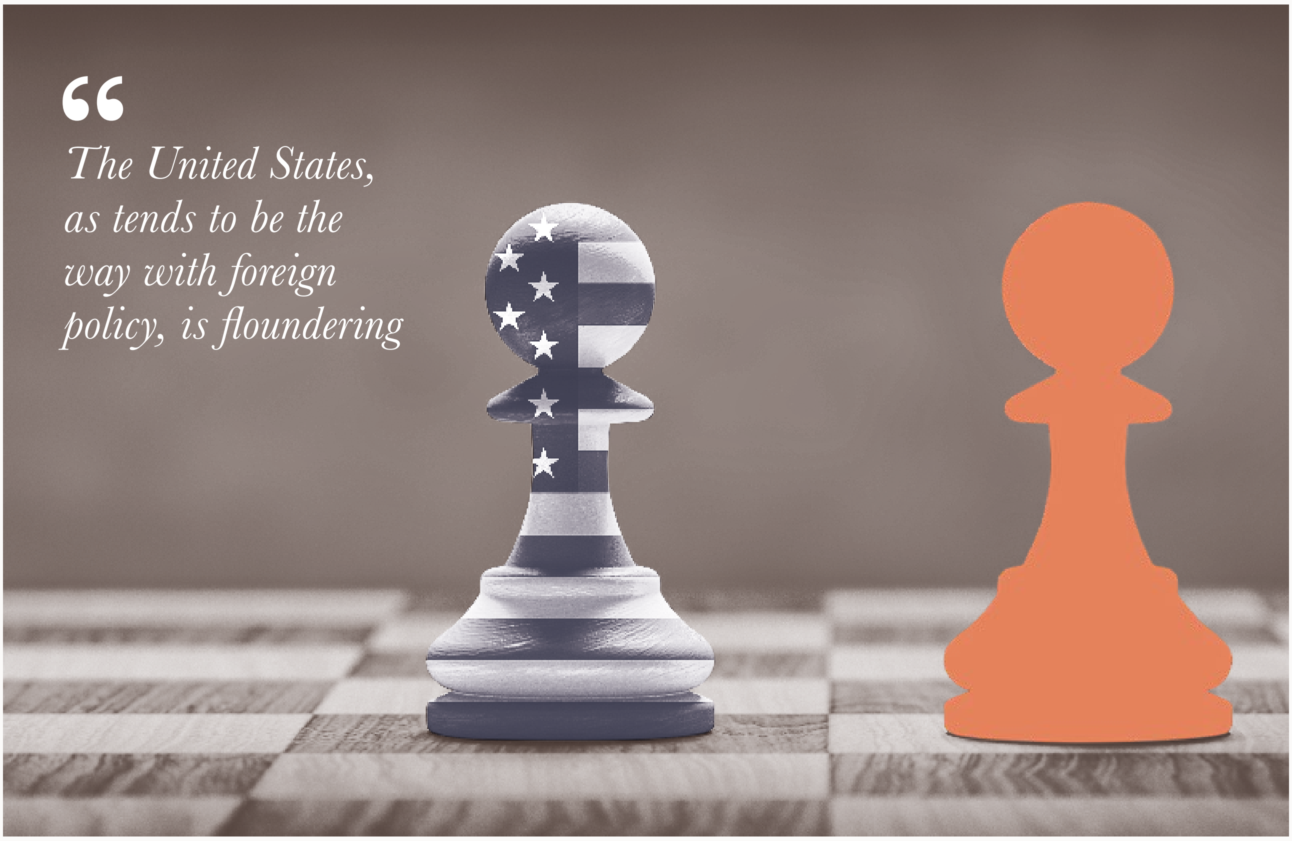
This is the problem that Central Banks, especially the Federal Reserve, now face. The question for the markets is whether the Fed will be able to raise interest rates by just the right amount to both dampen inflation and avoid too much damage to the economy. It is inevitable that the likely answer will change depending on which day of the week it is. There are, though, some things that most can agree on.

> *It should be little surprise that financial markets are struggling to know if they are coming or going*

First, bond yields were too low. One of the most obvious effects of Quantitative Easing (QE) was its artificial lowering of bond yields. Indeed, that was its intention, and QE succeeded admirably. One can justify yields of close to zero when the Central Banks are promising to keep buying; it is more of a challenge when that buying stops, and when inflation is six, seven or eight percent. Yields have risen a little during the first quarter of the year and there should be more to go.

Secondly, markets have equated higher interest rates with a need to sell 'growth' stocks. The arguments are complex and, in our view, badly flawed. But that does not stop the trend holding sway. Thus, each bout of inflation-driven nerves sees reflex selling of the previous darlings of the Covid-era, most notably the large so-called technology stocks. To give just one example of how extreme this has become, we are currently in the situation where a number of UK utilities are rated more highly than Alphabet, the re-named owner of Google.

There has also been a sharp reversal of the performance of 'sustainable' stocks and funds. The rise in the prices of oil and gas have understandably seen a re-appraisal of the merits of the energy companies, including Shell and BP, which have both performed very well so far in 2022. The previously mentioned equating of inflation with a need to sell 'growth' stocks has also seen money coming out of many of the shares that have previously driven such good outperformance by 'sustainable' and 'ESG' companies.



This will change. Markets and investors can become very short-term in their thinking. After two quarters of poor performance, it is easy for many to think that the need to invest sustainably was just a fad that has blown over. The argument is simply wrong. Higher inflation and a war in Eastern Europe do nothing to change the need to decarbonize. Furthermore, Europe has become painfully aware of its reliance on Russian fossil fuels, a dependency that will ultimately be solved by self-sufficiency in non-fossil fuels. The need to invest in and develop renewables has increased as a result of the invasion of Ukraine, as has the need to accelerate technologies to facilitate the use of hydrogen. These remain key long-term investments for us.

Investing in renewable energy production is also one way of protecting portfolios against inflation. Our portfolios are typically well exposed to assets that we classify as 'Property and Infrastructure'. We are still finding yields that are highly attractive, especially when measured against bonds, and many of these yields are also index-linked.

We cannot escape expressing our views on Russia's invasion of Ukraine. We are acutely aware of the truism that truth is the first victim of conflict; we caveat that all our analysis is necessarily flawed and almost certainly out of date by the time you read this. Nevertheless the markets wanted the swiftest resolution: what would have suited them best was a swift Russian victory, a token response from NATO and a resumption of normal oil, gas and grain exports. Thus far, that is far from how the war is playing out. The rises in energy and commodity prices have persisted for much longer than hoped and they have worsened the inflation situation. The situation remains fluid, with the lingering concern that a floundering Russian army still has a nuclear option, but the worst of these initial shocks should now have passed.

The United States, as tends to be the way with foreign policy, is floundering. NATO is united in having a common enemy, but without an apparent policy of what to do about it. The markets want a swift end and are coldly agnostic about a preferred victor. There are ways in which this could happen – notably regime change in Moscow – but they are long odds against. A wounded bear with a nuclear weapon feels like a dangerous animal.

2022 is a year of considerable challenge. Markets face inflation, tightening monetary policy, a war in Europe and slowing global economic growth. Not all, though, is cast in stone. In the United States, in particular, that growth has not yet turned down and is currently resolutely healthy. The dollar is rightly soaring as a result. The world's need to decarbonize is also unchanged: the need for renewable and sustainable energy, in all non-fossil and non-Russian forms, has grown and these remain highly attractive, core long-term themes for our portfolios. We look for companies with pricing power, those who can pass on their higher costs, and also assets with index-linked revenue streams. These will all serve us well over time, but there is no disguising that it is going to remain a bumpy ride.

THEMATIC RESEARCH

CHIP CHIP HURRAY!

Ben Luck, *Investment Analyst*
Emily Cave, *Research Assistant*

Semiconductors are crucial to the modern world. They can be found in almost every electronic device. For that reason, understanding what semiconductors do, what shapes the industry and the market dynamics within is paramount. In this article, we will walk through the world of semiconductors and provide our view on the best way to gain exposure to this theme.

What are semiconductors?

Our title may be lost on those that didn't know semiconductors are commonly referred to as 'chips', despite minor distinctions between the two. In simple terms, they provide computing power to a rapidly increasing number of products. Most commonly, electronics or those that connect to the Internet of Things (IoT). The more complex explanation is that they belong somewhere between a conductor and an insulator, meaning the level of conductivity can be controlled. It is this ability that provides the power to make calculations.

Most semiconductors are silicon-based and are riddled with transistors, which act as switches. When a small current is passed through, a larger current can be turned on or off. These days, tens of millions of transistors can be formed onto a single chip. The smaller the gap between these transistors, the more powerful the chip. The latest semiconductor technology being worked on is just three nanometres, or three billionths of a metre, which is expected by the end of 2022.

The semiconductor industry lives and dies by a simple creed: smaller, more powerful and cheaper. This is Moore's Law, which states that the number of transistors on a chip doubles every two years. That means we can expect the speed and capability of our computing power to increase every couple of years. Growth is exponential.

> *There is constant pressure for designers and manufacturers to innovate and create chips that are faster and more powerful than their predecessors*

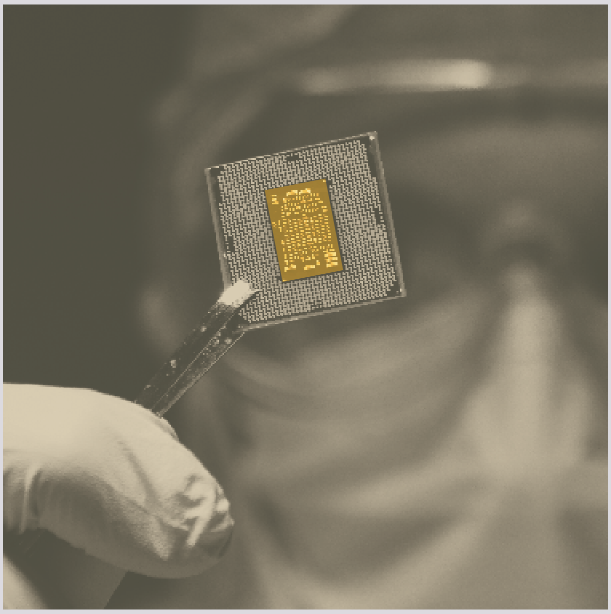
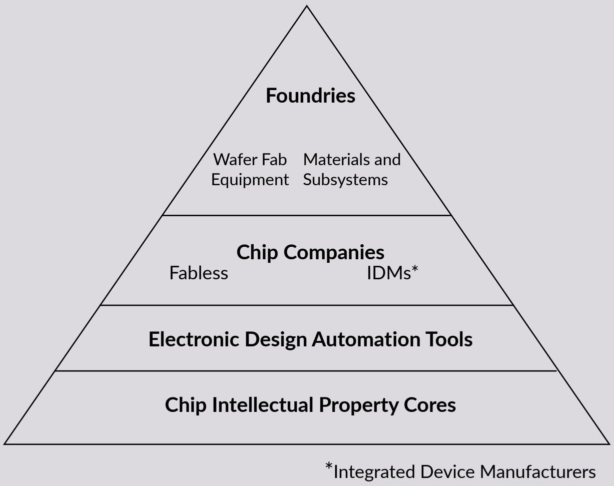


DIAGRAM 1: SEMICONDUCTOR INDUSTRY STRUCTURE

Source: **Hawksmoor Research**



The Industry

To really understand the semiconductor market, one must become familiar with the semiconductor pyramid.

Let's start off with designs. At the bottom of the pyramid we have businesses that own chip designs, known as intellectual property (IP) cores. For a licence fee, these can be used by other companies, creating attractive recurring revenues. At this stage, an additional layer of design (on top of the IP cores) can be added using electronic design automation (EDA) tools. It is an incredibly specialised skill performed by a highly talented engineering team and takes time. There are two big players in this space – Synopsys and Cadence. Both can be viewed as the building blocks of the industry. The make-up of revenue is attractive too; contracts are non-cancellable and recurring, giving visibility and resilience through the cycle.

Moving up the pyramid to chip companies brings two types: those with production capabilities and those without. Those without are known as 'fabless', i.e. they do not have their own fabrication plants to manufacture chips. Some will use their chips in their own devices, such as Apple and Amazon, others will sell their designs, such as Nvidia and Qualcomm. For the former, reliance on off-the-shelf chips is reduced. For the latter, profits can be reinvested into research and development rather than spending on an expensive manufacturing process.

Some businesses, known as integrated device manufacturers (IDMs), have exposure to the full lifecycle. Not only do they design the chips, but they also have manufacturing capabilities. Traditionally, they tend to make just their own designs, which leaves the manufacturing of everyone else's chips as the final piece of the pyramid – chip foundries.

Foundries manufacture chips in their fabrication plants (fabs). This is the process of turning the design into a physical chip which requires an incredibly complex and expensive process. Due to the difficulty of the work being carried out and the cost of doing it, there are few pure-play foundries in the world and barriers to entry are high. The biggest, Taiwan Semiconductor Manufacturing Company (TSMC), is the dominant player with over 50% market share. TSMC has also pledged to spend USD$100bn over the next three years to grow its capacity. It is hard to see a world where TSMC drops below top spot. Samsung is the second biggest with just 17% market share; moving further down the list, companies have single digit share. This is the area we are most interested in from an investment perspective, as we will explore later in the article.

Market Dynamics

Semiconductors are at the cutting edge of technology. There is constant pressure for designers and manufacturers to innovate and create chips that are faster and more powerful than their predecessors. This, of course, comes at a cost. Research and development budgets are large and capital expenditure plans are growing. It is for this reason that the semiconductor process is being split into specialist parts – design and manufacturing. This is evidenced by the emergence of fabless chip makers and pure-play foundries. From an investment angle, this creates more opportunity and accessibility to the most attractive parts of the market.

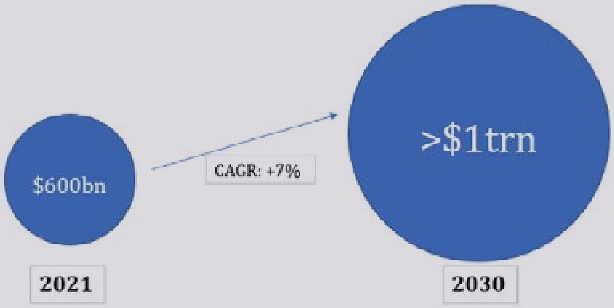
Historically, there has been a high degree of cyclicality to the industry. When times are good, profit margins are high and supply can't keep up with demand. However, when times are bad and demand falls off, there can be much wider implications. Semiconductors play a crucial role in a wide range of supply chains. The Covid-19 pandemic has brought the global semiconductor shortage to the forefront, although the trend was already in place. Semiconductor supply had been struggling to keep up with demand well before the first Covid-19 case. We are amidst a technology boom which has seen demand grow exponentially. It is impossible for supply to do the same due to the specialist nature, long lead times and cost of building more infrastructure. With technology advancing at the pace that it is, and uses for semiconductors growing and diversifying, the traditional boom and bust model may be outdated. The emergence of artificial intelligence, IoT and machine learning is accelerating long-term demand, meaning we could see the industry operate with a steadier growth model moving forward.

That growth is not to be underestimated either. According to McKinsey & Company, the industry is set to grow at 6–8% per annum all the way until the end of the decade. Whether at the lower or upper end of the range, that would value semiconductors as a US$1 trillion industry by 2030 (as shown in Diagram 2). Around 70% of that growth is expected to come from just three segments: automotive, computation and data storage, and wireless communications. Geographically, there are two major markets: the United States and China, with the US the larger. It has previously moved most of its fabs to Asia, though due to geopolitical risks they are looking to bring more chip production back to the West. China is the world's largest manufacturer of electronic goods (with a 36% market share) and in 2020 spent $378bn importing semiconductors (data source: Semiconductor Industry Association). It is understandably seeking greater capacity. Both countries are trying to decouple their semiconductor ecosystems.

Margins across the industry are impressive. Synopsis and Cadence, two of the biggest players in the design space, earn an EBITDA (earnings before interest, taxes, depreciation, and amortization) margin of 35% and 42%, respectively. That's a similar level to ASML, which provides wafer fab equipment to foundries. But the most money is being made further up the pyramid. TSMC boasts a margin of just under 70%.

DIAGRAM 2: SEMICONDUCTOR FORECASTED INDUSTRY SIZE (US$)

Source: **McKinsey & Company**



Investment considerations

There are a number of Exchange-Traded Funds (ETFs) available in the market, which take a broad-based approach to investing in the semiconductor theme. Whilst there is industry growth and attractive margins on offer, valuations are a challenge across these products. Designers Cadence and Synopsys trade on 35x and 33x next year's earnings, respectively. Both are considerably higher than their five-year averages. ASML, which produces foundry equipment, and Nvidia, a well-known chip designer, trade on 28x and 33x next year's earnings, respectively. Our preferred method of gaining exposure to the semiconductor theme is through TSMC which trades on just 16x forward earnings.

It is not just valuation that draws us to TSMC. Chips are an essential part of modern technology and TSMC has a market leading position (and arguably a near monopoly) in production. Barriers to entry are high too. The group has pledged a large spending plan to stay at the cutting edge of the industry – only Samsung and TSMC can produce 5nm chips (the smallest version available today). With design being split from manufacturing, TSMC is set to benefit from companies moving to a fabless business model. Intel is moving towards a hybrid approach and will rely on TSMC for extra production capabilities. Demand continues to grow for chips as technology advances; the challenge for designers is to create the latest state-of-the-art chips. TSMC therefore has limited exposure to the risks that surround designs and will simply benefit from the growth in the industry. This 'pickaxe' type play on the industry appeals to us above and beyond other areas and a broad-based ETF.

INVESTMENT IN FOCUS

SUPERMARKET INCOME REIT

Daniel Lockyer, *Senior Fund Manager*

Investment highlights

- The grocery sector is a beneficiary of our new post-Covid shopping habits.
- A total return of 8–10% per annum is expected of which c. 5% as income.
- Supermarkets offer long-dated inflation-linked income at higher yields than equivalent rated corporate bonds.

The supermarket sector

Pre-pandemic, the investment case was to capture the growing trend of more people using large supermarkets as a hub for all our shopping needs. Known as omnichannel supermarkets, these larger stores offer the usual in-store shopping with a trolley, but also fulfil online delivery orders and click and collect services using off the shelf products; this contrasts with other online grocery companies that use separate warehouse-only facilities, which haven't proved to be as cost effective as the major's own supermarkets. Having other product lines such as clothing and technology to complement the weekly grocery was also an attraction as a one-stop-shop.

Throughout the pandemic the only way to shop outside rather than on your computer screen was at supermarkets, but there was also an understandable material increase in demand for click and collect and delivery services. In the two years to January 2022, total supermarket sales grew by 10%, but within that, online sales grew by 88% compared with in-store physical sales growing a modest 4%. However, those stores identified as omnichannel grew their sales by 16%. Therefore, these omnichannel stores have become even more critical and more valuable assets to the major supermarket companies. Indeed, Sainsbury's and Asda have closed online-only facilities (known as dark stores) despite a huge uptick in online grocery volumes, while Tesco is focussing on adding omnichannel capability to existing stores which, as the map opposite shows, far outweigh the online-only stores.

DIAGRAM 1: TESCO'S ONLINE DISTRIBUTION NETWORK

Source: **Atrato Capital, April 2022.**

> *"Supermarket Income REIT now has a portfolio of 41 supermarkets worth £1.6bn*

Investing in supermarkets

Supermarket Income Real Estate Investment Trust (REIT) launched on the UK stock market in 2017 with £100m to acquire a few of the very best performing large Tesco and Sainsbury's stores. The sellers were typically other fund management groups or insurance companies that owned them within property portfolios that were classed as retail assets at a time when retail property was experiencing (and still is) deteriorating footfall and not generating good income or capital performance for the landlords. Atrato Capital, a specialist manager with good knowledge of each store, took the opportunity to acquire these assets that were incorrectly associated with high street retail. In return, they received secure and long-leased income together with relatively stable capital growth as the sector became more appreciated.

Tesco and Sainsbury's did not and do not own most of their stores having sold them in the preceding years under a common 'sale and leaseback' arrangement. This allowed them to get the assets off their balance sheet and free up cash to expand aggressively, opting to pay rent to the new owners instead. Accounting rules changed in 2016 (effective from 2019) meaning leased assets were treated the same as owned assets and therefore, in time, the major supermarkets would become buyers of their stores again. This is partly because it will save them a lot of money in rent given it would be cheaper to borrow money in the bond markets at much lower yields than the rent they are paying to Supermarket Income REIT as landlord.

The opportunity for investors

The chart below shows the yield of the supermarket sector compared to the equivalent corporate bond yield of Asda, Tesco and Sainsbury's.

Having been able to regularly raise further equity from the stock market over the last five years, Supermarket Income REIT now has a portfolio of 41 supermarkets worth £1.6bn; the average lease length is around 15 years with the majority of rents rising in line with inflation, albeit subject to a cap, typically 4%. Given the major supermarkets are the tenants (Tesco and Sainsbury's represent 75% of the rent roll), the share price of Supermarket Income REIT yielding about 4.5% compares very favourably to their equivalent corporate bond yields, as shown in the graph above (Asda is now owned by private equity and is highly indebted hence the higher yield). It is worth noting that those corporate bond yields are fixed coupons while Supermarket Income REIT's dividend has the potential to grow each year in line with the contractual rent increases. The capital values of the properties are supported by the excellent performance of each store given our changing shopping habits and the strong demand from a number of institutional investors, which includes the supermarket operators themselves. The scope to enhance the income generated by each store by adding facilities within the large car parks, such as a Timpson or a fast-food or coffee shop drive-thru, offers additional upside.

It is no surprise that Supermarket Income REIT is attracting interest from property investors to complement their existing exposure to the retail sector. Further, many investors consider it to be regarded it as a 'bond proxy' in that an inflation-linked yield from investment grade tenants is much more attractive than owning a fixed rate coupon from one of those same companies' corporate bonds, i.e. both have the same counterparty and credit risk. In fact, this return profile is much more attractive than large swathes of the global bond market! Overall a conservative 8–10% total return with 4–5% of that from income is a very attractive proposition.

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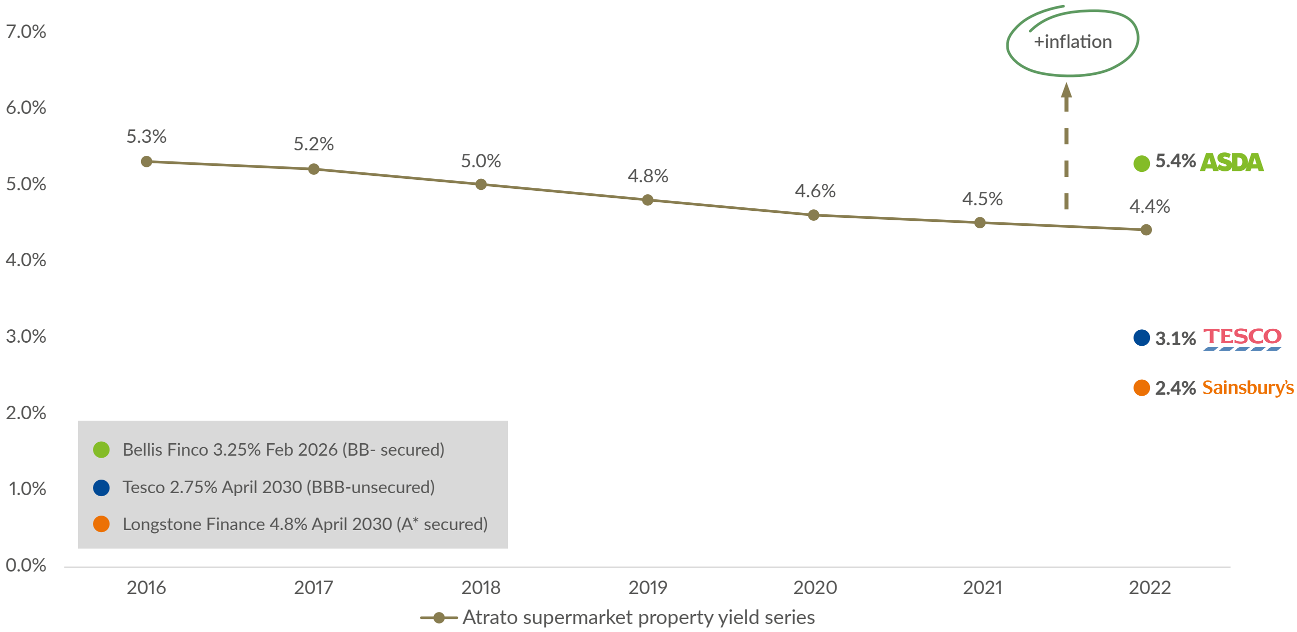


Source: **Atrato Capital** (bond data sourced from Bloomberg as at 04/04/2022, property data sourced from Atrato Capital based on relevant market transactions).

DEAR HAWKSMOOR...

I have often seen reference to the 'inverted yield curve' and understand that this may be pointing to a recession in America? Can you explain what a yield curve tells us and whether there is any truth to this gloomy prediction.

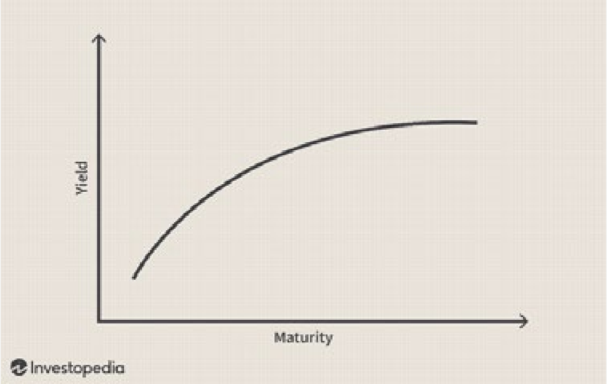
This is not an easy question to answer in such a short space but I will give it a go! In brief, a yield curve measures how much return you can earn from similar quality bonds with differing maturities. A bond is a method for a company or government to raise money from investors by issuing an I.O.U. It promises to pay back the loan amount (principal) on maturity (the redemption date) to the borrower/investor holding the bond at the time of maturity. Bonds change hands in the secondary market in a similar fashion to shares trading on the stock exchange. Although the issuer promises to repay the face value of the bond on redemption, the price of the bond will vary between issue and redemption based on numerous factors, including the changing creditworthiness of the issuer (thereby influencing the market's perception of whether the issuer will honour the debt), the general level of interest rates and economic expectations. As an investor lending money to a company or government, you normally receive a fixed rate of interest on the bond (loan) to compensate you for the risk you are taking being a creditor. This is commonly referred to as a coupon. The yield is a measure of the income return expressed as a percentage and is calculated as follows:

Yield (%) = Annual Coupon/Bond Price

A yield curve measures how this yield figure changes (on the y-axis) with changing maturities (redemption dates on the x-axis). When you read about a yield curve in the press, it is usually referring to US Treasury securities. This is debt issued by the US government to fund its expenditure which is not covered by taxes raised from its citizens. The US yield curve measures the yield on Treasury Bills (maturities of a few days to one year) and longer-term Treasury Notes with maturities stretching to 30 years.

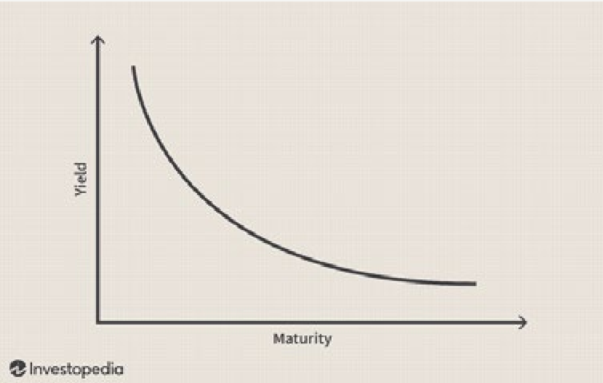
In normal, healthy economic conditions when the economy is expanding (or expected to do so by investors), a yield curve will slope upwards – in other words, yields rise with bonds which have a longer time until maturity. This is to be expected as investors should be compensated with a higher yield for taking a longer term view. Put bluntly, the longer the time to a bond's maturity, the greater the chance that something could happen to the issuer which prevents it from honouring the loan.

FIGURE 1 NORMAL YIELD CURVE



However, at times, this relationship breaks down and the yield available on bonds with a shorter-term maturity is higher than that available on longer-dated bonds. This is called an **inverted** or **negative** yield curve. Such an event happened at the end of March when the yield on the two-year Treasuries temporarily exceeded that of the ten-year Treasuries. The rationale for this inversion is investors' belief that over the long term inflationary forces fall as the economy slows and, in turn, Central Banks will cut interest rates. When the general level of interest rates is falling to help stimulate spending and improve the economy, bond prices rise and, as shown by the equation above, yields fall.

FIGURE 2 INVERTED OR NEGATIVE YIELD CURVE



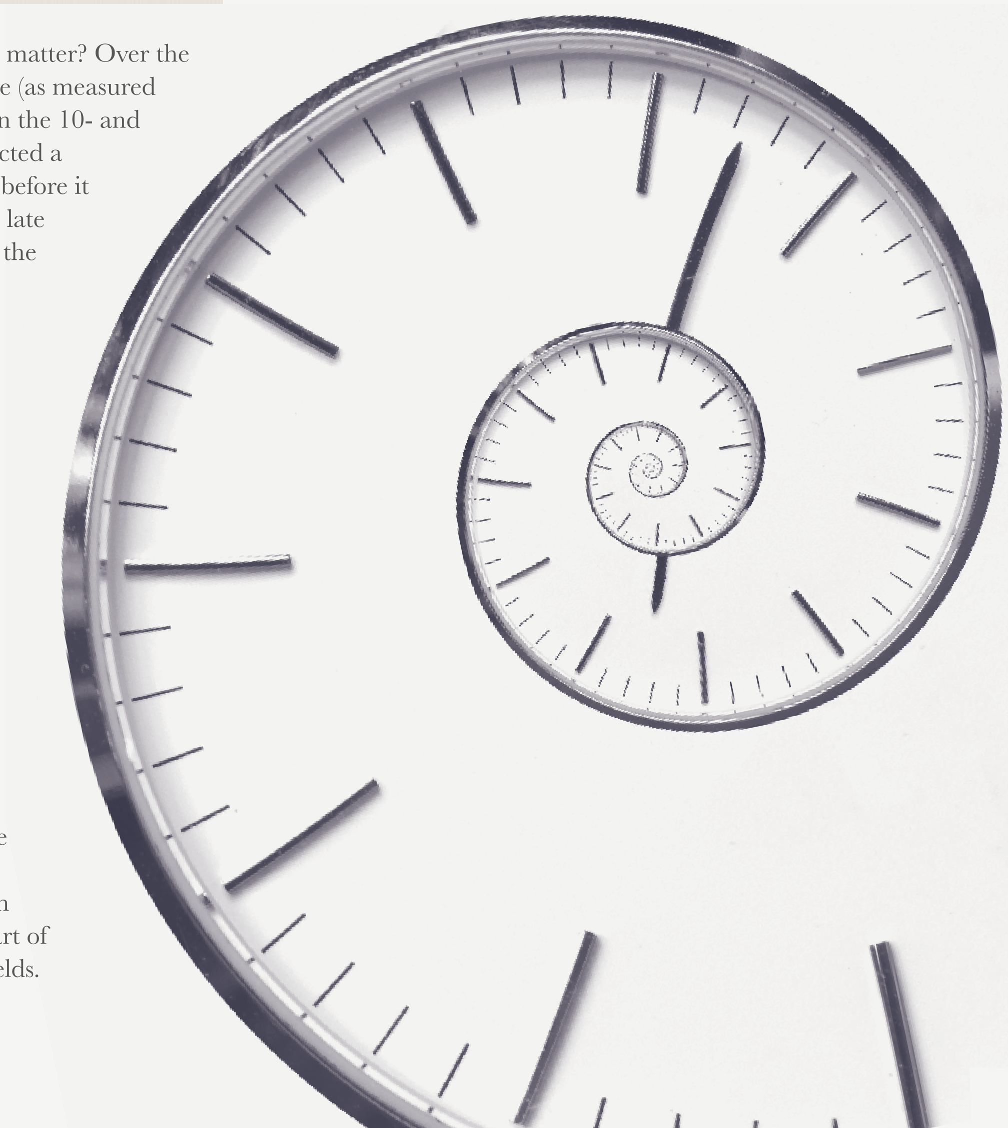
So why does an inverted yield curve matter? Over the past 40 years, an inverted yield curve (as measured by the differences between a yield on the 10- and 2-year Treasuries) has reliably predicted a recession approximately 18 months before it arrives. The yield curve inversion in late March would therefore suggest that the US is heading for a recession in late 2023.

'This time is different' are the four most expensive words in finance. However, there are arguments to suggest that the inverted yield curve has got it wrong this time. Firstly, the inversion has, thus far, been short lived. Secondly, the economic cycles between boom and bust have lengthened perhaps making historic precedents less relevant. Finally, the actions of central banks have been distorting the bond markets. The US Federal Reserve's bond purchases as part of their quantitative easing programme have been focusing on the longer-dated end of the bond market which has been driving up prices in this part of the market and thereby reducing yields.

Nevertheless, history teaches us not to be complacent. Whilst many US citizens still have excess savings accumulated during lockdowns, which is offsetting the impact of the rising cost of living to a degree, this will eventually unwind and the big question is what happens next? For what it is worth, thanks to this pent-up demand, most economists are still expecting growth in the US for 2022 and into next year, albeit at a reduced rate to previous forecasts. The picture thereafter is far less certain.

Greg Sellers, *Senior Investment Manager*

'This time is different' are the four most expensive words in finance



NEXT GEN

GENERATIONAL INVESTING

Jason Hopton

Assistant Investment Manager

I am lucky enough to be a relatively new parent and a question that regularly pops into my head is 'How can I ensure that my daughter enjoys the benefits of investing?' This may be a question you have asked previously and does not only apply to children but to adults as well. The education system does not teach us the power of compounding, which I have written about previously, and therefore the responsibility lies with each of us to teach the next generation about financial responsibility.

> *The first and simplest solution is to get children started early*

The first and simplest solution is to get children started early. A Junior Stocks and Shares ISA, which can be offered to children up to the age of 18, offers a great platform to build wealth and grow a child's savings at a higher rate than interest rates and inflation. You can subscribe up to £9,000 per year in a Junior ISA, which will need to be set up by the parent, and there are no restrictions as to who can contribute. Based on an article by Scottish Friendly, the MSCI World Index has returned an average of 6.5% per year for Junior ISAs compared to 1.53% for cash ISAs.

Setting up an account and investing on behalf of a child is only the first step. It would be easy for most 18-year-olds to splash the cash as soon as they are given full access to their accounts, so getting your child or grandchild involved in the account prior to them turning 18 is key in order for them to appreciate the importance of growing and preserving wealth.

Here in the UK, there seems to be a real stigma around talking about finance within families. A survey from GoBankingRates shows that 73% of adults have never spoken to their parents about finances. The next generations, whether children or grandchildren, are the ultimate beneficiaries of the wealth we create during our lifetime. It therefore makes sense to create an open dialogue between the generations to demystify investing and encourage wealth preservation.

A staggering statistic shows that 70% of families will lose wealth in the second generation and 90% have lost it by the third generation.

So what can be done?

Most of our meetings as Investment Managers are with clients and it is very rare for these meetings to extend beyond the client and include that next generation we have mentioned above. By including them, you would be allowing your family to plan goals that form a truly long-term time horizon.

One of the greatest barriers to overcome in the investing world is the terminology, which can be overcomplicated and intimidating. We can help remove these barriers by answering any questions from yourself or your extended family and making investing accessible and understandable for everyone.

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> *Here in the UK, there seems to be a real stigma around talking about finance within families*

LIFETIME PLANNING AHEAD:

Why arranging a Lasting Power of Attorney at or before retirement age is a smart move

Max Weatherby
Senior Investment Manager

Less than half of all adults in the UK have made a Will according to several recent surveys*. Given that we are all going to fall off our perch one day this is an extraordinary oversight by nearly 60% of our fellow citizens. As a client of Hawksmoor, I would guess that you are in the sensible minority and have organised your financial affairs to provide for your nearest and dearest. A properly drafted Will provides peace of mind and avoids expensive family squabbles due to intestacy.

In addition, the same surveys show that even fewer people have made any provision for managing their affairs in the event of losing their mental capacity or poor health. This is perhaps surprising given that we are all living longer and likely to require some care in old age. So with this in mind, arranging a Lasting Power of Attorney (LPA) could be one of the most important decisions you make as part of your estate planning. An LPA grants significant authority to named persons – known as 'attorneys' – to make important decisions on your behalf during your lifetime.

There are two different types of LPA: Property & Financial Affairs and Health & Welfare. In the case of the former, your attorney is permitted to make financial decisions such as paying bills, reviewing your portfolio with Hawksmoor or managing your bank account. The latter allows the attorney to make decisions regarding your medical treatment and welfare.

The preparation of either document requires careful consideration and ideally professional legal advice from a solicitor. He or she can guide you through the legal questions; your role will be to select an attorney or attorneys who are trustworthy and competent for this selfless appointment. The document itself must be registered with the Office of the Public Guardian and may not be activated for many years, and it can be used thereafter at any point, either when you no longer want to make decisions for yourself, or should you lose the mental capacity to do so. You may not use it for many years so this may be relevant to your choice of attorney. The rules do permit you to limit their authority and specify particular courses of action, and your solicitor will advise you on these points and any preferences you may have, particularly on medical treatment.

These are difficult subjects that don't make light reading and we would often rather put them off, but advance planning can pre-empt a lot of distress in the family and avoid unnecessary complications in future years. With an LPA, you get to choose your attorney; without an LPA, a declaration of mental incapacity could mean that the court decides for you. I know which I would prefer.

As Investment Managers we try to look after our clients' best interests as well as their portfolios. This means having conversations around matters on the edge of our remit such as life assurance, taxation, or estate planning. We are well placed to work with your IFA, accountant or solicitor and can refer a professional firm if you need one.

Please note that this article covers the legal position in England & Wales. Different provisions will apply in Scotland and other nations.

If you have an existing EPA signed before October 2007 then this is still valid, but we recommend you speak with a qualified solicitor to ensure that it is still suitable for your needs.

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*Source: Surveys by YouGov/ Canada Life / IRN Research

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