Wealthsmiths™

The Sanlam magazine – Summer 2018

Beating inflation
Leggings and the art of portfolio planning

Pensions dilemma
Why things aren't what they used to be

Celebrating our centenary
Sanlam has achieved great things in the past 100 years

A glass half full

Influential wine editor of *The Week*, Bruce Palling, discusses the world of wine and a lifetime of loving the grape

Sanlam
Wealthsmiths™

Welcome to the summer edition of *Wealthsmiths* magazine. In this issue, we have cause for celebration, as it is 100 years since Sanlam was formed. Since then, the Sanlam Group has become a global business, managing money for over 10 million people in over 45 different countries. You could say that Sanlam has a long history of looking forward.

And while looking after our clients' money is our first responsibility, we also believe in looking after our community. We are a keen supporter of organisations such as the Royal Academy of Arts and Sanlam is an ambassador for CASCAID, the asset management industry's initiative to raise money for good causes (last year it raised over £2.3 million for Cancer Research UK). On pages 13-15 you can find out more about Sanlam's incredible 100 year history.

Elsewhere in the magazine, we've focused on inflation, how to beat it and why quiche (yes, quiche!) is important in helping economists measure it. We've also explained how Sanlam can help you structure your investment portfolio to protect it from the increasing pace of change, which threatens the future of some leading companies.

You'll also find some key facts about pensions tax relief. It can play an important part in making sure you have enough money to enjoy the lifestyle you want in retirement. By and large, individuals automatically receive 20% tax relief on their pension contributions (those with s226, self-employed retirement annuities, have to claim), you should remember to claim additional amounts if you are a higher or additional rate taxpayer.

Lastly, if you've ever wondered why your children or grandchildren spend so much time in front of a screen, take a look at our article about e-sports. It will give you a surprising insight into this rapidly growing form of entertainment.

I hope you enjoy this issue of *Wealthsmiths*, and if you would like to receive a digital version or leave us your feedback, you can do so by visiting our website at www.sanlam.co.uk/wealthsmiths.

John White
CEO, Wealth Management

Why Wealthsmiths?

Wealthsmiths is a simple description of what we do and what we believe in and represents the pragmatic 'roll-up-our-sleeves' approach we take to managing your money. Like a silversmith or wordsmith, everything we do is created with the client in mind, and done with skill and integrity – that's what makes us Wealthsmiths.

Contributors

Andrew Cave
Andrew is a business journalist, who has written for the *Telegraph* and the *Sunday Telegraph*.

Ruth Jackson
Ruth has been writing about personal finance for over a decade, specialising in pensions, mortgages, investments and tax.

Jill Insley
Jill is a financial journalist who has had work published in *The Observer*, *The Guardian*, *The Sunday Times* and the *Telegraph*.

Jess Unwin
Jess is a journalist who has written for a range of business and finance titles during his 30-year career

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News and analysis

Commentary and analysis of key issues for investors

The perils of pension freedoms

It's been three years since the so-called Pension Freedoms legislation was introduced, meaning anyone aged 55 and over can take the whole amount as a lump sum, paying no tax on the first 25%, and the rest taxed as if it were a salary. At the time, there was concern that this would lead to reckless spending. As it turns out, the British are a little trustworthier than that. But data released by the Financial Conduct Authority (FCA) has flagged some things to watch out for.

Also, for free and impartial advice, you can use the Government's Pension Wise service.

1 52% of fully withdrawn pots were moved to cash savings or investments
Unless you really need the money, think carefully before you remove it from your pension. It could result in you paying unnecessary tax, missing out on investment growth or losing out on valuable guarantees.

2 Think twice before going it alone
The percentage of people buying drawdown without taking financial advice has increased from 5% to 30%. Drawdown is complex, so strongly consider talking to an adviser as they offer support and protection.

3 Beware of the scammers
One unfortunate repercussion of the pension freedoms legislation is a dramatic rise in scammers just waiting to get their hands on your money. Remember – if it sounds too good to be true, it probably is.

4 Shop around
Some 94% of non-advised drawdown sales were with the existing pension provider. Taking the path of least resistance could cost you money in the long run. You may be able to get a better deal elsewhere.

If you need help planning your finances to ensure a comfortable retirement, please speak to your financial planner

Did you know that...

According to the 2017 Family Spending report by the Office for National Statistics:

We spend the same on alcohol as 60 years ago

The media would have us believe that we've become a nation of heavy drinkers. But in 2017, 3% of our expenditure was on alcohol – the same as it was in 1957.

Londoners are still crippled by rent

Renters in London spend more than two and a half times the average amount spent by renters in Wales, Scotland and Northern Ireland.

Should Carillion have been too big to fail?

When Carillion went into compulsory liquidation in January 2018, it raised serious questions as to how one company could have so much exposure to large-scale infrastructure projects, resulting in significant job losses across the country. Especially when the Government awarded many of those projects.

At the time of its collapse, Carillion employed 43,000 people globally. In 2016 it reported sales of £5.2 billion and boasted a market capitalisation of almost £1 billion. So where did it all go wrong?

Carillion was, perhaps, a victim of its own success. It took on too many risky projects that ultimately proved to be unprofitable. By January 2018, Carillion's market capitalisation had dropped to £61 million, and its debt was estimated at £900 million, with a pension deficit of £600 million.

As the crisis began to unfold, there was little the Government could do to prevent its collapse. Nationalising the business would not have been viable – it would have cost too much. Carillion didn't own any real assets, so the tax payer would have got little in return. Also, the whole point of public-private partnerships, from which Carillion benefited so greatly, is that the private company takes the 'big project' risk away from the public purse. The Government can't be seen to bail out these private companies when it all goes wrong, otherwise what's the point?

Instead, we must let capitalism prevail. The projects won't go away, and other contractors will step in and take over. It's painful in the short term, but normal market forces must be allowed to resume.

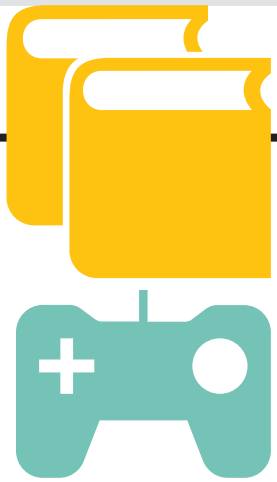
> "By January 2018, Carillion's market capitalisation had dropped to £61 million, and its debt was estimated at £900 million"

The Scots love a new car

Scottish households spent 2.5% of their total spend on a new car or van, which is 0.8% higher than the UK average. Their total expenditure on second-hand cars was less than other areas of the UK.

Girls like books, boys like gaming

Girls aged 7–15 years spent twice as much as boys on books, while boys spent more than 10 times the amount on computer games and software when compared with girls.



Is a war on tariffs justified?

President Trump's protectionist policies have been hitting the headlines. He's determined to tackle the enormous $375 billion trade deficit between the US and China, which he believes is damaging the US economy. So, does he have a point?

This map shows the average tariff applied by country on imported manufactured products. The darker the colour, the higher the tariff. The average US tariff is 2.87%, China's is 7.7%.

Global economists agree that Trump's 25% tariff on steel and aluminium, and threats of imposing the same on thousands of other Chinese goods, will do more harm than good. Ultimately, the US consumer will pay the price, together with the Chinese consumer if China retaliates.

The trade deficit is a legitimate issue and we believe that levying these tariffs is about shining a light on the problem and putting the ball in China's court.

Graph source: *The World Bank*

Since China exports nearly five times as much to the US as they import, they have far more to lose in a trade war, and we would expect them to negotiate a deal behind closed doors. China is growing so fast, it could easily address the deficit over the coming years by channelling more spending from the US. An example is crude oil. Demand for oil is growing rapidly in China and US shale could easily be the beneficiary of this spend. We think there are better solutions to the problem than blunt tariffs, and we hope that these are found.

> "Ultimately the US consumer will pay the price, together with the Chinese consumer if China retaliates"

Above: Shanghai's Yangshan Port, in China

A winning streak

Sanlam's Fund Managers have been treading the red carpet of late, winning four prestigious industry awards.

The Global High Quality Fund won an Investor Choice award and a Private Asset Management award for its long-term performance, while investors voted it Best Fund in the City of London Wealth Management Awards.

Since inception, it has beaten the FTSE All-Share Index and the MSCI World Index.

Not to be out-done, our Strategic Bond Fund, managed by Craig Veysey, won the prestigious Lipper Award for Sterling Bond Funds in both the three- and five-year categories.

2018 WINNER ALLOCATOR INVESTORS CHOICE AWARDS

COLWMA WINNER 2018 Best Fund Sanlam

PAM AWARDS WINNER Investment Performance High Growth Portfolios

Photos: Alamy and istock

How to invest to beat inflation

If you keep your money in a deposit account, its value will be eroded by inflation, so investors must look elsewhere to maintain their wealth, writes **Ruth Jackson**

Exercise leggings and raspberries are providing some much needed positive news for savers because they are among the goods being monitored by the Government that have revealed that the rise in the cost of living has slowed. Nevertheless, inflation remains ahead of bank interest rates, meaning that the value of money on deposit is being slowly eaten away.

The Consumer Price Index, which monitors a basket of goods that reflect contemporary spending habits, reached a six-year high of 3.1% last November then fell to 2.5% in April. But while this is welcome news, inflation remains stubbornly above the Government's 2% target and is a serious threat to the wealth of many families. ▶

There are few places savers can turn to outrun inflation, but investing in the stock market is one. Equities are underpinned by real businesses that can increase their profits, as rising inflation means rising prices. So, while cash savings rates have been left behind, the FTSE 100 is currently yielding 4.3%, meaning those shares are generating an income that is well ahead of inflation.

Attitude to risk

"Investing in securities, such as equities, that are linked to real assets means you should be able to get a return that beats inflation," says Philip Smeaton, Chief Investment Officer at Sanlam. "This is because the assets owned by these firms aren't diminished by inflation."

But your attitude to risk, and how much risk you should take with your investment portfolio, very much depends on your personal circumstances. There are more risky solutions to the inflation problem such as a full equity portfolio, or less risky options such as a portfolio focused on fixed-income investments.

But while less-risky fixed income assets such as government bonds may seem the best option, they pay a set level of income, regardless of what inflation is doing, so this income could be losing purchasing power too. Index-linked bonds pay out a higher interest rate if inflation rises, but they are very popular at the moment so their value has risen significantly, meaning they look fairly expensive at the moment.

Sanlam can help you to build a diversified portfolio with the potential to beat inflation while offering a level of risk that you are comfortable with. This might start, for example, with some fixed income to provide a guaranteed return, before heading up the risk ladder with part of your portfolio to grab the opportunity for inflation-beating returns.

Sanlam can help you invest in a range of assets in geographic regions, in order to protect your savings from market volatility while maintaining its purchasing power. Although investing is a key way you could beat inflation, you should always keep some money in cash, so you can access it in an emergency.

Persistent inflation

Although it can be a headache for savers, the Government believes having a persistent level of inflation – or loss of purchasing power – is good for the economy and so inflation is part of government policy. But, for somebody who has managed to work and set a little bit aside over their lifetime and build up savings, it is a problem.

Ten years ago there were numerous savings accounts offering interest rates of well above 3%, but ever since the financial crash in 2008, the Government has been keeping interest rates low in an effort to encourage us all to spend or invest our money in order to boost the economy.

If you are investing to beat inflation, remember that you are investing for the long term and during that time inflation will move around. It has peaked recently due to the falling pound after the Brexit referendum, but it will move around again in the future.

"Inflation can vary so you can't expect your investment portfolio to always give you inflation plus a little bit more, but in the long run you should be able to craft an investment strategy that means the purchasing power of your savings strengthens," says Smeaton.

"In order to decide which strategy is right for your personal situation you should seek independent financial advice," he adds.

And while inflation can be a frustration for savers trying to grow their wealth, it's important to keep it in perspective. Today's 2.5% may seem high but it's nothing compared to the runaway inflation of the 1970s that peaked at a massive 25% in 1975 – so there are still plenty of reasons to be cheerful. ■

> "Investing in securities, such as equities, that are linked to real assets means you should be able to get a return that beats inflation"

What's in the basket?

Consumer price inflation is the rate at which the price of goods and services bought by households rise and fall. A convenient way of thinking about this is to imagine a very large shopping basket. As the value of the goods in the basket changes over time, so does the cost of the basket. Currently, around 180,000 separate price quotations, covering the 700 representative goods and services in the basket, are gathered every month. Prices are collected from 140 locations across the UK and the list is updated every February to ensure it remains up to date. Below are some more of the goods added to the basket this year, and some which have fallen out.

IN	OUT
Quiche	Pork pie
High chair	Edam cheese
Digital media player	Peaches and nectarines
Girl's leggings	Full leg wax
Soft play session	Digital television recorder
Child's sit on and ride toy	Digital camcorder
Cooked, pastry-based savoury snacks	Bottle of lager in a nightclub

Grape expectations

Bruce Palling, Wine Editor for *The Week* magazine, talks us through his life in wine and trends on the vine

In the past, classical oenophiles rarely looked beyond the best Bordeaux and Burgundy, but fortunately the wine world is now a more diverse place. It is not just the kaleidoscopic range emerging in Italy, Spain and Germany, but even in France, relatively unknown regions are suddenly producing superb wines, such as Chêne Bleu on the slopes of Mont Ventoux in the Rhone. The New World too, has thrown up some extraordinary wines, from South Africa, Australasia, Argentina and Chile. A new cult has also emerged extolling the virtues of what are curiously called natural wines, which boast of minimal intervention, meaning the more extreme examples stray into the realm of flawed wine.

I consider many of them to be bizarre, yet for other enthusiasts, it is the only wine they could ever contemplate drinking. There is no right or wrong way to approach wine – it just depends on personal taste plus an element of luck on how you are first exposed to it.

I come from a family with a total lack of interest in wine but fortunately there was a Bohemian artist in my small country town in Australia who introduced me to the joys of wine while I was still a curious teenager. A decade later, a French foreign correspondent in Bangkok opened my eyes to both foie gras and Châteauneuf-du-Pape simultaneously, and later my fate was sealed by a chance meeting with a young wine merchant whose company sold the very best Pomerols from Bordeaux. Of course, curiosity is a vital ingredient for pursuing any passion but my love of wine would still have evolved regardless of these fortuitous encounters.

Wine in the capital

London remains the most exciting location to explore what is now available. It is not just the variety on offer, from Hungary, Austria, Lebanon and Argentina, but the emergence of superb wine bars and clubs, such as 67 Pall Mall, Sager + Wilde, Noble Rot and Clarette, has made it that much easier to explore what is on offer.

Photography: Andrew Shaylor

With the advent of the Coravin wine storage system, it is perfectly possible to try a range of bottles that would be prohibitively expensive to have alone. Noble Rot, an atmospheric wine bar and bistro in London's Bloomsbury, has gone all out to attract wine lovers with an outstanding list of quality wines at modest prices. Impressive white Burgundies from notable vintages are available for between £55 and £70 while offering a strong selection of the very best 'second wines' of Bordeaux for similar amounts.

67 Pall Mall is the ultimate high-end club for wine lovers. Located in a former bank designed by Lutjens in the heart of Clubland in St James's, it has 1,400 wines on its list, plus 500 by the glass. There are around 1,300 members and it is currently over-subscribed, as it has become a Mecca for wine lovers and growers from around the globe.

Champagne too, is now highlighted at certain places, such as Texture, a Michelin-starred restaurant near Oxford Street that has more than 100 bottles available in its bar.

Coinciding with this has been the growth of English sparkling wine, which has more than doubled its capacity in the past decade. Taittinger, one of the great French champagne houses, has also begun planting vines in Kent and expects to release its first bottles of sparkling wine early in the next decade. There are a handful of superb examples in the marketplace, with my personal favourite being Nyetimber in West Sussex, which has been around now for a quarter of a century. The vintage bottles from 2009 and 2010 are priced the same as quality non-vintage Champagne but have their own unique characteristics. For me, they are more mineral driven with hints of apple that make them perfect as palate cleansers or even with certain types of seafood.

Looking back over the past 30 years, the biggest trend was the unrivalled position of wine guru Robert Parker, who was arguably the most influential critic in any ▶

Bruce Palling in The Vault room at Hedonism Wines, Mayfair

sector you care to mention. His award of 100 points to a wine would double or treble its price overnight and many Bordeaux producers wouldn't release their prices until they saw the points they had scored by Robert Parker in his Wine Advocate newsletter.

I have followed his writings for more than 35 years and respect him for his role in broadening worldwide interest in quality wine. The downside has been the slavish way many leading wine growers tried to make wines that appealed to his taste, which meant there was a profusion of over-alcoholic fruit bombs in an endeavour to increase their scores. This meant that for too long leading non-Pinot Noir wines would be heavily alcoholic – upwards of 15% in the worst cases. Fortunately, this trend is now on the wane since he sold his newsletter to Singaporean investors and recent Bordeaux vintages have been far more balanced. This never affected Pinot Noir, the bedrock of red Burgundy, where his impact has been minimal.

Change in taste

The fine wine market has soared out of reach of most wine lovers – when I started collecting wine in the mid seventies, the top Bordeaux, such as Margaux, Lafite-Rothschild and Haut-Brion, were all under £10 a bottle but now they are 50 to 100 times more than that.

My own tastes have changed too, so that my passion for Bordeaux, especially Pomerol and Graves, has gradually been replaced by my enthusiasm for Burgundy, which is made in miniscule amounts compared to Bordeaux. The greatest Burgundies are rarely more than a few hundred cases, whereas the top Bordeaux often make 15,000 to 20,000 cases annually.

The Pinot Noir grape is the most difficult to replicate beyond Burgundy, though there are now impressive examples in South Africa (Hamilton Russell and Vriesenhof are my favourites) and Australia, where Bindi make outstanding wines that age for a decade or more.

Despite my lifelong passion for wine, I rarely visit wine makers in their vineyards. My other passion is collecting books, but I don't feel the need to visit a publishing house to see them being printed either – much better to inspect it in a bookshop or a library and for wine, I prefer to taste it in a restaurant or at home rather than see the raw ingredients.

The one exception is Burgundy's Domaine de la Romanée-Conti, the most celebrated wine on the planet. I visited the Domaine a decade ago and was offered samples of the previous year's vintage straight from the barrel. Such is the scarcity of the wine that any left in the tasting glass is returned to the barrel. It is an interesting academic exercise to compare and contrast the half dozen different wines DRC produces but the pleasure is more in the expectancy rather than their current taste as it can take 30 years or more for them to fulfil their promise.

> "We are now in a golden age of wine production, with more varieties being planted and interest spreading beyond traditional regions such as Europe"

We are now in a golden age of wine production, with more varieties being planted and interest spreading beyond traditional regions such as Europe, Australasia and North America. Wine culture is growing fastest in Asia and while prices rose astronomically a decade ago because of this, prices have since stabilised. The most formidable challenge is global warming, which has already pushed up alcohol levels from the usual 11.5 to 12% to upwards of 15% in some regions, but there are also measures that can be taken to lessen the impact.

So what advice do I have for budding wine enthusiasts? The most important thing is to go out of your comfort zone and try different wines as that is the only way to discover what truly excites you. Alternatively, try the same grape variety, such as Grenache, from different regions around the globe as you will be amazed at how all good wines express their origins or terroir sometimes far more than their grape variety. Fortunately, it is a never-ending quest. ■

Sanlam's partnership with The Week Wines

Sanlam UK proudly supports The Week Wines, part of *The Week* magazine, which works with top quality wine merchants in the UK. It aims to source wines that are not readily available in the shops. These wine merchants reflect our own values: providing high quality products sourced with care and attention. You can find out more about our partnership at, **www.theweekwines.com**

100 years of moving forward

In a century, Sanlam has grown from a Cape Town-based office to a global name in investment and wealth management, including in the UK. **Bethan Rees** looks back at the company's milestones, accolades and forward-thinking moves

The year is 1918. The location is the Royal Hotel in Cape Town. A small group of Afrikaners and Scotsmen meet to discuss the creation of a company that would majorly impact the economic history of South Africa. A business was set up to help people take responsibility for their social security, and this company is now known as Sanlam. The business showed a small profit at the end of its first year and declared a bonus, which was a sign of things to come.

This year, Sanlam celebrates its 100th anniversary and its achievements along the way. In a century, it has built financial futures and lasting legacies for its clients, from turning two million policyholders into shareholders and introducing the first computer for commercial use in South Africa. From Cape Town to London, to India and Malaysia, Sanlam now operates as a global company.

Sanlam expanded into the UK in 2003, with the acquisition of Merchant Investors Assurance Company UK, and Sanlam UK was fully formed in 2008. The next couple of years was full of investment for the firm, including Nucleus Financial Group, purchasing a majority stake in Buckles Investment Services and acquiring English Mutual. By 2014, all arms of the business, including Sanlam Distribution, were rebranded, trading under the name of Sanlam.

In 2015, Jonathan Polin joined as Group CEO at the UK firm, following a career working with Prudential, Aberdeen Asset Management and Britannic. He joined with a clear brief to create a unified, integrated financial services business recognised for the quality of its advice, asset and discretionary fund management services, with an aim to become the market leader for both financial planning and wealth management in the country.

In 2017, Sanlam UK strengthened its offering with the launch of Sanlam Private Office, headed up by Penny Lovell, focusing on high net worth clients with assets worth upwards of £1 million.

Sanlam UK is also involved in a number of national and community sponsorships and partnerships such as the Royal Academy of Arts and *The Week* to continue its support of businesses across the country.

One of the UK firm's biggest charity initiatives to date, was in 2017. Sanlam UK is an ambassador of CASCAID; the asset management industry's initiative to raise over £1 million for Cancer Research – the campaign in fact raised £2.3 million, over double its target. In line with this, Jonathan and a team of colleagues cycled over 850 miles to all 12 Sanlam offices in the UK, with the aim to raise £100,000.

The secret to Sanlam's success lies in its commitment to hard work and persistence, which in many cases led to the company being an innovator in its industry, and its history is a significant part of its triumphs.

Turn over to learn more about some of the most important milestones and achievements of Sanlam over the last century. ▶

1918
Sanlam's (South Africa) first head office building at 10 Burg Street, Cape Town

SANLAM'S FIRST POLICYHOLDER, SERVAAS D DE WET

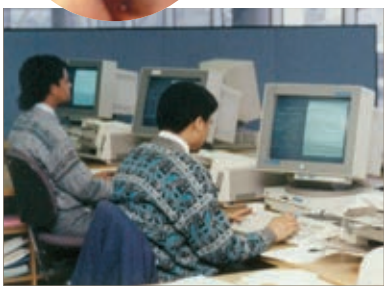
SANLAM'S FIRST POLICY DOCUMENT

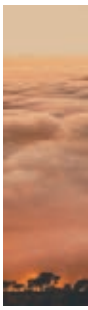
1968
Sanlam (SA) turns 50 and celebrates with country sports, fun and merriment

1981
Word processors and monitors replace electric typewriters

1981
Sanlam's (SA) well-known baby advertisements are aired on TV

1987
Sanlam (SA) expresses its mission: "We strive, with dedicated staff, to assure our policyholders and clients of: the best value for their money, total security and excellent service, and so to achieve sound and vigorous growth"





1926
"We confirm that the interests of the policyholders should be the first consideration... therefore we always try to treat policyholders in a fair, rather than technical manner... we strive to give maximum value in the form of service and protection."
– WA Hofmeyr, Chairman

1932
Sanlam (SA) moves its head office to Wale Street, Cape Town

1958
Sanlam (SA) installs the first mainframe computer for commercial use in South Africa, the Datatron from Burroughs in the United States

1963
Sanlam (SA) issues its millionth policy

1972
The launch of its new advertising campaign: "Sanlam, people who understand"

1977
Computer-backed financial planning (Finplan) is introduced for the first time in South Africa

1983
Computer terminals throughout South Africa are linked to head office for online updating of information

> "The business showed a small profit at the end of its first year and declared a bonus, which was a sign of things to come"

1918 The first official stamp, with the slogan 'SA first'

1929 New logo shows the new office in Cape Town

1933 A shield motif designed by T.O. Honiball

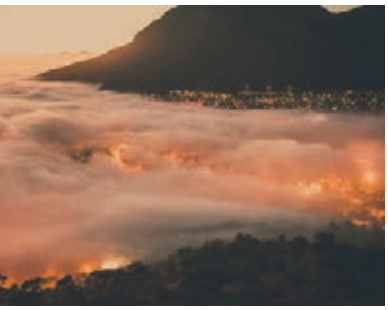
1940 Sanlam's logo is changed again

1953 The logo is redesigned with just the word 'Sanlam'

1968 The S-shield logo is adopted, and represents protection

> Sanlam UK is also involved in a number of national and community sponsorships such as the Royal Academy of Arts"

CEO JONATHAN POLIN AND COLLEAGUES ON THE CHARITY BIKE RIDE IN 2017



CAPE TOWN

1990s
The focus gradually shifts from life insurance to the provision of a more comprehensive range of financial products and services

2001
Sanlam launches a new vision: to be the leader in wealth creation and protection in South Africa

2002
At the Nedlac summit conference, Sanlam (SA) is one of the companies that commit themselves to the development of a charter for black empowerment in this sector

2008
Sanlam UK formed

2017
Sanlam UK launches Sanlam Private Office, for high net worth clients

2017
CEO Jonathan Polin and colleagues cycle more than 850 miles to all 12 of Sanlam's UK offices to raise money for Cancer Research UK

Today
Sanlam has offices all over the world, including this impressive head office in Bellville, South Africa

1998
Sanlam demutualises and lists on the JSE Securities Exchange and Namibian Stock Exchange. This changes Sanlam from a mutual to a public company with share capital, namely Sanlam Life Insurance Limited.

1998
Sanlam turns more than 2.2 million policyholders into shareholders in South Africa

2.2m

2004
Sanlam expands to the UK, with the acquisition of Merchant Investors Assurance Company UK

2015
Jonathan Polin joins as group CEO at Sanlam UK

Today
From seven founders, to 18,000 staff, with a presence in over 17 countries including India, Malaysia, the UK, US, Switzerland and Australia

> In 2015, Jonathan Polin joined Sanlam as Group CEO at the UK firm"

1973 The logo showing the caring hands is adopted

1991 The logo is standardised, with the hands symbol in white

2014 The logo of the emotive hands has been retained

For more information about Sanlam in the UK, visit our website at www.sanlam.co.uk

The transformers: global giants vs. the inevitability of change

Experts warn that some companies won't be able to adapt to the increasing pace of change, so how can investors protect their portfolios, asks **Andrew Cave**

Change, we are always told, is inevitable and constant. The way it will affect our investments is completely unpredictable, so a diversified portfolio is needed to absorb unforeseen shocks and allow us to seize opportunities when they emerge.

Louis Jamieson, Global Equity Analyst at Sanlam Private Wealth, explains: "If you look back a decade ago, the 10 most valuable companies in the world were mostly in oil and gas. Energy prices dropped so those companies suffered, while tech firms like Amazon and Google's parent group Alphabet have come from nowhere to replace them at the top of the tree.

"Over 20 years ago, some of these tech companies did not even exist and anyone who had forecast that Amazon was going to be one of the world's five biggest companies would have been dismissed as a madman.

"This is why it isn't wise to put all your investment eggs in one basket, because nobody knows how individual stocks or other financial assets are going to perform over the long term."

Change is coming

According to consultant Jonathan MacDonald, author of *Powered by Change: How to design your business for perpetual success*, 74% of members of the Fortune 100 list of the world's largest corporations have disappeared since 1980 and 88% of the Fortune 500 have left the list since 1965.

"The rate of change is quickening so rapidly that I confidently predict that in the future the 88% statistic will apply to a time frame of just five years, rather than the 50-year period of the past," says MacDonald.

And he believes more than half of the top businesses of today are unlikely to survive the changes brought by everything, from artificial intelligence and robotics to geopolitical upheaval, climate change and skills shortages.

Consultant McKinsey & Co adds weight to his prognosis, estimating that only one-third of corporate transformation strategies, designed to meet such challenges, succeed.

The wealth of research generated on the failures of companies like Kodak, Enron, Yahoo and Nokia can contribute to the problem, perpetuating a myth that inability to adapt to change is something only a mere handful of businesses are guilty of. ►

Illustration: Matt Wood

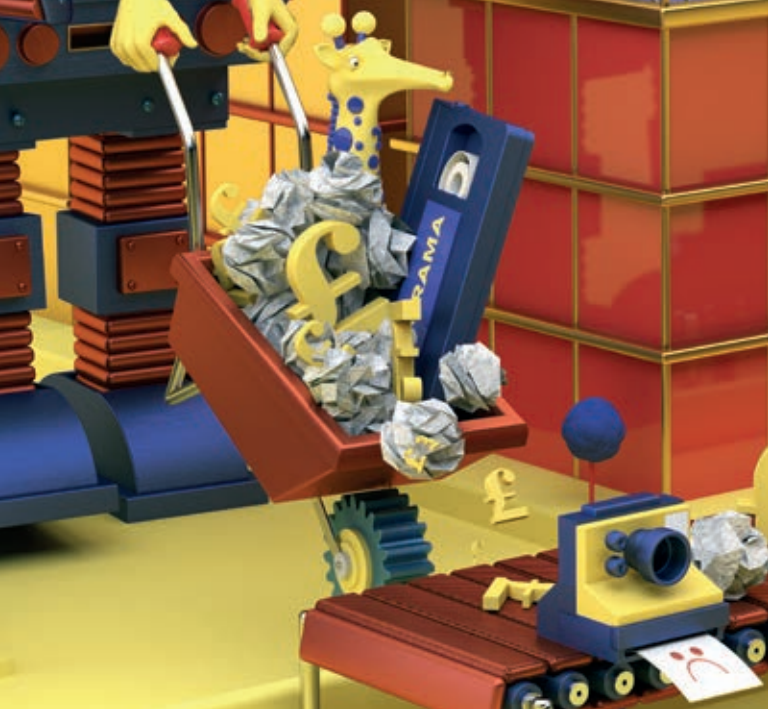
Biggest companies *in 1998*

1. Microsoft
2. General Electric
3. Exxon Mobil
4. Royal Dutch Shell
5. Merck
6. Pfizer
7. Intel Corporation
8. The Coca-Cola Company
9. Walmart
10. IBM

Biggest companies *in 2018*

1. Apple
2. Alphabet Inc.
3. Microsoft
4. Amazon
5. Tencent
6. Berkshire Hathaway
7. Alibaba Group
8. Facebook
9. JP Morgan Chase
10. Johnson & Johnson

BY MARKET CAPITALISATION
SOURCE: BASED ON THE *FINANCIAL TIMES* GLOBAL 500 RANKINGS



MacDonald believes the opposite is true. Despite their colossal size and reputations, only a few of the world's largest corporations are going to survive the changes that will batter their business models and strategies over the next 50 years.

"A greater degree of change is on the way than has occurred in the past," he says. "The rate of ongoing change is going to be a lot faster than we have previously experienced and history shows that companies are poor at coping with and responding effectively to change."

Innovative management

So how can companies protect themselves and their investors from the ravages of constant change? Philippe Silberzahn, author of *A Manager's Guide to Disruptive Innovation*, believes the ability of established companies to innovate and respond successfully to innovation is at the heart of the issue.

"Somewhere a start-up is at work disrupting companies' businesses," he says.

"Companies often maintain the belief that sticking to their core business and customer base will see them prosper in the face of disruption, but this is not the case.

"Disruption often means you must target new customers. Successful innovation is ultimately not about creativity or devising bold blue sky projects, but about transforming management.

"Companies must develop a management system that allows for this type of internal innovation. Ultimately, if management is inflexible and manages budgets 'too well', disruptive projects will be asphyxiated and disruptors will eventually usurp the business."

MacDonald goes further, arguing that the conventional model, under which companies often wait for their successful strategies to come unstuck before responding with three-year transformation programmes, are misguided

"Companies often maintain the belief that sticking to their core business and customer base will see them prosper in the face of disruption"

and will be insufficient to weather the economic and financial storms ahead.

Instead, he says companies must see change as a constant and perpetually come up with ways that their businesses can adapt to manage their acceleration across trends, industries, macroeconomic forces, societies, behaviours and markets.

Investing for change

At an investment level, all this adds urgency to Jamieson's conviction that battening down hatches on a portfolio has a great deal to do with diversifying the assets held within it.

"The enormous level of uncertainty when it comes to forecasting the future means it is vital that investors have a balance in their portfolios so that if one of the investments goes wrong or another company takes away its competitive advantage, you still have other investments in other industries that can support you through that," he says.

This can be done through balancing the sectors in equity investments so that investors are not unduly exposed to any one industry area and domestic risks are offset by international opportunities, and vice versa.

However, spreading the risks of equities in one's investment portfolio is not enough, because a balanced portfolio should also include a diverse mix of other asset classes.

"There will be times when some asset classes do well and times when they don't," says Jamieson.

"Nobody knows when that is going to happen, so having a balanced and diverse portfolio guards against that uncertainty.

"It is very important not only to balance equity investments, but also to have a balance across other classes, such as fixed income, structured products, property and commodities."

Of course, cash is also under threat from cryptocurrencies such as Bitcoin. It is further proof, if any is needed, that simply talking about the inevitability of change is little protection when it actually happens.

Constructing investment portfolios that balance the risks and opportunities in order to capitalise on long-term growth therefore remains the best way to access the potential of a fast-changing world. ■

To find out more about how we construct investment portfolios in an environment of rapid change, please contact your financial planner or portfolio manager

Funding a long retirement

With falling annuity rates, disappearing final salary pensions and increasing longevity, how can you develop a better plan for later years, asks **Andrew Strange**

Retirement has changed dramatically and while previous generations lived through a golden age of final salary pensions and high annuity rates that guaranteed an income for life, these options are no longer available to most people.

Future generations of pensioners will have to fund their retirements from the money they have saved throughout their lives and they may have to do so for much longer than their parents did. Lifespans have extended and someone who retires today can expect to live for six or more years longer than someone who retired in 1960, meaning many may not have prepared financially for such a long period. A 65-year-old man retiring today can expect to live to 83 and a woman to 85. ▶

Photo: Oliver Paaske on Unsplash

> If you start saving money early, it has got more time to grow. If you leave it too long you're going to have to make much higher contributions"

So how can people prepare to enjoy the lifestyle they always wanted in retirement? Financial Planner Carl Drummond says: "We no longer have the traditional sort of retirement we had 20 or 30 years ago. What used to happen then was that people would retire with their defined benefit pension or, if they weren't lucky enough to have one, a money purchase scheme, which they would typically use to buy an annuity.

"These days, due to annuity and interest rates being so low, people need to look at other avenues that are more flexible. And pensions have migrated into something that can be useful for ongoing retirement planning. So rather than just buying an annuity, which is quite unlikely for most people, you need to think of your pension pot as a long-term investment because rather than needing to last only 15 to 20 years, it could be as long as 20 to 30 years now."

What has changed?

If you look back to the swinging sixties, retirement was a well-defined process, in which men retired at 65 and women at 60, when they began drawing the state pension and company pensions, which were mostly final salary (defined benefit) schemes. By 1967, eight million employees working for private companies enjoyed a final salary pension, as did four million workers in the public sector. Once retired, men in 1960 could expect to live another 12 years to 77 and women to 80.

The pensions landscape is very different today. There is no longer a default retirement age and workers can choose when to retire. Generous final salary pension schemes have mostly given way to defined contribution schemes. By 2011, there were only about 1.6 million people actively contributing to a defined benefit scheme in the private sector. These days there isn't a single FTSE 100 company that provides a guaranteed pension based on final salary that remains open to new entrants.

There is also a sharp difference in contribution rates between defined benefit and defined contribution schemes. A 2013 survey by the Office of National Statistics revealed that the average contribution rate for a defined benefit scheme was 5.2% of pensionable earnings for members and an employer contribution of 15.4% – a total of 20.6%. For private sector defined contribution schemes, the average rate was 2.9% for members and 6.1% for employers – less than 10%.

Poorer in retirement

So future pensioners face being considerably poorer than their predecessors because of a perfect storm of smaller

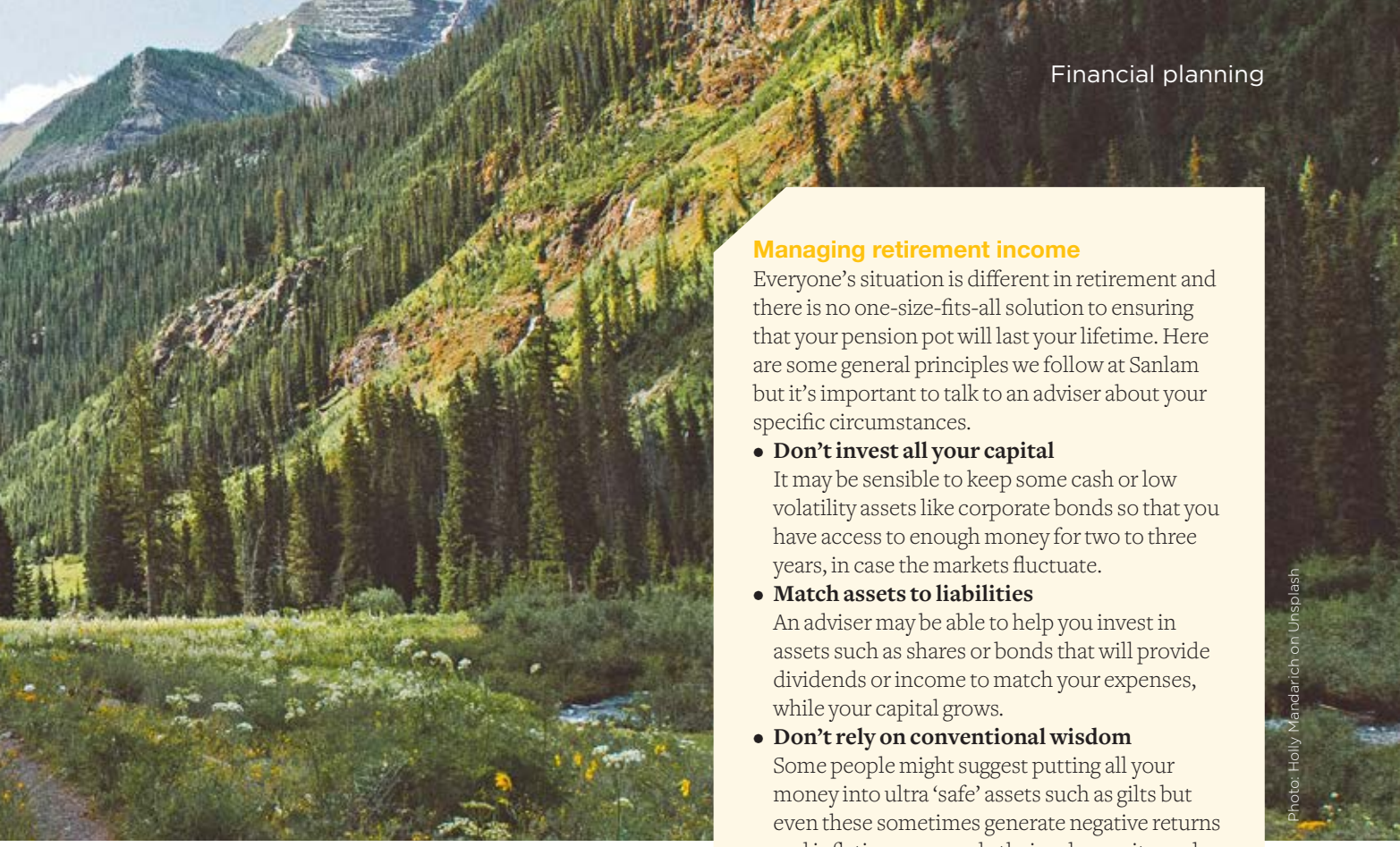


Photo: Holly Mandarich on Unsplash

Managing retirement income

Everyone's situation is different in retirement and there is no one-size-fits-all solution to ensuring that your pension pot will last your lifetime. Here are some general principles we follow at Sanlam but it's important to talk to an adviser about your specific circumstances.

- **Don't invest all your capital**
  It may be sensible to keep some cash or low volatility assets like corporate bonds so that you have access to enough money for two to three years, in case the markets fluctuate.
- **Match assets to liabilities**
  An adviser may be able to help you invest in assets such as shares or bonds that will provide dividends or income to match your expenses, while your capital grows.
- **Don't rely on conventional wisdom**
  Some people might suggest putting all your money into ultra 'safe' assets such as gilts but even these sometimes generate negative returns and inflation may erode their value, so it may be better to invest in a range of asset classes.
- **Grow your capital if you can**
  It's important to strike the right balance between risk and reward. Even when you are retired, there may still be opportunities to grow your money.
- **Don't pay more tax than you need**
  An adviser can suggest ways to limit tax by, for example, using your ISA first, because there is no capital gains or income tax to pay, while leaving your pension, which might have inheritance tax benefits.

pension pots, lower state pensions and the need to provide an income for longer.

And although positive in many ways, new pension freedoms introduced in 2015 mean that there is no need for people to use their pension savings to provide a retirement income at all; they could simply use the money to buy a Lamborghini, as former pensions minister Sir Steve Webb once put it. So far, the evidence suggests that people are using these new freedoms wisely, but it remains possible that some could run out of money in the future.

In Australia, for example, where very few people buy an annuity, nearly half of Australians have exhausted their pension savings by the age of 75. The Australian pensions environment is quite different to that in the UK, however.

Building a pension pot

So how can you set about building a pension pot that is large enough and then managing it to ensure that you have enough to maintain your lifestyle in the future? Drummond says: "Starting to save early is key. If you start saving money early, it has got more time to grow. If you leave it too long you're going to have to make much higher contributions to your pension.

"It's important to establish your goals. Work out how much money you will actually need in retirement. The starting point of that is to look at your current expenses and then estimate your future expenses by cutting out the things that should have been paid off. By the time you retire, for example, your children may have moved out, there won't be any school fees and hopefully your mortgage will be paid off. Look at what your essential expenses and your discretionary spend will be in retirement and then work out how to fund it through retirement planning."

It's a complex process and for most people it will be essential to take financial advice if they are to take their income in the most efficient manner, mitigate any volatility in the investment markets and ensure that when they draw down money, they do it in the most tax-efficient way. ■

Find out more
We can help you build a comfortable retirement. Speak to your financial planner to find out more or visit **www.sanlam.co.uk**

From the Sanlam Art Collection

Table Mountain from Blaauwberstrand,
oil on masonite by
Alfred Krenz (1899–1980)

Alfred Friedrich Franz Krenz was born in 1899 in Vienna, Austria. After school, he enrolled at the School for Applied Arts in the city. He later studied at the Vienna Academy of Fine Arts and then at the Spezialschule für Malerei. He settled in Cape Town in 1949.

The most distinctive feature of Krenz's painting is the individual colour range, followed closely by his broad and vigorous method of applying paint, usually with a palette knife. Like many South African artists, he could not be easily classified in terms of any particular school or movement, but he was specifically a painter who conceived his themes in colour and for whom line provided only the accents and the definition for the total concept.

The view of Table Mountain is painted from the suburb of Blaauwbergstrand, situated on the northern side of Table Bay. For travellers arriving by ship this view announces the majestic appearance of Cape Town and the end of the sea voyage. ■

This piece belongs to the Sanlam Art Collection, which holds more than 2,000 paintings, drawings, graphics and sculptures by South African artists, from the 19th century to the present.


A. Kreiz

6 things you need to know about pensions tax relief

Putting aside some money in a pension scheme for when you're older is a sensible way to protect your financial future – and the UK Government is doing what it can to encourage this. Financial Planner **Carl Drummond** outlines what you need to know about pensions tax relief

1 Tax relief on contributions

You can get tax relief on private pension contributions worth up to 100% of your annual earnings. This happens automatically if your employer takes workplace pension contributions out of your pay before deducting income tax or if your pension provider claims tax relief for you at a rate of 20%.

In addition, if you pay 40% or 45% income tax, you can claim tax relief on the extra payment above the standard 20% rate. As an example, someone paying at the 45% rate who made a gross pension contribution of £10,000 would actually make a net contribution – once all tax relief had been claimed – of £5,500. This means a rate of return before investment due to tax relief of 81.8%.

2 Annual allowance

Your annual allowance, currently set at £40,000, is the amount you are allowed to contribute to your pension without paying tax. However, you can top up your allowance for the current tax year (6 April to 5 April) by carrying forward any you didn't use from the previous three tax years.

You could have a reduced annual allowance, which can taper down to £10,000 if you are a high earner (this generally affects those with income of £150,000 and above). You may also be restricted to an annual allowance of £4,000 if you have already started drawing pension income. In both cases the rules are complicated so you may want to seek financial advice.

3 No income tax or capital gains tax on pension funds

The HMRC will not tax pension funds – there is no income or capital gains tax on the funds while held within the pension. So, effectively the funds should grow at a faster rate as no tax is being paid (when compared to a taxed investment).

Tax will be paid if your pension savings exceed your total annual earnings, go above your annual allowance or are higher than the standard lifetime allowance, which is £1.03m (for 2018/2019 tax year).

Tax will be paid if your pension savings exceed your total annual earnings, go above your annual allowance or are higher than your available lifetime allowance when you choose to take your pension benefits"

Tax-free lump sum

For most personal pensions, you can normally start drawing benefits at the age of 55. This might rise to 57 in 2028. At this age you will have the option to draw the first 25% of the value of pension as a pension commencement lump sum which is currently tax free – so long as the full value of your pension funds are less than the lifetime allowance which is currently £1,030,000 (2018/2019 Tax Year). You may be able to take all the money in your pension tax-free if you're expected to live less than a year, you're under 75 and you don't have more than the lifetime allowance in pension savings.

Annuity or drawdown?

There are three different options for getting an income from your pension pot. You can choose to take all or some of it as cash, but an alternative is to buy an annuity, which gives you a guaranteed yearly income for a set period of time or until you die. The amount you receive will depend on your age, the size of your pension pot, interest rates and, sometimes, your health.

You can also invest your pension money in a flexi-access drawdown option. This allows you to make withdrawals for up to five years.

All options are subject to income tax so its very important that you take financial advice to work out the best options for your situation.

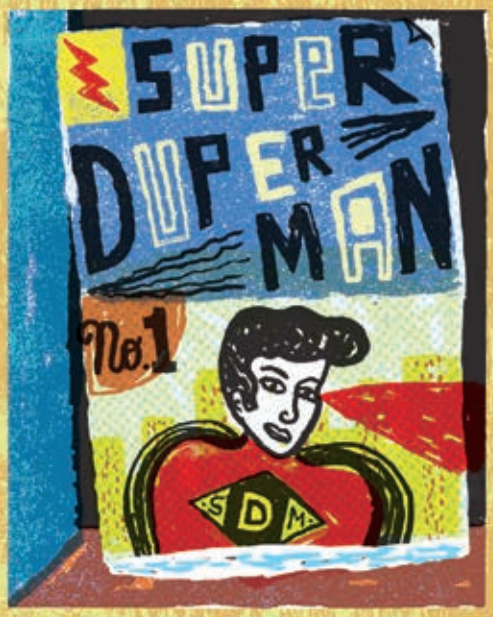
Exemption from inheritance tax

Inheritance tax (IHT) is a tax on the estate (the property, money and possessions) of someone who's died – if the value of the estate goes over a certain threshold.

Funds held within your pension are considered to be outside your estate and so not liable to IHT. (However, remember that you will pay the lifetime allowance charge if your pension pot exceeds £1.03m or if death occurs before the age of 75.)

Find out more
Your financial planner will be able to provide you with more information about pensions tax relief

PASSION



SAVVY

For love or money

Investing in something you love, such as fine wine or art, can be very rewarding, but don't ignore the risks involved, writes **Bethan Rees**

When does a collection become an investment? When it becomes about financial gain, rather than pure indulgence. Passion investing refers to those who take a hobby, such as collecting stamps or coins, and turn it into an investment.

Philip Smeaton, Chief Investment Officer, describes it as "when people aren't investing in traditional asset classes like bonds or equity that have cash flow, they could invest in something they have an interest in." He continues: "The value of these is usually derived from their rare or exclusive qualities."

Knight Frank's Luxury Investment Index tracks the theoretical performance of collectibles in the future, and its top five performing categories in the Q2 2017 report are cars, wine, coins, jewellery and art. However, the index also includes other investments from coloured diamonds to stamps, and Chinese ceramics to antique furniture.

The weird and wonderful

These might all seem rather obvious, but there are some other areas of interest for passion investing. For example, comic books. In 2010, a copy of the debut *Superman* was auctioned for $1.5 million, while its original price was just 10 cents. Trainers, or sneakers as our transatlantic friends call them, have also become a popular investment item. Take for instance Kanye West's collaboration with adidas, Yeezy. With a limited production and lots of interest, you can sell a pair of Yeezy trainers now at a profit margin of 400-500% on dedicated reselling websites.

Smeaton explains an unusual passion investment, which might seem extreme, in other parts of the world. "Some people choose to collect and protect wild animals, especially animals with unique characteristics or genetic anomalies," he says.

Living in a global, online world, where passion investing is made easier by access to information and knowledge, you might think that this is a relatively new concept. But you'd be wrong. Passion investing isn't just another fad. The concept doesn't have an official start date, but there are examples of it punctuating the history books.

For example, in the Victorian and Edwardian eras, people would trade among the elite with treasures they'd collected from exploring the world, and explorers might sell their finds to fund their next expedition. Smeaton adds: "People might be more aware of passion investing now because of social media, but people have always collected prestigious items. The Dutch Golden Era (1637-1648) was the age of the so-called 'tulip mania', when speculators traded the flowers' bulbs for extraordinary sums of money, especially multicolored ones," he says. "The fascinating diseased tulips, which made them multicolored, became even more valuable than the uninfected ones."

What's the appeal?

Watching stocks and shares prices rise and fall, it's hard to visualise a tangible value. "If you buy a share in Microsoft, when you use a Windows computer, it's hard to believe you own a piece of that product," Smeaton explains. "Passion investing is similar to owning a rental property in that it's physical. People like to be able to hold a bottle of wine, or see an art work, in the same way that walking past a property you own feels more tangible than a quarterly share statement," he continues.

So the draw of passion investing is in its physical nature, but also the clue is in the name. Passion. "Investing like this is also a good way for people to develop their expertise on their passion. To many collectors, this knowledge is more valuable than the financial windfall," says Smeaton. ▶

Illustration: Jonny Hannah

> We help clients assess the authenticity, we have the in-house skills to do this, such as our art advisory service"

Investing in collectibles doesn't just have to be an expensive hobby. It has the potential to diversify a traditional portfolio and help to hedge against inflation. Or so it seems.

"Passion investing appears to be a cyclical thing. When the good times are here, all asset classes are going up, when the bad times are here, they're all bad. So you may feel like you're diversifying but when the market falls, people may not be spending the same amount on collectibles as they once were," says Smeaton.

Despite this sceptical view, that's not to say no one should ever invest in his or her passion. Rather, this should be something to look into once everything else is in its place. Smeaton explains that Sanlam will always look to accommodate clients' wants and needs, but there are steps to take first.

"Making sure all retirement and primary financial needs are met is important; when these are in place, that buys the client the capacity to do something differently. Some clients do have a unique insight into what they are doing and have a true expertise, which can help inform their decisions," he says.

Risky business

As with any investment, there are risks attached. Because passion investing is essentially trading in physical objects, you have to rely on selling them at some other point, as the investment itself doesn't pay out cash, whereas if you buy a property and the price goes down, the rental income can continue.

"You're very dependent on the price you can sell something at when you need the money. We advise on cash flow investments. We don't buy gold, not because we don't think the price of gold will go up, but it's difficult to value; you don't know what yield you're receiving," says Smeaton.

Another pitfall of investing in collectibles could potentially be trouble in authenticating them. However, Sanlam can step in to help here. "We help clients assess the authenticity, we have the in-house skills to do this, such as our art advisory service, which is based in South Africa but can advise in the UK," he says.

Passion assets can also be cash intensive to store properly. If you buy a fine vintage wine, you need to store it in optimal conditions, otherwise the value has the potential to plummet. So high insurance premiums and storage costs can quickly add up on these items, which investors might not have taken into consideration.

The value of passion investing, according to the Knight Frank Luxury Index, rose in value by 5% over the 12 months to the end of Q2 2017, outperforming other safe-haven asset classes like gold and prime London residential property. In fact, wine was the top performer in the index, with a price growth of 25% over 12 months.

Make sure you have all your financial ducks in a row before you invest in a hobby or collectibles. That way you will have a lot more safeguarding and freedom to invest, and enjoy, what you wish. ■

Find out more
To find out how we can help you take a balanced approach to investing in your passions, speak to your financial planner or portfolio manager

Illustration: Eleanor Swann

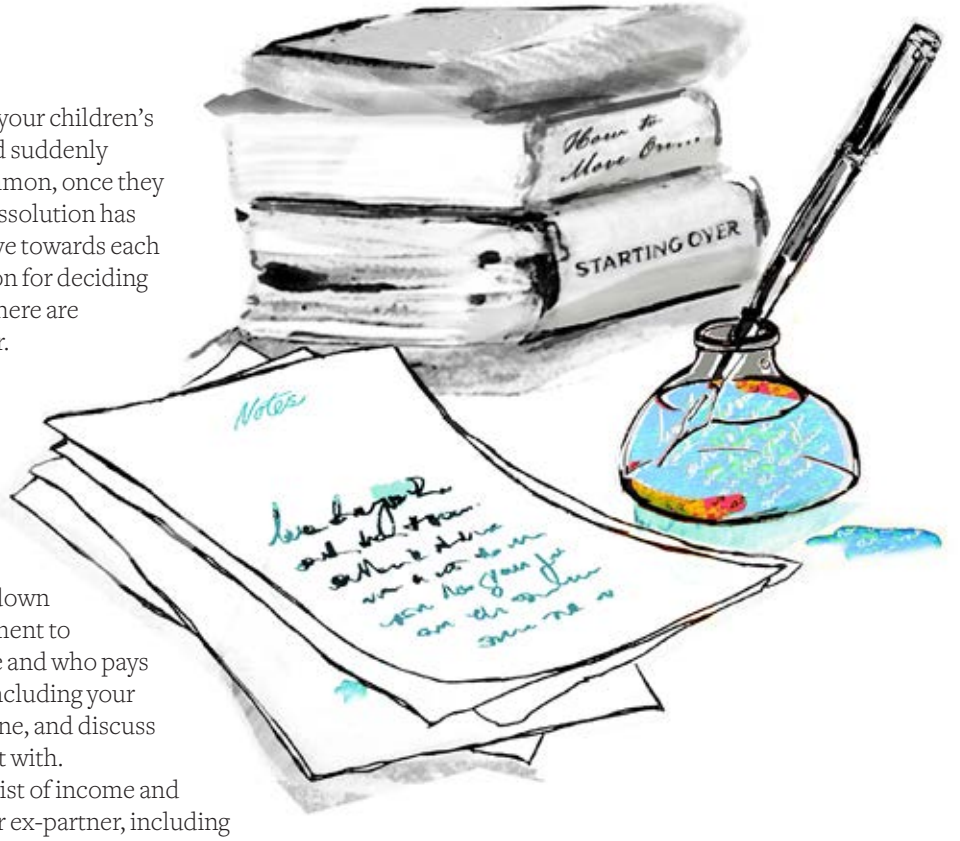
A new chapter

Divorce can be a heartbreaking process but it's important to take the practical steps that will make it as financially painless as possible, writes **Jill Insley**

By the time you reach the age of 55 you could have been married for up to 39 years, but you may not be living happily ever after. Government figures show that the number of married or civil partnership couples who are divorcing is rising, and the increase is greatest for those aged 55 and over.

And while the UK has been dubbed the divorce capital of the world because of the number of glamorous, wealthy people from overseas seeking huge settlements here, the reality for most people is that breaking up is simply a very sad affair. ▶

Perhaps you focused on your children's needs in the early years and suddenly found you had little in common, once they had left home, or maybe dissolution has changed the way you behave towards each other. Whatever your reason for deciding that divorce is inevitable, there are practical things to consider.



Assess your situation

Your finances will have been tangled up together for years so if you're still on good terms, the best approach is to sit down together with a bank statement to see what your expenses are and who pays for what. List your debts, including your mortgage if you still have one, and discuss how these bills will be dealt with.

It's important to write a list of income and assets for yourself and your ex-partner, including home, pensions, cars, investments and savings, art and antiques. For the most part, couples respect each other in this situation but if you feel there is a strong risk of your ex withdrawing all the money or drumming up debt in your name, you should consider freezing joint accounts and credit cards.

And don't be tempted to hide assets or liquidate them yourself before taking legal advice.

Holding on to your home

You may have a strong emotional tie to your home, especially if you raised a family there. But you should think carefully about whether you want it as part of your divorce settlement. Its value will probably have to be split 50:50 unless you have other assets, which can be offset against it.

You may also have to remortgage unless the loan is already in your sole name. This means your income must

Sons and daughters

You may still be happily married but don't forget that your children can go through the same relationship stresses and strains as everybody else and if you've helped them, say, buy a property, that money could end up in the hands of their ex-partner if they get divorced.

It's a difficult subject for any young couple but they should at least consider the option of a prenuptial agreement, or prenup. This is a formal agreement that sets out how a couple's assets will be split in the event of a divorce.

Suzanne Kingston, a partner specialising in family law with solicitors Withers, says: "Some people find it useful to have a prenup, especially if they are entering the marriage with property, investments or a business, if they have inherited or are likely to inherit in the future, or if they are marrying for the second time and would like to make separate provision for their children.

"These are just a few examples so it is sensible to speak to a solicitor about whether they advise a prenup in your circumstances. It is important to find this out early on so you can finalise the document early and then enjoy the wedding preparations."

If your children do not want to draw up this type of agreement, you could give them a loan instead of bestowing them money. This would allow you to draw up a formal document setting out the terms of repayment and what should happen if one of the parties dies, the parent needs the money back or the child's marriage breaks down.

be sufficient to satisfy your lender's affordability criteria – how much they think you can afford to pay. It could become a huge drain on your finances if something goes wrong, such as the roof needing replacing.

You will need to get a valuation of the property, but if you decide to keep it as part of your settlement there is no stamp duty to pay but remember that property prices fluctuate. If you need to sell it in the future, it may not achieve the value it was given during your divorce negotiations.

Try mediation

Talking to a solicitor specialising in family law will help you to find out about the process of divorce and what your rights are. But you may also want to consider mediation – where a couple discusses the issues relating to their divorce with an independent third party. It can be a very good way to minimise arguments – and legal bills, and works particularly well for less fiery couples who find it easier to see the big picture.

Some people find it useful to have a prenup, especially if they are entering the marriage with property, investments or a business"

You will be expected to have considered mediation before you apply to court for your divorce case to be heard, and the judge can refuse to hear your case until you have been through this process. You can find out more about the use of mediation in divorce situations on the Family Mediation Council's website.

The settlement

Of course, you will both have to come to a fair settlement. The longer you have been married, the greater is the argument for a 50:50 split of the assets. Your settlement is likely to come partly as cash, and partly in the form of assets that you and your partner acquired during your marriage.

Before you do anything with this money, Penny Lovell, Chief Executive of Sanlam Private Office, says you should work out how much after-tax income you need to live on each year. If both you and your ex have been earning and sharing household expenses, it may be a shock to find how much you have to pay for essential bills when you have just one salary coming in.

Pensions and other assets

If you or your spouse have been contributing to a pension for your entire working life, this may form a sizeable part of the divorce settlement, so it is a good idea to get a pension report from a financial adviser or accountant specialising in the area.

Penny Lovell, Chief Executive of Sanlam Private Office, says that while pensions must be included in the settlement negotiations, courts can deal with pension arrangements in one of three ways:

- Pension sharing: you are given a percentage share of your former partner's pension pot, which is then treated as your money.
- Pension offsetting: the value of a pension is offset against other assets. You might get to keep your pension, for example, while your former spouse keeps the home of equivalent value. Although, this doesn't necessarily have to happen in court.*
- Pension earmarking: you receive part of the tax-free lump sum and regular pension payments.*

Lovell explains: "It is essential to take advice on these options so you can work out which is likely to suit you best and avoid any pitfalls. Earmarking, for example, leaves control over when the benefits are taken with the spouse who built up the pension. However, the earmarking order only falls away where the ex-spouse, not the scheme member, remarries."

**Please note, this doesn't apply to Scotland*

Credit card and personal loan repayments may also seem a bit more daunting without two salaries to cover them, and it could save you money in the long run to pay them off now. It is also a good idea to establish an emergency fund in a readily accessible savings account before deciding, with the help of your financial adviser, how to invest the rest of the money.

Divorce can be complex and you will be expected to budget carefully to meet the costs of the split itself while you are at your most distressed. But managing the process properly should mean you can make a fresh start all the sooner. ■

Find out more
We can help you organise your finances following a divorce. Speak to your financial planner or portfolio manager to find out more

Fabric of the future?

The technology of e-textiles – fabric that has electronics embedded into its fibres – is set to become a multibillion dollar market. **Jess Unwin** finds out more

The UK was once the global leader in the textiles industry, before being overtaken by cheaper manufacturers overseas. But as the sector pivots towards a new generation of products that have in-built electronics, could Britain grab a larger slice of the action?

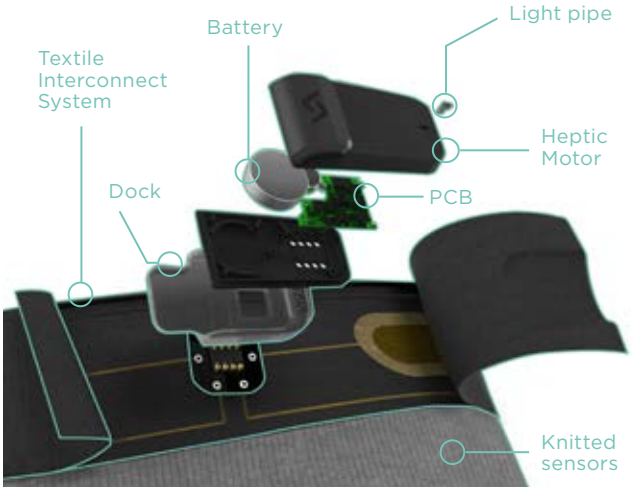
E-textiles could soon protect astronauts against the hazards of space or harvest the sun's energy to help crops grow. While those applications are largely still in development, key advances in technology and investment could mean mainstream products and a market worth $5 billion by 2027, according to Cambridge-based market research company IDTechEx.

And as the textiles landscape changes, the UK could become an important player again, thanks to a material known as graphene. It is a candidate for making conductive yarns, but its use has been limited by difficulties producing it on an industrial scale – something the University of Manchester claims it has now achieved.

Mixing electronics and textiles

E-textiles technology is distinct from wearable electronic devices we strap to our wrists, like Fitbits or the Apple Watch. Instead, traditional materials like cotton, wool or nylon can be spun into special yarns that are able to conduct electricity. Another method gaining ground is to laminate a flexible electronic unit against the textile.

The components of a Skiin product



> "Conductive ink has really come on, especially with impact from players like Dupont"

Although it's clothing made from these smart fabrics that attracts headlines, the possibilities for e-textiles are much wider. James Hayward, Senior Technology Analyst at IDTechEx, points out that, in fact, many of the textiles we come into contact with aren't worn. Home furnishings like carpets, bed linen and sofas are just a few examples.

The e-textiles market has faced practical barriers around what consumers need from electronics and garments – and what those very different products are capable of. In simple terms, the problem can be summed up by the fact that you can't throw your smartphone in the washing machine.

Hayward explains: "The textiles and electronics industries operate in very different ways. Bringing them together means challenges at all levels – standards, language, manufacturing processes, suppliers, materials, price point and value, expectation of consumers."

Breakthroughs and interest from large companies

Washability and stretchability solutions are now emerging, giving product designers more options. Front-running approaches include textiles made conductive by weaving stainless steel (or sometimes silver) into yarns, and conductive ink printed directly onto textiles that creates a pathway for integrating electronic devices.

Hayward says: "Conductive ink has really come on, especially with impact from players like Dupont and its product, Intexar." But he adds: "All these systems still rely on traditional electronic components like integrated circuits, processors, batteries and communications technology like Bluetooth or Wi-Fi in a small electronic box. In the future, we're going see these components more directly integrated into yarns and fabric fibres."

He adds that graphene also has e-textiles potential: "I was in California recently talking to a company developing a graphene oxide-based sensor in footwear to monitor diabetic foot ulcers. The economic cost of these ulcers in the US alone is billions of dollars so there's a big opportunity there."

Skiin's washable smart garments

Breakthroughs are happening on many different fronts. "We've seen a huge injection of time and cash. Large companies are setting up innovation divisions to look at e-textiles and there are manufacturing partnerships between traditional textiles and electronics businesses. We're seeing early products – aimed at everything from sports to healthcare, fitness and wellness.

"The market has been fragmented so far but it could really kick off. In the next two to five years, I wouldn't be surprised if we saw the first company making $50 million-plus from product sales."

Examples of early commercial products using conductive ink include the heated jackets from DuPont and Ralph Lauren that were worn by the US team at the Winter Olympics.

Elsewhere, Canadian company Myant is winning awards for its Skiin range of undergarments that measures and monitors biometrics like motion, respiration, heart rate and sleep. Myant's technologies cover a combination of sensors, conductive yarns and printed electronics.

Hayward points out that the "huge opportunities" for e-textiles match the ubiquity of textiles in our lives. "One very simple idea is that car seats could measure biometrics as well as provide heating." E-textiles technology could similarly be used to monitor a fighter pilot under stress – or an astronaut in space – by using embedded sensors to monitor such things as heart rate. And research is underway to discover if e-textiles could be used in combination with photovoltaic technology to harvest the sun's rays and boost crop growth. Whatever the eventual uses for e-textiles and whether or not the UK can grow a significant industry in the sector, it seems certain this new technology is going to bring a whole new meaning to dressing smart. ■

Risks of early-stage technology

Every company has to innovate or else risk falling behind the competition, says Philip Smeaton, Chief Investment Officer at Sanlam.

But, while recognising e-textiles as an innovation with lots of potential, he cautions that investing in such early-stage new technology is risky.

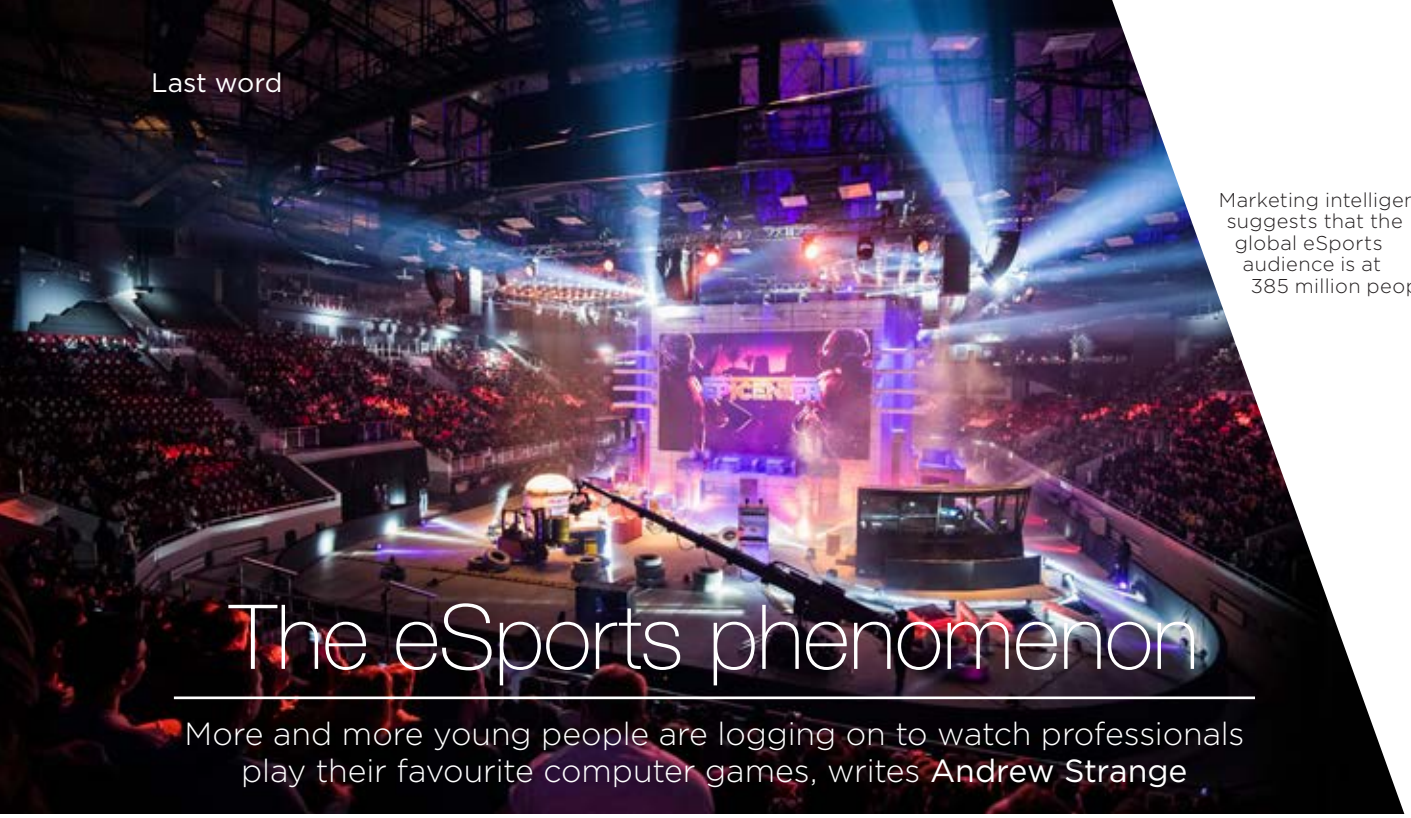
So far, he continues, there are still unknowns around finding commercial applications for e-textiles that can attract large-scale consumer demand and that can be mass-produced with sufficient profit margins.

Phil says: "However, where companies are well run, making good consistent profits from an established business with a proven track record of collecting capital wisely, we are supportive of investing in new technologies like this and think that companies need to explore cutting edge technology to stay ahead of competitors.

"That could be a pharmaceutical company that already has successful product lines but is also carrying out early-stage development of other drugs. So, as an investor, you're not investing in one particular product but the company's ability to manage a pipeline of new products.

"Our analysts are always evaluating the way that companies are investing our clients' capital to ensure that they are doing so wisely."

Find out more
To find out how we can future-proof your investment portfolio, visit **www.sanlam.co.uk**



Marketing intelligence suggests that the global eSports audience is at 385 million people

The eSports phenomenon

More and more young people are logging on to watch professionals play their favourite computer games, writes **Andrew Strange**

Most people over the age of 30 know very little about the world of eSports – competitive computer gaming as a spectator sport – but global revenues rose 33.9% year-on-year to $660 million in 2017, according to market analysts Newzoo. This is expected to grow to $1.5 billion by 2020.

And those aren't the only eSports statistics that are raising eyebrows. The 2017 League of Legends final attracted 60 million viewers. And one Dota2 (Defense Against the Ancients) tournament paid out prize money of more than $24 million.

Tech giant Amazon has been quick to get involved, paying $1 billion to acquire Twitch, the platform on which most eSports matches are streamed. And several well-known sports teams now employ eSports players, including Paris Saint-Germain, Manchester City and West Ham. In the US, NBA team the Philadelphia 76ers has acquired two eSports teams.

Big brands

eSports tend to attract young men with disposable incomes who log on and watch matches online or attend live tournaments. The demographic is attracting big brand sponsors, including Audi, Mercedes-Benz, Coca-Cola, Samsung, Red Bull and Gillette. Gillette has added one of League of Legends' top players, Enrique 'xPeke' Cedeño Martinez, to its roster of sports stars, which also includes the Brazilian footballer Neymar.

The media has also jumped onto the eSports bandwagon. Sky has a 24-hour eSports channel called Jinx TV, the BBC and ITV both screen matches and the *Daily Mail* has employed a full-time eSports journalist. The Olympic Channel's Executive Director Yiannis Exarchos told Reuters during the winter games that they would be seeking to engage with young fans through eSports because the rise of competitive electronic gaming could not be ignored.

However, it is fantasy rather than sports-related games that are really making an impact. Jennifer Lopez is reported to have invested in a team and Arsenal's major shareholder Stan Kroenke bought the franchise of the game Overwatch in Los Angeles for £15 million. Other celebrities who have invested in the fantasy sector include former basketball star Magic Johnson and actor Ashton Kutcher.

Global footprint

South Korea and the US are at the epicentre of the eSports craze but Russia, Poland and Germany all boast large numbers of viewers. None of the top professional eSports players are British. And although one of the best-known teams, Fnatic, is based in London's Shoreditch, the players are mostly overseas nationals.

Britons tend to play their part as commentators – or shoutcasters, as fans know them. And things are beginning to change at grassroots level across the UK – a company called Gfinity converted a Vue cinema in Fulham into a dedicated eSports arena.

Sports Direct recently announced that it will host live matches at some of its stores through a partnership with GAME Digital. GAME has created a network of 'Belong' eSports arenas and runs the UK Masters tournament and the Insomnia gaming festival, the NEC's biggest event of the year.

Whether you approve of your teenagers spending hours glued to screens or not, it looks as though eSports are here to stay and viewing figures are even overtaking those for more traditional sports. ■

Photo: Alamy

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