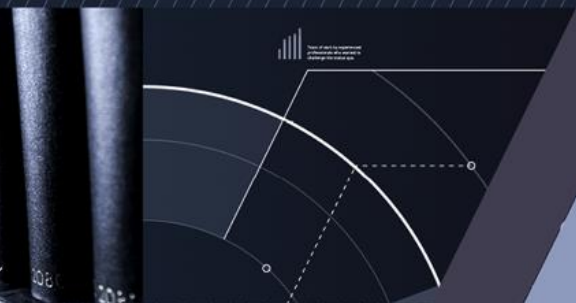


A NEW ERA OF PERSONALISED INVESTMENT PORTFOLIOS



PORTFOLIOMETRIX

A NEW ERA OF PERSONALISED INVESTMENT PORTFOLIOS

MARC WESTLAKE CFP, TEP, APFS, QFA

Managing Director Ireland



PORTFOLIOMETRIX

IN THE ROOM TODAY WE HAVE...

- A representative from the Central Bank of Ireland
- A former UK Financial Conduct Authority Regulator
- A representative from the Financial Ombudsman's office

REGULATORY STATEMENT

- **Portfoliomatrix Asset Management Ltd is authorised and regulated by the Financial Conduct Authority. This publication is intended for Investment Professional and Financial Adviser use only. It is not intended for Retail Clients. The information contained is given for information purposes only and is not intended to constitute financial, legal, tax, investment or other professional advice and should not be relied upon as such. Investments can go down as well as up and past performance is not a guide to the future**
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PORTFOLIOMETRIX

LAUNCHED IN 2010 - A NEW ERA OF PERSONALISED INVESTMENT PORTFOLIOS

WORLD CLASS
INVESTMENT
PROPOSITION

WORLD CLASS
TECHNOLOGY



KEY CHARACTERISTICS OF OUR PARTNER FIRMS

CLIENT CENTRIC RATHER THAN PRODUCT CENTRIC

- Business evolving
- Embracing change
- Growing rapidly
- Regulation and process de-risk
- Focus on financial planning
- Desire to outsource investments to specialists
- Aiming to be a respected and trusted adviser
- Understanding that technology is an enabler

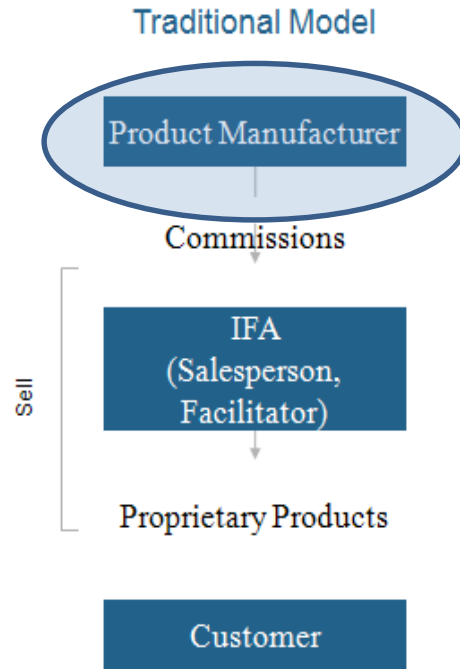
THE PROBLEM FOR FINANICAL PLANNERS TODAY

“88% of consumers say they need help to achieve their goals”

“Only 30% of clients say they ONLY pay for investment performance”

Source: Vanguard, 'The Economics of Loyalty' Adviser Impact, 2011.

THE EVOLUTION OF THE FINANCIAL SERVICES INDUSTRY



Dan Wheeler, 1990

THEMATIC INVESTING DOESN'T WORK

However good the narrative is from a marketing perspective



THEMATIC INVESTING DOESN'T WORK

However good the narrative is from a marketing perspective

We examined 7 thematic funds launched by the same Insurance Company.

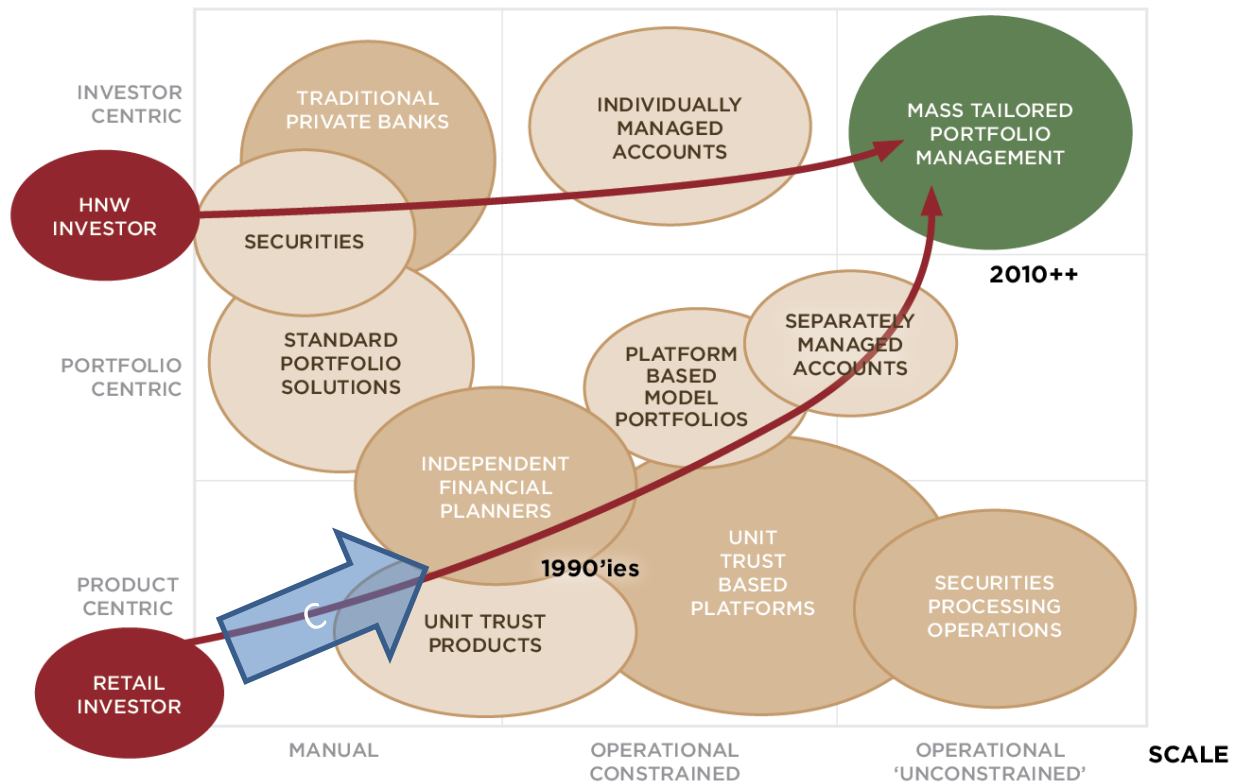
Only one outperformed the FTSE All World Index from the launch of the fund until today

However, one under-performed by over 160% over 8 years.



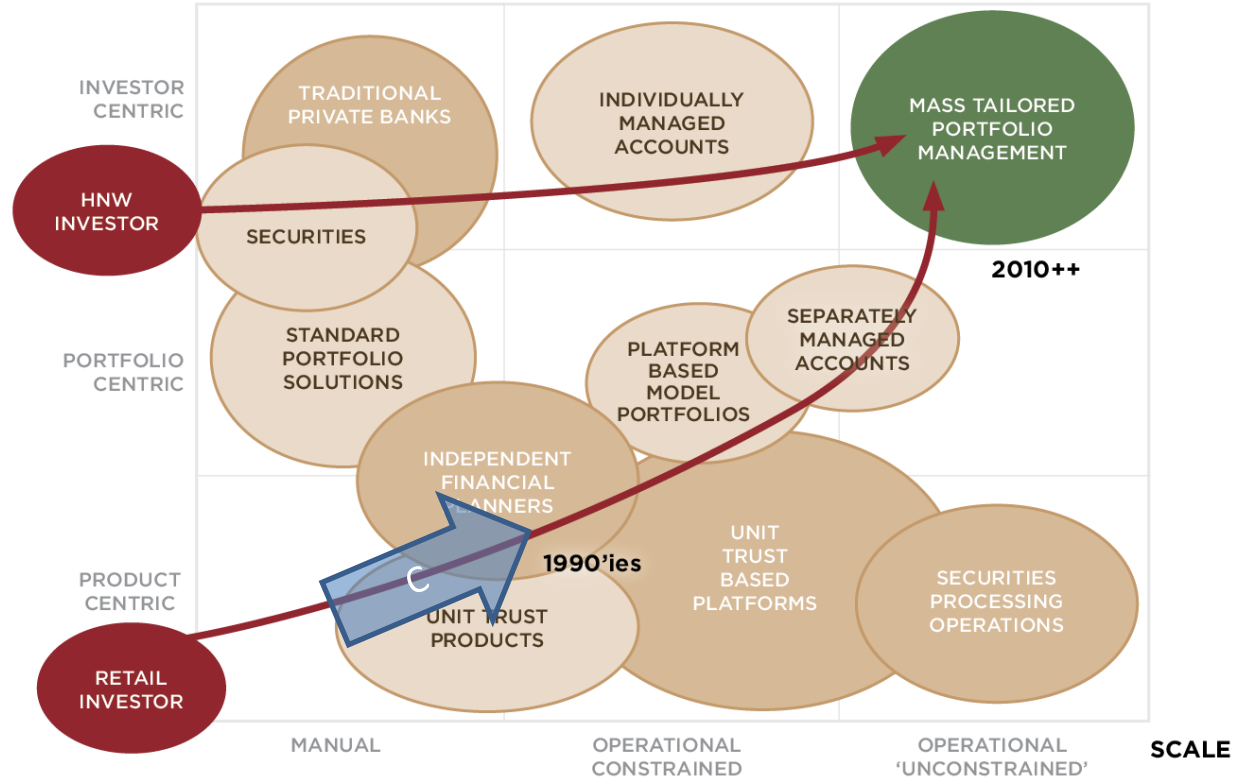
EVOLUTION OF PORTFOLIO MANAGEMENT

PERSONALISATION



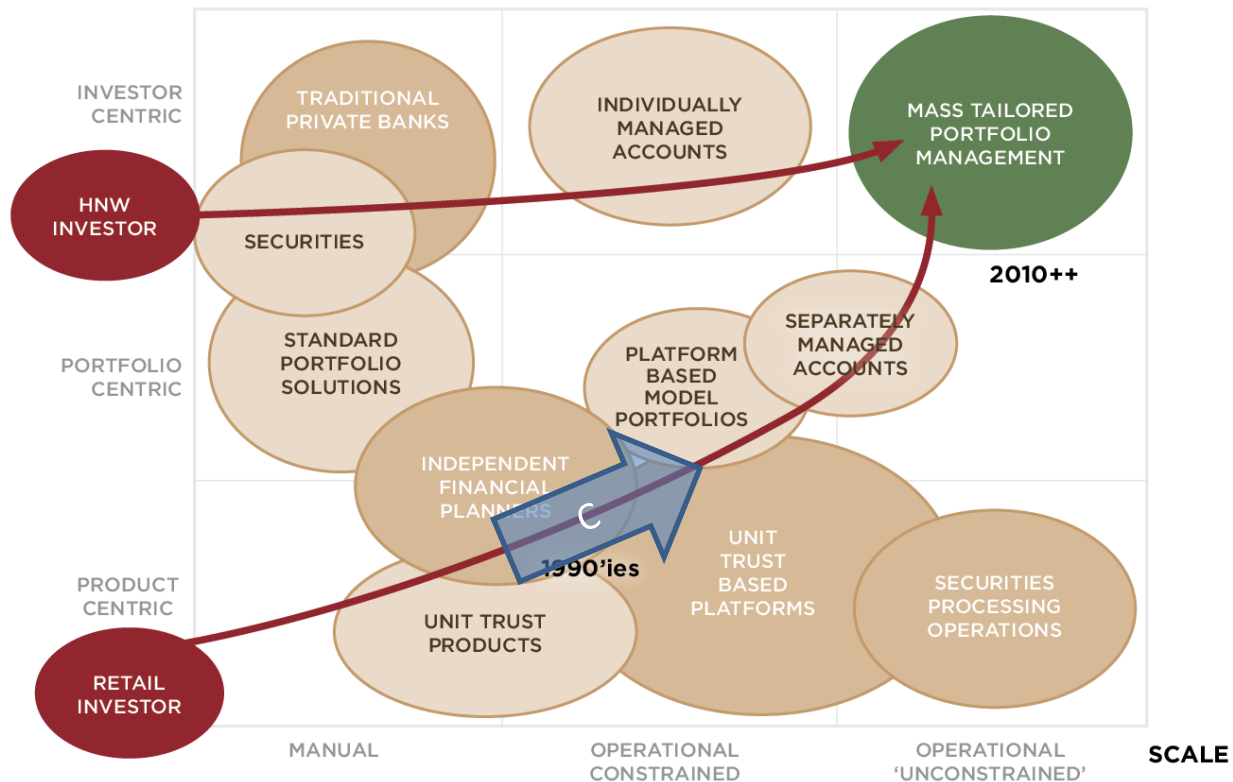
EVOLUTION OF PORTFOLIO MANAGEMENT

PERSONALISATION

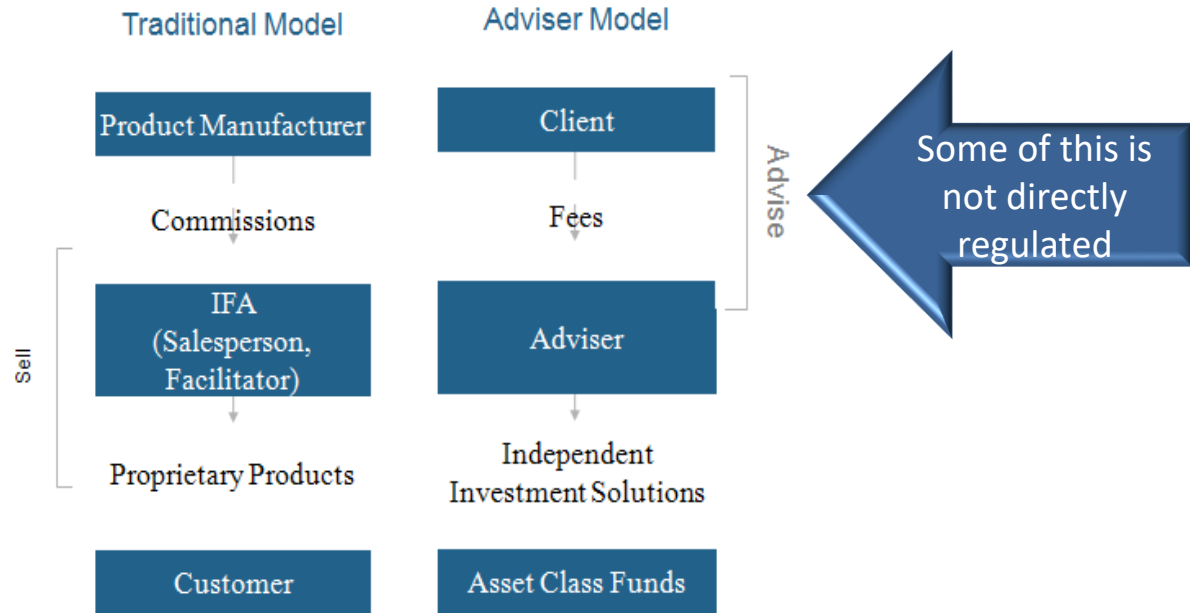


EVOLUTION OF PORTFOLIO MANAGEMENT

PERSONALISATION



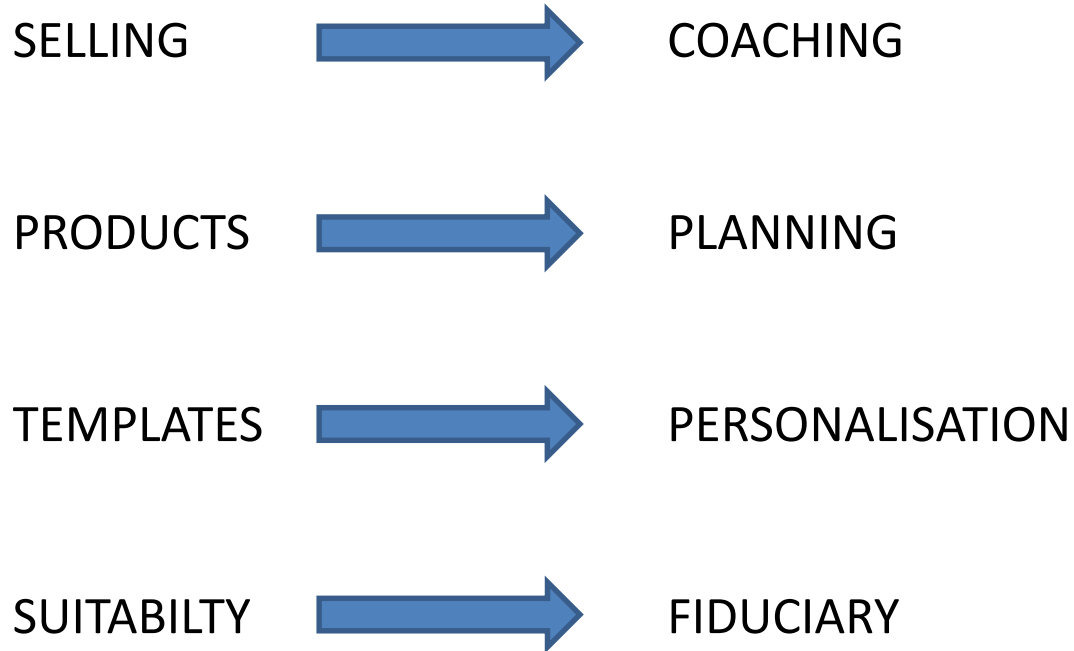
THE EVOLUTION OF THE FINANCIAL SERVICES PROFESSION



Dan Wheeler, 1990

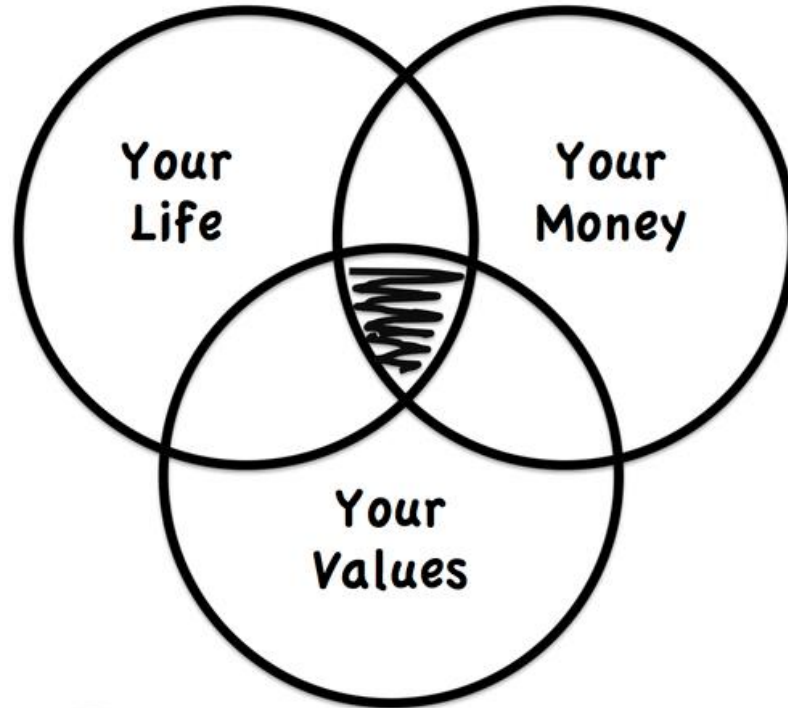
THE FUTURE OF FINANCIAL PLANNING

A return to self-regulation?



Source: The Personal Finance Society

REAL FINANCIAL PLANNING



Real Financial Planning

PRACTICAL FINANCIAL PLANNING

Designing the Portfolio

The investment portfolio is focused on the **client's needs, goals and values**

- Objective setting (goals and values)
- Risk Assessment (need & willingness to take risk, capacity for loss)
- Asset Allocation (selecting the portfolio to meet these needs)

All form the bedrock upon which a client's investment portfolio is constructed.

THEMES

- The goal of an investment in a Financial Plan
- The Irish Market: Cost transparency or lack thereof
- Risk Profiling: Need, Willingness and Capacity for loss
- Realistic expectations: projected future returns
- How to assess Capacity for loss
- Outsourcing and the suitability gap
- Shoehorning and model portfolios
- Risk separation and ESMA defined models
- Taxation and reporting obligations

THE GOAL OF ANY INVESTMENT IN FINANCIAL PLANNING

“Maximise long term returns subject to the needs, constraints and objectives of the end client”

THE GOAL OF ANY INVESTMENT IN FINANCIAL PLANNING

The three dimensions of risk:

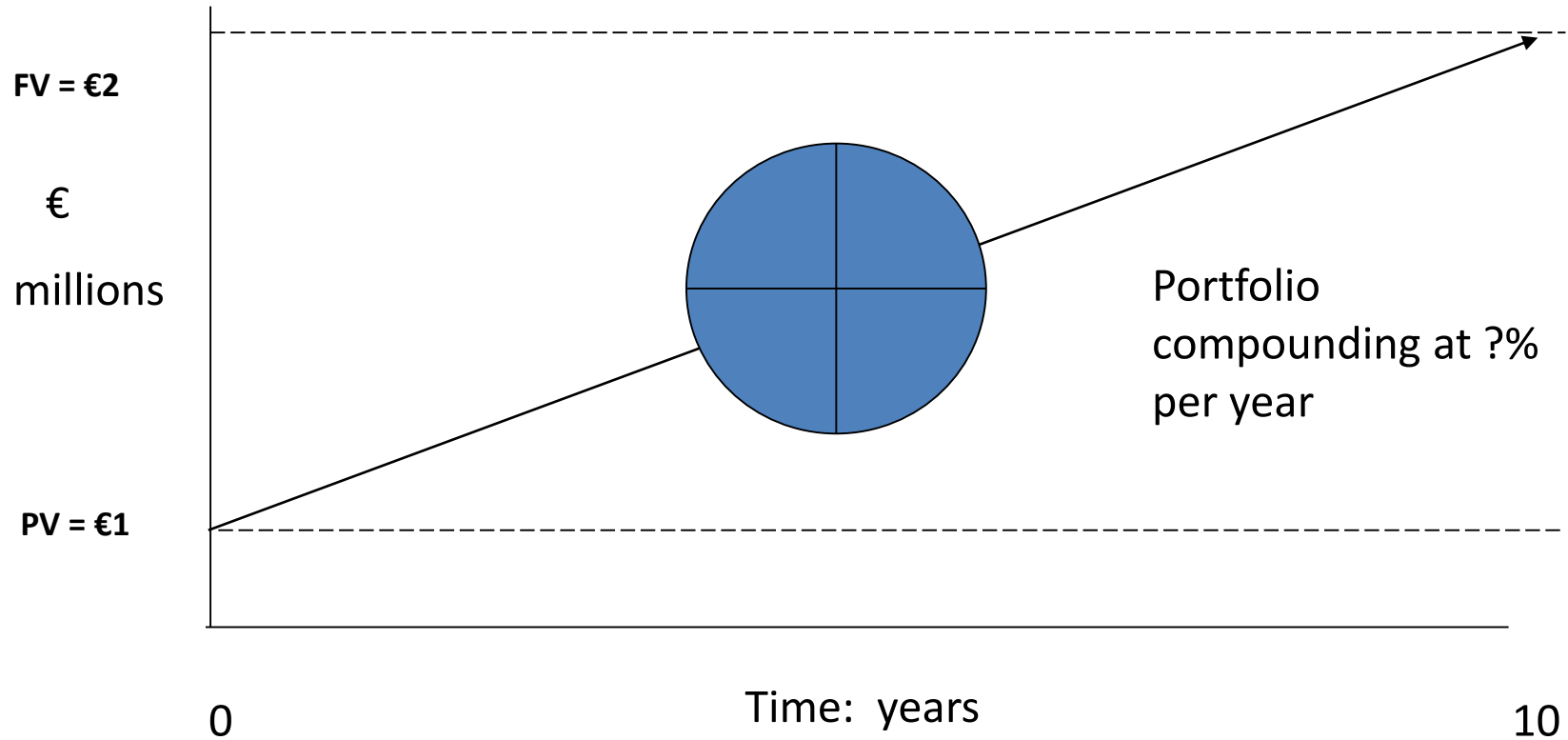
Need for a particular return

Capacity to absorb risk

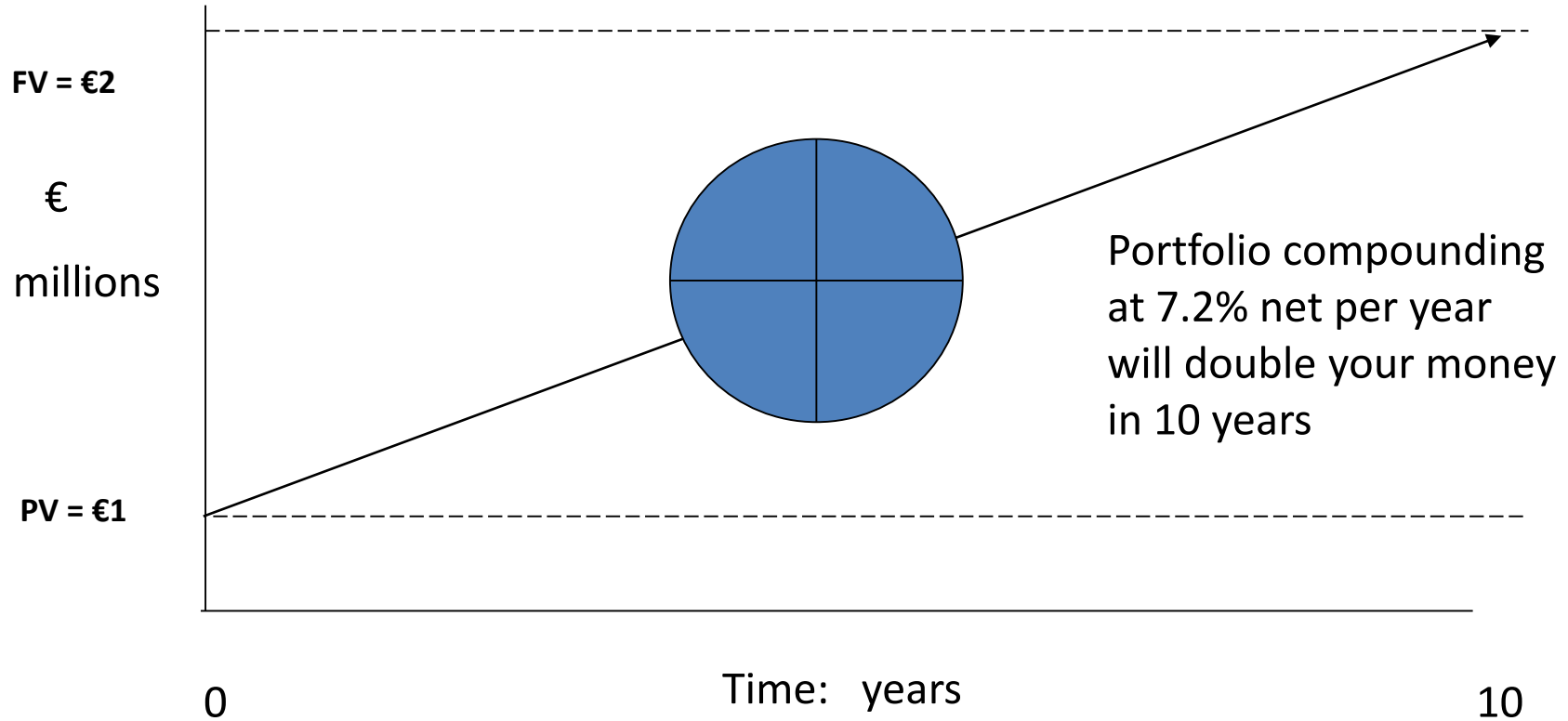
Willingness to take risk



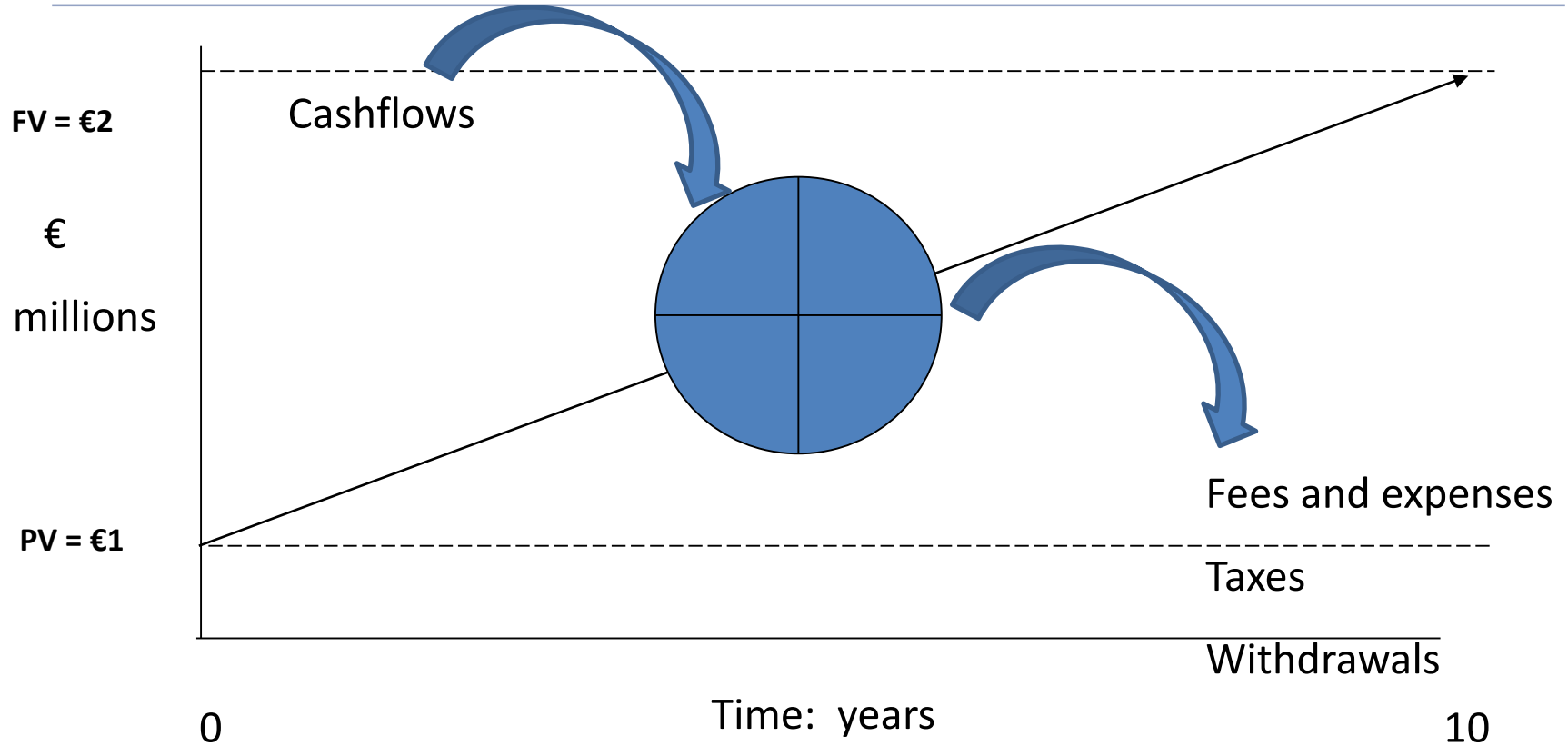
WHAT RETURN DO I NEED?



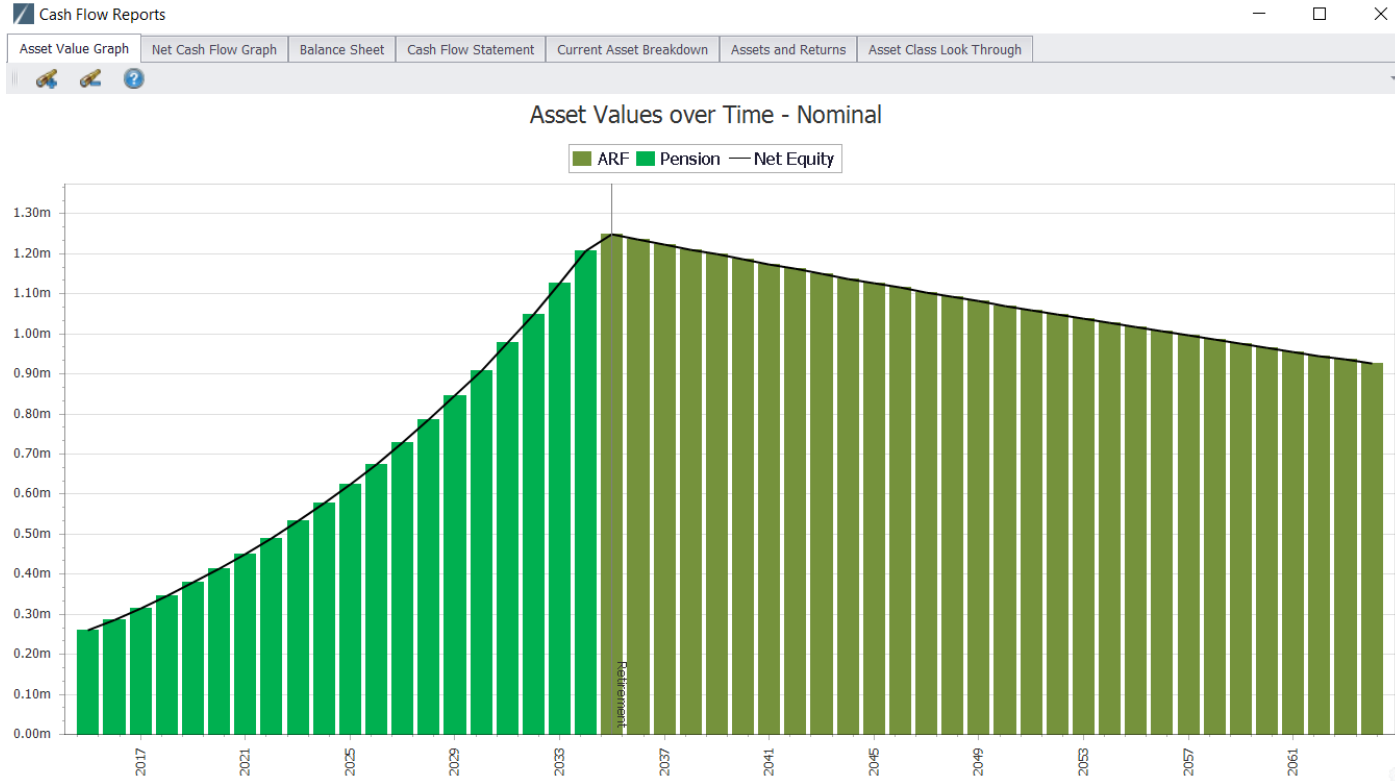
WHAT RETURN DO I NEED?



THE REAL WORLD IS MORE COMPLEX

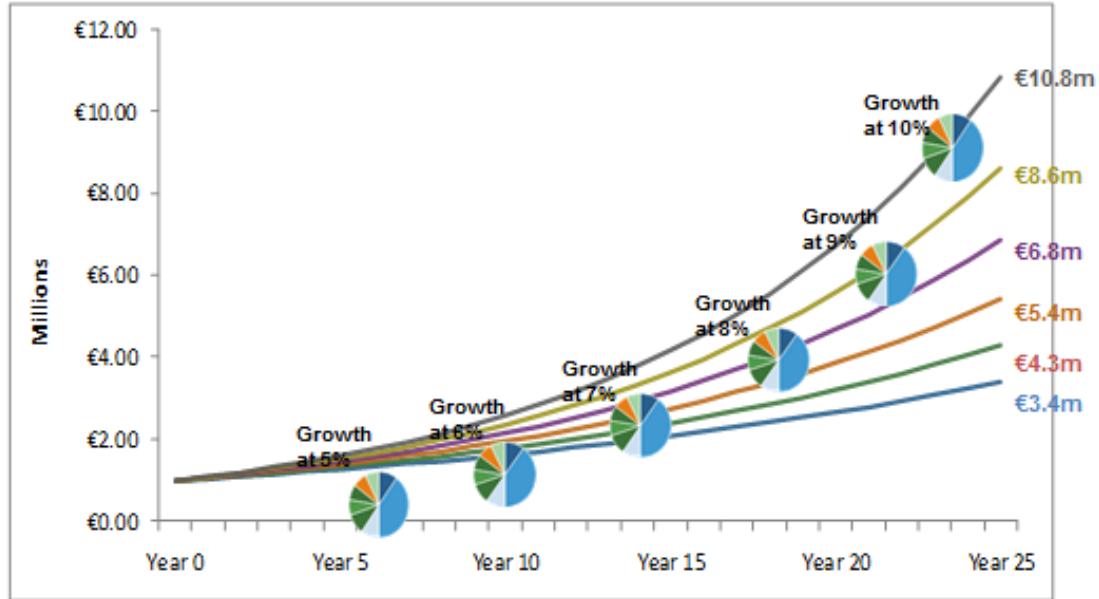


THE REAL WORLD IS MORE COMPLEX



HOW DO YOU MAP THE CASHFLOW TO THE PORTFOLIO?

Am I managing to the client's need, willingness or capacity for loss – or all three?



WHICH PORTFOLIO DO I NEED?

The investment challenges for the Financial Planner

- What do you mean by risk?
- How do you measure client's risk tolerance?
- How do you estimate **future** expected returns?
- How do you measure capacity for loss?
- How do you build or select an appropriate investment portfolio?
- How do you map the client's risk profile to a third-party model?
- How do you avoid shoehorning client's into unsuitable models?

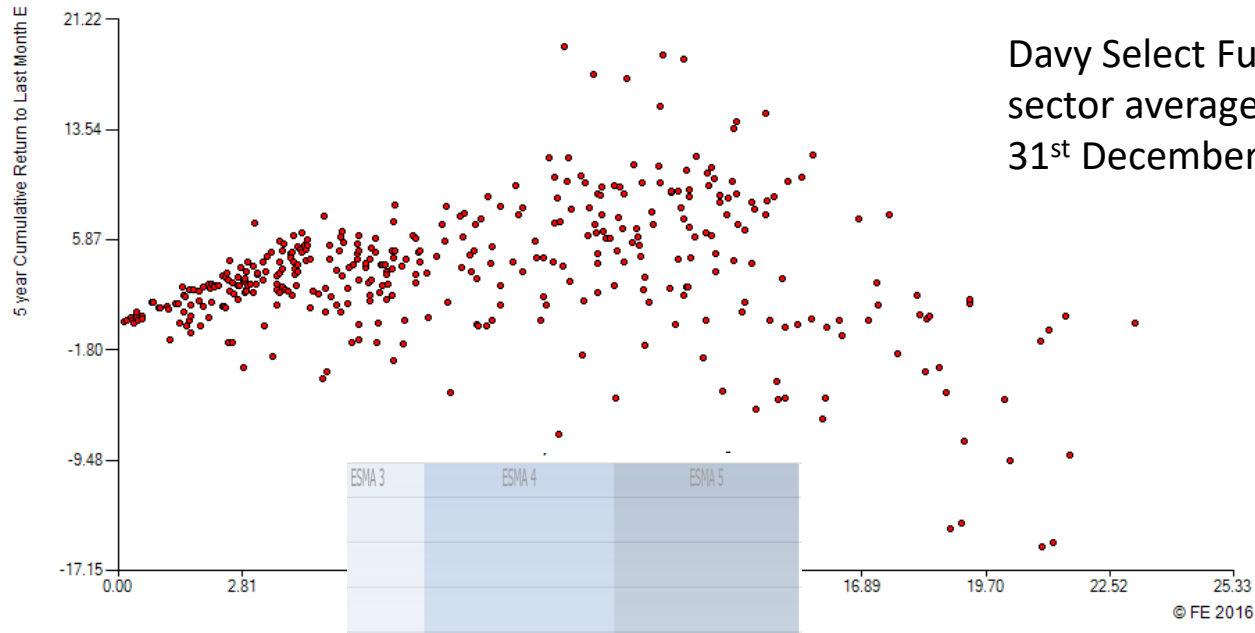
THE CHALLENGE OF ACTUALLY DOING THIS



Interactive Scatter Chart

ANALYTICS

20 January 2016 00:01:23 GMT



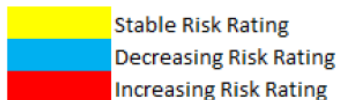
Davy Select Fund Supermarket sector averages 5 years ending 31st December 2015

CAN WE RELY ON PORTFOLIOS TO BE STABLE OVER TIME?

Analysis of ESMA bands over 45 years

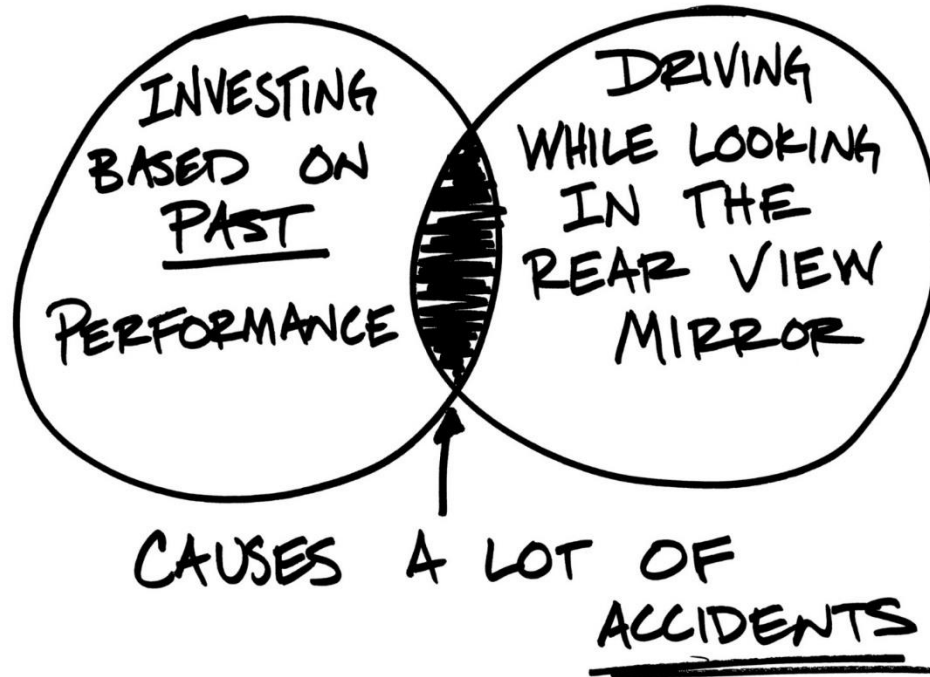
5 Year ESMA Rating Data Periods

Portfolio	1970-1974	1975-1979	1980-1984	1985-1989	1990-1994	1995-1999	2000-2004	2005-2009	2010-2014	1970-2015
Structured Conservative Portfolio	3	3	3	3	3	3	3	3	3	3
Structured 30% Risk Portfolio	4	4	3	3	4	4	3	3	3	4
Structured 40% Risk Portfolio	4	4	4	4	4	4	4	4	3	4
Structured Balanced Portfolio	4	4	4	4	4	4	4	4	3	4
Structured 60% Risk Portfolio	4	4	4	5	5	5	4	5	4	4
Structured 70% Risk Portfolio	5	5	4	5	5	5	5	5	4	5
Structured Growth Portfolio	5	5	5	5	5	5	5	5	4	5
Structured Equity Portfolio	6	6	5	6	6	6	6	6	4	6



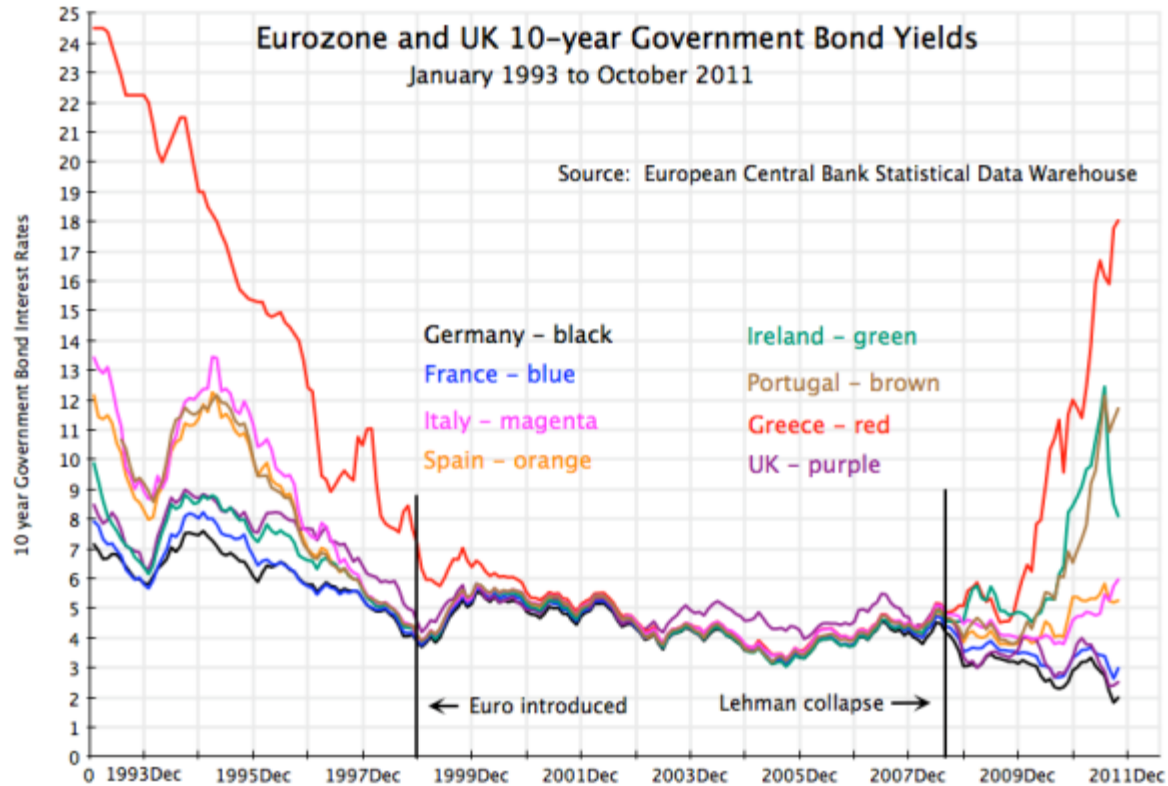
PROJECTED RETURNS &
MANAGING REALISTIC EXPECTATIONS
(PAST PERFORMANCE IS NO GUARANTEE OF
FUTURE RETURNS)

WHERE DO INVESTMENT RETURNS COME FROM?



BehaviorGap.com

THE DYNAMIC NATURE OF BOND YIELDS



ESTIMATING FUTURE BOND RETURNS

- Between 1928 and 2014
- US Treasury Bonds returned average 6.24%pa
- <http://www.stern.nyu.edu/~adamodar/pc/dataset/s/histretSP.xls>

Since 1926 the entry yield on the 10-year treasury explains 92% of the annualized return an investor would have earned over the next decade

John C. Bogle, founder and former chairman of Vanguard Group



As of 12:00 AM EST 11/11/2016

Source Bloomberg 11/11/16

According to Blackrock, **30%** of all Global Sovereign Bonds now pay **NEGATIVE** interest rates

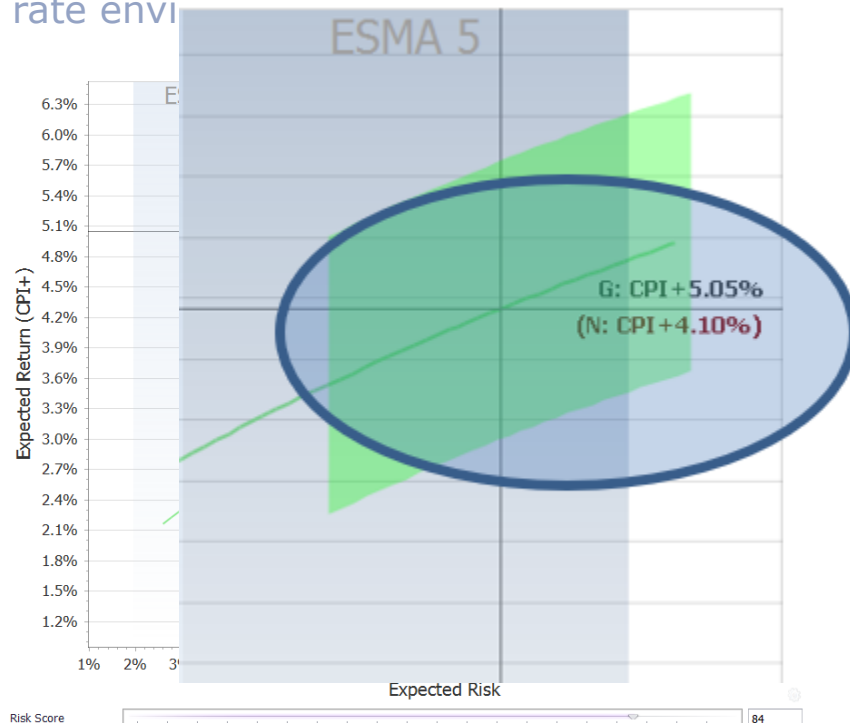
REALISTIC EXPECTATIONS

Adjusting **expected** returns for the low interest rate envi

Premium with T-Statistics Matrix

Annual data : 01/1970 - 12/2012; Default Currency: DMY

	Historical average annual premium over Euro Short Term Rate of 5.42%pa ²	Gross expected average annual portfolio return
Conservative Structured Portfolio	1.77	3.25%pa
T-stat	1.92	
30% Risk Structured Portfolio	2.25	3.75%pa
T-stat	1.87	
40% Risk Structured Portfolio	2.88	4.25%pa
T-stat	1.87	
Balanced Structured Portfolio	3.51	5.00%pa
T-stat	1.87	
60% Structured Portfolio	4.03	5.50%pa
T-stat	1.81	
70% Structured Portfolio	4.61	6.00%pa
T-stat	1.79	
Growth Structured Portfolio	5.12	6.50%pa
T-stat	1.75	



Note that between 1959 and 2012 the average money market return was 5.28%pa and German Consumer Price Inflation averaged 2.73%pa. Source: Deutsche Bundesbank

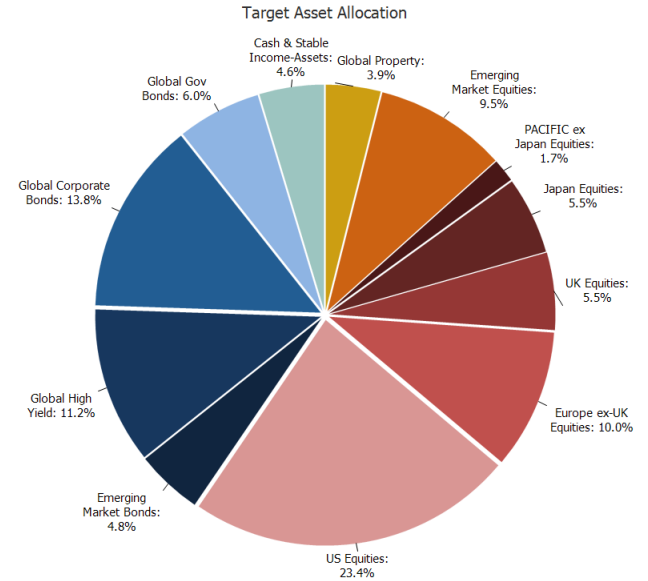
ASPECTS OF CAPACITY FOR LOSS: TIME HORIZON

INVESTOR'S TIME HORIZON

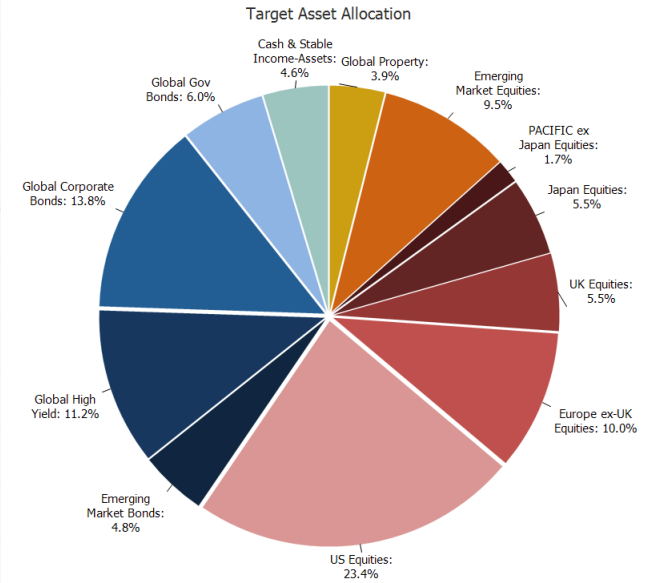
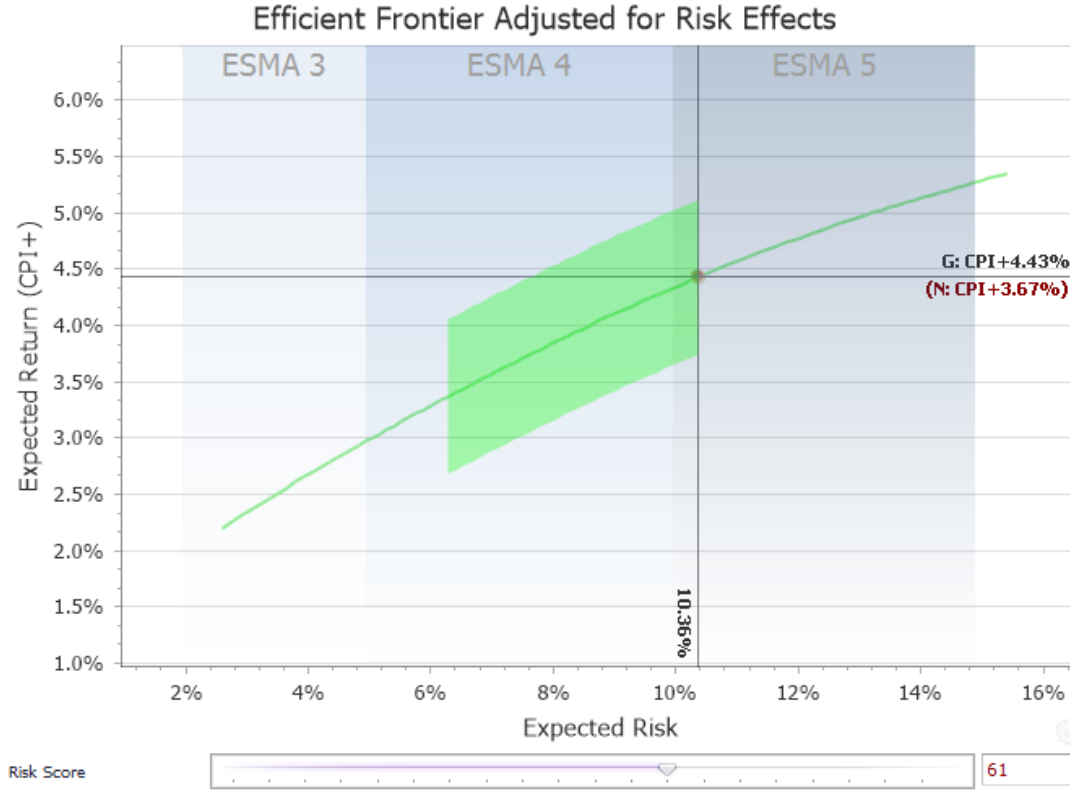


INVESTMENT TIME HORIZON (9 years+)

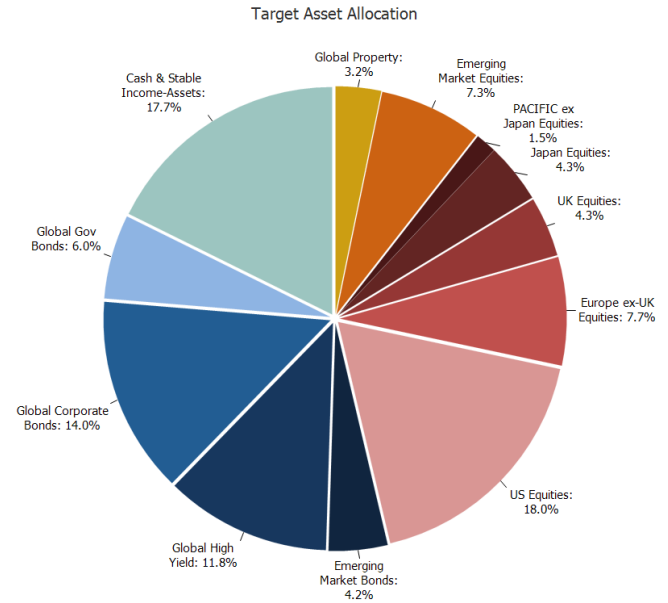
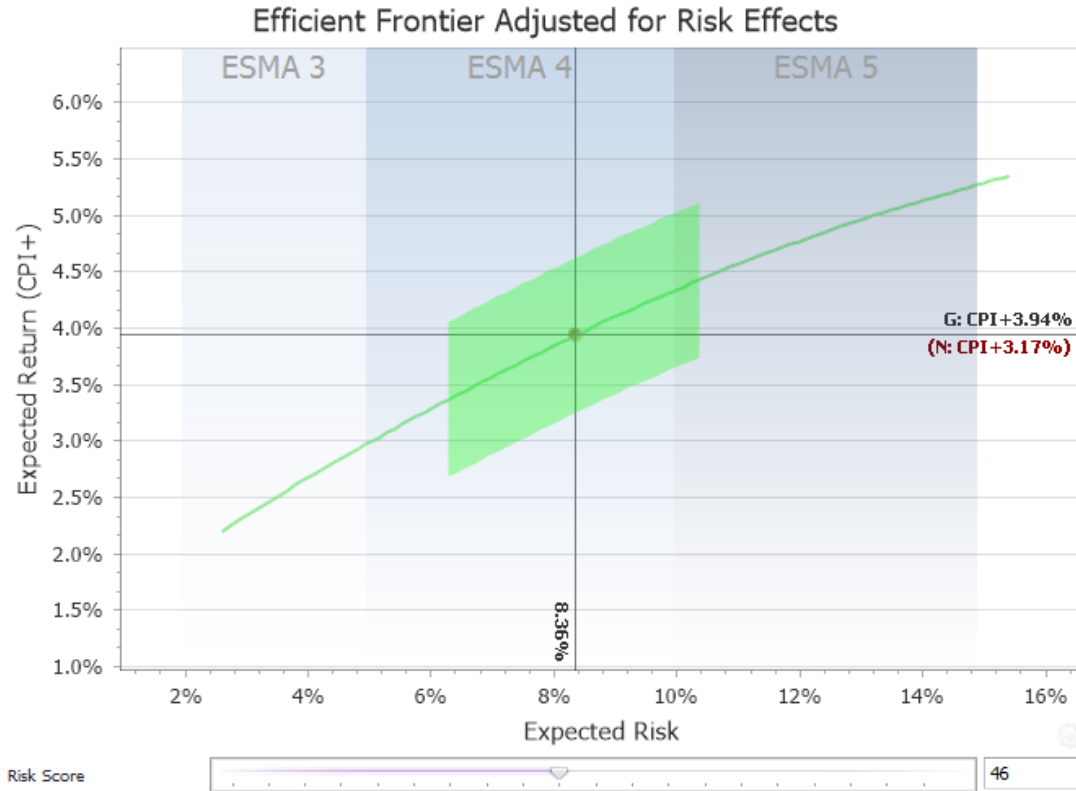
Efficient Frontier Adjusted for Risk Effects



INVESTMENT TIME HORIZON (5 years)



INVESTMENT TIME HORIZON (5 years)



SMOKE AND MIRROR FUNDS: LACK OF TRANSPARENCY IN THE IRISH MARKET

SMOKE AND MIRROR FUNDS

How to quantify hidden charges



Performance Line Chart

ANALYTICS

16 December 2015

Pricing Spread: Bid-Bid • Data Frequency: Daily • Currency: Euros



Luxembourg domiciled UCITS vs Irish Unit Linked version of the identical fund over 10 years

SMOKE AND MIRROR FUNDS

There is an opportunity for financial planners to add considerable value

Over the 10 years ending 15th December 2015, the difference in performance between these two investments was 28.92% or 2.57%pa

The TER of the Luxembourg domiciled fund was 1.59%¹ therefore the total implied cost of investing is :

TER 1.59% plus the difference in performance 2.57% = **4.16%pa**

The worst example we found over a 6 year period was **5.8%pa**

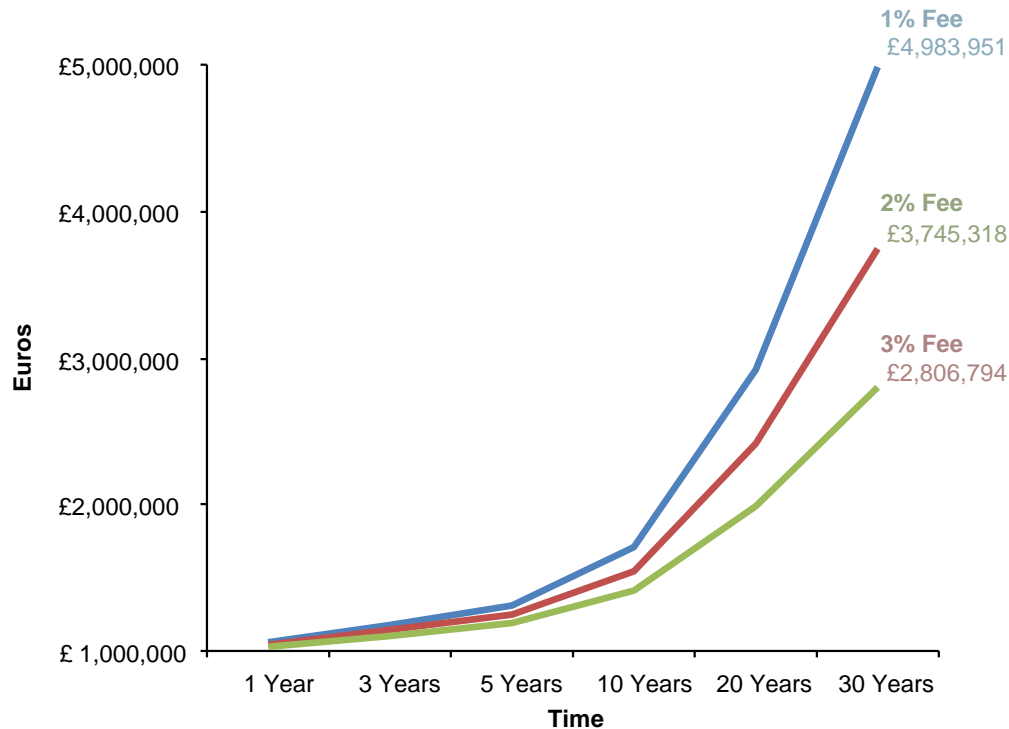
1.Source: Morningstar

SMOKE AND MIRROR FUNDS

The impact of costs over time

- Fees matter.
- Over long time periods, high fees can be a significant drag on wealth creation.

Assumed 6.5% Annualised Return over 30 Years



OUTSOURCING AND THE SUITABILITY GAP



OUTSOURCING AND THE SUITABILITY GAP

Operating Frameworks	DIM Suitability		Investment Suitability			Ongoing Suitability		
	Selection of DIM	Appropriateness of DIM service	Suitability of client specific portfolio construction	Suitability of portfolio or strategy selection	Suitability of portfolio transactions	On-going suitability of portfolio	Ongoing monitoring of DIM service	On-going monitoring of DIM selection
Model A <i>Direct</i>	Adviser	Adviser or DIM	DIM	DIM	DIM	DIM	Adviser	Adviser
Model B <i>Hybrid</i>	Adviser	Adviser	DIM or Adviser	DIM or Adviser	DIM	Adviser	Adviser	Adviser
Model C <i>Agent as Client</i>	Adviser	Adviser	Adviser	Adviser	DIM or Adviser	Adviser	Adviser	Adviser
Model D <i>Outsourced Solution</i>	Adviser	Adviser	Adviser/ DIM	Adviser/ DIM	Adviser/ DIM	Adviser/ DIM	Adviser	Adviser

OUTSOURCING AND THE SUITABILITY GAP

*“Where a firm refers investment selections to a discretionary manager, both the introducing firm and the discretionary management firm have obligations to ensure that a personal recommendation or a decision to trade is suitable for the client. The obligations on each party will depend upon the nature and extent of the respective service provided. Both parties should be clear on their respective service, and ensure they meet the corresponding suitability obligations. **If either or both parties are not clear, there is a risk that clients may receive unsuitable advice and/or have their portfolios managed inappropriately**”*

Financial Services Authority

Guidance consultation

Assessing suitability:

Replacement business and
centralised investment propositions

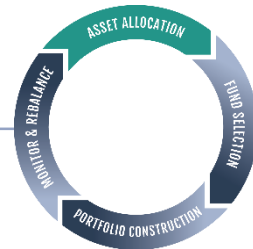
April 2012



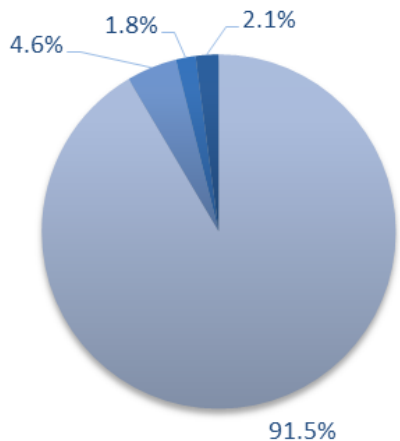
INVESTMENT PROCESS

INVESTMENT MANAGEMENT PROCESS

PORTFOLIO CONSTRUCTION BEGINS WITH ASSET ALLOCATION



Average Sources of Return Variability



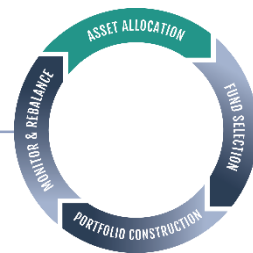
■ Strategic Asset Allocation ■ Security Selection ■ Tactical Asset Class Tilts ■ Other

- **Strategic asset allocation drives risk and to a large degree return**
- Asset Allocation is thus the foundation of all we do

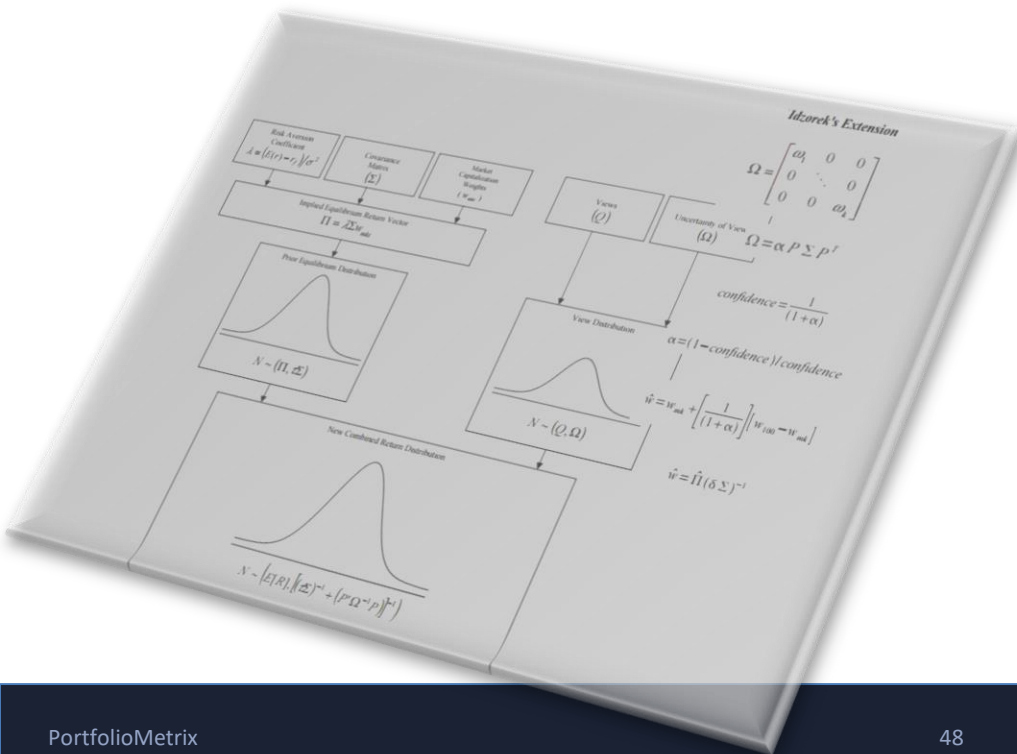
Source: Gary P. Brinson, L. Randolph Hood and Gilbert L. Beebower, "Determinants of Portfolio Performance", Financial Analysts Journal, July-August 1986, pp. 39-44; and Gary P. Brinson, Brian D. Singer and Gilbert L. Beebower, "Revisiting Determinants of Portfolio Performance: An Update", 1990, Working Paper.

INVESTMENT MANAGEMENT PROCESS

ASSET ALLOCATION – OPTIMISATION



Black Litterman Model



Generates an Efficient Frontier with:

- Diversified Asset Allocations
- Stable Asset Allocations
- Portfolios that incorporate Market Views
- Controlled Risk/Return Separation

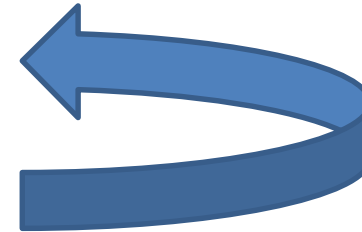
INVESTOR PREFERENCES

PIMCO



Smart
Beta

Active
Management



powerSHARES[®]



BLACKROCK[®]



Ethical or
Socially
Responsible
Considerations



Cost



Taxation
Considerations

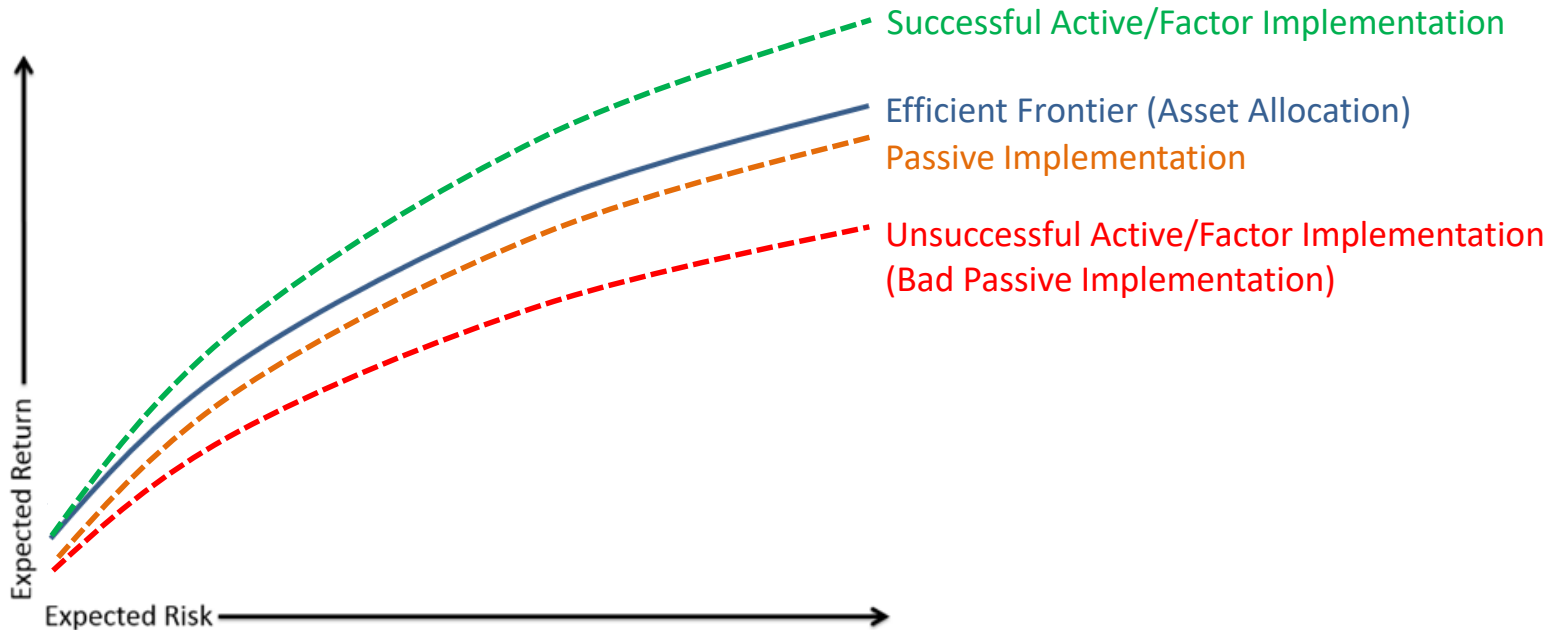
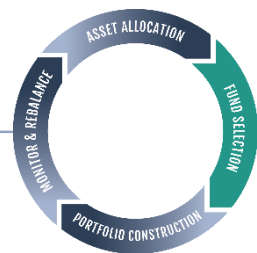


Our values
Conviction and
Responsibility

INVESTMENT MANAGEMENT PROCESS

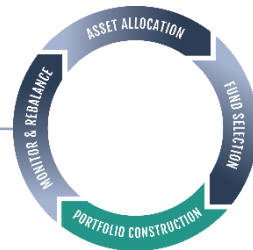
IMPLEMENTATION CHOICE

- Cheap Passive or Costlier Active/Factor
- Other Preferences: Smart Beta, Ethical, Tax



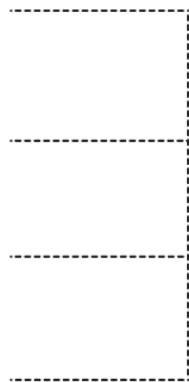
INVESTMENT MANAGEMENT PROCESS

PUTTING IT TOGETHER (1 OF 3)



**ADVISER ASSESSES
CLIENTS NEEDS**

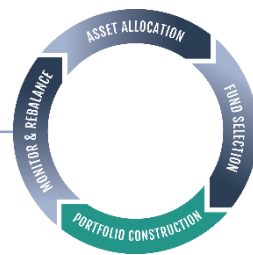
GOALS AND ASPIRATIONS
FINANCIAL PERSONALITY
FINANCIAL CIRCUMSTANCES
INVESTMENT PREFERENCE



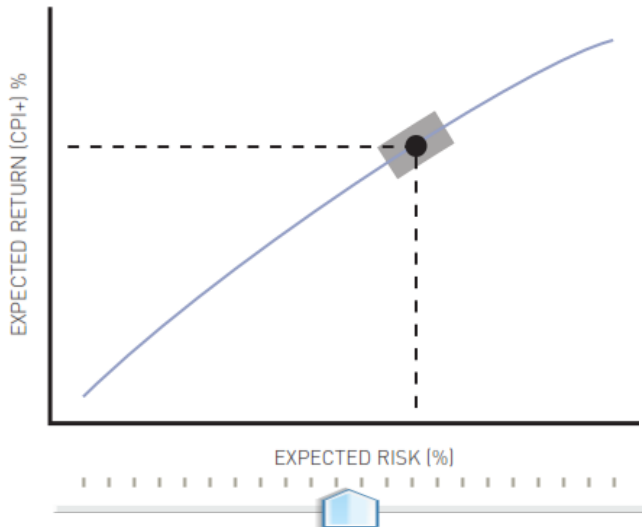
REQUIREMENTS
RISK
RETURN
CONSTRAINTS
PREFERENCES

INVESTMENT MANAGEMENT PROCESS

PUTTING IT TOGETHER (2 OF 3)



ADVISER TRANSLATES
CLIENTS NEEDS

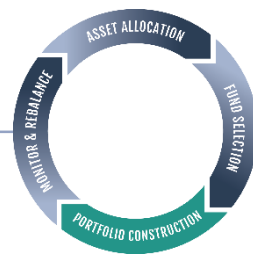


PLATFORM ▼ PRODUCT ▼

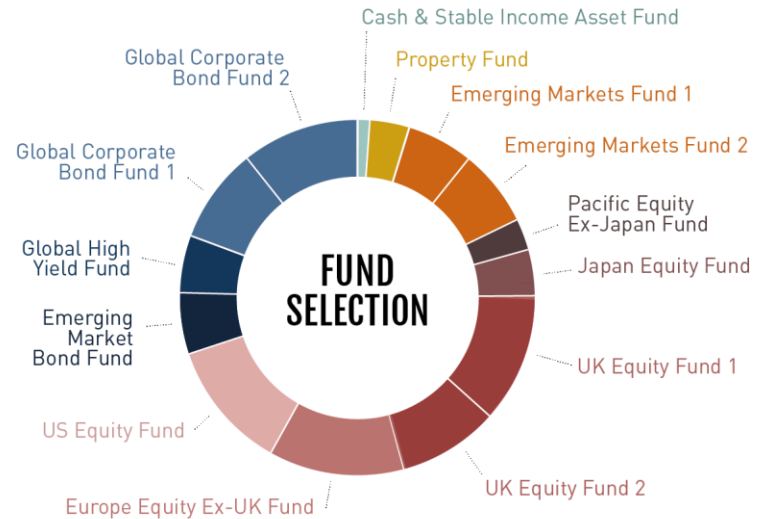
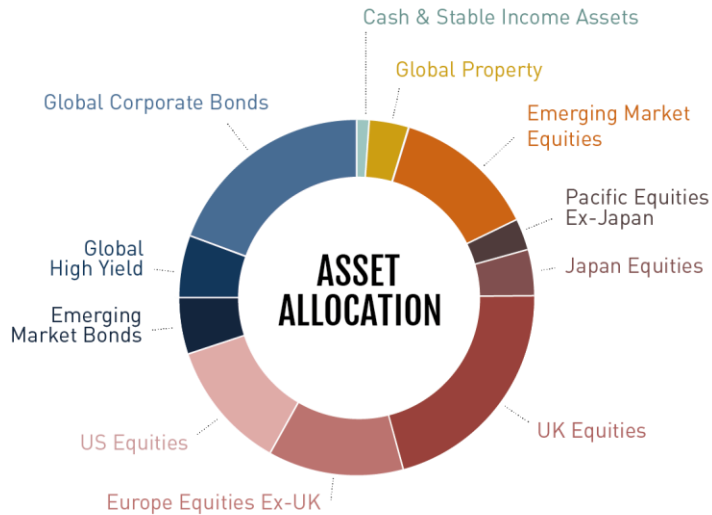
CURRENCY 	ACTIVE/ PASSIVE 	ABSOLUTE RETURN
INCOME 	FACTOR BASED 	ETHICAL

INVESTMENT MANAGEMENT PROCESS

PUTTING IT TOGETHER (3 OF 3)



THE CUSTOM PORTFOLIO



MODEL PORTFOLIOS CARRY SHOEHORNING AND SUITABILITY RISKS

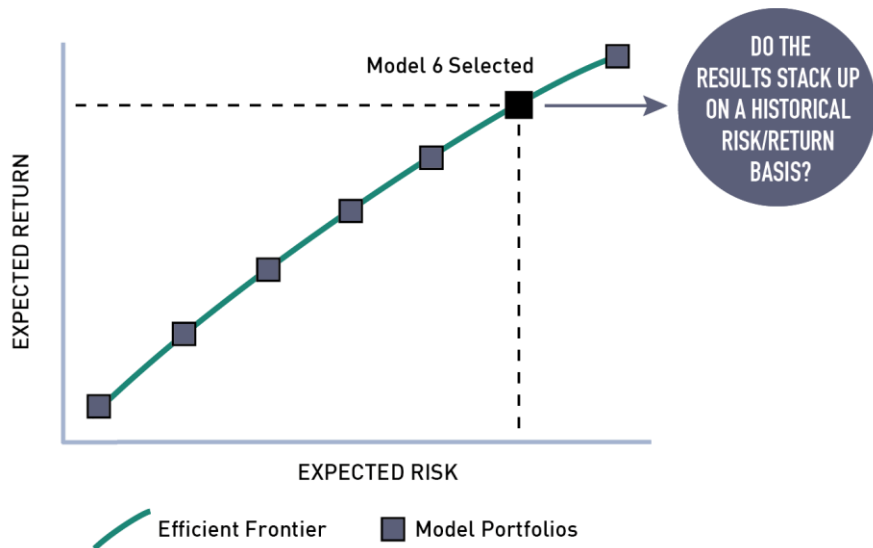


RISK SEPARATION

WHAT IS IT AND WHY DOES IT MATTER?

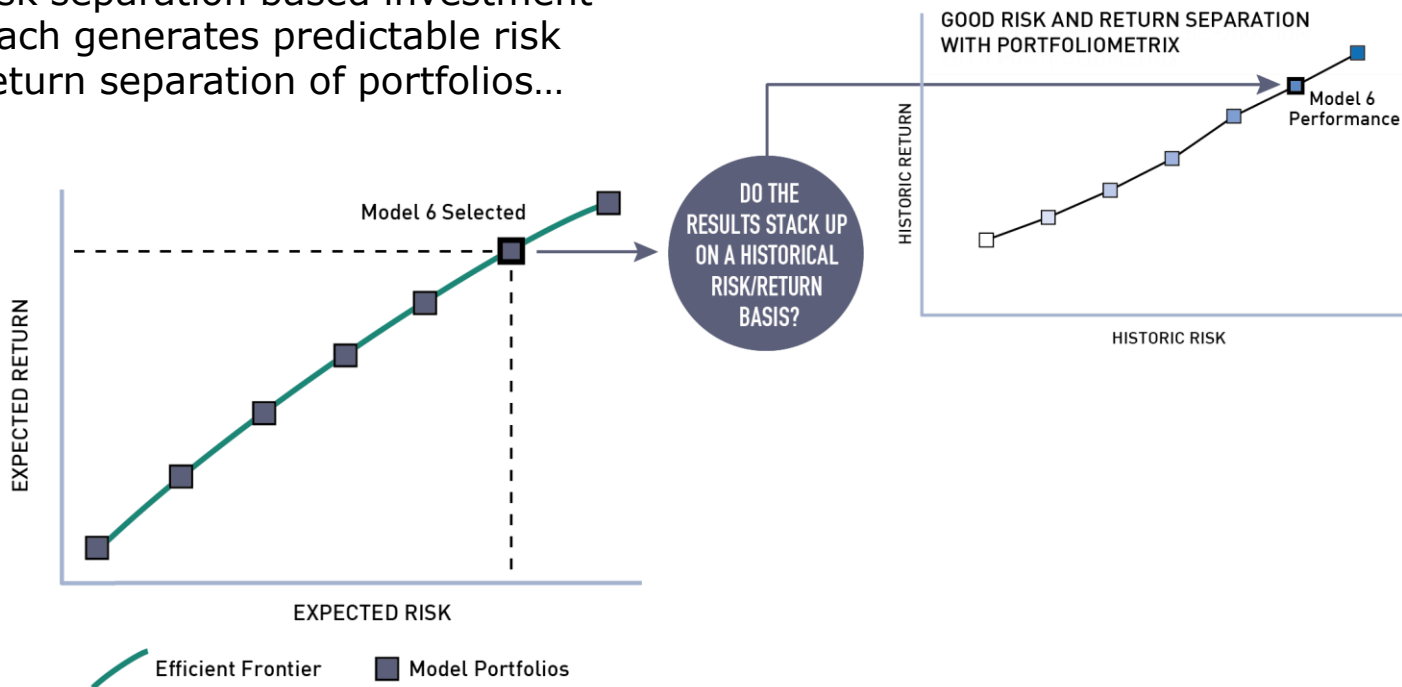
RISK SEPARATION

A good risk separation based investment approach generates predictable risk and return separation of portfolios...



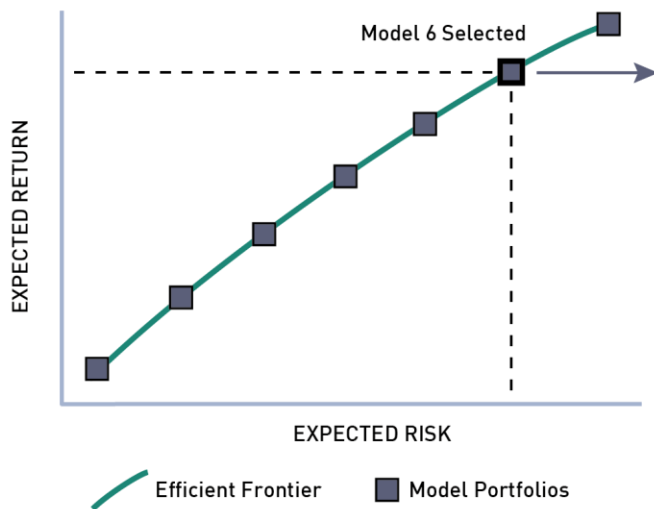
RISK SEPARATION

Our risk separation based investment approach generates predictable risk and return separation of portfolios...

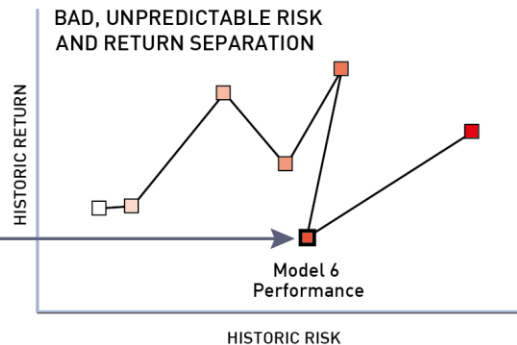
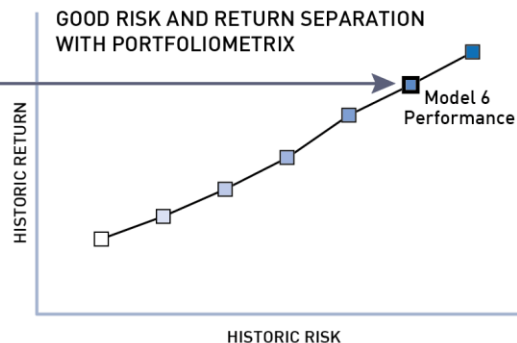


RISK SEPARATION

Our risk separation based investment approach generates predictable risk and return separation of portfolios...



DO THE RESULTS STACK UP ON A HISTORICAL RISK/RETURN BASIS?



RISK SEPARATION

UK MARKET ANALYSIS

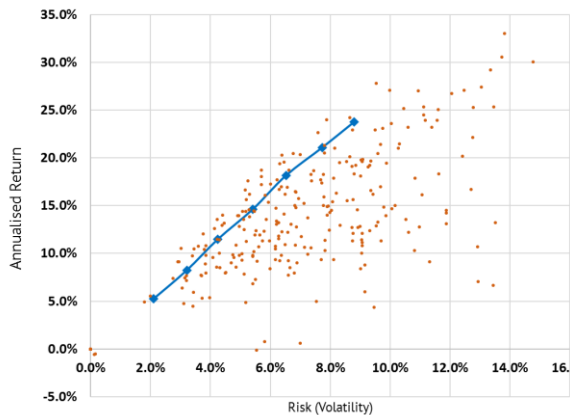


BAD RISK SEPARATION

SHOTGUN ANALYSIS

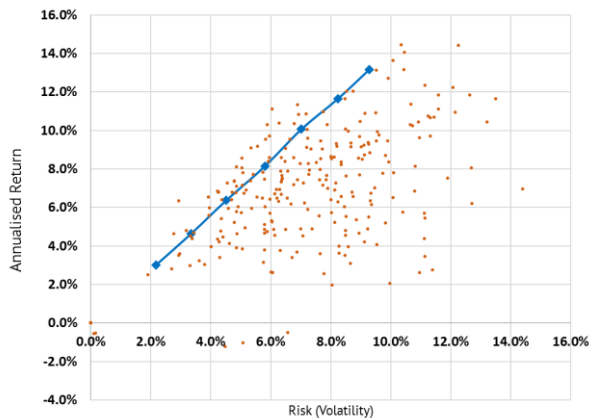
1 YEAR

Risk / Return Scatter Chart Oct-2015 to Sep-2016



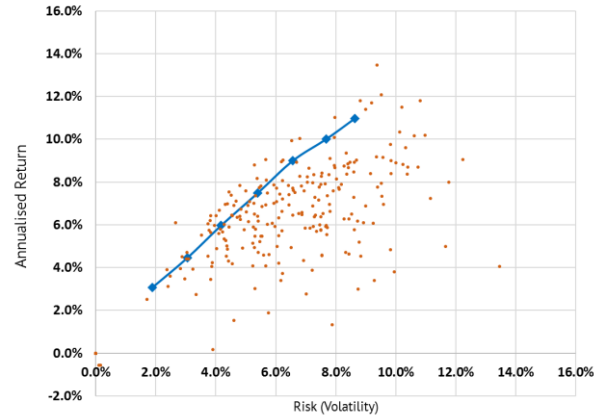
2 YEARS

Risk / Return Scatter Chart Oct-2014 to Sep-2016



3 YEARS

Risk / Return Scatter Chart Oct-2013 to Sep-2016

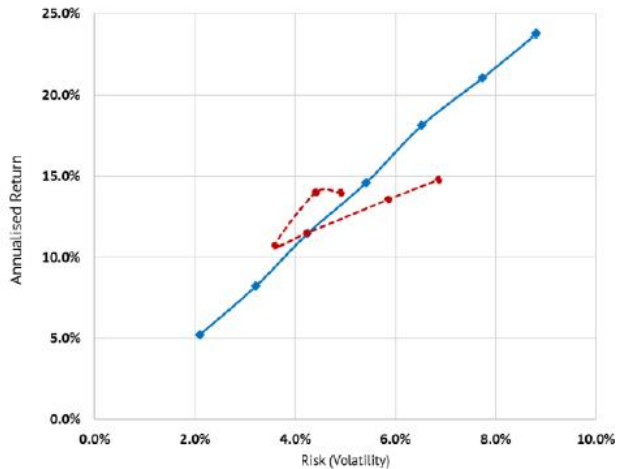


BAD RISK SEPARATION

AUM £32.2 BN

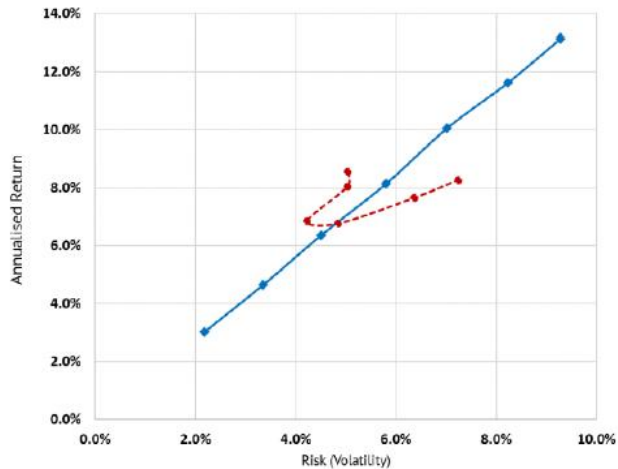
1 YEAR

Risk / Return Scatter Chart Oct-2015 to Sep-2016



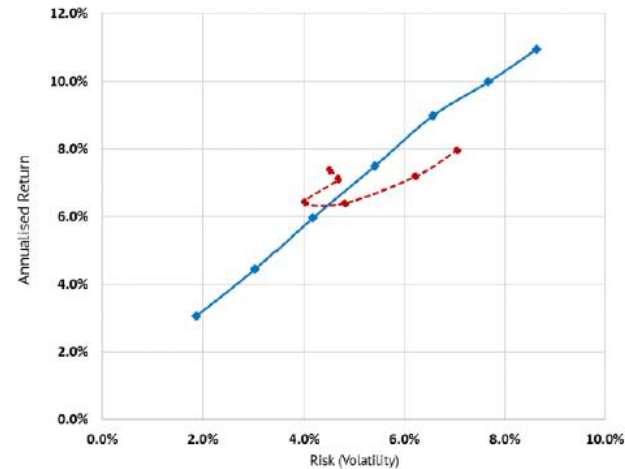
2 YEARS

Risk / Return Scatter Chart Oct-2014 to Sep-2016



3 YEARS

Risk / Return Scatter Chart Oct-2013 to Sep-2016

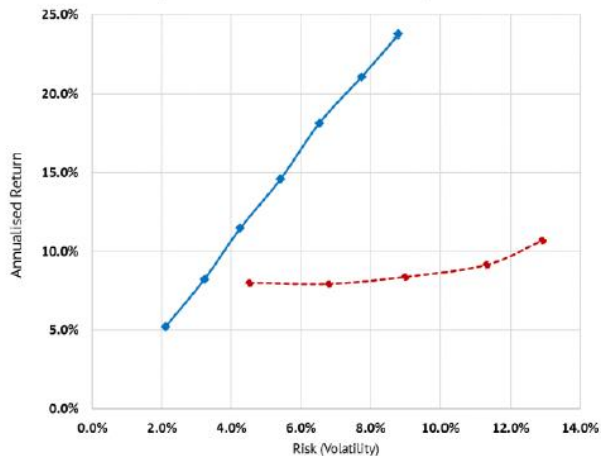


BAD RISK SEPARATION

AUM \$2.5 Trillion

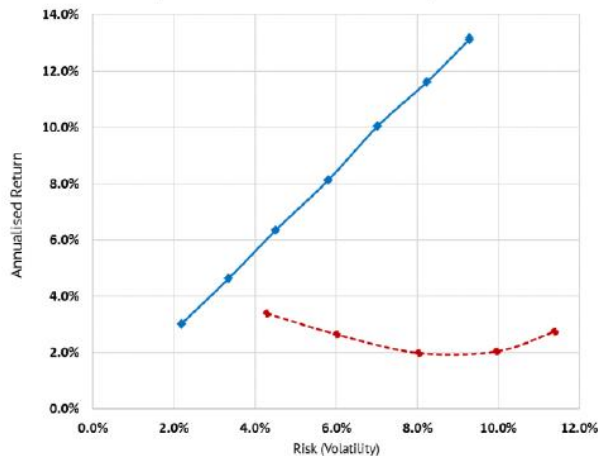
1 YEAR

Risk / Return Scatter Chart Oct-2015 to Sep-2016



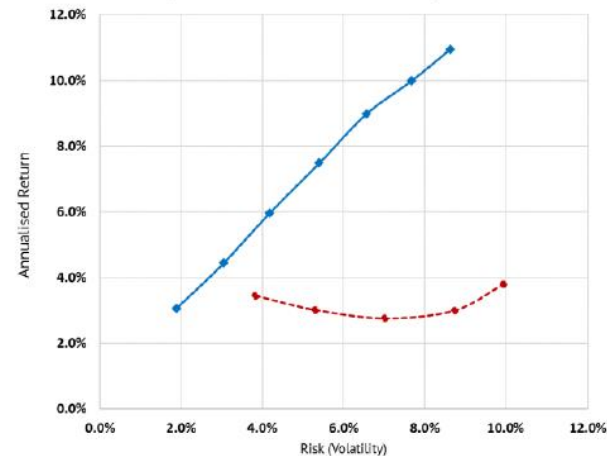
2 YEARS

Risk / Return Scatter Chart Oct-2014 to Sep-2016



3 YEARS

Risk / Return Scatter Chart Oct-2013 to Sep-2016

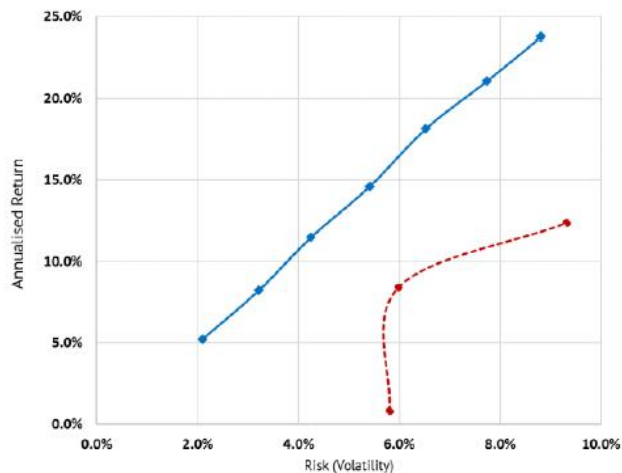


BAD RISK SEPARATION

AUM \$5.1 Trillion

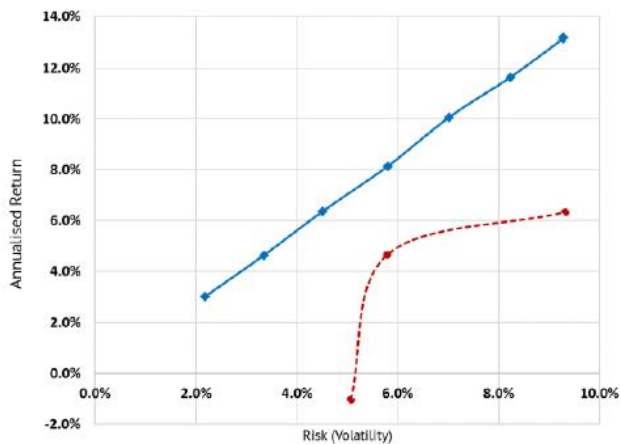
1 YEAR

Risk / Return Scatter Chart Oct-2015 to Sep-2016



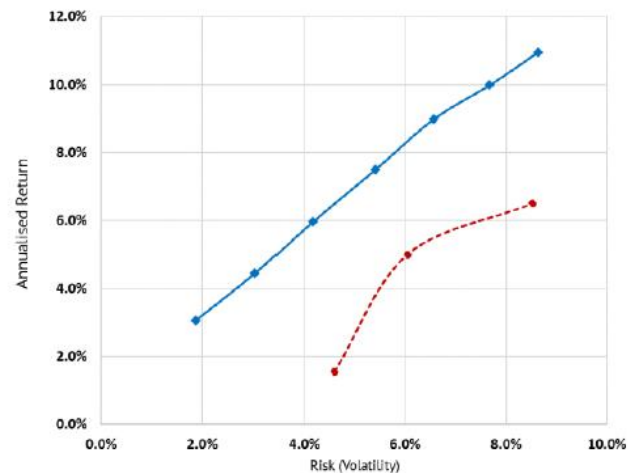
2 YEARS

Risk / Return Scatter Chart Oct-2014 to Sep-2016



3 YEARS

Risk / Return Scatter Chart Oct-2013 to Sep-2016

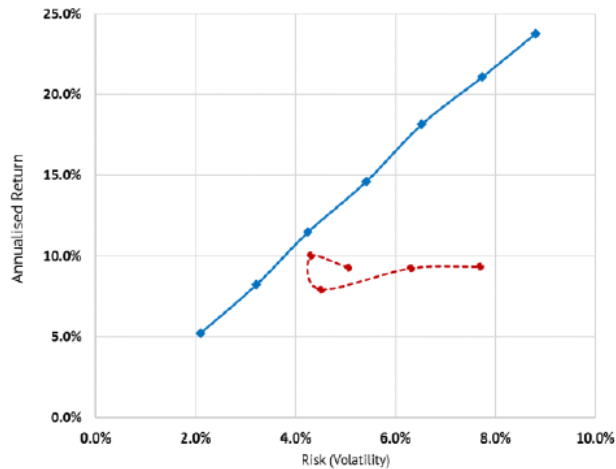


BAD RISK SEPARATION

AUM £9.1 Bn

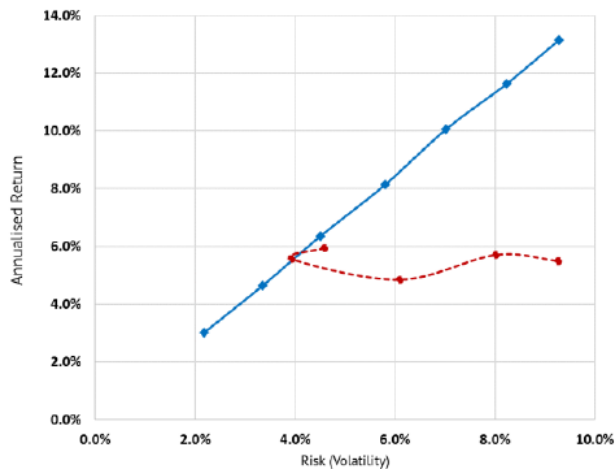
1 YEAR

Risk / Return Scatter Chart Oct-2015 to Sep-2016



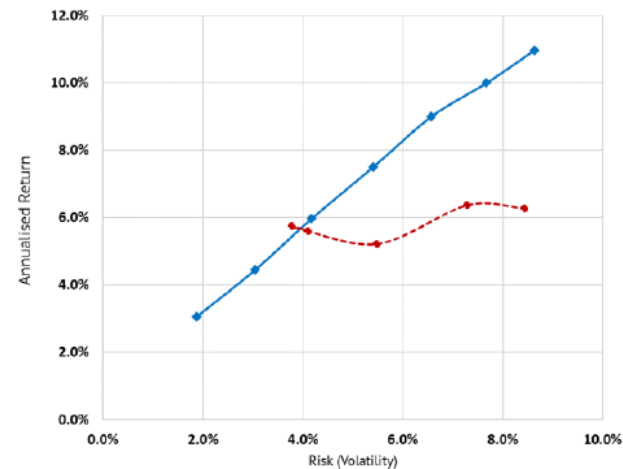
2 YEARS

Risk / Return Scatter Chart Oct-2014 to Sep-2016



3 YEARS

Risk / Return Scatter Chart Oct-2013 to Sep-2016

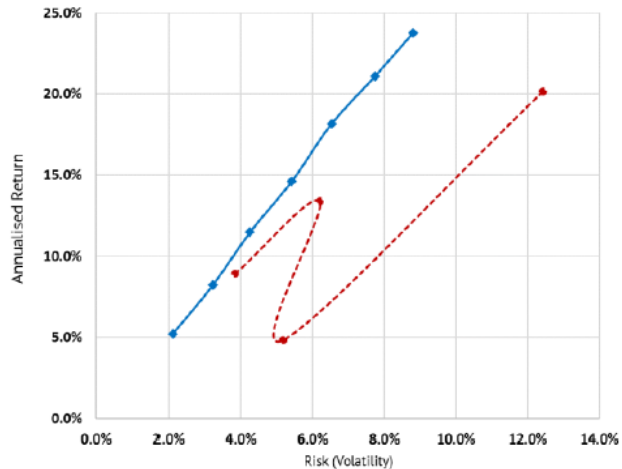


BAD RISK SEPARATION

AUM \$117 Bn

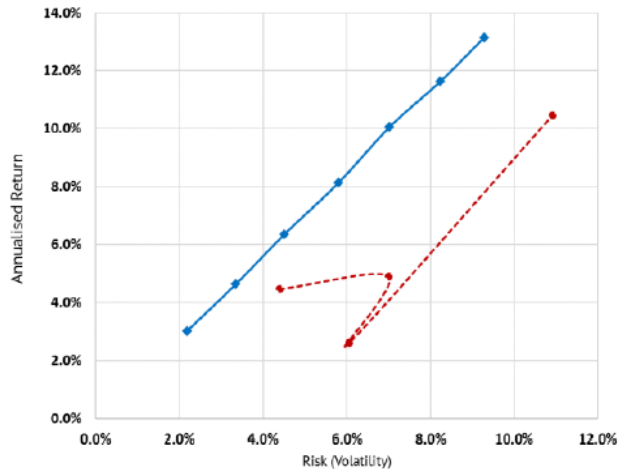
1 YEAR

Risk / Return Scatter Chart Oct-2015 to Sep-2016



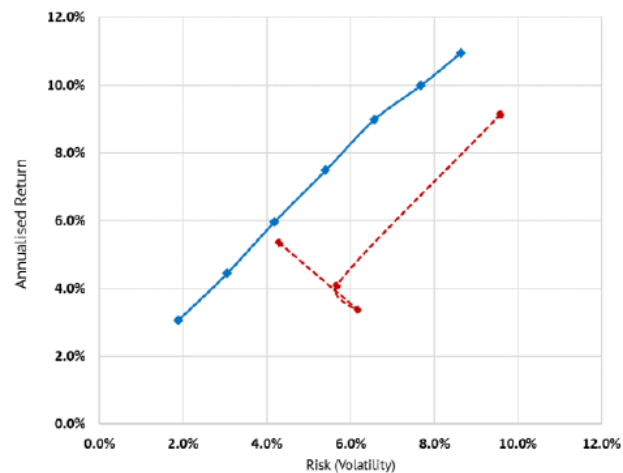
2 YEARS

Risk / Return Scatter Chart Oct-2014 to Sep-2016



3 YEARS

Risk / Return Scatter Chart Oct-2013 to Sep-2016

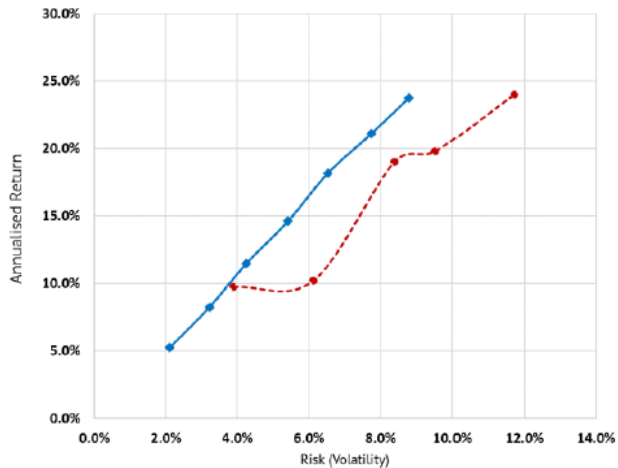


BAD RISK SEPARATION

AUM £40.4 Bn

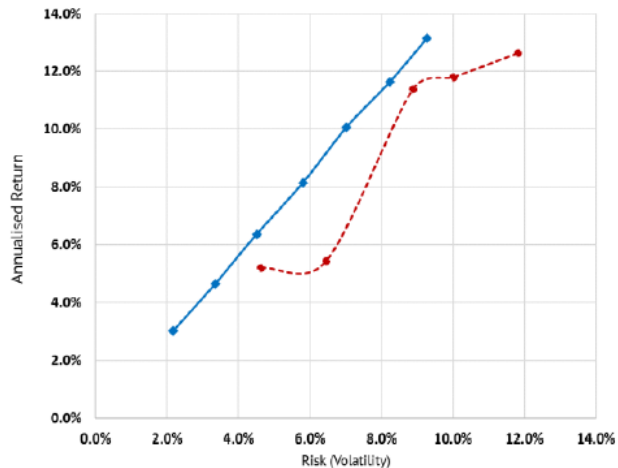
1 YEAR

Risk / Return Scatter Chart Oct-2015 to Sep-2016



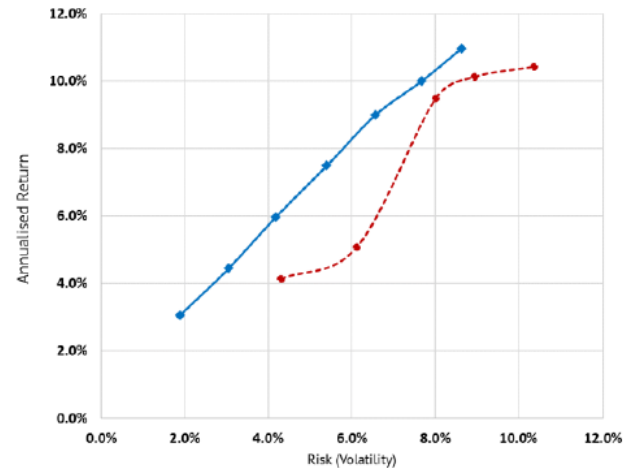
2 YEARS

Risk / Return Scatter Chart Oct-2014 to Sep-2016



3 YEARS

Risk / Return Scatter Chart Oct-2013 to Sep-2016

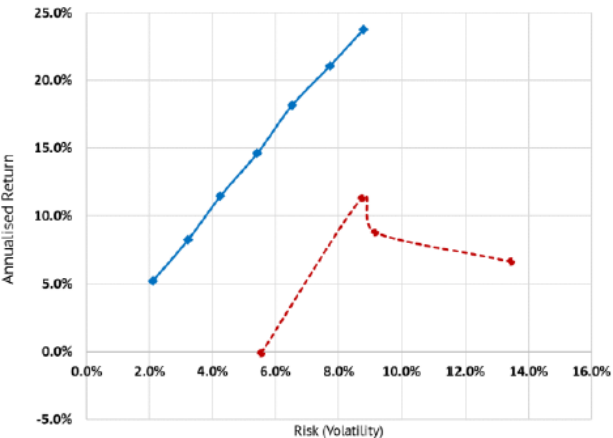


BAD RISK SEPARATION

AUM \$231 Bn

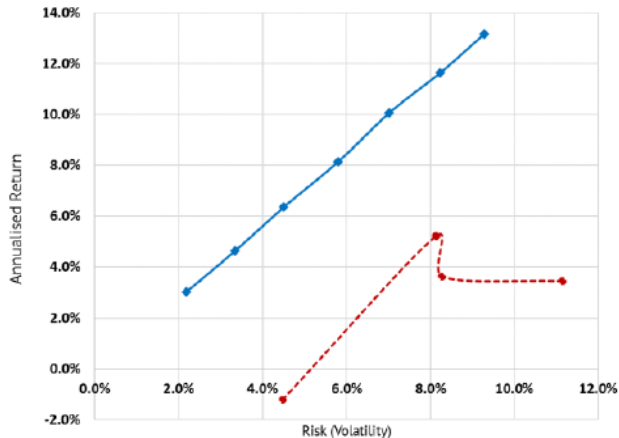
1 YEAR

Risk / Return Scatter Chart Oct-2015 to Sep-2016



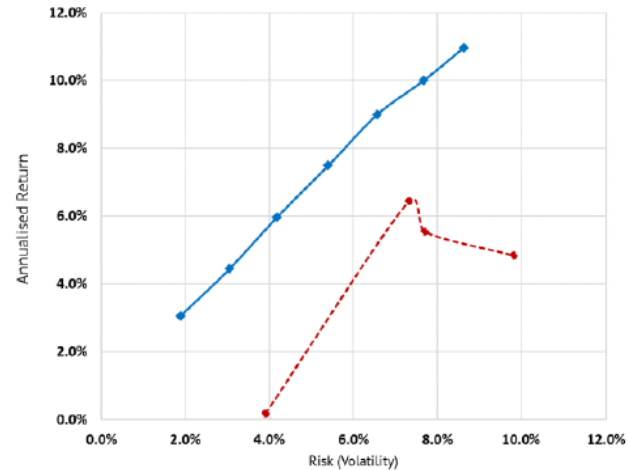
2 YEARS

Risk / Return Scatter Chart Oct-2014 to Sep-2016



3 YEARS

Risk / Return Scatter Chart Oct-2013 to Sep-2016

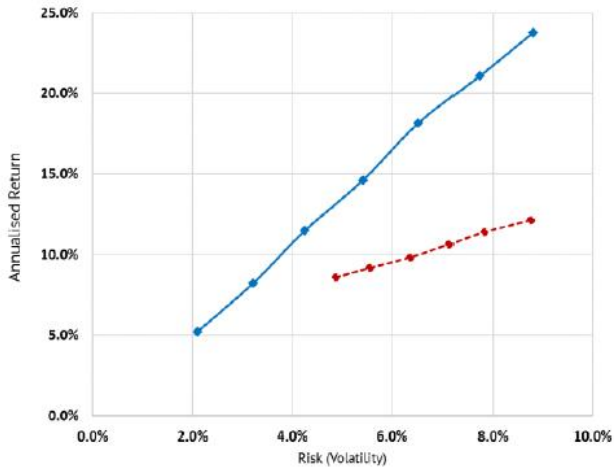


BAD RISK SEPARATION

AUM £327 Bn

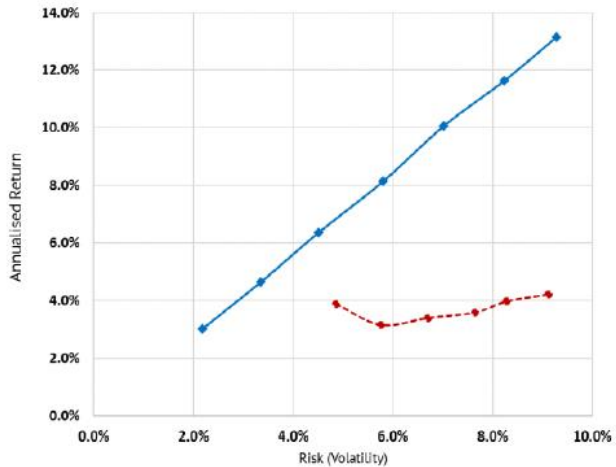
1 YEAR

Risk / Return Scatter Chart Oct-2015 to Sep-2016



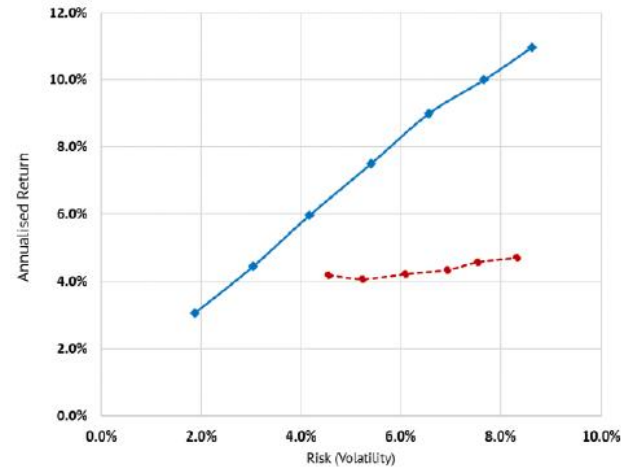
2 YEARS

Risk / Return Scatter Chart Oct-2014 to Sep-2016



3 YEARS

Risk / Return Scatter Chart Oct-2013 to Sep-2016

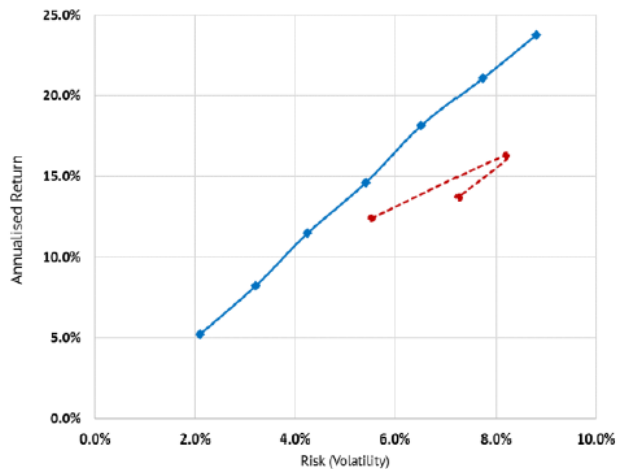


BAD RISK SEPARATION

AUM £18 Bn

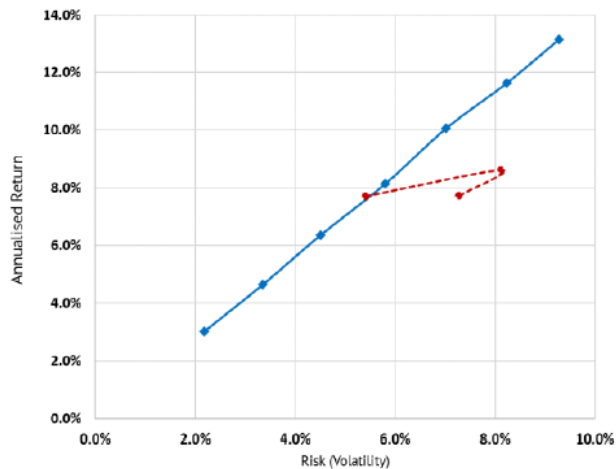
1 YEAR

Risk / Return Scatter Chart Oct-2015 to Sep-2016



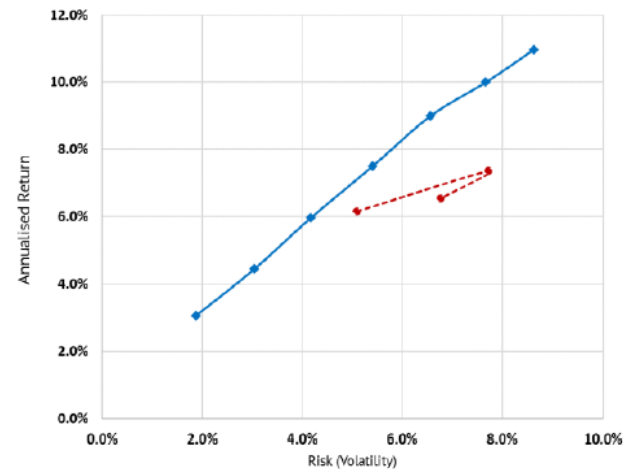
2 YEARS

Risk / Return Scatter Chart Oct-2014 to Sep-2016



3 YEARS

Risk / Return Scatter Chart Oct-2013 to Sep-2016

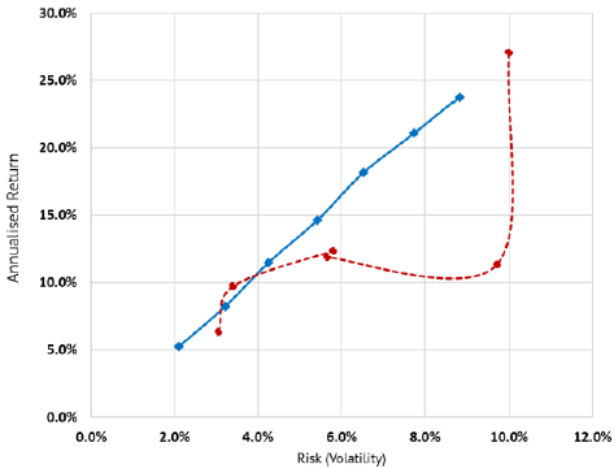


BAD RISK SEPARATION

AUM £375 Bn

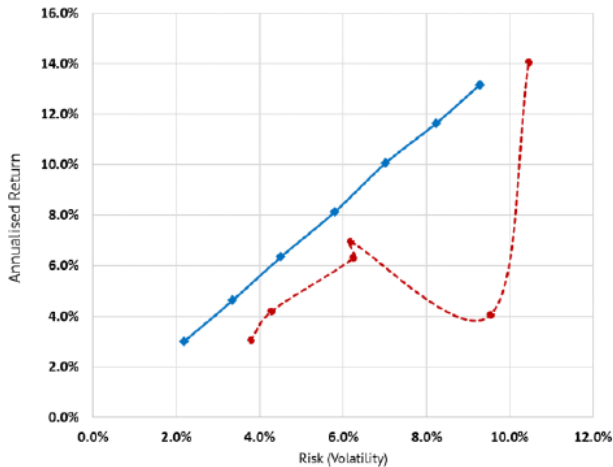
1 YEAR

Risk / Return Scatter Chart Oct-2015 to Sep-2016



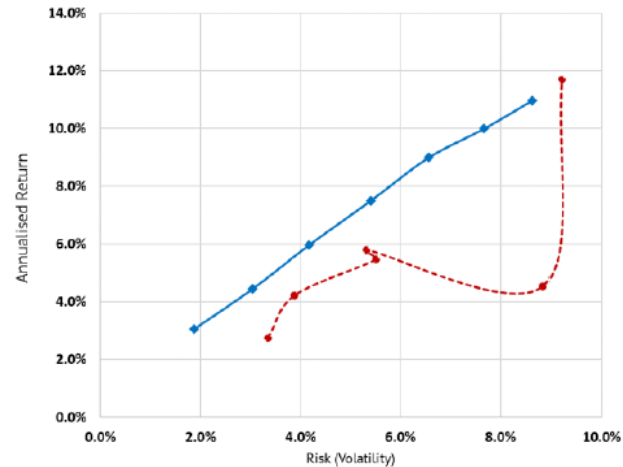
2 YEARS

Risk / Return Scatter Chart Oct-2014 to Sep-2016



3 YEARS

Risk / Return Scatter Chart Oct-2013 to Sep-2016

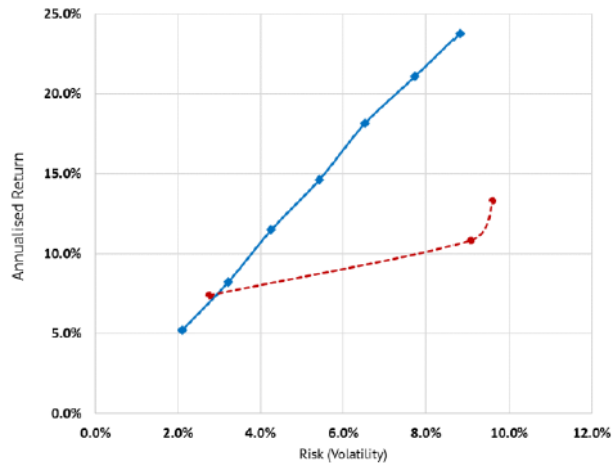


BAD RISK SEPARATION

AUM £16 Bn

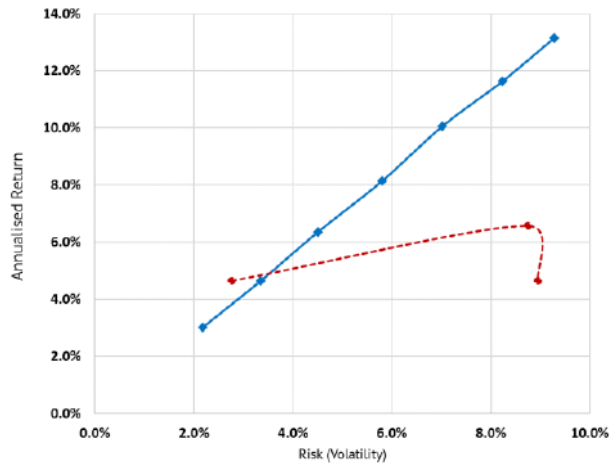
1 YEAR

Risk / Return Scatter Chart Oct-2015 to Sep-2016



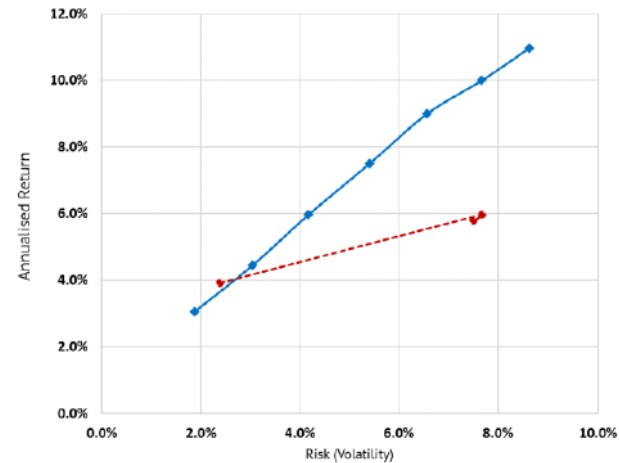
2 YEARS

Risk / Return Scatter Chart Oct-2014 to Sep-2016



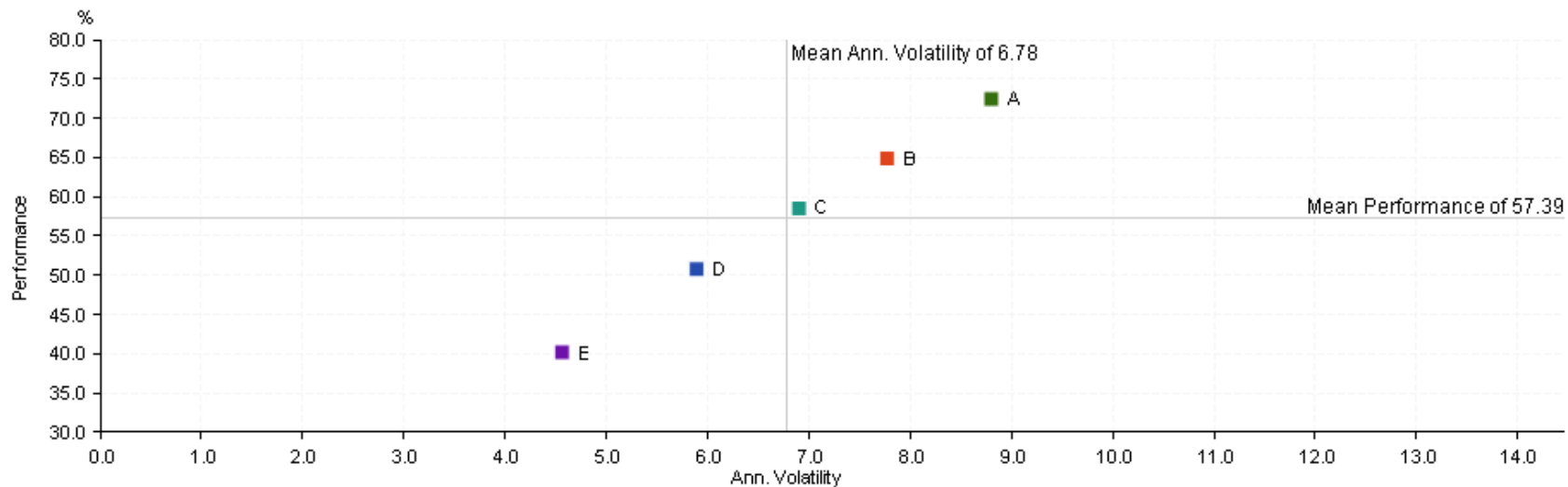
3 YEARS

Risk / Return Scatter Chart Oct-2013 to Sep-2016

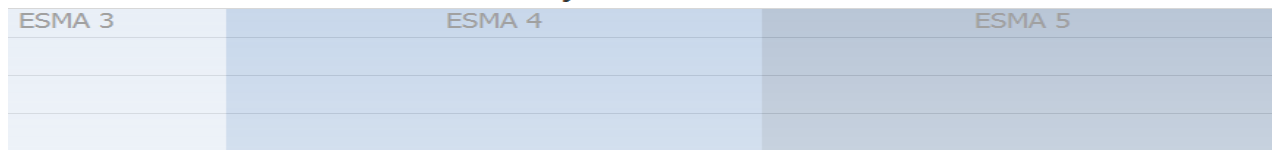


RISK SEPARATION
IRISH MARKET ANALYSIS

GOOD RISK SEPARATION



31/10/2010 - 31/10/2016 © FE 2016

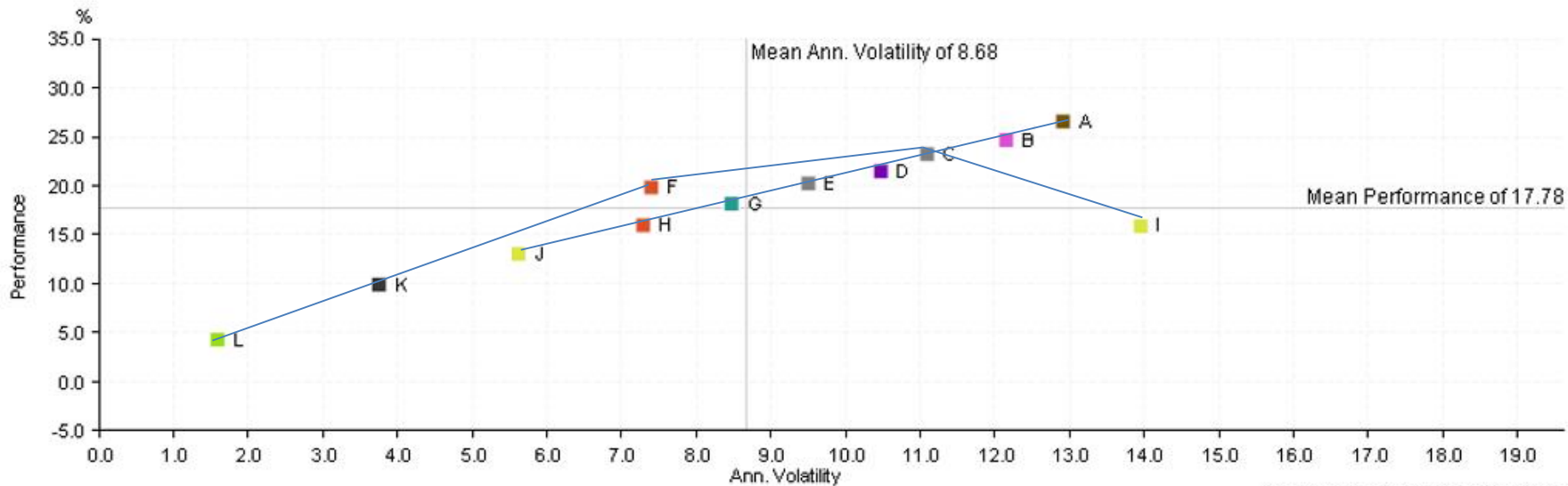


BAD RISK SEPARATION



11/10/2013 - 30/12/2015 Data from FE 2016

BAD RISK SEPARATION

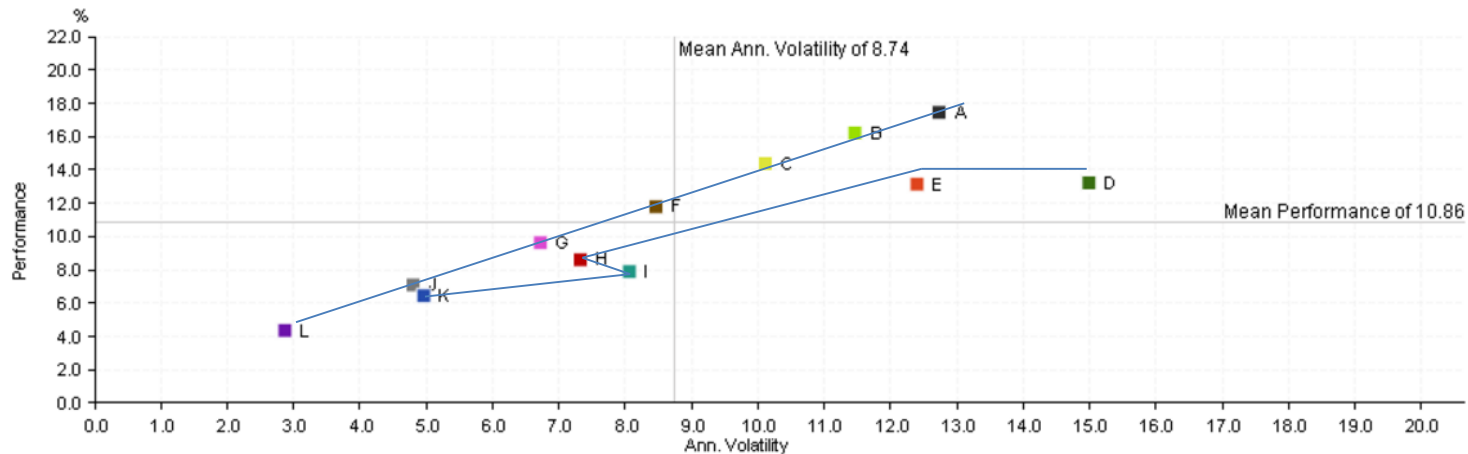


31/12/2013 - 31/12/2015 © FE 2016

ESMA 3	ESMA 4	ESMA 5

BAD RISK SEPARATION

Pricing Spread: Bid-Bid • Currency: Euros

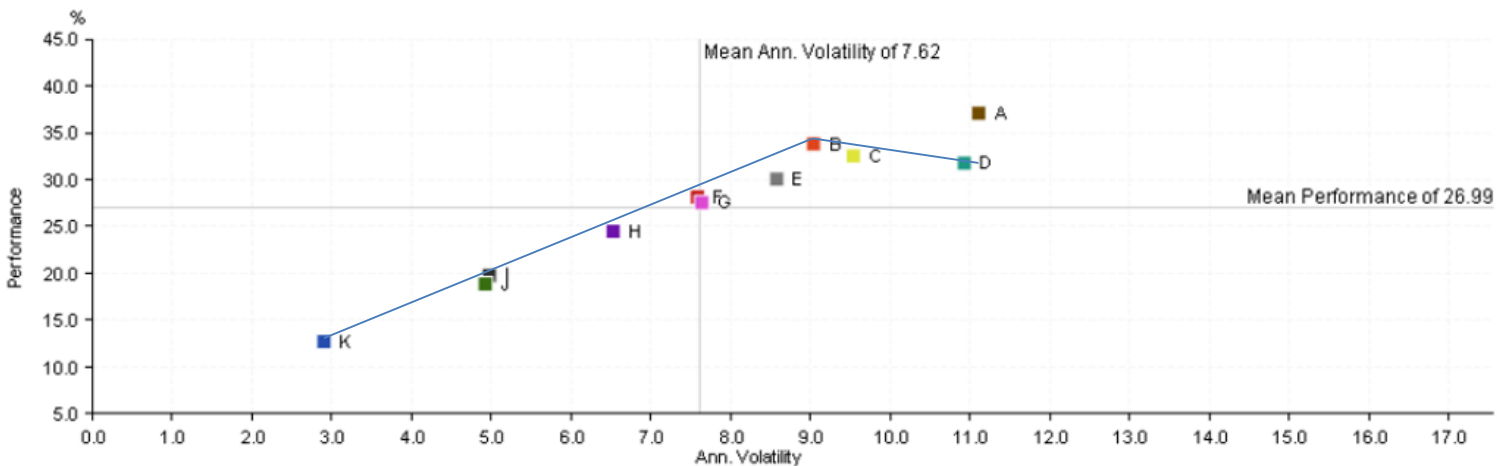


31/10/2014 - 31/10/2016 © FE 2016

ESMA 3	ESMA 4	ESMA 5

BAD RISK SEPARATION

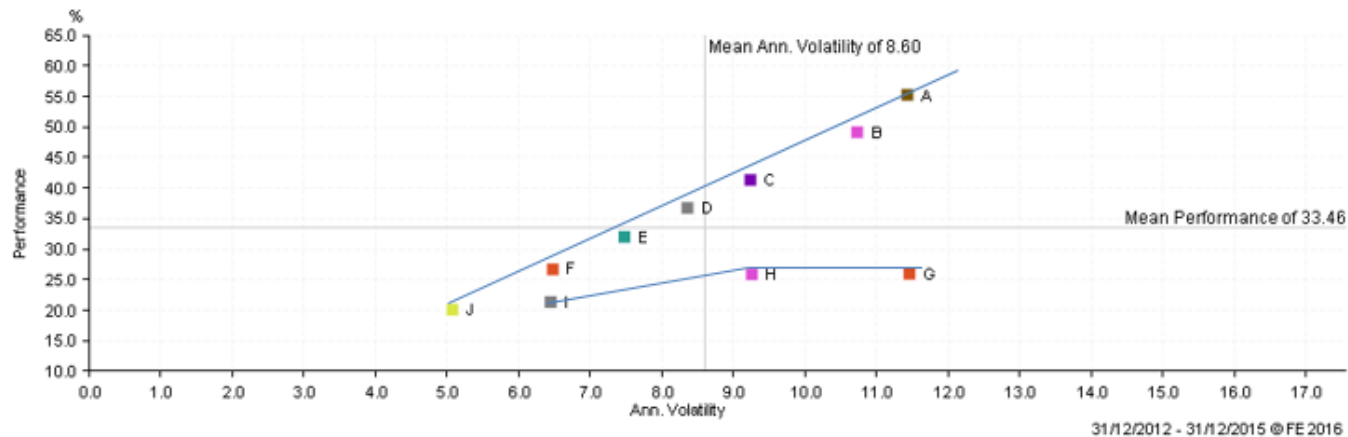
Pricing Spread: Bid-Bid • Currency: Euros



ESMA 3	ESMA 4	ESMA 5

30/09/2016 © FE 2016

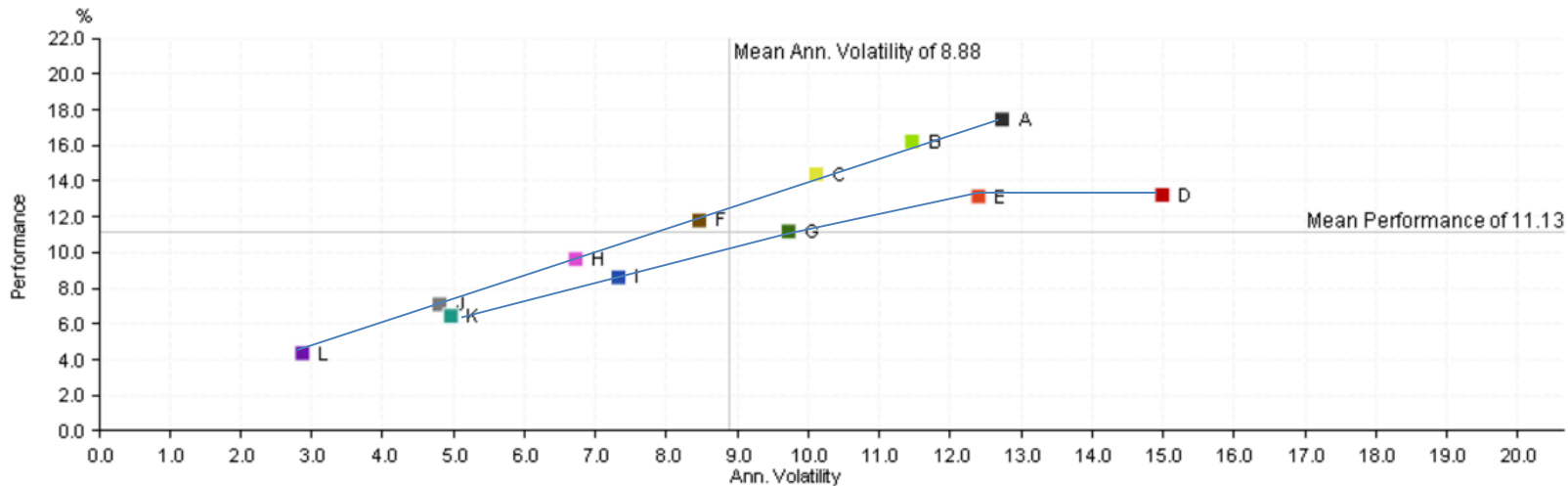
BAD RISK SEPARATION



ESMA 3	ESMA 4	ESMA 5

BAD RISK SEPARATION

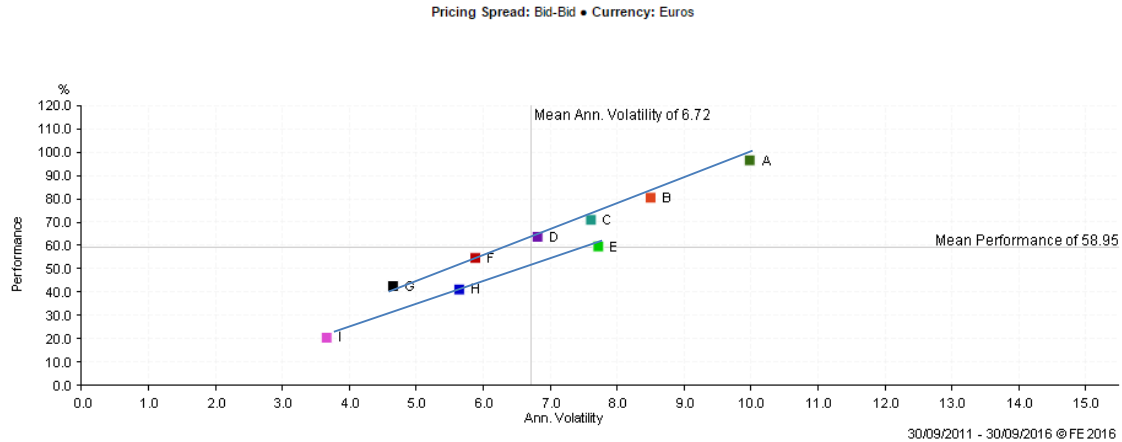
Pricing Spread: Bid-Bid • Currency: Euros



31/10/2014 - 31/10/2016 © FE 2016

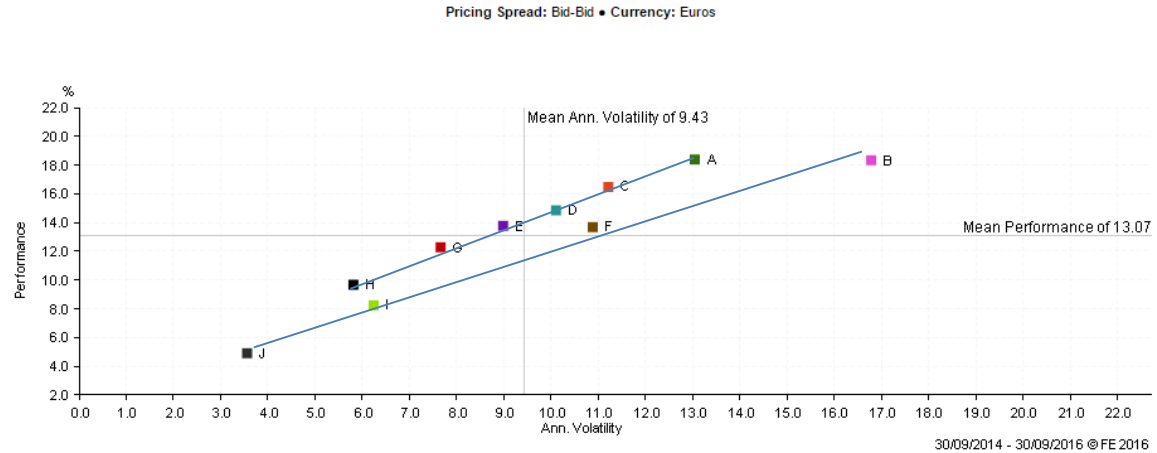
ESMA 3	ESMA 4	ESMA 5

GOOD RISK SEPARATION (BUT NO CIGAR)



ESMA 3	ESMA 4	ESMA 5

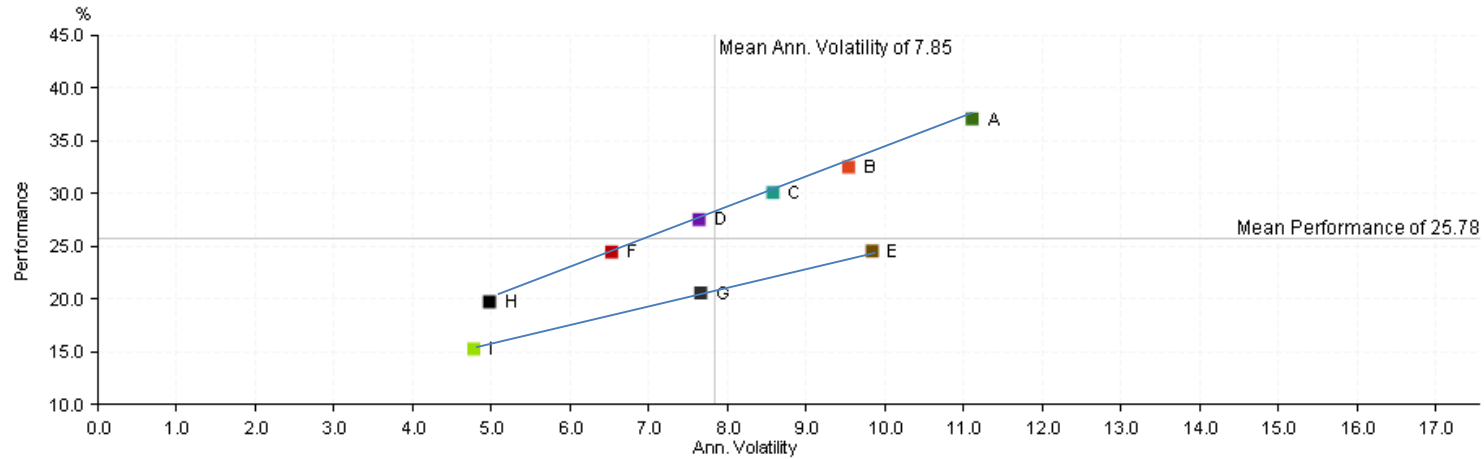
GOOD RISK SEPARATION (BUT NO CIGAR)



ESMA 3	ESMA 4	ESMA 5

GOOD RISK SEPARATION (BUT NO CIGAR)

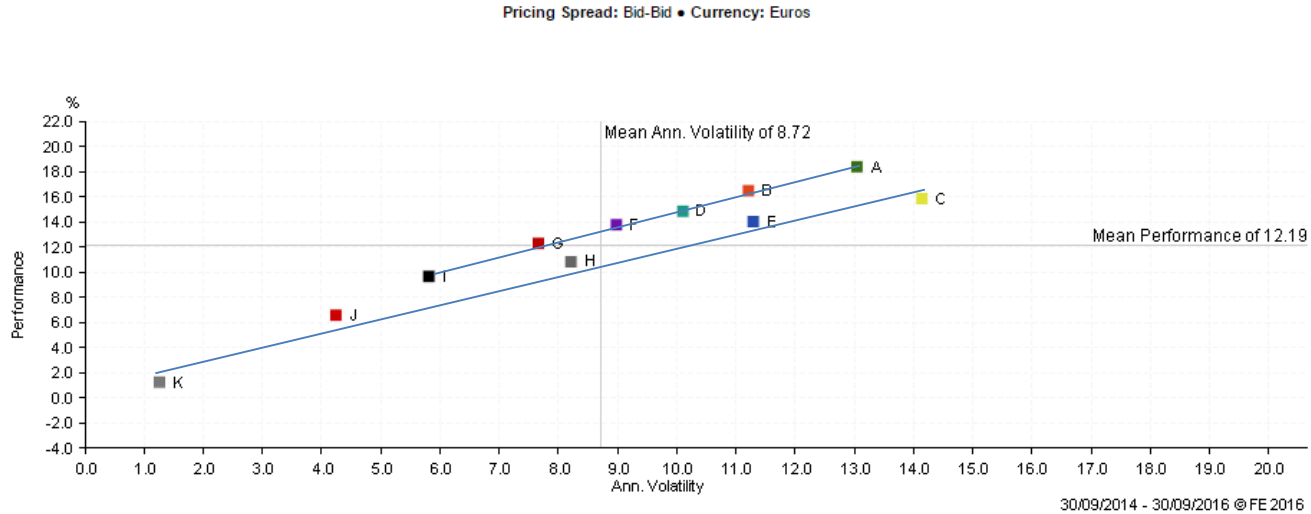
Pricing Spread: Bid-Bid • Currency: Euros



30/09/2013 - 30/09/2016 © FE 2016

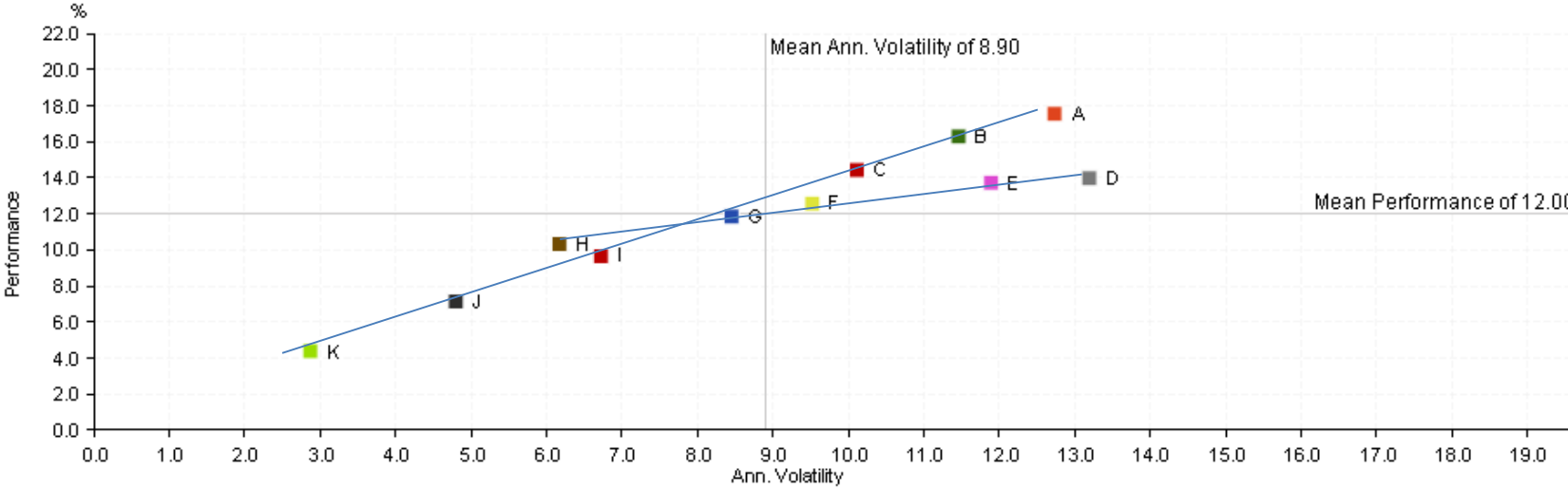


GOOD RISK SEPARATION (BUT NO CIGAR)



ESMA 3	ESMA 4	ESMA 5

GOOD RISK SEPARATION (BUT NO CIGAR)



31/10/2014 - 31/10/2016 © FE 2016

ESMA 3	ESMA 4	ESMA 5

TAXATION



*“Tax isn’t my
problem”*



FORM 8D

REVENUE REPORTING OBLIGATION

Form 8d and Form 8b

- An intermediary acting in, or in connection with, the acquisition of a material interest in an Offshore Product.
- €2000 fine per unreported transaction

Form 8D

Return of Third Party Information by Intermediaries in relation to Offshore Products



Tax Reference Number

Remember to quote this number in all correspondence or when calling at your Revenue office

Return Address:

Completed forms should be sent to the company's local Revenue office. If you are unsure of the correct return address use the Contact Locator on Revenue's website www.revenue.ie

Use any envelope and write "Freepost" above the address

NO STAMP REQUIRED

KEY ISSUES FOR SUITABILITY

Poor outcomes can occur for clients if advisers fail to:

- Consider objectively their clients' needs and objectives;
- Collect necessary information on their clients' existing investments and the recommended new investments, such as the product features, **tax status**, costs and performance of the underlying investments; and
- Implement a robust risk-management system to mitigate the risk of unsuitable advice and poor client outcomes.

Assessing suitability FSA Paper July 2012

Financial Services Authority

Finalised guidance

Assessing suitability:

Replacement business and
centralised investment propositions

July 2012



*“There are no solutions.
There are only trade-offs.”*

- Thomas Sowell

**IF IT WERE EASY,
IT WOULD HAVE
NO VALUE**

BILL TOOMEY

FUND TAXATION IN IRELAND

Increases in Exit Tax

January 2001 31 December 2008	23%
1 January 2009 7 April 2009	26%
8 April 2009 21 December 2010	28%
1 January 2011 31 December 2011	30%
1 January 2012 31 December 2012	33%
1 January 2013 31 December 2013	36%
On or after 1 January 2014	41%

Capital Gains Tax Remains at 33%



Sunday Business Post Jan 11th 2015

<http://www.revenue.ie/en/practitioner/ebrief/2015/no-452015.html>

MAXIMUM TAX RATES 2017



Source: Kennelly Tax Advisers

Income type	Max tax rate
Irish and EU deposit interest	43%
Non Irish/Non EU deposit interest	43%
Interest on Irish and foreign government gilts	55%
Dividend income	55%
Rental income	55%
Gains on Irish and EU funds	41%
Gains on non EU funds	55%
Payments from Irish/EU funds	41%
Payments from non EU funds	55%
Gains on equities/property	33%
Gains on Irish government gilts	Exempt

HOW SIGNIFICANT IS THE PLANNING OPPORTUNITY?

There is an opportunity to add value to your clients relative to Gross roll up

Gross roll up:

- Levy of 1%
- Exit Tax on income 41%
- Exit Tax on gains 41%
- Exit Tax payable 8yrs and on death
- Lack of transparency around charges

Income tax/Capital Gains Tax:

- No Levy
- Income Tax at marginal rates could be 0%
- Offset of CGT loses (0% or 33%)
- No Tax on death
- Lower TERs/OCFs

For some investors you can add up to 4%pa

DIVIDEND WITHHOLDING TAX



DIVIDEND WITHHOLDING TAXES

“European index funds and exchange-traded funds underperform their benchmarks by 50 to 150 basis points per annum. The explanatory power of dividend withholding taxes as a determinant of this underperformance is at least on par with [that of] fund expenses.”

The Performance of European Index Funds and Exchange-Traded Funds David Blitz, Joop Huij, and Laurens Swinkels July 24, 2009

DIVIDEND WITHHOLDING TAXES

Tax on investments may arise at three levels:

At the underlying investment level

- Country in which the investment is situated will have an impact on whether the investment is subject to any local taxes on income or capital gains.

At the fund level

- There may be a direct tax on the investment in its country of domicile.

At the investor level

- Investor taxation in their home country
- Investor taxation in the country where the investment is situated

DIVIDEND WITHHOLDING TAXES

Tax at the fund level

- Dividend “tax leakage” is a concern for any investor in collective investment vehicles that own shares in overseas equity markets.

- Tax leakage occurs when investors in a fund are forced to suffer withholding taxes on dividends from the underlying shares at a higher rate than would have applied if they had purchased those shares directly.

DIVIDEND WITHHOLDING TAXES vs FUND EXPENSES

Tax at the fund level

Index	Average Annual Tax Leakage 2001-2010 (b.p.)	Ave. TER of European ETFs Tracking Index in Feb 2011 (b.p.)
MSCI World	52	42
MSCI Emerging Markets	36	65
STOXX Europe 600 Banks	67	32
STOXX Eur. 600 B. Resources	38	32
STOXX Eur. 600 Oil/Gas	51	32
STOXX Europe 600 Telecoms	58	32
STOXX Europe 600 Utilities	67	32

Source: MSCI & STOXX

Dividend Withholding Taxes

Tax at the fund level

Example

- Let's consider two index funds investing in US Equities
- Fund A TER of 0.10%pa is domiciled in Luxembourg
- Fund B TER of 0.25%pa is domiciled in Ireland
- Which is better?
- Luxembourg doesn't have a double tax treaty with the USA and therefore the fund is liable to 30% DWT whereas an Irish fund is taxed at 15%

DIVIDEND WITHHOLDING TAXES

Tax at the fund level

Example

- Let's assume they both invest in the S&P 500 and the dividend yield is 2%
- Fund A received a net dividend of 1.40%
- Fund B received a net dividend of 1.70%

Compare

- Fund A TER 0.10% + 0.60% in taxes =0.70%pa
- Fund B TER 0.25% + 0.30% in taxes =0.55%pa

PORTFOLIOMETRIX

WWW.PORTFOLIOMETRIX.IE

INFO@PORTFOLIOMETRIX.IE

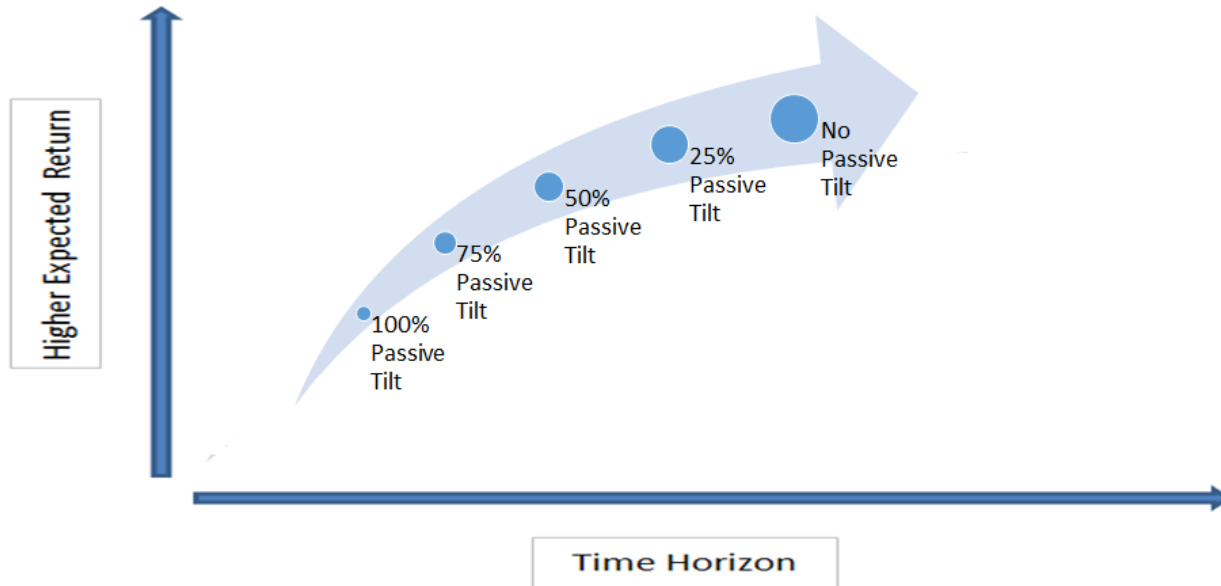
TEL 01 539 7244

PORTFOLIOMETRIX

IF SMART BETA IS SO CLEVER WHY NOT JUST DO
THAT?

Risk Factors Have Periods of Under- and Over-Performance

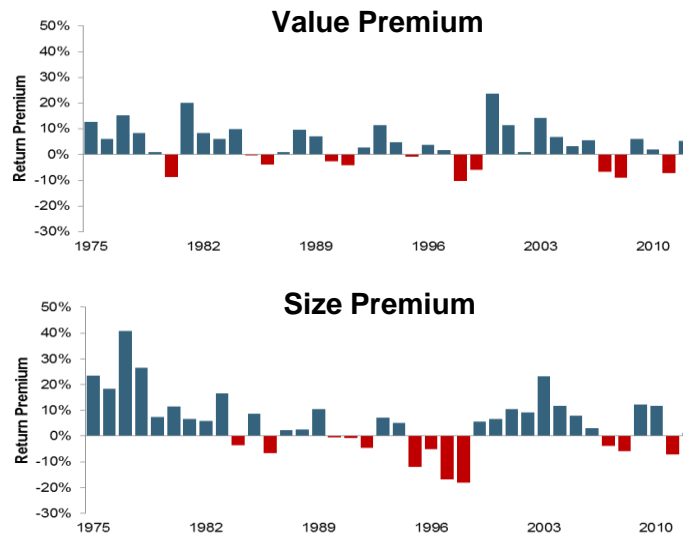
Investor's time horizon matters a lot



Risk Factors Have Periods of Under- and Over-Performance

Annual: 1975–2012

- From year to year, stocks with high book-to-market ratios and smaller market caps do not always produce higher returns.
- Over longer time periods, the size and value premiums are more prevalent.

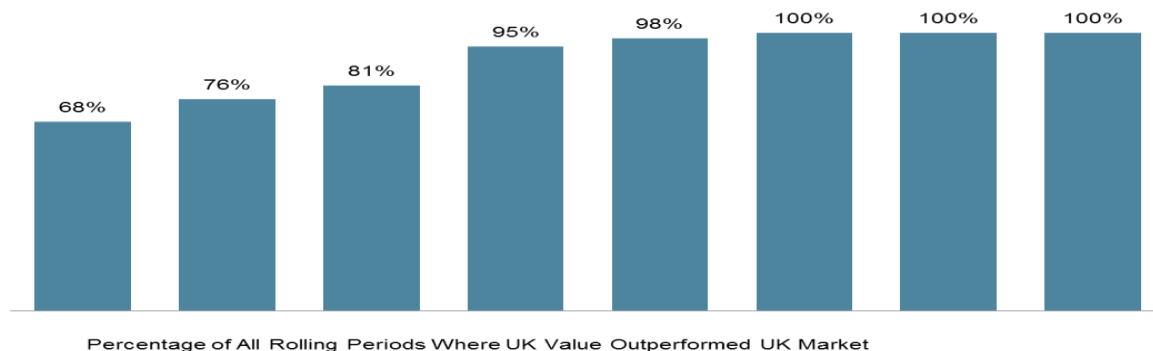


Our source of share price and listing information was the London Share Price Database (LSPD) maintained at the London Business School. The master index of this database covers all listed stocks in the UK market since 1957. We selected stocks officially listed on the LSE and excluded foreign companies and investment trusts. To choose the value sectors we rank the universe by book-to-market and approximately the top 30% is the value universe. The small sectors, we rank the universe by market capitalisation and approximately the bottom 10% is the small universe. Copyright © 2003 Elroy Dimson, Stefan Nagel, and Garrett Quigley. UK research data provided by the London School of Business.

UK Value vs. UK Market

Monthly: July 1955–December 2012

Rolling Time Periods	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	30 Years	40 Years
Number of Periods	679	655	631	571	511	451	331	211
Periods UK Value > UK Market	464	501	514	542	501	451	331	211

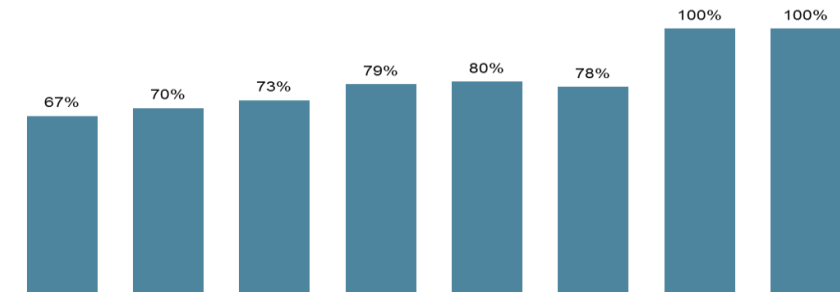


Source: UK Market is the FTSE All-Share Index. FTSE data published with the permission of FTSE. UK Value simulated by Dimensional from Bloomberg securities data, prior to 1994 data provided by London Business School. This material has been distributed by Dimensional Fund Advisors Ltd., which is authorised and regulated by the Financial Conduct Authority. Past performance is no guarantee of future results.

UK Small vs. UK Market

Monthly: March 1955–December 2012

Rolling Time Periods	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	30 Years	40 Years
Number of Periods	683	659	635	575	515	455	335	215
Periods UK Value > UK Market	457	462	461	453	412	356	334	215



Percentage of All Rolling Periods Where UK Small Outperformed UK Market

Source: UK Small simulated by Dimensional from StyleResearch securities data; prior to July 1981, Hoare Govett Smaller Companies Index, provided by the London School of Business. UK Market is the FTSE All-Share Index. FTSE data published with the permission of FTSE. This material has been distributed by Dimensional Fund Advisors Ltd., which is authorised and regulated by the Financial Conduct Authority. Past performance is no guarantee of future results.

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