THE SUNDAY TIMES

# Money

05.02.2017

thesundaytimes.ie

DAYLIGHT SHRUBBERY
Thieves used stylist Annmarie O'Connor's bank card to buy a lawnmower | Sunday p5

GARETH CHANEY


The lottery jackpot is the ultimate windfall but other types, such as an inheritance or pension lump sum, may come your way. Knowing what to do with new-found wealth is a challenge if you have little financial experience

# YOUR TICKET TO DREAM

If you're lucky enough to receive a windfall, there are plenty of ways to make the most of it. By **Mark Channing**

THE luck of the Irish struck again last month when a ticket sold in Dublin scooped €88.5m on the EuroMillions lottery. The winner, who has not gone public, is Ireland's 10th EuroMillions jackpot winner and would have been 150th in last year's Sunday Times Rich List of Irish people.

Many of us will receive a windfall of some type and be faced with the daunting task of making the most of the money.

"Inheritance is the most common windfall, but one can come from many different sources, such as a redundancy or a lump sum from a pension," says Oonagh Casey Grehan of Fagan & Partners, an adviser in Dublin.

"If you have no financial experience, it can be a challenge to know what to do with the money. But you'll want to use it wisely."

We advise what to do if you are lucky enough to come into a large sum of money.

## HIT THE PAUSE BUTTON

Stay put for the first few months, apart from lodging your windfall in a safe place.

"By definition a windfall is unexpected, so there has likely been no time to prepare a plan," says Marc Westlake of Portfolio-Metrix, an adviser in Dublin.

"This means that the most important thing to do initially is not to make any big decisions."

Vincent Digby, of Impartial Financial Advice, says: "Park it somewhere secure for three to six months while you think about what you want to do with it."

The deposit guarantee scheme protects deposits up to €100,000 per customer in the event of a bank failure, so don't leave more than this with any one bank. For bigger windfalls, open a State Savings Demand Deposit account, which is sold by An Post and pays 0.15% AER interest.

There is no upper limit on how much you can lodge, and the deposit is fully backed by the government.

## GET ADVICE

Seek an independent fee-based adviser to help you manage the money. "It will be buttons compared with the size of the amounts involved," says Digby.

The Society of Financial Planners maintains a register of fee-based advisers in Ireland. Avoid banks and stockbrokers, who will try to sell you their products.

"Don't go to your bank, which has short-term sales targets for investment products," says Steven Barrett, of Bluewater Financial Planning in Dublin.

"Managing money and looking after money is a long-term project, and you want to have an adviser who will work with you over the long term."

## ENJOY IT

Do not be afraid to enjoy your windfall — within reason.

"It's OK to go on a bit of a splurge. Take an amount you think is reasonable, and go enjoy it," says Digby.

Bob Quinn, of the Money Advisers in Co Kildare, says: "By all means celebrate your good fortune. If that means taking a percentage off your windfall and calling it 'play dough', then do that."

## PAY DOWN DEBTS

Pay off expensive debts such as credit cards and overdrafts. When it comes to your mortgage, it can make financial sense to clear a variable mortgage but keep a tracker loan.

"If you're paying 3.5% on a mortgage, clearing it is the equivalent of getting a guaranteed after-tax return of 3.5%," says Barrett.

"You'd need to get almost 7% pre-tax returns on another investment to be able to beat that. If you have a low-interest tracker mortgage, you could probably earn a better return by investing your windfall."

## HELP YOUR CHILDREN

Do not give cash to children unless the money will be used for a specific purpose, such as buying a house or paying for college.

> CELEBRATE YOUR GOOD FORTUNE. IF THAT MEANS TAKING A PERCENTAGE OFF YOUR WINDFALL AND CALLING IT 'PLAY DOUGH', THEN DO THAT

"Funding your children's education, or helping them get on the property ladder, makes sense. Giving them a big dollop of cash is the last thing I would do, because it is likely they will blow it," says Barrett.

Casey Grehan says parents wanting to give cash to children should use the small-gift exemption, which allows you to hand over €3,000 a year tax-free.

"Both parents can use it to give money to a son or daughter, their spouses or grandchildren. It can be a very efficient way to transfer money tax-free," she says.

## TACKLE YOUR PENSION

A windfall gives you the opportunity to increase your pension contributions and take advantage of pension tax relief. The relief on personal contributions is given an individual's marginal rate of tax, which is 41% for high earners.

The amount of income you can claim the relief on increases with age. For example, if you are under 30, you can contribute 15% of your gross pay to your pension and avail of the relief. If over 60, the contribution can be as much as 40% of your gross pay.

"If you want to use the windfall for your retirement and you're in PAYE employment, you plough it into your pension," says Quinn.

"Start by backdating it last year, and then set up regular premiums and maximise your contributions."

## BUDGET FOR FUTURE COSTS

It would be wise to keep enough capital to pay for future costs.

"Spending your cash when you have absolutely no idea what the future holds, especially in relation to your future healthcare needs, is not wise," says Quinn.

"You might need to pay for nursing home care, or some sort of home-help medical assistance."

## INVEST FOR FUTURE GROWTH

Investing in a diversified portfolio can make your money grow.

"For a part of the money, it's a good idea to build an investment portfolio consistent with your objectives," says Ian Quigley, director of investment strategy at Investec Wealth and Investment Ireland.

"Your aim is to invest in a diverse portfolio of high-quality assets that have stood the test of time. Don't chase the latest fad — and make sure you get full transparency on all fees."

Quinn advises novice investors to stick to safer assets. "Inexperienced investors should go for something with low volatility to introduce them to the world of investing. You don't want to lose your shirt in the first 12 months or two years," he says.

Unless you need the income, it is a good idea to reinvest investment gains. For example, someone investing €100,000 and taking out the interest as income each year would have their sum grow to €134,391 over 10 years, assuming 3% growth and 3% income.

If you reinvested the interest each year, your pot would grow to €179,084 over the same period.

## UPDATE YOUR WILL

Make sure you have a will that's up to date. If you die without one, your estate will be distributed under the terms of the Succession Act, which gives two-thirds of your estate to your spouse and the remainder divided equally between your children.

"When you're doing your will, consider passing money to your in-laws and your grandchildren to make use of everyone's tax-free thresholds," says Casey Grehan.

You should also review your life and health insurance, because a change in financial circumstances could mean you have different requirements.

## MARKET MOVER
## DAVID WARREN

David Warren is chief investment officer at Zurich Life, which has more than €20bn of assets under management. His responsibilities include Zurich's Prisma range of five multi-asset funds, which are designed to suit investors with different attitudes to risk. With €429m of assets, Prisma 4 is the most popular multi-asset fund in the range. The fund is open to those with a lump sum of at least €5,000 or those who agree to invest a minimum of €75 a month.

**Investment philosophy**

An actively managed fund, Prisma 4 invests across a range of global asset classes including equities, bonds, property, commodities and alternatives. It uses a ''top-down'' or ''big picture'' approach to identify the best investment opportunities.

''Our investment managers can respond quickly to market movements and we believe you shouldn't drift along passively,'' said Warren.

**Performance**

The fund is up 13.2% over the past year, according to data provider Longboat Analytics. Investors have earned 8.9% a year on average over the past three years. ''We can't guarantee future returns but what we can say is that our management approach is one that has consistently delivered,'' said Warren.

**Buying and selling**

The fund is currently overweight on developed market equities, with a preference for North American stocks. Financials, industrials and technology are its top sectors.

As a fund of funds, Prisma 4 gets its equity exposure by investing in Zurich's International Equity fund which counts Apple, Microsoft and Exxon Mobile as its top three holdings.

''We believe that the balance of evidence still favours being invested in risk assets and we added significantly to our equity position over the course of 2016,'' said Warren. ''At the end of last year we took some profits in financials, following a strong upward move, with the proceeds being invested into some defensive areas.''

The fund has reduced its fixed income exposure, selling out of European government bonds. ''Eurozone bonds are now facing an environment of higher US rates and the prospect of an expansionist US economic policy, and the evidence points to a long-term peak in bond prices. Although bonds have been supported by the tailwind of aggressive ECB monetary policy action, they offer little long-term value so we don't want to have a lot of exposure,'' said Warren, *pictured*.

The fund has added short-term, tactical positions in alternative assets such as oil, copper and gold.

**Outlook**

In Warren's view the economic outlook is uncertain, which he believes favours active fund managers. He said: ''The actions by central banks since the great financial crisis have been unprecedented and nobody has any real idea what the full impact of ultra-low interest rates, printing money and aggressive bond purchases will be.

''The political backdrop is equally uncertain, whether it's [Donald] Trump in the US, the implications of Brexit or what's happening in the eurozone. This environment reinforces our belief in active management.''

# Even in low-risk funds, losses can't be absolutely ruled out

EUGENE KIERNAN

The markets were wrong-footed by Brexit and the US election of Donald Trump, yet, for many, what was even more surprising was how markets behaved in response to such seismic shocks.

Getting the tactical call right proved a challenge — even if an investor predicted Brexit and Trump accurately, it was even more difficult to predict that markets would react in the way they did.

Looking ahead, there seem to be just as many events which can have an impact on markets as we saw in 2016 — and indeed many events from last year have yet to play out in full.

We may also be facing into a "regime shift" in a number of key asset classes, with the bond and equity markets looking potentially more volatile.

So how have fund investors positioned themselves for this? One interesting trend among investors in recent years has been a drive into absolute return products. These are funds which promise positive returns irrespective of market conditions — often expressed as a return of say 3% or 4% in excess of what cash offers. They also seek to deliver these returns at lower levels of volatility than standard funds.

Absolute return funds have been popular in both Ireland and the UK over a number of years. In the UK, this group has been the top-selling sector in nine out of the past 12 months.

In a world of low and sometimes volatile returns, a strategy that can deliver positive returns, irrespective of market conditions sounds attractive — at least on the surface.

Typically, in this type of fund, the manager goes long (buys) or short (sells) on selected assets, sectors or stocks based on his or her judgment. Value will be created as the long positions rise in price and the short positions fall. Having a significant number and variety of such strategies in the fund mitigates the risks.

So how have these funds done? They can be difficult to compare, given the diverse nature of the funds. Yet in an Irish context over the past five years, market-leading absolute return funds have delivered an average return of 3.6% per annum. This is shy of what typical managed funds returned over the same period, yet the performance was achieved at a significantly lower level of risk. It would be fair to assume that investors should be broadly happy with that outcome.

In the UK, a Financial Conduct Authority report on the asset management industry in November 2016 stated that "these funds typically appeal to customers who wish to reduce the risk of negative returns while achieving some positive return on their investments, but at a lower level of risk".

Last year did prove a challenge to some of the funds in this sector.

In the UK, media reports noted that several of the 10 worst performing funds resided in the absolute returns sector, with declines of between 10% and 25% in the year. Investment funds should not really be seen on a one-year view and many of the funds that did badly in 2016 had good returns in previous years. The issue is around investor expectations. Negative returns are clearly possible on a one-year view and investors need to be aware of this when they sign up.

Equally investors should be prepared for some degree of "drawdown" — falls within any given period. In 2016 the market witnessed drawdowns of 5%-9% in some of the market-leading funds. If investors were unlucky enough to buy in at the start of such a drawdown, they would experience a significant decline of 5%-10% before things began to improve. Such declines are consistent with the risk budget that these funds operate to, and investors need to be cognisant of this and comfortable with it.

Ultimately, all active funds, including absolute return funds, are built on the manager's view of how certain assets may perform in any given period. Investors considering these funds need to consider the manager's view on future market conditions.

As with any investment strategy, it is better to ask the hard questions before committing money, rather than after.

*Eugene Kiernan is head of investment strategy at Appian Asset Management. Appian Asset Management is regulated by the Central Bank of Ireland. The views expressed do not constitute investment advice*