



Knightsbridge  
Wealth

# update

Dear friends and colleagues,

London's reputation as a global financial centre would have remained strong whoever had won the recent UK general election. However, its status as an attractive place for global investors was certainly under threat until the decisive win for the Conservative Party was confirmed.

The opposition Labour Party had planned to introduce a 'mansion tax' on properties over £2m that would have made UK real estate investment less attractive. It is a challenge in many parts of London to get a family home for less than £2m – let alone a mansion.

More significantly, Labour promised to abolish 'non-domicile' status.

The non-dom rules date back to the Napoleonic wars, when produce on ships from colonies could only be sold when in port, in England. William Pitt the Younger introduced it in 1799. People with links abroad who live in Britain can declare another country as their real home, or "domicile" regardless of whether they actually live. Under the rules, they pay no UK tax on their earnings or capital gains outside Britain. This has attracted some of the world's wealthiest men and women to this country.

It is this rule that makes London such an attractive place for those from all over the World to settle, for either short or long periods of time. And the 114,800 non-doms in the UK brought the British taxpayer £8.2bn in 2012/13. It dwarves the £2.3bn contribution from the 25% lowest income taxpayers (over 7m people).

Just to repeat that point, **115,000 non-doms are paying as much tax as 10 million British workers.**

The Labour Leader, Ed Miliband, said there was a "moral" case for change, although his Shadow Chancellor, Ed Balls, said as recently as February "I think if you abolish the whole status then probably it ends up costing Britain money because there will be some people that then leave the country."

There will, inevitably, be increased debate on the tax advantages given, and reforms will certainly be made. However, I hope that the decisive win for the Conservative Party means the contribution made to London by the 'non-doms' is positively celebrated. Knightsbridge Wealth only advises international clients so can ensure all advice we give takes full advantage of ever changing legislation.

Elsewhere in the World, markets continue to rise fuelled by quantitative easing. The US Federal reserve, the Bank of England, the Bank of Japan and the European Central Bank have now printed a combined \$5.7trn, since the financial crisis began. That's enough to build a six-lane highway out of \$100 bills that circles the globe twice.

Global economic growth should remain underpinned by these central bank policies and 'risk' assets are still attractive. Eurozone companies, in particular, are well placed to benefit from a weak euro, low borrowing costs and the region's accelerating economy.

The rest of 2015 should see greater low-inflation growth in the major economies. If this gives rise to business confidence translating into stronger capital spending, the advance in asset prices is likely to continue.

The core principles of diversification and considered asset class selection have never been so relevant. Knightsbridge Wealth will continue to focus on providing the highest quality of UK regulated, independent advice, focused on the unique needs of international clients.

The world needs  
a constant,  
reliable, well  
regulated  
safe-haven  
to manage family  
finances.

# Market Report



## Bonds

### Risks in Europe

Yields on top-rated Government bonds have risen in the past month meaning that prices have fallen. However, the income that they provide remains very low by historic standards. UK gilts maturing in ten years now yield around 1.87%; US Treasuries offer 2.15%, German Bunds 0.54% and Japanese Government Bonds 0.41%. Whilst these 'safe haven' bonds look unattractive, there is real madness elsewhere.

Italian and Spanish ten-year Government Bonds yield less than 2%, European corporate bonds (loans to businesses) brings in less than 1% and even higher risk 'high yield' bonds only attract 3.5%. This suggests that markets believe that, if Greece defaults on its next debt repayment, the consequences will be contained and won't spread to the other peripheral Eurozone countries.

## Precious metals

### Keep gold for insurance

Gold is still trading where it started the year, near the \$1,180 per ounce level. This asset class is best used to protect against inflation. That is unlikely to be a concern any time soon, with the UK actually lapsing into deflation for the first time since 1960. Nevertheless, gold remains good insurance in any portfolio and will perform well in the event of turmoil, such as a new Eurozone crisis if Greece should default.

## Equities

### Potential for gains

Major equity markets are no longer cheap, but neither are they dramatically overpriced. The MSCI World index currently trades on 16.9x price-to-forward earnings, relative to a 15-year average of 14.8x. There are few signs of overheating in wages, growth, or consumer spending.

Dividend yields are roughly in line with their recent average, as companies continue to return cash to shareholders, since they lack better investment opportunities. The best opportunities are in regions such as Europe and Japan where the central banks are engaged in quantitative easing programmes.

Emerging markets have performed well so far this year, beating the more mature markets. Good long-term prospects remain, particularly in countries with young populations and large domestic markets like India, Indonesia.

## Property

### Tax threat avoided

The Conservative election win is likely to give the London residential property market a boost as the prospect of a so called 'mansion tax' diminishes. However, the case for looking outside London is becoming compelling, as the disparity between the capital and the rest of the country continues to widen.

## Energy

### Natural gas rises

US natural gas prices have surged in the last month. This is partly due to colder weather and partly due to falling production as rigs are no longer efficient, with lower oil prices.

The long-term outlook is also robust. Coal-fired power stations are being replaced by cleaner gas-fired ones, whilst Asian countries are keen importers of liquefied natural Gas.

## Agriculture

### Growing population increases demand

Food and fertilizer stocks are one way of benefiting from the fact that the world's growing population puts an increasing strain on global food supplies. A recent example is cocoa, where prices went up 10% in May on the back of concerns about a poor harvest in Ghana. The confectionery industry will struggle to keep pace with growing demand – a theme likely to play out across many of the world's soft commodity markets.

**Our strategic partnership with UBS (Union Bank of Switzerland) gives the best of both worlds – personal service and the ability to react in a way that only a small firm can, partnered by one of the world's most prestigious brands.**



## Feature: Dangers in London property

The Financial Times recently reported that there are now 54,000 homes planned or under construction in London “in the priciest areas of the capital”. Most are “close to or above the £1m mark.”

The concern is that, in the same areas last year, only 3,900 homes were sold for more than £1m. That would put potential supply at almost 14 times annual demand. Londoners are rarely attracted to such properties, so they are marketed at overseas buyers.

Many of the 3,900 places that sold in 2014 for £1m or more were houses or had more than three bedrooms. What are coming to market are two-bed flats.

But families don't want two-bed flats. Even buy-to-let won't work. When you factor in service charges, you'd have to be taking in £40,000 a year in rent to make a £1m property worthwhile. That's a lot for a two-bed apartments.

Since families don't want two-bed flats, you're left with very successful, upwardly mobile young people. But will that sort of person want to buy some bland new apartment that feels like living in a hotel? Rarely. He or she will want somewhere in a district like Shoreditch.

And like most British people, Londoners prefer period properties. They'll buy new builds if the price is right. In many areas, new builds are now at least as expensive as period homes per square foot – and they come with higher service charges.

So who's buying? Charlie Ellingworth of Property Vision says that many new builds are marketed at ‘unsophisticated’ foreign investors.

What those familiar with the capital see as ‘prime Central London’ and what an agent marketing a flat to Asian buyers sees as ‘prime Central London’, are two very different things.

We're talking about places like Old Oak Common on the Acton-Willesden borders, Vauxhall-Nine Elms and Stratford. These areas may have a lot going for them – but they are not prime Central London. Vauxhall is a convenient area – for getting to somewhere else. There are some popular nightclubs under the railway arches, but it is not a place you go to – it is a place you go through.

Yet flats are being marketed there (and, in some cases, sold) for millions of pounds.

The same happened in Dubai, Spain and even parts of the US. Locals weren't buying, foreign investors were. They didn't have the ‘sophisticated’ knowledge that locals had and they suffered when the crash came, whilst true prime properties often held their value.

Estate agents argue that overseas buyers want a ‘home’ in London (as Arabs, Chinese and Russians have all been attracted to London in the past). But, previously, foreigners actually lived in the houses they bought! That's the big disconnect we have today.

For example, Vauxhall Tower by Vauxhall Bridge has recently been completed. It is Britain's tallest residential building – 50 stories high – and it holds 223 flats. But, if you drive past at night, there are absolutely no lights on.

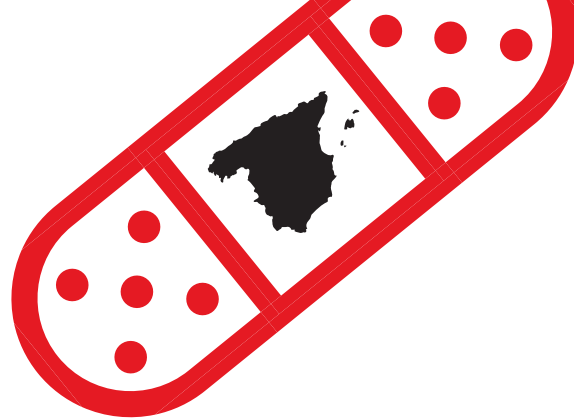
This is becoming a big social problem. London property is already unaffordable for most locals. The average wage in London is just above £40,000. The average London house price is £580,000. Anger about this is mounting every day – and it only increases when people see so many flats sitting there unoccupied.

So the idea that 54,000 new-build flats are going to be sold to foreigners, then be allowed to sit empty is worrying.

And the main problem is that even by the standards of London property, these flats are hugely overpriced. An investigation into mis-selling practices, the eventual revelations about poor build quality and the outrage at high service charges could all be on their way.







## A European recovery?

Our strategic partner, UBS – the Union Bank of Switzerland – is confident of growth in European equities this year. Markets have been surprisingly positive of late and, since unemployment remains relatively high, the European Central Bank should be able to maintain loose monetary policy without fearing a sharp rise in inflation. This is all a significant turnaround from recent gloom permeating southern Europe.

Only a couple of years ago, Spain looked a sure bet to be the next country to join the Eurozone's bankruptcy club, alongside Greece, Ireland and Portugal. Now, it's suddenly the star of the developed world, with a growth rate of 2.6% this year.

The markets seem to think that Spain is not only fixed, but is roaring back to rapid growth. The main stock-market index fell to almost 6,000 back in 2012. It's now touching 12,000. That same year, the yields on ten-year Spanish debt rose to 8%, a level at which it was unlikely the country would ever be able to service its massive debts. They're now down to 1.7%.

Meanwhile, the economy will expand almost as fast as the UK this year, and unemployment has started to fall, with a 2.7% drop in the jobless total in April alone. Manufacturing has begun to recover and exports are up. This prompted Prime Minister Mariano Rajoy to declare that the "crisis is now history".

Spain has been the main beneficiary of the efforts by the ECB to revive the Eurozone. Mario Draghi has engineered a substantial devaluation of the euro, at the same time as launching Europe's own version of quantitative easing. The result has been very positive for Spain.

The numbers make that clear. The initial recovery came from the manufacturing sector, but this year it has been construction and consumer spending that have driven the economy forward. Household consumption was up by 3.9% in 2014, a very high number for a country that is only painfully

emerging from a recession, and is still meant to be paying down debt. Retail sales are rising by 2.6% year-on-year, despite the jobless total remaining at a crushing level. A building boom is under way, with construction output rising by 14% year on year.

As households consume more and a building boom gets underway, imports have started to rise again, easily swamping the modest improvement in exports. The trade deficit jumped by more than 50% in 2014 and is still going up. Meanwhile, the budget deficit is still running at 4.5% of GDP this year, well above the supposed limits laid down for Eurozone members.

The ECB's actions – pushing down the currency and printing money – are intended to salvage the stagnating economies of France and Italy and Greece. But the money pouring into the system is ending up in Spain.

A monetary policy set in Frankfurt doesn't work for all the members of the single currency. Matthew Lynn at Bloomberg said that Spain "might well be using half the concrete in Europe quite soon, just as it was in the middle of the last decade. Yet, behind the façade, it's clear that Spain is just being pumped up by cheap money. There is little sign of a durable recovery. So the boom will inevitably turn to bust, just as it did last time."

Meanwhile the Greeks were hoping to secure a deal with creditors to unlock €7bn of rescue package funds by the end of May. Greece also warned that it is likely to default on €1.6bn of loan repayments to the International Monetary Fund (IMF) due in four separate tranches between 5 June and 19 June. Crucially, the IMF boss Christine Lagarde has said "a Greek exit is a possibility" and, it would "probably not" mean the end of the Euro.

The two sides in this negotiation are far apart on critical issues. Larry Elliott in The Guardian summed up the issue well, by saying that the basic problem

is that "politically, Greece likes the idea of being part of Europe". All the polls so far show that people want to remain in the single currency. But they don't want to accept any more of the economic strictures that come with membership. The problem is that ending austerity and staying in the euro at the same time "is not an option". Will Prime Minister Alexis Tsipras negotiate "a surrender"? And if so, will he be able to sell it to the Greek people?

A way out of this deadlock may be another election. Unless Tsipras gets a fresh mandate – for a new long-term bailout programme, not just for a stop gap, creditors won't trust his promises. If Tsipras makes clear to the Greek population that they would have to make compromises if they really want to stay in the Euro, he would have a freer hand in negotiations and purge the ultra-left rebels within his Syriza party, who refuse to entertain any compromise.

Roger Bootle has spoken of the dangers facing the Eurozone by saying that if Italy (which has had virtually no growth since the Euro began) came out of the single currency, and the new lira "fell 30% or 40%, you would not see the Italian industry for dust... exports would soar, the economy would take off." He continued, "The thing that would be a danger to the Euro zone is Greece leaving and it not being a disaster then no one will want to take Mrs Merkel's medicine."

Europe offers plenty of growth opportunity and plenty of excitement for the rest of 2015.



## Non-Domicile rules likely to change

While non-domiciled UK residents may have avoided Labour's ban on the non-dom status, they are still likely to face alterations to the way they keep their offshore assets free from tax.

Between 2008 and 2013, the amount of money paid by each resident claiming non-domicile status in the UK has increased by 50%, according to data from HMRC and law firm, Pinsent Masons. Each 'non-dom' now pays an average of £72,038.

The 'non-dom' rules ensure that those living in the UK do not pay tax on income or gains made outside the country, unless that income or gain is then transferred onshore. In 2008, the then Labour government introduced an annual levy of £30,000 on all those who are claiming non-dom status and have been in Britain for at least seven of the last 10 years.

At the time, the reforms led to uproar in the City amid warnings that it would hit London's role in global finance. However, London remains the international city of choice and that charge has now been increased to £60,000 on those here for more than 12 years and to £90,000 for

those more than 17 years. Crucially, however, it is only payable in a year when an individual chooses not to declare worldwide growth and income. In any year where the levy is not paid, worldwide growth and income will need to be declared. However, careful tax planning often reduces any real income or gains in those years to close to zero.

Domicile is usually considered the country that your father considered to be his permanent home when you were born. However, you are required to retain strong links to your home country, and show some intention of returning.

In the recent election, when Labour said they were going to abolish this status, the Conservatives said they would retain it but remove a technicality, by making non-dom status achievable only by being born outside the UK.

These policies, made in an election campaign, do not stand up to any scrutiny. For example, we could see a situation where a mother moves to France two weeks before the birth, simply to retain the status. Tax planning at the earliest stages.

Many will also now also face the loss of anonymity of their offshore arrangements. Non-doms living in the UK, but with funds in Crown Dependencies or British Overseas Territories had until end of May to join HMRC's alternative reporting regime. Those who didn't could make themselves vulnerable to lengthy, in depth tax investigations when information is exchanged in September 2016. These will often be unnecessary, and have the potential to generate a lot of disruption, even for taxpayers whose tax affairs are compliant.

The non-domicile rules remain hugely attractive both to Londoners and to those around the world wishing to settle, for a time, in a tax-efficient well-regulated centre. As a firm who only operates in this market, we work with a number of accountants, trust companies and tax lawyers to ensure our clients are compliant with rule changes and take full advantage of them.

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WELCOME



## Industrial demand for silver soars

Silver is often overshadowed by the more famous precious metal, and usually follows it up or down. Like gold, it is a monetary metal, and is seen as a traditional store of value and a safe haven in rough times. But it is also an important component in a wide range of industries, which jointly account for over 50% of overall demand; in gold's case, the figure is a mere 10%-15%.

Silver is an unusually flexible and useful substance, making it indispensable in sectors ranging from electronics to medicine (it has anti-bacterial properties). The advent of digital photography reduced the use of silver in photographic paper, but this development is being more than offset by new uses. More and more are being "invented, discovered, and, importantly, commercialised", say The Silver Institute, which forecasts a 27%

increase in industrial demand from 2013 to 2018.

An example is the rapidly growing solar energy sector: silver is a key component of the photovoltaic (PV) cells used to generate power from the sun. IHS, a consultancy, thinks global PV market demand will rise by 30% to 57 megawatts this year, with China alone set to install 17 gigawatts of capacity. The industry could get an additional boost from an international climate change agreement this year.

In the meantime, supply looks set to fall. HSBC expects less scrap to reach the market this year and is also forecasting a slight fall in mined supply following almost a decade of increases. And a lack of investment could see production plateau over the next few years.



However, on the monetary front, silver could struggle as US interest rates rise, making precious metals, which pay no interest, look less appealing. Higher rates would also allay fears of inflation taking off. The market is also very small, which makes it extremely volatile, and it is impossible to predict whether the industrial or the monetary outlook will affect prices most.

## New Appointments

Knightsbridge Wealth is pleased to welcome Kellie Lewis and Kirti Paw to the team. They are our new Client Relationship Managers and will help the Partners provide exceptional service to our clients, wherever they are in the World.

Kellie Lewis worked for HSBC for 26 years and has extensive banking and wealth management experience. She spent eight years as a Premier Relationship Manager, looking after a portfolio of High Net Worth Clients.

Kirti Paw also joins us from HSBC where she spent 33 years, followed by a brief time with Santander.



Kellie Lewis



Kirti Paw

**“Both Kellie and Kirti have a passion for outstanding service and a keen interest in travel and learning about different cultures. They make a superb addition to the team, supporting our growing client base.”**

Stuart Poonawala, Founding Partner

# Knightsbridge Wealth's senior team and support staff have over 250 years experience in the world's largest Banks



## Alexander Wade

Alexander is one of the most experienced London advisers in the international market, specialising in this field over 17 years at HSBC, consistently recognised as one of its most accomplished advisers. He has over 22 years' experience in financial services. He is particularly interested in the Middle East market and understands the specific issues which are relevant there.



## Stuart Poonawala

Stuart has worked in financial services since 1998. In 2003, he helped to found HSBC's specialist London arm advising international clients which quickly became one of the bank's most successful UK divisions. In 2009, he launched Kubera Wealth, our sister company, focussing on providing quality advice to the UK market.



## Graeme Cowie

Graeme is responsible for building our professional connections with international lawyers and accountants, as well as co-ordinating our relationship with key fund managers at a number of international Private Banks and Discretionary Fund Managers. He has spent over 20 years in financial services and investment management, most recently spending more than six years at UBS where he led the Strategic Partnership team.



### Adam Young

is the team's Financial Planner. He previously spent 25 years at Dragonfly Planning and Trust Services, the last three years as Managing Director.



### Chris Salacinski

is Client Relationship Manager and brings to us a high level of technical experience. He is particularly interested in pension planning and is responsible for writing many of our technical articles.



### Kelly Kular

is Personal Assistant to the Partners. She previously worked with HSBC for 27 years, latterly as Personal Assistant to the Regional Director for Central London Region.



### David Barnard

spent 35 years at HSBC before leaving in 2011. He is our Office Manager, and works closely with our compliance support and partner companies to ensure our rigorous standards of advice are maintained.



### Shana Patel

is our Client Relationship Manager. Before joining us, she worked at HSBC Bank for 26 years, most recently as a Senior Wealth Manager dealing with high net worth clients.

## New opportunities in the Middle East

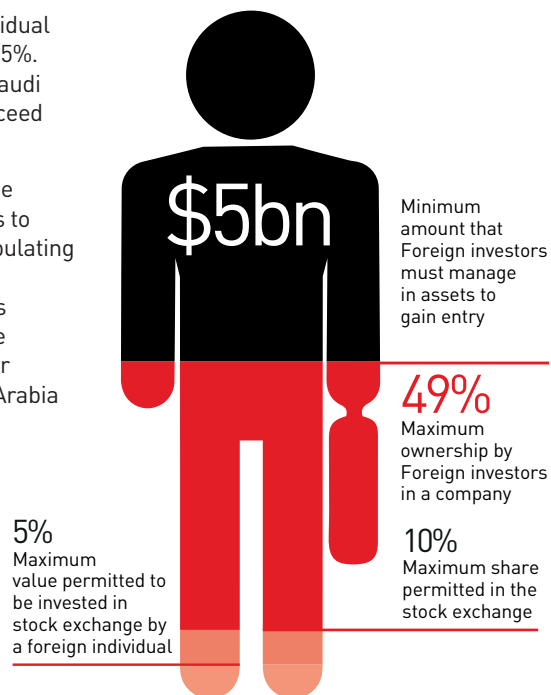
Saudi Arabia is the largest market in the Middle East, with some of the region's biggest companies as part of its \$530bn stock exchange. However, the only way most investors could access it was by buying derivatives sold by Saudi intermediaries. That will finally change on 15th June.

The new market rules, revealed last year, are set to attract hundreds of millions of dollars in foreign cash, helping Saudi Arabia develop its private sector and diversify its oil-dependent economy (the oil sector accounts for 55% of GDP).

Western investors seeking a new 'frontier' market shouldn't get too excited though according to The Economist. They say the new rules are 'cautious'. Foreign investors must manage \$5bn in assets to gain entry. They can't own more than 49%

of a company, and a foreign individual investors' share may not exceed 5%. Total foreign investment in the Saudi Arabian stock exchange can't exceed 10% of its value.

There are also plenty of risks. The market is volatile, needs reforms to prevent big local investors manipulating it, and may be affected by lower government spending if oil prices remain subdued. Observers hope this may be the prelude to further liberalisation. But little in Saudi Arabia happens quickly.



## Contact us

If you require further information about our services or would like to discuss your financial situation with us, then please call us on the number below, or send us an email about how and when we can contact you.

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