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# update

Knightsbridge
Wealth

Dear friends and colleagues,

2014 has been a fascinating year, so far, in international wealth management!

Most mainstream markets started the year badly but have rebounded strongly of late. It emphasized the importance of two investment principles – to diversify and to have conviction.

The World Bank still expects the global economy to grow by 3% this year. However, there remains risk and contradictions in both the mature and emerging economies.

A rare example, in south-east Asia, of a thriving economy hand in hand with a vibrant democracy was Thailand. It is now in disarray. There has been a military coup, and the Thai economy is expected to grow by half the rate of its regional peers. It needs to compete for foreign investment with rivals such as Viet Nam, which is difficult with the current stalemate and prospect of violence. Nevertheless, the stock market has barely moved and is still up 5% this year.

Russian stocks have fallen sharply, as the international community considers its reaction to the annexation of Crimea, in Southern Ukraine. At face value, that means there are a number of companies to invest in that appear absurdly cheap. Gazprom, for instance, controls over 15% of the world's known gas reserves, with a net profit margin of almost 30%. It has just signed a supply contract with China worth $400bn.

Its US equivalent, Exxon Mobile, has a profit margin of half that. Yet (judged on a ratio of price relating to earnings) Exxon Mobile is valued at more than six times more than Gazprom.

In Continental Europe, policymakers are increasingly worried that the region is on the brink of deflation. However the UK is likely to be the fastest growing major economy in the G7 in 2014, eclipsing even the US.

More than ever, people need access to the highest standards of advice and regulation to protect their wealth and assist with financial planning. London has become the pre-eminent safe haven for international investors. The UK's brand across the globe remains un-dimmed, and its financial centre has a deserved reputation for quality and innovation, supported by a resilient banking sector.

Whenever Knightsbridge Wealth gives advice, it is UK regulated. Our clients – whether they live in London, Limassol or Libya - recognize the value and security that gives.

The World is recovering from one of its deepest recessions in modern history. Good financial planning has never been so important. We look forward to working with you in the remainder of 2014.

# Market Report


**Bonds**

**The dash for anything**

Michael Collins, a credit strategist at Prudential Fixed Income described the frenzy for yield as "not just a dash for trash, but also a dash for anything." Investors have rushed into risky corporate debt, or junk bonds, in recent years. Prices have soared and junk yields have fallen to mid single digit levels which, in a pre-crisis era, would have been more typical of far safer government debt. That shows how expensive most corporate debt has become.

Government Bonds also look too expensive. The threat of interest rate hikes loom as the economic recovery continues. Rising rates (or rising inflation) are bad news for the price of all kinds of fixed-income assets. Yields will have to rise, and so prices fall, to attract buyers.

**Precious Metals**

**Insurance against inflation**

The near term outlook for gold and silver is uncertain, as monetary policy slowly returns to normal. Gold still has a part to play as an insurance policy against financial upheaval, for 5-10% of a portfolio. This should give some protection against market turbulence if the Ukraine crisis worsens, if the Eurozone erupts again or if higher interest rates hit growth badly in the debt-soaked global economy.

There is also the threat of inflation. The unprecedented quantities of cash already printed could see a surge in prices as the credit squeeze of recent years eases, allowing money to move around the economy faster. Gold is the ultimate store of value and would be highly sought after.

**Property**

**London falling?**

Britain's overpriced housing market continues to gather strength, with prices up around 10% in the past year according to Nationwide. London is up 18%. Propped up by foreign money, the average house is more than twice as expensive as the national average. London may be showing some signs of wilting. US and German markets are looking more attractive from an investment perspective.

**Energy**

**Oil supply is rising**

Crude oil prices could ease from the current level of around $110 a barrel. Libyan and Iranian out put looks set to rise, while US production remains healthy – it has doubled in eight years. Demand is unlikely to surge as China's government clamps down on credit and Europe recovers slowly. Natural gas looks favourable long-term. Legislation in both the developed and emerging world will encourage a shift to gas from oil and coal because it is the 'cleanest' fossil fuel.

**Commodities**

**Problems are priced in**

The prices of many raw materials have steadied recently. Markets feel that fears of a sharp slowdown in China, accounting for around 40% of demand for many metals, appear overdone. Even so, don't expect a quick recovery. The Chinese Government appears determined to clamp down on lending. Increased production of commodities, planned years ago when China began to boom, is finally coming on stream.

Mining stocks have priced in the subdued outlook and look attractive at current levels. Agricultural commodities will fall back from recent weather-induced spikes but look good over the long term as populations keep expanding and arable land becomes scarcer. Buying this 'soft commodity' is highly volatile and exposure may be better secured by buying correlated assets such as fertilizer and farm equipment stocks.

**Equities**

**Developed markets at record highs**

Major developed markets have stayed at near multi-year highs, despite tensions in the Ukraine and a disappointing US earnings season. There are still opportunities in Europe and, especially, in Japan where half of the market is priced below book value, and the Prime Minister's determined policies continue to bode well for equities.

Over the past few weeks, investors spooked by last year's emerging market turmoil have started to return. The outlook has clouded over as commodities have fallen out of favour and central banks have raised interest rates to stem currency slides. But the slow-down should now be in the price, and emerging markets still offer faster growth and lower overall debt than the rich world. Frontier markets, on the other hand, are now looking quite expensive.

# Feature: MINT

In 2001, the economist Jim O'Neill coined the BRIC acronym, referring to Brazil, Russia, India and China as the potential powerhouses of the world economy. He has now identified four more countries as the next emerging giants, and brought out a new set of initials. – MINT. He believes Mexico, Indonesia, Nigeria and Turkey are the next emerging giants, and feels that some of those could match the double-digit growth achieved in China between 2003 and 2008.

They all have geographical positions which should be an advantage as the world trade patterns develop. Mexico is next door to the US, but also Latin America. Indonesia is in the heart of South East Asia but also has deep connections with China. Turkey is in both the West and East. Whilst Nigeria is disadvantaged by Africa's lack of development, it is in an enviable location when African countries start trading with each other.

In terms of wealth, Mexico and Turkey are at about the same level, earning about $10,000 per year, per head. This compares to $3,500 in Indonesia and $1,500 in Nigeria.

Among the MINT nations, Turkey is disadvantaged by not being a commodity producer. Its heavy-handed Government is also having an adverse effect on its currency, property and stock market valuations. Its politics struggles with the challenge of its Muslim faith and a desire to do things the Western way.

In theory, the same difficulties exist in Indonesia. However, the Western way of doing things is generally accepted – at least in Jakarta.

Indonesia is the world's fourth largest country, with an infrastructure in desperate need of improving. Its leadership also appears lacking and it seems to need a sense of commercial purpose beyond commodities. Yet the potential is clear to see. Jakarta's population of 28million is the third largest conurbation in the world and, some reckon, almost a third are about to enter the middle class.

The expectations on Mexico are, perhaps, too high, having been showcased as an emerging World Power for several years. However, the young President is full of determination to change the place. They are reforming everything from education, energy and fiscal policy to the institution of Government itself.

Nigeria is shunned by most of the international investment community, with a deserved reputation for high crime rates and chronic corruption. The Governor of the Central Bank is well aware of its reputation and argues that corruption rarely prevents economic development. He believes that improvement of education leads to better governance and transparency. Corruption may be seen as a consequence of its weak past, rather than a cause of future weakness. It certainly does not appear to be the number one challenge, which is energy.

It is an extraordinary fact that 170m people in Nigeria use the same amount of power that is used by 1.5m people in the UK. Almost every business has to generate its own power, at enormous cost. Africa's richest man, Aliko Deangote summed it up by saying "Can you believe that this country has been growing at 7% with no power, at zero power?"

Jim O'Neill believes that solving this problem alone could mean Nigeria grows at 10-12% annually. That would double the size of its economy in less than seven years. Nigeria is the only MINT not to be in the G20, the group of the World's twenty wealthiest countries and it is challenging hard to be included.

Behind the BRIC, MINT and Emerging Markets, are the huge groups of 'Frontier markets.' Frontiers grew some 23% in 2013, whilst Emerging Markets delivered a 4% loss. Some of the Frontier markets have caught the attention of investors, such as Qatar and the United Arab Emirates, which have recently been promoted to 'emerging market' status. Countries like Nigeria have been almost completely shunned by the international investor whilst, on the ground, the economy's growth and incredible potential is evident.

Knightsbridge Wealth will ensure that its investment partners do not overlook the opportunities that the MINT economies provide to savvy investors, and will ensure that entrepreneurs in these fast developing countries have access to the highest standard of UK regulated advice.




| Growth in average income | Mexico | Indonesia | Nigeria | Turkey |
|---|---|---|---|---|
| 2000 | 7.0 | 0.8 | 0.2 | 4.1 |
| 2012 | 10.6 | 3.6 | 1.4 | 10.6 |
| 2050 projected | 48 | 21 | 12.6 | 48.5 |

# UK Property Review

For investment advisers, the starting point in most discussions with clients is the importance of diversifying – building a spread of different assets to protect wealth even in the event that one falls in value.

For international clients, the starting point (regardless of risk profile, tax position and investment requirements), is often the desire to buy a UK property. Owning a piece of the UK property market is almost a right of passage, it seems, for global investors.

Estate agents and developers have a direct interest in talking up ever increasing property prices. However, those who think property only goes up need reminding that, across the country, prices are still 16% below their peak, allowing for inflation. In parts of the North and West, prices have fallen a good 40% and, even in the south-east, prices had at one point fallen 25% from their peak.

Over the last year, London house prices are up some 18%, compared to 10% in the rest of the country. Sir John Cunliffe, the Bank of England's Deputy Governor took up his post recently saying it was "dangerous" to ignore the price surge of the past year. Spencer Dale is taking over as the Bank's Executive Director for Financial Stability, stressing that Britain should be "nervous" about the booming property market, and suggesting that the Bank has the power to specifically target London, if it believed a bubble needed deflating.

Savills, one of the UK's largest and most respected estate agents said this month that it had seen "some cooling" at the top end of the London market. At the same time, the Duke of Westminster's property company has pulled back from developing new homes by saying "the prospect of a correction is becoming more likely." Two of the most high profile residential and commercial developers (Grosvenor and Development Securities) also called the top of the market. The Chief Executive of Development Securities said "There is a bubble and it will end in the way that bubbles end. London is too hot."

London's headline figure hides the fact that 'prime' London is the poorest performer. Prices in Belgravia rose only 0.6% last year and, in Chelsea, just 1.3%. Rental yields are falling further meaning a 'Buy to Let' investment makes no economic sense. Some overseas buyers have now realized this and are returning properties to market.

As an investment, the London market is looking vulnerable. Those wanting exposure to property are better off looking to other parts of the UK, or further afield.

However, London will continue to be popular with foreign buyers who have fuelled the price growth. As long as there is instability somewhere in the World, the London market will benefit.

Knightsbridge Wealth have put together a team of property professionals to ensure the very best advice and guidance is given to those looking to buy a home, or add property to their investment portfolio.

# The rising cost of a UK passport

About 600 migrants a year come to the UK under the Tier 1 Investor Scheme, whereby those with £1m to invest are awarded UK residency after five years. This falls to three years for those with £5m and to two years for those with £10m.

The UK Government has made it a priority to attract high value immigrants, citing its world-class education system, superb global communications and a well-regulated, flexible market as reasons that the UK is an attractive destination.


Most importantly, perhaps, is the UK tax system that continues to offer favourable treatment to 'non domiciled' individuals.

The UK's Migration Advisory Service has been reviewing the scheme and has now made its recommendations to Ministers.

The Committee has recommended that the £1m option is increased to £2m, and that the £5m and £10m options are scrapped altogether. It also notes that the majority of those applying for the scheme choose not to invest in UK Corporate Bonds or UK equities but, instead, buy Government Gilts. These provide little benefit to the UK economy and it recommends that the option to invest in them be withdrawn.

Currently, investors need to evidence that the market value of their investment continuously remains above £1m. In the event of a fall, the investment needs to be topped up. Investors find this nerve-wracking and the committee recommends that this requirement be stopped. As long as the required amount is invested, any market fluctuations will not require a top up. That should make investors more comfortable with risk assets that, whilst likely to give superior returns, also have greater market fluctuations.

It also proposes a new 'premium' service that will achieve residency in three years. Applicants would still need to invest £2m, but will also need to give £500,000 or more to a good cause fund. Applicants would make a 'sealed bid' advising how much they intend to give to the good causes fund (which will be gifted to charities, schools and hospitals). Those with the top 100 bids will be accepted in this auction style system. The successful will only need to spend three months a year in the UK to secure residency, whilst those on the £2m route will still need to stay six months to be confident of a successful application.

Ministers are deciding whether to implement the recommendations.

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# New UK property taxes for non-residents

Non-UK Nationals living in the UK, are given favourable tax treatment. Those eligible to take advantage of the opportunities are rarely advised properly, whilst others often criticize these tax breaks. The significant contribution made to the UK economy from foreigners, living in the UK, is rarely publicized.

Tax paid by 'non doms' to the UK Treasury hit a record high of £6.8bn last year – an 8% rise. Income tax receipts rose by 19%., suggesting that many are now earning income in the UK rather than simply keeping earned income offshore.

However, the increasing 'international' nature of London, in particular, is a handy target for those complaining that non-resident or non-domiciled individuals are not making a fair contribution to the UK tax system. One of the new taxes for non-residents will be that, from April 2015, they will be liable for Capital Gains Tax on disposal of a UK property.

For UK resident clients, there is no Capital Gains Tax on the disposal of a principle residence, whilst gains on any other property are taxed at 18% or 28%.

The Government is currently consulting on proposed changes, and will shortly announce who will be affected by the new charge and to what extent. Crucially, will it include the UK property, if it is a primary residence, and will there be a single rate of 28%?


Knightsbridge Wealth is closely following developments and, in conjunction with tax and trust specialists, will provide comprehensive advice and guidance to those who are affected by the change. Its impact will also mean that new buyers should think carefully about the options available to them, ensuring a property purchase is completed in the most effective manner.

# Two new advisers join the team

Knightsbridge Wealth now has the expertise of Adam Young and Chris Salacinski at its disposal.

**Adam Young**
Adam joins our team as a Strategic Financial Planner. He previously spent 25 years at Dragonfly Planning and Trust Services, the last three years as Managing Director.

Dragonfly is a well-respected practice in Beckenham, Kent, with a philosophy that closely aligns with Knightsbridge Wealth, operating in the same way as a multi-family office. Adam focuses on Wealth Preservation and Risk Mitigation.

Adam is an active member of the Institute of Financial Planning and heads up our Estate and Trust Planning Service. He believes that good financial planning goes hand in hand with lifestyle planning and has completed the renowned Kinder Evoke Life Planning course.

**Chris Salacinski**
Chris becomes a Customer 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.

Chris has worked in financial services for 10 years including spending time with our Strategic Partner, UBS, in London.

Whilst pensions can be an efficient investment vehicle for UK residents they are often overlooked by international clients as a tax efficient method of investment planning. Chris will provide invaluable advice to the Partners, and direct to clients, on pension structures and greatly strengthens the technical expertise that Knightsbridge Wealth can offer.

"Adam and Chris are an impressive addition to the team available to serve Knightsbridge Wealth's growing client base. Their specific expertise in the UK Resident market complements our existing focus on our non-resident client base. This is particularly relevant now as new rules are coming into play on both property tax and pension legislation."

**Stuart Poonawala**
Founding Partner

# Knightsbridge Wealth's senior team and support staff have over 150 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 the last 17 years at HSBC, consistently recognised as one of its most accomplished advisers. He has over 21 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.

**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.

# 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
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