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WHAT'S YOUR NICHE?

From funding wedding venues to legal costs, **Michael O'Dwyer** outlines some unusual Isa investments on offer

NOBODY wants to put their hard-earned savings into rubbish assets. Unless, that is, you want to use your annual Isa allowance to invest in an eco-friendly waste processing facility.

This is just one of the esoteric investments available to subscribers of the Innovative Finance Isa (IFISA), which lets investors lend to businesses in search of returns.

As the 5 April deadline for investors to use or lose their £20,000 annual Isa allowance approaches, now is a good time to consider whether an IFISA is a sensible way to put money to work.

The attraction of IFISAs is not hard to grasp: they target bountiful returns generally ranging between three and 12 per cent per annum.

This appeals to investors "frustrated by the relatively low interest rates on cash ISAs at the moment", says Sarah Coles, personal finance analyst at Hargreaves Lansdown.

The key point here is that the IFISA gives investors an opportunity to hold alternative investments in a tax-efficient wrapper. And some IFISA providers are certainly offering something very different.

Let's have a look at some unusual IFISA investments.

GOING GREEN

While there is scope to invest in ethical and environmental businesses via traditional investment routes, the beauty of using an IFISA provider is that you can self-select the company or project that you want to invest in.

For example, if you feel particularly enthusiastic about investing in clean energy to help families in Africa, you can do so through Ethex.

Investors concerned about the social impact of their investments can use their IFISA to support individual businesses whose ethos is "in line with their own values", says Bruce Davis, founder of Abundance Investments.

Abundance provides green energy investments as part of its IFISA. Through the platform, businesses seeking to raise capital can issue bonds offering a fixed return. Interest and capital are repaid either at regular intervals or on maturity, depending on the terms of the bond.

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One example is CoGen, a British company seeking £7m to develop its business of generating energy using waste that would otherwise go to landfill. It is issuing a four-and-a-half year bond through Abundance.

With a healthy annual return of 10 per cent, it is one of Abundance's "riskier investments", says Davis.

LOTS OF FUN-DING

For those less wedded to eco-friendly investments, how about investing some of your savings to help refurb leisure facilities like pubs, hotels, or even wedding venues?

For example, Downing Crowd is offering a combined debt and equity investment in an exclusive-use wedding venue. The fundraising is for the refurbishment of the Grade II listed building in East Sussex, which includes constructing a bridal suite.

The six-year bonds are secured against the property and carry a 7.5 per cent fixed return. There is potential for additional upside in the form of shares if the business succeeds, but these could be worthless if the venture flops. Much of the £1m raised to date is from "more confident investors" who can stomach the risk, says Julia Groves, head of crowdfunding at Downing.

While most are now closed for investment, other interesting options offered by Downing Crowd include a number of "pub bonds", which provide finance to refurb various pubs around the UK.

FIGHTING CHANCE

Investors spoiling for a fight might prefer to invest in the Just Isa.

Operated by Northern Provident Investments, the bond provides finance to cover legal costs, specifically supporting people who are fighting cases against banks, corporations, and professional advisers. The bond largely invests in litigation funding to support people who need legal redress for professional negligence.

The Just Isa requires a minimum investment of £2,000 and targets an eight per cent annual return on maturity. This investment is certainly not for the faint-hearted.

STRANGER STRATEGIES

For some IFISAs, it'

For some IFISAs, it s not so much the underlying investments that are unusual, but the approach.

Some have unique perks. For example, customers who invest more than £1,000 in an EasyMoney IFISA can get cashback and discounts from some top retailers.

Some IFISAs are different in that they use strategies to reduce risk. For example, the newly launched Orca Money IFISA spreads investments across multiple providers. Chief executive Iain Niblock says that giving exposure to five different peer-to-peer lending platforms helps to mitigate risk.

PASSION PROJECTS

Given that alternative investments like peer-to-peer loans are largely uncorrelated to traditional assets like equities, the IFISA gives you a chance to diversify.

And many of these platform also let everyday investors partake in projects that they are passionate about – some would jump at the chance to save their local pub, or build specialist facilities like care homes. And by investing in businesses that are close to home, you can see the impact of your financial backing in action.

With that said, such alternative investments should only make up a small portion of your portfolio.

"You can lose money," warns Coles. "Lending to businesses typically involves more risk than lending to individuals. In cases where you are lending to one specific business, it means that you have all your eggs in one basket, which is particularly risky."

Jason Hollands, managing director at Tilney, also warns that no one knows for sure how this stuff will perform in a stressed credit conditions.

IN FOR THE LONG HAUL

It's all good and well using your hard-earned cash to invest in projects that you care about, but it's important to consider how long you need to leave you money invested for.

While investments in Stocks and Shares Isas can be quickly sold at the market rate, IFISA investors may need to be more patient.

"These are largely fixed term bonds, and it may not be possible to get out of them mid-term, as there is no secondary market," says Coles.

Some firms, such as Abundance, operate private markets where investors can sell up before maturity provided a buyer is willing to pay the asking price.

"We don't tend to recommend IFISAs to clients, as liquidity is not clear and the security of the loan is not obvious," says Ed Wood, chartered financial planner at wealth manager Saunderson House.

Also bear in mind that you can only open one IFISA each year, so it's best to opt for a provider that has plenty of choice when it comes to the underlying investments.

Groves believes that the "next wave" of IFISA investors will be people with cash savings who finally realise that they should be using the Isa wrapper to invest. By this time next year, we should know if she is correct.

What seems apparent is that IFISA investments will get increasingly alternative as investors look a little left-field.

Michael O'Dwyer is a freelance journalist.

> For those less wedded to eco-friendly investments, how about investing in a pub?

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