clarity Personal Finance Newsletter – March 2003

Page

Investment in Bonds: Bear or Bull? 2
Year End Checklist 4
Asset Allocation 7
Non-Equity Investment 9
Pensions: Stakeholder Pensions 14
Pension Green Paper 17
ISA Update 18
Managed Funds Performance 20
Unit Trust/ISA Execution 21
Cofunds 23
Equitable Life Update 26
Cash Investment 29
Suitability and Affordability 30
Risk Warning 30

Appendices

A – Adviser Profiles 31
B - Terms of Business Letter 34

Is now the time to get into Bonds?

Over the last three years (to the end of January), the average Gilt fund has returned growth of 22% compared to a fall of 37% in the UK All Companies sector. Gilt yields now stand at levels not seen since the 1950's. But is now the time to invest in Gilts, and what are the prospects for Corporate Bonds?

Bull and Bear points for the Gilt Market:

- Gilts and other high quality bonds are safe-haven assets, and will continue to be attractive in a time of conflict and political turbulence. However, the market has had ample opportunity to "price-in" the threat of war in Iraq, and once any war has commenced the market will look onwards to the likely conditions after its conclusion. A long term increase in middle east tension and disruption in oil supply will be negative for equity markets. Mike Lentoff, chief strategist at Brewin Dolphin, believes that oil related cost increases would be hard for firms to pass on to consumers, and that this could result in further pressure on corporate profitability, and downward pressure on interest rates. However, there is ample historic precedent for a post war improvement in equity market sentiment.

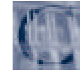
  Gilts and quality corporate bonds have also benefited from cash that insurance companies and pension funds have had to withdraw from equity markets in order to maintain statutory solvency levels. The FSA has eased their requirements so that a negative spiral is avoided, but the impact of the FRS17 accountancy standard will continue to support high quality corporate bonds.

- Equity markets continue to be highly volatile in the face of recession and possible deflation. Recession and the threat of deflation often trigger a movement of assets into the Gilt markets. However, governments around the world have shown that they are prepared to take action to head off the risk of deflation, and perhaps risk higher future inflation in the process. Invesco Perpetual Corporate Bond Fund manager Paul Read feels that the threat of global deflation has been exaggerated, and is therefore wary of allowing too much Gilt exposure in the Fund.

- The yield on the FTSE 100 is now 3.8%, comparable with the 7 year Gilt yield of 3.9%. This means that the buyer of the equity market gets the same income, but with an upside potential that the Gilt market cannot match. Humphrey van der Klugt, manager of the Schroder Income Fund and UK Equity Fund believes that dividend cover is generally acceptable and that cost cutting will help companies to maintain dividends. Invesco Perpetual Income and Higher Income Fund manager Neil Woodford disagrees, seeing increasing pensions costs and litigation expenses as a challenge to the dividend paying ability of companies.

- Overall, the attraction of the Gilt market rests on the likelihood of further political uncertainty and weak economic growth – or deflation. Threats to the Gilt market arise from a swift and satisfactory conclusion to the Iraq crisis and returning economic confidence, leading to a reversal of the "flight to quality". Additionally, lower than expected tax revenue and below forecast economic growth is likely to result in increased government borrowing, increasing the supply of Gilts and reducing the perceived quality.

We suggest that investors should consider carefully the risks of short term investment in Gilts and Gilt funds. Investors who have made tactical increases to their Gilt exposure over recent years may now wish to consider alternatives where the longer term prospects are more attractive if, and only if, this fits in with a suitably long timescale and also fits in with personal attitude to risk.



Year End Planning

1) **Pensions still remain one of the most effective ways of saving, and all investors should consider their pension position. Many will look to make the maximum investments.**
2) **Tax planning is available through ISAs, VCTs, EISs, EZTs and Film Partnerships. The ISA should be appropriate for most investors and their spouses.**
3) **Capital Gains Tax, Income Tax and Inheritance Tax planning can produce substantial savings in future tax liabilities. Plan now.**

Detailed below is a brief bullet point summary of issues that you may wish to consider: -

Pension Planning

Our belief is that the pension contribution should be your first port of call in the decision process prior to any other investment. It is one of the last investments where you can obtain full income tax relief on your contribution at your highest rate of tax. Some may, of course, decide to prioritise other investments but pensions should at least be considered. Do remember, at this point, that you should not necessarily link a pension investment with an investment in equity based funds. Equity funds are merely one range of options within the full spectrum, which could include: Property, Bond (Fixed Interest or Index Linked) and even Cash funds. If your equity based pension funds have declined dramatically over the last 2 or 3 years then it is not the pension policy that is to blame: it is the fund choice within that structure. If you still want to take advantage of the tax breaks but want a lower risk profile on fund selection then this is, indeed, possible.

Since the 5th April 2001, it has been possible to pay £3,600 per annum (gross) into a Stakeholder pension plan even if the individual has no earnings. This provides an opportunity to consider a pension payment for spouses and even children.

Payments to Personal Pension Plans post 5th April 2001, for both the self employed and employed, should be made net of the basic rate of tax. Retirement Annuity Premiums continue to be paid gross.

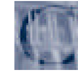
Please refer to the article on the Pension Green Paper for proposed changes to the pension rules.

Investment Planning – Tax Efficient Investments

Individual Savings Account (ISA)

Consideration should be given to utilising your ISA allowance(s) for the current tax year, currently £7,000 each. ISAs enjoy freedom from capital gains tax and a 10% tax credit on UK dividends until 5th April 2004 (Please refer to the ISA Update article for further information). The Maxi ISA is the preferred option. Be careful if you have inadvertently invested in a Mini ISA.

For those of you with older children, aged 18 and over, you have the capacity to increase the tax free umbrella over the family's investments, by investing up to £7,000 into ISAs for each child. Also, for children aged 16 and over you are able to invest £3,000 into a mini-cash ISA. A number of investors use ISAs as a part of their overall tax planning strategy, to minimise Inheritance Tax as well as income and capital gains taxes.



Venture Capital Trusts (VCTs)

VCTs can be considered by investors wanting to defer a capital gain but who are comfortable with high risk (often unquoted) investments.

Please refer to the relevant risk warnings before proceeding with an investment.

Enterprise Investment Schemes (EISs)

The EIS offers similar tax breaks as the VCT, but the investment is limited to a single company. However, a number of providers offer the ability to build up a portfolio of companies so reducing, at least in part, the investment risk aspects. However, these investments are generally in unquoted companies so can only be described as very high risk.

Please refer to the relevant risk warnings before proceeding with an investment.

Enterprise Zone Trusts

These trusts offer the ability to secure 40% income tax relief on the initial investment (excluding land), as well as the ability to offset the rental income against any interest costs on borrowings. Although property based, these investments come with their risks, but worth considering for some. Having said this, there are very few schemes available these days.

Film Partnerships

Film Partnerships can provide a tax shelter for income and capital gains and effectively offer a "loan" facility at competitive rates. However, recently hurdle rates have increased such that mortgage based borrowings can achieve similar returns without any future legislation risk. Having said this, Film Partnerships can still offer value to those with high income and high gearing.

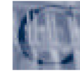
If you require advice on the above investment vehicles, please contact your usual adviser or enquiries@clarityglobal.com .

Capital Gains Tax Planning

The capital gains tax exemption of £7,700 allows you to realise capital gains on an asset, without incurring any tax liability. Even though many of you do not need the cash, at some stage you are likely to be selling your investment portfolio to generate cash to maintain your then standard of living. Therefore, it is important to increase your "base cost" as and when you can. On the other side of the coin, whilst there are certainly tax benefits, you have to be wary of the costs eroding the value of this process. It is important to take advice.

"Bed & breakfasting" is no longer available, but couples can "bed & spouse" and "bed & ISA".

Please remember the exemption cannot be carried forward. Those of you with capital gains from disposals in excess of the annual exemption should consider realising capital losses. Alternatively a number of you have used VCTs and EISs to defer the gains from tax.



Income Tax Planning

If one spouse is not working then consider transferring investments to the non-working spouse so that they receive the future investment income and potentially utilise their lower and basic rate tax bands for the financial year ahead. Allowing income that would have been taxed at 40% to pass to someone who is taxed at, say 22% gives an obvious tax saving. One usual inefficiency in this respect is holding all income producing assets jointly with a spouse rather than thinking whether they should be held entirely in the name of the spouse.

Also, it is possible to utilise your child/children's single persons allowance, currently £4,615. Care must be taken in respect of the Parent/Child Settlement Rules, i.e. any income earned over £100 per tax year on assets transferred by a parent are deemed to be taxable on the parent. However, if a child/children receive a gift from, say grandparents any income is offset against the child/children's single persons allowance. Keep money from parents separate to all other gifts for this reason.

Inheritance Tax Planning

Consideration should be given to utilising the various reliefs, such as the annual £3,000 gift exemption and the ability to utilise any unused portion of this exemption from the previous year.

Asset Allocation

Asset Allocation refers to the spread of investments between different asset classes. One normally thinks of four asset classes: Cash, Bonds, Equities and Property. More recently, Hedge Funds have been added to this list.

Various studies have been carried out in order to quantify the contribution made by asset allocation policy to overall portfolio return. Predictably, these have reached varying conclusions, but all agree that asset allocation policy tends to be the most significant determinant of portfolio returns over time.

It is impossible to set the ideal asset allocation for any client, since the future risks and returns of each asset class is unknown. There are automated systems that use past performance and correlation information to identify an optimal asset allocation, but in our opinion, the unprecedented market conditions over recent years are likely to undermine the reliability of such systems, and the relevance of historical rates of return.

Alternatively, it is possible to use asset allocation models to set broad parameters, allowing for an investors age, investment aims, time horizon and attitude to investment risk. This approach concentrates on ensuring that an appropriate and diversified mix of assets is held, rather than identifying an "optimal" position.

The Association of Private Client Investment Managers and Stockbrokers (APCIMS) maintain a series of models based on the consensus position of their members. This is heavily biased towards UK and European stocks at the expense of the United States. There are credible reasons for this, but given that the USA represents around 55% of the world's stockmarket capitalisation, we favour a higher weighting. For an investor aged around 45, aiming for capital growth but with a balanced attitude to investment risk, the table below gives a good starting point.

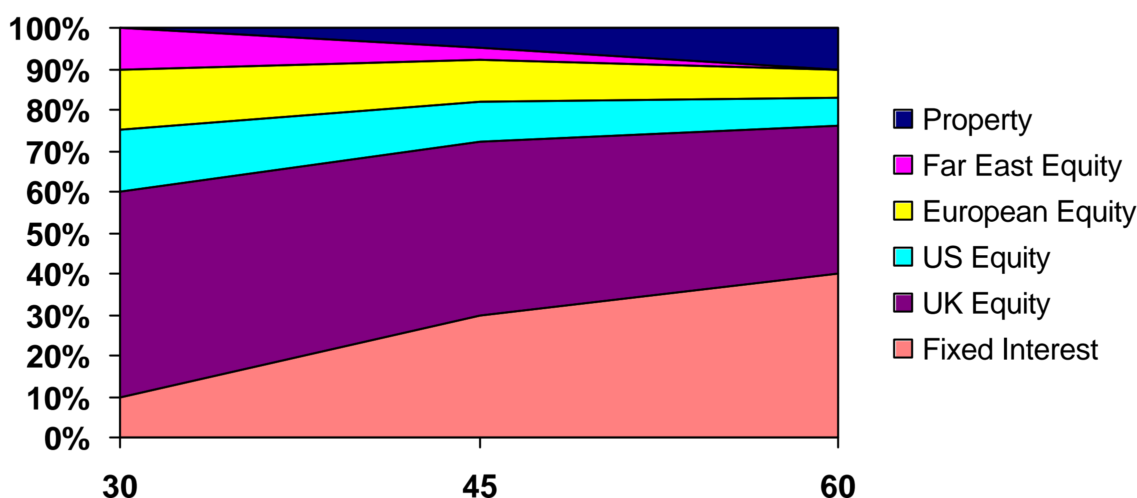
Asset Class	Percentage	Percentage
Fixed Interest	30%	-------
Equity	70%	-------
UK Equity	-------	60%
US Equity	-------	14%
European Equity	-------	14%
Far East	-------	5%
Property	-------	7%
	100%	100%

Younger investors will generally be prepared to take a greater degree of investment risk, as they will be able to take a longer term view, and have greater opportunity to recoup short or medium term investment losses.

Older investors typically have a lower tolerance of risk investments, as they will have less time to recover from capital losses. The need for income may also be greater, and this will put a greater reliance on less volatile, income generating assets.

Also, there are many "different" 45 year old investors, some with higher risk appetites than others, and some lower. Again this shows the limitations of any model in that it must be flexible from the first moment of introduction.

The table below illustrates the changing asset allocation that may be appropriate for the investors described above.



These weightings would be the starting point for establishing a portfolio. The long-term allocations above could be varied if short-term market conditions dictated.

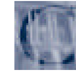
Neither Cash nor Hedge Funds have been included in the above table. The appropriate level of cash held will depend the investor's own views and short term spending requirements should be decided upon when overall attitude to risk is being considered.

Hedge Funds have been excluded due to the wide variety of funds and the variation in their investment aims. These vary from those that aim to provide a cash-like level of risk, to those that aim to maximise returns with little regard to short-term volatility.

Diversification

An asset allocation such as that above could be achieved through investment in a single International Growth Fund. This would be administratively simple, but would mean that control of asset allocation would be lost, preventing alterations from being made over time, and making it more difficult to identify particular strengths and weaknesses in Fund management.

Diversification of investments has been shown to reduce risk without reducing long-term aggregate performance. Recent research has indicated that the ideal number of funds within a portfolio is between 8 and 12.



Non-Equity Investment Options

As many investors are only too aware, equity markets have continued to fall in 2003. General opinion is divided, as ever, between those who believe current market levels offer good value and those who forecast significant further falls.

For investors who are reluctant to commit new monies to the equity markets at this time, there are a number of alternative investment options. These would also be relevant for those who are simply looking to reduce the equity weighting of their portfolio to match their requirements more suitably. Investors should be aware that some corporate bond and property investments may carry similar or even higher levels of risk than an equity investment, and independent financial advice should be sought before investment is made.

The main non-equity asset classes are as follows:

- Cash
- Fixed interest
- Property

Investment Choices Summary

Type	Security of Capital and Income	Variable or Fixed Income	Accessibility
Cash			
National Savings Certificates	Most secure: security guaranteed by government	Fixed	2 or 5 year term
Bank/BS Deposits	Fairly secure: depending on quality of bank/BS	Variable or Fixed	Instant or as per term selected
Bank/BS Bonds	Fairly secure: depending on quality of bank/BS	Fixed	Per term selected
Guaranteed Income Bonds	Fairly secure: depending on quality of insurance company	Fixed	Per term selected, no earlier access
Floating Rate Notes	Fairly secure: depending on quality of issuing bank/BS, but capital value not guaranteed	Fixed	Per term chosen
Fixed Interest			
Gilts (individual)	Secure if held for full term. Guaranteed by government	Fixed	Per redemption date selected. Earlier sale at capital gain/loss per current market value.
Corporate Bond (individual holdings)	Capital value fixed if held for full term, but guarantee of return of capital and income depends upon quality of issuer	Fixed	Per redemption date selected. Earlier sale at capital gain/loss per current market value.
Gilt and Corporate Bond Funds	Capital and income fluctuates	Variable	Instant, at current market value.
Property	Not secure	Not secure	Fairly illiquid, individual property holdings more so than property funds.

Tax Efficient Wrappers – Pensions and ISAs

It is important to be aware that non-equity investment still means that full advantage can be taken of tax-efficient investment wrappers such as pensions and ISAs.

Pensions

Lower risk funds such as cash, gilt and corporate bond funds are available within most pension policies. It is the investment into the pension policy itself that provides the tax relief, rather than the type of investment selected within the pension.

ISAs

With ISA investment, it is important to be aware of the distinction between Maxi and Mini ISAs. Maxi ISAs allow an investment of up to £7,000 in stocks and shares. In terms of non-equity investment, this could mean a gilt or corporate bond fund. Mini ISAs allow an investment of up to £3,000 in cash and £3,000 in stocks and shares. Please note that both a Maxi and Mini ISA cannot be taken out in the same tax year, therefore an investment in a cash Mini ISA will limit the amount an investor can place in stocks and shares to £3,000 rather than £7,000.

Investment Choices

Outlined below are further details of the main non-equity investment options, and an indication of the rates available for each option. Please note this article is intended to cover the main options only, and there are variations on each type of investment not covered below.

Debt Repayment

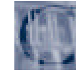
Repayment of mortgage or other debt should be considered as a form of tax-efficient cash investment. For example, repayment of debt at 4% interest is equivalent to receiving a net return of 4%, or a gross return of almost 7% for a higher rate taxpayer. Any penalties for early repayment, and the potential for loss of access to this capital should be considered prior to repayment.

Deposit Accounts

The main advantages of deposit accounts are ease of access, and security. The risk to your interest or capital payments depends on the creditworthiness of the institution, which can be reduced by investing only with reputable banks and building societies. However, over the longer term, the average deposit account is unlikely to produce a real return after higher rate tax and inflation.

National Savings and Investments

National Savings investments are guaranteed by the government. As such they are low-risk, and do not currently offer an especially attractive rate of return. However, National Savings Certificates can be attractive as a small part of a portfolio due to their tax free status. They are fixed rate and fixed term products, with an investment limit of £10,000 per person per issue. Please note that the interest rate detailed is only achieved for full term investments, any early access would incur penalties in the form of reduced rates.



Bank and Building Society Bonds

These are fixed term, fixed interest rate products offered by banks and building societies. Risk to capital and income would arise only on default by the institution, and can thus be reduced by choosing reputable providers. As the risk is low, the return received is also low. Rates are currently fairly uncompetitive, and similar or even better rates may be obtained through Internet instant access savings accounts.

Guaranteed Income Bonds

Guaranteed Income Bonds (GIBs) are offered by life assurance companies and will generally be in the form of a single premium endowment policy, where the guaranteed maturity value is greater than the initial investment by an amount equal to the quoted rate of return. This means that investors must leave investments for the full period of the GIB. Investors can choose to have income rolled up over the total investment period, or paid out annually or monthly. Of course, the more frequently investors elect to receive income, the less total interest will be earnt due to the effects of compounding.

There is a risk with all fixed-rate, fixed-term investments in that if interest rates generally rise over the period of the investment, investors could find themselves locked into an uncompetitive rate of return. However, if interest rates fall the opposite is true. The other main risk attaching to GIBs is that the life assurance company has insufficient resources to provide the guaranteed return. This is generally not a significant risk, and can be reduced by choosing products from financially sound and reputable providers.

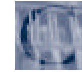
Returns from GIBs are deemed to be paid net of basic rate income tax (22% currently). Higher rate taxpayer's have only a further 18% to pay on this net amount, making the equivalent gross return for a higher rate taxpayer competitive. Guaranteed Income Bonds are therefore not suitable for non-taxpayers, as the basic rate tax of 22% deemed to have been deducted at source cannot be reclaimed. Please note the rates detailed in the table below are enhanced by the rebate of commission, and the higher rates are usually available for investments of over £100,000.

Floating Rate Notes (FRNs)

For deposits over £250,000 it may be possible to purchase a "stripped floating rate note". This is a corporate bond normally issued by a leading building society with the interest coupon "stripped out" prior to purchase. Shortly before redemption the coupon is returned to the bond and the price usually returns to par. The tax treatment of FRNs means that a return of 3.5% can deliver a gross equivalent return of 5.8% to a higher rate taxpayer. Investors should be aware that these investments involve a higher degree of tax and investment risk than purchase of a 'normal' building society bond. A good understanding of the tax position is essential and advice should be sought prior to investing.

Cash vs. Non-Cash

The cash style investments described above may generate a small real (i.e. post inflation) return in the short to medium return. Historically, however, cash investments are not likely to maintain the real value of your capital over the long term, especially after higher rate tax. Generally, cash also does not provide the opportunity for additional capital growth or an enhanced level of income. Investors who are prepared to put their money aside for the longer term should therefore consider investments where capital is not secure. Of course, this involves a higher level of risk, and hence the higher potential return.



Gilts

Traditionally most Private Client investment into the bond market has been through gilts, due to their low risk qualities and liquidity in the market. With a number of pension schemes reaching maturity and increasing numbers of members drawing benefits, together with the effect of accounting standard FRS17, the demand for gilts has been huge at a time when the Government has been reducing its debt. Consequently we believe gilts have become expensive in relation to corporate bonds and other debt issued by Governments around the world.

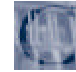
Corporate Bonds

Corporate bonds are classified according to the issuing company's financial strength. Investment grade bonds are higher risk than gilts, but are still relatively secure (although capital is not guaranteed as outlined above). They tend to perform in a similar way to gilts, and are issued by companies with Standard and Poor's credit ratings of "AAA", "AA", "A" and "BBB". Lower grade bonds are significantly higher risk than gilts, and this risk would normally compensated for by a significantly higher yield. These bonds are known as High Yield Bonds, and the issuing company would have a credit rating of "BB", "B", or occasionally "C".

Purchase of a corporate bond fund will reduce exposure to the risk of any one company's failure, through diversification. However the fixed capital and income return of a single bond will be lost; instead the income received will reflect the average yield achieved by the fund's portfolio of bonds, and the capital value will reflect the market value of the portfolio, which will change from day to day. It is important to look at the underlying bond portfolio of any fund in order to ascertain the risk the investor is exposed to.

Property

Investment in property can be made in an enormous number of different ways, and the scope is large enough for an article in its own right. Investment can be into residential or commercial property; it can also be directly into a single property, a fund holding a portfolio of properties, or into shares of property companies. Property investment can involve very low levels of liquidity, especially where only one property is held, and it can be difficult to achieve a sufficient degree of diversification unless a property fund is used. Like all investment, the returns achieved are correlated to the risks involved. Property investment generally involves higher levels of risk than corporate bond investment, and hence generally higher returns.

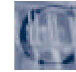


Indicative Current Rates – A Comparison

Product	Variable or Fixed Rate	Rate (%)	Equivalent Rate – Net of Basic Rate Tax (20%)	Equivalent Rate – Net of Higher Rate Tax (40%)	Equivalent Gross Rate (BRT)	Equivalent Gross Rate (HRT)
Instant Access Internet Deposit	V	4.05	3.24	243	4.05	4.05
National Savings Certificates						
2 year fixed interest (18th issue)	F	2.40	2.40	2.40	3.00	4.00
5 year fixed interest (68th issue)	F	2.70	2.70	2.70	3.38	4.50
2 year index -linked rate* (15th issue)	F	0.50 + RPI	3.00	3.00	3.75	5.00
5 year index -linked rate* (27th issue)	F	0.80 + RPI	3.30	3.30	4.12	5.50
Bank and Building Society Bonds						
6 months	F	4.00	3.20	2.40	4.00	4.00
1 year	F	4.00	3.20	2.40	4.00	4.00
2 years	F	4.20	3.36	2.52	4.20	4.20
Guaranteed Income Bonds						
1 year	F	2.70	2.70	2.21	3.37	3.69
2 years	F	2.90	2.90	2.38	3.62	3.96
Floating Rate Note						
Approx 1 year	F	3.01	3.01	3.01	3.76	5.02

Notes:

1. Rate on index-linked NSC assumes RPI of 2.50%. Actual return received will depend upon the level of RPI over the investment term.
2. The net rates shown indicate the rates that a basic or higher rate taxpayer will actually receive. The gross equivalent rates are for comparison purposes only.
3. Please note that these rates are indicative only and are subject to change. Many of the rates qu oted have not yet been revised downwards by providers, following the recent reduction in base rates to 3.75%, and so any planned cuts should be investigated prior to investment.



Stakeholder Pensions

1) **Stakeholder pensions were introduced on 6th April 2001.**
2) **The last opportunity to combine carry back and carry forward was by 31 January 2002.**
3) **The 'basis year' has been introduced for PPPs, which enables contributions above £3,600 to be made for up to 5 years after the basis year.**
4) **Stakeholder pensions allow £3,600 pa contribution even for non-earners, so some may be able to increase pension in spouse's name.**
5) **Web based dealing for Stakeholder Pensions is available on the clarity website www.clarityglobal.com.**

Under the Government's new "Defined Contribution" pension regulations, Stakeholder pensions became available on 6th April 2001. The same regulations have widened the scope of those eligible to take out pension arrangements and, indirectly, reduced the charges levied by pension providers.

Although, technically, a new type of pension arrangement, Stakeholder pensions are essentially the same as Personal Pension Schemes which have been available since July 1988. However, pension providers who want to offer access to their pension funds via Stakeholder policies as opposed to Personal Pension policies will have to meet certain criteria.

In particular: -

- Pension providers cannot charge more than 1% per annum of the funds under management.
- They must accept one off contributions, which can be as low as £20 gross.
- Transfers into and out of Stakeholder pension schemes must be without cost.

Personal Pension Schemes are not subject to the same standards. However, pension providers have risen to the challenge and many now meet or better the maximum Stakeholder Pension charge under their Personal Pension Schemes. Some 40 providers have registered Stakeholder Schemes. As a result, pension providers have had little choice but to reduce costs under Personal Pension Schemes in order to remain competitive.

Personal Pension Schemes can continue to set minimum contributions at higher than £20 although individuals are unlikely to view this as restrictive.

The selection criteria for pension arrangements is not whether a product is a Stakeholder pension or a Personal Pension as such but, as they have always been: -

- Investment options available.
- Manager's track record.
- The effect of charges for administration and fund management.

Stakeholder Pensions and Personal Pensions both now come under the new Defined Contribution regulations, effective 6th April 2001.

The main features of both types of pension are: -

- Eligibility has been widened considerably; UK residents under the age of 75 are now eligible for Stakeholder Pensions and Personal Pensions. Even children are now eligible for these pension arrangements.

- Up to £3,600 gross can be paid each year irrespective of earnings level. This has widened the scope to, again, include children but also non-working spouses and those in retirement.

- Individuals may continue to pay in excess of £3,600 each year if they have earnings to support higher contributions by reference to the existing scale of an age-related percentage of earnings.

Age at 6th April	Percentage
Under 35	17.5%
36 –45	20%
46 – 50	25%
51 –55	30%
56 – 60	35%
Over 61	40%

NB Earnings are capped. For example, the earnings cap for 2002/3 is £97,200.

- Contributions are now paid net of the basic rate of income tax. This includes contributions paid by the self-employed and non-taxpayers. For example, a non-taxpayer may contribute £2,808 net and the pension provider will claim £792 tax relief from the Inland Revenue to bring the total contribution to £3,600.

- Higher rate taxpayers can claim higher rate relief via their tax return. Tax relief is given to the Stakeholder Pension or Personal Pension policyholder, not the individual making the payment, if different. For example, individuals contemplating pension arrangements for family members should bear in mind that basic rate tax relief will be given at source, when the contribution is paid. If appropriate, higher rate relief can be claimed by the family member concerned.

- Until 5th April 2001 individuals not paying the maximum contributions to Personal Pension Schemes each year could carry forward the unused allowance and use it up to six years later. Carry forward was abolished on 6th April 2001.

- The concept of a Basis Year has been introduced for those looking to pay in excess of £3,600 in a year. The Basis Year may be any previous tax year. The earnings in the Basis Year can be used to support the contributions in excess of £3,600 in the Basis Year itself and for the five tax years following using the age related percentage limits as set out above. For example, a 36 year old who earned £50,000 in 1998/9 would be able to make contributions to Stakeholder Pension or Personal Pension of up to £10,000 a year through to and including 2003/4. This is irrespective of earnings, if indeed any, in the subsequent tax years.

- The Basis Year can be changed at any time but individuals will need to provide evidence of earnings for the year selected.

- Furthermore, individuals whose earnings cease can use the Basis Year earnings (even if already five years old) to support pension contributions in the year of cessation and for a further five years post cessation. Individuals may wish to take advantage of this on retirement, however, it is important to realise that tax relief is given in the year of payment (or previous year if the payment is carried back) and whilst basic rate relief is given at source (by paying net) higher rate relief will only be available to higher rate taxpayers.

- Contributions paid in one tax year can still be carried back to the previous tax year provided that the election to do so is made before or at the same time as the payment itself and, in any event, by 31st January in the year of payment. For example, if you wish to make a payment in 2002/3 and carry it back to 2001/2 you will have to elect to do so by 31st January 2003.

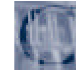
- Non UK residents are not normally eligible for Stakeholder Pensions or Personal Pensions, however, if an individual is resident and ordinarily resident when the policy is taken out but subsequently moves abroad it is possible to carry on paying at least £3,600 gross and maybe more using the Basis Year to justify higher contributions. Individuals should bear in mind that only the basic rate relief is likely to be available.

- The Defined Contribution regulations have not changed the largely tax-free accumulation of pension funds or the timing of retirement (between ages 50 and 75) or the option to take 25% of the fund at retirement as cash, tax-free.

- Retirement Annuity Policies (personal arrangements taken out before 1st July 1988) are not affected by the new Defined Contribution regulations:
  - All contributions have to be supported by earnings.
  - Contributions are paid gross.
  - Carry forward is still available.
  - The election to carry back has to be made by 31st January in the year following payment.

Whilst many pension providers have cut charges on new policies it does not follow that similar changes have been made to policies taken out before 6th April 2001. Many Personal Pension providers have cut the cost on existing plans but by no means all. You should check the terms with your existing provider before adding payments to an existing policy. It may pay you to take out a new policy with the same company and possibly even transfer existing funds to a new policy to take advantage of lower ongoing charges.

As a general observation, most Retirement Annuity Policy providers have made no changes at all to the existing terms. Individuals holding such policies should take advice before closing these down. These policies allow individuals to invest considerably more in pensions than under the Defined Contribution regulations.



Pension Green Paper – New Inland Revenue Proposals

You will probably have seen some press comment on the Inland Revenue's proposals for the simplification of the taxation of pensions.

The major points are:

- Replacement of existing rules for maximum pensions and maximum contributions by a £1.4M lifetime limit and a £200,000 annual contribution limit (or income if lower)
- A transitional regime providing for the tax protection of pre "A day" limits in excess of £1.4M if registered within 3 years of A day which is likely to be 6 April 2004.
- A proposal to tax pension benefits in excess of £1.4M at 33% (subject to the transitional rules and also indexation of the £1.4m limit) with a further 40% tax on any lump sum and income taken from these excess benefits
- Tax Free cash allowed at 25% on all pensions
- Value Protected annuities providing for a return of some of the pension fund to beneficiaries where the annuitant dies before age 75
- Income Drawdown rules to become more flexible, permi tting a much lower annual income
- Minimum retirement age raised to 55

Some further clarification is awaited including:

- Detail of capital conversion rates where annual pension incomes are converted to a capital sum to test against the lifetime limit.
- Detail of how the lifetime limit might be adapted to changing annuity rates.

There is also debate on whether or not the lifetime limit of £1.4M is "set in stone" or might be revised/set higher.

If someone is close to or over the £1.4M limit on A Day, based on their total pension book value, then they are likely to review their fund selection. This is because the limit set will only increase by inflation going forward; why then take an equity risk with your fund if any "profit" above inflation will be taxed at 60% but any downside would be felt to the tune of 100% of its effect? This re-biasing of assets will be a major consequence of the legislation for those near or above the limits and may have an affect on other asset selection outside of the pension shell.

The areas where clarity will be able to assist are in:

- Reviewing all your pension benefits and helping you calculate where you are in relation to the lifetime limit
- Helping you to devise an investment strategy to deal with the lifetime limit e.g. if you register A Day rights close to or in excess of £1.4M you might consider holding lower return investments within your pension fund and higher return investments outside.
- Devising a new retirement strategy to take advantage of the generous £200,000 annual limit yet staying within the lifetime limit.

ISA Update

Withdrawal of 10% tax credit on dividends

In April 2004, the Government proposes to withdraw the concession that currently allows PEP and ISA managers to reclaim the 10% tax credit withheld on UK dividends. With little sign that there will be a change of heart by the Government, many investors will want to know how this will affect investment returns and indeed whether ISAs will continue to offer the same level of tax efficiency particularly when compared with "unwrapped" unit trusts and OEICs.

The level of dividend income as a proportion of the overall return can vary significantly between funds and therefore the inability to reclaim the 10% tax credit will affect some more than others. The table below illustrates how the concession presently benefits both basic and higher rate tax payers but also the impact the change will have after 5 April 2004.

Comparative effect of the removal of the 10% dividend tax credit

	ISA	"Unwrapped" non-ISA	
	All investors	Basic Rate Tax payer	Higher Rate tax payer
Present position until 5 April 2004			
Gross dividend	£111.11	£111.11	£111.11
Dividend paid net of 10% tax credit	£100.00	£100.00	£100.00
Income Tax liability	£(11.11)	£(11.11)	£(36.11)
Tax credit reclaimed	£11.11	£ -	£ -
Net amount receivable	**£111.11**	**£100.00**	**£75.00**
Likely position after 5 April 2004			
Gross dividend	£111.11	£111.11	£111.11
Dividend paid net of 10% tax credit	£100.00	£100.00	£100.00
Income Tax liability	£(11.11)	£(11.11)	£(36.11)
Tax credit reclaimed	£ -	£ -	£ -
Net amount receivable	**£100.00**	**£100.00**	**£75.00**

For Higher Rate Tax payers, ISAs will continue to offer a higher return after 5 April 2004 when compared with "unwrapped" equity based investments. For basic rate taxpayers, the changes will effectively negate the income tax advantages but remember that the capital gains protection continues in full.

Corporate Bond Interest

One important distinction to make is between the *dividend* payable on equity based funds and the *interest* payable on bond funds. The changes that take place in April 2004 will not affect the tax credit situation with the interest payable on corporate bond funds. This may lead some to invest more in bonds with ISA but it is important to realise that the total return should be considered. Although capital gains are not really an issue in the current climate, what will the position be in 10 or 20 years time… or whatever your investment timescale is. Over that period, if equity based funds perform well again, will the capital gains protection not exceed the income affect on dividends? Whatever your belief regards to equities vs. bonds going forward, the point is that you should not focus exclusively on this change and make investment decisions based on this alone: as always, view the total investment picture.

2002/03 Stocks and Shares ISA investments – Cash Reserve?

It is appreciated that many investors continue to be nervous about equity markets and will be reluctant to commit further funds for investment until economic prospects improve. Whilst present conditions may not encourage investment, it is possible to establish a Stocks and Shares Maxi ISA in the current tax year without actually investing in equity or bond markets at this time. Investors should remember that ISA allowances cannot be carried forward to the next tax year and if not used by 5 April will be lost.

Cofunds Limited, our preferred home for all ISA investments going forward, offers a Cash Reserve facility that allows investors to place ISA subscriptions on deposit pending investment. It is through this mechanism that investors concerned about the current state of the markets can use their ISA allowance for the 2002/03 tax year without actually investing at a time when they consider conditions to be unfavourable.

The Inland Revenue does not specify the length of time funds can be held in cash but ISAs must not be used for the sole purpose of sheltering interest on cash deposits from Income Tax. Funds held in this way must be destined for investment. The Inland Revenue may impose a specific deadline for investment in the future.

Interest is paid on the Cofunds Limited Cash Reserve at 2% below Bank of Scotland's Base Rate.

Of course, if you have not already invested in a Maxi ISA then you can buy a Cash Mini ISA but this would limit your investment there to £3,000 and you would have no flexibility to transfer this to stocks and shares in the future. It must remain in cash throughout. You can also invest up to £3,000 in a Stocks and Shares Mini ISA, and, less popularly, £1,000 in an Insurance Mini ISA. However you can only invest in one Maxi ISA **or** one of each of the types of Mini ISAs in one tax year, you cannot combine the two types.

Managed Funds Performance

Most individuals tend to concentrate on the Managed funds for their unit trust and ISA selections so that they do not have to worry about the asset allocation decisions themselves. Here are two tables that will help you to differentiate between the ones on offer.

Fund	DWS Managed %	Invesco Perp World Income %	Invesco Perp World Growth %	Newton Managed %
UK	52	44	60	55
Europe	11	11	14	13
US	7	8	12	10
Japan	4	-	7	5
Far East (ex Jap)	4	10 (inc Japan)	5	9
Bonds	16	27	-	2
Cash	5	-	-	3
Other	1	-	2 (inc Cash)	3

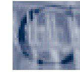
Fund	DWS Managed	Invesco Perp World Income	Invesco Perp World Growth	Newton Managed
Management	Active	Active	Active	Active
Initial Charge	0.50%	0.25%	0.25%	0.00%
Annual Charge	1.50%	1.50%	1.50%	1.50%
Performance/(Quartile) 1 year to 3/02/03[1]	-22.9%/(2)	-18.7/(1)	-28.7/(3)	-25.8/(3)
Performance/(Quartile) 1 year to 1/02/02[1]	-14.5%/(2)	-7.0/(1)	-13.5/(2)	-12.6/(1)
Performance/(Quartile) 1 year to 1/02/01[1]	5.2%/(2)	12.4/(1)	10.5/(1)	6.2/(1)
Performance/(Quartile) 1 year to 1/02/00[1]	14.8%/(3)	14.5/(3)	28.3/(2)	22.9/(2)
Performance/(Quartile) 1 year to 1/02/99[1]	12.4%/(1)	4.7/(4)	4.8/(4)	13.9/(1)
Annual Compound over 5 years	-2.2%/(2)	0.4%/(1)	-1.7%/(2)	-0.7%/(1)
S&P Rating[2]	3 Star	5 Star	4 Star	4 Star
Sector[3]	Balanced Managed	Balanced Managed	Active Managed	Active Managed
Volatility[4]	3.8	4.0	5.1	4.4

[1] Performance/Quartile figures are based on offer to offer, net income reinvested. Discrete performance for year stated.

[2]S&P rating is out of a possible 5 Stars and is based on 3 year performance

[3]Funds from differing sectors so be careful with direct comparisons

[4]Volatility is expressed as standard deviation of monthly returns over 36 months. The higher the figure; the higher the risk…………..Source: Micropal



Unit Trust/ISA Transactions - CHECKLIST

The design of the transact service is to facilitate your ISA/Unit trust investment at the most competitive initial charge rates possible. This is done with the minimum of administration on your part i.e. we try to remove the burden as much as possible.

It is extremely important that you make sure you invest via the transaction services if you wish to take advantage of the full discounting of initial commission as well as the discounts negotiated on your behalf. The full effect of these rebates effectively reduces the more usual 5.25% initial charge down to no more than 0.5%.

WE ARE RECOMMENDING THAT INDIVIDUALS (AND FAMILY) INVEST VIA THE COFUNDS STRUCTURE FOR UNIT TRUSTS/ISAs. PLEASE NOTE, HOWEVER THAT CURRENTLY A NUMBER OF FUNDS ARE NOT AVAILABLE ON THE COFUNDS LIST. INVESTMENTS WITH CERTAIN HOUSES WILL NEED TO BE MADE THE "OLD" WAY I.E. VIA THEIR OWN APPLICATION FORMS.

- *Applications Forms* - these can be obtained from clarity's Administration Centre in Woking 01483-729393 email enquiries@clarityglobal.com or via the www.clarityglobal.com website
- *Cheques* - make these out to Cofunds or the respective investment houses direct (not to clarity).
- *Personal Investment* - ISA rules are similar to PEPs in that the investor must be one of the names on the account. For unit trusts there is no such restriction.
- *Completed Forms* - send these back to clarity at our new Administration Centre which is Stadium House, 73 Walton Road, Woking, Surrey GU21 5DW.
- *Discounts/ Commission Rebates* - it is important to send forms back to clarity to ensure that the lower charges apply. We have had some applications sent in direct in the past where the investment house refused to amend the terms retrospectively. In most cases the savings are around 5% of the monies invested so please take care!
- *Proof of Identity* - apart from the application and cheque, the only piece of information we need from you is two forms of identity (to allow us to comply with the Money Laundering Regulations 1993). We need your driving licence or passport plus proof of address (utility bill, bank statement etc). If you have made an investment with us in the past and have already presented proof of identity then there is no need to provide it again. **Please note that without this documentation your investment may be delayed.**

Please remember that the Transact Service is extended to all members of the family: spouses, partners, children (must be over 18 for an ISA) plus aunts, uncles etc. Our objective is to make life as straightforward, and cost efficient, as possible for you and your family when considering ISA investments. **If you are sending in an ISA form for a relative then please attach a covering note/memo so we can refer to you as the "link individual" to that person.**

You are, of course, at liberty to use whichever transaction facility you wish. However, it would be wise to check that the terms are as competitive as offered here. We go to great lengths to rebate all initial commission and negotiate aggressively for discounts on your behalf. clarity makes no income on the initial investment. **Also, please remember that we can transact virtually any unit trust/ISA investment on favourable terms: it doesn't have to be one from the Buy List above.**

The only area where you will see reference, on any subsequent statements of investments, relating to payments to us, is with respect to "renewals". This is not an initial charge but a payment back to the registered agent i.e. clarity in this case, to cover "servicing" costs. The payment is normally a fraction of a percent and is a constituent part of the annual management fee already applied i.e. it is not an additional charge on your investment. With PEPs and ISAs in particular, if an agent chooses not to take renewals then the investment house simply absorb it as extra profit.

Risk Warnings

Please note that the value of these investments and the income from them may go down as well as up. Past performance is not necessarily a guide to future performance.

It is common for funds to carry an initial charge of approximately 5%. This is reflected in the spread between the offer (buying) and bid (selling) prices. The performance figures used in this Newsletter have been calculated on a bid to bid basis rather than an offer to bid basis. This is because reinvested commission and discounts significantly reduce the charges for individuals. Where there is a residual initial charge, actual performance will be reduced as bid to bid assumes a nil initial charge. Where investments are made in overseas markets, there is an additional risk of losses through currency fluctuation.

Please consult the Key Features document, which is sent with any application forms, before investing, for a full expression of charges.

Cofunds

We encourage our clients to make their investments through the Cofunds administration system. This system provides a convenient single point of reference, at no additional cost to the investor.

Please note that a small number of funds are not available via Cofunds and should you have any specific queries, please contact your usual clarity adviser.

What is Cofunds?

Cofunds is a limited company specialising in the provision of a centralised administration service covering most of the UK's leading investment houses. It offers access to a range of over 400 investment funds from within a single administration platform, removing the need to deal with each fund provider individually.

Who owns Cofunds?

Cofunds is owned in equal shares by Gartmore, Jupiter, Threadneedle and M&G. They were the first companies to have their funds traded by Cofunds.

What service does it provide?

Cofunds administers investors' investments in the same way existing fund providers do.

They arrange for and oversee the transfer of existing holdings.

They maintain a detailed record of investments and provide a consolidated valuation at half yearly intervals.

Investors are able to purchase and sell units and shares in a wide range of funds in a single transaction and consolidated contract notes are issued.

What does it cost?

Cofunds does not charge for its normal service. They take a small proportion of the annual management charge levied by the fund providers who are happy with this arrangement, as they make savings in administration and communication costs.

Can I change investments held within Cofunds?

Once an investment is held within Cofunds, it is possible to switch between funds quickly and easily using a request form available from clarity. Investors should note, however, that reinvestment into a new fund will be subject to an initial charge by the new fund provider (but at our normal discounted rates including nil commission) and, where the investment is not within an ISA or PEP, the switch will count as a disposal for Capital Gains Tax purposes.

Can I make ISA investments through Cofunds?

Both Mini and Maxi Stocks and Shares ISAs can be purchased through Cofunds thus giving the additional advantage of holding funds from more than one provider within a single ISA. Cofunds does not, however, accommodate the purchase of individual shares (including investment trusts), only unit trusts/OEICs.

Can I make regular savings via Cofunds?

Regular savings can be made to ISAs but this is not yet available for "unwrapped" unit trusts or OEICs. If you wish to make regular investments to a unit trust or OEIC, please contact clarity.

Can my existing investments be accommodated within Cofunds?

Unit trust and OEIC investments within any of the participating funds can be transferred "in specie" at no cost although those held in a nominee name may be subject to a charge by the nominee company. This is very exceptional but can apply to holdings in self invested pensions, in particular.

Most ISA and PEP holdings can be transferred in the same way through a process of "re-registration". This means that you spend no time out of the market and your Cofunds account will show exactly the same number of units/shares after the transfer has been completed. In some instances, a charge may be made.

For those companies that do not offer re-registration, there will technically be a sale and repurchase so the number of units once invested in Cofunds may differ. This will be in the main because the fund will be in cash for a few days in the process during which markets may move either for or against you.

However, this accepted, the majority of funds will be transacted at nil initial charge on reinvestment as a result of clarity waiving the 3% initial commission. With certain exceptions, there may be a net charge as there would be for a new deal (if no preferential terms from the investment) but clarity would again disclaim initial commission.

Is the security of my investment affected?

You will be recognised as the beneficial owner of your investments at all times but you must not assign this right to any other person or organisation.

Fund holdings will be amalgamated with other investors and held in the name of Cofunds Nominees Limited.

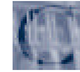
Cofunds Limited is regulated by the Financial Services Authority offering the same level of investor protection afforded to those who invest direct with fund providers.

What if I do not want to use Cofunds?

Not a problem. Please contact clarity and we will be pleased to supply you with the appropriate application forms to enable you to invest directly. Please ask for Richard Hill, richard.hill@clarityglobal.com , 01483 729393.

Can I purchase funds direct from Cofunds?

Cofunds caters exclusively for the intermediary market and purchases must be transacted through authorised companies and individuals. In order to minimise the administrative burden for all parties, clarity has developed a link through our website at www.clarityglobal.com which will enable our clients to place an order to invest directly using debit card or through CHAPS payment. This facility will be available from 1 March 2003 and will enable clarity investors to deal "on line".



Equitable Life – Update March 2003

Recent Developments

- Legal Action unsuccessful
- No change to surrender and maturity penalties
- Position of contingent payment from the Halifax
- Special Offer from the Bank of Scotland

Legal Action

The recent court action, where Equitable claimed up to £2.6 billion from former auditors Ernst and Young, has failed. Equitable had argued that Ernst and Young had failed to identify the Guarantee Annuity liability resulting in sudden and unexpected costs for the insurer, and that it had lost the opportunity to put itself up for sale at an earlier time.

The Judge found little merit in the Equitable case, but has given leave for an appeal. Equitable has stated that it is unlikely to appeal in respect of the loss of sale opportunity, but may appeal on certain other issues. The claim will be reduced to one of hundreds of millions.

The court action has also slowed the progress of the enquiry chaired by Lord Penrose, which was due to report this summer, but which may now not report until 2004. There is no expectation that an interim report will be published.

Surrender and Maturity penalties

Despite continued weakness that brought the stockmarket down to the levels of November 1995, Equitable have not increased their surrender penalty, which remains at 20%. The 10% penalty on policy values at maturity has also remained in place. What this means is that, if a policyholder were to leave and suffer the penalty, they would only have to recoup a 10% (20-10%) figure over the remaining life of the new contract, if the assumption is that the maturity penalty of 10% would still apply.

Holders of With Profit Annuities have had their payments cut by 30%. This does not affect holders of other Equitable policies, or conventional annuities.

The market falls in January of this year were in part fuelled by actions of insurance companies selling shares in order to maintain their statutory solvency requirements. This selling placed further pressure on already weak markets, creating a vicious circle and helping to push Gilt yields down. The Financial Services Authority acted to relax the solvency requirement (for the fourth time), and this seems to have halted the downward market spiral. The Equitable may have been less affected by this than some other insurers as it now has minimal equity exposure in the With Profits Fund.

There is little prospect of Surrender and Maturity penalties being reduced in the short term, and many other firms have been forced to introduce similar measures. For example, Standard Life now imposes a 25% penalty on early withdrawals from some of its pension policies.

Contingent Payment from the Halifax

When the Halifax took over the unit linked business of Equitable, it agreed to transfer an additional £250 million to the With Profit fund if a new business sales target was met. It now seems highly unlikely that this payment will be made.

Special Offer from the Bank of Scotland

The Bank of Scotland, as part of the Halifax Bank of Scotland (HBOS) group, is offering special terms for large transfers into its Stakeholder Pension. It will make no initial charge and not take any annual management fee for a period of five years on transfers in excess of £50,000. Once these five years have passed the plan will revert to the charges levied at that time. Currently the annual charge would be 0.6%, and it cannot exceed 1% per year under stakeholder rules.

This offer appears generous, but has certain drawbacks. To benefit from the deal, the transferred money must remain invested with Bank of Scotland for the full five-year term. The benefits would be "clawed back" if the money were withdrawal before the end of this period.

The Performance of the former Equitable Funds has been good. The HBOS group has built a sound asset management business from the various component firms, and with more than £55 billion under management, it has the necessary critical mass. There is no guarantee that this performance will continue, however.

The table below shows the performance of four important unit linked pension funds since the sale of Equitable Life's unit linked business, compared with the sector average.

Fund	**Return April 2001 to February 2003***
Halifax Life Balanced	-23.60%
Balanced Managed Sector	*-26.50%*
Halifax Life Pelican	-29.90%
UK All Companies Sector	*-34.30%*
Halifax Life International Growth	-34.50%
Global Equity Sector	*-36.20%*
Halifax Life Gilt and Fixed Interest	6.90%
UK Fixed Interest Sector	*6.60%*

Figures are on an offer to offer basis, and supplied by Micropal.

The special terms apply only to transfers (excluding Equitable Life Unit Linked Pensions). Normal terms will apply to single and regular contributions made in addition to the transferred pension.

In summary, although tempting from a charging point of view, this route give you little flexibility. Other options will, of course, involve an annual management fee but would not restrict you for the 5 year period of the offer. Transactions through clarity (via the Stakeholder section of our website www.clarityglobal.com) would, in any event, involve no initial commission.

Hargreaves Lansdown Offer

Hargreaves Lansdown, a national IFA, have managed to get hold of a list of Equitable policyholders and are working their way through that list encouraging investors to transfer. Their argument surrounds an opinion that now would be a good time to move from an almost entirely bond related fund within Equitable, to a more equity oriented solution external to Equitable.

You may or may not agree with this. If you don't, but are still comfortable with bonds, you might still look to move to take away the risk of collapse and how that might affect your investment. If you agree that the penalty can be absorbed, and you would like to move more to equity orientation then we can help you do so at nil initial commission rates. Hargreaves Lansdown are commission based advisers so please assess the level of charges before acting.

Cash Investments

For those looking for simple deposit recommendations, here is a list of some of those accounts currently available.

Company	*Notice*	*Size of Deposit*			*Notes*
		£10,001	*£25,001*	*£50,001*	
Abbey National www.abbeynational.co.uk	None	4.00	4.00	4.00	Internet a/c. Variable bonus (currently 0.5%) for 6 months.
Birmingham Midshires 0800 169 1543	None	4.20	4.25	4.25	Telephone a/c. Min. transaction £500. 2 w/ds pa. Includes 0.5% bonus for 1st year.
Halifax www.halifax.co.uk	None	4.00	4.00	4.00	Internet a/c. Rate with cash card 3.4%.
Coventry www.coventrynetsave.co.uk	None	4.00	4.00	4.00	Internet a/c. Cash card.
Goldfish www.Goldfish.com	None	3.80	4.00	4.00	Internet a/c but also by post/phone. Int paid monthly. Max balance is £50,000.

Notes :

1. The interest is payable annually (except Goldfish paid monthly).
2. The rates are variable and can change without notice.
3. The rates shown are gross, and will be taxed at the investor's top rate of income tax.
4. These rates are not necessarily the most competitive amongst all building societies, but do represent the major institutions.
5. Source: www.moneyfacts.co.uk

Suitability & Affordability

It is possible to invest in these funds using the Transact Service. This Service does not offer any advice as to the suitability or affordability of the funds for individual investors although it does give guidance on the funds to consider. Individuals wishing to make investments through this Service should approach clarity for details.

Any investments transacted as a result of this Newsletter will be treated as a Direct Offer investment unless the investor indicates that specific advice has been given.

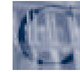
Individuals utilising the One to One Service may request specific advice as to the suitability and affordability of particular funds. The One to One Service may also include recommendations of funds in sectors not included here.

Risk Warnings

Please note that the value of these investments and the income from them may go down as well as up. Past performance is not necessarily a guide to future performance.

It is common for funds to carry an initial charge of approximately 5%. This is reflected in the spread between the offer (buying) and bid (selling) prices. The performance figures used in this Newsletter have been calculated on a bid to bid basis rather than an offer to bid basis. This is because reinvested commission and discounts significantly reduce the charges. Where there is a residual initial charge, actual performance will be reduced as bid to bid assumes a nil initial charge. Where investments are made in overseas markets, there is an additional risk of losses through currency fluctuation.

Please consult the Key Features document, which is sent with any application forms, before investing, for a full expression of charges.



APPENDIX A

INTRODUCTION TO YOUR ADVISERS

clarity

"What is conceived well is expressed clearly, and the words to say it will arrive with ease"

Our Philosophy

This quote used in our brochure embodies every aspect of our business in servicing the financial needs of our clients. clarity is there to understand what you want, explain all the investment options in simple "English" and help you implement the chosen solution at the minimum possible cost.

We apply a no nonsense approach, with great emphasis on clear understanding and transparency. At the end of the day, the management of money is fundamentally simple, so why make it complicated?

Our Future

clarity was originally conceived and created to meet the needs of the partners of legacy PW and other professional partnerships. In the competitive environment we live in, clarity recognises the need to build a long-term relationship to create your trust in us. Our objective is to work in "partnership" with our clients to make the best use of your money with those decisions now and into the future.

Our only business is the provision of financial advice to individuals within partnerships and companies, as well as private clients. Our success is dependent upon our ability to deliver consistent financial advice to those clients over the long term.

Your Team

clarity has dedicated a team of advisers. Each team member will have responsibility for an individual client and will be their main contact. Having said that, we apply a policy of "double cover" so that a second adviser is briefed to allow cover for holidays, sickness etc. In fact, we work in teams of 2 advisers and 1 administrator/assistant for this reason.

The team members are: -

Angus Jones – was an employee with PW for four years where he developed for legacy PW partners the service you have now. His background is firmly in investment and tax having also worked for over four years for the financial services division of a senior investment management company in the City. He has advised clients for many years in all the aspects of investment, tax and pensions.
Direct Line 07930-418290 email **angus.jones@clarityglobal.com**

Claire Davies-Evans – worked for a number of years at PwC dealing with High Net Worth individuals. Claire is familiar with all levels of planning covering tax, pensions and investment for both UK based and overseas individuals.
Tel 020-7556-7170 email **claire.davies-evans@clarityglobal.com**

Glyn Bolton – spent a number of years at Capel Cure Sharp and then 4 years at Kleinwort Benson. He has been involved in detailed work on group pension arrangements and investment issues.
Tel 020-7556-7170 email **glyn.bolton@clarityglobal.com**

Ken Chapman - Ken Chapman has a wealth of experience of dealing with High Net Worth individuals. He is qualified in Taxation and in Financial Planning and holds the ATII qualification. Ken started his career in the Inland Revenue and has advised wealthy clients at a number of private client firms including Capel Cure Myers, Robson Rhodes and was head of financial planning at Deloitte and Touche. He is a previous editor of the Butterworths guide to Financial Planning and currently writes the chapters on Insurance and Pensions for Tolleys Estate Planning.
Tel 020 7556 7170 email **ken.chapman@clarityglobal.com**

Andrew Jones - Andrew Jones has worked in the investment business for 9 years, latterly at Blick Rothenberg and Deloitte & Touche Private Clients. Andrew is qualified to give advice on all Pensions and Investment issues. He is additionally responsible for clarity's investment monitoring and investment fund selection process.
Tel 020 7556 7170 email **andrew.jones@clarityglobal.com**

Claire Middleton – worked for 5 years at PricewaterhouseCoopers, qualifying as a Chartered Accountant and dealing with the financial affairs of High Net Worth individuals. Claire has dealt with advice to clients in all aspects of investments, tax and pensions.
Tel 020-7556-7170 email **claire.middleton@clarityglobal.com**

Richard Hill – is our paraplanner who has been involved with looking after the financial affairs of High Net Worth Individuals for many years. He provides support to the advisers and is responsible for ensuring that service standards are maintained.
Tel 020-7556-7170 email **richard.hill@clarityglobal.com**

Linda Marsh – is an administrator. Linda particularly supports Angus and Claire Middleton. Linda is FPC1 qualified. Please channel any administrative queries to Linda Marsh in the first instance.
Tel 01483-729393 email **linda.marsh@clarityglobal.com**

Sarah Wood – has joined as an administrator. Sarah particularly supports Claire Davies-Evans and Glyn. Please channel any administrative queries to Sarah Wood in the first instance.
Tel 01483-729393 e-mail **sarah.wood@clarityglobal.com**

All members of the advisory team have successfully completed professional exams within the Securities Institute, Institution of Taxation and/or Chartered Insurance Institute. Their combined knowledge is designed to cover all aspects of personal finance.

Offices

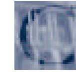
London Office: 75 Cannon Street, London EC4N 5BN.
Tel: 020-7556-7170

Administration Centre: Stadium House, 73 Walton Road, Woking, Surrey GU21 5DW
Tel 01483-729393

Technological Developments

We are innovative in using the Internet and e-mail to deliver the service to you. For example, we have developed an electronic questionnaire, to avoid you having to complete one from scratch when we come to review your finances in a year's time: all we do is send back the last electronic copy for you to update.

Our Webpage has now been launched as is available via www.clarityglobal.com . The website will allow access to more direct transactions of ISAs and unit trust and stakeholder pensions through our clarityTRANSACT service.



APPENDIX B

TERMS OF BUSINESS

Regulator's Statement

Those who advise on life assurance, pensions and unit trust products are EITHER independent advisers, OR representatives of one company. Your adviser is independent and will act on your behalf in advising you on life assurance, pensions or unit trusts products. Because your adviser is independent, he or she can advise you on the products of different companies.

clarity is regulated by the FSA and is bound by its rules. The address for clarity is: 75 Cannon Street, London EC4N 5BN. Tel 020-7556-7170

Services

We offer advice on life assurance, pensions, unit trusts, investment trusts and securities, both readily realisable and not readily realisable. We are authorised to manage portfolios without discretion.

We also offer advice in certain areas not covered by the Financial Services Act (1986) including: term assurance, mortgages, medical insurance, long term care, disability insurance, Tessas and National Savings. These areas are not covered by the Act and hence THERE IS NO COMPENSATION SCHEME FOR THESE INVESTMENTS.

Records

You have a right to inspect copies of contract notes, vouchers and entries in our books or computerised records relating to your transactions. We keep records of our business transactions for at least six years.

Complaints

If you should have any complaint about the advice you receive or a product, which you have bought, then please write to the Compliance Officer at the address above.

Investors' Compensation Scheme

If you make a valid claim against clarity in respect of the investments we arrange for you and we are unable to meet our liabilities in full, then you may be entitled to redress from the Investors' Compensation Scheme. Details of the cover provided by the Scheme are given in a leaflet, which we will send you on request.

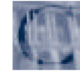
Independence

We offer independent financial advice, but occasions can arise where we, or one or our other customers, will have some form of interest in business, which we are transacting for you. If this happens, or we become aware that our interests or those of one of our other customers, conflicts with your interests, we will inform you and obtain your consent before we carry out your instructions.

Instructions

When we have arranged investments, for which you have given instructions, we will not give you any further advice unless you request it, but will be glad to advise you at any time you ask us to do so.

We require our clients to give us instructions in writing to avoid possible disputes. We will, however, accept oral instructions provided they are subsequently confirmed in writing.



You, or we, may terminate our authority to act on your behalf at any time without penalty, subject to contract. Notice of this termination must be given in writing..

Charges and Commission

We normally charge fees at the rates set out in our attached fee schedule as amended in writing and notified to you from time to time. We will notify you in writing before we carry out any chargeable work, explaining how much it will be.

We generally do not derive income from commission, however, in some cases it is unavoidable. Should initial commission be paid to us in respect of transactions in life assurance, unit trusts, other regulated collective investment schemes, investment trust companies' shares held in a PEP or regular savings scheme, then we shall tell you the amount of that commission payable to us on any such investment. Any renewal commission, however, will be retained by clarity.

clarity DOES NOT HANDLE CLIENT MONEY

We never accept cheques made out to us, unless it is a cheque in settlement of charges or disbursements for which we have sent you a bill, nor do we handle cash.

Documents

We will make arrangements for all your investments to be registered in your name unless you first instruct us otherwise in writing. We will forward to you all documents showing ownership of your investments as soon as practicable after we receive them. Where a number of documents relating to a series of transactions is involved, we normally hold each document until the series is complete and then forward them all to you in one batch.

UK Money Laundering Regulations (1993)

We are obliged to conform with the UK Money Laundering Regulations which require financial institutions to confi rm the identity and place of residence of each investor. This may require sight of certain documentation and/or checking with a credit reference agency, the electoral roll or directory enquiries in order to verify your details. A credit reference agency may record the search. We take no responsibility for any delay in investing where money laundering verification is needed.

Confidentiality

It may be necessary for external professional advisers to inspect our records. We will not pass information relating to you to another party without your prior consent unless we are legally obliged to do so.

Data Protection

We are required to demonstrate to the FSA that we “know our client”. Through this process we may request “sensitive data” from you e.g. your state of health. If you agree to provide this information, we will take this as your explicit consent to the processing of such information. Your “Data" will be put onto clarity’s database/manual records and held, processed, disclosed and used by us and third party product providers in servicing our/their relationship with you, including identity and money laundering checks. If you do not agree to this storage, use and disclosure, please write to the Data Protection Officer, clarity Limited., Stadium House, 73 Walton Road, Woking, Surrey, GU21 5DW.

clarity Limited and third party product providers may use and analyse your personal data, including the nature of your transactions to give you information by post, telephone, fax or e-mail about our/their products and services and those of selected third parties which may be of interest to you. If you do not wish to be contacted for marketing purposes please write to the Data Protection Officer, at the above address.