

2013

Prepared for  
Christine Example Client

By  
Example Financial Adviser

24 October 2013

# The Timebank Express



## FINANCIAL ADVICE REPORT

This report is based on the information provided by you at our recent meeting. If you see any inaccuracies in this report, or if you do not agree with any stated assumptions that may have been used, do please advise me immediately as this could have an impact on the advice offered.

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## WHAT SHOULD I EXPECT FROM THIS REPORT?

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The aim of this report is to look at your financial arrangements and establish a financial planning strategy to satisfy your current circumstances, your lifestyle and financial objectives and your tolerance to investment risk and volatility.

One important point is that this report and recommendations will be affected by the accuracy of the information we hold, which we discussed during our recent meeting when I provided you with my Terms and Condition of business, Keyfacts about our service and my business card.

Furthermore, we have obtained verbal confirmation of data on your existing policies, investments and schemes from the relevant insurer, so we cannot guarantee the accuracy of this information until we receive written confirmation.

I have created the report in three distinct sections:

- **Summary of information about you.**

This includes:

- What Are My Current Circumstances?
- What Are My Objectives?
- Can I Achieve My Objectives

- **Our advice and recommendations**

This includes:

- What Action Do I Need To Take?
- Quickview Action Plan

- **The important information surrounding our advice**

This includes:

- Investment Risk Warnings
- Attitude to Risk Profiles
- Our Investment Strategy
- Your Recommended Investment Portfolio
- Analysis of Existing Arrangements
- Suitability Of Advice
- Summary Of Our Charges

This report presents a defined strategy going forward, and may well generate issues that will require further discussion with you before any action is taken. As such, I welcome any further queries you may have.

You have not placed any restrictions on me and I confirm I am appropriately qualified to offer this advice to you.

## QUICKVIEW ACTION PLAN

	Suggested Action	Reason for this suggestion	Timescales and Responsibilities
Investments	<p>Transfer your Skandia ISA to the AXA Elevate Platform.</p> <p>Sell the following holdings in the Skandia Unit Trust and reinvest into an ISA and GIA via the AXA Elevate Platform</p> <ul style="list-style-type: none"> <li>• Invesco Perpetual Income</li> <li>• First State Global Infrastructure</li> <li>• Gartmore European Select Opps</li> <li>• Gartmore US Opps</li> <li>• GLG Japan Core Alpha</li> <li>• Ignis Argonaut European Income</li> <li>• Invesco Perpetual Corporate Bond</li> </ul> <p>Invest into the OBSR Balanced Portfolio</p>	<p>The platform offers access to an almost unlimited array of investment options.</p> <p>Investing in the OBSR portfolio offers a solution to the problem of adjusting the investment profile to suit investment conditions.</p> <p>The platform offers an easier administration solution.</p> <p>Once established, the platform offers the ability to add other tax structures, such as pensions, bond and personal portfolios.</p>	Christine, with help of Adviser and the administration team

# SUMMARY OF INFORMATION ABOUT YOU

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# WHAT ARE MY CURRENT CIRCUMSTANCES?

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## BACKGROUND AND CURRENT SITUATION

### PERSONAL

An important part of the planning process is that we form an impression of your current circumstances and your objectives.

As we understand, you are 52 years old and have no financially dependent children.

### EMPLOYMENT

We generally all rely on our daily work to generate our income. In your case, you are not currently working, drawing on your savings to provide you with sufficient income each month. You are actively seeking work and are on the shortlist for a position at the Pension Service but you won't know about this until September 2011.

It is important that we understand your professional intentions for the future, so that we can appropriately manage your resources and help you adjust to change and where possible maximise on any opportunities.

After all, we aim to work with you for as long as we can, often through retirement and on as far as helping the next generation with any legacy you may leave.

### YOUR ATTITUDE TO RISK

In order to ensure we are creating appropriate recommendations to do this, we need to be aware of what risk you are willing to take.

We have asked you to complete a questionnaire and the answers you have provided enable us to draw a profile of the type of risk you are willing to take.

In your case, you have a balanced attitude toward investment risk. You need to understand how this has been concluded, so do please read the definitions in the appendix to ensure that these really do apply to you.

Another important point is to make recommendations in a way that is sympathetic to your financial experience. In your case these recommendations are made on the understanding that you have previous experience of investing in equity based funds via your existing ISA and Unit Trust Portfolio.

### LEGAL

It is essential that you have a Will that is not only up to date, but continually monitored. At our meeting, you informed me that Christine, you do not have a Will and we recommend that one is put in place at your earliest convenience.

We also need to ensure that appropriate international financial planning opportunities are maximised. To this end, we understand that you are both UK Resident and UK Domicile.

## WHAT ARE MY OBJECTIVES?

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- You have an ISA and Unit Trust Portfolio with Skandia, which require analysis to ascertain whether they still meet your needs and circumstances.
- You want to ensure that your affairs are easy to administer without any unnecessary charges or taxes.
- You require a defined investment strategy to be implemented which matches your needs and attitude towards investment risk.
- You want to know that your affairs are actively managed by us.

## CAN I ACHIEVE MY OBJECTIVES?

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- **You require a defined investment strategy to be implemented which matches your needs and attitude towards investment risk.**

Your Unit Trust/ ISA portfolio does not match your own personal attitudes to investment risk.

The portfolio is also set at a higher level of risk than you have indicated you are willing to accept.

There does need to be a re-evaluation of the assets held within your two portfolios as the level of risk is currently too high.

- **You want to know that your affairs are actively managed by us.**

If you follow these recommendations, you will have an actively managed investment strategy run by people with far greater investment expertise than ourselves.

At the same time, by meeting regularly we can review your affairs and take action as it is needed.



# OUR ADVICE AND RECOMMENDATIONS

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## WHAT ACTION DO I NEED TO TAKE?

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### INVESTMENTS

I recommend that these assets are transferred to the AXA Elevate platform and invested into the OBSR Balanced Solution.

The Elevate platform offers a wide variety of investments from which we are able to develop a portfolio which matches your needs not only now but the extensive options ensure that as your objectives change your portfolio can be adapted to meet these changing needs.

The Elevate platform has negotiated reduced annual management charges on a vast number of funds. These reduced charges will be passed onto you.

### IMPLICATIONS

- Charges

The charges on the existing arrangements equate to 1.41% p.a.

Our recommended arrangement has the following charges:

Implementation Charges		Annual Service Charges	
IFA	3.00%	IFA	0.50%
Elevate	0.00%	Elevate	0.40%
Investment Manager		Investment Manager	0.75%
Total	3.00%	Total	1.65%

This means that following my advice will result in a charge of 0.24%p.a. more than you currently pay. In addition, it will cost you 3% initially, which is a cost you would not have paid by staying where you are.

We feel this is good value for the added benefits.

You should be aware that the new funds on the new platform may make a charge on entry to the fund. These are all outlined in the enclosed illustrations, key features and factsheets. Furthermore, charges will vary once you are invested so this is an indication.

- Tax

On sale of any of the individual funds within your unit trust portfolio, the gain created is liable to capital gains tax.

For the current tax year, the gain that can be created before any tax liability is £10,600 and, therefore, we need to make sure that your gains for the current tax year do not exceed this amount.

Your Legal & General Capital Protected Plan is likely to mature early in January 2012 via the 3 year “kick-out” option and at this time, we have estimated a gain of £6,250 will be generated.

This only leaves us with £4,350 of gain that can be generated within the sale of the holdings in the Skandia Unit Trust,

I am summarising below my suggestions with regard to which funds are sold and the gain that will be created and you will see that this generates approximately £18,105 that can be used to invest in a Stocks and Shares ISA for 2011/12 (£10,680) as well as to open a new General Investment Account (£7,425).

Capital Gains Tax (CGT) Calculation Wed, 08 Jun 2011			
Description	Acquisition Cost	Sale (Disposal) Proceeds	Gain / Loss
1 Inv Perp Income	£2,822.64	£3,649.81	<b>£827.17</b>
2 First State Gbl Infrastructure	£1,764.15	£2,370.89	<b>£606.74</b>
3 Gartmore Euro Sel Opps	£1,411.32	£1,900.16	<b>£488.84</b>
4 Gartmore US Opps	£1,411.32	£2,001.67	<b>£590.35</b>
5 GLG Core Japan	£1,764.15	£2,080.18	<b>£316.03</b>
6 Iginis European Income	£1,411.32	£1,799.64	<b>£388.32</b>
7 Inv Perp Corporate Bond	£3,175.47	£4,303.39	<b>£1,127.92</b>
Potential Taxable Gain:			<b>£4,345.37</b>
Minus unused annual allowance:			<b>£4,350.00</b>
Gain minus unused annual allowance:			<b>£0.00</b>
Tax Payable on Gains (at 18%)			<b>£0.00</b>

In the event that the Legal & General Capital Protected Plan does not mature early in January 2012, we would then look to release further funds from the Skandia Collective Investment Account to fully utilise your Capital Gains Tax Allowance for the current tax year.

In any event, we will review matters again in April 2012 to release further funds to fund an ISA contribution for the next tax year.

# THE IMPORTANT INFORMATION SURROUNDING OUR ADVICE

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## INVESTMENT RISK WARNINGS

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It is important that you are not only fully aware of the advantages of the recommendations I am making, but also the potential disadvantages. Although I have made every endeavour to both understand your objectives and situation and then match my advice to these, only you will have the fullest appreciation of your feelings in relation to these areas. You must therefore carefully consider all the aspects of my recommendation, together with the potential drawbacks. In relation to the recommendations made in this report, I would like to draw your attention to the following risk warnings:

- For a full explanation of the charges and how they affect your plan, please refer to the personalised illustration and Key Features Documentation, and Charges Guide supplied by the Product Provider. This describes the features of the contract and the various ways the provider charges to provide those features. You have been asked to sign this to confirm you are aware of these features and charges.
- Recommendations are based on our understanding of current tax legislation, which may be subject to change and review. Tax decisions are the responsibility of the Trustees.
- The value of the investment is determined by the value of the units, the price of which can fall as well as rise. The overall value of the investment is therefore not guaranteed and you might get back less than you originally invested, especially in the early years.
- You should remember that past performance is not necessarily a guide to future performance. Fund selection has been made on the grounds of investment strategy. Past performance data has been provided by Financial Express Holdings, January 2012.
- Unit prices can fall as well as rise and as such the capital value, growth and income payments are not guaranteed.
- The value of investments and the income from them may fall as well as rise. Investors may not get back the amount they originally invested when they sell their investment. The value of investments may be affected by changing Stockmarket conditions and, where applicable, by exchange rate movements. Where investment is made in emerging markets their potential volatility may increase the risk to the value of the investment. The registration and settlement arrangements in emerging markets may be less developed than in more mature markets so the operational risks of investing are higher. Political risks and adverse economic circumstances are more likely to arise within emerging markets putting the value of the investment at risk. Investment in technology related stocks could be more volatile than investments in more traditional or longer established companies. Above average price movements can be expected.
- You may not be able to encash your investment in the Property Fund whenever you choose because the land and buildings in the fund may not always be easy to sell. During periods when they are not readily saleable, the fund manager may refuse to repurchase your units / the life office may refuse to accept a surrender of your policy. Typically providers of Property Funds retain discretion to defer capital withdrawals for up to 6 months during such periods.
- If you proceed with these recommendations, you will receive a summary of the plan details from the product provider. This will include a 'cancellation notice'. If you wish to cancel the application you need only sign and return this cancellation notice within the stated number of days of receipt of it. Any money already paid will be returned to you in full. If your money has already been invested, the value returned will depend on the unit price at the point of cancellation – and this could mean you get back less than you invested.

## ATTITUDE TO RISK PROFILES

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Attitude to risk is the indicator we use to help you balance the resources you have with the future you are looking to build. Everyone will say that they want the highest return for the lowest risk, and of course what one person calls risk another may call opportunity so what we need to do is work out which end of this spectrum each client fits.

Neither you nor IFA FIRM can simply decide what risk you are willing to take, so we have asked Towers Watson, a leading risk management company, to build a questionnaire for you to answer. The answers you provide create a psychometric profile. We have then collected those profiles to help create 6 categories that we then use to help us decide which investment profile you best fit.

These profiles are built to ensure you are exposed to certain tolerances to volatility and return so that our recommendations will work appropriately for your needs. We have already explained what the answers to the question mean for you, at the start of the report, but you should understand what the other definitions mean so that you can be sure this is the appropriate definition for you:

- A Cash Only investor is unwilling to take any risk of capital loss (other than a potential failure to keep pace with inflation) and would not feel comfortable if their capital fell in value.
- A Defensive Investor is looking for an investment where the value of their capital should not fall in the short term and aims to produce returns that are comparable with those from a high street deposit account, but have the potential for some long term growth. They would feel very uncomfortable if their investment rose and fell in value very quickly.
- A Cautious Investor is looking for an investment which, while giving some potential for real returns, aims to produce returns that are at least as good as those from a high street deposit account. A high level of security of their capital is a priority. Whilst recognising that investment values will change, they would feel uncomfortable if their investments rose and fell in value very rapidly.
- A Balanced Investor is looking for a balance of risk and reward, and whilst seeking higher returns than might be obtained from a deposit account, recognises that this brings with it a higher level of risk and that the value of their investment may fluctuate in the short term. They would feel uncomfortable if the overall value of their investments were to fall significantly over a short period and would not be happy to see their capital eroded.
- A Moderately Adventurous Investor is generally market aware and understands and is willing to accept a higher level of risk in return for the potential for higher returns in the longer term. They recognise that this may result in the value of their portfolio fluctuating, possibly significantly, in the short term.
- An Adventurous Investor is willing to accept a much higher level of risk in return for the potential for higher returns in the longer term. They recognise that this may result in the value of their portfolio fluctuating, possibly significantly, in the short term. They are aware that the risks are such that a significant percentage of the capital sum could be lost.

# OUR INVESTMENT STRATEGY

## How Other Financial Advisers Work

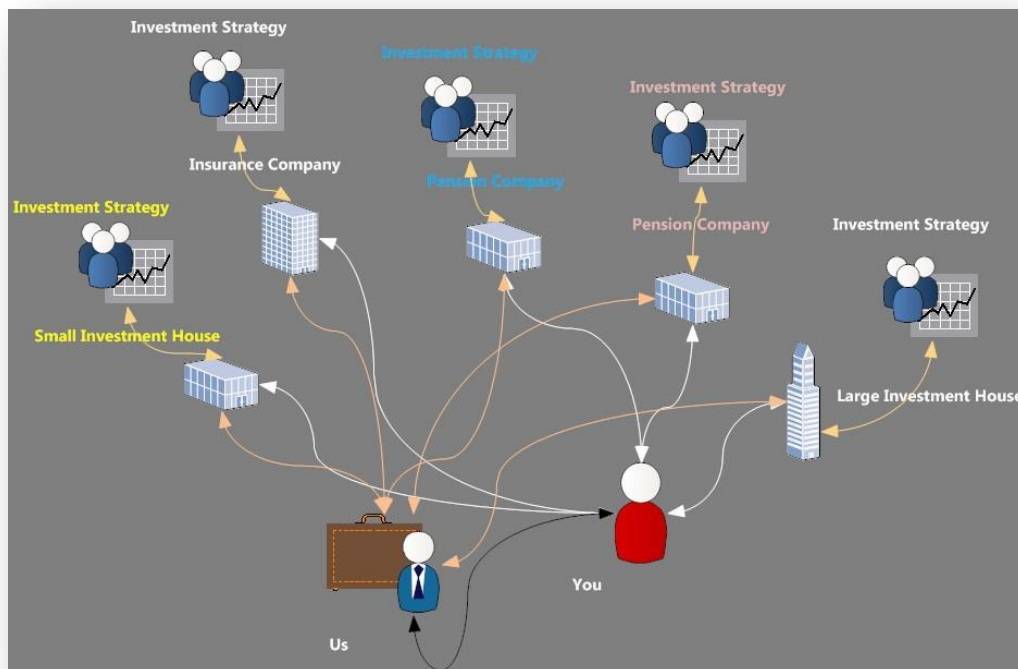
Financial planning is about creating solutions to satisfy a financial planning need, which generally involves using the characteristics or tax structures of 'products'. These products would generally be built by an insurance company or investment company based on certain tax legislation.

For example, people often think of a pension as the source of their income in retirement, when in fact the pension is merely a savings account that has been designed by an insurer to exploit the tax legislation laid down by the government. One of the reasons that we have so many different types of pension is that each successive government likes to make their mark by tinkering with this legislation.

So, having identified a structure that would be suitable, most advisers would then research the market to find which providers had the most appropriate product in terms of cost, flexibility and options. Once the provider had been selected, they might then select the investments from whatever funds that company offered.

Of course, their range may have been great at the time, but they were never going to stay at the top so the next time that you needed to put a new product in place, a different company would be selected.

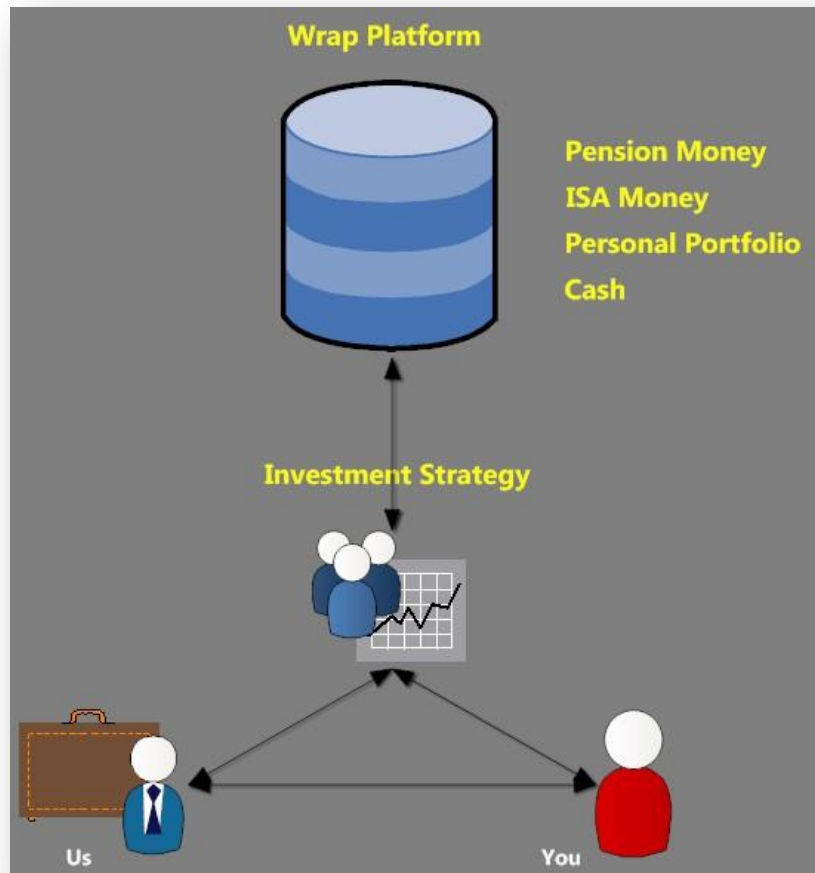
What makes this worse is that if they sell you several structures, invariably the most appropriate company for the pension would be different to the most appropriate for the ISA so what you ended up with was a collection of policies with different companies, selected at different times during your life, all with different investment options within them, as illustrated below.



## How IFA FIRM puts you back in control

Our Investment Strategy is designed to un-bundle all of your planning. In other words, we are moving away from talking about pensions, ISAs and investments as separate entities and instead we are focusing on your wider wealth.

The way we do this is to create a single point from which all of your money is managed with a defined, appropriate investment strategy. The illustration below shows how different this is to the old way:



We are able to do this due to the emergence of 'wraps' or 'platforms' in recent years. These are essentially technology driven arrangements that unifies your money so we can build a portfolio of funds with many specialist investment companies.

We use the wrap from AXA Elevate after having looked at the wider market and decided which wrap best suits the delivery of our service proposition, outlined previously. You are more than welcome to see the process we have applied in making this decision.

We will use it to access the various tax planning products that are appropriate for your needs. The reason that we think they are suitable for your needs are outlined in a later section.



For us, this means that we don't have to just accept whichever funds that company decides to make available, but instead we can work on a 'best of breed' basis, picking the most appropriate managers to do different jobs. Furthermore, if we need to change the profile this can be done easily right across your wealth.

In addition, and in reality most exciting of all, we can also apply the monies to different structures, such as Pensions and ISAs all from one portal.

This arrangement enables us to tactically exploit the tax planning benefits of the different structures to best serve your interests and objectives. Furthermore, this will greatly ease the administrative burden of managing your monies.

In later sections of this report we will outline how and why we think the arrangement would be suitable for you individually.

The Elevate Wrap has very straight forward charges, as outlined in the report.

## YOUR RECOMMENDED INVESTMENT PORTFOLIO

I have recommended the OBSR Balanced Portfolio for you, as this is appropriate to the definition of risk tolerance you have agreed.

The OBSR Portfolio is designed to take away the risk of a portfolio becoming inappropriate through market movement by actively readjusting the exposure to different assets according to the prevailing conditions.

This sounds great, but the additional reason we have selecting this partner is that they have an enormous research team looking at the various investment funds to decide which managers are best managing which assets.

What this means is that you have a portfolio of funds, made up of many leading investment houses, which are continually being changed based on their investment delivery and the market conditions.

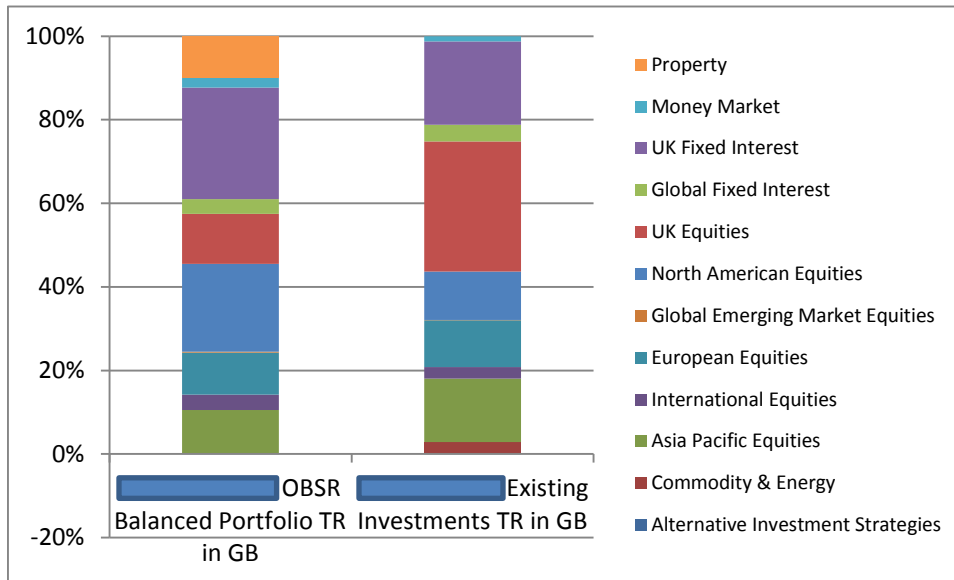
The OBSR Balanced Portfolio is currently constructed as follows:

Portfolio Composition										
Fund Manager	Name	Original % Holding	Hist. Yield	1 Year			3 Years			Crown Rating
				Perf.	Est. Contrb.	Qtl	Perf.	Est. Contrb.	Qtl	
Artemis	Strategic Bond - Mar 08	8.00	4.03	12.84	1.03	1	26.05	2.08	2	👑👑👑
Fidelity	Moneybuilder Income - Sep 95	8.00	3.40	5.96	0.48	3	26.21	2.10	1	👑👑👑
Invesco	Corporate Bond - Jul 95	8.00	3.97	8.57	0.69	1	28.08	2.25	1	👑👑👑
Fidelity	American - Jan 95	7.00	0.00	8.68	0.61	2	17.74	1.24	2	👑👑👑
Legal & M&G UK	Dynamic Bond - Apr 07	7.00	3.90	7.97	0.56	3	57.98	4.06	1	👑👑👑
M&G UK	American - Jan 95	6.00	0.00	7.22	0.43	3	13.29	0.80	3	👑👑👑
Threadneedle Inv	American Select - Aug 97	6.00	0.00	9.61	0.58	2	23.59	1.42	1	👑👑👑
M&G UK	Property Portfolio - Jun 09	5.00	2.88	3.60	0.18	4	n/a	n/a		👑👑👑
Threadneedle Inv	UK Property - Feb 07	5.00	3.25	0.03	0.00	4	-2.04	-0.10	2	👑👑👑
First State Investments	Asia Pacific - Jan 95	4.50	0.59	19.25	0.87	2	46.19	2.08	1	👑👑👑
AXA IM UK	Framlington UK Select Opps - Jan 95	4.00	0.70	32.19	1.29	1	26.08	1.04	1	👑👑👑
BlackRock	Continental European - Jan 95	4.00	0.41	33.03	1.32	1	26.49	1.06	1	👑👑👑
BlackRock	UK Dynamic - Oct 00	4.00	0.99	15.24	0.61	4	-5.41	-0.22	4	👑👑👑
Cazenove Invest Fund	European Equity (ex UK) - Jul 04	4.00	1.18	18.76	0.75	4	11.03	0.44	1	👑👑👑
Cazenove Invest Fund	UK Growth & Income - Dec 02	4.00	2.74	22.03	0.88	2	14.65	0.59	2	👑👑👑
Threadneedle Inv	Latin American - Nov 97	3.50	1.01	13.02	0.46	2	12.05	0.42	3	unrated sector
Fidelity	South East Asia - Jan 95	3.00	0.00	20.89	0.63	2	52.48	1.57	1	👑👑👑
Jupiter Unit Trust	Emerging European Opportunities - Sep 02	3.00	0.00	9.10	0.27	3	20.17	-0.61	4	unrated sector
Schroder UT	Tokyo - Feb 91	3.00	0.34	0.18	0.01	1	5.22	0.16	1	👑👑👑
Schroder UT	US Mid Cap - Jun 01	3.00	0.00	9.78	0.29	1	27.15	0.81	1	👑👑👑
<b>Total Portfolio</b>		<b>100.00</b>	<b>1.80</b>	<b>11.98</b>			<b>n/a</b>			

This strategy provides the diversification across asset classes and locations that are currently missing from your existing portfolio. This diversification not only allows access to the growth within these areas but actually lowers the risk profile of your entire portfolio by spreading the risk across these distinct assets.

## ASSET ALLOCATION

I am pleased to detail below a comparison of the existing allocation of your current portfolio against the new proposed portfolio and you will see that we are reducing your exposure to equity based funds and are introducing commercial property funds to the portfolio as well as increasing your exposure to fixed interest funds.



## PERFORMANCE

The longest term of analysis we have is from June 2009, but you can see the performance trends from this chart. The recommended portfolio has performed very closely to your existing portfolio and we expect the level of risk to be lower over the longer term.



01/06/2009 - 07/06/2011 © Financial Express 2011

### ISA TRANSFER

We have considered the various ways you could achieve your present objectives as outlined above and I have recommend that you consider transferring your existing ISA funds to the Elevate Platform.

Simply transferring your investments within your existing ISA was not an adequate solution because you would still be left with lots of individual holdings, and you and we together do not have the same investment expertise as the recommended arrangement.

#### **Transfer regulations**

ISA managers have to allow transfers, although there is no corresponding requirement for managers to accept transfers. The following requirements apply:

- If the transfer is for the current year's ISA subscription, all of the current year's subscription must be transferred in its entirety.
- Where subscriptions have been made in previous years, all or part of previous years' subscriptions can be transferred to another ISA manager at any time.
- There are no restrictions on the number of managers or the number of transfers that can be made in respect of previous years' subscriptions.
- if the ISA manager does not record the value of each year's subscription separately, a partial transfer in respect of previous years' subscriptions must not exceed the current value of the ISA, less any subscriptions made in the current year.

Subject to the terms and conditions of both managers, the transfer of investments may be in specie and/or cash. If it is not, a withdrawal will be deemed to have taken place.

You can also transfer money saved in previous years' cash ISA holdings to stocks and shares ISAs without affecting your current year's allowance. It should be noted that it will not be possible to transfer in the opposite direction i.e. stocks and shares ISA to a cash ISA.

Transferred ISAs do not give rise to a new subscription and tax benefits are preserved on the transfer.

#### **Taxation**

Any investment returns received will be largely tax-free, although the tax credit on dividend income received by the fund is not recoverable.

However, cash and fixed interest funds are deemed to receive interest rather than dividends and a 20% credit is recoverable within the fund.

There is no personal tax on any income taken and no capital gains tax on any gains made.

## **Stakeholder Standards**

These are a specific type of ISA which meet Government guidelines covering cost, access and terms. Both types of ISA component can qualify for a Stakeholder standard.

The cost limit varies with each investment type and the access and terms criteria specify that investors must be able to get their money back at any time without penalty and with no other restrictions. The ISA must also offer low minimum investment limits and can only invest a maximum of 60% in equities and property, with the remaining 40% in less volatile assets such as bonds and cash.

Because of these limits, Stakeholder standard Stocks and Shares ISAs are designed to meet the needs of a wide range of investors. For this reason, they may be less appealing to experienced investors who want to maximise their long-term growth potential and are therefore more likely to seek specialist funds.

The presence or absence of a Stakeholder standard cannot predict whether an ISA will prove to be a good or bad investment. A Stakeholder standard ISA has not received Government approval of any kind, nor is your money or investment return guaranteed by the Government in any way.

## **The recommended contract is not a Stakeholder standard ISA.**

Turning then to my specific recommendation:

### **Term**

In discussing your objectives it was appropriate to consider a contract which was open ended i.e. did not have a fixed term, designed to coincide with your desire to provide for a capital sum. You have, however, confirmed that you can leave this capital invested for at least 5 years.

### **Level of investment**

This report is looking at the reinvestment of existing ISAs, which you do not need for any capital expenditure in the foreseeable future. As such, the transfer of £5,010.90 is affordable to you. This was selected on the basis of the sum available from your existing ISA providers.

With regard to the £10,680 ISA Investment, this is also affordable as it is being funded from the sale of some of your unit trust holdings.

Before proceeding, you must ensure you have sufficient surplus income or capital in the event of any short term requirements and confirmed that this expenditure will remain affordable to you in future.

### **Provider**

In reviewing your objectives we considered a number of criteria which we consider important, and have made a strategic decision to use the Elevate Platform from AXA.

Having made this decision, we have then considered whether this is appropriate for you, and if so which form suits your need best.

In this case, the Explicit is most appropriate. The reason for this is that the charges are entirely transparent, there are no switch fees between funds and there is a wide investment type to select from.

## **Key Features Document**

I have provided you with a Key Features Document. This documentation is important and contains information regarding the product which I have recommended, particularly with regards to the product's aims, charges, the commitment which it entails, together with its legal (including policyholder protection) and tax status. If there are any points on which you are unsure or require further clarification, please contact me and I will be pleased to explain these in greater detail.

## **Financial Services Compensation Scheme ('FSCS')**

The FSCS was set up under the Financial Services and Markets Act 2000 and exists to protect clients of FSA authorised firms and covers deposits, insurance and investments. The Scheme can pay compensation to clients who have lost money as a result of their dealings with FSA authorised firms that are unable to pay claims against them, usually because they are insolvent or have stopped trading.

As outlined earlier, the limit of protection varies between different types of products and is detailed in our Keyfacts about our services and costs document

Investments covered include stocks and shares, unit trusts, futures and options, personal pension plans and other long-term policies such as endowments, the compensation is paid for bad advice, negligent investment management or misrepresentation only.

However for a claim to be eligible for compensation it must meet ALL of the following criteria:

- a) the advice you received to buy the investment must have been given on or after 28 August 1988; AND
- (b) the firm that advised you must have been authorised by the appropriate regulator to do so at that time; AND
- (c) you must have lost money as a result of the advice you were given; AND
- (d) the firm (or its principals) no longer has sufficient assets to meet claims for compensation

## **Risks**

The Key Features Document also provides you with details of any risks and potential disadvantages associated with the contract recommended. We have previously discussed these, and I would like to highlight the following points:

- Past performance is no guarantee of future returns.
- The price of shares and the income from them can fall as well as rise.
- The value of this investment is not guaranteed and on encashment you may not get back the full amount invested.
- There remains the possibility that you could lose income or growth following a rise in market conditions while the transfer remains pending.

It would be prudent to review your contract on an ongoing basis. I should be happy to advise you in the future, should you require this. The advice provided to you is based upon the information you have disclosed and therefore, if this letter does not accord with your view of the situation or you require any further clarification please contact me immediately.

All statements concerning the tax treatment of products and their benefits are based on my understanding of current tax law and HM Revenue and Customs' practice. Levels and bases of tax relief are subject to change.

**Cancellation rights**

Details of the appropriate cancellation period for the contract recommended are contained within the illustration which was provided to you.

## **General Investment Account (GIA)**

As with an ISA the GIA allows access to pooled investments which are forms of shared investments that allow investors to pool their money together. These enable investments in different asset classes, the main four of which are shares, bonds, property and cash deposits. This 'pooling' allows investors to spread their investment across a wider range of asset classes and specific investments than would be the case if they were investing individually. It also means that the amounts invested are sufficient in order to employ expert investment managers to manage the fund.

Open-ended investment funds, investment trusts and life assurance bonds are the most common pooled investments.

## **Unit Trusts and Opens Ended Investment Companies (OEICs)**

Unit trusts and OEICs are both open-ended investments, which means that investors can freely buy and sell shares in the fund. It also means the value of the shares you own in an OEIC, or units in a unit trust, reflects the value of the fund's assets.

One difference between unit trusts and OEICs is in the charging structure. When investing in unit trusts, you buy units at the offer price and sell at the lower bid price. With OEICs the charging structure is more transparent - you get the same price whether you are buying or selling, and pay the initial charge separately.

OEICs may have an 'umbrella' fund structure which allows 'sub-funds' with different investment objectives to exist. This means you can invest for income and growth in the same umbrella fund, moving your money from one sub fund to another, as your investment priorities or circumstances change. Some OEIC providers allow you to do this without charge. You can take your money out of a unit trust or OEIC at any time usually without penalty. No capital gains tax is paid by the fund manager.

The Investment Service presently only uses Unit Trusts and OEICs.

## Taxation

Capital gains within the unit trust/OEIC are exempt from tax. Therefore, disposals of investments within the unit trust/OEIC are usually made without any tax liability.

When income is paid out of the fund or accumulated it carries a 10% credit. For example, for every 90p of dividend paid to an investor, there is a 10% tax credit attached making a gross dividend of 100p.

A non taxpayer, starting rate taxpayer and basic rate taxpayer needs to take no further action. The 10% tax credit fully covers the liability. Non taxpayers cannot reclaim the tax credit.

A higher rate taxpayer needs to pay a further 22.5% of the gross dividend – therefore, bringing the total liability to 32.5%. For those subject to the additional rate of 50% income tax the liability will be 42.5%.

If no income is being taken and the dividend or interest is being reinvested in the unit trust/OEIC, it is deemed to have been received by the investor and will be subject to the same tax treatment as income that is distributed.



On the sale of Unit Trusts/OEICs, capital gains tax is payable on profits where they exceed the annual exemption (£10,600 for 2011/12). The current rate of CGT is 18% for realised gains above the annual exemption and below the higher rate threshold (£35,000 for 2011/12). Gain in excess of the higher rate threshold are taxed at 28%.

For accounts held in joint names any tax liability is split equally and applied at each individual's marginal rate. It is therefore important to consider whose name an investment is placed under.

### **Term**

In discussing your objectives it was appropriate to consider a contract which was open ended i.e. did not have a fixed term, designed to coincide with your desire to provide for a capital sum. You have, however, confirmed that you can leave this capital invested for at least 5 years.

### **Level of investment**

You are comfortable investing a lump sum of £7,425 into the arrangement from the unit trust sales.

Before proceeding, you must ensure you have sufficient surplus income or capital in the event of any short term requirements and confirmed that this expenditure will remain affordable to you in future.

### **Important Note:**

All statements concerning tax treatment and limits are based on our understanding of the current law and HMRC practice and are for general guidance only. Levels and bases of, and reliefs from, taxation are subject to change and the value of any reliefs depends upon personal circumstances.

## ANALYSIS OF EXISTING ARRANGEMENTS

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### CASH ASSETS

Deposit accounts offer an excellent resource to provide for unexpected emergency expenditure, but are not the most efficient resource to make up part of an investment portfolio unless you fit into our first risk group.

The reason for this is that any interest generated is taxed at the account holders highest rate, and currently interest rates are not very generous.

### COMMENT

We recommend that you retain cash on deposit that can be accessed in the event of an emergency. Having discussed this, you are happy your current deposits are sufficient for your needs.

## INVESTMENT ASSETS

We have quite a complicated tax system in this country, so there are many different structures that can be taken that we group together to refer to as ‘investments’.

This section refers to investments that are ‘pooled’ with other investors and rely on the expertise of an investment manager to make the appropriate decisions regarding underlying assets. These assets could be shares in companies, debts to corporate or government bodies, property, as bricks and mortar or property company shares, or cash, or any combination.

You have the following different investment structures:

### UNIT TRUST/OPEN ENDED INVESTMENT COMPANIES

A Unit Trust is a simple, flexible arrangement that allows you to change the investment fund, make withdrawals and ultimately benefit from a regularised charging structure.

The funds are subject to both income tax, on income, and capital gains tax, on realised gains less your individual, annual allowance, at your prevailing rates.

Owner	Provider	Reference Number	Investment Fund	Fund Value	AMC
Christine	Skandia	100078398	Aberdeen Emerging Markets	£2,170.93	1.75%
			Artemis Income	£3,813.96	1.5%
			BlackRock UK Special Situations	£3,172.02	1.5%
			First State Asia Pacific Leaders	£3,107.29	1.5%
			First State Global Listed Infrastructure	£2,370.89	1.5%
			First State Global Resources	£1,491.93	1.5%
			Gartmore European Selected Opportunities	£1,900.16	1.5%
			Gartmore US Growth	£2,001.67	1.5%
			GLG Japan Core Alpha	£2,080.18	1.5%
			Ignis Argonaut European Income	£1,799.64	1.5%
			Invesco Perpetual Corporate Bond	£4,303.39	1%
			Invesco Perpetual Income	£3,649.81	1.5%
			Invesco Perpetual Monthly Income Plus	£4,980.32	1.25%
			M&G Corporate Bond (share class A)	£4,120.10	1%
			M&G Global Basics (share class X)	£2,389.27	1.5%
			Martin Currie North American	£1,870.27	1.5%
			Newton Global Higher Income	£1,984.03	1.5%
M&G Recovery (share class X)	£4,579.08	1.5%			

## INDIVIDUAL SAVINGS ACCOUNTS

ISAs are basically the wrapper that is placed around the underlying investment to protect it from the worst effects of personal taxation. This tax privilege status does mean the amount that can be invested under these wrappers is obviously limited by the government, which is currently £10,680p.a. this tax year.

Owner	Provider	Reference Number	Investment Fund	Fund Value	AMC
Christine	Skandia	100078400	Aberdeen Emerging Markets	£213.45	1.75%
			Artemis Income	£374.67	1.5%
			BlackRock UK Special Situations	£311.63	1.5%
			First State Asia Pacific Leaders	£305.26	1.5%
			First State Global Listed Infrastructure	£233.11	1.5%
			First State Global Resources	£146.69	1.5%
			Gartmore European Selected Opportunities	£186.83	1.5%
			Gartmore US Growth	£196.81	1.5%
			GLG Japan Core Alpha	£204.52	1.5%
			Ignis Argonaut European Income	£176.95	1.5%
			Invesco Perpetual Corporate Bond	£431.38	1%
			Invesco Perpetual Income	£358.54	1.5%
			Invesco Perpetual Monthly Income Plus	£419.89	1.25%
			M&G Corporate Bond (share class A)	£413.75	1%
			M&G Global Basics (share class X)	£234.92	1.5%
			M&G Recovery (share class X)	£423.53	1.5%
			Martin Currie North American	£183.89	1.5%
			Newton Global Higher Income	£195.08	1.5%

### Investment Profile

Clients often come to us with pensions or investments with inappropriate investment profiles as the holdings have not been reviewed and adjusted to suit changing market conditions.

Our charges mean we offer this essential ongoing relationship, so the first thing we need to do is assess the existing portfolios.

To do this we look at the overall allocation of your monies to the various assets, and how this compares to the benchmark for your risk tolerance.

The basic assets upon which an investment strategy is built are outlined below:

**Cash** is generally the lowest-risk asset class but it is also likely to be the asset that provides the lowest return. Fund managers generally use cash as either a hedge against certain market conditions, or as a liquid reserve with which to move on trades that require prompt action.

**Fixed-interest investments** are securities that offer a fixed interest in return for capital outlay – essentially debts. These debts can be to government bodies, which offer greater capital security, but lesser ‘yield’ or interest, or corporate bodies, which are generally the other way around.

**Property** can be a useful asset for many fund managers, as they can provide both income, in the form of rent, as well as the possibility of capital appreciation of the bricks and mortar itself.

**Equities** or shares represent ownership of a business. The reward for the investor is a share of the profits of that business in the form of dividends and the prospect of an increase in the value of those shares based on demand for them among investors. We segregate the equities into shares that are issued in the UK (UK Equities), shares that are issued in the developed markets (Developed Markets International Equities) and shares that are issued in the emerging markets (Emerging Markets International Equities)

Detailed below is how your existing portfolio compares to the appropriate profile for your attitude to risk.

## PERFORMANCE



As you can see the existing portfolio has produced competitive returns over the past few years (20.96%) against a typical Risk Grade Portfolio 4 (13.29%). The portfolio suffered in the economic downturn but has started to recoup the losses made.

## VOLATILITY/ RISK

The overall risk of your existing portfolio is, however, higher than I believe you are happy to take and the table below shows the volatility of the two portfolios to the year ending December 2010 and you will see that the Risk Grade Portfolio 4 Benchmark has a lower level of volatility, which in turn means less risk will be taken within your investments going forward.

Portfolio	Start of Data Cumulative Ann. Volatility to Last Year End ↑ ↓
Portfolio Existing Investments TR in GB	15.87
Portfolio Risk Grade Benchmark (Q1 2011) 30/05/2003 TR in GB	10.72

## SUMMARY OF OUR CHARGES

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We have explained throughout the report the impact of our charges.

These are not additional charges to those already covered, we have simply summarised our charges in one place for your ease of reference and so you can confirm these are in line with our agreement.

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### INVESTMENT PLANNING

	%	£
Immediate Earnings	3	693.45
Annual Earnings	0.5	115.58