

INVESTMENT PLANNING FACT SHEET

YOUR GUIDE TO INVESTMENTS

There are a variety of ways of investing lump sum premiums and regular contributions in order to improve chances of capital growth and to improve levels of income. The correct choice for you will depend on your current situation, attitude to risk and the options available to you.

This factsheet has been prepared to provide an outline of the available options for investment.

We recommend that you read this before discussing your detailed and individual requirements with your Adviser. It briefly describes the investment options available to you and will assist you in establishing the most appropriate investment for your circumstances in conjunction with the advice received from your Adviser.

1. National Savings
2. Collective Investment Schemes
3. ISAs
4. Investment Bonds
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1. NATIONAL SAVINGS

National Savings products are government products, which can be bought and cashed easily through post offices. Products are guaranteed by the government and are not deemed to be investments under the Financial Services Act.

NATIONAL SAVINGS BANK INVESTMENT ACCOUNTS are offered through the post office to anyone over the age of seven. The investment account offers a variable rate of interest, depending on how much is held within the account. Withdrawals can be made, and these take a couple of days to administer.

NATIONAL SAVINGS FIXED INTEREST CERTIFICATES are savings contracts that are available for limited periods. At the end of each period a new issue will be available and each one will have a different rate of interest. There is a minimum investment of £100 and a maximum of £15,000 per issue, although matured certificates can be reinvested without limits. Interest is accumulated during the fixed term of either two or five years, the term is selected at outset. If the certificate is not redeemed at the end of the period, an extension rate of interest will apply, although this is rarely competitive. The certificates are exempt from income and capital gains tax and the value cannot go down. If the certificates are redeemed before the end of the fixed term, the guaranteed growth rates will not apply.

NATIONAL SAVINGS INDEX LINKED CERTIFICATES are also available over three and five year terms, although this can vary. The growth is linked to the increase in the Retail Prices Index (RPI) over the selected term. Returns are free of income and capital gains tax, however, if the plan is surrendered within the first year only the initial capital will be repaid. After this time, the redemption value will match inflation; the full return will not be available until the end of the selected term. Proceeds are free of income and capital gains tax and the investment limits are the same as for Fixed Interest Certificates.

Also available is a range of income, capital growth, premium bonds and guaranteed bonds, along with bonds specifically designed for Children. The returns from premium bonds are not subject to tax, however, there is no guarantee of any return. The terms, conditions and investment limits vary between contracts. Full details can be obtained from your Adviser.

2. COLLECTIVE INVESTMENT SCHEMES

UNIT TRUSTS AND OPEN ENDED INVESTMENT COMPANIES (OEICS) allow investors to participate in a large portfolio of securities or other assets with many other investors. Investors have a direct holding in the company that holds and manages the underlying assets, they buy and sell units within the fund, rather than dealing with the underlying assets. This enables investors to access a wider spread of investments at a lower cost than would otherwise be available.

OEICs are very similar to unit trusts, and many unit trusts are converting to OEICs. They are the most widely recognised type of collective investment in the USA and Europe. Regulations allow multiple share classes, which allow for more flexible charging and currency structures that are possible for unit trusts.

Unit Trusts and OEICs have no fixed term. There is a direct relationship between the value of the holding and the unit price. Some funds have a minimum investment level, but the majority will accept both regular and lump sum premiums. Unit trusts and OEICs are the most common funds for use within an ISA wrapper. There are many different categories of investment that can be broadly grouped into four areas, funds targeting income, capital growth, rising income, and specialist sector funds. Funds that produce income can often also be used for capital growth purposes where the dividend income is reinvested

Unit trusts and OEICs are collective investments that enable investors to pool money with other investors who have similar investment objectives. Experienced investment managers then invest the funds into different assets in financial markets. This can include a wide range of local and international shares or equities (companies listed on a stock exchange), bonds, property, money market instruments and their derivatives.

In general, funds are intended to generate income and / or capital growth in the medium to long term (three to five years and longer). Units should be held for these periods to reap the full benefit of the investment and to sustain any market ups and downs. Unit trusts and OEICs invest in a range of underlying assets. This means that all your eggs are not in one basket. Risk is spread amongst many assets rather than amongst one or only a few. If any assets perform poorly, your investment won't necessarily perform poorly as there are other assets that may have done very well.

Investments in unit trusts purchase a share of the units of the total fund. The unit price (also known as the net asset value (NAV)) is dependent on the market value of the underlying assets and therefore rises and falls. It is calculated daily. Most funds will incur an initial charge and also an annual management charge. The initial charge is often incorporated within a "bid / offer spread", this being a difference between the quoted buying and selling price. OEICs are also subject to an annual management charge, however, the unit price is a mid-market price, no allowance is made for dealing costs, and any initial charge is shown separately.

Income from unit trusts and OEICs is subject to income tax at the investors highest rate. Higher rate tax payers will have to pay an additional 20% tax via their tax return. Non equity unit trusts and OEICs are taxed at 20%, non tax payers can reclaim this and higher rate tax payers will be subject to an additional 20% tax. Any losses made can be carried forward to offset against future gains. Switching between funds within the same fund management company or within a multi-fund company would constitute a sale for CGT purposes.

With effect from April 2008 a new simplified Capital Gains Tax rate of 18% was introduced for any gains made over the annual allowance, for individual investors. At the same time, taper relief and indexation allowance, (which were a means of allowing for inflation when calculating a gain) were removed. This change to a flat CGT rate could be attractive for many investors, particularly Higher Rate Tax payers, for whom an overall income tax rate of 40% will apply for investment bonds, which are mentioned below in section 4.

INVESTMENT TRUSTS are also collective investments. Their shares are quoted on the London Stock Exchange. They are closed-ended funds, which means that they have a fixed number of shares. Investments trusts are run by a board of directors. The directors can manage the investment of the trust themselves, however, more commonly this is contracted to an external fund management company.

The share price depends on supply and demand. The price quoted in the press will be the mid-market price, however, dealers will quote a buying price and a selling price. Investment trusts can be invested in any kind of company, they can invest in any country in the world as well as providing capital to new companies or companies that wish to expand. In general investment trusts carry a higher level of risk than unit trusts and are able to borrow funds in order to make further investments. There are various classes of share and types of investment trust. Your Adviser will be able to discuss the options fully with you.

3. ISAS

INDIVIDUAL SAVINGS ACCOUNTS (ISAS) were introduced in April 1999 as a replacement for Personal Equity Plans (PEPs), and since then it has not been possible for new investments to be made into PEPs. With effect from April 2008, existing PEP holdings will cease and will be relabelled as an ISA, so they will retain the tax advantageous status of the old plans.

ISA holders can encash their plans at anytime, although this would result in the loss of the tax allowance for that year. Transfers can take place between providers, this will retain the tax status of the plan but enable you to access a range of investment funds and providers.

ISAs are available to everyone over the age of 18 who is ordinarily resident in the UK. Owing to the fact that ISAs enjoy major tax advantages, the level of investment allowed is limited by the government, but was increased slightly from £7000 to £7200 in April 2008. Both capital profits and income receipts are totally free from any liability to tax within the fund. Dividends accruing to an ISA from UK companies were received with a 10% tax credit that the manager is able to reclaim, with effect from April 2004, the tax credit is no longer reclaimable. Where interest accrues to an ISA on corporate or government bond holdings, it is received with a 20% tax credit, the credit continues to be reclaimable..

There are two broad investment areas allowed within an ISA:

- Cash;
- Stocks and Shares (which includes unit trusts, OEICs, investment trusts etc.)

The £7200 annual ISA limit allows up to £3600 to be invested in stocks and shares and £3600 in cash, or alternatively, if you wish to invest more than this into Stocks and Shares, up to the whole £7200 may be invested in stocks and shares, with the amount available to hold in cash reduced accordingly.

Also, effective for the first time in April 2008, holdings already held within Cash can be transferred to a Stocks and Shares ISA, which allows a certain amount of flexibility for the investor.

There is a specific type of ISA, which meets Government stakeholder guidelines. Both the cash and stocks and shares elements of ISA component can qualify for stakeholder standards. 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.

Because of these limits, stakeholder standard Stocks and Shares ISAs tend to invest in basic funds that 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 ISA has not received Government approval of any kind, nor is your money or investment return guaranteed by the Government in any way.

Investors have no personal liability to income tax or capital gains tax on income or gains arising from investments held within an ISA. Equally, capital losses cannot be used to offset capital gains realised elsewhere. No details of ISA investments, income received or gains realised need be included on your annual tax return.

4. INVESTMENT BONDS

INVESTMENT BONDS are single premium, whole of life contracts that carry minimal life cover. The bond commences on the date the investment is made and ceases on either the death of the life (or lives) assured or when fully encashed. It offers the potential for capital growth and the ability to take regular or irregular withdrawals. Currently, withdrawals of up to 5% a year are treated as return of capital, so you do not have any tax to pay at the time of the withdrawal. This 5% allowance is cumulative if not used in whole or in part.

Bonds are open ended, with money available for withdrawal at any time. Similarly, additional money may be invested in the fund at any time. Some funds may impose an early encashment charge, or may reserve the right to pay out at a suitable time (e.g. property funds) or may restrict or depress unit values depending on investment conditions (e.g. unitised with profits funds). Investments can be made into a variety of funds including unitised with profits, traditional with profits, fixed interest and equity funds. Many bonds offer the opportunity to switch between funds at minimal cost. Many providers offer High Income and Guaranteed Income or Growth bonds, the structure of these is often more complex, full details are available from your Adviser.

You may encash the bond in whole or in part at any time to release your capital (but you should be aware of the initial charges, any penalties and tax implications). There may be a tax liability on final encashment depending on the withdrawals made during the life of the investment and the proceeds on final encashment.

Basic rate, lower rate and non tax payers will not pay tax on investment gains unless the gain takes income into the higher rate tax bracket.

Gains are calculated using a method called "top slicing" whereby an allowance is made for the length of time the investment has been held. If you are a higher rate tax payer, or the gain takes you over the higher rate tax limit (after allowing for "top slicing", as mentioned above), you will have excess tax to pay. It should be noted that lower rate and non tax payers are unable to reclaim the tax that is deducted within the bond. Withdrawals in excess of 5% per annum will be subject to tax for higher rate tax payers in the same way.

It is also important to remember, for the purposes of calculating age allowance, that any withdrawals above 5% a year will be added to your income, which could adversely affect age allowance. In addition, when the bond is encashed, any gain, or previous withdrawals up to 5%, are taken into account, which can also adversely affect your allowance. A fairly small gain can wipe out an entitlement to age allowance for that tax year.

5. SPECIALIST INVESTMENTS

There are a variety of other investment plans, some of which are detailed below. These are suitable for more speculative investors, and full details will be available from your financial Adviser.

An ENTERPRISE INVESTMENT SCHEME (EIS) is a scheme designed to encourage investment in the unquoted shares of small businesses, replacing the Business Expansion Scheme in 1994 by providing income tax and CGT relief. It could be suitable for basic or higher rate tax payers interested in speculative equity investment over the medium/long term.

A VENTURE CAPITAL TRUST (VCT) is a quoted company, which invests at least 70% in qualifying unquoted companies that can include those, listed on the Alternative Investment Market. It could be suitable for UK resident higher rate taxpayers, with capital gains to shelter and those seeking tax efficient exposure to the small companies sector.

ENTERPRISE ZONE PROPERTY TRUSTS (EZPT) are unregulated collective investment scheme, of which the underlying assets are industrial and commercial buildings held in an Enterprise Zone, with substantial tax allowances available.

They were created by the Conservative Government in the early 1980s with the purpose of stimulating investment in commercial property in depressed areas of the UK and evolved as a way of simplifying investment in Enterprise Zones for small investors. They are intended to be held as a very long term investment.

STOCKS AND SHARES are direct investments into the companies listed on the Stock Exchange. In general, this type of investment requires continuous monitoring and is suitable only for investors with significant capital.

OFFSHORE FUNDS are available through many products. These are not subject to income or capital gains tax within the fund, however, withholding tax will be applied and this cannot be reclaimed. Gains and Income may be liable to both basic and higher rate tax when the monies are brought back onshore.

The information concerning the taxation treatment of the contracts or action described in this fact sheet is based on our understanding of current Inland Revenue law and practice. Taxation law is subject to change