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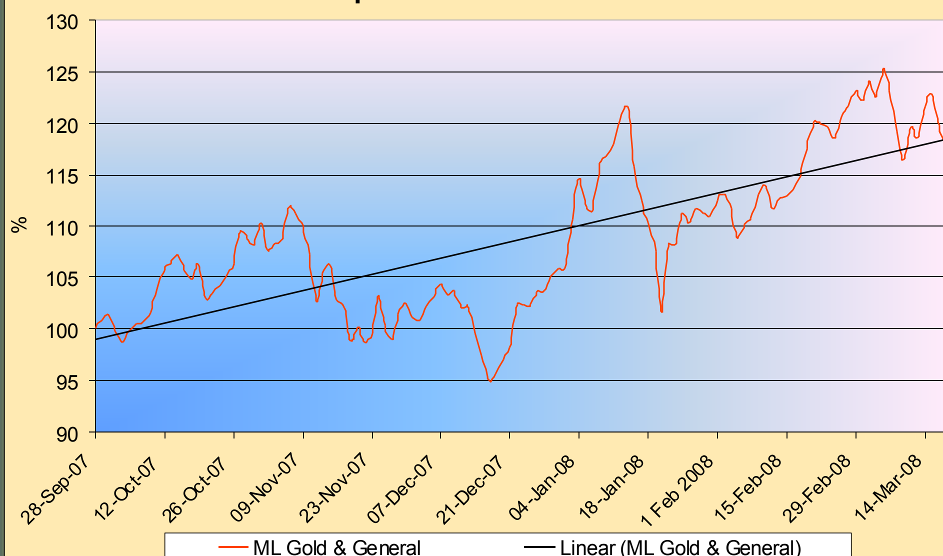
Solid strategies for difficult times

The focus of this edition of MoneyMatters is how to achieve positive investment returns within an investment environment that is highly volatile and when stock markets around the globe are on the slide.

With that in mind, I think it is worth revisiting a fund that we featured in last Autumn's edition, the BlackRock Merrill Lynch Gold and General Fund. As illustrated by the chart below, since the last issue to the current date of going to press (28/09/2007 - 19/03/2008), the fund has gained 17.8%. Recently, few will have failed to observe the gold price reaching new all-time highs of over $1,000 an ounce.

Since then the price has retreated, but many experts believe that, whilst gold will continue to be volatile, the prospects of it reaching $1,500 an ounce this year are very good.

We are delighted that for the reasons noted in our last edition, this fund has been an excellent way for many clients to enjoy solid investment returns during what has proven to be a very 'tricky' time for global stock markets.



Inside

Investment Bulletin
We look at how to make positive returns ahead of cash in volatile markets

New model investing
Tony Burns looks at the new breed of ethical funds

The right stuff
Nick Bladen of Skandia discusses the importance of reviewing your pension

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How do investors get through uncertain times

This spring the credit crunch has reduced many fund managers to watching tumbling equity prices pummel their portfolios. In 100 down over 6% year-to-date, at the time of going to press, the current economic climate looks set to stay tricky for some time are specifically designed to tackle this kind of equity volatility and return a healthy profit to investors. So far at least, their tactics

A total return in all markets?

Mike Parsons, Head of UK Retail Sales at JP Morgan discusses their Cautious Total Return Fund, which seeks to provide investors with a return in excess of cash in all market conditions over a three to five year period.

When choosing an investment it is important to ask yourself three questions: What are your objectives? How much risk are you willing to take? And how long can you leave your money invested?

Because of the unsettled conditions in global financial markets, answering these questions has been more important than ever. Recently many investors have become wary of stocks and shares because of price fluctuations and are looking to put their money where they know they are likely to get a more definite return.

For cautious investors cash and bonds are often the investments of choice. Not only is cash relatively safe, but the likely return tends to be fairly clear at outset. It is when shares get involved that things become more uncertain, simply because markets can go up as well as down.

There is, however, an option for investors who want to know the return they may realise and who also want to benefit from exposure to shares when the markets are doing well. It's called a *total return fund*.

Total return funds differ from traditional funds in that they aim to give you a positive return over the medium to long term, regardless of whether stock markets go up or down. The funds are compared to a cash benchmark, unlike traditional funds which aim to outperform a stock market index. For instance, with a traditional fund, if an index fell by 20% and the fund only fell by 15%, the fund would still be considered as having achieved its goal of beating the index, even though investors have lost money. With a total return fund, however, the manager is always focused on producing a positive return. As the total return fund's target is linked to cash, the target return is more clearly defined. What's more, total return funds tend to aim to beat the returns of savings accounts, which makes them potentially attractive for even conservative investors, over a set timeframe.

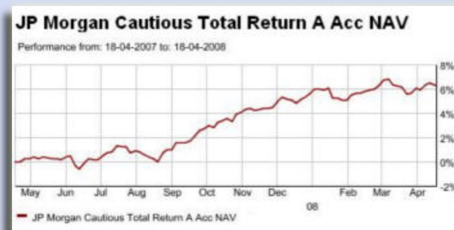
The way in which total return funds are managed is what makes them different. The fund manager can choose from a wide range of assets. However, the manager's focus is always on keeping risk at a minimum and making decisions that will avoid capital loss but will hopefully deliver gains in excess of cash, over the timeframe, for the investor.

There is also the added advantage that total return funds have different investment time horizons. A more cautious fund may take a short-term view, whereas a riskier fund may have a higher return goal and a longer-term outlook. This variety means that you can choose one that suits your attitude to risk . Whilst traditional funds remain an important part of portfolio planning, total return funds offer added stability and diversification to a portfolio.

The JP Morgan Cautious Total Return Fund

The Fund aims to deliver consistent positive total returns in a variety of market conditions over a specified term, by utilising its highly flexible investment approach.

Designed to return 3%[1] per annum above the base rate averaged over three to five years ([1] net of annual management charge base on one month GBP LIBOR), the Fund's managers, Neill Nuttall and Talib Sheikh are allowed to adjust the fund's asset makeup depending on market conditions. If markets are performing well, up to 40% of the fund can be invested in shares. If conditions aren't so great, exposure can be reduced and up to 100% can be held in cash and cash equivalents. Fund Manager Talib Sheikh recently told the Financial Times Mandate, "we don't think this is the year you get paid for making big asset allocation calls with a six or 12-month view", but he does have a longer-term view, aiming to make money over three to five years, by increasing the equity portion of the fund towards the end of the year as he expects stocks to become cheaper.



Launched in July 2005, the fund is currently up 6% (source: FT.Com 18-04-08) over the past 12 months, so if you want to preserve your wealth in the short term, with a goal of steady longer term growth that beats inflation, given the fund's proven investment expertise in difficult markets, this could be an ideal option.

Mike Parsons is Head of UK Retail Sales at JP Morgan

The new green generation

Throgmorton Investment Consultant, Tony Burns discusses the growth and development of the ethical investment sector in the light of the current shift toward social responsibility and environmentalism in modern society.

I think it is fair to say we all have our own opinions on what *ethical investing* really means. When I meet clients, their views can range from 'being a bit green' to 'full-on global de-industrialisation'. However, undeniably society's increasing awareness of environmental issues is having a huge impact on the amount of money being invested into ethical funds. In the year 2000 around £1bn was invested into 'green' funds, but by 2007 this had grown to £5bn and by the end of 2008 it could

and benefit from volatile market conditions?

the past year, only 23% of funds have made money and just one in ten did better than a typical savings account. With the FTSE to come for most fund managers. In this edition of MoneyMatters, we examine two funds that utilise very different strategies, but appear to be working. Hold tight!

Or an absolute return instead?

Dorian Hughes, Director of UK Retail Business at BlackRock outlines their Absolute Alpha Fund, which seeks to provide investors with positive 'absolute' returns regardless of the prevailing market conditions.

The market turbulence, which has been widespread since last summer and has been attributed to the fallout from the US sub-prime mortgage debacle, has led to the widespread selling of investments. As a result, the increase in volatility will remain a major feature within markets for some time.

Rising volatility and expectations for moderating equity returns – products of the uncertainty brought about by the spectre of slowing global growth, rising inflation, higher oil prices, housing market problems and the sub-prime crisis – would traditionally see investors in a "flight to quality" offered by the bond markets.

However, with bond markets failing to offer compelling value, and having experienced uncharacteristic volatility of their own, the desire for stability and positive total performance has resulted in a search for more appropriate investments to meet these objectives.

The BlackRock UK Absolute Alpha Fund

Having delivered throughout the year's turbulent spells, the BlackRock UK Absolute Alpha Fund is ideally placed to address investors' concerns. Designed to seek *positive 'absolute' returns* regardless of the prevailing UK market environment, the absolute return fund is a pioneering authorised unit trust that uses a very wide set of investment powers to achieve its goals.

The Fund's aim of seeking absolute positive returns whatever the market conditions, sets it apart from many traditional unit trust funds, which often aim to out perform relative to the stock market or their individual peer group. As such, even in a poor market environment, a traditional unit trust may compare well *relative* to its peers and benchmark, despite producing negative results.

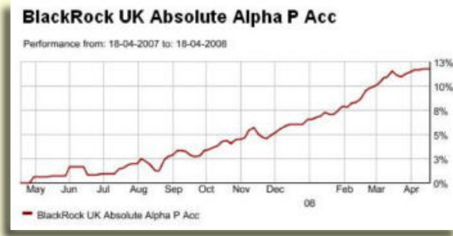
To achieve positive absolute returns, the BlackRock Fund takes advantage of new, wider investment powers that retail investment firms have recently been allowed to employ. This means the Fund can invest on both a traditional basis - purchasing stocks that the manager believes will increase in value - as well as using derivatives to establish positions in securities that the Fund does not physically own, but which it believes will fall and to profit from such a fall (commonly known as 'shorting').

At the simplest level, the Fund's managers, Mark Lyttleton and Nick Osborne are

Fund Manager Mark Lyttleton

able to buy shares they believe will rise in value and short shares they believe will fall in value. They are also able to combine these techniques through a 'pairs trade' - by buying and shorting two or more companies in the same sector. This approach is intended to remove sector volatility and allows the fund to obtain 'absolute returns' on its stock selection plays.

While this has been a popular technique among hedge funds for some time, the BlackRock UK Absolute Alpha Fund was the first UK authorised retail unit trust to use this type of investment strategy. Since inception, in April 2005, the results have been impressive, and the Fund is yet to end any quarterly period with a negative return. However, it is the more-recent market conditions that have truly tested the Fund's mettle. Over one year the Fund's P-Class unit has produced a return of over twelve percent, which can be compared to a decline in the FTSE 100 of 7.8% (FT.com 18-04-08). True to the



Fund's objective, positive returns have been achieved in rolling quarters.

While the 'all-important' statistics show that the Fund has remained in positive territory during this tricky period for financial markets, equally remarkable remains the fact that strong equity-like performance has been generated via a risk profile that is more akin to the cautious areas of the market, typified by the various bond or "cautious managed" sectors.

Looking forward, we expect to see further financial market volatility in the short term and whilst we believe that the global economic backdrop is currently fair, the risk of a growth slowdown in western economies continue to rise.

The focus on stock selection will continue to be crucial in such an environment, and the BlackRock UK Absolute Alpha Fund looks set to benefit from its tried-and-tested investment process through both long and short positions.

Dorian Hughes is Director UK Retail Business at BlackRock.

have grown by 40% to £7bn, with investments, pensions, mortgages and bank accounts based upon ethical principles, all being available.

The first ethical fund suitable for retail investors, was the Stewardship Fund, introduced in 1983, by Friends Provident. Today there are around 100 funds available that apply ethical and/or environmental criteria to their investment process. Most of the major insurance companies and fund managers offer at least one ethical fund and new fund launches are being announced regularly. As a result, the larger fund management groups now devote considerable resources to ethical investment, utilising ethical screening research and often having an "Ethical Committee" comprising of in-house investment professionals and the firm's customers.

Ethical funds operate in a broadly similar way to conventional funds, but before an investment is made the fund manager will apply a number of checks to ensure it meets their ethical benchmarks.

Examples of *positive* 'screening' criteria would be investments that have specific environmental policies such as controlling pollution; or companies involved in developing renewable energy, or taking positive action in the community. A recent example of fund managers responding the con-

Continued on page 4

Retirement. Are you on the right track?

Nick Bladen, Head of Pensions and Bonds Marketing at Skandia, explains the importance of reviewing your retirement planning, which could be the most important decision you can make to help you realise your long-term lifestyle goals.

The traditional view of retirement saving was to simply put your money into a pension, with few decisions to make and no choice in how the pension was taken. However, these days a pension is just *one* step towards achieving your retirement dreams.

While many people regularly review other investments, pensions are often overlooked. Ideally, you and your financial adviser should look at your pension funds every year and do a detailed strategic review every three to five years. Just as when buying property, you can't leave a pension untouched for 30 years and expect it to stay in the same condition.

Today's legislation gives investors many more options on how to use their pension pot – taking full advantage of each opportunity is critical to achieving your ideal retirement.

A Matter of Risk

As time passes and your circumstances change, your investment strategy will also need to change. Your financial adviser can be essential in ensuring your pension matches your risk profile and investment goals. Early on you may feel you have time to take risks and increase potential returns. Nearer retirement you may prefer more predictability.

A Matter of Time

Your 40s are the prime years for pension investment, when you are likely to be at the height of your earning-power. It makes sense to use this time for putting as much as possible into your pension as, in your 50s, you may want to start making decisions about retirement. Having a substantial period of regular contributions behind you, should allow you a five-year window over which to gradually reduce risk in your late 50s or early 60s, that should leave you well placed to cope with any stock market volatility.

Don't Delay

Delaying starting or topping-up your contributions will reduce growth and mean missed tax-relief opportunities. However, it's never too late. Even if you don't increase your contributions until later in life, you will still benefit from tax relief. There is now no restriction on the amount you can pay into a registered pension scheme, and for the 2008/09 tax year up to £235,000 could qualify for full tax relief. Remember you cannot carry tax advantages over into a future year, so it is important to get the most out of the tax relief on offer, *every year*.

Pensions Limit

Since the rules were simplified in April 2006, pensions have become easier to navigate. There is now one overall annual and one lifetime allowance for pension savings. In 2008/09 it is possible to save 100 percent of income, up to £235,000, in your pension and still benefit from full tax relief.

The current overall lifetime allowance for pension funds is £1.65 million. You will be taxed on income from any excess over this limit at an effective rate of 55% if taken as a cash lump sum, and 25% if taken as pension benefits, on top of any income tax due on the pension payments.

Consolidating Funds

Another feature of pensions is that you can transfer from one pension scheme to another, either to improve your benefit options, gain advantage from a superior range of funds, or to consolidate your funds and profit from any cost savings. Also, having one pension can make it much easier for you to keep track of your funds, monitor performance and change strategy if necessary. However, consolidation may not suit your particular circumstances. Your financial adviser can summarise your choices and recommend the best course of action.

Post-Retirement

The array of post-retirement options to consider is vast. Annuities have long been the mainstay of retirement income, but alternatives include using a drawdown facility or remaining invested whilst still receiving pension income. If you do this, you can still take your 25 percent tax-free lump sum out of your pension. These choices are some of the most important decisions you will ever make, so careful, informed and regular consideration with your financial adviser, is essential to safeguard your financial future.

Nick Bladen is Head of Pensions and Bonds Marketing at Skandia.

Continued from page 3.

cerns of investors, was Standard Life announcing that they were no longer going to hold airline stocks in their ethical portfolios because of the negative views of a large number of their customers in a survey.

Examples of *negative* 'screening' criteria would be investments that are involved with tobacco or alcohol, connected to gambling or pornography, associated with armaments or ozone depleting chemicals and pesticides, or the clearing of rain forests and import of illegal tropical hardwood. Fund Managers also use 'engagement criteria' through their status as shareholders, to push for improvements in how a company deals with ethical and environmental issues.

Over the last few years, many ethical funds have delivered comparable and sometimes better returns over time, than their traditional counterparts. However, it is not necessary to invest your entire monies into ethical funds. Many clients like a proportion of their investment or pension, to be based on an ethical approach, with the balance in more traditional investment funds. Modern 'wrapper platforms' that offer many different funds and managers, often including a wide range of ethical funds, lend themselves very well to this type of flexible 'mix and match' investment approach.