A Guide to Investment Planning

Planning your global investment strategy, utilising tax-efficient vehicles to meet your future circumstances.

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A Guide to Investment Planning

Welcome to 'A Guide to Investment Planning'. We appreciate that every investor is unique and complex, which has led us to develop a highly innovative approach to investment. We believe it significantly improves the management of our client's investments.

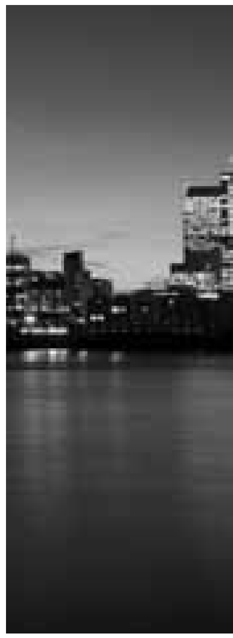
Our approach combines rigorous client assessment and portfolio construction techniques to tailor the performance we aim to deliver for each client. The result is a performance profile that creates the confidence and comfort necessary to make the right decisions in both smooth and turbulent times, so as to improve performance over the long-term.

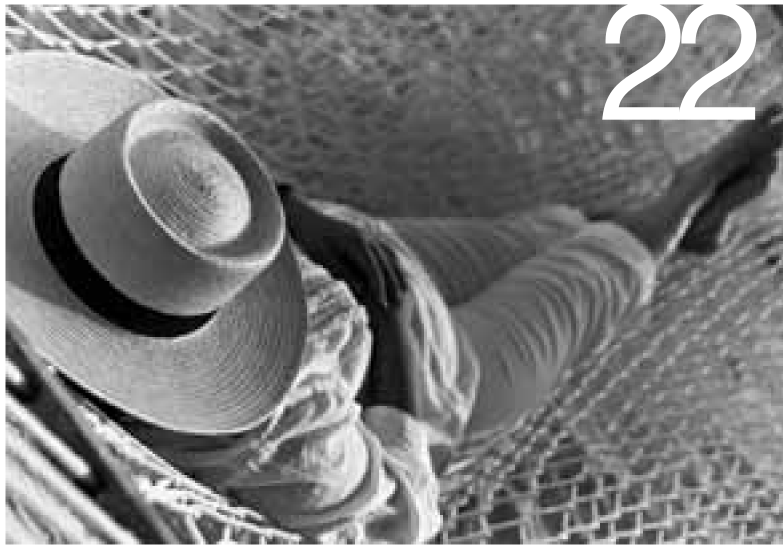
No matter what your investment goals are and how much you wish to invest, we can work with you to develop the most appropriate portfolio for you and can give you an unparalleled insight into how your money is performing.

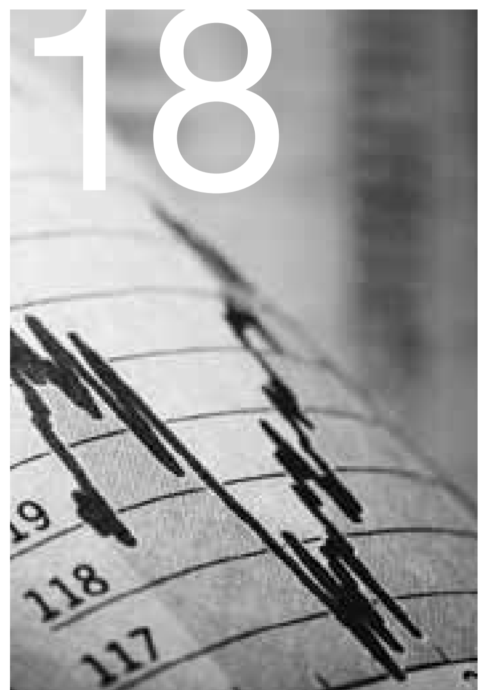
Getting your financial affairs in good shape, with funds available to meet unforeseen costs, to pay education fees, to reduce your mortgage or to support you in retirement, can increase your sense of security and freedom.

There are, of course, times in our lives when saving money may be difficult (for example, when studying or bringing up children), but it is important to look ahead. Saving little by little out of your income or investing lump sums when you can all helps. Holding savings for a long time means they can grow in value as well.

PLEASE NOTE THAT THIS IS A GENERAL GUIDE TO HELP YOU TO THINK ABOUT YOUR INVESTMENT NEEDS. IT IS NOT DESIGNED TO PROVIDE SPECIFIC ADVICE. IF YOU ARE UNSURE OF YOUR FINANCIAL POSITION OR ABOUT WHICH TYPE OF INVESTMENT IS RIGHT FOR YOU, PLEASE CONTACT US FOR FURTHER INFORMATION.







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Investment goals

What are you trying to achieve with your investments?

There are different types of risk involved with investing, so it's important to find out what they are and think about how much risk you're willing to take. It all depends on your attitude to risk (how much risk you are prepared to take) and what you are trying to achieve with your investments.

THINGS TO THINK ABOUT BEFORE INVESTING

- How much can you afford to invest?
- How long can you afford to be without the money you've invested (most investment products should be held for at least five years)?
- What do you want your investment to provide, capital growth (your original investment to increase), income or both?
- How much risk and what sort of risk are you prepared to take?
- Do you want to share costs and risks with other investors (using a pooled investment, for example)?

If you decide to invest using pooled investments, consider which type would be most suitable for you. The main differences between pooled investments are the way they pay tax and the risks they involve (especially investment trusts and with-profit funds). What are the tax benefit implications and what tax will you pay and can you reduce it?

You may be looking for an investment to provide money for a specific purpose in the future. Alternatively, you might want an investment to provide extra income. So having decided that you are in a position to invest, the next thing to think about is: "What am I investing for?" Your answer will help you to choose the most suitable type of investment for you. If you have a particular goal you will need to think about how much you can afford and how long it might take you to achieve your goal.

You may have a lump sum to invest which you would like to see grow, or from which you wish to draw an income. Equally, you may decide to invest in instalments, (for example, on a monthly basis) with a view to building up a lump sum.

Your investment goals should determine your investment plan and the time question: - "How long have I got before I need to spend the money?" - is crucial.

Generally, the longer it is before you need your money, the greater the amount of risk you are able to take in the expectation of greater reward. The value of shares goes up and down in the short term, and this can be very difficult to predict, but long term they can be expected to deliver better returns. The same is true to a lesser extent of bonds. Only cash offers certainty in the short term.

Broadly speaking, you can invest in shares for the long term, fixed interest securities for the medium term and cash for the short term.

As the length of time you have shortens, you can change your total risk by adjusting the "asset mix" of your investments, for example by gradually moving from share investments into bonds and cash. It is often possible to choose an option to "lifestyle" your investments, which is where your mix of assets is risk-adjusted to reflect your age and the time you have before you want to spend your money.

Income can be in the form of interest or share dividends. If you take and spend this income, your investments will grow more slowly than if you let it build up by reinvesting it. By not taking income you will earn interest on interest and the reinvested dividends should increase the size of your investment, which may then generate further growth. This is called "compounding."

The performance of your investments could make a critical difference to your financial well being in the future, so receiving reliable and professional financial advice is essential – please contact us to discuss your particular situation.

NEED MORE INFORMATION?
PLEASE CONTACT US WITH YOUR ENQUIRY.

Diversification

Selecting assets that behave in different ways

When deciding whether to invest, it is important that any investment vehicle matches your feelings and preferences in relation to investment risk and return. Hence your asset allocation needs to be commensurate with your attitude to risk. Another key question to ask yourself is: "How comfortable would I be facing a short term loss in order to have the opportunity to make long term gains?" If your answer is that you are not prepared to take any risk whatsoever, then investing in the stock market is not for you.

However, if you are going to invest, you need to be prepared to take some calculated risk in the hope of greater reward. Risk is an implicit aspect to investing: shares can fall, economic conditions can change and companies can experience varying trading fortunes.

The process of deciding what proportion of your investment portfolio should be invested in different types of investment is called 'asset allocation'.

The four main asset classes are:

- Equities
- Bonds
- Cash
- Property

These asset classes have different characteristics for risk. When you are young you may want to invest in assets with a higher potential for growth but greater risk, because you have the time to benefit from their long term growth. As you get closer to retirement you may want to choose more conservative investments that are steadier in both risk and return.

There is a wide variety of different asset classes available to invest in and commensurate risks attached to each one. Whilst these implicit risks cannot be avoided, they can be mitigated as part of the overall investment portfolio, by diversifying.

If you put all of your eggs in one basket, you are more vulnerable to risk. Different investments behave in different ways and are subject to different risks. Saving your money in a range of assets helps reduce the loss, should one of your investments suffer a downturn.

There is also a need to diversify within each type of investment. This is especially important in the case of share and bond investing, but can even be true of cash, where the risks are generally lowest. Putting all your money in one deposit account runs the risk that the interest paid on that

account will change relative to other accounts. This could mean that the interest you receive is no longer as good as when you originally invested.

It is important to remember that all investments have a degree of risk.. The key is to get the right balance. Most people need a mix of assets in order to achieve their goals. The mix required depends upon individual needs.

By spreading your investments over a wide range of asset classes and different sectors, it is possible to avoid the risk that your portfolio becomes overly reliant on the performance of one particular asset. Key to diversification is selecting assets that behave in different ways.

Some assets are said to be "negatively correlated", for instance, bonds and property often behave in a contrarian way to equities by offering lower, but less volatile returns. This provides a "safety net" by diversifying many of the risks associated with reliance upon one particular asset. It is also important to diversify across different "styles" of investing- such as growth or value investing as well as across different sizes of companies, different sectors and geographic regions.

Growth stocks are held as investors believe their value is likely to significantly grow over the long term; whereas value shares are held since they are regarded as being cheaper than the intrinsic worth of the companies in which they represent a stake. By mixing styles which can out or under perform under different economic conditions the overall risk rating of the investment portfolio is reduced. Picking the right combination of these depends on your risk profile, so it is essential to seek professional advise to ensure that your investment portfolio is commensurate with your attitude to investment risk.

The important thing to remember is that with investments, even if your investment goes down, you will only actually make a loss if you cash it in at that time. When you see your investment value fall, this is known as a paper loss as it is not a real loss until you sell.

If you are going to invest, you need to be prepared to take some risk and to see at least some fall in the value of your investment.

Whilst all investments carry an element of risk, the amount of risk you take directly affects any potential returns and losses. Generally speaking, if there is less risk to your investment, your money will grow more slowly and with more risk your investment may fluctuate more.

You should also be aware of currency risk. Currencies, for example sterling, euros, dollars and yen – move in relation to one another. If you are putting your money into investments in another country then their value will move up and down in line with currency changes as well as the normal share-price movements.

Another consideration is the risk of inflation. Inflation means that you will need more money in the future to buy the same things as now. When investing, therefore, beating inflation is an important aim. Investing in cash may not beat inflation over the long term.

We can help you make informed decisions about the investment choices that are right for you, by assessing your life priorities, goals and attitude towards risk for return. Any number of changing circumstances could cause your wealth to diminish, some inevitable and some unpredictable - new taxes and legislation, volatile markets, inflation and changes in your personal life. Structuring your wealth in a way that minimises the impact of these changes is essential. To discuss your requirements please contact us.

Fund focus

Are you investing for growth, income or for both?

You should consider whether you are primarily investing for growth, income or for both. If you want some income, but no risk to your capital, you could choose a money market or cash fund, which means a professional investor will be working to get the best available interest rates.

If however, you are willing to take some risk with your capital, you may wish to choose a fund that invests in bonds, which provide a rate of interest higher than is available with cash. Alternatively, there are equity funds which invest in shares of companies which aim to generate income rather than capital growth and aim to pay out higher than average dividends. Other funds which offer a mixture of both shares and bonds are known as managed funds.

Alternatively, if your objective is long term growth, you may choose a fund which only invests in shares.

All funds which invest in shares are subject to the movements of the stock market. A “passive” fund or “index tracker” is designed to follow the value of a particular index (e.g. the FTSE 100). In general, an “active” fund manager’s aim is to reduce risk and generate better returns than the index for long term investors, through in-depth research and a long term outlook on companies’ development.

You might also want to think about whether the fund is “aggressive”. This usually means that it invests in fewer companies and is, therefore, potentially more risky than a fund adopting a more cautious approach, which is typically likely to have a wider range of underlying investments. Some funds invest mainly in small companies, which also generally implies that they are higher risk than funds investing in larger, usually more established companies.

In the case of share and bond funds you will want to think about the focus of the fund: some funds specialise in, for example, a geographical area (e.g. North America) or in a particular sector (e.g. technology). You might want to start with a broadly based fund and then, if you are able to invest more over time, you could choose to add more specialised funds to your overall portfolio.

Mixed funds are funds which diversify between different types of investment, meaning they invest in a mixture of cash, bonds, shares, pooled funds, property and derivatives.

Protected funds are other types of fund which are “protected” or “guaranteed” to limit losses if the market goes down, or to give you assurance that you will get back at least a certain amount after a specified length of time. It is unlikely that such funds will grow as fast as unprotected funds when the stock market is performing well, as you have to pay for the cost of protection.

Funds which invest only in companies which meet certain “ethical” criteria are known as socially responsible funds, for example avoiding tobacco companies or those which test on animals.

Funds of funds and manager of managers are designed to give investors a chance to invest in a range of funds. A fund of funds is where the fund in which you are invested invests in several other funds. A manager of managers chooses several managers to manage different parts of a pool of money.

Money market funds are designed to offer higher returns than a building society account but still have the same level of security. They invest in bank deposits and are generally called “cash funds”. Some invest in short term money market securities.

Property funds invest either directly or indirectly in property or property-related assets. A fund that invests directly will buy physical property such as a shopping centre in order to generate rental income. A fund that invests indirectly will purchase more liquid assets such as property derivatives, REITS or shares in a property company.

DRIP FEEDING MONEY

You don’t have to have a lump sum in order to invest. Regular savings plans allow you to contribute relatively small amounts of money on a monthly basis and to build up a capital sum. By investing regularly and drip feeding money into a fund regularly you will avoid investing all of your money at the peak of the market, when prices are high. However, you also miss the opportunity to invest at the bottom of the market, when prices are cheaper.

Achieving the right mix of assets should be your first decision and it is a good idea to diversify the types of fund you invest in. No matter what your investment goals are and how much you wish to invest, if you would like us to review your particular situation – please contact us.

Investing for income

In search of good returns from your money

If you are an income-seeking saver in search of good returns from your money in this low interest rate environment and depressed equity markets, we can provide you with the professional advice you need to enable you to consider all the options available. In addition, we can help you determine what levels of income you may need and work with you to review this as your requirements change. Another major consideration is diversification and your attitude towards risk for return and availability. This will determine which asset class you are comfortable investing in.

One option you may wish to discuss with us is cash funds, dubbed 'money market' portfolios. These use the pooled savings of many investors to benefit from higher rates not available to individuals. They can invest in the most liquid, high-quality cash deposits and 'near-cash' instruments such as bonds. But, unlike a normal deposit account, the value of a cash fund can fall as well as rise, although in theory, at least, it should not experience volatile swings.

Bonds are a form of debt, an 'IOU' issued by either governments or companies looking to raise capital. As an investor, when you purchase a bond you are essentially lending the money to the government or company for a set period of time, which varies according to the issuer. In return you will receive interest, typically paid twice a year, and when the bond reaches maturity you usually get back your initial investment. But you don't have to keep a bond until maturity. You can, if you wish, sell it on.

Much of the government's debt, including the additional money being used to aid the economy and refinance the banks, is in the form of bonds it issues. Gilts are bonds issued by the British government. The advantage of gilts is that the government is unlikely to fail to pay interest or repay its debt, so they are generally the safest investments. To date, the UK government has never failed to pay back money owed to investors. Government bonds pay a known and regular income (called the coupon) and a lump sum at maturity (called the par). They typically perform well as the economy slows and inflation falls.

Government bonds tend to move in the opposite direction to shares and historically are good diversifiers. But on the flipside, the government is likely to issue more gilts and this large supply may lead to falls in gilt prices. As government bonds pay a fixed income stream, the real value of these payments erodes if inflation rises. Similarly, the value of bonds typically falls when interest rates rise.

Corporate bonds operate under the same principle as gilts, in other words companies issue debt (bonds) to fund their activities. High-quality, well-established companies that generate lots of cash are the safest corporate bond issuers and their bonds are known as 'investment grade'.

High-yield bonds are issued by companies that are judged more likely to default. To attract investors, higher interest is offered. These are known as 'sub-investment grade' bonds.

The risks related to investing in bonds can be reduced if you invest through a bond fund. Here the fund manager selects a range of bonds, so you are less reliant on the performance of one company or government. The 'distribution yield' gives a simple indication of what returns are likely to be over the next 12 months. The 'underlying yield' gives an indication of returns after expenses if all bonds in the fund are held to maturity.

An alternative route to generating income is by investing in stocks that pay a dividend. If a firm is making good profits it can decide to share this with investors rather than reinvest it in the business, so essentially dividends are the investors' share of company profits. Share prices of companies that regularly pay dividends tend to be less volatile than other companies, but remember that company shares can fall in value. In addition, dividends can be cut if a company finds itself in need of extra cash.

Another way to invest in equities for the purpose of obtaining a better income is via an equity income fund. The fund manager running the portfolio selects a wide range of equities, so you are less reliant on the performance of any one particular company, and will try to select companies that pay regular dividends.

Fixed Interest - corporate bonds and gilts offer significant potential for increased income in times of low interest rates.

Equities - whilst in the short-term equities can be volatile, history shows us that they have outperformed all other asset classes over the longer-term. With share prices currently at lower levels, equities offer the potential for capital growth and rising income over time.

Commercial Property - whilst the commercial property market offers an opportunity to achieve capital growth over the longer-term, the primary return for investors is rental income. Securing long leases with financially secure tenants is critical in order to maintain attractive and sustainable income levels.

For further information on strategies to cope with lower interest rates and alternative solutions to achieve your income, please contact us.

Pooled investment schemes

Investing in one or more asset classes

A pooled (or collective) investment is where many people put their money into a fund, which is then invested in one or more asset classes by a fund manager.

There are different types of pooled investment but the main ones are:

- Open-ended investment funds
- Unit trusts
- Investment trusts
- Investment bonds
- Endowments

Most pooled investment funds are actively managed. The fund manager researches the market and buys and sells assets to try and provide a good return for investors.

Trackers, on the other hand, are passively managed, they simply aim to track the market in which they are invested. For example, a FTSE100 tracker would aim to replicate the movement of the FTSE100 (the index of the largest 100 UK companies).

They might do this by buying the equivalent proportion of all the shares in the index.

For technical reasons the return is rarely identical to the index, in particular because charges need to be deducted.

Trackers tend to have lower charges than actively-managed funds. This is because a fund manager running an actively-managed fund is paid to invest so as to do better than the index (beat the market) or to generate a steadier return for investors than tracking the index would achieve. Of course the fund manager could make the wrong decisions and under-perform the market. And there is no guarantee that an actively-managed fund that performs well in one year will continue to do so. Past performance is no guarantee of future returns.

Trackers do not beat or under-perform the market (except as already noted), but they are not necessarily less risky than actively-managed funds invested in the same asset class. Open-ended investment funds and investment trusts can both be trackers.

That old maxim 'time in the market, not timing the market' has never been more apt than during the recent turbulence experienced in the financial markets. If you would like to find out more about pooled investment schemes, please contact us for further information.

Open-ended investment funds

Investing in one or more of the four asset classes

Open-ended investment funds are often called collective investment schemes and are run by fund management companies. There are many different types of fund. These include:

- Unit trusts
- OEICs (Open-Ended Investment Companies, which are the same as ICVCs – Investment Companies with Variable Capital)
- SICAV (Société d'investissement à capital variable)
- FCPs (Fonds communs de placement)

This list includes certain European funds, which are permitted under European legislation to be sold in the UK.

There are many funds to choose from and some are valued at many millions of pounds. They are called open-ended funds as the number of units (shares) in issue increases as more people invest and decreases as people take their money out.

As an investor, you buy units/shares in the hope that the value rises over time as the prices of the underlying investments increase. The price of the units depends on how the underlying investments perform.

You might also get income from your units through dividends paid by the shares (or income from the bonds, property or cash) that the fund has invested in. You can either invest a lump sum or save regularly each month.

Open-ended investment funds generally invest in one or more of the four asset classes – shares, bonds, property and cash. Most invest primarily in shares but a wide range also invest in bonds. Few invest principally in property or cash deposits. Some funds will spread the investment and have, for example, some holdings in shares and some in bonds. This can be useful if you are only taking out one investment and remembering that asset allocation is the key to successful investment.

The level of risk will depend on the underlying investments and how well diversified the open-ended investment fund is. Some funds might also invest in derivatives, which may make a fund more high risk. However, fund managers often buy derivatives to help offset the risk involved in owning assets or in holding assets valued in other currencies.

Any money in an open-ended investment fund is protected by a trustee or depository who ensures the management company is acting in the investors' best interests at all times.

For income, there is a difference in the tax position between funds investing in shares and those investing in bonds, property and cash. Whichever type of open-ended investment fund you have, you can reinvest the income to provide additional capital growth, but the taxation implications are as if you had received the dividend income.

No capital gains tax (CGT) is paid on the gains made on investments held within the fund. But, when you sell, you may have to pay capital gains tax.

Building an effective portfolio involves receiving professional advice to ensure that your portfolio suits your attitude to risk and return. To discuss your requirements, please contact us.

Open-ended investment companies

Expanding and contracting in response to demand

Open-Ended Investment Companies (OEICs) are stock market-quoted collective investment schemes. Like investment trusts and unit trusts they invest in a variety of assets to generate a return for investors. They share certain similarities with both investment trusts and unit trusts but there are also key differences.

OEICs are a pooled collective investment vehicle in company form and were introduced as a more flexible alternative to established unit trusts. They may also have an umbrella fund structure allowing for many sub-funds with different investment objectives. 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.

By being "open ended" OEICs can expand and contract in response to demand, just like unit trusts. The share price of an OEIC is the value of all the underlying investments divided by the number of shares in issue. As an open-ended fund the fund gets bigger and more shares are created as more people invest. The fund shrinks and shares are cancelled as people withdraw their money.

You may invest into an OEIC through a stocks and shares Individual Savings Account (ISA). Each time you invest in an OEIC fund you will be allocated a number of shares. You can choose either income or accumulation shares, depending on whether you are looking for your investment to grow or to provide you with income, providing they are available for the fund you want to invest in.

Like unit trusts OEICs provide a mechanism of investing in a broad selection of shares thus aiming to reduce the risks of investing in individual shares. Therefore you have an opportunity to share in the growth potential of a stock market investment. However do remember that your capital is not secured and your income is not guaranteed.

Each OEIC has its own investment objective and the fund manager has to invest to achieve this objective. The fund manager will invest the money on behalf of the shareholders.

The value of your investment will vary according to the total value of the fund which is determined by the investments the fund manager makes with the funds money. The price of the shares is based on the value of the investments the company has invested in.

We offer expertise covering a range of different investment products.To discuss your requirements, please contact us.

Unit trusts

Participating in a wider range of investments

Unit trusts are a collective investment that allows you to participate in a wider range of investments than can normally be achieved on your own with smaller sums of money. Pooling your money with others also reduces the risk.

The unit trust fund is divided into units, each of which represents a tiny share of the overall portfolio. Each day the portfolio is valued, which determines the value of the units. When the portfolio value rises, the price of the units increases. When the portfolio value goes down, the price of the units falls.

The unit trust is run by a fund manager, or a team of managers, who will make the investment decisions. They invest in stock markets all round the world and for the more adventurous investor, there are funds investing in individual emerging markets, such as China, or in the so-called BRIC economies (Brazil, Russia, India and China).

Alternatively some funds invest in metals and natural resources, as well as many putting their money into bonds. Some offer a blend of equities, bonds, property and cash and are known as balanced funds. If you wish to marry your profits with your principles you can also invest in an ethical fund.

Some funds invest not in shares directly but in a number of other funds. These are known as multi-manager funds. Most fund managers use their own judgment to assemble a portfolio of shares for their funds. These are known as actively managed funds.

However, a sizeable minority of funds simply aim to replicate a particular index, such as the FTSE all-share index. These are known as passive funds, or trackers.

You may choose to spread your investments across a range of unit trusts and have a choice of income and/or growth – to discuss your requirements please contact us.

Investment trusts

Reflecting popularity in the market

An investment trust is a company with a set number of shares. It is allowed to borrow money to invest (called gearing). Unlike an open-ended investment fund, an investment trust is closed ended. This means there are a set number of shares available, and this will remain the same no matter how many investors there are. This can have an impact on the price of the shares and the level of risk of the investment trust. Open-ended investment funds create and cancel units depending on the number of investors.

The price of the investment trust shares depends on two main factors:

- the value of the underlying investments (which works in the same way as open-ended investment funds); and
- the popularity of the investment trust shares in the market.

This second point applies to investment trusts but not to open-ended investment funds or life assurance investments. The reason is because they are closed-ended funds. The laws of economics say that if there is a high demand for something, but limited supply, then the price goes up.

The result is that investment trust shares do not simply reflect the value of the underlying investments; they also reflect their popularity in the market. The value of the investment trust's underlying investments is called the net asset value (NAV). If the share price is exactly in line with the underlying investments then it is called trading at par. If the price is higher because the shares are popular then it is called trading at a premium and if lower, trading at a discount. This feature may make them more volatile than other pooled investments (assuming the same underlying investments).

There is another difference that applies to investment trusts; they can borrow money to invest. This is called gearing. Gearing improves an investment trust's performance when its investments are doing well. On the other hand, if its investments do not do as well as expected, gearing lowers performance.

Not all investment trusts are geared and deciding whether to borrow and when to borrow, is a judgement the investment manager makes. An investment trust that is geared is a higher-risk investment than one which is not geared (assuming the same underlying investments).

SPLIT-CAPITAL INVESTMENT TRUSTS

Split-capital investment trusts (splits) are a type of investment trust that sell different sorts of shares to investors depending on whether they are looking for capital growth or income. They run for a fixed term. The shares will have varying levels of risk, as some investors will be ahead of others in the queue for money when the trust comes to the end of its term.

The tax position is largely the same as for open-ended investment funds. You should be aware that tax legislation changes constantly and you should find out the most current position.

There is significant potential for increasing your wealth through investing, but only if your money is invested in the right way. To discuss your individual requirements, please contact us.

Investment bonds

Putting your money in a range of different investment funds

Investment bonds are designed to produce medium- to long-term capital growth, but can also be used to give you an income. They also include some life cover. There are other types of investment that have 'bond' in their name (such as guaranteed bonds, offshore bonds and corporate bonds), but these are very different. You pay a lump sum to a life assurance company and this is invested for you until you cash it in or die.

Investment bonds are not designed to run for a specific length of time but they should be thought of as medium- to long-term investments, and you'll often need to invest your money for at least five years. There will usually be a charge if you cash in the bond during the first few years.

The bond includes a small amount of life assurance and, on death, will pay out slightly more than the value of the fund. Some investment bonds offer a guarantee that you won't get back less than your original investment, but this will cost you more in charges.

You can usually choose from a range of funds which can invest in, for example UK and overseas shares, fixed interest securities, property and cash. They can also offer a way of investing in funds managed by other companies, but this may lead to higher charges.

Investment risk can never be eliminated but it is possible to reduce the ups and downs of the stock market by choosing a range of funds to help you avoid putting all your eggs in one basket. Different investment funds behave in different ways and are subject to different risks. Putting your money in a range of different investment funds can help reduce the loss, should one or more of them fall.

You can usually switch between funds. Some switches may be free, but you may be charged if you want to switch funds frequently. Any investment growth at the time of a fund switch is not taxable.

Any growth in investment bonds is subject to income tax. The investment will pay tax automatically while it is running so, if you are a:

- **non-taxpayer –** you will not have to pay any further income tax but you cannot reclaim any tax;
- **basic-rate taxpayer –** you will not normally have to pay any further income tax; and
- **higher-rate taxpayer (or close to being one) –** if you withdraw more than 5 per cent of the original investment amount in a year or you have made a profit when you cash in the investment, you may be liable for more income tax.

Depending on your circumstances, the overall amount of tax you pay on investment bonds may be higher than on other investments (like a unit trust, for instance). But there may be other reasons to prefer an investment bond. Or you may want to set up the investment within a trust as part of your inheritance tax planning (but note that you normally lose access to at least some of your money if you do this).

You can usually take out some or all of your money whenever you wish but there may be a charge if you take money out in the early years.

You can normally withdraw up to 5 per cent of the original investment amount each year without any immediate income tax liability. The life assurance company can pay regular withdrawals to you automatically. These withdrawals can therefore provide you with regular payments, with income tax deferred, for up to 20 years.

Whether you want to consider a managed fund, or a more focused investment objective utilising a specialist fund – for example, funds that may invest in a particular geographical area such as the Far East or North America, or alternatively, in a particular type of investment such as gilts, property or cash – please contact us to discuss your individual requirements.

Endowments

Combining investments with life cover

Endowments are regular premium policies which combine investments with life cover and are sometimes used to repay interest-only mortgages. Endowments are offered by life assurance companies, have a fixed term and usually require you to pay a fixed premium on a regular basis.

Some of your premium is used to buy life cover (so if you die before the end of the term the policy pays out a death benefit) and the remainder of the premium is invested. The amount of life cover will depend upon the premium you pay, your age and sex, and the length of the policy.

Many life assurance companies and friendly societies offer a with-profits fund. If you keep paying the premiums, these plans offer a guaranteed minimum value at maturity. If investments do well then they will add a bonus to the guaranteed minimum amount. They may also add a final bonus at the end of the policy term. You can also often choose from a range of other funds which can invest in, for example, UK and overseas shares, fixed interest securities, property and cash.

Maximum investment plans tend to offer a wider range of funds than other types of endowment. Maximum investment plans may also offer a way of investing in funds managed by other companies, but this may lead to higher charges.

If the policy has a planned duration of at least ten years and is held until the end of the term, the value of the policy will be paid to you as a lump sum, generally without any further tax liability.

In some other cases you may have to pay income tax at maturity if you are a higher-rate taxpayer (or close to being one). For example if you stop an endowment early, you may have to pay tax on any capital growth.

If you do not maintain premiums into a friendly society savings plan until the end of the term, you may have to pay some tax.

You may find your investment goals change if you get married, have children, or start a business, so it could be an idea to switch your investment into different funds. And as you approach retirement, you may want to move your money gradually into investments that offer more security. To discuss your requirements, please contact us.

Tax wrappers

Individual Savings Accounts

A tax wrapper can be wrapped around either the underlying investment or the pooled investment, and means you pay less or no tax. An example of a tax wrapper is an Individual Savings Account (ISA). An ISA is not a product on its own, but a tax wrapper around a savings or investment product, which protects your money from being taxed.

WHAT CAN YOU SAVE OR INVEST IN AN ISA?

ISAs can be used to:

- save cash in an ISA and the interest will be tax-free
- invest in shares or funds in an ISA – any capital growth will be tax-free and there is no further tax to pay on any dividends you receive

You can invest in two separate ISAs in any one tax year: a cash ISA and a stocks and shares ISA. This can be with the same or different providers. By using a stocks and shares ISA you invest in longer-term investments such as individual shares or bonds, or pooled investments (such as open-ended investment funds or investment trusts).

The current ISA limits are:

If you were born on or before 5 April 1960 (that is, aged 50 or over during the current tax year) you can save up to £10,200. The full £10,200 can be invested in a stocks and shares ISA with one provider or up to £5,100 can be saved in a cash ISA with one provider, with the remainder being saved in a stocks and shares ISA with either the same provider or another.

If you were born after 5 April 1960 you can save up to £7,200. The full £7,200 can be invested in a stocks and shares ISA with one provider or up to £3,600 can be saved in a cash ISA with one provider, with the remainder being saved in a stocks and shares ISA with either the same or another provider. From 6 April this year, the ISA limit will increase to £10,200, up to £5,100 of which can be saved in cash for all ISA investors.

According to the age 50 rule, someone who is currently under age 50 but who will reach age 50 between 6 October 2009 and 5 April 2010 will only be able to pay in more than £7,200 during the 2009/10 tax year (up to a maximum of £10,200) once they have attained their 50th birthday. So, for example, if an investor will not attain age 50 until 1 March 2010, they will not be able to pay in more than £7,200 until 1 March 2010.

From 6 April 2010 the limit is £10,200 (of which £5,100 can be saved in cash) for everyone.

If you choose to invest the whole allowance in an investment ISA, this can only be with one provider in any one tax year.

TRANSFERRING AN ISA

If you have money saved from a previous tax year, you can transfer some or all of the money from your cash ISA to a stocks and shares ISA without this affecting your annual ISA investment allowance. However, once you have transferred your cash ISA to a stocks and shares ISA it is not possible to transfer it back into cash.

ISAs must always be transferred, you can't close the old one and start a new one, otherwise you will lose the tax advantage. If appropriate, you may wish to consider switching an existing stocks and shares ISA if you feel the rate is not competitive. But if you have a fixed-rate ISA, you should check whether you may have to pay a penalty when transferring.

An ISA is a great way to make the most of your tax-efficient savings limit and save for the future. The value of tax savings and your eligibility to invest in an ISA will depend on your individual circumstances and the tax rules may change in the future. The events of the last few years have shown once again that the path to successful investing is not always easy to follow, so receiving professional advice is essential to ensure that you achieve your financial goals – for more information, please contact us.

Taxation matters

Different investments have different tax treatment

INDIVIDUAL SAVINGS ACCOUNTS (ISAS)

You pay no personal income tax or capital gains tax on any growth in an ISA, or when you take your money out. If you invest in a stocks and shares ISA, any dividends you receive are paid net, with a 10 per cent tax credit. There is no further tax liability.

Please be aware that the impact of taxation (and any tax reliefs) depends on individual circumstances. Current tax rules and rates are valid until 5 April 2010 and may change in the future.

UNIT TRUSTS AND OPEN ENDED INVESTMENT COMPANIES (OEICS)

With a unit trust or OEIC your money is pooled with other investors' money and can be invested in a range of sectors and assets such as stocks and shares, bonds or property.

Dividend income from OEICS and unit trusts invested in shares

If your fund is invested in shares then any dividend income that is paid to you (or accumulated within the fund if it is reinvested) carries a 10 per cent tax credit. If you are a basic rate or non taxpayer, there is no further income tax liability. However, higher rate taxpayers currently have a total liability (2009/10) of 32.5 per cent on dividend income; the tax credit reduces this to 22.5 per cent.

Any interest paid out from fixed interest funds (these are funds that invest for example in corporate bonds and gilts, or cash) is treated differently to income from funds invested in shares. Income is paid net of 20 per cent tax.

CAPITAL GAINS TAX

No capital gains tax is paid on the growth in your money from the investments held within the fund, but when you sell, you may have to pay capital gains tax. Bear in mind that you have a personal capital gains tax allowance that can help you limit any potential tax liability. Any gains over this allowance is currently taxed at 18 per cent (2009/10), regardless of whether you are a higher or basic rate taxpayer.

ACCUMULATED INCOME

Accumulated income is interest or dividend payments which are not taken but instead reinvested into your fund. Even though they are reinvested they still count as income and are subject to the same tax rules as for dividend income and interest.

Investment bonds (insurance / life assurance bonds)

ONSHORE INVESTMENT BONDS

Investment bonds have a different tax treatment from other investments. This can lead to some valuable tax planning opportunities for individuals.

There is no personal liability to capital gains tax or basic rate income tax on proceeds from your bonds. This is because the fund itself is subject to tax, equivalent to basic rate tax.

You can withdraw up to 5 per cent each year of the amount you have paid into your bond without paying any immediate tax on it. This allowance is cumulative so any unused part of this 5 per cent limit can be carried forward to future years (although the total cannot be greater than 100 per cent of the amount paid in).
If you are a higher rate taxpayer now but know that you will become a basic rate taxpayer later (perhaps when you retire for example) then you might consider deferring any withdrawal from the bond (in excess of the accumulated 5 per cent allowances) until that time. If you do this, you will not need to pay tax on any gains from your bond.

Onshore investment bond considerations:

Certain events during the lifetime of your bond may trigger a potential income tax liability:

- Death.
- Some transfers of legal ownership of part or all of the bond.
- On the maturity of the bond (except whole of life policies).
- On full or final cashing in of your bond.
- If you withdraw more than the cumulative 5 per cent annual allowance. Tax liability is calculated on the amount withdrawn above the 5 per cent.

If you are a higher rate taxpayer or the profit (gain) from your bond takes you into a higher rate tax position as a result of any of the above events then you may have an income tax liability. As you are presumed to have paid basic rate tax, the amount you would liable for is the difference between the basic rate and higher rate tax.

The events may also affect your eligibility for certain tax credits.
The taxation of life assurance investment bonds held by UK corporate investors changed from 1 April 2008. The bonds fall under different legislation and

corporate investors are no longer able to withdraw 5 per cent of their investment each year and defer the tax on this until the bond ends.

OFFSHORE INVESTMENT BONDS

Offshore investment bonds are similar to UK investment bonds above but there is one main difference.

With an onshore bond tax is payable on gains made by the underlying investment, whereas with an offshore bond no income or capital gains tax is payable on the underlying investment. However, there may be an element of withholding tax that cannot be recovered.

The lack of tax on the underlying investment means that potentially it can grow faster than one that is taxed. Note that tax may be payable on a chargeable event at a basic or higher rate tax as appropriate.

Remember that the value of your fund can fluctuate and you may not get back your original investment.

UK SHARES AND TAXATION

If you own shares directly in a company you may be liable to tax.

DIVIDENDS

Any income (dividends) you receive from your shares carries a 10 per cent tax credit. However, higher rate taxpayers have a total liability of 32.5 per cent (2009/10) on dividend income; the tax credit reduces this to 22.5 per cent.

When you sell shares you may be liable to capital gains tax on any gains you may make. You have a yearly allowance, above which any gains are liable to 18 per cent tax. Special rules apply to working out your gains or losses.

Different investments have different tax treatment. The following is based on our understanding of current taxation, legislation and HM Revenue & Customs practice, all of which are subject to change without notice. The impact of taxation (and any tax relief) depends on individual circumstances.

Offshore investments

Utilising tax deferral benefits

For the appropriate investor looking to achieve capital security, growth or income, there are a number of advantages to investing offshore, particularly with regards to utilising the tax deferral benefits. You can defer paying tax for the lifetime of the investment, so your investment rolls up without tax being deducted, but you still have to pay tax at your highest rate when you cash the investment in. As a result, with careful planning, and if appropriate you could put offshore investments to good use.

The investment vehicles are situated in financial centres located outside the United Kingdom and can add greater diversification to your existing portfolio. Cash can also be held offshore in deposit accounts, providing you with the choice about when you repatriate your money to the UK, perhaps to add to a retirement fund or to gift to children or grandchildren. Those who work overseas or have moved abroad to enjoy a different lifestyle often want to pay as little tax as is legally possible.

Many offshore funds offer tax deferral. The different types of investment vehicles available offshore include offshore bonds that allow the investor to defer tax within the policy until benefits are taken, rather than be subject to a basic rate tax liability within the underlying funds. This means that, if you are a higher rate tax payer in the UK, you could wait until your tax status changes before bringing your funds (and the gains) back into the UK.

The wide choice of different investment types available include offshore redemption policies, personalised policies, offshore unit trusts and OEICs. You may also choose to have access to investments or savings denominated in another currency.

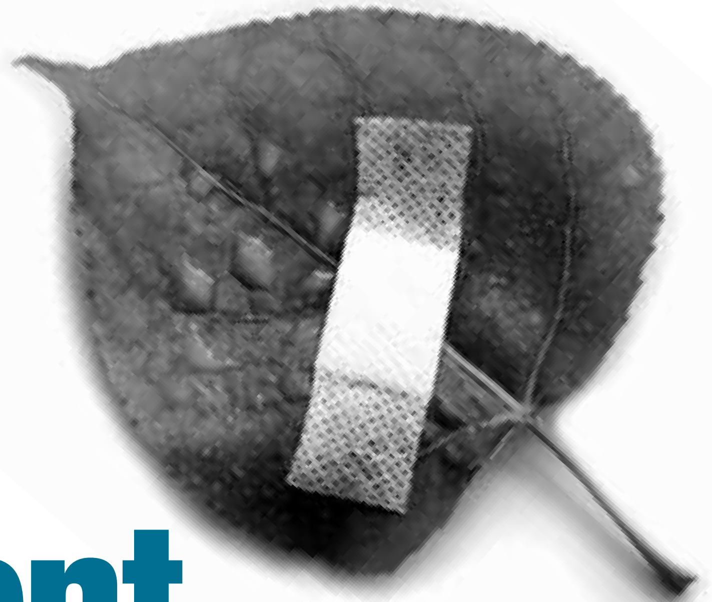
Many banks, insurance companies and asset managers in offshore centres are subsidiaries of major UK, US and European institutions. If you decide to move abroad, you may not pay any tax at all when you cash-in an offshore investment, although this depends on the rules of your new country.

Regarding savings and taxation, what applies to you in your specific circumstances is generally determined by the UK tax regulations and whatever tax treaties exist between the UK and your host country. The UK has negotiated treaties with most countries so that UK expats in those countries are not taxed twice. Basically, if a non-domiciled UK resident is employed by a non-UK resident employer and performs all of their duties outside the UK, the income arising is only subject to UK tax if it is received in or remitted to the UK.

Investor compensation schemes tend not to be as developed as in the UK, so you should always obtain professional advice to ensure that you fully understand each jurisdiction. It is also important to ensure that you are investing in an offshore investment that is appropriate for the level of risk you wish to take.

If you are an expatriate you should find out if you are aware of all the investment opportunities available to you and that you are minimising your tax liability. Currency movements can also affect the value of an offshore investment.

For further information, specific to your circumstances, please contact us discuss your requirements. Any potential investor who is unsure of their tax position is recommended to take professional advice before investing.



Ethical investment opportunities

Where's your money growing?

For investors concerned about global warming and other environmental issues, there are a plethora of ethical investments that cover a multitude of different strategies. The terms 'ethical investment' and 'socially responsible investment (SRI)' are often used interchangeably to mean an approach to selecting investments whereby the usual investment criteria are overlaid with an additional set of ethical or socially responsible criteria.

The Ethical Investment Research Service (EIRIS) defines an ethical fund as 'any fund which decides that shares are acceptable, or not, according to positive or negative ethical criteria (including environmental criteria).'

Funds that use negative screening, known as dark green funds, exclude companies that are involved in activities that the fund manager regards as unethical. Each fund group has a slightly different definition of what is unethical, but this typically includes gambling, tobacco, alcohol and arms manufacture. It could also cover pollution of the environment, bank lending to corrupt regimes and testing of products on animals.

Positive screening funds use positive criteria to select suitable companies. Funds that take this approach look for companies that are doing positive good, such as those engaged in recycling, alternative energy sources or water purification. So an ethical fund of this type might buy shares in a maker of wind turbines or solar panels.

Engagement funds take a stake in companies and then use that stake as a lever to press for changes in the way that the company operates. This could mean persuading oil and mining companies to take greater care over the environmental impact of their operations or pressing companies to offer better treatment of their workers.

In addition, this process may involve making judgements regarding the extent to which such investments are perceived to be acceptable, and about the potential for improving through engagement the ethical performance of the party offering the investment.

Ethical investors will believe that they should not (or need not) sacrifice their life principles in exchange for chasing the best financial returns, with some arguing that in the long term, ethical and SRI funds have good prospects for out-performing the general investment sectors.

Since ethical investment, by definition, reduces the number of shares, securities or funds in which you can invest, it tends to increase the volatility of the portfolio and therefore the risk profile. This can be mitigated by diversifying between funds, and between different styles of funds and fund managers. Like their non-ethical equivalents, some ethical funds are much higher risk than others.

NEED MORE INFORMATION?
PLEASE CONTACT US WITH YOUR ENQUIRY.

A-Z of investment planning

Understanding the jargon

ACCUMULATION UNITS/SHARES
With this type of unit/share any income earned on your investment remains accumulated within the price of your units/shares, increasing the value of your holding.

ACTIVE MANAGED FUNDS
Funds which offer investment in a range of assets, with the Manager being able to invest up to 100 per cent in equities at their discretion. At least 10 per cent of the total fund must be held in non-UK equities. There is no minimum Sterling/Euro balance and equities are deemed to include convertibles. At any one time the asset allocation of these funds may hold a high proportion of non-equity assets such that the asset allocation would by default place the fund in either the Balanced or Cautious sector. These funds would remain in this sector on these occasions since it is the Manager's stated intention to retain the right to invest up to 100 per-cent in equities.

ANNUAL MANAGEMENT CHARGE (AMC)
A fee paid to the fund manager which covers the cost of investment management and administration. It is normally 0.75 per cent - 1.5 per cent p.a. and is charged to the fund on a daily basis. The AMC forms part of the total expense ratio (TER) of a fund.

ASSETS
The "building blocks" in which a fund invests, for example stocks and shares, cash, fixed interest securities and property funds.

ASSET ALLOCATION
A term to describe how your money is invested. In most cases, the fund manager will spread money across a range of different assets and companies in order to diversify your holdings and help to spread risk.

AUTHORISED INVESTMENT FUND
A unit trust or OEIC that is regulated by the Financial Services Authority (FSA) for promotion to the general public in the UK. All unit trusts and OEICs which are on sale to a retail investor in the UK are authorised by the FSA.

BALANCED FUNDS
Funds which offer investment in a range of assets, with the maximum equity exposure restricted to 85 per cent of the Fund. At least 10 per cent of the total fund must be held in non-UK equities. Assets must be at least 50 per cent in Sterling/Euro and equities are deemed to include convertibles.

BENCHMARK INDEX
A stock market index, such as the FTSE 100, which is used by fund managers as a standard to measure the overall performance of their funds. Fund managers try to outperform any gains made by their fund's benchmark index.

BID PRICE
Unit trusts and OEICs can have separate prices for buying and selling units/shares. Such funds are known as dual-priced. The bid price is the price at which units/shares are sold and are lower than the offer or buying price.

BID/OFFER SPREAD
For dual-priced funds this is the difference between the buying and selling prices of your units/shares. The buying or offer price is normally higher than the selling or bid price as it will include an initial charge to be paid to the fund manager for setting up and administering your units/shares.

BONDS
Also known as fixed interest securities, bonds are investments which pay a fixed rate of interest and have a fixed term. Governments or companies may issue them. Those issued by governments are known as gilts. Not to be confused with investment bonds issued for individual investors usually by insurance companies.

CASH
In saving and investment terms "cash" refers to a bank or building society deposit account in which your capital is secure. It can also refer to money market funds.

CASH FUNDS
Alternative name for money market funds.

CAUTIOUS MANAGED FUNDS
Funds which invest in a range of assets with the maximum equity exposure restricted to 60 per cent of the fund and with at least 30 per cent invested in fixed interest and cash. There is no specific requirement to hold a minimum per cent of non UK equity within the equity limits. Assets must be at least 50 per cent in Sterling/Euro and equities are deemed to include convertibles.

CLOSED ENDED FUNDS
Unlike unit trusts and OEICs, which are open-ended, these are funds which only have a fixed number of units/shares in issue at any time. The price of units/

shares in such funds, which include investment trusts, will fluctuate according to investor demand rather than as a result of changes in the value of their underlying assets.

COLLECTIVE INVESTMENT SCHEMES
Funds which pool investors' money and invest on their behalf. This term refers to unit trusts and OEICs.

COMPOUNDING
The process by which your investment grows in value over time with reinvested interest or dividends.

CORPORATE BONDS
Fixed interest securities issued by public companies.

CREATION PRICE
For dual-priced funds this is the highest possible price at which an investor can buy units/shares from the manager under FSA regulations. The initial charge is not included. The creation price represents the cost of buying the fund's assets.

CURRENCY RISK
When the manager buys investments in currencies other than Sterling there is a risk that the value of those investments will change due to changes in currency exchange rates.

CURRENT YIELD
See "*Running yield*".

DERIVATIVES
A general term for futures and options.

DISTRIBUTIONS
Income paid out from a unit trust or OEIC in the form of interest or dividends.

DISTRIBUTION YIELD
Reflects the amounts that may be expected to be distributed over the next twelve months as a percentage of the mid-market unit price of the fund as at the date shown. It is based on a snapshot of the portfolio on that day. It does not include any preliminary charge and investors may be subject to tax on distributions.

DIVERSIFICATION
A term used to describe the spreading of risk by investing in a number of different companies and assets. Doing so will mean that you won't have all of your eggs in one basket.

DIVIDENDS
Income paid on shares out of company profits.

DIVIDEND DISTRIBUTIONS
Income paid out by unit trusts and OEICs that invest mainly in equities.

DUAL PRICING
Both unit trusts and OEICs can be dual-priced, such funds have an offer price at which you buy, and a lower bid price, at which you sell. The difference between the two prices is known as the bid/offer spread. The buying price is normally higher than the selling price as this includes the initial charge to be paid to the fund manager.

EFFECTIVE YIELD
Method for calculating bond income which takes account of all expected cash flows from a bond over its lifetime.

EQUITIES
Shares in a company (see also stocks and shares).

ETHICAL FUNDS
Also known as Socially Responsible Investments (SRIs). These funds aim to avoid investing in activities which may be harmful to society, such as tobacco production or child labour. Some funds also aim to actively invest in companies which promote ethical policies such as recycling.

EXIT CHARGE
Also known as a redemption charge. A charge taken by some fund managers when you sell your units/shares. In many cases, the charge will only be applied if you sell within, say, five years. Exit charges are usually applied instead of, rather than in addition to, an initial charge.

FIXED INTEREST SECURITIES
Assets which provide regular, fixed, interest payments and are issued by companies and governments. They include gilts and bonds.

FTSE 100 INDEX
British index on the London Stock Exchange which comprises the leading 100 UK Companies.

FTSE 250 INDEX
Index on the London Stock Exchange of the largest 250 companies by market capitalisation after those listed on the FTSE 100.

FTSE ALL SHARE INDEX
British index on the London Stock Exchange of all UK listed companies. Incorporates companies from the FTSE 100, FTSE 250 and FTSE Small Cap indices.

FTSE SMALL CAP INDEX
British index of the smallest companies by market capitalisation.

FUND MANAGER
The term used to describe the manager of a unit trust. A fund manager must manage the unit trust in accordance with the fund's objectives and decides which assets to hold in order to meet those objectives. Authorised Corporate Director (ACD) is the term used to describe the manager of an OEIC fund.

FUNDS OF FUNDS
Fund of funds are designed to increase diversification by investing in other funds.

FUTURES
Agreement to buy or sell a fixed amount of a particular asset at a fixed future date and a fixed price.

GILTS
Bonds issued by the UK government. Also known as gilt-edged securities. Along with bonds can be referred to as fixed interest securities.

GEARING
The amount a fund can "gear" is the amount it can borrow in order to invest. In unit trusts and OEICs borrowing is limited to 10 per-cent of the fund's value and is usually for the purpose of managing cash flow, rather than to increase the fund's investment exposure.

HEDGE FUNDS
A fund, which uses an assortment of trading techniques and instruments to meet an objective of providing positive investment returns irrespective of the performance of stock markets.

INCOME
The return on your investment that arises from dividends and interest earned by the fund.

INCOME UNITS/SHARES
This type of unit/share pays out to you on set dates each year any interest or dividends your investment makes.

INDEX/INDICES
A grouping of shares or fixed interest securities on the stock market which are often similar in size or represent similar industries. For example, the FTSE 100 index represents the largest 100 UK companies by market capitalisation.

INDEX TRACKING FUNDS
Funds which aim to mirror the progress of a stock market index, e.g. the FTSE 100, by buying and selling shares in the same proportions as represented on the index. These are also sometimes called tracker, index or passive managed funds.

INDIVIDUAL SAVINGS ACCOUNT (ISA)
A tax-efficient means of saving.

INITIAL CHARGE
A charge that is paid to the fund manager when you invest to cover their expenses, such as commission, advertising, administration and dealing costs.

INTEREST
An amount, in percentage form, which a bank or building society will credit to you if you save with it in a deposit account or savings account. The amount paid to you will be a percentage of whatever capital you have in your account. Gilts and bonds also pay income in the form of interest.

INTEREST DISTRIBUTIONS
Income paid out by unit trusts and OEICs that invest predominantly in gilts and bonds.

INVESTMENT FUNDS
A general term for unit trusts and OEICs.

INVESTMENT GRADE BONDS
These bonds have a low risk of the company that issued them being unable to repay them. The most secure forms are known as “triple A” rated bonds. See “Credit ratings”.

INVESTMENT TRUSTS
Similar to unit trusts and OEICs in that they provide a means of pooling your investment but with a different structure and governed by different regulations. They are closed-ended funds and public listed companies whose shares are traded on the London Stock Exchange.

LIFE INSURANCE PRODUCTS
Products which guarantee that a sum of money will be paid out to you after a set term or upon death.

MONEY MARKET FUNDS
Funds which invest in cash investments, such as bank deposits. Often referred to as “cash funds”, they offer higher returns than a building society account but still have the same level of security.

MULTI-MANAGER FUNDS
Multi-manager funds are designed to increase diversification by outsourcing a pool of money for investment to a number of appointed managers.

NET INCOME
Dividends and interest paid out to you after income tax has been deducted.

OEICS
Open-ended investment companies. These are very similar to unit trusts, but are constituted as companies rather than trusts. They are the established structure in many other European countries and can be single or dual-priced.

OFFER PRICE
Some unit trusts and OEICs have separate prices for buying and selling units/shares. The offer, or buying, price is usually higher than the bid, or selling, price as it includes an initial charge.

OPEN-ENDED FUND
Funds such as unit trusts and OEICs which expand and contract by issuing or cancelling units/shares depending upon demand.

OPTIONS
Provide the opportunity (a ‘right’ rather than an obligation) for the buyer to purchase or sell a certain number of shares, at a future date and a known price.

OVERSEAS FUNDS/OFFSHORE FUNDS
Unit trusts and OEICs which are based outside of the UK (but within Europe) and which are authorised by the Financial Services Authority and sold into the UK via distributor status.

POUND COST AVERAGING
Investing on a regular basis can iron out stock market fluctuations and can help you to avoid investing all of your money when the market is at its peak. Saving regularly enables you to buy more shares when the market and prices are low and less when the market and prices are high. Over time the cost of your units will even out and it is likely that you will end up paying below average prices for your units. This is known as pound cost averaging.

PREFERENCE SHARES
These are similar to bonds in that they usually pay a fixed rate of income. However, they pay it as a dividend rather than interest and are subject to the issuing company making sufficient profits.

PROTECTED FUNDS
Please see guaranteed funds.

REDEMPTION DATE
Usually associated with gilts or bonds, the redemption date is the date set in advance when the gilt or bond will be repaid by the issuing government or company and you will receive your capital back.

REPURCHASE
The sale of units/shares back to the fund manager to realise/cash in the investment. It is also referred to as a redemption, although not to be confused with the redemption of a gilt or bond.

RISK PROFILE
This relates to how much risk you are prepared to take with your money. Generally the more risk you take, the higher the potential gain, but the more likely it is that you could lose some or all of your capital. Your risk profile may depend on your financial circumstances, as some people are able to take more risk than others.

RISK RATING
See "Credit Rating".

SECURITIES
Another name for investments such as stocks, shares and bonds.

SHARES
The name given to a part of a company owned by an investor – the investor buys shares in the company. Is also used to describe the OEIC equivalent of a unit.

SINGLE PRICING
Some OEICs and unit trusts have a single price at which investors both buy and sell. The initial charge is shown separately and is charged in addition to the unit/share price.

STOCKS AND SHARES
Also known as equities, this is the name given to a part of a company owned by an investor.

TRACKER FUNDS
See "Index tracking funds".

TRUST DEED
This document establishes the legal constitution, structure and organisation of a unit trust. The OEIC equivalent is known as an instrument of incorporation.

TRUSTEE
Responsible for overseeing the fund manager's activities in relation to a unit trust. Usually a large bank, the trustee must be independent of the fund manager where the fund is authorised by the Financial Services Authority. It acts in the interests of the investors, owning the investments in the fund on their behalf. It also ensures the fund is invested according to its investment objectives and that the manager complies with the regulations. The OEIC equivalent is known as the depositary.

UCITS
A fund that can be marketed in all countries in the European Union. UCITS stands for 'Undertakings for Collective Investments in Transferable Securities' and is a European Directive which has been adopted in the UK. UK based UCITS funds are OEICs, with unit trusts abiding by the non-UCITS Retail Schemes (NURS) rules due to trust law being unrecognisable by other European Member States.

UNDERLYING YIELD
The Underlying Yield reflects the annualised income net of expenses of the fund (calculated in accordance with relevant accounting standards) as a percentage of the mid-market unit price of the fund as at the date shown. It is based on a snapshot of the portfolio on that day. It does not include any preliminary charge and investors may be subject to tax on distributions.

UNITS
Unit trusts are divided into "units" of equal value, therefore an investor buys units in the unit trust. The OEIC equivalent is known as a share.

UNIT LINKED POLICIES
These are insurance products where you pay a premium which is then invested in a fund holding a range of assets, usually including equities and fixed interest securities. Part of the premium paid pays for life assurance. Unit-linked policies are similar to with-profits products but do not invest in as many assets.

UNIT TRUST
Private individuals pool their contributions with others, which combine to form a large fund. The fund invests in a spread of different assets to minimise the risk of loss. Also known as collective/pooled investments or investment funds. Unit trusts can be both single and dual-priced.

VALUATION POINT
The time of day when unit trusts or OEICs are valued and then priced.

WARRANTS
A security that offers the owner the right to purchase the shares of a company at a fixed date, usually at a fixed price.

WITH PROFITS
A with-profits fund is a pooled insurance product. With-profits funds pool together premiums paid by a number of investors, which the insurance company then invests in a very wide range of assets. (See "Unit-linked policies").

YIELD
The amount of income generated by a fund's investments in relation to the price. Equity funds will normally quote the histroic yield. *Fixed interest* funds will normally quote the Underlying Yield and the Distribution Yield.

ZERO DIVIDEND PREFERENCE SHARES
Preference shares which do not pay out dividends but instead pay out a predetermined amount at the end of the investment period.

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