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FINANCIAL MARKETS – WHAT ‘QUANTUM OF SOLACE’?

Markets can eventually fall so far that the underlying assets they are intended to value become worthless. This is the Armageddon scenario in which bartering returns and we swap our labour for goods, or our goods for services.

How likely is this? It will not happen – so the doom-mongers who speak flippantly of shares and bonds becoming ‘worthless’ are quite simply wrong. Some shares will become worthless – but only if the companies concerned fail, with more liabilities than assets. Similarly, certain corporate bonds and even some sovereign debt will become worthless paper, but only if issuers default on their obligations.

By far the majority of listed companies will remain in business – and most will continue generating profits, throughout a global recession. The vast majority will continue to meet their debt obligations too – even though some will fail.

In simple terms, a bond has a value, determined by the rate of interest it pays, the security of that interest and the security of eventual repayment. Shares have a value too, determined by underlying corporate asset base, prospective profits and potential growth (or reduction) in future profits.

Markets merely provide a pricing mechanism and arguably, global financial markets are increasingly distorted and inefficient in this regard. Presently they are driven by momentum, as fear of further falls, drives investors to sell stock. Panic has replaced sober assessment of corporate balance sheets and of realistic lower earnings prospects.

Continued on page 2



CARTLIDGE MORLAND

In the bond markets, stock is being dumped – not because it is fundamentally unattractive, but because many bondholders eg (hedge funds) borrowed to buy it and are now forced sellers, as their lenders demand repayment and they fail to secure alternative funding. The bond market is therefore subject to severe distortion.

Investment grade bond yields are already very attractive and will become more so, as interest rates reduce dramatically and inflation falls next year. In the meantime, holders of bond funds are uncomfortable – with their funds (traditionally a safer asset class) falling in value to an extent not typical of this type of asset. We expect a strong bond rally – with a surge more usual of equities but the big question is when. For those buying now, yields are highly attractive.

Dividends from equities will become more attractive to investors too, as deposits produce a lower return and bond yields fall, as prices rise. As the equity markets fall, perceived risk bottoms out, whilst investors are forced to seek better returns when deposit rates fall significantly. Those accustomed to 4-5% pa on deposit will have to invest elsewhere as interest rates fall – or accept a considerably reduced return. Many will have no choice but to return to the equity and bond markets.

Financial markets will only properly reappraise the value of equities and bonds when credit conditions ease, interest rates fall further and the likely depth of the global recession becomes clear. Panic and volatility will prevail until then, but the tenacious investor will eventually be rewarded handsomely. In the meantime, the first building block of recovery – stability in the global banking system – seems to be in place.

At Home - Cartlidge Morland continues to grow with ten new colleagues joining our ranks since the last issue of Portal. Against the trend, Q1 (August-October) lending by our mortgage broking team is only 3.45% below the level seen over the same period in 2007. Our private client/investment team has increased Q1 revenues by 62%, although underlying growth is 9% once acquisition and recruitment are taken into account. Our employee benefits team is extremely busy with several new corporate clients largely derived from benefits audits and cost reduction proposals.

Website - We have improved the functionality of our website whilst at the same time increasing the content of information available. This is an ongoing process as this medium of communication increases in popularity. We are now able to provide our clients with online access to their portfolios by secure PIN, 24 hours a day, seven days a week. Please speak to your Cartlidge Morland consultant for details.

Our People - This time it is Sally Matthews – urban sophisticate and Banksy fan.

MORTGAGES – MAKE TRACKS FOR THE BEST DEALS

In today's turbulent times, it takes a lot to shock the markets but the Bank of England surprised everyone when it cut interest rates by 1.5% in early November. At 3%, the base rate is at its lowest level since 1955. The move is excellent news for existing holders of tracker rate mortgages, who will receive the full benefit of the cut. It is also good news for anyone with a fixed or tracker rate deal just coming to an end, as it means you will be able to renew at another good rate.

Lenders, including those that have been part nationalised, have come under fire for not passing on rate cuts in full. At the time of writing, it remains to be seen exactly how this rate cut will be reflected in new mortgage products coming to market.

For some time now, we have been recommending tracker rate mortgages with a “drop-lock” facility to suitable clients. These have the advantage of taking the worry out of choosing the right rate structure. You enjoy the best of both worlds, as you benefit from the potential reductions available with tracker rates, with the extra flexibility of being able to “lock in” to the security of a fixed rate at any time in the future. We hope these types of facilities will continue to be available. While rates are unlikely to fall again by a similar magnitude, we believe there is still potential for further base rate reductions in future.

In the current market, it is particularly essential that you seek innovative, thoughtful advice on your mortgage. At Cartlidge Morland, we have comprehensive access to market-leading rates and we are in an excellent position to recommend the most competitive deals available. If your current rate is expiring, or you are thinking of taking out a new mortgage, contact us first for expert, impartial advice.

MAXIMISING INCOME

With the UK base interest rates now at 3.0% and further decreases likely in a concerted effort to stave off a deep recession in the UK, the returns from cash deposits are likely to fall significantly. Clients who have relied on their cash holdings to provide income now need to consider other means of deriving income at similar levels as those when interest rates were higher. Our investment team has constructed various portfolios achieving attractive yields relative to cash.

The Cautious Income Portfolio currently has a gross yield of 6.48%. (Yield quoted gross of tax, net of charges 14/11/08).

Cautious Income Portfolio	Portfolio	Fund Yield	Portfolio Yield
	%	%	%
Allianz PIMCO Gilt Yield	10.00	3.54	0.35
Invesco Perpetual Corporate Bond	23.00	7.49	1.72
M&G Corporate Bond	23.00	5.39	1.24
Fidelity Moneybuilder Income	23.00	5.87	1.35
Henderson Strategic Bond	21.00	8.65	1.82
Total	100.00		6.48

Gross yields correct as at 14/11/08. Yields quoted gross of tax, net of charges. Income units used where available.

The portfolio comprises the Allianz PIMCO Gilt Yield fund that invests in UK government bonds, the highest quality bonds in the fixed interest market. Three corporate bond funds have been included: Invesco Perpetual Corporate Bond, M&G Corporate Bond and Fidelity Moneybuilder Income funds. The Henderson Strategic Bond can invest in a broad spectrum of fixed interest investments including gilts, corporate bonds, asset backed securities, loans and preference shares and is deemed to be the highest risk of the funds in the portfolio.

The principal reason for holding fixed interest funds is the income they produce. The latter can either be re-invested or paid out (distributed). There is the possibility of a capital return if the underlying bonds increase in value. Bond prices increase as demand for them increases. This can be due to inflation and interest rates falling so making yields look more attractive. Conversely, rising inflation and interest rates will lead to falls in capital values. The threat of and actual defaults will also cause values to drop.

We favour fixed interest as we see scope to capture attractive yields now whilst bond prices are very depressed. The capital value of bonds will be supported by strong demand, resulting from lower inflation and interest rates.

Recession is likely to increase default rates in the bond markets and bonds issued by struggling companies will be downgraded by the credit rating agencies too. Current prices suggest the bond market has already discounted this and diversified portfolios, invested primarily in investment grade debt, should not suffer too much. Current prices reflect more challenging business conditions.

Capital values and yields from fixed interest funds will vary. Please remember you may not get back the full amount that you have invested. The companies issuing the bonds may default so income payments may not be forthcoming. Higher yields usually indicate that more risk is attached to that particular bond. Bear in mind that past performance is not a guide to future returns.

If you would like to discuss your income strategy further, please contact your Cartledge Morland consultant or email enquiries@cartlidge-morland.co.uk



OCCUPATIONAL PENSION SCHEMES

- PENSION TRANSFERS



Pensions Technical Unit - Margaret Kain and Peter Jones

There are still occasions when it may be appropriate to consider transferring benefits out of an occupational pension scheme. Our technical pension team consider why this may be the case.

Occupational pension schemes generally fall into two categories: Defined Benefit Schemes (Final Salary) or Defined Contribution Schemes.

If the client is a member of a defined benefit scheme, the question which has to be answered is:

“Why would a client wish to transfer preserved pension benefits from the protected environment of a Defined Benefit Scheme, where the investment risk is borne by the employer to an individual arrangement where 100% of the investment risk is taken by the client?”

Before 2005, a reason for transferring may have been concerns about the financial security of employers' schemes (largely because of the Robert Maxwell pension scandal). However, the introduction of the Pension Protection Fund has now given members of defined benefit schemes a large degree of security when the sponsoring employer encounters financial difficulties. Therefore the answer must be that in the vast majority of circumstances, a transfer would be inadvisable.

Before a client can be advised on any transfer from a defined benefit scheme a Transfer Value Analysis (TVAS) must be carried out. A TVAS will determine the annual percentage growth rate (critical yield) required from an individual's pension arrangements to match the benefits given up in the event of a transfer. The Pensions Technical Unit (PTU) at Cartlidge Morland, which is comprised of specialists in this area of work, is finding that for most potential transfers the critical yield would be in the region of 9% to 11%. This means that in the event of a transfer the client would need to take a large degree of investment risk in the hope of achieving the necessary returns to match benefits.

Occasionally there may be circumstances where a transfer could be advisable. Examples are:

- where an employer is winding up a scheme and options for members are limited
- where an employer is offering enhanced transfer values or cash incentives to induce members to transfer
- where death benefits or possibly tax free cash are superior in an individual arrangement
- where a client wishes to have more investment options (including self investment) and/or the flexibility to draw retirement benefit in a way that suits their circumstances

However it is extremely rare to recommend any transfer from a defined benefit scheme and the watchwords would be: “use extreme caution”.

Where the transfer originates from a defined contribution scheme the considerations are different. Under a defined contribution scheme the investment risk lies with the client, which is the same scenario when a transfer is made to an individual pension arrangement. Before an adviser can advise a client on the suitability of a transfer they need to compare the principal features of the originating scheme against the proposed alternative. The main issues would be:

- Is there a penalty being imposed in the event of transfer?
- What are the charges?
- What is the amount of tax-free cash?
- Are there any guaranteed annuity rates attaching to the originating scheme?
- What investment options are available?

This is not an exhaustive list but it does cover the major points before suitable advice can be given.

As we have seen, there are occasions when a pension transfer from an occupational scheme may be advisable. At Cartlidge Morland, we have a very experienced team who can help you through the pension transfer maze to ensure that you take the most appropriate course of action for your circumstances.

PENSIONS PLANNING – QROPS

There has been much talk recently, both in the financial pages of the national press and in specialist publications about “QROPS”. So what are they?



A QROPS is a Qualifying Recognised Overseas Pension Scheme and has come into being as a result of European laws allowing EU nationals to transfer their pension benefits across national boundaries. To be recognised by HM Revenue and Customs (HMRC), a QROPS must allow citizens in the state in which it is based to join the scheme, offer tax relief on contributions and generally should not allow anyone from the UK transferring their benefits abroad to draw more than 25% of the fund as tax-free cash, although some schemes will allow up to 30% of the fund to be drawn as tax-free cash.

To someone who lives in the UK and intends to continue doing so, the value of a QROPS lies in having greater freedom to decide how benefits are drawn after age 75 (before that age there is little real difference when compared to onshore schemes) and the ability to pass pension benefits on to the next generation upon death after age 75. If you are intending to leave the UK, there can be greater pension flexibility, depending on circumstances.

Beware though - HMRC has already withdrawn recognition from a Singapore-based scheme because investors were being allowed to withdraw too much of their fund.

So, complicated, yes; useful, yes; expensive, quite possibly. Treat with caution, but in the right circumstances a QROPS offers a considerable increase in pension/inheritance tax planning and flexibility.

For more information or to discuss if a QROPS may be appropriate for you, contact David Turner.

IMPORTANT INFORMATION & NOTES

1. The views and suggestions in this document are based on Cartlidge Morland's research which is obtained from a variety of sources. Whilst these sources are believed to be reliable, the information obtained cannot be guaranteed to be accurate and may be condensed or incomplete. The funds, investments and products described are not suitable for everyone and advice should be sought from your consultant who will provide a recommendation having considered all relevant circumstances. Past performance is not a guide to the future. The value of investments and income arising may go down as well as up.
2. In the case of income funds, the income is not fixed – it can go up and down.
3. The level and bases of, and reliefs from taxation may change. The value of tax reliefs depend upon our current understanding of individual circumstances. Statements relating to taxation are based upon current taxation laws and practices which are subject to change. If in doubt, tax advice should be sought.
4. Cartlidge Morland is a Licenced Credit Broker.
5. Cartlidge Morland is a firm of Independent Financial Advisers which is authorised and regulated by the Financial Services Authority.
6. Your home may be re-possessed if you do not keep up repayments on your mortgage. An administration fee of £295 may be charged. There may also be a fee for mortgage advice. The precise amount of any fee will depend on your own circumstance, but typically this would be 0.25% of the amount borrowed. For a typical mortgage of £100,000 our fee would be £250. Should you wish to be advised on a “fee-only” basis and have any income from the lender refunded to you, our standard fee is 0.6% in these circumstances, for a typical mortgage of £100,000 our fee would be £600.

SCHRODER INCOME MAXIMISER - YIELDING 10.67%

The Schroder Income Maximiser fund is an innovative investment delivering a high yield, currently at 10.67%, capital growth potential and lower volatility. It uses a covered call overlay strategy (see insert) to enhance the income it derives from a portfolio of income producing UK equities. (Yield quoted gross of tax and net of charges 14/11/08).

The fund has a target yield of up to 7% pa, net of basic rate tax, and invests in an actively managed portfolio of 30-50 large and mid cap UK stocks. These stocks are selected by the managers of the existing Schroder Income fund and produce a net yield of around 3.5% pa, although yields are much higher now due to market conditions. The structured products team then manage the covered call options that add a further 2.5%- 4.0% pa net. You should bear in mind that these yields are estimated and are not guaranteed, so can vary.

What is Schroders' covered call overlay strategy?

Schroders own a stock and then sell a contract under which they agree to exchange:

- any gain on the stock price above a certain, agreed level
- on an agreed date in the future (usually quarterly)

Therefore if a stock price rises above the agreed level Schroder forfeits some of the excess return, if the stock falls in value or does not go above the agreed level, Schroder takes no action. In all scenarios, Schroder receive a known payment or "premium" for agreeing to pass on any gain.



The fund invests in the shares of companies that the managers believe to be undervalued with a track record of sustainable dividend payments and strong balance sheets. Currently, they hold companies such as HSBC, Vodafone and GlaxoSmithKline. The structured products team is advised by the investment managers on which stocks to sell covered call options, and they then put the deals in place. The premium received from the client to whom the covered call option contract is sold is retained as income for the fund, irrespective of whatever happens to the stock price. In gently rising, flat or falling markets this additional income will boost performance. In strongly, rising markets, the fund will miss some of the upside movement so the fund can under-perform in such circumstances.

Since the fund was launched in 2005, the option strategy has contributed positively in two-thirds of the quarters.

Please remember that the value of your investment and any income arising may go down as well as up and therefore your return may be less than your original investment.

INVESTMENT VIEWS

According to Cartlidge Morland's Investment Committee, these are the factors most likely to influence markets in the shorter term at 10 September 2008. The relative attractiveness of sectors is now given as a one year view based on anticipated sterling returns to give a greater degree of guidance during high market volatility. The percentages shown are the movements in the appropriate capital return indices since the last edition of Portal (which is available on our website) to 10 September 2008.

NEGATIVE

- ✗ Credit crunch still impacting on businesses and individuals as capital not freely available
- ✗ Revision to Q2 GDP worse than expected
- ✗ Problems remain in the housing market
- ✗ OECD predicts recession

- ✗ ECB maintaining interest rate at relatively high level at expense of jobs
- ✗ Eurozone exports expensive at high Euro level
- ✗ GDP slowing

- ✗ "Conservatorship" of Fannie Mae and Freddie Mac increasing risks associated with harsher legislative and regulatory environment
- ✗ Significant weakening of labour market as economy slows
- ✗ Still large inventory of houses

- ✗ Recession likely
- ✗ Trade balance narrowing as foreign receipts may be negative
- ✗ Consumer confidence poor – net decrease in earnings

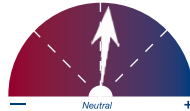
- ✗ Decoupling from US looks less likely in the shorter term
- ✗ Labour costs rising
- ✗ Inflation broader than in the West
- ✗ Interest rates increasing

- ✗ New rules for credit rating agencies could impact on ratings
- ✗ Earnings downgrades likely to continue (defaults likely to increase)
- ✗ State of public finances mean more gilt issuance likely
- ✗ Inflation outlook sensitive to US\$ moves

- ✗ Likely recession to impact on sector
- ✗ Banks squeezing leveraged investors
- ✗ Large capital write downs in quoted property sector and within property investments funds

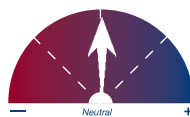
CARTLIDGE MORLAND VIEW

UK EQUITIES



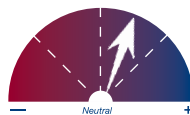
UK Equities FTSE All Shares (-12.76%)

EUROPEAN EQUITIES



European Equities FTSE Eurotop 100 (-12.35%)

NORTH AMERICAN EQUITIES



North American Equities S&P 500 (+1.72%)

JAPANESE EQUITIES



Japanese Equities Nikkei (-3.46%)

SOUTH EAST ASIAN EQUITIES EXCLUDING JAPAN

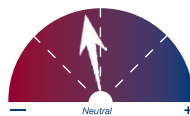


South East Asian Equities excluding Japan Hang Seng (-13.52%)

UK FIXED INTEREST



UK COMMERCIAL PROPERTY



POSITIVE

- ✓ Improving fundamentals = price relative to earnings. Current prices anticipating a drop in earnings.
- ✓ Inflationary pressures easing
- ✓ Interest rates likely to come down
- ✓ Dividend yields look attractive

- ✓ Earnings expectations improving
- ✓ Inflation likely to ease
- ✓ Still commitment to changes in structural employment regulation
- ✓ Business confidence looks to be less pessimistic

- ✓ Reasonable value based on current earnings levels
- ✓ Dollar strengthening so US \$ buys more £ and inflation likely to reduce
- ✓ Fiscal stimulus likely in election year

- ✓ Inflation easing
- ✓ Growth surprisingly high
- ✓ Equity dividend yield higher than 10 year bond

- ✓ More intra-regional trade
- ✓ Oil price decreases positive
- ✓ Turnaround in consumer confidence

- ✓ Interest rate declines
- ✓ Inflation subsiding
- ✓ Credit spreads wider
- ✓ Corporate balance sheets of big issuers reasonably sound

- ✓ Interest rates likely to fall
- ✓ Yields attractive

OUR PEOPLE

SALLY MATTHEWS, CONSULTANT

Sally joined Cartlidge Morland as a consultant three years ago having gained invaluable experience at three very different companies in the previous nine years.



On graduating from Metropolitan University with a degree in Humanities, Sally joined the Royal National Pensions Fund for Nurses. After some intensive training, she started to advise clients over the telephone and gained her Financial Planning Certificate whilst working there. She left to join Annuity Direct. Here she advised clients who

were reaching retirement whilst honing her knowledge of annuities, income draw-down, and long term care planning. Sally then moved to Arbutnot Latham Private Bank to advise both private and corporate clients, and subsequently joined Cartlidge Morland to make full use of the broad range of skills and expertise she had acquired. Sally is well on her way to becoming a Chartered Financial Planner with a few more examinations to pass.

Sally, 34, is originally from Bristol but London beckoned when she was deciding upon which university to attend and she has been there ever since. She now lives in London Fields which means she can walk to work and she is in easy reach of the centre of London for the museums, art galleries and cinemas she likes to visit. As a seasoned City dweller, she is now very keen on urban art including street graffiti. She enjoys dining out and true to

her adventurous nature, has just visited "Dans le noir", a restaurant where the dining room is in complete darkness so the sense of taste is heightened. Although glad to have tried the restaurant, Sally will not be hurrying back.

Sally is an action girl and will try her hand at any sport. She plays tennis and is a regular at the gym. Her shortest lived hobby was rock climbing. She went to an indoor climbing centre to get a feel for the sport but suffered from severe vertigo. As she was only attempting the children's rock face at the time, she thought it prudent to give up. However, her vertigo did not stop her hurling herself of a hillside in Rio de Janeiro attached to a hang glider. She admits to feeling a little unwell when faced with the prospect of jumping but enjoyed the experience in the end. "It is amazing what peer pressure will make you do", says Sally.

Sally is due to test out sailing next. She has booked a sailing course in Portugal from which she hopes to obtain her Competent Crew certificate. We are hoping that Sally owns up to her driving skills before taking charge of any boat. It took sixty lessons for Sally to pass her driving test but she did succeed at her first attempt. She now has a car and loves the challenge of parking in her garage. The car has a few dents to prove it.

As a great traveller, Sally says she is keen to visit South America, in particular Argentina. She claims it is to experience a very different culture and view the landscapes. Knowing Sally as we do, we think that there may be another attraction - plenty of good wine!!

Alex & Stephanie Reeves' baby, Adam, born in May.



Andrew & Alena Colls' baby, Lily, born in September.



Ed & Kate Overend's baby, Freddie, born in October.

