

SUMMER 2005

CARTLIDGE MORLAND

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Simon O'Reilly  
Senior Consultant

## Miss SIPP – Mutton Dressed As Lamb?

To read the personal financial pages, one could be forgiven for thinking of the SIPP as a blushing debutante – 'brought out' under the watchful eye of Chancellor Brown in the glittering season of '05.

Having only now assumed her rightful place as the 'talk of the town' – the SIPP is no debutante – Lady Thatcher (then plain Mrs Denis Thatcher) brought her out in the season of '89. She attracted a few beaux over the years – but has largely been left on the shelf. Yet she could have done so much to refresh an increasingly stale late twentieth century society – but at last her time has come.

Without betraying the lady's reputation, it is fair to say that Messrs Cartlidge Morland have long held more than mere acquaintance with Miss SIPP – we were intimately involved the first time round! Without being indelicate, we can reveal that after a number of dalliances, we eventually produced a child together – known as the Cartlidge Morland SIPP – who made her own debut in the season of '01. She has captured so many hearts since then – and not broken any yet.

## For Those Dazzled By Miss SIPP's Radiance This Season And Craving Her Acquaintance . . .

The best way to Miss SIPP's heart is via an introduction from Messrs Cartlidge Morland. As for her prospects – well our own Miss SIPP is an heiress – she already holds £00M's in commercial property – the only property in which her guardians permitted her to invest until now. As the newspapers have so vulgarly revealed recently, from 6 April 2006, Miss SIPP will be able to invest in residential property too – in time for next year's Season. What a glittering ball she and her friends will have together – tax relief on villas on the Riviera (or even the Cotswolds), income tax relief on all residential property purchases – and even tax free income. All quite blissful, but only whilst the chaperone's eye is turned. (We can exclusively reveal that Mrs Gordon Brown, is presently diverted by her own love interest – that nice Mr Blair's job). Next season's gossip already.

Yet there is more to Miss SIPP's marriage settlement than mere property. She holds collective investment funds, individual bonds/shares, art, classic cars, cash and many other assets, which makes them all equally tax efficient. Miss SIPP may switch between them all at will – whilst Messrs Cartlidge Morland will select and manage them effectively for her. Cartlidge Morland will eventually arrange for Miss SIPP's assets to pass tax efficiently to her beneficiaries too – should the constant partying eventually prove too much. (The chaperone will grab everything she can if left to her own devices – not to be trusted that one).

## Our People

For all the pleasures at Cartlidge Morland, our staff do change from time to time. Some move on – but others never leave Valiant House. For those we really cannot bear to lose – Simon O'Reilly always cooks the farewell supper . . . ■



## European Investments

### EU Savings Directive

The EU Savings Directive came into force on 1 July 2005. This Directive aims to eliminate cross-border tax evasion by individuals. EU member states are required to exchange information automatically on savings income paid to individuals resident in another member state. This information will include the customer's identity and residence, the name and address of the paying agent e.g. banks, investment funds, account number or other identification and amount of interest paid or credited and the currency in which it is paid.

Three member states – Austria, Belgium and Luxembourg will apply a withholding tax rather than exchange information, on a transitional basis only. Paying agents in these countries will deduct tax on cross border interest – 15% for the first three years, 20% for the subsequent three years and 35% thereafter. Investors who receive income in a withholding country may elect not to have the tax withheld by choosing a reporting procedure. A certificate can be obtained from HM Revenue and Customs (HMRC) which can be presented to the paying agent to this end. If investors have tax withheld they can claim credit for that from their own tax authority to ensure double taxation does not occur.

Certain UK and Netherlands dependent and associated territories will either exchange information or apply a withholding tax. For example, Jersey, Guernsey and the Isle of Man will apply a withholding tax whilst Gibraltar and the Cayman Islands will exchange information.

#### Income arising as follows falls within the Directive

- € Bank and building society interest
- € Income from Government securities
- € Income from bonds and debentures
- € Interest accrued or capitalised on sale/redemption of a money debt
- € Interest paid by certain collective investment funds (broadly where the fund has invested more than 15% of its assets in money debts)
- € Accumulated income paid out on redemption/sale of and in a collective where the fund has invested more than 40% of its assets in money debt
- € Interest on ISAs and UK Authorised SAYE schemes
- € Interest on Child Trust Funds

It should be remembered that UK resident and domiciled individuals are taxable on interest arising overseas regardless of whether it is actually remitted to the UK. These individuals are making a declaration of interest earned already, so this Directive has little or no effect on them. It is targeted at individuals where declarations have not been made. Insurance policies fall outside the Directive, therefore gains on offshore bonds are not reported under the Directive. Offshore life companies already report on to HMRC on certain events and gains made on offshore bonds.

For further information contact your consultant or David Turner.

Thinking . . .



### Mortgage? Remortgage? Buy to Let?

Our Mortgage Team, with over 40 years' experience between them, can find you the most suitable mortgage offering an attractive rate and competitive terms so saving you time and minimising your costs.

Contact Bill Lyons or Bernie Brennan to discuss your requirements now on 020 7929 8700.

# Lloyd's Names

## Exclusive Funding at Lloyd's (FAL) Scheme

- ▶ Are you a Lloyd's Name looking to set up a new Funding at Lloyd's arrangement or to fund additional capacity?
- ▶ Perhaps you want to release existing reserves or replace guarantees?

Cartlidge Morland has a carefully designed, exclusive FAL Scheme offering you a tax efficient way to provide Funds at Lloyd's.

### How does the Scheme work?

It uses an interest only and, in most cases, tax relievable loan secured on property to fund one or more low to medium risk investments to be held within Funds at Lloyd's. We have a Lloyd's specialist in our Mortgage Department who has experience of providing the lowest cost mortgage funds for hundreds of Names.

There are just three steps to setting up the scheme.

#### ▶ Step 1

You arrange an interest only mortgage through a lender sourced by Cartlidge Morland, secured by way of a first charge on your property. The mortgage is usually equal to any existing guarantee at Lloyd's which you are replacing or can be up to 75% loan to property value. Dependent on the type of mortgage required interest rates of less than 5% per annum are currently available for discounted rate deals and depending on which scheme you proceed with, there may be no early redemption charges whatsoever at any point during the mortgage. There is, however, usually a booking fee for arranging discounted mortgages of typically £400.

#### ▶ Step 2

The mortgage required for your FAL is invested in one or more investment bonds which are then assigned to Lloyd's for your FAL requirement.

#### ▶ Step 3

Monthly capital withdrawals of up to 5% pa of the original investment are available for up to 20 years from the

investment bond/s without immediate personal liability to income tax or capital gains tax. These withdrawals are used to pay the monthly interest payments to the lender. You should note that if the rate of withdrawal exceeds the underlying investment returns then the capital value of your bond will be eroded and that this might have implications for your FAL. The investment returns of the bond are not fixed – they can go up or down. On encashment you may not get back the full amount of your investment.

Provided the return from the bond after charges does not exceed the cost of the mortgage, the capital value of your bond will not reduce. If the overall return from the bond after charges is less than the cost of the mortgage or the capital value of your investment goes down, you will need to find additional capital when the mortgage is redeemed.

Please note that interest rates can of course increase in the future and your home may be repossessed if you do not keep up repayments on your mortgage.

If you would like to discuss your FAL requirements and our scheme in more detail, contact Gerard Thomas. ■



Gerard Thomas

### More Information Required?

If you require any further information on the topics covered in this edition of Portal, either complete and cut out or copy the slip below and post or fax it to us.

Your Name \_\_\_\_\_

Your Address \_\_\_\_\_

\_\_\_\_\_ Telephone \_\_\_\_\_

Funding at Lloyd's  Pensions  Investments  Mortgages

Taxation of European Investment

Post: Cartlidge Morland Valiant House 4-10 Heneage Lane London EC3A 5DQ

Email: [portal@cartlidgemorland.co.uk](mailto:portal@cartlidgemorland.co.uk)

Fax: 020 7929 8701

# Pensions

**Unbelievable but true . . .** radical pensions legislation coming into force in April 2010.  
 We look at two of the most innovative – using your pension to purchase residential property.

## Buying a house – Use a SIPP!

**For the first time, pension investors will be able to hold residential property within a SIPP from next April.**

Through your SIPP, you will be able to:

- Sell your house to the pension scheme
- Purchase a Buy to Let property
- Purchase a holiday home, whether in the UK or abroad
- Pass property, or part of a property, to the pension scheme as a pension contribution

**“Benefit from the usual tax advantages . . .”**

Investors will benefit from the usual tax advantages of a pension scheme. So if you are purchasing a property through your SIPP, you could enjoy full income tax relief on the purchase price – for higher rate taxpayers this means that a property worth £200,000 will, in effect, cost only £120,000 after tax relief. If you are renting out the property, the rental income will accrue within the pension fund tax-free. If the property is subsequently sold by the SIPP, there will be no liability to capital gains tax.

If you decide to sell your own home to the SIPP and still live in it, you will have to pay a reasonable market rent to the SIPP fund. Rent is also payable if you live in your second home even for a short space of time, although only for the time you occupy it. For properties abroad, local taxes may have to be paid and there may be local legislation that makes it difficult to hold property in a pension scheme. All costs associated with buying a property, such as Stamp Duty, legal fees and mortgage payments will have to be met by the SIPP.

***“. . . it is worthwhile maximising contributions now and in the future.”***

The maximum loan that can be obtained by the SIPP to purchase property is 50% of the fund value so if the fund is worth £200,000 you can borrow another £100,000. Therefore if you are considering using your SIPP for a property purchase, it is worthwhile maximising contributions to it now and in the future. Under the new pension legislation, a contribution of up to 100% of your net relevant earnings, subject to £215,000 pa (rising in line with inflation), can be paid and enjoys tax relief at your highest rate. The maximum size of the fund is set at £1.5m rising to £1.8m in 2010.

The retirement age at which benefits can be drawn from a SIPP is increasing from 50 to 55 in 2010. If a property forms part of the assets, it may have to be sold to provide for a pension income. If it is a considerable part of the fund value, the full 25% tax free cash lump sum may not be available unless the property is sold.

# Interesting at Last!!

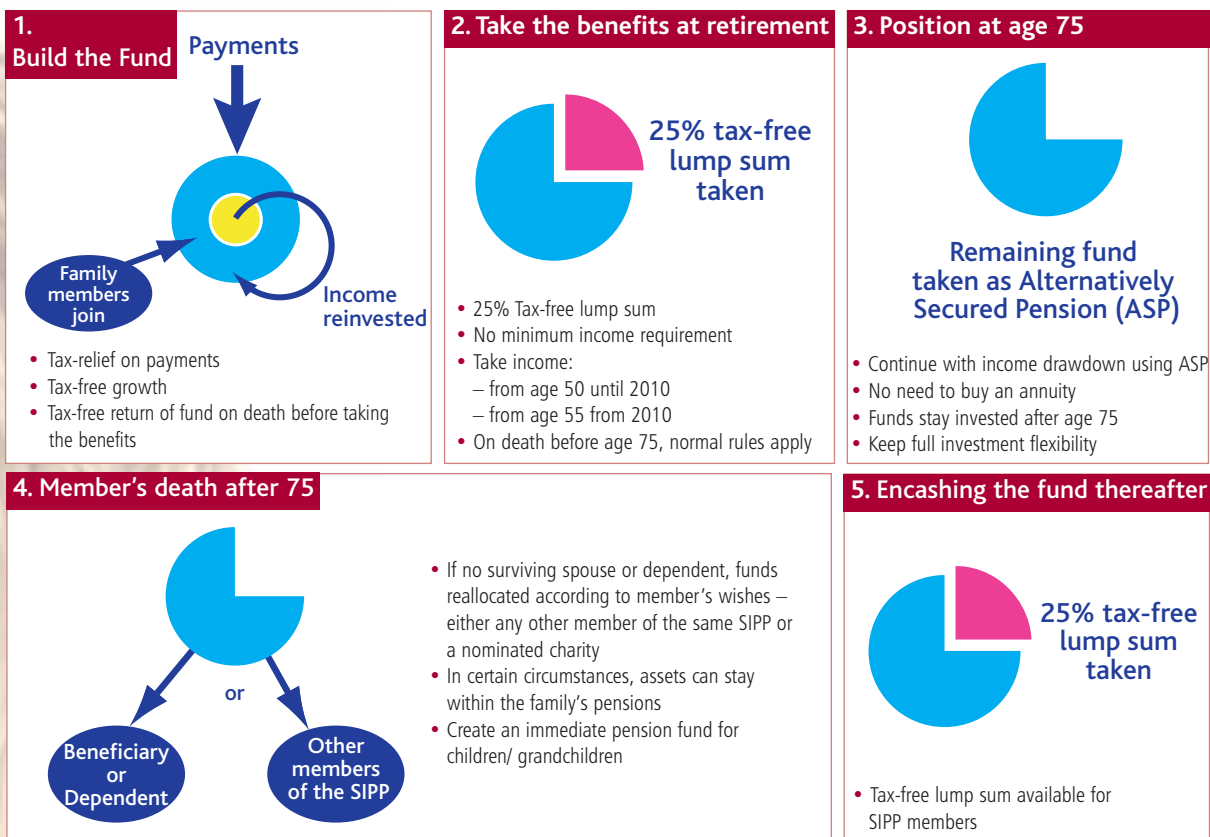
April 2006 has now given rise to some really interesting opportunities for pension investors. Residential property and "Syndicated" or "Family" Self Invested Personal Pensions.

## Keeping your SIPP in the family

The new pension legislation will allow income withdrawals to continue after age 75, so removing the need to purchase an annuity at this point. This is called Alternatively Secured Pension (ASP) – see Figure 3. In permitting this, the Inland Revenue had to decide what should happen to the pension fund on death of the member after age 75 where there was no spouse or dependents. The solution – "transfer lump sum death benefit".

The transfer lump sum death benefit is only available when the scheme member is in ASP (Figure 4) – making income withdrawals – when he/she dies after age 75. Upon death of the scheme member, the residual funds can then be passed to surviving family members, such as non-dependent children and grandchildren, who have previously joined the same pension arrangement as the deceased member. Then they have a pension fund available when they retire (Figure 5). It is not yet clear whether the funds being transferred will be free of inheritance tax (IHT). It is unlikely that the Capital Taxes Offices will approve of an arrangement where perhaps the family home can be purchased by the family SIPP and so avoid IHT.

### Lifecycle of a Syndicated SIPP



If you would like to explore the opportunities for setting up a SIPP and/or holding property within one, please contact your consultant or David Turner. ■

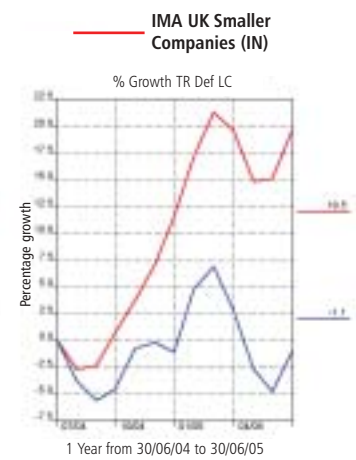
# Fund Reviews

## Unicorn UK Smaller Companies and Artemis UK Growth

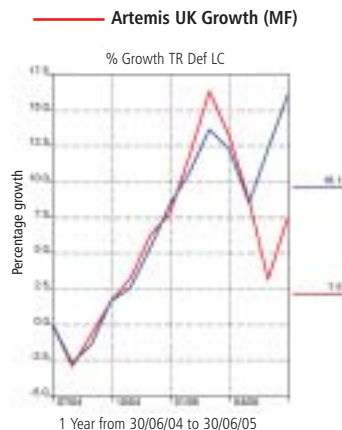
We are proud of our investment research and management at Cartledge Morland but very occasionally funds do not live up to expectations. Two such funds are Unicorn UK Smaller Companies and Artemis UK Growth. The recent performance of these two funds has been disappointing so having reviewed them we would like to share our findings with clients who have investments in either fund.

Unicorn Smaller Companies is managed by Peter Webb. He has been running UK smaller companies funds since 1988 and has established himself as one of the leading managers in this area. The successful investment approach he has followed is to have a sound knowledge and understanding of companies in which he invests. At Unicorn, they conduct their own fundamental research with regular visits to and meetings with the companies in which they invest or are considering investing in. For these reasons, we have recommended Unicorn Smaller Companies.

The performance of the fund had been good until the middle of 2004, since then it has stalled as the fund was not exposed to the Resources sector which accounts for 18% of the Hoare Govett Smaller Companies index. Peter Webb decided not to follow the market, which was speculating on exploration companies where the operating mechanics were far from clear. Debt driven stocks also performed well, which he again avoided. He does not chase momentum but adopts a long-term approach to investment currently. He favours industrial and business services stocks which have seen positive trading updates recently with the indication that there is likely to be a strong recovery in profitability.



We have decided to "hold" this fund and keep it under review over the next six months. Good fund managers do experience "blips" in performance and we feel this is the case here. Peter Webb does not follow the market but uses his expertise to select companies which he has thoroughly researched and feels have good growth prospects for the future.



The Artemis UK Growth has had very poor performance recently, underperforming the sector average by 8.1% from the beginning of May to the end of June 2005. Its previously excellent record has been affected by its holding in Regal Petroleum. Poor drilling results resulted in a fall in the Regal share price of 70%. The manager had held the share for the last two and a half years, based not only on the potential of its Greek field but also the value of other assets in the group. The initial holding had increased from 2% to 5% over time as the share price had performed strongly. The market has lost confidence in the management of the company, consequently two experienced non-executive directors have been appointed to

strengthen the Board. There is also concern over the quality of assets in Romania and the Ukraine, where gas has been discovered. The fund manager, Adrian Paterson, is now awaiting the results of an independent audit company reviewing these reserves.

The fall in Regal's share price had a knock on effect on other shares in the portfolio, as hedge fund managers looked to make up their losses in Regal by selling other shares. The fund manager has met with the management of these affected companies and is confident in them. Their share prices should recover. Performance over the last month to the end of June 2005 shows that the fund has outperformed the sector average by 0.82%

The fund manager is comfortable with the construction of his portfolio with the exception of Regal Petroleum. He is a well regarded fund manager and has produced consistently good performance. We shall keep the fund under review but due to the quality of the management to date shall continue to hold it.

# Investment Views

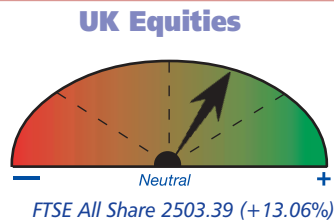
According to Cartlidge Morland's Investment Committee, these are the factors most likely to influence markets in the shorter term at 4 July 2005. The relative attractiveness of sectors is given on a three to five year view based on anticipated sterling returns. The percentages shown are the movements in the appropriate indices since the last edition of Portal (7 February 2005) until 4 July 2005.

## Negative

## Cartlidge Morland View

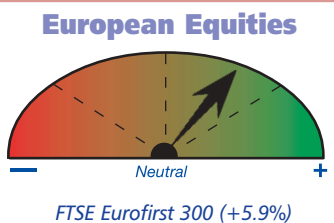
## Positive

- x Growth expectations slowing, tax increases possible
- x Consumer spending dropping off
- x Large amounts of consumer debt being repaid
- x Public sector spending continues to expand as a proportion of GDP



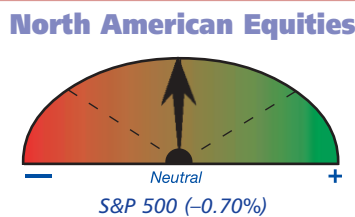
- ✓ Interest rate cuts likely
- ✓ Stabilising housing market
- ✓ Institutional cash at 19.3% of portfolios
- ✓ Increase in M&A activity
- ✓ Profits at record high
- ✓ Debt growth slowing

- x EU adopting international accounting standards – liabilities increase for companies with pension funds
- x Italy's position on the Euro a cause of concern
- x French reject Anglo-Saxon business model



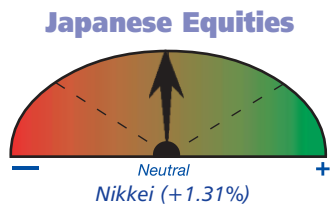
- ✓ Political change likely in Germany, France and Italy hopefully leading to labour reforms
- ✓ German banks becoming more market oriented
- ✓ German fundamentals look increasingly attractive
- ✓ Signs of EU financial reform

- x Current account deficit now even higher than predicted – \$ likely to be affected
- x Federal deficit still too high
- x High oil price
- x Foreign investment on the decline



- ✓ Economic news more positive
- ✓ Housing market still buoyant
- ✓ Lively M&A activity
- ✓ Unemployment declining
- ✓ Increasing business expenditure offsetting fall in consumer spending

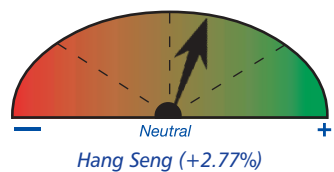
- x Deflation persists – CPI still deflationary
- x Oil and commodity prices high
- x Exports to China may be dented following deterioration in diplomatic relations as Japan tries to erase memories of WWII war crimes committed in China



- ✓ Surprisingly good economic news – GDP, exports
- ✓ Private consumption appears to be increasing

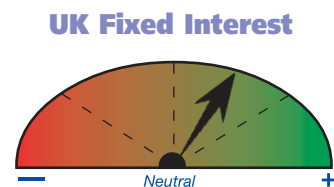
## South East Asian Equities excluding Japan

- x Oil price has negative impact
- x Sino/US/Euro trade relations strained – exports may be affected



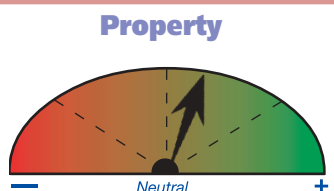
- ✓ Domestic demand on the increase
- ✓ India doing well
- ✓ Relatively good value (apart from China)
- ✓ Australia benefiting from its commodity reserves and service industries

- x Credit spreads widening but perception that default rates increasing
- x Danger of short term inflation – low risk



- ✓ Long term inflation remains stable despite increase in oil price
- ✓ Interest rates seem to have peaked
- ✓ Demand remains strong
- ✓ Economic growth reducing – good for bonds

- x City demand still not recovering
- x Retail property weaker as consumer spending slowing



- ✓ Relatively attractive compared to fixed interest and equities
- ✓ Robust economy supporting the sector
- ✓ Yields remain steady
- ✓ Little risk to capital values

## Our People

### Simon O'Reilly – Senior Consultant

Simon is one of the stalwarts of Cartlidge Morland having joined the firm eight years ago. He advises both private and corporate clients, in his capacity as a Senior Consultant. Simon joined the financial services industry direct from school after A levels, starting his career at Norwich Union before spells with Co-operative Bank Financial Advisers and Eagle Star.

Simon is the youngest of three brothers, all of whom now work in the City. Finance was clearly in the genes with their father a Norwich Union branch manager. Simon spent his formative years wherever his father was posted – Luton, Cambridge, Reading and finally Chelmsford which is now Simon's home too.

Simon had various temporary jobs whilst a student, at one point working at a cafe during the mornings, as a short order cook, with an afternoon job in a mortuary. He assures us that none of his "morning" clients ended up as "afternoon" ones as a result of his cooking! He volunteered as a Counsellor for Camp America, looking after children in Pennsylvania one summer, before escaping to explore North America in a battered 1957 Chrysler, prior to hitch hiking after the car collapsed in California.

Simon looks extremely fit and well at the moment – the reason? He has been training for the London Triathlon. This involved swimming 1500m, cycling 40km and running 10km all around Docklands on 7 August.

He has already run the London Marathon and is doing the Great North Run later in the year.

When not training, Simon likes to play golf and is working hard on reducing his handicap. He recently captained Cartlidge Morland's 5-a-side football team to the finals of a tournament played at Aston Villa's Premiership ground, where he was presented with a trophy by the Aston Villa manager, David O'Leary – Simon is still waiting for the telephone call! Another recent

success was triumph in an industry karting competition. Team Cartlidge Morland comprising Simon and Gerard Thomas, beat the rest of the competitors with laps to spare.

Simon does find time to relax. He is an avid reader, particularly history, biographies and travel writing. He also enjoys photography. Luckily for him, his girlfriend is a professional photographer, so weekends are often spent on shoots around the country. He loves travelling and has been to all four corners of the globe. His next holiday is to Croatia, where he is hoping to recover from his training exertions.

Following Simon's success in the London Triathlon, we hope he keeps improving over the next 7 years and, who knows, perhaps he could be competing on the Olympic course!!



Simon O'Reilly

#### 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.
2. Some or all of the investments referred to are intended as being of a long-term nature. Early withdrawal might mean that you will not get back the full amount invested. The value of investments may go down as well as up. For investments denominated in foreign currencies, changes in rates of exchange may have an adverse effect on the value in sterling terms.
3. In the case of income funds, the income is not fixed – it can go up and down.
4. 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.
5. Cartlidge Morland is a Licenced Credit Broker.
6. Cartlidge Morland is a firm of Independent Financial Advisers which is authorised and regulated by the Financial Services Authority.
7. Your home may be repossessed if you do not keep up repayments on your mortgage.

## News

### New Arrival



Congratulations to Andrew and Angela Cartlidge on the arrival of their son, George, on 14 May 2005 – two weeks late! We expect him to follow in his parents' footsteps and enter the financial services industry in 21 years' time!

