



In these days of sustained low interest rates sitting well below inflation, it is important for investors to have access to arrangements that offer the potential of 'real growth' over inflation whilst adopting a level of risk they are prepared to accept. To that end Lucas Fettes are pleased to be able to offer a range of six 'Managed Portfolios' that are suitable for a wide range of investors and can be held as both ISA and non ISA investment.

## The impact of inflation

In deciding on the level of cash to hold on deposit, you need to consider the impact of inflation over time. If inflation was at a flat 4%, you would hope that net interest received over 12 months would be sufficient to enable an item costing £100 now to be purchased in 12 months time at a cost of £104. In reality this would entail a gross interest rate of 5% per annum for a basic rate taxpayer and a 6.7% gross rate for a 40% taxpayer, both rates being highly unlikely today.

For example in this 4.4% inflation world, a 40% taxpayer who receives a gross return of 4% on his or her deposit monies would not be keeping pace with annual inflation - their investment returning just 2.4% which gives a negative real growth of -2% after savings rate tax of 40%. A basic rate taxpayer who receives 4% interest would only have to pay 20% in tax, leaving a net return of 3.2%. This would however still not provide real growth, as the effect of capital would be a negative -1.20%. Monies held in a Cash ISA fare better, as no savings rate tax is levied, however there is a ceiling on investment levels and unless depositors were attaining a Cash ISA rate of at least 4.4%, no real gains will be made.

For those who are paying savings rate tax, the table below illustrates the effect on capital of a variety of 'interest rates' assuming the annual inflation rate was a constant 4.4%.

	Illustrative annual inflation rate	Deposit Interest Rate	Real Rate of Return	Net Return after tax	Effect on Capital
High Rate Taxpayer	4.4%	1%	-3.40%	0.60%	-3.80%
	4.4%	2%	-2.40%	1.20%	-3.20%
	4.4%	3%	-1.40%	1.80%	-2.60%
	4.4%	4%	-0.40%	2.40%	-2.00%
Basic Rate Taxpayer	4.4%	1%	-3.40%	0.80%	-3.60%
	4.4%	2%	-2.40%	1.60%	-2.80%
	4.4%	3%	-1.40%	2.40%	-2.00%
	4.4%	4%	-0.40%	3.20%	-1.20%

Based on these assumptions, in all cases there is a negative effect on capital. This highlights well the need for all investors to not only consider their taxation position when arranging deposit accounts, but to bear in mind inflation risk when large sums of money are held in taxable accounts over the longer term.

## Managed Portfolios

Rather than just give potential investors a restricted choice of funds and ask them to select one or more (which in essence can place total reliance on the fortunes of just one fund unless a diversified selection is made), Lucas Fettes are offering an **investment strategy** that provides clients a diverse and deliberately structured portfolio with **automatic quarterly review and rebalancing** to maintain a suitable asset allocation, determined by a professional asset manager.

If any single fund's performance deteriorates, the manager will **automatically** replace that fund with another suitable fund that fits the chosen asset class if deemed necessary. Therefore investors will be gaining an element of active fund management at reasonable cost.

The benefits of using the Managed Portfolio's are clear as they provide:-

- A structured portfolio suitable for a range of risk tolerances
- Access to investment expertise
- A degree of active fund management
- A clear and understandable investment mandate
- A transparent fee structure
- On-line access to complete portfolio data
- Access to environmental and ethical funds
- The ability to move between a total of three Passive and three Active Portfolio's - and split your Portfolio between any of the six should you so wish (*providing minimum investment criteria are satisfied*).

The platform used will be that of Parmenion, with the Portfolios devised and managed by Prospect Wealth, who are part of the Lucas Fettes Group of Companies. An overview of both companies is provided overleaf for your interest.

# Assessing your attitude to investment risk

Before making any investments it is essential to understand your own attitude to investment risk. This will be driven by not only by your own attitudes but also your circumstances and the level of risk you need to take to achieve your objectives.

At the extremes it may for example be highly cautious in relation to short term cash and yet speculative in relation to longer term savings held with a 10-15 year investment window. Nevertheless it is important that you assess your attitude to investment risk before making any investment to ensure that your expectations can be sensibly managed. It is the mix of asset classes (Fixed Interest, Equities and alternatives such as Property) that defines the potential volatility and returns on any investment portfolio. Three questions affect the decision as to the appropriate asset mix:

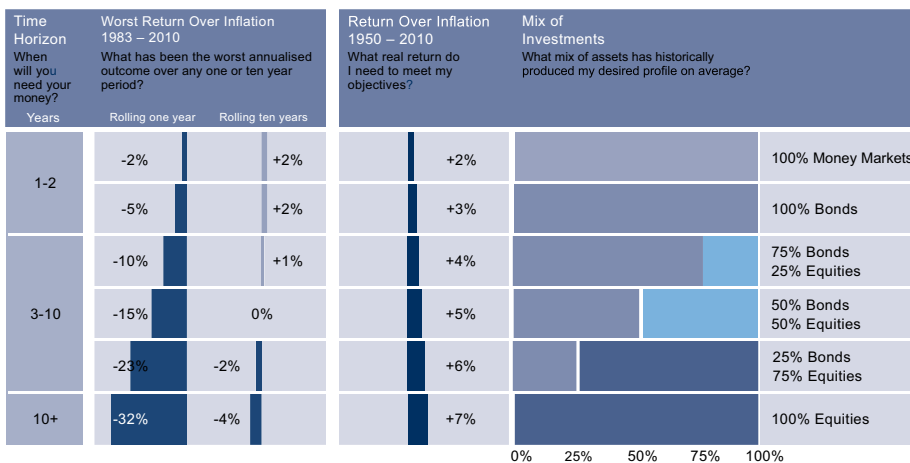
- What is the time frame over which you are investing?
- To what extent are you prepared to see capital values fluctuate in the short and medium term?
- What return, from both income and capital growth, do you expect (or need) over your chosen time -frame?

## Time Horizon

For investors with a long term time horizon, the implications of holding low risk / low return assets can be high. £100,000 invested at a rate of 3% would grow to £158,000 over 20 years. By comparison, a 6% compound growth rate would produce £320,000 at the end of the same period. This means that, paradoxically, for a long term investor, a low return investment whilst potentially maintaining capital values can considerably reduce the potential for growth. For investors with commitments to meet in the short term however, high return / high risk assets will be inappropriate. Holding a volatile asset if you have a short term time horizon can result in your return target being missed by a wide margin.

## Risk / Return

Having determined your time horizon and armed with the facts about risk and return, you are now in a position to select the asset mix that offers your desired trade-off between risk and return. The matrix below aligns risk and return over time periods, ensuring that your risk tolerance is consistent with your return expectations. This also provides the basis for setting a benchmark for your portfolio, providing a yardstick for measuring performance. Of course, if your investment preferences change, you should reassess the mix of your assets.



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## Getting started...

For more information on the Lucas Fettes ISA or to proceed with your suitability assessment, there are a number of ways to contact us.

1. Fully complete the enclosed response form and return to us in the pre paid envelope provided.
2. Phone our dedicated adviser, Natasha Le-Strange on 01603 706854
3. Email us at [ISA@lucasfettes.co.uk](mailto:ISA@lucasfettes.co.uk)

# The portfolios

Prospect Wealth Management brings the highest standards of professional investment management to private clients, charities and trusts. Prospect actively manage portfolios that are diversified globally and across all the major asset types, including alternative investments. Prospect offers the security and resources of a large company with the investment flair and personal service that only a smaller organisation can provide.

Prospect is a branch of Raymond James Investment Services Limited ("RJIS") which is wholly owned by Raymond James Financial Inc. ("RJF"). RJF is quoted on the New York Stock Exchange and has total assets under management of \$200 billion, held amongst 1.4 million clients around the world. Raymond James Investment Services, the UK subsidiary of RJF, has more than £1 billion of assets under management. Prospect Wealth Management has over £100M under management.

All six Managed portfolios offered will be managed under a Discretionary Management Agreement.

# The platform

Parmenion is an independent and privately owned company founded in 2006. They are backed by some of the most experienced investment and technology executives in the industry. They do not take on clients directly or meet with clients themselves, only offering investment and administration solutions through professional wealth management and financial planning firms. Like Lucas Fettes, they are authorised and regulated by the Financial Services Authority.

They act as a global custodian for clients' assets, supplying a diverse selection of tax efficient portfolio wrappers, enabling the delivery of online capabilities and the ongoing investment management of assets, as well as reporting both in paper format and electronically.

They can arrange for you to hold all of your investments in a single place through their systems whether they are in a general taxable account, or in an ISA, Pension, or one of a number of different vehicles.

This means that the investment and administration of investments can be managed far more efficiently. For example, it means a single investment strategy can be created and coordinated across all of an individuals various portfolios, with much reduced paperwork and with a single periodic valuation. Your private Portfolio and all transactions can be viewed any time day or night via a secure website facility.

# Minimum & Maximum Investment Levels (ISA)

The **maximum** lump sum investment into the Managed Portfolio stocks and shares ISA's for the 2011/12 tax year is £10,680.00 (or a maximum of £890 per month).

Alternatively investors can place up to £5,340 into a Cash ISA of their choice and the balance of up to a maximum of £5,340 (£445 per month) within the Managed Portfolio stocks and shares ISA.

The **minimum** investment levels into the Managed Portfolios are flexible, as shown below:-

	<b>Minimum Lump Sum</b>		<b>Minimum Regular Monthly Investment</b>
<b>Standard Minimum ISA Investment</b>	£3,600	Or	£150.00

To add to the flexibility, investors can 'switch' their existing 'Cash' or 'Stocks and Shares' ISA's held with any other Manager over to the Managed Portfolio's. If this is required and at least £7,000 is transferred over, the minimum regular monthly investment reduces to £100.

	<b>Lump Sum Transfer value</b>		<b>Regular Monthly Investment</b>
<b>Minimum ISA Investment if 'transfers in' are involved</b>	£7,000	With the option of a reduced	£100.00

## ISA Taxation

Please note that ISA funds grow virtually free of all taxes. In addition it will be possible to take tax free income or tax free capital lump sums from the ISA at any future point.

## Non ISA Monies

It is also possible to invest non ISA monies on the platform including Bonds and Pension Funds.

## Investment Term

Lucas Fettes would recommend that any investment is viewed as medium to longer term meaning that you should be willing to invest monies for a minimum term of five years.

**Important information - Different ISA options are available from other providers with lower minimum and maximum investment levels from £50.00 per month regular investment and / or £1000.00 lump sum investment. We would be pleased to discuss these alternatives with you.**

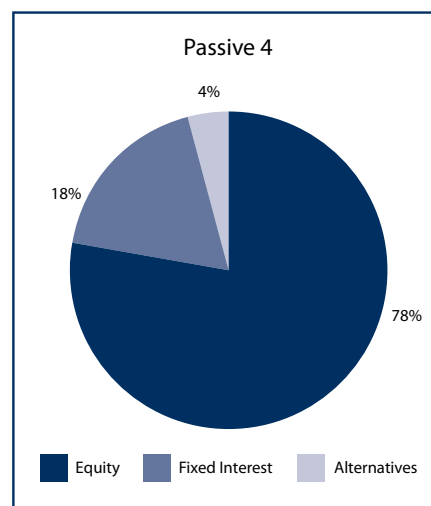
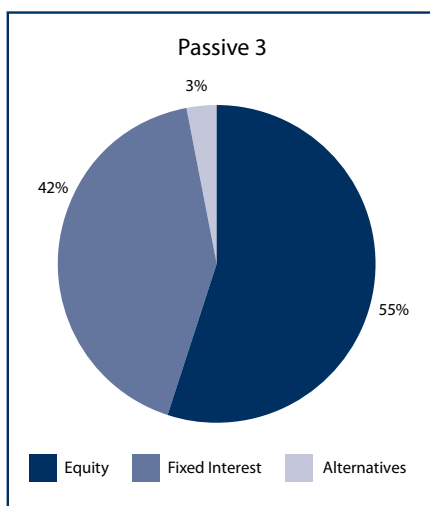
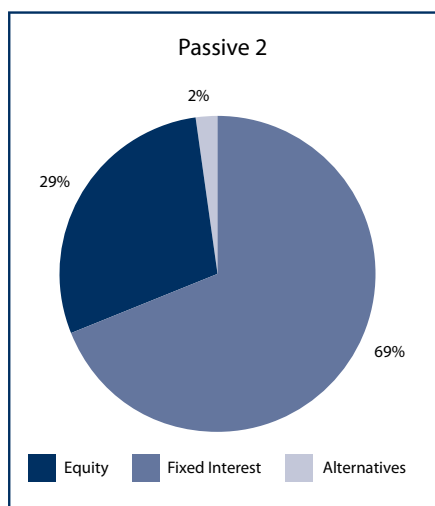
# Active versus Passive Portfolio Management

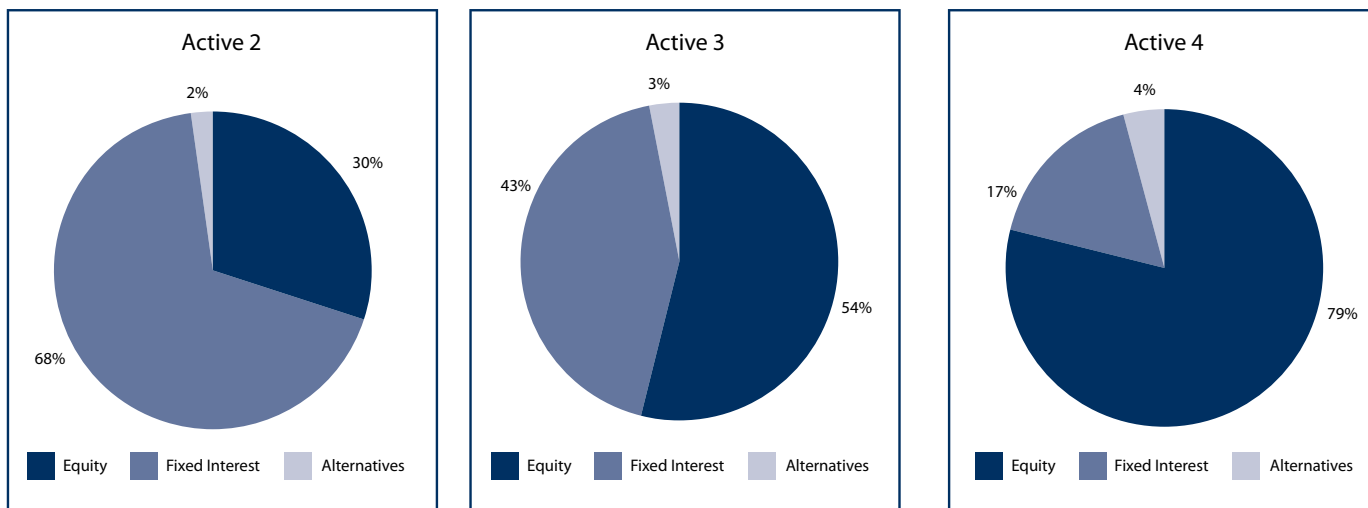
Three of the portfolios are passively managed and three actively managed. To explain the difference:-

**Active management** is where the portfolio manager adopts a strategy of making specific investments with the goal of **outperforming** an investment benchmark index.

With **Passive portfolio management**, this is a financial strategy in which the fund manager invests in accordance with a pre-determined strategy (for example, tracker funds) that doesn't entail any forecasting (e.g. stock picking). The idea is to **minimize investing fees** and to avoid the adverse consequences of failing to correctly anticipate the future. Essentially the manager does not seek to outperform the benchmark index. Hence costs are lower.

The three passive and three active models on offer are based on three portfolios. The following pie charts reflect the target asset allocation of each of the six models available.





### Rebalancing (Active & Passive)

Each quarter the six portfolios are re-balanced in line with the latest asset allocation weightings between the various asset classes. This review ensures that the risk/return profile of the portfolio remains in line with the parameters set by you and reflects the manager's latest assessment of the markets.

### Illustrative Portfolios

The portfolio's aim to provide you with a wide spread of assets that are suitable for your agreed attitude to investment risk. At the time of writing the illustrative portfolios are as follows:-

PASSIVE PORTFOLIO ILLUSTRATIVE FUNDS	Illustrative Passive Portfolio as at 28th March 2011			
	Passive 2	Passive 3	Passive 4	
Aviva Inv - Property Trust Acc in GB	1.50%	2.70%	3.78%	
Baring - Global Agriculture A GBP in GB	0.85%	1.33%	1.83%	
BlackRock - Gold & General A Inc in GB	0.85%	1.33%	1.83%	
L&G - All Stocks Gilt Index Inst Inc in GB	21.00%	12.40%	5.30%	
L&G - European Index Inst Inc in GB	1.60%	3.00%	4.30%	
L&G - Japan Index Inst Inc in GB	4.60%	8.06%	9.90%	
L&G - UK 100 Index Inst Inc in GB	15.30%	29.30%	42.70%	
L&G - US Index Inst Inc in GB	4.20%	8.00%	11.70%	
M&G - High Interest A Inc GBP in GB	8.00%	4.00%	1.00%	
Stan Life Inv - Global Absolute Return Strategies Inst in GB	1.70%	2.66%	3.66%	
Vanguard - Emerging Markets Stock Index Inc	1.40%	2.62%	3.80%	
Vanguard - UK Investment Grade Bond Index	39.00%	24.60%	10.20%	
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	

PASSIVE PORTFOLIO CHARGES			
Portfolio	Passive 2	Passive 3	Passive 4
<b>Parmenion Initial Charges</b>			
Parmenion Initial Charge	0.25%	0.25%	0.25%
Parmenion Initial Dealing Charge	Nil	Nil	Nil
<b>Total Parmenion Initial Charges</b>	<b>0.25%</b>	<b>0.25%</b>	<b>0.25%</b>
<b>Parmenion Annual Charges</b>			
Platform Transaction Charges	0.30%	0.30%	0.30%
Prospect Wealth Discretionary Management Fee (which is subject to VAT)	0.36%	0.36%	0.36%
Fund Charges	0.33%	0.36%	0.39%
<b>Parmenion Total Expense Ratio (TER)</b>	<b>0.99%</b>	<b>1.02%</b>	<b>1.05%</b>

When the Lucas Fettes 0.50% remuneration is added (levied for the development of the proposition and ongoing oversight) to the annual Parmenion charges, this results in an annual overall TER (total expense ratio) for the Passive portfolios of:-

Portfolio	Passive 2	Passive 3	Passive 4
<b>Overall Total Expense Ratio (TER) *</b>	<b>1.49%</b>	<b>1.52%</b>	<b>1.55%</b>

ACTIVE PORTFOLIO ILLUSTRATIVE FUNDS	Illustrative Active Portfolio as at 28th March 2011	Active 2	Active 3	Active 4
		Artemis - European Growth R in GB	0.54%	1.00%
	Artemis Capital Fund	3.06%	5.86%	8.54%
	Aviva Inv - Property Trust Acc in GB	1.50%	2.70%	3.78%
	Baillie Giff - Japanese A Acc in GB	2.30%	4.03%	4.95%
	Baring - Global Agriculture A GBP in GB	0.85%	1.33%	1.83%
	BlackRock - Gold & General A Inc in GB	0.85%	1.33%	1.83%
	CF Odey - Continental European in GB	0.53%	1.00%	1.40%
	Fidelity - Money Builder Income in GB	19.50%	12.30%	5.10%
	Franklin Templeton - Global Emerging Markets A in GB	1.40%	2.62%	3.80%
	GAM - North American Growth Inc in GB	1.05%	2.00%	2.90%
	GLG - Japan Core Alpha Professional Inc in GB	2.30%	4.03%	4.95%
	Invesco Perpetual Corporate Bond	19.50%	12.30%	5.10%
	JOHCM UK Opportunities Inst Inc	3.06%	5.86%	8.54%
	JPM - US A Inc in GB	1.68%	3.20%	4.70%
	L&G - All Stocks Gilt Index Inst Inc in GB	21.00%	12.40%	5.30%
	L&G - Growth Inst Inc in GB	3.06%	5.86%	8.54%
	Legg Mason - US Equity A in GB	1.47%	2.80%	4.10%
	Liontrust - First Growth in GB	3.06%	5.86%	8.54%
	M&G - High Interest A Inc GBP in GB	8.00%	4.00%	1.00%
	Schroder - European Alpha Plus Inc in GB	0.53%	1.00%	1.40%
	Schroder - UK Alpha Plus Inc in GB	3.06%	5.86%	8.54%
	Stan Life Inv - Global Absolute Return Strategies Inst in GB	1.70%	2.66%	3.66%
	<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

### ACTIVE PORTFOLIO CHARGES

Portfolio	Active 2	Active 3	Active 4
<b>Parmenion Initial Charges</b>			
Parmenion Initial Charge	0.25%	0.25%	0.25%
Parmenion Initial Dealing Charge	0.90%	0.90%	0.90%
<b>Total Parmenion Initial Charges</b>	<b>1.15%</b>	<b>1.15%</b>	<b>1.15%</b>
<b>Parmenion Annual Charges</b>			
Platform Transaction Charges	0.30%	0.30%	0.30%
Prospect Wealth Discretionary Management Fee (which is subject to VAT)	0.36%	0.36%	0.36%
Fund Charges	0.79%	0.87%	0.93%
<b>Parmenion Total Expense Ratio (TER)</b>	<b>1.45%</b>	<b>1.53%</b>	<b>1.59%</b>

When the Lucas Fettes 0.50% remuneration is added (levied for the development of the proposition and ongoing oversight) to the annual Parmenion charges, this results in an annual overall TER (total expense ratio) for the Active portfolios of:-

Portfolio	Active 2	Active 3	Active 4
<b>Overall Total Expense Ratio (TER)*</b>	<b>1.95%</b>	<b>2.03%</b>	<b>2.09%</b>

\* Please note that the TER shown in your personal illustration will be correct at the time of production, but will vary each month in line with the TER's of the underlying funds.

Please also note that Lucas Fettes will charge an initial 3% for the establishment of the proposition (Active or Passive) and initial discussions with you as to the suitability of this strategy for your needs.

***Please note that investments of this nature should be considered medium to long term. Past performance has no bearing on future returns and values can go down as well as up, consequently you may not receive back the full amount invested.***

This information is based on Lucas Fettes understanding at the time of writing of the relevant UK Taxation Law, and HMRC practice, which may be subject to change in future. Whilst every effort has been made to ensure the accuracy and completeness of this information, no representation, or warranty, express or implied, is given in respect of it.

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