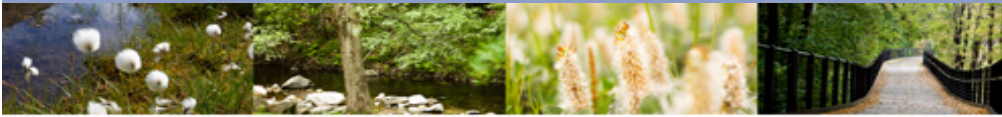


News & Views



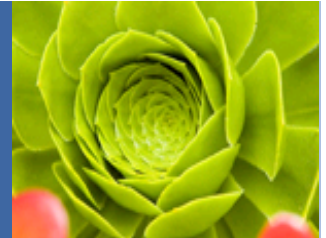
Oct2011 Q4

Moving from RPI to CPI

In June 2010, the coalition government announced that, in future, state and public service pensions would increase in line with the Consumer Price Index (CPI) rather than the Retail Prices Index (RPI). The change aims to help the government cut the UK's sizeable budget deficit.

CPI does not include housing-related costs such as mortgage interest payments, buildings insurance and council tax. The rate of CPI has therefore tended to run below that of RPI in recent years and the government contends that CPI is a more appropriate measure of inflation because it strips out these costs (which are considered less relevant to pensioners who, arguably, will have repaid any mortgage by the time they retire). To ensure consistency, the government subsequently applied this ruling to occupational pensions. This triggered a complex debate over whether private pension schemes would be able to move to CPI. According to a survey by the National Association of Pension Funds (NAPF) published in December 2010, many such schemes have RPI indexation specifically written into their scheme rules.

The NAPF said that switching to CPI could increase flexibility for pension funds, but suggested the implications for current and future pensioners needed to be carefully considered to ensure the full facts were understood. Movement among pension funds was swift, however, and KPMG's 2011 Pensions Accounting Survey showing that many companies have already benefited from making the switch.



Welcome to the latest edition of our newsletter, our update on developments in the world of financial services.

If you have any questions about the issues raised in this issue, please do not hesitate to contact us.



Best of the bunch

There are over 2,000 UK domiciled funds available to investors so how do you choose the ones which will continue to perform? Using a good multi-manager to make the selections for you can reassure as your portfolio will be managed by an expert. There are two types: fund of funds managers select individual funds based on research and will then buy or sell them as performance prospects and markets change. Manager of managers invest pre-agreed allocations of a portfolio with individual managers and give them specific guidelines on how to run it. Either approach can help form the 'core' for your wider portfolio or work as a first step into the world of market investment.

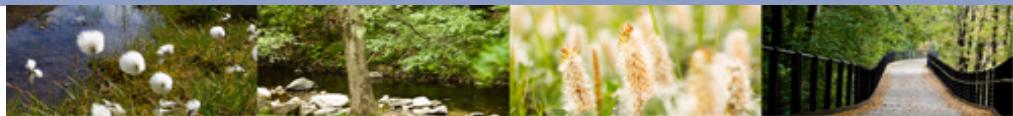
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Earthly

'Commodities' is the term used to refer to a collection of different materials, from agricultural products and energy through to naturally resourced precious metals and minerals. During the mid nineties, prices were very strong, boosted by growing demand from the likes of India and China. As the recession hit, demand fell off a little, as did prices, but, as the current oil price illustrates, the long term trend still appears to be upwards as worries about the level of demand vs diminishing supply pushes prices up further. Direct investment, however, is difficult; taking delivery of oil barrels is not something your everyday investor can accommodate. However, there are plenty of pooled fund options now available if you want some exposure in your portfolio.

Keeping up with Junior

"The Junior Isa (Jisa), available from 1 November, replaces the Child Trust Fund (CTF) scheme, which closed to new entrants in January 2011. Unlike with CTFs, the government will make no contributions but the scheme does extend the popular Isa structure to those under 18.

Jisas can be opened in the name of anyone not entitled to a CTF, which includes all those born before 2002 as well as those born after January 2011. Jisas are similar to their 'senior' equivalents in that all income and capital gains generated by investments held within them are tax-free. Equally – in common with adult Isas but distinct from CTFs – there are no limits on the charging structure, which should, in theory, encourage more providers to enter the market and thus more choice for investors. But Jisas differ from Isas in a number of important respects – for example, the annual limit is £3,600 compared with £10,680 for an adult stocks and shares Isa. Jisas also allow switching from cash to shares and vice versa, which is not currently permissible for the senior version. Children will be allowed to hold one cash and one stocks and shares Isa at a time and split the £3,600 limit between the two.

The money cannot be touched until the child reaches 18, but the child can assume management for the trust at 16, should they wish. At 18, the child becomes entitled to the money held within the Jisa. If it is not encashed, it will automatically roll into an Isa. A Jisa could provide a significant step-up for children whose family and friends get together for their benefit. Final values will always be subject to factors such as the chosen underlying assets and the investment environment, both of which can have an impact on how much – or little – a Jisa will return.

However, as an idea of what 18 years of saving could offer, assuming the full £3,600 is invested each year and grows at an average of 5% per year, net of charges, that could leave the lucky beneficiary with a contribution of more than £100,000 towards their world trip, first house or higher education tuition fees. One consideration with Jisas – as was also the case with CTFs – is parents have no control over how the money is spent once the child turns 18. Nevertheless, the Jisa does represent a flexible, tax-incentivised way to create a nest-egg for the future.



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