

PERSONAL FINANCIAL PLAN

PREPARED FOR AMY KENT

Multi-Manager Case Study

June 2009

1. Your Objectives

- To combine employment with travel and charity work.
 - To retire at 55 maintaining your current living standards.
 - To fund Ella's private school fees and then assist with university costs
 - You do not wish to be involved in investment decisions and want your portfolio to be invested actively on your behalf and to utilise all available tax allowances.
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2. Your Attitude to Investment Risk

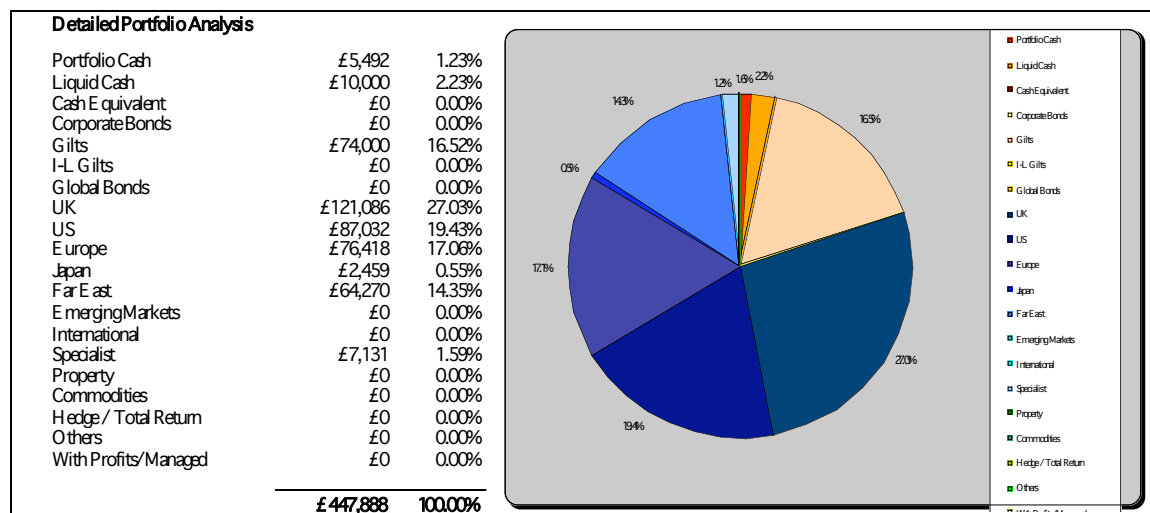
- You have an aggressive attitude towards investment risk and are comfortable with equities exposure of 65%.
 - Ideally we would also like you to complete a risk profiling questionnaire so we can explore further your views on investment risk, such as the maximum loss to your portfolio you could tolerate and also your investment return expectation.
 - One further issue to be aware of is that you are ten years away from your target retirement of 55. Normally we would suggest reducing portfolio risk as one approaches retirement and thus the capacity to earn finishes. In addition any reoccurrence of your cancer presents a risk you will not be able to continue to work.
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3. Your Current Investment Strategy

- I list your current investments and pension funds below based on fund prices as at 10 June 2009:

Wrapper	Owner	Fund	Value	Cost	Net Gain
	AK	Premium Bonds	£10,000		
Portfolio	AK	Gartmore UK Focus	£7,789	£10,000	-\$2,211
Portfolio	AK	Jupiter Worldwide Portfolio Trust	£40,982	£20,000	£20,982
Portfolio	AK	Artemis UK Special Situations	£19,117	£27,000	-\$7,883
Pension	AK	USEquities	£74,000		
Pension	AK	European Equities	£74,000		
Pension	AK	UK Equities	£92,500		
Pension	AK	Far East & Asia Equities	£55,500		
Pension	AK	Fixed Interest	£74,000		
Total/Actual Asset Allocation			£ 447,888		£ 10,888

- Your current investment asset allocation is:



- I suggest you keep £30,000 savings in cash to cover emergencies and this is excluded from the portfolio analysis.
- The portfolio is currently more heavily exposed to equities than your risk assessment suggests is suitable and would undoubtedly benefit from more diversification into different asset classes and further diversification within equities. You should shortly have money to invest from the property sale to achieve this extra diversification.

4. Financial Plan Assumptions

General Assumptions

- I assume inflation of 2%¹.
- I assume life expectancy of 81². As your ovarian cancer has been treated early and is in remission, we should plan on the basis of normal life expectancy.
- Your estimated income and expenditure in the current year is shown below:

Income	
Main employment	35,000
Non taxable income/ state benefit	
Total	35,000
Expenditure	
Education fees	12,000
General Expenditure	27,000
Income tax	5,705
NIC	3,221
Total Expenditure	47,926
Net Income/(Expenditure)	(12,926)

- You currently have a shortfall of income over expenditure of £12,926, which you will need to make up from savings.
- You will notice that we do not include any investment income. To simplify planning, we assume all investment income rolls up within your portfolio and we assume a single portfolio growth rate, net of fund charges and taxes (see below). Nevertheless, for tax efficiency purposes we would always seek to keep your income below the level where you would start to pay higher rate tax.
- I assume that your earnings increase with inflation. In practice we would expect your earnings to increase above inflation but it seems sensible to take a cautious view.
- I also assume that your expenditure increases in line with inflation.
- Tax rates and allowances are for the 2009/10 tax year.

¹ The Bank of England Money Policy Committee is tasked with an inflation target based on the Consumer Prices Index (CPI) of 2%., which I assume it achieves over the long term. This figure is low compared to historic inflation of 3.95% between 1900 and 2008 (Source: Barclays Equity Gilt Study 2009). However, as we assume real investment returns the inflation assumption is less significant.

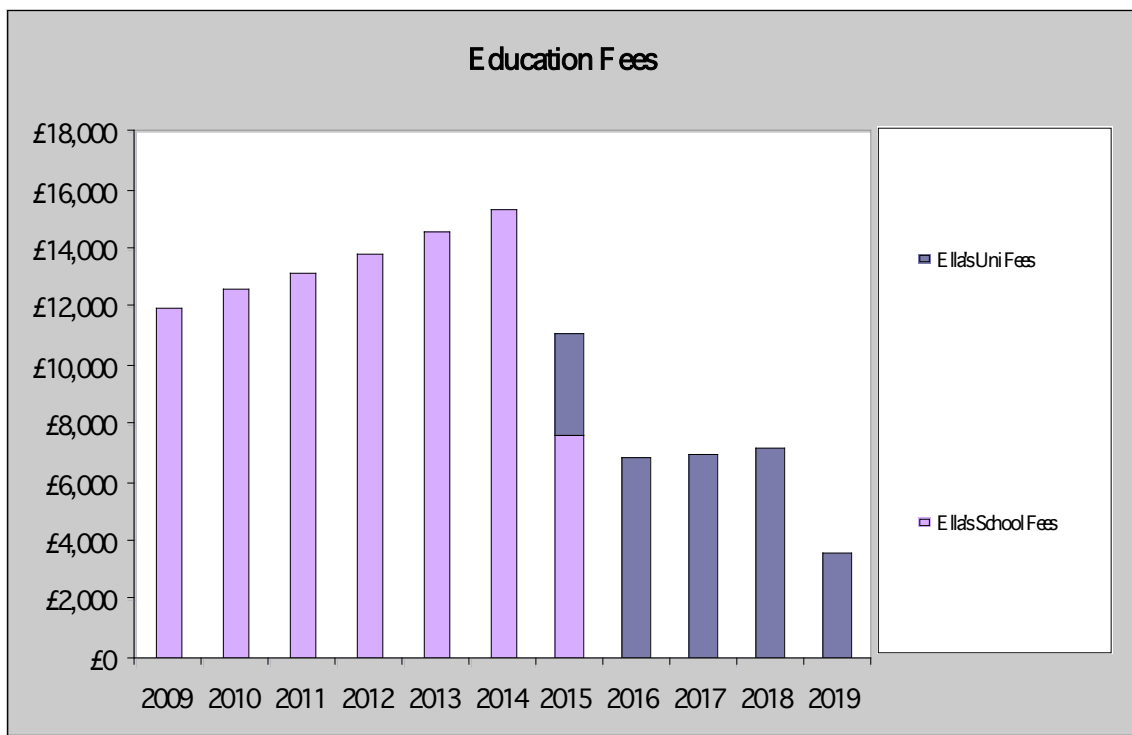
² Average UK Life expectancy for males is 76 and 81 for females (source National Statistics Online).

- You have not articulated any one-off capital expenditure items, such as replacing your car, so we assume this is included within your general expenditure.
 - I also assume your travel expenses are included in general expenditure.
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Education Fees Assumptions

- I assume school fees increase at a rate of 3% p.a.³ above inflation. However, university costs just increase by inflation.
- The table below projects education costs and discounts them back into today's terms allowing for inflation. You will see £108,307 is required in today's terms to cover fees.

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Ellas School Fees	12,000	12,600	13,230	13,892	14,586	15,315	7,658				
Ellas Uni Fees							3,446	6,892	7,080	7,171	3,585
Total Education Fees £117,405	£12,000	£12,600	£13,230	£13,892	£14,586	£15,315	£11,104	£6,892	£7,080	£7,171	£3,585
Education Fees in Today's terms	£12,000	£12,353	£12,716	£13,090	£13,475	£13,872	£9,860	£6,000	£6,000	£6,000	£2,941
Present Value of Education Fees	£108,307										



³ The Independent Schools Council has data going back to 1998 which illustrates school fees have historically increased at well above the rate of inflation although unfortunately they do not provide an average.

Investment Assumptions

- Investment return assumptions are shown net of costs and tax:

	Return
Inflation	2.00%
Cash	2.50% ⁴
Fixed Interest	3.00% ⁵
UK/Global Equities	5.00% ⁶
Commercial Property	4.00% ⁷

- The portfolio asset allocation below is what we would recommend based on your attitude to risk and the conclusions of your financial plan:

Investment Returns (net of charges and tax)

	% Return	Weighting	
Cash (net return)	2.50%	5.00%	0.13%
Fixed Interest	3.00%	30.00%	0.90%
Equity	5.00%	55.00%	2.75%
Commercial Property	4.00%	10.00%	0.40%
		100.00%	<u>4.18%</u>

- We therefore assume portfolio growth of 4.18% in your financial plan.
- We will charge a fee of 1% per annum of the assets we manage on your behalf to cover financial planning advice. The assumed investment return of 4.18% is shown net of this cost as well as the costs of the underlying investment funds.

Pension Assumptions

- I assume no further pension contributions are made.

⁴ I use UK Treasury Bills as a proxy for cash. The "Credit Suisse Global Investment Returns Yearbook 2009" gives a real annualised return of 1% between 1900 and 2009 from. I reduce this figure to 0.5% real net of costs and tax.

⁵ The "Credit Suisse Global Investment Returns Yearbook 2009" gives a real annualised return of 1.8% on Global Bonds between 1900 and 2008. I reduce this figure to 1% real net of costs and tax.

⁶ The "Credit Suisse Global Investment Returns Yearbook 2009" gives a real annualised return of 5.2% on Global Equities between 1900 and 2008. I reduce this figure to 3% real net of investment costs and tax.

⁷ The IPD UK Annual Property Index shows a nominal annualised return of 9.21% between December 1980 and December 2008. However, the returns of the last 28 years are unlikely to be reflective of the returns that can be expected going forward. I assume a much more cautious future expected return of 2% real, net of investment costs and tax.

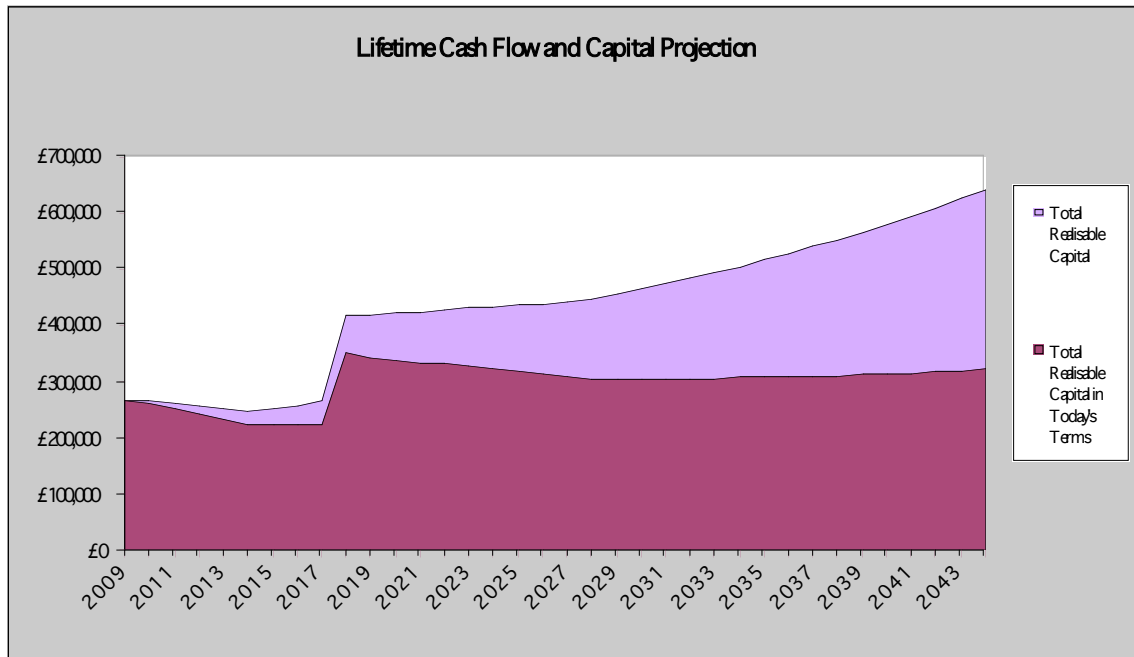
- I assume you will be entitled to a full Basic State Pension⁸. For now I assume the current basic state pension entitlement of £95.25 per week increasing with inflation⁹ and payable from age 66. You may also be entitled to an earning related pension element which would increase your basic entitlement.
- I assume you will take your pension benefits from age 55.
- I assume that you take the maximum tax free cash from your pensions at 55 and invest this back in your investment portfolio, which maximises tax efficiency and investment flexibility.
- To plan on a conservative basis, I assume you purchase an index linked annuity at age 55 at rate of 4% increasing with inflation. This is higher than normal annuity rates as I assume you are eligible for an impaired life annuity as a result of your ovarian cancer.
- Although I assume you take an index linked annuity, in practice you have a number of pension income options, including unsecured pension (USP) which essentially means drawing down an income from your pension and which is completely flexible (unlike an annuity).

⁸ There is a question as to whether you will qualify for a full Basis State Pension if you retire at 55 and stop paying National Insurance Contributions. However, you probably will as only the qualifying years required reduces to 30 years from 2010. The State Pension is payable from age 66 under the proposals of the Turner Report for those born between April 1960 and April 1968. We will obtain a pension forecast from the Pension Service.

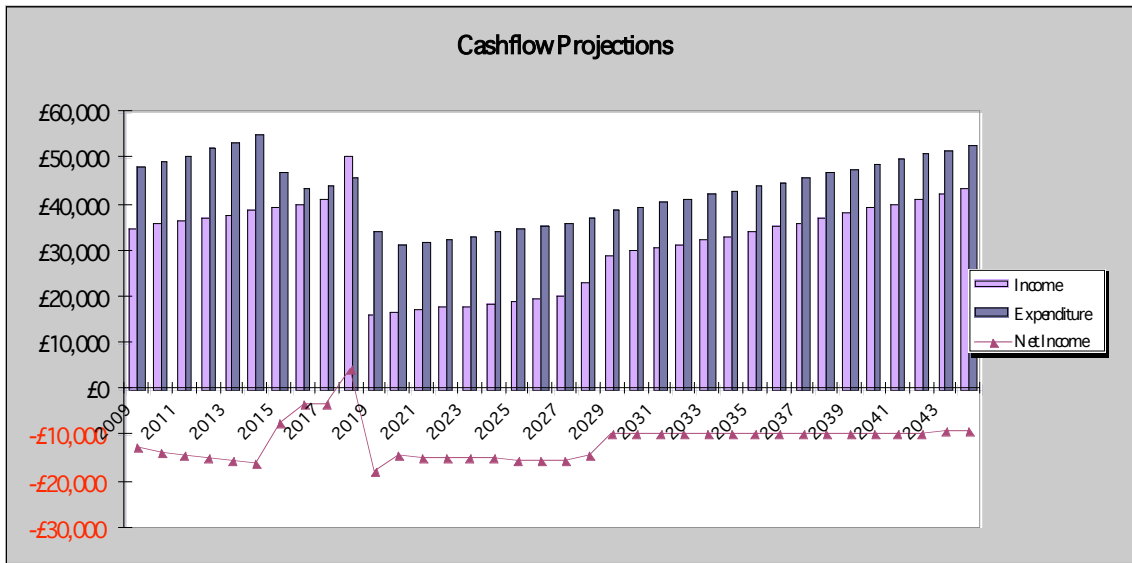
⁹ Actually State Pension are due to increase by National Average Earnings from 2012 at the earliest.

5. Financial Plan Conclusions

- On the basis of the assumptions made, the projection below, which shows your readily realisable capital, illustrates that you are able to achieve your goal of retiring at age 55 whilst maintaining your current standard of living until age 81.
- Further details of your income, expenditure and capital projected to 2044 are included in the Appendices.



The cash flow projection illustrates your projected expenditure will exceed your income each year going forward and consequently you will need to rely on your capital in the years ahead.



- One crucial implication of this is that you can perhaps pursue a less aggressive investment strategy and still achieve your goal of retiring at age 55.
- You are currently 10 years away from retirement and we can keep this under review with a view to possibly decreasing the proportion of risky assets and increasing the proportion of lower risk assets as you get closer to retirement.

6. Financial Plan Recommendations

Education Fees

- In order to ensure you have sufficient resources to cover future education fees, I recommend that you ring fence capital of £108,307. The goal for this sum is to take no risk but merely to try and keep pace with inflation after tax, which makes National Saving Index Linked Certificates suitable.
- Referring to the Education Fees Table - fees for 2009 to 2011, totalling £37,830 (in today's terms allowing for inflation) should be kept in cash. For cash accounts, I simply suggest you obtain the best internet rates available but make sure you keep any such accounts under £50,000. You will then benefit from full protection under the Financial Services Compensation Scheme in the event that the bank fails.
- Sums to cover school fees between 2012 and 2019 can be invested in 8 subsequent issues of National Savings 3 year Index Linked Savings Certificates, starting with £13,090 in issue 19 to cover fees in 2012. It will probably take about two years to get this amount invested as there tends to be about four issues per year. In the meantime, I suggest holding the sums in cash.
- We will manage rolling the index linked certificates over into new issues as necessary in future years.

Investment Strategy

- We will manage your investments on a “discretionary” basis. This means that we are able to make changes to your investments without needing to obtain your consent.
 - In practice we will agree an investment strategy and then simply look to review the portfolio once a year and make any changes necessary to rebalance the portfolio back to the original agreed strategy.
 - I suggest we split your portfolio 65% into higher risk investments, such as equities and commercial property securities and 35% into lower risk investments, such as cash and fixed interest.
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Asset Allocation Strategy	
Cash	5.00%
Fixed Interest	30.00%
UK Equities	24.75%
Global Equities	24.75%
Emerging Market Equities	5.50%
UK Real Estate Investment Trusts	5.00%
International Real Estate Investment Trusts	5.00%
	<u>100.00%</u>

- I suggest we apply this strategy across your investment and pension portfolios.

In arriving at the recommended asset allocation the following issues apply:

- We seek to provide as much diversification as possible. One of the basic principles of investment is that diversification helps to maximise returns after adjusting for risk taken.
- The higher risk assets are intended to generate higher long term returns, whereas the role of the lower risk assets is to reduce the risk of the portfolio and to provide diversification. In order for diversification to work it is important the lower risk funds are not correlated with the higher risk funds¹⁰.
- Other assets, in addition to fixed interest, offer the possibility of diversification benefits; however, diversification alone is not enough – the asset class must also provide the prospect of a return for taking risk, for instance, companies generate dividends and dividend growth, fixed interest provide interest for providing a loan and property provides rental income and rental income growth. The asset class must also be accessible at reasonable cost. For these reasons I exclude asset classes, such as hedge funds¹¹, private equity¹² and commodities¹³.

¹⁰ For this reason we do not recommend corporate bonds and recommend a focus on short dated fixed interest which is less volatile and provides better diversification properties.

¹¹ The academic evidence does demonstrate valuable diversification benefits and useful risk reduction. However, I view the charging structure of hedge funds to be so disproportionately skewed in favour of the fund manager and against the investor that acceptable long term returns after fees look unlikely.

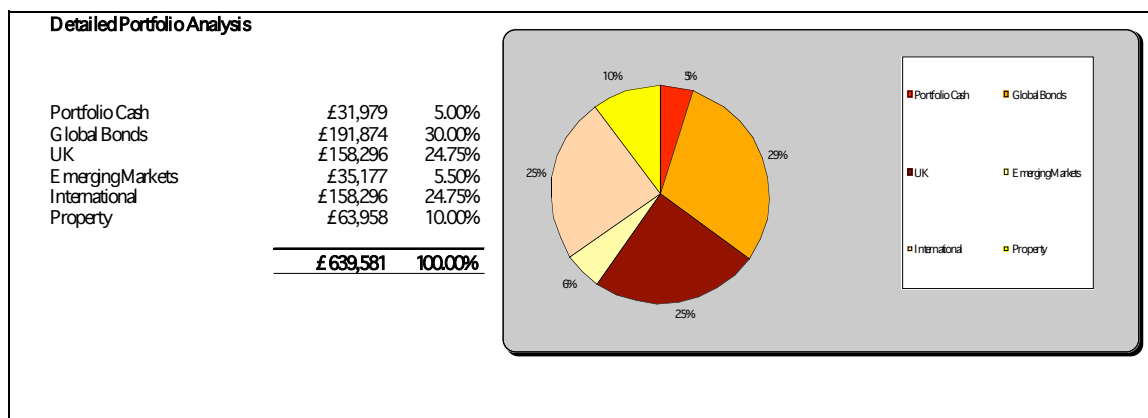
¹² Private Equity provides no real diversification benefit over public equity but crucially has a similar high charging structure to hedge funds.

¹³ You already have commodities exposure through Resources equities e.g. BP and Rio Tinto.

Fund Recommendations

- I suggest implementing your investment strategy using the following funds options:

Wrapper	Owner	Fund	Value
sums to invest	AK	Proceeds from house Sale	£ 300,000
	AK	less earmarked for school fees	-£ 108,307
	AK	Proceeds of recommended fund sales	£ 77,888
			<u>£ 269,581</u>
Portfolio	AK	Cash	£ 13,479
Portfolio	AK	Dimensional Global Short Dated Bond	£ 80,874
Portfolio	AK	Vanguard UK Index	£ 66,721
Portfolio	AK	Vanguard International ex UK	£ 66,721
Portfolio	AK	Vanguard Emerging Markets Index	£ 14,827
Portfolio	AK	iShares UK Property	£ 13,479
Portfolio	AK	iShares Developed Markets Property	£ 6,279
ISA	AK	iShares Developed Markets Property	£ 7,200
			<u>£ 269,581</u>
Pension	AK	Pension Cash	£ 18,500
Pension	AK	Dimensional Global Short Dated Bond	£ 111,000
Pension	AK	Vanguard UK Index	£ 91,575
Pension	AK	Vanguard International ex UK	£ 91,575
Pension	AK	Vanguard Emerging Markets Index	£ 20,350
Pension	AK	iShares UK Property	£ 18,500
Pension	AK	iShares Developed Markets Property	£ 18,500
			<u>£ 370,000</u>
Total/Actual Asset Allocation			<u>£ 639,581</u>



Fund Strategy

- When implementing the investment strategy, the first decision is to decide whether to use low cost passive funds that simply seek to reproduce the returns of the market or active funds which seek to beat the market.
 - The case for passive is compelling as there is strong academic evidence that the majority of active managers fail to outperform the market over the long term. The use of active funds therefore introduces an additional risk that you fail to capture the investment returns we project in your financial plan. To reduce risk, we recommend low cost passive funds to capture the market return.
 - We recommend Vanguard to provide equities markets exposure, firstly, because we believe them to be the best exponents of indexing in the world and secondly because the funds provide the lowest cost index funds access in the UK.
 - We recommend the Dimensional Global Short Dated Bond fund to provide fixed interest exposure. Our view is that the primary reason for investors to add fixed interest exposure to a portfolio is to diversify equity exposure and crucially to reduce portfolio risk. Academic research shows that short dated bonds exhibit dramatically lower volatility than long dated bonds and consequently they do a much better job of reducing portfolio risk. In addition they do the diversification job much more efficiently because the returns have a lower correlation to equities than long dated bonds. Dimensional's research shows that although returns of a long bond approach will be higher over the long term the return does not compensate for dramatically higher risk. The final element of Dimensional's fixed interest strategy is the use of global bonds to provide further diversification. Of course, the addition of foreign bonds introduces foreign currency exposure risk. Foreign currency movements are very volatile and have the potential to overwhelm the low volatility of the short dated bond returns and for this reason the currency exposure is hedged away.
 - Finally we recommend ishares UK Property and ishares Developed Markets Property funds, which provide low cost exposure to the commercial property asset class.
 - In addition to the case we make for low cost passive investing, I recommend selling your three existing funds for a number of other reasons: Firstly all three funds have been reasonably good long term
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performers. Nevertheless, just as academic evidence shows that most active funds fail over the long term, it also demonstrates no evidence that good performance persists. An additional problem posed by the Jupiter Worldwide Portfolio provides an additional problem that we cannot control your investments strategy. For instance it currently has 13% in cash, 17% in alternative assets such as commodities and gold with the remainder in equities but this is completely changeable.

- I also suggest you sell you National Savings Premium Bonds. At the moment the rate on the prize fund is 1% tax free. As you are unlikely to be a higher rate tax payer you should be able to find cash alternatives offering a much better rate.
- Tax mitigation will always be a key goal and we will also seek to avoid generating a capital gains tax liability. At current prices, the fund sales would lead to a small chargeable gain of £788 after utilising your annual CGT allowance of £10,100. We can mitigate this by retaining an approximately 3000 units of Jupiter Worldwide Portfolio and waiting until the 2010/11 tax year before selling this.

Investment Implementation

- You should make use full of Individual Savings Accounts going forward. From April 2010 you will be able to fund £10,200 p.a. into ISAs, we will as a matter of course recommend that you utilise this allowance, which will probably mean selling investments equal each year equal to the ISA allowance and reinvesting the sum back in an ISA.
- Generally it is more tax efficient to hold high income producing assets, such as fixed interest or commercial property within ISAs. If you hold equities outside of ISAs you should be able to mitigate capital gains tax by utilising your annual CGT allowance.
- I recommend you consider transferring your personal pension to a Self Invested Personal Pension (SIPP), which will increase your investment options and will enable you to invest your pension in the funds we recommend. However, before we recommend this we would need to be convinced there are not excessive transfer penalties and that we can find a SIPP with charges comparable or lower than your existing pension plan.

Periodic Investment Reviews

- Once we have implemented your investment strategy we will need to review your portfolio once a year to rebalance your investments back to the target investment strategy and check you are still on target to meet your goals.

Further Issues to Consider

- One possible threat to achieving your retirement goal is that you lose your job or are unable to continue working due to disablement, a reoccurrence of cancer. We should explore possible protection for such scenarios, although this might not be possible (or at least cost effective) given your recent cancer treatment.
- Make sure your Will determines guardianship of Ella and explore a Lasting Power of Attorney.

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Appendix A: Net Worth Statement

	Total		Total
	£	Liabilities	£
Assets			
Accounts and Cash		Credit Cards	
Current Accounts		Insurance Premiums	
Deposit Accounts	30,000	Matrimonial or Child Maintenance	
Sum to invest	191,688	Overdue Rents	
TESSA Accounts		Any Other Bills	
National Savings		Income Tax	
Premium Bonds	10,000	National Insurance Contributions	
Money Owed		Capital Gains or Other Taxes	
Other Cash			
Investments		Mortgages and Loans	
Cash Value of Policies		Main Residence Balance	
Pensions		Other Property Balance	
PEPs and ISAs		Home Improvement Loans Balance	
UK Collective funds	67,888		
Equities		Personal Loans Balances Remaining	
Ringfenced School fees	108,307	Hire Purchase Balance or Remaining Repayments	
		Life Policy Loans	
Personal Possessions		Personal loans	
Furniture/Furnishings		Business Loans	
Car/Caravan/Boat		Bank Overdrafts	
Clothing		Education Fees	
Jewellery			
Art/Antiques etc		Total Liabilities	
Own Business Shares		Networth Statement	
Trust Entitlements		Total Assets	827,888
Other Assets		Total Liabilities	
Property		Net Worth	<u>827,888</u>
Main Residence	420,000		
Holiday Home			
Other Property			
Total Assets	<u>827,888</u>		

Appendix B: Income Tax Computation

Amy Kent

	Non-Savings Income	Savings Income	Dividend Income	Total
Salary, Fees & Bonuses	£35,000			
Self Employed Earnings				
Taxable benefits in Kind				
Pension Income				
Interest				
Dividends				
Rental Income				
Trust Dividend				
Other Trust Income				
	<u>£35,000</u>			<u>£35,000</u>
Less charges on income				
Statutory Total Income	<u>£35,000</u>			<u>£35,000</u>
Personal Allowance	<u>-£6,475</u>			<u>-£6,475</u>
	<u>£28,525</u>			<u>£28,525</u>
<i>Tax on non savings income</i>				
£2,440	20%			£488
£26,085	20%			£5,217
	40%			
				<u>£5,705</u>
<i>Tax on Savings income</i>				
	10%			
	20%			
	40%			
<i>Tax on Dividend income</i>				
	10%			
	32.5%			
Total Tax				<u>£5,705</u>
Add Basic rate withheld on charges				
Tax Liability				<u>£5,705</u>
Less Tax deducted at source				
Tax Payable				<u>£5,705</u>

National Insurance	
Class 1	£3,221
Class 2	
Class 4	
Total NICs	<u>£3,221</u>

Summary	
Total Income	£35,000
Less Income Tax Liability	<u>-£5,705</u>
NI Contributions	<u>-£3,221</u>
Net Pay	<u>£26,074</u>
Monthly Equivalent	<u>£2,173</u>

