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Liquid investments



Are your investments sufficiently liquid?

You may have seen in the news lately the suspension in trading of the EEA Life Settlements Fund from 30th November 2011.

To date the fund remains suspended with no date pencilled in for resumption of trading. Similarly, the Glanmore Property Fund has had redemptions from it postponed for the past 48 months; they intend to commence dealing in June 2012 on redemption notices received in early 2008! In simple terms this means that investors in these funds cannot realise their investment. They are stuck in these funds whether they like it or not until trading resumes and in the meantime the world markets move on.

At BRI, as part of the investment process, one of the major decisions we make when looking at any potential investment concerns the liquidity of it, i.e. the ability to buy and more importantly sell an investment.

After all, if you can't sell something and realise its value into simple hard cash upon demand, surely there is little point in investing in it? Our no nonsense approach to this important detail means that, to date, we have had no liquidity issues with any fund we have invested into. We did examine the EEA Life Settlement Fund and The Glanmore Property Fund but they did not pass our due diligence process. It is impossible for anybody to guarantee they will never be caught up in such investments as these but so far our due diligence and traditionally conservative approach to investment selection for our clients' funds has prevented such occurrences.

New Year's Planning Points

- Don't forget to tell us about any capital gains or losses you may have incurred outside of your BRI portfolio this year, as we may be able to mitigate your tax bill.
- Remember to use your full ISA allowance before 5th April 2012. The allowance for 2011-12 is £10,680.
- Have you made full use of your pension allowances for 2011/12? You are eligible to contribute up to £50,000 per year subject to your net relevant earnings (Carry forward can also apply).

Should you have any questions about the above points then please contact your usual BRI advisor.

The Benefits of Trusts

by Meridian Private Client LLP Solicitors

We define estate planning as “arranging our clients’ long-term financial affairs so as to benefit the individuals they wish to benefit, in a tax-efficient manner which maximises the value of tax reliefs and exemptions”. It is therefore a mixture of asset protection – protecting the family wealth from threats such as litigation claims – and inheritance tax planning. It is also a mixture of lifetime planning and planning which only takes effect on death (especially through a Will).

Since March 2006, where in any seven year period a person makes gifts into virtually any sort of trust exceeding the inheritance tax threshold or “nil rate band” (currently £325,000), inheritance tax is payable on the excess at the lifetime rate of 20%. This increases to 40% in the event of death within seven years.

Almost all trusts set up since March 2006 are subject to ten-yearly inheritance tax charges on the trust capital at a maximum rate of 6%, and proportionate “exit charges” when property leaves the trust between ten year anniversaries.

People are more concerned than ever to protect the family wealth from threats such as the divorce of their children. The divorce courts have been very willing to order an equal division of assets even in situations where the marriage is not particularly long. Outright gifts to children are seldom attractive because of the exposure of the family wealth to such creditors. Trusts, on the other hand, whilst not completely bullet-proof, offer a significant degree of asset protection and can offer significant tax savings with careful planning.

A couple can between them transfer up to £650,000 into trust every seven years completely free of inheritance tax. Over time, the benefits of this “rolling nil rate band planning” should not be underestimated.

Case Study

The following example of a very simple tax planning strategy recently put in place by one of our clients should prove of great benefit to his family.

His business success means that he has built up considerable wealth, in terms of property, business interests and investments.

Now in his 60s, he has identified that he has more than enough for retirement and, rather than risk simply gifting wealth to his children, he and his wife have begun a process of transferring company shares and properties into trusts every seven years. Assets to the value of £650,000 that they have given away so far will reduce their inheritance tax liability by £260,000 if they survive the gifts by seven years. Furthermore the company shares may be given away without any inheritance tax concerns as they qualify for “business property relief” (a relief generally given at 100%), again subject to them surviving seven years. Importantly, our client still controls the company shares by virtue of being first named trustee.

Now this has begun, their gifting and trust positions will be reviewed every seven years with a view to reducing their inheritance tax liability even further.

Please speak to your usual BRI advisor if you would like to discuss Inheritance Tax Planning in more detail.

Charity Update

Marie Curie Christmas Shopping Event

We are delighted to announce that BRI raised £500 for Marie Curie during our shopping event on Monday 7th December.

The event was enjoyed by all who attended with a variety of different goods on offer; from cards to jewellery to candles and spa products. All this was accompanied by Chris Rolinson, a local professional piano player, on the keyboard playing some festive songs.

BRI would like to thank everyone who came along and made this event a success.



St Richard's Hospice Corporate Challenge

BRI took part in the St Richard's Hospice Corporate Challenge on Saturday 24th September at Top Barn Activity Centre in Worcester.

We are pleased to announce that we raised £1,260 for this Hospice. Thank you to everyone who participated and helped to raise this money for a very worthy cause.

Market Commentary

2011 will be not be fondly remembered by investors in any of the major asset classes except gold and highly-rated government bonds. The FTSE 100 stands down at the time of writing some -5.8%, whereas the UK Gilt index is up 14.4%. Gold is up 13%, but even this has fallen 12% from its peak.

In the late summer, it felt at times like 2008 all over again with a crisis in confidence hitting all asset classes, with credit rating agencies becoming increasingly vociferous, even downgrading the US. Capital flowed into the relative safe havens of UK Gilts, German Bunds and US Treasuries to the point that investors are prepared to accept a negative return on short-dated bonds.



It has also been a year where preconceptions have been challenged...



form? At the start of 2011, markets were concerned about the end of Quantitative Easing, and interest rates rising. Now, the question is when the next round of QE will be launched, with few commentators expecting rises in interest rates in 2012.

But actually, when one considers the root cause of the crisis that started in 2008, nothing has really changed. What began with Subprime debt in the US has simply morphed into a debt problem for governments. Markets that aided and abetted the debt issuance of the last decade are shunning indebted nations and companies with the disapproving zeal of a hung-

High volatility has become commonplace, with equity index intra-day moves of more than 1% occurring frequently which has made for a testing environment for investors.

It has also been a year where preconceptions have been challenged, and nothing could be taken for granted by investors; who would have thought we would have heard the European authorities talking openly about a break-up of the Euro in its current

over party-goer presented with a drink in early January.

There is still a great deal to be done to resolve the European debt crisis, and this has exposed the flaws in the Euro. Markets need to feel confident that investing in European institutions is secure, and the inability of European governments to agree on a way forward is preventing this. Similarly, the failure of the US Congress to reach a deal on the debt ceiling negotiations was instrumental in the US losing its AAA rating. Given that these remain significant issues, we believe that the volatility is set to continue, particularly with the US presidential election due.

In 2012, we expect concerns over indebtedness to continue to drive markets; the over-borrowed developed world will continue to struggle against this headwind, whereas well-financed growth nations are placed to make better progress so we remain comfortable with investing in Asia and emerging markets.

In the west, the businesses that will thrive are ones which are exporting to these growth areas, or that are able to maintain their earnings even in a low-growth environment. In a world where government bonds have a negative total return after inflation is taken into account, good quality shares with attractive dividend yields continue to look compelling.



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Robert Bill, Chief Economist

Changes to your account at BRI

At BRI we take pride in offering a bespoke service, where asset allocation is tailored according to your financial circumstances and investment aims. We offer broad asset allocation frameworks including Cautious Growth, Income, Balanced and Growth. Supplementing this, we also offer medium and high risk overlays to the above asset allocation strategies.

In order to allow greater flexibility to adjust asset allocation depending on market conditions and individual client's needs, we now believe that it is more suitable to remove the medium and high risk profiles, and instead allow the risk profile to be determined according to each client's asset allocation.

In addition, we believe that the Cautious Growth asset allocation should be less concentrated in equities owing to their volatility;

instead we propose to replace this strategy with a new Cautious strategy which will aim to be diversified broadly equally across equities, fixed interest and alternative assets.

Your BRI advisor will be contacting you soon to discuss in detail how these changes will affect your account, and will of course be pleased to address any questions that you have.

How we look for strong balance sheets

Much is said in the financial press about companies with strong balance sheets; here we explore why this matters and some of the key metrics we look at to ascertain the financial position of equities.

Borrowings per se are not a bad thing; if a company is able to generate a higher return from investing capital than it is paying on its borrowings, then it is adding value for shareholders. To gauge this, we look at ratios such as return on capital employed, and compare this to current interest rates. The critical aspect is that a company should generate sufficient free cash flow after financing costs have been met to allow scope to reinvest in the business and grow returns to shareholders.

In essence, borrowing reflects an obligation by the company to pay interest on an ongoing basis, and repay capital in the future. As equity holders, we are concerned with the affordability of this, and the extent to which this may be to the detriment of shareholder value, so we consider the following key aspects:

Firstly, we look at a company's outstanding debt compared to its assets (debt to equity), with particular consideration to the nature of the assets; goodwill and other intangible assets may need to be discounted. We look at the nature of the debt and when the capital repayments are falling due, in particular the risk of bankers withdrawing short term credit.

Secondly, it is critical that the interest must be affordable if earnings fall, so interest cover (i.e. the amount of times the company could pay its interest out of current profits) is important. In addition, because reported profits are determined partially by items that may not reflect movements in actual cash, we look at the operating cash flow generated and cash at the bank, and whether the company can meet its interest and upcoming capital repayments from it.

Predictability of a company's revenues and profits is



a consideration; utilities for example tend to have higher borrowings as there is a greater degree of certainty about future income.

Off-balance sheet items can hide borrowings; a company may use leases such that the total repayments outstanding do not have to be explicitly stated. Nonetheless, the repayments will have to be met each year so should be taken into account.

A strong balance sheet does not necessarily mean no debt; indeed excess cash on the balance sheet is providing sub-optimal returns for shareholders. The key considerations are that the debt should be affordable even in the worst-case scenario, and that the use of debt should add value with the overall structure of the balance sheet permitting scope for growth.

Competition

Can you forecast...

...what the FTSE 100 will be by the end of 2012? BRI will give a bottle of champagne to the person whose prediction is closest to the value of the FTSE on the last trading day of 2012.

If you would like a go then please send your predictions to Vicki at vs@brigroup.co.uk
Closing date for this competition is Tuesday 31st January 2012.

Congratulations



We are delighted to announce that **Hazel Gwynne**, BRI's Company Secretary and a Senior Administrator, has now been with BRI for an amazing 30 years. Hazel, who began working for BRI in December 1981, is an extremely valued member of the team and BRI would like to thank her for the tremendous contribution she has made to the firm over the years and still makes today.

Simon Boardman-Weston, Chairman of BRI, said "Having worked with Hazel at BRI for over 20 years, I can testify what a tremendous asset she is to our business and I am delighted we are able to draw on her invaluable experience on a daily basis."

BRI Asset Management plc

BRI House, Elm Court, Meriden Business Park, Meriden CV5 9RL

Tel: 01676 523550 Fax: 01676 522799 Email: invest@brigroup.co.uk Website: www.brigroup.co.uk



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