INVESTMENT DIRECT

fair investment company

The magazine for Fair Investment Company investors

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Strategies: Passive vs Active

Views on investments in 2011

Beating inflation and interest rates

Making the most of your savings with ISAs

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Introducing the Fair Investment SIPP

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Editor's letter

Balancing and managing your investment portfolio is always important, even more so during uncertain times, and with this issue of *Investment Direct* we want to provide you with ideas on building and maintaining an investment portfolio to suit your needs.

The passive vs active investment debate is a longstanding one; we take a look at the pros and cons of each, speaking to experts at passive investment manager Vanguard.

There have been several exciting developments at Fair Investment Company recently, and we would like to draw your attention to our recently launched investment services, the Fair Investment SIPP and our ISA and Investment Account. Both services offer a low cost, multi-asset platform where you can organise and maximise your investments. See pages 7 and 15 for more information and how to invest.

Finally, ISA season is just around the corner, and our short guide to ISAs explains why they are such an important investment tool and how you could make the most of yours.

We would welcome any comments you have about *Investment Direct* please get in touch at: Media@fairinvestment.co.uk.

Rebecca Sargent
Editorial and communications manager

About us

Fair Investment Company is a Bristol based savings, investment and pension specialist. Primarily a non-advised service, we provide our clients with all the tools they need to take control of their own investments, savings and pensions. We always strive to meet our clients' needs and are constantly expanding and developing our range of products and services in response to their feedback.

We are more than just a funds supermarket or a discount broker; we provide access to market leading financial solutions so we can help as many people as possible make the most of their own savings and investments at minimal costs.

Investing in 2011

Fair Investment Company's head of savings and investment Nick Scarrett shares his views on interesting investment opportunities in 2011

I think the main investment themes for 2011 are emerging markets and commodities, carrying on their impressive performance of 2010. These investment sectors are closely related, as the emerging market growth fuels demand for finite resources such as oil, copper and gold.

During 2010 the Aberdeen Emerging Markets fund returned 31.6%, whilst the JPM Natural resources fund returned 47.4%, although past performance should not be seen as an indication of future performance.

Food prices rose strongly in 2010 and according to Sarasin world food stocks are at their lowest for 25 years. Rabobank have predicted supply limitations, demand growth and sustained heightened volatility for 2011.

Emerging markets, commodities and consumer trends identified as key areas in 2011

Investors can benefit from any potential rise in food prices by investing in funds such as the Sarasin Agrisar fund.

Other interesting investment themes to look out for include consumer trends and water.

According to Marketwatch only 1% of water on earth is fresh water and only 1% of that fresh water is usable or accessible.

This is further compounded by the fact that since 1950 the world population has doubled, but water use has tripled. Companies are searching for non-polluted water to make goods and grow crops.

Meanwhile, the JP Morgan Consumer Trends fund offers an interesting angle, aiming to benefit from enduring long-term changes in consumer trends around the world driven by its 3 pillars: aspiration, demographics & urbanisation and health & wellness.

The funds discussed above are available as SIPP and ISA investments

FUNDS AVAILABLE FROM 0.00% INITIAL CHARGE

Aberdeen	Emerging Markets Fund
J.P.Morgan Asset Management	Global Consumer Trends
Sarasin & Partners	Agrisar Fund
J.P.Morgan Asset Management	Natural Resources Fund

For more information and to invest:

- Fill in the enclosed response card and return
- Call us on 0845 308 2525 for an investment pack
- Visit www.fairinvestment.co.uk to view the full range of investments available and for further information

Please see the important investment information on page 2 about making investments.

The great debate:

Key points on passive and active investment:

- **Passive fund annual management charges start from as little as 0.15%, with various options offering exposure to different markets and sectors, e.g. emerging markets and commodities**
- **While active funds may be more expensive, there is greater flexibility on how investments are managed and potential for diversification within one fund**

It's a long-running debate, and is one that is unlikely to ever definitively favour one side or the other: are passive investment funds a better option than actively managed funds?

The debate probably sharpened with the growth of Exchange Traded Funds in the UK. Along with passive or tracker funds, Exchange Traded Funds, known as ETFs, track specific indices, such as the FTSE 100 or S&P 500.

What these funds offer is exposure to the full range of companies that make up an index, or in the least a representative range of the companies in that index. ETFs and passive funds attempt to replicate the performance of the index they track, normally with a large degree of accuracy.

What a passive fund or ETF offers investors

The main two pitches for a passive fund or ETF are the exposure to the performance of an index, which can be a stock market, a sector index (e.g. Global Health and Pharmacy) or commodity index, together with low costs.

The largely passive nature of this type of fund means costs for investors are minimised. The annual management charges on a passive fund can start from 0.15 per cent upwards, but are generally several percentage points lower than an actively managed fund.

The average total expense ratio (TER) – an overall figure that includes the management and service costs a fund incurs – for passive funds from Vanguard is 0.23 per cent, giving a very low impact on the return passed on to the investor.

Vanguard is a leading passive fund provider that began operating in the USA in 1975 and launched its UK business in 2009.

Head of sales at Vanguard UK, Nick Blake, said: "The active/passive debate is one that's been raging for quite a number of years now and the result every year has been a nil, nil draw. At Vanguard, we run both active and passive funds; we are not coming at it from a religious zeal point of view."

What the data shows

Blake says research shows that in many cases an index fund generates a better return than a managed fund, which many believe is solely to do with the ability of the fund manager. He says good fund managers fail to beat the index that is the benchmark of a fund or sector because costs are deducted from any return they make over and above that benchmark.

"These good managers wouldn't have failed to beat the index had it not been for the charges on their funds. It's not what you get but what you get to keep. We believe it is the level of costs that largely determines the rate of returns rather than the ability of the manager themselves," he adds.

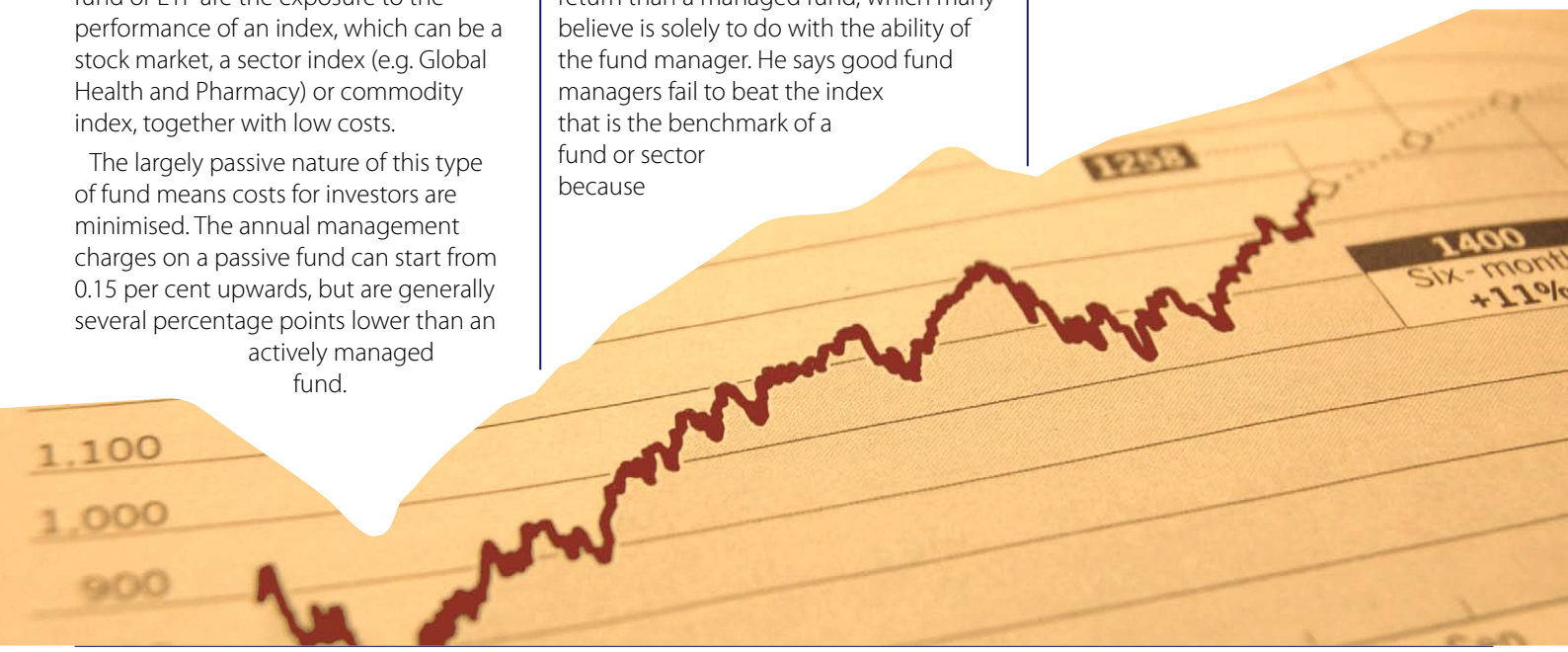
Vanguard has commissioned research on the number of actively managed funds which deliver a better return than their benchmark. In one report, the authors looked at three benchmarks and the funds operating in the relevant sectors.

The benchmarks were the FTSE 100 Index of the largest companies on the London Stock Exchange, the FTSE 250 Index which includes medium sized firms and the FTSE Small Cap Index of smaller companies.

In the case of the FTSE 100 Index, over five years 25 per cent of funds outperformed the index, for the FTSE 250 10 per cent of funds outperformed the index, and for the FTSE Small Cap 50 per cent did so.

Does the market matter?

For Blake, passive or tracker funds can be a good option for emerging markets as much as developed markets, like the US and UK.



passive vs active

He said an often used myth is that investing in an emerging market, such as China or Brazil, requires the expertise of a fund manager to select companies, but data showed the majority of managed funds failed to beat the index for their investment area.

The active option

Perhaps the keyword for actively managed funds is flexibility. While a tracker or passive fund can offer diversity across an index, an active fund can potentially invest across numerous indices and may hold a variety of different assets.

Equally, an active fund may disregard a benchmark index completely and take a conviction led approach to selecting a focussed, smaller number of shares to invest in.

The antithesis of passive

Fund manager Richard Buxton heads Schroders' UK equities team and manages the firm's UK Alpha Plus Fund. He recently described the Alpha Plus Fund as 'the antithesis of a passive fund'.

The fund typically invests in 30 to 40 stocks, seeking out companies believed to be performing well over a three year time horizon, with no attempt to track a benchmark. Buxton works with a team of equity analysts to select his holdings in what they call a 'best ideas' portfolio.

Active fund managers may meet with the companies they invest in

Actively managed funds may also be designed to pay a level of income, with the potential for capital growth through equity investments, such as the Invesco Perpetual Income fund, the Schroders Income Maximiser fund or the BlackRock UK Income fund.

This type of actively managed fund can focus investment in stocks which the management team believe are able to provide a level of income, rather than relying on an income distribution from stocks in a specific index, such as the FTSE UK Equity Income index. This type of fund may also use other active investment strategies such as futures contracts to try and boost the level of income provided.

There is a wide diversity available in actively managed funds, including ethical funds that actively screen stocks to identify suitable investments or absolute return funds which can be multi asset funds designed to produce a level of return regardless of overall market conditions.

Diversification and costs

Diversification is a key principle for all investing: selecting different assets or investment areas to reduce the risk of only holding assets of one kind or in one type of market.

In the process of asset allocation, both passive funds and active funds can provide ways of gaining exposure to different markets and type of asset, while the charges for active funds vary, an average total expense ratio for European funds put the average level at 1.66 per cent per annum.

Through the Fair Investment ISA and Investment Account, and Self Invested Personal Pension, annual management charges for some funds, such as those in the Select 100, can be lower. with cash rebates from fund managers reducing annual costs.

However, the costs for passive or tracker funds will generally be at a lower level compared to their actively managed counterparts, due to the costs of aspects like more frequent trading and research.

Passive fund examples:

Invest at 0.00% initial charge through Fair Investment
See pages 7 and 13 for information on ways to invest >>

HSBC Global Asset Management

HSBC European Index Tracker
- Tracks the FTSE World Europe ex-UK Index
- Low cost - just 0.25% per annum
- Low tracking error

Vanguard

Vanguard Emerging Markets Index
- Tracks the MSCI Emerging Markets Index
- Low cost - just 0.55% per annum
- New UK brand with US pedigree

Active fund examples:

BLACKROCK

BlackRock Gold & General
- Aims to achieve long term capital growth by investing in gold, mining & precious metal related shares
- OBSR AAA rated with a long track record

Allianz Global Investors

Allianz BRIC Stars Fund
- Predominantly invests in BRIC countries
- OBSR A rated

See page 6 for Investment Focus

Please see the important investment information on page 2 about making investments.

Investment Focus

Allianz Global Investors

Allianz RCM BRIC Stars Fund

The Allianz RCM BRIC Stars Fund was launched in 2006 with the objective of producing long term growth from investment in the BRIC countries – Brazil, Russia, India and China. The term BRICs was first coined by Goldman Sachs in 2002, and those countries have since proved to be the outriders of growth in the wider emerging markets.

We look at the Allianz RCM BRIC Stars Fund expectations for 2011.

The economic outlook

While the BRICs were a significant driver of overall global economic growth in 2010, some of the smaller emerging markets did perform better.

Manager of the Allianz RCM BRIC Stars Fund. Michael Konstantinov puts strong stock market performances in countries such as Thailand, Peru and Chile down to some specific conditions.

Michael Konstantinov of Allianz RCM Global Investors

"2010 was not necessarily the year of the BRICs especially in the emerging markets universe. This is not unprecedented; however, I think it's important to remind ourselves of what some of the drivers were for performance in some of these countries," he says.

These 'drivers' include receding political concerns in Thailand leading to renewed investor interest in the country which has previously lagged behind other markets, and in Chile a shift of assets into equities due to low interest rates, causing equity market appreciation.

For the BRICs, Konstantinov believes they remain the dominant force amongst other emerging markets, notably when measured by the number and size of listed companies in these countries and the expected level of Gross Domestic Product (GDP) growth.

"It is impressive how the BRIC countries have performed, despite the volatility that we have seen in recent years," Konstantinov says, adding that the risk return profile for investors in these markets has also improved over the years.

A long term view of stock market performance, taken from 1999, shows the MSCI BRIC index has outperformed an index of emerging market stocks excluding BRIC countries, and UK and US indices. This growth really picked up in 2003, with a sharp recovery following significant falls in the index during 2008.

Companies

Konstantinov says the fund is tilted towards larger companies. "BRIC large caps are trading at a discount to other emerging market large caps...I think that will be an important factor for performance this year," he adds.

The fund's holdings include the Brazilian mining firm Vale which has benefited from rises in demand for metals at the end of 2010, the Russian bank Sberbank which has a vast network of 20,000 branches in the country, and Infosys.

Konstantinov says the Indian firm Infosys has developed into a leading IT services provider and 'global player in that area', with a very profitable business model and growing workforce.

"BRICs are back to a more sustainable growth pattern and now we have the unique opportunity to buy at highly attractive valuations, probably the most attractive valuations we have seen in past years," he adds.

Concerns

One of the highest profile issues for emerging markets is inflation which has been largely forced up by the rising cost of food.

Konstantinov expects there to be a 'supply response' to this rise in food prices. "I do expect a higher yield in crops, if so food price inflation will subside in the second quarter of this year."

Another concern for investors in emerging markets is corruption, which Konstantinov says is an issue in all four markets. The team behind the fund look at corruption on a company specific basis, analysing individual firms to identify concerns in this area. He does also believe the fact that recent corruption scandals in India have been dealt with in a judicial process to be an encouraging sign.

As well as the Allianz RCM BRIC Stars Fund, the BRIC Equity team, led by Michael Konstantinov, also manage the Allianz RCM Brazil Fund.

How to Invest: See opposite and page 13 for more information

Please see the important investment information on page 2 about making investments. Investors in emerging market funds should also be prepared to accept a higher degree of risk than for a fund with a broader investment mandate, as difficulties in dealing, settlement and custody could arise.

ISA and Investment Account

Designed to help you make the most of your investments and tax efficient allowance



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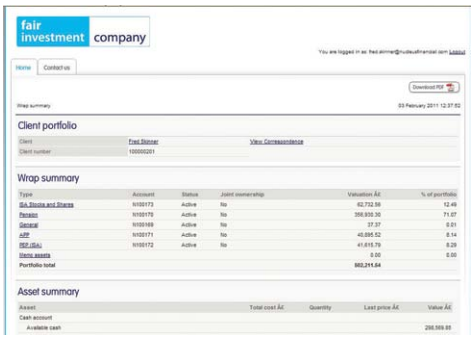
- Discounts on fund annual management charges
- Easy transfers, switches and top ups
- Make the most of your ISA allowance this tax year and next
- Investment range includes ETFs, model portfolios and an independently sourced Select 100

Take control of your investments with a single view of your portfolio online



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Savers under pressure from low

> With inflation running above the official target at 3.7% and interest rates at record lows savers are still under pressure

> We look at some of the options for investors willing to take on more risk for a higher return

As 2011 got underway sentiment in the UK stock market was in an upward swing, but provisional data suggesting the economy shrank by 0.5 per cent contributed to falls on the FTSE 100 and for many put pay to any imminent increases in the Bank of England Base Rate.

With predictions for inflation to rise above the current 3.7 per cent level in 2011 and a high level of uncertainty on when the Bank of England will raise interest rates, the outlook for savers seems likely to be an ongoing search for savings and investments that will provide an inflation combating return, at a level of risk they're comfortable with.

Inflation

The combination of inflation persistently above the 2 per cent target, low interest rates and a faltering economy has made life difficult for the Monetary Policy Committee (MPC) members at the Bank of England. Although there is greater dissent now amongst members on whether to raise the Bank Rate, many commentators predicted a raising of rates would be unlikely while the economic recovery remained uncertain.

Giving a robust defence of the MPC's actions, Bank of England Governor Mervyn King, in a speech on 25 January, said inflation had been kept high by a rise in import prices due to the fall in Sterling's value, increases in world energy prices and VAT increases.

"Monetary policy cannot change the amount we in the UK have to pay to buy food and other commodities, such as energy, from the rest of the world. Nor can it alter the need for a fall in the prices of the products that we sell to the rest of the world relative to world prices in order to reduce our trade deficit and rebalance the UK economy."

Stagflation

Stagflation – a term used to describe the combination of high inflation and a stagnant economy – has crept into the headlines but analysis by fund managers Fidelity said comparisons to 1970s stagflation should be treated with caution.

The high inflation in the 70s was driven by oil embargoes and wage prices spiralling, whereas now commodity prices are driven by strong global demand, there is a 'slack labour market' and underlying inflation, excluding energy and food prices, is low.

In terms of stock markets, Fidelity believes that shares may do well from the global growth and commodity demand.

The company said the global nature of the UK stock market could benefit from recoveries in other countries, while interest rates could be held down for longer due to 'tepid domestic growth and a weak housing market'.

The Bank of England has resisted raising interest rates in the face of external inflation pressures

"Those seeking an income from cash are finding that their standard of living is falling.

Beating interest rates

Fair Investment's Nick Scarrett said: "Low rates are not good for savers when inflation is currently running at 3.7 per cent per annum, against a government inflation target of 2 per cent.

"Savers are struggling to obtain rates above inflation to keep the original purchasing power of their cash deposits and those seeking an income from cash are finding that their standard of living is falling. Many investors are looking to increase the risks they are taking with their savings to chase potentially higher returns."

Statistics published by the Investment Management Association (IMA) on 2 February showed record amounts being invested by retail investors in global funds, including global bonds, global growth and global emerging markets funds. Figures up to December 2010 showed £2billion had been invested in these global sectors over

interest rates and inflation

Investment funds discussed in this article:

- Invesco Perpetual Monthly Income Plus Fund
- L&G Dynamic Bond Fund
- Schroder Income Maximiser Fund
- BlackRock UK Income Fund

For more information and details on how to invest see the Featured Products on page 15 >>

the past 12 months.

Overall, investor interest in funds has remained high with figures for 2010 the second highest year on record for fund sales.

Taking more risk for more returns

There are varying levels of risk associated with investments that are less secure than a savings account or cash ISA held with a bank or building society.

Structured investments are a type of investment that can offer the potential for a defined level of return and may offer capital protection or put capital at risk as part of the investment. They are normally fixed term products.

Broadly, investment funds may offer investments in equities and bonds (corporate or government debt), with many funds open-ended meaning they can be brought and sold as the investor chooses.

Nick Scarrett said: "Generally in finance it is accepted that potential investment returns increase with the levels of risks involved. Therefore low risk investments are associated with low potential returns, whereas high risk investments are associated with high potential returns.

"According to this traditional risk-return model, invested money can render higher profits only if it is subject to the possibility of being lost. Investors need to be aware of their personal risk tolerance when choosing investments for income or growth."

He said that taking on some risk is the price of achieving returns. "Investors need to find a balance that they are happy with – one that generates appropriate returns, but allows them to sleep at night," he adds

.

Transport costs for many people have increased as inflation stays above target

"Most economists agree...over the medium to long term equity investments will more often than not outperform cash.

Volatility and short term trends

In his outlook for 2011, Chris Stevenson, vice president at Barclays Wealth said: "Product diversity and attention to asset allocation will remain of utmost importance in 2011. The past three years have been a roller coaster ride and there is nothing to suggest that this is not the new 'market-norm'.

Stevenson said having a more carefully constructed portfolio that can take advantage of peaks and ride out the troughs would be crucial.

Nick Scarrett said: "Short term trends can often muddy the waters, as the low risk asset of cash has outperformed the higher risk asset of equities (in the form of the FTSE100 Index) over the last five years. However, most economists agree that these are temporary changes in risk/reward theory and over the medium to long term equity investments will more often than not outperform cash."

In search of income

Nick Scarrett's preferred options for investment funds that aim to pay a level of income are the Invesco Perpetual Monthly Income Plus Fund, which invests in high yielding corporate and government bonds, as well as UK equities; and the L&G Dynamic Bond fund which aims to achieve both capital and income return by investing in a wide range of fixed and variable rate assets.

Funds focussed on the equity market are the Schroder Income Maximiser fund which has the aim of achieving a 7 per cent annual yield though a combined strategy of equity investments and selling options which try to take advantage of fluctuations in the market.

The BlackRock UK Income Fund invests in UK listed companies and looks to provide a level of income while taking full advantage of any long term capital growth generated from investing in shares.

Please see the important investment information on page 2 about making investments.

Making the most of

ISAs the facts:

- Free from income tax and capital gains tax
- 2010/11 ISA allowance: £10,200 - £5,100 can be invested in cash ISAs
- 2011/12 ISA allowance: £10,680 - £5,340 can be invested in cash ISAs
- 2010/11 ISA deadline: 5 April 2011

ISAs (Individual Savings Accounts) are one of the only means of saving and investing without having to give a cut of the profits to the taxman.

Paying no income or capital gains tax on any returns you make from your investments within an ISA means that your returns will generally be higher. This means that if you have any savings or investments you should think about making the most of your annual ISA allowance before choosing any other means.

What is an ISA?

An ISA is effectively a wrapper that protects a predetermined amount (up to £10,200 for the 2010/11 tax year) of your savings and investments from income and capital gains tax. ISAs were introduced by the government to encourage people to save.

It is important to note that an ISA is not a type of investment; it is an amount of money that you can protect from tax each year. Where you save or invest this money is up to you.

"An ISA is effectively a shield that protects your savings and investments from tax.

How can you use your ISA?

Most investments are allowable within an ISA; these include investment funds, structured investments, Exchange Traded Funds and passive investments. There's also a wide range of cash savings accounts and deposit based investments to choose from for any of your cash ISA allowance (up to £5,100).

Are you making the most of your ISAs?

This tax year (2010/11) you can invest up to £10,200 into an ISA, £5,100 of which may be invested into a cash ISA product. If you invest in a cash ISA any remaining allowance can be invested in a stocks & shares ISA.

This allowance is per person (over 16 for cash ISAs/over 18 for stocks & shares ISAs), which means that a husband and wife can protect up to £20,400 for this tax year.

New ISA allowance

In last year's Budget it was announced that going forward the ISA allowance will increase in line with RPI inflation each year.

The RPI rate of inflation in September will determine what the ISA allowance will be the following April. It was 4.6% last September,

your ISA

bringing the new allowance up to £10,680, or £5,340 for cash ISAs.

Invest early

The earlier you invest your ISA allowance in a tax year, the longer any returns you receive from them will be protected from income or capital gains tax, meaning your overall returns will be higher.

If you have used previous years' ISA allowances, making the most of them will be just as important as investing this year's allowance.

If you are not happy with the returns you are making on your existing ISA investments, you could transfer them into something new without losing the protective tax wrapper.

ISA Transfer Ideas

Emerging markets	
Aberdeen	Emerging Markets Fund
Commodities	
BlackRock	Gold and General Fund
Ethical	
Jupiter	Ecology Fund
Passive Funds	
Vanguard	Emerging Markets Index
Income	
Schroders	Income Maximiser

For more information see the Featured Products table on page 15

Ideas for your ISA

At Fair Investment Company we are dedicated to helping you to make the most of your savings and investments, bringing you research, investment opportunities and services.

Our ISA and Investment Account brings you access to a whole range of ISA investment opportunities, from leading investment managers. Take advantage of new investment ideas including emerging markets, commodities, passive investments and Exchange Traded Funds, all within your ISA wrapper.

>> See page 7 for more details on the Fair Investment ISA and Investment Account and how to apply.

Alternatively, you can visit www.fairinvestment.co.uk for the latest cash and stocks & shares ISA deals

Transferring is easy

Julie Smith, savings and investment analyst

Transferring previous years' tax free ISA savings into an ISA account with higher returns could significantly boost any tax free returns you receive. Transferring is easy, but you must make sure that you transfer properly.

If you encash your previous years' ISA allowances they will lose their tax exempt status and you will undo your previous good work. All you need to do is request a transfer form for the new account, fill in, and your new ISA provider should do the rest for you.

You may wish to consolidate any existing ISAs into one new ISA account to maximise any increased returns, but there are a couple of things you need to take into account, including whether the combined amount takes you over the £85,000 Financial Services Compensation Scheme (FSCS) savings limit for one financial institution or not.

Another thing to bear in mind is that you can transfer your existing cash ISAs into stocks & shares ISAs, but not the other way round. The bottom line when it comes to saving in 2011 is to regularly review your accounts. Bonus rates and variable rates could mean that your savings are earning less than you think.

Please see the important investment information on page 2 about making investments.

The Fair Investment SIPP introduced

Head of investment, Nick Scarrett, introduces the SIPP service

Self Invested Personal Pensions are a pension wrapper offering full tax relief for pension contributions along with access to a large number of investment opportunities.

The Fair Investment SIPP provides a diverse mix of investment options that includes cash accounts paying attractive rates, passive or tracker funds, plans offering potential defined returns and commercial property, as well as funds actively managed by leading asset managers.

While some SIPPs may simply offer access to a limited range of funds or a conventional fund supermarket featuring mutual funds, our SIPP service seeks to exploit the flexibility and investment choices that are permitted, with more than 3,000 options to choose from.

Pension changes

One of the major features of UK pensions has been the much publicised demise of final salary pensions. Also known as defined benefit schemes, they are now increasingly rare with the latest figures from the Pensions Regulator showing that 58 per cent are now closed to new entrants.

fair investment SIPP service

Fair Investment SIPP Service

Fair Investment SIPP Service

Putting you in control of your retirement

Welcome

Welcome to the Fair Investment SIPP Service - the low cost, easy to manage platform for all your tax-efficient pension investments.

Whether you are new to pension investing, or you have several pension plans in place, our service can help you to make the best possible provision for your future. Bring all of your existing pensions together, then start making the most of your pension investment strategy with our range of more than 2,000 investment options to choose from.

With the Fair Investment SIPP Service you are not restricted to investing in funds; there are a range of interesting investment options, including cash deposit accounts, structured investments, passive funds and Exchange Traded Funds. But, if it is funds you are looking for, we have a range of fund model portfolios to choose from that have been carefully researched by independent experts at Rayner Spencer Mills.

Alternatively, the same independent company has compiled our Select 100 funds, covering a range of sectors for you to choose from. And, all of this at minimal cost – our annual fee is 0.85%, and fund initial charges are discounted by up to 100% through the service, while annual fund management charges are also reduced to as low as 0.15% in some cases.

This brochure outlines the main products available but please see www.fairinvestmentcentre.co.uk for more detail on the assets available.

If you feel that you need advice on your pension investments, don't forget about the Fair Investment Advisory Service – see page 16 for more details.

Happy investing.

Nick Scarrett
Head of Pension and Investment Services

See Investment Choice for the range of investments available, bringing you the best of the banking and investment industries

What is inside?

Call our Investment Helpline 0845 075 4028 or visit www.fairinvestmentcentre.co.uk

This type of pension has been largely replaced by personal pensions and stakeholder contracts, which are also called defined contribution plans. Defined contribution plans are dependent on investment performance, charges and annuity rates to determine the level of pension paid in retirement.

> **"While some SIPPs may simply offer access to a limited range of funds...The Fair Investment SIPP seeks to exploit the flexibility and investment choices that are permitted.**

What a SIPP offers

The Fair Investment SIPP allows you to bring any existing pension investments together and take responsibility for your pension investment strategy in a cost efficient contract.

The service has no set-up charges and offers access to investment funds, with the vast majority available at no initial charge.

There is a basic service charge of 0.85 per cent per annum and additional discounted annual management charges may apply to specific investments made within the SIPP. Overall costs could be as low as 1.1 per cent.

We will take you through the process of setting up a plan and arranging transfers of your existing contracts.

Because investors take on the investment responsibility when investing through the Fair Investment SIPP service you should be aware of the risks associated with specific investments before making a decision to invest.

This is a non-advised service but if you feel you need financial advice on your pension investments we can provide this on request.

How investing in the SIPP works

Investing in the Fair Investment SIPP allows you to consolidate existing pension investments, create your own investment strategy, combining a range of asset types, while also allowing for ways to keep admin and costs down.

Using the Fair Investment SIPP service, it is possible to transfer several existing pensions into one pot.

To start making the most of the range of investments on offer through the service, the Fair Investment dedicated customer services team will help to move all existing investments into the cash account available through the Fair Investment SIPP service.

From there investors are able to build an investment strategy suited to how they want to invest.

For example, a SIPP focussed on keeping costs and management down to a minimum, of the total portfolio 50 per cent could be invested in one of the ready-made fund portfolios available. With the other half of the pension investment, 20 per cent could be invested in a structured investment offering the potential for a defined level of return and 25 per cent invested in a passive fund tracking the performance of an index.

The remaining 5 per cent could stay in the cash account to provide a buffer for charges on these investments and the annual charge of the SIPP - 0.85 per cent.

It is free to transfer to the Fair Investment SIPP service with a large number of funds available at nil initial charge.

When transferring into the SIPP, investment top ups and switches are dealt with by our Investment Helpline, while investors receive details on how to view their portfolio online.

Fair Investment SIPP Service

The self invested personal pension from Fair Investment Company

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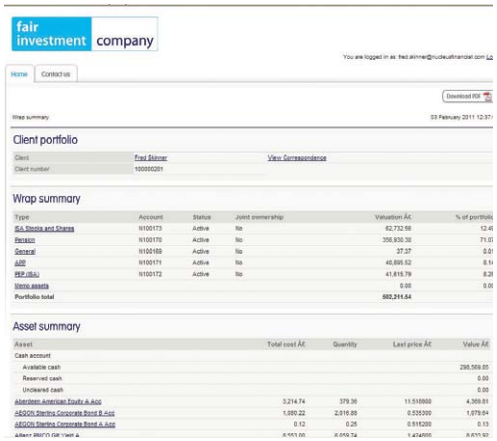

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Bringing pensions together

> Research shows people move on average 11 times between employers potentially building up separate pensions

> If consolidation is right for you it can make managing pension savings simpler and quicker

Pension transfers and consolidation can seem a complicated process, not least because pensions themselves can seem complex, before you start looking at how they can be moved.

The world of pensions is changing, however, with flexibility likely to be at the heart of pension reform as the coalition government seeks to increase the savings rate and pension provision.

One element of the reforms, embarked on by the previous Labour government, is the introduction of pension auto-enrolment for those working and earning over a minimum amount.

An independent review of the auto-enrolment proposals for the coalition government put the issue of pension transfers at the centre of pension reform, urging the government to take a separate review of pension transfers in order to 'move quickly to a world where transfers between pension schemes on change of employment...become a more normal practice.'

"Consolidating pensions doesn't have to be difficult... allowing a single view of your pension savings.

Although auto-enrolment will boost pension savings, the default auto-enrolment option will restrict transfers.

Consolidation

The independent review of auto-enrolment said people on average move between employers 11 times in their lifetime, which can easily lead to the collecting of disparate pension plans all from different jobs.

Not only can managing lots of different plans be time-consuming and difficult, it can reduce the ability to maximise returns on investments as small amounts are accumulating returns individually, rather than investing larger amounts in different

assets, and earning the compound interest on those investments.

Consolidating pensions into one plan does not necessarily mean less diversity in how your pension savings are invested. The underlying investment in different plans could potentially be very similar, while managing pension investments in one place can allow you to dictate how those savings are invested.

Head of pensions at Fair Investment Company, George Ladds, said: "Keeping track of up to 11 different pension pots would be a time consuming exercise – to say the least. Consolidating pensions doesn't have to be difficult; a good provider will manage the whole process for you, allowing a single view of your pension savings."

Examples of pension contracts where straightforward transfers may be possible include a stakeholder pension offering a simple, lower cost type of pension and a Self Invested Personal Pension (SIPP), which generally allow flexibility and control over the underlying investments in your pension.

You can potentially transfer existing plans into these or other types of pension, but there are some limitations and important considerations.

Key things to remember

It is important to be fully informed about the implications of transferring from one pension to another.

- A defined-benefit pension (for example, a final salary scheme or career average scheme) offers a guaranteed pre-determined level of pension in retirement and is a specific type of pension.

  This would be lost if it was transferred to a defined-contribution pension, such as a stakeholder pension or SIPP.

- You should consider any other benefits or guarantees that existing pensions offer which may be lost by transferring to a new plan, as well as any exit fees or penalty charges that may apply.

- Another consideration could be whether you can move a contracted-out or protected rights pension to the new plan.

  Contracted-out pensions refer to the state second pension which is available to people earning over a certain amount. You can 'contract out' of the state second pension scheme and receive National Insurance rebates into your personal pension plan; although, from April 2012 contracting-out will no longer be possible.

- Charges are a key part of any pension scheme and will vary depending on the scheme and the underlying investments. It is important to be clear on what you are receiving in a pension for the charges levied.

Independent financial advice should be sought if you are unsure about the implications of transferring existing pensions.

Featured Products Available as SIPP and ISA Investments

	Investment Fund	Product summary	Annual management charge through Fair Investment
Aberdeen	Emerging Markets Fund	Offers opportunities for long-term capital growth primarily from direct or indirect investment in global emerging markets	0.87%
J.P.Morgan Asset Management	Global Consumer Trends	Aims to provide long-term capital growth through investments in companies benefiting from changes in consumer behaviour.	0.75%
Sarasin & Partners	Agrisar Fund	Aims to achieve capital growth through investments in companies operating in the global agricultural sector, such as food producers or fertiliser manufacturers.	0.75%
J.P.Morgan Asset Management	Natural Resources Fund	Investing in shares of companies involved in the production and marketing of commodities worldwide to provide capital growth .	0.75%
HSBC Global Asset Management	European Index Tracker	The fund's objective is to provide long-term capital growth by matching the capital performance of the FTSE World Europe excluding UK Index.	0.25%
Vanguard	Emerging Markets Index	Seeks to track the performance of the MSCI Emerging Markets Index, consisting of companies in Europe, Asia, Africa, Latin America, and Middle East.	0.55%
BlackRock	Gold & General	Specialist growth fund that invests in gold, mining and precious metal related shares.	0.87%
Allianz Global Investors	BRIC Stars Fund	Aims to achieve long-term capital growth through investments primarily in Brazil, Russia, India and China.	1.25%
Invesco Perpetual	Monthly Income Plus Fund	Popular monthly income fund that invests in high yielding corporate and government bonds and UK equities . The estimated per annum distribution yield at Jan 11 was 6.61%; yield may vary.	0.62%
Legal & General	Dynamic Bond Fund	The fund objective is to provide capital growth and income – by investing in a range of fixed rate and variable rate securities. The distribution yield at Dec 10 was 5.70% per annum; yield may vary	0.63%
Schroders	Income Maximiser Fund	Seeks to achieve a target yield of 7% per annum to generate a quarterly income, with some potential for long-term capital growth. Yield may vary.	0.75%
BlackRock	UK Income Fund	Aims to provide an above-average and growing income without sacrificing the benefits of long-term capital growth. The historic yield was 3.26% at Dec 10. Yield may vary.	0.75%
Jupiter	Ecology Fund	A leading ethical fund aiming to provide capital growth. Invests globally in companies providing solutions to environmental and social problems.	0.75%

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Customer Services Team

Our customer services team are here to help you with any queries about your investment.

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Use the contact details provided above to get in touch.

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