LOWES

Where personal finances are cared for personally

January 2011

"Prediction is very difficult, especially if it's about the future."

Niels Bohr

FINANCIAL PLANNERS CII CHARTERED

INSIDE: MAJOR PENSION OVERHAUL

US emerges top in 2010 competition

CONGRATULATIONS TO MRS PATRICIA WINTERS FROM Surrey. After an extremely eventful 12 months, she is the winner of our 2010 'Predict the region' competition and receives six bottles of Moët Champagne!

Last January we asked you to predict which country or global geographic region would be the top performer, by reference to their respective main stock market index in sterling terms, over the period 1 January to 31 December 2010.

No less than 80% of entrants predicted China would outperform the US, the UK and Europe. However, Mrs Winters was not among them and correctly predicted the US. Such a result speaks volumes for the underlying strength and resilience of what is still by a wide margin the world's largest economy and its ability to ride out such a major shock as the global credit crisis.

On the basis of the performance over 2010 of their representative economic indices, the four regions ranked as follows:

Most clients tipped China to win

1. The US (SP 500)

2. China (FTSE China)

3. The UK (FTSE 100)

4. Europe (DJ EuroStoxx 50)

For this year's competition please see page 7.

Boost for savings compensation

IN A MOVE DESIGNED TO SHORE UP BATTERED CONFIDENCE in the European banking system, the new UK deposit compensation limit was increased on 31 December from £50,000 to £85,000 per person, per authorised firm.

The move comes nearly three years after the Northern Rock was nationalised, the more recent demise of the Bradford & Bingley and the Icelandic banks, the rescue of many others, and fears that the current problems with the Euro could spell chaos for the European banking system.

The new compensation limit is the approximate Sterling equivalent of the €100,000 deposit compensation limit which came into force in all European Economic Area member states at the end of 2010. The UK limit will be reviewed every five years, or more often in the event of severe fluctuations in the Sterling-Euro exchange rate.

As with the old limit, the new one will apply to savers with deposits in the UK subsidiaries of foreign banks, but deposits in foreign banks operating through a UK 'branch' will be covered by the bank's home country compensation scheme.

Many adults lacking life cover

A LARGE NUMBER OF PEOPLE WITH DEPENDENTS, potentially as many as a third, are failing to buy life insurance cover, according to recent data published by Barclays.

Whilst the vast majority of people will have their mortgage covered by life insurance to protect against the loss of the family bread winner, this appears not to be the case for other debts, nor for the costs of supporting children and meeting general living expenses. For many people, should the worst happen then the only safety net may be the stressed state benefits system.

Barclays says that a significant number of people rejected purchasing life insurance because of the perceived high cost and lack of value for money. However, for a number of reasons, including higher life expectancy, greater competition among providers, and improvements in medical treatment, the price of life insurance premiums has fallen in recent years.

Lowes is able to provide a comprehensive quotation for life insurance cover. For further information, contact your usual Lowes' Consultant, or call 0191 281 8811.

Our cover shot: Drifting Iceberg in the South Atlantic

©istockphoto/Lowes

Make your money work

Best bank and building society unrestricted instant access/no notice accounts

Amount	Provider	Account	Gross Rate	Contact
Branch Based				
£1+	Northern Rock	Branch Saver 3	1.9%	Branch
Postal or Telephone				
£1+	National Savings & Investments	Direct Saver	1.75%	0845 971 5401
£10,000+	Skipton Building Society	Telephone Saver Account	2%	0845 850 1722[1]
Internet				
£1+	Northern Rock	E-Saver Issue 3	2.5%	www.northernrock.co.uk
£1+	Barnsley Building Society	Online Saver	2.5%	www.barnsley-bs.co.uk[2]
£1+	Skipton Building Society	My Savings	2.5%	www.skipton.co.uk[3]

Note 1: 2.25% gross/AER available on amounts over £25,000. Note 2: Yorkshire Building Society is the underlying deposit taker for this account. Note 3: Rate guaranteed to remain at least 1.5% above the Bank of England Base Rate until 31st January 2012.
Sources: Providers' websites, www.thisismoney.co.uk, www.moneyextra.com, www.moneysupermarket.com, www.moneyfacts.co.uk (12/01/2011). All accounts subject to terms and conditions.

Good Advice Awards 2010 – Investment Life & Pensions Moneyfacts WINNER Best Investment Adviser

Good Advice Awards 2009 – Investment Life & Pensions Moneyfacts WINNER Best Tax and Estate Planner

Professional Adviser awards 2010 – Winner Best IFA website

Professional Adviser awards 2010 – Highly Commended Education

Commitment to public over cheque abolition

AHEAD OF THE PLANNED CLOSURE IN 2018 OF THE central cheque clearing facility, the Payments Council has made a number of commitments to reassure cheque users that the banks won't leave them high and dry.

The move comes after Council research showing 55% of consumers are unaware the cheque clearing system is to close. One commitment is to investigate the feasibility of an alternative paper-based method of payment for those highly dependent on cheques.

Meanwhile, the use of debit cards passed a historic milestone in the third quarter of 2010 when the running total of debit card spending (£272bn) overtook the cumulative amount of cash spent (£269bn).

City regulators cold call boiler room fraudsters

THE FINANCIAL SERVICES AUTHORITY (FSA) AND city of London Police (CoLP) are cold calling a number of 'boiler room' fraudsters to warn them they could face criminal prosecution for targeting UK consumers. A 'boiler room' is where salesmen work using unfair, dishonest sales tactics, often to sell worthless shares.

This 'table-turning' tactic is part of a joint approach with CoLP to tackle boiler room fraud in the UK which is valued at £200 million per year.

The real lesson in all this, however, is to know who your adviser is. When it comes to investing, be certain to use an independent financial adviser regulated by the FSA. Then, should anything go wrong, you may have recourse to the official compensation procedures.

■ ***Any who thinks they have been targeted by a boiler room scam should call the FSA's customer contact centre on 0845 606 1234.***

COMMENT

One constant amid uncertainty

IT HAS OFTEN STRUCK ME THAT ECONOMISTS CALLED UPON to predict a country's economic prospects for the coming year are in a win-win situation. There are so many variables that can affect an economy over the course of 12 months that, whether your prediction is right or wrong, in a year's time you can pretty much justify your prediction based on one or more of those variables and get away with it.

That is why newspapers that carry out surveys of New Year's economic predictions will often do so among what may seem an exceptionally large number of economists, hoping to achieve a reliable consensus of opinion.

With this in mind, there may be some comfort to be had from the Financial Times' survey of 79 economists on the prospects for the UK economy in 2011.

The FT economists, in the main, are of the opinion that a full-blown double dip recession, predictions of which caused much concern in the last quarter of 2010, is not the most likely of scenarios ahead of us. Instead, they foresee continued economic recovery albeit at a far lesser rate of growth than in 2010.

As ever, their forecasts flow back and forth between the more pessimistic and the sanguine when it comes to the extent of that growth. Underlying that range of opinion is the action taken by the Government to start tackling the UK's multi-billion pound deficit through fiscal tightening while the economy is still recovering from the financial crisis. This is unprecedented and introduces various unknowns to the equation, which make predictions more variable.

Indeed, it may be worth noting that one economist of the 79 was firmly of the belief a fresh recession is highly probable. One among so many seems to suggest little cause for worry and, for all our sakes, let's hope that in 12 months' time he doesn't have the opportunity to turn around and say: 'I told you so'.

Fears around inflation are also of concern at the moment. While inflation, as measured by the Consumer Prices Index, reached 3.2% last year, the Bank of England Monetary Policy Committee (MPC) is reported to be concerned that it could rise to 4% in 2011. This, in turn, could trigger interest rate hikes by the MPC, which is targeted to keep inflation at 2%.

One certainty, of course, is that from 4 January 2011 Value Added Tax (VAT) has risen from 17.5% to 20%, making the UK VAT rate equal to Italy and only second to Sweden (25%).

This VAT increase, together with the potential rise in inflation, means it is more important then ever to make your investments work for you. Unless the Bank of England significantly raises the interest rate to counter inflationary pressures, cash investments really are not going to be the place to have your money if you want to achieve returns that can outpace rising costs, which could be well in excess of headline inflation.

The fact is no-one knows for sure what will happen with the economy in 2011 but, whatever it throws at us, we expect to continue to sensibly manage our clients' investment portfolios with the aim of continuing to deliver consistent returns.

Wishing you all the best for 2011.

Ian H Lowes,
Managing Director

Pensions changes come t

Barry O'Sullivan, Lowes' Senior Technician, explains key changes announced by the Government that could affect your retirement planning ...

THE COALITION GOVERNMENT HAS WASTED LITTLE time since the June General Election preparing a raft of important and far-reaching changes to the UK retirement system, as well as committing to some of the previous Government's policies.

Below we summarise key changes announced to date and explain those that could fundamentally impact your retirement planning:

End of compulsory annuitisation: People in 'defined contribution' company pension schemes, or who have personal pension savings, will no longer have to purchase an annuity by age 75 from April 2011. Along with new income drawdown rules, these provide real options for retirement income planning.

New Income Drawdown rules: Accompanying this change, the Treasury has announced a new framework for income drawdown that removes many of the current complexities, especially for those over 75 (*see sidebar 1*).

New limit on pension contributions: The annual pension contribution limit, known as the Annual Allowance, is being cut from £255,000 to £50,000. This will not affect the majority of pension savers, but will reduce contributions, especially employer contributions, for relatively high earners. (*see sidebar 2*).

State Pension Age is increasing: Women's pension age has already started increasing to 65 and, from December 2018 no one will be able to start taking state pension as early as their 65th birthday. State pension age will rise to 66 by 2020 and to 68 by 2046. You can check your pension age at ***www.pensionsadvisoryservice.org.uk***. The Government may also consider merging the basic state pension with the state second pension to create a single pension (*see sidebar 3*).

Introduction of auto-enrolment: From 1 October 2012, eligible employees will begin to be automatically enrolled into the new government scheme, NEST (National Employment Savings Trust), or their employer's qualifying pension scheme. By 2016 all employers will be offering staff a pension scheme. The aim is to encourage individuals to save for retirement and reduce dependency on the state pension over the long-term. As a result of auto-enrolment, NEST is expected to quickly become one of the world's largest pension schemes.

Change in pension increases: From April 2011 public sector pension schemes will use the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) as the basis for uprating benefits. CPI has generally been lower than RPI since its introduction in 1996 and, even though this may not always

1. End of compulsory annuitisation and new pension drawdown rules

Personal pension savers or members of a company 'defined contribution' pension scheme, will no longer have to purchase an annuity or take tax free cash by age 75. It can be argued that since the introduction of income drawdown, annuity purchase has not been compulsory in any case. However, these rules certainly allow more flexibility for pension savers over how and when to take tax free cash and income from their pension funds.

Accompanying this change, the Treasury has announced a new framework of 'capped' and 'flexible' drawdown for taking income directly from their invested pension funds. This will replace the current Unsecured Pension (USP) for drawdown up to age 75 and Alternatively Secured Pension (ASP) after 75.

'**Capped drawdown**' will offer a maximum level of income drawdown which will be capped at the same level as an annuity could provide. This will reduce the current limit, which is effectively 120% of annuity rates. For existing income drawdown arrangements, these new limits will apply from the next 5 year review date.

'**Flexible drawdown**' will have no limits on income that can be drawn for those who meet a Minimum Income Requirement of £20,000 a year, which will include state pension benefits, final salary pensions, and lifetime annuities. To put this in context, a healthy 65 year old male receiving state pension of around £5,000 would require a pension fund of around £230,000 to secure the extra £15,000 of annuity income, assuming no tax free cash or spouse's pension options, before taking unlimited income from any remaining pension funds. This could be out of reach to most, and some have estimated that only 0.5% of pensioners will be eligible for this type of arrangement, but this could be a realistic option for those already receiving final salary pensions or annuity income, and could offer some good tax planning opportunities.

All income drawndown will continue to be subject to Income Tax, but lump sum death benefits will be simplified. Lump sum death benefits are one of the main advantages of drawdown over annuities and the new rules will simplify these, but not to everyone's advantage. A new 55% tax charge will apply to lump sum death benefits from drawdown funds regardless of age, which is an improvement on the current 82% for over-75s, but a step backward for under-75s where the charge is currently 35%. Funds not used for drawdown or annuity will continue to have no tax charge on death before 75, and subject to the 55% flat rate after 75.

Most pension funds are exempt from 40% IHT, however, the new 55% charge will mean that IHT should be considered as well as pension tax efficiency. Funds being passed to a spouse on death to provide income will continue to be free of any tax charge.

hick and fast

2. New pension funding limit

The annual limit set by HMRC on pension contributions, known as the Annual Allowance, is being reduced from £255,000 to £50,000 from April 2011. The maximum annual pension contribution, including any employer contributions, will be the lower of £50,000 or 100% of earnings. £3,600 will remain as the maximum for non-earners. This change itself is unlikely to affect many pension savers but, for those who are already making large contributions, or who intend to do so, some planning is likely to be required. Unused annual allowances from up to three previous years can be carried forward, which will allow some scope for larger contributions. For those earning over £130,000 and already subject to a 'Special Annual Allowance', this simplification is much needed.

In addition, the Lifetime Allowance (i.e. maximum lifetime pension benefits) will reduce from £1.8 million to £1.5 million, although transitional arrangements will be in place for those who are likely to exceed this limit.

3. Changes to state pension

The state pension age (SPA) will rise from 65 to 66 by April 2020, with the rise being phased in from December 2018. This has been brought forward by the government as part of its cost-cutting measures and means anyone born on or after 6 December 1953 will have a state pension age higher than age 65, while for anyone born on or after 6 April 1954 it will be 66.

To date there has been no announcement about raising the SPA for younger ages. Under current legislation, the SPA for men and women is increasing to 67 between April 2034 to April 2036 and to 68 between April 2044 and April 2046.

As current proposals stand, State Second Pension (S2P) will start to become a simple top-up to the Basic State Pension (BSP), rather than based on earnings, sometime between 2012 and 2015. It is expected that all S2P contributions will be on a flat-rate basis by around 2030. These changes are intended to make it easier to understand how state pension is worked out and estimate how much you can receive, but will inevitably mean middle to higher earners will have reduced state pension benefits.

As part of these changes, it appears the government may also consider further simplification by merging BSP and S2P to provide a single pension of about £140 a week. Full details are still unknown, but would be likely to apply to future, rather than current, pensioners. This would simplify the current state pension arrangements and reduce the means-testing that sees millions of poorer pensioners relying on income-related top-ups in old age.

be the case in future, its immediate effect will be to reduce future pension benefits for many public sector employees. Company pension schemes will have the option to make this switch, depending on their scheme rules. BT's pension scheme has been the most high profile example of such a switch. BT estimates its pension fund deficit could be reduced by £2.9bn by adopting the CPI.

Early access to pension lump sums: The Government is consulting on how to give people early access to part of their private pension funds. The aim is to allow more flexible access to pension savings, one of the main barriers to pension saving. The Government paper sets out four models of how early access could work:

- *A loan allowing individuals to borrow from their pension fund.*
- *Permanent withdrawal, allowing access to funds without repayment obligations – possibly in limited circumstances, such as hardship or for house purchase.*
- *Unconditional early access to the 25% tax-free lump sum, which is currently only available from age 55.*
- *An overall tax efficient savings 'wrapper' that would create a more flexible savings product to include ISAs and pension savings together into a single account.*

End of Contracting Out: From 6 April 2012 the Government is to end contracting-out of the State Second Pension (S2P) for all except final salary pension schemes. In future S2P will become a flat rate top up to the Basic State Pension. For personal pensions and Self Invested Personal Pensions that hold Protected and Non-Protected Rights, this will mean there will be no further separation of the two parts for income or death benefit purposes, and these phrases will disappear from pension terminology.

End of forced retirement at 65: Automatic retirement at age 65 will end this year following the Government's proposals to scrap the default retirement age from October 2011. Rather than 'forced retirement' at 65, employees will be able to work past 65, a necessary step given the proposed increase to state pension age, and a welcome one for many prospective pensioners wanting to supplement their retirement income.

Conclusion

Considering your options? – What it means for you.

The above proposals could potentially affect retirement plans already in place, especially for those already using income drawdown, as well as any future retirement planning. Many of these measures are complex and could well impact other aspects of your financial planning. For further information on how these changes may affect you, please contact your usual Lowes' Consultant, or call 0191 281 8811.

INFLATION

Can your savings beat inflation?

ANNUAL INFLATION ROSE AGAIN IN NOVEMBER, and is now well ahead of the Bank of England target of 2%, posing a serious challenge to your savings.

For November, the Consumer Prices Index (CPI) – the Government's target measure – was 3.3%, up from 3.2% in October, while the Retail Prices Index (RPI) was 4.7%, up from 4.5% in October. The key difference between the two measures is that while RPI includes housing costs, CPI excludes them. Both CPI and RPI inflation are expected to rise further, with energy bills rising and the 2.5% increase in VAT to 20% on 4 January.

As well as driving up prices, inflation reduces the value of your savings, especially when the interest paid on deposit accounts is as low as now. Taking CPI inflation, basic rate taxpayers would need to earn 4.13% interest for their savings to retain their value, rising to 5.51% for a higher rate taxpayer. Unfortunately, there are few, if any, deposit accounts available at the current time that promise such returns. So, what are the alternatives?

One option is to consider other investments that pay income. The key issue here, of course, is that while your capital is guaranteed with deposit accounts, investments carry a degree of risk for your capital, and higher returns are usually associated with higher risk. The table below illustrates the returns offered by the best and worst funds in four popular investment management sectors in 2010.

Fund sector	Best return	Worst return
UK All Companies sector	30.0%	1.3%
Cautious Managed sector	14.2%	1.9%
UK Equity Income sector	30.6%	4.4%
Sterling Corporate Bond sector	16.2%	3.1%

Source: www.trustnet.com

However, there are other products in the market that provide a degree of capital protection in the event of investment markets falling. These may not offer the same potential rewards as investments directly exposed to the markets but, for cautious investors, they offer considerable peace of mind. Again, though, it is important to select the right investments. A recent innovation designed to provide inflation beating income for those prepared to accept a degree of risk, is the Jubilee Inflation Income Plan outlined on page 8.

■ ***For information and advice on choosing investments which offer the potential to beat inflation, contact your usual Lowes' Consultant or call us on 0191 281 8811.***

Calculate your own inflation

The impact of inflation on your own situation can differ dramatically from what the official figures might suggest. This is because your own personal rate of inflation depends on how you spend your money. To enable you to calculate how inflation affects you, we would refer you to the BBC Personal Inflation Calculator, which was developed by the Office for National Statistics and is accessible via ***www.bbc.co.uk***.

INVESTMENT

Have you made use of your ISA allowances?

TAX-EFFICIENT ISAS SHOULD NORMALLY PLAY A KEY ROLE in your investment portfolio, so it is important to ensure that you have made the maximum possible use of your annual ISA allowances.

Last year the ISA structure was simplified with the removal of the distinction between Mini and Maxi ISAs. Now, the only distinction is between a Cash ISA and a Stocks & Shares ISA.

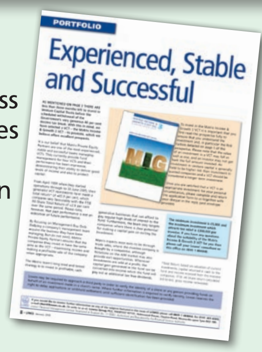
- The current limit for a Cash ISA is £5,100 and £10,200 for a Stocks & Shares ISA. The overall combined ISA allowance this year is £10,200. The deadline to use your 2010/2011 allowances is 5 April 2011.
- You can transfer money from your existing Cash ISA to a Stocks & Shares ISA without affecting your annual allowance or the tax status of the investment but, once transferred, it is not possible to shift these funds back into a Cash ISA.
- Your ISA can be linked to the performance of any underlying index, and be constructed to incorporate protection to insulate against stockmarket falls.
- Your Stocks & Shares component can include UK and foreign equities, UK funds including unit trusts and OEICS, gilts and corporate bonds, and funds investing in emerging markets.

■ ***For more information on ISAs, please contact your usual Lowes' Consultant, or call us on 0191 281 8811.***

5 YEARS AGO

How did it perform?

– The Matrix Income & Growth 3 Venture Capital Trust (VCT)


PORTFOLIO
Experienced, Stable and Successful

In our ongoing series examining the progress of investment products we featured in Lowes Magazine five years ago, we report on the Matrix Income & Growth 3 VCT, promoted in the January 2006 issue.

At that time, VCTs offered a very generous 40% Income Tax break which was available even to basic rate taxpayers. By focusing on companies bought out by their management and subsequently sold at a profit, this VCT aimed to provide a reasonably stable income, at that time estimated to be around 7%, with the potential for some capital growth.

So, how has it performed to date?

Matrix Income & Growth 3 was merged into the original Matrix Income & Growth on 20 May 2010. Consequently, an adjustment was needed to counter the price disparity, with the Matrix Income & Growth 3 shareholders receiving 1.065554 shares for every share they held.

A £10,000 investment will have resulted in initial tax relief of £4,000, generated tax free dividends over the five years of £955, and would realise approximately £8,737 if sold at the current bid price. Whilst this amounts to a total return including tax relief of £13,692, we are disappointed with the performance of the investment itself as all of this gain is attributable to the tax relief.

Growth & Inflation: What will rise the fastest in 2011?

THIS YEAR, OUR COMPETITION IS ABOUT INFLATION and what will rise the fastest in 2011. Will it be a litre of unleaded petrol, a pint of milk, a loaf of sliced white bread, or a pint of bitter?

We would like you to take a look at the attached competition card and predict what you think the price of each item will be at the end of November 2011. To help you, below we show the average price of each item in November for the past four years as used by the Office of National Statistics in the official inflation basket.

Just tear off the competition card (between pages 6 and 7), complete it and then return it to us. The winner will receive six bubbling bottles of Moët Champagne! Waste no time! Make sure your entries are at our offices by 5pm on Friday 25 February.

Item	Nov 2010	Nov 2009	Nov 2008	Nov 2007
Litre of unleaded petrol	119p	108p	95p	101p
800g sliced white loaf	122p	121p	126p	95p
Pint of milk	45p	44p	45p	39p
Pint of bitter	261p	250p	242p	231p

Source: Office of National Statistics

MARKET COMMENT

BRICS to build a rounded portfolio

By Melvyn Bell, Lowes' Investment Manager.

IN NOVEMBER 2001, GOLDMAN SACHS ECONOMIST, Jim O'Neill, introduced the world to the acronym BRIC.

O'Neill believed the global economic balance was about to experience a major shift as a result of the emergence of Brazil, Russia, India and China as major economic powers. O'Neill has proved to be remarkably accurate, as the BRIC economies have moved from being dependent on the western economies for their growth, to a position where the West is looking to them to sustain the global recovery.

This change has not gone unnoticed by investors, and the BRIC equity markets have significantly outperformed those of the western developed economies. According to Morgan Stanley Capital International, in the five years to the end of September, the annualised returns in pounds Sterling of the four BRIC equity markets were: Brazil 25.01%, China 23.04%, India 21.92%, with only Russia proving a disappointment at 4.4%. However, Russia's performance was superior to the major western economies, with the US equity market showing 2.52% annualised growth, the UK 3.86% and the Eurozone 4.05%.

The question now being asked is "can this relative outperformance be maintained?". Two of the world's largest investment banks, Nomura and Barclays Capital, believe the answer is "no" and tip the US and UK to stage strong recoveries in 2011, making them more attractive than their emerging peers.

A supporter of this view is Angus Tulloch, the joint managing partner of First State Asia Pacific & Global Emerging Markets. On 16 December he said: "We are currently finding the most attractive investment opportunities often to be listed in developed markets, but with much of their economic exposure being in the developing world." The Bank of England reinforced this view in its December Financial Stability Report: "While there are some signs of overheating in emerging Asia and Latin America, equities in the US and the euro area appear to be potentially undervalued. On the basis of country-specific price to earnings ratios, some emerging market economies' stockmarkets appear overvalued."

As an indicator of this overvaluation, the Bank cited Thomson Reuters' Data which suggested that Indian equity prices relative to earnings were 35% above their historic average, with China's almost 30% higher, and Brazil's about 10% up. Only Russian equity prices were below their historic average.

This suggests some caution, but it doesn't invalidate the case for adding BRIC funds to a global portfolio, as the apparent overvaluation is partly due to relatively low emerging market valuations at the start of the millennium. Equally, there's no doubt that the BRICs are becoming major players in the global economy. Consequently, we consider the inclusion of funds investing in the world's emerging economies is a key component of a diversified portfolio. However, we'd warn against attempting to significantly overweight funds investing directly into stocks listed in the BRIC markets when there are opportunities at lower valuations closer to home.

A hedge against inflation

IN OUR VIEW, RISING INFLATION REPRESENTS ONE OF THE biggest threats to most UK households, and we believe that the latest offer from Jubilee Financial Products LLP represents an attractive proposition, which could prove to be an exceptional investment to provide some protection against it.

The Jubilee Inflation Income Plan is a 6-year investment that will provide investors with an income equivalent to 2% plus the previous year's increase in the Retail Price Index (RPI). Income is paid monthly and a full return of capital will be achieved, provided the counterparty remains solvent and the FTSE 100 Index does not fall by 50% or more and fail to recover by the maturity date.

The RPI is the traditional measure of inflation, but this was replaced by the Consumer Prices Index (CPI) as the Government's chosen measure in 2003. As CPI is usually lower than RPI, we are pleased that the plan is linked to the latter. At the time of writing, the previous 12 months has seen the latter rise 4.7%, whereas CPI has risen 3.3%.

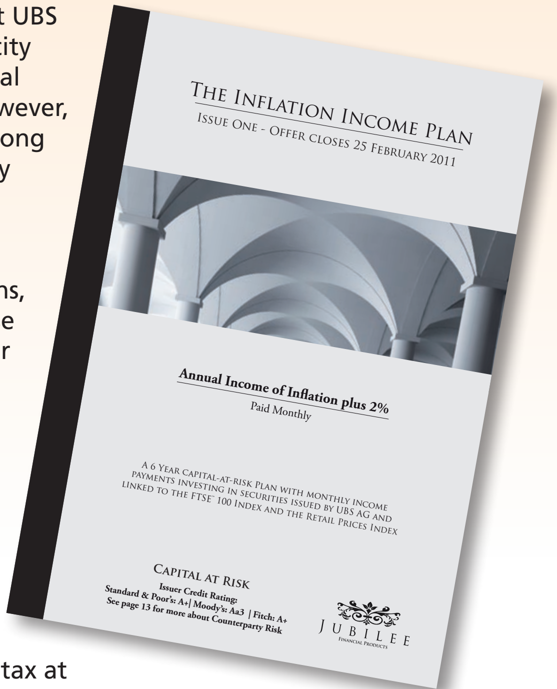
The first monthly income payment under the Inflation Linked Income Plan will be on 4 April and will be calculated as one twelfth of the sum of 2% plus the change in RPI for the year to January 2011. The income will be adjusted in April each year to reflect the change in RPI over the previous year to January. If RPI were to fall below zero, investors will still receive a minimum income payment of 2% per annum, therefore, investors will always receive a 'real' return above inflation.

In addition to income, the plan is designed to return the original capital in full at maturity, provided the FTSE 100 Index does not close at a level 50% or more below the Initial Index Level (the closing level recorded on 11 March 2011) on any day during the investment term and fail to recover by the maturity date.

Therefore, if the Final Index Level (the closing level of the Index on 11 March 2017) is at or above the Initial Index Level, the original capital should be returned in full. Likewise, if the Final Index Level is below the Initial Index Level, the original capital should still be returned in full, provided the Index does not close at a level 50% or more below the Initial Index Level on any day during the contract term.

If, however, a 50% fall in the Index does occur and the Final Index Level is below the Initial Index Level, then the original investment capital will suffer a reduction at the rate of 1% for every 1% the Final Index Level is below the Initial Index Level. For example, if the Index falls by more than 50% during the term and finishes 20% lower than its initial level, the original capital investment will suffer a loss of 20%.

The counterparty to this investment is the second largest asset management firm in the world, Swiss-based UBS AG, which can trace its history back to 1854. UBS provides investment banking, asset and wealth management services, and currently manages around £1.5 trillion. Leading credit rating agencies Standard and Poor's and Fitch have given UBS AG credit ratings of A+, while Moody's rates them as Aa3. Whilst these ratings provide no guarantee, they indicate the rating agencies view that UBS has a strong capacity to meet its financial commitments. However, no matter how strong the institution may seem, it must be appreciated that if UBS is unable to meet its obligations, investors could lose some or all of their capital.



The Inflation Income Plan
Issue One - Offer closes 25 February 2011

Annual Income of Inflation plus 2%
Paid Monthly

A 6 Year capital-at-risk plan with monthly income payments investing in securities issued by UBS AG and linked to the FTSE 100 Index and the Retail Prices Index

Capital at Risk
Issuer Credit Rating:
Standard & Poor's: A+ | Moody's: Aa3 | Fitch: A+
See page 13 for more about Counterparty Risk

JUBILEE
Financial Products

Under current legislation, where the investment is held outside of a tax shelter, such as an ISA, the income will be paid gross but subject to income tax at the investor's marginal rate.

As it is designed to provide an attractive hedge against inflation, this investment may prove to be a valuable addition to many portfolios, or an alternative to deposits. However, like most investments, it is only suitable for those prepared to expose their capital to a degree of risk and accept the consequences of these risks resulting in the worst outcome. The investment is designed to be held for the full six years and, whilst it can be encashed early, this could give rise to a loss even if the FTSE Index is higher.

How to invest

THE MINIMUM INVESTMENT IS £10,000 AND investments may be made directly, via an ISA or ISA transfer, or though a Self Invested Personal Pension.

It is important that you read carefully the investment literature, which gives full details the contract and the risks, to which you should pay particular attention. If you have any doubts about the suitability of any investment for you, please contact this office or your usual Lowes' Consultant. We are required to point out that we cannot be held liable if the investment is applied for in the absence of a personal recommendation and you subsequently decide that it was not suitable for you.

■ ***If you are happy to proceed without advice, please complete the enclosed application form and return it to our office in the pre-paid envelope. If you have any questions, please contact us on 0191 281 8811.***