LOWES

Where personal finances are cared for personally

The Good Advice Awards 2009
Encouraging excellence in financial advice
moneyfacts.co.uk
WINNER
Best Tax and Estate Planner

Professional Adviser awards 2010
Winner
Best IFA website

Professional Adviser awards 2010
Highly Commended
Education

Spring 2010

"What we see depends mainly on what we look for."

John Lubbock

INSIDE: PAYING TO PERFORM?

INSIDE TRACK

Lowes wins 'Best IFA Website' award

LOWES.CO.UK HAS BEEN CREDITED AS THE BEST INDEPENDENT Financial Adviser website in the 2010 Professional Adviser magazine awards.

We were also highly commended in the Financial Education Award due to the quality of our client magazine, our Structured Product Review service, and our educational programme of financial planning seminars.

We are also pleased to announce that we made the shortlist of six companies nominated for the recent Money Marketing magazine award for IFA of the Year.

Our website is produced and maintained by our in-house IT team. It offers access to a substantial client magazine archive, tax tables, details of forthcoming seminars, an extensive, secure client portfolio valuation and reporting service, and our client survey results.

One area that makes our website stand out from the crowd is the Structured Product Review Service. Since we first published our document: 'The Truth Behind Those High Yield Stockmarket Bonds' in August 2000, the service has helped steer investors away from several investments that have proved disastrous.

The service now offers access to an extensive archive of products, a database of most new plans launched, plus indications of which plans we prefer and why.

Managing Director, Ian Lowes, said: "While we're pleased to have been shortlisted in Money Marketing's IFA of the Year award, and highly commended in Professional Adviser's Financial Education category, we are delighted to have won the Best Website award. We aim to provide a service that exceeds client expectations and, whilst we are not the largest firm of Independent Financial Advisers in the country, we believe we are one of the best qualified and so very well equipped to provide superior quality advice."

Lowes faces the music

LOWES FINANCIAL MANAGEMENT IS ONE OF THE PROUD LEAD SPONSORS of Orchestra North East. Formerly known as the Durham Sinfonia, Orchestra North East is a registered charity which for 20 years has been performing some of the most famous classical pieces with some the most renowned conductors and soloists in the UK.

The Orchestra's next concert features soloist Emma Johnson MBE and conductor Tim Reynish and will be at The Sage Gateshead on Sunday 13 June at 7.30pm. Lowes has an allocation of complementary tickets and if you would like to be entered into a prize draw to win a pair, please call 0191 281 8811, or email: enquiry@lowes.co.uk quoting your name and address.

Our cover shot: Big Ben by night.
John Wang / Photodisc Collection / Getty Images.

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	1.9%	Branch
Postal or Telephone				
£1+	Sainsbury's Bank	Easy Saver	2.5%	Call 0500 40 50 60[1]
£1,000+	Stroud & Swindon Building Society	Postal Account	2.25%	www.stoudandswindon.co.uk[2]
Internet				
£1+	Barnsley Building Society	Online Saver	2.5%	www.barnsley-bs.co.uk[3]

Note 1: Bonus applied for 12 months. After 12 months the rate will revert to the standard Easy Saver interest rate, which is currently 0.5%. Maximum of 5 withdrawals permitted each year.
Note 2: Minimum deposit/withdrawal £100. Rate guaranteed to be at least 0.25% above the Bank of England base rate until 30 September 2010.
Note 3: Yorkshire Building Society is the underlying deposit taker for this account.
Sources: Providers' websites: www.thisismoney.co.uk, www.moneyextra.com, www.moneysupermarket.com, www.moneyfacts.co.uk (14/4/2010). All accounts subject to terms and conditions

Election Budget... but little else

PERHAPS NOT SURPRISINGLY, there was little excitement in the last Budget before the 2010 General Election, but there are several points to note:

Inheritance Tax - Nil Rate Band

The 2009 Pre-Budget Report announced that the Inheritance Tax (IHT) nil rate band will be frozen at its current level of £325,000 in 2010/11. Budget 2010 announced that the threshold freeze will now be extended until 2014/15.

Planning point: Clients should be aware that rising asset values could potentially increase their IHT liability.

ISA limits

From 6 April 2010, the ISA limits for all savers increased to £10,200, of which up to £5,100 can be saved in cash.

From 6 April 2011, and annually thereafter, ISA limits will be indexed in line with the Retail Prices Index (RPI). Each September's RPI figure will be used to set the ISA limits for the following tax year. The ISA limits will be rounded each year to the nearest multiple of £120 to enable savers to plan monthly saving more easily.

Planning point: Clients should always ensure that they maximise their ISA savings.

Personal allowances

The personal allowances will remain at their 2009-10 amounts.

From 2010-11 the amount of the personal allowance will be gradually withdrawn for all individuals (regardless of age) with 'adjusted net incomes' above £100,000. The rate of reduction is £1 for every £2 above the income limit, so the personal allowance is effectively lost when earnings equal £112,950.

From 2010-11 the additional rate of 50 per cent will apply to taxable income above £150,000.

Planning point: Contributing to a pension can reduce 'adjusted net income'.

Pensions tax relief

For people with income of £150,000 or over, but below £180,000, tax relief on pension contributions (including the value of employer contributions for those in employment) will reduce gradually from the marginal rate to the basic rate of Income Tax as income increases. Where income is £180,000 or over, tax relief on pension contributions will be restricted to the basic rate.

Planning point: Some pension planning is available, but care must be taken to ensure maximum tax relief for your circumstances.

2012 end for contracting out

CONTRACTING-OUT OF THE second state pension (S2P) under defined contribution pension schemes is to be abolished from 6 April 2012.

For those who are contracted-out through a personal or stakeholder pension, no further National Insurance rebates will be paid to their scheme after the one for the 2011/12 tax year, while those people in contracted-out employer money purchase schemes will start to pay higher National Insurance contributions from April 2012 onwards.

COMMENT

A cause for complaint

NEWS THAT A 'SUPER COMPLAINT' ABOUT the low rates paid on existing cash ISA accounts held by banks and building societies has been made to the Office of Fair Trading is long overdue. ISAs were launched to promote long-term savings and, in return, the government allows savers to take accumulated growth or draw down the income, free of all taxes. Sadly, it appears that this tax break is now all that many cash ISAs have in their favour.

When you realise your return is poor and try to switch to another provider offering a better return, it can take weeks for the transaction to be carried out. In a recent survey carried out by Consumer Focus, the group behind the 'super complaint', a third of people said switching their cash ISAs took longer than five weeks, while only one in 10 transferred in less than two weeks. Apparently, the Financial Ombudsman Service is receiving around 10 complaints a week about cash ISAs, mainly on the issue of transfer delays. Guidelines from HM Revenue & Customs state that such transfers should be carried out within 30 days.

Aside from complicated rate structures, with hard to understand penalties and conditions, one of the key factors the banks and building societies rely on most is customer inertia. They know that, once the money is deposited, large volumes of customers fail to check the ongoing rate or simply can't put up with the hassle of transferring to another account. The banks actually refer to this as 'stickiness'.

In response to this, the British Bankers' Association has now announced that, from May, customers will be given advanced notification of any material reduction in the interest rates on cash ISAs, plus advance notice of the end of any bonus or introductory rates. This has been a long time in coming.

For the past several years in the Spring issue of Lowes magazine we have urged our clients to take a look at the rates they are being paid on their existing accounts. We welcome any news that informs clients of their true position (see page 6 of this issue).

However, you don't have to wait until May. Any client who would like an up to date review of the rates being paid on existing cash ISA accounts and the alternatives available should simply call their Lowes' Consultant, or ask for our Technical Department who will be pleased to help.

Ian H Lowes,
Managing Director

If you would like to receive further information on any of the subjects featured in this issue of **LOWES** please call: **0191 281 8811**, fax: **0191 281 8365**, e-mail: **client@lowes.co.uk**, or write to us at: **Lowes Group PLC**, FREEPOST NT197, Holmwood House, Clayton Road, Newcastle upon Tyne NE2 1BR. Lowes® Financial Management Limited. Registered in England No: 1115681. Authorised and Regulated by the Financial Services Authority.

Paying extra for performance?

Are performance fees for the benefit of investors or fund managers? Lowes' Senior Technician Barry O'Sullivan investigates

A GROWING NUMBER OF investment managers are introducing performance fees on their funds.

They argue that such charges reward the skill of individual fund managers and encourage them to move away from the relative safety of targeting. However, critics of performance fees say they encourage risk-taking, or are simply a ploy to boost profits at the expense of the investor.

Performance fees are contingent charges that are levied if a fund outperforms a specified benchmark or 'hurdle rate' and they are charged in addition to a fund's annual management fee.

Climate change can be damaging, but so can some fund charges ...

To illustrate how they work, Ed Moisson, head of consulting at the fund performance specialist Lipper, takes the example of a commonly quoted fee structure for a hedge fund which is '2 and 20', and which reflects the types of fees being introduced on ordinary retail investment funds. He says[1]: "This is the shorthand for a 2 per cent annual management fee and an additional 20 per cent fee charged on gains that the fund achieves. For example, if a manager generates performance of 15 per cent over one year, then the fund will garner an additional 2.6 per cent in performance-related fees, bringing total management and performance fees to 4.6 per cent for the year. In this way the fund investor will receive a one year return of 10.4 per cent."

Moisson says that one of the big drawbacks claimed for performance fees is that the way some are structured can mean that a manager is rewarded almost regardless of performance. In his recent report, 'Fee fi fo fum. Can investors smell fund managers' blood - or vice-versa?' he says: "On the basis that virtually all performance fees in Europe only have an upside (i.e. there is not an equivalent fee deduction when a fund underperforms) concerns remain that there is a lack of investor understanding surrounding performance fees."

Let's take some examples of actual funds with performance fees.

- The Virgin Climate Change fund which was launched in January 2008 claims to invest in the shares of environmentally aware companies. However, it not only has an annual management charge of 1.75 per cent, but also imposes an additional 20 per cent performance fee if its gains exceed Bank of England base rate. Currently, base rate stands at only 0.5 per cent.
- Two other managers which recently introduced performance charges are Scottish Widows and Jupiter. The former's new Multi-Manager Optimal Multi-Asset fund has a basic annual management charge of 1.35 per cent and a performance charge 15 per cent of profits if it exceeds its target return of Libor (the interest rate at which banks lend to each other) plus 6 per cent.
- Jupiter's Absolute Return and International Financials funds also have 15 per cent performance fees on top of their annual charges of 1.25 per cent. Performance fees will be charged on the Absolute Return fund if returns exceed Libor, and on the International Financials fund if the manager outperforms the FTSE Global Financials Index.

- The most recent and widely reported example of performance charges comes from Fidelity. The new Fidelity China Special Situations investment trust, to be managed by the leading manager Anthony Bolton, will carry a performance fee of 15 per cent of any outperformance of its Net Asset Value (NAV) over the MSCI China Index plus a hurdle rate of 2 per cent. There will also be a performance fee payable in any one year equal to 1.5 per cent of NAV and any outperformance above this cap will be carried forward. However, if the fund underperforms the hurdle rate in any year, this underperformance must be made good before any further performance fees becomes payable.

Of these examples, it is the Virgin fund that stands out simply because the hurdle before the performance fee is payable doesn't seem at all difficult to beat. While base rates were higher when the fund was launched, the fund's performance to date hasn't exactly been wonderful, although it is open to question whether it is the performance fee that is responsible. However, when you compare it to its peers it isn't particularly impressive. For instance, according to Hindsight/Lipper, for the period between the 18 January 2008 (when the Virgin Fund was launched) and 16 March 2010, the Virgin Climate Change fund fell by 29.1 per cent[2]. By comparison, the Schroder Global Climate Change Fund (which we promoted in the Autumn 2007 issue of Lowes magazine) rose by 15.2 per cent[2] over the same period. The standard annual management charge for the Virgin fund of 1.75 per cent compares to 1.5 per cent for the Schroder fund, which doesn't have a performance fee.

Performance fees on retail funds have a relatively short history in Britain. It was not until April 2004 that the Financial Services Authority lifted its ban on the use of such charges by funds such as unit trusts and Oeics. Before this, unit trusts and Oeics managed in the UK could only simulate a performance fee by reducing their management charges. Since then, there has been a steady trickle of new funds, but more recently there has been a noticeable increase in these fees.

The problem for investors – and possibly some advisers too – is that the performance fees can be very complicated, with the result that their full impact may not be immediately or fully obvious.

However, their impact can be very substantial indeed. For example, if a fund has a performance fee of 20 per cent of all returns and its value rises by 30 per cent over one year, then the performance fee charged for that year will be 5.7 per cent. In another scenario, if a fund only has to outperform an index and that index is falling, then it may generate performance fees when investors are actually losing money.

Notes:
[1] Ed Moisson: 'Fee fi fo fum'. Can Investors smell fund managers' blood – or vice-versa?
[2] Total return with income reinvested at payment date.

5 YEARS AGO

How did it perform?
– The Stellar Portfolio

PORTFOLIO

A Stellar investment opportunity

THE SECRET OF SUCCESSFUL equity investment is to spread your risks by investing in a balanced portfolio of funds and this is precisely why we have constructed the Stellar Portfolio.

What's more, to give you maximum flexibility and convenience, every investment in the Stellar Portfolio is contained in a 'wrapper' provided by Cofunds. This mean simplified paperwork and enables you to obtain a valuation at any time via the Lowes website, **www.lowes.co.uk**, as well as receiving regular valuations by post.

A further key advantage relates to ISA investments. Normally, you can only invest in the funds of one fund manager in any one tax year. But thanks to the Cofunds 'wrapper', you can invest your ISA in funds offered by different fund managers – so increasing investment diversity!

Full details of the benefits of the Cofunds wrapper are detailed below.

12 month discrete portfolio performance: Total return net income reinvested at payment date		
1/4/2002 to 31/3/2003	1/4/2003 to 31/3/2004	1/4/2004 to 31/3/2005
-19.73%	35.94%	13.81%

The funds and discounts

Stellar's underlying funds are managed by two of the UK's leading fund managers, Jupiter Asset Management and New Star Asset Management.

In terms of risk, we rate the Stellar Portfolio as 'medium' because its volatility approximates to the average volatility of all UK authorised OEIC and Unit Trust funds. Details of these excellent fund managers are contained in the accompanying literature.

To ensure that as much as possible of your money is invested, we have negotiated discounts with the fund managers for all investments in the Stellar Portfolio. Full details are contained in the accompanying literature which also gives the instructions on how to invest.

Important: It is important to appreciate that past performance is not a guide to the future and may not be repeated. The value of the investment will fluctuate and you may get back less than you invested. The Stellar portfolio should not be considered suitable as a short term investment and is designed to be held for the medium to long-term (at least five years). Please ensure you understand how the investment product is taxed and how this may affect your personal tax position. If you have any doubts about the suitability of this investment, or if there is any aspect you do not understand, then please contact your Lowes Consultant or the office on 0845 1484848.

The Cofunds service

– Convenience and now at the click of a mouse!

THE COFUNDS WRAPPER SERVICE offers you a number of benefits and greater convenience.

What's more, you pay no extra charges to use this valuable service – it is paid for entirely by the fund managers.

The main benefits to you include:
- You keep your investments in one place – making it easier to monitor and analyse them.
- You have an expanded choice of ISA funds. Normally you would only be able to have an ISA with one fund manager in any one tax year. In contrast, the Cofunds service allows you to hold a portfolio in your ISA which invests with two or more fund managers.
- You can use the Lowes website – **www.lowes.co.uk** – to obtain a valuation of your investment portfolio at any time. Fund values are updated daily.
- There is a significant reduction in the complexity and amount of paperwork you have to deal with.
- You receive consolidated valuation reports and tax vouchers covering all your holdings.

8 • LOWES Spring 2005

IN OUR ONGOING SERIES EXAMINING progress of investment products we featured in Lowes Magazine five years ago, we report on the Stellar Portfolio which we promoted in the Spring 2005 issue.

This product comprises a range of underlying funds managed by two of the UK's leading fund managers, Jupiter Asset Management and New Star Asset Management.

In terms of risk, we rated the Stellar Portfolio as 'medium' because its volatility approximated to the average volatility of all UK authorised Oeic and unit trust funds. To ensure that as much of your money was invested as possible, we negotiated discounts with the fund managers for all investments in the portfolio.

So, how has the Stellar Portfolio performed to date?

As far as the five year portfolio performance goes, the Stellar Portfolio has increased in value by 25.17 per cent*. This compares to a rise in the IMA Balanced Managed Index of 32.67 per cent* and a rise in the FTSE 100 of 15.58 per cent.

*Source: Lipper/Hindsight, total return income reinvested at payment date.

ADVICE

Advice crucial when selecting corporate bonds

IN FEBRUARY THE LONDON STOCK EXCHANGE (LSE) launched a trading platform aimed at retail investors wanting to invest in UK government and corporate bonds.

The new initiative is modelled on the Italian stock market's MOT platform which, with €230 billion worth of trading in 2009, is Europe's largest retail fixed income market. The LSE platform, (the Order book for Retail Bonds) offers access to the corporate bonds of 19 companies and 50 types of UK government gilts, but the choice is gradually expanding. Corporate bonds are currently available from Marks & Spencer, Tesco, Safeway, BT, National Grid, GlaxoSmithKline, Morgan Stanley, GE Capital, and Enterprise Inns.

At present most UK companies issue bonds in lots of £50,000 targeted at institutions, but the LSE hopes the launch will encourage them in smaller retail-friendly amounts, as in France, Germany and Italy.

Lowes welcomes the LSE initiative, but we would advise private investors to seek professional advice before purchasing. These investments are riskier than deposit accounts and, in our view, it is important to use this asset class as part of a balanced and diversified portfolio of investments. For more information on corporate and government bonds, please contact your usual Lowes' Consultant, or call 0191 281 8811.

CASH ISAs

Beware poor rates on cash ISAs

Independent consumer watchdog Consumer Focus has submitted a 'super-complaint' to the Office of Fair Trading after it found people with cash ISAs could be missing out on £3 billion a year in interest. It says banks and building societies promote attractive headline rates on cash ISAs only to drop them to derisory amounts a short time later.

For readers seeking the best rates for new cash ISAs taken out in the 2010/2011 financial year and on money in existing cash ISAs, we have found some examples of cash ISAs currently offering the best rates. By way of comparision we show some paying the worst rates.

The cash ISAs that have proven most popular with us and our clients over the last year or so are 'structured deposits' that involve forgoing the low interest that would ordinarily be earned. In return, they offer the potential to earn a much higher rate, provided the FTSE 100 is higher on a plan anniversary. For more information about this type of investment, please contact your usual Lowes' Consultant, or this office on 0191 281 8811.

Some of the worst paying Cash ISAs

Provider	Rate
Newcastle BS Nova ISA Direct	0.01% paid yearly on £100+.
Barclays Bank Cash ISA	0.1% paid yearly on £1+.
Halifax ISA Saver	0.10% Yearly on £1+.
Alliance & Leicester Branch Cash ISA	0.10% paid yearly on £1+.
Santander Easy ISA	0.10% paid yearly on £1+.
Virgin Money Virgin Cash ISA	0.1% paid on anniversary on £1+.
Nationwide BS Instant Access ISA	0.25% paid yearly on £100+.

Selection of some current top paying Cash ISAs

Provider	Rate
Santander Flexible ISA Instant	Bank of England Base Rate, currently 0.5%, plus a bonus of 2.7% for 12 months, paid on £1+.
Standard Life Cash Savings Select Freestyle ISA	2.65% variable paid on anniversary on £1+.
Barclays Bank Golden ISA Issue 2	2.1% paid monthly, plus 1% bonus for 12 months, paid on £1+.
Newcastle BS Reward Saver ISA	2% paid on anniversary, plus 1% bonus for 12 months, paid on £1+. 120 days notice required.
Buckinghamshire BS 180 Day Monthly Income Cash ISA	2.86% for 2 years paid monthly on £100+. 180 days notice required.

Source: Moneyfacts and provider websites.

PENSIONS

Old pension plans can be costly

If you have money in a personal pension plan then you could reap rewards by reviewing it to check if you are getting the best value for your money.

A review could reveal good reasons to consider transferring your pension fund into a more modern alternative pension arrangement. For example:

- Plan charging structure: Old style plans may have higher charges as well as a more complicated charging structure. Examples of modern charging structures include 'Percentage' (where the plan carries an annual management charge of typically between 1 and 2.5 per cent) and the 'Fixed Fee', where typical fees are £0 - £250 to set-up fee, plus a £150 - £250 annual fee. Underlying investment funds will have their own annual management charges (AMC), typically of between 1 and 2.5 per cent. However, this type of pension may only be suitable for funds larger than £100,000.
- Investment choice: New style plans may offer a wider range of asset classes, which may enable you to better diversify your fund to help achieve your objectives in respect of risk and return. 'Fund Supermarkets' are also a common feature, each offering many new funds to choose from.
- Charges for underlying funds: New plans may offer access to funds with discounted charges, and also further discounts for larger funds.
- Consolidation: If you have more than one pension policy, it may make sense to consolidate them into a single plan which can simplify monitoring and administration and allow a more cohesive investment strategy.
- Income options: New style plans may be less restrictive when it comes to the range of pension income options – such as income drawdown – when you retire, even if you may not require them immediately.

Some old-style personal pensions carry a bewildering array of charges which make the plan complicated to understand. These can cause a drag on performance and, in some cases, when combined with poor investment performance, can mean little growth, even over periods of 20 years or more.

Examples of some charges in old-style plans:

- Initial charge 5% per contribution (so only 95% of gross monthly contributions invested).
- Additional AMC of 3.5% on 'capital' units.
- Policy fee of £4.47 per month.
- Expense deduction charge of £5.54 per month.
- Return of fund death benefit fee of £7.12 per month.
- Fund switching charge of £51.18 per switch.

■ ***For a thorough review of your existing pension plans, then please contact your usual Lowes' Consultant, or call us on 0191 281 8811.***

COMPETITION

China by a landslide

MANY THANKS TO ALL THOSE clients who have entered our 2010 'Predict the region' competition.

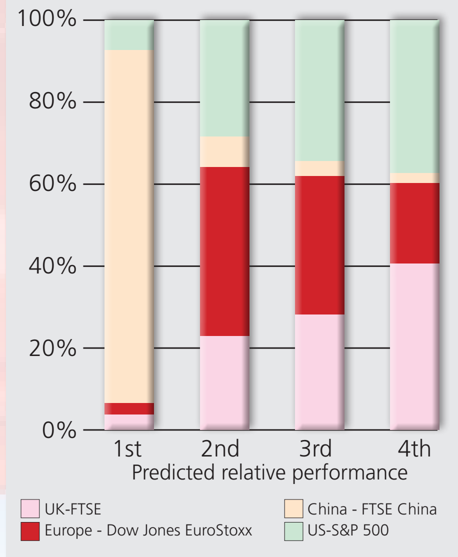
No less than 86 per cent of clients participating in this year's competition believe China will be the top performing region in 2010, while another 7 per cent said it would be the second best performer.

In second place was the US (favourite with 7.7 per cent of clients) followed by the UK (favourite with 3.9 per cent) and Europe (favourite with only 2.6 per cent). However, it was the UK which emerged as the clients' choice as the most likely to end up at the bottom of the pile with 42 per cent of clients believing it will be in 4th place come 31 December 2010 – compared to 35 per cent who thought it would be the US.

The choice of China as top performer perhaps comes as no surprise given that its pace of economic growth seems hardly to have been affected by the global financial crisis.

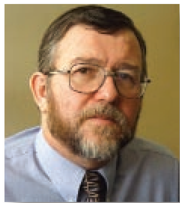
Nor is the apparent pessimism regarding the UK a bolt out of the blue, with its deep indebtedness and the decline of its manufacturing and financial services sectors. Perhaps the only real surprise is the view that the equally heavily indebted US economy will prove resilient enough to outperform Europe, which is being driven by the return of export growth to the economies of Germany and France in particular.

However, first quarter 2010 figures support this faith in the US economy. As of 1 April, the S&P 500 was 12.47 per cent up on the end of 2009, compared to 5.5 per cent for the FTSE 100, 4.65 per cent for the FTSE China and a 0.59 per cent fall for the EuroStoxx 50.



MARKET COMMENT

The legitimacy of difficult decisions



Whoever wins the election the outcome will be belt tightening, says Melvyn Bell, Lowes' Investment Manager ...

AS I WRITE THIS IT HAS JUST BEEN announced that the General Election will take place on 6 May. As such, it's no surprise that Alistair Darling's 24 March Budget was more a statement of how Labour made the right decisions and prevented the economy sinking into depression.

In short, the campaign has started and the result looks likely to be closer than many pundits were predicting. The 22 March YouGov poll highlighted just how close, as the Conservative lead dropped to just 4 per cent, despite polling coming after the Sunday Times' revelations about former Labour ministers touting for lobbyist deals.

Consequently, with the Conservatives believed to require a 9 per cent lead to secure an outright win, the bogeyman of a hung parliament is concerning some investors because it could mean indecisive leadership – a situation many fear will result in the UK losing its 'AAA' credit rating which could drive up gilt yields and make borrowing more expensive.

It doesn't help that this uncertainty comes at a time of conflicting views about how the government – whatever its colour – should react to the huge fiscal challenge. On the one hand business leaders have called for urgent action to cut public spending, with David Kern at the Chambers of Commerce declaring that the UK's credit rating is being put at risk by government indecisiveness. On the other hand, on the 19 February 60 plus top economists signed two open letters to the FT supporting Chancellor Darling's decision to defer spending cuts until 2011, warning that an early end of the stimulus measures could derail economic recovery.

What isn't being questioned is that spending cuts will have to be made at some point and that when they are they will be very painful and politically challenging. Which is why Martin Wolf, the FT's chief economics commentator, recently wrote: "I can see no reason why it would be more difficult to implement the needed tightening under a coalition government. On the contrary, the legitimacy needed to take on the principal opponents of the cuts - the public sector unions - will be far stronger with a more representative government. Greater legitimacy is, after all, why the UK had a coalition government in the second world war."

Whatever the election result, the next few years are likely to be ones of belt tightening for the UK economy, and it would be easy to be pessimistic about the prospects for the UK equity market, especially after the rally of the last 12 months. However, as I pointed out in my last column, the UK equity market comprises companies with earnings from around the globe, many of which lagged the so-called cyclical stocks which rallied strongly when it became clear that the global economy wasn't about to repeat the Great Depression. I would therefore reiterate what I said then: "... that as 2010 progresses we could see investors switch from the cyclical growth stocks that led the market over the last 10 months to stocks like these with globally diversified earnings that offer more security. Consequently, I expect traditional income funds to come to the fore as the year progresses."

An opportunity to seriously consider

It was Jawaharlal Nehru, the first prime minister of India following independence, who said: "The policy of being too cautious is the greatest risk of all."

Perhaps this has never been more relevant than at the present time as it becomes increasingly clear that the dominance of the western developed economies is being steadily eroded by the emergence of China, India, Russia and Brazil as major forces in the global economy.

These countries account for 40 per cent of the world's population and the implications of their emergence is truly global in scale, especially with regard to the demand for natural resources. For example, according to the CIA World Factbook 2009, China was the world's third largest consumer of oil after the US and the EU. Even more strikingly, China is now the world's largest steel producer, accounting for half of global production in 2009 and leading to record demand for iron ore. In response, producers such as Rio Tinto have ended years of tradition by switching the pricing of iron ore supply contracts from an annual to a three monthly basis.

Led by China and other emerging markets, it's therefore hard to refute the long-term case for natural resources stemming from long-term demand. This is largely supported by prodigious urbanisation in emerging markets, with infrastructure spending expected to almost triple from 2008 to 2017 against a background of supply shortages and the escalating cost of extracting good quality raw materials (see Figure 1). This means certain companies will be well placed to benefit from the continuing supply and demand disparities, which indicates a lasting support for commodity prices – the key, as ever, is to be able to spot those companies likely to benefit.

Unfortunately, for many medium and low-risk investors, the commodity markets are deemed out of bounds as they have historically proved to be highly volatile. As a result, many investors err on the side of caution and avoid what is potentially one of the biggest investment opportunities in the history of the global economy. While this is understandable, it excludes them from using a fund which could be a very rewarding investment over the coming decade.

The JP Morgan Natural Resources Fund has one of the longest track records of any current UK authorised fund, let alone a commodity fund, having been launched in 1965 under the title Save & Prosper Commodity Share trust. Its investment objective is to provide capital growth over the long-term by investing in the shares of companies spread across the world which are engaged in the production and marketing of commodities. Typically, the fund includes more than 200 stocks, with the three main asset categories being Gold & Precious Metals, Base Metals (iron ore) and Energy (oil and gas).

In such a cyclical sector it is our firm belief that experience is vitally important, especially in an era when the typical fund manager fund has a tenure of only two and a half years. This fund, however, is one of the few exceptions as it has been managed by the same fund manager since 1992 – Ian Henderson – and its performance record is undoubtedly a key reason for his length of service.

According to Lipper Hindsight, assuming the reinvestment of dividends and net of basic rate tax, £1,000 invested on 30 September 1992 was worth £11,545 on 31 March 2010*. This outstanding performance has resulted in Morning Star qualitative research analysts giving it their top 'Elite' rating and Old Broad Street Research their second highest 'AA' rating.

As Nehru said, the policy of being too cautious is the greatest risk of all. Consequently if you are a low, medium or high risk investor who can live with the near-term risk of this fund, then a small exposure of no more than 5 per cent of your investment portfolio may be worth considering.

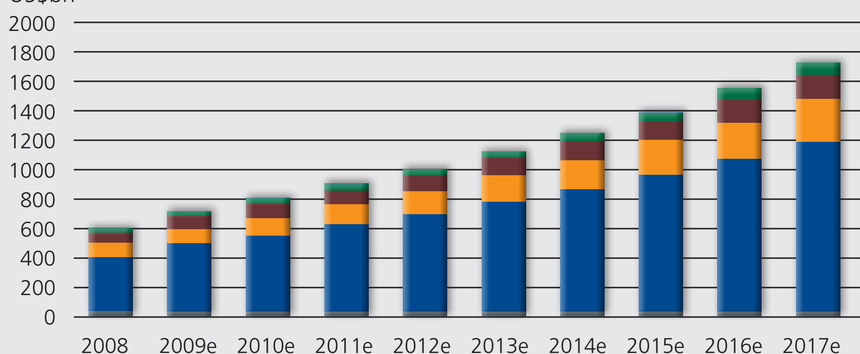
We would welcome the opportunity to discuss the JP Morgan Natural Resources Fund further with you. If you are interested in discussing this fund, or would like to add this to your current Cofunds portfolio, please contact your usual Lowes' Consultant on 0191 281 8811, or email enquiry@Lowes.co.uk.

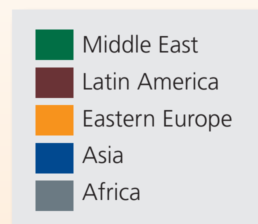
* Please note that the value of investments can fall as well as rise. Past performance is no guarantee of future performance.

Figure 1: Long term demand for commodities is supported by urbanisation

Emerging markets' infrastructure spending

US$bn





Source: Merrill Lynch, 31 December 2008