Autumn 2003

"Learn from the past. Enjoy the present. Build for the future."

Leopold O. Walder Ph.D

INSIDE – Putting your trust in a Trust

Watch the strings

WITH SAVINGS RATES AT THEIR LOWEST FOR more years than many readers will care to remember, savers need to be alert to unpublicised interest rate cuts and the growing number of so-called 'market leading' accounts which come with strings attached.

Under the voluntary Banking Code, in the event of a cut in the Bank of England Base Rate, banks must inform savers in writing only if they cut interest rates 'significantly'; defined as a reduction of 0.5 per cent or more relative to Base Rate in the previous 12 months.

So, if the Base Rate falls by 0.25 per cent, the banks can cut their rates by 0.75 per cent before they have to tell savers directly.

Typical examples of the strings attached to accounts include large short term bonuses tied in to restrictions on withdrawals. If the rules are not strictly adhered to then interest rates can fall dramatically.

Another development is the savings account which aims to compensate for low interest rates with a range of extras, such as free multi-trip travel insurance, access to free stockbroking services, and free accidental death cover. These can charge a monthly fee and offer good value only if you make full use of the non-banking benefits.

Lowes publishes what is, in our opinion, the best no-strings banking deals every quarter in this magazine.

Over 55s are richer

THE OVER 55s NOW ACCOUNT FOR THE vast majority of 'rich' people, representing just under 70 per cent of the UK's 'high net worth' (over £200,000 in liquid assets), according to research company, Datamonitor.

Over 396,000 over 55s account for nearly 60 per cent of high net worth liquid assets (£215 billion) compared to 280,000 individuals and £140 billion in 1997.

The fastest growing wealthy group are the over 75s. Since 1997 their number has swollen by 10 per cent a year and their liquid wealth has leapt 13 per cent annually.

By 2040 it is predicted that the over 65s will account for 25% of the UK population.

Buy to let rental income declines

READERS LOOKING TO invest in buy-to-let property need to be particularly careful about where they buy, as rental yields appear to be falling in some regions.

According to a survey published last month by Paragon Mortgages, a major buy-to-let lender, gross yields – that is rent as a proportion of the value of a property – were 7.6 per cent in August compared to about 8.7 per cent a year earlier.

However, data from the Association of Residential Letting Agents (ARLA) suggests that the decline is focused mainly on London and the South East and that achievable rental levels appear to have increased for all types of property in other regions.

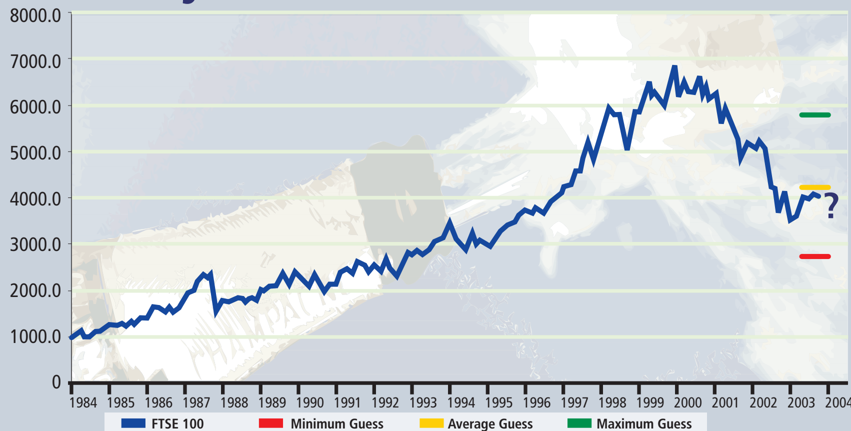
John Crossley, the ARLA chairman, warned that, as with the investment market, there are pitfalls for the unwary as well as opportunities for those who seek the right advice before making a long-term investment.

Predict the FTSE 100 competition update

WITH JUST THREE MONTHS TO GO BEFORE THE winner of our 'Predict the FTSE 100 Competition' can be revealed, how is the market shaping up?

Just as a brief reminder, in January we asked clients to predict what they thought the value of the FTSE 100 Index will be at the close of business on 31 December 2003. The client who comes closest to the correct figure will receive a monster Jeroboam of champagne containing three litres of bubbly!

The average prediction was 4220.78 whilst the most optimistic estimate was 5781.3. One client felt the FTSE 100 would fall as low as 2740.6. Well, at the close of business on 30 September the FTSE 100 stood at 4091.3! We'll be announcing the winner in the next issue of Lowes due out in mid-January.



The photograph used on this issue's cover is of Whitby Abbey, N Yorkshire

Make your money work
Best bank and building society instant access/no notice accounts

Branch Based

Amount	Provider	Account	Gross Rate	Contact
£1-£5,000	**Alliance & Leicester**	**Easy Saver**	**3.00%**	**Branch** (£1 charge on counter withdrawals)
£5,000+	**Bank of Scotland**	**Instant Access**	**3.25%**	**Branch**

Postal or Telephone

Amount	Provider	Account	Gross Rate	Contact
£1+	**ING Direct**	**Savings Account**	**4.10%**	**0800 376 8844** to request application form and information pack[1]

Internet

Amount	Provider	Account	Gross Rate	Contact
£1+	**ING Direct**	**Savings Account**	**4.10%**	**www.ingdirect.co.uk**[1]

Note 1. Account holders must be aged 18 or over, be a UK resident and hold a UK current account (with a cheque book and Direct Debit facility).

Sources: Branch Based – www.moneysupermarket.com (1/10/2003); Postal and Telephone – www.moneyextra.com (1/10/2003).
All accounts subject to terms and conditions.

Can one size fit all?

When it comes to inheritance planning beware of 'off the shelf' solutions, warns Lowes' consultant, David Hopper…

AN ARTICLE IN THE APRIL 2003 Lowes Magazine explored the potential impact of rising house prices on inheritance planning and created much interest from clients.

The various comments we received have highlighted an extremely important point – that the right inheritance planning solution for one client may at best be a poor compromise for another and, at worst, a financial planning disaster in waiting.

A regular survey of the weekend personal finance pages reveals that there are a growing number of firms offering inheritance planning solutions which take into account the impact of rising property values.

At Lowes we have been involved in inheritance planning for many years, providing bespoke solutions for clients. To stay on top of developments we must constantly monitor and research the multitude of different schemes which purport to reduce potential inheritance tax (IHT) bills and this research leads us to draw two conclusions:

- Whilst, for the average couple, some of these ready made schemes may prove to be adequate, if not perfect, problems can easily arise when other issues need to be taken into account (see 'Best laid plans?' at right).
- It is uncertain that many of these plans would stand up to detailed Inland Revenue scrutiny. For example, whilst some plans have been approved by the Capital Taxes Office of the Inland Revenue, some have not. And while some claim to have received the favourable opinion of leading legal Counsel, in some cases these views appear to be contradicted by other leading Counsel.

In short, the whole area is a potential minefield. It would not be so important if it was a subject of minority interest. However, it is not. Because so many people now own homes which are of significantly greater value than the current IHT nil-rate band of £255,000, inheritance planning is attracting the attention of a growing number of advisers with little or no previous track record in what is a highly complex and specialised area.

Best laid plans?

THE OBJECTIVE OF MANY OF THE inheritance planning schemes available 'off the shelf' from a number of advisers and product providers is to transfer ownership of the family home to the children or a Trust. This is intended to remove the house from the parents' estate and so eliminate or reduce a potential IHT bill to the children whilst allowing the parents to continue living there whilst they are alive.

With rising property prices, this is likely to prove very popular. But there are some major pitfalls with a 'one size fits all' solution – especially as the growing popularity of such schemes is likely to attract the attention of the Inland Revenue.

For example, say the house was transferred to the eldest son and his wife and they subsequently divorce. As part of the divorce settlement the house may have to be sold, but what would happen to the parents?

Or what if the eldest son was declared bankrupt? Would this mean that the house has to be sold to meet the demands of the son's creditors?

These are just two situations which could arise. They can be taken into account in any bespoke inheritance planning solution, but they may not feature in a 'one size fits all' package. Unfortunately, any failure to take them into account can have unintended and permanent consequences.

For further information see page 5. If you want to discuss an inheritance planning solution specific to your circumstances then talk to your Lowes' consultant or call 0845 1 484848.

COMMENT

When the time is right

CLIENTS MAY RECALL MY LENGTHY LETTER IN JANUARY when the FTSE 100 stood at 3483.8 and had fallen for all but one of the previous 13 trading days. In the letter I asked the question: "When will markets start to recover?" and predicted that this would not be until we had seen decisive action in Iraq. By way of a comparison of where I felt the market would go once the recovery commenced I drew reference from the first Gulf War and wrote: "Following the invasion of Kuwait in 1990 the FTSE 100 fell to a low of 1974.1 at the end of September 1990, twelve months on it had risen almost 33 per cent and over the next two years it rose by more than 15 per cent as was the case over the two years after that."

This time around, six months on from the low of March 2003, the FTSE 100 had risen 30 per cent and volatility levels have almost halved; but where will it go from here? A wise man once said of market analysts that: "There are those that don't know and there are those that know that they don't know". Well I know that I don't know but my view is that the worst is now over and, whilst it won't be a straight line, we should see consistent upward growth from here with only the odd hiccup.

It is my opinion that if there is any retracement of the recent rise, any fall will be less than 10 per cent. However, there are no doubt many people who are waiting for such a fall to mark a signal for them to enter the market. History has shown us time and time again that if you try to time the market perfectly you will lose. At current levels the stockmarket represents excellent value; at the time when it feels really safe buying with both hands, it wont be. As I said at the end of my January letter, I hope that a year or so down the line all our clients can look back and say "I'm glad I…" rather than "I wish I'd…".

On a separate issue, I have today received a copy of a publication which lists Britain's Top 50 most influential Independent Financial Advisers and am delighted to note that we are identified in 17th position. This comes close on the back of another survey in which we are ranked as one of the UK's Top 75 adviser firms; I hope that you, as clients, endorse these assessments of us. The statistics reaffirm my belief that our clients are in the best possible hands; I trust you feel the same.

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 **0845 1 484848**, fax **0191 281 8365**, e-mail **client@lowes.co.uk.**
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Trading life policies

One of the fastest growing investments in the US has arrived over here. But will it prove to be too controversial?

A diagnosis of terminal illness may be inaccurate

INVESTING IN THE LIFE insurance policies of people diagnosed as terminally ill and likely to die within three years is a fast growing market in the US – one estimated to have been worth over $2 billion last year.

In the UK it is a small niche market, although the early signs suggest it could grow rapidly.

Known as 'Viatical Investment' – it's a market which has been around in the US for years, but it took off in a big way in the early 1990s when victims of the Aids epidemic saw their life policies as a means of raising much needed cash for their final years.

The dramatic growth of recent years stems from the fact that the life insurance policies we are talking about here have nothing to do with the equity markets. Consequently, they offer the more risk averse an alternative means of investing their money.

But what are the issues and dilemmas involved and is it as risk free as some would suggest?

The types of policies used for Viatical Investment are straightforward life insurance policies which pay out a lump sum on the death of the life assured. Unlike some modern life policies, they do not pay out on the diagnosis of terminal illness. And unlike endowment policies, they have no encashment value.

As such, it is easy to understand why anyone diagnosed as terminally ill – and possibly having no dependents – may jump at the opportunity to sell their life policy and use the proceeds to improve their standard of living in their final months.

It is equally easy to see why they are attractive to would-be investors. For a large discount on the amount payable on the death of the policyholder, an investor can purchase an asset that offers a known payout and which is entirely insulated from the volatility of the stockmarkets.

According to specialist companies, taking into account the premiums which need to be continued until the policy pays out, the returns can exceed 12 per cent, with a minimum investment of around £15,000 and terms ranging from 12 months to an expected maximum of 72 months.

The Ethical issues

For anyone diagnosed as terminally ill and considering selling their life policy, there may be other considerations to take into account than simply having a good time. This is why many of the intermediary companies which purchase and sell life policies insist that where there are dependent children proper arrangements have been made for their welfare before a policy is sold.

On the other side of the fence, the concept of profiting from the deaths of others may be repugnant to many would-be investors, especially if they have no first hand knowledge of the seller's financial situation.

And what about the beneficaries of a life policy? How would the spouse or children of a policyholder react if death occurred soon after selling the policy for between a half to two-thirds of its death benefit?

And could the size of potential payouts create unscrupulous investors who may contemplate murdering the original policyholders? Such concerns certainly exist in the US.

A risk-free investment?

RECEIVING £100,000 WITHIN A couple of years of investing £70,000 may sound a very attractive proposition. But what if the original policyholder failed to die as anticipated, or even lived long enough to survive the term of the policy so rendering it useless?

The fact is that a diagnosis of terminal illness may be inaccurate and may even differ between one doctor and another. Then there's the view held by some people that the best medicine anyone who's seriously ill can have is a big dose of cash.

Perhaps it won't surprise you to learn that in the US there have actually been cases of investors suing the companies selling these policies because people failed to die as doctors had predicted!

One way of reducing the risk is, of course, to spread an investment across a number of policies and there are in fact specialist funds available to the private investor.

This is clearly a market which will create many different opinions. If you would like to express your views about the Viatical Investment market, or would like to find out more, then contact your Lowes' consultant or call 0845 1 484848.

Can you trust a Trust?

Lowes' consultant, Peter Collins, shows how Trusts offer a powerful financial planning tool for those seeking to invest on behalf of others ...

Investing for children or grandchildren

ONE OF THE MOST BASIC Trusts of all is created 'by default' when you invest in a fund such as a unit trust or OEIC on behalf of your grandchildren.

Using some or all of your £3,000 annual tax-free gift allowance you simply complete the unit trust or OEIC application form in your own name followed by the term: a/c 'child's initials'. This creates a Trust which only you have access to and the child can only get at when he or she reaches age 18.

It is also a highly tax efficient arrangement as the child's own tax allowances are used in respect of any dividend income. If a parent was to do this, then the Inland Revenue would view it as tax avoidance and where income on such investments exceeds £100 a year it is taxable in full on the parents at their highest rate of income tax.

■ Grandparents can invest tax efficiently for their grandchildren

Larger sums to invest

If you want to invest larger sums for your grandchildren, then aside from potential tax charges, there are other considerations you may want to take into account. For example, because no one's financial future is totally certain, you may wish to ensure that your spouse has access to the money should you die. You may also want to allow for any changes in family circumstances. For example, you may wish to add or remove beneficiaries, or make sure the money cannot be used in a divorce settlement or to pay creditors in the event of a bankruptcy.

"You may wish to ... make sure the money cannot be used in a divorce settlement or to pay creditors ..."

What are known as Flexible Trusts can be used to meet these requirements. They can also ensure that the grandchildren do not receive substantial sums of money until they are old enough to use it responsibly. What's more, the Trust Funds can be invested so as to maximise tax efficiency.

Keeping your cash from the taxman

If you're entitled to any lump sum death-in-service benefits from your employer, it may be worth considering how to shelter them from any potential tax liability. To understand why you might want to do this, compare Situations 1 and 2 detailed at the bottom of the page.

If you would like to know more about how Trusts can be used in financial planning, then contact your Lowes' consultant or call 0845 1 484848.

Situation 1

JOHN SMITH, AGED 55, IS MARRIED TO Sheila and has two children. As a member of his company's death-in-service scheme, if he died in service he would receive a lump sum of four times his £50,000 annual salary.

John dies in a car crash and Sheila gets a £200,000 cash lump sum from John's employer. She puts this money away and two year's later she dies, leaving the house, worth £300,000, plus the £200,000 to the children. On the total estate worth £500,000 the children face an IHT bill of £98,000 (40 per cent of £245,000, which is £500,000 less the IHT nil-rate band of £255,000 in the current tax year).

Situation 2

WHILST STILL ALIVE, JOHN ESTABLISHED A Trust with £10 and named his wife and children (plus anyone else he wished) as the beneficiaries. He also appointed the Trustees, who included his wife and his eldest son David.

He then completed an 'expression of wish' form which nominated the Trust as the beneficiary of any death-in-service lump sum he was entitled to and gave this to the Trustees of his company scheme. When John died the £200,000 lump sum was paid into the Trust.

By going into the Trust, the £200,000 is outside of John's estate for inheritance purposes and, indeed, outside the estates of his wife and children. If necessary, Sheila can have access to the Trust Fund or even borrow money back from the Trust to be repaid from her own estate when she dies.

The IHT situation is that the £200,000 lump sum is non-taxable because it is in Trust. As such, the only IHT payable on Sheila's estate when she died was £18,000 (40 per cent of £45,000, which is the £300,000 house less the IHT nil-rate band of £255,000 in the current tax year).

Had Sheila borrowed £100,000 from the Trust, then this would have been repaid from her estate on her death. If she had spent that money, then her estate would be worth only £200,000 on which no IHT would have been payable.

What's in an index?

Melvyn Bell, Lowes' Investment Manager, explains the key UK investment indices …

AN INVESTMENT INDEX IS a means of highlighting how well a stockmarket – or a part of it – is performing over time. Fund managers and private investors use indices as 'benchmarks' to see whether their investments are performing better or worse than the market.

There are hundreds of investment indices but, in the UK, the most widely used is the FTSE 100 – the index of the UK's 100 largest or 'blue chip' companies. Although it comprises only the top 100 of the 1,600 UK companies listed on the UK Stock Exchange it represents 80 per cent of the capitalisation of the UK stockmarket – that is the value of these companies measured by their share price multiplied by the number of shares they have issued. The constituents of the FTSE 100 are reviewed quarterly.

Whereas another popular index, the FTSE 350, follows the logic of the FTSE 100 and represents the largest 350 companies, it is a common misconception that the same is true for the FTSE 250, which in fact represent the 250 largest companies *after* the top 100.

In contrast to the FTSE 100, the FTSE All-Share Index represents 98-99% of total UK market capitalisation and comprises the 700 or so leading UK-quoted companies. The FTSE All-Share Index actually aggregates three indices – the FTSE 100, FTSE 250 and FTSE Small Cap. Table 1 summarises the make up of the key UK indices.

A good place to start

When it comes to building an investment portfolio, the FTSE 100 is an excellent starting point simply because it does cover such a large proportion of the total value of the UK market. This is why many unit trusts covering the popular UK All Companies sector will invest primarily in FTSE 100 companies.

However, although the 'blue chip' FTSE 100 represents the largest UK-listed companies, this does not mean that these companies necessarily offer the best growth potential. These companies are in the FTSE 100 because of their size – not their profitability – and many of them operate in traditional markets which may be expanding slowly or even contracting.

Another point to bear in mind is that the FTSE 100 Index is dominated by relatively few very large companies. The top five companies in the Index (BP, HSBC, Vodafone, GlaxoSmithKlein and Royal Bank of Scotland) account for 32 per cent of the capitalisation of the entire UK stockmarket, while the top 10 (the above plus AstraZeneca, Shell, Barclays, HBOS and Lloyds TSB) account for about 45 per cent (Figure 1 illustrates how the big FTSE 100 companies dominate the FTSE All-Share Index).

As such, any investments based on the FTSE 100 may focus on the big boys and neglect the smaller ones which could offer better growth prospects. In fact, only one of the top 10 – Vodafone – is operating in what we might call a 'new' industry.

Given that many investors probably have a solid investment presence in the FTSE 100 area, how might they go about broadening their exposure to the UK market?

Figure 1: **What's in the FTSE All-Share Index**

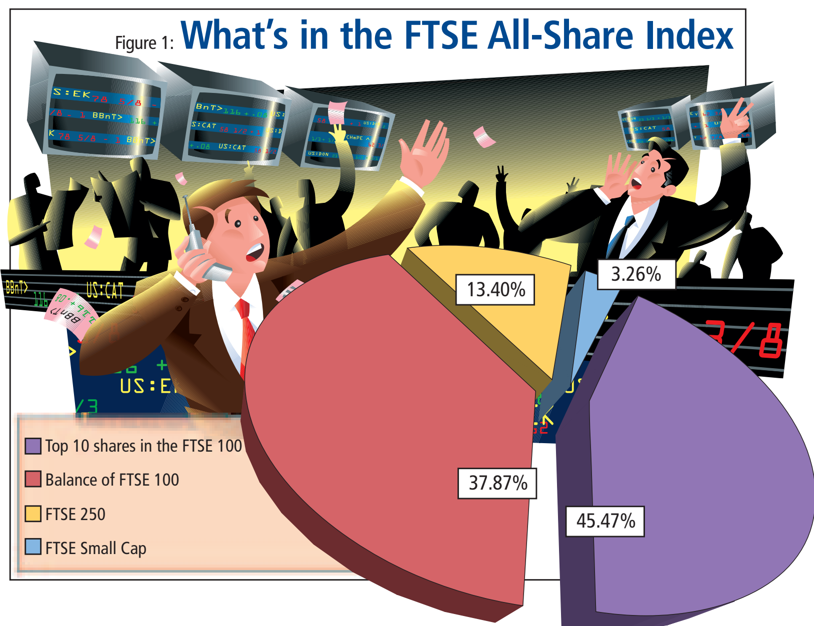

Table 1: **The main FTSE Indices for the UK**

INDEX	EXPLANATION
FTSE All-Share	Comprises around 700 companies representing 98-99% of the UK market capitalisation. It is the aggregation of the FTSE 100, FTSE 250 and FTSE Small Cap Indices.
FTSE 100	100 most highly capitalised blue chip companies, representing approximately 80% of the FTSE All-Share Index. Recognised as the measure of the UK financial markets and used as a basis for many investment products.
FTSE 250	The 101st to 350th largest UK companies often called the mid-cap stocks. It represents about 13% of the FTSE All-Share Index.
FTSE 350	All those companies in the FTSE 100 and 250 Indices.
FTSE Small Cap	Comprises companies with the smallest capitalisation of the capital and industry segments and represents approximately 3% of the FTSE All-Share Index.

FTSE 250

One answer lies in the next tier down – the 101st to 250th UK companies by size – which are grouped in the FTSE 250 Index. Make no mistake, these are big companies – e.g. Rank Group, William Hill, Logica and WH Smith. They also include a highly diverse range of enterprises active in many areas of business activity.

For many fund managers, it is the companies in the FTSE 250 rather than the FTSE 100 which offer the best growth prospects. Many of them are operating in expanding markets and tend to be growing faster than their larger counterparts. Those which grow large enough will move into the FTSE 100 and when this happens they will benefit from the rise in their share prices resulting from increased demand for their shares – not least from those unit trusts and pension funds which focus on the FTSE 100.

See page 8 for details of how to gain exposure to the FTSE 250 Index.

Can you rely on the NHS or should you consider private healthcare?

DESPITE THE SEEMINGLY ENDLESS STREAM OF bad news stories about the NHS, some would argue that when it comes to the treatment of life threatening conditions, the state healthcare system offers a pretty good service.

Unfortunately, this situation may not apply when it comes to some forms of 'elective' treatment – that is the treatment of less critical conditions, albeit ones which can seriously affect your quality of life. Examples include hip or knee replacements.

The increased number of elderly people has created a big demand for elective treatments, but because the NHS prioritises critical conditions, this may lead to relatively long waiting lists.

So, if you are generally dissatisfied with the NHS, or are prepared to rely on it only for the treatment of life threatening conditions, you may be considering whether Private Medical Insurance (PMI) could meet your requirements.

PMI

Q: What is PMI?
A: It covers the costs of private medical treatment, including the cost of surgery, accommodation, specialists and nursing at a private hospital or private ward in an NHS hospital. Some insurers will accept new customers at any age, but most place upper limits at 65 to 75 years old.

There is a bewildering array of plan types. Comprehensive plans normally cover inpatient and outpatient treatment, plus personal accident, maternity and travel. Standard policies typically cover limited outpatient treatment on an inpatient day care basis.

There are also plans which feature high excesses and ones which offer cover only to a maximum amount. Then there are plans for those who choose to self-pay (see below) which cover large private medical costs and leave the subscribers to meet relatively minor expenditure. A very recent example of this approach is a plan which covers around 100 non-critical conditions – including cataracts, hip replacements and varicose veins – and leaves the client to use the NHS for serious problems.

Q: How much does PMI cost?
A: The average individual PMI annual premium rose from £789 in 1997 to £1,218 in 2002 – due mainly to the growing number and cost of claims as a result of advances in medical science and use of costly technology. Costs increase dramatically as you get older and are more likely to need treatment.

Q: What is excluded?
A: Different types of policies and different providers may have different exclusions. Pre-existing medical conditions are usually excluded too. It is important to check very carefully that the conditions of the policy match your needs exactly.

Some providers may also restrict the amount they will pay for treatment. For example, a hip replacement operation could cost £6,700 whereas the fee schedule limit may be set at £5,000.

Q: Which hospitals can I use?
A: Hospitals covered by a PMI plan should be given to you with your quotation. Some insurers prefer to use hospitals which may not suit you.

Is PMI worth the money?

For a 50 year old who's had a comprehensive policy for 10 years the premiums can total £7,000 or more and this excludes a spouse and any children. And, of course, you don't get a refund if you haven't needed treatment. So arguably, if you can afford this much, you can possibly afford to pay directly for any treatment you may require – particularly if you are confident that the NHS is perfectly satisfactory when it comes to treating more serious conditions.

Alternatives to medical insurance

Cash Plans

UNLIKE PMI, THESE DON'T PAY FOR surgery, nursing care or specialists' fees, but they can help with the associated non-medical costs.

Depending on the scheme, you'll receive between £10 and £125 for each night spent in hospital which you can use as you wish. Cash plans won't directly help you jump NHS queues but they can help get you a quick diagnosis by assisting with consultants' fees.

Pay as you go

FIGURE 1 ILLUSTRATES HOW MUCH you can expect to pay for private treatment.

These are only average figures and may be more or less depending on the hospital or region. If you are considering the 'pay as you go' approach then there are companies which will, for an annual fee, track down the most cost effective treatment available.

Figure 1: **The cost of treatment** (average across whole UK)

CONDITION	COST
Cataract removal	£2,600
Heart bypass	£18,000
Hernia	£2,000
Hip replacement	£6,700
Hysterectomy	£5,500
Knee replacement	£6,000
Prostate	£4,100
Varicose veins – 1 leg	£1,850

Source: Legal & General. These are average costs of treatment and include pre and post-operative consultations and diagnostic costs plus hospital and specialist charges. Charges will vary by hospital and region.

A private room in a state hospital

MANY NHS TRUSTS MAINTAIN what are known as 'amenity rooms' in their wards. These are in effect private rooms normally reserved for people with particular medical conditions. However, it is possible to request the use of an amenity room if one is available and there will usually be a charge of between £40 and £60 a night depending on the facilities and location.

Balancing FTSE 100 over exposure

ON PAGE 6 MELVYN BELL explained the key UK investment indices and how they represented the UK stockmarket.

In order to reduce risk in an equity portfolio it is essential to diversify the types of assets held. Many investors have consciously tried to achieve this by investing in funds which mirror indices such as the FTSE All-Share Index or the FTSE 100 Index as it is widely accepted that these indices represent the UK stock market.

Even those funds which are not classified as index trackers use these indices as 'benchmarks'. They do this to see whether they are performing better or worse than the market and, because the price of failure is so costly, they rarely diverge significantly from the weightings of the constituents of the major indices.

However, these indices are not truly representative of 'Corporate UK'. For instance, at the end of May this year more than 80 per cent of the FTSE All-Share Index was actually made up from the constituents of the FTSE 100 and more than 61 per cent of the FTSE 100 was made up of only 20 companies. This concentration of assets goes even further with 61 per cent consisting of companies in only four sectors – banks (23 per cent), oil & gas (14 per cent), pharmaceuticals (12 per cent) and telecommunications (12 per cent).*

This concentration of assets means that portfolios based solely on the FTSE 100 Index under-represent large parts of the UK economy and can leave the portfolio overly sensitive to the fortunes of the big names.

* Source: Deutsche Bank as at 30/05/03

A counterbalance

The Schroder UK Mid 250 Fund provides an investment to counterbalance an over-concentration on the FTSE 100 and does this by investing in the next 250 largest companies below the FTSE 100.

These companies are by no means small. Their market capitalisations range from £64 million to £2 billion and they are as diverse as Britannic, Enterprise Inns, Rank Group, Bellway and Paragon Group. Incidentally all of these companies were in the top 10 holdings of the Fund at the end of July 2003.

A consistent performer

Since its launch in November 1999 the Fund has proved to be one of the most consistent funds in the UK All Companies sector. In fact, it has featured in the first quartile of the sector in each of the last three rolling 12 month periods up to the end of August 2003.

While we are not suggesting that this Fund should be considered as a core holding in a portfolio, we do believe it is an ideal way of complementing existing portfolios, especially those which are currently concentrated on the FTSE 100. In recognition of the Fund's performance and the experience and resources that the fund manger and his team provide, both Standard & Poor's Fund Research and Forsyth-Old Broad Street Research have awarded it their highest 'AAA' rating.

The Schroder UK Mid 250 Fund provides an investment to counterbalance an over-concentration on the FTSE 100

Easy monitoring, reduced admin …

The Schroder UK Mid 250 Fund is one of the many investments that can now be held within Cofunds, the UK's leading independent fund supermarket.

Holding funds on the Cofunds platform facilitates easier monitoring of your investments and reduced administration – *at no cost to you*. Furthermore, as our computer system is linked with Cofunds we can obtain up to date valuations at the touch of a button.

The standard initial charge on the Schroder UK Mid 250 Fund is 5.25 per cent. However, by special arrangement for clients investing via Lowes Financial Management, the charge will be reduced to 3.75 per cent for investments outside of an ISA wrapper and is only 3.25 per cent for investments within an ISA.

To invest in the Schroder UK Mid 250 fund via Cofunds, either directly or through an ISA, you should read the brochure and key features documents accompanying this issue of the magazine to satisfy yourself that this investment is right for you, then complete and return the relevant application form together with your cheque payable to 'Cofunds'.

If you have any questions about this investment or its suitability for you, or if you require an additional application for your spouse or partner, then please contact your Lowes Consultant or our office on 0845 1 484848.

Important Notice: Past performance is not necessarily a guide to future performance. Capital is not guaranteed and you may not get back the full value of your original investment. This investment should be considered as a medium to long-term holding. Those investing outside of an ISA will be subject to Capital Gains Tax if their gains exceed their Personal Exemption which is currently £7,900. Levels and bases of reliefs from taxation are based on our understanding of current tax legislation and are subject to change. For details of the remuneration that Lowes will receive for placing this investment please refer to the product literature enclosed with this issue.