



THREE COUNTIES

Financial Management Services Limited

CLIENT BRIEFING May 2006

New Service Programmes

Since 2002 the Government has been making clear its intention to totally restructure the financial services industry and in particular the way it is remunerated. Three Counties will be meeting these new challenges and continuing to provide our clients with cost effective advice and services.

Our intention is to continue to develop our company as a provider of high quality financial advice which is both independent and not necessarily financed by the sale of financial services products. Under the new regulations the Government regulator, the FSA, require that advisers wanting to retain independent status (now known as 'whole of market' status) operate a menu of fees for advice on, and management of, clients' financial affairs.

As part of this restructuring the insurance, investment and pension companies have reduced the charges they apply to their policies and contracts. This is, of course, good news for investors, but it does mean that as part of this process they have reduced the commissions they pay to financial advisers, in some cases removing it completely. Meanwhile the regulatory process and costs have increased significantly and brought with it an increase in paperwork and administration time beyond our control.

It is twelve years since Three Counties first recognised the inevitability and desirability of such a change with the introduction of our Premier Client Service in January 1994. This was replaced in February 2002 by our Premier Plus fixed fee service along with the introduction of administration platforms such as Transact and Selestia when running our clients affairs.

As a result of this further review of our client proposition, and following the recent Client Survey that we conducted, we have decided that, in order to continue giving our clients

the level of service they would like to receive, and we would like to supply, we will now offer three distinct fee based programmes.

These new programmes will replace our Premier Plus and Standard services and will be called:

- **The Gold Programme** - a proactive and holistic lifestyle programme.
- **The Silver Programme** - a proactive and review based programme.
- **The Bronze Programme** - an entirely reactive programme for those not requiring a regular service.

Over the next 12 months we will be providing full details of what each programme provides and will be speaking with all our clients to determine which Programme is most appropriate to their circumstances. If you would like to receive this information earlier please contact our office.

Client Satisfaction Report

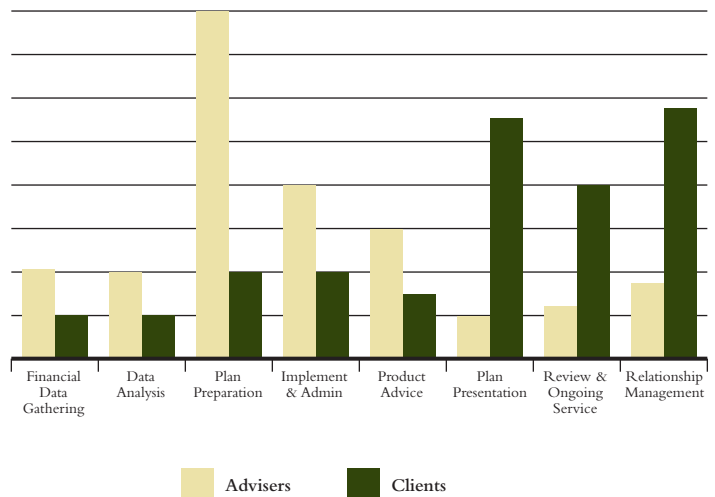
In February of this year we conducted an internet based survey of our clients to establish their views on the service we provide. This was carried out through an independent company ensuring that all answers were treated in confidence and therefore the response would be honest and accurate.

In summary, the results showed that 93% of clients are either very satisfied or fairly satisfied with the service they receive. It was also interesting to note that the top three attributes that a client looks for in their adviser are 'being kept informed', 'honesty' and 'delivering on promises'.

Whilst being pleased with the overall results we are not complacent and recognise that there are areas for improvement. We will be considering seriously the comments made and taking appropriate action to remedy any short comings.

We would like to thank all of you who took the time to complete the survey, the results of which have had a significant influence on the Service Programmes we are introducing.

The following chart indicates the areas that clients and advisers see as most important when it comes to Financial Services work. We have set out to ensure that we focus on those areas that are of most importance to our clients.



IHT Trust Changes Announced in the Budget

The Budget of 22nd March 2006 contained some totally unexpected provisions that amount to a radical rewriting of the inheritance tax rule book for trusts.

The new rules have effectively re-introduced capital transfer tax for virtually all gifts into trust (bringing back 20-year-old rules). The potentially exempt transfer regime has been abolished for gifts to interest in possession (life interest) and accumulation & maintenance trusts. These trusts have now been brought into the same, punitive tax rules that previously applied only to discretionary trusts - that is to say:

- there is a tax charge on making gifts into trust;
- there is a tax charge on every tenth anniversary of the trust's creation; and
- there is a tax charge when cash or assets are distributed from the trust.

Worse still, these rules don't just catch new trusts. They apply to existing trusts in the following circumstances:

1. in the case of interest in possession trusts if further gifts are made, or if the beneficiary entitled to trust income ceases to be entitled on or after 6th April 2008 but the trust assets are not immediately distributed outright.
2. in the case of accumulation & maintenance trusts if further gifts are made, and if the trustees do not alter the trust before 6th April 2008 so that its beneficiaries become entitled outright to trust capital at the very young age of 18 (previously beneficiaries' entitlement to income could be deferred to the age of 25, and entitlement to capital even later than that, without being penalised, tax-wise).

The new rules are also going to affect many will trusts - which of course don't come into effect until the individuals concerned die. Many married people's wills contained "flexible" life interest trusts for widows and widowers, which would under the old rules have meant no tax on first death, due to the exemption for inter-spouse transfers.

Under the new rules, such trusts will now attract a tax charge on first death unless the will is drafted in a very narrow (and to date unconventional) manner.

This means in practice that many people will need to have their wills reviewed and in some cases rewritten immediately.

In other cases they can safely leave their existing wills in place, but following their deaths their wills are going to need rewriting by already-distressed widows and widowers in order to avoid a tax charge that might otherwise force the sale of family homes and investments, causing potential hardship to surviving spouses.

The Finance Bill was published on 7th April, and Schedule 20 of the Bill contains the detailed draft provisions affecting trusts.

Following the Royal Assent, which we expect around July, anyone who has made a will leaving assets in trust for their surviving spouse should consider a review of what they have done to make sure they are not caught by the changes.

Investment Market Comment

by Peter West

After three years of strong positive performance from equity markets perhaps its time to consider “where we go from here”. In 2006, can we expect equity markets to continue in their positive mood? What of the alternatives – cash, bonds and property?

Having attended a number of major market forums and participated in many on line investment and fund manager presentations, the common message appears to be that the global economic cycle remains in good health. As two major economies, the USA and UK, continue to slow, others strengthen. Europe, Japan and emerging economies, including China, are experiencing faster growth. Economic activity continues to be on a much broader front throughout the world than has historically been the case. This increased breadth should be seen as a positive for sustainable, positive, economic activity.

This does not mean that all the negatives are no longer relevant. It would be foolish not to keep a close eye on the various problems which exist. The housing markets, both in the UK and latterly in the USA, have seen unprecedented growth in prices. In both countries the housing markets have been slowing but fears of a collapse have probably been overdone as interest rates have remained at relatively low levels resulting in debt servicing costs remaining manageable. It now looks likely that a soft landing for house prices is more likely than a price crash which would have led to widespread problems for the economy and for investment markets.

Concerns over inflation, which started to appear in late 2004 and early 2005, now seem largely to have been overdone. The inflation situation now looks to be well contained by the major developed economies of the world and interest rates have not risen to the high levels experienced in such situations in the past. It looks highly likely that UK rates will remain at or about their current level for the remainder of 2006 and that the USA will raise their rates to about the 5% level and, perhaps, will not need to go higher. Thus cash, other than to meet short term liquidity, does not seem to offer itself to investors as an alternative home for investment capital.

Corporate bonds and government gilts have had a difficult time in recent months and it seems likely that this situation will not remedy itself very quickly, particularly in the case of gilts. Yields have been pushed to very low levels and the chance for capital loss is very

relevant from what has historically been considered to be a low risk asset class.

The commercial property market in the UK has enjoyed a very satisfactory few years and whilst yields from well managed portfolios should continue to be attractive, perhaps it is time to widen horizons by diversifying the property content of investment portfolios to take advantage of the undoubted potential in Europe, the USA and the Far East, in particular Japan, as it comes out of a fifteen year financial nightmare.

We at Three Counties continue to favour equities as an asset class over property, bonds and cash but all have a place in well diversified portfolio. The more sustainable world economic cycle can now be viewed over a longer timescale. Investors should however still expect volatility in market indices and there remains the damage which could be wrought by a major international terrorist outrage.

Over the past few months, dependent upon which portfolio you are holding, we have advised our clients in our Advisory Portfolio Management Service to:-

- reduce their exposure to fixed interest markets, in particular gilts and investment grade corporate bonds.
- to diversify their holding in commercial property to include international markets.
- to slightly reduce their exposure to the UK equity market.
- to increase equity exposure to North America, Europe, Japan and the Far East.

We will continue to support fund managers who are stock pickers rather than closet indices trackers and carefully monitor their performance against their peer group. Since the introduction of our Advisory Portfolio Management Service in 2002, our portfolios have substantially outperformed their industry benchmarks over all discreet periods thus providing clients with a risk/return profile designed to meet the requirements of cautious, balanced and more adventurous investors. For more information on our Advisory Portfolio Client Service please contact your Client Manager or Peter West, Director in charge of investment strategy.

Saving for the future is set to become simpler

The most fundamental shake-up in pensions for almost 20 years happened on the 6th April. On day one of the new financial year, the government dumped some of the most tortuous tax rules on the statute book and replaced them with a single tax system for pensions. These reforms, known as A-Day, will genuinely make it easier for people to save for old age.

The new rules will create opportunities for savers and, just as importantly, make pensions simpler.

Under the new rules, even non-taxpayers will be able to contribute up to £3,600 to a private pension and still get tax relief.

It is also possible now to take out an individual plan, such as a personal pension, if you are a member of a company scheme.

The reforms will also benefit older people whose pension planning is more advanced. Self-invested personal pensions (Sipps) will play a much bigger role in many people's plans as they offer a much wider choice of returns and are increasingly available for low charges. They allow pension savers to invest in unit and investment trusts as well as individual shares.

What to do with your existing pensions

If, like many people, you have several pension plans, rather than all your savings in one place, it may make sense to consolidate them. Bringing them together will simplify your administration and make it easier to have a good overview of your investments.

Savers who have with-profits pension plans also need to consider their options. Many of the insurers who offer these products have struggled to produce decent performance in recent years and some have introduced exit charges to prevent people taking their money elsewhere.

Working out what these pensions are likely to produce can be difficult, though in general, the higher the proportion of your money that is invested on the stock market, rather than in bonds or cash, the better your potential returns. Depending on the penalty charges you would face to transfer, it may be worth considering moving your savings.

What you can save each month

The rules on pension contributions have been ridiculously complicated but as from now, life will be much simpler.

You will be entitled to tax relief on contributions worth up to 100% of your earnings each year as long as your total investment does not exceed £215,000. The only other restriction is a lifetime pensions cap.

As a broad rule of thumb, if you want to retire at age 65, you should contribute a percentage of your earnings equivalent to half your age when you start saving. For a saver earning £20,000 at age 25 an annual contribution of £2,500 makes sense. After tax relief that would cost around £160 per month.

For further information please contact:-

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You should be aware that investment in securities involves risk. The value can fall as well as rise and you may not get back the full amount invested, particularly in the earlier years.

Taxation: All statements relating to taxation are based upon our understanding of the law and Inland Revenue practice in force at the date of this report. There can be no guarantee that the tax position or proposed tax position at the time of investment will endure indefinitely.

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