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ISA NEWSLETTER 2008/2009 & 2009/2010

Investing in Uncertain Times

Our fund choices

Income:

Invesco Perpetual Monthly Income Plus Fund—Yield (historic)12.59%

Ignis Argonaut European Income—Yield (historic) 6.6%-4.5% Income distributed in past year

Growth:

BNP Paribas Stabiliser Protected Fund—Structured product for growth

—Minimum 100% capital guarantee at maturity – 15th December 2014

—Growth 150% of multiple indices

Market Commentary

The problem we face at the moment is that the current economic crisis is unprecedented, therefore with no historical data to draw on to estimate the extent of damage or timing of a recovery, predicting future investment returns is virtually impossible. This newsletter is geared towards those wishing to invest for the medium to long term and willing to remain invested for a period of at least 5 years.

The US and UK are heavily in debt. Lending institutions repackaged this debt and leveraged on it as a means of magnifying profits but this also meant that when the loans defaulted, they magnified the losses. The same debt was repackaged again and again in the market to the point where it was virtually impossible to unravel or properly assess these complex instruments. When the extent of the uncertainty became clear the banks stopped lending to each other and the liquidity of cash in the market dried up. The banks have now been forced to intervene with a policy of "quantitative easing" as an attempt to inject liquidity back into the markets by buying securities from the banks. Whether the banks will start lending again or whether the consumers will borrow but instead prefer to pay off existing debt, further contracting the liquidity in the market, will remain to be seen. Consumers may try to wait for the bottom of the market to make purchases or investments if they believe, as we are being led to believe, that we have further to fall (at the time of going to print the Bank of England base rate is 0.5%).

In all this doom and gloom there is some positive news and hope for investors who are willing to commit funds for 3 to 5 years; some real opportunities are available. There will undoubtedly be a very wide disparity on returns over this period therefore selecting the fund managers who in our opinion are most likely to produce income and growth while minimising risk to capital is our objective this season.

The following funds may be used to generate income or the income may be accumulated within the fund for growth, all of which is tax free.

Invesco Perpetual Monthly Income Plus Fund—Yield (historic)12.59%

The present time could be an opportune moment to purchase corporate bonds which are outperforming equities however a degree of caution is required due to the uncertainty of the extent of defaults as these will affect returns and capital values in the future. Corporate bonds are currently priced at a large discount with this pricing taking into account expected defaults on high-yield bonds and leveraged bonds. Taking all this into account the fund managers at Invesco Perpetual believe that the defaults will not be as high as priced for, thus in their opinion the predicted growth and yield from these investments for the coming year is dividend growth of between 5 – 10% equating to a 10 – 15% total return. These figures are of course only projections and actual returns could be higher or lower and are in no way guaranteed.

The management of this fund draws together the expertise of Paul Read & Paul Causer who specialise in fixed interest investments and Neil Woodford whose approach to equity investments is highly respected (Woodford is still not willing to hold shares in banks although Causer & Read are buying in bank debt as they see the risk of this now as minimal due to Government backing).

The objective of the fund is "to achieve a high level of income whilst seeking to maximise total return through investing in high yielding Corporate and Government bonds together with UK equities". Currently the fund holds 81% in fixed interest, corporate bonds (11.2% A, 16.3% BBB, 14.3% BB, 16.5% B) and 18.3% in UK equities.

Ignis Argonaut European Income—Yield (historic) 6.6% - 4.5% Income

Olly Russ, manager of this equity income fund, recently commented in the Citywire February 2009 Report on Equity Income "The UK remains the single biggest market in the world for high-yielding stocks with 130 paying out above 3.5%. But in Europe there are 390 companies paying a dividend over 3.5%, so there are three times as many in aggregate and the dividend yield on the overall market overtook the UK last year".

This fund was launched in December 2005 and has consistently outperformed both the FTSE Europe ex UK & MSCI Europe ex UK indices. The fund generally holds 30 - 50 stocks and currently invests in the best companies regardless of sector in three areas: value stocks that have a high dividend yield; growth stocks that have high earnings growth and with little need to retain capital increasing dividends to shareholders; special situations stocks with currently low dividends but scope for future increases. Geographically the fund is invested in Germany (17.6%), Italy (16.7%), France (14%), Netherlands (11.4%), the balance in other countries including Sweden, Finland, Greece, Spain & Norway.

A simulation was carried out to back test the investment strategy of the fund for the period between January 1992 and December 2008 and the results indicated a strong possibility to outperform cash and bonds with an historical average performance during this period of 18.05% compared to 7.9% for the same period (LIBOR + 2%) and 7.65% (FTSE 100 TR). Past returns are no indication of future returns but these figures are included purely as an example of the potential strategy.

We believe this fund offers diversity from our other recommendations by investing outside the UK, providing a spread of risk and would be a suitable addition to a portfolio of ISA income funds. Distributions are quarterly 30th April, 31st July, 31st October, 31st January.

BNP Paribas Stabiliser Protected Fund—or Growth only

This fund will suit those seeking a potentially higher return than cash but wishing to benefit from any potential gains as a result of exposure to the markets over the next few years.

An OEIC fund with capital protection, this fund seeks to outperform cash and minimise risk without giving up all the market upside by providing access to higher yields. It offers the potential to benefit from any growth of the stock market and other asset classes while providing a guarantee of capital protection of the units priced at 100p.

At maturity, the fund will provide investors a redemption amount per share equal to the greater of the Protected Price (100p per share) or the Protected Price per share plus 100p multiplied by 150% of the Index Final Performance.

This fund invests in Multi Asset Indices in Europe (DJ Eurostoxx50 TR Index – 50 European blue chip stocks), US (S&P 500 TR Index – 500 US stocks), Japan (TOPIX TR Index – all companies listed on first section of Tokyo Stock Exchange) and China (HSCEI TR Index – overall market performance in Hong Kong), in Global Commodities (DCI-BNP Paribas Enhanced Index– energy, industrial and precious metals, agriculture), Foreign Exchange (USD-EUR) and European Real Estate (EPRA Eurozone TR Index). We particularly like the structure of the fund itself which is ring-fenced and the collateral of AAA rated G7 Government Bonds belong to the fund itself and not BNP Paribas, thus reducing potential exposure to BNP Paribas.

Capital Protection. The product is priced at a unit price of 100p per share (the strike date) and this is the protected price of the share at maturity (Maturity Date 15th December 2014). Shares can be bought or sold daily at NAV and as an OEIC are single priced therefore no bid/offer spread. The price you pay for your share depends on the price at the date of purchase, for example if you pay 105p per share, your capital protection at Maturity is 95% (100p /105p), conversely if you pay 98p per share your capital protection at Maturity is 102% (100p / 98p). If you redeem your shares before the maturity date you receive the NAV (Net Asset Value) on the date they are redeemed and there is no exit fee.

The fund is also available as an individual OEIC, Offshore Bond or SIPP investment. Please contact us for a full prospectus of this fund or if you wish to discuss these options.

Charges : Michael Royde will charge an arrangement fee of 1% of the amount invested and as a result only an annual management charge of 1.5% will be applied to the fund, of which 0.5% will be paid to Michael Royde.

Please contact us for full details of funds, including fact sheets, key features and applications by email to

enquiries@michaelroyde.co.uk or telephone: 01425 489900

In this newsletter we are not providing advice specific to your individual circumstances, instead a selection of funds from which to consider. If you would like specific advice or a financial review please do not hesitate to contact us. Fees may be increased as a result.

ISAs are intended as a long term investment. If you withdraw from it in the early years, you may not get back the full amount invested. Our research for this advice was carried out by a thorough literature search of ISAs available in the market. Past performance is not necessarily a guide to future performance. Levels and bases of, and reliefs from, taxation are subject to change. Sufficient funds should be easily accessible for emergencies.

Don't forget that although the ISA application deadline is

5th April 2009, we need to receive your application by

2nd April 2009

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