

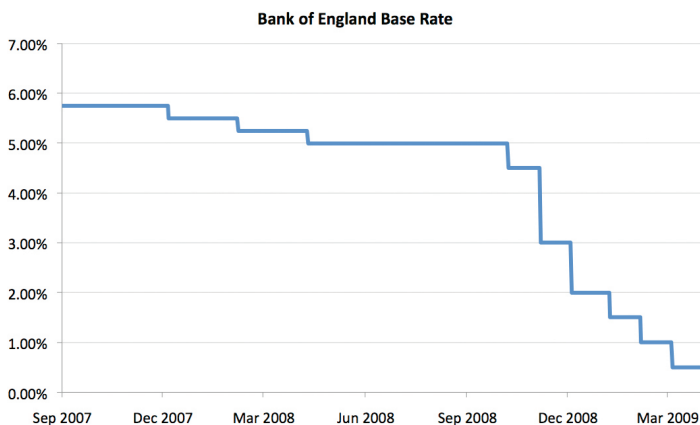
## Investment Summary

31 March 2009

### Investment Commentary

#### What has been happening?

Or should that be “what hasn’t been happening!” Over the last 18 months, Bank of England Base Rate has fallen from a high of 5.75% to 0.50% at the time of writing. The latter represents the lowest Base Rate since the Bank of England was established in 1694. If events have been extraordinary over the last 18 months then the solutions put forward by world governments have been no less so. Unprecedented levels of government borrowing, bank bailouts galore and the relaxation of laws on the supply of money by the Bank of England have countered one set of extraordinary events with another.



(Source: Barnett Waddingham Investments LLP)

#### Why has the Bank of England reduced its Base Rate so rapidly?

The Bank’s action largely reflects its concerns about demand tailing off across the globe as well as the impact of the credit crunch on banks’ ability and desire to lend. There has been little evidence that the reductions in Base Rate have stimulated demand although the Bank’s actions (as well as similar actions taken by other central banks) may well have staved off even worse conditions that could otherwise have ensued.



#### Reducing prices – why is this bad?

With so much commentary preoccupied with a perceived lack of demand and activity in the economy – the appearance of too little money chasing too many goods and services – it is not surprising that whispers of a period of deflation have dealt a blow to many sectors and the property sector in particular. Deflation in the property market was the chief reason behind Japan’s ‘forgotten decade’ in the 90s which in many ways continues to this day. This fear of deflation is etched deep in the consciousness of governments worldwide and the UK government is no different. Falling asset prices alongside static or rising levels of debt equates to pain for lender and borrower alike.

# Investment Commentary (CONTINUED)

## A remedy?

When domestic demand in the private sector is in retreat, governments often step in to stimulate demand with a mixture of public spending and a relaxation of interest rates and taxation. Governments such as those in Norway and China use reserves built up during happier times to fund their activities. The UK has commenced a programme of "Quantitative Easing" through which the Bank of England will purchase UK Government Bonds and certain Corporate Bonds with money it creates. A chief aim of this exercise is to create more liquidity in the economy – oil the engine if you like – and encourage a situation where demand for goods and services is more evenly matched to the supply.

## Great, it's as simple as that then?

Not necessarily. It is clear that both public and private sector debt are at the core of this crisis. Policies to alleviate the pain of debt are already punishing savers for the benefit of borrowers. Most of us have noticed the reduced

interest rates available for cash deposits but have we taken on board that it might be Sterling as well as other currencies which may be at risk in their roles as 'stores of value'?

With governments here and elsewhere planning to inflate their economies out of this crisis, will this work? If not, we might have our own 'lost decade' of deflation to deal with! If the plans do work, what might happen if too much inflation is 'pumped in' given the unprecedented sums involved?

The system of Quantitative Easing adopted in the UK creates money; it is not already in existence as it is for those countries with reserves to tap. Few doubt the merits of government attempts to stimulate their economies although should we not distinguish between those governments which tap existing reserves to fund their plans from those which create money out of thin air? More importantly, might the market make this distinction and, if so, what might the ramifications be for those aiming to preserve the value of their savings?

## Summary

Much of the world, including the UK, needs moderate inflation and many governments are using every means possible to generate it. The debt and deflationary elements that have been central to the credit crunch crisis are real. Distressed assets and bailouts have been targeted by governments seeking to preserve confidence in the global financial system.

The hope is for enduring confidence in the cash created to support these failed assets. This would enable the successful advancement of government plans to inflate away debts and deflation. If confidence in this new cash fails, a new 'currency crisis' could prevail. Commentators in the US have referred to the current era as 'The Great Experiment'. **We couldn't agree more.**

Could the recent rally in equity markets be evidence of 'green shoots' with strong and growing 'roots'? Markets are now back at January 2009 levels although the losses incurred during 2008 (the FTSE 100 fell 31% during 2008) means that there is a long way to go before the heights of 2007 (FTSE 100 high of 6732) or 1999 (FTSE 100 high of 6930) are regained. **So what do we think?**

Barnett Waddingham Investments LLP benefits from the regular guidance of its economics adviser, Dr Woody Brock of Strategic Economic Decisions. Dr Brock advises a number of eminent individual and corporate clients worldwide and studied under two Nobel Prize winning economists.

In his April memo, Dr Brock urges readers to remain extremely vigilant and to adopt highly defensive strategies. He also comments: "Economic history of the first order is now being written and only time will tell whether traditional government policies can succeed in restoring sustainable growth". **Unsurprisingly, we agree.**

## Cash Deposits

Given recent events in the global financial system we have reviewed the selection of banks with whom Barnett Waddingham have established streamlined application processes for pension scheme bank accounts. We can also help with personal, corporate and charity monies and term deposits are also available over varying time periods:

### Rates as at 31 March 2009\*

---

Anglo Irish Bank No-Notice Deposit Account: (Minimum interest rate Base Rate until 2011) **3.00% AER\*\***

---

Scottish Widows Bank Deposit Account: (Minimum interest rate 0.25% below Base Rate) **2.00% AER\*\*\***

---

Royal Bank of Scotland Deposit Account: (Minimum interest rate 0.20% above Base Rate) **0.70% AER**

---

Bank of Scotland Current Account: (Minimum interest rate 0.20% below Base Rate) **0.30% AER**

---

(Source: Barnett Waddingham Investments LLP)

\*Bank of England Base Rate 0.50%

\*\*decreased to 2.75% with effect from 6 May 2009

\*\*\*decreases to 1.75% AER on balances below £50,000

## Our Services

### Investment advisory services

At Barnett Waddingham Investments LLP, we are constantly vigilant to the fact that investments in non-cash assets such as property, shares, fixed interest securities and other assets can go down in value as well as up. We also frequently remind ourselves and investors that an asset or portfolio which has decreased in value by, say, 50% then needs to increase in value by 100% in order to restore the original value. Estimations and forecasts are an inevitable aspect of the financial world but we believe it is wise to remember this simple yet incontrovertible fact. Losses hurt and whilst most investors like their portfolios to achieve attractive growth, it is also common to find that investors dislike losses more than they like gains.

We believe that people make a difference to investment returns. To us, it is common sense that, as in any profession, there are good fund managers and bad fund managers. Our job is to find the winners to ensure that performance remains excellent compared to their peers.

Our investment service is customised to the needs and requirements of each client. Only high quality, liquid assets are recommended. High charges and penalties are avoided and there is a real emphasis on transparency and simplicity.

Combining these principles with an assessment of investors' propensity for investment risk forms the core of our investment service.



## Our Services (CONTINUED)

### Direct offer investment services

For those clients who prefer to select their own investments without advice from Barnett Waddingham Investments LLP, we offer a service in conjunction with Selftrade, one of the UK's largest execution-only stockbrokers and part of the Société Générale Group. A wide range of listed investments including UK and international shares, gilts and investment funds is available via Selftrade. Dealing is online or by telephone, with a standard dealing fee of £12.50, no dealing fee on fund purchases, no account charge, no annual fees, and no inactivity fees.

Barnett Waddingham Investments LLP also has its own share class of an Open-Ended Investment Company fund managed by Sarasin LLP. By investing in this fund on a direct offer basis, there are no entry or exit costs – meaning that a £25,000 investment would have an immediate cash-in value of £25,000.

The fund accepts lump sums or monthly payments and is categorised as a Cautious Managed fund by the Investment Management Association. The fund aims to achieve a minimum return of RPI plus 3% on a rolling three year basis.

### Retirement options services

The decisions made at retirement such as annuity purchase and income drawdown can have important ramifications in respect of death benefits and the level of risk to one's pension capital and income. There are also many pensioners utilising income drawdown who face the prospect of falling pension levels in the coming years because of falls in asset prices, gilt yields and interest rates. We believe that detailed advice on retirement options is crucial in order to improve the chances that expectations will be met. Amongst the services provided is a 'whole of market' annuity advisory service via which we are frequently able to facilitate substantial increases in annuity income compared with the rates available elsewhere.

### Would you like to know more?

If you are interested in more details of any of the above, please contact your usual Barnett Waddingham consultant.

Barnett Waddingham - MAY 2009

Chalfont Court Hill Avenue Amersham HP6 5BB Tel: 01494 788100 Fax: 01494 788800	Rigby Hall, Rigby Lane Bromsgrove B60 2EW Tel: 01527 559111 Fax: 01527 559222	St James's House St James's Square Cheltenham GL50 3PR Tel: 01242 538500 Fax: 01242 538501	163 West George Street Glasgow G2 2JJ Tel: 0141 243 4400 Fax: 0141 243 4432	West Riding House 67 Albion Street Leeds LS1 5AA Tel: 0113 394 3700 Fax: 0113 394 3760	Port of Liverpool Building Pier Head, Liverpool L3 1BW Tel: 0151 235 6600 Fax: 0151 235 6640	Cheapside House 138 Cheapside London EC2V 6BW Tel: 020 7776 2200 Fax: 020 7776 3800
--	---	---	---	---	---	--

Barnett Waddingham LLP is a body corporate with members whom we refer to as "partners". A list of members can be inspected at the registered office.

Barnett Waddingham LLP (OC307678), BW SIPP LLP (OC322417), Barnett Waddingham Investments LLP (OC323081), and Barnett Waddingham Actuaries and Consultants Limited (06498431) are registered in England and Wales with their registered office at Cheapside House, 138 Cheapside, London EC2V 6BW.

Barnett Waddingham LLP is authorised and regulated by the Financial Services Authority and is licensed by the Institute of Actuaries for a range of investment business activities. Barnett Waddingham Investments LLP and BW SIPP LLP are authorised and regulated by the Financial Services Authority. Barnett Waddingham Actuaries and Consultants Limited is regulated by the Institute of Actuaries in respect of a range of investment business activities.