

Investment Summary

30 June 2009

Investment Commentary

Remarkable!

When writing our last commentary, we felt sure our reference to 1694 (the Bank of England Base Rate was and is at its lowest level since the Bank was established in that year) would be our last journey back to the 17th century for years to come.

Since then, we have seen the extraordinary debacle of the parliamentary expenses scandal and related resignation of Michael Martin as Speaker of the House of Commons. Mr Martin was the first Speaker to be forced out of office since Sir John Trevor in 1695.

What might our next commentary refer to from all those years ago? Well, in 1696, Freedom of the Press was granted by the British Government which had already relaxed censorship following the Bill of Rights in 1689. Let us all hope that we will not be referring to any changes in this area anytime soon!

What about those green shoots of recovery?

We've heard a lot about these (to a large extent from Government ministers) during the last few weeks. Are they here now and, if so, will they flourish?

As we have noticed on a number of occasions during the past two years, bad economic data always seems to be a couple of strata down below these glowing daily economic headline flows.

Invesco Perpetual's acclaimed fund manager Neil Woodford has said recently that the green shoots are already starting to look illusory and he is not forecasting an economic recovery for the next three to four years. 'In my view, when considering economic recovery it is essential to look at how we reached the position we are in today' he said. 'The consumer boom, built on easy access to credit, the housing market bubble and the excessive risk and leverage adopted by banks all grew over a number of years. These massive imbalances built through the extended boom phase of the



economic cycle and just as they took a long time to build, they will also take some time to address'.

The UK's Gross Domestic Product is highly dependent on consumption. The latter has been highly dependent on leveraging (debt) in the past. Simply put, until the situation returns where borrowers want (rather than just need) to borrow and lenders want to lend, it is difficult to see how any green shoots can evolve into something more tangible. Millions of people throughout the country are (rightly) saving more, paying down debt or both. Banks who are lending are doing so based on much more stringent lending criteria and at historically high interest rates compared to Base Rate. Moreover, the UK Government continues to borrow vast amounts via Gilt issuance (see figure 1 overleaf) and also needs to tackle large unfunded liabilities such as public sector pensions. In short, we as yet see few growing roots appearing to replace references to green shoots.

Investment Commentary (CONTINUED)

What about Bank of England Base Rate?

This has remained at 0.5%. Of course there is little room to move rates downwards although Quantitative Easing has continued since our last commentary. High Street banks and other lenders remain reluctant to lend freely and instead appear to be using their improved liquidity to reinforce their own balance sheets. The resultant position in respect of mortgage approvals and other consumer credit remains subdued as does the domestic economy.

Debt?

Parallel to the massive deleveraging that has taken place within the private sector, the UK Government has simultaneously been taking on record levels of debt on behalf of the nation (see figure 1) with the intention to borrow an additional £300 billion over the next two years. We are concerned about the market's views if this trend of proliferation continues.

Figure 1
Net debt as a percentage of GDP



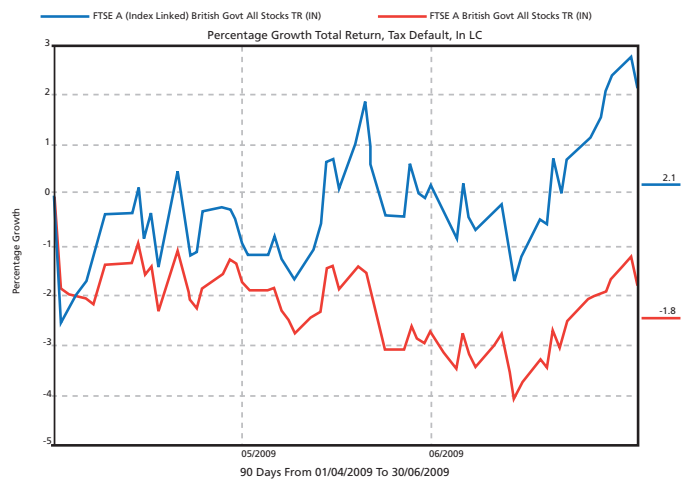
Source: Office for National Statistics

Reducing prices?

We referred to reducing prices in our last commentary and asked the question why, counterintuitively, this could be a bad thing.

The Retail Price Index (RPI) for June 2009 was -1.6% which follows a figure of -1.1% in May 2009. Recent evidence therefore suggests that deflation i.e. a reduction in prices rather than disinflation - a reduction in the rate of increases in prices, could be taking hold within certain sectors of the economy. Looking at the graph in figure 2, the markets indicate a stronger demand so far this year for index linked rather than fixed interest government bonds.

Figure 2



Source: Lipper

This contradicts the RPI data of course and therein is a key dilemma for investors: which is it to be in future, deflation or inflation? This is a vital yet difficult area for consideration from an investor's viewpoint.

Summary

We referred to 'The Great Experiment' in our last commentary and noted the need to remain extremely vigilant.

This remains our view. We understand the difficulties being faced by savers as a result of policies espoused in the UK and elsewhere by governments attempting to take away the pain of debt. The markets currently appear to believe that those efforts are likely to be successful (i.e. they predict inflation). Whether the market is right and, if so, when and how inflation may take hold are intrinsic to the considerations required. The potential differences in eventual outcomes have rarely been more extreme – The Great Experiment.

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 30 June 2009*

Scottish Widows Bank 1 Year Fixed Term Deposit Account:	3.00% AER**
Scottish Widows Bank Deposit Account: (Minimum interest rate 0.25% below Base Rate)	2.00% AER***
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%.

** This rate is fixed for twelve months from 19 August 2009. Applications must be received and accepted by Scottish Widows Bank before 19 August 2009. Following this date the rates available from Scottish Widows may be reviewed.

*** Decreases to 1.75% AER on balances below £50,000.

New Service

Many of you will have held investments in bonds, shares and managed funds within your pension schemes for a number of years. If you would like to receive a report, free of charge, which will show you how these investments have performed on both an absolute and relative basis versus similar funds or benchmarks such as the Bank of England Base Rate, please let your usual Barnett Waddingham consultant know.

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.

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.



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