

THIS EDITION:

In conversation

Neil Michael talks about MarketGrader and the new SPA Exchange Traded Funds

Cash

Make that cash work harder, says Mark Glowrey

Sectors

Ian Henderson explains why he is still very upbeat about the natural resources sector

Funds

Stephen Barber reports on EDHEC's new fund Alpha League Table

Commodities

Demand for commodities has rarely been higher reports Nik Bienkowski

SIPPs

Stephan Wood explains SIPP simplification

Infrastructure

Invest in assets the world relies on says First State

Asset Outlook

Global asset views



Structuring your portfolio

selftrade
research

AUTUMN 2007

Asset Allocator

Selftrade offers an execution only sharedealing service. No part of this newsletter should be construed as an invitation to invest or advice. The views of the authors are not necessarily those of Selftrade or indeed their own organisations. Selftrade is a trading name of Talos Securities Ltd, which is authorised and regulated by the Financial Services Authority (FSA No. 208271) and is a member of the London Stock Exchange. Selftrade, Boatman's House, 2 Selsdon Way, London E14 9LA
Tel: 0845 0700 720 Email: info@selftrade.co.uk www.selftrade.co.uk

Neil Michael

Head of Quantitative Strategies at London and Capital talks to Selftrade's Stephen Barber about MarketGrader and the new SPA Exchange Traded Funds.

What is MarketGrader?

It's an independent research provider based in the United States, which creates the enhanced indices that SPA ETFs track. The company was founded in 1999 and covers approximately 5,700 US listed companies. They are a research provider to Barron's and some of the world's leading investment houses and a research contributor to BNY Jaywalk, the independent equity research consultancy of The Bank of New York. MarketGrader's stock research is used by thousands of individual investors around the world.

How are the Indices constructed?

MarketGrader's family of Indices are constructed on the basis of a quantitative fundamental model, in the following way: Firstly, MarketGrader evaluates, daily, around 5,700 equities listed on US exchanges, using 24 fundamental factors centred around Growth, Value, Profitability and Cash Flow. Then each stock is given a score between 0-100 based on this analysis. Thirdly, a basket of the highest ranked stocks are selected for an index, provided they comply with the rules of this index. Each index is then equally weighted to allow each stock to contribute to the overall performance. Finally, each index is regularly re-balanced (either quarterly or semi-annually) to ensure fresh selections of the most fundamentally attractive stocks.

The indices therefore capture multiple sources of alpha in a systematic way, thereby avoiding the errors of discretionary trading.

What geographical exposure do they achieve?

They cover approximately 5,700 US stocks. Many people who currently gain US market exposure using a tracker fund or exchange traded fund could look to SPA ETFs as an alternative that seeks to outperform the market. If you have invested passively because you do not have experience picking stocks in this region, then this can be a way of adding value to your portfolio. Equally, investors that have invested in an actively managed fund and are disappointed with the performance could also look at SPA ETFs as an alternative.

Is that any more attractive than a traditional index?

The performance has been strong. As an example, as of 28th September 2007, the MarketGrader 100 Index was up by 18.46% (YTD), compared to the S&P 500, which is up by 7.65% over the same period. The SPA MarketGrader 100 ETF, which is based on this Index, was up 3.29% since its launch on the 14th September 2007 to the 28th September 2007.

Is it more risky to use this type of approach?

A good measure of relative risk is the Information Ratio. This is a measure of return per unit of risk and the higher the Information Ratio is the better. This demonstrates that

although the MG indices do exhibit higher volatility than a benchmark index such as the S&P 500, the higher returns more than make up for this volatility on a risk-adjusted basis.

How might these new ETFs be used in a diversified portfolio?

Our family of ETFs provides investors with the ability to gain exposure to the US market. They provide a versatile tool with fundamentally driven alpha generating capabilities and should be a cost effective, easily accessible way to implement many investment strategies. Each index has its own rules in place to ensure liquidity in the underlying stocks and diversification (by sector or size). They provide a strong alternative to most existing ETF's that track major US indices. For example, if you are currently invested in an S&P 500 tracker, you could improve your return per unit of risk of your portfolio by taking a weight in one or more of the SPA MarketGrader ETFs.

Research says that approximately 85% of all active fund managers actually under-perform in the long run, so we believe our products will also compare well as an alternative to most active funds focused on this market too.

Have you any plans for subsequent launches?

We are planning parallel listings of our existing products in the US and also in Europe very soon. We also plan to expand the MarketGrader series by issuing a series of ETFs based on US sectors over the course of the next 6 to 12 months.

Once this is completed, we can then look forward to expanding the MarketGrader concept of fundamental indexation to cover other major developed markets as well as the US, looking to Europe and Asia.

Neil Michael's CV

Neil Michael is Head of Quantitative Strategies at London and Capital. He is responsible for quantitative portfolio management and analysing and developing the MarketGrader exchange traded funds.

Previously, he was a Portfolio Manager at West End Capital Management (Bermuda), managing their quantitative equity relative value strategy for a multi-strategy hedge fund which was funded by Warren Buffett. Prior to this he was a Portfolio Manager at Gulf International Bank (UK) for five years, where he developed and then managed their quantitative asset allocation and equity statistical arbitrage strategies. Neil has also worked for ING Baring Securities Ltd in the emerging markets index group, developing quantitative enhanced index strategies. He has a BA in Economics with Econometrics from Reading University and an MA in European Studies with Econometrics from Sussex University.



Make that cash work harder!

Mark Glowrey reviews the options for cash held in SIPPs

Good investors put their money to work, but inevitably end up with some spare cash knocking around the account from time to time. This could be for a variety of reasons; some asset allocation models believe that 10% or so cash is a reasonable balance, other investors might have a lump sum waiting to be gradually invested whilst active investors may be playing a market-timing strategy, rolling out of equities in market peaks and buying back into the dips.

Whatever your reasons for holding cash, over the longer term it will be important for your portfolio's overall performance to ensure that the money is attracting a competitive rate of interest (note, brokerage accounts typically pay a sub-optimal rate on surplus cash).

Perhaps the first ports of call are money market funds. Here the fund manager will spread your money across a range of money market instruments, ensuring a healthy level of diversification. We have listed two popular money market funds below:

Manager	Fund	AUM (millions)	Price	Performance		Initial charge	Annual charge
				1yr	3yr		
Fidelity	Cash Inc	£389	£1.00	4.1%	11.4%	0%	0.4%
M&G	High Interest	£237	£0.25	3.7%	11.7%	0%	0.5%

The main disadvantages of money market funds are the initial and annual charges, however Selftrade currently charges no dealing fee on fund purchases and offers more than 200 funds with a 0% initial charge, reducing the impact on active traders who wish to flip between cash and shares. (link to fund selector in pdf)

Another option for investors who wish to soak up some cash is to buy shorter dated bonds. At present, market conditions are favourable for this type of trade. The yield curve is inverse with short-term interest rates higher than long-term interest rates. Also, the recent credit-crunch in the money markets has squeezed money-market rates (and thus the yield on short-term bonds) to 6% plus, a rate of return not seen since the turn of this decade. We have picked three short-dated candidates from the selection of corporate and other bonds available on the Selftrade website. Price and yields are based on those on offer on the morning of October 11. (link to microsite in pdf)

Bond	Coupon	Maturity	Issue size	Price	Yield (annualized)	Rating
Tesco	6%	13 Jun 08	250 million	99.58	6.3%	A+
Vodafone	6.25%	10 July 08	400 million	99.75	6.5%	A-
EIB	4.5%	23 Oct 08	3 billion	98.7	5.8%	AAA

These yields are attractive, and beat those on offer from the money market funds. However, buyers of individual issues should be aware that they will lack the diversification offered by the money market funds. Thus, if only one bond is to be bought it makes sense to go for the higher quality (and lower yielding) EIB issue, ensuring that one gets a good night's sleep.

Also bear in mind that the rates shown are yields to redemption, and these will be adversely affected if the bond is sold before the end of its term.

Note: These strategies are intended for SIPP funds only. Neither cash funds nor short-dated bonds are eligible to be held in an ISA.

Mark Glowrey is Director of Investors Intelligence.

Selftrade customers can find regular bond selections, a model portfolio and tools to help select suitable bonds on the Fixed Income Microsite, available through the Research section of the website.



New Funds

PSigma

- European Income Fund
- American Growth Fund

Lyxor ETFs

- Brazil
- Russia
- China
- MSCI Asia

BGI iShares ETFs

- Timber and Forestry
- MSCI Latin America

Natural Resources – still a natural born winner?

Ian Henderson explains why he is still very upbeat about the natural resources sector.

Certain trends seem to fizzle for so long you sometimes wonder if they'll ever run out of fuel. Take natural resources – some question its momentum, such as the stellar returns the sector has produced over recent years, but despite a few recent blips I feel resoundingly positive about the sector's long-term outlook. You may think I'm biased, but there are many sound reasons why I remain so optimistic.

For one, much of the recent sell off in the sector has been vastly overdone, as most of the companies within it are not affected by any subprime or credit crunch woes. But they were tainted with the near panic nevertheless, and in my view, unfairly, so there is good value around if you know where to look.

The simple story of supply and demand is another one of the main factors fuelling my confidence. China, India and the other emerging economies have been prominent in the spotlight lately with their ravenous hunger for commodities – and while I broadly agree this appetite will remain for the medium to long term, I believe one must always be selective. It takes much digging and confidence gained from experience to unearth the true gems in an already compelling sector.

The numbers for China, however, are unprecedented, and despite much bluster they really do underpin much of the recent and forecasted growth spurts. For example, it's the largest consumer of every commodity except oil, devouring 20-30% of the global demand for base metals today, which is likely to double by 2010.

This is to fuel precipitous city growth – 150 cities with more than 1m people (compared to Europe – 36 and the US – 9). It is likely these cities will propel the next wave of economic growth and prosperity. Why? Because of a burgeoning middle class – more wealth creates more demands. New houses, new domestic appliances and as an indication of aspiration: 8 out of 10 Beijing brides demanded a diamond ring in 2005.

The domestic story is also helped by the continued faith in home brand products. After more than a decade of embracing all things Western, the Chinese are turning to things Chinese. Today, mainland companies are no longer churning out only shoddy goods. They are producing products that in the eyes of consumers rival or are better than those in the West. The result: as Chinese companies grow, so do their infrastructures and their need for resources to build. This is why I am still bullish on the long-term prospects for nickel. Yes, it has produced astonishing growth since 2001 – soaring over 1,000% at one point – but its recent slump since early June may present a buying opportunity.

Also, if you glance at its inventories on the London Metal Exchange, they remain below one day of demand. That's extremely tight to say the least. And this coupled with its demand as an ingredient of stainless steel (think of all the construction

in China alone!) then you can also perhaps share my view that there is still much growth potential in nickel.

Uranium, too, is affected by China's surge. Although many would say it has dropped back to fair value after its spot price surged to almost \$140 in June before diving to \$85 as at the end of September. But optimism emerges as we discover the price drop is largely due to the presence of sellers driven by cash requirements, such as the US Department of Energy (DOE).

This, however, is potentially a short-term measure and we must remember there are currently 442 reactors in the world needing 180 million pounds of uranium each year. Although, in 2005 only 110 million pounds were produced – so you can see the shortfall. With 28 new reactors being built and 34 planned, together with the global push for less CO2 emissions and China and India expected to dramatically increase their nuclear capacity... this is why I believe there is still a lot of upside potential.

Precious metals, too, remain very attractive as their growth is driven by strong fundamentals. Take gold for example. Despite its steady climb over the past couple of years, once you strip out inflation it's far below its historic highs. Many central banks with no or low reserves are also due to beef up their holdings.

Bearing in mind the traditional flight to gold over concerns of a US recession and even with 23 new mines being built, there is still not enough to offset recent declines in production. There has also been a phenomenal increase in gold demand in India. As it is mainly used as gifts for weddings, and as the country gets more prosperous, demand could be up as much as 50% this year.

As far as soft commodities go, wheat prices have marched relentlessly higher as global supplies have shrunk. Smaller-than-expected harvests around the world this year have left stockpiles depleted, even as demand continues unabated. So we certainly see more potential here. Finally, it's worth noting that this year and next year you're going to see quite a number of new projects coming on stream, which obviously is new supply coming onto the market – which will add to the profits of the big companies.

And what amazes me, even today, is that despite the very strong performance from the sector as a whole, they're still trading at a discount to the market at large, they're buying back their shares, they're increasing their dividends, and they're growing organically as well. So this is why I am so positive about natural resources and the thirst for them by the emerging super-economies. Because what drives the sector are massive supply and demand disparities. And irrespective of what happens in the markets, the needs of the masses are not likely to dwindle in the medium to long term.

Ian Henderson is the fund manager for the JPMorgan Natural Resources Fund – one of the top performers in the entire OEIC universe, rising 399% over the past five years (as at 31/08/07).

Alpha Funds

Stephen Barber reports on EDHEC's new fund Alpha League Table

Aberdeen has come top of the league in French business school EDHEC's 2007 alpha survey of UK funds. The Europe-wide survey also ranked UK funds ahead of continental rivals including France, Switzerland, Spain and Italy by percentage of funds delivering positive alpha.

Alpha measures excess return a fund generates, that is risk-adjusted performance, and the league table ranks asset managers by their ability to deliver alpha.

Alpha is an interesting measure because it seeks to tell an investor how much of a fund's performance is as a result of management rather than simply market movement. Alpha ratings are, therefore, useful in both rising and falling markets. They show the value a fund manager brings to the selection of instruments.

Unsurprisingly given the nature of the statistics, the list is entirely filled with the big names in British asset management with Jupiter and M&G taking second and third place respectively. Hugh Young, Head of Equities, at Aberdeen told Asset Allocator:

"We are delighted to be acknowledged as a leading alpha generator. It is a reflection of our disciplined investment process which focuses on meeting company management, undertaking rigorous analysis before investing and employing a buy and hold strategy for the long-term, ie a 3-5 year time horizon. However, we are aware that our approach does sometimes mean there will be periods of underperformance, but hopefully over the long-term we can provide investors with strong returns."

Naturally in any quantitative analysis, such as this, rankings should be used as just one of a number of factors used to select funds. After all simple statistics takes no account of the objectives of a fund. For instance, predominantly defensive or income generating funds might not offer such impressive alpha ratings but would nonetheless meet the investment objectives of its unit holders. So while it is always important to look behind the numbers, combined with more qualitative considerations, this measure may become useful, especially as longer-term data becomes available.

Stephen Barber is Head of Research at Selftrade and Editor of Asset Allocator

Pre-Budget Debate Rumbles on

New Chancellor Alistair Darling must be reflecting that he has got something right in his recent pre-Budget report as both business and trade unions have criticised his new 18% flat capital gains tax rate. While business interests have bemoaned the increase to a level which is still lower than the basic rate of income tax, private investors might well reflect on the Chancellor's 'generosity'. Not only has he simplified the system, removing the complex taper relief introduced by his predecessor a decade ago, but he has reduced the charge from a typical marginal rate of 40%.

This has implications for not only investment in stocks and shares but also buy to let properties. The Treasury has been very keen to improve housing market stability by introducing measures to improve long-term fixed mortgages (that in turn should increase Sterling bond issuance). This could be undermined in one fell swoop by making second property investment more attractive for higher rate tax payers. One has to question whether these repercussions were properly thought through.

Elsewhere, AIM has continued to make some progress despite the CGT change which (because AIM heretofore enjoyed the 10% rate) encourages gains to be taken before the tax year end. Nevertheless, while we have come to expect the junior market to outperform the FTSE 100, AIM is now showing signs of under-performing the main market.

NAME OF COMPANY	ALPHA FREQUENCY (%)	AVERAGE ALPHA (%)	FINAL SCORE (%)	RANKING
Aberdeen	81.21	3.48	2.82	1
Jupiter	78.53	3.42	2.68	2
M&G Securities	57.99	4.38	2.51	3
Old Mutual	66.66	3.24	2.17	4
Schroder Unit Trusts Ltd	59.02	2.89	1.71	5
Fidelity	68.13	2.36	1.61	6
Invesco UK Ltd	58.69	2.51	1.48	7
Investec Fund Managers Ltd	51.73	2.87	1.48	7
Blackrock Merrill Lynch Investment Managers	65.76	2.24	1.47	9
J.P. Morgan Fleming Asset Management	49.76	2.96	1.47	9

How commodities can benefit a balanced portfolio

Demand for commodities has rarely been higher reports Nik Bienkowski

Investors have been demanding access to commodities for some years. Consequently, demand for these products has grown exponentially to over \$100 billion and more recently, demand for Exchange Traded Commodities (ETCs) has reached \$30 billion. Because commodities have low correlation to equities and bonds, they provide excellent diversification benefits for a balanced portfolio. Investors who were not able to invest in commodities can now invest in commodities through ETCs. With over 50 ETCs listed on the London Stock Exchange, investors can now trade commodities - such as corn and wheat or baskets of commodities such as Agriculture - simply through ordinary brokerage accounts.

Diversification

One of the main reasons for investing in a range of different asset classes is that their returns tend not to move in perfect unison. For example the gold price falls on average when equities rise, and vice versa. When two assets move in opposite directions, they are said to be negatively correlated, and when their correlation is close to zero, they are said to be uncorrelated. The lower the correlation between two assets, the more a portfolio can benefit from the inclusion of the new asset. Because commodities are low or negatively correlated to equities and bonds, an allocation to commodities can improve portfolio performance by increasing returns and/or decreasing risk.

It is not surprising that commodities are not correlated to equities - the price of commodities are affected by factors which do not affect the general equity market such as: supply-demand factors specific to that commodity; price and discovery of substitutes; exploration successes; the weather and demand for alternative fuels to name a few. These factors are generally specific to commodities and not the overall equity market. As a result, commodity prices move independently to equity prices.

How can I get exposure to commodities?

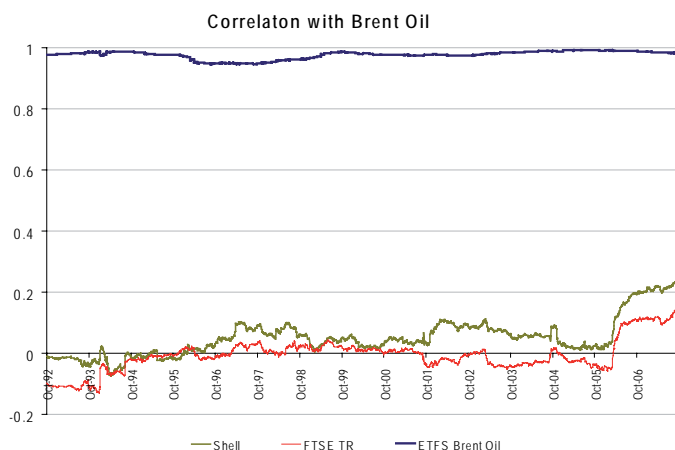
Other than by using futures, and until the advent of new products such as Exchange Traded Commodities (ETCs), there was no simple way to gain direct exposure to commodities – exposure was obtained indirectly through commodity companies (eg, BP, Rio Tinto) and commodity funds. There are significant differences between direct and indirect exposure to commodities and it is important that investors understand these differences when thinking about investing in commodities.

- Commodity price risk or company risk - direct investment provides exposure only to commodity prices while indirect exposure through commodity companies provides exposure to equity risk-returns which are affected by management, financial, and operational risks and benefits.
- Exposure to commodity prices – the share prices of commodity companies are more correlated to the equity market than to commodity prices whereas direct investment

is near-perfectly correlated to commodity prices. If an investment is made in commodity companies purely for the exposure to commodities, that investment would be better made through a direct exposure. Chart1 shows that ETS Brent Oil was almost perfectly correlated to the oil price whereas Shell had a 0% to 20% correlation to the oil price – this is not surprising since large oil companies have many different businesses operating in different markets.

- Correlation and portfolio performance – numerous independent studies have shown that commodities can benefit a portfolio more than commodity companies. Due to the low correlation between direct commodities investment and the equity market, direct commodities investment can improve portfolio performance by lowering volatility and/or increasing returns while providing better portfolio protection during equity market downturns.

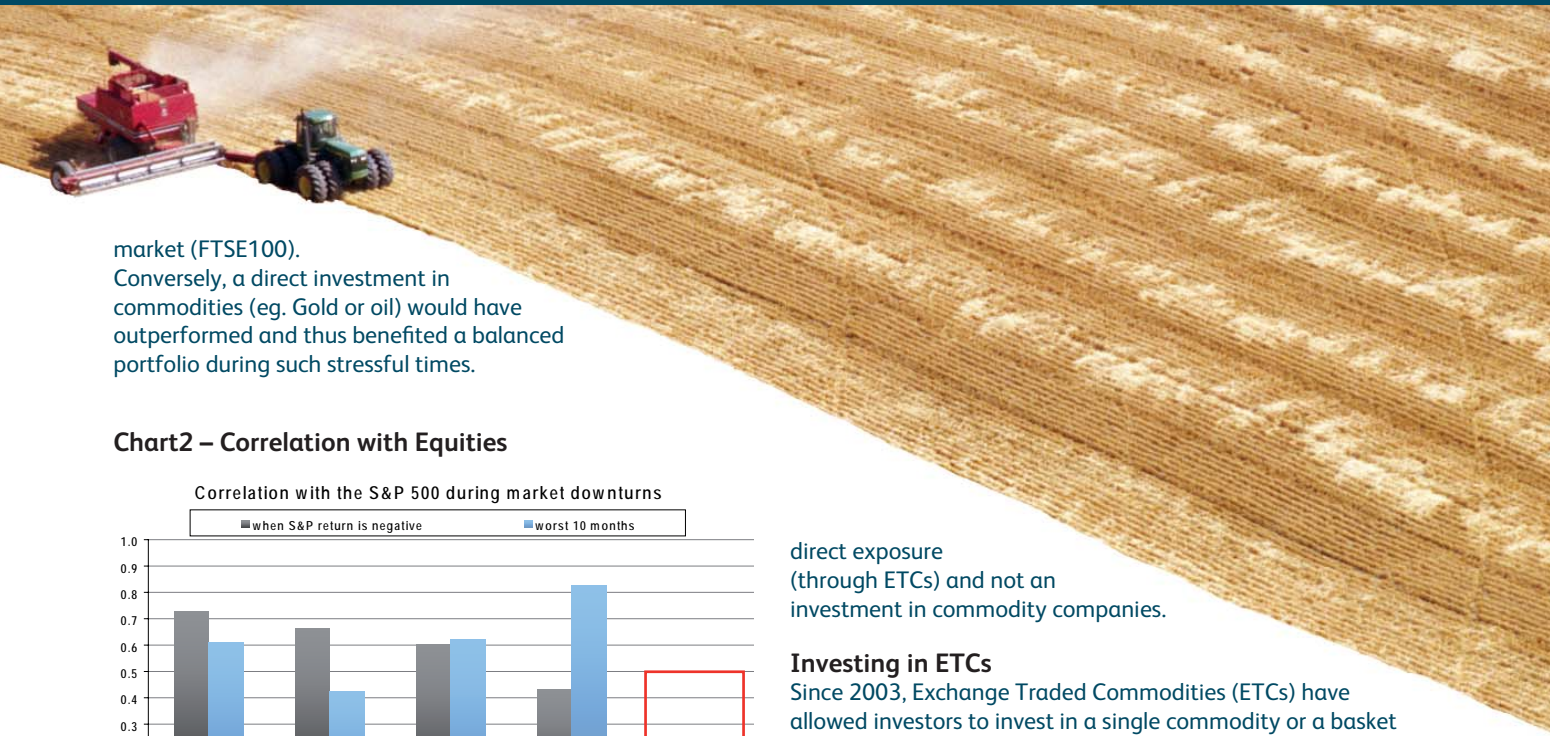
Chart1 – Correlation to Commodity Prices



Commodities can protect a portfolio

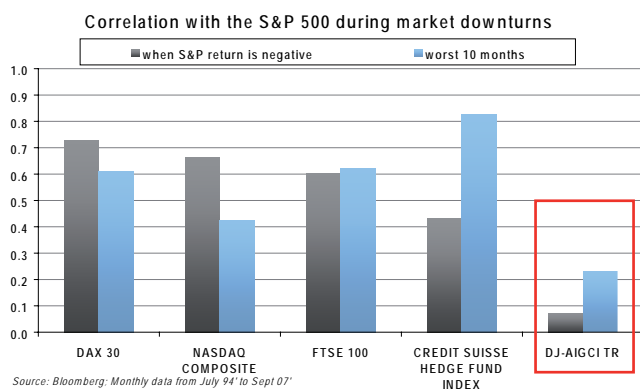
One of the added benefits of low-to-negative correlated assets, such as commodities, is that the low correlations should hold when the portfolio requires this characteristic to remain robust. Chart2 below show that when equities suffer falls, other equity markets also fall, remaining highly correlated and in some instances become more highly correlated – the opposite of what the portfolio needs at that time. The best diversifying index in Chart2 is the DJ-AIG Commodities IndexSM.

Chart3 shows the performance of commodities and commodity companies when the equity market performed badly. The returns from owning commodity companies (gold equities and oil equities) were similar to the returns of the general equity



market (FTSE100). Conversely, a direct investment in commodities (eg. Gold or oil) would have outperformed and thus benefited a balanced portfolio during such stressful times.

Chart2 – Correlation with Equities

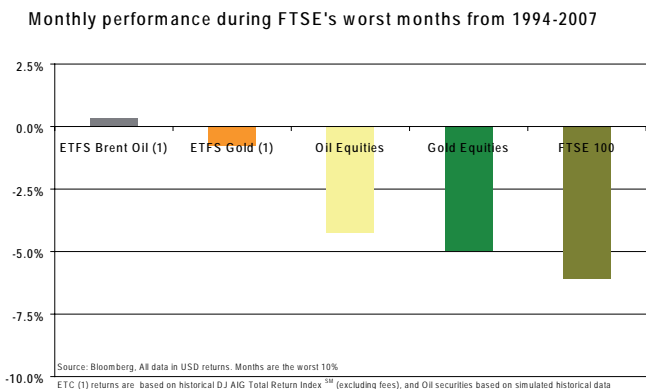


direct exposure (through ETCs) and not an investment in commodity companies.

Investing in ETCs

Since 2003, Exchange Traded Commodities (ETCs) have allowed investors to invest in a single commodity or a basket of commodities in a single trade. Previously, direct investment in commodities was not possible for ordinary investors because commodities: (i) were only traded on futures markets; (ii) were traded in large amounts (1 oil futures contract is equivalent 1,000 barrels of oil or approximately US\$75,000 per futures contract); (iii) were traded on different exchanges in different time zones; and (iv) required daily management of positions and margin. ETCs remove all these barriers and allow inventors to invest as little as \$2.00 to \$130.00 per ETC. Ordinary investors can now trade ETCs through PEPs, ISAs and ordinary brokerage accounts. With ETCs, investors now have access to an asset class which can improve portfolio performance and which was previously only accessible by sophisticated investors.

Chart3 – Returns when equities perform badly



Through innovation, new asset classes are becoming available to ordinary investors. Commodities are one such asset class and through ETCs investors have been given a new tool to manage their portfolios. Commodities can reduce portfolio risk through their low correlation to equities and bonds. Commodities may also benefit a portfolio during falling and/or volatile markets. In addition, investors now have access to the commodities bull market caused by years of declining inventories, increasing consumption of non-renewable commodities, rising input costs, an increasing world population and the modernisation of the world's largest emerging countries such as China.

When deciding to invest in commodities, it is necessary to consider all the choices and reasons for investing in commodities. If exposure to commodity prices or increased diversification is the main objective, then the optimal solution is

Nik Bienkowski CFA is Head of Research, ETF Securities Limited

Transferring pension benefits to SIPPs

Stephan Wood explains Self Invested Personal Pension simplification

You may or may not have heard the term 'Simplification'. This term was applied to the major changes in legislation in relation to pensions that came into effect on 6th April 2006.

The idea was that all the previous regimes would be removed and replaced with one single structure. Overnight everything became more straightforward and easier to understand. Excuse the chuckle and / or tears of frustration!

One area that should now be more straightforward is the idea of transferring your pension arrangements from one scheme to another. Now, instead of having occupational schemes, pre 1987 schemes, post 1989 schemes, CIMPS, COMPS and all other manner of letters, all schemes are now Registered Pension Schemes.

Many people wish to consolidate their pension arrangements under one single pension with one provider. One of the vehicles that is most common for this is the Self Invested Personal Pension Plan (SIPP). A SIPP can accept transfers from any other Registered Pension Scheme and has the flexibility to diversify your investment portfolio much more than a traditional pension. Combined with the flat rate charging structure (though not all operators offer this) and additional facilities such as Unsecured Pension, this product has become one of the fastest growing products in the pension market.

Whilst in some respects transfers are easier to process than they were before, there are still things to watch out for that could lose you valuable benefits if you transfer without fully understanding the consequences or taking independent financial advice. Transferring is not without risk because if your investments have to be cashed (this may apply also to in-specie transfers) for the transfer you may be out of the market, so timing can be an issue. Also some ceding scheme administrators are very poor in processing transfers. The best operators can take a few weeks but some transfers have been known to take a year or more to process.

Check with the ceding scheme as to their standards so that you are not surprised. You can double check with your new scheme operator to see if they have the same view.

You may also have the choice of transferring assets in-specie. This is particularly so if you are transferring from one SIPP operator to another and are looking to transfer assets in kind from a current stockbroker to your new one. Our experience with transfers to Selftrade has been good but smooth transfer of assets is dependent upon the brokers involved.

The problem is that, although all schemes are the same in name, they are still different. There are some potential pitfalls and this article will make you aware of some of them to give you an idea of what to look for.

Tax free cash

Under the new rules, people can now take 25 % from all of their pension arrangements (subject to the Lifetime Allowance). However, there are some people that have entitlement to more than 25 %, usually due to occupational arrangements that they had in the past.

To avoid the situation that the rules change would adversely affect some people, the rules allowed for certain transitional protections against things like funds valued over the Lifetime Limit and funds with tax-free cash over 25 %. Some of these protections (Enhanced & Primary Protection) are portable i.e. when you transfer, the protection moves with you. However, some protections (like scheme specific protection) can only be transferred under certain conditions.

One of those conditions is that the transfer has to be part of a block transfer i.e. more than one person has to be transferring from the scheme at the same time. Therefore if you have an individual policy with tax-free cash higher than 25 % of the fund, if you are the only person transferring you will lose all the tax-free cash entitlement above 25 %.

Guaranteed Annuity Rates

Some old insurance company plans (like Retirement Annuity Policies) were sold with additional extras such as Guaranteed Annuity Rates (GARs). At the time when these were sold interest rates were in double digits so the offer wasn't a particularly great addition as the annuity at the time was probably higher than the guarantee. However, in the current climate of low interest rates and low inflation, these GARs are now quite valuable.

If you transfer a plan with a GAR, you will lose that benefit.

Final Salary Schemes

With all the press about final salary schemes not admitting new members, schemes closing, talks of large black holes in funding and companies going bust leaving no pensions for their workers, it is no wonder that people are considering what to do with their final salary schemes.

However, transfers should not be undertaken lightly and careful consideration has to be given to a number of factors. First and foremost it is difficult to compare benefits offered by a final salary scheme to benefits that could be gained through a money purchase arrangement.

This is why there is a process known as a 'Transfer Analysis'. It looks at all the benefits under the final salary scheme and then works out how much the transfer value that is being offered has to grow between now and the time you retire in order to buy the same benefit that you would have had if you stayed with the scheme.

Usually this rate is quite high and it is common to require double digit growth compound per annum just to get back to where you started. This may be acceptable to people who have a high attitude to risk but not for people with a low attitude to risk.

Typically the analysis will not take into account the state of funding in the scheme but some do.

There are other reasons why you may wish to transfer but it is best to have an analysis done so that you at least have all the facts before transferring.

Protected Rights

There are many people who have accumulated Protected Rights either through 'contracting out' directly or by contracting out through their occupational pension scheme. This is particularly true of Final Salary Contracted Out schemes whereby all benefits accrued after April 1997 become Protected Rights upon transfer to a personal pension plan.

The transfer of protected rights to SIPPs has been a problem historically requiring either the protected rights to be left with the ceding scheme or transferred to a separate provider meaning two transfers for each scheme transfer containing protected rights. Where advice is being taken this could involve additional advice costs and certainly duplication of paperwork.

Currently there are limitations in relation to investment of protected rights with many trust based schemes unable to accept protected rights. A few independent operators such as the one operated by the author's firm can accept protected rights which are held in a parallel Appropriate Personal Pension Scheme. This confers at least administrative savings because only one transfer is required and where advice is given reduces potential cost of separate advice for protected rights. Our firm has played a prominent role in discussions with the Department for Work & Pensions for wider investment of protected rights and their direct inclusion in SIPP schemes over the last six years. Our understanding is that draft legislation permitting wider investment may be just around the corner and that legislation may be completed during the summer of 2008. This will increase the attraction of transfers to SIPPs.

Paperwork

Normally ceding schemes will issue a

member discharge which should set out the charges and penalties that apply to the transfer. In addition there will be a receiving scheme questionnaire – schemes amongst other things have to check that they are paying to a registered pension scheme or a qualifying recognised overseas pension scheme (QROPS). Some operators will obtain the paperwork for you when you complete their transfer-in forms. But you can request the discharge forms yourself and once satisfied complete the member discharge and forward this onto your new scheme to complete their part and return to the ceding scheme. The scheme may issue the transfer in the form of a cheque or increasingly make payment of the cash element of a transfer by BACS or CHAPS. Some ceding schemes have an irritating habit of writing to you to tell you the payment has been made when in fact they have only sent the payment request to their accounts department; and a week or more to process the payment is not unknown causing frustration as the payment apparently has gone missing! Payments will normally be direct between schemes.

These are just some of the potential issues that can exist. However, for most people transfers will still be relatively straightforward and SIPPs will continue to grow in popularity as people decide to take more control over their future.

However, before you transfer, if you are not sure about any aspect, speak to your current scheme, speak to the scheme that you want to transfer to and unless you are very confident about the costs and penalties both direct and indirect through lost benefits also seek independent financial advice.

Stephan Wood is Technical Manager, European Pensions Management



Infrastructure

Invest in assets the world relies on says the First State Global Infrastructure Security Team.

Around the world billions of people rely on infrastructure to live and do business. From powering up electricity grids to the water we drink, infrastructure assets are the backbone of any thriving society.

As a consequence of the need for increased private investment in infrastructure, it is emerging as an investment class that has the potential to deliver a combination of stable income and predictable growth.

What is infrastructure?

Infrastructure assets include roads and railways, airport services, marine ports and services, utilities (electric, gas and water), oil and gas transportation. They are essential services that we use and pay for everyday.

Governments have been under-investing in essential infrastructure for decades. Many assets built in the 1950s and 60s are coming to the end of their expected lives while population growth and global development mean demand continues to grow.

The Organisation for Economic and Co-operative Development (OECD) estimates that developed countries will need to spend over USD 70 trillion just to maintain the current level of infrastructure productivity. But ageing populations and rising costs mean that a greater share of public funds need to be directed to health and welfare initiatives. This has led to a growing market for private investment in infrastructure, including recent high profile investments in airports and water companies.

Infrastructure looks set to become a core long-term asset class. With the demand for additional and improved infrastructure certain to grow, and the need for private investment increasing, excellent investment opportunities will emerge.

Why are infrastructure assets attractive?

Infrastructure securities are attractive due

to the essential nature of the assets and the markets they operate within. They display a number of attributes that can make them compelling investments.

- High barriers to entry e.g. the monopolistic nature of electricity and gas distribution networks; anti-competition clauses on toll roads; flight restrictions on city airports.
- Pricing power e.g. regulated and inflation linked returns offered by transmission pipelines or toll charges.
- Predictable cash flows e.g. ongoing demand for basics such as electricity, gas and water; commuter traffic through congested corridors.

Pension fund managers are starting to recognise the value of infrastructure assets in protecting long-term liabilities from the impact of inflation. The emergence of listed funds is now providing retail investors with the means to access this new asset class.

Listed or unlisted?

There are two ways to invest in infrastructure – listed or unlisted funds.

Unlisted funds look to invest directly in infrastructure assets and adopt a hands on approach, becoming involved in business strategy. This level of involvement typically means that unlisted funds only manage a small number of assets. The sheer size of investment needed to purchase assets mean that unlisted funds have traditionally only been available to large institutional investors.

Listed funds on the other hand typically offer a portfolio of 30-60 infrastructure companies diversified by sector and country. Listed infrastructure securities offer a number of advantages, such as diversification, liquidity and transparency, making them more attractive to retail investors.

First State Global Listed Infrastructure Fund

The new First State fund will invest in a

diversified portfolio of listed infrastructure related securities from around the globe.

Investment style

- Active, bottom-up stock selection process
- Market underestimates the level and quality of sustainable free cash flows
- High conviction stock positions integrated with portfolio management risk controls
- Preference for securities that control assets with monopoly characteristics

The First State Global Listed Infrastructure Team

The First State Global Listed Infrastructure Fund will be managed by Peter Meany and Andrew Greenup.

For over 10 years, Peter Meany, the Portfolio Manager, has closely analysed companies that have set best practice on everything from airport retail development to electronic toll collection, from mezzanine debt structures to tax efficient holding companies. As a result we are in a strong position to assess the strategic direction and earnings potential of infrastructure companies.

For further information on the infrastructure investment and the First State Global Listed Infrastructure Fund, go to the Selftrade website.

This commentary does not constitute investment advice and should not be used as the basis of any investment decision, nor should it be treated as a recommendation for any investment. First State recommends you seek financial advice before investing in this fund. For a copy of the simplified prospectus please contact our Client Services team on 0800 587 4141 or email enquiries@firststate.co.uk This fund should be considered a long-term investment. The value of your investment may go down as well as up and we cannot guarantee that you will get back the amount you originally invested. The First State Global Listed Infrastructure Fund invests in emerging markets which may be prone to above average volatility and carry more risk. The Fund is denominated in £ sterling. You should be aware that any currency movements could affect the value of your investment.

Issued by First State Investments (UK) Limited, authorised and regulated by the Financial Services Authority and a member of the IMA. Registered No. 2294743 England and Wales. Registered office 3rd Floor, 30 Cannon Street, London, EC4M 6YQ. Entered on the FSA Register, registration number 143359.

Global asset views

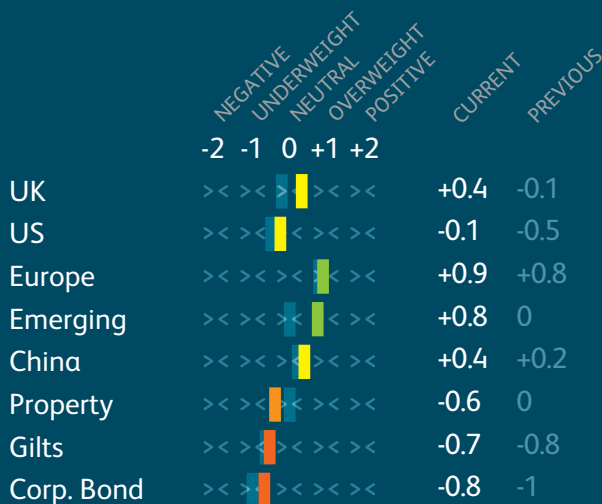
Consensus views on world markets and sectors drawing expertise from fund management groups.

	UK	US	Europe	Emerging	China	Property	Gilts	Corp. Bond
Aberdeen	-1	-1	+1	+2	+1	-1	-1	+1
BlackRock Merrill Lynch	0	-1	+1	+1	0	0	0	-1
Gartmore	0	-2	+2	+1	-1	0	-2	-2
JP Morgan Asset Management	+2	+2	+1	0	-1	0	0	-1
M&G	0	0	+1	0	-	0	-1	-1
Selftrade Research	0	0	+1	+1	+1	-1	0	-1
Schroders	-1	+1	+1	+1	-	0	-1	-1
Société Générale Asset Management	+1	+1	-1	+2	+2	-2	-1	-1
Scottish Widows Investment Partnership	+1	0	0	0	-	-1	0	0
Threadneedle	+2	-1	+2	0	+2	-1	-1	-1

KEY:
 -2 Negative
 -1 Underweight
 0 Neutral
 +1 Overweight
 +2 Positive

Consensus

This snapshot view of world sentiment from some leading fund management groups the other side of the summer's sub-prime financial crisis makes interesting reading especially when compared to the last quarter. While individual fund manager group views have, in places, altered substantially since August, the benefits of consensus views shows consistency and direction. Property might have been expected to have taken the biggest hit and indeed has moved from a neutral to an underweight position. However, all ratings are on the negative side or neutral compared with some overweight ratings last time. Similarly gilts and bonds have remained consistently underweight. But whereas last time there were some overweight and even positive ratings, this quarter sees a greater degree of consensus. Elsewhere in equity dominated areas, there is a greater degree of caution in Emerging and a relatively unchanged stance on China, the US and Europe. Despite forecasts of slowing economic growth in the pre-Budget statement, there is greater positivity towards the UK which moves from a broadly neutral position to an overweight/neutral.





billion airline passengers rely on infrastructure

Around the world, every day, billions of people rely on infrastructure to live and do business. From airports we travel through, to motorways we drive on, to the water we drink – infrastructure assets are the backbone of any growing or thriving economy.

The First State Global Listed Infrastructure Fund provides an opportunity to invest in assets which can offer a solid combination of steady growth and stable income.

First State Global Listed Infrastructure Fund
Invest in assets the world relies on.

For more information

Visit: www.firststateinvestments.com

Call: 0800 587 4141

First State
Investments

*Expert teams
A specialist approach*

This Fund should be considered a long-term investment. The value of your investment may go down as well as up and we cannot guarantee that you will get back the amount you originally invested. The First State Global Listed Infrastructure Fund invests in emerging markets which may be prone to above average volatility and carry more risk. The Fund is denominated in £ sterling. You should be aware that any currency movements could affect the value of your investment.

Telephone calls may be recorded for your security. The First State Global Listed Infrastructure Fund is a sub-fund of the First State Investments ICVC, an Open-ended Investment Company with variable capital. A copy of the Prospectus is available on request. Issued by First State Investments (UK) Limited, authorised and regulated by the Financial Services Authority and a member of IMA. Registered No. 2294743 England and Wales. Registered office 3rd Floor, 30 Cannon Street, London, EC4M 6YQ. Entered on the FSA Register, registration number 143359.

Source: World Airport Traffic Report 2006, Airports Council International.