Issue 6 Winter 2017

CHARLES STANLEY INVESTMENT CHOICES NEWS

Interest rate changes
Should you be concerned about the recent rise?

Off the beaten path
In our new feature we consider those funds that may have been overlooked in the past

Inheritance Tax
We look at ways to reduce your Inheritance Tax bill

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CHARLES STANLEY
Investment Choices

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What's inside?

How to invest

The maximum amount you can invest in an ISA is £20,000 for the current tax year (minimum is £500). Alternatively invest from as little as £10 per month.

Complete and return the enclosed application form along with a cheque made payable to Cofunds Ltd (our platform provider) RE: "your name".

If you already have an account with Cofunds, call us with your debit card details and we will buy the fund for you.

Logon to your Cofunds account via the Charles Stanley Investment Choices portal. Alternatively, call us and we will assist with your registration.

Need help?

If you would like to discuss the investments described in this newsletter, or need help completing the application forms, please get in touch - we're here to help!

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Fund Focus:

We have highlighted the following funds in this newsletter.

- **Polar Capital Global Technology Fund** - Page 9
- **Baillie Gifford Japanese Class B Fund** - Page 10
- **Old Mutual UK Smaller Companies Fund** - Page 11
- **Investec Diversified Income Fund** - Page 12
- **Crux European Special Situations Fund** - Page 13

For more information on these and other funds, please contact us.

A note from your co-editor...

Stephen Luwero
Client Relationship Manager.

It's always interesting at this time of year to look back, evaluate portfolios and take stock of some of the events both political and economic which have shaped 2017.

In the UK it's been difficult to ignore the impact of a less than satisfactory election result for the Conservative Party and the protracted Brexit negotiations. Europe has also had two significant elections with somewhat differing results. France has comprehensively rejected populism with the election of Emmanuel Macron but in Germany the story is far less conclusive. At the time of writing, although Angela Merkel's party remains the largest, they do not have a majority with the result that they will need the support of other parties to form a coalition government. To add to this the far-right had members elected to parliament for the first time in 70 years.

Across the pond in the United States, the investigations into election meddling by Russia continue. This, along with stalling tactics by the Democrats has distracted President Trump from pushing through the changes that he promised during his election campaign.

You would rightly expect with all this turmoil and uncertainty that the fortunes of the developed economies would have been adversely affected over the course of the year. In fact it has been the complete opposite - we have seen global GDP accelerate and global equity markets reaching record highs. This positive outlook has provided the confidence to introduce interest rate rises (with possibly more to follow) and the beginning of the withdrawal of the support provided by quantitative easing (QE).

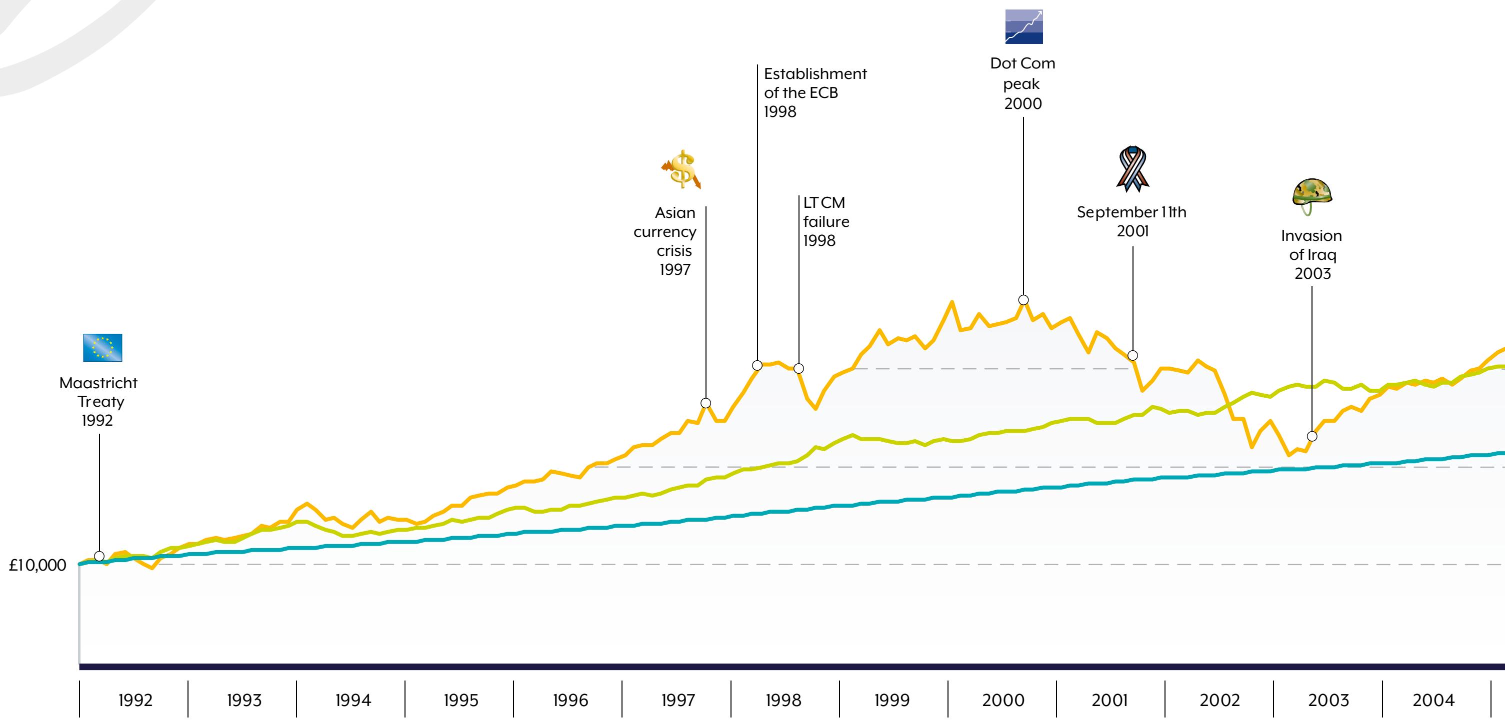
Change breeds uncertainty in investors and often prompts reviews of investments that have sat undisturbed for some time. If you are searching for alternative investment options we hope the new feature in this magazine, "off the beaten path", will provide some inspiration and help with your investment choices.

Good luck with your investing!

Stephen.

Investing for the *Long Term*

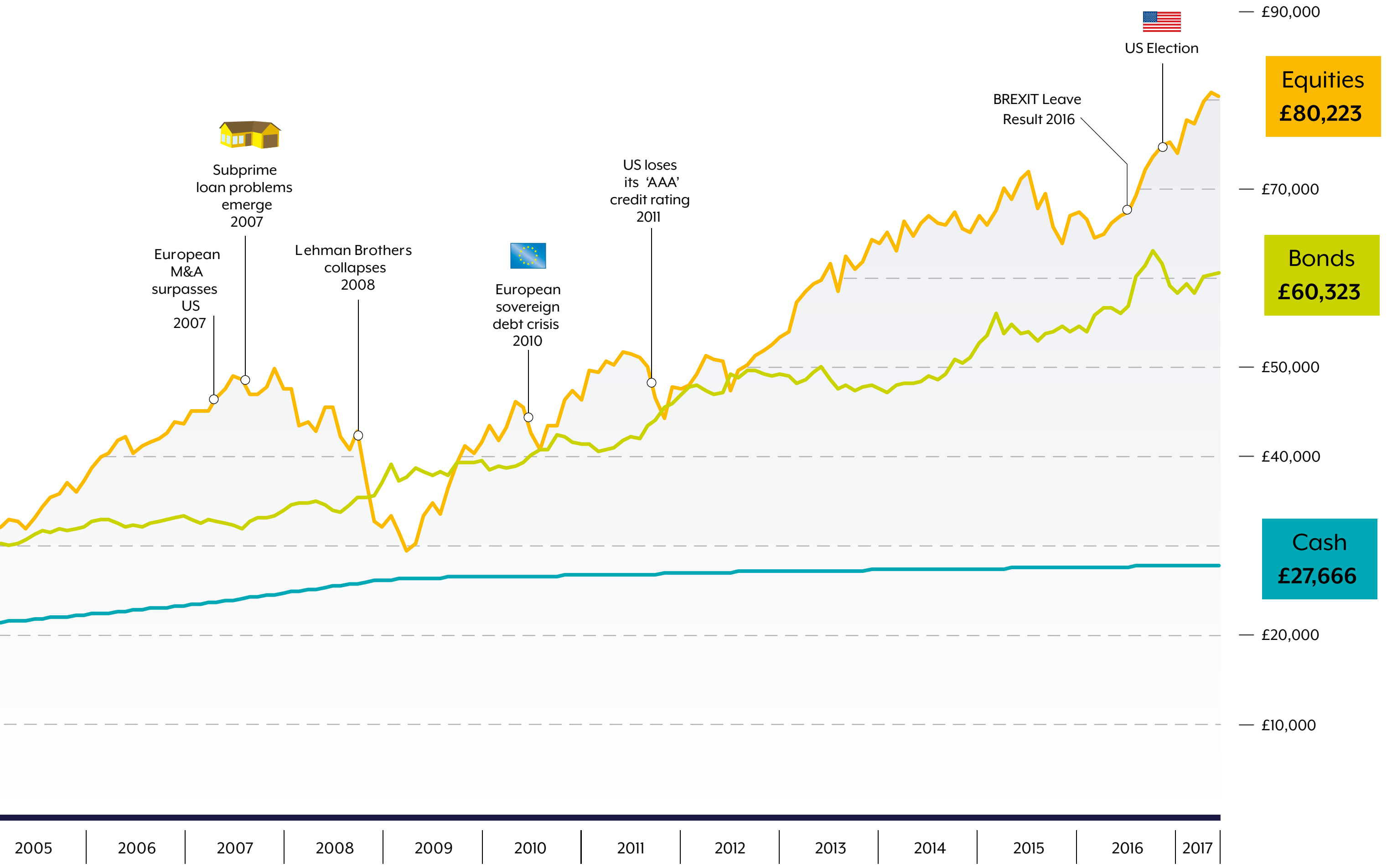
Despite volatility, markets have appreciated over time



Financial markets can be volatile and downturns as well as upturns are part of equity investing. But short-term declines should not detract from the potential of the stock market to help investors meet their goals. In fact, short-term market declines underline the case for a long-term approach to investing.

Of course, the investment choices depend on an investor's specific circumstances, goals, attitude to risk and investing time horizon. This will influence how much money is allocated and, if appropriate, how much of this is invested in growth-oriented equities. All financial investments involve an element of risk, so the value of your initial investment cannot be guaranteed and the historical performance of markets is not a guide to future returns.

The chart shows that even with market volatility, an investment in the FTSE All-Share Index 25 years ago would have grown to more than eight times its original value by April 2017.



Source: Thomson Reuters Datastream. All data from 31 December 1991 to 30 April 2017. The information provided is for illustrative purposes only and is not meant to represent the past or future performance of any particular investment. It is not possible to invest directly in an index. Equities are represented by the FTSE All-Share Index (total return). Bonds are represented by the FTSE Actuaries UK Gilts All Stocks Index (total return). Cash is represented by three-month LIBOR rates. All returns are in sterling terms and are based on monthly closing prices of the respective indices. **Past performance is not a guide to future returns.**

Interest rates are on the rise but from historically low levels

- should you be concerned?

The recent interest rate rise was widely anticipated by the markets following months of speculation and comment by members of the Bank of England's Monetary Policy Committee (MPC) in favour of an increase. Historically an increase would result in the value of the pound rising but with the expected slow-down in UK GDP growth due to BREXIT worries, the movement has been in the opposite direction. This is a clear sign from the market that this should not be seen as a start of a series of interest rises and the Bank was quick to point this out when it said 'further rises were not imminent'.

Why increase interest rates now given all the uncertainties?

We have to cast our minds back to June 2016 following the BREXIT result to understand why UK interest rates were at historically low levels. After the surprise election result the Bank of England was worried that the UK economy would decline significantly and took the decision to cut interest rates from 0.5% to 0.25% - many commentators viewed this as a knee-jerk reaction fearing the worst. However, the fears the Bank had at the time have not materialised and it was expected the cut would be reversed sooner rather than later. The rise in inflation to around 3% per annum and the double digit increase in lending to households in the past year have provided timely justifications for the interest rate rise.

How did we get to where we are?

To answer this we need to go back to the credit crisis of 2008 – a crisis many would argue is still ongoing today. At the time, confidence in the global financial system collapsed with the result that the banks stopped lending money, leading to a liquidity crisis – many will remember the queues that appeared outside of the Northern Rock when customers started to get worried about accessing their savings.

To restore confidence and to get the banks lending again interest rates in the UK were reduced from 5.25% to 0.5% over a short period of time and the UK government (along with other governments around the world) began to print money to reintroduce liquidity to the financial system, a process known as Quantitative Easing (QE).

Historical interest rates

There has been a great deal of media speculation on whether the recent rate rise is likely to be the first of many in the battle to control inflation. Before the financial crisis interest rates had fallen to 5.5%. The reduction to 0.5% over a relatively short period of time was an extreme measure in an attempt to protect the UK from the extraordinary events occurring. For rates to rise to previous levels as rapidly as they fell would probably need another shock similar to that created by the financial crisis of 2008. That is not say that it will not happen again and if we take a look back in history there have been other violent shocks to the system.

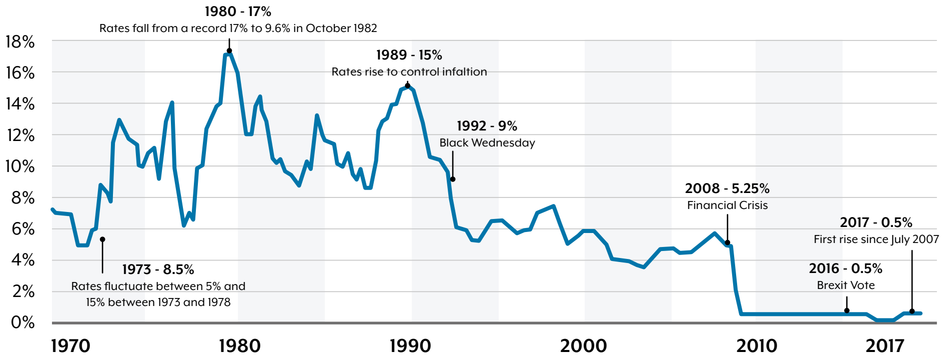
In 1979, the European Exchange Rate Mechanism (ERM) was introduced with the aim of stabilising member currencies prior to the introduction of the single currency (Euro) on the 1st January 1999. When the UK joined the ERM in 1990, interest rates were sitting at 15% in an effort to control inflation which at the time had peaked at 8%. When the UK joined the ERM interest rates fell dramatically and there was a sharp rise in share prices but this did not last.

Raising rates should bring down inflation by encouraging saving and deterring people from borrowing...

For the UK to remain a member of the ERM the pound had to stay above a predetermined minimum level. In September 1992, following a tidal wave of selling by speculators on currency exchanges, the pound dropped very close to the minimum level. In an effort to support the pound the government spent billions of reserves and interest rates rose sharply over the course of one day, the 16th September 1992 which became known as "Black Wednesday". Over the course of the previous two decades it was common to have double digit interest rates but the frequency of the increases in September 1992 was a very new experience and one that was considered as unsustainable. The government had no option other than to give up the fight and suspend its membership of ERM which allowed the value of the pound to float.

Fast forward 16 years to 2008 and we were about to get used to record low rates of 0.5%. Could we see double digit interest rates again?

The history of UK interest rates



Source: BBC News

What is "normality"?

The Bank of England will be counting on people to take the recent rate hike decision in their stride especially as they have indicated that further rises are not on the cards. We remain in an era of historically low interest rates and in uncharted territory following the reductions in QE - no one can predict how the world economy will react to this as it simply has not happened before.

When economic conditions are stable and events are more predictable, interest rates are a lever used to control the economy. The MPC's job is to keep UK inflation close to the official target of 2%. Raising rates should bring down inflation by encouraging saving and deterring people from borrowing - thus lowering demand for goods in the shops. On the other hand lowering rates should stimulate economic demand and push up prices, as consumers would be left with more disposable income after paying mortgage costs. The process of raising rates actually used to be the responsibility of Chancellor of the Exchequer but in 1997 it was handed to the nine members of the Bank of England's MPC.

Generally interest rate rises tend to result in increased interest on bank savings but that is not always the case. In fact it is now becoming apparent that not all of the major financial institutions will be passing on the rate increase to their customers. Those with mortgages on the other hand will see their costs rise if their mortgage is on a variable rate but the difference should be marginal given the size of the increase and a very competitive market.

For those with ISAs and pensions invested in shares, the impact as a result of the record low rates over the last 8 years has seen both equities and bonds perform very strongly and for the stock markets the bull-run has continued. But as sentiment has slowly started to change regarding rate increases and with a reduction in QE, we have started to see a move away from investing in bonds because of the increasing pressure on capital values.

What your next step could be

1. Review your investments on a regular basis
2. Introduce new ideas and products to counter adverse events such as interest rate rises
3. Speak to us if you need some help and guidance
4. Above all... do not panic!

Off the *beaten path...*

How many investors are so comfortable with the investments they make that alternatives are rarely considered? The answer would be, we suspect, quite a few. This is not necessarily the wrong approach to take but having a blinkered outlook means missing out on a wide range of investment opportunities.

Whatever your age your investments can sometimes feel like an old pair of slippers – they're a little worn around the edges and perhaps a bit tired looking but they still do a job. The income should continue to be paid (barring any major disruption) and the value will fluctuate as it always has done – sometimes a little more than you would like!

Of course, your investment requirements will also change over a period of time as will your attitude to risk – typically as we get older our tolerance to risk reduces. This could be due to a number of reasons (i.e. Inheritance Tax Planning or care fee provision) but could be put down to that we have less time and resources to replace what has been lost. It is vital that regular reviews of portfolios are carried out to ensure that investments are behaving as they should and providing the income you need when necessary. If you identify something that is not working do not be afraid to change it.

Don't fall into old habits

If you spot some of your investments dragging their feet, you might want to consider alternatives – it is no good simply reverting back to your "old pair of slippers" - you may need to break the habit of investing in those old favourites, but where to start? There are thousands of funds that you can choose from. You could select funds that focus on large or small companies, those that invest in the UK or overseas or perhaps specialise in different sectors such as financials or the oil industry.

On the Cofunds platform there are over 3,400 funds to choose from and selecting a fund that appeals to you from such a list is likely to be a daunting task even for the most experienced investor. Faced with such a task, it is at this point that the "old pair of slippers" get a dusting down and you plump for a fund you are familiar with.

Help is at hand

Every quarter we feature investment funds that we believe provide attractive propositions for investors. Naturally many clients will, having been clients for a number of years, be familiar with the funds we discuss and perhaps have already invested in them and they too are seeking something different.

"Off the beaten path" features funds that may have fallen out of favour or simply been overlooked by investors because they are not "mainstream". Whether you require an income, want to diversify overseas or perhaps want to increase the risk profile of your investments, one or perhaps more of the funds we feature may appeal.

How to invest

Complete and return the relevant application. If you want to invest outside of an ISA please go to our website at: **www.csinvestmentchoices.co.uk** or alternatively contact us with your requirements. Upon receipt we will issue you with a Key Investor Document which provides more detailed fund information or if you prefer we can email this to you.

Fund Focus

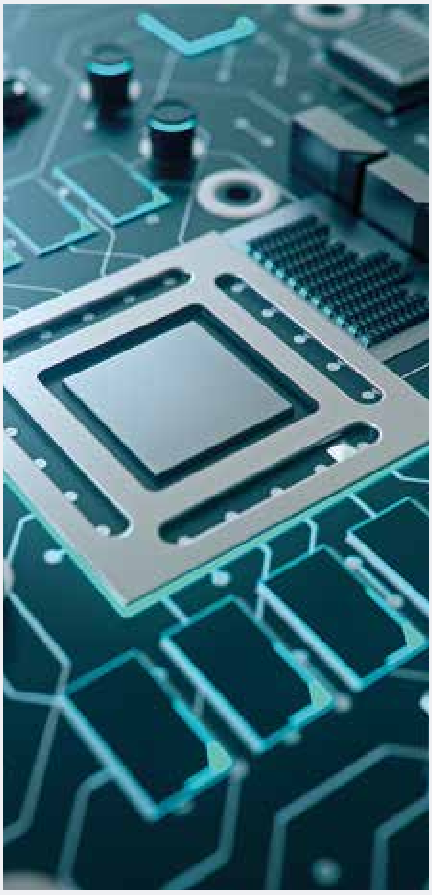
Polar Capital Global Technology Fund

The media is dominated daily with news of the latest technological break-throughs and companies investing in new ideas to help to make our lives easier (in the March edition of Investment Choices, for example, we featured Robotics – if you missed it please ask for a copy). There is no doubt that technology will affect and mold the future world we live in but making sure you invest in the right area can be a challenge. Investing in a fund that has a global mandate could be the answer.

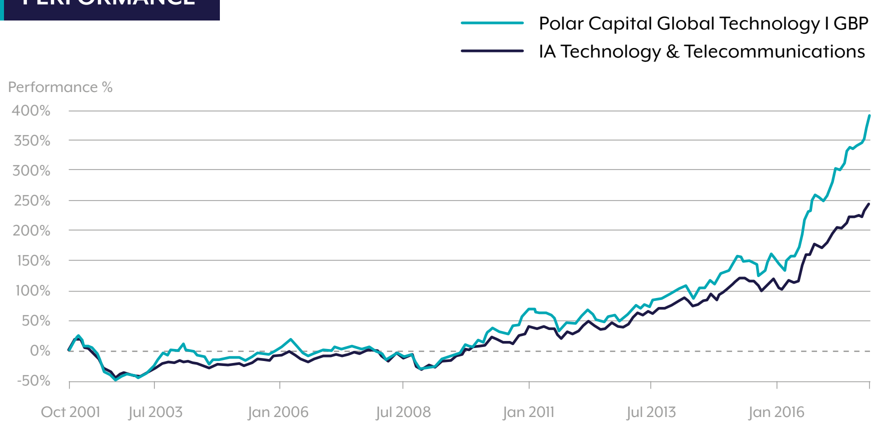
The Global Technology fund from Polar Capital, as the name suggests, has such a global mandate. The fund typically holds around 60 to 85 stocks selected from a universe of 4,000 companies. The fund invests in household names such as Apple, Microsoft and Amazon and tends to avoid smaller companies instead preferring those that have a consistent level of cash flow and that are not necessarily reliant on the health of the world economy – mobile devices will always be in demand!

Jointly managed by Nick Evans and Ben Ragoff, the fund has grown to £1.3bn since its launch in 2001. Nick has managed the fund from the date he joined Polar Capital in 2007 and has 20 years of industry experience. Ben has also managed the fund from the time he joined the company in 2003 and benefits from over 22 years of experience in the industry. They are backed by a team of 7 sector specialists that have over 100 years of combined industry experience between them.

Technology stocks in general have benefited from a very positive run over the course of the last few years and this may not be repeated. This fund however could continue to benefit from the returns provided by well-established and popular companies and is a good way of "dipping your toes" in the technology sector.



PERFORMANCE



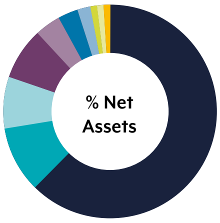
19/10/2001 – 14/11/2017 Source: FE Analytics

DISCRETE ANNUAL PERFORMANCE AS AT 30/09/2017

	0-12m	12-24m	24-36m	36-48m	48-60m
Polar Capital Global Technology I GBP	+27.6	+50.4	+7.0	+14.8	+18.2
IA Technology & Telecommunications	+20.6	+35.2	+3.7	+11.3	+17.7

ASSET ALLOCATION

USA	63%
Japan	10%
Money Market	8%
China	8%
Korea	4%
France	3%
Netherlands	2%
UK	1%
Israel	1%
Taiwan	1%



Source: Funds Library

FUND FACTS

Fund Size	£1317m
Fund Type	OEIC
Classification	Income
Launch Date	19/10/2001
Yield	0%
Ongoing Charges Figure*	1.16%
Initial Charge	0%
Charles Stanley Investment Choices Servicing Fee	0.37%
Cofunds Platform Fee	0.23%
Dividend Date	N/A

*The ongoing charges figure will include the cost of investment management and administration, plus other costs of running the fund, such as fees for custodians (organisations that hold the assets safely for the investment managers), regulators and auditors. It will not include stamp duty, which is payable when buying shares in investment trusts, nor any performance fees. However, these fees will be published separately on the Key Investor Information Document.

Fund Focus

Baillie Gifford Japanese Class B Fund - Income of 0.75% per annum payable annually (variable as at 14.11.2017).

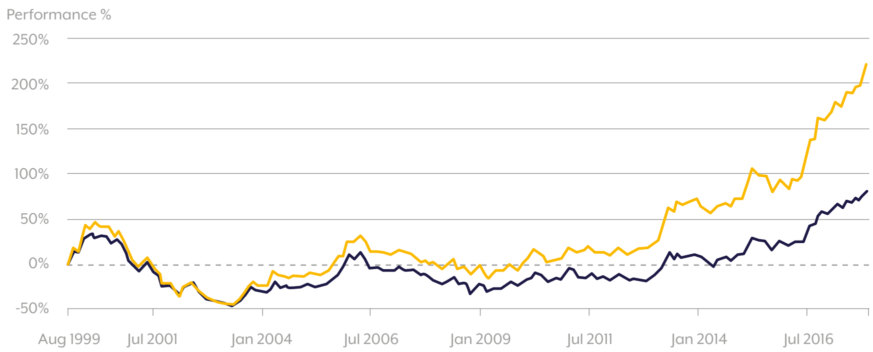
A "riddle wrapped inside an enigma" is one way of describing the Japanese economy. Despite the best efforts of the population and the introduction by a series of governments of various stimuli in an attempt to drag the country out of recession, all of it failed. Persistent deflation meant that consumers were unwilling to spend whilst a strong currency made Japanese exports more expensive, negatively affecting share prices. Investors shied away from the country as a result and where once Japan had been towards the top of the list when considering where to invest, many have now forgotten about the region choosing to invest in more dynamic parts of Asia.

However, sentiment has been improving since 2012 following the election of Prime Minister, Shinzo Abe. Mr Abe has introduced a series of measures designed to end the country's deflationary slump, boost economic growth and increase Japan's competitiveness. Affectionately termed as "Abenomics", these measures are now beginning to bear fruit, feeding through to the Japanese stock market and increasing its attractiveness to investors.

One of the longer established funds in the sector is the Baillie Gifford Japanese Fund. Launched in 1999, the fund is managed jointly by Sarah Whitley and Matthew Brett. Sarah is also responsible for the longer established Japan Investment Trust but has been managing the fund since 2007. Matthew joined Baillie Gifford in 2003, assuming joint responsibility for the fund in 2008.

The investment approach the fund managers take focuses on identifying global leading businesses whose share price is trading at a substantial discount to their peer group. Investing in companies that are out of favour can offer the potential for substantial positive returns when the share price recovers. Share prices in Japan have not been increasing in line with company profits and it is the belief of the fund managers that the fund will do well when the market takes notice of the performance of the companies in the portfolio. The investment philosophy of Sarah and Matthew is therefore well placed to take advantage of opportunities when they present themselves.

PERFORMANCE



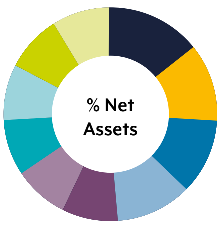
02/08/1999 – 14/11/2017 Source: FE Analytics

DISCRETE ANNUAL PERFORMANCE AS AT 30/09/2017

	0-12m	12-24m	24-36m	36-48m	48-60m
Baillie Gifford Japanese B Acc	+19.4	+42.6	+3.7	+0.2	+42.8
IA Japan	+13.3	+33.0	+3.8	-0.6	+32.4

ASSET ALLOCATION

Softbank Group	5%
Inpex Corp	4%
Yaskawa Electric	4%
Sumotomo Mitsui	4%
Start Today Co. Ltd	3%
Misumi Group Inc	3%
Kubota Corp	3%
Nintendo Co	3%
Toyota Motor Group	3%
SBI Holdings Inc	3%



Source: Funds Library

FUND FACTS

Fund Size	£2233m
Fund Type	OEIC
Classification	Accumulation
Launch Date	02/08/1999
Yield	0.75%
Ongoing Charges Figure*	0.63%
Initial Charge	0%
Charles Stanley Investment Choices Servicing Fee	0.37%
Cofunds Platform Fee	0.23%
Dividend Date	30/06/2018

*The ongoing charges figure will include the cost of investment management and administration, plus other costs of running the fund, such as fees for custodians (organisations that hold the assets safely for the investment managers), regulators and auditors. It will not include stamp duty, which is payable when buying shares in investment trusts, nor any performance fees. However, these fees will be published separately on the Key Investor Information Document.

Fund Focus

Old Mutual UK Smaller Companies Fund

- Income of 0.65% per annum payable annually (variable as at 14.11.2017).

UK smaller company funds fell out of favour during the lead up to the BREXIT vote and suffered further unpopularity during the months after the result. Investors instead preferred to focus on well-established household names primarily listed on the FTSE 100 - funds that invested in the FTSE 100 companies benefited as a result.

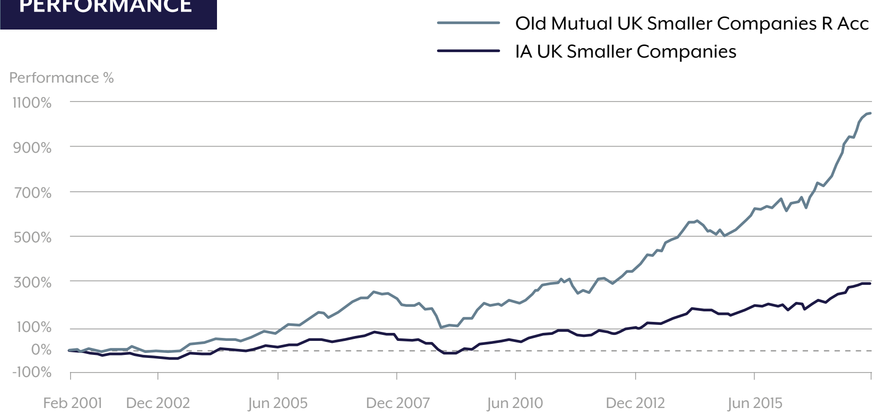
Uncertainty along with declining value of the pound were the main drivers for the reallocation of assets by investors, both large and small alike who concluded that larger companies would be able to weather the BREXIT storm, a storm we now know, did not arrive. Smaller company funds did suffer significant outflows and a reduction in returns during this period as confidence waned and there could be many investors who may have discounted this sector – perhaps that reasoning is not so well founded. The value of the pound has slowly recovered since then which has reflected in improved performance of smaller company funds.

When investing in a smaller company fund, you probably do so for one reason – excitement! You may be attracted by the potential of higher returns but must also acknowledge that this potential comes with a higher level of risk coupled with a higher level of volatility. The mega corporations of today such as Apple and Amazon, were once small companies and smaller company funds are constantly searching for their successors. Smaller companies are often under researched providing the opportunity for skilled fund managers and analysts to identify the next hidden gem.

The Old Mutual UK Smaller Companies Fund, managed by Daniel Nickols since 2004, has consistently outperformed its benchmark since the start of Daniel's tenure. The fund has been able to shelter investors from the worst of the market falls whilst also benefiting when markets have performed well. Typically the fund will hold in excess of 100 stocks and Daniel and his team will target those companies valued at £100 million or larger but they will consider lower valued companies if the investment case is attractive enough.

Although every holding will not be a success story, the long term performance of the fund indicates that Daniel and his team are more than capable of picking out winners over losers (recent successful selections include *Fevertree* and online retailer *Boohoo.com*).

PERFORMANCE



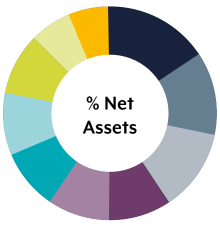
09/02/2001 – 14/11/2017 Source: FE Analytics

DISCRETE ANNUAL PERFORMANCE AS AT 30/09/2017

	0-12m	12-24m	24-36m	36-48m	48-60m
Old Mutual Uk Smaller Companies R Acc	+34.3	+14.4	+16.0	+8.5	+33.6
IA UK Smaller Companies	+25.0	+7.8	+11.7	+7.6	+30.5

ASSET ALLOCATION

Fevertree Drinks PLC	5%	Clinigen Group PLC	3%
Ascential PLC	4%	Restore PLC	3%
Boohoo.com PLC	4%	Johnson Service Group	3%
Paysafe group PLC	3%	Blue Prism Group PLC	2%
Smart Metering Sys. PLC	3%	Conviviality PLC	2%



Source: Funds Library

FUND FACTS

Fund Size	£1319m
Fund Type	OEIC
Classification	Accumulation
Launch Date	09/02/2001
Yield	0.65%
Ongoing Charges Figure*	0.94%
Initial Charge	0%
Charles Stanley Investment Choices Servicing Fee	0.37%
Cofunds Platform Fee	0.23%
Dividend Date	30/09/2018

*The ongoing charges figure will include the cost of investment management and administration, plus other costs of running the fund, such as fees for custodians (organisations that hold the assets safely for the investment managers), regulators and auditors. It will not include stamp duty, which is payable when buying shares in investment trusts, nor any performance fees. However, these fees will be published separately on the Key Investor Information Document.

Fund Focus

Investec Diversified Income Fund – Income of 4.2% per annum payable monthly (variable as at 14.11.2017).

Investors are increasingly searching for alternative sources of income as a result of the continuing low levels of interest rates available from traditional sources such as Cash ISAs. Despite the recent interest rate rise there appears to be little appetite from the Bank of England to raise these further during the short term - certainly not by an amount that would make a significant difference to those that rely on the interest to supplement their income.

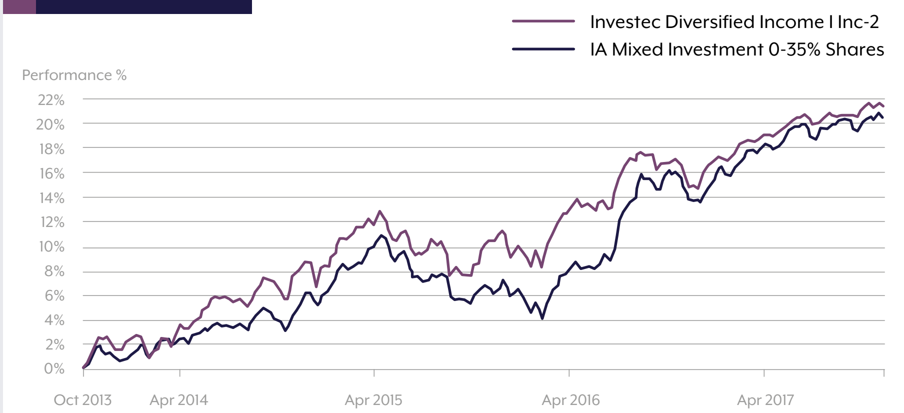
Since the financial crisis of 2008, increasing numbers of investors have started to consider the stock market as an alternative home for their money. Many have selected income producing funds which pay a considerably higher level of income than bank or building society accounts. This course of action has, however, introduced higher levels of risk than savers were previously used to – investments in the stock market can go down as well as up.

When changing an investment strategy it is often easier to stick with what we are familiar with and for that reason many will have invested in funds that focus on the UK. This strategy can also increase risk simply because the investment is concentrated in one area. By investing in different types of products and assets it is possible to mitigate those risks – considering funds that invest globally is one option available to investors.

The **Investec Diversified Income fund** invests in a mixture of global bonds and equities. The aim is to provide a consistent monthly income with some capital growth over the longer term. The experienced management team is headed up by John Stopford who has been responsible for the fund for over 5 years. John has held a number of senior positions within Investec during his career and is currently co-head of Multi-Asset Income at Investec.

Typically the fund will have an equity allocation of between 0-35%, a defensive fixed income allocation of between 25-70% and 0-20% in emerging market debt. The fund is well-established and cautiously managed providing an attractive level of monthly income. Importantly the management team have shown that they can protect capital during periods of market downturn making it appealing to cautious investors.

PERFORMANCE



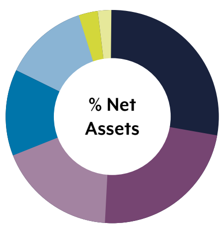
04/10/2013 – 14/11/2017 Source: FE Analytics

DISCRETE ANNUAL PERFORMANCE AS AT 30/09/2017

	0-12m	12-24m	24-36m	36-48m	48-60m
Investec Diversified Income J Inc-2	+3.1	+8.7	+0.1	+7.1	+6.1
IA Mixed Investment 0-35% Shares	+3.2	+10.2	+0.8	+4.1	+4.4

ASSET ALLOCATION

North America	28%
Global Emerging Mkts	23%
Europe Ex UK	18%
Far East Ex Japan	13%
UK	13%
Money Market	3%
Japan	2%



Source: Funds Library

FUND FACTS

Fund Size	**£432m**
Fund Type	**OEIC**
Classification	**Income**
Launch Date	**04/10/2013**
Yield	**4.2%**
Ongoing Charges Figure*	**0.68%**
Initial Charge	**0%**
Charles Stanley Investment Choices Servicing Fee	**0.37%**
Cofunds Platform Fee	**0.23%**
Dividend Dates	**31/12/2017 and monthly thereafter**

*The ongoing charges figure will include the cost of investment management and administration, plus other costs of running the fund, such as fees for custodians (organisations that hold the assets safely for the investment managers), regulators and auditors. It will not include stamp duty, which is payable when buying shares in investment trusts, nor any performance fees. However, these fees will be published separately on the Key Investor Information Document.

Fund Focus

Crux European Special Situations Fund

- Income of 1.46% per annum payable half-yearly (variable as at 14.11.2017).

Cut through the noise of BREXIT and investors will find that Europe still provides opportunities in a wide variety of attractive businesses. Many of these distribute their products and expertise internationally and are therefore insulated from the domestic issues that frequently feature in the media. However, many investors have tended to overlook the region during the past decade because of the negativity emanating from the region despite the fact that markets have performed well during that time.

Admittedly, identifying investment opportunities in the region can be a tough job mainly due to the huge number of companies that ply their trade in Europe. Fortunately, the sector is home to a number of stock pickers who are skilled in separating the “wheat from the chaff”- one of the most able and respected is **Richard Pease**.

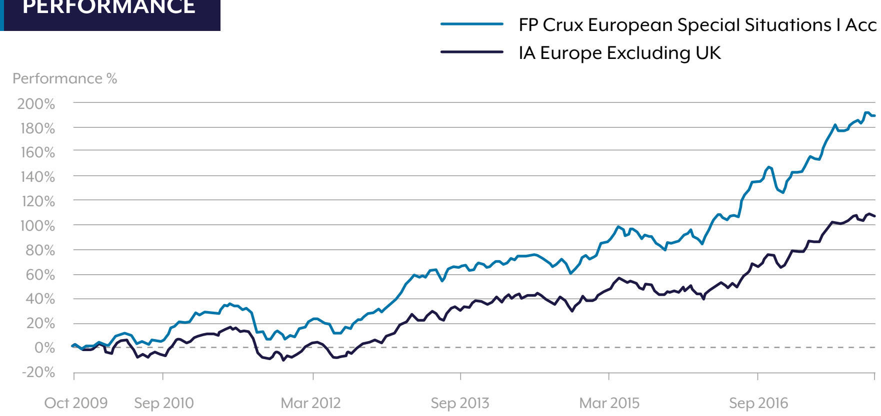
Richard has over 25 years of experience investing in European equities during which time he has built up a long and successful track record. He has managed money for a number of companies over the years, the most recent being the Henderson European Special Situations fund. In June 2015 he left them to join a new boutique fund management business, Crux Asset Management. The fund followed him and was renamed the **CRUX European Special Situations Fund**.

Richard tends to hold stocks for the long term with the portfolio consisting of between 60-80 companies. Before selecting a company, Richard will look for key factors:-

- A clear and sensible business strategy
- Quality management with a proven track record – often management will hold shares in the company
- Sound finances – low debts and strong cash flow
- An attractive share price relative to its peer group.

Richard will invest in a wide range of companies and the portfolio will include smaller higher risk ventures although traditionally he has a bias towards medium sized companies. With Richard’s successful track record this fund may appeal to long-term investors willing to look beyond the euro zone’s economic and political challenges to invest in well-run companies.

PERFORMANCE



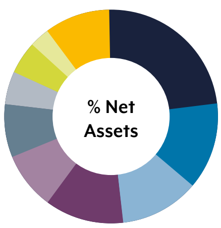
01/10/2009 – 14/11/2017 Source: FE Analytics

DISCRETE ANNUAL PERFORMANCE AS AT 30/09/2017

	0-12m	12-24m	24-36m	36-48m	48-60m
FP Crux European Special Situations I Acc	+19.7	+32.8	+7.4	+1.7	+28.7
IA Europe Excluding UK	+21.9	+18.4	+3.6	+4.0	+27.2

ASSET ALLOCATION

Germany	23%	Switzerland	8%
Sweden	13%	Denmark	8%
Netherlands	12%	Money Market	8%
France	12%	Ireland	3%
Finland	9%	Others	10%



Source: Funds Library

FUND FACTS

Fund Size	£1967m
Fund Type	OEIC
Classification	Accumulation
Launch Date	01/10/2009
Yield	1.46%
Ongoing Charges Figure*	0.87%
Initial Charge	0%
Charles Stanley Investment Choices Servicing Fee	0.37%
Cofunds Platform Fee	0.23%
Dividend Dates	31/05/2018 30/11/2018

*The ongoing charges figure will include the cost of investment management and administration, plus other costs of running the fund, such as fees for custodians (organisations that hold the assets safely for the investment managers), regulators and auditors. It will not include stamp duty, which is payable when buying shares in investment trusts, nor any performance fees. However, these fees will be published separately on the Key Investor Information Document.

Is Inheritance Tax optional?

The amount of money the government receives through inheritance tax (IHT) is on the rise – despite the introduction of a new allowance in April 2017. Rising property prices mean this tax does not just apply to the richest in society. But how punitive does it have to be?

Government figures show that around £2.4bn was paid in inheritance tax between April and August this year, reflecting an increase of almost 20% over the same period last year. The Office for Budget Responsibility expects annual receipts to rise to more than £6bn by 2020-21.

However, the rules surrounding IHT contain a number of exemptions that, with the correct planning, can drastically reduce the size of the bill you can expect to pay.

Let's start with the rules. There is normally no inheritance tax to be paid if the value of your estate is below £325,000. Anything above this would typically be taxed at 40%. Although this threshold has been frozen for a number of years, the government has now introduced the residence nil-rate band, which is currently set at £100,000. The residence nil rate band is a complex solution to what was a relatively straightforward problem and we explore that later on.

It is possible to parcel out your inheritance while you are still alive. Gifts of up to a total of £3,000 each tax year are exempt and unused allowance can be rolled over from the previous tax year to make £6,000. You can also make gifts of £250 per person each tax year, but not to anyone you've already given your £3,000 allowance to. Wedding or civil ceremony gifts of up to £1,000 per person are also fine. Normal gifts made out of income are permitted, as long as they do not negatively affect the standard of living.

For larger gifts, a seven year rule applies. Inheritance tax is charged at 40% on gifts given in the three years before you die. A sliding scale is applied to gifts made three to seven years before death. After 7 years have passed, however, the gift will not be subject to IHT.

Inheritance tax can represent an unwelcome and sizable bill. With the right plan in place, there is no reason why this can't be brought down to a more manageable amount

Residence Nil Rate Band

Are you really going to be able to leave £1 million, tax-free, after you die?

The government says it wants married couples and civil partners to be able to leave as much as £1m to their descendants, tax-free. Have they delivered with the Residence Nil Rate Band (RNRB)?

A long-standing commitment of the Conservative party has been to raising the amount people can leave to their descendants, tax-free. An upper limit of £1 million per person was floated back in 2008, but this proposal was eventually watered down to £1 million per couple. It is clear from an examination of the rules that a large number of people are not going to get this much, however.

Due to the fact that the Inheritance Tax threshold (or nil-rate band) has been frozen at £325,000 since April 2009, an increasing number of estates are pushed over the limit every year. Residential property now makes up approximately a third of the total value of taxpaying estates, according to July 2017 data from HM Revenue & Customs. In this context, it may make sense to link any further allowances to residential property.

Residential property now makes up approximately a third of the total value of taxpaying estates.

However, critics have pointed to the complicated framework of the RNRB and its limitations as proof that the commitment to a £1 million allowance is far from a sure thing.

On the surface, the RNRB would appear to be fairly straightforward. It can be claimed on top of the existing £325,000 nil-rate band. It starts at £100,000 per person and goes up by £25,000 every April until 2020 when it reaches £175,000, at which point, a couple will have an allowance of £500,000 each, or £1 million in total. After that, the RNRB is proposed to increase in line with inflation each tax year.

The RNRB can only be applied to one property and it has to have been the deceased's home at some point. The nominated property can then only be left to direct descendants. This is not particularly useful to someone with nieces or nephews as they are exempt. It means that anyone without children has essentially been overlooked and won't be in a position to benefit. It also won't apply if the property in question is gifted to a direct descendant rather than being left to them upon death.

If the RNRB is not entirely used up when applied to the property in question, the remainder is lost. If we assume that a married couple owns a home worth £340,000 in 2020, then they will have a total of £350,000 as their joint RNRB. Since the house is worth less than the allowance, the £10,000 that is not used would simply be discarded. If you are married or in a civil partnership and your home is worth less than £350,000 in 2020, you too will not be getting the full £1 million.

For any estates worth more than £2 million, the band will be reduced at a rate of £1 for each £2 it is over the limit. This means the allowance would be completely lost if a joint estate is worth more than £2.4 million in 2017/18, rising to £2.7 million from 2020/21. If the property you want to nominate is worth more than £2.7 million in 2020, you also won't be able to benefit from the RNRB and will not be entitled to the full £1 million exemption.

You also stand to lose out on the RNRB if the property is placed into trust, depending on the type of trust. Discretionary trusts were popular prior 2007 as there was no transferable nil-rate band and trusts were an effective way to claim a spouse's nil-rate band in the event of their death. This changed in 2007 when it became possible to transfer any unused percentage of the nil-rate band from a deceased spouse or civil partner to the surviving spouse or civil partner automatically.

However, the family home must be inherited by direct descendants to qualify for the RNRB. Where assets are left via a will into most discretionary trusts, it doesn't qualify as the assets are technically owned by the trust. For the purposes of RNRB a direct descendant is treated as including for example, a spouse or civil partner of the child, grandchild or great-grandchild, (including their widow, widower or surviving civil partner, provided that the widow, widower or surviving civil partner had not remarried or entered into a new civil partnership before the deceased's date of death). It also includes adopted children, foster children, and step-children or where the deceased was appointed a guardian or special guardian for a child or children under the age of 18 at the time.

The rules become especially complex when it comes to downsizing to pay for long-term care, for example. If you were to downsize your property, it may cause you to lose some, or all of the benefit of the available RNRB. This 'lost RNRB' can be recovered but it is dependent on a number of qualifying conditions.

On the face of it, the government have at least partly delivered on their pledge to reduce the inheritance tax due on your estate. However, the complexities of the RNRB makes this far from straightforward and puts many people at risk of missing out on this allowance altogether.

The rules regarding inheritance tax and gifting are complicated, and for those who are unsure or have complex financial affairs we would always suggest seeking advice from an expert. A Charles Stanley Financial Planner can help with this aspect of your financial arrangements.

What do I do next?

If you want to discuss ways to reduce your Inheritance Tax liability please complete the enclosed response form and we will arrange for a Charles Stanley Financial Planner to contact you, or email:
info@csinvestmentchoices.co.uk

Nothing in this article should be construed as personal advice based on your circumstances. No news or research item is a personal recommendation to deal. The levels of taxation and their respective treatment depend on individual circumstances and the applicable law, which may be subject to change in the future. You are recommended to consult a professional tax adviser on all tax matters.

Black Mill,
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How to invest

1. **Identify the fund(s)** you wish to invest into – feel free to call us to discuss these funds in more detail.

2. **Complete the application forms** enclosed and return them to us in the pre-paid envelope provided. Alternatively, logon to your account online or call us with your debit card details. If you want to invest monthly please also complete the Direct Debit Mandate attached to the ISA application form.

3. Should you wish to invest outside of an ISA please either contact us for an application form or download one from our website at **www.csinvestmentchoices.co.uk**. You will find them in the Important Documents section under the Investing With Us tab on the menu bar at the top of the screen.

Get in touch

If you would like to discuss the investments described in this newsletter, or need help completing the application forms, please get in touch - we're here to help!

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This document is a marketing communication. The information does not constitute advice or a personal recommendation or take into account the particular investment objectives, financial situations or needs of individual investors. If you are unsure as to whether an investment or a pension is suitable for you, please seek professional financial advice.

Investors should also be aware that past performance is not a reliable indicator of future results and that the value of investments and the income from them may fall as well as rise. The capital invested is therefore at risk and the amount realised may be less than the original sum invested. Investments should be considered for the medium/long term (5 years or longer).

Before you invest and for your own protection, please ensure you have read carefully the documents enclosed with this publication (the Cofunds application and other documents).

It is recommended that you also review the available product literature. On receipt of your application, where relevant, a Key Investors Information Document (KIID) will be sent to you containing further specific information on each of the funds in which you wish to invest. If you are investing online, the Funds Key Features/KIID will be available at the point of purchase.

For funds that invest overseas, exchange rate variations may cause the value of your investments to rise or fall. Investments in certain funds, including emerging markets, specialist geographical areas, smaller companies and specialist sectors (such as technology and ethical stocks) tend to be more volatile. Where a fund's objective is to provide income and the income is paid out, there can be a reduced potential for capital growth, especially over the medium to long term. The level of income payments can vary and where a bond fund's running yield is greater than the redemption yield, this may erode capital.

Some funds invest in higher risk fixed interest securities, known as sub-investment grade bonds. These bonds have a low credit rating and higher risk of default than investment grade bonds. This means that there is an increased risk that the value of your investment could fall. The tax treatment of investments and pensions depends on individual circumstances and may be subject to change in the future. Fund switches outside of an ISA wrapper constitute a realisation for capital gains tax purposes.

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