# SELF INVESTED PERSONAL PENSIONS (SIPPs) EXPLAINED

## A Guide for Clients

## 2018/2019

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## Overview

The following pages contain a substantial amount of technical information. The following summary, on page 3, will also be of assistance.

What is important to remember is that Self Invested Personal Pension Plans (SIPPS) are in essence, just Personal Pension Plans (PPP). They just have more investment opportunities which in turn, appeal to the more adventurous investor.

The fundamental difference is that through a SIPP, individuals can literally become their own fund managers and have the facility to invest outside the normal insured contracts within a pension wrapper which includes shares and property.

Now we are into the new simplified world of pensions post 'A' Day (6th April 2006), many of the previous investment restrictions we had to contend with have simply fallen away and increased investment choice and flexibility are likely to be even more appealing.

Nevertheless, it is crucial to remember that SIPP trustees can still impose their own restrictions on the type of investments that they offer and often, if a more unusual investment is required, only the specialist SIPP providers will actually undertake such a transaction. Charges on these types of contracts are also likely to be higher than a PPP.

One thing is certain, SIPPs are certainly very popular and the growth of these plans over the coming years is widely anticipated. This guide explains how a SIPP works and the investment choices that are available. We hope you find this guide useful and informative.

## AT A GLANCE

| | **SIPP Rules** |
|---|---|
| MAXIMUM ANNUAL CONTRIBUTIONS | No limit to employer's and employee's contributions.<br><br>Tax relief for employees' contributions is limited to the higher of £3,600 per annum or 100% of relevant UK earnings.<br><br>Annual Allowance for 2018/2019 is £40,000 per annum. This may be lower for high earners (income in excess of £110,000 p.a.) or those who have already flexibly accessed other pension schemes.<br><br>Potential ability of carrying forward up to 3 years worth of unused Annual Allowance.<br><br>Contributions made in excess of the Annual Allowance will trigger a tailored tax charge of up to 45%. |
| CONTINUING CONTRIBUTIONS AFTER EARNINGS CEASE | Before age 75, tax relief will be restricted to maximum of £3,600 pa. Can still contribute up to the Annual Allowance but tax relief is not available on any contributions over £3,600 pa.<br><br>After age 75, no tax relief is available. |
| RETIREMENT AGES | From age 55.<br><br>Exceptions for those with SIPPs effected prior to 6 April 2006 in special occupations (e.g. sports people, provided that the member is tested against a reduced lifetime allowance - 2.5% per annum from age 55) and that the full pension must be vested. |
| TAX-FREE LUMP SUM | 25% of fund subject to Lifetime Allowance (LA) of £1,030,000 (2018/2019) subject to any transitional protection. |
| PENSION | Benefits tested against Lifetime Allowance with any excess having Lifetime Allowance Charge applied.<br><br>This excess could be taken as a lump sum, income or combination of both. |
| PROPERTY PURCHASE AND | Can invest in commercial property and borrow up to 50% of net scheme assets. Connected party transactions |

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|---|---|
| BORROWING RULES | permitted. |
| INVESTMENTS | Investments unrestricted (although this will be trustees discretion) |
| LOANS TO MEMBERS | Not permitted, any loan to a member will always be treated as an unauthorised payment.<br>N/B Loans to unconnected parties are allowed. |
| DEATH BENEFITS | Those aged 75 and over who haven't yet started their pension, or are taking a drawdown pension will be able to pass on their remaining defined contribution pension to any beneficiary who will then be able to take it as a drawdown pension or as a lump sum taxed at their marginal rate of income tax.<br><br>Although these new rules come into force in April 2015, beneficiaries of anyone who dies before that date can still benefit so long as payment is delayed until after that point. |

Quite simply, a SIPP works in much the same manner as a personal pension plan. Contributions are paid in the form of regular contributions and single contributions (subject to HMRC limits) and other pension benefits can be transferred in.

Transfer payments and income from investments do not count as contributions, nor does any rental payments where property may be being used. The SIPP will enjoy the same tax reliefs and tax advantages as any other registered personal pension plan.

The key difference is that contributions are invested in accordance with your individual specific instructions. Prior to the investment instruction being received and executed, contributions are held in a trustee bank account where they will usually earn a competitive rate of daily interest.

A number of providers stipulate that a minimum amount must be retained in their insured pension funds which cannot be used for self-investment purposes.

Any individual can invest in a SIPP. Even if you are a member of an occupational pension scheme you will be able to simultaneously contribute to a SIPP subject to certain limits. It’s just a matter of whether contributions will be tax relievable.

## INVESTMENTS

Since April 2006, any investment that is deemed to be a commercial investment will be allowed. This means that SIPPs are allowed to invest in most assets including the following.

- Stocks and shares listed or dealt on an Inland Revenue recognised stock exchange, including AIM
- Stock exchanges that are not recognised by HMRC, e.g. OFEX.
- Unit trusts, open ended investment companies (OEICs)
- Warrants, covered warrants
- Government stock and fixed interest stock
- Un-quoted shares
- Commercial property
- Property funds

Initially, the Government was going to allow personal pension funds to invest in residential property and this created considerable interest from investors. However in December 2005, the Chancellor announced a U-turn by announcing that additional tax would be charged if a pension fund invested in residential property.

If a SIPP does invest in residential property or "taxable investment/property" such as vintage cars an extra charge will be applied. Onerous tax charges on the prohibited investment can be levied.

This means that although it will be possible to invest in residential property the additional tax charge makes it an unattractive option.

Taxable property consists of the following –

- **Residential property in the UK or elsewhere** which is a building or structure, including associated land that is used or suitable for use as a dwelling.

- **Tangible moveable property** are things that you can touch and move including assets such as art, antiques, jewellery, fine wine, classic cars & yachts.

**What charges would be levied for holding residential or tangible moveable property?**

- An unauthorised member payment charge of 40% of the value
- If property exceeds 25% of fund, further unauthorised payments tax surcharge of 15%
- Scheme sanction charge of 15%
- Any income or gain will be taxed
- The scheme could be de-registered (40%)

For these reasons, providers will not often permit such investments.

## PROPERTY

The current rules for property investment within a SIPP are:-

**Key points**

- Only designated commercial property is normally acceptable. The general rule is that the property must be designated 'commercial' with the local rating authority.
- The scheme trustee buys and owns the property bought by a SIPP, and not the SIPP plan holder. The trustee is legally responsible for maintenance of the property. Any development/refurbishment/renovation requires the scheme trustees' agreement and must only be undertaken under their strict control. The trustee can insist that a property is returned to its original condition if work is undertaken without prior consent.
- Any lending requirements are made to the trustees and therefore no personal guarantee may be offered.
- The mortgage and any legal costs must be met from the pension fund.
- The lease, including the rent payable, must be on commercial terms determined by an independent professional valuation.
- In theory, a SIPP can purchase part of a property but this could lead to problems when, for example a death claim or a divorce arises. Therefore, some SIPP providers are not willing to permit this.
- Joint property purchase is possible with SIPPs held by other individuals – see point above though.
- Property is relatively illiquid, so care should be taken if you need to draw income from the fund.
- Pension funds can borrow up to 50 per cent of their net asset value to purchase property.
- Using a pension fund to purchase a property already owned by you would release cash from the pension fund which could be used to repay any existing debt.
- Capital gains tax may be payable on the sale of any existing property to a SIPP and there will be additional transactional costs and stamp duty.

Although the list of available SIPP investments is broad, pension providers do have discretion over what types of property they will accept into their SIPP so this should be checked with the individual provider.

It is important to remember that commercial property is an investment like any other and it can rise or fall in value – ultimately affecting the benefit payable at retirement. If a property is bought when the market is high, then if there is a future slump in property prices, your pension fund could potentially be in negative equity.

Finally, it takes time to sell a property and so contingency plans such as investing in other assets should be considered to cover the event of death, divorce or retirement of the member.

Whilst there are drawbacks as noted above, there are also a number of attractions of putting property into a pension scheme:

- All legal costs and expenses are payable from the SIPP
- The rent paid by the tenant is tax deductible as a business expense
- No CGT is payable on gains when the property is finally sold by the SIPP
- There is no limit on the number of properties which can be purchased (provided borrowing limits are not exceeded)
- The rent received by the pension scheme helps to increase the retirement benefits.

**Overseas Property**

It is permissible to invest in overseas commercial property but again some providers may not offer this facility due to the complexity of administration and overseas legal processes.

Overseeing letting agents and difficulty in finding specialist lenders who are able and willing to provide funds for purchase in various countries add further complications. Furthermore, many European countries such as France and Spain do not recognise UK trust laws.

**Joint Ownership**

Depending on what the pension provider allows, you can join SIPPs together in order to purchase an investment. In theory, there is no limit on the number of plan holders who may do this. The SIPP provider may ask the plan holder to sign a co-ownership agreement so that if a co-owner wishes to dispose of his share, or in the event of a co-owner's death, the remaining partners have a right of first refusal at fair value. There is no requirement for joint owners to have equal shares; they can have unequal shares and borrowings so long as each co-owner individually respects the allowable borrowing limit.

By sharing ownership, the initial cost of entry to direct property investments is reduced and this enables smaller SIPP funds to club together to acquire property investments which would otherwise be unavailable to them - often referred to as a SIPP syndicate.

**Creating liquid funds to buy out a member**

A valuation will need to be performed if one of the co-owners wishes to disinvest from the property, possibly at retirement, or dies. Various steps can be taken to make the necessary funds available:

- Use existing assets within the SIPP.
- Borrow more money (subject to borrowing limits) – if the property has increased in value or some of the original loan has been paid off.
- Make further contributions or transfers into the plan – this could be added to the remaining members' arrangements and then invested in the property.
- A new member with a SIPP in the same scheme investing in the property.
- A combination of any of the above.

**Property funds**

An alternative way of receiving some property exposure is to invest in a property fund. More details on Property fund investment is provided at the end of this booklet.

**Borrowing**

If there are insufficient funds to buy a property outright, a commercial mortgage may be taken out by the trustees of the SIPP. In addition a SIPP can borrow 50% of the net scheme assets i.e. total assets less any existing borrowing.

**Example:**

Helen has a pension fund of £200,000 and she wishes to purchase a property for £150,000. She wishes to retain £125,000 invested in shares so uses £75,000 from her pension and borrows £75,000 via a commercial mortgage. The total gross asset value of Helen's pension is £275,000 when the mortgage is added. Should she wish to borrow more money to purchase another property, the borrowing requirements will be based on her net asset value as illustrated below:

| | |
|---|---|
| Gross asset value: | £275,000 |
| Net asset value (less mortgage): | £200,000 |
| Borrowing limit 50%: | £100,000 |
| Existing borrowing: | £75,000 |
| Potential borrowing: | **£25,000** |

(borrowing limit less existing borrowing)

**Miscellaneous Commercial Property Issues:**

Whilst it is possible for a SIPP to invest in residential property, there are substantial tax penalties for doing so which make it very unattractive. There are many properties however, that are commercial / residential splits. Some of these will be allowable provided the residential element is an integral or associated part of the property held by the SIPP. An example would be a caretaker's flat – the caretaker must be required to occupy the flat as part of his contract of employment and must not be connected to the employer e.g. husband or wife.

Additionally, hotels, motels, nursing homes and public houses can be included but there must not be any benefit for the individual SIPP member in the form of residing within the property. A resident manager is acceptable provided that he or she is not connected with the employer and the terms of employment require residence on the premises.

Investments in riding stables, golf courses, forestry, woodlands and agricultural land are usually acceptable. Care has to be taken that any residential element is agreed by the trustees of the SIPP (usually the provider) and HMRC.

There must be no potential for members of the scheme or their relatives, including spouses and their relatives, to enjoy the benefits of the land. Forestry, woodlands and agricultural land may have attached amenity rights such as shooting or fishing. These amenities should not be made available to members of the scheme otherwise they will be treated as a benefit in kind and taxed accordingly.

| Property & Exotica - What Investments are permitted? |
|---|
| Commercial property. |
| Hotels including ownership of part or all of the hotel, provided no part is occupied by a member or connected person, or they have a right to occupy a part. |
| Student accommodation (i.e. halls of residence but **not** flats or houses). |
| Care home or prisons. |
| Purchase of land and development of residential property, or conversion of a building to residential provided the pension scheme disposes of the property **before** conversion is fully complete. E.g. in the UK when the certificate of habitation is issued. |
| Residential elements of a commercial property which are occupied as a condition of employment e.g. caretaker. |
| Investment-grade gold bullion. |
| Unit trusts, investment trusts or Oeics investing in residential property subject to the 'indirect' investment rules. |
| Residential SIPP Syndicates – where there are 11 or more people and providing a) there is no personal use of the property, b) the total asset must be at least £1million (or at least 3 properties must be held in the SIPP) and c) the SIPP must not own more than 10% of the property. |
| Real Estate Investment Trusts (from Jan 2007). |
| 'Other vehicles' investing in residential property or chattels known as 'genuinely diverse commercial vehicles' as defined by HMRC. |
| **Property & Exotica - What Investments will incur a tax charge?** |
| Beach huts. |
| Timeshares. |
| Direct purchases of residential property and grounds defined as a building or structure used or suitable for use as a dwelling. |
| Indirect investment in these assets via a vehicle wholly owned by the pension scheme. |
| Rights or options to purchase taxable property at a 'future' date. |
| A lease of a hotel room with the right to stay there at a reduced or free rate. |
| Shops with flats above unless the flat has been sold on a long term lease and has a separate entrance or is let for example to the shopkeeper. |
| Development and conversion costs to convert property to residential. |
| Loans to a company to purchase taxable property |
| Ground rents relating to residential property. |
| Tangible moveable property |

### Parts of buildings

Building or structure includes part of a building or structure. If a building includes a large number of separate flats then these are all treated as separate buildings.

If a building includes a shop with a wholly separate flat above it is treated as two separate buildings. The flat is a residential property and the shop is a commercial one. A flat is wholly separate if it has a separate entrance and has no inter-connection with other parts (for this purpose a communal hallway is not an inter-connection).

If a building comprises part which is used for commercial purposes, such as a shop, with an inter-connected residential area, such as a flat, this is one building and the whole will be treated as residential as it is suitable for use as a dwelling. Different parts of a building are inter-connected if they share a common entrance and where you can move from one part to another without moving through common areas.

## IN - SPECIE CONTRIBUTIONS

Where an individual or their company owns a commercial property, for example their business premises, there may be advantages in this property being moved into a pension plan instead. Rather than having to sell the property, with all the associated costs, with the trustees of the pension scheme then buying this from the individual, it is possible to simply transfer the property into the pension scheme intact. This is known as an 'in specie' transfer and simply means that the legal ownership has been changed.

The individual's SIPP may be able to purchase the entire property, or may need to join with other SIPP members to purchase a set percentage. This is all dependent on the size of the SIPP fund.

Property can even be 'paid into' a SIPP in lieu of a cash contribution. For example, if an individual wished to pay a pension contribution of £20,000 for the current tax year, rather than paying this in as a cash amount, they could decide to meet this through paying in a portion of their commercial property instead. Should the provider be willing to accept this type of payment, a % share of the property would then be owned by the pension scheme. As pension contributions benefit from immediate basic rate tax relief (20%), the payment would be grossed up. Higher rate tax payers can then apply, via their self assessment return, for the extra tax relief. This facility allows a property to be gradually transferred into a pension scheme over a number of years.

You should be aware that both in-specie transfers and contributions involve a transfer of an asset and as such the current owner is likely to be subject to capital gains tax (CGT) and stamp duty or stamp duty land tax, depending on the type of asset. Having said this, the asset will then sit in a tax-exempt fund and a future sale will be exempt from CGT. Also the annual allowance of £40,000 (with 3 years of potential carry forward) will need to be taken into account.

## CHARGES

The SIPP provider will levy charges to cover the costs of setting up and running the SIPP. How these charges are structured normally depends on what type of SIPP you are looking to set up.

The two main types of SIPP are as follows:-

**Hybrid SIPP** – this is a SIPP set up with a product provider such as Standard Life or Aegon. It is quite common for these providers to require a portion of the pension monies to be invested in their own pension funds (known as insured funds) and you are then free to invest in your own choice of assets with the remaining monies. In return for keeping a minimum amount of pension money invested with the product provider, the SIPP is commonly then subject to a reduced level of charges.

The charging structure of these types of plan could include an annual management charge for each fund, an initial charge for purchasing the fund (known as the bid/offer spread) and possibly a set monthly or annual policy fee.

**Pure SIPP –** this is a SIPP offered by a specialist company who impose no restrictions on where the monies can be invested.

The charging structure of these plans is often a fixed monetary amount not related to the size of the pension fund, so there is economy of scale. Some levy an all-inclusive charge while others charge on an itemised basis, so clients may pay for services they do not use, or get a better deal on an inclusive rate if they actively change investments.

Whether you chose a hybrid or pure SIPP, there may also be additional fees for the use of a stockbroker, from the plan's bank account and from the use of an investment manager. Charges/fees may or may not be subject to VAT at the prevailing rate.

Many individuals use a SIPP to invest in property. It is important to note that when purchasing property, there are a number of acquisition costs for an individual to consider. Many of them could be quite substantial and therefore, it is important for the individual to work out a budget at the outset. There will also be solicitors and surveyor's fees plus legal disbursements.

Certain pension providers will insist on the individual using one of their own solicitors and surveyors and others will allow individuals to use the solicitor/surveyor of their choice. Legal disbursements will include Land Registry fees, search fees and importantly will include stamp duty land tax. Other costs will include finance fees such as bank arrangement fees and valuation fees. The plan holder may have a choice of going to a lender of his preference depending on the practice of the SIPP provider.

There will also be ongoing property management charges for services such as checking and reviewing insurance requirements, inspecting property, reviewing rents etc. Because the pension scheme and not the individual will own the property, all property related bills would have to be paid from the pension fund e.g. council tax and buildings insurance.

## TAX RELIEF AND CONTRIBUTIONS

### How much can I contribute? – The Lifetime & Annual Allowance

This is the limit to the amount of pension savings anyone can take in their lifetime without tax penalty. The Lifetime Allowance is currently £1,030,000 (2018/2019). The value placed on benefits when tested against the Lifetime Allowance is known as the "Crystallised Value". For money purchase schemes such as a SIPP, this is the fund value. Fund values over this would trigger a tax charge of 55% if taken as a lump sum or 25% if taken as a income stream, but subject to income tax subject to no transitional protection.

Contributions into the scheme are limited by the annual allowance. The Annual Allowance is currently up to a maximum of £40,000 (2018/2019). High earners, those with an income of more than £110,000 p.a., may have a reduced annual allowance as will individuals who have already flexibly accessed other pension plans.

There is a potential facility of carrying forward up to 3 years worth of unused relief in some circumstances.

Contributions exceeding the annual allowance, will trigger a tailored tax charge of up to 40-45%.

Tax relief on any contributions made is limited to £3,600 per annum or 100% of salary if higher subject to the annual allowance.

When made within these permitted limits your contributions are payable after deducting basic rate income tax. That means that if, for example, as a basic rate tax payer, you wanted to pay £1,000 into your pension, you would actually pay £800. The scheme administrator will then reclaim the additional £200 of tax from HMRC and invest it for you into your SIPP.

If you are a higher rate taxpayer, you will be able to reclaim the higher rate tax on your annual tax return subject to the annual allowance.

Your employer can also contribute directly on your behalf and will normally receive Corporation Tax relief as a business expense.

### Taxation within the SIPP

Investments within the SIPP are not subject to UK Income or Capital Gains Tax. Any tax paid on dividends from UK equities however, cannot be reclaimed.

## TAKING BENEFITS

### Your options at retirement

The purpose of your pension is to provide you with an income in retirement. Benefits can be taken any time from age 55. It is not necessary to retire before receiving your benefits.

Up to 25% of your accumulated fund can be taken as a tax-free lump sum, and the balance should be used to provide income either by buying an annuity or via one of the other available alternatives such as drawdown.

### Annuity purchase

An annuity is a contract with an insurance company to provide a regular income for life in exchange for a lump sum. The annuity can be level, increase each year to keep pace with the cost of living and/or providing a continuing income for a spouse/dependant on your death. The advantages and disadvantages of this product are explained in full in our Retirement Options Booklet.

### Flexi Access Drawdown

This will operate in the same way that the previous capped drawdown did, except there is now no limit on the income taken. After you have taken your entitlement to the tax free lump sum at outset (usually 25% of the policy value), you can choose to take as much or as little of the remaining pot as you wish and it will be added to any other income you have in that tax year to determine the income tax rate that will apply. Please note that if you draw any income from this plan, your future pension contributions will be limited to a £4,000, the Money Purchase Annual Allowance (MPAA).

You must report this to all active Scheme Administrators within 91 days or you risk an HMRC fine.

### Uncrystalised Funds Pension Lump Sum (UFPLS)

This new option allows you to take a chunk of money (as little or as much as you wish) from an existing pension plan. Once you have decided how much you want to take out, 25% of the payment will be tax free and the remainder will be subject to your marginal rate of income tax. If you use this option, any future pension contributions will be limited to a £10,000 maximum Annual Allowance.

You must report this to all active Scheme Administrator within 91 days or you risk an HMRC fine.

### Phased Retirement

Phased retirement enables you to take part of your pension as required over the years from age 55. Your benefits will usually be divided into 1,000 identical policies so that you can crystallise any number of policies as a pension commencement lump sum plus income withdrawal or annuity when you decide.

The advantages and disadvantages of this product are explained in full in our Retirement Options Booklet.

**What happens if I die whilst taking benefits?**

If you die after an annuity has been purchased then the benefits payable, if any, will be determined by the terms of the annuity contract.

Under Flexi-access drawdown and the UFPLS options, for those who die before age 75, the nominated beneficiary can receive a lump sum or a beneficiary drawdown. This will be tax free.

Those aged 75 and over, the options or a lump sum and beneficiaries drawdown continues but it is taxed at the beneficiaries marginal rate of income tax.

## BORROWING

The amount that SIPPs can borrow is 50% of the net pension fund value.

It should be noted that if a loan is drawn down in stages, HMRC require each amount drawn to be tested against the limit at the date of draw-down. Therefore, particular care needs to be taken when borrowing to acquire property or land with a view to development over a period of time and/or in stages, particularly if borrowing to the maximum and the value of the scheme's assets is likely to fluctuate.

SIPP Trustees must allow for stamp duty and VAT when calculating the loan required, they cannot borrow an additional sum over the basic limit to fund these items.

### Purpose

SIPP Trustees can borrow within specific limits for:

- Acquiring an interest in a commercial property,
- Development of such a property,
- Payment of any VAT liability arising from the purchase or development of commercial property.
- Stamp duty, legal and other expenses of the purchase or development.
- Trustees can also borrow for other purposes.

### Lender's Requirements

Apart from the requirements of HMRC, the lender will have its own requirements. For example, lenders often require the anticipated rent from letting the property to cover the loan repayments by a predetermined margin. Some lenders will take into account other income e.g. contributions, investment income, when assessing the ability to meet loan repayments

## LOANS

SIPPS cannot lend to the policyholder or anyone connected to them. Any loan to a member or anyone connected to them such as husband or wife will always be treated as an unauthorised payment. SIPPs can however, make loans to unconnected parties.

## INVESTMENT STRATEGY

A brief description of each fund type follows but you should refer to the product providers Key Features Document for further details.

### Cash

Invests in short-term deposits managed actively in the UK money market, achieving higher potential returns than those available via normal deposits. This is a secure investment fund, which aims to achieve a higher rate of return from the money markets than that achievable by an individual investor.

**Building society**
Invests in selected building society accounts. This is a secure investment fund the return of which is dependent upon underlying base rates. The size of building society funds can enable them to achieve a higher level of return than that likely for an individual investor.

**Long term gilts**
Invests solely in gilt-edged securities issued by the Government, forming part of the Long Gilt index. This is a specialist fund which aims to help protect against changes in annuity purchasing power, annuity rates being calculated with reference to the Long Gilt index. The underlying stocks are tradable and are therefore influenced by market fluctuations.

**UK fixed interest**
Invests mainly in gilt-edged securities issued by the Government, as well as other quality sterling-denominated fixed interest and convertible debt instruments issued by UK Corporations. The underlying stocks are tradable and are therefore influenced by market fluctuations.

**Index-linked**
Invests predominantly in gilt-edged securities issued by the Government. Interest payments and capital repayment values are linked to movements in the Retail Price Index (RPI) and this provides a 'hedge' against inflation. The interest distributions and redemption values of the underlying securities are guaranteed by the Government to be calculated with reference to the RPI. However, it should be borne in mind that these stocks are traded in the market and prices may be liable to fluctuation.

**Controlled risk funds (Derivatives)**
There are a variety of controlled risk funds available. They invest in a combination of cash deposits and financial instruments linked to movements in the UK stock market, as measured for example by the FTSE-100 Index. Typically, they are quarterly rolling funds which have been structured with the aim of combining security with potential for growth. The bulk of funds are deposited with one or more major financial institutions for investment in the cash markets with the aim of protecting the capital value of the unit price from one quarterly date to the next. The balance is invested in FTSE-100 Index options with the quarterly unit rice benefiting from the addition of a predetermined percentage rise in the index over the period. Various levels of 'guarantees' may be offered.

**Distribution**
Invests in UK equities, gilt-edged securities issued by the Government (both conventional and index linked), as well as other quality sterling-denominated fixed interest and convertible debt instruments normally issued by UK corporations. No more than 60% of the fund may be invested in equities. This fund aims to provide a balanced return by investing in a combination of income and medium-term capital growth assets.

**Mixed/managed funds**
Invests in a variety of the provider's regional and specialist funds with little variation from market average asset allocations, usually the larger portion of the portfolio will always be invested in the UK. Managed funds operate on a similar basis except that the assets are direct held by the fund rather than 'holding' a selection of the provider's sector funds.

**Property Funds**
These funds are generally divided between those that invest directly in commercial property such as offices and retail units, or those that invest in the shares of property companies. The former tends to be less volatile (less risky) than the latter. Returns from property funds can be made up of a combination of rental income and increasing values in the underlying properties held within the fund. As it is sometimes difficult for fund managers to sell a property holding when investors wish to switch or encash their investment, individuals may experience a delay, although this is not common.

**Global fund**
This fund is similar to the mixed fund but with wider investment ranges. It may therefore have a substantially higher proportion of assets invested overseas or in bonds and cash. Risk rating is average.

**UK equity**
Invests in a broad spectrum of stocks mainly on the London Stock Exchange. The portfolio will provide exposure across all major industrial sectors and may include exposure to smaller companies. The mainstream UK equity funds aim to provide capital growth from a well diversified portfolio of holdings.

**With profits**
With profits investments aim to provide a relatively steady rate of return over a period. Depending on the fund selected, a certain level of growth by way of an annual bonus may be added through unit price increases. On withdrawal from the funds a terminal bonus may be paid. This will reflect the extent to which the client's share of the performance of the fund's underlying assets over the period of investment (subject to an element of smoothing) exceeds the growth already added to the client's fund. On a move away from this fund, a penalty known as a Market Value Reduction could be applied to ensure that all fund members receive their fair share.

**International**
Invests internationally in equity markets specifically excluding the UK to provide exposure to both the assets and currency of the markets in which it invests.

**Tracker funds**
Tracker funds are a relatively recent development which have proved to be very popular for large group schemes that wish to follow a 'passive' approach to fund selection and management. In simple terms the aim of the tracker funds is to track a selected index such as the FTSE-100. This is achieved by the fund manager buying shares in the top 100 companies in direct proportion to that share's position in the FTSE table. For example, if BP represented 5% of the FTSE-100 then the fund manager would have 5% of his investments in BP.

**Individual sector funds (eg. Europe, Japan, North America)**
Invests in a broad spectrum of stocks quoted on their respective market(s). The portfolio will normally provide exposure across all major industry sectors. Such funds aim to provide capital growth from a well diversified portfolio of holdings.

**Ethical fund**
Usually invests in a wide range of predominantly smaller companies whose activities comply with a strict set of ethical criteria. These specialist funds aim to generate growth from a broad-based portfolio and are for those who wish to impose ethical criteria in relation to their investments.

**Emerging markets fund**
Invests in companies generating in, or whose shares are listed in, the emerging markets of usually Asia, Europe, Latin America and Africa. The fund will typically be invested across all major emerging markets. This provides opportunities for capitalising on the above average returns which may be available from countries which are at an early stage of economic development. A diversified portfolio of holdings spreads the risks which, by their inherent nature, are associated with investment in these markets. These specialist funds aim to produce growth over the medium to longer term, subject to short-term volatility.

**European Smaller Companies**
This fund invests in smaller companies listed on European stock exchanges. Typically, the fund will be invested across all major and most secondary markets within the region, although it may invest in developing markets when conditions appear to be appropriate. Risk rating is above average.

**Technology**
Invests in companies involved in technology-intensive industries on a worldwide basis. Its risk rating is 'higher'.

## Other Investment Options

In addition to the above investment funds, those clients who contribute to SIPPs will also have access to a much wider investment choice. This range could include OEICs, Unit Trusts and shares along with the facility to invest in commercial property.

Where commercial property or direct share purchase is considered, clients should bear in mind that larger fund sizes would generally be required so that the overall fund has a mixture of different assets (known as diversification). This helps to reduce the investment risk as you are not then relying on the performance of one asset in isolation.