



Reflections

The newsletter for clients of Fairbairn Private Bank

Summer Special



Welcome to our summer issue and, while newspaper headlines are still reporting turbulence in the global economy, I hope there will be some brighter and more settled weather ahead.

As an end to the aptly named 'credit crunch' still seems elusive and many markets remain volatile, it is more important than ever to keep a calm head and retain a long-term view on your investments. On page 2, Russell Waite, our senior investment counsellor, takes a look at weathering the markets and managing your assets in the eye of the storm.

On page 3, we introduce the team from our trust company in Jersey and managing director, Justin Thomas, outlines some of the benefits of using trusts as part of your wealth and tax planning.

Late last year, we re-launched our gold status Visa card and by now you should be using your new look cards. To assist with the transition, we've taken the opportunity to list some of the more frequently asked Visa questions on page 6.

As you know, we are always very proud of our consistent award successes and, in this issue, we have three new achievements to report.

Firstly, I am delighted to announce that we have improved our ranking in this year's Sunday Times Best 100 Small Companies to Work For listing. I always find this prestigious accolade particularly rewarding as the data for the ranking is taken directly from our staff and the result provides a powerful statement to the outside world about our workplace environment and employee commitment. I am immensely proud of all the energy and effort shown by the team and details of this year's ranking can be found on page 5.

Secondly, we report on the International Investment Fund and Product Awards where we retained the Best International Private Bank award for a second year. This year the field was considerably widened with the inclusion of purely UK businesses for the first time. For this reason, it was especially pleasing to retain the international private bank award and also to win a new accolade

for Best International Wrap Provider. More details on this event can be found on page 4.

Finally, we report on The Anthony Nolan Trust who we were delighted to get involved with earlier this year. The staff charity committee worked tirelessly to raise awareness of the urgent need for bone marrow donors, and ran a successful donor clinic in the Isle of Man office to encourage people to volunteer for the charity's bone marrow register. Full details can be found on page 5.

I hope you enjoy this issue and look forward to sharing our expansion plans with you in the next edition. In the meantime, if there are any subjects you'd like to see covered in the future, please let us know.

Best wishes,

Greg Horton
 Managing Director,
 Fairbairn Private Bank



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Russell Waite

Managing assets in the eye of a storm

Over the last six to nine months investment managers around the world have faced some of the most challenging capital market conditions seen for generations. Not only have they had to endure sharply falling prices across a broad range of asset classes, they have also had to weather the potential demise of the global financial system in its current guise. Some practitioners have witnessed their specialist markets almost disappear overnight, and regulators and central banks have fought, desperately at times, to maintain confidence in the infrastructure in which all of society has become both dependent and reliant upon. This may be regarded as melodramatic, however, pension trustees, life assurers and mortgage providers have all been caught in the eye of this financial storm and very few have escaped unscathed.

Notwithstanding the circumstances described, investment managers have had a duty of care to their clients and continued to do what they are paid to do – manage assets. Clearly investment performance delivered will have varied significantly subject to the skill of the manager and the risks they were mandated to take. The results achieved will have been a catalyst for many investment management firms to undertake a review of their investment process, their risk management controls and, indeed, their entire investment philosophy to determine what they did right or perhaps, more commonly, what they did wrong.

One thing has been made abundantly clear - managing assets for clients and consistently delivering benchmark, or better, returns is a very difficult and challenging task. The fund management industry has long been built on the promise of offering market beating performance to its investors and, with the exception of a few, very select providers, has consistently under delivered on this promise. Indeed, the events of recent months have triggered a wave of comments arguing this undertaking can never be met and this trillion dollar industry is built on a completely flawed premise.

A series of academic papers published over the last two decades have argued those two fundamental skills managers claim to have – namely the ability to judge market timing and consistently select undervalued stocks – are relatively insignificant determinants of investment performance (2% and 5% respectively). By far the most significant determinant (over 90%) is that of asset allocation. For example, those managers who switched out of equities and moved into low risk government bonds and cash in late spring 2007 would have rewarded their investors and also sheltered them enormously from the crises which suddenly engulfed markets from last summer onwards. This bold asset allocation move was practised by very few, but some, particularly those using the process of multi asset class investing, will have seen the possibility of an approaching storm and used the process of diversifying across a number of asset classes as a means of managing the investment risk for their clients.

Asset allocation may have been proven as the fundamental driver behind investment performance, however, the means by which an investment manager has been able to express their asset allocation views has, until recently, been handicapped by the very use of those market timing and stock selection skills which have proved to be far less significant. However, this environment began to change in 1993, when the first exchange traded fund (ETF) was launched in the US and opened up a new panorama of investment opportunities. ETFs are open ended index funds listed and traded on exchanges, like stocks, that allow investors to gain broad exposure to entire stock markets of different countries, emerging markets, sectors and styles as well as fixed income, currency, property and commodity indices. Investments can be made with relative ease on a real time basis and at lower costs than many other forms of investing. Following their launch, the success of these funds can be demonstrated by the US\$797

billion of assets under management at the end of 2007, which were represented by 1,171 ETFs with 1,909 listings on 41 exchanges around the world.

The ETF 'tool box' available to investment managers is now very broad as well as deep. Those managers who have embraced the use of ETFs have recognised they can effectively and efficiently gain access to their preferred markets and asset classes with the knowledge these core allocations will deliver market returns for their clients. With this market exposure achieved, commonly referred to as 'beta', the investment manager is then able to commit resources to researching and accessing those investment themes or satellite ideas they believe will deliver superior performance, known as market-beating 'alpha'.

Building portfolios using this 'core and explore' approach is the style we practise and dovetails with our three fundamental investment principles:

1. Asset allocation is the key driver of investment performance
2. Multi-asset class investing diversifies risk and maximises the opportunities to deliver attractive risk adjusted returns
3. Passive or index tracking funds will commonly outperform actively managed funds.

Adhering to these principles can never remove the possibility of short periods of negative returns in certain market conditions. However, over time, they have been proven to create an ideal framework for optimising investment return for given levels of investor risk. Therefore, despite the challenges faced in recent months, we consider this investment philosophy and investment process to be well placed to manage assets in the current environment.

By Russell Waite
Senior Investment Counsellor,
Fairbairn Private Bank



Justin Thomas



The Trust Team. Left to right, standing: Joanne McConnell, Justin Thomas, Ni
Left to right, sitting: Debbie Pilz, Sophie Cl

The benefits of trusts

The concept of a trust goes back to the time of the crusades and has evolved to become an integral part of wealth and tax planning around the globe.

A trust is basically a confidential legally binding agreement (almost always in writing) whereby the original owner of the assets (the settlor) transfers legal title of their assets to another (the trustee), who will hold these assets for the benefit of a defined class (the beneficiaries).

Principal characteristics of a trust

The crucial feature of a trust is that although legal title is passed to the trustee by the settlor, the trustee is obliged to look after the property transferred for the enjoyment and benefit of the beneficiaries. The trustee is a custodian who, other than charging a reasonable fee, cannot benefit personally from the trust assets. All the rights to the enjoyment of those assets belong to the beneficiaries, who have legal right to force the trustee to act in accordance with the terms of the trust instrument and the laws governing trusts, whilst realising that the trustees must never act illegally.

In today's commercial world, it is more usual to engage professional trustees, such as our trust company, who must exercise a greater degree of diligence than would be expected from an individual trustee. Employing a professional firm provides settlors with reassurance and the peace of mind that the assets settled in trust will be administered competently and professionally in accordance with their long-term wishes, and always for the benefit of the beneficiaries.

Why set up a trust?

A trust is one of the most secure and flexible financial planning vehicles available, particularly when established offshore. Subject to the tax laws applicable to the settlor's estate, a trust may enable a settlor

to make long-term plans for the preservation or distribution of wealth, during or after their lifetime, in precisely the manner required. By transferring property into trust, settlors can ensure that the management of that property will not be interrupted on their death by probate or other formalities, but continue in accordance with the trust instrument and their letter of wishes.

A trust may also be an effective tax-planning tool, for example, in respect of estate or inheritance taxes on assets situated outside the country of the settlor's nationality. It may also provide complete confidentiality and protect assets from the imposition of exchange controls or similar political measures as well as providing a means of protecting assets from risk of unforeseen financial difficulty.

• Taxation

By establishing certain types of trusts, individuals may remove assets from their estates thereby reducing their taxable wealth and limiting exposure to income tax, capital gains tax, wealth tax, gift tax and inheritance tax.

• Asset protection

Having worked so hard to build a valuable business or asset base, it is everyone's right to try to preserve that wealth for themselves and their family. A trustee resident in another jurisdiction may act as guardian of a family's wealth thus offering a greater level of protection over those assets. This may be of particular interest to settlors living in politically sensitive areas where their wealth could be at risk. Assets in a trust may be protected from the imposition of exchange controls or other government regulations, and once removed from an estate free the settlor from the threat of confiscation or devaluation.

By passing legal ownership of trust property to trustees, the name of the settlor is removed from title deeds and other

documents of ownership. A trust cannot be established to defeat or defraud creditors but, provided the settlor is solvent and expects to remain so, it is perfectly reasonable for a wealthy individual to hedge against the unexpected by establishing a trust.

• Family matters

- Avoiding forced heirship

The law in some countries dictates to whom a person may leave their assets on death and in what proportions these may be left. If this is likely to be contrary to an individual's wishes, they may consider transferring assets into a trust located in a common law jurisdiction such as Jersey, which accepts that a trust is valid, even if forced heirship issues may arise in the settlor's country of nationality.

- Minimising estate administration costs

The cost of probate upon the death of a wealthy individual can be high and even force the unwanted sale of assets. By establishing a trust, settlors may minimise the disruptive effects of their own death on the family estate. Settlors can therefore rest assured that their family will be looked after in the same way after their death as before, in accordance with the terms of a trust established during their lifetime and the wishes expressed to their trustees.

- Protecting individuals

Certain family members may be less capable of managing their own affairs than others, or be adversely affected by the knowledge of their future inheritance. This might apply to infant children or aged parents, and professional trustees can be of great help in such circumstances.

- Keeping the estate intact

Settlors may wish to ensure that, after their death, the wealth that they had accumulated



Cola McGovern, Gary Bateley, Katie Penny, Chris Roscouet, Haopradith, Liza Sutova



From left to right: Gordon Hamilton, Debbie Loader, David Stearn, Justin Thomas, Beckie Williams, Janet Taylor, Greg Horton, James Ollivro, Terry MacKay, Julie Hutchins.

is not immediately split up amongst their heirs but is maintained in one fund. Distributions may be made to family members whose needs dictate but the corpus of family wealth can be preserved for succeeding generations.

The advantage of offshore trustees

Not every person who wishes to establish a trust should assume that the trust should be offshore. However, there can be major benefits from going offshore and the following principal factors should be considered:

- **Taxation**

Jersey is an ideal location for the establishment of an international asset holding trust. There are no capital taxes in Jersey, such as gift, capital gains, wealth or estate taxes, and for trusts which have no Jersey resident beneficiaries there are no income taxes. Thus capital can grow and income can accumulate within the trust free of all Jersey taxation.

- **Government interference**

Settlers may wish to protect their estate from government interference such as the imposition of exchange controls. It is highly unlikely that an offshore centre like Jersey would ever introduce such controls.

- **Reporting requirements and confidentiality**

There is no requirement for a Jersey trustee to disclose the names of the settlor or beneficiaries of a trust. Similarly, there is no requirement for a trust to be registered in Jersey or for any documents relating to the trust to be registered, stamped or made available for inspection. Consequently, a trust remains a private arrangement between the settlor and the trustee where confidentiality can be assured.

If you would like to discuss any of these issues in more detail, please contact our trust team on **+44 (0)1534 823202**.

A night at the awards

Fairbairn Private Bank goes the extra mile to ensure that the private banking sector is well understood and positively viewed. Its involvement at industry level is commendable and its employee training is exemplary.

We were delighted with this glowing report from the independent panel of judges at this year's International Investment Fund and Product Awards, held on Tuesday 13 May at a packed Victoria Park Plaza Hotel in London.

These awards recognise the very best international banking, life offices, fund management, structured products, health care and offshore centres, and this year saw a record number of entries from providers, including purely UK as well as offshore businesses for the first time.

Faced with such intense competition, we were delighted to retain the award for Best International Private Bank Group and, in addition, to be awarded a new prestigious award, Best International Wrap Provider.

In making the awards, the independent panel of judges felt we had an unrivalled approach to product and service provision. In terms of the Best International Wrap Provider award, the judges were particularly impressed with the sophistication and flexibility of our Focus service, which enables complete integration and consolidated reporting in support of each

client's financial needs.

These prestigious awards, which cover all areas of financial services, have recently changed their name from International Investment Offshore Fund and Product Awards to simply International Investment Fund and Product Awards. The awards previously centred exclusively around offshore international players, however, this year the final listings were filled with a number of sizeable and predominantly UK entities. This has significantly extended their reach to a much wider audience, embracing the UK market rather than exclusively focusing on the offshore UK arena alone. They represent one of the most important events in the financial calendar and with fifteen outright wins and thirteen highly commended awards in the past eight years, we have amassed more awards than any other offshore bank at this prominent financial services industry event.

We value these awards highly, as they represent an independent assessment by the financial services industry. Despite our continued success, however, we never take these industry acknowledgements for granted and each year try to raise our efforts still further in support of your needs.





Shirley and Anthony Nolan

Helping to save lives

Over the last few months, our staff charity committee has become involved with The Anthony Nolan Trust, organising and promoting a donor clinic in the Isle of Man office and running various fundraising activities to promote awareness of the charity's bone marrow donor register.

The charity became prominent in the staff's minds after the partner of a colleague in the Jersey office was recently diagnosed with leukaemia and needs to find a bone marrow donor match. His fight against the disease is particularly poignant as he has just become a father for the first time and is desperate to get home from hospital to enjoy life with his new baby.

Every 21 minutes someone is diagnosed with a potentially life threatening disorder, like leukaemia or aplastic anaemia, where often the only chance of a full cure is to have a bone marrow transplant. Fewer than 30% of these patients will find a family member with compatible blood stem cells to donate. For the rest, an unrelated donor is the only chance and the Anthony Nolan Trust was set up to facilitate a transplant for any patient in the world in need of bone marrow or appropriate cells.

The charity was established in 1974 by Shirley Nolan, who hoped to find a donor for her son Anthony who was born with a rare immune deficiency only curable with a bone

marrow transplant. At that time there was no system in place to find potential donors so she decided to set up the trust. Sadly, it came too late for Anthony who died, aged eight, without a donor being found.

Today, however, as a consequence of the bone marrow donor register she established, the future is a lot brighter for many people around the world, including our colleague in Jersey. We recently heard that two potential donors have been found for her partner.

If you would like to find out more about the charity, please contact The Anthony Nolan Trust at www.anthonynolan.org.uk or call **020 7284 1234**.

Top 50 placing again for Fairbairn Private Bank

We are once again delighted to have been voted one of the Best Small Companies To Work For, according to this year's Sunday Times Best 100 listing that was published in March.

Celebrating our inclusion in the Best 100 listing for the fourth year running, we have now risen to our highest placing at number 42. This has raised the stakes significantly for next year, as we are the only company to have continually moved up in the ratings for four consecutive years. We also remain unique as the only British offshore island financial services organisation to be featured in this highly coveted listing.

The Sunday Times sponsored survey aims to identify the best employers in the British Isles, and is based exclusively on employee opinion. It is the definitive guide to workplace excellence amongst small businesses and is the largest survey of its kind, growing this year to incorporate the

opinions of over 32,000 employees across more than 500 companies in this sector alone. Staff praised the sound moral principles upon which the bank is run (87%, ranking 19th), and highlighted their belief that profit was not the only thing driving the

organisation (81%, ranking 16th). The bank was rated 12th overall for giving something back to society, and achieved its highest factor ranking for environmental protection with a 75% positive score.



Richard Caseby (left), managing editor of the Sunday Times, presents the award to Greg.



VISA – Frequently asked questions

By now, you should have received your new gold status Visa cards so as a reminder we address some of the frequently asked questions below:

Q: I understand that Fairbairn Private Bank now provides a 24 hour, 7 day a week telephone number for Visa enquiries?

A: Yes, the Fairbairn Private Bank Visa number is **+44 (0)1624 645111**. However, at certain times you will be asked to confirm your identity using the answers from your security questionnaire. If you have not yet completed a security questionnaire, please phone the Visa enquiry number above to request a form.

Q: Can I change my PIN?

A: Yes, you can change your PIN at any Visa ATM that offers PIN management services. However, Visa currently only makes this facility available in the UK and most European locations. PIN management is currently not available elsewhere in the world as they are still some way behind the UK and Europe in the introduction of 'Chip and PIN' technology.

Q: Is it safe to use my card for online shopping?

A: Yes, but you should always ensure that you use sites that are run by well-known and trusted retailers. Extra security can be obtained if the merchant operates the Verified by Visa scheme.

Q: What is the Verified by Visa scheme?

A: This facility is being made available to Fairbairn Private Bank cardholders later in the year.

Provided in association with Visa, it offers additional security and confidence when you shop online. Through a simple checkout procedure, Verified by Visa uses a unique password to confirm your identity when you make a purchase at any participating online retailer.

In order to utilise this service you should have completed the security questionnaire that was recently sent out to you. If you have not completed a questionnaire, please phone the Fairbairn Private Bank Visa number above for a form.

Q: Is there a maximum amount of cash I can withdraw at any one time and what is the maximum daily withdrawal?

A: You can withdraw up to £2,000, or the currency equivalent, per day, subject to local restrictions.

Q: Is there still a minimum cash withdrawal amount?

A: No.

Q: When is my monthly limit reinstated each month?

A: Your monthly limit should be reinstated on the last working day of the month.

Q: I want to use my card for a purchase above my limit. How should I go about this?

A: You should call the Fairbairn Private Bank Visa number at least 24 hours ahead of the planned transaction and explain your requirements. We can then arrange for the necessary changes to be made to your card parameters.

Q: What should I do if my card is lost or stolen?

A: As soon as you become aware that your card is missing, you should call the Fairbairn Private Bank Visa number above and advise them of the position. If you are aware that your card has been stolen, you should also contact law enforcement officials in the jurisdiction and report the loss to them. If you are given a crime reference number you should note this down and advise the bank of the details in due course.

Q: What precautions can I take to keep my card secure?

A: You should keep your card in your possession at all times and do not keep a record of the PIN with the card. You should never divulge your PIN to anybody and should always take care when entering your PIN into a terminal that key strokes cannot be observed by a third party.

You should be aware that neither the bank nor any legitimate third party will ever ask you to disclose your PIN.

If you have any further questions we have not covered here, please do not hesitate to call us on the Fairbairn Private Bank Visa number **+44 (0)1624 645111**.

For further information please contact our customer services team on **0800 289 936** or visit **www.fairbairnpb.com**

The value of your investments and income from them can fall as well as rise and you may not get back the original amount invested. Exchange rate changes may affect the value of investments. The opinions in Reflections are those held by the authors at the time of printing.

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Fairbairn Private Bank is a registered trade name of Fairbairn Private Bank (IOM) Limited and Fairbairn Private Bank Limited.

Fairbairn Private Bank (IOM) Limited is licensed by the Isle of Man Financial Supervision Commission to take deposits and provide investment services. Registered office as above. The London office is authorised and regulated in the UK by the Financial Services Authority.

Authorised and regulated in the UK by the Financial Services Authority in respect of regulated mortgage contracts only. Fairbairn Private Bank Limited is regulated by the Jersey Financial Services Commission to carry on deposit-taking and investment business. Registered office as above.

Latest audited accounts are available on request. UK Financial Services Authority registration numbers: Fairbairn Private Bank (IOM) Limited 313189 Fairbairn Private Bank Limited 313187

Deposits made with the Isle of Man office of Fairbairn Private Bank (IOM) Limited are covered by the Isle of Man Depositors Compensation Scheme contained in the Banking Business (Compensation of Depositors) Regulations 1991 (as amended), for further information see www.fsc.gov.im. Fairbairn Private Bank is a member of the UK Financial Services Compensation Scheme established under the Financial Services and Markets Act 2000. In respect of deposits with the London office, payments under the Scheme are limited to 100% of the first £2000 of a depositor's total deposits with the bank and 90% of the next £33,000, resulting in a maximum payment of £31,700. Most depositors, including individuals and small firms, are covered. For further information see www.fscs.org.uk