



# Reflections

Winter 2007/08

The newsletter for clients of Fairbairn Private Bank

## Welcome to 2008



Welcome to our first issue of Reflections in 2008 and, on behalf of the staff, I hope the new year delivers everything you wish for.

With the start of another year and full of well-intentioned resolutions, now is an ideal time to consider the growing popularity of ethical investing. With this in mind, Russell Waite, our senior investment counsellor, opens this issue with an article on alternative energy and reviews the investment potential in this sector.

We're still only a couple of months into the year, but Alistair Darling, the current UK chancellor, has announced controversial draft legislation which could have profound implications for non-domiciled UK residents. There is already growing pressure on him to rethink his plans, for fear of creating a mass exodus of wealthy individuals from the UK. On page 3, Justin Thomas, the managing director of our trust company, takes a look at what the proposed legislation could mean.

On page 4, we report on the Riders for Health charity which we were delighted to support for the first time last year. The charity transports vital medicines by motorcycle to remote parts of Africa.

In line with our continuing expansion, on page 5 we introduce three new recruits, who will double the size of our South African team. Whilst over in the Isle of Man, we have had to take additional floor space in our office building to accommodate rapidly increasing numbers. We are delighted to welcome the two latest members to the team in this issue.

Also on page 5, we are delighted to announce that we have retained our Best Companies Accreditation for another year. Recognising the company as an 'outstanding' performer, this award is particularly pleasing as it is based on the feedback of our own staff.

The internet continues to play an ever-increasing role in our lives, with more and more of us relying on it as a source of information, particularly on products and services. In response to this growing trend, we have recently made some changes to our own website and on page 6 we outline some of the recent updates designed to make our site easier to navigate.

I hope you find the articles in this issue of interest and please do not hesitate to contact us if there are any subjects you'd like to see covered in the future.

Best wishes,  
**Greg Horton**  
 Managing Director,  
 Fairbairn Private Bank



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Russell Waite

# Alternative energy

## - clean, green and lucrative to know

It took 150 years for the world's population to double from 1 billion to 2 billion in the middle of the last century. It took only 50 years for the population to triple to the 6 billion it is today and the United Nations predicts the population of earth will be 9 billion by 2050. Basic economic theory demonstrates a direct link between population growth and gross domestic product (GDP) growth. Between 2000 and 2030 global GDP is expected to double from US\$31.5 trillion to US\$70 trillion. To support this increase in economic activity, the International Energy Agency predicts a worldwide increase of over 50% in primary energy demands by 2030. However, in the fast developing regions of the world, such as South East Asia, energy demand is expected to increase by well over 100%.

How will all this additional energy be sourced and generated - especially against the backdrop of 'peak oil'? This concept was introduced by a former Shell Oil geologist named M. King Hubbert who used statistical analysis to project the moment in time when oil production from a well, region or indeed the world would reach its peak year, when maximum production is attained. In 1956 he predicted 'peak oil' for the US would be 1970 and this has subsequently proved to be correct. Debate surrounding the date of global 'peak oil' is ongoing; however, the consensus suggests the date will be some time between now and 2020.

The search to find alternative sources of energy is underway. The surge in energy demand caused by global economic development is a key driver; however, it is not the sole driver. Other factors have been catalysts for this search too and these include:

- Energy security – political conflict between oil supplying and consuming nations has

raised the spectre of energy security. The need to secure energy supplies is essential for any country to help secure long term economic prosperity.

- Climate change – the debate surrounding the detrimental impact mankind is having on the environment by releasing carbon from the earth's crust into the atmosphere appears to have ended. The Intergovernmental Panel on Climate Change has stated with a 90% probability that humans are causing climate change.
- Legislation – in recent years there has been a marked transformation in social and political attitudes towards the need to source alternative and cleaner sources of energy. The Kyoto Protocol has triggered a wave of legislative demands issued by signatory nation governments to their domestic corporate sectors. Moreover, the US Energy Bill, signed by President Bush in December 2007, is a clear indication from the world's largest polluter of its commitment to cut emissions and look increasingly towards alternative sources of energy to power its economy.

The search is not, therefore, simply for alternative energy - but for clean alternative energy. Substantial research and development, and infrastructure capital expenditure is being committed globally to the sector, which in turn also enjoys governmental and related agency subsidies. The current sources of clean energy are solar, fuel cells, wind, wave, hydro, geothermal and bio – based. The estimated revenues in alternative energy are around US\$65bn per annum and are currently growing at 20%-30% a year. This growth rate looks potentially very attractive to investors, especially from a sector that is still in its relative infancy.

It is very easy to get carried away with the prospects of capturing substantial returns and it is important to be aware of the risks. Within the sector, there are only 42 companies globally with a market capitalisation in excess of US\$500m – the investment universe is limited. The potential market size is not clearly defined nor is the true commerciality of some of the technologies in the clean energy space. This environment tends to result in share price volatility as momentum trends outweigh fundamentals. A significant threat to the clean energy industry is the traditional energy sector, as participants will not want to lose market share. Additionally, the clean energy industries face a wide variety of political pressures, particularly from the oil exporting nations.

Notwithstanding these factors, gaining exposure to the clean energy sector has become a theme we have introduced into some of our discretionary managed portfolios during 2007. For those clients willing to accept the volatility and able to commit monies for the medium to long term, the bank believes investment returns will be attractive over time. To manage the risks involved, the bank gains access to the sector via collective investment vehicles which offer diversification across the key industries, and whose managers have a demonstrable skills set in selecting market leading companies in the sector.

If you would like to find out more about investing in the clean energy sector, please call our customer services team on **+44 (0) 1624 645000**.

By Russell Waite  
Senior Investment Counsellor,  
Fairbairn Private Bank

Source: Morgan Stanley Research. Clean Energy Sustainable Opportunities (16 Oct 2007)



Justin Thomas



# Non-UK Domiciles: all pain and lots of capital gain

According to my Oxford English Dictionary, the definition of the current UK chancellor's surname is "a beloved or lovable person". Non-domiciled UK residents (NDRs) may wish to run their fingers a bit further down the page to the word "dastardly" which they may feel is a more appropriate definition of our "beloved" Mr Darling. Without any prior consultation with the industry, on 18 January 2008, HM Revenue and Customs (HMRC) published in draft form dramatic legislation, which will form the basis of revised tax rules for NDRs from 6 April 2008.

Since the 18 January, we have witnessed a plethora of bemused tax advisers, lawyers and business people advocating a relaxation of the proposals. As a consequence, on 12 February, HMRC issued what they determined was a "clarification" of the rules; but as yet, this is insufficiently detailed to offer much comfort. We will probably have to wait until the budget on 12 March to see the final wording of the legislation, and whether there are any further changes.

So what is all the fuss about?

## 1. Changes to the residency rules

Should an individual spend more than 183 days in any tax year in the UK, or more than 91 days on average over a four year period, then he or she will be classified as UK resident.

With effect from 6 April 2008:

- Days of arrival and departure **must** be included when counting days of residence in the UK (they are currently not counted). As a consequence, an average of 45 bed nights per year could soon have you UK resident (and worse still, your business too).
- There is an exception for transit passengers who remain "airside".

## 2. Changes to the remittance basis of taxation

This is what started the uproar and what a red herring this now proves to be. With effect from 6 April 2008 those NDRs resident in the UK for 7 out of the last 9 tax years will need to pay a £30,000 annual levy if they wish to claim on a remittance basis.

The £30,000 levy will only attract a credit against taxes paid abroad if provisions of the relevant Double Tax Treaty permit this (currently no such joy for our US clients). Any offshore funds remitted into the UK to satisfy the levy will themselves be taxed on a remittance basis, unless the payment is made direct to HMRC!

Anybody claiming the remittance basis will lose their income and capital gains tax allowances, although, rather interestingly, you can opt in and out of the remittance basis annually, which may offer some planning opportunities.

## 3. "Flaws and anomalies" – the correction

Apart from the heading sounding like a sequel to a 'B' movie, with effect from 6 April 2008:

- "Source ceasing" – the ability to convert income to capital over a tax year end will bite the dust.
- Alienating income and capital gains by making gifts offshore to connected parties will see its last days.
- Goods, such as cars and watches, purchased outside the UK using foreign investment income will give rise to a tax charge if brought into the UK.

## 4. Changes to the taxation of offshore trust and company structures

This is where the pain could become unbearable for NDRs, even with the latest "concessions" from HMRC. There is a

mounting campaign from lawyers and accountants beseeching Mr Darling to rethink these changes and even defer them for 12 months. Whether anything will come of it only time will tell, but suddenly property prices and interest in places like Switzerland are starting to rise.

Significant changes (perhaps the most consequential since 1991 and the era of "golden trusts") are to be introduced to the taxation of offshore trust and company structures established by NDRs.

With effect from 6 April 2008:

- UK gains in a settlor interested trust or underlying company will be subject to capital gains tax (CGT) at 18% on the settlor on an arising basis. A trust is settlor interested if the settlor or his family can benefit. This can include the settlor's spouse, children, grandchildren or their spouses. This could send shockwaves through the investment property market, where historically such gains in non-resident structures were not exposed to CGT.
- Any gains on non-UK situs assets will be taxed upon receipt of "capital payments" from the trust, apparently, irrespective of whether such payments are remitted to the UK or not. However, further clarification is being sought on this point. Capital payments include such things as interest free loans, rent free occupation of property owned through the structure, as well as capital distributions.
- HMRC has advised that "the tax charges will not apply to (trust) gains accrued or realised prior to the changes coming into effect". This is both delightful and perplexing at the same time. Does this mean we are to abandon the detailed draft rules, widely interpreted as requiring the calculation of historic trust gains pools and



Ben Stott, private banker at Fairbairn Private Bank (right), with Alex Carter-Silk (left) at the evening reception held prior to the challenge

attributing past gains to beneficiaries in receipt of capital payments from the trust, whether in the UK or elsewhere? Does the reference to (trust) gains "accrued or realised" mean that there will be additional, previously unannounced, draft legislation permitting a rebasing of all offshore assets for CGT purposes? If so, how does that leave NDRs who hold investments outside trusts and may not qualify for a tax free uplift?

- Post 6 April 2008, any capital gain not distributed in the year it arose will be stockpiled and subject to a supplementary charge which could be as much as 28.8%.
- Existing non-resident trusts with NDR settlors will have to be disclosed to HMRC within 12 months. New trusts created post 6 April 2008 will require settlors to notify HMRC within 3 months.

It has to be hoped that in due course a pragmatic set of proposals will emerge, with a clear cut-off and no retrospection prior to 5 April 2008; however, time is not on the chancellor's side and nobody can feel comfortable in delaying pre-emptive action until 6 April. Whether this will be winding up your trust, matching distributions against past gains, rebasing assets or moving abroad, you are well advised to speak to your tax adviser or trustee as soon as possible.

The fact that NDRs cannot vote directly may not be lost on the current Government; however, NDRs may have the last laugh by voting with their feet.

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

By Justin Thomas  
Managing Director,  
Fairbairn Trust Limited

This article was correct at the time of going to press.

## Enduro Africa goes "full throttle"

Last year, we were delighted to support the charity Riders for Health by sponsoring two motorcycle riders in the Enduro Africa challenge. This gruelling event tests the endurance and stamina of even the toughest riders during an eight-day trek through some of South Africa's most rugged and isolated terrain.

The challenge set out from Durban in November and rode through the famous 'valley of 1000 hills', which offered a gentle introduction to what was soon to come. The real adventure kicked in the next day, as the route entered the Wild Coast and traversed the mighty Mtentu River and the Mkambati Gorge. The following day offered a choice of the high road or the low road, as the ride hugged the rugged coastline, challenging riding abilities with rocky river crossings, muddy forest sections and fast grass banks alongside the beach.

One of the most famous sections from previous years included the varied riding experiences of The Hole in the Wall, The Haven Nature Reserve and the Bashee River. This was followed by a well deserved day of rest to prepare the riders for the next stage. Taking the mighty gorge across the Quora River, the ride then took the spectacular coastal route past the wreck of the famous Jacaranda, one of many vessels sunk by this notorious stretch of coastline. The final leg of the challenge traversed the big five reserves of Kariega before finishing triumphantly in Port Elizabeth accompanied by police sirens and waving crowds. There was just enough time to freshen up before the team headed out again to celebrate their achievement.

The two riders we supported for the challenge were Alex Carter-Silk and Andy McNab, of Bravo Two Zero fame. Their initial fundraising target of £150,000 was easily broken, and almost £200,000 was raised for the charity, which transports vital medicines by motorcycle to remote parts of Africa. In addition, the 100 bikes used for the challenge were donated to the charity for their ongoing operations.

We were very keen to support the charity, originally founded by British bikers, which has transformed Africa's healthcare service. Riders for Health co-ordinate a fleet of motorcycles and 4x4s, and, by training health workers to maintain their own vehicles, a zero breakdown policy ensures that all transport in the fleet is fully operational at all times.

The charity offers a crucial lifeline for the remote communities in Africa who are cut-off from hospitals and health clinics due to the poor road infrastructure. Health workers can now visit many more patients, hold mobile clinics in far flung villages and, crucially, offer preventative treatment that can halt the spread of malaria, HIV, and tuberculosis (TB).

Riders for Health receives most of its support from the motorcycle community, with endorsements from racers and celebrities such as well known bike enthusiast Ewan McGregor. The Times newspaper also recognised the extraordinary work undertaken by the charity and launched a Christmas fundraising appeal with its readers.

Anyone who wishes to support Riders for Health should logon to [www.riders.org](http://www.riders.org)

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## Two stars for the star performer

Reinforcing our current advertising headline: 'If you want star performance, talk to a star performer', we are delighted to have retained our two star rating in the Best Companies business accreditation system.

This is the third year running that we have been awarded 'Star Status' in this system, which recognises corporate excellence in the workplace. The accolade takes the format of a Michelin style star system with company performance awarded one star for first class, two stars for outstanding and three stars for extraordinary.

The accreditation system is based on eight main factors; company leadership; wellbeing; personal growth; fair dealing; employees' feelings towards

their managers; employees' feelings towards their teams and what the company gives back to society. The accreditation accumulates the scores from 16 key questions, which incorporate those eight main factors. Each organisation is then ranked based on all eight of those workplace factors. The judges highlighted that the bank scored extremely high marks in leadership, wellbeing, and giving back to society by being ethically driven.

Greg commented, "This is a fabulous achievement that serves to underline our commitment to our employees, and further illustrates the high levels of satisfaction they have with their working environment. We strive to maintain a high quality of life for our workforce and I stand in awe at the loyalty, commitment

and levels of excellence that our team provide to our continually growing business."

We are the first and only British offshore island based financial services company to receive this prestigious accreditation. The bank is one of only 117 distinguished UK based companies with a two star rating, these include: Camelot Group, Deloitte, Morgan Stanley and PricewaterhouseCoopers.

This latest accolade joins a long list of awards for the bank. With thirteen outright wins and thirteen highly commended awards in the past seven years at the International Investment International Fund and Product awards, we are certainly living up to our promise that 'consistency is our hallmark'.

## South Africa doubles the team

Our South African team has now doubled in size, with the recent appointment of three new individuals in Johannesburg and Cape Town.

Shaun Burrow will assume the position of private banker and will join Guy Veysey in Cape Town. Shaun is making a move back home to South Africa from London, having had considerable experience as a financial adviser and private banker.

Joining Lesley-Anne Shaw and Stephen Rix in Johannesburg are Michael Tonkin, as personal banker, and Shahista Singh, as private banking assistant. Michael brings four years of banking experience with him, starting on an internship with Rand Merchant Bank, then moving into various private banking roles. Shahista joins the team with a strong education in financial and corporate management, with particular experience in new business.

To welcome the recruits on board, Greg Horton and Jon Evans recently went out to South Africa and took the team to Vrede & Lust wine estate with Etienne Buys. The estate, in Franschoek, Cape Town, provided a full tour of the farm as well as explaining the intricacies of the wine-making business. The team then made their way to one of South Africa's

signature restaurants, Reuben's. The modern, lively and airy atmosphere of the restaurant provided a perfect setting for the new team to get to know each other outside the formal setting of the office, as well as to enjoy a wonderful lunch.

All in all the day in Franschoek was a roaring success, enjoyed by all.



Left to Right: (Back Row) Stephen Rix, Greg Horton, Guy Veysey, Michael Tonkin, Shaun Burrow, Jon Evans.  
(Front Row) Lesley-Anne Shaw and Shahista Singh.



Helen Prince and Andrew Nicholson

## New recruits to the Isle of Man team

### Helen Prince

Helen has joined the Isle of Man office as head of banking operations and brings with her eight years experience from Royal Bank of Scotland International. Most recently, she was employed as senior regulated sales and monitoring manager. Helen also finds time to work as a part-time lecturer at Isle of Man College, where she teaches the Certificate in Financial Planning.

In addition to an MBA in Business Administration, Helen holds the full Financial Planning Certificate; Life and Pensions Foundations Certificate; Foundations of Insurance Test; and the Mortgage Adviser's qualification.

### Andrew Nicholson

Andrew has joined the Isle of Man office as a private banker. With 20 years experience in the financial services sector, Andrew joins us from Alexander Forbes (IOM) Limited, where he was

employed since 2004 as managing director. Prior to that, Andrew spent six years as managing director of DeanWood Financial Services Limited.

Married with three children, Andrew was born and raised on the Isle of Man and holds the Financial Planning Certificate from the Chartered Insurance Institute. Andrew enjoys a range of outdoor activities and represented the Island at cycling in the Commonwealth Games in 1982, 1986 and 1990.

## A distinctly different look for our website

You may have noticed that we've recently refined our website and we hope the new look version enhances your online experience.

Recent improvements are a result of your feedback and a need to meet the increasing demands for online access to banking products and services information. We have considered the needs of our website visitors and have added more features and extra facilities to aid navigation through the site to the product and service pages.

The homepage has been revamped with more product information and clearer links to the online banking area. New developments also

include a news area which is accessible from the homepage, linking to the latest press releases, product updates and news features.

A brand new area offers help for first time users of the bank's online banking service, and suggests hints and tips for those less familiar with internet banking.

In addition, extensive work on search engine techniques has been performed, increasing the banks exposure on the popular internet search engines.

It is recognised that more and more people are using the internet to source banking products

and services. Websites, now more than ever, need to keep up with the times to meet the demands of today's internet culture.

Given that the majority of our clients are based overseas, it is important that our site is user-friendly and easily accessible. We pride ourselves on our exceptional and award-winning customer service levels, and it is important to us that the high standard of service which we have built, and which you have come to expect, is also reflected online.

To visit our new look website, simply logon to [www.fairbairnpb.com](http://www.fairbairnpb.com).

**For further information** please contact our customer services team on **0800 289 936** or visit [www.fairbairnpb.com](http://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 (IOM) Limited is licensed by the Isle of Man Financial Supervision Commission for Banking and Investment Business and its principal place of business is in the Isle of Man.

Fairbairn Private Bank is a registered trade name of Fairbairn Private Bank Limited. Fairbairn Private Bank Limited is regulated by the Jersey Financial Services Commission to carry on deposit-taking and investment business under the Banking Business (Jersey) Law 1991 and Financial Services (Jersey) Law 1998 respectively. Registered office as above. Latest audited accounts are available on request.

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](http://www.fsc.gov.im). Fairbairn Private Bank (IOM) Limited and Fairbairn Private Bank Limited are not subject to the provisions of the UK Financial Services and Markets Act 2000. Accordingly investors entering into investment agreements will not have the protections provided by the UK regulatory system, including the Financial Services Compensation Scheme.