Reflections

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PRIVATE BANK

Spring 2006

The newsletter for clients of Fairbairn Private Bank

Fairbairn Private Bank Makes Best 100 Again

John Waples, Business Editor of The Sunday Times and Greg Horton, Managing Director of Fairbairn Private Bank

Welcome to our first issue for 2006 and we're delighted to start the year with the news that we have retained our coveted listing in The Sunday Times Best 100 Small Companies to Work For.

Only 43 companies retained their listing status from last year and we were one of only 20 companies that rose up the listing, moving up 12 places to be ranked 73rd. Within the survey, the findings of which were released in a Sunday Times supplement last month, we ranked 25th for staff wellbeing and obtained top 20 scores for work and home life balance, job security and low levels of stress in the work place.

This award is especially pleasing given that it is predominantly influenced by what our staff say about the business and, consequently, reflects their satisfaction with their working environment and the opportunities we offer for personal growth and development. We are all naturally thrilled to have received this accolade and are particularly proud to break new ground in representing the British offshore world onshore.

The listing, which is compiled in association with Best Companies, is sponsored by the Department of Trade and Industry and has been designed to toast the success of small businesses and celebrate the best employers in Britain. Not only is Fairbairn Private Bank the only British Offshore Island representative on the listing, but it is still the first and only bank to have ever featured since the small companies publication commenced.

Also in this issue, we review the first full year's performance of our Strategic Asset Allocation Service (SAAS) on page 3. The SAAS has had such a successful year, we decided to celebrate the anniversary with a birthday cake and use the opportunity to raise more funds for our four staff chosen charities.

Next we welcome Daniel Hawson, who joins the management team of Fairbairn Trust Limited, our wholly owned trust company based in Jersey. We introduce him on page 5 and on the same page he submits his first article for Reflections, with a discussion on the benefits of offshore structures and the services we can offer.

Following on from our look at passive investments in the last issue of Reflections, we continue the great investment debate with a Q and A on the merits of an actively managed investment approach on page 2.

On page 6, we discuss the rising problem of card-not-present fraud, which has risen by 21% over the past year, according to the Association of Payment Clearing Services (APACS). Card-not-present (CNP) fraud, currently the most common form of fraud, rose to £183.2 million, and the majority of this is committed online. We outline some of the potential scams to help you avoid them.

Meanwhile, our private banking and investment teams continue to expand and we introduce several new joiners to both the Isle of Man and Jersey offices on page 4.

Finally, on page 4, we bring news of our latest sponsorship venture to support a tree planting scheme in the area around our Jersey office.

Very best wishes from all the team and I hope you enjoy this Spring issue.

Greg Horton
Managing Director,
Fairbairn Private Bank

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The great investment debate

In our last issue we put the case for a passive investment approach so, in the interests of balance, the debate now continues with the relative advantages of a more active managed approach in this feature.

We put a few key questions to our Managing Director and Chairman of the bank's Investment Committee, Greg Horton:

In general, are actively managed portfolios more or less efficient than portfolios that use a passive investment approach?

This is an enormous question to start with. Both approaches have their place in a diversified portfolio, but debating which is more or less efficient is generally reflective of no more than different product providers' preferences.

Active investment managers are primarily driven by two goals: to use a mixture of research, experience and judgement to beat the market by spotting stocks most likely to outperform and to reduce absolute risk.

In contrast, passive investments such as trackers set out to mirror the trend of the market as closely as possible. They reduce the potential for serious underperformance, but offer no opportunity to benefit from the outperformance that a skilled active manager might achieve. Tracker type products work particularly well in rising bull markets, where the investor will also benefit from their reduced management costs, but in a bear market, the active manager's ability to hold cash can work to their advantage.

Traditional trackers tend to mimic a specific market index such as the FTSE 100 and this can result in investments concentrated in the larger companies that tend to dominate these types of indices. Active managers can offer a more convincing record in specialist areas, small companies and mid capital companies. Active managers are also more suited to inefficient markets where good research can reap higher rewards.

Are passive investments lower risk than active investments?

Where passive investments do reduce risk is in the relative risk of underperforming the chosen index, which is not the same as reducing the absolute risk to the investor. The main advantage of passive investments is that they generally produce a more consistent performance and reduce the volatility of returns.

On the downside, since trackers are always fully invested in all market climates, they cannot take defensive positions in a falling market in the same way an active manager can by switching to cash.

Do you favour one approach over the other and, if so, why?

Over the long term, the average tracker should generally outperform the average actively managed portfolio because it is more consistent and has significantly lower charges.

In reality though, both strategies have their place and both can work in harmony, as each has its advantages. The passive tracking element will match market returns and risks, while an active element can be targeted to achieve added value. The precise mix of passive index based and active products will depend on a client's specific investment objectives and risk profile.

It is because of the advantages that both elements can bring that we designed our own Strategic Asset Allocation Service "SAAS", which is referred to later in this publication. SAAS comprises a predominantly passive approach, but because it is a multi asset class service, it incorporates the ability to move into cash when necessary, removing the major disadvantage of a single tracker approach. By the same token, the service also features active managers, particularly in inefficient markets where real value can be added through good research.

Why do you think professionals have historically favoured actively managed portfolios comprised mainly of equities?

Basically, because they had so little choice in the past. The industry continues to evolve and there was nowhere near the level of product sophistication or investment awareness available, even ten or twenty years ago.

Today, there is a wide range of investment styles to choose from, but they can generally be categorised into either absolute return or market driven. Each of these styles can be achieved with either a passive or an active management approach.

At Fairbairn Private Bank, we look to accommodate both investment styles and both management philosophies through a broad range of strategies provided either "in-house" or externally.

In your experience, what would an ideal portfolio look like? Would it use equities only or would you generally wish to expose clients to other asset classes?

Here the key is diversification, as this is the most efficient risk diffuser. But there is no such thing as an "ideal portfolio", as one size definitely does not fit all. For example, a

A successful first year for SAAS

client chasing high-risk investment with a high return would have a very different "ideal" to a low risk investor.

If we generalise, however, the greater the diversification, the lower the risk. The old advice about not putting all your eggs in one basket is not merely about lowering risk, but also about improving returns, because smoother returns compound at a faster rate. Consequently, if we look at a typical low to medium risk investor who is seeking returns above cash, but without taking material risk on the downside, then our SAAS offers an ideal "core" holding. Diversification is achieved by investing across all the major asset classes (cash, bonds, equities, property and alternative investments) and we aim to achieve an optimal mix between required return and risk tolerance. A client is then free to add any number of individual "satellite" investments, perhaps in more actively managed products, all within our Focus service.

If we turn to the needs of the higher risk investor, then a more bespoke approach would be suitable. This may incorporate specific higher risk satellite investments, or involve the use of an active management approach where we would utilise the services of a third party specialist.

Either way, the key requirement for our private bankers is to match the needs of our clients with the service that best suits their risk profile. This is where we spend most time with our clients before commencing any investment process. It is not about selling a product, it's about building an understanding and delivering on agreed expectations.

First birthday celebration for SAAS

Our Strategic Asset Allocation Service "SAAS" recently celebrated its first birthday in true style with cake and candles, and the occasion was put to good use to raise more money for the bank's charity fund. Greg Horton stepped in to blow out the birthday candle before the enormous cake was whisked away to be sliced up and sold off, with all the proceeds going to the four charities selected by the bank's staff.

The SAAS investment service, managed by Fairbairn Private Bank, targets returns by investing in asset classes rather than individual stocks, and the anniversary occasion was marked by turning in a superb performance for the year of 10.21%* on its sterling hedged version.

As the objective of the portfolio is to achieve a real return in excess of risk-free sterling cash interest rates over a three to five year period, this performance shows that the service is more than meeting its objective. Investment is made in all the major asset classes, including cash, bonds, property, equities and alternative investments, and the asset allocation is actively managed to reflect changing market conditions.

An additional cause for celebration was the granting of a maximum possible 'Four Diamond' rating by Guernsey based Asset Risk Consultants "ARC". With the use of statistical techniques, produced within their SAS Profiler System, the ARC Diamond Rating provides a performance assessment that places a Manager's return into context by examining benchmark, risk level, style and trend. This rating indicates that the performance of the SAAS Sterling Hedged Model has significantly exceeded reasonable expectation and the Manager has added tangible value through the investment process.

The SAAS is just one of the wide range of investment services we offer and is designed to achieve real performance and provide value for money based on the risk and return expectations of our clients and the prevailing market conditions. It also offers an excellent opportunity to gain exposure to less traditional asset classes, such as hedge funds, commodities and property.

* Performance for the year to 31 December 2005. Return information shown is for the Sterling Hedged Strategic Asset Allocation Service with income and interest reinvested. Minimum investment £100,000. Past performance is not necessarily a guide to future performance.

Georgina Clapham and Beckie Williams

Barry Besnard (right) with Kevin Pilley from the Street Life Programme and one of the maple trees
Photo courtesy of Jersey Evening Post

Support for tree planting in St Helier

As part of our ongoing sponsorship programme, we recently showed our environmental side by pledging support for the Environment and Public Service Committee's Street Life Programme in Jersey. The bank contributed £1,000 towards the establishment of tree planting in New Street, St Helier and our contribution has been marked with a special plaque below one of the maple trees outside our Jersey office.

Our donation has meant that a total of five trees can be planted in New Street as part of an extensive programme to make St Helier a safer, more attractive and more welcoming town. In this particular part of town, improvements have also included wider pavements, traffic calming measures and improved pedestrian facilities.

Senator Philip Ozouf, the Environment and Public Services Committee President, said: 'I am delighted that we can work with the business community to bring about real improvements to St Helier. It is fantastic that businesses such as Fairbairn Private Bank are willing to provide funds to support this small but hugely significant work. Improving the quality of our urban environment can only be good for all who live, work and visit the Island, and it is hugely encouraging that the business community is prepared to help us invest in improving the quality of our streets.'

Barry Besnard, our Head of Business Development in the Jersey office, commented: 'The trees planted have already made an impact in the street this year and will continue to add even more colour and life as they establish and grow. We are delighted to give our support to this initiative'.

New joiners for private banking and investment teams

In line with our continued expansion programme and a significant growth in business over the last twelve months, we have added several new members to our Isle of Man and Jersey teams.

The private banking team in the Isle of Man has been strengthened by the arrival of Beckie Williams, who has extensive experience of working with private clients and providing investment advice to expatriates.

With over fifteen years in the offshore and private banking sectors, Beckie will focus on developing the bank's asset management business and building relationships with professional intermediaries and private clients.

Georgina Clapham, who joins the Jersey office as a private banking assistant, has nine years' experience in the industry. Her investment background and commitment to service will provide valuable support to the Jersey based team.

A significant growth in the bank's assets under management during 2005 has also led to an expansion of the investment management team based in the Isle of Man office. James Robertson, Helen Gaines, David Wiseman and Laura Hayden have all joined the team as investment administrators.

Greg Horton commented: "The bank is currently experiencing a dynamic period of expansion and development. Despite a highly competitive environment, our growth remains extremely strong and, with plans for significant future expansion, I have no doubt that our new joiners will play an integral part in our continuing success."

Daniel Hawson

New director for Fairbairn Trust Limited

Daniel Hawson has recently joined the management team at Fairbairn Trust Limited, the bank's Jersey based fiduciary services arm. Daniel, who has been appointed as Associate Director, previously worked at Deloitte and Walbrook for eight years, where he was latterly responsible for European Business Development. Daniel's main focus at Fairbairn Trust Limited will be the continued development and expansion of the trust company, and below Daniel looks at how trust and company services can possibly assist you.

Tax planning opportunities for non-domiciled individuals

In this article we've decided to take a look at the potential benefits that can be achieved through efficient offshore tax planning.

For years now UK residents have been able to make substantial tax savings as a result of the subtle difference between being merely a UK resident or being a UK resident and domiciled individual.

What is the difference between residence and domicile?

Residence is an easy concept to understand and is measured in terms of physical presence during the tax year. An individual is generally considered UK resident if they are physically in the UK for 183 days or more in the tax year.

Domicile can be more difficult to define than residency, as it is really a concept of general law. Your "domicile of origin" is acquired at birth, normally from your father. A "domicile of choice" can be acquired from the age of 16 and broadly involves leaving the current country of domicile to settle in another country. It requires strong proof of having moved to the other country permanently or indefinitely - living in another country is not conclusive evidence of an intention to change domicile. In practice, the changing of one's domicile is often very difficult to achieve.

Tax Saving through Offshore Structures

For individuals who are non-UK domiciled but resident in the UK there are significant tax savings which can be made through the establishment of an offshore structure.

Income Tax (IT)

Any income arising in the UK is automatically subject to IT. However, a UK resident, non-UK domiciled individual with foreign income can maintain these monies offshore, and as long as this income is not remitted to the UK can mitigate the need to pay UK IT.

Inheritance Tax (IHT)

Currently IHT is 40% on any UK assets over £285,000 (from 6 April 2006). However, a non-UK domiciled individual settling these UK assets into a trust will be able to completely mitigate this tax charge should they survive for seven years after the assets have been settled. Once the assets are in the trust structure, they can be permanently ring fenced from IHT even if they became UK domiciled.

Capital Gains Tax (CGT)

For a non-UK domiciled individual, any assets settled into trust will be subsequently protected from CGT on any increase in capital.

To simplify, we have summarised this information into the table below, which shows the individual taxable status positions in relation to CGT, IHT and IT.

In conclusion, the main benefit for UK resident, non-UK domiciled individuals is that in conjunction with appropriate tax advice and suitable offshore tax planning, CGT and IHT on UK assets can be mitigated.

Should you wish to discuss any aspect of offshore planning in more depth, please call either Daniel Hawson on **01534 823207** or Justin Thomas on **01534 823251**.

	UK resident UK domiciled	UK resident Non domiciled	Non – UK resident Non – UK domiciled
Income Tax (IT) for Individuals			
UK Income	Taxable	Taxable	Taxable
Foreign Income	Taxable	Only if funds remitted to the UK	Not Taxable in the UK
Capital Gains Tax (CGT) for Individuals			
UK Gains	Taxable	Taxable	Not Taxable in the UK
Foreign Gains	Taxable	Remittance of capital is tax free	Not Taxable in the UK
Inheritance Tax (IHT) for Individuals			
UK Assets	Taxable	Taxable	Taxable
Foreign Assets	Taxable	Not Taxable	Not Taxable in the UK

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‘Phishing’ – make sure you don’t get caught

Further to the article “Take care with your cards” in the last issue of Reflections, we thought we should expand a little further on the subject of Visa fraud in this edition. While not wanting to be unduly alarmist, we feel that forewarned is always forearmed in these circumstances.

Recent research by APACS, the UK payments association, indicated that UK card fraud losses totalled £439.4 million in 2005, a fall of 13% on the previous year. This fall is mainly attributed to chip and PIN which has already resulted in a reduction of nearly £60 million in combined counterfeit and lost and stolen card fraud losses, a fall of 24%, and in mail non receipt fraud, which fell by 45%. Despite a reduction in all other card fraud types, card-not-present (CNP) fraud continues to rise. CNP refers to transactions made by internet, phone and mail order, and continues to be a significant problem with losses rising by £32.4 million - up 21%.

CNP frauds are often operated on-line where they are known as ‘phishing’, because of the way they trick a user into revealing their personal security information. This is done through clever scams over the telephone (see below) or through official looking emails purporting to be from banks or credit card companies. The simplest response to any suspicious or unsolicited emails is to ignore them and contact the company direct. If they are a scam, it is important that the company concerned is advised as soon as possible. Similarly, care should always be taken that card purchases are only made through legitimate websites.

The VISA Security Department recently advised us of an ongoing card scam that operates over the phone. A person calls and claims to be from the Security and Fraud Department at VISA. They identify themselves and say that they are calling to verify an unusual purchase pattern on your card. They then give out details of the issuing bank and the alleged purchase details.

Once the purchase is denied, the caller promises to send a credit and reads out your address for confirmation. They say they will be starting a fraud investigation and give you a 6 digit control number. The caller then says they need to verify that you are in possession of your card and ask you to give them the last three numbers on the back of your card. This is the key part of the scam and under no circumstances should you give out these numbers. They are security numbers that are designed for you to use when making internet or telephone purchases, to prove you have the card. Once the caller has these three numbers from the back of your card, he has the ability to charge purchases to your account.

In conclusion, you should never disclose your security numbers to anyone who calls or contacts you. Instead, tell them that you will call the card issuer direct to clarify any issues. VISA have advised that they will never ask for any numbers on your card, as, since they issued it, they already have a record of this information. It is also vital that you never let your card out of your sight when paying in shops and restaurants, as this gives any potential fraudster the opportunity to copy your card and security numbers.

If you have any concerns about card-not-present fraud, please contact our Customer Services Team who will be delighted to advise.

For further information please contact our Customer Services Team on **0800 289 936** or visit **www.fairbairnpb.com**
Fairbairn Private Bank (IOM) Limited St Mary’s Court, 20 Hill Street, Douglas, Isle of Man IM1 1EU Tel +44 (0)1624 645000
Fairbairn Private Bank Limited 28 New Street, St Helier, Jersey JE2 3TE Tel +44 (0)1534 887889

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