

CARDALE NEWS

Focus on client service boosts Cardale's growth

Despite a further year of unsettled markets, over the past 12 months, Cardale has enjoyed a very positive and successful year, building on last year's strong performance, according to Chairman and Chief Executive Ashley Alger.

"Once again our client assets and numbers have increased significantly, proving that our commitment to delivering the highest standards has been recognised," he said. "We believe our focus, size and approach - linked with a robust and efficient governance structure - enables us to provide effective asset management and a first class client service"

"This approach has allowed us to deliver strong organic growth by attracting new clients as well as retaining current clients. Also, the introduction of our financial planning business this year has proved very successful and is popular with clients, who value Cardale's ability to advise them on the full range of their financial needs."

Ashley believes the Cardale ethos marks out the company: "Why are we different? It's because of our commitment to get to know our clients, listen to them and understand their financial needs in full."



Ashley Alger, Chairman and Chief Executive

Regulation and compliance

This year has also seen strategic investment in our organisational infrastructure at Cardale. The company has recruited an IT professional to meet the continually demanding requirements of its IT function. Cardale has also invested further in its governance, risk and compliance framework, significantly increasing the involvement of advisers Deloitte, who provide specific input, oversight and advice to the business.

However, not all investment businesses are as well run as Cardale. Earlier this year the Financial Services Compensation Scheme (FSCS) imposed their annual levy on firms. This charge is used to fund compensation where firms have invested their clients' money recklessly and these clients have subsequently made a claim against the scheme.

"Despite Cardale having absolutely nothing to do with the selling of these products, we are forced to contribute to a share of the bill for other firms' failures and inadequate regulation by the regulator," said Ashley. "This year the levy imposed on Cardale was £120,713 – an extraordinary expense

"As you can imagine, this has created outrage within the industry. In previous years Cardale has absorbed this cost. However, because of the increasing size and frequency of this specific cost we have reluctantly decided to levy a small charge to contribute towards this in the future. The amount will be £5 per contract, effective from 1st October 2011.

Financial strength and integrity

"Cardale is a business founded on capital strength and financial prudence. It is of paramount importance that, to meet the future regulatory and strategic needs, we build our balance sheet further. Currently our net assets stand at a healthy £4.7million. However, we are committed over the coming years to strengthen and build our balance sheet, to meet both our expansion and solvency requirements. Such financial strength is crucial to developing the kind of business with which clients want to be involved.

"Looking ahead, Cardale has a clear long term growth strategy, based on the foundation of a loyal, confident and expanding client base, financial prudence, a strong governance culture and a very talented workforce; we feel we are well prepared to succeed, whatever challenges we face."

Focus on.....financial planning

The Cardale Financial Planning team looks at the options for enhancing retirement income.

It seems that the world of pensions is forever changing and this year has been no exception, with the introduction of capped and flexible drawdown to replace the previous regime. These are important changes if you are at or nearing retirement, affecting the maximum income that can be taken and so potentially impacting on your standard of living.

For those looking to provide for a comfortable retirement in the future, the reduction in the maximum annual pension contribution effective from April 2011 may have an impact, with the annual allowance reducing to £50,000. With the reduction comes a 'carry forward' provision allowing the use of the previous three years' unused allowance and creating the opportunity for a significant one-off tax efficient pension contribution.

Making the most of the annual ISA allowance has been an important part of financial planning for many years and, together with pension contributions, provides a tax-efficient means to create wealth for the future. For some people, however, the annual contribution limits are restricting and with this in mind we at Cardale Financial Planning have rediscovered the 'Maximum Investment Plan'.



The Financial Planning team (l to r) Hilary Tearle, Anthony Hinds, Steven Moss-Blundell and Peter Bainbridge

In brief, this particular tax wrapper allows the accumulation of a fund through regular contributions from which it is ultimately possible to withdraw a tax-free income stream. In contrast to a pension plan, which enjoys tax relief on contributions but is taxed on income, the MIP contribution is paid from taxed income but is tax-free at withdrawal, subject to qualifying rules.

We would be delighted to provide more details about any of these retirement

planning options – please get in touch with us through your usual Cardale contact. However, it is very important to consider the advantages and disadvantages of all these options in the context of your own personal circumstances. Financial planning has never been more important and, together with the expert investment management of Cardale Asset Management, will help to ensure that you meet your financial ambitions.



Ashley Alger of Cardale (centre) and Christine Norton of Saint Michael's Hospice with the winning team.

Cardale tees up support for Saint Michael's Hospice

This year saw the debut of the first Cardale Asset Management Annual Charity Golf Day. The event, held at Oakdale Golf Club, Harrogate on 8th July was to help raise funds in aid of Saint Michael's Hospice.

Whilst the weather remained unkind to the 22 teams involved, it didn't dampen the spirits of those prepared to turn out in aid of this worthy cause. The day raised a whopping £5,000 for the local charity and the day was won in style by Ian Connell's team. Ashley Alger commented "The day was a tremendous success and was thoroughly enjoyed by all who took part."

Passive versus active – no contest

If the last few years have taught investors any lessons, it must be to keep on top of their investments, says Richard Whiteley. To simply buy and hold investments or funds is no longer an option within today's environment. Although investors should always be looking at the long-term, short-term decisions must be made on a regular basis to reflect both a changing environment and changing personal circumstances.

As I regularly tell clients, asset allocation is of paramount importance to achieving good long-term returns. It is equally important to actively manage the underlying investments in addition to the overall asset allocation. There is a growing train of thought that passive index trackers or Exchange Traded Funds (ETFs) are the way forward in keeping costs down but maintaining an exposure to the stock markets or, these days, just about anything you like.

Poor passive performance

However, the graph of the FTSE 100 Index between January 1st 2000 and December 31st 2010 illustrates nicely the fate of a passive investor in this index, who would now be showing an overall loss of around 15% on the market - nearer 20% after costs. One of the biggest complaints from new clients is that the investments they held have been poor performers. Generally it is not the investments that are the problem but the timing of the purchases and the lack of hands-on management since purchase.

Between 2000 and 2010, there have been many opportunities for an active manager to take profits to reduce the risk profile of a portfolio. The tech boom was a classic example of where passive investments became totally inappropriate and particularly high risk, with a number of high profile technology stocks entering the FTSE 100 Index, despite making no profits at all. The tracker funds were instrumental in pushing these shares higher, buying them because they were FTSE constituents, rather than on any commercial basis. To buy these types of shares, the trackers had to sell good quality long-term businesses which were no longer fashionable.

Another forgotten fact is that indices are normally dominated by relatively few sectors. Take the FTSE 100 Index - currently nearly 60% of the market's value is accounted for by just five sectors, and the top ten shares represent just under 50% of the index. Therefore, as bubbles do build, it is impossible for a passive fund to avoid them. With most major indices, this continues to be a significant problem for passive investors. An actively managed portfolio can trade around bubbles, avoiding the worst of any sell-off and taking advantage of trading opportunities.

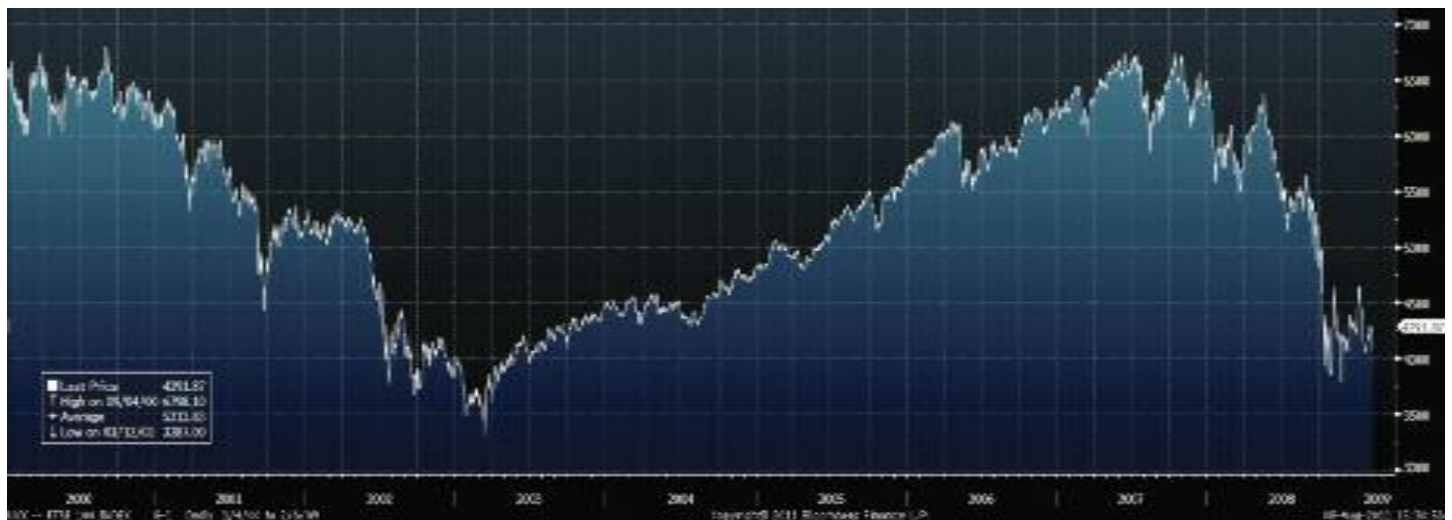


Richard Whiteley, Investment Director

Reducing portfolio risk

Therefore, I believe active management can actually be more effective in reducing portfolio risk than passive management. It is equally important to find the winners in the markets and avoid the big losers, something a passive investor is unable to do. As our clients know, we have continued to build our exposure to companies mainly deriving their earnings from the overseas markets, rather than domestically exposed companies such as UK builders and retailers, thereby providing a more defensive and diversified earning stream.

By being able to steer our investment portfolios into this area, we have not only outperformed the markets but have been able to protect the downside when the markets have come under pressure. We expect the current difficult market conditions to continue for some time yet and the case for a more tailored and active approach to portfolio management has never been more important.



Source: Bloomberg

Market Commentary

The research team of Mark Puleikis and Ian Wood look at the current investment climate.

There is a surreal feeling of déjà vu. At the time of writing, equity markets are back to where they were one year ago having fallen by 10% from the recent highs (just like last year) whilst bond markets have rallied, again back to the highs experienced in the summer of 2010. If valuations were only available once a year, investors would look at the prices and think nothing much has happened over the last twelve months. However, asset valuations have continued to show high levels of volatility and value has only been created by taking an active asset allocation role.

Debt worries create volatility

We see little on the economic front to persuade us that this period of volatility is likely to subside. The debacle in the US over the recent raising of the debt ceiling has simply highlighted the perilous situation that the US is in with regard to sovereign debt levels, whilst Europe continues to be plagued by similar problems throughout its periphery. These sovereign debt problems will be with us for at least the next generation and likely longer. In fact the big difference between the financial crises of 2008 and now is the fact that company financial strength has never been stronger whilst government debt levels have never been weaker. It is a sobering thought that unless the US confronts its unbalanced budget, by 2050 all of the US's income will be required to simply service its debts.

Growth under pressure

High levels of debt (both government and consumer) will continue to put pressure on economic growth. Over the last two decades we have been used to GDP growth approaching 3% but we believe we have now entered a sustained period of low growth, possibly 0% to 1% in the developed West.

With interest rates at historic lows, and likely to remain so, the need to invest despite the volatility and uncertain outlook has never been higher.

Bond bubble

We continue to be cautious on the outlook for many government bonds. Not only are prices at historic highs, but debt levels are unsustainable and arguably a bond bubble has been created by government purchases (QE), forced purchases by banks to meet new capital rules and (almost) forced purchases by other institutions and corporates due to the poor returns available from cash. We remain happy to only purchase select government debt (i.e. some index linked, overseas and specific issues which we deem as attractive) believing that on a medium term horizon, the rewards do not come close to matching the risks.



Ian Wood and Mark Puleikis

Quality at the right price

Growth in profitability for companies will generally be slower going forward due to lower GDP growth and the fact that many corporates have already cut costs aggressively and are generating levels of profitability at an all-time low. However, after the recent setback in equity markets we are once again attracted to some compelling valuations for good quality global franchises with very strong balance sheets. As always, we look for quality but the price has to be right.

Protecting family wealth in the event of divorce or death

To help protect family assets in these times of global economic uncertainty, Sue Halliday looks at using pre-nuptial arrangements, Pilot Trusts and Discretionary Trusts as part of broader financial planning.

Sadly, divorce is increasingly common and families who wish to retain their wealth, and protect themselves against potential claims if a child's marriage breaks down, should consider a pre-nuptial contract.

The recent case involving the German heiress Katrin Radmacher and her French ex-husband Nicolas Granatino, involved considerable family wealth. Both had agreed before marrying that if they divorced they would walk away without making financial claims on each other. In addition, Katrin Radmacher's father had insisted on a Pre-Nuptial Agreement (PNA), as she is heiress to the family paper company. The PNA was recognised as enforceable under British divorce law for the first time and the Supreme Court Justices stated: "It would be natural to infer that parties entering into agreements will intend that effect be given to them". The judges agreed that in the right case a PNA could have decisive or compelling weight.

For families who want to make their own decisions about future financial arrangements with their offspring, a PNA is increasingly worthwhile. Courts will look at the circumstances of each case, giving due respect and weight to PNAs freely entered into, when considering the overriding aim of achieving a fair outcome.

Wealth protection and Pilot Trusts

As well as ensuring that wills are up to date, it makes good sense to check arrangements for payments that may occur on death, ensuring minimum tax is paid on death and in future years. These may include pension lump sums, life insurance or death in service payments, and could be substantial.

By creating a Pilot Trust during your lifetime, any payments which would otherwise have passed to your estate can instead be directed to the trust, saving a potential 40% inheritance tax (IHT) charge. It may be worthwhile setting up a number of these trusts to minimise the ten-yearly charge.

It is relatively straightforward to set up a Pilot Trust Deed and there are no on-going administrative or legal costs until funds are paid into it. The Trust Deed can be accompanied by a Letter of Wishes, setting out guidelines for your Trustees to follow. You may wish your spouse to be the primary beneficiary and, where children are also beneficiaries, you can state whether they are to be treated equally and the age at which they take responsibility for their inheritance.



Sue Halliday, Associate Director

Protecting family wealth tax efficiently during your lifetime

In a similar way, lifetime gifts into Discretionary Trust allow the person making the gift (the Settlor) to set aside assets within a protected environment. Settlers can specify who may access both income and capital (the Beneficiaries) and appoint Trustees. A gift into Discretionary Trust can start the seven-year clock ticking for IHT relief. It may also provide family protection for those assets, since discretion over gifts is retained by the Trustees. For wealthy individuals, a series of lifetime transfers into Discretionary Trust remains a very effective way of reducing potential IHT liabilities.

We would be pleased to put you in touch with an appropriate professional contact to discuss all these areas of family wealth protection. Please speak to your usual Cardale contact.

New penalty regime - don't miss the tax deadline!

Make sure you file your tax return on time to avoid a hefty fine, warns Tax Manager John Osbaldeston.

The new penalty regime for late tax return filing and late payment of self assessment income tax came into effect on 6 April 2011. Taxpayers now face much higher penalties. Before, filing a return after 31 January would result in a £100 fine. Under the new regime, extra fines will accrue at a rate of £10 a day. As a result, a tax return filed six months late could now cost you at least £1,300.

Another major change is that HMRC will no longer cancel penalties if the taxpayer has no outstanding tax liability.

The new filing sanctions are:

- **One day late:** an initial penalty of £100, even if there is no tax to pay or all tax owed has been paid.
- **Three months late:** an automatic daily penalty of £10 a day up to a maximum of £900.
- **Six months late:** further penalties charged of the greater of 5% of tax due or £300.
- **Twelve months late:** the penalty will be the greater of 5% of tax due or £300. In serious cases, a higher penalty of up to 100% of the tax due could be charged.

The penalties are in addition to the interest HMRC will charge on outstanding amounts, including unpaid penalties, until payment is received.

Reasonable excuse

Taxpayers can appeal against any penalty if they have a reasonable excuse for missing the deadline.

There are no hard and fast rules but examples of what HMRC may consider a reasonable excuse are:

- documents lost through theft, fire or flood that you can't replace in time
- life-threatening illness, for example a heart attack that prevents you dealing with your tax affairs
- death of a partner shortly before the deadline
- industrial action by Royal Mail over a lengthy period of time
- issues with the online service, with no work-round - you'll need to provide the error message you received.



John Osbaldeston, Senior Tax Manager

Deadlines for filing tax returns

31 October: all paper returns

Paper tax returns must reach HMRC by midnight on 31 October. You only have longer than this if you received the letter telling you to send a tax return after 31 July. In this case you'll have three months from the date you received that letter.

31 January: online returns

Online tax returns must reach HMRC by midnight on 31 January. You only have longer than this if you received the letter, telling you to send a tax return, after 31 October. In this case you'll have three months from the date you received that letter.

There's an earlier deadline of 30 December if you want HMRC to collect any tax due through your PAYE (Pay As You Earn) tax code. You can only request this if you owe less than £2,000, and sometimes HMRC cannot do so.

Clearly, the new regime is much more unyielding and penalties will accumulate rapidly. Please get in touch with me or your usual contact at Cardale if you need assistance with your tax return.



Stephen Vasey, Andrew Tod and Catherine Powell

Increasing Regulation – Burden, Challenge or Opportunity?

Andrew Tod, Head of Finance, Operations & Risk, Stephen Vasey, Compliance Officer and Catherine Powell, Company Secretary, work together to ensure Cardale complies with evolving financial and legal regulations.

There is absolutely no doubt that the financial regulatory environment we are living in is constantly evolving. The consequences of the recent global credit crunch and a number of high profile financial institution failures, has led to a vastly increased regulatory burden on firms such as Cardale, with enormous personal responsibility put on individuals within the firm.

As part of the Government's move to a new model of regulation, the Financial Services Authority (FSA), is to be separated into two new bodies, namely the Prudential Regulatory Authority (PRA) who broadly will have responsibility for protecting the financial system as a whole, and the Financial Conduct Authority (FCA), who as the name suggests will be responsible for regulating conduct in retail and wholesale markets.

Although we don't expect the impact of these changes on Cardale to be particularly onerous, the constant development of an adequate regulatory system means we continually have to adapt and modify our best practice procedures and processes to meet current requirements.

While clients won't see any change to the usual high level of service they receive, there is plenty of work going on behind the scenes. We are preparing for the implementation of the FSA's Retail Distribution Review, scheduled to come into effect at the end of 2012; reviewing of our current practices to ensure we satisfy our obligations regarding the suitability of investments for clients; and continuously monitoring what we do to confirm

that Cardale complies with the FSA's updated requirements on client money and client assets.

To ensure that Cardale is prepared as a business to meet these continually changing regulatory requirements, we have a strategic partnership with our compliance advisers, Deloitte. All pertinent issues and their potential effect on our firm are fully debated with them.

At a more detailed level, and to complement the work undertaken with Deloitte, we are required to operate on-going 'Training and Competence' assessments on all of our FSA registered and other key employees. In addition to this, and to ensure strength is maintained throughout the organisation, we only recruit skilled professionals of the highest quality.

Strong corporate governance is a feature that is deeply embedded within the culture of the firm. Our approach and systems are considerably advanced in relation to other similar sized companies within our sector, and indeed, as Deloitte have commented, are worthy of a much larger corporate entity.

Cardale takes its risk, regulatory and compliance obligations extremely seriously, with the protection of our clients' money and assets being of paramount importance. By capitalising on the opportunities that regulatory change brings, we are in a very strong position when it comes to meeting these obligations.

Positive outlook for Hull team

The European debt crisis, the spread of sovereign debt problems, unpredictable markets and continued volatility have kept the Hull office team busy over the summer. Closely monitoring the markets, they have taken a more protectionist approach to portfolio management through these uncertain times.



Giles Fairburn, Associate Director

However, the team has also seen growth in demand for its expertise. The development of fund management services for numerous charities has become a key area. "The wealth of experience in the Hull office has enabled the trustees of various charities to be totally confident in the development of their portfolios, giving special consideration to the investment parameter and risk profile," explained Giles Fairburn, Associate Director.

"The sound administration enabling the distribution of money from the charity is a key feature which the trustees appreciate, whilst the emphasis on regular contact and a comprehensive valuation service cements the relationship."

Giles also feels that the expanded Financial Planning service has aided many clients, who require all their financial needs to be under one roof with a continuity of management. This seems to be particularly true with the more complicated structured products and inheritance tax planning.

Reflecting on local developments, he added: "There is a proposed wind of change as Siemens, the German engineering conglomerate, has signed a Memorandum of Understanding with Associated British Ports. This would mean that ABP would build a deep water berth at the port which will be capable of launching large offshore wind turbines. These would be developed by Siemens at a new £80m plant site. This will create approximately 700 new jobs from the 'green economy' with the turbines being situated predominantly off the east coast of England."

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- The level and bases of taxation can change
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