



PROSPECTS

Summer 2008

BROWN SHIPLEY
Private Banking

Wealth well managed

Brown Shipley stands for continuity. Whatever the condition of the investment markets we aim to be there with sound advice and useful insights into all aspects of wealth management.

In this second edition of PROSPECTS we asked four of our senior directors to show how there can be positives even as the economic cycle moves through a difficult phase.

We hope you find what they have to say interesting.

If you have any questions about what you read, please don't hesitate to contact us. We're always ready to talk.



Peter Botham

Chief Investment Officer



“Even against the gloomy backdrop, there are pockets of value for investors.”

- Asset allocations remain crucial
- Certain sectors have positive returns
- Inflation fuels possible interest rate rises

Pockets of value

The media is full of gloom and doom about the economy and investment markets. But there are always opportunities out there if you know where to look.

“Oil services and support companies have shown excellent value.”

Investors like a feel good factor. There is precious little of that around right now. What might our half-term report say?

A global perspective on markets has rarely been more important than at present. The economic malaise which began in the USA is now infecting most other economies around the world but, even against this gloomy backdrop, there are pockets of value for investors. Successfully exploited, these pockets are providing more than just solace. For example, the oil sector has been buoyant. But far from merely buying BP or Shell, oil service and support companies have shown excellent value for investors. To paraphrase an adage from gold prospecting days, ‘invest with the supplier of the shovels, not with the owner of a mine.’

Picking the right sector is one part of the strategy. Another imperative is differentiating between the FTSE 100 and the small

company index. This has been a key factor recently, and is likely to remain so in the immediate future. The large cap index is now dominated by global companies with international earnings. The UK economy looks vulnerable and this has hurt many companies with UK earnings. General retailers, house-builders, construction and leisure companies in particular are being squeezed.

So what of the outlook? Consumer expenditure in the UK and USA is under severe pressure from the rising costs of petrol, mortgages and household bills. The days of equity release to fund additional expenditure have come to an end with the decline in residential property values and the severe contraction in lending by banks. Public debt is rising and government expenditure will need reining-in, adding to the pressures on some UK companies. Inflation is putting the squeeze on further

Pockets of value

“Standard Chartered and HSBC have performed better than other banks.”

and whilst there may be noises from many quarters for the Bank of England to cut interest rates, the next moves look like they will be in the opposite direction.

A rising oil price puts pressure on Western economies, but it provides support and business for those companies linked with the oil industry. The Oil Equipment Services and Distribution sector is only a very small part of the UK equity market, but as the positive return of over 18% so far this year indicates it is an area that is doing well at this difficult time. Energy seems set to be a key theme for the immediate future and in addition to Oil Services amongst the sectors that look better placed are Engineering, Utilities and Commodities.

Banking is still one of the largest sectors and the positive influence of strong international earnings can clearly be seen despite the well-documented problems arising from the credit crisis. Both HSBC and Standard Chartered, for example, have outperformed their competitors as a result of the strength of their earnings in Asia.

A diversified, tailored portfolio should be based on a combination of sound asset and sector allocation with an emphasis on good companies that can weather adverse conditions. That should mean that despite any short-term uncertainty there is scope for good returns over the medium to longer-term.

In contrast to an index tracking fund, our active investment policy means we don't have to follow the market - we can lead it.

Brown Shipley's Solus UK Flagship Fund

Investment policy at Brown Shipley is controlled by our Investment Policy Committee (IPC). As well as providing bespoke investment management to clients, through our collective funds arm Solus, we offer a range of funds including the UK Flagship Fund. This Fund invests in a portfolio of equities and their selection is governed by the IPC.

Solus UK Flagship Fund performance since launch

| | 6 months to 30/05/2008 | 1 year to 30/05/2008 | 3 years to 30/05/2008 | since launch to 30/05/2008 |
|-------------------------|---------------------------|-------------------------|--------------------------|-------------------------------|
| Value | -0.04% | -2.89% | 34.81% | 52.81% |
| Position | 48/335 | 32/326 | 113/283 | 99/267 |
| Quartile ranking | 1 | 1 | 2 | 2 |

Source: Lipper, percentage growth, total return, UK Sterling with net income reinvested. Since launch to 28 June 2004.

Past performance is no guarantee of future performance.

Full fund details can be found on www.solusfunds.com.

Robert Smoker

Executive Director Banking Services



“Brown Shipley arranges portfolio lending quickly and discreetly.”

- Equity release can be cumbersome and expensive
- Portfolio lending – up to 50% of value
- Efficient, prompt service

Portfolio Lending

The current financial climate is hardly conducive to quickly raising personal finance.

Even well-off clients can sometimes have a cash requirement that cannot be met from current liquid resources and arranging credit in the current market is difficult.

The days of equity release to fund additional expenditure have come to an abrupt halt for some. Even if this method of finance is still available it can be both cumbersome and costly. What are the options if there is a need to fund a large tax liability or make a substantial discretionary purchase? In a word, right now, limited.

Clearly, liquidating part of a portfolio is an option but probably not an attractive one. Markets are uncertain and depressed and the interruption of an investment strategy is unlikely to be a palatable move. Even if a part sale was acceptable, it might trigger a capital gains tax issue and with this, yet a further need for finance! In these cases a sale is hardly a sensible course of action.

There is an alternative, which is to borrow funds secured by the portfolio. An amount of up to half of the value of the portfolio can normally be arranged with interest rates generally at base rate plus 1.5%.

The benefit to Brown Shipley clients is that we are a bank and can therefore make arrangements quickly and privately.

Indeed, some investors recognise that managed debt can often be a valuable wealth creation tool. By borrowing against an existing portfolio and making further investments while the market is at a low ebb, investors can take advantage of market opportunities. Commonly called 'leverage', it can mean greater investment diversification and even bring substantial tax benefits within reach.

Lending subject to status. Investments in the portfolio are at risk, should there be a breach of the underlying terms and conditions which are available on request.

Ian Rogers

Intermediary Development Director



“Business owners can neglect exit planning until the last minute.”

- Entrepreneurial wealth needs managing as well as creating
- Tax mitigation is usually central to an exit strategy

Out of the Dragons' Den

The profile of the UK rich is changing. Most of this new wealth has been earned not inherited.

Sports and media stars figure prominently among the new wealthy, but most are entrepreneurs who have worked for years to build their businesses. In the last 12 months alone a thousand UK private companies have been sold, earning their owners anything from £1 million to £80 million. (Source: Zephyr)

Realising the value of your business is just the first step. Then you have to secure your future and keep as much of the gains as possible out of the grasp of the taxman. The problem is that for many business people it is a whole new world for which they are ill prepared. They have spent their life creating wealth, not managing it. Often they leave their exit planning until the very last minute. Which means no network of advisors who can provide the support that's needed.

Wealth management has a key role to play from an early stage. The first step is to understand the individual's priorities, family circumstances and financial goals. Almost

certainly these will have evolved over the lifetime of a business venture. For example, pensions might not have been an immediate priority. But as a tax-efficient vehicle for both the individual and the business they have many long-term attractions. And as a business flourishes they should be high on the 'exit-planning' agenda.

Trade sales often involve combinations of cash, shares in the acquiring business, and exotic sounding 'loan notes' and 'earn-outs'. Each of these elements carries its own tax implications and the risk of serious wealth depletion. Here is the best argument of all for some strategic thinking and serious financial planning. This can range from creating liquidity through loans secured against guaranteed loan notes, to constructing tax-efficient investment wrappers that mitigate the effects of capital gains tax.

Just as business needs sound management, so does wealth.

Peter Collier

Marketing Strategy Director



Having trust in your Private Bank has never been more important

- 100% of clients said we understood their financial objectives*
- New BS OnLine now available – are you a user?
- KBC Group NV rated Aa3 by Moody's and A+ by Standard & Poors**

Who can you trust?

“Facts do not cease to exist because they are ignored”

Aldous Huxley

New BS OnLine
available from
24 June 2008.
Are you a user?

In conducting a detailed telephone interview with over 80 of our clients Brown Shipley laid itself bare to the thoughts and minds of a very influential group. Three main themes arose amongst the valuable feedback.

Our clients told us that it is the close personal relationship they enjoy with us that underpins all that we do for them. Anyone can say that about themselves but it's a different story if you can't walk the talk.

Whilst accepting that paperwork is necessary in our business, we've been told to cut it down! The word “recycling” was used often and we have a clear steer that not only do many clients want information electronically, but environmental concerns are looming high on the priority list too. We are already well advanced on this journey. Online services are available through BS OnLine allowing clients 24/7 access to their portfolios and accounts. More choices for less paperwork will be available soon. And with enhanced

security features, if you are not a user yet then take a look –

www.brownshipley.com/my-bsco

Financial security also figured highly in spontaneous responses to open questions. We were pleased that clients see us as a major source of financial information and commentary. Some have asked about our exposure to toxic loans. Whilst the answer is very low exposure we have taken this opportunity to enclose a detailed financial analysis of Brown Shipley and our parent, KBC Group NV. It is also available online by following the link above.

Having trust in your Private Bank has never been more important for clients. Brown Shipley stands for trust. Our clients have shown they have confidence in us.

*From telephone survey conducted April/May 2008 of 80 Brown Shipley Investment Management clients.

**As at 14 February 2008



Private Client Services

Brown Shipley combines almost 200 years of pedigree with a contemporary vision.

As part of one of Europe's most regarded Private Banking networks, our wealth of knowledge can provide you with a uniquely personal banking relationship.

The opportunities together could be considerable.

Investment Management

- Discretionary & Advisory services
- ISAs
- Nominee service
- Probate valuations and sales
- Structured products
- Alternative Assets
- Fund management through Solus
- Collective Investment Schemes
- Online valuations

Pensions

- SSASs
- SIPP's
- Trustee services

Estate & Financial Planning

- Inheritance Tax and Estate Planning
- Tax efficient investment structures
- Onshore/offshore solutions
- AIM Portfolio
- Life assurance and protection

Banking

- Current/Deposit/
Money Markets Accounts
- VISA card
- Online statements
- Portfolio and specialist lending

www.brownshipley.com

London
Founders Court
Lothbury
London
EC2R 7HE

Tel 020 7606 9833
Fax 020 7606 5899

Manchester
One King Street
Manchester
M2 6AW

Tel 0161 214 6500
Fax 0161 214 6950

Leeds
St Paul's House
23 Park Square
Leeds
LS1 2ND

Tel 0113 394 2100
Fax 0113 394 2101

Birmingham
2nd Floor
3 Brindley Place
Birmingham
B1 2JB

Tel 0121 698 8596
Fax 0121 633 9317

© Brown Shipley 2008

Information contained in this publication has been compiled from reliable sources. Opinions and recommendations shown are given in good faith and do not necessarily imply their suitability for individual portfolios or situations in respect of which further advice should be sought. The value of investments and any income from them may fluctuate and are not guaranteed. All references to taxation are based on current levels and practices which may be subject to change. The value of any tax benefits will be dependent on individual circumstances.

Brown Shipley is a trading name of Brown, Shipley & Co Limited, which is authorised and regulated by the Financial Services Authority. Registered in England and Wales No. 398426. Registered Office: Founders Court, Lothbury, London, EC2R 7HE. Brown Shipley's parent company is KBL European Private Bankers which, from Luxembourg, heads a major European network of private bankers. KBL European Private Bankers is part of the Belgium-based KBC Group NV.

Brown Shipley cares about the environment. Our publications are printed using a mixture of recycled paper and that from sustainable sources. Our printers share our commitment and minimise their environmental impact through efficient production processes, recycling and reducing the use of harmful chemicals.