BIRCHWOOD INVESTMENT MANAGEMENT LTD

Birchwood ISA options

2014-2015 Tax Year

With the end of the current tax year drawing ever closer, it is a good time to review your current ISA arrangements to ensure that you utilise this year's allowance, or at least use up the balance of any unused allowance for the current year, before the 6 April.

As you will remember the ISA rules were changed in July 2014 following on from an announcement in the 2014 Budget. The changes meant that the new ISA (NISA) annual allowance was increased to £15,000 and for the first time gave you the flexibility to use the allowance however you wished.

If you made an investment of £11,520 into an ISA earlier in the year, you can now top that up to £15,000 to utilise the full allowance. Equally, you may have set up a regular savings amount based on the original £11,520 allowance and may again wish to top that up to utilise the full £15,000 allowance.

The NISA offers more opportunities than before...

- You can now invest wholly in stocks and shares, or completely in cash, or any combination of the two without the requirement of a fixed amount in either.
- Previously the interest earned on cash held in a Stocks and Shares ISA was taxed at 20% but from 1st July 2014, you are now able to hold cash tax-free within Stocks and Shares NISA.
- A NISA can hold a wider investment range than the original ISA and apart from Stocks and Shares and cash, you can include bonds with a short maturity date at purchase and funds that invest in cash instruments.
- The NISA is much more flexible than the ISA where previously only 50% of the overall ISA limit could be held in cash. You can now have one cash NISA and one Stock and Shares NISA each tax year and may transfer between each of them an unlimited number of times within that tax year.

If you wish to consider utilising your new allowance we have set out below some options that may be of interest, however, these are not specific recommendations as your attitude to risk and personal circumstances may mean that they will not be appropriate for everyone. We, therefore, recommend that you speak to your Birchwood Adviser before making a final decision on which ISA is suitable for you.

Deposit-Based Plan – Morgan Stanley Digital Growth Deposit

This is a six year plan written under deposit taking legislation, meaning that if Lloyds Bank (the deposit taker) is unable to meet its obligations then the investors' capital is protected under the Financial Services Compensation Scheme.

It offers the prospect of a fixed 26% return (equivalent to an annual compound rate of 3.9%) if the FTSE 100 is higher than its starting level at maturity. For those that may have legacy cash ISAs sitting in obsolete accounts, it makes an interesting alternative with the real possibility of improving on the return available in traditional cash ISAs.

Societe Generale UK Step Down Kick-out Plan

This plan offers the prospect of a 7% return per year over a maximum term of six years. From the second anniversary the plan has the potential to mature early if the FTSE 100 is at or above a sliding percentage of its starting level on any annual measurement date. The hurdle rate falls from 100% at the end of the second year down to 80% at the final possible maturity date at the end of year six. This means that if the FTSE 100 at the start of the plan is for example 6800 a kick-out will be triggered on the final anniversary if the FTSE is at or above 5440. In this scenario the investor would receive back their capital plus 42%, i.e. 6 x 7%.

Capital is protected providing the FTSE 100 does not fall by more than 40 per cent over the life of the plan and Societe General (and/or the collateral pool) can meet their obligations.

Aviva Investors Multi-Strategy Target Income

This fund is designed to offer an attractive level of income whilst seeking to preserve capital by investing in a broad range of complimentary asset classes. As well as buy and hold strategies in the traditional assets classes of equity, fixed interest securities and commercial property, the fund will make use of derivatives. These are financial contracts linked to the performance of an underlying asset but provide greater liquidity, are cost effective and enable the fund to profit from falling asset prices.

Global Growth Portfolio

The global growth portfolio is a blend of actively managed equity funds providing comprehensive exposure to world stock markets. As a core equity investment the portfolio maintains a bias toward developed markets but does provide an exposure to the emerging economies and Far East markets. To achieve the objective of long-term growth the portfolio maintains a 100% exposure to global equity and will demonstrate higher levels of volatility than experienced by a managed or fixed income investment.

Distribution Portfolio

The distribution portfolio aims to provide a stable income by investing in a balance of global equities and fixed income securities. Again the portfolio is a blend of actively managed funds but with an emphasis on providing an income stream. The equity content is designed to provide growth in excess of inflation but exposure is limited to a maximum of 60% as a measure to protect capital. A minimum 30% of the portfolio will be maintained in fixed income securities and cash.

Next steps

Please note that all of the structured plans mentioned have specific closing dates, so they may not be available in exactly the same form by the time you are ready to invest. However, if you are interested in a particular plan, please contact your adviser and they will be able to advise you on any similar issues that may become available.

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