PPI NEWS UPDATE – JULY 2012

Felicitaciones a todos nuestros clientes españoles por la victoria del equipo de España en la Eurocopa 2012 !

EU SUMMIT GIVES SURPRISE BOOST TO MARKET SENTIMENT Global markets were boosted last Friday with the surprise positive news from the EU Summit after it approved a €120 billion budget for economic stimulus measures. Global equities, commodities and the Euro currency have all responded to the upside as the EU council leaders agreed to allow emergency measures to aid crisis-hit Italy and Spain and provide billions of dollars to boost their economies. The accord paves the way for the Euro Zone's €500 billion bailout fund to recapitalize ailing banks directly, without passing through national budgets and adding to the struggling countries' debt mountains. This, however, would occur only after a Europe-wide banking supervisory body is set up, with leaders targeting this to happen at the end of 2012.

WHY THIS IS NOW A GLOBAL ISSUE Spain's fourth largest bank, Bankia, applied to the government last month for a 19 million Euro bailout, which it now seems can be addressed directly by the proposed bailout fund. This is important because Governments can handle only so many bailouts via their budgets; there comes a point when they too run out of money and are bankrupt. The problem extends beyond Europe. In fact the whole world is affected, since when credit becomes tight and markets unstable investors pull in their money from all quarters and seek 'safe havens'. This is why we saw billions of dollars withdrawn from many Asian stock markets in May/June and a gradual weakening of the relevant currencies. This was not a reflection of fundamentals but a reminder that we live in a global village.

HOW DOES THIS AFFECT OUR INVESTMENTS, PENSIONS ETC.? Once again we have seen valuations taking a hit during May and June. Although we haven't seen a repeat of the devastating falls of 2008, it is the case that even diverse portfolios are affected since not only stocks have fallen but also commodities and most hedge funds. In 2008 futures trading funds such as Man AHL, Eckhardt, Tulip, etc that rely on trends made impressive gains to help offset losses elsewhere but for the past couple of years most of these funds have struggled as their computerised systems were unable to follow any clear trends. Interestingly, there are a few of these trend following funds that have made reasonable returns this year so there is a ray of sunshine at the end of the tunnel.

WHAT ACTION, IF ANY, IS NEEDED? As always happens at times like these less experienced investors will ask if they should abandon their investments or switch from funds making a loss to 'something else'. It is a natural reaction but one which would only succeed in consolidating losses. The recent bounce back in market performance vindicates a more patient approach. One way to avoid the temptation to buy high and sell low is to maintain a regular savings plan where you continue to invest irrespective of market conditions. Over the long term this produces gains through 'cost averaging'. The important thing is to consolidate gains prior to the plan maturing or hold until markets improve should the plan still be exposed to the markets at maturity. This means ensuring that you hold ample cash reserves, a rule that applies at all times, particularly when there is a hint of a financial crisis. For lump sum investors, some adjustments may be appropriate where there are opportunities to move into non-correlated high interest paying alternatives.

BARCLAYS FINED HEAVILY OVER LIBOR SCANDAL CEO Robert Diamond, Barclays Chairman Marcus Agius and Chief Operating Officer Jerry Del Missier resigned after regulators fined the UK's second largest bank a record 290 million pounds for attempting to rig the London Interbank Offered Rate (LIBOR) for profit. LIBOR, which is determined by 18 banks' daily estimates of how much it would cost them to borrow from one another for different time frames and in various currencies, is the benchmark for more than $360 trillion of securities, including mortgages, student loans and swaps. The contrast between banks' daily submissions for LIBOR and other measures of their creditworthiness shows why regulators from Europe to the U.S. are beginning to fine them for manipulating the market for short-term rates. Expect to see lots more fallout from this story after Diamond testifies to the British Parliament Treasury Select Committee today.

QROPS PENSION TRANSFERS UPDATE The Guernsey financial industry is still waiting for clarification from HMRC, the UK tax authority, as to why most of the island's QROPS plans were delisted. However, nearly all of the Trustees with whom PPI has a business relationship have decided to go through the process of formally delisting their schemes. It should be noted that the legislative changes introduced by HMRC to the QROPS rules are not retro-active and therefore do not affect transfers prior to April 6th, 2012. A facility to move pensions offshore from the UK presented a golden opportunity for expatriates with restricted UK pensions to move them to jurisdictions where they could make tax-free withdrawals and more importantly where the residue would not become part of their estate on death. Isle of Man and Malta are two jurisdictions that still offer bona fide QROPS compliant schemes but with certain considerations related to tax on pension income that need to be properly understood before progressing. If you still hold a UK private or company pension and did not transfer it before the Guernsey plans were delisted it would be wise to consult with your PPI Adviser to understand the effect of recent legislative changes on QROPS schemes before making a decision. Going blindly into a plan that is not approved could result in a 55% tax penalty, hence the need for caution!

INVESTMENT OPPORTUNITIES NOT CORRELATED WITH FINANCIAL MARKETS Recognizing the poor performance for over a decade of the traditional cash, bonds and equities formula our Investment Committee has been seeking out and evaluating investments over the past two years that can offer positive returns under almost any market conditions. There is still a place for conventional assets but for those with healthy cash reserves there are some good opportunities for diversification. Here are a few examples, some old, some new:

Legal Financing Fund There is a very basic litigation financing retail fund called Axiom. It lends short-term money to law firms in the UK to fund hundreds of small but near-certain-to-win cases. As with Argentum/Buttonwood the cases are insured against loss. Returns are now in excess of **10% per annum** and, untypically, there is no entry or early exit charge. Minimum direct investment GBP25,000 or USD40,000. Smaller amounts are possible via life company portfolio bonds.

Arbitration Fund It is now possible to invest in a retail fund that exploits small differences in stock prices in different markets and executes simultaneous buy and sell orders. This fund is called Exigo and theoretically it should always make a profit provided that it is trading. Available directly or via portfolio bonds.

Investment Property The property market may be a scary place but for those with surplus cash there are some good long term investment opportunities. PPI deals with specialized investment property companies that offer opportunities worldwide. Certain companies are able to access capital that allow them to buy in bulk from developers at a large discount which they can pass on to buyers. Properties are usually priced so that they tend to move very quickly. Up to 70% financing available. Properties in and around London seems to be the main focus right now.

Mortgage Income Funds PPI has a long established business partnership with a specialist Australian based company that specializes in providing fund of this nature. They make commercial loans with security taken and secure those loans against physical property i.e. land and buildings. Their funds are fully hedged into a variety of international currencies and attractive annual income yields are offered. The higher yielding fund is currently able to offer ***7.5%-10.5% AUD, 7%-9% GBP, 5%-7% USD and 7%-9% THB*** depending on term. Available directly or via portfolio bonds.

Recycling Fund There is a retail fund that aims to provide long term growth by investing directly or indirectly in recycling facilities in the UK . It is in a joint venture with New Earth Solutions, a UK based company, which provides plant and machinery to recycle toxic waste ! In fact not a scrap of waste is left that is not re-usable. The ultimate ash remaining is used as compost or fertilizer. More importantly perhaps, new machinery is now installed that is used to convert toxic waste to energy. The fund's income comes mainly from local authorities who are bound by the EU to meet increasingly tough environmental targets while the cost of collecting and disposing of toxic waste in landfills currently is reaching £100 per ton. The fund is regulated in the Isle of Man and is approved by all the major life companies. Returns to date have been in **double digits** and there is huge growth potential for the fund, not to mention its 'green' appeal.

Student Accommodation Funds We now have three approved retail funds in this category:, Club Easy, Coral and Mansion. They invest in properties that are rented out to students. The income stream is steady and assured. Returns are currently running around **10% per annum**. Available directly or via portfolio bonds.

What are the risks? If there is one theme that is common to most of the 'outside the box' opportunities it is liquidity. With the exception of the Exigo fund above all the investments could have a problem if a large number of investors wanted to pull out at the same time. This was the scenario that affected a lot of funds in 2008. The risk of a repetition is fairly low but it is a risk that should be understood if you are looking for double digit returns in a low interest environment with unstable markets. There is no investment that can offer high returns, capital protection and instant access to capital. One or two of these is possible, but not all three! Risk can be reduced of course by diversification.

NEW STRUCTURED NOTE FROM STANDARD BANK Standard Bank is just about to issue another of its highly popular structured notes that will last for eight weeks. These are suitable for investors who wish to preserve cash for the medium term but would like to share some of the market gains if there is a recovery without risking capital should things get worse. Half of your money is held for one year in a deposit account earning **4% AER** for Sterling/US dollar deposits and **10% AER** for Australian dollar deposits. After one year you will receive back this half of your deposit plus the applicable interest. The other half would be invested directly into either the FTSE 100, S&P 500 or ASX 200 Indices over five years with a 60% capped upside and a minimum return of 5% i.e. **105% capital guarantee**. Available directly or via portfolio bonds.