REPORT ASSUMPTIONS

There is a huge amount of analysis which goes into any letter or report we produce. Rather than include reams of explanation on each enclosure these notes try to explain the reasoning behind our calculations.

1. GENERAL ASSUMPTIONS

Our recommendations to you are based upon the detailed questionnaire we have completed with you. Initially we tend to use a paper questionnaire however at review we will often carry out our update using our electronic systems. Clearly, if we have misinterpreted any of your data, then it is essential you confirm this to us as it may affect our advice to you. Some assumptions which are critical are:

1.1 Age

If we do not have your correct age then this will affect greatly our advice particularly in the fields of insurance and annuities.

1.2 Health

Unless stated otherwise we will assume you are in good health.

1.3 Tax Domicile and Residence

We believe you have no intention, of moving from your present home and you have no intention of emigrating overseas and becoming non-resident in the UK in the foreseeable future.

1.4 UK Tax Statements

All our advice is based on our current understanding of tax law and practice. As we have seen in the recent past both tax and legal rules are subject to change without warning and any changes can be retrospective. This can render advice useless but is obviously beyond our control.

1.5 Insurances

Any figures provided for insurance or annuity products assume you are in good health and do not smoke. The rates assume normal acceptance and are approximate. Should you decide to establish any protection insurance you may have to attend a medical examination or provide other medical evidence.

1.6 Commission/Adviser Fees

Some of our recommended products may result in the payment of commission or adviser fees to introducing agents. In these circumstances any literature enclosed will show charges inclusive of same. If any payment is received by us we will offset it against your fee account. We will discuss the alternatives as and when specific investments are made.

1.7 General Observations

Where we have included details we have assumed:

- That your expenditure will not increase at a faster rate than your income;
- Tax rates and allowances used are for the current tax year;
- State benefits will continue at their current rates and will rise by inflation only.

2. INVESTMENT ASSUMPTIONS

2.1 Married Couples

We will assume that where appropriate you have no objection to holding investments in either of your names where a more beneficial tax treatment can be obtained.

2.2 Literature and Initial Recommendations

Our advice structure tends to be based around a generic financial planning report which may lead onto investment purchase. If we do handle investment or product purchases for you we shall ensure you receive all the appropriate documentation before you invest.

If you would like to see any of the fact sheets or other information for proposed investments before the suitability letter is issued please ask and we will be happy to oblige.

2.3 Charges and Initial Recommendations

We provide an estimate of what our charges will be for specific financial requirements. Our fees can be based on a percentage of funds under management and / or on a time costed basis dependent upon the work being done on your behalf.

Where costs are not confirmed in a general report they will be provided in any subsequent suitability letter so you will have an opportunity to query same before action is taken.

2.4 Asset Values

Our valuations are produced from the 1st software suite, Financial Express and from Transact. All this software updates unit and share prices daily. This means that throughout this report there may be small differences in values since an investment report can take up to 10 days to finalise and values will vary during that time.

2.5 Yields

The yields we quote will be the most recent historical yields available to us. Please remember that yields (along with values) will rise and fall in the future. We have found that quoted yields are often significantly overstated so we tend to tone down the projected income when providing estimates of future returns.

2.6 Time Horizon

Unless stated otherwise we will assume that your investment time horizon is at least 5 years. In other words, save for your liquidity needs we can consider investing your remaining investments over a 5 years+ term and the balance of probabilities is that investments will remain invested for greater than 10 years.

2.7 Alternative Investments

Unless stated otherwise we will assume that you have no intention of purchasing any major alternative investment such as let property, large cars, boats, holiday homes etc. which would require any part of the cash we are now going to invest.

2.8 Market Timing and Personal Preference

As a general rule our advice takes no account of market timing. If we are favouring one asset class over another due to the market perception at the time of the report we will tell you. However, market timing is a very dangerous game and as a rule we avoid it at all costs!

2.9 Ethical Investments

Unless stated in your report we believe you have no requirement to invest in ethical funds.

3. GROWTH AND INVESTMENT RATES OF RETURN

When advising on all investments and savings we use the following general assumptions:

The annual increase in prices is	2.50%
The annual increase in earnings is	3.50%
Tax free long term asset growth (income re-invested)	5.50%
Tax free bond/cash growth	3.50%
Tax free residential property grows at	2.50%
School fees inflation is	5.00%
Nursing home fees inflation is	5.00%

Tax Rate	**20%**	**40%**	**45%**	**60%**
Tax on growth	18%	28%	28%	28%
Tax on income	20%	40%	45%	60%

3.1 Inflation Assumption

2.5% is the Government's target for inflation. We appreciate inflation has been much higher than this, however, we are looking over the longer term and the projection is still at around this level for the longer term. We don't differentiate between retail price index (RPI) and consumer price index (CPI).

3.2 Annual Increase in Earnings

The statistic most commonly used as an expression for the increase in earnings is the National Average Earnings Index (NAEI). Longer term the trend in the professions is around 1% better than inflation so we have opted for this as a reasonable assumption.

3.3 Tax Free Investment Return

No investments are tax free. Invariably the Chancellor will have slipped in a withholding tax (as Gordon Brown did on pensions and ISAs) or there will be taxes along the line.

3.3.1 Long Term Investments

The return on investments (before tax) is a correlation of risk and reward. Over the *longer term* (ie 20+ years) cash may grow between 0% and 2% above inflation, fixed interest at between 2% and 4% above inflation and equities between 3% and 6% greater than inflation. Where we have not split longer term growth assumptions we usually use a composite growth figure of 3% above inflation to reflect a portfolio asset allocation tilted more towards the higher growth rate plans.

3.3.2 Short Term and Cash Investments

For shorter term investments (ie less than 5 years) we have shown a lower gross growth rate to reflect the asset allocation being far more within the cash / fixed interest rate environment. At this time we should really assume less than 1%.

3.4 Taxed Investments

Where the investment is subject to tax we try to show the return less the appropriate tax for the investor. This is arguably over cautious as investments which generate gains can make use of the capital gains tax (CGT) allowances and some people may not be using their income tax allowances, but we think this is a reasonable starting point.

On our tax calculations we often create a composite average rate of income tax. Where we do we tend to apply this rate to future taxed investment projections.

3.5 Residential Property Growth

Residential property is very cyclical. Whilst growth rates was much more than inflation for the period 1997 to 2007, between 1989 and 1997 they were static and they have been static/falling during the recent past. As a long term trend residential properties tend to be linked to earnings (which fuel mortgages). However, looking forward for at least the next 10 years we feel that the recent extremes will need to be evened out, hence we have shown residential property growth as inflation. Rental yields for clients after agent fees are currently coming in at around 4.0% to 5.5%.

3.6 School Fees

Private school fees have increased by 68% over the last 10 years (an average of 5.32% pa), which is more than 1.6 times faster than the increase in the Retail Price Index (37% or 3.2% pa) over the same period according to the study by Lloyds TSB Private Banking in 2012.

Since 2002, the average annual private school fee has increased from £6,820 to £11,457 in 2012.

Regionally, the biggest rises have been in Greater London and the South West, with fees increasing in both regions by 79% during the decade.

The next biggest increases were in East Anglia (74%), East Midlands (69%) and the South East (68%).

The lowest average increases were in the West Midlands (53%), the North, which includes the North East and the North West, (60%) and Scotland (63%).

The average annual fee in 2012 of £11,457 is equivalent to 35% of annual average gross full-time earnings of £33,011; in 2002 the comparable ratio was 27%. This is due to wage inflation (the main fixed cost in school fees) combined with the increased costs of legislation and fixed asset costs. It seems unlikely that the fees can rise at quite this alarming rate for ever so we have (perhaps optimistically), assumed inflation plus 2% or 4.5% pa.

3.7 Nursing Home Fees

Savista Magazine produced a report in September 2012 which confirms that nursing home fees are running at twice the rate of inflation. The average price of a shared room is £26,137 each and the average single occupancy room is £27,900. Generally speaking, in London and the South you are paying above £30,000 pa.

For the purpose of illustration we shall use the same assumptions as for school fees, ie inflation plus 2%.

3.8 Sustainable Income Yield

There has been extensive research relating to long term sustainable income. In the 50's and 60's it was felt that it is possible from an asset based portfolio to maintain an income of 4% pa for up to 50 years before running out of capital. Clearly inflation and investment growth must have an effect on this assumption and with a lower and more volatile environment we would suggest returns of between 3% and 3.5% to be more appropriate going forward.

3.9 Fund Past Performance and Analysis

Unless otherwise stated we are using Financial Analytical's comparative software to review and analyse existing and potential funds. Financial Analytical are among the biggest global fund databases and provide daily updated fact sheets on over 4,300 UK and FCA regulated funds.

4. VALUATIONS YIELDS AND UNIT PRICES

We send clients numerous valuations of their investments within our reports, on one of the platforms we use (Transact and Ascentric) and via regular client updates. As with all financial information it is important to explain some of the anomalies which occur and which may mislead the unsuspecting.

4.1 Fund Prices

Our fund prices are updated daily direct from the Financial Express database or via your platform. If you have investments on a platform, you can access them at any time via the internet. The platform prices are usually no more than 1 day old (or the most recent valuation published by the fund provider).

Not all investments can be regularly valued. Some older plans such as with profits funds, final salary pension schemes, and structured products do not publish unit prices as such so have to be contacted for a valuation. This we will do when we undertake your annual review (or anytime upon request).

The old adage “rubbish in rubbish out” applies! If we have a wrong share class or unit class in the encoding on our system your unit price will be incorrect. Do please check our valuations and shout if you see an anomaly.

4.2 Unit Numbers

Where you are making regular premiums to plans, the valuation shown on our system will be for the accrued number of units purchased to the date of the last electronic update or your last annual review date.

4.3 Growth (Losses) in Funds

The growth % column on any report should always be questioned.

- Is it pocket-to-pocket (ie does it include all charges)?
- Was commission or fees taken from the investments when purchased? If 4% fee plus platform charges have been taken out then the fund has to make up 5% before it shows in profit.
- A capital gains tax (CGT) report may well have a different cost price if the provider is not allowing for charges on investment reports.
- Is the return “money weighted” (ie does it take into account when and how long invested)?
- Does the valuation include or exclude the effect of regular platform and adviser charges?

We try to produce reports which include the effect of charges. Many other systems cannot provide this.

4.4 Income From Investments

For illustration purposes we set our database to always assume dividends are taken to ensure that we can review the yield of any investment.

The published yield on funds is unfortunately frequently wrong. Whilst we use dividend yield to try and estimate ready income available to clients we frequently find this is vastly overstated. Firstly yields on collectives are often quoted before charges with the fund manager taking all charges from the yield. Some managers are taking charges of up to 3% pa so this can make a huge difference to the net yield received.

Tax is often deducted from dividend income at source. This may or may not be taken account of when a yield is published.

Yield is historic, ie a 5% yield is the last 2 yields averaged against the current unit price. If the unit price has fallen significantly this may be because future yields are expected to be much lower, hence the yield in a year's time (and effectively therefore the yield the client will be receiving) would only be perhaps 2%.

5. OTHER APPENDICES / USEFUL NOTES

We have a mine of useful information on many topics so if you want to know more whilst reading a report do contact us for further guidance. We have over 75 fact sheets available to clients so we should have the explanation you need in paper or PDF format. If you are authorised to use our client secure portal then you should have access to all of our publications at any time you wish.

Finally, please remember that financial planning is not an exact science. Your circumstances will change as will the assumptions which we are using so we must review any final plan we agree upon on a regular basis in an effort to ensure that it remains as pertinent as possible.

Please note that whilst every effort is made to ensure that the information contained within this explanation is correct, these notes are by necessity brief and of a generalised nature. Clients should seek specific personalised advice prior to undertaking any arrangement. These notes are named 01.2018 Report Assumptions and were last updated in January 2018. Whilst we have done our best to ensure facts are current to this date laws and options are changing constantly so always check before action.

E.&.O.E.