

viewpoint

the magazine for Chelsea investors

issue 13 • November 2005



Branching out
– why now could
be a good time to
diversify your portfolio

welcome



Dr John M Holder
Chairman

Welcome to our Autumn edition of Viewpoint. As we face what promises to be an extremely chilly winter, make sure that your investments aren't left out in the cold. All the usual information and guidance are here, but we have focused on some ideas to help diversify your portfolio. Diversification is key not only to maximising gains, but also reducing risk.

We have highlighted **Europe**, as an area of investment that is largely ignored. Although the macroeconomic picture may not be too rosy, don't forget that markets are a different case altogether. New Star European Growth fund manager, Richard Pease, answers our questions on the region on pages 34 and 35. The full interview is available on our website, where the videolink allows you to view him talking to us about Europe.

We delve deeper into the mystery of European investing on pages 36 and 37. We examine the **European Smaller Companies** sector, which is all but completely ignored and yet has performed incredibly well over the past year. We also take a look at **Emerging Europe** and Elena Shaftan of Jupiter takes us through this fascinating region.

Further diversification within your portfolio can be achieved by gaining exposure to an uncorrelated asset such as commercial property. This asset class offers a relatively high yield, with lower volatility and generally moves independently of shares and bonds. **Commercial property** is discussed on pages 27 and 28, where we highlight the Sterling Property Bond.

We have overhauled our usual pages to illustrate more clearly what we offer and help you with your investment selection. To that end, there is a new page (4) entitled **'How to Purchase an ISA'**, which offers an overview of the various routes you can take. This is followed by a

page explaining how our Easy ISAs work and of course the **Easy ISAs** themselves can be found on pages 6 and 7. The advantages of **fund supermarket** investing are highlighted on page 8 and on the following pages you can find application forms, which will enable you to place your existing holdings within the fund supermarket.

You can find guidance on **Building Your Portfolio** on page 11 and following that is our list of **Chelsea Leaders** funds. **Funds Focus** on page 20 offers some insight into some popular funds and **New Fund Launches** can be found on page 38.

Our **Relegation Zone** has also been overhauled and the process, as well as some of the worst culprits, are highlighted on page 40. The Relegation Zone itself is on page 41. Following this is the **Premier League**, which shows our selected funds and how they have performed. **Chelsea Investments**, our sister company, shows you how to check whether your mortgage payments are too high on page 39.

Continuing our fresh approach, our **website** has been redesigned, and this new format is explained on page 26. Our new Head of **Press Liaison** talks about his new role on page 31 and offers you the opportunity to receive some **free champagne** or **M&S vouchers**.

I hope you enjoy this edition of Viewpoint and find the changes we have made helpful.

With best wishes

Dr John M Holder Chairman, Chelsea Financial Services Plc

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Important Notice

Past performance is not necessarily a guide to the future. The value of investments and the income from them can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. ISAs, PEPs, Unit Trusts, Bonds and VCTs should be regarded as medium to long-term investments. Tax assumptions are subject to statutory change and the value of any tax relief will depend on your individual circumstances.

Chelsea Financial Services offers a direct offer/execution-only service. If you require individual investment guidance you should seek expert advice. Whilst we may draw attention to certain investment products we cannot know which of them, if any, is best for your particular circumstances and must leave that judgement to you. Nor can we accept liability to clients who purchase two ISAs in one fiscal year, or mix MINI and MAXI ISAs, or otherwise do not comply with ISA rules.

Discounts are subject to receipt of commission and may be subject to change if commission levels are altered.

Chelsea Financial Services is authorised and regulated by the Financial Services Authority.

Cofunds is the ISA/PEP Plan Manager for the Chelsea Portfolio.

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market view

Darius McDermott
Managing Director



Recent news reports have focussed on the hurricane season in the US, with New Orleans still reeling from the effects of Katrina and Rita. The oil price is one side effect of the devastation that these hurricanes wreak. When Katrina hit at the end of August, the already spiralling oil price hit a new high of \$70/barrel. A direct hit on the Texas coastline, which is home to more than a quarter of US refining capacity would push the oil price higher still.

FTSE keeps motoring

Since I last wrote this column, the FTSE has gained ground, rising just over 3.8%, and currently it stands at 5305. This is all the more remarkable when you consider that in this time we have experienced the horror of the July bombings.

Furthermore, at the time at which I wrote I mentioned that the oil price was high, standing at \$55/barrel. Since then, oil has risen still further, now \$63/barrel, and looks set to remain high. Consumption has slowed, further exacerbated by the July bombings. Consequently, the MPC cut interest rates at the beginning of August by 25 basis points to 4.5%. However, Governor Mervyn King voted for a hold in rates, signalling that we should not anticipate further cuts, and indeed the future direction of interest rates remains uncertain. So how does all this negative newsflow stack up against a rising stock market?

One explanation is the high level of liquidity in markets at the moment. Mergers and acquisitions have been a feature of the market and were being driven by private equity, but corporate money is now taking over. The UK market is the most open in the world and thus this trend looks set to continue. Effectively, it is resulting in a shrinking of the UK market with firmer support for it at current levels. Furthermore, with cash sitting on balance sheets and companies being rewarded for dividend payouts, dividend yields are increasing. This is making equities more attractive, particularly with the current low level of bond yields (see graph).

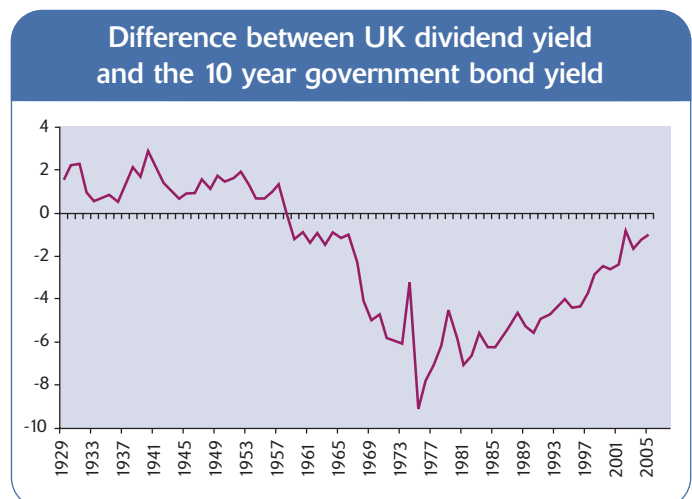
Other Markets

Facing a shrinking UK market, diversification has become more relevant than ever. Bonds are not looking cheap at the moment, so it is worthwhile taking a look outside the UK. Japan seems to be turning the corner, albeit slowly and looks set to rid itself of deflation in 2006. Corporate profitability is improving there, with companies beating expectations and bank lending growing. This is a volatile market and thus only for those comfortable with a higher degree of risk, but once recovery becomes more evident, we could see considerable gains.

In the US, there is a degree of uncertainty. In economic terms, whilst Katrina will have a negative impact on growth, this is likely to be counteracted by the stimulus of \$200 billion of government spending. Sadly this spending may erode the slight improvement we have seen in the US budget deficit. Interest rates were raised 25 basis points this week, taking them to 3.75%, as a result of spiralling house prices and the onset of inflationary pressure.

Europe is an interesting market. The ECB is expected to keep rates on hold and, whilst the economic outlook is fairly unexciting, corporate Europe continues to restructure, providing opportunities for shrewd stockpickers. Germany has a current account surplus and reforms are being considered. Over the last 5 years Germany has grown to be the largest exporter in the world (as a percentage of GDP). There is more information on European markets on pages 34-37.

So whilst the economic picture remains patchy throughout the world, we must not confuse that with corporate profitability and hence markets. Ultimately, poor economic growth will impact on profitability. However, markets, such as Germany trading on a p/e of 13, do not look overvalued.



Source: Threadneedle 2005



Juliet Schooling
Head of Research

How to purchase an ISA

Investing with Chelsea Financial Services (CFS) couldn't be easier. Forgive me if you're one of the 80,000 clients who has been investing with us for the last 20 years and I am simply going over some very familiar territory, but by investing via ourselves you reduce the initial charge (often to zero) and thereby increase your initial investment. In time this saving can add considerably to your holding for instance if you had invested £6,000 in a Jupiter Income PEP in 1995 the benefit of our 4% discount would have enhanced the investments at present value by 10% (£600).

Investing Direct with a Fund Provider via CFS

| | |
|-------------------------|---|
| What this means: | This is how all PEP/ISA investing began. A fund provider, such as Invesco Perpetual or Jupiter, offers its funds within a PEP/ISA wrapper. You can obtain an application form from CFS by telephoning our brochure line and you simply need to select your funds, complete the form and send it back to us. |
| Benefits: | Typically an investor going direct to these providers would pay an initial charge of between 3-5%. However, investing via CFS would result in that initial charge being considerably reduced, in some cases to zero. |
| Drawbacks: | When investing via this route, do bear in mind that you are limited to only one fund provider per tax year. This means that if you put £500 into Invesco Perpetual High Income, you are committed to investing solely into Invesco Perpetual funds for the remainder of that tax year. In some cases the discounts on monthly savings will be considerably less than those on lump sum investments. |

Investing via a Fund Supermarket

| | |
|-------------------------|---|
| What this means: | Fund supermarkets came into existence only within the last 5 years and have revolutionised PEP/ISA investing. The fund supermarket provides the PEP/ISA wrapper and therefore you are able to buy both Jupiter and Invesco Perpetual funds in the same tax year (you could even throw in an Artemis or New Star fund too for good measure). There is an application form on page 21 for our fund supermarket, the Chelsea Portfolio . However, if you prefer another fund supermarket we also offer FundsNetwork and Skandia. Within our fund supermarket you can select from the 800 funds on offer and/or choose from our Chelsea Leaders list (pages 12-19), which are funds hand-picked by our research team. Guidance on constructing your portfolio can be found on page 11. |
|-------------------------|---|

Investing via a Fund Supermarket (continued)

| | |
|-------------------|---|
| Benefits: | Too numerous to mention here, but they are listed on page 8. Fundamentally it allows you to put all your holdings in the one place, cutting back on paperwork and enabling easy switching. Contrary to popular belief, whilst many procedures can be carried out online, everything can also be done in writing and so there is no requirement of online access to use a fund supermarket. The discounts will be the same (sometimes greater) and monthly savings will receive the same discount as lump sums. Also investors in the Chelsea Portfolio will receive a review of their funds every 6 months. |
| Drawbacks: | You will not necessarily receive the annual reports for the underlying funds. |

Investing via the Chelsea Easy ISA

| | |
|-------------------------|---|
| What this means: | Our research team has selected the funds in the Chelsea Easy ISA, so that you don't need to worry about choosing funds yourself and the ISA wrapper is provided by our fund supermarket, the Chelsea Portfolio. There are 4 options: Cautious Growth; Balanced Growth; Aggressive Growth and Income, and each Easy ISA contains 6 carefully-selected funds. You simply select the one that most suits your requirements (further details on pages 6 and 7). |
| Benefits: | You don't need to worry about selecting funds yourself, which is particularly useful if you are new to ISA investing. It also gives a spread of funds which helps to reduce risk. |
| Drawbacks: | We don't switch the funds for you. So you need to keep an eye on our comments on the Easy ISA pages and via our e-Viewpoint. |

Further Assistance
There are several different ways to invest and the above guide should enable you to choose which route to take. If you are confused about the ISA limits or the difference between a MAXI and a MINI ISA, please give our brochure line a call (0800 071 3333) and request a copy of our introductory booklet, which will provide a full explanation.

An Introduction to Easy ISA investing

At Chelsea we know that the world of investment can seem complicated and littered with jargon, but we also believe that stocks and shares are the best vehicle for long-term ISA growth. Therefore we have devised our Easy ISAs to take the headache out of your investment decisions. We are totally independent of all fund management companies and select funds solely on the basis of their quality.

With over 800 unit trusts/OEICS available within the Chelsea Portfolio it is simply impossible for you to carry out thorough research yourself. All fund providers make their offerings seem appealing, so how do you know which to choose?

Our research team carry out a detailed process to make sure that we select the best funds for the Chelsea Easy ISA.

- Stage One: We analyse performance statistics over all time periods, we are not interested in short-term figures alone, we look for consistent medium to long-term performance.
- Stage Two: If we believe a fund is worthy of further consideration we will attend a formal one-to-one meeting with the individual fund manager to assess the credentials of their fund and gain a thorough understanding of the investment process involved. Our location and reputation allows us excellent access to fund managers, which is not available to most IFAs.
- Stage Three: If we conclude, after our rigorous selection process, that a fund is suitable for an Easy ISA portfolio we will negotiate the best terms available for you, so that you can invest into the fund at the lowest possible cost.
- Stage Four: At Chelsea we believe that a well balanced portfolio both sectoral and geographical is essential in securing long-term gains, therefore we analyse the market and its sectors before building model portfolios designed to meet every need.
- Stage Five: Once the portfolios are selected we will monitor the funds within our Easy ISAs to make sure that they continue to be the best available. A fund may be removed from the panel for various reasons: the manager may have left; the objectives may have changed; performance may have fallen or quite simply we may feel that a better fund has become available.

We monitor our Easy ISA selections thoroughly, subsequent to our initial selection. Unlike some companies, we will continue to keep you informed on our fund selections so you are never left in the dark. When we make changes to our Easy ISA we will detail them in each issue of Viewpoint and in our monthly e-Viewpoints.

What You Need to Do

We have four Easy ISAs, each designed to suit a different investment objective and attitude to risk. Simply read the information next to each portfolio and decide which option suits your needs. You can invest a minimum £3000 lump sum or just £200 per month.

Once you have invested in an Easy ISA you will notice that in future Viewpoints and e-Viewpoints we will make changes to our selected portfolios. This is because after our initial meetings with fund managers we continually monitor performance and react to fund manager changes or prolonged downturns in performance. These alterations to our selection will not automatically occur within your own holding, if you wish to follow our lead then you must send in a letter requesting that a switch be made, or alternatively you can manage your account online. If you require any further information please call 0207 384 7300.

On the following pages you will find details on each of the four portfolios which include our average risk rating and charges. Once you have selected the option which most suits your needs you can turn to the application form on page 21 to begin your Easy ISA investment.





The Chelsea Easy ISA

Investing made easy...

The Chelsea Easy ISA takes the pain out of investment decision. When it comes to considering funds for your ISA, the range is vast and the task of choosing just a few for your portfolio can be daunting. So we have selected funds for the Chelsea Easy ISA and put them together within four different portfolios. All you have to do is choose one of the four options based upon your own requirements and attitude to risk: Cautious; Balanced; Aggressive or Income.

Once you have selected your preferred Easy ISA option, simply fill in the ISA application on page 21, ticking one box only to select either Cautious, Balanced, Aggressive or Income, and send the application back to us in the pre-paid envelope enclosed.

Please note that the minimum monthly investment in the Chelsea Easy ISA is £200. For lump sum investments the minimum is £3,000, enabling you to choose either the Mini or the Maxi ISA, whichever best suits your requirements.

For those of you who wish to choose your individual funds, turn to page 11 for guidance on constructing your portfolio and select your funds from those detailed on pages 12–19.

- The Chelsea Easy ISA is also available for PEP and ISA transfers.
- If you would like to know more about the funds we have chosen, details are provided on pages 12–19.
- Please note that the minimum is £3,000 lump sum or £200 per month into any Easy ISA.

Easy ISA fund changes in this Viewpoint

Cautious Growth: M&G Strategic Corporate Bond has been replaced by Gartmore High Yield Corporate Bond.

Balanced Growth: Schroder Income has been replaced by M&G Recovery.

Please Note

We are not able to manage these portfolios for you. It is up to you to switch funds, either online or by simply writing to us. You may wish to sign up to our monthly e-Viewpoint to keep in touch with any fund manager changes (please see page 26 for details on www.chelseafs.co.uk) or simply check the portfolios to see if we have made any alterations each time a new Viewpoint comes out.

We select the funds for the Chelsea Easy ISA, but it is up to you to decide whether this selection will suit your investment requirements. Returns cannot be guaranteed, and your attention is drawn to the Important Notice on page 2.

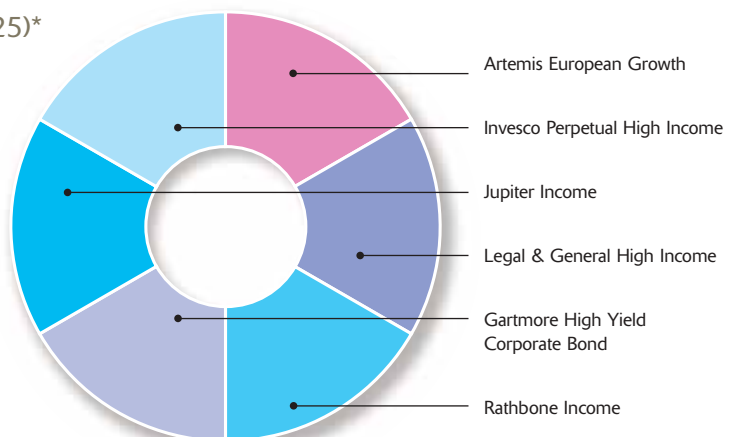
Cautious Growth

(Average Chelsea Risk Rating 3.25)*
Application form on page 21

Cautious Growth is for those who feel uncomfortable with a higher level of risk.

This aims to provide a steady level of growth with limited volatility.

Approximately one third of the portfolio is in corporate bonds, which lowers the exposure to equities and thus stock market volatility. Almost three-quarters of your investment will be in the UK, thereby reducing any fluctuations in foreign markets and there is a bias towards large-cap stocks, which tend to be steadier performers.



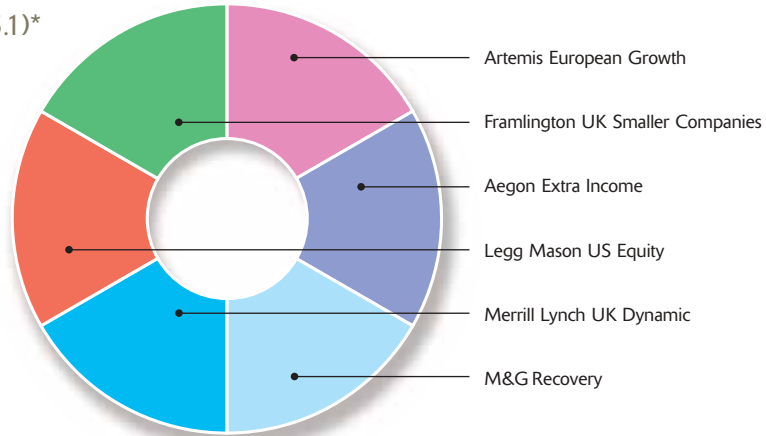
Average Initial Charge after discount: 0.16%
Average Annual Management Charge: 1.33%

Note: *The Chelsea Risk Rating denotes a fund's risk profile, where 1 is the least risky and 10 has the highest risk.

Balanced Growth

(Average Chelsea Risk Rating 5.1)*
Application form on page 21

This offers you a medium level of risk. It gives broader exposure to developed foreign markets to provide diversification outside the UK and has a slightly more aggressive UK stance, with exposure to smaller companies. This is balanced with lower risk corporate bond and equity income holdings. With almost 60% in the UK, foreign exposure is limited to approximately 19% in the US and 20% in Europe.

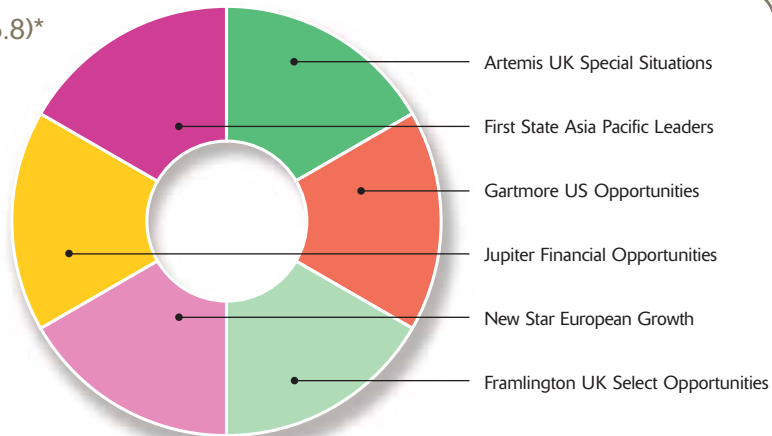


Average Initial Charge after discount: 0.12%
Average Annual Management Charge: 1.33%

Aggressive Growth

(Average Chelsea Risk Rating 6.8)*
Application form on page 21

If you have a sufficiently long time horizon and feel comfortable with a certain amount of risk, you may wish to choose Aggressive Growth. This encompasses a greater degree of volatility with the prospect of higher long-term growth. It offers a broad based portfolio, with global exposure enabling you to take advantage of any upturn in markets worldwide. It combines large, medium and small-cap companies.



Average Initial Charge after discount: 0.323%
Average Annual Management Charge: 1.50%

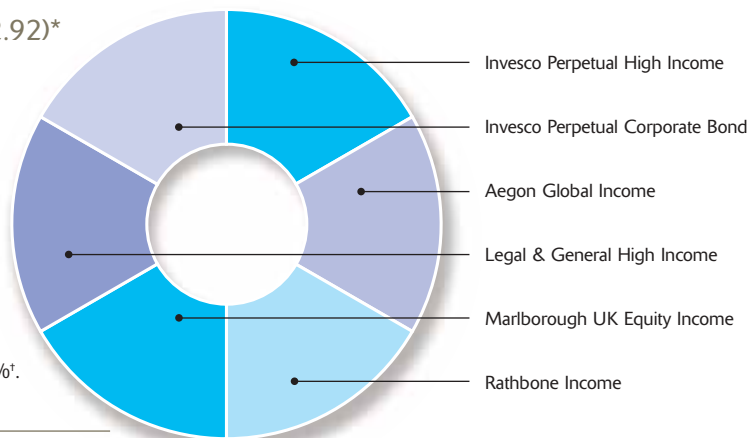
Income

(Average Chelsea Risk Rating 2.92)*
Application form on page 21

If your priority is income, the Chelsea Easy ISA Income option could suit your requirements. A combination of corporate bond and equity income funds provides a regular income with an element of capital appreciation. This should enable you to maintain the real value of both your capital and income. The average yield for this portfolio is 4.33%[†].

Yield*

| | |
|----------------------------------|---|
| Aegon Global Income | 5.39% (paid end Mar, Jun, Sep & Dec) |
| Invesco Perpetual High Income | 3.28% (paid end Feb, end Aug) |
| Invesco Perpetual Corporate Bond | 4% (paid end Dec, end Jun) |
| Legal & General High Income | 5.75% (paid 01/02, 22/04, 05/08, 05/11) |
| Marlborough UK Equity Income | 3.75% (paid end Mar, end Sep) |
| Rathbone Income | 3.11% (paid mid Jun, mid Dec) |



Average Initial Charge after discount: 0.20%
Average Annual Management Charge: 1.25%

[†]Source: Financial Express 8th September 2005

Note: *The Chelsea Risk Rating denotes a fund's risk profile, where 1 is the least risky and 10 has the highest risk. Returns cannot be guaranteed – please read the Important Notice on Page 2.

The benefits of our fund supermarket

Our fund supermarket, the Chelsea Portfolio, is administered by Cofunds, which is a separate independent company. We strongly believe that holding all your investments on one platform is the best way to invest. It's not just what we recommend to you, we all invest via the Chelsea Portfolio ourselves too. Once you have looked through the following advantages, we think you'll agree that, whether you are starting out with £50/month into your first ISA or you have a large portfolio, using our fund supermarket is the easiest way to manage your investments.

- **Monthly savings for unit trusts/OEICs**
investing is now available **with the same leading discounts as** lump sum unit trust/OEIC investments.
- **Large fund selection**
access to more than 860 funds from 53 different providers.
- **Fund Review**
we are now providing fund commentary on the top **400** most popular funds within the Chelsea Portfolio. If you hold any of these funds, the commentary and Chelsea rating (Buy/Hold/Switch) will be enclosed with your statement. If you register on our website you can read every individual review of the top 400 funds.
- **Less paperwork**
you receive one statement, every six months, detailing all your investments and transactions during that period.
- **Fantastic discounts**
we are able to offer at least the same discount as if you were investing via ourselves with a single provider and in some cases the discount is greater. Furthermore, **monthly savings attract the same discounts as lump sum purchases.**
- **Cash facility**
our fund supermarket offers a temporary Cash Reserve facility, for ISAs/PEPs, which allows you to switch in and out of cash without losing your ISA/PEP status.
- **Online access**
you are now able to buy, switch, top up and view valuations and transaction histories online.
[Just go to www.chelseafs.co.uk](http://www.chelseafs.co.uk) to register.
- **Telephone valuations**
these are available, during office hours, from our dedicated staff on 020 7384 7300. Please have your Cofunds client reference number to hand.
- **Cheap switching charges**
all fund switches are charged at a maximum of creation + 0.25%. Switches into funds with no initial charge are free (including the Cash Reserve).
- **Income reinvested for free**
all income and dividends can be either paid out or reinvested for free. Many fund managers charge for this service.
- **Independence**
unlike its closest rival, our fund supermarket is independent, with six major shareholders – Gartmore, Jupiter, L&G, M&G, Threadneedle and IFDS.
- **No added costs from Cofunds**
for re-registration and no double charging.
- **Annual ISA allowance**
can be invested across many different funds and fund providers in the same tax year giving you more choice and enabling you to spread the risk of your investments.

How can I move my current holdings into the Chelsea Portfolio fund supermarket?

Re-registration is the process of consolidating all your ISAs, PEPs, OEICs and unit trusts under one umbrella. Administration is by the Chelsea Portfolio, in association with Cofunds, **but your funds are managed in exactly the same way by each fund manager.** There are no charges from us, or from Cofunds, for re-registration.

How do I re-register?

Please fill in the re-registration form opposite, with details of all your holdings purchased outside Cofunds, and return it to us. We will then send you completed forms, which you merely need to sign and date. In most circumstances, the process will take approximately 8 weeks.



Re-registration Form

Move all your fund investments to ONE account! This will reduce the amount of paperwork you currently receive, provide you with ONE valuation statement twice yearly, and give you the information necessary to CONTROL your portfolio.

Please list below all your ISA/PEP and/or unit trust/OEIC investments that were purchased outside Cofunds and return to Chelsea Financial Services. We can then print the necessary transfer forms and send them to you for your review & signature.

Personal Details – Please complete this section in full and in block capital letters

| | | | | | | | | | | |
|-----------------------------|----------|--|---|--|-------|-----|------|--------------------------|--------|--------------------------|
| Full name of unit holder(s) | | | | | Title | | | | | |
| Current Address | | | | | | | | | | |
| | Postcode | | Time at Current Address* | | | yrs | | | mths | |
| Previous Address | | | | | | | | | | |
| e-mail address | | | | | | | Male | <input type="checkbox"/> | Female | <input type="checkbox"/> |
| Date of birth | | | National Insurance number | | | | | | | |
| Daytime telephone | | | Existing Cofunds number (if applicable) | | | | | | | |

* If at current address less than two years, please supply previous address and time there. If more than one previous address in the last two years, please provide full details including the time at each address on a separate sheet of paper and staple securely to this form.

ISA/PEP investments – Please complete in block capital letters

| Fund Manager | Fund Name | Account Number/ Plan Reference | PEP, Maxi or Mini ISA | Unit Type ACC/INC | Tick if current tax year | Tick if saving monthly |
|------------------------------|-------------------------|-----------------------------------|--------------------------|----------------------|-----------------------------|---------------------------|
| Sample Fund Managers Limited | Sample High Income Fund | 12345 | PEP | INC | <input type="checkbox"/> | <input type="checkbox"/> |
| | | | | | <input type="checkbox"/> | <input type="checkbox"/> |
| | | | | | <input type="checkbox"/> | <input type="checkbox"/> |
| | | | | | <input type="checkbox"/> | <input type="checkbox"/> |
| | | | | | <input type="checkbox"/> | <input type="checkbox"/> |
| | | | | | <input type="checkbox"/> | <input type="checkbox"/> |
| | | | | | <input type="checkbox"/> | <input type="checkbox"/> |

Unit Trusts/OEICs outside an ISA/PEP wrapper – Please complete in block capital letters

| Fund Manager | Fund Name | Account Number/ Plan Reference | Account designation (if applicable) | No of Units | Unit Type ACC/INC |
|------------------------------|-----------------------|-----------------------------------|--|----------------|----------------------|
| Sample Fund Managers Limited | Sample UK Growth Fund | 56789 | | ALL | ACC |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Please photocopy this form if you require additional space.

CFSFLF 08.03

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Fund Managers available for re-registration

Please note that ALL fund groups can re-register direct fund holdings (i.e. outside an ISA/PEP) but the groups below additionally offer ISA/PEP re-registration.

- Aberdeen
- AEGON
- Allianz
- Artemis
- AXA
- Barclays Global Investors (BGI Managers)
- Baring
- Britannic
- Cazenove
- Credit Suisse
- DWS
- F&C
- Fidelity*
- First State
- Framlington
- Gartmore
- Henderson
- Insight
- Invesco Perpetual
- Investec
- JP Morgan
- Jupiter
- Legal & General
- Legg Mason
- Lincoln
- Liontrust
- Marlborough
- Martin Currie
- Merrill Lynch
- MFS
- Morley
- Neptune
- New Star
- Newton (Mellon)
- Norwich Union
- Old Mutual
- Rathbone
- Rensburg
- Royal London
- Schroder
- Seven
- Soc Gen
- SVM
- T Bailey
- Threadneedle
- UBS

The following fund managers currently do not offer ISA/PEP re-registration. However, they are available to transfer[#], which involves a sale and buy back – see the forms on pages 23, 24, and 25.

- Close Fund Management
- Franklin Templeton
- HSBC
- Lazard
- Lloyd George
- M&G
- Prudential
- Standard Life
- Tilney

* Excluding the Money Builder range, American Special Situations, Extra Income, China and India Focus funds.

Mostly with no initial charge. (Please call 020 7384 7300 for details).

VALID AS AT 1st October 2005

Please return your completed application form in the enclosed envelope addressed to:
Chelsea Financial Services PLC, St James' Hall, Moore Park Road, London SW6 2JS.

Checklist for completion of your forms

Have you:

- Completed your personal details including address, daytime telephone number, postcode and any existing Cofunds account number?
- Completed your date of birth?
- Completed your National Insurance number?
- Completed the investments you wish to re-register in full including **full account number, unit type and any account designation?**
- Included details, using the form on page 9, of any investments not registered to Chelsea Financial Services so that you can take full advantage of our services?
- Got any problems or questions?
If so, please call us on **020 7384 7300**

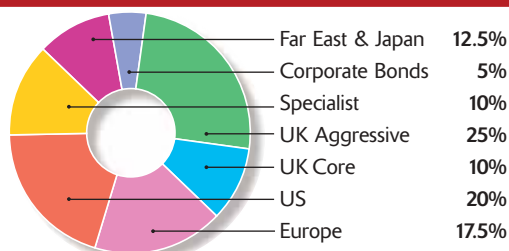
Build your own portfolio using the Chelsea Leaders

The following portfolio suggestions are intended as a guide to help you select the funds that most suit your investment purposes. We suggest that you select your funds from those detailed on pages 12–19.

An average risk rating is given for each portfolio. The number of funds you are able to select is dictated by the amount you have to invest or already have invested if you are effecting a transfer. You select the

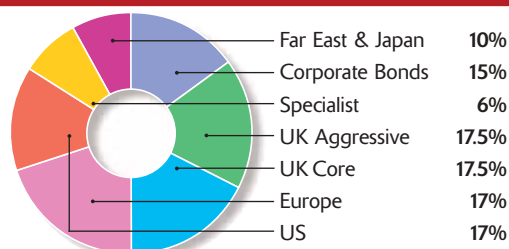
funds in which you wish to invest from the sectors indicated on the corresponding pie charts. Each fund is given a **Chelsea Risk Rating** and the average risk rating of all your funds selected should match that given for each portfolio. However, these are intended as a general guide and your personal preference for one sector or another may well cause you to alter the weighting of sectors.

Aggressive Portfolio (average Chelsea Risk Rating 7–8)*



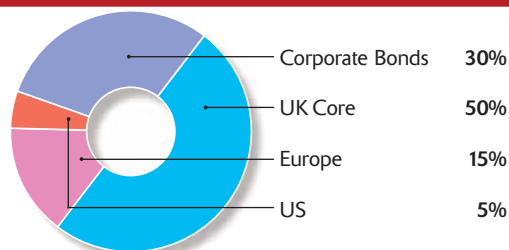
This is designed for someone able to accept a higher degree of risk, who understands the volatility of markets. It aims to achieve long-term capital growth through a broad based portfolio investing in more volatile sectors that have the capacity for excess returns. It encompasses the sectors shown in the pie chart, which tend to have a bias towards smaller and medium-sized companies, for instance the UK Aggressive and Specialist sectors. You can select any of the funds in each sector.

Balanced Portfolio (average Chelsea Risk Rating 4–6)*



This portfolio aims to achieve capital growth with a moderate level of risk. Investing predominantly in equities, it incorporates some of the more aggressive sectors but, unless you hold a large portfolio, the highest risk rated funds in these sectors should be avoided. Some of the lower risk sectors, such as corporate bonds, are included to reduce the overall risk rating of the portfolio.

Cautious Portfolio (average Chelsea Risk Rating 3–4)*



For the more risk-averse investor, this portfolio's objective is to produce gradual growth with as little volatility as possible. With investment in both equities and bonds, there is a greater emphasis on the UK. Your average risk rating should be achieved by selecting funds in the sectors opposite which have a low Chelsea Risk Rating.

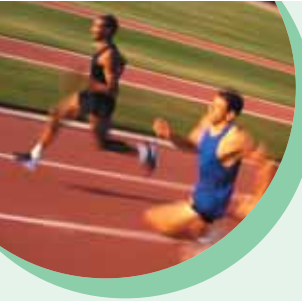
Income Portfolio (average Chelsea Risk Rating 2–4)*

| Income Funds | Yield* | Dividend paid* |
|------------------------------------|--------|-------------------------------|
| Invesco Perpetual High Income | 3.28% | (end Feb, end Aug) |
| Jupiter Income | 2.90% | (end Feb, end Aug) |
| Marlborough UK Equity Income | 3.75% | (end Mar, end Sept) |
| Artemis Income | 3.32% | (end Jun, end Dec) |
| Rathbone Income | 3.11% | (mid Jun, mid Dec) |
| Schroder Income | 3.52% | (end Oct, end Apr) |
| Corporate Bond Funds | Yield* | Dividend paid* |
| Aegon Extra Income | 4.10% | (end Mar, Jun, Sep & Dec) |
| Aegon Global Income | 5.39% | (end Mar, Jun, Sep & Dec) |
| Gartmore High Yield Corporate Bond | 5.18% | (end Feb, end Aug) |
| Invesco Perpetual Corporate Bond | 4.00% | (end Dec, end Jun) |
| Legal & General High Income | 5.75% | (1 Feb, 22 Apr, 5 Aug, 5 Nov) |

This portfolio is designed for those investors seeking a regular income with a degree of capital growth. The capital growth element is intended to counteract the effects of inflation and thus maintain the real value of capital and income. To achieve a moderate income with some growth, a combination of equities and bonds should be used. Corporate bonds provide a higher level of income, with the growth provided by lower yielding equity income funds. Your portfolio should be constructed using the income funds listed opposite (further details of which are given on pages 13, 14 and 18). The combination of equity and bond funds will depend upon your individual circumstances with regard to how much income you require. It should be noted that there is some risk associated with this portfolio, albeit low. Therefore, it is not suitable for those who have zero tolerance to risk.

* Source: Financial Express 8 September 2005, estimated distribution yield † Source: Cofunds Limited

Note: *The Chelsea Risk Rating denotes a fund's risk profile, where 1 is the least risky and 10 has the highest risk.



The Chelsea Leaders

UK Aggressive funds

Artemis UK Special Situations

Derek Stuart, one of the founders of Artemis, manages this fund with the flexibility to invest within the UK stock market without size or sector restrictions. Stuart looks for companies where there has been a change of management, companies currently unpopular with the market or those in recovery.

| | |
|--|------------------|
| Standard and Poor's Fund rating | – |
| Micropal rating | ⊙⊙⊙⊙⊙ |
| Forsyth-OBSR Fund rating | AAA |
| Standard initial charge | 5.25% |
| Lump sum Chelsea discount | 4.75% |
| Initial charge after discount | Creation + 0.25% |
| Annual management charge | 1.50% |
| Chelsea Risk rating[†] | 7 |

Framlington UK Select Opportunities

Nigel Thomas employs a stockpicking approach, actively managing his circa 80 stocks, with a small/mid-cap bias. Select Opportunities has no benchmark constraints and focuses on companies with new management, those implementing new technologies/products etc.

| | |
|--|------------------|
| Standard and Poor's Fund rating | – |
| Micropal rating | – |
| Forsyth-OBSR Fund rating | AAA |
| Standard initial charge | 5.25% |
| Lump sum Chelsea discount | 4.75% |
| Initial charge after discount | Creation + 0.25% |
| Annual management charge | 1.50% |
| Chelsea Risk rating[†] | 7 |

Framlington UK Smaller Companies

This fund is highly diversified, with its 100+ stock portfolio spread across sectors and cap size (invested from mid and small-cap down to AiM and fledgling companies). Roger Whiteoak, formerly of Rathbone UK Smaller Companies, is able to draw upon the considerable expertise of Framlington's strong UK team.

| | |
|--|------------------|
| Standard and Poor's Fund rating | – |
| Micropal rating | ⊙⊙⊙⊙⊙ |
| Forsyth-OBSR Fund rating | AAA |
| Standard initial charge | 5.25% |
| Lump sum Chelsea discount | 4.75% |
| Initial charge after discount | Creation + 0.25% |
| Annual management charge | 1.50% |
| Chelsea Risk rating[†] | 8 |

Merrill Lynch UK Smaller Companies

Much emphasis is placed on stringent research and meeting company management. Companies with growth potential or recovery prospects are sought and the fund's approximately 100 holdings are divided between long-term core holdings and riskier stocks, which will tend to have smaller weightings within the portfolio.

| | |
|--|----------|
| Standard and Poor's Fund rating | AA |
| Micropal rating | ⊙⊙⊙⊙⊙ |
| Forsyth-OBSR Fund rating | AA |
| Standard initial charge | 5.00% |
| Lump sum Chelsea discount | 4.75% |
| Initial charge after discount | Creation |
| Annual management charge | 1.50% |
| Chelsea Risk rating[†] | – |

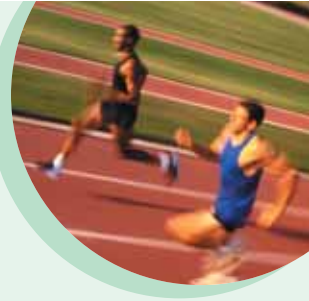
Old Mutual UK Select Mid Cap

This fund is highly diversified, with its 100-stock portfolio spread across sectors and cap size (invested from mid and small-cap down to AiM and fledgling companies). Roger Whiteoak, formerly of Rathbone UK Smaller Companies, is able to draw upon the considerable expertise of Framlington's strong UK team.

| | |
|--|----------|
| Standard and Poor's Fund rating | AA |
| Micropal rating | ⊙⊙⊙⊙⊙ |
| Forsyth-OBSR Fund rating | AAA |
| Standard initial charge | 4.00% |
| Lump sum Chelsea discount | 3.80% |
| Initial charge after discount | Creation |
| Annual management charge | 1.50% |
| Chelsea Risk rating[†] | 8 |

*All discounts quoted are to the nearest 0.05%
For performance statistics please refer to pages 42-43*

Notes: We always strive to reduce your costs to a minimum. Units bought with No Initial Charge are described as being bought at the 'Creation Price'. You can see from our table of funds that we have secured this 'Creation Price' on many of the funds and these are highlighted in the tables. These special discounts are available until 28 February 2006.
[†] The Chelsea Risk Rating denotes a fund's risk profile, where 1 is the least risky and 10 has the highest risk.
 Standard & Poor's and Micropal ratings taken from Money Management, October 2005.
 Fund charges are taken from Cofunds Consolidation Service Key Features Schedule, October 2005.
 These discounts apply to new ISA purchases only, although the majority of ISA/PEP transfers will also attract the same discounts. Please telephone 020 7384 7300 for further details.
 Forsyth-OBSR ratings taken from website, October 2005.



UK Aggressive funds (Continued)

Schroder UK Alpha Plus

This concentrated fund (20-40 stocks) is managed on a top-down thematic basis. The manager, Richard Buxton, analyses macroeconomic themes and combines this with rigorous stock selection. He tends to invest with a 2-3 year view, with a large and mid-cap bias.

| | |
|--|-----------------|
| Standard and Poor's Fund rating | AA |
| Micropal rating | ⊙⊙⊙⊙ |
| Forsyth-OBSR Fund rating | A |
| Standard initial charge | 5.25% |
| Lump sum Chelsea discount | 5.00% |
| Initial charge after discount | Creation |
| Annual management charge | 1.50% |
| Chelsea Risk rating† | 7 |

Standard Life UK Opportunities

Managed by Mark Niznik, this fund invests across mid and small-cap companies and may also include some fledgling stocks. Stringent research is conducted to select stocks, generally on a 2-5 year time horizon and Mark utilises the UK smaller companies team. Generally 60-100 stocks are held, with a maximum of 10% invested in AiM stocks.

| | |
|--|-------------------------|
| Standard and Poor's Fund rating | AA |
| Micropal rating | – |
| Forsyth-OBSR Fund rating | AA |
| Standard initial charge | 4.00% |
| Lump sum Chelsea discount | 3.75% |
| Initial charge after discount | Creation + 0.25% |
| Annual management charge | 1.50% |
| Chelsea Risk rating† | 6.5 |

All discounts quoted are to the nearest 0.05%

UK Core funds

Artemis Income

Artemis' Smartgarp technology is used as a quant screen for stocks, although company visits are also an integral part of the process. This is a multi-cap fund and manager Adrian Frost will shift the portfolio up and down the cap scale wherever he finds the best value. Furthermore, Frost has the capability to place 10% into bonds and 10% into Europe if he finds better value there.

| | |
|--|-------------------------|
| Standard and Poor's Fund rating | – |
| Micropal rating | ⊙⊙⊙⊙⊙ |
| Forsyth-OBSR Fund rating | AAA |
| Standard initial charge | 5.25% |
| Lump sum Chelsea discount | 4.75% |
| Initial charge after discount | Creation + 0.25% |
| Annual management charge | 1.25% |
| Chelsea Risk rating† | 4 |

Invesco Perpetual High Income

Neil Woodford's investment style combines a top-down view of the economy with industry and company analysis. A large number of holdings helps to mitigate any risk associated with the aggressive sector weightings.

| | |
|--|-----------------|
| Standard and Poor's Fund rating | AAA |
| Micropal rating | ⊙⊙⊙⊙ |
| Forsyth-OBSR Fund rating | AAA |
| Standard initial charge | 5.00% |
| Lump sum Chelsea discount | 5.00% |
| Initial charge after discount | Creation |
| Annual management charge | 1.50% |
| Chelsea Risk rating† | 4 |

Jupiter Income

Anthony Nutt employs a bottom-up stockpicking approach, via a diversified portfolio of approximately 120 holdings. Some bonds may be held when Nutt perceives them to add value. He invests without strong stock/sector constraints, thus his portfolio may differ considerably from the benchmark and may have a mid/small-cap bias.

| | |
|--|-------------------------|
| Standard and Poor's Fund rating | AAA |
| Micropal rating | ⊙⊙⊙⊙ |
| Forsyth-OBSR Fund rating | AAA |
| Standard initial charge | 5.00% |
| Lump sum Chelsea discount | 4.50% |
| Initial charge after discount | Creation + 0.25% |
| Annual management charge | 1.50% |
| Chelsea Risk rating† | 4 |

All discounts quoted are to the nearest 0.05%
For performance statistics please refer to pages 42-43

Notes: We always strive to reduce your costs to a minimum. Units bought with No Initial Charge are described as being bought at the 'Creation Price'.

You can see from our table of funds that we have secured this 'Creation Price' on many of the funds and these are highlighted in the tables.

These special discounts are available until 28 February 2006.

† The Chelsea Risk Rating denotes a fund's risk profile, where 1 is the least risky and 10 has the highest risk.

Standard & Poor's and Micropal ratings taken from Money Management, October 2005.

Fund charges are taken from Cofunds Consolidation Service Key Features Schedule, October 2005.

These discounts apply to new ISA purchases only, although the majority of ISA/PEP transfers will also attract the same discounts. Please telephone 020 7384 7300 for further details.

Forsyth-OBSR ratings taken from website, October 2005.



The Chelsea Leaders

UK Core funds *(Continued)*

M&G Recovery

As the name implies, this fund invests in companies that are in recovery, for instance those which are out of favour with the market, have been experiencing difficulties or had a management change. Investments are made with a long-term view and hence turnover is extremely low. The fund is multi-cap, but with a bias towards mid and small-cap stocks.

| | |
|--|-----------------|
| Standard and Poor's Fund rating | AA |
| Micropal rating | ⊙⊙⊙⊙ |
| Forsyth-OBSR Fund rating | AA |
| Standard initial charge | 4.00% |
| Lump sum Chelsea discount | 4.00% |
| Initial charge after discount | Creation |
| Annual management charge | 1.00% |
| Chelsea Risk rating[†] | 5 |

Marlborough UK Equity Income

Michael Barnard targets growing yield in this fund, looking for sustainable earnings growth. Whilst marketed under the Marlborough banner, the management of the fund is outsourced to Mike's own company. An avid investor, he looks further down the cap scale, with approximately 50% invested in smaller companies, and takes a buy and hold strategy, resulting in a very low turnover.

| | |
|--|-------------------------|
| Standard and Poor's Fund rating | - |
| Micropal rating | ⊙⊙⊙⊙⊙ |
| Forsyth-OBSR Fund rating | - |
| Standard initial charge | 5.00% |
| Lump sum Chelsea discount | 4.00% |
| Initial charge after discount | Creation + 0.75% |
| Annual management charge | 1.50% |
| Chelsea Risk rating[†] | 5.5 |

Merrill Lynch UK Dynamic

This relatively concentrated fund (30-50 stocks) is managed in a multi-cap, blended investment style, with a close eye on risk. Over half the portfolio is selected from the team's core stock list and the rest will be chosen on a thematic basis or will be stocks selected by the manager, Mark Lyttleton.

| | |
|--|-----------------|
| Standard and Poor's Fund rating | AA |
| Micropal rating | ⊙⊙⊙⊙⊙ |
| Forsyth-OBSR Fund rating | AA |
| Standard initial charge | 5.00% |
| Lump sum Chelsea discount | 4.75% |
| Initial charge after discount | Creation |
| Annual management charge | 1.50% |
| Chelsea Risk rating[†] | 4 |

Rathbone Income

Carl Stick's investment process is based firstly on the identification of correct sectors, industries and businesses and secondly, locating specific companies. There is a clear focus on businesses that offer both value and dividend yield. A buy and hold strategy is followed, with the focus on small and mid-cap stocks.

| | |
|--|-------------------------|
| Standard and Poor's Fund rating | AA |
| Micropal rating | ⊙⊙⊙⊙ |
| Forsyth-OBSR Fund rating | AA |
| Standard initial charge | 5.50% |
| Lump sum Chelsea discount | 5.25% |
| Initial charge after discount | Creation + 0.25% |
| Annual management charge | 1.50% |
| Chelsea Risk rating[†] | 4 |

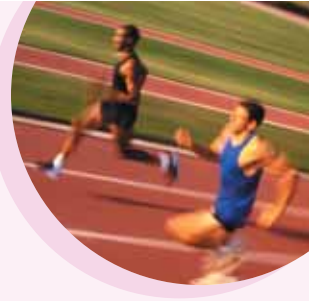
Schroder Income

Valuation and earnings yield in particular are fundamental to this fund. Extensive research is conducted to establish those stocks with strong balance sheets and potential earnings power that are trading at a discount to other businesses in the same industry. There is very low turnover of the 60-70 holdings, which are concentrated within the FTSE 350.

| | |
|--|-----------------|
| Standard and Poor's Fund rating | AA |
| Micropal rating | ⊙⊙⊙ |
| Forsyth-OBSR Fund rating | AA |
| Standard initial charge | 5.25% |
| Lump sum Chelsea discount | 5.00% |
| Initial charge after discount | Creation |
| Annual management charge | 1.50% |
| Chelsea Risk rating[†] | 3.5 |

*All discounts quoted are to the nearest 0.05%
For performance statistics please refer to pages 42-43*

Notes: We always strive to reduce your costs to a minimum. Units bought with No Initial Charge are described as being bought at the 'Creation Price'. You can see from our table of funds that we have secured this 'Creation Price' on many of the funds and these are highlighted in the tables. These special discounts are available until 28 February 2006.
[†] The Chelsea Risk Rating denotes a fund's risk profile, where 1 is the least risky and 10 has the highest risk.
 Standard & Poor's and Micropal ratings taken from Money Management, October 2005.
 Fund charges are taken from Cofunds Consolidation Service Key Features Schedule, October 2005.
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 Forsyth-OBSR ratings taken from website, October 2005.



European funds

Artemis European Growth

Fund manager Philip Wolstencroft does not visit companies and prefers rigorous technical analysis. He concentrates on identifying attractive sectors and then screens the companies within them, with the highest ranking making it into his 50-strong portfolio.

| | |
|--|------------------|
| Standard and Poor's Fund rating | – |
| Micropal rating | ⊙⊙⊙⊙⊙ |
| Forsyth-OBSR Fund rating | AA |
| Standard initial charge | 5.25% |
| Lump sum Chelsea discount | 4.75% |
| Initial charge after discount | Creation + 0.25% |
| Annual management charge | 1.50% |
| Chelsea Risk rating† | 5 |

Fidelity European

Tim McCarron took over this fund from Anthony Bolton in January 2003 and has managed to maintain its performance. McCarron focuses on bottom-up stock selection, seeking out undervalued stocks, and tends to have a mid and small-cap bias. However, the fund is well diversified, with approximately 150 stocks.

| | |
|--|------------------|
| Standard and Poor's Fund rating | AA |
| Micropal rating | ⊙⊙⊙⊙⊙ |
| Forsyth-OBSR Fund rating | AAA |
| Standard initial charge | 3.50% |
| Lump sum Chelsea discount | 3.00% |
| Initial charge after discount | Creation + 0.38% |
| Annual management charge | 1.50% |
| Chelsea Risk rating† | 5 |

Jupiter European

Alex Darwall took over this fund on Richard Pease's departure and has maintained his excellent performance. With approximately 35 stocks, this concentrated portfolio tends to diverge from the index with regard to both sector and country weightings. Furthermore, there tends to be a bias towards mid-cap stocks.

| | |
|--|------------------|
| Standard and Poor's Fund rating | AA |
| Micropal rating | ⊙⊙⊙⊙⊙ |
| Forsyth-OBSR Fund rating | AA |
| Standard initial charge | 5.00% |
| Lump sum Chelsea discount | 4.50% |
| Initial charge after discount | Creation + 0.25% |
| Annual management charge | 1.50% |
| Chelsea Risk rating† | 6.5 |

New Star European Growth

Fund manager Richard Pease achieved considerable success managing Jupiter European Growth for almost 11 years and achieving top decile performance. He tends to have a bias towards mid and small caps and geographic weightings diverge from the benchmark, so the fund can experience short-term volatility.

| | |
|--|------------------|
| Standard and Poor's Fund rating | AAA |
| Micropal rating | ⊙⊙⊙⊙⊙ |
| Forsyth-OBSR Fund rating | AAA |
| Standard initial charge | 5.25% |
| Lump sum Chelsea discount | 4.75% |
| Initial charge after discount | Creation + 0.50% |
| Annual management charge | 1.50% |
| Chelsea Risk rating† | 6.5 |

*All discounts quoted are to the nearest 0.05%
For performance statistics please refer to pages 42-43*

Notes: We always strive to reduce your costs to a minimum. Units bought with No Initial Charge are described as being bought at the 'Creation Price'. You can see from our table of funds that we have secured this 'Creation Price' on many of the funds and these are highlighted in the tables. These special discounts are available until 28 February 2006.
† The Chelsea Risk Rating denotes a fund's risk profile, where 1 is the least risky and 10 has the highest risk.
Standard & Poor's and Micropal ratings taken from Money Management, October 2005.
Fund charges are taken from Cofunds Consolidation Service Key Features Schedule, October 2005.
These discounts apply to new ISA purchases only, although the majority of ISA/PEP transfers will also attract the same discounts. Please telephone 020 7384 7300 for further details.
Forsyth-OBSR ratings taken from website, October 2005.



The Chelsea Leaders

Far East and Japan funds

First State Asia Pacific Leaders

Angus Tulloch, who has over 20 years Asian investment experience, and his extensive and experienced team aim to find reasonably valued growth stocks throughout the Far East, excluding Japan. Their relatively concentrated portfolio (approximately 45 stocks) invests in large and mid-cap companies with a long-term view.

| | |
|--|-------------------------|
| Standard and Poor's Fund rating | AAA |
| Micropal rating | – |
| Forsyth-OBSR Fund rating | AAA |
| Standard initial charge | 4.00% |
| Lump sum Chelsea discount | 3.50% |
| Initial charge after discount | Creation + 0.50% |
| Annual management charge | 1.50% |
| Chelsea Risk rating† | 7.5 |

First State Greater China Growth

Fund manager Martin Lau draws upon the extensive Asian investing expertise at First State. The 40-60 stock portfolio has a small and mid-cap bias. Rigorous research and extensive company visits are combined with considerable macroeconomic analysis when selecting stocks. A long-term view is taken and hence the portfolio turnover is remarkably low.

| | |
|--|------------------------|
| Standard and Poor's Fund rating | A |
| Micropal rating | – |
| Forsyth-OBSR Fund rating | – |
| Standard initial charge | 4.00% |
| Lump sum Chelsea discount | 3.50% |
| Initial charge after discount | Creation + 0.5% |
| Annual management charge | 1.50% |
| Chelsea Risk rating† | 10 |

JPM Japan

Last year David Mitchinson, who previously enjoyed considerable success managing Framlington Japan, took over this fund. Mitchinson has altered the portfolio from its large-cap bias towards more domestic-orientated companies. Furthermore, the number of stocks has been reduced to around 60.

| | |
|--|-----------------|
| Standard and Poor's Fund rating | A |
| Micropal rating | ○○○ |
| Forsyth-OBSR Fund rating | A |
| Standard initial charge | 5.50% |
| Lump sum Chelsea discount | 5.25% |
| Initial charge after discount | Creation |
| Annual management charge | 1.50% |
| Chelsea Risk rating† | 10 |

Legg Mason Japan Equity

Fund manager Hideo Schiozumi has over 31 years of experience in the Japanese market. This fund focuses on the smaller companies sector, looking for stocks that will benefit from the changes in Japan. The portfolio is concentrated, ideally between 30-50 stocks, 80% of which are long-term holdings.

| | |
|--|-----------------|
| Standard and Poor's Fund rating | AA |
| Micropal rating | ○○○○ |
| Forsyth-OBSR Fund rating | AA |
| Standard initial charge | 4.25% |
| Lump sum Chelsea discount | 4.25% |
| Initial charge after discount | Creation |
| Annual management charge | 1.50% |
| Chelsea Risk rating† | 10 |

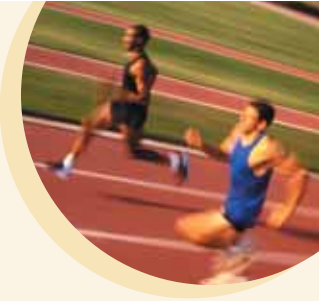
Lincoln Far East

A screening process is utilised to discover which countries offer greater value and aims to establish those companies across all markets which will outperform. Stocks are generally purchased with a long-term view and the turnover on the fund is one of the lowest in its sector. Holdings are primarily mid to large cap in this team-managed fund.

| | |
|--|-------------------------|
| Standard and Poor's Fund rating | AA |
| Micropal rating | ○○○○○ |
| Forsyth-OBSR Fund rating | AA |
| Standard initial charge | 5.25% |
| Lump sum Chelsea discount | 5.00% |
| Initial charge after discount | Creation + 0.25% |
| Annual management charge | 1.25% |
| Chelsea Risk rating† | 7.5 |

*All discounts quoted are to the nearest 0.05%
For performance statistics please refer to pages 42-43*

Notes: We always strive to reduce your costs to a minimum. Units bought with No Initial Charge are described as being bought at the 'Creation Price'. You can see from our table of funds that we have secured this 'Creation Price' on many of the funds and these are highlighted in the tables. These special discounts are available until 28 February 2006.
† The Chelsea Risk Rating denotes a fund's risk profile, where 1 is the least risky and 10 has the highest risk.
Standard & Poor's and Micropal ratings taken from Money Management, October 2005.
Fund charges are taken from Cofunds Consolidation Service Key Features Schedule, October 2005.
These discounts apply to new ISA purchases only, although the majority of ISA/PEP transfers will also attract the same discounts. Please telephone 020 7384 7300 for further details.
Forsyth-OBSR ratings taken from website, October 2005.



Specialist funds

These offer interesting opportunities for more specialised areas of investment but should only represent a small percentage of a balanced portfolio.

JPM Natural Resources

Managed by their specialist resources team, this fund provides exposure to commodities via various mining and energy stocks. The portfolio's split is approximately 30% energy, 30% gold and precious metals and 30% base metals. It offers a way of participating in emerging market growth and is therefore a volatile area of investment.

| | |
|--|-------------------------|
| Standard and Poor's Fund rating | A |
| Micropal rating | – |
| Forsyth-OBSR Fund rating | A |
| Standard initial charge | 5.50% |
| Lump sum Chelsea discount | 5.00% |
| Initial charge after discount | Creation + 0.25% |
| Annual management charge | 1.50% |
| Chelsea Risk rating† | 10 |

Jupiter Emerging European Opportunities

This fund invests in Central and Eastern Europe, with approximately 40% in Russia. The economic growth in this region far outpaces that of Western Europe. However, it should be noted that there are greater risks associated with investment in this area.

| | |
|--|-------------------------|
| Standard and Poor's Fund rating | A |
| Micropal rating | – |
| Forsyth-OBSR Fund rating | AA |
| Standard initial charge | 5.50% |
| Lump sum Chelsea discount | 5.00% |
| Initial charge after discount | Creation + 0.25% |
| Annual management charge | 1.50% |
| Chelsea Risk rating† | 10 |

Jupiter Financial Opportunities

This fund not only invests in retail banks but may also include property companies, insurance companies and asset managers, as well as others in specialist financial fields. It is a concentrated portfolio and the manager identifies clear themes, whether geographically or at sector level, and searches for the best companies that can capitalise on those themes.

| | |
|--|-------------------------|
| Standard and Poor's Fund rating | AAA |
| Micropal rating | ⊙⊙⊙⊙ |
| Forsyth-OBSR Fund rating | AAA |
| Standard initial charge | 5.25% |
| Lump sum Chelsea discount | 4.75% |
| Initial charge after discount | Creation + 0.25% |
| Annual management charge | 1.50% |
| Chelsea Risk rating† | 6 |

Lazard Emerging Markets

Long-term holdings are sought, with close scrutiny of a stock's valuation characteristics and taking into account the team's macroeconomic and currency views, as well as political risks associated with a holding. 70-90 stocks are held, covering over 20 countries, and turnover is extremely low. Based in New York, the team and analysts travel extensively.

| | |
|--|-------------------------|
| Standard and Poor's Fund rating | – |
| Micropal rating | ⊙⊙⊙ |
| Forsyth-OBSR Fund rating | – |
| Standard initial charge | 3.75% |
| Lump sum Chelsea discount | 3.50% |
| Initial charge after discount | Creation + 0.25% |
| Annual management charge | 1.50% |
| Chelsea Risk rating† | 9.5 |

Threadneedle Latin America

Investment is predominantly concentrated in Brazil and Mexico and within those economies the focus is on large-cap stocks. Approximately 40 holdings are selected with reference to top-down as well as bottom-up considerations. Cash flow and growth rate analysis informs stock selection and sector bets are also taken.

| | |
|--|-------------------------|
| Standard and Poor's Fund rating | AA |
| Micropal rating | ⊙⊙ |
| Forsyth-OBSR Fund rating | A |
| Standard initial charge | 3.75% |
| Lump sum Chelsea discount | 3.50% |
| Initial charge after discount | Creation + 0.25% |
| Annual management charge | 1.50% |
| Chelsea Risk rating† | 10 |

*All discounts quoted are to the nearest 0.05%
For performance statistics please refer to pages 42-43*

Notes: We always strive to reduce your costs to a minimum. Units bought with No Initial Charge are described as being bought at the 'Creation Price'. You can see from our table of funds that we have secured this 'Creation Price' on many of the funds and these are highlighted in the tables. These special discounts are available until 28 February 2006.
† The Chelsea Risk Rating denotes a fund's risk profile, where 1 is the least risky and 10 has the highest risk.
Standard & Poor's and Micropal ratings taken from Money Management, October 2005.
Fund charges are taken from Cofunds Consolidation Service Key Features Schedule, October 2005.
These discounts apply to new ISA purchases only, although the majority of ISA/PEP transfers will also attract the same discounts. Please telephone 020 7384 7300 for further details.
Forsyth-OBSR ratings taken from website, October 2005.



The Chelsea Leaders

Corporate Bond funds

Aegon Extra Income

This bond fund is largely investment grade, with up to 10% in high yield corporate bonds. Some gilts may also comprise the 60-80 holdings. Whilst David Roberts is lead manager, Aegon implements a team approach and has a large global fixed income resource. Emphasis is placed on asset allocation, duration and stock selection.

| | |
|--|-------------------------|
| Standard and Poor's Fund rating | – |
| Micropal rating | ○○○○○ |
| Forsyth-OBSR Fund rating | AA |
| Standard initial charge | 4.50% |
| Lump sum Chelsea discount | 4.25% |
| Initial charge after discount | Creation + 0.25% |
| Annual management charge | 1.00% |
| Chelsea Risk rating[†] | 1 |

Aegon Global Income

Utilising Aegon's global fixed income resource and taking a top-down as well as bottom-up view, this fund aims to invest globally wherever value is found. Currency exposure is reduced, with either 50% in sterling, or hedged back to sterling. This reasonably concentrated portfolio (40-60 stocks) also has the flexibility to shift from 100% investment grade to 100% high yield as market conditions dictate.

| | |
|--|-------------------------|
| Standard and Poor's Fund rating | – |
| Micropal rating | – |
| Forsyth-OBSR Fund rating | A |
| Standard initial charge | 4.50% |
| Lump sum Chelsea discount | 4.25% |
| Initial charge after discount | Creation + 0.25% |
| Annual management charge | 1.25% |
| Chelsea Risk rating[†] | 2 |

Gartmore High Yield Corporate Bond

This fund can invest between high yield and investment grade corporate bonds, wherever the fund manager finds the best value. The current split is approximately 60% high yield and 40% investment grade. Top down themes are combined with strict credit analysis and European holdings make up a large proportion of the high yield content.

| | |
|--|-------------------------|
| Standard and Poor's Fund rating | – |
| Micropal rating | – |
| Forsyth-OBSR Fund rating | – |
| Standard initial charge | 3.50% |
| Lump sum Chelsea discount | 3.25% |
| Initial charge after discount | Creation + 0.25% |
| Annual management charge | 1.00% |
| Chelsea Risk rating[†] | 1.5 |

Invesco Perpetual Corporate Bond

This jointly managed fund is actively run, with the emphasis on analysing market themes and approximately 140 holdings helps to mitigate risk. It consists predominantly of investment grade bonds, however it can invest in high yield bonds (currently approximately 12%).

| | |
|--|-----------------|
| Standard and Poor's Fund rating | AAA/S3 |
| Micropal rating | ○○○○○ |
| Forsyth-OBSR Fund rating | AAA |
| Standard initial charge | 5.00% |
| Lump sum Chelsea discount | 5.00% |
| Initial charge after discount | Creation |
| Annual management charge | 1.00% |
| Chelsea Risk rating[†] | 1 |

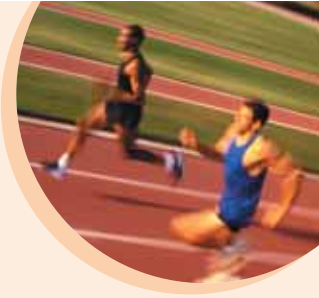
Legal & General High Income

This is a pure high yield corporate bond fund and it invests globally, with approximately 60% currently invested in the US. It benefits from a strong fixed interest team, which formulate both the top-down strategic allocation of assets and bottom-up stock selection.

| | |
|--|-----------------|
| Standard and Poor's Fund rating | AA/S4 |
| Micropal rating | ○○○ |
| Forsyth-OBSR Fund rating | AA |
| Standard initial charge | 3.00% |
| Lump sum Chelsea discount | 3.00% |
| Initial charge after discount | Creation |
| Annual management charge | 1.00% |
| Chelsea Risk rating[†] | 2 |

*All discounts quoted are to the nearest 0.05%
For performance statistics please refer to pages 42-43*

Notes: We always strive to reduce your costs to a minimum. Units bought with No Initial Charge are described as being bought at the 'Creation Price'. You can see from our table of funds that we have secured this 'Creation Price' on many of the funds and these are highlighted in the tables. These special discounts are available until 28 February 2006.
[†] The Chelsea Risk Rating denotes a fund's risk profile, where 1 is the least risky and 10 has the highest risk.
 Standard & Poor's and Micropal ratings taken from Money Management, October 2005.
 Fund charges are taken from Cofunds Consolidation Service Key Features Schedule, October 2005.
 These discounts apply to new ISA purchases only, although the majority of ISA/PEP transfers will also attract the same discounts. Please telephone 020 7384 7300 for further details.
 Forsyth-OBSR ratings taken from website, October 2005.



US funds

Gartmore US Opportunities

Gil Knight has 32 years of investment experience. Knight and his 7-strong team of analysts manage this fund from Baltimore. It contains 40–60 holdings, with a small and mid-cap bias.

| | |
|--|-------------------------|
| Standard and Poor's Fund rating | AA |
| Micropal rating | ○○○○ |
| Forsyth-OBSR Fund rating | AA |
| Standard initial charge | 5.00% |
| Lump sum Chelsea discount | 4.75% |
| Initial charge after discount | Creation + 0.25% |
| Annual management charge | 1.50% |
| Chelsea Risk rating[†] | 7 |

Legg Mason US Equity

This fund is managed in the US by a highly experienced and successful team. They focus on identifying long-term, undervalued large-cap stocks and the portfolio is concentrated, with ideally 30-50 holdings.

| | |
|--|-----------------|
| Standard and Poor's Fund rating | AAA |
| Micropal rating | – |
| Forsyth-OBSR Fund rating | AAA |
| Standard initial charge | 4.25% |
| Lump sum Chelsea discount | 4.25% |
| Initial charge after discount | Creation |
| Annual management charge | 1.50% |
| Chelsea Risk rating[†] | 7 |

SG American Growth

A diversified portfolio (150-170 stocks) encapsulates four different strategies and these are implemented by management company TCW, a subsidiary of SG, based in the US. These strategies comprise: large-cap growth; mid-cap growth; large-cap value and small-cap value, with the overall macro picture dictating the relative weighting of each strategy.

| | |
|--|-------------------------|
| Standard and Poor's Fund rating | – |
| Micropal rating | ○○○○○ |
| Forsyth-OBSR Fund rating | A |
| Standard initial charge | 5.25% |
| Lump sum Chelsea discount | 5.00% |
| Initial charge after discount | Creation + 0.25% |
| Annual management charge | 1.50% |
| Chelsea Risk rating[†] | 7 |

UBS US Equity

Fund manager Tom Digenan and a highly experienced team of over 30 investment professionals manage this fund from the US. The fund's approximately 70 holdings are invested in large and medium-sized companies, which they identify as attractively valued, cash generative and which demonstrate the ability to make positive returns.

| | |
|--|-----------------|
| Standard and Poor's Fund rating | AA |
| Micropal rating | – |
| Forsyth-OBSR Fund rating | AA |
| Standard initial charge | 4.00% |
| Lump sum Chelsea discount | 4.00% |
| Initial charge after discount | Creation |
| Annual management charge | 1.50% |
| Chelsea Risk rating[†] | 7 |

*All discounts quoted are to the nearest 0.05%
For performance statistics please refer to pages 42-43*

Notes: We always strive to reduce your costs to a minimum. Units bought with No Initial Charge are described as being bought at the 'Creation Price'. You can see from our table of funds that we have secured this 'Creation Price' on many of the funds and these are highlighted in the tables. These special discounts are available until 28 February 2006.
[†] The Chelsea Risk Rating denotes a fund's risk profile, where 1 is the least risky and 10 has the highest risk.
 Standard & Poor's and Micropal ratings taken from Money Management, October 2005.
 Fund charges are taken from Cofunds Consolidation Service Key Features Schedule, October 2005.
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 Forsyth-OBSR ratings taken from website, October 2005.

Funds Focus

Fidelity Special Situations

Anthony Bolton has managed this fund since 1979 and his retirement has been the source of much speculation in the last few years. In September Fidelity announced how in future the fund would be managed. The good news was that Bolton would be staying involved with the fund until 2007. The confusing news was that the fund, subject to a shareholder vote, would be split into two from 2006. Bolton would manage one, an unnamed manager the other, before another unnamed manager would finally take over from Bolton in 2007.

The future of the £5.4bn fund was muddled not clarified and it is for that reason that we took the decision a day after the news broke to take the fund off our buy list and move it to a hold. Fidelity has yet to answer some fundamental questions: the identities of the new managers? What happens if the shareholders do not vote in favour and what happens to the charging structure post split? Until these are answered the fund will remain a hold. For those unhappy with the situation please consider switching to one of the funds listed on pages 12 and 13.

Chelsea View: Hold

DWS Funds

Following the acquisition of DWS Investments by Aberdeen in July we are recommending that clients review their holdings in the company. Aberdeen has a different way of running UK money compared with DWS. If you are unhappy about the change in management style then we would recommend that you either hold them for a period to see if it suits you or consider switching your investments.

Additionally, Aberdeen's European performance has not been very impressive so again, we would recommend that you look at alternatives. However, Aberdeen has proven expertise in Asia that we would recommend you consider before making any decisions about moving similar DWS mandates.

**Chelsea View: UK – Review
Europe – Switch
Asia – Hold/Buy**

Jupiter UK Growth

Under Justin Seager, the former manager of the UK Growth fund, performance was flagging. Ian McVeigh, previously a star manager on Schroder Income, took over the fund in April 2003 and since then the performance has steadily turned around.

The fund is driven by stock picking and a strong belief in inefficient markets. McVeigh takes a view of the type of market he thinks we are in, whether bullish, bearish or sideways moving and looks to see that the portfolio is best set to reflect this view.

McVeigh has positioned the fund for a return to growth following the de-rating of growth stocks during the last bear market. He feels the modest valuation of growth stocks is starting to be noticed in the market and so the fund should benefit. McVeigh typically holds around 60 stocks, so it is a tight portfolio as opposed to a focused portfolio, but the conviction is always stock driven. Since the change of manager the fund has returned over 76% to the middle of September this year, it is also ranked first quartile over one and three years.

Chelsea View: Buy

New Star Technology

New Star's expertise means it has strong numbers in most of the sectors it is competing in. Technology is not one of those. This fund joined the New Star stable after being part of the acquisition of Aberdeen assets under management. The manager John Pullar-Strecker arrived with it too, but in May last year the continued poor performance prompted a manager change. Since then the fund has been run by Mark Beale but the poor performance has continued.

In the period since Beale took over (01/06/2004 – 09/09/2005) the fund has returned just over 3% compared with the sector return of over 10%. It is the worst performing fund in the sector over that period. Over the longer term the fund remains stuck in the lower half of its sector of 20 funds. In the last three discrete years it is ranked third quartile over 12 months, fourth quartile over 12-24 months and third quartile over 24-36 months.

We think there are a number of other funds with stronger performance track records in this area.

Chelsea View: Switch

ISA/PEP Transfer Application Form Continued

Declaration and Authorisation

I declare that:

- All investment subscriptions made now and in the future belong to me.
- I am aged 18 years or over.
- If applying for a Maxi ISA, I have not subscribed and will not subscribe to any other ISA in the same tax year that I subscribe to this Cofunds Maxi ISA.
- If applying for a Mini Stocks and Shares ISA, I have not subscribed and will not subscribe to a Maxi ISA or to another Stocks and Shares Mini ISA in the same tax year that I subscribe to this Mini ISA.
- I am resident and ordinarily resident in the United Kingdom for tax purposes, or, if not so resident, either perform duties which, by virtue of Section 132(4) (a) of the Income and Corporation Taxes Act 1988 (Crown employees serving overseas), are treated as being performed in the United Kingdom, or I am married to a person who performs such duties. I will inform Cofunds Limited if I cease to be so resident and ordinarily resident or to perform such duties, or be married to a person who performs such duties.
- If transferring or subscribing to an ISA in the current tax year, I understand that this does not mean that I am obliged to invest with Cofunds in the following or future tax years. However, if I wish to do so, I will not be required to complete a further application form.

I authorise Cofunds Limited to:

- Hold my cash subscription, ISA Account /PEP Plan investments, interest, dividends and any other rights or proceeds in respect of those investments and any other cash.
- Make on my behalf any claims to relief from tax in respect of my ISA Account/PEP Plan investments.

I confirm that:

- I have read and understood the Cofunds ISA/PEP Terms & Conditions and Key Features document and agree to be bound by the Terms & Conditions.

My signed application form (provided that my application is accepted by Cofunds), together with the Cofunds ISA/PEP Terms & Conditions, constitute my customer agreement with Cofunds Limited.

I understand that instructions may be delayed or rejected if this application form is not complete in all respects. You may undertake a search with a reference agency for the purposes of verifying my identity. To do so, the reference agency may check the details I supply against any particulars on any database (public or otherwise) to which they have access. They may also use my details in the future to assist other companies for verification

The Portfolios/funds included in this application form have been chosen by Chelsea Financial Services PLC, your Nominated Intermediary. They represent a selection of funds available in a Cofunds ISA. Cofunds cannot advise you on which funds to choose or whether the funds selected by Chelsea Financial Services PLC are appropriate for you.

Nominated Intermediary Details
**Chelsea Financial Services PLC,
St. James' Hall, Moore Park Road,
London SW6 2JS.**

purposes. A record of the search will be retained as an identity search. I declare that the information contained in this application form is correct to the best of my knowledge and belief.

Signature

Date

Data Protection

Cofunds Limited will use your information for the administration and servicing of your investments and other related activities. We may disclose your information to our agents and service providers for these purposes. We may also disclose your information to organisations for compliance with legal and regulatory requirements.

With the exception of the preceding provisions, we will not pass on your information to any other third party without your permission, but we will disclose information concerning your investment to your Nominated Intermediary.

Cofunds may transfer your information to countries outside of the EEA for the servicing of your investments. In such cases, contracts will be put in place to ensure that the service providers protect your information in accordance with the requirements of the Data Protection Act.

If you require a fund prospectus, please contact your Intermediary or Fund Manager directly.

If you wish to attend and vote at unitholder or shareholder meetings, please tick this box.

If you wish to receive report and accounts, please tick this box.

To receive report and accounts or attend/vote at unitholder or shareholder meetings these services are subject to a charge of £20.00 per communication. However, report and accounts can be obtained free of charge from the Cofunds website at www.cofunds.co.uk.

Please note that no advice has been given in this offer. If you are in any doubt about the suitability of this investment for you, please contact Chelsea Financial Services.

Issued and approved by Cofunds Limited.
Authorised and regulated by the Financial Services Authority.
Registered Office: First Floor, 1 Minster Court, Mincing Lane,
London EC3R 7AA. Registered in England and Wales No. 3965289.

Completed Application Forms Check List

**Completed Application Forms should be returned to:
Chelsea Financial Services PLC,
St. James' Hall, Moore Park Road, London SW6 2JS.**

Please ensure you have:

Completed your National Insurance number.

Completed your date of birth.
(This will be necessary to validate your Plan)

Completed the investment selection section.

Completed your Bank/Building Society details if you have chosen to receive income payments.

Signed the declaration.

Completed the Transfer Authority Form on page 25.



Transfer Authority Form

Consolidation Service Cash Transfer Authority Form - Please complete all fields

Name of ISA/PEP Manager (from whom you wish to transfer)

ISA/PEP Manager Address

Postcode

I hereby instruct my current ISA/PEP Manager to liquidate the assets within my ISA/PEP as detailed below with immediate effect, and forward the proceeds to Cofunds, my new Plan Manager at: **Cofunds Limited, PO Box 1103, Chelmsford CM99 2XY.**

| PEP, Maxi or Mini ISA | Fund Name | A/C or Plan Nos. | Please tick if current tax year |
|-----------------------|-----------|------------------|---------------------------------|
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |

Please complete your personal details below and ensure you have signed and dated the instruction.

| | |
|----------------------|----------------------|
| Mr/Mrs/Ms/Miss/Other | Residential Postcode |
| First Name(s) | Surname |
| Signature | Date |

Consolidation Service Cash Transfer Instruction Form - Please complete all fields

Name of ISA/PEP Manager (from whom you wish to transfer)

ISA/PEP Manager Address

Postcode

I hereby instruct my current ISA/PEP Manager to liquidate the assets within my ISA/PEP as detailed below with immediate effect, and forward the proceeds to Cofunds, my new Plan Manager at: **Cofunds Limited, PO Box 1103, Chelmsford CM99 2XY.**

| PEP, Maxi or Mini ISA | Fund Name | A/C or Plan Nos. | Please tick if current tax year |
|-----------------------|-----------|------------------|---------------------------------|
| | | | |
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Please complete your personal details below and ensure you have signed and dated the instruction.

| | |
|----------------------|----------------------|
| Mr/Mrs/Ms/Miss/Other | Residential Postcode |
| First Name(s) | Surname |
| Signature | Date |

Consolidation Service Cash Transfer Instruction Form - Please complete all fields

Name of ISA/PEP Manager (from whom you wish to transfer)

ISA/PEP Manager Address

Postcode

I hereby instruct my current ISA/PEP Manager to liquidate the assets within my ISA/PEP as detailed below with immediate effect, and forward the proceeds to Cofunds, my new Plan Manager at: **Cofunds Limited, 1103, Chelmsford CM99 2XY.**

| PEP, Maxi or Mini ISA | Fund Name | A/C or Plan Nos. | Please tick if current tax year |
|-----------------------|-----------|------------------|---------------------------------|
| | | | |
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| | | | |

Please complete your personal details below and ensure you have signed and dated the instruction.

| | |
|----------------------|----------------------|
| Mr/Mrs/Ms/Miss/Other | Residential Postcode |
| First Name(s) | Surname |
| Signature | Date |



Joe Wiggins
Web Development

Making Online Investment Accessible

At Chelsea it is clear that the internet is becoming an increasingly important aspect of the investment industry and that is why we have decided to transform totally our award-winning website (Online Investment IFA of the Year 2004) to improve your online experience.

The new design may come as a surprise to regular users but we believe it will benefit their investment management, whilst greatly improving the accessibility to those who are not familiar with using the internet. This really is a site that is simple for everyone to use. Rebuilding the site has brought about far too many beneficial changes to mention on just one page, so I shall highlight just some of the major new features:

Resizable Text AA : Our aim is to make a site that is accessible to all and we know that many of our clients complain about the unhelpful size of the text on many websites. Therefore we have incorporated a tool which enables you to choose between 3 text sizes.

New, fast navigation menus: Our new drop-down menus allow you to move swiftly to and from different parts of the site at the touch of a button.

Business news feeds and investment articles: Our pages now feature news articles both from us and direct from BBC Business. Each section of the site will have individually tailored news meaning that pages will only carry news relevant to your expressed interest.

Enhanced Search Engine: Our new high-powered search engine will locate what you are looking for in a matter of seconds.

Literature Library: All literature relevant to your Chelsea Portfolio account is available in the one place; you can find transfer, Chelsea Check-up and switching forms to name but a few.

Access Keys: The site utilises access keys which are greatly beneficial to people who use screen readers as it means they can skip to particular pages in the site with a single key press (or key combination).

We know that it can be frustrating that whilst the internet is becoming a central feature of daily life, most companies fail to take the simplest steps to make their sites accessible for all. That's why our new design combines all of the elements that can help you invest online with a site which is accessible to all and easy to use.

As well as dramatically improving the accessibility of the site we have also developed pages to display more relevant and helpful information:

VCTs: Find current discounts and details on all VCTs available.

Guaranteed Income and Growth Bonds: We will display the best weekly rates we have available, which will include our discount enhancement.

Structured Products: Whilst displaying the current structured products on offer and our discounts, we will also highlight, in detail, what we consider to be the current top 3 products available.

Research: Find all of our research in one place including: Easy ISAs, Chelsea Leaders, Premier League and Relegation Zone.

Whilst the website has undergone a vast range of improvements all of the excellent features from the old site have been maintained.

Online Account Management: Buy, switch and monitor all of your consolidated Chelsea Portfolio holdings online.

Fund Price Listing: View the latest prices of onshore and offshore funds.

Fund Analysis: View in-depth information on the majority of unit trusts/OEICs including growth, yields and cap weightings.

We hope that you find the new website to be a vast improvement. We have tried to match thorough information and excellent features with first class accessibility, enhancing and simplifying your investment decisions.



Diversify into Commercial Property

According to the Investment Property Databank, 2004 was one of the best years for commercial property investors in an unbroken series of 12 positive years for the sector. Furthermore, it appears that returns in 2005 have continued to be attractive. The question is, will returns continue to be strong? Most property fund managers concede that returns from commercial property are unlikely to match the high double-digit figures of the past 2 years but the consensus is that annual returns are predicted to be in the region of 7%-10% in the coming years.

We do not suggest clients make commercial property the majority holding in their overall portfolio but if you do not have any exposure to this sector, it is worth serious consideration as it is sensible to diversify away from the main asset classes (equities and bonds). Furthermore, for the first time in recent memory, commercial property has outperformed equities over a 10 year period returning 12.5% on an annual basis (equities returned 7.5%). Over 20 years UK commercial property has returned on average 11% p.a. Source: IPD (figures to end December 2004).

Many leading advisers recommend a weighting of between 5%-15% in commercial property for an average portfolio.

Low Correlation

Commercial property has a low correlation with other types of asset, which means that it generally moves independently of shares and bonds. This aids diversification within a balanced portfolio.

There is also diversification within the sector itself, as returns from office, retail and industry property generally do not move in tandem.

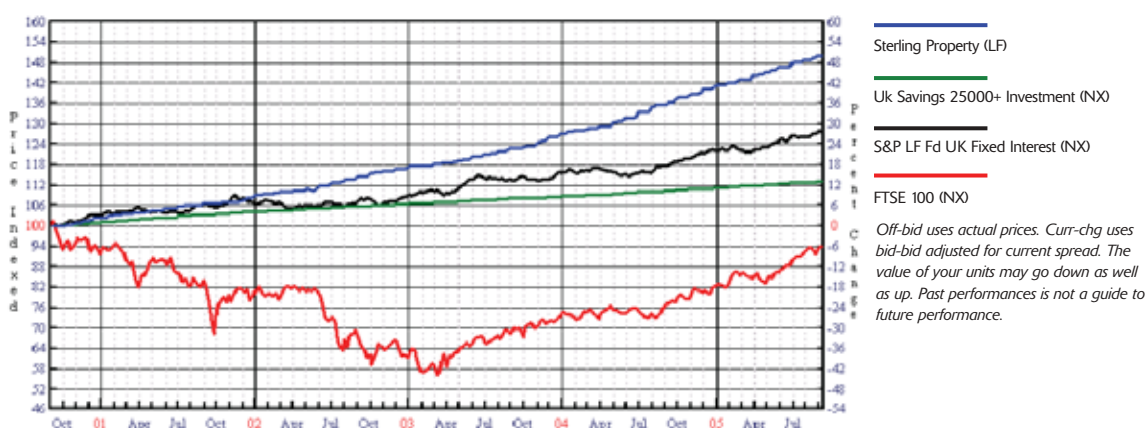
This consistent asset class offers access to a relatively high yield but with low volatility as much of the return from property funds comes from rental income: properties are leased to tenants for an initial lease length of 10 years and are usually subject to "upward-only rent reviews", thereby securing the rental yield.

Income

Property bonds can offer an alternative income stream. Despite the fact there is no "natural income" (as with distribution funds) it is expected that yields will be strong enough going forward for investors to withdraw 5% fixed annual income with the potential for some capital growth. Please remember that withdrawals from property bonds are paid net of basic rate tax, as tax is paid within the fund.

The property fund we have identified as being a consistent and strong performer is the Sterling fund, which is managed by Threadneedle Investments. The fund has been running since April 1998 and holds over 184 properties with a total value of £1.2 billion. Unlike some other property funds, they do not invest in property shares, they buy the actual buildings. However, they may invest in property unit trusts in the future.

1st September 2000 to 12th September 2005, Bid-Bid, UK Basic Rate, Based In UK Sterling, Calculation Indexed



According to Standard & Poor's, the Sterling Property fund has performed very well with growth of 50.49% over the past 5 years (or an average of 8.5% per year). Furthermore, as the graphic on the previous page demonstrates the fund has provided a steady, return over the past 5 years outperforming other asset classes comfortably.

More recently, the fund has returned 10.53% in the 12 months from September 2004-2005, on a bid to bid basis. All this with one of the lowest levels of volatility in the sector.

The Sterling Property Fund should be considered as a long-term holding within a balanced portfolio. The performance of the bond is linked directly to commercial property investments made by the fund manager. Whilst there has been solid growth in previous years, past performance is no guarantee of future performance and it is possible for the value of the investment to go down as well as up.

Long Term Investment

An investment in the Sterling Property Fund within the Sterling Investment Bond is a medium to long term investment and you must invest for a minimum of five years otherwise surrender charges will be incurred. There is an initial charge of 5%. There is also an administration fee of 0.5% pa taken monthly for the first five years in addition to the annual management charge of the fund which is 1.272% pa.

| Your Investment | Allocation rate (age 70 and under) in the Sterling Property Bond | Chelsea Financial Services Enhancement | Total allocation rate | Allocation rate AFTER initial charge |
|-----------------|--|--|-----------------------|--------------------------------------|
| £5,000-£24,999 | 105.25% | 4.00% | 109.25%(*) | 103.78% |
| £25,000-£49,999 | 106.75% | 5.00% | 111.75%(*) | 106.16% |
| £50,000-£99,999 | 107.00% | 5.00% | 112.00%(*) | 106.40% |
| £100,000 | 107.75% | 5.25% | 113.00%(*) | 107.35% |

Please see the table above for the enhanced allocation rates that you will receive if you invest in this bond through Chelsea Financial Services.

(*) Where the youngest life assured is aged 70-74, the allocation rate before discount reduces by 1%; or by 2% where the youngest life assured is aged 75-79.

You could diversify even further by investing in a number of commercial property funds. Our application form offers a choice of 4 of the best property funds in the sector, from **New Star**, **Norwich Union** and **Britannic** as well as the aforementioned **Sterling Property** fund.

If you invest in more than one fund, you are likely to gain exposure to alternative types of commercial property, such as retail, industrial and office space as well as varied geographical locations, due to the fact each fund has differing exposure to regions in the UK. Please note the annual charges for the other 3 property funds are higher than the Sterling Property fund, as they are externally managed. These charges are detailed in the Key Features featured at the back of this magazine.

Peace of mind

There is a Guaranteed Death Benefit attached to this bond which means Sterling will pay the investor's estate 100.1% of the value of the bond or the amount invested less any withdrawals, whichever is the greater.

If you have any questions about the bond, please call our offices on 020 7384 7300.





STERLING

Sterling Investment Bond Application form

Your application

Please make sure you complete all relevant sections and return your application form to your adviser. This application form should not be used for Trustee investments, for example Discounted Gift Trusts and Gift and Loan Trusts. A trustee application form should be completed in this instance.

Data Protection

Sterling are committed to ensuring that the way we collect, hold, use and share information about you complies fully with the Data Protection Act 1998. Before completing this application you should read a copy of our leaflet – 'Your privacy is important to us', as this explains how your data will be used. If you don't have a copy of our leaflet or would like more information please ask your adviser.

Please contact us or your adviser if you would like this in large print, Braille or on audio tape or CD.

Personal details

There can be either one or two lives insured.

At least one life insured must be aged 79 or less.

*Providing your work telephone number is optional.

Delete Yes or No as appropriate.

*Providing your work telephone number is optional.

Delete Yes or No as appropriate.

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| Home tel no. | |
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| Male/female | |

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| Work tel no.* | |
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| Home tel no. | |
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| Male/female | |

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| Are you one of the applicants for this investment | Yes/No |
| Are you a life insured for this investment | Yes/No |

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| Are you one of the applicants for this investment | Yes/No |
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| Are you one of the applicants for this investment | Yes/No |
| Are you a life insured for this investment | Yes/No |

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| Are you one of the applicants for this investment | Yes/No |
| Are you a life insured for this investment | Yes/No |

Investment details

Please make cheques payable to Sterling and write your name and address on the back of the cheque.

*Managed by Threadneedle.

How much do you wish to invest in the property fund(s) £

The percentage of my investment should be split as follows:

| | | | |
|------------------------|------------------------|-------------------|------------------------|
| Britannic UK Property | <input type="text"/> % | Property* | <input type="text"/> % |
| Norwich Property Trust | <input type="text"/> % | New Star Property | <input type="text"/> % |

Regular withdrawals

The maximum regular withdrawal is initially 7.5% of the investment.

Payment can be on any date in the month.

Regular withdrawals will be taken proportionately from each fund.

A regulatory intermediary introduction certificate will need to be completed if the account holder is not an applicant.

Do you wish to receive or change regular withdrawals? Yes No

If yes, how much do you wish to receive each payment? If you are changing regular withdrawals, please enter the total new payment details.

EITHER % each year of the fund value. You may have to pay tax if your yearly withdrawals are more than 5% of the amount invested.

OR If a percentage of the amount invested is required, please enter this as a monetary amount in the box below. You may have to pay tax if your yearly withdrawals are more than 5% of the amount invested.

OR £ each year. Is this amount to increase each year? Yes No

If yes, please indicate how you wish the amount to increase:

in line with AEI in line with RPI by a set % of % (maximum 10%)

How often do you want to receive a payment: (please tick) every month once a year

When do you want the first payment:

If you don't specify a date, the first payment will be made on the next available withdrawal date after the investment was received. Eg. if we receive your payment on 1 June and you have asked for monthly withdrawals, the first withdrawal will be made on 1 July. If you have asked for yearly withdrawals, the first withdrawal will be made on the next 1 June. Payments to be made directly to the following bank or building society account:

Name of bank or building society

Branch Name

Sort Code

Name of account holder

Account No/Roll No

Declaration

A copy of this application is available on request.

For investments made by an Attorney, a copy of the Power of Attorney must be provided.

Completion of this application does not guarantee acceptance.

The declaration must be signed by

- each applicant, plus the parent or guardian of any applicant under 18, and if different,
- each life insured (but if a life insured is under 18 a parent or guardian must sign instead).

I/We ask Sterling to accept this application and issue the Investment Bond, which will be divided into a number of separate and initially identical policies, in accordance with Sterling's standard terms and conditions. Any additional investment is to be added to my/our existing Investment Bond.

I am/We are not resident in or a citizen of, the United States of America or Brazil.

I/We declare that to the best of my/our knowledge and belief the information given in this application is true and accurate.

And if the investment is being made on behalf of a donor of a Power of Attorney:

I confirm that I am acting on behalf of the donor of a Power of Attorney and for the donor's own benefit, and to the best of my knowledge and belief the Power of Attorney is still valid and has not been revoked.

Data Protection

For the purposes of Data Protection, where we refer to 'Zurich Group', this means Zurich Financial Services and its subsidiaries.

I/We have received a copy of the Data Protection leaflet – 'Your privacy is important to us'.

I/We confirm I/we have read and understood the information about how Sterling will look after my/our details and I/we consent to:

- My/Our personal data being used in the way described.
- Sterling, its agents and certain Zurich Group companies using my/our information for setting up, processing and administering my/our Investment Bond.
- Sterling using a reference agency for identity verification and fraud checking purposes.

I/We authorise those asked by Sterling to give such information on production of a copy of this consent.

I/We have read and agreed to the information contained in this application and in the declaration.

Signed Date

Signed Date

The following sections are to be completed by the adviser

Investment Bond charging structure for new applications

The unit allocation shown is before any initial commission sacrifice.

High allocation option A00016 Unit allocation 105.25% to 107.75%. Exit fee 9% reducing over 5 years.

The above allocation rates will be reduced by 1% for lives insured aged 70 to 74, and by 2% for lives insured aged 75 to 79 based on the age of the youngest life insured.

Adviser details

Your name

Adviser firm Chelsea Financial Services

FSA code and address 114493 St James Hall, Moore Park Road, London SW6 2JS

E-mail address

Your Sterling commission account number. B 9 1 1 8 9 Y

Commission terms: Please select one of the options: 1. initial, with 0.5% trail 2. full initial, with no trail

Initial commission sacrifice:

If you want to sacrifice any initial commission, please state the amount of commission you want to give up. The allocation rate will be increased by the amount of commission you give up. %

For example, if you give up 2% initial commission, the allocation rate will increase by 2%.



Media Matters – anyone for champagne?

I thought I would take the opportunity in my first Viewpoint to introduce myself. Over the summer I replaced Ben Larter as Chelsea Financial Services' principal contact for the press. My career background is that I have been a national and trade news journalist for the last nine years, writing predominantly on sport and finance. For the last three years I have been helping write and edit a newspaper for the investment industry. Having built up strong relations with Darius, Juliet, Matthew and Sam during that time, Ben's departure offered me the opportunity to join them.

Although the summer is traditionally quiet for newspapers, as key decision makers take their holidays, we had some notable successes.

Undoubtedly, the biggest story of the summer was the announcement of Fidelity's plans for Anthony Bolton's Special Situations fund. While it should have been good news for existing investors that Bolton is going to stay until 2007, we felt that Fidelity had missed an opportunity. By not naming the new managers and a clear path to succession and by increasing charges on the fund 24 hours after announcing the changes we felt Fidelity let down existing investors and intermediaries.

Darius was quoted in the *Daily Mail*, *The Saturday Telegraph*, *The Sunday Times* and was featured on Radio 4's *MoneyBox* criticising Fidelity for its actions. Following our commentary, Fidelity relented and agreed to maintain the existing charging structure for clients using other fund platforms. This is an example of the pressure we can apply to get a better deal for our clients.

It was because Chelsea Financial Services has such a respected, independent voice that I agreed to join. Protecting and promoting the needs of its clients was something I felt I wanted to be a part of and something we will continue to develop.

Client Case Studies

Due to our increasing profile in the industry we frequently get requests from national newspapers for our clients to talk about their investments.

Coming from a journalism background I can honestly say these are the easiest questions anyone could face from a reporter. They usually comprise: 'When did you buy the fund?'; 'Why did you buy the fund?'; 'Are you pleased/displeased with its performance and why?' Questions, we should all be asking ourselves when we review our portfolios anyway.

In the past clients have initially been quite daunted at the thought of contributing to these, not necessarily because of the questions, but more because the case studies require a photo (taken at your convenience). From my experience speaking to national journalists, photos are a prerequisite because the newspapers are trying to make finance appeal to all ages. By showing what the editors would call, 'the human face' of financial services they hope to encourage more people to become involved in addressing the £27bn savings gap.

We would like to think that our clients might join us in helping to raise awareness of the need for more people to start saving by agreeing to be featured in these case studies. In return we would like to thank you for your participation in one of two ways: **a gift of two bottles of champagne or £50 worth of Marks & Spencer vouchers.**

If you would like to become part of our exclusive press list then please fill in your details below and return it to us. As another token of our appreciation I will even help brief you on the kind of questions to expect so you can prepare some answers.

Please consider me for **Chelsea's Client Case Studies** in the future.

Name: _____

Address: _____

Preferred contact telephone number and/or email address: _____

Please be assured your details will only be used by Chelsea Financial Services and for press purposes only.



Matthew Woodbridge
Bond and VCT Manager

Venture Capital Trusts: Last Orders for 40% tax relief

Proposed changes in tax treatment of VCTs means this could be the last chance to receive an income tax rebate of 40% when investing in a VCT. At the present time, the Inland Revenue has stated that from the 2006/07 tax year the 40% tax relief will no longer be available. There is speculation some form of inheritance tax relief (IHT) will be attached to purchases made in the next tax year but this is yet to be confirmed.

Please note the tax relief should be viewed as a bonus to purchasing the underlying investment and not the prime reason for investing in a VCT. Investors should make themselves aware of the potential downsides associated with VCTs, including investment and liquidity risks, before making a purchase.

If you are thinking about investing in a VCT, there are several reasons for investing in 2005 rather than waiting until the latter stages of the tax year. Most notably, VCTs from the most popular providers, including Baronsmead, Close Brothers and Electra, tend to fill up very quickly. Indeed, some investors were left disappointed last tax year when their VCT of choice reached its full capacity sooner than expected.

For those investors who are unaware of VCTs, here is a brief summary of the benefits available upon investing in a VCT for the 2005/06 tax year:

- 1) Income Tax rebate of 40% (Provided the investment is held for a minimum of 3 years)

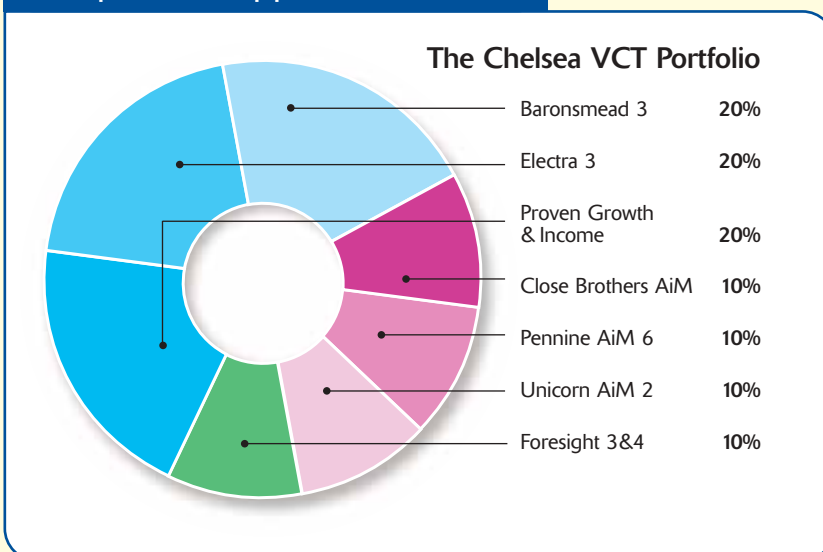
- 2) Exemption from tax on dividends
- 3) Exemption from Capital Gains Tax on profits made from selling of VCT shares

The 40% income tax rebate is available not just to higher rate taxpayers but also to basic rate taxpayers, so long as you have paid as much tax as you are claiming a rebate for. However, please note that you cannot use the 40% income tax relief to get back more tax than you have paid. You can only reduce your income tax liability to zero.

As a result of the attractive tax treatment of VCTs, many of our investors are calling us and asking for our opinion on the latest launches. As we conduct in depth face to face meetings with the managers, we are in a good position to compare the funds and identify the strongest offerings.

To aid our client's selection, we have compiled a general portfolio of VCTs for a VCT investor who has the maximum subscription of £200,000 to invest. It is only an example and does not constitute personal investment advice but it does highlight those VCTs which we believe are the leaders in their respective areas.

The portfolio approach to VCTs



The portfolio presents a spread of different VCTs that invest across a broad range of sectors.

If you have say £20,000 to invest, it may be sensible to invest the bulk of the monies into a generalist VCT and the remainder into one or two AIM VCTs for balance.

When weighing up how much of your entire portfolio to invest in VCTs, please bear in mind the current exposure to UK smaller companies in your existing investment portfolio and rebalance it to a level with which you feel comfortable.

Below is a table of current VCT offers:

| Name of VCT | Chelsea Rating | Minimum investment | Initial Charge | Chelsea Discount | Amount Available |
|---|----------------|--------------------|----------------|------------------|------------------|
| AiM VCTs | | | | | |
| AiM 2 'C' | Silver | £3000 | 5.00% | 2.00% | £30m |
| Close Brothers IHT | Gold | £5000/ £50000 | 5.50% | 2%/2.5% | £25m |
| First State (Top-up)* | Silver | £2000 | 5.25% | 2.00% | £20m |
| Framlington 2 | Silver | £5000 | 5.00% | 1.50% | £35m |
| Keydata 'C' | Silver | £3000 | 5.00% | 1.50% | £25m |
| Pennine 6 | Silver | £5000 | 5.50% | 2.00% | £25m |
| Unicorn 2 'C' | Gold | £5000 | 5.50% | 2.25% | £20m |
| GENERALIST | | | | | |
| Baronsmead 3 'C' | Gold | £3000 | 5.00% | 2.25% | £22m |
| Close Brothers Technology & General 'C' | Silver | £5000 | 5.50% | 2.00% | £25m |
| Eclipse 3&4 | Bronze | £3000 | 5.00% | 1.50% | £60m |
| Electra 3 | Gold | £5000 | 5.50% | 2%/2.5% | £40m |
| Matrix Income & Growth 3 | Silver | £5000 | 5.50% | 2.25% | £20m |
| Neptune Calculus 'C' | Bronze | £3000 | 5.50% | 2.00% | £15m |
| Noble Enterprise (Top-up) | Silver | £5000 | 5.25% | 1.50% | £10m |
| Northern 1 'C' | Silver | £5000 | 5.50% | 2.00% | £30m |
| Proven Growth & Income 'C' | Gold | £3000 | 5.50% | 2.00% | £25m |
| SPECIALIST VCTS | | | | | |
| Downing Protected IV&V | Silver | £5000 | 5.50% | 2.00% | £40m |
| Foresight 3&4 | Gold | £5000 | 5.50% | 2.25% | £48m |
| Ventus 2** | Bronze | £3000 | 5.00% | 1.50% | £25m |

Correct as at 01/10/2005. Please telephone us on 020 7384 7300 for the latest details of the current offers or refer to the VCT page on our website (www.chelseafs.co.uk)
* Launches November 2005 ** Launches December 2005

Explanation of the ratings

The index of precious metals used is self-explanatory but the ratings 'NR' stands for Not Rated. A VCT is not rated either because we have yet to meet the management team or we do not consider it is of sufficient quality to merit a rating. Our table only shows those VCTs that were available at the time of going to press. Please refer to our website for the latest information on what is available.

A word of warning

It would be unwise to purchase a VCT purely for the upfront tax relief and try to sell after the minimum three year holding period. VCTs are long-term investments.

It usually takes three years to invest the money and build a portfolio in qualifying investments, which don't lend themselves to short term horizons. VCTs should be

considered 7-10 year investments. In addition, liquidity of these investments is poor, with the secondary market for shares of VCT companies notoriously illiquid.

Chelsea Financial Services offers **discounts** on all VCT purchases, usually in the form of extra shares. If you wish to receive information on current offers, please consult the VCT page on our website (www.chelseafs.co.uk) or telephone us on 020 7384 7300 for a brochure. Please note that if you download a prospectus from our website and it does not have our stamp on it then you must send it to our offices. If an application is sent directly to the registrars and it doesn't carry our stamp then you won't benefit from our discounted terms. Furthermore, if you have previously bought a VCT directly from the provider and wish to make another investment, if you send the application form to CFS we will ensure you receive a discount.

If you wish to receive a VCT prospectus, please tick the relevant box or insert the company name if your choice is not listed.

| | | | | | |
|---------------|--------------------------|----------------------------|--------------------------|-----------|----------------------|
| Baronsmead 3 | <input type="checkbox"/> | Electra 3 | <input type="checkbox"/> | Name | <input type="text"/> |
| Close IHT AIM | <input type="checkbox"/> | Proven Growth & Income 'C' | <input type="checkbox"/> | Address | <input type="text"/> |
| Foresight 3&4 | <input type="checkbox"/> | Other (please specify) | <input type="checkbox"/> | | <input type="text"/> |
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| | | | | Telephone | <input type="text"/> |



Richard Pease
Manager, New Star European Growth

Europe – Continental Comfort

This is the first of our series of articles on Europe. European investment is often overlooked and here Richard Pease answers our questions on the region. His fund has featured as a Chelsea Leader for over 2 years and he has produced excellent performance over this time.

Why is Europe, as an area of investment, often overlooked?

Many external investors are prejudiced towards Europe because they see headlines about high unemployment, expensive labour market regulations and entrenched socio-political ideals and presume that European companies are run inefficiently. Slower economic growth over the last few years has led investors to suppose that profitability among European companies is equally dismal.

Why do you think investors should consider Europe?

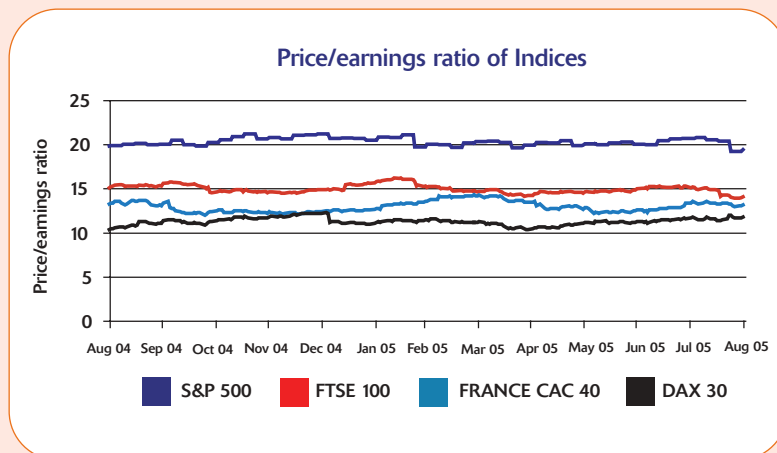
Ironically, because of some of the structural negatives outlined above. It is testament to the quality of many European companies that despite the headwind of burdensome legislation, an overvalued currency and a high oil price, they are still able to increase their profits. Weak domestic consumption has forced European companies to move towards the quality end of the scale to compete abroad, creating world-leading multinationals or medium-sized companies that have become the specialist within their niche market. In fact, European markets have been some of the best performing stockmarkets in the last couple of years, yet still they are still relatively inexpensive. For instance France's CAC 40 Index and Germany's DAX Index trade on lower price/earning ratios than the S&P 500 in the US and the FTSE 100 in the UK.

How has the expansion of the EU affected European companies?

It has pros and cons. It has brought new low-cost competition to bear on companies established within the original EU-15, accelerating the pain of unemployment in countries such as Germany and Italy. By the same token, however, it has created an accessible low cost manufacturing base within Europe so that jobs that would have gone further away are kept more local. Most of the accession states are growing well above the EU average, creating new markets and profitable opportunities for companies within the EU-15.

Do you invest in Eastern Europe?

Not directly, although that's not to say we never would. At the moment we can find plenty of exciting opportunities within "old Europe", where corporate governance and management is a little more proven and tested. So many companies have operations in Eastern Europe that it is fairly easy to get exposure to the region without going on the local exchanges. For instance, we hold Unicredit, the Italian Bank that has expanded rapidly in Eastern Europe and Telenor, the Norwegian telecom company that has extensive interests in Hungary and Russia.



Source: Datastream, 31/08/04 to 31/08/05

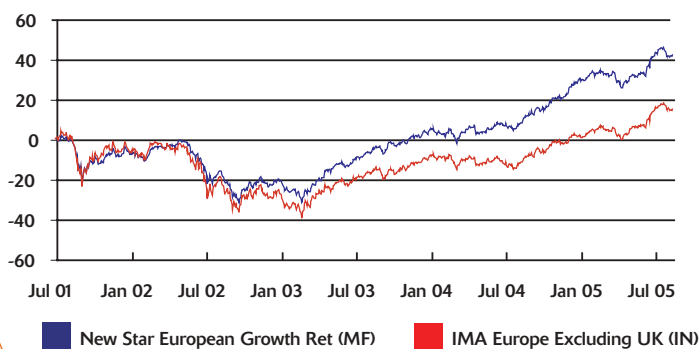
Are there any countries you avoid or conversely any you overweight in your portfolio?

The New Star European Growth Fund is managed primarily using a bottom-up, stock selection approach. This means that country allocation is largely a function of where we happen to find the most attractive stocks. As a result we do not pay attention to benchmarks, investing where we believe the best returns can be realised. Currently Ireland is the biggest weighting in the portfolio because it happens to have a lot of companies that meet our objectives; the low corporation tax in Ireland obviously helps too.

How do you generate investment ideas for your portfolio?

We manage the portfolio according to a long-established, proven process. At the heart of it is a stock-driven approach that considers four key factors – valuations, financial strength, quality of management and business fundamentals. Regarding valuations we are looking for companies that are essentially underpriced by the market, maybe because others fail to see the hidden growth within a company or because recent bad news has led to undue pessimism towards the stock. Financial strength is particularly concerned with a company's ability to generate a strong free cash flow, since this tells us that the company is making genuine profits and provides flexibility in financing future expansion or returns to shareholders. With management we look for managers with a stake in the business who are clearly focused on creating shareholder value rather than on building business empires. Finally we look at the business model to assess how viable the product is and take into account more macroeconomic factors to judge how the company sits in the market place. The core purpose of the fund is to enrich investors by identifying good, cash-generative businesses that are trading cheaply.

Percentage growth of New Star European Growth Fund and IMA Europe ex UK Index



Source: Lipper, 23/07/01 to 31/08/05, mid to mid, net income reinvested, GBP.

New Star European Growth is available both within and outside the Chelsea Portfolio, with a discount of 4.75% inside an ISA and 3.5% outside the ISA wrapper.



Dave Dudding
Manager, Threadneedle
European Smaller Companies

European Smaller Companies – hidden gems

Whilst many investors consider a holding in UK smaller companies fundamental to their portfolio, European smaller companies are largely overlooked. Yet this unloved sector produced better returns than all others (emerging markets notwithstanding) over the last year. Here Threadneedle's European small-cap fund manager, Dave Dudding, takes a look at this sector.

So why invest in European smaller companies? The bottom line is performance: over time this niche area of the market has shown itself able to generate excellent returns. Indeed they have enjoyed a fantastic run over the last three years, leaving large caps trailing in their wake.

Where small caps score over large caps is in the variety and breadth of opportunity they offer. Many parts of the European small cap universe – which comprises several thousand names – remain very under-researched and scores of exciting investment propositions lie waiting to be discovered.

Stock Selection

The vast scope of the market requires intensive fundamental research. Unlike more broadly invested funds, small caps are managed on a micro basis, with stock specific considerations taking precedence over macro-economic, geographical or sectoral factors.

A flair for stock picking can therefore count for so much more, which is why our team of analysts meet with around six hundred company managements a year. Not only does this allow us to get an informed view of the company, it also ensures good contacts with local brokers, which is important for ensuring the timely execution of trades – an important element in the management of small caps.

The type of companies that we favour particularly are those that are cheap and can demonstrate sustainable growth characteristics. An attractive area of untapped growth, for example, is Eastern Europe and we have been successful in our selection of companies that are geared into the more rapid rate of economic expansion we are seeing in the East.

Rigorous research disciplines are also useful in uncovering a "local angle". The mandatory use of winter tyres in Scandinavian companies, for instance, makes Nokian – a Finnish tyre manufacturer and owner of a chain of fitting shops across the regions – an attractive prospect, especially when the burgeoning demand from Russia for Western tyres is mixed into the equation. Throughout the region we are also on the look-out for

companies with high market shares, barriers to entry and high returns on capital employed; these can come from virtually any sector at any time.

Outlook

Given the backdrop of slowing economies, particularly in core Europe, we believe that markets are likely to remain muted over the coming months. This will not only affect small cap stocks however, but large and mid cap stocks as well.

On a structural level, we were disappointed by the inconclusive result of the German election as a clear victory for the more progressive centre-right coalition would have paved the way for an economic reform programme that would have greatly benefited the smaller companies sector there.

We believe, though, that valuations are still reasonable, and that we can find cheap smaller companies stocks even in countries where the economic outlook is particularly tough. Our guarded optimism is strengthened by the weakening of the Euro, the prospect of interest rates remaining low, robust company profits and on-going merger and acquisition activity. Whatever the stage of the economic cycle, dedicated detective work can still uncover plenty of strong performance potential among European smaller companies.

This fund is available within and outside the Chelsea Portfolio at a discount of 3.5% as an ISA and 2.25% outside an ISA.



Emerging Europe

– still full of eastern promise?

Jupiter Emerging European Opportunities was launched just 3 years ago and has been on our Chelsea Leaders panel since then. Over this time fund manager Elena Shaftan, a Russian herself, has achieved incredible performance – more than trebling investors' money. Here she examines this dynamic region and gives an insight into her portfolio.

When we launched the Jupiter Emerging European Opportunities Fund, it raised a few eyebrows because the region was a long way off most investors' radars, especially in the middle of a profound bear market in Western Europe. How times have changed. Three years on, the region is by far the most dynamic in Europe.

In those three years the fund has benefited from its focus on two core themes: the convergence process of the new European Union entrants and the economic recovery of Russia. Both of these themes are a long way from reaching any conclusion.

EU Accession

Accession to the EU in May 2004 of states such as Poland, the Czech Republic and Hungary has provided these countries with stability, in the form of improved regulation and corporate governance. But the original reasons for the region's rapid growth have not changed. Factors such as a cheap, but highly skilled, labour force and low taxes have already prompted many EU companies to outsource operations there and the rate of change has only accelerated since the EU's expansion eastwards.

In Russia, media focus has centred on political interference, but it has largely ignored a dramatic improvement in the economic environment. Bear in mind that just seven years ago, Russia defaulted on its sovereign debt. But since then, aided by high oil prices and responsible government policies, the country now has a current account and budget surplus, while economic growth has been in excess of 6%. This is not just about oil and gas exports, but also about domestic consumption, with retail sales currently growing by 12% a year, compared to zero growth in the UK.

Stock Selection

We have played out these themes through buying shares in various sectors, but two really stand out for us in the past year: natural resources and banking.

Oil and gas companies have undoubtedly been helped by the surge in energy prices, but they have also increased production and managed their costs better, which has helped to improve profit margins. It is not just a question of oil production either. Central European refiners, unlike the majority of their western European counterparts, have the ability to refine the heavy oil that Russia produces and are helped by the fact that Russian oil trades at a discount to Brent crude.

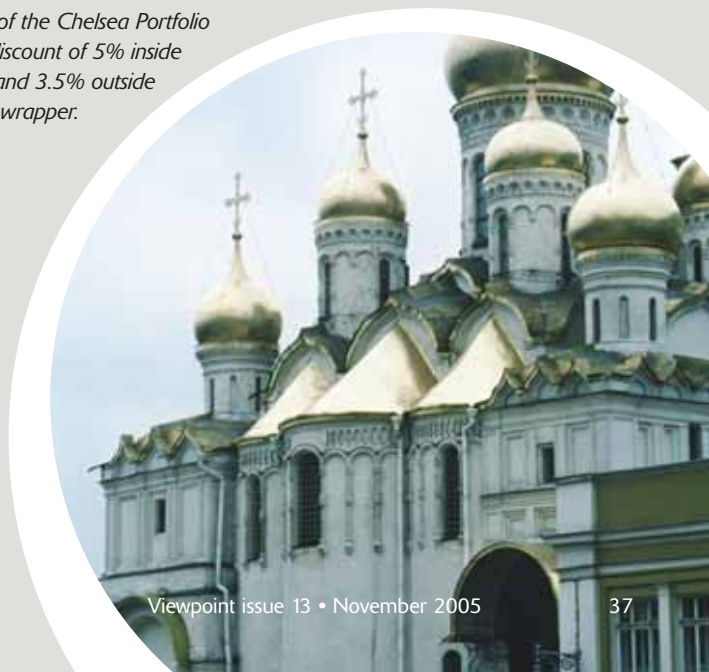
Banking is also a sector of great interest. If you consider that average mortgage penetration in central Europe is 6%, compared to 40% for Europe as a whole, while interest rates are falling and competition between lenders is still low, then clearly the prospects are promising. And while bank profits are expected to grow consistently, their shares are still good value.

Clearly, there are certain risks in the region that UK investors will not be familiar with. Emerging European markets are less developed than their major western counterparts, which presents some issues. There are only 300 or so companies that we could invest in, as many are not well run or are run for the benefit of a single shareholder. Likewise, some are so small that they are too hard to trade in.

As a result, we run a fairly concentrated portfolio. We want predictable cashflows, a business model that we believe in and management that we know and trust. We never invest in a company without meeting them first. We feel that a smaller portfolio is less risky, because diversification for the sake of it means exposing ourselves to poorer quality businesses.

Our strategy of picking only what we consider to be the very best stocks the region has to offer has worked well now for three years. Shares still look good value and economic growth remains strong, while Western companies are increasingly looking to invest in and outsource to companies across the region. On that basis, the region's future looks robust.

This fund is available both within and outside of the Chelsea Portfolio with a discount of 5% inside an ISA and 3.5% outside the ISA wrapper.



New Fund Launches

Jupiter Japan Income

This fund was launched on 15th September 2005 at a price of 50p. Its manager Simon Somerville joined Jupiter from Cazenove in January 2005. Somerville argues that whilst there have been a number of false dawns in Japan, a sustainable recovery is now underway helped by the reforms implemented by Premier Koizumi.

It aims to achieve long-term capital and income growth by investing in a combination of Japanese equities and convertible bonds as well as cash, deposits and money market instruments. Somerville is based in London, but he will be travelling several times a year to maintain company contacts.

The fund is to hold 40 to 50 stocks although this may increase if the size bias tilts toward small/mid cap companies to accommodate the extra risk. With this number of holdings in the fund, it will be fairly diversified across sectors, but due to the fairly limited range of dividend-paying companies in Japan – this is only a recent trend which is increasing all the time – the selection of equities at this point will be relatively restricted. Simon Somerville also manages the Jupiter Far Eastern Fund which covers the Far East including Japan.

This fund is available both inside and outside the Chelsea Portfolio at a discount of 4.75% on the ISA and 3.75% as a unit trust.

Schroder US Small & Mid Cap Fund

In April 2005 the investment objective of the Schroder North American fund changed its focus from US large cap companies to US small and mid cap companies. Accordingly the name of the fund changed to Schroder Small & Mid Cap fund. Its aim is to capture the best growth opportunities with stocks that are more liquid and mature than those of the US smaller cap companies. The fund is managed by Jenny Jones, who also runs the Schroder US Smaller Companies fund.

The main advantage of investing in SMID stocks is that, compared to smaller companies the stocks are generally more mature and have a more diverse range of products within their portfolio as well as the companies themselves having more professional management teams which lessen investment risk. Whilst compared to large cap companies, SMID cap companies are at an early enough stage in their life cycle to grow at a greater pace, offering good potential for share price appreciation. Schroder Small & Mid Cap fund focuses on companies in the \$1bn-\$7bn market cap range, which comprise approximately 19% of the US equity market. The fund will hold between 50 and 70 stocks which is more concentrated than the Schroder US Smaller Companies fund.

This fund is available within and outside the Chelsea Portfolio at a cost of creation when purchased inside an ISA wrapper and 1% when outside an ISA wrapper.

Britannic Argonaut European Alpha Fund

For those investors who are looking for a more aggressive European investment, the Britannic Argonaut European Alpha fund is one to keep in mind (launched on 11th May 2005). Barry Norris, manager of the Britannic Argonaut European Alpha fund, has been awarded a coveted AAA rating by Citywire*. This ranking provides an objective measure of fund managers' risk adjusted performance over the last three years.

The fund's objective is to achieve above average returns by investing in a concentrated portfolio of 30-50 stocks from European markets. During the last 3 months it has been ranked number 3 out of 105 and has doubled the growth of its sector**. Alpha funds are more geared towards investors who already have an established portfolio and are possibly seeking to spice it up by placing it into a higher risk investment in hopes of achieving higher returns. Stocks are selected with the aim of making absolute returns on capital invested, while simultaneously, avoiding losses. In order to achieve these higher returns the funds concentrated portfolio focuses on shares of companies within Europe.

This fund is available within the Chelsea Portfolio with a discount of 4.25% within an ISA wrapper and 3.25% outside an ISA wrapper.

*Source Citywire fund manager rating July 2005

**Investment Adviser 12th September 2005

Threadneedle Absolute Return Bond

Threadneedle's Absolute Return Bond fund is launching on 24th October. The fund has been launched under the UCITS III regime and will aim for a return of 160% of Bank of England base rate. To achieve that it will have a portfolio 20-25% invested in non-fixed interest securities, derivatives, currency plays etc and the remainder in cash or short-dated bonds. It will have the flexibility to go 100% into cash, as UCITS III funds do, but they do not anticipate using the option. It will have an unconstrained remit allowing it move across the credit spectrum to generate the required return from the non-cash part. They will also have the capability to leverage the fund, which they will utilise when opportunities dictate.

Quentin Fitzsimmons is to be the lead manager on the fund with Miles Bradshaw as his deputy. Income is not payable on the fund in the usual way but will operate under a cash withdrawal facility that Threadneedle uses on other funds.

This fund is available both within and outside the Chelsea Portfolio and has no initial charge but a 1.25% annual management charge.

Take the Chelsea Investments Mortgage Check



Chelsea Investments Limited
The advisory arm of the Chelsea Group

Are you paying too much on your mortgage? I'm sure it's a question that you've asked yourself, or been asked, many times. But how do you know if you're paying too much? Well, we've made it simple. The table below shows what you could be paying on your mortgage. If you're paying higher than the figure, then you're paying too much!

| Mortgage Outstanding | £100K | £125K | £150K | £175K | £200K | £250K | £300K | £350K | £400K |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Cost per month on lenders SVR* | £541 | £677 | £812 | £947 | £1083 | £1354 | £1625 | £1895 | £2166 |
| What you could be paying per month (Interest only) | £353 | £441 | £530 | £618 | £706 | £883 | £1060 | £1236 | £1413 |
| Monthly saving by switching | £188 | £236 | £282 | £329 | £377 | £471 | £565 | £659 | £753 |

Please note, the rates above are based on the best 2 year fixed rate on 19/09/05 and are for residential mortgages only. Please call for the latest rates.
* SVR = Standard Variable Rate

Typically, it will cost around £800 to move your mortgage to another provider. This includes the cost levied by the new lender and any solicitor's fees. Therefore, the total saving, over 2 years for a £100,000 mortgage, including the cost of switching is over £3,500! For a £400,000 mortgage, the saving is over £17,000!

We also specialise in buy-to-let and commercial mortgages where substantial savings can also be made.

So, if you want to reduce your monthly outgoings, give us a call on 020 7384 7323.

Please note that we are occasionally out of the office with clients so please leave a message and we will respond upon our return.

Other areas that we cover include:

- Inheritance Tax Planning
- Advising on trust investments
- Holistic Financial Planning
- Pensions advice including SIPPs
- Life Assurance

Please call us on **020 7384 7323** to arrange a meeting or for further details.





The Chelsea Relegation Zone

From this edition the Relegation Zone is even more informative. Not only is a manager's performance judged on three discrete years but we have also stripped out those managers who have not been running the fund for the entire period. On top of that we have added our own qualitative analysis of those funds where a change has taken place. We have considered the strength of the new appointment and analysed the performance figures since taking over and decided by committee whether the fund should stay in the Relegation Zone or given a last-minute reprieve.

It means the Relegation Zone is your ultimate switch list. The performance figures and rankings overleaf are either wholly attributable to the manager in charge or, in our opinion, the change of manager is unlikely to result in a change in fortunes.

Switching can be an emotive issue, especially as it comes at a price, but what we would say is three years of underperformance is not acceptable for anyone and that paying a 0.25% charge could actually be one of the best investment decisions you make.

An illustration in the possible performance gulf is provided below: Framlington's UK Smaller Companies fund, a Chelsea Leader, compared with the Aberdeen UK Emerging Companies. The difference makes a compelling case for considering switching.

RED CARDS

This month's Relegation Zone is notable for funds from houses you would expect to be doing better.

Of the 170 funds in the full list, the likes of Old Mutual, Jupiter and Credit Suisse are just some of the names that stand out, which just goes to show that no single house has the expertise to be good in all areas. It emphasises the need not only to diversify funds but also fund providers.

Just highlighting the above names is slightly unfair because all funds on the list have consistently underperformed so these are no worse than any of the others, but they have been picked out because they are usually names you can rely on for good performance.

Old Mutual's First Large Cap is included in the UK All Companies List at a time when large caps have been enjoying something of a revival. So it is

a surprise to see even the shorter-term numbers not moving it out of the third and fourth quartile rankings.

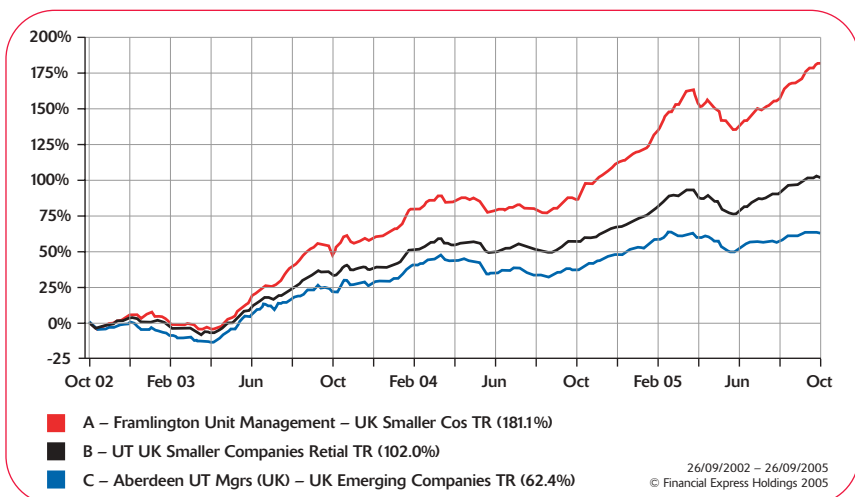
Jupiter's Distribution fund in the Cautious Managed sector is run by two respected fund managers, Tony Nutt and John Hamilton, but together the fund has not performed above the sector median.

We mention Credit Suisse simply because of the weight of funds it has across the board as the table below highlights.

Other fund houses near the top five include Threadneedle, F&C and Insight, all houses that are either going through, or have undergone, changes to their businesses recently.

Worst Offenders List

| | | |
|----|-----------------|----------|
| 1. | Legal & General | 11 funds |
| 2. | Scottish Widows | 9 funds |
| 3. | Credit Suisse | 7 funds |
| 3. | Halifax | 7 funds |
| 3. | Henderson | 7 funds |



The Chelsea Relegation Zone

| | 3 year % growth | Quartile position |
|--|--------------------|----------------------|
| UK All Companies | | |
| Abbey National – UK Growth | 43.41 | 4 |
| AXA Fund Managers – UK Growth | 43.90 | 4 |
| AXA Fund Managers – UK Tracker | 50.73 | 3 |
| Baring Asset Mgt UK – UK Growth | 49.47 | 3 |
| Britannic Fund Mgrs – UK General | 42.06 | 4 |
| Capita Financial Managers – Canlife Growth | 47.79 | 3 |
| Capita Financial Managers – Christows UK Equity Growth | 44.55 | 4 |
| Capita Financial Managers – GHC UK Equity | 28.25 | 4 |
| Cazenove – MM Univ Growth Pfolio | 45.09 | 4 |
| CIS – UK Growth | 46.22 | 4 |
| Credit Suisse – CS Premier FoF Ethical | 38.67 | 4 |
| Direct Line – FTSE 100 Tracker | 47.47 | 3 |
| Direct Line – FTSE4 Good Tracker | 44.47 | 4 |
| DWS Invest – UK Blue Chip | 46.69 | 4 |
| First State Investments – British Opportunities | 44.17 | 4 |
| Framlington Unit Mngt – Blue Chip | 42.89 | 4 |
| Halifax – Special Situations C | 47.00 | 4 |
| Halifax – UK All-Share Idx Trk C | 50.43 | 3 |
| Halifax – UK FTSE 100 Idx Trk C | 45.63 | 4 |
| Halifax – UK Growth | 45.55 | 3 |
| Henderson Global Investors – UK Equity | 40.82 | 4 |
| Hiscox UK Opps TR | 42.61 | 4 |
| HSBC Investments (UK) – Blue Chip | 47.13 | 3 |
| HSBC Investments (UK) – UK Growth | 47.05 | 3 |
| HSBC Investments (UK) – British | 43.34 | 4 |
| Jupiter – Growth & Income | 36.47 | 4 |
| Legal & General – (A&L) UK 100 Index Tracker | 45.34 | 4 |
| Legal & General – (Bclys) Capital | 48.88 | 3 |
| Legal & General – (Bclys) Managed Core | 44.13 | 4 |
| Legal & General – Equity | 47.21 | 3 |
| Legal & General – UK 100 Index | 42.42 | 4 |
| Liontrust – First Large Cap | 39.34 | 4 |
| Lincoln – Growth | 42.37 | 4 |
| Liontrust – First Growth | 38.85 | 4 |
| Liverpool Victoria – Growth | 48.82 | 3 |
| Manek – Growth | 22.47 | 4 |
| M&G UK – Blue Chip | 44.78 | 4 |
| Nationwide – UK Growth | 48.71 | 3 |
| Old Mutual Fund Managers (UT) – UK Select Large Cap | 46.87 | 4 |
| Royal London – UK Equity | 45.55 | 4 |
| Royal London – UK Growth | 42.36 | 4 |
| Scottish Widows – Ethical TR | 38.04 | 4 |
| Sovereign – FTSE 100 | 43.95 | 4 |
| St. James's Place – UK & General Prog | 40.17 | 4 |
| SVM Asset Management Ltd – UK 100 Select | 35.44 | 4 |
| Wesleyan – Growth | 48.06 | 3 |
| UK All Companies Sector Average | 57.18 | – |

| Smaller Companies UK | | |
|--|--------------|----------|
| Aberdeen UT Mgrs (UK) – UK Emerging Companies | 59.43 | 4 |
| Baring Asset Mgt UK – UK Smaller Companies | 65.03 | 4 |
| Close Fund Mgmt – Beacon Investment | 55.59 | 4 |
| Credit Suisse – CS Smaller Companies | 73.39 | 4 |
| Insight – UK Small Cap | 83.26 | 3 |
| Norwich Union – UK Smaller Companies | 68.03 | 4 |
| Scottish Mutual – UK Smaller Cos Equity | 55.99 | 4 |
| Scottish Widows – UK Smaller Companies | 60.07 | 4 |
| Scot Widows Inv Partnership – UK Smaller Companies | 76.59 | 3 |
| UK Smaller Companies Sector Average | 97.16 | – |

| Equity Income | | |
|---|--------------|----------|
| AXA Fund Managers – UK Equity Income | 47.12 | 4 |
| Baillie Gifford – Income | 47.31 | 4 |
| F&C Fund Management Ltd. – UK Equity Income | 42.50 | 4 |
| Halifax – UK Equity Income | 50.13 | 3 |
| HSBC Investments (UK) – Income | 45.52 | 4 |
| Insight – Equity High Income | 50.22 | 3 |
| Martin Currie – Income | 47.73 | 3 |
| Royal London – Equity Income | 39.12 | 4 |
| Scottish Widows – UK Equity Income | 45.79 | 4 |
| Sovereign – Income | 45.97 | 4 |
| Taylor Young – Equity Income | 42.72 | 4 |
| The 140 – Broadway ICVC Income | -0.45 | 4 |
| Threadneedle – UK Equity Income | 49.09 | 3 |
| WAY – Professional UK Mgd Portf | 22.57 | 4 |
| UK Equity Income Sector Average | 55.68 | – |

| Corporate Bond | | |
|--|-------|---|
| Baring Asset Mgt UK – Sterling Corporate Bond | 11.65 | 4 |
| Capita Financial Managers – Church House High Income | 10.31 | 4 |
| Clerical Medical – Income | 14.18 | 3 |
| Engage Mutual – High Income | 11.03 | 4 |
| Legal & General – (Bclys) Income Portfolio | 13.87 | 4 |
| MLC Trust Management Co – High Income | 13.96 | 4 |
| Nationwide – High Income | 12.63 | 4 |
| Rathbone – Ethical Bond | 12.64 | 4 |
| Rensburg – Corporate Bond | 13.27 | 4 |

| | 3 year % growth | Quartile position |
|--|--------------------|----------------------|
| Corporate Bond continued | | |
| Royal Liver Asset Mgmt – UK Fixed Interest | 8.84 | 4 |
| Singer & Friedlander – Pref Income | 6.92 | 4 |
| Standard Life – AAA Income | 12.63 | 4 |
| St. James's Place – Corporate Bond | 12.87 | 4 |
| Tilney – UK Fixed Interest | 9.01 | 4 |
| Virgin Money – Income | 9.39 | 4 |
| Woolwich – Corporate Bond | 6.43 | 4 |
| UK Corporate Bond Sector Average | 16.87 | – |

| Europe excl UK | | |
|--|--------------|----------|
| CIS – European Growth | 50.86 | 4 |
| Credit Suisse – CS European | 47.25 | 4 |
| Henderson Global Investors – European | 54.16 | 4 |
| Henderson Global Investors – European Cap Growth | 61.01 | 3 |
| INVESCO PERPETUAL – European Growth | 59.56 | 3 |
| Investec Fund Managers (UK) – European | 46.89 | 4 |
| Legal & General – European | 49.00 | 4 |
| Morgan Stanley Inv Mnmgt UK – Eur (ex-UK) Eq | 46.03 | 4 |
| Prudential – European | 59.14 | 4 |
| Scottish Mutual – European | 57.40 | 4 |
| Europe Excluding UK Sector Average | 69.37 | – |

| Global Growth | | |
|---|--------------|----------|
| AEGON Asset Mgmt UK Plc – Worldwide Tactical | 26.23 | 4 |
| Bank of Ireland – Brit & Oseas | 19.38 | 4 |
| Bank of Ireland – Worldwide Opps | 15.59 | 4 |
| Cazenove – MM Univ Intl Pfolio | 35.72 | 4 |
| Credit Suisse – CS Worldwide Growth | 26.03 | 4 |
| F&C Fund Management Ltd. – Global Growth | 25.60 | 4 |
| First State Investments – Global Growth | 23.28 | 4 |
| Halifax – Ethical | 35.80 | 3 |
| Halifax – International Growth A | 40.77 | 3 |
| Henderson Global Investors – Global Care Growth | 28.90 | 4 |
| Henderson Global Investors – Industries of the Future | 27.93 | 4 |
| Insight – Global Dynamic Managed | 37.08 | 3 |
| JP Morgan (UK) – Global | 37.29 | 3 |
| Lazard – International Equity | 30.84 | 4 |
| Legal & General – Global Growth | 36.03 | 3 |
| Lord Abbett – Gbl Gth & Inc | 27.17 | 4 |
| Merrill Lynch Fund Mngrs – Global Titans | 34.54 | 4 |
| Merrill Lynch Fund Mngrs – Overseas | 32.50 | 4 |
| Morgan Stanley Inv Mnmgt UK – Global Val Eq | 28.98 | 4 |
| Morley – Sustainable Future Gbl Gth | 27.42 | 4 |
| New Star Investment Funds – Global Equity | 33.63 | 4 |
| Old Mutual Fund Managers (UT) – Worldwide Select Eq | 31.59 | 4 |
| Scottish Widows – Global Growth | 27.40 | 4 |
| Scottish Widows – Global Select Growth | 28.44 | 4 |
| Scot Widows Inv Partnership – Global | 25.85 | 4 |
| Scot Widows Inv Partnership – Global SRI | 29.90 | 3 |
| Scottish Widows – Opportunities Portfolio | 38.60 | 3 |
| Wesleyan – International | 38.81 | 3 |
| Global Growth Sector Average | 47.39 | – |

| North America | | |
|---|--------------|----------|
| Allianz Global Investors – RCM Nrth American | 9.77 | 4 |
| Artemis Fund Managers – North American Growth | 10.30 | 4 |
| Britannic Fund Mgrs – American Growth | 20.99 | 3 |
| Credit Suisse – CS Transatlantic | 15.55 | 4 |
| F&C Fund Management Ltd. – North American | 11.10 | 4 |
| Insight – US Equity | 17.80 | 3 |
| INVESCO PERPETUAL – US Equity Acc | 14.52 | 3 |
| Legal & General – North American | 18.41 | 3 |
| Royal London – North American Growth | 16.37 | 4 |
| Scottish Life – American (Columbus) | 15.92 | 4 |
| North America Sector Average | 25.14 | – |

| Asia Pacific excl Japan | | |
|--------------------------------------|--------------|----------|
| Allianz Global Investors – RCM Tiger | 46.57 | 4 |
| Credit Suisse – CS MMgr Asia Pacific | 49.57 | 4 |
| HSBC Investments (UK) – Asian Growth | 58.44 | 4 |
| Insight – Asia Pacific Equity | 58.63 | 3 |
| Lloyd George – LG Eastern Opps | 51.48 | 4 |
| Standard Life – Asia Pacific Growth | 51.18 | 4 |
| Asia Pacific Sector Average | 63.62 | – |

| Japan | | |
|---|--------------|----------|
| Capita Financial Managers – Canlife Japanese Growth | 23.09 | 4 |
| Insight – Japan | 25.87 | 4 |
| Lincoln – Japan | 22.07 | 4 |
| Prudential – Japanese | 28.77 | 4 |
| Scot Widows Inv Partnership – Japanese | 24.99 | 4 |
| Scottish Widows – Japan Growth | 23.43 | 4 |
| Scottish Widows – Japan Select Growth | 18.03 | 4 |
| Threadneedle – Japan | 28.90 | 3 |
| Japan Sector Average | 40.43 | – |

All cumulative statistics % change, bid to bid, net income reinvested, three years to 22 September 2005.

Source: Financial Express Analytics.

Whilst every effort has been made to ensure the accuracy of this information, Chelsea Financial Services take no responsibility for any errors, omissions or inaccuracies contained therein. Past performance is not a guide to the future.

Please read the Important Notice on page 2. This is a purely statistical chart, featuring funds which have been 3rd or 4th quartile for 3 consecutive, rolling discrete years.



The Chelsea Premier League

| | Direct Lump Sum ISA Discount (Transfer)* | Chelsea Portfolio Lump Sum ISA Discount* | Lump Sum Unit Trust Discount^ | Fund size* | 1 YEAR | | 2 YEAR | | 3 YEAR | | 5 YEAR | | 10 YEAR | |
|---|--|--|-------------------------------|------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| | | | | | % Growth | Position | % Growth | Position | % Growth | Position | % Growth | Position | % Growth | Position |
| EQUITY UNITED KINGDOM | | | | | | | | | | | | | | |
| Artemis UK Growth | 4.5 | 4.5 | 3.5 | 579 | 17.3 | 294 | 48.1 | 25 | 78.6 | 27 | 17.9 | 33 | - | - |
| Artemis UK Special Situations | 4.75 | 4.75 | 4.75 | 641.7 | 26.5 | 38 | 45.2 | 34 | 97.8 | 9 | 69.2 | 8 | - | - |
| Cazenove UK Dynamic | 5 | 5 | 2 | 139.8 | - | - | - | - | - | - | - | - | - | - |
| Cazenove UK Growth and Income | 5 | 5 | 2 | 622 | 22.6 | 115 | 34.0 | 155 | - | - | - | - | - | - |
| Fidelity Special Situations | 3 | 3 | 2 | 5171 | 27.7 | 28 | 53.0 | 10 | 94.6 | 13 | 93.3 | 2 | 368.4 | 1 |
| Framlington UK Select Opportunities | 4.75 | 4.75 | 3.5 | 573.2 | 26.4 | 40 | 50.5 | 16 | 89.7 | 18 | 26.7 | 21 | 173.6 | 13 |
| Gartmore UK Focus | 4.75 | 4.75 | 3.75 | 275.5 | 20.4 | 222 | 26.9 | 280 | 74.1 | 42 | - | - | - | - |
| Invesco Perpetual UK Aggressive | 5 | 5 | 3.75 | 113.6 | 20.6 | 213 | 40.2 | 54 | 165.2 | 1 | - | - | - | - |
| JPM UK Dynamic | 5 | 5 | 4 | 360.8 | 29.4 | 24 | 52.9 | 11 | 76.1 | 34 | - | - | - | - |
| Legal & General UK Index | 0.25CB | 0 | 0.5 | 3221.9 | 21.5 | 170 | 35.1 | 135 | 57.4 | 117 | 3.5 | 82 | 100.9 | 57 |
| M&G Recovery | 4 | 4 | 3 | 136.9 | 24.2 | 26 | 38.6 | 36 | 52.5 | 34 | 17.0 | 21 | 97.0 | 60 |
| Marlborough UK Equity Growth | 4 | 4 | 3 | 58.9 | 18.5 | 284 | 41.8 | 47 | 56.7 | 122 | 43.3 | 16 | 362.0 | 3 |
| Merrill Lynch UK Dynamic | 4.75 | 4.75 | 3.75 | 739.7 | 29.7 | 20 | 57.9 | 3 | 86.7 | 21 | - | - | - | - |
| Newton Income | 3.5 | 3.5 | 2.5 | 1119.3 | 21.6 | 168 | 35.3 | 131 | 59.1 | 95 | 17.6 | 34 | 153.2 | 16 |
| Old Mutual UK Select Mid Cap | 4 | 4 | 2.5 | 248.6 | 30.5 | 11 | 52.7 | 12 | 102.3 | 6 | - | - | - | - |
| Rathbone Special Situations | 5 | 5 | 4.25 | 204.5 | 21.9 | 151 | 48.0 | 26 | 98.6 | 8 | 102.4 | 1 | 366.1 | 2 |
| Schroder UK Alpha Plus | 5 | 5 | 3.5 | 458 | 24.2 | 71 | 32.8 | 187 | 74.5 | 40 | - | - | - | - |
| Schroder UK Mid250 | 5 | 5 | 3.5 | 1089.2 | 29.6 | 22 | 49.2 | 20 | 96.3 | 11 | 78.2 | 7 | - | - |
| Standard Life UK Opportunities | 4 | 3.75 | 2 | 106.3 | 26.7 | 35 | 47.3 | 30 | - | - | - | - | - | - |
| Sector average and number in sector | | | | | 22.3 | 313 | 35.3 | 302 | 60.1 | 273 | 6.1 | 216 | 116.43 | 216 |
| EQUITY UNITED KINGDOM INCOME | | | | | | | | | | | | | | |
| Artemis Income | 4.75 | 4.75 | 3.75 | 1109.7 | 27.0 | 10 | 44.4 | 8 | 74.4 | 6 | 55.2 | 13 | - | - |
| F&C Stewardship Income | 4.75 | 4.75 | 3.5 | 223.7 | 19.4 | 69 | 38.0 | 37 | 64.8 | 12 | 57.2 | 10 | 133.2 | 28 |
| Framlington Monthly Income | 4.5 | 4.5 | 3 | 220.3 | 28.9 | 5 | 51.0 | 3 | 85.2 | 4 | 20.4 | 42 | 112.9 | 39 |
| Invesco Perpetual High Income | 5 | 5 | 3.75 | 4261.3 | 31.0 | 4 | 50.0 | 4 | 64.3 | 14 | 77.5 | 3 | 236.4 | 4 |
| Jupiter Income | 4.5 | 4.5 | 3.5 | 232.6 | 23.7 | 34 | 40.7 | 20 | 62.0 | 21 | 54.1 | 15 | 248.8 | 2 |
| Liontrust First Income | 4 | 4.25 | 3.25 | 1180 | 20.4 | 60 | 31.3 | 69 | 63.6 | 16 | 73.1 | 5 | 223.0 | 6 |
| Marlborough UK Equity Income | 4 | 4 | 3.25 | 47.6 | 17.1 | 79 | 35.6 | 50 | 71.6 | 7 | 46.1 | 17 | - | - |
| New Star Higher Income | 4.75 | 4.75 | 3.5 | 541.8 | 18.4 | 74 | 32.9 | 59 | 53.4 | 46 | - | - | - | - |
| Rathbone Income | 5 | 5 | 4.25 | 594.9 | 21.8 | 46 | 41 | 18 | 62.3 | 20 | 78.8 | 2 | 252.9 | 1 |
| Schroder Income | 5 | 5 | 3.5 | 841.1 | 24.1 | 28 | 41.5 | 15 | 57.9 | 35 | 59.7 | 9 | 188.3 | 12 |
| Standard Life UK Equity High Income | 3 | 3 | 2.25 | 100.2 | 26.4 | 12 | 46.0 | 6 | 76.6 | 5 | 42.3 | 18 | 143.3 | 22 |
| Sector average and number in sector | | | | | 22.8 | 80 | 37.7 | 77 | 58.82 | 70 | 31.3 | 63 | 138.6 | 63 |
| SMALLER COMPANIES UNITED KINGDOM | | | | | | | | | | | | | | |
| Artemis UK Smaller Companies | 4.5 | 4.5 | 3.5 | 581.4 | 30.4 | 20 | 60.3 | 13 | 114.5 | 9 | 59.2 | 8 | - | - |
| First State British Smaller Companies | 3.5 | 3.5 | 2 | 45.8 | 27.9 | 31 | 54.7 | 19 | 137.0 | 3 | 51.4 | 9 | - | - |
| Framlington UK Smaller Companies | 4.75 | 4.75 | 3.5 | 185.8 | 50.5 | 1 | 82.8 | 1 | 175.1 | 2 | - | - | - | - |
| Marlborough Special Situations | 4 | 4 | 3.25 | 124.8 | 34.5 | 11 | 77.3 | 2 | 193.2 | 1 | 112.4 | 3 | 655.9 | 1 |
| Merrill Lynch UK Smaller Companies | 5 | 5 | 4 | 116.2 | 41 | 3 | 70.0 | 4 | 131.1 | 4 | 65.1 | 6 | 281.2 | 9 |
| UBS UK Smaller Companies | 4 | 4 | 3 | 50.9 | 32.4 | 15 | 67.8 | 5 | - | - | - | - | - | - |
| Sector average and number in sector | | | | | 28.91 | 56 | 48.92 | 56 | 95.78 | 53 | 17.08 | 49 | 190.1 | 49 |
| FIXED INCOME GBP - CORPORATE | | | | | | | | | | | | | | |
| Aegon Extra Income | 4.25 | 4.25 | 3.25 | 283.7 | 9.6 | 17 | 16.4 | 7 | 24.1 | 4 | 45.6 | 5 | - | - |
| Invesco Perpetual Corporate Bond | 5 | 5 | 4 | 1314.1 | 7.9 | 60 | 13.9 | 25 | 28.5 | 2 | 45.6 | 6 | 131.8 | 2 |
| Legal and General Fixed Interest | 3 | 3 | 2 | 1460.1 | 8.0 | 53 | 11.1 | 55 | 16.7 | 38 | 38.6 | 16 | 102.7 | 6 |
| M&G Strategic Bond | 3 | 3 | 2 | 83.3 | 8.3 | 38 | - | - | - | - | - | - | - | - |
| Old Mutual Corporate Bond | 3.35 | 3.35 | 2 | 343.9 | 11.6 | 4 | 14.9 | 14 | 21.1 | 10 | 48.4 | 4 | - | - |
| Royal London Income | 3 | 3 | 2 | 251.2 | 9.8 | 15 | 14.5 | 16 | 20.6 | 13 | 42.6 | 9 | - | - |
| Sector average and number in sector | | | | | 8.0 | 107 | 11.5 | 100 | 16.7 | 75 | 33.6 | 59 | 85.5 | 59 |
| FIXED INCOME GBP HIGH YIELD | | | | | | | | | | | | | | |
| Aegon Optimum Income | 4.25 | 4.25 | 3.25 | 45.3 | 10.5 | 14 | 22.7 | 7 | 39.3 | 14 | - | - | - | - |
| Invesco Perpetual Monthly Income Plus | 5 | 5 | 4 | 764.2 | 13.3 | 5 | 29.5 | 2 | 68.5 | 1 | 44.4 | 6 | - | - |
| Legal and General High Income | 3 | 3 | 2 | 840.4 | 9.0 | 25 | 21.0 | 12 | 43.7 | 10 | - | - | - | - |
| Sector average and number in sector | | | | | 9.34 | 46 | 18.1 | 43 | 34.17 | 40 | 35.33 | 30 | 105.1 | 30 |
| EQUITY EUROPE EX UK | | | | | | | | | | | | | | |
| Artemis European | 4.75 | 4.75 | 3.75 | 796.3 | 38.0 | 5 | 64.7 | 4 | 115.0 | 1 | - | - | - | - |
| Fidelity European | 3 | 3 | 2 | 3390 | 37.0 | 6 | 63.3 | 5 | 112.2 | 2 | 73.4 | 2 | 391.4 | 1 |
| Jupiter European Special Situations | 4.75 | 4.75 | 3.75 | 242 | 34.9 | 11 | 67.6 | 3 | 100.8 | 5 | 31.9 | 3 | - | - |
| Jupiter European | 4.5 | 4.5 | 3.5 | 1048 | 24.0 | 74 | 45.3 | 30 | 76.8 | 25 | 18.8 | 5 | 286.5 | 2 |
| New Star European Growth | 4.75 | 4.75 | 3.5 | 633.8 | 26.9 | 40 | 52.5 | 13 | 95.6 | 7 | - | - | - | - |
| Sector average and number in sector | | | | | 27.2 | 101 | 42.6 | 99 | 73.7 | 89 | -1.8 | 72 | 149.3 | 72 |

| | Direct Lump Sum ISA Discount (Transfer) [†] | Chelsea Portfolio Lump Sum ISA Discount [†] | Lump Sum Unit Trust Discount [^] | Fund size [*] | 1 YEAR | | 2 YEAR | | 3 YEAR | | 5 YEAR | | 10 YEAR | |
|--|--|--|---|------------------------|-------------|-----------|-------------|-----------|-------------|-----------|--------------|-----------|--------------|-----------|
| | | | | | % Growth | Position | % Growth | Position | % Growth | Position | % Growth | Position | % Growth | Position |
| EQUITY JAPAN | | | | | | | | | | | | | | |
| Fidelity Japan Special Situations | 3 | 3 | 2 | 154 | 26.6 | 6 | 40.9 | 4 | 59.4 | 6 | -21.7 | 8 | 59.7 | 1 |
| JPM Japan A | 5.5 | 5.5 | 4 | 303.7 | 23.5 | 19 | 23.2 | 21 | 45.2 | 13 | -29.3 | 27 | 41.3 | 3 |
| Legg Mason Japan Equity | 4.25 | 4.25 | 3.25 | 188.4 | 22.9 | 23 | 73.3 | 1 | 110.1 | 2 | 11.8 | 1 | - | - |
| Sector average and number in sector | | | | | 21.4 | 61 | 23.0 | 59 | 41.5 | 56 | -26.8 | 48 | -0.0 | 48 |
| EQUITY NORTH AMERICA | | | | | | | | | | | | | | |
| GAM North American | N/A | N/A | 2 | 193.6 | 14.1 | 35 | 11.7 | 40 | 29.3 | 27 | 16.5 | 2 | 215.3 | 3 |
| Gartmore US Focus | 4.75 | 4.75 | 3.75 | 45.5 | 20.3 | 3 | 12.5 | 34 | 32.5 | 15 | - | - | - | - |
| Gartmore US Opportunities | 4.75 | 4.75 | 3.75 | 272.5 | 11.8 | 56 | 3.0 | 82 | 30.5 | 19 | -15.9 | 7 | - | - |
| Legg Mason US Equity | 4.25 | 4.25 | 3.25 | 329.6 | 14.1 | 34 | 10.9 | 43 | 38.7 | 4 | -28.8 | 15 | - | - |
| SG American Growth | 5 | 5 | 3.75 | 76.7 | 13.6 | 37 | 16.4 | 18 | 31.5 | 18 | - | - | - | - |
| UBS US Equity | 4 | 4 | 3 | 145.5 | 15.3 | 29 | 18.6 | 11 | - | - | - | - | - | - |
| Sector average and number in sector | | | | | 12.9 | 91 | 11.1 | 88 | 27.4 | 77 | -34.8 | 64 | 91.9 | 64 |
| EQUITY ASIA PACIFIC EX JAPAN | | | | | | | | | | | | | | |
| Aberdeen Far East Emerging Economies | 4 | 4 | 3 | 717 | 29.1 | 30 | 52.1 | 2 | 89.0 | 4 | 88.5 | 3 | 69.7 | 8 |
| First State Asia Pacific Leaders | 3.5 | 3.5 | 2.5 | 358.4 | 33.6 | 5 | - | - | - | - | - | - | - | - |
| Lincoln Far East | 5 | 5 | 2 | 319 | 23.8 | 51 | 46.6 | 10 | 82.2 | 7 | 93.8 | 2 | 31.9 | 14 |
| Sector average and number in sector | | | | | 26.1 | 64 | 37.3 | 58 | 67.8 | 56 | 31.2 | 52 | 34.7 | 52 |
| ASSET ALLOCATION UK NEUTRAL | | | | | | | | | | | | | | |
| Gartmore Cautious Managed | 4.75 | 4.75 | 3.75 | 206 | 16.4 | 6 | 26.1 | 8 | - | - | - | - | - | - |
| Investec Cautious Managed | 4 | 4 | 3 | 621.4 | 14.9 | 19 | 23.0 | 18 | 45.4 | 3 | 42.6 | 1 | 135.3 | 2 |
| Sector average and number in sector | | | | | 13.3 | 53 | 21.6 | 41 | 33.7 | 29 | 22.4 | 20 | 107.3 | 20 |
| ASSET ALLOCATION GLOBAL FLEXIBLE | | | | | | | | | | | | | | |
| M&G Managed Growth | 3 | 3 | 2 | 597.6 | 32.0 | 7 | 51.3 | 4 | 84.3 | 5 | 9.8 | 10 | 109.9 | 5 |
| Sector average and number in sector | | | | | 20.9 | 98 | 29.5 | 87 | 49.4 | 75 | -2.7 | 59 | 75.7 | 59 |
| MISCELLANEOUS** | | | | | | | | | | | | | | |
| Aegon Global Income | 4.25 | 4.25 | 3.25 | 47 | 11.3 | - | - | - | - | - | - | - | - | - |
| Allianz Gilt Yield | 3.5 | 3.5 | 2.5 | 188.9 | 8.1 | - | 11.6 | - | 12.7 | - | 27.7 | - | 90.6 | - |
| Artemis New Enterprises | 4.75 | 4.75 | 3.75 | 44.6 | 13.1 | - | 28.1 | - | 112.8 | - | -35.9 | - | - | - |
| F&C Progressive Growth | 4.75 | 4.75 | 3 | 35.4 | 11.6 | - | 25.5 | - | 52.0 | - | - | - | - | - |
| First State Greater China Growth | 3.5 | 3.5 | 2.5 | 57.2 | 21.9 | - | - | - | - | - | - | - | - | - |
| Framlington Biotechnology | 4.5 | 4.5 | 3.5 | 53.9 | 14.8 | - | 3.7 | - | 71.7 | - | - | - | - | - |
| Framlington Health | 4.75 | 4.75 | 3.5 | 441.6 | 15.8 | - | 12.2 | - | 53.2 | - | -32.2 | - | 231.4 | - |
| Gartmore China Opportunities | 4.75 | 4.75 | 3.75 | 137.8 | 13.0 | - | 41.4 | - | 105.6 | - | 47.1 | - | 80.9 | - |
| JPM Emerging Markets | 5 | 5 | 4 | 102.8 | 55.4 | - | 84.3 | - | 136.3 | - | 65.6 | - | 88 | - |
| JPM Natural Resources | 5 | 5 | 4 | 446.3 | 55.3 | - | 101.0 | - | 210.7 | - | 278.5 | - | 220 | - |
| Jupiter Emerging European Opportunities | 5 | 5 | 3.5 | 264 | 65.4 | - | 123.7 | - | 237.4 | - | - | - | - | - |
| Jupiter Financial Opportunities | 4.75 | 4.75 | 3.5 | 556 | 32.8 | - | 51.3 | - | 93.1 | - | 89.4 | - | - | - |
| Lazard Emerging Markets | 3.25 | 3.25 | 2.25 | 42.5 | 52.0 | - | 81.9 | - | 135.9 | - | 76.0 | - | - | - |
| Merrill Lynch Gold and General | 4.75 | 4.75 | 4 | 469.5 | 23.6 | - | 13.8 | - | 58.0 | - | 274.7 | - | 133.3 | - |
| New Star Global Financials | 4.75 | 4.75 | 3.75 | 36.2 | 48.1 | - | 74.3 | - | 114.9 | - | - | - | - | - |
| Threadneedle Latin America | 3.5 | 3.5 | 2.25 | 701 | 72.7 | - | 108.6 | - | 198.3 | - | 93.4 | - | - | - |

*Fund sizes (£m) are collected one month in arrears

** Position in sector omitted due to insufficient sector size

Discounts on transfers are the same for ISAs unless otherwise stated

CB Cashback (not available via The Chelsea Portfolio / Cofunds)

^ Discounts applicable to investments of £2000 and above

Source: Financial Express Analytics, October 2005

Whilst every effort has been made to ensure the accuracy of this information, including discounts, Chelsea Financial Services take no responsibility for any errors, omissions or inaccuracies contained therein. Past performance is not a guide to the future.

Please read the Important Notice on page 2.

Key Features and Terms and Conditions of the Sterling Investment Bond

This Key Features gives you the main points about the Sterling Investment Bond provided by Zurich Assurance Ltd. Please read this Key Features document and keep it with your investment bond documents in a safe place.

Its aims

- To increase the value of the money you invest.
- To let you take money out of the investment bond if you choose, either as one-off payments or as regular withdrawals.
- To allow you to choose from a range of funds to match your investment objectives.
- To pay a cash sum when you die.

Your commitment

- To invest a single payment of at least £5,000.
- To consider your investment bond as a medium- to long-term investment for five years or longer.
- Your investment bond has no fixed term.

Risk factors

- What you get back when you cash in the investment bond isn't guaranteed. It will depend on investment performance.
- Past performance is not a guarantee of future performance.
- When you cash in the investment bond, you may get back less if:
 - investment growth is lower than illustrated
 - charges increase above those illustrated
 - you take more money out of your investment bond than illustrated.
- If you cash in or make a one-off withdrawal from your investment bond in the first five years, we may apply an early cash-in charge. This will reduce the amount you get back.
- If withdrawals are greater than investment growth this will reduce the value of the investment bond.
- If you cancel your investment bond within the 30 days allowed, you may get back less than you paid in.
- The level of risk and investment performance differs depending on the funds you choose. Please see the 'Where is my payment invested?' section for more information.

Questions and answers

What is a Sterling Investment Bond?

It's an investment that aims to increase the value of the money you invest. It also gives you some life insurance cover.

You can take out an investment bond for yourself or jointly for yourself and someone else.

You can use the investment bond to offset inheritance tax. Your adviser can tell you how to do this.

You can set up your investment bond in trust for other people; for example your children or grandchildren. Ask your adviser about our standard trusts.

The investment bond may be suitable for trustees of existing trusts.

How flexible is it?

You can make extra payments into your investment bond at any time. The current minimum amount you must pay is £1,000 but we may change this in the future.

You can cash in your investment bond at any time. You can take money out of your investment bond at any time or set up regular withdrawals. You can change the amount or frequency of your regular withdrawals or stop them, at any time.

You can invest in a number of funds, from different fund management groups, that invest in the world's major stock markets, to match your investment objectives.

What might I get back?

What you get back depends on the value of your investment bond when you decide to cash it in. The amount is not guaranteed. The value of your investment bond depends on:

- how much you invest
- how long your money is invested
- how well the investment funds you choose perform
- how much money you take out
- charges.

Can I take money out?

You can take money out regularly or make one-off withdrawals at any time. We'll normally pay these directly into your bank or building society account. But be aware that taking money out of your investment bond will affect what you get back in

the future. Taking regular withdrawals which are more than the growth of the investment bond will reduce its value.

You tell us which date you want us to make the withdrawal. You can set up regular cash withdrawals to be paid monthly, quarterly, four-monthly, half-yearly or yearly. We'll pay these directly into your bank or building society account. It can take up to 4 working days for the payment to reach your account. If the investment bond is held by trustees, we'll make payments into their bank or building society account.

For regular withdrawals you can choose from the following:

- a fixed cash amount
- a fixed percentage of the fund value
- a fixed cash amount that will increase automatically by a fixed percentage or in line with the National Average Earnings Index or the Retail Prices Index.

The maximum regular withdrawal each year is currently 7.5% of the value of the investment bond at the time you take a withdrawal. Each regular withdrawal you take must be at least £50. The minimum amount you can leave in your investment bond is currently £1,000.

Where is my payment invested?

We invest your payment in the funds you choose. We currently offer 123 unit-linked funds for you to choose from. As well as the 35 funds managed on our behalf by our primary fund manager, Threadneedle, we offer 88 funds where other fund managers manage the investments. The investment objective of each fund is available in the Investment Funds Guide which is available from your adviser, from our website www.sterling-assurance.co.uk or on request from us.

Certain funds carry more risk than others because they specialise in or concentrate in specific regions or sectors (such as smaller companies or emerging markets) which can result in greater price changes. If you choose a fund that invests in overseas stock markets, changes in exchange rates between currencies may cause the value of your investment to rise or fall.

The interest rate on corporate bonds, government bonds and gilt funds won't increase in line with inflation. So, over time the real value of the income they produce is likely to fall.

High yield bond funds tend to invest in high yielding corporate bonds, which are generally higher risk investments. The financial solvency of companies issuing such bonds can't be guaranteed and if these companies are unable to meet their financial obligations, it would reduce the fund's value.

Where a fund invests in land or buildings, the value of that property is determined by an independent valuer and is a matter of opinion rather than fact. In exceptional circumstances there may be a delay of up to six months in cashing in all or part of an investment if property is not readily saleable.

Over time a fund which invests totally in equities is likely to offer greater potential for higher returns, but with it greater volatility. A fund classed as a 'protected' fund, or one with a high proportion of fixed interest, is likely to offer lower potential for returns and lower volatility. Long-term investment in funds fully invested in fixed interest may result in a lower return than a building society deposit account. For this reason, these funds are more suited to short-term investment or as part of a personalised portfolio.

The protected funds

- The protected profits funds combine the returns from a range of equity funds chosen by the managers and a cash fund, with a promise its unit price won't fall below 80% of the highest-ever price (rounded down to the nearest 0.1p).
- Once charges are taken into account, you may get back less than the 80% of your investment in the protected profits funds.
- A large fall in the stock market may mean a large part of the protected profits funds would be invested in cash. If the stock market then recovers, you may not fully benefit as you would have if you'd directly invested in the stock market.

- In some circumstances the liabilities of the protected funds are met by another company. If that company is unable to meet its liabilities, the level of protection is at risk. The protection may also be at risk in extreme market conditions if we're unable to buy or sell enough investments within the fund, or if there are large cashflows into or out of the funds.

For more information on the protected profits funds, please see the 'Protected Profits funds summary' section.

For more information on the protected funds from Close please see the Investment Funds Guide, which is available from your adviser.

Unit linking

- Your payment will buy units in the fund or funds you choose. The value of the units will rise and fall depending on the investment performance of the fund.
- The price of one unit in each fund depends on the value of the investments the fund manager buys.
- We work out the value of your investment bond based on the total number of units you own in each fund. If the unit prices rise or fall, so will your investment bond value.

Currently we don't usually make a charge if you switch between funds. If in future we decide to charge, we'll tell you. However, if you do make a switch and this results in a significant cost to investors, we reserve the right to take this from your investment. We do this to protect the interests of the remaining investors. See the Sterling Investment Bond Terms and Conditions for more information on switching between funds.

We offer a 'phased investment' option which allows your investment to be 'drip-fed' into your chosen funds over a period of time. With this option, initially one sixth of your investment will be allocated to the funds of your choice. The rest will be allocated to the UK Money Securities Fund and switched into your chosen funds over the next five months.

Please speak to your adviser about whether the phased investment option is right for you.

What happens to the investment bond if I die?

We'll pay out 100.1% of your investment bond's value, or your total payment less any withdrawals, whichever is higher when the life insured dies.

If the investment bond is in more than one name, we'll pay the lump sum when the last person dies. If the investment bond is in trust, we'll pay the lump sum to the trustees.

At least one life insured must be aged 79 or less.

What are the charges?

We charge you for managing your investment bond and the investment funds. We take charges from your investment and fund value.

Some of the funds have an extra yearly charge.

There are also expenses (fund expenses) associated with managing and administering the funds and their investments. The figures in the following tables are based on what we've taken from the fund in the past – they're not fixed and could be more or less than this.

On a day when you cash in all or part of your investment bond, more money may be moving out of the fund (or any of the funds it invests in) than into it. In this case some of the assets of the fund (or funds) will have to be sold and we may reduce the value of your investment bond to reflect the costs and charges associated with selling those assets.

| Fund | Extra yearly charges and fund expenses % |
|-------------------------------|--|
| 7IM Moderately Cautious | 0.960 |
| 7IM Balanced | 0.990 |
| 7IM Moderately Adventurous | 1.070 |
| 7IM Adventurous | 1.130 |
| Artemis Capital | 0.990 |
| Artemis Income | 0.805 |
| Artemis UK Growth | 0.980 |
| Artemis UK Smaller Companies | 0.940 |
| Artemis UK Special Situations | 0.940 |
| Baring UK Growth | 1.060 |
| Britannic Corporate Bond | 0.670 |
| Britannic UK Property | 1.080 |

| Fund | Extra yearly charges and fund expenses % |
|--|--|
| Cazenove UK Dynamic | 0.850 |
| Cazenove UK Growth & Income | 0.850 |
| Close UK Escalator | 0.680 |
| Close UK Escalator Plus | 0.560 |
| DWS Managed | 0.990 |
| DWS UK Equity Income Plus | 0.860 |
| DWS UK Growth | 0.820 |
| Fidelity American | 1.110 |
| Fidelity European | 1.070 |
| Fidelity Managed International | 1.170 |
| Fidelity Moneybuilder Income | 0.690 |
| Fidelity Special Situations | 1.160 |
| Fidelity Wealthbuilder | 1.080 |
| First State Asia Pacific Leaders | 0.870 |
| First State Global Opportunities | 1.300 |
| Framlington Health | 1.160 |
| Framlington Managed | 0.760 |
| Framlington Monthly Income | 0.950 |
| Framlington NetNet | 2.470 |
| Framlington UK Select Opportunities | 0.940 |
| Framlington UK Smaller Companies | 0.900 |
| Gartmore Cautious Managed | 0.920 |
| Gartmore China Opportunities | 1.130 |
| Gartmore European Selected Opportunities | 1.120 |
| Gartmore Managed | 0.980 |
| Gartmore UK Focus | 1.200 |
| Gartmore US Opportunities | 1.110 |
| Henderson Industries of the Future | 0.920 |
| Henderson Global Technology | 1.040 |
| Henderson Managed | 0.850 |
| Henderson Preference & Bond | 0.560 |
| HSBC Managed | 0.560 |
| HSBC UK Growth & Income | 0.780 |
| INVESCO Perpetual Corporate Bond | 0.740 |
| INVESCO Perpetual European Growth | 0.970 |
| INVESCO Perpetual High Income | 0.800 |
| INVESCO Perpetual Income | 0.770 |
| INVESCO Perpetual International Equity | 0.890 |
| INVESCO Perpetual Japanese Smaller Companies | 1.110 |
| INVESCO Perpetual Managed | 0.940 |
| Investec Cautious Managed | 0.895 |
| JPMF Japan Growth | 1.100 |
| JPMF Natural Resources | 1.060 |
| JPMF Premier Equity Growth | 1.120 |
| Jupiter Distribution | 0.820 |
| Jupiter High Income | 1.200 |
| Jupiter Income | 1.090 |
| Jupiter Undervalued Assets | 1.120 |
| Jupiter UK Growth | 1.190 |
| Legg Mason US Equity | 1.070 |
| Liontrust Distribution | 0.750 |
| Liontrust First Income | 0.810 |
| Merrill Lynch Global Titans | 1.110 |
| Merrill Lynch Balanced Portfolio | 0.850 |
| Merrill Lynch UK Dynamic | 0.840 |
| New Star Higher Income | 1.110 |
| New Star High Yield Bond | 0.860 |
| New Star Managed Distribution | 0.950 |
| New Star Property | 1.050 |
| New Star Sterling Bond | 0.750 |
| New Star UK Alpha | 1.150 |
| New Star UK Growth | 1.250 |
| Newton Continental European | 0.700 |
| Newton Higher Income | 0.540 |
| Newton Managed | 0.560 |
| Norwich Property Trust | 0.860 |
| Rathbone Income | 0.950 |
| Rathbone Special Situations | 1.150 |
| Schroder Gilt & Fixed Interest | 0.430 |
| Schroder Managed Balanced | 0.520 |
| Schroder Pacific | 1.070 |
| Schroder UK Mid 250 | 0.830 |
| SG Sterling Bond | 0.380 |
| Protected Profits funds | |
| Multimanager Protected Profits | 0.850 |
| Protected Profits | 0.625 |
| Tracker Protected Profits | 0.580 |
| Funds managed by Threadneedle | |
| American Growth | 0.129 |
| American Select Growth | 0.132 |
| American Smaller Companies Growth | 0.153 |
| Asia Growth | 0.169 |
| Defensive | 0.305 |
| Defensive Equity & Bond | 0.295 |
| Emerging Market Bond | 0.247 |
| Equity & Bond | 0.260 |
| European Bond | 0.259 |
| European Growth | 0.142 |
| European Select Growth | 0.142 |
| European Smaller Companies Growth | 0.157 |
| Far East & Japan Growth | 0.162 |
| Global Bond | 0.147 |
| Global Equity | 0.305 |
| Global Equity & Bond | 0.295 |
| Global Select Growth | 0.237 |
| High Yield Bond | 0.140 |
| Japan Growth | 0.151 |
| Japan Smaller Companies Growth | 0.175 |
| Latin America Growth | 0.157 |
| Managed | 0.294 |
| Managed Income | 0.294 |
| Monthly Extra Income | 0.179 |
| Property | 0.272 |
| Sterling Bond | 0.223 |
| Strategic Bond | 0.139 |
| UK Corporate Bond | 0.135 |
| UK Equity Income | 0.073 |
| UK Growth | 0.067 |
| UK Growth & Income | 0.070 |
| UK Money Securities | 0.148 |
| UK Monthly Income | 0.156 |
| UK Select Growth | 0.078 |
| UK Smaller Companies Growth | 0.086 |

All figures as at August 2005.

Example Illustration – High allocation version

The following tables show the effect of charges and expenses on an initial investment of £25,000 for a life insured aged 70 or less, into one of the following property funds through the Sterling Investment Bond – Britannic UK Property, New Star Property, Norwich Property Trust or Property.

These figures are in no way guaranteed and serve only to illustrate the effect of the charges and expenses.

For an investment of £25,000, assuming different yearly growth rates, the future value of your investment could be:

| Britannic UK Property Fund | Investment growth rates | | |
|------------------------------|-------------------------|---------|---------|
| | 4% | 6% | 8% |
| Cash-in value after 10 years | £31,100 | £37,600 | £45,300 |

| New Star Property Fund | Investment growth rates | | |
|------------------------------|-------------------------|---------|---------|
| | 4% | 6% | 8% |
| Cash-in value after 10 years | £31,200 | £37,700 | £45,500 |

| Norwich Property Trust Fund | Investment growth rates | | |
|------------------------------|-------------------------|---------|---------|
| | 4% | 6% | 8% |
| Cash-in value after 10 years | £31,800 | £38,400 | £46,300 |

| Property Fund | Investment growth rates | | |
|------------------------------|-------------------------|---------|---------|
| | 4% | 6% | 8% |
| Cash-in value after 10 years | £33,700 | £40,800 | £49,200 |

- Your Investment Bond has no fixed end date.
- The figures are only examples and aren't guaranteed – they're not minimum or maximum amounts. What you'll get back depends on how your investments grow and the tax treatment of the investment.
- You could get back more or less than this.
- All firms use the same rates of growth for projections but their charges vary.
- Don't forget that inflation would reduce what you could buy in the future with the amounts shown.

How will charges and expenses affect my investment?

Warning – If you cash in during the early years you could get back less than you've paid in. The last two columns in the table assume that investments will grow at 6% a year.

Britannic UK Property Fund

| At the end of year | Total paid in to date | Effect of deductions to date | What you might get back |
|--------------------|-----------------------|------------------------------|-------------------------|
| | £ | £ | £ |
| 1 | 25,000 | 1,270 | 25,200 |
| 2 | 25,000 | 1,460 | 26,600 |
| 3 | 25,000 | 1,690 | 28,000 |
| 4 | 25,000 | 1,940 | 29,600 |
| 5 | 25,000 | 2,230 | 31,200 |
| 10 | 25,000 | 7,120 | 37,600 |

What are the deductions for?

- The deductions include the cost of any commission, expenses, charges and cash in reductions.
- The last line in the table above shows that over 10 years the effect of deductions could amount to £7,120.
- Putting it another way, this would have the same effect as bringing the investment growth from 6% a year down to 4.2% a year.
- At earlier years the deductions would reduce the yearly investment growth from 6% a year down to 4.0% at the end of year 3, to 4.5% at the end of year 5 and to 4.2% at the end of year 10.

New Star Property Fund

| At the end of year | Total paid in to date | Effect of deductions to date | What you might get back |
|--------------------|-----------------------|------------------------------|-------------------------|
| | £ | £ | £ |
| 1 | 25,000 | 1,260 | 25,200 |
| 2 | 25,000 | 1,450 | 26,600 |
| 3 | 25,000 | 1,660 | 28,100 |
| 4 | 25,000 | 1,910 | 29,600 |
| 5 | 25,000 | 2,190 | 31,200 |
| 10 | 25,000 | 7,010 | 37,700 |

What are the deductions for?

- The deductions include the cost of any commission, expenses, charges and cash in reductions.
- The last line in the table above shows that over 10 years the effect of deductions could amount to £7,010.

- Putting it another way, this would have the same effect as bringing the investment growth from 6% a year down to 4.2% a year.
- At earlier years the deductions would reduce the yearly investment growth from 6% a year down to 4.0% at the end of year 3, to 4.6% at the end of year 5 and to 4.2% at the end of year 10.

Norwich Property Trust Fund

| At the end of year | Total paid in to date | Effect of deductions to date | What you might get back |
|--------------------|-----------------------|------------------------------|-------------------------|
| | £ | £ | £ |
| 1 | 25,000 | 1,220 | 25,200 |
| 2 | 25,000 | 1,350 | 26,700 |
| 3 | 25,000 | 1,500 | 28,200 |
| 4 | 25,000 | 1,680 | 29,800 |
| 5 | 25,000 | 1,890 | 31,500 |
| 10 | 25,000 | 6,280 | 38,400 |

What are the deductions for?

- The deductions include the cost of any commission, expenses, charges and cash in reductions.
- The last line in the table above shows that over 10 years the effect of deductions could amount to £6,280.
- Putting it another way, this would have the same effect as bringing the investment growth from 6% a year down to 4.4% a year.
- At earlier years the deductions would reduce the yearly investment growth from 6% a year down to 4.2% at the end of year 3, to 4.8% at the end of year 5 and to 4.4% at the end of year 10.

Property Fund

| At the end of year | Total paid in to date | Effect of deductions to date | What you might get back |
|--------------------|-----------------------|------------------------------|-------------------------|
| | £ | £ | £ |
| 1 | 25,000 | 1,070 | 25,400 |
| 2 | 25,000 | 1,030 | 27,000 |
| 3 | 25,000 | 1,000 | 28,700 |
| 4 | 25,000 | 972 | 30,500 |
| 5 | 25,000 | 951 | 32,500 |
| 10 | 25,000 | 3,950 | 40,800 |

What are the deductions for?

- The deductions include the cost of any commission, expenses, charges and cash in reductions.
- The last line in the table above shows that over 10 years the effect of deductions could amount to £3,950.
- Putting it another way, this would have the same effect as bringing the investment growth from 6% a year down to 5.0% a year.
- At earlier years the deductions would reduce the yearly investment growth from 6% a year down to 4.8% at the end of year 3, to 5.4% at the end of year 5 and to 5.0% at the end of year 10.

What are the charges?

The charges cover the cost of expenses in managing your Investment Bond, including any commission we pay to your adviser, any reduction to your cash-in value and our profit.

- When you invest in funds you buy units at the buying price. When you cash in you'll get the selling price. The difference between the buying and selling prices is 5.00%, which represents our initial charge.
- We invest an amount equal to 111.75% of your payment, our initial charge will reduce this to 106.162%.
- We take 1.00% of the value of your fund each year. This is reflected in the unit prices.
- We take 0.50% of the Investment Bond value each year during the first 5 years. We'll take this by cashing in the required number of units every month.
- Some of the funds have an extra management charge. There are also expenses (fund expenses) associated with managing and administering the funds and their investments. These charges and expenses are taken from the fund and reflected in the unit prices. The fund expenses vary from day to day. Whilst we pass these on to you, we may meet some ourselves and where we do we decide how much. We'll review this from time to time. The figures in the following table are based on what we've taken from the fund in the past – they're not fixed and could be more or less than this.

| Fund | Total yearly charges and fund expenses |
|------------------------|--|
| Britannic UK Property | 1.08% |
| New Star Property | 1.05% |
| Norwich Property Trust | 0.86% |
| Property | 0.27% |

- If you cash in your Investment Bond within the first 5 years we'll reduce the cash-in value. The reduction will be 9.00% in the first year, 8.00% in the second year and will then reduce by 2.00% for each year that you keep the Investment Bond. This charge won't apply after the fifth year.

The charges could change in the future.

How much will the advice cost?

The amount will depend on the size of your payment.

For arranging this Investment Bond, we'll pay commission to your adviser as follows:

- £500 immediately
- This will be paid out of, and is not additional to, the Investment Bond charges.

What about tax?

Currently we pay tax on income and gains and we make an allowance for this in the price of the units. Under current UK legislation you won't have to pay lower or basic rate income tax or capital gains tax on your investment but you can't reclaim any of the tax paid by us.

If you are, or become, a higher rate taxpayer, you may have to pay tax on any profit you make when you cash in your investment bond or on death. Similarly, higher rate taxpayers may pay tax on any amount withdrawn if the amount exceeds a cumulative yearly allowance of 5% of the amount invested. In these circumstances, we'll write to you and we may notify the UK Inland Revenue.

Taking any money from your investment bond could affect any children's tax credit or, if you are aged 65 or over, any age allowance you're entitled to.

On death, there may be a liability to UK inheritance tax, depending on the value of your estate. If the investment bond is held by trustees, different taxation rules may apply.

We've based this information on our understanding of current UK law and Inland Revenue practice. Future changes in law and tax or in your own circumstances could affect how much tax you pay.

Can I change my mind?

You can change your mind within 30 days from when you get your investment bond documents. Other documents we send you at the time explain how to cancel and when the 30 day period starts and ends.

If you decide, for any reason, that you don't want your investment bond we'll give you your money back. If the value of your investment bond has fallen, you'll get back the payment less any fall in your investment bond's value in this period.

How will I know how my investment bond is doing?

We'll send you a statement each year to show the current value of your investment bond.

You can check our website www.sterling-assurance.co.uk to see how your funds are performing.

You can also ask your adviser for an up-to-date valuation at any time or call Customer Services at Sterling on 0870 909 6010.

Other information

How to complain

If you ever need to complain, see the 'How to contact us' section. We'll do all we can to resolve the problem and you can get details of our complaints handling process on request. If you're not satisfied with our response, you can complain to:

Financial Ombudsman Service, South Quay Plaza, 183 Marsh Wall, London E14 9SR

Complaining to the Ombudsman won't affect your legal rights.

If you are an intermediate customer or market counterparty, your right to complain to the Ombudsman may not apply. Examples of intermediate customers are listed companies, local authorities, large partnerships or trusts. Examples of market counterparties are national governments, banks, regulated financial firms or State bodies.

Law

The law and courts of England and Wales will decide any dispute.

Compensation

Your adviser will recommend products that are suitable for your needs. You have a legal right to compensation if, at any time, an authority decides that a recommendation was unsuitable when it was made.

If we're unable to meet our financial obligations in full you may be entitled to help from the Financial Services Compensation Scheme (FSCS). The amount of compensation you'll receive will be based on the Scheme rules. If you need more information you can contact the FSCS helpline on 020 7892 7300 or visit their website at www.fscs.org.uk.

To qualify for compensation you need to be eligible within the FSCS rules. In general this means that you should be a private individual, although small businesses are also covered in some circumstances.

If you'd like more information about compensation, please contact us and ask for our Compliance Officer.

Protected Profits funds summary

This section explains how our Protected Profits funds work. It describes the benefits and risks you should know before deciding to invest. If you're still unsure whether one of the funds is suitable for you after reading this, you should speak to your adviser or contact us.

Who invests in the Protected Profits funds

The funds protect your investment from some of the effects of stock market falls and so they tend to appeal to the more cautious investor. Alternatively, they may appeal to those looking to balance their portfolio of funds by including a Protected Profits fund as one fund in a range of funds. For example, if you choose to invest in a number of more risky funds, one of the Protected Profits funds may add some stability to your overall portfolio.

How and where we invest your money

We pool the money you invest with other investors' money in your chosen Protected Profits fund. This combined money is then used to achieve returns from a mix of equities and cash.

We invest the Sterling Protected Profits Fund in a range of Threadneedle equity funds and a Barclays Global Investors cash fund.

We invest the Sterling Multimanager Protected Profits Fund in a range of equity funds managed by different fund managers and a Barclays Global Investors Cash Fund.

We invest the Sterling Tracker Protected Profits Fund in a range of HSBC equity tracker funds and a Barclays Global Investors cash fund.

More information about where the funds invest is available from your adviser or us.

How your money is protected

- More of the fund is linked to equities when the stock market is performing well and less when the stock market is lower.

The balance between equities and cash may change daily. We use a prescribed formula, which is available on request.

- If the value of a Protected Profits fund has gone up, more is linked to equities, giving it greater potential for growth.
- If its value has gone down, more is linked to cash, giving it greater stability.

Depending on stock markets and how close a fund is to its protected price, between zero and 70% will be linked to the equity funds.

Equities in this context are funds that hold a high proportion of shares. They are considered 'risky' because they're much more sensitive to stock market movements than other types of investment, such as cash and bonds. This means their performance can be volatile, giving them the potential to give high returns, but also low returns when stock markets are low.

Cash is known for its stability and is considered a 'secure' investment. This is because an investment in cash, such as a bank account or cash fund, involves little or no risk at all. However, this security also means there's little or no potential for the higher returns you might get from other types of investment, such as equities.

2. The funds have a 'protected price' that can never fall below 80% of the highest-ever fund price.

When you invest in a fund you buy units in that fund – similar to buying shares in a company. The fund's performance is reflected in the price of these units – known as the fund price.

Unlike our other funds, the Protected Profits funds also have a protected price that will not fall below 80% of the highest-ever fund price (rounded down to the nearest 0.1p). Each time the fund price increases to a new high, the protected price also increases. If the fund price then falls, the protected price remains unchanged.

Put simply, increases in the protected price are locked in and can never be lost – whatever happens to the stock market.

In this context, fund price means selling price.

The protected price in action

This example table shows you how the fund price and protected price of our Protected Profits funds could perform over a six-month period. It also shows you how the split between equities and cash changes as the stock market performance changes.

| | Fund price | Protected price | Equities | Cash |
|------------|------------|-----------------|----------|------|
| 1 January | 110.0p | 88.0p | 64% | 36% |
| 1 February | 109.2p | 88.0p | 63% | 37% |
| 1 March | 110.8p | 88.6p | 65% | 35% |
| 1 April | 112.4p | 89.9p | 67% | 33% |
| 1 May | 111.2p | 89.9p | 66% | 34% |
| 1 June | 112.8p | 90.2p | 67% | 33% |

The cost of protection

This protection carries a cost. If equities fall and don't recover when you cash in, you could lose up to 20% of your investment in the fund, plus the charges we've taken. Alternatively, if equities continually rise and you cash in, you won't get back as much as you would have if you'd simply invested in an equity-based fund.

In extreme market conditions, such as if stock markets fell considerably and didn't recover, we may consider the fund is no longer viable. For example, where the fund becomes all or significantly invested in cash and interest rates are low, and associated charges can no longer be supported. If this happens we'll switch your investment to another fund. We'll write to you then to give you the opportunity to choose your own fund or funds. There's no charge for this fund switch.

In return for your payment, the Investment Bond is a mid to long term investment. The value of the investment isn't guaranteed and its value and any income produced can go down as well as up. Depending on investment conditions at the time the return could be less than the amount invested.

Terms and Conditions

Introduction and definitions

- Your Sterling Investment Bond is a series of 1,000 insurance Policies. Each of these Policies is designed to act as an investment as well as to provide life cover. These Terms and Conditions apply to each Policy.
- We have given special meanings to the words listed below. They have initial capital letters to make them easier to recognise.

Death Benefit

For each Policy, the Death Benefit is the greater of (a) and (b) below.

- The total of:
 - your initial Payment in that Policy
 - any New Payments in that Policy
 - less any regular withdrawals (see 63 to 68) or other partial encashments (see 56 to 62).
- 100.1% of the value of the Policy.

Investment Bond Schedule

The document headed 'Investment Bond Schedule' which contains details of your Investment Bond.

Investment Bond Value

The value of your Investment Bond at the relevant time, taking into account, for example, the Payment, New Payments, investment performance, regular withdrawals and partial encashments.

Investment Date

The Investment Date shown on your Investment Bond Schedule.

Life or Lives Insured

The Life or Lives Insured shown on your Investment Bond Schedule.

New Payment

Any sum paid into your Investment Bond after your initial Payment.

Payment

The initial amount paid by you and shown on your Investment Bond Schedule.

Policy

One of the insurance policies which make up your Investment Bond. Your Payment and any New Payments will be divided equally among the individual Policies.

Prepaid Post

Post, sent through a licensed postal operator, for which the appropriate fee has been paid in advance. Delivery by courier is specifically excluded from this definition.

Relevant Day

The working day we receive all our requirements in order to complete the relevant transaction.

Sterling

Zurich Assurance Ltd trading as Sterling. 'We', 'our' or 'us' mean Sterling.

When we refer to 'you' or 'your', we are referring to the owner(s) of the Investment Bond. The initial owner(s) of the Investment Bond, the 'Bondholder', will be named on the Investment Bond Schedule. The Bondholder may be different from the Life or Lives Insured.

If you transfer ownership of the Investment Bond (this is known as 'assigning' it), the person to whom you transfer the Investment Bond will become the Bondholder.

Please keep these Terms and Conditions and your Investment Bond Schedule safe as they will be needed when you make a claim.

Your investment

- Your Investment Bond will begin when Sterling has received a fully completed application form, any further necessary documents and a cheque for the Payment to be invested.
- New Payments can be made at any time, provided that each New Payment exceeds the minimum we set. The minimum at April 2005 is £1,000, but we can increase this if we believe it is necessary because of our commercial interest in not dealing with unreasonably small New Payments. We can decide, at any time, not to accept New Payments.

Funds, and buying and selling units in them

How the Investment Bond works

- This section deals with units and funds (defined below), and the way in which the prices of units are calculated.
- Your Investment Bond is 'unit linked'. This means that your Payment is used to buy 'units' in funds which own assets, and that these units are used to calculate the value of your Investment Bond. They do not give you ownership of any of the underlying assets of the funds.
- Our range of funds and their charges are set out in the Key Features document. The level of charges varies for each fund. Some funds have higher charges than others.
- The funds are set up and maintained by us. We decide which funds are available for the Investment Bond at any particular time, and in what they will be invested. We may create new funds, or close funds to new Payments.
- We may decide to merge two or more funds. If your Investment Bond is invested in one or more of those funds, we will notify you of the proposed change and will switch your units at their selling price, on the relevant date, to units in the merged fund unless you choose to switch your units to another fund. In addition, we may decide to close down a fund. In this case, we will switch your units to another fund or funds of your choice, at their selling price (see 22 to 26). If you do not make a choice, we will switch units at their selling price to the Defensive fund. Where you need to make a choice, we will write to you and give you a reasonable amount of time in which you need to respond. Where we decide to close a Protected Profits fund we will switch any units you have in that fund to the Defensive fund. We will then write to inform you and will give you the opportunity to switch your units in the Defensive fund to another fund or funds of your choice. There will be no charge for this switch.
- In deciding whether to merge funds or to close a fund, we will take into account the continued provision of fund management services by the relevant fund manager, the cost of administering uneconomically small funds and its possible effect on investment returns, and our commercial interest in not dealing with uneconomically small funds.

- You can decide how much of your Payment will go to a particular fund, as long as the amount of your Payment going to that fund is at least the minimum set by us. The current minimum is 1% of any Payment or New Payment. We can increase this if we decide this is necessary because of our commercial interest in avoiding uneconomically small fractions of Payments and New Payments. You may hold units in up to 20 funds at any time.
- The part of any Payment or New Payment that you direct to any particular fund must be a whole percentage.

What are units?

- Units are used to calculate the value of your Investment Bond. They rise or fall in value as the underlying funds do so. The assets of the funds belong to Sterling.
- We can subdivide units. However, this change will not reduce the value of the units in your Investment Bond apart from any 'rounding adjustments' (see 77).

How many units will your Payment buy?

- This will depend on the price you pay for units, and the percentage of your Payment that is used to buy units.
- Your Payment (or New Payment) buys units at their 'buying' price at the price calculated on the Relevant Day. We must have received all our requirements at our Administration Office by 9.30 am on that day. If they are received after that time, the unit price will be that applying on the next working day. We may, acting reasonably, decide that the Relevant Day may be the day the request would have been received in the ordinary course of post, taking into account the day it was posted. The unit price will be that applying on the Relevant Day.
- Your Investment Bond Schedule will say what percentage of your Payment is used to buy units. If you make New Payments, these will be treated separately and a different percentage can be used to buy units (we will tell you what this percentage is at the time).
- The number of units you will buy is calculated as follows:

$$\frac{A \times B}{C}$$
 - A = the Payment or New Payment
 - B = the percentage of the Payment or New Payment that will be used
 - C = the buying price of the units

Valuation of funds and units

- We will normally carry out valuations every working day. However, if we decide that it is impossible or not commercially practicable to do this on a particular day (for example because it would be unreasonably expensive), the relevant valuation will be done when next we decide it would be reasonable. Any transactions due on that day may, at our discretion, be deferred until the relevant valuation has been completed.
- We calculate unit values by using our reasonable opinion of the market value of the assets of the funds. This includes any income accruing to the funds, less any mortgages or other liabilities relating to the investments of the funds, and less fund charges.
- If there is a quoted price for an asset held in a fund, it will usually be treated as the asset's market value, adjusted if necessary to take account of the costs of buying and selling. If the asset is land or a building, the market value will be assessed from time to time by an external valuer. However, the market price may also be adjusted by us between valuations to reflect the income and outgoings of the property and changes in property prices.

'Selling' and 'buying' prices of units

- There are two unit prices. The higher 'buying price' is the price at which you buy units and the lower 'selling price' is the price we pay you when units are cancelled.
- We will decide to calculate either the buying or selling price and then work out the other price. We will decide which price to calculate first by considering a range of things including:
 - whether more money has been invested in, or withdrawn from, the relevant fund on the Relevant Day, and likely trends in this respect
 - whether the maximum buying, or minimum selling, price is being used on the Relevant Day (for further details, see 26)
 - our interest, and that of our policyholders, in avoiding large price fluctuations.
- If the buying price is calculated first, the selling price is worked out by multiplying that price by 95 and dividing by 100. The resulting price is then rounded down to the lower tenth of a penny.

- If the selling price is calculated first, the buying price is worked out by multiplying that price by 100 and dividing by 95. The resulting price is then rounded up to the higher tenth of a penny.
- There will be maximum buying and minimum selling prices:
 - The maximum buying price is calculated using the value of the fund increased to take account of the costs of buying the fund's assets. This is further increased by multiplying by 100 and dividing by 95. The maximum buying price will then be rounded up by not more than 1% or 1p, whichever is the less.
 - The minimum selling price is calculated using the value of the fund reduced to take account of the costs of selling the fund's assets. The minimum selling price will then be rounded down by not more than 1% or 1p, whichever is the less.
 - For a Protected Profits fund, the minimum selling price will be at least 80% of the highest ever selling price, rounded down to the nearest 0.1p.

Fund switching

- You can switch funds by sending to us by Prepaid Post either the Sterling Fund Switch Form, fully completed, or other clear, unambiguous written instructions. Please note we do not accept switch instructions orally, by fax, e-mail or any other method other than as set out above.
- The switch will take place on the Relevant Day if your request is received by 9.30 am on that day. If it is received after that time, the switch will take place on the following working day. We may, acting reasonably, decide that the Relevant Day may be the day the request would have been received in the ordinary course of post taking into account the day it was posted. The unit price will be that applying on the Relevant Day.
- We will process the switch by selling an appropriate number of units on your behalf, at their selling price, and buying new units, for their selling price, in the fund(s) into which the switch is taking place.
- The value of the units to be cancelled, on the Relevant Day, cannot be less than the £100 minimum set in April 2005. We can increase this minimum to keep it at a level we think is appropriate because of our interest in not dealing with unreasonably small fractions of particular funds.
- At April 2005 there is no switch fee. However, we may later decide to take a switch fee. In that case, we will give you three months' notice. The fee will be an amount we consider appropriate taking into account the administrative costs and any other associated expenses directly or indirectly related to the making of fund switches generally.
- In addition to 31 above, there are circumstances where fund-switching activity may result in disadvantage to other policyholders or us. In such circumstances we reserve the right to charge you a specific fee to deter such activity or to take any other reasonable action for the protection of other policyholders and ourselves. You will be told if future switches are to be subject to such a fee and the amount of that fee.
- In deciding the level of the fee in 32, we will take into account the frequency of switches and the period of time during which such frequent switches have been made and any costs and associated expenses directly or indirectly related to them.
- In exercising this discretion, we will consider the fund's dealing costs as a result of the switch; the amount of the switch relative to the size of the fund; the scale of the effect of the switch on the price of the units; the types and location of the assets which need to be disposed of to make the switch; and such other matters as we consider to be relevant taking into account the reasonable expectations of policyholders and our interests.
- If you have invested in any fund that holds significant amounts of property, we may delay a fund switch (see 69 and 70).
- No switch fee will be taken for switches out of the UK Money Securities Fund.

Phased Investment

- If your Investment Bond Schedule indicates that you have chosen the phased investment option, then initially one sixth of your Payment or New Payment will be allocated to the funds of your choice. The rest will be allocated to the UK Money Securities Fund.

- 38 After that –
- one month later we will switch one fifth of the units in the UK Money Securities Fund to the funds of your choice,
 - two months later we will switch one quarter of the remaining units,
 - three months later we will switch one third of the remaining units,
 - four months later we will switch half of the remaining units, and
 - five months later we will switch all of the remaining units in the UK Money Securities Fund to the funds of your choice.
- The funds you choose cannot include the UK Money Securities Fund.
- You cannot change the funds you want to switch into during the phased investment period.
- 39 You can cancel the phased investment option at any time by giving us written instructions. If you do this, units will remain in the UK Money Securities Fund until you switch them to another fund or funds.

Deductions and fees taken out of funds

- 40 We make deductions from funds for expenses. These may include interest on borrowings, and the costs of buying, selling, valuing and managing the assets of the funds, and auditors' and regulators' fees.
- 41 Taxes on the income and capital gains of the fund, and levies, can also be deducted. This is dealt with in 83 to 86.
- 42 There is also an annual fee. The annual fees for all the funds are set out in the Key Features document. The appropriate proportion of this is taken from the funds each time that they are valued. (For details of valuation of funds and units, see 19 to 21.)
- 43 The annual fee can be increased or decreased if we consider it appropriate. The following may be particularly relevant to us:
- a) changes to administrative and legal requirements for life assurance companies, including requirements to keep reserves to meet future liabilities
 - b) increases in our administrative costs, including collecting payments, paying claims and paying financial advisers
 - c) changes in investment conditions and returns on investments
 - d) changes in taxation; or the imposition of any levy on us
 - e) changes in the regulations which apply to relevant advice
 - f) in respect of additional funds, any increases in charges imposed by the relevant fund manager
 - g) changes to any other factors which reduce our profits from life assurance.
- 44 Because it is impossible to foresee all the valid reasons for increasing the annual fee, we can increase this fee for other reasons which we have not specified above.

Early cancellation fees

- 45 Subject to 47, we will charge a fee (the 'Early Cancellation Fee') if you cash in or partially cash in your Investment Bond within five years of making your Payment or a New Payment. (For details of partial encashments, see 56 to 62.) For these purposes, when we refer to a Payment, we mean each Payment, or New Payment, separately.
- 46 The Early Cancellation Fee will be as follows:
- | | |
|------------------|---|
| First year | 9.0% of the value of the units encashed |
| Second year | 8.0% of the value of the units encashed |
| Third year | 6.0% of the value of the units encashed |
| Fourth year | 4.0% of the value of the units encashed |
| Fifth year | 2.0% of the value of the units encashed |
| After five years | None |
- 47 If you have made a Payment and then New Payments, the order in which we treat the Payment and New Payments as being cashed in is important. It can affect the amount of the Early Cancellation Fee and the amount of the administration fee (see 51 and 52).
- 48 Your Payment and New Payments will be treated as being cashed in or partially cashed in on a first in, first out, basis. The value of your Investment Bond will change over time, so we have to identify what part of its value relates to each separate Payment or New Payment. Therefore, each time a New Payment is received we treat the proportion of the value of your Investment Bond attributable to each Payment and New Payment as separate. We call the relevant proportion of the value of your Investment Bond an 'Investment Layer'.

- 49 When a partial encashment takes place, each Investment Layer, or part of an Investment Layer, which is used will first have its share of the early cancellation fee taken from it and then it will be used as far as possible to provide the partial encashment money.
- 50 The Early Cancellation Fee will not be charged where regular withdrawals are taken (see 63 to 68).

Administration fee

- 51 Subject to 47, we will charge a fee (the 'Administration Fee') during the five years following the making of your Payment or New Payment. For these purposes, when we refer to a Payment or New Payment, we mean each Payment or New Payment separately.
- 52 The fee will be calculated on the first working day of each month as one-twelfth of 0.5% of the value of the units in the relevant Investment Layer. The fee will be taken by us by cancelling the appropriate number of units. In each case we will use the selling price of the units for these calculations.

Benefits

- 53 Whenever you take benefits under your Investment Bond, Sterling values the units at the selling price (see 22 to 26). The price will be that calculated on the Relevant Day. We must have received all our requirements at our Administration Office by 9.30 am on that day. If a request is received after that time, the unit price will be that applying at the end of the following working day. We may, acting reasonably, decide that the Relevant Day is the day the request would have been received in the ordinary course of post, taking into account the day it was posted. The unit price will be that applying on the Relevant Day.

Death Benefit

- 54 On the death of the Life Insured, or, for Joint Life Investment Bonds, the death of the last of the Lives Insured to die, we will pay the Death Benefit. The Investment Bond will then end.

Encashment and partial encashments

- 55 A Policy can be cashed in, for its then value, at any time. In certain limited cases, if you have invested in any fund whose value depends substantially on property, we may delay encashment (see 69 and 70).

Partial encashments

- 56 You can take a partial encashment if you ask for the relevant amount in writing.
- 57 We will set a minimum for partial encashments. You will be told this on request. It can be increased at any time if we believe it is not commercially viable to deal with partial encashments of below the increased level.
- 58 We will set a minimum (the current £1,000 minimum was set in April 2005) for the amount you must leave in your Investment Bond. We can increase this minimum, taking account of matters we believe are relevant. The commercial viability, for us, of dealing with Investment Bonds of below a certain value, will be particularly relevant. You will not be allowed to take a partial encashment if this would reduce the value of your Investment Bond to below this minimum.
- 59 If you take a partial encashment, we will cancel units to the value of the partial encashment from all the Policies within your Investment Bond, proportionately from each fund.
- 60 Or, you may, decide to cash in whole Policies to make up the amount you wish to take. If you make this request, whole Policies will be cashed in, and any balancing amount will be taken by cashing in units in the manner described in 59. If you cash in whole Policies, we will take the early cancellation fee only from those Policies to be cashed in. In all other respects 42 to 47 will apply.
- 61 We will cash in enough units to mean that, after we have taken out the relevant fees, you will receive the amount for which you have asked.
- 62 In certain limited cases, if you have invested in any fund whose value depends substantially on property, we may delay a partial encashment (see 69 and 70).

Regular withdrawals

- 63 At any time, you can set up regular withdrawals by asking us in writing and obtaining our written agreement. The minimum (set in April 2005) is £50 for each withdrawal. We can increase this minimum, taking account of matters we believe are relevant. Regular withdrawals are a series of regular automatic partial encashments. Therefore, except where 65, 66 and 67 conflict with the Terms and Conditions for partial encashments, those Terms and

Conditions will also apply. However, the early cancellation fee (see 45 to 50) does not apply to regular withdrawals.

- 64 Rather than taking the money for each regular withdrawal on a first-in, first-out basis, we will cancel units in proportion across all Policies and funds.
- 65 We can set a maximum for regular withdrawals. This is currently 7.5% per year of the Payment, if they are requested when you start your Investment Bond, or 7.5% of the value of the Investment Bond if they are requested afterwards.
- 66 In setting a maximum, we can take account, in particular, of our commercial interest in keeping the amounts invested in individual Investment Bonds at commercially viable levels, and the fact that we do not charge early cancellation fees in respect of regular withdrawals.
- 67 As with ordinary partial encashments, you can take a percentage of the Investment Bond's value or a cash sum. If you ask to take a cash sum, you can also ask to increase it by a given percentage each year as long as it does not exceed the limits explained in 65.
- 68 You may cancel regular withdrawals by writing to Sterling. We will stop your regular withdrawals if your fund value falls below our minimum (set in April 2005) of £1,000. We can increase this minimum, taking account of matters we believe are relevant.

Delaying encashments, partial encashments, regular withdrawals and fund switches

- 69 At some time, you may tell us that you want to make an encashment, partial encashment or fund switch, or a regular withdrawal may be due for payment. If so, and if your Investment Bond contains units in any fund which is invested in significant amounts of property, we may have to sell assets owned by the relevant fund to allow the transaction to take place.
- 70 If we believe it is in most of our policyholders' interests to delay the cancellation of such units to enable better prices to be obtained for the underlying assets of the relevant fund, we can delay the transaction for up to six months. The value of units will be their value when it actually takes place. (For valuation of funds and units, see 19 to 21.)

Claims

- 71 Whenever you wish to take a partial encashment from your Investment Bond or to cash it in fully, you, or the person dealing with the claim if you have died, will need to complete a claim form provided by Sterling, and send us the Investment Bond Schedule.
- 72 You will also need to give us proof of your identity, and satisfactory evidence that you are entitled to claim (for example, a grant of probate showing that you are the executor of the Life Insured's estate). This evidence must be provided at your expense.
- 73 If the Life Insured has, or the Lives Insured have, died, you or the person dealing with the claim must notify us of the death or deaths. We'll calculate the value of units based on their value on the day after we receive notification of the death or deaths. Before we can pay the claim, you or the person dealing with the claim will have to provide proof of the date(s) of birth and the date(s) of death (the death certificate will generally be sufficient) of the Life Insured or Lives Insured.
- 74 We will let you know any other requirements.

General terms

- 75 If you change your address, you must write to Sterling to tell us. For all correspondence we will use the address you put in the application form until we are told otherwise.
- 76 These Terms and Conditions, together with your Investment Bond Schedule, include all the terms of your Investment Bond. Changes can only be made in writing from Sterling. The address is shown in 78.
- 77 If units have to be cancelled, or sub-divided (see 14), the calculation will be made to the lower thousandth of a unit.
- 78 If ownership of the Investment Bond is transferred, we should be informed by a 'Notice of Assignment'. This protects the legal position of the person to whom it is transferred. Notices of Assignment must be given in writing to us at Sterling Centre, PO Box 461, Bishops Cleeve, Cheltenham, Gloucestershire GL52 8ZN, or wherever else Sterling requires. Notices of Assignment must state the date and purpose of the assignment.
- 79 If the currency of the United Kingdom is replaced by the euro, your Investment Bond will continue, subject to any necessary changes brought about by the use of euros.

- 80 We can make changes to the Terms and Conditions of the Investment Bond. We make these decisions having taken advice from the chief actuary. An actuary is a qualified professional who deals with the financial matters related to insurance companies. He (or she) makes mathematical assessments of cost and risks, and uses them to set payments for insurance and pension contracts. In framing this advice, the actuary will act reasonably, having regard to his professional duties, and will balance our interests and the need to treat customers fairly. For example, he may advise of the need to make changes if we or the Investment Bond are affected by any change in law, taxation or any other circumstances which threatens our solvency or makes it impractical or impossible or materially unfair between different policyholders to carry on the Investment Bond in its current form.
- 81 You may not invest in an Investment Bond if you live in, or are a citizen of, the United States of America or Brazil. For a jointly owned Investment Bond, this applies to each Bondholder.
- 82 A person or company who was not a party to this Policy has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Policy but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

Taxes and levies on funds

- 83 Sterling will make deductions from the income of the funds to pay or provide against our actual or potential liability for any relevant tax or levy in respect of income. We will decide how much to deduct.
- 84 We will also make deductions from the funds to pay or provide for our actual or potential liability for any relevant capital tax or capital levy. We will decide whether any tax or levy is relevant and the amount to deduct.
- 85 We can also pay, out of the funds, any levy under the Financial Services Compensation Scheme, or any other levy imposed by legislation or by a regulator.
- 86 When we make a deduction, or payment, under 84 or 85 above, we will decide from which of the funds the deduction or payment should be taken. We will also decide whether, when, and to what extent, this will result in a reduction in the value of funds, units or both.

How to contact us

Your adviser will normally be your first point of contact. We won't be able to give you any financial advice. If you have any questions at any time, you can email or phone us, send a fax or write to us.

To make extra payments, take money out or cash in your investment bond, you or the person dealing with your affairs should contact your adviser or the Sterling Centre at the address given below. We'll tell you what information we need so that we can pay the benefits as quickly as possible.

Email: info@sterling-assurance.co.uk
Phone: 0870 909 6010 Monday to Friday
8am to 6pm

An answerphone is in operation outside office hours.
Fax: 0870 909 6080

Write to: Sterling, Sterling Centre, PO Box 461, Bishops Cleeve, Cheltenham, Gloucestershire GL52 8ZN

We want everyone to find it easy to deal with us. If you need information about our plans and services in a different format, just let us know and we'll provide it.

All our literature is available in large print, Braille and on audio tape or CD.

If you are a textphone user, we can answer any questions you have through a Typetalk Operator. Call us on 18001 0870 909 6010. Or, if you'd prefer, we can introduce your adviser to a sign-language interpreter.

We may record or monitor calls to improve our service.

Key Features of the Cofunds ISA/PEP and Cash Transfer Service

ITS AIMS

- To offer you easy access to the country's leading Fund Managers through one access point.
- To offer you the opportunity to spread your investment risk by providing a diversified choice of investment funds with varying aims and risk profiles.
- To provide you with a tax efficient shelter through ISAs and PEPs where any gain on your investment and income arising from it can be paid free of personal liability to UK Income and Capital Gains Tax
- For the specific aims of each Fund please refer to the Fund Key Features Schedule.

YOUR INVESTMENT

New Investments in an ISA

The minimum lump sum contribution to the Cofunds ISA is £1,000 per fund. If you want to make regular contributions, the minimum monthly contribution payment is £50 per fund by direct debit only. You can invest up to £7,000 in the Cofunds Maxi ISA, or £4,000 in the Cofunds Mini ISA for the tax years through to 2009/10.

Within a Maxi ISA, you can invest up to the full amount of £7,000 in the Stocks and Shares component. Alternatively, if your Maxi ISA Manager offers both components, then you can invest up to £3,000 into the Cash component and £4,000 for investments into Stocks and Shares. If you opt for the Mini ISA route, these limits apply to each individual component. You cannot increase your allowance in one component by transferring any unused allowance from the other component. REMEMBER: If you want to invest more than £4,000 in a Stocks and Shares ISA per tax year, a Maxi ISA is the only way for you to achieve this.

Cofunds offers both Maxi and Mini Stocks and Shares ISAs.

Investing through an ISA Transfer

You can transfer your previous and current tax year ISA investment to Cofunds – however, Cofunds offers a Maxi and Mini Stocks and Shares component only. If you have invested in a Cash component in either a Maxi or Mini ISA, we are unable to accept your transfer.

While there is no limit to the amount that can be transferred from your existing ISA(s), the minimum transfer amount is £1,000.

When you transfer your ISA(s), your investment will be sold and the cash proceeds transferred to Cofunds.

Investing through a PEP Transfer

Although you can no longer make new investments into your PEP, it is still possible to transfer your existing PEP(s) to Cofunds, and still benefit from the same tax advantages as an ISA.

You can transfer both General and Single Company PEPs to Cofunds. Single Company PEPs can only be transferred by way of a cash transfer.

While there is no limit to the amount that can be transferred from your existing PEP(s), the minimum transfer amount is £1,000.

When you transfer your existing PEP(s), your investment will be sold and the cash proceeds transferred to Cofunds.

Please note for all of the above products there are no minimum investment periods – you have access to your investment at all times. However, you may be subject to exit charges on some funds. Please see the Fund Key Features Schedule. We reserve the right to refuse partial transfers.

RISK FACTORS

Investments held in ISAs and PEPs should be regarded as a medium to long-term investment. Past performance is not a guide to the future.

As the investment aims of the funds differ, the specific risks for each fund are set out in the Fund Key Features Schedule.

The legal structure of an OEIC means that, if one of its sub funds has liabilities that exceed its net assets, other sub funds within the same OEIC may be used to meet those liabilities.

As with any investment of this type, the value of your investment is not guaranteed. It may fall as well as rise and any income arising may fluctuate and you may not get back the amount invested. Please refer to the section "Can I change my mind?" for the effects of cancellation on your investment.

Levels of taxation and tax relief are subject to change. The value of any tax relief will depend on your own circumstances.

Charges on the underlying funds may be increased by the Fund Managers in the future. If you pay by regular monthly contributions and cease making payments for three consecutive months, Cofunds reserves the right to encash your investment and pay the value to you if this is less than £1,000. If you invest in an ISA, this means you could lose your annual ISA allowance for that tax year if you invested in a Maxi ISA, or part of your allowance if you invested in a Mini ISA.

If you pay by regular monthly contributions and payments are not maintained you may not achieve the target benefit your Intermediary has projected.

You should be aware that the 10% tax credit payable on dividend distributions is not reclaimable. However, income tax deducted at source at 20% from interest on bond investments is currently reclaimable in full.

If you are transferring an existing ISA or PEP in cash, there is a potential loss of income or growth on your investment if there is a market rise during the period in which your transfer is being administered.

The favourable tax treatment for ISAs and PEPs may not be maintained in the future.

We cannot guarantee that all funds will remain eligible for investment within ISAs and/or PEPs.

Money held in the Cash Reserve will not normally be expected to achieve the potential rate of return of equity investments.

YOUR QUESTIONS ANSWERED

What is an ISA?

An Individual Savings Account (ISA) provides a tax-efficient 'wrapper' for a range of investments, including unit trusts and OEICs. Any income or capital growth you receive is free from Income Tax and Capital Gains Tax. You have no personal liability to UK Income or Capital Gains Tax on income or growth within your ISA and you don't have to declare your ISA on your tax returns.

A unit trust provides an easy way to invest in stock market investments. Investors' money is 'pooled' and invested across a wide spread of investments on their behalf by professional Fund Managers. You own units in the fund which represents your share of the 'pool'. Normally, two prices are published for a unit trust – the buying price and the selling price. Any Fund Managers' charges are normally included in the price.

An OEIC is similar to a unit trust in that investors' money is 'pooled' in the same way to create a portfolio of assets. The main difference is that OEICs have a corporate structure and offer shares rather than units. In addition, there is only a single price published for the fund which reflects the underlying value of the investments in the fund. Unlike most unit trusts, any Fund Managers' charges are shown separately.

CAN YOU TELL ME MORE ABOUT ISAS?

What types of ISAs are there?

If you decide to invest in an ISA you need to consider what type of ISA is most appropriate. There are two types of ISAs – Mini and Maxi.

Both Mini and Maxi ISAs allow you to invest in the same wide choice of assets, but in different ways. The right choice for you will depend on how much you want to save or invest in the different components.

To help you make your decision, it is important that you understand the different components and how they link together.

There are two separate components that can be held within an ISA:

- Stocks and Shares (sometimes referred to as equities) which normally includes unit trusts, open-ended investment companies (OEICs), investment trusts, shares, corporate bonds and gilts.
- Cash which includes building society and bank deposits, National Savings and Money Market Funds.

A Maxi ISA

A Maxi ISA allows you to invest in one or both components with one ISA Manager. If you take out a Maxi ISA then you cannot take out another ISA in the same tax year.

A Mini ISA

Alternatively, you could opt for up to two Mini ISAs, (one of each type). This route would allow you to invest in both components and with a different manager for each component.

So you can have either up to two Mini ISAs in a tax year or one Maxi which may include one or both components.

Cofunds offers both Maxi and Mini Stocks and Shares ISAs only. Cofunds does not offer a Cash component.

What is the Cash Reserve Facility?

Cash Reserve allows you to shelter your investment within your ISA or PEP, either in times when markets are uncertain or when you simply want to secure your ISA allowance for the tax year, while you decide in which funds to invest. You may earn interest on your money while it is held in this way. However, any interest you receive is not intended to compete with rates for other cash deposit types of accounts.

This option is not a cash component of an ISA but provides a temporary shelter for your investment within a Stocks and Shares ISA component. Cash held in this way must be destined for eventual investment in one or more of the funds offered by Cofunds. The Cash Reserve should not be seen as an investment in itself. (Please refer to the Terms & Conditions for full details.)

Are PEP and ISA investments the same?

Although you cannot make any further investments into a PEP, you now have a similar choice of funds available to you whether transferring a Stocks and Shares ISA or a PEP investment.

Are there any restrictions to transferring my ISA?

You may not transfer current tax year Maxi ISAs to Mini ISAs and vice versa. You cannot transfer between components of an ISA i.e. from a Cash to a Stocks and Shares ISA component.

If you have invested in a Stocks and Shares ISA in the current tax year, your investment must be transferred in full.

Am I eligible to invest with Cofunds?

To invest in an ISA you must be aged 18 or over and resident and ordinarily resident in the UK for tax purposes, or are a Crown employee serving overseas, or their spouse. You are not eligible to take out a Cofunds ISA if you have already taken out a Maxi ISA or a Mini Stocks and Shares ISA in the current tax year.

We reserve the right to refuse applications from overseas.

HOW WILL CHARGES AND EXPENSES AFFECT MY INVESTMENT?

You will pay charges on the funds in which you invest. Details of the charges applicable to the funds available can be found in the Fund Key Features Schedule.

The following tables illustrate the total effect of charges and expenses on a typical Cofunds ISA or PEP investment into a unit trust or an OEIC. Dealing costs are not included. Allowance for any tax relief available has been made in the calculation. The effect of charges are based on a lump sum investment of £5,000, and a monthly investment of £100 assuming a growth rate of 7.00% per year. These figures are laid down by the Financial Services Authority to demonstrate the effect of charges and expenses on an investment and are not guaranteed. The figures do not take into account any additional discount you may receive on your investment.

An example unit trust (Income) fund

Normally, unit trusts have a buying (offer) price and a selling (bid) price and the difference between these two prices is known as the spread. The buying price includes the manager's initial charge. For further details of the spread applied to an individual fund please contact your Intermediary.

Initial charge: 5.25%

Annual Management Charge: 1.25%

Additional charges and expenses: 0.13%

Gross Distribution Yield: 3.79%

Annual charges and expenses are deducted from capital. Figures are based on income units (reinvested for monthly savings).

| At end of year | Investment to date | | Income to date | | Effect of deductions to date | | What you might get back at 7.00% £ | |
|----------------|---------------------|---------------|---------------------|---------------|------------------------------|---------------|------------------------------------|---------------|
| | Lump sum investment | Monthly saver | Lump sum investment | Monthly saver | Lump sum investment | Monthly saver | Lump sum investment | Monthly saver |
| 1 | 5,000 | 1,200 | 175 | 398 | 85 | 4,770 | 1,150 | |
| 3 | 5,000 | 3,600 | 536 | 601 | 328 | 4,930 | 3,670 | |
| 5 | 5,000 | 6,000 | 910 | 838 | 685 | 5,110 | 6,470 | |
| 10 | 5,000 | 12,000 | 1,900 | 1,610 | 2,250 | 5,560 | 14,900 | |

The last line in the table shows that over 10 years the effect of the total charges and expenses could amount to £1,610 (Lump sum investment) or £2,250 (monthly saver). Putting it another way, if the growth rate were to be 7.00% per year, which is in no way guaranteed, the total would have the effect of reducing the growth rate to 4.74% per year (lump sum investment) or 4.30% per year (monthly saver).

An example OEIC (Growth) Fund

Shares in an OEIC fund have a single price, which means there is no bid/offer spread, merely a single price at which you buy and sell. The initial charge is deducted from the amount you invest and the remaining subscription invested at the single price.

Initial charge: 5.00%

Annual Management Charge: 1.38%

Additional charges and expenses: 0.13%

Annual charges and expenses are deducted from income.

Figures are based on accumulation shares.

| At end of year | Investment to date | | Effect of deductions to date | | What you might get back at 7.00% £ | |
|----------------|---------------------|---------------|------------------------------|---------------|------------------------------------|---------------|
| | Lump sum investment | Monthly saver | Lump sum investment | Monthly saver | Lump sum investment | Monthly saver |
| 1 | 5,000 | 1,200 | 343 | 72 | 5,000 | 1,170 |
| 3 | 5,000 | 3,600 | 564 | 290 | 5,560 | 3,710 |
| 5 | 5,000 | 6,000 | 835 | 626 | 6,170 | 6,530 |
| 10 | 5,000 | 12,000 | 1,800 | 2,170 | 8,030 | 15,000 |

The last line in the table shows that over 10 years the effect of the total charges and expenses could amount to £1,800 (lump sum investment) or £2,170 (monthly saver). Putting it another way, if the growth rate were to be 7.00% per year, which is in no way guaranteed, the total would have the effect of reducing the growth rate to 4.90% per year (lump sum investment) or 4.40% per year (monthly saver).

Dilution Levy/Adjustment

When you buy or sell units/shares in a single priced fund, the fund price does not include dealing costs, unlike a typical dual priced fund where costs are included in the spread. Therefore, the fund manager may seek to cover these costs by applying a dilution levy/adjustment to reduce the effect of dilution on the Fund value. This amount is paid to the Fund and if applied will be shown on your confirmation note.

Stamp Duty Reserve Tax

You may also be charged an amount of Stamp Duty Reserve Tax (SDRT) Provision (currently 0.5%). This is a charge made by the Fund Manager to be made as a provision for SDRT for which the Fund may be liable and this is usually deducted from the fund (under the Stamp Duty and Stamp Duty Reserve Tax Regulations 1999). This is normally charged on withdrawals and certain transfers of Investments. Any amount of SDRT Provision charged to you will be shown separately on your confirmation note.

HOW MUCH WILL THE ADVICE COST?

Your Intermediary will give you details about the cost. The amount may depend on the size of your investment and, in the case of regular savings, the period for which you make them. It will be paid for out of the charges.

In respect of this investment, Chelsea Financial Services Plc will not take any initial commission, however, is entitled to renewal commission at a maximum annual rate of 0.5% of the fund value (minimum of 0.25% on some funds). For example, if your fund is worth £4,000, they will receive £20 per annum if the rate is 0.5% and £10 per annum if the rate is 0.25%. If it is worth £7,000, they will receive £35 per annum or £17.50 per annum respectively. Commission is paid monthly.

Cofunds cannot advise you about your investment or the appropriateness of Cofunds products to meet your needs, and if you are in any doubt about the suitability of any investment for you, you must speak to your Intermediary.

FURTHER INFORMATION

All documentation and communications in relation to Cofunds will be in the English language.

Where can I find out which Fund Managers and funds are available?

Details of the participating Fund Managers and their funds can be found in the Fund Key Features Schedule, or by contacting your Intermediary.

What are the charges?

We do not charge you a fee for investing through us. The only charges which apply are for transactions such as the fund initial charge, switching and, if applicable, issuing reports and accounts and if you choose to attend unit/share holder meetings. Details of the charges applicable to the funds offered via Cofunds can be found in the Fund Key Features Schedule.

How do I invest in the Cofunds ISA/PEP?

Firstly, ensure that you have read the Key Features together with the Terms and Conditions for ISA/PEP, which give full details of the various choices and investment options available to you.

When you have done so, and in conjunction with your Intermediary, made your investment decision, simply complete the relevant Cofunds application form, and send it, together with your cheque for the full amount of your investment, (made payable to Cofunds Limited) or completed Direct Debit Mandate, to: Chelsea Financial Services Plc, St James' Hall, Moore Park Road, London SW6 2JS. Cheques must either be drawn on your own, on a joint account or can be drawn by your spouse. Building Society cheques must be made payable to Cofunds Limited and your name must appear on the front of the cheque, or on the back of the cheque accompanied by the Building Society's official stamp and signature. For example, Cofunds Limited (Re: A.B. Smith). We do not accept payments from other third parties.

How do I transfer my ISA or PEP to Cofunds?

Simply complete the ISA/PEP Transfer Application Form and Transfer Authorities. Cofunds will contact your existing ISA/PEP Manager(s) and arrange for the transfer of your funds.

Please note that your investment may be subject to market movements depending on when the transfer takes place. Your investment will be sold by the old plan manager and cash proceeds used to purchase units/shares in your new choice of funds.

When will my money be invested?

Your investment will be made if we accept your correctly completed application form and your investment. It will be made no later than the valuation point on the next Business Day. For regular contributions, we will automatically collect on or just after the 25th day of each month. The price will be calculated at the next valuation point following receipt of your monthly payment. Please note that valuation points vary between Fund Managers. Details can be obtained direct from the relevant Fund Manager or from your Nominated Intermediary.

Can I change my mind?

We offer a cancellation period of 14 days after you have invested to change your mind. If you wish to do so, you must complete and return the Cancellation Notice to our administration address which can be found under the heading 'How do I invest with Cofunds?'. For monthly investments you will receive notice of your right to cancel this whole instruction after receipt of your application form and Direct Debit Instruction. For lump sum investments you will receive a cancellation notice when your application is accepted and dealt. However, you should be aware that if the value of your investments has fallen during the cancellation period, you may not get back the full amount of your original investment.

Please note for PEP and ISA transfers, if you exercise your right to cancel, you should be aware that the cancellation will apply to all your investments being transferred. On cancellation, you will be given the following options:

1. Your ISA or PEP will be closed and the proceeds returned to you, or
2. Your ISA or PEP can be transferred back in cash to the original Plan Manager(s), subject to their acceptance of the transfer, or
3. Your ISA or PEP can be transferred to any other Plan Manager(s), subject to their acceptance of the transfer.

If your investment is sold and the proceeds returned to you all future tax advantages will be lost.

If you do not exercise your cancellation rights within the 14 day cancellation period then,

- You will be subject to all investment risks as detailed in these key features.
- You will incur all charges as detailed under 'How will charges and expenses affect my investment?'

For ISAs only

- You forfeit your right to contribute to any other Maxi or Mini Stocks and Shares ISA with another account manager for the tax year that you made this investment.
- You will not be able to replace the contributions withdrawn within the same tax year, unless the amount you wish to invest is within your unused ISA allowance.

Can I take an income from my investment?

Yes. A number of the funds available via Cofunds pay income either in the form of dividends or, in the case of fixed interest funds, interest. Cofunds will make income payments and any appropriate tax reclaims direct into your nominated bank account using BACS (Bank Automated Clearance System). The Fund Manager cannot reclaim tax relating to a tax credit attaching to a foreign income dividend or any equalisation distributed as income.

You can instruct us at any time to stop using a particular account. It takes seven business days after we receive your instructions to apply them to your income payments. We do not pay income to third parties.

Can I reinvest any income from my investment?

If you choose to have any available income reinvested to boost capital value, we will buy accumulation units/shares for you where they are available for your chosen fund. The net income is retained and reflected in the price of units/shares. Where accumulation units/shares are not available your income will be reinvested. The tax credit applicable to ISA and PEP investments (if any) attached to the income allocation is reclaimed from the Inland Revenue and reinvested at the normal purchase costs of the fund to buy additional units/shares.

Interest earned in Cash Reserve will be automatically added to your account half yearly.

How will tax affect my investment?

For Investments held within an ISA and/or PEP, any income or capital growth you receive will be free of personal liability to UK Income or Capital Gains Tax. You don't have to pay personal UK Income or Capital Gains Tax on income or growth within your investment.

Cofunds will claim back, for ISA and PEP investors, the 20% tax credit on bond or any other funds deemed as interest paying.

Money held in the Cash Reserve within a PEP is free of UK income and capital gains tax. You may withdraw PEP interest up to a maximum of £180 in any tax year without incurring any income tax liability. However, if you exceed this amount, you will be liable to tax on all accrued interest on your investment. ISA interest is paid net of a 20% Inland Revenue flat rate charge, which is not reclaimable.

Tax due on interest will be paid and reported to the Inland Revenue by Cofunds.

What documentation will I receive?

If you invest with a lump sum you will receive confirmation notes which detail the funds in which you have invested, the number of units bought, and details of commission and charges. If you invest by regular savings, you will receive an acknowledgement from us confirming the amount of your monthly investment. All transactions will then be detailed in your valuation statements.

We will maintain the records of your investments. Certificates will not be issued.

How can I keep track of my investments?

There are a number of ways that you can do this:

- The latest buying and selling prices and estimated distribution yield for all the funds can be found at www.ft.com/funds and many are published in daily newspapers.
- Additionally, Cofunds will send a statement direct to you at least annually, showing the value of your investments and all the transactions since the previous statement.
- You can request a valuation, via your Intermediary, at any time.
- You can request us to provide you with the report and accounts and to attend and vote at unit holder or shareholder meetings for each fund in which you invest. Availability of these facilities will be subject to a charge of £20 per communication, in order to cover our costs.

Can I make withdrawals from my Cofunds investment?

Yes. You can make withdrawals at any time. Requests for withdrawals must be in writing. We are unable to accept instructions by either fax or phone.

Cofunds will pay the proceeds direct to your nominated account within 5 working days of the valuation point of the last fund sold.

If you do not fully encash your investment you must leave a minimum amount of £1,000 in any investment per fund. We may deduct from any amount paid to you any outstanding fees, charges and expenses due from you. Please note that, for partial withdrawals, you must specify the number or percentage of units/shares to be sold.

If you have sold your investment and we subsequently receive income due to you we will pay that income to you unless it is of a value of £1 or less, in which case it will not be processed or retained by Cofunds.

If you wish to withdraw your investment from Cofunds, either in whole or in part, you should write to us at our Administration Address with your instructions.

How easy is it to move between funds?

Very easy. Just discuss your requirements with your Intermediary, complete the switch instruction form and we will carry out your request. After we have carried out your instructions, we will confirm that we have done so to you in writing. Switches between funds usually take a couple of days to complete, depending on the valuation point for your chosen fund so you should be aware that your investment may be out of the market for a period of time whilst the switch is taking place. There is a switch charge of 0.25% of the value of the switch.

Please note that you do not have any right to either withdraw from or cancel the instruction once given. You cannot switch between a Cofunds Maxi and Mini ISA.

Can I transfer my Cofunds ISA/PEP to another ISA/PEP Manager?

If you wish to transfer your ISA/PEP to another ISA/PEP Manager, then Cofunds will sell your investments and pay the proceeds across to your new ISA/PEP Manager. In the case of an ISA/PEP transfer, we will require a completed transfer authority form from the new ISA/PEP Manager.

Can I invest outside an ISA?

If you want to invest outside of an ISA into funds administered by Cofunds, you can invest directly into an investment fund. The option to invest in unit trusts and/or OEICs is available but without the tax advantages of an ISA. Please refer to the Key Features of the Cofunds Consolidation Service for full details and contact your Intermediary who can supply you with the relevant forms.

What if I want to complain?

If you would like to make a complaint, write to:

The Complaints Manager, Cofunds Limited, PO Box 1103, Chelmsford CM99 2XY.

We can give you full details of the procedure we have set up for dealing with complaints.

Alternatively, you may wish to make a complaint through your Intermediary. If you are not satisfied with Cofunds response, you may take your complaint to the Financial Ombudsman Service.

Will I be entitled to compensation?

Cofunds is covered by the Financial Services Compensation Scheme. You may be entitled to compensation from the scheme if we cannot meet our obligations, but this will depend on the type of investment you made and the circumstances of the claim. Most types of investment business are covered for 100% of the first £30,000 and 90% of the next £20,000, so the maximum compensation is £48,000. Further information about the compensation arrangements is available from the Financial Services Compensation Scheme. Cofunds can give you full details of your right to lodge a claim with the scheme.

Verification of personal identity

Money Laundering Regulations require us to make checks on various transactions. Independent documentary verification may be required, for both the identity and permanent address of the applicant opening an Account. This may also apply to existing account holders. Processing of your instruction or payment due to you may be delayed, pending receipt of satisfactory evidence. Signing of the application form represents permission from you to make any necessary electronic searches of the electoral roll and credit reference agencies. These agencies may keep a record of our enquiry as an identity search. Please pay for any lump sum investment by a cheque drawn on your personal (or joint) bank or building society account, as this reduces the need for us to obtain documentary evidence. Where you are investing money using a building society branch cheque or banker's draft, please arrange for them to certify, on the cheque, the name and account number of the client from whose account payment is being drawn, together with the branch stamp.

Who is the ISA/PEP Manager?

The Cofunds ISA/PEP Manager is Cofunds Limited (authorised and regulated by the Financial Services Authority in the conduct of investment business). PO Box 1103, Chelmsford, CM99 2XY. Registered in England and Wales No 3965289.

Registration

Units/shares will be registered in the name of Cofunds Nominees Limited. For further details, please see the Terms & Conditions and/or Customer Agreement.

What if I need further information?

The information provided in the Key Features, Terms & Conditions and Customer Agreement is based on our understanding of current legislation.

If you wish to receive further information about the funds or copies of the scheme particulars or prospectuses, you will need to contact your nominated intermediary or the Fund Management Group direct. We can arrange for you to receive annual reports and accounts attend unit holder/share holder meetings and vote of any of the funds offered by Cofunds, when you make your investment (or upon your request in writing with one month's notice). However, Cofunds will make a charge of £20.00 per communication for this service. Alternatively, the **reports and accounts** documents can be downloaded free of charge from the Cofunds website on www.cofunds.co.uk.

Simplified Prospectus

If you require a Simplified Prospectus relating to any UCITS Scheme held on the Cofunds platform, please request this information directly from your Intermediary, which will be supplied free of charge.

The Direct Debit Guarantee

- This guarantee is offered by all Banks and Building Societies that take part in the Direct Debit Scheme. The efficiency and security of the Scheme are monitored and protected by your own Bank or Building Society.
- If the amounts to be paid or the payment dates change, Cofunds Limited will notify you five working days in advance of your account being debited or as otherwise agreed.
- If an error is made by Cofunds Limited or your Bank or Building Society, you are guaranteed a full and immediate refund from your branch of the amount paid.
- You can cancel a Direct Debit at any time by writing to your Bank or Building Society. Please also send a copy of your letter to Cofunds Limited.

TERMS AND CONDITIONS OF THE COFUNDS ISA/PEP

It is important that you retain these Terms and Conditions, as your rights as an investor are governed by them. If you would like more information, or have any questions, please call your Intermediary who will be able to advise you.

1. Definitions

In these Terms the following words mean:

Account: The account that we open in your name to record investments that you make through Cofunds.

Administration Address: PO Box 1103, Chelmsford, CM99 2XY

Application: The application(s) completed by you or on your behalf to invest in the Account.

Assets: Investments, Income, interest, cash deposits, cash balances and any other rights and entitlements from time to time held within your Account.

Bank: Bank of Scotland, having its Head Office at The Mound, Edinburgh EH1 1YZ or such other UK clearing bank as we may notify to you from time to time.

Banking Day: Any day on which the Bank is open for normal business other than a Saturday, a Sunday or a bank holiday in the United Kingdom.

Business Day: Any day when the London Stock Exchange is open for business. Our normal hours of opening are 9:00am to 5:00pm.

Cash Reserve: A client money account used solely for investment destined for eventual investment in one or more of the Funds offered by Cofunds.

Client Account: A bank account held by us with the Bank under FSA Regulations.
Current Year Account: A separate Account containing only Assets representing your Subscriptions made in the current Year.
Fund: An authorised unit trust or open-ended investment company (or sub-fund thereof) we specify as available for investment within your Account.
FSA: The Financial Services Authority, 25 North Colonnade, Canary Wharf, London E14 5HS.
Income: All payments received as income including any tax payments we reclaim for your Account.
Intermediary: An authorised person under Part IV of the Financial Services and Markets Act 2000.
Investment: Units or shares in a Fund or the Cash Reserve within your Account.
ISA: An Individual Savings Account managed under the ISA Regulations.
ISA Manager: The manager of your ISA Account. This is Cofunds Limited.
Nominated Bank Account: A UK bank or building society account of which you are a named holder and which you specify and we accept as the account to pay Income and withdrawal proceeds to you.
Nominated Intermediary: An Intermediary nominated by you, who is authorised by you to give instructions on your behalf on all matters concerning your Account.
Nominee: Cofunds Nominees Limited, a wholly owned subsidiary of Cofunds for which we accept full responsibility.
Ombudsman: The Financial Ombudsman Service who may be contacted at South Quay Plaza, 183 Marsh Wall, London E14 9SR.
PEP: A Personal Equity Plan managed under the PEP Regulations.
PEP Manager: The manager of your PEP account. This is Cofunds Limited.
Registered Office: Our registered office is 1st Floor, 1 Minster Court, Mincing Lane, London EC3R 7AA.
Regulations: The Individual Savings Account Regulations 1998, or the Personal Equity Plan Regulations 1989 and any other applicable regulations made from time to time by HM Treasury.
Subscription: A payment by cheque, Direct Debit Mandate or debit card in sterling, to be applied to your Account either paid by you from your bank account or paid on your behalf by your Nominated Intermediary, or previous ISA/PEP Manager.
Terms: These Terms & Conditions, as from time to time amended, together with your Application. The Terms & Conditions will take precedence if the two differ.
Units: Income or Accumulation units, or shares of any class, in a Fund, including any fractions or decimals of units.
We, us and our: Cofunds Limited ("Cofunds").
Year: A year beginning on 6 April and ending on the following 5 April. This is commonly known as the tax year.
You and your: An individual who has applied to open an Account.

2. Your ISA and PEP Manager

2.1 Our Role

We agree to act as ISA/PEP Manager for your Account. We do not review your portfolio and we do not give advice about your investment. We make all the necessary claims for tax relief relating to your Account and the Assets held in it. We hold any uninvested cash and your Investments in our custody, and we maintain your personal data for the purpose of managing your Account in accordance with the requirements of Data Protection legislation.

2.2 Regulation

We are authorised and regulated by the FSA for investment business. Our FSA registration number is 194734, confirmation of which can be obtained from the FSA website at www.fsa.gov.uk/register or by contacting the FSA on 0845 606 1234.

2.3 Client Account

We will deposit your money in our Client Account. We segregate all Client Account money from our own money and hold it under trust with the Bank. We do not pay interest on client monies but we reserve the right to do so in the future.

Investments in the Cash Reserve may earn interest. If interest earned in any accrual period is under £10, no interest will be credited to your Cash Reserve investment. The interest, payable six monthly, is 2% below the published base rate of the Bank of Scotland. Any interest you receive will fluctuate with changes to this base rate.

We will hold ISA Subscription monies received from you in our Client Account pending your investment instructions. Monies due to you, if any, in respect of dividends, tax reclaims or interest will be paid at regular intervals or reinvested according to your instructions. If, however, there has been no movement on your balance for a period of at least six years any payments on account of charges, interest or similar items, we will write to you and your Nominated Intermediary at your last known addresses informing you of our intention to no longer treat your balance as client money. You will have 28 days to make a claim for this money. Thereafter we will release the balance from our Client Account. We do however undertake to make good any valid claims that are subsequently received.

2.4 Special Circumstances

- We have discretion to apply Funds to an Account on a day other than a Business Day.
- If any Fund choice is unclear on your Application form, we have discretion to place money in the Cash Reserve, pending your further instructions.
- If, subsequent to your Investment being made, we make an adjustment to your holding on the basis of instructions received from the Fund Manager which is then found to be incorrect, adjustments of £5 or less will not be processed or retained by Cofunds.

2.5 Regulations

We will notify you if all or part of your Account is no longer exempt from tax. We will sell any Investments that are no longer exempt from tax at the published selling price and pay the proceeds to you within five Business Days together with any affected cash balances.

2.6 Aggregation

We do not segregate Assets by Subscription Year, but may segregate Assets in your Current Year Account from Assets representing previous years' Subscriptions if we need to do so.

2.7 Assignment and Delegation

We may assign to any appropriate Cofunds company all of our benefits and obligations under these Terms. You will be notified of any such assignment.

We may appoint any person (whether or not a Cofunds Group Company) to advise on or perform any of our functions or responsibilities under these Terms and may provide information about you and your Account to any such person. We will satisfy ourselves that any person to whom we delegate any functions or responsibilities under these Terms is competent to carry out those functions or responsibilities.

2.8 Address

Correspondence about our service should be sent to the Administration Address.

2.9 Client Classification

Cofunds classifies all clients as Private Customers for ISA/PEP Investments.

3. Opening your Account

3.1 Your Nominated Intermediary

To use the Cofunds service, you are required to nominate an Intermediary to advise you. Cofunds cannot advise you about your investment or the appropriateness of Cofunds products to meet your needs. We are entitled to rely and act on any instruction which purports to have been given by your Nominated Intermediary by whatever means transmitted and whether or not in writing, and unless we have received written notice to the contrary in accordance with the following paragraph, whether or not the authority of any such person has been terminated. Your Application form identifies your Intermediary who will be your Nominated Intermediary for your Account. You may instruct us in writing to stop accepting instructions from your Nominated Intermediary, and appoint a new Nominated Intermediary in their place. Your instruction will take effect upon receipt by us at our Administration Address. We will acknowledge receipt of your instruction and will inform both of the Intermediaries concerned.

You must at all times have a Nominated Intermediary. If you do not nominate a replacement Intermediary then Cofunds will continue to deal with your existing Intermediary until such time as you appoint one. In the event that your Intermediary ceases to be authorised, Cofunds can provide you with details of Cofunds Intermediaries but does not make any representation as to the suitability or appropriateness of any Intermediary or subsequent advice.

You permit us to give your Nominated Intermediary information about you, your Assets and your Account.

3.2 ISA Applications

In the case of an ISA, your Account is opened when we accept your correctly completed Application and payment.

Your ISA Application covers the current Year and each subsequent Year until we receive no Subscriptions for one full Year. We reserve the right to require a fresh Application for each new tax Year.

A direct debit instruction authorises us to collect and invest regular Subscriptions for you unless and until you notify us to the contrary, either at the time of your Application or otherwise.

We require a Subscription when you open your Account. If we do not receive a Subscription payment or your bankers do not honour the Subscription, we will close your Account.

3.3 ISA Transfers in

You may transfer your ISA to us in full, provided the transfer is in cash. We apply the cash when we receive it to buy Investments for your Account as you instruct.

We may, at our option, accept the transfer of Investments from your existing ISA or we may require that Investments are sold and the transfer is made in cash. You will pay any administration charges that your old ISA Manager makes in relation to the transfer out from their ISA.

Any payments received from your old ISA Manager after your Account has been opened, such as distributions and tax reclaims, will be added to your ISA Account in the following way: Any residual Income received from your old plan manager will be reinvested into the largest value holding within your ISA, regardless of any change to mandate instructions received upon transfer to Cofunds. Cofunds reserves the right to return any residual Income to the old plan manager if the amount is below £25.

Where you have transferred your current year's ISA Subscriptions, you may reactivate your Account by restarting Subscriptions, although you must submit another Application if we receive no Subscriptions for one full Year.

3.4 PEP Transfers in

In the case of a PEP, we will manage your Account upon receipt by us of the proceeds from your previous PEP Manager.

You may transfer to us all of a PEP that you have, provided the transfer is in cash. We apply the cash when we receive it to buy Investments for your Account as you instruct.

We may, at our option, accept the transfer of Investments from your existing PEP or we may require that Investments are sold and the transfer is made in cash. You will pay any administration charges that your old PEP Manager makes in relation to the transfer out from their PEP.

Any payments received from your old PEP Manager after we have opened your Account – such as distributions and tax reclaims will be added to your PEP Plan in the following way: Any residual Income received from your old plan manager will be reinvested into the largest value holding within your PEP, regardless of any change to mandate instructions received upon transfer to Cofunds. Cofunds reserves the right to return any residual Income to the old plan manager if the amount is below £25.

3.5 Unit Allocation on Transfers (Equalisation)

If you are re-registering Investments, we will request the old Plan/ISA manager to provide us with the correct Group 1 and Group 2 Unit holdings for your investment and register your Investment with Cofunds with the same Unit split. In the event that the old manager cannot provide this information, we will register your Investment in Group 1 Units only and there will be no equalisation amount shown on your tax credit. None of this will affect the value of your Units.

3.6 Tax status

You may not subscribe to your ISA Account while not resident and ordinarily resident in the UK for tax purposes unless you qualify as a Crown employee (a person holding public office or employment under the Crown and paid out of the public revenue of the UK or of Northern Ireland) or their spouse. You must inform us immediately if you stop being UK resident and ordinarily resident for tax purposes, or if as a non-resident you stop being a Crown employee or their spouse.

3.7 Account type

For an Investment held under these Terms, we designate your ISA Current Year Account as "Maxi" or "Mini" as you instruct, or in the case of transfers, PEP or ISA. In the case of a new ISA Investment, if you do not advise us on your Application form then we will open a Maxi Account for you. We do not offer a Mini Cash ISA or the cash component of a Maxi ISA.

3.8 Timing

For an ISA, your Account cannot open until we accept your correctly completed Application and receive your first Subscription. Your investments will be purchased as soon as reasonably practicable and in any event, no later than the valuation point on the next Business Day. At our discretion we may open your Account on a day other than a Business Day.

In the case of an ISA or PEP transfer, the date of transfer is the date agreed between the Plan Managers.

These Terms will take effect if Cofunds accepts your Application, which is normally on the day of receipt. Cofunds has discretion to reject an Application.

4. Investments

4.1 Choosing your Investments

Your Nominated Intermediary can help you choose the Investments to buy for your Account and can advise you on changes you should make to the Investments in your Account. Cofunds cannot advise you on the Investments in your Account. The Cash Reserve provides a temporary shelter for your investment. Cash held in this way must be destined for investment in one or more of the Funds offered by Cofunds.

4.2 Investment limits

The minimum amount of Investment is £1,000 per Fund where you are investing a lump sum. Where you are a regular investor the minimum amount of regular payments into any investment is £50 per month per Fund. The minimum lump sum top up is £500 per Fund.

While there is no limit to the amount that can be transferred from your existing ISA/PEP(s), the minimum transfer amount is £1,000 per Fund.

4.3 Buying and selling your Investments

Your Investments will be purchased or sold as soon as reasonably practicable and in any event, no later than the valuation point on the next Business Day.

4.4 Switching

You may instruct us to sell Units/Shares and use the proceeds to buy Units/Shares in other Funds. This is known as Switching. We will require your instructions in writing unless deals are placed online by your Nominated Intermediary. This should detail the number of Units to be sold from each Fund and the proportion of the sales proceeds to be allocated to the Funds that you are buying. Cofunds will normally levy a charge for switching – please see 'Fees, Charges and Expenses'.

4.5 Large deals

For 'large deals' in an Investment (as defined by the FSA), the manager of the relevant Fund may decline to deal on the published prices for an aggregated deal and widen the spread or apply a dilution levy. In these circumstances we will apply the price given to us for your transaction by the Fund Manager.

5. Title and Registering Investments

5.1 Title and borrowing

All documents evidencing title to Assets in your Account are held by us or as we direct. We may not lend any part of your Account to a third party and we may not borrow against its security.

5.2 Beneficial ownership

You are and remain the beneficial owner of the Assets but must not use them as security for a loan although you may be able to use the Assets in your Account as a loan repayment method, subject to your lender's agreement. You may not dispose of or transfer an interest in any Asset held through us and may not create (or have outstanding) any charge or security on or over any Asset.

5.3 Our Nominee

We register Investments in the name of Cofunds Nominees Limited, whose address is our Registered Office. Subject to Regulations, you authorise us to direct and instruct our Nominee to discharge our responsibilities under these Terms. We are responsible for the acts and omissions of our Nominee. Our Nominee is not itself an authorised person under the Financial Services and Markets Act 2000; it can only hold investments and does not carry on business in its own right.

5.4 Registration

We register your Investments in the same name as those of other Cofunds investors and do not identify individual Investments by separate certificates.

5.5 Default

Should we default on our obligations any shortfall in Investments registered in Cofunds name may be shared pro rata among all of our customers whose Investments are registered with our Nominee. In this event your Investment may be returned to you or transferred to another company as specified by you or your Nominated Intermediary.

6. Income

6.1 Reinvestment

If you choose to have any available Income reinvested in your Account, we will buy accumulation Units for you where they are available for your chosen Fund. The net Income is retained and reflected in the Unit price. Where accumulation Units are not available your Income will be reinvested.

We use all Income to buy further Investments in the same Fund, unless you have already instructed us to pay Income directly to your Nominated Bank Account. Interest earned on money held in Cash Reserve will be automatically added to your Investment half-yearly.

7. Payments to you

7.1 Income payments

For payments of Income arising from your Account, you may specify a single Nominated Bank Account in your Application. If you ask us for Income payments we pay you shortly after we receive the Income. You may instruct us at any time to stop using that account and, if we accept, specify another single account in its place. It takes seven Business Days after we receive your instructions to apply them to Income payments.

If you no longer have a holding in an Investment at the time when we receive the Income arising from it, we pay that Income to you (subject to 7.2.1).

7.2 Withdrawals and closing payments

We may deduct from any amount to be paid to you any outstanding fees, charges and expenses due from you. We retain such sums as we reasonably estimate we need to meet any tax liability for which we must account to the Inland Revenue for you under the Regulations. We hold any cash due pending payment outside your Account in a Client Account. We may delay paying any sale proceeds and cash balances until we know that all Subscriptions made by you have cleared and we have received all amounts which you owe to us. We may carry out security checks to confirm your identity before we make payment. We issue payment no later than five Business Days after the valuation point of the last Fund sold. Cofunds will not make payments to a third party account except another ISA/PEP Manager.

7.2.1 Residual payments

Upon full closure of your ISA/PEP, any payments subsequently received by us of £1 or less will not be processed or retained by Cofunds.

7.3 Other payments

All payments other than Income payments shall be made to you or your Nominated Intermediary.

7.4 Good discharge

Payment to your Nominated Bank Account or to your Nominated Intermediary for the time being, at his direction, is in any case a good discharge of our liability.

8. Cancellation

You will be able to cancel your Account within 14 days of receiving a cancellation notice we send you once we have opened your Account. If you wish to cancel, you must return the cancellation notice to us in accordance with the steps set out in it. Please note that the amount you will get back will be reduced by any market loss during the period up until cancellation. If you cancel your Account we will advise your Nominated Intermediary. If you cancel a Cash Reserve, any interest accrued will not be payable.

Please note for PEP and ISA transfers, if you exercise your right to cancel, you should be aware that the cancellation will apply to all your Investments being transferred. On cancellation, you will be given the following options:

1. Your ISA or PEP will be closed and the proceeds returned to you, or
2. Your ISA or PEP can be transferred back in cash to the original Plan Manager(s), subject to their acceptance of the transfer, or
3. Your ISA or PEP can be transferred to any other Plan Manager(s), subject to their acceptance of the transfer.

We may carry out security checks to confirm your identity before we return your Funds.

9. Void Accounts

Your Account will be managed in accordance with the Regulations, which take precedence over these Terms. We will notify you if, by reason of any failure to satisfy the provisions of the Regulations, your Account has or will become no longer exempt from tax. If your Account is voided, we will sell the Investments and pay you the proceeds together with any cash balance held in your Account. We may deduct any additional expenses incurred in terminating the Account. Any interest accrued in the Cash Reserve will not be payable.

10. Documentation and voting

10.1 Confirmation notes

Confirmation notes will be sent to you and your Nominated Intermediary on the next Business Day following the completion of the Investment transaction carried out at your instruction. This will include the essential details of the transaction. For regular savings we will send you an acknowledgement of receipt of your Application. We do not send confirmation notes each time a payment is received these details will be included within your valuation statements.

10.2 Statements

At least annually we send you an Account statement showing details of all Assets within your Account on the statement date and all transactions within it since the previous statement date including Investment and interest Income. A copy will be made available to your Intermediary. Valuations are based on the bid price as at the date shown on your statement.

10.3 Records

You may inspect copies of confirmation notes, vouchers and entries on our books or electronic media relating to transactions on your Account. We keep these records for six years.

10.4 Voting rights

We do not exercise voting rights for any of your Investments unless you instruct us to vote on your behalf. If you have requested this, you will be notified of each voting event.

10.5 Reports, notices, meetings and voting

For any Investment held in your Account, we can arrange when you open your Account, (or at your request in writing after one month's notice) for you:

- to receive a copy of the annual report and accounts for each Fund in which you are invested, and
 - to attend meetings of unit holders or shareholders and exercise voting rights
- Your instruction should be given on your Application. Availability of these facilities will be subject to a charge of £20.00 per communication to cover our costs, although copies of report and accounts can be downloaded free from the Cofunds website at www.cofunds.co.uk. The charge may be deducted from cash in your Account.

Other notices will be sent to you with your valuation statements.

11. Withdrawals or closing your Account

11.1 Minimum amount

The minimum amount that you can hold in an Investment is £1,000 per Fund. We will require you to sell your entire holding in that Fund if the amount falls below £1,000 as a result of your instruction to sell an amount of the Fund.

11.2 Withdrawal instructions

You may at any time instruct us to sell any investment held in your Account and you may at any time withdraw all or part of any sale proceeds and any cash balances held in your Account. This instruction must specify the number of Units to be sold from any Fund in your Account. Before we pay, we require clear withdrawal instructions from you.

11.3 Closing your Account

You may close your Account at any time by withdrawing all the Assets, or transferring all of your ISA/PEP to another ISA/PEP Manager.

Closing your Account does not affect any transactions initiated before the closure began. These Terms continue to apply until we complete all outstanding transactions and meet all liabilities. If you close your Cash Reserve without having invested in a Fund(s), interest will not be payable on money withdrawn.

11.4 ISA Transfers out

Upon your instructions, and in the time specified by you, Cofunds will transfer all or part of your ISA, with all your rights and obligations under it, to another ISA Manager who has agreed to accept the transfer. In the case of your current year Subscriptions, you may either transfer these as part of a transfer of the whole of your ISA to another ISA Manager or you may maintain them in your Cofunds ISA, for which purpose we may create a Current Year Account.

We may at our option require that the transfer is made in cash after selling relevant Investments and deducting any amounts due to us. If we subsequently receive any Income arising from Investments transferred out, we will remit it directly to you. These Terms continue to apply to (the part of) your ISA being transferred until the transfer is complete, all outstanding transactions settled and all liabilities met.

11.5 PEP Transfers out

Upon your instructions, and in the time specified by you, Cofunds will transfer all or part of your PEP, with all your rights and obligations under it, to another PEP Manager who has agreed to accept the transfer.

We may at our option require that the transfer is made in cash after selling relevant Investments and deducting any amounts due to us. If we subsequently receive any Income arising from Investments transferred out, we will remit it directly to you. These Terms continue to apply to (the part of) your PEP being transferred until the transfer is complete, all outstanding transactions settled and all liabilities met.

12. If you die

If informed of your death, we close your Account but continue to hold all Assets under these Terms until your death is registered, and we complete all transactions and meet all liabilities. Cofunds will require sight of either the original or a sealed office copy of the Grant of Probate or Letters of Representation.

On receipt of the Grant of Probate or Letters of Representation we will sell your Investments and hold the cash in our Client Account until we receive instructions from your personal representatives.

We do not reinvest Income but hold it in our Client Account until we can pay it as your personal representatives direct. We are entitled to deduct any withdrawal fees.

The tax exemptions of the Account stop at your death.

13. Fees, Charges and Expenses

13.1 Our fees

We do not charge you a fee for investing through us. The only additional charges are those described under the headings "Documentation and Voting" and "Switch Fees" in these Terms & Conditions. We do however receive a fee from the Fund Managers for administration services provided to Fund Managers connected with your Investment. We may pay fees to portal providers and others in connection with your Account. If you require details of these fees, please write to us at our Administration Address.

13.2 Fund Manager

The manager of each Fund in your Account may receive an initial charge. An annual management charge and other fees, charges or expenses properly payable to him may be paid out of the property of that Fund.

13.3 Nominated Intermediary

Commissions payable to your Nominated Intermediary will be disclosed to you on the confirmation note sent to you after each transaction, other than regular Investments, where these will be shown on your statement.

13.4 Switch fees

We will allow you to switch Funds within your Account. You will normally pay an initial switching charge representing 0.25% of the amount of the value of the Units/Shares you buy. Commission on switches may be added if agreed with your Nominated Intermediary. The maximum switching charge or commission will not exceed the funds standard initial charge. No switching charge or commission is payable when switching into Funds with no initial charge.

14. Complaints and compensation

14.1 Complaints

We operate a written complaints procedure in accordance with FSA rules. If you have any complaint about your Account, please write to the Complaints Manager, at our Administration Office. You also have a right to complain direct to the Financial Ombudsman Service.

14.2 Compensation claims

If you make a valid claim against us in respect of your Account and we cannot meet our liabilities in full, you may be entitled to redress from the Financial Services Compensation Scheme. Information about the scheme is available from the FSA and the Financial Services Compensation Scheme itself. Contact details for the FSA and the Scheme are available from Cofunds.

15. Variation, Termination and amendment of Terms

15.1 Funds offered by Cofunds

Cofunds reserves the right to add and remove Funds from the service.

15.2 Changes to these Terms

In addition to our power to make changes to these Terms, we may from time to time change these Terms where a change:

- does not materially prejudice you, or
- enables us to comply with a legal or regulatory requirement, including under ISA and PEP Regulations.

We will give you reasonable notice of any changes to these Terms.

15.3 Termination

We may terminate your Account provided we give you a minimum of three months notice. Upon termination, unless otherwise agreed at the time, we will realise all your Units and will pay the proceeds, together with any other Cash in your Account, to you at your Nominated Bank Account.

15.4 If we cease to be an Account Manager

Your Account will close if we stop acting as an Account Manager. We shall give you reasonable written notice if we decide to do this. At the end of that notice period the Account will close but in the meantime you may withdraw or transfer Assets.

16. Indemnity

You will indemnify us and our Nominee against any liability or loss which we or our Nominee may suffer or incur (including taxes for which you are primarily liable and any expenses reasonably and properly incurred) in the proper course of administering your Account, except to the extent arising from any negligence, wilful default or fraud on the part of ourselves or our Nominee.

17. Notices

Except as otherwise provided, notices to Cofunds should be sent to us at our Administration Address. Notices to you will be sent to your last known address and may be copied to your Nominated Intermediary.

18. Information for the Manager

You must give us all information which we reasonably request to manage your Account and tell us promptly if you change your permanent residential address or wish to change your Nominated Bank Account or Nominated Intermediary.

Instructions should generally be in writing and signed by you unless we agree otherwise.

19. Governing law

These Terms & Conditions are governed by and are to be construed in accordance with English law. The information contained in these Terms & Conditions, Key Features inserts, brochure and the Application is based on our understanding of current legislation and Inland Revenue practice and could be affected by changes in legislation and practice.

If there is any conflict between these Terms & Conditions and the ISA/PEP Regulations or other legislation relating to your Account, the ISA/PEP Regulations and/or other legislation will prevail.

The Portfolio/funds included in this application form have been chosen by Chelsea Financial Services PLC, your Nominated Intermediary. They represent a selection of funds available in a Cofunds ISA. Cofunds cannot advise you on which funds to choose or whether the fund selected by Chelsea Financial Services PLC are appropriate for you. Please note that no advice has been given in this offer. If you are in any doubt about the suitability of this investment for you, please contact Chelsea Financial Services.

Cofunds Limited, June 2005.

Cofunds Limited does not offer investment advice or make any recommendations regarding investments.

Issued and approved by Cofunds Limited.

Authorised and regulated by the Financial Services Authority.

Registered Office: 1st Floor, 1 Minster Court, Mincing Lane, London EC3R 7AA.

Registered in England and Wales No. 3965289.

the independent fundmarket

Please note Special Risk Factors on page 55.

AEGON FUND MANAGEMENT UK LTD^R

AEGON House, 3 Lochside Avenue, Edinburgh Park, Edinburgh EH12 9SA

AEGON Extra Income A Fund

Share type: **Acc & Inc** Fund type: **OEIC**

Investment Aims – To achieve a high level of income by investing in a portfolio consisting mainly of UK fixed interest bonds and preference shares, with some investment also in government and other public securities, convertibles and other permitted investments.

Depository **The Royal Bank of Scotland plc**

| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
|---------------------------------|-------------------------|---------------------------------------|--|--|--|
| 1,2,4,5, 6,7,12, 15,18,# | 4.50% | 1.00% | 0.12% | 5.32% | 4.30% |

AEGON Global Income A Fund

Share type: **Acc & Inc** Fund type: **OEIC**

Investment Aims – To maximise total return (income plus capital growth) to investors. The fund will invest in global debt instruments, primarily publicly traded bonds, denominated in any currency. At least 50% of the fund will be invested in either Sterling bonds or foreign currency bonds hedged back to Sterling.

Depository **The Royal Bank of Scotland plc**

| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
|--|-------------------------|---------------------------------------|--|--|--|
| 1,3,4,5, 7,11,12, 15,16,18, 19,21,# | 4.50% | 1.25% | 0.12% | 5.06% | 4.06% |

ARTEMIS FUND MANAGERS LIMITED^R

42 Melville Street, Edinburgh EH3 7HA

Artemis European Growth Fund

Unit type: **Acc** Fund type: **Unit Trust**

Investment Aims – To provide long-term capital growth through investment principally in companies in Europe (excluding the UK). The fund aims to provide investors with a total return in excess of that of the FTSE Europe (ex UK) Index.

Trustee **The Royal Bank of Scotland plc**

| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
|----------------------|-------------------------|---------------------------------------|--|--|--|
| 2,8 | 5.25% | 1.50% | 0.14% | 4.68% | 3.70% |

Artemis Income Fund

Unit type: **Acc & Inc** Fund type: **Unit Trust**

Investment Aims – The aim of the Fund is to produce a rising income combined with capital growth from a portfolio primarily made up of investments in the UK, including ordinary shares, preference shares, convertibles and fixed interest securities.

Trustee **The Royal Bank of Scotland plc**

| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
|----------------------|-------------------------|---------------------------------------|--|--|--|
| 1,5,8,# | 5.25% | 1.25% | 0.13% | 4.72% (Acc) 4.84% (Inc) | 3.74% (Acc) 3.86% (Acc) |

Artemis UK Special Situations Fund

Unit type: **Acc** Fund type: **Unit Trust**

Investment Aims – The aim of the Fund is to provide long-term capital growth by exploiting special situations. The Fund invests principally in UK equities and in companies which are headquartered or have a significant part of their activities in the UK which are quoted on a regulated market outside the UK. The Fund aims to provide investors with a total return in excess of that of the FTSE All-Share Index.

Trustee **The Royal Bank of Scotland plc**

| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
|----------------------|-------------------------|---------------------------------------|--|--|--|
| 3,8 | 5.25% | 1.50% | 0.14% | 4.51% | 3.54% |

FIDELITY INVESTMENT SERVICES LIMITED^R

Kingswood Place, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RB

Fidelity European A Fund

Share type: **Acc** Fund type: **OEIC**

Investment Aims – Objective is to achieve long-term capital growth from a portfolio primarily made up of the shares of continental European companies. The portfolio is likely to have a bias towards medium-sized and smaller companies. However, the ACD is not restricted in the choice of company either by size or industry, or in terms of the geographical split of the portfolio, which is largely determined by the availability of attractive investment opportunities rather than the outlook of each market.

Depository **J.P. Morgan Trustee and Depository Company Limited**

| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
|----------------------|-------------------------|---------------------------------------|--|--|--|
| 2,3,8 | 3.50% | 1.50% | 0.17% | 4.90% | 3.90% |

FIRST STATE INVESTMENTS (UK) LIMITED^R

23 St Andrew Square, Edinburgh EH2 1BB

First State Asia Pacific Leaders A Fund

Share type: **Acc** Fund type: **OEIC**

Investment Aims – The fund aims to achieve long-term capital growth. The fund invests in large and mid capitalisation equities in the Asia Pacific region (excluding Japan, including Australasia).

Depository **The Royal Bank of Scotland plc**

| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
|----------------------|-------------------------|---------------------------------------|--|--|--|
| 2,3,8 | 4.00% | 1.50% | 0.11% | 4.80% | 3.80% |

First State Greater China Growth A Fund

Share type: **Acc** Fund type: **OEIC**

Investment Aims – The fund aims to achieve long-term capital growth. The fund invests in equity and equity related securities issued by companies with either assets in, or revenues derived from, the People's Republic of China, Hong Kong and Taiwan.

Depository **The Royal Bank of Scotland plc**

| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
|----------------------|-------------------------|---------------------------------------|--|--|--|
| 2,3,8 | 4.00% | 1.50% | 0.28% | 4.60% | 3.70% |

FRAMLINGTON UNIT MANAGEMENT LIMITED^R

155 Bishopsgate, London EC2M 3FT

Framlington UK Select Opportunities Fund

Unit type: **Acc & Inc** Fund type: **Unit Trust**

Investment Aims – To achieve capital growth by investing in companies, primarily of UK origin, where the Manager believes above average returns can be realised.

Trustee **The Royal Bank of Scotland plc**

| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
|----------------------|-------------------------|---------------------------------------|--|--|--|
| 2,3 | 5.25% | 1.50% | 0.17% | 4.81% | 3.86% |

Framlington UK Smaller Companies Fund

Unit type: **Acc & Inc** Fund type: **Unit Trust**

Investment Aims – To provide capital growth by investing principally in quoted UK smaller companies.

Trustee **The Royal Bank of Scotland plc**

| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
|----------------------|-------------------------|---------------------------------------|--|--|--|
| 3,8 | 5.25% | 1.50% | 0.12% | 4.55% | 3.67% |

^R This company supports ISA/PEP fund re-registration.

Special Risk Factors – For a definition of 'Special Risk Factors' please refer to the notes at the end of this schedule.

Annual Charges and Expenses

- The annual charges and expenses are taken from income.
- The annual charges and expenses are taken from capital.
- The annual charges and expenses are taken from a mix of income and capital.

Effects of Charges & Expenses

** The Reduced Investment Yield is calculated on a lump sum investment over 10 years assuming an underlying annual growth rate of 7% for ISAs/PEPs and 6% for Unit Trusts/OEICs (for illustration purposes only) based on Accumulation units/shares (where available) or Income units/shares with income distributions reinvested, unless otherwise stated. Dealing costs are not included. The expense rate has been reduced by any tax relief where available.

The Reduced Investment Yields quoted reflect the standard initial charges and do not take account of any discounts or commission waivers that may be available.

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Please note Special Risk Factors on page 55.

GARTMORE FUND MANAGERS LIMITED^R

8 Fenchurch Place, London EC3M 4PH

Gartmore High Yield Corporate Bond Ret Fund

Share type: **Acc & Inc** Fund type: **OEIC**

Investment Aims - The Fund is designed primarily to provide investors with a high level of income by investing in bonds and other securities.

Depository **Citicorp Trustee Company Limited**

| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
|----------------------|-------------------------|---------------------------------------|--|--|--|
| 1,2,4,5,6,7,# | 3.50% | 1.00% | 0.28% (Acc) 0.27% (Inc) | 5.20% (Acc) 5.10% (Inc) | 4.20% (Acc) 4.10% (Inc) |

Gartmore US Opportunities Retail Fund

Share type: **Acc** Fund type: **OEIC**

Investment Aims - The Fund aims to achieve a long-term return, in excess of the long-term return that is typically achieved from North American equity markets, by investing in: companies having their registered office in North America, companies that do not have their registered office in North America but either (i) carry out a predominant proportion of their business activity in these markets, or (ii) are holding companies which predominantly own companies with registered offices in North America.

Depository **J.P. Morgan Trustee and Depository Company Limited**

| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
|----------------------|-------------------------|---------------------------------------|--|--|--|
| 2,8 | 5.00% | 1.50% | 0.26% | 4.50% | 3.60% |

INVESCO FUND MANAGERS LIMITED^R

INVESCO Fund Managers, Invesco Park, Henley-on-Thames, Oxfordshire RG9 1HH

INVESCO PERPETUAL Corporate Bond Fund

Share type: **Acc & Inc** Fund type: **OEIC**

Investment Aims - To achieve a high level of overall return, with relative security of capital. It intends to invest primarily in fixed interest securities. In pursuing this objective, the fund managers may include other investments that they consider appropriate, which may include shares, units in collective investment schemes, warrants and other permitted investments and transactions although the fund will not invest in any instrument which gives rise to stamp duty liability.

Depository **Citicorp Trustee Company Limited**

| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 5% to** (UTs & OEICs) |
|----------------------|-------------------------|---------------------------------------|--|--|--|
| 2,4,6,7 | 5.00% | 1.00% | 0.08% | 4.50% | 3.20% |

♦ The Reduced Investment Yield is calculated on a lump sum investment over 10 years assuming an underlying annual growth rate of 6% for ISAs/PEPs and 5% for Unit Trusts/OEICs (for illustration purposes only) based on Accumulation units/shares (where available) or Income units/shares with income distributions reinvested, unless otherwise stated. Dealing costs are not included. The expense rate has been reduced by any tax relief where available. INVESCO PERPETUAL funds are available for ISA/PEP re-registration for full transfers only, i.e. not partial.

INVESCO PERPETUAL High Income Fund

Share type: **Acc & Inc** Fund type: **OEIC**

Investment Aims - To achieve a high level of income, together with capital growth. The fund intends to invest primarily in companies listed in the UK, with the balance invested internationally. In pursuing this objective, the fund managers may include other investments that they consider appropriate, which may include units in collective investment schemes, warrants and other permitted investments and transactions.

Depository **Citicorp Trustee Company Limited**

| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
|----------------------|-------------------------|---------------------------------------|--|--|--|
| 1,2,4,5,8,# | 5.00% | 1.50% | 0.10% | 4.90% | 3.70% |

JPMORGAN ASSET MANAGEMENT^R

Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ

JPM Japan A Fund

Share type: **Acc** Fund type: **OEIC**

Investment Aims - To provide capital growth over the long term by investing primarily in the shares of Japanese companies.

Depository **The Royal Bank of Scotland plc**

| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
|----------------------|-------------------------|---------------------------------------|--|--|--|
| 2,3,8 | 5.50% | 1.50% | 0.13% | 4.70% | 3.80% |

^R This company supports ISA/PEP fund re-registration.

JPM Natural Resources A Fund

Share type: **Acc** Fund type: **OEIC**

Investment Aims - To provide a portfolio of shares in companies throughout the world engaged in the production and marketing of commodities. The Fund aims to provide capital growth over the long term.

Depository **The Royal Bank of Scotland plc**

| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
|----------------------|-------------------------|---------------------------------------|--|--|--|
| 2,3,8 | 5.50% | 1.50% | 0.17% | 4.90% | 3.90% |

JUPITER UNIT TRUST MANAGERS LIMITED^R

PO Box 300, West Malling, Kent ME19 4YY

Jupiter Emerging European Opportunities Fund

Unit type: **Acc** Fund type: **Unit Trust**

Investment Aims - To achieve long-term capital growth through investment primarily in Central and Eastern Europe.

Trustee **The Royal Bank of Scotland plc**

| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
|----------------------|-------------------------|---------------------------------------|--|--|--|
| 2,3,8,11 | 5.50% | 1.50% | 0.47% | 4.20% | 3.60% |

Jupiter European Fund

Unit type: **Inc** Fund type: **Unit Trust**

Investment Aims - To achieve long-term capital growth from investment in companies quoted on a European Stock Exchange.

Trustee **The Royal Bank of Scotland plc**

| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
|----------------------|-------------------------|---------------------------------------|--|--|--|
| 2,8,11 | 5.00% | 1.50% | 0.34% | 4.40% | 3.80% |

Jupiter Financial Opportunities Fund

Unit type: **Inc** Fund type: **Unit Trust**

Investment Aims - To achieve long-term capital growth principally through investment in equities of financial sector companies on an international basis.

Trustee **The Royal Bank of Scotland plc**

| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
|----------------------|-------------------------|---------------------------------------|--|--|--|
| 2,8,11 | 5.25% | 1.50% | 0.28% | 4.40% | 3.60% |

Jupiter Income Trust

Unit type: **Inc** Fund type: **Unit Trust**

Investment Aims - To produce a high income, increasing at least in line with inflation, from a managed portfolio chiefly invested in UK equities and fixed interest stocks although with some overseas exposure.

Trustee **The Royal Bank of Scotland plc**

| Special Risk Factors | Standard Initial Charge | Annual Management Charge ² | Additional Charges & Expenses ² | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
|----------------------|-------------------------|---------------------------------------|--|--|--|
| 1,2,8,# | 5.00% | 1.50% | 0.24% | 4.40% | 3.50% |

LAZARD ASSET MANAGEMENT LIMITED

50 Berkeley Street, London W1J 8HA

Lazard Emerging Markets Growth R Fund

Share type: **Inc** Fund type: **OEIC**

Investment Aims - To achieve long-term capital growth by investing in companies located in, or doing significant business in emerging market countries.

Depository **State Street Trustees Limited**

| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 6% to (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to (UTs & OEICs) |
|----------------------|-------------------------|---------------------------------------|--|--|--|
| 2,3,8,17 | 3.75% | 1.50% | 0.21% | 4.78% | 3.77% |

The Reduced Investment Yield for this fund is based on a lump sum investment over 10 years and the following underlying growth rates: 6% for ISA/PEP and 6% for Unit Trust and OEIC.

Special Risk Factors - For a definition of 'Special Risk Factors' please refer to the notes at the end of this schedule.

Annual Charges and Expenses

- The annual charges and expenses are taken from income.
- The annual charges and expenses are taken from capital.
- The annual charges and expenses are taken from a mix of income and capital.

Effects of Charges & Expenses

** The Reduced Investment Yield is calculated on a lump sum investment over 10 years assuming an underlying annual growth rate of 7% for ISAs/PEPs and 6% for Unit Trusts/OEICs (for illustration purposes only) based on Accumulation units/shares (where available) or Income units/shares with income distributions reinvested, unless otherwise stated. Dealing costs are not included. The expense rate has been reduced by any tax relief where available.

The Reduced Investment Yields quoted reflect the standard initial charges and do not take account of any discounts or commission waivers that may be available.

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Please note Special Risk Factors on page 55.

LEGAL & GENERAL UNIT TRUST MANAGERS LIMITED^R

2nd Floor, Brunel House, PO Box 1004, Cardiff CF24 0YS

Legal & General High Income Trust

Unit type: **Acc & Inc** Fund type: **Unit Trust**

Investment Aims – To provide an income by investing in a wide variety of fixed interest securities, including overseas issues. Also to provide an income where required.

| Trustee The Royal Bank of Scotland plc | | | | | |
|---|-------------------------|---------------------------------------|--|--|--|
| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
| 4,6,7,12,# | 0.00% | 1.00% | 0.00% | 5.90% | 4.40% |

LEGG MASON INVESTMENTS^R

32 Harbour Exchange Square, London E14 9JX

Legg Mason Japan Equity A Fund

Share type: **Acc** Fund type: **OEIC**

Investment Aims – The objective of this Fund is to achieve capital growth through investment in securities of Japanese companies.

| Depository The Royal Bank of Scotland plc | | | | | |
|--|-------------------------|---------------------------------------|--|--|--|
| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
| 2,3,8 | 4.25% | 1.50% | 0.37% | 4.50% | 3.52% |

Legg Mason US Equity A Fund

Share type: **Acc** Fund type: **OEIC**

Investment Aims – The objective of this Fund is to achieve capital growth, principally through investment in securities of US issuers.

| Depository The Royal Bank of Scotland plc | | | | | |
|--|-------------------------|---------------------------------------|--|--|--|
| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
| 2,8,11 | 4.25% | 1.50% | 0.22% | 4.69% | 3.72% |

LINCOLN UNIT TRUST MANAGERS LIMITED^R

Barnett Way, Barnwood, Gloucester GL4 3RZ

Lincoln Far East Trust

Unit type: **Inc** Fund type: **Unit Trust**

Investment Aims – To invest in countries in the Far East and Australasia, excluding Japan, with a view to obtaining capital growth.

| Trustee HSBC Bank plc | | | | | |
|------------------------------|-------------------------|---------------------------------------|--|--|--|
| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
| 1,2,3,8 | 5.25% | 1.25% | 0.10% | 4.90% | 4.00% |

M&G SECURITIES LIMITED

M&G Group, Fairbairn Business Centre, Laurence Pountney Hill, London EC4R 0HH

M&G Recovery A Fund

Share type: **Acc & Inc** Fund type: **OEIC**

Investment Aims – The Fund's sole aim is capital growth, through primarily investing in a diversified range of companies which are out of favour, in difficulty or whose future prospects are not fully recognised.

| Depository The Royal Bank of Scotland plc | | | | | |
|--|-------------------------|---------------------------------------|--|--|--|
| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
| 2,3,8 | 5.00% | 1.00% | 0.18% | 4.70% (Acc) 4.70% (Inc) | 3.70% (Acc) 3.70% (Inc) |

MARLBOROUGH FUND MANAGERS LIMITED^R

Atlas House, St. George's Square, Bolton, Lancashire BL1 2HB

Marlborough UK Equity Income Fund

Unit type: **Inc** Fund type: **Unit Trust**

Investment Aims – The objective of the fund is to provide investors with an above-average level of income with some capital growth. This is to be achieved by investing in a portfolio mainly consisting of UK equities with the aim of having a yield of which is in excess of 110% of the yield of the FTSE All Share Index.

| Trustee HSBC GIS Limited | | | | | |
|---------------------------------|-------------------------|---------------------------------------|--|--|--|
| Special Risk Factors | Standard Initial Charge | Annual Management Charge ² | Additional Charges & Expenses ² | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
| 1,3,5,8,17,# | 5.00% | 1.50% | 0.08% | 4.60% | 3.62% |

MERRILL LYNCH INVESTMENT MANAGERS LIMITED^R

33 King William Street, London EC4R 9AS

Merrill Lynch UK Dynamic Fund

Unit type: **Acc & Inc** Fund type: **Unit Trust**

Investment Aims – To achieve capital growth through investment principally in a portfolio of quoted UK securities.

| Trustee The Royal Bank of Scotland plc | | | | | |
|---|-------------------------|---------------------------------------|--|--|--|
| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
| 3,8,17 | 5.00% | 1.50% | 0.08% | 4.70% | 3.70% |

Merrill Lynch UK Smaller Companies Fund

Unit type: **Acc & Inc** Fund type: **Unit Trust**

Investment Aims – This Fund invests in smaller companies in the UK which we consider to have above average long-term growth prospects.

| Trustee The Royal Bank of Scotland plc | | | | | |
|---|-------------------------|---------------------------------------|--|--|--|
| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
| 3,8,17 | 5.00% | 1.50% | 0.15% | 4.60% (Acc) 4.60% (Inc) | 3.70% (Acc) 3.70% (Inc) |

NEW STAR INVESTMENT FUNDS LIMITED^R

1 Knightsbridge Green, London SW1X 7NE

New Star European Growth Fund

Share type: **Acc** Fund type: **OEIC**

Investment Aims – To seek long term capital growth principally through investment in the securities of European companies.

| Depository The Royal Bank of Scotland plc | | | | | |
|--|-------------------------|---------------------------------------|--|--|--|
| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
| 1,2,8,17 | 5.25% | 1.50% | 0.37% | 4.45% | 3.48% |

OLD MUTUAL FUND MANAGERS LIMITED^R

5th Floor, 80 Cheapside, London EC2V 6EE

Old Mutual UK Select Mid Cap Fund

Unit type: **Acc & Inc** Fund type: **Unit Trust**

Investment Aims – To provide capital growth from investing primarily in a portfolio of medium sized UK companies.

| Trustee HSBC Bank plc | | | | | |
|------------------------------|-------------------------|---------------------------------------|--|--|--|
| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
| 3,8,11 | 4.00% | 1.50% | 0.08% | 4.80% | 3.80% |

^R This company supports ISA/PEP fund re-registration.

Special Risk Factors – For a definition of 'Special Risk Factors' please refer to the notes at the end of this schedule.

Annual Charges and Expenses

- 1 The annual charges and expenses are taken from income.
- 2 The annual charges and expenses are taken from capital.
- 3 The annual charges and expenses are taken from a mix of income and capital.

Effects of Charges & Expenses

** The Reduced Investment Yield is calculated on a lump sum investment over 10 years assuming an underlying annual growth rate of 7% for ISAs/PEPs and 6% for Unit Trusts/OEICs (for illustration purposes only) based on Accumulation units/shares (where available) or Income units/shares with income distributions reinvested, unless otherwise stated. Dealing costs are not included. The expense rate has been reduced by any tax relief where available.

The Reduced Investment Yields quoted reflect the standard initial charges and do not take account of any discounts or commission waivers that may be available.

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RATHBONE UNIT TRUST MANAGEMENT LIMITED^R

159 New Bond Street, London W1S 2UD

Rathbone Income Fund

Unit type: **Acc & Inc** Fund type: **Unit Trust**

Investment Aims – The investment objective is to achieve above average and maintainable income but without neglecting capital security and growth. The manager intends to achieve the objective primarily through the purchase of ordinary shares with an above average yield. There is no restriction on the economic sectors or geographical areas in which the fund may invest. However, investments will always be predominantly in the ordinary shares of UK companies.

| Trustee The Royal Bank of Scotland plc | | | | | |
|---|-------------------------|---------------------------------------|--|--|--|
| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
| 1,5,8,17,# | 5.50% | 1.50% | 0.10% | 4.60% | 3.60% |

SCHRODER INVESTMENTS LIMITED^R

International Financial Data Services, NATE 346, FREEPOST, PO Box 6100, Basildon SS15 5ZY

Schroder Income A Fund

Unit type: **Acc & Inc** Fund type: **Unit Trust**

Investment Aims – To achieve a growing level of income investing primarily in UK shares which seek to pay out an above average income.

| Trustee J.P. Morgan Trustee and Depository Company Limited | | | | | |
|---|-------------------------|---------------------------------------|--|--|--|
| Special Risk Factors | Standard Initial Charge | Annual Management Charge ² | Additional Charges & Expenses ² | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
| 1,5,8,17,# | 5.25% | 1.50% | 0.11% | 4.90% | 3.90% |

Schroder UK Alpha Plus A Fund

Unit type: **Acc & Inc** Fund type: **Unit Trust**

Investment Aims – The Fund's investment objective is to provide capital growth through investment in UK and other companies. In order to achieve the objective the Manager will invest in a focussed portfolio of securities.

| Trustee J.P. Morgan Trustee and Depository Company Limited | | | | | |
|---|-------------------------|---------------------------------------|--|--|--|
| Special Risk Factors | Standard Initial Charge | Annual Management Charge ² | Additional Charges & Expenses ² | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
| 8,11,17 | 5.25% | 1.50% | 0.03% | 5.00% | 3.90% |

SOCIETE GENERALE INVESTMENT FUNDS LIMITED^R

9th Floor, Exchange House, Primrose Street, London EC2A 2EF

SG American Growth Retail Fund

Share type: **Acc** Fund type: **OEIC**

Investment Aims – The objective of the Fund is to achieve capital growth through investing in the quoted securities of companies mainly in the United States of America although it may also invest in any of the economic sectors of Canada and Latin America.

| Depository Bank of New York Trust & Depository Co Limited | | | | | |
|--|-------------------------|---------------------------------------|--|--|--|
| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
| 2,8 | 5.25% | 1.50% | 0.10% | 4.70% | 3.70% |

STANDARD LIFE INVESTMENTS LIMITED

1 George Street, Edinburgh EH2 2LL

Standard Life Inv UK Opportunities R Fund

Share type: **Acc & Inc** Fund type: **OEIC**

Investment Aims – The objective of the Fund is to provide capital growth over the medium to longer term mainly through investment in small and medium sized UK companies. It is intended that income will not be a prime consideration. The Fund invests in equities and equity-type investments of companies listed on the UK Stock Exchange.

| Depository J.P. Morgan Trustee and Depository Company Limited | | | | | |
|--|-------------------------|---------------------------------------|--|--|--|
| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
| 3,8,17 | 4.00% | 1.50% | 0.20% | 4.80% | 3.80% |

Cofunds Limited does not offer investment advice or make any recommendations regarding investments.

Issued and approved by Cofunds Limited. Authorised and regulated by the Financial Services Authority.

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Please note that the value of investments can go down as well as up and shares should generally be regarded as long term investments.

THREADNEEDLE INVESTMENTS^R

Signal Point, Swindon SN1 1SE

Threadneedle Latin America Growth 1 Fund

Share type: **Acc** Fund type: **OEIC**

Investment Aims – The aim of the Fund is to achieve capital growth through investing mainly in equities of companies domiciled in Latin America or which have significant Latin American operations and it may further invest in fixed income securities such as Sovereign and corporate Latin American Debt, other equities and money market securities.

| Depository J.P. Morgan Trustee and Depository Company Limited | | | | | |
|--|-------------------------|---------------------------------------|--|--|--|
| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
| 2,3,8 | 3.75% | 1.50% | 0.16% | 4.80% | 3.90% |

UBS GLOBAL ASSET MANAGEMENT^R

21 Lombard Street, London EC3V 9AH

UBS US Equity A Fund

Share type: **Acc** Fund type: **OEIC**

Investment Aims – This Fund aims to achieve long-term capital growth through active management of a diversified portfolio invested primarily in US equities.

| Depository State Street Trustees Ltd | | | | | |
|---|-------------------------|---------------------------------------|--|--|--|
| Special Risk Factors | Standard Initial Charge | Annual Management Charge ¹ | Additional Charges & Expenses ¹ | Effect of Charges & Expenses Reduced Investment Yield from 7% to** (ISA/PEP) | Effect of Charges & Expenses Reduced Investment Yield from 6% to** (UTs & OEICs) |
| 1,2,8 | 4.00% | 1.50% | 0.17% | 4.80% | 3.80% |

R This company supports ISA/PEP fund re-registration.

Notes:

Yields

The latest buying and selling prices and estimated distribution yield for all the funds can be found at www.ft.com/funds and many are also published in daily newspapers.

Special Risk Factors

- Part, or all, of the Manager's annual management charge may be charged to the capital, rather than the income of the fund, which could reduce the potential for capital growth.
 - Funds holding non-sterling designated assets will be impacted by exchange rate fluctuations.
 - Investments in certain funds, including emerging markets, smaller companies and technology stocks tend to be volatile and can suffer from partial or total illiquidity, which may lead to considerable price fluctuations and the inability to redeem your investment. In addition, investments in emerging markets are usually considered to carry a greater degree of risk relating to dealing, settlement and custody practices, than investments in established markets.
 - Where a Fund has holdings in fixed interest securities these are likely to be impacted by changes in interest rates and/or inflationary expectations.
 - Where an investment objective is to provide income, when income is paid out, there is a minimal potential for capital growth especially over the medium to long term.
 - Any adverse changes to perceived or actual solvency of organisations in which the Fund invests may affect the Fund's capital and therefore, any income paid by the Fund. In particular, high yield bonds pose a greater risk of capital loss through default.
 - For Funds comprising mainly of Bonds, the Gross Redemption Yield is normally quoted after all charges, but before tax has been deducted.
 - Whilst equity investments carry potential for greater returns over the long term, the volatility on these returns can also be greater and the value of your capital is not guaranteed.
 - The use of derivatives may increase volatility and can cause disproportionate price fluctuations.
 - The capital value of income shares and zeros is at risk if the capital growth of the underlying portfolio is inadequate.
 - These funds can invest across markets and/or sectors but hold a highly concentrated portfolio of stocks. Whilst increasing potential reward, the very concentrated nature of these funds and the lack of diversification can substantially increase risk.
 - Where a Bond fund income/running yield is greater than redemption yield this may erode capital.
 - Bond in which the fund invests usually makes fixed levels of income payment. However, as the fund is constantly buying and selling bonds the level of income that the fund provides will often vary from payment to another.
 - The fund may have some investment in bonds or shares issued by companies in so-called 'emerging markets'. This carries a higher risk than investing in larger, established markets. Investments in emerging markets are likely to experience greater rises and falls in value, and may have problems in trading and settlement.
 - Funds that invest in equities can provide high returns over the medium to long term, but such returns will be subject to greater rises and falls than investing in lower risk assets.
 - Holdings' solvency is the financial fitness of companies in which the fund invests. This can change. Any fall in the financial outlook for, or failure of, such companies can reduce the fund's share price and the income that it pays.
 - When funds invest in bonds overseas currencies, the value will go up and down in line with movements in exchange rates. In addition, the capital and income from a fund will rise and fall due to movements in interest rates.
 - Smaller companies are likely to be financially weaker and less well-established than larger companies. Therefore they are generally a higher risk investment than larger companies.
 - Some of the fund will be invested in 'non-investment grade' bonds. The bond may produce a higher level of income than 'investment grade' bonds but at a higher risk to your capital, as they are more likely to fail to repay their debt.
- # Where the main objective of the fund is to provide an income, the level of income is not guaranteed.
- Key • Acc = Accumulation units/shares
• Inc = Income units/shares
- N.B. Where a Fund Manager is the operator of an Open Ended Investment Company (OEIC) it is important to note that although each sub-fund within the OEIC will be treated as being responsible for meeting its own liabilities, the Authorised Corporate Director may reallocate these in a manner which is fair to all the OEIC investors if any such sub-fund is unable to meet its liabilities. A shareholder will not, however, be liable for the debts of the OEIC after paying the purchase price of the shares. All Fund information has been provided by the respective Fund Managers. Please note that Cofunds only offers retail funds. The information supplied within this document is as accurate and current as we can make it, but we cannot guarantee that the status of any individual fund has not changed since this document was published on 23 September 2005. **The funds included in this document have been chosen by Chelsea Financial Services PLC, your Nominated Intermediary. They represent a selection of funds available on the Cofunds platform. Cofunds cannot advise you on which funds to choose or whether the funds offered by Chelsea Financial Services PLC are appropriate for you.**

viewpoint

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