Using PortfolioOptimiser for your Investment Portfolio

Active fund management requires keen and low priced administration. We have therefore combined our resources with an Administration Provider who is able to offer a very competitive non-discretionary investment service.

- We currently use either Cofunds or Selestia as Administration Providers depending upon suitability. These providers offer a Unit Trust, PEP and ISA wrapper within which it is possible to hold any combination of the majority of all unit trusts and OEICs currently available. There is no charge for the Cofunds wrapper and only a 1% initial charge for the Selestia wrapper.

- For portfolios in excess of £200,000 we charge initial investment management fees of 1.5% of new monies invested at the point they first enter our designated portfolios. For lower value portfolios we charge 3% which is the standard market rate. Our fees are usually paid directly to us by the fund provider and reduce the initial value of the investment proportionately.

- We also charge an annual review fee of 0.5% of the portfolio value. This method of remuneration encourages us to be active in our approach to seek higher levels of return (whilst containing risk).

- Each Investment Manager included in the portfolio levies management charges before declaring the value of your investment. This comprises an initial charge for buying in to the fund which is typically between 0% and 1% of the amount invested. Note that if you bought investments direct then you would face Investment Management charges of between 3% and 5%.

- Each Investment Manager will also levy an annual management charge before declaring the value of your investment. Typically this is between 0.15% - 1.25%.

- We make no charges for the switching of investment funds within a designated portfolio to review the funds for your benefit. Again this would not be possible if dealing direct with the investment providers.

- Our portfolios typically range from a standard deviation of 3.5 to 6, taking standard deviation as a measure of volatility and therefore risk. This means that we can gauge our portfolios to match the different risk tolerance level of each client.

- Our portfolios have been running for in excess of three years using this system and have demonstrated the effectiveness of our approach.

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Investment Management with PortfolioOptimiser

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What is PortfolioOptimiser?

PortfolioOptimiser is a dynamic active fund management system.

When combined with our highly detailed level of background research it enables us to compile, monitor and analyse your investment portfolio to aim for higher than expected investment returns whilst taking lower levels of risk.

How do you choose which investment funds to include in my portfolio?

We use independent research analysis software to source good investments; ideally funds which have demonstrated ability to achieve higher than average results whilst taking lower than expected risks. We can also identify those fund managers who are achieving consistent performance. However, that is only part of the story. We also look at the risk and the related performance of all funds showing how efficient a fund manager is.

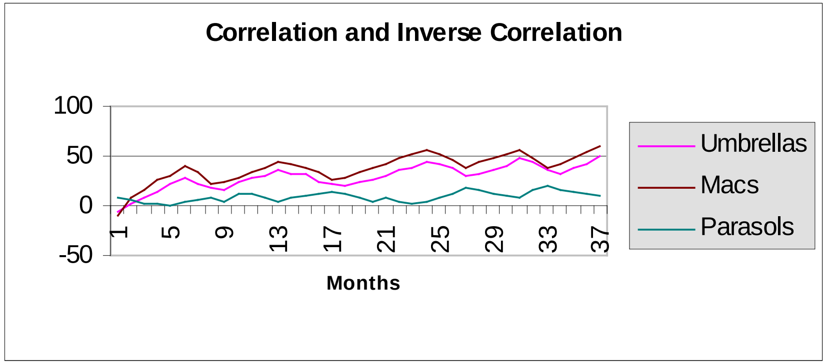
How do you make up the final portfolio?

Next we use a sophisticated statistical program to combine the investments so that we can take advantage of the facts proved by Harry Markowitz in his Nobel-prize winning paper on portfolio management theory. In a nutshell, combining funds with a low correlation to each other produces higher returns for lower risk.

What is Correlation exactly and why is it important?

Many investments follow a similar return pattern of growth and returns. We can identify those investments which have a low level of correlation.

Consider the funds shown on the facing page.



The graph above shows the typical scenario of two funds, Umbrellas and Macs, whose price movement is closely correlated.

Conversely, the movement of the Parasols fund is directly counter-cyclical to the other two funds.

In an ideal world we would choose investments which were exactly negatively correlated so that the investment risk would be significantly and theoretically completely removed.

The *Portfoliooptimiser* system enables us to combine in the most efficient way possible those investments which will work best with other holdings. Seeking diversification not for its own sake but to genuinely reduce the levels of risk within a portfolio.

Why do you use relatively few funds within the portfolio?

Because this is a dynamic method of fund management the numbers of holdings are kept to an efficient minimum enabling us to be highly focused and target only those investments that give us the opportunities we are seeking.

Investments are purchased with the view that they will be reviewed on a continual and aggressive basis. However, this does not mean that they will be switched merely for the sake of switching.