



Investment Process and Fund Selection Procedures



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Section 1: Investment Management Philosophy

Our investment philosophy is to focus purely on the discretionary management of segregated portfolios of collective investment funds. This approach is adopted to allow us to gain exposure for clients to traditional asset classes such as bonds, equities and property. This approach also allows us to provide a diversification of manager, house and geographical risk.

Our investment approach is not to manage direct equity or fixed interest portfolios or portfolios with other alternative investments. The exception to this is where such investments are in portfolios which have been inherited and such management is necessary to allow conversion to collectives.

In providing a discretionary management service to our clients we will look to refer to four core models as follows;

- **Balanced (Growth) Model**
- **Balanced 3% (Income) Model**
- **Income Model**
- **Growth Model**

Consideration is given however to individual client circumstances and it is likely that many client portfolios may not be accurately reflect any of the core models. We will however always look to benchmark an individual portfolio against one of the core models in order to monitor deviation.

More details around the make-up behind the core models can be found in section 2.

Where necessary and appropriate to our clients we will also cater for ethical and/or sector restricted mandates.

Section 2: Investment Models

We currently operate four investment models as follows:

- Balanced (Growth) Model
- Balanced 3% (Income) Model
- Income Model
- Growth Model

2.1 Balanced (Growth) Model

2.1.1. Objective

The objective of the Balanced (Growth) Model is to balance long term capital growth and current income whilst maintaining a moderate risk exposure through a diversified portfolio of collective investments holding UK and international equities, corporate bonds and cash.

2.1.2. Risk Profile

The capital value will fluctuate in the medium term and may be negative over short term horizons. This model should be considered a medium risk investment.

2.1.3. Investment Period

It is recommended that this investment be held for a minimum period of five years.

2.1.4. Liquidity

Liquidity will typically not exceed 50%.

2.1.5. Asset Allocation

The typical asset allocation* for the Balanced model will be as follows:

ASSET ALLOCATION				
UK Equity	40% – 70%			
Overseas Equity	10% – 40%	of which:	US	0% – 10%
			EU	0% – 10%
			Japan	0% – 10%
			Far East	0% – 10%
			Emerging Market	0% – 5%
Bonds	5% – 20%			
Cash	0% – 15%			

*It may be necessary to alter the asset allocation for individual clients' portfolios due to their particular circumstances and requirements. Any such alteration will be clearly recorded in the Investment Management Agreement.

2.2 Balanced 3% (Income) Model

2.2.1. Objective

The objective of the Balanced 3% (Income) Model is to increase the capital value of the portfolio in real terms over the long term through a diversified portfolio of collective investments holding UK and international equities, corporate bonds and cash, while providing an income. The target yield is currently 3%.

2.2.2. Risk Profile

The capital value will fluctuate in the medium term and capital values may be negative over short term horizons. This model should be considered a medium risk investment.

2.2.3. Investment Period

It is recommended that this investment be held for a minimum period of five years.

2.2.4. Liquidity

Liquidity will typically not exceed 50%.

2.2.5. Asset Allocation

The typical asset allocation* for the [Growth] model will be as follows:

ASSET ALLOCATION				
UK Equity	40% – 70%			
Overseas Equity	10% – 30%	of which:	US	0% – 10%
			EU	0% – 10%
			Japan	0% – 10%
			Far East	0% – 10%
			Emerging Market	0% – 5%
Bonds	5% – 20%			
Cash	0% – 15%			

*It may be necessary to alter the asset allocation for individual clients' portfolios due to their particular circumstances and requirements. Any such alteration will be clearly recorded in the Investment Management Agreement.

2.3 Growth Model

2.3.1. Objective

The objective of the Growth model is to increase the capital value of the portfolio in real terms over the long term through a diversified portfolio of collective investments holding UK and international equities, corporate bonds and cash.

2.3.2. Risk Profile

The capital value will fluctuate in the medium term and capital values may be negative over short term horizons. This model should be considered a medium risk investment.

2.3.3. Investment Period

It is recommended that this investment be held for a minimum period of five years.

2.3.4. Liquidity

Liquidity will typically not exceed 25%.

2.3.5. Asset Allocation

The typical asset allocation* for the Growth model will be as follows:

ASSET ALLOCATION				
UK Equity	40% – 70%			
Overseas Equity	10% – 40%	of which:	US	0% – 10%
			EU	0% – 10%
			Japan	0% – 10%
			Far East	0% – 10%
			Emerging Market	0% – 10%
Bonds	5% – 20%			
Cash	0% – 20%			

*It may be necessary to alter the asset allocation for individual clients' portfolios due to their particular circumstances and requirements. Any such alteration will be clearly recorded in the Investment Management Agreement.

2.4 Income Model

2.4.1. Objective

The objective of the Income model is to provide a high initial income through a diversified portfolio of collective investments holding UK and international equities, corporate bonds and cash. Capital growth is a secondary consideration.

2.4.2. Risk Profile

The capital value will fluctuate in the medium term, and may be negative over short time horizons. This model should be considered as a medium risk investment.

2.4.3. Investment Period

It is recommended that this investment be held for a minimum period of five years.

2.4.4. Liquidity

Liquidity will typically not exceed 50%.

2.4.5. Asset Allocation

The typical asset allocation* for the Income model will be as follows:

ASSET ALLOCATION				
UK Equity	30% – 70%			
Overseas Equity	10% – 40%	of which:	US	0% – 10%
			EU	0% – 10%
			Japan	0% – 10%
			Far East	0% – 10%
			Emerging Market	0% – 10%
Bonds	10% – 40%			
Cash	0% – 25%			

*It may be necessary to alter the asset allocation for individual clients' portfolios due to their particular circumstances and requirements. Any such alteration will be clearly recorded in the Investment Management Agreement.

Section 3: Asset Allocation Process

The asset allocation of the investment models is reviewed periodically as required – but as a minimum, will be reviewed each month.

3.1 Asset allocation meetings

As part of the review process, a member of the investment management team will attend quarterly meetings attended by other investment management groups and specialists in hedge funds, investment trusts and property.

The group comprises experts in the fields of direct equities, investment trusts, hedge funds, bonds, property and collectives. The meetings are held quarterly to review each of these areas, but it is for the participant firms to draw their own conclusions.

These will then be discussed as appropriate at the firm's own internal investment management monthly meetings.

3.2 Investment management meetings

The investment management team will meet once a month with a remit to discuss and review the investment models. These discussions will cover:

- Review of asset allocation based on sector/investment class issues
- Review of asset allocation of individual models taking into account benchmark performance

Taking into account appropriate data from quarterly asset allocation meetings and other appropriate research, the team will agree and implement any changes to the models considered appropriate.

Section 4: Manager/Fund Selection

It is important to ensure that selection and make up of funds held within the investment models is continually monitored and reviewed.

Before any fund is approved for use within the investment models, that fund and its manager must be appropriately researched to ensure certain criteria are met.

The research will take into account the track record of the fund manager and house, the resources available, the size of the fund, and the marketing plans to raise further assets

4.1 Initial screening

The entire unit trust/OEIC market is screened taking into account certain preferred characteristics. These are:

- Consistent out-performers across all IMA asset classes. Based on excess return analysis the statistical probability of future out-performance is calculated.

The results of the screening process are used as a guide to reduce the investment universe to a more manageable size for qualitative assessment.

4.2 Manager/fund assessment

The objective of this stage is to identify and assess the fund management process so that we can be sure of what we are buying.

Each year, a detailed manager questionnaire will be sent to the manager for completion and return.

This will then be followed by an in depth discussion/meeting with the manager. These discussions will have an agenda so as to ensure that consistency of content is achieved across all discussions.

4.3 On-going monitoring

Our extensive industry experience means that many managers are well known to us, so the focus is on updating our knowledge base rather than starting from scratch. Once a manager/fund is approved we will record points in the year when they shall be reviewed. The idea behind this is to avoid the need to review all managers/funds at the same time – instead spreading them across a twelve month period.

4.3.1. Manager contact

We aim to be in contact with managers twice a year – either on a face to face basis or on the telephone. These discussions will have an agenda so as to ensure that consistency of content is achieved across all discussions.

4.3.2. Annual questionnaire

Annual questionnaires will be issued to managers for completion and return. These will be issued on a quarterly basis – determined by the agreed review dates as referred to under 4.3.

Appropriate discussions will take place with the managers based on the content of the completed return.

4.3.3. Quarterly fact sheets

Quarterly fact sheets are reviewed to allow us to remain aware of various managers' thoughts.

4.3.4. External research

Other methods of external research are also available to the investment management team to assist them in the monitoring of the managers/funds.

4.3.5. Investment management meetings

The investment management team will meet once a month with a remit to discuss and review providers and funds as appropriate.

These discussions will cover:

- Critical reviews of 'model' constituent funds versus benchmarks and peer groups.
- Attribution analysis of the models in order to understand positive and negative contributions of constituent funds to overall model performance.

Taking into account appropriate data from quarterly asset allocation meetings and other appropriate research, the team will agree and implement any changes to the models considered appropriate.

Appropriate buy and sell notes will be prepared on the back of these meetings.

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