LWM

Consultants Ltd.

Investors in Values

QUARTERLY INVESTMENT COMMITTEE REVIEW REPORT

Q2 2012 - OVERVIEW

Signed off:

Chairman:	________________________	**Paul Berry, Director**
	________________________	**Date**
Members:	________________________	**Nicola McKissick, Client Services Manager**
	________________________	**Date**
	________________________	**Amy Berry, Trainee**
	________________________	**Date**
	________________________	**Shaun Weinbren, Manager**
	________________________	**Date**
	________________________	**George Ladds, Head of Operations (Marketing & Research)**
	________________________	**Date**

IMPORTANT NOTE

This is an internal discussion document, and although the contents may be disclosed to our clients, either in person or via our website, none of the comments constitute advice and should not be seen as a recommendation in anyway. Performance shown is not a reliable guide to future performance and investments can fall as well as rise. The performance shown reflects the charges of the portfolios but does not reflect the charges of the products and any fees taken by LWM Consultants which may reduce the performance figures shown. Permission must be sought by any person looking to use this data in any form.

COMMITTEE NOTES

BACKGROUND

The LWM Investment Committee meets quarterly to review portfolios, and to assess market conditions.

The discussions outlined in this document follow the investment process developed following rigorous research within the marketplace and form a strategic response to the FSA's Treating Customer Fairly Initiative.

The aim is to facilitate LWM to adopt a focused and consistent approach to investment advice, reduce regulatory risk and deliver a competitive client service proposition for investors.

This investment committee report reflects views up to the end of March 2012.

STRUCTURE

The Investment Committee is chaired by Paul Berry and members of the committee include Nicola McKissick, Amy Berry, George Ladds and Shaun Weinbren (who are nominated individuals from the business). The papers are formally approved by Sense network (of which LWM Consultants Ltd are members).

CURRENT MARKET AND ECONOMIC OVERVIEW

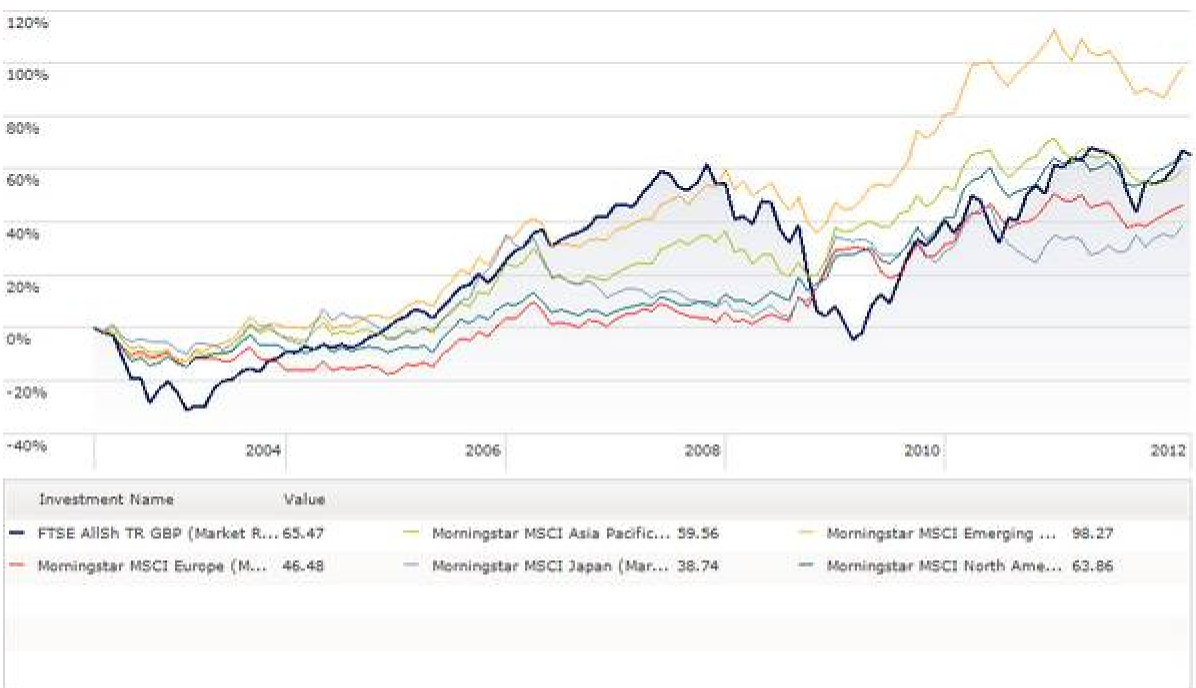
A natural behavioural response for investors is to overreact to negative news. Due to information overload the flow of scary news leads many investors to jump ship for calmer waters. However once they get there, the losses remain and need to be recovered - leaving the big question, when to get back on board.

What we have seen in the first quarter of 2012 is a more positive sentiment in the markets and this has been picked up in the news flow. Markets are up and many of the losses from last year have been eradicated. This has encouraged some investors back into the markets to benefit from this growth, for the many that remain on the side-lines they have missed the run-up which started at the end of last year.

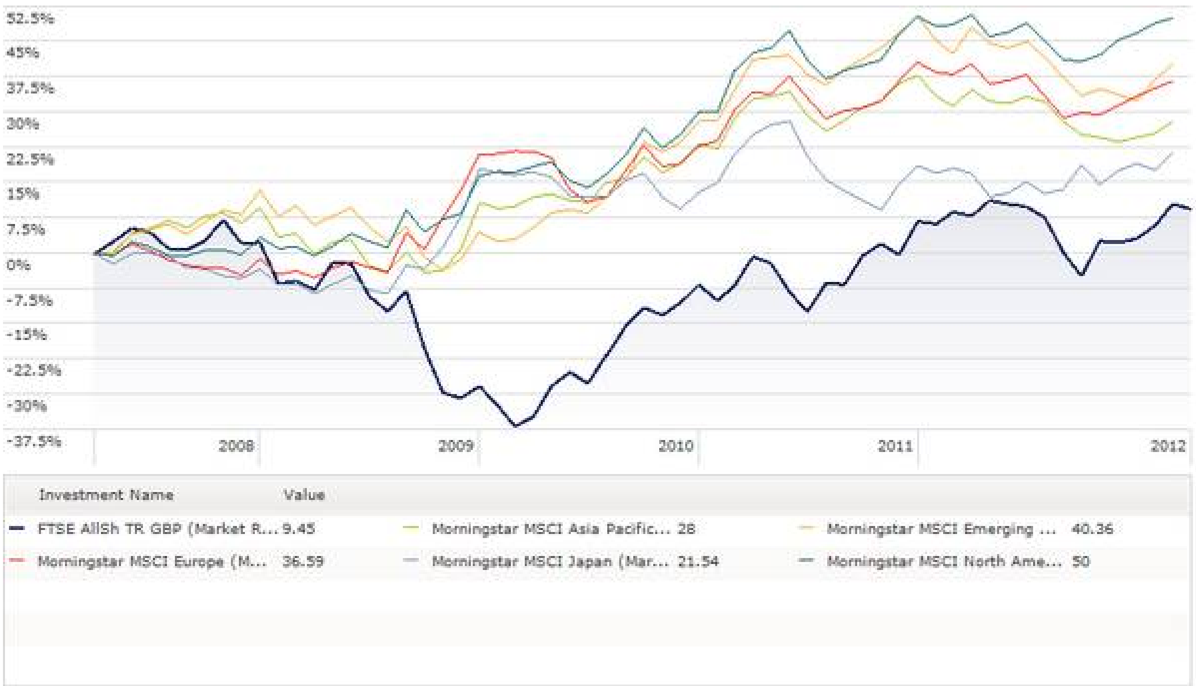
As we highlighted in the last review most of the issues that dogged markets in 2011 are still unresolved, Greece could default, and the Arab uprisings could cause further damage as well as global markets continuing to struggle for economic growth. With borrowing down and households trying to reduce debt, many countries' GDP growth is significantly lower than at any time in recent history. We must acknowledge that slowing economic growth and the unresolved Eurozone sovereign debt crisis continues to hang over the prospects for financial markets in 2012 and beyond.

So whilst we have seen losses eradicated from last year we still believe caution needs to be exercised as renewed bouts of volatility could hit the markets.

Markets performance – 31 March 2002 – 31 March 2012



Markets performance – 31 March 2007 – 31 March 2012



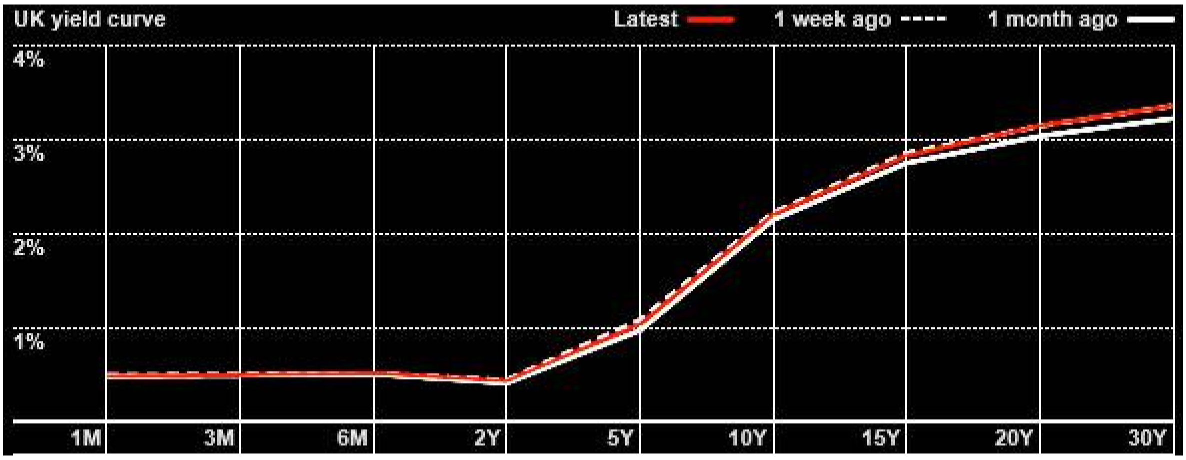
Markets performance – 31 March 2011 – 31 March 2012

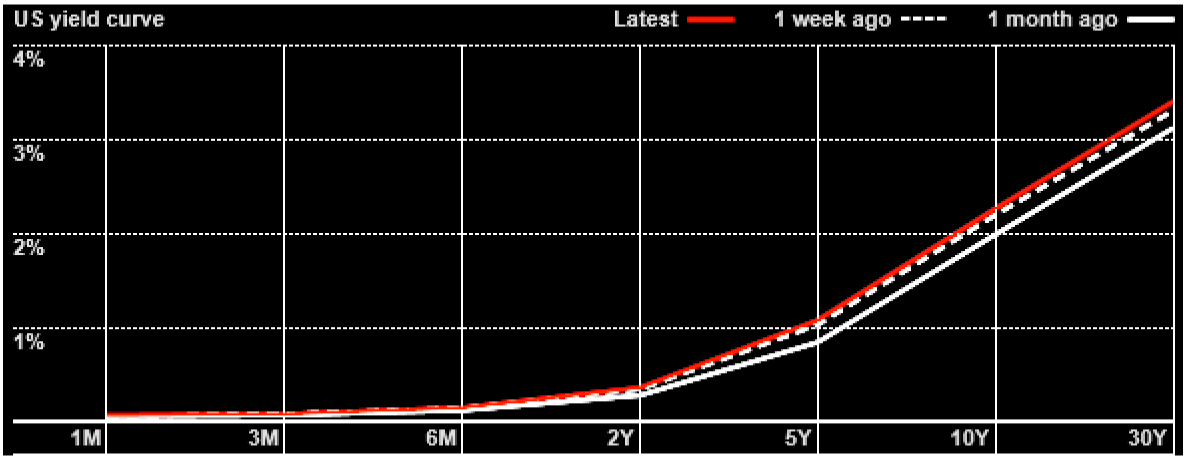
Cash

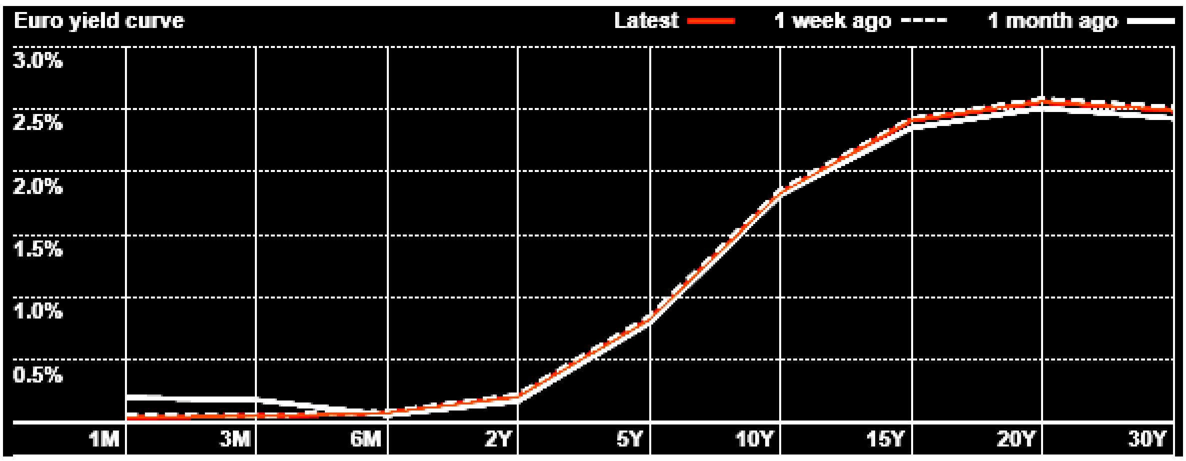
Our view on cash remains the same. At the end of 1999 cash ISAs were on average paying over 6% in interest. For many cash was seen as a safe haven and a way to deliver income whilst at the same time protecting capital. In 2011 this average yield dropped to below 1%.

With inflation still above 3% cash is providing a negative real return and is likely to do so for years to come. A glimmer of hope came recently when some banks increased their variable rate on mortgages and the thought was that they would pass this on to savings customers through an increase in interest rates. However, in reality it is likely they will retain this profit for themselves.

Interest rates are set to remain low until at least 2014; there is a knock on effect for gilt yields which drive income from pension funds. These are now at historic lows meaning more money is needed to provide for income in retirement. Many of our clients have a mixture of pension and investment money to provide income and therefore we are focused on continuing to deliver their income requirements using a mixture of investments and strategies.







The markets

The markets remain fragile and there are many different views on what might happen (because nobody actually knows!). The general view is that the Euro is not likely to collapse although there is a feeling that the Euro is too strong at the moment and is likely to get cheaper over time. There are still question marks over China but significant concern over a hard landing seems to have passed. Although positive news is flowing out of the US many people are pessimistic on the deficit situation and as the country drifts towards the election this will stymie any political action. The deficit must be front and centre post November as unchecked it is a giant chicken waiting to roost.

Europe

The outlook for the Eurozone area remains clouded by the failure of the leaders to structurally resolve the region's sovereign debt issue. This in turn is casting a shadow over business and consumer confidence. The crisis has dragged on for over 18 months and is likely to reignite periodically. It is not likely that Spain, Italy, Portugal or Greece will meet their fiscal targets, what happens then?

The first step was to commit countries to a greater measure of fiscal discipline. This is still fairly grey as based on the measures to be used many countries will fail, secondly the leaders agreed to the creation of a European Stability Mechanism. Although these measures have helped to avoid meltdown they do little to solve the core issues.

Until Germany recognises that to continue to milk the Union for exports with a low currency and cheap borrowing is unsustainable there will be inequalities and tensions. However, the general consensus is that the Eurozone is unlikely to break up as this will cause untold damage not only to leading European economies like Germany but also the global markets. Individual nations' dropping out is still very possible and if the French elect a socialist President the Franco German love fest will end abruptly.

Looking at individual stocks there is still a general feeling that there are extremely good undervalued stocks available in the market. The key is finding companies that can generate profit in a low growth environment. This means focusing on companies which are not Eurocentric but derive profits worldwide.

Reading market reports from many investment houses the consensus is that the downside risk for European equities has already been factored into the pricing and therefore the potential upside is now looking appealing.

Emerging Markets

Global emerging markets are an area for much debate. One sector we think is interesting is the Emerging bond markets where we believe there is greater potential for profits than in the developed debt markets. This is driven by the low interest environment faced by most of the developed countries which stifles potential growth in this area. In developing markets interest rates are higher and therefore there is greater potential for growth as they reduce due to lower inflation.

In addition the currencies of the East are likely to appreciate against those of the West.

Emerging markets focus always seems to centre on China; however the key drivers remain Russia, India, Brazil and China. By mid-February the index for these nations had increased by 17.89% in 2012.

Inflation peaked in the BRIC countries in 2011 and is now heading downward. This in turn is leading to fiscal loosening and should increasingly support economic activity. It is felt that like Europe many stocks offer cheap valuations and the potential for growth. However, although many are positive on the outlook for the emerging markets there are some who remain concerned:

1. Invesco believe that China is dependent on external demand and investment and is therefore vulnerable to any downturn in European markets. They believe that growth is likely to be lower than in 2010. Having said that growth is still expected to be around 7% to 8% in 2012
2. In Latin America one of the biggest challenges will be political with elections in Mexico and Venezuela

If there is progress in Europe and the US then China and the emerging markets are likely to rally strongly. However, if the crisis deepens and if the Eurozone breaks up then all equity markets would trade lower.

Global

There are several factors which could support growth globally. The first is the fall in inflation; this is already beginning to come through and will support household real incomes leading to stronger consumer spending. The second is the strength of the corporate sector; companies have stockpiled cash, built up profits and are creating surplus cash at a record rate of 3% of GDP.

Business investment has been on the increase and this is likely to continue albeit cautiously. If the corporate sector steps up job creation this will help support growth.

The US has shown signs of improvement although this may slow in 2012 and there is of course the presidential election later in the year. Japan has bounced back strongly after the devastating earthquake and tsunami but the trend in Japan is likely to remain with weak domestic growth offsetting strong export performance, a weakening Yen will help exporters.

The risks to the global economy remain fiscal tightening and the Eurozone crisis. The tightening will continue to have a negative effect on growth but it’s really a question of how the economy reacts to that tightening. And secondly the larger risk as we have mentioned previously is the Eurozone. If this goes into a prolonged recession, or a partial or total collapse, this will have a seismic impact on global growth.

In summary globally there are tentative positive signs but there are challenges and risks and these should not be underestimated. Investors will increasingly search for growth and income and this may bring many back to the equity markets, there is a lot of money still on the side-lines.

Conclusion

In the developed world the normal recovery process after a recession has not been evident during the three years since the Lehman bankruptcy. The reason, of course is the over-indebted or impaired state of balance sheets, particularly those of nations, households and financials. This means many developed economies are focusing on debt repayment leading to sub-par economic growth. It is fine to intervene and prevent companies failing but the yin to that yang is that the rebalancing process takes a lot lot longer.

There are however positive signs especially around business investment and if this can lead to job generation then this has the potential to kick start growth. 2012 has the potential to be more positive than 2011 and this has been seen through the strong start in the first quarter of the year however we should not underestimate the challenges and problems. Debts are still massive and will drag like a ball and chain on the developed world economies.

The hope is that things slowly rebalance; the fear is that it becomes violent (either economically and / or socially).

Source: Charts have been sourced from Morningstar. Other data has been sourced from Invesco and Schroders.

FUND MANAGEMENT GROUP OVERVIEW

In the last review we considered a change to the fixed interest section of the portfolios. However, the committee agreed that any changes should take place at the yearly review in June.

The portfolios have been reviewed and back tested. The committee has approved the amended portfolios and these have been sent to Sense for final approval.

George Ladds and Paul Berry have a number of fund manager meetings scheduled over the coming months. In March they met with fund managers from Standard Life Investments, Baillie Gifford and SVM. In May they are due to meet with managers from JP Morgan, Schroders, Neptune, M&G and L&G. They have also met with one of the Investment Team from Threadneedle’s European desk. Notes from these meetings will be added to the website.

The programme for rolling out these changes is detailed below:

May 2012	mailing to clients with proposed changes to portfolios
End of June 2012	re-balance client portfolios

CORE PORTFOLIO PERFORMANCE ANALYSIS

To provide an independent reporting mechanism, all the portfolios are recorded and monitored using Morningstar. The current portfolios were tested using the data below (provided by Sense Network) and reviewed on 30 June 2011. This data will be updated at the end of June 2012 to reflect the changes to the portfolios.

Risk Level	1 Cash	2 Cash	3 Defensive	4 Cautious	5 Cautious	6 Balanced	7 Mod Adv	8 Adv	9 Adv	10 Adv
Lower limit	-0.32%	-4.34%	-8.54%	-11.55%	-14.54%	-17.70%	-20.82%	-23.95%	-27.11%	-30.47%
Average of all returns	3.68%	4.66%	5.46%	5.95%	6.46%	6.80%	7.18%	7.55%	7.89%	8.03%
Upper return	7.68%	13.66%	19.46%	23.45%	27.46%	31.30%	35.18%	39.05%	42.89%	46.53%
Volatility			14.00%	17.50%	21.00%	24.50%	28.00%	31.50%	35.00%	38.50%
			LWM Def	**LWM Caut**		**LWM Bal**	**LWM Mod Adv**		**LWM Adv**	

Using these benchmarks we have back tested the portfolios and the key information is detailed below:

LWM Portfolios – Standard Life

	LWM Defensive	LWM Cautious Income	LWM Cautious Growth	LWM Balanced	LWM Mod Adventurous	LWM Adventurous
Volatility	8.22%	9.06%	10.30%	13.50%	15.50%	16.82%
Benchmark Volatility	8.18%	8.18%	8.18%	12.17%	14.20%	14.20%
Alpha	4.94%	5.37%	6.16%	6.17%	6.65%	7.72%
Beta	0.96%	1.02%	1.06%	1.05%	1.04%	1.11%

	LWM Defensive	LWM Cautious Income	LWM Cautious Growth	LWM Balanced	LWM Mod Adventurous	LWM Adventurous
Equity	39.31%	40.19%	49.88%	65.81%	76.26%	82.88%
Fixed Income	23.79%	18.81%	17.62%	10.20%	6.58%	1.56%
Property	0.87%	0.00%	0.87%	1.05%	0.70%	0.35%
Cash	15.63%	12.87%	13.56%	10.22%	8.92%	5.05%
Other	13.40%	11.13%	11.08%	6.72%	7.55%	8.17%
Not Classified	7.00%	17.00%	7.00%	6.00%	0.00%	2.00%

LWM Portfolios – Skandia

	LWM Defensive	LWM Cautious Income	LWM Cautious Growth	LWM Balanced	LWM Mod Adventurous	LWM Adventurous
Volatility	8.43%	9.06%	10.46%	12.46%	14.67%	16.33%
Benchmark Volatility	8.18%	8.18%	8.18%	12.17%	14.20%	14.20%
Alpha	4.53%	5.15%	5.43%	5.50%	5.70%	7.72%
Beta	0.96%	1.00%	1.03%	0.99%	1.01%	1.07%

	LWM Defensive	LWM Cautious Income	LWM Cautious Growth	LWM Balanced	LWM Mod Adventurous	LWM Adventurous
Equity	40.71%	43.18%	52.23%	66.04%	77.46%	82.18%
Fixed Income	23.72%	18.61%	17.51%	9.87%	6.17%	1.16%
Property	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cash	15.62%	12.64%	13.45%	10.52%	8.92%	4.63%
Other	12.95%	11.56%	9.81%	9.56%	7.45%	6.03%
Not Classified	7.00%	14.00%	7.00%	4.00%	0.00%	0.00%

The portfolios fall within the parameters set and the committee agreed that no action was required.

Performance

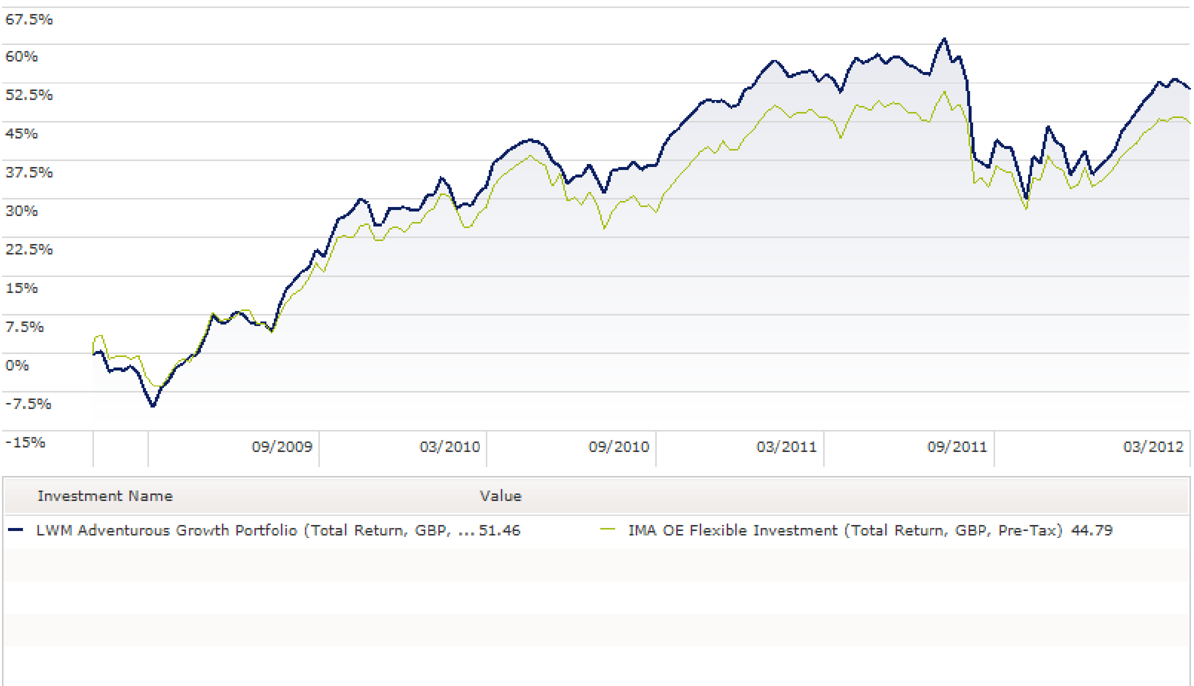
The portfolios have reflected the optimism in the market and delivered positive returns in this first quarter. The committee remains happy that the portfolio are positioned well to deliver good long term performance, and the tweaks in June will reflect this with a majority of the funds being kept in the portfolios.

Summary table:

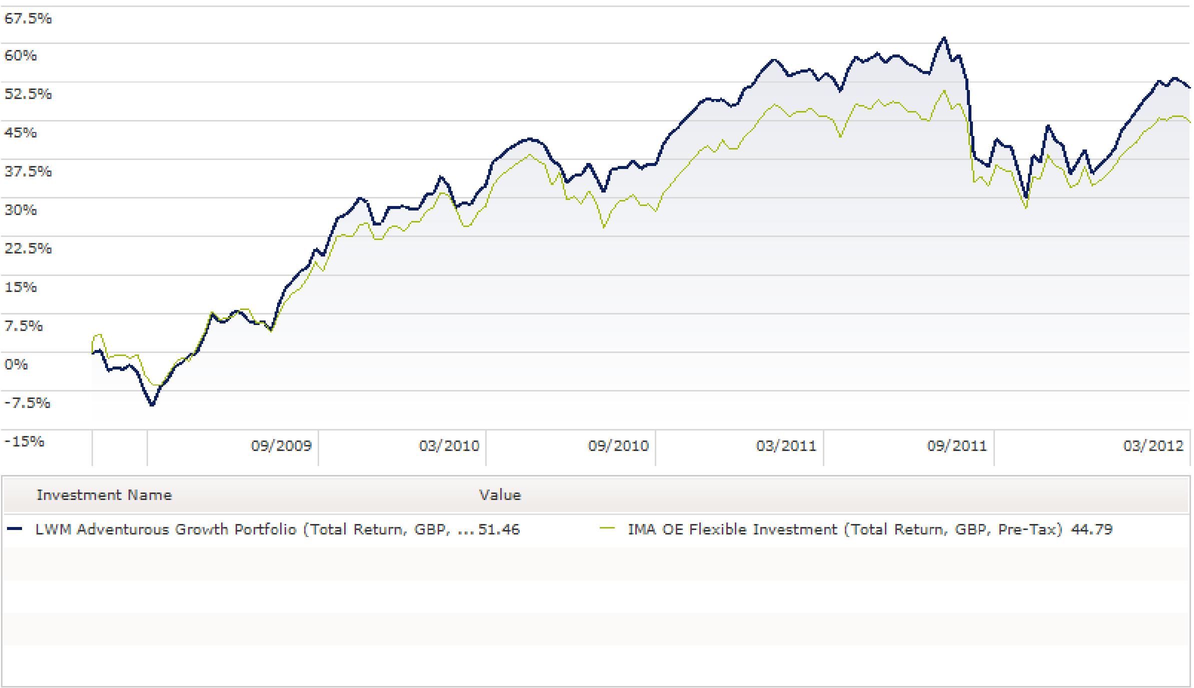
	IMA Global Sector	LWM Defensive Growth	LWM Cautious Income	LWM Cautious Growth	LWM Balanced Growth	LWM Moderately Adventurous Growth	LWM Adventurous Growth
2012	8.52%	6.25%	6.18%	6.79%	8.56%	9.15%	9.88%
2011	-9.16%	-3.46%*	-2.29%	-4.25%	-7.93%	-10.29%	-11.51%
2010	15.85%	-	17.38%	17.38%	18.39%	18.97%	18.97%
2009	23.04%	-	28.63%	28.63%	30.01%	30.95%	30.95%
Since launch (p.a.)	8.99%	-	13.84%	13.07%	12.33%	11.80%	11.29%

*since launch on 30 June 2011

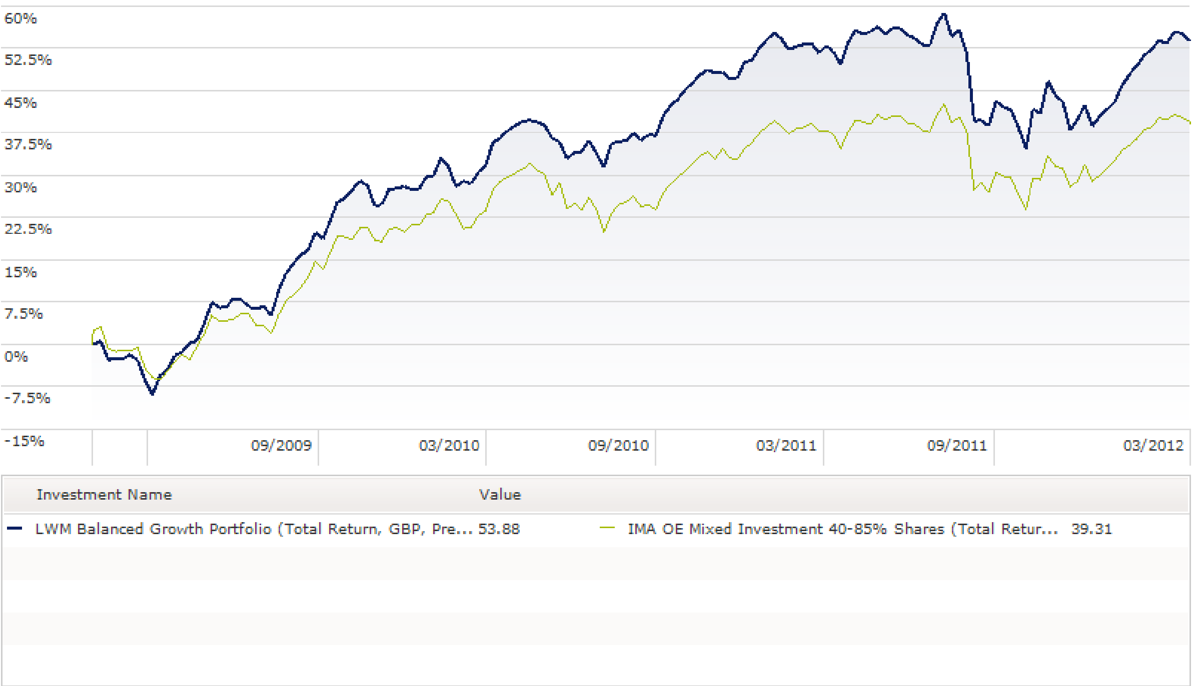
LWM Adventurous Portfolio



LWM Moderately Adventurous Portfolio



LWM Balanced Portfolio



LWM Cautious Portfolio

Investment Name	Value		
LWM Cautious Growth Portfolio (Total Return, GBP, Pre-...	54.39	IMA OE Mixed Investment 20-60% Shares (Total Retur...	31.88

LWM Cautious Income Portfolio

Investment Name	Value		
LWM Cautious Income Portfolio (Total Return, GBP, Pre-...	56.63	IMA OE Mixed Investment 20-60% Shares (Total Retur...	31.88

LWM Defensive Portfolio

Conclusion

The committee remains comfortable through back testing and deep analysis that the portfolios fall well within the stated benchmarks. The committee remain comfortable they are positioned to meet long term objectives.

Source: The lower and upper return limits and average returns are sourced from the Old Mutual Group. They show the implied volatility and mean expected return on the risk levels between 1 and 10 to two standard deviations (i.e. all returns are expected to be between these extremes in 95 years out of 100; this is described as a 95% confidence level).

So the upper and lower limit at what should be expected given the level of risk – there is a 2.5% chance that returns could fall outside the limit in any one year. The average is the average of all possible returns within a risk level on one year.

The volatility is the difference between the average return and the prescribed limits. In practical terms the maximum swing or volatility is 24.50% on the Balanced Portfolio; we have back tested the current holdings in all the portfolios and using the Balanced Portfolio as an example our holdings indicates an actual volatility of about 13.50% which is below the maximum rate.

On the performance this is based on all the holdings of the portfolio since launch, although it reflects the charges of the fund it doesn't reflect any rebates or the product charges and fees.

CHANGES TO PORTFOLIOS

During the last quarter, the following changes occurred to the funds (sourced from Morningstar):

Alert type	Date	Security	Direction	Previous Value	New Value
Morningstar Rating Change	07/03/2012	L&G UK Alpha	Down	5	4
Morningstar Rating Change	07/03/2012	M&G Optimal Income	Down	5	4
Morningstar Rating Change	08/02/2012	JPM Global Consumer Trends	Down	3	2
Morningstar Rating Change	10/01/2012	3i Infrastructure	Up	3	4
Morningstar Rating Change	10/01/2012	Newton Balanced GBP	Down	5	4
Morningstar Rating Change	10/01/2012	Standard Life UK Smaller Companies	Down	4	3

Conclusion

In conclusion there were no fundamental changes to the funds so the committee agreed no changes were required.

REGULATORY ISSUES

The FSA has indicated that advisers should look at a wider sphere of investments when providing advice, and in turn this may filter down to construction of portfolios. This situation is being monitored closely and appropriate action will be taken when more information is to hand.

WEBSITE

The website is being updated to reflect performance data to the end of March 2012. This will be passed to Sense for formal approval.

CONCLUSION TO REVIEW

The Investment Committee concluded that no fundamental changes where required to the portfolios at this stage as the annual review is currently being undertaken

The next review is set for the end of the June.