

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 June 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

The start of the year saw positive sentiment with investors starting to return to the market. As highlighted in the last update the issues that dogged 2011 remained unresolved and at any point threaten to rear their ugly head.

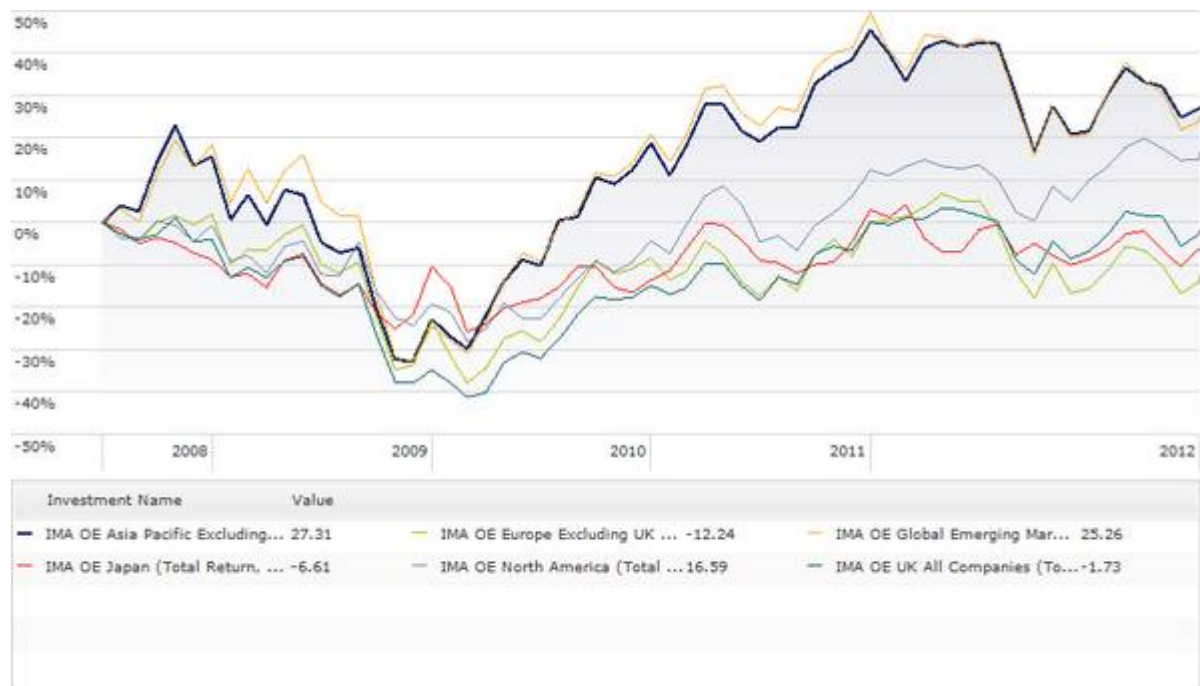
We urged caution highlighting that renewed bouts of volatility could hit the markets at any point. In the last quarter the uncertainty from 2011 returned to the markets. The first round of elections in Greece created further uncertainty and the new elections did little to resolve the problems.

However, following our meetings with fund managers in February and May we believe for long term investors the markets still offer the best opportunity for long term growth. It is also clear that there is a great deal of mispriced opportunities within the market, and at some point this will be recognised.

Markets performance – 30 June 2002 – 30 June 2012



Markets performance – 30 June 2007 – 30 June 2012



Markets performance – 30 June 2011 – 30 June 2012

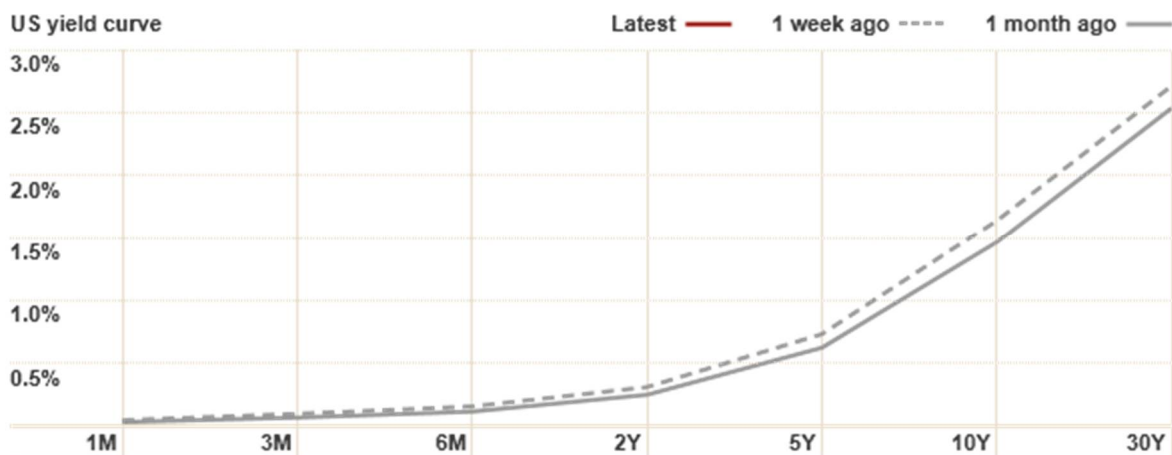
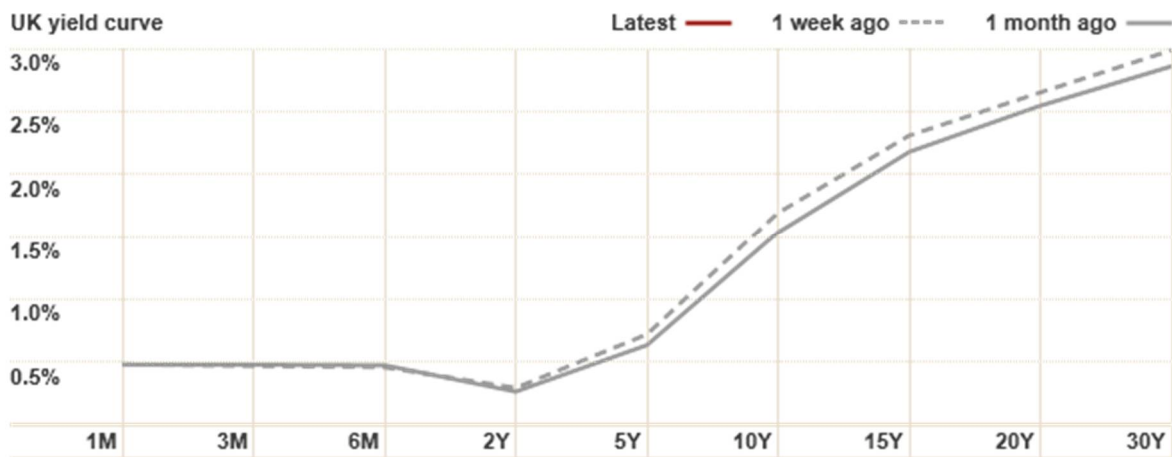


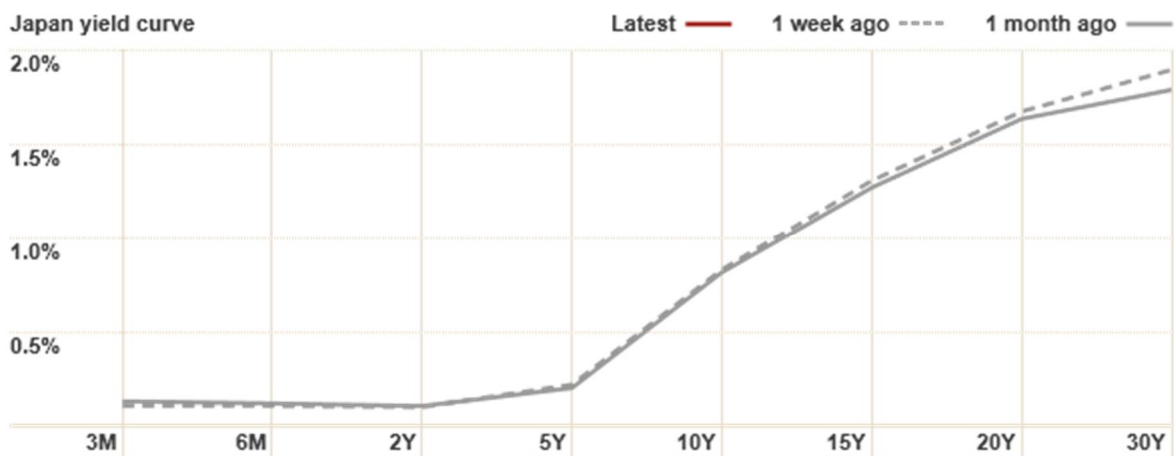
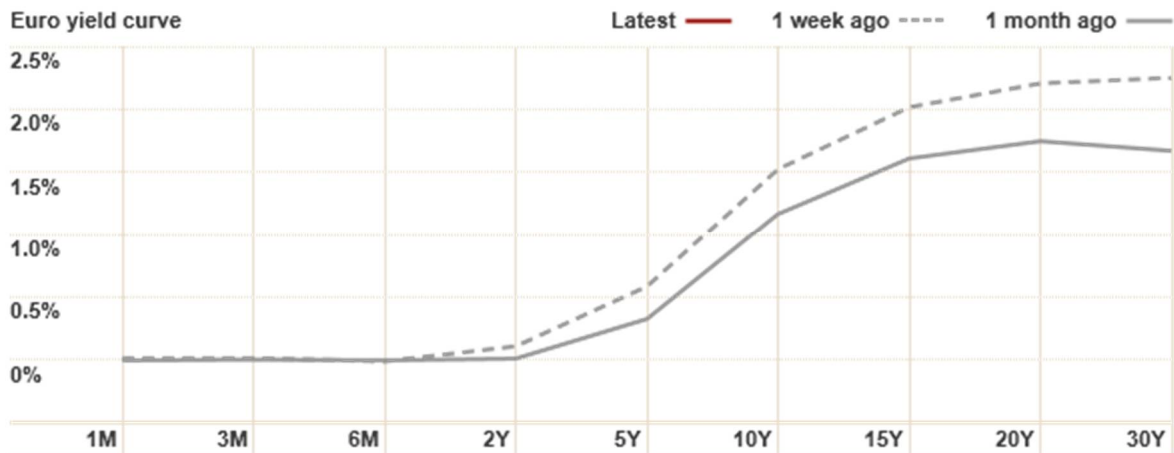
Cash

There was some welcome news for cash investors as inflation dipped below 3% but in reality many cash investors are losing money in real term. The increase in variable rates has not seen any profit from this being passed to savers.

Any hope of a rapid increase in interest rates was dashed when the IMF recommended the UK should decrease interest rates further. The Bank of England has publicly stated that they will not rule out reducing interest rates further. Whatever happens, the general view is that interest rates are unlikely to increase until 2016 at the earliest.

The challenge for many, fuelled by old thinking, is that cash is safe and a place for retirement savings. This was perhaps correct when life expectancy was five years but with retirement 20 years plus for many, cash should be not be seen as the only way to provide income and growth potential in retirement.





The markets

The markets remain fragile and our view from the last quarter remains. We have seen changes of government in France and Greece. There is no quick fix for Greece and Europe. Certainly some fund managers feel it would have been better for Europe if Greece had dropped out of the Euro and for the pain to be taken now rather than continue with an uncertain future.

The markets were also spooked by China reducing interest rates but the view we have had from many fund managers is that the China story is still likely to grow with internal consumption coming to the forefront.

Europe

The outlook for the Eurozone area remains clouded by any clear coherent strategy, and growth in many EU countries is hampered by debt and high unemployment. Ultimately the problem with Europe is that there is no integration and the rich and powerful nations are subsidising the poorer ones.

The first step in overcoming this is to have a convergence of political policies and a central bank which can print money and buy debt. A view which seemed abhorrent to many 2 or 3 years ago now seems more palatable.

The view remains from a number of fund managers we have spoken to that the downside risk for European equities has already been factored into the pricing. The other aspect when looking to

invest in Europe is that many fund managers are looking at companies which have a global perspective rather than being Europe centric.

So for example BMW derives 50% of its profits from emerging markets and its reliance on Europe as a market is starting to fall.

Emerging Markets

Following on from our recent meeting with Baillie Gifford it is clear that there is a convergence between global developed and emerging markets in terms of volatility. So for example UK equities have volatility around 21.1% compared to 23.7% for emerging markets.

The other interesting factor is that the IMF has indicated that global emerging markets make up around 13% of the global equities market. They expect this to increase to 40% in the foreseeable future.

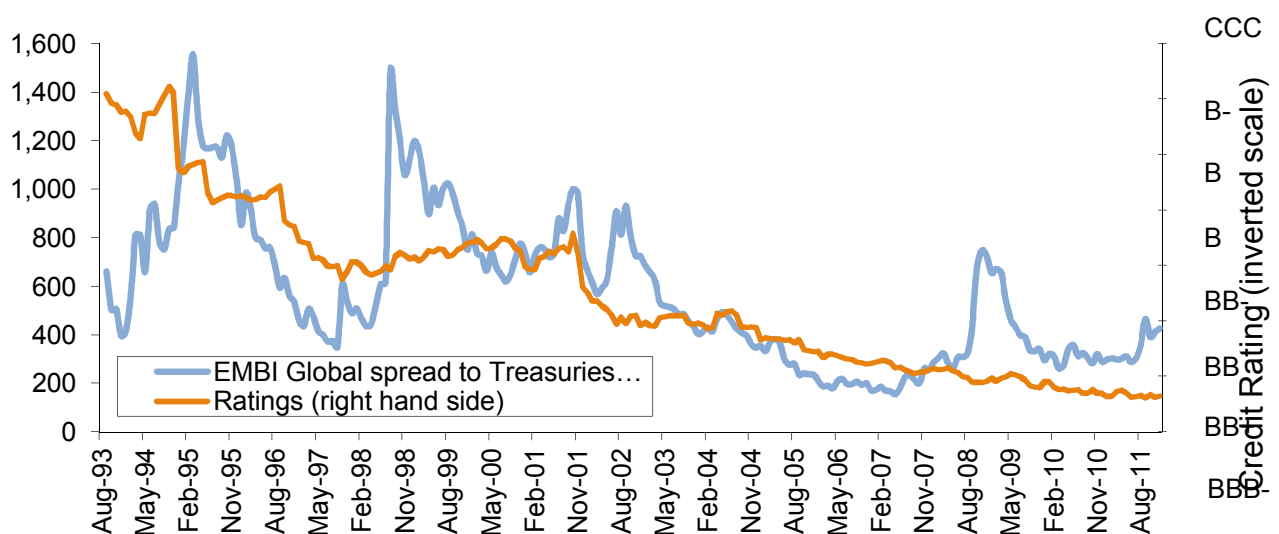
It is in no doubt that China is the powerhouse of the emerging markets. It has invested heavily in the resource rich economies of Latin America and Africa and now it is moving towards other regions.

One of these areas is Emerging Europe. This includes states like Bulgaria, Serbia and Hungary as well as Turkey and Russia.

This seems to be something missed by many when they consider a hard landing in China. The world's economic axis is tilting further eastwards as western tilting nations continue to grapple with sovereign debt issues and subdued growth prospects.

Turkey saw its ratio of EU15 exports fall from 47% in 2007 to 39% in 2011 as they diversified into other geographical markets such as Latin America.

Taking this a step further the likes of Russia, Poland and the Czech Republic have obtained investment grade status and the likelihood of sovereign loan default is perceived to be higher in some peripheral Eurozone countries. The graph illustrates this really well:



We believe long term emerging markets offer exciting long term growth prospects.

Global

Of course globally all the focus appears to be on Europe however speaking to a fund manager recently they are less concerned about Greece and Europe and see the US as a greater risk for them. The view is that the markets see that the US is heading in the right direction with good positive news. Unemployment figures are down and there is an improvement in consumer spending.

However, the uncertainty is the election in November and the outcome is far from certain and therefore it is difficult to judge what impact this will have. It is certainly clear that the US is a case of wait and see but for the time being the news is positive.

In the UK inflation took a surprise dip but the IMF warning that the UK should reduce interest rates has meant that forecasters expect that rates will remain at their historic lows until 2016. The biggest fear is deflation and with a double dip recession the UK has an upward climb towards growth and prosperity.

In summary the view remains we are on a global tightrope and the risks should not be underestimated but companies are in a lot better shape than they were pre Lehman with strong earnings and cash balances. Some of these are mispriced by the markets such that they could deliver once in a generation returns in a very short period of time.

Conclusion

There are more positive signs in the developed markets especially the US but uncertainty in Europe continues to depress markets.

In emerging markets new economies are driving growth and although not immune from what is happening we can see the likes of Turkey becoming less reliant on Europe and seeking growth from other markets.

There is still a view that at some point the markets will return to some form of norm, but this norm may mean that we need to accept a greater degree of volatility to achieve long term returns.

Source: Charts have been sourced from Morningstar. Other data has been sourced from Invesco, JP Morgan, Standard Life, Baillie Gifford, the IMF and Schroders.

FUND MANAGEMENT GROUP OVERVIEW

In the last review we confirmed that the new portfolios had been approved. A summary of the changes is shown below:

Fixed Interest

One sector we believe is attractive is emerging market debt where there is greater potential for profits than in developed markets. This is driven by the low interest environment faced by most of the developed countries which stifles potential returns. In emerging markets interest rates are higher and therefore there is greater potential for asset rises as lower inflation brings lower interest rates.

We have therefore reduced exposure to developed market debt and increased exposure to emerging market debt in all of the portfolios. In researching this we found the volatility to be lower for emerging market debt than developed debt. So with this change we are lowering volatility and opening up the potential for greater growth going forward. We are recommending Threadneedle Emerging Market Bond Fund and Baillie Gifford Emerging Markets Bond Fund.

The only portfolio not to have exposure to emerging market debt is the Adventurous Portfolio which only has exposure to the Standard Life GARS Fund.

UK Equity

The only major changes are the introduction of the L&G UK Alpha Fund and Standard Life UK Equity Income Unconstrained Fund.

US Equities

In reviewing the portfolios we identified that the Schroder US Mid Cap Fund and BlackRock US Opportunities Fund were delivering similar styles in terms of where they invested. Following further research we opted to keep the Schroder US Mid Cap Fund and removed the BlackRock US Opportunities Fund.

We have introduced three new funds– Allianz RCM US Equity Fund, AXA Framlington American Growth and F&C US Smaller Companies Fund.

European Equities

The main change was the removal of the Neptune Russia and Greater Russia Fund on the Adventurous Portfolio which was replaced by the JP Morgan New Europe Fund which provides a broader exposure to “New Europe”. The other change was the Ignis Fund which we felt was too high risk for the portfolios it was part of.

Other new funds introduced into the portfolios were Liontrust European Growth Fund, Baillie Gifford European Fund and Invesco Perpetual European Opportunities Fund.

Japan and Far East

Towards the end of 2011 GLG closed their highly successful Core Alpha Fund to new business.

The Japanese market is very difficult to analyse. The markets look cheap on the conventional metrics but Japan has many unique elements both culturally and financially and remains an enigma to most.

We have made a call to reduce our exposure to Japan significantly and added to our weightings in the Far East where we believe there is greater potential and spread to achieve long-term returns.

We will continue to monitor this and potentially we could remove Japan as a holding and just hold assets in the Far East and / or Emerging Markets. To replace GLG we have turned to a number of funds – M&G Japan Smaller Companies Fund, Schroder Tokyo and Schroder Japan Alpha Fund.

Global Equities

The only major change was the removal of the Newton Balanced Fund. We have also introduced some new funds into the mix which includes Standard Life Global Smaller Companies Fund, Investec Special Situations and Invesco Perpetual Financial Capital Fund.

A summary of the changes for each of the portfolios is on the website and have added a new underweight / overweight document. We have also met over 50% of the fund managers or their teams and we will look to see as many of the key fund managers or teams over the coming months.

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 2012.

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	-0.64%	-4.65%	-8.81%	-11.93%	-14.91%	-18.03%	-21.16%	-24.35%	-27.53%	-30.95%
Average of all returns	3.36%	4.35%	5.19%	5.64%	6.23%	6.69%	7.12%	7.51%	7.90%	8.05%
Upper return	7.36%	13.35%	19.19%	23.21%	27.37%	31.40%	35.41%	39.37%	43.33%	47.05%
Volatility	4.00%	9.00%	14.00%	17.57%	21.00%	24.71%	28.29%	31.86%	35.43%	39.00%
			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	7.32%	8.42%	9.35%	12.31%	14.61%	15.66%
Benchmark Volatility	6.90%	6.90%	6.90%	10.72%	12.36%	12.36%
Alpha	3.53%	4.14%	3.71%	4.72%	5.29%	5.08%
Beta	0.95%	1.03%	1.08%	1.06%	1.09%	1.16%

	LWM Defensive	LWM Cautious Income	LWM Cautious Growth	LWM Balanced	LWM Mod Adventurous	LWM Adventurous
Equity	45.85%	55.11%	58.29%	74.15%	81.35%	87.71%
Fixed Income	33.03%	23.93%	24.82%	16.84%	12.08%	2.22%
Property	4.59%	3.61%	4.04%	0.34%	0.34%	0.17%
Cash	13.79%	12.38%	10.54%	6.28%	3.95%	4.02%
Other	2.74%	4.97%	2.32%	2.38%	2.29%	3.87%
Not Classified	0.00%	0.00%	0.00%	0.00%	0.00%	2.00%

LWM Portfolios – Skandia

	LWM Defensive	LWM Cautious Income	LWM Cautious Growth	LWM Balanced	LWM Mod Adventurous	LWM Adventurous
Volatility	7.37%	9.03%	9.32%	11.62%	13.93%	15.70%
Benchmark	6.90%	6.90%	6.90%	10.72%	12.36%	12.36%
Volatility						
Alpha	3.54%	3.67%	3.66%	3.85%	4.29%	3.91%
Beta	0.94%	1.05%	1.06%	1.01%	1.05%	1.15%

	LWM Defensive	LWM Cautious Income	LWM Cautious Growth	LWM Balanced	LWM Mod Adventurous	LWM Adventurous
Equity	46.60%	59.29%	59.31%	71.92%	78.48%	89.99%
Fixed Income	32.59%	23.35%	24.28%	16.38%	11.49%	1.89%
Property	4.33%	3.61%	3.61%	2.89%	2.89%	1.45%
Cash	13.60%	11.18%	10.30%	6.95%	5.12%	4.40%
Other	2.88%	2.56%	2.40%	1.89%	2.01%	2.27%
Not Classified	0.00%	0.00%	0.00%	0.00%	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 and pessimism in the market and delivered positive returns in the first half of this year. The committee remains happy that the portfolios are positioned well to deliver good long term performance, and the changes in June reflect this with a majority of the funds being kept in the portfolios.

Summary table:

	Defensive Portfolio	Cautious Income Portfolio	Cautious Growth Portfolio	Balanced Portfolio	Moderately Adventurous Portfolio	Adventurous Portfolio	IMA Global Sector
2012	4.07%	5.04%	4.09%	5.07%	4.03%	3.80%	2.17%
2011	-	-2.02%	-4.50%	-8.28%	-11.57	-11.65%	-9.64%
2010	-	17.79%	17.79%	18.90%	19.60%	19.60%	15.71%
2009	-	32.60%	32.60%	34.06%	35.24%	35.24%	27.87%

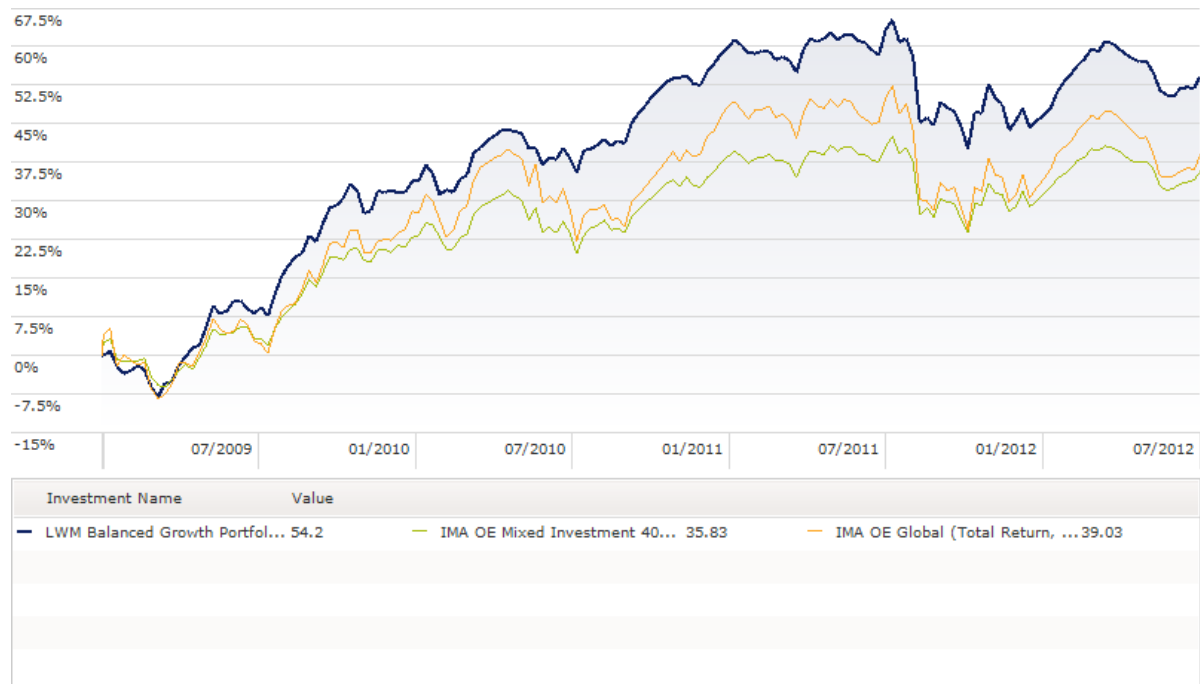
LWM Adventurous Portfolio



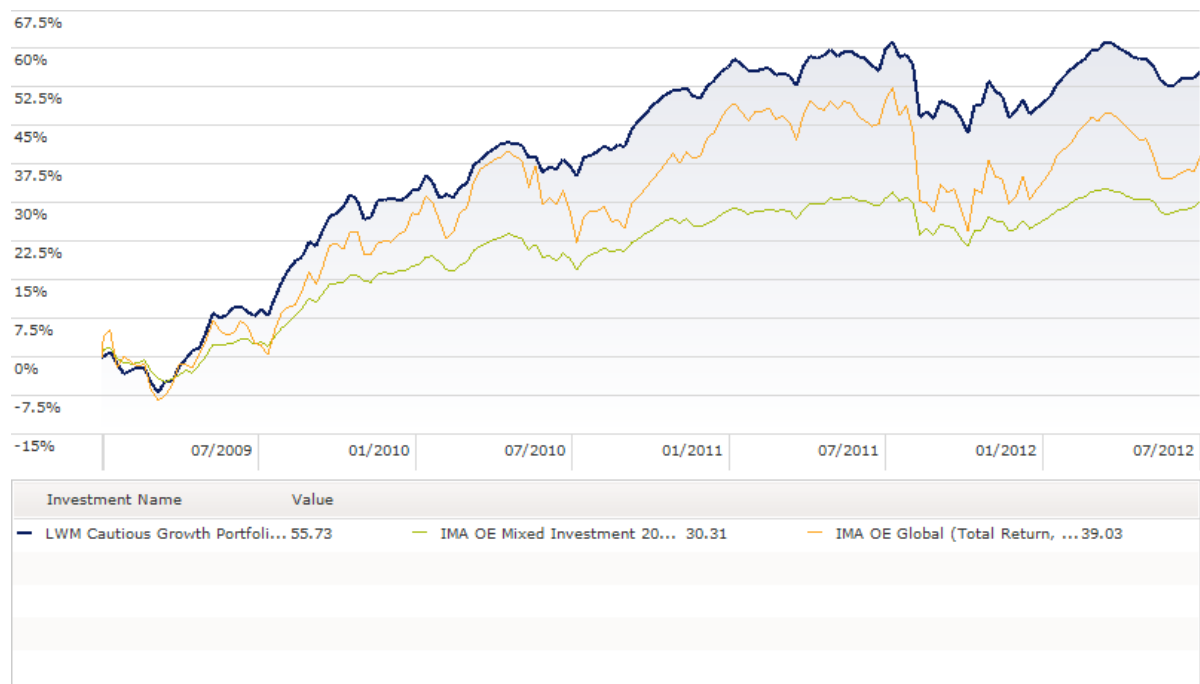
LWM Moderately Adventurous Portfolio



LWM Balanced Portfolio



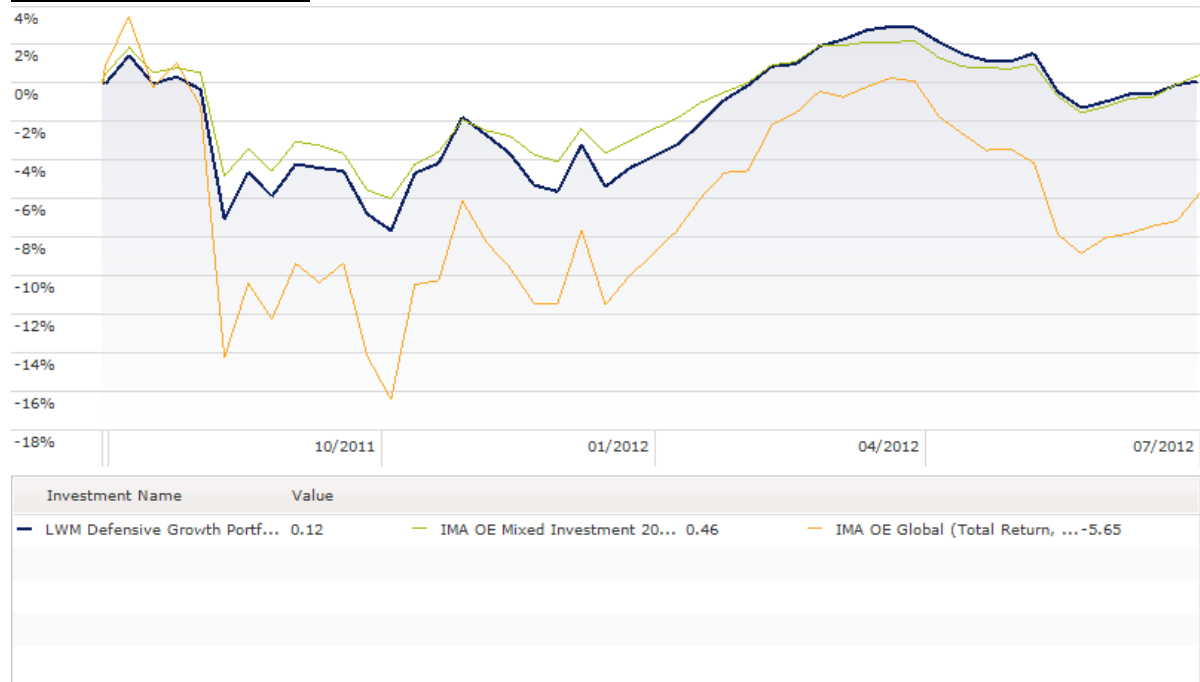
LWM Cautious Portfolio



LWM Cautious Income Portfolio



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 24.71% 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 12.31% 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.

As an example of how this will impact on the performance, assuming the total gross cost of the portfolio is 1.5% p.a. (this is reflected in the performance figures shown), then after rebates and reflecting any fees payable to LWM Consultants the actual cost of this portfolio could be 2.13% p.a. (on a fund of £100,000 this would be £2,130 p.a.) This means that the drag on performance is around 0.63% p.a. (on a fund of £100,000 this would be £630 p.a.) So in 2011 the return on the Balanced Growth Portfolio was -8.28%, the net return after rebates and fees would have been -8.91%. This is an indication of costs as the assets and costs will move.

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	10/06/2012	M&G Recovery A Acc	Down	5	4
Morningstar Rating Change	08/05/2012	Investec Em Mkt Lcl Ccy Dt A Acc Grs GBP	Down	4	3
Name Change	04/05/2012	Allianz US Equity A		Allianz RCM US Equity A	Allianz US Equity A
Name Change	04/05/2012	Investec Global Special Sits A Net Acc		Investec Global Special Situations A Net	Investec Global Special Sits A Net Acc
Morningstar Category Change	01/05/2012	Schroder Income Maximiser A Acc		Europe OE UK Large-Cap Value Equity	Europe OE UK Equity Income
Morningstar Category Change	01/05/2012	Neptune UK Special Situations A		Europe OE UK Large-Cap Value Equity	Europe OE UK Flex-Cap Equity
Morningstar Category Change	01/05/2012	M&G Recovery A Acc		Europe OE UK Large-Cap Blend Equity	Europe OE UK Flex-Cap Equity
Morningstar Category Change	01/05/2012	Threadneedle Amer Sm Cos Ret Net Acc		Europe OE US Mid-Cap Equity	Europe OE US Mid-Cap Equity
Morningstar Category Change	01/05/2012	Schroder US Mid Cap Acc		Europe OE US Mid-Cap Equity	Europe OE US Mid-Cap Equity
Fund Manager Change	27/04/2012	Threadneedle Emerg Mkt Bd Ret Grs Acc £		Richard House	James Cielinski, Henry Stipp
Fund Manager Change	25/04/2012	IP Global Smaller Companies Acc		Bob Yerbury	Management Team
Fund Manager Change	24/04/2012	Threadneedle Amer Sm Cos Ret Net Acc		Cormac Weldon	Diane Sobin, Cormac Weldon
Fund Manager Change	22/04/2012	M&G Recovery A Acc		Tom Dobell, Michael Stiasney, David Williams	Tom Dobell
Morningstar Rating Change	07/04/2012	JPM Natural Resources A Acc	Down	4	3
Morningstar Rating Change	07/04/2012	IP European Opportunities Acc	Down	5	4
Morningstar Rating Change	07/04/2012	Neptune European Opportunities A Acc	Down	4	3
Morningstar Rating Change	07/04/2012	Schroder Glbl Property Securities A Acc	Down	4	3

Fund Manager Change	05/04/2012	JPM Natural Resources A Acc		Ian Henderson	Neil Gregson
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Conclusion

The major change in the last quarter was the change of fund manager for the Threadneedle Emerging Market Bond Fund. The fund manager has left to join Standard Life along with two members of his team. We met with Threadneedle and felt fundamentally the changes would not impact on the performance of the fund over the long term.

With the exception of the point above there were no fundamental changes to the funds so the committee agreed no changes were required.

REGULATORY ISSUES

The main question centres around RDR and whether as a business we opt for a restricted or independent route. The latest paper from the FSA has not really clarified things and left more questions than answers. We have raised this with Sense and are waiting feedback from them.

WEBSITE

The website has been updated to reflect performance data to the end of June 2012.

CONCLUSION TO REVIEW

The markets still remain volatile but as was recently highlighted the new norm of volatility may be what we should expect and actually the upward growth we saw in the eighties and nineties were outside the long term norm.

Looking at the client side the rebalance exercise is progressing well and almost all clients have returned their forms.

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