LWM Consultants Ltd

Fund Manager Briefing Note

Standard Life GARS Fund

During the course of this year I will be pulling out funds from our portfolios and reviewing them. It seemed apt to start with the Standard Life GARS Fund as this provides a foundation for all of the portfolios we offer, and many clients additionally have this as a separate holding. The holding in the portfolios varies from 30% in the Defensive Portfolio to 5% in the Adventurous Portfolio.

What does the fund look to achieve?

The Global Absolute Return Strategies (GARS) Fund aims to provide investors with positive investment returns in all market conditions. For example last year when the Global Fund Sector was down 9.34% the GARS Fund was up 2.19%.

It is looking to achieve and see if it is delivering on this. The aim is to deliver a target return of cash plus 5%. On the current basis this would 6.40%. Over the last three years the fund has returned 11% p.a.

So to date the fund has delivered on its aims.

Is the fund an alternative to cash?

This is an interesting debate, the straight answer is no because 1) the capital is not guaranteed 2) the return is not guaranteed, and 3) the fund can fall in value.

The problem is that cash is seen as a risk free investment; only ten years ago it was used to provide income in retirement. However, consider in 1999 the average cash ISA was paying 6.3%, in 2011 this had dropped to 0.84%. If you are taking the same level of income then your capital is depleting fast and when adding in inflation at 4.2% it is delivering a negative real return.

It is therefore commonly accepted by many that there is no longer such a thing as a risk free investment.

If we leave our cash in poor performing accounts then actually although the capital is safe we will be losing money in real terms (currently by 4% plus per annum).

The point is that the GARS Fund is not the same as cash and it can’t be seen as a replacement but what it does do is provide a valuable alternative long term investment with reduced volatility and the ability to produce positive returns in falling markets.

Focus on performance

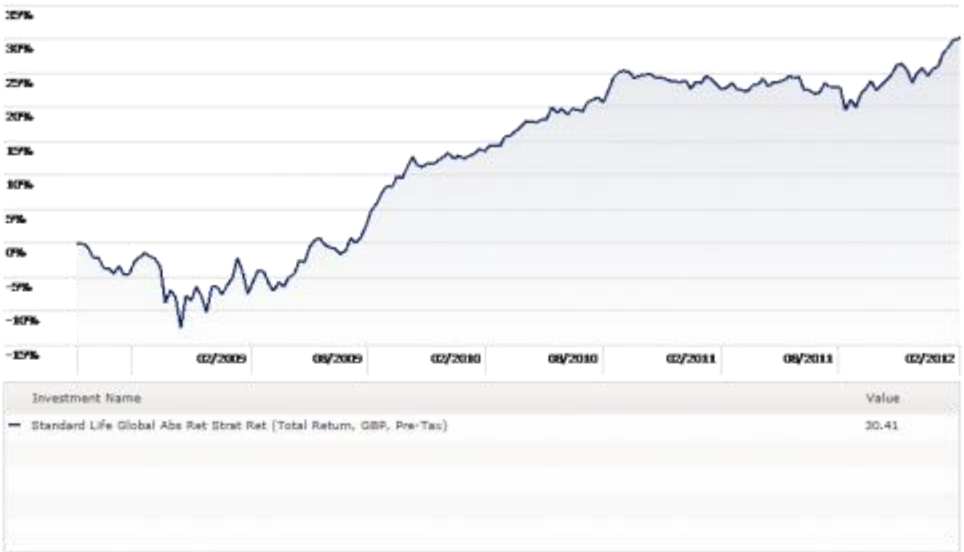
2011 was a challenging year for investments, during this period returned a positive 2.19% - putting this into perspective:

- The global funds sector was <u>down</u> 9.34%
- The average ISA account paid 0.84%

For the purposes of benchmarking the cash return is based on the 6 Month Libor Rate (currently 1.394344%) – over three years the target would be 6.40%.

Despite the horrid start in 2008 (where the fund dropped by 5.26%) the fund has provided positive returns over each period and exceed this target over three years and since launch.

2008	2009	2010	2011	2012	Since launch
-5.26%	18.67%	9.90%	2.19%	2.94%	7.34% p.a.



Source: Morningstar Advisor Workstation

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

How is the fund managed?

The fund like this is complex and to have a single central figurehead would in our view carry an extra degree of risk, and therefore a team approach is crucial to its success. This means the members can blend their expertise across different investment instruments to reduce the volatility and provide the target returns.

The fund does hold equities but the strategy uses four complementary strategies:

1. Market returns – this is adjusting the portfolio to reflect market conditions, so for example lower equity exposure in times of market volatility
2. Directional – this is taking a view on interest rates and currency changes over the short and long term
3. Relative values – this is searching out value in one market when compared to another
4. Stock selection – look for stocks which will outperform their benchmark

Conclusion

The fund is an excellent foundation for the portfolios, we are planning to meet the team in March and we will continue to monitor the fund to ensure it delivers on its expectations.