



LWM Consultants Ltd

Fund Manager Briefing Note

Threadneedle European Smaller Companies Fund

The Threadneedle European Smaller Companies Fund is held in the higher volatility portfolios. We recently met Francis Ellison who is an Investment Specialist at Threadneedle and has insight both on the funds capabilities and the general outlook in Europe. In this review we pull out some of his thoughts to highlight key elements of the fund and why we have selected it.

What does the fund look to achieve?

The fund focuses on European Smaller Cap companies holding typically between 80 – 100 stocks. It searches out stocks which sit outside the top 225 FTSE World Europe ex UK universe.

The team have adopted a disciplined investment process which reduces risk, limits volatility and diversifies by opportunity. Ultimately it is looking to outperform the HSBC European ex UK Smaller Companies index by 2 – 2.5% p.a. over a rolling three year period.

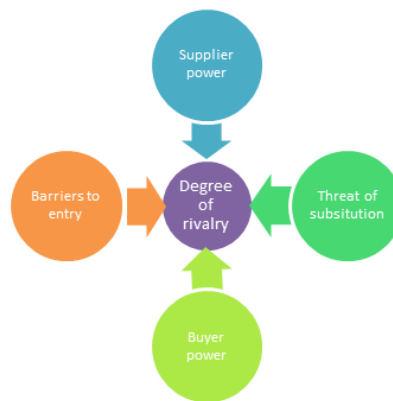
How is the fund managed?

The style of management is based initially on a screening process which looks for high quality companies, rather than focusing on numbers. This approach is akin to Warren Buffett. This means that by looking for quality stocks, they are held for long periods of time. The approach also means that currently they hold almost no banking or technology stocks.

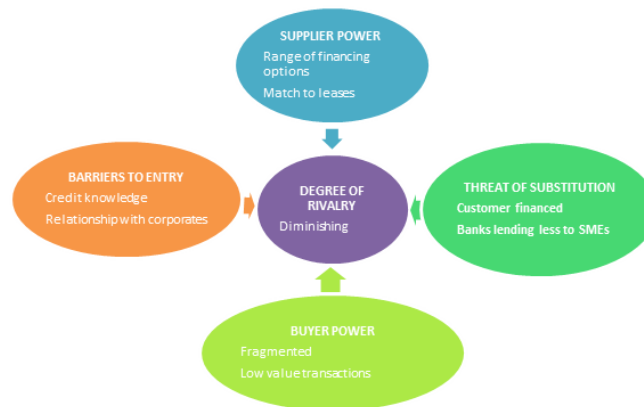
Threadneedle work on investment process which they call “out-think, out-perform”.

Threadneedle have refined a system called Porter’s Five Forces to assess the quality of business models and competitive advantage (as well as a wide variety of other analytical and valuation tools).

Porter's Five Forces focuses on four primary areas which feed into one overall metric:



Francis illustrated this approach by running through the holding of *GRENKELEASING*, a supplier of leasing equipment to small and medium size companies across Europe, to show how this works in practice.



So growth is driven from competitors leaving and new markets, the fund currently holds just over 2% in this stock.

Stock selection is one of the processes, before the stock selection is finished the teams feed ideas through which focus on a range of factors including the economic background, sectors and themes. Each stage involves the team with the fund manager making the final decision.

How has the fund performed?

The fund has stellar performance and has outperformed the HSBC European Smaller Companies ex UK Index since inception by 5.2% p.a

| ANNUALISED PERFORMANCE | | | | |
|--|----------|--------|-------|--------|
| | 2012 YTD | 2011 | 2010 | 2009 |
| Threadneedle European Smaller Companies Fund | 6.2% | -7.3% | 39.2% | 38.7% |
| HSBC European Smaller Companies Ex UK Index | 8.6% | -21.8% | 21.7% | 55.2% |
| | -2.1% | 18.5% | 14.4% | -10.6% |

| ANNUALISED PERFORMANCE | | | |
|--|--------|-------|-----------------|
| | 2008 | 2007 | Since inception |
| Threadneedle European Smaller Companies Fund | -41.0% | 4.5% | 16.1% |
| HSBC European Smaller Companies Ex UK Index | -49.5% | -3.0% | 10.4% |
| | 16.9% | 7.7% | 5.2% |

Source: Morningstar and FactSet as at 31 January 2012. Fund returns gross of tax and TER for comparison with indices. All data is quoted in euros. Gross performance from 31 March 2010 onwards is based on daily cash flows and valuations, from 1 January 2008 to 31 March 2010 based on Global Close prices, and prior to January 2008 based on 12pm prices. Fund data is quoted on a bid to bid basis with income re-invested at bid. Index data provided by Thomson Financial DataStream. Inception is 30 September 2002.

The performance figures take into account all fund / asset charges but do not reflect any additional charges, for example the cost of the investment plan and fees paid to LWM. These expenses may reduce the actual figures shown. 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.

About the fund manager

The fund is managed by David Dudding; David joined Threadneedle as an analyst in 1999 before taking up the reigns of the fund in 2002, he also manages the European Select Fund. The Smaller Companies Fund has the highest independent rating by Morningstar (five stars) which demonstrates its pedigree.

The team approach is crucial to the success of the fund and David is supported by a 22 strong European team who operate within Threadneedle Investments' wider team of more than 130 investment professionals. The combination of the two helps the fund to deliver on its target to outperform the market.

Threadneedle is a global fund management company and last year won over 120 performance awards, including over 30 awards for their global and UK European funds.

Conclusion

Meeting one of the team brings alive the process behind the fund, we see no reason to remove this fund from the portfolios. We also feel confident that the systems are robust that should a change of management occur there would be little change to how the fund is currently performing.

The source of information in this note has been provided by Threadneedle and is correct as at 31 January 2012. These are notes from discussions with Threadneedle and should not be seen as a recommendation to purchase this fund. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should also note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise.