For investment professionals only

asset management

Model portfolio services

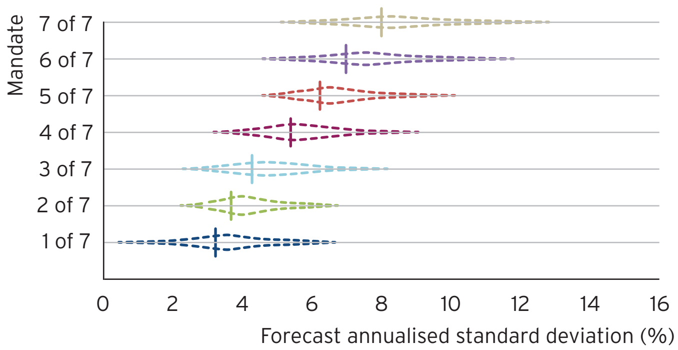
Summary

- Up to seven risk mandates to meet a variety of client objectives
- Choose from collectives, securities, passives or unit trusts (unitised securities models)
- Diversified asset and geographical exposure to reduce risk
- Investment universe is subject to quantitative and qualitative analysis on a variety of metrics
- Asset classes managed dynamically within long term strategic ranges
- Underlying holdings under constant supervision
- Rebalanced at least quarterly to avoid portfolio drift

Reasons to recommend model portfolios

Diversified holdings	Each portfolio holds a diversified mix of asset classes including cash, equities, fixed income and alternatives in varying proportions according to the risk mandate
Research and selection	Holdings are subject to stringent research, selection and monitoring
Dynamic risk management	Strategic upper and lower limits fixed for each asset class, with flexibility to move between these limits to implement tactical changes
Unique blends	We don't scale the same set of holdings up or down but instead create a specific blend of holdings for each mandate
Discretionary service	No need to obtain client permission before rebalancing, saving time and administration resource for you and your clients
Established investment model	A robust, scalable, centralised investment model from an investment manager that has been around for over 40 years
Regular rebalancing	Rebalanced at least quarterly to maintain long term risk and asset allocation objectives and prevent portfolio drift
Accessible	Model portfolios and Optima funds are available on a wide variety of investment platforms

Models (solid) versus strategic ranges (dashed)



This illustrative risk graph shows that the model portfolios adopt an increasing level of risk as the scale ascends. The potential range of risk may overlap that of other models, but the tactical allocations ensure that each successive model has more risk and return potential than the previous model.

<table>
<tr><th>Model</th><th>Mandate 1 of 7</th><th>Mandate 2 of 7</th><th>Mandate 3 of 7</th><th>Mandate 4 of 7</th><th>Mandate 5 of 7</th><th>Mandate 6 of 7</th><th>Mandate 7 of 7</th></tr>
<tr><td>Passives</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td colspan="8">Features
Designed for investors who want to invest in funds that track underlying markets, typically at a lower cost and with less tracking error than actively managed funds
Holds 15-30 passive and tracker funds
Will include active funds and investment trusts as appropriate
Income generated can be paid to the client or reinvested at rebalance
Rebalanced at least quarterly or more frequently if circumstances demand
</td></tr>
<tr><td>Collectives</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td colspan="8">Features
Designed for investors who want the potential to outperform wider markets, sometimes by taking positions at variance with benchmarks
Holds 20-30 actively managed collective funds
Will include passive funds and investment trusts as appropriate
Income generated can be paid to the client or reinvested at rebalance
Rebalanced at least quarterly or more frequently if circumstances demand
</td></tr>
<tr><td>Securities</td><td>✗</td><td>✗</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td colspan="8">Features
Designed for investors who want the potential to outperform wider markets, sometimes by taking positions at variance with benchmarks. The UK equity exposure is typically more concentrated than the collectives models and with no fund management costs attached
Holds 20-30 actively managed collective funds and 25-35 UK shares
Will include passive funds and investment trusts as appropriate
Income generated can be paid to the client or reinvested at rebalance
Rebalanced at least quarterly or more frequently if circumstances demand
</td></tr>
<tr><td>Optima funds</td><td>✗</td><td>✓</td><td>✗</td><td>✓</td><td>✗</td><td>✓</td><td>✗</td></tr>
<tr><td colspan="8">Features
Designed for investors who want the potential to outperform wider markets, sometimes by taking positions at variance with benchmarks. The UK equity exposure is typically more concentrated than the collectives models. The unit trust structure enables management of client’s capital gains tax liabilities
Holds 20-30 actively managed collective funds and 25-35 UK shares
Will include passive funds and investment trusts as appropriate
Income can be paid as a quarterly dividend or accumulated in the fund
Rebalanced on a continuous basis
</td></tr>
</table>

Passives

Key benefits

- Passive funds are typically cheaper than actively managed funds and therefore costs impact performance to a lesser degree, particularly over the long term

- Blending different manager styles and types of tracker (for example by including smart beta) can increase diversification

Key risks

- Passive funds are designed to track a market index so will participate in market falls even when they are predicted or prolonged

- Passive funds do not offer the potential to outperform the wider market in the way that actively managed funds might

Collectives

Key benefits

- Active funds have the potential to outperform the wider market, sometimes by a considerable margin

- Blending different manager styles and fund focus can increase diversification

Key risks

- Active funds usually have higher charges than passives which can be detrimental to returns, especially over the long term

- Actively managed funds may deliver more volatile returns than passives, especially if they have strong 'conviction' managers

Securities

Key benefits

- UK equity portion held in lower cost securities rather than funds, saving money especially in the higher risk, higher equity allocation portfolios

- Securities selected by the Thesis proprietary stock selection screen with additional qualitative analysis

Key risks

- The securities holdings may mean a more concentrated UK equity exposure than funds would provide

- Lower risk mandates may not realise any cost benefits because of their lower allocation to equities

Optima funds

Key benefits

- Can help clients manage their tax liabilities as no CGT is payable until the unit trust is sold

- UK equity portion held in lower cost securities rather than funds, saving money especially in the higher risk, higher equity allocation portfolios

Key risks

- The securities holdings may mean a more concentrated UK equity exposure than funds would provide

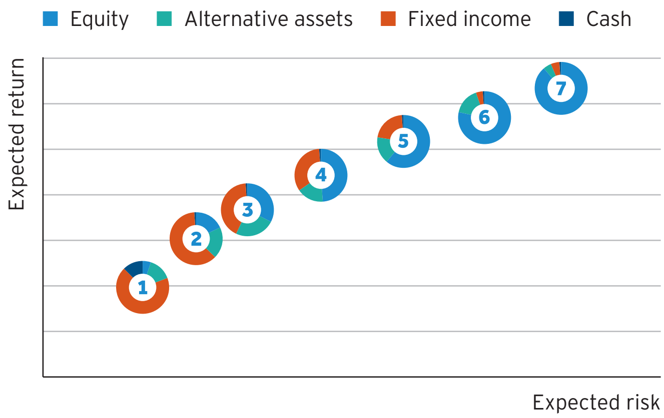
- Lower risk mandates may not realise any cost benefits because of their lower allocation to equities

For up to date performance, asset allocation and largest holdings of the models, please refer to the latest factsheets on our website www.thesisam.com.

Introduction

Thesis model portfolios can be recommended as standalone investments or as part of a core/satellite solution. Each portfolio is designed to meet one of our seven investment risk and return mandates, catering for a wide range of investor objectives.

Seven risk mandates: illustrative portfolios



These models invest into a variety of actively managed funds focused on specific asset classes. This gives clients investments that are diversified by region and asset class, increasing the chance that they will hold some of the best performing assets in any given investment period, and reducing the likelihood of their portfolio being overweight in a region or asset class that falls out of favour.

Optima fund range

2 Optima Income 2 of 7	4 Optima Balanced 4 of 7	6 Optima Growth 6 of 7

Advisers can blend Optima funds to match a different risk/ reward profile than is targeted by any one single fund.

Asset allocation

We group assets into four broad categories, cash, fixed income, equities and alternatives, with strategic maximum and minimum levels set for each mandate. We adjust our asset allocation between these upper and lower limits to implement our tactical views. Only if we foresaw extreme circumstances would we consider taking an asset class outside its strategic parameters.

Our asset allocation committee decides the overall asset allocation, taking into consideration a range of factors including interest rates, inflation, wages and employment data, commodity prices, asset class correlation, fixed income yields and default rates, and various independent economic forecasts. The committee is informed by the work of four sub committees. Research for the committees is conducted in-house by our own research department.

Securities selection

Investing directly into shares is typically cheaper than buying funds, because funds incur management and running costs that shares do not. Our UK equities are initially selected through TESS, our proprietary Thesis Equity Stock Screen. TESS is a quantitative screen applied to a universe of approximately 350 UK shares to rank them according to six indicators of financial strength.

The top scoring 20%, about 70 or so shares, are subject to further research and analytics by our in house specialists, refining the list down to about 30 of our ‘best ideas’. These are the shares that we believe will outperform the wider UK market, although this is not guaranteed. The TESS list is revisited every quarter and models rebalanced accordingly.

Shares are typically given roughly equal weighting, although we do sometimes hold only the highest ranking stocks from our selection process. For example, if five of the top 70 shares were mining companies, we might decide to hold just two companies instead of all five, but scale up the holdings to the appropriate aggregate weight. This ensures that the buy list remains diversified, but extra emphasis is placed on the highest scoring shares.

We generally aim to buy the shares of companies with a market cap of at least £750m.

UK shares are held in our securities models and Optima funds.

Funds selection

Exposure to various regions and asset classes is gained via funds and other collective vehicles such as investment trusts and ETFs. Our models team analyses style and peer group as well as absolute and risk adjusted performance over a range of time periods. This quantitative screening process usually eliminates around 80% to 85% of the peer group.

The team assesses a variety of factors, including the investment culture of the management group; the style, consistency and experience of the fund manager, their investment process and any other responsibilities they hold alongside their fund management duties; and fund specific considerations such as size, liquidity, fees, gearing and diversity of ownership.

The Pooled Vehicles Committee reviews the quantitative and qualitative analysis and debates the merits of each fund before determining its acceptance onto the buy list.

Liquidity is an important consideration and we aim to purchase only daily traded assets. Investments with less frequent dealing would only be used if no comparable more liquid investment is available, and investments with holding period restrictions are generally not considered.

Blending and model construction

One of the ways we aim to reduce risk in our model portfolios is by analysing funds and blending them to create, as far as possible, an uncorrelated mix. This means that although the funds may invest in similar asset classes or regions, they do not necessarily react in the same way to the same external triggers. This dilutes the risk of all the funds heading in the same direction in the event of a market shock.

We also blend funds with both value and growth management styles, funds with a team approach and 'star' managers, and specific industry subsectors. The models team conducts 'look through' analysis to ensure that we are not replicating the underlying stocks, which could result in inadvertently overweighting them.

Funds are continually monitored and monthly performance figures are calculated and reviewed. Funds that significantly underperform or experience a substantial change in style or management are automatically put on watch pending investigation and a decision by the committee.

Implementation

Trading in shares incurs dealing costs, so we may set 'tolerances' within which a holding is permitted to be overweight or underweight in order to reduce dealing costs. Depending upon the platforms' methodology for applying the tolerances and provided a securities model is of sufficient size, they are unlikely to have a significant impact on portfolio performance but can help to reduce costs.

Rebalancing

Our models team rebalances the models at least every quarter, while Optima funds are rebalanced on an ongoing basis. The team rebalances at an aggregate level on the platform itself. The platform then implements the changes simultaneously to all the underlying client portfolios by applying the appropriate trading instructions to each account.

Features of model portfolios

- Model portfolios are designed to be an effective way of achieving a defined investment objective
- They offer clients a diversified collection of investments, often designed to target a specific level of risk and reward
- A specialist typically manages the portfolio, to ensure it stays in line with its investment mandate
- The manager invests according to the defined model and client portfolios will have identical holdings, scaled in proportion to the amount they invest
- Professional analysts research and monitor the holdings, blending and balancing them to target the optimum combination
- Investment companies may offer a range of models, so clients can invest in the portfolio best suited to their own needs
- Models can suit clients with significant assets to invest, as well as those with quite modest amounts
- Investors can hold model portfolios in tax 'wrappers', such as ISAs and SIPPs, benefiting from their tax efficiency
- As with all investments, the past performance of model portfolios is not a guide to the future
- The value of an investment and any income from it may fall as well as rise, and investors may get back less than they invested
- Movements in currency exchange rates can affect the value of an investment

Contact us

To find out how Thesis can deliver the right investment management services for your clients, please contact our business development team.

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