

Managing Risk, Managing Your Money, Managing Your Future

Introduction

Cockburn Lucas has an alternative approach to Investment Management. We aim to offer both a robust and positive response to the lacklustre returns that have prevailed within global stock markets since the beginning of the new Millennium.

A broad-based investment approach has been the conventional mainstay of a typical strategy for a managed equity portfolio. However, to the detriment of investors, markets have become more dominated by a higher degree of volatility and the increasing influence of advanced electronic communication. Consequently a more sophisticated, more highly focussed and better-defined solution to the investment management process is now required.

Whilst investment objectives and risk profile remains paramount on which to base any investment management process, **Cockburn Lucas** refines the concept further. Our Wealth Management Service aims to produce returns that offer quantified investment performance within a defined risk managed framework.

The key to the successful implementation of this service is to create a complete investment strategy for the benefit of the investor. The **Cockburn Lucas** approach is especially formulated to exceed the conventional ad hoc investment brief that is usually provided and instead, “lock-in” to an investor’s overall requirements.

Your Money

The investment process of **Cockburn Lucas** is engineered in association with you and any other family members who will make an essential contribution in supporting the investment selection process. Taking into consideration your current financial arrangements and the direction given by you or family members, the choice of investments will be made from the widest spectrum of available securities, products and services. Whilst we aim to provide the optimum investment return, the selected holdings will also be structured to maximise tax planning opportunities – an important component in creating the right strategy for meeting your investment objectives and risk profile.

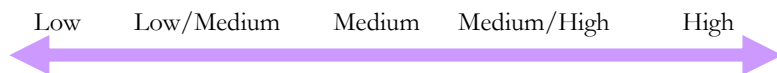
Investment Objectives

All **Cockburn Lucas** clients are managed on a “bespoke” basis. This means your portfolio is designed to meet your individual investment objectives within your personal risk profile. Income, Growth or Income & Growth are the three broad categories that an investor would most readily identify when choosing their investment objective. Each portfolio is subsequently designed to include the most appropriate asset classes and corresponding funds that aim to achieve the returns you are seeking.

Implementing a suitable timeframe is the first measure necessary for creating a more focused approach to the management of your money. This will enable you to access the investment potential of a wider class of fixed term products and services than the scope offered by only stocks and shares. Any subsequent reduction in investment flexibility will always be balanced with sufficient versatility, within the overall financial strategy, to support a possible change in your investment arrangements.

Risk Profile

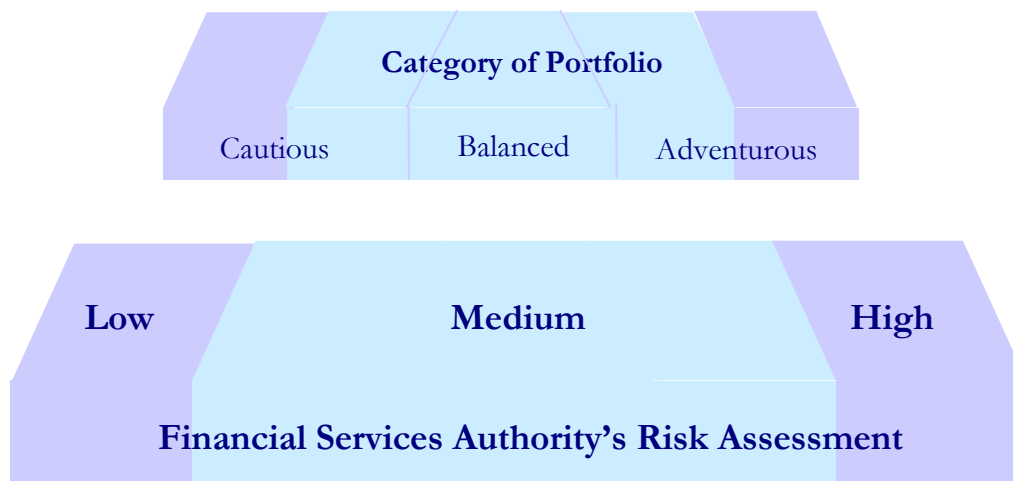
With the exception of holding National Savings products and cash deposits, there is an inherent risk to capital with all other investment, products and management services. The level of risk is dependent on the prevailing conditions of the market and the investment strategy chosen to meet your objectives.



Investment Risk

Cockburn Lucas portfolios are structured within a risk managed framework. The associated risk profile identifies the composition of the whole portfolio of investments and not of its individual constituents. Some of the holdings may have a higher or lower degree of risk than implied by the selected category of portfolio.

Risk Management



For the purposes of the Financial Services Authority's risk assessment, the majority of portfolios in each category will be ranked as *medium risk*. However, depending on the focus of the asset allocation, certain portfolios in the cautious category may be classified as *low risk* and certain portfolios in the adventurous category as *high risk*.

Cockburn Lucas's risk grading is further enhanced as it adopts a highly strategic approach to the management process, which, depending on your risk profile and investment objectives, provides a wide choice of assets for creating your portfolio.

Five Risk-Graded Groups of Investments

The **Cockburn Lucas** Wealth Management Service utilises a range of securities within **five** risk-graded groups of investments. A cautious portfolio will contain a large percentage of holdings from Group A, whilst – at the other end of the spectrum – a more adventurous portfolio may have a high representation of investments from Group E.

Group A

National Savings Products	Government Stocks (Gilts)
Investment Grade Corporate Bond Unit Trusts/OEICs	Index-Linked Gilts
Cash Deposit Accounts	TOISSA
Mini Cash ISA	

Group B

National Savings Guaranteed Equity Products	Capital Protected Income Products
Capital Protected Growth Products	“AAA2/AA2” or better rated Zero Dividend Preference Shares
Gilt Unit Trust/OEICs	Investment Grade Corporate Bonds

Group C

Non-Residential Property Investment Trusts	UK Equity Income Unit Trusts/OEICs
Mixed Investment Grade & High Yield Bond Unit Trusts/OEICs	UK and Equity International Investment Trusts
UK Equity Index Tracker Unit Trusts/OEICs	Non-Residential Property Unit Trusts/OEICs
UK Equity Benchmarked Growth Unit Trusts/OEICs	Equity Linked/Restricted Guaranteed Income & Growth Products
Capital Protected Fund of Hedge Funds	“A” rated or equivalent With Profit Companies
Distribution Bonds	

Group D

High Yield Corporate Bond Unit Trusts/OEICs	UK Smaller Company Investment Trusts
UK Aggressive Equity Growth Unit Trusts/OEICs	Direct UK Equity Holdings (FTSE-350)
North American/European Unit Trusts/OEICs	Japanese & Far Eastern Equity Unit Trusts/OEICs
UK Smaller Company Unit Trusts/OEICs	Fund of Hedge Funds
Commodity Unit Trust/OEICs	Direct commercial property purchase

Group E

Emerging Markets Unit Trusts/OEICs/Investment Trusts	Direct UK Smaller Company/Direct Overseas Equity Holdings
Overseas Smaller Companies Unit Trusts/OEICs/Investment Trusts	Split Capital Investment Trust Income Shares
Single Country/Industry/Sector Unit Trusts/OEICs/Investment Trusts	Direct High Yield Bond Holdings
Venture Capital Trusts	AIM (IHT)/EIS (CGT) Portfolios
Hedge Funds	Commodities

IMPORTANT NOTE – risk is subjective and perception of this can change. The table, whilst attempting to group assets of similar risk profile, is not exhaustive and is for illustrative purposes only. Products within the same asset class can have very different risk profiles. Each individual investment within any given asset class requires careful analysis to determine its suitability for a given investment objective and risk profile.

Cockburn Lucas Portfolios – Risk Grading & Investment Matrix

The table below illustrates how an investor’s rating of investment risk determines the matrix of the **five** risk-graded groups of investments contained within each of the **Cockburn Lucas** portfolios.

Cockburn Lucas Portfolios & Risk Grading									
	Cautious			Balanced			Adventurous		
	1	2	3	4	5	6	7	8	9
Group	%	%	%	%	%	%	%	%	%
A	100	75	40	35	25	20	15	10	-
B	-	25	25	25	25	20	15	10	-
C	-	-	25	25	25	35	40	45	50
D	-	-	5	10	15	15	15	20	30
E	-	-	5	5	10	10	15	15	20

The Cockburn Lucas Investment Matrix

PLEASE NOTE – this table is for illustrative purposes only. Your personal circumstances, investment and market conditions may necessitate a different asset allocation policy from that shown.

Investment Recommendations

Having carefully assessed all the information you have provided, a scheme of bespoke investment recommendations – to include suitable holdings from your existing asset classes – will be prepared for the consideration of both you and your family members. The investment selection of the scheme will be chosen from “the widest spectrum of available securities, products and services” with the aim of meeting *your complete* investment requirements.

Tax Efficient Investment Vehicles

Cockburn Lucas offers the most appropriate tax “wrappers” to house some or all of your investment selection. These investment management vehicles include:

Personal Investment Portfolios	ISA Portfolios
Self Invested Personal Pensions	PEP Transfers
Personalised Offshore Investment Bonds	Small Self Administered Schemes
Capital Gains Rollover Relief Portfolios	Private Unit Trust/OEIC
Venture Capital Trusts	Inheritance Tax Portfolios
Corporate Investment Scheme	Multi-Manager Portfolios

Utilising a tax efficient environment for the management of your money offers an important financial benefit. Whilst seeking the optimum conventional return from your investments you can, in addition, enjoy the special monetary advantages that the tax incentives of these arrangements provide.

Product Manager Selection

Fund Selection: Quantitative Analysis

It is fund selection that drives the performance of the portfolio. Accordingly, **Cockburn Lucas** devotes a significant amount of time and resources to the process, which divides into two stages.

The screening phase is largely *quantitative* and aims at selecting a focus list of funds for further review. It involves review of fund returns relative to appropriate indices and peer group rankings, using services such as Lipper Hindsight and fund ratings services from Standard & Poor's. This is complemented by advice from external consultants and **Cockburn Lucas's** own extensive knowledge of the investment industry at institutional level as well as retail, with a view to identifying up and coming groups who may not have appeared on the radar screen of other financial advisers

As a final step, the promising funds that emerge from this process are analysed for consistency of performance and risk/reward balance. **Cockburn Lucas** places great emphasis on the trend of performance of a fund, relative to its index and benchmark.

Fund Selection: Qualitative Analysis

This phase calls on more qualitative analysis. This involves reviewing fund literature, reviewing questionnaires sent to management houses and finally a meeting with the manager. **Cockburn Lucas** is, after all, backing individuals and it is extremely rare for **Cockburn Lucas** to advise clients to invest without meeting the manager.

When visiting managers **Cockburn Lucas** looks to identify:

Performance: Strong and consistent performance, as described above. **Cockburn Lucas** analyses how this has been contributed, looking for a broad base rather than stellar performance of just a handful of stocks.

Process: A clear, understandable and repeatable process. **Cockburn Lucas's** long experience of advising on funds at stock level provides a particular – and rather sceptical – insight into the credibility of some descriptions.

People: **Cockburn Lucas** looks for an experienced and committed manager and team, with an appropriate long-term incentive package, working in an investment house with a stable and long-term ownership plan.

Benchmarking and Monitoring Your Portfolio

Once we have agreed on the level of risk you are prepared to accept, together with the types of investment products, which will be selected, based on your tax position and objectives, an appropriate benchmark can be agreed with your **Cockburn Lucas** consultant. Traditionally private clients, stockbrokers and wealth managers have benchmarked returns against a relative index, such as the FTSE 100 or FTSE All Share index or, more latterly the Association of Private Client Investment Managers (APCIMs Indices).

Given the fact that most of these indices are solely equity based and, as previously mentioned, this asset class has produced negative returns since the beginning of the new Millennium; we at **Cockburn Lucas** prefer to agree with a client an appropriate return that can be achieved over and above that of cash deposits within an agreed timescale. Typically this will range anywhere between 2% to 5% above rates offered by the London Interbank Offered Rate (LIBOR) and will depend on the level of risk you are prepared to accept and your financial objectives. The higher the level of outperformance we are being asked to achieve, the greater the inherent risk to the portfolio in terms of volatility and performance. The **Cockburn Lucas** Wealth Management Service aims to accommodate all categories of investor, from lower to higher risk, although, typically, most of our portfolios are run on a balanced risk basis, where steady, as opposed to spectacular, returns are called for.

Reviews and Remodelling

Changes within both the economic and legislative landscapes will inevitably lead to reviews of a client portfolio as taking advantage of both new products (which may enhance returns) as well as taxation changes (which may bring further benefits) will be of vital importance.

All **Cockburn Lucas** clients will receive a regular review and monitoring of their portfolio upon request or in a timescale agreed with their consultant. Our aim is deliver both a consistent and accessible service on an agreed cost basis at the outset. These reviews will take into account any changes in your, or your family's, own objectives or circumstances, as well as any changes that may be required from an asset allocation perspective due to economic factors, which we may, from time to time, interpret as a catalyst for such changes to be implemented. Typically, these changes may be based on our views of interest rates or economic policy, which, in turn, may have a direct impact upon any of the four major asset classes.

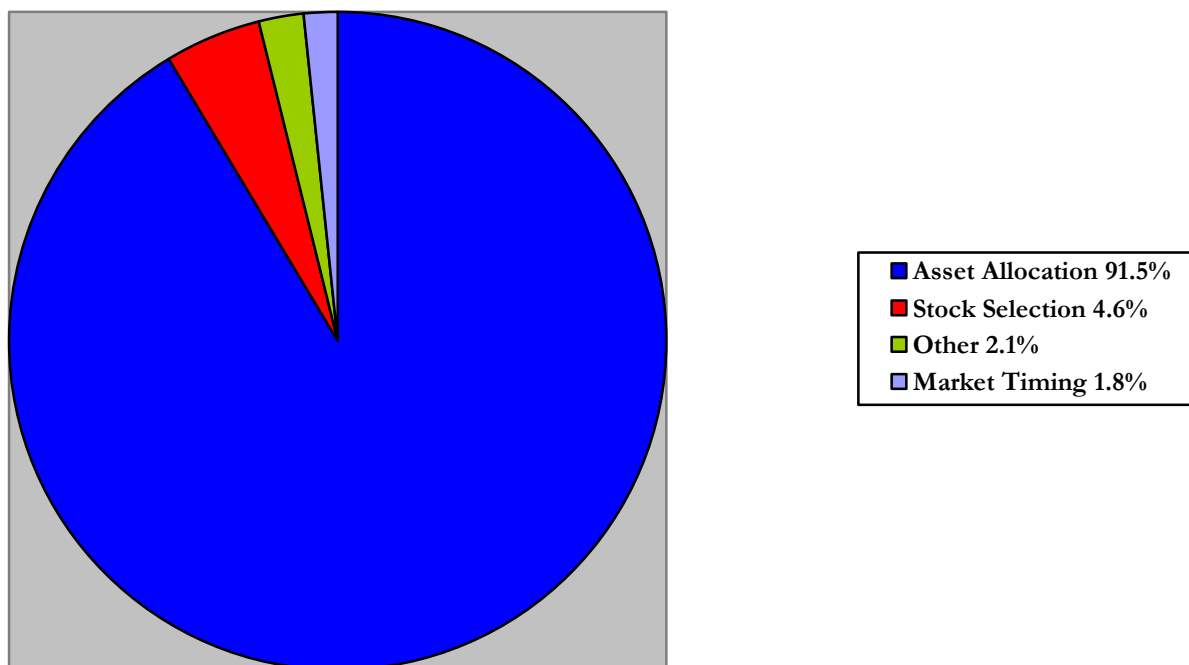
Although our aim is to, as far as possible, ensure all of our client portfolios are correctly aligned at outset as with any financial plan, flexibility and ongoing dialogue will ensure your needs and ongoing requirements can always be catered for.

Asset Allocation – ‘Total Returns’

When designing portfolios, of key consideration will be that of asset allocation and the amounts of capital to be distributed across the five major asset classes - cash, fixed interest, commercial property, equities and commodities.

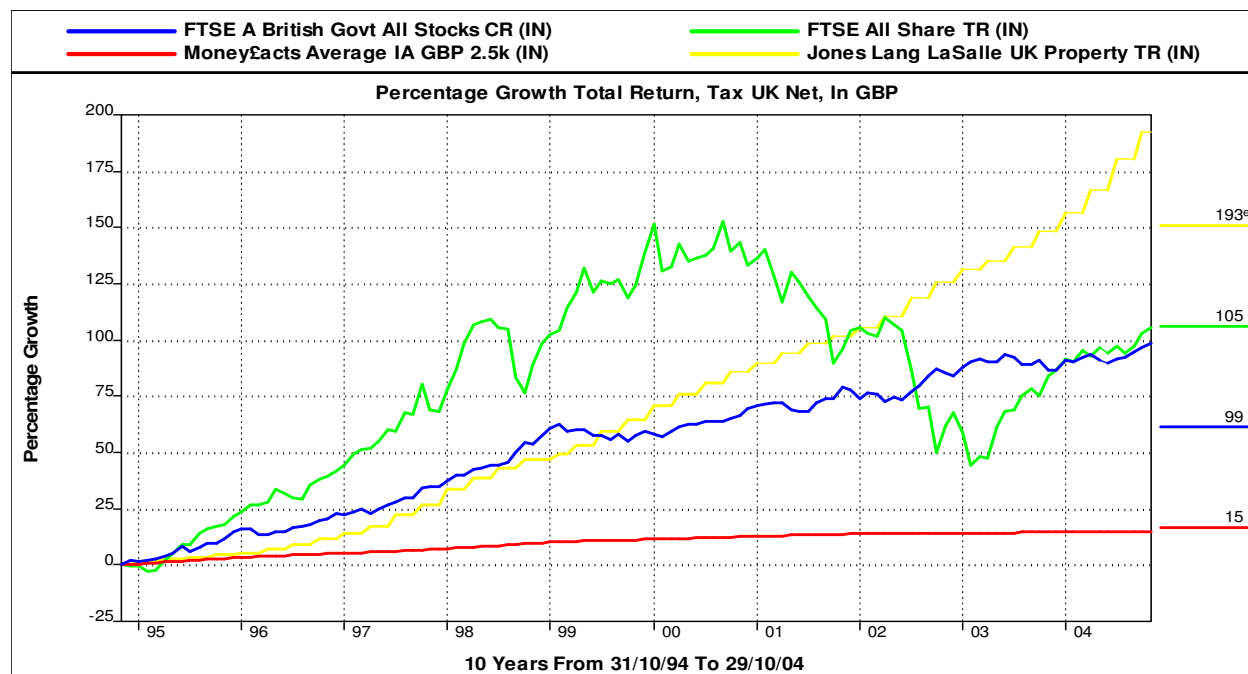
Our aim is to provide a total return concept whereby your portfolio does not rely upon one single asset class and ensures that your investments are spread amongst these asset classes in proportion to your risk profile and income/growth objectives. This will help us to provide both consistent and risk adjusted performance from your portfolio, which aims to meet both your expectations and the agreed benchmark.

The importance of asset allocation is demonstrated in the chart below, taken from research published in the Financial Analysts Journal 1991. This widely recognised piece of research states that over 91.5% of a portfolio’s performance variability can be attributed to asset allocation.



Source: *Determinants of Portfolio Performance II*, Brinson, Singer and Beebower, *Financial Analysts Journal*, May/June 1991

Our Investment Committee will consider the outlook for each asset class, taking into account both external and internal research. Based upon this detailed analysis we will be better placed to advise you on appropriate products, fund managers and tax-wrappers in order to meet your financial objectives.



Conclusions

Our aim is to ensure that we meet both your expectations and deliver a positive return on the capital that you have invested, whilst at the same time ensuring you receive impartial and independent advice on all aspects of your financial circumstances and requirements. We are acutely aware of both the trust and responsibilities that have been placed upon us and aim to provide and deliver at all times a transparent and high quality service, which will preserve your wealth and that of your family members. To find out how the **Cockburn Lucas Wealth Management Service** can benefit your circumstances or for a no obligation meeting call our Nottingham office or your normal consultant.

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