



Optimising your investment returns



KELLANDS

Welcome to Kellands

It's important to invest for the long-term

Building your investment portfolio

In the UK there are now over 7,000 funds investing in equities, fixed interest and property and, combined with the appearance of new types of investment such as private equity and hedge funds, it's difficult to know where to start putting the building blocks of your investment portfolio together.

To be able to meet your long-term objectives it's vital your investment portfolio is suited to both your circumstances and your current and future needs – meaning you need robust portfolio planning. It's important not to get caught up in short-term trends – investing in the fad fund of the moment – or at the wrong point in the investment cycle. You need a long-term investment strategy that can be adjusted to align with short-term opportunities, but won't be driven by them.

That's where expert financial advice comes into its own. At Kellands we use a scientific, client-focused, investment process that helps us understand the risk you are willing to take with your capital. We then construct a portfolio that gives you the maximum opportunity to earn consistent returns in a way you are comfortable with.

There are risks involved in investing

If you don't wish to take any risk with your money, investing in the stock market isn't for you as the value of your investment can fluctuate.

Banks offer a safer home for your money as the capital value of your savings is secure and you receive interest. However, the spending power of your capital may be reduced by inflation over time. To earn returns that beat inflation you generally need to accept a degree of risk with your money. The key is in understanding how much risk you are comfortable with and taking measures to control the risk to which you are exposed.

Performance over the long term

Many people looking for greater returns than they can receive from the bank invest in the stock market. This can be volatile – remember the burst of the technology bubble in 2000, or the recent financial turmoil – but if you look at stock market returns over the long term, you'll see that these events are short-term blips in a generally upward trend. In fact they can often indicate a good time to buy: as prices are lower you get more shares for your money.

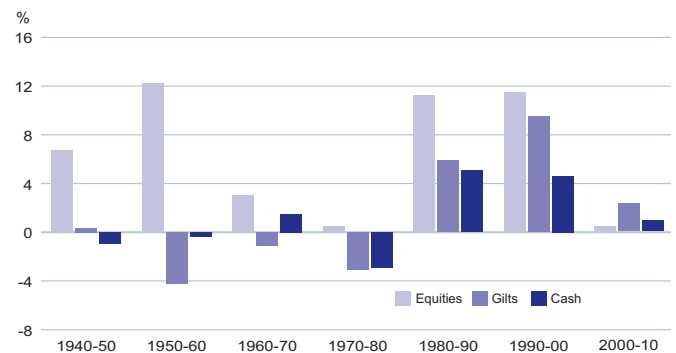
FTSE All-Share Index



FTSE All-Share Index, net income reinvested 28.2.91 to 28.2.11.
Source: Lipper Hindsight

History tells us that despite day-to-day movements in share prices, investing in stocks and shares over the long term has usually generated a greater return than that from investing in gilts or cash.

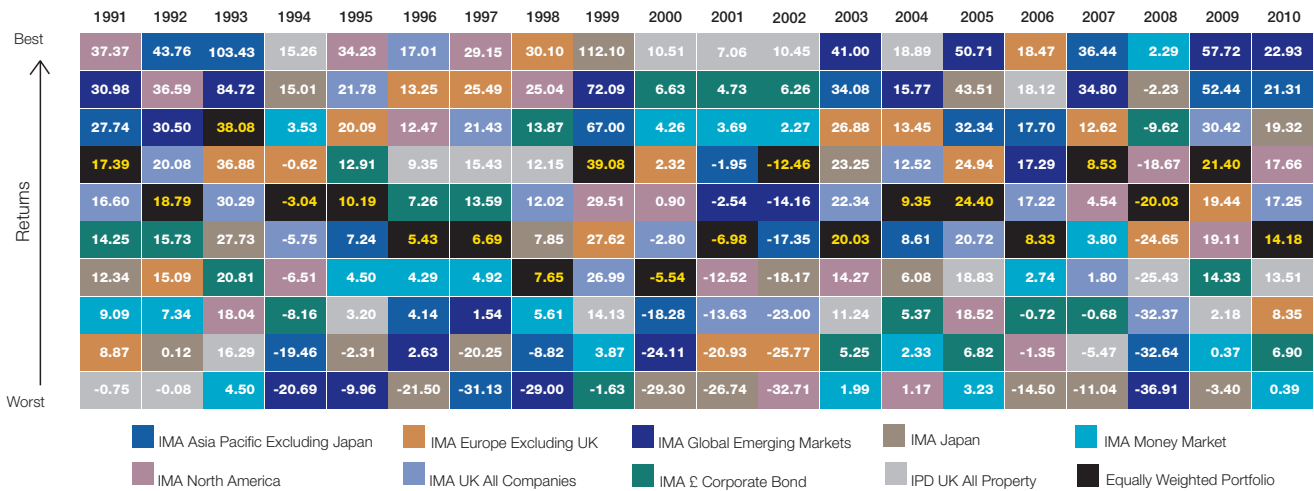
UK asset returns since 1940



Average annual percentage growth real investment returns (adjusted to remove effects of inflation). Source: Barclays Equity Gilt Study 2011, Barclays Capital.

Stock markets and currency movements mean the value of your investments and any income from them can fall as well as rise and you may not get back the amount invested. Savings in a bank/building society are usually readily accessible and capital and interest, once earned, is guaranteed. Past performance is not a guide to future returns.

Diversifying your mix of assets



You need to diversify your portfolio

A better option than only investing in the stock market is to spread your money between several different types of asset, typically including equities, property, fixed interest and cash. Diversifying your portfolio can help to reduce risk and increase your potential for returns. This is because different types of asset often behave differently under the same economic conditions. If you therefore invest in several types of asset, it's likely some will perform well even if the rest are temporarily declining.

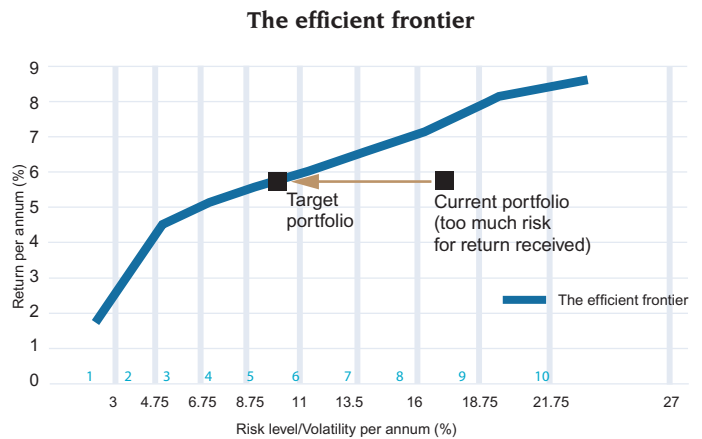
It's impossible to predict which asset class or geographic area will deliver the best return over the medium to long-term. The chart above shows this by ranking the best (at the top) to worst (at the bottom) assets each year over the last 20 years. As you can see, no one asset class or geographic area is consistently the best year in, year out.

This shows how important it is to have exposure to a blend of different assets to help drive long-term performance and reduce the risk of being overly exposed to any single asset class. The black squares represent the returns that would have been earned on a portfolio equally weighted between all the different asset classes and equity markets listed on the chart.

The efficient frontier – aligning risk and reward

The efficient frontier describes the relationship between the return that can be expected from a portfolio and its risk. It can be drawn as a curve on a graph representing a portfolio's risk against expected return. The efficient frontier gives the best return that can be expected for a given level of risk, or the lowest level of risk needed to achieve a given expected rate of return. This illustrates the benefits of diversification. An undiversified portfolio can be moved closer to the efficient frontier by diversifying it. Diversification can, therefore, increase expected returns without increasing risk, or reduce risk without reducing expected returns.

For example, the chart below shows that an investor's current investment portfolio is unnecessarily risky for the returns it is delivering. By changing the asset allocation based on the investor's identified risk profile, they are put on the efficient frontier. The target investment portfolio produces the same level of return but with less risk.



Getting the right mix of assets

Our aim is to simplify this complex investment universe and provide you with professional, unbiased financial advice based on your personal goals and objectives and to maximise your investment returns whilst helping to reduce your risk. Our advisers are highly skilled, qualified and up to date with investment, taxation and pension developments. Suitable investment advice is at the core of our service to our clients. To help us deliver this we have developed a robust investment process that we explain below.

The Kellands wealth management service



Our wealth management service aims to identify the right spread of investments to match your appetite for risk and returns and maximise the likelihood of you reaching your investment goals.

The key to this is in establishing the correct balance of different types of asset as this is known to determine up to 90% of the variation in the returns of a portfolio over the long-term.

Step 1 – Review your existing assets

We gather detailed information on all the investments you currently own.

Step 2 – Understand your tolerance to risk

We ask you a set of questions designed to bring out your attitude to risk when investing, your time horizon, future cash needs and your objectives. Aided by an independent modelling tool we will determine your risk profile on a scale of 1 to 10. The risk profile is then discussed to seek agreement with you.

Step 3 – Establish your required asset allocation

The modelling tool is built upon a large volume of historical data on equities, fixed interest and property. Using this data and your answers to the questions you were asked, it recommends an asset allocation for your portfolio that has a higher probability of delivering returns in line with your objectives at the level of risk you are comfortable with. The recommendation will be diversified across different geographical areas and asset types. The system also calculates where, on the scale of 1 to 10, your current portfolio is, so that we can see where it differs from our recommended asset allocation. The objective is to ensure you sit on the efficient frontier (see previous page), which seeks to optimise your returns while helping to reduce your risk.

Step 4 – Choose the correct tax wrappers to minimise tax

Once we have established your optimum asset allocation we will ensure you are not paying more tax than you need to. We consider the income tax, capital gains tax and inheritance tax implications of your current portfolio and any new investments to be made.

We also weigh up the tax benefits of tax wrappers such as investment bonds, ISAs, unit trusts and pensions to ensure you maximise the tax shelters available.

Step 5 – Construct the portfolio to meet your asset allocation

We will then either recommend a rebalancing of your existing portfolio, or a new portfolio of investments tailored to take account of your risk profile and corresponding asset allocation, your investment preferences and objectives. We will outline a range of well researched solutions that will give you access to leading investment companies. We explain this further on the next page.

Step 6 – Monitor your portfolio to ensure it continues to meet your requirements

As the asset allocation of your portfolio changes over time due to fluctuations in the performance of the underlying funds, we review your portfolio on an ongoing basis to ensure it remains on the efficient frontier.



One size does not fit all

We recognise that all our clients have different needs and objectives. While we have a consistent investment process to assess risk profiles and asset allocation across all our clients, our wealth management service includes a number of tailored investment solutions.

Having talked through our process and developed an understanding of your risk tolerance, we will match this against your overall financial situation and your overriding objectives. This will then take us to the final stage of the process, which is selecting the type of solution most suitable to you. In generic terms we offer three types of solution, which are based on the principle of multi-manager investing.

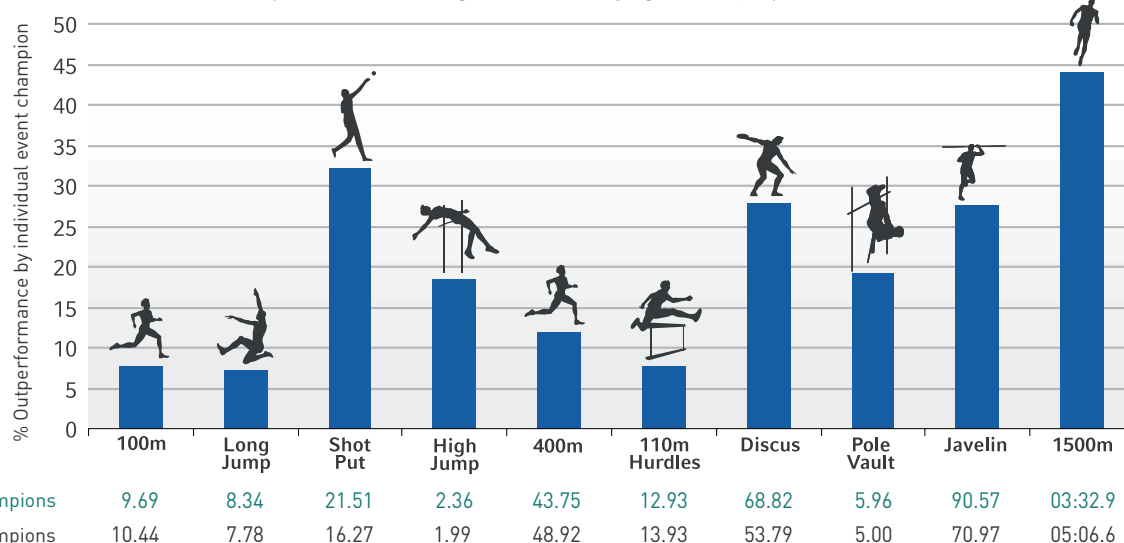
Why multi-manager?

Because one manager cannot deliver great returns all of the time. Anyone who watches the Olympics knows that the athletes have

spent a considerable amount of time preparing. Decathletes face the challenge of excelling at a wide range of physical activities: they need speed, stamina and technique. It takes a special person to reach Olympic level in the decathlon, but there are athletes who regularly outperform them. The chart shows each of the ten events in the decathlon and highlights the consistent outperformance of the single event champion in each.

Rather than spreading their skills over a range of activities, these specialists have prepared by focusing on what they're really good at. Investment managers are no different. There are specialists and generalists to choose from, but over time, specialists consistently do better in their field. Our wealth management service uses portfolios constructed to offer a 'best of breed' approach as we accept that different fund managers excel in different areas.

Specialists versus generalists Beijing 2008 Olympic Games results



Source: Russell Investments

Our three types of investment solution

Risk-rated model portfolios

These portfolios can be described as 'off the peg' solutions designed to exactly match the output from our risk modelling questionnaire. The asset allocation will be broadly fixed at outset, although it can be tilted to reflect changing economic conditions. This is a very cost effective way of diversifying your capital across a blended portfolio of 'star' fund managers.

Model portfolios

These are dynamically managed portfolios benefiting from daily interaction from our appointed investment partners. This service

is designed to bring together the complimentary talents of leading fund managers under expert stewardship. Modern portfolio theory will be actively employed to control the levels of volatility within agreed ranges.

Bespoke portfolio

While our model portfolios benefit from the ongoing interaction of a portfolio manager, a number of our clients like their investments to be managed on a fully bespoke basis. With this option, we select a tailored portfolio of funds for you from an approved list.

Our core investment solutions

Selecting the best investment managers out of the thousands available is a crucial part of our wealth management service and no simple matter.

Identifying managers and investment partners who not only produce solid returns over time, but also employ investment styles that fit properly into a diversified portfolio is pivotal. Even the most careful individual investors may not know if an investment manager changes style, loses members of its analyst staff or undergoes other changes that can compromise their role in an overall portfolio. These events are continually monitored to ensure that funds remain appropriate for our clients' needs.

Quantitative screening, qualitative analysis, process governance, peer review and ongoing due diligence are fundamental stages to provide leading and appropriate investment solutions.

Ongoing review is essential and we hold quarterly structured reviews of our chosen investment partners to ensure they continue to meet our requirements. Our selection process enables us to put together a proposition that we believe delivers innovation, flexibility, reliability and investment excellence.



Risk-rated model portfolios	Model portfolios	Bespoke portfolios
F&C Lifestyle Funds	OBSR Portfolio Service	OBSR Bespoke Portfolio Service
<ul style="list-style-type: none"> Asset allocations set by independent experts based on proven statistical modelling Range of asset allocations including equities, fixed interest, property and cash, designed to exactly match your risk profile Each Fund invests in a basket of 20-30 predominantly 'active' funds from across the whole industry including household names such as Schroders, Artemis and Invesco Perpetual Actively managed by the Thames River Multi-Capital team, delivering out-performance against composite benchmarks with lower costs than typical fund-of-funds portfolios Funds continually rebalanced to ensure they continue to match your attitude to risk on an ongoing basis 	<ul style="list-style-type: none"> Asset allocations set by independent experts based on proven statistical modelling Range of asset allocations including equities, fixed interest, property and cash, designed to exactly match your risk profile Four model portfolios of funds drawn from the OBSR researched fund panel Portfolios actively monitored and advised by OBSR, a research and consultancy company specialising in providing investment research and analysis to the financial industry Model portfolios rebalanced half-yearly to ensure they continue to match your attitude to risk 	<ul style="list-style-type: none"> Asset allocations set by independent experts based on proven statistical modelling Range of asset allocations including equities, fixed interest, property and cash, designed to exactly match your risk profile Actively advised and carefully selected list of individual funds equipped to satisfy a broad spectrum of investment needs Fund panel selected and monitored by OBSR, a research and consultancy company specialising in providing investment research and analysis to the financial industry Option to rebalance to original asset allocation model is available Can also provide satellite funds when using F&C Lifestyle Funds as a core investment solution <p>Income option - Thames River Distribution Fund</p> <ul style="list-style-type: none"> Actively managed multi-manager fund Managed by experienced and successful Thames River Multi-Capital team Yield target in the top 10% of income generators in its sector (currently 5.5% net p.a.) Regular quarterly income payments

Our service and charges

Once your financial strategy and investment portfolio is in place, our role is to manage it in the most efficient way. Our wealth management service utilises the Cofunds platform for administration. Unlike a traditional approach where your investments are held with a number of different companies, with a platform all your investments are held in one place. This gives a number of benefits:

- We can access an overall picture of your financial position at any time and your entire portfolio is valued daily
- We control more of the administration rather than relying on a number of providers, so transactions are made quicker and easier
- You receive one consolidated statement every 12 months, meaning less paperwork from a variety of companies

Our charges

There are no charges for the services we provide to clients who utilise the Kellands Wealth Management Service, however the ongoing charge for the facility to access the correct products (e.g. ISA, collective investments and pension) on the Kellands Wealth Management Platform is set at 1% a year. For new monies introduced to the Kellands Wealth Management Platform there is a one-off charge of 3%.

Our ongoing service

As a wealth management service client you will benefit from the following:

- Access to your adviser and administrator by phone and email
- Newsletters
- Annual valuation of your investments
- Updated attitude to risk analysis

Following research we have found that clients value a face-to-face discussion on their investments with their adviser. We also believe that a regular review is essential to ensure your financial plans are still on course to achieve your objectives.

Client review service

The annual Kellands health and wealth check (if applicable) covers:

1. Changes to your circumstances
2. Review of your financial strategy
3. Summary of investment performance since the last review
 - key drivers to performance
 - summary of economy and outlook
4. Updates on changes to tax legislation
5. Any opportunities arising
6. Discussion of suggested changes to investment strategy and asset allocation
7. Review of protection and mortgage (if applicable)
8. Review of inheritance tax position, to include wills and lasting powers of attorney (if applicable)
9. Action plan

Additional reviews can be carried out during the year and can be arranged with your adviser on an 'as required' basis.

Special projects

We undertake specialist projects and work outside of our core wealth management service. This work will be charged hourly by fee with an estimate of the overall cost provided before undertaking the work. Our fees will reflect the complexity of the advice being given and the seniority of the person providing the advice.

Other charges

For protection contracts, annuities and mortgages we will discuss how we will charge, but normally this will be via commission from the product provider. These amounts will be fully disclosed to you prior to you proceeding. Please refer to our 'Key facts' document for more information.

“Price is what you pay. Value is what you get”

Warren Buffet

About Kellands

We are financial management consultants, with over 20 years of experience and expertise behind us. We are also independent, we act for you. We are not tied to any bank, investment house or insurance company and so can always act in your best interests. In this way, we can offer you the widest possible choice of financial options and select the most suitable solutions for you from the entire marketplace.

Choosing a financial partner is one of the most important decisions in your life. We treat all our clients as individuals and our advice service is dedicated to guiding you to financial independence. We will work with you to build a long-term strategy to meet your current and future objectives.



Contact us

If you would like to know more about us, have a specific query, or would like to start planning for your financial future, please get in touch, we'd love to talk.

Tel: 01684 850088

Fax: 01684 850089

Email: gloucester@kelland.co.uk

