Margetts

Fund Management

WHERE RISK IS THE CONSTANT

Introduction

Herbert Margetts became proprietor of his own firm in 1875 and by 1892 was Chairman of the Birmingham Stock Exchange, a position he held for over ten years. Although many things have changed in financial markets, the Margetts name continues to be synonymous with high levels of service and innovation.

In 1981, Margetts began to provide portfolio management services to private clients, pension funds, professional trustees and corporations. In 1992, we launched our first Risk Rated fund of funds and completed the range in 1995, a range that remains our flagship today. We are proud of the fund performance and additional value which has been added to our clients' portfolios ever since. Our performance has attracted professional acknowledgement with the Margetts Fund Management team winning numerous awards for investment management over the years.

"Our aim is to provide clients with an investment which will achieve their objectives. The Margetts active management techniques are designed to provide superior returns for the level of risk undertaken and allow the client to choose the level of risk exposure they require based on their situation and the amount of time they expect to hold the investment."

Tim Ricketts
Executive Chairman

Margetts Fund Management

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The Margetts Risk Rated Actively Managed Fund of Funds

Your professional adviser will be able to advise you on how to plan, in the most tax-efficient manner, to meet your future financial goals. Your goals may be to provide for your retirement, school fees, grow or preserve wealth or simply to have some money for a rainy day. Part of your overall strategy is likely to involve ISA portfolios, a pension fund and an investment portfolio. In order to meet your goals, it is important that you have a coherent strategy for your investments, which is matched to the level of risk exposure and potential loss you are able and willing to accept. Your investments should be reviewed regularly to ensure that they are on target to achieve your goals.

Using the Margetts funds is a great way of consolidating investments within a tax-efficient framework. Most collective investment schemes are restricted to one particular asset class or geographical location, such as UK Corporate Bonds or European Smaller Companies. A problem for many investors is that they accumulate investments based on economic conditions at the time of investment. Although a portfolio may have been constructed with a strategy at initiation, many investors find it difficult to find the time to manage their portfolio with regular reviews to ensure that it is still on track to meet their future goals.

The time required to collect necessary information and an overwhelming amount of data can cause even sophisticated investors to put their heads in the sand and hope that in time their current portfolio will be fine!

Margetts funds offer you the ability to make new investments or consolidate existing holdings into one portfolio of up to four funds with a coherent investment strategy that allocates across different assets and geographical locations, to suit the changing economic and investment conditions. Using the Margetts funds means that your investments are all in one place and our reporting systems allow you to track the progress of your investments easily to ensure that you are on course to meeting your objectives.

Our experienced team of fund managers and analysts constantly monitor the Margetts funds and will actively manage the asset allocation and selection of underlying investments according to a set level of risk.

Why Take Risk?

Investment risk is the possibility of losing some or all of your original investment. Most investments will fall as well as rise in value through time. The higher the risk of an investment the more you should expect it to swing in value. Each type of investment (e.g. cash, bonds, equities) will have a slightly different level of risk.

Investors are generally risk averse, meaning that greater returns are expected for taking additional risk. Intuitively this makes sense - why would you take more risk unless there is potential for greater gain?

Historical evidence supports the theory that higher risk assets have generated higher returns over time. However, they have also provided periods where the value fell considerably more than lower risk investments. When investments are combined, risk can be reduced through a process known as diversification. As investments respond differently to each other at any one time, the swing in value from a portfolio of investments is often less than the swing of the individual investments.

When we talk about risk, we are referring to a portfolio of many investments. Although individual investments may provide the opportunity of a lifetime, they could also become worthless with no chance of recovering any value if things go wrong.

A portfolio of investments, like the Margetts Risk Rated funds, reduces the risk of a single investment having this effect through diversification, which allows more certain expectations for future value.

How much risk you should take will depend on your time frame for investment and your personal circumstances. Higher risk investments are only suitable for investors with a longer time frame as losses from these investments may not be recovered in the short term. A financial adviser will be able to help you assess the level of risk that is appropriate.

Our Approach

Margetts' Investment Process is built in layers, creating depth to ensure objectivity, greater understanding and better analysis.

Our investment process centres around a team approach, to combine different skills and experience to increase overall capability. We believe that a team approach reduces certain risks and provides for more balanced research. The three senior investment managers have worked together for over ten years with a combined total of over sixty five years experience working in financial services.

Our investment philosophy creates an overarching framework that guides the investment team. The philosophy is based on independence and focuses on long only, diversified and rational investments.

Analysis centres on understanding structure, process, performance and the costs of an investment. The application of the investment philosophy creates a high level filter that drives our selections. Research will tend to focus on regulated on-shore UK retail collective investment schemes. Our investment approach has led to award-winning fund performance.

Margetts construct a long term strategic model which defines the risk and return profile of each portfolio. This is the first step of creating a portfolio that may be suitable for an investor to meet their objectives. We have set out the strategic allocation for each risk category, measured on a scale of one to ten. This is based on the different risk levels of different investments.

The team then adjust the strategic allocation to create a tactical asset allocation by identifying trends through a pragmatic and flexible approach. By adapting portfolios through the economic and investment cycles, we believe that value can be added for investors over the long run. This style of management is known as "top down". Our views will affect our choice of underlying investments to find the right assets, managers and style of funds in relation to the current investment cycle.

Analysis of funds forms the basis of all the investment decisions made. Both quantitative and qualitative analysis is used to ensure a thorough understanding of all the funds in which Margetts invests.

Quantitative research involves screening the available universe of collective investment schemes to short list funds that may be of interest. It also helps to identify under performing assets.

Qualitative research is aimed at understanding the structure and processes employed by a manager. The team investigates how the structure and processes lead to performance and where the style is more likely to add value or potential risks.

This approach allows asset allocation to be carefully considered and continually adjusted in line with the relevant risk profiles.

The Margetts Risk Rated Portfolio System

The Margetts Risk Rated Portfolio System comprises of four funds, each of which is a portfolio of collective investment schemes chosen and monitored by the Margetts Fund Management team. Each of the Margetts funds has a different risk rating and minimum recommended timescale for investment. These funds cover the risk spectrum from cautious to adventurous.

By combining the Margetts funds, it is possible to create any risk rating between Providence and Venture. A lower risk portfolio will have a larger weighting in the Providence fund and higher risk portfolios will have a higher allocation to Venture. Your financial adviser will help to establish your risk profile and recommend an appropriate blend of the Margetts Risk Rated funds.

The Margetts funds are designed to build a risk rated portfolio which matches your ability and willingness to accept risk by combining the below four funds in one portfolio. Investors are able to easily monitor their progress through consolidated reporting and online services.

The Risk Rated Portfolio system is designed so that the risk rating of each fund is the recommended minimum number of years that fund is held for. You should also discuss the length of time you intend to hold an investment for with your adviser.

The Margetts funds are illustrated below on a scale of 1 to 10.

Lower Risk — **Higher Risk**

2-3 — 3-4 — 5-6 — 7-8

Margetts Providence

“look after the pennies and the pounds look after themselves”

Risk 2-3

Lower volatility through a diversified portfolio

Margetts Select

“a fund for all seasons”

Risk 3-4

Prospects for medium to long term growth

Margetts International

“the world is our oyster”

Risk 5-6

Growth from worldwide opportunities

Margetts Venture

“who dares, wins”

Risk 7-8

Prospects for adventurous growth

Greater Diversification

The old adage of “Don’t put all your eggs in one basket” is an important element in building a portfolio. The Margetts fund of funds allow investors to make a single investment, which is then professionally managed by Margetts. Each portfolio will be allocated over several asset classes and geographical locations, utilising the expertise of numerous top fund management groups around the world to gain optimal performance within a well diversified portfolio for a given level of risk.

The Margetts team consider the benefit of each underlying holding included in the risk rated portfolios as individual assets and also consider how that holding will interact within the portfolio. By understanding the correlation between assets, Margetts aim to create well diversified portfolios which produce superior returns for the level of risk taken.

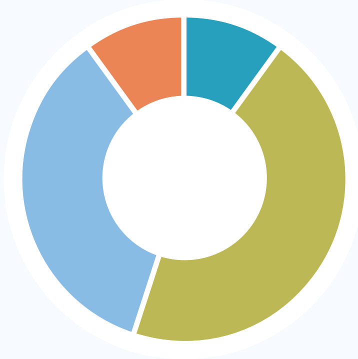
> *“The Margetts fund of funds allow investors to make a single investment, which is then professionally managed by Margetts.”*

The pie charts to the right show the long term breakdown of a portfolio with a risk rating of 4 - 5. The short term allocation may differ slightly, but this is the framework that the portfolio is built on. There is diversification in the geographical allocation, the asset allocation and the Margetts funds the portfolio is invested in.

This aims to generate smoother, more consistent returns and minimise the effect of market falls etc. on the portfolio.

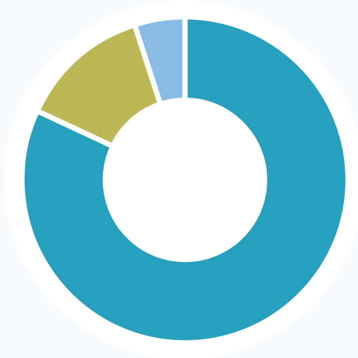
Fund Allocation

Providence	10%
Select	45%
International	35%
Venture	10%



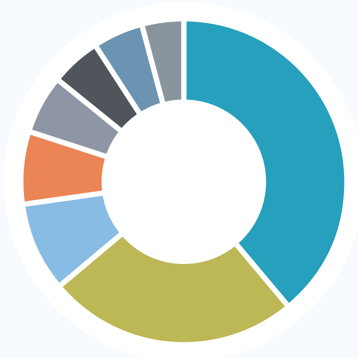
Asset Allocation

Equities	82%
Bonds	13%
Cash/Money Markets	5%



Geographical Allocation

UK	39%
USA	25%
Europe	9%
Asia Pacific	7%
Emerging Markets	6%
Japan	5%
Cash/Money Markets	5%
Global Funds	4%



Margetts Providence Fund

Risk Level **2-3** on a scale of 1 to 10

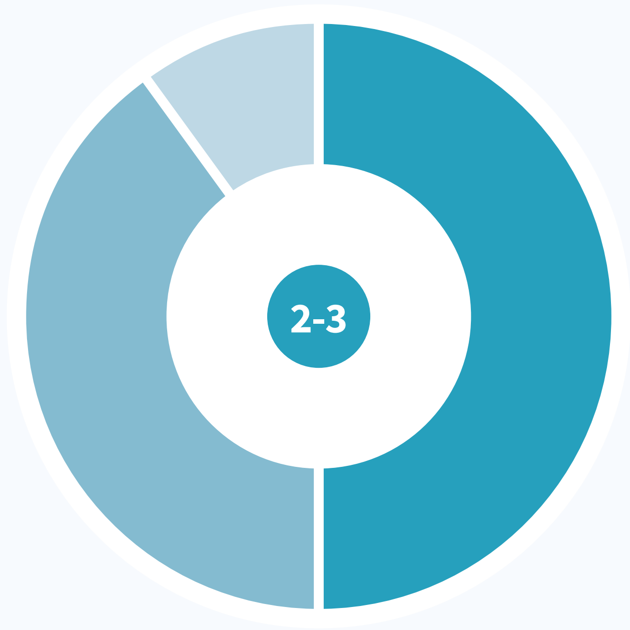
Lower volatility through a diversified portfolio

A key advantage of the Providence fund is the lower volatility of returns achieved by combining debt securities with equity securities in roughly equal proportions. Historically the correlation between the asset classes has been low, which creates greater diversification and reduces the volatility of the portfolio.

Investment Objective and Policy

To provide a balance of long term capital growth and income by investment in any economic sector in any geographic area in regulated collective investment schemes investing in a wide range of assets including equities, fixed interest and cash type instruments. The fund will have a bias towards holdings with exposure to shares paying dividends or bonds with a fixed rate of interest.

Typical Asset Allocation for Providence



UK Equity Income	50%
Bonds	40%
Cash/Money Markets	10%

Margetts Select Fund

Risk Level **3-4** on a scale of 1 to 10

Prospects for medium to long term growth

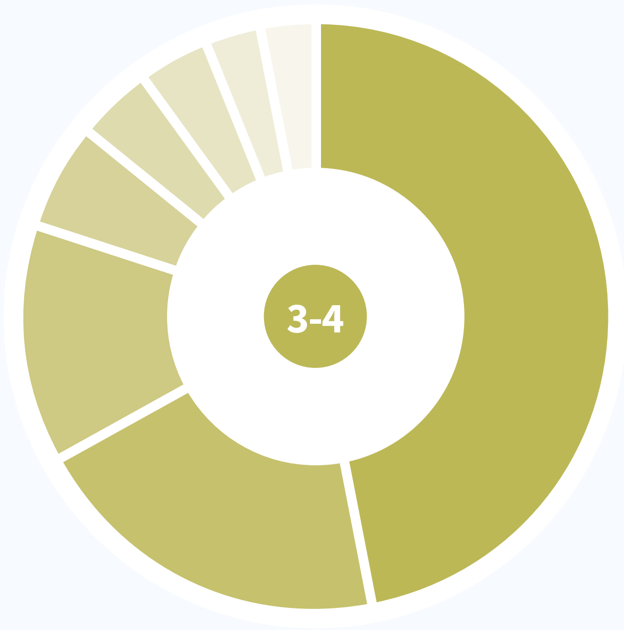
A significant strength of the fund is the range of opportunities in which it can invest. The portfolio aims to select from a range of collective investment schemes offering capital growth and income.

The fund's ability to access equities, fixed interest stock and currency exposure from across world markets provides a high degree of flexibility which increases the likelihood of achieving the investment objective.

Investment Objective and Policy

To provide medium to long term capital growth on a medium risk basis through the cautious but active management of a diversified portfolio of UCITS schemes and non-UCITS schemes (that have the same characteristics and restrictions as a UCITS scheme) that invest in equity and fixed interest markets in the UK, Europe and throughout the world.

Typical Asset Allocation for Select



UK	47%
Bonds	20%
USA	13%
Europe	6%
Asia Pacific	4%
Cash/Money Markets	4%
Emerging Markets	3%
Japan	3%

Margetts International Fund

Risk Level **5-6** on a scale of 1 to 10

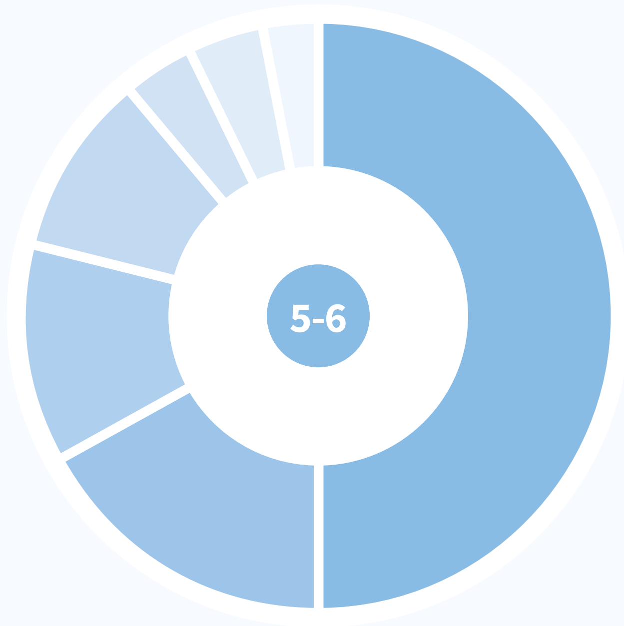
Growth from worldwide opportunities

The fund has considerable flexibility and can invest in a range of collective investments which provide exposure to any global markets providing the opportunity to benefit from economic growth in many different markets.

Investment Objective and Policy

To provide capital growth over the medium and longer term from an actively managed spread of collective investment schemes investing predominantly in equity, equity-linked, fixed interest and money market investments in the various world markets. The fund will primarily have exposure to global equity markets unless the manager believes that significant and sustained market falls are likely.

Typical Asset Allocation for International



USA	50%
Europe	17%
UK	12%
Japan	10%
Asia Pacific	4%
Cash/Money Markets	4%
Emerging Markets	3%

Margetts Venture Fund

Risk Level **7-8** on a scale of 1 to 10

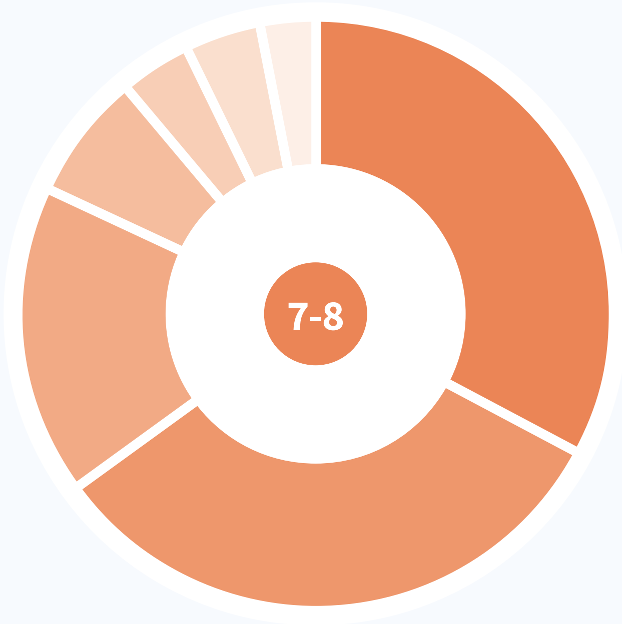
Prospects for adventurous capital growth

The Far East, emerging economies and other specialist areas offer prospects to provide substantial growth. The opportunities are selectively positioned alongside more traditional investments to provide an aggressively managed portfolio, aiming to achieve impressive long term capital appreciation. The speed of change in these areas inevitably leads to higher volatility within the markets, but this volatility can be reduced via a diversified portfolio with active management.

Investment Objective and Policy

To provide long term capital growth by investment in any economic sector in any geographic area in UCITS schemes and non-UCITS schemes (that have the same characteristics and restrictions as a UCITS scheme) with particular attention being focused on Far Eastern and Emerging Market Funds.

Typical Asset Allocation for Venture



Asia Pacific	33%
Emerging Markets	32%
USA	17%
Europe	7%
UK	4%
Cash/Money Markets	4%
Japan	3%

How to Invest into the Risk Rated Funds

The Supplementary Information Document (SID) booklet includes all of the forms you will need to make an investment into the funds as well as the aims of the funds and the terms and conditions of investment.

You should read both the SID and the Key Investor Information (KII) documents carefully before making any investment.

What forms will I need to complete?

For a direct investment:

For a non-ISA investment:

- You will need to complete an “Application Form”.
- Non-ISA investments may be held in joint names.
- Non-ISA investments can be given multiple designations. This can personalise your investment - for example if you invest for your children or grandchildren you can designate your investment with their names.

For an ISA investment:

- You will need to complete an “ISA Application Form”.
- ISAs may only be held individually.
- ISAs cannot be given designations.

For an ISA transfer:

- If you already hold funds in an ISA with another provider and you would like to transfer these to Margetts while retaining the ISA wrapper, you should complete the “ISA Transfer Authority Form”.
- Make sure you enter the name and address of your current ISA provider and the plan reference number on the form. We will send your signed form to the current manager to request your ISA funds are transferred to Margetts.

For an indirect investment:

For an investment via a platform:

The platform will be able to advise you which forms you need to fill out for an ISA, non-ISA or ISA transfer investment into the Margetts funds.

For an investment via a self invested personal pension:

The SIPP provider will be able to advise you which forms you need to fill out for a non-ISA investment into the Margetts funds.

You will also need to send payment for the amount you would like to invest. Current financial regulations may require you to complete additional forms, please refer to the latest SID booklet or your financial adviser for more information on this.

For any of the investments:

The regular investment facility allows you to invest on a regular basis into the funds. If you would like to use this, the direct debit mandate form (at the back of the SID booklet) should be completed to provide bank details.

If you have decided to pay your adviser fees using Margetts' adviser charging facility, you should also read the terms and conditions in the Adviser Charge Facilitation Consent Form (which is a separate document) and then complete that form.

The name and address entered on the form should be legally correct for identity verification purposes. We may run electronic checks to verify your identity, however your adviser may also provide certified documents to satisfy requirements.

Important Information

These investments are not suitable for everyone and you should obtain expert advice from a professional financial adviser. Investments are intended to be held for the medium to long term timescale, taking into account the minimum period of time designated by the risk rating of the particular fund, although this does not provide any guarantee that your objectives will be met.

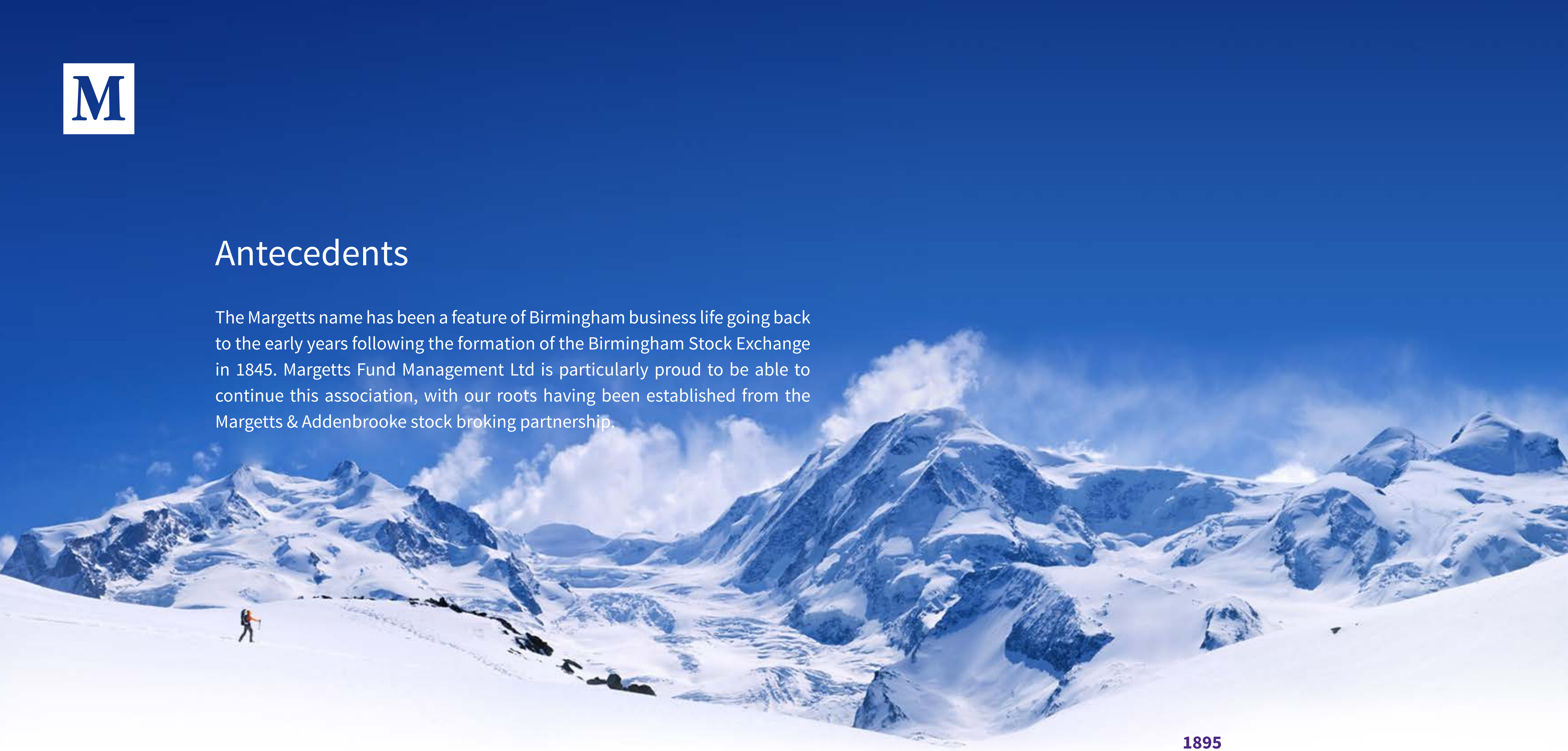
Please note that the contents are based on the author's opinion and are not intended as investment advice. Any research is for information only, does not constitute financial advice or necessarily reflect the views of the author and is subject to change.

It remains the responsibility of the financial adviser to verify the accuracy of the information and assess whether the fund is suitable and appropriate for their customer.

Past performance is not a reliable indicator of future performance.

The value of investments and the income derived from them can fall as well as rise and investors may get back less than they invested.

Important information about the funds can be found in the Supplementary Information Document and NURS-KII Document which are available on our website or on request. All potential investors in the Margetts funds should read fully these documents before reaching any decision.



Antecedents

The Margetts name has been a feature of Birmingham business life going back to the early years following the formation of the Birmingham Stock Exchange in 1845. Margetts Fund Management Ltd is particularly proud to be able to continue this association, with our roots having been established from the Margetts & Addenbrooke stock broking partnership.

1845

James Pearson, banker and stock broker, is an established trader in Birmingham and is elected the first Chairman of the newly constituted Birmingham Stock Exchange

1853

James Pearson dies and is succeeded by his sons, Charles and Richard, and the name is changed to James Pearson & Sons

1865

James Pearson & Sons, were sole brokers to the original public issue of capital made by Lloyds Banking Co Ltd, Birmingham - now Lloyds Bank

1875

Herbert Margetts is elected as a member of the Birmingham Stock Exchange. Herbert Margetts also succeeds as proprietor of James Pearson & Sons and the firm is renamed Herbert Margetts Late James Pearson & Sons

1881

T. Jervis Addenbrooke is elected a member of the Birmingham Stock Exchange

1886

Margetts & Addenbrooke form a partnership, naming the company Margetts & Addenbrooke

1895

A private wire is installed from the offices direct to the London Stock Exchange. This is the first ever direct telephone from Birmingham to the London market

1901

Herbert Margetts is elected Chairman of the Birmingham Stock Exchange for the last time

1909

Herbert Margetts dies and T. Jervis Addenbrooke becomes sole partner

1932

T. Jervis Addenbrooke completes 50 years of membership of the Birmingham Stock Exchange

1937

T. Jervis Addenbrooke retires completing nearly 56 years membership of the Birmingham Stock Exchange

1938

G. S. Howarth and W.O. Mills form a partnership and continue as Margetts & Addenbrooke

1944

Pilot officer G.S. Howarth dies on active service and Reginald Welham is sole proprietor

1946

The business of T. H. Evans & Co amalgamates with Margetts & Addenbrooke. Harold W. Oakley and Reginald Welham continue in partnership

1965

Under new Federation rules, Margetts & Addenbrooke become a dual capacity firm acting as jobbers and brokers

1972

Dual capacity is no longer permitted and Margetts & Addenbrooke expand private client stock broking

1986

Margetts & Addenbrooke plays a leading role in the formation of the National Investment Group. Following further acquisitions by Capel Cure Myers, Old Mutual and Barclays Wealth Management, this resulted in the demise of the Margetts & Addenbrooke name as stock brokers in Birmingham

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