



Distributor Influenced Funds Open Industry Meeting



Distributor Influenced Funds
and Products - the Distributor View



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Snowdonia – A Journey



- Why
- What did it look like?
- Issues
- Mistakes
- Today's picture/developments
- The Future





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What Did it Look Like?

- Fund of Funds
- Unfettered
- 3 Fund Managers
 - Premier
 - Rensburg
 - Mercater

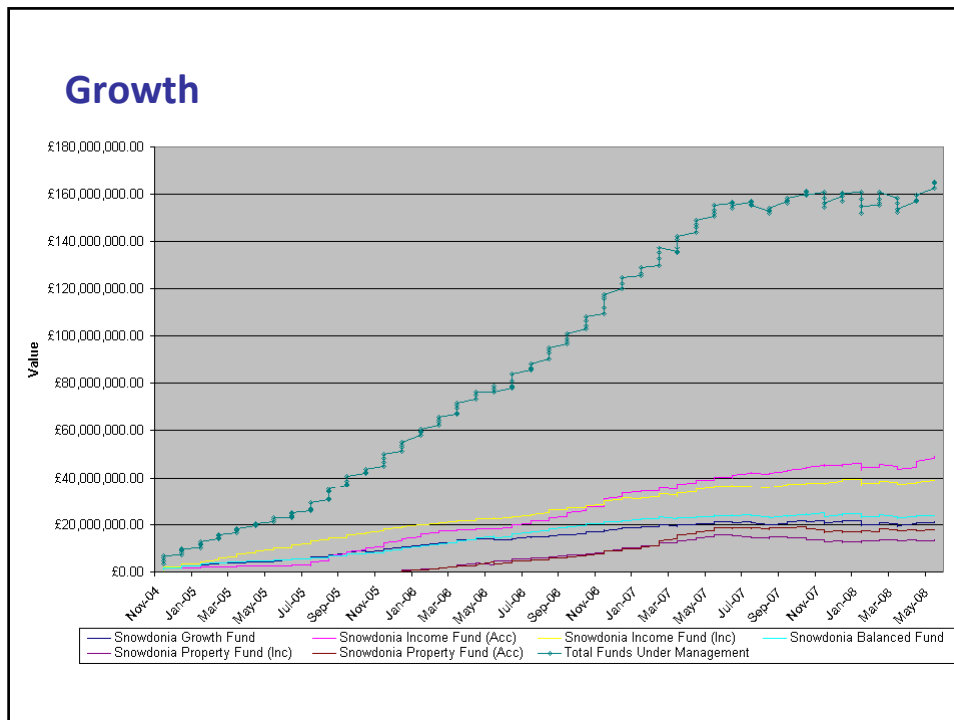


What Did it Look Like?

- Sector based (IMA)
- Investment Committee
- Investor days
- 5 parties benefiting
 - i. Client
 - ii. IFA
 - iii. ACD
 - iv. Fund selector
 - v. Underlying funds
- Fully disclosed



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Issues

- Independence
 - i. It was part of our process
- Conflicts of Interest
 - i. Reputation
- Suitability
- Value
- Risk Control





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Mistakes

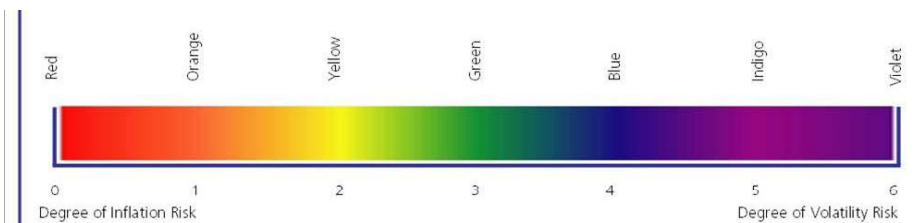
- Mandating
 - i. Getting the job right
 - ii. Avoiding Fund Manager bias
 - iii. Avoiding the ego
- Linkages
 - i. Cost issues
 - ii. Drag
- 3 Fund Managers



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Developments/Today's Picture

- Risk Profiling
 - i. 7 categories



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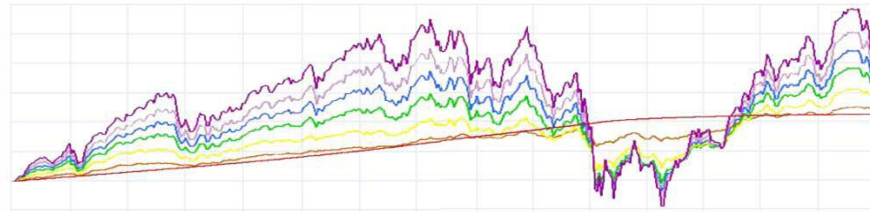


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Developments/Today's Picture



- Benchmarks provide



Jun 05 Oct Feb'06 Jun Oct Feb'07 Jun Oct Feb'08 Jun Oct Feb'09 Jun Oct Feb'10 Jun

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Developments/Today's Picture



- Mandated Portfolios
 - Fund Manager must remain within 20% of benchmark
 - Clear definition of the job and the fund risk exposure
- Joined up fund management
- Product neutral

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Strategic Asset Allocation Framework

	Green		Blue	
	Range	Neutral	Range	Neutral
UK equity (FTA)	0 - 50	25	0 - 65	32.5
Non-UK Developed (FTDW ex UK)	0 - 45	20	0 - 60	26
US		10.8		14.1
EU		4.5		5.8
Japan		1.9		2.5
Asia		2.8		3.6
GEM (MSCI EM)	0 - 15	5	0 - 20	6.5
UK Corps (IBOXX £ Corp All)	0 - 55	22.5	0 - 45	16
Gilts (IBOXX £ Gov All)	0 - 55	22.5	0 - 40	16
Cash (3M £ LIBOR)	0 - 45	5	0 - 45	3
Total		100		100

Asset/sector bets & portfolio holdings

(Snow/Zest Income/Cautious) (Snow/Zest Balanced)

	Green			Blue		
	PIM	+/-	%	PIM	+/-	%
UK Equity	21.0	-4.0		26.0	-6.5	
BR UK Equity Tracker			5.0			5.0
Invesco Perpetual Income			6.0			7.0
IOHCM UK Opps			3.0			5.0
M&G Recovery			3.0			4.0
AXA Fram UK Select Opps			4.0			5.0
Schroder UK Alpha Plus						
North America	11.5	0.7		15.0	0.9	
BR US Equity Tracker			11.5			15.0
Europe	2.5	-2.0		3.0	-2.8	
BR European Equity Tracker						2.0
Cazenove European			2.5			3.0
Japan	2.0	0.1		3.0	0.5	
BR Japan Equity Tracker						2.0
Invesco Perpetual Japan			2.0			3.0
Far East ex Japan	3.0	0.2		4.0	0.4	
BR Asia ex Japan Tracker						2.0
Aberdeen Asia Pacific						
First State Asia Pacific Ldrs						
Fidelity South East Asia			3.0			2.0
GEM	6.0	1.0		8.5	2.0	
BR EM Tracker						
First State GEM Leaders			6.0			8.5

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Asset/sector bets & portfolio holdings

(Snow/Zest Income/Cautious) (Snow/Zest Balanced)

	Green			Blue		
	PIM	+/-	%	PIM	+/-	%
Global Specialist	4.0	4.0		5.0	5.0	
Jupiter International Financials			4.0			5.0
JPMorgan Natural Resources						
UK Corps	22.0	-0.5		16.0	0.0	
Invesco Perp Corporate Bond			4.0			
Fidelity Strategic Bond			6.0			5.0
Cazenove Strategic Bond			4.0			3.0
Artemis Strategic Bond						
Henderson Strategic Bond						
Gartmore Corporate Bond			8.0			8.0
Gilts	18.0	-4.5		13.0	-3.0	0.0
L&G All Stocks Gilt Index			13.0			13.0
Allianz Pimco Gilt Yield			5.0			
Other bonds	5.0	5.0		3.0	3.0	
L&G Index-linked Gilt Index						
Old Mutual Gbl Strategic Bond			5.0			3.0
Cash	5.0	0.0		3.5	0.5	
Deposit			5.0			3.5
	100.0	0.0	100.0	100.0	0.0	100.0

The Future



FSA/RDR

“In requiring that adviser firms only be paid for advice and related services through adviser charges, we expect adviser firms to appreciate that they will not be able to continue to receive additional income from other sources in relation to DIFs (including remuneration currently paid, for example, to the firm for its role on the governance committee of a DIF). An adviser firm should face no financial incentive to recommend a DIF over another CIS, or indeed any other potentially substitutable product. Our current rules are already clear that a DIF can only be recommended where it is suitable for and in the best interests of the particular client.”



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The Future

- Remove our remuneration from the OEIC
 - i. Launching institutional share class
- Replace with agreed remuneration from client via platform
- Vital that
 - i. IFA has a process
 - ii. Able to demonstrate/test
 - iii. IFA can justify process
 - iv. Fund selection matches risk coding
 - v. Demonstrate on-going value
 - vi. Investment Committee



The Future


- Disclosure of conflicts of interest
- No product bias

Important that we do not throw out the baby with the bathwater




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Summary



Portfolio Issue	Alternative	Snowdonia/Managed Portfolios
Benchmarking	Sector benchmarked – benchmark asset allocations affected by market sentiment	Index benchmarked – consistent yardstick for portfolios
Fund Selection	In-house: limited analysis capability, little/no access to underlying managers. Whole of market	Full time professional portfolio manager, supported by team of analysts with face-to-face fund manager access. Whole of market
Tactical Asset Allocation	Difficult to take short term over/underweight positions due to trading and analysis constraints	Professional economists provide inputs to tactical views; manager can implement across all portfolios to exploit an opportunity


Summary



Portfolio Issue	Alternative	Snowdonia/Managed Portfolios
Risk Controls	?	Clear risk limits in place – manager must remain within 20% of benchmark risk
Trading/Execution	Manual – impossible to service all portfolios quickly or equally. Client authority required for even simple rebalancing trades	Automatic using discretionary power. All clients receive trades at same time, within a short time of news becoming known to the market
Costs	Retail fund prices – no overall cost objective	Portfolio manager pays lower institutional rates for funds. Cost target in Investment Policy Statement



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Summary		
Portfolio Issue	Alternative	Snowdonia/Managed Portfolios
Rebalancing	Difficult to rebalance regularly because of trading constraints – portfolios may increase in risk over time	Rebalancing at least quarterly (daily in OEICs or Life Funds)
Governance	?	Formal investment committee to review fund performance and risks, with 2x independent members and combined City experience of over 100 years. Managers report to this committee and can be removed.