

Thesis Reflection

Welcome to Thesis Reflection, a new bi-monthly bulletin from Thesis Asset Management created specifically for law firms.

With changes to legislation and increasing competition creating both opportunities and threats, law firms are viewing the provision of more formalised outsourcing of financial services advice as a subject important to enhancing their client proposition. This bulletin will reflect some of the issues that may affect you and your clients.

Independent portfolio reviews for Trustees

Taking independent financial advice is a natural course to take for individuals and Trustees, but investment planning is a judgement based on the known circumstances and on making certain assumptions into the future. However, investment markets can be extremely volatile and on occasion, investment assumptions do not materialise.

It is important therefore to ensure that progress is monitored, either on an absolute basis or with reference to an agreed benchmark, in order to review that the investment objectives, both short and longer term, continue to be achievable.

At Thesis we will always make ourselves available to provide individuals and Trustees with an independent evaluation to review existing investment strategies. Our position ideally places us to understand how the regulatory environment operates and is a great advantage in asking the correct questions and adopting the most appropriate argument.

Below are a couple of examples of situations where a review of the current situation has benefitted law firms and ultimately their clients.

Review of outperformance exposes risk

Thesis was approached recently by Trustees of a Life Interest Trust to provide a second opinion on an investment portfolio that had been in place for some seven years.


Its performance appeared satisfactory, and the Trustees had had no concerns until this point in time, indicating there were no issues to be addressed - capital increasing, income being achieved and a measure of outperformance against the benchmark.

However a significant element of 'outperformance' can mean that there is a higher element of risk than intended, inherent within the investment strategy.

Our review pointed out to the Trustees that there was one specific stock that contributed to the element of outperformance, and as a result exposed the portfolio to a degree of risk not aligned with the investment policy statement.

March 2011

This Month

 **What action can be taken when the best laid plans for investment planning don't turn out as anticipated?**

- Independent portfolio reviews for trustees
- Review of outperformance exposes risk
- Review also beneficial for underperformance
- Review of legacy trust helps settlement

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Review also beneficial for underperformance

Similarly, when investments are not meeting their objectives and there is continued 'underperformance', the issue should be raised with the original adviser. Usually there is an appropriate explanation, perhaps a one off situation, be it stock specific or general market trend.

If there is no credible satisfactory explanation and if the poor performance issues continue, there may be a need to consider an independent appraisal.

Review of legacy trust helps settlement

In a further example Trustees sought advice for the investment of two £10,000 legacies to be retained in trust until the beneficiaries attained the age of 21 years. The adviser's recommendation stated:

"There is obviously a need for a reasonably cautious approach to investment of the funds especially for minor beneficiaries, but there should be enough diversification to ensure sufficient growth is achieved over the longer term."

Subsequently however this advice was ignored by the adviser and the monies were invested totally in funds correlated back to equity markets. This could in no way be considered a cautious strategy.

The technology bubble burst in 2000/2001, equity valuations collapsed and the individual legacies were valued at £4,000. The nature of the funds meant there was a limited ability to fully participate in the recovery of Stock Market valuations in the subsequent years.

Thesis were able to advise on the issue of suitability of the investments which were certainly questioned and there would have been recourse to the original financial adviser, but unfortunately they were no longer in existence. Thesis provided the Trustees (in this case a legal practice) with figures indicating the returns that the legacies would have achieved if appropriately invested which assisted in the negotiation of a settlement with the family of the minor beneficiaries.

If you feel that a review of portfolios in your care would be advantageous, or if there are any particular individual client arrangements that we may assist with, please do get in touch with any of the Thesis investment management team.

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