

# Thesis

## Product Update

### Investing to suit a client's code of ethics

Last week I attended a branch meeting of the Institute of Financial Planning (IFP) where the subject for discussion was ethics. Those gathered spent a worthwhile three hours discussing how they can promote and demonstrate adherence to the IFP's own code of ethics.

While it is normal practice for professions to abide by a code of ethics and to go to great efforts to promote this to clients (perhaps because of some of the mis-selling of the past); I wondered how often a client's own personal code of ethics is taken in to consideration, especially when it comes to how they wish to invest their money, and how easily this can actually be achieved with the investment solutions presented to them.

This led me to consider our own ethical offer - and it is worth reminding our professional introducer base that Thesis is one of only a handful of discretionary investment managers that constructs bespoke managed portfolios for clients dependent on their own personal "shade of green" and ethical criteria.

#### What we do...

The Thesis ethical team has many years' experience in managing client money on a Socially Responsible Investment (SRI) basis and constructing ethically-screened portfolios for clients with more than £150,000 to invest.

As a starting point, for a prospective ethical investor that may have inherited or owns a non-ethical portfolio, Thesis will carry out a forensic examination of the existing portfolio and present a detailed analysis of the portfolio's ethicality to the client.

Our main point of difference is that we match the client's ethical criteria exactly, in both a positive and a negative sense, by investing directly from our universe of UK Blue Chip and Mid 250 shares. Every purchase made is backed up by a detailed Thesis ethical profile on the company, which is then sent on to the client in every instance.

We look at:

- Principal activities
- Positive reasons to be held
- Negative issues (if any)

Every proposed ethical investment, either equity or collective, is approved initially by our ethical team and then must go on to meet our in-house investment criteria before it is considered for a portfolio.

Our ethical collectives complement our direct UK equity ethical selection to ensure we achieve a broadly diversified portfolio - in the same fashion as our standard non-ethical portfolio. Our ethical collectives offer has been extensively researched to ensure that every area of our investment asset allocation has an ethical/environmental alternative to the standard offer.

Please contact us to discuss the Thesis Ethical Service, contact details are in the box below.

### Are performance jockeys heading for a fall?

For many investors a continuing and strong historic performance record is reason alone to remain invested in a fund. However, and as readers I am sure are aware, funds can have periods of strong and weak performance. Sometimes the latter may just be a short blip as stocks and sectors rotate out of fortune for a while but in some instances weak performance may arise and continue for more systemic reasons.

As pro-active discretionary managers it is our job to identify 'turning points/game changers'. As an example, we currently have one such fund that we have been investing in for just over a year. During this time, the fund has delivered over a 17% return, outperforming its market benchmark index by 5% and building on a track record of outperformance that was established even before we became investors.

We were not unique in spotting the performance of this fund but where we may differ is our ongoing assessment of its potential and by remaining mindful of other technical considerations when selecting or de-selecting a fund.

When Thesis first invested it was known to us that the managers would take action to 'soft close' the fund at a size of £750 million,

## May 2011

### This Month

- Investing to suit a client's Code of ethics
- Are performance jockeys heading for a fall?
- Optima Fund Factsheets

If you wish to know more about the **Thesis Ethical Service** please contact Jonathan and/or Caroline, both based in our Lymington office:

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a position that was reached in November last year. (If you are not aware, 'soft closing' means that effectively only existing investors can continue placing money in the fund, whilst people who have not previously invested either cannot invest or face higher charges to become investors).

We have no issues with any fund we invest in 'soft closing'. To an extent it prevents dilution of our existing investment and also provides a certain 'competitive advantage' knowing that we can still invest when others can't. It can also be considered quite honourable by fund managers to 'soft close' rather than just accumulating funds to obtain higher management fees.

Continued strong performance of this fund in 2011 (+6.66% versus index of +4.17%\*) is now seeing the fund approach £1 billion in size, as existing and new investors continue to follow the performance. This is now causing the fund's manager to harden their 'soft' closure of the fund and impose an up-front charge (albeit small at the moment) even to existing investors. This is something we don't like at Thesis as we strive to invest on the best possible terms for our clients. Sometimes though you pay for what you get and some may consider this (currently) small charge as acceptable for a fund capable of outperforming so strongly.

Discretionary fund managers devote much of their time to research and at Thesis we believe seeing the 'whites of the eyes' when conducting our initial due diligence on a fund, so actually meeting the managers can be beneficial. We recall from our initial discussions with the managers of this fund their reasons for stating why they would look to close their fund if it reached a certain size; they felt they could not effectively manage a large sum of money in their trading style and size of stocks in which they invest.

In light of this we are now assessing whether the continuing success of this fund has created a rod for the manager's backs and as a result we are no longer adding to this fund due to the new costs, and are in actual fact considering a sale. This probably wouldn't be a consideration to those performance jockeys out there who will doubtless continue to invest and thereby grow its size but in doing so they could also be creating a reason as to why this fund may find it difficult to deliver ongoing outperformance in the future.

## Optima Fund Factsheets

Details of the performance and other information of the entire range of Optima Funds can be found on our website.

Factsheets are available to download for each of the following funds:

- Optima Growth Fund
- Optima Cash Fund
- Optima Bond Fund
- Optima Balanced Fund
- Optima Multi Asset Strategy Fund
- Optima Income Fund

\*All data to 30th April 2011, Morningstar workstation, total return, net income reinvested

This update is for information only and is not an invitation to engage in investment activity.

Thesis Asset Management is authorised and regulated by the Financial Services Authority. Investors should be aware that the value of their investments and the income from them can fall as well as rise and investors may not receive back the full amount they invest. Past performance is not necessarily a guide to future performance. Investments denominated in foreign currencies are subject to fluctuations in exchange rates which can be favourable or unfavourable.