



Managed Funds: Are they worth investing in?

Including a review of Iridium & Osmium portfolios

May 2010

This Global Markets Asia research report aims to provide an independent and objective review of the principal of investing in managed funds within a reporting format that is readily understandable in layman's terms. In order to provide a practical perspective two Guernsey-based managed fund portfolios that claim to produce superior risk-adjusted performance have been selected for specific analysis: the Iridium Portfolio and the Osmium Portfolio. All information regarding these portfolios has been provided by the MBMG Group.

Executive Summary

Financial investment has rarely been trickier. The 2008 crisis has fundamentally changed global economic dynamics and the world has entered a new era. The post millennium credit boom that propelled Asia out of the 1997 crisis and the west out of its technology bubble burst is over. This current depression or recession, however you wish to designate it, is a new situation unlike anything we have experienced before.

No-one really knows what will happen next. After a decade of global economic harmony where most of the world was united for the first time in pursuit of growth, globalization has now gone into reverse. Protectionism is increasing and will escalate. Asian markets are still developing whilst western markets may well be sucked into a deflationary spiral. A clear division in sovereign balance sheet risk is now apparent between west and east. Government stimulus in the west is fading whilst conditions in the underlying economies are still weak.

Huge bail-outs have contributed to inflation in the financial markets, and vagabonding liquidity contributes to market volatility. Extreme market volatility is particularly testing for investment managers, and the world appears to be entering a prolonged period of acute instability. Achieving above average investment returns for the next few years will be more challenging than ever. Fundamental shifts in global economic dynamics will necessitate development of revised investment allocation strategies and adjusted benchmarking indices.

Managed funds hold an important place in the range of investment opportunities, providing consumers with a wide choice of defined risk alternatives, and allowing them access to assets that would otherwise be out of reach as individuals. However, the investment industry now needs to respond better to a new breed of consumer with better access to information, demanding greater transparency and more product information. On top of this, additional regulations as a result of the 2008 crisis may cause added complication and increase costs.

The Iridium and Osmium portfolios are strongly defensive investment vehicles; their main objectives are to preserve capital and better cash deposits. They are well suited for conservative investors. Their respective investment managers have proven track records and are fundamentally aligned with investors given they are both strongly vested in the core underlying funds to Iridium and Osmium. For investors seeking higher returns that are prepared to risk losing a significant part or all of their capital in pursuit of higher returns or making bigger bets on specific asset classes, Iridium and Osmium are not suitable.

The Investment Quandary

It is understandable for investors to want the impossible: that is the highest possible returns from the lowest possible risk investment. This objective is rarely attainable, and as a result, few investors are consistently happy with the results of their investment decisions. Where a third party professional is hired to provide investment advice, it can be a normal human trait to unfairly blame someone else for failure to meet expectation. In spite of strenuous positive regulatory and educational initiatives by governments, investment professionals are still sometimes heavily criticized by consumers, especially during periods of weak overall market conditions.

Few investors are consistently happy with the results of their investment decisions

In parallel, with immense changes in the financial markets during the IT Age, so consumers have access to enormous amounts of information, and as a result many believe they are better informed. They now expect much higher standards of investment performance and communication but are likely to be confused by an enormous, bewildering array of ever more complex financial products available to them through the internet. Professional advisers need to appreciate this fundamental behavioural shift and recognize that consumers no longer need to be "sold" products. More than ever, consumers need detailed accurate advice on solutions tailored to suit their needs from the best-in-class provider. One-size clearly does not fit all. Advisers need to respond to this new challenge of an ever more complicated market and to provide the correct advice whilst avoiding unsuitable products.

Consumers need accurate tailored solutions from the best-in-class provider

Improved communication between consumers and professional advisers is the key issue. Consumers must be clear on the degree to which they are interested in maximizing profits or avoiding loss. The words "cautious" and "risk" may translate into a variety of different meanings for different people. It also needs to be understood that consumer risk tolerance levels can quickly change with time or circumstances. In a boom market consumers will be more confident in making higher risk investments that maximize profits whereas in a bear market they will be more concerned about capital protection. A sudden reversal in market conditions may well alter a consumer's needs or attitude, irrespective of their previously stated horizon, which investment advisers need to be sensitive to and cater for. Also, during a crisis, investment horizons may abruptly concertina as investors scramble for liquidity. Looking forwards, getting this balance right has increasingly important ramifications for all parties within the financial investment industry, especially in times of extreme volatility.

Consumer risk tolerance levels can change quickly

The following are some of the traditional ways people have invested money, according to individual investors risk tolerance and time horizon:

- **Physical bank-notes**
- **National savings**
- **Bank deposits**
- **Money market accounts**
- **Bonds**
- **Stocks**
- **Index tracking**
- **Commodities**
- **Gold & precious metals**
- **Franchise/Business Ventures**
- **Private equity & hedge funds**
- **REITs**
- **Real Estate**
- **Foreign currencies**
- **Overseas markets**

The IT age has created its own special issues for investors. In any asset class, the speed with which markets now react to change is difficult to track manually. At their most extreme, markets may even abruptly go into reverse. Enormous amounts of information are now available to investors through the internet that may lull consumers into a false sense of security, and may encourage short-term views

Short-term results do not follow through into long-term returns

that can sidetrack investors from their long-term goals. As any seasoned investment manager will confirm, short-term returns do not necessarily follow through into long-term results. On the other hand, investment returns are no longer maximized by sticking to either individual or limited numbers of asset classes for a number of years. Relative performance of each asset class can now vary wildly from year to year, and every decade or so some fundamental market growth patterns completely change.

The following table sourced from data provided by Lipper demonstrates this choice of asset class issue by ranking the relative % return performance of six different asset classes year by year from 1999 to 2009.

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Global Equity 26.2%	Real Estate 10.5%	Real Estate 7.1%	Global Bonds 20.1%	Global Equity 22.7%	Real Estate 18.9%	Real Estate 18.8%	Real Estate 18.1%	Hedge Funds 12.56%	UK Bonds 14.4%	Global Equity 26.51%
Hedge Funds 23.4%	UK Bonds 9.9%	UK Bonds 5.3%	Real Estate 10.5%	Hedge Funds 15.4%	Global Bonds 10.8%	Global Equity 13.74%	Hedge Funds 13.86%	Global Bonds 9.2%	Global Bonds 10.4%	Hedge Funds 18.57%
Real Estate 14.1%	Cash 6.3%	Cash 5.1%	UK Bonds 9.2%	Global Bonds 15.1%	Hedge Funds 9.64%	Hedge Funds 7.61%	Global Equity 13.52%	UK Bonds 7.3%	Cash 3.9%	Global Bonds 2.51%
Cash 5.6%	Hedge Funds 4.85%	Hedge Funds 4.42%	Cash 4.1%	Real Estate 11.2%	Global Equity 9.4%	UK Bonds 6.4%	Cash 4.9%	Cash 6.1%	Hedge Funds - 19.07%	UK Bonds 1.97%
UK Bonds -2.5%	Global Bonds 2.3%	Global Bonds -0.9%	Hedge Funds 3.04%	Cash 3.8%	UK Bonds 5.7%	Cash 4.8%	UK Bonds 0.5%	Global Equity 2.83%	Real Estate -22.5%	Cash 1.18%
Global Bonds -5.1%	Global Equity -10.7%	Global Equity -15.5%	Global Equity -25.2%	UK Bonds 2.5%	Cash 4.7%	Global Bonds -6.45%	Global Bonds -7.5%	Real Estate -5.5%	Global Equity -40.1%	Real Estate -1.41%

Consumer Variance

Investor risk tolerance is defined as: 'the extent to which an individual chooses to risk experiencing a less favourable financial outcome in the pursuit of a more favourable financial outcome.' Every investor is different so the investment industry has identified a variety of ways by which consumers can be categorized in terms of their sensitivity to risk.

At its most simple level this can be broken down into four groups:

1. **Passive Self Directed:** Investors relying upon cash deposits, pensions, fixed income products, capital asset sales and rental streams who do not consider income erosion by inflation to be an issue and do not feel the need to obtain professional third party investment advice on issues such as income, currency or tax planning.
2. **Conservative Third Party Directed:** Investors seeking to maximize returns, counteract inflation or achieve financial goals who do not have sufficient time, or believe that a third party professional adviser is better placed to optimize investment decisions for them, and are prepared to pay the requisite fees, believing that their investment, net of fees will optimize returns.
3. **Confident Self Directed:** Investors seeking to maximize returns, counteract inflation or achieve financial goals who believe that they are best placed to manage their own investment decisions, and are therefore only liable to pay brokerage fees.
4. **Undecided Self Directed:** Investors that are unsure or are previously third-party directed investors, who possibly as a result of past disappointment or a feeling of being let down, now see greater value in making their own investment decisions or staying in cash. Optimizing cash deposits can be a time-consuming exercise, involving the need to constantly move funds in response to changing rates in different institutions.

Financial Advisers

There are three general types of financial adviser:

1. **Tied advisers** who operate on behalf of one financial services company, such as the staff in local bank branches
2. **Multi-tied advisers** who sell products on behalf of a limited range of companies
3. **Independent Financial Advisers** ("IFAs") who choose products for their clients from anywhere in the market

No individual investment entity can be top-ranked indefinitely. Similarly, no individual adviser whether it be an insurance, pension or investment company can be best at everything. Those institutions with their own tied sales force need to have a full product range in order to be able to offer consumers exactly what they need, and this needs to be priced at a suitably competitive rate. Common sense and numbers dictate that this is difficult for individual companies or institutions with a more restricted selection.

No individual adviser can be best at everything

IFAs logically should be able to offer the widest possible choice at the most competitive price. IFAs, on the other hand, may lack reputation compared to institutions with household names, and may, in some rare cases, undertake dubious practices. Whether a professional adviser is part of a larger institution or an IFA, consumers run the risk of the adviser acting in self-interest, and will need to satisfy themselves that they are being offered a suitably wide range of products at competitive prices, and the fees charged are appropriate in the light of anticipated net investment returns in order to proceed with a new investment. Interestingly, the majority of complaints received by the UK Financial Services Authority stem from tied advisers.

Most complaints stem from tied advisers

The traditional concept of a consumer entrusting their business to a smart financial adviser that they like personally and bank on professionally to make the right calls is an anachronism. Consumers who still devolve total responsibility for making investment decisions for them to an adviser are likely to be tomorrow's unhappy customer. More than ever consumers need or want to understand exactly what they are investing in, and need to comprehend that they cannot plan financially without full knowledge of all the investment risks. The higher up the wealth pyramid that consumers are positioned so less generalization is appropriate and greater investment advisory specialization is required.

In the past, capital risk, the chance of being defrauded or not getting all their invested money back was pivotal. The likelihood of this eventuality continues to be tightened through better regulation, but other types of risk involving uncertainty and unpredictability now needs to be much better quantified. At the outset of an investment, it is likely difficult to say with any certainty what the outcome will be when it is finally cashed in. Markets and rates fluctuate and what has happened historically may not be repeated in the future. Consumers generally do not spend enough time looking at and understanding methodology and tend to focus more on yesterday's results. As a result investment opportunities are all too often sold based on historical performance with forward looking myopia: that is, what happened last will likely be continued to infinity and beyond!

Consumers do not spend enough time understanding methodology

Professional advisers sometimes do not spend enough time or are insufficiently qualified in explaining the more complicated contracts to consumers, and as a result, investors are slow or hesitant to proceed. Some very basic general rules that investor education programmes must address include:

- How likely is something to go wrong and what are the ramifications?
- How likely is something to go right and what are the ramifications?
- The greater the return wanted, the more risk will have to be accepted
- The greater the return wanted, the greater the chance of losing some or all of the initial investment capital
- In addition to risk, investor returns are also impacted by investment fund efficiency
- The longer the wait until investments maturity, the more risk can be taken
- For short-term investment it is unwise to take much capital risk
- Investing in share-based assets has proved to be the best way for providing growth that outstrips inflation during equity bull markets. In theory long-term investment should give more

time to recover losses after a fall in the stock market. However, history has proven that this is not always the case

Rarely do professional advisers warn potential investors that they may lose their capital with the same enthusiasm as when they project potential upside. This warning is probably the most important piece of information that needs to be conveyed to consumers but all too often it is not verbalized and is left to the small print! Advisers who brush over negatives and promote the blind belief that “everything will be alright” end up alienating investors.

Managed Fund Types

The fund industry has experienced enormous growth in terms of size over the past 20 years by providing “the little guy” with the opportunity to invest alongside “the big boys,” whilst providing flexibility according to each investor’s risk appetite.

The original objective for managed funds was to provide alternatives for investing in:

- **Equities** - (stocks and shares)- providing dividend income - the most risky class
- **Fixed Income Bonds** - providing interest income - less risky
- **Money Market Funds** - mostly treasury bills & short-term institutional notes - least risky

Market uncertainty is increasing the appeal of alternative approaches

From here it was an easy and automatic step for funds to start combining asset classes to balance out risk. The IT age has enabled the creation of a myriad of alternative fund objectives more or less based on the three original objectives above. More recently, market uncertainty, increasing liquidity and bad experiences have increased the appeal of spreading risk through more complicated alternatives or ‘funky’ approaches in “different” asset classes and fund structures.

As fund types have become more complicated, so there has been a consequential blurring of the lines between different asset classes. Some of the more popular new approaches and strategies to investment include:

INTERNATIONAL FUNDS: With globalization so the market has opened up for funds to invest anywhere in the world in multi-currencies as opposed to an individual jurisdiction

SECTOR FUNDS: Targeting investment themes; specific industries or commercial areas sometimes even linked to ethics or beliefs such as social responsibility

INDEX FUNDS: Replicating the performance of a broad market index. Originally they tracked equity indices such as the S & P 500 by holding the contents or a sample of the contents of the respective index. More recently actively managed Exchange Traded Funds (“ETFs”) have been created that are authorized to invest in commodities, futures or precious metals

MANAGED FUTURES: Investing either long or short in futures contracts in commodity, raw materials, equities, currencies or bonds. The requirement for an up-front margin payment only effectively leverages the invested amount. As a result managed futures can create proportionally outsized returns, with of course, corresponding outsized risk and volatility

GLOBAL MACRO STRATEGY: Investing in various asset classes in accordance with views on the economic or political situation in specific jurisdictions, e.g., if the investor thinks the USA is heading into recession, going short on stocks, futures and currencies. Alternatively if India looks good, doing the opposite and going long there

EVENT-DRIVEN STRATEGY: Responding to special situations such as distressed stocks or sectors, mergers, takeovers and headline news stories. Anticipating events earlier generally leads to higher gains, but this also runs the risk of increasing costs while waiting for events to unfold, e.g., the 2007 sub-prime crisis took 18 months to metamorphose into a full blown real estate crash

ARBITRAGE FUNDS: Seeking to profit from extreme short-term price discrepancies in assets or securities, e.g., fixed-income funds arbitraging interest rate securities - this strategy is frequently referred to as “picking up nickels in front of a steamroller!”

CONVERTIBLE ARBITRAGE: Involving the simultaneous purchase of convertible securities with the shorting of the same issuer's common stock

LONG-SHORT FUNDS: Involving the simultaneous purchase of short and long positions in equities on the basis that, in a rising market, the long positions will benefit whilst any fall in the market is underpinned through shorting

CAPITAL GUARANTEE FUNDS: Institutional investment vehicles that deposit the majority of the investment into long-term deposit accounts with the remainder invested in stock market options. Investors are guaranteed by the institution from losing either all, a proportion, or the deposited portion of their invested capital. However, the amount of return that investors can obtain if the investments appreciate is also limited

PROPERTY FUNDS: In theory a means of creating liquidity in illiquid assets. Investor returns can be enhanced through use of a Real Estate Investment Trust ("REIT") type structure that benefits from tax breaks. Liquidity comes at a premium though which can be exposed in a falling or market crash. For closed end-funds if Net Asset Value ("NAV") falls below par then the fund will likely be liquidated at a loss. For open ended funds the liquidity premium is exposed when the fund trading price falls below the value of the underlying real estate assets

Some of the more popular basic categories of fund structures include the following:

ABSOLUTE RETURN FUNDS: These funds were best sellers at the end of 2009 as experts warned that the equities rally could falter. Some advisers and investment companies have been promoting "absolute return" funds as a safe haven in 2010. However, according to Candid Money, a consumer website, nearly half the funds in the Investment Management Association ("IMA") absolute return sector have lost money so far this year. Unlike conventional active funds which choose stocks that are expected to rise, absolute return funds can also take advantage of falling prices. They do this by shorting — betting that prices will fall — and by picking up the same companies when their share prices start to rise again. However, while they should not be expected to match a rising market, nearly half the absolute return funds have lost money this year and several have done worse than the market

Nearly half have lost money this year!

CAUTIOUS MANAGED FUNDS: One of the best-selling sector in early 2010, said the IMA. These funds have a maximum equity exposure of 60%, with at least 30% in fixed-interest investments, such as corporate or government bonds and cash. With more than half their holdings in equities, nearly half of cautious managed funds have lost money in the past three years

MULTI-ASSET FUNDS: These are more diversified cautious funds, based on the principals of Modern Portfolio Theory ("MPT"). These can include assets such as property, commodities and hedge funds. The theory is that holding a wider range of investment types should reduce risk, as they are all unlikely to move in the same direction at the same time. The usual approach from investment managers is then to rigidly follow and stick to conventional formulae or theories and try to avoid at all costs 'second-guessing the market.' MPT was developed in the 1950s and through the early 1970s and was viewed as a breakthrough in the field of mathematical modelling for finance. Since then MPT has been widely reproached for being too rigid in terms of relative asset correlation and for the theory running into difficulties in extreme market conditions. MPT uses the mathematical concept of past variance to quantify risk. In particular, variance is a symmetrical measure that counts abnormally high returns as equally risky as abnormally low returns. In the real world investors are only worried about a loss which means that an investor's true concept of risk is asymmetric in nature. Like monetary theory, MPT is now also being criticized for assuming that markets are efficient, that investors are rational and are apprised of all relevant facts. In spite of these criticisms MPT is still widely used, not least by the Harvard and Yale University Endowment Funds who have been employing strategic multi-asset investing successfully for the past 20 years

Holding a wider range of investments should in theory reduce risk

MULTI-MANAGER MULTI-ASSET PORTFOLIOS: In order to overcome perceived criticisms of MPT, a recent development has seen the emergence of multi-manager funds blending together multi-asset funds. This provides investment managers with the opportunity to select the best in class managers in any given asset class. It also opens up the opportunity to blend funds based

Opportunity to choose the best in class fund managers

on MPT together with more tactical funds that relate better to behavioural economics along with opportunistic funds. This can provide further risk diversity and capital protection and may create better up-side potential for responding to short-term market movements or abrupt reversals. The more adaptive the asset allocation the greater the ability to create investment cocktails that counteract volatility and adjust to different asset class strategies in response to different stages of the investment cycle

The perennial problem is timing

The perennial problem with investing in funds is timing. Most investors are attracted to funds based on their past performance and it is understandable that they are attracted to the funds with highest past returns - the trouble is that by the time the investment herd responds to the good news the best is past and the second wave of investors are disappointed - hence the disclaimer "past performance is not necessarily indicative of future returns!" The first 'real world' rule of investing is as soon as a "new" market opportunity or trend is discovered or spotted, the rest of the market does its best to oversupply it as quickly as possible!

Fund Managers can also become victims of their own success when additional large waves of investment are attracted. This may leave them with difficulty in finding sufficiently good new investments and may even give them no option but to invest further chunks of capital in areas that have already passed their peak or could even be in decline. Research has also shown that the larger a mutual fund becomes, the closer it reverts to benchmark. Maybe a new extended standard disclaimer such as "past performance is **more often than** not necessarily indicative of future returns" might be more accurate!

The larger a fund becomes the closer it reverts to benchmark

Managed Funds: Advantages and Disadvantages

ADVANTAGES:

Access- To experienced top flight money managers whose full time occupation is studying, responding and investing in specific market sectors. Also provides access to investments that an individual investor might not otherwise be able to enter

Diversification- Managed funds can provide the investor with the opportunity to invest in an extremely wide choice of assets that they might not normally have the time or expertise to be able to study sufficiently well in order to maximize returns

Safety- Funds may not earn as good short-term returns as other specific asset classes, but can provide greater capital safety through diversity

Economies of Scale- As more cash is lumped together and invested, so costs reduce and buying power increases

DISADVANTAGES:

Tax Complications- Investors need to understand the tax liabilities and implications for net returns of a specific fund before investing in it, relative to fund domicile (e.g. onshore/offshore) and their own personal tax circumstances

Dilution- As funds grow in size so they may be forced into excessive diversification. Small holdings in too many investments may result in the high returns from the top assets being watered down and limiting its beneficial effect upon the overall holding

Fees- Can be extremely expensive

Assessing Managed Funds

Funds and managers are generally judged by how successfully they have historically controlled risk whilst delivering returns. A number of standard techniques and terms are now widely used for assessing this including-

MAXIMUM DRAWDOWN: A simple measure of past losses which helps investors assess potential future loss amounts and volatility. It is defined as "the largest drop of a given asset within a certain time period," and represents the largest total percentage loss experienced by a strategy before it starts winning again so driving the investment balance back up

ALPHA: A measure of investment performance adjusted for the risk taken. It indicates the portion of a manager's return attributable to the skill of the individual manager rather than the market as a whole. A positive alpha means he has outperformed the market whilst a negative one implies he has underperformed

BETA: A measure of the manager's systemic risk. It compares the return volatility of the manager to the volatility of returns for a comparable market index. The index is given a beta of 1. A beta of 1.25 would suggest a volatility level 25% higher than the market, whilst a beta of 0.75 implies volatility 25% lower

R-SQUARED: A measure of how closely the manager's returns match the returns of the index against which it is compared. Derived from regression analysis, it indicates the reliability of alpha and beta in explaining the manager's returns and risk. An R-Squared of 95% indicates that the manager correlates with the benchmark 95% of the time. An R-Squared of 35% suggests very little correlation with the benchmark which means that alpha and beta might be considered statistically insignificant

STANDARD DEVIATION: A gauge of the variance or dispersion of the manager's return over its average or mean. Statistically, it is the square root of the variance. Because it measures total variation of the return, it is a measure of total risk as opposed to beta which measures market risk

SKEWNESS: A measure of probability distribution. A positive skew means the bell curve is skewed to the right, a negative skew means it is skewed to the left, whilst zero skewness means distribution is in the middle

KURTOSIS: In a probability distribution bell-curve it measures the peakedness of the bell-tip or the flatness of the bell-curves. The flatter the distribution, the higher risk of collapse

TRACKING ERROR: A measure of how closely the manager tracks the index returns. Statistically, it is the annualized standard deviation of the difference between the manager's return and the benchmark return. Conceptually it is the inverse of R-Squared

SHARPE RATIO: A measure of the manager's excess return over the risk-free rate of return (normally the cash return), divided by the standard deviation. It incorporates return and risk into a single number

SORTINO RATIO: A modification of the Sharpe Ratio. The Sharpe ratio penalizes both upside and downside volatility equally, but the Sortino Ratio only penalizes those returns falling below a user specified target or a required rate of return. It therefore treats downside risk more realistically than the Sharpe Ratio

UP-MARKET CAPTURE RATIO: A measure of the manager's performance against the index in an up-market. A ratio value of 125 indicates he has outperformed the market by 25% in a rising market

DOWN-MARKET CAPTURE RATIO: The opposite of the Up-Market Capture Ratio. A ratio value of 75 indicates he has outperformed the index by 25% in a falling market

BATTING AVERAGE: A measure of the manager's ability to consistently beat the market over a given period. The longer the period reviewed the more significance this carries. A manager who outperforms the market 70% of the time has a batting average of 70

RATING AGENCIES: There are a small number of rating agencies in existence that undertake ratings of mutual funds. The fact that this specialized sector of the ratings industry has not grown particularly

strongly is a reflection of its limited appeal. Ratings tend to work within a rigid template that focuses on fund-size and past performance rather than relating methodology to performance, which limits the scope of this service

The strength or weakness of using standard techniques for assessment is their relevance in different market conditions. Generally quantitative models tend to perform best in periods of relative stability which to some degree limits their benefit. A detailed understanding of basic market fundamentals and the ability to make accurate contrarian calls at the right time are matters of human judgement for which no mathematical formula exists.

Managed Fund Fees

Fees vary on a case by case basis from fund to fund. Typically there may be an initial charge levied on the purchase of units or shares to covers dealing costs, and commissions paid to intermediaries or salespeople. Usually this fee is a percentage of the investment. Some schemes waive the initial charge and apply an exit charge instead that may be graduated, disappearing after a number of years.

Most funds charge an Annual Management Charge ("AMC") to cover the cost of administering the scheme, custodial services, advisory services and remunerating the investment manager. This may be a flat rate based on the value of the assets or a performance related fee based on a pre-defined target being achieved.

Investors should be aware of a secondary layer of fees and commissions that may be payable where the primary investment fund manager invests in other funds. Known as trailing fees, any commissions should normally be credited back in full by the investment manager into the primary fund.

Full disclosure from the outset reinforces professionalism and transparency

After failure to match fund performance expectations the other most frequent criticism of investment professionals is an ambivalent attitude to communicating remuneration levels to potential clients. Discussion regarding fees is frequently restricted to what is shown in fund prospectuses and, all too often, financial advisers' main priority appears to be collecting their transaction commissions. Consumers are generally reserved and consider it rude to ask for details about what other people actually make out of a deal.

Full disclosure of exactly what is made out of a transaction under different scenarios will not alienate potential clients provided they are within the normal market range. Indeed, full disclosure from the outset, explaining precisely who makes what and how incentivization works will reinforce professionalism and transparency, and can go a long way towards avoiding criticism and complaint later in the event that the investment performance fails to match expectation.

If the investor managed his or her own investments, AMC and entry fees should of course be avoided, though private investors will tend to pay higher dealing costs and will not benefit from any institutional discounts.

Market Background 2010

The term "global contagion" entered the popular vernacular in 2009 once markets appreciated that an economic crash, as well as an economic boom, could be exported. In the past, capital dispatched overseas has generally always been enthusiastically welcomed; in 2009, the markets discovered that exporting debt is a huge problem. The subsequent confusion and lack of understanding is still clearly evident amongst western governments and hampers their ability to find solutions that will sustain recovery. One of the side-effects is currency volatility: in 2008, the dollar strengthened, in 2009, it weakened, and so far in 2010 it has strengthened again.

Exporting debt is a huge problem

In spite of this foreign exchange volatility, successful investment strategies for the past two years have been fairly straightforward. In 2008, the year of the Lehman crash, for western investors that were prepared, this was the year of the equity short. In 2009, the equity markets rebounded and recovered from an Armageddon scenario. This was the year for going long, though after the rebound equity markets still did not recover to 2008 peak levels. The current market could be summarized as a

bouncing bear - that is a downward bear market interspersed with unpredictable upward bounces, exacerbated by low interest rates and vagabonding liquidity.

We are now in a bouncing bear market

In 2010, western markets are characterized by unemployment, a transfer of massive private debt problems into a sovereign debt crisis and an urgent and critical need to deleverage. The policy forces that are driving recovery are gradually losing strength and the underlying financial forces remain weak. Confidence in the western world is plunging to a level not experienced since the Second World War. Prospects for recovery are still uncertain and world trade has understandably plummeted.

Since the 2008 crisis, governments worldwide have intervened with huge subsidies; in the west to prevent financial meltdown, and in the east to bolster trade and try to combat the negative effects of slowing demand in the west. In spite of substantial stimulus in emerging Asian markets this is insufficient to compensate for the lost spending power of the western consumer. A robust 2009 Asian performance was driven by massive government stimulus in an increasingly divided China. In 2010, the Chinese central authorities are trying to cool their domestic market and reduce inflation risk. Depending on how enthusiastically this central directive is implemented by regional and local authorities, it remains to be seen how this will impact the rest of Asia in the second half of 2010 and into 2011.

Asia cannot make up for the lost spending power of the western consumer

The problems in the Eurozone that appeared in Q1 2010 are not going away and will escalate. European solidarity is being severely tested and will be put under even further pressure over the next 18 months. The single currency experiment across such diversely different economies now seems unsustainable in

The European single currency experiment now seems unsustainable

its current format, and the chances of the European market splintering looks increasingly likely. In addition to escalating volatility in the global market, the EU problems are driving investors into US treasury bills and gold as perceived 'safe havens.' This is also taking the spotlight away from the extraordinary build up of public debt in the USA which now appears to be mounting to Japan-style proportions. Once problems in the EU are resolved one way or another, the focus of attention will likely return to US sovereign debt, which will lead to even greater instability and nervousness in world markets.

Due to these uncertainties, volatility indices have increased off the charts in 2010. New electronic trading initiatives will exacerbate this further as well as boost trading brokers' revenues. Overall, investors are braced for a rough and uncertain ride for, at least, the next 12 months. Given the need for the world to rebalance supply, demand and trade, markets will remain extremely volatile for the foreseeable future which will make investing profitably extremely difficult.

Markets will remain extremely volatile for the foreseeable future

The world has now come to the end of an era of gradually reducing interest rates. In the past 35 years, real estate and corporate earnings have particularly benefited. Now there is nowhere else for rates to fall to; either they will remain flat or appreciate. This past falling interest rate benefit has made the traditional Managed Fund manager's job much easier, and many have typically achieved highest returns by aggressively investing on the back of rate-driven improving market confidence in equities. With higher interest rates, the future will likely be characterized by more sluggish growth and this investment advantage will evaporate so 'spicing up' returns will be much more difficult.

This issue along with other extreme uncertainty is now causing anomalies to occur in the investment world. For example, in recent history, the US Dollar and the price of gold have generally moved against each other. In other words, a strengthening dollar weakened the gold price and vice-versa. Since the problems in the Eurozone have escalated, the price of gold and the US Dollar have strengthened together against the Euro. This represents a radical behavioural shift, and investors should now be bracing themselves for similar incongruity of this type to surface in other asset classes or regions.

The global market has never faced a problem of this magnitude before

Most of the world's traditional benchmark currencies: the Yen, Euro, US Dollar and Sterling now all look to be in varying stages of difficulty as a result of extraordinary fiscal imbalances. This problem is being exacerbated by the Chinese Yuan peg to the US Dollar and is spilling over into a number of emerging market currencies. The global market has never faced a problem of this magnitude or complexity before, so expect current high market volatility levels to be sustained and likely escalate, which will make the investment managers job more challenging than ever.

The Osmium Portfolio

	2009 Performance	2010 Performance year to date
GBP	9.35%	0.11%
USD	3.27%	-3.32%
SGD	0.67%	-1.27%
THB	4.46%	-2.68%

The Osmium Portfolio is an Open Ended Collective Investment Scheme authorized by the Guernsey Financial Services Commission as a Class B Scheme. Class B designation differs from Class A designation in so far as only Class A schemes are recognized by the UK Financial Services Authority as eligible for making sales to the UK public. Also there is no statutory compensation cover for investors in Class B Schemes.

The portfolio is held within a Protected Cell Company ("PCC") under Guernsey Law. It is structured as an individual cell within the Worldwide Mutual Fund PCC Limited ("WMF") Class B Scheme (Ref: 1048418 Guernsey Financial Services Commission). This cell was created on 6th June 2008 and started trading on June 5th 2009 by incorporating an existing private client portfolio strategy. The PCC is not a separate legal entity from WMF (and hence can avoid the expense required by separate capitalization or licensing under the financial services legislation) but under PCC legislation it is completely ring-fenced from the assets and liabilities of all other cells within WMF. In the case of a PCC, it is possible for any individual cell to be put into receivership or administration whilst the other cells and company can carry on their legitimate business. If WMF were put into administration then the liquidator is statutorily bound to recognize the rights of each individual cell to protection from creditors of other cells. These rights were tested by case law in the Guernsey Courts in 2005, whereby the integrity of each individual cell was judged as fully preserved, and different cells were granted protection from insolvency of other cells whilst continuing to benefit from shared overhead cost.

Investment in the portfolio can be made in four different currencies: GBP, USD, SGD, and THB, and will incur currency hedging costs. Previously investments could also be made in AUD. The investment prospectus states that the portfolio is suited for investors who are willing to tolerate a reasonable level of volatility in the value of their investment. Investors should have no income requirements and a time horizon of five years. Retail distribution is tied to a sole distributor. Minimum Investment amount is USD15,000.

Fund management companies and custodians based in Guernsey are subject to zero rated income tax and VAT is not payable. Guernsey does not currently have any capital taxation, so income can be accumulated within a Guernsey based entity free of tax as far as the entity is concerned. PCCs are treated as single entities in respect of taxation to the extent that specific cells can be exempt while others are taxable. However, an individual cell will not be liable for any tax attributable to the profits of other cells. Incorporated cell companies are able to opt for exempt or taxable status on a cell by cell basis. This means that the subject portfolio will be tax exempt in Guernsey along with any other holdings also domiciled there. Tax treatment on other holdings will vary according to the jurisdiction in which they are based. Taxes can include tax on interest income, sales and dividends. The total amount of tax paid by funds within the portfolio will therefore fluctuate in accordance with portfolio holdings. The value of the portfolio and its individual holdings are stated net of tax deduction.

Fund investment is managed by Martin Gray, CEO of Miton Asset Management, in conjunction with MitonOptimal Guernsey Limited.

The Fund Administrator, Secretary & Registrar is Bordeaux Services (Guernsey) Limited, a specialized publicly listed offshore investment administrator established in 1997.

The Fund Adviser is Lancelot Management (Guernsey) Limited, a subsidiary of Belvedere Management (Mauritius) Limited.

The Fund Custodian and Banker is MeesPierson (C.I.) Limited, a Netherlands based private bank, dating back to 1720.

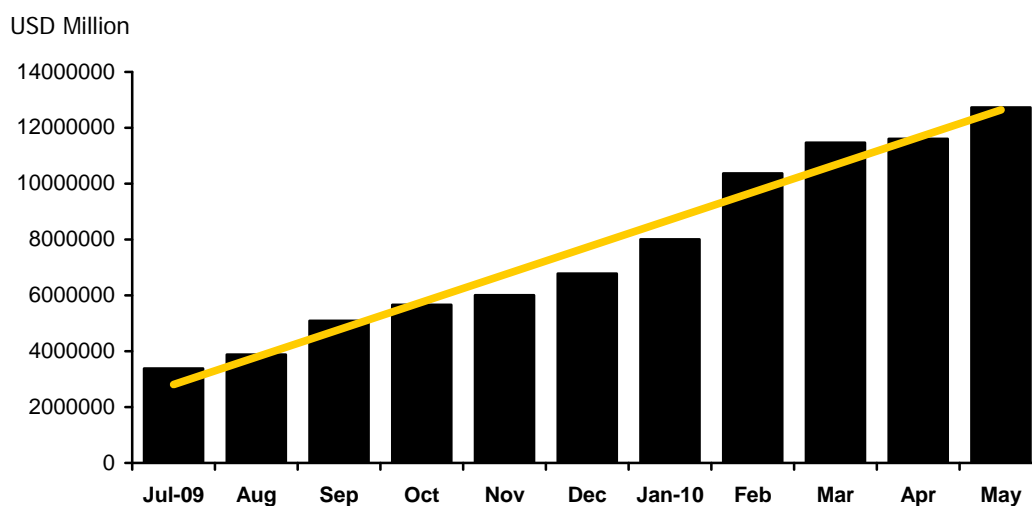
The Fund Auditor is PKF (Guernsey) Limited, a UK 'top ten' accounting firm.

Osmium Ticker Symbols:
SEDOL: B65HJB1
ISIN: GG00B65HJB18
Bloomberg: GLOMPG GU

Osmium is a balanced multi-manager multi-asset portfolio aiming to provide long-term growth through secure and sustainable returns whilst limiting volatility and risk. The investment manager's research shows that 90% of all investment returns result primarily from selecting the correct balance of asset classes, rather than picking individual stocks. As a result, the portfolio focuses on the selection of a diversified range of key asset classes rather than the selection of individual securities. The portfolio is authorized to invest in 30 different asset classes including cash, global equities, bonds, foreign currency, property, alternative strategies, resources and commodities.

A number of funds invested in by the Osmium Portfolio are also registered as Open Ended Collective Investment Schemes authorized by the Guernsey Financial Services Commission as Class B in their own right.

Since inception the portfolio has grown in size as follows:



Annual Performance for the Osmium Portfolio currently tables as follows:

Year	GBP	USD	SGD	THB
2004	2.97%	2.97%	2.97%	2.97%
2005	25.82%	25.82%	25.82%	25.82%
2006	9.58%	9.58%	9.58%	9.58%
2007	23.40%	23.40%	23.40%	23.40%
2008	2.68%	2.68%	2.68%	2.68%
2009	9.35%	3.27%	0.67%	4.46%
2010 YTD	0.11%	-3.32%	-1.27%	-2.68%

Taking the Osmium GBP portfolio as an example, results for 2008 and 2009 are 2.68% and 9.35% respectively making a total of 12.03% for both years. In other words an investment of 100 in 2008 would now be worth 112. If this were strategically compared with global equity markets, this would have shown a loss of 40% in 2008 and a gain of 30% in 2009. In other words an investment of 100 in 2008 would now be worth 78. Investors would, of course, like to have benefited from the multi manager strategy in 2008 and be fully invested and exposed to global equities in 2009 in which case their 100 would now be worth 132! Unfortunately Managed Funds do not work that way. It is illogical to expect an investment that has no correlation with equities, and is invested in many asset classes, long

and short, to compete with a powerful equity market rally. In other words, investors cannot have their cake and eat it!

The adaptive asset management strategy approach can be clearly seen when comparing changes to the portfolio holdings in December 2009 with current holdings in May 2010:

December 2009	%	Type of Investment	Location	2009
Cash	40%	Managed cash various currencies	Global	
Miton Special Sits	20%	Multi-manager, multi-asset	Global	5.0%
GAA Global Q Fund	11%	Quant Equity	Global	-6.4%
Man AHL Diversified F	9%	Managed Futures	Global	-16.4%
Moonraker Comms	8%	Commodities	Global	-1.0%
Moonraker GOP	8%	Diversified Hedge	Global	0.0%
Miton Strategic	4%	Multi-manager, multi-asset	Global	0.0%

Current fund and investment trust holdings together with 2009 performance, ranked by percentage table as follows:

May 2010	%	Type of Investment	Location	2009	2010
Cash	46%	Managed cash various currencies	Global		
Miton Special Sits	21%	Multi-manager, multi-asset	Global	5.0%	3.69%
GAA Global Q Fund	8%	Quant Equity	Global	-6.4%	6.08%
Man AHL Diversified F	6%	Managed Futures	Global	-16.4%	3.7%
Moonraker Comms	4%	Commodities	Global	-1.0%	-3.0%
Moonraker GOP	4%	Diversified Hedge	Global	0.0%	-0.9%
Carmignac Inv Class A	2%	Multi-asset	Global	17.59%	3.19%
Miton Core Diversified	2%	Multi-manager, multi-asset	Global	20.33%	2.98%
Miton Strategic	2%	Multi-manager, multi-asset	Global	0.0%	-1.8%
Ruffer Total Returns	2%	Multi-asset	Global	10.8%	6.5%
Turnstone Europe	2%	Equity long-short	Europe	3.43%	1.85%
Berkshire Hathaway	0.5%	Equity	US/Global	19.8%	18.45%
Ruffer Europe	0.5%	Multi-asset	Europe	9.1%	3.55%

Current fund holdings by asset type table as follows:

Cash	46.15%
Asset Allocation	34.42%
Alternative Strategies	11.85%
Commodities	4.30%
Equity	3.28%

- Alternative Strategies means hedge funds
- Asset Allocation means multi asset and multi-manager, multi asset funds
- Commodities include raw materials
- Equity means global equities

Cash may appear to be a passive asset, but is in fact an extremely important opportunistic component as it gives the investment manager flexibility and an arsenal to use at short notice to purchase new assets

The portfolio does not publish a fixed foreign exchange hedging policy as strategy adjusts according to market conditions. The portfolio is currently hedged at two levels:

- A. At entry level. Investors can invest in units in the portfolio in a number of different currencies. The portfolio is administered in a specific currency, in the case of Osmium, in GBP. Investor returns in all other currencies are hedged against GBP through a currency swap contract based on an exchange of currency and interest rates. The stronger the original investment currency is against the administration currency so the cost of hedging increases. Hedging costs have increased substantially since 2008 and currently range between 5 and 15 basis points per

annum. Given Thai Baht is not a liquid currency in terms of foreign exchange it is hedged through a forward contract mechanism

- B. At fund investment level. An important part of the investment manager's performance strategy is to invest in different entities in currencies that are considered advantageous relevant to the administrative currency of the portfolio

Currency exposure of the core GBP portfolio cell currently tables as follows:

Sterling	78.44%
USD	19.28%
Euro	2.28%

Management Expense Ratio ("MER") for the portfolio will be more expensive for cells denominated in the less popular investor currencies. Given many of the administrative and operational fees are fixed rate, this will place a proportionally greater burden on cells with lower invested amounts, which will consequently achieve comparatively lower returns compared to denominated cells with larger totals.

Osmium Fees

Initial Fee	5.25%
Annual Management Fee	1.25% of net asset value
Annual Performance Fee	20% of increase in net asset value
Total Fund Custodial Fee	GBP 4,000 per annum
Brokerage fees	As required
Currency Hedging	Variable
Exit Penalty	Nil

The Iridium Portfolio

	2009 Performance	2010 Performance year to date
GBP	4.73%	3.62%
USD	3.26%	0.91%
SGD	1.33%	-0.05%
THB	-1.35%	1.13%
AUD	-0.77%	8.95%

The Iridium Portfolio is an Open Ended Collective Investment Scheme authorized by the Guernsey Financial Services Commission as a Class B Scheme. Class B designation differs from Class A designation in so far as only Class A schemes are recognized by the UK Financial Services Authority as eligible for making sales to the UK public. Also there is no statutory compensation cover for investors in Class B Schemes.

The portfolio is held within a Protected Cell Company ("PCC") under Guernsey Law. It is structured as an individual cell within the Global Mutual Fund PCC Limited ("GMF") Class B Scheme (Ref: 1030264 Guernsey Financial Services Commission). This cell was created on 27th March 2006 and commenced trading on 7th November 2006. The PCC is not a separate legal entity from GMF (and hence can avoid the expense required by separate capitalization or licensing under the financial services legislation) but under PCC legislation it is completely ring-fenced from the assets and liabilities of all other cells within GMF. In the case of a PCC, it is possible for any individual cell to be put into receivership or administration whilst the other cells and company can carry on their legitimate business. If GMF were put into administration then the liquidator is statutorily bound to recognize the rights of each individual cell to protection from creditors of other cells. These rights were tested by case law in the Guernsey Courts in 2005, whereby the integrity of each individual cell was judged as fully preserved, and different cells were granted protection from insolvency of other cells whilst continuing to benefit from shared overhead cost.

Investment in the portfolio can be made in five different currencies: GBP, AUD, USD, SGD, and THB, and will incur currency hedging costs. Previously investments could also be made in the Euro. The investment prospectus states that the portfolio is suited for investors who are willing to tolerate a reasonable level of volatility in the value of their investment. Investors should have no income requirements and a time horizon of five years. Retail distribution is tied to a sole distributor. Minimum Investment amount is USD15,000.

Fund management companies and custodians based in Guernsey are subject to zero rated income tax and VAT is not payable. Guernsey does not currently have any capital taxation, so income can be accumulated within a Guernsey based entity free of tax as far as the entity is concerned. PCCs are treated as single entities in respect of taxation to the extent that specific cells can be exempt while others are taxable. However, an individual cell will not be liable for any tax attributable to the profits of other cells. Incorporated cell companies are able to opt for exempt or taxable status on a cell by cell basis. This means that the subject portfolio will be tax exempt in Guernsey along with any other holdings also domiciled there. Tax treatment on other holdings will vary according to the jurisdiction in which they are based. Taxes can include capital gains tax on sales and taxes on dividend income. The total amount of tax paid by funds within the portfolio will therefore fluctuate in accordance with portfolio holdings. The value of the portfolio and its individual holdings are stated net of tax deduction.

Fund investment is managed by Scott Campbell, CEO of MitonOptimal Guernsey Limited.

The Fund Administrator, Secretary & Registrar is Bordeaux Services (Guernsey) Limited, a specialized publicly listed offshore investment administrator established in 1997.

The Fund Adviser is Lancelot Management (Guernsey) Limited, a subsidiary of Belvedere Management (Mauritius) Limited.

The Fund Custodian and Banker is MeesPierson (C.I.) Limited, a Netherlands based private bank, dating back to 1720.

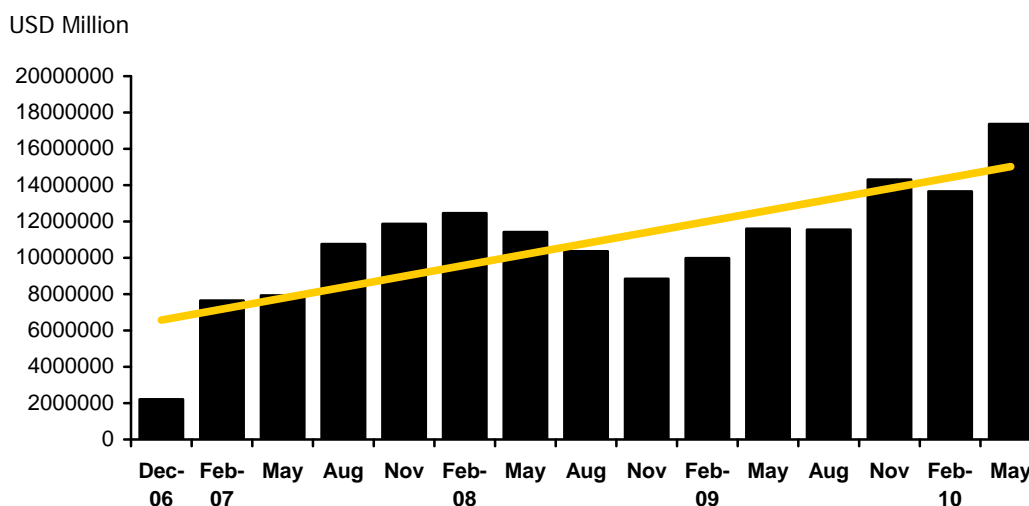
The Fund Auditor is PKF (Guernsey) Limited, a UK 'top ten' accounting firm.

Iridium Ticker Symbols:
SEDOL: B19ZFF2
ISIN: GG00B192ZFF26

Iridium is a balanced multi-manager multi-asset portfolio aiming to provide long-term growth through secure and sustainable returns whilst limiting volatility and risk. The investment manager's research shows that 90% of all investment returns result primarily from selecting the correct balance of asset classes, rather than picking individual stocks. As a result, the portfolio focuses on the selection of a diversified range of key asset classes rather than the selection of individual securities. Asset classes include cash, global equities, bonds, foreign currency, property, alternative strategies, resources and commodities.

A number of funds invested in by the Iridium Portfolio are also registered as Open Ended Collective Investment Schemes authorized by the Guernsey Financial Services Commission as Class B in their own right.

Since inception the portfolio has grown in size as follows:



Annual Performance for the Iridium Portfolio currently tables as follows:

Year	GBP	USD	SGD	THB	AUD
2006*	0.19%	0.16%	NA	NA	NA
2007	4.63%	1.99%	NA	NA	10.46%
2008	-4.66%	-18.83%	NA	NA	-1.60%
2009	4.73%	3.26%	1.33%	-1.35%	-0.77%
2010 YTD	3.62%	0.91%	-0.05%	1.13%	8.95%

* Portfolio launched in November 2006

Taking the Iridium USD Portfolio as an example, results for 2008 and 2009 are minus 18.83% and 3.26% respectively making a total of minus 15% for both years. In other words an investment of 100 in 2008 would now be worth 85. If this were strategically compared with global equity markets, this would have shown a loss of 40% in 2008 and a gain of 30% in 2009. In other words an investment of 100 in 2008 would now be worth 78. Investors would, of course, like to have benefited from the multi manager strategy in 2008 and be fully invested and exposed to global equities in 2009 in which case their 100 would now be worth 107! Unfortunately Managed Funds do not work that way. It is illogical to expect an investment that has no correlation with equities, and is invested in many asset classes, long and short, to compete with a powerful equity market rally. In other words, investors cannot have their cake and eat it!

The adaptive asset management strategy approach can be clearly seen when comparing changes to portfolio holdings in December 2009 with current holdings in May 2010.

December 2009	%	Type of Investment	Location	2009
Cash	78%	Managed cash various currencies	Global	
Blackrock Gold & Gen	12%	Gold Equity, ETF	Global	26.1%
Man AHL Diversified F	5%	Managed Futures	Global	-16.4%
Miton Core Diversified	3%	Multi-manager, multi-asset	Global	20.33%
Miton Special Sits	2%	Multi-manager, multi-asset	Global	5.0%

Current fund and investment trust holdings together with 2009 performance, ranked by percentage table as follows:

May 2010	%	Type of Investment	Location	2009	2010
Miton Core Diversified	40%	Multi-manager, multi-asset	Global	20.33%	2.98%
Cash	11%	Managed cash various currencies	Global		
Man AHL Diversified F	11%	Managed Futures	Global	-16.4%	3.7%
GAA Global Q Fund	7%	Quant Equity	Global	-6.4%	6.08%
Streettracks	5%	Gold ETF	Global	27.02%	10.78%
Miton Special Sits	5%	Multi-manager, multi-asset	Global	5.0%	3.69%
Moonraker Comms	3%	Commodities	Global	-1.0%	-3.0%
Moonraker GOP	3%	Diversified Hedge	Global	0.0%	-0.9%
Turnstone Europe	3%	Equity long-short	Europe	3.43%	1.85%
NZAM Global Bond	2%	Equity long-short	Global	14.84%	2.42%
Carmignac Class A	2%	Multi-asset	Global	17.59%	3.19%
Ruffer Total Returns	2%	Multi-asset	Global	10.8%	6.5%
Templeton Global TR	2%	Fixed Income	Global	25.2%	8.74%
Frontier Conserve USD	2%	Multi ETF, multi-asset	Global	14.26%	0.59%
Trojan Inv Fund	1%	Equity	Global	11.6%	5.0%
Vantage Horizon	1%	Equity	Global	15.67%	3.7%
Ruffer Europe	1%	Multi-asset	Europe	9.1%	3.55%
Berkshire Hathaway	0.5%	Equity	US/Global	19.8%	18.45%
Momentum AllWeather	0.33%	Diversified Hedge	Global	14.63%	2.38%

Current fund holdings by asset type table as follows:

Asset Allocation	58.27%
Cash	17.19%
Alternative Strategies	14.66%
Commodities	5.14%
Equity	3.11%
Bonds	1.62%

- Alternative Strategies means hedge funds
- Asset Allocation means multi asset and multi-manager, multi asset funds
- Commodities include raw materials
- Equity means global equities
- Bonds means global bonds

Cash may appear to be a passive asset, but is in fact an extremely important opportunistic component as it gives the investment manager flexibility and an arsenal to use at short notice to purchase new assets.

The portfolio does not publish a fixed foreign exchange hedging policy as strategy adjusts according to market conditions. The portfolio is currently hedged at two levels:

- A. At entry level. Investors can invest in units in the portfolio in a number of different currencies. The portfolio is administered in a specific currency, in the case of Iridium, in USD. Investor returns in all other currencies are hedged against USD through a currency swap contract based

on an exchange of currency and interest rates. The stronger the original investment currency is against the administration currency so the cost of hedging increases. Hedging costs have increased substantially since 2008 and currently range between 5 and 15 basis points per annum. Given Thai Baht is not a liquid currency in terms of foreign exchange it is hedged through a forward contract mechanism

- B. At fund investment level. An important part of the investment managers performance strategy is to invest in different entities in currencies that are considered advantageous relevant to the administrative currency of the portfolio

Currency exposure of the core USD portfolio cell tables as follows:

USD	68.54%
Sterling	17.56%
AUD	12.29%
Euro	1.60%

Iridium Fees

Initial Fee	5.25%
Annual Management Fee	1.5% of Net Asset Value ("NAV")
Annual Performance Fee	20% of increase in NAV over 10%
Total Fund Custodial Fee	GBP 4,000 per annum
Brokerage fees	As required
Currency Hedging	Variable
Exit Penalty	Nil

Conclusions

CONCEPT: The principal of investing in managed funds is sound. They have proven, over many years with many strategic approaches, that they can achieve above average returns in every asset class. Most problems are caused by a particular managed fund being matched with a consumer for whom it is inappropriate or if it is misunderstood. Occasionally bad news in the sector is seized upon by the media which detracts from industry reputation. Conflicting stories then understandably deter new investors from entering the market. More often than not, the bad stories emanate from problems caused by inexperienced, badly trained or incompetent financial advisers.

Managed funds clearly have their own advantages. Particularly interesting for an investor is the opportunity to access markets or financial thresholds that they otherwise would not be able to enter as individuals. By pooling cash, investors are also diversifying and spreading risk. Statistically, an individual investor can achieve significant diversification by investing in at least 40 different entities. For individuals this is logistically challenging and the paperwork can be daunting. In addition to this administrative convenience, by using third party fund managers, investors are able to access extensive professional research and utilize the services of some of the industry's top professionals.

COSTS: Efficiency can vary for different funds which impacts both performance and expense. Well managed professional operations with high calibre personnel are resource consuming and consequently costly. Fees associated with managed funds reflect these high overheads and can be perceived as expensive by some consumers. Cost criticism is greatest when investments break even or make a loss. Divisions then occur when investors deem it unfair that all the "profit" is eaten up by fees, or feel the interests of the managers are not aligned with theirs because he still gets paid when they lose money. These are communication challenges that the investment industry has not yet fully addressed.

Remuneration and incentivization for fund managers has remained largely unchanged throughout the last boom cycle. The investment market is now likely to go through a period of substantial change in parallel with fundamental shifts in the global market. Looking forwards, managers who can best communicate with and align themselves with the interests of their investors both on the upside and downside may well attract greater market share.

SECURITY: Robust security and custodian structures will always be a prerequisite for investors in managed funds. Osmium and Iridium provide acceptable standards of security in accordance with industry practice, with investor's cash protected through the use of third-party bank custodian accounts. A side-effect of the 2008 crisis that has not yet been fully played out yet is the politically-driven issue of new regulations. It remains to be seen exactly what will be proposed and the effect this will have upon managed funds, and whether this presents additional difficulties or costs for investment managers and, by extension, the consumer.

VOLATILITY: Volatility is a critical component of fund manager investment analysis. In general terms, increasing volatility often precedes market declines whilst lower volatility tends to occur in rising markets. Volatility is often easier to predict than price and accordingly most professional investment choice is trend-driven. Mathematical formulae are an essential tool and the industry constantly seeks out new numerical ways of advancing investment management strategies and techniques. The weakness of using statistical data when making investment decisions appears at times like 2008, when the market crashes. Terms like "seeking alpha" or "volatility of volatility" are irrelevant when the market does an abrupt U-turn - mathematics becomes immaterial and wisdom takes over! To use a dendrological analogy, mathematicians study trees first and foremost; savvy investment managers study the trees and understand the forest.

Periods of extreme market volatility are the investment manager's greatest challenge. Traditional managed funds particularly tend to struggle when equities, their core growth driver, behave erratically. Also, when markets become unstable so the mathematical formulae upon which many fund manager judgements are made may become unreliable. Interestingly, Goldman Sachs analysts have just downgraded the US money management industry to "neutral" from "attractive" citing a recent extreme rise in market volatility.

Since 2008, the world has entered a period of extreme instability that will likely last for a number of years. In this environment, funds or investment approaches driven by mathematical formulae can produce unusual results and will become more risky. Under such market conditions the multi-manager multi-asset approach may be the best way of optimizing returns with the lowest risk, whilst also

providing a chance to exploit upside through opportunistic plays. In this environment, top-flight seasoned investment managers will command a premium over mathematicians.

TRANSPARENCY: Generally, it would be a refreshing change to see fund managers accentuate and explain the downside risk better on fact sheets and prospectuses rather than the usual approach of showing abbreviated summaries of the positives. Fund fact sheets sometimes condense information such as investment holdings in the interests of brevity. Managers respond to criticism of this by stating that a consumer can contact them for full information. In the IT age this is unsatisfactory and insufficiently transparent. Marketing materials and fact sheets provided by the issuers for the Iridium and Osmium portfolios could also be substantially improved and transparency enhanced by providing clearer details of investments. Easily understandable, highly transparent fact sheets, allied to solid performance are a potent marketing cocktail, but all too often managers and advisers achieve good numbers, but fail to achieve similar standards of clarity and transparency.

PERFORMANCE BENCHMARKING: Benchmarking is the most frequent tool used by investment managers to assess their performance against a specific index, and to show that they are investing capital wisely. The weakness with benchmarking is the same as using mathematical formulae, i.e., they are backward looking and are frequently sidelined when the market fundamentally changes. Also, consumers tend to rely on managers to provide them with appropriately accurate and meaningful benchmarks, and are often shy to ask what they think might be construed as “stupid questions.” It would be extremely helpful if managers explained precisely why they chose a specific index, exactly how well it correlates to their investment, and why they chose to ignore other benchmarks. Consumers sometimes feel that the only reason a manager uses a specific benchmark is because he knows he can beat it! Relevance is then a secondary issue.

Within the promotional material supplied for both the Iridium and Osmium portfolios they are performance benchmarked against the S & P 500 and MSCI World Index. The latter is a stock market index of 1500 ‘world stocks’ that has been running since 1969. Countries represented in this index include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, UK and the USA. Given that the above jurisdictions are mature and exclude new emerging markets such as the BRIC countries, it is to be expected that the MSCI World Index mirrors the S & P 500.

Since 1969 the MSCI World Index has grown by 450% which equates to a mean average of 11% per annum. The Index has behaved differently every decade though and average annual returns per decade are as follows:

1970s	8.42%
1980s	20.72%
1990s	12.82%
2000s	3.07%

The MSCI World Index performance in the past decade since 2000 provides a low threshold of 3.07% which it is not difficult to match. Cash deposits in UK banks have achieved a better average return during the same period. Broader and more meaningful comparisons could be made by including cash deposits and also indices from emerging markets. Given the economic rebalancing currently occurring in the world, specific emerging market indices should be an essential part of any future benchmarking exercise.

RISK MANAGEMENT: On the investments side, the main pillar of risk management for these portfolios is diversity. Credit, market and liquidity risks are then bottomed out through a mixture of correlation studies and scenario analysis. Operational risk is minimized through the use of rigid third party administrative, custodian and auditing services. No comparative volatility indices are provided for Osmium and Iridium. Given the diversity of the multi-manager multi-asset approach benchmarking volatility would be extremely difficult and probably meaningless.

ABSOLUTE PERFORMANCE: Returns from managed funds vary substantially from year to year which is why many fund managers suggest a minimum 5-year horizon for investors. The Osmium and Iridium portfolios are no exception. Choice of investment entry currency also has a substantial impact upon investment returns.

The portfolios can be accessed through a variety of hedged currencies which all stream from a core administrative currency; in the case of Osmium, GBP, and for Iridium, USD. This means that the true performance of each portfolio should normally be most accurately assessed in terms of its core administrative currency.

For Osmium, this tables as follows:

2004	2005	2006	2007	2008	2009	2010ytd
2.97%	25.82%	9.58%	23.40%	2.68%	9.35%	0.11%

The Osmium Portfolio achieves its stated objective of bettering cash deposits over the recommended investment horizon and has managed to achieve exceptional growth 50% of the time.

For Iridium, the core currency performance tables as follows:

2006*	2007	2008	2009	2010ytd
0.16%	1.99%	-18.83%	3.26%	0.91%

* Portfolio launched in November 2006

The timing of the construction of Iridium was difficult in that it occurred over a 2-year period which coincided with the run-up to the 2008 crisis. As a result, Iridium performance numbers are significantly lower than Osmium, with the core USD cell taking a big drop in 2008. In the second half of 2009 Iridium started gaining performance traction and has overtaken the Osmium portfolio so far in 2010.

Comparing the past performance records of the two portfolios is complicated by the existence of vastly different prevailing market conditions when they were created and consequential currency supervision issues. Depending upon the speed of growth of multi-currency funds, there can be two distinct phases that may require different currency management approaches; the construction phase and the more mature phase. The necessity of using different management approaches makes accurate past performance comparisons more difficult, and, given the timing of its creation, this is more clearly evident when reviewing the Iridium Portfolio numbers than the Osmium numbers.

From 2010, (the mature phase) extreme volatility in different Iridium currency cells has been dramatically reduced by homogenizing all the various portfolio investments irrespective of currency and feeding them into the core USD cell with currency movements hedged out. This is then converted from USD into other currency cells and hedged to protect the investors chosen currency.

Prior to 2010, (the construction phase) during the early period of the portfolio when some currency cells were too small to justify hedging cost, portfolio investments of the same currency as the investor currency were credited direct to the currency cell. The remaining investments in other currencies were then homogenized, hedged and converted into the investor currency. As a result some of the past performance swings appear to vary wildly in different currencies.

A more accurate way of comparing real Iridium past performance with the Osmium portfolio may therefore be by comparing 2010 numbers with an equally weighted analysis of the unhedged underlying currency cells within the portfolio which tables as follows:

2006*	2007	2008	2009	2010ytd
0.14%	5.32%	-7.71%	4.53%	0.75%

* Portfolio launched in November 2006

Maximum drawdown for Osmium and Iridium is as follows:

Osmium:	12.1%	March - October 2008
Iridium:	21.8%	December 2007 – January 2009

INVESTMENT POLICY: Current investment policy for both the Osmium and Iridium portfolios are strongly defensive; Iridium is marginally more aggressive than Osmium. Methodology is similar. Both portfolios are constructed around a core capital protector; for Osmium this is the Miton Special Situations Fund, and for Iridium, the Miton Core Diversified Fund. Other investments outside the core

capital protectors are used for diversity or speculation in order to boost returns. Some of these investments make significant capital gains and some make losses.

As indicated above, taking sterling as an example, in 2009 the Osmium Portfolio out-performed its core capital protector whilst the Iridium Portfolio underperformed its core capital protector. Year to date in 2010 positions have reversed: the Osmium Portfolio is underperforming its core fund whilst the Iridium Portfolio is outperforming its core fund. The Osmium Portfolio currently appears to be holding an excessive amount of cash.

Both portfolios maximize diversity by investing in a many-layered fund of funds pyramid which, combined, comprise literally thousands of individual investments. The manager's investment challenge is to get the right balance between diversity and returns without over-diversifying and watering down returns. At the top of the pyramid, the less investments the better the result will be in terms of investor transparency, efficiency and management simplicity.

Both the Iridium and Osmium portfolios currently hold a number of very small positions that comprise a tiny percentage of the overall investment. Use of so many small positions is questionable given their inability to impact the overall performance of the investment. Taking the example of Berkshire Hathaway (and ignoring the investing in a single stock approach versus asset class argument!) which has turned in a phenomenal return of 18% so far in 2010, because it is such a small holding it has a positive impact upon the whole portfolio of less than 1%. Greater upside potential, and of course greater risk, would be achieved by incorporating a smaller number of 'star performers' with a higher portfolio investment share and therefore bigger bets.

The chosen investment strategy by the fund managers is unless requested otherwise, to direct 50% of each new investment into both the Iridium and Osmium portfolios. This, in effect, means that the portfolios are currently invested in as one consolidated entity. The principle of investing in two separate funds aids diversity, but this is undermined if both funds invest in the same entity. The net effect of dual investment is consolidation, not diversity and undermines the core principal of spreading risk. This issue could be improved and greater diversity achieved by preventing each portfolio from investing in the same entity as long as investment in the portfolios is synchronized.

One of the improvements that could be made for the sake of investor transparency is where funds may hold the same assets a number of times, within different levels of the pyramid, without this being absolutely clear at the base investor level. Holdings detail understandably becomes progressively more oblique at each lower step of the pyramid. As a result 'hidden' consolidation could be undermining diversity without investors being aware of this.

A similar situation may occur with cash, as fund managers at all levels of the pyramid will need to hold some cash in order to maintain operational flexibility. This criticism can be levelled at the industry generally, and not just the subject portfolios.

One of the logistical problems facing fund managers is where thousands of investments are held that are constantly changing or being substituted at different times. This means that the pyramid is in a constant state of flux. Instead of focussing resource on new quantitative investment theories, the investment industry could also invest further in IT driven improvements to this issue.

CURRENCY HEDGING: There are two schools of thought on the principle of hedging currency exposure to investment vehicles. A number of empirical studies conclude that there is no need to hedge currencies if the investment horizon is long term, say up to 15 years. Historical data has shown that returns are similar whether positions are hedged or not. However, given increasing structural imbalances in the global economy and current extreme currency volatility, past currency history may well become irrelevant to this issue in the future. Given that currency hedging is a costly additional MER this is an important consideration for investors.

For shorter term investment, currency hedging and timing are critical, particularly in current market conditions. However, currency hedging is costly, adds to MER, and therefore reduces investor returns. For Osmium and Iridium, hedging costs differ per invested currency and fixed costs increase in proportion to the amount invested in a particular denominated cell. Investors should therefore take these additional considerations into account as well as their lifestyle requirements when choosing which currency to invest in these portfolios.

Summary Analysis

Managed Funds are worth investing in. Matching a consumer with a fund type that accurately fits their risk-return tolerance and needs within a required investment horizon is elementary. Past performance is frequently misleading as a means of gauging future returns, so investors need to be able to clearly understand why and how a fund has been successful and assess the likelihood of this continuing in the future.

The key to correct fund selection is the potential investor fully understanding investment methodology and strategy, and what may happen under different positive and negative scenarios. This must clarify risk and expectation in all market conditions irrespective of where the market moves.

Fees, costs and administrative efficiency are also extremely important but are secondary compared to the fundamentals of risk, methodology and investment policy.

Clear, transparent and precise two-way verbal and written communication between adviser and investor are a prerequisite to a successful outcome to the managed fund investment process. The consumer must be able to enter a transaction in full knowledge of all these concepts and issues, or otherwise the investment runs the risk of failing to match expectations and the investor feeling let down.

The Iridium and Osmium portfolios are well suited to conservative investors who are comfortable with the concept of preserving capital and bettering cash deposits. They should appeal to cautious low to medium risk investors seeking diversity and low volatility.

The portfolios have robust security and custodian structures and solid risk management systems. There is a clear line of sight visible between the investment managers and investors, with a logical, clearly stated investment policy.

The respective investment managers have proven track records. They are fundamentally aligned with investors given that they are both heavily vested in their own funds that constitute a substantial proportion of both Iridium and Osmium.

For investors seeking medium to higher, 'spiced up' returns that are prepared to risk losing a significant part or all of their capital in pursuit of higher returns, or making bigger bets on specific asset classes, Iridium and Osmium are not suitable.

Managed Funds: Are they worth investing in?

This research report was compiled by:

John Sheehan
GLOBAL MARKETS ASIAjohn@globalmarketsasia.com**Other reports currently available online at www.globalmarketsasia.com**

Global Market 2010 – the facts. What is really going on?
The end of democratic capitalism?
Australia – down the gum tree?
The case for pegging the Thai Baht
Does deleveraging quickly really matter? Case study: the Siamese Twins

Global Markets Asia
www.globalmarketsasia.com

This research document is published by Global Markets Asia (“GMA”) for information purposes only. The opinions expressed within this report are based on information obtained directly from issuers, investors, other related or affiliated parties, their experts, and other sources GMA believes to be reliable. GMA does not audit or verify the truth or accuracy of such information and has undertaken no obligation to audit or verify such information or perform any other kind of investigative diligence into the accuracy or completeness of such information. No guarantee of the accuracy or completeness, of such information is therefore warranted or implied.

This report does not constitute a recommendation to buy, sell, or hold any security, nor does it comment on the adequacy of market price or the suitability of any security for a particular investor. GMA does not have a fiduciary relationship with any issuer, or subscriber. No form of compensation for completing this report is contingent upon the results of the analysis of any securities. Nothing is intended to or should be construed as creating a fiduciary relationship between GMA and any issuer. GMA does not provide to any party any financial advice, or legal, auditing, accounting, appraisal, valuation or actuarial services. No further information has been provided other than that published in securities prospectuses regarding any fees or charges made by the issuer or any other party in relation to investing in the assets referred to here within. No comment or opinion is made regarding the amount, structure or any performance related adjustment of any such charges.

Opinions within this report are based on all information known to GMA at the time of publication, including publicly available information and/or non-public documents and information provided by an issuer and other parties. If any such information should turn out to contain misrepresentations or to be otherwise misleading, the opinion based on that information may not be appropriate and GMA assumes no responsibility for this risk.

This report is not a prospectus or other inducement to promote investment into any asset referred to here within. GMA is not an asset adviser and does not manage investments. The value of assets can rise and fall. This report does not address the risk of market value loss due to changes in interest rates, liquidity, fluctuations in foreign currencies, changes in economic conditions, fiscal policy and any other market considerations.

The production of this report does not constitute consent by GMA to use its name as an expert in connection with any offering document or prospectus and should not be reproduced without the written permission of GMA.