

INVESTMENT MANAGEMENT



Contents

- 01 A dynamic approach
- 02 What makes us different
- 04 Our investment style
- 06 Our investment process
- 10 Our services
- 12 Communication



PRIVATE ASSET MANAGERS AWARDS

Winner 2010 & 2011: Best Overall Wealth Solutions Provider - High Net Worth

Shortlisted 2010 & 2011: Investment Performance Defensive Portfolios

Shortlisted 2010 & 2011: Image and Reputation - High Net Worth

Shortlisted 2011: Investment Performance Growth Portfolios



CITYWIRE WEALTH MANAGER PERFORMANCE AWARDS

Shortlisted 2010:

Investment Performance - Small Firm

Investment Performance - Steady Growth Portfolio



CITYWEALTH MAGIC CIRCLE AWARDS

Shortlisted 2011:

Investment Management Company of the Year

A DYNAMIC APPROACH

We believe that private clients deserve the same quality of investment management as institutional investors receive, but with a personal service that recognises the importance of their individual circumstances and requirements. At Heartwood, everything we do is structured to deliver on that belief while keeping a tight rein on both risks and costs.

Since we were founded over 20 years ago, Heartwood has established a reputation for providing exceptional investment management and investment advisory services for private clients and charities. In keeping with our long-term approach, we have grown our business organically and now have over £1billion of assets under management, providing integrated advice on client assets well in excess of that figure.

Much of our new business comes to Heartwood thanks to word-of-mouth referrals from existing clients, which we see as a testament to their satisfaction with our investment expertise and the quality of our personal service. That is a source of great pride for us, not least because many of our clients are senior executives of investment banks and multinational companies, partners of private-equity firms and hedge funds, other successful professionals and families with substantial wealth. As such, they tend to be very discerning when it comes to their personal financial affairs.

Heartwood believes that a boutique owned mainly by the people who work in it is the best model for an investment business focusing on private clients. With over 90% of the shares of the business owned by two-thirds of our staff, our interests are aligned with those of our clients, thereby reinforcing our commitment to integrity, quality and strong investment performance over the long term.

Our abilities have been externally recognised by (inter alia) the Private Asset Manager (PAM) award judges, details of which can be seen on the page opposite.

We have built a strong team of experienced investment professionals, attracted by Heartwood's culture of integrity, honesty and intelligence and by the collegiate yet challenging process at the heart of our investment approach. The team has a blend of different temperaments and complementary skills, leading to vigorous debate with investment decisions subjected to intense scrutiny from a variety of perspectives. In our view, that significantly enhances the quality of our decision-making.

"Our active, disciplined approach to investment places a strong emphasis on the prudent management of clients' money."

Noland Carter, Chief Investment Officer

WHAT MAKES US DIFFERENT

We believe we have a responsibility to protect and grow clients' wealth without taking undue risk. Our approach combines the discipline and professionalism typical of an institutional investor with a keen sensitivity to the needs of private clients.

A disciplined process

We have built a sophisticated yet reliable process, with a series of strong checks and balances designed to improve the quality of investment decisions while managing the overall level of risk. This process is intended to deliver a high degree of consistency for performance across all our clients' portfolios.

Creative investment ideas

We have the expertise and intellectual firepower – plus the flexibility – to find exciting investment opportunities for our clients and then devise practical ways to implement them. In doing so, we take into account real-world considerations, such as the cost and speed of implementation.

Our people

We have built a tight-knit team of high-calibre, experienced professionals from across the financial services industry, including investment banks, asset managers and private wealth managers. They have been chosen for their blend of different backgrounds, skills and temperaments which in combination enable us to scrutinise markets from a variety of perspectives. They also have a deep-rooted understanding of the issues affecting private clients.

A portfolio that suits you

Investing is an emotional business, and each of us responds to its risks in our own way. Our long experience of dealing with clients suggests that most people feel any decline in the value of an investment more keenly than any gain, a conclusion which is confirmed by academic studies*. We gain a thorough understanding of your circumstances and objectives so that we can ensure your portfolio has an appropriate level of risk and potential returns for you.

Exceptional client service

We pride ourselves on providing the highest standards of personal service, which are reflected in consistently high scores in client satisfaction surveys undertaken by us. As well as communicating regularly with you via written reports, all the senior members of our investment team manage portfolios and are accountable to you in person for performance.

Cost-effectiveness

When taking decisions, we seek investments which offer the best value to clients while avoiding unnecessary costs. For example, we take into account the most tax-efficient ways of implementing our investment strategy. Furthermore, as an independently-owned company, we are free to choose the best – and best-value – investment vehicles from any provider for inclusion within our clients' broader portfolios.

* E.g., Prospect Theory by Daniel Kahneman and Amos Tversky 1979

We work with you to set realistic investment objectives and then provide a cost-effective, risk-controlled way of achieving them.



Scott Ingham
Investment Director

Noland Carter
Chief Investment Officer

Martin Perry
Investment Director

OUR INVESTMENT STYLE

Heartwood is an active, global multi-asset investor. In our view, this approach gives the highest probability of generating strong returns for a given level of risk, thus helping clients to achieve their investment objectives over the long term.

Global perspective

We look at investments in markets all around the world, so that we have the broadest possible range of opportunities to choose from. As the UK accounts for only a small fraction of the growth opportunity in the global economy, we think it makes little sense to concentrate our efforts too narrowly on the domestic market. So our portfolios generally have a smaller weighting to the UK than many of our competitors.

Multi-asset

By combining a variety of assets with different risk and return characteristics, we can increase the potential return for a given level of risk. This diversification can help to cushion portfolios against pronounced declines in stock markets. We have performed extensive analysis to discover which types of assets work best in combination, so that we can construct portfolios with optimal levels of expected risk and return.

Active management

Based on our analysis of a broad range of factors, such as economic conditions, market valuations and sentiment, we actively position portfolios to take advantage of long-term trends in markets. In particular, we concentrate on those areas where we have the highest conviction in our views, and our strong risk controls give us the confidence to take significant positions. By doing that, it is possible to enhance the overall investment return substantially over the long term.

Access to markets

For most asset classes, we do not normally invest directly in individual securities, instead using whichever type of vehicle – including funds, special purpose vehicles, structured products or derivatives – is appropriate for each specific opportunity. Third-party vehicles have several advantages:

- cost-effective access to a broad range of assets, including markets that are otherwise relatively illiquid, such as commercial property, or require specialist knowledge, such as technology;
- broader diversification – most funds hold many more underlying securities than traditional portfolios of segregated securities;
- downside protection where needed through structured products;
- tax considerations, such as deferral of capital gains tax charges.

We do, however, invest in individual securities where it makes sense to do so. For example, we invest directly in government bonds, which are liquid, have low transaction charges and can have capital gains tax benefits.

Benchmark-aware

We do not follow any one benchmark or set of benchmarks. Instead, we judge our performance against a broader range of measures, including market indices, competitors' performance and the central positions for each of our Investment Strategies. These are the positions which our analysis has shown increase the probability of achieving a certain level of return for a given level of risk. We believe that this allows us more flexibility and aligns us with clients' real objectives.

Long-term view

Even when taking short-term decisions, we always bear in mind your longer-term goals, such as funding a comfortable retirement or preserving wealth for the succeeding generations. As an independently-owned company, we do not have to focus relentlessly on the next quarter. Instead, we are free to work on delivering consistently strong performance over the long term.

Our investment team blends creative thinking with the common sense needed to apply their ideas effectively.

Michael Stanes
Investment Director

Emma Laughlin
Investment Associate



OUR INVESTMENT PROCESS

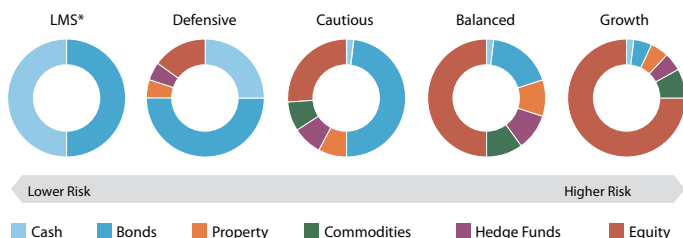
We aim to produce strong investment performance for clients by focusing on the activities where we think we can add most value and doing them continually to the best of our ability, with senior members of the team involved at every stage of the process.

The first step is for us to gain a thorough understanding of your individual financial objectives, by asking questions such as:

- What do you want from your wealth?
- Do you need a steady stream of income?
- How much risk are you prepared to take in pursuit of these goals?

We will propose an Investment Strategy designed to meet your objectives while taking a level of risk you feel comfortable with. We will discuss the likely risk and returns of the suggested Strategy, using historic and forward-looking simulations of performance, so that you can make a fully informed decision. Once we have reached a joint decision, this Strategy will guide the way we allocate your investment across a range of assets.

We currently have five core Investment Strategies with a range of risk levels designed to appeal to all clients:



Central position as at 31/03/11
*Liquidity Management Service

Source: Heartwood

Implementing the Investment Strategy

Once we have decided on an appropriate Strategy, we aim to add value at three different stages:

- **Strategic asset allocation** – first, we identify the blend of asset classes which our research suggests has the best chance of helping you to meet your goals over the lifetime of your investment. This central position remains largely unaltered, providing a fixed starting point for all our investment decisions.
- **Tactical asset allocation** – then we make adjustments to the central positions to reflect our current outlook for markets, increasing or reducing our exposure to any particular asset, region, sector or theme in order to take advantage of short-term opportunities or to protect against expected declines. We have a multi-layered approach to investing based on geography, sector, theme, style, capitalisation and currency, giving us multiple ways to generate investment ideas.
- **Portfolio construction** – finally, we aim to select the best securities and investment products from across the marketplace while keeping a tight rein on costs. We use whichever investments – including funds, special purpose vehicles, structured products or direct securities – suit each particular opportunity. For example, passive funds are generally preferred for quick, cost-effective exposure to a market, but we use active managers where they have shown an ability to add value.

We aim to help you achieve your investment objectives by adding value at every stage of the investment process.



Scott Ingham
Investment Director

OUR INVESTMENT PROCESS CONTINUED

We believe that a robust, systematic investment process can substantially reduce risk and help clients to meet their investment objectives over the long term.

Research and decision-making

Our research draws on a wide range of perspectives, in order to stress-test our thinking and reach informed conclusions. We use analysis provided by investment banks and independent research services, but we also draw on our conversations with managers of third-party funds. Another invaluable source is our clients, many of whom are leaders in their particular industries.

Nowadays, it is easy to get hold of information and data; the key is how you use it. We have developed our own in-house econometric models, which allow us to perform detailed analysis on economies and markets. These models combine a broad range of data into simple indicators that help to inform our investment decisions.

When selecting products, we typically meet face-to-face with managers as a key part of our formal due diligence, paying close attention to the robustness of managers' investment processes. To corroborate this qualitative assessment, we use quantitative data on risk and past investment performance from external sources, such as Lipper and Bloomberg.

There is a formal monthly strategy meeting to review the global economy and financial markets and adjust our asset allocation accordingly. The team also meets daily and can make changes to portfolios at any point as opportunities arise.

Risk management

Risk management runs through the entire process. Risk is not in itself a bad thing: riskier investments tend to produce stronger returns over the long term, although this cannot, of course, be guaranteed. Identifying exactly where risk lies in our portfolios helps us to take risk only where we think it has the potential to increase the level of returns.

We have a range of tools for managing risk, including tracking error controls, which measure how far each Investment Strategy is currently deviating from its central positions, and various concentration limits, which cap our exposure to individual fund managers and groups. We also have a soft stop-loss policy, which forces us to reassess positions whenever a holding loses a pre-determined percentage of its value relative to its benchmark. Clients' portfolios are regularly monitored to ensure that they are managed in line with our investment strategy. Detailed performance contribution and attribution analysis is performed at least monthly, giving transparency on the level of risk in portfolios and the outcome of all investment decisions.

Our risk controls give us the confidence to take significant positions where we have the highest conviction in our views.



Jaisal Pastakia
Investment Associate

Jade Fu
Investment Associate

Alan Sippetts
Investment Director

OUR SERVICES

Heartwood offers a range of services to suit clients' individual requirements. We have a choice of segregated portfolios and Multi Asset Funds, all using the same process and largely the same securities and investment vehicles.

Segregated portfolios

Segregated portfolios have holdings of each investment held separately in the client's names, giving room for a more bespoke service. They offer greater flexibility, allowing scope to deviate from the Strategies when necessary because of 'sacred' holdings or a wish to avoid certain sectors. In addition, segregated portfolios allow us to fine-tune your investments for tax considerations.

Otherwise, portfolios are managed in line with our tactical asset allocation, so that clients can benefit from our investment decisions. Each portfolio's performance is regularly compared with the relevant Strategy's, with a set tolerance either side of the client benchmark. The portfolio manager must account for any breaches, which are reviewed independently by the risk and compliance team. For segregated portfolios, clients must have a minimum investment of £500,000.

Multi Asset Funds

The Multi Asset Funds (MAFs) are collective investment vehicles which pool all the holdings together, with the client owning shares in the Fund. The MAFs, which are suitable for all clients who have no need to deviate from the model positions, have several advantages:

- cost-effective access to a fully diversified investment portfolio;
- tax-efficiency;
- lower minimum investments;
- ease of administration.

The MAFs are Non-UCITS Retail Schemes (NURS), which allow a wider range of underlying investments (including gold and property) than UCITS, but offer the same level of protection to UK investors as UCITS.

We are constantly enhancing and evolving our services to meet our clients' requirements as efficiently as possible.



Hugh Tottenham
Client Director

Simon Lough
Chief Executive Officer

COMMUNICATION

Communication is a crucial part of the investment process. If we are to keep your trust, we need to tell you clearly and honestly just how your portfolio is performing and why.

We communicate with our clients in a variety of ways, including face-to-face meetings, telephone conversations and email correspondence. We expect to be in frequent contact with you, because of the broad mix of services provided. However, we are flexible in our approach and can provide less communication if desired.

We will report in a variety of ways, including:

- face-to-face review meetings;
- portfolio valuations;
- weekly and monthly updates on our investment strategy;
- regular publications on investments and wider wealth topics;
- integrated service reports.


It is crucial that we meet regularly to articulate what we have implemented and why, and to understand any changes in your financial circumstances or investment objectives so that we can respond accordingly. As importantly, we actively seek your opinion as to how we are doing in order to improve where necessary and build upon our strengths.

On-line access

This service provides secure, on-line access to your investment portfolios and valuations, cash balances, recent transactions and key documents. Current model and fund factsheets are also easily accessible.

The client centre is available 24 hours a day, seven days a week to all clients for whom we manage investment portfolios and is provided over the Heartwood website.





The financial sophistication of an institutional investor combined with the client-focused ethos of a boutique. We look forward to helping you at Heartwood.

London Office

12 Henrietta Street,
Covent Garden, London WC2E 8LH
Tel: 020 7045 1320
Email: info@heartwoodgroup.co.uk

Tunbridge Wells Office

77 Mount Ephraim, Tunbridge Wells,
Kent TN4 8BS
Tel: 01892 701801
Email: info@heartwoodgroup.co.uk

www.heartwoodgroup.co.uk

Registered Head Office: London address above
Registered in England Number: 4132340
© Heartwood Wealth Management 2010

Important Information

Heartwood is a trading name of Heartwood Wealth Management Limited (Heartwood), which is authorised and regulated by the Financial Services Authority (FSA) in the conduct of investment business. Tax advice which does not contain any investment element is not regulated by the FSA. This document has been prepared by Heartwood for clients and/or potential clients who may have an interest in its services. It is not intended to be a definitive analysis of equity or other markets and does not constitute any recommendation to buy, sell or otherwise trade in any of the investments mentioned. Directors or employees of Heartwood may have a personal position in any of the investments mentioned in this publication.

Past performance should not be seen as a reliable indicator of future performance. The value of any investment and the income from it is not guaranteed and can fall as well as rise, so that you may not get back the amount originally invested. Changes in exchange rates between currencies can cause investments or income to go up or down.

Simulated calculations, either historic or forward looking, are not a reliable indicator of future performance. The simulations do not take into consideration any commissions, fees or other charges which would reduce the actual return received. All returns are gross of charges.

Professional advice should be taken on specific issues and before any course of action is pursued. Heartwood will select or recommend those investments that we consider appropriate for inclusion in each portfolio. Portfolios may include individual investments in structured products, foreign currencies and funds (including funds not regulated by the FSA) which may individually have a relatively high risk profile. They may specifically include hedge funds, property funds, private equity funds and other funds which may have limited liquidity.

For Heartwood Multi Asset Funds: The Authorised Corporate Director is Capita Financial Managers Limited. The Registrar is Capita Financial Administrators Limited. The Investment Manager is Heartwood Wealth Management Limited.

The value of the pension received when taking benefits from a SIPP will depend on various factors including, but not limited to, contributions made, charges and fees, tax treatments of SIPPs, annuity rates, investment performance. Please note that a SIPP is not a stakeholder pension. Heartwood will not be the provider or scheme administrator of the SIPP. Any levels of taxation referred to depend on the individual circumstances of the investor and the value of tax reliefs are those which apply at the date of publication. Tax rates and legislation are subject to change.