Independent Discretionary Management Service (IDMS)

Investment Framework

Introduction

Through this service, NPW provides independent 3rd party portfolio management for financial advisers and their clients around the world. The IDMS combines the asset allocation and fund management skills of MGIM with the fund research and portfolio management skills of NPW. The IDMS is an ideal solution for financial advisers looking to outsource the management of their client portfolios to a dedicated investment management team with the appropriate knowledge and experience. The IDMS is an established service that has been managing money on behalf of financial advisers for over 10 years and is available for both single and regular investment plans.

Newport Private Wealth and Momentum Global Investment Management Ltd have come together to form the IDMS. The service uses the investment management skills of both NPW and MGIM in different stages of the investment process to bring a unique offering to the market place.

Newport Private Wealth

Newport Private Wealth is an Australian based specialist portfolio manager with a global focus. Our 20 years of experience investing in Asia and Australia provides us with unique insights into investment opportunities across all asset classes both globally & in the Asia Pacific region. This knowledge and expertise is applied to deliver superior returns to our clients' portfolios. Since 1995 we have been assisting families, individuals & SMSFs to manage high-quality portfolios and we are committed to assisting our clients and their families with long-term wealth creation. Each portfolio is individually managed and we offer a personalised service. Clients have direct access to our investment managers who regularly communicate and initiate contact. Our investment and trading strategies are developed in house, we are able to provide flexible and innovative solutions tailored to the exact investment requirements of our clients. We understand that your investment goals change over time & we work with you to adjust your portfolio to reflect those changes over time (unlike to 'one size fits all' approach of most Super funds). Newport Private Wealth does not perform custodian duties; we are specialists in providing asset allocation, investment and currency advice, and management services to our clients. We are independent & objective & therefore we are not tied to the products (& commissions) often associated with larger groups.

Momentum Global Investment Management

Momentum Global Investment Management (MGIM) was established in the UK in 1998 as the international asset management arm of the Momentum Group, a top 40 JSE listed company with group AuM of USD41 billion. MGIM manage in excess of USD4.5 billion in assets for the group and on behalf of clients globally. MGIM has dedicated investment teams comprising talented individuals with a wealth of experience and is authorised and regulated by the UK Financial Conduct Authority (FCA).

Investment Philosophy

Newport manage portfolios across a wide range of investment styles for clients who have different tolerances to risk. In each case we believe our role is not to avoid risk altogether, but rather to understand the relationship between risk and reward and to manage risk appropriately, relative to the objectives of the portfolio and the client. It is because of this that our whole methodology starts with the client's objectives, understanding those objectives, and then tailoring the portfolio accordingly. We select investments and construct our portfolios in a disciplined manner, with an emphasis on identifying and controlling risk, avoiding speculation and by ensuring our portfolios are appropriately diversified. By using an active management approach and reviewing client portfolios on an on-going basis we make sure that the methodology ends just as it started, with the client's objectives in mind.

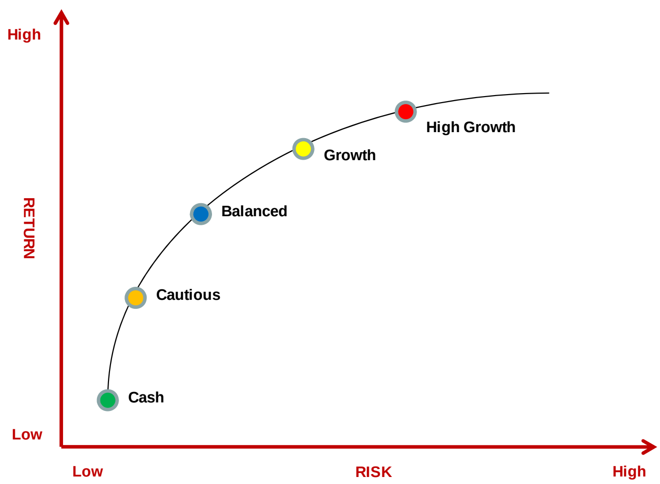
The Investment Risk Profile

Investing involves risk. There are many different types of risk when investing; inflation risk, shortfall risk, manager risk, liquidity risk, market risk, currency risk etc. But it is volatility that a vast majority of private investors associate with the most when thinking about risk. Volatility[1] can be simply defined as dispersion of returns for a given security or market index around an average (or mean return). If a particular security's returns fluctuate wildly around its average return then it is said to be highly volatile. Bank deposits, for example, have a great deal of certainty associated with their projected returns and therefore have a low volatility. Generally speaking, the daily or monthly returns of listed shares can fluctuate quite a lot and they will therefore exhibit significant volatility. High volatility leads to uncertainty in expected returns, and it's this uncertainty factor that worries most private investors.

Generally, investments that are expected to pay higher returns involve more volatility risk. While these investments are likely to produce higher returns over the long term than more conservative investments, over short and medium term periods they can fall in value. The selection of the appropriate asset allocation and underlying funds must take account of the level of risk the client is willing to tolerate.

The IDMS caters for clients with the following risk profiles

i) Cautious
ii) Balanced
iii) Growth
iv) High Growth



[1] The most common measure of Volatility is a statistical calculation known as Standard Deviation. Standard Deviation is a measure of the dispersion of a set of data from its mean. The more spread apart the data, the higher the deviation. Standard deviation is calculated as the square root of variance.

The IDMS Investment Framework

The IDMS is a 3 part investment process that uses the investment management skills of both NPW and MGIM:

1. **Asset Allocation** - The target asset allocation for each portfolio base currency and risk profile is set by MGIM i.e. what percentage of the overall portfolio should be allocated to each asset class and/or geographical region.

2. **Portfolio Construction** - NPW then use a form of core-satellite portfolio construction (where possible) in order to build portfolios that meet the target asset allocations that have been set by MGIM. In doing so, NPW research and select the best 'core' funds and 'satellite' funds available to fill the asset allocation set by MGIM.

3. **On-going Management & Reporting** - NPW provide on-going portfolio management by working closely with MGIM in relation to their asset allocation changes and by monitoring fund and manager performance. Any transactions that are required, as a result of asset allocation or funds changes, are carried out by NPW.

1. MGIM Asset Allocation Overlay

Asset allocation constitutes the most important step in portfolio construction accounting for more than 90% of the variability in portfolio performance over time. This also explains why a large portion of this report is dedicated to this part of the investment process.

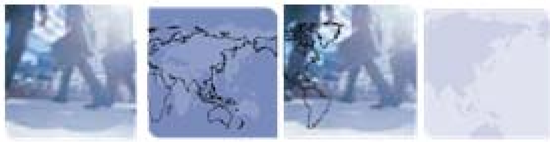
Different asset classes such as equities, bonds and cash have different characteristics meaning that they respond differently to changing economic scenarios. These differences allow for the creation of complementary asset allocation combinations with appropriate risk and return profiles.

The portfolio manager's skill is in altering these weights tactically in order to create combinations of asset classes that can produce differing risk and return outcomes. By tilting a portfolio's exposure between different asset classes at different times there is value to be earned: this is the premise behind tactical asset allocation. This active method of portfolio management aims to intelligently add to or take from different asset classes within the portfolio depending on whether valuations and the outlook for a particular asset class are attractive at that point in time or not.

Defining Asset Classes

An asset class is a broad classification for a type of investment. The main asset classes that people refer to are cash/money market, bonds (fixed interest), equities (shares), property, commodities and alternatives. The reason why it's so important to understand each asset class is because they each have different levels of risk & return - the main criteria by which investors generally choose what they invest in.

Understanding what to expect from the different asset classes helps one decide which types of investments (what % allocation to each asset class) will best meet a client's risk profile and objectives. For example, investing in shares may deliver good returns over the long term (5+ years). But one also needs to be aware that the short term returns may fluctuate dramatically from day to day, monthly and annually, and a client with a cautious risk profile is unlikely to be comfortable with this.



Below is a short description for each asset class, an indication of the risk and potential return for each asset:

Risk/Return Scale

Cash/Money Market

Cash generally refers to investments in bank bills and similar securities which have a short investment timetable. They provide a stable, virtually risk free income. Whilst returns are generally low it is important to maintain a certain percentage of a portfolio in cash for liquidity reasons.

Bonds (Fixed Interest)

Bonds are effectively loans to a government or company. Like any other loan there is an interest rate and a final repayment date. The owner of the bond either receives regular interest payments and then the value of their original investment back on a pre-determined date, or will receive the value of their original investment back on a pre-determined date along with a one-off additional interest payment. Certain government bonds are considered virtually risk free (Gilts & Treasuries) as they are backed by the government, whilst corporate bonds carry more risk the returns are also potentially higher.

Equities (Shares)

Owning shares in a company means you own a part of it. As a result you are entitled to a share of its profits, usually paid in the form of share dividends (at the discretion of the directors). The benefit of owning Ordinary Shares is that whilst you are entitled to a share of the profits you are not liable for the company’s liabilities if it goes bust or bankrupt. Shares are traded in the secondary market and they therefore have a price that can go up as well as down based on the underlying assets and profitability of the company and investor sentiment.

Commodities

Commodities can be seen as natural resources and products. They can be split up into 2 groups, ‘soft commodities’ are generally grown and include sugar, cocoa, palm oil, and wheat, whilst ‘hard’ commodities are generally mined and include gold, oil and precious metals. Commodities provide no form of income unlike the other asset classes.

Property

Property can be split into two parts. Property securities are shares in property companies (largely developers) that are listed on share markets. They can be considered a sector of the equity market. They therefore have a risk & return profile like most other equities. Bricks & mortar property investments are quite different on technical grounds and in terms of risk and return. Bricks & mortar property investments are either direct investments in a physical property or investment in a part of a group of physical properties through a financial instrument. Sectors include commercial, retail, residential and industrial property, and these sectors all perform quite differently to one another in different market conditions. Bricks & mortar property prices are driven by regular valuations of the underlying physical properties and the yield (rent) derived from them.

Alternatives

This term is used for types of investments that do not fall under the traditional asset classes outlined above. They include FX, hedge funds, private equity, venture capital etc. The risk and return profiles of funds that fall under this asset class vary tremendously so it is important to know what type of Alternative fund you have exposure to. For example some are extremely volatile but very liquid and others are less volatile but less liquid.

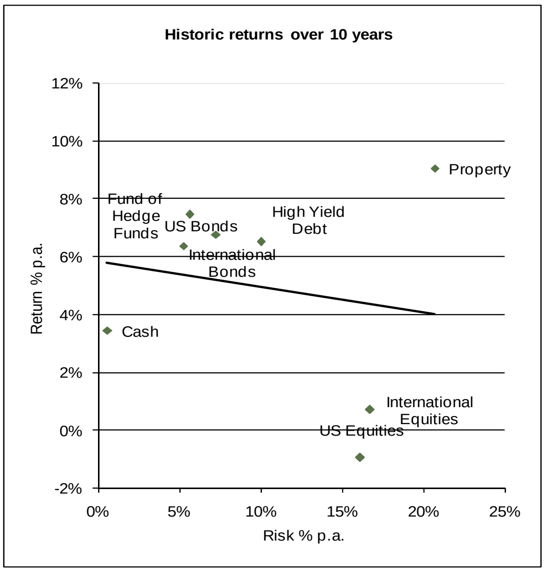
Framework for Strategic Asset Allocation

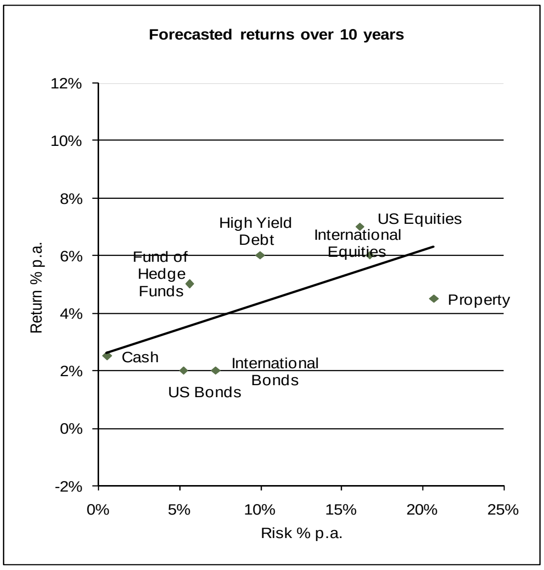
The approach to setting strategic asset allocation attempts to overcome two of the most fundamental criticisms of traditional methods:

- The normal distribution does not accurately reflect the actual outcomes of financial markets, which limits the usefulness of measures such as standard deviation when assessing the potential range of outcomes.
- Historical returns are not necessarily a good guide to future returns. This is especially true for alternative assets (such as funds of hedge funds) because the data suffers from survivorship bias.

The approach is based on the assumptions of future market returns. Many investors simply allocate among the asset classes popular at the time in proportions similar to those of other investors. While this often creates uncontroversial portfolios, it often leads to substantial weightings in whatever the asset class of choice is at a particular point in time. The MGIM approach avoids making allocations based on the fashion of the day. MGIM rescale historical returns for asset classes to be consistent with the expectations for the future return (as illustrated in the table below). This allows the distribution to maintain the same shape (same number of outliers, etc) with the mean return adjusted.

MGIM use expected returns combined with modern optimization techniques to produce a set of potential portfolios. Simulations are run to test the sensitivity of the results to changes in the input assumptions, dramatically improving the robustness of simple mean-variance optimization.





Source: Momentum Global Investment Management, Lipper, Historic figures are % p.a. January 2000 – December 2010. For illustrative purposes only.

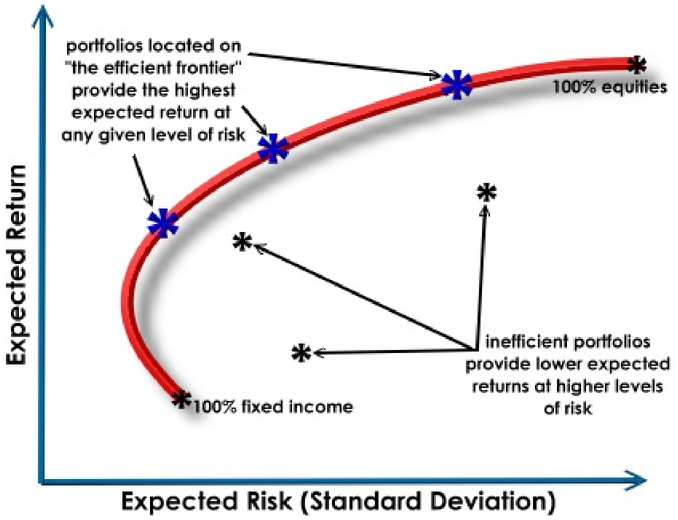
Indices used for historic returns: Credit Suisse Tremont Multi Strategy Hedge Fund, FTSE EPRA/NAREIT Global Property, JPMorgan Global Bonds, JPMorgan US Bonds, LIBOR USD 3m, MSCI World, S&P 500, Credit Suisse High Yield Bonds. Past performance is not indicative of future returns.

Benefits of Diversification

All asset classes, and sectors within each asset class, move in cycles and the timing of peaks and troughs may differ. One asset class or market may perform poorly while another performs well in certain economic conditions.

Diversification of your investments across multiple asset classes, (equities, property, commodities, fixed interest, cash and alternatives), may both reduce your investment risk and increase your return. Consider the consequences of having all your money invested in just one share. Diversification reduces the potential negative impact that one investment can have on the overall portfolio.

Through the diversification of your investments across asset classes, and within asset classes, it is possible to create a portfolio that can produce a higher return for a given level of risk.



Via a combination of our investment process and mixing of various asset classes, it is possible to create a target asset allocation for the portfolio with a higher potential return for a given level of risk.

2. NPW's Portfolio Construction

The core-satellite approach to portfolio construction uses diversified multi-asset, multi-manager funds as the 'core' of the portfolio. With the core of the portfolio in place, 'satellite' holdings are then carefully selected to bring the overall portfolio asset allocation as close as possible to the target asset allocation set by Momentum.
Portfolio construction involves the following 3 steps:

(i) Core allocations and fund selection

(ii) Satellite allocations (identify where portfolio is underweight)

(iii) Fund selection

- Platforms & Fund availability
- Research Tools
- Qualitative Analysis
- Quantitative Analysis
- Risk Management
- Selection & Monitoring

i. Core Allocations

The ‘core’ holdings in the portfolios will make up 40% to 60% of the total allocation where possible depending on the client’s risk profile, base currency and the investment platform used.

Harmony Funds

The Harmony range of funds will be used where available. The eight Harmony Funds are offered via single priced funds, providing a cutting edge solution for investors with efficient investment management, client administration and enhanced liquidity. The eight profiles are US Dollar Balanced, US Dollar Growth, Euro Balanced, Sterling Balanced, Sterling Growth, Asian Balanced, Asian Growth and Australian Dollar Growth Fund. With eight bespoke funds to choose from, the individual needs of each client can be provided for via a combination of one or more of these core solutions together with appropriate satellite funds. Each Harmony fund offers a well-diversified solution, with exposure to up to seven key asset classes: cash, investment grade fixed income (bonds), alternative fixed income (emerging market debt & high yield bonds), equities (shares), alternatives (funds of hedge funds), commodities & property. The funds are diversified by asset class, currency, regional equity exposure, manager and style in order to provide sustainable returns and reduced volatility. Many of the managers are inaccessible to the retail market and all are appointed at a highly competitive fee level. The Funds are managed by a team of experienced investment professionals at Momentum Global Investment Management Limited in London.

Should the Harmony range of funds not be available on a particular platform, a suitable and comparable alternative multi-asset, multi-manager fund will be sourced as a core holding.

Should there be no multi-asset funds available on a particular platform; NPW will construct the portfolio on an asset allocation basis per the Momentum target asset allocation.

ii. Satellite Allocations

After a look through at the underlying asset allocation of the core holdings, various ‘shortfalls’ or underweights in the target asset allocation will be identified. For example, the target allocation to investment grade bonds may be 15% but the core holding allocations may only provide a 5% exposure to investment grade bonds; therefore a 10% satellite allocation is required in that space to make up for the underweight.

This stage of the process ensures that the final asset allocation of the recommended portfolio is as close to the Momentum target asset allocation as possible.

iii. Fund Selection

- **Platform and Fund Availability**

Unit linked (regular premium) policies offered by insurance companies generally have a limited fund range (or fund menu) available to investors. In some cases the platform fund range can be very limited and some asset classes, geographical regions and sectors may not be represented at all. The quality and size of the fund range available through each different platform will play a significant role in this step of the process.

For open architecture platforms like life company portfolio bonds or private banking platforms, we have the ability to select from a large global universe of onshore and offshore managed funds and ETFs.

Initially the funds available need to be filtered according to their investment objective and risk profile to ensure that they match the requirements for a particular allocation within the portfolio. For example, if an allocation needs to be made to Asian equities then only funds with that investment objective and profile will be selected. Once this initial "filter" of the investment options available has been carried out, each fund will be analysed individually. This is done via a combination of qualitative and quantitative analysis.

- **Research Tools**

FE Analytics

FE Analytics is a powerful award winning tool which covers an extensive range of onshore, offshore and international funds, life, pensions, ETFs, investment trusts, equities and more. FE Analytics combines genuinely comprehensive asset data with market-leading analysis. FE Analytics provides access to quantitative and qualitative ratings, including S&P, OBSR, FE Crown Fund and FE Alpha Manager ratings. Wide range of interactive features, such as graphing tools, factsheets, list builders and modelling tools

Morningstar Inc.

Morningstar, Inc. is a leading provider of independent investment research in North America, Europe, Australia, and Asia. They offer an extensive line of products and services for individuals, financial advisers, and institutions. Morningstar provides data on approximately 433,000 investment offerings, including stocks, mutual funds, and similar vehicles, along with real-time global market data on nearly 10 million equities, indexes, futures, options, commodities, and precious metals, in addition to foreign exchange and Treasury markets.

- **Qualitative Analysis**

The qualitative analysis focuses on the credit rating of the fund management company, its size, length of time in operation, reporting disciplines, transparency, and licensing. It will also look at the manager of the fund, current holdings and the outlook of the manager. These qualitative measures should ensure that only fund management groups of the highest quality are used, and thereby reduce the risk of default, fraud etc. that would potentially have a very damaging impact on the overall portfolio.

The credit rating of the ultimate parent is an indication of the financial credibility of the fund promoter and manager. Although this does not guarantee the performance of the fund it provides comfort that a well rated parent is behind the fund. The total funds under management are another measure of the underlying credibility/stability of the fund management institution. If the fund and fund manager was too small it would also raise some concerns about the on-going viability if one investor pulled out of the fund. The length of time in operation again adds to the picture of the fund management group, but would also flag an increase in concern if the manager starts branching out into new investment areas that it previously has not shown any expertise. The reporting process needs to be regular so that investors remain fully informed at all times, and the reporting process needs to transparent enough so that investors can understand how the results have been generated.

To a large extent the insurance company platforms have carried out their own due diligence on the fund managers before allowing them onto their platforms however there is also a need for the funds to pass NPW approval.

NPW will also look at the current holdings of a fund and the outlook of the manager for the asset class to make sure that it is in-line with the NPW view of where allocations should be weighted currently and moving forward. E.g. a manager may operate in the global bond sector and prefer high allocations to US Treasuries when the NPW view would prefer allocations to focus on high grade corporate bonds – this would lead to the fund being rejected in the selection.

- **Quantitative Analysis**

The quantitative analysis primarily focuses on the performance of the fund, relative to its peers, and an appropriately selected benchmark. This analysis is in terms of returns but also in terms of volatility of those returns. The goal being to select the fund with the highest risk adjusted return. In the case of a long only equity fund the recent and historical performance (in terms of both risk and return), would be measured against the benchmark. If that analysis shows relative out performance compared to the benchmark, and among the top quartile of performance amongst its peers then the fund may be invested in as part of the overall asset allocation. It could be that more than one fund is used so as to diversify the risk involved in investing in a single fund within that asset class.

- **Risk Management**

Managed Funds can effectively reduce the risk of being exposed to a single security by investing in a portfolio of securities, thereby reducing the impact of a poor performance by any single security. However there are a number of other risks to be aware of. The risks that apply will largely be determined by the asset class you invest in, and the selection of investments the portfolio manager makes. These risks include:

<u>Security risk</u> - Within any given asset class different securities may perform differently. The individual securities selected for a Managed Fund will ultimately determine its risk level and performance.

The “core” holding of the model portfolios is diversified across asset classes and fund managers and is, therefore, well diversified at the individual security level.

<u>Currency risk</u> - Movements in the relative value of international currencies influence the value of international assets.

The tactical asset allocation behind each of the model portfolios specifically splits allocations between domestic and international assets depending on risk profile. All funds within the portfolio are generally priced in the same currency as that of the model where possible.

<u>Liquidity risk</u> - Listed Managed Investments incorporate two levels of liquidity risk. The first relates to the portfolio manager's ability to buy or sell positions for the investment portfolio, the second relates to an individual investor's ability to buy or sell the Managed Fund.

All of the funds used in the model portfolios are investing either traditional liquid asset classes (like equities, property equities, bonds) or liquid hedge fund strategies like manage futures. All of the funds selected are either daily or weekly dealing and have a track record of having never suspended redemptions because of liquidity conditions.

<u>Structure risk</u> - The structural and operational characteristics of the Managed Fund may affect its ability to perform.

All of the funds selected are structured via traditional open-ended liquid investment vehicles like unit trusts, OEICS, SICAVs etc. The funds can generally be invested into, and withdrawn from, at NAV and do not have any lock-in periods.

<u>Gearing risk</u> - Some Managed Funds may borrow funds to increase potential returns, a technique that can magnify both gains and losses.

None of the funds selected use borrowed capital with the aim of enhancing returns. Managed futures, as a strategy, has an aspect of leverage which is inherent in the use of leveraged futures. This leverage is strictly controlled by the fund managers.

- **Selection & Monitoring**

Selected funds will then be approved as a satellite holding within the portfolio to be held along with the core holdings and the other satellite funds. Each approved satellite fund then undergoes an on-going review. The fund selected for investment is monitored against the relevant benchmark and its peers on an on-going basis. If the performance of the individual fund changes relative to its previous history and/or the benchmark, this would flag the need for a review of the fund selected.

3. On-going Management & Reporting

NPW provide on-going portfolio management by working closely with MGIM in relation to their asset allocation changes and by monitoring fund and manager performance. Any model portfolio changes that are required, as a result of asset allocation or funds changes, are carried out by NPW.

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