# Putting you in control of your investment strategy

STRATEGISE
COLLINS SARRI STATHAM

# Putting you in control of your investment strategy

## Contents:



www.css-investments.com/strategise

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## Introducing CSS Strategise

At Collins Sarri Statham Investments, as part of our commitment to realising clients' investment objectives, we are pleased to introduce a new concept in our investment advisory service called CSS Strategise. This is a new advisory service comprising eight distinct investment strategies, which offer clients the ability to dedicate a cash lump sum towards the pursuit of their chosen strategy. Strategise will:

- Provide the client with a new approach to volatile markets.
- Provide the client with flexibility, new ideas and a framework in which to invest.
- Augment existing risk management techniques whilst providing and preserving a chosen investment style.
- Ensures the client retains the final decision on all investment ideas presented by CSS Strategise.

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## Why adopt Strategise as an approach?

Have you ever wanted to adapt your portfolio to follow a certain style of investing, and wondered how to implement, monitor and keep on top of it?

Ever had the problem of wanting certain investments in specific areas only but received advice based exclusively on the FTSE 100?

Wanted to pursue a style of investing that was exclusive to you and not a buy list or generic portfolio also being provided to every other client?

CSS Strategise will aim to provide investment advice based on a client's pre-selected investment strategy.

Using this approach, the client is able to receive advice on the basis of criteria set to suit that individual style of investing. This will enable investors to maintain exposure to a range of investments that share similar characteristics.

As with all investments, you should carefully consider in the light of your financial resources and personal investment objectives whether Strategise is suitable for your investment needs and your attention is specifically drawn to the risk warnings at the back of this brochure.

# The Income strategy

## Objective:

To achieve higher levels of income via investment in UK/EU securities.

| | |
|---|---|
| **Benchmark:** | FTSE ALL Share Index |
| **Typical No. of Holdings:** | 8-20 |
| **Discipline:** | The income portfolio would normally consist of investments with a dividend yield at least 20% above that of the benchmark. |
| **Strategy criteria:** | Dividend cover >1.6x/Dividend yield >4.5%/20% above benchmark/ Boardroom commitment on the dividend/no rebasing of dividend in the last 5 years. |

# The Income strategy

**Background:** The Income Strategy is delivered using a "bottom up" investment process assisted by advanced research tools. Our approach selects companies with strong fundamentals, a commitment to future investor returns and a track record of high shareholder distributions. Basically the income strategy will find companies that are willing and able to afford high shareholder payouts.

The Income Strategy is assisted by an in depth thematic investment processes and portfolio analytics that incorporate our views of global "macro" developments to identify risk and rewards across the UK and EU regions. This enables the team at CSS to give a concise view of risk levels against given quantitative models. The strategy is devised to deliver higher levels of income over a longer term period for clients that have an income requirement or need over a specific period.

Boost income via a focus on companies with attractive, affordable and sustainable dividends. In the income portfolio companies are selected based on their ability and willingness to pay a sustainable dividend.

**UK GILT Actuary index (5-10 years) vs FTSE All Share**


52 week outperformance of UK 5-10 year Gilt index vs FTSE All Share.

*Source: www.yahoo.com*

## Key features of the Income strategy:

- Employs in depth portfolio analytics to screen high dividend payers applying filters to ensure yield criteria are met.
- The strategy tends to hold blue chip companies that are established cash generative companies whose boards of directors have a commitment to delivering cash returns for shareholders.
- No sector constraints, the income strategy will not be sector specific.
- The approach will be forward looking and constantly evolving with monthly reviews and will aim to anticipate change and identify opportunities.

# The Value strategy

## Objective:

To pursue capital growth by investing in "value" opportunities and "value" situations.

| | |
|---|---|
| **Benchmark:** | FTSE ALL Share Index |
| **Typical No. of Holdings:** | 8-20 |
| **Discipline:** | The "value" strategy will select equities with distinct value criteria below and where conditions exist for that value to be realised. |
| **Strategy criteria:** | Price/Book Value <1, trailing P/E <11, Beta >0.6x<1.3x. |

# The Value strategy

**Background:** The "value" strategy is delivered using a "bottom up" investment process assisted by advanced research and analytical tools. The strategy will aggregate equity selections that show distinct "value" characteristics. Companies with "value" characteristics tend to have high cash levels relative to market capitalisation, low price to book ratios and often low P/E ratios.

As an adjunct to the normal value approach we will also focus on companies seeking to realise cash returns for shareholders via disposals/shareholder distributions and where the company is downsizing and restructuring/rationalisation gains are possible.

*Price is what you pay. Value is what you get.*

Warren Buffett

*Value investing is at its core the marriage of a contrarian streak and a calculator.*

Seth Klarman

*All intelligent investing is value investing – acquiring more that you are paying for. You must value the business in order to value the stock.*

Charlie Munger

*The harder you work the luckier you get.*

Ben Franklin

*Source: www.valueinvestingworld.com*

## Key features of the Value strategy:

- The "value" style of investing was pioneered by Benjamin Graham who in the 1930s sought out attractive companies that were valued at under their working capital. Few companies these days match his precise value criteria. Today the "value" approach has a number of variations but we will adopt the same principles of finding companies whose inherent value is higher than the market valuation implies, possibly due to temporary and variable factors.
- Our "value" strategy is constructed using a "bottom up" investment process assisted by advanced research tools. Our approach selects companies that share value characteristics such as i) Low price/book value ii) Forward P/E multiples at a noticeable discount to the market multiple iii) PEG ratio <1 iv) Healthy working capital and interest cover ratios v) Companies experiencing a period of weakness in the share price attributable to a temporary factor.
- The "value" strategy will contain equities located on overseas markets, typically in Europe and North America. Whilst not a criteria for the "value" strategy typically the value company will often share income characteristics as well.

# The Special Situations strategy

## Objective:

To focus on a portfolio of takeover targets/acquisitions activity.

### Benjamin Graham

Father of value investing encapsulated the meaning of a 'special situation'.

*Firstly, just what is meant by a 'special situation'?*

*Convention had not jelled sufficiently to permit a clear-cut and final definition. In the broader sense, a special situation is one in which a particular development is counted upon to yield a satisfactory profit in the security even though the general market does not advance. In the narrow sense, you do not have a real 'special situation' unless the particular development is already underway.*

*Source: www.valuewalk.com*

| | |
|---|---|
| **Benchmark:** | Not applicable |
| **Typical No. of Holdings:** | 8-20 |
| **Discipline:** | "Bid situation"/corporate activity/M&A that meets criteria. |
| **Strategy criteria:** | Hostile takeover situations, corporate activity expectations/insider activity. |

# The Special Situations strategy

**Background:** The special situations strategy is designed to identify and select companies likely to benefit from M&A/ acquisitions related activity.

Our "special situations" strategy is constructed using a screening process supported by third party institutional research. Our approach selects companies where price discrepancies may exist between the merger terms and the share price or where credible bid speculation has emerged suggesting short-term corporate activity. Special situations will stay on top of fast moving takeover situations.

**Acquisitive companies:** Some companies are naturally acquisitive. They frequently buy and attempt to buy out the competition. Between end March 1993 and end Sept 2011 Cisco Systems bought 148 companies in many cases buyout deals exceeded $1bn. BHP Billiton attempted to buy both Rio Tinto and Potash of Saskatchewan but failed, they succeeded in buying Billiton and WMC Resources.

**Merger waves:** Economic history has been divided into "Merger Waves":

| Period | Name | Type of M&A |
|---|---|---|
| 1897–1904 | First Wave | Horizontal mergers (buying competitors) |
| 1916–1929 | Second Wave | Vertical mergers (service/ product expansion) |
| 1965–1969 | Third Wave | Diversified conglomerate mergers |
| 1981–1989 | Fourth Wave | Congeneric mergers; Hostile takeovers; Corporate Raiding |
| 1992–2000 | Fifth Wave | Cross-border mergers (multi-national/ globalisation) |
| 2003–2008 | Sixth Wave | Shareholder Activism, Private Equity, LBO (financial engineering) |

*Source: Martin Lipton, York University*

## Key features of the Special Situations strategy:

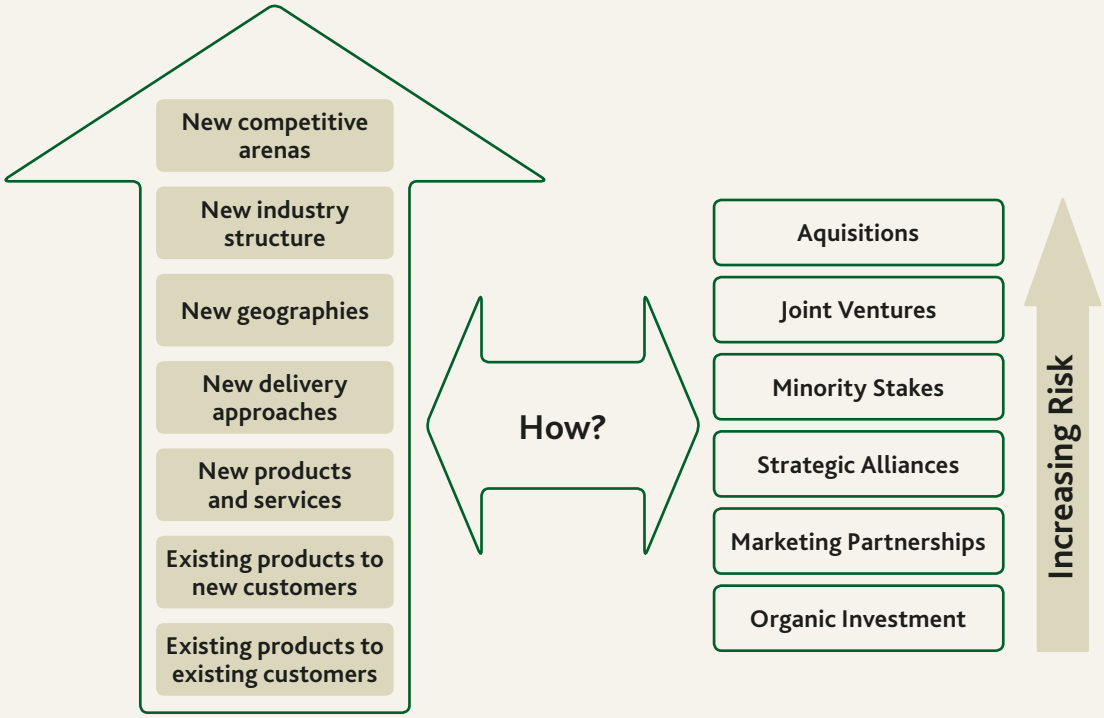
- Will tend to focus on companies marked as "Bid Situation" or in instances where corporate activity can be reasonably expected to occur within a reasonable time frame.
- The strategy will aim to capture and provide an investment view of fast moving takeover situations involving both target and acquirer where price discrepancies may exist.
- The approach will be forward looking and constantly evolving with monthly reviews and will aim to anticipate M&A, MBO opportunities.
- No sector constraints, "special situations" by their nature arise in all sectors.

# The Growth strategy

## Objective:

To select investments on the basis of market share growth or profit growth potential and/or a boardroom focus on executing a growth strategy based on growth opportunities available to the company.

**Generic options and investment structures for a growth strategy**




*Source: The McKinsey Growth Pyramid*

| | |
|---|---|
| **Benchmark:** | FTSE All Share |
| **Typical No. of Holdings:** | 8-20 |
| **Discipline:** | The strategy will concentrate on companies with growth opportunities consistent with the STRATEGISE growth criteria. |
| **Strategy criteria:** | Growth companies typically in evolving sectors such as "renewable energy, uninterruptible power, internet, social media, emerging market property, oil exploration with credible investment plans. |

# The Growth strategy

**Background:** Our Growth strategy will tend to focus on companies executing growth strategies which may take the form of new technological investments, expansion into growth markets, new product launches in consumer markets.

Growth companies often have valuations dependent upon technological progress, consumer adoption of new technologies, expansion plans into new markets are typically higher risk than more established companies, more sensitive to corporate developments and competitor/marketplace issues.

There is evidence that growth stocks tend to perform well over distinct periods, typically during strong investing and capital markets conditions. Furthermore growth companies tend to be more thematic, in that investors tend to focus on companies in a given growth market such as "renewable energy/green technology".

Our strategy would be devised along the lines of distributing the allocation according to different investment themes in "growth" areas. An illustration of specific growth sectors and how this would work is provided below:

| Growth area | Distribution (% of total portfolio) |
|---|---|
| Renewable Energy<br>Uninterruptible Power Supplies<br>Social Media<br>Internet applications<br>Emerging market property funds<br>Oil exploration<br>Telecommunications infrastructure<br>Personnel/Outsourcing services<br>Commodity trading/distribution<br>Precious metal exploration | Evenly distributed |

The growth strategy will therefore aim to capture i) Higher risk companies dependent on progress in a key area ii) Early stage companies making progress in a key area iii) Companies benefiting from growth in demand or expected growth in a key area iv) Adequately funded companies able to tap investment funds.

## Key features of the Growth strategy:

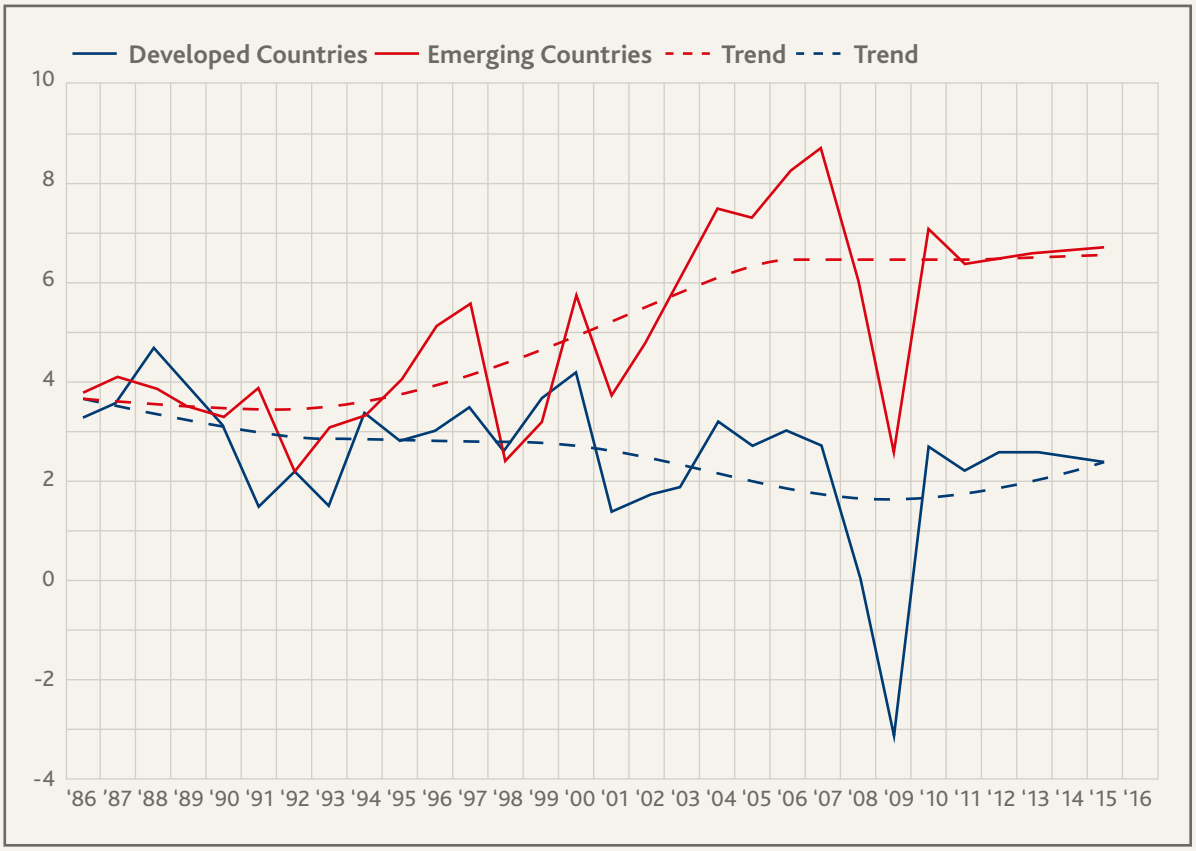
- Exposure to diverse and niche growth markets using screening and selection techniques to find the most appropriate stocks within a number of given "growth" themes.
- Growth companies over the long term tend to deliver returns that are independent from broader market indices and reflect the delivery, execution and success of growth plans.
- The valuation of growth companies is sensitive to market interest rates and investment trends and fashions.
- Growth companies tend to have high levels of retained earnings and low payout ratios/low dividends hence most of the return will be from capital appreciation.
- The approach will be forward looking and constantly evolving with monthly reviews and will aim to anticipate change and identify opportunities.

# The Emerging Markets strategy

## Objective:

To select investments in high growth emerging market funds. The strategy would focus on countries experiencing stronger, accelerating GDP growth compared to developed markets.

**Emerging Country and Developed Country GDP Growth (with IMF Forecasts)**




*Source: Emerging Markets – Gavyn Davies, Financial Times 24th March 2011*

| | |
|---|---|
| **Benchmark:** | MSCI World Index |
| **Typical No. of Holdings:** | 8-20 |
| **Discipline:** | The strategy will concentrate on investment opportunities in countries with strong underlying economic fundamentals. |
| **Strategy criteria:** | Investment trusts/ETFs and blue chip companies in growing BRIC, "N11", SE Asia, Emerging European countries with a positive track record of performance. |

# The Emerging Markets strategy

**Background:** Our Emerging Markets strategy is constructed using mainly third party investment trust expertise obtained via our institutional contacts and professionals in key market areas. We will pair this with our own input in terms of specific investment ideas in overseas markets.

The key benefit to an Emerging Markets strategy would be the holder would obtain a selection of strong "country" investment funds with good track records. Typically, these countries will be experiencing nominal GDP growth above 5%.

Our strategy would distribute the asset allocation according to geographic spread. This could take the form of an allocation along the following lines:

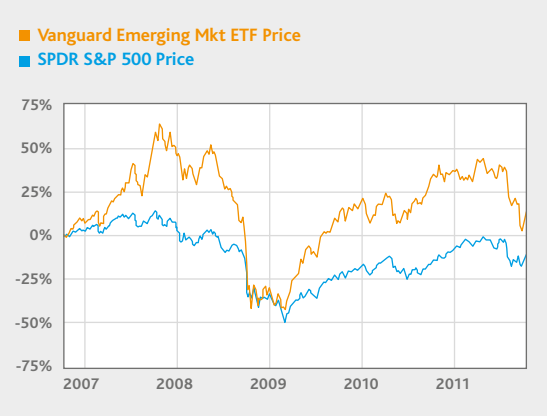
| Emerging Markets | Region Distribution *(% of total portfolio)* | Countries |
|---|---|---|
| BRIC | 40% | Brazil, Russia, India, China |
| SE ASIA | 20% | Singapore, Malaysia, Thailand |
| "N11" | 20% | Vietnam, Egypt, Iran, Turkey, S Korea, Indonesia etc. |
| Emerging Europe | 20% | Poland, Czech Republic, Slovakia, Hungary, Malta |

The strategy will therefore aim to capture i) Blue chip growth companies in countries experiencing strong real GDP growth ii) Export led companies in the developing world iii) A spread of emerging markets funds that will exhibit limited correlations with the performance of developed market economies.

## Key features of the Emerging Markets strategy:

- Strategy delivers appropriate exposure to diverse emerging markets whilst at the same time tapping third party investment expertise in those markets.
- Longer term diversification benefits v developed markets as these regions benefit from export and consumer spending growth at a faster rate than in developed markets.
- Will focus on investing in country funds.
- The approach will be forward looking and constantly evolving with monthly reviews and will aim to anticipate change and identify opportunities.

**Outperformance of Emerging Market ETF vs US S&P 500**




*Source: Y Charts*

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# The Midcap/Small cap strategy

## Objective:

To pursue long term capital growth by investing in mid and small cap growth companies. These typically would be benefitting from profit growth, seeing expansion in their core business and trading at attractive valuations. The strategy performance would be benchmarked against the FTSE 250 Index.


| | |
|---|---|
| **Benchmark:** | FTSE 250 Index |
| **Typical No. of Holdings:** | 8-20 |
| **Discipline:** | The Midcap/Small cap portfolio will target UK/EU/US companies with relevant market valuations that adhere to growth and other selection criteria. |
| **Strategy criteria:** | Midcap/Small cap companies with a market capitalisation of between £250m - £3bn experiencing market share growth and a track record of EPS growth. |

# The Midcap/Small cap strategy

**Background:** Our Midcap/Small cap strategy is constructed using a "bottom up" investment process assisted by advanced research tools. Our approach selects companies with strong fundamentals, an attractive franchise and sector footprint. The approach will be regularly reviewed.

Our strategy would be devised along the lines of distributing the allocation amongst a wide ranging selection of midcap companies with reference to market capitalisation:

| **Midcap Small cap Market Cap Distribution (% of total portfolio):** | |
|---|---|
| £2bn to £3bn | 25% |
| £1bn to £2bn | 50% |
| £250m to £1bn | 25% |

The strategy will therefore aim to capture i) Small growth companies with defendable franchises in an early stage of their evolution ii) Midcap companies with a strong track record and attractive valuations iii) Midcap companies with a realistic prospect of achieving FTSE 100 entry.

## Key features of the Midcap/Small cap strategy:

- Employs in depth portfolio analytics to screen newcomer companies, IPOs and high growth payers then applies filters to ensure mid cap/small cap suitability.
- The strategy will concentrate on mid cap companies whose growth platform is primarily achieved via organic growth.
- No sector constraints, the Midcap/Small cap strategy will be sector agnostic.
- The approach will be forward looking and constantly evolving with monthly reviews and will aim to anticipate change and identify opportunities.

| | | | Month Ending Sep 30, 2011 | | | |
|---|---|---|---|---|---|---|
| Index Name | 3Q2011 | 2010 | 1 Year | 3 Years | 5 Years | 10 Years |
| Broad-Market Indexes | | | | | | |
| Russell 3000® | -15.28 | 16.93 | 0.55 | 1.45 | -0.92 | 3.48 |
| Russell 3000® Growth | -13.90 | 17.64 | 3.39 | 4.49 | 1.56 | 3.18 |
| Russell 3000® Value | -16.63 | 16.23 | -2.22 | -1.62 | -3.50 | 3.58 |
| Large-Cap Indexes | | | | | | |
| Russell 1000® | -14.68 | 16.10 | 0.91 | 1.61 | -0.91 | 3.28 |
| Russell 1000® Growth | -13.14 | -16.71 | 3.78 | 4.69 | 1.62 | 3.01 |
| Russell 1000® Value | -16.20 | -15.51 | -1.89 | -1.52 | -3.53 | 3.36 |
| Russell Top 200® | -12.81 | 12.47 | 1.67 | 0.72 | -1.46 | 1.85 |
| Russell Top 200® Growth | -10.33 | 13.21 | 5.24 | 4.36 | 1.70 | 2.09 |
| Russell Top 200® Value | -15.21 | 11.69 | -1.78 | -2.94 | -4.58 | 1.61 |
| Russell Top 50® | -10.28 | 9.48 | 2.53 | 0.10 | -1.61 | 1.03 |
| Midcap Indexes | | | | | | |
| Russell Midcap® | -18.90 | 25.47 | -0.88 | 3.96 | 0.56 | 7.45 |
| Russell Midcap® Growth | -19.33 | 26.38 | 0.80 | 5.89 | 1.64 | 6.70 |
| Russell Midcap® Value | -18.46 | 24.75 | -2.36 | 1.98 | -0.84 | 7.54 |
| Small cap Indexes | | | | | | |
| Russell 2000® | -21.87 | 26.85 | -3.53 | -0.37 | -1.02 | 6.12 |
| Russell 2000® Growth | -22.25 | 29.09 | -1.12 | 2.07 | 0.96 | 5.45 |
| Russell 2000® Value | -21.47 | 24.50 | -5.99 | -2.78 | -3.08 | 6.47 |

*Source: Russell Investments*

# The US Balanced Strategy

## Objective:

To obtain long term capital growth by investing in a mix of large capitalisation companies listed on US stock exchanges. The US recommendations are typically of large multi-national companies with proven track record of earnings growth.

*On May 17, 1792, twenty-four stockbrokers signed the Buttonwood Agreement their first constitution on March 8th, 1817, and named their nascent organization the New York Stock & Exchange Board.*

| | |
|---|---|
| **Benchmark:** | US S&P 500 Index |
| **Typical No. of Holdings:** | 8-20 |
| **Discipline:** | The strategy will concentrate on companies consistent with the Strategise US Balanced criteria. |
| **Strategy criteria:** | US Balanced companies will include a broad range of companies that share the characteristics of earnings growth, overseas operations and where there exist expectations of corporate activity. |

# The US Balanced Strategy

**Background:** The New York Stock Exchange is the most liquid capital market in the world. In 2008 the NYSE Group saw traded volumes reach a record 802bn shares, with eight out of the ten highest daily traded volumes recorded, proving the NYSE's volume handling capability in the toughest ever conditions.

Owing to its vast liquidity and global investment interest, the US stock exchanges have been the location of choice for an immense range of global companies, local US multi-nationals, the US mutual and index tracker funds industry, Silicon Valley start-ups, Latin American companies along with innovative investment vehicles such as ETFs.

Due to its size, diversity and complexity, investors can get a bit lost in US markets determining what to look for and when. The SEC's quarterly accounting rules mean investors need to stay on their toes when approaching US investments. The "US Balanced" strategy aims to do the job of helping Strategise clients understand the nuances and profitably access US opportunities.

Our "US Balanced" strategy is devised to give our top US exchange listed selections from a range of industrial sectors. The objective is to give "balance" with a range of US companies, worth above $5bn with a track record of earnings growth and an overseas presence sufficient to capture growth opportunities outside the United States.

In terms of style, the US balanced strategy will also contain companies in the midst of acquisition related activity or where there is the potential for corporate activity to result in shareholder gains.

| US Balanced Area | Spread between the following sectors |
|---|---|
| Oil majors | |
| Internet Applications | |
| Telecommunications | |
| Banking & Finance | |
| Insurance | |
| Consumer Goods | |
| Industrials | |
| Healthcare Services | |
| Defence | |
| Semiconductors | |

## Key features of the US Balanced Strategy:

Three of the following four criteria must apply:-

**a)** Expectations of corporate activity

**b)** Stable board/ track record of EPS growth

**c)** Market cap above $5bn

**d)** US multi-national with significant overseas operations

It is worth noting that US dividends in the hands of UK residents and most non US residents are subject to a 15% withholding tax according to the US/UK Double Taxation Agreement.

In some cases the US Internal Revenue Service will deduct 30% whilst only being entitled to 15%. UK residents are encouraged to prevent excess US taxes from being levied by completing form W-8BEN. We can help with this documentation if required.

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# The Bond/Fixed Income Strategy

## Objective:

To provide income certainty and asset class diversification via a focused approach to bond investment. The "Bond/ Fixed Income" strategy will provide advice on how to evaluate, trade and invest in conventional bonds.


*I'll have my bond, speak not against my bond.*
*I have sworn an oath that I will have my bond.*

Shylock, Act 3 Scene 3 – Merchant of Venice

| | |
|---|---|
| **Benchmark:** | FTSE Sterling Corporate Bond index (112.76 -15th April 2013) |
| **Typical No. of Holdings:** | 8-20 |
| **Discipline:** | The strategy will concentrate primarily on investment grade "high grade" bonds and include smaller exposure to "high yield" fixed income investments. . |
| **Strategy criteria:** | The criteria will include a) sterling denominated i) Corporate / gilts ii) Sovereign bonds and b) US Dollar / Euro denominated corporate / sovereign bonds. The criteria will include investment grade and the highest non-investment grade ratings "BB+" on occasion. The criteria will include subordinated bonds and those with perpetual and hybrid features. |

# The Bond/Fixed Income Strategy

**Background:** For a long time, private investors tended to overlook bonds and underweighted them in their portfolios on the grounds that better returns were available elsewhere. For those who experienced the high inflation of the 1970s this attitude was understandable. It took a new generation of investors during the Noughties to "rediscover" bonds and fixed income investments. Arguably the events of 2008 and since have encouraged investors to consider bonds as a permanent feature of their investment portfolios. This is because many investors now realise the merits of de-risking investment portfolios.

In February 2010 the London Stock Exchange launched an electronic "Order Book for Retail Bonds" in response to private investor demand for easier access to trading bonds. More than 60 gilts and over 100 corporate bonds (tradable in denominations of £1000 or less) are available for trading. The initiative has encouraged private investor interest and offer companies a route to list their bonds onto a regulated platform that offers transparency and liquidity. We view this development as very positive for bond investors.

Due to the size and complexity of the fixed income area, the CSS Strategise Bond and Fixed Income Strategy is positioned to extend our advisory service to provide clients with a means of positioning their funds in secure yield focused investments appropriate for their circumstances.

| UK Fixed Income | Distribution (% of total portfolio) |
|---|---|
| UK Corporate Bonds | Variable |
| UK Gilts | Variable |
| Euro denominated Corporate Bonds | Variable |
| US$ denominated Corporate Bonds | Variable |
| "Hybrid" fixed income | Variable |

## Key features of the Bond/Fixed Income Strategy:

All criteria must apply:-

**a)** The bond is investment grade with a rating of at least BB (S&P) or equivalent.

**b)** Blue Chip Issuer / sovereign government

**c)** The note size parameters are suitable for retail investors with a maximum note denomination of £50k / US$50k / €50k

**d)** Bond has shown adequate liquidity

It is worth noting that bond interest income or coupons from both gilts and corporate bonds in the hands of UK residents are subject to income tax at the holder's marginal rate of tax, unless held within an ISA or SIPP. There may also be withholding tax deducted on interest paid on some overseas bonds. The Strategy will advise where withholding tax is or might be relevant. Capital gains on corporate bonds are generally not taxable as long as they are treated as "qualifying corporate bonds" by the HMRC. A "qualifying corporate bond" is normally a straight conventional corporate bond hence convertible bonds do not qualify. Gains on gilts are not taxable. Both gilts and corporate bonds are exempt from stamp duty.

Our "Bond guide" provides detailed information on bond and fixed income investments, we would recommend you review this document.

## Strategise encompasses advanced portfolio analytics

CSS Strategise will employ advanced portfolio analytical tools for the delivery of individual strategies enabling clients to receive:

**a)** Data on the given strategy's performance over specific time period.

**b)** VaR (value at risk) analysis, clients can receive information on the precise amount estimated to be at risk at any given time (this tool is used extensively at major financial institutions).

**c)** Generate presentations detailing holdings, contribution to return at a sector and stock level.

**d)** "Stress testing"; how would the strategy perform in bear market periods such as 2008.

**e)** Accompanying research notes on individual companies and strategies.

**f)** Strategy criteria i.e. identifying precisely is the Strategise selection criteria.

Client investments in strategy ideas as presented will not necessarily replicate or represent the performance of the strategy equity selections or the portfolio of strategy selections due to timing differences. Different time periods will show different results from the period of analytical coverage.

What we can be sure of is the equity selections will be consistent with strategy criteria and over a long period of time the divergences caused by timing differences will be reduced.

We are able to present the individual strategies in presentation form on request.

## Ease of adoption; via Sub Account

We believe that CSS Strategise uses a fundamentally different approach to asset investment. It is aimed at structuring a portfolio of investments sharing common characteristics. As such it is probably more convenient to treat strategy related investments separately. How do we envisage this working practically?

**STEP 1** We need to formulate and present an investment strategy, and "agree" that strategy with you and document and monitor performance.

**STEP 2** Allot a specific cash sum towards the pursuit of a strategy or transfer in "for sale" shares whose proceeds will be applied towards the strategy.

**STEP 3** Set up a sub account where these investments can be held away from other investments.

**STEP 4** Buy/Sell Strategise related investments exclusively in the sub account.

**STEP 5** Trade within Strategise – you may wish to buy/sell within the same strategy.

We would therefore recommend segregating Strategise related investments into sub accounts to improve the transparency of performance and assist portfolio monitoring and review.

## Strategise advisory benefits vs Managed/Discretionary Accounts

Why take the Strategise approach when you can use discretionary or managed accounts?

With discretionary and managed accounts the client has no say about how the portfolio is run. The decisions are made by a fund manager, a team of managers or an investment committee and that process is not transparent on a day to day basis. There may be significant movements between reporting periods in the underlying portfolio or fund.

A discretionary or managed fund is not necessarily obliged to detail all the transactions it undertakes or its use of derivatives or swap agreements. Typically it discloses fund holdings at a given reporting date, but this often masks the portfolio holdings between reporting dates.

You will have the final say, in respect of your choice of strategy and on each individual recommendation. The performance of a given strategy will be totally transparent. You are able to change strategy or accumulate/divest within the given strategy. We believe this will add considerable flexibility which is valuable especially in fast moving capital markets conditions.

Furthermore there will be no upfront fee or annual management charge, or performance related fee to deduct from your portfolio.

## Talk to us about Strategise

- The Strategise approach takes an in depth approach to investment advice.
- Strategise will identify investments that fit the investors strategy choice and advise the client accordingly.
- Strategise will provide a better balance to the client experience, providing an overarching strategy and reducing portfolio imbalances.
- The Strategise charges for clients will be set at 1% of consideration or £30 per bargain, whichever is greater. There is also a £15.00 compliance charge, relevant stamp duties and POTAM levies per bargain.
- In order to achieve a cost efficient good spread of investments, within a chosen Strategise framework we would recommend you consider an investment of approx. £25,000 per chosen strategy.
- We believe CSS Strategise will provide you with a unique investment experience.

## We want to hear from you... We want your views... We want you to use Strategise!

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# No Recommendations

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- a recommendation or trading idea, or
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# Risk warning

Trading in the products and services offered by Collins Sarri Statham Investments Ltd (CSS) may, even if made in accordance with a Recommendation, result in losses as well as profits as the value of investments may rise or fall due to the volatility of world markets, interest rates and capital values. In addition, you may not get back the original amount that you invest because of, for investments held in overseas markets, the effect of changes in currency rates of exchange and, for leveraged products such as Contracts for Difference (CFDs), derivatives, commodities & Foreign Exchange (FX), the high risk to your capital by losing rapidly & substantially more than your initial investment. Speculative trading is not suitable for all investors.

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# General risk warning

The market information relating to past performance of an investment is not necessarily a guide to its performance in the future. The value of the investments or income from them may go down as well as up. As stocks and shares are valued from second to second, their bid and offer value fluctuates sometimes widely. The value of investments may rise or fall due to volatility of world markets, interest rates and capital values or, for investments held in overseas markets, changes in the rate of exchange in the currency in which the investments are denominated. You may not necessarily get back the amount you invested.

Please note that Small caps carry higher investment risk than established companies. These types of Shares may be suitable for some investors but they are not for everyone. Please also note that there can be a big difference between how much you pay for the Shares and how much you can sell them for and if you want to sell them, it can sometimes be difficult to find a buyer. Also, Shareholder influence can sometimes be limited because the majority of the Shares may be closely held (e.g. – company directors). Publicly available information may be less comprehensive than that provided by listed companies, so you may be unable to assess the business and its finances in any great depth. Finally, there is increased risk of losing some or all of the money invested.

# Bonds/Fixed Income Risk warning

Fixed income securities are subject to the risk of an issuer's ability to meet principal and interest payments on the obligation (credit risk). It may also be subject to price volatility due to such factors as interest rate sensitivity (interest rate risk), market perception of the creditworthiness of the issuer and general market liquidity (market/liquidity risks). Liquidity/marketability risk is the risk that your security or asset may not readily be convertible into cash or bought or sold in the market quickly without affecting the price. Fixed income securities are interest rate sensitive. An increase in interest rates will generally reduce the value of fixed income securities, while a decline in interest rates will generally increase the value of fixed income securities.

# ETFs risk warning

ETFs are highly complex financial instruments that carry significant risks. They are suitable for investors who understand their strategy, characteristics and risks. You should ensure that the ETF meets your own objectives and circumstances, and consider the possible risks and benefits of purchasing the ETF before investing. ETFs are more complex in structure and carry a much increased level of risk. It is essential you understand the risks involved. If you are unsure about the suitability of ETFs for your own investment needs you should contact your broker for advice and further information.

Before making a decision to invest in ETFs, you should discuss the product with your broker and read the ETF Prospectus carefully to ensure that you fully understand the ETF you are intending to purchase. The Prospectus will detail how the ETF aims to meet its investment objectives. Whilst most ETFs can achieve their objectives by purchasing a diversified pool of assets, some achieve their objectives through the use of derivatives, typically swaps, which carry counterparty risk. If the counterparty does not pay the sums due, the investor will see a reduced return regardless of the performance of the underlying assets.

ETFs can often have unique compounding, daily reset and leverage features that may significantly amplify risk, particularly for medium and long-term investors, and in periods of high market volatility. The value of an ETF may be affected by market values, interest rates, exchange rates, volatility, dividend yields and issuer credit ratings. These factors are interrelated in complex ways, and as a result, any losses or gains could be magnified.

# Emerging Markets risk warning

Investing in emerging markets carry higher levels of risk due to the nature of these investments. These investments are more volatile than investments in established markets.

Please note that this strategy might invest in predominantly one geographic area. As a result of this, the value and prices of the underlying assets may be affected by any type of decline in the economy of this area.

Also, the currency exchange rate may cause the value of investments to go down as well as up where overseas investments are held. The governance, including supervision and accounting may not be the same as those in established markets which could result in lower shareholder protection. Additional risks associated with investing in emerging markets include systems and standards affecting trading, settlement, registration and custody of securities, which could be lower than in established markets. Please note that emerging markets can often be more illiquid than established markets and this can lead to greater price fluctuation.

# Our Fees and Charges (including Commission)

**For Advisory Clients and Execution (Online) Clients:**

It is important that all CSS Clients understand that they will attract fees and charges for each and every single trade that they place, whether it be to open or close a position, and they ensure their understanding of the fees and charges that will apply to their account before trading is correct and current. This includes that certain American/European stocks and CFDs can attract other additional costs/charges plus that there is a £15.00 internal compliance charge (Advisory Clients) or £3.00 (Execution/Online Clients) per trade as listed above.

Please note that any performance figures / data / results / projections / graphs shown do NOT take into account any reduction in value of the investment (s) resulting from the remuneration* received by CSS or charges such as Stamp Duty (i.e. a 'gross basis'). CSS believe this approach gives continuity with how we have shown such information during 2012 and reduces the possibility of clients finding comparisons of 2012 & 2013 data to be misleading or confusing, which could be the case if in 2013 CSS changed to showing such information on a 'net basis'.

*remuneration covers any fees, commission, charges received by CSS.

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