



MM FINANCIAL MANAGEMENT

Financial Planning since 1990

OUR FUND SELECTION AND REVIEW CRITERIA

Fund Selection

We aim to manage risk by using asset allocated portfolio modelling after appropriate discussions with our clients about their circumstances, objectives and attitude to risk.

Asset Allocation is simply the mix of underlying asset types held within an investment or portfolio of investments. The three key asset types in relation to stock market investing are bonds, equities and cash.

Each of these asset types behaves in a different way with cash providing low returns which are relatively stable and equities (i.e. shares) potentially providing higher returns in the long run but which are quite volatile. Bonds behave somewhere in between. Asset classes can be further divided into a number of other categories.

The trends in investment performance of each asset class over time are also important. The relationship between these trends (known as their Correlation) can help an investor reduce the variance of their overall portfolio. This is principally done by investing in more than one non-correlated asset classes such that as one is falling, the other is rising. This is known as diversification.

Many studies have shown that asset allocation is responsible for the majority of the variation in investment returns and as such is fundamental to a successful investment

Our research employs consensus models of Cautious, Balanced and Stockmarket portfolios. The consensus models are based on the Life Office Asset Allocation Analysis published monthly by Lipper and offer a quick and simple portfolio framework. Lipper, a Reuters company, is a global leader in supplying mutual fund information, analytical tools, and commentary. Lipper's benchmarking provides the trusted guidepost to asset managers, fund companies, financial intermediaries, traditional media, websites, and individual investors.

With three decades of fund analysis experience, bolstered by the resources and knowledge of Reuters, the world's largest financial information and news provider, Lipper provides unparalleled expertise and insight to the funds industry. Lipper's products and services provide accurate, insightful, and timely mutual fund data and analysis.

The portfolios are split into asset sectors and suitable funds chosen within these sectors. These criteria are used both in our selection of funds for new portfolios and in the review process for existing portfolios.

Our fund selection and review criteria have been developed over many years and are based on statistical analysis and rigorous mathematical principles. We select funds based on their Citywire and Forsyth OBSR ratings and their cumulative performance over the last 3 years.



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Citywire Fund Manager Ratings are based on the risk-adjusted track records of individual fund managers over three years. The Citywire Fund Manager Ratings are based on the performance of the fund manager across all the funds he or she has managed at any point during the last three years – not just the funds they are currently managing. More details at www.citywire.co.uk.

Forsyth OBSR provides independent fund ratings which aim to be predictive in nature. The ratings are determined following in-depth qualitative and quantitative analysis. Funds are reviewed regularly and ratings adjusted to reflect any changes in investment style or approach.

Both ratings range from unclassified to AAA.

Funds that match or exceed a Citywire and/or a Forsyth OBSR rating of AA will be included in our recommended portfolio subject to those funds being in the first quartile of cumulative 3 year performance. Where there are no funds meeting the selected criteria we will include the best available.

Past performance is no guarantee of future performance and the value of investments can fall as well as rise.

Fund Review

For review purposes we split existing funds into three categories:-

- Hold: Better than average past performance and/or good future prospects.
- Review: Average past performance and/or average future prospects.
- Switch: Below average past performance and/or below average future prospects.

We review funds based on their Citywire and Forsyth OBSR ratings and their quartile performance over the last 3 years.

Citywire Fund Manager Ratings are based on the risk-adjusted track records of individual fund managers over three years. The Citywire Fund Manager Ratings are based on the performance of the fund manager across all the funds he or she has managed at any point during the last three years – not just the funds they are currently managing. More details at www.citywire.co.uk.

Forsyth OBSR provides independent fund ratings which aim to be predictive in nature. The ratings are determined following in-depth qualitative and quantitative analysis. Funds are reviewed regularly and ratings adjusted to reflect any changes in investment style or approach.

Both ratings range from unclassified to AAA, and for the purposes of review we select the highest rating.



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The classifications are summarised in the matrix below:-

	Unrated	A	AA	AAA
4 th Quartile	Switch	Switch	Review	Hold
3 rd Quartile	Switch	Review	Hold	Hold
2 nd Quartile	Review	Hold	Hold	Hold
1 st Quartile	Hold	Hold	Hold	Hold

If a fund is classified as “review”, the fund’s performance and prospects should be reviewed over the following 2 years before moving it to “hold” or “switch”.

Past performance is no guarantee of future performance and the value of investments can fall as well as rise.

If the above data is not readily available on a particular fund we will use the Standard & Poor’s Micropal rating (where available).

Micropal devised its ranking system in around 1998 to help advisers and investors evaluate the performance of a fund and the consistency of that performance relative to other funds in its sector. The rankings are a measure of the relationship between the level of risk and the monthly performance of a fund over 36 months. For example a fund may be top quartile over one, two or three years but in between any of those times it could have lost and regained maybe 40% of its value. It is likely to be assigned a lower star rating.

In a sector containing 100 funds, the top 10 funds will be assigned five stars (*****); the next 20 funds will be assigned four stars; the next 20 will receive three stars; the next 25, two stars; and the bottom 25, one star.

To be classified as a “hold”, a fund must have a Standard & Poor’s Micropal star rating of *** or above.

If a fund has a Standard & Poor’s Micropal star rating of * (or is unrated) it will be classified as a “switch”.

If a fund is classified as “review”, the fund’s performance and prospects should be reviewed over the following 2-3 years before moving it to “hold” or “switch”.

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MM Financial Management Ltd
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