



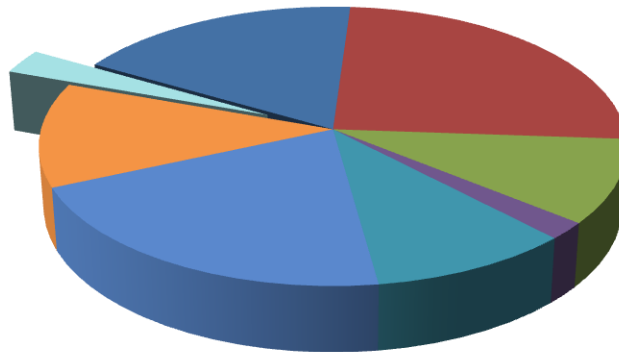
## SCM PRIVATE

Monthly Newsletter – June 2011

### SCM Private Bond Reserve £ Portfolio

Performance is not shown as the portfolio is less than 12 months old

#### SCM Private £ Bond Reserve Portfolio Asset Allocation as at 30.06.2011



- UK Corporate Bond Long Duration 17.7%
- UK Corporate Bond 1-5 Years 25.0%
- UK Corporate Bond Ex-Financials 9.7%
- UK Government Bonds 0-5 Years 2.0%
- UK Government Bonds Long Duration 10.0%
- US\$ Emerging Market Sovereign Bonds 20.6%
- UK Index-Linked Bonds 12.1%
- Cash/Money Market 2.9%

#### June 2011 Asset Allocation changes

No changes to the model

#### Comment on Recent Exchanged Traded Fund Publicity

We believe there has been an orchestrated attack on Exchange Traded Funds over the last few weeks where many comments have been either taken out of context or simply do not match industry best practice. There is a definite undercurrent from competitors fearful of the continued loss of market share to ETFs.

The reason for the growth in ETFs worldwide is that they normally offer higher transparency as they show EVERY investment held, and normally have lower fees, higher performance as most active managers under-perform. They are also less volatile as the index tends to be less volatile than individual stocks or bonds; and enable extremely easy and exceptionally low cost allow asset allocation changes to be made.

As ETF specialists, we act as a gatekeeper for clients. We take this position of responsibility seriously – there are 2,747 Exchange Traded Funds listed around the world but each of our portfolios just invests in typically 10-15 of these. We are not wedded to any particular ETF manufacturer or earn any commissions; we simply aim to invest in the highest standard ETF within each asset category we choose.

We operate under rigorous controls, in particular:

1. **We have never bought a short or leveraged ETF** – these carry significant extra risks as well as extra costs as they are rebalanced daily which can significantly erode returns especially when markets are volatile.
2. **We closely review the prospectuses** of the physical ETFs and other documents to review policies, payments and procedures regarding the lending of securities within such ETFs – these risks do not apply to synthetic ETFs as any securities lending takes place outside the ETF. These stock lending risks are prevalent within the whole investment industry – e.g. within many unit trusts, hedge funds, and pension funds.
3. **We only invest in synthetic ETFs with over 100% collateral** – this means they have more than 100% collateral backing the fund. In fact we currently hold just one synthetic ETF within the SCM Bond Reserve portfolio, which is just 1.5% of the overall portfolio and which currently has 173% collateral compared to the regulatory minimum of just 90%. This collateral is published daily and is constituted of government bonds (from France, Netherlands, Austria, Germany, Finland and UK).

#### Notes

Individual client portfolios may differ due partly to differences in the timing of initial investment or withdrawals or rebalancing and differences in dealing costs charged by the various wrap platforms. Performance can be affected by currency fluctuations. Risk and performance can change over time and the SCM Private Model Portfolios may not be suitable for all types of investor. The tax treatment of investments depends on each investor's individual circumstances and is subject to changes in tax legislation. Discretionary portfolios are not subject to the same regulatory constraints as UCITS and other regulated funds.

Investing in Exchange Traded Products may expose the investor to a number of risks, some of which are specific to Exchange Traded products and some of which are general investment risks. Past performance is not a reliable indicator of future performance and values of investments can go down as well as up. SCM Private is authorised and regulated by the Financial Services Authority.

The SCMP Bond Reserve (£) Benchmark is cash (the return of LIBOR 1 month £ cash).

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