



SCM PRIVATE



SCM Private *Bond Reserve* Portfolio

Inception 1 June 2011

Investing in bonds and cash - offering low fees, 100% transparency, exceptional diversification and liquidity

New Portfolio Responding to Investor Demand

After two years of managing two portfolios - the SCM Private Long Term Return and SCM Private Absolute Return portfolios, many clients and IFAs have expressed a desire to mix these portfolios with something more cautious and conservative. With interest rates set to continue at low rates and inflation building, many investors are seeking a low risk, low volatility product, with the objective of outperforming cash.

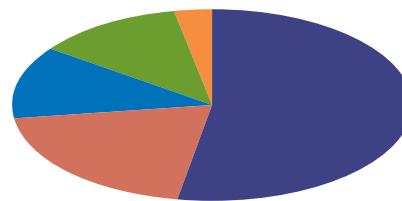
We have therefore decided to launch a bond based portfolio which invests solely in cash and bond ETFs.

SCM Private Bond Reserve Portfolio - Investment Universe

This new portfolio will invest primarily in cash funds, corporate bond funds, government bond funds, inflation - linked bond funds, and emerging market debt funds - all through Exchange Traded Funds which will result in a portfolio with an astonishing spread:

- **659** underlying corporate and government bonds versus an average IMA bond fund typically holding just **183**.¹

At inception - 1st June 2011, the portfolio will invest in:



- 53% - £ Corporate bonds
- 20% - \$ Sovereign Emerging Market Bonds
- 12% - UK Government Bonds
- 12% - UK Index-Linked Government Bonds
- 3% - £ Cash

Yield of the Initial Bond Reserve Portfolio

- The underlying average flat yield² of the bonds will be **4.9% pa before all costs**.
- The underlying yield to redemption³ (i.e. the combination of income and capital) will be **4.1% pa** and the **average maturity of the bonds 11 years**.

¹ SCM Private research based on Morningstar data of 249 UK IMA bond funds as at 31st December 2010 with data for number of holdings within the portfolio. All IMA global bond funds were excluded from this analysis.

² The flat yield of a bond is the annual coupon payment divided by the current price. It gives an indication of expected income cash flows from invested capital. The flat yield can change over time as either underlying bond prices or the average coupon rate can change.

³ Yield to maturity is the rate of return anticipated on a bond if it is held until maturity. It takes into account both return received from coupon payments and return from the price appreciation or depreciation of the bonds if the bonds are held to maturity.

How the Bond Reserve Portfolio Volatility Will Compare with Other Indexes or Funds

The initial portfolio should be less volatile than most single bond indexes as it combines different indexes together. It should also be less volatile than many bond funds as these tend to be more concentrated both in terms of number of holdings or area invested.

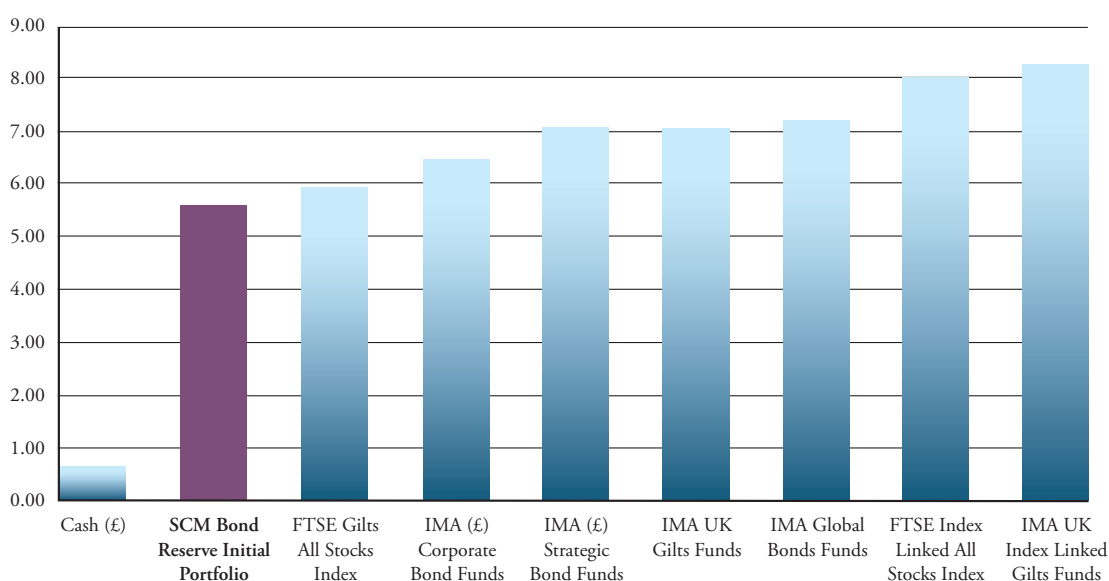
Bonds are generally seen as being less volatile and risky than many other assets but usually over the very long term outperform cash but underperform more risky assets e.g. equities.

Credit Worthiness of the Bonds

- The initial portfolio will have an exceptionally high credit rating and spread of individual bonds.
- The largest single non AA/AAA rated bond held within the initial portfolio will represent just 1.2% of the overall portfolio.
- According to Moody's (credit rating agency) the various bond ETF's held within the initial portfolio have been assessed as having the following rating:
 - 24% rated AAA
 - 18% rated A2
 - 20% rated Ba2
 - Remainder of the portfolio rated A1 - Baa3

The portfolio has no junk/high yield bonds whatsoever.

Standard Deviation / SCM Bond Reserve Initial Portfolio - backtested 5 years to end April 2011



Based on data supplied by Morningstar

Investment Restrictions - SCM risk controls:

1. It will only invest in ETFs to reduce costs, increase spread and increase liquidity.
2. Not more than 25% of the portfolio will be invested in any single ETF, no matter how diversified the product.
3. Not more than 50% will be invested in foreign currency denominated ETFs unless hedged to £ sterling in order to reduce potential currency risk.
4. No investment in any short, leveraged or ETFs with less than 100% collateral where non - "physical" based ETFs.
5. Only ETFs following a cash or credit or fixed interest based index will be invested in.
6. All ETFs will be listed on the London Stock Exchange.

Fees and expense ratios

The annual management charge (AMC) for this new portfolio will be less than the normal SCM Private fees to reflect that this portfolio will be much less actively traded than the other two portfolios, with likely turnover of under 30% pa compared to 50 - 75% pa for the other portfolios.

Direct Clients

- **0.5% + VAT pa** annual management charge; inclusive of all costs (administration, custody, tax statements, on-line access etc)
- No initial charges
- No performance fee
- **Minimum investment - £250,000**

Clients via an IFA and Wrap Platform

- **0.3% + VAT pa** - for clients using IFAs with access via the Ascentric, Praemium or Transact platforms. Fees are before individual platform costs and IFA advisory fees.
- **Minimum investments - typically £50,000 for many IFAs but this will vary.**

Additional Costs

The only extra costs facing investors are dealing costs (which should be very low given the low level of turnover and ETF buy/sell spreads), and the underlying ETF charges which currently average 0.29% pa.

Portfolio Transparency

All clients will be able to see 100% of their portfolio investments online, with values updated daily. Investors will not only see the broad composition of their portfolio but because every investment is ETF based; every single underlying holding within the portfolio.

Co-Investing - SCM Partners

The founding partners will be investing a seven figure sum without diverting funds from the other two existing portfolios, believing this portfolio is attractive against cash. However, over the long-term the higher levels of activity together with a higher level of equity exposure should mean that the other two SCM portfolios will deliver higher returns than a lower volatility, bond only portfolio.

Important Information

All the figures contained within this document refer to simulated past performance and past performance is not a reliable indicator of future performance. All SCM Private Clients follow the same model portfolios. Individual client portfolios may differ principally as a result of the timing of cash flows in or out of each portfolio. Discretionary portfolios are not subject to the same regulatory constraints as UCITS and other regulated funds. 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.

Past performance is not a reliable indicator of future performance and values of investments can go down as well as up. All opinions are correct as of the date of this release and are subject to change without notice. Please note that nothing in this document should be interpreted as financial advice.

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.

SCM Private is authorised and regulated by the Financial Services Authority.



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