

Thomas Miller Investment

Investment Performance – A Case Study

The sharp fall in equity prices in 2000 and the ensuing bear market caused the trustees of a small UK charity to rethink the way they managed their investments. Their portfolio was comprised mainly of equities that were being managed through an active stock picking approach. Little regard had been paid to asset allocation and risk. The trustees decided to review their investment policy in 2002 and approached TMI for assistance in that regard.

The situation at the time had been very worrying for the trustees. The charity exists to provide assistance in cases of hardship to those who have been engaged in a particular business sector. Its grant giving policy relies entirely on the income generated from the investment portfolio. This requires an investment policy that aims to maintain the real value of the charity's assets and provide a sufficient income to fund the level of expenditure envisaged by the trustees.

Recognising these needs, TMI spent considerable time working with the client's finance team to formulate a risk based policy that represented the charity's objectives and reflected a level of investment risk that was acceptable to the trustees. This was achieved by taking into account the individual asset classes expected returns, the volatility of returns (standard deviation) and the correlation of the returns, together with the existing portfolio. The resulting analysis showed the risk/return profile of their existing strategy and enabled them to formulate a new strategy that reflected their goals with less risk. Following this work changes were made to the asset allocation strategy and TMI was appointed as the charity's investment manager in October 2003.

TMI examined in detail all holdings in the client's portfolio. This was to plan the steps necessary to implement the policy that had been agreed. It was also to keep costs to a minimum and make sure that market timing considerations were not overlooked as investment duties were transferred to TMI.

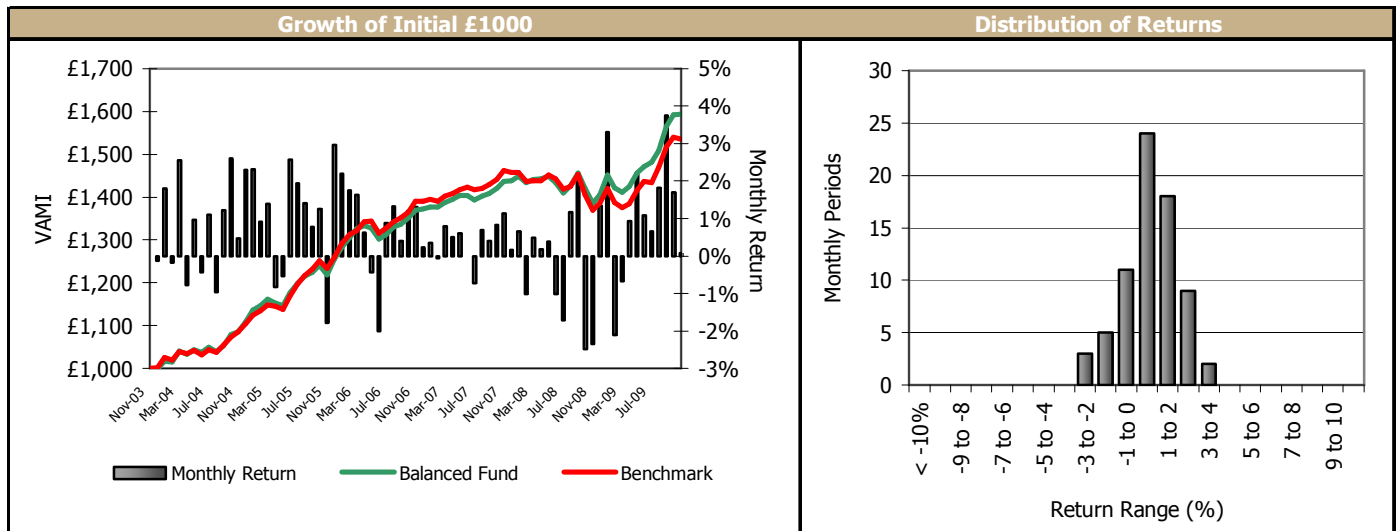
TMI worked closely with the trustees through attending all board meetings and presenting the trustees with investment and accounting reports detailing asset allocation, performance, economic overview and financial market outlook. The risk profile of the portfolio is now examined with the trustees on an annual basis and the asset class mix and tactical limits are reviewed formally every three years. The last formal review of the asset allocation strategy was in October 2006.

The risk process ensured that assets were allocated in a consistent manner, appropriate to the restrictions enshrined in the governing investment policy and in accordance with the policy constraints. The benchmark has broadly been comprised of Cash, Fixed Income (Govt' and Corporate) and UK Equities throughout the last six years.

The measure of performance of individual asset classes against comparative benchmarks was also agreed with the client to ensure that the measure was appropriate for the portfolio. The following charts and tables display the performance of this low to medium risk portfolio for the period from November 2003 to October 2009.

	2003 to date	2006	2007	2008	2006 – 2008 Cumulative	2009 YTD
Portfolio	59.24%	7.46%	5.10%	0.25%	13.23%	9.72%
Benchmark	53.53%	8.04%	4.48%	-2.62%	9.93%	8.15%
Relative	5.71%	-0.58%	0.62%	2.87%	3.30%	1.57%

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Monthly Performance														
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	
2009	-2.10%	-0.67%	0.93%	2.20%	1.08%	0.66%	1.82%	3.75%	1.70%	0.08%				9.72%
2008	-1.01%	0.49%	0.18%	0.39%	-1.01%	-1.72%	1.17%	2.10%	-2.48%	-2.35%	1.35%	3.31%		0.25%
2007	-0.06%	0.80%	0.50%	0.61%	0.00%	-0.72%	0.70%	0.40%	0.83%	1.13%	0.17%	0.65%		5.10%
2006	1.75%	1.63%	0.62%	-0.44%	-2.00%	0.88%	1.32%	0.41%	1.20%	1.31%	0.23%	0.35%		7.46%
2005	0.92%	1.39%	-0.82%	-0.53%	2.57%	1.94%	1.41%	0.77%	1.26%	-1.78%	2.97%	2.20%		12.89%
2004	-0.17%	2.56%	-0.77%	0.97%	-0.44%	1.11%	-0.96%	1.23%	2.60%	0.47%	2.30%	2.31%		11.70%
2003											-0.12%	1.80%		1.68%

Statistical Analysis		Fund	BM	Annual Returns	
Returns					
Compound ROR		8.07%	7.41%	2009-(YTD)	9.74%
Cumulative Return		59.28%	53.56%	2008	0.24%
Cumulative VAMI		\$ 1,593	\$ 1,536	2007	5.11%
Best Month		3.75%	3.31%	2006	7.44%
Worst Month		-2.48%	-3.26%	2005	12.89%
% Positive Months		73.61%	70.83%	2004	11.70%
Risk				Latest Returns	
Standard Deviation		4.62%	4.63%	Last Month	0.08%
Sharpe Ratio (5.0%)		0.65	0.52	Last 3 Months	5.60%
Sortino Ratio (10.0%)		-0.49	-0.62	Last Year	14.90%
Downside Deviation (10.0%)		3.64%	3.85%	2-Year	5.31%
Max Drawdown		-4.77%	-6.31%	3-Year	5.16%
Months In Maximum Drawdown		2	12	4-Year	6.93%
Months To Recover		6	9	5-Year	7.98%
Comparison To Benchmark(s)				Drawdown Analysis	
Alpha		0.09%		1	-4.77%
Annualized Alpha		1.03%		2	-2.71%
Beta		0.94		3	-2.43%
Correlation		0.95		4	-1.78%
Information Ratio		0.43		5	-1.35%

It should be noted that not only is the performance very strong, but in no year from 2003 to 2009 has this charity lost money.

The information ratio is a measure of the risk-adjusted return of a portfolio. It is often used to gauge the skill of investment managers. Top-quartile investment managers typically achieve information ratios of about one-half. The information ratio of this portfolio is 0.43.

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In summary, reserves management is all about planning for future. TMI believe the formulation of a risk based benchmark portfolio, driven by a client's financial needs, provides a solid foundation for formulating an investment strategy upon which consistent and pleasing investment performance can be achieved. The performance of this portfolio in 2008 is an example of one charity that successfully planned for the future.

November 2009

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