

Our Investment Philosophy and Key Principles

Our aim is to achieve investment performance which protects and enhances your clients' real wealth over time, whilst exposing them to an appropriate and agreed level of risk. In order to achieve this there are a number of key principles that underpin our philosophy:

Active Management

We believe markets are inefficient and that good fund managers can exploit those inefficiencies to the advantage of their clients. We utilise active management at all levels of the investment process ranging from asset allocation through to fund and stock selection in order to add value for our clients.

Cornelian has a long history of successfully managing multi-asset portfolios for clients to deliver the investment objectives within appropriate levels of risk.

Diversification

We believe that well managed multi asset portfolios deliver superior returns for a given level of risk over the medium term. By their nature multi-asset portfolios are diversified. We take great care to ensure that we achieve appropriate diversification across geography, sector and type of asset. In some cases we will select top class fund managers in order to access specialist knowledge in a specific area.

Risk Management

Managing risk is a critical element of successful investment. Investment guidelines for each multi-asset portfolio are based on an assessment of the volatility of each asset class. We use a specialist third party provider to model potential asset class returns. Minimum fixed income and cash levels are set for each portfolio in order to manage volatility. To ensure compliance with risk managed targets, stochastic analysis is undertaken on each risk managed portfolio on a quarterly basis.

Portfolio Construction

A multi-asset portfolio will encompass exposure to many different assets in different geographies. No single investment manager or investment management company has the greatest level of expertise in all these areas. Nor do we. We focus our efforts in the areas in which we can add greatest value to our clients: asset allocation and the selection of individual stocks where we have specialist expertise.

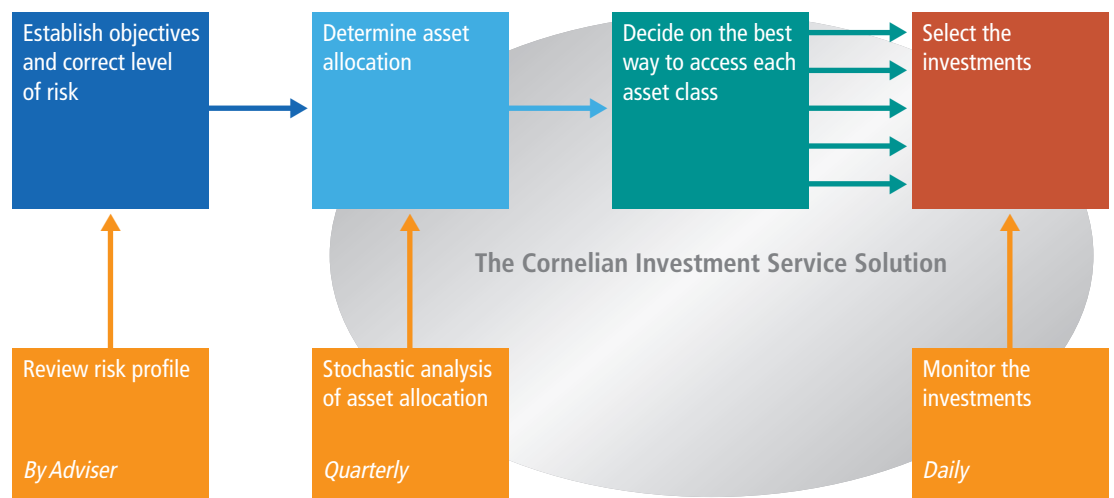
We believe benchmark driven investment is dangerous and our focus is to achieve the best for our clients within the context of an agreed level of risk. As active managers we believe that it is possible to select a portfolio of companies unconstrained by benchmark considerations that will outperform the markets. We seek to capture this added value for investors alongside generating alpha from asset allocation.

Where we are not specialists, we identify and select best of breed investment managers. In addition, for tactical asset allocation calls, we may well select exchange traded funds to give us cost effective and efficient exposure to a particular asset class.



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Client risk assessment and investment process

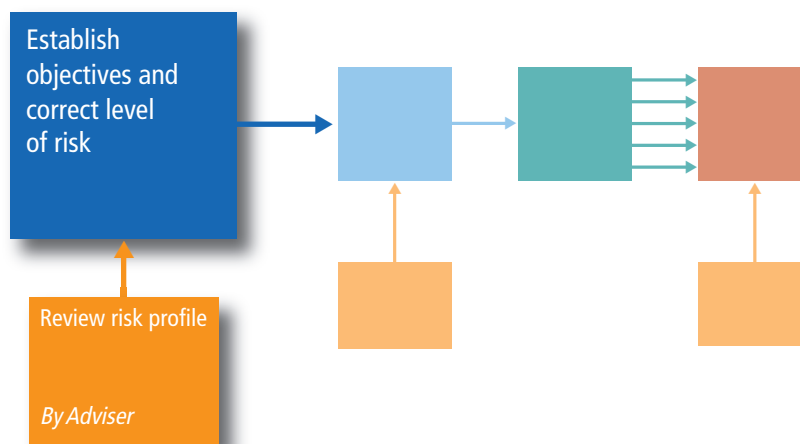


The financial adviser is responsible for establishing the client's investment objectives, risk tolerances and identifying the appropriate investment solution for them. The adviser is also responsible for reviewing these periodically.

The Cornelian investment team is focused on ensuring that the asset allocation, fund and stock selection decisions support the objective of delivering a diversified portfolio appropriately aligned to its investment objectives and risk tolerance. The process involves four key steps:

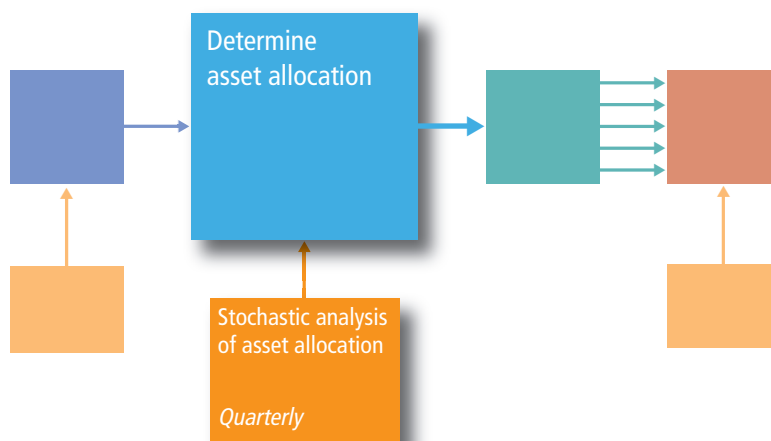
Key Steps	Responsibility:
Establish the correct risk level for the client	Financial adviser
Determine the optimal asset allocation	Cornelian
Decide on the best way to access the selected asset classes	Cornelian
Select the best investments available	Cornelian

Step 1 – Establishing the correct risk level



The client risk assessment starts with the adviser and client working together to establish the client's appropriate level of risk tolerance and identifying the appropriate portfolio. There are many ways of doing this, some involving risk profile tools or structured questions. The key objective is to ensure that the client and adviser have reached agreement on the appropriate levels of risk and the achievability of the investment objectives within the context of that level of risk.

Step 2 – Determining the Asset Allocation

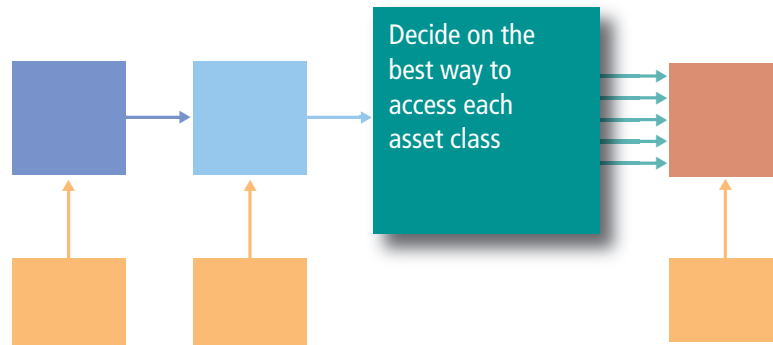


Cornelian have created a range of risk managed portfolios to capture the majority of client risk profiles. Fund objectives are set using maximum volatility limits*. Once the adviser has determined the risk profile for their client, they can match the client with one of the five Cornelian Risk Managed Portfolios. In order to form our view as to the best mix of assets for a particular portfolio an understanding of the returns and volatilities exhibited by the various asset classes on a historic basis is required. We then need to assess whether there are any factors that exist that might result in different outcomes in future.

When we select the assets for a portfolio we undertake research and use extensive internal and external analysis to develop our view of the likely prospects for different geographies and asset classes and to identify emerging trends. We incorporate the analysis of economic and market data with sector and company newsflow. This analysis helps inform the decisions of our Asset Allocation committee which includes all of our most experienced investment managers. This committee meets formally once a quarter, however also meets on an ad hoc basis to discuss issues as and when required. For each different risk profile we produce our view of the optimal mix of assets to be held in that portfolio. Tactical asset allocation will be undertaken from time to time in order to exploit opportunities as they arise. The funds are aligned to client risk tolerance, not peer or industry benchmarks. The objective is to enhance real returns over time.

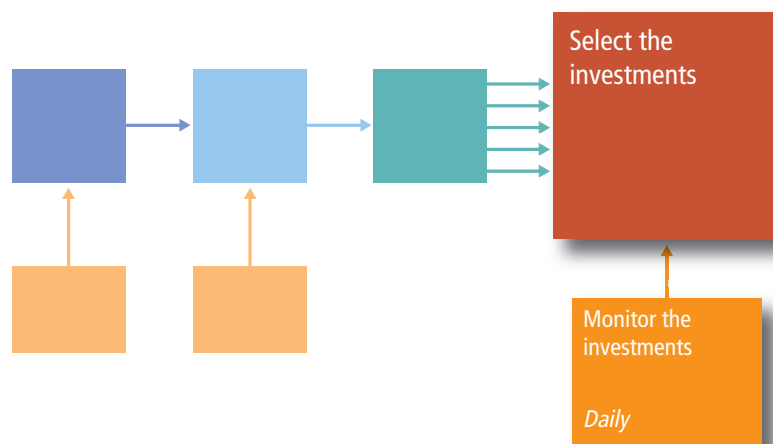
* The volatility measure used assumes a normal distribution. Extreme market events can result in volatility in excess of that predicted by the model.

Step 3 – Decide on the optimum way to access each asset class



Having identified an asset class as a target for investment, we then research the best alternative approaches available to us to gain the desired level of exposure. In the case of an asset such as, say gold, this might be through a quoted company involved in the sector, a global fund specialising in the sector or through a commodity fund that invests in physical gold. We may make several investments in the chosen asset class to provide diversification of styles or exposure to different stages in the supply chain eg: exploration or production.

Step 4 – Decide on the specific investments to make within each asset class



The selection of the individual investments involves a considerable amount of internal and external research activity. We screen the overall market against a variety of measures to narrow down our search. This enables us to focus our attention on the most promising potential investments.

Ordinarily equities will be bought if we believe there is at least 20% upside in the share price and that there are clear catalysts to help achieve the uplift in value identified. Target prices are reviewed continually, and if reached, the presumption is that the stock will be sold. However, if further catalysts can be identified which we believe will continue to enable the stock to outperform then the target price will be reset and the stock retained.

Fund selection initially involves quantitative screens on performance volatility and consistency. When an attractive fund is identified, we meet with the management. We also investigate whether any fund incentives are appropriate and aligned to those of investors.

Step 5 – Monitor and review

One of the most important lessons from the market turbulence of the last few years is that there needs to be in place a disciplined process of monitoring and review of investments. Furthermore, investment managers must have the willingness and ability to back their judgement, and make material adjustments to individual investments or asset allocation when needed, in order to protect and enhance returns.

It is also very important to ensure that we maintain our alignment to fund risk objectives. We do not believe that the ideal asset allocation can be set at a point in time without further review. In our view, it makes no sense to adhere slavishly to an asset mix that may not represent the best value for a client at a specific point in the investment cycle. Therefore, we constantly review asset allocation and conduct formal reviews at our quarterly asset allocation meetings. Often our view has not changed significantly and the drivers or the trends have remained consistent, however, the discipline of a regular and full review is essential to ensure that key asset allocation adjustments are made.

A key element of the monitoring process is the review of the underlying investments. Portfolio management is an ongoing and continual process. We hold a weekly meeting to review the portfolios formally and the markets in general and a daily review where we discuss specific investments. These daily reviews enable us to identify where the price of an investment that we may be currently monitoring or an item of news provides a particular opportunity to capture additional value for our investors.

Contact Us

For further information on the Investment Service Solution for financial advisers, please email adviser.support@cornelianam.com

Alternatively, please phone our Adviser Support Line: 0131 240 2770



We utilise active management at all levels of the investment process in order to add value for our clients.

