



How to Find a Star Performing Fund

ISACO
LET'S GROW WEALTH TOGETHER.

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Introduction



Stephen Sutherland.
ISACO's Chief Investment Strategist
and author of *Liquid Millionaire*.

My name is Stephen Sutherland and my passion in life is investing. I was fortunate enough to have instant success when I first got serious about the stock market. That success early on in my trading career made my love and curiosity for the market strengthen. It's now in my blood and I live, eat and breathe the market 24/7. Some would say I'm obsessed and maybe they are right.

When they're investing for growth, many people seek out funds suited to more adventurous investors. These types of funds are volatile in the short term but, if you hold them over the long term and choose well, they can help you reap impressive returns. The objective of these types of funds is long-term capital growth however, be aware that they are not for the faint hearted. This type of investing is aimed at investors who have at least five

years as their investment horizon, but preferably ten. In this report, we'll look at how you can find star performing funds like these to invest in.

We'll start by looking at seven important tips for fund picking success and then go onto look at how we choose funds. In particular, we'll introduce 'The Performance Quadrant' and a different way of thinking about past performance. We'll then explore HIRE CAR™, a fund screening tool we've created, as well as how to judge the market's overall direction. Finally, we'll go through the detailed analysis we follow to identify funds with real growth potential.

In case you are wondering, our clients are ISA and SIPP investors who buy funds for their portfolios and most of the people we work closely with have over £250,000 actively invested. If you are an ISA or SIPP investor with over £250,000 actively invested, this report was written especially for you.

Happy fund investing!

Stephen Sutherland
Chief Investment Strategist and author of *How to Make Money in ISAs and SIPPs*.

7 Tips for Fund Picking Success

Before we look at the steps we take to find a good fund, we'd like to share our 7 tips for fund picking success. By understanding the big picture it will give you a good overview of the way we think about investing in funds, our investment philosophy and our investment strategy.

Tip 1 – Market Trend and Direction

We only invest in equity based funds when we believe the market is in a confirmed uptrend (bull market). When we believe a major downtrend (bear market) has been triggered we switch out of an equities based fund into a Cash Park to protect potential downside losses. If you have a SIPP, you can park in cash using a SIPP Bank Account. The last time we moved completely into cash was during the last bear market of 2007–2009.

The reason we move out of higher risk investments and into low risk ones is because our aim is to get in sync with the stock market's trend and direction. This is because institutional investors account for approximately 75% of the market's movement, which means it's important to follow their lead. When you don't get in sync, it feels like trying to run against a strong headwind.

Tip 2 – Tax-Efficient Investing

One way we've found to help you beat the market and boost your returns is to wrap an ISA and a SIPP around the investment funds you buy. And remember that any pension contributions you decide to make will get a boost from the Government.

By using tax wrappers, all of the gains you make will be protected from the taxman. This means you have no capital gains tax (CGT) to pay on the profits you make when you move in and out of the market. You see, when you invest in funds outside an ISA or SIPP, you have to pay CGT and this alone can seriously hurt your total returns for the year. Beating the market with the use of a tax wrapper makes the task at hand easier.

Tip 3 – Long-Term Past Performance

Investment performance is the most important element in fund selection. We look at the fund's long-term performance results to see if the fund has been outperforming the NASDAQ Composite in bull market periods.

Tip 4 – The Fund's Present Manager

We always check to see how long the present manager of the fund has been managing it. We look for the date the manager started because it's important to ensure that the current fund manager is the one who has scored the impressive past performance results.

Tip 5 – Short-Term Past Performance

Our aim is to locate and lock in on fund managers who are in the middle of the money flow. To do this, we look for funds that are performing well in the short term.

Tip 6 – Fund Chart

Charts help us time our buys and exits. When we're buying, we look for bullish chart patterns, such as cup-with-handles and double bottoms. From a safety point of view, and to make sure we buy at the optimum time, we aim to buy when the fund breaks out of a sound base.

Tip 7 – Fight for Every Percentage Point

It's possible to keep fees, commissions and trading costs low by buying your fund using a fund supermarket. If you don't go through a fund supermarket you could pay as much as 5.5% in upfront fees.

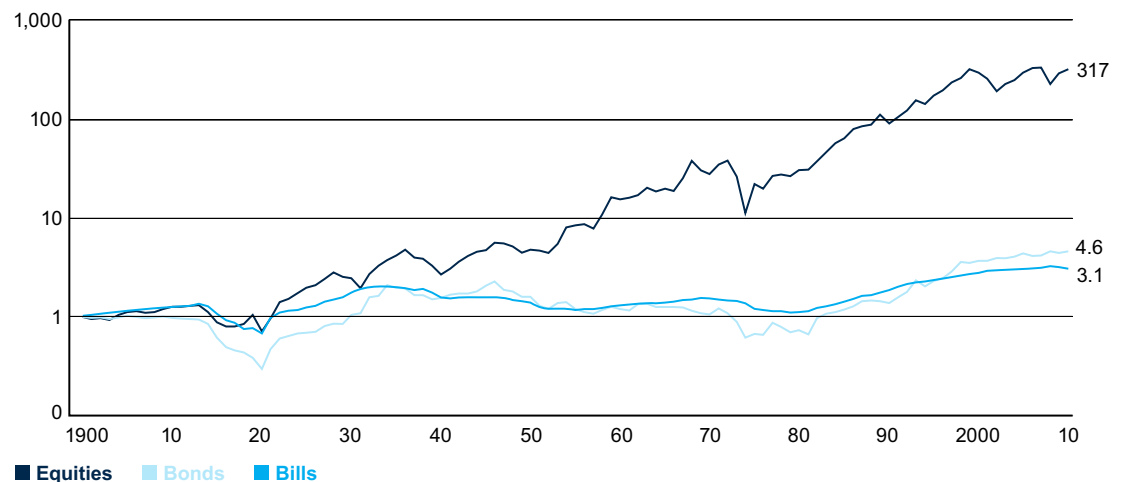
You are likely to need at least some growth

Inflation runs at around 3% per year and annual charges for actively managed funds can be in the region of 1–3%. That means you've got to make 4–6% per year just to ensure your wealth is not stuck in reverse gear. Therefore, if you have a life expectancy of 20 years or more, you are likely to need at least some growth and the most effective way of achieving that growth is to invest in equities. This can be done by buying equity based investment funds.

Capital market returns for the United Kingdom

The chart shows that over the last 111 years, the real value of equities with income reinvested, grew by a factor of 317 as compared to 4.6 for bonds and 3.1 for bills.

Annualised performance from 1900 to 2010



A key thing to remember is that, when seeking long-term growth and higher returns for your ISA and SIPP, your main objective should be to beat the market.

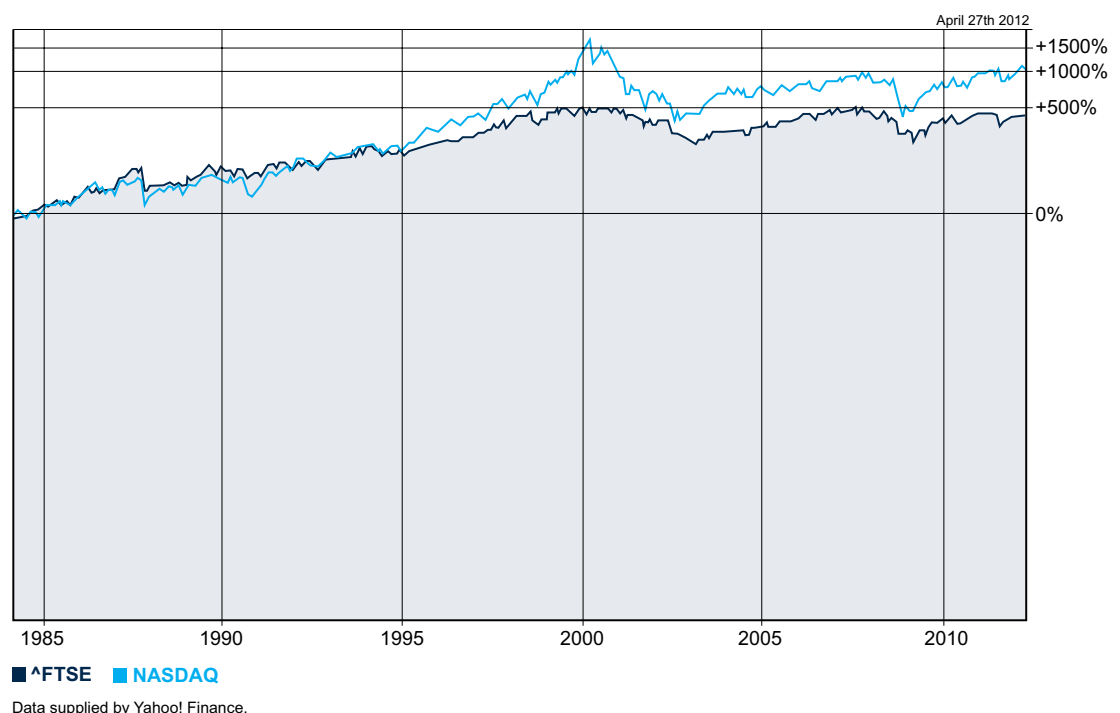
What exactly does the term, 'beat the market' mean?

There are many names and phrases to describe beating the market, such as outperforming the market, beating the indexes and staying ahead of the indices, but they all mean the same thing, which is doing better than a particular benchmark. Where people's opinions do differ is when it comes to the benchmark they measure their performance against.

In other words, which market, index, or indices are they trying to beat? Our aim is to help our clients beat the NASDAQ Composite. The NASDAQ Composite, the main US technology index, is one of the strongest market indexes in the world in terms of price performance. Over the long term, the NASDAQ has made an average yearly gain of 18.3%¹.

¹ Yahoo! Finance: Period taken January 1st 1975 to December 31st 1999.

And so, with the NASDAQ being such a powerful index, it means it's a difficult task to beat it. Take a look at this chart illustration displaying how the NASDAQ Composite has performed versus the FTSE 100. As you can see, since 1984, the FTSE 100 made just over 400%. However, the NASDAQ is the clear winner after making more than 1000% over the very same period.



Aiming to beat the NASDAQ would therefore be a much tougher goal than trying to beat the FTSE 100, but it is a worthy goal for adventurous long-term investors who seek attractive returns. Outperforming the NASDAQ Composite over the long term is an extremely tough task.

However, beating it could be your objective if your goal, like ours, is to achieve market beating returns. Beating the market is important because it helps you achieve higher returns, allowing you to arrive at your financial goals faster. Failing to beat the market means it takes you longer to reach your goals and in some cases, you never reach them at all.

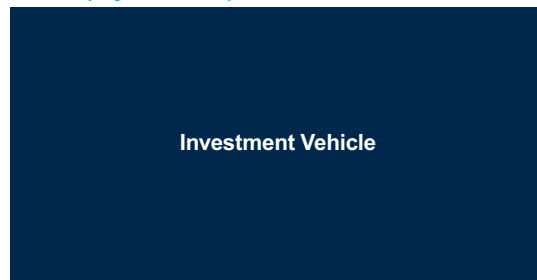
The Performance Quadrant

It's important to know that, when investing for growth, the size of your annual returns will always depend on four factors. The Performance Quadrant was a model we created to highlight these four factors and it's based on the notion that when investing in the stock market, there are some things that are in your control and some things that aren't. The Performance Quadrant is made up of four parts, with two of the components being in your control and two being out of your control.

As there are two components that are out of your control, it's unfortunately impossible to predict the exact size of the returns you are likely to make. However, as you will soon see, because you do have two elements within your control, if you handle those two parts well, it could increase your chances of achieving better returns over the long term.

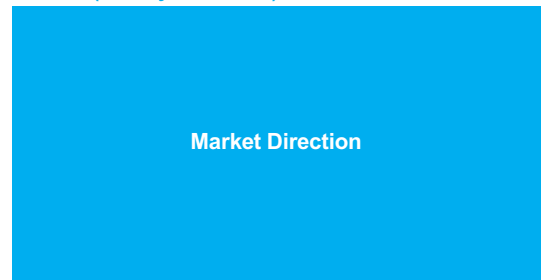
The Performance Quadrant

Internal (in your control)



Investment Vehicle

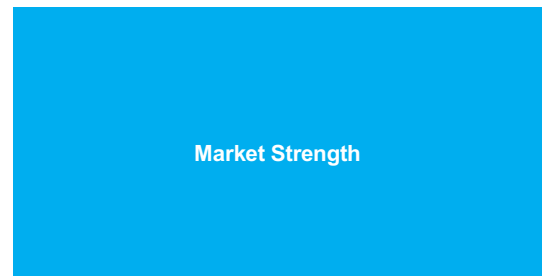
External (out of your control)



Market Direction



Market Timing



Market Strength

Courtesy of ISACO.co.uk.

Investment Vehicle

The first part of the quadrant is the Investment Vehicle and, in this example, we are going to use a favourite of ours; funds. It's common sense that if you choose well, it will have a positive effect on your investment returns and if you choose badly, it will have a negative effect. But what should your buying criteria be?

If you are an adventurous investor like us, with a long-term time horizon, your aim would be to choose high quality investment funds – funds that have the greatest potential for swift price rises from the moment they are purchased. This is a difficult task but made easier with knowledge and lots of practice. Your objective would be to buy 'best of breed' funds that exhibit superior sustainable growth potential and hold them for as long as they demonstrate outperformance.

Market Timing

The second part of The Performance Quadrant is Market Timing. The timing of your buys and exits are also in your control. Because three out of every four funds move in the same direction as the general market, our suggestion would be to try to invest in bull markets and aim to stay on the sidelines in bear markets.

When a major downtrend is triggered (bear market), the objective is to switch out of equity funds and into cash to preserve your wealth. This sounds easy in theory, however it's very difficult in practice. Market timing is made easier by daily studying of the price and volume activity of institutional investors.

Market Direction

The third part of The Performance Quadrant is Market Direction. Market direction is out of your control as it's impossible to 'will' the market up. And if the market does not go up, funds are not going to go up either. The annual returns of the funds you choose throughout your investing career will be directly linked to the market's direction. If the market is trending up, three out of every four funds will move up. If the market is trending downwards, funds are going to move down. And if the market is trending sideways, they are going to move sideways.

Market Strength

The fourth and final part of The Performance Quadrant is Market Strength. The strength of the market's trend is also out of your control. If the market is trending up and the trend is strong, fund performance will be impressive. For example, in 1999, the NASDAQ Composite gained 86% in one year! During that year, investment funds were moving up 100%, 200%, 300% and even 400% – over a 12 month period. The rule is: quality investment funds make substantial gains when the market is strong.

Hopefully, you will now be able to see the link between the funds you buy, the market's direction, the market's strength and the investment returns you achieve. With this in mind, we suggest you set different aims for different market environments. For example, our aims are based on a period of 5–15 years.

- 1) Sideways trending market: our aim is 3–5% per annum
- 2) Upwards trending market: our aim is 8–10% per annum
- 3) Very strong upwards trending market: our aim is 12–15% per annum

A different slant on past performance

Private investors are constantly reminded that past performance is no indication of what will happen in the future. However, when you view past performance in a different light, it can help give you an edge when choosing the best funds to buy. When choosing the best fund manager to park your money with, it's best to think in probabilities rather than certainties.

Nothing is guaranteed when investing in the stock market, which means you need to do all you can to increase the probability that the fund manager you choose will continue to perform well in the future. When seeking a good return on your ISA and SIPP over the long term, our suggestion would be to aim to find fund managers with outstanding track records.

The way this works is pretty simple: when the market is in a confirmed uptrend, we scan for funds managed by exceptional fund managers. We like to ensure that the fund manager has proven they can beat the market in the short and the long term.

The fund managers we like to focus on

If you followed a similar strategy to ours, your aim would be to make sure the person managing the fund has outperformed the market in the long term, and in the short term. You simply compare the manager's performance versus a benchmark, such as the FTSE 100, the S&P 500 or the NASDAQ Composite.

The majority of fund managers underperform the market, however a small percentage do actually beat it and these are the fund managers we like to focus on. The NASDAQ is a tough index to beat and when we find exceptional fund managers, we often notice that they not only beat the NASDAQ in one year, they beat it in multiple years and this means their beating the market was not achieved by luck.

As well as looking at how these fund managers have performed year on year (long term), we like to make sure that the fund manager has proven they can outperform the market in the short term. The short-term analysis allows us to see which managers are really in sync with the market. The best ones will be the ones who are holding the market's leading stocks and, when we look at their recent short-term performance, we usually see that they have easily been beating the NASDAQ.

Priceless information

Some fund managers with great track records will unfortunately not be in sync with the market and not in the money flow. Why? Each fund manager has an objective and a mandate that they have to stick to, such as only investing in Japanese stocks, British stocks or possibly American stocks. Some managers' mandates state that they can only invest in a particular sector, such as the technology sector or the basic resources sector.

The important thing to understand here is that all fund managers have a brief and they have to stick to it.

This puts many top fund managers at a disadvantage because the big money can only flow into a handful of countries/sectors, rather than flowing into every country in the world and every given sector. This is one of the reasons why most top managers are never going to be able to constantly outperform the market every single year.

That's why we follow the mantra of aiming to invest in exceptional fund managers – managers who hold stocks where the big money is flowing right now. These are the fund managers we class as being in sync with the market. These are funds controlled by fund managers who have not only proved they can beat the NASDAQ in the long term; they are also beating the NASDAQ in the short term.

HIRE CAR™

HIRE CAR™ is a screening tool we created to help us quickly find quality investment funds. HIRE CAR™ is an acronym, which means that each letter in HIRE CAR™ relates to a particular part of the formula, these being:

H = Health

I = ISA

R = Results

E = Exceptional Performance

C = Count Stars and Chart Pattern

A = Anywhere in the World

R = Recent Performance

HIRE CAR™ explained

The HIRE CAR™ formula is made of these key components:

H = Health

We only invest in quality investment funds when we believe the market is in a confirmed uptrend (bull market). When we believe the market is a confirmed downtrend (bear market), we park in cash to protect potential downside losses.

I = ISA

The funds we choose must allow us to invest through our ISAs and SIPP. This means all of the gains we make will be protected from the taxman and we will never have any capital gains tax to pay on our profits when we move in and out of the market – helping to increase our investment returns.

R = Results

Performance is the most important element in fund selection and that means we like to discover who the fund manager is and we look at the fund manager's long-term performance results. We check to see if the manager has been managing the fund over the previous bull market period. We look for the date the current fund manager started managing the fund because it's important to ensure the current fund manager is the manager who has scored the impressive results.

E = Exceptional Performance

Ideally, we want to see the fund manager outperforming the NASDAQ Composite in bull market periods. To achieve this objective we look at how the NASDAQ performed in previous bull market periods.

NASDAQ Composite performance in bull markets							
2003	2004	2005	2006	2007	2009	2010	2012
50%	8.6%	1.4%	9.5%	9.8%	43.9%	16.9%	15.9%

Courtesy of ISACO.co.uk.

We generally ignore how the manager performed in the down years (the bear market years) but if they beat the market in those years too, it's a bonus.

NASDAQ Composite performance in bear markets				
2000	2001	2002	2008	2011
-39.3%	-21.1%	-31.5%	-40.5%	-1.8%

Courtesy of ISACO.co.uk.

C = Count & Chart

Quality investment funds normally have four or five Morningstar stars and we'll be looking at Morningstar in greater depth in a moment. If a fund has three stars or fewer, we only give it a stamp of approval if the fund manager's performance is exceptional.

Some funds we've bought have only had one star and they've turned out to be big winners, which is a lesson in never relying solely on a star rating system. When it comes to the fund's chart, we look for bullish chart patterns such as cup-with-handles, flat bases, saucers-with-handles and double bottoms. It is best to purchase funds as they break out of a sound base.

A = Anywhere in the World

Our guidelines state that the investment fund can invest anywhere in the world but we prefer it if the country the fund invests in has a strong and stable economy. The US, Japanese, Chinese, UK and most European funds are always worth exploring, as long as the fund manager's performance is excellent. We like to invest in a fund that is diversified but if we find a fund that has a specialty in say one or two sectors, we ensure that they are sectors likely to lead in bull markets, such as internet, semiconductors, medical, telecom, retail, computer, metals or energy.

R = Recent Performance

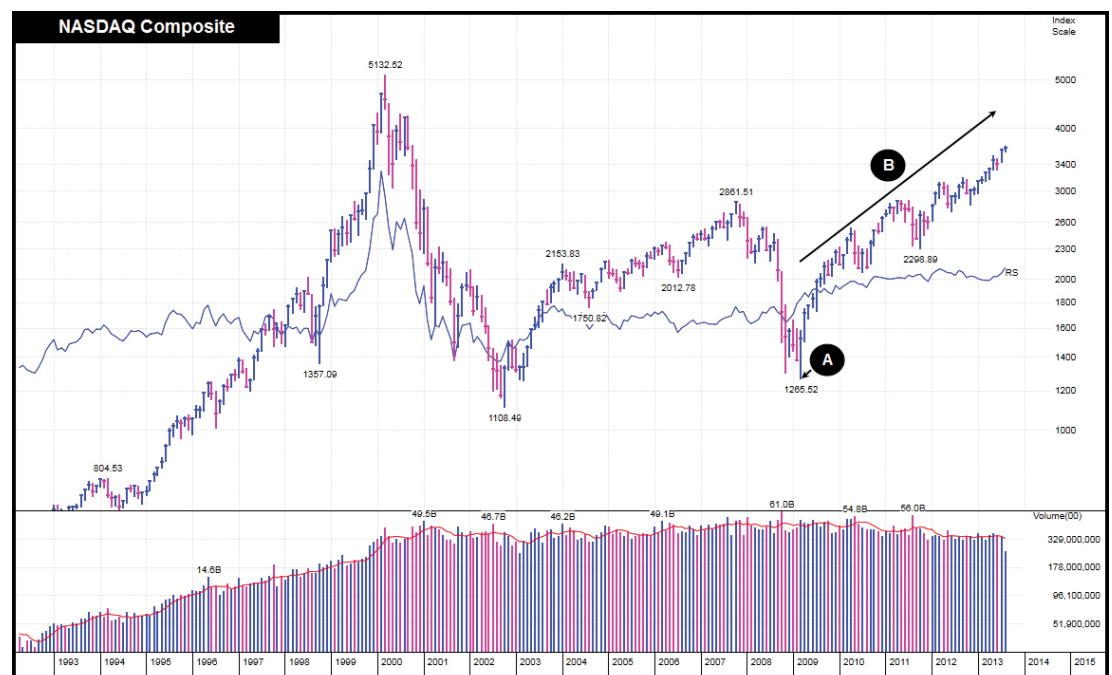
When the market is healthy, and it's clearly in an uptrend, one of the things we scan for is how funds are performing in the short term. This short-term period action could be the previous day, week, month and possibly even the previous quarter. This is just as important as looking at the fund manager's longer term performance.

Funds with outstanding growth potential

The website that we like to use when searching for the best funds is Morningstar. You can find it by going to www.morningstar.co.uk. Before you invest, we suggest you aim to find out if we are in a bull market or a bear market and one way you can do this is by looking at an index chart. Which index or indexes you choose to look at to help you track the market is your own decision. However, our favourite is the NASDAQ Composite.

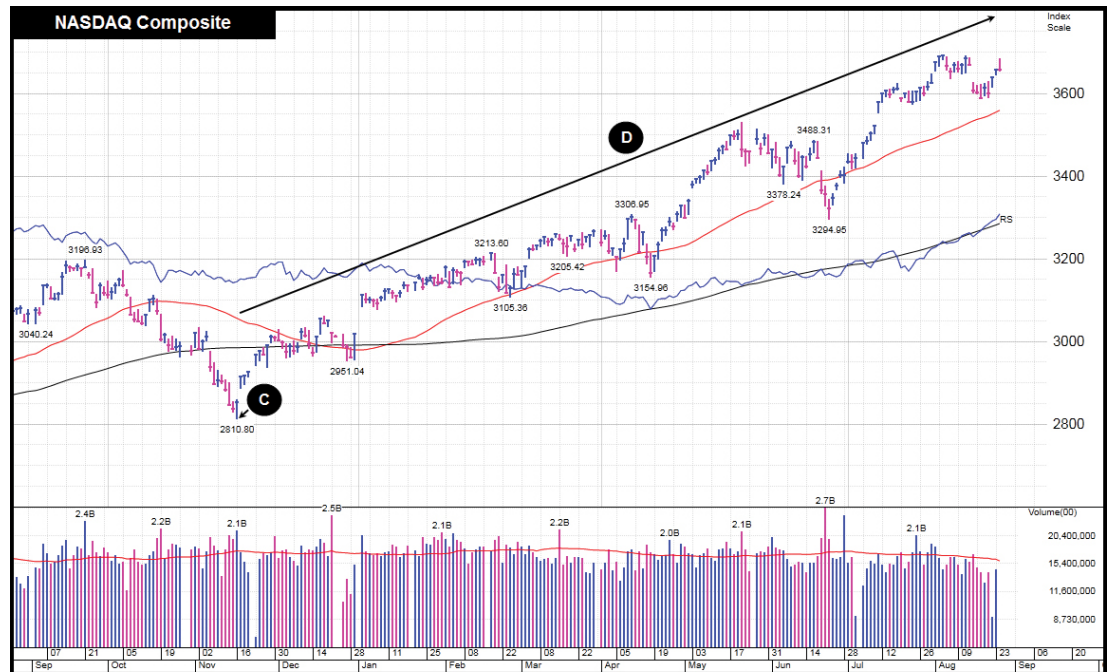
Bull market or bear market? Where are we?

For the purpose of this exercise, it's important for you to be aware that we took the up and coming screenshots on August 27th 2013. As you can see on this 20 year chart of the NASDAQ Composite, the present bull market started back in March 2009 (Point A) and since then, it's clearly formed a strong uptrend (Point B).



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Keep this in mind, because when we do our searches on Morningstar we'll be looking at which funds have performed best over the last five years. We say five years because when we took these screenshots, the bull market had been running for just under four and a half years.



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On this 12 month chart of the NASDAQ Composite, there is a clear uptrend. The uptrend starts November 16th 2012 (Point C) and is currently nine months old (Point D).

The facts so far about the market:

- The market had been in an uptrend for just under four and a half years.
- The market had been in an uptrend over the last nine months.

Just before we move on, we want you to make a mental note: The gain made by the NASDAQ over the previous nine months was 30.1%. We'll be using this as a benchmark later so that we can measure the nine month gain against the fund's performance over this same period.

Morningstar home page

This is Morningstar's home page. To start our search we click on the 'ISA' tab. We do this because it's not possible to purchase some funds within a stocks and shares ISA. We therefore want to make sure that when we conduct our searches, all the funds we'll be looking at are 'ISA friendly'.

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- July Round-up: Global Economy Past the Worst?
- Investor Confidence Returns to Pre-Recession Levels
- What Does the Remainder of 2013 Hold for Markets?

AIM Stocks For Your ISA
Now that investors can hold AIM stocks in their ISA, smaller companies fund manager Gervais Williams of Miton predicts the Index will rise

- Three Smaller Company Stock Picks
- Top Five Equity Income Stocks
- Three Top Bond Picks

Morningstar OBSR Awards Shortlist
Who are the best fund managers in the City? We reveal the shortlist ahead of the Morningstar OBSR Awards next month

- Fund In Focus: Miton UK Smaller Companies
- Top Rated UK Equity Income Funds Overlap by a Third
- Ask the Expert: Why Have Emerging Market Funds Fared So Poorly?

Morningstar's Best

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- Rank Funds
- Rank Investment Trusts
- Rank ETFs

NSM: National Storage Mechanism

A B C D E

Take part in the Morningstar Investing Mastermind Quiz

UK Europe US Asia

FTSE 100 27/8/2013 -57.08 -0.88% 6,435.02

6,500.00
6,480.00
6,460.00
6,440.00

8:00 10:00 12:00 14:00 16:00

Index	Date	Change	% Change	Value
FTSE 250	27/8/2013	-147.70	-0.99%	14,805.40
FTSE UK All Share	27/8/2013	-30.28	-0.88%	3,426.67
FTSE Smallcap	27/8/2013	-6.61	-0.16%	4,120.58
FTSE Fledgling	27/8/2013	+11.92	+0.21%	5,799.07

LONDON'S AIR AMBULANCE
roadside intensive care

Chart courtesy of Morningstar.co.uk.

ISA Funds to Explore

As you discovered earlier, the market had been in a bull market for almost five years and so next, where it says 'ISA Funds To Explore', we are going to look at the ISA funds that have performed the best over the last 5 years. We can do that by clicking on the tab that says '5 Year Returns'.

The screenshot shows the Morningstar website interface. At the top, there's a navigation bar with the Morningstar logo, a search bar, and links for Sign Up, Login, and Company Site. Below this is a promotional banner with four sections: 'Royal Mail' (Why Royal Mail Shares Could be a Bargain Buy), 'JP Morgan Weekly Stock Market Report' (Download Now), 'Structured CPD' (Read research papers to claim Structured CPD), and 'Build and Track Your Portfolio for Free' (Learn More). A secondary navigation bar lists various investment categories: Home, Portfolio, Equities, OEIC / Unit Trusts, ETFs, Investment Trusts, Life & Pension, ISA, Markets, Tools, and Advisers. Below this, a row of links includes ISA Basics, ISA Performance, ISA Research And Commentary, Video, and Investing Mastermind.

The main content area is titled 'Stocks and Shares ISAs'. It features several sections:

- Top Five Cash ISAs:** A section discussing inflation and cash savings accounts, with a list of links: 'Investors Snap Up AIM Shares for Their ISA', 'Tick Tock, Tick Tock: Time To Top Up Your ISA?', and 'Common Misconceptions About ISAs'.
- Investors Snap Up AIM Shares for Their ISA:** A section reporting on investors buying AIM shares for the first time, with links: 'Tick Tock, Tick Tock: Time To Top Up Your ISA?', 'Where are Morningstar Employees Investing Their ISA Money?', and 'Common Misconceptions About ISAs'.
- ISA Countdown:** A section showing a countdown timer for 215 Days, 12 Hours, 49 Mins, and 57 Secs, with a link to 'Take advantage of your ISA allocation before 5th April'.
- ISA Funds To Explore:** A section with a list of links: '1 Year Returns', '3 Year Returns', and '5 Year Returns'. An arrow points to the '5 Year Returns' link.
- Market News:** A section with a link to 'Workshare Group PLC'.
- ISA Stylebox: Diversify by Market Cap, Value, Growth Styles:** A section with a grid for Value Blend Growth, with a link to 'Click on a square to see funds that currently use that investment style'.
- FINANCIAL GUIDES AND REPORTS:** A section with a link to '3 Shares Set to Soar in 2013 (Galvan)'.

5 Year Performance

On this next image, you see the highest ranking funds in terms of 5 year performance. We could look at any of these funds on this list however we are going to view one that we know well. It's called the Cazenove UK Smaller Companies A Acc. Let's click on its link to take a closer look.

Home

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All Companies

All Distribution Status

Retail Investor Funds

Enter name, ISIN or tick

Go

Snapshot

Short Term

Performance

Portfolio

Fees & Details

Compare

Add To Portfolio

X-Ray

Deselect All

Export

Fund Name	Morningstar Risk (Rel to Category)	3 Yr Std Dev	YTD Return %	1 Yr Return %	3 Yr Anlstd %	5 Yr Anlstd %	10 Yr Anlstd %
<input type="checkbox"/> Fidelity UK Smaller Companies A-Acc	Above Average	16.20	36.68	56.62	32.12	27.14	-
<input type="checkbox"/> Unicorn UK Income B Inc	Average	11.48	31.01	46.65	26.46	23.66	-
<input type="checkbox"/> Legg Mason Japan Equity Fund Class A Accumulation	High	23.58	55.83	68.10	38.35	23.43	5.80
<input type="checkbox"/> Atlantis China Healthcare	High	16.68	34.46	42.03	17.56	23.10	-
<input type="checkbox"/> Unicorn UK Income A Inc	Average	11.46	30.38	45.58	25.54	22.93	-
<input type="checkbox"/> Cazenove UK Smaller Companies A Inc	Average	13.70	30.76	50.18	31.97	22.24	17.24
<input type="checkbox"/> Cazenove UK Smaller Companies A Acc	Average	13.70	30.77	50.18	31.98	22.18	17.15
<input type="checkbox"/> Franklin Biotechnology Discovery A Acc \$	Below Average	16.16	53.90	48.79	34.73	21.58	12.04

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Chart courtesy of Morningstar.co.uk.

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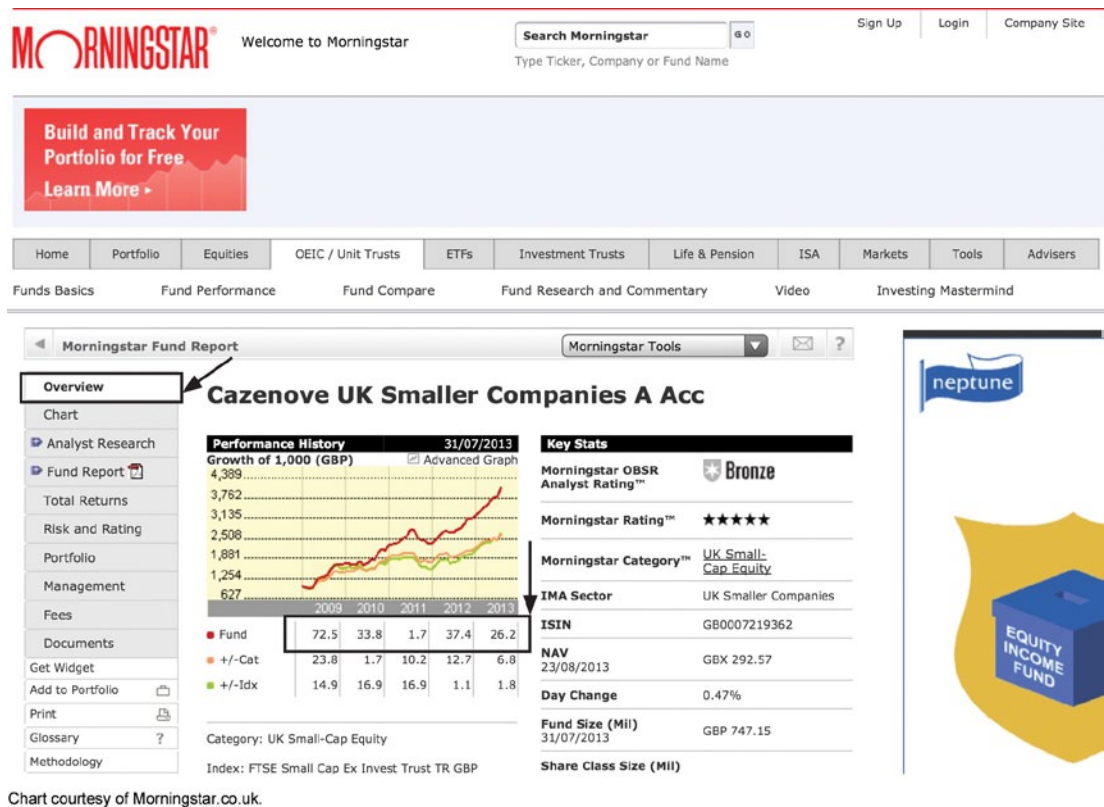
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Oil Trading

Professional Secrets: How to Profit from Oil

Overview Page

Here you can see what Morningstar call the 'Overview' page of the fund.



The first thing we focus on when searching for a fund, which we believe to be the most important part of fund selection, is the fund's past performance. We start off by looking at how it has performed since the bull market began. As you can see, it returned 72.5% in 2009, 33.8% in 2010, 1.7% in 2011, 37.4% in 2012 and, year to date in 2013, it had made a gain of 26.2%.

When you punch those annual return figures into a calculator, you discover that the fund had made a total return of 307%. This is what you'd class as extremely impressive performance. The NASDAQ Composite over the same period had made a return of 43.9% in 2009, 16.9% in 2010, -1.8% in 2011, 15.9% in 2012 and, when this screenshot was taken, it had made a year to date return of 21.1%.

That gives the NASDAQ a total return of 122.9% over the same period. This comparison of total returns between the fund and the NASDAQ Composite tells us that over the four and a half year bull market period, the Cazenove UK Smaller Companies A Acc fund had easily beaten one of the world's strongest indexes – so far so good.

When did the current manager start managing this fund?

Managers of funds can get sacked or they might leave on their own accord. Fund managers therefore move around and that's why you have to get the direct connection between the fund's performance and the manager who is currently managing the fund. With this in mind, let's look at who is currently managing this fund by clicking on the 'Management' tab located in the left hand column.

Morningstar Fund Report Morningstar Tools

Cazenove UK Smaller Companies A Acc

Management

Name of Company	Cazenove Investment Fund Management Ltd	Domicile	United Kingdom
Phone	-	Legal Structure	Open Ended Investment Company
Website	-	UCITS	Yes
Address	12 Moorgate London EC2R 6DA United Kingdom	Inception Date	02/08/1996
Other Share Classes		Fund Advisor(s) Cazenove Investment Fund Management Ltd	
Cazenove UK Smaller Companies A Inc Cazenove UK Smaller Companies B Acc Cazenove UK Smaller Companies Fund X Inc Cazenove UK Smaller Companies X			

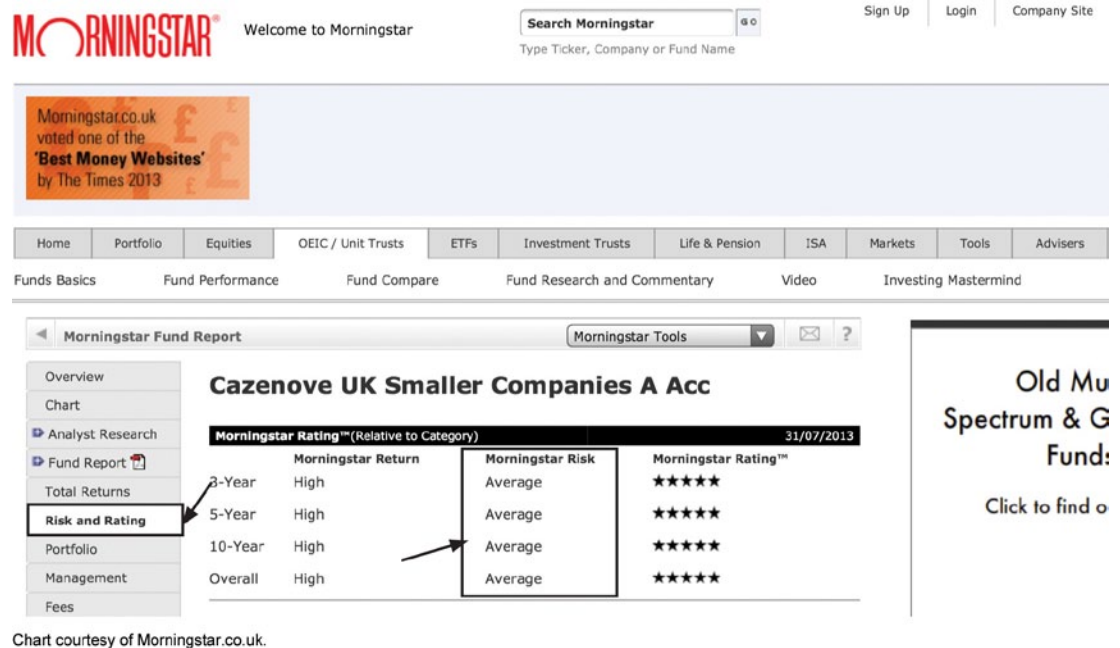
Fund Manager Paul Marriage
Manager Start Date 03/01/2006

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Chart courtesy of Morningstar.co.uk.

Management

On this page we discover that the fund manager, Paul Marriage started managing this fund on January 3rd 2006. Therefore, the performance we looked at before is his. This also means that we are now safe to continue with our analysis. Next, we'll look at the fund's risk rating by clicking on the 'Risk and Rating' tab located in the left hand column.



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Morningstar Fund Report

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Cazenove UK Smaller Companies A Acc

Morningstar Rating™ (Relative to Category) 31/07/2013

	Morningstar Return	Morningstar Risk	Morningstar Rating™
3-Year	High	Average	★★★★★
5-Year	High	Average	★★★★★
10-Year	High	Average	★★★★★
Overall	High	Average	★★★★★

Old Mu Spectrum & G Fund:
Click to find o

Chart courtesy of Morningstar.co.uk.

Risk and Rating

What we find here is that this fund's risk profile is average. Almost all the funds we buy are classed average or above average risk. If you are aiming for growth, the fund you'll need to choose is likely to be in a higher risk category and we see this as perfectly normal. Next, we'll look at the fund's portfolio to get a breakdown of its current holdings.

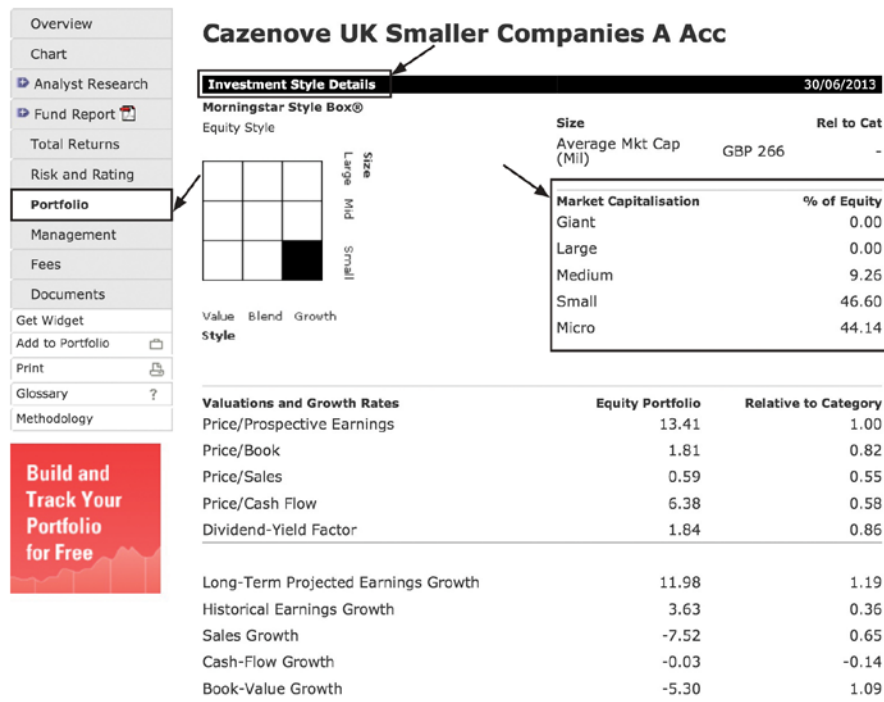


Chart courtesy of Morningstar.co.uk.

At the top of this page, you get to see the manager's investment style. This fund invests in small companies but generally we prefer to see the manager investing in giant, large cap or medium cap stocks. This is because in our opinion larger companies carry less risk and have less chance of going bust in the future.



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Portfolio

If we stay on the Portfolio tab, underneath the 'Investment Style Details' you can see the fund's 'Asset Allocation' and 'World Regions'.

Asset Allocation		30/06/2013		
	% Long	% Short	% Net Assets	
Stock	95.86	0.00	95.86	
Bond	0.00	0.00	0.00	
Property	0.00	0.00	0.00	
Cash	5.99	2.05	3.93	
Other	0.20	0.00	0.20	

World Regions		30/06/2013	
	% of Equity	Relative to Category	
United States	0.00	0.00	
Canada	1.55	2.31	
Latin America	0.00	0.00	
United Kingdom	97.33	1.02	
Eurozone	1.12	0.62	
Europe - ex Euro	0.00	0.00	
Europe - Emerging	0.00	0.00	
Africa	0.00	0.00	
Middle East	0.00	0.00	
Japan	0.00	-	
Australasia	0.00	0.00	
Asia - Developed	0.00	0.00	
Asia - Emerging	0.00	0.00	

Chart courtesy of Morningstar.co.uk.

In the funds that we buy, their asset allocation is usually 95 to 100% invested 'Long' in stock. Sometimes they hold a bit of cash and we're fine with that. With the 'World Region' details, it simply tells you what part of the world the fund is investing in and with this fund you can see that it's the United Kingdom.

Asset Allocation

Scroll down the Portfolio page a little further and you'll see the sector weightings.












Sector Weightings		30/06/2013
	% of Equity	Relative to Category
 Basic Materials	2.72	0.51
 Consumer Cyclical	23.29	1.07
 Financial Services	7.53	0.76
 Real Estate	7.96	1.34
 Consumer Defensive	8.53	2.05
 Healthcare	4.84	0.85
 Utilities	0.58	1.61
 Communication Services	2.86	1.07
 Energy	0.16	0.03
 Industrials	19.88	0.82
 Technology	21.65	1.42

Chart courtesy of Morningstar.co.uk.

We like to see that the fund is diversified into many different sectors which means this one passes the criteria. If the fund was too heavily weighted in one sector, it may cause us to reject it. Scroll down to the bottom of the Portfolio tab and you'll see the number of stocks in the fund, the percentage of assets in the top 10 holdings and also the names of the stocks that make up the fund's top 10 holdings.











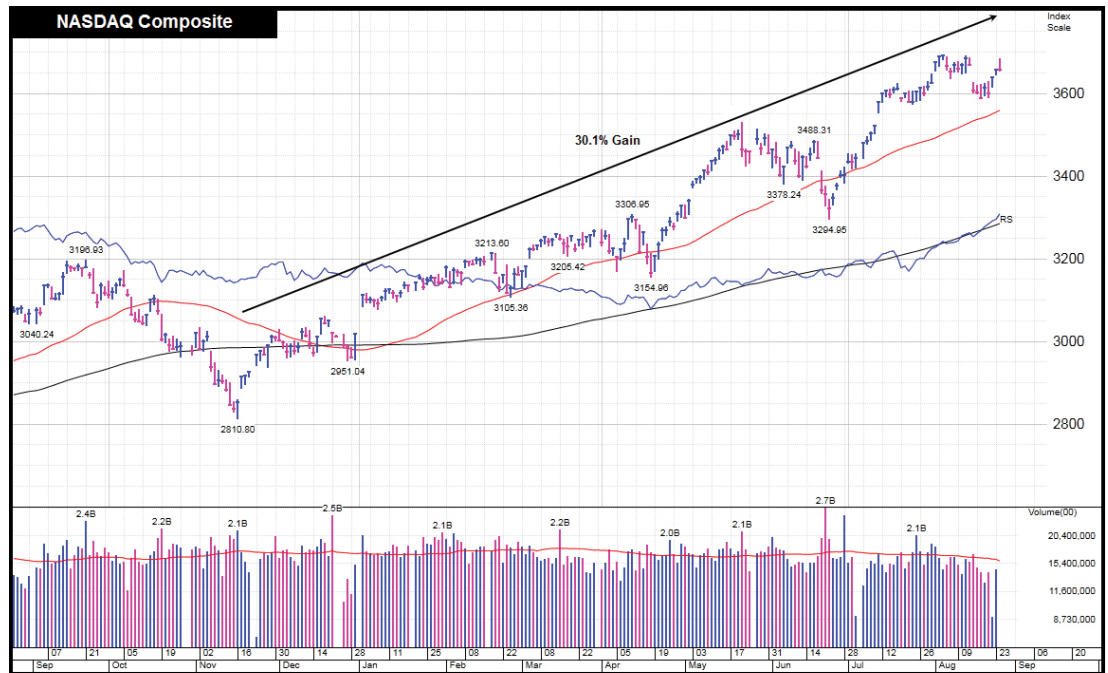
Top 10 Holdings				30/06/2013
				Portfolio
Total Number of Equity Holdings				74
Total Number of Bond Holdings				0
Assets in Top 10 Holdings				25.72
Name	Sector	Country	% of Assets	
⊕ Xaar PLC		United Kingdom	3.92	
⊕ Perform Group PLC		United Kingdom	3.32	
⊕ Menzies (John) PLC		United Kingdom	3.12	
⊕ Cranswick PLC		United Kingdom	2.76	
⊕ Esure Group PLC		United Kingdom	2.51	
⊕ Hansteen Holdings PLC		United Kingdom	2.20	
⊕ Telford Homes PLC		United Kingdom	2.01	
Smart Metering Systems PLC		United Kingdom	1.99	
⊕ Clinigen Group PLC		United Kingdom	1.94	
⊕ Pendragon PLC		United Kingdom	1.94	

Chart courtesy of Morningstar.co.uk.

By knowing what stocks the fund holds, it allows us to carry out further due diligence and check if the stocks the fund holds are classed as leaders. We do this by using an equity research package called MarketSmith. (www.marketsmith.com)

Chart

Next, we'll look at the fund's chart. But first we want to take you back and remind you what the market had done recently. If you remember, when the image was taken the return made over the previous nine months was 30.1%. We can use that return as a performance benchmark to measure against.

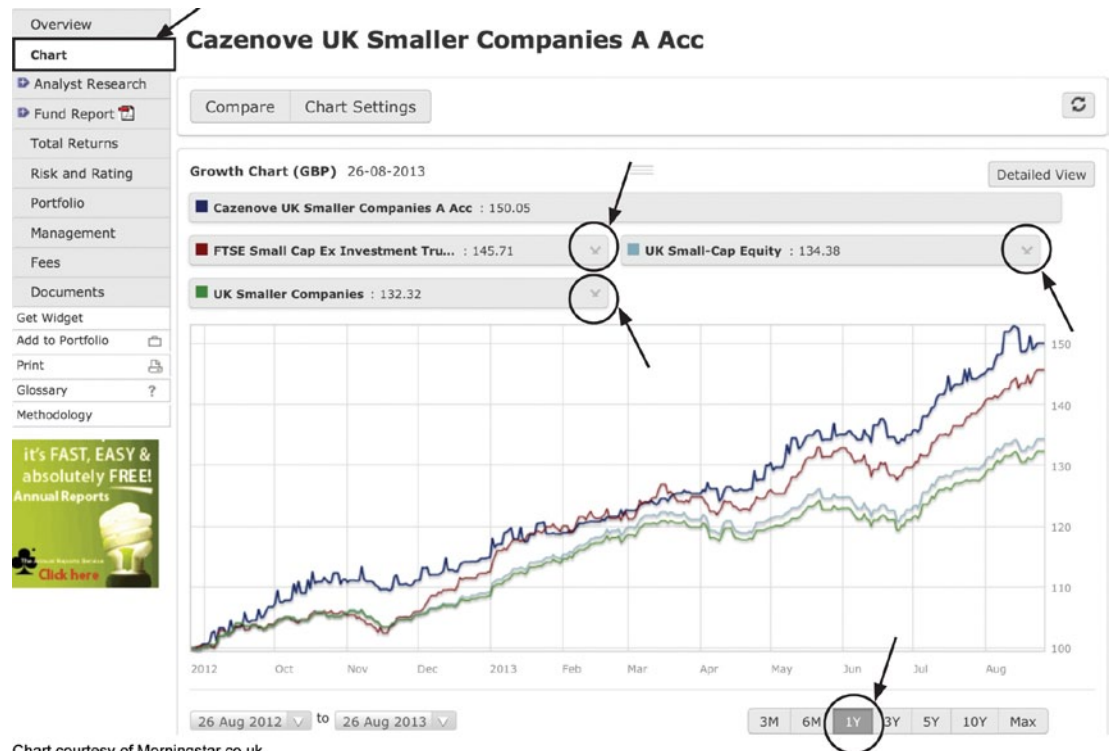


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1 year view

When you click on the Chart tab in the left hand column, the default chart shown is a 1 year view of the fund's performance. To get an unobstructed view of its performance, you need to click on the three 'X's' that show FTSE Small Cap Ex Investment Tru..., UK Small-Cap Equity and UK Smaller Companies.



YTD chart view

Next, click on the 'Chart Settings' tab.

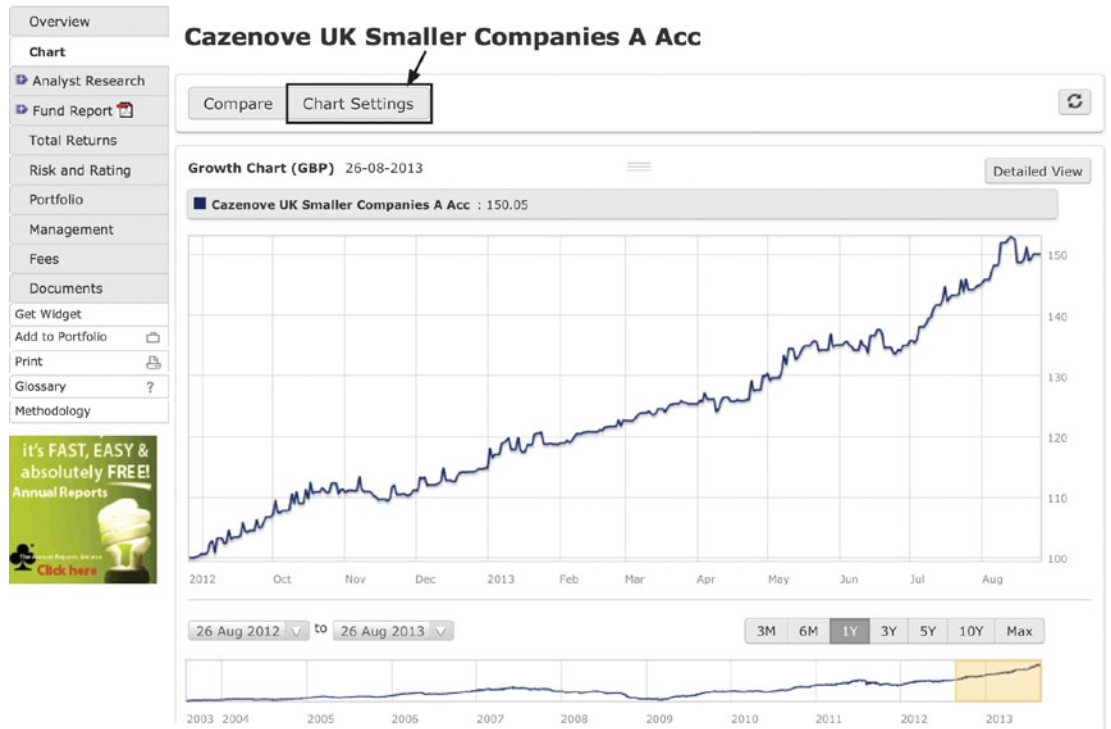


Chart courtesy of Morningstar.co.uk.

Now click on 'Display Options'.

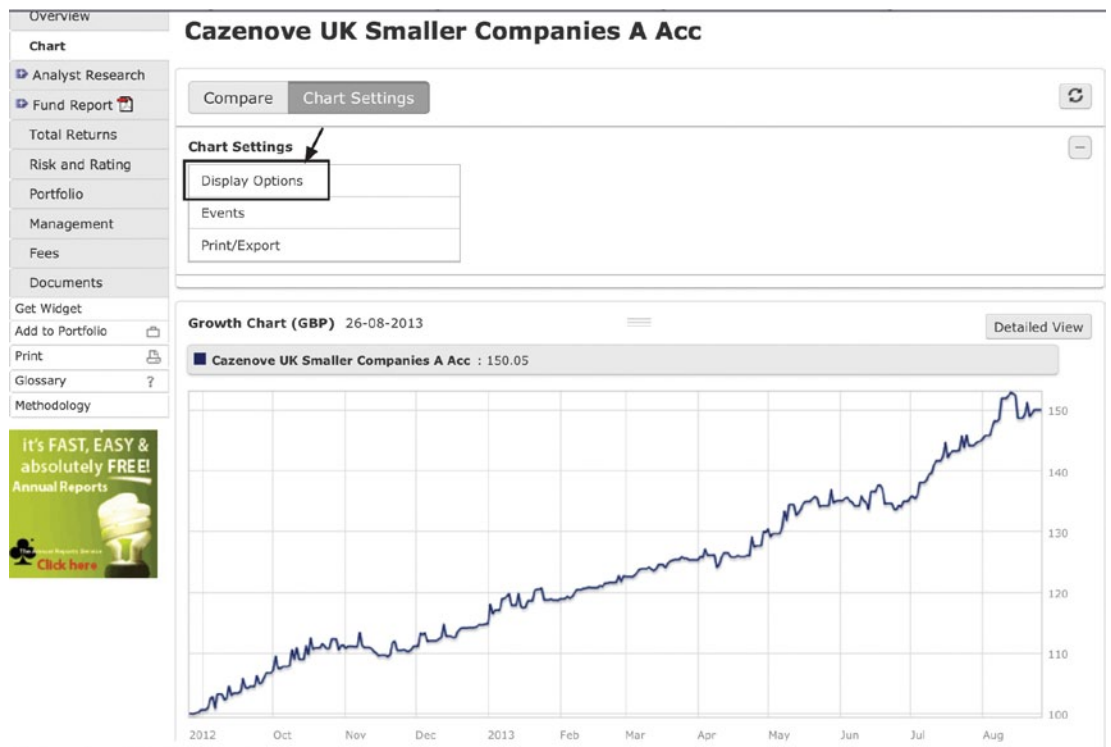


Chart courtesy of Morningstar.co.uk.

To view the fund's price, click on the 'Percentage' tab. Notice the price scale that appears on the right hand side of the chart.

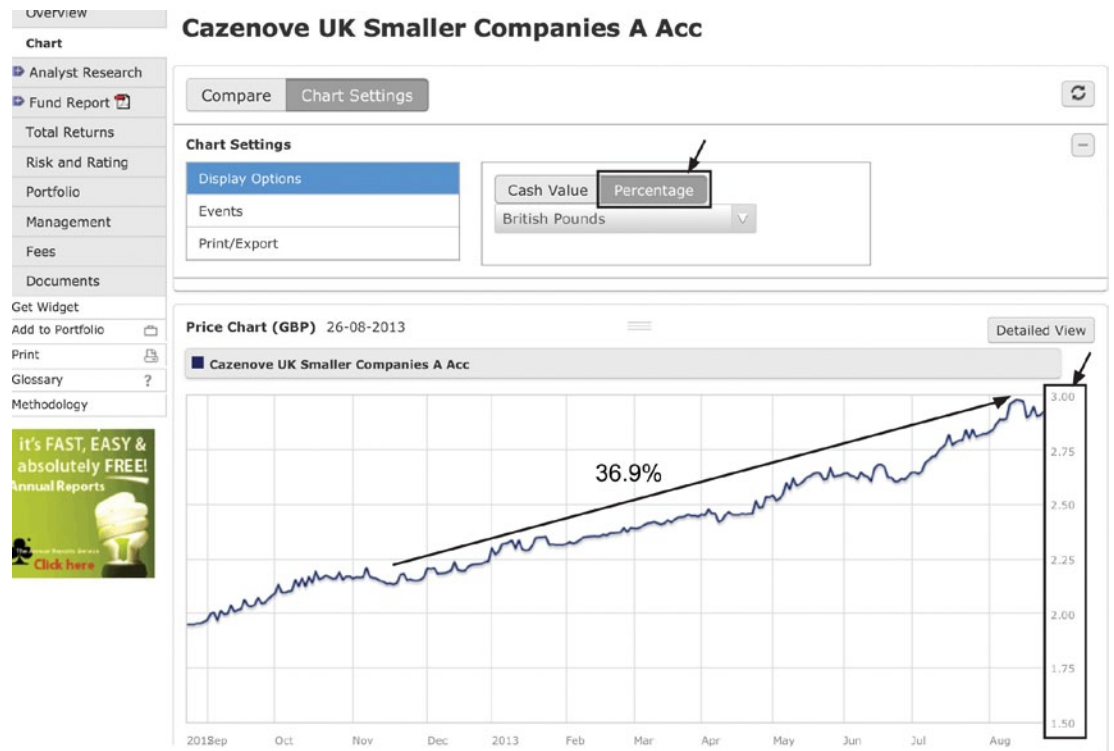


Chart courtesy of Morningstar.co.uk.

Past prices

To check how the fund has performed over any period, you simply hover your mouse pointer over the image, allowing you to see past prices of the fund. When we hovered over this one to locate November 16th 2012 (the date the NASDAQ Composite started its nine month uptrend), we found out that the fund was trading at 2.14 and on August 27th 2013, when this screenshot was taken, it was trading at 2.93, a 36.9% nine month return.

With the NASDAQ Composite making a 30.1% return over the same period, it provided evidence that this fund was outperforming the NASDAQ in the short term as well as the long term – and that's exactly what we're looking for. Next, we'll look at the fund's fees and charges.

Fees and Expenses

The 'Fees and Expenses' section is split into two areas: Sales Charges (Maximum) and Annual Charges.

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Cazenove UK Smaller Companies A Acc

Fees and Expenses		Annual Charges	
Sales Charges (Maximum)		Management Fee (Max)	
Max Initial Charge	0.00	Management Fee (Max)	1.00%
Deferred Load	0.00	Total Expense Ratio	1.11%
Max Exit Charge*	0.00		
Switching Fee	0.00%		

* Refer to the prospectus for full details

Purchase Details

Minimum Investments

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Chart courtesy of Morningstar.co.uk.

The Deferred Load (a charge taken when you sell) shows a 0 and so does the Max Exit Charge which is ideally what we like to see. The total expense ratio (TER) is 1.11% which is fairly low and this is because this fund has a clean share class. It's always good practice to double check this figure versus what it says on the fund's Key Investor Information Document (KIID). You can find the KIID and other associated documents in the 'Documents' section. We'll look at the Documents tab next.

Documents

The one we always look at first is the Key Investor Information Document (KIID). To view the KIID, you click on the small PDF icon in the KIID row.

Overview	Cazenove UK Smaller Companies A Acc				
Chart	Documents				
Analyst Research	Document Type	Language	Effective Date	Post Date	Format
Fund Report	Offering Documents				
Total Returns	Prospectus	English	08/05/2013	12/05/2013	
Risk and Rating	KIID	English	31/01/2013	31/01/2013	
Portfolio	Shareholder Reports				
Management	Annual Report	English	31/12/2012	15/03/2013	
Fees	Semi Annual Report	English	30/06/2012	14/02/2013	
Documents	Other Documents				
Get Widget	Factsheet	English	31/07/2013	16/08/2013	
Add to Portfolio		English	30/01/2013	30/01/2013	
Print					
Glossary					
Methodology					

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Chart courtesy of Morningstar.co.uk.

This is a two page document which means you can quickly get to the information that's important. On page one you can check the risk profile of the fund. The ones we purchase usually score 6 or 7 on a scale of 1 to 7. As you can see, this one scores a 6.

CAZENOVE CAPITAL MANAGEMENT

Key Investor Information

This document provides you with key investor information about this fund. It is not marketing material. The information is required by law to help you understand the nature and the risks of investing in this fund. You are advised to read it so you can make an informed decision about whether to invest.

Cazenove UK Smaller Companies Fund

A Class Accumulation

ISIN: GB0007219362

A sub-fund of Cazenove Investment Fund Company (CIFCO)

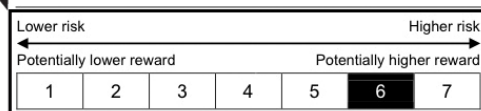
SEDOL: 0721936

This fund is managed by Cazenove Investment Fund Management Limited (CIFM)

Objectives and Investment Policy

- The fund seeks to achieve long term capital growth.
- The fund buys high quality UK listed smaller companies capable of producing above average growth in earnings and dividends over the medium to long term.
- The fund has a broadly spread portfolio that reduces the specific investment risks of smaller companies.
- You can buy and sell shares in the fund on demand on any day on which the London Stock Exchange is open for business.
- The fund's benchmark is the FTSE SmallCap (ex IT) Index.
- The fund selects its own investments.
- The fund may not be appropriate if you plan to withdraw your money within 5 years.
- The shares are accumulation shares. This means that any income received into the fund from its investments is retained within the fund on its distribution date rather than being paid out. This retained income is reflected in the share price. There are two distribution date(s) each year.

Risk and Reward Profile



The risk indicator for this fund is 6 because:

- The fund invests in small companies which may be risky and may be difficult to sell with the result that the fund's share price may fluctuate more markedly than a fund that invests in larger companies.
- Investment in shares and/or bonds is subject to normal market fluctuations. There is no assurance that your investment will increase in value. Your original investment is not guaranteed.
- The value of the fund may fluctuate significantly in response to the performance of individual companies, as well as in connection with market and economic conditions.
- The fund's risk profile is based on historical data and this may not be a reliable indicator of its future risk profile.

- The lowest risk category does not mean an investment is risk free.
- The risk category shown is not a target or a guarantee and may change over time.

Other relevant risks:

- Operational risk: The risk that there is a significant loss to the fund from human error, systems failure, inadequate controls or internal management mistakes.
- Settlement risk: The risk of loss if there is late or non payment for the assets sold by the fund.
- Liquidity risk: The risk that it is hard for the fund to buy or sell shares for its portfolio because of a reduction of buying and selling activity in stock markets.
- Valuation risk: The risk that an asset held by the fund is mispriced.

Further details on risk are set out in the Prospectus in the section Risk Factors.

Next we are going to look at page two of the KIID and cross-check its TER or 'ongoing charges' with the TER you saw on the 'Fees and Expenses' page. It should be the same and as you can see on this image, we have a match.

Charges

The charges you pay contribute to the costs of running the fund, including the cost of distributing it, reducing the potential growth of your investment.

One-off charges taken before or after you invest	
Entry charge	0.00%
Exit charge	0.00%
Charges taken from the fund over a year	
Ongoing charges	1.11%
Charges taken from the fund under certain specific conditions	
Performance fee	none

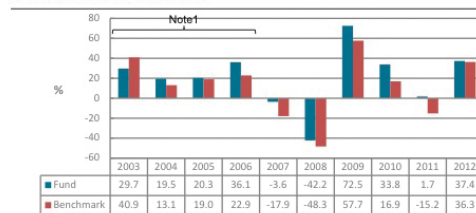
You can find out the actual entry and exit charge from your financial adviser or distributor.

The ongoing charge is taken from the fund's income rather than its investments.

The ongoing charge figure is based on last year's expenses, year-ending December 2012. This figure may vary from year to year. It excludes the cost of buying and selling investments held by the fund.

For more information on charges please see the Charges & Expenses section of the Prospectus.

Past Performance



Note1: The fund performance was achieved under circumstances that no longer apply.

Past performance is calculated in GBP.

Past performance is not indicative of future performance. It cannot provide a guarantee of returns that you will receive in the future.

The value of your investment and income from it may go down as well as up and you may not get back the amount you invested. All fees and charges are included in the performance calculation.

The fund was launched on 06 May 1999 and issued A Class Accumulation shares on 06 May 1999.

Practical Information

CIFCO is an umbrella structure comprising this and other sub-funds. The fund's current share price is calculated on each Business Day and is published daily on our website. The depositary of the fund is J.P. Morgan Trustee and Depositary Company Limited.

You may switch between this fund's share classes and other sub-funds of CIFCO as long as you meet the appropriate requirements.

The tax legislation of the fund's home Member State and of your country of residence may impact on the buying and selling of shares and any distributions paid by the fund. Taxation is subject to change. You should consult your professional adviser if you have any questions.

The assets and liabilities of each sub-fund are segregated by law therefore a sub-fund will not be liable for the debts of another sub-fund if the assets are insufficient to meet its liabilities.

CIFM may be held liable solely on the basis of any statement contained in this document that is misleading, inaccurate or inconsistent with the relevant parts of the Prospectus.

This Key Investor Information document (KIID) is specific to this share class. KIIDs are available for other share classes within this fund. However, the Prospectus and annual and half-yearly Report and Accounts are prepared to cover all sub-funds of CIFCO.

Further information about the fund including other share classes, switching and dealing can be found in the Prospectus, available in English, and also in the latest annual and half-yearly Report and Accounts (English only) which are available free of charge by calling +44 (0)20 3479 0000 or can be downloaded from the Literature Library section of our website www.cazenovecapital.com.

You can find other key documents relating to funds on the trading platform or fund supermarket that you decide to use. As well as looking at the Key Investor Information Document (KIID), we pay close attention to the Fund FactSheet, the Associated Charges Document, Client Terms, plus other associated documents such as the Shareholders' documents, which include the Interim Short Report and the Annual Short Report.

This exercise was designed to show you what we look for when seeking a good fund, and carried out for illustrative purposes only. Hopefully, by taking you through it step by step, it will have helped you understand more about our strategy and investment philosophy when selecting funds to buy.

Final thoughts

I hope this report will help you find funds worth investing in and so help improve your investment returns.

If you would like some one-to-one help and guidance, feel free to get in touch. Our clients kindly say that my brother Paul and I are incredibly friendly, caring and highly responsive to their questions and requests for help, support and guidance. What's more, if you call or get in touch, I promise that you won't be charged a penny and you won't be passed on to a junior associate. Instead you will speak to me or my brother Paul, the founders of ISACO and two directors of the company.

Email me direct at Stephen@ISACO.co.uk

Or call me on my private line: 01457 831 642.

Your friend,



Stephen Sutherland

Chief Investment Strategist and author of *How to Make Money in ISAs and SIPPs*.