

APPENDIX 1

Investment Management Proposal **for** **Pedlar's Acre and Cynthia Mosley Memorial Fund**

Background

Charity Commission guidelines require that Trustees, when exercising their general powers of investment, should *"review the investments which they have made, and consider whether they should be varied."* In doing so they are encouraged, but not obliged to *"seek proper advice with regard to suitability and diversification of investments"*. Specialist advisers in the 'Not for profit' sector at AWD Chase de Vere can provide ongoing portfolio management and advice with access to the research facilities of the AWD Group – the largest Independent Financial Advisory service in Europe.

This document addresses the investments of Pedlar's Acre (205817) and the Cynthia Mosley Memorial Fund (250825) to assure the Trustees that they are in compliance with their statutory duty of care in the management of Trust investments.

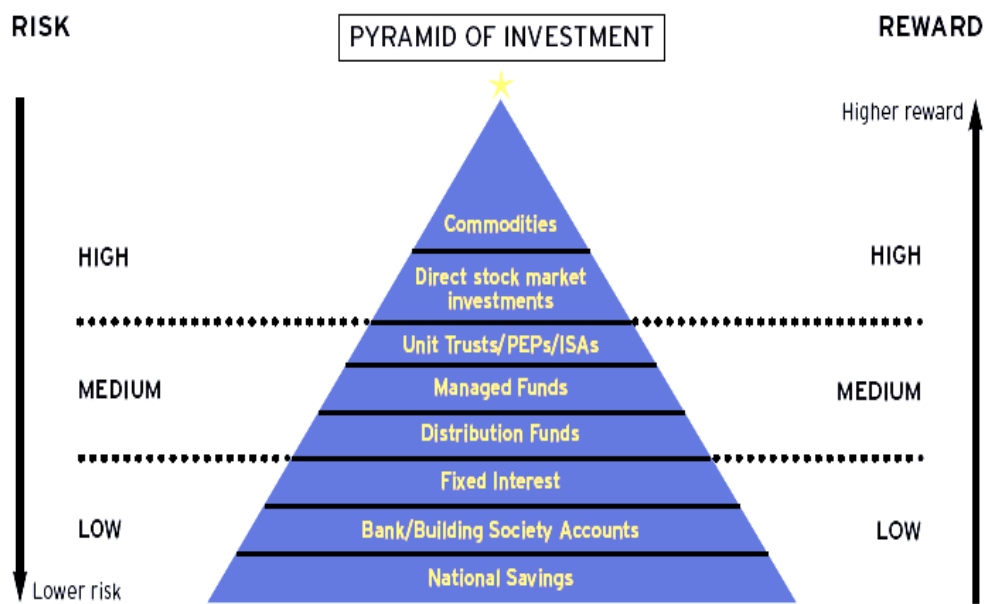
Discussion of the attitude to investment risk with regard to these funds has settled around a **'cautious to moderate'** approach to risk which has yet to be confirmed. At this risk level the trustees would be accepting moderately fluctuating returns even if this meant that the longer term returns may be lower. The Trustees will recognise that the portfolio will necessarily contain a small proportion of higher risk investments to provide the potential for growth in the longer term. Appendix 2 provides details of our risk profiling process.

I believe that this is a responsible and prudent strategy for the Lambeth Trusts; it is always possible to alter the risk profile at a future review.

Whilst the established portfolio will be under ongoing review at several levels, all investments remain in the control of the Trustees; our services are on an advisory basis only. Valuations will be provided twice annually or on demand with an adviser available to discuss the investments at trustee meetings.

The Investment Processes

Risk A portfolio constructed for the Lambeth Trusts with a **'cautious to moderate'** risk profile will comprise collective rather than direct investment and these will primarily be drawn from the mid to lower elements of the Risk/Reward pyramid (cash, fixed interest investments, managed funds etc).



Funds Collective investments such as Unit Trusts, Open Ended Investment Companies (OEIC's) and the Common Investment Funds for Charities (CIF's), enable investors to spread risk by pooling the monies of a number of clients to provide cost-effective access to a broad range of investments and to areas otherwise only available to the larger institutional investors. The greater diversity achieved using funds helps to reduce investment risk. Each component fund has a management team taking the day-to-day investment decisions.

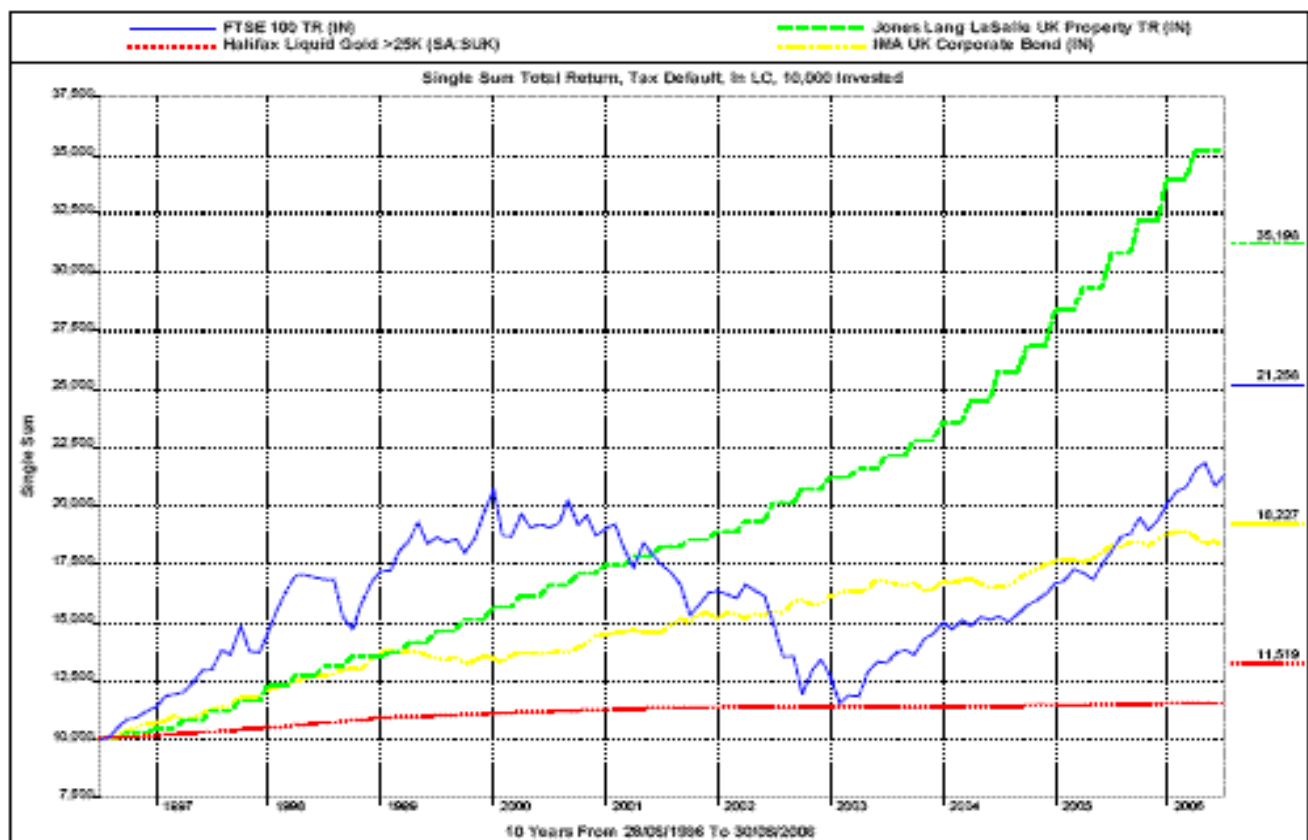
A portfolio of investments for the Trustees of the Lambeth charities would primarily be drawn from the CIF range of funds. The Common Investment Funds were introduced in 1960 under Section 22 of the Charities Act and are themselves charities regulated by the Charities Commission. They are only available to registered charities and have certain tax advantages which simplify charitable investment. Most CIF's have very low charging structures and many have provided consistently sound performance over several years. Being managed exclusively for charities this consistency is given a higher priority than would be the case with other types of collective investment.

Many of these funds contain assets under management in excess of £100m and as such are able to attract the very best in fund management expertise from around the world.

Asset Allocation (see Appendix 3) For any given objective and risk profile we produce an Asset Allocation 'Model'. Actual portfolio content however may well vary from this ideal model to reflect the current market outlook and individual investor needs (e.g. the anticipation of cash requirements in the near future) etc.

In seeking for consistent returns and in the interests of risk mitigation it is important to establish a portfolio containing a broad range of non-correlating assets drawn from a spectrum of geographical areas, industrial sectors and investment styles etc.

Prudent asset allocation can provide an element of stability when one area, sector or asset class is in decline by balancing this against over-performance elsewhere. Weightings within the portfolio are adjusted to utilise these fluctuations to mitigate risk and improve longer-term performance.



Fund Selection Using the AWD Group research facilities we initially produce a short-list of funds, which can be used to provide the asset allocation, investment style and geographical and sector weightings appropriate for the Lambeth Trusts.

Final selection is based on an assessment of the past performance of each fund in all market conditions, on the tenure and ethos of the fund management team and on the charging structure of the fund, as well as the service history and financial security of the provider. The result is a balanced recommendation for the consideration of the Trustees.

Ongoing Review Ongoing monitoring of the portfolio ensures that the performance of each component remains within market norms and that overall asset allocation is appropriate to the selected risk profile, objectives and the market outlook. All recommendations for adjustments to the portfolio will be provided with supporting evidence.

Asset Classes (see also Appendix 4)

Cash Funds High levels of capital security. Interest rates directly correlated with inflation.

Fixed Interest Funds Low volatility. Capital values showing a strong inverse correlation with interest rates.

Commercial Property Funds Low volatility, with occasional illiquidity. Capital values reflect underlying rental income. No strong correlation with any other asset class. It should be noted that the value of property is a matter of a Valuer's opinion rather than a matter of fact. Please also note that Property Fund Managers reserve the right to delay encashment of units in difficult market conditions.

Equity Funds Medium to High volatility possibly to include currency fluctuations for non-UK investments. Capital values show loose inverse correlation with long term interest rate movements. The value of equity investments can fall as well as rise and you may not get back the full amount invested at times of market downturn. Past performance is not necessarily an indication of future performance.

Currencies Investment in funds where the underlying assets are held in overseas markets are likely to be more volatile due to the fluctuation in value between the currency in which the investment is held and the value of Sterling.

Reporting Full valuations can be provided on request at any time. Normally a full valuation with summary of past performance, current recommendations and market commentary will be produced twice a year and otherwise as necessary if circumstances require earlier intervention. A valuation of funds under management at 31st March each year will be provided for audit purposes. An adviser will be made available to attend Trustee meetings as reasonably required.

Cost of Advice For providing the above services the Lambeth Trusts will be invoiced in advance for an annual fee equal to 0.25% of the total fund valuation. This agreement will be annually renewable.

Benchmarking It is important to measure overall performance of any portfolio against a suitable and independent index. The historical data has shown that adviser managed portfolios of collective investments have performed well when measured against portfolios constructed using other methodologies. Given the lower management costs these have also provided better value for money.

For comparative purposes data relating to the following indices is provided in Appendix 1:

1. **Adviser Fund Index (AFI)**
The AFI indices provide data relating to the performance of Adviser managed portfolios of collective investments.
2. **Association of Private Client Investment Managers & Stockbrokers (APCIMS)**
FTSE/APCIMS indices provide comparative data relating to the performance of typical portfolios of direct investments.
3. **Investment Managers Association (IMA)**
The IMA provides data relating to average performance across a wide range of managed portfolios and sectors.

Appendix 1

AFI Performance Chart



AFI Performance Data

Index	12 Months	2006
AFI Aggressive Index	+ 16.7%	+ 11.8%
FTSE/APCIMS Growth Index	+ 11.2%	+ 11.4%
IMA Active Index	+ 13.5%	+ 10.2%
AFI Balanced Index	+ 12.4%	+ 12.2%
FTSE/APCIMS Balanced Index	+ 9.6%	+ 10.0%
IMA Balanced Index	+ 11.3%	+ 9.9%
AFI Cautious Index	+ 8.0%	+ 9.9%
FTSE/APCIMS Income Index	+ 6.9%	+ 8.2%
IMA Cautious Index	+ 6.1%	+ 7.0%

Appendix 2

Risk Profiling

Establishing a consensus regarding the risk profile to which the assets of the Lambeth Trusts are to be managed is essential. Although a 'cautious to moderate' approach (4/10) has been suggested, please read the following profiles, and select the profile which most closely matches your own current thinking about risk and reward with respect to the Lambeth Trusts.

0. I have an **extremely cautious** approach to risk and require very stable returns with no losses. I recognise that the real value of my portfolio is likely to be eroded by inflation. **(0/10)**
1. I have a **very cautious** approach to risk, preferring very stable returns even if this means that the longer term returns may be lower. I recognise that the real value of my portfolio may be eroded by inflation. **(1/10)**
2. I have a **very cautious to cautious** approach to risk, preferring stable returns even if this means the longer term returns may be lower. I recognise that my portfolio will contain solely low risk investments to provide the prospects of some potential growth which may be in excess of inflation. **(2/10)**
3. I have a **cautious** approach to risk, preferring stable returns even if this means the longer term returns may be lower. I recognise that my portfolio will contain a greater proportion of lower risk investments to provide the prospects of some potential longer term growth in excess of inflation. **(3/10)**
4. I have a **cautious to moderate** approach to risk, preferring moderately fluctuating returns even if this means the longer terms return may be lower. I recognise that my portfolio will contain a small proportion of higher risk investments to provide potential longer term growth. **(4/10)**
5. I have a **moderate** approach to risk, preferring fluctuating returns for the prospect of higher longer term returns. I recognise that my portfolio will contain a balanced proportion of higher and lower risk investments to provide potential longer term growth. **(5/10)**
6. I have a **more than moderate** approach to risk, preferring fluctuating returns for the prospect of higher longer term returns. I recognise that my portfolio will contain a smaller proportion of lower risk investments to provide potential longer term growth. **(6/10)**
7. I have a **more than moderate to speculative** approach to risk, preferring greater fluctuations in returns for the prospect of higher longer term returns. I recognise that my portfolio will contain a larger proportion of higher risk investments to provide potential longer term growth. **(7/10)**
8. I have a **speculative** approach to risk, preferring higher fluctuations in returns for the prospect of higher returns. I recognise that my portfolio will contain a greater proportion of higher risk investments to provide higher potential longer term growth. **(8/10)**
9. I have a **very speculative** approach to risk, preferring high fluctuations in returns for the prospect of high returns. I recognise that my portfolio will contain mainly high risk investments to provide high potential growth. **(9/10)**
10. I have an **extremely speculative** approach to risk, preferring very high fluctuations in returns for the prospect of very high returns. I recognise that my portfolio will contain solely high risk investments for the prospect of very high returns. **(10/10)**

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Consensus Risk Profile	0	1	2	3	4	5	6	7	8	9	10
Λ											

Name:

Signed:

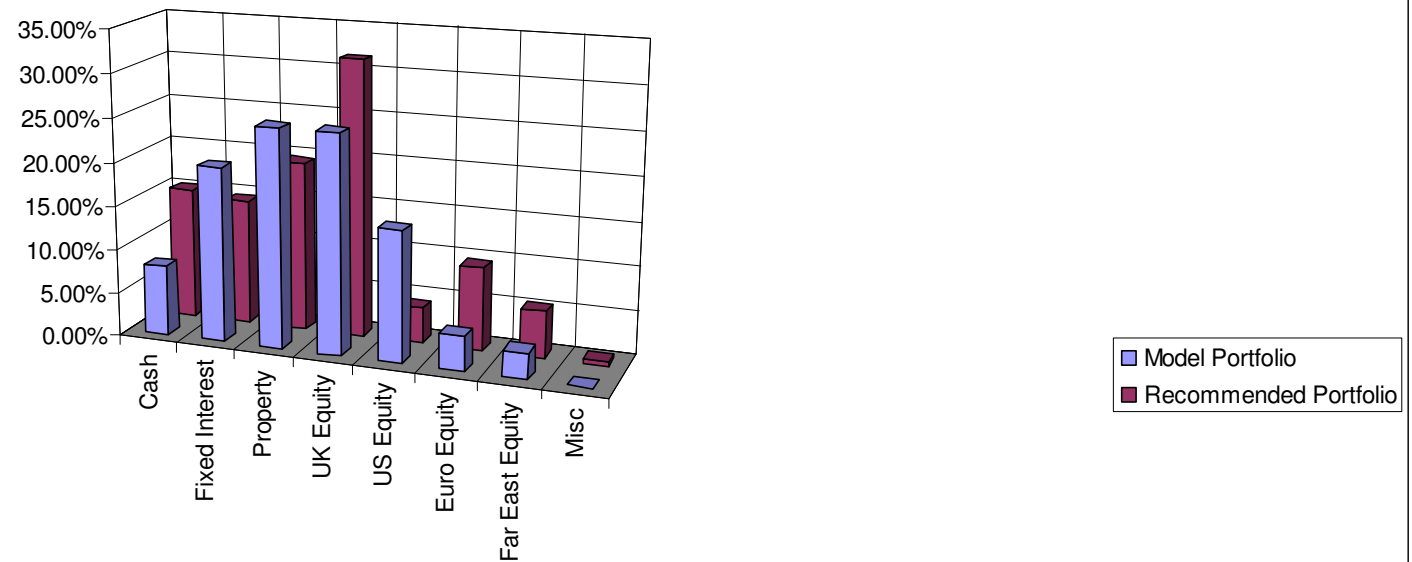
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Appendix 3

Cautious to Moderate Risk Profile

Current Asset Allocation Model vs an Actual Portfolio

Recommended Portfolio vs. Model Portfolio (%)



	Cash	Fixed Interest	Property	UK Equity	US Equity	Euro Equity	Far East Equity	Misc
Model Portfolio	8.00%	20.00%	25.00%	25.00%	15.00%	4.00%	3.00%	0.00%
Recommended Portfolio	15.08%	14.42%	19.44%	31.57%	4.12%	9.56%	5.38%	0.43%

Appendix 4



Asset Class Performance Over Time

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Performance - Ranked Best (top) to Worst (bottom)	S&P 500 CR	MSCI Europe ex UK CR USD	MSCI AC Asia Pacific ex Japan Growth CR USD	Jones Lang LaSalle UK Property TR	Jones Lang LaSalle UK Property TR	Jones Lang LaSalle UK Property TR	MSCI AC Asia Pacific ex Japan Growth CR USD	Jones Lang LaSalle UK Property TR	Topix CR	MSCI Europe ex UK CR USD
	FTSE 100 CR	S&P 500 CR	Topix CR	Citigroup United Kingdom WGBI TR	Citigroup United Kingdom WGBI TR	Citigroup United Kingdom WGBI TR	MSCI Europe ex UK CR USD	MSCI Europe ex UK CR USD	MSCI AC Asia Pacific ex Japan Growth CR USD	MSCI AC Asia Pacific ex Japan Growth CR USD
	MSCI Europe ex UK CR USD	Citigroup United Kingdom WGBI TR	S&P 500 CR	Citigroup GBP 3 Months Eurodeposit	Citigroup GBP 3 Months Eurodeposit	Citigroup GBP 3 Months Eurodeposit	S&P 500 CR	MSCI AC Asia Pacific ex Japan Growth CR USD	Jones Lang LaSalle UK Property TR	S&P 500 CR
	Jones Lang LaSalle UK Property TR	FTSE 100 CR	FTSE 100 CR	MSCI Europe ex UK CR USD	MSCI AC Asia Pacific ex Japan Growth CR USD	MSCI AC Asia Pacific ex Japan Growth CR USD	Topix CR	Topix CR	FTSE 100 CR	Jones Lang LaSalle UK Property TR
	Citigroup United Kingdom WGBI TR	Jones Lang LaSalle UK Property TR	Jones Lang LaSalle UK Property TR	S&P 500 CR	Topix CR	Topix CR	FTSE 100 CR	S&P 500 CR	MSCI Europe ex UK CR USD	FTSE 100 CR
	Citigroup GBP 3 Months Eurodeposit	Citigroup GBP 3 Months Eurodeposit	MSCI Europe ex UK CR USD	FTSE 100 CR	MSCI Europe ex UK CR USD	MSCI Europe ex UK CR USD	Jones Lang LaSalle UK Property TR	FTSE 100 CR	Citigroup United Kingdom WGBI TR	Citigroup GBP 3 Months Eurodeposit
	Topix CR	MSCI AC Asia Pacific ex Japan Growth CR USD	Citigroup GBP 3 Months Eurodeposit	Topix CR	S&P 500 CR	S&P 500 CR	Citigroup GBP 3 Months Eurodeposit	Citigroup United Kingdom WGBI TR	Citigroup GBP 3 Months Eurodeposit	Topix CR
	MSCI AC Asia Pacific ex Japan Growth CR USD	Topix CR	Citigroup United Kingdom WGBI TR	MSCI AC Asia Pacific ex Japan Growth CR USD	FTSE 100 CR	FTSE 100 CR	Citigroup United Kingdom WGBI TR	Citigroup GBP 3 Months Eurodeposit	S&P 500 CR	Citigroup United Kingdom WGBI TR

	US Equity - S&P 500 CR		UK Fixed Interest - Citigroup United Kingdom WGBI TR
	UK Equity - FTSE 100 CR		Japan - TOPIX CR
	European Equity Excluding UK - MSCI Europe ex UK CR USD		Asia Pacific Excluding Japan - MSCI AC Asia Pacific ex Japan Growth CR USD
	UK Property - Jones Lang LaSalle UK Property TR		Cash - Citigroup GBP 3 Months Eurodeposit

Source: Lipper. Produced using Hindsight 5 by AWD Chase de Vere plc.

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The value of your investments can fall as well as rise and you may not get back the full amount invested. Past performance is no indication of future performance.

