

Turcan Connell AiM Portfolio Service Investment Strategy and Process

Summary

The Turcan Connell AiM Portfolio Service is a discretionary private client investment management service investing in shares listed on the Alternative Investment Market (AiM).

- The shares must be held by the individual investor in order to qualify for the Inheritance Tax (IHT) and Capital Gains Tax (CGT) benefits that are currently available.
- The minimum portfolio size is £100,000 although smaller portfolios may be accepted at the discretion of the managers.

Portfolio Construction

There are over 1,600 companies on the AiM market and it is estimated that at any one time there may be around 100 companies that are suitable for the AiM Portfolio Service. Of these, around 40 will be held on a closely monitored watch list.

In order to minimise stock and sector specific risk, portfolios will generally consist of approximately 25 holdings, spread across 12 or more sectors. Every holding will be selected from the watch list. The maximum initial stock holding will normally be 5% and the minimum 2%. In some specific cases, there may be a smaller number of shares and sectors, if for example an investor requires their portfolio to produce an above average level of income.

The intention will generally be to hold stock for a minimum of two years, after which time, business asset taper relief reduces CGT by 75% for qualifying AiM stock. However the size, performance and outlook of individual holdings will be carefully monitored, and if it is felt that there is too high a risk to the investor then holdings may be sold outright or reduced within two years. Growth that results in a holding exceeding 10% of a portfolio's overall value would automatically trigger a review of the position.

If AiM shares are sold, and the proceeds are reinvested within 3 years into other qualifying shares, then the two periods of ownership can be treated as continuous for IHT business property relief purposes but not business asset taper relief for CGT purposes.

Stock Selection

In selecting stock we look for the following:

- Companies that are well established and have strong track records of earnings growth and cash flow generation.
- Valuations supported by identifiable assets, including land and property.
- Companies that are not strongly asset backed, as is often the case in the service sector, must generate strong free cash flow from a broad customer base and, where appropriate, a good portfolio of long term service contracts.
- Companies with a market capitalisation in excess of £20m. Only in exceptional cases would companies with a market capitalisation of less than £20m be included.
- There may be a small number of companies that are well established but have not had consistently good earnings track records. In these cases significant developments that are likely to benefit the company, such as substantial new contracts or a significant management change, would justify their inclusion.

Responsibilities of NVM and TC

NVM Private Equity (NVM) acts as adviser in providing the watch list of companies into which portfolios may be invested. Turcan Connell (TC), acting as investment manager, constructs the portfolio from this list. The relationship between the two is seamless, with regular contact taking place. NVM keeps TC informed of relevant information relating to all companies on the watch list and also others that would be appropriate for inclusion. Equally, TC will contact NVM whenever required. This applies particularly when new portfolios are being constructed, or when changes to existing ones need to be made.

Responsibility for the research and the watch list within NVM lies with Norman Yarrow and Richard Gibson, though other members of the NVM team of 13 investment professionals including the managing director, Alastair Conn, contribute by feeding in research and ideas.

Portfolio construction and client reporting within TC is undertaken by James Osborne, who liaises with other members of the investment team of 11. TC's head of investment strategy, David Campbell, oversees the process and provides input on macro-economic and sector themes.

Key to the successful operation of the service is NVM's recognised experience in the AiM market and TC's position as a leading private client manager. NVM select all the companies to be included in the portfolio while TC construct individual portfolios and report to investors.

Biographies

Norman Yarrow (b 2/60) is a director based in NVM's Edinburgh office. After taking a BCom degree at Edinburgh University he qualified as a chartered accountant with Thomson McLintock and then worked for Edinburgh Fund Managers and International Leisure Group before joining NVM in 1989. He became a director of NVM in 1996. He is a non-executive director of Dunedin Smaller Companies Investment Trust PLC and several unquoted companies.

Alastair Conn (b 5/55) is managing director of NVM. He read philosophy, politics and economics at Oxford University, qualified as a chartered accountant with Price Waterhouse in Newcastle and was then seconded to the National Enterprise Board as an investment executive for 18 months. He joined Northern Investors Company as an investment executive in 1984 before co-founding NVM in 1988. He is a non-executive director of Northern 2 VCT PLC and Northern AIM VCT PLC.

James Osborne (b 3/77) is the lead manager of the AiM Portfolio Service and the principal point of contact for clients. James manages a range of discretionary investment portfolios in addition to those AiM portfolios and has particular responsibility for the research of North American equities. James joined TC as a Trainee Solicitor in 2000 and qualified as an Investment Manager after obtaining his Practising Certificate from The Law Society of Scotland. James graduated in Law at The University of Aberdeen and completed the Diploma in Legal Practice at Edinburgh University. He is a Member of the Securities and Investment Institute and a Member of the Law Society of Scotland.

David Campbell (b 6/52) joined Turcan Connell in 1999 and is now an Investment Director heading up a client management team of four. His career has encompassed a broad range of investment management experience in stockbroking and institutional investment management with leading firms, including Wood Mackenzie and Bell Lawrie White. David leads the Investment Department's strategy and research effort and the development of investment policy and is responsible for Property and specialist funds. David is a Member of the Securities Institute and holds an MA Hons from the University of St Andrews.

Warnings

The information contained in this note is based on tax legislation at February 2005, but this may be subject to change in the future. Before investing in the portfolio you should take advice on whether the information has been affected by changes in the legislation.

Past performance is not necessarily a guide to future performance. The value of investments and the income from them may fall as well as rise.

Turcan Connell and NVM are authorised and regulated by the Financial Services Authority.

No guarantee can be given that the shares held as part of the Turcan Connell AIM Portfolio Service will at all times qualify for business property relief and/or business asset taper relief.

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