



For your information, an important Model Portfolio Update from Evercore Pan Asset.

Removal of swap-based ETFs from Model Portfolios

At the end of last week the Bank of England and the FSA both issued further warnings about the use of ETFs by retail investors. They repeated assertions that some types of ETFs which are swap-based, may carry unidentified counterparty risks.

They also worried that these ETFs might also be a potential source of systemic risk to the financial markets, which could of course damage a wide range of investments beyond ETFs. In 2008 when the authorities presided over great instability in markets and a banking crisis, ETFs did not destabilise markets. We watch all major pools of investment and money in the world in case larger problems emerge. We protected client money in 2008 by being largely in cash.

Evercore Pan-Asset is set up to research ETFs to understand these risks, and to keep clients out of the riskier funds. This may be due to their structure or to the nature of the underlying asset which they track.

We include a number of properly-structured, well-collateralised synthetic ETFs in our client portfolios because our research shows that in most cases they have better tracking performance and entail no more risk for the investor than other forms of index-tracker. This is not true of all ETFs and many are not included in our investment universe after undergoing our due diligence process.

However, despite our confidence in the swap-based ETFs we use, we also recognise that the generalised warnings from central banks and regulators have raised concerns among our IFA partners and their clients. We aim to give the highest levels of client service which includes responding to these types of concerns. We have therefore decided to replace all swap-based ETFs with physical replication ETFs or other types of index trackers in the case of all Pan DYNAMIC model portfolios except Aggressive. Swap-based ETFs will continue to be used in the Aggressive model portfolio if an asset class cannot be efficiently accessed via other means.

We will continue to include carefully researched synthetic ETFs in direct portfolios we manage, as we can talk individually to our direct clients if they do have any concerns.

We will therefore make the following changes to portfolios over the course of this week in order to implement this change:

Defensive

PanDYNAMIC Defensive contains no swap-based ETFs so no changes will be required.

Cautious Balanced

We will replace the 4.2% holding in db x-trackers FTSE100 ETF with a holding in HSBC FTSE100 ETF.



Balanced

We will replace the 5.6% holding in db x-trackers FTSE100 ETF with a holding in HSBC FTSE100 ETF. We will also exchange the 4.8% holding in db x-trackers MSCI China ETF for HSBC MSCI China ETF.

Cautious Growth

We will replace the 5.3% holding in db x-trackers FTSE100 ETF with a holding in HSBC FTSE100 ETF and the 2.9% holding in db x-trackers MSCI China ETF with HSBC MSCI China ETF.

Growth

We will replace the 5.2% holding in db x-trackers FTSE100 ETF with a holding in HSBC FTSE100 ETF, the 3.6% holding in db x-trackers MSCI China ETF with HSBC MSCI China ETF and the 4.7% holding in db x-trackers MSCI Emerging Markets ETF with the Vanguard EM Unit Trust.

Aggressive

We will replace the 4.7% holding in db x-trackers FTSE100 ETF with a holding in HSBC FTSE100 ETF and the 2.4% holding in db x-trackers MSCI China ETF with HSBC MSCI China ETF.

Income

PanDYNAMIC Income contains no swap-based ETFs so no changes will be required.

Please note that there will be no impact on the underlying cost (TER) of each portfolio as a result of these changes.

If you have any questions or queries on this matter then please contact us and a member of the team will be happy to assist.