



**BLACK SWAN**  
FINANCIAL MANAGEMENT

## INCOME PORTFOLIO

### Portfolio design & objective

This portfolio aims to produce an income equivalent to that of a high street deposit account, whilst offering potential for capital appreciation over the long term.

We expect that in order to achieve their longer term objectives, a client investing in an income portfolio would wish to strike a balance between their desire for a growing income and investment return, but to achieve their longer term objectives would accept fluctuating capital values that reflect changing market and economic conditions.

Asset diversification is a feature, although such a portfolio will contain significant exposure to high yielding and riskier assets, a fair level of volatility can be expected with positive and negative monthly returns falling within a moderate range.

### Performance Statistics

Cumulative returns	Current	Best	Worst
1 - month	4.4%	5.1%	-7.1%
3 - month	13.3%	13.3%	-5.0%
1 - year	12.2%	12.2%	12.2%
3 - year CAGR*	N/A		
CAGR* - since inception	12.2%		
Total return	12.2%		
3 - year return	N/A		
3 - year volatility**	N/A		
Number of positive months	75.0%		

\* Compound Annualised Growth Rate

\*\* all volatility figures are annualised

Discrete performance	Yield	Total* Return	Volatility
1 year to Oct-2009	3.0%	12.2%	3.8%
1 year to Oct-2008	N/A	N/A	N/A
1 year to Oct-2007	N/A	N/A	N/A
1 year to Oct-2006	N/A	N/A	N/A
1 year to Oct-2005	N/A	N/A	N/A

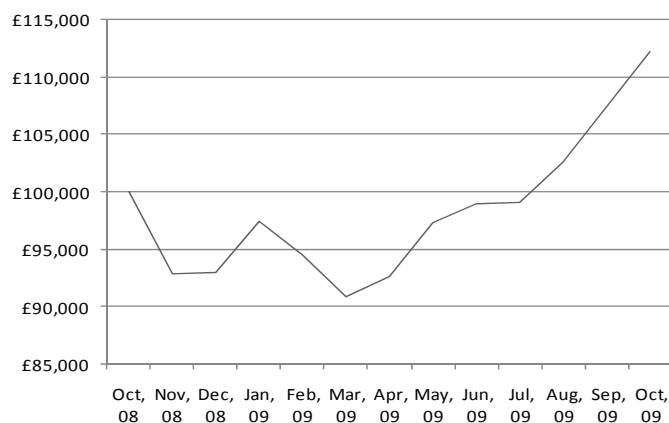
\* includes re-invested income

Please note that prices of investments and the income from them can fall as well as rise and you may not get back the amount originally invested. Past performance is not a guide to future returns which may not be repeated; there can be no guarantee that the objectives of the portfolio will be achieved.

### PERFORMANCE

This chart illustrates how an investment of £100,000 would have grown since October 2008.

The returns are inclusive of all dealing charges and all costs associated with running an investment portfolio, including a 0.5% portfolio fee, but excluding the initial advice fee.



### COMMENTARY

As this is the inaugural factsheet and commentary, I wish to start by looking back to twelve months ago. The investments held within each of Black Swan Financial Management's example portfolios were bought in the midst of the worst financial crisis for a generation; shortly after the collapse of Lehman Brothers and Icesave and slightly before the British taxpayer became a majority shareholder in many of the UK's biggest banks.

In October 2008 it was difficult to hold out much confidence for future investment returns; almost all assets had declined sharply in value and most commentators were prophesying complete economic meltdown. However one of the key lessons I have learned during many years of investing money on behalf of my clients, is to invest when it feels most uncomfortable, in October 2008 it certainly felt very uncomfortable...

As you can see, the investment returns delivered across all example portfolios have been exceptionally strong and with the benefit of hindsight, October 2008 turned out to be a very good time to invest, with almost all asset classes rising in value across the year.

When reviewing investment portfolios my focus turns from the past to the future and although I will not try to guess the short term direction of markets, when advising my clients I will take account of market and economic conditions at that time. To this end my current view is that monetary policy is behind the surge in asset prices and that when this stimulus is removed markets could retrench sharply. However I do not know when this support is going to be removed and if developed economies will have improved sufficiently in the meantime to support asset prices.

Given this view; I am positioning new investment portfolios with higher than average cash balances, employing more cautiously minded investment managers and phasing capital into assets over extended time periods. For existing client portfolios I am largely leaving matters unchanged, save for adjustments in accordance with client requirements. Continued on reverse...

## The value of past performance

When creating investment portfolios Black Swan Financial Management will consider its clients investment requirements and the prevailing market conditions at the time of investment, as a consequence no two portfolios will be the same.

The reason we publicise example portfolio returns is to illustrate how we manage investment risk through diversification and to demonstrate our investment capability for the benefit of prospective clients.

## Specific risks that may affect this portfolio

Investments may use derivative contracts to employ Efficient Portfolio Management practices, avail the investment manager with investment flexibility and improve prospective returns. Derivative contracts have a cost and can have a positive or negative affect on performance.

Investments held in overseas companies will fall and rise directly as a result of exchange rate fluctuations.

Fixed interest securities are particularly affected by trends in interest rates and inflation, this may affect the capital value of the portfolio.

Investments in smaller companies may be less liquid than larger companies and may have more volatile share prices.

High cash holdings will affect performance. If cash is held in a rising market, returns would be less than if the portfolio were fully invested.

Investments may include exposure to emerging markets, which tend to be less well regulated and more volatile than established stock markets.

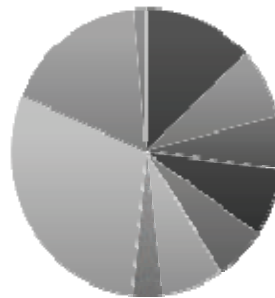
Investments in fixed interest securities with a low credit rating will carry more risk than investment grade fixed interest.

The price at which shares of investment trust companies trade on the stock market is to some extent affected by supply and demand. The price of shares will either be below (trading at a discount) or above (trading at a premium) the underlying asset value for the share – the trust's net asset value. The amount of premium or discount can fluctuate significantly.

Investment trust companies can borrow in order to gear investment return. Gearing can either significantly enhance or reduce returns.

## ASSET ALLOCATION

The following chart displays the asset allocation of this typical cautious portfolio (as at October 2008); allocating investment capital across different assets is an important aspect of investment management as it dictates the type of returns that a portfolio will achieve. The asset split within a portfolio will vary on daily basis in accordance with the investment manager's views and as a result of investment returns.



- 13.3% Cash
- 7.9% UK Gilts
- 5.6% UK Corporate Bonds
- 8% UK Other Bonds
- 6% Global Index Linked Bonds
- 7.5% Global Corporate Bonds
- 3.5% Global Other Bonds
- 29.6% UK Equities
- 17.2% International Equities
- 1.4% Other

## PORTFOLIO ADJUSTMENTS

None this month.

## COMMENTARY (CONTINUED)

Since October 2008 the only changes made to the example portfolios were in July 2009 when four new holdings were added to increase diversification, where cash balances have increased through interest and dividend receipts they will be left uninvested. Over the coming months I will review the underlying assets within each portfolio and plan to introduce a new holding within the income portfolio.

## IMPORTANT INFORMATION

This document has been issued by Black Swan Financial Management, which is authorised and regulated by the Financial Services Authority (466128). It has been prepared solely for information purposes and is not a solicitation or recommendation. The performance statics are drawn from pension investments that offer tax efficient investment returns. Returns from investments held outside a similar tax shelter would be lower.

The information on which the document is based has been obtained from sources that we believe to be reliable and taken in good faith, but we have not independently verified such information and no representation or warranty, express or implied, is made to their accuracy. The investments within the portfolio were made during October 2008 and subsequent data is drawn on the close of business from the first of each month from 01 October 2008.

All opinions and estimates contained in this presentation are those of Black Swan Financial Management. The information contained in this document is published for the assistance of recipients, but is not to be relied upon as authoritative or taken as a substitute for the exercise by the recipient of his or her own judgement or their financial adviser. Please note that prices of investments and the income from them can fall as well as rise and you may not get back the amount originally invested. Past performance is not a guide to future returns which may not be repeated; there can be no guarantee that the objectives of the portfolio will be achieved.