

## LLOYDS ACTIVE MANAGER UPDATE

### THE RESULTS OF A DIVERSIFIED PORTFOLIO

#### Markets don't always behave as expected...

History has shown the importance of focusing on a well diversified investment strategy, one that allows investors to have exposure to asset classes that are not perfectly correlated. Managed exposure to certain markets is important as markets don't always behave as expected. For instance, at the beginning of the year, news pointed to a tough year for equity markets, in particular in the U.S. The first quarter numbers supported that view. From December 31st, 2007 through March 31st, 2008 the S&P dropped 9.92%. Analysts were expecting investors to take the recession story more seriously. Given the intensity of the housing downturn, analysts would have not expected anything different than a U.S. recession in 2008. However, who would have even imagined that in the middle of this current crisis the S&P index would have gained 4.76% in April? This is an example that demonstrates that what is expected does not always come to fruition. Thus, portfolios should not eliminate all the exposure to certain assets classes and investors should always keep diversified. Benefits do come to light.

#### Benefit of diversification

There is no better way to illustrate one of the benefits of diversification than by showing some examples. There is an intuitive way to diversify. By intuitive we mean diversify across different assets classes and regions. In other words, "not placing all our eggs in the same basket". For instance, taking the LAM Balanced profile as an example, if you were to invest 100% of your funds in North American Equities, during the firsts four months of 2008 you would have lost 6.09%. However, this drop has only contributed to a negative performance of 0.61% within the portfolio.

Below you will find a table with the performance of the different geographic allocation within LAM and its contributions to the overall performance of the portfolios.

*"Historically, the S&P 500 has gained more than 20% per annum after a period of extreme investor pessimism."*

Arieh Coll

**December 31st, 2007 through April 30th, 2008**

	Very Conservative		Conservative		Balanced		Dynamic		Very Dynamic	
	Contribution	Asset Class**	Contribution	Asset Class**	Contribution	Asset Class**	Contribution	Asset Class**	Contribution	Asset Class**
Cash	0.12%	1.16%	*	*	*	*	*	*	*	*
North American Fixed Income	0.18%	0.25%	0.09%	0.25%	0.08%	0.25%	0.04%	0.25%	*	*
Global High Yield Fixed Income	0.21%	2.05%	0.21%	2.05%	0.21%	2.05%	*	*	*	*
Global Fixed Income	*	*	0.75%	3.76%	0.38%	3.76%	0.38%	3.76%	0.19%	3.76%
North American Equity	*	*	-0.91%	-6.09%	-0.61%	-6.09%	-1.49%	-5.95%	-1.49%	-5.95%
Global Equity	-0.59%	-5.94%	-1.19%	-5.93%	-1.78%	-5.93%	-2.08%	-5.93%	-2.97%	-5.93%
European Equity	*	*	*	*	-0.22%	-4.34%	-0.22%	-4.34%	-0.22%	-4.34%
Latin American Equity	*	*	*	*	0.36%	7.20%	0.36%	7.20%	0.72%	7.20%
Far East Equity	*	*	*	*	*	*	-0.21%	-4.26%	-0.21%	-4.26%

\* This asset class is not part of the profile.

\*\* Return resulted from the LAM fund's allocation in a specific region.

*"Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria."*

*Sir John Templeton*

Bottom-line, Lloyds Active Manager focuses on both maximizing returns and minimizing risk. In fact, as showed in the previous table, all LAM profiles have been able to manage the risk as expected, even in bear markets. Keep in mind that moving in and out of certain markets may be a poor strategy as investors miss opportunities for gains. Missing out on some of these has been proven to result in much worse returns. Thus, steady management of the portfolio with a clear investment mandate and active management will provide the stability needed for enduring wealth.