**DRAFT**

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| * 1. **Stock, sector and tracking error limits** |

Portfolios managed by pan European team

* + 1. The limits apply to portfolios that:-
* hold more than 40 stocks
* are invested in predominantly larger companies
* do not have a non-standard constraint in client mandate (eg an ethical one)  
  + 1. The limits apply to load differences relative to the index benchmark. For peer group benchmarked funds the load differences are taken relative to the most comparable index, these are currently:-   
         
       UK FT All Share   
       Continental Europe FT S&P Europe ex UK   
       Pan-Europe FT S&P Europe
    2. Stock limits for the model portfolios
* Any transactions that increase the load difference to over 2% require the prior approval of the Head of pan European equities.
* Transactions that increase the load difference to over 4% should only occur in exceptional circumstances. The prior approval of the CIO is required.
* Where changes in market prices have led to these limits being breached consistently over a one month period, approval from the Head of pan-European equities/CIO must then be sought to maintain the position.  
  + 1. Sector limits for the model portfolios
* Any transactions that increase the load difference to over 5% require the prior approval of the Head of pan European equities.
* Transactions that increase the load difference to over 10% should only occur in exceptional circumstances. The prior approval of the CIO is required.
* Where changes in market prices have led to these limits being breached consistently over a one month period, approval from the Head of pan European equities/CIO must then be sought to maintain the position.  
  + 1. Stock and sector limits for actual portfolios

The limits and requirements are the same as for model portfolios. However where the fund position is within 0.5% (stock) or 1% (sector) of the model portfolio position, no additional approvals are required.

* + 1. Tracking error limits for the model portfolios
* The long term target ranges for tracking error (as measured by the appropriate BARRA risk model) are as follows:  
    
  UK diversified 2.0 - 2.5  
  UK focussed 2.75 - 3.25  
  Continental European 2.75 - 3.25  
  Pan European 2.75 - 3.25  
    
  These target ranges are for the levels of tracking error that we would expect the model portfolios to average over the longer term.
* Where the tracking error is more than 0.25% outside these ranges, the aggregate effect of transactions done in a calendar month period must not increase the expected tracking error on the portfolios, unless prior approval is given by the head of pan European equities.
* Where the tracking error is more than 1% outside these ranges, the difference must be targeted to fall below the 1% limit by the end of the following calendar month, unless prior approval to maintain the level of tracking error is given by the CIO.  
  + 1. Tracking error limits for actual portfolios  
         
       For those funds that are running off one of the above model portfolios, the same limits and requirements apply. However where the tracking error to the index on the actual portfolio is within 0.25% of the model portfolio, no additional approvals we required.