

**Our Investment Process**

*Our investment process describes our approach to the provision of investment advice. It outlines how we build the investment solutions for each of our clients.*

**If you don’t understand anything here please ask us, there is no such thing as a dumb question when it comes to looking after your money!**

**Principles**

We use our investment process to determine the most suitable solution for each client. This process is underpinned by the following key principles:

* Understanding your appetite for investment risk is important
* Matching your portfolio to your risk profile is essential
* Asset allocation is the key to success
* Costs are important ***(See appendix point 1)***
* Diversification is a sound principle ***(see appendix point 4)***
* Managed Funds are a cost effective way to access investments for many clients.

**Our approach**

**To our Clients**

* We will assess your Risk Profile, your Capacity for Loss and your Needs as the key inputs – so we will spend time with you to discuss and understand your stated aims and objectives.
* We will consider your knowledge and experience of the different savings and investment solutions available in the marketplace.

We also need to understand your income and/or capital growth goals, your personal tax situation and any special requirements. ***(See appendix point 7)***

**To the portfolio**

* Our process for building client portfolios – is driven predominantly by **Asset Allocation** as the biggest driver of return and risk.
* The asset classes selected are primarily determined by the client attitude to investment risk post completion of our **Risk Profiling Process.**
* We investigate how the portfolios are likely to behave. These are tested historically using **Distribution Technology** software.
* We will **Map** our **Portfolios** to the individual client risk profile. This is key to ensuring the suitability of the portfolio.
* Client portfolios are selected to meet client needs - We are **Outcome Driven** not product driven.
* Although we know how the portfolios have performed historically the future will be different, so our process provides for **Regular Reviews**.
* Our process is designed to produce a given client outcome commensurate with the client risk profile – our **Process is Bespoke** to each client.

**To our process**

* We use **Independent** market leading **Technology Support Services** to enhance our offering.
* We use **Independent** specialist **Risk Profiling** tool provided by Distribution Technology to assess the client risk appetite and capacity for loss.
* We use **Distribution Technology** risk profiling tool has been selected because it is **Independent** and the range of questions provides a more rounded understanding of the client risk capacity.
* This creates a **Client Specific Risk** profile between 1 and 10.
* Clients with **High Risk Profiles** of 8, 9 and 10 may require a bespoke conversation requiring a more specialised **Bespoke Specific Solution**.
* We use expert **External and Internal Resources** to select and monitor fund managers who in turn research and select the optimum investment funds / stocks for our portfolios from the wide range available in the market.
* Our Investment Process is designed to avoid poor investment funds – as we believe that **Asset Allocation** and **Costs** being the best predictors of future returns; we focus our efforts here.
* We use funds that are **Managed** and **Regularly Rebalanced** in line with the client risk level.
* We **may vary** the specialist managers we access to construct our portfolios.
* We use **Fund of Funds** to give us access to multiple asset classes, **diversification** and reduced risk. By using more than one underlying fund we access the skills of different experts to select the funds within our portfolios.
* We may use if required our **Self-build Solution** where we create and monitor the constructed portfolio. This will only apply to clients who specifically request this service. This service is available at **increased cost** making it inefficient for smaller sized portfolios.
* We may if required use expert **Discretionary Fund Services** to construct “Bespoke” portfolios where deemed appropriate.

**The portfolios**

* **Quarterly Rebalancing** yields better returns. Our quarterly benchmark is subject to the solution.
* **Fund of funds** are effective for smaller portfolios – pooling makes them cost and tax efficient.
* The **Client Tax** position may impact the selection of the most effective tax wrapper solution.
* **Active Management** solutions are available for clients who are not constrained by cost.
* We have a preferred list of **Risk Managed** solutions. We offer both passive and active solutions.
* Our **Risk Managed** solutions are subject to **change** in line with Our Investment Process.

**Investment Solutions**

Typically, our clients fall into any one of three main investment categories. This is generally determined by the client’s wealth and complexity of the planning aims and objectives. Care is taken not to ‘shoe-horn’ clients into any pre-conceived solution. We will provide alternative solutions where deemed appropriate.

**FOUNDATION SERVICE**

* For clients with funds valued up to £50,000 and less complex planning needs. Our Foundation solution gives primary consideration to the cost of provision- a key element of this solution. We may typically use a lower cost platform risk based solution or choose to go off platform if needed.
* This approach will typically suit the client whose primary aim and objective is to grow their savings over agreed time-scales or for the client beginning their wealth accumulation journey. Typically, these clients wish to be treated as transactional clients and do not require regular investment reviews but can access our Review Service upon request.

**WEALTH ACCUMULATION SERVICE**

* For clients with funds between £50,000 and £250,000. Our Wealth Accumulation solution is similar to that adopted by the largest pension schemes in the world. We use outsourced fully diversified risk-rated portfolios which may include a blend of passive and actively managed funds chosen to fit the client specific investment circumstances and objectives.
* This approach will typically suit the client who is established along the wealth accumulation journey utilising various tax wrappers such PEPs, ISAs, Investment Bonds and Pension Plans. Typically, these clients see the value of access to periodic reviews to ensure they remain on track to achieve their aims and objectives. Reviews may be less frequent than annually.
* We may recommend the Foundation service where the client portfolio is held in a wide range of wrappers (ISA, PEP, Pension and AVC etc.). This approach is adopted with client costs in mind. We believe that it is inefficient or too expensive to manage large numbers of smaller holdings.
* Where we have outsourced the management of our risk-rated funds we ensure theses are reviewed and monitored on a regular basis; that clear guidelines are agreed with the outsourced parties on the portfolios management and that the fund mandates are managed and aligned with the correct asset allocation and risk-rating established at outset for delivery of agreed client outcomes.

**TAILORED SERVICE**

* For clients with fund values in excess of £150,000 who require Our Tailored Service solution we may include one or combination of options.
* Our principle goal is to provide solutions that take into account clients specific input to achieve client specific outcomes.
* We may recommend Our Foundation service and or Our Wealth Accumulation service and or Our Self-build Bespoke service where we construct and rebalance the portfolio to meet client aims.
* We may use any combination of the above for Our Tailored solution.
* We may recommend expert Discretionary Fund Services where deemed appropriate.
* Where appropriate we will use Passive funds to keep costs down and ensure the portfolio meets Our Investment Philosophy.
* Where appropriate we will use Active funds to add value providing the fund meets Our Investment Philosophy.
* This approach will typically suit the client whose primary aim and objective is to be assisted through more complex Investment planning needs including Our Tax Planning service and Our Estate Planning service. Typically, these clients see the value of access to Our Annual Review service to ensure they remain on track to achieve their aims and objectives.

**Platforms/Wraps**

We use an Investment Platform or Wrap where appropriate and cost effective for our clients.

* We may choose to ignore Platforms and Wraps where inappropriate.
* We will typically use the Aviva Wrap Platform for Our Foundation Service client.
* We will typically use the Quilter Platform for Our Wealth Accumulation client.
* We will typically use the Quilter Platform for Our Tailored solution client.
* We may use any combination of the above where deemed appropriate for the client.
* Platforms or Fund Supermarkets offer a cost effective way to access various tax wrappers such as Pension and ISA. They also reduce paperwork.
* Platforms provide easy access to the investment funds of multiple fund managers.
* Platforms generally facilitate fund switches with greater speed and efficiency.
* Platforms facilitate access to On-line fund valuations – these can include detailed portfolio analysis and performance reporting.
* Platforms can provide Tax effective Investment Planning – “bed and ISA” for example.
* Investments are held by an Independent Custodian potentially affording an additional layer of investor security.
* Our platform selection will be driven by the costs of trading, suitable solutions meeting Our Investment Process.
* Our platform selection will be driven by the access to the adviser tools and functionality suitable for the delivery of Our Investment Process to meet client aims and objectives.
* Discretionary Fund Service providers will generally use their own investment platform for reporting to the client.

**Higher value portfolios and income**

* For income seeking clients with more than £250,000 of investment we pay particular attention to the interaction of tax and investment return – to maximise the tax effectiveness of the client’s “income”.

**Time horizon is a key driver of risk level**

We may restrict the Risk level (subject to client override) based on time horizon. Clearly, the client need to access or liquidate some or the entire portfolio is a key indicator to the level of acceptable investment risk.

* A long time horizon will potentially favour a greater tolerance to the client investment risk.
* A shorter time horizon will typically favour a more risk-averse approach to client investment risk.
* Client input is an essential element of the time horizon discussion to client risk assessment.
* An understanding of the clients Capacity for Loss is an important factor in assessing risk.
* Client access is another key component to assessing the appropriate client risk profile.

**Appendices**

*There are a number of key considerations we can use when screening funds / managers and other investments.*

1. **Cost**

The fund’s fees and expenses (annual management charge (AMC) and (total expense ratios (TER)) are all important to assess. Research has shown that low-cost funds have outperformed high-cost rivals on a consistent basis. Investment companies work on the premise that their high fees are justified by their fund’s superior investment returns. The problem is that this simply doesn't stack up in reality. Research by Morningstar in the US concludes that “investors should make ‘cost’ a primary test in fund selection as it is still the most dependable predictor of performance. Start by focusing on funds in the cheapest or two cheapest quintiles, and you should hopefully be on the path to success.”

1. **Active or Passive?**

A separate research paper has shown that active managers take extra risk and follow the latest trends when things are going badly in pursuit of returns. When the going’s good investment managers seem to do well but when things go badly they under-perform simple indexed passive funds. Not exactly what most investors would want to pay for! Our conclusion - base the core of the portfolio around tracker / passive funds. The added benefit is that passive funds are far cheaper than actively managed funds, which relates back to point 1.

1. **Portfolio turnover rate.**

A fund's portfolio turnover rate measures how often a manager buys and sells securities. A high turnover rate indicates that the manager does not hold on to stocks for very long. This may indicate active management but on the flip-side it can lead to higher trading costs and indicate a short term investment approach. These costs are not always as easy to discover as we might like! By contrast a low turnover rate would indicate a manager with a long term buy and hold view to investment.

1. **Diversification.**

Making sure we have a good mix of funds, either directly via a model portfolio or through a fund-of-funds, that meet a client’s long term needs is a key to long term success. We also need to make sure that the funds include a good spread of holdings. A small number of holdings may be indicative of a manager who backs his convictions while a large number may suggest the manager is going to try and match the index. Both have their place, with the former being more risky yet more likely to give outperformance / underperformance while the later may have a lower investment risk but not outperform the market, in which case we might think about investing passively instead (which goes back to point 3 above).

1. **Does it do what it says on the tin?**

It’s important that we know what a fund can and does invest in. If we want exposure to Far Eastern equities then there is little point picking a UK corporate bond fund. But perhaps more importantly: don’t judge a book by its cover. The exact index that a passive fund tracks is key. And for active funds making sure we understand the exact mandate the manager has is crucial. It wasn’t long ago when the Cautious funds could hold up to 60% in Equities – and a number of investors may not think that sounds very cautious!

We also need to consider what impact the fund will have on the overall portfolio's asset allocation and risk. If we are picking a fund to complement others within your portfolio from the same sector, e.g. UK equities, is the new fund sufficiently different to the existing ones to offer some form of diversification? Diversification reduces a portfolio's risk – duplication does not!!

1. **Past performance is not a guide!**

The standard risk warning that you will see on all financial literature is that ''past performance is not indicative of future returns”, or a variation thereof. Now this is true for a number of reasons. The research that the regulator conducted when it introduced the warning showed that there was in fact a link between past performance and the future – but only unfortunately that poor performing funds tended to be poor in future (probably due to higher costs).

1. **Tax - Income or growth**

We need to check whether the fund is focused on providing income, capital growth or a mixture of the two. This information can be found on the fund's factsheet. It’s important that this matches a client’s requirements. For example a young high rate income tax payer may be more inclined towards capital growth as they do not need access to their funds in the short term. Income from investment funds can be reinvested but they would still be taxed on it, therefore a high rate income tax payer probably would not want to generate any unneeded income. Capital gains on the other hand are only taxed once an investment is sold. It is important therefore, that we understand the tax implications of the chosen fund and select an appropriate tax-wrapper e.g. investing via a wrapper such as a Stock and Shares NISA would ensure the income and growth is largely tax free.