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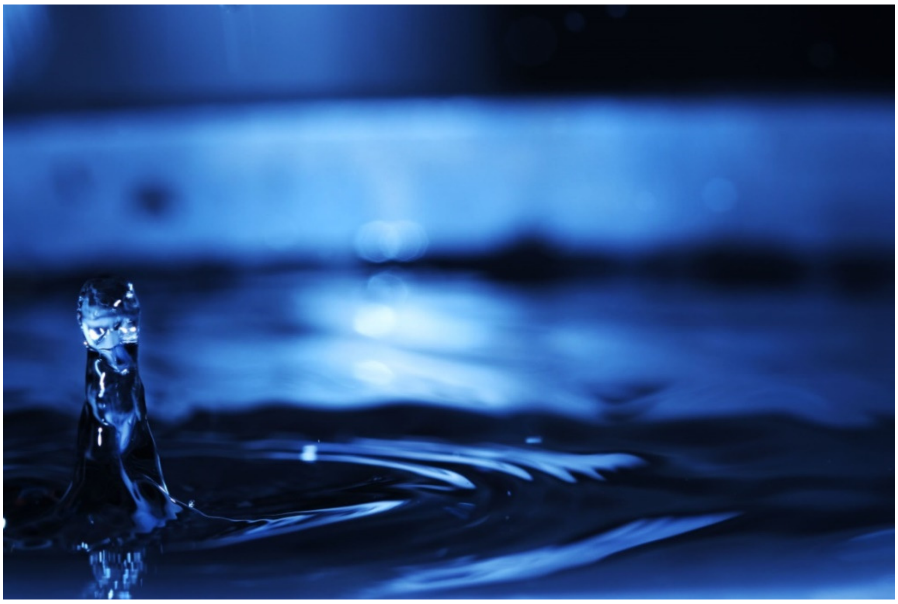
Financial Planning & Wealth Management

# Investment Process



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# OUR INVESTMENT PROCESS

Investments form a very important part of most of our clients' personal financial plans. We are acutely aware that our investment advice will shape your financial future and do not take this task lightly.

We also know that deciding how best to invest your money can be daunting. With so many options, how do you choose what's right for you? Our job is to eliminate as much uncertainty as possible by working with you to identify the most appropriate way for you to achieve your financial goals.

As professional advisers, we always manage your money in a sensible and cost-efficient manner to try and achieve the best return in line with your attitude to risk and investment objectives.

Our approach is based on a wealth of **academic research, independent studies,** and accumulated **knowledge** and **experience** of financial services. Our **due diligence** process means we never recommend fashionable or esoteric investments no matter how attractive they may appear unless there is a demonstrable track record and proven benefits. As a result, none of our clients have ever experienced failed investments or complex tax avoidance schemes. In fact, we very much adhere to the old adage "if it seems too good to be true……."

The process we follow provides a framework for us to discuss your needs and expectations, help you understand how investments work, assess and agree your attitude to risk, and then to construct and manage an investment portfolio to match.

By working through a series of logical steps, you will gain a better understanding of the reasoning behind our recommendations and confidence in the resulting choice of investments.

The following pages provide more information on our investment advice process and how we manage each stage of it together with you.

## FACT FIND - GETTING TO KNOW YOU

The logical starting point of the advice process is for us to get to know you. Our fact find is wide-ranging to ensure that the advice we give you is soundly based. As well as exploring your personal and financial circumstances, we want to know who you are, what your attitudes and values in life are.

Having established your goals, we need to establish your level of investment experience and knowledge, as well as what level of growth you expect, your attitude to risk and how long you are looking to invest for. We need to also consider issues such as access to your money and the level of flexibility required in the investment selection and your personal circumstances, including your tax position.

Finally, it is important that any investment recommendation we make is as tax-efficient as possible.

**SELECTION OF 'TAX WRAPPERS' – WAYS TO HOLD YOUR INVESTMENTS**

Once we have established your financial goals we can begin to determine the most appropriate financial product(s) to meet your needs. A tax wrapper is a financial product, such as a Pension or ISA, within which your investments can be held and which usually has certain tax benefits.

Traditionally, investors might have held a number of products from a variety of different companies. The downside of this is that it can create lots of paperwork, arriving at different times of year, in different formats. This can make it complicated for you to manage and monitor your portfolio as a whole, and to ensure that your investments are performing as expected and remain in line with your risk profile.

However, for the majority of our clients, we recommend investing through an 'platform' which allows you to hold, monitor and manage all of your investments in a single place. It can also provide online technology that helps us assess your attitude to investment risk and put together a portfolio that's most likely to behave as you'd expect.

**The platforms we recommend offer a range of tax wrappers including:**

- Individual Savings Account (ISA)
- General Investment Account
- Personal Pension, including Self Invested Personal Pension (SIPP)
- Onshore & Offshore Investment Bond

**UNDERSTANDING YOUR ATTITUDE TO INVESTMENT RISK**

Whatever your goals, we want to be sure that the investment strategy we recommend for you is in line with your attitude to investment risk.  To do this we need to consider a number of factors, such as:

- how long you want to invest for (the 'term')
- how much cash you want to be available to meet unexpected circumstances
- what level of growth you expect to receive
- how much money you want to invest
- whether you have any debts
- existing savings for retirement
- your overall view on investing
- your goals and the level of risk you are really comfortable to take to achieve them
- what level of short-term fall in the value of your investments you are willing and able to accept
- the importance of protecting your investment from the effects of inflation
- the question of 'liquidity': if you want to cash in your investments, how easy will it be to get your hands on your money

To establish your attitude to investment risk, we will ask you to complete a risk assessment questionnaire.  This produces a 'risk score' – your level of tolerance for risk - from 1 (low) to 10 (high), which we call your risk profile score.

The risk profiling questionnaire we use is by Oxford Risk.  It is in line with the best industry practice and the guidelines by our regulatory body, the Financial Conduct Authority.

## DISCUSSING YOUR RISK PROFILE SCORE

Your risk profile score is an indication of the extent to which you are prepared to accept a short-term fall in the value of your investments as markets go through their normal ups and downs. These fluctuations in the value of investments are also known as their volatility.

If your score is 1, then low volatility investments such as cash or bank deposits could be the resulting investment recommendation. If your score is 10, then we might recommend a portfolio which includes investments in asset classes such as emerging markets, whose higher expected volatility is matched by greater growth potential.

Before proceeding to make recommendations based on your score, we want to be sure that you understand what that number means and what its implications are.

We will discuss with you how investment gains and losses might differ between different risk levels, to give you a better idea of the outcome you could expect at each level. In this way we can agree with you whether your risk rating accurately matches your true attitude to risk.

Whatever the result of that initial discussion, we will carry out the same process on a regular basis, such as at review stage, to ensure that your circumstances have not changed and that your attitude to risk remains the same

**SUITABILITY**

After we have discussed which tax wrapper and risk level is appropriate for you, it is important to look at which investment solution may be suitable to meet your needs.

There are a range of options available; for example, we can individually select funds to construct an investment portfolio for you, or a 'packaged solution' may be more suitable, whereby you invest in a single fund or portfolio which contains a number of underlying funds or assets, designed to match your attitude to risk.

Ultimately, choosing the correct investment solution depends on your personal circumstances and the factors we discuss during our fact-find meeting, such as:

- how long you're willing to invest for
- whether you need to access your money
- how important cost is to you
- whether you need a wide choice of investments
- your investment knowledge and experience
- your desire to be involved in investment decisions
- whether you'd like regular updates on your investment
- how often you'd like your investment to be reviewed.

**CREATING AN 'ASSET ALLOCATION' IN LINE WITH YOUR RISK PROFILE SCORE**

Asset allocation involves mixing different assets, such as cash, property, fixed interest (bonds) and UK and international equity, to build a portfolio that matches your attitude to risk.

Asset allocation is recognised as one of the most important elements in the long term performance of any investment portfolio.  In fact, a number of studies have found that the decision as to how to divide up a portfolio into appropriate asset classes is more important than the process of choosing individual funds, stocks or bonds.

Different types of assets have different performance and risk characteristics, so our aim is to allocate the right proportion so that, over time, the peaks and troughs of their performance balance each other out in a way that is optimised for your particular risk profile and your performance expectations.

You should be aware that even with this methodology we cannot guarantee that the volatility range of a particular asset allocation mix will not be breached occasionally. As with all types of investment, there is always the possibility of exceptional market conditions due to unanticipated external events.

## SELECTING INVESTMENT FUNDS TO MATCH YOUR ASSET ALLOCATION

Once the asset allocation stage is completed, we need to choose appropriate investment funds to reflect the various asset classes in the right proportions. There are thousands of investment funds to choose from, including Unit Trusts and OEICs, Investment Trusts and Exchange Traded Funds (ETFs) to name a few.

One of the key considerations with any investment solution is whether to take an ‘active’ or a ‘passive’ approach to investment management.

An active approach is where the investment or fund manager uses their skill to select stocks they think will perform better than average, or better than an index, benchmark or particular sector. The passive approach is where funds don’t try to beat an index or benchmark; they just try to match it as closely as possible.

Typically, the cost of active funds is greater than passives and not all active funds consistently outperform.

Given the volatility around stock market investments, we believe that carefully selected active fund managers can identify opportunities for outperformance (doing better than average). However, we also believe there are times when a passive approach can be appropriate too. Because the variability of returns in a portfolio is mostly the result of asset allocation rather than the specific choice of funds, there may be times when there is little need to take the additional risk and/or cost of active management. Furthermore, portfolios that blend both active and passive investment management can provide the best both styles can offer.

All these options try to achieve different things. Understanding the reasons for their relative success helps us appreciate how they may perform in the future.

There are many ways of judging the performance of funds and fund managers – their past performance is not necessarily a guide to what they might achieve in future. A better way to assess a manager's performance is to understand how and why they achieved that performance.

The first thing we will do when selecting a fund for a client's portfolio is to look at a detailed set of criteria around the investment such as how long the manager has been running the fund, how big the fund is, how much risk the manager has taken to achieve its performance and whether it represents the asset classes within the portfolio. Analysis also includes for example:

**Alpha**
Alpha is a measure of the performance of the fund adjusted for the risk the fund is taking. A high alpha indicates that the fund has performed better than would be predicted given its Beta.

**Beta**
Beta is a measure of how the return on a fund changes compared to the return for its benchmark. The Beta between a fund and its benchmark is the amount the fund moves when the benchmark moves by one. For example, if one fund always goes up and down by exactly half of the performance of the benchmark, its Beta will be 0.5.

**Cumulative performance and sector quartile rankings**
The cumulative performance of a fund and its quartile ranking position within its sector over the following time periods: six months, one year, three years, five years or ten years. A first quartile ranking shows a fund is in the top quarter of its sector for performance, whereas a fourth quartile ranking shows a fund is in the bottom quarter.

**Discrete performance and sector quartile rankings**

The 12-month performance of a fund and its quartile ranking position within its sector from a defined point in time (12, 24, 36, 48 or 60 months ago – to the most recent month end). A first quartile ranking shows a fund is in the top quarter of its sector for performance, whereas a fourth quartile ranking shows a fund is in the bottom quarter.

**Volatility and sector quartile ranking**

A fund's percentage volatility and its quartile ranking position within its sector over three, five or ten years. Volatility is represented by Standard Deviation, i.e. by how much the monthly fund price deviates from its average price over the period selected. This figure is then multiplied by the square root of 12 to arrive at an annualised figure. The larger the figure the higher the volatility of a fund and its risk. A first quartile ranking shows a fund is in the lower risk, top quarter of its sector, whereas a fourth quartile ranking shows a fund is in the higher risk, bottom quarter.

For all funds we also consider independent fund ratings such as Citywire, Rayner Spencer Mills and FE Crown Ratings for example. FE Crown Ratings are designed to highlight funds that have had superior consistent performance in relation to risk, relative to an appropriate benchmark.  They are only applied to funds with a track record of 3 years or more, which is in line with our requirement for, ideally, a minimum of 3 years for established sectors and strategies.

By combining all these selection criteria, we can be confident of selecting suitable funds to build a robust portfolio.

## ONGOING MONITORING & REVIEWS

Buying any investment is a long-term decision so there should be ongoing monitoring, measurement and evaluation; this is the final phase of the advice process.

The performance of the various funds in your portfolio will differ over time. Because of this, if left for a long period of time, the proportions of different asset classes will change and this could result in a divergence from your original risk profile. For example, if equity funds outperform fixed interest your portfolio left unaltered would move up the risk scale.

We assess the performance of your portfolio and its component funds for underperformance that might need further investigation. Funds are assessed using the same criteria as in the original fund selection process. If we feel it necessary to change a fund within your portfolio we will contact you and ask you to authorise the switch.

We also assess the performance of your investment for discussion at your regular reviews. At this time we may also ask you to complete a further risk-profiling questionnaire. That's because your attitude to risk might have changed if your personal circumstances have changed. If your risk profile score changes we can discuss transferring you to a different investment solution that is more suitable for your needs.

Whenever investing, you should be aware that performance is not guaranteed, particularly when held over a short period. The value of investments may fall as well as rise and you may not get back the amount invested.

## Our Contact Details


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