A BACKGROUND TO OUR FUND CHOICES

Over many years, we have invested in every type of collective investment available. We have used managed funds, multi-managed funds, and passive funds. This note explains our current thinking when we choose the funds for our clients to invest in.

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1. WE USE PREDOMINATELY PASSIVE INVESTMENTS

With the current emphasis on cost, we feel that passive investments offer better value than active fund managers.

If you want to know why we think passive is best, search our website for:

- Active Manager Performance
- Why Do We Prefer Passive Investments?
- Our Approach To Investment Management

We try not to be too dogmatic and usually include some thematic and strategic managed funds in a portfolio where we have seen the managers produce good long term (not always correlated) returns.

1.1 Advisory Fund Management

There are two types of investment advice. A discretionary management service entails our making decisions without having to refer back to you for approval. With an advisory management service we have to get your approval before making investment changes. There are pros and cons for each method. Currently we are ***advisory*** managers.

2. GENERAL ISSUES WHICH AFFECT OUR ADVICE

2.1 Fund Size

A consideration when reviewing your investments, is whether any specific holding is now too big. When investments perform well and are held in numerous tax wrappers, we need to check annually if they have become a stock specific risk. Typically, we will reduce your stock risk to between 5% and 7% at a maximum.

2.2 Manager Changes

We review the funds on our preferred list regularly and hence may change funds to cheaper or better passives. We may also switch from a managed fund if our preferred manager changes, or performance slumps.

2.3 Premiums, Discounts and Spreads

Investment trusts can trade at a premium or discount, and smaller funds can carry a significant spread. These factors affect whether we buy more stock or sell to take profits.

2.4 Share Classes

As you may recall from previous communications, post the retail distribution review (RDR), many fund managers are issuing new clean share classes. We will therefore convert any old share classes to the new ones where available.

2.5 Funds Which Hold Rebated Commission

Platforms now have to segregate and invest any rebated commission so you can clearly see it. You will therefore see funds dotted around your portfolio such as the SSGA GBP Liquidity Fund, and the Fidelity Institutional Gilt Fund.

Every time we undertake a review of your funds, we encash these holdings and add them to your cash.

2.6 Hedging Currency

Most international funds are denominated in dollars. Funds can choose to buy insurance to protect (hedge) the value of the investments in the home country they were bought. As a general rule passive funds do not do this, and managed funds will 'take a view'. The trade-off is the cost of the insurance, versus the loss to the fund of an adverse shift in the currency.

The fall in the value of the pound during the Brexit fiasco highlights the benefits of a diverse portfolio which is not hedged. One of the main reasons for the FTSE 100 has done relatively well is that 80% of the revenue of our biggest companies comes from abroad, so the respective value of those revenues in sterling terms rises as the pound falls. Conversely, if the pound recovers the sterling value of dollar denominated assets and income will fall.

Whilst sterling may fall further (in the short term at least), you should be aware of this added risk to foreign investment returns. Regular reviews of your portfolio will ensure that your asset allocations are returned to agreed levels and returns are maximised in all market conditions.

2.7 Purchase and Sell Dates

Most of the stock we deal in will trade daily. Exchange Traded Funds (ETFs) and Investment Trusts (ITs) will often be tradeable immediately. Some collective investments trade weekly, and some trade once a month (e.g. The Time Freehold fund). This means when we are instructed to sell or buy, there can be a delay in the transaction being completed.

2.8 Paperwork

To reduce the amount of paperwork, all the relevant fund fact sheets, and Key Investor Information Documents (KIIDs) can be found on our website. To view these, from the menu at the side of the page click on *documents,* then click on *fund facts* and choose the relevant fund manager. You will also find additional notes on ETFs and other investment options.

We hold an additional raft of other explanations regarding investments, and our approach to investment management, on our website, under library, personal, investments.

2.9 Tax

Any information we have provided about the tax treatment of products and their benefits is based on our understanding of current tax law and HM Revenue & Customs' practice. Please remember that levels and bases of tax relief can change.

2.10 Financial Services Compensation Scheme (FSCS)

The FSCS was set up under the Financial Services and Markets Act 2000 and exists to protect clients of FCA authorised firms and covers deposits, insurance, and investments. The scheme can pay compensation to clients who have lost money because of their dealings with FCA authorised firms that are unable to pay claims against them; usually because they are insolvent or have stopped trading.

The limit of protection varies between different types of products. Our background notes on consumer protection and the level of protection which is available is on our website (see section 5 below). Please also refer to Transact's literature for full information.

Please note, Exchange Traded Funds (ETFs) and Investment Trusts (ITs) are classed as shares for compensation purposes and ***are not*** covered by the FSCS protection.

2.11 Reviews

All this excellent asset allocation falls down if you do not regularly review your affairs. We operate a comprehensive annual review policy, together with regular valuations from Transact, plus of course you can monitor your funds online as you wish.

3. ASSET ALLOCATION

3.1 Passive

Where one asset class outperforms, it is necessary to take profits, and when asset classes underperform, it may be appropriate to add to funds.

3.2 Active

We will move your holdings according to our active asset allocation beliefs at the time. If you want to know our current stance then search our website for:

- Asset Allocation Update
- Active Asset & Factor Update
- An Introduction To Asset Allocation
- Investment and Economic Outlook

3.3 Your Risk Profile

Your risk profile affects our asset allocation as it tells us the extent of risk you are prepared to take in order to achieve higher long-term growth.

There is no getting away from risk and reward. If you have objectives regarding income, or capital needs, then you may be left with 'Hobsons choice'. You either accept risk and stand a chance of reaching your goals, or you do not accept risk and do not achieve your goals.

If you would like to know more about how risk affects our investment decisions, search our website for:

- What Is Risk And How Much Do You Need To Take?
- Client Risk Profiles Explained.

3.4 Guaranteed Assets

Regardless of the investments we choose, if you have a large, guaranteed pension you have a secure foundation to your long-term income. We will reflect this in our choice of assets and illustrate to you the effect guaranteed pensions have on your overall asset structure.

3.5 Income Needs

If you are currently receiving a regular income from Transact, then we need to ensure that you have sufficient float to maintain your income throughout the year. At this time, we are keeping more cash than usual, so if there is a market fall you will not have to sell units at low values.

4. PROPERTY FUNDS

4.1 Funds Which Hold Bricks & Mortar Property

Any fund which purchases large capital items (for instance commercial property) has a lag in the time it takes to buy or sell the asset. This can lead to either a drag on performance (i.e. cash is flowing into the fund and the manager cannot find a suitable property to buy) or it can lead to the fund becoming illiquid (i.e. lots of people want their money back and the manager cannot sell quickly enough in a falling market). Both situations are not uncommon, however in the case of a falling market, we have known times when investors could not get their money back for over a year. This is one reason why we spread your investment within this sector.

4.2 Property Funds Which Borrow

Many Real Estate Investment Trusts (REITS) borrow to purchase their commercial properties. Assuming, say 50% borrowing, this means that the returns created are geared, which is great when prices are rising, but obviously means that when prices fall, the value of your investments fall more rapidly as well.

In addition, investment trusts have a pricing mechanism which allows the share price to reflect the demand, so in a buoyant market you might pay a premium for the shares and in a depressed market the shares may be at a significant discount to the actual net asset value of the funds.

5. TRANSACT

We cannot provide an investment service without using a modern investment administration system. At present we are using Transact.

By using Transact our administration charges are much lower, the fund purchase charges are lower and our time charges are much less. Furthermore, the consolidated nature of having one administrative platform means that you, and we, can manage same more efficiently. Finally, we can buy wholesale funds on Transact which are not normally available in the open market.

The platform allows us to monitor your investment portfolio closely and will provide you with online access to review your portfolio should you require this. When we need to make changes to the portfolio, these can be completed quickly and efficiently.

One major reason for using Transact is that the platform can purchase wholesale funds which have much lower charges than retail funds. This means they receive significant discounts on the initial purchase charges, and where they are investing in retail funds the annual management fees are cheaper.

Quite often when we introduce a new client to the Transact wholesale system, they get very alarmed at us switching all their funds. This is because they are used to retail platforms which charge fees for bid/offer spreads as well as agent commissions etc.

We have designed the Transact system so that we do not receive any incentives to buy or sell stock, and the Transact platform is also set up to simply cover costs for sales and purchases. Transact buys wholesale or post-RDR collectives which also usually carry little, if any, front-end fees.

It is worth noting that the provider fact sheets often show the retail charges ***NOT*** the charges you would pay on the Transact platform. The following are some examples of Transact Fund Fees:

Fund	Initial Fee	Annual Fee	Unpublished Fee	Total Fees
Vanguard FTSE Emerging Markets ETF	-	0.25%	-	0.25%
Woodford Equity Income Cls C	-	0.75%	-	0.75%
F&C TR Property (REITS) Investment Trust	-	0.96%	0.20%	1.16%
iShares MSCI World	-	0.50%	-	0.50%
L&G Global 100 Index Trust Class I	-	0.13%	0.01%	0.14%
L&G UK Index Trust Class I	-	0.08%	0.02%	0.10%
Vanguard FTSE 100	-	0.09%	-	0.09%
Vanguard FTSE All-World High Dividend Yield UCITS ETF	-	0.29%	-	0.29%
Vanguard FTSE All-World	-	0.25%	-	0.25%
Standard Life Property Income IT	-	0.75%	-	0.75%
iShares MSCI World	-	0.50%	-	0.50%
Dimensional UK Value Fund	-	0.40%	0.10%	0.50%
iShares FTSE UK Dividend Plus	-	0.40%	-	0.40%

Remember that stamp duty reserve tax (SDRT) is charged on purchases of assets in the UK (not Ireland where many of the ETFs and Vanguard / Dimensional funds are based) at .5%. Transact do not usually charge to sell but may charge up to .05% to purchase a fund and a maximum sale / purchase for equities (including ETFs and investment trusts) of £3.75.

Overall, we believe the charges you pay compare very favourably with the competition.

6. OUR INVESTMENT POLICY STATEMENT

This sets out the starting point of our recommendations for everyone’s investment portfolios. Please search our website or request a copy is sent to you.

7. GENERAL HEALTH WARNINGS

Each time we suggest new investments, we must remind you that:

- The value of your investments can fall as well as rise in value and you may not get back the full amount invested.
- The value of your investments can fall as well as rise and the value will depend on how much is saved, the charges paid and the rate at which the investment grows.
- Any income may fall as well as rise in value or frequency in the years ahead.
- Past performance is no guarantee of future returns.
- Investments are intended to be long term investments which really means more than 5 years.
- Although the risk rating of the portfolio as a whole, matches your attitude to risk profile, within the portfolio, the risk profile of some of the individual funds may fall below or above your own profile. This is necessary in order to achieve the right balance of funds overall.
- Some investments (e.g. property) may not be readily realisable and will be subject to market conditions at that time.
- The price of units and the income from them can fall as well as rise.
- The capital value of the fund may be eroded if withdrawals being taken exceeds the net growth of the fund.
- Where income is being taken immediately, this may erode the initial value of the capital invested.
- The levels of income provided may not be sustainable.
- Once you agree to the purchases and we buy funds on your behalf you will not be able to cancel your instructions. If you subsequently change your mind after investments have been bought you may get back less (or more) than you originally invested.

- There is no guarantee that the performance of your investment will achieve the growth rate required.

The individual fund fact sheets and Key Investor Information explains the specific risk warnings.

8. FURTHER EXPLANATIONS

We have an extensive library of notes similar to this document, on our website under "Library, Personal Investments".

Please note that whilst every effort is made to ensure that the information contained within this explanation is correct, these notes are by necessity brief and of a generalised nature. Clients should seek specific personalised advice prior to undertaking any arrangement. These notes are named 08.2021 A Background To Our Fund Choices and was last updated in August 2021. Whilst we have done our best to ensure facts are current to this date laws and options are changing constantly so always check before action.

Investments are subject to market risk, including the possible loss of the money you invest. Bond funds are subject to the risk that an issuer will fail to make payments on time, and that bond prices will decline because of rising interest rates or negative perceptions of an issuer's ability to make payments. Diversification does not ensure a profit or protect against a loss in a declining market. Performance data shown represent past performance, which is not a guarantee of future results. Note that hypothetical illustrations are not exact representations of any particular investment, as you cannot invest directly in an index or fund-group average.

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