A SUMMARY OF OUR INVESTMENT PROCESS

Every one of our client's investment portfolios is bespoke to their circumstances. After years of fine tuning our process, we can offer globally diversified, risk weighted strategies that move with the times and our clients' requirements.

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1. WE USE PREDOMINATELY PASSIVE INVESTMENTS

For the last 15 years we have been predominately choosing passive investment funds. We feel that passive investments offer better value than active fund managers. We also believe that fund choice makes little difference compared to where the asset allocation is placed.

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

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

The introduction of low-cost passive/managed funds have, however, led us to simplify our approach somewhat. We have also usually left space for one or two thematic managed funds within our investment recommendations.

1.1 Advisory Fund Management

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

2. 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.

We divide a client's investments into two pots. Static funds (cash and fixed interest) which at present will generate little or no returns but which should maintain their current value, should there be an asset backed market downturn. We believe Fixed interest investments are grossly over-valued, so we only use short-dated fixed interest investments where we need to reduce the volatility of a client's portfolio.

The following table is a suggested range of static and asset backed funds.

	Very Low Risk	Low Risk	Cautious	Average	High Risk	Very High Risk
Static Funds	100%	60%	40%	30%	10%	-
Assets	-	40%	60%	70%	90%	100%
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

We discuss risk extensively throughout our investment notes. Please note we usually make allowance for ***all*** of your cash, and ***guaranteed pensions,*** when considering your low-risk funds.

3. WHAT ASSETS ARE WE CONSIDERING?

3.1 Property

By this we mean commercial let property. The correlation of returns between commercial and residential let property has been converging. If you hold residential let property, we will either include it within our assessment, or at least take account of same.

There are two types of property fund:

3.1.1 Bricks and Mortar (B&M)

The fund physically owns property. In recent years these funds have suffered due to the Covid Pandemic leading to the suspension of some funds whilst the managers sell property to generate sufficient liquidity for clients to be paid out.

3.1.2 Collective Property Funds

The fund holds the shares of companies who manage commercial properties. These funds are more liquid than B&M funds, but they tend to act much more like equities than a B&M fund. In the UK, many property funds are now called Real Estate Investment Trusts (REITS).

3.1.3 International Property

Through property companies, we can hold commercial property throughout the globe.

3.2 Equities

These are the shares of companies throughout the globe. We only invest into collective investment vehicles which themselves hold the individual stock.

3.3 Commodities

In recent years we have been holding gold, silver and other commodities. Our allocation will range from 0% to 10%+ dependent upon market conditions and risk profiles.

In the past we have bought oil and other commodities, dependent upon market conditions.

From a statistical perspective, gold and silver are highly volatile so adding them in as a hedge can often make a portfolio look more volatile when the purpose is quite the opposite.

3.3.1 Mining Shares

One would expect better returns from mining shares, but you also get greater volatility.

3.3.2 Physical Product

Where we can we buy the physical commodity via an exchange traded fund. This should be less volatile than mining shares and is being used as an equity hedge.

3.4 Cash / Fixed Interest

In normal market conditions we would be buying a significant percentage of your investments as fixed and index-linked bonds. After 20 years of interest rate reductions, we are now in a zero-interest environment which is not conducive to generating returns from fixed interest funds. There is also a very good argument to encourage inflation in the developed world (to reduce debt), and this again is the worst of environments for fixed interest funds.

Cash and short dated bonds will always lose money in real terms, but the volatility is very low, which provides some stability particularly when you need regular income. We do therefore introduce short-dated bond investments where we are concerned a client’s investments might carry more risk that the client would like.

3.4.1 National Savings (NS&I)

We recommend all clients hold cash as an emergency reserve, and as part of their static funds. Most clients hold Premium Bonds, and we prefer to use NS&I for off-platform cash due to the consistent level of return and absolute security.

3.4.2 Term Deposits

We use a range of term deposits on the platform we use for investing. These provide some small return combined with low volatility and are particularly useful within pension funds.

4. WHAT REGIONS DO WE INVEST IN? (ASSET ALLOCATION)

4.1 Commercial Property

At this time, we are reducing our property exposure until the effects of the Covid Pandemic have been reflected in ongoing yields and values. In more normal times however we hold property both in the UK and abroad. A typical split would be:

4.1.1 Geographical

UK	INTERNATIONAL
70.00%	30.00%

4.1.2 UK Regions

Again, different funds favour different regions. Most holdings are in the London and Southeast. We do look for diversification into different regions where it can be found.

4.1.3 Tenants

Amazon style warehousing has been the star in recent years and retail the disaster. Don’t forget however that there are many other sectors such as offices, hotels, pubs and clubs, government buildings and a growing area within the long-term care and nursing home areas.

4.2 Equities

We start our investment process based on the market capitalisation of each region:

	UK	REST OF EUROPE	USA	ASIA	CHINA	EMERGING	TOTAL
Market Cap	4.49%	14.64%	42.82%	19.98%	14.02%	4.05%	100.00%

This is the correct allocation based on a global equity approach. However, UK investors have a huge 'home bias'. This creates a starting equity allocation as follows:

Final Allocation	UK	EMERGING MARKETS	REST OF WORLD	TOTAL
Allocation	20.00%	10.00%	70.00%	100.00%

5. SIZE MATTERS (STRATEGIC ASSET ALLOCATION)

5.1 UK Equities

Looking longer term, smaller companies will always outperform larger companies. However, when we have a bearish market larger companies tend to fall less in value.

With any market we try to buy a selection of sized stock so, for instance, in the UK we might split the investment:

5.1.1 Large Cap (FTSE 100)

The FTSE 100 broadly consists of the largest 100 qualifying UK companies by full market value.

5.1.2 Mid Cap

The FTSE 250 Index is a capitalisation-weighted index, consisting of the 101st to the 350th largest companies listed on the London Stock Exchange.

5.1.3 Smaller Cap

The FTSE SmallCap Index is an index of small market capitalisation companies, consisting of the 351st to the 619th largest-listed companies on the London Stock Exchange main market.

5.1.4 All Share

The FTSE All-Share is the aggregation of the FTSE 100 Index and the FTSE 250 Index, (which together are known as the FTSE 350 Index), and the FTSE SmallCap Index. It is more diverse than the FTSE 100, but it is still heavily biased towards the bigger funds.

5.2 International Equities

We apply the same principles to international equities, although 'mid cap' is difficult to find.

6. STYLE OF INVESTMENT (SUB ASSET ALLOCATION)

6.1 Equities: Factors

Style can also be called factor for these purposes. The three main areas of style are:

6.1.1 Momentum / Growth

Stock which pays a low yield and have a high growth prediction. Traditionally these would be the choice at the beginning of a cycle.

6.1.2 Value

These are stock which is cheap. A stock with a low-price earnings ratio or high net assets to market price would be considered value. Value stock would normally be a safe haven when markets are uncertain. Higher dividend companies can come into this area as well.

6.1.3 Smaller Companies

Smaller companies tend to grow quicker than their big brothers, although they tend to go bust more as well.

6.2 Equities: Sectors

Again, we have been moving to include sectors within our equity offering. The sectors we are now trying to consider are:

6.2.1 Technology

The thinking here is that technology will drive the future of the global economy, and should therefore, provide long-term outperformance. Examples of this type of fund are the iShares Automation and Robotics Index.

6.2.2 Biotechnology

Again, the development of drugs and world health will be a key sector in the future of the world growth. An example of this is the NASDAQ Biotechnology index.

6.2.3 Infrastructure

At the other end of the scale, should recession strike, governments are likely to spend to restart the economy. This will benefit infrastructure companies. An example of this is the iShares Global Infrastructure fund.

All of the factor funds are in effect “managed” funds, as they are sorted by their factor qualities.

7. SUMMARY

Whilst founded upon the same philosophy and research, not one of our client's investment portfolios is the same. As objective wealth managers, we rely on your personal goals to govern our investment approach. It is these individual nuances that ultimately make all the difference when designing your bespoke strategy.

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 Investment Policy Statement 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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