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IFA Central Investment Principles & Proposition

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Contents

Introduction

This is an example of a CIP document based on one prepared for an IFA client.

Helping people achieve their goals and lifelong dreams without worrying about money

The purpose of this document is to detail our approach to providing investment and retirement advice to our clients, particularly in areas where the processes we follow have been created specifically for our clients and business.

This document is intended to be read by our advisers and staff, the Financial Conduct Authority (if requested), and any other persons with whom we wish to share details of our proposition. It is not written in a format intended to be read by our clients.

Please note this document should be read in conjunction with the Platform and DFM research documents.

Executive Summary

Evidence Based 'Active Passive' Strategies

IFA believes that the solution is to successful investing is a risk rated asset allocated approach using low-cost investments that track particular benchmarks and indexes.

It would be incorrect to categorise our preferred investment approach as 'passive' as this is to assume we take no interest in the underlying asset allocations and economic backdrops. Which would be incorrect.

Indeed, IFA are regularly reviewing the available investment evidence to determine if our clients could benefit from adopting this into their portfolios.

In essence we believe there are five key benefits that clients will obtain through access to these investments, lower operating expenses and lower turnover resulting in lower cost. Consistently maintained asset class exposures. Better long-term returns by avoiding active trading mistakes and an evidence based underpin.

Our centrally selected investment solution

We typically use model portfolios for clients. Responsibility for the fund selections for each asset class is governed by the selected Managed Portfolio Service provider and Discretionary Investment Manager. As shown in the separate research document only EBI passed through all our filters, which included:

- Offering an evidence based (passive) portfolio solution
- Offered mainly through regulated advisers and planners
- A Silver service rating or higher
- An annual charge lower than 0.5%
- A low minimum initial investment requirement and no set up fees.

Core investment proposition – Why EBI

After significant research of all available investment options, we have settled on the use of EBI's Strategic Earth portfolios which are available on our chosen investment platforms. EBI have created a range of 10 Model Portfolios based on asset allocation. These have been fully mapped to the Oxford Risk tool to fit within an expected risk budget.

Investment Philosophy

An investment philosophy is the overall set of principles or strategies that guides and steers our investment decisions. It helps us to simplify a complex industry, allowing us to concentrate on our relationships with our clients, safe in the knowledge that we are doing our best to protect and grow their assets.

Our philosophy is expanded upon within the Appendix, including academic research.

While investment performance hinges on many factors out of our control, most notably the return on markets, we can control other factors. These are the ones we deem the most important in creating and managing a portfolio such as the types of investments you invest in, the cost of the investments you choose and what you look for when choosing the investment companies you do business with. It is important we can justify investment decisions to clients and make it clear why we have invested their money in a particular way. Our philosophy summarises our approach.

The core principles that underpin our investment process and philosophy:

We believe in investing, not speculating. Whilst speculating can be fun, you should not use investment capital to speculate.

There is a world of difference between speculating and investing and our process helps to reinforce the latter and seeks to remove the gambling element from client's investment experience.

Due to the overwhelming empirical evidence available (referred to throughout this document and disclosed in the Appendix), we do not believe that there is any merit in market timing, and stock or fund selection. It is far more important to maintain a disciplined approach that helps clients get from 'A to Z' so that they can achieve the goals they have set themselves.

People deem investment advice as a forecast. But one thing we are clear about is that we do not believe we can forecast the short-term value of any market with any accuracy. No-one can, it is just speculation, and whilst we have our opinion on what might happen, we would not use this as the basis for client advice.

Our approach systemically tries to capture long term market return, which is what matters, as it is the growth that markets deliver over time that assists us towards the achievement of our goals.

We cover a series of steps with our clients to ensure they understand the various risks associated with investing, why we focus on asset allocation rather than fund selection, and why the monitoring of portfolios is so important to successful investing.

Before going through these steps, the first thing we need to do is confirm the timescale over which clients are to invest. Historical evidence indicates that the longer the timescale the more likely it is that equity investments will outperform interest generating investments, as time tends to smooth out the effect of positive and negative price movements. The longer-term investor is therefore able to have a greater degree of confidence that the reward, in terms of achieving increased returns via equity holdings, should be achieved.

It is also extremely important that clients should hold sufficient accessible cash, an ‘emergency fund’, to cover additional unexpected expenditure as they judge fit – this is something that we will discuss and agree as part of their overall strategic plan. The balance after this cash has been set aside should then be applied to a structured investment programme.

We provide independent advice

We chose to remain independent because we believe that it is important that we are not restricted in any way at the point we recommend a product or fund to clients. Whilst we may not believe certain types of investment are suitable for clients, because of their structure or inherent risks, it is important that we are fully aware of them, understand the circumstances where they may be relevant and can advise you appropriately if a client already holds such investments. We have committed to maintaining our knowledge in all product areas and this forms part of our Continuing Professional Development (CPD) programme. It is also important to us that we do not have any contractual relationships in place which require us to place business with any particular provider of products or investments, as this would compromise our independence and create a conflict of interest when providing advice.

We believe in diversification

One of the most important views to arise from modern portfolio theory is that investors should avoid concentrated sources of risk by holding a diversified portfolio. There are three primary factors which influence portfolio performance; asset allocation, stock selection and market timing.

Diversification of an investment portfolio across a variety of different low correlated asset classes should help to reduce the overall level of risk compared with, say, a portfolio which only includes bonds. For example, the inclusion of a small investment in a higher risk fund invested in a completely different area, in a portfolio comprising solely of UK bonds, can actually serve to reduce the overall level of risk in the portfolio when viewed as a whole. This is because the behaviour of the higher risk fund differs to that of UK bonds in how it reacts to varying economic events. An effective combination of different asset classes can significantly reduce the risk of a portfolio without reducing its potential for growth.

We believe that cost is an important investment criteria

We believe that cost is a critical factor in selecting a product or investment fund. We recognise the need to select companies with sufficient financial strength and adequate levels of service, however cost is one of the few known criteria at outset and it has a demonstrable impact on future investment returns. This informs both our asset allocation strategy and fund selection criteria.

Investment Management Strategies

We have provided academic evidence in the Appendix that concludes, on average and over time, active money management strategies based upon share picking or market timing techniques have not produced consistently superior results. In fact, most evidence shows that active money managers actually under-perform the 'market' return on average due to relatively high operating costs and the cumulative effect of the mistakes they make while trying to 'beat' the market. There are now so many highly skilled money managers deploying so much highly focused technology that in order to consistently 'beat' the market, a money manager must consistently 'beat' all the other equally skilled professionals who, as a group, are the market. This is an insurmountable challenge.

Because the stock markets are fundamentally efficient, the prices of individual shares at all times contain the publicly accessible information that might affect the share price. This means that any events which cause the prices of securities to change must come in the form of new information or surprises that not even the best portfolio manager can predict all (or even most) of the time. These factors will tend to produce random performance across active managers and make it very difficult, if not impossible, to predict which active manager will outperform the market in any given period. Modern academic research into the performance of active money managers broadly supports these conclusions.

Furthermore, it is possible to construct a diversified portfolio in which share-specific events tend to cancel each other out. Therefore, we believe that taking large share-specific risks through active fund management strategies will tend to make a portfolio inefficient by increasing overall portfolio risk without necessarily increasing expected long-term returns. We also believe that factors affecting the overall market and asset class submarkets generally cannot be eliminated through diversification.

On this basis, we believe the correct course of action is therefore to focus on diversification and asset allocation strategies, whilst avoiding active fund management strategies.

To summarise, active money management strategies can have the following problems:

A strong performance in any given period by an active manager is not necessarily a statistically reliable indicator that the manager will perform well in the future.

Active management strategies often generate high transaction costs through portfolio churning and can incur high management fees paid to the fund managers.

Active managers often stray away from strictly defined asset class mixes in the constant pursuit of the 'hot' sector or share, making it more difficult for the investor to maintain a disciplined asset class allocation (which is the most important factor).

Active managers tend to 'hug' certain indices in order to avoid tracking error relative to their performance benchmarks. Investors often wind up paying high 'active' management fees for 'market tracking' performance on a large portion of their assets.

Active managers generally operate under fairly short-term time horizons, consistent with their employment arrangements. In contrast, an individual's investment time horizon often requires a long term and stable approach to the capital markets.

Evidence Based 'Active Passive' Strategies

IFA believes that the solution is to successful investing is a risk rated asset allocated approach using low-cost investments that track particular benchmarks and indexes.

It would be incorrect to categorise our preferred investment approach as 'passive' as this is to assume we take no interest in the underlying asset allocations and economic backdrops. Which would be incorrect.

Indeed, IFA are regularly reviewing the available investment evidence to determine if our clients could benefit from adopting this into their portfolios.

In essence we believe there are five key benefits that clients will obtain through access to these investments:

- Lower operating expenses
- Lower turnover resulting in lower cost
- Consistently maintained asset class exposures
- Better long-term returns by avoiding active trading mistakes
- An evidence based underpin.

The Importance of Rebalancing

Because asset classes grow at different rates of return, it is necessary to periodically rebalance a portfolio to maintain a target asset mix. By rebalancing regularly, you are enforcing a discipline often on a 'buy low, sell high' basis, which enhances the long-term return for the portfolio. Without rebalancing, portfolios will tend to become more volatile over time.

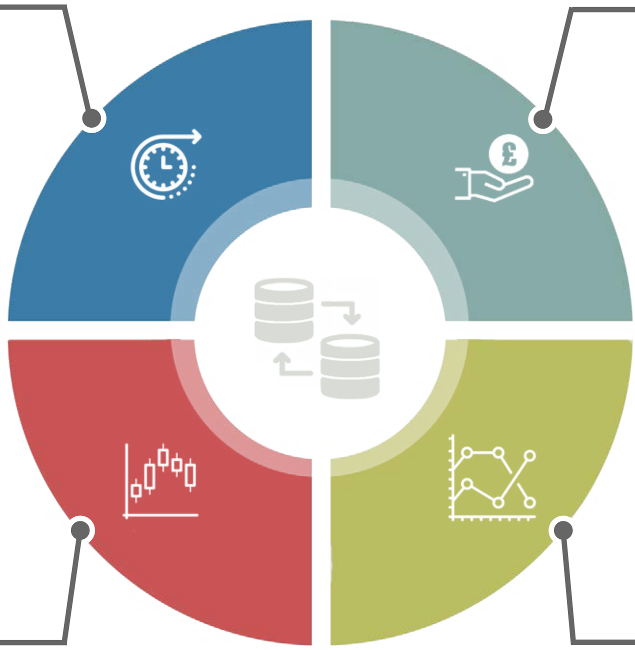
Summary

As stated above, we believe that active management strategies **have not** consistently added value for the individual investor. There is also significant evidence that shows that long term investment objectives can be best achieved by maintaining a disciplined policy of asset class diversification targeted towards the establishment of 'efficient' portfolios for investors within the overall risk levels that they are able to assume. These goals can be best achieved by investing passively managed investments for the long term, supported by regular rebalancing to ensure that allocations stay within strategic parameters.

It is important to remember that even with 'active passive' investments an investor will still be exposed to fundamental risks inherent in the capital markets, which include but are not limited to:

Understanding past performance is not necessarily a guide to the future

Levels and bases of and relief from taxation are subject to change



The assumptions made, and returns quoted, are based on historical information and research conducted. Actual returns from investments may be more or less than those quoted

The value of investments can fall as well as rise.

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Our Advice Journey incorporates 6 steps as follows:

1. Our initial discovery meeting is a chance for us to get to know each other and ask any questions you might have. We'll get together over a coffee and a piece of cake and simply have a relaxed chat about you, your goals, and how we might be able to help you. (Discovery)

2. To be able to move the process forward and construct your financial plan, we need to have a full picture of your current circumstances. We'll collect all the information we require on your existing arrangements. (Information Gathering)

3. Once we have all the relevant information, we'll meet to prioritise what is important to you and discuss how well aligned your current arrangements are with your goals. (Planning)

4. Once we have agreed your priorities and how to move forward, we'll research and recommend any financial solutions that will better help you to achieve your goals. We'll document this into a financial plan and present it to you. (Research and Documenting)

5. Implementing our recommendations. (Implementing)

6. It's important to check on the success of your financial plan and review the progress made. We'll meet yearly to discuss the previous year; if any of your goals or objectives have changed, we'll make adjustments to accommodate them. (Reviewing)

Our investment solutions first come in at Step 4, Research and Documenting the IFA client journey. They are revisited in Step 6, Reviewing. The first 3 steps incorporate a thorough and meaningful analysis of our clients' life goals alongside their existing resources.

We provide a non-judgmental and open space for clients to explore their objectives and situation before looking at financial matters. We believe that jumping to dealing with pension or investment options straight away risks putting a solution in place that inadvertently makes it harder for a client to achieve what that really want, whereas looking at the bigger picture will give more meaning to their planning to provide long-term peace of mind.

The Discovery stage revolves around a clear lifetime cashflow forecast for each client. Given the demographic and needs of our clients, as follows, this is a particularly meaningful and beneficial exercise. The investment proposition outlined within this document is designed to help deliver the target returns for our clients, as driven by their personal cash flow forecast, and the rest of this document will focus on how we arrived at our recommended solutions for Pensions and Investments.

We're financial planners, unlike financial advice, financial planning is a process focused around achieving your lifelong dreams. It's an all-encompassing and holistic process that accounts for your life, family, finances and goals.

We're independent, being independent, we can recommend the best financial solutions for you. We have the freedom to select products from the entire market, so our recommendations are always bespoke.

We look at the bigger picture, we're not looking to solve your one single problem; that's only half the job. We work with you to assess everything that's important to you and help you to achieve your goals.

We care about the financial plan, not the products, we keep things clear by explaining fees to you in pounds and pence. What's more, we charge fixed fees rather than a percentage of your wealth, as you sometimes find with financial advisers. Fixed fees mean you're paying for value-added, rather than a fee based on how much you have.

We speak your language; we appreciate that trying to organise your financial affairs can be complex. Rather than trying to confuse matters further, we talk to you in plain English and tell you things in the simplest way possible without patronising.

The vast majority of our clients come to us by recommendation from other clients. As people tend to know other people like them, almost all our clients are therefore at a certain stage of life and facing similar anxieties. As such, our investment proposition is driven by the needs and circumstances of each particular type of client:

Young professionals

As a young professional, you might be starting to see the rewards that your hard work brings. You might be thinking about the future; your career, your family, your plans and goals. No matter your life stage, it's time to start getting organised.

New business owners

As a new business owner, you're constantly striving for growth. Nevertheless, your ambitious approach isn't immune to those niggling thoughts: Am I doing what's right for my business and my family? Am I making the most of my opportunities? Is this all going to work out?

Stuck in the rat race

You've probably thought about it; quitting your job, going freelance, retiring early, or exploring the world. Most people do work to live, rather than the other way around. But what if you actually took time to design and live a life you love?

Approaching retirement

Retirement looks different for everyone. Whether you're toying with the idea of working a few days a week, moving into consultancy or leaving work for good, it can feel like a daunting decision. But we encourage you to see retirement as the next adventure. Time to make a plan.

When clients first come to us, they are typically aged between 30 and 65 and looking to take stock of where they are and understand how their future could look. They are mindful of the fact that time seems to go by quicker every year and they wish to ensure they can do more of the things they enjoy whilst they have the health to do so. Sometimes our clients come to us due to a life trigger, such as Redundancy, Divorce, Bereavement or Retirement. All of which have emotional aspects to be understood first. Many of them know of other friends or colleagues who sadly did not get to enjoy their later life, which has made them keen to see what's possible for them. They typically have relatively high value assets and have worked at a high level professionally, resulting in more complex needs than average, particularly around tax planning and wealth preservation. This can understandably make the transition towards retirement, or a big life change feel more daunting, with uncertainty around how to maintain and protect the life they enjoy. This is where Discovery and Planning service is of utmost value, to illustrate what "enough" really means and clearly show how they can make the most of their time and their money, without their assets running out. Our clients are often aware that they will "probably be ok", but value professional advice and the confidence of knowing for certain.

We are able to describe our clients in the manner above because we understand them well. When any individual first becomes a client of ours, we undertake a comprehensive planning process, to learn about them at a deep level that allows us to be a trusted partner in helping them achieve the life they want sooner rather than later. We gather their financial objectives, personal and financial circumstances, and their experience and attitude towards financial advice and investment. Moving through or towards a big life change can bring a lot of uncertainty, so almost all of our clients join our Ongoing Support service. As such we continue to update the information, we hold about them and adapt their plan based on external and internal influences regularly, so they can continue to confidently live life to the full.

We generally only deal with "retail clients" and therefore only recommend products and services that are appropriate to this market and would not recommend products that have been designed for non-retail clients. We regularly review the products we recommend and the services we provide to ensure these remain appropriate for new and existing clients. We will liaise with product manufacturers to ensure that products we recommend only reach the target market for which they are designed.

All of the information we learn about our clients is documented within our client management system we use. The information is added to, rather than replaced, over time, so that we maintain a record of how our clients' circumstances and views have changed since we began working with them.

Assessing our clients' attitude to risk and capacity for loss

Attitude to Risk

One of the key elements of our investment and retirement advice process is discussing risk with our clients. We explore clients' existing views in this area, challenge these and develop their knowledge where appropriate, to ultimately ensure we have a deep understanding of each of our clients' attitude to risk and capacity for loss. This insight is combined with other information, including the client's objectives and the need, if any, for them to take risk to achieve these, as shown by their cash flow forecast, to inform the advice we provide.

Our assessment of clients' attitude to risk and capacity for loss is underpinned by the Oxford Risk profiling methodology. Oxford Risk was selected by IFA to provide this service, following a review and due diligence on various similar tools available. Further information on the processes we follow to assess each client's attitude to risk and capacity for loss, and the Oxford Risk methodology that support these processes, can be found in IFA 'Attitude to Risk Process' guide.

Once we have followed the processes outlined in the above guide, we will have identified and agreed the Oxford Risk profile for that client, using a scale of 1 to 6. There are multiple methods by which we may ensure the solution we recommend matches the client's risk profile, and these are outlined in IFA Risk Tolerance Summary.

Oxford Risk define and publish a recommended asset allocation for each of the six risk profiles, and details of these can be found in the Appendix. The Oxford Risk asset allocations underpin how our portfolios map to the risk profiles, and we use this data in conjunction with EBI's Mapping portfolios to Oxford Risk to guide our portfolio construction.

We continue to discuss risk with our existing clients on a regular basis and use these discussions to identify any changes to their attitude to risk or capacity for loss. This enables us to change the advice we provide, or the solutions we recommend, as appropriate.

Capacity for loss

A key part of assessing attitude to risk is assessing a client's capacity for loss. Capacity for loss refers to the client's ability to absorb falls in the value of their investment. Any loss of capital which a materially detrimental effect on the client's standard of living could have should be taken into account in any recommendation made. It should never be assumed that a client is willing to take the risk of capital loss without discussing with them whether this assumption is correct.

On capital loss, there are three main points to consider:

1. The client's **ability to absorb** falls in the value of their investment and whether the loss of capital would have a materially detrimental effect on the client's standard of living.

2. Whether the client has the **knowledge and experience** to understand the risks of what is being recommended and whether any risks are clearly explained.

3. The client's **attitude to capital loss**, which forms part of the assessment of attitude to investment risk.

Ability to absorb capital loss

Properly documented in either the Fact Find or meeting notes with specific investment objectives (including timescales), and evidence of adequate emergency investments will help us evidence a client's ability to absorb capital loss. The key point is to document clearly a client's current financial position (including emergency investments) and future aspirations which are then confirmed properly in the suitability report.

We believe that investors should have sufficient liquid assets before investing personal funds for long term investment growth using any risk asset. By sufficient liquid assets we mean:

- Sufficient liquid and available cash to cover unexpected emergencies of between 3 to 6 months' salary, plus
- Sufficient liquid and available cash to cover all known expenditure within the next 12 months, holidays, tax bills etc., plus
- No unsecured debts with high interest rates, such as credit cards etc. – We currently define 'high' as being higher than the expected net returns of a suitable risk aligned portfolio, plus
- A repayment plan in place to repay any long-term debts such as mortgages.

We would not apply the above restrictions to pension payments, especially if these benefit from a matched employer contribution, unless the client is in a particularly perilous financial position.

Knowledge and Experience

A client's knowledge and experience should be clearly documented in the Fact Find. Risks should also be clearly explained avoiding the use of jargon.

Attitude to capital loss

In terms of assessing a client's attitude to capital loss, we have a robust process in place to identify clients that are best suited to placing their money in cash deposits because they are unwilling or unable to accept the risk that comes with investment.

A key part of assessing attitude to risk is assessing a client's attitude to capital loss. We do not assume that a client is willing to take the risk of capital loss without discussing with them first whether this assumption is correct. These conversations with the client are documented within the Fact Find or meeting notes.

Our research tools

As we provide independent financial advice, the research we carry out to identify appropriate solutions for our clients is a key part of our processes. Our research meets the regulatory standard for independent advice i.e., we *"assess a sufficient range of financial instruments available on the market which must be sufficiently diverse with regard to their type and issuers or product providers to ensure the client's investment objectives can be suitably met".*

Job	Tool	Rationale
Setting goals, cashflow modelling and income strategies.	Voyant	This allows us to model tailored, accurate and meaningful forecasts for each client to enable them to visualise the future, understand the effect of different courses of action and see what's really possible.
Platform due diligence and selection.	Wecomplement	Wecomplement has provided this service for a number of the top planning firms in the UK. We researched other firms and selected Wecomplement based on their knowledge and the quality of their independent research and documentation.
Fund filtering and research.	FE Analytics	FE Analytics is a leading provider of independent investment research. They provide the data required for us to research the global fund marketplace to filter and select funds for our portfolios.
Asset Allocation and investment market updates.	Dimensional, Vanguard and EBI	We use a combination of sources to research and validate strategic asset allocation and the principles which underpin our decisions.
Risk mapping and profiling.	Oxford Risk	Oxford Risk is the UK's leading provider of financial planning and forecasting solutions, with a track record for excellence and innovation having been established in the industry for over twenty years. The decision to use the Oxford Risk profiler is kept under review by Wecomplement

Research

We use a number of online product research tools to select products and investments including: Assureweb, Webline, Defaqto Engage, FE Analytics and Selectapension to research suitable products. These provide an online product research tool and cover the following product types:

Investments

- Unit linked Onshore & Offshore Bonds
- Unit Linked Savings Plans
- Unit Trusts & OEICS
- Offshore FCA Recognised Investments
- Investment Trusts
- ETFs

Pensions & Retirement

- Pensions including Stakeholders, PPPs, SIPPs, SSASs
- Group Pensions including Group Stakeholders and Group Personal Pensions
- Trustee Investment Plans
- Drawdown / Flexi-Access
- Third Way (Drawdown & Annuity)

Protection

- Life Protection – Term Assurance, Critical Illness
- Income Protection – Personal & Executive
- Group Life
- Private Medical Insurance
- Long Term Care (Immediate Payment).

Our centrally selected investment solution

Initial Wrapper/Platform Selection Approach

We select the appropriate tax wrapper based on each client's circumstances, which will be different in all cases. We will however select the most tax efficient means of investment where relevant to the client's circumstances, for example using a client's ISA allowance each year before other investments.

To select the product provider of each tax wrapper we will consider a number of factors, including the service the client requires. Where the client requires an ongoing level of service, including portfolio rebalancing and ongoing maintenance, an investment platform will typically be used. An investment platform gives us the flexibility to rebalance the client's entire portfolio, not just a single product.

Where suitable for the client we currently use an investment platform, selection of these platforms is documented accordingly.

Investment Selection Approach

We consider the individual requirements of all of our clients and provide advice based on these. However, as we have multiple clients with similar needs and characteristics (as per our 'typical clients' detailed earlier), we have selected investment solutions centrally to recommend to clients who fit the required profile.

This increases the consistency and efficiency of our advice, whilst still ensuring every solution we recommend is suitable for the client to whom it is recommended. All solutions we select centrally are chosen following an independent research process, and this research is re-run regularly to allow us to review our selections. Clients with existing investments will only be switched into our centrally selected investment solutions where this is in the best interests of the client.

We typically use model portfolios or low cost single multi asset funds for clients. Responsibility for the fund selections for each asset class is governed by the selected Fund Manager, Managed Portfolio Service provider and Discretionary Investment Manager.

As shown in the separate research document only EBI Capital Partners passed through all our MPS/DFM filters, which included:

- Offering an evidence based (passive) portfolio solution

- Offered mainly through regulated advisers and planners
- A Silver service rating or higher
- An overall annual charge lower than 0.5%
- A low minimum initial investment requirement and no set up fees.

We will leave the selected MPS provider to select the underlying investments and the allocation to these funds for asset allocation purposes so we can be free to focus on the financial planning needs of our clients.

The focus of the MPS's is on long-term fund selection within a strategic asset allocation. In line with our approach to investment management our selected MPS providers select passive, evidence based, investments as deemed appropriate.

The MPS providers are responsible for ensuring that their portfolios are diversified and correspond to their risk mandates. They ensure that the underlying funds are diversified both in terms of assets and management style. The Investment Committee considers these factors when researching the MPS provider as a whole.

MPS providers are reviewed half yearly however the underlying portfolios are regularly rebalanced by the MPS providers rather than by IFA.

Rebalancing is necessary because, in the normal course of investments, the various investments within the model portfolio will grow at different rates (or indeed some or all of the funds may fall in value). This will alter the proportions of each investment within the portfolio, and this will change its risk profile. The MPS provider sets regular rebalancing dates, they also make changes as necessary based on their research of investment managers etc.

Where a client does not invest in an MPS solution we will conduct a rebalancing exercise, ideally utilising the underlying core investments of our chosen MPS providers as closely as possible, if necessary, taking into consideration any potential CGT liabilities.

Due to the dynamic nature of these portfolios, their asset allocations will vary from day to day and the manager operates to their own investment selection processes rather than our asset allocation models. However, it is critical that the risk rated funds map directly into our attitude to risk process.

Single Multi Asset Funds
In relation to clients who are happy with their current platform, or for one reason cannot switch away from their current plan, or for another do not fit the EBI MPS model, or the EBI range is not deemed suitable (investments held within life insurance bonds etc.) we are comfortable using low cost multi assets funds that are aligned to a client's risk profile.

To filter suitable funds, we started by setting our standard filters, an OCF of 0.25% or less, with 3 years or more trading history and available in GBP. For simplicity of taxation, especially within GIA accounts we also initially looked to avoid funds that could have 'reporting status' issues. Finally, we added a minimum £100M fund size simply to remove funds that may not be able to have a sufficient spread of assets.

As mentioned previously, IFA have a preference for a global equity allocation rather than the typical home market bias operated by most fund managers. We also prefer funds which reduce the level of 'active; involvement a manager can have.

The ranges that have met all filters include the BlackRock NURS II Consensus range, the HSBC Global Strategy Portfolio range (currently with the exception of the Conservative and Adventurous versions) and the Vanguard Life Strategy range. All things being equal we believe the HSBC range offers the closest match to our preference and is also the lowest cost options. Consequently, we would expect the appropriate HSBC Global Strategy version to be included before the addition of the BlackRock and Vanguard versions.

Core investment proposition

To clarify, the core proposition includes the use of the EBI Investment Management (EBI) Strategic Passive portfolios available on the EBI platform and appropriate Multi Asset funds.

EBI have created a range of 10 Model Portfolios based on asset allocation. These have been fully mapped to the Oxford Risk tool to fit within an expected risk budget.

These portfolios have very low overall cost of investing (OCF) with a very competitive discretionary investment fee of 0.12% (giving overall costs within our 0.5% filter.

The structure of the EBI Strategic Risk Graded solutions allows for a more direct implementation of Strategic asset allocation views and more explicit attribution analysis, as shown in the Appendix.

With the choice of 10 specific risk rated portfolios we can also ensure a clients' investment goals match the risk attribute of a specific asset allocation set.

Our default position is to include an ESG filter as part of our process to ensure, as a firm, we are playing our part in promoting a positive investment outcome. Based on our research we do not believe this creates any additional risk or reduced returns for our clients therefore as 'doing good' does not come with a cost we believe this to be our default position.

Ethical and ESG considerations

We understand that for some people investing in line with their Ethical, as well as Environmental, Social and Governance (EESG) beliefs is as important, if not more, than achieving positive investment returns.

ESG and SRI Investing

The Earth portfolio is a five factor, passively managed portfolio that is globally diversified and provides investors exposure to ESG, with all funds in the portfolio now being ESG screened.

EBI use screened funds within Earth to control certain exposures based on criteria such as business sectors, vice products or controversial weapons manufacture, for example, or companies that participate in environmentally damaging activities. EBI recognise the influence the finance sector has on companies and their sustainability credentials and believes that the stewardship of investment managers will help drive long-term sustainability change.

If clients do require additional ethical screening within their portfolio this will be deemed a 'nonstandard product selection' and dealt with in the next section.

Non-Standard Product Selection

We have discussed our view regarding how we would approach various 'non-standard' products below:

Socially Responsible Investments

"Socially conscious" investing is growing into a widely followed practice, as there are dozens of new funds and pooled investment vehicles available for retail investors.

There are two inherent goals of socially responsible investing: social impact and financial gain. The two do not necessarily go hand in hand; just because an investment touts itself as socially responsible doesn't mean that it will provide investors with a good return. An investor must still assess the financial outlook of the investment. The SRI portfolios have no strict minimum, but we would expect the use of these portfolios to be quite limited.

We have constructed 3 SRI portfolios based on our core beliefs

- Lower operating expenses
- Lower turnover resulting in lower cost
- Consistently maintained asset class exposures
- Better long-term returns by avoiding active trading mistakes
- A global asset allocation.

Structured Products

We do NOT advise clients regarding structured products, feeling the additional counterparty risk and opaque nature of the underlying assets providing unnecessary risks for additional questionable return. The main reason put forward for the use of such products is to provide investors access to low volatility investments and we believe there are better and more appropriate vehicles to achieve this.

Securities

We do not provide advice on securities, which do not fall under the definition of Retail Investment Products.

Enterprise Investment Schemes (EIS') & Venture Capital Trusts (VCTs)

We will advise clients with regards to the use of EIS and VCT arrangements but subject to the clients meeting certain criteria. We would only advise certain clients with regards to EISs and VCTs, where they might fit in respect of other tax efficient vehicles that have to be first considered and what exposure a client should have to this type of asset.

With an EIS and VCT the client must be a high-net-worth investor or a sophisticated investor who has sufficient income tax liabilities to warrant using the relief available through an EIS/VCT. They must also have considered other tax efficient vehicles such as an ISA, pension or National Savings before consideration is given to an EIS or VCT.

The client must also have surplus capital and the amount invested into an EIS or VCT must be moderate relative to the overall value of their portfolio, with overall exposure to EIS and VCT being no more than **10%** of their overall portfolio.

The client must also have a higher risk attitude towards investment risk (or a balanced attitude within which they can have exposure to some higher risk assets) and have a high capacity for loss in respect of the particular EIS.

IFA will consider each EIS and VCT opportunity in turn and will conduct research into these using independent research provided by Tax Efficient Review or Allenbridge. Meetings will be held with the EIS/VCT provider and consideration given to the information and material that they are able to provide.

The Investment Committee will then make a decision as to which EIS and VCT opportunities are appropriate, and this will be signed off by Compliance Oversight.

Investment Trusts

We regard Investment Trusts as carrying certain features that make them inherently higher risk than their unit trust counterparts. This is specifically due to the fact that they are able to gear up and the fact that liquidity issues are more likely to occur with an Investment Trust than a unit trust.

Furthermore, as Investment Trusts adopt an active investment approach, they are currently excluded at investment selection stage regardless.

NMPI/UCIS

We do provide advice on non-mainstream pooled investments including unregulated collective investment schemes (UCIS) but only where appropriate i.e., for clients who have been certified as high net worth investors, sophisticated investors or professional investors. We follow a very specific process in terms of determining which clients are suitable for discussions around UCIS (certified HNW investors only) and, once we have determined this, we then follow a strict process in terms of how we have these discussions, at what point, and what levels of monies we suggest a client considers investing i.e. what limit to UCIS they have generally and what exposure they would have to the specific UCIS concerned.

As part of the process, we complete a UCIS due diligence pack which covers a wide range of matters regarding the fund itself, those parties involved, the associated risks, which clients we are going to speak to, and which advisers are allowed to talk to clients about the particular UCIS.

The research undertaken will include provider meetings, independent research where appropriate and available regarding the specific fund itself and what comparables are available and checks on the fund manager and operator to ensure that one or both are FCA registered.

It is signed off and overseen by Compliance Oversight, but the Investment Committee will discuss each opportunity before it is signed off

The process of advising on UCIS, EIS/VCTs, investment trusts and structured products is tightly controlled by our compliance and Training & Competence regime. Advisers can refer to these schemes for information on the additional approval requirements. Failure to adhere to these requirements is a serious breach of process.

Our centrally selected platforms

Our platform selection is underpinned by independent research and based on the needs of our typical client and with consideration for the needs of the business in order to deliver and efficient and effective service to those clients.

It is critical that the platform or platforms selected by our business are suitable for the delivery of appropriate financial solutions for our core client base. There will always be clients who have particular needs which fall outside the scope of this due diligence and these clients will be identified during our fact-finding phase at which point we will undertake individual product research and investment due diligence as part of the advice process and in accordance with our centralised investment proposition.

The need for a platform?

It is our view that a platform is not essential for everyone, specifically those that only have one 'wrapper' e.g., a pension. In these instances, an insured arrangement may offer a suitable, low-cost solution. However, the vast majority of our clients, as mentioned previously, have more complex needs and take peace of mind from our ongoing relationship. Where we provide an ongoing service, we cannot efficiently monitor and advise where they have complex income and tax planning needs across more than one wrapper if this is not administered on a wrap platform.

We also use platforms as we believe they future proof our client's investments. By this we mean that what might be suitable today, might not be suitable tomorrow and to have the ability to change the product, funds or even utilise a new product is of upmost importance for us to be able to deliver our clients financial planning needs.

Our centrally selected platforms for new and existing clients are Novia, EBI and Transact. The research and selection process taken to reach this conclusion is documented in full within the separate Platform Due Diligence document.

Full details and comparison of charges across all three platforms is contained within the Platform Due Diligence document.

Implementation of our proposition

The processes detailed in the document are followed by all advisers and staff within our business, adding consistency and efficiency to our investment and retirement advice process. Any updates to this document are communicated to all advisers and staff promptly. All relevant staff have received training on the types of clients our centrally selected investment and platform solutions are suitable for and who they are not.

We consider the individual circumstance and requirements of every one of our clients, and we will only recommend the centrally selected investment solutions, platforms and products shown in this document if they are appropriate for the client being advised. Where we do not recommend one of our centrally selected solutions, we will follow the individual research processes outlined in the previous section of this document.

We manage any conflicts of interest that may arise in offering a centrally selected investment and platform solution by ensuring we place the interests of our clients above our own interests and only recommend these solutions where they are suitable for our clients. This is also monitored by our external compliance consultants through their sample reviews of our advice.

Reviews of our proposition

We review the ongoing suitability of the investment solutions, products and platforms each of our existing clients is invested in through regular suitability assessments for each client, as shown below. A suitability assessment will take place at least once a year for each client to whom we are providing ongoing advice.

During a client's review we will revisit their personal objectives and their lifetime cashflow forecast, paying attention to changes in their expenditure and whether they have felt confident to do the things that are important to them. Re-running the forecasts allows us to take a meaningful view of what, if anything, needs to be changed to maintain sustainability and allow them continued financial security. As our clients are spending their accumulated assets, this is of particular importance. Following this thorough review of their circumstances and a fresh look at their risk profile, we will be able to assess the ongoing suitability of their investments and make any required recommendations.

We will undertake a formal review of our investment and retirement advice principles and the mapping of our model portfolios to the Oxford Risk tool every 12 months. We will re-run our portfolio and platform selection research at least once a year. These regular reviews of the centralised solutions we use are particularly important for any recommendations to new clients we work with, as it is important that our research is current.

We will draw upon external resources from companies such as Vanguard, EBI and Dimensional and the research and updates regularly provided by Wecomplement. As a business we are committed to continually developing and adapting to the changing world of financial advice, as such we are mindful of the potential for our own unconscious biases and will seek external views across a range of investments approaches and solutions in order to ensure we continue to provide the best possible service for our clients.

Investment Committee

It would seem common sense that two heads are better than one - we have therefore introduced the concept of an investment committee to assist us in making decisions on the investment approach we take with our clients.

Part of this approach will include conducting specialist research where necessary, then discussing the findings at committee level before agreeing on a common approach. This research will also involve investment specialists assisting us in our decision-making processes, including attending seminars run by investment managers who inform us of the latest developments in the investment markets.

These fund management companies are equipped with large research departments who are able to create the data that is needed to make decisions that are in your best interests. These include which funds to recommend for a particular sector or geographical region and the economic outlook throughout the world.

The introduction of the Investment Committee will assist us in offering a standard investment advisory service across the whole firm.

Product Governance (PROD)

The Product governance rules in MiFID II are intended to ensure products are distributed to and meet the needs of the target market. All distributors and manufacturers of investment products and services must have appropriate product governance procedures in place.

Product governance refers to the systems and controls for design, approval, marketing and ongoing management of products throughout their life cycle.

Product manufacturers (for example, product providers and fund managers) are responsible for specifying the appropriate target market for each of their products. They must also, where relevant, identify any groups of clients for whom the product is generally not appropriate. – **All products recommended by IFA have designated suitable for Retail clients.**

Product distributors, such as IFA, are responsible for ensuring their recommendations and sales are aligned to the manufacturer's target market expectations. Distributors also have a duty to feed certain types of information back to manufacturers to help them ensure products are appropriately targeted and remain fit for purpose.

PROD 3 (Product Governance: MiFID) obligations apply to MiFID investment products (for example, unit trusts, OEICs, investment trusts etc.) and MiFID services, such as investment advice and portfolio management. It also includes structured products. The PROD 3 requirements are also underpinned by guidelines issued by the European Securities and Markets Association (ESMA).

At IFA we take product governance very seriously and we have therefore prepared our response to the key questions and requirements of the relevant PROD 3 sections below:

Product Governance and IFA

IFA is classified as a product distributor as we do not 'manufacture' or structure ow own portfolios. Consequently, we have undertaken a review of our CIP to ensure we have considered all potential issues raised in Chapter 3 of the FCA Product Governance MiFID document.

In summary we believe we are compatible with the needs and characteristics of the mass retail market.

PROD 3.1.2 A firm must,

(1) when manufacturing financial instruments or deciding on the range of financial instruments and investment services it intends to distribute to clients, comply, in a way that is appropriate and proportionate, with the requirements set out in this chapter.

(2) In complying with these requirements, a firm must take into account:

(a) the nature of the financial instrument or investment service; and

(b) the target market for the financial instrument.

Covered within this CIP document

PROD 3.2.4 For each financial instrument the product approval process must:

(1) specify an identified target market of end clients within the relevant category of clients

(2) ensure that all relevant risks to the identified target market are assessed; and

(3) ensure that the intended distribution strategy is consistent with the identified target market.

This has been covered in-depth within the CIP document.

PROD 3.3.1 A distributor must:

(1) understand the financial instruments it distributes to clients;

(2) assess the compatibility of the financial instruments with the needs of the clients to whom it distributes investment services, taking into account the manufacturer's identified target market of end clients; and

(3) ensure that financial instruments are distributed only when this is in the best interests of the client

The portfolios are aimed at the retail clients of IFA and will ONLY be distributed by qualified and registered UK financial advisers to retail clients of IFA.

Consequently, as all 'distributors' will be required to comply with the PI CIP no additional distributor considerations will raise any poor client outcomes.

Appendix

Strategic Asset Allocation (SAA)

Once we have assessed and determined our client's capacity for loss, knowledge, experience and attitude to risk, we are then able to select a suitable asset allocation model to potentially deliver the financial outcomes they need to reach their specific goals within the specified timeframe.

The approach we follow, is to find the allocation that offers the best average return over the wide variety of simulated situations, for a given level of risk or uncertainty about the full range of outcomes. As such the portfolios we have built are "efficient" – their expected returns are not matched by any lower risk portfolio. The portfolio risk definition is consistent for each increase in portfolio risk. The portfolios are calculated to be "efficient" for investments made at that time and held for the duration of the client's investment objective. Based on our current selected Discretionary Investment Manager EBI, our clients' risk tolerance score is mapped to a particular investment strategy and asset allocation. This enables an apples-to-apples comparison between risk tolerance and investment risk.

Six steps to determine a suitable Strategic Asset Allocation (SAA)

Once our client has completed the risk questionnaire, we review the report with our client. Our client then confirms they are comfortable that the score reasonably represents their risk tolerance.

We map our clients' risk tolerance score to a specific asset allocation in the portfolio suite shown below. Each risk profile has an increased allocation to growth assets (more risk) and mapped to our client risk profile score. This is an indication of how likely the fund will deliver returns and volatilities that meet our client's emotional preferences. We would expect that for each increase in risk tolerance our client should expect, (not a guaranteed), higher rate of return and higher volatility (ups and downs in portfolio value) to achieve that potential return and vice versa.

Investment name	Ex ante 10-year risk estimate	Risk Band
Vantage Earth 100	15.8%	5
Vantage Earth 90	14.2%	4
Vantage Earth 80	12.6%	4
Vantage Earth 70	11.1%	3
Vantage Earth 60	9.6%	3
Vantage Earth 50	8.1%	2
Vantage Earth 40	6.7%	2
Vantage Earth 30	5.4%	2
Vantage Earth 20	4.3%	1
Vantage Earth 10	3.5%	1
Vantage Earth Bond	3.4%	1

We can then test the extent to which that particular investment strategy is likely to meet our client's needs as they fall due within their capacity for loss.

It is possible that the investment strategy that mapped the risk tolerance may not meet our client's financial needs or loss capacity. In that case our client will likely need to make some trade-offs in collaboration with us. It may lead to adjustments to our client's financial masterplan that includes goal and behavioural changes or the selection of an investment strategy that's less consistent with their risk tolerance.

We will keep clear records of the discussion and reasons for the investment strategy selection.

If agreed with our client, on a regular basis we will review how well the investment strategy continues to map to our client's risk tolerance, financial needs and loss capacity.

Portfolios naturally drift over time and therefore it is entirely possible for the assets to deviate away from the agreed strategic asset allocation. Portfolio rebalancing is important to ensure assets do not drift too far away from the initial target and become over/ underweight. Please see the section 'Discretionary Investment Manager' for details on the Vantage service which is used to track portfolio drift and how pre-determined tolerance limits prevent the portfolio from drifting too far away from the agreed strategic asset allocation.

Model Portfolios

We have selected the Earth portfolios as our default starting point, which are provided by the discretionary fund manager EBI Portfolios Ltd. The portfolio with which each client is invested into will depend on the outcome of our discussions and results of any agreed risk profile.

To deliver investment strategies for our clients in line with their needs and our investment philosophy, we identified that EBI Portfolios Ltd will deliver the analysis and required fund selection to meet each asset allocation and client risk profile. As part of an on-going review process, EBI Portfolios Ltd will regularly research the funds universe to ensure we have the most efficient portfolios we believe we can build. An ongoing report shows both the funds currently in use, as well as funds that have been considered but have deemed to be unsuitable or to have a better alternative available.

We will monitor EBI Portfolios Ltd to ensure they adhere to our core investment principles and manage the model portfolios in line with their agreed mandate. We will find an alternative if they do not deliver the requisite service, change their core investment principles or we find another solution that suits our targeted clients market.

Earth Portfolio suite:

The Earth portfolio is a five factor, passively managed portfolio that is globally diversified and provides investors exposure to ESG, with all funds in the portfolio now being ESG screened.

EBI use screened funds within Earth to control certain exposures based on criteria such as business sectors, vice products or controversial weapons manufacture, for example, or companies that participate in environmentally damaging activities.
EBI recognise the influence the finance sector has on companies and their sustainability credentials and believes that the stewardship of investment managers will help drive long-term sustainability change.

Expected Rates of Investment Return (ERR)

The expected rate of return is calculated as the weighted average of the estimated returns of each asset class in any given portfolio. Returns shown are gross and no allowance has been made for normal costs associated with investing such as tax, fund management, adviser, and custody costs. It is important to note that there is no guarantee that the ERR and the actual rate of return will be the same. The sum of the past is often the best estimate of the future returns, however there is a general consensus in economists and consequently financial services regulators that future returns are not likely to be as generous as they have historically been. We offer no opinion on future returns rather we create a range of estimated returns for each asset class for various reputable sources and select a value at the conservative end to use as the ERR. These rates also do not include inflation.

Expected Risks: Standard Deviation (Volatility)

Standard deviation is a statistical measurement that, when applied to our model portfolios, expresses its volatility, or risk. It shows how widely a range of returns varied from the portfolios average return over a period. A low standard deviation means that most of the numbers are close to the average. A high standard deviation means that the numbers are more spread out. For example, if a fund had an average return of 5%, and its volatility was 15, this would mean that the range of its returns within one standard deviation had swung between +20% and -10%. Another fund with the same average return and 5% volatility would return between 10% and nothing, but there would be no loss in most cases. The estimated future standard deviation is obtained from simulated portfolio returns from January 1956 through to the present day. For standard deviation, the past volatility is the best indicator of future volatility.

Please refer to Core Data in the Vault for the most up to date ERR and Risk %

		Earth Portfolios	
Growth Assets	Model Portfolio	ERR	Risk
0%	Earth Bond	1.44%	2.37%
10%	Earth 10	1.81%	2.81%
20%	Earth 20	2.17%	3.52%
30%	Earth 30	2.54%	4.38%
40%	Earth 40	2.90%	5.31%
50%	Earth 50	3.27%	6.28%
60%	Earth 60	3.63%	7.27%
70%	Earth 70	4.00%	8.27%
80%	Earth 80	4.36%	9.28%
90%	Earth 90	4.73%	10.29%
100%	Earth 100	5.09%	11.30%

Discretionary Management Selection

To deliver investment strategies for our clients, in line with their needs and our investment philosophy, we have identified that EBI Portfolios Ltd (EBI), will deliver the analysis and required fund selection to meet each asset allocation and client risk profile.

About EBI

Launched in 2010, EBI is a discretionary investment manager (DIM) built on the principles of diversification and passive portfolio management.

EBI's vision is to facilitate advisers in delivering improved financial outcomes for their clients. To be achieved through offering a forward-looking investment proposition, in conjunction with a Model Portfolio Service (MPS), designed to present complex information clearly to investors.

Evidence based investing lies at the heart of EBI's Vantage portfolios. Years of peer reviewed academic research, including a five- factor strategy aims to deliver increased diversification and superior returns over a long-term horizon.

Vantage is EBI's discretionary MPS service and was created to provide advisers with access to innovative technology to facilitate their clear communication of EBI's investment proposition to their investors.

What separates EBI from a traditional MPS provider, is that EBI use technology and their deep collaboration with financial planners to provide a comprehensive range of services, extending beyond managing money, at a lower cost than a traditional DIM.

EBI is dedicated to bringing science, efficiency and innovation to investing and they provide evidence-based investment management and supporting resources to financial advisers.

EBI's robust investment philosophy is based on decades of academic evidence, constructing low cost, passive, buy and hold and highly diversified solutions.

Why have we chosen to use EBI's MPS?

EBI's investment philosophy is aligned with our investment philosophy. EBI builds model portfolios using index tracking and rules-based index funds and does not use any traditional actively managed funds. EBI does not engage in any form of tactical asset allocation (otherwise known as market timing).

Due to the size of funds under direction by EBI, (in excess of £1bn), EBI is able to secure access to lower cost share classes for our clients, which IFA would not be able to access directly. In addition, EBI's rebalancing methodology leads to less trading than the typical annual rebalancing. EBI's rebalancing methodology leads to a reduction in trading costs and time 'out of the market'. Research shows the benefit of these discounts, cost saving, and performance gains are typically greater than their costs, making their service excellent value for money for our clients.

EBI's model portfolios are highly diversified with c. 9,000 Global Developed and Emerging Market equities and c. 5,000 Government and Investment Grade Corporate bonds, all of which are either Sterling denominated or hedged to Sterling to eliminate foreign exchange volatility. Consequently, clients are not exposed to the type of specific risks that come with exposure to a typical small pool of active managers. Index based funds simply do not pose the risks associated with active fund management.

Clients only have exposure to equity and fixed income risk and EBI provide a considerable amount of support material to assist advisory firms in explaining the nature of these risks. EBI also provides historic simulated returns and maximum drawdowns over a variety of periods which is based on over 65 years of data.

The investments EBI incorporate within their model portfolios are restricted to collective investment vehicles only and comprise of equities and fixed income funds. These restrictions are clearly stated within EBI's Investment Strategy document, which IFA have been provided a copy of, and forms part of our Investment Management agreement with EBI. EBI does not invest in derivatives, structured products, hedge funds or FOF hedge funds, private equity, unlisted securities, commodities or synthetic investment funds.

Unlike a traditional DIM, EBI follows a buy-and-hold strategy and rarely makes portfolio changes. Portfolio changes are typically made when lower cost collectives become available or when compelling evidence born out of academic research indicates it might be advantageous to change the asset allocation. IFA has full oversight on EBI's actions and has access to EBI's member portal which displays due diligence on their fund holdings.

EBI works with IFA on a collaborative approach and provides us with advance notice of any portfolio changes, this gives us the opportunity to review the rationale and if we should disagree with it, we have the option to remove EBI as the DIM prior to EBI instructing trades.

By outsourcing to EBI, IFA has access to additional resources such as data and research tools, fund managers expertise and EBI's dedicated support teams. Outsourcing to EBI allows a collective of like-minded advisers to benefit from EBI's thought leadership, to innovate and create solutions which otherwise would take years to become available.

EBI continuously look to build and grow their offering. Their model portfolio service helps advisers to be more efficient and enables us to spend more of our time building relationships with our clients.

Costs

When compared to other available DIM's that offer a passive investment solution, EBI's DIM fee of 0.12% (no VAT) are among the lowest in the market, with the majority of fees offered by other passive DIM providers ranging from 0.125% 0.25% exec VAT.

EBI's Vantage portfolios contain restricted institutional share classes*, which means they are lower cost share classes and normally only available for institutions investing a minimum of £100m or £200m (for Vanguard funds) per fund. In practice this means for retail investors such as our clients, these institutional share classes are almost exclusively accessed by investors using EBI.

Any discounts received by the fund managers EBI work with are passed on directly to the end investor.

Investment Approach & Research Sources

Core Belief

Our core belief is that markets are "efficient." The efficient markets hypothesis holds that markets are full of people trying to make a profit by predicting the future values of securities based on freely available information. Many intelligent participants compete to trade at a profit. The price they strike in trading a share is the consensus of their opinions about the share's value. Since the price is the same for everyone, so is the value. The price the market strikes is therefore based on all the available information about a share, everything the investors know that has happened in the past and everything they predict will happen in the future. In this sense, markets assemble and evaluate information so effectively that the price of a share is usually our best estimate of its intrinsic value.

Prices are not always perfectly correct, nor is that a condition for market efficiency. The consensus view of investors can temporarily result in prices well above or well below a share's intrinsic value.

The only condition efficient markets require is that a disproportionate number of market participants do not consistently profit over other participants. Since "mispricing" tend to occur in both directions and since managers seem to over- and under perform with random frequency when adjusted for risk and costs, markets seem to be efficient.

Approach to Investments

Our approach to investment is first and foremost about being evidence based. So, we start by adopting a high-level asset allocation based on the client's risk and return profile (which we arrive at through an assessment of his risk profile, capacity for loss and required risk to achieve financial goals, given the assets that are available to him). We follow modern portfolio theory and subscribe to the efficient market's theory as well as the Fama & French 3 factor model (now extended to include other factors). The high-level split is between bonds and equities and this controls risk and thereby determines return. If people want to make more money over time, they must move up the risk level. The risk control is achieved using global short, dated bonds because these are less vulnerable to market interest rate changes. We also include index linked gilts in this category. On equities we basically believe in long term buy and hold (modified by the need to periodically rebalance in order to maintain the correct risk profile). Based on the evidence we buy the main market (global equities) and tilt towards market factors where the evidence indicates that there is the potential (as in a reasonable probability) for extra returns by taking extra risk (book to market (Value) and smaller companies). We also tilt to some factors where there is evidence that these can also generate extra returns (quality and momentum). We have adopted a global market capitalisation approach as this is supported by the weight of academic evidence and is particularly relevant in the UK where Brexit is likely to have a huge impact on the UK economy but significantly less so in global economic terms.

We aim to diversify our portfolios. This should not be confused with the old adage of 'not having all of one's eggs in one basket'. The purpose of diversification is to blend asset classes that behave differently in different market conditions, which is to say they have a low correlation to each other. The benefits of having a well-diversified portfolio are that extra potential return can be achieved for the same risk, or the same return can be achieved at lower overall risk. Having modelled various other asset classes as diversifiers we have decided to include property and gold because there is a demonstrable extra value in doing so.

Our evidence-based approach extends to fund selection. We tend not to use active funds because they generally underperform the markets in which they are invested. Some fund managers do manage, some of the time, to out-perform. This is usually because they are closet tracking while charging for active management. The FCA are concerned about this. There is good academic evidence as to why active fund management generally can't work and this is validated by the evidence of their general lack of performance. Furthermore, even where some active managers have succeeded in outperforming for a while, their capacity to maintain outperformance is virtually nil. So, whilst in theory it is possible to select out-performers, in reality this is impossible and therefore futile. The only exception to this be in certain very specialised narrow markets, not generally suited to retail investors.

Underlying Portfolio Structure

Consequently, our underlying investment selection structure is based on, and supported by, a substantial body of academic research into the sources of investment risk and return which has reshaped portfolio theory and greatly improved understanding of the factors that drive performance.

Our approach is based on long term research, which has shown that the most important factor in the performance of a portfolio is the asset allocation. This is the split between Equities in the UK and Overseas, Fixed Interest Stocks, Property and cash. Over the longer term this has been shown to have a greater impact by a substantial margin on both risk and returns. The other factors that were examined included items such as market timing and stock selection. Whilst instinct would suggest that these would be very significant the research has shown that their impact is almost negligible other than over very short terms.

We also base our advice on an understanding of the relationship between risk and return as the two are inextricably linked. Over the longer-term the more you want to make the more risk you must take. Equally the less risk you want to take the lower the returns you must accept.

Individual sectors perform at different rates and therefore over time the weightings established at outset will be lost. This will result in the portfolio no longer corresponding to the asset allocation that is appropriate to your requirements. The result of this is that it could expose you to either too much risk or even too little. The latter would give rise to potential under performance. In order to remedy this, we recommend that the portfolio be regularly rebalanced to ensure that the correct profile is maintained.

Having studied the evidence we do not in general believe that the added costs of active fund management are rewarded by extra returns. Whilst some active fund managers have undoubtedly performed well in the past it has also been shown that it is virtually impossible to predict which ones will do so in future. In view of this our policy is to use passive and tracker funds wherever possible and only to use active funds where these are the only means of gaining access to a specific market sector.

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