INVESTM£NT

Our Approach to
Managing Money

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Executive Summary

Our approach to managing money is based on comprehensive intellectual research, and our decisions are based on a combination of leading academic theory and time tested principles with the intention of delivering a more coherent and dependable investment strategy.

We do not believe in chasing performance or attempting to second guess what the markets will do. We adopt a structured and disciplined approach to investing which seeks to manage risk, target appropriate returns, minimise tax and above all help our clients to increase the probability of achieving their financial and lifestyle objectives.

Intensive research is employed to identify investment managers that will deliver the returns our clients require and cutting edge technology is used to drive down costs; providing our clients with convenience and simplification in an otherwise complex area.

Creating and managing a portfolio of investments requires specific decisions to be made in the key areas of 'asset allocation' and 'ongoing management'. We believe in the benefits of a long term strategic view of asset allocation with some short term adjustments to manage volatility and risk.

There are arguments in favour and against active fund management, supported by contradictory evidence. We recognise that a passive approach to fund management can give our clients access to the markets at a competitive price, and that active management, whilst more expensive can add value because of the opportunities it can seize. Adopting a blend of both strategies (passive and active) can also give our clients the best of both worlds; exposure to market opportunities at a lower cost than with a completely active approach.

We also believe that one of the most effective ways to catch opportunities and minimise risk is through diversification. By blending long and short term asset allocation decisions with some passive and active investment management we seek to achieve broad diversification for our clients.

Please read the following sections for more detail on any of the investment terms presented in this overview.

When investing there are many options, decisions, influences and challenges to be taken into consideration. Here are just a few….

Do we believe that we can pick the future winners from thousands of funds by merely looking at past performance? …. or do we need in depth research?

Do we invest in Equities, Fixed Interest, Property, Commodities, Cash? …. Can we spot the winner or do we spread it around?

Do we invest in the UK, Europe, America, Far East, Emerging Markets? …. Again can we spot the winner or do we spread it around?

Do we invest in large established companies? …. or small up and coming businesses?

Do we invest into Government Gilts (fixed interest)? …. or Corporate Bonds and if so what type?

Do we invest into cost effective passive fund management? …. or do we believe skilled fund managers can add value?

Do I listen to my head? …. or my heart?

Do I believe I can second guess the market in the short term? …. or that a longer term strategic view is important?

Do I believe in what the media say? …. or in my investment strategy?

Do I believe in the hype? …. or our research process?

Our investment beliefs underpin our investment proposition and solutions so we also feel it is important to share those beliefs with you –

What we do believe in….

- ✓ An asset allocation approach
- ✓ In depth market and fund research
- ✓ Skilled Fund Managers can add value
- ✓ A blended portfolio
- ✓ Ongoing research and monitoring
- ✓ Time in the market.

What we don’t believe in….

- × Putting all your eggs in one basket
- × Trying to second guess the markets
- × Taking bets with your money
- × Making emotional decisions
- × Following the herd
- × Merely looking at past performance

Our Process

Ongoing management and review

Understanding objectives

The Review Cycle

Defining the right investment strategy

Determining your appetite for risk

Understanding Objectives & Target Returns

The most common approach to investing is for an adviser to determine the level of risk a client is prepared to accept, and create a portfolio to meet that risk tolerance. Whilst this is a prudent approach it is not always the most appropriate.

It is vitally important to us that we understand the purpose of our client's investments; the objectives they are hoping to achieve, the future purpose of the investments; the financial need they want to meet. We can help our clients to determine the investment return they require and invest into a portfolio designed to meet that target.

Risk Assessment

Once we have determined the long term objectives for a client's money we perform an assessment of the level of investment risk a client is prepared to accept. To help us do this in a clear and objective way, we use a detailed questionnaire and specialist software designed to uncover real attitudes towards investment risk, reward and volatility.

This is used as the basis of our discussions around developing the most appropriate portfolio for our clients' objectives. Typical considerations include:

- What level of risk would I be prepared to accept to deliver a return above cash and inflation?
- How comfortable would I be with an investment that delivered short term volatility in pursuit of enhanced returns?
- Do I believe that asset class performance is relatively predictable over the longer term and that it makes sense to stick to a long term strategy despite short term underperformance?

The balance of these decisions is the foundation to an investment strategy designed to meet each client's expectations and risk tolerance.

For more information on risk considerations please see Appendix B.

Understanding capacity and tolerance to loss

Often questionnaires will put people into a category of risk profile and whilst this can give a broad idea of someone's attitude to risk it is only part of the picture. We therefore need to consider their capacity for loss and take a reality check as to what this may mean in actual terms to them before determining the right investment strategy.

It may be that the level of risk you are prepared to take will be influenced by the potential loss or gain that could be achieved on a given sum of money and your intention for this portfolio.

The table below highlights the potential loss and growth assuming a £10,000 investment and based on how the portfolio might perform in the next 1 and 5 years based in an analysis of generic asset classes.

The figures used are only examples of what might happen and are not guaranteed in any way. Actual performance will depend on how any selected investments perform and on the tax treatment and charges incurred.

Amount Invested	Risk Profile	Estimated maximum likely loss 1 year	Estimated maximum likely gain 1 year	Estimated maximum likely loss 5 years	Estimated maximum likely gain 5 years
£10,000.00	1	-£390.00	£100.00	-£1,230.00	-£200.00
£10,000.00	2	-£610.00	£500.00	-£1,480.00	£900.00
£10,000.00	3	-£860.00	£900.00	-£1,840.00	£2,200.00
£10,000.00	4	-£1,070.00	£1,300.00	-£2,130.00	£3,300.00
£10,000.00	5	-£1,300.00	£1,700.00	-£2,490.00	£4,600.00
£10,000.00	6	-£1,510.00	£2,100.00	-£2,810.00	£5,800.00
£10,000.00	7	-£1,720.00	£2,500.00	-£3,140.00	£7,200.00
£10,000.00	8	-£1,950.00	£2,900.00	-£3,500.00	£8,700.00
£10,000.00	9	-£2,170.00	£3,300.00	-£3,870.00	£10,100.00
£10,000.00	10	-£2,390.00	£3,700.00	-£4,220.00	£11,600.00

Source : Distribution Technology Ltd

Portfolio Construction

Ongoing management and review

Understanding objectives

The Review Cycle

Determining your appetite for risk

Defining the right investment strategy

There are a variety of decisions that must be considered in constructing and managing an investment portfolio. These include:

- Asset Allocation
- Fund Sector Selection
- Fund Manager Selection
- Fund Sector Monitoring
- Fund Manager Monitoring

Without a rigorous framework for performing research, analysing results and making decisions, there is significant potential for unnecessary risk exposure.

Our investment portfolios have been constructed to meet specific criteria and are based on our investment beliefs.

Ongoing Management & Review

The ongoing management of an investment portfolio should reflect the strategy that was intended and agreed at outset.

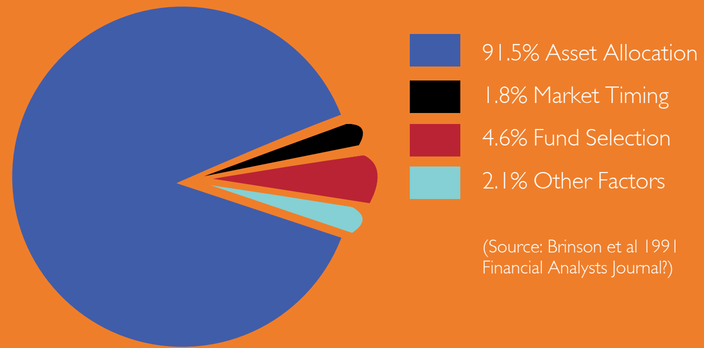
If we have engaged in an active strategy where asset allocation decisions will be made in the context of the investment environment, and fund management decisions will demonstrate active pursuit of opportunities or avoidance of risk, then this is the approach we will expect to see delivered for our clients.

By contrast, if we have committed to a long term buy and hold strategy (fixed asset allocation and passive management), the most important consideration is ensuring that the intended asset allocation is kept in line with our clients specified risk profile.

These decisions will be based on individual client circumstances including the nature of their financial lifestyle objectives, the length of time intended for the investment and the level of acceptable risk.

On a regular basis we will appraise the performance of our clients portfolios to assess levels of volatility and return. This appraisal also forms part of our ongoing planning discussions with clients to ensure that we are always working towards the achievement of our client's financial and lifestyle objectives.

Asset Allocation



This refers to the proportion of invested money directed towards specific assets such as Cash, Equities, Property and Fixed Interest or Alternatives

Asset Allocation plays by far the most significant factor in determining the outcome of an investment strategy. Indeed a number of studies have all pointed to Asset Allocation accounting for over 90% of the differences in returns.

So what does Asset Allocation mean?
It simply means putting the right number of eggs in the right number of baskets… or in investment terms, investing your money in the right amounts and in the right asset classes.

How are the right eggs and right baskets identified?
Different assets tend to perform differently at different times and in different economic environments. The trick is to get the blend right. In order to do this thousands of pieces of financial data have been gathered. This data has then been financially modelled (back and forward tested) over numerous different economic cycles and outlooks (boom, bust, war etc) to see how they could perform together.

The objective is to identify an "efficient" Asset Allocation strategy to gain the maximum rewards for a given level of risk.

IMA Sector Average Returns

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
25.7	36.8	12.5	52.5	23.1	15.8	19.3	30.5	17.8	15.8
18.6	12.6	2.2	48.0	23.0	0.1	19.0	28.3	14.3	9.1
18.1	10.2	-2.4	46.6	19.4	-1.5	15.9	27.3	14.0	7.9
17.4	8.8	-18.4	30.4	17.5	-3.8	15.1	26.2	10.7	5.4
7.8	4.8	-23.3	23.0	17.4	-4.3	12.5	25.7	9.2	4.9
5.8	4.0	-25.0	19.4	15.7	-6.0	9.4	19.7	6.7	3.7
2.6	3.9	-25.4	19.0	13.4	-7.0	8.2	6.2	1.8	3.4
-0.7	1.9	-25.4	14.4	12.3	-9.2	6.9	4.7	0.8	-0.1
-1.0	0.4	-30.1	0.6	8.5	-11.7	3.5	3.4	0.6	-0.1
-3.3	-11.1	-32.0	-2.1	6.3	-15.5	1.9	1.0	0.2	-0.3
-13.7	-14.6	-33.1	-3.6	0.3	-16.7	0.6	-4.7	-0.7	-3.7

KEY

- IMA Asia Pacific Excluding Japan
- IMA Europe Excluding UK
- IMA Global Growth
- IMA Japan
- IMA Money Market
- IMA North America
- IMA Property
- IMA Sterling High Yield
- IMA Technology & Telecoms
- IMA UK All Companies
- IMA UK Gilt

Source: Financial Express. Past performance is not a guide to future performance.
The values of an investment can fall as well as rise and are not guaranteed. Investors could get back less than they invest.

There are essentially two perspectives on creating and managing Asset Allocation.

Strategic Asset Allocation

Strategic asset allocation is very much the core of portfolio strategy – It is a base position from which we create a portfolio of funds designed to generate long term competitive returns consistent with a client's stated risk profile.

It combines asset types with an understanding of the varying risk/return properties and crucially the expected correlation of returns between each pair of assets in order to help create an efficient and optimal portfolio designed to provide a smoother ride for investors but with the potential for as competitive returns as a focused single asset investment.

Our investment partners use quantitative research screening to construct a range of optimal model portfolios taking into account not just the past but factors likely to affect the future too. Of course, as the world changes, this is an ongoing process, which must be regularly reviewed and monitored, to test assumptions and the robustness of the data.

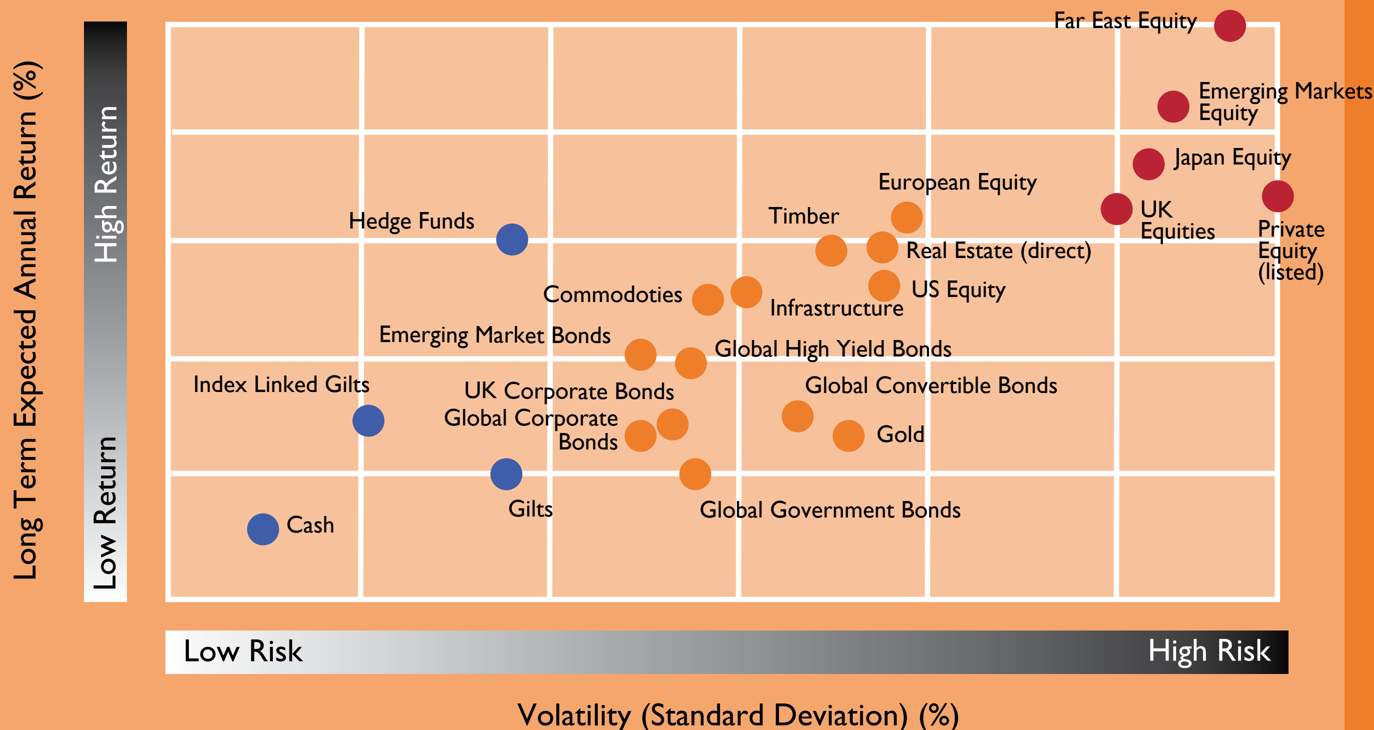
Tactical Asset Allocation

Tactical asset allocation is the process of making short term changes to asset proportions (portfolio tilting) to exploit current market and economic opportunities in an attempt to generate additional investment returns or manage risk.

Tactical adjustments are a measured 'temporary' departure from the long term strategy, in the belief that some markets are temporarily over or undervalued.

Where we have used a multi-manager solution our investment partners typically place internal limits to which tactical asset allocations may be varied around positions defined by the strategic asset allocation policy for each portfolio.
The managers are seeking incremental value via tactical asset allocation, not to change an investors strategic risk profile through an overly excessive tactical positioning.

Overall, our belief is that adopting a long term view of the behaviour of asset classes is a sensible foundation upon which more tactical or short term actions can be taken to address potential market risks or take advantage of opportunities.



Asset Class Expectations

With the strategic approach, efficient portfolios are developed from research and a clear understanding of the return/risk of each asset class.

The Risk vs Return graph illustrates the strong relationship between expected risk and return: lower risk, lower return assets at the bottom left and more volatile but historically higher return assets at the top right.

Combining multiple asset classes can produce a portfolio with attractive expected returns but much lower volatility.

Reducing the volatility of investment returns appeals to most investors. Lower volatility can reduce the emotional or psychological stress of investing - the fear of losses - and this can help investors stick with a long term strategy.

In order to build robust and efficient portfolios we also need to consider the correlation between expected returns from different asset classes.

Diversification: Risk Management

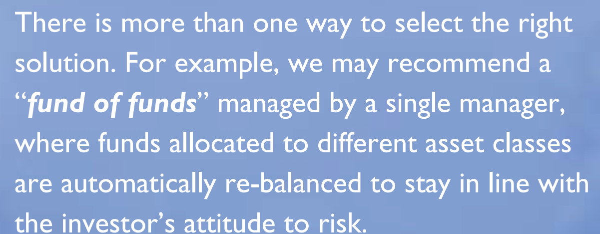
No single type of asset class, investment strategy, or investment manager provides the best performance over all time periods. It is riskier to invest in a single security than in a collection of securities. Think of the advice "not to put all of your eggs into one basket".

We strongly believe that investment diversification should reduce the risk of a portfolio suffering simultaneous underperformance across all categories.

This is because the conditions that lead to underperformance for one category, such as one asset class or manager tend to create an opportunity for other asset classes or managers.

For more detailed information on Diversification please see Appendix B.

The strategy we adopt



Our approach to working with clients is flexible when it comes to determining the strategy most appropriate to their needs and preferences. However we also feel it is important we state our starting position on this aspect.

Blended Approach
We recognise that a passive approach to fund management gives our clients access to the markets at a more competitive price, and that active management, whilst more expensive, can add value because of the opportunities that it can exploit.

Adopting a blend of both strategies (passive and active) could give our clients the best of both worlds; exposure to market opportunities and at lower cost than with a completely active approach.

The Investment Solutions we utilise means we are able to recommend an approach that matches your risk profile, investment objectives and personal tax position.

Where it is beneficial, we look to employ the services of specialists through third parties. This means we are able to utilise the latest tools and techniques in the areas of client risk profiling, allocation of assets across diversified areas of investments and fund rating and selection.

However, we retain complete accountability for the suitability of solutions we recommend to our clients.

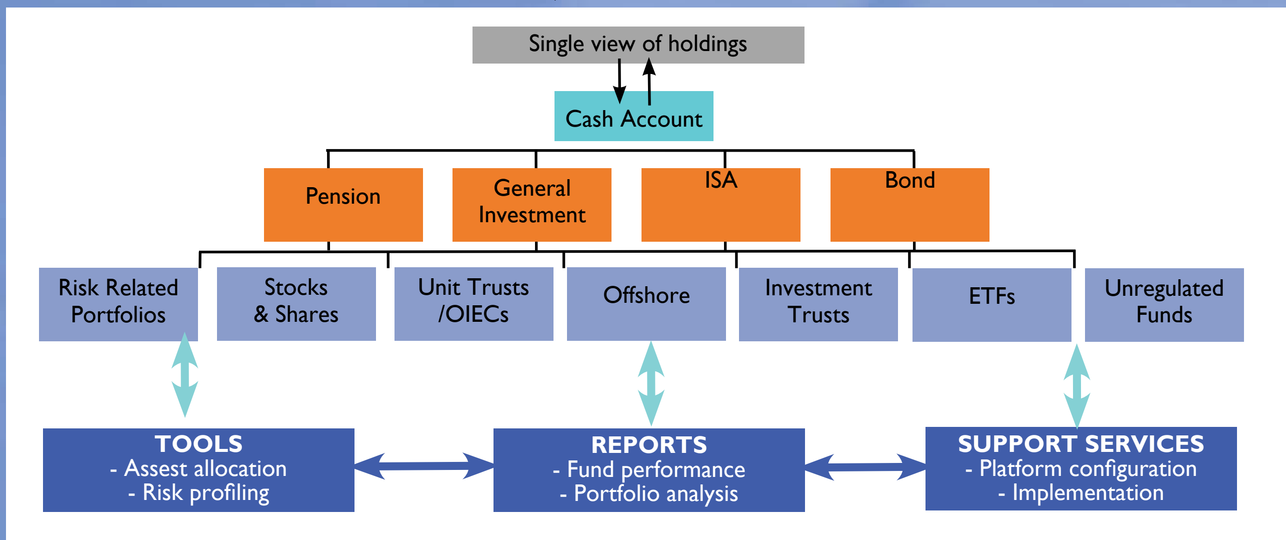
There is more than one way to select the right solution. For example, we may recommend a "***fund of funds***" managed by a single manager, where funds allocated to different asset classes are automatically re-balanced to stay in line with the investor's attitude to risk.

We may offer a "***model portfolio***" comprising funds carefully selected from many thousands available and representing the blend of asset classes reflecting your personal risk profile.

Discretionary Fund Managers – for certain situations we may recommend investment management via a platform partner, by an established investment manager which provides both discretionary portfolio management and investment advice to individuals, pension schemes, companies and trusts.

The right solution for you?
As we work with you and get to know you during our thorough Advice and Investment Process we will recommend the solution from our range that best serves your interests.

Our Investment Platform



Many clients we meet have funds held in products which have become obsolete in terms of the flexibility and choice they offer. Changes can be very slow to administer and information very hard to come by.

Technological innovations mean we are now able to assemble, implement, monitor and administer our clients' investments in a modern, efficient and cost effective manner.

The technology we use is called a wrap platform. We have conducted extensive due diligence on the different platforms available and have so far selected 5 different wrap platforms, each of which offer slightly different services, for use with our clients' investments and remain alert to other offerings when they come to market.

This means we are able to create a secure on-line investment account on a client's behalf and use that account as the venue for the investments we make on his or her behalf, cutting out reliance upon third parties and the potential loss of control that often entails.

A wrap platform account brings all your investments and pensions together, allowing you to view them on-line using a confidential password. It gives access to a huge range of investment options available through a range of tax wrappers. The charges are clear and easy to understand with no hidden costs. It provides a clear picture of your entire portfolio and how it is performing. It puts you, via us, in control of your investments and there is less paperwork!

In selecting the wrap platform we wanted to use for our clients, we had some strict criteria:

- ✓ Quick & efficient implementation & service.
- ✓ Consistent investment choice.
- ✓ Investment management tools.
- ✓ Quality tax wrappers.
- ✓ Accessibility & visibility.
- ✓ Ability to implement financial planning.
- ✓ Control of service.
- ✓ Financial strength and stability
- ✓ Meets the variety of needs of our clients

Each of the platforms that we have selected satisfy these criteria and more.

How does using a wrap platform help us to help you?

- ✓ We can provide you with instant access to valuations and information about the funds held in your portfolio.
- ✓ We can deliver a range of services that would cost clients far more without the use of a wrap platform.
- ✓ We can provide quick access to your money with no penalties on exit.
- ✓ You can access our new investment proposition and management service.
- ✓ We are able to manage your investment more efficiently than ever before.

Appendix A

Investment Risk

Risk and uncertainty are different. The possibility that things may not turn out exactly as you expected is uncertainty. Risk, to some may mean the possibility of losing a portion of your capital. For others, the risk of capital not producing sufficient income to support a desired lifestyle may be the dominant concern.

Risk and uncertainty cannot be eliminated. However, they can be measured and managed within an investment portfolio. The key is to determine the appropriate level of risk for each investor. Taking on greater uncertainty and short-term risk may be necessary to gain t\-term returns needed to achieve desired lifestyle goals and objectives. Two investments with an identical return are not necessarily equally attractive if one of them is significantly more risky than the other.

What are the types of risk?

There are a number of risks to be considered when constructing an investment portfolio:

- Investment market risk is the possibility that all investments in a market sector, (e.g. shares) will be affected by an event.
- Investment specific risk is the possibility that a particular investment may underperform the market or its competitors.
- Inflation risk is the possibility that investment return is below the inflation rate, which reduces the spending power of an investors money.
- Credit risk is the potential failure of a debtor to make payments on amounts they have borrowed.
- Interest rate risk is the possibility that an investment will be adversely impacted by a fall or rise in interest rates.
- Legislative risk is the possibility that a change in legislation will impact the appropriateness of certain investments for an investor.
- Liquidity risk relates to the ease with which an investor can sell or liquidate their investments. Some investments impose exit fees or have limitations on withdrawals. Other investments may be difficult to sell due to a lack of buyers.

How is risk managed?

There are different ways that risk can be managed, ranging from a low exposure to equities, to reducing dependency on any single asset class or fund to deliver desired investment outcomes.

A widely used strategy for managing investment risk is Diversification which can be achieved at several levels, including:-

- Asset Class (Cash, Fixed Interest, Property, Equities)
- Geography (UK, US, Emerging Economies)
- Sector (Financial Services, Pharmaceuticals, Retail,)
- Management of Asset Classes (Fixed or Variable)
- Investment Management Styles (Active or Passive)
- Stock selection

Appendix B

Diversification

Diversification across asset classes

The major asset classes - shares, bonds, property and cash - perform differently under different market conditions. Investing across a variety of asset classes reduces reliance on individual asset class performance and can help to reduce the volatility of a portfolio's return.

Diversification across markets and regions

Spreading exposure within each asset class across a wide range of countries, currencies, industries and stock can also reduce concentration on a particular region or industry. In the event of a regional or industrial downturn the impact on a portfolio should be less damaging.

Diversification across assets

Combining assets that tend to behave in different ways can help insulate a portfolio against market fluctuations, whilst providing the potential for rewarding returns. The degree of diversification largely depends on the extent to which returns on investments are 'correlated'.

Understanding the correlation between different assets helps us to diversify portfolio risk in an efficient and effective way.

Simply put, there is very little real diversification achieved if we combine two asset classes whose expected return show high correlation to each other. It is far better to blend asset classes which have;

- appealing long term risk/return characteristics and,
- relatively low correlation with each other because they are assets that behave differently to one another at points in the economic cycle

That way, if one asset falls at any point, there is a reasonable chance that the other may not, thus providing some protection and reducing volatility of returns for the portfolio.

The positive result of combining assets with relatively low correlations into an efficient portfolio should be that, for any level of risk, a well diversified portfolio could have potential for a higher level of return. Equally, for any desired level of return, a well diversified portfolio should be able to achieve it with lower risk, with less volatility. This should be attractive to investors.

Price volatility can be unsettling and reducing that volatility gives a greater likelihood that investors can stick to their long term strategy and realise their goals.

The benefit of portfolio diversification is clear and significant over the long-term, but it is sometimes not apparent over shorter time horizons.

In any given year, more focused, narrowly based portfolios may produce dramatically better, or worse, results than more diverse and therefore theoretically less volatile portfolios.

Investors must weigh the expectations of higher long-term risk adjusted return against the potential regret of underperforming benchmarks or peer group averages over shorter time horizons.

Appendix C

Investment Strategies

Active Management

Active fund management entails the manager using their skill to select stocks or funds to construct a portfolio designed to produce returns that exceed those of the market. The returns may be defined in terms of income or capital growth or both.

There are two approaches to active management:

Top-down

Different classes of asset are selected (for example, equities, bonds and cash) and then within each class, individual sectors and then securities are selected. Most fund management is top-down.

There are three stages in top-down portfolio management:

- Asset allocation
- Sector selection
- Individual stock selection

Bottom-up

Securities are selected on their own merits and their class or sector is not relevant. Bottom up management tends to apply where the objectives of the fund make asset allocation irrelevant, for example; investing in a specific country or sector. This type of investment management is often referred to as stock picking.

Investment Management Style
Fund managers tend to develop knowledge, experience and skill in a particular style of opportunity. The four commonly known styles refer to a focus on:

- Large Cap - where a manager seeks to buy stocks in larger companies
- Small Cap - where a manager seeks to buy stocks in smaller companies
- Value - where a manager seeks to buy stocks that are at a discount to their fairvalue and sell them at or in excess of that value.
- Growth - where a manager seeks to buy stocks experiencing high earnings growth, with the expectation of continued high or higher growth.

These different investment management styles tend to excel at different times under different economic and market conditions. Combining a range of investment managers with contrasting investment styles can help to neutralise the bias to any one style in each asset class.

Passive Management
There are two main passive management techniques:

- Buy and hold
- Indexation

Buy and hold
The simplest strategy is to buy investments and to hold them. This approach may be relevant where a client has a specific liability to meet or a desire to lock into a fixed return.

Indexation
This is an investment technique whereby a portfolio is maintained in such a way as to match the growth in a stock market index.

A stock market is a public market for the trading of company stock and derivatives at an agreed price; these are securities listed on a stock exchange as well as those traded privately.

An index is a method of measuring a section of the stock market. Many indices are cited in the financial press such as Financial Times.

Index tracking is a popular method of investing because the cost of buying and running index-tracking funds are lower than most actively managed funds.

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