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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're doing our best to protect and grow their assets.

While investment performance hinges on many factors outside of our control, most notably the return on markets, we can control other factors. These are the ones we deem the most important when creating and managing a portfolio, selecting the types of funds to invest in, the cost of the investments we choose and what we look for when choosing the providers we do business with. It's important that we can justify investment decisions and make it clear why we've invested your money in a particular way. Our philosophy summarises our approach.

Investment strategies

There are several different types of investment strategy potentially available to you, each of which have their own key strengths. These are described below.

Passive investments

A passive fund manager's role is to monitor the chosen market index and to ensure that the fund's underlying assets match its composition as closely as possible and in the most cost-effective manner available.

A passive fund tracks a particular market index, such as the FTSE 100, or a specific market segment, to determine what to invest in. They typically hold all the assets in the index they are tracking, or a representative sample.

Passive funds can also be invested in a range of asset classes to provide a multiple investment solution to investors.

A passive multi asset fund invests in a range of asset classes but it is not actively managed. This means that the fund recommended will use investments that track indices. The fund does not have a fund manager that will make investment decisions in an attempt to deliver outperformance.

The advantage of this type of fund is that it is usually cheaper than actively managed funds. By investing in this type of fund you are reliant on the performance of the indices selected by the fund manager.

Managed investments

A managed fund is actively managed by a fund manager and generally excludes funds run by other managers.

The level of equity investment depends on the risk rating for the fund and so a managed fund may contain other assets, such as fixed assets and cash (also actively managed) which sit alongside any equities to moderate the risk within the fund. Other assets such as alternative and specialist investments may also be included to add diversity and increase the prospects for long-term capital growth.

This style of investing can provide a broad exposure to the markets and asset classes in line with the selected risk profile. Asset allocations and underlying funds may be selected and switched by the fund manager with minimum delay according to the economic environment and the fund's objectives.

An actively managed fund is managed by a professional fund manager and they will take a view on the asset allocation and the risk they take within the fund. As they can make decisions regarding the format of the fund they can take a short term tactical and long term strategic view.

Fund of funds and multi-manager funds

A 'fund of funds' is an investment fund that typically adopts a strategy of holding a portfolio of investment funds from within the provider's own range of funds, rather than investing directly in shares, bonds or other securities.

A multi-manager fund is managed by a professional fund manager or team and they will take a view on the asset allocation and the risk they take within the fund. The team then selects appropriate funds to invest in to meet the required asset allocation. These could be from their own in-house fund range run by their own fund managers or external funds run by fund managers of other investment houses.

While the advantage of this type of fund is exposure to a wider range of investment managers or teams, the charges for the multi manager fund are typically higher than those of a single managed fund and the ongoing costs will typically be higher.

With a managed fund you have diversification, which could be asset class, geographical and business sectors, together with exposure to an experienced investment team within one fund.

Model Portfolios (Asset Allocation)

Asset allocation is an investment planning technique that aims to get the right balance between risk and return by investing in a variety of assets. A suitable asset allocation is determined by your risk profile and will be achieved by dividing your investment between the asset classes, such as equities, fixed interest and alternatives. These are then further refined through geographical allocation.

Model portfolios feature a range of carefully selected funds from asset classes and a range of investment houses and management teams. The model portfolios will differ depending on your individual attitude to risk.

Whilst the underlying funds within model portfolios are managed by their individual fund managers, the overall asset allocation of the model portfolio is not automatically adjusted.

Discretionary Investment Managers (DIMs)

DIMs offer a discretionary service, meaning that you are able to delegate all investment decisions to them to complete all transactions. DIMs are authorised to trade in direct equities, i.e., company shares, but also use other investment strategies as detailed above.

This is usually a bespoke service tailored to individual clients and as such the cost will vary. This cost will be confirmed to you by the individual DIM.

You may opt to have some degree of involvement and be consulted on certain transactions or before a specified level of investment is made, or to be kept updated on any transactions within your portfolio on an ongoing basis.

Managed Portfolio Service (MPS)

Managed Portfolios are portfolios of funds designed around a range of risk profiles.

Each portfolio has a benchmark known as the 'strategic asset allocation' and this is the framework for the mix of diverse investment funds across the portfolio suited to the specific risk profile. The investment holdings within the portfolio are regularly adjusted by discretionary investment managers to reflect market conditions.

The investment management team can increase or decrease asset allocations and investment holdings to fine tune the portfolio by making these regular adjustments.

Managed Portfolios aim to source the very best investment solutions that the market can provide. The best investment solutions involve blending the expertise of active fund management, where MPS providers feel an advantage can be gained, with the direct nature of index tracking funds within a single portfolio. The ideal portfolio will allocate assets from the widest range of asset classes and ensure they mirror the client's risk profile. Once this is established, the portfolio should be regularly rebalanced to adjust to changes in global markets and maintain a consistent level of investment risk. A discretionary fund manager is given the mandate to build these portfolios on chosen platforms.

The MPS offers risk-managed diversified portfolios covering a wide range of investment objectives and risk profiles. It is a service which provides access to award-winning discretionary management expertise. It utilises their proven centralised investment process and is managed by a dedicated team of experienced investment managers.

The service invests in a wide range of asset classes, some of which might not otherwise be available to retail investors, enabling the MPS provider to achieve greater portfolio diversification. This technique is used to spread investment risk across many asset classes and investment types, thereby reducing overall portfolio risk.

Some of the key benefits of a MPS are:

- Diversification of your portfolio – a portfolio of funds that is well diversified across asset classes, geographies and fund managers. This is important as it improves the portfolio's chances of performing in a wide variety of unknown future market conditions, as well as protecting the portfolio if a certain fund, geography or asset class performs poorly.

- Discretionary rebalancing – the MPS providers regularly rebalance the portfolios, which ensures that the combination of funds within a portfolio remains suitable.
- Tactical asset allocation – the MPS provider will proactively use their expertise and skill to buy and sell funds within a portfolio, so that the portfolio is best positioned for what the provider believes will happen in markets over the short and medium term. This will be done as and when the provider sees fit, not only saving time but ensuring that the portfolio is promptly positioned in the context of the provider's market outlook at any given time.
- Fund selection and oversight – the MPS provider will constantly review and evaluate the management team and strategy of each fund within a portfolio, to ensure that the fund remains suited to the particular portfolio.
- Focus on cost – the MPS providers have their own fixed annual management charge and limit the costs of the funds within their portfolios to give reassurance and clarity around the maximum cost of portfolios.

Please note that if you make a gain as a result of rebalancing or fund switching, you might be liable for Capital Gains Tax (CGT) if the gain is greater than the individual Capital Gains Tax allowance, which for the current tax year is £3,000. Capital Gains Tax will be payable at a rate of 20% for higher and additional rate tax payers. The rate of CGT will be 10% where a taxpayer's total income (including gains) does not exceed the upper limit of the income tax basic rate band. You should always check your tax position with a qualified tax adviser.

Responsible investments

Environmental, Social and Governance (ESG) funds

ESG funds aim to invest responsibly. Each ESG fund has an investment process that uses an approach to assess the sustainability and societal impact of investment opportunities.

These funds, just like any other funds, seek to maximise medium and long term returns and the funds are invested in well managed companies with robust corporate governance policies. A socially responsible investment strategy is one that views successful investment returns and responsible corporate behaviour as one.

Responsible investing is based on promoting adherence to the positive aspects of the areas such as good corporate governance, company ethics, workplace practices, environmental concerns, health and safety and the wider community. This type of investing may also oppose various sectors and ensure that investments are not made in areas such as businesses involved in gambling, tobacco, weapons and alcohol. These investment categories are often eliminated through screening processes.

Ethical

ESG funds can be utilised for ethical investing however, ethical investing differs from ESG as it is based on selecting funds that match your individual ethical and moral principles. As part of any ethical investment, you will need to fully disclose your individual views and any recommendation will be based on these.

Rebalancing

Investments can deviate from their original asset allocation as the values will fluctuate over time. Rebalancing is the process of realigning the weightings of a portfolio of assets. It involves periodically buying or selling assets in a portfolio to maintain an original or desired level of asset allocation or risk.

For example, an original asset allocation was 50% equities and 50% bonds. If the equities performed well during the period, it could have increased the equity weighting of the portfolio to 70%. Equities can then be sold and bonds purchased to get the portfolio back to the original asset allocation of 50/50.

How rebalancing works

Portfolio rebalancing safeguards the investor from being over exposed to increased risks and ensures the amount of risk involved is at the investor's desired level. As the performance of equities can vary more dramatically than bonds, the percentage of assets associated with equities will change with market conditions.

While there is no ideal schedule for rebalancing a portfolio, most recommendations are to examine allocations at least once a year. A portfolio does not have to be rebalanced, although rebalancing would usually be recommended. Annual rebalancing involves analysing the investment holdings within the portfolio at predetermined time intervals, usually at a client's annual review, and adjusting the portfolio to the original asset allocation.

If you invest in a model portfolio, your adviser will look to rebalance your portfolio at an agreed time interval such as your scheduled review.

Investments into managed funds, MPS and DIMs rebalancing will be done by the fund management team.

Charges

Explanation of terms used

Initial charge – this is the initial charge that is deducted from your policy to cover the setting up costs. Note that this does not cover advice charges.

Annual management charge (AMC) – this is the annual charge made by a fund manager to cover the ongoing costs of running the fund. This will vary from fund to fund but generally, funds investing in riskier assets such as equity and property will have a higher AMC than those investing in less risky assets such as corporate bonds and gilts. Note that the AMC is not usually representative of all costs that you may incur on an annual basis.

Total expense ratio (TER) – this tends to be a more realistic indication of the true annual cost and includes the AMC along with other additional costs such as trustee and auditor fees which may be taken directly out of the fund.

Ongoing charges – this does not currently apply to all investments. The costs included in the 'ongoing charge' figure (OCF) are essentially the same as the Total Expense Ratio, but the new terminology is designed to make it clearer that it covers charges that are applied on an ongoing basis. The ongoing charge does not incorporate transaction costs or performance fees, which will need to be disclosed separately by the fund manager.

Reduction in yield (RIY) – this is effectively the impact charges have on the growth of a fund. For example, a fund's projected growth of 4.5% may actually only grow by 3% once the impact of charges have been taken into account. In this case the RIY would be 1.5% i.e. 4.5% - 3%.

Transaction costs – these are not included in the underlying fund management costs. Transaction costs are costs incurred by fund managers in buying or selling the underlying assets they hold (examples of these costs are brokerage commissions, exchange fees and stamp duty).

All funds have their own specific underlying fund management charges and these will vary.

Specific charges for your investment will be detailed in the provider documentation.

Please note that the monetary charges in the total charges table of the suitability letter are estimated and will fluctuate. They do not take into account various other factors such as existing monies held on the platform, withdrawals or fund performance. Please be aware that platforms, providers and fund managers can change their charges at their discretion although they will notify you of any change. The actual charges you incur may be higher or lower than the figures quoted.

It's important to note that we have used the Ongoing Charge Figure for the purposes of illustrating the cost of the underlying funds you'll be investing in. There will also be additional variable fund costs - e.g. commission, transaction costs, performance fees and other incidental costs and research costs, that do not form part of the comparison/table. Any additional costs at the time of the comparison will be shown in the provider/fund documentation and could mean the overall charges might be greater than those stated in my letter.