



INVESTMENT PRINCIPLES & PROCEDURES JANUARY 2020

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INTRODUCTION

Aims and objectives

The Investment Principles & Procedures report has been prepared to outline the principles that govern our investment recommendations and illustrate the procedures of how these investment principles can be applied in practice.

Frequency of review

This document will be reviewed every three months, or immediately after any significant changes in the investment approach.

Review handler

This document will be reviewed by a person who is reasonably qualified by their ability, their appropriate knowledge, and their practical experience of financial matters. The person can, when they consider appropriate, consult Members of the Technical Committee for further guidance.

*"An investment in knowledge pays the best interest."
Benjamin Franklin*

INVESTMENT OBJECTIVES AND BELIEFS

Objectives

Our overarching investment objective is:

- To target and achieve an investment return appropriate to a client's individual requirement, while ensuring that this does not expose the client to a level of risk in excess of that which they would feel comfortable in taking.

Beliefs

Despite the evolution of investment theory and practice, there is no commonly approved framework for investors to follow. There is the freedom of belief. Our beliefs, which act as a guide to support effective delivery of our investment objectives, are as follows:

1. Modern Portfolio Theory (MPT) is the most influential economic theory dealing with finance and investment.
2. The market will return what the market returns.
3. Passive and Active investment strategies serve equally important roles in today's investment landscape.
4. Governance is in the best interests of all investment recommendations and client's of the firm.

PFOPTIMISER

Aims

PfOptimiser is an excel spreadsheet which aims to provide assistance with the calculations of optimal portfolios; those that offer the maximum possible return for a given level of risk.

Historical Data

PfOptimiser uses weekly performance data over a period of 5, 10 and 15 years, ending on the 17th January 2020. Investment Association (IA) data has been collected for the following sectors:

IA UK All Companies - Funds which invest at least 80% of their assets in UK equities which have a primary objective of achieving capital growth.

IA UK Smaller Companies - Funds which invest at least 80% of their assets in UK equities of companies which form the bottom 10% by market capitalisation.

IA Global - Funds which invest at least 80% of their assets globally in equities. Funds must be diversified by geographic region.

IA Global Emerging Markets - Funds which invest 80% or more of their assets in equities from emerging market countries as defined by the relevant FTSE or MSCI Emerging Markets and Frontier indices. The maximum frontier equity exposure is restricted to 20% of the total fund.

IA Europe Excluding UK - Funds which invest at least 80% of their assets in European equities and exclude UK securities.

IA North America - Funds which invest at least 80% of their assets in North American equities.

IA Asia Pacific Excluding Japan - Funds which invest at least 80% of their assets in Asia Pacific equities and exclude Japanese securities.

IA Japan - Funds which invest at least 80% of their assets in Japanese equities.

IA Global Fixed Interest - Funds which invest at least 80% of their assets in fixed interest securities. All funds which contain more than 80% fixed interest investments are to be classified under this heading regardless of the fact that they may have more than 80% in a particular geographic sector, unless that geographic area is the UK or GEM, when the fund should be classified under the relevant UK (Sterling) or GEM heading. This sector has a wide range of funds which invest in bonds and currencies across geographic area with differing characteristics.

IA Global Emerging Markets Bond - Funds which invest at least 80% of their assets in emerging market bonds as defined by a recognised Global Emerging Markets Bond index. Funds must be diversified by geographic region.

IA Sterling Corporate Bond - Funds which invest at least 80% of their assets in Sterling denominated (or hedged back to Sterling), Triple BBB minus or above corporate bond securities (as measured by Standard & Poors or an equivalent external rating agency). This excludes convertibles, preference shares and permanent interest bearing shares (PIBs).

IA Sterling Strategic Bond - Funds which invest at least 80% of their assets in Sterling denominated (or hedged back to Sterling) fixed interest securities. This includes convertibles, preference shares and permanent interest bearing shares (PIBs).

IA Sterling Government Bond - Funds which invest at least 95% of their assets in Sterling denominated (or hedged back to Sterling) triple AAA rated, government backed securities, with at least 80% invested in UK government securities (Gilts).

IA Sterling Index Linked Government Bond - Funds which invest at least 95% of their assets in Sterling denominated (or hedged back to Sterling) triple AAA rated government backed index linked securities, with at least 80% invested in UK Index Linked Gilts.

IA Property - Funds which predominantly invest in property. In order to invest "predominantly" in property, funds should either: invest at least 60% of their assets directly in property; or invest at least 80% of their assets in property securities; or when their direct property holdings fall below the 60% threshold for a period of more than 6 months, invest sufficient of the balance of their assets in property securities to ensure that at least 80% of the fund is invested in property, whereupon it becomes a hybrid fund.

IA Money Market - Funds which invest their assets in money market instruments and comply with the definition of a 'Money Market' fund set out in the COLL Sourcebook.

Source of Data

FE Analytics is used to supply Pfoptimiser with the data required to support the calculations. This is due to the quality, comprehensiveness and ease of access to the required data.

Efficient Frontier

Every possible combination of asset types (as per those chosen above) can be plotted on a graph, with the portfolio's risk on the X-axis and the average return on the Y-axis. Using Modern Portfolio Theory, Pfoptimiser produces the 'Efficient Frontier', which is represented by a curve that connects the most efficient portfolio combinations together - those achieving the highest possible return per unit of risk.

Constraints

We have constrained the 'Efficient Frontier' created by Pfoptimiser. This is because some of the most optimal portfolios contain a significantly reduced diversification of asset types which opposes our investment beliefs. The constraints are:

ASSET TYPE	LOWER CONSTRAINT	UPPER CONSTRAINT
UK Equity	8%	24%
UK Smaller Companies Equity	0%	4%
Global Equity	0%	12%
Global Emerging Markets Equity	0%	6%
European Equity	8%	12%
European Smaller Companies Equity	0%	0%
North American Equity	8%	12%
North American Smaller Companies Equity	0%	0%
Asia Pacific Ex-Japan Equity	5%	12%
Japanese Equity	0%	6%
Global Fixed Interest	0%	20%
Global Emerging Markets Fixed Interest	0%	4%
UK Corporate Bond	4%	20%
UK Strategic Bond	0%	6%
UK Government Bond	0%	16%
UK Index Linked Bond	0%	6%
Property	4%	12%
Cash	0%	35%

DELIVERING THE INVESTMENT OBJECTIVE

The Process

In order to deliver the investment objective, the following process is adhered to in all circumstances:

1. Establishing the Client's 'Attitude to Risk' Risk Profile
2. Establishing the timescale of the investment
3. Determining the maximum volatility tolerance
4. Determining the maximum potential for investment return
5. Establishing the Client's required rate of investment return
6. Identifying the Asset Allocation
7. Confirming an Active or Passive investment style
8. Confirming the stock selection

This process will then repeat at each annual client review meeting.

"In investing, what is comfortable is rarely profitable."

Robert Arnott

THE PROCESS

1. Establishing the Client's 'Attitude to Risk' Risk Profile

An integral part of giving investment advice is considering the risk profile of the client. This is achieved through two methods which work in tandem with one another:

- An off-the-shelf psychometric questionnaire to help establish the client's attitude to risk and to identify the amount of risk that a client is prepared to take. It also assesses how comfortable the client is with the fluctuations of the investment journey by communicating investment risk in several ways.
- A discussion with the client to discuss risk, its relevance, and the conclusions of the psychometric questionnaire.

2. Establishing the timescale of the investment

Another integral part of giving investment advice is considering the length of time over which the investment will be made. This is achieved through discussions with the client, whereby the result will be either:

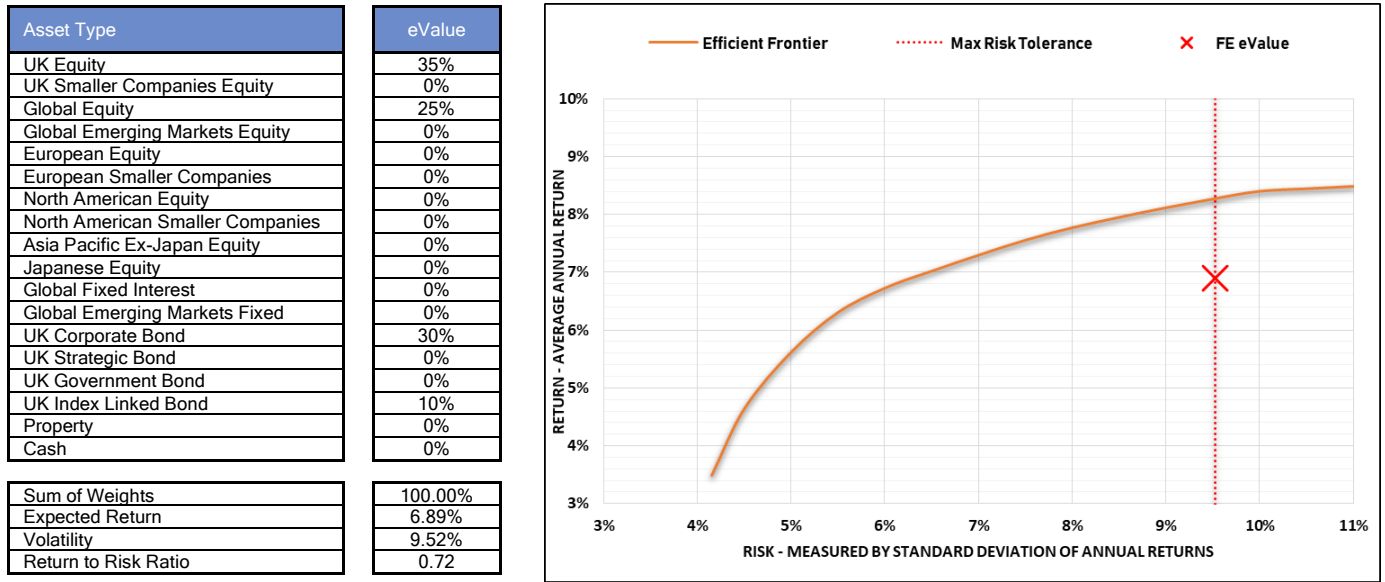
- 5 years
- 10 years
- 15 years

In circumstances where the investment timescale is likely to be less than 5 years, we are unlikely to provide investment advice.

In circumstances where the investment timescale is longer than 15 years, "15 years" will be selected.

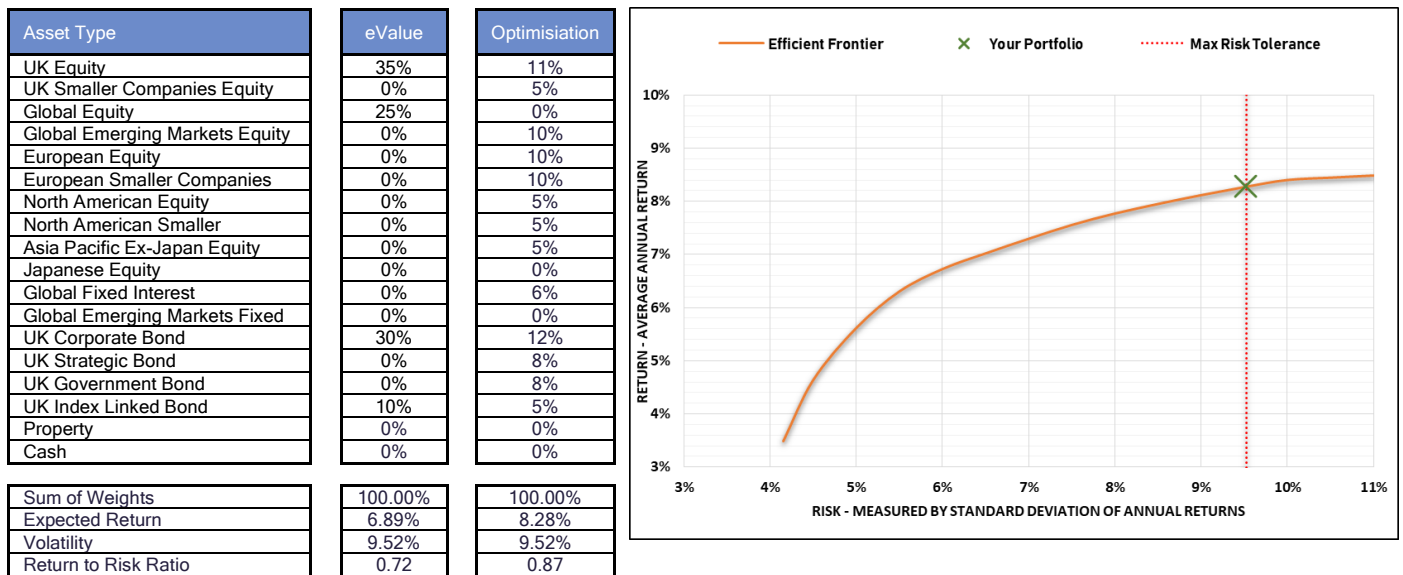
3. Determining the maximum volatility tolerance

Once the Risk Profile and timescale have been established, an appropriate asset allocation will be suggested from the psychometric questionnaire. This is entered into Pfoptimiser, which assesses the historic return and the volatility. Using a typical asset allocation suggested over a 15 year period, the results may look like:



4. Determining the maximum potential for investment return

As per the chart above, the suggested eValue asset allocation has been plotted below the efficient frontier. This means that the combination is inefficient. Therefore, using the volatility percentage as the target, Pfoptimiser can calculate the optimum combination to achieve the highest potential investment return.



Pfoptimiser has found a combination of asset types that has maintained the volatility, but increased the potential return. This has increased the Return to Risk Ratio from 0.72 to 0.87.

5. Establishing the Client's required rate of investment return

Using our example, the highest potential for future investment growth has been identified to be 8.28% per annum. However, as the client's required return could be significantly less than this to achieve their financial objectives and goals, targeting this rate of investment return could expose the client to excess investment risk.

In order to establish the required rate of return, a mixture of quantitative and qualitative research is undertaken.

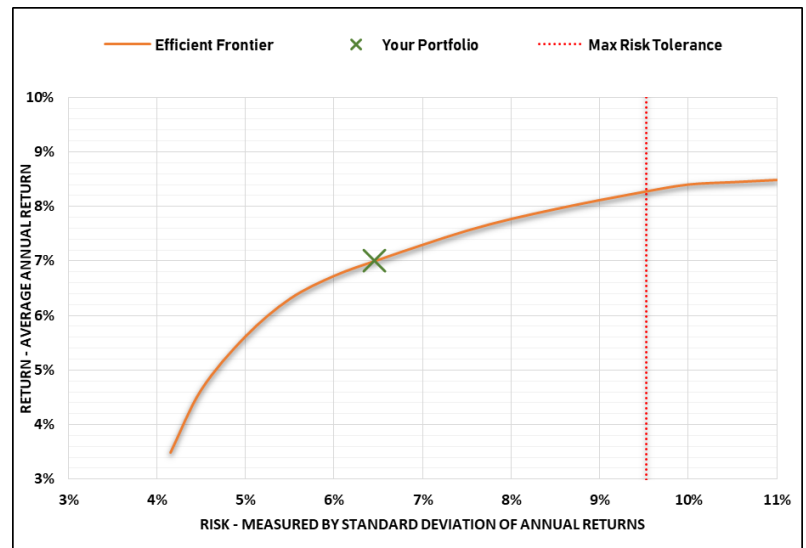
- Qualitative research is used to gain an understanding of underlying client motivations, reasons, and opinions. This provides valuable insight into the problem and helps to develop ideas for potential quantitative research.
- Quantitative research is used to generating numerical outcome data and usable statistics. Cash flow forecasting is the leading tool used to quantify the client's financial objectives and goals. It can quantify and rationalise the client attitudes, opinions, behaviors, and other defined variables.

The required rate of return will consider the charges applicable in order to ascertain the gross return required.

6. Identifying the Asset Allocation

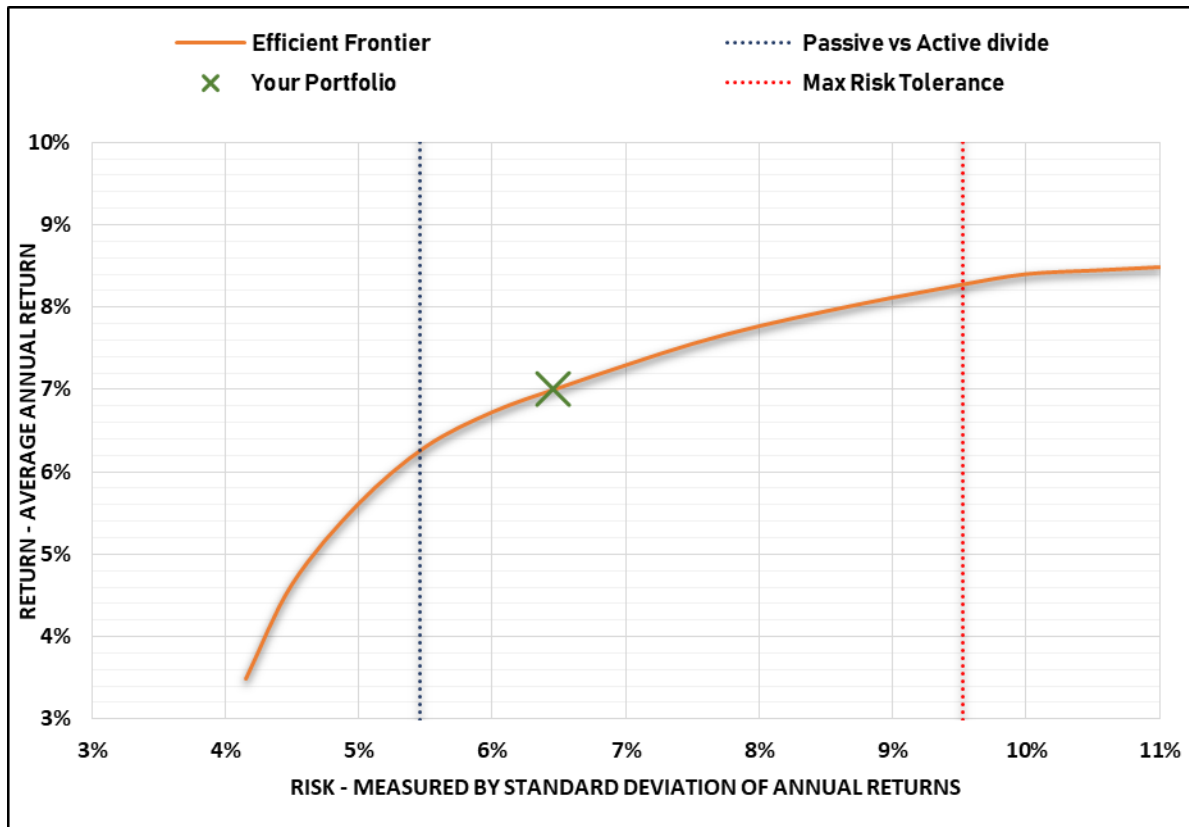
Once the required rate of return has been established, Pfoptimiser is used to determine an optimised combination to achieve the required rate of return. Following on with our example, assuming a requirement for a gross investment return of 7% per annum:

Asset Type	eValue	Optimised
UK Equity	35.0%	10.0%
UK Smaller Companies Equity	0.0%	5.0%
Global Equity	25.0%	0.0%
European Ex-UK Equity	0.0%	5.0%
North American Equity	0.0%	5.0%
Asia Pacific Ex-Japan Equity	0.0%	3.9%
China/Greater China Equity	0.0%	5.0%
Japanese Equity	0.0%	5.0%
Global Emerging Markets Equity	0.0%	0.0%
Global Fixed Interest	0.0%	7.1%
UK Corporate Bond	30.0%	6.0%
UK High Yield Bond	0.0%	1.0%
UK Strategic Bond	0.0%	12.0%
UK Government Bonds	0.0%	22.0%
UK Index Linked	0.0%	8.0%
Property	10.0%	5.0%
Targeted Absolute Return	0.0%	0.0%
Cash	0.0%	0.0%
Sum of Weights	100.00%	100.00%
Expected Return	6.89%	7.00%
Volatility	9.52%	6.46%
Return to Risk Ratio	0.72	1.08



7. Confirming the Active or Passive investment style

In order to confirm the investment style, the recommended portfolio is viewed in accordance with its position on the 'Efficient Frontier'; whether the optimised combination falls to the left or right of the "Passive vs Active divide" line:



The "Passive vs Active divide" line is the point of the 'ideal combination', i.e. the one providing the highest amount of return for the lowest risk. Anything left of this divide has a progressively lower ratio of return to risk, and anything to the right has a progressively lower ratio of return to risk.

The further a portfolio falls to the left of the 'ideal' combination, the more we believe simple diversification of assets can achieve the necessary return. We therefore look to select fund managers who use this approach in preference because their product charges are lower. We refer to this investment style as 'passive'.

Where a portfolio falls to the right of the 'ideal' combination, we believe simple diversification of assets is progressively less likely to achieve the necessary return. We would therefore look to select fund managers who identify specific investment opportunities to increase the potential for growth. We refer to this style as 'active'.

In our example, the recommended investment style would then be 'active', as it falls to the right of the divide.

8. Confirming the stock selection

After the Asset Allocation and Investment Style have been confirmed, individual stocks are picked to fill the desired asset allocation. Funds chosen must be located on the Leabold Fund List. As of January 2020, this list is:

UK All Companies

Investment Style	Fund	Crown Rating
Active	AXA - Framlington UK Growth Z Acc	👑 👑 👑 👑
Active	BlackRock - UK Equity D Acc	👑 👑 👑 👑
Active	BMO - Responsible UK Equity 2 Acc**	👑 👑 👑 👑
Active	BNY Mellon - UK Equity Inst W Acc	👑 👑 👑
Active	BNY Mellon - UK Opportunities Inst W Acc	👑 👑
Active	Lindsell Train - LF Lindsell Train UK Equity Acc	👑 👑 👑 👑 👑
Active	Liontrust - Special Situations I Inc	👑 👑 👑 👑 👑
Active	Liontrust - UK Growth I Inc	👑 👑 👑 👑 👑
Active	Royal London - Sustainable Leaders Trust C Acc	👑 👑 👑 👑 👑
Active	Threadneedle - UK Extended Alpha INA GBP	👑 👑 👑
Passive	Invesco - UK Enhanced Index (UK) Z Acc	👑 👑 👑 👑
Passive	iShares - UK Equity Index (UK) D Acc	👑 👑 👑
Passive	L&G - UK Index Trust I Acc**	👑 👑 👑
Passive	Vanguard - FTSE U.K. All Share Index A Acc GBP	👑 👑 👑 👑



























UK Smaller Companies

Investment Style	Fund	Crown Rating
Active	Artemis - UK Smaller Companies I Acc	👑 👑 👑 👑
Active	AXA - Framlington UK Smaller Cos Z Acc	👑 👑 👑
Active	Jupiter - UK Smaller Companies I Acc	👑 👑 👑 👑 👑
Active	Liontrust - UK Smaller Companies I Inc	👑 👑 👑 👑
Active	Schroder - UK Smaller Companies Z Acc	👑 👑
























Global

Investment Style	Fund	Crown Rating
Active	BNY Mellon - Global Equity Inst W Acc GBP	 
Active	BNY Mellon - Global Opportunities Inst W Acc GBP	 
Active	BNY Mellon - Long Term Global Equity Inst W Acc GBP	   
Active	Fidelity - Global Special Situations W Acc	   
Active	Fundsmith - Equity T Acc	    
Active	Investec - Global Franchise I Acc	   
Active	Morgan Stanley - Global Brands Inst Acc	    
Passive	Fidelity - Index World P	n/a
Passive	L&G - Global Equity Index I Acc	 
Passive	Vanguard - FTSE Developed World ex-UK Equity Index A	   
Passive	Vanguard - Global Equity Acc	  









Global Emerging Markets

Investment Style	Fund	Crown Rating
Active	BlackRock - Emerging Markets D Acc	    
Active	iShares - Emerging Markets Equity Index (UK) D Acc	   
Active	JPM - Emerging Markets Income C Acc	   
Active	Schroder - Global Emerging Markets Z Acc	   
Passive	Vanguard - Emerging Markets Stock Index Acc GBP**	   
Passive	Vanguard - Global Emerging Markets Acc	    








Europe Excluding UK

Investment Style	Fund	Crown Rating
Active	Fidelity - European W Acc	   
Active	JPM - Europe C Acc	  
Active	Jupiter - European I Acc	    
Active	Threadneedle - European ZNA GBP	  
Passive	L&G - European Index Trust I Acc	   
Passive	Vanguard - FTSE Developed Europe ex-UK Equity Index A	   






North America

Investment Style	Fund	Crown Rating
Active	Artemis - US Select I Acc GBP	
Active	BlackRock - US Dynamic D Acc	
Active	Fidelity - American W Acc	
Active	Invesco - US Equity (UK) Z Acc	
Active	Investec - American Franchise I Acc GBP	
Active	M&G - North American Dividend I Acc GBP	
Active	Schroder - US Mid Cap Z Acc	
Passive	HSBC - American Index C Acc	n/a
Passive	Vanguard - US Equity Index	


























Asia Pacific Excluding Japan

Investment Style	Fund	Crown Rating
Active	BMO - Pacific Equity 2 Acc	
Active	Fidelity - Asian Dividend W Inc	
Active	First State - Asia Focus B Acc GBP	
Active	Jupiter - Asian Income I Acc	
Passive	iShares - Pacific ex Japan Equity Index (UK) D Acc	
Passive	L&G - Pacific Index Trust I Acc**	
Passive	Vanguard - Pacific ex-Japan Stock Index Acc GBP**	

Japan

Investment Style	Fund	Crown Rating
Active	Baillie Gifford - Japanese B Acc	
Active	Schroder - Tokyo Z Acc	
Passive	ASI - Japan Equity Enhanced Index B	
Passive	iShares - Japan Equity Index (UK) D Acc	
Passive	Vanguard - Japan Stock Index Acc GBP	
































Global Fixed Interest

Investment Style	Fund	Crown Rating
Active	M&G - Global Macro Bond I Acc GBP	  
Active	Marlborough - Global Bond P Inc	  
Passive	iShares - Overseas Corporate Bond Index (UK) D Acc	   
Passive	iShares - Overseas Government Bond Index (UK) D Acc	   
Passive	L&G - Global Inflation Linked Bond Index I Acc	  
Passive	Vanguard - Global Bond Index Hedged Acc GBP	   
Passive	iShares - Overseas Corporate Bond Index (UK) D Acc	   























Global Emerging Markets Bond

Investment Style	Fund	Crown Rating
Active	ASI - Emerging Markets Bond I Acc	 
Active	Threadneedle - Emerging Market Bond ZNI GBP	   

























Sterling Corporate Bond

Investment Style	Fund	Crown Rating
Active	AXA - Sterling Corporate Bond Z Gr Acc	   
Active	BlackRock - Corporate Bond D Acc	   
Active	Invesco - Corporate Bond (UK) Z Acc	   
Active	M&G - Corporate Bond Inst Acc GBP	  
Active	Royal London - Corporate Bond M Acc	   
Active	Threadneedle - Sterling Corporate Bond INI GBP	   
Passive	iShares - Corporate Bond Index (UK) D Acc	   
Passive	Vanguard - UK Investment Grade Bond Index Acc GBP	   

























Sterling Strategic Bond

Investment Style	Fund	Crown Rating
Active	Artemis - Strategic Bond I Quarterly Acc	    
Active	Fidelity - Extra Income W	    
Active	Jupiter - Strategic Bond I Acc	   
Active	M&G - Strategic Corporate Bond I Acc GBP	  
Active	Rathbone - Strategic Bond Fund I Acc GBP	    












Sterling Government Bond

Investment Style	Fund	Crown Rating
Active UK Gilts	Allianz - Gilt Yield C Inc	   
Active UK Gilts	M&G - Gilt & Fixed Interest Income I Acc GBP	 
Active UK Gilts	Royal London - UK Government Bond M Acc	  
Active UK Gilts	Schroder - Gilt & Fixed Interest A Acc	 
Active UK Gilts	Threadneedle - UK Fixed Interest ZNA GBP	
Passive UK Gilts	iShares - UK Gilts All Stocks Index (UK) D Acc	  
Passive UK Gilts	L&G - All Stocks Gilt Index Trust I Acc	   
Passive UK Gilts	Vanguard - UK Government Bond Index Acc GBP	    

Sterling Index Linked Government Bond

Investment Style	Fund	Crown Rating
Active	AXA - Sterling Index Linked Bond Z Gr Acc	  
Active	M&G - Index-Linked Bond I Acc GBP	 
Active	Threadneedle - Index Linked	   
Active	Royal London - Index Linked M Acc	   
Passive	iShares - Index Linked Gilt Index (UK) D Acc	   
Passive	L&G - All Stocks Index Linked Gilt Index Trust I Acc	   
Passive	Vanguard - UK Inflation-Linked Gilt Index A Gross Acc GBP	  

Property

Investment Style	Fund	Crown Rating
Active	Fidelity - Global Property W Acc	  
Active	HSBC - Global Property C Acc	
Active	Schroder - Global Cities Real Estate Z Acc	  
Passive	iShares - Global Property Securities Equity Index (UK) D Acc	   

LIMITATIONS AND RISK

Non-discretionary investment management

As we only offer a non-discretionary investment management service, clients will be advised on all investment matters. No transactions are carried out without instruction.

Changing to a discretionary investment management service would offer a number of benefits to clients. It would release them from the burden of making significant investment decisions and would allow the client to focus on other important matters. It would also allow information that could alter an investment value to be acted on quickly, such as immediately selling a unit holding. By advising the client, this could mean that an opportunity passes before the instruction is given.

Modern Portfolio Theory

Modern Portfolio Theory considers many assumptions which are not guaranteed to properly represent reality. For example, the theory assumes that asset returns are normally distributed random variables. A real life examination illustrates this is often far from the truth. In many cases, there have been large swings which immediately invalidates the theory.

Another flaw in the theory relates to the assumption that all investors have access to the same information. This is far from true. For example, many online publications charge members to access their sites. Investors who do not pay an additional fee could be unaware of news that could significantly influence a potential buy or sell.

Modern Portfolio Theory also assumes investors are rational and avoid risk when possible, and that there are not large enough investors to influence market prices. However, as the market includes both irrational and risk-seeking investors, and large market participants who could influence market prices, the fundamentals behind Modern Portfolio Theory do not truly represent reality.

Past Performance

While past performance has been relied on for technical fund analysis, we would reiterate the view of the Financial Conduct Authority; past performance is not indicative of future returns. We would therefore avoid quoting details of the past performance of funds as this can create unrealistic expectations of future performance.

Future Changes

The charges levied by the recommended investment funds are not guaranteed. This means there is a risk they may increase in the future.

Investments can go down as well as up in value. If a withdrawal of capital takes place at a time of poor stock market performance, the investment may return less than originally paid in.

Future growth may be lower or higher than is necessary for the investment to achieve the client's objectives and expectations. It is not guaranteed that the client's objectives will be met.

Investment Exposure

A recommended portfolio may include exposure to the property asset class. The purpose is to provide an efficient means of diversifying risk and reducing overall volatility within your portfolio. However, such funds may need up to 12 months or longer to allow the fund manager time to sell or reorganise their portfolio. This may prevent you from accessing your capital for up to 12 months following a decision to sell.

A recommended portfolio may include exposure to corporate bonds. Since corporate bonds are priced on the yield advantage they provide relative to government bonds (a risk free asset) - movements in government bond yields have a direct impact on the yields of corporate issues. As such, corporate bond funds can lose value and there is no guarantee that an investor would receive all of their original capital back.

A recommended portfolio may include exposure to UK Smaller Companies. Whilst this asset class has significant potential for capital growth over the long term, they carry a significantly increased volatility than typically found in shares from larger companies. As such, there is the potential for the value of these funds to change substantially over short periods of time.

A recommended portfolio may include exposure to non-UK investments valued in currencies other than Sterling. The purpose is to diversify the risk of investing entirely in the UK and reduce overall volatility within your portfolio. However, where the value of the foreign currency falls relative to Sterling, the Sterling value of the investment may also reduce.