

## **Southernhay Financial Planning Investment Proposition**

### **APPROACH TO INVESTING AT OUTSET**

#### **Our investment beliefs and principles**

Southernhay Financial Planning is an Advisory company primarily covering the South of England. Our clients are a mixture of private individuals and companies who understand that by seeking our professional advice they can make the most from their money. Our success is based on three core principles; integrity, professionalism and impartiality, coupled with a creative approach to financial planning and a belief in a bespoke client service.

We believe in offering investment access to financial products and advice to all clients that require financial services and planning. We do this by offering a number of different levels of service that can be matched to the specific requirements of a client and the cost of these services will be dependent on the type and level of advice required. These services will cover a broad remit of advice and product areas and our services can range from self select investments and basic and transactional advice through to highly complex investment, cashflow and tax planning services.

We believe that money that investors may need in the short term (two years or less) should be kept in short term investments where the initial capital is protected. These would include bank and building society accounts and National Savings products. Clients should only consider investments in the stock market, corporate bonds or other asset backed investments when they have money to invest to help meet their medium to longer term investment objectives.

#### **Approach to asset allocation**

Deciding upon the mix and proportion of assets in a portfolio - cash, bonds, equities, other asset backed investments etc is extremely important, more so than deciding on individual assets and funds. To ascertain the asset allocation that's right for each individual we consider such factors as:

- Financial needs
- Tolerance of risk
- The length of time they wish to invest
- Personal circumstances such as capital and income available now and in the future

Investors, with the advice and guidance of their adviser, need to be clear on why they own each particular investment and asset. Knowing the characteristics of each investment and the role it plays in a diversified portfolio increases the chances of selecting suitable investments that can be held for the medium to long term.

As an Independent Financial Advisory Practice we will make personal recommendations, in relation to retail Investment products that are based upon a comprehensive and fair analysis of the relevant

market and are unbiased and unrestricted. We will also use Independent analysis tools to select the providers and underlying investments and therefore will not place any limits on funds, sectors or asset classes that may be available to retail investors.

### **Risk tolerance and benchmarks**

In the medium to long term, what matters most is that a client's investments, and the returns derived from them, enable an them to meet their individual objectives. Earning enough to meet these objectives is much more important than whether investments suffer interim declines or trail a market benchmark. To achieve long term investment objectives most investors will need to accept some level of risk from asset backed investments such as equities.

If an investment portfolio does not fairly reflect the overall investment market in terms of a balanced asset allocation (the process of dividing investments amongst different asset classes such as stocks, bonds and cash etc) and investment style (such as growth or value), we believe that clients are taking additional risk and that this is unlikely to pay off over the medium to longer term.

It is widely accepted that it is 'time in the market' that counts, not 'timing the market'. Additionally, market fashions and sentiment can change, sometimes suddenly. There is no guarantee that a performance-chasing strategy, asset class or fund that has performed well will continue to perform well over the following month, year etc...

To assist us with the delivery of our Investment Services we use a system called Dynamic Planner, provided by Distribution Technology. Distribution Technology is the UK's leading provider of financial planning and sales technology and has an excellent reputation for market-leading advice technology. Their tool allows us to analyse our clients' attitude to risk using a range of psychometric questionnaires, and provides clients with a view of the consequences of their decision through the production of expected gains and losses based upon clients' risk choices.

We will then provide clients with a report generated by this system which fully explains the clients' positions regarding tolerances to risk. We will of course fully discuss this report with the client to tailor the specific investment approach should that be deemed necessary according to individual client circumstances.

### **Expected returns and timeframes**

The risk report will also list, and prompt a discussion, regarding expected returns and timeframes. It will give a number of examples of expected returns over different timeframes given a number of different parameters. It will also give an inflation adjusted rate of potential returns.

The major asset classes (equities, bonds, cash) have long established histories and well established risk/reward characteristics. When estimating returns for asset classes and sub asset classes, long term historical returns are a good place to start. It is likely that returns from various subclasses of the stock market will be similar to each other over long periods. It is also likely that the long term return for equities will be higher than that for bonds and that bond returns will, in turn, be higher than cash returns over the long term.

Investors should keep in view however that no method for predicting market returns is perfect. Past performance is not a reliable indicator of future results.

### **Who makes decisions, how are decisions made, use of investment models & funds**

The final decisions on the Southernhay FP Investment Proposition and strategy are made by the firm's directors. This takes the form of a quarterly Investment Committee meeting where the data of the previous 13 weeks is discussed with the firm's investment advisers and feedback from papers and discussions during this time with investment partners and others will be analysed. Any changes to fund/portfolio makeup will be decided at this meeting.

As an Independent Financial Advisory Practice we make personal recommendations, in relation to retail Investment products that are based upon a comprehensive and fair analysis of the relevant market and are unbiased and unrestricted. We will therefore make use of investment models where appropriate to the specific client circumstances but will not run investment portfolios based upon models for all clients as we believe, as an Independent Practice, we should base our investment recommendations based upon each individual client circumstances.

We will also use Independent analysis tools to select the providers and underlying investments and these tools will be used to analyse existing funds that are held. We operate a back office system via Intelligent Office that enables us to interrogate overall fund holdings at firm and client level to enable full granular analysis where required.

### **Use of Wraps/Platforms/Discretionary Fund Managers & costs**

Where appropriate to the client individual circumstances we will recommend the use of a 'Wrap' or 'Platform'. A Wrap or Platform is a service that allows you to hold one or a number of different investment vehicles under one roof. It also allows access to a significant number of investment fund from different fund managers to allow the creation of a diversified portfolio with the ability to switch funds at any time. It also provides the facility to obtain up-to-date valuations on all your investments whenever required.

We use independent research to select the wrap or platform provider that is likely to best suit your own specific needs and requirements. We do this by using an independent research tool - 'Synaptic'. We will input the required criteria based upon your likely needs and Synaptic will then produce a shortlist of Wrap/Platform providers that are best likely to suit your individual requirements.

A further feature will be a 'Defaqto Star Rating' of these providers. A Defaqto Star Rating reflects the level of features and benefits offered within a financial product, helping advisers and consumers make a more informed decision about which one suits their needs. Defaqto currently review products across many categories. Their research team assess the features and benefits of every financial product under each category and award a Star Rating from 1 to 5. 1 indicates the lowest level of cover or features and 5 the highest. We will then recommend a provider of the most suitable Platform/Wrap provider to you.

For larger investment holdings, portfolios that require single share holdings and dealing or the ability to trade positions frequently we will also consider the use of Discretionary Fund Management and would select the provider in these circumstances using the process described above. The key difference in a Discretionary Managed Service is that the day to day management of the portfolio is outsourced to an external investment manager who will have the discretion to trade on that portfolio as and when required without recourse to the client. Southernhay Financial Planning retains liability for all other advice areas in this instance including the ongoing suitability of the risk profile taken with the individual portfolios.

Costs matter a great deal because investment returns are reduced pound for pound by the fees, transaction expenses, any taxation incurred and advice costs. Costs will therefore be an important part of any consideration of portfolio construction and advice and will always be communicated to clients clearly before any work is transacted on their behalf.

## **REVIEW PROCESS**

A review will be made up of a full Portfolio Investment Report together with a Risk Analysis Report. These reports are facilitated by our back office systems of Intelligent Office and Dynamic Planner respectively. These reports are highly detailed with granular detail provided in regard to current fund holdings, asset allocation, overlapping funds/shares held etc together with current risk levels etc. There will always be sufficient information contained within these reports to facilitate a discussion that will be meaningful and contain sufficient information to take actions as required at the review.

Southernhay Financial Planning's back office systems contain full details of client review schedules and reports are therefore produced for client portfolios at the required review dates. The frequency of review is dependent upon the service level that is currently provided to the client. We will review individual client service levels required at review.

For portfolios that are not automatically rebalanced, any required action is taken at review and any recommended changes are communicated in person to the client following any actions decided upon at the quarterly Southernhay FP Investment Committee meeting. Decisions and recommendations to retain or switch holdings are taken by advisers, after the client review and taking into account the clients' personal circumstances and any hold/buy/sell of fund decisions that may have been made at the Southernhay FP Investment Committee meeting.

Clients' attitude to risk is re-assessed at review with any changed circumstances/investment objectives taken into consideration. Dynamic Planner Attitude to Risk questionnaires are used to re-assess attitude to risk.

Any changes to charges connected with the portfolio are reconfirmed to clients at review.

The Southernhay FP Investment process is used as a working document and therefore evolves over time and as circumstances change and conditions dictate.