Cilbenrick

Financial Management Consultants

Investment Philosophy

At Cilbenrick, we understand that your investment returns will affect your standard of living, the stability of your retirement, and your ability to provide for your family as you would hope to. Our investment philosophy has therefore been given very careful consideration and is based on sound investment principles which are described in this document.

We aim to help you make smart decisions about your money and, ultimately, to enjoy the peace of mind that is the product of a successful investing experience.

There are numerous ways to approach the construction and on-going management of an investment portfolio. Without the application of a robust process, the emotional aspects of investing can prevent investors from making the best decisions. Cilbenrick consistently apply a multi-stage investment advice process which will ensure the delivery of suitable advice to every client. The outcome is tailored to meet individual objectives but the process itself is always the same.

If you don't understand any aspect of the investment principles that follow, or if you have any questions about the way in which we manage our clients' portfolios, please ask.

You should understand how investing may help you meet your goals

The world of investing can be complex, so Cilbenrick try to make things as simple as possible. While there is a lot of science and evidence behind our investment philosophy and process we are keen to ensure that you understand our recommendations and how they fit with your own financial objectives.

Our conversation with you looks into a number of key areas when advising on your investments, including:

the need for income and / or growth	the need for capital security	age	family commitments
whether there is a specific item that needs funding	the investment time horizon	interest rate risk	inflation risk
any future regular income needs	the impact of charges and penalty fees	attitudes to risk	capacity for loss

When delivering investment advice, we always start with a detailed understanding of your financial objectives. These objectives inform decisions about the level of investment risk that needs to be taken.

A conversation about risk is the essential first step when investing

While there is an understandable desire to keep things safe, the impact of inflation and the value of investing are compelling, and taking too little risk can mean that your assets will not grow enough to meet your investment goals. For some investors, and certainly for short term savings, cash is still likely to be the best fit. The reward for taking on risk is the potential for a greater return. There are many kinds of risk including but not restricted to:

Systematic risk	Specific risk	Liquidity risk	Capital risk
• The risk inherent to the entire market or segment	• Hazards specific to a particular company, industry or investment type	• Lack of marketability of an investment that cannot be bought or sold	• The risk that you may lose all or part of the amount invested

Income risk	Inflation risk	Currency risk	Default risk
• The risk that income will decrease due to poor performance	• The uncertainty over the future real value (after inflation) of your investment	• Risk that arises from the change in price of one currency against another	• The risk that a borrower does not pay you back (cash or bonds)

In making recommendations, we consider the following:

Attitude to risk

- Some will find the prospect of volatility in their investments and the chance of losses more distressing than others.
- We test your attitudes to risk using a psychometric questionnaire.

Capacity for loss

- Your ability to tolerate risk is different to your attitudes to risk and will depend on your financial circumstances, such as the value of your assets outside your portfolio and your income.
- We discuss your financial cicumstances to determine the extent to which investment losses will affect your living standards.

Time horizon

- The time period over which your money is to be invested will influence the amount of risk which is deemed suitable.
- We check when investment withdrawals are likely to start and for how long your money may be invested.

Knowledge and experience

- Prior knowledge and experience of investment may make certain types of investment more, or less, suitable.
- We find out which types of investment products you have dealt with previously and whether you are comfortable with the risks you have taken or are taking.

Allow capital markets to work for you

Capitalism is what underpins the world's economy and the free market is a simple mechanism that brings together ideas for products and services, and the finance required to get them off the ground.

People who invest in an enterprise are taking a risk with their capital and are therefore entitled to share any financial rewards - just as they should accept any losses. This simple principle is followed in every corner of the world from the dusty markets of third-world villages to the board rooms of the world's richest corporations. In more sophisticated markets, the rules of this process are codified by formal capital markets and most investors participate through tightly regulated exchanges of equities and bonds. These are the most liquid and transparent asset classes which, in many cases, offer investors a real stream of income now or in the future. This quality gives them a tangible and genuine value.[1]

Bonds are loans to governments or companies, with terms that can range from a few months to indefinite periods. The interest rates are usually fixed, so the capital values of the bonds vary in line with interest rates generally, to bring their yields back into line with the market.

Index-linked bonds can guarantee a positive return against inflation between issue and redemption, but long-term protection against inflation is more usually provided by equities.

Equities are shares in companies, profits from which are in part distributed as dividends. Equity values depend on the expectation of future profits and how they will be distributed. Underlying the general rise in share prices is the widespread increase in industrial productivity and prosperity, although interruptions can be substantial and prolonged. Equities are characterised by insecurity of income and capital values over the shorter term, but with the potential of rising income and real capital growth over the long term.

Alternative assets such as property and commodities are reasonable long-term hedges against inflation. Their returns don't necessarily follow the equity or bond cycles.

We consider an investment that has no prospect of paying an income to be speculative; their value is entirely reliant on finding counterparty to a trade. There might be a place for speculation at the fringes of an investment portfolio, but we do not believe speculative instruments should play a major role.

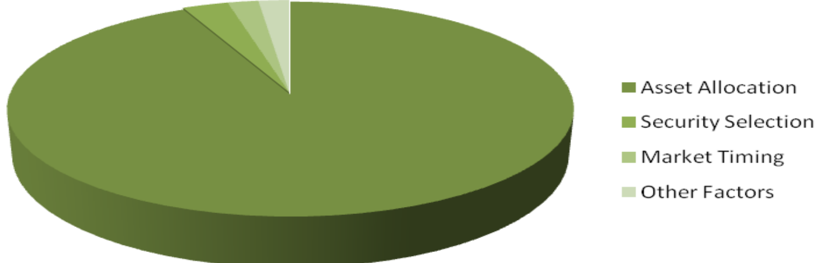
We regard the returns generated by hedge funds and other esoteric and opaque strategies to be synthetic *e.g.* partly fabricated through the use of derivatives or borrowing to produce a different type of return. These are considered strategies more than asset classes and, in general, we prefer less complex, less expensive and more liquid investments.

[1] Fama, E. (1965) The Behaviour of Stock Prices

4 The bulk of long-term returns come from asset allocation

It is widely accepted that the most important factor in the performance of a portfolio is its asset allocation - the proportions held in equities, bonds, alternative assets & cash – which accounts for over 90% of the performance, making it ten times more important than market timing and stock-picking combined[2]. This assumption forms the basis of 'Modern Portfolio Theory', the Nobel prize-winning concept that has, over the past half a century, provided stability and proven the importance of investment diversification.

We believe that trying to time market entry decisions in the short term is a dangerous strategy as the biggest gains tend to happen quickly and are impossible to predict accurately. Nobel Laureate William Sharpe calculated that investors would have to make correct timing decisions 82% of the time to beat a portfolio that remained fully invested[3]. As the famous investor Warren Buffet says, "It's *time in* the market, not *timing* the market that counts".



The relative importance of factors influencing portfolio performance[4]

Getting the asset allocation right is like making a cake. The most important part is making sure you have the right amount of flour, eggs, butter etc. rather than worrying about whether the ingredients come from the supermarket or the corner shop.

Cilbenrick focus on constructing the most suitable asset allocation model for you, based on your attitudes to risk, capacity for loss, investment time horizon and knowledge & experience.

We receive advice from Ibbotson Associates, a leading authority on asset allocation and investment research across the world, and will revise your asset allocation strategy annually.

Although strategic asset allocation is responsible for the bulk of long-term returns, Cilbenrick may make tactical asset allocation decisions to reduce risk when certain markets get overheated or oversold, based on our medium-term view of markets.

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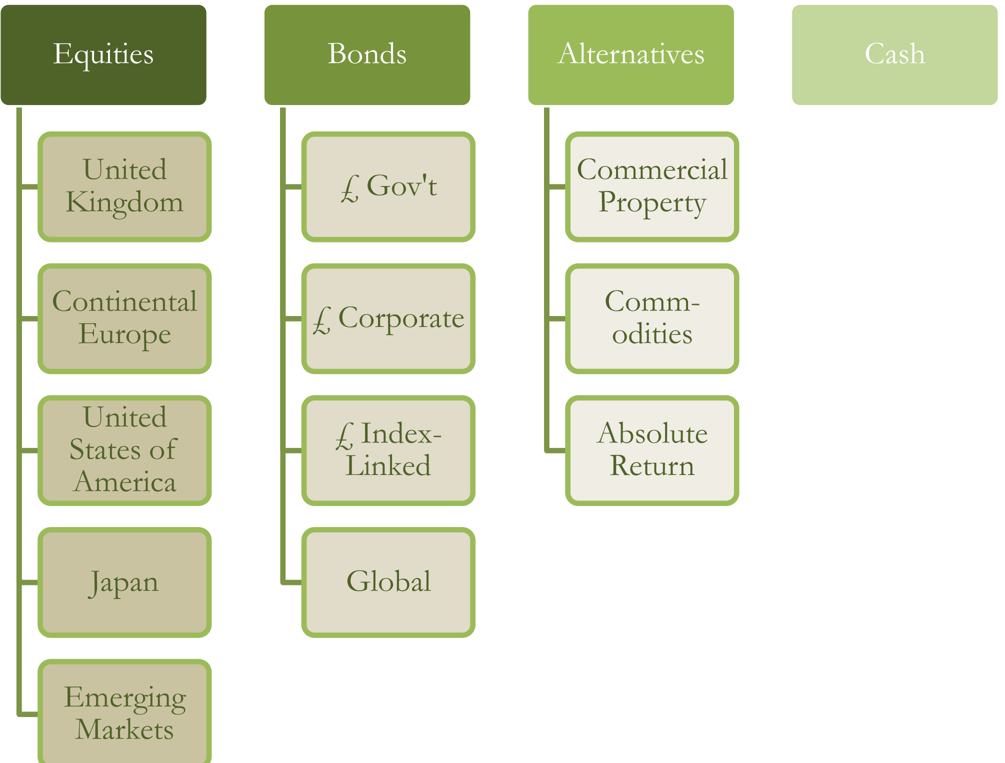
[2] Markowitz, H. (1952) Portfolio Selection
[3] Sharpe, W. (1975) Likely Gains from Market Timing
[4] Brinson, Hood & Beebower (1986) Determinants of Portfolio Performance

Diversification can reduce risk without destroying returns

Diversification is a strategy that can be summed up by the timeless adage "don't put all your eggs in one basket." The strategy involves spreading your money among various investments in the hope that if one investment loses money, the other investments will make up for those losses.

Because we believe in the power of capital markets, we propose spreading your assets across many thousands of individual investments. This means the negative and positive influence of each individual investment is reduced, producing less risk in your portfolio.[5]



A portfolio should be diversified at two levels: *between* asset categories and *within* asset categories. So in addition to allocating your investments among equities, bonds, cash and alternative assets, Cilbenrick will also diversify within each asset category, as shown above, to try to include investments that may perform differently under different market conditions.

It is easier to diversify within each asset category through the ownership of investment funds from each category. Funds pool money from many investors and invest it, making it easier for investors to own a small portion of many investments. Examples of funds include unit trusts, open-ended investment companies, investment trusts, exchange traded funds, life policy funds, pension policy funds and structured products. We believe our independent status provides us with the best possible framework for the service that we offer. We have committed to maintaining our knowledge in all product areas and this forms part of our Continuing Professional Development (CPD) programme. Our investment recommendations are based on a comprehensive and fair analysis of the relevant market; are unbiased; and unrestricted.

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[5] Booth, D. (1994) Asset Allocation and Diversification Returns

The 'best' funds combine consistent risk-adjusted returns & low costs

Cilbenrick use funds as building blocks in a portfolio and, for each asset class, we try to identify 'best in class' funds that perform consistently on a risk-adjusted basis. A fund manager who takes lots of risk to produce good returns would be in greater danger of failing to deliver those results in the future. Conversely, a manager who is able to deliver good results without taking too much risk, is considered more reliable for the future.

In general, we only consider authorised funds run by Financial Conduct Authority regulated managers to be suitable for retail investors. In the case of structured products, the relevant counterparty must be rated AAA by S&P, Fitch or Moody's. We do not recommend individual stocks.

We conduct ongoing quantitative analysis and qualitative research, using information provided by Morningstar, Citywire and others. In particular, we look at the following:

Philosophy	• Identify what a fund is trying to achieve
Process	• Understand how a fund intends to achieve its objectives
People	• Assess the strength of the management team or individual
Performance	• Assess whether it has achieved good risk-adjusted returns
Price	• Ensure that the fund offers good value for its charges

Different funds will have differing investment styles. For example, some equity funds invest in companies for dividend income whereas others are looking for more rapid share price improvements. Some funds invest specifically in medium-sized or smaller companies. A combination of different investment styles is considered to add further diversity.

Management fees, taxes, expenses and transaction costs incurred in the management of a portfolio have a direct impact on returns so managing costs is important. Good investment performance can be wiped out by high costs or a failure to seek tax efficiency. Consistent outperformance of the market through the selection of individual stocks is something that only a minority of fund managers are able to achieve. When investing in some asset classes, it can be cost-effective to use a passive fund which tracks an index *e.g.* the FTSE All Share, and so we blend passive and actively managed funds in our portfolios[6]. Other funds which we might recommend select stocks in different automated ways based on company data such as the *price-to-book-value* ratio, and these so-called 'smart beta' funds typically have lower higher charges than simple index trackers but lower charges than actively managed funds.

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[6] Schneider, L. (2007) Are UK Fund Investors Achieving Fund Rates of Return?

Investments and objectives need to be reviewed regularly

It is natural that your attitudes to risk, capacity for loss, investment time horizon, knowledge and experience will change over time, and Cilbenrick will keep in touch so that we may adjust your investment strategy accordingly.

If you engage us to provide our Cilbenrick Portfolio service, we will review your portfolio every three months, at which time we:

- Check for changes to your objectives, circumstances or attitudes
- Provide a valuation of the investment funds held in your portfolio
- Give an update on the performance of the funds
- Review the funds and recommend changes where necessary
- Propose to undertake a rebalancing of your portfolio

The recommendations for change that are proposed in your quarterly report reflect our latest opinion on how best to build your portfolio with consistent and cost-effective funds. Cilbenrick offer an advisory service, so any proposed changes are outlined and explained in the quarterly report, and are not brought about without your approval.

8 Regular rebalancing raises returns

The different asset classes in your portfolio should not all perform well or badly at the same time. The different timings of their types of performance is useful to the portfolio as a whole because it means that you are diversified.

Equities, for example, might performer better over a given time period than bonds. This would mean that the proportion of the total portfolio that is made up of equities increases from the initial proportion. At the same time, the proportion of bonds in the portfolio would, in this example, have reduced.

This is perfectly natural as the capital markets move up and down in relation to each other. However, the danger is that the portfolio may 'drift' so far away from the initial proportions of asset classes that the portfolio is exposed to more risk than we initially designed it to.

In order to safeguard against this, it is necessary for us to sell some of the asset classes that have performed relatively well, and also buy some of the asset classes that haven't performed so well. We call this process 'rebalancing'.

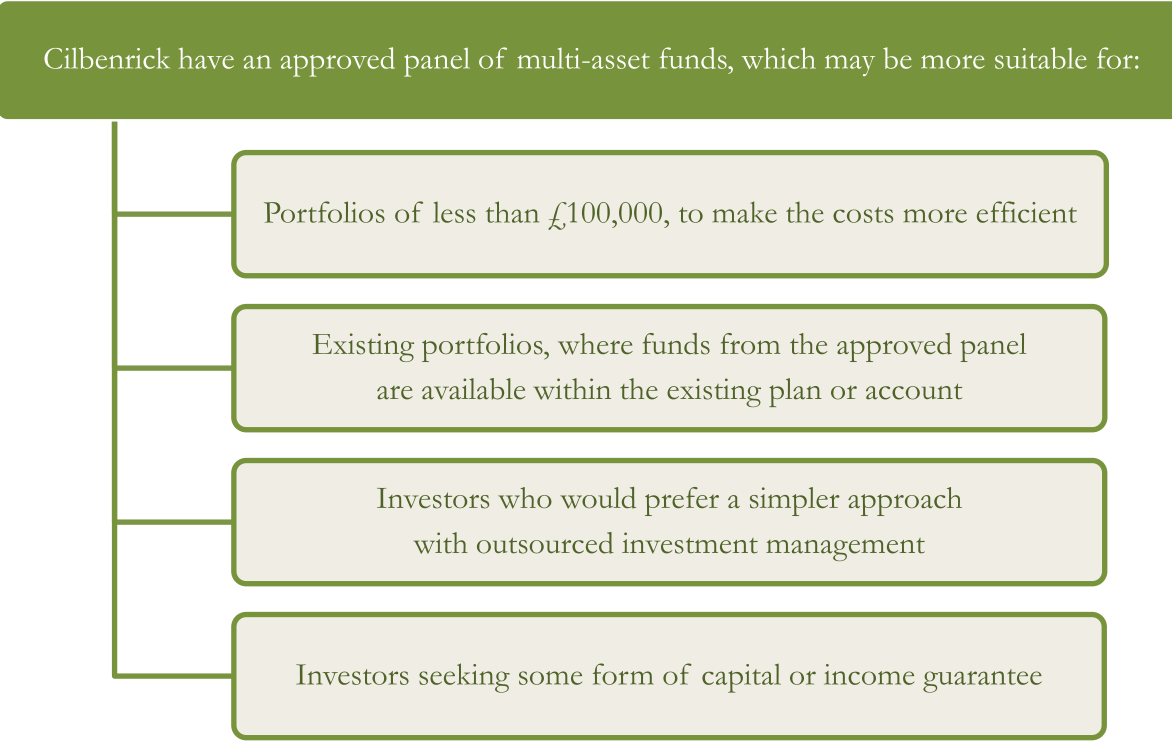
Rebalancing a portfolio is an important factor in achieving long-term returns.[7] If you accept that your risk capacity should be matched with a suitable portfolio then rebalancing is the means by which you maintain a consistent risk exposure.

Although rebalancing is a simple concept, realising its benefits is a challenge for many investors because it involves selling assets that have recently done well and buying assets that have recently done poorly in order to return to the original allocations. However, over the long-term, asset class performance tends to revert to mean – or periods of above average performance are followed by periods of below average performance. This can help investors do things that are counter-intuitive, like selling a successful investment rather than hold on to it.

[7] Bernstein, W. (1996) The Rebalancing Bonus: Theory and Practice

9 When it comes to service, one size doesn't fit all

Cilbenrick tailor our service to meet any investor's needs. For example, some portfolios will benefit from a smaller range of funds which themselves hold a broad mix of assets.



Investments of approved multi-asset funds should not need to be reviewed as regularly as a Cilbenrick Portfolio of many more single asset type funds. These investments are reviewed annually and command lower fees because we will not need to provide updates, reviews and recommendations as frequently.

Whatever is the best solution for an investor's needs, the basic philosophy of accurately assessing their risk profile, diversifying across and within the different asset types, identifying consistent and cost-effective funds and regularly reviewing the portfolio and the investor's objectives remain at the heart of what we do.

The level of service and its associated investment make-up will determine which platform, if any is used. A platform is a nominee service which provides access to numerous investment funds from various fund managers, all within one account. Cilbenrick conduct regular assessments of the platform market to examine costs, fund availability, tax wrapper availability, ease of use, etc, and a copy of our research is available upon request. Based on our research, the platform which we primarily use is Transact, although others such as Nucleus or FundsNetwork may be recommended for different reasons, and sometimes a platform is not required at all.

10 Clients should know what they are paying for

Our fee is £300 for initial investment advice, plus an ongoing fee which will depend on the ongoing services required and which will be confirmed to you. Before receiving advice from Cilbenrick for the first time, it is compulsory to undertake the Financial Management Programme, details of which are provided in our Financial Planning Service Proposition, at a cost of £1,200.

Initial Investment Advice

- £1,200 for participation in the Financial Management Programme
  - Compulsory for all new clients (one-off)
- £300 fixed fee for advice on investment matters, including:
  - Establishment of a new portfolio
  - Top-up of an existing portfolio
  - Switch to a new investment proposition or fund

Ongoing Multi-asset Portfolio Advice

- Typically for amounts of up to £100k
- Ongoing fees of 0.5% of the portfolio per annum
- Annual reviews of the portfolio, at your request

Ongoing Cilbenrick Portfolio Advice

- Typically for amounts of £100k-£1m
- Ongoing fees of 1% of the portfolio per annum
- Quarterly reviews of the investments
- Quarterly meetings available, at your request

Ongoing Bespoke Portfolio Advice

- Typically for amounts greater than £1m
- Ongoing fees of 1% of the first £1m per annum, 0.25% thereafter
- Quarterly reviews of the portfolio
- Monthly meetings available, at your request
- Ongoing Financial Management Programme included

Adviser declaration

I will be pleased to explain any aspect of Cilbenrick's investment philosophy, principles or processes that you do not understand.

Under the Data Protection Act 1998, information supplied may be stored on computer records and may be used for marketing and statistical purposes by Cilbenrick. Details may be passed to our regulatory authorities for the purposes of compliance.

I herby agree to supply the services described above under our terms of business, as described in our Client Agreement and Financial Planning Service Proposition.

Rhidian Thomas BSc (Hons) DipPFS
Director of Investment Advice

Client declaration

I confirm that:

- ✓ I have read this document and understand Cilbenrick's investment philosophy, principles and processes.
- ✓ I understand that there are many kinds of risk associated with investing and that here is no such thing as an investment which will give me above average returns without the acceptance of above average risk and that above average risk does not guarantee higher returns.
- ✓ I understand that my investments may go down in value as well as up and that past performance is not a reliable guide to future performance. I also understand that I may not recover from a non-Cash investment the whole of the sum originally invested.

Signature	Signature
Print name	Print name
Date	Date