GOODWILL FINANCIAL SERVICES LTD INVESTMENT POLICY STATEMENT

"The important thing about an investment philosophy is that you have one you can stick with." David Booth
David Booth is Founder and Executive Chairman of Dimensional Fund Advisors.

GoodWill
Financial Services

Goodwill Financial Services Ltd
Investment Policy Statement

Introduction

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The Investment Policy Statement

The purpose of this Investment Policy Statement is to provide you with a comprehensive and unambiguous record of Goodwill Financial Services Ltd.'s investment philosophies, strategies, and processes. Our aim is to help you make informed decisions about your money and, ultimately, to enjoy the peace of mind from a successful investing experience. The benefits of creating an Investment Policy Statement are:

- You have a clear understanding of your attitude to investment risk,
- Your performance objectives are clear,
- Your expectations are clear,
- Misunderstandings are less likely,
- You understand our investment philosophies, strategies, and processes and the rationale behind them.

The Investment Policy Committee

The information in this Investment Policy Statement is a result of the research conducted by our Investment Policy Committee. It meets regularly to ensure that information remains up-to-date and relevant.

We believe our approach provides us with the best possible framework for the service that we offer. The information contained within this investment policy statement is based on a comprehensive and fair analysis of the relevant market.

"THE INVESTOR'S CHIEF PROBLEM - AND EVEN HIS WORST ENEMY - IS LIKELY TO BE HIMSELF." - BENJAMIN GRAHAM

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"I take the market efficiency hypothesis to be the simple statement that security prices fully reflect all available information." Eugene Fama

Eugene Fama, Robert R. McCormick Distinguished Service Professor of Finance at the University of Chicago Booth School of Business and Nobel laureate

1. Our Investment Philosophy

This document sets out our investment philosophy. It explains what we will do with your money and why. We believe that if you know what to expect from us and from your investments, we will have a more productive relationship.

Core Beliefs

Our philosophy is based upon four core beliefs about financial markets. These beliefs lead us to construct carefully structured investment portfolios that are designed to meet the investment needs of our clients.

Belief One - Capitalism Works

Whilst to some a dirty word, Capitalism is what underpins the world's economy and is overwhelmingly the most successful economic model that humankind has devised, so far. 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 reward - just as they should accept any losses. This simple principle is followed in every corner of the world, from a street market in a developing nation to the boardrooms of the world's richest corporations. In more sophisticated markets, the rules of this process are codified or organised by formal capital markets and most investors participate through tightly regulated exchanges of shares and bonds.

Belief Two - Risk and Return are Related

We believe it is impossible to improve your investment return without taking more risk. In other words, the potential for financial loss you expose yourself to in taking risk is also the reason you earn a return. There is good risk and bad risk. Higher exposure to the right risk factors leads to higher expected returns but is no guarantee of them. Risk is the premium investors pay for the expectation of a greater return.

Our role as your adviser is to identify which risks offer consistently higher expected returns and which risks do not, and then to offer you exposure to those risks in a structured, disciplined, and cost-effective way.

Belief Three - Markets Work

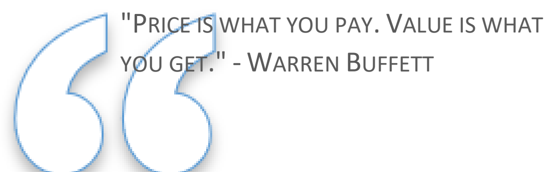
Capital markets are the best mechanism available to calculate the value of an asset. Many investors believe they can price assets more accurately than the market. They perform research and analysis to arrive at a price of an asset. If the market price is below their calculated price, they might buy that asset to make a profit when it rises.

However carefully they make their calculation, it is never more than an estimate upon which to base a prediction. Some estimates will be right; some estimates will be wrong.
Very few people can make consistently accurate estimates over a reasonable period of time, so we do not use predictions about markets or prices in our portfolios.

This principle applies across our investment philosophy, which means we do not buy individual stocks we think will outperform the market, nor overexpose or weight investments towards countries or regions we expect to do well. Instead, we use investment funds with broad exposure to the whole market and allocate assets to countries in proportion to their relative size in the global market.

Therefore, we accept that the market, powered by the wealth-generating capability of capitalism, provides an adequate rate of return. We do not try to beat the market with predictions, we harness the returns of the market through discipline and structure.

This process is akin to a principle called the Wisdom of Crowds and has been observed in many fields where the average answer provided by a large number of guessing participants produces more accurate estimates than so-called experts. A good example can be seen below from a real experiment that was carried out to guess the number of Jellybeans in a glass jar.



"PRICE IS WHAT YOU PAY. VALUE IS WHAT YOU GET." - WARREN BUFFETT

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Together, We Know More Than We do Alone

Participants were asked to estimate the number of jelly beans in a jar.

Range: 409 to 5,365

Average: 1,653

Actual: 1,670

Illustration based in voluntary participation at adviser event, August 2013. Results audited by adviser.

Belief Four - Diversification is Essential

Diversification is the principle of spreading your investment risk around. Therefore, our investment portfolios, hold the shares and bonds of many companies and governments in many countries around the world. Because we believe in the power of capital markets rather than individual predictions or judgements, we can invest our clients' assets in many thousands of individual investments. This means the negative and positive influence of each individual investment is reduced, producing, on aggregate, less risk in our portfolios.

Our portfolios typically hold more than 8000 separate securities from 70 countries and territories around the world.

The following tables rank annual stock market performance in pound sterling terms for developed markets (the more established investment markets) and those of the world's newer emerging markets from highest to lowest in each of the last 20 years. The patchwork distribution of colours shows no predictable pattern and helps illustrate why we believe it is futile to try to predict which country will be at the top of the table next year or in subsequent years.

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Equity Returns of Developed Markets

Annual Return (GBP, %)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Highest Return	Sweden 48.0	Austria 59.9	Canada 43.5	Spain 31.0	Finland 46.2	Japan -2.0	Norway 66.6	Sweden 38.0	Ireland 14.6	Belgium 33.4
	Germany 47.3	Norway 42.9	Japan 40.4	Portugal 29.3	HK 38.8	Switz. -3.8	Australia 57.1	Denmark 34.8	NZ 6.3	Denmark 25.5
	Spain 42.5	Belgium 33.8	Austria 39.4	Ireland 28.8	Germany 32.9	US -13.6	Singapore 54.9	HK 27.1	US 2.1	Singapore 25.2
	Austria 41.2	Ireland 33.4	Denmark 39.2	Singapore 28.7	Norway 29.2	Spain -17.8	Sweden 46.2	Singapore 26.0	UK -1.8	Germany 25.2
	NZ 39.8	Sweden 27.1	Norway 39.0	Norway 27.3	Canada 27.4	France -21.5	HK 42.6	Canada 24.2	Switz. -6.1	NZ 23.6
	Canada 39.0	NZ 26.0	Finland 30.5	Sweden 25.8	Singapore 26.2	Canada -24.6	Belgium 40.2	Japan 19.1	Norway -9.3	HK 22.6
	Australia 34.4	Italy 23.5	Switz. 30.1	Denmark 21.7	Australia 26.2	Germany -25.1	Canada 39.1	US 18.4	Belgium -10.0	Austria 20.4
	Denmark 34.2	Denmark 22.0	Australia 29.7	Belgium 19.9	Denmark 23.5	Singapore -27.1	NZ 33.9	Australia 18.1	Australia -10.3	Australia 16.7
	Norway 33.2	Australia 21.5	Singapore 27.9	Austria 19.8	Portugal 21.9	Denmark -27.4	Spain 27.7	Switz. 15.3	Nether. -11.5	Sweden 16.6
	Ireland 29.4	Spain 20.2	Nether. 27.3	Germany 19.3	Spain 21.9	Nether. -28.3	UK 27.6	Norway 14.4	Spain -11.6	France 16.0
	Portugal 28.6	HK 16.5	Sweden 23.4	France 18.0	Nether. 18.6	UK -28.5	Austria 27.5	Finland 13.8	Canada -12.1	Nether. 15.3
	France 26.1	Portugal 16.3	Germany 22.9	Italy 16.2	France 11.3	Sweden -30.6	Nether. 26.7	Austria 13.3	Japan -13.7	Switz. 15.1
	HK 24.2	Singapore 14.0	France 22.9	Nether. 15.2	NZ 7.1	Italy -30.7	Portugal 25.0	UK 12.2	Sweden -15.4	Norway 13.4
	Italy 24.0	Canada 13.9	Belgium 22.0	Australia 14.8	UK 6.5	Australia -31.7	Denmark 21.6	Germany 11.8	Denmark -15.4	US 10.3
	Singapore 23.7	UK 11.5	HK 21.2	UK 14.6	Italy 4.3	HK -32.4	France 17.4	NZ 11.7	HK -15.4	UK 10.2
	Japan 22.2	France 10.5	UK 20.1	HK 14.3	US 3.7	Portugal -33.8	Italy 12.7	Nether. 4.9	France -16.3	Finland 9.5
	Belgium 21.7	Germany 8.3	US 17.6	Finland 14.0	Switz. 3.5	NZ -36.0	US 12.4	Belgium 2.7	Singapore -17.3	Italy 7.5
	Switz. 20.6	Japan 8.0	Spain 16.8	Switz. 11.8	Austria 0.5	Finland -37.9	Switz. 11.6	France -1.1	Germany -17.5	Canada 4.3
	UK 18.8	Switz. 7.2	Italy 14.0	Canada 3.3	Sweden -1.1	Norway -50.5	Germany 11.4	Portugal -8.5	Portugal -22.5	Japan 3.4
	US 15.5	Nether. 4.7	NZ 13.8	NZ 2.2	Belgium -4.4	Belgium -53.6	Ireland 0.0	Italy -12.3	Italy -22.6	Ireland 1.1
	Nether. 15.2	US 2.7	Portugal 9.7	US 0.6	Japan -5.8	Austria -56.3	Finland -1.0	Ireland -15.5	Finland -31.4	Portugal -1.0
Lowest Return	Finland 7.4	Finland -1.0	Ireland 9.3	Japan -6.8	Ireland -21.4	Ireland -61.1	Japan -5.4	Spain -19.5	Austria -36.0	Spain -1.5

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Highest Return	Finland 43.3	US 19.7	Denmark 30.6	Canada 48.6	Austria 44.6	Finland 2.6	NZ 32.9	Denmark 39.3	Austria 42.8	Portugal 12.8
	Ireland 38.5	NZ 14.0	Ireland 23.2	NZ 41.2	HK 24.4	NZ 2.0	Ireland 32.2	Nether. 20.3	Nether. 28.8	HK 7.3
	US 29.3	Denmark 12.8	Belgium 18.6	Norway 35.2	Singapore 23.8	US 0.9	Switz. 27.2	Sweden 20.0	US 27.6	Denmark 7.2
	Germany 28.9	HK 11.6	Japan 15.9	Australia 32.9	Denmark 23.0	HK -2.1	Nether. 27.0	US 17.0	Canada 27.1	UK 7.1
	Spain 28.9	Belgium 10.6	Austria 9.5	Austria 32.7	Nether. 20.8	Norway -3.0	US 25.8	Finland 16.7	Norway 23.1	Australia 6.7
	Nether. 28.9	Singapore 9.4	Italy 8.2	US 32.3	France 17.6	Switz. -3.4	Denmark 23.3	NZ 16.2	Sweden 23.0	Norway 4.7
	Belgium 25.2	Ireland 8.7	Finland 7.9	France 25.1	Italy 17.3	Singapore -3.8	Canada 22.6	Ireland 11.5	France 20.6	Spain 4.4
	Japan 24.8	Canada 7.8	Nether. 7.2	Nether. 25.0	Norway 17.2	Portugal -5.6	Italy 22.4	Japan 10.9	Switz. 20.4	Singapore 0.2
	Switz. 24.3	Switz. 6.1	Portugal 6.7	Portugal 23.6	Germany 16.6	Australia -6.5	France 20.9	Portugal 10.9	Denmark 20.1	Belgium -1.5
	France 24.0	Finland 5.5	US 6.5	Germany 22.6	Spain 16.0	France -7.3	Portugal 18.9	Switz. 8.2	UK 19.6	Canada -1.9
	Denmark 22.9	Australia 2.6	Switz. 6.3	Japan 22.1	Japan 13.3	Japan -7.5	Australia 18.2	Germany 8.1	Italy 16.1	France -2.4
	Sweden 22.2	Nether. 2.5	France 5.7	HK 22.0	Portugal 13.1	Nether. -7.7	Sweden 16.5	Australia 5.4	Australia 10.4	NZ -2.7
	UK 18.4	Japan 1.9	HK 5.2	Singapore 21.0	Switz. 11.9	Sweden -8.3	UK 16.4	HK 2.6	Finland 10.0	Italy -3.6
	Italy 18.2	Spain 1.3	Germany 3.8	Sweden 20.0	Finland 11.9	UK -8.8	Germany 16.1	Canada 2.1	Ireland 9.5	Finland -4.6
	Austria 11.3	UK 0.5	Sweden 0.5	UK 19.2	UK 11.7	Denmark -10.2	Belgium 15.7	France 0.9	Singapore 6.6	Japan -6.1
	NZ 9.2	Sweden -1.8	NZ -0.8	Spain 18.1	US 10.7	Spain -11.0	Japan 15.0	Italy -1.3	Germany 6.3	Switz. -8.0
	HK 9.0	Italy -3.9	UK -2.2	Finland 13.7	Sweden 10.1	Canada -12.1	Singapore 10.6	Norway -4.8	Belgium 3.1	US -9.7
	Portugal 8.9	France -4.3	Australia -4.7	Switz. 13.5	Australia 9.6	Italy -12.6	Austria 10.0	Austria -6.3	Japan 2.6	Germany -12.6
	Norway 7.4	Germany -4.8	Norway -10.1	Ireland 10.8	Belgium 8.3	Germany -17.3	Spain 7.7	Spain -7.7	Spain 2.3	Ireland -16.9
	Canada 3.7	Norway -17.2	Spain -10.8	Belgium 10.3	Ireland 7.9	Ireland -20.7	Norway 6.1	Singapore -10.3	Portugal 1.1	Austria -17.1
	Australia 2.2	Austria -25.4	Singapore -12.9	Italy 6.8	Canada 6.0	Belgium -22.4	HK 6.1	Belgium -10.9	HK -3.0	Nether. -18.6
Lowest Return	Singapore -0.2	Portugal -34.4	Canada -19.8	Denmark 0.5	NZ 2.0	Austria -22.9	Finland 5.3	UK -13.2	NZ -16.3	Sweden -19.4

Past performance is not a guarantee of future results.

Source: MSCI developed markets country indices (net dividends). MSCI data © MSCI 2023, all rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

Equity Returns of Emerging Markets

Annual Return (GBP, %)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Highest Return	Thailand 119.0	Colombia 116.7	Egypt 192.5	China 60.4	Peru 91.1	Colombia 3.7	Brazil 103.1	Thailand 60.6	Indonesia 6.8	Turkey 57.0
	Turkey 102.6	Egypt 110.9	Colombia 131.7	Indonesia 52.4	Brazil 76.5	Chile -11.1	Indonesia 101.4	Peru 58.1	Malaysia 0.9	Egypt 40.6
	Brazil 92.8	Hungary 78.5	Korea 75.5	Peru 42.2	Turkey 71.2	S. Africa -14.0	India 80.6	Chile 48.7	Philippines -0.2	Philippines 40.0
	Peru 74.5	Czech Rep. 73.1	Brazil 75.0	Philippines 38.7	India 70.2	Peru -17.2	Turkey 75.8	Colombia 47.9	Thailand -2.0	Poland 33.1
	Egypt 72.5	Poland 50.2	Turkey 74.5	India 32.5	China 63.4	Malaysia -18.6	Chile 65.2	Malaysia 41.3	Colombia -4.3	Colombia 29.9
	China 68.7	Indonesia 40.5	Mexico 66.8	Brazil 27.4	Egypt 55.8	Mexico -21.0	Colombia 64.1	S. Africa 38.4	Czech Rep. -5.3	Thailand 28.6
	Chile 64.8	Mexico 38.3	Czech Rep. 63.0	Mexico 24.1	Czech Rep. 52.7	Czech Rep. -21.2	Taiwan 59.6	Indonesia 38.1	Korea -11.3	Mexico 23.4
	India 60.4	S. Africa 35.1	India 53.9	Poland 23.4	Indonesia 51.6	Taiwan -25.9	Hungary 58.1	Philippines 38.1	Mexico -11.5	India 20.4
	Indonesia 58.8	Turkey 31.9	Peru 50.7	Malaysia 20.3	Malaysia 43.6	Thailand -28.7	Thailand 57.2	Mexico 31.6	S. Africa -13.7	Hungary 17.4
	Colombia 49.6	Brazil 26.7	S. Africa 43.5	Czech Rep. 17.5	Thailand 43.6	China -31.9	Peru 53.1	Korea 30.7	China -17.8	China 17.4
	Czech Rep. 47.8	Chile 19.4	Poland 38.9	Hungary 17.3	Philippines 38.0	Egypt -34.0	Korea 52.6	Taiwan 25.7	Chile -19.8	Korea 15.9
	S. Africa 31.2	Philippines 17.3	Philippines 37.1	Chile 12.9	Korea 29.6	Philippines -34.3	Philippines 47.5	India 24.8	Taiwan -20.3	Peru 14.9
	Taiwan 27.6	Korea 13.8	Chile 35.2	S. Africa 5.7	Poland 23.1	Poland -37.5	China 44.5	Turkey 24.6	Peru -20.8	S. Africa 13.5
	Philippines 27.3	India 11.1	China 33.9	Taiwan 5.2	Chile 21.0	Korea -38.1	S. Africa 40.5	Poland 18.9	Brazil -21.3	Taiwan 11.6
	Poland 21.5	Malaysia 7.4	Hungary 31.9	Egypt 2.7	S. Africa 16.2	Brazil -39.4	Mexico 39.5	Egypt 16.0	Poland -29.6	Malaysia 9.2
	Korea 21.4	Taiwan 1.6	Indonesia 28.7	Colombia -0.4	Hungary 14.8	Indonesia -39.7	Malaysia 35.4	Brazil 9.9	Hungary -33.2	Chile 3.0
	Mexico 19.4	Peru -3.9	Thailand 21.6	Korea -1.2	Colombia 13.1	Hungary -46.7	Poland 26.0	China 7.9	Turkey -34.9	Indonesia 0.1
	Hungary 18.7	China -5.0	Taiwan 19.0	Thailand -2.5	Mexico 10.3	Turkey -47.8	Egypt 24.4	Czech Rep. 0.5	India -36.7	Czech Rep. -2.0
Lowest Return	Malaysia 13.9	Thailand -7.9	Malaysia 14.4	Turkey -18.6	Taiwan 6.6	India -51.0	Czech Rep. 12.6	Hungary -6.7	Egypt -46.5	Brazil -4.3

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Taiwan 7.0	Egypt 37.4	Hungary 44.2	Brazil 98.3	Poland 41.3	Peru 7.9	Egypt 36.3	Korea 40.2	Czech Rep. 56.5	Turkey 114.4
Egypt 6.2	Indonesia 34.5	India -0.7	Peru 85.6	China 40.7	Brazil 5.7	Taiwan 31.1	Taiwan 36.6	India 27.4	Chile 34.4
Malaysia 5.7	Philippines 33.4	Korea -1.3	Hungary 61.5	Korea 34.5	Czech Rep. 1.5	Colombia 25.8	China 25.5	Taiwan 27.3	Brazil 28.5
Korea 2.0	India 31.6	Philippines -1.4	Thailand 51.0	Chile 29.9	Thailand 0.3	Brazil 21.4	India 12.0	Mexico 23.7	Peru 23.2
China 1.7	Turkey 26.1	China -2.5	Colombia 50.9	Hungary 27.8	Malaysia -0.2	China 18.7	Malaysia 0.5	Hungary 13.1	Thailand 18.2
Poland 0.7	Thailand 23.7	Taiwan -6.6	Taiwan 41.4	India 26.7	Hungary -0.3	Hungary 14.8	Mexico -4.9	Poland 9.5	Indonesia 16.6
Mexico -1.6	Peru 17.4	Mexico -9.5	S. Africa 40.6	Peru 26.4	India -1.5	Korea 8.2	Philippines -6.4	Egypt 8.5	Mexico 10.3
Philippines -4.5	Taiwan 16.2	Chile -12.9	Indonesia 39.5	Turkey 26.4	Taiwan -3.3	Mexico 7.1	S. Africa -6.9	S. Africa 4.5	S. Africa 8.2
India -5.6	China 14.7	Czech Rep. -13.7	Chile 37.8	S. Africa 24.3	Indonesia -3.6	Turkey 6.8	Czech Rep. -6.9	Indonesia 3.1	Malaysia 6.1
Hungary -7.6	S. Africa 11.8	Indonesia -14.8	Korea 29.7	Czech Rep. 23.7	Colombia -6.0	Philippines 6.2	Peru -7.7	Thailand -0.5	Colombia 5.9
S. Africa -8.0	Czech Rep. 1.6	Malaysia -15.4	China 20.4	Thailand 22.9	Poland -7.5	S. Africa 5.8	Chile -8.5	Philippines -3.0	India 3.6
Czech Rep. -12.2	Mexico -3.7	Thailand -19.1	Poland 19.4	Taiwan 16.5	Egypt -8.7	Thailand 5.3	Indonesia -10.9	Malaysia -5.4	Philippines -3.1
Thailand -16.2	Malaysia -5.1	Egypt -19.2	India 17.6	Malaysia 14.2	Mexico -10.3	Indonesia 4.9	Turkey -11.6	Korea -7.5	Czech Rep. -3.7
Brazil -17.6	Korea -5.6	Poland -21.0	Malaysia 14.6	Philippines 13.8	Philippines -11.3	India 3.4	Poland -14.1	Colombia -13.0	China -12.1
Colombia -22.6	Chile -7.6	S. Africa -21.1	Czech Rep. 13.3	Indonesia 13.5	China -13.8	Peru 0.7	Hungary -14.4	Chile -16.5	Egypt -12.9
Chile -23.4	Brazil -8.7	Peru -27.7	Philippines 11.4	Brazil 13.4	Chile -14.7	Czech Rep. 0.2	Thailand -14.4	Brazil -16.6	Poland -18.1
Indonesia -24.9	Poland -8.9	Turkey -27.9	Turkey 9.2	Colombia 6.2	Korea -16.0	Malaysia -5.8	Colombia -21.5	Peru -19.1	Korea -20.5
Turkey -28.1	Colombia -14.8	Brazil -38.0	Mexico 8.4	Mexico 5.9	S. Africa -20.1	Poland -9.5	Brazil -21.5	China -21.0	Taiwan -20.9
Peru -31.2	Hungary -22.9	Colombia -38.4	Egypt 5.5	Egypt -4.0	Turkey -37.8	Chile -20.1	Egypt -24.9	Turkey -27.7	Hungary -22.4

Past performance is not a guarantee of future results.

In GBP. Source: MSCI country indices (net dividends) for each country listed. Does not include Greece, which MSCI classified as a developed market prior to November 2013, or Russia, which MSCI classifies as a standalone market as of March 2022. MSCI data © MSCI 2023, all rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

Costs Matter

If competition in a free-market drives prices to a fair value, one might wonder why underperformance is so common. A major factor is cost. Essentially, how much you pay for the management of your investments. Costs reduce an investor's net return and represent an obstacle for a fund's ultimate performance. Before a fund can outperform a market, it invests in, it must first add enough value to cover its costs.

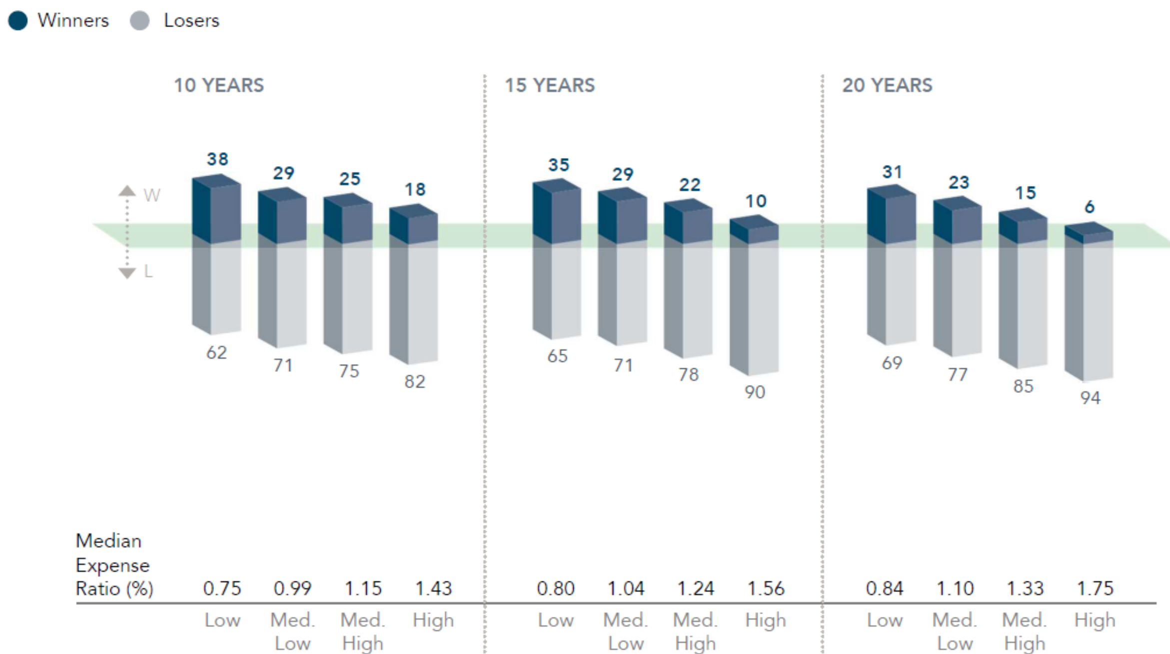
All investment funds incur costs. Some costs, such as expense ratios, are easily observed, while others are more difficult to measure. The question is not whether investors must bear some costs, that is inevitable, but whether the costs are reasonable, and indicative of the value added by a fund manager's decisions. In other words, are the charges worth paying?

Data shows that many investment funds are expensive to own and do not offer higher value for the higher costs incurred. Let us consider how one type of explicit cost - expense ratios - can impact fund performance.

In the chart below, equity funds in existence at the beginning of the ten, fifteen, and twenty-year periods are ranked into quartiles based on their average expense ratio. Fund expense ratios range broadly. For the ten-year period, the mean expense ratio was 1.1% for equities. In this period, funds in the lowest quartile cost equity investors an average of 0.75%. The most expensive quartile, at 1.43%, had an average cost that was nearly double.

High Costs Can Reduce Performance

US-domiciled equity fund winners and losers based on expense ratios (%)

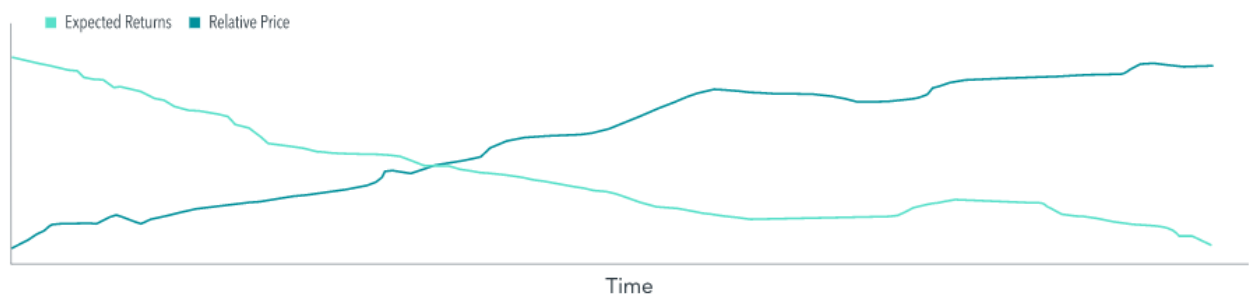


Past performance is no guarantee of future results.
The sample includes funds at the beginning of the 10-, 15-, and 20-year periods ending December 31, 2021. Funds are sorted into quartiles within their category based on average turnover during the sample period. The chart shows the percentage of winner and loser funds by turnover quartile for each period. Winners are funds that survived and outperformed their benchmark over the period. Losers are funds that either did not survive or did not outperform their respective benchmark. US-domiciled, USD-denominated, non-Dimensional open-end and exchange-traded fund data is from Morningstar.

Are investors receiving a better experience from higher cost funds? The data suggests otherwise. Especially over longer horizons, the cost barrier becomes too high for most funds to overcome. Over the five-year period, 31% of the low-cost equity funds outperformed versus 17% of the high-cost funds. For 10 years, 21% of the low-cost funds outperformed versus only 10% of the high-cost funds.

Over time we expect higher charges to result in lower returns. There is little evidence to show that paying more achieves better performance.

As Prices Change, So Do Expected Returns



For illustrative purposes only.

Information versus Noise

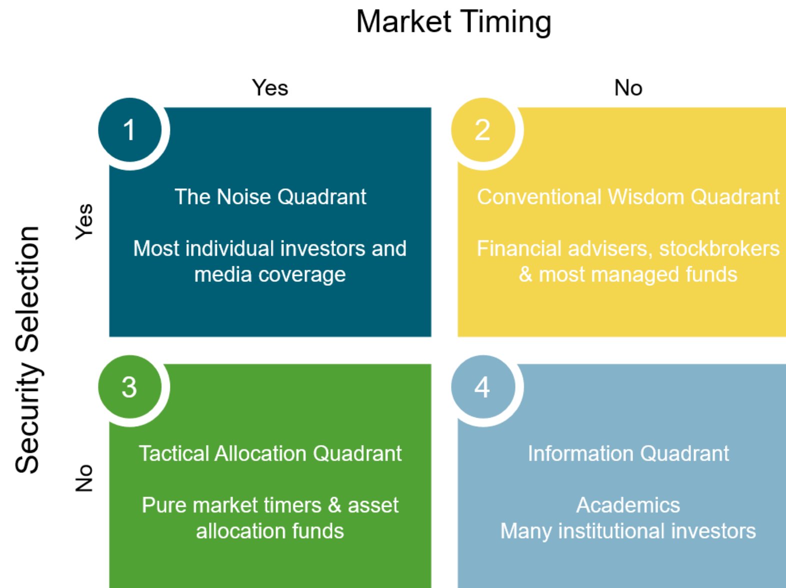
Markets are frenetic, energetic, ever-changing entities that require people who are actively involved in them to be constantly plugged in and switched on. But this does not mean that, you as an investor, must be too. This is a mistake many investors make – believing that to be a successful investor they must have their finger on the pulse all the time. As study by financial experts at FinalytiQ found that you would see negative returns more than a third of the time if you looked monthly but would barely ever see a negative period if you looked every five years. (https://finalytiq.co.uk/the-less-you-look-or-the-best-managed-volatility-strategy-in-the-world/)

The investment management industry and financial press perpetuates this myth with daily chatter and copy that offers the latest tips, predictions, warnings, speculation, and advice. This material is produced by the competitive media and fund selling industries themselves, that survive by attracting attention. But virtually none of this information is of use to investors; in fact, it is distracting noise that can bully people into taking ill-advised actions. It is entertainment, not information.

In contrast, our investment philosophy is based on information, not noise or entertainment. Its roots are in the work of level-headed academics with no vested interest in selling investments or filling column inches.

The diagram below shows that there are four categories of investment style. Some investors try to time markets to their advantage and/or select securities which they believe are mis-priced.

The Investment Decision Matrix



Investors who do not believe it is possible to make accurate or worthwhile predictions about stocks or market performance - who believe, in other words, that they cannot predict the future - are in box four. This is where we sit.

Active versus Passive

Investment styles are often categorised as active or passive. Active investors are those who make decisions about holding one investment over another, occupy boxes one, two and three above. Passive investors are willing to accept the market rate of return and usually enjoy and should pay less fees than active investors.

Our investment philosophy is passive to the extent that we are not making judgements on the relative merits of one investment over another, but nevertheless, we are not willing to simply accept the market rate for our clients. Our investment process targets market-beating performance through structured exposure to specific factors of higher expected return and uses methods of portfolio construction and implementation that enhance performance relative to the average investor.

We believe:

- The average active investor will do worse than the market because they are paying the highest fees.
- The average index investor will perform slightly better than that because their fees are lower than the active investor.
- That our investment approach will outperform both, due to reasonable fees, exposure to factors of higher expected return, and intelligent portfolio implementation.

“Everything in life, individually or socially, is a tradeoff. We determine the risk levels we’re willing to tolerate.” Robert Merton

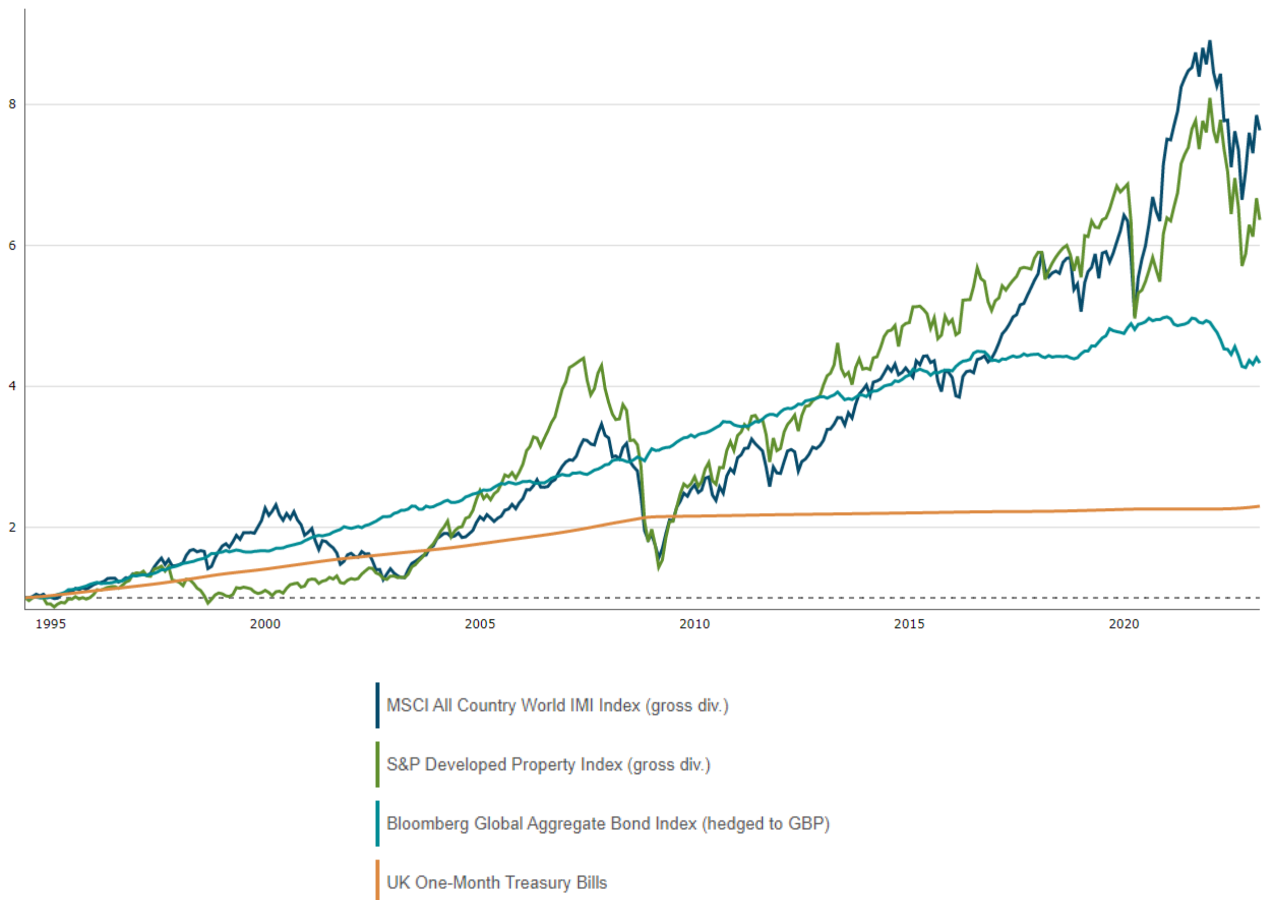
Robert Merton, School of Management Distinguished Professor of Finance at MIT Sloan School of Management and University Professor

2. Sources of Investment Return

In this section, we will identify the broad asset classes which we believe provide positive investment returns over long periods of time. We will look at the risk characteristics of these asset classes, as well as their expected return attributes. We believe that investors should only take risks that will produce a positive expected return on their investment.

Asset Classes

- The variety of instruments an investor can use is vast. The most conventional are shares, bonds, property, and cash. 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.
- We consider investments that have no prospect of paying an income, such as gold, to be speculative; their value is entirely reliant on finding a buyer or seller with which to trade. A speculator might own all the gold in the world, but it is worthless if there is no buyer.
- 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, therefore, concentrate on cash, bonds, property, and shares.
- The following graph shows what would have happened to the investment of £1 into different asset classes between 01/06/1994 and 28/02/2023.



We do not use predictions, estimates or judgements to construct investment portfolios. Instead, we look to the latest thinking from world-renowned academics specialising in financial theory as a basis for our portfolio construction. We believe markets work, but we are not prepared to accept just the average rate of return from the market.

Following the entire market, or sections of it, through index-tracking funds, is a worthwhile, low-cost way to gain exposure to markets, but academic research identifies areas of the market that have reliably rewarded investors over time. These factors, or dimensions of higher expected return, are explained in more detail later and we build portfolios around these factors. Our aim is for our clients' portfolios to beat the average investor, without taking the risk of relying on predictions or concentrating investments too narrowly.

Having identified these factors of higher expected return, we are careful to ensure that we keep our clients' exposure to them as high as possible. Many of the funds our clients are invested in are managed with the specific aim of maintaining the highest possible exposure to the observable factors of higher expected return. This discipline can enhance investment returns.

Once we have helped clients decide upon their individual investment strategy, we stick to it and endeavour not to allow it to stray far from the chosen structure. This can be difficult to adhere to over time with market movements and constant speculation in the press and from those around us.

Because of this "noise" we help our clients remain disciplined. Staying invested through thick and thin is usually the best strategy for investors as timing exit and entry points is as unreliable as any other prediction of market movement. We help investors remain in the market all the time it remains appropriate to do so.

Shares / Equities

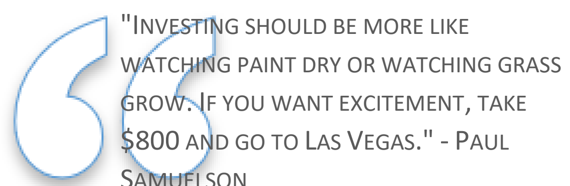
To get the best possible equity market return, we focus clients' exposure on the factors or dimensions of higher expected return that various academics have identified, notably Professor Gene Fama of the University of Chicago Booth School of Business and Professor Ken French of the Tuck School of Business, Dartmouth College. Their research suggests that certain types of company perform better than the market average over time. Companies that are:

- Smaller (when compared to the average size company in the whole market).
- Low-priced (that is companies whose balance sheet value of assets is high relative to their market price).
- Expected to produce Higher Relative Profits (when compared to their balance sheet value).

As risk and return are related, the higher expected return comes at a price and, consequently, investing in these companies is riskier than investing in the whole market. There are periods when these groups of shares underperform the market, but over time, the academic research indicates that these risk premiums have been worth paying.

The following chart shows how much these risk premiums have rewarded investors in comparison to an investment in the whole market in countries around the world. We, therefore, tilt our clients' portfolios towards companies with these attributes to an extent that is appropriate to the investors attitude to investment risk and long-term goals.

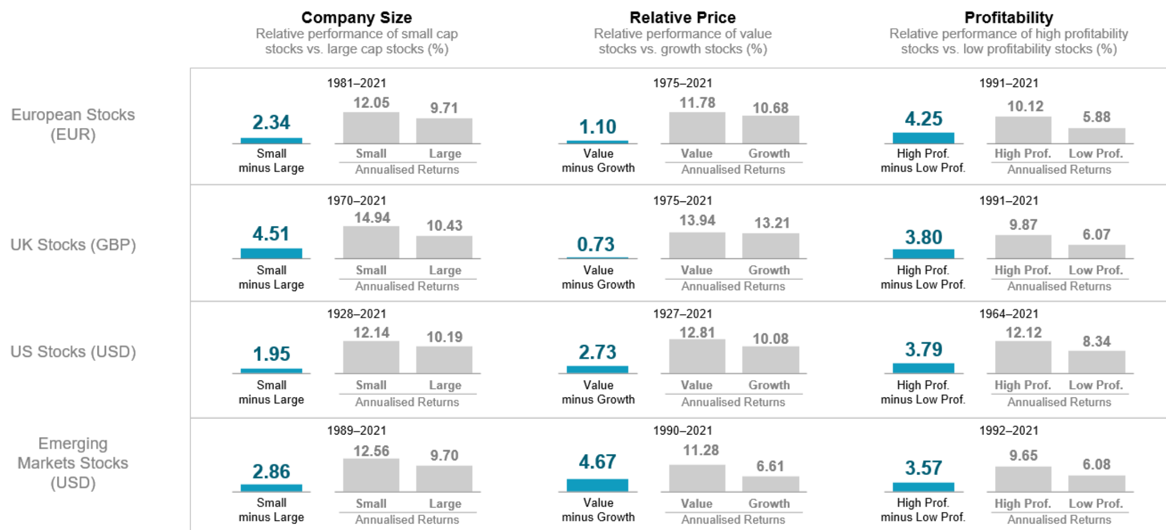
It demonstrates the higher expected returns offered by small cap stocks, value stocks and stocks with high expected profitability when scaled by their balance sheet value, in the UK, Europe, US, and emerging markets.



"Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas." - Paul Samuelson

Dimensions of Expected Returns

Historical premiums and returns (annualised): European, UK, US, and Emerging Markets



Information provided by Dimensional Fund Advisors LP.

Past performance is not a guarantee of future results. Returns may increase or decrease as a result of currency fluctuations.

The Dimensional and Fama/French Indices reflected above are not "financial indices" for the purpose of the EU Markets in Financial Instruments Directive (MiFID). Rather, they represent academic concepts that may be relevant or informative about portfolio construction and are not available for direct investment or for use as a benchmark. Their performance does not reflect the expenses associated with the management of an actual portfolio. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. Actual returns may be lower. See the appendix for descriptions of the Dimensional and Fama/French indexes. Eugene Fama and Ken French are members of the Board of Directors of the general partner of, and provide consulting services to, an affiliate of Dimensional UK and Dimensional Ireland.

Premiums are calculated as the difference in annualised returns between the two indices described over the period shown. In Europe, Small Cap minus Large Cap: Dimensional Europe Small Index minus the MSCI Europe Index (gross div.). Value minus Growth: Fama/French Europe and Scandinavia Value Index minus the Fama/French Europe and Scandinavia Growth Index. High Prof minus Low Prof: Fama/French Europe High Profitability Index minus the Fama/French Europe Low Profitability Index. In the UK, Small Cap minus Large Cap: Dimensional UK Small Cap Index minus the MSCI United Kingdom Index (gross div.). Value minus Growth: Fama/French UK Value Index minus the Fama/French UK Growth Index. High Prof minus Low Prof: Fama/French UK High Profitability Index minus the Fama/French UK Low Profitability Index. In the US, Small Cap minus Large Cap: Dimensional US Small Cap Index minus the S&P 500 Index. Value minus Growth: Fama/French US Value Research Index minus the Fama/French US Growth Research Index. High Prof minus Low Prof: Fama/French US High Profitability Index minus the Fama/French US Low Profitability Index. In Emerging Markets, Small Cap minus Large Cap: Dimensional Emerging Markets Small Cap Index minus MSCI Emerging Markets Index (gross div.). Value minus Growth: Fama/French Emerging Markets Value Index minus Fama/French Emerging Markets Growth Index. High Prof minus Low Prof: Fama/French Emerging Markets High Profitability Index minus the Fama/French Emerging Markets Low Profitability Index. Profitability is measured as operating income before depreciation and amortisation minus interest expense, scaled by book. MSCI data © MSCI 2022, all rights reserved. S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

Fixed Income

Similarly, academic research indicates that fixed income - or bond investments - exhibit two risk premiums:

- Duration (the length of time until the bond matures)
- How credit-worthy the bond issuer is.

In principle, long-term bonds and those issued by companies with a lower credit rating are riskier but pay a higher yield. How we use fixed income in our portfolios is explained later in the portfolio construction section. The graph below shows the impact of long-term bonds for a "risk-free" issuer. The UK Government has never

Other Asset Classes

So far, we have identified two broad sources of investment return: equities and fixed income. Whilst these may be considered the two main 'asset classes', there is also another source of investment return that we believe should be considered in an overall investment portfolio.

Property

Property or Real Estate investments are a well understood and established area of investment returns. However, by its nature, property is usually less liquid in terms of ease of encashment and can suffer from issues involving poor tenants and the general upkeep and maintenance of the buildings concerned.

Furthermore, the market value of properties is determined at the point of sale and as properties tend to be held for longer than many other types of investable asset, their actual value between purchase and sale can only ever be an estimate. This makes the valuation of property investments slightly problematic and less accurate on a daily basis.

We do, however, believe that property does offer a real alternative to both Equities and Fixed Interest investments but rather than investing heavily in single properties, we will only consider Global Real Estate Investment Trusts (REITs) as these are far more liquid than standard property investments and allow more diversification across a wide range of properties rather than a concentration within just a few properties.

REITs provide adequate liquidity for property investment but, in so doing, also demonstrate a greater degree of volatility and behave more like an Equity (Share) than a traditional bricks and mortar investment. This is only the case over the short term. Over the long-term the average returns of a REIT are like that of physical property.

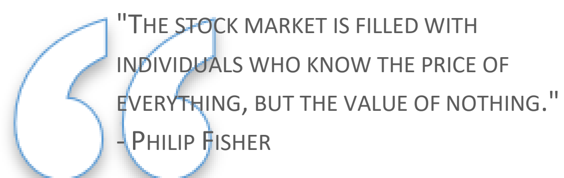
The investment performance of property is generally negatively correlated to Equities and Fixed Interest investments. In other words, property often does well when Equities are performing badly and vice versa. As a result, we include property as another form of diversification but to a much lesser extent than Equities and Fixed Interest.

Cash

Cash is an integral part of the portfolio construction. Unlike other investments in cannot fluctuate in value, one pound is always one pound, assuming we invest in our local currency rather than foreign currency exchange. However, it can suffer losses in terms of its buying power. This means that what you could buy for a pound ten years ago is a lot more than you can buy today. The cause of this loss is inflation. You can only beat inflation if you get a higher return each year than inflation takes away. This is not sustainable with interest and so cash tends to go down in value, in real terms, year on year.

So why hold cash? The two main reasons for holding cash are to provide liquidity and stability. Liquidity means readily available in this context. Fees are charged on your investments so, rather than being forced to sell other assets we use the cash allocation to cover these fees.

The stability comes about from the point already made about a pound retaining its value. This means that why all else is fluctuating the pound remains the same value.



> *"Ideas alone are cheap - implementation is what really counts." Myron Scholes*

Myron Scholes, Frank E. Buck Professor Emeritus of Finance at Stanford University and Nobel laureate

3. Risk Assessment and Modern Portfolio Construction

In the last section, we identified three major asset classes and explained their different risk and return characteristics. In this section, we describe our portfolio construction process. This process allows us to take the asset classes that we have identified and combine them into several portfolios.

Managing Investment Risk

As explained, risk and return are related to the extent that it is not possible to achieve a higher investment return without taking more investment risk. Many people invest with a level of risk that is guided by their "risk appetite" – that is how much investment risk they are prepared to tolerate.

But taking too little investment risk is a risk in itself – the danger being that your assets will not grow enough to meet your investment goals. So, a trade-off is necessary to achieve a balance between taking enough risk to achieve your goals, while not being reckless. We build investment portfolios with various degrees of risk and expected returns and express these variables in terms that we hope our clients understand.

Here are some of the things you might consider when deciding upon your appetite for risk:

i. Investment Period and Liquidity Needs
How soon might you need to withdraw money from your investments? The longer an investor holds onto a risky asset, the lower the chance there is of obtaining poor cumulative returns.

ii. Attitude to Risk
What is your aversion or attraction to risk when risk is defined as "the possibility of loss"?

iii. Net Worth
Generally, the more assets an investor has in reserve, the higher the capacity for risk.

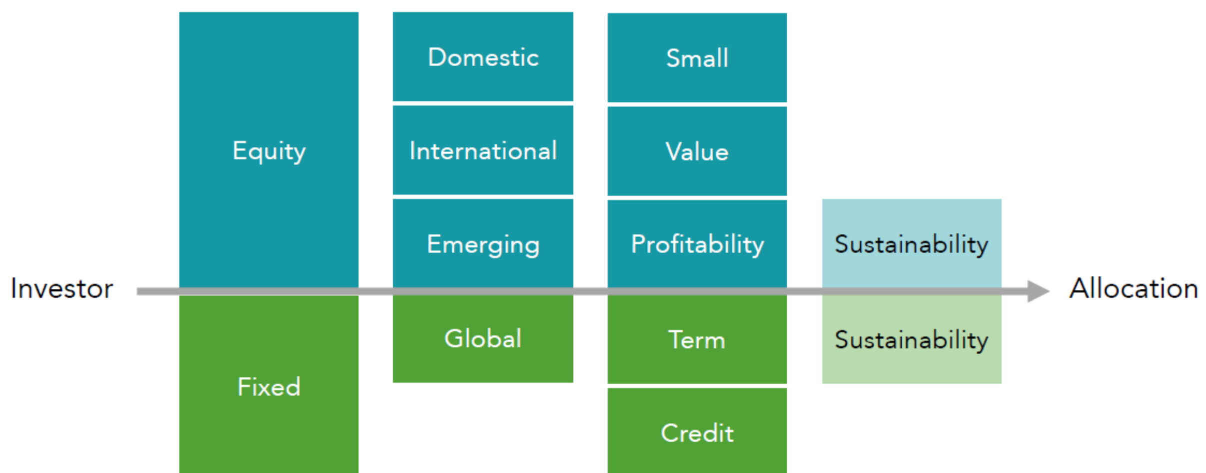
iv. Income and Savings Rate
How much can you save? In the same way that greater wealth enables a greater appetite for risk, so too does being able to put more aside regularly.

v. Investment Knowledge
How good is your understanding of the investment you are making and how it behaves over time?

Portfolio construction

Having established the factors of risk that can combine to form a suitable portfolio - and a means for measuring its risk - we can now step through the process of building a portfolio.
This diagram illustrates a framework for the construction of portfolios.

Portfolio Allocation Decisions



Step 1. Determine the basic Equity/Fixed Income/Property split

The portfolios are gradually allocated increasing amounts of equity and property from the lowest risk portfolio to the highest. The greater the proportion of equity and property in a portfolio, the more risk that portfolio will be exposed to.

Step 2. Determine the International Equity Exposure

The equity component of the portfolios is split proportionally across the developed world according to the market capitalisation (or market size) of each country. This helps ensure a well-diversified portfolio and avoids a bias in any one country.

There is also an allocation to emerging markets equities or shares within the equity component of the portfolios. Emerging markets shares have higher levels of risk than developed market equities and the expected returns of these equities, consequently, are higher.

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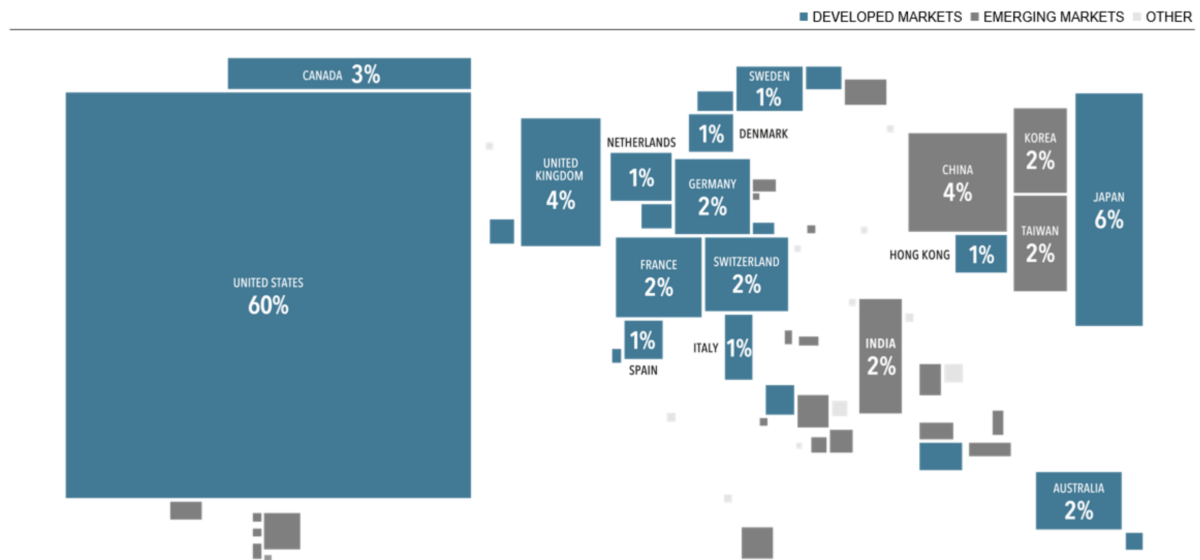
There's a World of Opportunity in Equities

Percent of world market capitalisation as at 31 December 2021



Market cap data is free-float adjusted and meets minimum liquidity and listing requirements. Dimensional makes case-by-case determinations about the suitability of investing in each emerging market, making considerations that include local market accessibility, government stability and property rights before making investments. China A-shares that are available for foreign investors through the Hong Kong Stock Connect program are included in China. 30% foreign ownership limit and 25% inclusion factor are applied to China A-shares. Many nations not displayed. Totals may not equal 100% due to rounding. For educational purposes; should not be used as investment advice. Data provided by Bloomberg. **Diversification neither assures a profit nor guarantees against loss in a declining market.**

Step 3. Determine the Size, Value and Profitability Equity Factors

Factors to consider are:

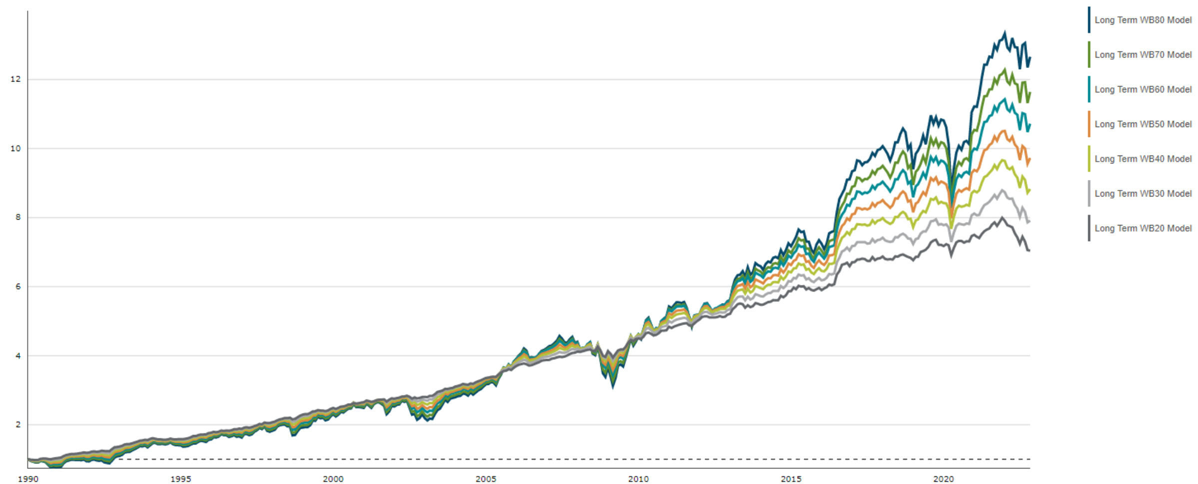
- Risk/Return. Increasing allocation to small and/or value stocks may increase risk, expected returns and tracking error but may not increase volatility.
- Sensitivity to tracking error. Increased sensitivity to prolonged periods of underperformance to the market.

Portfolio Testing

We use powerful analysis tools which give us access to the longest possible returns information to evaluate our models over time, often known as back testing.

It is important when deciding which portfolio is most suitable for your planning needs that you understand the risk you are taking and the potential for capital loss.

The following graph demonstrate what would have happened to an investment of £1 had it been invested into our seven risk-rated portfolios. These are designed and managed based on back tested financial modelling. This includes current charging structures and goes back to 1990.



Investment Discipline

The investor's chief problem – and even his worst enemy – is likely to be himself.
Benjamin Graham —*Security Analysis,* 1934

Investing is often likened to a ride on an emotional roller coaster. If you consider the typical behaviour of most investors, you can understand why. When an upward trend emerges, investors follow the trend but only invest once they are convinced that it is genuine. Unfortunately, this can be close to the point that all the gains have been had and the trend reverses.

Too often, it is emotions that drive investors, and the result is that they buy high and sell low. The solution is to invest without emotion. This can be achieved using a portfolio of globally diversified index funds, tempered with a fixed income component to reduce volatility. This allows an investor to stay invested at a risk level they feel comfortable with and minimise the urge to move.

The chart below demonstrates the effect of missing various numbers of the best days in the market in recent years.

"THE STOCK MARKET IS A GIANT DISTRACTION TO THE BUSINESS OF INVESTING." - JOHN C. BOGLE

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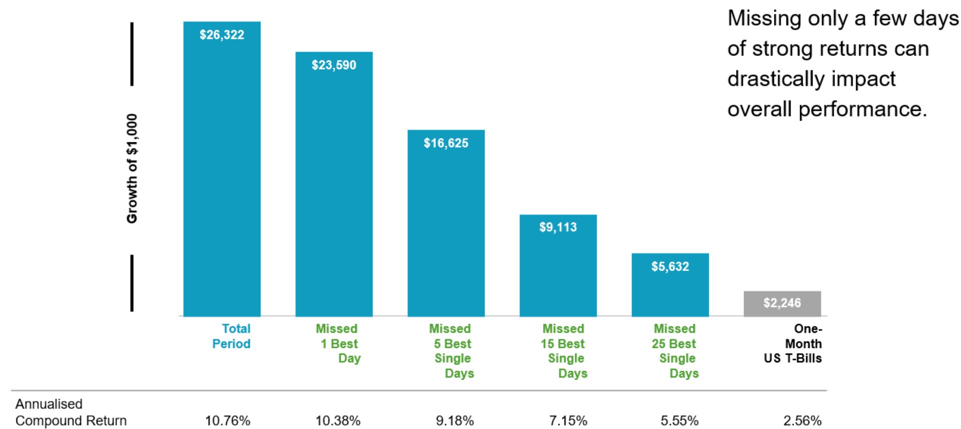
Financial Services

Reacting Can Hurt Performance

Performance of the S&P 500 Index, 1990–2021



Past performance is not a guarantee of future results.
In US dollars. For illustrative purposes. The missed best day(s) examples assume that the hypothetical portfolio fully divested its holdings at the end of the day before the missed best day(s), held cash for the missed best day(s), and reinvested the entire portfolio in the S&P 500 at the end of the missed best day(s). Annualised returns for the missed best day(s) were calculated by substituting actual returns for the missed best day(s) with zero.
S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. "One-Month US T- Bills" is the IA SBBI US 30 Day TBill TR USD, provided by Ibbotson Associates via Morningstar Direct. Data is calculated off rounded daily index values. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

Consistency Beats Volatility

For most investors, the emphasis placed on maintaining discipline by professional investment advisers is interpreted to mean; stay with the strategy even when times are bad. In fact, recent history shows it was exceptionally good investment returns, such as those experienced during the tech-stock bubble of the late 1990s, rather than adverse market conditions that proved the biggest challenge to staying with the plan.

It is often said that the two conflicting emotions that rule investors are fear and greed. However, there are a couple of other traits that can have a significant baring on an investor's results. These are the basic human instincts for "belonging" and "acceptance". In other words, if your peer group or people you respect appear to be making a fortune from the latest hot stocks, you not only feel that you are missing out on great returns but also that you are not doing what others are doing and may be missing out on the actual experience.

Any investor who finds themselves challenged in this way should take comfort from the mathematics underpinning the concept that consistency beats volatility and that a globally diversified portfolio of "boring" index funds will beat the "exciting" hot stocks over the long-term.

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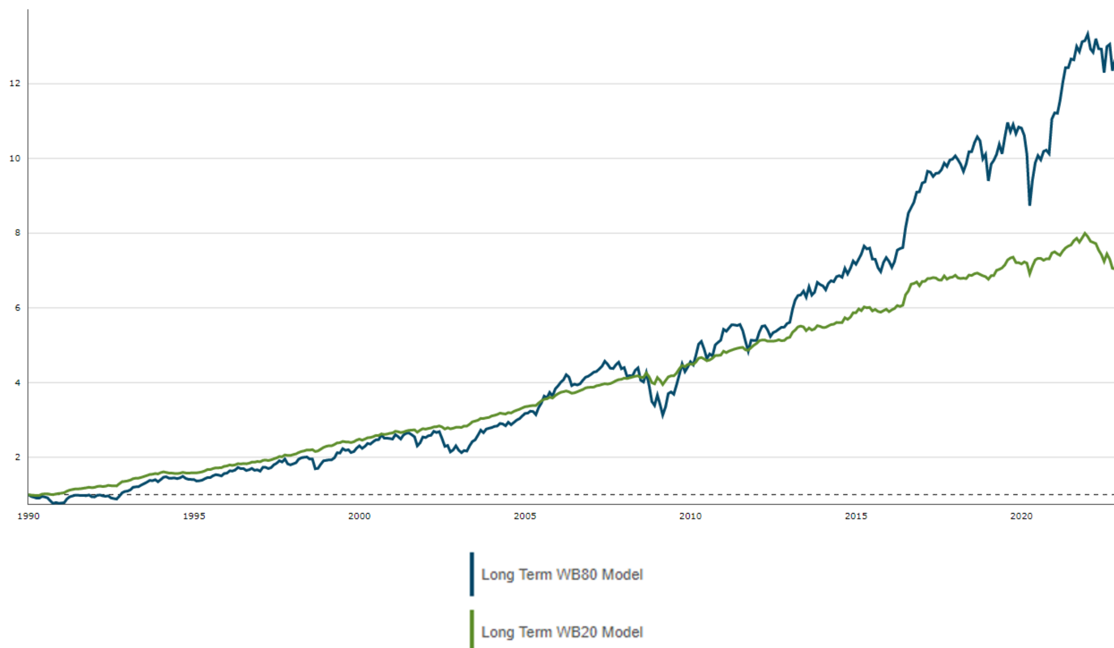
"All the time and effort that people devote to picking the right fund, the hot hand, the great manager, have in most cases led to no advantage." Peter Lynch

Peter Lynch, World famous fund manager known for his success with the Fidelity Magellan Fund

4. Fund Selection

Having combined asset classes together to build portfolios, this chapter concentrates on selecting the most appropriate funds to implement these portfolios. The graph below details the simulated model performance of the highest and lowest risk strategies we have designed and manage for clients from 1990 to 2022. The performance is based on modelled strategies constructed on various indices rather than live funds but does include the effects of fund management charges to provide a realistic representation of what would have been achieved.

Whilst the WealthBuilder 80 Strategy has clearly and significantly outperformed the lowest risk WealthBuilder 20 strategy, it nonetheless suffered significant falls during the 2000-2003 market downturn and the Banking Crisis from late 2007 to early 2009 and took a fair time to recover. One of the most striking downturns is that of March/April 2020 at the start of the COVID-19 Pandemic. Someone in the WealthBuilder 20 portfolio would have seen little difference in their portfolio compared to the WealthBuilder 80. As can be seen from the graph, investors that didn't stay in their seat at this point and sold down would have missed an equally dramatic recovery. Only a relatively small percentage of investors are prepared to take such a high-risk position, even though over time it would be expected to produce the highest returns.



The WealthBuilder 20 strategy has far smaller peaks and troughs, which served it well during the financial crisis and COVID 19 Pandemic. But its overall returns are much lower than its higher risk counterpart in the longer term. A difference, in this example, of £562,000 based on an investment of £100,000 illustrates the risk premium or extra reward over time.

Investment Philosophy

It is important to ensure that this implementation stage of the investment process does not conflict with any core beliefs contained within our investment philosophy, such as “diversification is essential”.

For example, global market equity is an asset class that we have identified as a source of expected risk and return that we wish to include in our portfolios. There are funds that aim to replicate global markets.

A “tracker fund” will provide exposure to the asset type and it will also have some diversification across stocks within the asset class but will be restricted to holding only the same number of stocks as the index. To provide even better diversification than this, other live funds that hold more stocks can be included in the portfolio instead of a fund which simply tracks an index.

Dimensional Investing

Dimensional investing seeks to increase the expected return relative to both active managers and index investing managers.

There are several industry benchmarks which aim to represent each asset class. However, these benchmarks often have large differences from each other. Index investing managers choose one of these benchmarks and have no flexibility to deviate from this benchmark. The industry calls this

deviation “tracking error”. Dimensional investing allows the flexibility to diverge from any chosen benchmark with the expectation of a better return than following the benchmark exactly.

Diversification

True diversification in a portfolio means investing in a vast number of different stocks and bonds that represent the underlying asset classes to which the investor seeks exposure.

Some investors include dozens of different funds or fund managers in their portfolios to try to achieve greater diversification. The problem for many investors taking this approach is that there is often considerable overlap between the different funds. In other words, different managers or funds investing in the same assets and this can give a false sense of diversification.

Active funds typically invest in relatively few stocks or bonds which means that there is a concentration of risk. If one of the fund’s investments represents a large part of the total fund and that investment performs badly, then there will be a significant effect on the performance of the fund.

An index fund will try to hold the same proportion of stocks or bonds as the index that it is tracking or following. This will often provide more diversification than the typical active fund.
Many of the funds we select seek to diversify as much as possible within each fund itself. As a result, our typical investment portfolios will provide more than 8,000 individual stocks and bonds. This is true diversification.

Portfolio Exclusion Rules

Research shows that certain investments do behave differently from the rest of the asset class to which portfolios seek exposure. Companies that have recently ‘gone public’ are a good example of this. If these companies are included in their specified index, then index investors have no choice but to buy stocks in them. Unfortunately, these companies have no track record on a public stock market so it’s not clear if they are a sound investment or not.

By engaging managers who invest scientifically, we avoid investing in such stocks by enforcing portfolio exclusion rules. This process aims to keep the strategies precisely focused on the desired sources of return.

Consistent Exposure to Asset Classes

Portfolio management adheres to the funds’ specified objectives by consistently seeking new opportunities and rebalancing with daily money flows to improve access to sources of higher expected returns.

The funds are rebalanced frequently yet have low turnover, because the portfolio managers employ a buy and sell hold range designed to reduce unnecessary trading. Flexible buy and sell lists allow for patient implementation.

Trading

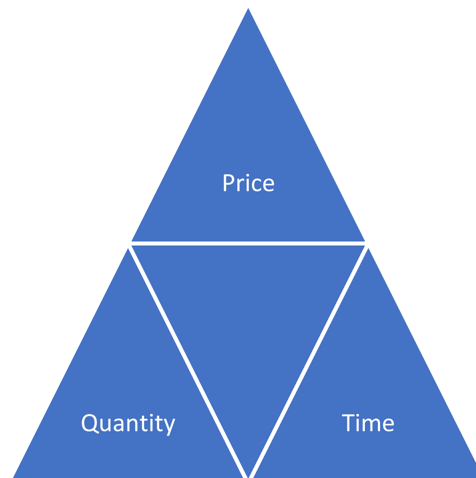
When trading anything there are three important factors: time, quantity, and price. You cannot control all three factors – there is always a compromise.

Controlling quantity and time means you have ‘urgency’. It seems logical that if you want a specific thing (quantity) now (time) – then you have urgency. If you have urgency, you cannot get the best price.

Active fund managers have urgency because they want a specific stock (quantity), and they want It immediately (time) because they believe that the stock is worth buying or selling quickly.

Index-tracking fund managers have urgency because they follow a specific index (quantity), and it rebalances at a very specific time (time).

The managers we select do not have to pursue a specific stock (quantity) or trade at a specific time. So, they can concentrate on getting the best price. Being patient in the market means that our selected managers are better placed to achieve a superior price. Other fund managers do not take the same approach as they have urgency. This affects the price. This approach allows our recommended fund managers to minimise the costs of trading.



As explained, equities are risky assets, their performance can fluctuate significantly during shorter time periods. Dimensional investing provides focused exposure to these risky asset classes which it targets with each strategy or fund. This may cause the fluctuations to be greater than index investing funds which might not be as focused. However, over the longer-term, this focus and disciplined exposure aims to reward Dimensional investors for taking this risk.

"The market is smarter than we are and no matter how smart we get; the market will always be smarter than we are." Kenneth French

Kenneth French, Roth Family Distinguished Professor of Finance at the Tuck School of Business at Dartmouth College

5. Practical Considerations of Portfolio Management

Monitoring Fund Performance versus Benchmark Performance

It is important for us to keep a close eye on the funds within your portfolio to ensure that they capture the risk and return characteristics of the asset classes they are targeting. Part of this process involves us regularly reviewing the fact sheets of the funds that are produced on a quarterly basis and more regularly from data provided from independent research companies.

Sometimes, the fund will be performing better than the benchmark, whilst at other times the benchmark will perform better. This is what we would expect because the funds are not trying to replicate the performance of the benchmark exactly. Instead, the fund is trying to capture the asset class that the benchmark is interpreting. We monitor the relative performance of the fund and the benchmark to make sure that they are not too different. If we notice a significant difference between the two, then we will investigate further with the relevant fund manager to ensure that there is a logical and sensible explanation for this difference.

Portfolio Rebalancing

Your risk profile and the level of risk that you might need to take on to achieve your investment goals are key to designing and maintaining your investment portfolio. Determining your risk score is helpful in deciding which portfolio would be most appropriate for your specific needs and goals. It also helps to make sure that you are not placed into a portfolio that would expose you to unnecessary or unwanted levels of risk.

The different asset types in your portfolio should not all perform well or badly at the same time. These different performance timings are useful to the portfolio because it means that you are diversified.

Equities, for example, might perform better over a given time 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.

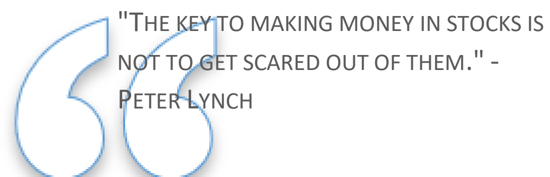
This is perfectly natural as the capital markets move up and down in relation to each other. However, the danger is that the portfolio may ‘drift’ so far away from the initial proportions of asset classes that the portfolio is exposed to more risk than we initially intended.

To safeguard against this, it is necessary for us to sell some of the asset classes that have performed relatively well and buy some of the asset classes that have not performed so well. We call this process ‘rebalancing’.

We have reviewed several available rebalancing processes. We have decided to adopt a time-based rebalancing process. This means that we rebalance periodically, so that the asset classes in your portfolio are returned to their initial proportions but try not to do this more often than annually.

Investor Protection

Before we invest your money into any funds, we follow a process of appropriate checks and balances to ensure your investment money is safe beyond the normal market movements. This is a complicated but robust process that involves *custodians*, *transfer agents* and *trustees*. Your money does not actually reach all parties who are involved with investing it, which helps ensure its safety.



"If investing is entertaining, if you're having fun, you're probably not making any money. Good investing is boring." - George Soros

George Soros, businessman, investor, and philanthropist.

6. Ethical, Social, and Environmental Considerations

How our investments impact our society and environment

Investing is normally done in the long-term pursuit of profit for the individual. This is something that we agree with. However, it is also possible to invest and have positive outcomes beyond profit. Beginning with the United Nations Conference on Environment and Development (also known as the Earth Summit) in Rio de Janeiro in 1992 a plan was initiated by world leaders to improve human lives and protect the environment. In September 2015 the UN agreed on 17 sustainable development goals (SDGs).

The SDGs have an overall aim to improve life for all on our planet. Investment professionals have taken these goals and translated them into investment approaches in something often referred to as ESG or Environmental, Social and Governance.

There has been a history of "investing for good". This has come in many forms and been known under titles such as "green investing" or "socially responsible investing". Some of these approaches would sacrifice investment return for the virtue of the investment. In other words, the investment might have done some good, but it might not have made you any money.

Changing Investment Approach

Environmental, Social, and Governance are three key factors used to evaluate the sustainability and ethical impact of investments.

- Environmental factors refer to how a company manages its impact on the natural environment, including its carbon footprint, energy efficiency, and waste management.

- Social factors assess a company's impact on society, including its treatment of employees, customer satisfaction, community relations, and diversity and inclusion policies.

- Governance factors evaluate the quality and effectiveness of a company's leadership, its board structure, executive compensation, and its approach to risk management and transparency.

ESG considerations are becoming increasingly important to investors and are being integrated into investment decision-making processes. Companies that score high on ESG metrics are often viewed as being better managed and more sustainable in the long term, which can lead to better financial performance and reduced risk.

Having Your Cake And Eating It Too

We mentioned above that previous attempts at investing for good were often unsuccessful. The question is why use ESG when the performance will likely be worse? As mentioned above, we would expect companies that score highly on ESG metrics to do better than those that don't over the longer term. In fact, the performance of our ESG portfolios has been shown to exceed non-ESG equivalents.

We do not find that investing in ESG investments is detrimental to returns. You may not agree with some of the SDGs or may be sceptical about some of the issues, but the fact is that the world is moving in the direction of cutting the use of fossil fuels, improving health, reducing pollution, and improving life for all. For example, an ESG fund would not invest in tobacco. According to research in the British Medical Journal smoking saw a 27.2% for men and by 37.9% decrease for women between 1990 and 2020. Investing in something seeing this level of decline should set alarm bells ringing.

Sometimes going against the SDGs will be profitable in the short term. It's cheaper to dump toxic waste in rivers for example. In the long-term companies doing this will have to clean up their pollution and probably pay hefty fines. This will negate any previous gains and likely be more costly than if they were responsible from the outset.

The graph below demonstrates the difference in investment returns for ESG (A in green) and non-ESG (B in red). Both portfolios are our WealthBuilder 50 portfolios, but we see the same differential

regardless of the portfolio. Up until 2017 there was little difference between the two portfolios. From 2017 onwards the ESG portfolio starts to out-perform the non-ESG portfolio. It was around this time that businesses, the public, and investors really started to embrace and act upon the sustainable development goals. Whether they were aware of it or not!

Our investment approach incorporates ESG and the UN SDGs. As a company we strive to meet the same standards. Not only do we believe that this is the right thing to do but we believe that it makes sense from an investment point of view.

7. Summary of Understanding

Having read this document, you should have a better understanding of our investment approach. Some other points that we want you to consider are:

1. As an investor, I understand that there are many kinds of investment risk including but not restricted to:
    - The systemic risk of markets
    - The unsystematic risk of securities
    - Income risk
    - Inflation risk
    - Currency and Exchange Rate risk
    - Liquidity risk
    - Capital risk
    - Default risk

2. I understand that there 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.

3. 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.

Glossary

Active: Active investing refers to an investment strategy that involves actively buying and selling securities with the goal of outperforming the market.

Asset: An asset is anything of value that can be owned or controlled by an individual, company, or institution. In finance, assets can include stocks, bonds, real estate, and other investments.

Balance sheet: A balance sheet is a financial statement that shows a company's assets, liabilities, and equity at a specific point in time.

Bonds: Bonds are debt securities that represent a loan to a borrower, typically a business or government. The bond issuer promises to pay back the principal and interest on the loan to the bondholders over a specified period of time.

Capital risk: This refers to the potential loss of invested capital due to a decline in the value of the investment. For example, if an investor buys stocks and the stock market crashes, the value of their investment may decline, resulting in capital loss.

Currency/Exchange risk: This refers to the potential financial losses that can result from fluctuations in currency exchange rates. When investing in foreign assets or companies, investors are exposed to currency risks as changes in exchange rates can affect the value of their investments.

Default risk: This refers to the risk that a borrower may fail to repay their debt obligations, resulting in financial losses for the investor. This is particularly relevant for investments in corporate bonds, where there is a risk that the issuing company may not be able to meet its debt obligations.

Equities: Equities are another term for stocks or shares, representing ownership in a company.

Expense ratio: The expense ratio is the percentage of an investment fund's assets that are used to cover the fund's operating expenses, such as management fees, marketing expenses, and administrative costs.

Fund manager: A fund manager is a person or team responsible for managing an investment fund, including making investment decisions and implementing investment strategies.

Gilts: Gilts are a type of bond issued by the UK government. They are considered to be very low-risk investments because they are backed by the government's ability to tax and print money. However, the value can still fluctuate over time.

Idiosyncratic risk: Idiosyncratic risk also known as unsystematic risk, refers to the risk that is specific to a particular company or industry, and is not related to broader economic or market conditions. Examples of idiosyncratic risk might include a company-specific legal action or a supply chain disruption that affects only one company.

Income risk: Income risk refers to the risk that an investor's income or cash flows may be impacted by factors such as changes in interest rates, inflation, or economic conditions. For example, an

investor who relies on dividend income from stocks may face income risk if those stocks cut their dividends.

Index tracking: Index tracking refers to an investment strategy that seeks to replicate the performance of a particular index by investing in the same securities that are included in the index.

Index/Benchmark: An index or benchmark is a measure of the performance of a group of assets, such as stocks, bonds, or commodities. It is typically used as a benchmark to compare the performance of individual investments or investment portfolios. A well-known example is the FTSE 100 which tracks the value of shares in the UK's 100 largest companies.

Inflation risk: Inflation risk refers to the risk that inflation will erode the purchasing power of an investor's money over time. In other words, if the rate of inflation exceeds the rate of return on an investment, the investor's real (inflation-adjusted) returns will be negative. This risk is particularly relevant for cash where the interest payments may not keep up with inflation and there is no capital growth.

Investment fund: An investment fund is a type of collective investment scheme that pools money from multiple investors to invest in a diversified portfolio of assets.

Liquidity risk: This refers to the risk that an investor may not be able to sell an investment at the desired time and price, due to a lack of buyers or sellers in the market. It is particularly relevant for investments in illiquid assets such as property, where it may take a long time to find a buyer or seller.

Market movement: Market movement refers to the changes in the prices of stocks, bonds, and other financial assets over time, reflecting changes in the overall supply and demand for these assets.

Market: A market refers to the buying and selling of goods or services, including financial assets such as stocks, bonds, and commodities. In the context of finance, it usually refers to the stock market, bond market, or other financial markets.

Net and gross: Net refers to the amount of money remaining after expenses have been deducted, while gross refers to the total amount of money before any deductions have been made. Think of net in terms of fishing, it's what you have left once you've pulled your net from the water.

Passive: Passive investing refers to an investment strategy that aims to replicate the performance of a particular market or index, rather than trying to beat the market through active trading.

Portfolio: A portfolio is a collection of investments, such as stocks, bonds, and other assets, held by an individual, company, or institution.

Profit: Profit refers to the amount of money earned by a company or individual after all expenses and taxes have been paid.

Risk premium: The risk premium is the extra return that investors demand to compensate them for taking on higher levels of risk. In other words, it is the additional return that investors require above the risk-free rate of return, such as that offered by government bonds.

Risk: Risk refers to the possibility of loss or uncertainty in the outcome of an investment.

Security: A security is a tradable financial asset, such as a stock, bond, or option, that has value and can be bought or sold.

Shares: Shares, also known as stocks or equities, are units of ownership in a company. When you own shares in a company, you have a claim on a portion of its assets and earnings.

Systemic risk: Systemic risk refers to the risk that an event or shock to the financial system as a whole could lead to widespread financial instability or collapse. This type of risk is often associated with the interconnectedness of financial institutions and the potential for contagion across different sectors of the economy. Wars and pandemics are good examples.

Tilt: In investing, a tilt refers to a deliberate deviation from a benchmark index in order to overweight (invest more in) or underweight (invest less in) certain sectors or asset classes. This strategy is often used to capitalise on market trends or to pursue specific investment goals.

Timing or sequencing risk: This refers to the potential financial losses that can result from investing or selling at the wrong time. For example, if an investor buys a stock at a high price and the price subsequently falls, they may lose money if they are forced to sell.

Tracking error: Tracking error is a measure of how closely an investment portfolio follows the performance of a benchmark index. It is calculated as the difference between the returns of the portfolio and the returns of the benchmark index.