



Wealth Management

SRC Wealth Management's CIP & CRP Investment Philosophy & Process

Review March 2019

SRC Client Profile

Our typical client will be either approaching retirement or retired and will generally require our advice on protecting their wealth. Pension clients will likely require our advice on a sustainable drawdown strategy.

The minimum investment sum we advise on is normally £500,000 plus. We will consider sums lower than this but only where we can see a mutual benefit.

The overriding consideration in all cases is to ensure that the client receives value for money and that it is financially beneficial for them to employ us.

SRC Core Values & Beliefs

It remains our fundamental belief that most client needs can be met using a simply and low cost investment strategy. We are therefore only likely to recommend more complex financial products e.g. VCTs & EISs in exceptional situations. Our focus when recommending investment solutions is to minimize costs and taxation.

This principle is normally 'in tune' with our target market, most of whom will be looking to protect their wealth against the impact of inflation throughout their retirement. Our typical clients will have passed the 'accumulation' phase.

Knowledge & Experience

Due consideration is given to a client's investment knowledge and experience. We look to avoid complex investment solutions where possible.

It is unlikely that our services will be appropriate for people looking for high risk investment strategies or those that wish to actively manage their own investments.

Investment Risk Profiling

All clients are asked to complete a risk profiling questionnaire at the 'on boarding' stage of our advice process. Although the questionnaire is an important part of the risk profiling process more emphasis is placed on the face to face discussions to determine a suitable investment strategy.

Prior to making any investment we will need to establish:

- ▶ Attitude to investment risk and capacity for loss
- ▶ The specific growth or income objective
- ▶ Investment timescale
- ▶ Need for access during investment period

We will generally aim to achieve the client's investment objective taking the minimum risk possible.

Where we are dealing with two clients e.g. husband and wife, we may issue a questionnaire to each individual.

Capacity for Loss

We consider capacity for loss to be the most important element of the risk analysis process. Where necessary, we will undertake detailed cash flow analysis to establish the impact that investment volatility may have on the client's lifestyle.

Capacity for loss can be particularly important to clients wishing to undertake income drawdown,

Cash flow analysis is mandatory for Defined Benefit transfer clients.

Independence

SRC Wealth Management is an independent financial adviser (IFA) and will therefore consider the whole of the retail product market when advising our clients.

We will always look to provide a simple solution where possible, and will only consider more complex products when absolutely necessary.

Given our typical client demographic we are extremely unlikely to recommend Structured Products, VCTs, EISs or UCIS.

Active v Passive

We believe, and research continues to demonstrate, that cost is one of the most important factors that contributes to long term investment success. Where possible and suitable, we will look to provide our clients with low cost products to meet their needs. The majority of the portfolios we recommend will therefore contain a significant proportion of passive investments.

We do however remain agnostic with regard to which style of investment will outperform, and we will therefore ultimately recommend whatever works best for our clients.

SRC Centralised Investment Proposition v Bespoke v DFMs

We have considered a number of different investment solutions to meet our client needs but our preferred model is to use a combination of multi asset funds with additional satellite funds where appropriate (core and satellite).

Alternative investment solutions considered include:

- ▶ **Bespoke Model Portfolios** - we do not have the time or resources to construct and monitor our own portfolios.

- ▶ **Discretionary Fund Managers** - we consider the majority of DFMs' charging structures to be expensive and opaque. We have found no evidence that shows this additional cost translating into superior investment performance .

SRC Core Investment Strategy

At the centre of all client portfolios sits our 'Core Investment Strategy'.

The risk profile of the 'Core Investment Strategy' can be adjusted via the Prufund and Vanguard Lifestrategy products. Clients that have a lower growth requirement or low capacity for loss will have their portfolio 'titled' towards a more cautious strategy.

The aim of the 'Core Investment Strategy' is to diversify a client's investment over a broad range of global assets at low cost. It is hoped that by doing so, we will provide our clients the best opportunity for risk adjusted capital growth/income. Diversification of asset classes should help to reduce correlation risk, but in times of significant market volatility this may not be possible e.g. the financial crisis in 2007/08.

SRC Core Moderately Cautious:

- 32% Prufund Cautious Fund*
- 32% Vanguard Lifestrategy 40% Equity Fund
- 32% Vanguard Global Balanced Fund
- 4% Cash

SRC Core Moderate:

- 32% Prufund Growth Fund*
- 32% Vanguard Lifestrategy 60% Equity Fund
- 32% Vanguard Global Balanced Fund
- 4% Cash

Due Diligence - Multi Asset Fund Selection

The **Prufund** range of funds hold a broad range of assets, including commercial property and infrastructure. Although more expensive than many open ended alternatives, we feel that the additional diversification and 'smoothing' process is worth the additional cost.

Independent research - AKG's Prufund Report 2018

The **Vanguard Lifestrategy** range continue to offer exceptional value for money and thus far have produced excellent returns for investors. The global cap weighted investment strategy combined with the regular rebalancing feature, mean that the

overall investment risk rating of the fund is tightly controlled.

Independent research - Morningstar analysts rating Lifestrategy range - Gold

The Vanguard Global Balanced fund offers an active global asset allocation strategy at low cost, which we feel compliments the other 'Core' holdings.

Core Strategy Performance

Our '**Core Moderately Cautious**' strategy has performed ahead of its respective benchmark over the past 1, 3 and 5 year periods, with outperformance over the past 3 and 5 years being significant.

Our '**Core Moderate**' strategy has also performed ahead of its respective benchmark over the past 1, 3 and 5 year periods.

Both portfolios continue to deliver returns in line with our expectations.

Both portfolios have maintained a standard deviation measure (volatility) below their respective benchmarks.

*In some situations it may not be possible to use the Prudential's Prufund in our 'Core' strategy owing to platform restrictions. In these circumstances we will use **Standard Life's Myfolio Market II or III** funds. The Myfolio Market funds are extremely low cost and provide access to asset classes not available in the Vanguard funds e.g. commercial property. The Myfolio funds therefore help to further diversify the 'Core' portfolio.

SRC Satellite Holdings

For clients that have either the capacity or need for additional investment risk then we may recommend that the 'Core' portfolio is enhanced by the addition of 'Satellite' investments. The allocation to 'Satellite' funds can be as high as 30%.

Scottish Mortgage Investment Trust

Lindsell Train Global Equity Fund

Fundsmith Equity Fund

Due Diligence

The **Scottish Mortgage Investment Trust** invests in a concentrated portfolio of equities. The trust invests in a global portfolio of companies with the aim of maximizing its total return to shareholders over the long term. Ongoing management charges are extremely competitive at just 0.37%.

Independent research - Morningstar analysts rating - Gold

The **Lindsell Train Global Equity Fund** invests in a concentrated portfolio of equities. The fund's aim is to achieve growth both share price

appreciation and income from shares. The fund invests in global companies primarily quoted on recognised exchanges in developed countries. Ongoing management charges are 0.71%.

Independent research - Morningstar analysts rating - Gold

The **Fundsmith Equity Fund** invests in a concentrated portfolio of equities. The fund's objective is to achieve long-term growth in value, investing in shares of companies on a global basis. The fund's approach is to be a long-term investor in its chosen stocks. Ongoing management charges are 0.95%.

Independent research - Morningstar analysts rating - Gold

These investments have been selected for their potential to offer exceptional capital growth over the medium to long term. These funds invest in a selected portfolio of companies and are therefore considered high risk. .

SRC Portfolios Risk Ratings

Our portfolios are not directly correlated to the results of the Morningstar risk questionnaire. That said, we do not believe that risk questionnaires in themselves are an appropriate measure of client risk tolerance.

We have however categorised our portfolios as follows:

- ▶ SRC Core Moderately Cautious - Suitable for a cautious/moderately cautious investor.
- ▶ SRC Core Moderate - Suitable for moderate investors.
- ▶ SRC Core Moderate & Satellite - Suitable for a more sophisticated investor that has a moderate/moderately adventurous attitude to investment risk.

Rebalancing

We monitor portfolio weightings on an annual basis (April) to ensure that they remain 'in-line' with the client's agreed attitude to risk/capacity for loss. Where allocations have drifted from the original recommendations we may recommend remedial action - this is discussed and agreed at the client's Annual Planning Meeting.

Ethical Investments

For clients with strong ethical views we will use a combination of ethical multi asset funds to build a suitable portfolio. As the investment range of these funds is typically restricted, clients are made aware that these portfolios may be a little more volatile than their non-ethical peers.

Funds currently considered include:

- ▶ Kames Ethically Cautious Managed Fund
- ▶ Liontrust UK Sustainable Future Managed Fund
- ▶ Vanguard SRC Global Stock Fund
- ▶ Standard Life UK Ethical Fund

Due Diligence

Choice in the ethical range is limited and we have therefore selected the above investment funds using a combination of filters which include, charges, performance and diversification.

Market Timing (Phasing)

For investments of over £500,000 we will consider 'phasing' the purchase of investment funds. Spreading the investment allocation over separate tranches may offer protection against a significant market correction. Clients are however advised that this strategy may not always prove effective e.g. in a rising market.

We will discuss and agree a market timing strategy with clients prior to investment.

SRC's Centralised Retirement Proposition

We assess the client's need for income during the fact finding process. Depending on their requirements we will recommend one, or a combination of, the following strategies:

- ▶ Retain sufficient cash on account to cover the first five years of income need. The remaining balance to be invested in one of our 'Core' investment strategies.

- ▶ Buy 'income' versions of our recommended funds and use the 'natural' income to meet the income need.
- ▶ Allocate a larger share of the initial investment to the Prufund product and use this to meet the income need (smoothed returns should help to minimise 'sequencing risk').

Platforms/Wraps

Where appropriate we will recommend that a client holds their investments on a wrap/platform. Most clients will have a combination of products e.g. SIPP, ISAs and General Accounts and it makes sense to administer these from one place. For clients who require just one product we will consider the option of holding this direct with a traditional product provider. In our experience however, it is not uncommon for most wrap providers to have extremely competitive charging structures.

As 'independent' financial advisers we are not tied to any particular product provider and will recommend the most cost effective solution.

Due diligence on our selected platforms is continued within our annual 'Due Diligence' report.

Investor Protection

The Financial Services Compensation Scheme (FSCS) limits:

The Prufund range of funds - unlimited

All other investments in our 'Core' and 'Satellite' range - £85,000



Wealth Management

SOUTH EAST

4 Lords Court
Cricketers Way
Basildon, Essex
SS13 1SS

T: +44 1268 280096
F: 01268 521202

E: info@srcfinancial.com
W: www.srcfinancial.com

LONDON

Tower 42
25 Old Broad Street
London
EC2N 1HN

T: +44 1268 280096
F: 01268 521202

E: info@srcfinancial.com
W: www.srcfinancial.com