Wealth Management

INVESTMENT PHILOSOPHY & PROCESS

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Foreword

The contents of this document describe our approach to the provision of investment advice. It outlines our beliefs about investment, which form the foundations of our approach to managing your money. It is also about how you are involved with the decisions about investing.

If you don't understand anything here please ask us, there is no such thing as a silly question when it comes to looking after your money!

Regulatory Status

SRC Wealth Management is a trading style of SRC Financial Services Limited which is authorised and regulated by the Financial Conduct Authority. Our FCA Register number is 430562.

You can check this on the FCA's Register by visiting the FCA's website – www.fca.org.uk/register or by contacting the FCA on 0800 111 6768

OUR CORE VALUES

Everyone at SRC Wealth Management is committed to providing an outstanding personal service and meeting our core values, namely:

Transparency

We will always be open and clear in our dealings with you. We will inform you of the cost of any services before we undertake any work for you.

Clients First

We will always put your interests before our own. For a relationship to be successful we believe it must be built on a 'win, win' basis.

Should a conflict of interest ever arise we will notify you and explain what options are available.

Clarity

We will aim to articulate our advice in a way that is clear, unambiguous and easy for you to understand. Any advice we give will always be in writing.

Excellence

We will always work within the boundaries of our expertise. If the situation dictates, we are happy to work with other professionals to achieve the desired objective.

Fairness

We will always act fairly in our dealings with you. If you are unhappy about any aspect of our service we promise to listen and respond speedily. Your satisfaction is our priority.

OUR BELIEFS

Advice must be financially viable

We will only act for you if the benefits of our advice outweigh the costs.

Invest for a reason

We always start by obtaining a detailed understanding of your financial planning objectives. These inform decisions about whether you should be investing and the level of investment risk you need to take.

Keeping things simple

We will try to achieve your investment objective using the simplest strategy possible. We try to avoid complex products if the objective can be met using a straightforward approach.

Keeping costs low

One of the biggest detractors from investment performance is cost; over the long term the impact can be significant. When researching the market to find solutions, cost is one of the key factors we consider.

Minimizing Tax

Another major detractor from investment performance is tax. We'll ensure that you utilise the legitimate tax shelters to help maximize your returns.

Minimizing Risk

Understanding your attitude to investment risk is essential. As a first step we'll ask you to complete a risk profile questionnaire. We'll then discuss the results to ensure that any recommendations we make are suitable. Understanding investment risk is so important we've dedicated a whole section of this document to this subject (see below).

Investing for the long term

We believe that investing is for the long term and should be for a minimum of seven years. We will always recommend you keep sufficient savings on short term deposit to meet ad hoc and emergency expenditure.

Diversification

We believe that the best way to achieve long term sustainable investment growth is by holding a diversified portfolio of assets. Spreading your investment should help reduce risk over the long term.

Ongoing Advice

We believe it's essential that your investments are kept under review. We will report to you quarterly providing details of how your investment is performing. We will also meet with you annually (or more frequently if required) to conduct a detailed review. Meeting on a regular basis will ensure that your investments continue to remain suitable, and 'on track' to meet your objectives.

Specialization

We believe that people should stick to what they know and do best. Our expertise is in financial planning and not investment management, which is why we have chosen to outsource this part of the process to specialist third parties (see the section titled Investment Management for more details).

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Investment Risk

When it comes to investing, risk and reward are inextricably linked. All investments involve some degree of risk - it's important that you understand this before you invest.

The reward for taking on risk is the potential for a greater investment return. If you have a financial goal with a long time horizon, you are likely to do better by carefully investing in asset categories with greater risk, like equities, rather than restricting your investments to assets with less risk, like cash. On the other hand, investing solely in cash investments may be appropriate for short-term financial goals. To help understand risk we break it down into four elements:

Investment risk

These are the risks associated with different types of investment. There are many different risks (and rewards) but common ones include: **volatility** – the ups and downs; **liquidity risk** – can you get your money back when you need it; company risk – the risk that one company goes bust; **default risk** – the risk that a bond doesn't pay you back; **emerging market risk** – the fact that some markets are less efficient and transparent.

The need for risk

All these risks might start to put you off, but even investing in cash carries risk e.g. **inflation risk** – your spending power goes down; **default risk** – your deposits may not be 100% safe. For some investors, and certainly for short term savings, cash is still likely to be the best option.

Your attitude to risk

Risk attitude has more to do with the individual's psychology than with their financial circumstances. Some will find the prospect of volatility in their investments and the chance of losses distressing to think about. Others will be more relaxed about those issues.

Your ability to tolerate risk / accommodate losses

If things go wrong what would that mean to your finances? You may be a risky investor but can you afford to be? You may be a risk adverse investor but are you saving enough? This is about understanding your ability to withstand the shocks that might come along with the aim of ensuring your portfolio meets your capacity for risk.

Generally speaking, a person with a higher level of wealth and income (relative to any liabilities they have) and a longer investment term will be able to take more risk, giving them a higher risk capacity.

Your ability to tolerate risk is very different to your attitude to risk – understanding this is a key part of our investment process. A conversation with you will help inform decisions about the level of investment risk that needs to be taken and that you can afford to take, rather than simply the maximum amount of risk that you feel happy with.

We will use a **specialist risk profiling tool** to help us establish the risk profile that is right for you. But we will also have a conversation with you about this profile to make sure that you understand what it means and how the profile needs to change to meet your particular situation. The great benefit of the tool is that it creates an unbiased view of your risk profile, and therefore is an excellent starting point for the conversation.

Independent Advice

We are independent and 'whole of market', meaning we will consider the full range of retail investment products before making any recommendations to you, namely:

Name	Definition	Risk
A life policy	Investment bond, purchased life	Cautious +
A unit	Buying units in collective investments such as an OEIC	Cautious +
A stakeholder pension	Contributing to a stakeholder pension	Cautious +
A personal pension	Contributing to a personal pension or SIPP	Cautious +
An interest in an Investment trust savings scheme	Contributing to an investment trust savings scheme	Moderately Adventurous +
A security in an investment trust	Buying a 'share' in a specific investment	Adventurous
Any other designated investment which offers exposure to underlying financial assets, in a packaged form which modifies that exposure when compared with a direct holding in a financial asset	e.g. collectives not captured under unit or as another example, guaranteed funds	Cautious +
A structured capital at risk product (SCARP)	As left	Adventurous

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Client Segmentation

Our service is primarily aimed at individuals with investable assets in excess of £100,000 (in addition to any deposit holdings). If you do not meet this requirement then we can offer our transactional service. Transactional product recommendations will normally be simple for you to manage with some form of 'in built' review.

Investment/Portfolio Value	Service Available
£50,000 or below	Transactional only, ongoing review unlikely. WRAP* unlikely to be suitable.
£50.000 - £100,000	Transactional only, ongoing review dependent on circumstances i.e. additional funds in future WRAP* considered
£100,000 - £250,000	Ongoing review normally recommended WRAP* considered
£250,000 plus	Ongoing review normally recommended Wrap* considered Discretionary Management considered

*WRAP – an electronic trading platform that can hold client assets in one central place. WRAP providers charge for this service, which is why we will normally only recommend this if you have investments above a certain amount

Investment Management

Investment management is a complex process that to be done professionally requires a large amount of resources. We feel our time is better spent helping you manage your overall financial situation, which is why we have chosen to outsource this part of the process to specialist third parties.

Depending on your specific requirements we will recommend one or possibly a combination of the solutions below.

Multi Asset Portfolios

Multi Asset Portfolios are 'off the shelf' solutions provided by a number of leading investment institutions. Normally packaged as 'risk rated' funds, they offer a cost effective way to obtain professional fund management and access to a range of different assets. Fund managers will normally review their portfolios on a regular basis to ensure they remain within the specified risk parameters.

Morningstar OBSR Managed Portfolios

We have selected Morningstar's range of OBSR Managed Portfolios to provide a low cost discretionary management solution. They offer a choice of five risk rated active/passive and passive only portfolios. The strategic asset allocation strategy is driven by research from Ibbotson with Morningstar OBSR providing a tactical overlay and underlying fund selection.

Discretionary Fund Management

For clients that require a more bespoke approach we have links with a number of leading discretionary fund managers. We will help you decide on the right mandate then instruct a manager of your choice to implement the strategy.

We keep the manager under review and report back to you on a regular basis. Discretionary management can be expensive, which is why we will generally only recommend this option if you have in excess of £250,000 to invest.

Ethical

During our meetings we will discuss your attitude towards ethical matters. If required, we can advise you on a range of ethical solutions to meet your requirements.

Passive vs. Active

In our opinion, and our research demonstrates, cost is one of the biggest detractors to investment performance. We therefore tend to favour low cost passive investment strategies over higher cost active management. That said, we do believe there can be a place for active management so will keep an open mind when making any recommendations to you.

As a customer's risk profile increases we may recommend some satellite funds which have the potential for higher returns. Costs will normally be higher and the risk of not matching the performance of the asset profile will be increased.

Monitoring

We will agree the level of ongoing monitoring and advice you require. If we recommend a simple 'off the shelf' solution then it is unlikely we will provide any ongoing service. If you situation is complex or you are investing in excess of £100,000 then we will normally recommend that we keep your investments under review.

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Financial Planning Assumptions

We will use a standard set of assumptions when advising you. We'll discuss these with you and take account of any views that you may have, for example, if you would like us to assume a higher long term rate of inflation then we will be happy to do this.

We obtain this information from reports commissioned by the FCA, as we consider this to be a reliable and reputable source of information.

Further details relating to the Projected Rates of Return is available on request.

Inflation	**2.5%**
Real Government bond returns	**1.0%**
Real equity returns	**5.0%**
Real corporate bond returns	**2.5%**
Real property returns	**3.5%**

Life Expectancy

Life expectancy can have an impact on the recommendations we make to you. Your current state of health and family history will be discussed so we can establish a suitable investment term. By default we will use a life expectancy of 100 years.

Our Investment Process

This is our Investment Process. It describes our approach to the provision of investment advice. It outlines how we build the investment portfolios for each of our customers. It is based on our investment beliefs (found in our investment philosophy).

If you don't understand anything here please ask us. As already mentioned there is no such thing as a silly question when it comes to looking after your money!

Principles

We use our Investment Philosophy to help us determine the most suitable investment for each customer:

- Understanding risk is important
- Matching your investment to your risk profile is essential
- Costs are important (see appendix note 1)
- Diversification (not having your eggs in one basket) is a sound principle (see appendix note 4)
- Keeping things simple where possible

OUR APPROACH

You

Assessing your attitude to risk and individual objectives are key – so we will spend time with you to discuss and understand this. We will ask to you to complete our risk questionnaire and client information form.

We also think that understanding your future income and capital requirements is an essential part of our investment process. Before offering you any advice we will therefore use our Cash Flow Analysis software to map out your financial future.

Research

Once we have determined your financial objectives, attitude to risk and mapped out your financial future, we will then consider what solution(s) may be suitable. We start with a blank page and will consider the whole of the retail investment market.

The Process

As we do not feel we have sufficient expertise or resources to research and construct our own investment portfolios, we will look to outsource this part of the process to external providers.

We use specialist financial software to research the market.

Dependent on your situation we may recommend one or a combination of the solutions below.

Smaller Portfolios

For clients with less than £100,000 of investable assets, we believe that a low cost multi asset solution, which requires little in the way of ongoing advice, is likely to be the most suitable option. These investments are likely to be predominantly passive and in fund of fund vehicles (see appendix note 2/3).

We normally select funds that employ a 'tactical' overlay as we feel an 'active' asset allocation strategy can be advantageous especially when markets are behaving irrationally.

Larger Portfolios

For clients with investable assets of between £100,000 and £250,000 we are likely to recommend that the core or possibly all of their portfolio is invested using Morningstar's OBSR Managed Portfolios (please refer to provider literature for more details). In some situations we may recommend a 'core and satellite' strategy, whereby a specialist product will be recommended alongside the core holding, e.g. a commodity based ETF, Investment Trust, structured product.

Client input will help to determine the amount of allocation between active and passive but as a general rule the larger the investment then the higher the scope to increase the allocation to active.

Higher Value Portfolios

For income seeking clients or those with more than £250,000 of investable assets, we will discuss the option of outsourcing the process to a discretionary fund manager for bespoke investment advice. There is of course no guarantee that this option will produce better returns than our Larger Portfolios service, so the benefits of each will be carefully considered before making our recommendation.

Platforms

Wrap platforms or fund supermarkets offer a cost effective way for you to hold your investments and to access tax wrappers (e.g. pensions and ISAs). It also reduces your paperwork.

They also allow you to hold investments from more than one fund manager. Any switches that are made are normally easier and faster on a platform.

Portfolio valuations are available online 24/7 – some with analysis to see how your investments have performed.

Platforms help us to monitor and manage your investment effectively – annual reporting and "bed and ISA" trading for example.

We select the most suitable platform based on your needs from a short list of those in the whole market. Our selection of provider will be partly driven by the costs of trading and availability of our preferred investment solutions.

Time horizon is a key driver of risk level

Generally we will not make an investment recommendation unless you are able to commit to invest for a minimum of 7 years. It will normally be possible for you to access your investments at anytime e.g. for an emergency, but to stand the best chance of meeting your objectives you should consider investing as long term.

Appendix (some more detail)

There are a number of key stages we have used when screening funds / managers and other investments.

1. Costs

The fund's fees and expenses (annual management charges and other ongoing charges) are important to assess. Research has shown that low-cost funds have outperformed high-cost rivals on a consistent basis. Investment companies work on the premise that their high fees are justified by their fund's superior investment returns. The problem is that this simply doesn't stack up in reality. Research by Morningstar in the US concludes that "investors should make 'cost' a primary test in fund selection as it is still the most dependable predictor of performance. Start by focusing on funds in the cheapest or two cheapest quintiles, and you should hopefully be on the path to success."

2. Active or Passive?

A separate research paper has shown that active managers take extra risk and follow the latest trends when things are going badly in pursuit of returns. When the going's good investment managers seem to do well but when things go badly they under-perform simple indexed passive funds. Not exactly what most investors would want to pay for! Our conclusion - base the core of your portfolio around tracker / passive funds. The added benefit is that passive funds are far cheaper than actively managed funds, which relates back to point 1.

3. Portfolio turnover rate.

A fund's portfolio turnover rate measures how often a manager buys and sells securities. A high turnover rate indicates that the manager does not hold on to stocks for very long. This may indicate active management but on the flip-side it can lead to higher trading costs and indicate a short term investment approach. These costs are not always as easy to discover as you might like! By contrast a low turnover rate would indicate a manager with a long term buy and hold view to investment.

4. Diversification.

Making sure you have a good mix of funds, either directly via a model or through a fund-of-funds, that meet your long term needs is a key to long term success. You also need to make sure that the funds you own have a good spread of holdings. A small number of holdings may be indicative of a manager who backs his convictions while a large number may suggest the manager is going to try and match the index. Both have their place, with the former being more risky yet more likely to give you outperformance / underperformance while the latter may have a lower investment risk but not outperform the market, in which case you might think about investing passively instead (which goes back to point 3 above).

5. Does it do what it says on the tin?

It's important that you know what a fund can and does invest in. If you want exposure to Far Eastern equities then there is little point picking a UK corporate bond fund. But perhaps more importantly: don't judge a book by its cover. The exact index that a passive fund tracks is key. And for active funds making sure you understand the exact mandate the manager has is crucial. It wasn't long ago when the Cautious funds could hold up to 60% in Equities – and a number of investors may not think that sounds very cautious!

Also consider what impact the fund will have on your overall portfolio's asset allocation and risk. If you are picking a fund to complement others within your portfolio from the same sector, e.g. UK equities, is the new fund sufficiently different to your existing ones to offer some form of diversification? Diversification reduces a portfolio's risk – duplication does not!!

6. Past performance is not a guide!

The standard risk warning that you will see on all financial literature is that ''past performance is not indicative of future returns", or a variation thereof. Now this is true for a number of reasons. The research that the regulator conducted when it introduced the warning showed that there was in fact a link between past performance and the future – but only unfortunately that poor performing funds tended to be poor in future (probably due to higher costs).

7. Tax - Income or growth

Check whether the fund is focused on providing income, capital growth or a mixture of the two. This information can be found on the fund's factsheet. It's important that this matches your requirements. For example a young high rate income tax payer may be more inclined for capital growth as they do not need access to their funds in the short term. But obviously income from investment funds can be reinvested but you will still be taxed on it. So a high rate income tax payer probably won't want to generate any unneeded income. Capital gains on the other hand are only taxed once you sell the investment.
So make sure you also know the tax implications of your chosen fund as you may want to invest in it via a wrapper such as a Stock and Shares ISA to avoid tax altogether.

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