CHILTERN
INVEST
PORTFOLIO SOLUTIONS

How best to invest your money

Chiltern Invest
Our investment process

Deciding how best to invest your money can be daunting.
With so many options available and so many uncertainties, how do you choose what's right for you? Our job is to eliminate as much of that uncertainty as possible and to work with you to identify the most appropriate way for you to achieve your financial goals.

Chiltern Invest Portfolio Solutions are delivered in two distinct ways

Guidance Portfolio Solution – Investments from £50k to £300k through managed portfolios
Incorporating all aspects of our investment process, your financial adviser will recommend an investment solution in accordance with your objectives and your risk profile.
The advisory portfolio recommended will include a range of funds from a number of the UK's leading investment houses and diversified across a number of different asset types and geographies. As part of the ongoing relationship you have with your advisor a periodic review of your objectives and risk appetite, and data including asset allocation and the underlying fund performance will be considered together to identify if any investment changes are needed. Written recommendations will be provided for your approval and, with your consent, these will be implemented on your behalf in accordance with our best execution policy.
The frequency of such reviews will be agreed with your adviser from the outset.

Bespoke Portfolio Solution – Investments from £300k through tailormade portfolios
We understand that no two clients are the same and that those with more complex financial planning needs often require more complex portfolio solutions. Our bespoke portfolio solutions are offered by Chiltern Invest to those clients, building on the fundamental elements of our investment process through the introduction of an in-house, dedicated investment specialist to work alongside your financial adviser. Whilst tailored research, bespoke recommendations and more detailed analysis are key enhancements, direct access to both an investment specialist and a financial adviser is frequently identified by clients as a significant benefit - particularly when markets are unsettled. More than just a case of 'two heads', the ability to ask questions to a dedicated investment manager – at any time – allows our bespoke portfolio clients to have a conversation about wider market developments, discuss investment ideas that they may have come across themselves or simply 'catch up' on their portfolios between reviews. Importantly, the client remains at the centre of our service and our 'advisory' approach to portfolio management is essential in ensuring this is delivered.

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Fact find – getting to know you

The logical starting point of the investment process is for us to get to know you.

Our fact find will be wide-ranging to ensure that our subsequent advice is soundly based. As well as taking account of your personal and financial circumstances, it will cover your broader attitudes and values, and the level of experience and knowledge you have about investing and its associated risks.

Having established your goals, the results you expect and the timescales involved, we can begin to consider issues such as access to your money and the level of flexibility required in the investment selection.

We will also consider your personal circumstances, including your tax position, well before we advise on investments. It is important that any investment recommendation we make is as tax-efficient as possible.

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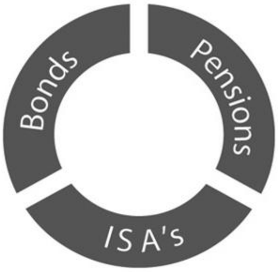


Selection of 'tax wrappers' – ways to hold your investments

A tax wrapper is a financial product, such as a pension, ISA or bond, within which your investments can be held and which usually has certain tax benefits.
Once we have established your financial goals we can begin to determine the most appropriate tax wrapper(s) to meet your needs.

Traditionally, investors might have held a number of tax wrappers from a variety of different companies. The downside of this is that it can create lots of paperwork, arriving at different times of year, in different formats. This can make it difficult for you, the investor, to manage and monitor your portfolio, as a whole, to ensure that your investments are performing as expected and remain in line with your risk profile.
Nowadays it's different, and for many of our clients we recommend investing via an 'investment platform'. This is a way to hold, monitor and manage all of your investments in a single place. It brings personal investing up to date. Just as supermarkets changed the face of shopping, the investment platform offers improved convenience, choice and value for money. It also provides online technology that helps us assess your attitude to investment risk and then put together a portfolio that's most likely to behave as you'd expect.

Our investment partners offer a full range of tax wrappers:
- Individual Savings Account (ISA)
- Unit trusts/Open-ended investment companies
- Personal Pension
- Onshore Investment Bond
- Offshore Investment Bond

These different wrappers have different tax treatment and other characteristics in terms of flexibility, capital availability, availability of guarantees etc.
Our solution is tailored to your needs and may utilise a single tax wrapper or a combination to produce the ideal planning outcomes. Where we recommend an 'investment platform' then we will research the market place and determine which meets your needs, we don't believe in a 'one size fits all' approach.

Understanding your attitude to investment risk

Whatever your goals, we want to be sure that the investment strategy we recommend for you is in line with your attitude to investment risk.
To do this we need to consider a number of factors. They include:

- The anticipated length of time you want your investment to last its 'term'
- Cash reserves you want to be available to meet unexpected circumstances
- Your view on the potential for your earnings to grow
- How much money you want to invest
- Whether you have any debts
- Existing savings for retirement
- Your overall view on investing
- Your goals – and whether you really need to take on risk to achieve them
- The impact of short-term falls in the value of your investments
- The importance of protecting your investment from the effects of inflation
- The question of 'liquidity': if you want to cash in your investments, how easy will it be to get your hands on your money?

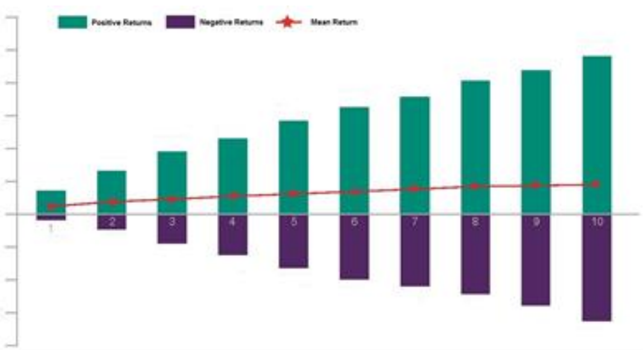
To establish your attitude to investment risk, we use our 'Assessment of Suitability and Risk Profile' questionnaire which contains a series of risk profile questions with multiple choice answers. Each answer produces a score and these are then aggregated to calculate your specific level of tolerance for risk, from 1 (low) to 10 (high). We call this your risk profile score.
The outcome is based on your circumstances and general views on investment risk and is a measure of your willingness and capacity to accept investment risk.

The risk profiling questions we use were developed by one of our research partners, Defaqto, in association with leading market data provider Moody's, in line with the best industry practice and the guidelines laid down by our regulatory body, the Financial Conduct Authority. Many of the terms commonly used to describe attitudes to investment, such as 'cautious', 'balanced' or 'aggressive' can mean different things to different people. That's why we aim to make our assessment of your attitude to risk as objective as possible. And that's why the next stage of the process is a discussion about what your risk profile score means.

Discussing your risk profile score

Your resulting risk profile score is an indication of the extent to which you are prepared to accept a short-term fall in the value of your investments as markets go through their ups and downs. These fluctuations in the value of investments are also known as their volatility.

If your score is 1, then low volatility investments such as cash or bank deposits could be recommended. If your score is 10, then we might recommend a portfolio which includes investments in asset classes such as emerging markets, whose higher expected volatility is matched by greater growth potential.
Volatility is very important as it describes the variability in annual returns an investor may experience.
The higher the potential volatility of an investment, the wider the range of potential returns over time, i.e. the higher the potential for loss. The following table shows how increasing volatility means greater price rises and falls.



Before proceeding to make recommendations based on your score, we want to be sure that you understand what that score number means and what its implications are. We will discuss with you how investment gains and losses might differ between different risk levels, to give you a better idea of the outcome you could expect at each level.
In this way we can agree with you whether your risk rating accurately matches your true attitude to risk.
We should point out however, that we can't guarantee that the volatility range of a particular asset allocation will not be breached occasionally. There is always the possibility of exceptional market conditions, due to unanticipated external events.

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Creating an 'asset allocation' in line with your risk profile score

'Asset allocation' involves getting the balance of assets in your portfolio right. The funds available for you to invest in are categorised under different asset classes depending on their particular focus.
These asset classes include cash or money market investments, UK fixed interest, international fixed interest, property, UK equity, international equity and commodities.

Different types of assets have different performance characteristics, so our aim is to allocate the right mixture of funds to your portfolio so that, over time, the peaks and troughs of their performance balance each other out in a way that is optimised for your particular risk profile and your expectations for growth.

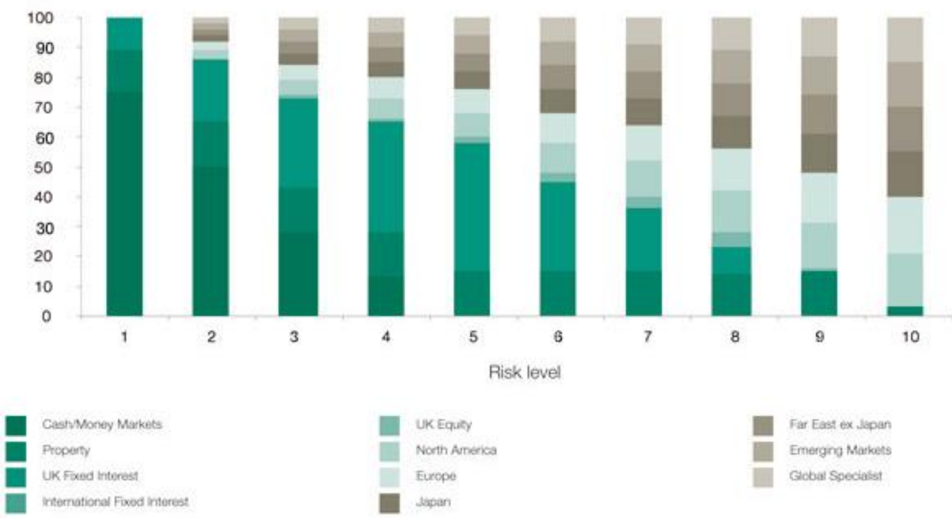
The theory that underpins these tools is known as Modern Portfolio Theory (MPT). This uses expected rates of return and implied volatility for each asset class. The aim is to optimise the asset allocation so as to achieve the highest expected level of return for a given level of risk.

A fundamental principle of Modern Portfolio Theory is that the risk of the portfolio as a whole must be considered, not the assets in isolation; this is because the price of one asset typically does not move up and down in line with the price of another (e.g. fixed interest and UK and international equity). As such there are significant diversification benefits to be gained by including a range of different asset classes in your portfolio. This diversification reduces risk, essentially because you don't have all your eggs in one basket.

Asset allocation is based on long-established and well-proven mathematical principles.
For this this part of the investment process we rely on Moody's, a leading firm of actuarial consultants, market data supplier and globally renowned ratings agency.

Creating an 'asset allocation' in line with your risk profile score

The overall asset allocation is carefully tailored for each risk profile portfolio in order to optimise return; however, in general the level of higher volatility asset classes increases as risk score increases. This is demonstrated by the table below.



The asset allocations will vary over time as market conditions and historical returns change. There may also be some variation in allocation between different tax wrappers; this is because the total return expected from an asset class will vary depending on how the growth or income is taxed and as such the asset mix varies after optimisation.

Where appropriate we may also recommend investment funds where the investment manager is responsible for determining the asset allocation in accordance with risk objectives that are consistent with your risk profile score.

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Selecting investments to match your asset allocation

Once the asset allocation stage is completed, we need to choose appropriate investments to reflect the various asset classes in the right proportions. There are thousands of investment options to choose from, including Unit Trusts and OEICs, Investment Trusts, Exchange Traded Funds (ETFs) and Hedge Funds.

All these options try to achieve different things.
Understanding the reasons for their relative success in doing so helps us to appreciate how they may perform in the future.

One of the first and biggest decisions to make is whether to take an 'active' or a 'passive' approach to investment management.
An active approach is where the fund manager uses their skill to select stocks they think will perform better than average or better than the benchmark in a particular sector.
The passive approach is where funds don't try to beat the index; they just try to match it as closely as possible. Typically the cost of active funds is greater than that of passive funds.

Given the volatility around stock market investments, we believe that carefully selected active fund managers have the potential to identify opportunities for 'outperformance' – doing better than average.
Equally we see merit in the passive approach because, in theoretical terms, the variability of returns in a portfolio is mostly the result of asset allocation, rather than the specific choice of funds, and a passive approach is typically a cheaper option. We consider both approaches in relation to your investment objectives and will tailor the portfolio accordingly.

We also decide whether it is better to create your portfolio from a variety of funds representing different asset classes; geographical areas, industry sectors or investment themes; or to select a single 'multi-asset' fund or discretionary managed solution where the manager is responsible for actively managing the asset allocation and investment selection in keeping with your risk profile score and investment objectives.
On occasion we may blend these approaches in order to establish the best solution.

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Selecting investments to match your asset allocation

There are many ways of judging the performance of fund managers , their past performance is not necessarily a guide to what they might achieve in future. A better way to assess a manager's performance is to understand how and why they achieved that performance – what process did they use?

When selecting a fund for a client's portfolio we look at a detailed set of criteria around the investment which includes not only investment performance but also criteria such as how long has the manager been running the fund, how big is the fund, how much risk has the manager taken to achieve its performance and does it represent the asset class within the portfolio? We also make use of detailed analysis tools provided by Financial Express including their Crown Ratings which are based on several of these criteria.

As well as these quantitative measures, we also utilise qualitative assessments of a fund. For this we use in-house research supported by information from fund rating agencies such as Old Broad Street Research (OBSR) and Citywire.

We consider the ratings provided by these groups because, while taking past performance of funds into account, the main focus of their assessment is on those factors which will affect a fund's future performance.

By combining all these selection criteria we can be confident of selecting suitable funds to build a robust portfolio.

In addition, buying any investment fund is a long-term decision; there has to be ongoing monitoring, measurement and evaluation, this is the final phase of the investment process.

Monitoring and Reporting

Having established your portfolio, ongoing review is essential because:

Your circumstances will change over time; in particular the timescale of your investment is likely to decrease. It is imperative that your level of investment risk remains appropriate to avoid the potential for detrimental outcomes.

The performance of the various funds in your portfolio will differ over time. If left for a long period of time the proportions of the different asset classes will almost certainly change and this could result in a divergence from your original risk profile. For example, if equity funds outperform fixed interest, your portfolio left unaltered would move up the risk scale and vice versa. We may establish regular portfolio rebalancing to address this.

The optimal blend of assets for your risk profile can be expected to change over time and without adjustments you may be at risk of achieving lower returns for your level of risk.

Active fund managers do not always perform ahead of their peer group and whilst short term variation is to be expected (based on tactical positioning), longer term underperformance may indicate a need to switch to a different manager, not least so the management fees you are paying provide you with good value.

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T: 01494 451441
E: enquiries@chilternconsultancyltd.com

Chiltern Invest
Chiltern House, Unit 5
Stokenchurch Business Park
Ibstone Road
Stokenchurch
Bucks HP14 3FE

www.chilternconsultancyltd.com

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