INVEST SOUTHWEST

INDEPENDENT FINANCIAL ADVISERS

Investment Philosophy

Advice… For Life

Introduction

Our investment philosophy is the overall set of principles and strategies that guide and steer our recommendations. It helps us simplify a complex industry, allowing us to concentrate on our client relationships, safe in the knowledge that we are doing our best to protect and grow their assets in line with their risk and reward profile.

Knowledge & Experience of Financial Products

Understanding our client's knowledge and experience involves evaluating their experience of a range of financial products, to establish whether they were chosen with professional advice or independently by the client. Through this process, we also gauge the depth of understanding and familiarity our clients possess regarding financial products.

Strategy

While an investor's returns are significantly influenced by external factors, particularly market performance, there are aspects within our control. These include the type of funds selected, the associated investment costs and the criteria used to choose investment companies. We consider these factors as paramount when creating and overseeing a portfolio, as justifying our investment decisions are crucial, both internally and ultimately to our clients. It is therefore imperative, to transparently communicate to the client, the rationale behind our recommendations for investing their funds in a specific manner.

There are numerous investment philosophies and theoretical approaches to investing at our disposal, including:

- Asset Allocation
- Strategic & Tactical Asset Allocation
- Active Investing
- Passive Investing

Strategic Asset Allocation

Asset allocation is the practice of diversifying assets between different asset classes and is recognised as a very important part of the process of building a portfolio.

In fact, several studies have found that the decision as to how to divide a portfolio into several classes is more important than the process of choosing the actual stocks, bonds, and funds that are owned.

Model Portfolio Theory (MPT) is a mathematical quantification of the benefits of diversification. It states that by combining different types of assets, the collective investment will have a lower level of risk and reward (defined as variance in investment return), than if the money was held in a single investment.

As advisers, one of the most important considerations we make for our clients is what assets we invest their money in. Depending on their financial goals, strategic asset allocation attempts to build a corresponding mix of assets, that aims to produce the most appropriate level of risk and reward and expected return.

While many adviser firms include Strategic Asset Allocation as part of their investment process, there can be a great disparity in both the importance placed on it and the sophistication of the chosen allocation process.

Tactical Asset Allocation

Tactical asset allocation is an active management portfolio strategy that rebalances the percentage of assets held in various classes and sub-classes to take advantage of short and intermediate-term market inefficiencies. It has the goal of raising investment performance above the market average. This contrasts with a strategic approach where the adviser will stick to the client's initial investment allocation in the long-term, ignoring short-term fluctuations in price, until their financial goals or circumstances change.

Tactical asset allocation attempts to increase returns by overweighting asset classes or sub-asset classes that are expected to outperform on a relative basis and underweight those expected to underperform. It goes through and analyses financial and economic 'signals' to predict performance and assign relative short-term asset class weightings.

Strategic versus Tactical

As the Geo-political environment is always changing, to assist us in the process of asset allocation we employ a modern, generic, efficient, frontier methodology provided by eV FE calibration of Towers Watson's Global CAP:Link™. By doing so we tap into eV market knowledge, practical investment skills and constant dedication. The eV methodology uses both strategic and tactical approaches and we feel this flexibility offers the most successful portfolios for our clients.

The option to rebalance the allocation is presented to our clients at least once in any 12 month period. For clients looking for a more active approach and when such an approach is suitable, we offer an external Discretionary Fund Management Service (DFM), or Model Portfolio Service (MPS) which has asset allocation as its underlying principle. We believe that asset allocation primarily determines the results of a broadly diversified portfolio and we concentrate on doing everything we can to get this right for every client.

Fund Philosophy

Like Tactical Allocation, fund selection is an active investment management strategy that picks specific funds in an attempt to make higher risk and reward-adjusted returns. While tactical allocation attempts to take advantage of systematic risk and reward (e.g. interest rates or business and industry shocks) fund selection strategies take advantage of firm-specific risk and reward.

Active versus Passive

Advantages of Passive Investing

- Passive funds tend to have lower charges than active portfolios since they simply replicate the index with little or no intellectual input from managers.
- The risk of significant underperformance measured against the relevant index should be limited, but of course investors must be aware that markets can fall as well as rise.
- Passive government bond portfolios can be an efficient way for pension funds to match assets and liabilities.

Disadvantages of Passive Investing

- There is no simple way to tell whether one index fund is better than another other than measuring past performance. However, comparison is difficult as performance data is collected in different ways by different funds.

Advantages of Active Investing

- These types of funds offer different investment aims rather than just tracking the market as a whole.
- Investments that are not highly correlated to the market are useful as a portfolio diversifier and may reduce overall portfolio volatility.
- Some investors may wish to follow a strategy that avoids or underweights certain industries compared to the market as a whole and may find an actively managed fund more in line with their particular investment goals.

Disadvantages of Active Investing

- The most obvious disadvantage of active management is that the fund manager may make bad investment choices or follow an unsound theory in managing the portfolio.
- The fees associated with active management are also higher than those associated with passive management, even if frequent trading is not present.
- Large managed funds can begin to take on index-like characteristics because they must invest in an increasingly diverse set of investments, instead of those limited to the fund manager’s best ideas.

At Invest Southwest, we believe in a combination of active and passive investment dependent upon our client’s situation, preferences, risk tolerance and objectives.

Fund Selection

Having established our client's objectives, risk and reward profile, capacity for loss, the likely term of the investment and the resultant asset allocation, whilst ensuring the client has adequate funds held in cash for emergencies and planned spending, we select funds using one of three broad methods of fund selection.

- A researched selection of funds provided by Threesixty Services LLP following a rigorous methodology. This process involves meetings with investment departments, closely monitoring fund manager activities and evaluating performance against sector over various time periods. Also considering industry ratings from respected sources like FE Analytics, Morningstar OBSR, Rayner Spencer Mills, and City Wire, among others. These funds typically have a very good historical fund performance, although they may come with higher associated costs.
- The 'in-house' funds of the recommended product provider, which approximate to the sector average performance. It could be argued that, if adhering to the principles of asset allocation, 'star' fund managers may not be necessary and may not add value. The 'in-house' funds tend to levy lower fees, which over many years can have a positive effect on the overall investment return.

Model Portfolio Service (MPS)

A Model Portfolio Service (MPS) offers a different investment strategy. Based on your risk profile we will align you with a portfolio model positioned to meet your unique investment goals and risk tolerances.

Model portfolios are managed by experienced investment professionals who have access to in-depth research, market data, and analysis. You will benefit from the expertise of professionals who have a deep understanding of the markets and can make informed investment decisions, based on your risk tolerance and expectations regarding returns. As we will not need to write to you for your authority to make adjustments, the portfolio is better placed to adjust and react to changes in the economy and investment market.

When an external Discretionary Fund Management (DFM) service is appropriate, the resulting portfolio is also based on objectives, risk and reward profile, capacity for loss and the likely term of the investment.

Discretionary Fund Management

When appropriate and suitable, we appreciate there is a place for a more active approach and as a result, we will consider the services of a Discretionary Fund Manager.

For this, a typical client is likely to be one or a combination of:
- High net worth
- Sophisticated
- Already have assets with a DFM
- Rationally expressing a knowledge of and preference for DFM
- Have specific circumstances that suggest a DFM is appropriate.

A DFM is responsible for managing investment portfolios on behalf of clients. Unlike traditional investment management services, where clients make specific investment decisions, a discretionary fund manager has the authority to make investment and tax-efficient decisions without needing to seek the client's approval for each transaction. By delegating investment decisions to a DFM, clients benefit from professional expertise, active portfolio management, and potentially better investment outcomes.

When an external Discretionary Fund Management (DFM) service is appropriate, the resulting portfolio is also based on objectives, risk and reward profile, capacity for loss and the likely term of the investment.

Occasionally we may recommend the use of the more bespoke Wealth Management Service, where our client will deal directly with the DFM. It is very likely that this will only be available to high net-worth and sophisticated clients, or clients with complex needs.

Attitude To Risk and Reward and Capacity For Loss

It is important that when making decisions in relation to financial planning our clients are aware of and fully understand the potential risk and rewards involved.

For example:
- **Capital risk -** not getting back as much as originally invested/losing some of the return already achieved.
- **Income risk -** the risk and reward that the income level achieved is less than expected.
- **Liquidity risk -** not being able to access money when needed.
- **Inflationary risk -** also called purchasing power risk, is the chance that the cash flows from an investment may not be worth as much in the future because of changes in purchasing power due to inflation.

Your Capacity To Take Risk

When making an investment and during the time it is held, we make our clients fully aware of the risks, rewards, and consequences. Risk and reward profiling is the process to determine an appropriate investment strategy. It has three primary aspects which we consider when making our recommendations.

- **Assessing risk and reward required -** We have detailed discussions with our clients to understand:
    - Their financial goals.
    - Current and anticipated income and expenses.
    - Current and anticipated assets and liabilities.

This allows us to advise our clients about the return needed to meet their future objectives and in turn agree on the most appropriate investment solutions.

- **Capacity for loss -** Capacity for loss is another key element of our client's overall appetite towards capital risk and reward. When undertaking the assessment of our client's financial position, we discuss the effect that loss of capital invested could have on their standard of living and/or future financial goals.
- **Risk and reward tolerance -** Unlike risk and reward required and capacity for loss, which are financial calculations, tolerance is psychological. Through discussion, we assess risk and reward tolerance and any inconsistencies are highlighted and discussed.

Assessing Attitude to Risk (Psychometric Testing)

Psychometric testing refers to a set of standardized assessments designed to measure individuals' mental capabilities, behavioural style, and personality traits.

To fully understand our clients' attitude to financial risk, we use specific software designed by EV Pro to evaluate their risk profile. This evaluation is done by providing each client with a questionnaire that contains different risk-based questions. The weighted responses, rather than individual answers to those questions, are then interpreted by the EV Pro software in order to calculate the client's risk profile and assign the client a score accordingly (from 1 = Cautious through to 5= Adventurous). Further to this, our advisers will check the client agrees with the score assigned to ensure a scientific and robust outcome. We know the importance of positioning your fund risks appropriately and this process allows our advisers to efficiently select the most suitable proposition for their clients.

Investment Committee

Invest Southwest employs an investment philosophy combined with the fund research panel provided by Threesixty Services LLP.

This process provides clients with a clearly defined investment proposition and as such we do not use an investment committee. Where we recommend the use of an external Model Portfolio Services (MPS) or Discretionary Fund Management service (DFM), we carry out extensive due diligence to ensure the activities of the fund managers are a close fit with our beliefs and culture.

Research and Due Diligence

With regard to due diligence, we subscribe to the methodology and outcomes of the Threesixty Services Advisory Panel Process. This is based around thorough research on a product by product, rather than provider by provider basis and is undertaken using tools including Defaqto Engage, Synaptics Research and FE Analytics.

In addition, we have an open forum within our advisory community, documented for transparency. This platform actively addresses current issues and developments, facilitating robust discussions. The outcomes of these discussions are formally presented during Quarterly Advice Team meetings, where collaborative efforts lead to adjustments in policies and best practices for continuous enhancement.

In terms of provider selection, we again subscribe to the Threesixty Services methodology, supported by the use of a variety of research tools such as Adviser Asset, Defaqto, Assureweb and Selectapension. Threesixty Services deliver support and personalised solutions to over 950 directly regulated IFA practices, including over 100 discretionary management firms (more than 10,000 registered individuals). With a focus on investment-orientated businesses, its clients range from substantial national and regional-sized firms to niche boutique investment managers and financial planners.

Wraps and Platforms

A WRAP is a type of investment platform that allows investors and financial advisers to consolidate and manage their portfolios through a single online account. A WRAP typically charges a fee based on the value of the assets held on the platform, rather than on the number or frequency of transactions. A WRAP can offer benefits such as convenience, flexibility, efficiency and tax advantages for those investors who have multiple investments across different providers.

An investment platform refers to an online service that allows investors to buy, sell, and manage a variety of financial instruments such as Pensions and ISAs within a unified interface. These platforms provide financial advisers and their clients access to a wide range of investment products, often including stocks, bonds, mutual funds, exchange-traded funds (ETFs) and more. A Platform can also provide access to a range of research tools and reporting features, that can help investors and advisers make informed decisions.

We do not exclusively use any single WRAP or platform to provide our clients with investment solutions. Each individual case is taken on its merits and where appropriate a WRAP or platform may be recommended, if it can be demonstrated that it best meets clients' needs and objectives.

Ethical Investing

Ethical investing, also known as socially responsible, sustainable or socially conscious investing, describes an investment strategy which seeks to maximise both financial return and social good.

We fully appreciate that there are a variety of different ways in which we can engage with ethical investing for those of our clients, for whom achieving a social good is just as important as a financial return. However, by heavily restricting the range of funds on offer, we are conscious this may put the average investor off. Invest Southwest's policy therefore is to offer the client an informed choice. By this we mean we do not advise on ethical investing by default, but we do where appropriate on a client-by-client basis.

Alternative Assets

Alternative assets are investments that do not fall into the traditional asset types, they are generally characterised by higher costs and less liquidity than traditional investments. Invest Southwest feel direct investment in Alternative assets is not likely to be appropriate for the majority of our clients. However for some high-net-worth individuals and/or sophisticated investors, or as part of a DFM or MPS portfolio, we accept they have several advantages and may be appropriate.

In particular, their returns have a low correlation with those of standard asset classes and are therefore very useful in diversifying portfolios.

Non-Mainstream Pooled Investments (NMPI)

NMPI are defined as "Pooled investments or funds characterised by unusual, speculative or complex assets, product structures, investment strategies and/or terms and features." They include:

- A unit in an unregulated collective investment scheme (UCIS).
- A unit in a qualified investor scheme (QIS).
- A security issued by a special purpose vehicle (SPV), other than an excluded security.
- A traded life policy investment.
- Rights to, or interests in, investments that are any of the above.

The FCA's view is that these investments are unlikely to be suitable for 'ordinary' retail investors (described as 'retail clients') who are neither sophisticated investors nor high net-worth individuals. These are the investors of more ordinary means and experience, who make up the vast majority of Invest Southwest's client profile.

We believe that such investors could face difficulty understanding the terms and features of complex financial products and are at particular risk in relation to inappropriate promotion of non-mainstream pooled investments. Therefore, such products will not be promoted or recommended by Invest Southwest at present but could be in the future. Our advisers are aware of how they work and can refer any specific requests or circumstances where they think they could be relevant to the Compliance Manager or Managing Director.

Sophisticated High Net Worth Investors

A high-net-worth investor is an individual or household with substantial financial assets and wealth. While there isn't a universally agreed-upon threshold, they typically possess significant financial resources in excess of average investors. The threshold for being considered a high-net-worth investor can vary depending on factors such as location, currency, economic conditions, and industry standards.

Clients with extensive investment experience and knowledge are better able to understand and evaluate the risk and potential rewards of unusual, complex and/or illiquid investments such as:

- Alternative Assets
- Non-Mainstream Pooled Investments
- Structured Deposits
- ETFs
- Investment Trusts

Invest Southwest recognise that financial experience and knowledge isn't necessarily dependent on wealth and so we take each case on its merits. Invest Southwest have identified that in order to bring complex products into a discussion, it is likely the clients will have an annual income of more than £150,000 and/or have investable net assets of more than £500,000. These criteria are subject to review.

Structured Deposits

In simple terms, structured deposits are a combination of traditional savings accounts and a stock market investment. The deposit is guaranteed to be returned in full on maturity and therefore it is only the interest that is at risk. Typically, interest depends on an index, stock or commodity.

Due to the cost of the guarantee, investors will not receive the full benefit of the return, nor will they receive dividends and calculating the interest is likely to be confusing. For these reasons, they are deemed to be a complex product and as such, structured deposits are unlikely to be suitable for the majority of our clients.

Product Governance

In a proportionate and appropriate way our aim is to understand the products that are available to our clients and in doing so identify which products are likely to be suitable for them. We review products regularly to ensure they remain suitable and offer our Ongoing Service clients a suitability assessment at least once a year.

Conclusion

As a fully independent firm, we consider a wide range of financial strategies and products and constantly review the market to ensure the services and products we offer are appropriate for our clients.

We believe the number and variety of products we consider are representative of the relevant products available. As a general rule, we aim to provide 'mainstream' products in most cases. This means that with a past proliferation of products such as 130/30 funds, absolute return funds, esoteric and alternative investments, complex tax mitigation products and guaranteed equity-linked funds, our position is to be sceptical as to their suitability to our clients.

We aim to stay true to core values of simple, time-honoured investment principles such as asset allocation, spread of investment, medium-long term investment horizons and the division of our client's portfolios. We only advise on the use of higher risk and reward solutions in very specific, strongly justified, individual cases. The adherence to the 'mainstream' philosophy is a risk avoidance strategy on behalf of our clients and our firm.

Since the inception of Invest Southwest in 2007, the often-turbulent investment climate has provided a stern test of our investment methodology. By consistently applying a scientific approach, our clients' portfolios have proven to be robust and balanced. In addition, we have been able to achieve excellent levels of understanding within our client base, due to the structured and clear process followed in our sensible investment strategy. Our success on behalf of our clients speaks for itself.

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