Investment Philosophy & Process:

Looking after your money

MARKLAND HILL WEALTH

Independent Financial Advisers

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GETTING STARTED

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 uncertainly as possible and to work with you to identify the most appropriate way for you to achieve your financial goals.

Our Investment Process is designed with that in mind. It creates a framework for us to discuss your needs and expectations, to assess and agree your attitude to risk and then to recommend an appropriate investment solution.

Before we make any investment recommendations it is important that our clients fully understand the beliefs that guide our approach. These beliefs, which we hold dearly, are an important foundation upon which we aim to build long-term relationships with our investors.

As a valued client we recognise that you have worked hard to accumulate the money you are about to invest with us. It is important that you read and understand this document as it will remind you in the future of the discussions we have at the outset.

OUR PHILOSOPHY

WHAT WE BELIEVE

It is important to understand the foundations and beliefs that underpin any approach to investing. We call this our Investment Philosophy. It is based on tried and tested principles that help us to deliver good outcomes.

SAVING VERSUS INVESTING

Everyone should have some readily available cash for rainy days, but if you want your money to work harder for you longer term, then investing in company shares, government bonds or commercial property (offices, shops and factories) or additional alternative asset classes may be the answer. However, you will need to commit your money for a longer time to be able to exploit the potential for higher returns - if you don't have enough time or are unable to tolerate the risks, then cash or alternative deposit based solutions may be the most appropriate option.

SET YOUR GOALS

All investors should set goals. For example, if you want to buy a house in six years' time, you may need to save a deposit of say £30,000. You may have a single goal, or multiple objectives over different time frames (e.g. building a pension, paying off your mortgage, helping your children onto the housing ladder). Once you have a clear plan you can then work out how much you need to save and invest to achieve your goals.

We will work with you to understand your objectives, your circumstances, your time horizon and investment experience. We will then present back to you a recommended portfolio and how it is designed to meet your needs.

RISK AND RETURN

We believe it is impossible to improve your investment return without taking more risk. There is good risk and bad risk and 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.

INVESTMENT HORIZON

There is an understandable desire to keep things safe when investing, but the corrosive impact of inflation means that standing still in absolute terms means you are going backwards in real terms (after inflation). The value of investing for the long term in more risky assets is therefore compelling. The table below shows real annual returns over different time periods for a selection of different UK assets (after inflation), (% per year).

Asset Class	2020	10 years	20 years	50 years	121 years
Equities	-10.5	2.9	1.7	5.3	4.9
Gilts	7.2	3.8	3.1	3.6	1.4
Corporate Bonds	7.8	4.3	3.2		
Index-Linked	6.3	4.2	3.3		
Cash	-1.0	-2.2	-0.5	1.0	0.7

Source: Barclays Equity Gilts Study 2021 - latest available

ASSET ALLOCATION

Academics will continue to argue about the precise amount of value that comes from strategic asset allocation (how much you have in equities or bonds or property or alternative asset classes) rather than stock selection (which equities etc.), investment style or market timing, but it is widely accepted that asset allocation has the biggest influence over the variance in portfolio returns. So that is where we focus our efforts in selecting your portfolio.

We believe it is important to understand that investing money is not a short-term exercise. We do not believe it is possible to “time” the market (trying to work out when it is going to go up or down). Staying invested through the peaks and troughs of the market is, in our view going to be a more rewarding exercise than trying to make predictions about when to dip in and out.

DIVERSIFICATION

Diversification is the principle of spreading your investment risk around. Our investment portfolios therefore hold the shares and bonds of many companies and governments in many countries around the world. Depending on your circumstances we may also invest in a range of fund management firms and products – again to help reduce the risk of having all your eggs in one basket.

The table below shows the best and worst individual markets over the last 15 years. The patchwork dispersion of colours shows no predictable pattern and helps illustrate why we believe it is pointless to try to predict which country (and which company in each market) will be at the top next year or the year after. A simple diversified portfolio is much less volatile – represented by the white box.

BEST	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
1	23.0	36.0	12.0	60.3	23.7	16.2	20.4	30.6	17.8	16.2	31.6	25.3	0.4	24.4	19.1	25.5
2	18.8	34.6	2.3	53.8	22.4	5.3	19.4	26.5	14.9	9.4	30.1	24.5	0.1	21.6	15.2	17.3
3	17.9	12.7	-1.8	47.9	19.2	3.9	16.6	26.3	13.1	5.6	26.0	17.8	-1.7	19.9	13.4	15.8
4	17.5	5.9	-9.8	30.5	17.5	0.0	15.4	26.1	10.6	5.0	23.3	17.4	-2.3	18.0	12.5	8.8
5	17.0	5.0	-15.8	23.1	17.2	-1.8	14.4	10.1	9.7	4.5	17.1	14.1	-2.5	16.8	9.7	5.6
6	7.2	4.0	-17.8	22.7	13.1	-2.0	14.3	8.0	6.9	2.5	15.7	11.2	-3.3	16.6	8.8	4.1
7	5.8	3.0	-18.6	19.5	12.6	-4.4	13.6	5.6	6.6	0.4	11.4	10.5	-3.8	15.3	7.6	1.8
8	3.3	1.7	-24.6	18.5	12.3	-5.3	12.8	3.5	3.4	0.2	11.2	7.1	-5.7	14.0	7.2	1.5
9	1.3	0.0	-25.4	14.7	8.8	-6.8	11.7	1.9	2.0	0.2	11.0	6.1	-8.8	11.1	6.5	0.8
10	-0.7	-0.1	-30.0	14.4	8.7	-11.3	7.5	1.3	0.9	0.0	9.7	5.2	-11.0	8.6	3.9	-0.1
11	-1.3	-0.2	-32.0	0.9	7.9	-15.4	3.3	0.2	0.4	0.0	8.6	5.1	-11.2	8.5	0.4	-0.5
12	-1.7	-11.2	-33.2	-2.7	6.4	-16.3	2.0	-3.8	0.3	-2.8	7.7	1.7	-11.8	6.4	-3.6	-1.9
13	-14.1	-14.5	-36.3	-3.5	0.3	-19.1	0.5	-4.9	-0.9	-9.2	0.3	0.1	-12.6	0.7	-6.7	-5.4

WORST

- Asia Pac ex Japan Equity
- Global Emerging Market Equity
- North American Equity
- European ex UK Equity
- UK All Companies
- **Equally Weighted Portfolio**
- Japanese Equity
- UK Direct Property
- Sterling High Yield Bonds
- UK Gilts
- Sterling Strategic Bonds
- Sterling Corporate Bonds
- Cash

Source: IMA as at 31 December each year end.
Figures show the median performance rise or fall of each asset grouping per calendar year.
Figures are net of charges (other than initial charges).
Past performance is not a reliable indicator of future returns.

COSTS EAT RETURNS

Over long time periods, high management fees and related expenses can be a significant drag on wealth creation. The charges taken by the fund manager can impact substantially on the fund returns, especially in flatter markets. For example, a portfolio with 1.5% a year of costs will erode your portfolio returns by around 15% after 10 years, while a high cost portfolio, with say 2.5% a year of costs, has eroded your portfolio returns by 25%.

At Markland Hill Wealth, we don't believe in a "one size fits all" approach. We will provide bespoke advice which chooses a strategy unique to you and your own individual circumstances, but where similar portfolios exist to meet your needs, a lower cost option would be considered first.

TAX AND ACCESS ARE IMPORTANT

Making investments tax efficient is a sensible objective and wherever we can we try to reduce the tax your investments will pay. Use of pension wrappers and ISAs will assist in this objective, and on occasions alternative tax strategies. We may use new technology platforms, known as wraps or fund supermarkets, to hold your investments. These offer safety, access to your valuations (so you can see how your investments are doing) and tax wrappers (pensions and ISAs for example). They also allow us to move your money between funds cost effectively if we need to in future.

ACTIVE, PASSIVE OR BLENDED?

Investment funds are often categorised as active or index (sometimes called passive investing). An active fund manager is one who makes decisions about holding one investment over another. They try and beat the markets or their chosen benchmarks. Index funds are willing to accept the market rate of return and enjoy smaller fees than active funds.

Research shows that:

- The *average* active fund will do worse than the market because they are paying the highest fees, but some managers have demonstrated the ability to add value over time. Our due diligence process helps to identify the most successful managers.
- The average index fund will perform slightly better than the average active fund because their fees are lower.

We will recommend passive investments because of their lower costs. We will also offer actively managed investments where the historical outperformance (versus passives) justifies the higher fees. We also consider investment managers who actively manage a range of passive funds for a blended approach.

Above all, we believe that a discussion should take place to explain the options at the time of investing, and we work out a bespoke plan to suit your needs, together.

HUMANS OFTEN BRING EMOTION TO INVESTING

While evolution has served the human race well over many thousands of years, it has left us with some behavioural traits that make us poor investors. Left to our own devices we tend to buy shares after the market has gone up (when we feel confident), and then sell them after they have fallen (when we feel disappointed). This of course is the wrong way around (we should buy after the fall and sell once they rise). Studies have shown that this so-called "behavioural bias" costs the unwary investor around 2% a year in returns. Our long-term approach to investing will help you avoid this, and other common errors. There are philosophies called contrarian investment strategies which could be a solution to this, along with index funds.

INVESTING RESPONSIBLY THROUGH ETHICAL, SOCIAL, GOVERNANCE (ESG)

While the concept of ethical investing has been around for decades, awareness amongst investors is at an all time high with one out of three of our clients choosing to invest in an ethically screened strategy.

During a difficult social and economic period, greater focus has been placed on how businesses treat both their employees and suppliers. As a result, sustainability and governance considerations have been propelled up the corporate agenda.

Sustainable, ESG-related investing is growing in popularity across all segments and is likely to become the expectation rather than the exception in the coming years.

For those interested in considering ESG investments, ISAs, and pensions, we have access to the whole of market including a host of household names and can offer solutions to match both your ethical beliefs and your risk tolerance.

On top of your own ESG preferences, Markland Hill Wealth has written and implemented its own policy as we endeavour to act as a responsible business with care and kindness. As this is an active policy, please do ask us about what we are doing to act responsibly at any time.

CAN VALUE AND SUSTAINABILITY CO-EXIST?

This is a real life concern for investors. You may want to choose an ethical approach to investing, but you still want your investment to grow and derive value for your personal wealth portfolio.

Our investment partners operate multi asset sustainable portfolios which look for value whilst ethically screening their chosen investments. History shows that the impact of screening to exclude companies that don't meet ESG criteria has had minimal impact on investment returns.

Moreover, many of the themes in ESG investing match the predicted global growth themes in world economics.

We have specifically chosen investment managers who actively engage with screened companies through investment cycles to ensure they are constantly screening, making a positive difference to the world and performing as an investment option.

Your financial adviser will discuss these areas with you during the advice process.

Our enhanced suitability and ESG components of our investment and risk profile tools allow us to confidently understand any ethical preferences you may have which progresses through to our comprehensive research systems which have full whole of market ESG research capabilities.

OUR INVESTMENT PROCESS

We believe that the role, and the skills required for financial planning are very different to those needed to be an investment manager. We are expert financial planners concerned with tax planning, product wrapper knowledge, the ability to build cash flow models and build long term goals and plans for customers.

The scale and resource required to be a successful investment manager in today's global markets (equities, currencies, bonds, property etc.) is huge and, in our opinion, best left to those who have built expertise in this area. We therefore split responsibilities between ourselves and our carefully selected investment managers.

FINANCIAL PLANNER	INVESTMENT MANAGER
Your financial adviser is responsible for collecting information about your financial position, creating a plan, assessing your risk profile and tax situation. They then build an appropriate "mandate" that meets your long-term needs. They review and assess progress towards your goals, oversee the investment manager and keep you on track.	A fund manager is responsible for building a portfolio in accordance with the mandate set by the financial adviser. They use their skill and judgement to manage your portfolio to try to maximise your returns for a given risk profile.
Assess your need for an investment portfolio	Set the long term (Strategic) asset allocation to meet the risk profile of the selected portfolio.
Assess and advise on your investment objectives, risk profile, capacity for loss, need for risk on an ongoing basis.	Ensure the portfolio stays in line with the agreed risk parameters.
Research, appoint and monitor a suitable platform and your investment manager.	Identify, research and monitor investment opportunities.
Ensure that you are aware of the risks associated with the proposed solutions.	Review the asset allocation strategy, make tactical decisions, manage and switch the underlying funds on an ongoing basis.
Assess the overall affordability of the service and investment manager.	Provide performance and risk analysis.
Provide ongoing planning, tax management, cashflow reviews to ensure you stay on track.	

OUR PROCESS

Over the years we have built and refined a process to help you achieve the outcomes you want. While there is much behind the scenes work and ongoing analysis to constantly improve our approach the steps below give you an outline of what to expect.

GETTING TO KNOW YOU *(AND YOUR GOALS)*

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

Our fact find is wide-ranging to ensure that the advice we will give you is soundly based. As well as exploring 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.

We are also likely to use a cash flow modelling tool. These are powerful tools that can model your income, expenditure and assets over time. They present a simple “picture” of what the future might look like.

This helps us both understand if you are saving enough, what happens if things change, and importantly whether you will run out of money.

TAX PLANNING

Once we have established your financial goals, we can begin to determine the most appropriate financial products and solutions to meet your needs. 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. As well as pensions, ISAs and bonds, you may also want to consider life protection and critical illness policies, depending on your circumstances.

For most of our clients we recommend investing through a 'wrap platform'. This allows you to hold, monitor and manage all your investments in all your tax wrappers in a single place. In just the same way that supermarkets changed the face of shopping, the investment platform offers improved convenience, choice and value for money.

RISK

As one of our guiding principles, Risk Profiling is the means by which we ensure the connection between your attitude to risk, tolerance to loss and volatility, your time horizon and the portfolio we recommend.

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 several factors.

They include:

- How long you want to invest for, and time horizon for each goal
- How much cash you need to meet unexpected circumstances
- What level of growth you expect / need to receive
- How much money you want to invest and whether you have any debts
- The level of risk you are comfortable to take to achieve your goals
- The level of short-term fall in the value of your portfolio you are willing to accept
- The importance of protecting your investment from the effects of inflation
- 'Access': If you need to draw income or a lump sum from your investments

To establish your attitude to investment risk, we will ask you a series of questions.

Each answer produces a score, and these are then aggregated to calculate your risk level, from one to ten (one being low and ten being high). We call this your natural risk profile score.

THE IMPORTANCE OF A RISK "CONVERSATION"

Your 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 low, then investments such as cash or bank deposits could be the resulting investment recommendation. If your score is high, then we might recommend a portfolio which includes investments in asset classes such as emerging markets, whose higher expected volatility (ups and downs) is matched by greater growth potential.

Before proceeding to make recommendations based on your score, we want to be sure that you understand what that 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. Whatever the result of that initial discussion, we will carry out the same process as part of any review to ensure that your circumstances have not changed and that your attitude to risk remains the same.

THE INVESTMENT FOUNDATIONS

'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 focus. These asset classes typically include cash or money market investments, UK fixed interest, international fixed interest, property, UK equity and international equity.

Different types of assets have different performance and risk 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 risk profile and your performance expectations.

Diversification is crucial to our service as it allows us to either maximise the return for a given level of risk – or minimise risk for a given level of targeted return. In simple terms we spread your investment "eggs" across many baskets.

You should be aware that even with this level of expertise behind us, we still can't guarantee that the volatility range of an asset allocation will not be breached occasionally. As with all types of investment, there is always the possibility of exceptional market conditions, due to unanticipated external events.

BRING IT ALL TOGETHER

YOUR INVESTMENT PORTFOLIO

Once the asset allocation stage is completed, we need to choose (or outsource to an expert fund manager the selection of) 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, With Profits funds, Annuities, Investment Trusts, Exchange Traded Funds (ETFs) and Hedge Funds.

There is growing evidence that cost is a key driver of investment returns. This leads us to conclude that your portfolio will likely be best served investing in a blend of active and low-cost passive or index funds. In some markets e.g. Emerging Markets there is value in choosing actively managed funds whereas in other asset classes e.g. UK Government Bonds passive funds can be a better option.

Additionally, we recognise that no manager will excel in all market conditions. This view underpins the need for sensible diversification across markets, region, funds, managers and management style. All of this within a well-disciplined risk management approach.

We also have access to “with profits” or “smoothed return” funds. As the name suggests these try to reduce the volatility (ups and downs of market returns).

However, this “smoothing” comes at a cost, which means in the long run your returns will be lower than a similar risk fund without smoothing. We will often blend a smoothed fund with a range of other funds to try to achieve the best of both.

We will most often outsource the day to day management of your portfolio to a specialist fund manager.

We will ensure that the way they manage your portfolio and the risks they take are in line with your needs.

This way we can spend our time working with you on planning and achieving your goals, and the investment manager focusses on the day to day activity of selecting, switching and rebalancing your portfolio within an appropriate framework.

OUR SOLUTIONS

For smaller or simpler investment portfolios we may choose a "one stop shop". For example, AJ Bell and Aviva platforms with investment solutions. These are good value and well managed.

For larger or more complex needs we are likely to recommend a manager or combination of managers. This might be a blend of more than one "fund of fund" (a portfolio of different funds all wrapped up in one bigger fund), or a Model Portfolio Service – where an external manager looks after a wide range of funds inside different tax wrappers.

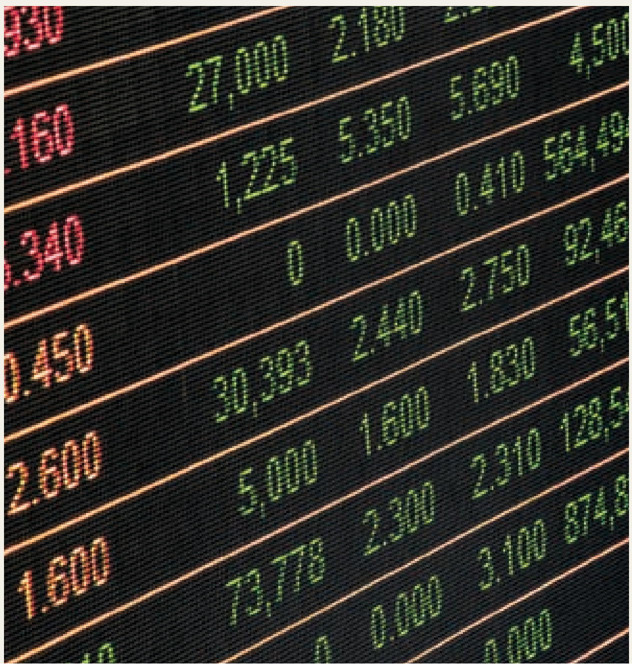
We have selected a range of different managers to run the funds and models for us. We specify the requirements and regularly review the performance to ensure the model portfolios are performing well, are aligned to the risk profile we set and to oversee the underlying investment decisions. This allows us to ensure the models are run in the way that we have agreed with you.

Example model portfolio managers include Brewin Dolphin, Brooks MacDonald, Schroder Investment Solutions and Tatton Asset Management. These are very competitively priced, have a wide range of funds and assets included (typically between 15 – 20 funds) and are managed to stay closely in line with a given risk profile. They have an excellent track record.

For most clients, except those with very simple needs, we will use a wrap platform to make the management of your portfolios, switching between tax wrappers and the payment of income much more efficient and effective for you.

If we identify specialist investment needs e.g. the need for very low risk investments, ethical portfolios or specialist tax advantaged funds e.g. VCTs, we will use the appropriate solution.

Also, for trust fund cases we may use a tax efficient wrapper (e.g. a life insurance investment bond) to hold your investments.



SAVING UP AND DRAWING DOWN

It is important to note that there are some important differences between the approach we adopt in your accumulation (saving up) phase and your decumulation (drawing down) phase.

Saving up is typically about investing as much as you can afford over as long as you can to boost your final investment amount – taking into account your tax position and risk profile (attitude, capacity and need for return). This is a relatively simple process with well understood risks.

The decumulation / drawdown phase is more complex. Additional risks e.g. sequence of return, inflation and longevity (risk of living too long) come into play.

The use of cash flow modelling becomes very valuable to show clients the interaction between withdrawal rates, investment returns, inflation and longevity in a simple pictorial form.

Our research and analysis show that having a single rigid portfolio is not the best way to manage a client's investments. We are trying to match a series of future income payments (liabilities) with the most appropriate investment (assets).

Near term income needs to be certain and there is typically little room for higher risk investments, whereas income requirements 20 years hence should be backed by real assets (equities).

The need to manage the income payments, to monitor changing annuity rates and to draw income from the most appropriate investment in a tax effective way leads us to two conclusions for our drawdown clients:

1. A platform that can manage the payment of regular, tax effective income payments, allow switching between tax wrappers and multiple investments is crucial.

2. The investment solution for clients should be broadly split into three segments:

   a. Early retirement / drawdown
   b. Mid retirement / drawdown
   c. Later life retirement / drawdown

Your retirement spending aspirations will be extensively analysed – note that basic expenditure that does not include leisure or holidays is unlikely to be considered a suitable baseline need!

The amount of income required from investments on top of guaranteed sources (i.e. state pension, DB, annuity incomes) needs to be calculated. The greater the % of guaranteed income as a proportion of total income, the greater the capacity to accept investment risk.

We are likely to recommend a cash buffer to any investment income of 12 months income plus any capital expenditure planned in the next 5 years. This may be held off platform to avoid capital erosion through fees unless the platform offers competitive interest rates / reduced fees.

We may consider targeted solutions offered by companies such as Canada Life or Investec Investment & Wealth, where your income requirements are specific and suit these types of strategy.

KEEPING AN EYE ON EVERYTHING

A key role for us as your adviser is to monitor, report and oversee your portfolio.

We will provide regular updates to you.

We will monitor the performance of underlying investment managers and suggest changes if necessary.

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 they represent will change and this could result in a divergence from your original risk profile.

A key role of our investment managers is to monitor each portfolio and rebalance them to ensure they stay in line with your risk profile. This is something often done automatically by the investment manager.

We continually assess our recommended investment solutions including:

1. The asset allocation input for our portfolios
2. The performance of the portfolios
3. The overall costs of the portfolios
4. The performance / appropriateness of the underlying funds in each portfolio
5. Updates to funds and platforms

Your investments will be monitored and reviewed regularly according to the level of service and payment you agreed at the beginning of our relationship.

We will provide reports at least annually to show the overall performance of each portfolio and in the majority of cases you will be able to log on to your platform to gain this at any time.

Periodically we will ask you to complete a further risk-profiling questionnaire so that, if your risk profile score has changed, we can realign the asset allocation of your portfolio accordingly.

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