PENSION MATTERS

A guide to OUR INVESTMENT PROCESS

Contents

Introduction

Why choose us as your investment partner?

We are a boutique and therefore not for everyone, our primary aim is the preservation of client's capital value coupled with a desire to optimise returns within each client's stated risk zone.

We are structured to provide you with a personal and individual service, we do not believe in a one size fits all philosophy and aim to provide you with an ongoing investment proposition that can be modified as often as you need it to be.

Paul

Paul Steel **BA (Hons), FCII, FPFS**
Chartered Financial Planner

Your portfolio management service

Should you engage our service we will provide you with regular valuations to ensure your funds are progressing to your satisfaction.

This also allows us to make the necessary amendments to fund selections if required – something I would suggest is increasingly important due to the volatile nature of world markets.

Our service ensures that your investments remain appropriate to your needs, which is critical the nearer you get to calling upon your funds. This service ensures that you are repeatedly made aware of your financial position so you can review your overall financial strategy accordingly and consider any changes in your circumstances or attitude to investment risk.

Full details of our different service packages are available in our 'Portfolio management service agreement'.

Boutique organisations are typically focused on a single investment strategy. They tend to have a nimble investment process and the right alignment of interests with clients".
Financial Times Fund Management Review 23 May 2011

We believe that ongoing fund management is at least as important as the work we initially carry out for you. We will automatically include you in our portfolio management service and our fee structure reflects the long term nature of our relationship.

The easiest way to make money from investments is to reduce management charges and jettison underperforming funds.

Our investment philosophy

In developing our portfolios, we reviewed many different methods of investing and no matter how many techniques, systems or ideas we looked at we came back to the only set of sound investment principals that have been proven to work over the long term.

Our strategy has been developed around the theories of Professor Harry Markowitz who won the Nobel Prize for economics with his award winning 'Modern portfolio theory'.

The Markowitz model is a systematic technique for building an investment portfolio and adjusting it over time to ensure it meets the required objectives. It does not attempt to time the markets, so is not affected by short-term fluctuations in investments. The model develops a portfolio, based upon sound asset allocation rules, and then invests into investments that meet the allocation.

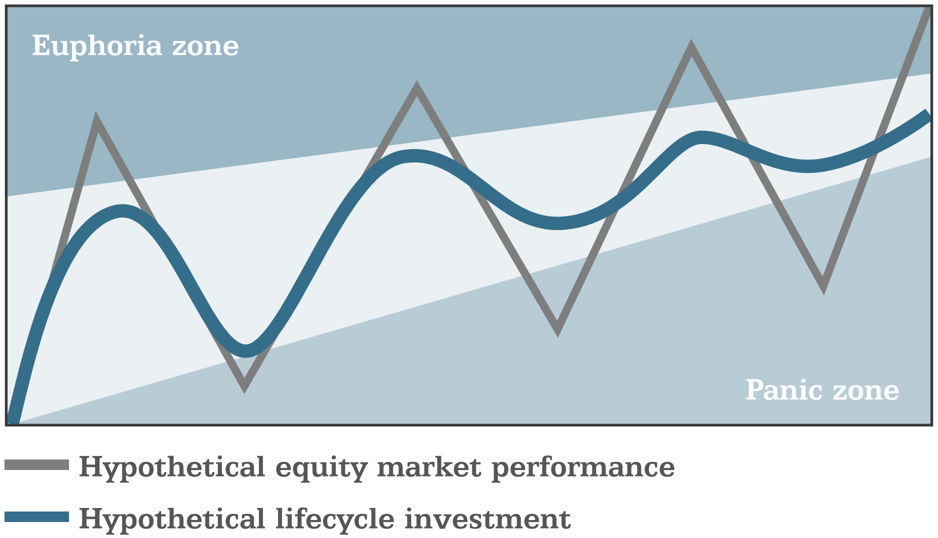
Your views on investment risk

Some investors perceive an asset class such as cash as having no risk, in fact it does.

The risk is that overall goals and objectives may not be met as exposure to high performing equity markets will be lost and the value of cash becomes eroded by inflation.

Everyone is different; some people are prepared to take a higher risk with some assets (such as an investment portfolio) than with others (such as a pension fund which they see as long term security) whilst other investors regard all their capital in the same way.

An investor's comfort zone narrows over time



Source: Fidelity illustration

It is attitude to risk that is perhaps most significant in assisting us in determining a suitable home for your funds. As approach to risk is very much a subjective process, it is certainly not an exact science, it is for this reason that we ask you to complete our risk profiler to assist in providing us with a more objective understanding of your attitude to risk.

Usually the following is the case... but you might be different!

Five stage investment process

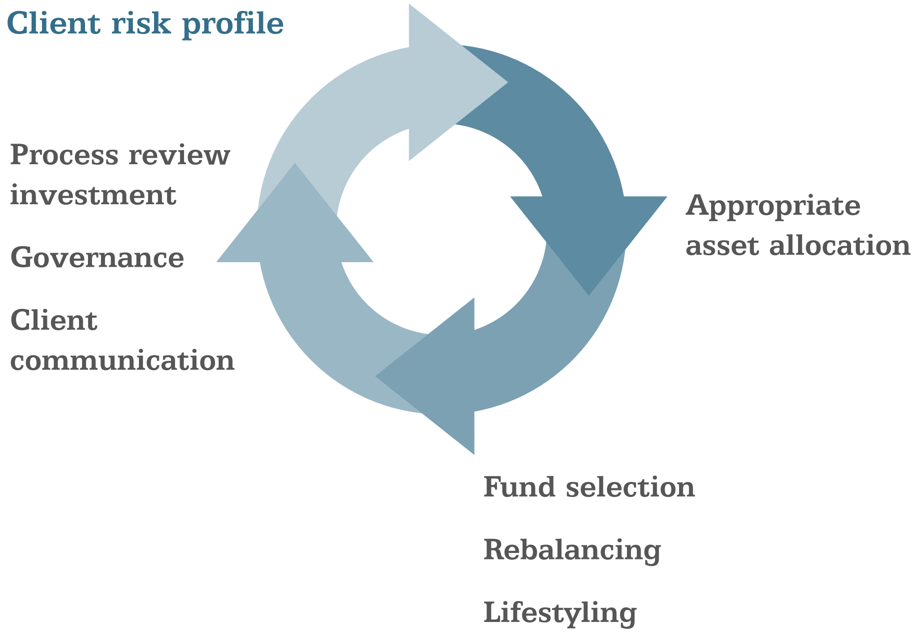
1. Financial goals and objectives
Whether you seek our investment advice for capital growth, income or a combination of the two, we will initially wish to articulate your longer term financial goals and what you wish to achieve with your funds.

2. Risk profiling
The degree of risk you are prepared to take with different parts of your capital will fundamentally shape the types of investments that we recommend to you. We use a risk profiling questionnaire and specialist software designed to uncover your real attitudes towards investment risk.

3. Asset allocation
We will than use our strategic asset allocation tools to determine the optimum percentage of investment in different asset classes and investment sectors. This becomes our initial position for your portfolio; we then rebalance their portfolio on a regular basis and amend your asset allocation as time, your circumstances and attitude to risk change.

4. Fund selection
Whilst our focus is firmly on asset allocation we never underestimate the importance of a robust fund selection process. We use specialist research to review our preferred fund managers on a regular basis.

5. Review
Investment decisions are an evolving rather than isolated decision and reviews should be undertaken on at least an annual basis. We will regularly review and recommend appropriate amendments to your investment strategy.



Optimising portfolios

An optimal portfolio is the mix of assets that maximises portfolio return at a given risk level.

In our illustration below we are combining two asset classes: bond and equity. Although bonds are considered less risky than equities, the 'minimum risk portfolio' does not consist entirely of bonds. The reason is because equities and bonds are not highly correlated; that is, they tend to move independently of each other. Sometimes equity may be up while bonds are down and vice versa. These offsetting movements help to reduce overall portfolio volatility.

As a result, adding just a small amount of equity to an all bond portfolio actually reduces the overall risk of the portfolio. However, including more equity beyond a certain point causes both the risk and return of the portfolio to increase.

Adding other investments such as cash, property and alternatives will diversify risk and return further.

The final frontier – efficient portfolio diversification

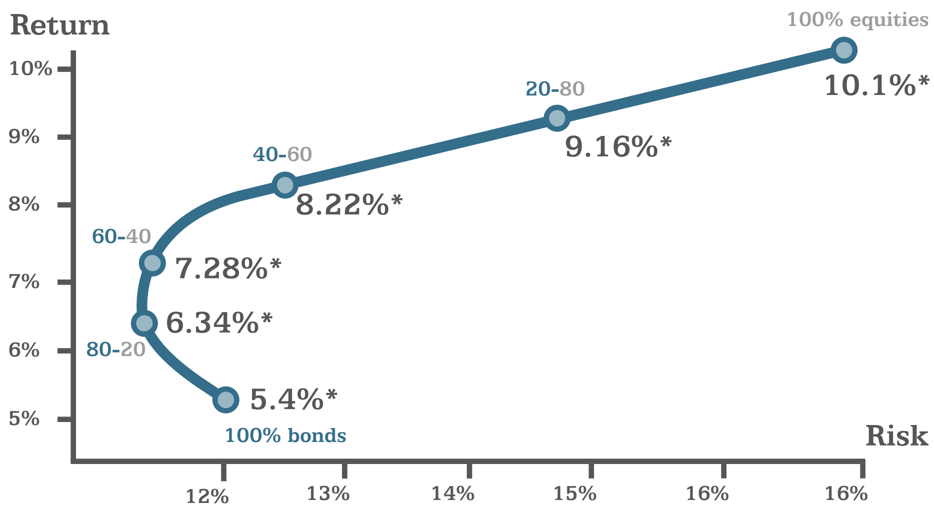
Markowitz demonstrated that for every level of risk it is possible to construct an investment portfolio that delivers maximum investment return commensurate with that level of risk.

For a particular investment portfolio we can illustrate the potential return and the risk (volatility). Different portfolios will give different risk return results. In fact, if you calculated all the different portfolios that gave you the same amount of risk, some would give a better return and inevitably, one would be the best. The portfolio giving the best return for a particular level of risk is considered the most efficient.

Those portfolios which are on the line where risk meets return are said to define the efficient frontier. Our investment philosophy and analysis uses frontier methodology to provide a range of investment portfolios that seek to be efficient whatever your attitude to risk.

A key principle of our investment approach is that we consider the risk level of the portfolio as a whole and not the individual assets within it in isolation as the benefits of diversification reduce the risk.

Fixed and growth assets: risk versus return1900 - 2000.



***Average returns 1900 to 2000**

Asset allocation

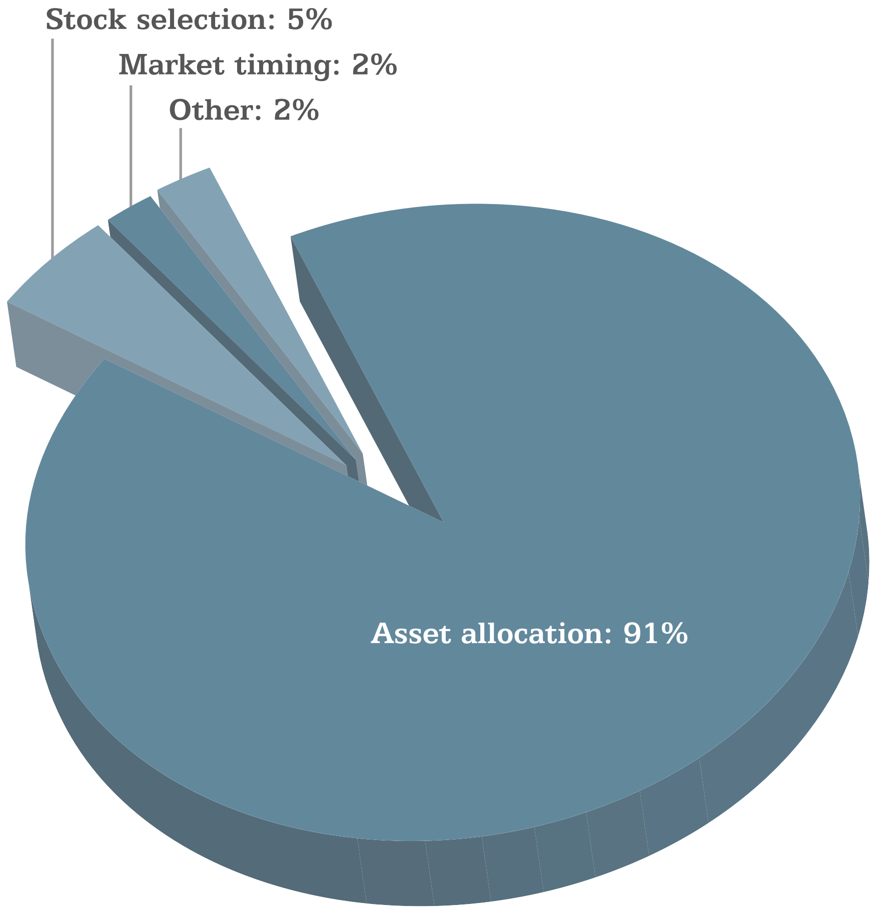
Getting the ingredients right

Historically, investment decisions taken by advisers focused on which particular funds to choose, regardless of what asset class or sector a fund was in.

However, investment research has repeatedly shown that in the majority of circumstances asset allocation is the critical factor in determining investment performance over the longer term. The government sponsored Sandler Report stated in the strongest terms:

The asset allocation decision is by far the most important factor in determining returns.

Determinants of return



Source: Brinson Singer Beebower 1991

Asset allocation Continued

What do we mean by asset allocation?

Asset allocation and correlation, for example; individual investments in the same asset class tend to be highly correlated. This means they will largely react in the same way to economic and market changes. For example; if one managed fund drops, all will drop to a greater or lesser degree. If bond funds drop all bond funds will tend to drop.

This is why a mixture of asset classes in the appropriate percentages – asset allocation – is particularly important, so that your portfolio is holding a range of assets that are not highly correlated, for example; when equities tend to fall, bonds tend to rise and vice versa.

Diversifying your portfolio can reduce risk, yet still provide you with the opportunity for investment growth and good longer term returns. Diversity between economic sectors such as shares and bonds but also geographic diversification so we invest not only in the UK, but also across Europe, USA, Asia and to a lesser degree in emerging markets.

Asset allocation will vary between investors, but will primarily be decided by three factors.

1. The length of the investment term.
2. Investment goals and objectives.
3. Your attitude to risk.

Before we begin to consider the underlying assets within your portfolio and their associated charges we must determine your attitude to risk and the likely timeframe you will hold your investment, this will provide us with an appropriate asset allocation.

Over time the asset allocation model reduces your exposure to market risk and potential returns are sacrificed in exchange for capital security which usually becomes a greater priority as you approach retirement. After agreeing an appropriate asset allocation there is the question of whether to opt for active or passive investment management.

Active versus passive investing

The investment world is always a lather with debate as to what is the best investment style and as circumstances and technology drive change at an unprecedented pace there is seemingly no end to the esoteric permutations that are developed as the next biggest and best way of investing your money.

Without doubt one of the major contests in recent years has been between the advocates of passive investing opposing their active management counterparts.

The clue is in the name, active managers are using research and analysis to help them decide what shares they want to hold within their portfolios, this can involve analysing company accounts, meeting company executives as well as looking at the broader market within that sector and the prospects for it in the near future. The fund manager will use his stock selection skill to try to outperform his competitors. This might be based on superior market knowledge, better research, contacts or simply more sophisticated financial modelling techniques.

Passive fund management makes no attempt to distinguish between 'good' and 'bad' companies, predict market movements or forecast future share prices, it simply replicates the chosen market, which is usually composed of the strongest companies in the economy. 'Passives' offer several advantages over actively managed funds, for a start they don't really require any managing at all, most of the trading is automated and it is the simplicity and transparency that makes 'passives' appealing. They can provide huge diversity and you know what you are going to get in terms of returns by looking at the index they are tracking.

Passive funds are also comparatively cheap to run and annual management charges of less than 0.5% per annum are now common, compared to actively managed funds which can comfortably charge you 1.5% annually.

Active versus passive investing Continued

So which do we prefer?

Whilst our belief is that there is a role for both methods within a portfolio we are more involved in having funds actively managed on behalf of our investors. For the simple reason only actively managed funds have the potential to produce above average returns and part of our role as the guardians of your investment is to ensure you remain in those funds with the greatest potential.

With 1,894 funds to choose from just the 'UK all companies' sector alone, the odds of picking the best fund three years in a row are: 6,794,224,983 to 1.
Source: Skandia February 2009

Investment options

Our investment options range from the relatively simple 'off-the-shelf ' choice of portfolios to a fully customised solution. You can invest in one of our specially developed risk-graded portfolios, so we can create and manage for you an investment strategy by selecting from the whole range of investment opportunities.

Governed portfolios

Our nine readymade risk graded portfolios take care of matching your strategic long term financial objectives with the appropriate asset allocation for your personal risk profile.

All of our governed portfolios come with regular quarterly reviews by an independent Investment Advisory Committee to ensure managers are performing and asset allocation covenants are being met as well as providing some tactical short term investment direction.

Stock market content

All of the governed portfolios contain an element that is invested in world stock markets. The percentage as a total of your portfolio can vary from 90% down to 15% depending on your attitude to investment risk and the length of time until your retirement.

As this is a significant proportion of your total portfolio and the proportion that is going to provide the engine for growth we feel the selection of appropriate stock market funds is critical to the success of the governed portfolios.

We therefore employ our own investment process to this portion of your governed portfolio that involves analysis your stock market holdings and an annual review of all the equity funds available within the governed portfolios. This gives you a more diverse holding across world stock markets and has the potential to enhance returns above the default benchmark global equity fund. We then recommend the appropriate fund switches at your next review.

By actively managing the equity content of your governed portfolio we are achieving a balance between active and passive investment styles at a very competitive cost to produce the best of both management techniques.

Governed portfolios Continued

Portfolio governance

Governance is a standard feature of our governed range of portfolios run for us by a leading investment house; governance comes without charge for our clients.
If governance sounds rather important, that's because it is! At its simplest, it is the framework established to ensure decisions are taken in your best interests as an investor. Naturally, we place a great deal of emphasis on this robust process that covers all of the investment options; it is an integral part of our proposition and ensures you have an additional level of responsibility for your portfolio.

All of these additional benefits along with automatic rebalancing are at no extra charge. Governed portfolios are therefore a cost effective method of providing you with active asset allocation and fund selection for a very modest management charge.

Lifestyle strategies

The lifestyle strategies are designed to reduce investment risk over time by gradually switching from higher to lower risk Portfolios over time, yet flexible enough if you want to offer a tailored service so we can create your own lifestyle strategy within a disciplined framework if required.

Over the years towards your retirement the risk profile of your Portfolio will gradually be reduced so that by the time you wish to begin taking your benefits your funds you may well be 100% on deposit and therefore protected against any adverse market movements near retirement that could have an impact on your income for the rest of your life.

Essentially as an investor in one of our governed portfolios you receive:

- Regular reviews and valuations.
- Governance and oversight.
- Personal risk adjusted investment strategies.
- Competitive charges and all free switches.
- Total flexibility, no lock ins or fixed terms.
- Fund choice and active management.

Our managed portfolios

How they can work for you

As you are aware investment is all about the balance between risk and reward. The return from an investment is the economic reward paid for accepting a certain degree of risk. For a riskier investment you would expect a greater reward because the possibility of losing money is greater. It is an investor's willingness to accept risk that is by far the most important factor in determining long term investment returns.

For financial advisers, a core skill is agreeing with you our client, the level of risk you can accept from your investments. This can be complex, requiring an analysis of matters of economic fact and personal preference and it is only with this analysis that a suitable investment strategy can be determined.

We assist with this process in two ways. Firstly we have developed a psychometric questionnaire and discussion document which produces a risk score from one to ten.

Secondly, we ensure that all of our different investment solutions offer a consistent pattern of expected risk and return, irrespective of the underlying differences in investment style and philosophy.

This means that having agreed a suitable level of risk, you can choose from a variety of different investment styles secure in the knowledge that the recommended portfolio will have the appropriate level of risk that you are comfortable with and also have the potential to produce returns required to meet your longer term financial objectives.

Our managed portfolios Continued

Risk ranges

Our investment portfolios are built using well established risk control techniques based around varying exposure between growth and defensive assets.

Using a historic analysis of different asset classes, such as UK shares or property we can determine an optimised weighting to each asset class for any given level of risk. For example lower risk portfolios will have a higher weighting in less volatile assets such as cash. We define risk in this instance as the volatility of the investment, that is the amount by which an investment return fluctuates over time and to measure this we use the normal statistical measure of Standard Deviation.

A high Standard Deviation means past returns vary more widely from their average return are therefore considered more volatile. A low Standard Deviation means returns have been consistently closer to the average for that asset class and are therefore considered to have low volatility.

By using benchmarks for a broad range of investment classes, we can plot a range of portfolios made up of different combinations of asset classes with different volatilities from 2% per annum to over 20% per annum. As a result of this, we define a range of permissible volatilities or a risk map, for all our investment solutions.

The results of this process are demonstrated in your portfolio factsheet that accompanies this report. Your factsheet will quote for each risk graded portfolio, the average annual return, the volatility or standard deviation of the risk grade's return and the maximum annual gains and losses. This data can be used by you to ensure that you are comfortable with the recommended portfolio's anticipated pattern of risk and return.

Why we are recommending Parmenion Asset Management

Our portfolios are managed by Parmenion Asset Management who we have given a discretionary mandate for our ten risk graded portfolios, specifically constructed to meet the requirements of our clients in line with our own asset allocation strategy.

The portfolios are available across the full range of investment products, ISAs, bonds, pensions, offshore investments or general investment accounts, enabling ongoing investment management to be undertaken regardless of changes in your personal circumstances or requirements.

Our discretionary portfolio management service allows us to provide you with a complete investment review and reporting service on demand with periodic valuations and annual tax reporting which can be downloaded at valuation time or on an arbitrary basis if required at no additional cost to you.

Our managed portfolios Continued

Discretionary fund management

The cost of the Parmenion service varies depending upon the type of Portfolio but are very competitively charged.

By utilising the Parmenion Model Portfolios you can benefit from discretionary fund management, something previously the preserve of those wealthier clients considered by IFAs to be worthy of such a service.

The competitive costs permit us to promote the Parmenion proposition to you on, the addition of active management based on structured research more than outweighs the additional cost of using this system as a part of our portfolio management service.

Your personal portfolio will be selected in accordance with your attitude to risk with due regard to your medium to long term financial objectives and will contain a blend of different asset classes.

Each sector maybe composed of a number of funds (we have 40 selected funds currently within our portfolios) and these will change at times of review which is usually quarterly.

Risk Grade	Managed Liquidity	Fixed interest	Property	Equity Income	Equity Growth	Specialist Equity	Total
1	80%	20%	0%	0%	0%	0%	100%
2	25%	55%	10%	5%	5%	0%	100%
3	15%	55%	10%	10%	10%	0%	100%
4	15%	35%	10%	25%	15%	0%	100%
5	5%	30%	15%	25%	25%	0%	100%
6	0%	25%	15%	25%	25%	10%	100%
7	0%	10%	15%	25%	35%	15%	100%
8	0%	0%	15%	20%	35%	30%	100%
9	0%	0%	10%	20%	30%	40%	100%
10	0%	0%	0%	0%	35%	65%	100%

Our managed portfolios Continued

Active versus passive investment management styles

The investment world is constantly debating what is the best investment style and as circumstances and technology drive change at an unprecedented pace there is seemingly no end to the esoteric permutations that are developed as the next biggest and best way of investing your money. Without doubt one of the major contests in recent years has been between the advocates of passive investing opposing their active management counterparts.

The clue is in the name, active managers are using research and analysis to help them decide what funds or shares they want to hold within their portfolios, this can involve analysing company accounts, meeting company executives as well as looking at the broader market within that sector and the prospects for it in the near future. The fund manager will use his skill to try to outperform his competitors. This might be based on superior market knowledge, better research, contacts or simply more sophisticated financial modelling techniques.

Passive fund management makes no attempt to distinguish between 'good' and 'bad' companies, predict market movements or forecast future share prices, it simply replicates the chosen market, which is usually composed of the strongest companies in the economy. Passives offer several advantages over actively managed funds, for a start they are cheaper for investors as there is no day to day management or research to pay for, as they don't really require any managing at all, most of the trading is automated and it is the simplicity and transparency that makes passives appealing. They can provide huge diversity and you know what you are going to get in terms of returns by looking at the index they are tracking.

So which do we prefer?

Below are examples of returns over the last 20 years to 30 December 2014 for the 'strategic passive' style portfolios to provide you with an indication of the volatility and the potential maximum loss you could experience in any given portfolio, all of which is dependent upon the level of risk you are prepared to take.

Portfolio risk grade:	1	2	3	4	5	6	7	8	9	10
Average annual return	4.79	5.75	6.69	6.98	7.49	7.70	7.72	7.65	7.58	7.60
Average volatility	2.46	3.32	4.29	5.41	8.17	9.67	10.65	13.22	14.69	14.47
Max annual gain	9.36	11.78	14.35	15.58	18.54	20.12	21.70	30.72	35.22	33.94
Max annual loss	-0.10	-2.38	-4.66	-7.64	-13.60	-16.58	-18.67	-22.85	-24.94	-23.25

Our managed portfolios Continued

Your personal portfolio

Should you decide to proceed further the actual asset allocation of your portfolio and the initial constituent funds will be determined by your financial objectives and clearly documented on a personal illustration and investment management report we will produce for you. This allows you to make a fully informed investment decision to ensure that our investment approach is right for you before you commit any funds.

Similarly you are not compelled to stay with us for any minimum time period, should you for any reason find that our investment process is not to your liking, you may leave us at anytime without cost or penalty – it is up to us to continually prove our value to you.

Guaranteed funds

In the same way that you would insure your car or your house, you can pay an insurance premium to protect your fund against loss. If you wish we can offer investment strategies that will protect your investment portfolio against loss.

While such a strategy may limit your returns in the longer term, protection against loss can be a valuable asset, as can the certainty of a guaranteed income in the future.

Advantages of guaranteed portfolios include:

- Your fund is guaranteed not to fall in value.
- The guarantee of an income for life.
- You can provide a specific income for your spouse.
- Worry free investment portfolios – no risk!
- Potential for increasing income every year.

Every year your fund can be reassessed and either your income remains the same for the following 12 months if your fund has experienced no growth or if your fund has grown, so will your income and the value of your underlying fund. It is this ratchet effect for your income that is possibly the biggest attraction.

Although your fund may well be invested in the stock market and a range of traditionally high-risk areas, you don't care as your fund value is never going to fall – guaranteed. You can greet every stock market crash with a self-satisfied grin and every stock market rise with an even broader grin as you know that your fund and income are going to be ratcheted up at your next policy anniversary. You get to share in the growth of the assets in your fund without having to share in the losses.

So what's the catch?

Like all luxury products it comes at a premium price and you will have to pay what is essentially an insurance premium for the guarantee that can very often be 1% of your fund value per year.

There are a whole range of living benefit options that can be mixed and matched to your individual circumstances within these guaranteed funds, whether income or capital guarantees are important, (or both!) death benefits, spouse's benefits, whatever your priorities.

In conclusion

Our service ensures that your investments remain appropriate to your needs, which is particularly important the nearer you get to calling upon your funds when it is critical to avoid any adverse market movements which could have a serious impact on your future income.

We believe that ongoing fund management is at least as important as the work we initially carry out.

Our portfolio management service ensures that you are repeatedly made aware of your financial position and review your overall financial strategy accordingly.

The vast majority of our clients feel they benefit from regular structured meetings to reappraise their financial situation and look at your situation in greater detail to ensure that your plans remain appropriate to your financial objectives and consider any changes in your circumstances or attitude to investment risk.

Whatever your circumstances we can custom build an investment portfolio that is as unique as you are and more importantly we can manage your portfolio for as long as you need us to so that you have the peace of mind that your funds are professionally taken care of and you can look forward to your financial future with confidence.

If you require further information please contact us on 0191 404 6806

PENSION MATTERS

If you'd to ask us any questions please get in touch with us:

0191 404 6806

service@pensionmatters.net

pensionmatters.net

The Axis Maingate Kingsway
Team Valley Gateshead NE11 0NQ