Imperial Financial Planning Limited

INDEPENDENT FINANCIAL ADVICE

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Our Investment Proposition

This document explains the defined investment strategy that we use with our clients. Our investment proposition involves assessing your tolerance to investment risk, agreeing with you an asset allocation and fund selection that reflects this, and regularly monitoring this asset allocation/fund selection so that it is regularly re-balanced back to its original composition. The process is designed to ensure that your portfolio continues to be managed in line with your agreed objectives and tolerance to risk.

The Risk Analysis Process

We will use the Tenet Risk Profiling Tool to determine what investment solutions may be suitable for you to meet your financial needs and objectives. This will take into consideration what you understand about financial risk, how you feel about it, and your ability to withstand it. You will be provided with a copy of the Attitude to Risk Report. This report will include the completed risk questionnaire and your agreed risk level along with a description.

We will discuss your knowledge and experience of investing generally. This will include your understanding of financial services products, including your previous practical experience of advice received and products that you have held.

All investments carry some degree of risk. For example a cash deposit account is not without risk to the extent that inflation may, over time, reduce the spending power of your savings. Other investments, including those linked to stock markets, carry additional risks including sudden falls in value; however, the potential return is higher compared to the interest you earn from your cash deposits.

We will also discuss in detail the impact on you should your investment fall in value and the amount of risk you are willing to accept in this respect. Put simply, the decision to invest usually involves weighing up the potential for loss against a reasonable expectation about increased returns.

Prior to investing you should consider your financial ability to withstand financial loss, or a fall in value of volatile assets. Think of this as the extent to which your future lifestyle would be affected if you lost all or part of the amount invested, or if the value of your investments fell temporarily because of market uncertainty at a time you had a requirement for capital. We will discuss your capacity for investment loss.

<u>The Tenet Risk Profiling Tool</u>

This tool utilises a questionnaire devised by A2 Risk, a specialist provider of risk management and modelling tools to the financial services industry. The questionnaire was developed by Alistair Byrne and David Blake who are leading academics in the field of financial risk. Moody's Analytics have tested, and run different asset allocations and identify risk-return efficient portfolios based on the risk profile outputs from the questionnaire.

The tool provides an indication of your potential tolerance to investment risk using a scale of 1 to 10, where 1 represents a low tolerance to risk and 10 represents a high tolerance to risk. You will be provided with a description of the risk category which has been determined after completing the questionnaire.

For each risk profile an appropriate suggested mix of investment assets (the 'asset allocation') has been designed by Moody's Analytics to an optimum asset allocation strategy having considered the joint objectives of ensuring assets can meet future objectives, subject to some quantified risk tolerance, while maximizing the return generated from a particular portfolio of assets.

We will discuss with you the risk category which has been calculated by the tool and what this may mean for your investment portfolio. We will assess your knowledge and experience of investments and discuss with you potential alternative risk categories and risk descriptions in coming to a conclusion as to the most appropriate level of risk tolerance for you.

We will then use the selected risk category to choose an appropriate portfolio designed to keep within your agreed tolerance for investment risk. If your attitude to risk is category 1 or 2 or your capacity for financial loss is very low we may recommend, after thorough discussion with you, cash deposits.

<u>Our Portfolio Offerings – Using Outsourced Fund Selections</u>

We have broadly identified three main outsourced portfolios, each offering its own approach to dealing with the considerations surrounding asset allocation, fund selection and client reviews. As each client has different needs, we recognise that you may need to use more than one approach. Our recommended solution will be chosen to fit your overall investment circumstances and objectives. In the event that none of our portfolio offerings fit with your overall investment circumstances and objectives then we can discuss your individual requirements with you and we may recommend an alternative solution. We will also use all the information you have given us to focus on your investment needs to determine a solution.

The key areas will be:

- amount of investment
- your previous investment experience
- attitude to investment risk
- investment time-scale
- your investment objectives i.e. growth, income or both

Risk Targeted Multi-Asset Funds

Risk targeted funds give you access to a variety of investments balanced to reflect your personal risk profile. They provide a tailored investment solution, without the need to create an expensive individual portfolio. So you get the benefit of a portfolio designed to match your preferred risk strategy, without the costs normally associated with managing that type of investment.

These offer three different approaches; Active, Passive and Blended (Active & Passive).

Each portfolio is risk targeted to match a specific level of risk, not just at the start, but throughout the lifetime of your investment.

Typically, this solution may be suitable for a relatively inexperienced investor with between £25,000 and £50,000 to incest.

You will be offered an annual review meeting to examine the investment performance and review your investment objectives and any potential changes to attitude to investment risk.

Where appropriate will undertake any fund switches of rebalancing as required.

Tenet Model Portfolios

These are portfolios of suggested funds selected by Morningstar Old Broad Street Research (OBSR), a leading fund research company. All of the suggested funds within your portfolio will have been selected to fit within a strategic asset allocation (a mix of different investment types and assets) which is consistent with your attitude to investment risk. The strategic asset allocation is supplied by Barrie & Hibbert and is designed to be aligned to your chosen risk category which has been determined through the risk analysis process.

Your portfolio will be regularly reviewed and rebalanced each quarter. Following the review we may recommend changes to your fund selection to ensure that your portfolio always has the best perceived blend of funds to meet its stated investment objective. We will notify you of any recommended fund changes, in writing, and you will be given the opportunity to discuss any investment changes with us.

Each quarter the portfolios are rebalanced in line with OBSR guidance to ensure that they continue to keep in line with their agreed tolerance to investment risk. We will assess your individual portfolio and rebalance accordingly at your scheduled review.

We offer from a choice of eight growth portfolios which are aligned to risk categories 2 to 9. These include options for the more aggressive investor. We also offer five portfolios which are suitable for investors requiring income. The income portfolios are aligned to risk categories 3 to 8.

We can recommend Tenet Model Portfolios for investments of £50,000 and above. We use these portfolios for clients who prefer to have the more regular quarterly review with the option to discuss their fund selections with us. Typically, this solution may be suitable for investors with some investment experience who require a more bespoke portfolio of investment funds.

Please note that "Cash" is included in the asset allocation model of the Tenet Model Portfolios. This will be ring fenced from any emergency fund and normally held on the appropriate wrap/platform. This will be reviewed on an individual basis and the reasons for any variations will be fully documented.

You will be offered an annual review meeting to examine the investment performance and review your investment objectives and any potential changes to attitude to investment risk.

Where appropriate will undertake any fund switches of rebalancing as required.

Discretionary Fund Management

Discretionary Fund Managers (DFMs) create investment portfolios tailored to your needs, using a range of asset types and investment approaches.

Your portfolio manager will recommend suitable products for you to achieve your objectives, so that they can potentially use your ISA and capital gains tax allowance each year and take into account your tax position.

Working from an investment strategy designed specifically for you, a portfolio management team will find suitable investments that take into account your attitude to risk and your investment objectives, whether that is aggressive growth, income, or security. The choice of asset classes and how much is invested in each will reflect your financial goals.

Your portfolio will be monitored regularly to ensure it continues to perform as intended so that your investments give you the returns you need to achieve your objectives.

A DFM arrangement means that the appointed manager makes decisions as to which investments to buy or sell based on their judgments as to how these individually and collective meet the particular mandate agreed at outset. Whilst you will receive periodic reports you will not be told in advance of any fund changes or exposures to more illiquid investments such as property or to higher risk investments such as smaller companies or emerging markets.

We maintain relationships with a number of specialist discretionary portfolio management companies. Our research has identified a number of suitable companies who include: Charles Stanley & Co, LGT Vestra, Quilter Cheviot, 7IM and Smith & Williamson. If this route is selected we will discuss your requirements and facilitate an introduction to a private investment manager who will be appointed to manage a bespoke portfolio in accordance with your needs.

We will advise clients on an individual basis as to the most appropriate DFM provider and your appointed portfolio manager will discuss your investment objectives with you.

This solution would typically suit clients looking for a complete bespoke managed investment solution where the client has input into the make-up of their investment portfolio. These clients are likely to be experienced investors with an existing portfolio or investment capital in excess of £250,000.

Investment Wrappers Available

Our Investment Proposition can be used with the following range of investment wrappers:

- OEIC / Unit Trust Portfolios
- Individual Savings Accounts (ISA)
- Personal Pensions / Self-Invested Personal Pensions (SIPP)
- Onshore Investment Bonds (including a range of trust investments).
- Offshore Investment Bonds

The relevant investment wrappers will be recommended on an individual basis and where appropriate may be considered as a standalone investment solution.

We will also consider other investment options available depending upon your investment experience, level of investment and attitude to risk. These options may include:

- Investment Trusts
- Exchange Traded Funds
- Structured Products
- Enterprise Investment Scheme
- Venture Capital Trust
- Offshore OEIC / Unit Trust
- Unregulated Collective Investment Scheme

Taxation

Portfolios held within ISA and SIPP are considered tax efficient and, subject to keeping within the investment limits and rules for these wrappers, there will not usually be any tax liability arising on investment gains on the portfolio.

Investment gains made on the OEIC/Unit Trust Portfolios could be subject to Capital Gains Tax (CGT) which can be offset against the annual CGT allowance. Many people do not make regular use of their annual tax-free CGT allowance meaning that a tax saving opportunity is then wasted. One advantage of holding the Tenet Model Portfolio as an OEIC/Unit Trust Account on a Wrap is that any investment gains can be realised and offset against the annual CGT allowance during the process of making suggested fund changes or regular rebalancing.

We will explain to you the taxation position of your portfolio as part of our recommendation. Please inform us of any change to your financial circumstances as this may impact on the future taxation position of your portfolio.

Administration of your Investment Solutions

All of these investment solutions are administered using a Wrap/Platform Account. A wrap is an online platform utility which assists advisers with arranging and reporting on fund and portfolio investments across a range of investment types and tax wrappers.

Our research, undertaken using Defaqto as an online research tool and the Tenet Platform Factsheets, have identified that the following Wrap/Platform providers are currently the most appropriate.

Platform Providers

Aviva, Old Mutual Wealth and Standard Life are currently the most suitable Platform Providers for clients who have limited investment experience and up to £50,000 to invest.

This will be reviewed on an individual basis and the reasons for any variations will be fully documented.

These Platform Providers are suitable for the following investment segments, Investments and Personal Pensions.

We will provide you with full details of your Wrap/Platform account as part of our recommendation.

Aegon, Elevate, James Hay Parnership, Standard Life and Transact are currently the most suitable Platform Providers for clients who are experienced investors and between £50,000 and £250,000 to invest.

This will be reviewed on an individual basis and the reasons for any variations will be fully documented.

These Platform Providers are suitable for the following investment segments, Investments, Personal Pensions and SIPP’s.

We will provide you with full details of your Wrap/Platform account as part of our recommendation.

The Costs

Our advice costs are detailed within our Initial Disclosure Document/Client Agreement and ongoing Client Service Proposition document and comprise of an initial advice fee and an ongoing annual administration fee. You will have the option of paying the fees yourself or having the fees deducted from your portfolio Wrap/Platform account.

We can confirm that in line with our Client Service Proposition, the frequency of ongoing service reviews will at least annually.

In additional to our advice costs there will be annual charges on the underlying funds within your portfolio and there may also be charges imposed by the selected Wrap/Platform provider.

Typically the actively managed underlying funds within your portfolio will have an annual management charge in the region of 1% to1.5 %. Typically the passively managed funds will have an annual management fee of 0.5%.

You will be provided with a personalised illustration which will detail all of the applicable charges including our advice charge, the fund charges and any applicable Wrap charges.

Contact

To discuss any aspect of our investment proposition and whether it is suitable to meet your investment requirements please contact your Financial Adviser.

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‘Statement of Investment Principles’

This is Imperial Financial Planning Limited’s statement of investment principles. It lays out the basis of how Imperial Financial Planning Ltd invests and runs its client portfolios.

We believe no. 1

Investing is for meeting long-term goals; saving is for short-term goals.
Money that investors may need in the short-term (two years or less) should be kept in short-term investments which protect capital. These include money market funds (a fund that invests in short-term financial instruments such as cash), bank accounts, or government bonds (Gilts). Clients should only consider investments in the stock market or corporate bonds when they have money to put away to help meet a longer-term objective.

We believe no. 2

Broad diversification, with exposure to all parts of the stock and bond markets, reduces risk.
If an investment portfolio does not fairly reflect the overall investment market in terms of balanced asset allocation (the process of dividing investments amongst different asset classes such as stocks, bonds and cash) and investment style (such as growth or value), we believe clients are taking additional risk. We judge that this is unlikely to pay off over the long term.

We believe no. 3

An Investor’s most important decision is selecting the mix of assets to be held in a portfolio, not selecting the individual investments themselves.
Deciding on the mix and proportion of stocks, bonds, and cash in a portfolio is critically important – much more so than deciding on individual assets or funds. To work out the asset allocation that’s best for each individual, investors need to consider factors such as their financial needs, their tolerance of risk and the length of time they want to invest.

We believe no. 4

Minimising cost is vital for long-term investment success.
Costs matter a great deal because investment returns are reduced pound for pound by the fees, commissions, transaction expenses and any taxes incurred. Investors as a group earn somewhat less than the market return after subtracting all those costs. Therefore, by minimising costs, investors improve their odds of meeting their investment objectives.

We believe no. 5

Investors should know how each investment fits into their plans, and why they own that particular asset.
Investors need to be clear why they own each particular investment. Knowing the characteristics of each investment and the role it plays in a diversified portfolio increases investors’ chances of selecting suitable investments that can be held for the long term.

We believe no. 6

Risk has many dimensions and investors should weigh 'shortfall risk' – the possibility that a portfolio will fail to meet longer-term financial goals – against 'market risk', or the chance that returns will fluctuate.
In the long run, what matters most is whether your investments enable you to meet your objectives. Earning enough to meet objectives is much more important than whether investments suffer interim declines or trail a market benchmark. But many investors react only to market risk. They may bulk up on stocks during times when markets are doing well, taking on more market risk than they realise. Conversely, they're tempted to reduce allocations to stocks in response to market downturns. In truth, to achieve long range goals, most investors need to accept some level of risk from equities.

We believe no. 7

Market-timing and performance-chasing are losing strategies.
Market-timers who buy and sell frequently, hoping to 'catch the wave' as securities rise and fall, need to be very sure that their timing is right. Otherwise, they stand to lose money from market movements while also paying significant transaction costs. As many investors say: it's time in the markets that counts, not timing the markets. Also, market fashions change – often very suddenly. There is no guarantee that a performance-chasing strategy, asset class (a type of investment such as stocks, bonds or cash), or fund that has performed well will continue to perform well next year, next month – or even tomorrow.

We believe no. 8

An investor should not expect future long-term returns to be significantly higher or lower than long-term historical returns for various asset classes and subclasses.
The major asset classes (equities, bonds, cash investments) have long histories and well established risk/reward characteristics. When estimating future returns for asset classes or sub-asset classes, long-term historical returns are a good place to start. Imperial Financial Planning Ltd expects that returns from various subclasses of the stock market will be similar to each other over long periods. Also, Imperial Financial Planning Ltd expects that the long-term return for equities will be higher than that for bonds, and that bonds returns will, in turn, exceed returns on cash investments over long periods.

However, investors should always remember that no method for predicting market returns is perfect. Past performance is not a reliable indicator of future results.