

GUIDE TO INVESTMENT MANAGEMENT WITHIN INVESTMENT MODEL PORTFOLIOS

Summary for Clients of Adviser Firms

Introduction

Investment Model Portfolios (IMPs) allow financial advisers the opportunity to offer their clients a diversified portfolio of investments, which are kept under constant review at a sensible cost. These IMPs aim to give a competitive return at a stated level of investment risk.

This document is a summary of Gibbs Denley Investment Management's (GDIM) investment process and aims to provide clients with an understanding of how our IMPs are constructed and managed.

Clients will have a relationship with the Adviser Firm providing them with financial advice, but GDIM will have no direct relationships with clients. GDIM will have an agreement with each Adviser Firm that wishes to use its IMPs.

GDIM has a range of discretionary IMPs, which include both active and passive styles of investment. Details of these IMPs are available in the separate Guide to Investment Model Portfolios document.

Investment Philosophy and Process

The GDIM Investment Committee will review each IMP at least quarterly, or more frequently if circumstances require it.

Our Investment Managers, guided by our Investment Committee, will set an appropriate asset allocation for each IMP. Once the asset allocation has been decided, they will then select suitable funds to achieve the desired asset allocation.

The Investment Team keep a constant watch over the funds held within the IMPs.

Our investment style is primarily top down (we start by looking at sector and country exposure, before deciding strategies within those areas). However, there may be occasions when we wish to include a particular fund or asset to carry out a specific function within an IMP.

We have taken into account the Investment Association sector parameters when setting our own typical asset allocation guidelines.

We will seek to ensure that in normal investment circumstances the asset allocation of our IMPs will remain within the Investment Association asset allocation rules. However, there may be occasions when these parameters are exceeded. If this happens, we would seek to correct this position at the next quarterly review by rebalancing.

GDIM IMPs will not be automatically rebalanced back to the original asset allocations in between reviews, or indeed at a review. The portfolio drift will be monitored and a decision taken on whether to rebalance, depending on the amount of drift which has occurred.

It should be noted that in exceptional or extreme market conditions, the Investment Managers may have to seek to protect an IMP from significant downside risk. This could involve holding asset allocation positions outside the normal parameters. If this situation arises, the Investment Committee will take the necessary action and seek to advise the Adviser Firm of the actions taken as soon as is practical after the event.

Our Investment Expertise

GDIM's Investment Model Portfolios are overseen by the GDIM Investment Committee. For details of the current committee members and their experience and qualifications, please see the separate 'GDIM Investment Committee' document.

Minutes of the Investment Committee meetings will be recorded and retained. Information for consideration at committee meetings will be circulated to committee members ahead of the meeting and contain details of proposed changes, performance and outlooks (these are also retained for reference).

Investment research is provided to the Investment Committee by our Investment Team, who are required to:

- Keep suitably abreast of global economic data and markets.
- Keep suitably abreast of new and existing funds, stocks and other permitted investment types and the tax treatment affecting the investment.
- Arrange portfolios in accordance with GDIM's investment philosophy.
- Regularly review and monitor portfolios and make changes when appropriate.
- Comply with the firm's investment process and procedures.

Research and Analysis

We believe that high-quality research and analysis is vital for successful investment management. We also feel that this research should be genuinely independent and 'whole of market': meaning that all appropriate products should be considered for inclusion.

We have therefore committed significant resource in establishing our Investment Team headed by Tom Sparke Cert PFS (DM), IMC. Our investment function is overseen by Mark Denley APFS, CertPFS (DM), IMC.

Tom and his team research market movements, political and economic factors around the globe to gauge what we see as the most important themes for consideration. This process largely dictates the percentage of assets allocated to each investment sector.

The Investment Team also conducts detailed research and analysis into the specific investments which will be used within each investment sector.

The team is aided in this research by the use of investment appraisal software, the most widely used of which is Analytics, provided by Financial Express and aided by regular meetings with relevant investment professionals including fund managers, economists and strategists. External research is also sourced from major, international investment specialists.

All research is continuously fully documented and kept on file.

Asset Allocation

After in-depth research and analysis, the Investment Team will make recommendations for an asset allocation for each of the GDIM IMPs.

These recommendations are considered by our Investment Managers and the Investment Committee at least quarterly, who will seek to find a consensus view. If a consensual decision cannot be reached, the ultimate decision will be made by the Investment Managers. The Chair also has the authority to veto a decision.

The minimum number of members that must be present for any decision to be made is three, one of whom must be an Investment Manager.

The committee will have the ability to appoint a replacement Chair in the event of a long-term absence. The Chair must be a suitably qualified, experienced and authorised Investment Manager.

The asset classes we use for asset allocation purposes are shown below, together with an indication of the likely proportions which may be held in each asset class.

- Cautious includes Cautious Passive, Ethical and Sterling Hedged
- Conservative includes Conservative Passive, Income, Ethical and Sterling Hedged
- Balanced includes Balanced Passive, Income, Ethical and Sterling Hedged
- Moderately Aggressive includes Moderately Aggressive Passive, Ethical and Sterling Hedged
- Aggressive includes Aggressive Passive, Ethical, Sterling Hedged and Thematic

Under normal market conditions it is unlikely that any portfolio would contain 100% in any one class, but our most aggressive portfolios will usually contain 98% in shares.

The Equity sector is split into UK, Europe, US, Asia (excluding Japan) and Global.

The benchmark for each IMP is shown below.

- Cautious, including Cautious Passive, Ethical and Sterling Hedged
– IA Mixed Investment 0% - 35% shares
- Conservative, including Conservative Passive, Income, Ethical and Sterling Hedged
– IA Mixed Investment 20% - 60% shares
- Balanced, Including Balanced Passive, Income, Ethical and Sterling Hedged
– IA Mixed Investment 40% - 85% shares

	Cash	Fixed Interest	Property	Equities	Absolute Return
Cautious	Up to 30%	25%–80%	0%–25%	15%–35%	0%–40%
Conservative	Up to 20%	25%–65%	0%–25%	25%–50%	0%–35%
Balanced	Up to 10%	10%–50%	0%–25%	40%–75%	0%–30%
Moderately Aggressive	Up to 5%	5%–20%	0%–20%	65%–90%	0%–20%
Aggressive	Up to 5%	0%–10%	0%–20%	80%–100%	0%–20%

- Moderately Aggressive including Moderately Aggressive Passive, Ethical and Sterling Hedged - IA Flexible Investment Sector
- Aggressive, including Aggressive Passive, Ethical, Sterling Hedged and Thematic - IA Flexible Investment Sector

Benchmarking is performed on at least a quarterly basis. If an IMP is underperforming or outperforming its benchmark, the reasons will be researched and recorded in the minutes of the Investment Committee meeting. If out/underperformance continues for a significant time, the Investment Managers will decide if the benchmark remains appropriate, or take action to change the investment philosophy of the IMP.

Fund Selection

Once asset allocation has been agreed, suitable funds will be selected to achieve the desired asset allocation. Funds selected for inclusion in our Investment Model Portfolios should fulfil the criteria outlined below.

The vast majority of assets within our portfolios will be Unit Trust, ICVCs (OEICs) or Exchange Traded Funds, but may also include Investment Trusts, Bonds or Equities.

The IMPs will not have direct investment into hedge funds, currencies or derivative instruments, although some funds used will contain these.

Diversification is of great importance within our portfolios to minimise specific risks. We should therefore not hold too high a percentage in any one investment. This amount will vary according to the amount of diversification required and there will be exceptions where diversification is not advantageous, such as within a tracker or other homogenous sector. In our core IMPs, we would not expect an IMP to hold more than 10% in any one investment. For our more specialist IMPs we would not expect these to hold more than 20% in any one investment.

Some of the factors taken into consideration when selecting or evaluating a fund for inclusion or removal include:

Performance

A fund should have performed consistently well against its peers or benchmark for an appropriate period. Any prolonged underperformance will be scrutinised by the Investment Committee and this may result in the fund being replaced. Performance is usually measured by total return, but this may be influenced by other factors, such as attractive growth or yield or its ability to reduce risk within a portfolio via diversification or other means.

When assessing past performance, many different factors are taken into account and measurement ratios/tools are employed. These will include (see glossary for definitions):

Sector Quartile

1 – 5 years consistent high quartile performance (where the fund stands in relation to other funds with similar remits).

Alpha

A high, or at least positive alpha figure to show how well the manager is adding value.

Sharpe ratio

A positive figure would be desirable, relative to risk.

Information ratio

A high degree of successful risk taken on by the fund, relative to the market or an appropriate benchmark.

Volatility

A low measure of volatility relative to the sector is usually preferable. Volatility is calculated as the standard deviation of the fund's returns over the last 36 months.

Beta

A high or lower correlation to the market, dependent on the role of the fund in a model.

Max Drawdown

The total maximum loss suffered by a fund is a good indicator of the historical risk the fund has taken.

A newly launched fund may be used, but this would require exceptional circumstances, such as a fund manager with a strong track record or trusted company with a strong understanding of the proposition.

Pro-active, ongoing monitoring of the funds in the IMPs is essential in identifying any problems that may occur and the performance of every fund is regularly scrutinised and may then be proposed for replacement at quarterly Investment Committee meetings. In exceptional circumstances a fund or funds may be sold or switched immediately.

Fund Manager and Style

The manager of a fund is a hugely influential factor in actively managed funds and will be a major factor for our active investment style IMPs in whether to use a fund or not. The Investment Team will usually meet with the management prior to investment.

The manager or managers of a fund should be experienced and have relevant measurable past performance within the fund or similar. If the management situation changes, there may be reason to replace the fund.

One element of the IMP is that different management styles are often used together such as defensive/ aggressive (or bearish/bullish), growth/income, or large/ small cap. These combinations should diversify within a sector, reducing the overall risk, so as to take advantage of trends.

With regard to a change in the manager of a fund, the level of action required by GDIM will depend on how reliant the fund is perceived to be on the departing manager. If a team of managers or analysts are running the fund, one departure will likely not require any action, whereas if it is an individual, further action will be more likely.

Holdings

Holdings within a fund will be examined to ensure that they are relevant and appropriate for the purpose of the fund (the amount of scrutiny is largely dependent on the size of the fund/number of holdings etc). The geographical and sector splits will also be scrutinised to ensure that they are relevant and appropriate.

If a fund is found to have too much exposure to one area, including exposure via derivatives, it may be deemed inappropriate.

It is important to identify whether two or more funds in the same sector are too similar. i.e. Holding the same securities as each other, which would increase specific risk and decrease diversification. The level of holdings in one stock or more specific, niche area will be analysed, though the degree of diversification required will vary vastly, but ultimately the aim of diversification is to reduce 'Specific Risk'. As a guide, any single equity position that constituted more than 2% of the entire portfolio may be unacceptable. Correlation and overlap analysis will be performed on all investments as part of the usual quarterly review process.

Cost

The initial and ongoing costs of a fund should not be excessive (in relation to its peers or acceptable alternatives). Annual Management Charges will vary depending on the sector and funds may also levy a performance fee (especially prevalent in the 'Absolute Return' sector).

The total cost of a fund should be scrutinised and compared with similar funds.

Please note that returns from investments are not guaranteed, as capital may fall as well as rise and you may not get back the full amount invested.

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