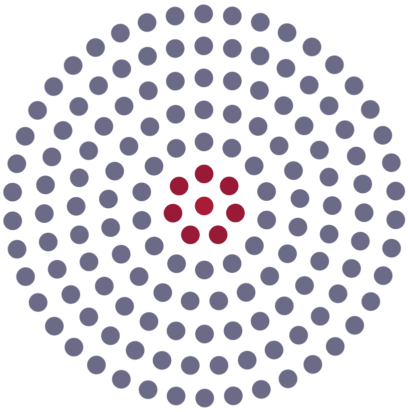
Perspective
MANAGING WEALTH

Investment Philosophy

How we manage your wealth

www.pfgl.co.uk

Eight key principles



Our Investment Philosophy is based around the following principles, which have been established on the strength of academic research and studies over the last seven decades.

There is no guarantee that these principles will always reap the best rewards for every investor, but we believe they will provide attractive returns over the long-term.

This document sets out the reasons why we believe in these principles and how we apply them to give you the greatest potential to make the most of your money, taking account of your appetite for investment risk.

01

Control risk

Take only the amount of risk you are comfortable with and can afford to accept.

02

Markets work

Current share prices always incorporate and reflect all relevant information.

03

Capitalism works

Risk is rewarded.

04

Diversification

Spreading your money across different investments removes unnecessary risk.

05

Invest for the long term

Don’t speculate for the short term.

06

Keep costs to a minimum

Maximise returns for investors.

07

Asset allocation

More important than stock selection.

08

Rebalance

To maintain discipline and risk tolerance.

01. Control risk

Take only the amount of risk you are comfortable with and can afford to accept.

If you have exposure to shares in your portfolio, there will be periods in the future where your fund will fall, to some extent.

It is important that you are comfortable with these investment risks before investing. If you can accept the additional risk in the short term, we believe that in the longer term you will reap the additional rewards available from investing in shares.

As a long-term investor, a buy and hold strategy is more likely to yield better returns than selling in and out of investments, where timing is crucial to returns and transaction costs are involved.

We use an investment risk profiling questionnaire to establish broadly how much risk you can take, and match that to a potential portfolio, and a specialist consultant will consider this against your goals and needs.

We will then discuss the potential consequences of that choice, over both the long and short term.
We need to be sure that you are able to accept that the portfolio may fall in the future, in exchange for the chance of higher returns over the long-term.

Events such as the Covid – 19 pandemic and the rise in inflation after the Russian invasion of Ukraine reminds us that periods do occur when investments fall in value.

This reinforces the importance of having an emergency fund kept in a secure and accessible account which you can access easily if and when required.

02.
Markets work

It's all priced in.

All available information about a company is already priced into the current valuation. In other words, the prices of shares traded on markets is determined by all the information available to the participants in the stock market and takes account of all that information.

Future price movements will be affected by events and information which are obviously not yet known.

Therefore, no one knows for certain which company's share price is going to change for the better, and which for the worse. As soon as a particular share price goes up or down, lots of "experts" such as fund managers, will explain why it moved and attempt to forecast what it will do tomorrow.

They might be right, or they might not. If they are right, they may claim it was due to stringent analysis and understanding of the company.

If they are wrong, they will blame it on bad luck or unforeseen issues which scuppered the materialisation of their forecast!

We don't believe that this is helpful to investors and involves too much risk with individual judgement influencing returns. At Perspective, we prefer solutions which take advantage of the market as a whole, rather than trying to predict which shares will perform the best, or believe anyone who claims they can do this and make accurate forecasts on future unknowns.

**The value of investments can go down as well as up and you may get back less than the amount invested.*

03.
Capitalism works

Risk is rewarded.

Shareholders are investors in companies who are owed a return on their investment.

There is a long history of research evidencing an extra return for investment in shares, known as the “equity premium”, or the excess return investing in the stock market provides over a risk-free rate, such as the return from government bonds.

Those who invest in riskier shares, for example in smaller companies, are owed a greater return than less risky shares.

This excess return from holding equities is only available in return for additional risk.

04.
Diversification

Removes unnecessary risk.

We believe that adopting the right kind of risk offers potential rewards through exposure to equities over the longer term. However, beware of creating additional unnecessary risk, such as by focusing investment on too few companies or asset classes.

Each asset class is driven by different specific factors and by their nature do not move in exact correlation to each other.

Therefore, by spreading your money across different asset classes, this prepares for different market scenarios which will favour one asset class over another.

It's a bit like being the bookmaker at a racecourse taking bets on all the horses, rather than the gambler who is looking for the winners. The bookie always wins in the end.

Investing not only across the whole UK stock market, but also world-wide markets, provides exposure to several thousand different stocks and shares which maximises diversification.

This eliminates the risk of a single company significantly adversely affecting portfolio performance.

Diversification is increased through investment across different asset classes, using government, corporate and global bonds to reduce volatility.

This fixed interest part of our investment recommendations is used to reduce risk, to different extents, depending on the risk tolerance of the investor. Specific assets can be used to achieve particular outcomes. For example, inflation-linked bonds can provide extra protection in such an environment.

**The value of investments can go down as well as up and you may get back less than the amount invested.*

05.
Invest for the long-term

Don't speculate for the short term.

It is impossible to predict which individual shares will perform best in the future and be right every time. However, this is what most "star" fund managers tell us they can do, at significant additional cost.

By concentrating their portfolios in this way, they are speculating (with your money if you let them) on what will perform well or what will not. The only certainty is the additional cost. Many financial advisers will tell you that they can identify the managers who will outperform in future.

What they can identify is a fund manager who outperformed on a historical basis, which does not mean they will be the best in the next market cycle.

Managers tend to have a particular investment style, such as "value" or "growth" that suits a particular environment, which is why differing performance tends to emerge in different cycles.

It can be argued...
That the majority of out-performance of active funds is due to a supportive environment rather than skill.

Sometimes, before it is possible to ascertain to a statistically significant degree the reason for out-performance, the fund manager may well have retired, or moved to another fund management company.

If there is a fund manager who displays anything resembling long term consistency and out-performance, it is generally because they have adopted a buy and hold strategy with conviction in their ideas and avoided high turnover.

06.
Keep costs to a minimum

Maximise returns for investors.

Our investment recommendations tend to concentrate on solutions with low headline costs and overall expenses, leaving more money to invest and avoiding costs eating away at the overall returns for investors.

In most cases they tend to be “asset class” or “passive” funds, which offer exposure to a particular asset class, such as UK shares, International shares and fixed income.

They buy the whole market at low cost rather than picking individual investments.

Within each asset class, there are also funds focused on areas of the market offering higher risk and therefore potentially higher long term returns, such as emerging market equities.

Unfortunately, the fund management industry is not overly transparent and makes a lot of money out of those who use its services.

In particular, active fund management companies tend to have high charges and significant advertising budgets. As well as the annual fund charges, there are also associated transaction costs which all detract from the fund return. Our preference is to recommend solutions which keep the turnover and associated costs within each fund as low as possible, thereby minimising unnecessary drag on your returns.

07.
Asset allocation

More important than stock selection.

Stock selection can have an impact on the performance of a portfolio, but the most important determinant of returns is the asset classes and geographic areas in which investments are made.

There is significant research demonstrating that the biggest influence on investment returns is the asset classes in which a portfolio invests.

The asset allocation of the portfolio is responsible for over 90% of the variation in returns, whilst the actual stocks selected within each asset class, is responsible for around 6% of the variation of returns.

We therefore believe it is better to focus on getting the asset allocation right at portfolio level, rather than paying extra for an expensive active fund manager to focus risk (in a bid to boost returns) by choosing a smaller number of investments, the opposite of diversification.

08.
Rebalance

To maintain discipline and risk tolerance.

It is important to emphasise the importance of rebalancing the portfolio on a regular basis.

This ensures that the risk profile of your portfolio remains in line with your requirements, and it introduces a discipline to the portfolio, as rebalancing generally means selling some of the asset class with the strongest relative performance, consolidating gains, and buying the under performer where there is conviction for performance to improve.

This accrues gains over time and contrasts to the usual behaviour of speculators who get drawn to asset classes at peaks, when recent performance looks great, but sell out of the market when things have turned sour.

The process of managing your money

Our investment philosophy is delivered in practice using modern technology and administration platforms often in conjunction with Discretionary Fund Management.

The first step in the process is for us to establish and agree your aims and objectives for your investment.

Key factors such as the timescale for your investment, your risk profile, and your tax position will enable us to establish which platform, tax wrapper and portfolio is right for your particular circumstances and requirements.

We will also ensure that you have an emergency fund to ensure the portfolio we recommend has time to withstand the inevitable fluctuations in value associated with longer term investment.

An important element of our partnership is the annual review process, where we will update you on any changes to the longer term strategic asset allocation, confirm the portfolio's progress through the year, and ensure that it remains appropriate with regard to your circumstances and objectives, which may also change from time to time.

Tax "wrappers"

Investing via different "tax wrappers" affects the way contributions to, and withdrawals from, your investment are taxed, as well as the income and capital gains generated within the portfolio.

We will select the best combination for you from the following, to make use of the allowances available to you:

- Individual Savings account (ISA)
- Personal Pensions & Self Invested Personal Pensions (Sipps)
- Investment Bonds, Onshore and /or Offshore
- General Investment Account (no "wrapper", taxed directly)
- Specialist tax wrappers such as Enterprise Investment Schemes (EIS), Venture Capital trusts (VCTs) and Inheritance Tax (IHT) portfolios, where appropriate, although these come with additional investment risks

Administration platforms

We use a range of administration platforms which allow both ourselves and a Discretionary Portfolio Manager to oversee your investments in one place, using various tax wrappers, as appropriate to the individual.

These administration platforms have different charging structures and offer slightly different product ranges, which is why we use more than one.

We will recommend the platform most suitable for your circumstances.

Discretionary Portfolio Management

Portfolio management is best left to fully qualified and experienced fund managers, therefore where appropriate we recommend Discretionary Portfolio Management.

This service comes in many forms but our preference is to identify a competitively priced service which is based on the principles set out in this document:

- Low cost passive funds available
- Extensive diversification across global markets and asset classes
- Choice of portfolios tailored to different risk profiles and ethical preferences
- Continual expert investment management making all day to day investment decisions on the client's behalf
- Discretion to alter the geographic constitution and equity exposure of the portfolio, within agreed parameters

The "discretionary" element of this service means that the managers can make these shorter term adjustments to the portfolio without reference back to you, making it possible to move quickly when circumstances and markets change.

The main purpose of these adjustments is to protect the portfolios by temporarily reducing exposure to asset classes or geographic areas deemed to be overvalued, and potentially at risk of a short term correction.

However sometimes the managers will seek to take advantage of undervalued asset classes.

The value of your investments can go down as well as up, and you may get back less than the amount invested.

Who are Perspective?

Expert, specialist financial planning and wealth management advice for individuals, corporates and trustees.

Whilst enjoying the scale of a national group, we deliver a very personal service from our local offices, most of which have been established for over 30 years.

Our in-house Perspective Academy grows our next generation of financial planners who share our client-centric ethos.

'Whole of market' approach meaning our advice is not limited to certain providers.

High proportion of new clients coming from recommendations by existing clients and fellow professionals.

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A full list of our local offices can be found on our website (www.pfgl.co.uk/our-locations) or are available on request.

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All calls to and from our landlines and mobiles are recorded to meet regulatory requirements.