

# INVESTMENT POLICY STATEMENT

## 1. Investment Philosophy

Outlined below are the main tenants of our investment philosophy. These help define any decisions we make regarding investment.

### 1.1 Environmental, Social & Governance (ESG) Investing

When [Limits to Growth](#) was published in 1972 many of us were shocked but few took much notice. It was 12 years before the first UK retail ethical fund was launched in 1984 and it was almost 20 years later, in 1991, when the UK Social Investment Forum launched. When Interface Financial Planning joined [UKSIF](#) in the 1990s many said that we were wasting our time and that we were a little eccentric. Fast forward to 2020 and we are now mainstream with more than 20 years' experience of providing ethical investment advice to our clients.

Twenty years ago, most investors were only concerned about the return from their investment. Today's future focussed investors understand that financial return is only one element of return and there is little point in investing for a pension if the planet is not worth living in. The ethical investor of today puts their values at the forefront of their decisions and financial return second. One key consideration for investors is whether they can adopt a sustainability focus and still have a good investment experience. For instance, is it possible to reduce a portfolio's greenhouse gas emissions exposure while maintaining broad diversification and a focus on higher expected returns?

Dimensional Fund Advisers and Interface Financial Planning incorporate insights from climate science to determine which environmental criteria are foundational in our sustainability strategies. Environmental science leads us to focus on climate change, and climate science identifies greenhouse gas emissions as the most significant driver of climate change. Therefore, the primary goal of our approach to sustainability investing is to reduce exposure to greenhouse gas emissions.

By focusing on climate change and greenhouse gas emissions, we can build a sustainability strategy that achieves measurable environmental sustainability outcomes within a robust investment framework.

Dimensional's patented process incorporates research-informed sustainability criteria into each strategy through security exclusions and/or weighting to emphasise companies with better sustainability profiles.

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Emissions Variables <sup>2</sup>	Other Environmental and Social Variables		
<ul style="list-style-type: none"> <li>Greenhouse gas emissions intensity</li> <li>Potential emissions from reserves</li> </ul>	<ul style="list-style-type: none"> <li>Land use and biodiversity</li> <li>Toxic spills and releases</li> <li>Operational waste</li> <li>Water management</li> <li>Coal</li> </ul>	<ul style="list-style-type: none"> <li>Palm oil</li> <li>Factory farming</li> <li>Adult entertainment</li> <li>Alcohol</li> <li>Gambling</li> <li>Tobacco</li> </ul>	<ul style="list-style-type: none"> <li>Civilian firearms</li> <li>Controversial weapons</li> <li>Nuclear weapons</li> <li>Child labour</li> <li>Private Prisons</li> </ul>

## 1.2 Capitalism Creates Wealth

Capital markets have consistently rewarded investors for the capital they supply. Companies compete for the supply of investment capital and millions of investors compete on a daily basis for the most attractive returns. This competition drives prices towards fair value so that on any given day a point of equilibrium is reached between the buyers (optimists) and sellers (pessimists) regarding the price of a security. This price moves randomly and almost instantaneously to reflect new information such that it is difficult for any individual to systematically profit from market mis-pricings. We therefore accept market rates of return.

Many investment managers believe that they can actively exploit market mis-pricings by stock-picking or market-timing - the traditional activities of active fund management. If markets were not efficient then the brightest, hardest-working and most highly paid fund managers would be able to beat a simple buy-and-hold strategy over time. But nearly forty years of academic research has shown that traditional investment managers are unable to outperform markets by anything more than the amount we would expect by chance. Indeed, a multitude of studies has reached the same general conclusion: the average actively managed fund does no better than the market after fees, transaction costs and taxes.

## 1.3 Risk & Reward are Related

Many thousands of people participate in capital markets around the world, making them highly competitive, highly efficient, and highly effective at processing large quantities of information.

Behind every security transaction are assessments of the relative trade-offs associated with investing such as the balance of risk and reward and of costs and returns. In most cases, a participant will only transact when they assess the benefits outweigh the costs or risks.

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We believe that it is impossible to achieve greater returns than the market return without taking more risk. The key point is to identify those risks which owe investors positive expected returns and capture them in a cost-efficient manner.

It comes as a surprise to many investors that the potential for financial loss is also the reason that they earn a return. We face risk because nobody can reliably predict the future - but risk, return and time are interconnected. Higher exposure to the right risk factors leads to higher expected returns but is no guarantee of them. Risk is the currency of return, in that a greater return can be considered a payment to investors for subjecting their capital to greater uncertainty.

Unlike many people, we don't attempt to predict which individual stocks or countries, or regions will perform best. Instead, we accept that the market, powered by the wealth-generating capability of capitalism, provides an adequate rate of return, and we pay very careful attention to portfolio construction and the day-to-day management of assets to make the most of that market return.

#### **1.4 Diversification is Essential**

Diversification is the principle of spreading your investment risk around. This reduces the risk that any individual manager, security, sector, or country can have on an individual portfolio. A well-diversified portfolio helps reduce uncertainty, helps to manage risk, and can increase the reliability of investment outcomes.

The risk associated with one individual shareholding can be easily eliminated with diversification and consequently the market does not reward investors with a return premium for this 'non-systematic' risk. When investors concentrate their investments, they are increasing their risk with no added benefit of a higher expected return. Systematic risk, on the other hand, cannot be diversified away as it is the risk common to the market as a whole.

*The most prudent approach to minimising risk and maximising the probability of achieving a market rate of return is to hold the entire market index. In this way the specific risk of holding each individual stock within the market is diversified down to near zero leaving investors with the systematic risk of the market the index is designed to track.*

Global diversification is beneficial because it applies the same rationale as above. There are more risk factors in international markets that can both smooth out volatility and increase expected returns in a portfolio.

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## 1.5 Investing, not Speculating

An active investor is sometimes thought of as one who attempts to beat the market average by making decisions about holding one investment over another.

There is considerable evidence that active managers, on average, fail to outperform their benchmarks. A study on the US fund market found survival and outperformance rates were low. For the 20-year period through 2021, 18% of equity funds and 15% of fixed income funds survived and outperformed their benchmarks.

Similar studies of the European market find the same. Without prior knowledge of which funds will survive and outperform, investors have only a small chance of selecting successful funds.

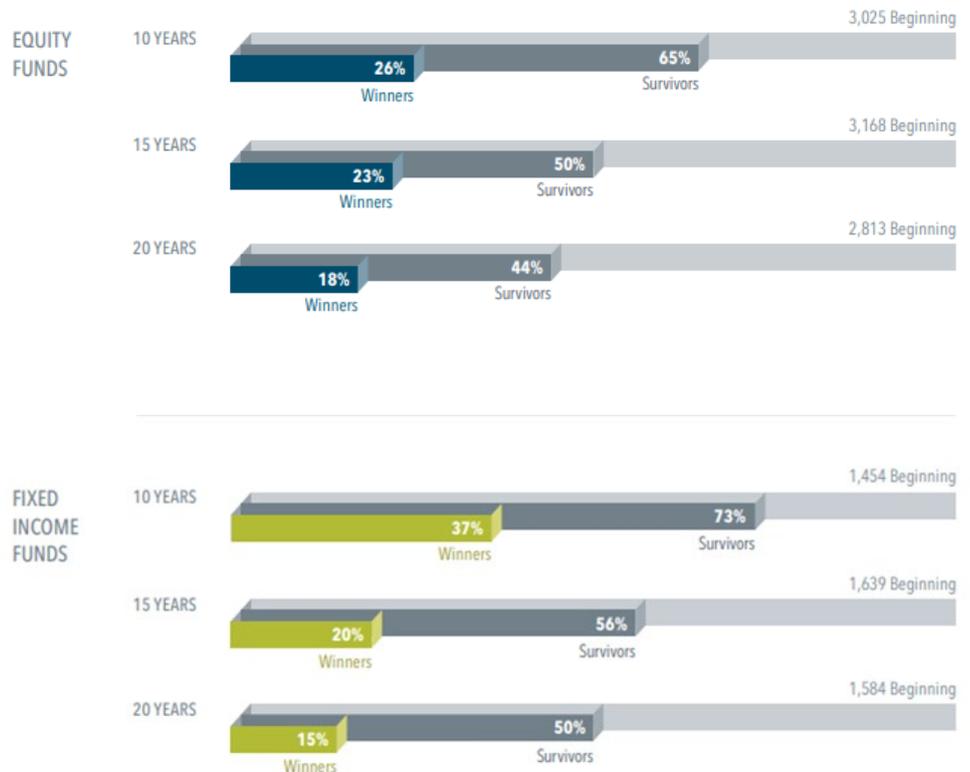
Our investment approach means we are not making judgements on the relative merits of one investment, or manager, over another. We aim to beat the market average by avoiding costly mistakes and through careful portfolio construction and management.

## 1.6 Costs Matter

Costs are one of the things that investors can control. They should, therefore, be carefully considered and only costs that are deemed worthwhile should be borne. All investment activity incurs costs. Some, such as management fees, platform charges and expense ratios, are easily observed; others, such as trading costs, are more difficult to measure.

### Few Funds Have Survived and Outperformed

Performance periods ending December 31, 2021



The sample includes US-domiciled funds at the beginning of the 10-, 15-, and 20-year periods ending December 31, 2021. Survivors are funds that had returns for every month in the sample period. Winners are funds that survived and outperformed their benchmark over the period.

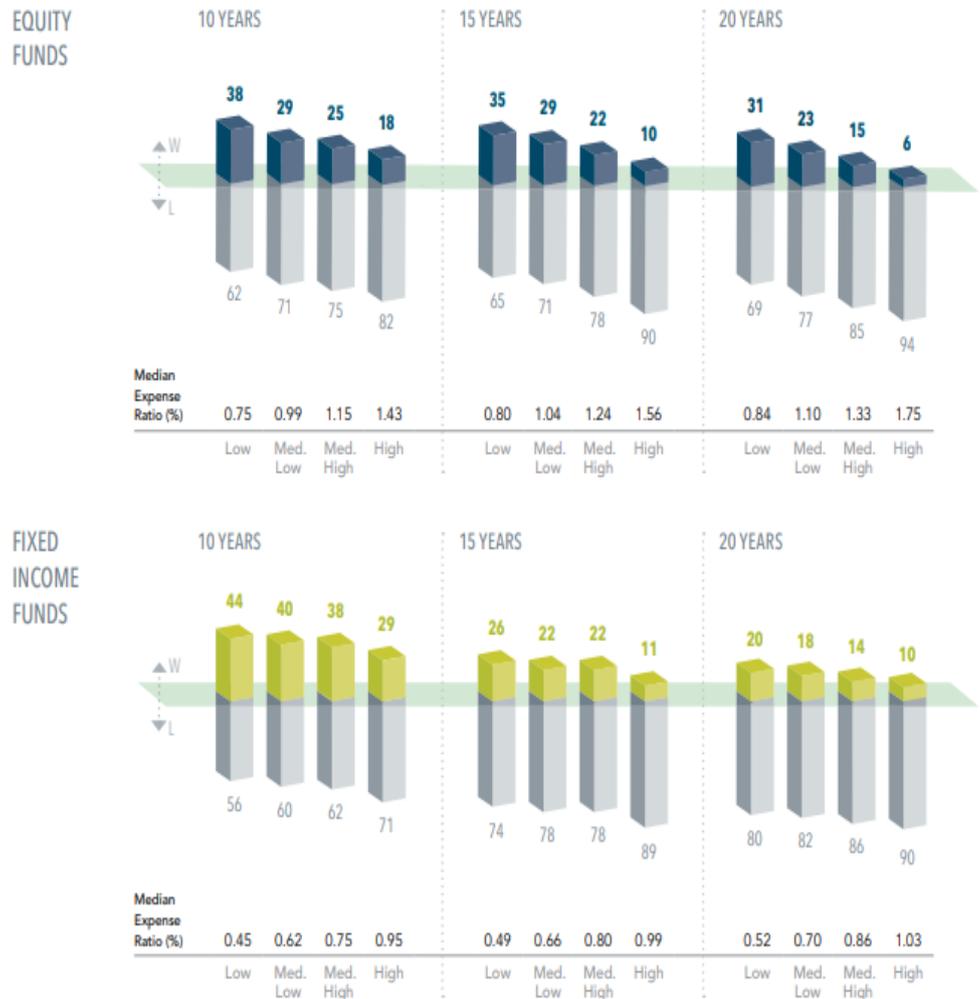
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The question is not whether investors must bear some costs, but whether the costs are reasonable, and indicative of the value added by a fund manager's decisions. The taxes, expenses and transaction costs incurred in the management of a portfolio have a direct impact on returns. All other things being equal, we seek the most cost-efficient route to market returns.

As you can see in the table, investment is not an enterprise where consumers' experience improves in line with the cost. The opposite is true, in fact, and the more you pay the worse the long-term return.

## High Costs Can Reduce Performance

Percentage of winners and losers based on expense ratios



The sample includes US-domiciled funds at the beginning of the 10-, 15-, and 20-year periods ending December 31, 2021. Funds are sorted into quartiles within their category based on average expense ratio over the sample period. The chart shows the percentage of winner and loser funds by expense ratio quartile for each period. Winners are funds that survived and outperformed their benchmark over the period. Losers are funds that either did not survive or did not outperform their respective benchmark.

### 1.7 Portfolio Construction and Management:

Our process is derived from a Five-Factor Risk Pricing Model which is primarily drawn from the work of Professor Eugene Fama of the University of Chicago and Professor Kenneth French of Dartmouth University.

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Decades of academic research into the performance of shares have pinpointed certain information in market prices that explains why one stock performs differently to another.

In practical terms, this means we can say that, on average:

- Smaller stocks have higher expected returns than larger stocks;
- Low-priced stocks have higher expected returns than high-priced stocks;
- Profitable companies have higher expected returns than unprofitable companies.

### Dimensions Point to Differences in Expected Returns



1. Relative price as measured by the price-to-book ratio; value stocks are those with lower price-to-book ratios.  
2. Profitability is a measure of current profitability, based on information from individual companies' income statements.

Similar research into bond markets suggests that the length of time to a bond's maturity and the credit quality of the bond's issuer, when analysed relative to the bond's market price, tell us much about future returns.

We use investment funds that exploit these characteristics to build clients' portfolios. Our aim is to achieve a higher return than the market average, without resorting to uncertain market predictions.

These portfolios form an important part of your financial plan and are the engine that powers the return you need to achieve your financial goals.

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## 2. Sources of Investment Return

### 2.1 Investment Dimensions

Our process is derived from a Five-Factor Risk Pricing Model which is primarily drawn from the work of Professor Eugene Fama of the University of Chicago and Professor Kenneth French of Dartmouth University.

Their model has successfully identified and isolated the characteristics, or dimensions of expected return, that investors should pay attention to in the construction of their portfolios. We consider a dimension to be a factor that explains;

- differences in returns,
- demonstrates persistence through time, and
- pervasiveness across markets, and
- is cost-effective to capture in diversified portfolios.

In essence there are three factors that explain equity returns (market, size and value, with a tilt towards profitability) and two factors for fixed income (term and default risk).

### 2.2 Equity Returns

Much of what we have learned can be summarised in simple terms. First is that stocks are riskier than bonds and have greater expected long-term returns. Relative performance among stocks largely depends on;

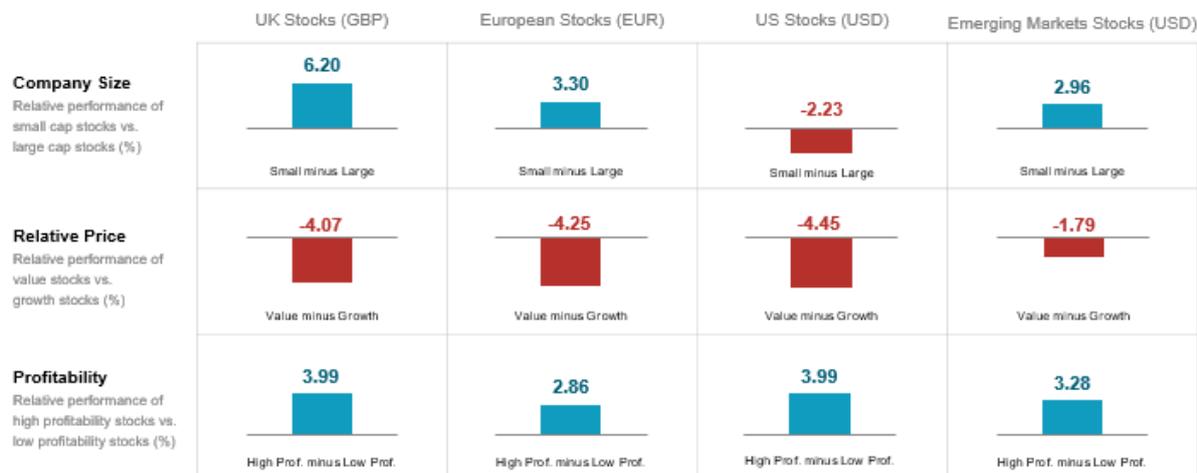
- company size (small vs. large),
- relative price (value vs. growth), and
- profitability (high vs. low).

Economists believe that this is because the market discounts their prices to reflect the underlying risk and that consequently, these lower prices give investors greater upside potential as compensation to bear this risk. Company size, relative price, and profitability are variables—or dimensions—that allow us to identify differences in these discount rates.

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## Dimensions of Expected Returns

10-year annualised premiums (2012-2021): UK, European, US, and Emerging Markets



### 2.3 Fixed Income Returns

The two dimensions which explain fixed interest returns are

- the Term Factor - the difference between long-term and short-term bonds, and
- the Default Factor (the possibility of capital loss).

Longer-term bonds are more sensitive than shorter-term bonds to unexpected changes in interest rates. Bonds with lower credit quality have a greater risk of default than bonds with higher credit quality.

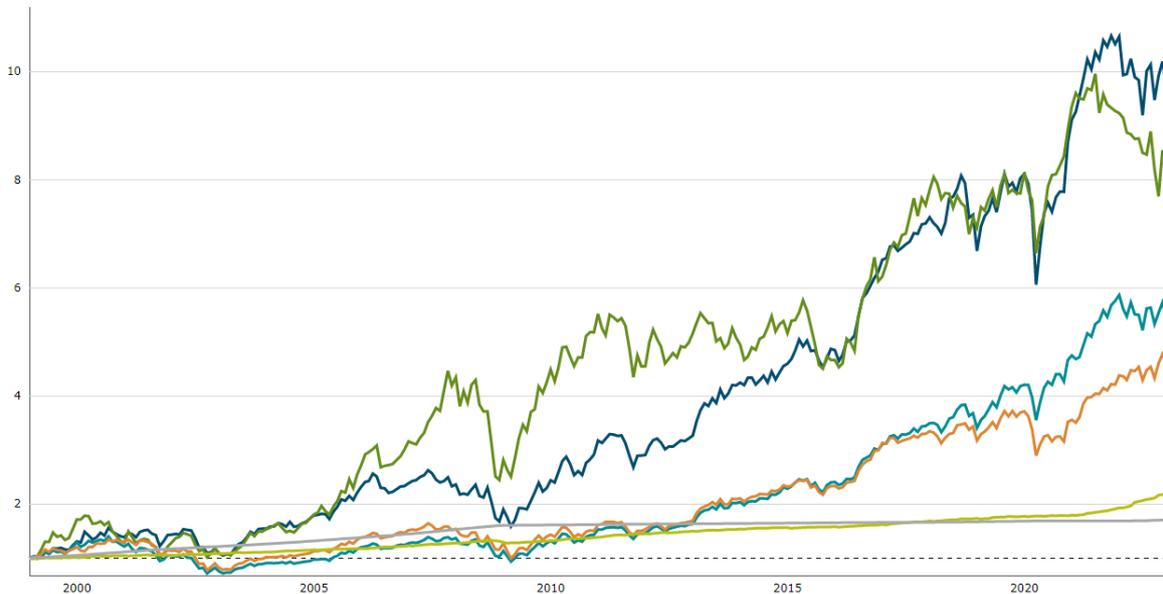
### 2.4 The Growth of Wealth

Most people look to the financial markets as their main investment avenue, the good news is capital markets have rewarded long-term investors and historically, free markets have provided a long-term return that has offset inflation.

This is documented in the growth of wealth graph, which shows monthly performance of various indices since 1992, that represent different areas of the UK financial markets, such as stocks and bonds.

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Growth of Wealth  
Monthly: 1/1/1999 - 31/12/2022



- MSCI World Small Cap Index (net div., GBP)
- MSCI Emerging Markets Index (gross div., GBP)
- MSCI World Index (gross div., GBP)
- MSCI World Value Index (net div., GBP)
- United Kingdom Retail Price Index
- UK One-Month Treasury Bills

The data illustrates the beneficial role of stocks in creating real wealth over time, UK stock returns have far exceeded inflation and significantly outperformed bonds.

Another key point is that not all stocks or bonds are the same. For example, consider the performance of UK small cap stocks vs. large cap stocks over this period. A pound invested in small cap stocks in 1992 would be worth considerably more than a pound invested in large cap stocks.

Keep in mind that there's risk and uncertainty in the markets. Historical results may not be repeated in the future. Nevertheless, the market is constantly pricing securities to reflect a positive expected return going forward. Otherwise, people would not invest their capital.

## 2.5 Structure is the Strategy

We believe that fixed income investments play a vital role in balanced portfolios to dampen volatility rather than as a source of higher returns. As short-term, high quality debt instruments have lower risk (volatility) than long-dated or lower-quality bonds, our portfolios exploit this characteristic to take more risk in equities where expected returns are higher.

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By considering how much of each equity and fixed income dimension to target, investors can adjust the total expected return profile of their portfolios and more easily build a strategy to support their investment goals.

Successful investing means not only targeting dimensions that generate higher expected returns, but also managing risks that may needlessly compromise performance. Avoidable risks include;

- holding too few securities,
- acting on market predictions in areas like interest rate movements, and
- relying solely on information from third-party analysts or rating services.

To all these risks, diversification is an essential countermeasure. It lessens the impact of the random fortunes tied to individual securities and positions an investor to participate in the returns of broad economic forces.

Traditionally, managers do one of two things: They focus on picking individual securities, or they attempt to mimic the performance of arbitrary benchmarks.

Here we replicate strategies based on research rather than speculation or the need to track commercial indices.

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### 3. Portfolio Construction

#### 3.1 A Science Based Approach to Sustainable Investing

Our sustainability strategies are designed to target measurable sustainability goals while seeking broad diversification, efficient cost management and higher expected returns.

Dimensional's sustainability strategies have achieved significant reductions in emissions exposure based on the collective emissions profiles of companies held in the portfolios. The reductions are measured by both Green House Gas (GHG) emissions intensity exposure in tons of carbon dioxide equivalent (CO<sub>2e</sub>) per million of USD sales and potential emissions from reserves in megatons of CO<sub>2</sub>.



**What are Carbon Dioxide Equivalents (CO<sub>2e</sub>)?** CO<sub>2e</sub> is a unit used to compare emissions of the seven greenhouse gases by converting each gas to an equivalent amount of CO<sub>2</sub> based on their global warming potential.

**What are fossil fuel reserves?** Companies may have physical assets that include coal, oil, and natural gas, which can lead to high emissions in the future.

**What is 1 tonne of CO<sub>2e</sub>?**



Equivalent to emissions from 427 litres of Petrol consumed ([EPA.gov](https://www.epa.gov))



Equivalent to carbon sequestered by 1.2 acres of U.S. forests in 1 year ([EPA.gov](https://www.epa.gov))

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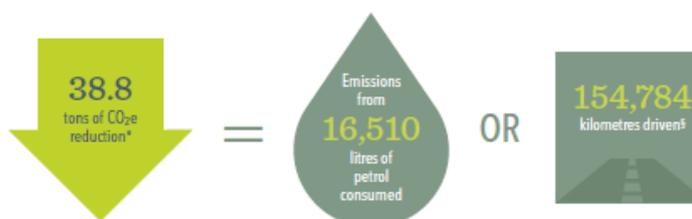
## Dimensional Sustainability Strategies vs. Comparative Indices

Dimensional targets specific sustainability characteristics that investors can understand and compare to industry standards. We believe this approach enables more transparent reporting on investment and sustainability metrics relative to benchmarks.

Strategy*	Reduction in Exposure to GHG Emissions Intensity <sup>2</sup>	Reduction in Exposure to Potential Emissions from Reserves <sup>2</sup>	Comparative Indices <sup>3</sup>
Global Developed Market Equities <i>World All Cap Core Sustainability Equity</i>	74.1%	100%	MSCI World
Global Fixed Income <i>Global Sustainability Fixed Income (Corporate Bonds Only)</i>	88.8%	100%	Bloomberg Global Aggregate Bond

### Understanding Reduced Emissions Exposure<sup>2</sup>

A \$1 million (USD) investment in Global Developed Market Equities (World All Cap Core Sustainability Equity) is exposed to 38.8 fewer tons of CO<sub>2</sub>e emissions per year than the same investment in the MSCI World.†



\* Representative account of the strategy

† Emissions exposure is based on the representative share of total emissions of the underlying holdings in the strategy and index given a \$1 million (USD) investment.

‡ Kilometres driven in an average passenger car. Calculated by Dimensional using data from [EPA.gov](https://www.epa.gov). See footnote 2 for further information.

## 3.2 Asset Classes

In designing our model portfolios, we seek to exploit the individual characteristics of asset classes and, by combining them into risk-graded portfolios, achieve the benefits of diversification. So, what do we define as an asset class?

Simply put, an asset is an economic resource that delivers a positive expected cash flow to investors in return for the use of their capital – either through lending or ownership.

### Stocks and Bonds are Conduits for Capital



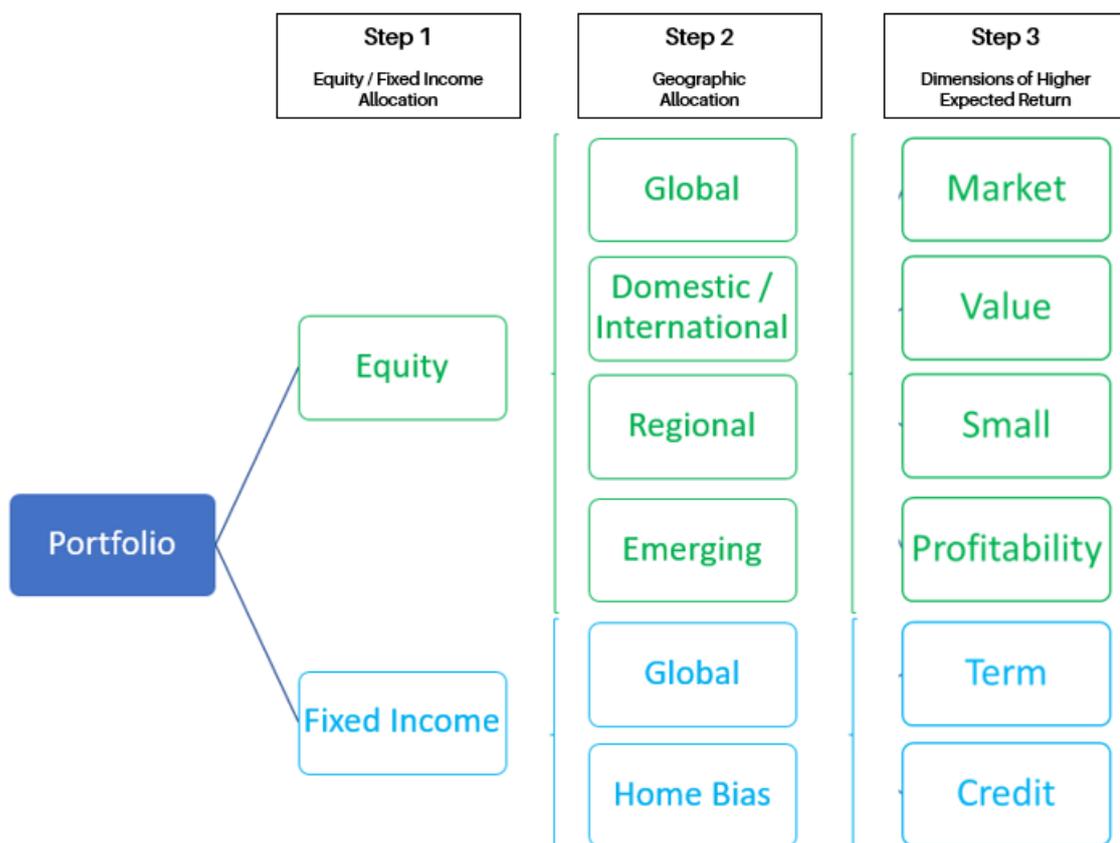
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We offer sustainability solutions covering the asset classes below, enabling us to customise our model portfolio’s global allocation while consistently applying sustainability criteria across a total portfolio.

- Cash
- Global Equities
- Emerging Market Equities
- Global Fixed Income
- Global Small
- Global Value

### 3.3 Model Portfolio Construction Process

Allocation in Equities & Fixed Income



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**Step 1 - Equity/Fixed Income Allocation** – This is going to be the main driver of return between the portfolios. Consistently increasing the allocation to equities gives each of the portfolios a different set of characteristics.

**Step 2a -Geographic Allocation: Equities** - Successful investing means not only capturing risks that generate expected return but reducing risks that do not. Diversification is the antidote to all these risks as it washes out the randomness of returns of individual companies, sectors and markets and positions the portfolio to capture the returns of broad economic factors.

Most UK investors have habitually over-weighted the UK equity holdings in their portfolios.

***But does this make sense in a world where the UK only represents less than 10% of the world's market capitalisation?***

The two reasons most often given for this over-weighting are:

- a familiarity bias for UK companies they are investing in, and
- a concern for currency exchange rate fluctuations which can impact portfolio returns.

Whilst understandable, familiarity bias is increasingly less justifiable, especially when the earnings of so many large UK companies derive their income overseas.

The second issue, currency risk, is of far less concern in the long-term than in the short-term. Long-term, the fluctuations between currencies tend to cancel each other out, but they can be volatile in the short-term. Our portfolios are primarily designed for long-term buy and hold investors, but we recognise that this needs a balanced approach.

When considering the question of international diversification, we have two obvious anchor points. Firstly, we could adopt a purely global approach and hold a diversified index which replicated world market capitalisation weightings. Secondly, we could be completely biased to our domestic equity market and simply hold a FTSE All-Share Index fund.

Although the FTSE All Share index is diversified across many UK companies, investors can benefit by adding in some international diversification. Our portfolios are globally diversified which is especially relevant at times of political uncertainty.

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Our approach to diversification allows us to seek to capture the performance of an entire asset class (such as small-cap stocks), rather than the performance of a single stock idea. When the asset class contains many thousands of stocks, our portfolios own many thousands of stocks.

## There's a World of Opportunity in Equities

Percent of world market capitalisation as at 31 December 2021



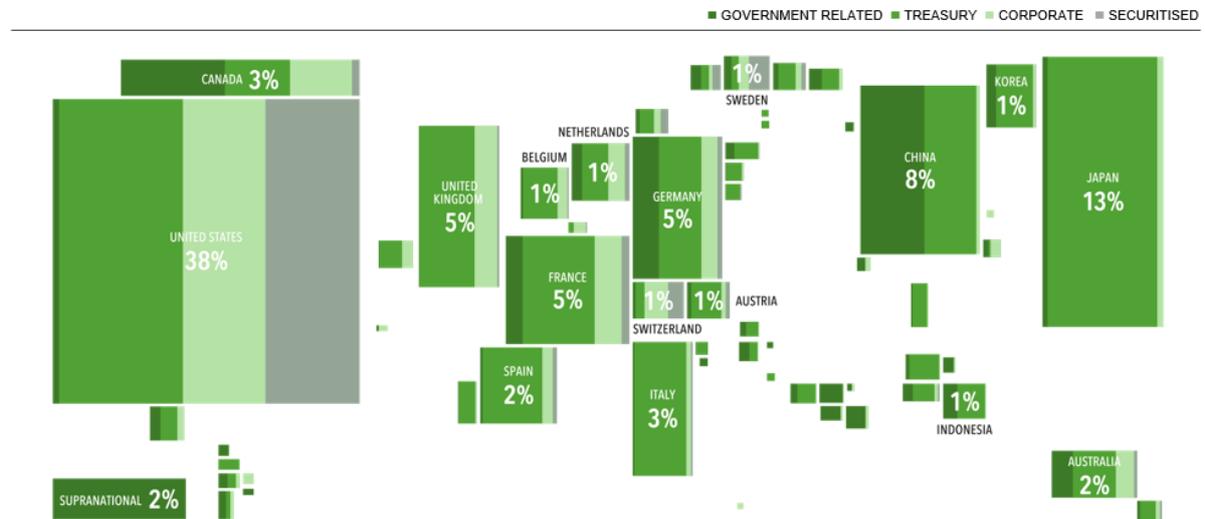
**Step 2b – Geographic Allocation: Fixed Income** – Global diversification is also important within fixed income portfolios, for several reasons.

- Diversification reduces idiosyncratic risk associated with holding an individual bond.
- Global fixed income markets are not perfectly correlated.

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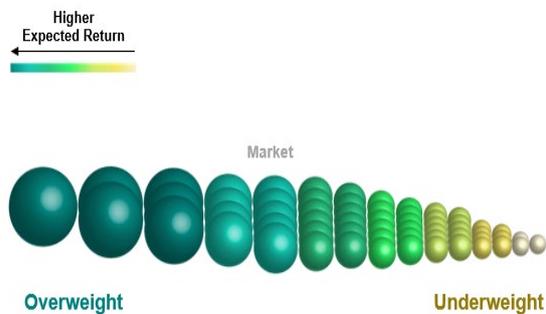
# There's a World of Opportunity in Fixed Income

Percent of global investment grade bond market as at 31 December 2021



Step 3a – Equity Allocation: Dimensions of higher expected return – There are higher expected returns associated with investing in small companies vs large companies and value companies vs growth companies. However, a decision needs to be made on how much to overweight to these parts of the market.

## Portfolios Can Be Structured along Dimensions of Expected Returns



A well-diversified portfolio can emphasise market areas offering higher expected return potential.

The strategies can emphasise securities with higher expected returns by overweighting them compared to their market cap weight.

In a dimensions-based approach, capturing returns does not involve predicting which stocks, bonds, or market areas are going to outperform in the future. Rather, the goal is to hold well-diversified portfolios that emphasize dimensions of higher expected returns and have low turnover.

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**Step 3b – Fixed Income allocation:** Dimensions of higher expected return – financial economists have identified two factors that determine the expected returns of fixed income securities: term and credit. The term factor is a proxy for unexpected changes in interest rates, while the credit (default) factor is a proxy for changes in economic conditions that change the likelihood of default. Together, those two factors explain much of the common variation in the cross-section of bond returns.

We think that the best way to achieve this is to use the information contained in market prices to determine how much credit or term risk one should take. Our fund manager has a dynamic approach to fixed income and varies funds' exposure to term and credit according to where the highest expected returns are. In order to broaden the potential for higher returns, it does this in geographically diverse portfolios.

**Exposure to the Term Premium** – A variable maturity strategy seeks to invest at the steepest part of the yield curve and hold for the period that has the highest expected return. As an example, it might make sense to hold a bond for 6 months, buying at the steepest point and selling after 6 months, to then rebuy and repeat for another 6 months. This would be in contrast to holding a bond for 1 year.

Consideration needs to be made to how much term premium the portfolio is going to be exposed to and how long a duration this term exposure is going to have.

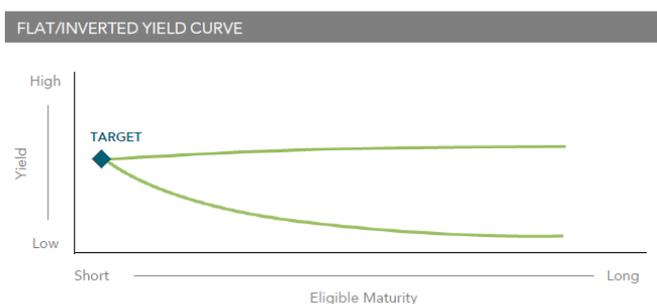
On average, wide term spreads are associated with higher term premiums.

- Lengthen duration, target highest/steepest segments of yield curve.



On average, narrow term spreads are associated with lower term premiums.

- Shorten duration, target shorter maturities.

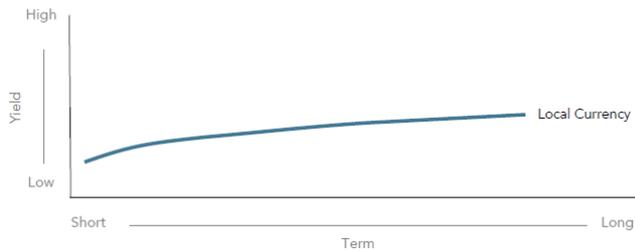


For illustrative purposes only.

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Dimensional uses this information to improve expected returns by varying the duration of the portfolio based on the current yield curve.

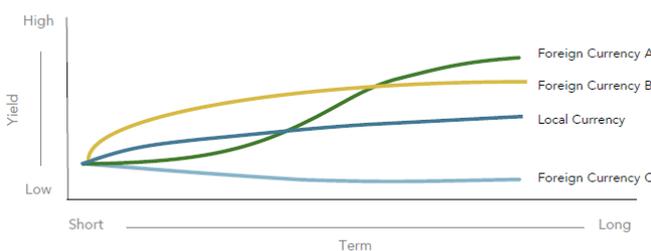
**DOMESTIC MARKET INVESTOR**



Reliable relationships exist between current term spreads and future term premiums globally.

Yield curves in different countries often have different levels and slopes offering a broadened opportunity set.

**GLOBAL, CURRENCY-HEDGED INVESTOR**



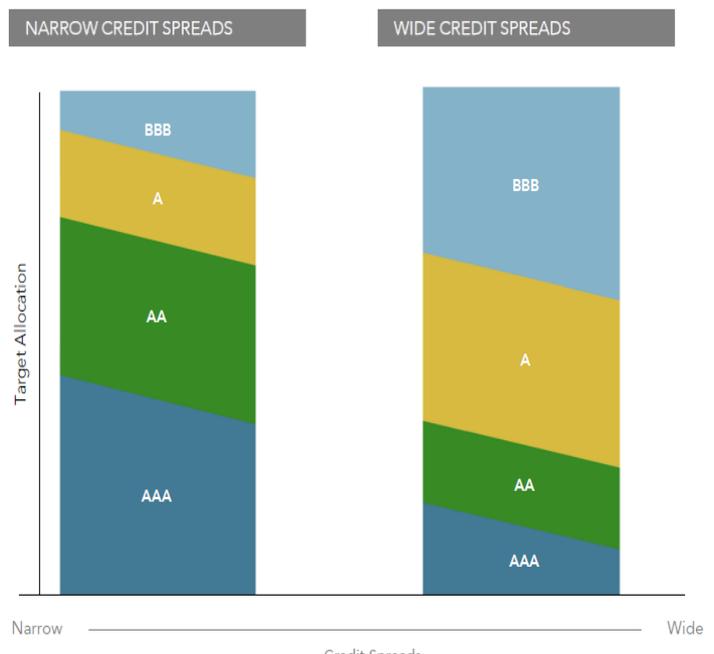
Investing in multiple yield curves on a currency-hedged basis can enhance diversification and reduce volatility. Dimensional applies the variable maturity approach to yield curves in markets around the world in pursuit of higher expected returns.

For illustrative purposes only.

**Exposure to the Credit Premium** – Research has shown that when credit spreads widen, on average, investors are compensated for taking on more credit risk. Therefore, a variable credit strategy will seek to take credit exposure when credit spreads are wide, taking advantage of the higher expected returns. Portfolios can target the highest quality issues, the whole of the investment grade spectrum or even into junk bonds.

Dimensional’s variable credit approach uses information contained in forward rates and credit spreads to dynamically vary exposure across credit qualities to bonds with higher expected returns.

- Narrow credit spreads generally lead to lower credit premiums.
- Wide credit spreads generally lead to higher credit premiums.



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### 3.4 Rebalancing

Rebalancing a portfolio is an important factor in achieving long-term returns. If you accept that your risk capacity should be matched with a suitable portfolio then rebalancing is the means by which you maintain a consistent risk exposure. For example, after a prolonged bull market the balance of equities and fixed income in your portfolio might have shifted from 60/40 to 70/30 – leaving you more exposed to the downside than you are prepared for.

Although rebalancing is a simple concept, realizing its benefits is a challenge for many investors because it involves selling assets that have recently done well and buying assets that have recently done poorly in order to return to the original allocations. However, an understanding that, over the long-term, asset class performance tends to revert to the mean (i.e. periods of above average performance are followed by periods of below average performance), rather than maintain upward or downward trends indefinitely, will help the investor overcome their reluctance to do what appears to be counter-intuitive – i.e. sell a successful investment rather than hold on to it.

Rebalancing has been proved to increase portfolio returns with no additional cost in terms of risk. However, it is not an entirely 'free lunch' as, in order to rebalance, some transactional fees and expenses may be incurred. The key, then, is to maintain discipline as to when and why the portfolio will be rebalanced.

As a general rule, a portfolio is tested quarterly and rebalanced when necessary to revert to its original allocation. In addition, your risk capacity should be assessed regularly or when a significant life event occurs such as loss of job, marriage, divorce, birth of children or death, to determine whether any structural change in asset allocation is required.

### 3.5 Excluded Products

We do not include Hedge Funds, Absolute Return Funds or Structured Products in our model portfolios because of their overly complex structures and hidden risks, high fees and lack of liquidity.

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## 4. The Model Portfolios

Using the above framework, it has been possible to create the set of ESG / Sustainable model portfolios below.



For illustrative purposes only. The risk and expected return shown in this illustration are not reliable indicators of the funds' actual or future risk profiles. There is no guarantee strategies will be successful.

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## 4.1 Asset Allocations

The following table provides an Asset Class breakdown of the Sustainable model portfolios.

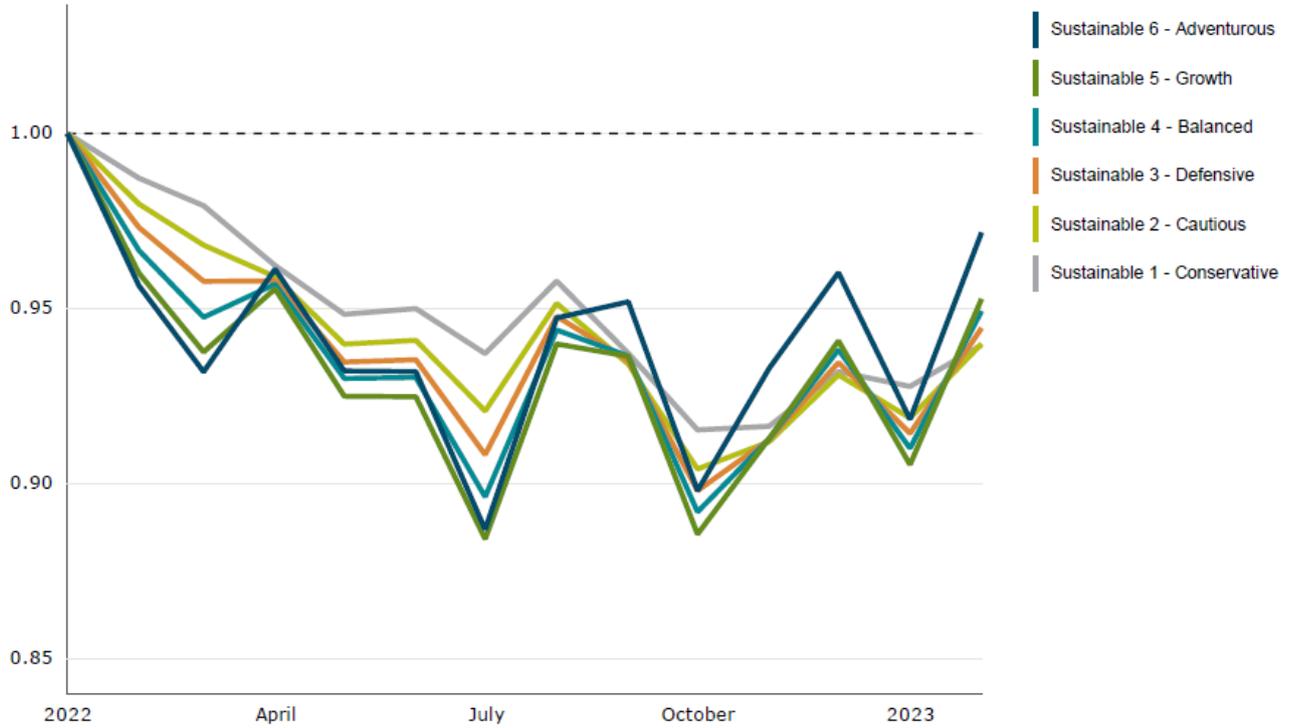
Asset Class	Index	Interface 1	Interface 2	Interface 3	Interface 4	Interface 5	Interface 6
Cash		[2.0%]	[2.0%]	[2.0%]	[2.0%]	[2.0%]	[2.0%]
Global Equity	MSCI World Index (net div., GBP)	[0%]	[11.0%]	[22.10%]	[33.3%]	[44.0%]	[55.0%]
Emerging Market Equity	MSCI Emerging Markets Index (net div., GBP)	[0%]	[1.0%]	[2.3%]	[4.20%]	[5.2%]	[6.5%]
Global Fixed Income	UK One-Month Treasury Bill	[98.0%]	[79.0%]	[59.6%]	[38.0%]	[19.40%]	[0%]
Global Small	MSCI World Small Index	[0%]	[2.0%]	[5.0%]	[6.9%]	[9.0%]	[11.2%]
Global Value	MSCI World Value Index	[0%]	[5.0%]	[10.0%]	[15.6%]	[20.4%]	[25.3%]

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# Growth Of Wealth

Monthly: 1/1/2022 - 31/1/2023

Past performance does not predict future returns



# Range of Returns

Monthly: 1/1/2022 - 31/1/2023

Past performance does not predict future returns



	Highest	Lowest	Avg.	Std. Dev.
Sustainable 6 - Adventurous	6.81	-5.66	-0.13	4.31
Sustainable 5 - Growth	6.30	-5.42	-0.30	3.90
Sustainable 4 - Balanced	5.31	-4.75	-0.35	3.26
Sustainable 3 - Defensive	4.35	-3.97	-0.41	2.62
Sustainable 2 - Cautious	3.33	-3.20	-0.46	2.02
Sustainable 1 - Conservative	2.21	-2.33	-0.47	1.47

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## 5. Practical Considerations of Portfolio Management

### 5.1 Risk Profile, Tolerance & Capacity for Risk

Investors are entitled to a level of return that is commensurate with their risk capacity. Therefore, the importance of the measurement of risk capacity in the investment process cannot be understated. While establishing your risk profile we aim to understand two main aspects of your position:

- Your aims & the resources you have available to meet those aims.
- Your objective & subjective ability to tolerate losses.

We use a Psychometric risk profiling process in order to give us a broad indication of your risk capacity. The results of the risk profiling exercise indicate which of our model portfolios would provide an asset allocation and an investment experience commensurate with your tolerance for risk. This then forms the basis of a detailed discussion.

Our guiding principle is that you should only take on the amount of investment risk you are comfortable with as it is essential that you are able to maintain investment discipline.

The Finametrica Risk Profiler uses psychometrics to build a picture of your overall Risk Profile these Subjective Factors must be considered alongside Objective Risk Factors that include your timescale to reach your goals, your income, your asset position and your investment knowledge.

We also need to consider and understand your capacity for risk. This is your ability to accept the level of risk identified from the Finametrica risk tolerance questionnaire. It takes account of circumstances in your life that could affect your capacity for risk, either now or in the future. The outcome of the Finametrica risk questionnaire may show that you are willing to accept a very high-risk investment strategy, but this may be completely unsuitable if all of the investment represents your total life savings.

We must also understand if your capacity for risk differs according to the 'pot' of money being considered. For example, a pension fund that is not required for, say, 30 years may be treated quite differently from money needed for a child's education in 10 years' time.



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## 5.2 Cash Flow Planning with Voyant

Knowing where your finances are today is just the start, on its own it is not enough because it's knowing where they are going which is more important. Using life time cash flow forecasting software we help you to look into your financial future which helps you to see clearly where you are heading. It helps you answer important questions like:

- When will I have enough to retire?
- Can I afford to retire early?
- How much can I spend and still have enough money for the rest of my life?
- How much can I give away without ever running out of money?

Voyant is a cash flow planning system that presents complicated financial planning calculations in a way that is easy to understand and access. It enables us to help you plan your future cash flow by forecasting:

- Income
- Expenses
- Assets
- Liabilities

Voyant helps us consider a wide range of other variables and helps to create personalised plans, taking account of the client's circumstances, aspirations and concerns, financial goals and attitude to risk. Furthermore, it allows consideration of wider uncertainties, such as inflation and investment returns. Voyant creates an interactive plan that accounts for all these factors and makes the future tangible by plotting your direction, using a range of inbuilt assumptions.

The system enables advisers to discuss cash flow projections with clients and change any variables that they choose. For example, what if you want a new car; to travel the world; or help pay for your grandchild's education? What if you are concerned about the cost of long-term care, or if one partner predeceases another?

These variables can be changed easily in Voyant to show the effect on income, expenditure, and capital. In this way, the system creates a realistic and personalised plan. The aim is to give you the confidence to spend as you need, safe in the knowledge that your financial future is secure.

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### 5.3 Platforms – Nucleus Financial Platform

Nucleus's mission has always been to change financial services for the better and this makes them very different from other platforms. Their entire company, culture and ethos has been built on principles of transparency, trust, and respect. Their model puts advisers in control where they are free to manage a client's portfolio to meet their personal objectives.

They provide a fully independent wrap platform with access to a wide range of tax wrappers and an open architecture approach to investments. Adviser firms have access to a completely unbiased choice of over 6,000 investments. The platform allows advisers to combine all their clients' assets into a single, manageable online account. This allows portfolios to be viewed immediately by both clients and their advisers which allows easy valuations and variations to be made.

We recommend Nucleus Financial to our clients and without exception our clients have been delighted with their experience. We regularly review our recommendation, and our research continues to show that for most of our clients Nucleus continues to be the most suitable platform.

Clients love the ease of access, the regular reporting, and they discover that the platform provides them with something of real value. The platform cost of 0.35% tiered to 0.15% is a small price to pay for the access, reporting, and convenience. The platform allows immediate access to view all the details regarding their investments including valuations, transaction histories, withdrawals, additions, charges, fees, and all correspondence. Clients believe that the transparency, convenience, and facilities, gives them great value for a small cost. In addition, this cost is more than eliminated because the platform makes administration a simple process for advisers.

This means that administration charges for the following are reduced or eliminated altogether: rebalancing, cash withdrawals, fund switches, transferring funds from your general to your ISA account, crystallising your pension commencement lump sum from your SIPP, are just a few examples where using the platform helps to manage your portfolio and meet your objectives efficiently.

As independent advisers we are able to use any of the dozen or so platforms available, however, we do not believe that it is in our clients' best interests to use different platforms simply to demonstrate our independence.

Our aim is always to reduce our clients' costs and using several different platforms with their different systems and requirements would increase administration costs. This would result in increased fees charged to clients, so we believe that it is in our clients' best interests to keep the number of platforms that we use to a minimum providing of course that all other criteria are satisfied.

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## 5.4 Discretionary Fund Managers (DFMs)

An advisory service sees your financial adviser make recommendations based on your specific needs and circumstances, but the client maintains full control of the investments, and remains the ultimate decision-maker. A DFM service sees the advice firm provide similar recommendations, but investment decisions are made on your behalf.

Advice firms with DFM permissions can implement investment changes – in line with the pre-defined risk profile and investment strategy – without consulting the client first (with any actions taken then reported to the client after completion).

The remit of a DFM is to make money for their company and bonuses for themselves – and then returns for the client – so there’s a potential conflict of interest. Using a DFM also adds an extra layer of fees that we do not believe is in the best interests of most of our clients. We know our clients personally: it’s not an abstract game in which the fund manager becomes insulated from the hopes, aspirations, and fears of individual clients.

However, Discretionary Fund Management may be appropriate for some clients and due to this we can recommend from a panel of DFMs. To be commensurate with Interface Financial Plannings ethos and investment principles we will only recommend Sustainable investments from these DFMs. The panel are reviewed annually across the whole of market, with particular regards to ESG Characteristics, Management Style, Cost, Reputation, and Past Performance.

The current DFM Panel consists of:

- Crossing Point – Green Path ESG Portfolios
- King & Shaxson
- Sarasin
- Tatton Ethical

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## 5.5 Investor Protection

**Nucleus Financial Platform** hold your cash with a panel of banks to reduce the risk to you they only partner with banks who have the appropriate authorisations from the UK regulators and are covered by the Financial Services Compensation Scheme (FSCS). So, in the unlikely event that a bank fails, this diversification reduces any potential impact by spreading the risk across the banks used. Under FSCS rules, you could be entitled to compensation of up to £85,000 per banking licence, so by spreading your money across many different banks, you could be covered for a higher sum than if we held all your cash with a single bank.

**Dimensional Ireland** is regulated by the Central Bank of Ireland (Registration No. C185067) under the Irish UCITS Regulations. Additionally, client money rules imposed by the CBI ("Investor Money Regulations") are designed to require firms subject to them to have clear separation between money that belongs to the investor and money that belongs to the firm. These rules are intended to provide protection for investor money in the event of the insolvency of the firm.

Compensation under the FSCS will also generally not be available in connection with a claim against the Irish Funds, although the FSCS may be available in some circumstances in connection with a claim against Dimensional UK.

Eligible consumers under Irish law may be able to refer a complaint against Dimensional Ireland to the Irish Financial Services and Pensions Ombudsman (FSPO). If a complaint is upheld, the FSPO has powers of redress which can include requiring compensation to a complainant up to a maximum of €500,000.

If Dimensional Ireland is unable to meet its obligations to investors (e.g., if Dimensional Ireland has become insolvent), investors may be able to obtain compensation from the Irish Investor Compensation Scheme (ICCL). Details can be found at [www.investorcompensation.ie](http://www.investorcompensation.ie)

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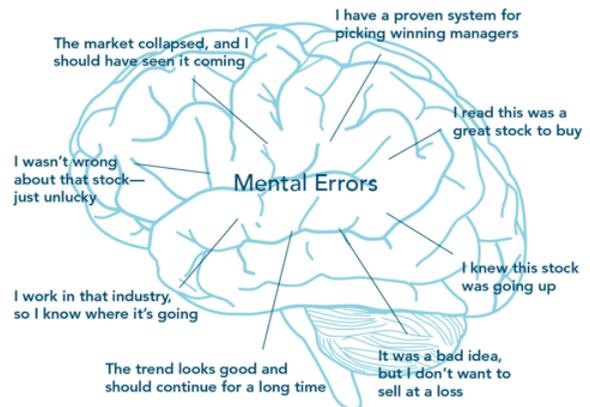
## 5.6 Investment Discipline

*“The investor’s chief problem – and even his worst enemy – is likely to be himself.”* Benjamin Graham, Security Analysis, 1934

Investing is often likened to a ride on an emotional rollercoaster. If you consider the typical behaviour of most investors, you can understand why. When an upward trend starts to emerge, the investor follows the trend but only buys in once he is convinced that it is for real. Unfortunately, this is usually at the point that all the gains have been achieved and the trend reverses.

### Humans Are Not Wired for Disciplined Investing

When people follow their natural instincts, they tend to apply faulty reasoning to investing.

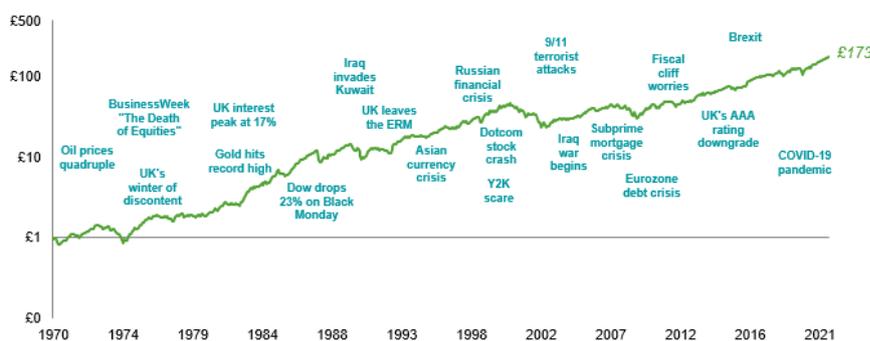


The emotions that drive investors are a powerful force that lead them to buy high and sell low.

The solution therefore is for the investor to select a portfolio that would allow him to remove his emotions from the investment equation. This can be achieved using a

### Markets Have Rewarded Discipline

Growth of a pound—MSCI World Index (net div.), 1970–2021



A disciplined investor looks beyond the concerns of today to the long-term growth potential of markets.

portfolio of globally diversified index funds, tempered with a fixed income component to reduce volatility. This allows them to stay invested at a risk level with which they feel comfortable.

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## 5.7 Our Responsibilities

In addition to any responsibilities imposed by law or by the rules of the Financial Conduct Authority, our responsibilities at Interface Financial Planning are:

1. When so requested by you, to help you decide on a suitable asset allocation policy. To recommend pensions, offshore bonds, individual savings accounts, unit trusts, investment trusts and / or investments managed by insurance companies and / or others and to attempt to arrange for you the investments you select.
2. You have not imposed any specific restrictions on the type of investments you may wish to consider, thereby leaving us free to suggest whatever may seem appropriate having regard to your circumstances at any particular time.
3. For the avoidance of doubt, it is understood and agreed that Interface Financial Planning is not a manager of investments. When so requested, we will recommend fund managers and we will monitor the performance of those managers.
4. When so requested by you to provide valuations of the investments it has arranged for you. These valuations are normally supplied digitally via your personal online account where you can view them at any time of your choosing in a secure environment.
5. It is understood and agreed that we should use our best endeavours to meet your investment performance expectations but will incur no liability to you if unsuccessful

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## 5.8 Your Responsibilities

1. To review this Investment Policy Statement and satisfy yourself that it is acceptable to you. If any points are not clear you should discuss them with us.
2. To advise us in writing if at some future date the terms of the Investment Policy Statement become unacceptable to you.
3. To advise us in writing if you anticipate any significant encashment of your equity linked investments within the next five years. This means a rolling five years. We normally recommend such investments on the assumption that, emergencies excepted, they will be held for at least 5 years and if you identify a future need to release capital from your portfolio it would be helpful for us to be aware of this.
4. To read any investment literature provided for you by us or by the managers of your investments and to notify us if there are any points which you do not understand. You retain absolute discretion over all investment and implementation decisions.
5. To advise us in writing if you wish any specific 'ethical' concerns to be considered before investment advice is given to you. This could cover, for example, industries such as alcohol, armaments or tobacco or might relate to investment in countries with a political regime which you would find unacceptable. You should note that with collective investments, other than the small number of specifically 'ethical' funds, it may not be possible to identify from day to day the exact constituents of a fund in which you have invested or in which you are considering investing so it would be appreciated if you would stipulate investment constraints only in relation to those matters about which you feel strongly. To date you have made no such stipulation.
6. Should you wish to follow our ongoing advice, to reply to our communications recommending any fund switches, promptly and clearly.
7. To maintain a disciplined approach to investment.

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## 5.9 Our Client's Understanding

Our clients understand the following:

1. They understand that there are many kinds of investment risk including but not restricted to:
  - 1.1 The systematic risk of markets
  - 1.2 Income risk
  - 1.3 Inflation risk
  - 1.4 Currency and exchange rate risk
  - 1.5 Default risk
  - 1.6 The unsystematic risks of securities
  - 1.7 Liquidity risk
  - 1.8 Capital risk
  
2. They understand that there is no such thing as an investment which will give above average returns without the acceptance of above average risk and that above average risk does not guarantee higher returns.
  
3. They understand that their investments may go down in value as well as up and that past performance is not a reliable guide to future performance. They also understand that they may not recover from a non-Cash investment the whole of the sum originally invested.

It is important to us that our clients have a good investment experience and understand our investment philosophy and our strategy.