Version 10.0

Introduction

When deciding how to invest your money it is very important that your financial adviser has a robust investment process that is documented and adhered to.

That is why we have documented our centralised investment process to make sure our customers:

- Have peace of mind.
- Understand how we use our expertise and the expertise of other investment professionals.
- Are aware that their risk tolerance is always used as the starting point for our investment recommendations.
- Know that we review their investments on a regular basis.

We have designed our investment philosophy and strategies, which the Financial Conduct Authority (FCA) refer to as a 'Centralised Investment Proposition' (CIP), to ensure that we manage your money appropriately, efficiently, in line with agreed expectations and within agreed parameters.

We use respected industry methods and practices to make sure you do not take too much, or too little, risk and that our recommendations are suitable for your personal circumstances.

We only work with investment managers who pass our rigorous selection criteria. They provide us with the knowledge and security that their investment committees monitor the activity of selected funds to ensure they remain appropriate and make changes when necessary.

They also ensure that your investments are regularly rebalanced so that over time your portfolio does not drift away from your agreed risk tolerance. Where we operate 'advisory' versions of the portfolios this will be done as part of your annual review.

To make sure our investment proposition is kept up to date we regularly monitor our processes, practices, and our investment strategies, making improvements if possible, and adjustments when necessary.

Our Method

We take guidance from our regulator and industry experts.

We use guidance from the FCA and use the services of investment professionals who understand this guidance in detail. In conjunction with their research, we use risk rated portfolios to put achieving positive client outcomes at the heart of our investment process.

Our philosophy is documented, and we follow it.

Successful plans are built on strong foundations. That is why we have documented our investment process to ensure it is robust, scalable, and repeatable.

We have a robust process to put our philosophy into practice.

Our collective experience in financial planning, our investment knowledge, and our experience, puts us in a very strong position to construct investment strategies built on extensive and reliable research.

We create documents to help you understand why and what we do.

Our documentation is designed to make it easy for you to understand our investment process and the range of strategies. We also get opinions from industry experts to sense check these processes.

We review and adjust.

Plans need constant adjustment to remain valid, so we have a process in place to make sure we do that.

Our Investment Philosophy – step by step

1
Knowledge & Experience

We use our knowledge and experience in conjunction with investment experts to construct suitable investment strategies. We have thoroughly researched the options and use investment experts to help us to provide strategies that meet a range of client needs, circumstances, and objectives, within their tolerance for risk and capacity for loss.

2
Due Diligence

We undertake a robust due diligence procedure before we decide which investment partners to use. We go into considerable detail in to how an investment manager operates, how they manage volatility, what their costs are, and which asset classes are used in their portfolios, to name a few.

3
Managing Risk

We manage risk. The most obvious risk is volatility, and we make sure you take neither too little nor too much risk when we invest your money. However, other risks are also considered and because risk management is a major part of ensuring good outcomes for our clients, our investment strategies are suitable for every level of risk.

4
Other Concerns

Other risks considered include the risk of having too much of your investment in one geographic area or asset class, the financial strength of the funds and fund managers, the platform on which your portfolio is managed, and external risks like the effect of taxes, charges and inflation eating away at your investment returns.

5
Investment Style

We believe there is a role for an active and passive approach to investing within a well-diversified portfolio. We are not evangelical towards one or the other because we appreciate that there are arguments for both approaches and both strategies may be used in our portfolios, depending on your circumstances, needs and objectives.

Our Philosophy

Our job as financial advisers is not to guarantee future investment returns, or to try and second guess which investments will perform best – after all, we don't have a crystal ball and can't do that.

Our job is to use our knowledge, skill, and experience to maximise the chances of you achieving your financial aims and objectives using a range of investment strategies.

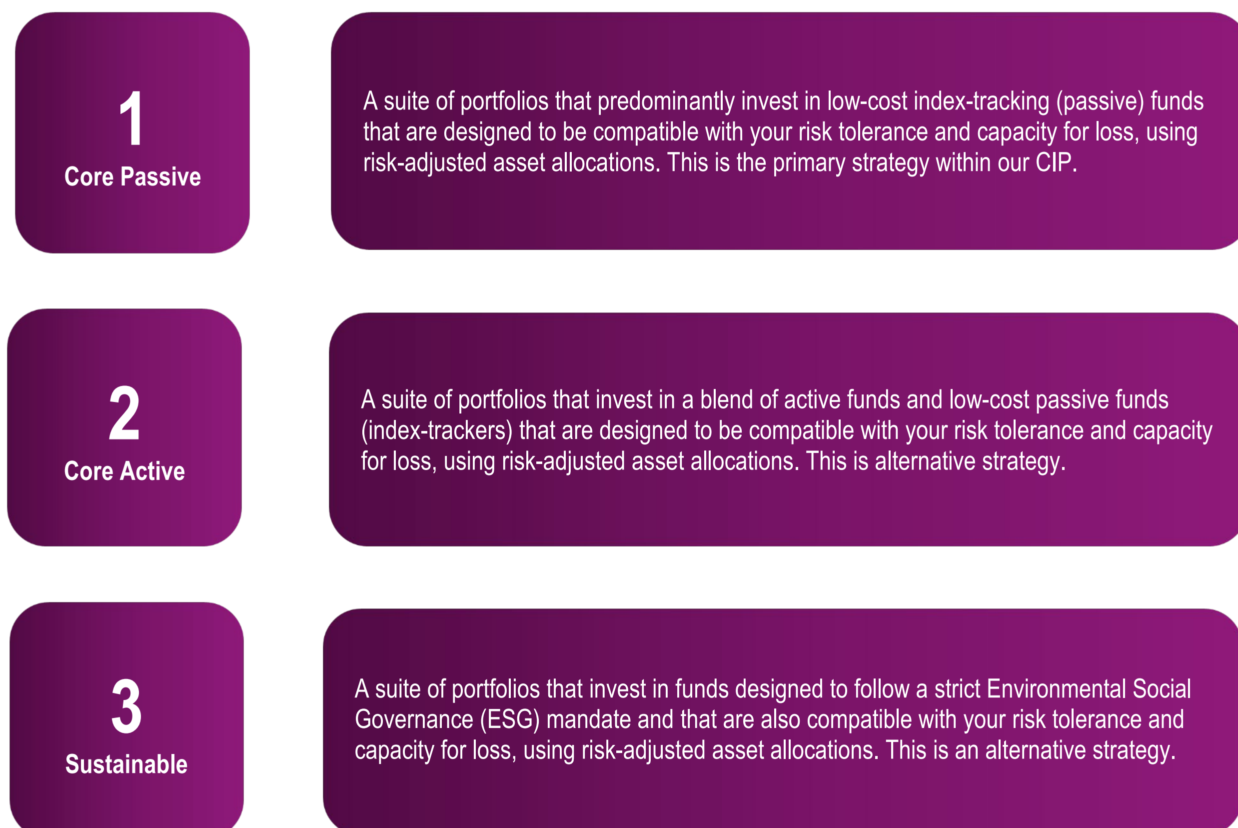
The guiding principles at the heart of our investment philosophy are:

- We will invest your money appropriately, not speculate on the latest trends.
- We will find out what is important to you and construct a financial plan for you.
- We will recommend the use of other investment specialists when appropriate.
- We will aim to minimise your investment costs and the effect of taxation to maximise your investment returns.

Our Process

We use a robust, repeatable, scalable, and proven investment process that makes use of expertise from across the investment management profession. Simple as our process may appear, you can be sure that when we arrive at a recommended investment strategy for you, a great deal of expertise and research has been used.

Our Investment Strategies



1. The 'Core Passive' Portfolios

Our primary investment portfolios that are at the centre of our Centralised Investment Proposition (CIP) are our 'Core Passive' portfolios and have been designed to provide for the five main risk tolerances from 'Cautious' through to 'Adventurous'. The portfolios are predominantly invested in index-tracking ('passive') funds to minimise investment costs.

Asset Allocation

Arriving at appropriate asset allocations for each of our portfolios is key to the process. We identified 13 asset classes that represent a well-diversified range of investments, including shares from around the world and the UK, commercial property, gilts, corporate bonds and gold. The mathematics that helped us decide the weightings to each of these areas is called 'mean-variance optimisation'. In order to make this type of model work, for each asset class you need:

- its expected annual return;
- its volatility (a measure of how much it fluctuates, i.e. a measure of risk); and
- its correlation with every other asset class, i.e. how much asset classes tend to go up and down at the same time.

To these inputs we added some carefully constructed parameters suitable for UK investors.

Building a Portfolio

Most investors understand that riskier asset classes usually provide the highest returns over the long term. However, the factor that often gets ignored when building portfolios is the correlation between asset classes. To reduce the overall volatility or risk of a portfolio you need asset classes that do not all move up and down at the same time, i.e. they are not highly positively correlated.

The ideal scenario is to have 'negative correlation' between some of the asset classes. This means that when one asset class is going up in value another asset class is likely to be going down in value. This would have the greatest impact on smoothing out returns, although in practice this is quite rare.

It is a little counter-intuitive, but if all asset classes are going up at the same time, that is not a well-diversified portfolio. The likelihood is that when investment markets struggle, these same asset classes will all fall together as well. Of course, we only use asset classes which are expected to give a positive return over the medium to long term, but if they do well at different times the portfolio will be better diversified and will deliver smoother returns – which means the overall risk profile is lower because portfolio management is as much about protecting your investments as it is about making money.

The purpose of mean-variance optimisation is to arrive at the strategic asset allocation that has the highest expected return for a portfolio at a given level of risk. It is a complicated mathematical process that needs a computer to crunch all the numbers.

We then add a further layer to our model, using what is called 'resampling'. This process takes account of the fact that, although we try to provide sound inputs to our model, we know that reality rarely matches any model exactly. Therefore, we run the model across hundreds of slightly different future scenarios to arrive at average asset allocations that should prove resilient in a wide range of future investment scenarios.

What is a Suitable Level of Investment Risk?

Our asset allocation model aims to provide the highest expected return for a portfolio at a given level of risk.

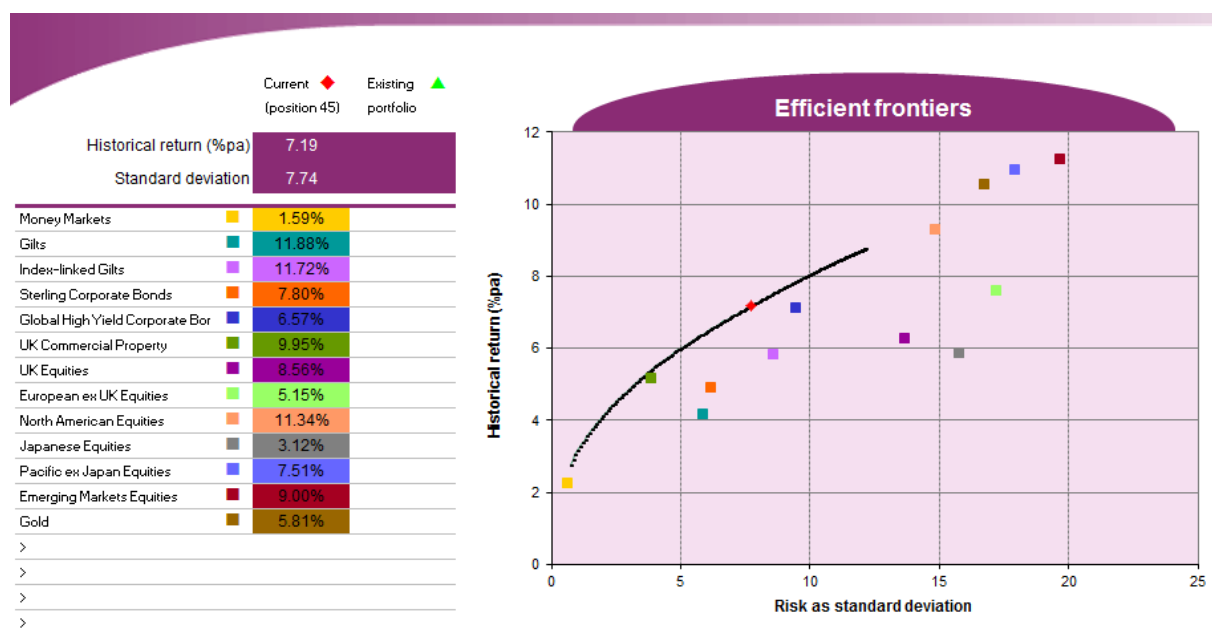
Risk control is all-important when markets perform poorly; when things are going well, investors generally forget risk. By using past performance data for each asset class, our asset allocation model demonstrates the returns that might be achieved in the future when market performance is at the low end of expectations. We categorise our portfolios by the number of years it might take to expect that 98% of the time a portfolio will at the very least break even before charges.

For a 'Balanced' portfolio, we believe positive returns in 98% of cases should be expected within 5 years. For a 'Cautious' portfolio we believe this should be 2 years, and for an 'Adventurous' portfolio 8 years. The diagram below is an extract from our asset allocation model, using historical data. The highlighted row shows the returns for a Balanced portfolio in the worst 2% of market conditions.

Return percentiles													
Year	1	2	3	4	5	6	7	8	9	10	15	20	25
Expected Value	7.19%	7.05%	7.00%	6.98%	6.97%	6.96%	6.95%	6.94%	6.94%	6.94%	6.93%	6.92%	6.92%
1 in 20	-5.04%	-1.69%	-0.16%	0.76%	1.39%	1.86%	2.22%	2.52%	2.77%	2.98%	3.69%	4.11%	4.40%
1 in 50	-7.80%	-3.72%	-1.85%	-0.72%	0.06%	0.64%	1.09%	1.46%	1.76%	2.02%	2.90%	3.43%	3.79%
1 in 100	-9.60%	-5.05%	-2.96%	-1.69%	-0.81%	-0.16%	0.34%	0.76%	1.10%	1.39%	2.38%	2.98%	3.38%
0.1 th percentile	-14.44%	-8.67%	-5.99%	-4.36%	-3.23%	-2.38%	-1.72%	-1.19%	-0.74%	-0.36%	0.93%	1.71%	2.25%

No model provides all the answers and none of us can see into the future. However, we believe this approach provides a rigorous basis for asset allocation, which is the key driver of risk-controlled investment performance.

The diagram below demonstrates the part of our asset allocation model that shows the 'efficient frontier'. This line represents the portfolios that have the highest expected return for a particular level of risk. The example below is our 'Balanced' Portfolio.



Fund Choices

After deciding on a suitable strategic asset allocation for each risk adjusted portfolio, the next stage is to choose funds in each of these asset classes. For most asset classes it is very difficult for active fund managers (those that endeavour to choose a portfolio of securities that will outperform the market) to consistently outperform other fund managers. Market indices represent an average investment performance for each asset class, with some managers outperforming while others underperform; it is a zero-sum game. In addition, active managers charge higher fees than managers of passive funds that simply track the relevant market indices. Charges are certain and can be controlled; outperformance is uncertain and cannot be controlled.

Therefore, for most asset classes, we believe that passive funds (index-trackers) provide an effective, highly diversified, risk-controlled and low-cost means to capture investment returns. Annual fund costs can be as low as 0.10% per annum.

There are exceptions, with UK commercial property being a good example. Managers of funds that invest directly in commercial properties like industrial buildings, offices and retail parks must transact the purchases and sales of properties as well manage tenancies. This clearly requires 'active' management.

Summary Objectives

- To provide a low-cost strategy built on a robust, repeatable risk framework.
- Risk and return are inextricably linked and asset class diversification is essential.
- A focus on risk first (volatility and drawdown) in a belief that performance will follow.
- Sequential alignment of risk grades through rising and falling markets.
- Deliberately place an upper limit on the acceptable range of volatility.
- Always apply a common sense overlay to quantitative and qualitative analysis.
- Deliver returns in line with expectations.
- Simplicity – something our customers can understand.

The portfolios are managed by Dartington on an 'advisory' basis and brought into line with the most recent asset allocation and fund selection at a client's annual review.

Other Investment Options

2. The 'Core Active' Portfolios

The 'Core Active' portfolios are constructed by the award-winning discretionary fund management arm of Financial Express Ltd – FE Investments Limited (FEI). The portfolios use a blend of actively managed ('active') funds and index-tracking ('passive') funds where it is deemed that the active fund options do not add value to the proposition. Their investment approach leverages the oversight of experienced investment professionals. These portfolios are managed by FEI on the M&G Wealth Platform.

Investment Philosophy:

- Portfolios are built on a list of specially selected funds from the FE Investments approved List that leverages the efficiency of their cutting-edge research technology.
- The process uses both quantitative and qualitative analysis to ensure only the best are included.
- Every fund is given a score based on its FE ratings which have their own tried and tested methodologies.
- The top funds with the highest combined scores make up the preliminary list.

- Each fund on the preliminary list is carefully reviewed by their team of expert analysts.
- All FE portfolios are then created using optimisation technology developed by FE.
- The Optimiser is designed to offer the maximum amount of diversification for the investor.
- Scrutiny – quantitative monitoring of the fund is continuous and their governance tool monitors over 100 separate measures to ensure that a fund is performing as it should do.

3. The 'Sustainable' Portfolios

'Sustainable' or 'Responsible' investing, also known as 'Ethical' investing, is nowadays usually known as 'Environmental, Social and Governance' ("ESG") investing.

The UN Principles for Responsible Investment (UNPRI), launched in 2006, are founded on six responsible investment principles that signatories are required to adhere to. Additionally, the UN Sustainable Development Goals (UN SDGs) were launched in 2015 and set out a framework of 17 goals, with 169 sub targets that collectively aim to help us build a more sustainable future for all by 2030.

The range of investment strategies in the ESG area has grown quickly. Retail investment has flourished, with public awareness rising substantially in recent years, and global ESG assets having grown to an estimated $2.74 trillion as of December 2021 according to Morningstar.

There are basically two approaches to ESG investing:

- Positive screening. Placing emphasis on positive reasons to invest, including supporting companies that are leading their peer groups.
- Negative screening. Adopting a screening process that actively avoids certain negative sectors and sub-sectors e.g., tobacco, arms, or fossil fuels.

Investment methodology

Building suitable portfolios for our clients is a complex process. There are thousands of investments available and numerous opinions on how people should invest. This is only complicated further when taking ESG criteria into account as well. We believe that the same core approach should be applied to ESG portfolios as to conventional portfolios. We choose the asset classes, formulate an asset allocation appropriate to a portfolio's risk rating and then fill each asset class with carefully chosen funds. The only difference from conventional portfolios is that those funds must be ethically screened.

In the past most ESG funds were actively managed, but with recent interest in ESG investing growing more options are becoming available as major investment organisations are creating ethically screened market indices. Therefore, we can now offer clients ESG portfolios that incorporate actively managed or passively managed ESG funds, with the latter benefitting from the low fund management charges one expects from index-trackers.

4. 'Bespoke' Portfolios

In certain circumstances clients may not want to use our three main investment strategies. In those circumstances we are happy to construct 'bespoke' portfolios around your investment needs and objectives, and in line with your risk tolerance and broader financial circumstances.

When constructing 'bespoke' portfolios, we tailor an investment strategy to match the level of risk you are willing to take and within the agreed investment guidelines, needs and objectives. Most, if not all, of the funds selected have been identified from the research and rigorous selection process of the investment committees of the managers of our Core Passive, Core Active and Sustainable portfolios, as detailed above.

Risk Profiling – a key element of the Financial Planning Process.

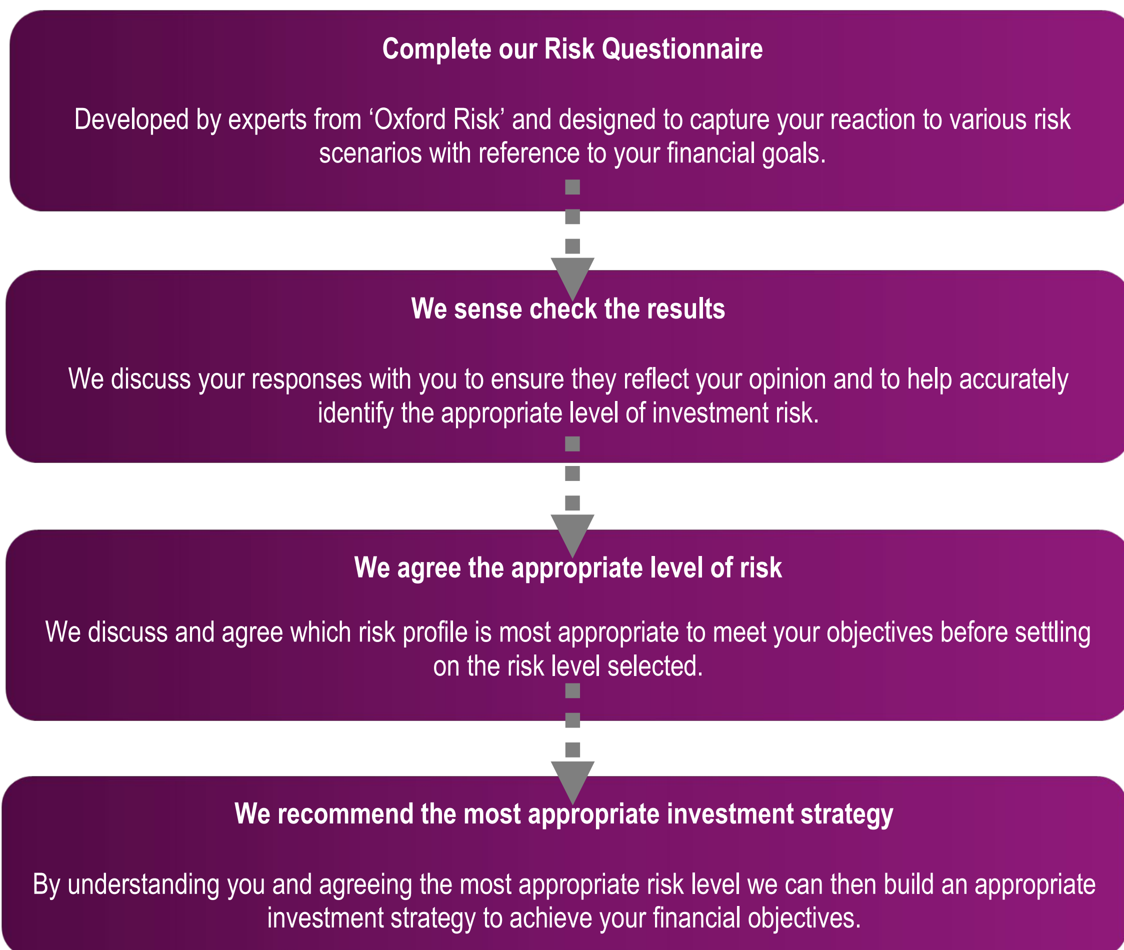
Before we can identify the most appropriate investment strategy for you, we need to understand your tolerance for risk and capacity to cope with losses, specifically how you would be able to cope if the value of your investments were to fall and to identify the level of risk you feel comfortable taking. The risk questionnaire we use was designed by 'Oxford Risk' and is widely accepted as a leading and reliable method of assessing risk tolerance.

Putting your Risk Tolerance into context

We are all different. Therefore, measuring your risk tolerance needs to be done in a way which is independent, robust and above all makes it clear to you what the implications of taking investment risk means. That is why our process produces a risk score that acts as the basis for our recommendations, then discussing the results with you allows us to agree the level of risk you are willing to take.

Applying your Risk Tolerance and Capacity to Cope with losses.

By following the steps below, you can be confident that your risk tolerance and ability to deal with falls in the value of your investments form the basis of our advice and which investment strategy is recommended to help you achieve your investment needs, aims and objectives.



Regular Reviews

We provide you with ongoing reviews and updates on the performance of your portfolio. This happens at least annually but ad hoc reviews may be necessary from time to time depending on market conditions and changes in your personal circumstances. This means that if your objectives and or your priorities have changed, we can assess whether your financial plans need to change and with that whether we need to change your investment strategy.

We provide three levels of ongoing service, Standard, Advanced and Complex, to make sure we regularly review your circumstances, discuss your needs and objectives, and keep you up to date on the performance of your plans and investment portfolio. These are broadly aligned to the amount you have invested through us.

Details of our ongoing services and service levels can be found in our Investment Client Engagement and Ongoing Service Agreement.

The value of investments can fall as well as rise, past performance is not a guarantee or reliable indicator of future performance, and you may not get back in full the amount you invest.

Dartington Wealth Management Ltd is authorised and regulated by the Financial Conduct Authority firm reference number 717593. Registered and trading office is 4 Clifton Court, Cambridge CB1 7BN.
T: 01223 211 122. E: enquiries@dartingtonwealth.co.uk. W: **dartingtonwealth.co.uk**