

For intermediary use only.
Should not be distributed to clients.



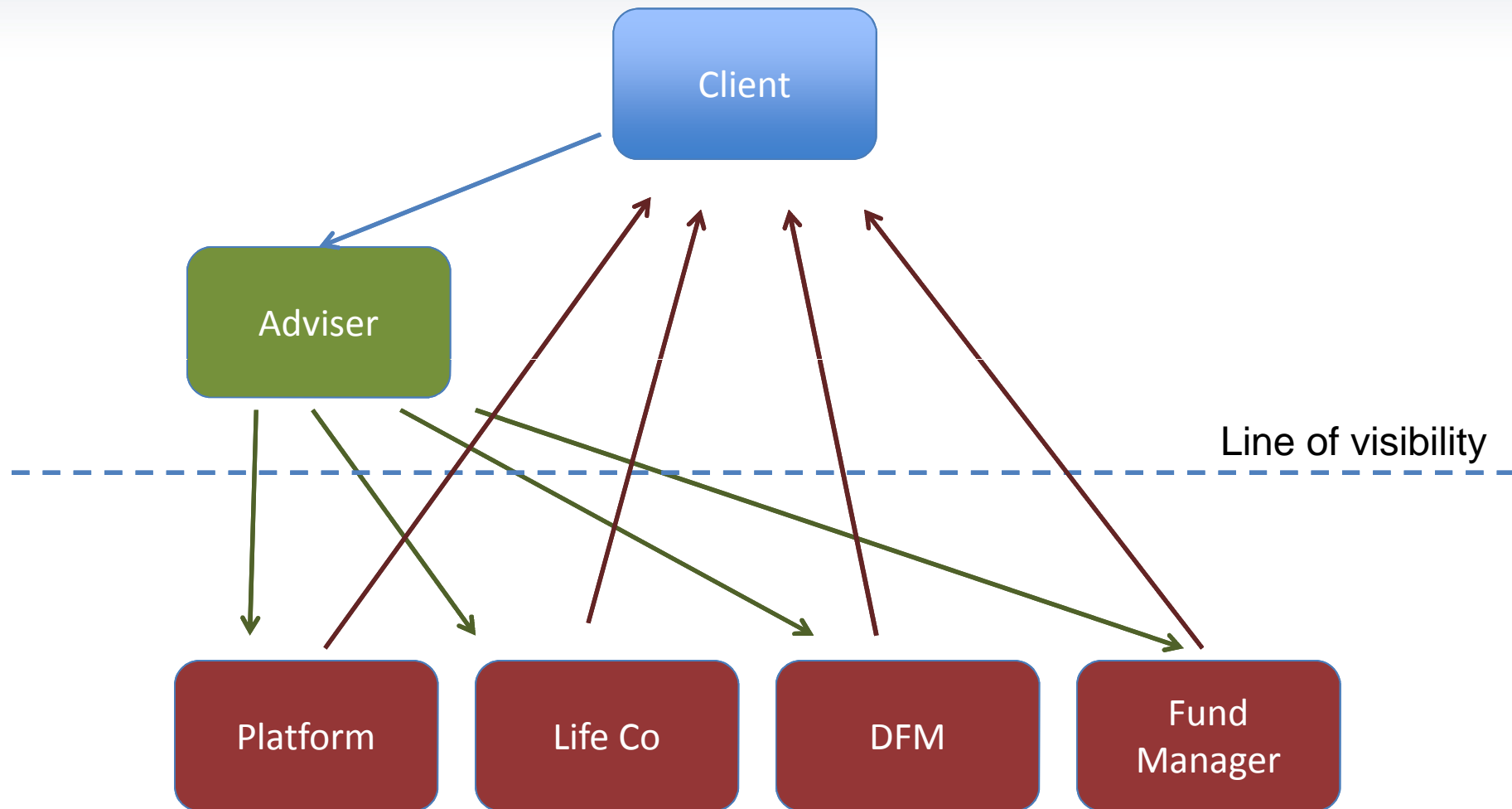
verbatim
ASSET MANAGEMENT

Investment Philosophy Workshop

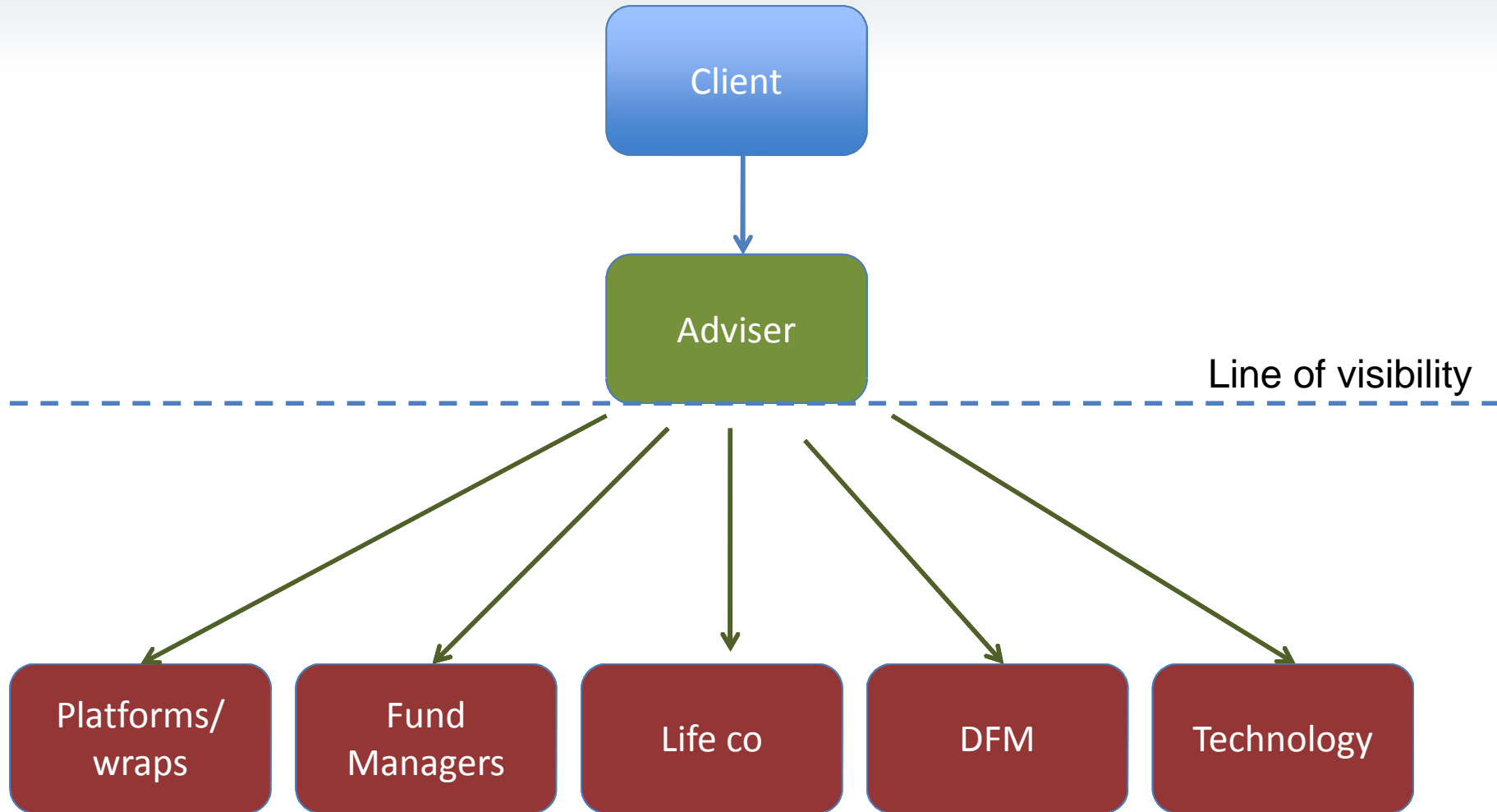
Supply Chain to YOUR service....



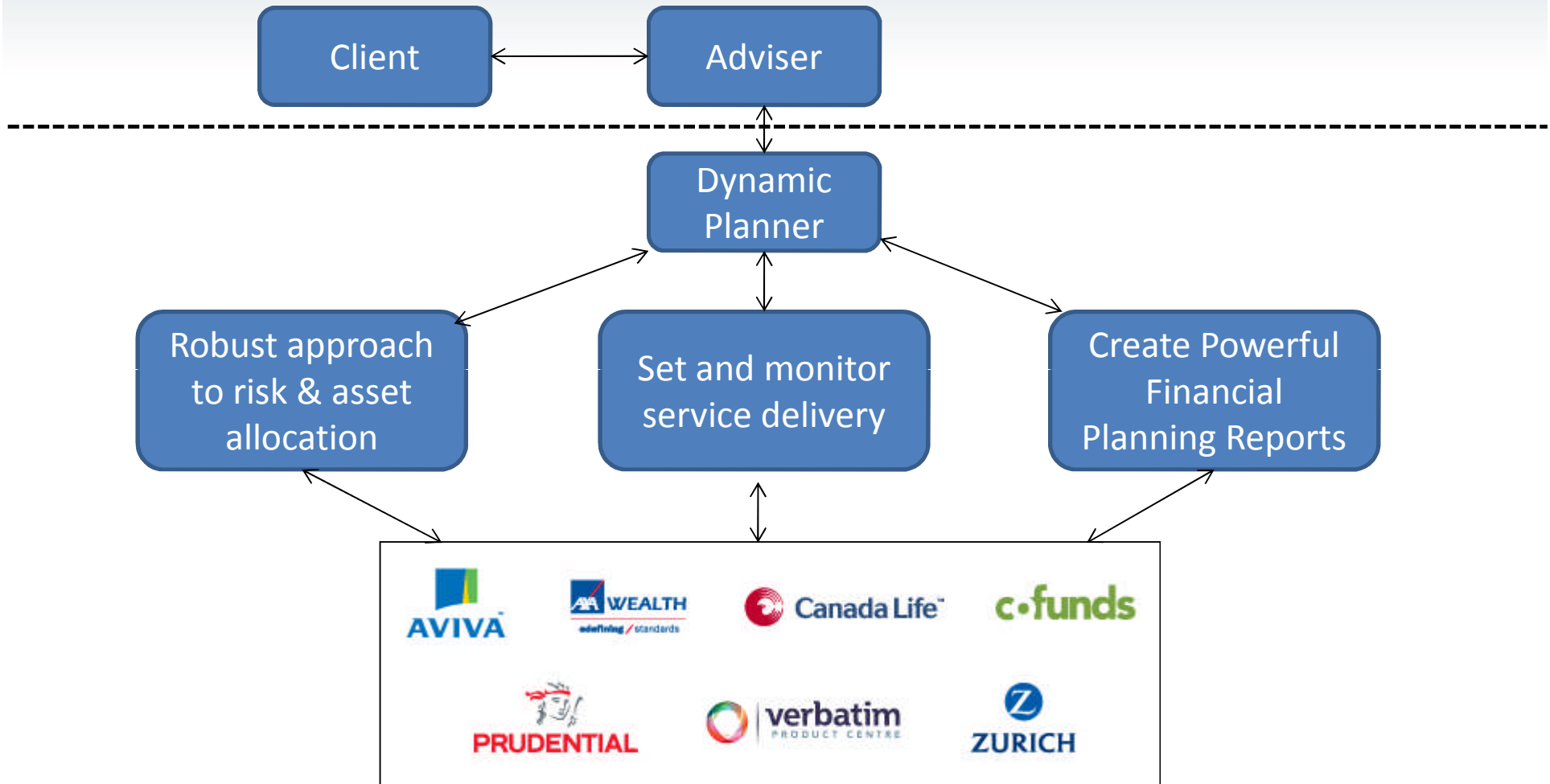
FS Supply Chain - Old



FS Supply Chain - New



Supply chain for planning and execution...



Supply chain for Investment Solutions...

<p>Active FP Verbatim Portfolio Funds</p> <p>1</p>	     
<p>Passive Total Clarity</p> <p>1</p>	     <p>Create to match your client's attitude to risk</p>
<p>Partner Funds Risk Matched Investing</p> <p>2</p>	 <p>Use a collection of Multi Manager Funds</p>
<p>Partner Funds Volatility Matched Investing</p> <p>2</p>	       <p>Use a collection of Multi Manager Funds</p>
<p>Model Portfolios</p> <p>3</p>	      <p>Use pre-determined Model Portfolio</p>
<p>Whole of Market</p> <p>4</p>	      <p>Select funds from the whole of the fund universe</p>
<p>Verbatim Discretionary</p> <p>5</p>	   



Investment Philosophy Workshop



Agenda

Part 1

- **Managing RISK**
- Investment Recap
- Building a Philosophy



Part 2

- Platforms and Due Diligence
- Funding Trades
- USPs

Managing RISK

Dave Clapham DipPFS

Strategic Partner Specialist



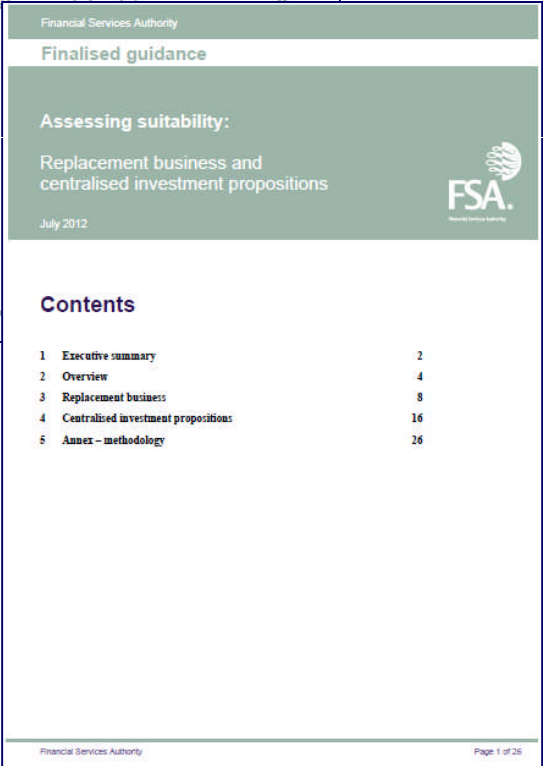
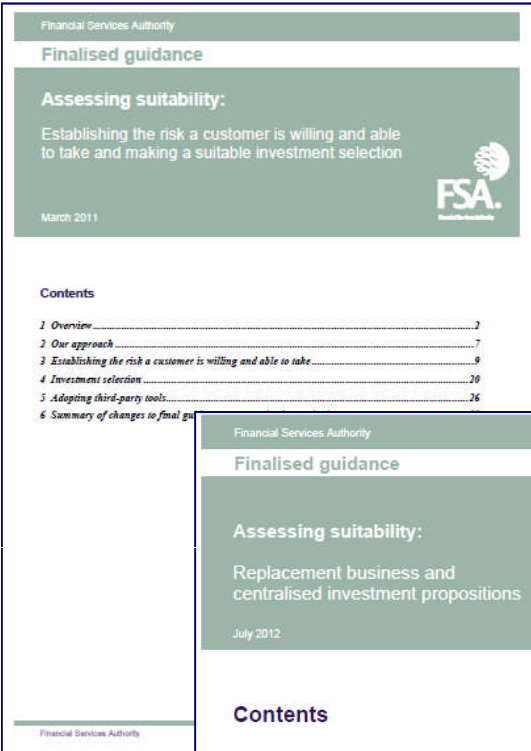
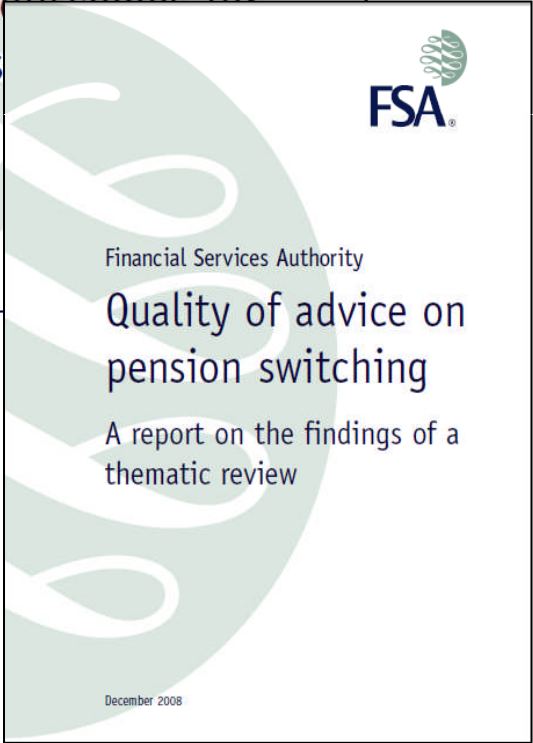
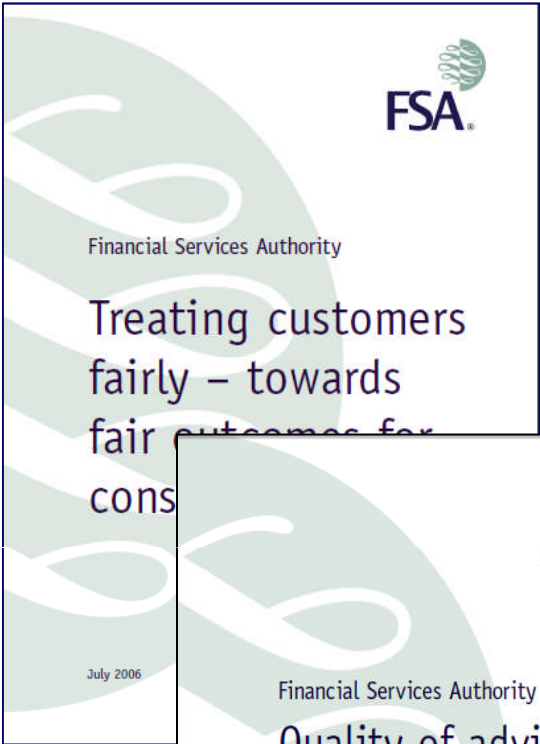
Learning Outcomes -----> Agenda

- What **R**isk is and how customers view it
- How to assess **I**ntermediate **S**uitability to reduce adviser risk
- The key ingredients required to construct an investment portfolio
- Why risk-profiled funds may provide the ideal solution



Knowledge is opportunity

The regulator's view

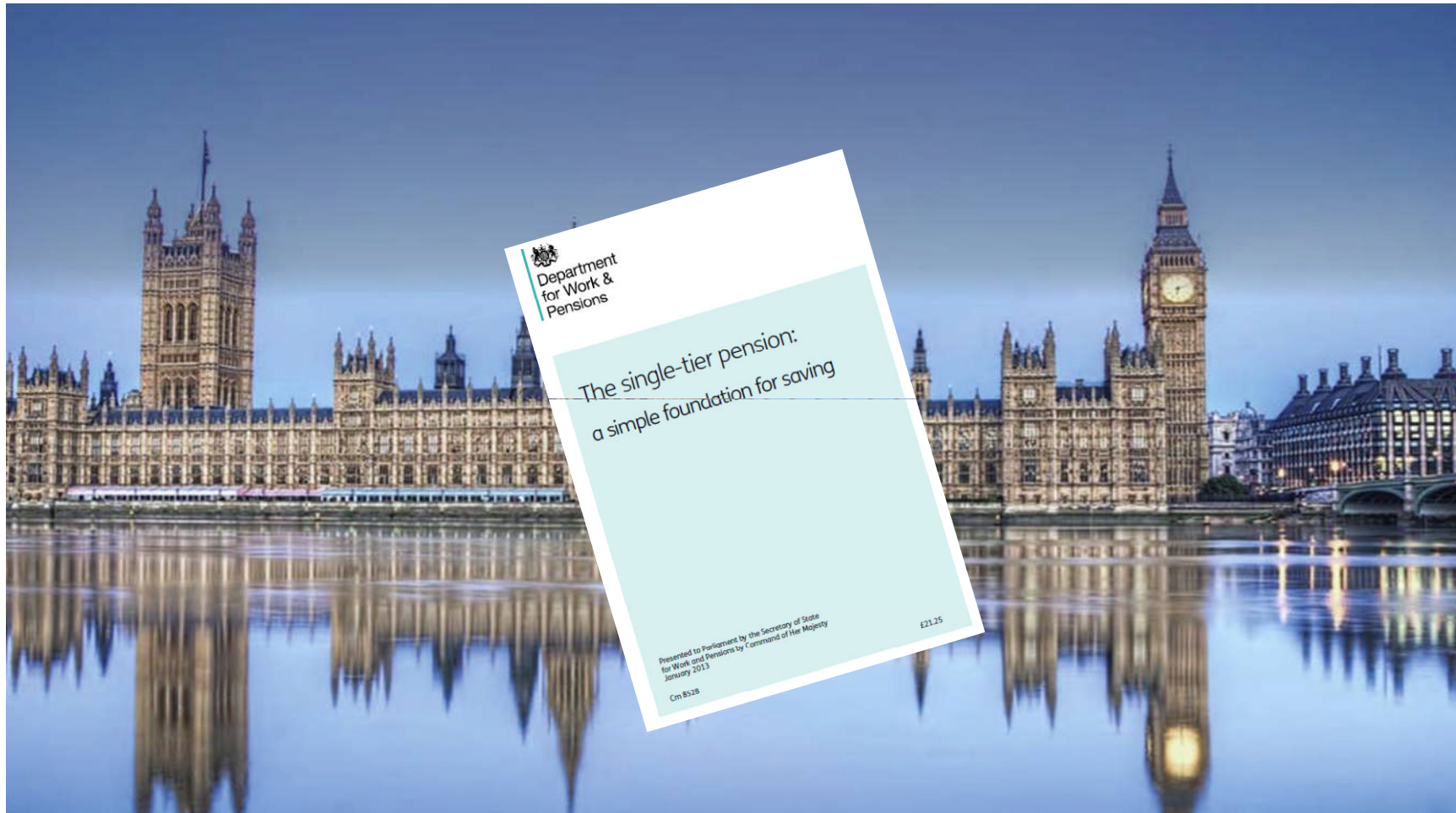


Questions to consider

- How robust are the processes I have in place?
- When was the last time I reviewed and checked them?
- Would they stand up to FCA scrutiny?
- Do they adequately manage client risk?
- Am I assessing client risk suitably and consistently?
- Is the discussion fully documented in the KYC section of the Factfind?
- Are investments performing as I and the customer expected?
- Can I demonstrate I've done appropriate due diligence?



Transfer of risk onto the individual



Risk – a definition

What is worth insuring against?



Low probability, high impact



High probability, low impact

probability x impact

Which odds do you prefer?

3 - 1

20 - 1

**Odds of being
diagnosed with some
form of cancer during
your lifetime ***



Discussions around risk need context

* Source: <http://www.cancerresearchuk.org/cancer-info/cancerstats/incidence/risk/>

Pick a card?

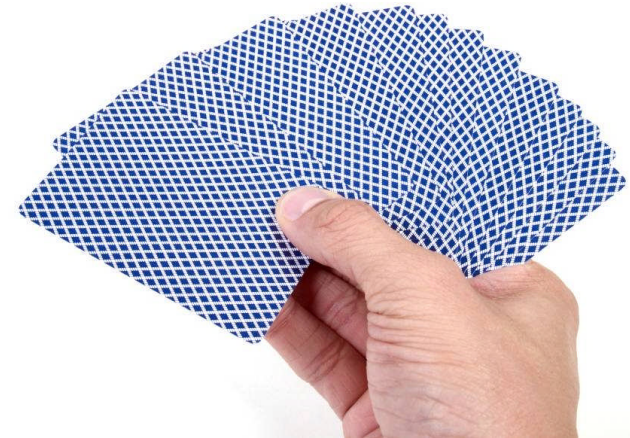
- Bet £1 on drawing red – odds 2-1 on
- Now bet your house?



Risk is meaningless without a consequence

Pick a fund

- 1,684 funds*
- Odds on randomly picking best fund 3 years in a row?
- 4,775,581,503 -1
- Odds on picking best fund in each IMA sector?
- 3.66 times 10^{30} -to-1
- There are ~ 1.75 times 10^{25} grains of sand on earth**



Simplifying investment planning

- Bread tastes different from flour, yeast and water
- Portfolio is a 'bake' – more than just a blend of its constituents
- Ingredients:
 - Debt
 - Equity
 - Property
 - Commodities
- Varieties:
 - Geography
 - Characteristics
 - Behaviour



Different recipes, different flavours

- Matching recipes to personal taste
- Matching portfolios to customers' preferences
- Risk



Regulator focus

“In October 2013, Rory Percival, technical specialist for the FCA, said that the regulator was concerned about adviser **due diligence** on investments and added that **risk-rated funds** could **not be used as a shortcut** to determine client suitability”

FT Adviser Nov 2013



END
OF
PART
ONE

David Norman aka DAN

- GEC, London Life, Scottish Equitable,
- Prudential Holborn, Threadneedle,
- Prudential, Friends Ivory and Sime,
- Insight Investment, Aviva Investors,
- CEO Credit Suisse Asset Management
- TCF Fund Managers 2009

today's session

- Part of detailed philosophy and process build
- Available to Simply Biz members (bespoke)

Why Philosophy and Process?

- Saves you time and money
- Reduces your risk
- Adds real value to customers
- Helps WoM process
- Adds to your business value

4 parts

- Investment recap
- Elements of **YOUR** investment philosophy
- Summary of process design (**more F2F**)
- The MASSIVE value of advice (don't miss out)
- **Next steps (Verbatim RDM)**

Part 1 philosophy

- Recap on investment foundations
- Risk - done!
- Asset class returns
- Diversification
- Costs
- Active and passive

UK asset classes

	2012	10yrs	20yrs	50yrs	113yrs
Equities	8.7	5.0	4.5	5.5	5.0
Gilts	1.6	3.4	5.3	2.7	1.3
Corporate Bonds	12.1	2.3			
Index Linked	0.2	3.5	4.3		
Cash	-2.7	-0.2	1.6	1.6	0.9

asset allocation

- Strategic asset allocation (95%)
- Mean variance optimisation (MVO)
- Appropriate asset classes (Hedge, N11, Commodities)
- Source data (**Barclays Equity Gilt Study**)

Data request (DT & BEG)

eggs

“Diversifying between asset class portfolios as well as within portfolios is more ‘efficient’ than doing only one of those, or neither.”

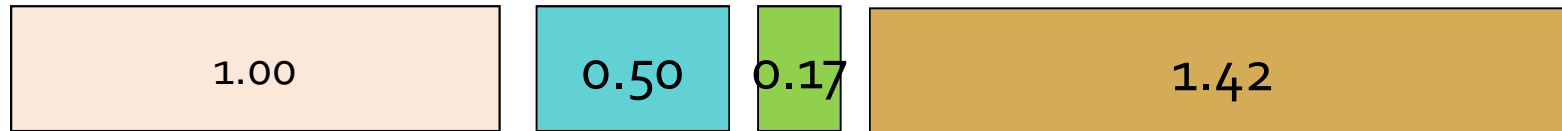
H. Markowitz, M. Hebner, M. Brunson. Does Portfolio Theory Work During Financial Crises? July 2009

Verbatim sales aid

tcfinvestment
A blue triangle pointing upwards, positioned below the 't' in 'tcf'.

costs in funds – major risk

3.1% pa – single equity fund



AMC

Trail

Fund Expenses

Trading Costs

Portfolio Turnover Rate

Trading costs

- Bid/offer
- Tax (Stamp)
- Broker commissions
- Market impact costs

Source: Lipper. Fin Express

estimated trading costs %pa cost

Turnover	UK Large Cap	Balanced fund	Global Equities	Emerging Markets	Multi-Manager
10%	0.2	0.1	0.2	0.8	0.3
50%	0.9	0.5	0.8	3.8	1.3
100%	1.8	1.0	1.7	7.6	2.7
200%	3.1	1.9	3.0	11.0	4.9

source: Frontier Investment Management

Morningstar – active **and** passive

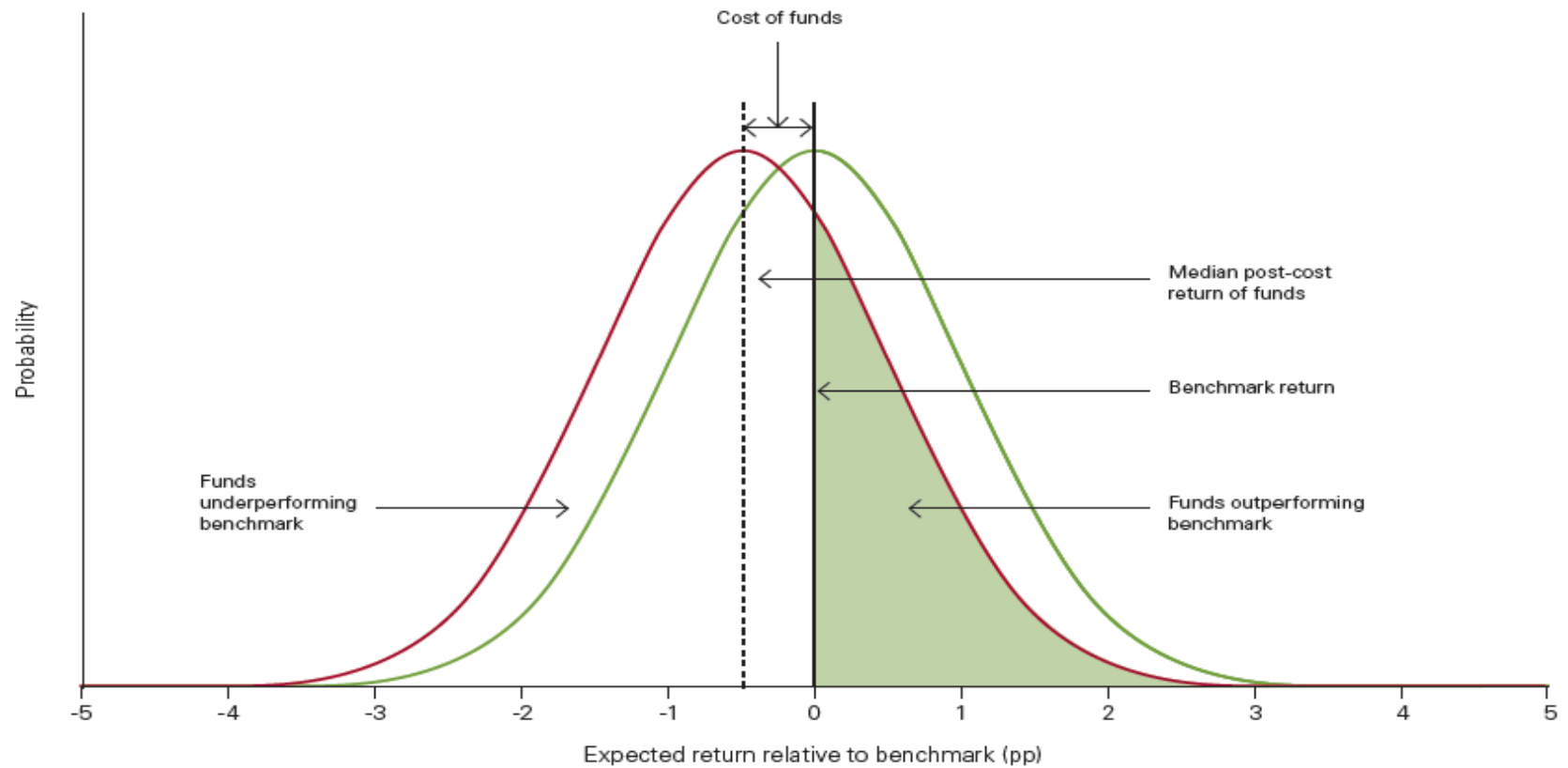
- “expense ratios help you make a better decision”
- “In every time period and every data point tested, low cost funds beat high costs funds”
- “Expense ratios are strong predictors of performance”

Data request

index vs active

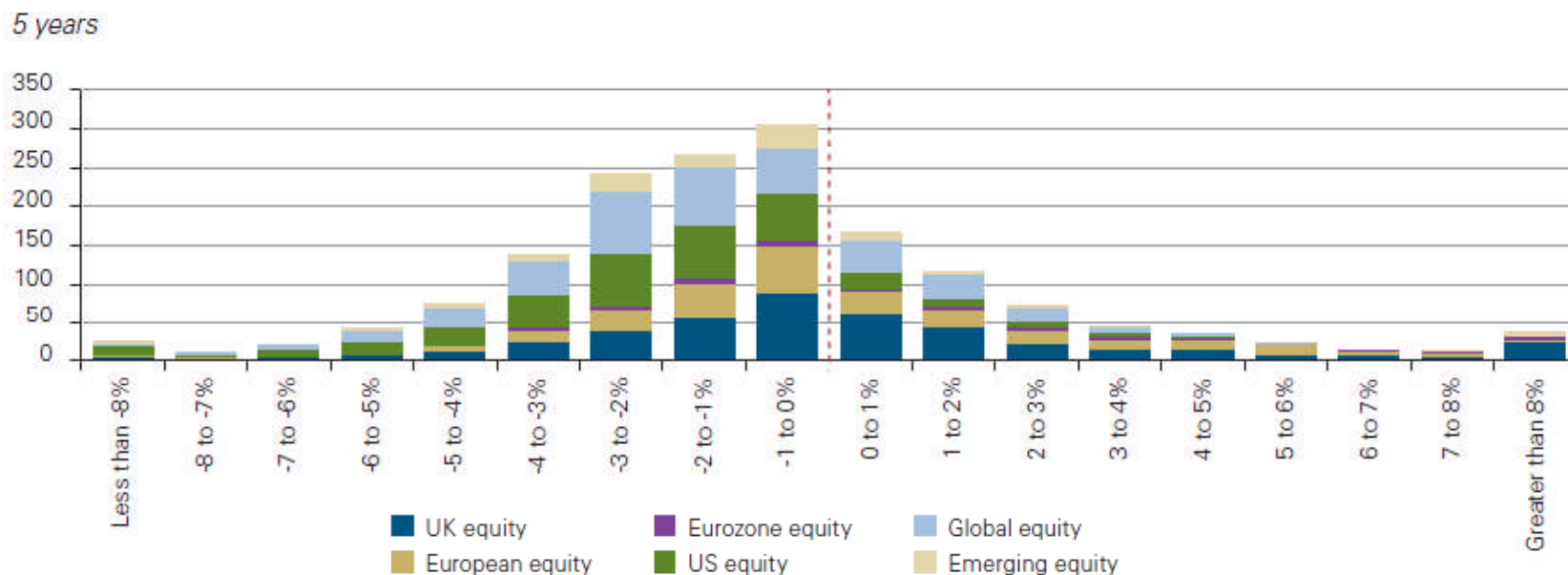
- Markets are efficient
- Costs are certain (layers of cost)
- Basic arithmetic
- OR
- Market timing
- Avoid the dumb stuff
- Spot opportunities
- Skill or luck or bias?

Vanguard: zero sum game theory



zero sum game: equities

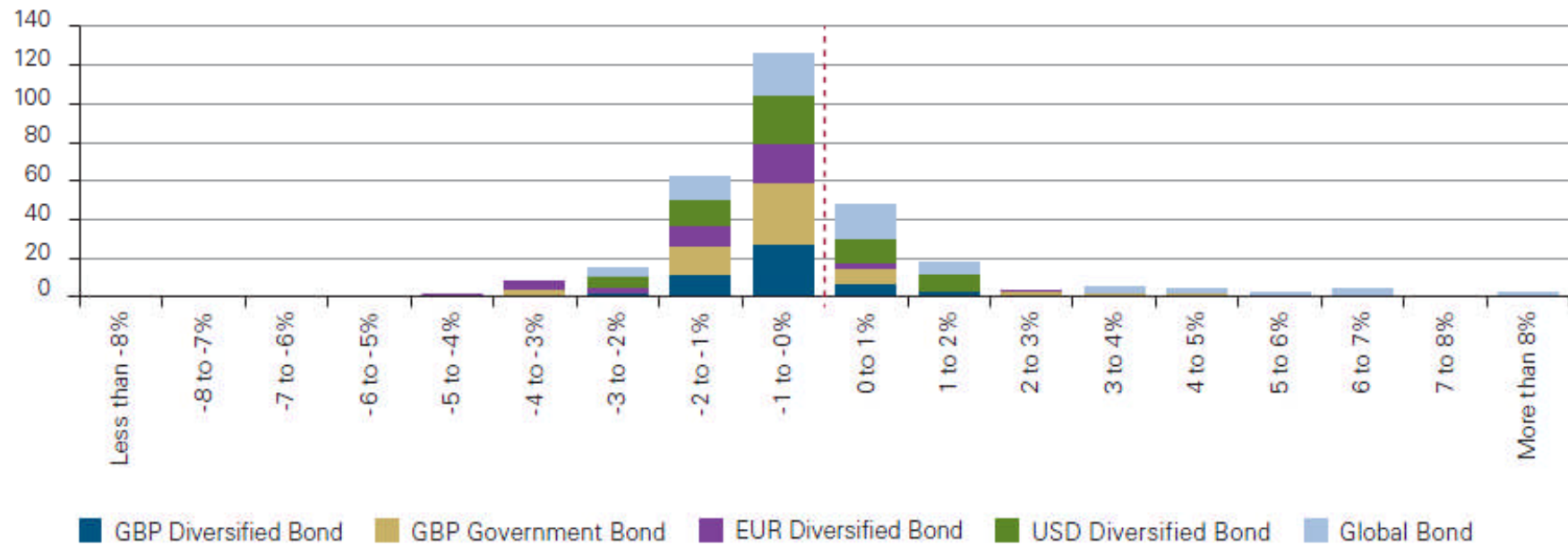
Active equity funds' return distributions – Five years



Sources: Vanguard calculations, using data from Morningstar, Inc., FTSE , MSCI and Barclays. Included funds are from the following Morningstar categories: UK equity – flex cap, large-cap blend, large-cap growth, large-cap value, small-cap; Europe equity – large-cap blend, large-cap growth, large-cap value, flexcap, small-cap; Euro zone equity – flex-cap, large-cap, small-cap; Global – large-cap blend, large-cap growth, large-cap value, flex-cap, small-cap; US equity – large-cap blend, large-cap growth, large-cap value, flex-cap, small-cap; Emerging markets equity – emerging markets. Performance is for periods ending on 31 December 2012 Basis of performance calculation is net of fees, income reinvested, closing NAV prices. Benchmarks are specified in the fund prospectuses.

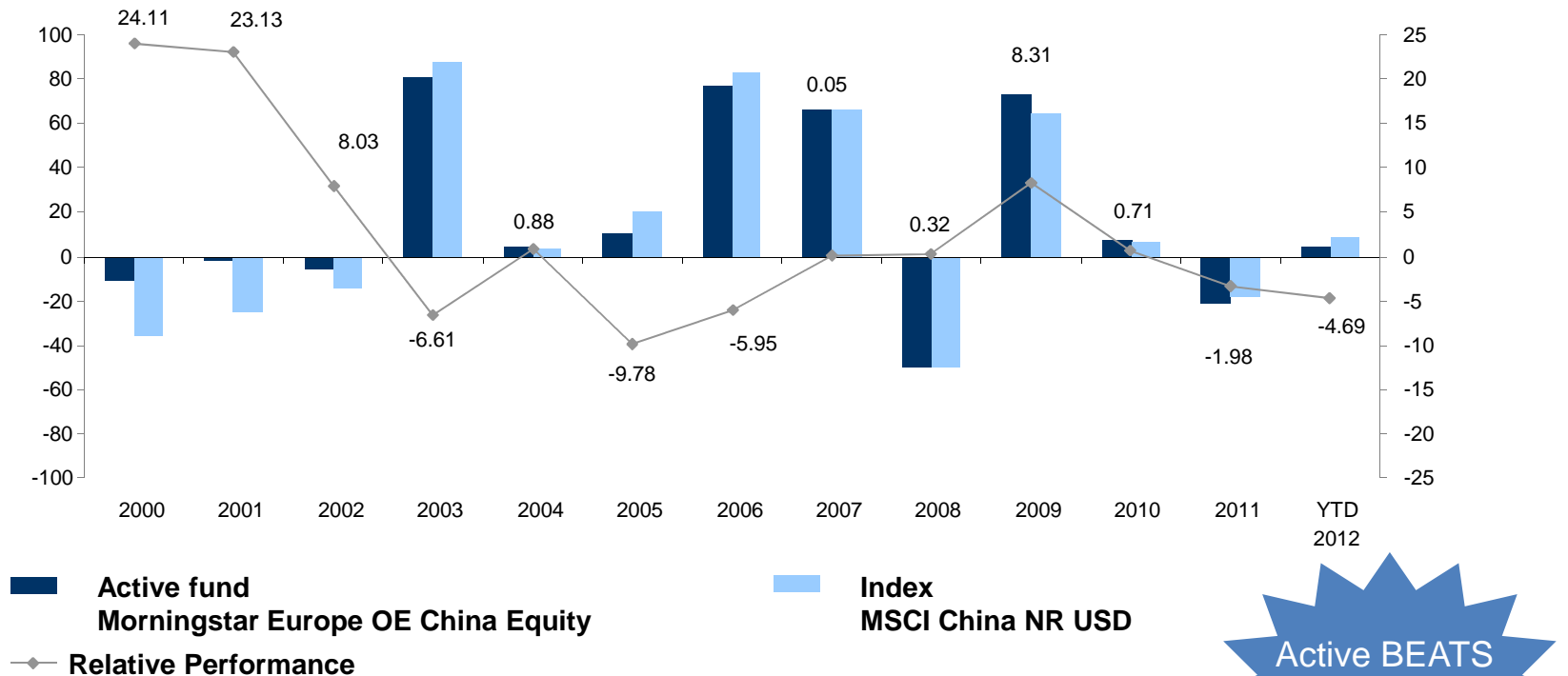
zero sum game: bonds

Active bond funds' return distributions – Five years



Sources: Vanguard calculations, using data from Morningstar, Inc., FTSE , MSCI and Barclays. Included funds are from the following Morningstar categories: Europe bond – EUR diversified; US bond – USD diversified; Global bond – global; UK bonds – UK diversified, UK government. Performance is for periods ending on 31 December 2012. Basis of performance calculation is net of fees, income reinvested, closing NAV prices. Benchmarks are specified in the fund prospectuses.

inefficient markets (developing)



Active BEATS
 Passive
 in 8 out of 13-years

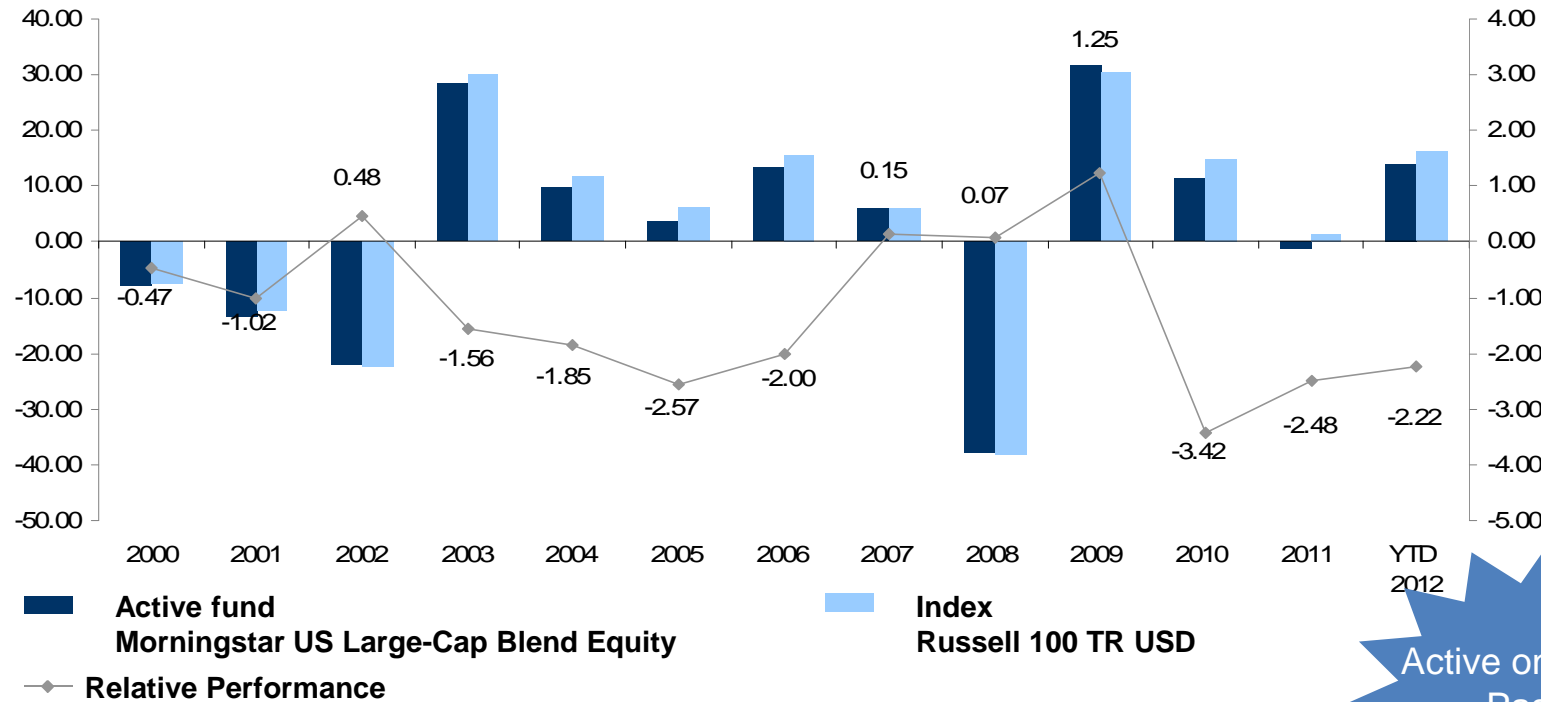
Source: Morningstar as at October 2012.

Performance from the past should not be seen as an indication of future returns.

Left hand axis shows index performance, and right hand axis shows the relative performance between the two indices, as percentages.

tcfinvestment

efficient markets (developed)



Active only beats
Passive
in 4 out of 13-years

Source: Morningstar as at October 2012.
Performance from the past should not be seen as an indication of future returns.
 Left hand axis shows index performance, and right hand axis shows the relative performance between the two indices, as percentages.

reasons for passive

- Low charges for given SAA – 0.8%pa vs 4.5%pa
- Track the benchmark with min variability
- Fast trading – Tactical Asset Allocation (TAA)
- Diversification – broad holdings
- Good for small asset allocations - commodities
- Meet specialist objectives – short dated
- Low manager risk
- No alpha

reasons for active

- Move to cash vs SAA?
- Higher risk / return requirements
- Bespoke mandates – ethical
- Opportunity for alpha
- Opportunity for style diversification
- Theatre
- But higher cost / risk?

reasons for both

- Lower cost / some alpha potential
- Diversified
- SAA and TAA within budget
- Risk managed (use risk budget)
- Core and satellite
- WoM – active **and** passive

solutions: in / out source

- Risk profiling?
- Asset allocation modelling?
- Funds – smaller amounts
- Models – cost effective and tax efficient (ISA and SIPP)
- DFM – larger or bespoke, tax planning
- WoM Passive + WoM Active = Happiness!

summary - beliefs or truths?

- What do you believe?
- Why do you believe it?
- Do you have **evidence**?
- How do you do it?
- Where is your own money?
- Why should I trust you with mine?
- **Philosophy** – what and why?
- **Process** – how do you do it, is it repeatable?

Part 2 **YOUR** philosophy

- Building your own philosophy
- **WORKBOOK**
- Key elements
- Data – **evidence book**
- Template

philosophy

- What do you believe?
- Why?
- Evidence?
- ...and therefore we do the following....
- **Evidence based approach to investing.**

why bother?

- Would you trust someone with your £250,000?
- How do you do it.... if you don't know why you're doing it?

- 1. FCA compliance**
- 2. Great consistent outcomes**
- 3. Measureable success**
- 4. WoM and simpler business**
- 5. Value of advice – 5%pa**
- 6. Richer advisers – 33%**

WORKBOOK – tailor it!

1. A financial plan
2. Risk – investment and customer
3. Asset allocation / asset classes - SAA and TAA
4. Costs
5. Active and passive
6. Platforms - tax and wrappers
7. Diversification
8. Consistency - reviews
9. Screening - funds and stocks and securities
10. Bespoke
11. Funds, models, DFM

1. is a financial plan useful – see the future? It's why you do a fact find!

"Would you tell me, please, which way I ought to go from here?"

"That depends a good deal on where you want to get to," said the Cat.

"I don't much care where –" said Alice.

"Then it doesn't matter which way you go," said the Cat.

"– so long as I get somewhere," Alice added as an explanation.

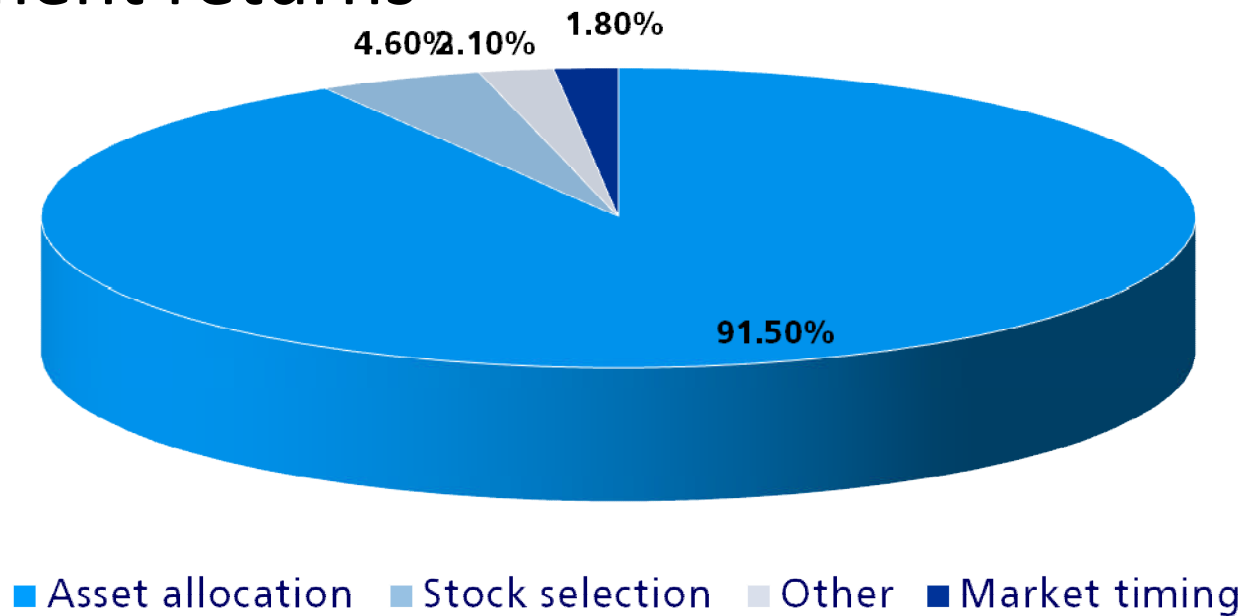
"Oh, you're sure to do that," said the Cat, "if you only walk long enough."

2. risk profiling

- Confidence in your plan
- Risk informs the asset allocation
- Your needs - CoWs
- The “project management” triangle
- Your own biases
- Investment risk
- Tolerance
- Need
- Attitude

3. investment returns

Primary determinant of the variability of investment returns

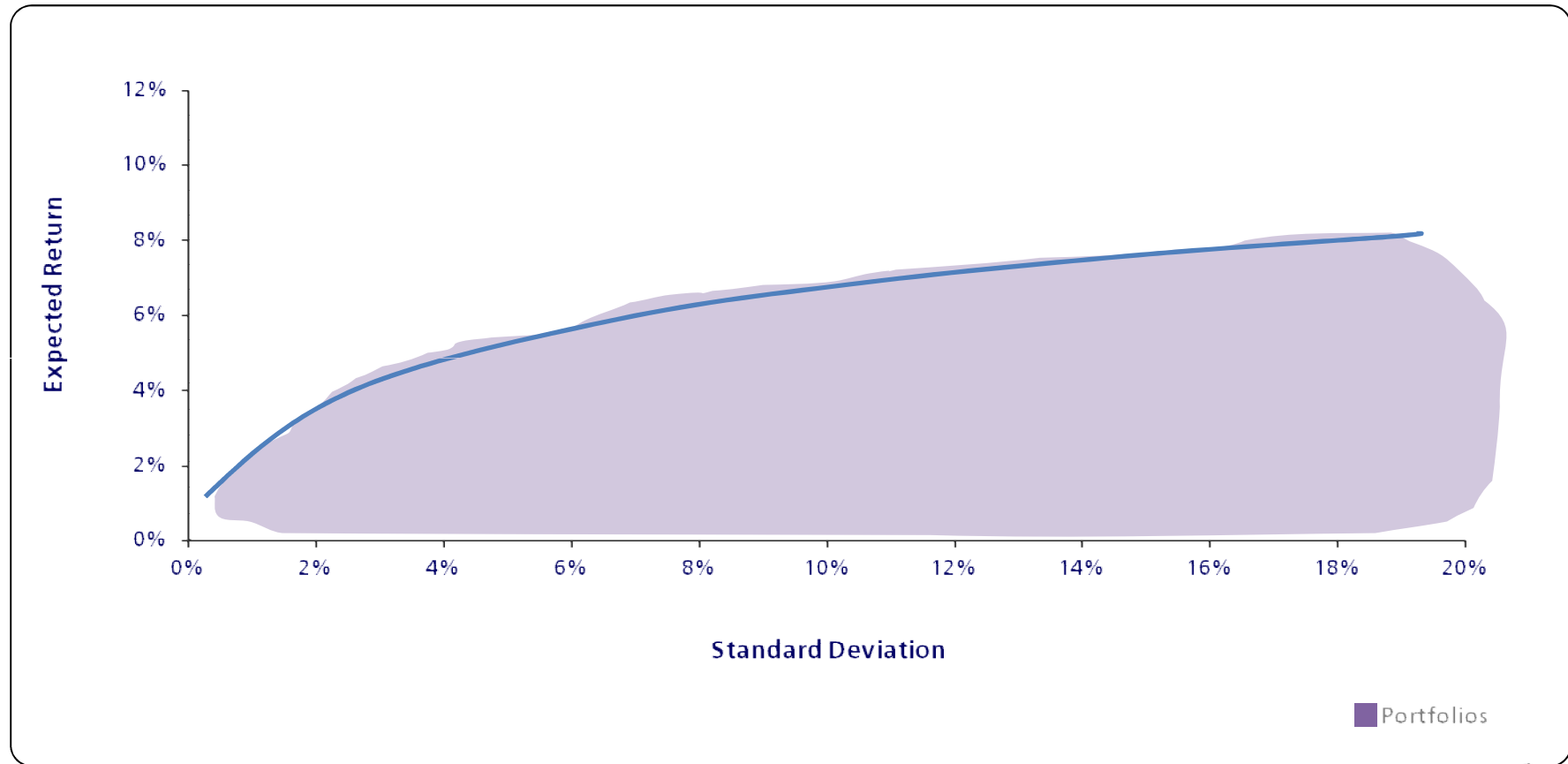


Source: Gary P. Brinson, L. Randolph Hood, and Gilbert L. Beebower, Determinants of Portfolio Performance The Financial Analysts Journal, July/August 1986. Gary P. Brinson, Brian D. Singer, and Gilbert L. Beebower, *Determinants of Portfolio Performance II: An Update*, The Financial Analysts Journal, 47, 3 (1991)

3. assumptions – what are yours?

	2012	10yrs	20yrs	50yrs	113yrs
Equities	8.7	5.0	4.5	5.5	5.0
Gilts	1.6	3.4	5.3	2.7	1.3
Corporate Bonds	12.1	2.3			
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Cash	-2.7	-0.2	1.6	1.6	0.9

3. Mean Variance Optimisation



3. asset classes

- What is good at what?
- What is right for whom?
- WOM?
- Cash, Equities
- Small cap, large cap
- Bonds, credit
- Alternatives, structured

3. kiss and educate!

- Transfer of knowledge builds confidence
- Use pictures – volatility is wiggle
- Explain key features

Asset	Good at	Risks of	Time line
Equities	Inflation. Growth. Dividends	Volatility (wiggle). Shortfall (loss).	5 years at least
Property	Income and growth	Illiquid (can't get money back).	5 years at least
Bonds	Income. Some growth. Reduces volatility (short term).	Inflation. Credit (goes bust)	Short, Medium or Long.
Cash	Rainy day / Emergency.	Inflation. Default (goes bust)	0-3 years

4. costs – important?

- The value chain
- The fund, platform, dealing, advice costs
- £s or %pa
- Share of total return
- Less cost means more return (**benefit**)
- **The telescope has turned**

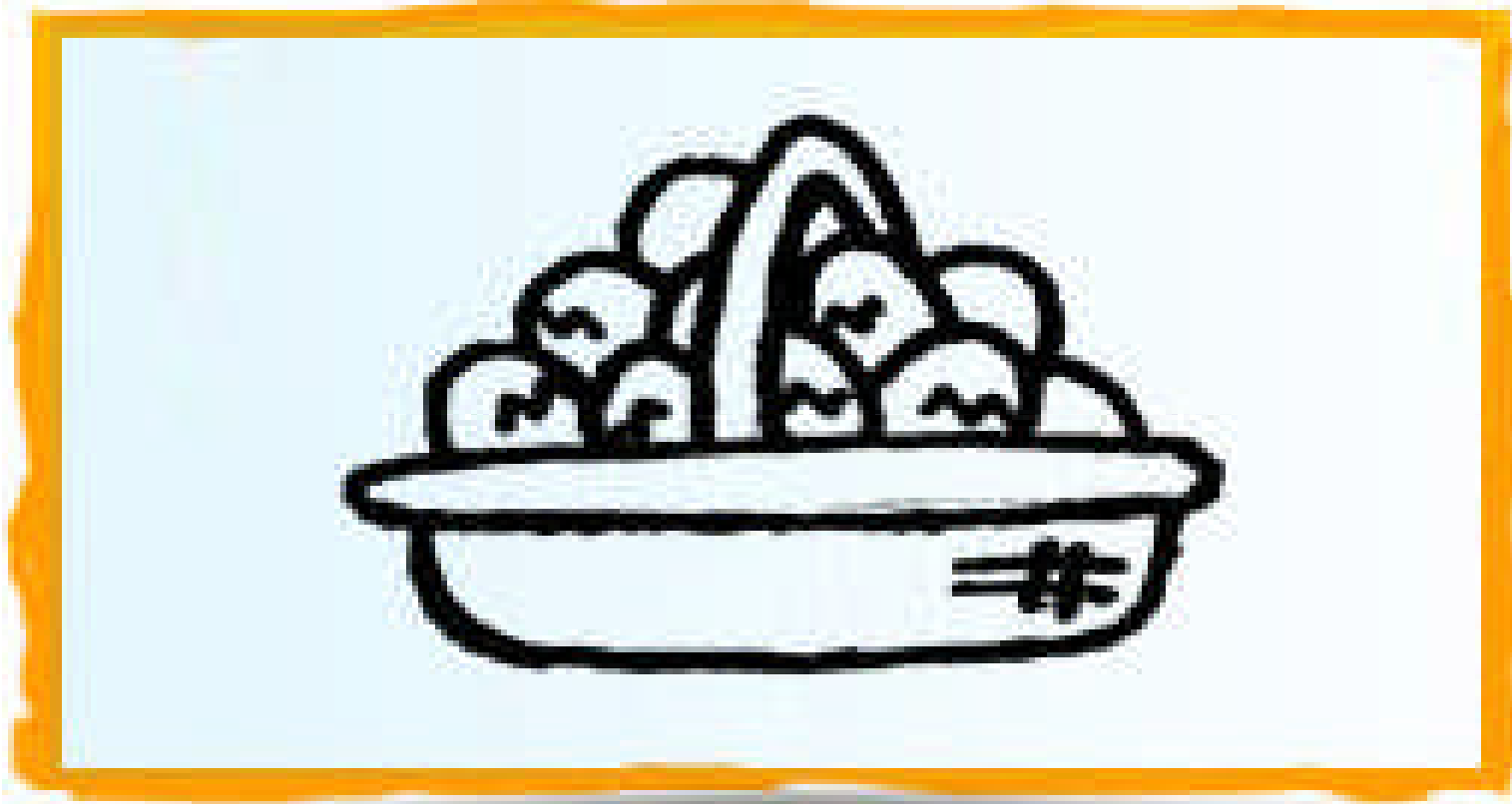
5. active or passive or both?

- Endless debate
- Capability and competence
- What do the experts do?
- Due diligence **cost**
- Execution and monitoring **cost**
- Risk to you **cost**

6. platforms - value

- A cost effective way for you to access tax wrappers
- Reduces your paperwork.
- Hold investments from more than one fund manager.
- Any switches may be faster using platforms.
- See value of your investments online –with analysis to see how they have performed.
- “Bed and ISA”
- Availability of our preferred investment solutions.
- If we use a discretionary manager they are likely to use their own investment platform to manage your portfolio
- **Clean class complexity**

7. diversification?



8. investment consistency

- Staying on track
- Changing risk profile
- Change of circumstances
- Tax changes (Pensions)
- New instruments (ETFs)
- **Don't miss out – 2 budgets a year!**
- Landing the plane safely

9. screening

- WoM?
- John West
- Evidence for process
- Client by client
- 9000 instruments?
- Stocks, funds, models, DFM
- Growth in outsource

10. bespoke and shoehorning

- Expertise, wealth, trusts, income
- Client segments **and** client specific
- Enhanced suitability
 - Liquidity
 - Sophistication
 - FSCS
 - Tax
 - Diversified

11. and.....

- Governance
- Resources
- Competency
- Future proofing
- Value add / value chain
- **FCA: bottom up service proposition**
- **FCA: good & poor check**
- **Next DFM review**

philosophy : **template**

- An example from **Verbatim RDM**
- Feel free to cut and paste
- But do think about what **YOU** believe
- **Try it with your own £250,000!**

philosophy : summary

- **What you believe**
- **Why you believe it**
- **What is suitable**

An evidence based approach to investing

COFFEE

Back in 5 minutes



Agenda

Part 1

- Managing RISK
- Investment Recap
- Building a Philosophy



Part 2

- **Platforms and Due Diligence**
- **Prefunding Trades**
- **USPs**

The view of the FCA



The view of the FCA

RISK PAPERS

- 'The high number of unsuitable investment selections we see in the pensions and investment markets is still a significant concern'*
- 'It is important that firms put plans in place sooner rather than later... to ensure the future sustainability of their business model'*

PLATFORM PAPER

'We think an independent firm faces significant challenges in complying with COBS 6.2A.4AR and COBS 6.2A.4BG if they exclusively or extensively use a platform that only features products which pay the platform a rebate'~

GOOD PRACTICE#

- Due Diligence
- Client suitability
- On vs Off platform

POOR PRACTICE#

- One size fits all
- Inconsistent approach
- Cost implications

Platform adoption - Due Diligence

What are the nine key areas identified by the regulator?

FSA factsheet

Platforms: using fund supermarkets and wraps

In this factsheet:

- Using platforms
- Training and competence
- Sustainability
- Independence

This factsheet is for personal investment firms who:

- Already use platforms; or
- Are considering using platforms.

It explains:

- What we mean when we refer to platforms; and
- What to consider when adopting and using platforms

What are platforms?

Platforms are internet-based services used by intermediaries (and sometimes direct) to view and administer investments. They tend to offer a range of tools which allow advisors to see and analyse a client's overall portfolio, and to choose products for them. As well as arranging transactions, platforms generally arrange custody for clients' assets.

We use the term 'platform' throughout this factsheet to cover both wraps and fund supermarkets. Wraps and fund supermarkets are similar, but while fund supermarkets tend to offer wide range of wrap trusts and OEICs, wraps often offer greater access to other products too. Wraps also tend to support advisers that want to agree their own remuneration with their clients, instead of receiving commission.

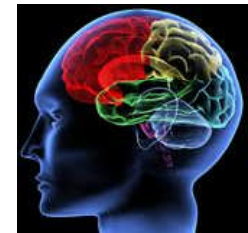
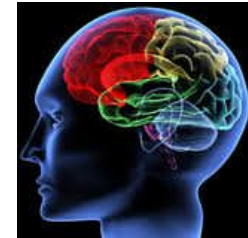
Using platforms - points to consider:

Using platforms could improve your administration and, through this, the services you can offer your clients. But you need to make sure that it does not simply increase complexity and costs to your clients, without giving them new services they value in return.



Platform adoption - Due Diligence

- Platform reputation and financial standing
- T&Cs of using the platform
- Cost, charging structure and transparency of charges
- Range of funds and tax wrappers
- Range of asset classes
- Functionality
- Accessibility
- Additional tools such as Risk Profiling and Asset Allocation
- Training and support services



Risk and YOU!

- Assessing suitability
- Risk assessment and discussion
- Design the portfolio to match
- Asset allocation process
- Manager selection
- Monitoring and analysis
- Reporting



Premise

- Zurich understands risk better than most
- Zurich wants to help simplify investment for customers
- Zurich wants to help you de-risk your business



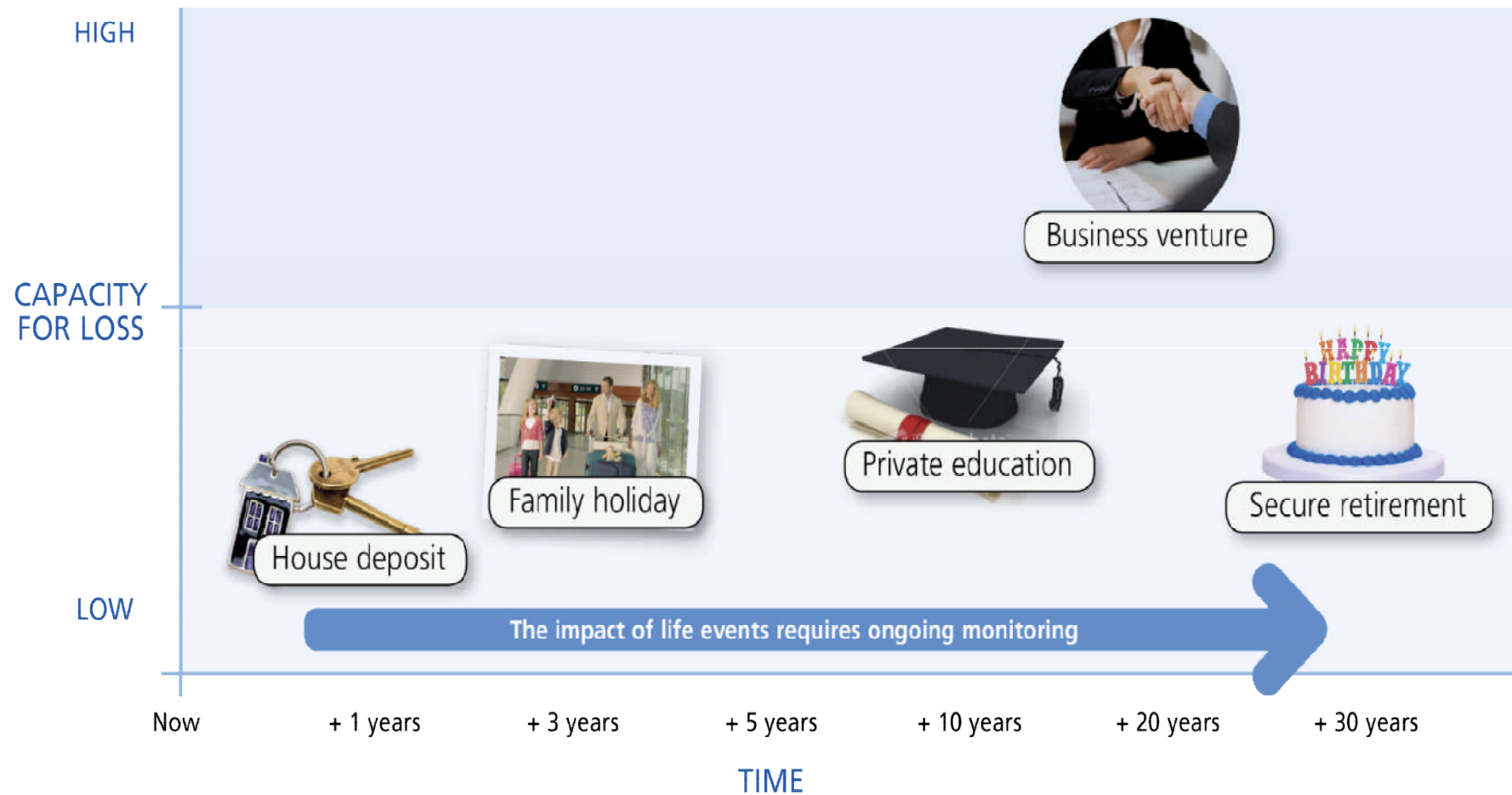
Technology

“I fear the day that technology will surpass our human interaction. The world will have a generation of idiots.”

(Albert Einstein)



Risk can look different depending on the timescale



The cost of recovery

Bear market depth

	-20%	-30%	-40%	-50%	
Growth rate	2%	11y 3m	17y 9m	25y 6m	34y 9m
	4%	5y 6m	9y	12y 9m	17y 3m
	6%	3y 9m	6y	8y 6m	11y 6m
	8%	2y 9m	4y 6m	6y 6m	8y 9m
	10%	2y 3m	3y 6m	5y 3m	7y

Protecting downside investment risk (on death)

**COVERING THE RISKS
THAT WORRY YOU**

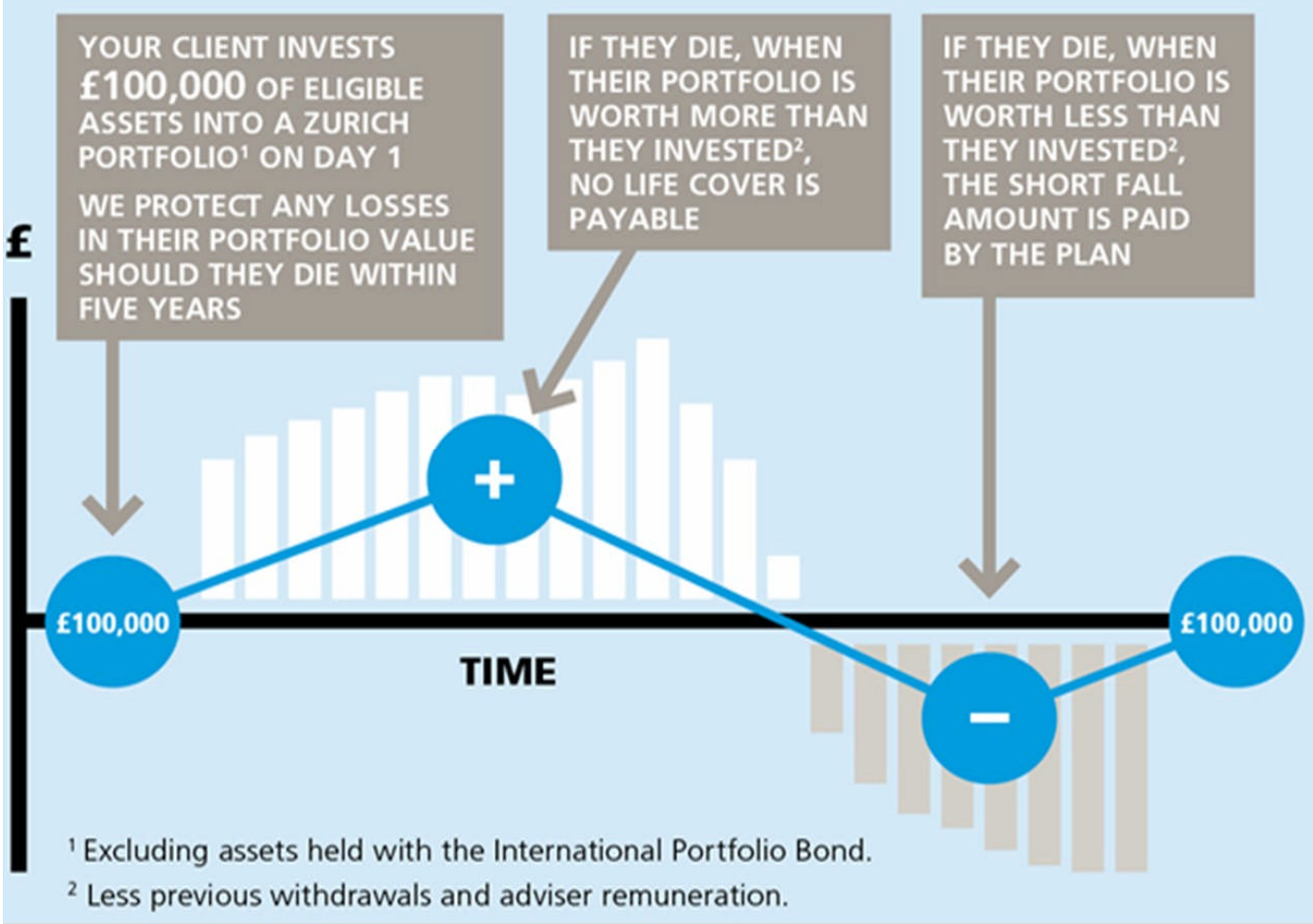
VERSUS

**SAVING FOR THE
FUTURE**



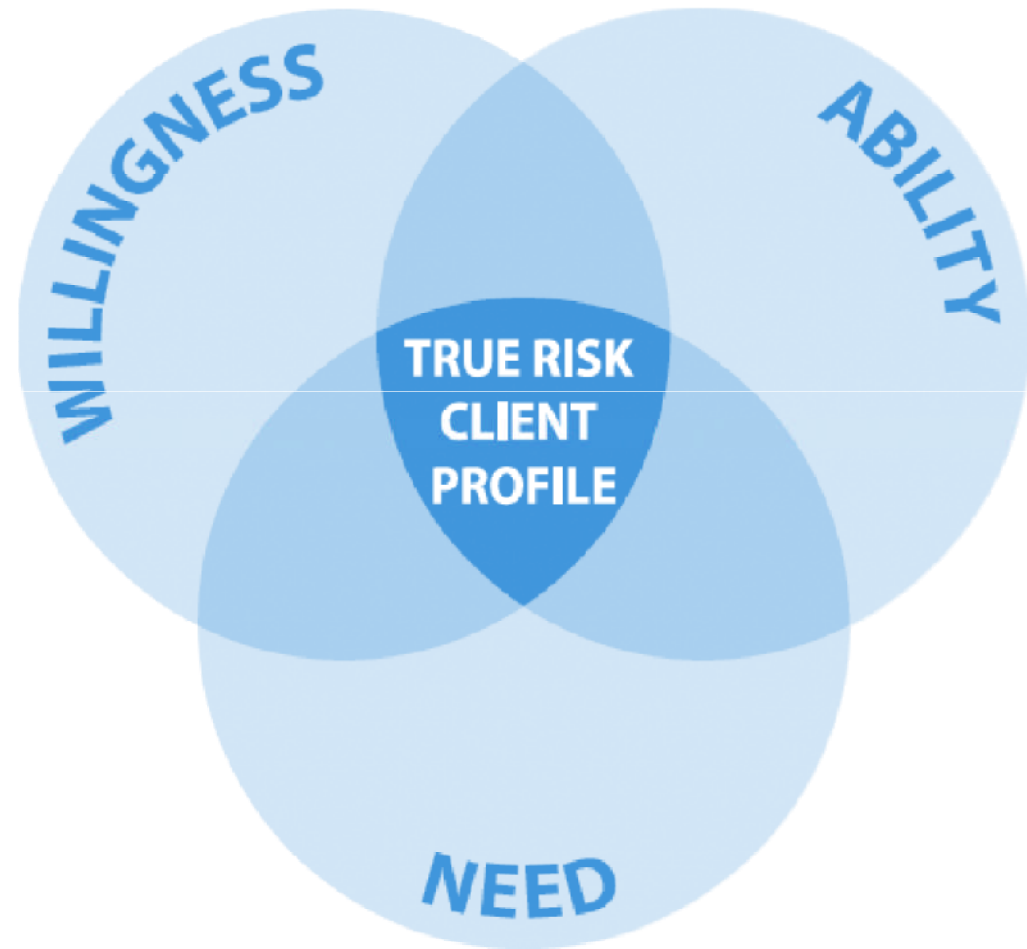
**Finding the balance
between the two**

Investment Life Cover



Risk discussion

- Attitude = Willingness
- Capacity = Ability/means
- Need = Objective/goals
- Not 'shoe-horning'



What is Risk 'profiling'?

- An assessment
 - Psychological profile
 - Impacted by perception
 - Profile is not portable
 - What does a '3' mean?



Professor Harry Markowitz

- No asset evaluated in isolation
- Portfolio risk < weighted average of individual risks
- Risk falls as assets diversified
- Portfolio selection = maximising returns, minimising risks
- Mean Variance Optimisation (MVO)



Be ready for changing markets

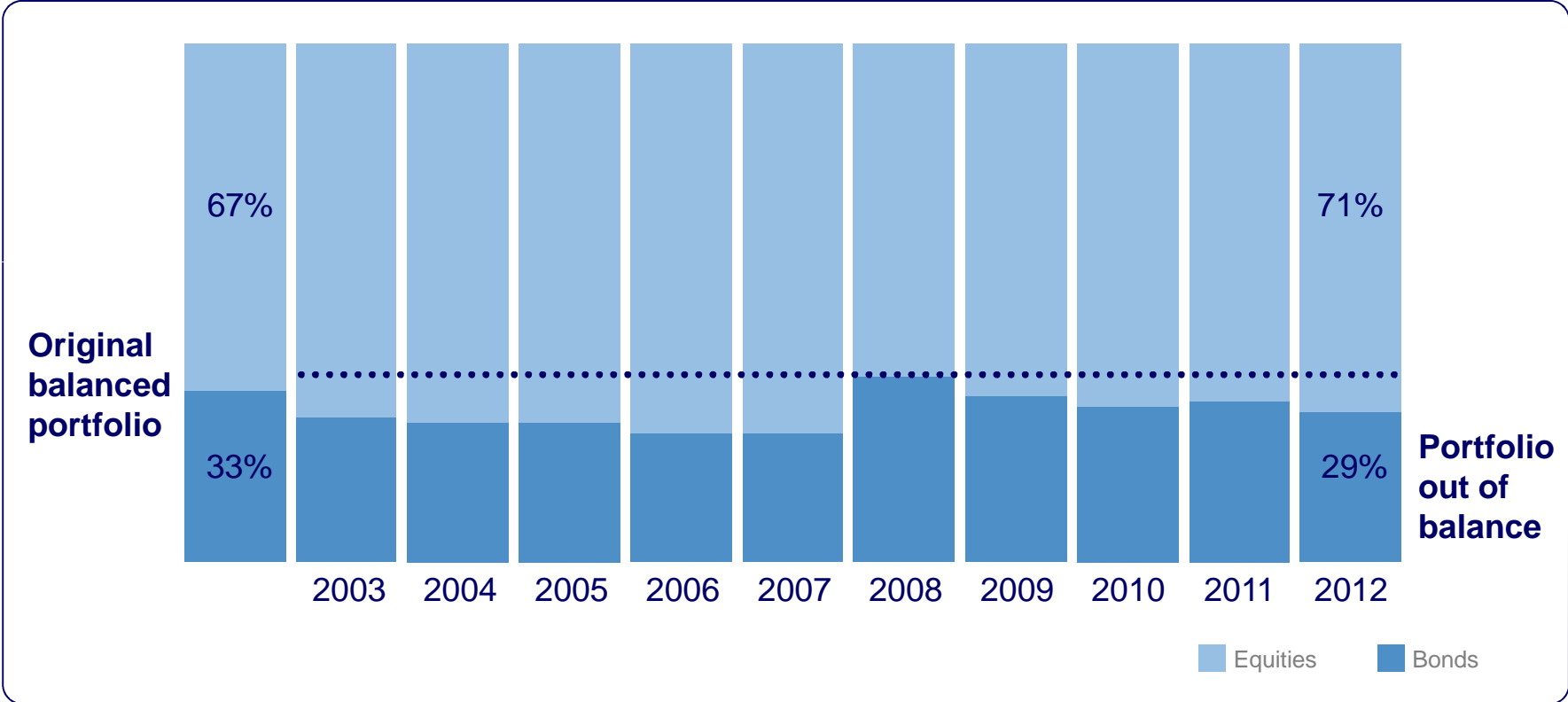
1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
MSCI Emerging Markets 74.84%	MSCI EAFE 7.78%	S&P 500 Growth 38.13%	S&P 500 Growth 23.97%	S&P 500 Growth 36.52%	S&P 500 Growth 42.16%	MSCI Emerging Markets 66.42%	Russell 2000 Value 22.83%	Russell 2000 Value 14.02%	Barclays Agg 10.26%	MSCI Emerging Markets 56.28%	MSCI Emerging Markets 25.95%	MSCI Emerging Markets 34.54%	MSCI Emerging Markets 32.59%	MSCI Emerging Markets 39.78%	Barclays Agg 5.24%	MSCI Emerging Markets 79.02%	Russell 2000 Growth 29.09%	Barclays Agg 7.84%	MSCI Emerging Markets 18.63%
MSCI EAFE 32.57%	S&P 500 Growth 3.13%	S&P 500 37.58%	S&P 500 22.96%	S&P 500 33.36%	S&P 500 28.58%	Russell 2000 Growth 43.09%	Barclays Agg 11.63%	Barclays Agg 8.43%	MSCI Emerging Markets -6.00%	Russell 2000 Growth 48.54%	Russell 2000 Value 22.25%	MSCI EAFE 13.54%	MSCI EAFE 26.34%	MSCI EAFE 11.17%	Russell 2000 Value -28.92%	Russell 2000 Growth 34.47%	Russell 2000 26.85%	S&P 500 Growth 4.65%	Russell 2000 Value 18.05%
Russell 2000 Value 23.77%	S&P 500 1.32%	S&P 500 Value 36.99%	S&P 500 Value 22.00%	Russell 2000 Value 31.78%	MSCI EAFE 20.00%	S&P 500 Growth 28.24%	S&P 500 Value 6.08%	Russell 2000 2.49%	Russell 2000 Value -11.43%	Russell 2000 47.25%	MSCI EAFE 20.25%	S&P 500 Value 5.82%	Russell 2000 Value 23.48%	S&P 500 Growth 9.13%	Russell 2000 -33.79%	MSCI EAFE 31.78%	Russell 2000 Value 24.50%	S&P 500 2.11%	S&P 500 Value 17.68%
Russell 2000 18.88%	S&P 500 Value -0.64%	Russell 2000 Growth 31.04%	Russell 2000 Value 21.37%	S&P 500 Value 29.98%	S&P 500 Value 14.69%	MSCI EAFE 26.96%	Russell 2000 -3.02%	MSCI Emerging Markets -2.37%	MSCI EAFE -15.94%	Russell 2000 Value 46.03%	Russell 2000 18.33%	S&P 500 4.91%	S&P 500 Value 20.81%	Russell 2000 Growth 7.05%	S&P 500 Growth -34.92%	S&P 500 Growth 31.57%	MSCI Emerging Markets 19.20%	S&P 500 Value -0.48%	MSCI EAFE 17.32%
S&P 500 Value 18.61%	Russell 2000 Value -1.54%	Russell 2000 28.45%	Russell 2000 16.49%	Russell 2000 22.36%	Barclays Agg 8.70%	Russell 2000 21.26%	S&P 500 -9.11%	Russell 2000 Growth -9.23%	Russell 2000 -20.48%	MSCI EAFE 38.59%	S&P 500 Value 15.71%	Russell 2000 Value 4.71%	Russell 2000 18.37%	Barclays Agg 6.97%	S&P 500 -37.00%	Russell 2000 27.17%	S&P 500 Value 15.10%	Russell 2000 Growth -2.91%	Russell 2000 16.35%
Russell 2000 Growth 13.37%	Russell 2000 -1.82%	Russell 2000 Value 25.75%	Russell 2000 Growth 11.26%	Russell 2000 Growth 12.95%	Russell 2000 Growth 1.23%	S&P 500 21.04%	MSCI EAFE -14.17%	S&P 500 Value -11.71%	S&P 500 Value -20.85%	S&P 500 Value 31.79%	Russell 2000 Growth 14.31%	Russell 2000 4.55%	S&P 500 15.79%	S&P 500 5.49%	Russell 2000 Growth -38.54%	S&P 500 26.47%	S&P 500 15.06%	Russell 2000 -4.18%	S&P 500 16.00%
S&P 500 10.08%	Russell 2000 Growth -2.43%	Barclays Agg 18.46%	MSCI EAFE 6.05%	Barclays Agg 9.64%	Russell 2000 -2.55%	S&P 500 Value 12.73%	S&P 500 Growth -22.08%	S&P 500 -11.89%	S&P 500 -22.10%	S&P 500 28.68%	S&P 500 10.88%	Russell 2000 Growth 4.15%	Russell 2000 Growth 13.35%	S&P 500 Value 1.99%	S&P 500 Value -39.22%	S&P 500 Value 21.17%	S&P 500 Growth 15.05%	Russell 2000 Value -5.50%	S&P 500 Growth 14.61%
Barclays Agg 9.75%	Barclays Agg -2.92%	MSCI EAFE 11.21%	MSCI Emerging Markets 6.03%	MSCI EAFE 1.78%	Russell 2000 Value -6.45%	Barclays Agg -0.82%	Russell 2000 Growth -22.43%	S&P 500 Growth -12.73%	S&P 500 Growth -23.59%	S&P 500 Growth 25.66%	S&P 500 Growth 6.13%	S&P 500 Growth 4.00%	S&P 500 Growth 11.01%	Russell 2000 -1.57%	MSCI EAFE -43.38%	Russell 2000 Value 20.58%	MSCI EAFE 7.75%	MSCI EAFE -12.14%	Russell 2000 Growth 14.59%
S&P 500 Growth 1.68%	MSCI Emerging Markets -7.32%	MSCI Emerging Markets -5.21%	Barclays Agg 3.64%	MSCI Emerging Markets -11.59%	MSCI Emerging Markets -25.34%	Russell 2000 Value -1.49%	MSCI Emerging Markets -30.61%	MSCI EAFE -21.44%	Russell 2000 Growth -30.26%	Barclays Agg 4.10%	Barclays Agg 4.34%	Barclays Agg 2.43%	Barclays Agg 4.33%	Russell 2000 Value -9.78%	MSCI Emerging Markets -53.18%	Barclays Agg 5.93%	Barclays Agg 6.54%	MSCI Emerging Markets -18.17%	Barclays Agg 4.21%

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Source: Callan Associates. Examples are for illustrative purposes only and do not reflect average annualized returns or performance of any Threadneedle fund. Past performance is not a reliable indicator of future results. All indexes are unmanaged and measure common sectors of global asset markets

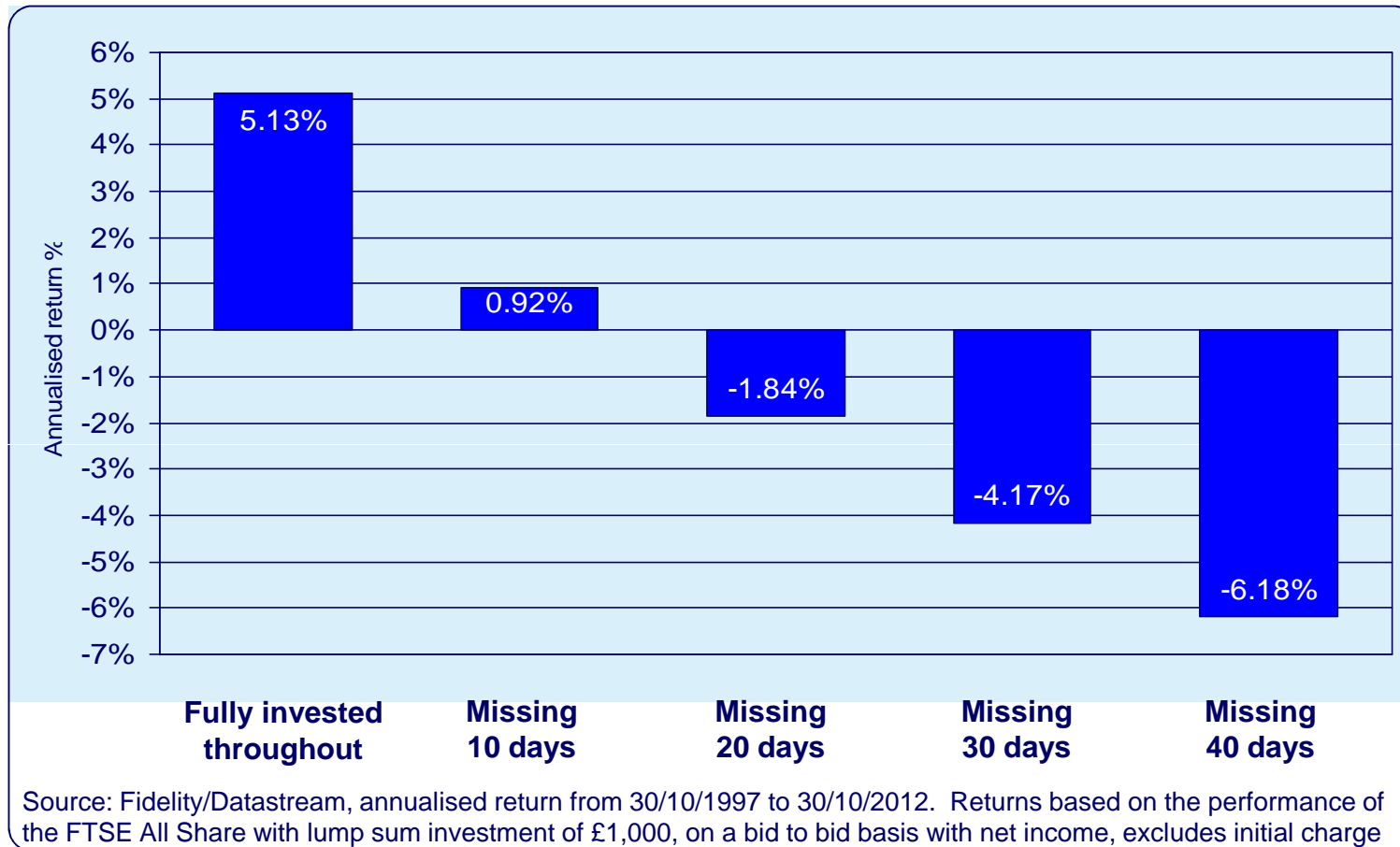
Rebalance for consistency

Without rebalancing: The market can change your asset allocation



Source: Putnam. Equities are represented by S&P 500 Index and bonds by Barclays U.S. Aggregate Bond Index. Indices are unmanaged and represent broad market performance. Past performance is not a guarantee of future results. Diversification and rebalancing will not necessarily prevent investors from losing money; however, they may reduce volatility and potentially limit downside performance.

The cost of missing the best days



“Time in the market, not timing the market!”



This is an independent report by the lang cat focussing on investment prefunding on platforms.

In this document we explain what investment prefunding is and which of the most popular platforms offer it. We then explore the impact it can have on investors in specific situations and offer some views on how advisers might take that into account in their advice process.

Let's be clear

The lang cat was commissioned by Zurich to write a document on this subject. The cats at Zurich checked that we had got everything right when it came to their platform but nothing more. The data has been independently researched, the opinions are our own and Zurich has not had any editorial input.

WHAT IS INVESTMENT PREFUNDING?

Investment prefunding simply means that a platform is prepared to invest funds that have not yet cleared. That might be from a cheque they've just banked, or a sale transaction that has just taken place. In either case, they haven't received any money yet and probably won't for several days. A platform that prefunds investments will allow that expected money to be invested straight away. It's simple, quick and minimises the time that an investor spends out of the market.

In contrast, a platform that does not prefund transactions will insist on always having real cleared funds to work with. It's more transparent, and in some cases it makes very little difference. However, it can mean investors being out of the market for a long period of time and their investment process dragging on.

NEW INVESTMENTS

When a cheque is sent to a platform, how long do investors have to wait before the cash is cleared and available to invest? For a platform that prefunds cheque investments (less than half of those in our table on page 6) they can usually start trading the same day. For those that don't the investor will have to wait around 9 working days.

It doesn't sound the much. But a £60,000 investment loses growth of c. £288 (assuming 7% pa).

3 days

It's a good argument for us payments regardless of your features.

PENSION TAX RELIEF

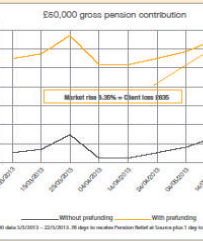
When a contribution is made net, tax relief can take 6-11 weeks (48-78 days) to be paid to the platform and then invested. So a contribution paid on 6 January might not have the tax relief credited until 21 March.

Is that a problem? Let's look at an example. If an investor made a £60,000 gross contribution on 6 March 2013 they could have made £536 more in growth if their platform prefunded their tax relief compared with a non-prefunded platform. Of course, if markets had risen more in that period the investor would be even more out of pocket and if they had dropped they would have been better off.

Do investors know that what's happening behind the scenes? What are they expecting?

There is another aspect to consider - advisers' time.

Some platforms will allow transactions to queue up until cash is available. Others need advisers to make a specific instruction. Where that's the case, adviser administration teams may have to check daily for the tax relief to be paid and ensure it's invested in line with their best execution policy.



Finally there's charges. For those platforms that charge on a transaction basis and don't prefund tax relief, investors may find they are being hit with two lots of investment transaction charges. It may not be big bucks in most cases, but they need to know about it.

ADVISER TIME

What is undeniable, we think, is that advisers can save considerable administration time with prefunding. It's not the placing of the orders that takes time - most platforms make that fairly easy these days - but the time taken in checking that funds have cleared, that everything has come through OK, and in dealing with client enquiries. This may be particularly important when it comes to sell-downs for income withdrawals.

Based on our discussions, we think the time saving per client could be in the order of the following:

Investment	10 minutes/wrapper
Switch	20 minutes
Rebalance	30 minutes
Pension tax relief	30 minutes
Withdrawal	20 minutes

CASE STUDY

James has an unwrapped portfolio of £1,000,000. He appoints a new adviser who recommends their model portfolio using a platform. The portfolio is then rebalanced quarterly.

If he used a platform that did not prefund investments he would only be out of the market for perhaps 20 days in that first year. Yet, compared to a prefunded platform, he could be worse off by **£940** after just one year.

Assumptions: Tax issues not accounted for. 6% of portfolio rebalanced each quarter. 7% net growth per annum.

Rebalance	30 minutes
Pension tax relief	30 minutes
Withdrawal	20 minutes

CASE STUDY

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prefunding could then invested in of concluding the for of investors. Clearly in a ring arkit, then of course result - but we at

In contrast, investors and advisers using platforms with no prefunding need to be a bit more relaxed, waiting for trades to settle, or (in the case of pension contributions) for tax relief to be paid by HMRC.

to can save ding, it's not the platform's make art in checking come through OK, y be particularly rime withdrawals.

So let's have some fun. Mrs McGinohy is a client of a financial planner and has an ISA, GIA and SIPF. She adds money to all three once a year (dividends coming in from a family business), is rebalanced twice a year, receives pension tax relief once a year and takes ad-hoc withdrawals twice a year. In our table, she admin saving if at those actions are prefunded is 2 hours and 40 minutes.

If an administrator (average rate of £30/hour) is doing that, it's a saving of 2.66 hours x £30, so about £80. But more likely a planner will be involved as well, so let's say one hour of his or her time (i.e. Mrs McGinohy, everything is fine, yes, you do know you've sent the money) and one hour and 40 minutes of admin time. Now it's 1 hour x £160 (average rate) and 1.66 hours x £30, giving a total of £200. Would that £200 surface in client charges? Probably not. But now let's replicate that across 100 clients in, say, a 600-client practice. We're at £20,000, which isn't far away from the cost of one administrator.

Maybe our sums are wrong; they could be too harsh or too generous. Your mileage may vary, as the saying goes. But we do think that prefunding in the retail space is useful for both clients and firms in terms of reducing queries and what process experts charmingly call 'failure domains'.



Format of a well known game

6	●	£1 Million
5	●	£250,000
4	●	£64,000
3	●	£32,000
2	●	£8,000
1	●	£1,000

Question 1

In respect of a new single premium investment, how long does a cheque take to settle/clear?

- 6 ● £1 Million
- 5 ● £250,000
- 4 ● £64,000
- 3 ● £32,000
- 2 ● £8,000
- 1 ● £1,000

50:50  



A No clearance time B One working day

C Around 3 working days D 5 working days

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50:50  

A No clearance time

B One working day



C Around 3 working days

D 5 working days

Question 2

How many days does the sale of a mutual fund take to settle?

- 6 ● £1 Million
- 5 ● £250,000
- 4 ● £64,000
- 3 ● £32,000
- 2 ● £8,000**
- 1 ● £1,000

50:50  



A 10 working days B Nil – settlement is immediate

C 3-5 working days D 8 working days

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- 1 ● £1,000

50:50  



A 10 working days **B** Nil – settlement is immediate

C 3-5 working days **D** 8 working days

Question 3

What is the average time that a client is out of the market when switching money out of a GIA into an ISA?

- 6 ● £1 Million
- 5 ● £250,000
- 4 ● £64,000
- 3 ● £32,000**
- 2 ● £8,000
- 1 ● £1,000

50:50  

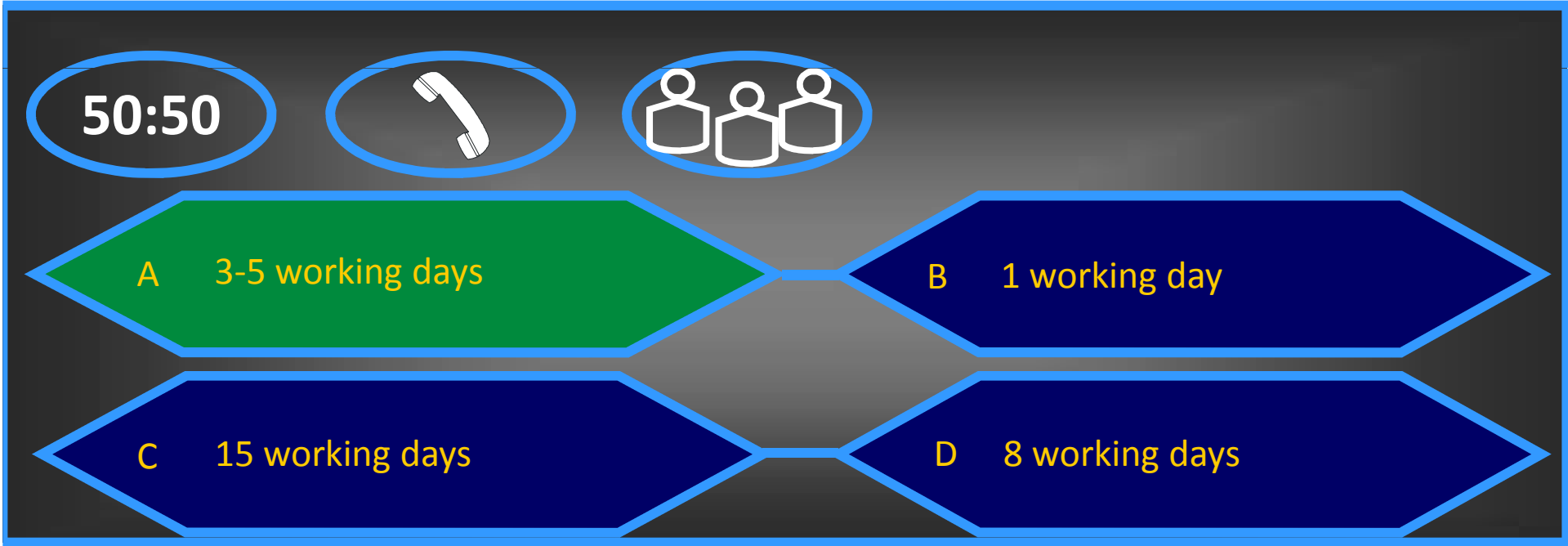
A 3-5 working days B 1 working day

C 15 working days D 8 working days

Question 3

What is the average time that a client is out of the market when moving money out of a GIA into an ISA?

- 6 ● £1 Million
- 5 ● £250,000
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- 2 ● £8,000
- 1 ● £1,000



Question 4

How long could it take for tax relief on a pension contribution to be received from HMRC?

- 6 ● £1 Million
- 5 ● £250,000
- 4 ● £64,000
- 3 ● £32,000
- 2 ● £8,000
- 1 ● £1,000

50:50



A 5 days

B 78 days



C 17 days

D 52 days

Question 4

How long could it take for tax relief on a pension contribution to be received from HMRC?

- 6 ● £1 Million
- 5 ● £250,000
- 4 ● £64,000
- 3 ● £32,000
- 2 ● £8,000
- 1 ● £1,000

50:50  

A 5 days B 78 days

C 17 days D 52 days

Question 5

How much time do the lang cat believe that an adviser will save, per client, as a result of a platform prefunding the pension tax relief?

- 6 ● £1 Million
- 5 ● £250,000
- 4 ● £64,000
- 3 ● £32,000
- 2 ● £8,000
- 1 ● £1,000

50:50



A No time

B 5 minutes



C 30 minutes

D 4 hours

Question 5

How much time do the lang cat believe that an adviser will save, per client, as a result of a platform prefunding the pension tax relief?

- 6 ● £1 Million
- 5 ● £250,000
- 4 ● £64,000
- 3 ● £32,000
- 2 ● £8,000
- 1 ● £1,000

50:50  

A No time

B 5 minutes

C 30 minutes

D 4 hours

Question 6

If a client is invested in a mutual fund, what is the average minimum length of time for the client to receive a one-off withdrawal payment?

- | | | |
|---|---|------------|
| 6 | ● | £1 Million |
| 5 | ● | £250,000 |
| 4 | ● | £64,000 |
| 3 | ● | £32,000 |
| 2 | ● | £8,000 |
| 1 | ● | £1,000 |

50:50



A Approx 2 working days

B Approx 10 working days

C Approx 5 working days

D Approx 15 working days

Question 6

If a client is invested in a mutual fund, what is the average minimum length of time for the client to receive a one-off withdrawal payment?

- | | | |
|---|---|------------|
| 6 | ● | £1 Million |
| 5 | ● | £250,000 |
| 4 | ● | £64,000 |
| 3 | ● | £32,000 |
| 2 | ● | £8,000 |
| 1 | ● | £1,000 |

50:50



A Approx 2 working days

B Approx 10 working days

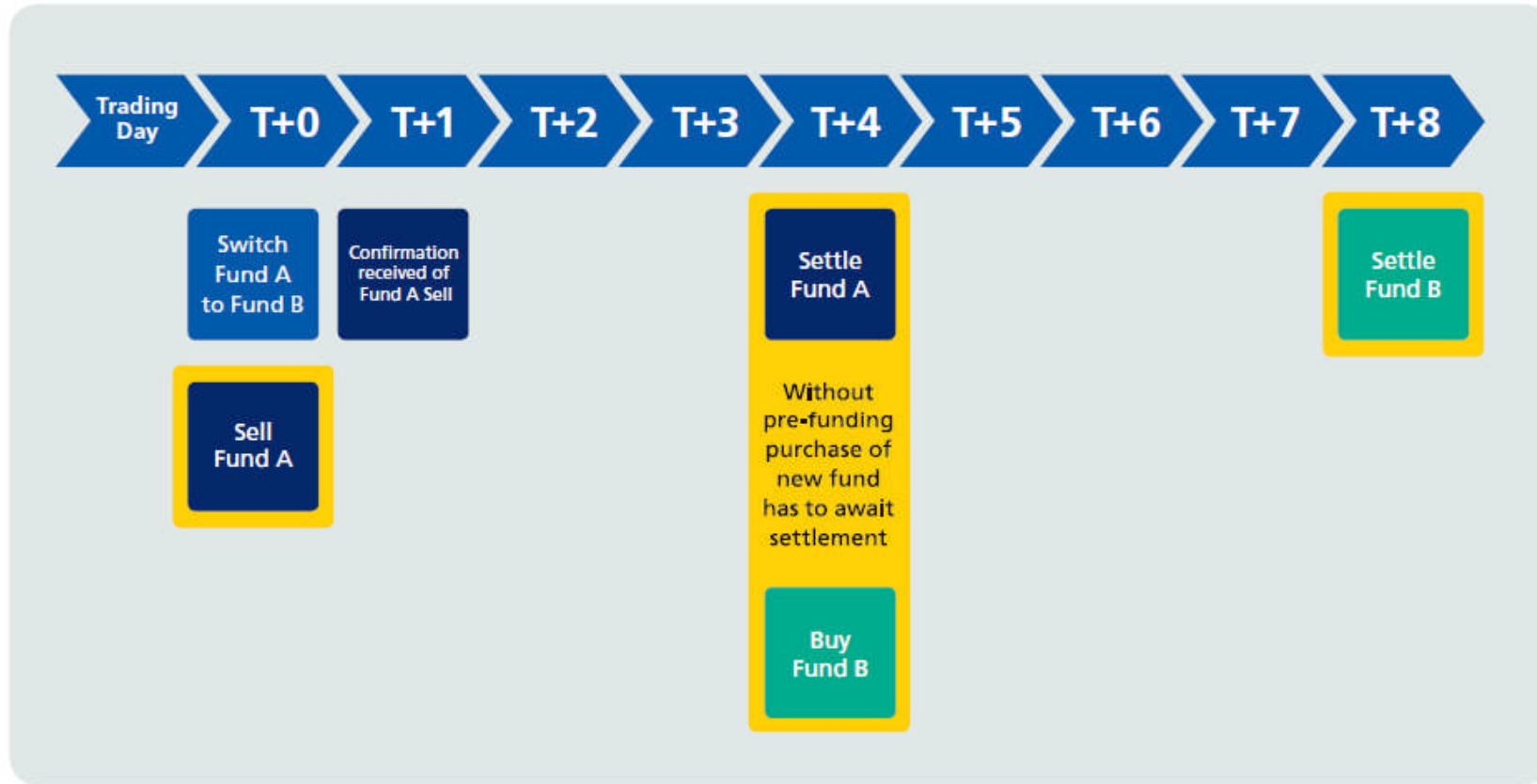
C Approx 5 working days

D Approx 15 working days

Time out of the market risk



- Rebalancing can cause time out of the market



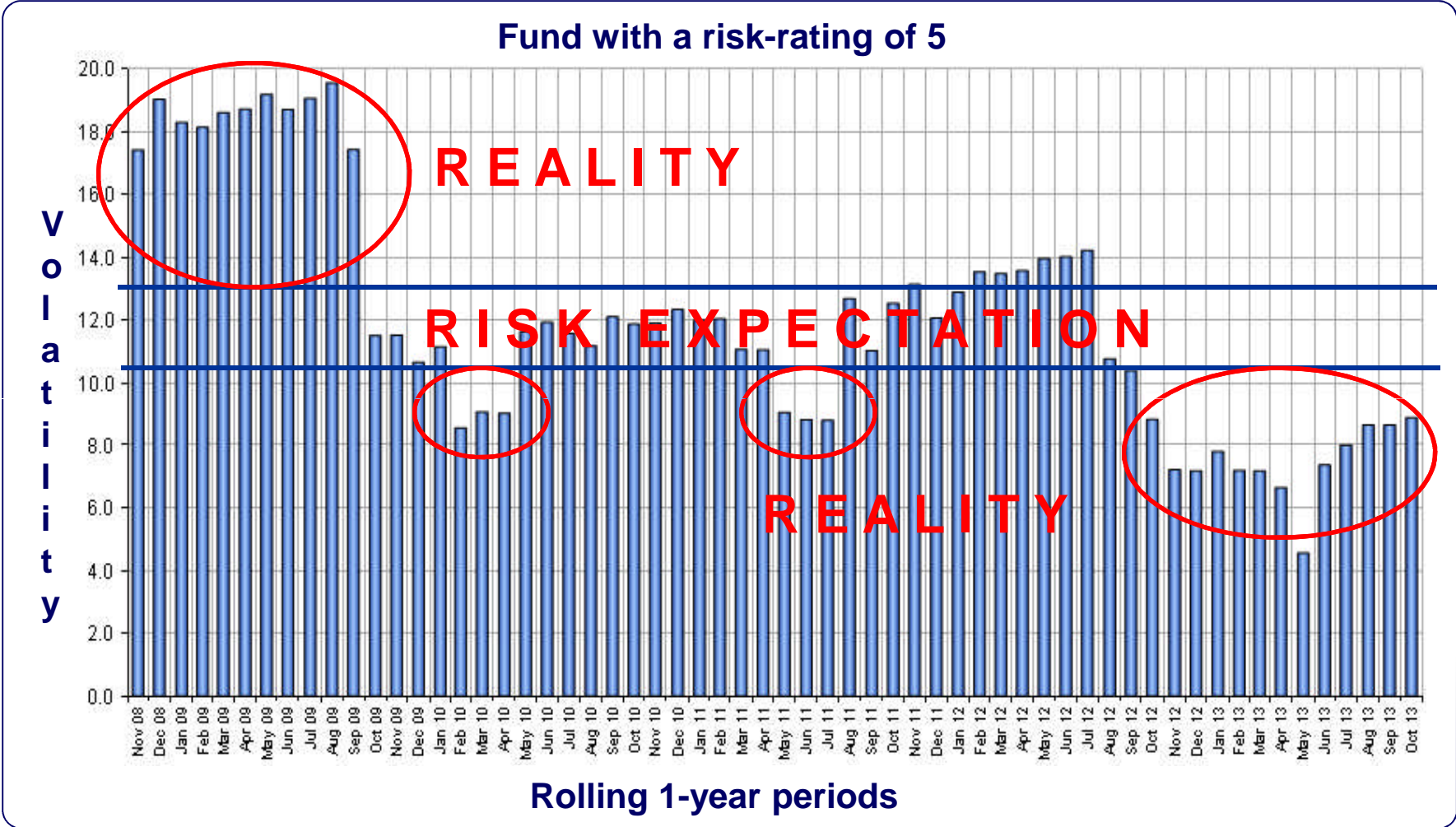
Platforms that pre-fund investment switches help avoid this

Other solution options

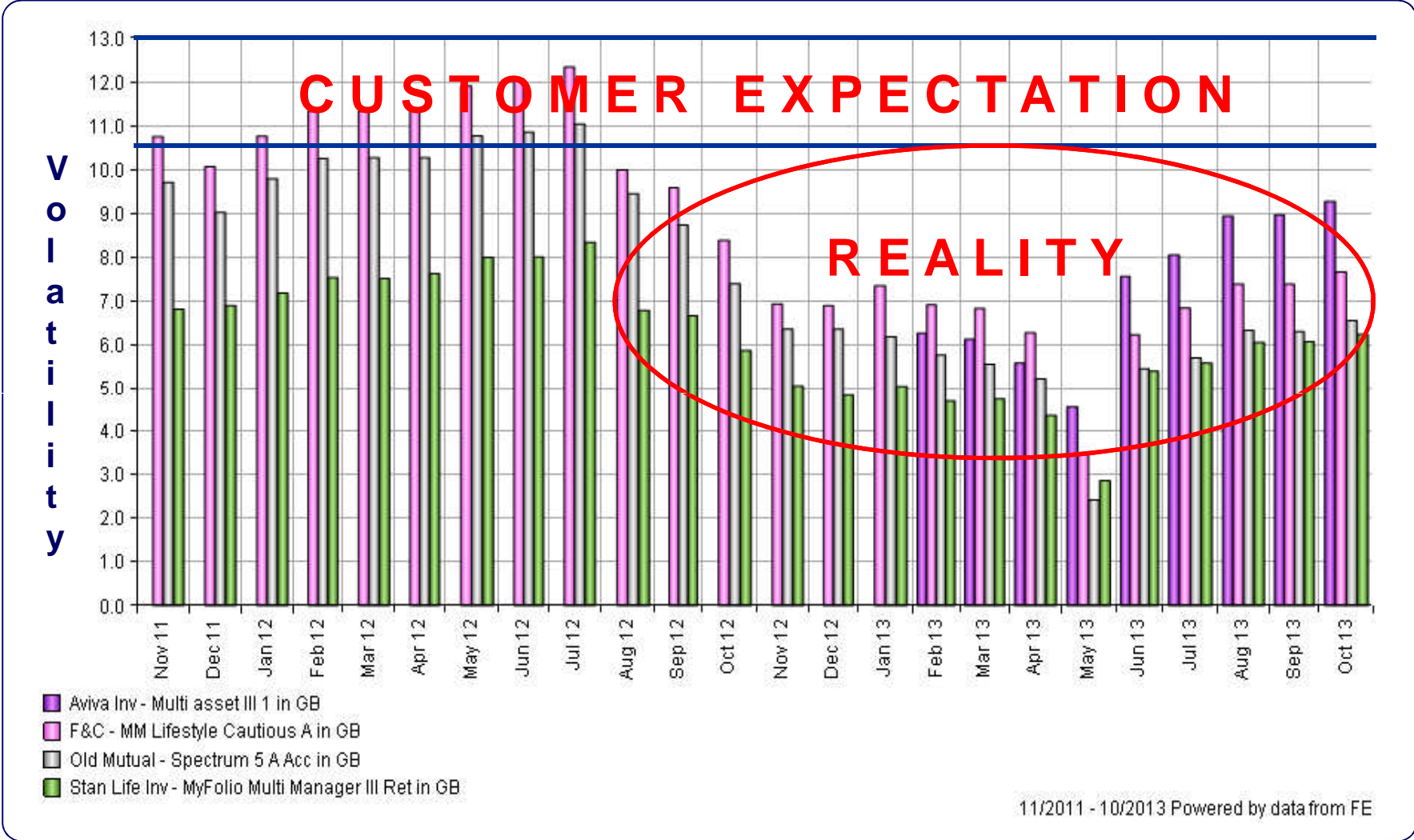
- Model portfolios – Self-select
- Model Portfolios – DFM
- Model Portfolios – Guided Architecture
- Bespoke
- Multi-asset funds
- Risk-rated funds
- Risk-targeted funds
- Risk-profiled funds



The risk of 'risk-rated' funds...



The risk of 'risk-targeted' funds...



One potential solution – ‘risk-profiled’ funds

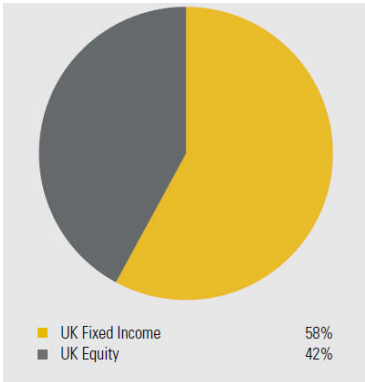
- Risk-profiled funds are managed to a constrained asset allocation that is appropriate to a customer's risk profile
- They are not constrained by, or target a specific volatility, and whilst the volatility may change, the asset allocation remains consistent



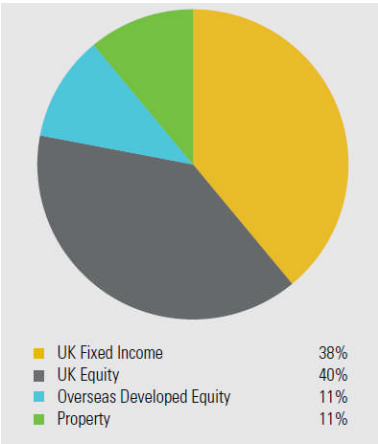
- Threadneedle Multi-Asset Zurich Funds I-V
- 5 ‘risk-profiled’ funds launched on Monday 27th January 2014
- 0.6% AMC, plus ~0.25% additional expenses
- **Integrated and robust solution on Zurich’s Retail Platform**

One potential solution – ‘risk-profiled’ funds

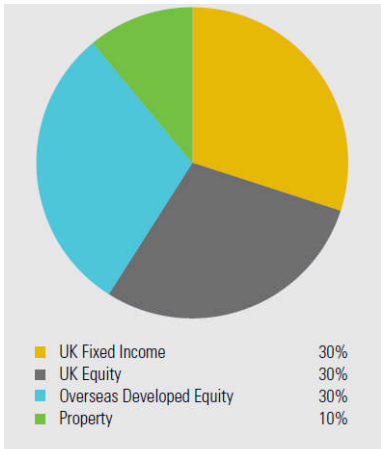
Portfolio I



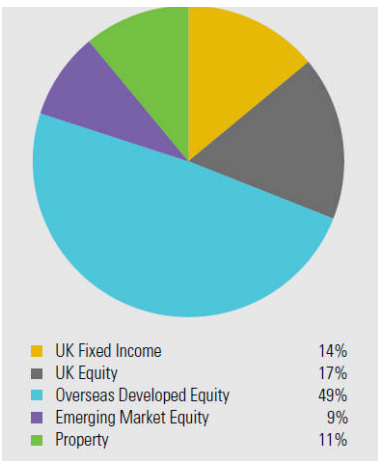
Portfolio II



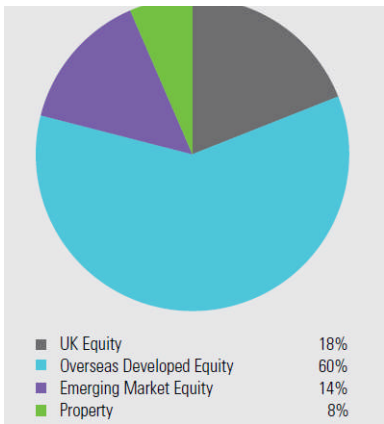
Portfolio III



Portfolio IV



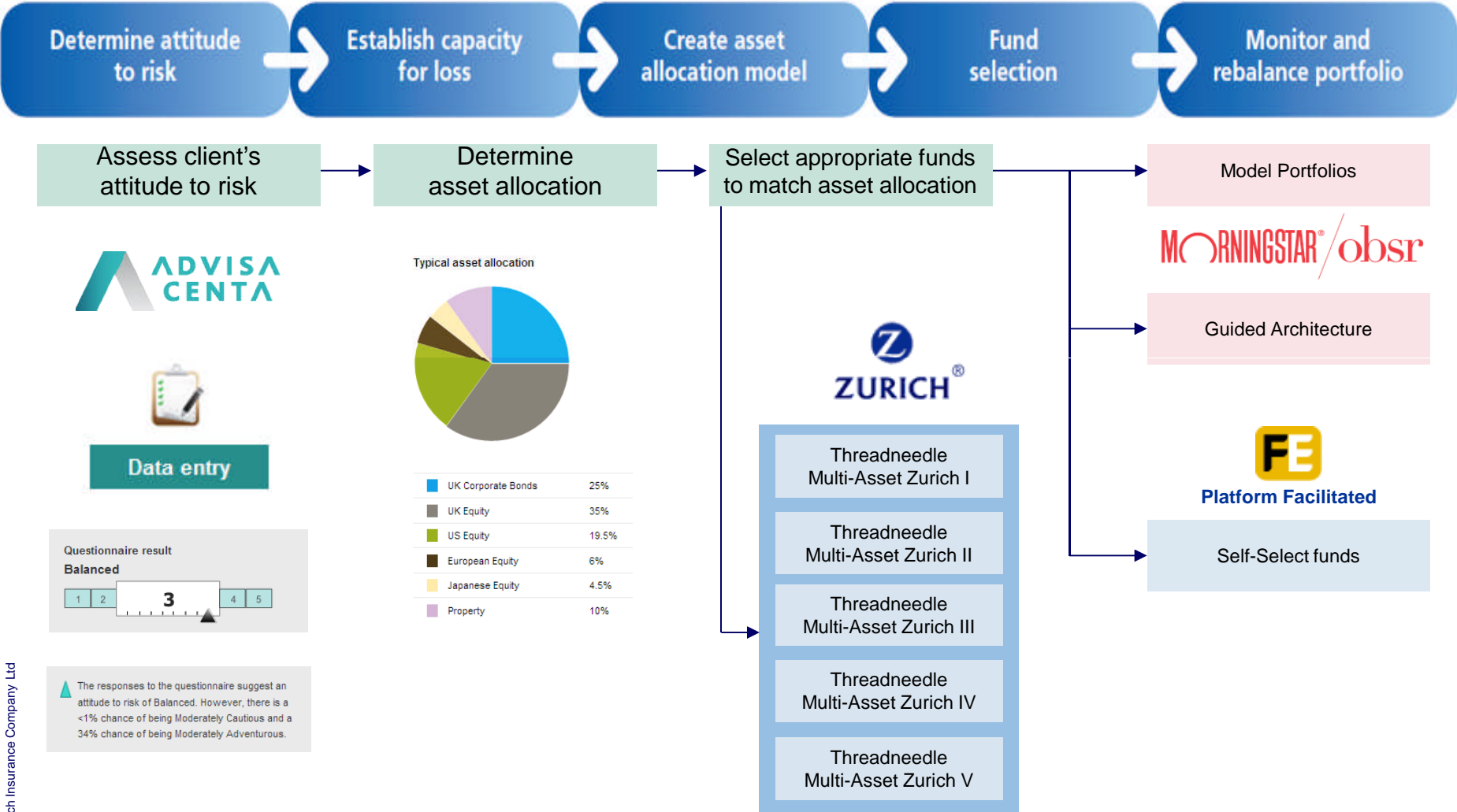
Portfolio V



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Source: Threadneedle Investments Portfolio factsheets – February 2014

Integrated solution on Zurich's Retail Platform



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Summary

- Customers fear loss
- Advisers want reassurance
- The regulator hates 'shoe-horning'
- Zurich can help you manage risk
- An ideal solution



For more information, please speak to your Zurich Consultant

Contact

- **Your Zurich Consultant**
- **Telephone: 0500 546 546**
- **<http://www.zurich.co.uk/zurichintermediary/home/>**



Thank you for listening

Important information

Any tax and legislation information is based on Zurich's current understanding and may change in the future.

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philosophy done – now a process

Part 3 process outline

- **HOW WE DO IT**
- Themes
- Data
- Templates

process : themes

- Follows philosophy
- How do you assess risk?
- What are long term assumptions?
- Costs important?
- Tax wrappers?
- Size of portfolio? Funds, models, DFM
- Rebalancing – how?
- Due diligence?
- Bespoke needs (trusts / income)?

process : themes

- You need to be able to do and undo it consistently
- You need to be competent to do it (funds, models, DFM)
- You need to make sure you get the expected outcomes
- If you outsource you need to do **DDQ and monitor (FCA)**

process : themes

- Do not forget that it needs to be reviewed to stay on track – annually?
- And you need to not miss opportunities – when?
- Adviser driven rebalancing isn't simple or free!

process : **template**

- Investment process template
- Again feel free to use this as a **basis** for your own
- But do think about what **YOU** believe
- **Try it with £25,000, £100,000 and £250,000!**
- **But make sure it is what you do!**
- **Bespoke help available - RDM**

fund managers

- Useful sources of data / research
- A supplier to you – discretionary permissions
- You need to set the mandate
- **and** hold them to account
- You are the fiduciary (clients agent)
- You need to allocate resource appropriately
- Insource / outsource: SAA. TAA. SS

regulator

- Centralised investment propositions

<http://www.fca.org.uk/static/pubs/guidance/fg12-16.pdf>

- **Key issues firms should consider** Poor outcomes can occur if firms, in particular, fail to:
 - consider the needs and objectives of their target clients when designing or adopting a CIP;
 - consider whether the CIP is suitable for each client on an individual basis; and
 - establish a robust control system to mitigate risks which might arise from the CIP.

good practice

solutions to cater for each segment including:

- a preferred **fund panel** for transactional clients;
- a suite of **low-cost managed funds** for clients with modest asset levels who required a low-cost ongoing service;
- a **model portfolio service** for clients with a higher level of assets and investment experience, where the additional costs were appropriate; and

customers

- New customers only
- Legacy book
- D2C B2B
- **All of them?**

summary

- Use the templates to stimulate your thinking
- Write down your beliefs A4
- Collect some evidence – **lots available RDM**
- Think about customer segments and needs
- Draft the steps for your process A4
- Can you do it all? – insource and outsource
- **Write down 5 ways it adds value!**

Part 4 examples of value

- Avoids loss – FSCS
- Screens out poorer investments
- Free BMW or 1.5% discount??
- Boost returns – by reducing costs
- Diversifies – eggs in baskets
- Rebalancing – sell high : buy low
- Meets you long term needs / goals

alpha - not just for managers!

Stage	Client capability HMEasy	Client Value HMLow	Est %pa	Notes
Financial /cashflow planning				
Tax planning				
Risk profiling				
Benchmarking				
Asset Allocation				
Platform selection				
Wrapper selection				
Investment cost				
Investment oversight				
Fund manager				

2% pa for advice : too cheap?

Stage	Client capability HMEasy	Client Value HMLow	Est %pa	Notes
Financial /cashflow planning	H	H	0.5	
Tax planning	H	H	1	40% IHT
Risk profiling	H	H	0.5	
Benchmarking	H	H	0.25	
Asset Allocation	H	H	1	Diversify rebalance
Platform selection	H	M	0.25	
Wrapper selection	H	M	0.25	
Investment cost	H	M	1	0.8 – 4.8% pa
Investment oversight	H	H	0.5	Avoid loss
Fund manager	E	L	?	+/- 1.25

objectives : check

- Explain core elements of P&P
- FCA perspective
- Asset allocation
- Asset classes
- Data sources
- Philosophy – the foundation stones
- Process – value, cost and governance
- Selection
- Value

feedback please

- Feedback
- **RDM:**
- More support
- Templates
- Data / evidence
- **Build one with you**

thank you

- Any questions?
- TCF Investment
 - Expert, WoM passive, SAA, low cost, multi - asset
- Total Clarity Funds – DT 3,4,5 and 6
- TCF Model portfolios
 - Passive – 10 to 90% real assets
 - Glide path – asset allocation glides from equity to cash to end date

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@tcfDAN

www.tcfinvestment.com

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Please sir I want some more?

1. Barclays Equity Gilt sales aid!
2. Screening process
3. Active and passive



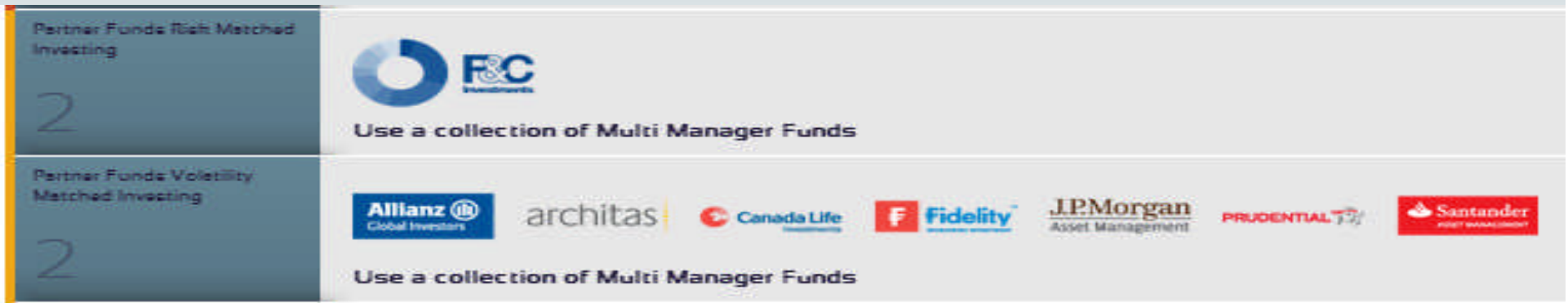
How can we help?

- 🌈 Template for building your philosophy document
- 🌈 Research and materials from today
- 🌈 Supply chain of investment solutions
- 🌈 Supply chain of tax wrappers and platforms
- 🌈 Help with Dynamic Planner to execute your investment philosophy

Supply chain for Investment Solutions...

<p>Active FP Verbatim Portfolio Funds</p> <p>1</p>	     
<p>Passive Total Clarity</p> <p>1</p>	     <p>Create to match your client's attitude to risk</p>
<p>Partner Funds Risk Matched Investing</p> <p>2</p>	 <p>Use a collection of Multi Manager Funds</p>
<p>Partner Funds Volatility Matched Investing</p> <p>2</p>	       <p>Use a collection of Multi Manager Funds</p>
<p>Model Portfolios</p> <p>3</p>	      <p>Use pre-determined Model Portfolio</p>
<p>Whole of Market</p> <p>4</p>	      <p>Select funds from the whole of the fund universe</p>
<p>Verbatim Discretionary</p> <p>5</p>	   

Supply chain for Investment Solutions...



VI Investment Forums in July

- 4.5 hours of structured CPD
- Research and due diligence on volatility matched investments
- Discover how they fit to Dynamic Planner process
- Market updates, client research and investment thought leadership

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verbatim
ASSET MANAGEMENT

Investment Philosophy Workshop