Good Investing Starts Here...

LOGO

iQFolio

ALL GOOD INVESTING...

All good investing starts with a thorough understanding of the investor's goal, aspiration and risk profile. To paraphrase Adam Smith, if you don't know who you are, the stock market is an expensive place to find out.

This is why we begin every client relationship with an extensive discussion about their goals and aspirations, their hopes and fears, and their willingness to take risk. We then work with each client to create a long-term financial plan designed to meet their objectives.

It's only after doing this that we begin the discussion about what kind of investment is suitable for you.

Our key ethos is to construct our client portfolios based on extensive academic evidence of what drives returns in the capital markets. Unlike many others in the financial industry, we don't follow the flavour of the month. We don't react to the day-to-day movement of stock prices. Instead, we rely on robust empirical evidence about how best to capture long-term returns.

Our approach to investing is founded upon Nobel Prize-winning academic research. The result is a range of low-cost, evidence-based, globally diversified portfolios, designed to capture the capital market return over the long-term, while eliminating unnecessary costs, inefficiencies, and anxiety for our clients.

"Those who judge their portfolio by its performance relative to some narrow benchmark are focusing on an issue that is largely irrelevant to their ultimate financial success."

ADAM BUTLER

THE TIMELESS POWER OF DIVERSIFICATION

Diversification across multiple asset classes (such as bonds, equities) and across countries is a key investment philosophy for us. We achieve this by holding different asset classes that complement one another in the portfolio; when equities zig, bonds tend to zag and this reduces volatility (ups and downs) in our portfolios while improving returns in the longer term.

The origins of diversification within the context of investing lie in the work of Nobel Prize winning economist Harry Markowitz. He described diversification as the only "free lunch" when seeking investment returns, but the concept has been around for hundreds of years in other domains of life. The good old saying "don't put all your eggs in one basket" apparently has its origins in the Spanish novel Don Quixote. This was first published in 1605, and is considered one of the most influential works of literature from the Spanish Golden Age.

Diversification is as powerful today as it was in the Spanish Golden Age! It is indeed one of the few timeless investment strategies!

INVESTMENT PHILOSOPHY

Our investment process is guided by a hundred years of empirical data, decades of academic research by renowned economists and the practices of leading institutional investors. Our core beliefs are summarised below.

THE CAPITAL MARKETS WORK

The prices of securities reflect the expectation of all market participants[1]. The capital markets are far from perfect[2] , but they do a good job of fairly pricing all available information and investor expectations about publicly traded securities[3].

COSTS MATTER

Costs reduce an investor's net return and represent a hurdle for a fund. Before a fund can outperform, it must first add enough value to cover its costs. Sadly, most professional fund managers fail to add value and high cost is a strong predictor of poor fund performance.[1]

ASSET ALLOCATION AND PORTFOLIO STRUCTURE DRIVE PORTFOLIO RETURN

The most important factor determining the level of risk and variability of return in a portfolio is asset allocation [4,5,6].

DIVERSIFICATION IS ESSENTIAL

Diversification is the principle of spreading your investment risk around. Our portfolios hold thousands of shares and bonds of many companies and governments in many countries around the world.

CONSISTENT OUTPERFORMANCE IS RARE

Economic uncertainties, random market movements, and the rise and fall of individual companies mean it is extremely difficult for anyone – including professional fund managers – to beat the market in the long term. There is a significant body of research to suggest that outperformance by most fund managers is down to luck rather than skill [7,8].

RISK AND RETURN ARE RELATED

There is good risk and bad risk. Higher exposure to the right risk factors or premia leads to higher expected returns but is no guarantee of them. Risk is the premium investors pay for the expectation of a greater return.

INVESTOR BEHAVIOUR IS A KEY DETERMINANT OF THEIR LONG-TERM OUTCOME

All too often, investors let their emotions get the better of them with dire consequences for investment returns. As financial planners, a key part of our role is to help clients maintain a disciplined approach, especially in extreme market conditions.

1 Fama, Eugene (1970), "Efficient Capital Markets: A Review of Theory and Empirical Work," Journal of Finance, 25, 383-417.

2 Shiller, Robert J. (2003) "From Efficient Markets Theory to Behavioral Finance." Journal of Economic Perspectives, 17(1): 83-104.

3 Malkiel, B. (2000), Bubbles in Asset Prices, CEPS Working Paper No. 200. Princeton University

4 Gary P: Brinson, L. Randolph Hood, and Gilbert L. Beebower (1985) Determinants of Portfolio Performance. The Financial Analyst Journal July/Aug 1986

5 Ibbotson, Roger G., and Paul D. Kaplan. 2000. "Does Asset Allocation Policy Explain 40, 90, or 100 Percent of Performance?" Financial Analysts Journal (January/February)

6 Blake, D., B. N. Lehmann, and A. Timmermann, 1999, Asset Allocation Dynamics and Pension Fund Performance," Journal of Business, 72, 429 - 461.

7 Laurent Barras, Olivier Scailet And Russ Wemers (2010) False Discoveries In Mutual Fund Performance: Measuring Luck In Estimated Alphas. The Journal Of Finance (Feb 2010)., LXV, (1)

8 Keith Cuthbertson, Dirk Nitzsche And Niall O'Sullivan (2010) Mutual Fund Performance: Measurement And Evidence. Journal Of Financial Markets, Instruments And Institutions (2010), 19(2), 95 - 187

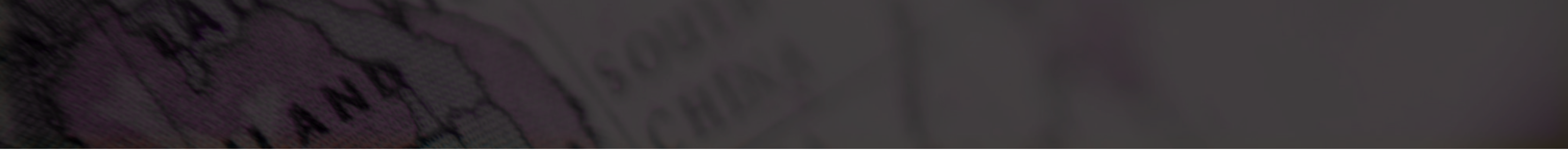
WHY GLOBAL ASSET ALLOCATION?

Have you ever played the game, guess how many sweets in the jar? Did you just come up with a wild guess, or did you try to count as many sweets as you could see? Either way, you probably found out that your guess was nowhere near the correct answer! Strangely, if you took the average of all the answers given by the other participants, you're far more likely to have been closer to the correct answer. This is what's known as the wisdom of the crowd!

We rely on robust academic evidence to make these kinds of decisions and our approach is to allocate portfolios broadly based on global market capitalisation.

Global market capitalisation is the measure of the value of all shares held by investors globally. As of 30th December 2016, the global stock market was valued at £38.3 trillion! UK stock markets account for just £2.2 trillion (or 6%) of this.

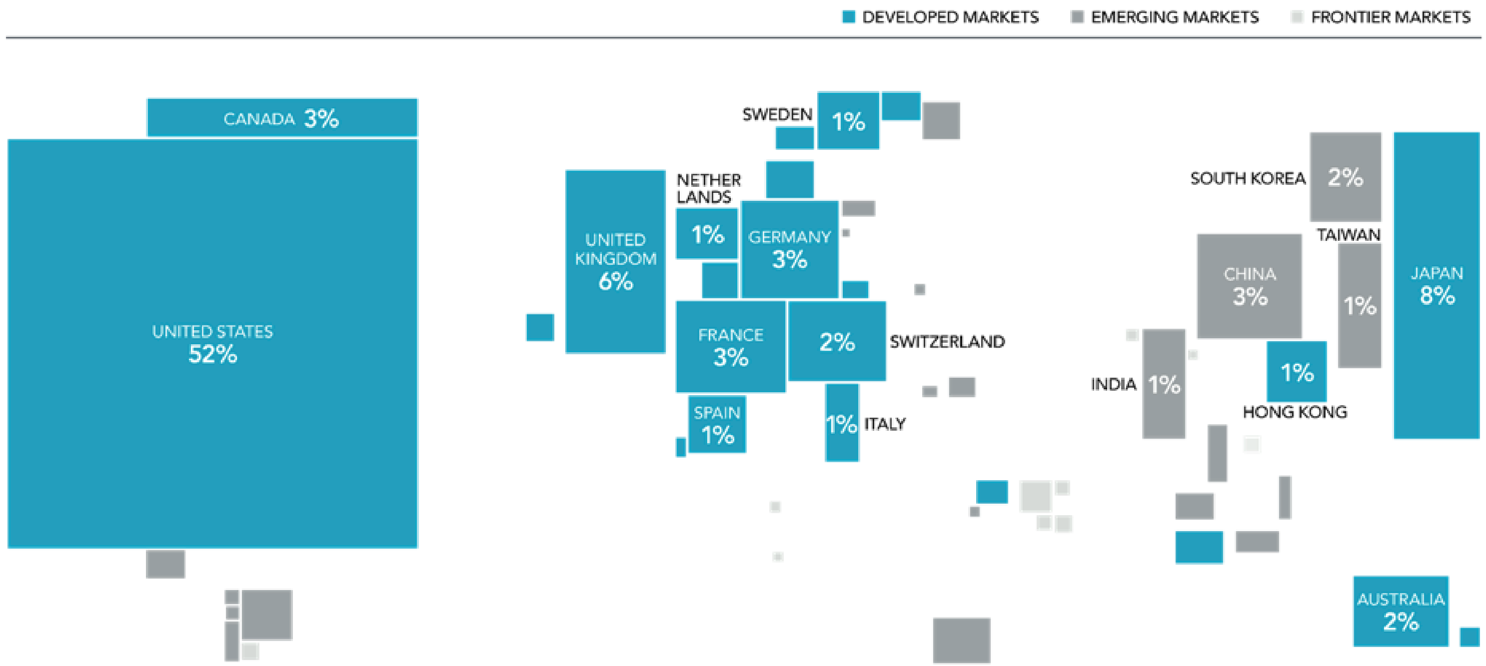
The global market capitalisation is very useful for asset allocation purpose because it reflects the aggregate view of how investors across the world are allocating capital. Investors will allocate more to an asset class if they believe that asset class has an expected return and vice versa. While it's impossible for us to know how each of the millions of investors across the world are allocating their capital, the global market capitalisation gives us a snapshot of the collective decision. And this collective allocation of capital among investment professionals across the globe is far more accurate than that of each individual investor. Much like the 'guess how many sweets in the jar' game, allocating assets based on the global market capitalisation enables us to benefit from the wisdom of the crowd. It provides a more accurate result than trying to out-smart the crowd.



We know it's a good idea to spread our investments across different asset classes and countries; but what exactly is the best way to do this? Should you allocate more of your wealth to the UK or the US? And what about Emerging Markets?

The global market capitalisation is very useful for asset allocation purposes, because it reflects the aggregate view of how investors across the world are allocating capital. While it's impossible for us to know how each of the millions of investors across the world are allocating their capital, the global market capitalisation gives us a snapshot of the collective decision. And this collective allocation of capital among investment professionals across the globe is far more accurate than that of each individual investor. Much like the, guess how many sweets in the jar game, allocating assets based on the global market capitalisation enables us to benefit from the wisdom of the crowd. It provides a more accurate result than trying to out-smart the crowd. This saves us from having to second-guess which countries' equity markets will outperform year to year. We simply rely on the cumulative knowledge of seasoned investors across the world.

Percent of world market capitalisation as of December 31, 2017



WHY VALUE AND SMALL-CAP ALLOCATION?

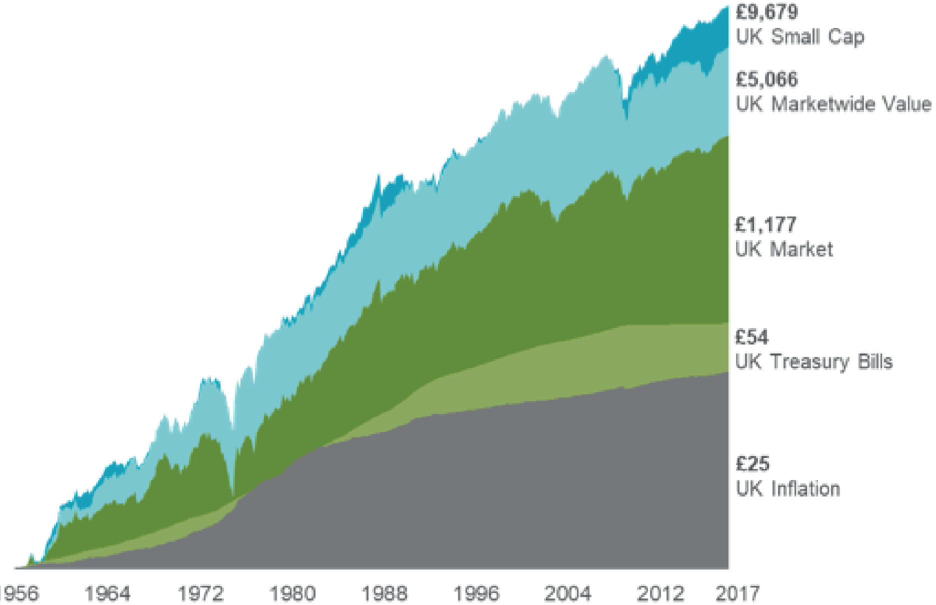
"All intelligent investing is value investing — acquiring more than you are paying for."

CHARLIE MUNGER

The key drivers of return are well documented in different global markets and across different time periods. When we built our portfolios, we incorporated important findings based on the works of the Nobel Memorial Prize in Economic Sciences winner Gene Fama and his colleague Ken French. Their research shows that, over the long term:

- Smaller companies have higher expected returns than larger companies
- Value companies have higher expected returns and outperform growth companies

Growth of a Pound, 1956–2017 (compounded monthly)



This chart clearly demonstrates that over the longer term, smaller companies and value companies tend to outperform the overall stock market. This is not unique to the UK. A similar trend has been documented in the US, European and global equity markets.

So, we built our clients' portfolios to capture the premium offered by small and value companies. Unlike conventional approaches, the strategies don't hold securities in their market-value proportions. We increase the relative portfolio allocation to value and smaller companies with higher expected returns.

It's important to note that this in no way suggests that value and smaller companies will give excess returns every year, or that they're guaranteed. Indeed, value and smaller companies sometimes underperform for short periods relative to the overall market. However, academic evidence suggests that this is a price worth paying over the longer term.

JACK BOGLE

"Do not allow the tyranny of compounding costs to overwhelm the magic of compound return."

KIN HUBBARD

"The safest way to double your money is to fold it over once and put it in your pocket."

WARREN BUFFETT

"Calling someone who trades actively in the market an "investor" is like calling someone who repeatedly engages in one-night stands a romantic."

CHARLIE MUNGER

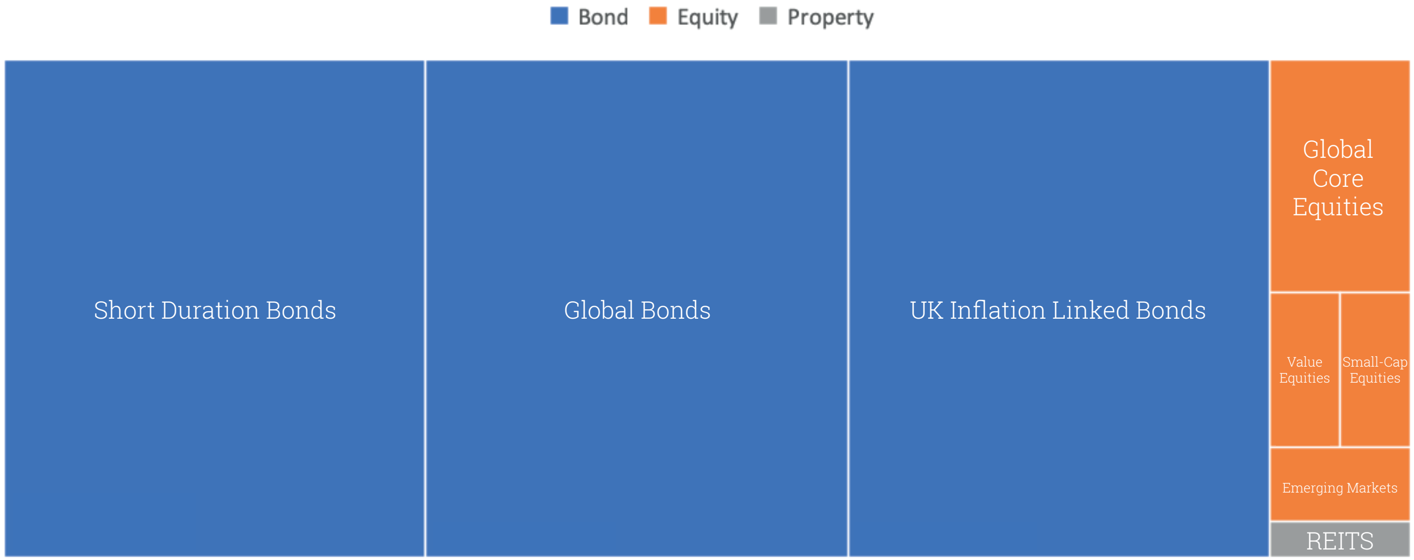
"The first rule of compounding: Never interrupt it unnecessarily."

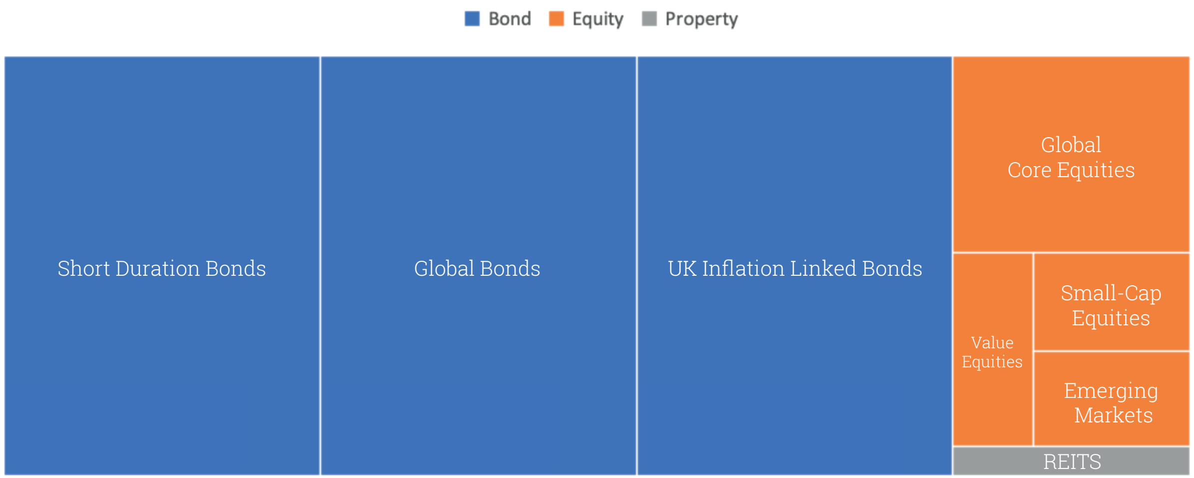
THE PORTFOLIOS

We've a range of evidence-based portfolios crafted to meet a range of client's risk profiles, goals and objectives. Our portfolios invest in a mix of mainstream asset classes (stocks and shares) such as equities, bonds and properties, carefully blended to meet each investor's personal needs.

iQFolio 10

This portfolio sits at the low end of the risk-return spectrum. The portfolio invests heavily in global bonds, with a small allocation to equities and property. While it's designed to experience minimal fluctuations in the short-term, the portfolio may be ideal where capital is required with the next three to five years. It's unlikely to keep pace with inflation over a period of 10 years or longer.



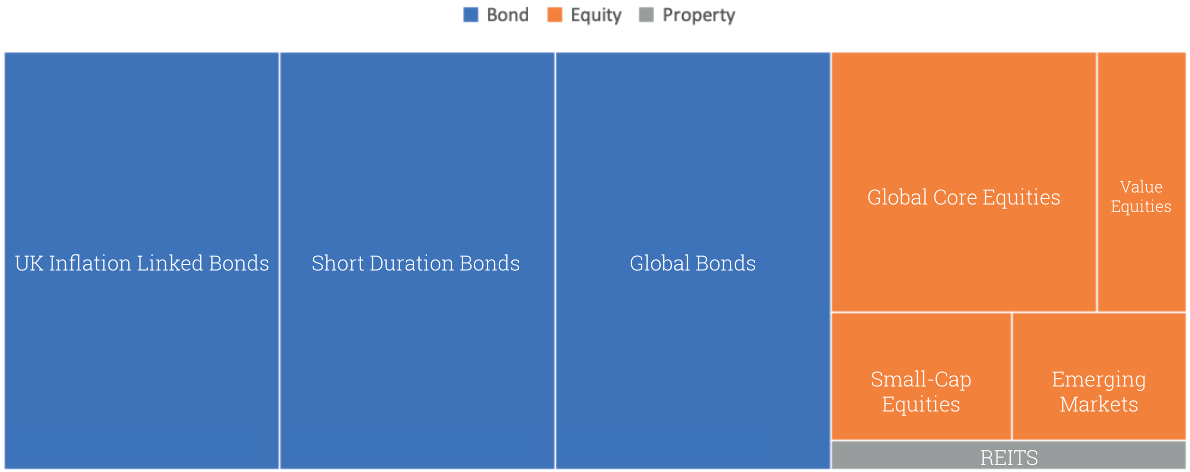


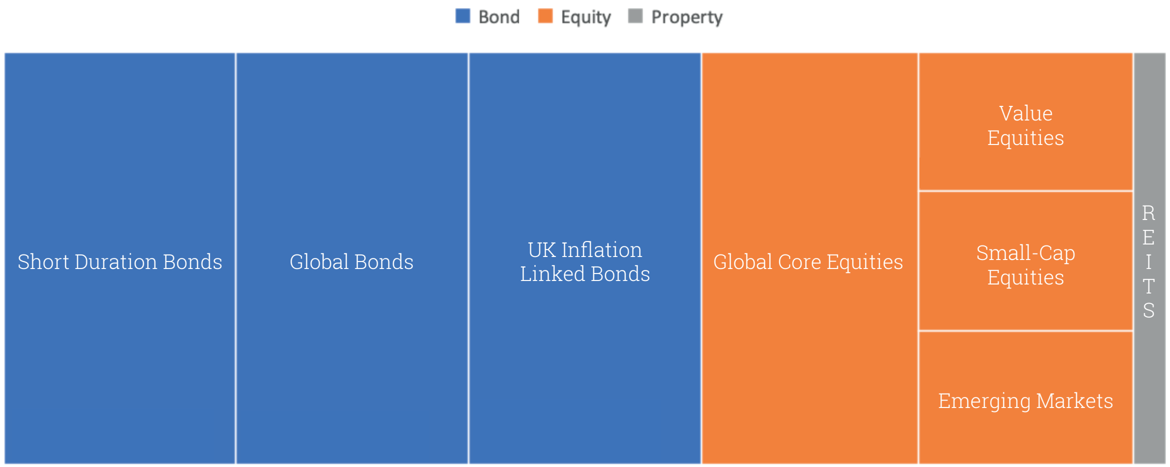
iQFolio 20

This portfolio sits at the low end of the risk-return spectrum. The portfolio invests heavily in global bonds, with a small allocation to equities and property. While it's designed to experience minimal fluctuations in the short-term, the portfolio may be ideal where capital is required with the next three to five years. It's unlikely to keep pace with inflation over a period of 10 years or longer.

iQFolio 30

This portfolio aims to keep pace with inflation over a five-to-seven-year period, by investing about a third of the portfolio in equities across the world with the rest invested in bonds to reduce fluctuations in the short-term. The portfolio may be ideal where capital is required within the next five to seven years, but it's unlikely to beat inflation over a period of 10 years or longer.



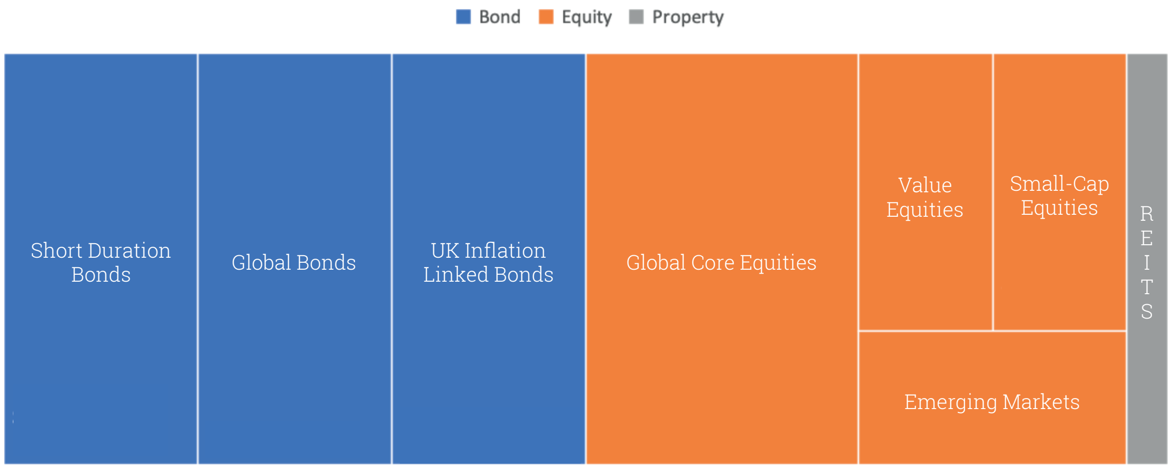


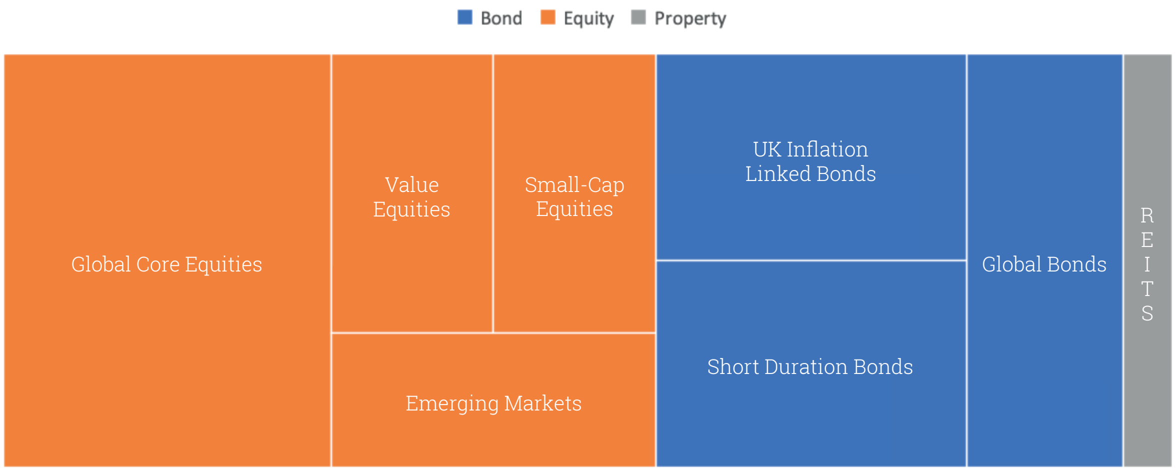
iQFolio 40

This portfolio aims to deliver returns in excess of inflation (RPI + 0.5%) over a period of 10 years or longer, by investing in a mix of equities and bonds globally. While returns will vary from year to year and there will be periods of uncertainty, the diversified nature of the portfolio makes it less susceptible to country-specific risk and more likely to capture returns across different markets. Furthermore, by keeping costs low and adopting a patient, disciplined and evidence-based approach, we aim to avoid behavioural mistakes that often damage returns.

iQFolio 50

This portfolio aims to deliver returns in excess of inflation (RPI + 1%) over a period of 10 years or longer, by investing in an equal split of equities and bonds globally. While returns will vary from year to year and there will be periods of uncertainty, the diversified nature of the portfolio makes it less susceptible to country-specific risk and more likely to capture returns across different markets. Furthermore, by keeping costs low and adopting a patient, disciplined and evidence-based approach, we aim to avoid behavioural mistakes that often damage returns.



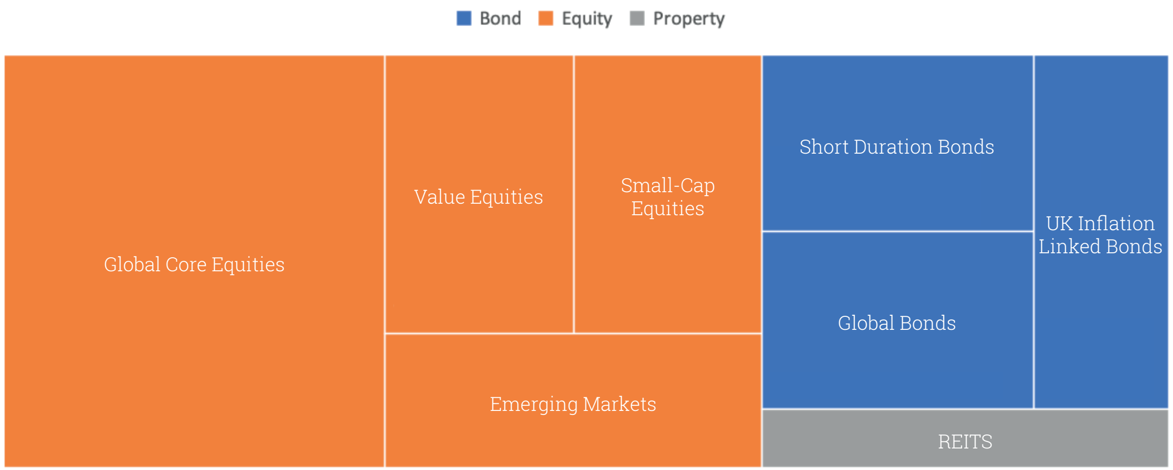


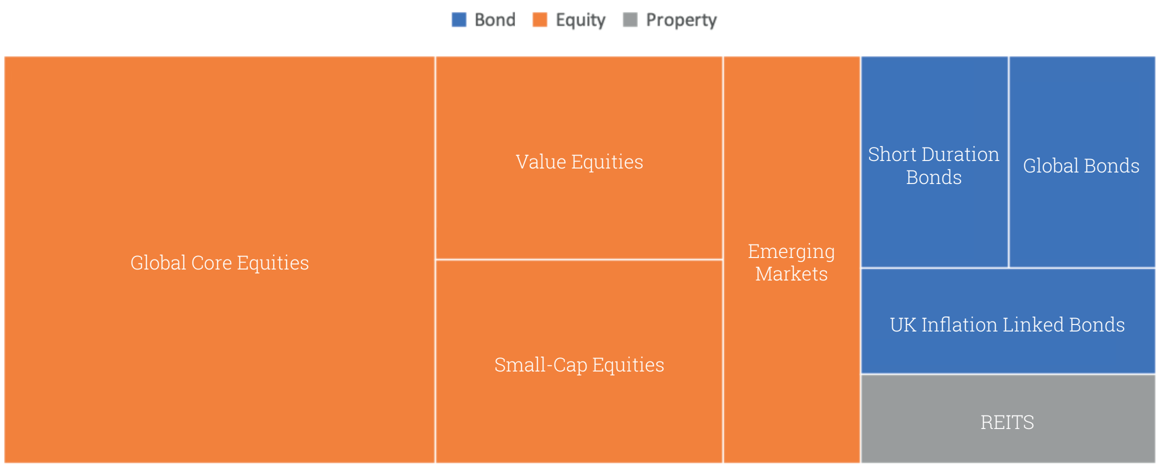
iQFolio 60

The portfolio aims to deliver returns in excess of inflation (RPI + 1.5%) over a period of 10 years or longer, by investing in a mix of equities and bonds globally. While returns will vary from year to year and there will be periods of uncertainty, the diversified nature of the portfolio makes it less susceptible to country-specific risk and more likely to capture returns across different markets. Furthermore, by keeping costs low and adopting a patient, disciplined and evidence-based approach, we aim to avoid behavioural mistakes that often damage returns.

iQFolio 70

This portfolio aims to deliver returns in excess of inflation (RPI + 2%) over a period of 10 years or longer, by investing in a mix of equities and bonds globally. While returns will vary from year to year and there will be periods of uncertainty, the diversified nature of the portfolio makes it less susceptible to country-specific risk and more likely to capture returns across different markets. Furthermore, by keeping costs low and adopting a patient, disciplined and evidence-based approach, we aim to help our clients avoid behavioural mistakes that often damage returns.



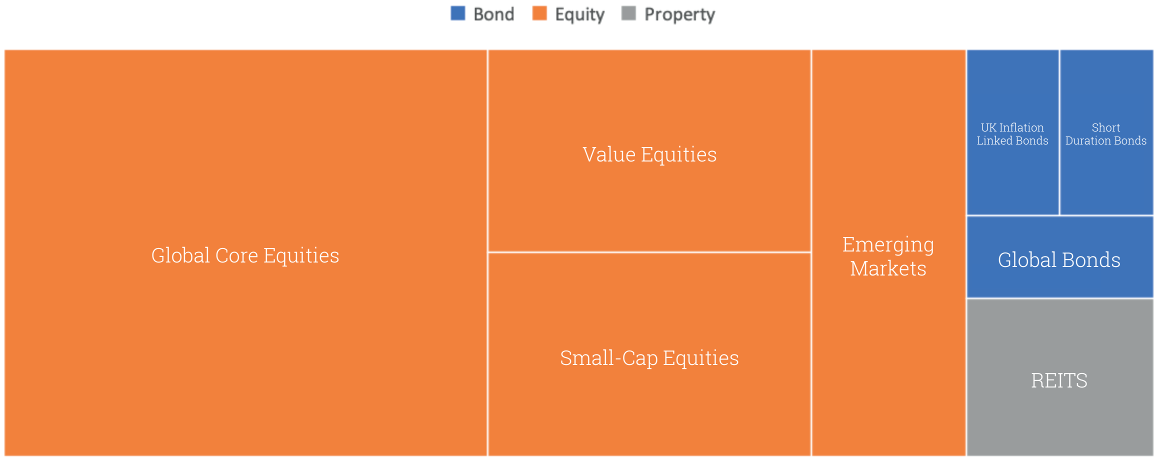


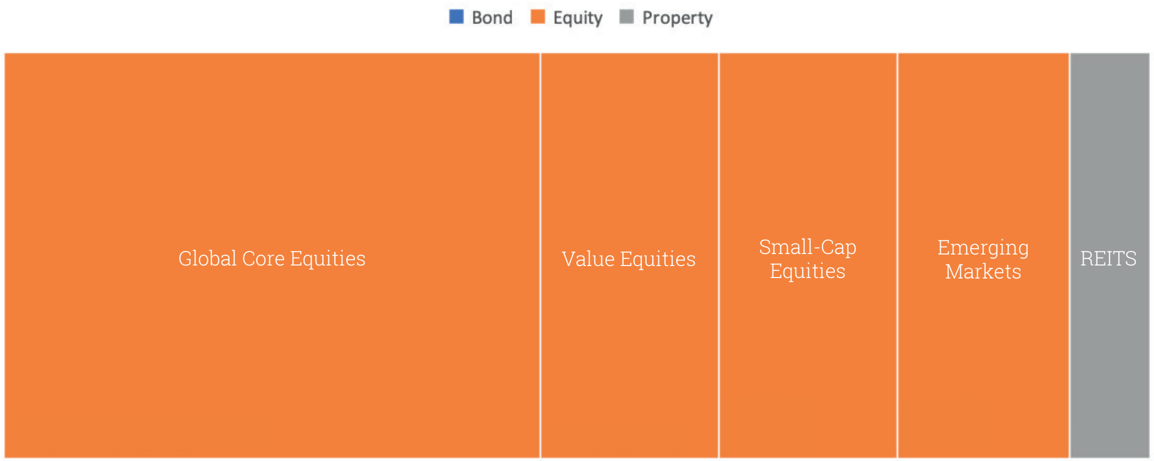
iQFolio 80

This portfolio aims to deliver returns in excess of inflation (RPI + 2.5%) over a period of 10 years or longer, by investing in a mix of equities and bonds globally. While returns will vary from year to year and there will be periods of uncertainty, the diversified nature of the portfolio makes it less susceptible to country-specific risk and more likely to capture returns across different markets. Furthermore, by keeping costs low and adopting a patient, disciplined and evidence-based approach, we aim to help our clients avoid behavioural mistakes that often damage returns.

iQFolio 90

This portfolio aims to deliver returns in excess of inflation (RPI + 3%) over a period of 10 years or longer, by investing in a mix of equities and bonds globally. While returns will vary from year to year and there will be periods of uncertainty, the diversified nature of the portfolio makes it less susceptible to country-specific risk and more likely to capture returns across different markets. Furthermore, by keeping costs low and adopting a patient, disciplined and evidence-based approach, we aim to help our clients avoid behavioural mistakes that often damage returns.





iQFolio 100

With all the portfolio invested in equities, this portfolio is not for the faint hearted. The investor must be willing to accept significant daily fluctuations in the value of the portfolio. This portfolio aims to deliver returns in excess of inflation (RPI + 3.5%) over a period of 10 years or longer, by investing in a mix of equities globally. While returns will vary from year to year and there will be periods of uncertainty, the diversified nature of the portfolio makes it less susceptible to country-specific risk and more likely to capture returns across different markets. Furthermore, by keeping costs low and adopting a patient, disciplined and evidence-based approach, we aim to avoid behavioural mistakes that often damage returns.

REMEMBER

STAY THE COURSE

"Timing the market is a fool's game, where as time in the market is your greatest natural advantage."

NICK MURRAY

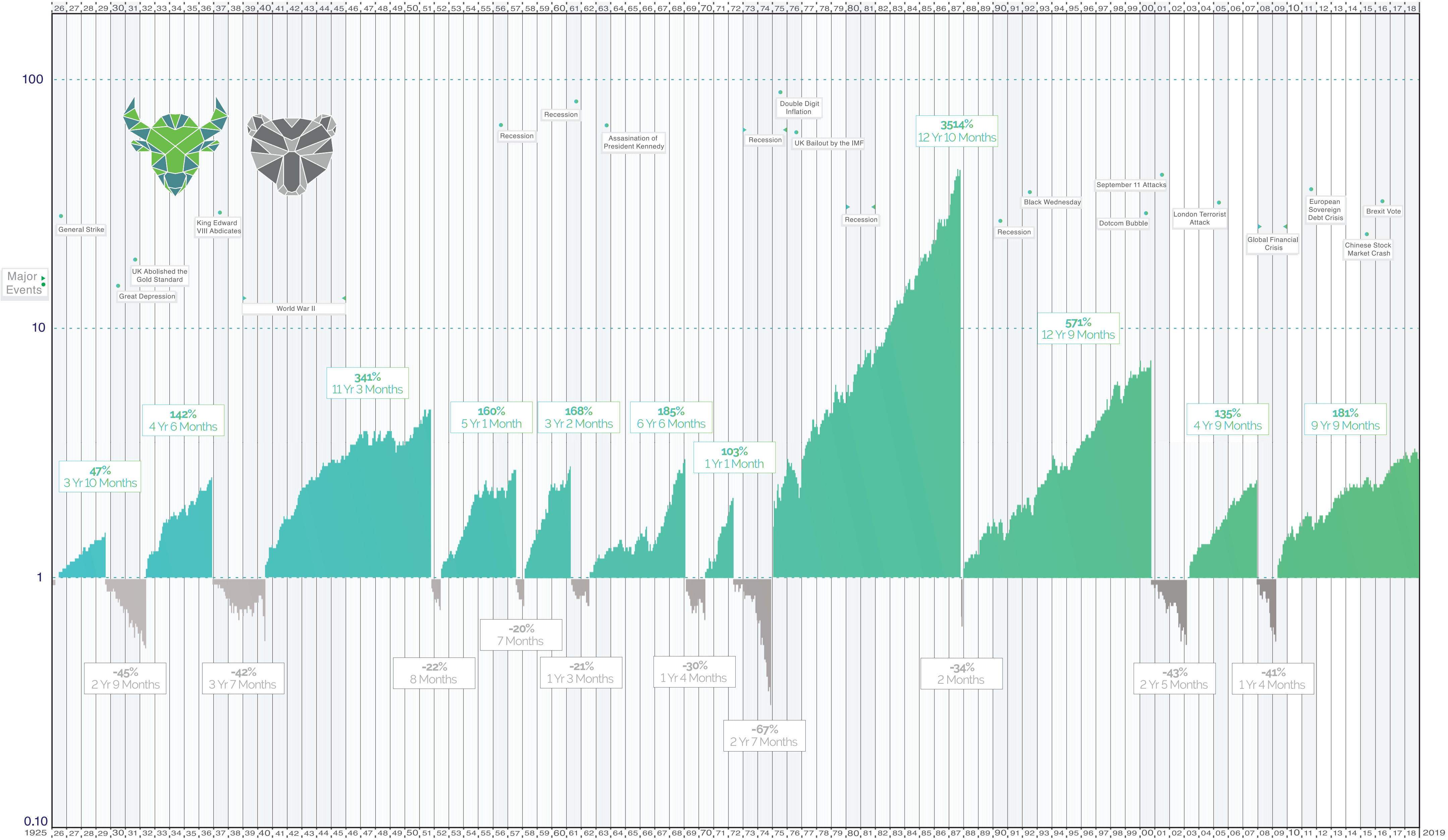
Investing is a long-term game. And from time to time, the investment markets experience a period of decline. It's important that you stay invested during these unavoidable periods. Historically speaking, each major market decline is invariably followed by a rebound, which exceeds the previous decline, both in terms of cumulative return and duration. It's almost as if these financial crises occur to test an investor's patience.

The following chart shows the performance of the global stock market between 1926 and 2018. A bull market denotes an ascending returns plot stemming from the lowest close after the market has fallen 20% or more, to the next market high. A bear market on the other hand represents the opposite, beginning at a high close and descending 20%.

The global equity index has witnessed a decline of 20% or more on nine occasions! Equally of note, was the scale of peak-to-trough movements, which on average exhibited a decline of 37% and took 1 year and 8 months to recover.

While historic data is not a predictor of future return, it offers valuable insights into the cyclical nature of markets. Markets will inevitably experience declines but it's important not to panic and exit the market when these crises arise as the potential gains stemming from the following bull markets will be squandered. We acknowledge that this can be hard as an individual's complete financial security is on the line and when this is combined with hysteria-inducing warnings from the financial press, investors tend to act irrationally. However, we stress the importance of not letting fear take control and advocate that clients take consolation in the fact that patience and calmness will ultimately deliver reward.

UK Bull and Bear Markets



Global Balanced Portfolio is made up of 50% Global Equities and 50% Global Bonds. Global Growth Portfolio is made up of 60% Global Equities, 10% Emerging Markets and 30% Global Bonds. The gray line depicts major historical events.

This chart is for illustrative purposes only; it does not constitute investment advice and must not be relied on as such. The value of investments and the income from them can go down as well as up, so you may get back less than you invest. Past performance is no guarantee of future return. Transaction costs, taxes and inflation reduce investment returns. This chart shows the inferred growth of money invested on January 1st, 1926 to December 31st, 2017. The portfolios are hypothetical and are rebalanced annually on the 1st of January. All investment income is assumed to be reinvested, unless otherwise stated. No transaction costs or taxes are included. Bull markets start from the lowest close reached after the market has fallen 20% or more, to the next market high. Bear markets start from when the index closes at least 20% down from its previous high close, through to lowest close reached after it has fallen 20% or more.

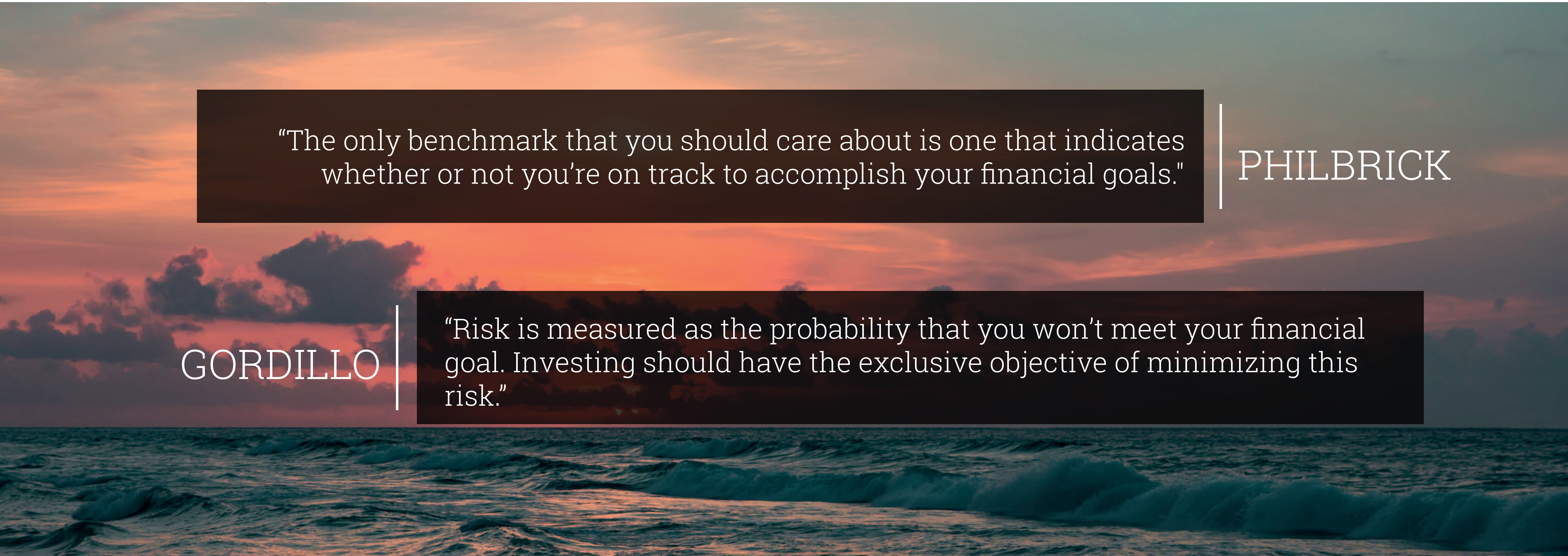
Source: Global Financial Data and Thomas, Rand Dimsdale, N (2017) 11 A Millennium of UK Data111 Bank of England OBRA dataset.

FRED SCHWED JR.,

"Speculation is an effort, probably unsuccessful, to turn a little money into a lot. Investment is an effort, which should be successful, to prevent a lot of money from becoming a little."

"Those who judge their portfolio by its performance relative to some narrow benchmark are focusing on an issue that is largely irrelevant to their ultimate financial success."

ADAM BUTLER

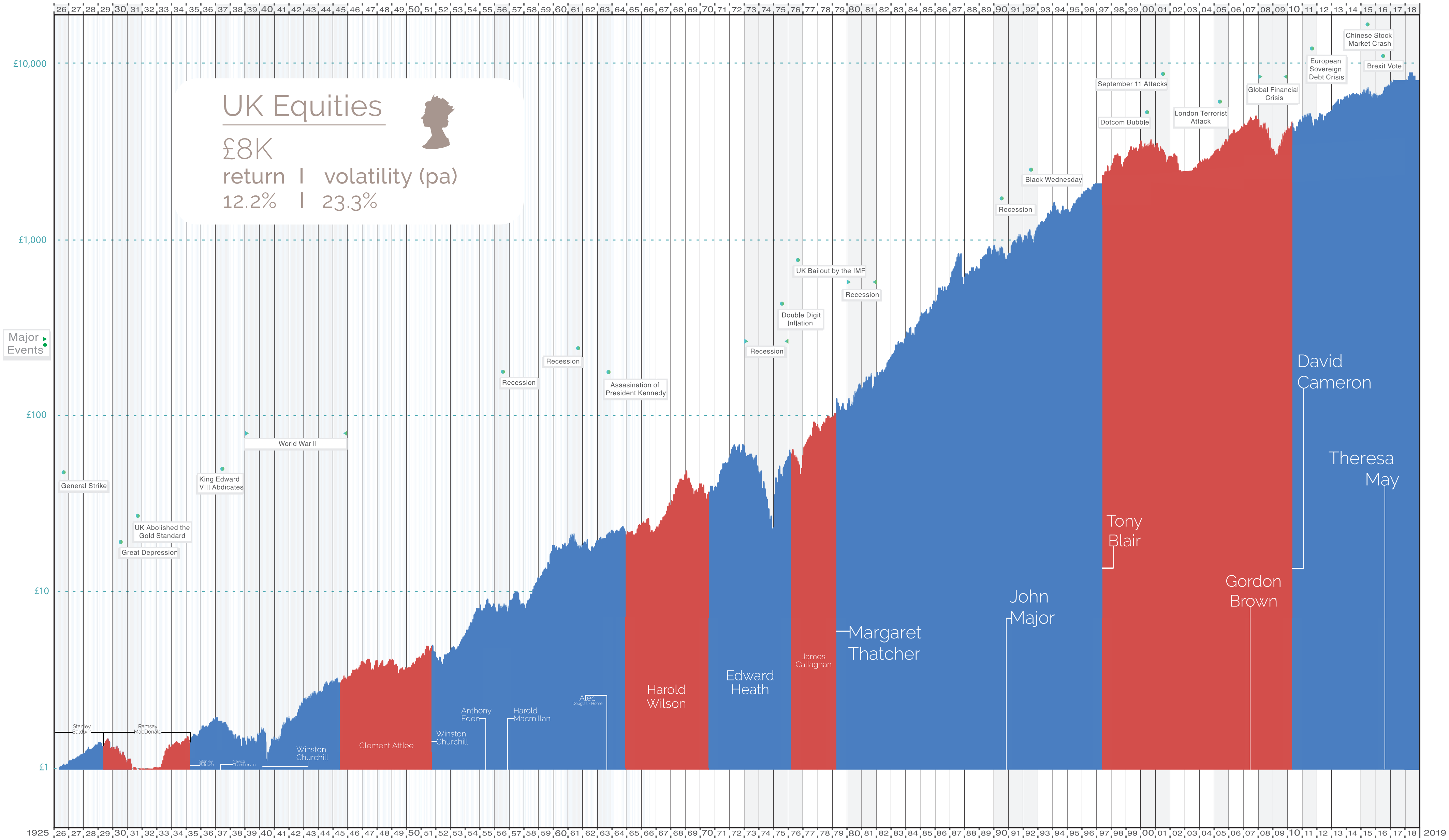


"The only benchmark that you should care about is one that indicates whether or not you're on track to accomplish your financial goals."

PHILBRICK

GORDILLO

"Risk is measured as the probability that you won't meet your financial goal. Investing should have the exclusive objective of minimizing this risk."



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