Investment Policy Statement

Financial Freedom and Security

bluecoat wealthmanagement

“our aim is to help you make informed decisions about your money”

Introduction

The Investment Policy Statement

The introduction of Wraps and Platforms has provided wider availability to different types of investments. We welcome this wider diversification which can only benefit the investor. However, wider diversification offers its own challenges. Our clients seek guidance as to what funds to select and in what combination. These challenges have become more pronounced since the global financial crisis of 2008/2009 and the UK BREXIT decision.

What is the right balance between risk and reward? We have developed a range of carefully constructed model portfolios which we believe will benefit you by matching the risk and return characteristics of the portfolio with your objectives.

The purpose of this Investment Policy Statement is to provide you with a comprehensive and unambiguous record of Bluecoat Wealth Management's investment philosophies, strategies and processes. Our aim is to help you make informed decisions about your money and, ultimately, to enjoy the peace of mind that is the product of a successful investing experience. The benefits of creating an Investment Policy Statement are:

- You understand our investment philosophies, strategies and processes;
- Your performance objectives and expectations are clarified;
- Misunderstandings are less likely.

The Investment Policy Committee

The information in this Investment Policy Statement is a result of the research carried out by our Investment Policy Committee. It meets regularly to ensure that information remains up to date and relevant.

We believe our independent status provides us with the best possible framework for the service that we offer.

The information contained within this Investment Policy Statement is based on a comprehensive and fair analysis of the relevant market, is unbiased and unrestricted.

1/ Our Investment Philosophy

This document sets out our investment philosophy and explains how we will invest your money, and why. We believe that if you know what to expect from us and from your investments we will have a more productive relationship.

Core Beliefs

Active, Passive or Evidenced-Based Investing

Investment styles are often categorised as active or passive. An active investor is one who makes decisions about holding one investment over another. Passive investors are willing to accept the market rate of return and usually enjoy paying smaller fees than active investors.

Our investment philosophy is passive, (where we believe markets are efficient), to the extent that we are not making judgements on the relative merits of one investment over another, but we are not willing to accept the market rate of return (less fees) for our clients. Our investment process targets market-beating performance through structured exposure to dimensions of higher expected return, and uses methods of portfolio construction and implementation that enhance performance.

We call this Evidenced-based Investing and it blends the best of passive and active management styles:

- The average active investor will do worse than the market because they are paying the highest fees;
- The average index investor will perform slightly better than that because their fees are lower than the active investor; and
- The Evidence-based investor will out-perform both, due to a blend of styles, reasonable fees, exposure to dimensions of higher expected return, and intelligent portfolio implementation.

Our investment philosophy is based upon key beliefs about financial markets, resulting in carefully structured portfolios, designed to meet the investment needs of our clients.

Our beliefs are:

Capitalism Creates Wealth: Capitalism underpins the world's economy and is overwhelmingly the most successful economic model that mankind has devised. The free market is a simple mechanism that brings together ideas for products and services, and the finance required to get them off the ground.

People who invest in an enterprise are taking a risk with their capital and are therefore entitled to share any financial rewards – just as they should accept any losses. This simple principle is followed in every corner of the world from the dusty markets of third-world villages to the board rooms of the world's richest corporations. In more sophisticated markets, the rules of this process are codified by formal capital markets and most investors participate through tightly regulated exchanges of shares and bonds.

Risk and Return are Related: We believe it is impossible to improve your investment return without taking more risk. In other words, the potential for financial loss that you expose yourself to in taking a risk, is also the reason you earn a return. There is good risk and bad risk, and higher exposure to the right risk factors leads to higher expected returns, but is no guarantee of them. Risk is the premium investors pay for the expectation of a greater return ontheir investment.

Our role as your adviser is first to identify which risks offer consistently higher expected returns and which do not, and then to offer you exposure to those risks in a structured, disciplined and cost-effective way.

Markets Price Assets Fairly: Many thousands of people participate in capital markets around the world, making them highly competitive, highly efficient and highly effective at assessing large quantities of information.

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

Since the market price of a share is the aggregate of all these decisions, we can say that the market price contains valuable information about peoples' expectations for that share and that changing share prices reflect peoples' changing expectations.

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

Portfolio Construction and Management: Decades of academic research into the performance of shares have pinpointed certain information in market prices that explains why one stock performs differently to another. In practical terms, this means we can say that, on average:

- Smaller shares perform better than larger shares;
- Low-priced shares perform better than high-priced shares;
- Profitable companies perform better than unprofitable companies.

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

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

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

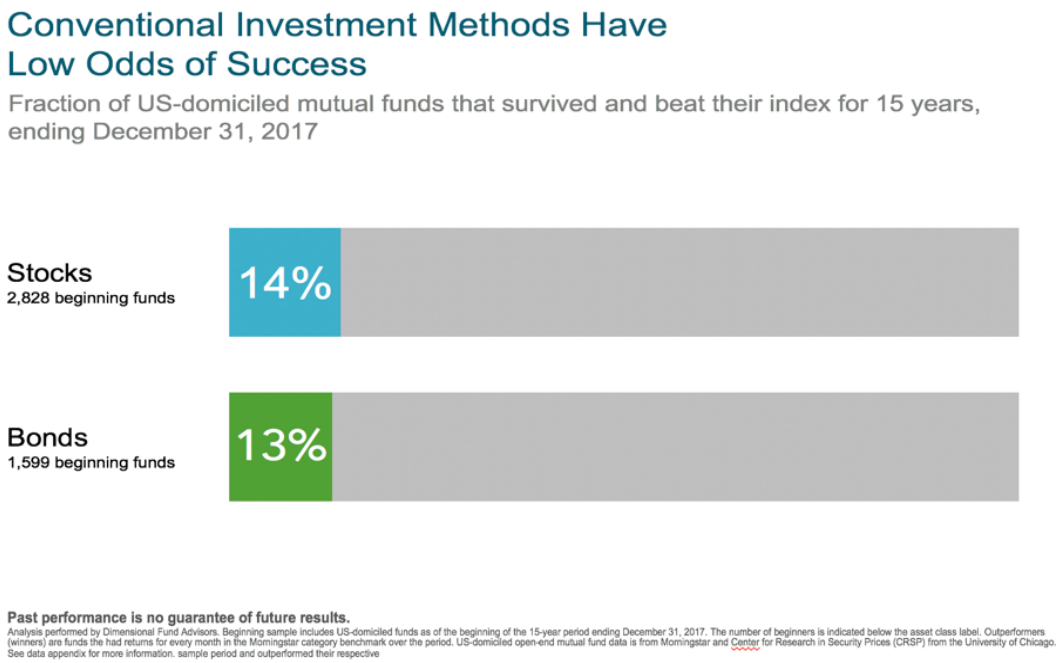
Diversification is Essential: Diversification reduces the risk that any individual manager, share, sector or country can have on an individual portfolio.

Some people approach achieving a diversified portfolio by buying the funds of many asset managers in each asset class. This approach helps reduce the manager-specific risk in the portfolio, but does not guarantee the diversification of shares in the portfolio because many of the shares held by manager A will also be held by manager B, just in different proportions.

We construct portfolios to reduce risk through genuine diversification across capital markets, comprising thousands of underlying shareholdings.

Investing, not Speculating: An active investor is sometimes thought of as one who attempts to beat the market average by making decisions about holding one investment over another.

There is considerable evidence that active managers, on average, fail to outperform their benchmarks. The table below illustrates the findings of a study on the US fund market. It shows that only 21% of investment funds survive and outperform the market over a ten-year period.



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

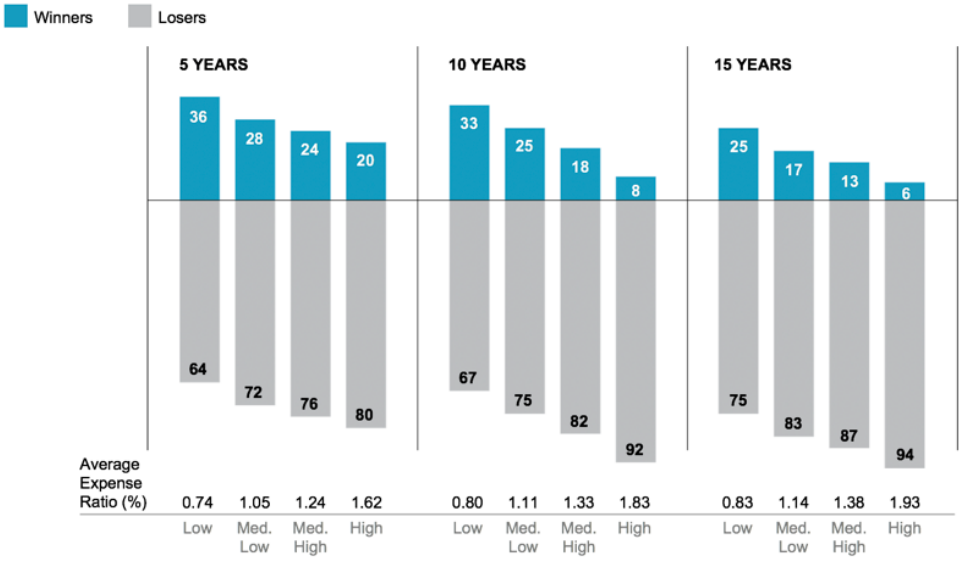
Costs Matter: All investment activity incurs costs, such as management fees, platform charges and expenses rations which are widely reported and easily measured. Others, such as trading costs and commissions, are more difficult to measure.

The question is not whether investors must bear some costs, but whether the costs are reasonable and indicative of the value added by a fund manager's decisions. We carefully monitor costs and only expose investors to those we deem worthwhile.

As you can see in the tables below, higher cost funds, and those with more active trading of underlying investments (high turnover), have less success over the long-term than funds with lower cost and lower turnover.

High Costs Can Reduce Performance

US-domiciled equity mutual fund winners and losers based on expense ratios (%)



Past performance is no guarantee of future results.

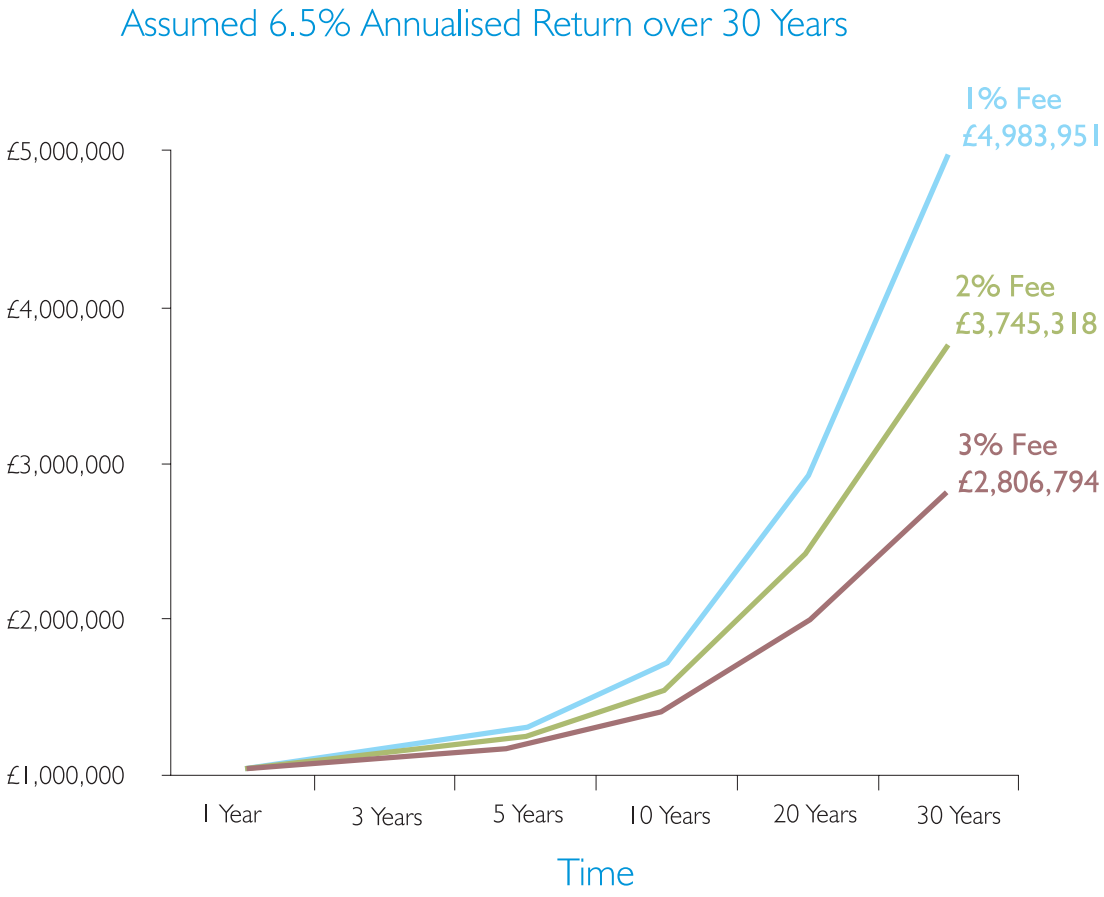
The sample includes funds at the beginning of the 5-, 10- and 15-year periods ending December 31, 2017. Funds are sorted into quartiles within their category based on average turnover during the sample period. The chart shows the percentage of winner and loser funds by expense ratio quartile for each period. Winners are funds that survived and outperformed their respective Morningstar category index, and losers are funds that either did not survive or did not outperform their respective Morningstar category index. US-domiciled open-end mutual fund data is from Morningstar and Center for Research in Security Prices (CRSP) from the University of Chicago. See Data Appendix for more information.

Please see Data Sources and Descriptions of Data section for full details.

Fees Matter: Management fees, taxes, expenses and transaction costs incurred in the management of a portfolio have a direct impact on returns, so managing costs is as important as managing investments. Good investment performance can be wiped out by high costs or a failure to seek tax efficiency. All other things being equal, and wherever possible, we seek the most cost-efficient route to market returns.

Passive investments generally cost less than average actively managed investments by minimising trading costs and eliminating the costs of researching shares.

The following graph shows that fees can significantly reduce net investment returns and future wealth. The higher the fees, the greater this reduction will be.



For illustrative purposes only.

2/ Sources of Investment Returns

Investment Dimensions

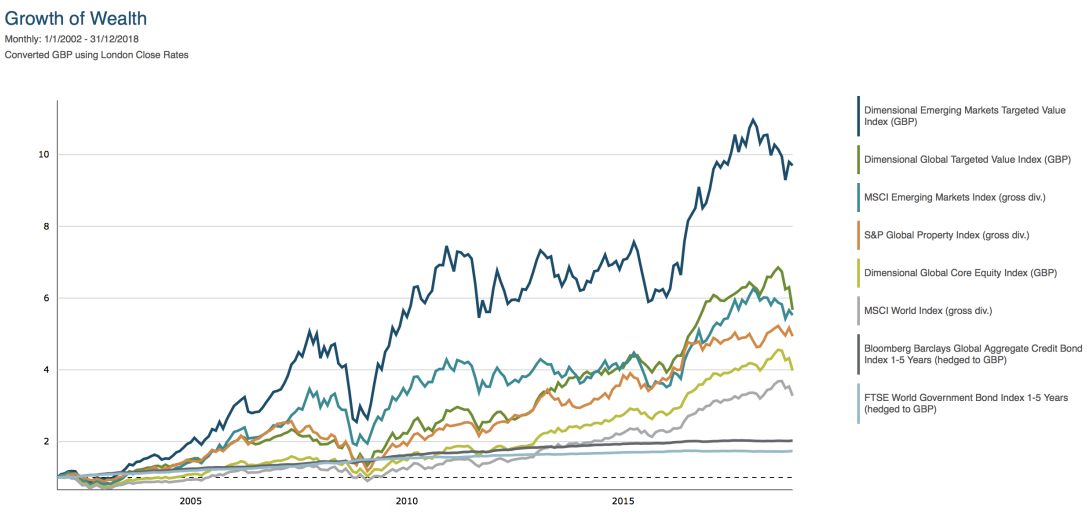
As we explained earlier in the Investment Philosophy section, we believe certain observable characteristics in a share price explain why it might perform the way it does. Several of those characteristics are useful to investors because they are reliable over time and can be captured for higher investment returns. We call those particular characteristics, dimensions of expected return.

We consider a dimension to be a factor that explains differences in returns, demonstrates persistence through time and pervasiveness across markets, and is cost-effective to capture in diversified portfolios. These characteristics increase our confidence that returns observed in historical data may appear in the future. From capital markets research over the past 50 years, we have gained a powerful understanding of the dimensions that generate higher expected returns.

Much of what we have learned can be summarised in simple terms. First, shares have higher expected returns than bonds. Relative performance among shares largely depends on company size (small vs. large), relative price (value vs. growth), and profitability (high vs. low). When setting prices, markets effectively apply different discount rates to shares to reflect differences in underlying risk. Company size, relative price, and profitability are variables – or dimensions –that allow us to identify differences in these discount rates. These ideas are backed by decades of academic research which in some cases has been recognised by the award of the Nobel prize. Some of the significant academic research materials are studied by our investment committee and are referenced in this document.

Equities (shares)

The clearest evidence of the existence of these dimensions of return is in market performance and the charts below illustrate how, over time, these various portions of the market have performed.



Performance Summary Statistics

Monthly: 1/7/1989 - 31/3/2019
Converted GBP using London Close Rates

Rates of Return (%)

	FTSE World Government Bond Index 1-5 Years (hedged to GBP)	S&P Global Property Index (gross div.)	MSCI World Index (gross div.)	Dimensional Global Targeted Value Index (GBP)	MSCI Emerging Markets Index (gross div.)
1-Year Total Return	1.36	18.71	12.62	0.55	0.05
2-Year Annualised Return	0.58	6.93	7.07	0.82	5.74
3-Year Annualised Return	0.41	10.80	15.01	12.79	14.78
4-Year Annualised Return	0.73	9.06	11.14	8.66	8.37
5-Year Annualised Return	1.04	12.75	12.80	9.23	9.32
10-Year Annualised Return	1.54	15.82	14.10	15.46	10.36
20-Year Annualised Return	3.71	10.48	6.49	11.94	9.90
Annualised Return	6.05	7.91	8.06	10.18	9.84
Annualised Standard Deviation*	1.85	17.04	14.60	16.35	22.62
Growth of Wealth	5.74	9.63	10.04	17.91	16.30
Highest 1-Year Return	18.79	80.30	62.44	79.89	82.24
	(5/90 - 4/91)	(1/93 - 12/93)	(9/92 - 8/93)	(9/92 - 8/93)	(9/92 - 8/93)
Lowest 1-Year Return	-0.94	-43.26	-31.90	-34.89	-51.15
	(9/17 - 8/18)	(3/08 - 2/09)	(12/89 - 11/90)	(10/89 - 9/90)	(9/97 - 8/98)
Highest 3-Year Annualised Return	16.44	32.57	24.51	37.84	59.53
	(3/90 - 2/93)	(4/03 - 3/06)	(1/97 - 12/99)	(4/03 - 3/06)	(1/91 - 12/93)
Lowest 3-Year Annualised Return	0.18	-16.83	-17.82	-13.14	-20.28
	(10/15 - 9/18)	(3/06 - 2/09)	(4/00 - 3/03)	(3/06 - 2/09)	(9/95 - 8/98)

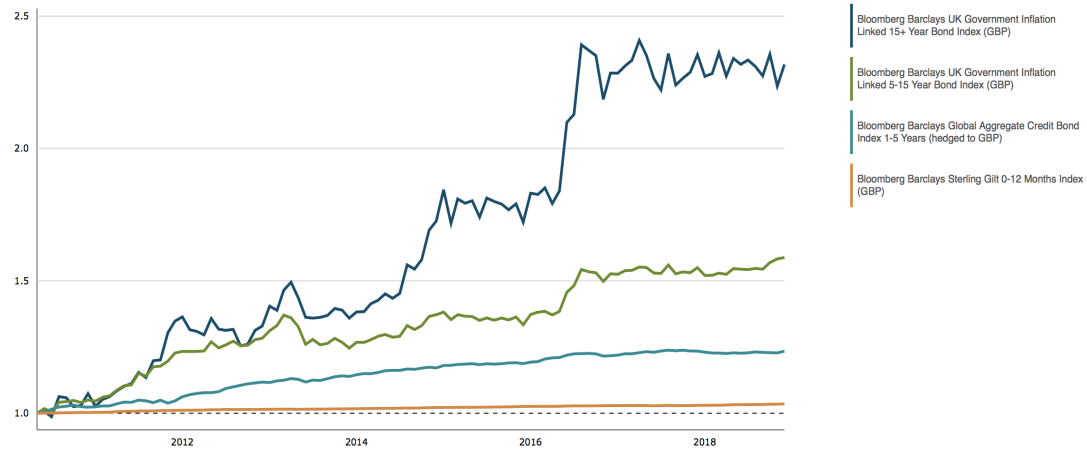
Please see Data Sources and Descriptions of Data section for full details

Fixed Income (Bonds)

In Fixed Income, two dimensions largely drive relative performance: term and credit. Longer-term bonds are more sensitive than shorter-term bonds to unexpected changes in interest rates. Bonds with lower credit quality have a greater risk of default than bonds with higher credit quality.

Growth of Wealth

Monthly: 1/6/2010 - 31/12/2018
Converted GBP using London Close Rates



Please see Index Descriptions for full details

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

Property

One of the reasons to consider investing in Property is that both Commercial and Residential property asset classes have produced good investment returns over the long-term, often not correlated to returns from Shares and Bonds.

Commercial property offers the potential of predictable long-term income with the opportunity for some capital growth. In general, it should be seen as a long-term investment offering slightly more risk and return than Gilts, and less risk and return than Shares.

Residential property has offered even higher returns, but mostly through capital gains, as a result of rising house prices, which are less predictable. Furthermore, Residential property does not offer diversification for clients who have a large proportion of their wealth already tied up in the asset class in their main residence.

While Property qualifies as a 'natural' asset class, it has certain characteristics to bear in mind.

Funds investing directly into property are not always liquid in adverse market conditions, and therefore not suitable for inclusion in a model portfolio.

It is a difficult asset class to capture passively, unless through an Index fund of Property company shares.

Structure is the Strategy

Successful investing means not only targeting dimensions that generate higher expected returns, but also managing risks that may needlessly compromise performance. Avoidable risks include holding too few shares, acting on market predictions in areas like interest rate movements, and relying solely on information from third-party analysts or rating services. To all these risks, diversification is an essential countermeasure. It lessens the impact of the random fortunes tied to individual shares and positions an investor to participate in the returns of broad economic forces.

Traditionally, managers do one of two things: they focus on picking individual shares, or they attempt to mimic the performance of arbitrary benchmarks. Here we design strategies based on research rather than speculation or the need to track commercial indices.

Discounted Sources of Returns

Commodities

Commodities have been discounted, as while they are investible assets, they are not capital assets. That is to say, they do not generate a stream of dividends, interest payments, nor other income that can be discounted in order to calculate a current value. Commodities in themselves do not produce anything, they are used by companies to be transformed into something else, hopefully at a profit.

For this reason, we do not recommend Commodities as part of a core portfolio.

Hedge Funds, Absolute Return Funds and Structured Products

We consider the returns generated by Hedge Funds and other esoteric and opaque strategies to be synthetic. They are fabricated from the natural components of capital markets but modified with, perhaps borrowing or derivatives to produce a different type of return. They are strategies, not asset classes, and are usually complex, expensive, and less liquid than the underlying investments. We therefore do not consider them within our portfolios.

3/ Risk Assessment, Asset Allocation and Portfolio Construction

In the last section, we identified a number of asset classes and explained their different risk and return characteristics. In this section, we describe our portfolio construction process. This process allows us to take some of the asset classes that we have identified and combine them into a number of portfolios.

Managing Investment Risk

As explained above, risk and return are related to the extent that it is not possible to achieve a higher investment return without taking more investment risk. Many people invest with a level of risk that is guided by their "risk appetite" – that is how much investment risk they are prepared to tolerate.

But taking too little investment risk, is risky in itself – the danger being that your assets will not grow enough to meet your investment goals. So a trade-off is necessary to achieve a balance between taking enough risk to achieve your goals, while not being reckless. We build investment portfolios with varying degrees of risk and expected returns and express these variables in simple terms.

Here are some of the things you might consider when deciding upon your appetite for risk:

i. **Time Horizon and Liquidity Needs**
   How soon might you need to withdraw money from your investments? The longer an investor holds onto a risky asset the lower the chance there is of obtaining poor cumulative returns.

ii. **Risk Appetite**
   What is your aversion or attraction to risk when risk is defined as "the possibility of loss"?

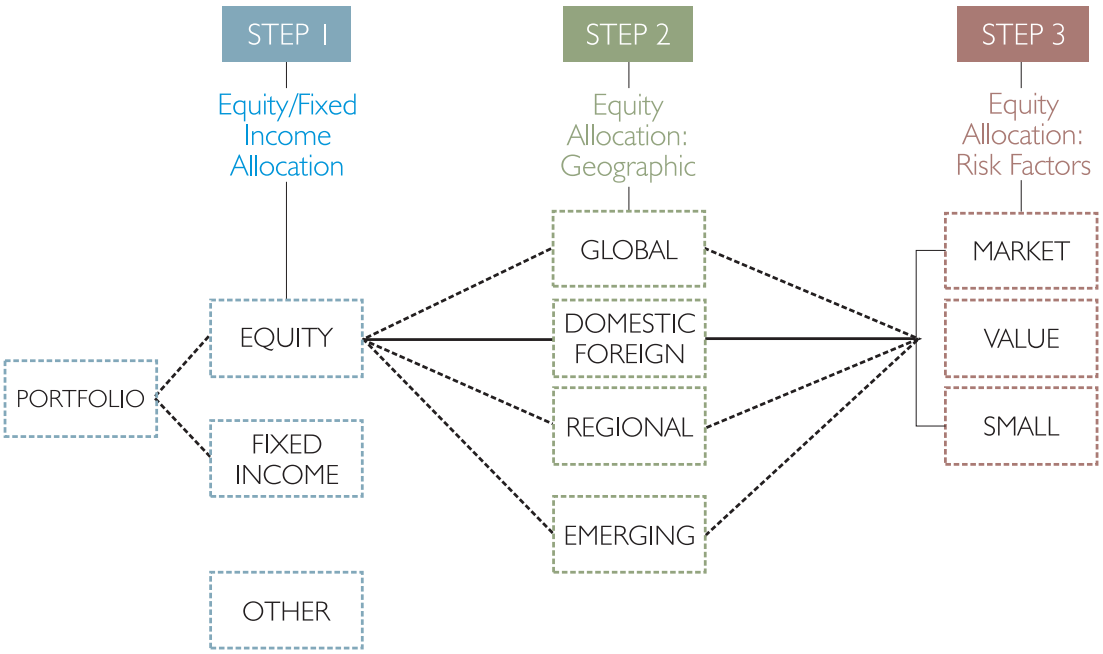
iii. **Net Worth**
   Generally speaking, the more assets an investor has in reserve, the higher their capacity for risk.

iv. **Income and Capacity to Save**
   How much can you save? In the same way that greater wealth enables a greater appetite for risk, so too does being able to put more aside regularly.

v. **Investment Knowledge**
   What experience and knowledge do you have of investments, and of how markets behave over time?

Portfolio Construction

Having established the factors of risk that can be combined to form a suitable portfolio – and a means for measuring its risk – we can now step through the process of building a portfolio. The following diagram illustrates a framework for the construction of portfolios.



Step 1: Determine the basic Equity/Fixed Income split

The portfolios are gradually allocated increasing amounts of equity from Portfolio 1 to Portfolio 10. The greater the proportion of shares in a portfolio, the more risk that portfolio will be exposed to.

Step 2: Determine the International Equity Dimension

The shares component of the portfolios is split proportionally across the developed world according to the market capitalisation of each country. This helps ensure a well-diversified portfolio and avoids an overweight or bias in any one particular country.

There is also an allocation to emerging markets within the equity component of the portfolios. Emerging Market shares have higher levels of risk than Developed Market shares and therefore have higher expected returns.

Step 3: Determine the Size & Value Equity Dimension

Factors to consider:

Risk/Return: Increasing allocation to small and/or value shares may increase risk, expected return and tracking error but may not increase volatility.

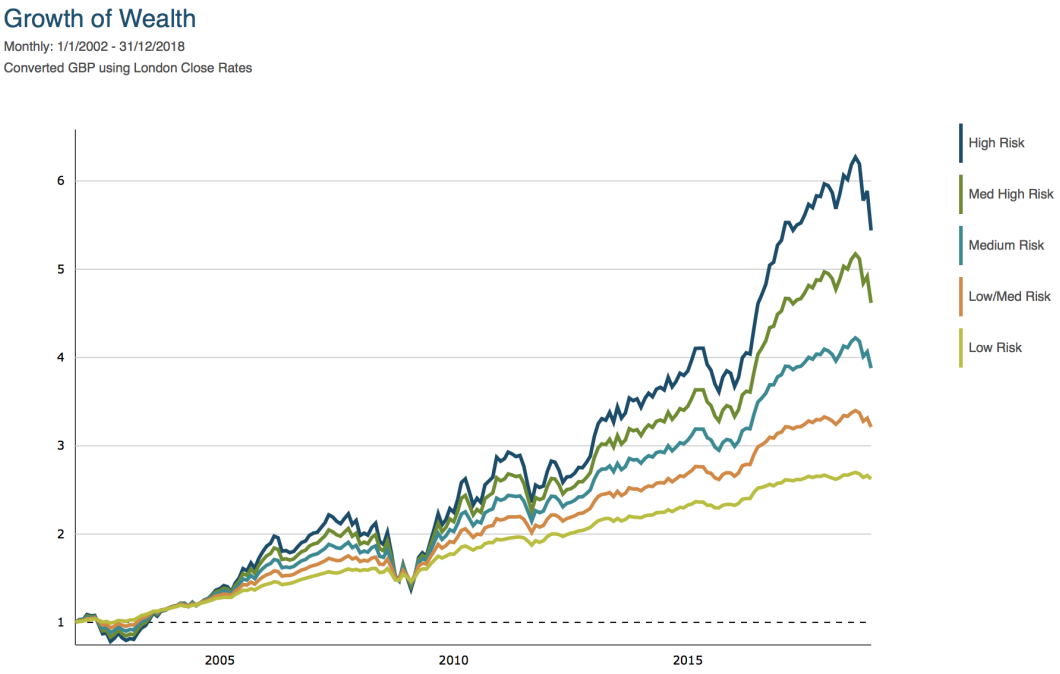
Sensitivity to tracking error: Increased sensitivity to prolonged periods of under-performance to the market.

Portfolio Testing

We use a powerful analysis tool which gives us access to the longest possible returns information to back-test our models.

It is important when deciding which portfolio is most suitable for your planning needs that you understand the risk you are taking and the potential for capital loss.

This graph shows what the investment of £100,000 into different risk-rated portfolios would have achieved over the past 16 years.



This table shows the returns and standard deviations (representing 'volatility') of different risk-rated portfolios over a range of different time periods.

Performance Summary Statistics

Monthly: 1/1/2002 - 31/12/2018
Converted GBP using London Close Rates

Rates of Return (%)					
1-Year Total Return	-1.65	-3.44	-5.25	-7.08	-8.83
2-Year Annualised Return	0.93	1.13	1.30	1.43	1.57
3-Year Annualised Return	3.95	6.08	8.22	10.35	12.48
4-Year Annualised Return	3.38	4.92	6.44	7.94	9.40
5-Year Annualised Return	3.69	5.06	6.41	7.73	9.02
10-Year Annualised Return	5.43	7.29	9.11	10.89	12.63
20-Year Annualised Return	–	–	–	–	10.71
Annualised Return	5.84	7.11	8.30	9.42	10.48
Annualised Standard Deviation*	4.48	7.15	9.93	12.74	15.57
Growth of Wealth	2.62	3.21	3.88	4.62	5.44
Highest 1-Year Return	23.75	35.08	47.19	60.12	74.13
	(3/09 - 2/10)	(3/09 - 2/10)	(3/09 - 2/10)	(3/09 - 2/10)	(3/09 - 2/10)
Lowest 1-Year Return	-8.30	-14.42	-20.35	-26.07	-31.57
	(3/08 - 2/09)	(3/08 - 2/09)	(3/08 - 2/09)	(3/08 - 2/09)	(11/07 - 10/08)
Highest 3-Year Annualised Return	12.48	17.80	23.28	28.93	34.81
	(4/03 - 3/06)	(4/03 - 3/06)	(4/03 - 3/06)	(4/03 - 3/06)	(4/03 - 3/06)
Lowest 3-Year Annualised Return	0.50	-2.09	-4.74	-7.43	-10.12
	(3/06 - 2/09)	(3/06 - 2/09)	(3/06 - 2/09)	(3/06 - 2/09)	(3/06 - 2/09)

*Annualised number is presented as an approximation by multiplying the monthly or quarterly number by the square root of the number of periods in a year. Please note that the number computed from annual data may differ materially from this estimate.

Investment DIscipline

> "The investor's chief problem – and even his worst enemy – is likely to be himself" *Benjamin Graham, Security Analysis, 1934*

Investing is often likened to a ride on an emotional roller-coaster. If you consider the typical behaviour of the vast ma ority of investors, you can understand why. When an upward trend emerges, investors follow the trend but only buy-in once they are convinced that it is for real. nfortunately, this can be close to the point that all the gains have been had and the trend reverses. Too often, it is emotions that drive investors and the result is that they can buy high and sell low.

The solution is to invest without emotion. This can be achieved by the use of a portfolio of globally diversified inde funds, tempered with a fi ed income component to reduce volatility. This allows an investor to stay invested at a risk level they feel comfortable with and minimise the urge to move.

The following table shows a comparison of the stock market returns in the US and UK It compares these figures to the average returns of equity funds, and to the estimated returns of investors in equity funds. The difference between the market and the investor return is down to the investor's behaviour in selecting the wrong investment at the wrong time.

Comparison of Market Returns, Fund Returns and Investor Returns

US: 1983-2003

Measure	Annual Return	Growth of $1
Stock Market Return	13.00%	$11.50
Average Equity Fund Return	10.30%	$7.10
Estimated Equity Fund Investor Return	7.90%	$4.57

UK: 1992-2003

Measure	Annual Return	Growth of £1
FTSE All Share	8.99%	£2.81
Average Fund	6.93%	£2.23
Average Fund Investor	4.91%	£1.78

US study in US dollars. Estimated Equity Fund Investor Return calculation based on a comparison of time-weighted returns with the dollar-weighted returns earned by the fund investors for 600 general equity funds during 1983 & 2003. Source: John C. Bogle, 'The Mutual Fund Industry 60 Years Later. For Better of Worse', Financial Analysts Journal 61, no.1[2005]: 15–24. UK study in GBP sterling. Source: Lukas Schneider, An Examination of the Difference Between UK Fund Returns and UK Fund Investors' Returns, July 2007.

Consistency Beats Volatility

For most investors, the emphasis placed on maintaining discipline by professional investment advisers is interpreted to mean: stay with the strategy even when times are bad. In fact, recent history shows it was exceptionally good investment returns, such as those experienced during the tech stock bubble of the late 1990s rather than adverse market conditions, that proved the biggest challenge to staying with the programme.

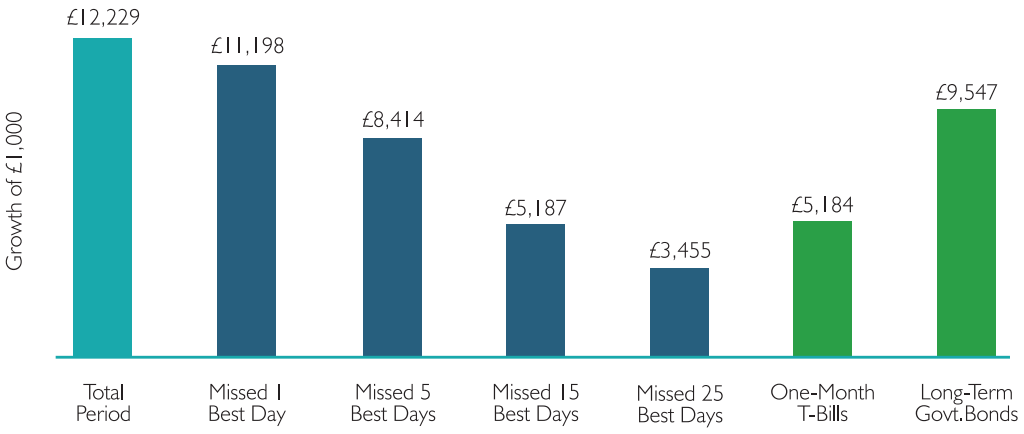
It is often said that the two conflicting emotions that rule investors are fear and greed. But we must add to that the basic human instinct for "belonging" and "acceptance". In other words, if your peer group appears to be making a fortune from the latest hot shares, you not only feel that you are missing out (greed) but also that you are not one of the in-crowd (acceptance).

Any investors who find themselves challenged in this way should take comfort from the mathematics underpinning the concept that consistency beats volatility and that a globally diversified portfolio of "boring" index funds will beat the "exciting" hot shares over the long-term.

Investment Discipline
Performance of the FTSE All-Share Index
January 1986 – December 2012

Performance of the FTSE All-Share Index

January 1986–December 2012



	Total Period	Missed 1 Best Day	Missed 5 Best Days	Missed 15 Best Days	Missed 25 Best Days	One-Month T-Bills	Long-Term Govt. Bonds
Annualised Compound Return	9.72%	9.36%	8.21%	6.29%	4.70%	6.28%	8.72%

Rebalancing Portfolios

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

Although rebalancing is a simple concept, realising its benefits is a challenge for many investors because it involves selling assets that have recently done well and buying assets that have recently done poorly in order to return to the original allocations. However, over the long-term, asset class performance tends to revert to mean – or periods of above average performance are followed by periods of below average performance. This can help investors do things that are counter-intuitive, like selling a successful investment rather than hold on to it.

Rebalancing increases portfolio returns with no additional cost in terms of risk, though there are some trading costs. As a general rule, client portfolios are rebalanced quarterly to revert to its original allocation. In addition, your risk capacity should be measured annually or when a significant life event occurs: loss of job, marriage, divorce, birth of children or death, to determine whether any structural change in asset allocation is required.

4/ Fund Selection

There are various modelling techniques commonly used in the wealth management industry. These can be used to project a range of possible outcomes for determining how assets will behave in relation to each other to determine an 'optimal' allocation. The most widely used modelling technique is based on Harry Markowitz's Modern Portfolio Theory (MPT), which seeks to maximise return from a portfolio for a given level of risk. Introduced in 1952 it is still widely used in the wealth management industry.

We use computer software to help us determine 'optimal' asset allocations for a given level of volatility (risk). This helps us to understand the relationship between risk and return and which funds in theory complement each other when blended together.

Initial Fund Screening

We start by taking the whole sector and applying a range of measures to reduce it to a shortlist of funds which display acceptable risk and performance characteristics. We then use quantitative and qualitative measures to ensure that the fund has a robust fund management process in place with a strong management team. Whilst no guarantee, this can give us some indication of the platform which the fund is built on and how it might perform in the future.

We used fund analysis tools which combine and evaluate the data. The primary quantitative data is collected via Morningstar and coupling this with other data sources.

In all areas, funds were compared against their peers and benchmarks in the following areas:

Diversification

We believe that diversification is essential, where possible we have looked for stocks with a large number of holdings compared to their peer group. This means that we are spreading the risk within the portfolio across a wide range of underlying investments. This reduces the reliance on the performance of a small number of stocks which is more traditional within a pure actively Managed Portfolio. The number of stocks is dependent on the asset class. For an equity-based fund we have selected funds which have no fewer than 500 stocks. For Fixed Interest funds this limit is 20.

TER/Ongoing Fund Charge

We believe that charges should be kept low. The charges taken by a fund manager can substantially impact on the performance of the fund. With one exception, we have only selected funds with an Ongoing Fund Charge of less than 0.6% per annum.

Performance

Fund performance is a good indicator that the philosophy and management style of a fund manager is robust. Whilst this is important, it needs to be considered in the context of its peer group and benchmark. Performance of a fund is often relative to the risk that the individual manager is taking within the portfolio and therefore it needs to be considered carefully to ensure that sensible controls are in place and that undue risk is not taken.

We select funds which we believe will add value to a portfolio over the longer term, we look at the past track record of the fund in conjunction with the other quantitative and qualitative measures and not in isolation.

Volatility

Volatility is one of a number of measures we consider to help us understand the funds and how they operate. We consider the funds in relation to the benchmark and sector as well as their specific goal within the larger portfolio. There are a number of volatility measures which we consider when selecting a fund, the primary measure is the Standard Deviation of the fund.

We compare the funds against the average for the sector, but we also consider these measures in the context of the funds' investment aims and objectives. This may mean that funds that fail these measures may still be used if we feel this is understandable given the focus of the fund.

Fund Size

Fund size is considered, as we want to ensure that the funds we are suggesting have sufficient 'buying power'. For example, in the Corporate Bond market, some companies will only offer their Corporate Bonds to the key fund managers.

The minimum fund size depends on the sector. For established funds in the mainstream sectors (Balanced Managed, Cautious Managed, Corporate Bond, UK Equity Income, Europe, UK All Companies, Global Equities) we would generally look for a minimum size of £500m, however this would be reduced to £200m for sector funds (Specialist, Asia ex Japan, Japan, Global Emerging Markets, North America).

We are not restricted by this policy and will consider funds (new launches for example) that fail these criteria if they fulfil a majority of other requirements. Conversely, a fund can become too big, and too cumbersome, to deliver strong returns against its initial objective, this is also something we would consider when recommending a fund.

Qualitative Screening

The qualitative screening allows us to look in more detail at the how the fund actually operates.

Fund Manager Background

We need to ensure that the fund management team has sufficient expertise in the area in which it is operating. This involves making a judgement on the relevant experience of the team and also the roles and responsibilities within the team. It is also important to understand these roles and responsibilities so that, if a fund manager leaves, we can make a reasonable assessment of how this will affect the fund management by knowing who will take over and their relevant experience. This is more prominent when looking at Actively Managed Funds rather than Passive or Index Tracking Funds.

Fund Philosophy

This helps us to place the fund relative to its peers in terms of how the fund is managed in broad terms and what scope the managers have to deviate from the principles set. For example a fund may have a more flexible philosophy complementing a relatively strict process and we would need to understand which would have greater control in extreme market conditions. It also helps us to understand the general stance of the group as well as the individual fund's characteristics.

Fund Management Processes

Much of the qualitative research is around how the fund operates, and how robust the fund management process is. This involves gaining a full understanding of how the fund is managed, what would trigger the manager to buy or sell a particular stock, what they are looking for in the stocks that they hold etc. We also look at how they monitor the fund holdings on an on-going basis and how decisions on the fund are made.

Risk Controls

The risk controls that are in place are also considered. It is essential that risk is managed according to a robust process and in line with any published risk tolerances.

Fund Selection

Following the selection process the following funds have been identified for inclusion within the portfolio:

Sector	Asset Class	Fund
Fixed Interest	*Short Dated Bonds*	*Dimensional Global Short Dated Bond*
Fixed Interest	*Short Dated Bonds*	*Dimensional Global Short Term Investment Grade Bond*
Property	*Property Securities*	*Blackrock Global Property Securities Index*
Developed Equities	*Global Large Cap*	*Dimensional Global Core Equity*
Developed Equities	*Global Large Cap*	*Fidelity All World Index*
Developed Equities	*Global Small Cap*	*Dimensional Global Targeted Value*
Developed Equities	*Global Value*	*Dimensional Global Targeted Value*
Emerging Markets	*Emerging Markets Large Cap*	*Vanguard Global Emerging Markets Index*
Emerging Markets	*Emerging Markets Small Cap*	*Dimensional Emerging Markets Targeted Value*
Emerging Markets	*Emerging Markets Value*	*Dimensional Emerging Markets Targeted Value*

Review Process

The Investment Committee will meet every six months to review funds, ensuring that they are performing as expected against their benchmark, and that the qualifying criteria are still being met. Where a fund appears to no longer meet our criteria, or anomalies are highlighted, it will be monitored over the next 6 months, alongside a viable alternative fund.

On an Annual basis (each February), the Investment Committee, will re-test the Investment Policy Statement in light of new academic findings, or changing weightings of markets within the Global Market. We will also re-run the construction process and fund filters to ensure that the portfolios remain robust, and take advantage of any new funds that meet our criteria.

Practical Considerations of Portfolio Management

Rebalancing

The different asset classes with the portfolios will perform differently to each other during different stages of the economic cycle. For example, bonds might perform better than shares, or Emerging Markets may significantly under-perform or out-perform other markets. This is expected, but to ensure that your required asset allocation does not drift over time, we regularly rebalance client portfolios on the third Monday of each quarter, half-yearly, or annually.

Investor Protection

Before we invest your money into any funds, we follow a process to ensure that there are the appropriate checks and balances in place to ensure your money is safe. This is a complicated but robust process that involves 'custodians', 'transfer agents' and 'trustees'.

Platform and Tax Wrapper Availability

We believe that Platforms will play a major role in the delivery of a portfolio based solution. Clearly, there is little point in selecting funds that cannot be deployed in your preferred platform because you will have to replace these with alternatives which could alter asset allocation and risk.

We select funds which should, universally, be accepted by a wide range of wrap platforms which allows us to source the best product for your specific needs.

Data Sources and Descriptions

Equity Returns of Developed Markets

MSCI developed markets country indices (net dividends) with at least 25 years of data. MSCI data copyright MSCI 2013, all rights reserved.

Growth of Wealth
1st January 1998 –– 31st December 2018

Value Index,1955–December 1993: data provided by the London Business School; 1994 –present simulated by Dimensional from Bloomberg securities data. Small Cap Index,1970 – June 1981: Hoare Govett Smaller Companies Index; July 1981 – December 1993 simulated by Dimensional from StyleResearch securities data; 1994 – present simulated by Dimensional from Bloomberg securities data. FTSE All-Share Index published with the permission of FTSE. T-bills, 1955–1974: UK Three-Month T-bills provided by the London Share Price Database; 1975–present: UK One-Month T-bills provided by the Financial Times. Inflation is the UK Retail Price Index provided by the Office for National Statistics.

Size and Value Effects are Strong around the World

Value stocks are above the 30th percentile in book-to-market ratio. Growth stocks are below the 70th percentile in book-to-market ratio.

Simulations are free-float weighted both within each country and across all countries. UK and Europe data provided by London Business School/StyleResearch.

US value and growth index data (ex-utilities) provided by Fama/French. FTSE data published with the permission of FTSE. The S&P data are provided by Standard & Poor's Index Services Group. CRSP data provided by the Center for Research in Security Prices, University of Chicago.

MSCI Europe Index is gross of foreign withholding taxes on dividends; copyright MSCI 2013, all rights reserved. Emerging Markets index data simulated by Fama/French from countries in the IFC Investable Universe.

Performance Summary
1st January 1988 – 31st December 2018

Value Index,1955–December 1993: data provided by the London Business School; 1994 –present simulated by Dimensional from Bloomberg securities data. Small Cap Index,1970 – June 1981: Hoare Govett Smaller Companies Index; July 1981 – December 1993 simulated by Dimensional from StyleResearch securities data; 1994 – present simulated by Dimensional from Bloomberg securities data. FTSE All-Share Index published with the permission of FTSE. T-bills, 1955–1974: UK Three-Month T-bills provided by the London Share Price Database; 1975–present: UK One-Month T-bills provided by the Financial Times. Inflation is the UK Retail Price Index provided by the Office for National Statistics.

Does it pay to Extend Maturities?

One-Month US Treasury Bills, Five-Year US Treasury Notes, and Twenty-Year (Long-Term) US Government Bonds provided by Ibbotson Associates. Six-Month US Treasury Bills provided by CRSP (1964-1977) and BofA Merrill Lynch (1978-present). One-Year US Treasury Notes provided by CRSP (1964-May 1991) and BofA Merrill Lynch (June 1991-present). Ibbotson data © Stocks, Bonds, Bills, and Inflation YearbookTM, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield). CRSP data provided by the Center for Research in Security Prices, University of Chicago. The BofA Merrill Lynch Indices are used with permission; copyright 2011 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. Merrill Lynch, Pierce, Fenner & Smith Incorporated is a wholly owned subsidiary of Bank of America Corporation.

Growth of Wealth
1st January 1998 – 31st December 2018

Portfolio 1 UK One-Month Treasury Bills: 100%

Portfolio 2 MSCI World Index (gross div): 10.2%; Dimensional Global Large Value Index: 3.4%; Dimensional Global Small Index: 3.4%; MSCI Emerging Markets Index (gross div): 3%;UK One-Month Treasury Bills: 80%

Portfolio 3 MSCI World Index (gross div): 20.4%; Dimensional Global Large Value Index: 6.8%; Dimensional Global Small Index: 6.8%; MSCI Emerging Markets Index (gross div): 6%; UK One-Month Treasury Bills: 60%

Portfolio 4 MSCI World Index (gross div): 30.6%; Dimensional Global Large Value Index: 10.2%;Dimensional Global Small Index: 10.2%; MSCI Emerging Markets Index (gross div): 9%; UK One-Month Treasury Bills: 40%

Portfolio 5 MSCI World Index (gross div): 40.8%; Dimensional Global Large Value Index: 13.6%; Dimensional Global Small Index: 13.6%; MSCI Emerging Markets Index (gross div): 12%; UK One-Month Treasury Bills: 20%

Portfolio 6 MSCI World Index (gross div): 51%; Dimensional Global Large Value Index: 17%; Dimensional Global Small Index: 17%; MSCI Emerging Markets Index (gross div): 15%

Portfolios are rebalanced annually and are in GBP.

Performance Summary
1st January 1988 – 31st December 2018

Portfolio compositions are the same as in the Growth of Wealth report.

Portfolios are rebalanced annually and are in GBP.

Investment Discipline

FTSE data published with the permission of FTSE.

Long-Term Govt. Bonds are the Citigroup World Government Bond Index UK 1-30+ Years, copyright 2013 by Citigroup.

Live Fund Allocations

Holdings figures at 31st December 2018.

Growth of Wealth

30th September 2008 – 31st December 2018

Live Portfolio 1 Dimensional Global Short-Dated Bond Fund (A): 100%

Live Portfolio 2 Dimensional Global Targeted Value Fund Class GBP (Accumulation): 4.3% Dimensional Global Core Equity Fund Class GBP (Accumulation): 12.6% Dimensional Global Short-Dated Bond Fund (A): 80% Dimensional Emerging Markets Core Equity Fund (A): 2.3% Dimensional Emerging Markets Targeted Value Fund Class GBP (Accumulation): 0.8%

Live Portfolio 3 Dimensional Global Targeted Value Fund Class GBP (Accumulation): 8.5% Dimensional Global Core Equity Fund Class GBP (Accumulation): 25.5% Dimensional Global Short-Dated Bond Fund (A): 60% Dimensional Emerging Markets Core Equity Fund (A): 4.5% Dimensional Emerging Markets Targeted Value Fund Class GBP (Accumulation): 1.5%

Live Portfolio 4 Dimensional Global Targeted Value Fund Class GBP (Accumulation): 12.8% Dimensional Global Core Equity Fund Class GBP (Accumulation): 36.1% Dimensional Global Short-Dated Bond Fund (A): 40% Dimensional Emerging Markets Core Equity Fund (A): 6.8% Dimensional Emerging Markets Targeted Value Fund Class GBP (Accumulation): 2.3%

Live Portfolio 5 Dimensional Global Targeted Value Fund Class GBP (Accumulation): 17% Dimensional Global Core Equity Fund Class GBP (Accumulation): 51% Dimensional Global Short-Dated Bond Fund (A): 20% Dimensional Emerging Markets Core Equity Fund (A): 9% Dimensional Emerging Markets Targeted Value Fund Class GBP (Accumulation): 3%

Live Portfolio 6 Dimensional Global Targeted Value Fund Class GBP (Accumulation): 21.3% Dimensional Global Core Equity Fund Class GBP (Accumulation): 63.6% Dimensional Emerging Markets Core Equity Fund (A): 11.3% Dimensional Emerging Markets Targeted Value Fund Class GBP (Accumulation): 3.8%

Portfolios are rebalanced annually and are in GBP.

Performance Summary

30th September 1998 — 31st December 2018

Portfolio compositions are the same as in the Growth of Wealth report.

Portfolios are rebalanced annually and are in GBP.

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Technical Glossary

ETF (Exchange Traded Fund)
An ETF is a fund that tracks an index to provide investors with a benchmark return at a minimal cost. ETFs are similar to mutual funds in that each individual share represents partial ownership in a portfolio of securities.

OCF (Ongoing Charges Figure)
The OCF is a measure of the total cost of an investment to the investor. It may include various fees (purchase, redemption, management) and other expenses. Typically it consists of an annual management charge (the fee that the fund company charges annually to manage the fund) plus other charges incurred in running the fund such as legal fees, share registration and custodian costs.

Volatility
Measures the variation in price of a financial instrument overtime. Historically volatility is derived from looking at past prices and tracking the frequency and degree of changes.

Standard Deviation
Is a statistical measurement which looks at historical volatility. It looks at how likely an investment is to deviate from its average return.

Wrap Platform
A Wrap Platform provides a means of holding all your investments in one place. It normally comprises of three services. Firstly it provides administrative systems and process which allow your investments to be managed in one place. Secondly, it provides an arrangement for buying and selling investments efficiently and, thirdly, the ability to access various tax-efficient investment and savings vehicles.

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