The Falcon Financial Planning Ltd

investment process

An Introduction to the Investment Process, the Portfolios and Risk

This document describes the journey from getting to know you, your investment objectives and aims, and discussing with you and understanding the level of 'risk' you are willing and able to take to achieve your goals. Understanding your 'attitude to risk' is fundamental to the advice process.

Our Investment Process document describes how we determine your 'risk score' and look to find the right investment solution for you, via the range of portfolios which we provide. It describes how our portfolios are created - including asset allocation and fund selection - and our process for reviewing portfolios and underlying funds so that ongoing suitability can be assessed. It also describes how we report to you via ongoing review meetings. Regular reviews with clients are important, as is any required rebalancing of portfolios.

Our core Investment Process combines assessing risk, asset allocation, security selection, portfolio construction, and risk management and is designed to bring consistency to the investment advice process, so that clients with a similar/identical risk profile have a similar/identical investment portfolio, with the same level of service and outcome.

We create and operate a number of 'model portfolios' designed to deliver appropriate risk-adjusted returns, to meet the needs and objectives of clients with different risk profiles. We believe that in this way we can provide an investment solution which is in the best interests of clients, and consistently matches clients' objectives and meets the standards they expect. We believe that a consistent, repeatable and structured approach leads to stronger risk management. When we make a personal recommendation, we will always make sure that it is suitable for you.

Naturally, our different portfolios involve different asset allocations, to cater for different client risk profiles. We have firm controls and robust risk-management systems in place in place to test portfolios against risk profiles. We continually check to ensure that our portfolios align accurately with the risk outputs from the risk profiling tools we use - along with regular reassessments of clients' attitude to risk and capacity for loss - to ensure that the portfolios into which clients are invested, remain suitable and appropriate for their current circumstances.

Considering our client's needs and objectives is always our priority, and is central to our business proposition. If we consider that our investment portfolios are not suitable for you, perhaps because we cannot match your 'risk profile' to the range of portfolios which we offer, then we will tell you. We will not offer portfolio services to clients where we consider that such a route is not suitable, and not in the client's best interests. We can create and operate bespoke portfolios if this better enables us to meet our client's aims and objectives.

The additional costs of using a platform (presently Quilter) to host our portfolios will be fully explained at the outset of the advice process, as will the costs for our services.

The essence of investment management is about the management of risk, not returns. Understanding 'risk' is crucial - that's why the next page concentrates on that area….

Understanding 'risk' - and how our portfolios are managed for risk

At its heart, risk profiling involves the measuring of a client's attitude to risk for a variety of investment decisions. We match a client's risk profile to the risk rating of our series of portfolios. Each portfolio consists of a group of individually selected funds, and each portfolio falls within a specific risk band, making it easier for us to accurately match the portfolio to the client.

A portfolio's risk rating is based on the amount of risk that was measured at a specific point in time. To avoid the possibility that a portfolio's risk level could change, causing it to drift into a different risk profile, we monitor risk ratings of our portfolios at regular intervals, to ensure that they continue to align with a client's objectives and risk appetite.

Our portfolios are 'risk-managed', targeting a level of risk defined by volatility*****. Quilter's investment platform uses stochastic modelling to estimate the annual volatility in current market conditions - we additionally 'test' our portfolios using data sourced from Defaqto Engage, to make sure that the estimated volatility aligns correctly. In the event that a portfolio's volatility is outside its target range, we review and adjust the asset allocation and fund selection to bring it back within the target range, so as to stay within the mandated volatility band.

In this way, all of our risk-managed portfolios target a specific level of annual volatility, and are managed on a forward-looking basis to ensure that the level of risk inherent within the portfolio will always be compatible with the level of risk that an invested client has agreed that they can comfortably take. However, whilst we are very conscious of the need to manage volatility, we do not let volatility manage the portfolio.

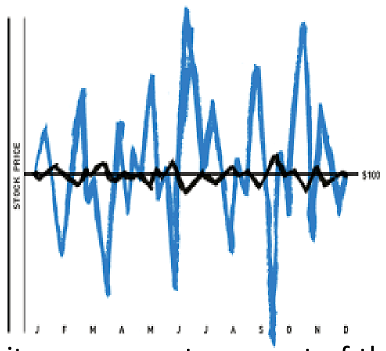
Our portfolios are managed with and for consistency, and realigned at least annually to avoid any drift off-course, helping to ensure ongoing suitability and mitigating the likelihood of unwanted outcomes for clients. Of course, we can't time markets, make them go up (or stop them going down) nor forecast economic variables or indeed the performance of any financial asset. What we can do however, is construct portfolios that have the best chance of performing well in a wide variety of market outcomes - all the while never losing sight of an investor's true objective: maximisation of real returns after taxes and charges.

The pages which follow will give you a good idea of how we work with our clients, to provide solutions to meet their investment aims and objectives. If you have any questions, please ask.

*****Volatility Explained

Volatility (or standard deviation) measures how much a series of numbers varies over a particular time frame both on the upside and the downside, compared to the 'average' return.

Calculating volatility allows a portfolio's performance swings to be captured into a single number. Where returns have been more varied, the volatility (or standard deviation) number is higher.



Future returns can be expected to fall within one standard deviation of its average return most of the time, and within two standard deviations of its average return almost all of the time.

Our investment process

Deciding how best to invest your money can be daunting. With so many options available, how do you choose what's right for you? Our job is to eliminate as much of that uncertainly as possible and to work with you to identify the most appropriate way for you to achieve your financial goals.

Our Investment Process is designed with that in mind. It creates a framework for us to discuss your needs and expectations, to assess and agree your attitude to risk and capacity for loss, and then to build and manage an investment portfolio to match.

Our Investment Process is rules-based, both transparent and repeatable, and designed to suit the needs of our clients. It involves a number of components - a risk-profiler that (hopefully) never misaligns clients, a set of accurate and investable benchmarks to measure risk and return, and a range of portfolios consisting of funds run by experienced and talented fund managers.

Our portfolios are then tested against reports from Defaqto Engage, which further assess risk by analysing the funds within the portfolios, and how they combine to create an agreed risk profile. Defaqto use volatility and correlation projections produced by Moody's Investor Service, which uses stochastic modelling to project the future performance of the combination of asset classes.

What is really important is how those components connect and flow together. After all, an engine made from the finest parts is still only as good as its assembly. The same is true for investment advice. In essence, we have two 'connections' to make - the link between the risk-profiler and the benchmarks, and the link between the benchmarks and the portfolios.

The first of those two 'links' is where we translate the client's risk profile from a form of measurement scale into an actual benchmarked level of investment risk. We do this by completing with you our 'risk profile questionnaire' and our 'capacity for loss' questionnaire. This is an essential part of the advice process, aiming to strike an appropriate balance between your desire for positive returns and your desire to avoid negative returns.

The second 'link' is from the benchmarking of investment risk to the portfolio, since even if we have been able to confirm the connection between the risk profiler and the risk level, we still have to ensure the portfolio delivers to expectations. This of course is where the quarterly asset allocation reviews are important, along with fund changes when considered appropriate and regular rebalancing.

By working through a series of logical steps, you will gain a better understanding and confidence in our recommendations and in the resulting choice of investments. The flowchart outlines the Investment Process and this document explains how we manage each stage of it together with you.

Fact find - getting to know you….

The logical starting point of the investment process is for us to get to know you. Our fact find will be wide-ranging to ensure that our subsequent advice is soundly based. As well as taking account of your personal and financial circumstances, it will cover your broader attitudes and values, and the level of experience and knowledge you have about investing and its associated risks.

Having established your goals, the results you expect and the timescales involved, we can begin to consider issues such as access to your money and the level of flexibility required in the investment selection. We will also consider your personal circumstances, including your tax position. It is important that any investment recommendation we make is as tax-efficient as possible.

We always take account of your preferences regarding ‘risk taking’ and your ‘risk profile’, to ensure that you are willing and able financially to bear any related investment risks consistent with your investment objectives. The process that we use combines our factfind, the ‘risk profile questionnaire’ (referred to later) as well as through our discussions with you.

….and assessing ‘capacity for loss’

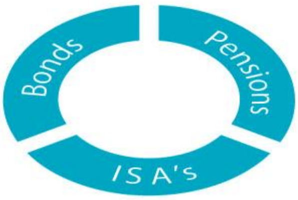
Capacity for loss refers to an individual's ability to withstand a financial loss, and their ability to absorb falls in the value of their investment. For some people, any loss of capital could have a materially detrimental effect on their standard of living, and if this is so then this should be considered in assessing the risk that they are able to take.

Our ‘capacity for loss’ questionnaire is designed to run alongside the ‘risk profile questionnaire’ both in terms of initially establishing your ‘risk profile’ and ‘capacity for loss’, as well as being central to the discussions which we have with clients at each annual investment review, when we reconsider these two aspects.

If as a result of this process we identify that you are best suited to placing your money in cash deposits, because we agree that you are unwilling or unable to accept the risk of loss of capital, then we will tell you. In such circumstances, we will not invest in areas which involve risk.

You must tell us if your overriding preference is to avoid the risk of loss of capital, either initially or at a later stage, so that we can make sure that risk investments are avoided. Part of our annual review process (described later) involves reassessing your ‘risk profile’ and your ‘capacity for loss’ - if you wish to review this before the next annual review is due, please tell us immediately.

Selection of ‘tax wrappers’ - ways to hold your investments



A tax wrapper is a financial product, such as a pension, ISA, OEIC (often known as a unit trust) or bond, within which your investments can be held and which usually has certain tax benefits.

Once we have established your financial goals, we can begin to determine the most appropriate tax wrapper(s) to meet your needs. As well as pensions, ISAs, OEICs and bonds, the options and combinations for consideration may include life, protection and critical illness policies, depending on your circumstances.

Traditionally, investors may have held a number of tax wrappers from a variety of different companies. The downside is that it can create lots of paperwork, arriving at different times of year, in different formats. This can make it difficult for us to manage and monitor your portfolio, as a whole, to ensure that your investments are performing as expected and remain in line with your agreed risk profile.

Nowadays it’s different, and for our clients we recommend investing via an ‘investment platform’. This is a way to hold, monitor and manage all of your investments in a single place. It brings personal investing up to date. The investment platform offers improved convenience, choice and value for money. It also provides online technology that helps us assess your attitude to investment risk and then put together a portfolio that is most likely to behave as you would expect.

It is essential that we carry out robust, repeatable and recordable research and due diligence exercises when selecting partners for our business, including platform operators. The aim of these exercises is to support the delivery of good client outcomes. Furthermore, our regulator (the FCA) remains keen to see evidence of deeper and more engaged due diligence being carried out by adviser businesses.

In a market experiencing great change and challenge, due diligence will continue to increase in importance and is something which needs to be carried out both when first identifying and selecting partners, and then revisited on a regular basis. We presently use the Quilter investment platform and a summary of our latest Platform Due Diligence Review (carried out in January 2022, using AdviserAsset) is included within the penultimate page of this document.

The ‘Platinum’ rating is a unique award based solely on empirical analysis of how well each platform is assessed by advisers using the AdviserAsset tools. The volume of data analysed to assess Platinum rating performance is considerable and quantifies platform performance across nine key performance indicators. Quilter is just one of six platforms which qualified for Platinum status in 2020’s ratings - and one of just three platforms which then secured ratings for the 5th consecutive year.

Understanding your attitude to investment risk

Whatever your goals, we want to be sure that the investment strategy we recommend for you is in line with your attitude to investment risk. To do this we need to consider a number of factors. They include:

- The anticipated length of time you want your investment to last - its ‘term’
- Cash reserves you want to be available to meet unexpected circumstances
- Your view on the potential for your earnings/income to grow
- How much money you want to invest
- Whether you have any debts
- Existing savings for retirement
- Your overall view on investing
- Your goals - and whether you really need to take on risk to achieve them
- The impact of short-term falls in the value of your investments
- The importance of protecting your investment from the effects of inflation
- The question of ‘liquidity’: if you want to cash in your investments, how easy/quick will it be?

All investments involve some risk. Generally, the higher the potential returns, the greater the risk. The smaller the potential risk, the lower the potential returns. An investment in cash is the least risky, but tends to give the lowest return over time, whereas shares are the riskiest investment, but can potentially provide a higher return over time.

To establish your attitude to investment risk, we will ask you a series of questions. Each answer produces a score and these are then aggregated to calculate your specific level of tolerance for risk, from 1 (low) to 10 (high). We call this your risk profile score.

The risk profiling questionnaire we use is developed by Quilter, in line with the best industry practice and the guidelines laid down by our regulatory body, the Financial Conduct Authority. The results from the questionnaire, coupled with the discussions between us, mean we have a greater opportunity to allow us to agree between ourselves what works for you.

Many of the terms commonly used to describe attitudes to investment, such as ‘cautious’, ‘balanced’ or ‘aggressive’ are very subjective, and can mean different things to different people. That’s why we aim to make our assessment of your attitude to risk as objective as possible. And that’s why the next stage of the process is a discussion about what your risk profile score means.

Discussing your risk profile score

Your resulting risk profile score is an indication of the extent to which you are prepared to accept a short-term fall in the value of your investments as markets go through their ups and downs. These fluctuations in the value of investments are also known as their ‘volatility’.

Before proceeding to make recommendations based on your risk score, we want to be sure that you understand what that risk score number means and what its implications are.

The ‘risk assessment score’ which results from completion of the questionnaire varies from ‘one’ to ‘ten’, with ‘one’ being the least risky, and ‘ten’ being the riskiest. A risk score of ‘one’ will result in a portfolio consisting mostly of cash and fixed interest investments, with ‘ten’ resulting in a portfolio heavily weighted in equities. Risk assessment scores between ‘one’ and ‘ten’ will result in a broader spread of asset classes. This is because historically, shares (equities) are more volatile than cash and fixed interest investments over most time periods. We will discuss with you the provisional ‘risk assessment score’ result, and record with reasons whether or not this accurately reflects the level of risk that you are willing and able to take.

Historically, having completed the ‘risk profile questionnaire’, Quilter’s findings indicate that ninety-five percent of investors fall within risk assessment scores ‘three’ to ‘eight’. We create, manage, and monitor investment portfolios covering risk assessment scores from ‘three’ through to ‘eight’. We are though able to provide bespoke portfolios outside of this range, if it is considered appropriate. Also, it is perfectly possible that an investor is willing to take a lower risk with their short-term savings, and a higher risk with their longer-term savings.

We will discuss with you the results of the ‘risk profile questionnaire’, along with how investment gains and losses might differ between different risk levels, to give you a better idea of the outcome you could expect at each level. In this way, we can agree with you whether your risk rating accurately matches your true attitude to risk - and whether your risk rating is appropriate when considering your ‘capacity for loss’.

If we detect a mismatch between your objectives, and the level of risk that you are prepared to accept, we will discuss this with you. The decision to invest - whether in accordance with the risk assessment score, more conservatively or more aggressively - is always at your discretion.

Whatever the result of that initial discussion, we will review and discuss this with you each year to ensure that your circumstances have not changed and that your attitude to risk remains the same - and we will recommend appropriate changes if your attitude to risk has changed.

Creating an ‘asset allocation’ in line with your risk profile score

Asset allocation is based on long-established and well-proven mathematical principles and involves getting the balance of assets in your portfolio right. It is clearly important to avoid a situation where the output from the investor risk journey is mixed with output from a different investment provider, as there would be no quantifiable link between the two.

The safest way is to adopt an end-to-end-solution that uses the same science and methodology for rating the client as is used for rating the investment solution - the Quilter platform provides this. The ideal asset allocation differs from investor to investor, and is based upon the level of risk each investor is prepared to accept - hence different portfolios for each risk assessment score, resulting from completion of the ‘risk profile questionnaire’, with different allocation of funds across the various asset classes.

Different types of assets have different performance characteristics, so our aim is to allocate the right mixture of funds to a portfolio so that, over time, the performance peaks and troughs balance each other out in a way that is optimised for your particular risk profile and your expectations for growth.

Our geographic allocation is global, because research shows that in the short term, market panic and global contagion tend to result in markets falling together. However, in the medium to long term (which should concern investors more) a wider basket of underlying economic growth provides protection from one economy performing poorly.

The funds available for you to invest in are categorised under different asset classes depending on their particular focus. These asset classes include cash or money market investments, fixed interest, property, UK equity and international (Europe, Japan, North America, Emerging Markets, South East Asia and Global) equity.

Significant diversification benefits can be gained by including a range of different asset classes within each portfolio. Diversification reduces risk, because you don’t have all your eggs in one basket. Even a small exposure to more volatile asset classes (e.g. international equity) does not necessarily increase the risk of the whole portfolio, because of the benefits of diversification. However, a small allocation to international equity may give the potential for higher returns.

We should point out however, that even with this level of expertise behind us, we still can’t guarantee that the volatility range of a particular asset allocation will not be breached occasionally. There is always the possibility of exceptional market conditions, due to unanticipated external events.

Selecting investments to match your asset allocation

Once the asset allocation stage is completed, we need to choose appropriate investments to reflect the various asset classes in the right proportions to fit the portfolio risk assessment score for each portfolio. There are thousands of investment options to choose from - funds and fund managers - each trying to achieve different things. Understanding the reasons for their relative success in doing so helps us appreciate how they may perform in the future.

There are many ways of judging the performance of fund managers - their past performance is not necessarily a guide to what they might achieve in future. A better way to assess a manager's performance is to understand how and why they achieved that performance - what process did they use. Here we use various ratios including:-

- *Alpha* - measuring a fund's excess return given the risk taken (comparing its actual return to its expected return, given its Beta)
- *Beta* - describing the relation of a fund's returns with that of the market as a whole
- *Sharpe Ratio* - measuring the excess return per unit of risk, in an investment asset or trading strategy

So the process of fund selection is thorough and complex, including Citywire ratings (which objectively rate individual fund manager's risk adjusted performance over a thirty six month period) and Forsyth OBSR ratings (which not only take into account past performance, but ascribe greater weight to factors influencing potential future performance - strength of investment process, continuity of personnel, a durable investment style, defined investment objectives as well as favourable risk adjusted returns).

Additionally, FE (formerly Financial Express), Crown Ratings build up a score based on analysing a fund's performance over the last three years. The score is made up of three components - alpha, relative volatility, and consistently good performance - with the aim of reflecting the long-term ability of a fund to deliver value for investors on a risk-adjusted basis. We also consider performance, risk, and volatility of funds to ensure an appropriate mix within an asset class, and an overall balanced portfolio within the appropriate risk assessment score.

We frequently review and monitor available funds, and maintain regular management information on the funds (and asset classes) into which we invest. We also maintain regular management information for the various portfolios which we create (including the level of 'risk' and how it compares to the relevant benchmark) to ensure that they are suitable in matching the objectives of investors.

Monitoring and Reporting

The performance of the various funds in your portfolio will differ over time. If left for a long period of time, the proportions of the different asset classes will change and this could result in a divergence from your original risk profile. For example, if equity funds outperform fixed interest, your portfolio left unaltered would move up the risk scale and vice versa.

Allocation of funds across the various asset classes for each portfolio is reviewed quarterly, and is based upon ranges of economic assumptions which are then employed within the modelling process, which underpin the asset allocations produced for each risk assessment score level. The quarterly review will conclude with our recommendations, which could involve changes to, or simply maintenance of, the assumptions and/or allocations for each portfolio. We will discuss with you when we meet as part of the review process if an adjustment to asset allocation is required, at which time your portfolio will be rebalanced so that allocation of funds across the various asset classes is realigned.

At the initial (and each subsequent) review we will reconsider the ‘risk profile questionnaire’ and ‘capacity for loss’ questionnaire results with you, to determine your aims and objectives, and check to see if the level of risk that you are willing and able to take has altered. We will discuss this with you, and if this indicates that there has been a change in your tolerance to risk, we will discuss with you the implications of switching to a more cautious or more adventurous investment approach.

An alteration of the ‘risk profile’ would necessarily mean that the recommended asset allocation should be different to that held previously, and this will require the funds into which you are invested to be restructured and rebalanced accordingly. Any changes which are proposed will only be actioned with your approval. If on reconsidering the ‘risk profile questionnaire’ we conclude that there has been no change to your tolerance to risk, then there need not be any specific fund reorganisation as a result of this exercise.

If we consider it necessary to change a fund within your portfolio before our next annual review meeting with you, we will contact you and ask you to authorise the switch. Funds are assessed using the same criteria as in the fund selection process, and detailed justification will be provided explaining the reasoning behind the recommendations.

Portfolio valuations are available at any time by request, but otherwise they will be provided by Quilter every three months, and by us at the annual review.

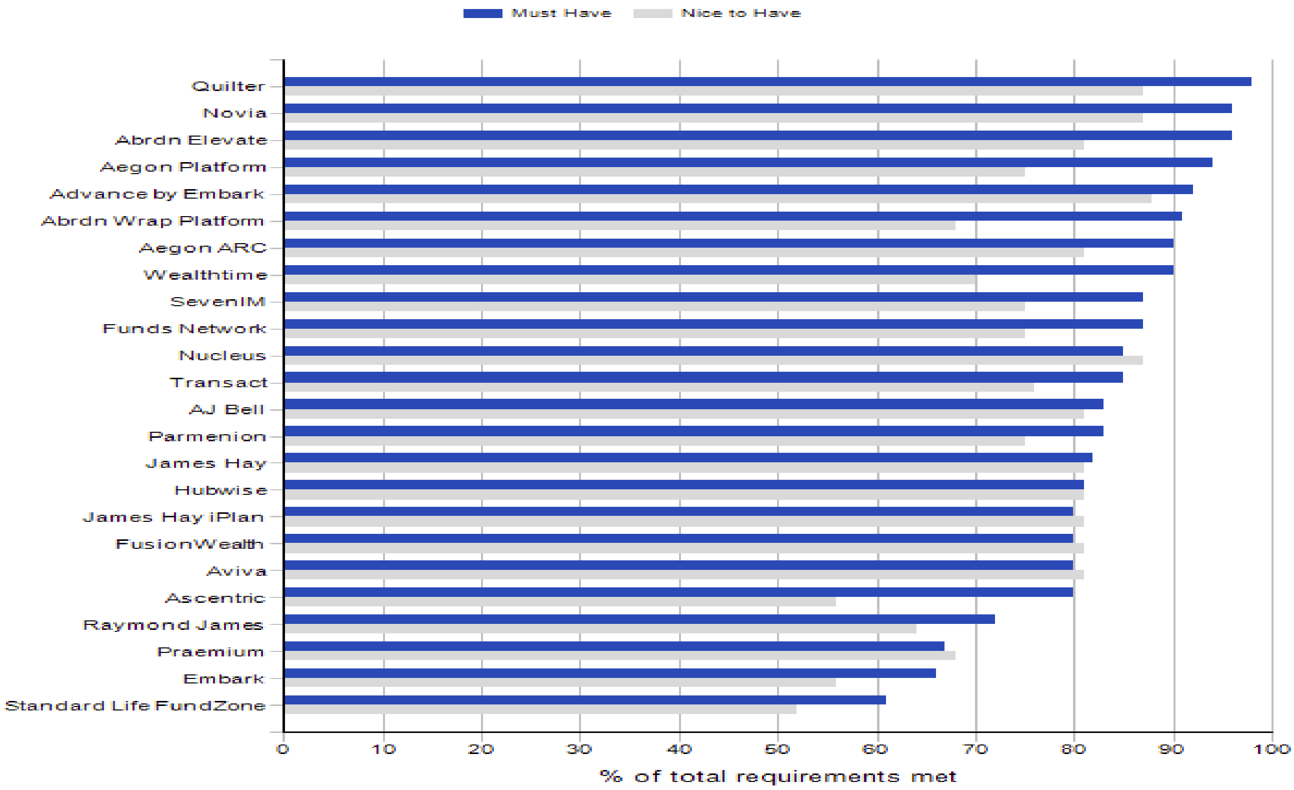
The Quilter Platform

The simplest way to describe a 'platform' is as a vehicle to hold and consolidate investments. It allows investors to hold all their investments in one place, making managing investments easier, more transparent and, with online access, more convenient. A platform also acts as an extension of our back office and provides us with the tools and services to help us support our clients.

We carry out a review of the various platform alternatives from time-to-time, to ensure that we utilise the most appropriate option for our clients and our business. This process is known as 'due diligence' - we consider (amongst other aspects) the various platform providers' reputation and financial standing, the range of funds/asset classes offered, and the functionality of the platform.

Our final recommendation is based on this analysis, and on each review, we produce a report which provides a comprehensive and unbiased analysis of the platform market. Our latest review was carried out on 29th January 2022, and a summary chart is included below, summarising the degree to which each platform reviewed meets our requirements.

Platform Due Diligence Summary - 29th January 2022



A copy of the full Platform Due Diligence Report dated 29th January 2022 (running to sixty-one pages) is available on request. Our portfolios are presently provided using the Quilter Platform - in our opinion the leading platform offering. Quilter PLC is a leading UK-focused wealth manager, providing advice-led investment solutions and investment platform services. Quilter manages £111.8 billion of investments on behalf of over 900,000 customers as at 31st December 2021.

Regulatory Changes Introduced January 2018 - ‘MiFID II’ and ‘Prod’

Prod, shortened from Product Intervention and Product Governance Sourcebook, is a lesser-known piece of regulation that came into force on 3rd January 2018 at the same time as MiFID II - the ‘Markets in Financial Instruments Directive’. The Prod regulation originates from the FCA and exists to implement the MiFID II product governance requirements.

The rules set out that all firms should ensure they offer ‘good product governance’, building their proposition from the client upwards, keeping the client at the centre of their business, and ensuring that clients are accessing products and services designed to meet their needs. This means products should:-

- meet the needs of one or more identifiable target markets
- be provided to clients in the target markets by the appropriate distribution channels
- and deliver appropriate client outcomes

Keeping the client at the heart of the decision-making process has always been our guiding aim. We start by determining our ‘target market’, and then devise and design our investment solutions, platform selections and advisory services by looking at our client bank to understand what our clients’ needs are.

All aspects of our business proposition, whether that is **investment solutions**, **platform selection** or **service levels**, are focused upon taking individual circumstances into account, treating clients fairly, and ensuring that clients are not given a generic solution that may be unsuitable for some of them. We regularly review and develop our business proposition, always using an analysis of our client bank as the starting point.

We ensure that the components of our **investment solutions** - the funds and financial instruments into which we invest - are assessed as being compatible with the needs of our clients. We also ensure that our **investment solutions** are compatible with and take account of the manufacturer’s identified target market of end clients. Within our asset allocation and fund review processes, we also make sure that we both understand the financial instruments recommended to clients and that financial instruments are only distributed when this is in the best interests of the client.

Our **platform selection** process is researched independently of platform providers - a full review of the platform market is carried out annually. Prod regulations allow that it is possible for one platform to meet the needs of all a firm's clients, as long as it is flexible enough to incorporate the needs of all clients. Complying with PROD does not mean finding the cheapest platform to accommodate the recommended investment propositions, as there are reasons other than price that could legitimately exclude a platform from selection - such as poor service, weak financial performance or a lack of required functionality.

We do not differentiate **levels of service** along the lines of the value of the assets managed or the income they generate. Providing **levels of service** determined purely by assets under advice or time spent would be viewed as quite firm-centric rather than client-centric, and entirely at odds with the Prod regulations. Equally, we do not offer different service levels - ‘platinum’, ‘gold’ and ‘silver’, for example - because we believe it is better (and fairer) to have a standard level of service based on the overall advice provided. Where appropriate, a separate charge may apply for particular additional products, for example, if we have to do more research into particular schemes, such as VCTs, EIS schemes or IHT planning.

We consider that our business proposition fully complies with both the rules of Prod and the spirit of the regulation. Our latest due diligence platform review report is available on request, as is a copy of our ‘target market’ information document.