

# Silver Planet Life Investment Taxation Solutions Limited

## Investment Process

### Listening to You Understanding Your Requirements Informing You of Your Options Solving Your Requirements

#### Investment Process

The investment process used by Silver Planet Life Investment Taxation Solutions Limited “Silver Planet” is based on a balanced yet active approach to managing money, tailor-made to meet your circumstances and requirements.

Choosing where to invest your money for the future may be one of the most challenging decisions you ever make. Typically you would like the best possible return for your money; however, knowing where to invest it without taking unnecessary risks can be daunting.

Silver Planet will help you to make investment decisions based on your specific needs by using a four stage process:

- Step 1: assess your attitude to investment risk
- Step 2: choose an asset allocation to meet your needs
- Step 3: build your investment strategy
- Step 4: if agreed, review your investment regularly to ensure it continues to meet your needs

#### **Step 1: Assess Your Attitude to Investment Risk**

Before we can identify which investment strategy is most appropriate to your circumstances and requirements it is imperative that we understand your attitude to risk. Your investment risk may differ depending on your particular financial goals, and the timescale for those goals, e.g. school fees, income in retirement, etc.

To identify your attitude to risk we usually utilise a ‘risk profiler’ questionnaire that has been specifically developed by Clerical Medical. Once you have completed the questionnaire you will receive a personalised risk score. The scoring system will place you into one of five categories reflecting your willingness to accept risk; this is known as your risk tolerance. The five categories are:

- Low risk
- Low to medium risk
- Medium risk
- Medium to high risk
- High risk

The higher your risk rating, the more willing you are to take greater levels of risk when making financial decisions, and the more willing you are to accept volatility in your investments, being the changes in their value over time, both up and down.

## **Step 2: Choose An Asset Allocation to Meet Your Needs**

Once your attitude to risk has been assessed and identified, the next step is to understand what asset allocation suits you, and your requirements best.

### Asset Allocation – Getting the Investment Risk Right

Traditionally, investment decision-making has been centred on which funds to select, however investment research has shown that more than 90% of investment returns are determined by effective asset allocation, and in most circumstances this is actually the critical factor in determining investment performance over the long term.

The Sandler Report reiterated this view, stating “the asset allocation decision is by far the most important factor in determining returns”.

Asset allocation is actually a perceptive approach. Individual stocks within the same asset class tend to be highly correlated, and subsequently the value in the stocks tends to move together. It is the therefore the behaviour of the asset class as whole that makes the difference to the investment portfolio.

### Behaviour of Different Asset Classes

- Money market instruments, including cash, have a less volatile market value, however they normally provide the lowest return.
- Bonds are relatively low-volatility investments, however they may give a comparatively low return.
- Equities are relatively volatile investments, yet over the longer term they may give a better return.
- Overseas equities add currency risk, and are often more even more volatile than UK equities, but they provide the investor with the opportunity of investing in different markets.

### Diversification

When it comes to investment, the old adage of “don’t put all of your eggs in one basket” is a good tip.

When putting together an investment strategy it is important to consider investing in a variety of asset classes, and a range of investments within the different asset classes. By investing in this manner you are less likely to be exposed to the risks associated with any one investment performing poorly.

### Efficient Frontiers – Efficient Portfolio Diversification

For any particular investment portfolio it is possible to illustrate the potential return and volatility. As you might expect, different portfolios will give different volatility-return results. If you calculated all the different investment portfolios that gave you the same amount of volatility, some portfolios would give a better return than others. The portfolio giving the highest return for a particular level of volatility is the most ‘efficient’, it gives the highest return possible for the risk incurred.

Ultimately the right asset allocation for an investor’s portfolio depends on:

- The ability to withstand market volatility whilst working within your attitude to risk
- The investment time-frame
- The investment goals

By using a ‘Portfolio Planner’ it is possible to combine the above factors to assist Silver Planet to recommend the most appropriate asset allocation for each individual investor.

### Portfolio Planner

To help us understand what asset allocation best suits you, we have access to a sophisticated portfolio planning tool which looks at how different economic conditions can influence future investment returns for each type of asset. The Portfolio Planner takes into account a number of conditions, including inflation, economic growth, and the underlying long-term investment returns for each asset class.

The portfolio planning tool carries out approximately 5,000 different calculations for each asset allocation strategy you would like to forecast potential returns for. This approach is known as 'stochastic modelling'. The results of the calculations are shown on a graph so as to illustrate the range of returns that you might typically expect to receive.

The portfolio planning tool helps us to build an asset allocation specific to both your financial objectives and your attitude to investment risk. The portfolio planning tool also suggests the optimum holding of each of the individual asset classes for the term of your investment.

#### Important Points for Consideration

Different asset classes have different levels of volatility, and there is no guarantee that the asset allocation will meet your objectives. Stochastic models, like the portfolio planning tool, can be unreliable where funds using discretionary fund management are concerned as discretionary funds could include mixed or managed funds and with profit funds.

Stochastic models also use parameters that are influenced by historical investment data, and in reality, historical investment data may not be a reliable guide to future performance. The investment returns are based on the model maker's interpretation of the criteria that the Financial Services Authority requires firms to adopt to facilitate consistency between current rules for projecting future returns, and the types of projections that stochastic models produce.

### **Step 3: Building Your Investment Strategy**

Once we understand your attitude to investment risk, and we have agreed on an asset allocation strategy, we are ready to move to the third step, being building your investment strategy by selecting the most appropriate investments for your portfolio.

As well as having the opportunity to hold your money in cash, invest directly into stocks, shares and other types of assets, we have access to an extensive range of funds from which we can tailor make your investment strategy. When selecting investments we will also take into consideration any ethical or environmental principles.

The aim is to combine investments that complement each other in a portfolio appropriate to your asset allocation strategy. For example, looking at funds in particular, you may not wish to be locked into one investment style or one fund manager, subsequently we may blend different investment styles and managers with your portfolio. The aim of blending investment styles and managers is to achieve consistent performance over time without exposing you to unnecessary risk.

In some circumstances, we may recommend the services of a specialist Discretionary Fund Management Company who will create a bespoke portfolio to suit your individual requirements, and the resulting portfolio may include shares and collective investment funds.

### **Step 4: Regular Reviews**

By combining the expertise of specialist independent companies, our skills and knowledge, and the tools available to us via the various service providers we use, we are confident that the critical decision of where to invest your money will become easier and more straightforward.

It is important to remember that whilst you may have a specific set of objectives in mind when you make your initial investment, those objectives may change in the future, and if they do, we might need to change your asset allocation and investment strategy.

Even if your objectives do not change, it is still important to review how the funds in your portfolio have performed on a regular basis in order to ensure that you retain your recommended asset mix, and where necessary, rebalance the amounts invested in each fund. If you do not undertake regular rebalancing then you may find that this will impact both on the overall return you receive and the level of risk you are taking with your investment.

If you wish, through the payment of regular fees or trail commissions received from your investments, we are available to work closely with you on an ongoing basis, regularly reviewing your portfolio so as to ensure that your money works harder to help achieve your investment potential.

Clients who opt for a 'transaction only' proposition will not receive regular ongoing reviews. However, ad-hoc reviews will be available on request, subject to a fee as stated within the "Client Agreement" document.

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