PATTERSON-MILLS

INDEPENDENT FINANCIAL ADVISERS & CHARTERED FINANCIAL PLANNERS

Our Investment Management Approach and Philosophy

About our distinctive wealth management style, how we add value to Clients' portfolio management and seek to optimise your returns.

FINANCIAL PLANNER CII CHARTERED

Contents

Our Distinctive Investment Management Approach

We understand the complicated nature of the financial world and help everyone create clear paths towards better outcomes.

We have close links with one of the UK's leading fintech and support services companies: Fintel plc and its investment business service company for the UK advisory sector, Simply Biz Services Ltd. Fintel's Chairman, Ken Davy, has over 50 years' experience in providing services to firms like us. Simply Biz do not offer retail investment services, but instead provide the necessary high-level infrastructure needed for Adviser Firms.

The Ideal Solution

For most private investors, the selection of investment types, asset mixes and individual fund managers is a highly time-consuming exercise. Furthermore, ensuring that, once selected, a particular investment strategy and its associated fund choices remain programmatically up to date, are reviewed and changed/modified regularly (potentially even monthly or quarterly) is all but impossible.

This next point may surprise you, or at least be refreshing to read, so here goes! We believe such issues are also too much for a retail investment business / adviser firm to handle on its own also! This is because, with the literally many thousands (literally) of investment choices out there, it's a full-time job purely to analyse and continue to re-analyse all funds and fund managers, including keeping track of those important key management staff, who move from fund group to fund group.

Our solution enables us to do exactly what is otherwise impossible and has been developed and further enhanced by Patterson-Mills in association with leading fund management businesses since earlier 2011.

Hence, we use the Simply Biz Centra System for Private Client and Portfolio risk assessment, together with Defaqto and Moodys Analytics forming the backbone of our asset allocation tools. This means that at Patterson-Mills our investment management selections are choices that are mapped to match our Client risk profile, researched by psychometric analysis followed by discussion with our Client.

Two important additional layers of analysis at the outset, for any risk-based investment strategy, are consideration of the Client 'capacity for loss' and investment experience, which informs an inherent part of any investment recommendations made to our Private Clients.

At Patterson-Mills, the highly skilled and specialist teams behind us ensure that key aspects of running investment portfolios are identified and addressed.

These key aspects of running investment portfolios cover specifically:

Selection of the Most Suitable Investment Manager

This involves ongoing analysis of peer group risk-adjusted investment performances, the help of our Patterson-Mills Investment Committee's (PIC) access to the award winning analysis for the optimum selections of investment manager and the matching investment fund for each asset class / category. Simply Biz, through its Centra system, has comprehensive management contracts that give complete control over the choice of research analysts going forward. There are important 'soft factors' when making the selection, such as the individual's supporting team, the internal discipline structure at the investment firm and the style of investment management.

Monitoring the Managers

To ensure they remain focused, each fund manager's ongoing updates to the market and also to the Simply Biz Investment Policy Committee (IPC) at Centra are taken into account. Our Committee Members interview fund managers personally each year, including monthly updates on all holdings for sub analysis internally. This ensures access to the views and strategies of other fund managers, stockbrokers and analysts, vital market intelligence bandwidth for being proactive with our monitoring.

Changing the Managers

This is judged not only upon investment performance, but the soft factors outlined above also come into play. However, once it is deemed necessary, we can act at whatever pace is needed and, due to the wholesale pricing of our investment platform technology, Client investments can be moved at negligible or no cost. This keeps investment management costs to an absolute minimum.

Diversification of Risk

By using investment managers with differing styles, our Private Clients obtain valuable diversification of risk. It is a reality that no one investment management house, or individual fund manager, can possibly always be the top performer, so putting all of your money with one, or even two managers (whether via a large high street bank or directly via, so-called, 'wealth management' groups) is too high a risk to take in our view.

It is this Investment Management Approach that offers our Clients the potential for optimum investment performance over the longer term for, we believe, three important reasons:

1) Reduced Annual Running Costs

Our costs are usually covered within our competitive nil initial and institutional annual management charges on each fund, included within the already competitive Total Expense Ratios (TERs).

2) No Cost Fund Switches

100% of the initial charge is waived (the only cost is transaction costs for quarterly re-balancing, then only if and where applicable).

3) A Clearly Defined Investment Management Process

One which is distinct in the market place today. Long term performance needs the best processes, putting the Client first. The Centra system, from our management partners at Simply Biz, has such a process and Patterson-Mills has the financial planning processes ideally suited to determining how you decide to invest, in what way and exactly where.

Our Portfolio Re-Balancing

Our investment selections are re-balanced regularly throughout the year. Sometimes more often than quarterly and sometimes less often, subject to portfolio movements over time. At all times, minimising management and dealing fees, ensuring any unnecessary costs are avoided.

The re-balancing of investment portfolios locks in profits and creates better value for other existing investment funds. In addition, changing fund and / or manager selections is important and conducted as deemed appropriate from updated research within the Patterson-Mills Investment Committee ('PIC').

The Patterson-Mills Investment Committee ('PIC')

At the heart of our approach is the Patterson-Mills Investment Committee ('PIC'), which in 2022 has been expanded to now include three specialist analysts in fund management. This enables Patterson-Mills to provide its Private Clients with a personalised service and offer its own distinctive Investment Management Approach (our 'IMA').

With the creation of PIC, we have ensured a truly holistic perspective of the whole of the market and no-one member of our Committee has exclusivity of view or market perspective. Our PIC Chairman is our Managing Director, Edward Mills, whose final oversight remains crucial to the implementation of the IMA for Patterson-Mills.

Hence, our approach covers in-depth knowledge and analysis of both asset class and also different investment types, right down to individual fund manager and individual security selections, as appropriate.

For individually tailored portfolio recommendations for our Private Clients, we use cutting edge, recognised market-leading technology from Defaqto, part of Fintel plc. This ensures an ongoing clearly-defined, measurable and consistent approach to the individual needs of our Private Clients. Our process results in significant cost efficiencies for the management of our recommended investment portfolios. This approach means that all investment management is also formulated with the utmost transparency and propriety, eradicating the possibility of the kind of personal preference and bias that has historically been found too often to cloud matters in the wealth advisory sector.

Current PIC References

The Committee takes account of the views of three leading Analysts, experienced and expert in fund management in their own right. These are:

AJ Bell Funds

Quilter Cheviot

Rayner Spencer Mills Research

About Our Analysts

As one of the UK's largest investment platforms, AJ Bell has always strived to make investing easier and more accessible. The focus is firstly the use of a discretionary decision-making approach with the exclusive use of passive securities (whether ETFs, index funds or similar). This approach is used to create the right ultra-low-cost investment in the most efficient way possible, facilitated by the creation in 2017 of the AJ Bell Growth Funds range.

These diversified funds are mapped to market-leading risk tools, including market-leading Defaqto (part of Fintel plc). Indeed, AJ Bell has been so successful with their approach that they have also had mapping approval for other external risk-rating tools from Distribution Technology, e-Value, Finametrica and Synaptic. This means that the AJ Bell Funds analytical technique has been analysed and accepted as matching on the risk-rated measure of all the UK's leading organisations in that sector.

And thanks to their focus on transparency and clear communication, we can rely on AJ Bell to keep everything fully up-to-date and deliver their strategic approach at a low cost.

AJ Bell is a multi-manager investor - they do not run single-strategy funds such as UK equities, international bonds and so on. Instead, AJ Bell invest across a number of different fund managers, such as BlackRock, Vanguard and Invesco. Although this approach does add in a layer of cost, AJ Bell believe it is one worth paying.

Many fund groups are presented with a conflict of interest of using their own products within their multi-asset funds, even if it is not necessarily the best product in the market. As an unfettered provider, AJ Bell is genuinely independent in its choice of funds, allowing the focus to be on maximising returns for investors - be that through their asset allocation process or by encouraging price competition in the index-tracking marketplace.

The heart of the AJ Bell philosophy is to never forget whose money it is. The AJ Bell goal is to grow the assets they manage, and they will only do that by delivering a solid performance for Investors.

QUILTER CHEVIOT
INVESTMENT MANAGEMENT

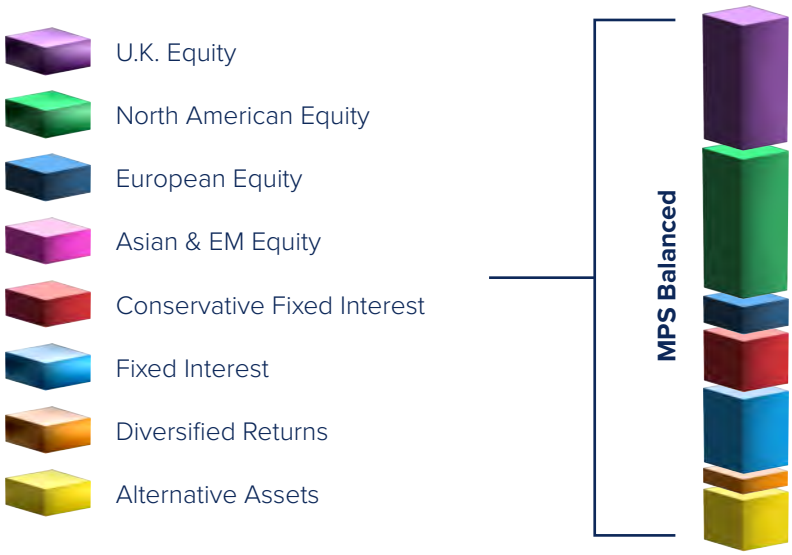
Quilter Cheviot offers highly competitive access to its long-standing investment expertise, providing a broad range of risk-rated portfolio strategies to match differing investment objectives of Private Clients. All strategies are managed with a dynamic asset allocation overlay, guided by the input of the Quilter Cheviot Asset Allocation Committee.

It is a whole-of-market approach to fund selection, underpinned by ten investment fund research analysts and implemented by a highly qualified, well-resourced and experienced investment team.

QC use their Managed Portfolio Service (MPS), a grouped model-based discretionary management service investing exclusively in collective investments ("funds"). Since pioneering the development of an MPS in 2001, QC has continued to expand its range of investment strategies to provide Private Clients with access to a straightforward, cost-effective way to benefit from its investment expertise, process and resources, with the aim of preserving or growing wealth, whether to facilitate income or otherwise.

In 2021, the QC MPS was expanded to include the use of QC's own stock-broking resource. This has led to a significant reduction in costs as QC can now buy individual security selections with their MPS funds strategies, as opposed only to using active fund managers.

The direct investment holdings represent around 505 of the holdings within most strategies and so the average cost for the QC MPS can in fact now be below that total cost of a typical fund manager, even when including the QC discretionary fees. This has been a key development at QC, using what is called their "building blocks approach", whereby they operate in-house grouped funds (without zero additional investor costs) across the various asset classes, giving QC complete discretion as to what specific asset is held within any given asset class.



RSMR

The construction of all of the Rayner Spencer Mills Research (RSMR) Portfolios begins with putting together a strategic asset allocation for each portfolio risk level. This is intended to be a straightforward approach, taking into account the historic, long-term risk-and-return of the various asset classes. As this provides the base for portfolio construction, the intention is for this to be relatively stable over time and not be influenced by any market timing decisions. This common-sense approach is easily understood by clients and provides an alternative viewpoint to the traditional fund management groups today.

The RSMR Investment Team prioritise a forward-looking approach, considering the various longer-term risk and return expectations for the relevant asset classes relative to their history. The information and data analysed comes from a wide range of industry sources to create the consensus of the investment factors which may drive ongoing future returns (e.g. current valuation levels, interest rate and inflation expectations, economic growth rates, etc.).

Whilst discussions on asset allocation are held formally on a quarterly basis, new information and how this may affect asset class views and any potential portfolio fund changes are frequently discussed within the RSMR Team.

The Importance of Passive Investments

The degree of out-performance from active fund management varies tremendously between different Fund Managers. This out-performance is known as “Alpha” and is measured by our analysts when choosing investment managers that meet the ‘added-value’ criteria.

It cannot be denied that, even with the analytical resources needed being available to us, any Alpha identified cannot be guaranteed to continue in the future. Qualitative analysis techniques, as employed by our analysts at Rayner Spencer Mills, serve to increase the efficiency of fund managers greatly.

However, in terms of downside risk – this being that a given fund manager under-performs the stated benchmark and by how much, for how long – one way of reducing the risk is to take a passive approach to investing. There continue to be discussions within the fund management industry and trade press about how much value one can obtain from active fund management, bearing in mind it has a given cost. There is no right, definitive answer, primarily because this is a moving feast so to speak!

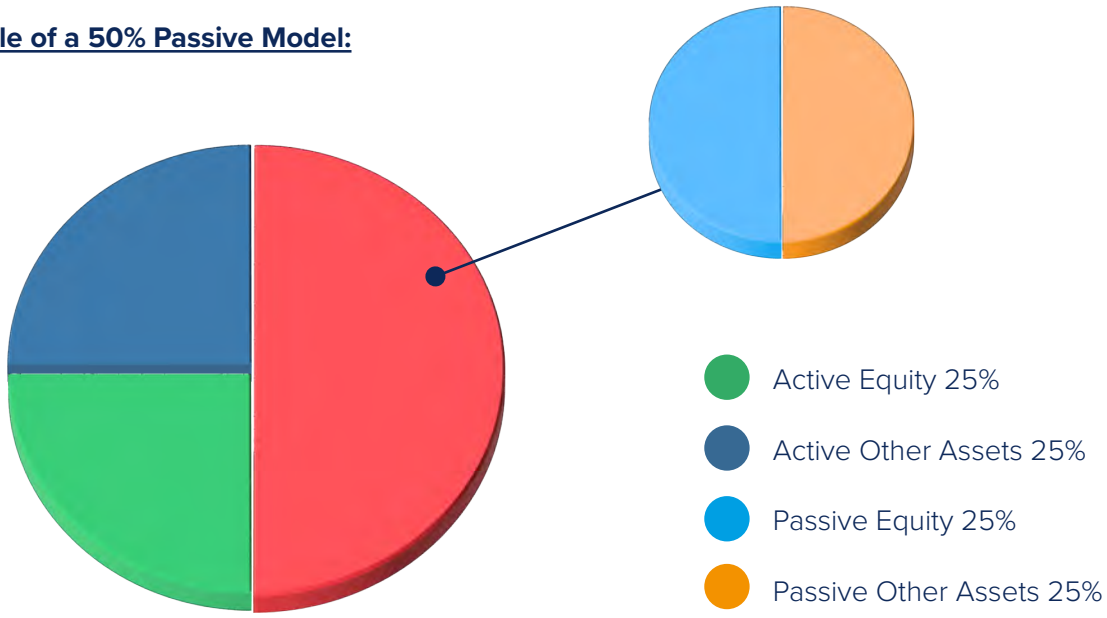
At Patterson-Mills Financial Planning, in assessing your attitude to investment risk and overall strategic objectives – whether this be for ISA, other investment funds or UK or overseas pension funds – we take a pragmatic approach. We view it as important not to claim that either active management is a panacea, or that passive investment is simply the only way to obtain close to market-driven returns for any given asset class.

Instead, we offer four versions of each of our main 6 risk-graded Model Portfolio approaches.

This approach is straightforward and aimed at you choosing to meet you chosen investment returns and volatility levels, with a truly bespoke diversification and downside risk management that suits you best.

Portfolios can be focused on Environmental, Social Governance (ESG) aspects, with specific concentration on Sustainable, Responsible Investing (SRI).

Example of a 50% Passive Model:



Environmental / Sustainable Investing

At Patterson-Mills, we are Members of the UK Sustainable Investment & Finance Association (UKSIF) **(click for more info)**. All our own portfolio recommendations now include details, discussion and analysis of how ESG and an SRI approach is of benefit to all Investors.

ESG - Corporate Engagement and Shareholder Action: also known as 'stewardship'

This strategy is the active use of shareholder power to influence corporate behaviour, including through direct corporate engagement (i.e. communicating with senior management and/or boards of companies), filing or co-filing shareholder proposals, and proxy voting guided by comprehensive ESG guidelines.

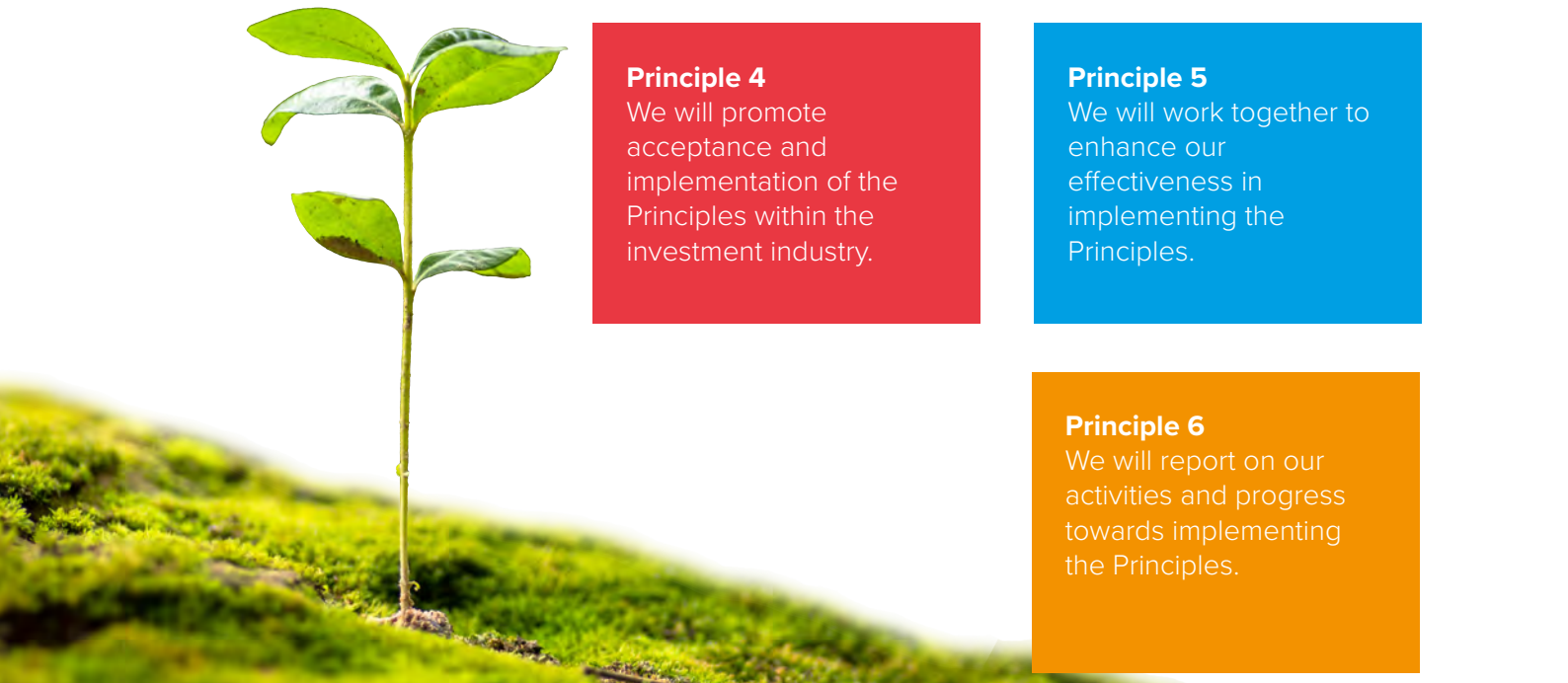
As Investment Advisers, we have a duty to act in the best long-term interests of all beneficiaries. In this advisory role, we believe that environmental, social, and corporate governance (ESG) factors can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions and asset classes and through time).

Therefore, as an investment advice business, Patterson-Mills also believes it has a responsibility to its Private Clients and Corporate Clients alike, in connection with this ever-important area of ESG. We have set down the following principles for the Patterson-Mills IMA to follow, as identified by the PRI Association **(click to view).**

Principle 1
We will incorporate ESG factors into investment analysis and decision-making processes.

Principle 2
We will be active owners and incorporate ESG factors into our ownership policies and practices.

Principle 3
We will seek appropriate disclosure on ESG factors by the entities with whom we deal at any investment level.



Principle 4
We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5
We will work together to enhance our effectiveness in implementing the Principles.

Principle 6
We will report on our activities and progress towards implementing the Principles.

SRI – Sustainable Responsible Investment: investing is not just excluding undesirable stocks, although that is one way to do it.

There are many strategies used by fund managers that are available and the key strategies are:

Negative / Exclusionary Screening

The exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG (environmental, social and governance) criteria.

Positive / Best-In-Class Screening

Investment in sectors, companies or projects selected for positive ESG performance relative to industry peers.

Norms-Based Screening

Screening of investments against minimum standards of business practice based on international norms, such as those issued by the OECD, ILO, UN and UNICEF.

ESG Integration/Responsible Investment

The inclusion of environmental, social and governance factors into financial analysis as a means to assess and reduce financial risk.

Sustainability Themed Investing

Investment in themes or assets intentionally supportive of sustainability goals such as the Sustainable Development Goals (for example clean energy, water, gender balance or sustainable agriculture).

Impact

Impact investments are investments made with the intention to generate positive and easily measurable social and environmental impacts alongside a financial return.

Ethical

Ethical investments are usually exclusionary and are strongly values driven. Ethical investors will often risk lower returns to ensure their money is aligned with their values.

Many funds use more than one strategy at a time to maximise their positive impact and deepen their protection of investment value.

We detail the full analysis and options around the key aspects relating to ESG-SRI (Environmental, Social Governance and Sustainable, Responsible Investment). This also includes multiple risk-graded strategies, as well as showing the appropriate investments, demonstrating the degree of a positive impact your investing could produce, as measured by reference to the UN 17 Sustainable Development Goals **(click to view)**.

Our Investment Philosophy

This is our Investment Philosophy. It describes our approach to the provision of investment advice. It outlines our beliefs about investment which form the foundations of how we manage your money. It also has details about how you are involved with the decisions about investing; after all it is your money.

If you don't understand anything here please ask us, there is no such thing as a silly question when it comes to looking after your money!

Our Beliefs

#1 Investors should understand the reasons for investing and how their portfolio is designed to meet their goals

The world of investing can be complex and often not transparent. We believe in keeping things simple. So while there is a lot of science and evidence behind our investment philosophy and process, we are keen that every Client understands our recommendations and how they fit with their own financial objectives.

The first step of any investment philosophy is to understand the customer's needs. We explore this via a conversation with you and look into factors such as:

- Your need for capital security
- Your age
- Your family commitments
- The need for income and / or growth and any future regular income needs
- Whether there is a specific item that needs funding e.g. school fees
- Your investment time horizon
- Your exposure to interest rate risk and inflation risk
- The impact of charges and penalty fees
- Your attitude to risk, risk tolerance and capacity for loss

When delivering investment advice, we always start with a detailed understanding of your financial planning objectives. These inform decisions about the level of investment risk that needs to be taken.

#2 A conversation about risk and its many dimensions is the essential first step when investing

When it comes to investing, risk and reward are inextricably entwined. Don't let anyone tell you otherwise. **All investments involve some degree of risk - it's important that you understand this before you invest.**

The reward for taking on risk is the potential for a greater investment return. If you have a financial goal with a long time horizon, you are likely to do better by carefully investing in asset categories with greater risk, like equities, rather than restricting your investments to assets with less risk, like cash. On the other hand, investing solely in cash investments may be appropriate for short-term financial goals.

To help understand risk we break it down into four elements:

1) Investment Risk

These are the risks associated with different types of investment. There are many different risks (and rewards) but common ones include: volatility – the ups and downs; liquidity risk – can you get your money back when you need it; company risk – the risk that one company goes bust; default risk – the risk that a bond doesn't pay you back; emerging market risk – the fact that some markets are less efficient and transparent.

2) The Need for Risk

All these risks might start to put you off. But even investing in cash carries risk e.g. inflation risk – your spending power goes down; default risk – your deposits may not be 100% safe. For some investors, and certainly for short term savings, cash is still likely to be the best fit with your needs and objectives.

3) Your Attitude to Risk

Risk attitude has more to do with the individual's psychology than with their financial circumstances. Some will find the prospect of volatility in their investments and the chance of losses distressing to think about. Others will be more relaxed about those issues.

4) Your Ability to Tolerate Risk / Accommodate Losses

If things go wrong what would that mean to your finances? You may be a risky investor but can you afford to be? You may be a risk adverse investor but are you saving enough? This is about understanding your ability to withstand the shocks that might come along with the aim of ensuring your portfolio meets your capacity for risk.

Generally speaking, a person with a higher level of wealth and income (relative to any liabilities they have) and a longer investment term will be able to take more risk, giving them a higher risk capacity.

Your ability to tolerate risk is very different to your attitude to risk – understanding this is a key part of our investment process. A conversation with you will help inform decisions about the level of investment risk that needs to be taken and that you can afford to take, rather than simply the maximum amount of risk that you feel happy with.

We will use a **specialist risk profiling tool** to help us establish the risk profile that is right for you. But we will also have a conversation with you about the profile to make sure that you understand what it means and how the profile needs to change to meet your particular situation. The great benefit of the tool is that it creates an unbiased view of your risk profile, and therefore is an excellent starting point for the conversation.

#3 Tax and access are important

Making investment tax efficient is a sensible objective and wherever we can we will try to reduce the tax your investments will pay. Use of pension wrappers and ISAs will assist in this objective.

We also use new technology platforms, known as wraps or fund supermarkets, to hold your investments. These offer safety, access to your valuations (so you can see how your investments are doing) and tax wrappers (pensions and ISAs for example). They also allow us to move your money between funds cost effectively if we need to in future.

#4 Investing for the long term is very different than saving for the short term

While there is an understandable desire to keep things safe when investing, the corrosive impact of inflation and thus the value of investing for the long term in more risky assets are compelling.

Real assets such as equities, property and commodities tend to make a better investment than the apparently safer option of cash deposits in the long run, but it isn't that simple.

In the last 50 years Equities have outperformed Gilts.

Table 1: Real returns (after inflation) over 50 years % pa

Asset Class	Return
UK Equities	5.3
Gilts	4.4
Cash	1.5

Source: Credit Suisse 2018

But it isn't the case over every time period – for example over the twelve most recent 10 year periods going back to 1902 (1902 – 1912, 1912 – 1922 etc.) – Equity returns were better than Gilts eight times, whereas Gilts beat Equities four times.

Our view is that basing investment decisions on the longer term historic behaviour of asset classes enables investors to participate in market growth. But that regular review is critical.

#5 The bulk of long-term returns come from asset allocation

Academics will continue to argue about the precise amount of value that comes from strategic asset allocation rather than stock selection, investment style or market timing, but it is widely accepted that asset allocation has the biggest influence over the variance in portfolio returns.

- Strategic Asset Allocation 70%
- Monitoring Review and Updating 20%
- Individual Security Selection 10%

(See Appendix A)

This means that investors and their advisers should be devoting the bulk of their effort to constructing the most **suitable asset allocation model,** based on individual investment objectives and individual attitude towards investment risk. This is where we focus our attention when delivering investment advice.

It's like making a cake. The most important part is making sure you have the right amount of flour, eggs, butter etc. rather than worrying whether the ingredients come from Harrods or the corner shop.

We use the **risk profiling tool** to propose a suitable asset allocation to meet your needs based on long term historic information. We will discuss this with you to make sure that you are comfortable with the recommendations.

#6 Diversification using mainstream asset classes can reduce risk without destroying returns

Diversification is a strategy that can be neatly summed up by the timeless adage "Don't put all your eggs in one basket." The strategy involves spreading your money among various investments with the intention that if one investment loses money, the other investments may more than make up for those losses.

A diversified portfolio should be diversified at two levels: **between asset categories and within asset categories.** So, in addition to allocating your investments among stocks, bonds, cash, and possibly other asset categories, you'll also need to spread out your investments within each asset category.

Investors may find it easier to diversify within each asset category through the ownership of mutual funds (unit trusts), rather than through individual investments from each asset category. A mutual fund is an investment vehicle that pools money from many investors and invests the money in stocks, bonds, and other financial instruments. Mutual funds make it easy for investors to own a small portion of many investments. A total stock market index fund, for example, may own stock in hundreds of companies. That's a lot of diversification for one investment.

We use specialist fund managers to build portfolios, which are diversified at both asset class and stock level. **But importantly they stay close to the asset allocation outcome which has been determined as appropriate for you.**

The use of these multi-asset approaches has the benefit of **"automatic rebalancing"** inside the fund wrapper. This means that the asset mix of these portfolios stays true to the asset allocation that meets your risk need, and is often conducted at lower cost than we can probably achieve by rebalancing it directly. Although we also re-balance as necessary to account for fund changes, internal re-balancing by fund managers is an important and often unrecognised benefit of using diversified fund holdings for portfolio management, as well as adding to cost- efficiency. Also, where the investments held are non-pension and non-ISA, the switching around of portfolios outside the general fund wrapper could lead to Capital Gains Tax (CGT) liability and so that risk is reduced or removed.

#7 Costs are certain and returns are not – so they deserve your attention

Costs are certain and fund performance is not – it therefore makes sense to reduce costs wherever it is safe to do so. One of the major issues in fund management is that not all the costs are transparent.

There are three main costs to investing in funds:

1) The Annual Management Charge (AMC) – the fee that the manager charges

2) The Total Expense Ratio (TER) – the AMC plus legal, audit, depositary, safe custody and other costs

3) Trading costs – the costs of buying and selling the investments inside a fund. These include stamp duty, bid / offer spreads, stockbroker commissions, the costs of settling transactions etc.

Even though TERs are not the whole cost of running a fund, they are a powerful predictor of fund returns.

Morningstar (a large global fund ratings agency) conducted analysis in August 2010 to identify the best historic predictors of performance. The results are remarkably clear:

If there is anything in the whole world of mutual funds that you can take to the bank, it's that expense ratios help you make a better decision

In every time period and every data point tested, low cost funds beat high costs funds

Expense ratios are strong predictors of performance. In every asset class over every time period, the cheapest quintile produced higher total returns than the most expensive quintile

Understanding and seeking to reduce costs where safe to do so is a key part of our investment process.

#8 Active management and passive strategies can both play a valuable role

There is a role for active (where the fund manager tries to beat the market, but incurs higher costs), and passive funds (which track the index at low cost) within a well-managed investment portfolio.

Rather than take an evangelical view of one option over the other, we appreciate that there are arguments for both approaches and accordingly we include both strategies in the portfolios we recommend.

Our preferred approach is to use passive funds to form the core of an investor's portfolio. In some cases the whole portfolio will be constructed from passive funds, especially with smaller portfolios to maximise effective diversification, and at lower risk profiles. As a customer's risk profile increases we may add active funds which have the potential for higher returns, though the costs will be higher and the risk of not matching the performance of the asset profile will be increased.

To use the jargon – **this is about optimising your governance and risk budget** – or more simply tailoring the best solution to your needs and financial goals.

#9 Investment success comes from the consistent application of a robust process

There are numerous ways to approach the construction and on-going management of an investment portfolio. Without the application of a robust process, the emotional aspects of investing can prevent investors from making the best decisions. As a firm, we consistently apply a multi-stage investment advice process designed to deliver suitable advice to every Client. **The outcome is tailored to meet individual objectives but the process itself is always the same.**

As with any plan we need to regularly review progress to make sure we are on track. We will discuss and agree with you the best way to achieve this.

#10 Success is often about the things you don't do as much as the things you do

We have some simple rules that we apply to all portfolios unless the Clients specifically request a different approach:

- No individual bonds / shares
- No direct hedge funds
- No direct unauthorised funds
- Only use funds run by FCA regulated managers
- We use expert analysts to help assist in selecting risk managed portfolios

Risk Warnings

This page cannot disclose all the risks and other significant aspects of our investment products and services. You should satisfy yourself that you fully understand the conditions which apply to such investment products and services and the potential risk exposures.

This page cannot disclose all the risks and other significant aspects of our investment products and services. You should satisfy yourself that you fully understand the conditions which apply to such investment products and services and the potential risk exposures.

All investments carry risk. These are a few of the important ones:

- The risk that the buying power of your capital decreases over time
- The risk that the growth you experience is variable
- The risk that you might get back less than you invested
- The risk that you do not achieve one of your objectives
- The past is not a guide to future performance and past performance may not necessarily be repeated

You should not invest in any investment product or agree to receive any investment service unless you understand the nature of the contract you are entering into and the extent of your exposure to risk. You should also be satisfied that any product or service is suitable for you in light of your financial position and investment objectives and, where necessary, you should seek appropriate independent advice in advance of making any investment decisions.

Risk factors may occur simultaneously and may compound each other resulting in an unpredictable effect on the value of any investment. The value of investments and the income from them can fall as well as rise and you might lose the original amount invested. Fluctuations in such value and income can result from factors such as market movements and variations in exchange rates.

Appendices

Appendix A

Three academics, Brinson, Hood and Beebower (1986, Financial Analysts Journal), who studied the performance of 91 large US pension plans between 1974 and 1983, analysed the impact of key decisions made by investment managers: long term asset allocation (i.e. 60% in equities, 40% bonds), stock picking and short-term tactical changes to the asset mix. The results concluded that 80% - 90% of return and risk in a given fund was determined by the long-term asset mix, with both stock picking and short term tactical changes having a negligible impact.

This research was further supported by additional analysis by Kaplan et al in 2000 and yet again by Ibbotson et al in 2010. See next page for further explanation.

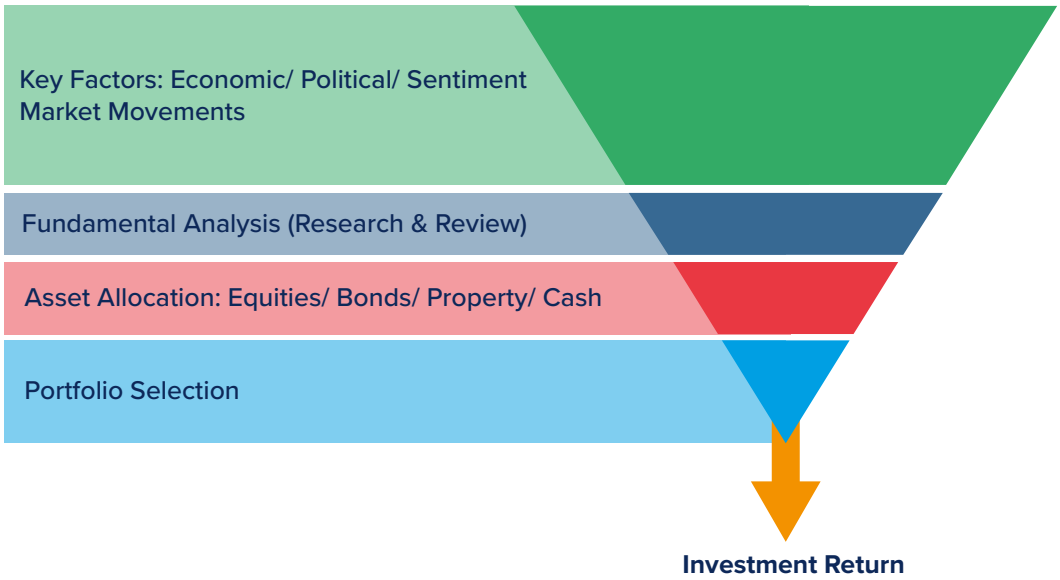
Appendix B

How Relevant is Asset Allocation?

In constructing an ideal investment Portfolio, studies have shown that general market movement is the most important factor in determining future returns (between 70% - 80%). However, fundamentally, any positive difference to returns, relative to markets, emanates from the success of the underlying analysis and choice of asset allocation, together with the stock / security choices made by individual fund managers. These combined factors govern whether the 'actively managed return' is above 'the benchmark return' (i.e. your fund managers' returns -v- that of the relevant market Indices' returns, allowing for management costs).

The inverted pyramid diagram is intended to reflect how your final investment return is generated by way of fundamental analysis of the key factors surrounding economic, political and market sentiments and specific asset allocation*. The conclusion, perhaps somewhat disappointingly, is that merely around 10% of your final investment return is generated from the specific stock selection within your Portfolio and the same for asset allocation decisions.

This 'investor conundrum' demonstrates that individual stock-picking and self- managing that some private investors undertake is, quite frankly, simply a gamble, without remotely the depth of research available to fund management houses. Instead, having a well defined, measurable and consistent approach to investment management is essential. Vitally, good, active fund management with pro-active asset allocation has been shown to beat benchmark indices over the longer term.



(From research conducted in the US by Brinson, Hood and Beebower 1986 and subsequent papers by Ibbotson and Kaplan in 2000, updated by Xiong, Ibbotson, Idzorek & Chen in 2010 for CFA Institute of North America)

PATTERSON-MILLS

INDEPENDENT FINANCIAL ADVISERS & CHARTERED FINANCIAL PLANNERS

For more information please visit **pattersonmills.com** or
contact us at **info@pattersonmills.com**