The Financial Planning Group

Investment Strategy

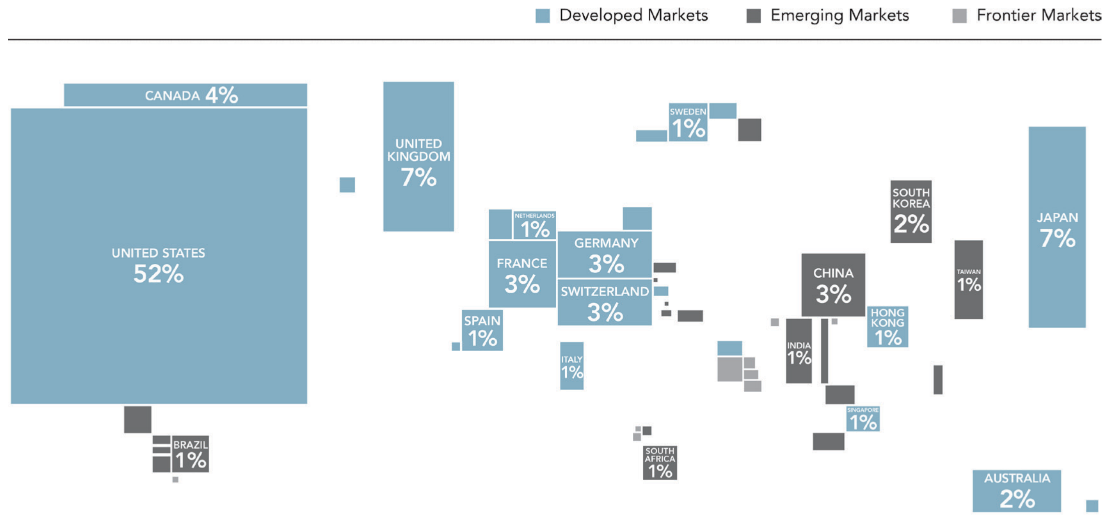
Welcome

Markets Work

Very few people are able to make consistently accurate estimates over a reasonable period of time so we do not use predictions about markets or prices in our portfolios. This principle applies across our investment philosophy which means we do not buy individual shares we think will outperform the market, or weight investments towards countries or regions we expect to do well. Instead we use investment funds with broad exposure to the whole market and allocate assets to countries in proportion to their relative size in the global market.

There's a World of Opportunity In Equities

Percent of world market capitalisation as at December 31, 2014



Market cap data is free-float adjusted from Bloomberg securities data. Many nations not displayed. Total may not equal 100% due to rounding. For educational purposes; should not be used as investment advice. China market capitalization excludes A-shares, which are generally only available to mainland China investors.

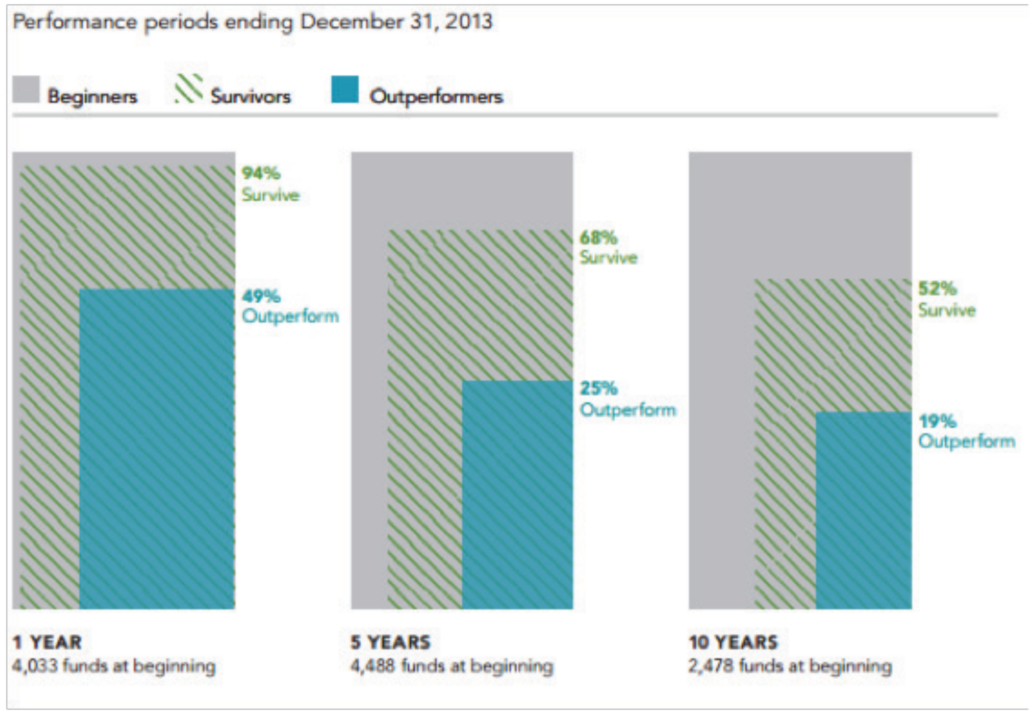
We therefore believe that...

- Passive investment strategies reward investors with capital market returns.
- Active management strategies cannot consistently add value through security selection and market timing.

Active vs Passive Style

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.

There is considerable evidence that active managers, on average, fail to outperform their benchmarks. The chart below illustrates the findings of a study of the US fund market. It shows that only 19% of investment funds survive and outperform the market over a ten-year period.



Similar studies of the European market find the same. Without prior knowledge of which funds will survive and outperform, investors have only a small chance of selecting successful funds.

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.

The investment philosophy utilised in our portfolios is passive to the extent that these portfolios are not making judgments on the relative merits of one investment over another, but are not satisfied with passively accepting the average market return for investors. The 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 relative to passive approaches.

Costs 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 beings equal, we seek the most cost-efficient route to market returns.

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

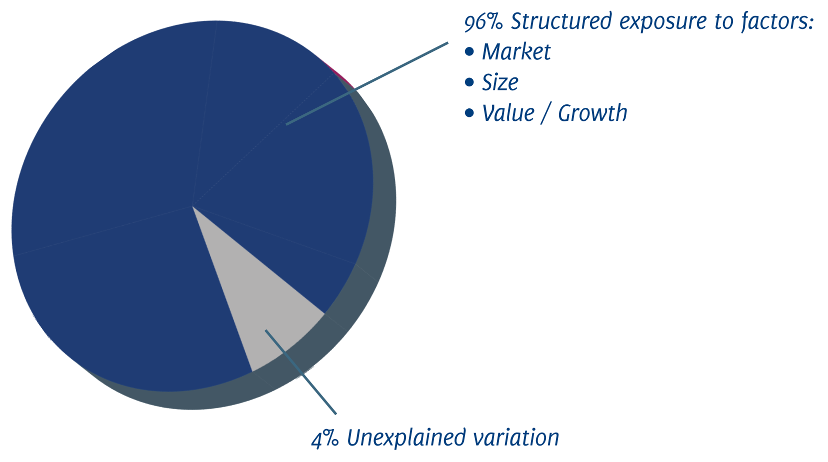
'Most investors, both institutional and individual, will find that the best way to own common stocks is through an index fund that charges minimal fees.'

Warren E. Buffett – Chairman and CEO, Berkshire Hathaway, Inc..

Three Factor Model

In the early 1990s, research carried out by Nobel prize winning Economist Eugene Fama and Kenneth French showed that the following three factors explain more than 96% of the variations of investment return:

- Returns from shares are expected to be higher than from fixed income.
- Small company shares (measured by market capitalisation) have a higher expected return than large company shares.
- Lower priced, out of favour, value shares have a higher expected return than higher priced growth shares (measured by the ratio of a company's book value to its market value).

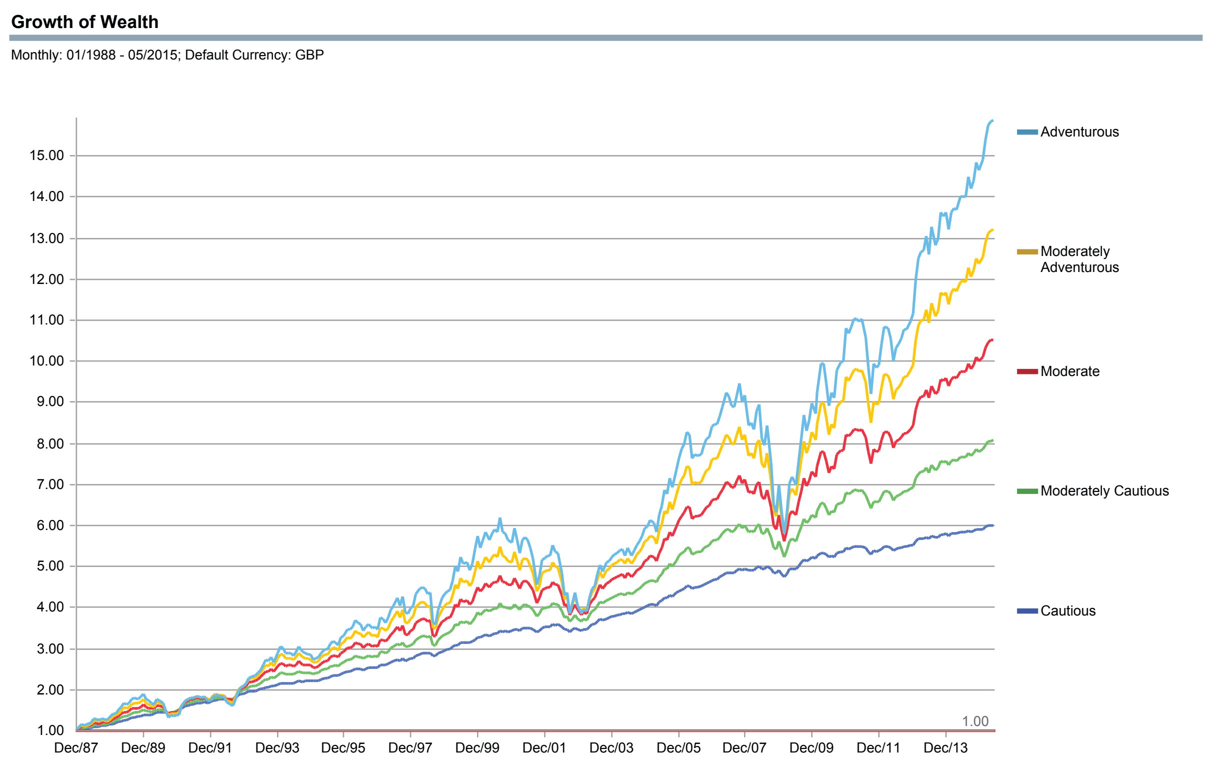


Risk and Return are Related

Our portfolios demonstrate that it is impossible to improve your investment return without taking more risk.

In other words, the potential for financial loss you expose yourself to in taking a risk is also the reason you earn a return. There is desirable risk and non-desirable risk and higher exposure to the right risk factors leads to higher expected returns, but there is no guarantee of achieving this. Risk is the premium investors pay for the expectation of a greater return.

Our portfolios have sought to identify which risks offer consistently higher expected returns and which do not, and offer you exposure to desirable risks in a structured, disciplined and cost effective way.



Performance data represents past performance. Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. Graph represents a hypothetical investment of £1. Performance includes reinvestment of dividends and capital gains.

Diversification is Essential

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

Diversifying investment portfolios using different asset classes can reduce the level of risk and help to maximise investment return. Diversification is a strategy that can be neatly summed up by the timeless adage "Don't put all your eggs in one basket."

The chart below illustrates that any one asset class does not always consistently outperform the others each year, so it is important to have a diversified portfolio.

Equity Returns of Developed Markets

Annual Return (GBP, %)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Highest Return	Belg. 59.9	Austria 130.2	UK -8.2	H.K. 54.1	H.K. 63.5	H.K. 121.7	Norw. 16.9	Switz. 45.4	Spain 26.6	Switz. 50.3	Belg. 65.9	Sing. 105.4	Switz. 14.5
	Denm. 58.9	Germ. 65.1	H.K. -9.2	Austra. 37.7	Switz. 44.9	Sing. 71.8	Japan 14.9	USA 38.4	Swed. 24.1	Italy 41.2	Italy 50.8	Swed. 85.1	Can. 13.9
	Swed. 54.4	Norw. 64.3	Austria -11.5	USA 34.0	USA 31.5	Switz. 49.2	Swed. 11.9	Swed. 34.6	H.K. 20.3	Denm. 40.2	Spain 48.2	Japan 66.4	Denm. 11.8
	Norw. 48.3	Denm. 62.5	Norw. -16.2	Sing. 28.8	Sing. 31.4	Norw. 45.3	Neth. 5.7	Spain 31.0	Norw. 16.3	USA 39.0	Fran. 40.0	H.K. 64.3	Norw. 7.2
	Fran. 43.5	Sing. 60.6	Denm. -17.5	Fran. 21.4	Fran. 27.1	Swed. 40.2	Italy 5.5	Neth. 28.9	Can. 16.2	Spain 30.7	USA 28.7	Can. 58.3	Italy 6.7
	Austra. 42.0	Fran. 53.7	USA -19.4	Neth. 21.4	Neth. 26.4	Germ. 38.8	Belg. 2.4	Belg. 27.0	Neth. 15.3	Germ. 29.8	Germ. 28.0	Norw. 35.6	Neth. 3.7
	Japan 41.0	Neth. 53.3	Neth. -19.4	Denm. 20.1	Belg. 21.8	Neth. 38.4	Sing. 0.9	H.K. 23.7	UK 15.2	Neth. 29.0	Switz. 22.2	Fran. 33.1	Fran. 3.5
	Sing. 38.8	Swed. 48.8	Switz. -22.0	UK 19.5	UK 19.1	Austra. 38.3	Austra. -0.3	UK 22.4	USA 11.4	UK 27.8	Neth. 21.9	USA 25.6	Austra. -2.6
	H.K. 33.4	USA 46.8	Germ. -24.6	Switz. 19.3	Germ. 10.9	Denm. 35.9	Germ. -1.0	Denm. 19.9	Denm. 10.1	Belg. 18.3	UK 16.5	Germ. 23.6	UK -4.3
	Germ. 25.6	Switz. 42.5	Belg. -25.9	Spain 19.2	Austria 10.4	Spain 32.8	Denm. -1.8	Can. 19.4	Fran. 9.6	Swed. 17.6	Swed. 12.7	Austra. 21.1	Austria -4.8
	Can. 21.9	Can. 40.3	Sing. -26.5	Swed. 17.9	Austra. 10.2	Italy 31.5	Switz. -2.1	Germ. 17.5	Austra. 5.3	Can. 17.5	Denm. 7.8	UK 15.8	USA -5.8
	USA 19.3	UK 37.6	Can. -27.6	Belg. 17.2	Can. 8.6	Austria 31.1	USA -4.3	Fran. 15.1	Germ. 2.7	Fran. 16.6	Austra. 4.9	Denm. 15.4	H.K. -7.8
	Neth. 18.9	Italy 34.8	Fran. -28.3	Can. 14.5	Swed. 5.8	Japan 28.4	UK -6.9	Austra. 12.2	Italy 1.8	Norw. 10.7	Japan 3.9	Neth. 10.1	Germ. -8.7
	Spain 18.2	Belg. 32.4	Spain -28.3	Japan 12.2	Japan -2.9	UK 27.3	Can. -8.3	Sing. 7.4	Belg. 1.3	Austria 5.8	Austria -0.8	Spain 8.0	Spain -9.0
	Italy 16.0	Spain 23.9	Austra. -31.4	Germ. 11.5	Spain -3.4	Belg. 26.4	Spain -9.9	Norw. 7.0	Austria -5.5	Austra. -6.7	H.K. -4.0	Italy 2.7	Belg. -10.1
	Switz. 10.5	Austra. 23.4	Italy -32.8	Italy 1.2	Italy -3.9	Fran. 23.7	Fran. -10.3	Italy 2.0	Switz. -7.5	H.K. -20.1	Can. -7.2	Switz. -4.2	Swed. -14.9
	UK 10.3	H.K. 22.3	Swed. -34.3	Austria -9.6	Norw. -4.0	Can. 20.3	Austria -11.3	Japan 1.6	Sing. -15.8	Japan -20.5	Sing. -13.8	Austria -6.4	Sing. -21.8
Lowest Return	Austria 4.7	Japan 14.8	Japan -46.8	Norw. -12.9	Denm. -11.3	USA 11.7	H.K. -32.7	Austria -3.9	Japan -23.6	Sing. -27.1	Norw. -30.8	Belg. -11.7	Japan -22.3

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Highest Return	Austra. 4.3	Austria 5.3	Swed. 48.0	Austria 59.9	Can. 43.2	Spain 31.2	H.K. 38.9	Japan -1.8	Norw. 66.5	Swed. 38.6	USA 1.8	Belg. 33.4	USA 29.3
	Austria -3.2	Austra. -10.8	Germ. 47.3	Belg. 33.8	Japan 40.1	Sing. 28.9	Germ. 33.0	Switz. -3.6	Austra. 57.1	Denm. 35.4	UK -2.2	Denm. 25.5	Germ. 28.9
	Belg. -8.6	Norw. -16.2	Spain 42.5	Norw. 29.0	Austria 39.1	Norw. 27.5	Norw. 29.3	USA -13.4	Sing. 54.8	H.K. 27.7	Switz. -6.4	Sing. 25.2	Spain 28.8
	Spain -9.0	Italy -16.2	Austria 41.2	Swed. 27.1	Denm. 38.9	Swed. 26.0	Can. 27.4	Spain -17.6	Swed. 46.1	Sing. 26.5	Norw. -9.7	Germ. 25.1	Neth. 28.8
	Norw. -9.9	Japan -18.9	Can. 39.0	Italy 23.5	Norw. 38.7	Denm. 21.9	Sing. 26.2	Fran. -21.3	H.K. 42.6	Can. 24.8	Belg. -10.3	H.K. 22.6	Belg. 25.2
	USA -10.1	Switz. -18.9	Austra. 34.4	Denm. 22.0	Switz. 29.8	Belg. 20.1	Austra. 26.2	Can. -24.5	Belg. 40.2	Japan 19.6	Austra. -10.6	Austria 20.4	Japan 24.7
	UK -11.8	Sing. -19.6	Denm. 34.2	Austra. 21.5	Austra. 29.5	Austria 20.0	Denm. 23.5	Germ. -24.9	Can. 39.0	USA 18.9	Neth. -11.8	Austra. 16.7	Switz. 24.2
	Denm. -12.6	Can. -21.5	Norw. 33.2	Spain 20.2	Sing. 27.6	Germ. 19.5	Spain 21.9	Sing. -27.0	Spain 27.7	Austra. 18.6	Spain -11.9	Swed. 16.6	Fran. 23.9
	H.K. -16.5	Belg. -23.1	Fran. 26.1	H.K. 16.5	Neth. 27.0	Fran. 18.2	Neth. 18.6	Denm. -27.3	UK 27.6	Switz. 15.8	Can. -12.4	Fran. 16.0	Denm. 22.9
	Can. -18.3	UK -23.4	H.K. 24.2	Sing. 14.0	Swed. 23.1	Italy 16.4	Fran. 11.4	Neth. -28.2	Austria 27.5	Norw. 14.9	Japan -14.0	Neth. 15.3	Swed. 22.1
	Switz. -19.3	Spain -23.4	Italy 23.9	Can. 13.9	Germ. 22.7	Neth. 15.4	UK 6.6	UK -28.4	Neth. 26.6	Austria 13.8	Swed. -15.7	Switz. 15.1	UK 18.4
	Neth. -20.1	Denm. -24.1	Sing. 23.7	UK 11.5	Fran. 22.6	Austra. 15.0	Italy 4.3	Swed. -30.5	Denm. 21.6	UK 12.7	Denm. -15.7	Norw. 13.4	Italy 18.1
	Fran. -20.3	H.K. -25.7	Japan 22.2	Fran. 10.5	Belg. 21.7	UK 14.8	USA 3.7	Italy -30.6	Fran. 17.4	Germ. 12.3	H.K. -15.7	USA 10.3	Austria 11.3
	Germ. -20.3	Neth. -28.4	Belg. 21.7	Germ. 8.3	H.K. 21.0	H.K. 14.5	Switz. 3.6	Austra. -31.6	Italy 12.7	Neth. 5.4	Fran. -16.5	UK 10.2	H.K. 9.0
	Sing. -21.4	Fran. -28.8	Switz. 20.6	Japan 8.0	UK 19.8	Switz. 11.9	Austria 0.5	H.K. -32.4	USA 12.4	Belg. 3.2	Sing. -17.6	Italy 7.5	Norw. 7.3
	Italy -24.7	USA -30.5	UK 18.8	Switz. 7.2	USA 17.3	Can. 3.5	Swed. -1.0	Norw. -50.4	Switz. 11.5	Fran. -0.7	Germ. -17.8	Can. 4.3	Can. 3.6
	Swed. -25.3	Swed. -37.2	USA 15.5	Neth. 4.7	Spain 16.5	USA 0.8	Belg. -4.3	Belg. -53.5	Germ. 11.4	Italy -11.9	Italy -22.9	Japan 3.4	Austra. 2.2
Lowest Return	Japan -27.6	Germ. -39.6	Neth. 15.2	USA 2.7	Italy 13.7	Japan -6.6	Japan -5.8	Austria -56.2	Japan -5.4	Spain -19.1	Austria -36.2	Spain -1.5	Sing. -0.2

Source: MSCI developed markets country indices (net dividends) with at least 25 years of data. MSCI data copyright MSCI 2014, all rights reserved.
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Market Timing

We believe no one can predict the timing of market performance. Remaining fully invested over the long term greatly increases the chances of capturing capital market returns.

The chart below illustrates the impact of making a wrong call on the markets, by missing out on the periods that provided the best investment return, as measured by the performance of the FTSE All Share Index.

Performance of the FTSE All Share Index
January 1986 - December 2014

FTSE data published with the permission of FTSE.
Long-Term Govt. Bonds are the Citigroup World Government Bond Index UK 1-30+ Years, copyright 2015 by Citigroup.
Past performance is no guarantee of future results.

Risk Profile

A definition of *Risk Profile* is the level of risk an individual is prepared to accept, in order to try and achieve a desired investment return.

In establishing the risk profile, we take into account the following factors:

Time Horizon
The amount of time the client is prepared to accept investment risk.

Risk Required
The level of risk a client may need to take in order to achieve their financial planning objectives.

Attitude to Risk
A client's general attitude to risk is one of the key influences that will determine the eventual Risk Profile. It relates to their tolerance for the ups and downs that come with investing in higher risk assets, such as stocks and shares.

To assist us with this exercise, we use internationally recognised psychometric testing.

Capacity for Loss
A clients' ability to absorb falls in the value of their investment portfolio.

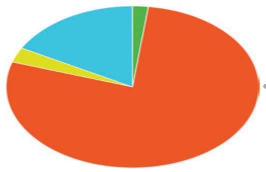
In other words whether any loss of capital has a detrimental effect on a clients' standard of living, if so, this should be taken into account in assessing the risk they are able to take.

Risk Related Portfolios

Model Performance Statistics

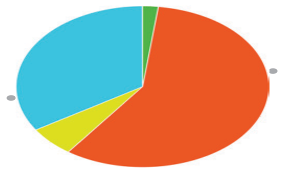
CAUTIOUS

The objective of this portfolio is to provide capital preservation by investing in a portfolio of primarily bonds. It is designed for those who have a substantially lower tolerance for portfolio fluctuations.



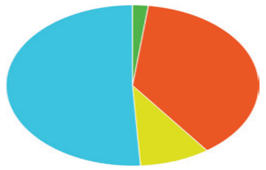
MODERATELY CAUTIOUS

The objective of this portfolio is to provide capital preservation and limited growth by investing in a portfolio of primarily bonds with some shares. It is designed for those who have a lower tolerance for portfolio fluctuations.



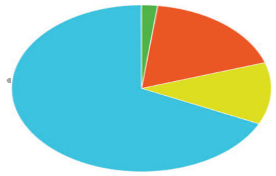
MODERATE

The objective of this portfolio is to provide some long-term growth by investing in both bonds and a greater allocation to shares. It is designed for those who have a moderate tolerance for portfolio fluctuations.



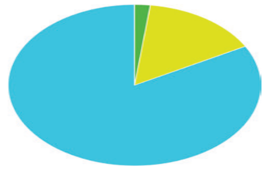
MODERATELY ADVENTUROUS

The objective of this portfolio is to provide long-term growth. It is designed for those interested in maximising growth potential and willing to assume a higher level of risk to potentially achieve greater returns. These investors should have a long-term investment horizon and be able to withstand significant fluctuations in portfolio value.



ADVENTUROUS

The objective of this portfolio is to maximise long-term growth potential. It is designed for those willing to assume a higher level of risk to potentially achieve greater returns. These investors should have a long-term investment horizon and be able to withstand sizable fluctua-



INVESTMENT SPLIT

ASSET CLASS 01/1988 - 05/2015	CAUTIOUS	MODERATELY CAUTIOUS	MODERATE	MODERATELY ADVENTUROUS	ADVENTUROUS
CASH	2	2	2	2	2
FIXED INCOME	78	58	38	18	0
UK EQUITIES	3	6	9	12	15
INTERNATIONAL EQUITIES	17	34	51	68	83
ONE-YEAR TOTAL RETURN (%)	2.94	5.50	8.06	10.64	13.26
THREE-YEAR ANNUALIZED RETURN (%)	3.63	6.86	10.11	13.37	16.62
FIVE-YEAR ANNUALIZED RETURN (%)	2.61	4.75	6.85	8.91	10.92
TEN-YEAR ANNUALIZED RETURN (%)	3.82	5.47	7.02	8.46	9.78
TWENTY-YEAR ANNUALIZED RETURN (%)	4.96	6.04	7.04	7.94	8.71
ANNUALIZED RETURN (%) 01/1988 - 05/2015	6.76	7.92	8.96	9.87	10.61
ANNUALIZED STANDARD DEVIATION (%) 01/1988 - 05/2015	3.20	6.19	9.27	12.40	15.60
GROWTH OF WEALTH 01/1988 - 05/2015	6.00	8.07	10.52	13.21	15.87
LOWEST ONE-YEAR RETURN (%)	-3.38	-10.64	-17.82	-24.84	-31.61
HIGHEST ONE-YEAR RETURN (%)	20.59	28.79	41.42	55.08	69.73
LOWEST THREE-YEAR RETURN (%)	1.42	-2.11	-5.53	-8.96	-12.52
HIGHEST THREE-YEAR RETURN (%)	15.40	17.16	21.36	25.56	29.73

Portfolio Rebalancing

The different asset classes in your portfolio should not all perform well or badly at the same time. The different timings of their types of performance is useful to the portfolio as a whole because it means that you are diversified.

Shares, for example, might perform better over a given time period than bonds. This would mean that the proportion of the total portfolio that is made up of shares increases from the initial proportion. At the same time, the proportion of bonds in the portfolio would, in this example, have reduced.

This is perfectly natural as the capital markets move up and down in relation to each other. However, the danger is that the portfolio may *drift* so far away from the initial proportions of asset classes that the portfolio is exposed to more or less risk than we initially designed it to be.

In order to safeguard against this, it is necessary for us to sell some of the asset class(es) that have performed relatively well, and also buy some of the asset class(es) that haven't performed so well. We call this process 'rebalancing'.

We have reviewed a number of available rebalancing processes and have a framework that we use to decide which is the best process for your portfolio.

We have decided to adopt a time-based rebalancing process. This means that every year we will sell and buy the necessary asset classes, so that the asset classes in your portfolio are returned to their initial proportions.

Chartered Financial Planners

The Financial Planning Group are proud to announce that the company have attained Chartered Financial Planner status – recognition that we adhere to a strict code of conduct and a commitment to ongoing professional development.

The object of the ethical code is to ensure that all our members act in the best interests of clients, of the society and the profession.

All Chartered Financial Advisors have completed degree level professional qualifications and have at least five years experience – Chartered status is the profession's gold standard for financial planners.

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