# PROCESS DOCUMENT

CLAIRVILLE YORK FINANCIAL ADVISERS

## PORTFOLIO CONSTRUCTION

### ATTITUDE TO RISK

Having established your existing financial position and objectives we assess your attitude towards investment risk through:

- Completion of a bespoke multiple-choice questionnaire designed to assess:
    - Your understanding of investment risk and reward.
    - Your tolerance to short term fluctuations in value, i.e. volatility.
    - The overall level of risk you are prepared to accept in order to achieve your financial objectives.
- Self-selecting your investment experience risk rating from our descriptive table.

We then use your self-selected risk rating to corroborate that generated from the multiple-choice questionnaire and confirm, or otherwise, your risk profile on our investment 'Richter' scale.

### ASSET CLASSES OR TYPES

Broadly speaking assets can be broken down into:

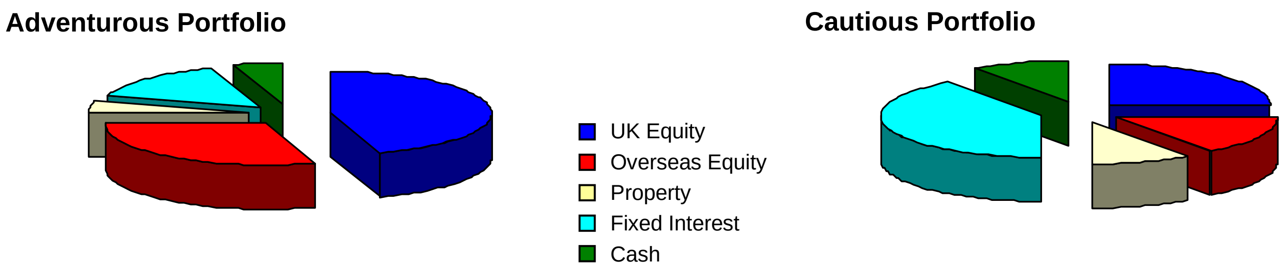
- Equities or Shares, Overseas and UK, larger and smaller companies.
- Fixed Interest Securities such as Government Bonds (Gilts) and Corporate Bonds.
- Property – bricks and mortar, UK and overseas.
- Cash – including Bank and Building Society Deposit Accounts and National Savings.

These have different characteristics and behave in different ways:

- Equities are predominantly for capital growth. Additionally, some, particularly those of larger more established companies, also pay dividends or income. Equities tend to be more volatile than the other asset types.
- Fixed Interest Securities main characteristic is to provide income. However, capital values increase and decrease in line with fluctuations in interest rates. They are typically less volatile than Equities.
- Property, commercial investment as opposed to residential, tends also to provide income in the form of rent. Again, the capital value fluctuates this time in line with demand.
- Cash or Deposits provide income and little or no capital growth. Whilst the least risky of the asset types its real value is eroded by the effects of inflation.

To create a balanced portfolio the different asset types are blended proportionally to match your risk profile and investment time scale. Adjusting the blend results in portfolios which exhibit different attributes. For example:

- More Fixed Interest and fewer Equities provides more of an income bias and typically lower volatility,
- Holding more Equities and less Fixed Interest typically delivers a greater prospect for capital growth and correspondingly more volatility.




### ASSET ALLOCATION

Using your risk profile and timescale we select the most appropriate of our predetermined asset allocation models. In reaching a final asset allocation recommendation we also take account of your existing assets and holdings.

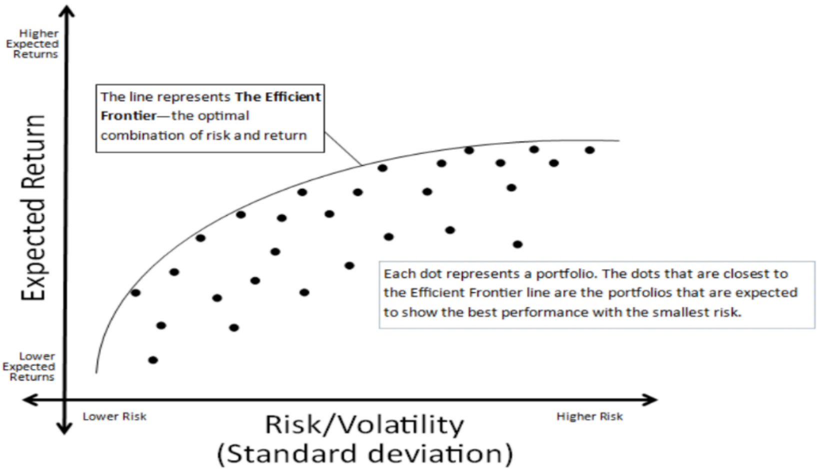
Our predetermined portfolios have been established by comparing 3 'Efficient Frontier' portfolio modelling tools and 2 industry standard models to create a consensus approach, which were then 'smoothed' or rounded.

These asset allocation models and the underlying calculations and assumptions are reviewed regularly, at least twice a year.

### EFFICIENT FRONTIER MODELING

The Efficient Frontier is where:

- Accounting for past and possible future returns on each asset type and investment sector, multiple portfolios are generated by making small adjustments to the asset and sector mix.
- Each of these slightly different portfolios is plotted on a chart showing its mathematically calculated likely return and level of risk taken to achieve the projected return.
- The optimal combination of risk and return, the Efficient Frontier, is represented by the solid line in the chart below.
- The optimal model portfolio is selected from the point on the Efficient Frontier that matches your assessed risk profile.




## DIVERSIFICATION

Diversification is achieved by:

- Blending asset types e.g. holding a proportion of Fixed Interest, Commercial Property and UK and Overseas Equities.
- Blending or spreading risk by holding two or more funds within each asset type, for example, combining funds that focus specifically on;
  - Larger companies with those that invest in Midcap or Smaller companies.
  - US, Europe, the Far East and Emerging Markets.
  - Growth funds and Income funds.

## CORRELATION

Correlation and non-correlation of holdings:

- Investments that move in unison are said to be correlated, for example, UK Equities/Shares which will all, to a greater or lesser degree, move in the same direction at the same time.
- To reduce risk in a portfolio, assets that are normally non-correlated should be blended. For example:
  - Far East Shares tend not to move in the same way as US Shares.
  - Fixed Interest Securities generally react differently to Equities/Shares.
  - Property is generally neither correlated with Fixed Interest or Equities.
- Mixing assets that are non-correlated also has the effect of reducing the overall risk of a portfolio.

## FUND SELECTION

Having determined a portfolio at the asset class and sector level, we research funds within each category to select those with the best credentials. See our separate document for details of our fund research and selection process.

We confine our recommendations to Collective Investment Funds rather than direct holdings in Shares or other Securities. Collective Investment Funds spread the risk by investing in a large number of Shares and/or Securities with the benefit of specialist fund management.

When reviewing portfolios, we revisit your risk profile and the corresponding prevailing optimal model asset allocation. Most importantly, we review the portfolio as a whole and not as individual holdings.

Periodically, for example due to a combination of, extreme events, unusual policy, over-exuberance or pessimism, the benefits associated with a comprehensive Portfolio Construction Process will be less effective. Historically such periods are short lived and cannot be reliably planned for.

*Clairville York Limited – Version 3.0. Updated November 2018*