HFS
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Our Investment Process

Deciding how best to invest your money can be daunting. With so many options available and so many uncertainties, 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.

The Horbury Financial Services Ltd 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 then to build and manage an investment portfolio to match.

By working through a series of logical steps, you will gain a better understanding of the reasoning behind our recommendations and confidence in the resulting choice of investments.

Our Philosophy

- Our investment philosophy and principles are used to help us to determine the most suitable portfolio for each customer.
- Understanding risk is important.
- Matching your portfolio to your risk profile is essential.
- Asset allocation is key to the success.
- Costs are important.
- Diversification (not putting all your eggs in one basket) is a sound principle.
- Funds are a cost effective way to access investments for many customers, though specialist managers may be appropriate in some situations.
- Listening to our customer's goals, aspirations and feelings towards risk and investment is paramount.

Step 1. Gathering Information

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, well before we advise on investments. It is important that any investment recommendation we make is as tax-efficient as possible.

This bit of the process is vital in assisting us so that we can give you the correct financial advice. It is essential, therefore, that you provide as much information as you can, even if you do not think it is particularly relevant. Even the seemingly smallest things can have a big influence on financial decisions.

Step 2. Choosing a Tax Wrapper

A tax wrapper is a financial product, such as a pension, New Individual Savings Account (NISA), Open Ended Investment Company (OEIC) 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, NISA's, OEIC's and bonds, the options and combinations for consideration may include life protection and critical illness policies, depending on your circumstances.

Step 3. Risk Assess

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 and capacity for loss.

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 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 will it be to get your hands on your money?

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 Distribution Technology, a leading company in the area of risk assessment and who follow the guidelines of the Financial Conduct Authority on assessing suitability of risk. Many of the terms commonly used to describe attitudes to investment, such as 'cautious', 'balanced' or 'aggressive' can mean different things to different people. That is why we aim to make our assessment of your attitude to risk as objective as possible. The next stage of the process is a discussion about what your risk profile score means.

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.

If your score is 1, then low volatility investments such as cash or bank deposits could be the resulting investment recommendation. If your score is 10, then we might recommend a portfolio which includes investments in asset classes such as emerging markets, whose higher expected volatility is matched by greater growth potential.

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

We will always discuss with you 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.

Whatever the result of that initial discussion, we aim to carry out the same process each year at the annual review stage to ensure that your circumstances have not changed and that your attitude to risk remains the same.

Step 4. Selection

a) Asset Allocation

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

Asset allocation involves getting the balance of assets in your portfolio right. 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, UK fixed interest, international fixed interest, property, UK equity and international equity.

Asset allocation is based on long-established and well-proven mathematical principles. We use Distribution Technology Dynamic Planner along with Verbatim who have an asset allocation that matches each of our customers risk profiles. They are professional and experienced in doing this and are well respected within their field.

We should point out however, that even with this level of expertise behind us, we still cannot 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.

One of the most important views to arise from modern portfolio theory is that investors should avoid concentrated sources of risk by holding a diversified portfolio. Our opinion is that there are three primary factors which influence portfolio performance; asset allocation, stock selection and market timing.

Diversification of an investment portfolio across a variety of different non, or ideally negatively, correlated asset classes should help to reduce the overall level of risk compared with, say, a portfolio which only includes bonds. For example, the inclusion of a small investment in a higher risk fund invested in a completely different area, in a portfolio comprised solely of UK bonds, can actually serve to potentially reduce the overall level of risk in the portfolio when viewed as a whole. This is because the behaviour of the higher risk fund differs to that of UK bonds in how it reacts to varying economic events. An effective combination of different asset classes may reduce the risk of a portfolio without reducing its potential for growth.

b) Fund Choice

Once the asset allocation stage is completed, we need to choose appropriate investments to reflect the various asset classes in the right proportions. There are thousands of investment options to choose from, including Unit Trusts and OEICs, Investment Trusts, Exchange Traded Funds (ETFs) and Hedge Funds.

All these options try to achieve different things. Understanding the reasons for their relative success in doing so helps us to appreciate how they may perform in the future.

At Horbury Financial Services Ltd, we do not believe that every customer is the same so we use a range of funds which have been risk rated by Distribution Technology. This means that the risk profile matches the asset allocation and principles of the funds we use.

We look for funds that are risk managed so that our customers always stay within the risk profile chosen without extreme fluctuations above or below that risk rating. We are always increasing the number of funds, and performing due diligence on new funds to add to our customer’s choice.

Our choices include Funds from a number of Companies and Fund Managers:

- Fund of Funds.
- Multi Asset Funds.
- Governed Funds.
- We also offer our customers the following options:
- Model Portfolios independently constructed by Rayner Spencer Mills Consultancy.
- Access to Discretionary Fund Manager.
- Access to Discretionary Portfolio Service.

We do also realise that there are customers who may not wish, for reasons such as ethical or specialist investing, to use the above choices. These customers can be dealt with on a bespoke basis. We do not believe in trying to “shoehorn” our customers into a one size fits all solution. The advice that we give is based specifically on client suitability and not on pre-selected outcomes.

Step 5. Review and Rebalance

The performance of the various funds in your portfolio will differ over time. If left for a long period of time, therefore, the proportions of the different asset classes they represent 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.

For this reason, we recommend that your portfolio is regularly reviewed to ensure that the asset allocation is as intended. The period between portfolio reviews depends on the service level that you require but will typically be between three months and a year with the clients signing up to our top level service getting quarterly fund reviews.

At our review meeting, we will ask you to complete a further risk-profiling questionnaire so that, if your risk profile score has changed, we can realign the asset allocation of your portfolio accordingly.

We do not act on a discretionary basis so we will contact you and ask you to authorise any switches beforehand. We cannot act without your authority.

Important Information

Tax treatment is dependent upon individual circumstances and may be subject to change in the future.

Past performance is not a reliable indicator of future results.

The value of your investment and any income from it may go down as well as up. You may not get back the original amount you invested.