Our beliefs - Part 7

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 if appropriate for you. These offer you access for valuations (so you can see how your investments are doing) and tax wrappers (such as pensions and ISAs). They also allow us to move your money between funds in a cost effective manner, if/when we need to do so.

Our beliefs - Part 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, thereby keeping charges to a minimum. In some cases however, 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.

Our beliefs - Part 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 and this robust process could prevent investors from making emotional decisions and thereby lead to making the best decisions to suit their needs and aims.

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 and we will discuss and agree with you the best way to achieve this.

Our beliefs - Part 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 unauthorised funds
- Only use funds run by FCA regulated managers
- We use expert managers to help assist in selecting risk managed portfolios.

Risk Warnings - all investments carry risk - *here are a few of the important ones*:

- The risk that the buying power of your capital decreases over time
- ***Past performance is not necessarily a guide to future performance***
- 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

Appendix:

Three academics; Brinson, Hood and Beebower (*1986, Financial Analysts Journal*), having 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 90% of return and risk in a given fund ***was determined by the long term asset mix*** and that *stock picking and short term tactical changes had a negligible impact*.

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

This information is intended to provide generic guidance and should not be interpreted as a recommendation or advice.

Family First Financial Services Ltd is authorised and regulated by the Financial Conduct Authority.

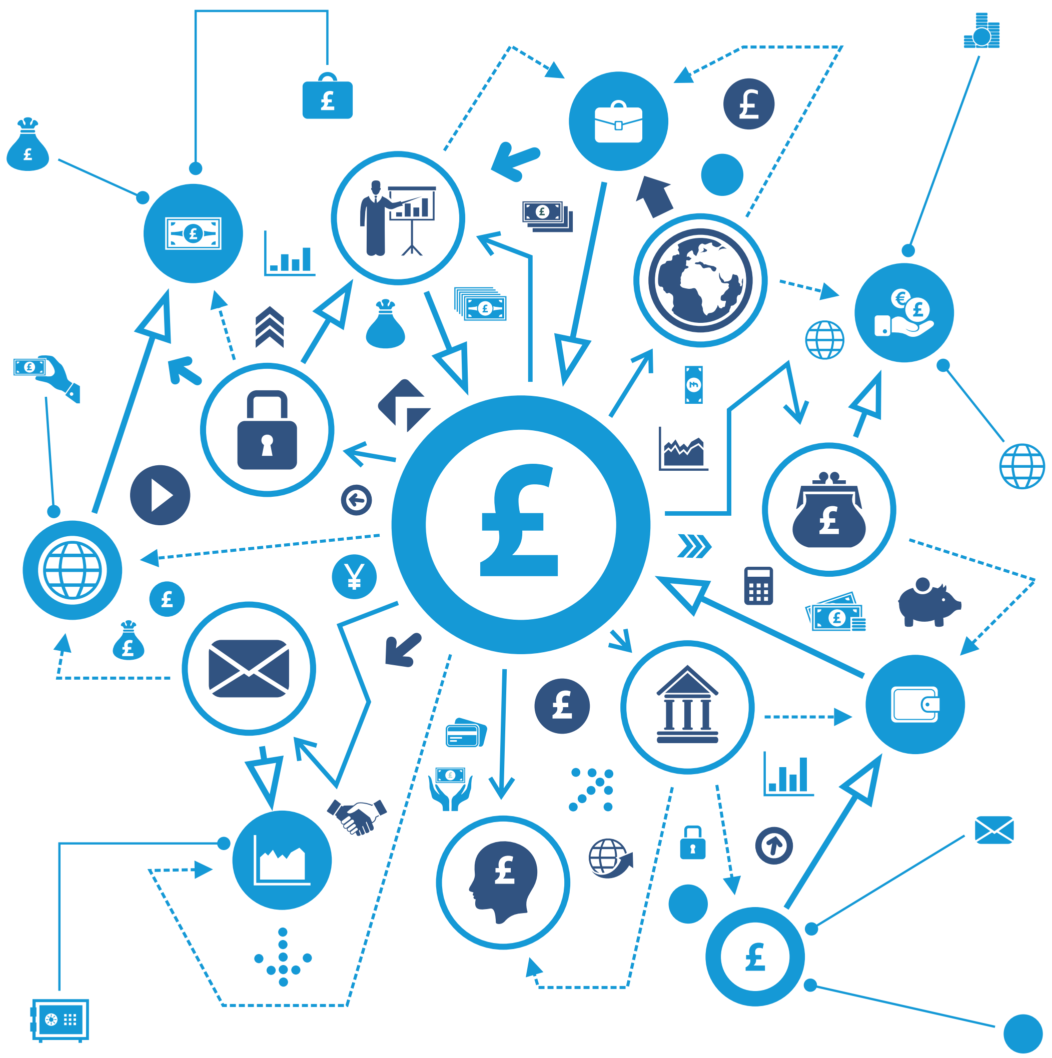
Family First Financial Services Ltd

Family First Financial Services Ltd.
Garden Room 402 Coniscliffe Road
Darlington Co Durham DL3 8AJ
Tel: 01325 242000 | Fax: 01325 244000 | Email: enquiries@3fs.co.uk | www.3fs.co.uk

Family First Financial Services Ltd

Treating Customers Fairly

Our Investment Philosophy



This document outlines our beliefs about investment, which form the foundations of how we manage your money and it also has details about how you are involved with the decisions about investing.

Family First Financial Services Ltd.
Garden Room 402 Coniscliffe Road Darlington Co Durham DL3 8AJ
Tel: 01325 242000 | Fax: 01325 244000 | Email: enquiries@3fs.co.uk | www.3fs.co.uk

Our beliefs - Part 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 lacking in transparency but we believe in keeping things simple. This doesn't mean to say that there isn't a lot of science and evidence to support our investment philosophy and processes; it just means that ***we are keen that every client understands our recommendations and how they fit with their own financial objectives***.

The first stage of our investment philosophy is to understand your needs and this is achieved through our conversations with you, 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.

Our beliefs - Part 2

When it comes to investing, ***risk and reward are inextricably entwined*** and **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 investing in asset categories with greater risk, like equities, as opposed to restricting your investments to assets with less risk, such as cash, although this is not guaranteed. Of course, if you are only able to invest for shorter time-frames, then cash investments may be more appropriate.

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

1. **Investment risk** - 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. **There is a need for risk** - *these risks may deter you from investing in the first place*:

   Inflation risk – your spending power goes down (applicable mostly with cash)
   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 an individual's psychology than with their financial circumstances and some people will find the prospect of volatility and the risk of losses distressing to even think about. Others will be more relaxed about those issues and may even be quite excited about them.

4. **Your ability to tolerate risk and accommodate losses**

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 and here we would ask the following questions:

- If things go wrong what would the result mean to your finances
- You may be a risky investor but can you afford to be
- You may be a risk averse investor but are you saving enough

Generally speaking, a person with a higher level of wealth and income (relative to any liabilities they have), coupled with a longer investment term, should be able to take more risk, which should also mean that they would have a greater risk capacity.

The ability to tolerate risk is very different to an attitude to risk and understanding this is a key part of our investment process and, in the course of our conversations with you, we will discuss 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 may feel happy with.

We 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 to you and how the profile needs to change to meet your particular situation.

Our beliefs - Part 3

Timeframe - *Investments made over a short term differ greatly than those made for the long term*

We would all probably like to keep things safe when investing but the impact that inflation could have on cash investments does make a compelling case, particularly for longer term investments into more risky assets. *In the long term*, 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, as can be seen from the chart below, which looks at the outperformance of Equities over Gilts & cash in the last 50 years:

Real returns** (after inflation) **over 50 year's % pa

Asset class	*Return*
UK Equities	**5.5**
Gilts	**2.7**
Cash	**1.6**

Source: Barclays Research 2013

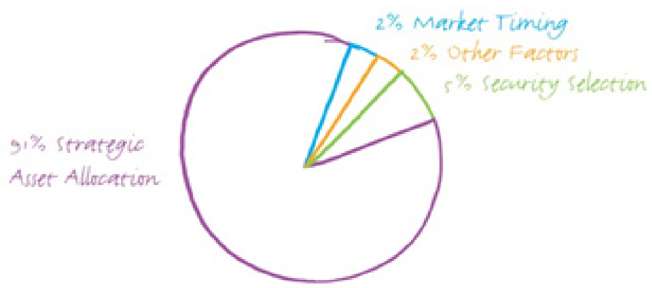
However, ***this isn't the case over every time period*** – for example, over the twelve most recent 10 year periods going back to 1902 (*i.e. 1902 to 1912, 1912 to 1922 etc*) – the returns from Equities were better than Gilts on 8 occasions, whereas Gilts beat Equities on 4 occasions.

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

Our beliefs - Part 4

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.



We believe 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 with the use of our **risk profiling tool** to propose a suitable asset allocation to meet your needs based on long term historic information.

We then discuss the findings with you to make sure that you are comfortable with the recommendations.

Our beliefs - Part 5

Diversification using mainstream asset classes ***may* 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*" and this is typified by 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, resulting in a large diversification within that type of investment.

We may also 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 that has been determined as appropriate for you.

The use of these so called "multi-asset" approaches has the benefit of "automatic rebalancing" inside the fund wrapper and this means that the asset mix of these portfolios stays true to the asset allocation that meets your risk need.

They are often conducted at lower cost than we can probably achieve by rebalancing it directly, especially since it could take us some time to implement the switches for each client and each fund in each tax wrapper, hence, automatic rebalancing reduces this cost and is especially efficient for smaller portfolios. It will also often result in removing the risk of incurring a Capital Gains Tax (CGT) liability as the rebalancing is carried out within the "wrapper" and is therefore not classed as a disposal.

Our beliefs - Part 6

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

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

There are three main costs with investing in funds:

1. Annual Management Charge (AMC) – is the fee that the manager charges
2. Total Expense Ratio (TER) – this is the AMC plus legal, audit, depositary, safe custody and other costs
3. Trading costs – these are the costs of buying and selling the investments inside a fund and typically include; stamp duty, bid / offer spreads, stockbroker commissions, transactional costs, etc.

TER's are not the whole cost of running a fund *however*, ***they are a powerful predictor of fund returns***, as can be seen from analysis conducted by Morningstar (*a large global fund ratings agency*) in August 2010.

In this report, they identified that the best historic predictors of performance and 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**.