



## THE THANKS WEALTH PLANNING INVESTMENT PROCESS & PHILOSOPHY

Everything you need  
to know about the  
Thanks Wealth  
Planning Investment  
Process & Philosophy

Created by  
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## Executive Summary

Thanks Wealth Planning works in partnership with Timeline Portfolios to deliver our Investment Process & bring our Investment Philosophy to life.

Timeline Portfolios Limited provides low-cost, evidence-based discretionary portfolio management services, exclusively to financial advisers (who recommend these to their retail clients).

With Timeline Portfolios' Turnkey Asset Management Program (TAMP), we can access a range of services that enables us to focus on delivering core financial planning and behavioural coaching to our clients, while delegating time-consuming tasks, such as research, portfolio construction, rebalancing, performance analysis and tax optimization to a third-party. Timeline Portfolios do not hold any of our client money and have no access to it. They simply provide an investment process for us.

What separates Timeline Portfolios TAMP model from traditional discretionary management is the comprehensive range of services that extend beyond managing money and deep collaboration with financial advisers. Their approach is to support advisers while remaining in the background which in turn allows us to focus our attention on our clients to ensure our advice is as accurate as possible.

Timeline Portfolios' vision is to offer low-cost institutional level portfolios designed to capture the global market return over the long-term, whilst eliminating unnecessary costs, inefficiencies, and anxiety for firms and their clients. Their robust and disciplined approach to investing is founded upon Nobel Prize-winning academic research, and harnesses sophisticated tools to properly test investment solutions.

Timeline Portfolios helps us to deliver our long-standing investment philosophy, that has served our clients well for over a decade. They offer a very cost efficient and robust solution.

# Investment Committee Governance & Oversight

## Timeline Portfolios Investment Committee Meetings

Timeline Portfolios' Investment Committee is responsible for the regular review of our investment proposition to ensure that our portfolios remain consistent with our philosophy and mandate as set out in this document. Timeline Portfolios' internal investment committee meets at least quarterly.

The committee consists of the following core members:

- |                                  |                             |
|----------------------------------|-----------------------------|
| • Daniel Rawlinson MSc           | Senior Investment Analyst   |
| • Emmanuel Asare (Secretary)     | Investment Analyst          |
| • Georgios Bouzianis PhD (c)     | Senior Quantitative Analyst |
| • James Gillespie                | Senior Investment Analyst   |
| • Jayson Upton LPC               | Head of Compliance          |
| • Karthica Underwood APFS        | COO and MLRO                |
| • Laurentius van den Worm        | Investment Strategist       |
| • Nastassja Erdursun             | Investment Analyst          |
| • Nicki Hinton-Jones CFA (Chair) | CIO                         |
| • Noah Nandi MSc                 | Quantitative Analyst        |
| • Reva Bala MBA                  | Investment Analyst          |

The investment committee will regularly review asset allocation, fund selection and the overall portfolio management process. While the investment committee will consider prevailing market conditions, our approach and decision making will be guided by a long-term view of capital markets and robust empirical evidence, as detailed in the investment philosophy set out in this document. The committee also works with an external compliance consultant who audits our internal process and documents.

## Group Investment Committee Meetings

Timeline Portfolios holds bi-annual group investment committee meetings in January and July. All firms that use Timeline Portfolios' services are invited to participate and are encouraged to challenge and critique our investment process, make contributions, and raise questions. However, for the avoidance of doubt, the ultimate responsibility for decision-making lies with the regulated members of Timeline Portfolios' investment committee.

This document is divided into the following sections:

## **Firm and Client Profile**

This sets out a brief profile of the adviser firms that Timeline Portfolios' investment proposition is aimed at. While their services are provided to professional clients, i.e., financial advisers, they are mindful that they are acting on behalf of our retail investors. This section also includes notes on the profiles of retail clients for whom their approach would be unsuitable and, therefore, would be best suited with alternative investment solutions.

## **Statement of Investment Philosophy**

This section details our beliefs regarding investment markets and the academic resources underpinning these beliefs. It lays out the general principles that guide the construction of the portfolios, using academic research where possible to support the overall conclusions.

## **Risk Profiling and Asset Allocation Guidelines**

This crucial step maps out the process of reconciling an investor's risk profile (attitude to risk and capacity for loss) and investment needs with our portfolios. It discusses high-level asset allocation and risk parameters (expected return, periodic maximum loss) and the back-testing of portfolios using historical data. By thoroughly back testing the model portfolios, Timeline Portfolios can ensure that the portfolios are within the specified risk/return parameters, albeit from a historical standpoint.

## **Practical Considerations of Portfolio Management**

This step details the practical tasks involved in managing the portfolios, including the investment committee's monitoring and review process.

## About Timeline Portfolios

Timeline Portfolios works in collaboration with us, and their services are only available through an FCA authorised financial advice firm. We deal with retail investors in both the accumulation and de-cumulation stages of their financial planning journey and Timeline Portfolios offers investment strategies to meet the requirements of both types of clients.

It is essential that Timeline Portfolios' views and philosophies are aligned with our evidence-based investing philosophy, which is the conscientious, explicit, and judicious use of current best empirical evidence in making investment decisions.

This document sets out Timeline Portfolios' approach to investing and how this is aligned to our investment philosophy, including asset allocation and portfolio construction, based on robust investment principles and risk parameters, which has been set to give our clients the best chance of capturing broad capital market returns.

To ensure consistency, our approach is to operate a range of 'Model Portfolios' tailored to the different risk profiles and objectives of typical retail clients described above. However, it is our responsibility to conduct an in-depth assessment of our client's needs, circumstances, and objectives, together with their ability and willingness to accept risk to recommend the appropriate solution for them.

With Timeline Portfolios, we can access a wide range of services that enable us to focus on delivering core financial planning and behavioural coaching to our clients, while delegating time-consuming tasks such as portfolio construction, due diligence, rebalancing, portfolio cash management and tax optimisation to the discretionary manager.

## The Service

Timeline collaborates with us on an "agent as client" basis to provide portfolio management services for our clients. Timeline Portfolios Limited will therefore have no contractual relationship with our retail clients.

When operating on an "agent as client" basis, we (professional client of Timeline Portfolios) have a duty to address certain issues with our retail clients, to ensure that they have the requisite authority to instruct Timeline Portfolios Limited as agent for our retail clients. We also need to make any other relevant disclosures.

Timeline Portfolios' services are only available on advised platforms. We are responsible for identifying clients for whom the portfolios may not be suitable and to consider alternative recommendations by conducting bespoke research to identify products or portfolios to meet these clients' needs.

We are responsible for conducting an in-depth assessment of each client's needs, objectives, and circumstances to identify the most suitable solution for them. Accordingly, Timeline Portfolios' portfolios are typically suited to advised clients with the following profile:

- Net worth of between £200k and £10m.
- Portfolios of between £100k and £5m.
- Seeking income or capital growth or a combination of the two.
- Long term investor prepared to invest for longer than 5 years.
- Pre-retired, at retirement and retired.
- Value and prepared to pay for on-going advice.
- Delegator but engaged with our financial planning and investment process.

We also identify circumstances where our portfolios may not be suitable for some clients, specifically the following:

- Clients with less than £100,000 in investable assets under advice. This is because the ongoing rebalancing and review means that the cost hurdle may be too high.
- Where a client does not want on-going financial advice and on-going reviews of their portfolio.
- Where clients' risk profile, objectives or preference suggests they want any form of capital guarantees or protection on their investments.
- Clients who require or want full self-investment functionality.
- The cost barriers (including Capital Gains Tax implications) from switching assets into the portfolios are too high.
- Clients that require active fund management that attempts to predict market trends or anomalies or tactically try to overweight or underweight assets based on subjective research.



# Statement of Investment Philosophy

## Independent Investment Research

The information in this document is a result of research carried out by the Timeline Portfolios investment team. We believe our independence provides us with the best possible framework for the service that we offer. The information contained within this investment policy statement is based on comprehensive and fair analysis of the market, is unbiased and unrestricted.

This document sets out the philosophy and reasoning behind how we invest and manage clients' capital on their behalf. This document, however, is not a substitute for personal, independent financial advice and should not be relied upon solely as a means of making an investment recommendation.

## The Capital Markets Work

The capital markets are far from perfect, but they do a good job of fairly pricing all publicly available information about securities.

Capital markets could be viewed as the vasculature of the global economy, in the sense that they facilitate the movement of capital (the lifeblood) to the places with the greatest affinity for it. Capital tends to flow smoothly through the system, however, as is the case with biological systems, capital markets tend to malfunction from time to time.

Market participants rely on these structures to function properly and are thus taking a risk with their capital when allowing it to enter these channels. It is paramount that investors are aware of the risks they are taking when participating in the markets, just as one would be when bartering in a street market. Whether it be a dusty corner of a market in a third-world country or the floor of a stock exchange, every financial dealing is embedded with its own particular set of risks. And although laws and regulations may protect participants from certain dangers when dealing on regulated exchanges, certain risks will still exist across all investment vehicles and investors must be aware of this.



We believe that the prices of securities reflect the expectation of all market participants (Fama 1970). While stocks may be sometimes mispriced, it is near impossible for anyone to recognise this and systematically profit from these inefficiencies on a consistent basis over the longer term.

It's not impossible to beat the market, but it's very difficult to do so consistently over a long time period. This is primarily because when mispricing occurs, market participants will buy or sell, moving the price back to its natural level. Thus, beating the market often just means being quicker than everyone else. Over any period, some investors will beat the market, but the number of investors who do so will be part of a very small minority.

There is however an emerging body of behavioural finance research which suggests that markets may not in fact be that rational. The reality is that market participants tend to make decisions based upon the fact that certain market events' bear resemblance to those that have happened in the past. Academics such as Shiller (2003) argue that the presence of an asset price bubbles is an indication that markets may not be entirely efficient. However, he admitted:

*"In judging the impact of behavioural finance to date, it is important to apply the right standards. Of course, we do not expect such research to provide a method to make a lot of money off of financial market inefficiency very fast and reliably. We should not expect market efficiency to be so egregiously wrong that immediate profits should be continually available. But market efficiency can be egregiously wrong in other senses. For example, efficient markets theory may lead to drastically incorrect interpretations of events such as major stock market bubbles" (Shiller, 2003, p. 20).*

Moreover, Burton (2010) similarly concluded that while asset-price bubbles do in fact exist and are an inevitable occurrence within capitalist systems, they are virtually impossible to identify and thus exploit ex-ante.

We take the view that while there are inefficiencies in the markets from time to time, empirical evidence suggests that the idea that these inefficiencies can be systematically exploited to deliver superior returns to clients just isn't plausible.

### **Risk & Return Are Related**






It is a fundamental law within finance that to achieve a certain level of return, you have to accept a certain level of risk. In other words, the potential financial loss you expose yourself to in investing and taking a risk, is also the reason you earn a return. However, risk is not uniform. Risk comes in forms that offer reward for volatility (good risk) and in forms that fail to do so (bad risk).

The reward that one can theoretically receive for taking on risk however does not come free of charge and so risk can also be perceived as a premium. Our role is first to identify which risks offer consistently higher expected returns, and those which do not, and then provide exposure to the good risks in a structured, disciplined, and cost-effective way.

### **Asset Allocation & Portfolio Structure Drive Return**

We believe the most important factor determining the level of risk and variability of return in a portfolio is asset allocation. In their seminal study, Brinson, Hood and Beebower (1986) demonstrated that 93.6% of the average return variation in US pension plan portfolios from 1974 to 1983 could be explained by asset allocation. Later research by Kaplan and Ibbotson (2000) found that asset allocation explained approximately 90% of the variability of US mutual fund returns over time.

The contribution of asset allocation to overall portfolio return is not only a US phenomenon. Blake, Lehmann and Timmermann (1999) examined the asset allocations of a sample of 364 UK pension funds that retained the same fund manager over the period 1986-1994. They found that the total return is predominately driven by asset allocation. The average return from stock selection is negative, and average return to market timing very negative. More recent research by Scott, Balsamo, et al. (2017) showed that asset allocation was responsible for the majority of portfolio returns across five developed markets: Australia, Canada, Japan, UK and USA.

	 USA	 CANADA	 UK	 AUSTRALIA	 JAPAN	BRINSON ET AL. (1986)
Number of balanced funds in each market sample	709	303	743	580	406	91 (pension funds)
Median percentage of actual-return variation explained by asset allocation.	91.1%	86%	80.5%	89.1%	87.9%	93.6%

Source: Scott, Balsamo, et al. (2017)

Therefore, we believe that asset allocation and portfolio structure are the key drivers of returns, value added from stock picking and market timing is questionable and tends to be negative.

### Consistent Outperformance Is Rare

It's an extremely hard task for an active manager to consistently beat the market and it's even harder to predict which manager will manage to do so. Economic uncertainties, random market movements, and the rise and fall of individual companies are all part of financial markets' natural activity and predicting when and to what extent those things will happen is a fool's errand.

As is the case with virtually every game of chance, past events just aren't a good predictor of what will happen in the future. The same is true for fund manager performance. Not only is manager outperformance inconsistent, but research has also shown manager outperformance to have been driven by luck, rather than merit. Studies carried out by Barras, Scaillet and Wermers (2010) show that only 0.6% of US funds delivered positive alpha through skill, as opposed to luck alone, over a 32-year period. Other recent US and UK studies find that at most around 5% of funds have "truly" positive net return alphas (Kosowski, et al. 2005; Cuthbertson, Nitzsche and O'Sullivan 2005).

In evidence to the Treasury Committee in May 2006, Mr Clive Briault, Managing Director, Retail Markets, at the FCA was questioned regarding the merits of actively managed funds and their associated costs.

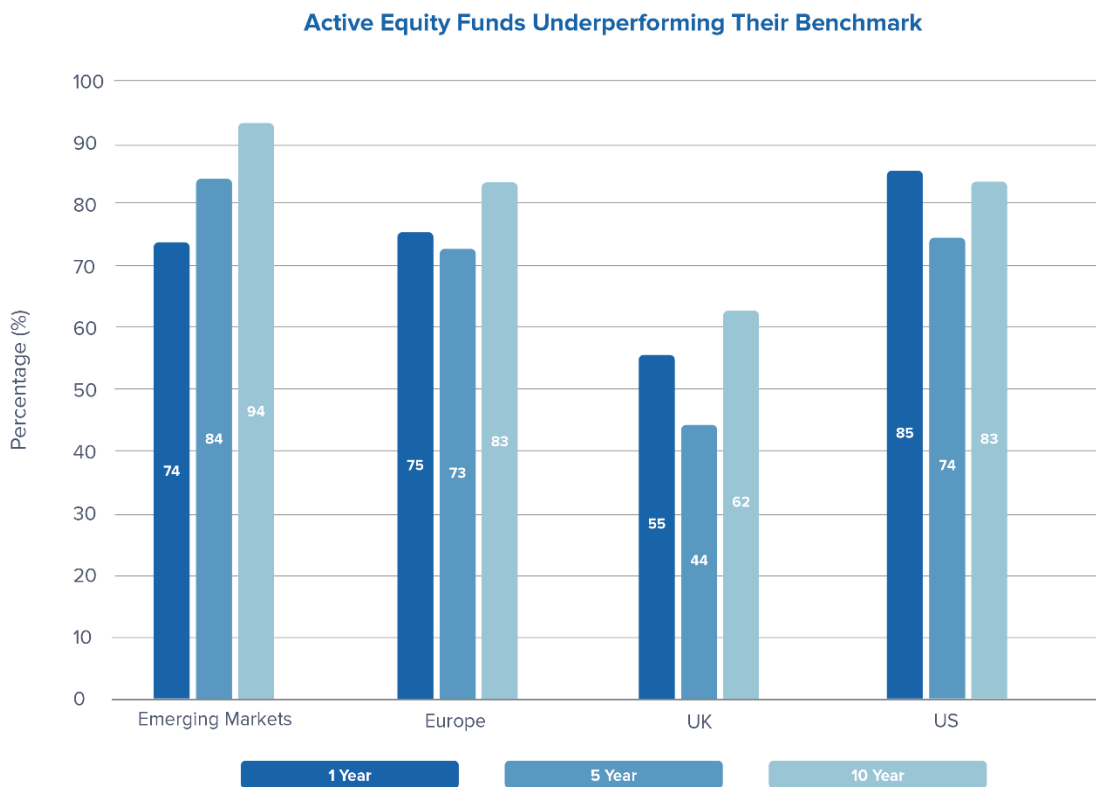
He was asked:

*"Is there an assumption that actively managed funds actually make better returns for those investors which outweigh the costs of having more actively managed funds?"*

He replied:

*"Well, the research which we have undertaken shows there is no evidence that, on average and over time, actively managed funds out-perform tracker funds, taking account of the differential in charges across the two" (Briault, 2006).*

Contemporary research conducted by S&P Indices Versus Active (SPIVA) continues to support the claim that active managers fail to consistently outperform their respective benchmarks in both developed and developing markets (S&P, 2022).



Source: S&P (2022)

Given this overwhelming body of evidence, we believe that the most sensible approach for the vast majority of retail clients is to focus on the most efficient and cost-effective way to capture returns from mainstream asset classes over the longer term and through the means of our well-designed portfolios, clients are equipped to do this.

## Diversification Is Essential

Akin to the familiar saying “don’t put all your eggs in one basket”, diversification, in its broadest sense, consists of allocating wealth across several assets.

The concept is not new, examples of the merits of diversification can be found as far back as the fourth century. The Rabi Isaac, in the *Babylonian Talmud: Tractate Bab Mezi’a* suggested:

*“One should always divide his wealth into three parts: [investing] a third in land, a third in merchandise, and [keeping] a third ready to hand” (Troberg, 2015).*

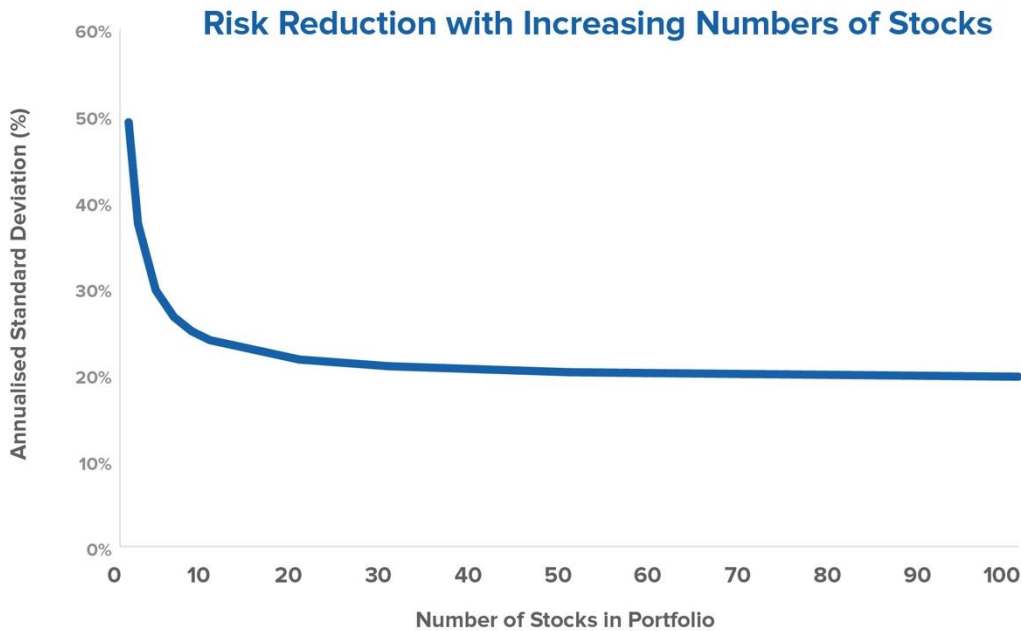
Shakespeare also appeared to understand the importance of diversification. In his play, *The Merchant of Venice*, the character Antonio, after being asked whether his apparent sadness was due to worry, regarding his ships currently at sea, explains:

*“I thank my fortune for it, my ventures are not in one bottom trusted, nor to one place, nor is my whole estate upon the fortune of this present year” (Shakespeare, 2006, p. 6).*

By owning multiple vessels, Antonio was applying the concept of diversification, knowing that it was possible one ship could be lost but the risk of losing all his ships was unlikely.

However, it was not until the 1950s that academics attempted to quantify diversification. In their seminal work, Markowitz (1952) and Roy (1952) demonstrated in mathematical terms how investment diversification works. This work resulted in Modern Portfolio Theory, whereby portfolios are constructed in a manner to minimize risk and maximize expected return. This theory postulates that a combination of two individually risky assets, can be combined to produce a portfolio with less overall risk, without reducing the expected returns, if the two individual assets are not perfectly correlated.

One of the most famous illustrations of the positive benefits of diversification was a study by Elton and Gruber (1977), which investigated how varying the size of a portfolio impacted an investor's risk exposure. The research found that while a single share had a standard deviation



of annual returns of 49.2%, the addition of an extra share to the portfolio reduced this to 37.4%, a reduction in risk of 24%. Source: Elton and Gruber (1977)

Sankaran, Krishnamurti and Patil (1999) also demonstrated how increasing the number of securities within a portfolio resulted in higher Sharpe ratios (risk adjusted returns), although the marginal benefit of diversification decreases as the number of securities increases.

The following tables show equity market returns over the last 20 years for various developed and emerging markets, ranked in descending order. The lack of consistency in stock market performance by geography shows the general lack of predictability in markets and should be a lesson to investors who believe that they can predict which pattern of colours will appear in the column corresponding to next year.

## Equity Returns Of Developed Markets (%)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
HIGH	New Zealand 12.3	Sweden 48.0	Austria 59.9	Canada 43.5	Spain 31.0	Finland 46.2	Japan -2.0	Norway 66.6	Sweden 38.0	Ireland 14.6	Belgium 33.4	Finland 43.3	USA 19.7	Denmark 30.6	Canada 48.6	Austria 44.6	Finland 2.6	New Zealand 32.9	Denmark 39.3	Austria 42.8
	Austria 5.4	Germany 47.3	Norway 42.9	Japan 40.4	Portugal 29.3	Hong Kong 38.8	Switzerland -3.8	Australia 57.1	Denmark 34.8	New Zealand 6.3	Denmark 25.5	Ireland 38.5	New Zealand 14.0	Ireland 23.2	New Zealand 41.2	Hong Kong 24.4	New Zealand 2.0	Ireland 32.2	Netherlands 20.3	Netherlands 28.8
	Australia -10.8	Spain 42.5	Belgium 33.8	Austria 39.4	Ireland 28.8	Germany 32.9	USA -13.6	Singapore 54.9	Hong Kong 27.1	USA 2.1	Singapore 25.2	USA 29.3	Denmark 12.8	Belgium 18.6	Norway 35.2	Singapore 23.8	USA 0.9	Switzerland 27.2	Sweden 20.0	USA 27.6
	Norway -16.2	Austria 41.2	Ireland 33.4	Denmark 39.2	Singapore 28.7	Norway 29.2	Spain -17.8	Sweden 46.2	Singapore 26.0	UK -1.8	Germany 25.2	Germany 28.9	Hong Kong 11.6	Japan 15.9	Australia 32.9	Denmark 23.0	Hong Kong -2.1	Netherlands 27.0	USA 17.0	Canada 27.1
	Italy -16.2	New Zealand 39.8	Sweden 27.1	Norway 39.0	Norway 27.3	Canada 27.4	France -21.5	Hong Kong 42.6	Canada 24.2	Switzerland -6.1	New Zealand 23.6	Spain 28.9	Belgium 10.6	Austria 9.5	Austria 32.7	Netherlands 20.8	Norway -3.0	USA 25.8	Finland 16.7	Norway 23.1
	Japan -18.9	Canada 39.0	New Zealand 26.0	Finland 30.5	Sweden 25.8	Singapore 26.2	Canada -24.6	Belgium 40.2	Japan 19.1	Norway -9.3	Hong Kong 22.6	Netherlands 28.9	Singapore 9.4	Italy 8.2	USA 32.3	France 17.6	Switzerland -3.4	Denmark 23.3	New Zealand 16.2	Sweden 23.0
	Switzerland -18.9	Australia 34.4	Italy 23.5	Switzerland 30.1	Denmark 21.7	Australia 26.2	Germany -25.1	Canada 39.1	USA 18.4	Belgium -10.0	Austria 20.4	Belgium 25.2	Ireland 8.7	Finland 7.9	France 25.1	Italy 17.3	Singapore -3.8	Canada 22.6	Ireland 11.5	France 20.6
	Singapore -19.6	Denmark 34.2	Denmark 22.0	Australia 29.7	Belgium 19.9	Denmark 23.5	Singapore -27.1	New Zealand 33.9	Australia 18.1	Australia -10.3	Australia 16.7	Japan 24.8	Canada 7.8	Netherlands 7.2	Netherlands 25.0	Norway 17.2	Portugal -5.6	Italy 22.4	Japan 10.9	Switzerland 20.4
	Canada -21.5	Norway 33.2	Australia 21.5	Singapore 27.9	Austria 19.8	Portugal 21.9	Denmark -27.4	Spain 27.7	Switzerland 15.3	Netherlands -11.5	Sweden 16.6	Switzerland 24.3	Switzerland 6.1	Portugal 6.7	Portugal 23.6	Germany 16.6	Australia -6.5	France 20.9	Portugal 10.9	Denmark 20.1
	Portugal -22.0	Ireland 29.4	Spain 20.2	Netherlands 27.3	Germany 19.3	Spain 21.9	Netherlands -28.3	UK 27.6	Norway 14.4	Spain -11.6	France 16.0	France 24.0	Finland 5.5	USA 6.5	Germany 22.6	Spain 16.0	France -7.3	Portugal 18.9	Switzerland 8.2	UK 19.6
	Belgium -23.1	Portugal 28.6	Hong Kong 16.5	Sweden 23.4	France 18.0	Netherlands 18.6	UK -28.5	Austria 27.5	Finland 13.8	Canada -12.1	Netherlands 15.3	Denmark 22.9	Australia 2.6	Switzerland 6.3	Japan 22.1	Japan 13.3	Japan -7.5	Australia 18.2	Germany 8.1	Italy 16.1
	UK -23.4	France 26.1	Portugal 16.3	Germany 22.9	Italy 16.2	France 11.3	Sweden -30.6	Netherlands 26.7	Austria 13.3	Japan -13.7	Switzerland 15.1	Sweden 22.2	Netherlands 2.5	France 5.7	Hong Kong 22.0	Portugal 13.1	Netherlands -7.7	Sweden 16.5	Australia 5.4	Australia 10.4
	Spain -23.4	Hong Kong 24.2	Singapore 14.0	France 22.9	Netherlands 15.2	New Zealand 7.1	Italy -30.7	Portugal 25.0	UK 12.2	Sweden -15.4	Norway 13.4	UK 18.4	Japan 1.9	Hong Kong 5.2	Singapore 21.0	Switzerland 11.9	Sweden -8.3	UK 16.4	Hong Kong 2.6	Finland 10.0
	Denmark -24.1	Italy 24.0	Canada 13.9	Belgium 22.0	Australia 14.8	UK 6.5	Australia -31.7	Denmark 21.6	Germany 11.8	Denmark -15.4	USA 10.3	Italy 18.2	Spain 1.3	Germany 3.8	Sweden 20.0	Finland 11.9	UK -8.8	Germany 16.1	Canada 2.1	Ireland 9.5
	Hong Kong -25.7	Singapore 23.7	UK 11.5	Hong Kong 21.2	UK 14.6	Italy 4.3	Hong Kong -32.4	France 17.4	New Zealand 11.7	Hong Kong -15.4	UK 10.2	Austria 11.3	UK 0.5	Sweden 0.5	UK 19.2	UK 11.7	Denmark -10.2	Belgium 15.7	France 0.9	Singapore 6.6
	Netherlands -28.4	Japan 22.2	France 10.5	UK 20.1	Hong Kong 14.3	USA 3.7	Portugal -33.8	Italy 12.7	Netherlands 4.9	France -16.3	Finland 9.5	New Zealand 9.2	Sweden -1.8	New Zealand -0.8	Spain 18.1	USA 10.7	Spain -11.0	Japan 15.0	Italy -1.3	Germany 6.3
	France -28.7	Belgium 21.7	Germany 8.3	USA 17.6	Finland 14.0	Switzerland 3.5	New Zealand -36.0	USA 12.4	Belgium 2.7	Singapore -17.3	Italy 7.5	Hong Kong 9.0	Italy -3.9	UK -2.2	Finland 13.7	Sweden 10.1	Canada -12.1	Singapore 10.6	Norway -4.8	Belgium 3.1
	USA -30.5	Switzerland 20.6	Japan 8.0	Spain 16.8	Switzerland 11.8	Austria 0.5	Finland -37.9	Switzerland 11.6	France -1.1	Germany -17.5	Canada 4.3	Portugal 8.9	France -4.3	Australia -4.7	Switzerland 13.5	Australia 9.6	Italy -12.6	Austria 10.0	Austria -6.3	Japan 2.6
	Ireland -33.3	UK 18.8	Switzerland 7.2	Italy 14.0	Canada 3.3	Sweden -1.1	Norway -50.5	Germany 11.4	Portugal -8.5	Portugal -22.5	Japan 3.4	Norway 7.4	Germany -4.8	Norway -10.1	Ireland 10.8	Belgium 8.3	Germany -17.3	Spain 7.7	Spain -7.7	Spain 2.3
	Finland -37.0	USA 15.5	Netherlands 4.7	New Zealand 13.8	New Zealand 2.2	Belgium -4.4	Belgium -53.6	Ireland 0.0	Italy -12.3	Italy -22.6	Ireland 1.1	Canada 3.7	Norway -17.2	Spain -10.8	Belgium 10.3	Ireland 7.9	Ireland -20.7	Norway 6.1	Singapore -10.3	Portugal 1.1
	Sweden -37.2	Netherlands 15.2	USA 2.7	Portugal 9.7	USA 0.6	Japan -5.8	Austria -56.3	Finland -1.0	Ireland -15.5	Finland -31.4	Portugal -1.0	Australia 2.2	Austria -25.4	Singapore -12.9	Italy 6.8	Canada 6.0	Belgium -22.4	Hong Kong 6.1	Belgium -10.9	Hong Kong -3.0
LOW	Germany -39.6	Finland 7.4	Finland -1.0	Ireland 9.3	Japan -6.8	Ireland -21.4	Ireland -61.1	Japan -5.4	Spain -19.5	Austria -36.0	Spain -1.5	Singapore -0.2	Portugal -34.4	Canada -19.8	Denmark 0.5	New Zealand 2.0	Austria -22.9	Finland 5.3	UK -13.2	New Zealand -16.3

Source: Dimensional Fund Managers (2022)



## Equity Returns Of Emerging Markets (%)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
HIGH	Czech Rep. 29.9	Thailand 119.0	Colombia 116.7	Egypt 192.5	China 60.4	Peru 91.1	Colombia 3.7	Brazil 103.1	Thailand 60.6	Indonesia 6.8	Turkey 57.0	Taiwan 7.0	Egypt 37.4	Hungary 44.2	Brazil 98.3	Poland 41.3	Peru 7.9	Russia 45.1	Korea 40.2	Czech Rep. 56.5
	Indonesia 28.3	Turkey 102.6	Egypt 110.9	Colombia 131.7	Indonesia 52.4	Brazil 76.5	Chile -11.1	Indonesia 101.4	Peru 58.1	Malaysia 0.9	Egypt 40.6	Egypt 6.2	Indonesia 34.5	Russia 10.2	Peru 85.6	China 40.7	Russia 5.8	Egypt 36.3	Taiwan 36.6	India 27.4
	Peru 18.0	Brazil 92.8	Hungary 78.5	Russia 93.6	Peru 42.2	Turkey 71.2	South Africa -14.0	Russia 81.8	Chile 48.7	Philippines -0.2	Philippines 40.0	Malaysia 5.7	Philippines 33.4	India -0.7	Russia 84.7	Korea 34.5	Brazil 5.7	Taiwan 31.1	China 25.5	Taiwan 27.3
	Hungary 17.8	Peru 74.5	Czech Rep. 73.1	Korea 75.5	Philippines 38.7	India 70.2	Peru -17.2	India 80.6	Colombia 47.9	Thailand -2.0	Poland 33.1	Korea 2.0	India 31.6	Korea -1.3	Hungary 61.5	Chile 29.9	Czech Rep. 1.5	Colombia 25.8	India 12.0	Mexico 23.7
	South Africa 15.7	Egypt 72.5	Poland 50.2	Brazil 75.0	Russia 36.5	China 63.4	Malaysia -18.6	Turkey 75.8	Malaysia 41.3	Colombia -4.3	Colombia 29.9	China 1.7	Turkey 26.1	Philippines -1.4	Thailand 51.0	Hungary 27.8	Thailand 0.3	Brazil 21.4	Malaysia 0.5	Russia 20.1
	Thailand 15.0	China 68.7	Indonesia 40.5	Turkey 74.5	India 32.5	Egypt 55.8	Mexico -21.0	Chile 65.2	South Africa 38.4	Czech Rep. -5.3	Thailand 28.6	Poland 0.7	Thailand 23.7	China -2.5	Colombia 50.9	India 26.7	Malaysia -0.2	China 18.7	Mexico -4.9	Hungary 13.1
	Colombia 12.9	Chile 64.8	Mexico 38.3	Mexico 66.8	Brazil 27.4	Czech Rep. 52.7	Czech Rep. -21.2	Colombia 64.1	Indonesia 38.1	Korea -11.3	Mexico 23.4	Russia -1.1	Peru 17.4	Taiwan -6.6	Taiwan 41.4	Peru 26.4	Hungary -0.3	Hungary 14.8	Philippines -6.4	Poland 9.5
	Russia 4.4	India 60.4	South Africa 35.1	Czech Rep. 63.0	Mexico 24.1	Indonesia 51.6	Taiwan -25.9	Taiwan 59.6	Philippines 38.1	Mexico -11.5	India 20.4	Mexico -1.6	Taiwan 16.2	Mexico -9.5	South Africa 40.6	Turkey 26.4	India -1.5	Korea 8.2	South Africa -6.9	Egypt 8.5
	Korea -2.1	Indonesia 58.8	Turkey 31.9	India 53.9	Poland 23.4	Malaysia 43.6	Thailand -28.7	Hungary 58.1	Mexico 31.6	South Africa -13.7	Hungary 17.4	Philippines -4.5	China 14.7	Chile -12.9	Indonesia 39.5	South Africa 24.3	Taiwan -3.3	Mexico 7.1	Czech Rep. -6.9	South Africa 4.5
	India -2.5	Russia 57.5	Brazil 26.7	Peru 50.7	Malaysia 20.3	Thailand 43.6	China -31.9	Thailand 57.2	Korea 30.7	China -17.8	China 17.4	India -5.6	South Africa 11.8	Czech Rep. -13.7	Chile 37.8	Czech Rep. 23.7	Indonesia -3.6	Turkey 6.8	Peru -7.7	Indonesia 3.1
	Egypt -8.2	Colombia 49.6	Chile 19.4	South Africa 43.5	Czech Rep. 17.5	Philippines 38.0	Egypt -34.0	Peru 53.1	Taiwan 25.7	Russia -19.0	Korea 15.9	Hungary -7.6	Czech Rep. 1.6	Indonesia -14.8	Korea 29.7	Thailand 22.9	Colombia -6.0	Philippines 6.2	Chile -8.5	Thailand -0.5
	Poland -8.7	Czech Rep. 47.8	Philippines 17.3	Poland 38.9	Hungary 17.3	Korea 29.6	Philippines -34.3	Korea 52.6	India 24.8	Chile -19.8	Peru 14.9	South Africa -8.0	Mexico -3.7	Malaysia -15.4	China 20.4	Taiwan 16.5	Poland -7.5	South Africa 5.8	Indonesia -10.9	Philippines -3.0
	Malaysia -10.2	South Africa 31.2	Korea 13.8	Philippines 37.1	Chile 12.9	Poland 23.1	Poland -37.5	Philippines 47.5	Turkey 24.6	Taiwan -20.3	South Africa 13.5	Czech Rep. -12.2	Malaysia -5.1	Thailand -19.1	Poland 19.4	Malaysia 14.2	Egypt -8.7	Thailand 5.3	Turkey -11.6	Malaysia -5.4
	Mexico -21.6	Taiwan 27.6	India 11.1	Chile 35.2	South Africa 5.7	Russia 22.4	Korea -38.1	China 44.5	Russia 22.8	Peru -20.8	Taiwan 11.6	Thailand -16.2	Korea -5.6	Egypt -19.2	India 17.6	Philippines 13.8	Mexico -10.3	Indonesia 4.9	Poland -14.1	Korea -7.5
	China -22.3	Philippines 27.3	Malaysia 7.4	China 33.9	Taiwan 5.2	Chile 21.0	Brazil -39.4	South Africa 40.5	Poland 18.9	Brazil -21.3	Malaysia 9.2	Brazil -17.6	Chile -7.6	Poland -21.0	Malaysia 14.6	Indonesia 13.5	Philippines -11.3	India 3.4	Hungary -14.4	Colombia -13.0
	Chile -27.9	Poland 21.5	Taiwan 1.6	Hungary 31.9	Egypt 2.7	South Africa 16.2	Indonesia -39.7	Mexico 39.5	Egypt 16.0	Poland -29.6	Russia 8.7	Colombia -22.6	Brazil -8.7	South Africa -21.1	Czech Rep. 13.3	Brazil 13.4	China -13.8	Peru 0.7	Thailand -14.4	Chile -16.5
	Taiwan -31.9	Korea 21.4	Russia -1.7	Indonesia 28.7	Colombia -0.4	Hungary 14.8	Hungary -46.7	Malaysia 35.4	Brazil 9.9	Hungary -33.2	Chile 3.0	Chile -23.4	Poland -8.9	Peru -27.7	Philippines 11.4	Colombia 6.2	Chile -14.7	Czech Rep. 0.2	Russia -15.2	Brazil -16.6
	Philippines -36.2	Mexico 19.4	Peru -3.9	Thailand 21.6	Korea -1.2	Colombia 13.1	Turkey -47.8	Poland 26.0	China 7.9	Turkey -34.9	Indonesia 0.1	Indonesia -24.9	Colombia -14.8	Turkey -27.9	Turkey 9.2	Mexico 5.9	Korea -16.0	Malaysia -5.8	Colombia -21.5	Peru -19.1
	Brazil -37.3	Hungary 18.7	China -5.0	Taiwan 19.0	Thailand -2.5	Mexico 10.3	India -51.0	Egypt 24.4	Czech Rep. 0.5	India -36.7	Czech Rep. -2.0	Turkey -28.1	Hungary -22.9	Brazil -38.0	Mexico 8.4	Russia -3.9	South Africa -20.1	Poland -9.5	Brazil -21.5	China -21.0
LOW	Turkey -42.0	Malaysia 13.9	Thailand -7.9	Malaysia 14.4	Turkey -18.6	Taiwan 6.6	Russia -63.8	Czech Rep. 12.6	Hungary -6.7	Egypt -46.5	Brazil -4.3	Peru -31.2	Russia -42.9	Colombia -38.4	Egypt 5.5	Egypt -4.0	Turkey -37.8	Chile -20.1	Egypt -24.9	Turkey -27.7

Source: Dimensional Fund Managers (2022)



## Costs Matter

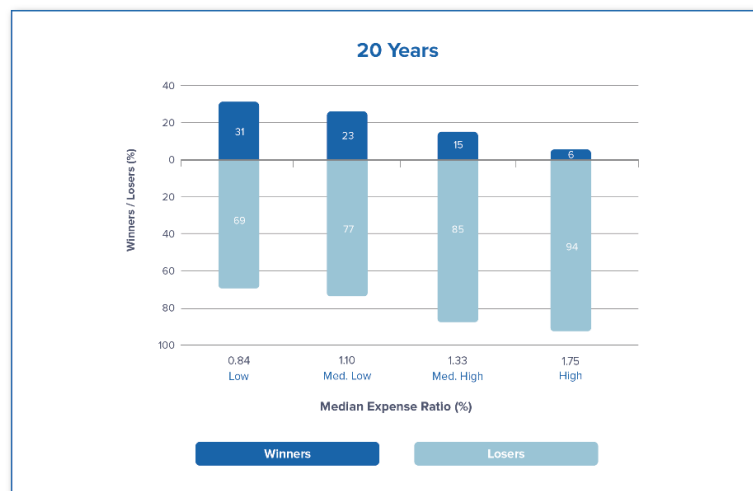
If competition drives prices to fair value, one might wonder why underperformance is so common. A major factor are mutual fund costs. Costs reduce an investor's net return, often to the extent that the additional services associated with the fees do not compensate for the loss in return.

All mutual funds incur costs. Some costs, such as expense ratios, are easily observed, while others are more difficult to measure. The question is not whether investors must bear some costs, but whether the costs are reasonable, and indicative of the value added by a fund manager's decisions.

The data shows that many mutual funds are expensive to own and do not offer higher value for the higher costs incurred. Let's consider how one type of explicit cost, expense ratios, can impact fund performance.

In the charts on the next page, US equity funds in existence at the beginning of ten, fifteen and twenty-year periods are ranked into quartiles based on their average expense ratio. Fund expense ratios range broadly. For the ten-year period, the median expense ratio averaged 1.1% for equities. In 2021, funds in the lowest quartile cost equity investors an average of 0.8%, compared to the most expensive quartile which had an average cost of 1.4%.

Are investors receiving a better experience from higher-cost funds? The data suggests otherwise. Especially over longer horizons, the cost hurdle becomes too high for most funds to overcome. Over the ten-year period, 38% of the low-cost equity funds outperformed, compared to 18% of the high-cost funds. For fifteen years, 35% of the low-cost funds outperformed, against 10% of the high-cost funds. And finally, over twenty years, 31% of low-cost funds outperformed, in contrast to the 6% of high-cost equity mutual funds.



Source: Dimensional Fund Managers (2022)<sup>1</sup>

<sup>1</sup> The sample includes US-domiciled funds at the beginning of the 10-, 15- and 20-year periods ending December 31, 2021. Funds are sorted into quartiles within their category based on average expense ratio over the sample period. The chart shows the

Morningstar research into fund expenses and star ratings, as predictors of future fund performance, shows that fund expense ratio is a far more reliable predictor of future performance. The author of the report concluded that:

*"If there's 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 single time period and data point tested, low-cost funds beat high-cost 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. Investors should make expense ratios a primary test in fund selection. They are still the most dependable predictor of performance. Start by focusing on funds in the cheapest or two cheapest quintiles, and you'll be on the path to success" (Kinneil, 2010).*

Accordingly, our approach is to select low-cost funds for our portfolios, and to only select higher cost funds where we can demonstrate that additional value is being added. Charges taken by the fund manager can substantially impact fund returns, especially in flatter markets. Costs, like interest, have a compounding effect over time.

Our portfolios have a total ongoing cost of between 0.14% and 0.29% per annum. This is inclusive of fund charges but does not include platform costs or adviser fees.

### **Investors' Behaviour Is A Key Determinant Of Their Long-Term Outcome**

We believe that the longer you stay invested, the greater the probability that your investment will generate a positive return. Once an investment strategy has been agreed with clients, it is important to stick to it, in good times and in bad. We don't believe in timing or playing the market.

Data by Morningstar effectively demonstrates this concept in its research on the "performance gap", which is the difference between the return of an average mutual fund and the return the average investor in that fund experiences. In their research, they found that fund investors earned 7.7% "investor return" over the 10 years to the end of 2020, while their "fund holdings" generated a 9.4% annual total return over the same period. The 1.7% difference was due to mistimed purchases and sales (Morningstar, 2021).

Clare and Motson (2010) lend further credence to the importance of adopting a long-term perspective, finding that poor timing decisions by UK retail investors cost them, on average 1.2% per annum over an eighteen-year period. Furthermore, Schneider (2007) showed that the performance gap was as much as 2.4% per annum for UK smaller company funds and 2.1% per annum for growth funds over an 11-year period between 1992 and 2003. The plausible explanation is that investors are chasing past winners and therefore end up buying high and selling low.

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percentage of winner and loser funds by expense ratio quartile for each period. Winners are funds that survived and outperformed their benchmark over the period. Losers are funds that wither did not survive or did not outperform their respective benchmarks.

It is very difficult to predict the best time to enter or exit the market. The speed at which markets react to news means stock prices almost immediately absorb the impact of new developments. When markets turn, they turn quickly. Those trying to time their entry and exit may miss the bounce.

Therefore, Timeline Portfolios maintains a disciplined approach and stays the course even during extreme market conditions. All too often, investors let their emotions get the better of them with dire consequences for investment returns. Planners using the portfolios are expected to work with their clients to maintain a disciplined approach, especially in extreme market conditions, both up and down.

## Asset Allocation Guidelines

At Thanks Wealth Planning, we take a long-term strategic approach to asset allocation and do not engage in tactical asset allocation strategies. Each Timeline Portfolios portfolio range contains eleven portfolios, rising in equity allocation by 10% increments, from 0% to 100%.

Our asset allocation within equities is linked to market capitalisation weightings, with factor tilts in our Classic and ESG ranges. Our fixed income asset allocation is broad, driven by diversification and provides defensive qualities to offset the more volatile characteristics of equities.

The first step in constructing a portfolio for a particular risk profile is assessing the split between fixed income and equity.

## Fixed Income

Since Tobin's Separation Theorem (Tobin, 1958) for which he was awarded the Nobel Prize for Economics in 1981, financial actors' perspective on investment portfolios have changed. It is now common knowledge that each investment must be considered within the context of the entire portfolio, which is why fixed income assets are used to mitigate portfolio risk stemming from equities.

The key role of fixed income in our portfolios is to provide diversification benefits against equities. We fully expect growth assets, namely equities, to experience negative price movements through the investment cycle. The purpose of fixed income is to provide a "defence" or a "cushion", limiting the loss in value of the total portfolio when equities are falling.

Three key features of fixed income that contribute to its diversification benefits include:

### Capital Preservation

High-quality fixed income securities provide a solid foundation to a portfolio. Although losses can occur over the short term, these assets should offer stability over time.

### Income

Although equities may provide an income stream from dividends to enhance investment returns, these payments are mostly paid at the company's discretion and tend to be minimal in the growth phase of the business cycle. Equities are also subordinate to the bondholders of the same company, which prioritise fixed income payments over dividends in times of distress.

### Inflation Protection

The fear of inflation is a reality for most investors. Several asset classes can provide indirect protection against inflation, but inflation-linked bonds offer a more explicit hedge against inflation, protecting your investments' purchasing value.

### Diversification Of The Bond Allocation

Timeline Portfolios' inhouse research has shown that no one sub-asset class of fixed income consistently outperforms another in times of market stress. It is for this reason that we maintain a diversified bond allocation, to offer the greatest protection during times of market downturns. In addition, to provide protection from adverse currency movements and maintain relevance to the UK interest rate environment, all three ranges maintain a tilt to UK bonds. Portfolios hold both global government and corporate bonds.

### Credit Ratings

Corporate and Government bonds are assigned ratings, to give investors an indication of the credit worthiness of a particular bond issue. If an investor buys a particular bond, they want to know if the issuer is able to pay the agreed interest on the loan in a timely manner and return the full amount when the bond expires.

Credit ratings are split into two broad categories: investment grade and speculative grade. Investment grade bonds are less risky. For this reason, Timeline Portfolios only invests in funds that hold investment grade bonds.

## Corporate Bonds

Investing in corporate bonds provides an alternative, and less risky approach to gaining exposure to public companies than shares. Whereas dividend payments and capital growth via an equity investment are not guaranteed, high quality corporate bonds are more likely to meet scheduled interest payments and return the original loan amount on bond expiration.

## Government Bonds

Issued by governments to fund government spending. Government debt is generally seen as one of the safest forms of bond investing, as interest payments and principal are guaranteed by governments. However, as with companies, some governments are less risky than others. Because of this, like corporate bonds, Timeline Portfolios only invests in highly rated government bonds.

## UK Inflation-Linked Bonds

All Timeline portfolios use UK inflation linked bonds to a greater or lesser extent. UK inflation linked bonds are one of the safest assets for UK investors. Being invested in UK government bonds means that investors' money is exposed to little credit risk and currency risk. Moreover, returns are linked to inflation, protecting investors' real wealth.

## Maturity & Interest Rate Risk

One of the biggest factors that impacts the value of bonds is interest rates. There is an inverse relationship between interest rates and bond prices. When interest rates fall, bond prices rise. Why is this?

Essentially, bonds pay a fixed rate of interest. If interest rates fall, a bond paying a higher rate of interest becomes more attractive, demand increases, and whenever there is greater demand for any product or service, this results in higher prices. If interest rates increase, the fixed rate being paid by the bond becomes less attractive, when something is not in demand, its price drops.

Because the number of outstanding interest payments on a short-term bond are fewer than those on a long-term bond, changes in interest rates have less of an impact on the value of short-term bonds.

To offset the additional volatility associated with factor tilts in the equity allocation of the Timeline Portfolios Classic range, we maintain a greater exposure to less volatile, short-term bonds, than the broad market.

Our view is that a global approach to fixed income investing is most appropriate, lowering systematic risk via increased diversification.

## Global Exposure

Investing in global bonds allows investors to gain exposure to a greater number of fixed income securities, and associated risk factors. Akin to equity investing, by taking a global perspective with regards to fixed income, events affecting bonds in other markets will be different to events affecting bonds in their own local market. Therefore, a global allocation to bonds has the potential to reduce an investor's risk without necessarily reducing expected return (Phillips & Thomas, 2013).

The diagram below illustrates the benefits of holding a globally diversified bond allocation. The relatively low correlations of government bond yields across markets for the last 50 years suggests that local risk factors such as inflation, interest rates and yield curves tend to cancel each other out.



Source: Schlanger, Walker and Roberts (2018)

They also serve over the long-term to protect against inflation, although longer term fixed-income securities do have a potential to deviate more in value. Some evidence shows that securities with longer maturities do not deliver adequate returns considering the increase in risk (Berndsen 2003; Schröder and Sørensen 2010). However, clients with lower risk portfolios (and hence equity allocation) may want to hedge against inflation with long-term fixed income assets.

## Currency Hedging

Our portfolios are designed to withstand some amount of foreign currency risk and where appropriate we use hedged bond funds. Given the modest returns of fixed income securities, they are more susceptible to fluctuations in exchange rates, whereas with equities we take the view that the emphasis should be on delivering growth of a greater amplitude that far outweighs any potential foreign exchange risks.



Our globally diversified portfolios also mean that for those funds that are not hedged, we are invested through the medium of a diverse set of currencies, which we consider providing a reduction in currency-specific risk and to be another valuable source of diversification in our portfolios.

## Equities

We believe that markets are mostly efficient and that asset prices are fair, which results in capital migrating to destinations that offer the most attractive risk-adjusted expected returns.

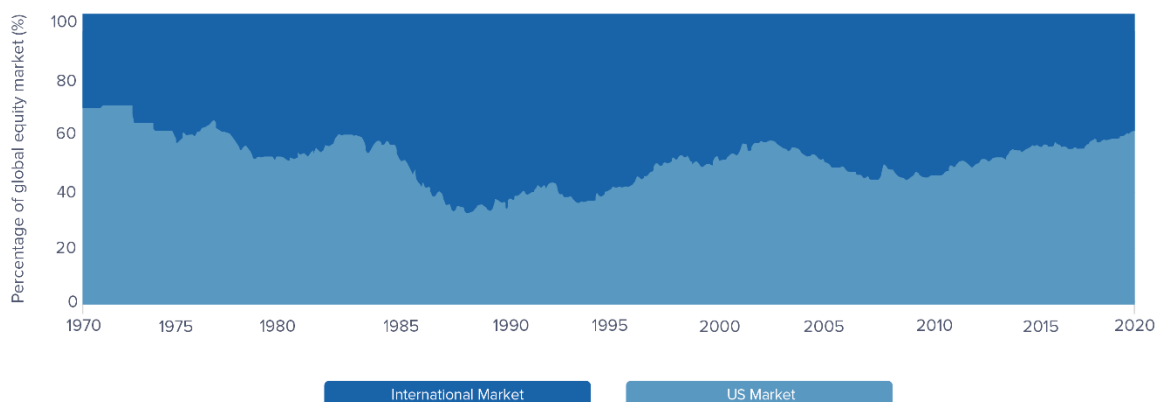
We, therefore, see no rationale for maintaining a home bias in our portfolio ranges and take a global investment perspective, holding securities in each market in line with their proportion of their total market capitalisation.

Our core philosophy is to use the vast quantity of theoretical and empirical research combined with our in-house analysis to make objective and informed investment decisions. As mentioned above, our asset allocation within equities is linked to market capitalisation weightings, with a small-cap and value factor tilt in our Classic and ESG ranges.

### A Diversified Starting Point

Timeline Portfolios takes a long-term, globally diversified approach to asset allocation. They allocate our equity exposure proportionally across regions according to each region's share of global market capitalisation. This approach ensures a diversified base to gain exposure to various economic market forces.

We believe that markets are mostly efficient and that asset prices are fair, resulting in capital migrating to destinations that offer the most attractive risk-adjusted expected returns. Therefore, a global market capitalisation approach can be seen as a dynamic investment approach that allows investors to share in the global equity markets as capital markets change over time. For example, the US equity market currently accounts for approximately 59.2% of the global equity market. In the late 1980s, the US equity market made up only 29% of the global equity market. These dynamic weights can be seen in the figure below.



Source: Vanguard (2021)

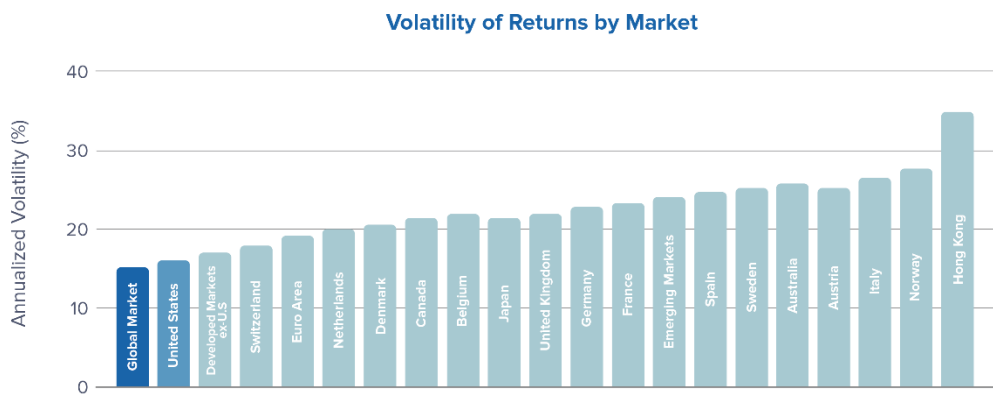
## Global Market Capitalisation

There are four main reasons for using a global market capitalisation approach in our portfolio construction process. A global market capitalisation approach:

- Reduces total portfolio volatility.
- Reduces idiosyncratic risks.
- Removes a home bias.
- Serves as a diversified starting point.

## Reduces Total Portfolio Volatility

The benefits of global diversification stretch further than just a diversified starting point. Equity markets across the globe have less than perfect correlations with each other. These imperfect correlations provide further diversification benefits by causing an offset of volatility when analysing the global equity market in aggregate. Research by Vanguard (2021) found that the United States' equity market has been the least volatile market of all the countries examined between January 1970 and September 2020. However, the volatility of the US market was still slightly higher than the combined global market. The rest of the countries examined had shown volatility levels up to 100% greater than the global market index as can be seen below.

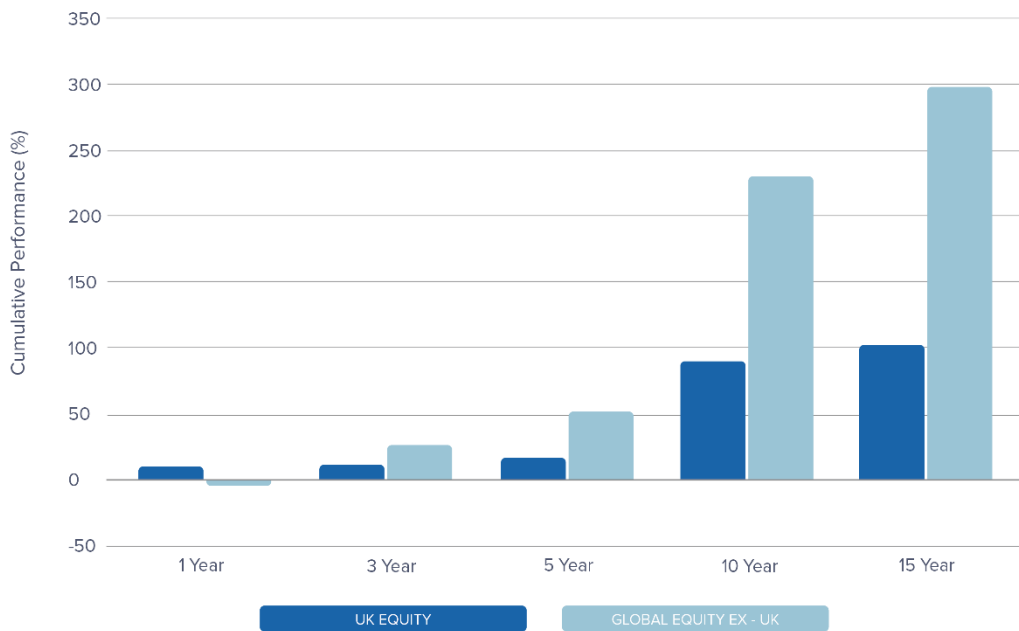


Source: Vanguard (2021)

## Removes Home Bias

Home bias refers to the tendency for investors to cluster their holdings in domestic markets. This has been well documented in the literature and although not fully understood, the reasons for this behaviour are believed to be explained through a combination of rational and behavioural factors (Ardalan, 2019). By concentrating their investments in one country, investors not only miss out on the opportunity to invest in faster-growing economies, but they are also more vulnerable to volatility in that market. The implications of investing heavily in the UK can be seen in the chart below.

## Home Bias Versus Global Asset Allocation



Source: Timeline Portfolios (2021)<sup>2</sup>

We further believe that in many ways “country” split is no longer a useful way to look at equity markets, and country classifications for the most part do not truly reflect the investment’s profile or likely behaviour. In many cases, there is limited information in the classification applied by data providers, that is driven by country of listing or incorporation.

With the level of transparency over company activities, we trust that global market players have allocated capital to the areas of opportunity that offer the best risk-return profile. Country allocations should not have a bearing on how we construct our portfolios, and we use market capitalisation weightings to guide strategy, as they incorporate the aggregate forward-looking expectations of all market participants and provide a continuously updated, instantaneous snapshot of global diversification.

### Reduces Idiosyncratic Risks

Idiosyncratic, geopolitical, economic, and financial risks are always present in global investing, our investment philosophy is to take a long-term view, rather than focus on short term risks. A global market capitalisation approach serves to reduce exposure to these risks. This was evident in February 2022 when Russia invaded Ukraine. In the first month of the invasion, the MOEX Russian equity index declined by a third, while a global market-cap index like the MSCI All Country World Index, declined by approximately 1%.

<sup>2</sup> UK Equity: iShares UK Index (IE) NAV GBP in GB, Global Equity ex-UK: L&G World Ex UK Equity Index PMC Pn G25 GTR in GB. Performances are cumulative up to last price 27.06.22.

Therefore, in line with our views on the importance of international diversification and supported by the findings of Driessen and Laeven (2007) and Scott, Balsamo, et al. (2017), Timeline Portfolios takes a global approach to asset allocation.

## Factor Investing

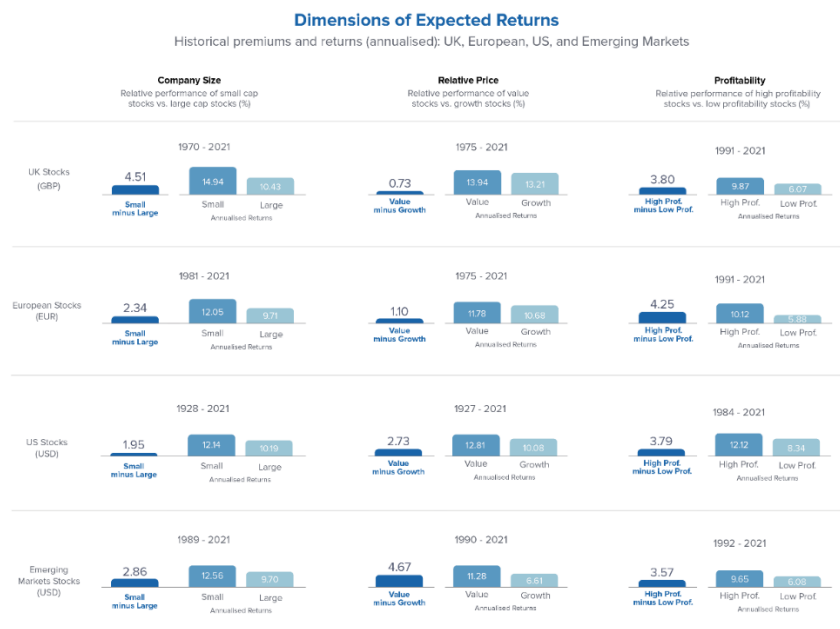
Factor investing can be defined as an investment approach that involves targeting mutually exclusive drivers of risk and return in an investment portfolio.

Before we seek out any premiums from factor investing, we first have to acknowledge that risk and return are related. It is a fundamental law within finance that to achieve a certain level of return; you must accept a certain level of risk. However, the reward that one can theoretically receive for taking upon risk does not come free of charge, so the risk can also be perceived as a premium. Our role is to identify which risks offer consistently higher expected returns and then provide exposure to the reasonable risks in a structured, disciplined, and cost-effective manner.

### Equities: Small & Value Premium

Traditionally it was widely accepted that a stock's expected return is determined by its systematic risk compared to the overall market, more famously known as a stock's "beta".

In 1992 this traditional view was challenged by what is today known as the three factor Fama-French Model (FFM) model. The FFM designed by Nobel Laureate Eugene Fama (University of Chicago) and Professor Kenneth French (Tuck School of Business, Dartmouth College) hypothesised that two other factors contribute meaningfully to a stock's expected return. These two factors are a stock's size (small or large-cap) and its book-to-price ratio (value or growth).

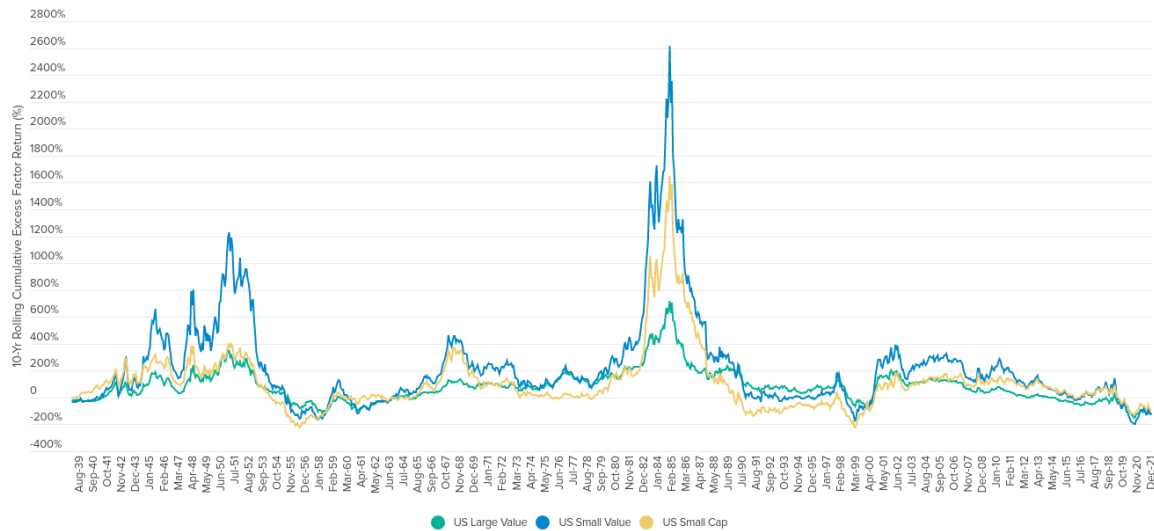


Source: Dimensional Fund Advisors (2022)

As you can see from the chart on the previous page, value stocks deliver greater returns than their growth counterparts, because the prices of value stocks (as the name would suggest) don't reflect the strength of their fundamentals, but instead present good value, which tends to lead to better returns. Growth stocks, although designed to appreciate, do worse on average, given the fact that they tend to already be relatively expensive, with little room left to rise. The latter is also the reason for the outperformance of small cap stocks, given that they have more room to rise and demonstrate increased volatility, for which investors are rewarded.

The pattern of performance remains the same if we extend the time period to look at data beginning in 1939. Again, there appears to have been substantial outperformance of small-cap and value stocks, compared to large-cap and growth stocks in the US equity market.

## Excess Factor Return



Source: Timeline Portfolios (2022)<sup>3</sup>

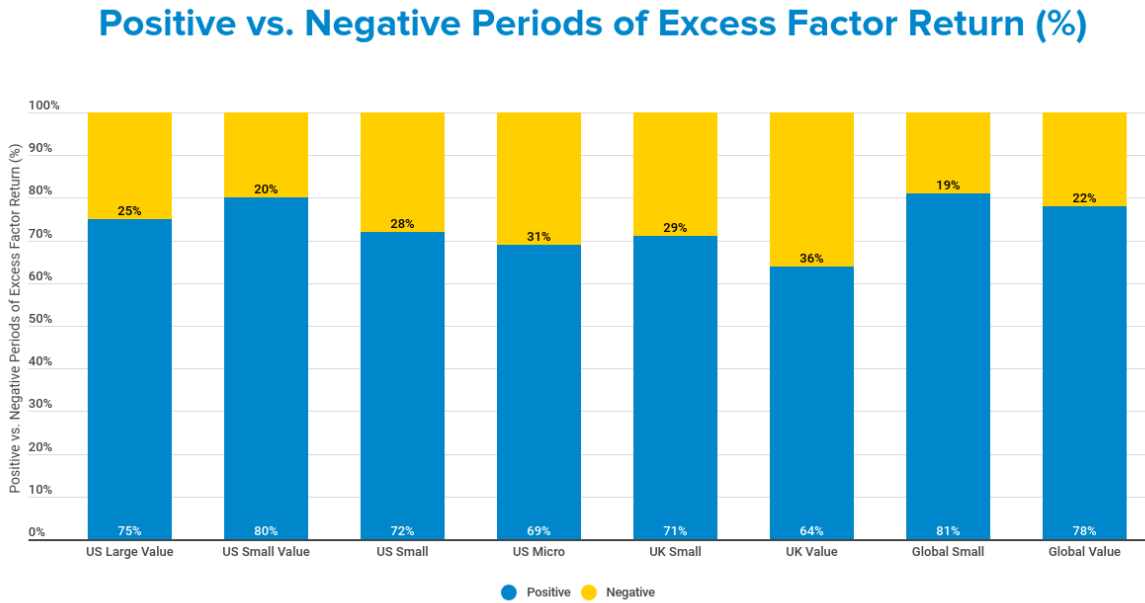
We are often faced with the argument that these small-cap and value premiums result from market inefficiencies. However, if that was the case, then one should expect the market to exploit these inefficiencies as they become known, and the premium should disappear.

Yet, given the nearly 100 years of past data, we see that these premiums are much rather a result of investors' risk preferences. These risk premiums indicate that investors prefer to hold large-cap stocks over small-cap stocks, and growth stocks over value stocks. Therefore, the small-cap,

<sup>3</sup> The chart shows the 10-year cumulative excess factor return for the value and size factors in the US over and above the main market indices over the same period. 10-year Rolling cumulative excess factor return over and above the main market indices over same period, in £. (c) 2020. Betafolio Limited. Data from GFD, Dimensional and Ken French Library.

value tilt in our investment philosophy is rooted in our belief that the small-cap value premium will persist into the future.

An important point that is often forgotten about factor investing is that it usually undergoes a very prolonged period of underperformance. Therefore, they are called “risk factors”. If you just earned additional returns for factor exposures, it would be called a “free lunch”. The chart below shows that around 20% of 10-year periods end up with a negative excess return for most factors.



Source: Timeline Portfolios (2022)<sup>4</sup>

The most prominent observation from the above two charts is the cyclical and lumpy nature of factor returns. The excess returns associated with value and size factors come at a price, that protracted periods of under-performance, relative to the overall market.

<sup>4</sup> Percentage of periods with +/- excess factor returns. Rolling 10-year cumulative excess return over and above the corresponding broad market. (c) 2020. Betafolio Limited. Data from GFD, Dimensional and Ken French Library.

## Emerging Market Equities

When considering global capital markets from an investment perspective, it's second nature to divide the world into "developed" versus "emerging". Index providers allocate countries to either classification depending on their stage of economic development and its sustainability. The two characteristics considered are "investability" such as size and liquidity, and then "accessibility", which considers factors such as foreign ownership limits, ease of capital flows and operational stability.<sup>5</sup> Emerging economies are often associated with increased risk of inflation, geopolitical uncertainty, and foreign exchange fluctuations. The overall systemic, or "market" risk, is elevated, resulting in a bumpier investment ride.

### The Rationale For Emerging Market Equities

Beta-convergence. This macroeconomic growth theory predicts that emerging economies will grow faster than their developed counterparts, until they reach the same level of economic development. Economic growth within a country is important to investors as over the long term, this is the main driver of a country's equity market value. If Beta-convergence holds, by investing in countries with faster-growing economies, investors should receive a greater return. The evidence suggests that emerging markets may converge (IMF, 2011) and thus experience higher rates of economic growth, subject to the adoption of appropriate economic, legal, and political reforms.

### Evidence For An Emerging Markets Premium?

When considering risk adjusted rates of returns, our research found that there is not an observable emerging market premium due to the higher volatility of returns observed in those markets. In short, emerging markets provide potential for superior returns, but at the cost of higher volatility.

Our Classic and ESG portfolio ranges overweight emerging markets relative to their market capitalisation to offer clients access to these higher returns, within the volatility parameters that their risk profiles can withstand.

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<sup>5</sup> There is no universally agreed upon criteria for classifying economies as developed or developing (emerging). The IMF classifies 34 economies as developed and 150 as developing (emerging). It says that "this classification is not based on strict criteria, economic or otherwise and has evolved over time" (IMF, 2014)



## Risk Management

All Timeline portfolio models are built across a range of equity increments that satisfy clients' risk profiles and are risk-rated after the construction process. Our portfolio construction process does not manage a portfolio to maintain a specific level of risk (volatility). However, we construct our portfolios to take on more risk to deliver a higher level of risk-adjusted return as the equity exposure increases from 0% to 100%.

### Benchmark Selection

An investment benchmark can be defined as a standard against which a portfolio's performance can be measured. According to CFA Institute (2020), a good investment benchmark will exhibit the following key characteristics: it should be unambiguous, investable, measurable, appropriate, reflective of current investment opinions, and specified in advance.

We acknowledge that inflation-targeted benchmarks are not the ideal benchmark for measuring investment performance. Still, for financial planners, it is the best benchmark to track a client's progress toward their long-term financial goals; therefore, we map our portfolios against a Retail Price Index (RPI) targeted benchmark.

### Mapping Our Portfolios Against the Retail Price Index

RPI is a measure of inflation published monthly by the Office for National Statistics (ONS). It is used to calculate the cost of living and wage escalation by measuring the cost of a representative sample of retail goods and services.

The Timeline Portfolios portfolio ranges all use an RPI-targeted benchmark for each underlying portfolio. We appreciate that RPI is an older measure and tends to be higher than the Consumer Price Index (CPI). We are comfortable that a more pessimistic benchmark will be in the client's favour when managing investment goals.

According to the ONS, the average RPI rate since 1926 has been 4.5%. There have also been 40-year periods in which the RPI rate have reached 6.6% per year. When looking at the historical performance of an 80% global fixed income and 20% global equity portfolio, the average performance has been 6.6% in the same time frame from 1929 to 2021. Every 10% increment in growth assets has also increased investment performance by 0.5% on average since 1929. Therefore, we find it suitable to map our portfolios to RPI -1% for a 100% fixed income portfolio and increase the RPI-targeted benchmark by an absolute value of 0.5% for every 10% increment in growth assets, rising to RPI+4% for a 100% equity portfolio.

## ESG Considerations

While Milton Friedman (1970) argued that the one responsibility of business was “to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game”, proponents of Environmental, Social and Governance (ESG) investing argue businesses have responsibilities and obligations not only to shareholders but to a wide variety of internal and external stakeholders. Moreover, failure to consider these stakeholders can have a negative impact on long-term profitability. Therefore, firms which are environmentally responsible, socially aware, and well governed should deliver superior risk adjusted returns. In essence, ESG investments seek positive returns while also considering the long-term impact business practices have on the environment and society.

### Increased Interest

Interest in these strategies has increased significantly in recent years. According to the US SIF Foundation (2018), of the \$46.6 trillion of total assets under professional management in the United States in 2018, \$12 trillion was invested in ESG portfolios, an increase of 38% from the 2016 figure of \$8.7 trillion. However, the concept of “responsible” investments is not new and stretches back at least to the 18th century, when the Quakers prohibited any investments relating to the slave trade and Methodists were asked to avoid investments in any trade that could be harmful to life and health (Renneboog et al., 2008).

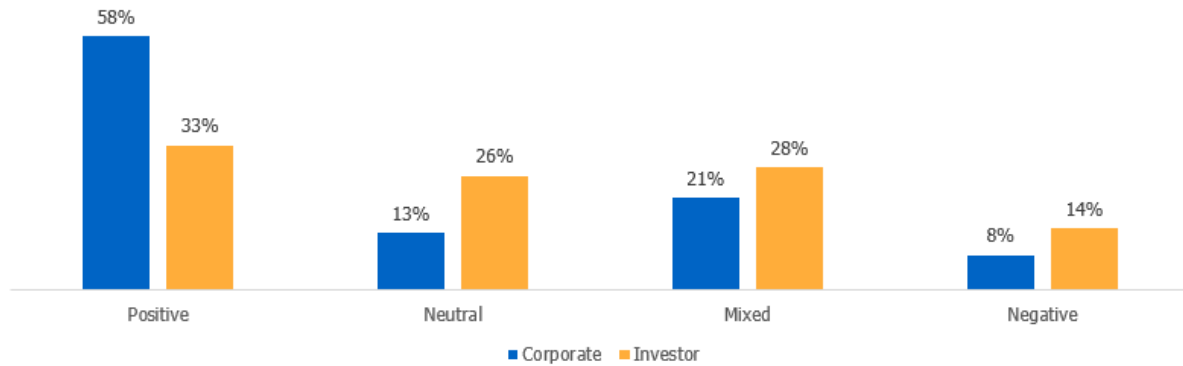
### Performance

Concerns that investing responsibility could negatively impact returns is not supported by the academic research. Busch, Friede, and Bassen’s (2015) meta-analysis of over 2,200 empirical studies, examining the link between ESG and financial performance found that in approximately 90% of the studies, a relationship was present; the majority of these relationships were non-negative.

In addition, research by the Morgan Stanley Institute for Sustainable Investing (2019) found, after reviewing performance data from 2004 to 2018 of 10,723 exchange-traded and open-end mutual funds, that sustainable funds provided returns in line with comparable traditional funds while reducing downside risk; furthermore, there was evidence to suggest, sustainable funds were more stable during periods of extreme volatility. Moreover, the International Monetary Fund’s (2019, p.87) own “analysis suggests that the performance of sustainable and conventional funds is comparable”.

A more recent meta-analysis by Whelan et al. (2021) came to a similar conclusion. This study involved reviewing over 1000 research papers, divided into those that focussed on corporate financial performance (e.g., operating metrics such as return on equity or stock performance) and those focused on investment performance from the perspective on an investor (e.g., risk adjusted returns). In the corporate studies, a positive or neutral relationship between ESG and financial performance was found in 71% of studies. For studies that took the perspective of an investor, the figure was 59%.

ESG and Financial Performance Studies (Corporate and Investor)



Source: Whelan et al. (2021)

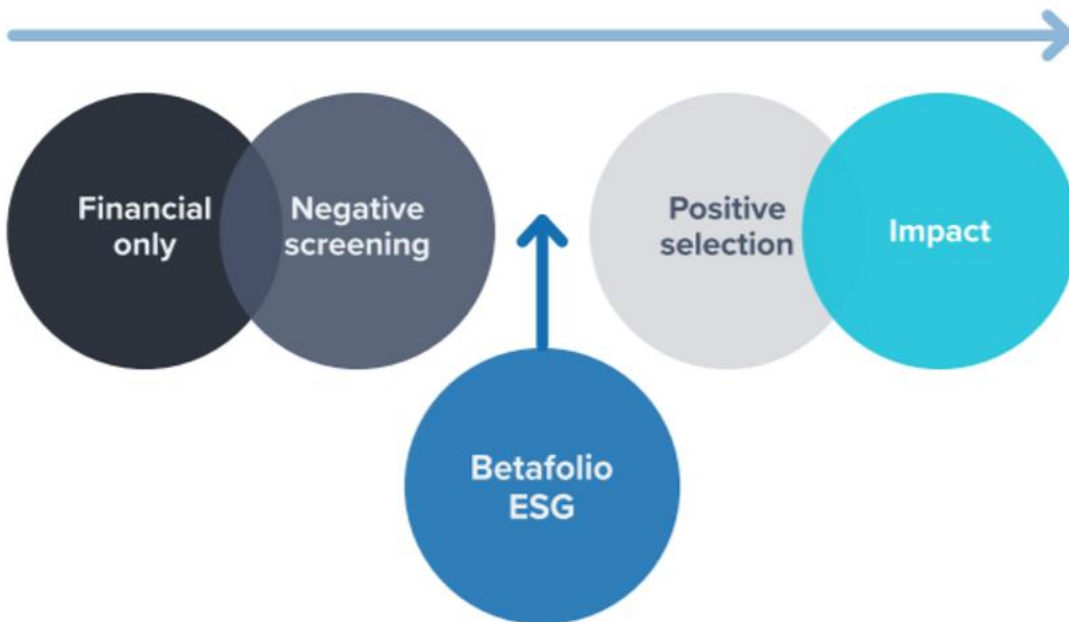
**Timeline’s Approach**

Traditional “Ethical” portfolios tend to exclude or include certain companies based on even the smallest infraction or exclude all companies within a particular industry because of the industry’s environmental record, irrespective of each company’s specific policies and practices. This binary and rigid approach can lead to a smaller investment universe, a diminished opportunity for diversification and generally results in higher costs.

By contrast, Timeline Portfolios ESG aims to allocate more to companies that adhere to these principles and less to those that don’t. We therefore don’t necessarily exclude these companies completely. Often this is referred to as “light green” ESG investing. Since environmental business practices can vary considerably among companies, corporate governance and practices that advance sustainability are better characterised along a spectrum. We believe that an investment methodology that applies more robust sustainability scoring at company level, may better serve investors.

Timeline Portfolios’ ESG portfolio range holds a number of ESG funds, included after a thorough analysis of the underlying fund construction process utilised to ensure their ESG credentials. In addition, all funds fit Timeline Portfolios’ core investment philosophy of being low-cost, passively managed and maintain a diversified market capital approach.

There are differing approaches to ESG that can be viewed as a continuum:



## Excluded Asset Classes

Virtually all non-traditional asset classes and investment strategies, collectively known as “alternative investments” are omitted from our core portfolios.

### Commodities

We consider investments in commodities such as gold, that do not have the capacity to deliver any kind of income (from which value is derived) to be speculative. Gold’s value, much like all commodities in their original form, is derived solely from finding a counterparty to a trade, so even if somebody owns all of the gold in the world, it’s worthless if they cannot find a buyer. There might be a place for speculation at the fringes of an investment portfolio, but we do not believe speculative instruments should play a major role in our core portfolios. We therefore concentrate on bonds and equities.

Although our portfolios do not hold commodities directly, exposure to commodities is gained indirectly by holding the stocks of commodity producing and mining companies within the funds used to construct the portfolios.

### Cryptocurrencies

Timeline Portfolios do not include cryptocurrencies. There is no reliable way to determine value. Whereas traditional assets, such as equity and fixed income are valued by examining expected cashflows, and then discounting these back to the present day, the value of cryptocurrencies is driven by behavioural psychology and market sentiment. The behavioural aspect in driving cryptocurrency returns also means returns can be highly volatile.

### Futures

Futures have demonstrated benefits of diversification historically, however, the discussion on the benefits of holding these securities over the long-term is still highly contested. As a result, we cannot advocate the usage of these instruments in our portfolios, considering the lack of compelling empirical evidence. It should be noted that some of the funds used in our portfolios may use futures for cash management and to gain exposure to equity.

### Hedge Funds & Private Equity

Common alternative investment strategies such as hedge funds and private equity do offer certain advantages. This stems from their low correlation with traditional market forces and thus with commonly held instruments like equities and fixed income. Another proposed benefit of these strategies is that they deliver exposure to talent. Given the discretionary-based salary of professionals within private equity and hedge funds, this exclusive sector of finance attracts extremely qualified professionals, and so naturally an investor would want their money in the hands of these people.

However, when investing based on this premise, an investor opens themselves up to risk, based both on selection of manager and the selected manager’s consistency of results, which as we discussed in previous sections, is not the most reliable strategy to pursue. The exclusive, private nature of these entities also brings lack of information disclosure and thus relatively opaque

structures, resulting in difficulties conducting any significant amount of due diligence on the investment vehicles they produce. Complex investment products which drive high costs and the lack of liquidity also contribute to a level of risk for the investor that we believe isn't palatable and so we justifiably omit these vehicles from our portfolios.

## Fund Selection & On-Going Screening

Our screening of funds starts with the entire market of relevant retail investment products, which includes OEICs/Unit trusts (onshore & offshore) and Investment Trusts. Using FE Analytics, we apply a set of well-defined criteria to identify the most appropriate funds. These criteria include:

### Investor Protection

We screen the funds for compliance with the fourth (IV) and fifth (V) editions of the European Union's Undertakings for Collective Investment in Transferable Securities Directive (UCITS). The most recent versions of the directive centre around depositaries, more notably the safeguarding of clients' assets, establishing liability for mishandling and disclosure of remuneration policies to ensure alignment of the custodian's incentives with those of the clients. Additionally, we screen funds for compliance with UK UCITS, a framework introduced by the Financial Conduct Authority in response to the United Kingdom leaving the European Union. This framework retains the UCITS rulebook for UK domiciled funds.

### Index-Replication Method

As a rule, we invest in funds that physically replicate the index being tracked, i.e., the fund is invested in the underlying securities, as opposed to replicating the performance with derivatives that pay the return of the index (referred to as synthetic). This avoids the added element of risk stemming from the financial security of the financial institution (counterparty) that enters into the derivative contract with the fund house and ensures returns are provided regardless of the financial failure of one organisation.

### Base Currency

We screen out funds that are traded in foreign currencies as we do not want to introduce currency risk at this level of the investment strategy. Underlying fund holdings are exposed to non-sterling currencies.

### Fund Track Record

We examine the track record of the fund, with respect to tracking error and performance.

### Fund Expense

Given the importance of cost as a predictor of performance, we set an expense ratio cap of 0.50% for our asset-class-tracking funds within the portfolios, with the exception of Ethical, Small Cap and Value funds (0.75%), where increased costs are justified by the more complex investment management process.

### Transparency

Our approach is to select funds with transparent charging structures and exclude funds with opaque structures from our selection process.

## Fund Size

With greater assets under management comes an increase in economies of scale, efficiencies, and greater liquidity even in the event of a sell-off. Thus, we require funds with a fund size of greater than £100m. We make an exception for screens employing an Environmental, Social and Governance filter, given the infancy of that sector.

## Launch Date

We screen for funds that have a longer tenure than 5 years, this enables us to avoid newly launched funds that have not yet gained traction and may not offer longevity of investment portfolio to clients. We make an exception for screens employing an Environmental, Social and Governance filter, given the infancy of that sector.

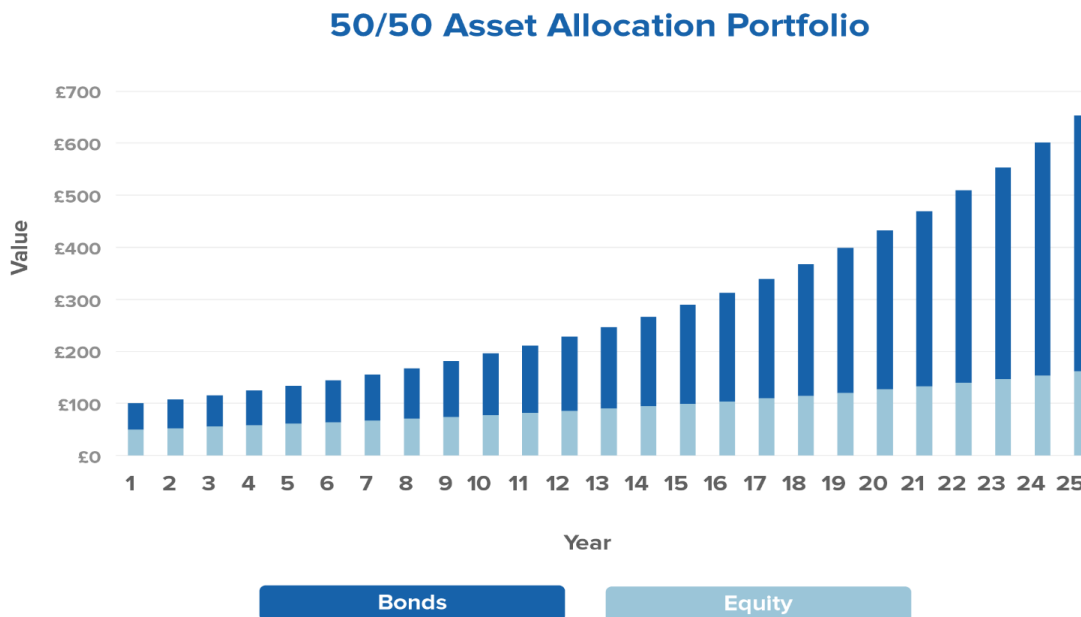
## Platform Availability

It's important that we are able to trade the fund in a cost effective and efficient way and therefore we ensure that the fund is widely available on main adviser platforms. We look at whether the fund is available on Nucleus and Transact, two of the largest platforms in the market, as an indication of widespread availability. If a fund we are interested in is not available on those platforms, we investigate further.



# Rebalancing

Rebalancing is designed to realign the investments held within a portfolio to their original target allocations. The necessity to rebalance is a consequence of long-term varying levels of performance between asset classes. For example, assuming over the long-term equity was to grow by 10% per annum while bonds grew by 5% per annum, a portfolio consisting of an initial allocation of 50/50 to bonds and equity, would drift to an allocation of 25/75 over a 25-year period.



Source: Kitces (2015)

As illustrated above, left unchecked a portfolio's composition may no longer meet the client's risk profile as higher performing and more risky assets such as equity become an ever-increasing proportion of the portfolio. To mitigate this problem, we monitor and when necessary, rebalance portfolios. Rebalancing involves selling higher performing assets and replacing them with lower performing assets. This may seem counterintuitive, and one could rationally argue, from a purely performance-based perspective that a portfolio should never be rebalanced as to do so reduces long term return. However, with investments, risk and return are never considered in isolation.

The optimal rebalancing approach is to capture a proportion of the performance of the outperforming assets, while at the same time mitigating the increased risk of moving too far from the portfolio's target asset allocation.

There are a number of approaches to rebalancing (Daryanani, 2008). Arguably, the most common and simplest approach is "calendar rebalancing", whereby portfolios are rebalanced at fixed points throughout the year regardless of actual movements in asset prices. This is a sub-

optimal approach to re-balancing and serves not only to reduce the ability for investors to capture upside performance but also increases trading costs for the investor which further decrease returns over the long term.

After a review of the literature together with our own in-house analysis, our portfolios will be rebalanced using a “tolerance-based” approach. This involves monitoring the drift of each portfolio on a daily basis.<sup>6</sup> Our tolerance level is 10%. This means that once an asset class, equity, or fixed income as a whole, increase or decreases by more than 10%, the portfolio will be rebalanced, with all funds reset back to their initial target allocation. Compared to other tolerance levels, such as 15% and 20%, whereby overall return would be higher, we believe that such drifts expose investors to excessive risk.

Rebalancing Rule	Annual Return	Min Return	Max Return	Cumulative Return	Volatility	Drawdown	Real End Balance
5% Band	9.4%	-13.1%	41.8%	330.5%	12.3%	-23.1%	£4,498,913
10% Band	9.5%	-13.3%	41.5%	332.6%	12.4%	-23.3%	£4,562,756
15% Band	9.6%	-13.8%	42.0%	337.6%	12.6%	-23.8%	£4,729,446
20% Band	9.8%	-14.2%	42.8%	342.1%	12.9%	-24.5%	£4,853,069
None	10.4%	-17.8%	44.5%	363.5%	14.1%	-32.4%	£5,366,691

Source: Timeline Portfolios (2020)<sup>7</sup>

During periods of volatile markets, discretion will be used as to the frequency of rebalancing to reduce unnecessary trading and associated costs. In addition to this, we consistently review clients’ risk preferences to determine whether any changes should be made.

<sup>6</sup> Due to varied platform functionality, please refer to our individual platform process documents (made available on request) for a detailed operational breakdown on how our optimal rebalancing strategy, outlined above, works on each platform.

<sup>7</sup> Data sourced from a median scenario using a £1m balanced 50/50 portfolio of Bonds and Equity. Data: 1915 - 2019, 35-yr monthly rolling scenarios. This table contains mean metrics for all the 840, 35-yr monthly rolling scenarios.

## Managing Costs Effectively

Clients should avoid getting carried away by the excitement of chasing the next best manager and hot tips, but instead ensure that their costs are minimised. Small differences in returns, due to costs, compound into large differences over extended periods of time, which can materially affect future lifestyle choices.

### Costs Come In All Shapes and Sizes

#### Fees

Given the body of research dedicated to the relationship between high costs and poor returns, we seek to minimise the costs associated with our core portfolios. To achieve this, we use high quality, low cost, passive funds that simply capture the performance of the market.

#### Emotional Costs and Opportunity Loss

Keeping a level head when markets become turbulent is a tough task. When the financial implications are large, it's easy to become engulfed in the financial press' coverage of securities of interest, which can lead to over-emotional decision making and selling assets at inopportune times. Not only does this result in increased transactional costs, but also the abandonment of future capital gains can irk even the most seasoned of investors, resulting in more irrational decisions made down the line.

## Centralised Retirement Proposition

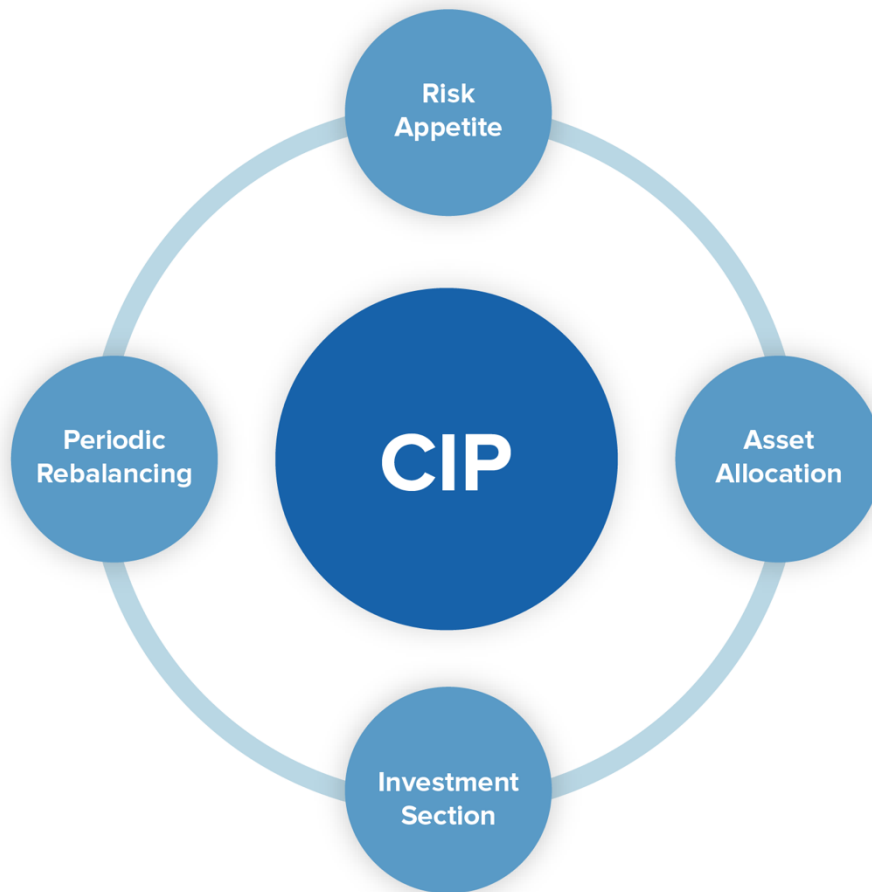
Supplementary to the Centralised Investment Proposition (CIP) provided by the model portfolios is the Centralised Retirement Proposition (CRP).

The term initially introduced by asset managers to market decumulation fund solutions has come to encapsulate a far more holistic way of viewing risk when a client retires, and a portfolio enters decumulation.

Our view of decumulation is that the most important issue is sequence risk. Now, while attempts have been made to mitigate this through focusing on client portfolio volatility or by holding cash buffers or separate accounts, the only way of truly mitigating the issue is through a centralised retirement proposition.

The structure of a CRP is built around the CIP described above, which we have conceptualised diagrammatically as follows:

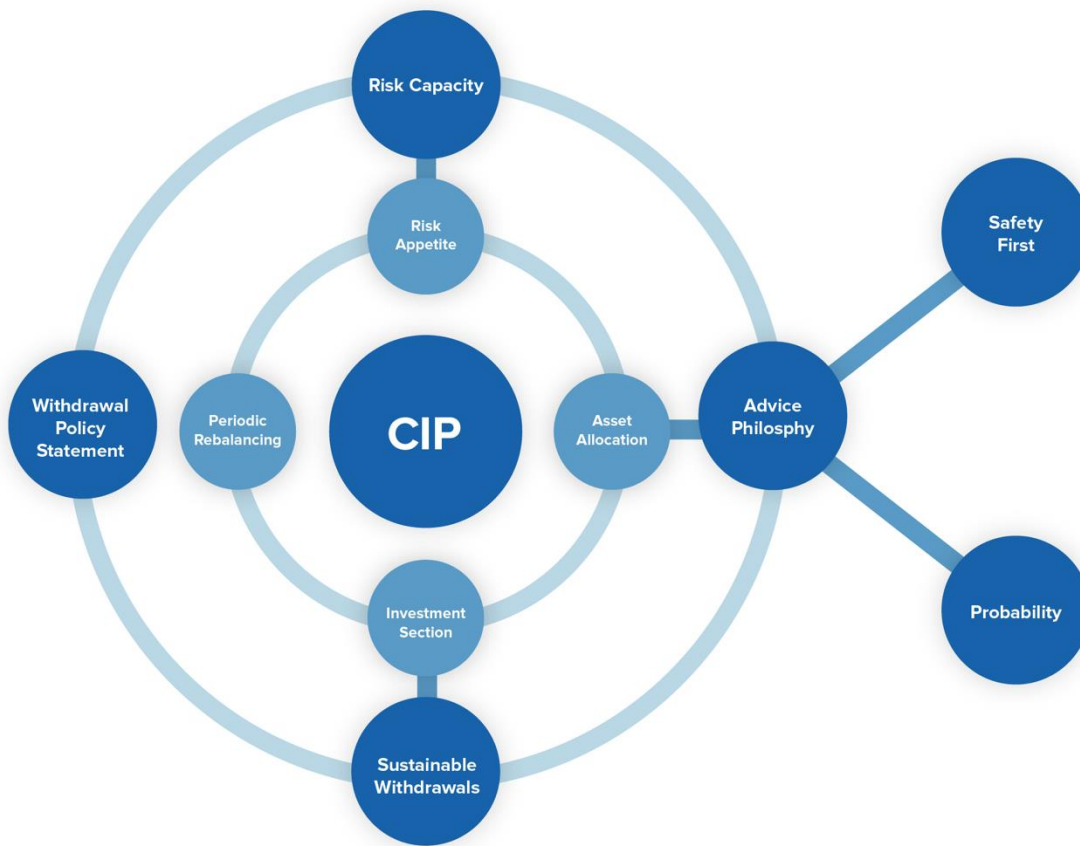
### Centralised Investment Proposition Structure



We see the main four considerations in designing an investment proposition as: determining risk appetite, determining the appropriate asset allocation, selecting the optimal investments and periodic rebalancing to keep in line with a client’s risk preferences.

Now, where the CRP differs from this, is inherently linked to the client’s newly gained dependence on the capital markets, mediated by their investment portfolio. As such, we will see on the how the CRP addresses these issues conceptually.

### Centralised Retirement Proposition Structure



The diagram above, represents wider factors and processes that link into the core CIP.

Given the importance of decumulation clients’ portfolios to their lifestyle, a CRP involves reevaluating a client’s risk appetite. The threat of sequence risk also must be accounted for through establishing sustainable withdrawal strategies, which need to be documented accurately. Finally, the overall philosophy of the process must be evaluated considering capital market returns, whilst ensuring no excessive risk is assumed.

This is an issue that requires deep understanding of clients’ personal situations, but one that we enhance by using long-term historical market returns data and a probabilistic approach to determining withdrawal sustainability.

This is achieved through the usage of the Timeline App, which takes market returns over the course of the last 90 years and enables the advisor to gauge the sustainability of future withdrawals and their sequence risk, based on a multitude of different scenarios which can be chosen based on optimism regarding future returns.

## Decumulation Strategy

Decumulation strategy is built on two key elements:

1. Calculating a sustainable withdrawal based on the client's asset allocation This means the level of withdrawal would be sustainable even in the event of poor sequence of return i.e., the historical worst-case scenario.
2. Having a dynamic withdrawal approach that reduces withdrawal to protect the client's interests in a worse than worst case scenario.

There are different approaches to asset allocation and drawdown in the retirement phase. Using a cash buffer is popular as it reduces the need to raise income when prices have fallen. However, evidence shows remaining "fully invested" and withdrawing to meet income needs provides the best outcome.

Timeline Portfolios' very own Okusanya (2017) built upon the earlier research by Bengen (1997) to understand the impact of different cash buffer strategies in a fully invested scenario. Starting with a 50% global equity and 50% global fixed income, multiple iterations were carried out substituting cash for equity and substituting cash for global fixed income. Of the two scenarios, the iterations which substituted cash for equity had a negative impact on longevity or success rate of the portfolio, while substituting global fixed income for cash had comparatively little impact on the longevity of the portfolio.

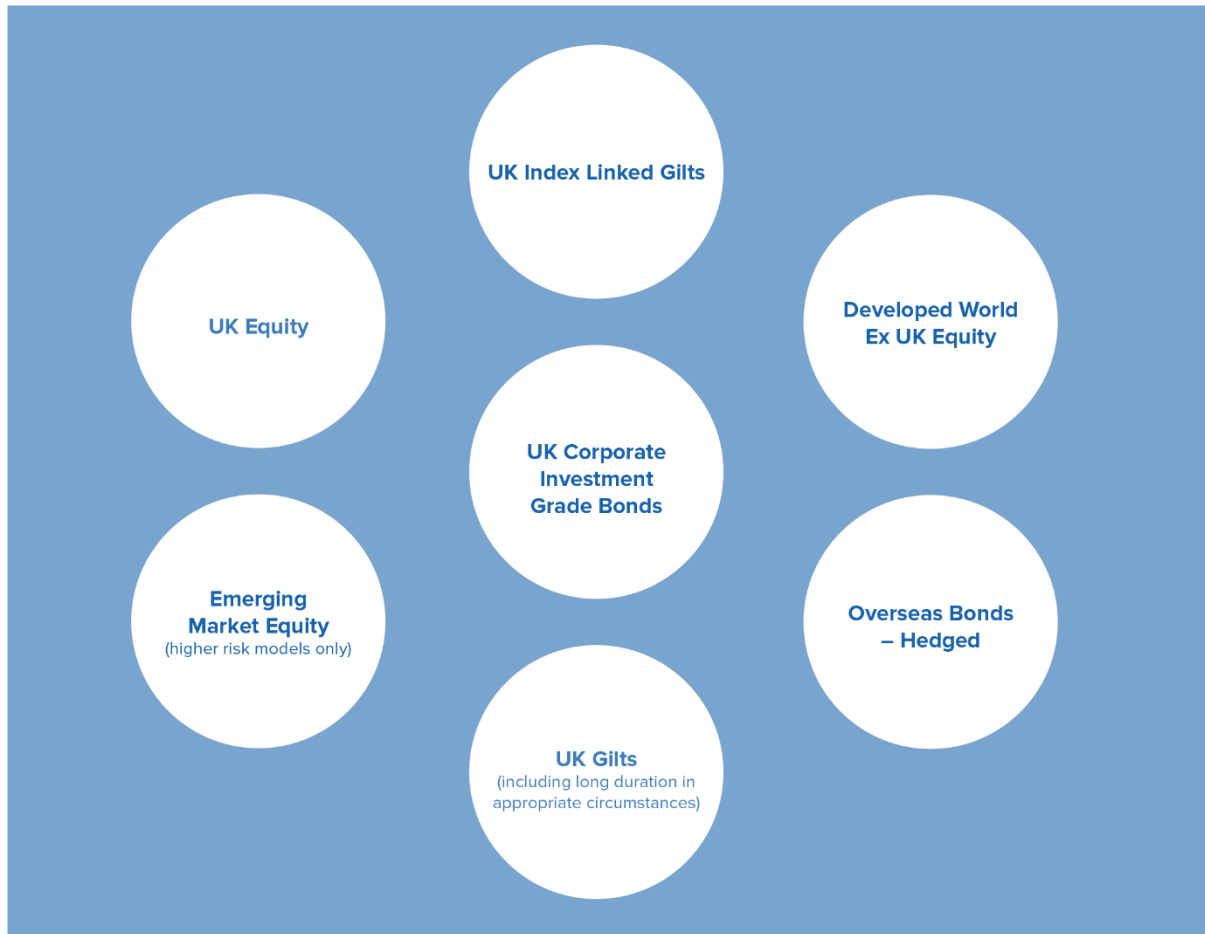
Another popular decumulation strategy is "bucketing". Bucketing involves holding several "buckets" of investments. In one bucket the investor holds several years of cash, while the others hold investments in capital markets. The cash bucket is replenished by selling from the capital market buckets. For a retiree, following a bucketing approach is attractive, there is no need to worry that assets will be sold to fund withdrawal needs when prices have dropped substantially. However, research by Estrada (2018), using a sample of 21 countries over a 115-year period suggests that retirees would be better off following static strategies as opposed to bucketing.

To sum up, our modelling and research has found that holding no cash buffer and rebalancing using a tolerance-based approach provides superior outcomes.

## Summary

The model portfolios will be invested in equities for growth and fixed income, for defensive qualities. Asset allocation strategies will be set according to client risk and return profiles. Equity market cap weights will be used as a starting point.

The model portfolios will invest in the following sub-classes of asset:



# Appendix

## Client Communication & Education

It's important that our clients understand how their funds are invested. We communicate our investment approach to clients and keep them informed about our investment process in the following ways:

- Client meetings
- Client reports (including recommendations and reasoning)
- Regular updates and market commentary

## Clients' Responsibilities

A relationship based on mutual trust and responsibility is key to a successful investment experience. Accordingly, it is expected that clients familiarise themselves with and understand the conditions of the relationship. Clients are expected to:

- Familiarise themselves with the investment literature to a level of understanding that is sufficient to make investment decisions upon.
- Have read and understood the Investment Policy Statement.
- Inform us in writing if any divesture from equity-linked investments is expected within the following 5-year period, to facilitate the continuation of our holistic approach to portfolio management.
- Inform us in writing of any absolute ethical restrictions regarding investment in certain industries.
- Maintain proper correspondence to ensure the timeliness of investment-related actions.

## Fiduciary Duty

In addition to any legal responsibilities, we believe our duties to the client include the following.

Providing perspective, facilitating the type of sound, responsible investment decisions that somebody working with a financial adviser expects and deserves to experience. We believe in "structure, process and discipline", and while that might not sound like the most exciting or colourful motto, it has yielded success for like-minded planners and advisers, which the empirical evidence supports.

We feel it is our responsibility to construct clients' portfolio in a responsible, calm and efficient manner. By focusing on things that can be controlled, rather than unpredictable market fluctuations, we promote and enable the client to follow this thought process and avoid making irrational decisions.

With this perspective on markets and investing, the future looks bright. With methodologically crafted portfolios, founded on fair, objective research, clients can focus on building legacy and wealth, rather than becoming preoccupied by market activity.



## Platforms & Product Wrapper

Platforms offer a range of tools which enable us to manage client transactions and custodial matters more effectively. However, we recognise platforms may not be suitable for all clients, so we will also consider off-platform solutions, where appropriate.

Our platform selection documents detail our platform-selection process, which we review annually as part of our due diligence process.

## Portfolio Design & Testing

A client's tolerance for risk is fundamental to our portfolio-construction process.

From our experience, while many of the psychometric risk-profiling questionnaires successfully gauge clients' perceptions about risk, often there can be a disconnect between how clients feel they will respond in the future and how they actually respond to the prospect of part of their life's savings evaporating into thin air. Clients do also tend to equate their feelings on financial risk to their ability to stomach risk when engaging in other pursuits (sports etc.). This too creates disparities between the results and reality as people tend to view the financial stability of their family when it's at the beck and call of an unpredictable financial market as somewhat more important, than, let's say the structural integrity of a leg when mountain biking.

Thus, while we strive to provide clients with the most suitable solution, the ultimate determining factor will be how the client responds to risk in real-life.

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