pavis

Chartered Financial Planners

The Pavis Premier Model Portfolios

INVESTMENT BROCHURE

Foreword

The aim of the Pavis Premier Model portfolio service is to apply robust, reliable and sensible measures to our investment process. Our goal is to deliver reliable returns, net of costs. We won't try to outperform a rising market by taking more risks, but we will try to lose less in a falling market by taking fewer risks.

We hope that by applying these principles (and avoiding rash decisions at the wrong times) we can achieve a sound foundation to help you meet your financial goals and objectives.

As always, if you have any queries or would like to discuss anything we talk about in the brochure, please get in touch.

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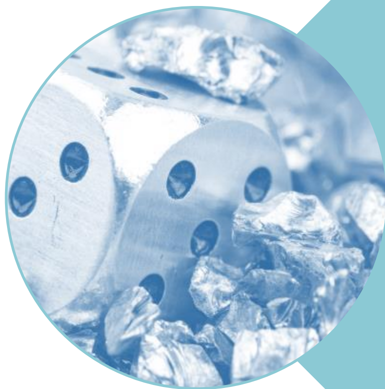
The Right Portfolio for you

Your tolerance of risk, capacity for loss and timescales for investing will determine the amount of exposure to risk markets (equities and property) and also the type of fixed interest you should hold.



Attitude to Risk

Pavis use a tried and tested risk profiling tool to work out your behavioural "attitude to risk". It tells us how cautious (or not!) you might be. It tells us what level of return you might want to target and the loss you might be able to tolerate without feeling uncomfortable.

Capacity for Loss

We also need to consider your specific circumstances to determine your financial (as opposed to emotional) capacity for loss. This could differ between different accounts for the same person. For example, a pension untouched for at least 20 years is different to a cash sum needed to buy a house or to pay a tax bill next year.

Timescales

As a general rule, funds for long-term financial needs (invested for 5 or more years, and either providing an income or not) are investment funds. Funds where you need capital within 5 years aren't suited to long-term investment strategies. Keep these on deposit or weighted towards cash and cash-like holdings (short-dated fixed interest, national savings certificates and the like).

Our Investment Beliefs

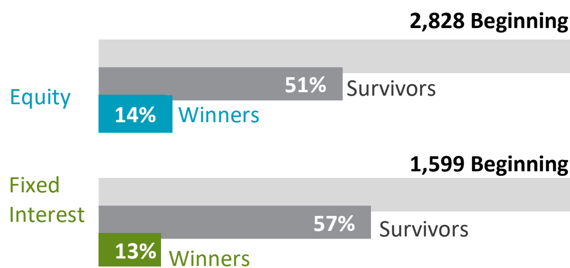
1 Embrace Market Pricing

The market is an effective information-processing machine. Each day, the world equity markets process billions of pounds in trades between buyers and sellers – and the real-time information they bring helps set prices.

2 Don't Try to Outguess the Market

The market's pricing power works against active fund managers who try to outperform through stock picking or market timing. As evidence, only 14% of actively managed US equity funds and 13% of actively managed US fixed income funds have survived and outperformed their benchmarks over the past 15 years.

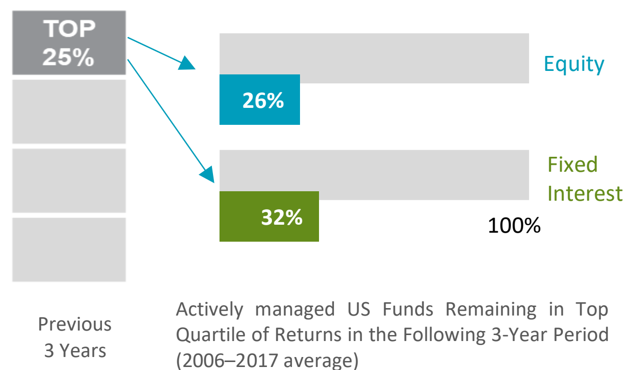
US-Active Managed Fund Performance, 2003–2017



3 Resist Chasing Past Performance

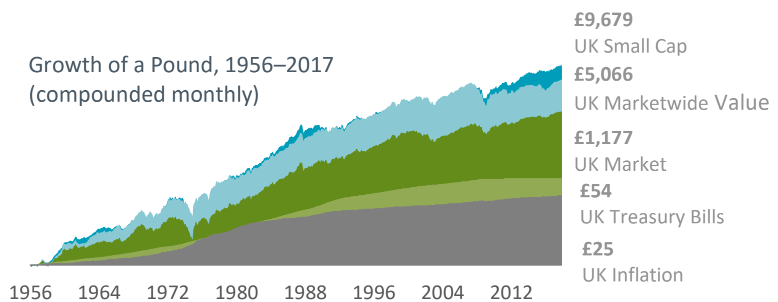
Some investors select actively managed funds based on their past returns. Yet, past performance offers little insight into a fund's future returns. For example, most actively managed US funds in the top quartile (25%) of previous three-year returns did not maintain a top-quartile ranking in the following three years.

Percentage of Top-Ranked US Active Managed Funds That Stayed on Top



4 Let Markets Work For You

The financial markets have rewarded long-term investors. People expect a positive return on the capital they supply, and historically, the equity and bond markets have provided growth of wealth that has more than offset inflation.



5 Consider the Drivers of Returns

Academic research has identified these equity and fixed income dimensions, which point to differences in expected returns. Investors can pursue higher expected returns by structuring their portfolio around these dimensions.

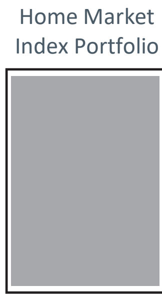
Dimensions of Expected Returns

EQUITIES	FIXED INCOME
Market (Equity premium—stocks vs. bonds)	Term (Term premium—longer vs. shorter maturity bonds)
Company Size (Small cap premium—small vs. large companies)	Credit (Credit premium—lower vs. higher credit quality bonds)
Relative Price (Value premium—value vs. growth companies)	
Profitability (Profitability premium—high vs. low profitability)	

6 Practice Smart Diversification

Holding securities across many market segments can help manage overall risk. But diversifying within your home market may not be enough. Global diversification can broaden your investment universe.

Home Market Index Portfolio



MSCI United Kingdom Investable Market Index (IMI)

1 country, 365 stocks

Global Market Index Portfolio

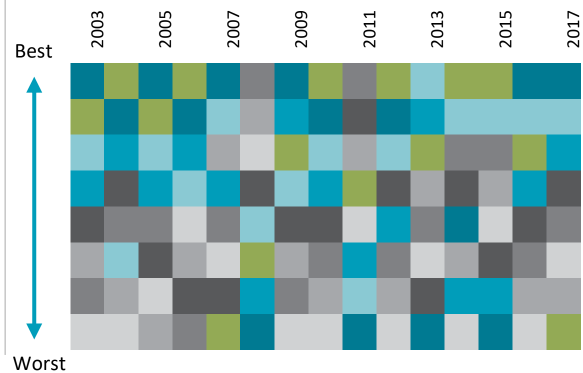
MSCI ACWI Investable Market Index (IMI)

47 countries, 8.653 stocks

7 Avoid Market Timing

You never know which market index will outperform from year to year. By holding a diversified portfolio, Investors are well positioned to seek returns wherever they occur.

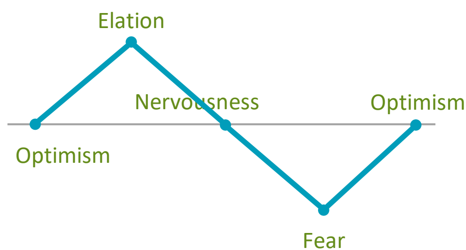
Annual Returns by Market Index



8 Manage Your Emotions

Many people struggle to separate their emotions from investing. Markets go up and down. Reacting to current market conditions may lead to making poor investment decisions.

Avoid Reactive Investing



9 Look Beyond the Headlines

Daily market news and commentary can challenge your investment discipline. Some messages stir anxiety about the future while others tempt you to chase the latest investment fad.

When headlines unsettle you, consider the source and maintain a long-term perspective.

10 Focus on What You Can Control

A financial adviser can offer expertise and guidance to help you focus on actions that add value. This can lead to a better investment experience.

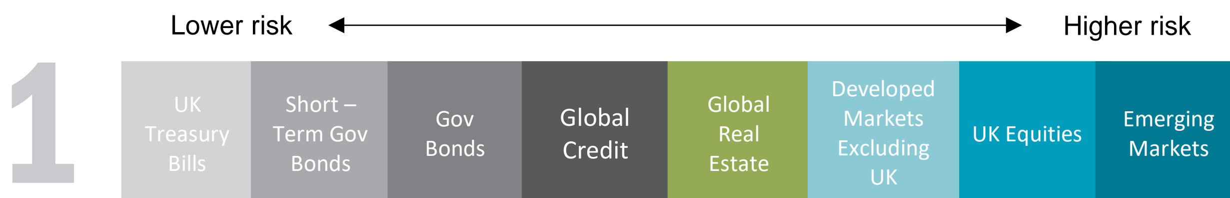
- Create an investment plan to fit your needs and risk tolerance.
- Structure a portfolio along the dimensions of expected returns.
- Diversify globally.
- Manage expenses, turnover and taxes.
- Stay disciplined through market dips and swings.

Constructing Your Portfolio

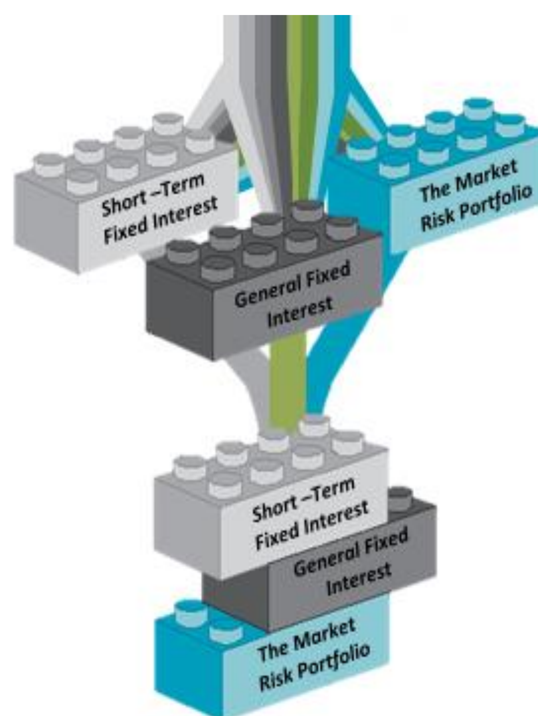
Once we've considered your attitude to risk, capacity for loss and timeline, your adviser will be able to construct a portfolio to help you achieve your financial goals and objectives.

Only then will we decide if the Pavis Premier Model Portfolio Service is suitable for you.

How our Premier Model Portfolios work



We combine a range of assets which have different levels of risk and reward to create 3 'building blocks' that are designed to meet 3 specific needs.



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The 3 building blocks are used to form the foundation of our Pavis Premier Models.

3

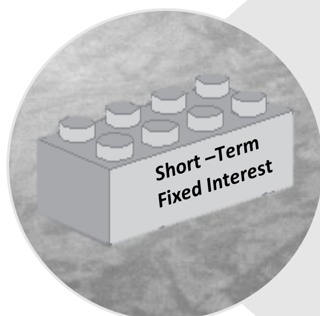
We combine the 'building blocks' in different ratios to create a range of portfolios to meet client's attitude to risk, capacity for loss and investment time horizon.

Risk Portfolio	The Building Blocks		
	Short-Term Fixed Interest	General Fixed Interest	Market Risk
Risk Averse	100%	0%	0%
Defensive	55%	25%	20%
Cautious	20%	45%	35%
Balanced	0%	50%	50%
Moderate Growth	0%	40%	60%
Growth	0%	25%	75%
Moderately Adventurous	0%	10%	90%
Adventurous	0%	0%	100%

We offer the option of a standard portfolio, a version designed to generate above average income and a version designed for long-term capital growth to accommodate the widest possible range of desired outcomes.

The Building Blocks

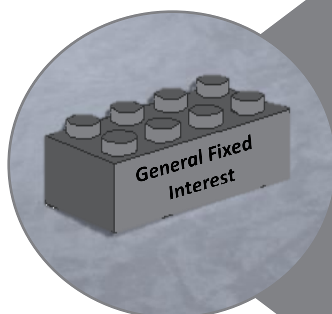
Your tolerance of risk, capacity for loss and timescales for investing will determine the amount of exposure to risk markets (equities and property) and also the type of fixed interest you should hold.



Short-Term Fixed Interest

We have designed the short-term fixed interest element to meet the need for short-term preservation of capital for the most risk averse, or those with short investing timescales.

It's not intended to replace cash and there is no guarantee that the value won't fall. We have designed it for those prepared to accept a limited amount of investment risk in pursuit of modestly higher returns, on average, than cash deposits.



General Fixed Interest

The general fixed interest element aims to provide a portfolio with greater inflation protection but accepts more volatility of value.

We have designed it for those investors able to tolerate this and for long-term investors.

The funds are all sterling hedged and therefore accept no currency risk.

Market Risk

This provides a diversified exposure to all world equity markets (92%) and commercial property (8%).

However, we only invest the full 92% when all equity markets worldwide appear reasonable in value. It’s a rule driven test (explained later in this document) that is consistent and doesn't presume any skill on our part.

Where the test considers equity markets expensive, we'll reduce the amount allocated and invest the cash in absolute return funds instead to protect investors from buying markets which are already expensive.

Income or Growth? - The Pavis Approach

We focus on achieving a Total Return from your investment portfolio enough to help you achieve your financial planning goals. We try to limit the risk to a level that you will be comfortable with. Initially, our stance is neutral on whether this return consists of income, growth, or a combination of both.

The reason for this is that investment returns from income and growth under ISAs and pensions wrappers are tax free, so there is no tax consequence to this stance. For unwrapped (General Investments) although there could be a tax consequence, the availability of annual tax allowances can remove/reduce any amount payable.

Despite this default position, you may prefer to bias how we produce the return towards income, to help meet current spending, or growth to meet investment objectives.

High-Income Portfolio

Meeting Income Needs

Some investors want a high income now to meet current outgoings - pension drawdown for example. Such investors can tolerate volatility of the capital value of the portfolio more than a reduction in income. There are two approaches to meeting these requirements:

- follow a conventional investment approach, concentrate on total return and be prepared to sell assets at regular intervals to supplement portfolio income with withdrawals of capital.
- construct a portfolio aiming to deliver higher levels of income to reduce the need to regularly sell assets to supplement the portfolio income.

To allow you to follow the second approach, we offer a High-Income variant of the model portfolios. This boosts portfolio income from both the fixed interest and market risk elements.

No “free lunch” exists in the investment world. To achieve a higher income, we have to accept a higher degree of volatility of capital value.

Long-Term Growth Portfolio

Meeting Growth Needs

Investors with long timescales can tolerate volatility of a portfolio. A typical example would be a pension scheme where you can't take benefits for many years.

Academic evidence supports the claim that smaller companies tend to outperform larger companies over the long-term. Evidence of other factors, in particular that selecting shares on the basis of a filter by “value”, tends to outperform the broader market.

Pavis offer a growth-oriented portfolio for such investors. We've biased this towards shares in smaller companies and shares calculated to meet certain tests of “value”.

You can expect such a portfolio to be more volatile than the conventional portfolio. But there are also reasonable grounds to expect it to deliver higher returns on average, over the long-term.

The value of investments and income from them can fluctuate and investors may get back less than the amount invested.

Balancing and Rebalancing….

Once we've agreed on the most suitable portfolio matching your investment objectives, we use a portfolio management system to monitor your assets. This makes sure your portfolio remains consistent with these goals.

We have designed a set of rebalancing rules which we will use each quarter to:

1. Reduce exposure to equity markets which are measured as expensive;

   then

2. Rebalance portfolios to the desired proportions across each asset class.

You instruct us to sell and buy units as necessary each quarter to maintain the recommended asset allocation of the chosen portfolio.

Each quarter (at the end of January, April, July and October), we rebalance the holdings in the portfolio back to the original proportions. We expect the funds used to only change rarely; this keeps transaction costs down.

The pre-authorised rebalancing instruction enables us to maintain the asset allocation discipline of the chosen portfolio. It restores the investments back to the original asset allocation, with the tactical adjustment to equity markets (described later) to keep the portfolio consistent with the risk-return characteristics.

You keep absolute discretion over all investment decisions. You can cancel these rebalancing instructions at any time.

If you want to change to a different portfolio with different asset allocations, you simply provide a new instruction confirming you wish to change the risk and return characteristics of your portfolio.

Right Place, Right Time

<u>The Test of Market Value</u>

If you buy investments at expensive prices, future returns are likely to disappoint. That's just common sense. So, our goal is to invest less when markets are expensive. We need a simple consistent measure to let us assess whether a market appears expensive or fairly valued.

To provide some protection against the risk of over-priced stock markets, we test every quarter using the Cyclically Adjusted Price to Earnings ratio (CAPE). CAPE compares the current price of equities in each region (such as UK, US and Europe) against the long-term (typically 10 year) average of earnings rather than a snapshot which can be distorted by one-off factors. This measure has proved to be a reliable guide to over-valuation.

Averaging ten years of reported earnings is intended to allow the CAPE® Ratio to account for mean reversion of earnings over long-term earning cycles and thus obtain a more accurate long-term measure of the equity market valuations.

Assets with a lower CAPE® Ratio are generally considered to be "undervalued", while assets with a higher CAPE® Ratio are generally considered to be "overvalued". If an asset class appears overvalued, we will underweight it in favour of our chosen 'buffer' funds in accordance with the rule below.

The Rule - that we apply to the portfolio is:

≤ We reduce by 10% the proportion invested in an equity market which is trading on a CAPE ratio of 20.0 or more, i.e. to 90% of the portfolio's standard (long term) exposure.

≤ We will reduce by a further 10%, i.e. to 80% of the portfolio's standard (long term) exposure, when the CAPE ratio of the equity market exceeds 25.0.

≥ Once the CAPE ratio has exceeded 25.0 the long-term exposure will be 80%. If the CAPE ratio subsequently drops back below 22.5, we will Increase the long-term exposure back to 90% of full weighting. If the CAPE ratio continues to fall and drops below 17.5*, the exposure to this equity region will be returned to 'full weighting'*.

∞ This process is repeated every quarter.

We hope to provide a degree of protection against the fall in value which can result from overpriced equity markets.

<u>Why CAPE?</u>

CAPE produces a steadier estimate of likely profitability, averaging out the peaks and troughs of the economic cycle. The evidence is strong that this does provide a reasonable guide to valuation. Evidence shows the price you pay today is a major factor in determining the returns you can expect to receive over the next decade. Nothing serves as a guide to the next 12 months.

DISCLAIMER

The information contained within this brochure must not be considered as financial advice. We always recommend that you seek independent financial advice before making any financial decisions.