BROOM IFA
IMAGINATIVE FINANCIAL ADVICE

# Hybrid

Portfolio Report as at June 2021

## RISK LEVEL:

1 2 3 4 **5**

## TIME HORIZON:

Short 3-7 yrs
Medium 8-15 yrs
**Long 16 yrs +**

### DESCRIPTION:

The portfolio is designed for an aggressive investor who is prepared to risk some of their capital in order to maximise returns. This strategy may result in heavy short-term losses, meaning the investor should be prepared to commit their money for a significant period of time, as cashing in early could leave them with unfulfilled potential.

To maximise the potential return, the portfolio is invested almost entirely in equities. The vast majority of these are blue chip stocks listed in the major developed markets of the UK, the US, Europe and Japan. Equities are generally considered a high-risk, high-return asset class; investors therefore should be comfortable with the behaviour associated with this.

Some of the more exotic equities it holds provide exposure to more specialised sectors such as emerging markets; these have high growth potential but are also susceptible to heavier losses in falling markets. The nature of emerging markets means exposure will be far below that of more developed markets.

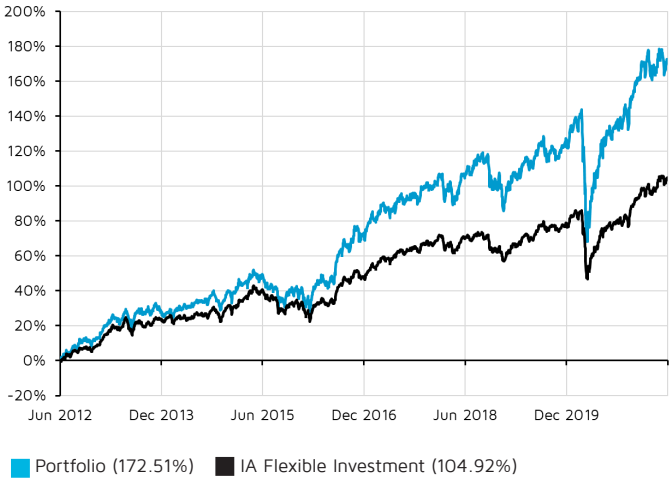
The portfolio may include some exposure to absolute return funds or property if they are viewed as an attractive opportunity. The portfolio has no exposure to defensive asset classes such as bonds. This means that if markets were to fall the portfolio would have little protection.

### FUND LIST:

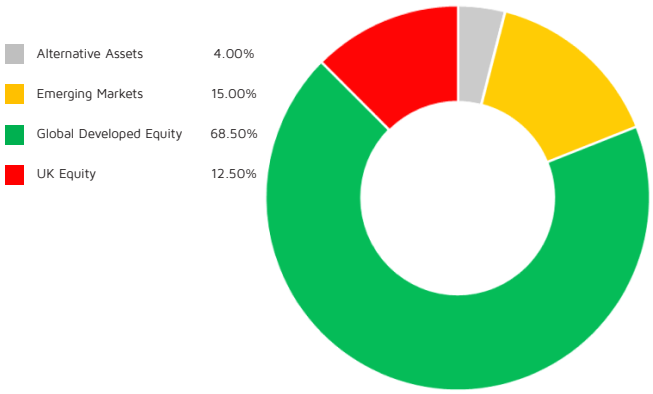
| Name | Weighting |
|---|---|
| Artemis US Absolute Return | 2.00% |
| BlackRock European Absolute Alpha | 2.00% |
| Invesco China Equity (UK) | 10.00% |
| Fidelity Emerging Markets | 5.00% |
| HSBC American Index | 14.00% |
| Baillie Gifford American | 13.50% |
| Dodge & Cox US Stock | 13.00% |
| HSBC European Index | 12.00% |
| Lindsell Train Japanese Equity | 10.00% |
| Brown Advisory US Sustainable Growth | 6.00% |
| Unicorn UK Income | 9.50% |
| Fidelity Index UK | 3.00% |

Capital preservation is not a concern and the portfolio will experience heavy losses in a falling market, with the portfolio having no exposure to defensive asset classes. The investment strategy should lead to higher overall growth rates, although heavy losses are also possible.

### PAST PERFORMANCE OVERVIEW (NET OF FEES):[1]




### ASSET BREAKDOWN:[2]




### DISCRETE PERFORMANCE TO LAST QUARTER END:

| Period | 0-12 Months | 12-24 Months | 24-36 Months | 36-48 Months | 48-60 Months |
|---|---|---|---|---|---|
| Portfolio | 44.59% | -11.58% | 8.55% | 2.12% | 29.30% |
| Benchmark | 29.10% | -8.14% | 3.31% | 2.36% | 19.05% |

**Past performance does not indicate future performance and you may get back less than you originally invested.** History prior to March 2015 is synthetic history, it has been calculated using investments that were available at the time and would have been chosen for inclusion in this portfolio had it been running. All figures are calculated on a bid to bid total return basis in GBP and includes FE's charge of 0.275%. Data from FEfundinfo 2021

## RISK ANALYSIS:

The portfolio is managed to a risk target deemed appropriate for this portfolio by the actuarial firm EValue. Risk is measured using volatility which is the movement of the return around its average. The greater the swings in value the less consistent the performance of the portfolio and the higher the risk. Our aim is to match the risk target as closely as possible.

This portfolio has targeted an annualised volatility of 11.5 per cent since launch in June 2012; actual volatility has been below this but within acceptable limits. This figure includes the synthetic history from 2012 to 2015. This allows us to say that historically, over one year, the difference between the best and worst possible results would have been 46 per cent in 95 per cent of cases. A higher-risk portfolio would have a greater spread of returns, meaning the chances of both large losses and large gains increase, whereas a lower-risk portfolio would have a narrower spread of returns.

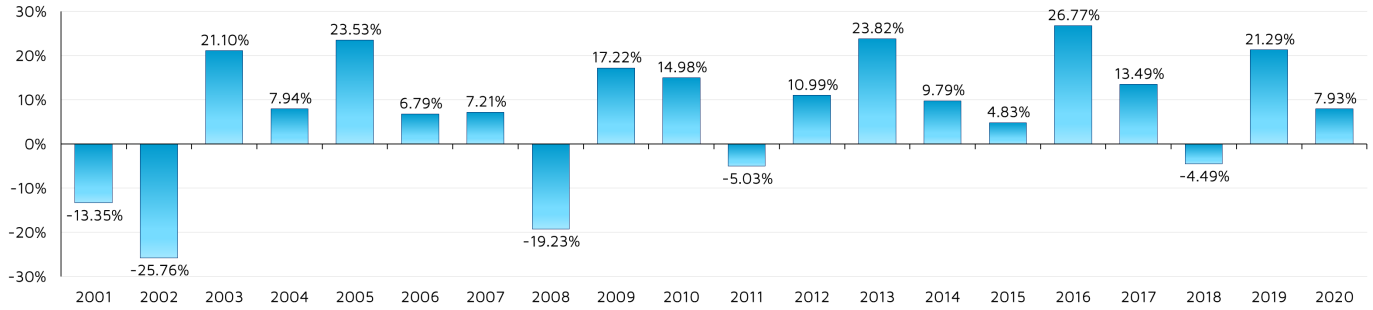
**Lowest Month:** -14.23% **Lowest Six Months:** -16.70% **Lowest Year:**-11.58% **Range of Monthly Returns:** -14.23% to 12.83%

## RISK ILLUSTRATION:

The portfolio itself has only been running since 2012 and has synthetic performance back to 2008. To provide a better impression of how the portfolio might be expected to perform over the longer term we have provided simulated data back to the year 2001. The data shows that in a 20-year period this proxy for the portfolio's current investments lost money on five occasions, including two consecutive years, 2001 and 2002. The biggest loss would have been in 2002, where over the year the portfolio would have lost 25.76 per cent; this equates to an investment of £10,000 falling to £7424. This means over the period our proxy would have made money in 15 out of 20 years. The highest growth experienced was in 2016 when the asset allocations grew by 26.77 per cent. This means an investment of £10,000 would have been worth £12,677 at year end.

**Synthetic History:** This is history that has been generated prior to the official launch of the portfolio in March 2015; it has been calculated using investments that were available at the time and assuming no knowledge of how they would have performed going forward. It is indicative of how the portfolio would have performed over time had it been in existence.

**Simulated History:** This uses the strategic asset allocation provided by our actuarial consultants EValue. It uses passive investments to represent the risk level that we are currently targeting and whose performance we are trying to exceed. The performance provides an illustration of how the current portfolio may have behaved; historical positioning may have been different due to a variety of factors, including input from EValue, the impact of fund selection and changes of asset allocation by the portfolio management team. It also does not consider any charges. The history can be represented over a far longer time period than the synthetic history and therefore illustrates performance over a number of market cycles.

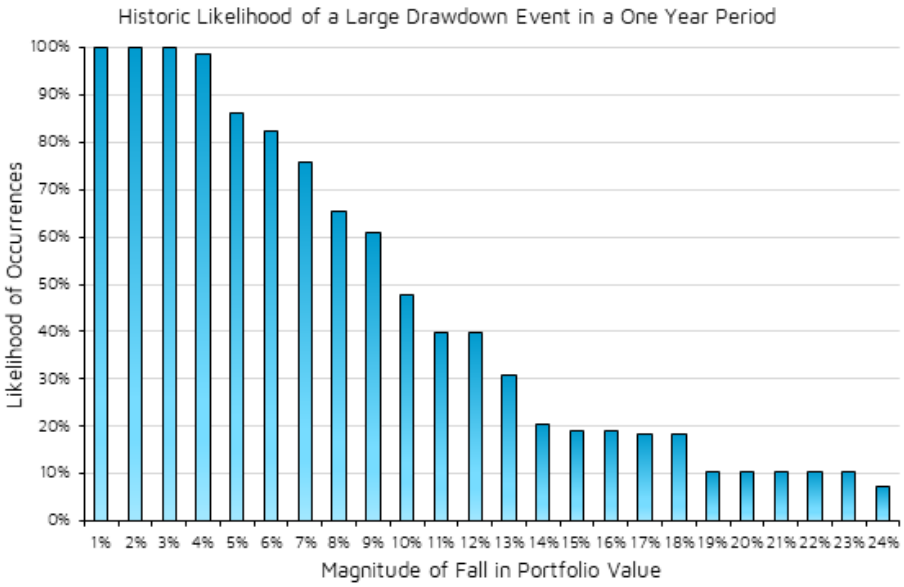



The average annualised performance of the asset allocation since 2000 has been 6.46%

## POSSIBILITY OF LARGE LOSSES:

All investments necessarily include some risk that cannot be fully diversified away, meaning periods of loss will occur. It is important therefore that investors understand what the potential magnitude of these losses could be and whether they are comfortable with them.

The chart opposite analyses the current strategic asset allocation of the portfolio back to the year 2000, looking at rolling one-year periods. For each of these periods we analyse what the largest loss the portfolio experienced during that period was and then plot the total occurrences. For instance, a chart that reads 5 per cent on the 'x' axis and 60 per cent on the 'y' axis would indicate that over any one year period there was a 60 per cent chance the portfolio fell by at least 5 per cent. It therefore shows what would happen if you invested at the top and sold at the bottom. Any recovery during the period is not considered.




**All information presented on this page is only illustrative of what has happened in the past, it should not be seen as a guarantee that losses will not exceed past levels.**

## WHAT IT COSTS:[3]

**Portfolio Expense:**0.55% **Transactional Costs:**0.15% **DFM Charge:**0.275% **Total Cost of Investment:**0.98%

Portfolio expense refers to the underlying costs of managing the funds. Transactional costs refers to additional costs which this does not capture such as trading fees, investment research and foreign exchange fees. It also includes implicit costs that can have an impact on performance but are not charged directly to the end investor.

## WHAT YOU'RE INVESTED IN:

**Artemis US Absolute Return**
**Weighting:** 2.00% **Yield:** 0.0% **Total Charge:** 0.93% +(+1.26%)
The fund's manager aims to produce an annualised return of 3 per cent over a three-year period. In order to achieve this he is able to go long in the US – that is, profiting when a stock's price rises – or short, profiting when prices fall. This means that the fund need not only make money during a rising market, and therefore can add significant diversification and protection to a portfolio. The manager benefits from Artemis's significant expertise in US equities, which has a proven track record among many traditional US equity funds.

**BlackRock European Absolute Alpha**
**Weighting:** 2.00% **Yield:** 0.0% **Total Charge:** 0.93% +(+0.49%)
The fund is a long/short equity fund, which means that it is able to profit not only when share prices increase but also when they fall. When it is going long on a company, it is looking for the share price to increase; in this instance it focuses on cashflow-generating companies that have a clear growth path over the medium- to long term. When it is going short on a company it is looking to benefit from a falling share price; in this instance it is looking for companies that are very indebted, which have structurally challenged and inefficient business models, and which are likely to have negative earnings surprises. This ability to benefit from both rising and falling markets makes the fund less correlated to traditional equity funds and adds important diversification benefits.

**Invesco China Equity (UK)**
**Weighting:** 10.00% **Yield:** 0.6% **Total Charge:** 0.94% +(+0.53%)
The inclusion of this fund in the portfolio provides direct access to the world's second largest economy and the fastest growing trillion-US dollar economy. The manager prefers private enterprises, avoiding those with any state ownership. This drives him away from financials and energy, giving him a strong bias towards technology and consumer-related sectors. The fund now has the flexibility to invest in the China-A shares market that, until recently, was restricted to domestic Chinese investors only.

**Fidelity Emerging Markets**
**Weighting:** 5.00% **Yield:** 0.6% **Total Charge:** 0.97% +(+0.41%)
This fund provides the most aggressive equity exposure in the portfolio, thanks to the benchmark-unconstrained approach to investing in emerging markets. The manager has not been afraid to make large contrarian calls, which have at times led the fund to significantly outperform its peers; however, there is obviously a risk these calls could spectacularly backfire. For this reason, the level of exposure to the fund is strictly controlled.

**Baillie Gifford American**
**Weighting:** 13.50% **Yield:** 0.0% **Total Charge:** 0.51% +(+0.09%)
This fund is a concentrated investment solution that helps construct the global developed equity portion of the portfolio. The fund has an investment style that is geared towards growth investing, meaning that it offers significant diversification benefits when blended with funds of differing styles, chiefly value. The team has a high conviction in the companies that it invests in, thus the fund can have large holdings in just a few stocks, meaning it can perform very differently to the market.

**Dodge & Cox US Stock**
**Weighting:** 13.00% **Yield:** 0.0% **Total Charge:** 0.63% +(-0.08%)
This fund is run on a committee basis, using its large US-based analyst team to present ideas to the investment committee, which will collectively approve any investment decisions. The fund takes a long-term view when investing, with a slight value tilt towards large global US companies. It can be considered a core holding within the global developed equity portion of the portfolio. The fund tends to behave rather differently to the market, meaning it works best when blended with other funds.

**HSBC European Index**
**Weighting:** 12.00% **Yield:** 2.0% **Total Charge:** 0.06% +(+0.05%)
This fund provides passive exposure to the FTSE Developed Europe ex-UK Index and helps construct the global developed equity portion of the portfolio. It has been chosen due to its low costs compared to other passive funds and its ability to replicate the index as closely as possible. The fund replicates the market by holding all stocks within the index.

**Lindsell Train Japanese Equity**
**Weighting:** 10.00% **Yield:** 1.5% **Total Charge:** 0.71% +(+0.02%)
Fund manager Michael Lindsell runs a concentrated low turnover portfolio of approximately 20 to 30 funds that the team has identified as exceptional businesses. He aims to buy companies for less than they are intrinsically worth, and with management teams of the highest integrity and ability, and then own those shares forever. The team believes investors undervalue durable, cash-generative business franchises. Japan has a history of behaving differently to other markets so acts as a strong diversifier in the portfolio, and exposure is limited due to the inherent risks of investing in the region.

### HSBC American Index

**Weighting:** 14.00% **Yield:** 1.4% **Total Charge:** 0.06% +(+0.03%)

The fund makes up part of the core developed-equity portion of the portfolio by tracking the S&P 500 Index. It has been chosen because it provides low-cost exposure to US markets, which can prove difficult to beat using an active strategy. The fund replicates the index by holding all 500 stocks within it.

### Unicorn UK Income

**Weighting:** 9.50% **Yield:** 3.0% **Total Charge:** 0.81% +(+0.22%)

This fund is unusual in the UK equity income sphere as instead of producing its income from the large commodity, pharmaceutical and tobacco companies in the FTSE 100, it does so by investing in small- and medium-sized companies. As the fund is predominantly investing in companies that make their money from the domestic UK economy, it incurs much less currency risk than many of its peers, although it is worth noting that smaller companies are normally viewed as inherently more risky.

### Brown Advisory US Sustainable Growth

**Weighting:** 6.00% **Yield:** 0.0% **Total Charge:** 0.90% +(+0.02%)

This fund helps to make up the core global equity portion of the portfolio. The team employs negative screens to exclude certain industries deemed harmful to society, such as armaments, fossil fuels and genetic modifications. As well as this, it aligns its process with the United Nations Global Compact Principles. The managers are looking for companies that have outstanding business models, with a sustainability focus that can also improve the financial performance. This focus means the fund tends to be underweight energy, utilities and financials, so could struggle if these areas are performing well.

### Fidelity Index UK

**Weighting:** 3.00% **Yield:** 2.6% **Total Charge:** 0.06% +(+0.07%)

This fund provides passive low-cost exposure to UK markets. The fund has been chosen for its exceptionally low charges and its ability to replicate the FTSE All-Share Index extremely accurately. The fund achieves this by holding all the larger shares and a representative selection of the smaller companies; this reduces costs and liquidity risks while not impacting its ability to match the index. As a UK equity fund, it can be considered a core holding of the portfolio.

# External Risk Ratings



# About FE Investments

**FE Investments Portfolios:** Our portfolios are a total investment solution designed to help advisers in achieving their clients objectives. FE Investments has produced a range of optimised portfolios which are designed to manage risk to achieve the desired outcome for investors.

The portfolios are optimised to maximise the overall level of diversification between different fund strategies. By analysing the relationships between funds we aim to find the best possible mix, where differing strategies are complementary and further reduce the total risk in the portfolio; thus allowing for greater market exposure for the same level of risk compared to a more traditional portfolio solution.

FE Investments produce fifteen growth portfolios that uses optimal asset allocation models from EValue as a reference for each level of risk. We optimise our portfolios to match the risk of the reference, to try and achieve greater returns and better capital protection. We use the asset allocation models as a guide but allow our portfolios to differ significantly where we are able to diversify away the extra risk. This approach has been developed internally by FE Investments and has been validated by Cass Business School.

FE Investments Portfolios are constructed exclusively from funds that have made the FE Investments Approved List and have therefore gone through a rigorous vetting procedure. We've developed 15 growth portfolios, spanning three time periods and five risk levels, as well as a natural income solution which is outcomes orientated, as opposed to risk targeted.

**FE Investments Approved List:** Our recommended list of funds builds upon our established suite of research tools to help keep investors better informed. Funds initially undergo a rigorous quant screening to identify the best performers. This screening encompasses four distinct areas; Crown Ratings, Alpha Manager Ratings, Group Awards and AFI (Adviser Fund Index).

These four areas combined allow us to accurately scrutinize a fund from all angles. Our dedicated team of analysts overlay this quant analysis with their own independent and unique qualitative analysis. Funds that pass this rigorous two-stage quantitative and qualitative analysis process then make it on to the FE Investments Approved List.

# Awards & Ratings For FE Investments








# Important Information

**1 Performance Overview:** All performance figures are calculated on a bid to bid total return basis in pounds sterling to last month end.

**2 Asset Breakdown:** For this calculation a fund is assumed to invest 100% in any one asset class. For example a fund in the IA UK All Companies sector would be classifed 100% UK Equity. A mixed investment fund would be classifed as 100% Mixed.

**3 What it Costs:** The portfolio expense is calculated using the weighted value of the OCF of the portfolios constituent funds. The average expense of funds is a simple average of the OCF of the portfolios constituent funds. Where OCF is not available TER is used. Total cost of investment include FE Invests charges of 0.275%.