BROOM IFA
IMAGINATIVE FINANCIAL ADVICE

MOSAIC

Portfolio Report as at April 2021

DESCRIPTION:

The portfolio is designed for a cautious investor who is prepared to commit their money for a significant amount of time. It prioritises capital preservation, but it takes on a small amount of risk in an attempt to increase the value of the initial investment.

To ensure stability and maintain its cautious profile, the majority of the portfolio is invested in gilts – a defensive asset that generally provides lower returns over the longer term but presents less risk to capital. Gilts generally help to protect the portfolio from the worst effects of falling equity markets, as they tend to move in the opposite way due to their perceived safe-haven status.

The portfolio has a fair amount of equity exposure to the major developed countries, such as the UK, the US, Europe and Japan, and this is the portion of the portfolio that has the highest growth potential. Exposure to international markets incurs some currency risk, so it is important to ensure the portfolio is not concentrated in one region. The significant exposure to this high-risk asset class means it is imperative that investors are prepared to lock their money away for a significant period to minimise the impact of market fluctuations.

There is no exposure to emerging markets, which are considered too high risk for this portfolio. A limited allocation is held in smaller companies, due to the higher risk, but greater growth prospects associated with them.

Generally, this strategy will provide a steady overall level of growth with little chance of significant losses if held to term.

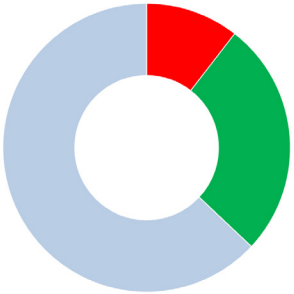
RISK LEVEL

1	2	3	4	5

TIME HORIZON

This is a long term portfolio, investors should be prepared to invest their money for multiple market cycles in order the strategies that the portfolio is invested in can reach fruition. Roughly investors should be looking to place their money for a minimum of 15 years.

ASSET ALLOCATION



UK Equity	10.50%
Global Developed Equity	26.50%
Gilts	63.00%

WHAT IT COSTS:

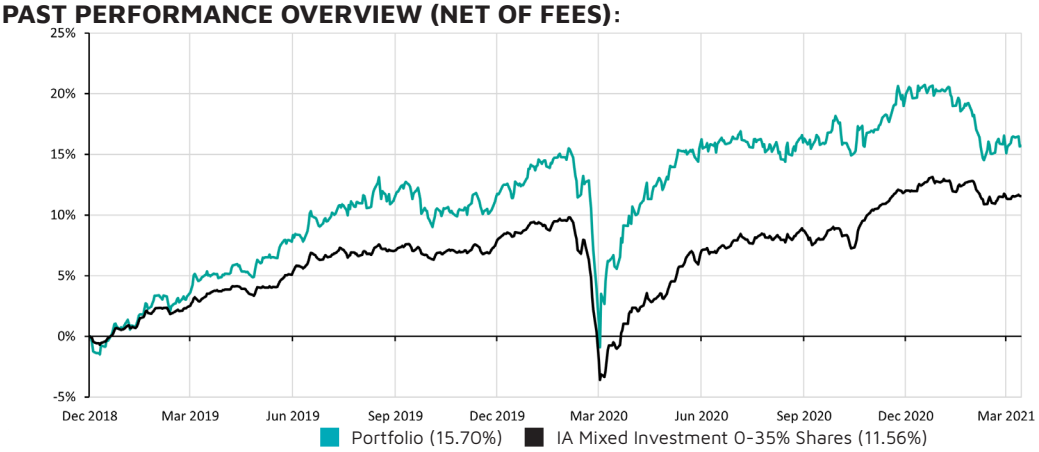
Portfolio OCF: 0.46% Transactional Costs: 0.05% DFM Charge: 0.33% (incl VAT) Total Cost: 0.84%

Portfolio expense refers to the underlying costs of managing the funds. Commonly known as the ongoing charges figure these costs consist primarily of management fees and additional expenses such as registration, regulation, auditing and legal fees, the costs of distribution as well as any other operational expenses

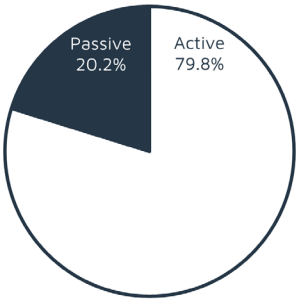
Transactional costs refers to additional costs which the portfolio expense does not capture such as trading fees, investment research and foreign exchange fees. It also includes implicit costs that can have an impact on performance but are not charged directly to the end investor.

The Discretionary Management Charge (DFM Charge) refers to the costs of managing the portfolio including the selection of the funds and ensuring that the portfolio meets its risk targets and performs as expected. As this is a service VAT is charged on top of this at 20%.

PAST PERFORMANCE OVERVIEW (NET OF FEES):



ACTIVE/PASSIVE SPLIT



DISCRETE PERFORMANCE TO LAST QUARTER END:

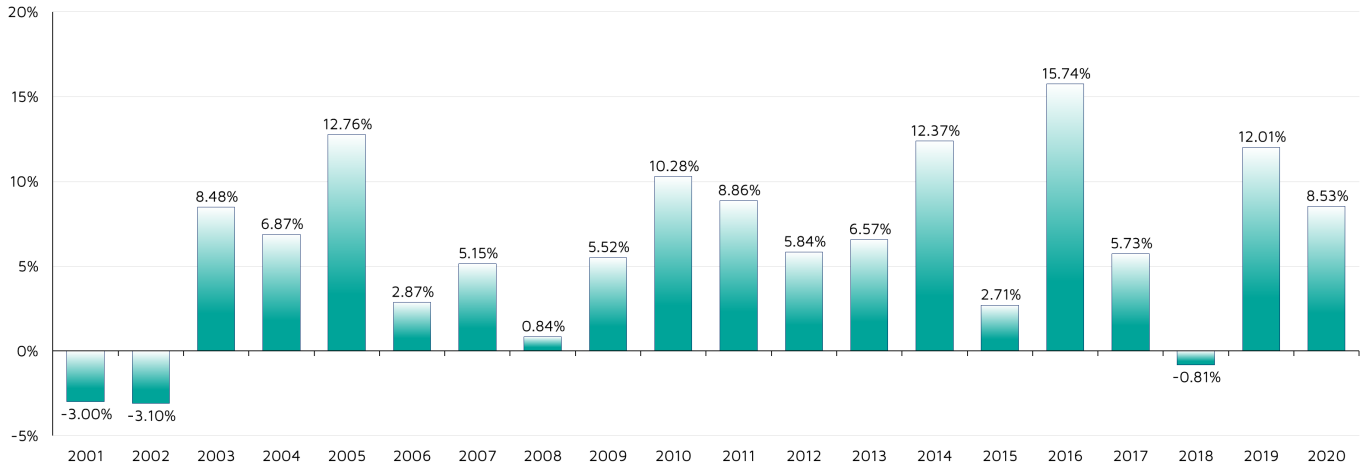
Period	0-12 Months	12-24 Months	24-36 Months	36-48 Months	48-60 Months
Portfolio	8.44%	1.69%			
Benchmark	12.09%	-3.50%	2.41%	0.38%	9.38%

Past performance does not indicate future performance and you may get back less than you originally invested. 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 ILLUSTRATION:

The portfolio itself has only been running since 2018. 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 three occasions, in 2001, 2002 and 2018. The biggest loss would have been in 2002, where over the year the portfolio would have lost 3.10 per cent; this equates to an investment of £10,000 falling to £9,690. This means over the period our proxy would have made money in 17 out of 20 years. The highest growth experienced was in 2016 when the asset allocations grew by 15.74 per cent. This means an investment of £10,000 would have been worth £11,574 at year end.

What is the 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.

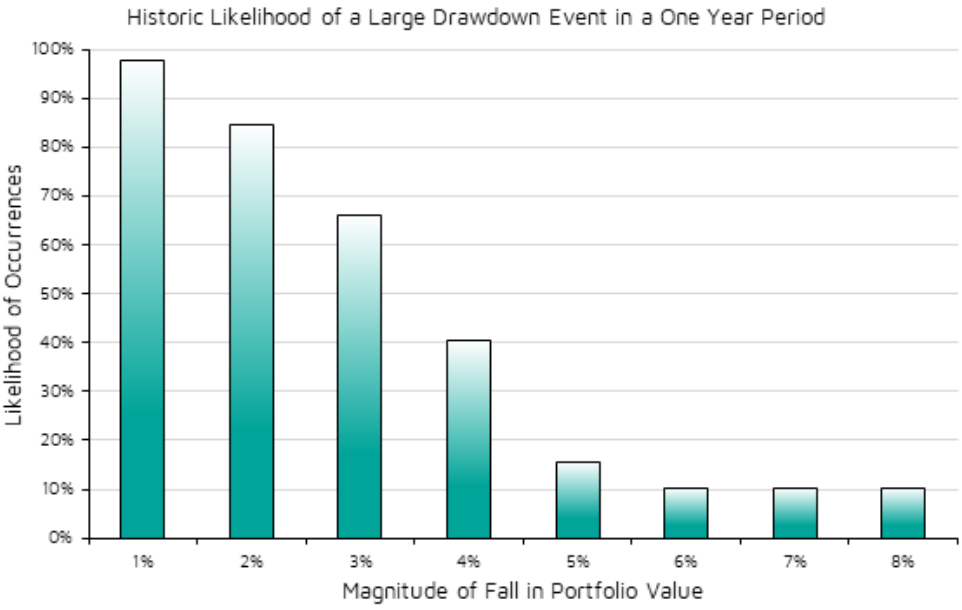


The average annualised performance of the asset allocation since 2000 has been 6.09%

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 on the chart. 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.

WHY INVEST IN UK EQUITIES:

The UK equity market is one of the most mature investment markets globally, with a diverse mix of companies listing on its exchanges. It would be wrong however to confuse the UK market and the UK economy. The FTSE 100 represents around 80 per cent of the UK market by capitalisation, yet 70 per cent of the income earned by these companies comes from overseas. This explains why the fortunes of the UK market and the UK economy can often vary wildly.

This can become particularly evident if there are large currency movements, as seen around the Brexit vote, where a 20 per cent devaluation in the pound did not stop markets rising over the following week. Investors should therefore not assume by investing in the UK market that they are insulating themselves from currency risk.

The UK market is dominated by two main industries – financials (banks, insurance and investment firms) and natural-resources firms (oil and gas, miners and refiners) – and these are followed by consumer goods (particularly tobacco) and the consumer services sector. The prospects for the market will therefore be very dependent on the fortunes of these sectors.

A noticeable underweight for the UK market is technology, which makes up approximately 1 per cent, with most of these firms choosing to list abroad, particularly in the US market.

The UK market is particularly popular with those looking for income, with the FTSE 100 yielding approximately 4 per cent thanks to big dividend payers such as GlaxoSmithKline, Royal Dutch Shell and British American Tobacco making up a large portion of this. Investors should be aware however that two thirds of the income paid out is concentrated in just 20 companies, meaning that investors are very dependent on the fortunes of a limited amount of firms.

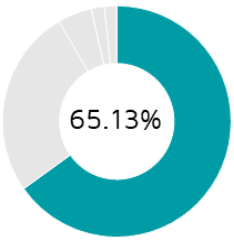
For those looking for pure exposure to the UK economy they will have to look beyond the FTSE 100 and into the FTSE 250 and below. As these are made up of smaller and medium-sized companies this inevitably means that they will be higher risk – they will, however, offer greater growth prospects. This portion of the market also tends to be under researched compared to the large cap market, offering diligent managers a greater chance to outperform.

WHAT YOU ARE INVESTED IN:

Name	Ongoing Charge	Transactional Costs	Total Cost
CFP SDL UK Buffettology	1.19%	0.22%	1.41%
Jupiter UK Mid Cap	0.85%	0.24%	1.09%
L&G UK 100 Index Trust	0.10%	-0.17%	-0.07%
LF Gresham House UK Micro Cap	0.98%	-0.26%	0.72%
Royal London Sustainable Leaders Trust	0.76%	0.37%	1.13%
Schroder Income	0.89%	0.11%	1.00%
TB Evenlode Income	0.87%	0.35%	1.22%
Trojan Ethical Income X Acc	0.87%	0.20%	1.07%

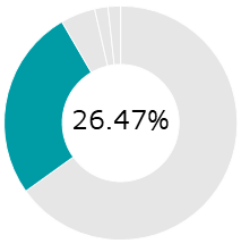
MARKET CAPITALISATION BREAKDOWN

Large Cap



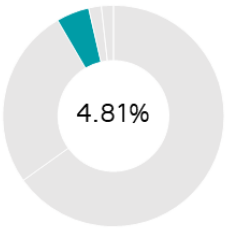
Large cap typically means companies within the FTSE 100 over £5 billion in size. They are typically well established international companies and are the largest dividend payers.

Medium Cap



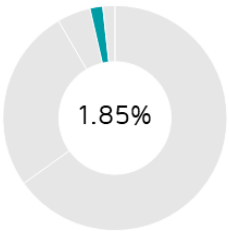
Mid cap typically means companies within the FTSE 250 around £1-5 billion in size. Companies tend to be more domestically focussed and more affected by the UK economies health.

Small Cap



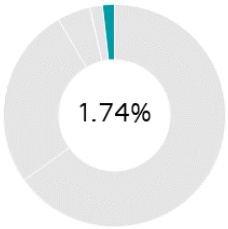
Small cap typically means companies of £250 million–1 billion. Their small size means they are higher risk, but they do have much greater growth prospects.

Micro Cap



Micro cap typically means companies below £250 million in size. This is the least researched and highest risk portion of the UK market but also has the greatest potential.

Other



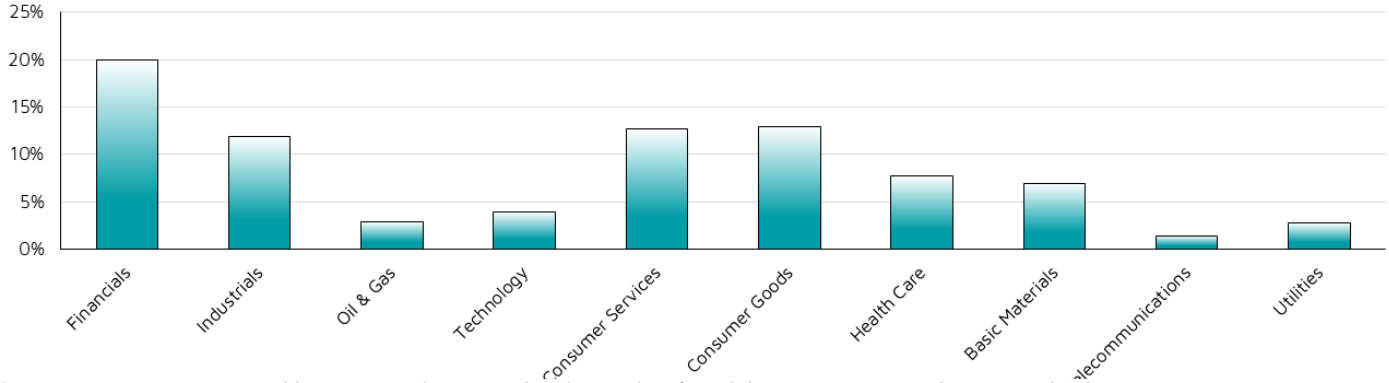
This will include cash and derivative positions held by a fund. Funds are also able to invest up to 20% in foreign markets, although not all funds will choose to do this.

DISCRETE PERFORMANCE TO LAST QUARTER END:

Period	0-12 Months	12-24 Months	24-36 Months	36-48 Months	48-60 Months
UK Equity Tile	-8.28%	20.57%			
IA UK All Companies	-6.01%	22.24%	-11.19%	13.99%	10.82%

Past performance does not indicate future performance and you may get back less than you originally invested. All figures are calculated on a bid to bid total return basis in GBP. Data from FEfundinfo 2021

UK EQUITY SECTOR EXPOSURE



* Sector exposure may not add up to 100% because of undeclared cash and derivative positions from some funds

ASSET CLASSES

Balanced/Flexible: A manager following this approach will have no fixed style but will either remain style neutral or will change style according to what they feel best suits the market at the time. A balanced investment strategy is one that will generally aim to balance risk and return, meaning the strategy is unlikely to be high conviction and is therefore unlikely to be the best or worst performer at any time.

Growth: This is a style of investing where a manager is trying to identify companies that can grow their earnings at an above average rate. This may involve investing in markets which are yet to fully emerge; in recent years the technology sector has been an excellent example of a growth investment. Unlike a value investor a growth investor may choose to invest in a company that already looks expensive as it is expected to be worth even more in the future, which justifies the price.

Passive: Passive funds try to replicate an index rather than outperform it. The advantage of this process is that it is considerably cheaper as you do not require a manager to try and identify the best market opportunities. The costs of the fund are extremely important as they compound over time to eat into long-term investment returns. The disadvantage of the process is that the fund is not able to react to market events and either try and protect the fund in difficult markets or take advantage of favourable ones. The fund should always slightly lag the performance of the market because of the fees.

Smaller Companies: Smaller companies are typically more exposed to the domestic economy as there are fewer multinationals. This means they will make and conversely lose more based on the conditions of the UK economy. Smaller companies are usually higher risk and thus offer a premium on returns over larger companies. This section of the market tends to be under researched so there is greater opportunity for managers to identify something that the wider market has not yet picked up on. Due to their higher-risk nature, smaller companies exposure is limited to a maximum of 20 per cent of the overall UK exposure.

Income: From its earned profits, companies have one of two options: to pay out a portion in dividends to shareholders or to reinvest the money in the business. Dividend paying companies therefore tend to be larger businesses in well-established industries. Income investing is generally thought of as slightly lower risk, because in a falling market you will receive some return through income payments.

Value: This investment style looks at companies that the managers believe are currently trading at less than their intrinsic value. Value investors believe markets overreact to good and bad news; this results in share movements that do not reflect fundamentals. Although the concept is relatively simple it is very contrarian as you are going against the market consensus. This can lead to periods of underperformance.

WHAT YOU ARE INVESTED IN

Trojan Ethical Income: The manager has for high quality, defensive companies. It typically avoids cyclical and capital intensive companies with high levels of debt and acquisitions, prioritising organic growth and cautious management who preserve capital. The fund includes an ethical screen which excludes tobacco, pornography, oil and gas, armaments, alcohol, gambling and high-interest rate lending.

CFP SDL UK Buffettology: Manager Keith Ashworth-Lord utilises the 'business perspective' investment style pioneered by Warren Buffett. This results a concentrated portfolio of 25 to 35 holdings, with a bias to small and medium-sized companies. The manager applies a rigorous process to identify exceptional businesses with high profit margins.

Royal London Sustainable Leaders Trust: The fund identifies firms which have strong ESG qualities as well as potential for growth and are relatively undervalued by the market. The team applies its rigorous, qualitative positive screening to identify companies which are seeking out better ways of producing goods and services for the benefit of society. The fund has a bias to larger companies as well as exposure to foreign firms where there are no UK alternatives, such as IT stocks. The resulting portfolio is moderately concentrated with 40 to 70 positions.

L&G UK 100 Index Trust: This fund tracks the FTSE 100, which comprises the 100 largest companies listed in the UK. As this invests in the largest listed companies its performance is not necessarily reflective of the wider UK economy, as these companies make the majority of their revenues from abroad. The health of the global economy as well as currency movements can therefore have a larger impact on performance. The fund employs a full physical replication method, which means the fund owns all the companies that make up the index.

Jupiter UK Mid Cap: The fund invests in medium-sized FTSE 250 listed companies and also in smaller AIM-listed firms. The fund analyses business models, strategy and finances to identify companies with the potential for above average growth and profitability. Top-down analysis then informs sector exposure and overall positioning.

LF Gresham House UK Micro Cap: Despite investing in the smallest companies, this fund has a relatively defensive style. The managers avoid more volatile areas of the market such as real estate, mining, and oil and gas. Of the remaining companies, the managers then isolate those that generate cash, are profitable and are attractively priced.

TB Evenlode Income: This fund aims to provide investors with income and income growth, growing dividend with an allowance of up to 20 per cent exposure internationally. The managers' investment philosophy is to identify businesses with large market share and/or competitive edges that can consistently generate high levels of recurring cashflows that can be given back to shareholders as dividends.

Schroder Income: Although ostensibly an income fund, the real driver of returns is its contrarian valuation driven approach. The managers are focused on identifying companies with strong balance sheets and healthy profits that are significantly undervalued. The ability for the company to grow dividends is also a consideration. The fund has a strict buy/sell discipline and can be aggressively positioned.

WHY INVEST IN GLOBAL EQUITIES:

Investors in the UK tend to have a notable home bias when it comes to their investment portfolios. The reasons for this are not completely clear, but it is likely to do with a preference for the familiar and an aversion for the unknown. Yet with the UK stocks making up just over 6 per cent of the global market, investors are potentially leaving themselves severely compromised. The US meanwhile makes up about 60 per cent of the global market, Europe excluding UK just under 20 per cent and Japan just under 10 per cent.

While investing globally adds important diversification benefits, it is exceptionally difficult to know where the best investment opportunities will be over the next few years – but if you own the whole haystack you don't have to worry about finding the needle. Investing in a single region ties results directly to its economic performance.

The economies of the US, Europe and Japan all have things that make them unique and interesting. Despite the size of its market, the US in recent years has come to be dominated by the Silicon Valley tech stocks, with information technology now making up roughly a quarter of the index.

Europe is made up of a diverse range of economies – from Germany, with its core manufacturing base, to Switzerland with its well-established banking and insurance industry, to France, which has some of the largest insurance, airline, cosmetic, luxury and energy companies in the world.

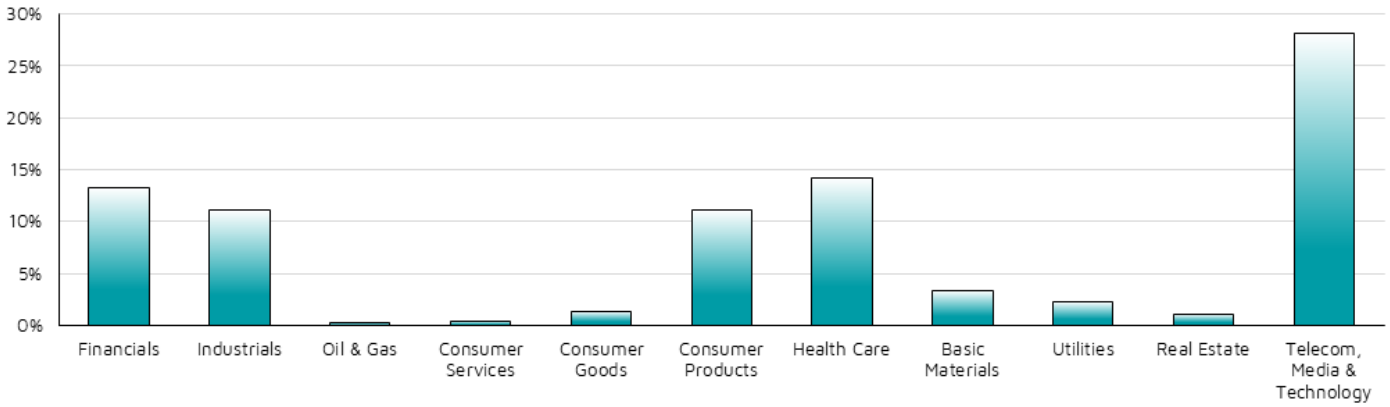
The Japanese market is particularly interesting, because as well as having some of the most well-known car manufacturers and technology firms globally, the market itself has surprisingly low correlation to other developed equity markets. In addition, the Japanese yen has some status as a safe haven asset and this further differentiates the asset class and spread the risk of the portfolio.

Clearly investing in global markets contains some currency risk; however, by diversifying across multiple regions it clearly mitigates the effects of being too overexposed to any one currency. Over the long-term currency movements are likely to have minimal impact and would be far outweighed by the exposure to additional markets and sectors rather than a concentrated position in the UK.

WHAT YOU ARE INVESTED IN:

Name	Ongoing Charge	Transactional Costs	Total Cost
Artemis US Smaller Companies	0.89%	0.83%	1.72%
Baillie Gifford American	0.51%	0.09%	0.60%
Baillie Gifford Japanese Smaller Companies	0.61%	0.22%	0.83%
BlackRock Continental European Income	0.93%	0.37%	1.30%
BlackRock European Absolute Alpha	0.91%	0.49%	1.40%
Brown Advisory US Sustainable Growth	0.89%	0.02%	0.91%
Dodge & Cox US Stock	0.63%	-0.08%	0.55%
Fidelity Global Dividend	0.93%	0.18%	1.11%
HSBC American Index	0.06%	0.03%	0.09%
Lindsell Train Japanese Equity	0.72%	0.02%	0.74%

GLOBAL EQUITY SECTOR EXPOSURE



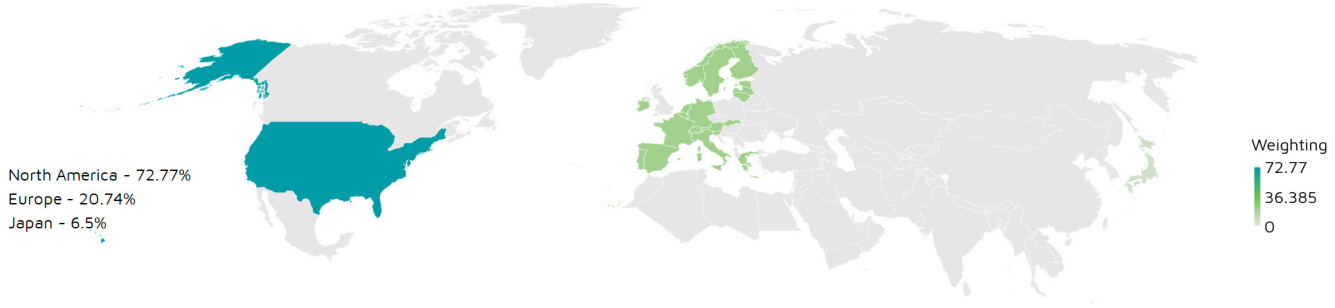
* Sector exposure may not add up to 100% because of undeclared cash and derivative positions from some funds

DISCRETE PERFORMANCE TO LAST QUARTER END:

Period	0-12 Months	12-24 Months	24-36 Months	36-48 Months	48-60 Months
Global Equity Tile	18.60%	21.19%			
IA Global	15.27%	21.92%	-5.72%	14.02%	23.33%

Past performance does not indicate future performance and you may get back less than you originally invested. All figures are calculated on a bid to bid total return basis in GBP. Data from FEfundinfo 2021

REGION ALLOCATION HEAT MAP



ASSET CLASSES

Value: This style of management focuses on companies that the managers believe are currently trading at less than their intrinsic value. Value investors believe markets overreact to both good and bad news; this results in stock price movements that do not reflect the company fundamentals. A common approach is to find problem companies that other investors are avoiding that can be turned around with a new strategy or management team. Although the concept is relatively simple it is very contrarian as you are going against the market consensus, and this can lead to periods of underperformance.

Passive: Passive funds try to replicate an index rather than outperform it. The advantage of this process is that it is considerably cheaper as you do not require a manager to try and identify the best market opportunities.

Smaller Companies: Smaller companies offer more opportunities for growth than mature companies and therefore enhance returns. Additionally, they tend to be under-researched and have significantly fewer analysts covering them. This offers opportunities for talented managers to identify companies whose true market value has yet to be appreciated.

Balanced/Flexible: A manager following this approach will have no fixed style but will either remain style-neutral or will change their style according to what they feel best suits the market at the time. A balanced investment strategy is one that will generally aim to balance risk and return, meaning the strategy is unlikely to be high conviction and is unlikely to be the best or the worst performer at any one time.

Growth: This is a style of investing where a manager is trying to identify companies that can grow their earnings at an above average rate. This may involve investing in markets which are yet to fully emerge; in recent years the technology sector has been an excellent example of a growth investment. Unlike a value investor a growth investor may invest in a company that already looks expensive as it is expected to be worth more in the future, which justifies the price.

Income: From its earned profits, companies have one of two options: to pay out a portion in dividends to shareholders or to reinvest the money in the business. Dividend paying companies therefore tend to be larger businesses in well-established industries. Income investing is generally thought of as slightly lower risk, because in a falling market you will receive some return through income payments. Also, as the companies themselves tend to be quite mature and stable they are less inclined to see large swings in prices.

Long Short Equity: The strategy aims to use offsetting positions to reduce market risk while still benefiting from stock selection. Positions need not be isolated to individual stocks, however, they could be done on a sector, regional or even currency basis.

WHAT YOU ARE INVESTED IN

Dodge & Cox US Stock: The fund invests in a diversified pool of US equities with a long-term view. The portfolio is fairly concentrated, typically 60 to 70 holdings, and the top ten stocks make up 30 per cent to 35 per cent of the portfolio. The fund follows a clear value philosophy with its stock universe mostly constrained to large cap. The day-to-day fund management is unique as the fund is collectively managed by the nine members of the US Investment Committee. Decisions are collective, which implies that the fund could react relatively slowly to any market changes, and also implies inflexibility.

HSBC American Index: This HSBC fund tracks the S&P 500 by physically holding all the stocks that make up the index. The index is made up of 500 of the largest traded companies in the US. The fund does not engage in any stock lending.

Artemis US Smaller Companies: This fund's small and mid cap focus means that its performance will be more tied to the health of the US economy as most of the companies are domestically focused. Stock selection will be the key driver of returns; however, the fund does have current sector biases towards consumer discretionary names and away from utilities and banks.

Baillie Gifford Japanese Smaller Companies: The team believes that growth comes from innovative business models that can disrupt traditional Japanese business practices. The team is happy to pay high prices for these stocks if it thinks they are justified by growth potential. The fund has a very aggressive exposure to Japanese equities and therefore works well when blended with other funds in Japan as a satellite holding.

Lindsell Train Japanese Equity: The manager's philosophy is that a highly concentrated portfolio of high-quality, cash-generative business franchises will outperform over time. The fund tends to have a very low turnover. The fund has had a consistent overweight to consumer staples, healthcare and tech sectors.

Baillie Gifford American: The fund is benchmark agnostic and highly concentrated meaning that it can behave very differently to the wider market. The team is keen not to dilute the impact of its best ideas in the name of diversification, meaning the fund can be very volatile.

Brown Advisory US Sustainable Growth: The managers aim for long-term capital growth by investing in companies that have outstanding business models and a sustainability focus.

Blackrock Continental European Income: The managers emphasis is on adding value through company selection by analysing the strength of each company's finances, its ability to generate cash for distribution to investors and the quality of its management.

Fidelity Global Dividend: The fund takes a cautious approach to global equity income investing, emphasising capital preservation. The manager invests in simple understandable business models, which are predictable and have healthy balance sheets.

BlackRock European Absolute Alpha: The fund invests in companies that generate cashflow and have a clear growth path over the medium-to-long-term. It can also bet on falling share prices of individual companies with large debts or have inefficient business models.

WHY INVEST IN GILTS:

Gilts are a type of debt issued by the British government that pay a fixed interest amount on a half yearly basis until maturity. The name 'gilts' originate from the fact that the certificates used to have gilded edges. As they are backed by the British government, gilts are traditionally seen as a very defensive asset class as the chance of any default on the debt is very low compared to corporate debt where the company could fail. This does mean that the interest paid on gilts is likely to be lower than on corporate bonds as there is no need to compensate for the higher risk the investor is taking.

Gilts are extremely important when it comes to managing risk in a portfolio. Their key benefit over other asset classes is their low correlation to equities, especially in falling markets. Due to their perceived safe haven status they tend to see large inflows during times of market stress, and this causes the yield on the gilt to compress and the capital value to increase. They therefore help to insulate the portfolio from the worst of a market fall and are most valuable to cautious investors.

The low correlation to equity markets adds significant diversification benefits, which is extremely valuable when it comes to efficient portfolio management. The inclusion of gilts in a portfolio allows for the inclusion of much riskier, higher yielding assets than would otherwise be possible. This allows the performance potential of a portfolio to be increased without increasing the risk.

The main headwinds for gilts are interest rate rises from the Bank of England. As rates rise, yields on gilts increase and consequently the capital value of the bond decreases. How big this decrease in capital value will be is determined by duration – typically, the longer dated the gilt the greater the fall in value. It should be noted, however, that the Bank of England typically only raises rates when the economy is doing well – therefore, any fall in capital value is likely to be offset by a rising equity market.

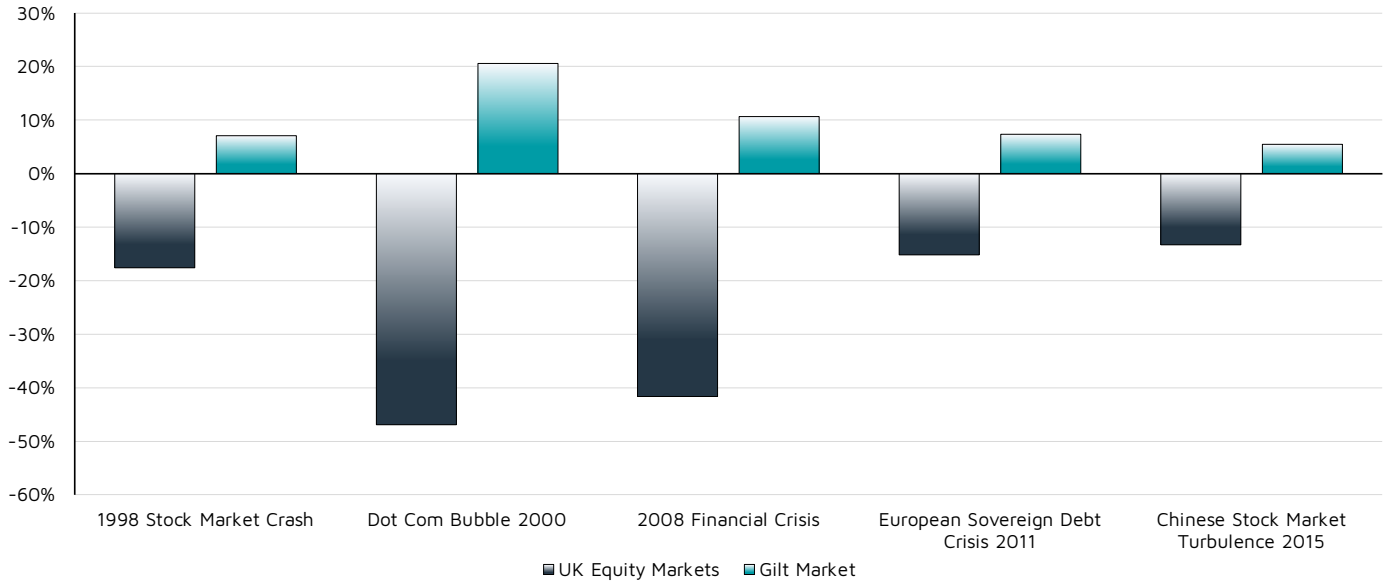
As gilts are only issued by the British government, they are not exposed to any currency risk that would be the case with other government bonds or corporate bonds issued by some companies. The only asset class considered to be lower risk than gilts is the cash or money market, which generally experiences little or no volatility.

WHAT YOU ARE INVESTED IN:

Name	Ongoing Charge	Transactional Costs	Total Cost
Allianz Gilt Yield	0.32%	0.15%	0.47%
Royal London UK Government Bond	0.45%	-0.17%	0.28%
Vanguard UK Government Bond Index	0.12%	0.02%	0.14%

GILTS AS INSURANCE:

Gilts are considered a fear asset, by this we mean that they come to their fore in times of market stress. During times of market stress investors will remove their money from the market, causing the market to fall further. They will still need to place this money somewhere, unlike private companies the government is seen as very unlikely to default on its debt obligations, this causes large inflows to the asset class, consequently the price of gilts rises significantly. This explains why gilts are inversely correlated to equity markets. This is why we think of them as a form of insurance for the portfolio as a whole. The below chart shows the performance of the gilt market during a falling equity market.



DISCRETE PERFORMANCE TO LAST QUARTER END:

Period	0-12 Months	12-24 Months	24-36 Months	36-48 Months	48-60 Months
Gilts Tile	8.69%	6.94%			
IA UK Gilts	9.01%	7.00%	0.25%	1.72%	11.06%

Past performance does not indicate future performance and you may get back less than you originally invested. All figures are calculated on a bid to bid total return basis in GBP. Data from FEfundinfo 2021

THEORETICAL MAXIMUM INTEREST RATE EXPOSURE

Duration is a statistical measure that represents an investment's sensitivity to interest rates. Bonds with a longer time to maturity are typically more sensitive to rate changes, as there is more interest to be paid over the life of the bond, thus changes in rates have a bigger impact. Shorter maturity investments are less sensitive as fewer interest payments are affected. For this reason, duration is expressed in years – and broadly translates to the expected movement in price for a 1% shift in rates. Crucially it assumes long-term and short-term rates move equally.

The tables below show the expected impact of a rate hike on the capital value of the the gilt tile based on duration, given a 0.25%, 0.5% or 1% hike in a 12-month period.

Name	Allocation	Duration	Impact of a Rate Rise		
			0.25%	0.50%	1.00%
Royal London UK Government Bond	35%	12.4	3.10%	6.20%	12.40%
Vanguard UK Government Bond Index	25%	13.6	3.40%	6.80%	13.60%
Allianz Gilt Yield	40%	13.14	3.29%	6.57%	13.14%
Gilts Tile		13	3.25%	6.50%	13.00%

WHAT YOU ARE INVESTED IN

Passive: A passive gilt fund is one that is merely trying to replicate an index of gilts rather than outperform it. The advantages of this process are that it is considerably cheaper as you do not require a manager and a large research team to try and identify the best market opportunities. The costs of the fund are extremely important when it comes to gilt funds as it is not a high yielding asset and costs can therefore quickly eat into returns. The disadvantage of this process is that the fund is not able to react to market events, and to either try and protect the fund in difficult markets or take advantage of favourable ones. The nature of passive funds means that they should always slightly lag the performance of the market because of the fees.

Vanguard UK Government Bond Index

This fund tracks the Bloomberg Barclays UK Government Float Adjusted Bond Index. It tries to physically replicate the index by physically buying the gilts rather than using derivatives to replicate their performance. Rather than holding all securities in the index, the fund uses a process called 'sampling', where it holds a representative basket of securities that will closely mirror the index – this helps to keep costs down. The fund has several billion under management, which means it benefits from significant economies of scale, which is extremely important in passive management.

To keep the investment process as simple and risk-free as possible, the manager does not engage in stock lending. Stock lending is where a select third party borrows a limited amount of the passive fund's holdings, in exchange for a fee. This generates income for the fund but increases risk in the fund (for example, the third party could go bankrupt before returning the stock). This cautious approach means avoiding the risks attached with stock but also means potentially missing out on the performance enhancement that occurs when a portion of the fee proceeds are reinvested – effectively offsetting against management costs.

Active: An active gilt fund is one where a manager will try to outperform the market rather than just replicate the index. As such, the manager can allocate money to different investments according to where they see opportunity. In a market that is favourable to gilts the manager is likely to hold longer dated gilts, and in unfavourable markets they will look to hold shorter dated gilts. Of course, there is no guarantee the manager will get these calls right. If they get them wrong the fund will underperform the market. Active funds tend to be more expensive than their passive equivalent because of the added costs of having a manager running the fund plus the extra resources and analysts likely to be required to try and identify the best opportunities. Once costs are considered this means the fund manager has to work hard just to keep pace with the market.

Royal London UK Government Bond

The fund mainly invests in British government bonds. Based on economists' forecasts for interest rates in the future, managers Paul Rayner and Craig Inches model their own interest rate projections. This model is compared to the current one from the market, which provides the management team with investment opportunities. Rayner and Inches also monitor the supply and demand forces for UK gilts in order to assess the price of a security. The portfolio is actively managed, as the managers are continually reassessing their expectations for UK government bonds. The team also has the flexibility (with a maximum of 5 per cent) to invest in UK inflation-linked government bonds and other developedgovernment bond securities. The fund is extremely limited in its ability to outperform, with the aim being to outperform by 0.5 per cent to 1 per cent before fees. It can therefore be expected that the fund will be closely aligned to passive equivalents.

Allianz Gilt Yield:

Run by manager Mike Riddell, Allianz Gilt Yield has the freedom to invest up to 20 per cent of the fund in bonds other than UK gilts, with the caveat that they must be of an equivalent credit rating. In practice these investments largely have to be in foreign government bonds, with derivatives used to hedge out currency exposure. The manager tries to add value by altering the interest rate sensitivity (the duration) by buying securities of different maturities. The manager can only shift the duration by two years either way meaning that he is reasonably restricted in how active the fund can be. The performance of the fund will not differ greatly from that of the index.

PORTFOLIO HOLDINGS:

Fund	Asset Class	Weighting
Allianz Gilt Yield	Gilts	25.20%
Royal London UK Government Bond	Gilts	22.05%
Vanguard UK Government Bond Index	Gilts	15.75%
Brown Advisory US Sustainable Growth	Global Developed Equity	5.14%
Dodge & Cox US Stock	Global Developed Equity	5.04%
Baillie Gifford American	Global Developed Equity	3.45%
BlackRock Continental European Income	Global Developed Equity	3.05%
Baillie Gifford Japanese Smaller Companies	Global Developed Equity	2.25%
Fidelity Global Dividend	Global Developed Equity	1.99%
Lindsell Train Japanese Equity	Global Developed Equity	1.59%
Artemis US Smaller Companies	Global Developed Equity	1.33%
BlackRock European Absolute Alpha	Global Developed Equity	1.33%
HSBC American Index	Global Developed Equity	1.33%
L&G UK 100 Index Trust	UK Equity	3.13%
Jupiter UK Mid Cap	UK Equity	2.10%
Royal London Sustainable Leaders Trust	UK Equity	1.58%
CFP SDL UK Buffettology	UK Equity	1.05%
Schroder Income	UK Equity	1.05%
TB Evenlode Income	UK Equity	0.53%
Trojan Ethical Income	UK Equity	0.53%
LF Gresham House UK Micro Cap	UK Equity	0.53%

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%.