

PRODUCT RESEARCH

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1. A PASSIVE INVESTMENT PROCESS

Swallow Financial Planning believes in a passive investment process. This entails choosing funds which are index trackers (i.e. L&G, Vanguard), ETFs, and / or passive alternatives such as Dimensional Fund Managers. As we only recommend a very few active funds we have a limited need to spend hours trying to find reasons why manager A is better than manager B.

2. WHERE WE NEED TO CONSIDER AN ACTIVE FUND

Where we have to choose an active fund (i.e. at client request) we use the facilities of our independent consultants “threesixty” (360) who have the resources and additional manpower necessary to ensure we do not miss out on any suitable opportunity on behalf of our clients. Much of the processes and related comments below will be carried out by 360 on our behalf.

As part of our due diligence we regularly attend courses and fund manager updates to ensure we are happy with the ongoing management of a particular fund.

3. TRANSACT

As most of our new investments are carried out on the Transact platform we have to update the charges on most collective investments to reflect the charges on Transact, rather than on the open market.

Many products on Transact are not available to retail IFAs or the general public so are not included within the 360 research. These plans are much cheaper wholesale funds and, again, we will tend to include these within our recommendations where they are available.

Where we wish to offer funds which are not within the 360 range of availability we use the Financial Express Research engine. Our criteria is similar to the 360 approach save that our research is undertaken by Financial Express then we select criteria based on the Financial Express fund rating system (contact us for further information on this system), the desired currency, the charges of the fund and the past performance over a range of periods.

4. THE 360 PROCESS

4.1 Availability Of Products

The first part of the update process is to determine which providers offer which products. At this stage 360 do not exclude any provider since niche players may offer contracts which include particularly attractive features (Healthy Investment's With Profits Bond – featuring ethical investment and a £500 minimum investment – would be an example of this).

This research is undertaken by a direct questionnaire to all providers rather than by use of research tools. The research tools (360 use data from OBSR, Aequos and Synaptic during latter parts of the process) seem to be lacking in this area.

4.2 Specialist Funds

At the same time as reviewing the availability of products, 360 look for specialist funds. In the main this revolves around alternatives to with profits funds.

4.3 Short Listing Providers

Responses to the availability of products survey are reviewed and niche products which appear to have potential attractions are identified. 360 then look at all providers and assess their financial strength and service ratings.

Unless the provider 'qualifies' as having a specialist product, they exclude any provider with less than an "average" rating for both service and financial strength. Here 360 are guided by AKG and S&P rankings and the industry service awards. Where this produces what 360 consider to be an anomalous result – as with Norwich Union last year when they achieved an extremely low service rating despite previous reasonable ratings – they refer to a range of IFA firms to see if their in-house experience conflicts with the "official" view. Many providers have dedicated service centres for organisations such as 360 so that the national ratings do not always apply.

4.4 Product Information

From the reduced population of providers, 360 next utilise their various research packages (see Point 1 above) to obtain an initial comparison of the various products to be panelled. Where the products of any of the remaining providers are not fully represented on these systems they issue a detailed questionnaire to those providers in order to obtain comparison information.

The information obtained at this stage depends, obviously, on the contract being researched. In the case of a unit linked investment bond 360 would be requesting, as a minimum, the following information:

- Charges (Initial charge, bid–offer spread, AMC, policy fee, exit penalties, other surrender penalties)
- Contribution limits
- Allocation rates
- Withdrawal options
- Service standards for 360 firms
- Life bases (single life, joint lives first death etc.)
- Fund switching
- Clustering of policies
- Death benefit level
- Funds available
- Projections (including encashment values) and reduction in yields (RIYs) based on in-house managed funds

For products with a protection element they would also obtain illustrations on a number of ages, terms and premiums, in addition to considering the overall attractiveness of the product in terms of policy options and add-ons (eg. options to increase cover at certain specified points, availability of waiver and critical illness benefit). Underwriting considerations may also come into the equation.

When choosing price conscious products (annuities, insurance etc) we use “The Exchange”. This is the county’s leading comparative website. The use of the 360 panel here, therefore, is to overlay onto the best rate, the other factors of service and life office strength etc.

Where this information is obtained from one of the research tools and a product is short listed for inclusion on the panel, all information is verified with the providers themselves before the panel is issued.

4.5 Comparing Products

The information obtained is placed into a spreadsheet for comparison purposes. Certain areas are weighted as being more important (for example RIY) while other areas are ignored at this stage (for example contribution limits). Each product (rather than each provider since a provider may have more than one product offering in a particular sector) receives a score for each compared item. Those providers receiving the highest overall scores are then shortlisted (see above) for inclusion in the panel.

360 then review the shortlist to verify information, see above, but also to ensure that it is relatively inclusive. For example, they try and ensure that at least one bond with a low minimum contribution is included. Termly withdrawals, additional life cover etc are other options which we seek to include provided that the inclusion of bonds with these features does not mean the inclusion of an otherwise completely unacceptable contract.

4.6 Investment Funds

As part of the information gathering exercise 360 will have obtained a listing of the funds available under the contract. Not all funds will be included in the panel.

External funds are mainly dealt with under the OEIC/UT panel. Where the external fund is not a direct investment in an OEIC/UT, but a separately mandated fund, it is reviewed in the same way as any internal fund.

For life and pension contracts (including investment bonds) the product is treated as the main selection criteria with our investment recommendations being based on the funds available under selected contracts. In the case of OEICs and unit trusts the position is reversed.

As part of the research already carried out, 360 are aware of all funds available from the providers whose products have been short listed. These funds are now compared, not with each other but, at least in fairly basic quantitative terms, with all similar funds available. This early comparison may show a provider as having an extremely attractive fund although their contract has not been shortlisted. At this stage we will examine the reasons for not listing the product to see whether the availability of the fund outweighs them.

All funds available for each bond are now assessed. They are not compared since the intention is to ensure that all good funds are included.

This assessment includes at least annual meetings with investment departments, monitoring of significant changes in personnel, performance measurement against sector over various time periods, industry ratings from, inter alia, Forsyth and Standard & Poors, CityWire comparisons etc. etc.

5. ASSET ALLOCATION

As mentioned above we restrict our core funds to passive funds. Our major added value is asset allocation. If a fund has not got the right asset allocation for a client then we cannot recommend it. We are, therefore, careful to ensure we have up to date asset allocation figures on all the funds we recommend.

Please note that whilst every effort is made to ensure that the information contained within this explanation is correct, these notes are by necessity brief and of a generalised nature. Clients should seek specific personalised advice prior to undertaking any arrangement. These notes are named [06.2018 Product Research](#) and was last updated in June 2018. Whilst we have done our best to ensure facts are current to this date laws and options are changing constantly so always check before action.

Investments are subject to market risk, including the possible loss of the money you invest. Bond funds are subject to the risk that an issuer will fail to make payments on time, and that bond prices will decline because of rising interest rates or negative perceptions of an issuer's ability to make payments. Diversification does not ensure a profit or protect against a loss in a declining market. Performance data shown represent past performance, which is not a guarantee of future results. Note that hypothetical illustrations are not exact representations of any particular investment, as you cannot invest directly in an index or fund-group average.

E.&O.E.