ADVICE PROCESS

OUR ADVICE PROCESS

Deciding how best to invest your money can be daunting. With so many options available and so many uncertainties, how do you choose what's right for you?

Our job is to eliminate as much of that uncertainly as possible and to work with you to identify the most appropriate way for you to achieve your financial goals.

The Bankhouse Financial Management Limited advice process is designed with that in mind. It creates a framework for us to discuss your needs and expectations, to assess and agree your attitude to risk and then to build and manage an investment portfolio to match.

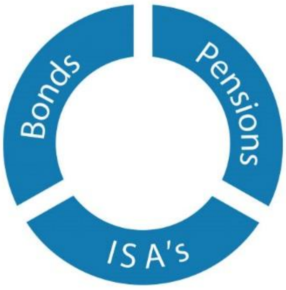
By working through a series of logical steps, you will gain a better understanding of the reasoning behind our recommendations and confidence in the resulting choice of investments.

This flowchart outlines the advice process and this document explains how we manage each stage of it together with you.

FACT FIND - GETTING TO KNOW YOU

The logical starting point of the advice process is for us to get to know you. Our Confidential Financial Review Form is wide-ranging to ensure that the advice we will give you is soundly based. As well as exploring your personal and financial circumstances, we want to know who you are, what your attitudes and values in life are.

Having established your goals, we need to establish your level of investment experience and knowledge, as well as what level of growth you expect, your attitude to risk and how long you are looking to invest for. We need to also consider issues such as access to your money and the level of flexibility required in the investment selection and your personal circumstances, including your tax position. It is important that any investment recommendation we make is as tax-efficient as possible.



SELECTION OF 'TAX WRAPPERS' – WAYS TO HOLD YOUR INVESTMENTS

Once we have established your financial goals we can begin to determine the most appropriate financial product(s) to meet your needs. A tax wrapper is a financial product, such as a pension, ISA or bond, within which your investments can be held and which usually has certain tax benefits.

As well as pensions, ISAs and bonds, you may also want to consider life protection and critical illness policies, depending on your circumstances.

Traditionally, investors might have held a number of products from a variety of different companies. The downside of this is that it can create lots of paperwork, arriving at different times of year, in different formats. This can make it complicated for you, the investor, to manage and monitor your portfolio, as a whole, to ensure that your investments are performing as expected and remain in line with your risk profile.

However, for the majority of our clients we recommend investing through an 'investment platform'. This allows you to hold, monitor and manage all of your investments in a single place. In just the same way that supermarkets changed the face of shopping, the investment platform offers improved convenience, choice and value for money, subject to an initial suitability assessment. It also provides online technology that helps us assess your attitude to investment risk and then put together a portfolio that's most likely to behave as you'd expect.

Standard Life Wrap our investment platform partner offers a full range of tax wrappers:

- Individual Savings Account (ISA)
- Personal Portfolio
- Self Invested Personal Pension
- Onshore/Offshore Investment Bonds

UNDERSTANDING YOUR ATTITUDE TO INVESTMENT RISK

Whatever your goals, we want to be sure that the investment strategy we recommend for you is in line with your attitude to investment risk. To do this we need to consider a number of factors. They include:

- how long you want to invest for – the 'term'
- how much cash you want to be available to meet unexpected circumstances
- what level of growth you expect to receive
- how much money you want to invest
- whether you have any debts
- existing savings for retirement
- your overall view on investing
- your goals – and the level of risk you are really comfortable to take to achieve them
- what level of short-term fall in the value of your investments you are willing to accept
- the importance of protecting your investment from the effects of inflation
- the question of 'liquidity': if you want to cash in your investments, how easy will it be to get your hands on your money?

To establish your attitude to investment risk, we will ask you to answer a series of questions provided by FinaMetrica. Each answer produces a score and these are then aggregated to calculate your level of tolerance for risk, from 1 (low) to 100 (high). We call this your risk profile score.

The risk profiling questionnaire we use is developed by FinaMetrica, they provide a scientific assessment of an individual's personal financial risk tolerance in plain English. They use psychometrics to ensure validity and reliability. The 25-question risk tolerance questionnaire can be completed in 15-20 minutes and the comprehensive risk profile report is available immediately. This process is in line with the best industry practice and the guidelines laid down by our Regulatory Body, the Financial Conduct Authority.

DISCUSSING YOUR RISK PROFILE SCORE

Your risk profile score is an indication of the extent to which you are prepared to accept a short-term fall in the value of your investments as markets go through their ups and downs. These fluctuations in the value of investments are also known as their volatility.

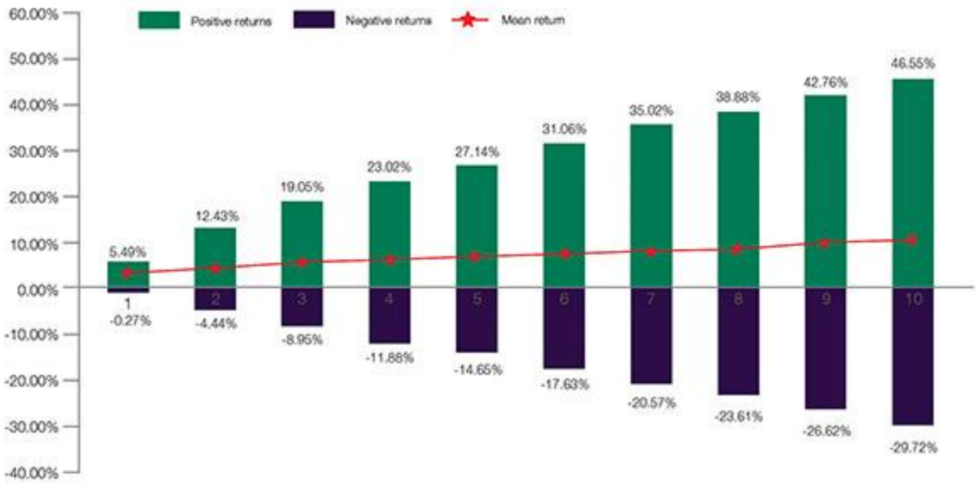
If your score is 21 or below, then low volatility investments such as cash or bank deposits could be the resulting investment recommendation. If your score is above 86, then we might recommend a portfolio which has a larger percentage invested in asset classes, such as Emerging Markets and Smaller Companies whose higher expected volatility is matched by greater growth potential.

Before proceeding to make recommendations based on your score, we want to be sure that you understand what that number means and what its implications are.

We will discuss with you how investment gains and losses might differ between different risk levels, to give you a better idea of the outcome you could expect at each level. In this way we can agree with you whether your risk rating accurately matches your true attitude to risk.

Whatever the result of that initial discussion, if you have chosen to receive an ongoing service from Bankhouse Financial Management which offers an annual review, we would discuss with you any changes in your circumstances and ensure that your Attitude to Risk has not changed and your portfolio remains appropriate.

This chart shows how increasing volatility means greater price rises and falls.



Source: Towers Watson as at 18 December 2013

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SUITABILITY

After we have discussed which tax wrapper and risk level is appropriate for you, it is important to look at which investment solution may be suitable to meet your needs.

There are a range of options available; for example, we can individually select funds to construct an investment portfolio for you, or a 'packaged solution' may be more suitable, whereby you invest in a single fund or portfolio which contains a number of underlying funds, designed to match your attitude to risk.

Choosing the correct investment solution depends on your personal circumstances and the factors we discussed during our fact-find meeting, such as:

- how long you're willing to invest for
- whether you need to access your money
- how important cost is to you
- whether you need a wide choice of investments
- your investment knowledge and experience
- your desire to be involved in investment decisions
- whether you'd like regular updates on your investment
- how often you'd like your investment to be reviewed.

There are a number of flexible investment solutions designed to meet these needs.

The value of your investments can fall as well as rise, you may not get back what you have invested.

CREATING AN ‘ASSET ALLOCATION’ IN LINE WITH YOUR RISK PROFILE SCORE

Once we’ve established your risk profile, we then build an investment portfolio which suits your needs. We do this through ‘asset allocation’. This involves mixing different assets, such as cash, property, fixed interest and UK and International equity, to build a portfolio that matches your attitude to risk.

Different types of assets have different performance and risk characteristics, so our aim is to allocate the right mixture of funds to your portfolio so that, over time, the peaks and troughs of their performance balance each other out in a way that is optimised for your particular risk profile and your performance expectations.

Asset allocation is based on long-established and well-proven mathematical principles. For this part of the advice process we rely on Moody’s Analytics, They provide a robust quantitative risk framework, whereby client risk profiles are defined in terms of objective risk and return targets Their stochastic model and asset allocation methodology can then be applied to construct a set of strategic risk graded asset allocations which fit these objective targets.

The strategic asset allocations are reviewed on a quarterly basis to understand how changes in the market environment impact on risk to clients.

You should be aware that even with this level of expertise behind us, we still can’t guarantee that the volatility range of a particular asset allocation will not be breached occasionally. As with all types of investment, there is always the possibility of exceptional market conditions, due to unanticipated external events.

SELECTING INVESTMENTS TO MATCH YOUR ASSET ALLOCATION

Once the asset allocation stage is completed, we need to choose appropriate investments to reflect the various asset classes in the right proportions. There are thousands of investment options to choose from, including Unit Trusts and OEICs, Investment Trusts, Exchange Traded Funds (ETFs) and Hedge Funds.

All these options try to achieve different things. Understanding the reasons for their relative success helps us appreciate how they may perform in the future.

One of the first and biggest decisions to make is whether to take an ‘active’ or a ‘passive’ approach to investment management. An active approach is where the fund manager uses their skill to select stocks they think will perform better than average or better than the benchmark in a particular sector. The passive approach is where funds don’t try to beat the index; they just try to match it as closely as possible. Typically the cost of active funds is greater than passives.

At Bankhouse Financial Management we take a neutral view over which is better between active or passive management. We would rather try to match the style of management to suit our clients. This could include a combination of both active and passive management funds.

There are many ways of judging the performance of fund managers – their past performance is not necessarily a guide to what they might achieve in future. A better way to assess a manager’s performance is to understand how and why they achieved that performance.

Bankhouse uses the investment expertise of Financial Express Analytics, which allows us to use their research capabilities as well as our own in-house knowledge to construct Investment Portfolios for our clients.

Financial Express specialises in providing market leading quantitative analysis tools and ratings to help Financial Advisers. This provides the starting point for their research as this ensures that their research is both independent and free from any preconceptions or preferences any individuals or groups may have.

This process of constructing portfolios and choosing funds is overseen by our Investment Committee, who meet at least quarterly or more frequently if appropriate. By following the above process we can be confident of selecting suitable funds to build a robust portfolio.

Once we have identified your risk rating and established that you are comfortable with it, we match your score to a corresponding investment solution that has the most suitable risk-return characteristics for you. Unlike traditional ‘cautious’, ‘balanced’ or ‘aggressive’ funds whose names suggest a broad-brush range of attitudes to risk, we offer a range of solutions designed to precisely meet the requirements of investors with a variety of risk profiles and investment goals.

Whenever investing, you should be aware that performance is not guaranteed, particularly when held over a short period. The value of investments may fall as well as rise and you may not get back the amount invested.

Buying any investment fund is a long-term decision so there has to be ongoing monitoring, measurement and evaluation; this is the final phase of the advice process.

MONITORING AND REPORTING

The performance of the various funds in your portfolio will differ over time. Because of this, if left for a long period of time, the proportions of different asset classes will change and this could result in a divergence from your original risk profile. For example if equity funds outperform fixed interest your portfolio left unaltered would move up the risk scale.

As stated previously, our investment committee meets on a regular basis to assess the performance of our portfolios and their component funds. The Investment Committee looks for any outperformance - or underperformance - that might need further investigation. If the committee feels it necessary to change a fund within your portfolio before our next meeting with you, we will contact you and ask you to authorise the switch. Minutes of our investment committee are available on request

Depending on the level of ongoing service you wish to receive from us will determine how often we rebalance your portfolio. At this time, we would discuss with you any changes in your circumstances and ensure that your Attitude to Risk has not changed and your portfolio remains appropriate.

If there has been any change to your circumstances or Attitude to Risk, we can realign the asset allocation of your portfolio accordingly in line with any recommendations from our Investment Committee. If we feel it necessary to change a fund within your portfolio before our next meeting with you, we will contact you and ask you to authorise the switch.

Where recommended Standard Life Wrap, our platform partner allows you access to track and monitor your investment online, enabling you to keep as close an eye as we do on the performance of your portfolio.

OUR FEES

For details of our fees please refer to our Working with Bankhouse Service Proposition and Client Agreement.