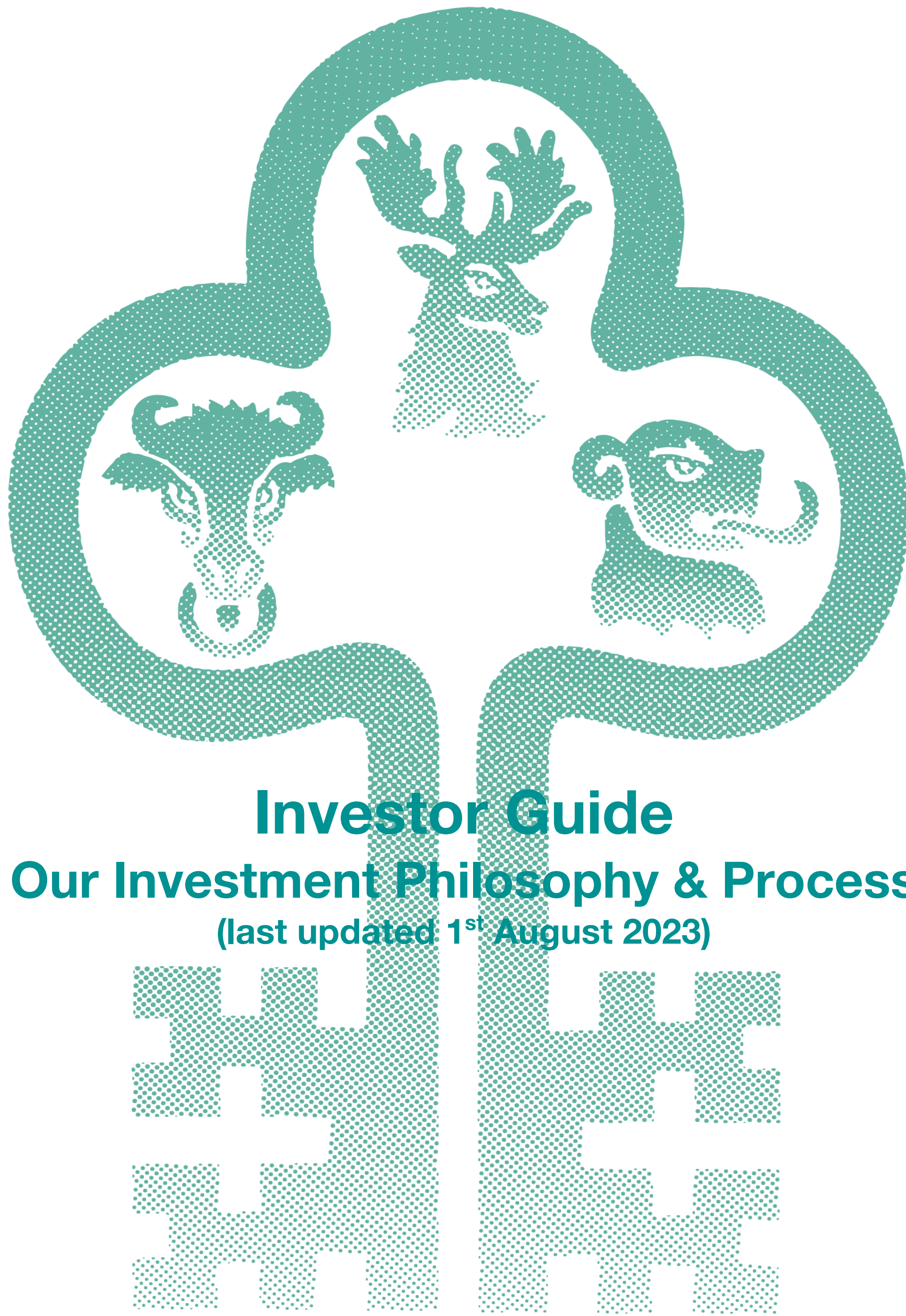

Investor Guide

Our Investment Philosophy & Process

(last updated 1st August 2023)

Ayres Punchard

KEY TO THE FUTURE PORTFOLIO

A Sustainable, Regenerative & Ethically Engaged Model Portfolio Service

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1 INTRODUCTION

The Key to the Future model portfolio provides investors access to an award-winning strategy that focuses on the future not the past.

With more than 25 years' experience of constructing and maintaining portfolios for our clients, we have developed a strong sustainable investment philosophy that aims to produce long term returns aligned with each investor's appetite for risk. This is supported by in-depth research and a reporting process that challenges and exposes green-washing and woke-washing head-on. We search for evidence of transgressions of any of the 10 principles of the UN Global Compact and activities that undermine any of the 17 sustainable development goals, all of which are used by the fund managers in our portfolio to demonstrate their sustainability and impact.

We adopt this principles-based approach to hold fund managers to account for their claims and because we believe that investment returns will be enhanced in the longer term by investment in companies that understand and adhere strictly to the principles for responsible investment as set out in the United Nations Global Compact. We also believe that companies that ignore or circumvent the principles will, in the long-term, expose our investors to excessive and avoidable risk. These risks can be reduced by in depth research and analysis that is independent of the fund management industry and the companies themselves.

A United Nations White Paper: The UN Global Compact Ten Principles and the Sustainable Development Goals: Connecting, Crucially, which as published in June 2016, has helped to frame our approach:

"Both the UN Global Compact Ten Principles and the Guiding Principles have been embraced widely by business organizations around the world. However, with the adoption of UN Agenda 2030 for Sustainable Development and the related Sustainable Development Goals (SDGs), there is some confusion and misunderstanding with respect to the linkage between a principles-based approach to business and the realization of broader sustainable development objectives, i.e., the SDGs.

"Moreover, there is emerging concern that unless business action in relation to the SDGs is underpinned with principles, companies will be "…quick to jump to promotional initiatives, skipping the essential starting point of reducing negative impacts on people associated with their own business activities and value chains", in the words of John Ruggie, author of the Guiding Principles. ("John Ruggie on Sustainable Development Goals and UN Guiding Principles"; 18 February 2016)

The white paper goes on to explain that "*A central point is that neglecting the responsibilities attached to such social and environmental principles cannot be offset by any effort to promote these same principles – as an advocacy or public relations effort – or through philanthropic or related "do-good" programmes that while perhaps advancing some aspect of sustainable development do not respect basic due diligence and do-no-harm principles. In other words, a company could be, knowingly or unknowingly, "giving with one hand and taking with the other"."*

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Our evidence based research and in-depth fund scrutiny sets the strategic framework for a truly sustainable and impactful approach to investment management, with our carefully selected discretionary manager providing regulatory oversight, reporting and day to day management services that ensure our ideas can be incorporated into the portfolios speedily and our portfolios can be maintained efficiently and in compliance with the regulations.

The Key to the Future Portfolio is a model portfolio service that offers five levels of potential risk and return, aligned with a range of investor risk profiles from cautious (1) to adventurous (5). In this way we can offer each investor the correct level of risk to meet their requirements. The day to day monitoring of the portfolio by the discretionary manager ensures that these risk levels remain in line with expectations. Regular portfolio rebalancing and monthly investment committee meetings mean we have the best possible understanding of our investments and remain in control of the process at all times.

Practically speaking we regard ESG (Environmental, Social and Governance) factors as an analytical tool to be used in evaluating the future prospects of an investee company, or a fund. ESG is not, in our view, an investment type. ESG just means that investments are evaluated against ESG criteria. For us it means only selecting those investments for the 'Key to the Future' portfolio funds that have excellent ESG characteristics and deliver high levels of Impact, which means they contribute positively to change by investing in themes that are important to the future of the planet, often aligned with a number of the 17 UN SDGs (Sustainable Development Goals).

To do this, we have to exercise professional judgement and scrutinise the underlying portfolios, searching for controversy and questioning activity that appears at odds with sustainability and a positive future for everyone. We engage with fund managers to encourage them to engage with their investee companies to drive improvements. We are constantly looking for risks and dangers, many of which are to do with future costs around pollution and human rights abuses as well as gender, racial and other inequalities. We interrogate supply chain issues that may mask transgressions. All of this is painstaking manual work.

Award Winning

In November 2018 we won the Impact Champion Award from the Social Investment Academy, sponsored by Worthstone, an impact data provider, who describe the Impact Awards as a celebration of “best practice in the retail impact investment sector” and an opportunity to champion those whose work is “leading the market in aligning retail investment strategies to achieve positive social and financial outcomes”. The ‘Impact Award for Financial Advisory Firm’ was presented by Dame Elizabeth Chorley, the then chair of the UK Government’s Implementation Taskforce for Social Impact Investment.

The panel of judges – which was independent of Worthstone – were Jamie Broderick, former head of UBS Wealth Management; Abigail Rotheroe, head of Impact at Project Snowball; Russell Facer, managing director at Three-Sixty-Services LLP; Evita Zanuso, senior director at Big Society Capital; and Aine Kelly, independent impact consultant at the Impact Management Project.

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We won the award because of our company's overriding investment philosophy that places sustainability at the heart of our investment proposition, aligning our investment strategy to the UN's Principle for Responsible Investment Global Sustainable Development Goals; for our 'Welsford Reports', and for the work that our ESG team has been doing over the past few years – employing detailed ESG (environmental, social and governance) screening to scrutinise companies in the funds included in our clients' portfolios, and encouraging fund managers to hold these companies to account, if necessary, where we think they may be engaging in unsustainable practices.

Important Warning

This guide is not intended to be a recommendation or advice. It is for information purposes only and should not be acted upon without a formal recommendation from your adviser. Please read the investment risk warnings (section 7) and explanations contained in this report. If there is anything that you do not understand then please contact us and we will be happy to clarify and provide further explanation.

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2 OUR INVESTMENT PHILOSOPHY

We believe that the global flow of investment moneys is the key driver in determining our collective response to major issues such as climate heating, child labour and modern slavery, pollution, land and resource waste and recycling, all issues that most of us have very strong views on.

Traditionally, investment has been marketed as a way to grow ones personal wealth with little personal responsibility for the wider consequences. It is perhaps the only area where, until now, otherwise responsible, educated and mature individuals have been encouraged, and have agreed, to act in a way that may have significant negative outcomes for people and the planet.

This has happened as a direct consequence of traditional investors and investment professionals, falsely claiming that it is impossible to achieve good returns from investments that screen out unsustainable and unethical activities. Largely this conventional version of investment has been based on banking, mining and fossil fuel industries - the traditionally dirty money, characterised by high levels of carbon emissions, pollution and environmental damage, with a poor human and labour rights track record. Corrupt practices are also a common feature of these conventional businesses.

However, years of experience, research, evidence and analysis have led us to the fundamental belief that the opposite is true. Reduced exposure to unsustainable practices and poor corporate governance and increased compliance with the UN Global Compact, should expose investors to less risk and potentially higher returns over the longer term, when compared to traditional investment strategies. There are obviously no guarantees when it comes to investment but we feel that this is a strong thesis based on the future needs of humanity and the planet.

In this way, we can provide investors with the traditional investment characteristics of income and growth, combined with modern concepts of sustainability, impact, ethics, good governance and social responsibility. We believe that by focusing on these fundamentals we can deliver better long-term returns in global investment markets.

We believe that ultimately risk can be reduced and the potential for returns enhanced by a thorough analysis and understanding of corporate sustainability, through an evaluation of ESG - environmental, social and governance factors, impact analysis and engagement with fund managers who may then be able to engage with investee companies on issues that we have identified through this analysis.

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Evidence in Support of Sustainability as a Core Principle

Evidence for risk reduction and enhanced returns comes from several sources but the most compelling in our view is Arabeque Partners 'From the Stockholder to the Stakeholder – How Sustainability can drive Financial Outperformance'.

The then Chairman of Marks & Spencers Robert Swannell wrote of the report:

"I am delighted that this report shines a light on the importance of sustainability for shareholders; values in business matter for investors. At M&S we have put Plan A, our ethical and sustainability program, right at the heart of our business. It makes perfect business sense as well as being the right thing to do. Our relationship with our customers, employees, suppliers and society is built on 130 years of trust; it is a vital part of our brand. Furthermore the work we have done on sustainability provided a net financial benefit to the business of around £145 million last year through efficiencies in energy consumption, packaging, less waste etc."

Georg Kell, Executive Director for the UN Global Compact said:

"A truly important study, showing how financial performance goes hand in hand with good governance, environmental stewardship and social responsibility."

The analysis of other factors that cannot be wrapped up in a single figure as is the case with standard deviation (volatility) or VaR (Value at Risk), can be mostly achieved by use of qualitative and ESG analysis.

In this regard we draw heavily upon the work of James Montier, a Chartered Financial Analyst, investment strategist and member of GMO's asset allocation team. In his Seven Immutable Laws of Investment he said:

"In essence, and regrettably, the obsession with the quantification of risk (beta, standard deviation, VaR) has replaced a more fundamental, intuitive, and important approach to the subject. Risk clearly isn't a number. It is a multifaceted concept, and it is foolhardy to try to reduce it to a single figure. To my mind, the permanent impairment of capital can arise from three sources:

> *1) valuation risk – you pay too much for an asset;*
> *2) fundamental risk – there are underlying problems with the asset that you are buying (aka value traps); and*
> *3) financing risk – leverage.*

By concentrating on these aspects of risk, I suspect that investors would be considerably better served in avoiding the permanent impairment of their capital."

This helps us identify risks that fall outside the mathematical areas captured by volatility and Value at Risk for example.

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Montier also provides a steer on the value of sustainability and ESG as a driver of returns in his White Paper entitled The World's Dumbest idea in which he demolishes the policy of Shareholder Value Maximisation, which he condemns as counter productive and destructive of the very things it seeks to promote.

This was his conclusion:

"Shareholder's Lesson
Firstly, SVM has failed its namesakes: it has not delivered increased returns to shareholders in any meaningful way, and may actually have led to poorer corporate performance!

Corporate's Lesson
Secondly, it suggests that management guru Peter Drucker was right back in 1973 when he suggested "The only valid purpose of a firm is to create a customer." Only by focusing on being a good business are you likely to end up delivering decent returns to shareholders. Focusing on the latter as an objective can easily undermine the former. Concentrate on the former, and the latter will take care of itself. As Keynes once put it, "Achieve immortality by accident, if at all."

Everyone's Lesson
Thirdly, we need to think about the broader impact of policies like SVM on the economy overall. Shareholders are but one very narrow group of our broader economic landscape. Yet by allowing companies to focus on them alone, we have potentially unleashed a number of ills upon ourselves. A broader perspective is called for. Customers, employees, and taxpayers should all be considered. Raising any one group to the exclusion of others is likely a path to disaster. Anyone for stakeholder capitalism? "

Although Montier does not go as far as we do in looking for broader benefits, the message is clear. '*Everyone's lesson*' should resonate with most people today in the face of climate change, sea, air and increasing land pollution.

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3 OTHER FACTORS

Although sustainability drives our investment philosophy, other factors are also influential in shaping our portfolios and their propensity for risk and return.

Fund Selection and Structural Agnosticism

In locating suitable funds we look to the widest possible universe of funds, including open ended funds such as unit trusts and open ended investment companies (OEICs) and close ended funds such as investment trusts and exchange traded funds, both UK domiciled and those administered in offshore locations, recognised and approved of by the UK regulator the FCA as being suitable for UK based retail investors.

The vast majority of our competitors Model or Managed Portfolio Services (MPS) are invested wholly in open ended investment structures such as OEICs and Unit Trusts. By contrast, our management of the Key to the Future is structurally agnostic. That is to say that we select funds for inclusion in the Key to the Future MPS based on the likely contribution that they will make to delivering the impact that we seek.

The main reason for using investment trusts is that this is where we are best able to gain exposure to direct investment into renewable energy projects in themes such as wind and solar, energy efficiency and storage. There are benefits, costs and risks associated with this approach, which are explained towards the end of this guide.

Asset Allocation

Asset allocation remains an important part of the investment process helping to shape portfolios' risk and return characteristics.

Asset allocation simply refers to the mix of different assets that make up a particular investment fund or portfolio. The mix of different asset classes, such as shares, bonds, property and cash, may help determine certain long-term characteristics of the investment, including risk and return, but it has to be used in conjunction with analysis of ESG and sustainability.

Active, Passive, Value and Growth

Investments can be Actively Managed or Passive and either may adopt a Value or a Growth style with which to achieve their investment objectives. In some cases, a combination of Value and Growth is employed, sometimes called GARP - Growth at a Reasonable Price. Value and Growth tend to be counter-cyclical, which mean when one is in vogue the other isn't. Sustainable investing has for many years been predominantly Actively Managed with a Growth bias.

Passive Investment essentially tracks an index or a basket of shares or other instruments with no other input and activity taking place. These can either be synthetic replications of the performance of the chosen index or a physical portfolio where shares have to be bought and sold on a daily basis to keep in line with the

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index. Advocates of passive investing believe that markets are efficient and cannot be exploited by clever trading or speculation. They cite low costs and the alleged inability of many active fund managers to outperform the index.

Active fund management is where decisions are made to buy and sell shares based on the judgement of the manager.

Value investors look for bargains and try to exploit information deficits and market inefficiencies. They look to buy what they believe to be cheap stocks that appear to be undervalued by the marketplace, which they hold to recovery and then sell.

Growth investors buy what they consider to be solid long term investments usually in larger companies that offer strong earnings growth.

We are believe there is a place for both growth and value active management strategies in sustainable portfolios such as ours but it is important to recognise that whilst many growth stocks are focused on activities that are often associated with sustainability and impact, many value stocks are focused more on conventional activities that are not sustainable or impactful. This is a focus of research for us as a balance between growth and value is important for short to medium term stability.

The use of passive strategies to achieve sustainable investment where fund manager engagement is an important factor is obviously challenging. However, we will use passive strategies such as exchange trade funds or single share themed investments where we feel these may compliment the core, overall, actively managed strategy.

The passive argument is based on the correct premise that only a minority of actively managed funds outperform in the longer term. It is therefore our task to research and employ those funds that are well managed and can consistently deliver above average returns. If this was not the case then there would be no need for research and analysis and selecting good funds would be easy. This cannot be based on past returns as these are not a reliable guide to future returns. That is even more the case when it comes to future focused sustainable investment.

Passive strategies usually ignore sustainability, social responsibility, impact and ethical factors. We select funds that take these things into account because we believe they have the significant ability to deliver better long term returns.

We believe it is our job to identify the best active investment managers as well as appropriate passive funds (where they exist) to produce portfolios that are able to deliver returns based on risks that our clients understand and are able to accept, even when markets are in crisis, as they are from time to time.

Investment strategy should therefore be determined in advance and not retrospectively. There is absolutely no point in panic selling investments as the market is crashing. We should agree in advance how much risk can be tolerated and then stick to this strategy

We believe that our investment philosophy can best be implemented by building portfolios of investment funds whose underlying investment assets reflect an asset allocation that we judge to be appropriate to the risk requirements of our clients.

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Fund Volatility & Track Record

Volatility is used as an indicator of portfolio risk and has been widely adopted as a measure of risk for portfolio construction. Data periods of 3 years or more are considered reliable in demonstrating an investments' risk-return characteristics based on volatility.

We back test and analyse the past performance of the identified funds looking at price volatility against historic returns over periods of 1,2,3, 5 and 10 years, where such data exists.

To enable this we normally expect funds to have 3 years performance track record to ensure we are only dealing with experienced and competent investment managers.

However, we may employ funds with shorter track records, where such funds have experienced management and are focused on transition themes that are emerging as a response to the challenge to achieve a 'just transition to net zero'. These 'new funds are likely to be come increasingly important in helping address sustainability issues.

Illiquidity

Because there is a strong and reliable correlation between risk and return, particularly in the longer term, we know that low levels of volatility should not produce high levels of return. Where this is seen we need to be suspicious that other factors are at play and other risks may be present. The main alternative risk is illiquidity, which can manifest as lower than expected volatility with higher than expected returns thus masking potential risks to capital.

Illiquidity means an investment may prove difficult to sell quickly. Illiquidity can result from there being limited markets in certain investments such as private equity, enterprise investment schemes, venture capital trusts, hedge funds and some classes of fixed interest. Assets such as property and commodities may require legal and contractual obligations to be completed before a purchase or sale can be completed. Funds investing in any of these assets will likely display lower than expected volatility and higher than expected returns, thus masking potential risks to capital from market risk, corporate failure and defaults.

Illiquidity can also affect investments traded on mainstream markets, particularly where there are only a limited number of markets makers wiling to offer or bid for certain investments. This mostly affects investment trusts but could include exchange traded funds, particularly in times of crisis and heightened volatility: just at the very time one might be tempted to sell!

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4 OUR INVESTMENT PROCESS

Our objective is to build and maintain, with our discretionary investment manager, five sustainable investment model portfolios, based on the sound ESG analysis, that meets the needs of the majority of our clients. We benchmark the risk and return characteristics of each model portfolio against the AFI (Adviser Funds Index[i]) for Cautious, Balanced and Aggressive returns.

Model Portfolios	Benchmark
Key to the Future 1 & 2	AFI Cautious[ii]
Key to the Future 3	AFI Balanced[iii]
Key to the Future 4 & 5	AFI Aggressive[iv]

This is the investment process we use to build our sustainable investment model portfolios:

[i] The Adviser Fund Index (AFI) is made up of the recommended portfolios of a panel of leading UK financial advisers. Based entirely on the funds actually recommended to clients the AFI Aggressive provides insight in terms of the benefits of holding top quality funds.
[ii] The FE AFI Cautious portfolio outperforms the IA Mixed Investment 20-60% Shares Sector average.
[iii] Although less pronounced, the FE AFI Balanced is still pulling ahead of the IA Mixed Investment 40-85% Shares Sector average.
[iv] The FE AFI Aggressive has steadily pulled ahead of most 'external' measures, including the FTSE 100 and the IA Flexible Investment Sector average, which have tended to cluster around each other.

Asset Allocation

Each portfolio is created to reflect an appropriate asset allocation to reflect the levels of risk we are hoping to achieve in order to generate an expected return commensurate with that level of risk. Whilst we use FE Analytics E-Value attitude to risk questionnaire with clients, we ascribe limited value to the detailed asset allocation offered by E-Value, particularly where it strays into geographical recommendations and differentiations between corporate and sovereign debt. The appropriate asset allocation is arrived through a discussion with our appointed discretionary manager Peregrine & Black at investment committee level. They take ultimate responsibility for ensuring the asset allocation is suitable for each Key to the Future model portfolio.

Fund Selection

We are constantly reviewing and researching funds for inclusion in the portfolio. We do this by receiving media and industry communications, engaging with fund managers and attending conferences. We carry out original in-house research on their portfolios. Where possible we initially assess funds through a screening process using Worthstone's impact portal. We use FE Analytics to provide further data, particularly quantitative information and this is where we build the portfolios.

Worthstone only list funds that invest in portfolios of listed equity. As a consequence, they do not list many of the closed-ended investment trust funds that we find interesting and highly impactful. Currently these are Gresham House Energy Storage, Greencoat Wind, Foresight Solar, and SDCL Energy Efficiency Investment Trust. This is not problematic for us as these funds provide fairly obvious and well evidenced positive impacts, generate reliable carbon emissions data and produce annual impact or sustainability reports that contain independently verified data that we can use to evaluate the funds and integrate their impact into our overall evaluation of the portfolio.

For open-ended funds and investment trusts that invest in portfolios of listed equity, Worthstone provides a variety of metrics that we are able to use to evaluate these funds.

Fund Due Diligence

We review and analyse each funds' performance using data from the fund manager, FE Analytics, Morningstar, Square Mile Research and Rayner Spencer Mills Research. The work done by our discretionary manager is pivotal in this respect, where all funds selected by us are then subjected to their due diligence process prior to formal approval from the investment committee for use in the Key to the Future model portfolio. Decisions on fund selection have to be unanimous.

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5 THE KEY TO THE FUTURE, IMPACT RESEARCH

The Key to the Future Portfolio invests in up to around 22 different funds, each of which is invested in many companies that the various fund managers and their teams have deemed investable, in accordance with their fund's investment philosophy.

The Key to the Future Impact Research Project Team looks at each individual underlying holdings and interrogates each one against various criteria to uncover the impacts of these individual companies in both positive and negative terms.

To try to understand companies' potential and actual negative impacts the team use the UN Compact's 10 principles to measure and evaluation corporate activity and it effect on our world and humanity:

https://www.unglobalcompact.org.uk/the-ten-principles/

To determine their positive impacts they use the 17 Sustainable Development Goals (SDGs):

https://www.undp.org/content/undp/en/home/sustainable-development-goals.html

That means lots of deep online searches.

You might regard this as an ethical screen but we don't. We see these factors as part of an evaluation of each company's potential for generating risk, where certain behaviours could damage their financial standing: that is to say, negative impact through contravention of one or more of the 10 principles.

An ethical screen would not work like this. It would look at the specific concerns of individuals that might have no financial bearing, such as animal testing. Some funds in the Key to the Future portfolio invest in companies that undertake animal testing and may be listed on the 'Cruelty Free Investing use of Animals List'. These would fail that screen if we were building a bespoke ethical portfolio for a client who wanted us to exclude that activity.

For the Key to the Future we're not trying to accommodate individual ethical values. We might be encompassing some commonly shared ethical values in the way that we are investing but our focus is on sustainability and impactfulness. Ethical values may help us evaluate these sustainable and impactful characteristics and so at the same time we do need to understand the ethical issues. They can come up in client conversations, and they can create risk through controversy that might have the potential to damage a company's reputation and thus the share price.

Ultimately the Key to the Future Portfolio is about sustainability and impact, building on the positives and reducing the negatives. The job of the Key to the Future Impact Research Team is to uncover those impacts and help us to build a future focused, profitable and robust investment portfolio.

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Fund Manager Engagement

The research into the individual companies into which our fund managers have invested our clients' money is a very important part of our ongoing review process.

We employ a rigorous methodology that identifies companies that may not be fully compliant with the 10 principles of the United Nations Global Compact or may be creating negative impact in relation to any of the 17 SDGs (Sustainable Development Goals).

Specifically, we are looking for evidence that investee companies may have transgressed in the following areas:

- Human Rights
- Labour Rights
- Environment
- Anti-Corruption

Controversial issues affecting investee companies have the potential to impact the performance of the various funds that make up the portfolio. This type of information is often hidden or buried by major corporations using SEO (Search Engine Optimisation) techniques, meaning that the information we are looking for is only discovered after interrogation of multiple search pages.

Our company reports are used to engage with fund managers who are invested in the company's shares or bonds. We only report on significant issues that are well evidenced and are demonstrably negative in their impact, contrary to the fund managers stated sustainability aim and objectives. Very often fund managers will be signatories of the PRI (Principles for Responsible Investment) and they will cite the principles underpinning the UN Global Compact and seek to claim positive impact by aligning their investments with various SDGs.

Where we can demonstrate that the underlying investment does not do what the fund manager is claiming then we will engage with the fund manager to ascertain the nature of any positive engagement that they have had with the company to address any shortcomings.

Ultimately, where we feel that the engagement by the fund manager has been unsuccessful, and further engagement is likely to be ineffective, or the transgressions are so significant that irreparable and unreversible damage has been done then we will encourage divestment and reinvestment in a more suitable alternative.

We will divest from the fund if the outcome of our engagement is significantly unsatisfactory.

Our engagement helps fund managers understand better the issues that we feel are important for the long-term success of our strategy. It helps steer them towards better and more powerful engagement with investee companies. Ultimately it can help drive positive changes in corporate behaviour and social responsibility.

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We have engaged with fund managers on many subjects including human rights abuses, environmentally destructive mining practices and fossil fuel divestment. More recently these are a few more themes that we've reported on:

- Palm Oil certification issues around environmental transgressions and child and forced labour violations.
- Cobalt Mining and Lithium Battery manufacture, supply chain, conflict minerals, environmental and child labour issues and other labour violations.
- Plastics recycling and not for recycle waste plastic policies amongst the major UK supermarkets
- Regenerative Agriculture, which is seen by many as a cheap, natural, and effective way to create carbon sinks that can sequester carbon from rain fall as well as improve soil quality and agricultural food production, which impacts on a number of the SDGs.
- Electric Vehicles and air pollution
- Mining engagement and fund manager cultural assimilation
- Healthcare and human rights violations
- Slavery and sportswear manufacturing
- Healthcare and human rights transgressions

We tend not to engage heavily with fund managers on company specific issues prior to making the decision to invest in the fund. We regard engagement as part of the relationship we have with those looking after our clients' investments. It's also a positive way to help funds become better and more sustainable and impactful and therefore ultimately more profitable, both for the investor and the wider picture: humanity and the planet.

After all, what's the point of a sustainable investment in an unsustainable world?

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6 KEY TO THE FUTURE: INVESTMENT MANAGEMENT RISK & RETURN

Investment Management

The portfolios are managed on a day-to-day basis by a discretionary investment manager, Chris Redman (Chartered FCSI) of Peregrine & Black Investment Management, who we have engaged for this purpose.

We provide the strategic input necessary to achieve the stated aims of the investment philosophy and they have the regulatory and day to day responsibility for running the strategy, making sure the portfolios are meeting their risk return objectives, through performance monitoring and regular rebalancing.

The discretionary manager also provides helpful collaborative analysis of the funds we have researched, adding their expertise and skill to ours helping make the process more robust. We meet formally each month to review and discuss the portfolio and examine the outcome of our fund manager engagement meetings.

Outside of the monthly investment committee meetings we will discuss new fund ideas and attend meetings with possible new fund managers.

Risk & Return

The key to the Future Model Portfolio is available at five risk levels:

- Key to the Future 1 providing a cautious level of risk
- Key to the Future 2 providing a cautious to moderate level of risk
- Key to the Future 3 providing a moderate level of risk
- Key to the Future 4 providing a moderate to aggressive level of risk
- Key to the Future 5 providing an aggressive level of risk

Which of these models is appropriate for each client will depend on each individual's attitude to investment risk and return and their capacity for loss, based on their individual circumstances.

Compliance with the regulatory requirements around suitability is the responsibility of the financial adviser recommending the Key to the Future model portfolio to their clients.

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7 IMPORTANT WARNINGS PLEASE READ

Please remember past performance is not a guide to future returns.

Investment returns are not guaranteed and are dependent on the performance of the underlying investments whose capital is liable to fall as well as rise. Income taken and charges will erode capital. Past performance is not a guide to future returns. Tax treatment of ISA investment funds and the income or withdrawals that you take is subject to statutory amendment and is not guaranteed.

Investment Trusts – additional risks

The Key to the Future contains investment trusts. This enables us to invest with more impact because the investment trusts we use invest money directly into projects and themes that are aligned with the Key to the Future's sustainable and impactful objectives, such as generating renewable energy and developing energy storage capacity that allows energy to be generated on good days and stored for future use on bad days (when there is limited wind and or sun). Investing in investment trusts carries it own set of risks that you need to be aware of. Please ask if there is any aspect of this that you do not understand.

Gearing
In addition to the usual investment risks, investment trust companies held in the Key to the Future model portfolio are able to use gearing as an investment strategy.

What is Gearing?
Gearing is used to multiple the return or value of an investment trust without increasing the amount invested by the holders of the security and is implemented in one or more of the following ways:

- Borrowing Money: Investing in instruments where a relatively small movement in the value or price or the underlying rights or assets in which that instrument is invested or relates, both up or down, thus magnifying the profit or loss for that instrument.
- Examples are derivatives and warrants but may include a number of other instruments including issuing debt instruments such as bonds and debentures;
- Structuring the rights of holders of a security so that relatively small movements in price or value of the underlying assets or rights, both up or down, result in a magnification of the return or loss on the main investment

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What does this mean for you?

- Increased price volatility relative to the volatility in the value of the underlying investments or net asset value;
- The investment being subject to sudden and large falls in value;
- Although unlikely, the private customer could get back nothing at all if there is a sufficiently large fall in value in the investment.

Discounts and premiums

- Because investment trust shares are traded on the open market through a recognized stock exchange, the price of the shares will often differ from the value of the underlying assets that comprise the investment trust's investment portfolio. This is a consequence of supply and demand for the shares of the investment trust company, which is what you as an investor hold, as distinct from the net asset value of the investment trust's assets: its investment portfolio.
- This creates a situation where the shares that you hold will either trade at a discount (the share price is lower) or at a premium (the share price is higher) than you might expect given the net asset value of the underlying portfolio being managed by the investment trust company.
- Often the level of discount or premium remains at a similar level over time. Sometimes the level can change, sometimes for reasons that have nothing to do with the management of the investment trust itself, such as geopolitical or macro-economic issues or investor sentiment causing widespread bullish or bearish behaviour where shares are generally rising or falling in value due to the laws of supply and demand. Sometimes the level changes because of something done by the investment trust itself, such as change in strategy or the departure of a trusted manager.
- Such issues are either welcomed or disliked by investors, causing them to buy or sell shares, which is a change in demand that in turn affects the price. Some investment trusts issue new shares or buy back existing shares to control the level of discount or premium.
- All of these factors are important things to understand in evaluating your investment trust valuations and decision making in terms of buying and selling investment trust shares as a result of this review.

Liquidity Issues

- Investment trust shares have to be sold on the open market through a recognized stock exchange. There might not always be a market for the shares and it all depends on whether the market makers who buy and sell shares are able to find buyers for your shares and are willing to buy them.
- This is the same for all shares but more so for investment trusts particularly if there is little demand for the shares, possibly because everyone is trying to sell them at once. It is important to understand that investment trust shares are long term investments.

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