

## The Arch Investment Proposition

This Guide outlines the investment proposition that Arch Financial Planning Limited has put in place for its clients. It is a proposition which **we believe can add significant value to an individual's investment portfolio.**

We have confidence in this, not because of an overblown belief in our own abilities, but because we involve widely acknowledged expert organisations to carry out all of the vital aspects of the management of our clients' investment portfolios.

We have put in place an investment proposition which involves active monitoring, regular fund selection and automatic rebalancing carried out by some outstanding organisations, the use of which we believe will deliver real benefits for our clients.

Of course, by introducing this investment proposition, some will ask what was wrong with how we handled our clients' investments previously. We refer to the background to this change under the last section in this Guide headed "Why a new investment proposition?"

## Morningstar Risk Questionnaire

- You are asked to complete a **short risk questionnaire**, either as part of the completion of our Personal Questionnaire, or separately.

Risk Survey Questionnaire Page 1 of 2

### Risk Assessment Questionnaire

The Risk Assessment Questionnaire helps to determine the best asset mix for an investment, based on the answers given to the questions below.

<p><b>Time Horizon</b> Your current situation and future income needs.</p>	<p>1 Thinking about the money you are investing now, please tell us when is the earliest date, realistically, when you think you will need access to, or to start drawing income from, your money?</p> <p><input type="checkbox"/> Within the next 5 years  <input type="checkbox"/> Between 5 and 9 years  <input type="checkbox"/> Between 10 and 14 years  <input type="checkbox"/> 15 years or above</p> <p>2 Is it important to you to be able to draw money earlier than anticipated now if your circumstances change?</p> <p><input type="checkbox"/> Important  <input type="checkbox"/> Useful but not vital  <input type="checkbox"/> Not important at all</p>
<p><b>Long-Term Goals and Expectations</b> Your views of how an investment should perform over the long term.</p>	<p>3 First, tell us which of these sayings most appeals to you.</p> <p><input type="checkbox"/> A bird in the hand is worth two in the bush  <input type="checkbox"/> Nothing ventured, nothing gained  <input type="checkbox"/> Speculate to accumulate!</p> <p>4 Now, think about the money you are investing, tell us which of the following statements most appeals to you.</p> <p><input type="checkbox"/> I want to aim for the best return possible even if this increases the chances of losing money, especially in the short term, in poor market conditions.  <input type="checkbox"/> I want to aim for an above average return, whilst at the same time controlling to some extent the chance of losing money in poor market conditions.  <input type="checkbox"/> I want to aim for a good, reasonably stable return whilst accepting that I might benefit from taking more risk if markets perform well.  <input type="checkbox"/> I want to aim for a stable, reliable return whilst accepting that I would probably benefit from taking more risk in most market conditions.</p> <p>5 Now, think about the following scenario and tell us, instinctively, what you would most likely do: You have won £50000 in a competition. While this will change your circumstances, you need about £10000 to really set yourself up financially. You now have the following choices:</p> <p><input type="checkbox"/> Take the £50000  <input type="checkbox"/> Risk £10000 on a 80% chance of increasing your win by another £10000  <input type="checkbox"/> Risk £25000 on a 60% chance of increasing your win by another £25000  <input type="checkbox"/> Risk £50000 on a 50% chance of increasing your win by another £50000</p>
<p><b>Short-Term Risk Attitudes</b> Your attitude toward short-term volatility.</p>	<p>6 We all know that stock markets go up and down - sometimes dramatically and unpredictably. Please look at the following statements and tell us how you would respond if the value of your investments fell over the next 12 months:</p> <p><input type="checkbox"/> Even if the value fell by more than half, I wouldn't worry.  <input type="checkbox"/> I would only start to get concerned if the value fell by around one third, i.e. by 33%.-  <input type="checkbox"/> I would start to worry if the value fell by more than 10%.  <input type="checkbox"/> Any fall by more than a few pounds would worry me</p> <p>7 Now, think about the next 3 years and tell us how you feel about what your money might be worth after that time:</p> <p><input type="checkbox"/> I wouldn't mind even if I had lost money; stock market investment is long term!  <input type="checkbox"/> I would have some concerns if the value had fallen dramatically, say by more than around 25%.  <input type="checkbox"/> I wouldn't worry about a small fall in value, say around 10%, over that period.  <input type="checkbox"/> I would be concerned about any loss in value, however small. I expect a positive return on my money in all circumstances</p>

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- The questionnaire has been **designed by Morningstar**, a leading provider of independent investment research.
- In addition to the Morningstar questions we ask whether you would you like any **social, ethical or environmental issues** to be taken into account when looking at your investments.

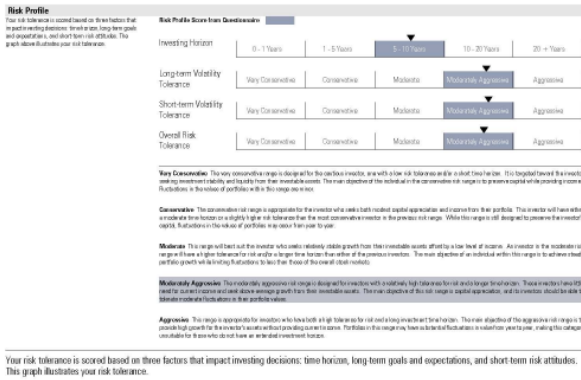
## Morningstar Adviser Workstation

- We use the **Morningstar Adviser Workstation** to identify your overall risk tolerance from the risk questionnaire which you have completed.
- Morningstar Adviser Workstation provides advisers with investment planning, client presentation, portfolio analysis, and investment research tools. Advisors can efficiently analyze investments and portfolios to give recommendations using reports and information that clients can understand.

Morningstar Workstation is an all-inclusive desktop resource for fund performance analysis and the presentation of performance information. Investment professionals can assess global fund performance and suitability using more than 85 calculation options, 85 currencies, and 15,000 indexes.

- We then seek to gain your agreement to the risk tolerance suggested and provide you with the opportunity to request that we use a different risk tolerance if required.
- We are then able to determine **which of the risk-rated portfolios is the most suitable for you.**
- Whilst the use of these portfolios via the Nucleus Wrap (see later heading) is the core of our investment proposition, there will be instances where it may be more appropriate to arrange an investment direct with a product provider (ie outside of the Nucleus Wrap) or create a more 'bespoke' portfolio but perhaps within Nucleus.
- In such instances we will still seek to use the asset allocation models suggested by the portfolios where possible.
- You can find out more about Morningstar on their website – [www.morningstar.co.uk](http://www.morningstar.co.uk)

## Risk Assessment Results



## Ibbotson Associates

- Arguably, **asset allocation is the most important step in the process of long term investment planning**. Traditionally firms such as Arch have attempted to set investment portfolios up 'in-house', but there are now acknowledged experts in this field upon whose services we can call.
- For the purposes of the standard risk-rated portfolios we are able to make use of Ibbotson Associates Inc, a **leading independent asset allocation provider** in the United States and in international markets.
- Ibbotson was founded in 1977 and is a Morningstar company. Their mission is to deliver innovative asset allocation solutions, to help investors reach their financial goals, and to stimulate thought on the subject of asset allocation generally.
- Ibbotson will **review the asset allocation of each portfolio annually**.

**Ibbotson Associates Products and Services**

**Investment Consulting**

- Risk tolerance questionnaire
- Investment models
- Asset selection and optimization
- Asset specific portfolios
- Capital needs assessments

**Fund-of-Funds Services**

- Target-benefit portfolios
- Risk-based portfolios
- Private asset allocation
- Monetary strategies
- Alternative strategies
- Dis-inflated portfolios
- Active and passive strategies
- Insurance portfolios
- Custom strategies

**Plan Sponsor Consulting**

- Asset selection
- Group management
- Fiduciary oversight
- Investment policy statement
- Market exit
- Regulatory compliance

**Retirement Services**

- Target-benefit portfolios
- Investment models
- Substrategic industry solutions
- Fee and performance analysis
- Asset allocation evaluation
- Risk-based portfolios
- Retirement business transfer

Over 30 years ago, Ibbotson bridged the gap between academic theory and real-world practice to become a leading independent authority and provider of asset allocation. It is through the application of our cutting-edge research, proprietary design methodology, and industry-approved investment techniques that we create an endless array of investment products.

Our robust investment solutions align with our clients' needs to meet their objectives as well as their investors' investment goals. Each client is appointed a dedicated investment consultant who has an in-depth understanding of individual markets as well as specialized knowledge of specific business segments. Client meeting, additional support, have access to Ibbotson's training, support teams, including markets, and communications to create a well-scrubbed program.

Our investment consulting, fund-of-funds services, plan sponsor consulting, and retirement services offer various individual asset allocation products and each service delivers a total investment solution.

**Investment Consulting**  
Ibbotson uses a flexible consulting process to construct asset allocation programs customized to meet our clients' goals. Clients seeking an independent source come to Ibbotson for solutions to specific projects as well as enhancements to current offerings and processes.

**Fund-of-Funds Services**  
Ibbotson creates a broad range of fund-of-funds strategies from risk-based to target maturity to dynamic asset allocation to retirement income portfolios. Ibbotson's strategic solutions can be used in a variety of investment vehicles including registered mutual funds, variable annuities, wrap programs, ERAs, and separately managed accounts.

**Plan Sponsor Consulting**  
Our plan sponsor consulting is ideal for defined contribution plan providers and plan sponsors who seek a fiduciary partner as well as achieve ERISA (4092) compliance through independent fund selection and ongoing monitoring. This service is implemented with a flexible framework and a robust selection process.

**Retirement Services**  
Our retirement services help plan providers and plan sponsors provide flexible retirement income solutions, investment education, and service advice, retirement managed accounts solutions, and custom target maturity services delivered through state-of-the-art software tools to help participants in their retirement plans.

- Ibbotson's key attributes
  - Focus on Asset Allocation** - Management of asset allocation portfolios is their core business and has been since their founding in 1977.
  - Academic Underpinnings** – their corporate culture is built upon a strong foundation of academic research.
  - Independence** – they create customized and innovative solutions for financial institutions. They do not market their own investment products.
  - Experience and Expertise** - with over 30 years of experience and an accomplished staff, Ibbotson is a leader in asset allocation.
- You can find out more about Ibbotson on their website – [www.ibbotson.com](http://www.ibbotson.com)

## Old Broad Street Research

- The funds that **populate each active portfolio are then chosen by Old Broad Street Research (OBSR)**, an independently owned UK consultancy business.
- Their emphasis is on forward-looking research, based upon a qualitative analysis informed by quantitative information.
- OBSR's approach
  - OBSR takes a **long-term approach** aligned with the needs of long-term savings.
  - OBSR's process relies upon a **rigorous timetable of quarterly face-to-face meetings** with fund managers.
- OBSR will **review the funds being used at the end of each quarter** and make changes as they think appropriate.
- You can find out more about OBSR on their website – [www.obsr.co.uk](http://www.obsr.co.uk)

**obsr**  
OLD BROAD STREET RESEARCH LTD

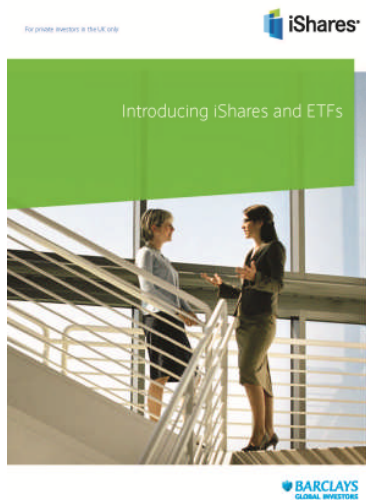
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**Balanced Model Portfolio**

May 2009

## iShares

- The Exchange Traded Funds (ETFs) that **populate each passive portfolio are then chosen by iShares**, the world's largest provider of ETFs to private and institutional investors with products that cover almost every conceivable market.
- iShares has created ETF portfolios that provide a **low cost option for our clients** when constructing portfolios.
- You can find out more about iShares on their website – [www.ishares.co.uk](http://www.ishares.co.uk)



## Paradigm Partners

- Paradigm Partners LLP was formed in 2007 to provide **consultancy driven support services to Independent Financial Advisers**. Over 320 IFA firms have since joined Paradigm and Arch is one of them.
- Member firms not only benefit from a wide range of compliance services but also obtain access to other services and software on **special terms that only a large group could negotiate**.
- Access to the **range of 20 portfolios** that we currently have is a major benefit that we are delighted to be able to obtain for our clients.
- Provided that our core investment proposition is felt to be suitable, based on your attitude to risk, we identify the most suitable of five risk rated types of portfolios as follows:
  - Income/Defensive
  - Cautious
  - Balanced
  - Active
  - Aggressive

- You can find out more about Paradigm Partners on their website – [www.paradigmgroup.eu](http://www.paradigmgroup.eu)

Portfolio 1 - Income						
Asset Classes	% Asset Allocation		Suggested % Fund Weight	Check	Current yields	
Cash	15	Fixedly Cash / deposit	15	15	3.00	0.50
Property	0	rv/s	0	0	0.00	0.00
Fixed Interest	25	UK Gilt	25		3.00	0.50
		Royal London UK Government Bond	12.5		3.00	0.40
		Schroder Gilt & Fixed Income	12.5		5.00	0.20
		UK Corporate	9		5.50	0.20
UK Equity	12	UK All-Share Index	12		2.00	0.24
	9	UK All-Share Index - Dividend	9	55	5.40	0.40
Global Equity*	16	FTSE 100	5		6.50	0.30
		FTSE 250	5	16	4.02	0.25
		FTSE 350	5		6.70	0.34
Global Equity*	14	Emerging Markets	10	10	6.20	0.62
		Developed Markets	4	1	4.40	0.10
European Equity	6*	rv/s	0	0	0.00	0.00
North America Equity	6*	rv/s	0	0	0.00	0.00
Emerging Markets Equity	0	rv/s	0	0	0.00	0.00
Asia Pacific Equity	0	rv/s	0	0	0.00	0.00
Japan Equity	0	rv/s	0	0	0.00	0.00
Commodities	2*	rv/s	0	0	0.00	0.00
			100	100		4.53

\*The 14% allocated to Global Equity is a combination of North America, Europe and Commodities based upon the original Morningstar asset allocation output. Paradigm agreed to this adjustment in order to enhance the yield of this income portfolio.

## Prism Capital Management Limited

- To further enhance our investment proposition Paradigm Partners has set up a new investment company, Prism Capital Management Limited, to **deliver cutting-edge investment solutions to the UK retail market**.
- Octopus Investments** has been appointed as investment manager and will be responsible for the day-to-day investment management of a **new range of 3 risk-rated multi-manager/multi-asset funds** initially.
- IFDS Managers** is the authorised corporate director (ACD) of the IFDS Prism Capital Management ICVC and are the legal body for the Prism Funds. **State Street Bank** is the custodian.



- It is not our intention to use these funds on their own, although they are available to us on that basis. **The purpose is to be able to add breadth to our client portfolios.**

- The Prism Funds have **the ability to invest across the full spectrum of asset classes** including equities, fixed interest, property, structured products and alternative assets such as hedge funds and private equity.

The three multi manager/multi asset funds are:

IFDS Prism **Cautious Growth** Fund

The Fund's aim is to produce annual returns which, over the medium to long term, are on average **2.5% higher than NS&I cash ISA rates** after all Fund charges.

IFDS Prism **Capital Growth** Fund

The Fund's aim is to produce annual returns which, over the medium to long term, are on average **3.5% higher than NS&I cash ISA rates** after all Fund charges.

IFDS Prism **Advanced Fund**

The Fund's aim is to produce annual returns which, over the medium to long term, are on average **4.5% higher than NS&I cash ISA rates** after all Fund charges.

These returns should not be expected in any one year but the investment philosophy is such that the managers are targeted to achieve an absolute return over 5 years plus.

- You can find out more about Prism on their website – [www.prismcm.co.uk](http://www.prismcm.co.uk)

## Overview of Current Portfolios

- As a result of our use of these companies **we are able to offer our clients four different types of portfolios**, each containing five risk-rated options.

An overview of our investment proposition is therefore as follows:

- 1) five OBSR actively managed portfolios
- 2) five passive iShares portfolios
- 3) five Core Managed portfolios
- 4) five Core Passive portfolios

- The first two types of portfolios are quite straightforward in that they are **either 100% actively managed** (ie the OBSR portfolios) or they are **100% passive, or index tracking**, portfolios (ie the iShares portfolios). The other two portfolios combine these with the Prism multi manager funds to **introduce an element of targeted return into the portfolios**.

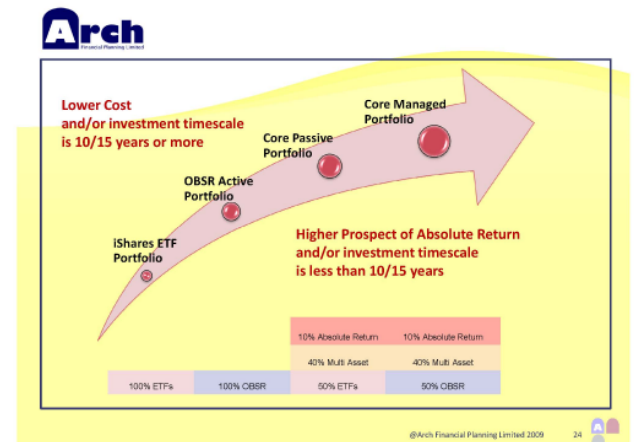
The **Core Managed Model Portfolios** are constructed as follows:

- 50%** OBSR Unfettered Portfolio
- 40%** Prism Capital Management Limited
- 10%** Octopus Absolute Return

The **Core Passive Model Portfolios** are constructed as follows:

- 50%** iShares ETF Portfolio
- 40%** Prism Capital Management Limited
- 10%** Octopus Absolute Return

- The following diagram will show **how we decide which type of portfolio to use** in a particular client situation.



## Nucleus Wrap

- The portfolios are held on the Nucleus Wrap and **Nucleus will carry out automatic rebalancing of each portfolio every three months**.
- This rebalancing procedure has the benefit of capturing the gains made by the 'winners' over the last quarter and investing those gains back into the 'losers'. This **obeys one of the key requirements of a good investment process, that of buying low and selling high**. It also seeks to make sure that your portfolio does not evolve into a higher risk vehicle than originally intended.

"Investment portfolios which have been rebalanced annually would have returned 16 per cent more than those which have not been rebalanced over the last decade, according to Skandia. The analysis also found that rebalanced portfolios would have been significantly less volatile over the period."

Article entitled 'Rebalanced Portfolios Win Out' published in *Financial Adviser* 8 October 2009

- Where you require a **'bespoke' portfolio it will not be possible to arrange for automatic rebalancing**. We will, however, be pleased to discuss with you your requirements for reviewing your portfolio if appropriate.
- The Nucleus Wrap offers you:
  - **Ease of transactions** - one point of entry to access your portfolio and arrange transactions.
  - **Reduced administration** – consolidated income and capital gains tax statements from one source to help simplify the tax year end reporting for tax return purposes.



## The Costs Involved

- The costs for those who invest via the Arch Investment Proposition are **typically no more than those that would be involved should they invest in an average unit trust fund** without any of the benefits outlined.
- **Initial Costs** – there are potentially two types of initial costs with any advice that we provide. These are firstly our cost for the advice and secondly our cost to arrange the investment itself.
- The **cost for advice is usually a fixed fee depending on the complexity of the advice** that is required.
- The cost to arrange the investment is usually a **percentage of the amount to be invested**. This is typically 3% of the amount invested for investments up to £100,000, 2% of the amount invested up to £250,000, 1% of the amount invested up to £500,000 and 0.5% of the amount invested for investments in excess of £500,000.
- If we take an investment of, say, £50,000 and ignoring the advice costs we would require 3% of the amount invested to set up the investment as part of the Arch Investment Proposition as described. In most cases the initial cost of the underlying assets would be less than 0.5%. The total initial transaction costs of no more than 3.5% compares favourably with the initial costs associated with the purchase of an individual unit trust fund.
- If the investment were, say, £300,000 then the comparable total initial transaction costs would usually be no more than 2.5%.
- **Annual Costs** – there are three annual costs involved in the Arch Investment Proposition and their total is likely to be similar to the annual management charge (typically 1.5% pa) of a single unit trust fund. These are the **Nucleus Wrap charge of just 0.35% pa, our annual fee of 0.5% pa and heavily discounted annual fees from the underlying funds, typically 0.65% pa on average.**

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## Why a New Investment Proposition?

Until the introduction of our new investment proposition we researched and recommended individual funds that were reviewed to suit the needs of our clients and an attempt was made at rebalancing from time to time.

The 'old model' had become increasingly cumbersome as we tried to keep abreast of so many changes that are occurring with increasing rapidity, such as:

- The **proliferation of new fund launches**, each one requiring analysis before being recommended to our clients.
- The **increasing use of a wider range of asset classes** which are now available under the UCITS III directive, which, whilst being of enormous benefit to investors, has added to the complexity of asset allocation and rebalancing.
- The **constant movement of fund managers** from one investment house to another, results in analysis being required each time to evaluate the likely impact on the fund and forwarding our misgivings to all our clients when appropriate.
- The **increasing number of smaller boutique investment management companies**, some of which have been poorly funded

We constantly strive to increase our knowledge of investment theory and practice through studying for professional examinations such as the CII's Investment Portfolio Management qualification; attending investment seminars and workshops; meeting fund managers and, of course, reading a very wide range of investment publications and trade journals.

However, much of this work is moving beyond our specialist areas of expertise, leading us to the conclusion that with such complex advances in the investment process it is foreseeable that our standard of advice could be compromised if we did not outsource the technical aspects to specialist partners.

Please note that this information does not constitute personal advice and should not be treated as a substitute for specific advice based on your circumstances. If you are in any doubt as to whether the Arch Investment Proposition would be suitable for you, then you should discuss the matter with a suitably qualified independent financial adviser such as ourselves.

Any information given in this Guide relating to income tax legislation is based on our understanding of legislation and practice in force at the date of this Guide. Whilst we believe our interpretation of current law and practice to be correct in these areas, we cannot be responsible for the effects of any future legislation or any change in interpretation or treatment.

### For personal advice

If you would like to discuss whether the Arch Investment Proposition would be suitable for you please ask your usual Arch adviser or contact us via one of the following:

Tel: **0845 3700 661**  
or **01483 204600** (if local)  
Email: **enquiries@arch-fp.co.uk**  
Online: **www.arch-fp.co.uk**

New Model Adviser  
of the Year 2010



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