

# Investment Brochure



netwealth

Wealth management as it should be

Wealth management | Pensions & ISAs | Financial planning



## Important Information

This document is intended for professional financial intermediaries and is not suitable for retail investors.

Netwealth Investments Limited is authorised and regulated by the Financial Conduct Authority with firm reference number 706988.

When investing your capital is at risk. The value of investments may go down as well as up, so you could get back less than you invested.

Netwealth offers advice restricted to the services provided, and does not provide independent advice across the market.

Netwealth is covered by the Financial Services Compensation Scheme (FSCS). In the event that we have stopped trading or are declared to be in default and cannot meet our obligations, a client may be able to claim compensation. This depends upon the type of business and the circumstances of the claim. The FSCS offers different levels of cover for different types of business. Most types of investment business are currently covered for 100% of the first £85,000. Further information is available from the FSCS website ([www.fscs.org.uk](http://www.fscs.org.uk)).



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# 01

## About Netwealth

Netwealth's investment framework is built around the prioritisation of centrally-managed models which drive allocations across every client portfolio. We believe this approach of investing each client in a model which represents the firm's best thinking for a given risk profile is far superior to constructing a 'bespoke' solution for each client, which by definition is different from the investment team's original strategy.

At Netwealth, the bespoke aspect of our approach lies in the ability for clients and their advisers to use our technology to frame their unique objectives, interrogate individual portfolio exposures and outcomes, and benefit from combining these aspects within initial and ongoing advice and planning.

Our portfolio range consists of seven portfolios with varying risk profiles, denominated in a choice of sterling, euros or US dollars. Each one is designed to create a high quality, cost-efficient, globally diversified multi-asset portfolio.

The portfolios are not managed according to a benchmark; however, their objective is to create real returns of varying magnitude over an appropriate time horizon. Using our database of historical returns from the past 25 years we also simulate the maximum historical drawdowns over 12-month periods.

## The anticipated risk and return profiles of each portfolio

The anticipated risk and return profiles of each portfolio – to be updated with current recommended minimum holding period and maximum historical 12 month drawdown. Data as follows:

Risk Level	Return Objective	Recommended Min. Holding Period	Max. Historical 12 Month Drawdown
1	Overnight Cash Rate (SONIA)	1 month – 2 years	-0.2%
2	CPI	3 years	-5.2%
3	CPI +1.0%	3-5 years	-12.2%
4	CPI +2.0%	5 years	-19.9%
5	CPI +2.5%	5-7 years	-24.8%
6	CPI +3.0%	7-10 years	-28.3%
7	CPI +3.5%	10 years	-31.3%



## 02

### Investment Philosophy

Netwealth's ambition is to deliver attractive portfolio performance over the medium- to long-term in order to enable clients to meet their investment goals. Our investment philosophy is designed in sympathy with this objective:

- We build high quality, diversified investment portfolios to deliver long-term, sustainable performance in the investor's chosen currency.
- We take views based on long-term strategic thinking, so we can be more patient for our views to be rewarded.
- We have conviction in the compounding value to client portfolio returns of minimising the attrition of unnecessary costs.
- Although all our portfolios have 100% daily liquidity, we are resistant to the idea of excessive trading.
- Portfolios are managed by an experienced macro, multi-asset investment team.
- Investment predominantly through passive and exchange traded funds (ETFs).

## 03

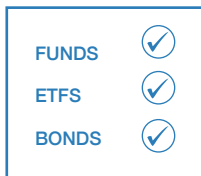
### Investment Process Summary

The Netwealth investment process can be divided into three distinct steps:



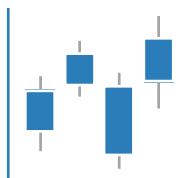
#### Building Strategic Allocations

The purpose of the Netwealth strategic allocations across different asset classes, currencies and regions is to establish a portfolio mix that we believe offers the best chance of meeting client objectives through the investment cycle, for each of our seven Risk Levels in sterling, euros and US dollars. Deriving these allocations is a key part of the investment process and is formally reappraised every 6 months with a 7-10 year investment horizon.



#### Selecting Investment Instruments

For each of the allocations to different asset classes and regions within our portfolios, we invest predominantly in passive funds and ETFs as they provide a highly-diversified exposure to each specific asset class in an efficient and cost-effective way. Historic evidence suggests that this approach delivers superior returns versus the majority of active funds over a long time horizon, once costs are factored in. Nevertheless, if we believe that there is a good reason to invest in an actively-managed fund for risk management purposes, we will do so.



#### Adopting Cyclical Positions

Honed within an institutional investment management environment, the process is intended to be thoughtful, transparent and repeatable, and to fit within a monthly cycle. The process of adopting cyclical positions is always risk-conscious and cost-aware, being evaluated after all trading costs have been taken into account. Positions will usually have an intended horizon of 12-18 months, reflecting the patient, strategic nature of the investment philosophy.

Investment risk management is embedded at every stage of this process.



# 04

## Investment Universe

The long term strategic mix of asset class exposures have been designed to offer diversified exposure to international capital markets with the aim of maximising returns for each client's preferred level of risk.

We consider a broad range of different investible asset classes for inclusion, in order to provide the diversification of exposure to assets that perform well across different economic and market environments. At the same time, our portfolios will not invest in more esoteric areas unless there is a clear benefit in doing so, either due to lowering the expected levels of risk or from producing higher expected returns.

We will hold strategic allocations in up to 9 distinct asset classes in each portfolio. These asset classes cover the breadth of the world's liquid capital markets, and are sub-divided on a more granular basis to align with our more focused allocations.

The strategic asset allocation typically accounts for more than 80% of our portfolios' returns and risk exposures

Asset Class	Characteristics
Cash and money market	Capital preservation and liquidity
Domestic government bonds	Capital stability and provision of income
International government bonds	Capital stability and provision of income
Inflation linked government bonds	Capital stability and inflation-protected income
Corporate bonds (investment grade and high yield)	Higher income but historically riskier than government bonds
Emerging market sovereign and corporate bonds	Higher income but historically riskier than domestic government bonds
Domestic equities	Growth via domestic companies
International developed market equities	International growth, with currency exposure unhedged or hedged
Emerging market equities	Higher prospective growth and risk premia



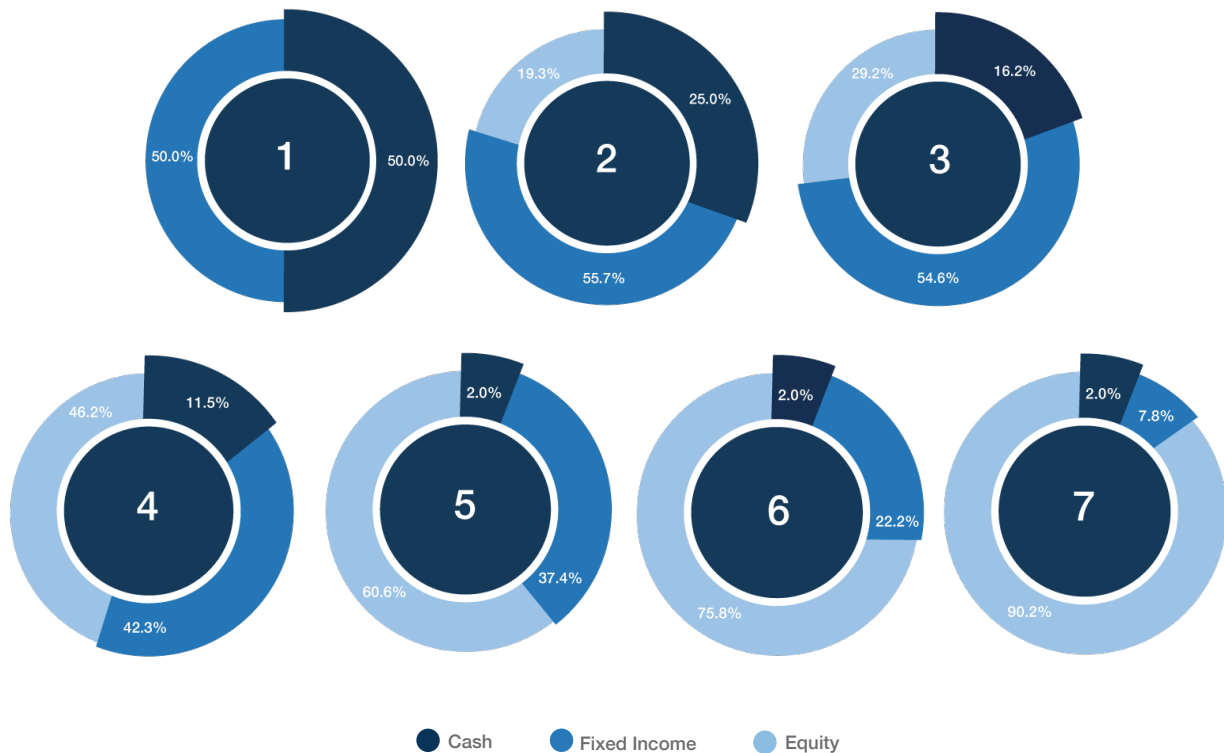
# 05

## Strategic Asset Allocation Process

In order to deliver the intended diversification of portfolios, the Netwealth investment process aggregates these asset classes using an analytical framework based on Modern Portfolio Theory (MPT) with extensions to ensure robustness under stress and alignment with the ongoing market environment:

- We use historical data as a starting point for expected risk and return behaviour in the future within the formation of our capital market expectations.
- We make adjustments in order to account for the current market environment and our future expectations within our capital market expectations process: for example, it is very unlikely that government bond returns in the coming decade will match the returns witnessed in the past 40 years and we want to be sure that this is recognised in our portfolio construction.
- Expected asset class characteristics and correlations are stress-tested to reflect the innate uncertainty about any predictions. We also perform a peer review against equivalent output from direct peers and other market participants.
- Our optimisation process follows traditional MPT, but also incorporates adjustments for input biases and for testing with non-normal assumed distributions and variations in investment horizons, in order to try to minimise point estimate error and make the optimisation more robust.
- The team imposes qualitative assessments on the models to make sure that the portfolios will rest within intuitive constraints for individual asset class exposure, for example ensuring international equity exposure is properly diversified.
- Assumed trading costs associated with rebalancing portfolios are incorporated into asset class forecasts to ensure a premium for liquidity is reflected in the portfolio output.
- We place a particular emphasis on understanding the potential drawdown of each Risk Level, as it often represents a primary concern for investors. We will always impose high level constraints on allocations to ensure the Risk Levels maintain the required level of diversification.

GBP Strategic Asset Allocations (as at 30<sup>th</sup> April 2020)<sup>1</sup> Data as follows: \_\_\_\_\_



<sup>1</sup> Details of the allocations within our euro and US dollar portfolios are available on request.



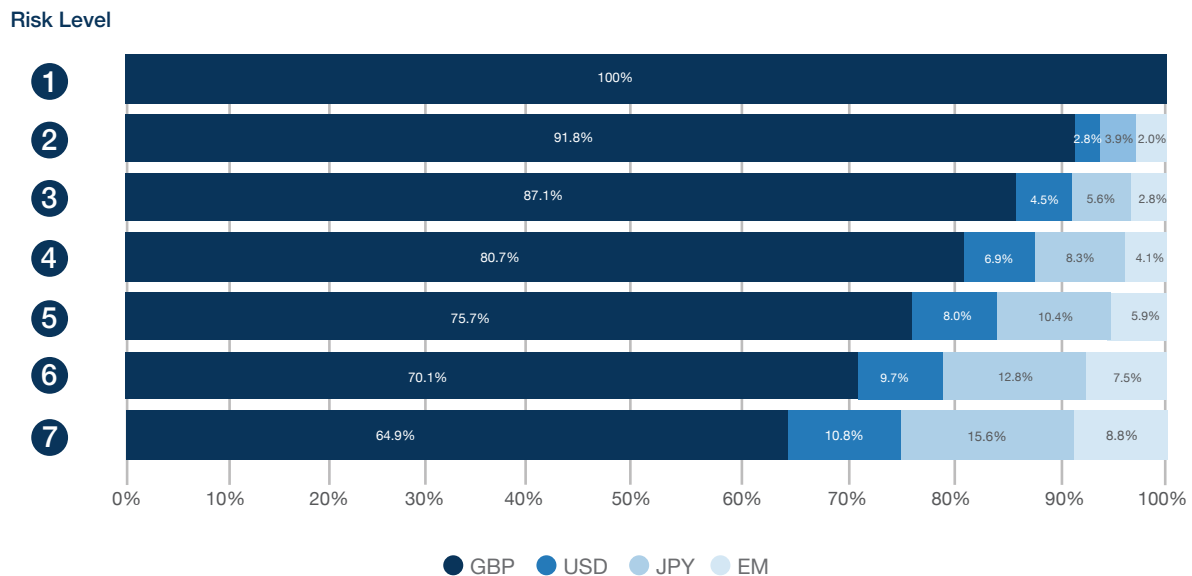
GBP Strategic Sub-Asset Allocations (as at 30<sup>th</sup> April 2020)<sup>1</sup> Data as follows:

Sub-Asset Allocation Summary	Risk Level						
	①	②	③	④	⑤	⑥	⑦
Cash	50.0%	25.0%	16.2%	11.5%	2.0%	2.0%	2.0%
UK Government Bonds	0.0%	15.0%	13.0%	8.0%	6.2%	4.0%	0.0%
Investment Grade Corporate Bonds	50.0%	40.7%	38.6%	30.3%	24.9%	8.2%	0.0%
High Yield Corporate Bonds	0.0%	0.0%	2.0%	2.7%	4.2%	6.7%	5.2%
Emerging Market Government Bonds	0.0%	0.0%	1.0%	1.3%	2.1%	3.3%	2.6%
UK Equity	0.0%	4.9%	8.2%	14.4%	21.4%	28.9%	33.0%
European Equity	0.0%	3.9%	5.6%	8.3%	10.4%	12.8%	15.6%
US Equity	0.0%	4.6%	7.0%	11.1%	13.2%	14.9%	18.1%
Japanese Equity	0.0%	3.9%	5.6%	8.3%	10.4%	12.8%	15.6%
Emerging Market Equity	0.0%	2.0%	2.8%	4.1%	5.2%	6.4%	7.9%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## 06 Currency Allocation

Our strategic allocations leave the majority of international equity exposure unhedged from a currency perspective, allowing the portfolios to benefit from the diversification that such positions often bring – not least when the base currency of a portfolio goes through a period of stress. We then monitor these aggregated currency exposures independent of underlying asset exposure. The default position for ‘de-risking’ assets including cash, government and high grade corporate bonds will be mainly held in, or hedged back to, foreign exchange volatility does not overwhelm the intended characteristics of the actual asset exposure.

GBP Strategic Currency Allocations (as at 30<sup>th</sup> April 2020)<sup>1</sup> Data as follows:



<sup>1</sup> Details of the allocations within our euro and US dollar portfolios are available on request.





# 07

## Investment Instrument Selection

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We are agnostic over the method of implementation, but with an overriding ambition that returns delivered to clients are not hurt by unnecessary costs. Historic evidence suggests that passive investment funds, which aim to deliver the market returns of their specific asset class by tracking specific benchmark indices (for example, the FTSE 100 in the case of UK equities or the S&P 500 in the case of US equities) have often performed better after costs than the majority of actively managed funds in the same asset class over 5 and 10 year periods<sup>1</sup>. This is because they deliver market returns without being eroded by the higher fees and trading costs associated with active management. If, however, we believe that there is a good reason to invest in an actively-managed fund or, in the case of markets such as short-dated government bonds, to invest directly, we will do so.

We consider several key criteria when selecting the specific passive fund or ETF to invest in for each asset class, including:

- The 'fit' of the fund's underlying investments and benchmark index with our desired exposure within the specific asset class;
- How well the fund tracks its underlying benchmark index. We look at tracking difference and tracking error of both price and NAV performance;
- The methodology being used to replicate the benchmark index, for example whether it physically holds the underlying securities referenced by the index or if it uses a form of synthetic replication strategy, and all the ensuing technicalities;
- The size and liquidity of the fund. Direct and implied liquidity is paramount, and can be gauged by fund size and regular traded volume. Depth and breadth of authorised participants can be a good signal to future liquidity

Instrument selections are ratified on a quarterly basis by the Instrument Selection Committee.

# 08

## Cyclical Positions

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### Objective

The management of Netwealth's portfolios is an ongoing process by our experienced investment team, with regular formal Investment Committee meetings. One of the responsibilities of the committee is to consider any potential changes to portfolio positions in order to address specific economic or market risks that may knock the performance of our Risk Levels off-track. As such, the objective of such potential 'cyclical' positions is to smooth the path of returns received by the investors in a given portfolio.

The team's risk management approach ensures that cyclical adjustments will never be of the magnitude whereby they distract from the value proposition of our diversified strategic allocations, but the positions themselves will be constructed to remove portfolio risks, rather than to seek additional, directional exposure to risks which are already well-represented within each Risk Level's strategic allocation. As a result, the standalone performance of individual cyclical positions, such as a currency hedge, or a reduction of a weighting to a specific asset class, will often be the reverse to the overall performance of a Risk Level's strategic allocations. The team expect cyclical positions to be more effective when portfolios are experiencing a challenging period of performance.

When evaluating the merits of adopting cyclical positions, the investment team considers the macroeconomic environment, inferred policy response, asset fundamentals and valuation levels, as well as market positioning. The process necessarily focuses on different specific metrics within these areas depending on the asset class concerned, but will typically have both quantitative and more qualitative contributions. Technical analysis does not play a major role in decision-making beyond informing the timing of entry and exit points from positions. The impact of cyclical portfolio positions is considered primarily at the portfolio level but also monitored and measured on a standalone basis to retain investment discipline.

<sup>1</sup> Source: S&P Global SPIVA Europe Scorecard, Q4 2017



# Cyclical Positions

## Process

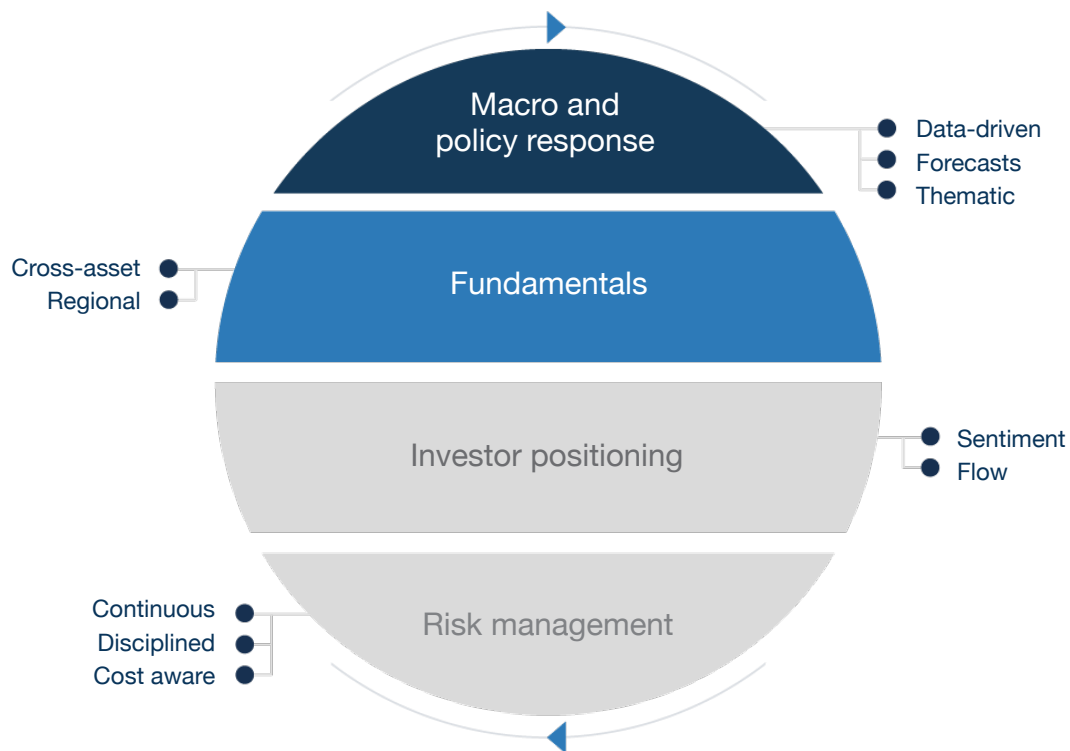
Investment proposals are typically led by collaborative efforts of the members of the investment team, and agreed by the Investment Committee.

Proposals include:

- Positioning rationale, highlighting the risks against which we are protecting portfolios (including specifying which portfolios are within scope for the position) and the catalyst expected to drive performance;
- Signposts to monitor and milestones required for success;
- The intended portfolio performance impact and duration of position;
- The magnitude of underperformance at which the position should be formally reassessed;
- The cost of implementation; and
- An expression of expected risk as a standalone position.

The investment team monitors the progression of cyclical positions using a summary template, available on request. This is updated on a periodic basis, and following significant changes to the investment thesis and/or market movements.

The cyclical positions taken on portfolios would be expected to contribute less than 20% of portfolios' performance and risk





# 09

## Portfolio Construction

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Responsibility for the sizing of cyclical positions and therefore of overall portfolio positioning falls to the portfolio management team, with accountability to the Investment Committee.

The following metrics are considered when finalising portfolio positions:

- The overall contribution to total portfolio risk from individual asset exposures and confirmation that total portfolio risk is consistent with the level of volatility generated by each portfolio's strategic allocation. In other words, ensuring that cyclical positions are not unknowingly adding to or subtracting from the intended profile of risk;
- Percentage usage of each portfolio's active risk budget (i.e. cyclical positions as a whole make up less than 20% of total portfolio risk);
- Ex ante and ex post correlations of individual cyclical positions;
- Currency exposures;
- Scenario analysis for key risks, using Bloomberg PORT risk analytics; and
- Timing of execution in sympathy with any necessary portfolio rebalancing.

# 10

## Risk Management

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Investment risk is multi-faceted, but can be summarised as:

### Market risk

We seek to understand and monitor the inherent volatility of investing in different assets, which is of particular risk when setting our strategic allocations.

### Portfolio risk

Monitoring the dynamic interaction of asset classes to maintain diversification.

### Event risk

Undertaking scenario analyses of historic events to understand the impact of an equivalent environment on our portfolios.

### Instrument risk

Undertaking initial and ongoing due diligence of the instruments in which we invest.

### Liquidity risk

Ensuring all portfolios have 100% daily liquidity, at an estimable market price, and maintaining awareness of trading costs.

For each model portfolio, a live portfolio risk map is maintained to ensure that total portfolio positioning is aligned with the team's intentions. Assumed asset class behaviour is framed within a short and long-term history and all assumptions are also tested against a stress environment. This is independently validated using Bloomberg portfolio risk analytics.

Responsibility for monitoring and managing these risks lies with the Investment Committee, making use of a combination of sophisticated proprietary and bought-in analytics in order to do so.



# 11

## Committee Structure

### 1) Monthly Investment Committee

#### Responsibilities:

- The decision-making forum accountable for all aspects of investment strategy and client portfolio performance;
- Includes: portfolio performance review, reappraisal of macro and market outlook, cyclical adjustments to portfolio positioning;
- Assessing the use of the agreed risk budget, and affirming the approach to portfolio rebalancing;
- Formally monitoring and revising strategic allocations on a semi-annual basis; and Joined quarterly by Edward Bonham Carter, Vice Chairman of Jupiter Asset Management and non-executive director of Netwealth.

### 2) Quarterly Selection Committee

#### Responsibilities:

- Examination of all aspects of investment selection, including assessment of suitability for all clients
- Affirmation of existing selections for each asset class
- Proposing changes to portfolio composition, and communication to Operations team

### Committee Members



**Charlotte Ransom**  
Founder and CEO

Over 25 years' experience in private wealth management and investment banking. Goldman Sachs partner for 10 years.



**Thomas Salter**  
Founder and COO

Over 15 years' experience in financial services. Managing Director and global head of equity and multi-asset quantitative investment strategies at JPMorgan.



**Gerard Lyons**  
Chief Economic Strategist

27 years as an economic strategist at Chase Manhattan, Swiss Bank and Standard Chartered. Previously Chief Economic Adviser to Boris Johnson.



**Iain Barnes**  
Head of Portfolio Management

Over 15 years' experience in asset management for both institutional and retail clients at UBS and Schroders, across active and passive strategies.



**Matt Conradi**  
Head of Client Advisory

10 years' experience in discretionary wealth management as a portfolio manager, advising and investing for private clients at Julius Baer and Merrill Lynch in London.



**Simon McConnell**  
Portfolio Manager

5 years' experience as a portfolio manager in asset management for UBS in London & Hong Kong.



**Edward Bonham Carter**  
Non-Executive Director and  
External Adviser to the Committee

Edward has over 35 years' experience in the investment market and extensive knowledge of the fund management business.



## Key Biographies

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### **Iain Barnes** Head of Portfolio Management

Iain has spent all of his 18 years of market experience in multi-asset fund management, initially at Schroders and then UBS Global Asset Management where he was an Executive Director and senior portfolio manager in the Global Investment Solutions division.

In addition to managing multi-asset portfolios totalling £2 billion, he was one of 6 voting members of the Global Asset Allocation and Currency Investment Committee which was responsible for more than £60 billion of assets under management, including for pension funds, charitable trusts, foundations and high net worth individuals.

He led the team's research across fixed income and selected alternative investment asset classes. Iain held particular responsibility for all multi-asset mandates with an income objective, achieving a four-star Morningstar fund rating and Camradata 'Star Fund' status in 2014. At Schroders his responsibilities were for UK- and International- domiciled risk profile portfolios denominated in sterling, euro and US dollar. Iain has been a CFA charter holder since 2003.

As Head of Portfolio Management, Iain has overall responsibility for the investment strategy, cyclical positioning, instrument selection and portfolio allocations. He oversees portfolio implementation and the ongoing monitoring of the portfolios.



### **Dr Gerard Lyons** Chief Economic Strategist

Dr Gerard Lyons joined Netwealth in May 2016. He has a long track record in the financial industry and in analysing the UK and world economy. Gerard spent 27 years in the City in senior roles with Chase, Swiss Bank, DKB International and most recently at Standard Chartered, where he was Chief Economist, Global Head of a 184 person research team and Advisor to the Board. Then, from January 2013 to May 2016 he took on the non-political role of Chief Economic Advisor to the Mayor of London, Boris Johnson. Gerard has frequently won forecasting awards and the month before the financial crisis was one of only two UK economists predicting a deep and imminent recession.

He is frequently asked to speak on economic and financial issues, appears on UK and international television and radio and his firstbook, 'The Consolations of Economics', (Faber&Faber) was a Daily Telegraph Book of the Year. Gerard has held a number of advisory roles that keep him fully informed and plugged into financial and economic policy issues. He is a non-executive director at the Bank of China (UK), and was asked to address the annual meeting of the Institute of International Finance in Washington last autumn.

Gerard has an undergraduate degree from the University of Liverpool, an MA in economics from the University of Warwick and a PhD from the University of London on "Testing the efficiency of financial futures markets".

As Chief Economic Strategist, Gerard is responsible for building and communicating Netwealth's macroeconomic outlook and strategy and is a member of the Investment Committee.



# 12

## Contact



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