



A brief guide to our **investment approach**

The Flying Colours Investment Proposition

Our investment expertise is central to supporting our financial advice offering. We fully appreciate the significance of what you are entrusting us to do with your wealth and we will never take that for granted.

We understand that every client is unique, and there is no 'one size fits all' solution to investing. We use our investment experience to create a range of investment solutions to help you achieve your financial goals.

However experienced you are as an investor, it's important for you to understand how your money is invested. So, we keep things simple and do all we can to ensure that you can fully input into your financial plan.

This guide is a starting point for new clients but if you need any additional information, your adviser is always happy to explain further.

Our Investment Philosophy

Our Investment Philosophy is a set of principles we use to help us make decisions for you.

We think they increase the odds of success and reduce the chances of costly mistakes. These principles have become our investment approach, and we place our systems and processes around them.

We have three key fundamentals behind our philosophy, but before we explain these in detail, it's important to understand the concept of 'Asset Classes'. These are the different areas in which your portfolio will be invested in. The most common asset classes are:



Cash/Money
Markets



Equities, in other words,
shares in businesses



Bonds and other
Fixed Interest securities



Property



Commodities

What is our Centralised Investment Proposition (CIP)?

All clients have access to our CIP which includes multi-asset risk-targeted funds and discretionary managed portfolios that we believe are best suited to meeting your needs and objectives.

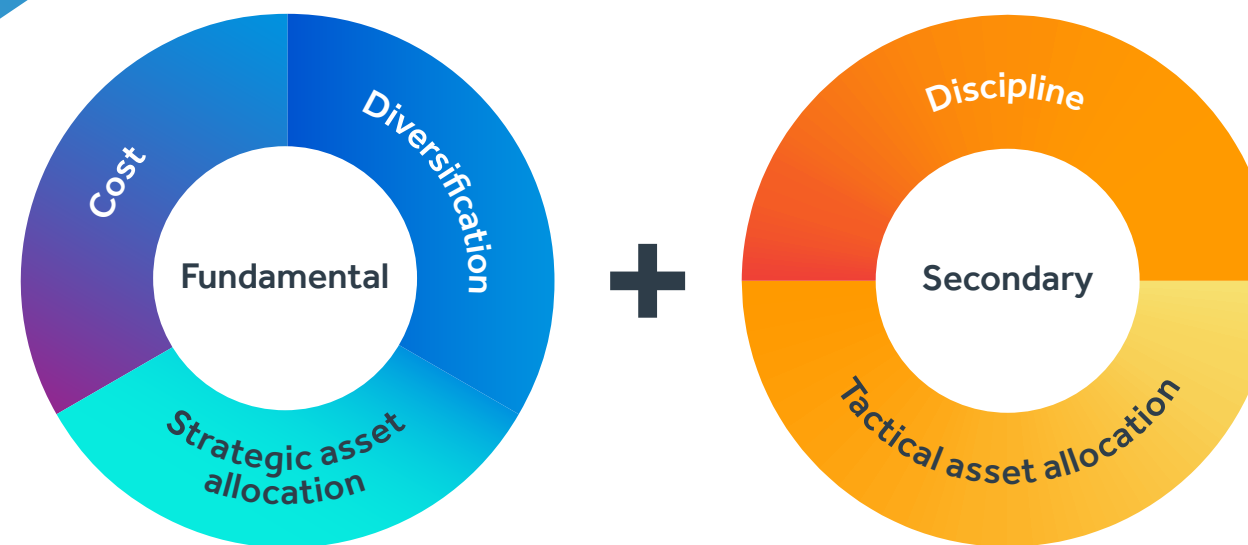
We have three fundamental and two secondary requirements which make up our CIP, and ultimately define our investment philosophy.

The three fundamentals are:

1. Diversification
2. Strategic Asset Allocation
3. Cost

The secondary requirements are:

1. Discipline
2. Tactical Asset Allocation



Fundamental Requirements

Diversification

Modern Portfolio Theory (MPT) was pioneered by American economist, Harry Markowitz. In his paper 'Portfolio Selection' he argued that if an investor selects a variety of different asset classes, they can "maximise their returns within a defined acceptable level of risk".

Investments can generally be divided between those that are high risk and high return, or low risk and low return. Markowitz proved that investors can obtain greater returns by finding the optimal mix of higher and lower risk assets, based on assessing the individual's tolerance to risk. Put simply, diversification is essential.

Each asset class reacts differently to economic events meaning that often one will be increasing in value at the same time as another is falling. Combining these assets together means that over time the portfolio should produce positive returns as well as reduced risk. Diversification between asset classes is therefore something we recommend for all but those with the very highest and lowest risk profiles.

Strategic Asset Allocation

Building on the principle of diversification, this is where we decide the proportions of each asset class we invest in, the geographical split for the most appropriate level of risk and the expected return. Over time, our clients' best chance of meeting their objectives is to invest in line with this Strategic Asset Allocation.

Whilst portfolios buy and sell assets to take advantage of opportunities and reduce risk, our allocation for each client forms the long-term framework for the portfolio. Any changes that are made are limited to ensure we remain close to the long-term requirements.

A good example of how asset classes work differently is during a recession. Equities traditionally fall in value, whilst bonds often rise, therefore, a portfolio that is diversified across the two would be less volatile than one solely invested in equities.

Cost

Every time an investment is bought or sold, there are associated costs such as dealing charges, bid/offer spread and stamp duty, which are not built into the on-going charge figure. Over time, charges can erode your returns.

It's important to us that you receive excellent value for money. So as well as ensuring you receive good value for money in terms of the management, platform and underlying investment charges, we also keep a close eye on any hidden charges. We operate an open structure and disclose all charges applied to the investment solutions on our CIP, to ensure you are not hit with any unexpected costs.

Secondary Requirements

Discipline

An asset allocation is set to meet your risk profile. In the long-term, the lowest risk approach to meeting your objectives is normally to stay invested in that mix of assets. Chopping and changing investments can lead to costly errors and lost returns. We do think making changes can be useful in portfolios but this should always be within limits.

The advantages of stability are not limited to investment returns. Most clients benefit from cashflow modelling as part of our advice service, and these projections rely on knowing how the portfolio is invested and for this to be stable.

Maintaining stability in the asset allocation also reduces trading volume, costs and minimises errors. The investment solutions that we select (funds) or manage (discretionary managed portfolios) should have strong discipline around asset allocation, and not require large or wholesale changes over the time of your investment.

Tactical Asset Allocation

Tactical Asset Allocation allows the fund manager to rebalance the investment solution by adjusting the percentages of assets held, to take advantage of short and intermediate market influences and events. The aim is to increase investment performance above the market average, but this relies on the skill of the fund manager.

Any changes to the asset allocation and the use of an active overlay must be within a tightly controlled framework, to ensure the adjustments will not affect your risk profile and ultimately, be right for you. In such cases, the manager will revert to the Strategic Asset Allocation as soon as they feel the market timings are right to do so.

Our Services

The CIP has two services; advisory and discretionary.

The methodology of managing each of these offerings will differ, but both follow our core investment philosophy. We screen all the funds and discretionary managed portfolios which make up our CIP on a quarterly basis. However, if market events require, we will do this more frequently.

Advisory Service

This service utilises a single, or multiple risk-targeted fund solution. Our investment management team will assess whether these funds remain suitable for our clients on a quarterly basis.

Our preference for funds is that they are risk targeted, multi-asset funds; this means that the fund managers will manage the portfolio to a risk level, ensuring that the funds remain suitable for our clients over the long-term.

In the event that we believe a multi-asset fund no longer aligns to our investment philosophy and a fund switch is required, we will require your consent prior to making any changes. This service is therefore run on a more reactive basis and is likely to form part of your annual review service. This approach requires you to be involved in the investment decision-making process.



Discretionary Service

Our Discretionary Service includes the Flying Colours Investment Portfolios. This is a collection of funds which are managed on an ongoing basis by our experienced Investment Team, overseen by an Investment Committee.

These models are established on a long-term strategic asset allocation which is determined by the Investment Committee. We believe that diversification of asset classes is crucial to managing risk and achieving long-term investment success, and on this basis, we will use assets including, but not limited to, equities, fixed income and alternatives.

The committee can then make changes to the models, including tilting our asset allocation to take advantage of market movement and provide the best outcome for our clients. We have traditionally used passive funds (see glossary below) to construct our portfolios.

However, markets may indicate that a particular style, or an active fund (see glossary below) would provide our clients with an advantage, so we will make changes accordingly. As these portfolios are managed on a discretionary basis, we are able to make changes without express client consent and therefore we can be more proactive to market signals.

In addition to making fund switches, these portfolios are rebalanced quarterly to ensure that the portfolios remain aligned to your risk profile and our investment philosophy.

Passive Funds

This type of management looks to track a particular index and therefore does not require the manager(s) to buy and sell on such a frequent basis as would be the case for active management. This type of investment management is usually lower cost, by limiting the amount of trades performed.

Active Funds

The fund manager(s) will aim to outperform a particular benchmark, by stock picking, or combining a number of complimentary funds that operate this strategy. Active managers analyse the market to identify investments that are deemed to be undervalued, whilst selling ones that are overvalued or may fall in the near future. This type of fund management is usually more expensive than its passive alternative, as the investment team are continuously analysing the markets and are trading more often, which incurs fees.

How we choose the right investment solution for you

Our aim at Flying Colours is to ensure that every client has the right investment solution which will help them meet their individual financial goals. Your adviser will guide you as to the most appropriate investment solution based on your financial goals and risk profile.



Our Investment Expertise

A key feature of our offering is the expertise of our Investment Team which provides an oversight of all the external investment solutions that we offer to clients, as well as managing the Flying Colours Discretionary Management Portfolio Service.



The investment management team is led by the Flying Colours founder **Guy Myles** (CEO and Chief Investment Officer). Guy previously co-founded Octopus Investments, which he helped grow from a start-up to a market leader. Prior to this, Guy worked as a fund manager at Mercury Asset Management where he was responsible for over \$1bn in US Equities.



Renzo Desbordes joined the Flying Colours Investment Team in 2022, following 19 years in the industry. He is highly experienced in portfolio management, and specialises in multi-asset solutions, equities and derivatives having worked with successful fund managers including Santander, Investec and Fidelity.



Samantha Kennett joined Flying Colours in 2016 and has worked in multiple roles, which have involved the administration of our model portfolios. She moved to join the Investment Team full-time in 2022.

The Investment Team is responsible for:

- Defining the criteria for the investment funds within our offerings
- Monitoring market movements and events
- Producing commentary and outlook

In addition to the Investment Team, Flying Colours also has an Investment Committee, which is comprised of both internal professionals and a highly experienced external consultant from the investment industry. The Committee meets monthly to discuss the ongoing management of the Flying Colours model portfolios.

Next steps

The aim of this guide is to explain our approach, principles and methodology for managing your investments. If you have any questions about our investment philosophy, please contact your Flying Colours Financial Adviser, or you can contact us at:

hello@fcadvice.co.uk

0333 241 9910

Glossary of Terms

We appreciate that there is a lot of jargon in the world of finance and investments. We have devised a simple reference guide for you, but feel free to contact your adviser if there are any terms you do not understand.

Active Fund Management

The fund manager(s) will aim to outperform a particular benchmark, by stock picking, or combining a number of complimentary funds that operate this strategy. Active managers analyse the market to identify investments that are deemed to be undervalued, whilst selling ones that are overvalued or may fall in the near future. This type of fund management is usually more expensive than its passive alternative, as the investment team are continuously analysing the markets and are trading more often, which incurs fees.

Asset Allocation

This is the implementation of a strategy based upon your risk profile. It details the percentage allocated to each asset class to maximise potential reward. Please see Strategic and Tactical Asset Allocation, for the definitions on how these differ.

Asset Class

These are the different areas in which your portfolio will invest in. Most common asset classes are Cash/Money Market, Equities, Bonds/Fixed Interest, Property and Commodities. The mixture of the different asset classes will be based upon your risk profile and asset allocation.

Capacity for Loss

This is your ability to absorb falls in your investment without having an impact on your standard of living.

Discretionary Fund Management

This is a form of investment management that allows managers to have authority to make changes to investments without requiring explicit consent from the client beforehand. All changes will be made within a predetermined mandate to ensure that all decisions are made in the client's best interests.

Multi-Asset Fund

This is a fund that holds a diversified range of asset classes, including equities, bonds, property and cash. The fund will be controlled by fund managers to ensure that it remains within its parameters, whether that is a risk target, benchmark performance or an asset allocation limit, for example.

Passive Fund Management

This type of management looks to track a particular index and therefore does not require the manager(s) to buy and sell on such a frequent basis as would be the case for active management. This type of investment management is usually lower cost, by limiting the amount of trades performed.

Rebalancing

Due to the nature of investments, and asset classes performing at different rates, over a quarter you will see that portfolios 'drift' from the asset allocation (although still within your risk profile). The process of rebalancing restores the portfolios to their recommended allocation.

Risk Profile

This is an individual assessment of what level of investment risk you are comfortable with and can afford to take.

Strategic Asset Allocation

This type of asset allocation will invest in an array of different assets, which meet your risk profile and financial goals. This allocation will rarely fluctuate, as this could affect your risk level and tolerances you have agreed with your adviser.

Tactical Asset Allocation

The allocation will fluctuate dependent upon market movements and other external factors, the manager(s) believe will enhance the performance. It will deviate over time, based upon the perception of the investment team and what their research indicates.



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