EVIDENCE-BASED INVESTING

What it is & why it's important

timeline PORTFOLIOS

WE DON'T HAVE A CRYSTAL BALL, OR A 'BACK TO THE FUTURE'-STYLE SPORTS ALMANAC LISTING THE FUTURE PERFORMANCE OF ASSETS & FUNDS.

But what we do have is a clear focus on the things we can control to build an investment strategy that stands the best chance of delivering stable, long-term investment returns.

Decades of research, not gut feelings or best guesses. Facts, not faith.

Everything we do is evidence-based.

WHAT IS EVIDENCE-BASED INVESTING?

As the name suggests, evidence-based investing is the process of making decisions based on decades of research and historical data.

Rather than looking at short-term market trends or the current climate, it's an approach rooted in the long-term observation of markets.

Our strategies exploit this by positioning our portfolios to capture well-established performance premiums, such as value and size.

To explain it simply, a value stock is one that is priced below what it's worth – based on its assets and/or the value of its future cash flows. Long-term data shows that over time, investors are paid a premium for owning undervalued stocks.

As the market recognises what these companies are worth, their market prices converge with their intrinsic valuations.

As always, owning value stocks rather than the whole market brings an element of investment risk – factor risk in this case – which is justified by the expected premium.

Evidence-based decisions don't waver based on daily movements in the markets. They remain constant and unchanged as they're based on predetermined, verifiable observations of how the markets have previously performed.

The empirical evidence is supported by peer-reviewed academic research that essentially presents a framework for investing in particular stocks or sectors. This recipe for managed portfolio success is based on time-tested data that not only shows it works, but why this framework is effective.

All the evidence suggests that evidence-based investing is the way forward. After all, as philosopher David Hume once said:

A wise man proportions his belief to the evidence.

WHY SHOULD YOU CONSIDER EVIDENCE-BASED INVESTING?

LOWER COSTS

Evidence-based investing involves trading less and holding a diverse range of low-cost funds, which helps to minimise the financial outlay of trading costs. Plus, reducing investment charges with an evidence-based approach leads to higher returns.

IMPROVED FOCUS

It's easy to be seduced by stocks that are trending but reactionary or emotion-based trading can lead to financial mistakes. An evidence-based approach removes the noise and allows clients to remain focused on the long-term vision.

A REPEATABLE FORMULA

Evidence-based investing isn't a one-time approach. The framework is repeatable, meaning it can be used each time a client is ready to invest. Guidelines are based on repeated studies so you know the results weren't simply down to luck.

BACK-TEST THE DATA

Within our evidence-based approach we have a long-term historic dataset that allows us to backtest portfolios and apply risk-return scenario analysis, stress-testing positions to create optimal outcomes.

REACH YOUR FINANCIAL GOALS WITH EMPIRICAL EVIDENCE

We design investment portfolios guided by decades of empirical evidence and research by Nobel prize-winning economists. Our goal is to capture capital market returns to bring you long-term financial gain.

OUR INVESTMENT PHILOSOPHY

1

RISK AND RETURN ARE RELATED

There is good risk and bad risk. Higher exposure to the right risk factors or premia leads to higher expected returns but is no guarantee of them. Risk is the premium investors pay for the expectation of a greater return.

2

THE CAPITAL MARKETS WORK

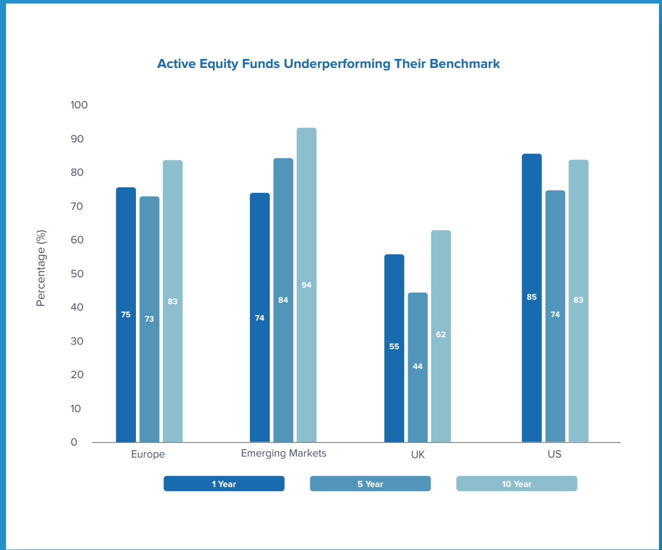
The prices of securities reflect the expectations of all market participants. The capital markets are far from perfect, but they do a good job of fairly pricing all available information and investor expectations about publicly traded securities.

3

CONSISTENT OUT-PERFORMANCE IS RARE

Economic uncertainties, random market movements, and the rise and fall of individual companies mean it is extremely difficult for anyone – including professional fund managers – to beat the market in the long term.

There is a significant body of research to suggest that any short-term outperformance achieved by most active fund managers is down to luck rather than skill.



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ASSET ALLOCATION & PORTFOLIO STRUCTURE DRIVE PORTFOLIO RETURN

The most important factor determining the level of risk and variability of return in a portfolio is asset allocation.

5

COSTS MATTER

Costs reduce an investor's net return and represent a hurdle for a fund. Before a fund can outperform, it must first add enough value to cover its costs.

Sadly, the vast majority of professional fund managers fail to add value and high cost is a strong predictor of poor fund performance.

6

INVESTOR BEHAVIOUR IS A KEY DETERMINANT OF LONG-TERM OUTCOME

All too often, investors let their emotions get the better of them with dire consequences for investment returns. We expect that planners working with Timeline add significant value by helping clients maintain a disciplined approach, especially in extreme market conditions.

7

REBALANCING SHOULD BE DRIVEN BY MARKET MOVEMENTS

Unnecessary portfolio rebalancing, often arbitrarily timed around client review meetings, damages investment returns. Rebalancing should be driven by market movements to ensure portfolios remain in line with risk parameters and return objectives.

Median Scenario	Volatility	Annualized Return	Rebalanced	Nominal Balance
Quarterly	9.88%	7.61%	120	£903,989
Annual	10.95%	7.77%	30	£944,970
5% Band	9.96%	7.77%	11	£945,120
10% Band	7.71%	7.97%	6	£998,479

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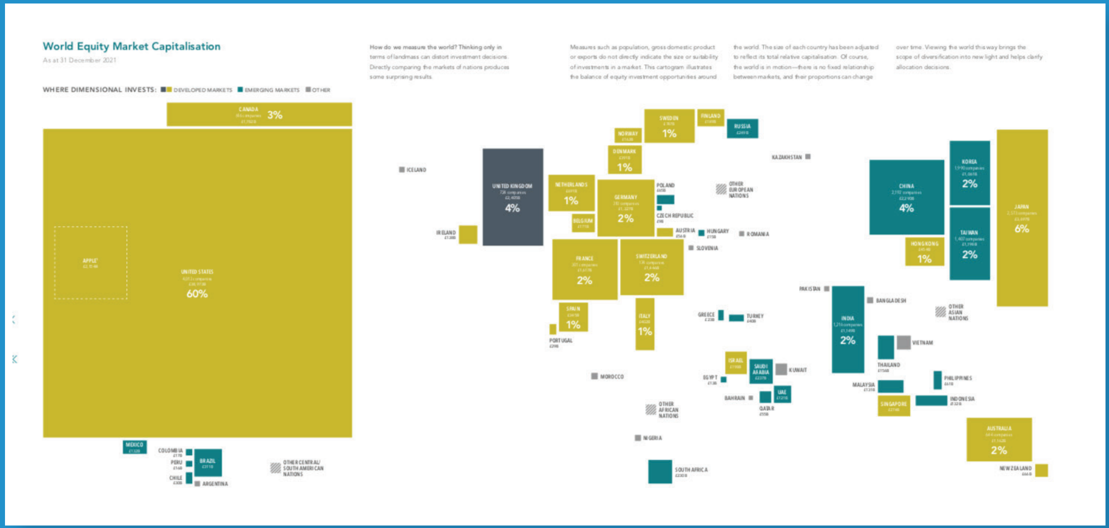
DIVERSIFICATION IS ESSENTIAL

Diversification is the principle of spreading your investment risk around. Our investment portfolios hold the shares and bonds of many companies and governments in many countries around the world.



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