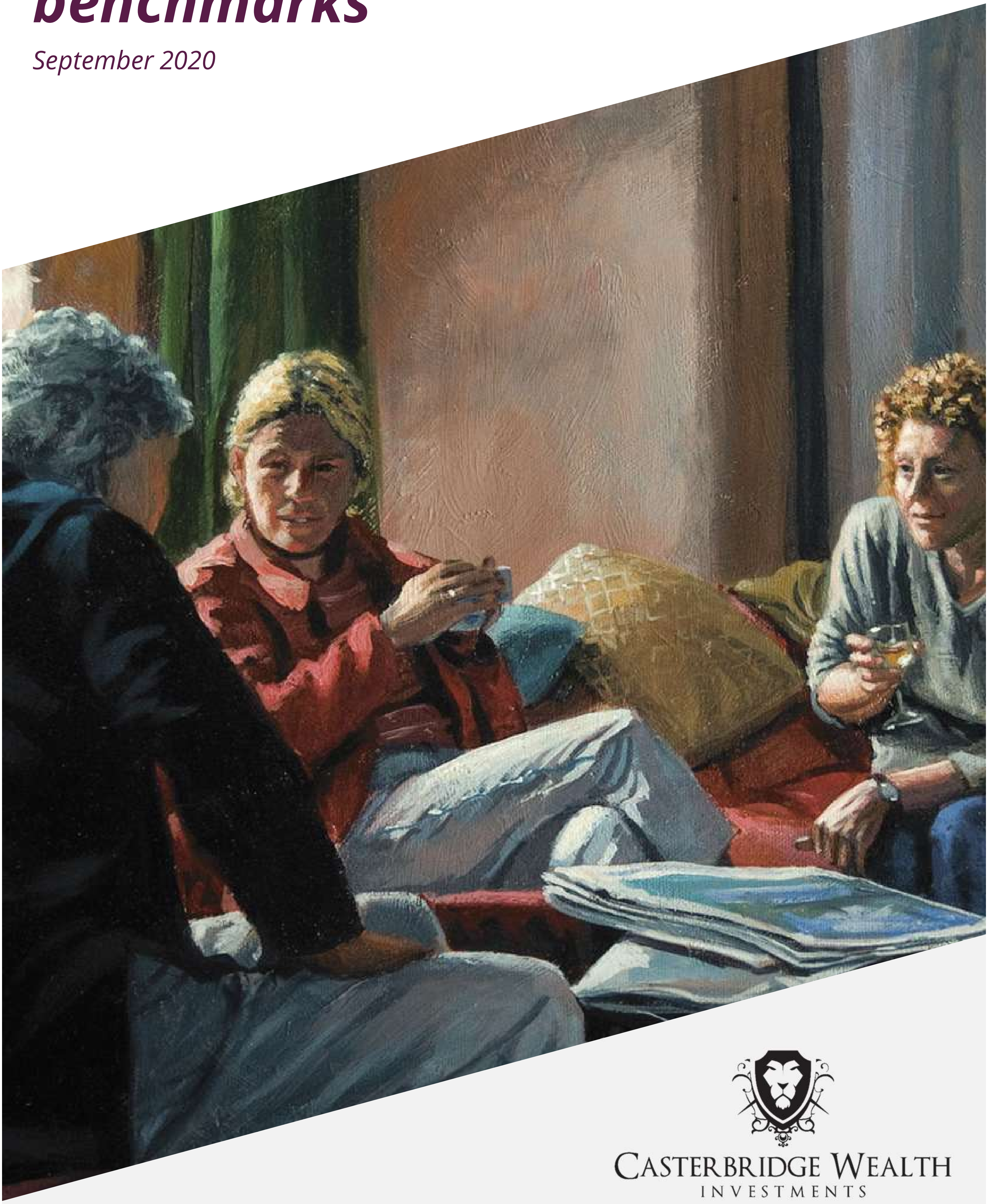
How we use portfolio benchmarks

September 2020



Casterbridge Wealth Investments

How we use portfolio benchmarks

Our 'View' on benchmarking

At Casterbridge we believe that dogmatically using consensus benchmarks doesn't meet the needs of investors. Instead, we think it's more important to demonstrate a consistent approach that balances short term risk assessment and long term investment objectives within the agreed risk appetite of the client.

How are benchmarks often used?

Investment managers habitually use benchmarks as a way to demonstrate the relative performance of their portfolios. Over time, managers have begun by starting with the benchmark to help construct their portfolios, to the extent that if they vary their investment away from the benchmark, it's referred to as taking on more 'benchmark risk', increasing their chance of not performing in line with the industry benchmark.

The better houses look to have 'active share' where they take 'benchmark risk' in the areas they feel they are most likely to gain outperformance. They do this by either increasing or decreasing their exposure to the core asset classes of equities, bonds, alternatives or cash. Below is a simplified example of a benchmarks' asset class components.

Equities	*Bonds*	*Property*	*Cash*
50%	35%	10%	5%

Our investment management philosophy

Our pragmatic approach

At Casterbridge Wealth we do not want our managers to be unsuitably constrained by a consensus view of markets. The investment decisions are led by our clients' investment goals and not an industry benchmark. Client portfolios are coherent and consistent but not identical.

Instead of using an irrelevant benchmark, we illustrate the portfolios based on our assessment of risk-profiled asset allocations, using a range of 1-10. Within this range, we have 7 different active portfolio profiles that reflect a tiered acceptance of greater volatility.

The following table illustrates the static equity allocation ranges:

Portfolio	*Lower Equity Holding*	*Upper Equity Holding*
3	25%	45%
4	35%	55%
4 Income	40%	60%
5	45%	65%
5 Income	50%	70%
6	60%	80%
7	70%	90%

Benchmarks can frustrate investors

Our view on why benchmarks can cloud client understanding

- *Benchmarks are passively aggressive:* Benchmarks reflect their holdings via passive indices. They have equity based indices for property and absolute return holdings, which results in the benchmark having 5-10% more in equities risk than in our equivalent profile. We have to have a benchmark that is relevant to our portfolios and our clients agreed capacity for loss.

- *Benchmarks provide cover:* Benchmarks are by definition an industry consensus view. Benchmarks encourage a herd mentality and managers can end up ‘hugging the benchmark’ they often garner criticism for, charging for an active service that is essentially passive.

- *Benchmarks immediately influence industry asset allocation but change slowly:* An active manager has a long term strategic view but makes performance changing asset allocation decisions, based on prevailing market conditions. In sharply moving markets, the influence of benchmarks that change over 9 to 12 months can mean risk is added at market highs and taken off at market lows.

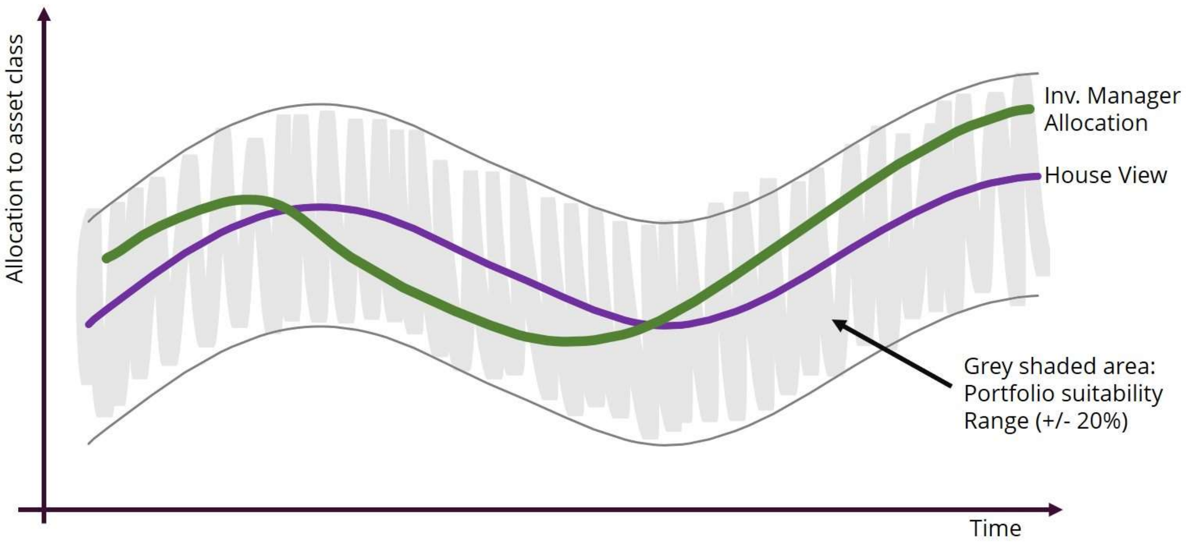
Your Investment Manager in action

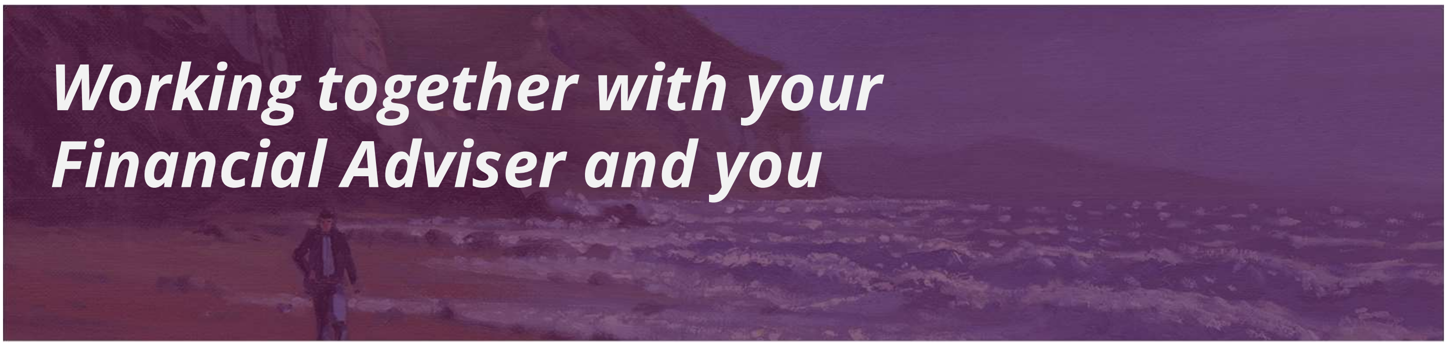
Your investment partner's responsibility

Your Investment Manager is an active investor. They make investment decisions that take advantage of market opportunities and aim to maximise returns for clients within a disciplined long term, asset allocation structure. Their main responsibility is to ensure that your portfolio remains suitable throughout the investment term, as your needs change and investment appetites evolve.

To support that responsibility, your Investment Manager has the freedom to adjust your portfolio asset allocation within a 20% window of the 'House View'. An example of that flexibility working is illustrated below:

Your Investment Manager in action





Working together with your Financial Adviser and you

Working closely with your Financial Adviser

Each client has their attitude to risk (based on their approach to risk and their capacity for loss) measured and confirmed by their Financial Adviser. For example, a client's responses might result in them being given a risk profile of 5 out of 10, meaning they would be most suited to our Risk Portfolio 5.

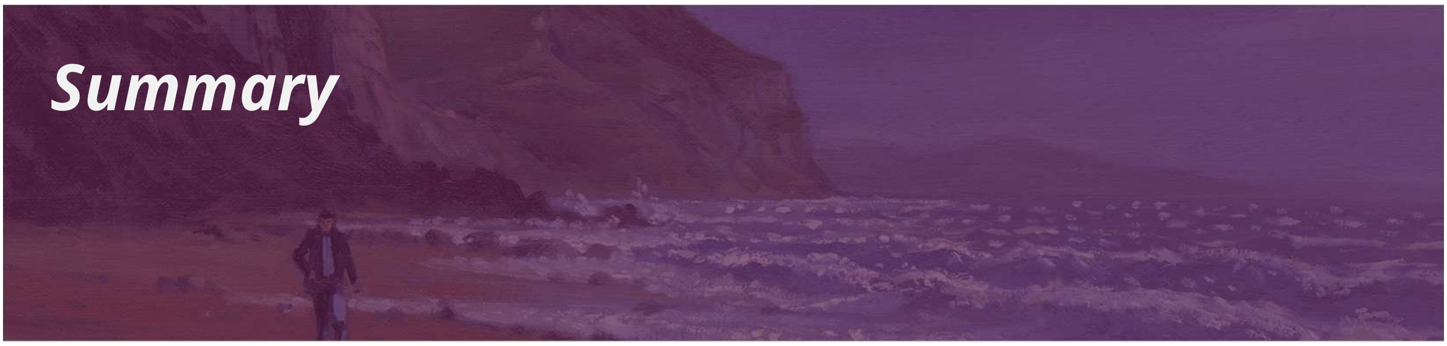
Once a client's portfolio has been constructed, it is essential that it stays within the agreed asset allocation and associated 'Risk Profile'. All things being equal, if a client has agreed a 5/10 risk that equates to our 'Risk 5' profile, then it has to be managed to that mandate throughout. At Casterbridge, it is one of our basic beliefs that risk assessment is far more important than increasingly arbitrary benchmarks.

It begins with the long term view

Our Executive Investment Committee (EIC) regularly meets to define the long term, global investment opportunities across all asset classes. The ongoing discussion gives us an evolving strategic asset allocation for the varied risk profiles we offer. The summary of the EIC debate on process, style, themes and strategic asset allocation, is known as our 'House View'.

For example, our 'Risk 5 House View' portfolio falls naturally into the broad asset allocation for the 'Risk 5' profile, as detailed below. A client's portfolio construction will be guided by this 'House View' but not dictated by it as your portfolio must be suitable for you.

Portfolio	*Equities*	*Bonds*	*Property*	*Cash*
4	40%	35%	10%	15%
5	60%	25%	5%	10%
6	80%	15%	5%	0%



Summary

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We believe it is more important for investors to understand the overall risk objectives of their portfolio instead of being shown a benchmark with no relevance or basis in the real world of investing.

By establishing a range of suitability for each investment, and clearly showing investment decision-making in terms of risk, we believe we are providing investors with a more relevant, transparent and meaningful measurement of how their portfolio is performing. It also monitors the contribution made by our Investment Managers and our EIC, both of which are dedicated to working on your behalf.

More information

If you have any questions or need any further information on the details mentioned in this document, please do not hesitate to contact your Financial Adviser or a member of the Casterbridge Wealth team on:

Tel: 01722 466110
email: hello@casterbridgewealth.co.uk
Web: casterbridgewealth.co.uk

Important Information

About us

We, Casterbridge Wealth Limited, are authorised and regulated by the Financial Conduct Authority (FCA). Details of our authorisation are available on the FCA register under firm reference number 727583; www.fca.org.uk/register.

Casterbridge Wealth Limited is a registered Company in England and Wales.
Registered No. 09466507.
Registered Office: Suite 4 Brewery House, 36 Milford Street, Salisbury, SP1 2AP.

What you should know about investment past performance

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