TOWN CLOSE
Financial Planning

TCFP White Paper

Discretionary Powers, Limitations and Protocol

Introduction
This paper details TCFP's move from "advisory" to "discretionary" investment permissions.

What we enjoy most, and is of greatest value, are the conversations we have and the plans we help you make so that you get the most out of life. That is the core of what we do and will always be as important to us as it is you.

The more efficient we are the more time we have to think about you and your financial plan. We can manage your investments more efficiently and, hopefully, improve investment returns.

Currently we manage your investments on an "advisory" basis. This requires us to write to you when we think changes are needed, explain them, and then wait for your consent to them.

This is inefficient for several reasons:

1. With 200+ people to contact, it takes an inordinate amount of time;
   and
2. We receive replies at different times; therefore changes are implemented at different times;
   and
3. Making the changes across 200+ individual accounts takes a long time.

The time taken means that investment opportunities can be missed or, at best, diminished.

For example, when large changes in share prices happen, investment markets are driven primarily by psychological factors. Fear or greed dominates rationality and being able to move quickly and take advantage of these overreactions can pay real dividends.

As a result, we have applied to the FCA to change our investment permissions to "discretionary". This will allow us to make changes we think necessary without your prior consent.

This change will allow us to move quickly and effectively. Of course, that does not guarantee a better investment outcome, but we believe there is an additional 1-2% pa in return available to you with the change to discretionary permissions.

That is a significant figure, especially when compounded over time. For example, on a £1m portfolio, an additional 1% pa compounded over 10 years is worth £104,000. Over 30 years (the typical length of your retirement), the additional returns should be even more significant. These additional returns are worth having.

Of course, whether we have advisory or discretionary powers is a moot point. Everything we do for you is based on the trust we have built up with you. Our aim is to build on that trust to improve investment returns by reducing costs and waste.

Put simply, we believe that discretionary investment means better outcomes for you – it is in your best interests.

Discretionary Powers Limitations
However, we do not expect to be given carte blanche to do as we please. We will adhere to the following:

1. Changes will be agreed by the Investment Committee, either in the regular quarterly meeting or through a specially convened meeting when the investment climate requires us to act sooner.

2. The agreement of TCFP MD Jeremy Askew, our investment consultant Steve Williams of Cormorant Capital Strategies, and one of either Ian Penberthy or Mark Williams (depending on availability) will be required.

3. We will never invest any cash that you hold without your prior agreement.

4. We will reduce neither the bond nor equity holding to 0% without your prior agreement.

5. We will only use funds and ETFs (see below) that hold liquid investments – we will not invest in physical property funds (which can be suspended) or any synthetic investments (derivatives and the like). When we "look through" an investment, it must hold physical assets that are daily traded.

6. We will only use the investments available via the FundsNetwork platform which have been vetted by them.

7. Moves between equity holdings will be unlimited but always "global" – we will not make individual geography or sector investments.

8. We will not hedge currency risk. We are not foreign exchange experts and, in any event, currency changes are part and parcel of the overall investment return.

And here is what we will commit to **NOT** doing:

1. Buy anything other than funds and ETFs.

2. Borrow to invest with the purpose of taking a position which is short of the market (betting on markets going down).

3. Buy unregulated collective investment schemes (UCIS).

4. Use non-mainstream investments such as venture capital trusts, enterprise investment schemes or unlisted private equity.

5. Use complex investments when comparably less complex investments are freely available.

6. Commit to obligations as underwriter of any issue or offer from sale of securities.

7. Engage in investment strategies that have the potential to amplify or distort the risk of permanent capital loss beyond a level that is reasonably expected.

TCFP Investment Committee
We meet on a quarterly basis to review the bond/equity split as well as the individual holdings.

You should always have enough cash available to act as an emergency fund and enough cash and/or known income to cover three years' expenses. Everything else should be invested.

For your invested money, our "neutral" position is 80% equities, 20% bonds. We will change this split if we feel bonds or equities are particularly under- or over-valued.

Within the equity holding we will allocate to large, small, and emerging market companies. We will review and change the % held in each depending on where we think we are in the general economic cycle and/or their performance relative to each other.

The holdings may be changed if we think a better alternative is available. "Better" means cheaper and/or increased diversification.

Nothing will change about how we view the portfolio or make decisions. The only difference is that we will make changes and notify you afterwards, rather than seeking your approval beforehand.

Funds vs ETFs (Exchange Traded Funds)
We have already recommended you either remain in funds or move to ETFs. Funds and ETFs cover the same underlying investments. The fundamental differences between the two are costs and timings.

ETFs cost significantly less and are quicker to buy and sell. Comparing the fund portfolio with the new ETF portfolio, ongoing investment charges are about 25% (or 0.07% pa) less.

A fund change can take 3-5 days. A fund needs to be sold, cash received and then reinvested. The prices at which funds are sold and bought is unknown; it is the next day's price. Over the course of 3-5 days prices can change dramatically and the opportunity move for or against you.

ETFs give more certainty about price. The price of a fund only changes daily, the price of an ETF changes minute to minute. We can capture the price of the ETF on the day we buy or sell it.

There are small charges when trading ETFs but, for most clients, these will be far outweighed by the benefits. Where this is not the case, we will continue to use funds.

Your choices
You will be able to choose between either moving to our new discretionary service or remaining with the advisory service.

However, for those choosing advisory, fees will increase by 5% (minimum £150) to cover the additional time and effort involved.

Summary
In simple terms we want to be able to do what we have always done but more efficiently.

Currently we need your agreement in advance to change your portfolio. This costs time and money and has, we believe, resulted in lost returns.

We expect to continue to take the same types and numbers of decisions, in the same way going forward as we have in the past.

There is no guarantee that this change will result in better investment returns.

What Next?
We would like your feedback and questions about this change in investment permissions.

We have applied to the FCA to change our permissions. Their exact requirements and timescales are not yet known in full. In the meantime, we will work with our compliance consultant to make sure all the necessary procedures and documentation are in place.

We have two webinars in September to discuss this change and your questions and feedback, with the recording to be sent to all clients. You can also schedule a call or Zoom to discuss this further.

Sometime in November (best guess), you will be asked to select which options you prefer. We would like to have everything in place for 1 January 2021, but we will not rush and the FCA timescales will most likely dictate the potential start date for the new service.

Thanks

Jeremy Askew FPFS
Managing Director

Like the rest of life, there are no guarantees when it comes to investing. Values rise and fall, and volatility is the price of admission to receiving inflation-beating returns. Having discretionary permissions may or may not produce additional returns.