



Portfolio Services

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At Lothbury, we provide an advisory portfolio service. This means that we consult with you before we implement any changes to your portfolio.

In our advisory capacity, we will recommend a portfolio of funds which invest in different asset classes to meet your agreed risk-and-return targets. Each fund manager will run a portion of your portfolio in their specialist sector in line with their fund's investment objectives.

With the use of psychometric tests and our meetings with you, we will agree the level of risk to your capital you are willing to experience and still have a long-term outlook. Once your risk tolerance and capacity to loss is established we will recommend a portfolio that aims to match that profile in the most efficient way, known as the efficient frontier.

The criteria we use to select the fund manager predominantly include the following:

Performance - Although a fund's good past performance is not a guarantee of future performance, the consistency of good returns can show the effectiveness of the fund manager's investment process. If the fund is new and does not have significant performance history it is not automatically excluded, however additional diligence will take place before we include it.

Manager tenure - We generally prefer funds where the fund manager has been in place for at least three years. However, as with performance a shorter tenure does not automatically mean that a fund is excluded. We will consider other indicators such as the manager's record with previous funds.

Risk/Return - We look for fund managers who have consistently produced a high level of return for each unit of risk they have taken.

Manager meetings - Another important part of the process is for us to meet with the fund management team. This gives an insight in to the fund manager's views and expectations for their fund and presents us with an opportunity to quiz them and to confirm that they are running the fund in accordance with their stated mandate.

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It has been demonstrated numerous times that the more risk you take, the higher your potential returns but with the caveat that your potential losses are also higher. Therefore, the two important questions that drive our portfolio process are: **What level of risk are you comfortable with, and is the extra risk worth taking, given the extra potential for loss?**

Even though you will have a portfolio which has an asset allocation and fund selection that meets your risk tolerance and objectives, it is important to understand that the key to a successful investment is realising that the investment world changes over time, and consequently so should your portfolio.

The review process is of paramount importance, as it gives us an opportunity to reassess your risk tolerance and objectives. It is also necessary to correct the asset allocation drift that may have occurred. It is possible that over a period of time one or more of your funds will perform much stronger than the rest of the portfolio. Without correction, this could mean your portfolio no longer has the appropriate profile.

Every six months we will write to you with an updated value and any fund changes that we recommend should take place. This process is important, as over time the asset allocation can be distorted by one asset class performing more strongly than others. This can lead to the portfolio becoming more risky than you may be comfortable with. We do not rebalance more often as this can reduce performance, due to the fact that we would be constantly trimming assets that were performing strongly.

We are here to provide you with up-to-date information and a portfolio that we are confident meets your needs; however, this cannot be performed in isolation and does require commitment from you to read our six-monthly reports and respond to our recommendations. We do not expect you to simply accept our recommendations and encourage any questions to help clarify the make-up of your portfolio. We are keen for you to bare in mind at all times that we cannot make the recommended switch without your consent.