

## Carnelian Capital Management Ltd

### Investment Proposition

#### **About us**

We are a Chartered Financial Planning firm offering independent advice to individuals, business owners and trustees. Our advice is provided in clear English and on a transparent fee basis.

We currently have in the region of 170 clients with c. 156 preferring to subscribe to our ongoing service. We offer two levels of ongoing service, a simple one meeting/portfolio valuation per year, or the second option, two meetings/portfolio valuation meetings per year.

A number of our clients are business owners and we extend our service to not only assist with their personal finances but also help them to manage their Auto enrolment and “Death in Service” schemes.

We understand that an individual’s financial needs and priorities change over time, as such we work together with our clients to help them meet their current and future objectives by providing an individual plan.

We are regulated by the Financial Conduct Authority (FCA), which is an independent watchdog that regulates Financial Services in the UK. As a chartered firm, we adhere to the CII code of ethics to ensure the best outcome for clients.

This document will provide information about the range of services we offer. It also explains the investment strategies that we use with our clients. Our investment proposition involves assessing your tolerance to investment risk, regularly monitoring your fund selection and rebalancing. The process is designed to ensure that your portfolio continues to be managed in line with your agreed objectives and tolerance to risk.

#### **Target Market & Product Governance**

We evaluate that the products and services we offer and recommend meet with your financial planning requirements. This is done by classifying you as a specific type of client and checking that your key objectives are being met as efficiently as possible using the correct products e.g. the total costs, whether you need multiple investments, whether a simple or complex solution is required and the degree of risk you are prepared to take to achieve your objectives.

#### **Attitude to risk questionnaire**

We use a short risk questionnaire to gather information used to assess your tolerance to risk and capacity for financial loss. The questionnaire is provided by a specialist provider of risk management and modelling tools to the financial services industry.

## **The risk analysis tool**

We use a risk analysis tool to analyse your responses to the questions on the risk questionnaire. This provides an indication of your potential tolerance to investment risk using a scale of 1 to 5, where 1 represents a low tolerance to risk and 5 represents a high tolerance to risk. You will be provided with a description of the risk category which has been determined after completing the questionnaire.

We will discuss with you the risk category which has been calculated by the tool and what this may mean for your investment portfolio. We will assess your knowledge and experience of investments and discuss with you potential alternative risk categories and risk descriptions in coming to a conclusion as to the most appropriate level of risk tolerance for you including your capacity for loss.

We will then use the selected risk category to choose an appropriate portfolio designed to keep within your agreed tolerance for investment risk.

If your attitude to risk is category 1 or 2 or your capacity for financial loss is very low we may recommend, after thorough discussion with you, cash deposits.

The descriptions of the 5 attitude to risk categories (ATR) used to assess your tolerance for risk are shown in Appendix I.

## **Your need to diversify your portfolio**

A better option than investing in only the stock market is to spread your money between several different asset classes, typically equities, property, fixed interest, Structured Investment/Deposit plans and cash. Diversifying your portfolio can help to reduce risk and increase your potential returns. This is because different types of assets often behave differently under the same economic conditions. If you therefore invest in several types of assets, it's likely some will perform well even if others are declining in value.

It is therefore important to have exposure to a blend of different assets to help drive long-term performance and reduce the risk of being overly exposed to any single asset class.

## **Getting the right mix of assets**

Our aim is to simplify this complex investment universe and provide you with professional, unbiased financial advice based on your personal goals and objectives, and to maximise your investment returns whilst helping to reduce your risk. Our advisers are highly skilled, qualified and up to date with investment, taxation and pension developments. Suitable investment advice is at the core of our service to our clients. To help us deliver this, we have developed a robust investment process that we explain below.

1. Introduction and disclosure
2. Fact finding
3. Client risk profile and Capacity for loss assessment

4. Portfolio Structuring
5. Fund selection
6. Ongoing review.

Our investment process aims to identify the right spread of investments to match your appetite for risk and returns and maximise the likelihood of you reaching your investment goals.

## **1 – Introduction and disclosure**

During the initial meeting our Adviser will discuss your aims and objectives and then outline our service proposition. Our Client Agreement sets out the general terms which underpin our professional relationship, including information about how we operate and are regulated – *please refer to our Client Agreement for further details.*

The Letter of Engagement is bespoke to each individual client and sets out the exact service we will provide and its cost – *please refer to our Client Agreement for further details.*

You should note that if in the future we agree to provide you with advice that is not within the scope of this Letter of Engagement then a new one will be drafted to cover this specific piece of work and it will need to be signed by you before we can commence any work.

## **2 – Review your existing investments**

We gather detailed information relating to your financial situation including any financial dependants, all the investments you currently own, details of your assets and liabilities, income and current tax situation.

## **3 – Understand tolerance to risk**

We ask you a set of questions designed to determine your attitude to risk when investing, your time horizon, future cash needs and your objectives. Aided by an independent modelling tool we will determine your risk profile on a scale of 1 to 5. The risk profile is then discussed to seek agreement with you including your capacity for loss.

## **4 – Portfolio structuring**

We will consider the income tax, capital gains tax and inheritance tax implications of your current portfolio and any new investments to be made. We also weigh up the tax benefits of tax wrappers such as investment bonds, ISAs, unit trusts and pensions to ensure you maximise the tax shelters available, as well as looking at alternative tax reducing options – Business Property Relief (BPR) Venture Capital Trusts (VCTs) Enterprise Investment Schemes (EIS).

## **5 – Construct the portfolio - Fund selection**

We will then either recommend a rebalancing of your existing portfolio, or a new portfolio of investments tailored to take account of your risk profile, your investment preferences and objectives. We will outline a range of well researched solutions which will give you access to leading investment companies.

Carnelian Capital Management have an Investment Committee which reviews the products and services offered by us on a regular basis. Please ask to see a copy of our Quarterly Review Document if you would like to see further details.

The typical costs of our initial advice would be a maximum of 3% based on the total value of the new investment sum.

### ***Structured Investments & Tax Reducing Solutions – benefits explained in a “Nutshell”***

#### **Please note**

The Financial Conduct Authority classifies these products as “complex” investment solutions. Carnelian Capital Management will review their suitability as part of our portfolio structuring process noted above.

#### **BPR**

BPR is an important and valuable IHT relief that can reduce the value of relevant business property when it's transferred either in life or death. Relevant business property includes certain business interests and assets used in a business. Investments which qualify for BPR can be passed on free from inheritance tax upon the death of the investor, provided the shares have been owned for at least two years at that time.

#### **VCTs**

VCTs give investors an opportunity to share in the growth potential of Britain's smaller companies.

One of the most attractive features of investing in a VCT is the range of tax reliefs available as below:

- **30% upfront income tax relief**  
Individuals can claim 30% income tax relief on a VCT investment up to £200,000 in a tax year. The amount of relief cannot exceed the amount of income tax due in the year of investment. This relief is contingent upon minimum holding period of five years and investors must apply for the shares in their own name and not through a nominee
- **Tax free dividends**  
Any dividend paid by the VCT to investors is not subject to income tax. Furthermore, the VCT itself does not pay corporation tax on portfolio gains and is therefore able to distribute the capital gains that it makes on an investment in a very tax-efficient manner.

- **Capital gains tax exception.**  
Any profits realised from the sales of a VCT will not be subject to capital gains tax.

## EIS

The Enterprise Investment Scheme (EIS) is a government initiative designed to encourage individuals to invest in early stage companies.

EIS provides finance for smaller, higher-risk companies to help them develop and grow. The government recognises the benefits smaller businesses bring to the UK economy and offers a range of tax benefits to reward investors for investing into high risk small companies through an EIS. To retain the benefits, you have to maintain your investment for at least three years. The benefits of investing into this type of investment are noted below:

- You gain access to investments in early-stage companies.
- You can claim up to 30% income tax relief, provided the investment is held for a minimum of three years.
- There's the potential for 100% relief on inheritance tax (available after you've held the investment for two years and provided shares are still held at time of your death).
- You have the opportunity to defer a capital gain and eliminate it entirely if your EIS shares are still held at death.

## Structured Investments/Deposit plans

Structured products are pre-packaged investments which usually include assets linked to interest plus one or more derivatives. They are generally tied to an index (FTSE100, S&P for example) or basket of securities and are designed to facilitate highly customised risk-return objectives. Structured products can be held within the various wrappers (ISA, GIA and Pension) or standalone. The majority of plans are linked to achieving growth, however, there are a range of income producing plans currently available.

Some Providers offer Deposit based options where your original capital sum is guaranteed to be repaid, however the rate of return payable on these types of plan tends to be less than their Investment linked counterpart.

## Research

We use a range of tools to research the market place for the best products to meet your financial needs and requirements, details of the various tools are noted below:

- |                            |   |
|----------------------------|---|
| • Defaqto                  | Research provider and wrapper comparisons |
| • F E Analytics            | Review investment performance             |
| • ARC                      | Provide Independent DFM comparisons       |
| • Future Value Consultants | Research Structured Investments           |
| • MiCap                    | Research VCT/EIS/BPR                      |
| • Deposit Sense            | Research Cash Deposits                    |

## **6 – Ongoing Review**

We will provide you with a valuation at least annually, depending on the level of service you select. We will review the suitability of your portfolio at each valuation and provide you with an overview – this may include doing nothing or alternatively making changes to the portfolio

### **Our Portfolio Offerings – Using outsourced fund selection**

We will recommend an investment solution that will take account of your individual needs, your attitude to risk and capacity for loss. In appropriate circumstances we will recommend a number of portfolio offerings from leading providers. Our recommended solution will always be chosen to fit your overall investment circumstances and objectives.

In the event that none of our portfolio offerings fits with your overall investment circumstances and objectives we can then discuss your individual requirements and will recommend an alternative solution after completing comprehensive product and provider research from the wider market.

### **Risk targeted “In House” Model Portfolios (Exchange Trades tracker portfolio)**

Our risk targeted investment portfolios bring together a number of exchange traded funds (ETF’s) encompassing a range of different asset groups to provide you with access to a fully diversified investment portfolio of low cost tracker investment funds, which are specifically designed to reflect your attitude to investment risk. This means that you benefit from diversification across asset classes, different fund managers and low charges.

We will regularly rebalance the underlying portfolios to ensure that your investment continues to keep in line with your agreed tolerance to investment risk.

### **Managed model portfolio service**

These are portfolios of suggested funds which have been selected to fit within a strategic asset allocation (a mix of different investment types and assets) which is consistent with your attitude to investment risk. The strategic asset allocation is designed to be aligned to your chosen risk category, which has been determined through the risk analysis process. Your portfolio will be regularly reviewed and rebalanced to ensure that your portfolio always has the best perceived blend of funds to meet its stated investment objective and continues to keep in line with your agreed tolerance to investment risk.

We offer from a choice of Two providers and a number of risk rated portfolios, which are aligned to risk categories 1 to 5. These include options for income and growth.

### **Discretionary fund management**

For larger portfolios, usually in excess of £250,000, we maintain relationships with a specialist discretionary portfolio management company. If we recommend this service to you we will discuss your requirements and facilitate an introduction to a private investment manager who will be appointed to manage a bespoke portfolio in accordance with your needs. Your appointed portfolio

manager will discuss your investment objectives with you and the cost of this service.

### **Review Services**

As mentioned above, Carnelian Capital Management Ltd offer two levels of service depending on your financial requirements allowing us to meet at regular intervals to discuss your overall investment objectives. We will discuss whether an on-going service is appropriate and if so, which service level would meet your needs.

*Typically, our review service is charged at a rate of 0.75% per annum.*

### **Administration of your investment solution**

The risk rated portfolios and model portfolios can be administered using a 'Wrap Account'. A Wrap is an online platform utility which assists advisers and customers with the arranging and reporting of fund and portfolio investments across a range of investment types and tax wrappers.

As part of our discussion around your investments we will assess whether a Wrap is suited to your requirements. If this is the case then we will recommend a Wrap and provide you with full details as part of our recommendation.

### **Investment wrappers available**

Our Investment Proposition can be used with the following range of investment wrappers:

- General Investment Accounts (GIAs).
- Individual Savings Accounts (ISAs).
- Self-Invested Personal Pensions (SIPPs) and Personal Pension accounts.
- Onshore Investment Bonds (including a range of trust investments).

### **Taxation**

Portfolios held within ISAs and SIPPs are considered tax efficient and, subject to keeping within the investment limits and rules for these wrappers, there will not usually be any tax liability arising on investment gains on the portfolio. Any dividend distributions on the underlying investment will, however, be paid net of a 10% income tax credit which cannot be reclaimed.

Investment gains made on the Unit Trust Portfolios could be subject to Capital Gains Tax (CGT) but only if they exceeded the annual CGT exempt allowance. Many people do not make regular use of their annual tax-free CGT allowance, meaning that a tax saving opportunity is wasted.

We will explain to you the taxation position of your portfolio as part of our recommendation. Please inform us of any change to your financial circumstances as this may impact on the future taxation position of your portfolio.

## **Other Annual Charges**

In addition to our advice costs there will be annual charges on the underlying funds within your portfolio and there may also be charges imposed by the selected wrap platform. Our annual review service provides you with full details of all the underlying investment charges.

You will be provided with a personalised illustration which will detail all of the applicable charges including our advice charge, the fund charges and any applicable Wrap Platform charges. The selection of Wrap Platforms will be kept under review to ensure that the service they provide in relation to their cost is in our clients' interests.

## **Ongoing Client Management Service – The Carnelian Service**

We whole heartedly believe that regular reviews are essential to ensure your financial plans remain on course to achieve your goals, aspirations and financial objectives. To summarise, the on-going service annual payment will cover the following:

### **Level 1**

- At least two meetings per year including a valuation and written report
- Bi-annual review of your risk profile and investment strategy
- Bi-annual review to ensure use of tax efficient & appropriate investments
- All calls & emails acknowledged within 24 business hours
- Reviewing & updating your financial paperwork
- Access to your financial planner and client support team by phone & email
- The Carnelian newsletter
- Assist with information to complete your tax return

### **Level 2**

- One meeting per year including a valuation and written report
- Annual review of your risk profile and investment strategy
- Annual review to ensure use of tax efficient & appropriate investments
- All calls & emails acknowledged within 24 business hours
- Reviewing & updating your financial paperwork
- Access to your financial planner and client support team by phone & email
- The Carnelian newsletter
- Assist with information to complete your tax return

### **“In House” Model Portfolios**

Where we arrange our “In House” ETF Model portfolios, we typically make a charge of 0.50% to cover the management of the investments, this service includes:

**CCM Managed Portfolios  
only**

**Investment Management**

- Mapping your risk profile to an asset allocation
- Construct an initial portfolio of ETF funds
- Compare portfolio versus benchmark returns
- Review & rebalance the portfolio half yearly
- Consider tactical overlays and adjustments

### **Payment of Our Fees**

Before you incur any charges we will always agree with you the service you require and our specific fee for your confirmed service – this will. Outlined in our Letter of Engagement.

You have the option to pay our fees directly to us or alternatively where possible it may be able to be facilitated through a deduction from your investment. We will discuss your preferred method of payment with you.

Where our fee cannot be facilitated from the initial investment amount you will be required to make the payment separately.

If you pay for an on-going service that is facilitated via your investment the actual costs of your on-going fee may increase as the fund grows.

If you should choose to bring the Client Service Agreement to an end, this can occur at any time without penalty.

## Appendix I

### *ATR Descriptions*

#### Cautious

A cautious investor is looking for an investment where any fluctuation in the value of the investment would be small. A cautious investor is uncomfortable if the investments were to rise and fall in value rapidly.

The return should be just slightly better than that available from a high-street deposit account. Capital preservation is still a high priority.

This type of investment is suitable for those with little or no experience in investing and who can accept a small degree of potential loss in the short term in the hope that the investment will outstrip deposits in the longer term.

#### Cautious to Moderate

A cautious to moderate investor is looking for an investment which is likely to keep pace with, or exceed inflation. They are more concerned with capital preservation than with growing the portfolio significantly.

The return will be better than a deposit rate but may experience a little volatility in the short term. The longer-term prognosis is for steady and secure growth.

This type of investment is suitable for inexperienced investors or those looking for steady growth over a longer term without large fluctuations in value in the short term.

#### Moderate

A moderate investor is looking for a balance between risk and reward, seeking higher returns than inflation. This investor will appreciate the need to invest in different asset classes and different geographical areas to minimise the effects of risk in any one area.

The returns may fluctuate in the short term but should provide a return to exceed inflation over the medium to longer term.

This type of investment is suitable for experienced investors who appreciate the need to diversify their investments to create a balance between risk and reward. There may be a small degree of capital loss on encashment.

#### Moderate to Adventurous

A moderate to adventurous investor is willing to accept a higher level of risk in return for higher returns over the longer term. This investor is willing to accept a good amount of fluctuation in the value of their investments. If the value of the investment fell by more than one quarter in a year, the investor would see this as a time to ride out the storm rather than a time to purchase more.

The return is likely to far exceed inflation and deposit accounts but, in return, there may be large swings in the value of the investment in the short term.

This type of investment is suitable for those clients who can afford to leave the money invested for a longer term and who can accept a degree of loss. Over time, the rewards should outstrip any losses, but such returns cannot be guaranteed.

### Adventurous

An adventurous investor is willing to accept a very high level of risk in return for higher returns over the longer term. This investor is willing to accept a significant amount of fluctuation in the value of their investments. If the value of the investment fell by more than one quarter in a year, the investor would see this as an opportunity to purchase more because of the cheaper asset values.

The returns from this investment are unpredictable. In the longer term the client may expect a high rate of return but there is likely to be a high degree of volatility and large swings in the value of the investment in the short term.

This type of investment is mainly suitable for experienced investors who do not need access to the capital in the short or medium term. This type of investment is not suitable for those people who may need this money for emergency funds in the future. Such investors can run the risk of losing the full capital value.