evidence based investing

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ebi model portfolio service: an introduction

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evidence based investing

COMMUNICATION ON PROGRESS

This is our **Communication on Progress** in implementing the Ten Principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

ebi is a signatory of the United Nations Global Compact

SWINDELLS

FINANCIAL PLANNING

Swindells Financial Planning is an established and respected financial services company, with over 15 years of offering investment advice.

We have secured the expertise of evidenced based investing (ebi), who provide a range of resources and knowledge, that we believe offers a compelling investment solution.

This brochure outlines the investment philosophy and proposition of ebi, and the advantages of adopting an evidence based approach.

We understand that everyone's financial roadmap is different, and that this journey may alter course as time passes, or circumstances may change.

This is why ebi offer a robust, rules-based method of ensuring your portfolio is monitored daily, keeping it within your pre-determined risk preference.

ebi's Earth portfolio allows investors to benefit from positive financial returns, with an ethical stance on how their money is invested. 100% of the equity element of Earth is ESG screened.

Swindells Financial Planning hope you find this brochure both useful, and reassuring, and that your financial roadmap is in good hands.

Duncan Orr,
Swindells Financial Planning

ebi model portfolio service: an introduction

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Suite 7, Beecham Business Park, Northgate, Aldridge, WS9 8TZ 01922 472 226 ebi.co.uk enquiries@ebi.co.uk

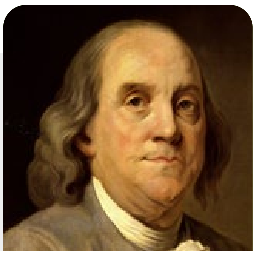
About ebi

ebi is a discretionary fund manager built on the principles of diversification, sustainable investing and passive portfolio management.

Our investment philosophy combines more than six decades of market data, Nobel Prize winning academic research and behavioural finance.

We bring **science, efficiency** and **innovation** to **sustainable investing**.

"An investment in knowledge pays the best interest[1]." Benjamin Franklin



[1] Forbes Top 100 money quotes of all time

What is evidence based investing?

Evidence based investing is an approach that is based on research, observing markets and how they work, and using data to make considered investment decisions.

The evidence employed is the product of many decades of independent, peer-reviewed research and analysis by some of the world's leading academics, including numerous Nobel laureates.

Evidence based investing is in contrast to an active strategy, where fund managers look to 'beat the market' through predicting which companies will be successful in the future.

Markets are notoriously hard to beat in the long term and this is why an evidence based philosophy sits at the heart of ebi.

The evidence employed is the product of **many decades** of **independent, peer-reviewed** research.

"Don't look for the needle in the haystack. Just buy the haystack[1]." John Bogle

[1] John Bogle, The Motley Fool. "9 Investing Tips from Investing Icon John Bogle That You Shouldn't Ignore."

The cornerstones of evidence based investing

ebi focuses on minimising costs in their widest sense: avoiding the cost of underperformance by an active manager.

1 Capitalism works

Capitalist societies consist of asset-owning companies and individuals who put capital and labour to efficient use, with the aim of generating the maximum wealth for those who take on the risk of the enterprise.

Profits from this enterprise are ultimately expected to flow through to owners.

2 Risk and reward go hand in hand

A basic underlying assumption is that higher levels of return require an investor to assume a higher level of risk. Conversely, low levels of risk are often associated with low levels of returns.

Risk can never be eliminated from portfolios, but investors can reduce risk by holding a diversified portfolio of equities and bonds.

3 Diversification is the only free lunch in investing[1]

Diversification mitigates market uncertainty. It mixes a wide variety of investments, covering multiple asset classes and with no bias to a specific industry or segment. Put simply, by diversifying you can reduce risk without compromising on returns in the long term.

ebi's Earth portfolios are highly diversified across approximately **65** developed and emerging market countries, as well as more than **20,000** individual equities and bonds.*

4 Identify and minimise costs of all kinds

ebi focuses on minimising costs in their widest sense; avoiding the cost of underperformance by an active manager, using low-cost passive strategies, negotiating service provider discounts, and managing investments efficiently via our Managed Portfolio Service (MPS).

While investment costs might seem relatively small, they all add up. The power of compounding means that you don't just lose the amount you pay in fees, you also lose the growth that money might have made for years to come.

What is a bond?

A bond is a fixed income instrument that represents a loan made by an investor to a borrower (typically corporate or governmental). A bond could be thought of as an I.O.U. between the lender and borrower that includes the details of the loan and its payments.

What are equities?

Equities represent the value shareholders hold within a privately owned company. Equity represents the value that would be returned to a company's shareholders if all of the assets were liquidated and all of the company's debts were paid off.

The key feature of bonds is their low risk and relatively low returns in comparison to equities, and are used to dilute the volatility of a portfolio. Investors choose a blend of equities and bonds to meet their attitude to risk. A good analogy here is 'whisky in water'. A whisky drinker is likely to blend their preferred tipple with water according to their palate, and avoidance of the ill effects of neat whisky.

[1] Harry Markowitz, 1952. Nobel Prize laureate

*Correct as of 18.08.2021 and subject to change.

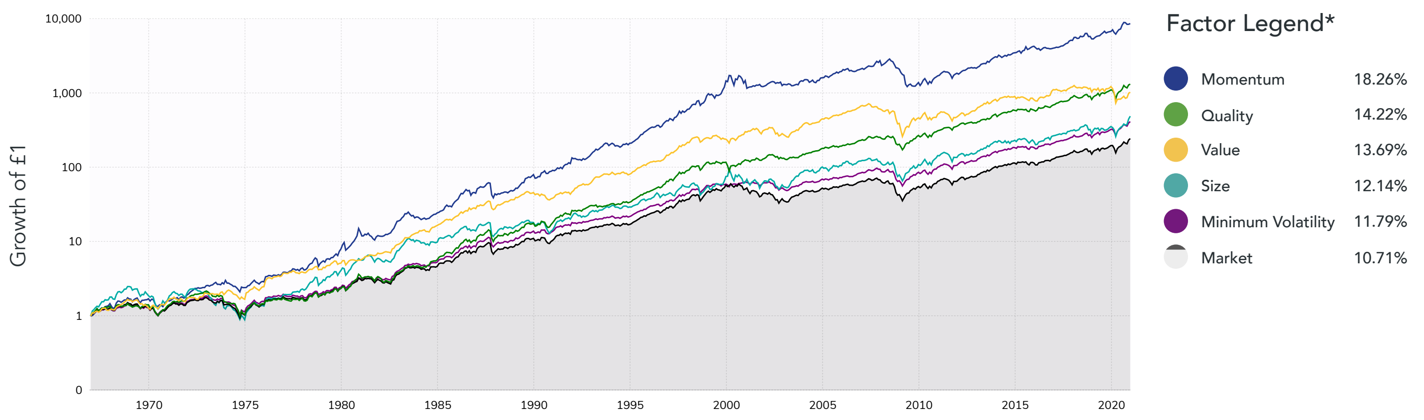
Factor based investing

Factor based investing is simply about defining and then systematically following a set of rules that produce diversified portfolios.[1]

Use of factor based investing

A strategy that involves tilting portfolios towards and away from specific factors to generate long-term investment returns in excess of benchmarks. The approach is quantitative and based on data, such as stock prices and financial information, rather than on opinion or speculation. See below for how our factors have performed between January 1967 - December 2020.

Long-run factor premiums[2]



*(Annualised Total Return)

An annualised return is the geometric average amount of money earned by an investment each year over a given time period expressed in a percentage. An investment that grew from £100 to £140 over 4 years would have earned 8.78% on average per year.

[1] Cliff Asness in foreword to Berkin & Swedroe's Your Complete Guide to Factor-Based Investing, 2016

[2] Kenneth R French Data Library Tuck University, Hou, Kewei, Chen Xue, and Lu Zhang, Monthly Returns

The 5 factors in ebi's portfolios

Momentum

The tendency of stocks that have performed well continuing to perform strongly into the future, at least for a short time.

Size

Companies with a lower market capitalisation exhibit a return premium over companies with a large market capitalisation.

Quality

Profitable firms generate higher returns than unprofitable firms, despite having significantly higher valuation ratios.

Minimum Volatility

Stocks that exhibit lower volatility have returns above that which would be implied by the efficient market theory.

Value

Stocks priced closer to their book value have higher expected returns than stocks priced far above their book value.

A word from our team

Sam Adams
Non-Executive Director at ebi

"ebi have been leaders in helping advisers adopt and implement evidence based investment solutions for clients.

I am here to help advisors adopt ESG investing and to advance ebi's leadership in providing sustainable investment solutions."

A word from our team

Craig Burgess
CEO, CIO and ebi founder

"Our Earth portfolio maintains our bedrock principle to deliver superior risk adjusted returns, while placing us at the leading edge of the ESG investment space. We've sought not only to select the best choices from the available options but to help create tailored solutions where no suitable options previously existed."

The difference between passive and active investing

An evidence based approach uses passive investment management, mimicking an index of market returns. Passive investing seeks to minimise costs by limiting the number of trades performed. This is known as strategic asset allocation, where investors set target allocations for various asset classes based on criteria such as the investor's risk tolerance and investment objectives.

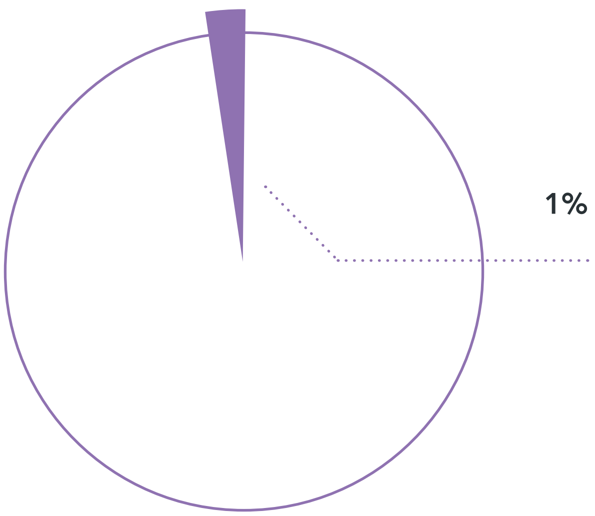
This contrasts with an active management approach where the manager undertakes specific investments with the goal of out-performing a target return, or 'beating the market'. This is known as tactical asset allocation.

"We continue to make more money when snoring than when active[1]." Warren Buffett

Warren Buffett – Letter to Berkshire Hathaway Shareholders, 1997

Numerous studies over the past 60 years have shown that successful market timing is incredibly difficult. In 1986, a landmark study showed that asset allocation was the overwhelmingly dominant contributor **(91.5%)** to the total returns of an investment portfolio. Stock picking was not the main factor **(4.6%)**, while market timing played an even smaller part **(1.8%)**[1]

From time to time ebi may look to incorporate new funds to gain exposure to a new factor, but all in all these activities lead to very little trading.



Active fund managers that beat the market over the long term [2]

Research shows that only about 1% of active fund managers beat the market over the long term. It also takes 22 years of data to be 90% certain that these managers are genuinely skilful, not just lucky. [2]

[1] G.P Brinson, L.R. Hood, G. L. Beebower, Determinants of Portfolio Performance. Financial Analysts Journal. July/August 1986.

[2] D. Blake, T. Caulfield, C. Ioannidis, I. Tonks, New Evidence and Mutual Fund Performance: A Comparison Of Alternative Bootstrap Methods. Journal Of Financial and Quantitative Analysis. June 2017.

ESG investing

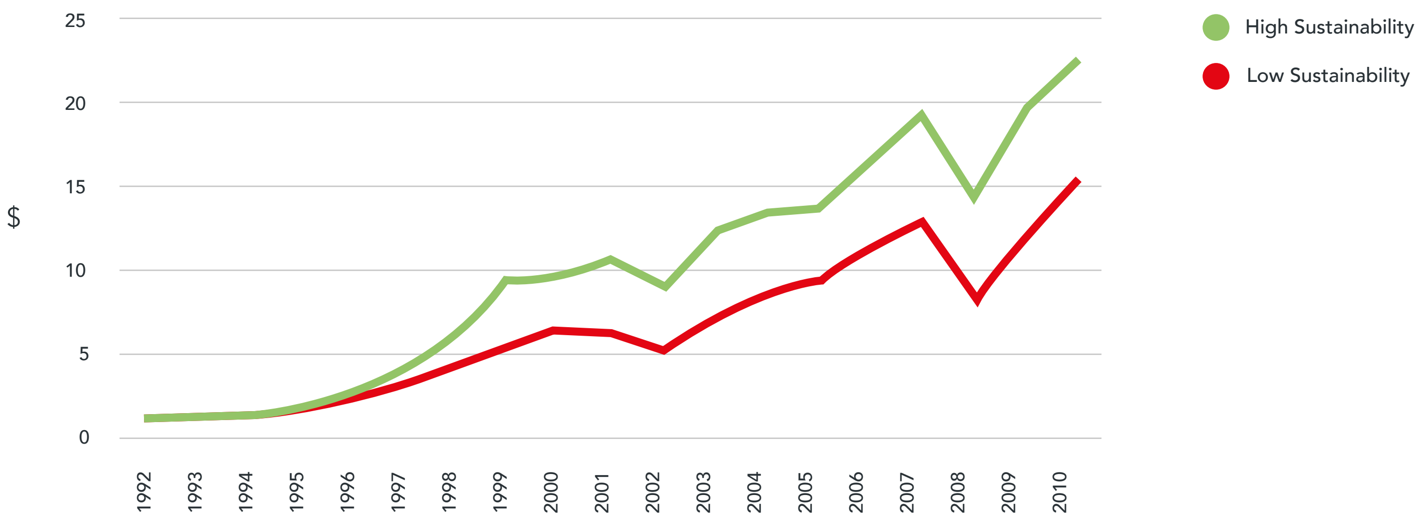
ESG stands for Environmental, Social and Governance. Investors are increasingly considering these non-financial criteria when seeking positive financial returns in conjunction with sustainability.

It has been demonstrated that sustainable investing is associated with positive financial returns.[1]

ESG and market performance

Stocks of sustainable companies tend to significantly outperform their less sustainable counterpart.

Evolution of $1 invested in the stock market in value-weighted portfolios[1]



[1] G. Kell, The Remarkable Rise of ESG, Forbes, 2018.

ebi

ebi's Earth portfolios

Research and investor demand have helped ebi to create the low-cost, highly diversified Earth portfolios.

Earth

Remaining committed to evidence based investing, ebi's Earth portfolios have 100% of the equity portion ESG screened. The launch of Earth in 2019 was the culmination of a long term ambition to offer a unique proposition to investors.

ebi negotiated with best of breed managers to launch funds that address our core factor-based investment strategy, possess strong ESG and sustainability credentials, and allow us to leverage our scale to provide prices that represent a compelling investment solution for investors.

ebi use screened funds within Earth to control certain exposures based on criteria such as business sectors, vice products or controversial weapons manufacture, for example, or companies that participate in environmentally damaging activities. ebi recognise the influence the finance sector has on companies and their sustainability credentials, and believes that the stewardship of investment managers will help drive long term sustainability change.

Today, ebi offer a **five factor**, **passively** managed portfolio, with all equity funds **ESG screened**.

"For investors, ESG data is increasingly important to identify those companies that are well positioned for the future and to avoid those which are likely to underperform or fail[1]." Georg Kell, Chairman of Arabesque, and the Founding Executive Director of the United Nations Global Compact.

[1] G. Kell, The Remarkable Rise of ESG, Forbes, 2018.

Glossary

Name	Definition
Asset	An item or group of items owned by an individual or company that can be valued in monetary terms. Real estate, equipment, inventory, cash accounts, and investments are examples of assets.[1]
Asset Allocation	The process of determining what percentage of assets should be dedicated to specific asset classes. Also the end result of the process.[2]
Asset Class	A group of assets with similar risk and expected return characteristics. Cash, debt instruments, real estate, and equities are examples of asset classes.[2]
Capital	All durable resources owned by a business that can be used to generate revenue are defined as capital. This includes tangible items such as buildings, equipment, land, machinery, stocks, cash, and intangible items such as patents and trademarks. Capital can also refer to a business' wealth defined by subtracting total liabilities from its total assets.[1]
Diversification	Dividing investment funds among a variety of investments with different risk-return characteristics to minimise portfolio risk.[2]
Equities	Similar to shares or stocks, equities are units of ownership in multiple companies.[1]
Factor	A numerical characteristic or set of characteristics common across a broad set of securities.[2]
Index (and Index Fund)	Index refers to a benchmark used to measure the health and performance of the securities market. The S&P 500 is an example of an index. Index Fund refers to an investment vehicle through which a pool of investors' money can be used to purchase stocks and other securities that reflect a certain Index.[1]
Mutual Fund	A mutual fund is a vehicle for easily investing in the stock market. The mutual fund pools investors' money. A professional fund manager is retained to manage the portfolio, making purchasing decisions based on the type of fund, such as a growth stock mutual fund. It is one of the most popular vehicles for investing because it doesn't require a lot of money to get involved.[1]
Portfolio	Refers to a collection of investments, such as stocks, bonds, securities, commodities, currencies, real estate, etc., mixed between low-risk and high-risk, owned by an investor and designed to maximize short-term and long-term returns.[1]
Securities	Securities are fungible and tradable financial instruments used to raise capital in public and private markets. There are primarily three types of securities: equity - which provides ownership rights to holders; debt - essentially loans repaid with periodic payments; and hybrids - which combine aspects of debt and equity.[3]
Stocks	A stock is a security resulting in ownership of a company. It's also referred to as equity. When an investor purchases stock in a company, he or she gains equity in that company and is entitled to a percentage of the company's profits. These investors are called stockholders or shareholders.[1]

[1] H. Lefton, Similarweb, 2021, [online] Available at: <https://www.similarweb.com/corp/blog/investor/stock-market/stock-market-terminology-the-ultimate-glossary-of-investor-terms />

[2] A. L. Berkin & L. E. Swedroe, Your Complete Guide to Factor- Based Investing, 2016

[3] W. Kenton, Investopedia, 2021, [online] Available at: https://www.investopedia.com/terms/s/security.asp

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The price of shares and investments and the income derived from them can go down as well as up, and investors may not get back the amount they invested. **Past performance is not necessarily a guide to future performance.**

Suite 7, Beecham Business Park, Northgate, Aldridge, WS9 8TZ 01922 472 226 ebi.co.uk enquiries@ebi.co.uk

Brought to you by the team at ebi

ebi portfolios ltd

Suite 7, Beecham Business Park, Northgate, Aldridge, WS9 8TZ

01922 472 226 enquiries@ebi.co.uk ebi.co.uk

Swindells Financial Planning

Atlantic House, 8 Bell Lane, Bellbrook Industrial Estate, Uckfield, East Sussex, TN22 1QL

01825 763 366 duncano@swindellsfp.co.uk swindellsfinancialplanning.co.uk