Investment Philosophy & Process for the MAPS Model Portfolios

Clear, concise, and precise: common sense investing

TCF Investment is the fund manager behind the MAPS model portfolios

We believe the best solution for most investors is to hold a portfolio constructed from a wide range of different assets from around the world, selected from diverse managers. Keeping costs low, while understanding all the risks – "simple" and "safe" beats "complex" and "risky".

Our overall investment approach is based on academic research, empirical evidence and common sense and is designed to fit seamlessly with the advice and risk processes of financial advisers.

The TCF Investment process is overseen by an independent and expert Investment Committee that meets regularly to approve the recommendation of underlying investments, formulate tactical investment views, and monitor the performance of the portfolios.

And our Chief Executive has most of his own money in the MAPS Models – our money is where our mouth is.

Philosophy
The core beliefs that drive our investment process

Foundations
Asset allocation is the key driver in the long run

Process
Rigorous and robust due diligence "if in doubt screen it out"

Risk Management
Monitoring of allocations, markets, funds and managers

Investment beliefs – our philosophy

"Know what you believe, know why you believe it"

TCF Investment bases its investment approach for the MAPS portfolios on the following fundamental evidence-based investment principles:

1. Asset allocation is by far the most important determinant of a portfolio's risk and return.
2. Equities, property, commodities etc. (real assets) offer a better expected long-term investment return than cash / fixed-income bonds (monetary assets) as over the long-term the former offer protection from inflation and offer a return for the higher short-term risk they possess. Their returns are linked to the growth in the economy and their higher level of 'risk' means that investors should be rewarded with better returns.
3. Academic studies and common sense agree that higher costs are not on average rewarded with improved performance and so costs should be minimised wherever safe to do so or unless there is a demonstrable expected performance enhancement: initial costs, annual costs and other fund expenses all erode fund / portfolio returns.
4. Academics and market professionals agree the importance of diversification in reducing risk and increasing return consistency.
5. Markets tend to move in cycles where investor sentiment can exaggerate changes in economic fundamentals. It is, therefore, possible to increase performance by altering asset allocation on an occasional tactical basis.
6. It is essential to understand every investment and how it is expected to perform, the inherent risks and how it contributes to any portfolio mix. Rigorous due diligence is required on all investments.

The logic of these core beliefs leads us to conclude that using long term asset allocation as a foundation is key.

This should be overlaid with occasional "contrarian" tactical asset allocation decisions.

Portfolios should be constructed using predominantly passive (or a select blend with a passive core and active satellites) underlying funds, that have been appropriately screened.

Asset allocation – the foundations

"It is important to get the big rocks in first"

1. The strategic asset allocations (strategic benchmark) are driven by our understanding of the options required by financial advisers to meet the needs of their customers. We review these strategic benchmarks at least annually.
2. Portfolios will be positioned close to their long-term strategic benchmark.
3. Medium-term tactical asset allocation views are overlaid on the strategic benchmarks, when the Investment Committee believes particular asset classes are mis-valued.
4. Any tactical decisions are based on the underlying investment belief that investors occasionally become overly optimistic (leading to excessively high market valuations / movements) or, at other times, overly pessimistic (leading to excessively low valuations / movements).
5. The Investment Committee therefore takes a mildly contrarian stance. However, the tactical positions that are designed to overlay the long-term strategic asset allocation are never significant enough to undermine the long-term objective of the portfolio.
6. The tactical views are based on market valuations and investor sentiment as well as prevailing economic and market fundamentals and expectations. Tactical decisions are taken based on the collective judgement of the Investment Committee.
7. The Investment Committee re-assesses the tactical asset allocation positions quarterly or more frequently if events demand additional review.
8. The Investment Committee seeks to achieve consensus on the decisions it takes rather than looking for a simple majority of views. This ensures that all decisions are taken with the strong conviction of all members i.e. disagreement is attempted to be resolved through additional analysis rather than through vote.

Instrument selection essentials – our process

"There is no such thing as a dumb question when it comes to looking after other people's money"

1. Our objective is to identify financial instruments which are an appropriate fit as part of each wider portfolio usually based on: their ability to accurately capture underlying asset class return, "safety", overall cost and alpha potential (if an active instrument).

2. Our core belief is that the lowest cost indexed or passive vehicles are often the best way to capture a given asset class return. It is however true that some active managers do beat the index. We therefore offer both mainly passive portfolios and portfolios with a specific blend of passive and active funds to satisfy the different requirements and views of advisers and their clients.

3. The first step is to identify a universe of appropriate investment instruments. This involves research into the passive fund sector where new techniques are continually being developed and new funds launched. This is done in house. We outsource the research into active funds to a specialist in this area – Rayner Spencer Mills Research.

4. For each potentially appropriate instrument we identify, we carry out rigorous analysis.

5. We have good access to the fund providers to carry out the level of research that we require.

6. For passive instruments, our analysis often looks at the hidden workings such as counterparty risk, stock lending, tax treatment, dealing efficiency etc.

7. We have given Rayner Spencer Mills Research a bespoke mandate to select high alpha funds and managers. They have a rigorous quantitative and qualitative process and submit their recommendations to the TCF Investment Committee for approval.

8. All instruments used are individually approved and advised to be adopted by the Investment Committee prior to inclusion in any of the MAPS Portfolios. All instruments are reviewed on an appropriate basis.

9. As well as considering the individual merits of each instrument, the Investment Committee sets and monitors limits to ensure that there is no undue concentration to a product provider or class or type of instrument.

Risk management

"Check it, check it and check it again"

1. TCF Investment has a robust control environment.
2. Investment instruments and tactical asset allocation decisions are recommended by the independent Investment Committee.
3. The tactical asset allocation for each portfolio is reviewed at least quarterly by the Investment Committee.
4. The portfolios are monitored to ensure they remain within their asset allocation limits with a tactical review / formal rebalance decision at least quarterly.
5. Individual instruments are assessed regarding their risk, cost, characteristics and fit as part of a wider portfolio.
6. Risk controls are in place for asset allocation deviation, maximum underlying fund exposure and maximum allocation to fund providers in each portfolio.
7. TCF Investment is an FCA regulated, UK domiciled Investment Manager.