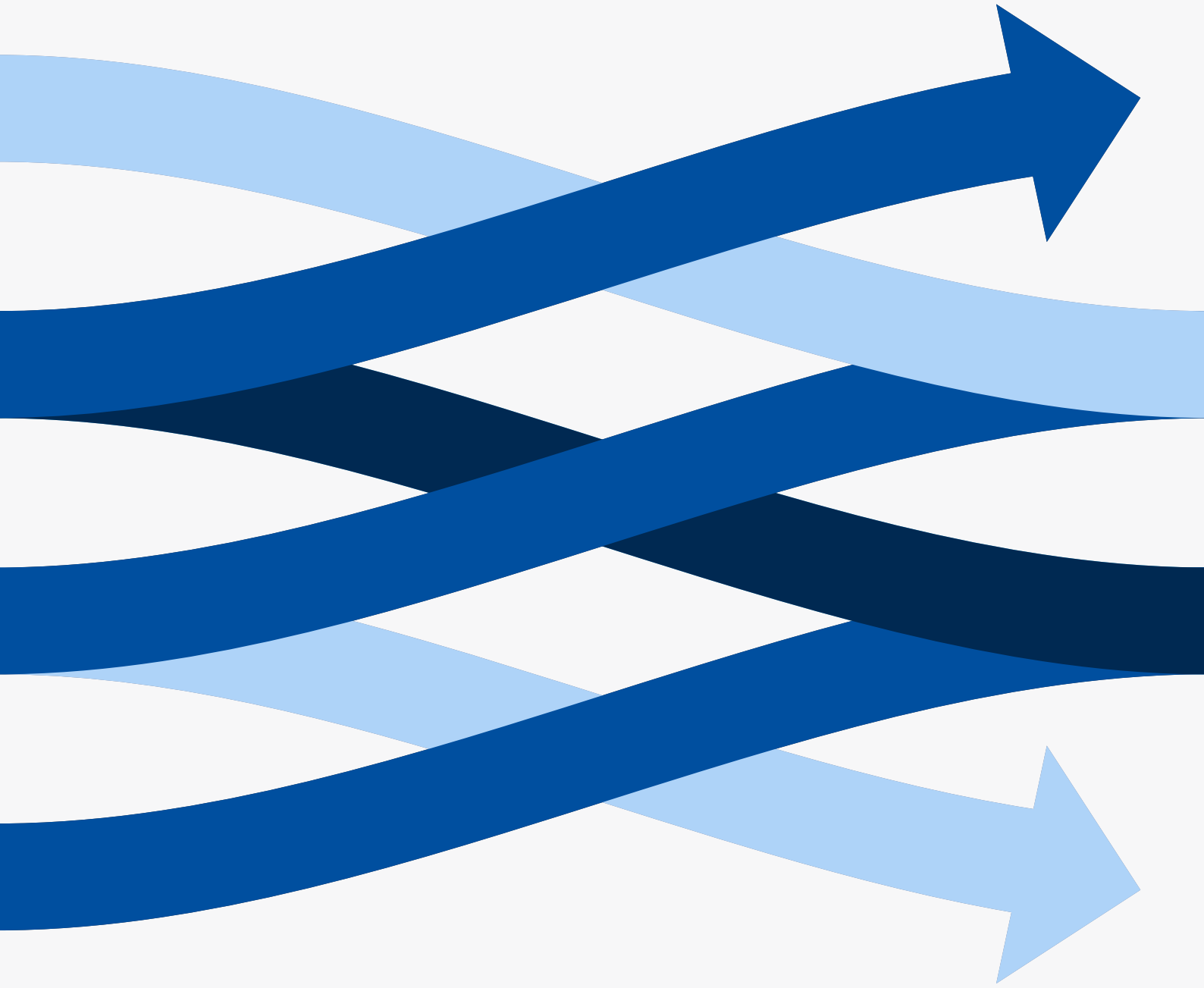
VT PEF Global Multi-Asset Fund
Fund Overview

A sub-fund of VT Plain English Finance Funds ICVC
Class A – Accumulation Shares (ISIN: GB00BDZZSM84)



PLAIN ENGLISH FINANCE

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Contents

Disclaimer

Plain English Finance Limited has used all reasonable efforts to ensure the accuracy of the information contained in this communication at the date of publication.

The VT PEF Global Multi-Asset Fund is a sub-fund of the VT Plain English Finance Funds ICVC. An English language prospectus for the fund is available on request and via plainenglishfinance.co.uk/funds.

Investors should read this overview document in conjunction with the fund's Prospectus, Key Investor Information Document and the relevant application form before purchasing shares in the fund. Full details of the risks and aims for the fund can be found in the Prospectus and the Key Investor Information Document which is available from the website: plainenglishfinance.co.uk/funds.

Some of the figures in this marketing document refer to simulated past performance. Past performance is not a reliable indicator of future performance. The value of investments and any income from them may fall as well as rise, the return may increase or decrease as a result of currency fluctuations, and you may not get back the amount of your original investment.

The fund does not have a specific benchmark. However, the performance of the fund can be assessed by considering whether the objective is achieved (i.e. whether there has been capital growth over the medium to long term (3- 5 years)).

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Company Number

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FCA Registration Number

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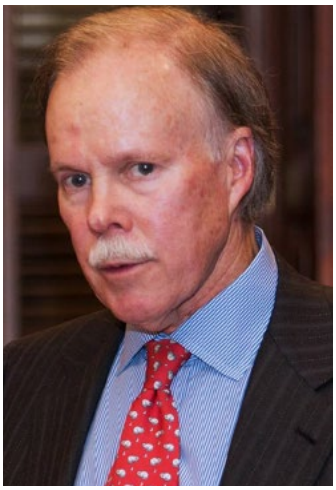


"The most powerful tool an investor has working for him or her is diversification. True diversification allows you to build portfolios with higher returns for the same risk. Most investors are far less diversified than they should be."

Jack Meyer

Harvard University Endowment Fund

"Diversification is the only free lunch in investing."

Tim Price

PFP Wealth Management

"Rule No.1: Never lose money. Rule No.2: Never forget rule No.1."

Warren Buffett

Berkshire Hathaway

A message from Andrew Craig, Fund Manager:

I started Plain English Finance in January 2011 with one over-arching goal: ***"To improve the financial affairs of as many people as possible..."***

By halfway through 2012, we had launched our website, plainenglishfinance.co.uk.

Our aim was to provide as much useful information about finance and investment as possible. To that end, reasonably soon I had written 100,000 words or so of content for the site.

Through a lucky series of events, those 100,000 words became the book "How to Own the World", now in its third edition and one of the top-selling finance books of the last several years in the UK.

It wasn't long before we started fielding a meaningful number of enquiries each month from people asking if I might consider investing their money for them "as in the book".

The "VT PEF Global Multi-Asset Fund" is the result of several years of work since then.

People wanted a way of investing in all main asset classes and all main geographical regions – as per the "Own the World" message of the book – but in one place, as efficiently as possible.

The Plain English Finance team and our partners, Professors Andrew Clare and Steven Thomas and their colleague, Dr. James Seaton, effectively started with a blank sheet of paper and designed an investment product which would do just that.

In the pages that follow, we present the evidence as to why we believe the result is a fundamentally strong investment product – and no matter what the economy is doing. We hope you find the story logical and compelling as a result.

One final introductory point

Before you dive in, I think it is worth us addressing head on the fact that this is, without question, quite a long document. I concede that few people are wildly enthused about the prospect of having to wade through lots of information about investment.

Set against this, however, I would highlight that our ultimate aim in all we do is to help people get the best out of their finances. Increasing the chance that people get that tangible outcome can require a bit of work.

What follows may take an hour or two of your time but, as Theodore Roosevelt put it:

> *"Nothing in the world is worth having or worth doing unless it means effort, pain, difficulty..."*

We would hope that the effort could well be worth it.

Andrew Craig
Founder, Plain English Finance and author of "How to Own the World"

A

Start with the end in mind...

Introduction

Before we get to some of the detail around the Fund, it is perhaps worth saying a little about the big-picture end-goal of investment overall.

As I said in my first book "How to Own the World", the whole point of investment is that you can get to a point where you are able to live on your money or, even better, the money you make from your money rather than the money you make from working. That is the whole idea of a "pension", for example.

It is perhaps worth saying that this is something that we are not very good at in the UK. In an ideal world, you will want a solid **six** or even **seven** figure sum to be able to do this. This is because, depending on where interest rates are when you want to stop working, each £100,000 you have in your investment pot should buy you anywhere between about £4,000 and £8,000 a year of income[1].

If we take the middle of that range (of £6,000) you can see that £500,000 could buy you around £30,000 a year of income on average, whereas if you'd managed to get to as much as a million, you'd have more like £60,000 or so to live on each year.

Sadly very few people in the UK are getting to these numbers. Estimates vary but the average pension pot in the UK at the time of writing is somewhere between £40,000 and £60,000. As you can see, this is only enough to buy somewhere between £1,600 and £4,800 a year of income – depending on the size of the pot and interest rates.

The state pension is currently around £10,000 a year so this implies most people in the UK will have to get by on less than £15,000 a year at retirement, and many people some way less than that.

The other point to mention is that you need to think about the impact of inflation in all of this – particularly given where levels of inflation are nowadays and might be for some time to come.

It is also worth noting that there are real concerns about the extent to which the government will be able to afford the pension obligations of millions more retirees in future, given the state of the British economy, levels of government debt and our rapidly aging population.

It isn't an exaggeration to suggest that we confront a pensions crisis in the years ahead, and regardless of who is in power in Westminster[2]. Sadly millions of people are sleepwalking into an impoverished future.

Crucially, this has a great deal less to do with people's incomes and much more to do with the fact that too few people are making the most of investment, truly. This reality is a big part of our mission as a company. The good news is that millions of people can do something about the looming pensions crisis. They "just" need to do a better job with saving and investing.

The even better news is that if you start early enough and do a sufficiently good job with investment, you could even find yourself able

[1] Source: https://www.hl.co.uk/retirement/annuities/best-buy-rates

[2] If you want to understand these arguments in more detail please do consider reading my first book: "How to Own the World".

to live on your money some way earlier than traditional retirement age. This possibility has gained more attention in recent years with the rise of the so-called "FIRE" movement – "Financial Independence Retire Early." [3]

"Accumulation" versus "decumulation"

When thinking about how to approach saving and investing enough to get to the point that you can live on your money, it is important to understand two key investment phases in your life. These are:

— "Accumulation":

This is the period in which you attempt to build wealth by saving and investing. We might think about this being your focus from roughly the age of, say, 30 (or, ideally, even younger) to the age of 60 (or younger if possible).

What is key here is that you must think in terms of this taking many years – for most people this will be anywhere from 20 to 40 years – and it is really important to think along those lines and not be in a hurry.

Time and a very long-run approach are two of your biggest allies in investment for all sorts of reasons, as we shall see in what follows. This is also why the earlier you start, the better – even if only with relatively small sums. It is far better to invest a small amount every month now without fail than nothing at all in the hope that you'll invest a lot "one day" in the future.

— "Decumulation" – also called "drawdown":

This is the period in your life when you will want to live on the wealth you have built in the accumulation phase. We might think about this as, say, roughly from the age of 60 onwards - or younger if you start early enough, can earn and invest a lot, or do a really good job or are particularly lucky with your investment returns.

The holy grail of investment is to get to a point where you can afford to live on the returns you make on your money. Traditionally, it is assumed that you can do this if your pot is about 25-30x your annual living expenses [4]. So, say you think you will need £40,000 a year to live on – you will ideally need to get to a pot of £1 million or more to be able to **reliably** take £40,000 a year of income out of your pot from investment returns and for that pot to remain intact [5].

Most people will have paid off their mortgage by this point and hopefully won't have any more expenses related to children by then either, so for many this will be a pretty decent disposable income.

Of course many people won't get to a level where they can live on **just** the investment returns from having a very large pot. This is why this phase is called "decumulation" or "drawdown" – because many people will have to use a combination of the income (or investment return) from their pot and "drawdown" or "decumulate" from the pot itself – the capital.

To illustrate this – imagine you had £500k and wanted to live on £25k a year. Imagine you're lucky and make a 5% return in a given year – this will mean that you'll be able to withdraw £25k to pay yourself and still be left with £500k (5% of £500k is £25k). Imagine, however, in the following year you actually lose 5% but still want to pay yourself £25k – this will mean that you'll end that next year with £450k in the pot – because

[3] Source: https://www.investopedia.com/terms/f/financial-independence-retire-early-fire.asp

[4] Many people think the idea of getting to £1 million or a large six-figure sum is unrealistic. I showed in my first book that this is not the case. Even people on average incomes can realistically aspire to achieve this if they do a sufficiently good job with investment over a sufficiently long period of time.

[5] Source: https://www.nerdwallet.com/uk/personal-finance/guide-to-the-fire-movement/

you've lost £25k and paid out £25k. Perhaps in year three you're lucky and make a 10% return. Then you'd be able to pay yourself £25k and end the year with about £470k (you make £45k of investment return (10% on £450k) which takes you back to £495k and then pay out £25k of that).

The key consideration here is to ensure that your pot lasts you as long as it needs to, to ensure you don't run out of money! It is perhaps worth mentioning that this can be pretty complicated stuff and obviously a very important subject: Running out of money in retirement is a pretty horrendous prospect – which is why it is crucial to be on top of things as best you can and as soon as you can.

...Risk of Loss and Sequence Risk

A key focus then is on how you might do the best job you can with investment in both phases. When thinking about this – there are two very important considerations:

First – your investment returns. The higher these are, the more wealth you can build and / or the faster you can build it. You might think about this as the return ON your money.

Secondly – The crucial importance of avoiding suffering a large loss along the way. Or, put another way, the return OF your money!

One of the key challenges here is that investments which increase your chance of a higher return generally also increase your chance of a large loss.

Another important thing to consider is that a very large loss will impact you differently depending on how old you are. Not losing money becomes increasingly important as we get older.

The reason for this should be fairly obvious: If you are 30 and have built an investment pot of, say, £10,000 – a 50% stock market (or bitcoin) crash would reduce that pot to around £5,000. This isn't great but it is clearly a great deal less problematic and stressful than if you are 60 years old and the £1 million you have spent a life-time building falls to £500,000 in the same scenario (with the same **percentage** fall).

If you are 30 in this scenario, you still have many years ahead of you to build your investment pot. If you are 60, however, you do not have so much time and will likely need this money reasonably soon to fund you and your family in retirement.

This is why, for most people, the older you get the more catastrophic a large loss is likely to be and the more you need to be thinking about the return OF your money rather than ON it.

Professors Andrew Clare and Stephen Thomas, with whom we collaborate on the Fund describe this reality as "**sequence risk**" (they are two of the world's leading authorities on the concept). This is one of the most important ideas in investment, particularly as you get close to retirement, and we'll look at it in more detail in the next few pages.

What you want to do is maximise your potential annualised investment returns over a life-time of investing and minimise your risk of loss, and most particularly a large loss and especially as you get closer to retirement as explained above.

There are two key reasons why reducing the possibility of suffering a large loss is one of the most important considerations for an investor generally:

1. The crucial role played by human psychology.

2. Something called "the break-even fallacy".

01. HUMAN PSYCHOLOGY – WE ARE HARD-WIRED FOR FAILURE

As I have written on numerous occasions over the years, we human beings are quite literally hard-wired psychologically to be bad investors. The way our brains work hugely increases the likelihood that we will **buy high and sell low**.

When we see an asset going up and "lots of people making money", there is a high chance we will rush to buy that asset given how strong our FOMO (Fear Of Missing Out) is. When we then see it plummet, there is an equally high chance we will rush to sell it as we panic. Sadly, this is gilt-edged human nature.

It is this panic selling that is of most concern when it comes to long run stock market investment, however. Many "higher-risk" assets *will* deliver high percentage returns *in the long run*. The problem is that they will be highly volatile in the course of that long run. Few people have the mental fortitude to continue to own and continue to buy something that has fallen a long way – and this will always happen with riskier assets at various points in time.

The record of many years of evidence is that investing in the stock market (in shares or "equities") will give you the best chance of making reasonably high real-returns over time. Set against this fact, stock markets have a habit of crashing every few years and often as much as 50% or more.

In the 2007-2009 "global financial crisis", for example, stock markets all over the world plunged. Arguably the world's most important index, the S&P 500, fell from around 1,500 in October 2007 to the slightly spooky low of 666 by March 2009. That is a fall of around 56%. The UK stock market fell by even more than this, as did pretty much every other stock market in the world to a greater or lesser extent. Each of these markets had already done a similar thing a few years earlier in the dot.com sell off of 2000 to 2001.

All over the world journalists churned out the usual hyperbole about how "dangerous" investment is and people reacted as they so often do when there is a stock market crash: They pulled money out of the stock market in a panic and gave up on investment. In doing so, they turned a "theoretical" loss into a real one.

At the time of writing, the S&P is at around 4,300. Those people who *gave up on stock market investment* have potentially missed out in a big, life-changing way. Sad though this is, most of us find it almost impossible to sit on a paper loss of any magnitude and ride it out, confident that things will get better in the longer term.

This is why stock market crashes are so corrosive and many people are scared of the whole idea of "investment". It seems too frightening, risky and capricious an activity. But it really need not be as we shall see below.

Financial products are one of the few products that people tend to buy when they're expensive and sell when they're cheap – for reasons of deep-seated human psychology. It is for this reason that most people's investment returns are generally lower than the returns of the stock market as a whole. Below we'll look at how you might deal with this reality.

02. THE BREAK-EVEN FALLACY

The fact that our brain can lead us to buy high, sell low and also, very possibly give up on investment entirely is bad enough, but there is a second consideration that means that the impact of risk and volatility on your real-life ability to make money can actually be even worse! This is something called "the break-even fallacy" which too few people understand (in my experience).

The break-even fallacy is all about how maths works at the most fundamental level when it comes to calculating percentage returns. It is the arithmetic fact that a higher percentage return is required to get back from a price level to break even (square one) than was suffered when an asset originally fell to that price level.

If this sounds a bit complicated: hopefully the table below will help explain.

Figure 1: Break-even fallacy

Percentage loss	Percentage needed to recover loss	Percentage loss	Percentage needed to recover loss
5%	5.3%	50%	100.0%
10%	11.1%	55%	122.2%
15%	17.6%	60%	150.0%
20%	25.0%	65%	185.7%
25%	33.3%	70%	233.3%
30%	42.9%	75%	300.0%
35%	53.8%	80%	400.0%
40%	66.7%	85%	566.7%
45%	81.8%	90%	900.0%
		95%	**1900.0%**

Source: Plain English Finance

As you can see from the above – if something you own falls 50%, you will then need it to go up **100%** to get back to where you started (**not** 50%). As I say - the phenomenon shown in this table is often poorly understood.

Many people naturally assume that if you lose 50% of your money, for example, you will then need to gain 50% to get back to square one. This is incorrect. If you are down 50%, you will need to make fully 100% to recover that loss.

If you are down 25%, you will need to make 33%, if you suffer a 90% fall, you'd need that thing to go back up 900% and at 95% - you would need to be lucky enough to see no less than a 1,900% recovery (as so many people have experienced in the crypto world in recent years).

It is extremely important to understand this. If you have £10,000 in a high-risk asset such as bitcoin or, say, £100,000 in shares in your pension or investment account, and you are unlucky enough to see a 50% fall in the value of your position (as people so often do in crashes), you will end up with £5,000 or £50,000. To get back to your original £10,000 or £100,000, you will then need to make a **100% return, NOT a 50% return**.

This is why Warren Buffett, arguably the world's greatest living investor, has said about investment:

"Rule No. 1: Never lose money.
Rule No. 2: Never forget rule No. 1."

SEQUENCE RISK

We can illustrate further how important it is to avoid a **large loss** if at all possible, by looking at the idea of "sequence risk".

*Sequence risk is the idea that the **order** of your returns can matter more than your total returns and even the volatility (risk) of returns when it comes to building wealth in the real world.*

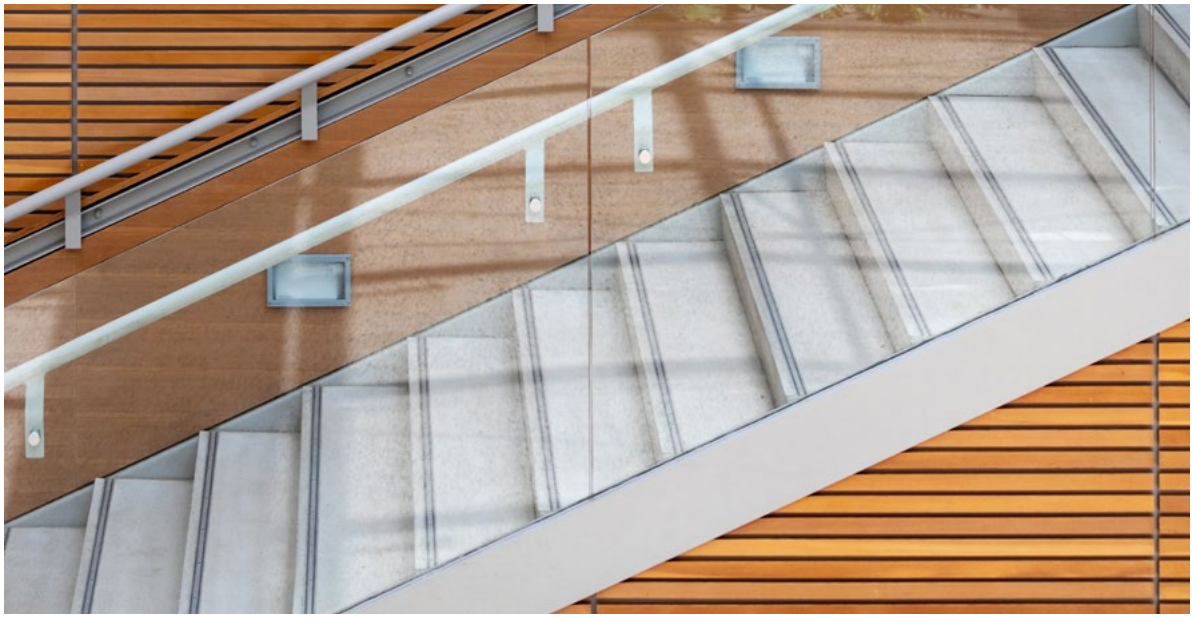
This may sound a bit complicated, but it really is sufficiently important to merit an attempt to explain as best we can in "plain English".

The idea of sequence risk is so unusual in investment thinking that it requires a couple of simple numerical examples to illustrate. Below, we'll look at the impact it has in both the *accumulation* and *decumulation* phases:

Accumulation: The importance of ORDER "on the way up":

Let us take the example of a thirty-year-old who has managed to save £10,000 in their twenties. Let us also assume they are able to save and invest £500 a month into a stocks and shares ISA account.

(The concept is easier to illustrate and comes across more powerfully with bigger numbers, so please forgive us if this seems like quite a punchy savings assumption! I appreciate that someone will need to be on a pretty decent income in order to be able to invest £500 a month. The point is just as valid with much lower numbers but doesn't "pop" quite as much as what follows. I might also point out that £500 a month should be a number that many couples can aspire to save together – i.e.,



perhaps around £250 a month each).

Next, let us assume they are able to make roughly equity market returns from the age of 30 to the age of 60. We will therefore assume 7.5% per annum (as roughly what most equity markets can deliver in the long run. This is actually quite a conservative number when you compare it to the last *century* of returns of the S&P for example).

So – they are starting with £10,000, saving £6,000 a year and making 7.5% returns.

Now comes the really interesting bit – let us assume that **one year** in those 30 years, they suffer a big stock market crash. The S&P 500 fell 38% in 2008, so we are going to use that number for the purposes of illustration.

The table below shows you how this person will build real wealth, given the assumptions we have made, but illustrates the significant difference that results from the ORDER in which those returns happen. I have highlighted the impact of that 38% down year in **orange** in each of four scenarios:

Whether they have suffered the big loss at the age of 30, 39, 49 or 59. The fifth scenario (on the right column) shows their progress if they *don't suffer that big 38% loss in any year.*

Figure 2: Accumulation table. Large loss occurs in 'orange years'.

AGE	30	39	49	59	NO LARGE LOSS
30	£10,000	£10,000	£10,000	£10,000	£10,000
31	£12,200	£16,750	£16,750	£16,750	£16,750
32	£19,115	£24,006	£24,006	£24,006	£24,006
33	£26,549	£31,807	£31,807	£31,807	£31,807
34	£34,540	£40,192	£40,192	£40,192	£40,192
35	£43,130	£49,207	£49,207	£49,207	£49,207
36	£52,365	£58,897	£58,897	£58,897	£58,897
37	£62,292	£69,314	£69,314	£69,314	£69,314
38	£72,964	£80,513	£80,513	£80,513	£80,513
39	£84,437	£92,551	£92,551	£92,551	£92,551
40	£96,769	£63,382	£105,493	£105,493	£105,493
41	£110,027	£74,136	£119,405	£119,405	£119,405
42	£124,279	£85,696	£134,360	£134,360	£134,360
43	£139,600	£98,123	£150,437	£150,437	£150,437
44	£156,070	£111,482	£167,720	£167,720	£167,720
45	£173,775	£125,843	£186,299	£186,299	£186,299
46	£192,808	£141,282	£206,271	£206,271	£206,271
47	£213,269	£157,878	£227,742	£227,742	£227,742
48	£235,264	£175,718	£250,822	£250,822	£250,822
49	£258,909	£194,897	£275,634	£275,634	£275,634
50	£284,327	£215,515	£176,893	£302,307	£302,307
51	£311,652	£237,678	£196,160	£330,980	£330,980
52	£341,026	£261,504	£216,872	£361,803	£361,803
53	£372,603	£287,117	£239,138	£394,938	£394,938
54	£406,548	£314,651	£263,073	£430,559	£430,559
55	£443,039	£344,250	£288,803	£468,851	£468,851
56	£482,267	£376,068	£316,464	£510,014	£510,014
57	£524,437	£410,273	£346,198	£554,265	£554,265
58	£569,770	£447,044	£378,163	£601,835	£601,835
59	£618,502	£486,572	£412,525	£652,973	£652,973
60	£670,890	£529,065	£449,465	£410,843	£707,946

Source: Plain English Finance

£260,000 poorer?

You can see that if they have that large minus 38% crash year when they are 31, they end up with a pot of £670,890. If, however, they are unlucky enough to experience that massive fall at the age of 59, they end up with £410,843. This is a **£260,000 difference**. The person who endures a big stock market crash the year before they retire will be nearly **40% worse off** than someone who suffered it as they were just getting started on their investment journey.

Of course - they will be even better off if they manage to avoid having a big down year at any point on the journey and will end up with even more (right most column).

The bigger these numbers are, the bigger the difference. This "sequence risk" could make a large six- or even seven-figure difference to a highly paid professional over thirty years of investment – which is why it is SO important to understand.

Crucially...

*...all of these scenarios have the **same overall AVERAGE percentage returns and VOLATILITY** – because the person averages 7.5% for 29 years and has one -38% year (apart from the right-most column where there is no large down year).*

*But there is a **very** significant difference in their actual, real-world outcome as you can see...*

This is sequence risk. It is actually just a simple function of how the maths work – and "the break-even fallacy" in particular (as explained above).

In my experience, this reality is seldom, if ever addressed by fund managers or by the financial press. It is **the** most important investment concept which almost no-one understands or takes account of in their thinking.

Decumulation: What about on "the way DOWN" (retirement)?

We have seen the enormous variation in your likely real-world experience as an investor caused by sequence risk "on the way up". Now let us consider the same concept with respect to what may happen in retirement.

We are now looking at someone's real-world experience from the age of, say, 60 to 90. Let us assume that they managed to have built an investment pot of £500,000 by the time they turn 60 (something we firmly believe is entirely possible for anyone who starts their investment journey early enough and invests sensibly by the way – as you can see from the example above. This is also a case I made in my first book).

Let us also assume that they have paid off their mortgage and can live reasonably well on, say, £25,000 a year – so will want to take this amount out of their pot each year (they will "withdraw" £25,000 a year). We will keep the average annual return and "terrible crash year" assumptions the same at 7.5% and -38%.

*(For the avoidance of doubt - we acknowledge fully that these are not "realistic" numbers – no asset is going to give you a **smooth** 7.5% every year for 29 years with only one big down year – but all we are trying to do here is show the very significant real-world impact of sequence risk in the most compelling way possible so that the point really comes home. These huge differences in your real-world end result will also occur with more "realistic" numbers).*

Figure 3: Decumulation table. Large loss occurs in 'orange years.'

AGE	60	70	80	NO LARGE LOSS
60	£500,000	£500,000	£500,000	£500,000
61	£294,500	£510,625	£510,625	£510,625
62	£289,713	£522,047	£522,047	£522,047
63	£284,566	£534,325	£534,325	£534,325
64	£279,033	£547,525	£547,525	£547,525
65	£273,086	£561,714	£561,714	£561,714
66	£266,692	£576,968	£576,968	£576,968
67	£259,819	£593,365	£593,365	£593,365
68	£252,431	£610,993	£610,993	£610,993
69	£244,488	£629,942	£629,942	£629,942
70	£235,950	£650,313	£650,313	£650,313
71	£226,771	£387,694	£672,211	£672,211
72	£216,904	£389,896	£695,752	£695,752
73	£206,296	£392,263	£721,059	£721,059
74	£194,894	£394,808	£748,263	£748,263
75	£182,636	£397,544	£777,508	£777,508
76	£169,458	£400,484	£808,946	£808,946
77	£155,293	£403,646	£842,742	£842,742
78	£140,065	£407,044	£879,072	£879,072
79	£123,695	£410,697	£918,128	£918,128
80	£106,097	£414,625	£960,112	£960,112
81	£87,179	£418,846	£579,770	£1,005,246
82	£66,842	£423,385	£596,377	£1,053,764
83	£44,980	£428,264	£614,231	£1,105,921
84	£21,479	£433,509	£633,423	£1,161,990
85	£-	£439,147	£654,055	£1,222,265
86	£-	£445,208	£676,234	£1,287,060
87	£-	£451,723	£700,076	£1,356,714
88	£-	£458,728	£725,707	£1,431,593
89	£-	£466,257	£753,260	£1,512,087
90	£-	£474,351	£782,879	£1,598,619

Source: Plain English Finance

Above, you can see the crucial difference in the **ORDER** of returns in **retirement**. In the above scenario, if someone is unlucky enough to experience a big crash year when they have just retired – they will then run out of money before they turn 85 (left hand column).

In contrast, if the crash doesn't happen until they are 80, they will still have £782,897 by the time they turn 90 – what a difference!

Most significantly, if they *never* suffer a big crash year at all, they will power into their nineties with more than £1.5 million!

Again – it is important to stress that the three scenarios on the left have the **same overall AVERAGE percentage returns and VOLATILITY** – but there is a **very** significant difference in the real-world impact on the individual's wealth (as you can see!).

NO-ONE TALKS ABOUT THIS STUFF!

The reason I stress this point is because it is vanishingly rare ever to see this utterly crucial reality presented to you by the finance-industry.

Why is this, you may ask? Perhaps because there is no statistic or measure that easily summarises this aspect of investing. Fund managers and financial advisers can easily compare themselves and market what they do with respect to *percentage returns* and, at the more sophisticated end of the market, "risk" or volatility-adjusted returns, but there is currently no "league table" for master of the universe fund managers to compare each other based on their ability to deal with sequence risk.

Perhaps another reason for this is that the comparison would need to be made over **very** long periods of time – far longer than the standard 3-5 year performance numbers which most fund-management companies use.

*This does not change the fact that reducing the possibility of big drawdowns (falls or losses) is certainly one of **the** key considerations when it comes to investment.*

"...A ROCK AND A HARD PLACE"

So far, we've shown how important it is to maximise your chances of having a big pot at retirement, not least given how little you're likely to get from the government in the years ahead. We have also shown the merciless mathematics of the break-even fallacy and sequence risk and what a huge difference these can make to your money.

It seems that we are stuck between the "rock" of needing to make the highest investment returns we can and "the hard place" of avoiding ever making a large loss at any point in our investment journey and most particularly as we approach retirement.

Happily, there are a number of ways you can deal with this reality:

First, let's look at some of the key ideas with respect to that which apply to anyone in the **accumulation phase** – as you save and invest during your working life:

1. Invest for the long run – ideally the VERY long run...

When it comes to stock market investment, the clear evidence of history is that the longer you invest, the less likely you are to make a loss and the more likely you are to make a decent return.

Several decades of evidence shows that if you invest in a stock market for one day you have roughly a 50% chance of making a positive return. If you invest for three months, this probability increases to around 65%. Investing for a year or more gives you about a 73% chance of being up. After ten years or so your chances increase to more than 94% and trend towards 100% in the years that follow. These probabilities increase if you invest regularly each month – more on which below. [6]

[6] Source: Macrobond data from MSCI World Equity Mid and MSCI Large Cap Total Return in GBP, 1 January 1972- July 2022.

In the short run there will always be volatility in financial markets and particularly in stock markets. In the long run, however, you have a high chance of making solid forward progress.

The reason for this is that at a fundamental level when you invest in the stock market, you are actually investing in human progress – something I have described as "the most important investment theme in history."

As near as we can calculate it – the world economy as a whole was worth about $12.5 trillion in 1985. By the end of 2021, this number had grown to $96.3 trillion (adjusted for inflation). That is to say that the global economy had grown by around 670%! [7] It is forecast to continue to grow to nearly $135 trillion by the end of 2028.

In that time-frame we've had the dot.com crash, the global financial crisis of 2007-2009, COVID and countless other terrible news stories about war, famine, terrorism, global warming and so on but anyone invested in global progress will have done rather well financially. This is one of the reasons my first book was called "How To Own The World".

2. Invest regularly each month (automate)...

Another key idea is to invest regularly every month, ideally by direct debit. You should look to *automate* your investments if at all possible. This has three significant benefits:

First, it defeats the natural inertia we all have about doing the admin'. Getting a direct debit set up once is relatively easy and then requires a minimum of effort going forwards. Once you've done it, you will not have to make complex decisions about when to put your money to work. This will maximize your chances of actually doing something with your finances sooner rather than later.

Secondly - investing regularly each month achieves something variously known as "smoothing", "averaging in" or "pound cost averaging": Obviously, the price of any financial asset or market goes up and down over time. By investing each month, you improve your chances of buying in at a good average price over time and you ensure that you do not put a large amount of money into something just ahead of a crash. If anything you own does crash, by averaging in each month you will then automatically be investing when it is cheap in the months that follow that crash. Over time this will increase your chance of achieving market returns rather than the much lower than market returns that many investors make.

Third – investing automatically removes you from the equation. This is likely to be a very good idea as it minimises the chance that you buy high and sell low as a function of the powerful inbuilt psychological biases explained above.

To explain: As we have already seen, the S&P 500 index in the US fell from about 1,500 in October 2007 down to 666 in March 2009 (that is a 56% collapse). It then went from 666 all the way to around 4,300 as I write. That is more than a 545% recovery.

The problem is - human nature is such that if you had tried to time your investments to take advantage of these moves, you would almost certainly have got it wrong. In fact, the situation is actually worse than that: There is a high probability you would have sold low and bought high and timed your investments about as badly as it is possible to.

[7] https://www.statista.com/statistics/268750/global-gross-domestic-product-gdp/

This is because we are hard-wired psychologically to get this wrong as explained above. We humans are essentially pack beasts. We pay a disproportionate amount of attention to what everyone else around us is doing. Much as we fight it, very few of us have the knowledge or self-confidence to be truly contrarian.

When the market bottomed at 666 in March 2009, nearly everything you would have read or seen in the news would have gone on about how risky stock market investment is and how much money everyone had just lost. As a result, you would have been highly unlikely to have considered putting your hard-earned savings into the stock market.

Even more insidious, however: As the market recovered from the bottom: 10% up, then 20%, 30%, 40% and all the way up to more than 545% (today), it would have been perfectly natural for you to say to yourself (pretty much every month): "Oh well. I've probably missed out now. I'm too late". You will then not have invested.

After a few years of this, the next thought you might have will probably be something like: "I really must sort this investment thing out. Look! The market is up more than 500%. It just keeps going up. Some of my friends have made a fortune. I've been avoiding it the whole time and missing out. Right. That's it. I'm in."

You know the rest. Just as you decide it is time to put your money in the stock market, along comes the next crash, you get absolutely flattened and spend the next decade licking your wounds. The cycle repeats. This happens to far too many investors time and time again. It is human nature. The other tragedy is that often when this happens, people give up on stock market investment altogether preferring to stick to cash and property perhaps. This is highly likely to have a negative impact on your chances of optimising your finances.

The US stock market returned 10.34% per annum in the century from January 1923 to the end of 2022. Most investors achieve several percentage points lower than this for the reasons given above.

The antidote to all of this is to *take yourself out of the equation* by investing *automatically* each month and doing so for the *very long run*. The lesson of history is that sticking to your guns with confidence over long periods of time will increase your chances of success.

As Warren Buffett's right hand man Charlie Munger famously joked, when it comes to investing:

"Don't just do something, stand there!"

3. Ignore the news!

Another related point is the merit of completely ignoring the news when it comes to investment. We have already seen the importance of the big picture and the long game – of owning human progress - when it comes to investment success. "The news" is essentially entirely irrelevant to that big picture and long game.

In fact, it is even worse than that. The more you pay attention to the news, the more likely you are to fall foul of human psychology, buy high, sell low and reduce your investment returns.

Since I published my first book people regularly get in touch with me to say something like:

"Thanks so much for your book. Having read it, my wife and I really want to start investing but we are worried that now is probably a bad time because of coronavirus (or Brexit or Iran or Trump or Australian bush fires or a possible stock market crash etc... etc...). When do you think we should start investing please?"

My answer is always the same: Stop thinking about the news and stop thinking about any kind of "right time" to invest. The right time for you to start investing, if you haven't done so already, is almost certainly right now.

Coronavirus was (is) a massive story. Brexit was a massive story. Iran is often a big story as is North Korea, or a Syrian refugee crisis, Yemen or Libya. An ongoing "sort of" trade war between the US and China is yet another one. But, truly, if you were to go back through every single year since journalism was invented, you would realise that there are similar "big stories" week after week, month after month and year after year. This is because this is how the media makes money.

News editors and journalists say things like: "Blood sells," and "if it bleeds, it leads." Which is why essentially all newspapers and TV channels focus 99.9% of their attention on the 0.1% of bad things that are happening in the world today.

This gives everyone a heavily distorted view of the state of the world as a result – and, by extension – of financial markets. It is actually an incredibly stupid and unhelpful feature of modern society when you stop and think about it.

About three years ago I wrote an article where I said:

"People who have taken no time to study it or really understand it, think that the stock market is horribly risky. This is perhaps unsurprising given that the media goes bananas every time there is a "massive crash" and that is most people's "reality" when it comes to investment. The 99% of the time that a sensible, diversified portfolio will gradually and entirely effectively build your wealth doesn't make front page news..."

When financial markets crash, you will see lots of headlines like "£120 billion wiped off shares in a day." What you will never see is a headline that says:

"The global economy has grown 670% since 1985..."

The gradual and significant increase in wealth that comes from investing over many years and sticking to your guns never makes the front pages of our newspapers and no television presenter ever says:

"Great news - the stock market has increased by 3% this month..."

As a result, most people have a horribly distorted view of and understanding of financial markets, and this is incredibly damaging to most people's chances of becoming wealthy.

The most effective antidote to this reality is to understand it, believe in human progress, automate your investments over long periods of time and completely ignore the news.

Taking this approach will very likely increase your investment returns. Perhaps more important still, it will reduce the administrative burden of your financial affairs and likely bring you real peace of mind.

Regular, automated investment removes a great deal of stress and hassle and helps you sleep at night. It also increases the chance that you get your finances sorted. This is actually one the most important considerations when it comes to investment given how many people never do!

4. Use the idea of "100 minus your age"

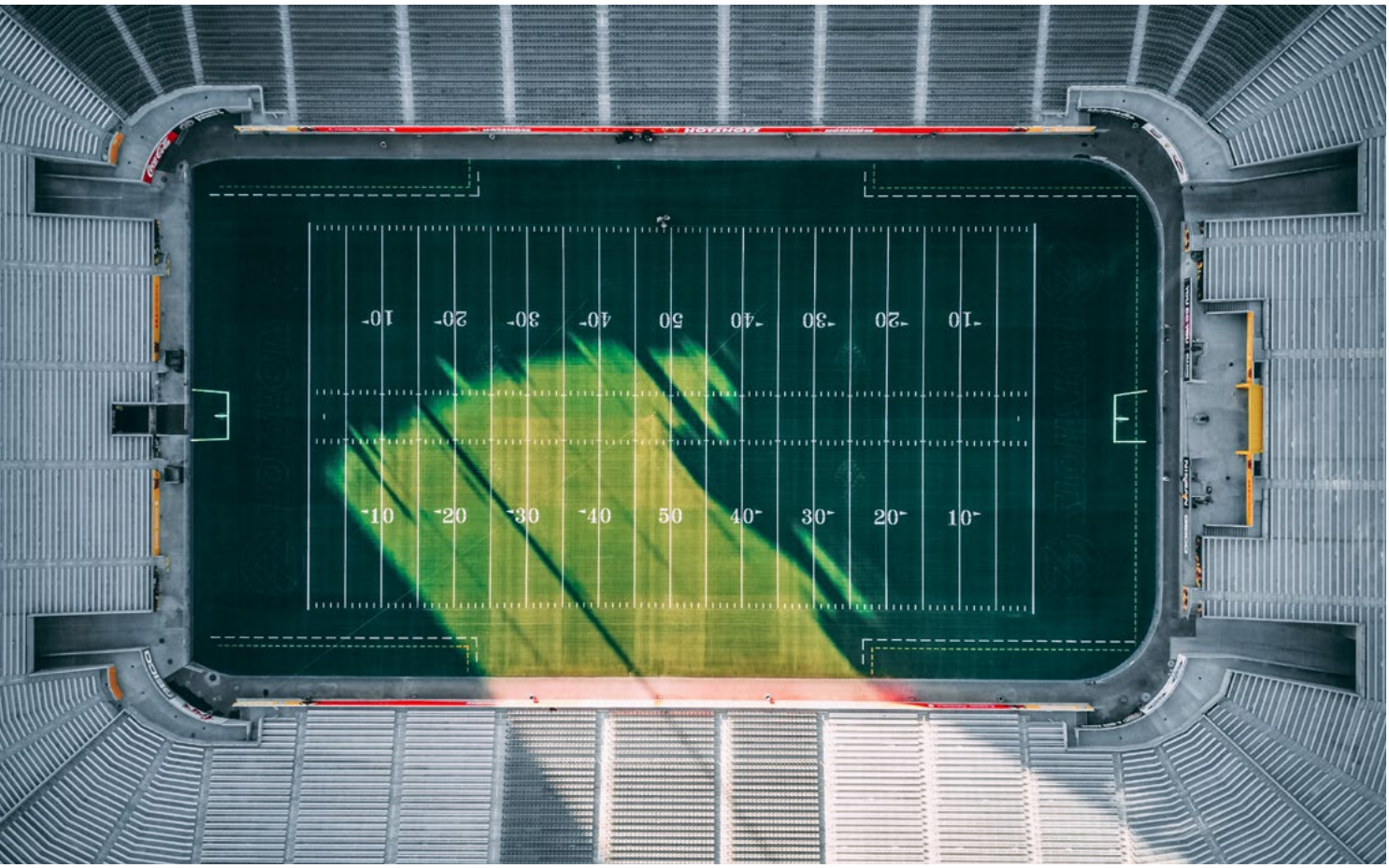
One of the key things you are going to want to get right when you arrange your financial affairs is to trade off risk versus reward.

As we have seen, a key feature of investing in financial markets is that assets which might provide you with a higher percentage return tend to be riskier and have the potential to lose you lots of money in a crash (assuming you panic and sell out of course).

At the other end of the investment spectrum, things that are inherently safer will tend to give you lower investment returns. We've already seen a number of ways you might deal with this in the *accumulation* phase of your investment journey: By investing for the very long run, automating your investments every month and ignoring the news.

Another way to deal with the trade-off between higher-return higher risk assets and lower return, lower risk assets – big picture - is to do your best to get the right *blend* of them over time.

One of the most durable ideas in investment which seeks to help you with how you might get this blend roughly right is something called **"100 minus your age."**



For some decades now, many financial advisers and smart investors have used a basic rule of thumb that says that the percentage you invest in "risky" / "aggressive" assets such as equities (shares) should be "100 minus your age", with the rest being held in "lower risk" / "defensive" assets – such as cash or bonds [8].

In the accumulation phase, these percentages give you an idea of how much you might invest each month into those respective assets. In the decumulation phase (when you're no longer investing each month) – they can give you a rough idea of how your pot should be allocated overall.

For example, if you are 30, you might invest roughly 70% of what you can afford each month into higher return investments such as shares, and around 30% in more defensive assets.

If you are 70, you might have only 30% of your pot in riskier, higher return assets, and 70% in lower risk assets.

Traditionally this approach used equites (shares) for the "riskier" proportion of your investments and bonds for the lower risk bit.

"100 minus your age" is a reasonably elegant approach which can help deal with sequence risk and reduce the risk of a catastrophic loss as you approach retirement. It is also relatively easy to implement:

Five-year reviews

If you take this approach - you probably need only review your investing plan every five years or so – perhaps on the occasion of your 30th, 35th, 40th, 45th etc... birthdays.

For example, if you are 40 years old, you might allocate 60% of what you can afford to invest each month to higher risk assets and 40% to lower risk ones for the next five years. When you turn 45, you would then tweak this to 55% into higher risk assets and 45% lower risk for the next five years and so one.

Every five years or so you might sit down and spend an hour or three ensuring that your financial arrangements are sensible and, preferably, on auto-pilot and then **forget about it for another five years**. This whole approach can give you real peace of mind and makes things a great deal less burdensome in terms of admin'.

Like any idea in investment, "100 minus your age" isn't perfect. First, it was first devised in an era when **real** interest rates and bond returns were higher than they have been in the last few years.

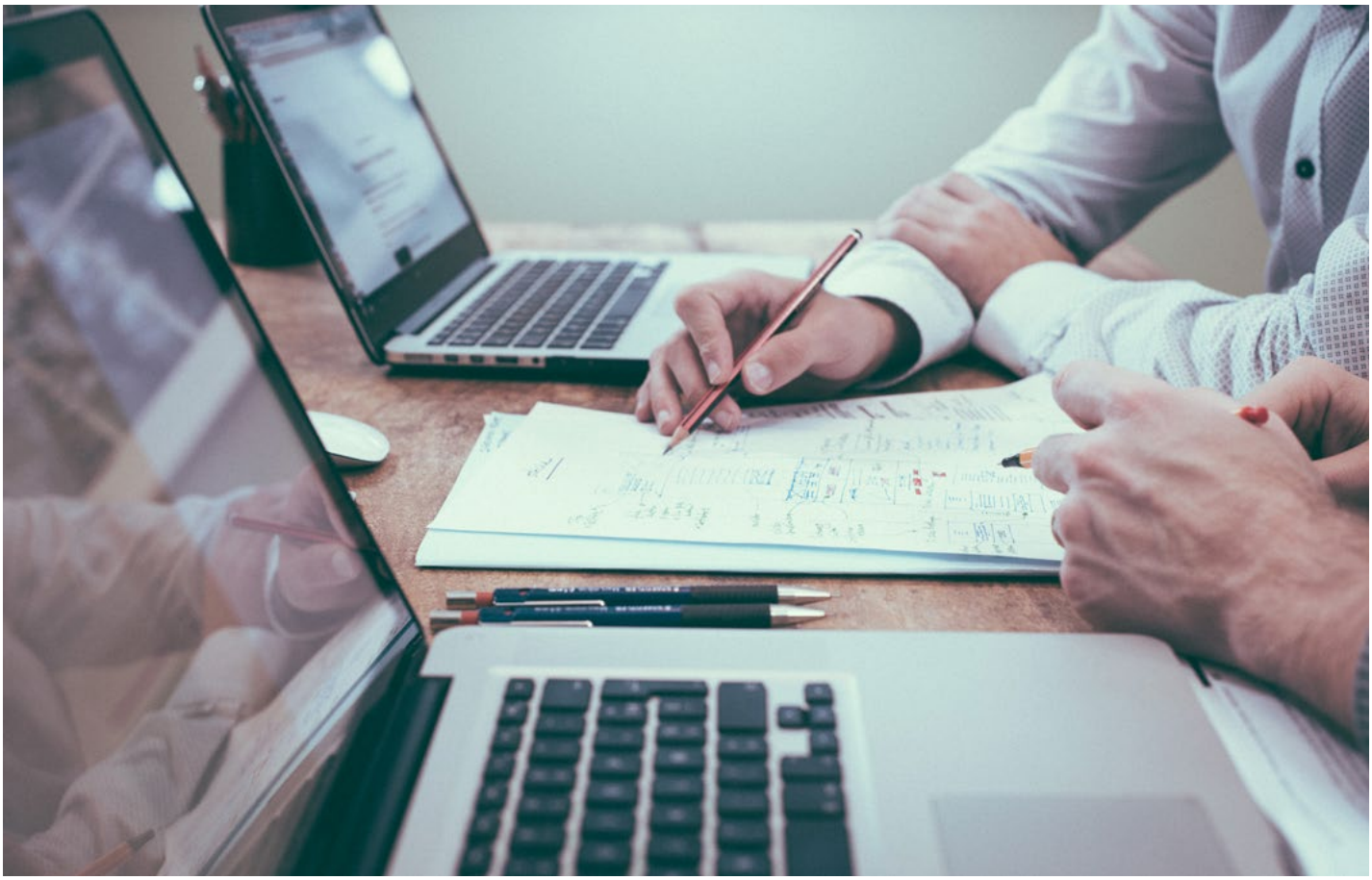
As a reminder, the "**real**" interest rate is the interest rate **minus** inflation. If the interest rate you are paid on your investments is, say, 5% but inflation is running at 8% - your **real** interest rate after inflation is **minus 3%** - you are losing 3% a year in real terms [9]. If interest rates are, say, 8% and inflation is 2% you're making a real positive return of around 6%.

When real interest rates are very low or even negative as they have been for some years now, the low-risk / defensive bit of your "100 minus your age" allocation will obviously not be helping you make much forward progress financially.

This is one of the reasons we designed our Fund – as explained in more detail below.

[8] If you need a reminder about the difference between shares, bonds, cash and other assets, please consider reading chapter 7 of "How To Own The World".

[9] The precise calculation is actually a little more complicated but simply subtracting inflation from the interest rate is roughly correct: https://en.wikipedia.org/wiki/Real_interest_rate



Life expectancy and retirement age

Another consideration here is life expectancy. Amazingly enough, this has increased by around *thirty years* in the last century in the developed world [10].

Scientists predict that this trend will continue. Many children born today have a very good chance of living well past 100.

If we are living 30 or even 40 years longer today than when the idea of "100 minus your age" was conceived, then presumably we need to take this into account?

A similar and related point concerns retirement age. If people used to retire at 60 and now many knowledge workers might continue to work until 70 or beyond – then that is another decade or more where their money might be better off earning a higher return, given it may not yet be needed to generate income.

Given what has happened to real interest rates, life expectancy and retirement age, some financial advisers have advocated simply changing "100 minus your age" to "110 - or even 120 minus your age."

If real interest rates are punitively low and we are living and working longer, then perhaps we can afford to keep more of our money in "riskier" / "higher return" investments for longer in the hope of building a bigger retirement pot. This is part of why the US stock market has been so strong for so many years – because lots of Americans are keeping a higher proportion of their wealth in the stock market rather than bonds given these various considerations.

Deciding whether to use 100, 110 or 120-minus your age will depend on your own personal circumstances. These would include:

[10] https://ourworldindata.org/life-expectancy

01. How comfortable with risk *versus* how risk averse you are overall: If you are inherently conservative then you might use 100 to make your calculation. If you have the mental strength to endure periods where your investments will be deeply under-water, then you might use 120 as the basis for your calculation. Be warned however, relatively few people have this mental strength.

02. How much you earn: This tends to be related to the last point. Although this is by no means always the case, people who earn more or who have significant wealth tend to be more comfortable with risk – because they can afford to be. The more surplus you have, over and above funding life's essentials, the more ambitious you can afford to be with your investments. If you are a high earner, you might be more inclined to use the 120 number as against the 100 number. That having been said, this will be a matter of personal choice. There are plenty of wealthy people who are inherently conservative when it comes to their wealth – a decent number of whom will tell you that this is why they became wealthy!

03. How old you think you will work to until you wish to retire: I know people who made enough money to "retire" in their thirties and I know people who are so passionate about what they do, that they're still loving their work (and invariably highly paid) in their late seventies and beyond. The longer you are gainfully employed and earning a decent income, the longer it will be before you need to rely on your investments to sustain you. This means, all other things being equal, that you can afford to invest in more aggressive assets for longer and might, therefore, use 120 rather than 100 in your calculations here. That having been said, if you use the 120 number, bear in mind that this implies you could still have no less than 50% of your money in higher risk assets at the age of 70. That is quite a big call unless you're fairly wealthy and comfortable with risk.

There is no one-size-fits-all "right" answer here but the whole concept of "100 minus your age" can give you a solid big-picture idea of how you might get the right *balance* of investments to increase your chances of making solid investment returns over time and minimise the risk of a large loss.

Whichever number you choose to use (e.g. 100, 110 or 120-minus your age), below we have provide a simple "ready-reckoner" table to help you work out how you might think about allocating your investments based on your age and attitude to risk:

Figure 4: 100 Minus Your Age

	100 Minus Rule		110 Minus Rule		120 Minus Rule	
AGE	**Aggressive %**	**Defensive %**	**Aggressive %**	**Defensive %**	**Aggressive %**	**Defensive %**
100	0	100	10	90	20	80
95	5	95	15	85	25	75
90	10	90	20	80	30	70
85	15	85	25	75	35	65
80	20	80	30	70	40	60
75	25	75	35	65	45	55
70	30	70	40	60	50	50
65	35	65	45	55	55	45
60	40	60	50	50	60	40
55	45	55	55	45	65	35
50	50	50	60	40	70	30
45	55	45	65	35	75	25
40	60	40	70	30	80	20
35	65	35	75	25	85	15
30	70	30	80	20	90	10
25	75	25	85	15	95	5
20	80	20	90	10	100	0
15	85	15	95	5	100	0
10	90	10	100	0	100	0
5	95	5	100	0	100	0
0	100	0	100	0	100	0

Source: Plain English Finance

The problem with bonds...

As I mentioned above – historically advocates of "100 minus your age" would use shares for the "riskier" / "aggressive" portion of your investments and bonds for the lower risk / "defensive" portion.

The problem with this approach as we have also seen, however, is that the real returns from bonds has been low or even negative for quite some time.

This is one of the challenges that our Fund seeks to solve. Over the next few pages we explain why an investor might consider using our Fund for the defensive proportion of their investments as an alternative to bonds, or – bigger picture - for a larger proportion of their investments should they be particularly risk averse.

B

The VT PEF Global Multi-Asset Fund

“Over broad periods of time, the winning investments add more value to the portfolio than the losing investments take away.”

— Harry Browne

Primary Investment Techniques

In the last few pages we've looked at the merits of regular, automated investment over the long-run and considered how you might use the elegant idea of "100 minus your age" to look to get your investment mix roughly right over a lifetime of investing.

We have also seen how this idea has been challenged by low or even negative real-returns on traditionally defensive assets such as bonds and, by extension, cash.

Might there be a way to produce higher real investment returns for the "defensive" bit of your investment strategy than is offered by those assets?

We believe that there is. There is relatively simple way of building a defensive investment strategy which seeks to deliver higher real returns over the course of someone's investment lifetime whilst protecting the downside.

To achieve this, our Fund uses two powerful primary techniques to reduce the probability of portfolio losses whilst seeking to capture upside over long periods of time. These are:

1. True diversification ('owning the world') and...

2. ...formula-based trend following.

We explain more about each of these in the pages that follow...

1. TRUE DIVERSIFICATION

First, we believe in **true diversification** ("the only free lunch in investment") – that is to say, diversification by *asset class* and by *geography* rather than by owning a large number of just one asset class (for example *just* shares or *just* bonds) or country or region as most funds do.

Many of the smartest (and wealthiest) investors in history have highlighted the efficacy of owning all asset classes in all major regions of the world.

The main asset classes: Shares, bonds, cash, property and commodities, respond differently to the various stages of an economic cycle: Growth, deflation, inflation, stagnation and so on.

For example, as we have already seen, in 2007 - 2009, many stock markets fell by more than half, yet oil hit an all-time high in 2008 and gold was up more than 23% in the year 2009 alone (in USD terms. Source). Sometimes Asia is on fire and Europe stagnates and sometimes America is the place to be.

You are highly unlikely to be able to work out where the next "hot" area or asset is going to be. Experts seldom get this right, so the amateur investor has little or no chance.

The easiest thing to do is just do your best to own all asset classes in all areas of the world. As famous US investor, Harry Browne, has said about true diversification:

> ***"Over broad periods of time, the winning investments add more value to the portfolio than the losing investments take away."***

Jack Meyer headed Harvard University's $50 billion endowment fund for fifteen years. Under his tenure, the Harvard fund returned 15.9% p. annum – a total compounded return of 910% - that is nine times your money in fifteen years: Mr. Meyer has said:

> ***"The most powerful tool an investor has working for him or her is diversification. True diversification allows you to build portfolios with higher returns for the same risk. Most investors are far less diversified than they should be."***

Happily, it has never been easier to achieve effective diversification given the wide range of inexpensive investment vehicles now available.

Smart people at places like Harvard, Yale, Oxford and Cambridge have been able to invest like this for decades given their size and sophistication, but it is only relatively recently that the individual investor could

"The most powerful tool an investor has working for him or her is diversification. True diversification allows you to build portfolios with higher returns for the same risk. Most investors are far less diversified than they should be."

— Jack Meyer

invest in a similar way. You can see more about how in the pages that follow...

2. FORMULA-BASED TREND FOLLOWING

The second of our primary investment techniques is known as "**formula-based trend following**".

Looking at financial data as far back as practicably possible and across essentially all markets, academic research and real experience has shown that the positive or negative direction of any market is statistically more likely to continue than to reverse.

This may seem a little strange but is actually a simple function of human nature. If a share or market has been going up steadily then, all other things being equal, there is a good chance it will continue to do so, if only because of the herd mentality of human beings. This is a well-known and reasonably well understood psychological phenomenon and has been driving boom and bust cycles for centuries.

As a result, over a long period of time, academics looking at financial markets have worked out a number of methods for predicting where prices in a market will likely go based on *where they have come from*.

This broad approach to investment is known as "technical analysis". Such analysis generates strict rules which help investors buy and sell with a higher probability of success. None of them are 100% accurate but when applied with discipline, they can significantly improve investment returns, particularly when compared to the majority of "actively" managed funds – that is to say, funds where "clever" investment professionals attempt to use their "skill" to choose when and what to buy and sell.

After accounting for costs, studies consistently show that over a meaningful time period, as many as 90% of such active funds fail to outperform the market [11].

It is for this reason that we prefer to use formulaic techniques that are not based on human judgment to drive our investment

[11] Source: https://www.spglobal.com/spdji/en/research-insights/spiva/

process. Arguably one of the most effective of such techniques is called “trend following”.

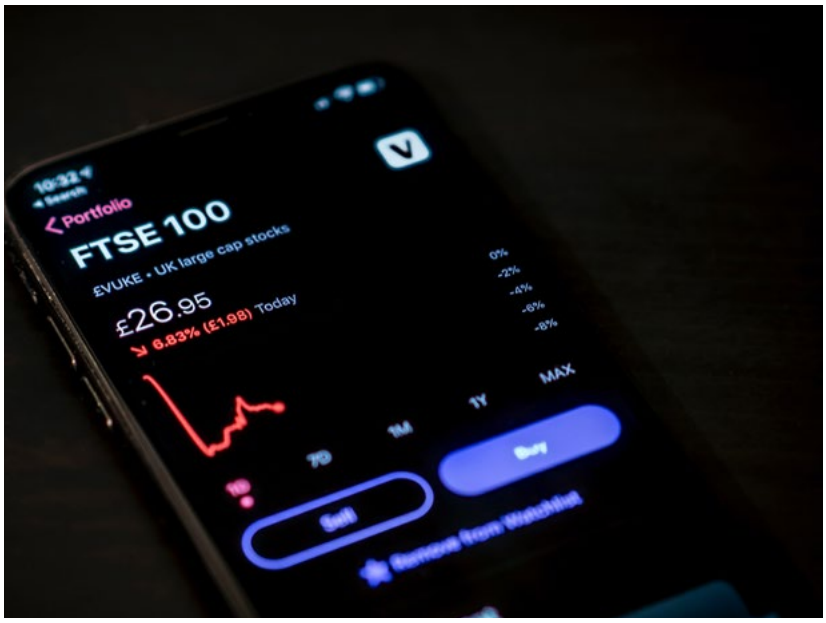
Trend following simply takes a current (or recent *average*) price of an asset and compares it to a historical average price.

If the *current* (or recent average) price is **above** the chosen *historical* average price, then the investor remains invested in that asset. If the current price is found to be **below** the relevant historical average, then the investor sells out of the asset and switches those funds into cash (or something similarly defensive to protect against further falls in the price of that asset).

As an example – the methodology might be to take the price that a stock market (or any other financial market for that matter) closed at yesterday and compare it to the average price that stock market has closed at over the last 50, 100 or 200 trading days. Or it might take the average price the stock market has closed at for the last 20 trading days and compare it to the average price over the last 200 days.

Some longer-term strategies even compare the average price over the last 30 weeks vs. the last 50 weeks and some incredibly short-term currency traders might even compare the last ten minutes against the previous hour for example. There is no hard and fast rule, and many different methods can work.

The important idea here is that if an asset starts falling, at a certain point we will switch out of that asset and into cash. The level at which we do this is based on a strict, disciplined, consistent and rules-based process. Equally, when the price of that asset starts to rise again, we will reinvest in it.



This methodology is proven in practice and tested over more than one hundred years with different assets and in different countries and has a **very** significant effect on protecting against big falls in all markets and improving returns.

We show evidence for this in the pages that follow.

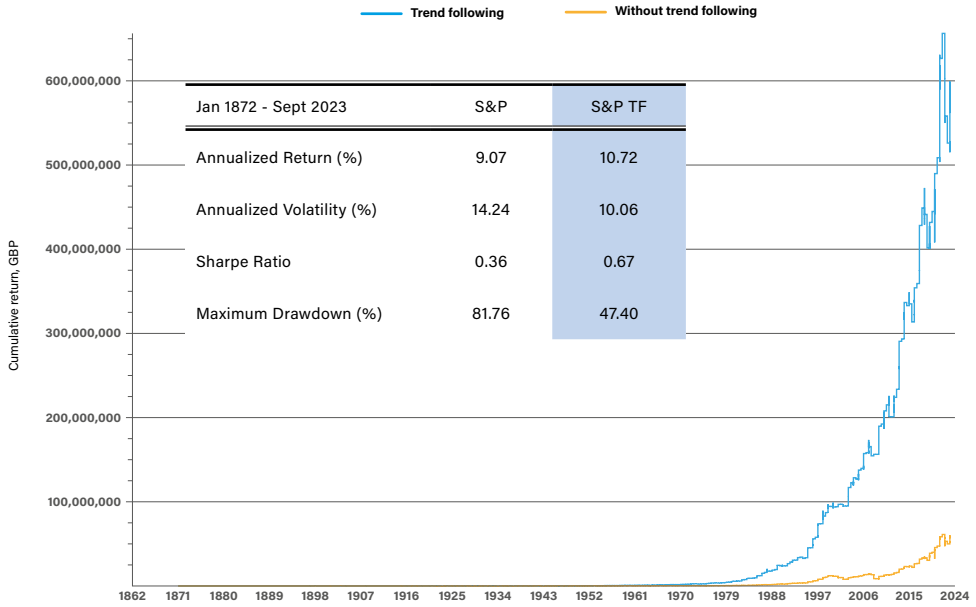
Evidence for Trend Following: Stock Markets

It isn't difficult to show just how powerful trend following is given the evidence of history across many markets in many regions of the world. Below we have included some charts to illustrate the point.

The first chart below, shows just how powerful an impact basic trend following has had over the very long term in the US stock market since 1872. The second, shows the same for world stock markets as a whole since 1971.

Please take a moment to consider the numbers in the pull-out boxes.

For example, over more than 150 years, the use of simple trend following has improved annual performance by 1.73% a year, reduced volatility by more than 4% and the maximum drawdown from 81.76% to 47.40%. This has an enormous impact on wealth generation over time.

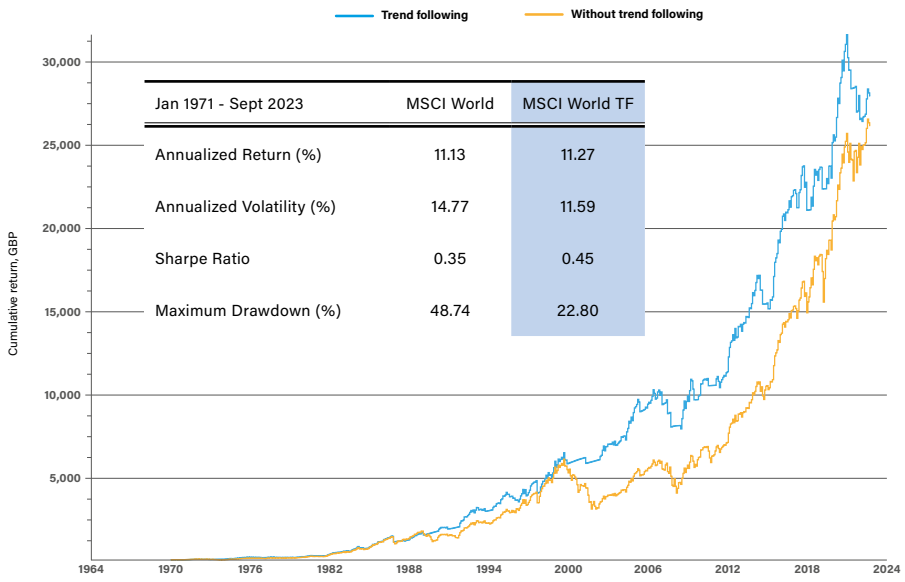


Jan 1872 - Sept 2023	S&P	S&P TF
Annualized Return (%)	9.07	10.72
Annualized Volatility (%)	14.24	10.06
Sharpe Ratio	0.36	0.67
Maximum Drawdown (%)	81.76	47.40

Figure 5:
S&P500
1872 - 2023

Important disclaimer:
Past and simulated past performance is not a reliable indicator of future results.

Source:
Professors Andrew Clare, Steven Thomas & Dr. James Seaton



Jan 1971 - Sept 2023	MSCI World	MSCI World TF
Annualized Return (%)	11.13	11.27
Annualized Volatility (%)	14.77	11.59
Sharpe Ratio	0.35	0.45
Maximum Drawdown (%)	48.74	22.80

Figure 6:
MSCI
1971 - 2023

Important disclaimer:
Past and simulated past performance is not a reliable indicator of future results.

Source:
Professors Andrew Clare, Steven Thomas & Dr. James Seaton

Evidence for Trend Following: Other Asset Classes

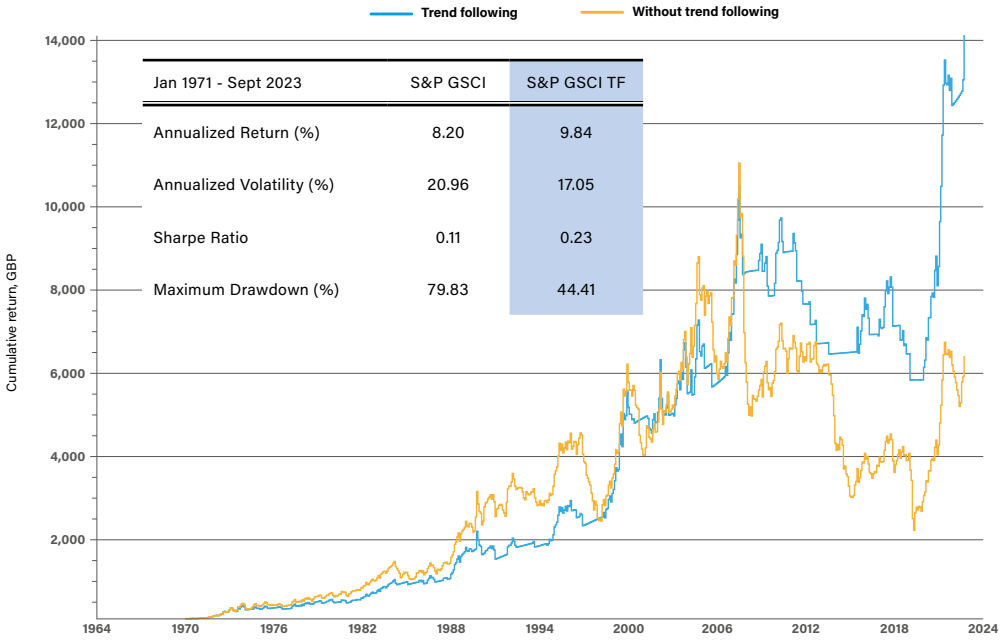
Amazingly enough, trend following is similarly effective when used in other asset classes. The two charts below show the significant improvements in returns and reduction in volatility and drawdown by using trend following in both the **commodities** and **property** markets.

These charts and numbers shows us how extraordinarily powerful a tool trend following is for investment over the very long run.

Figure 7:
S&P GSCI
1971 - 2023

Important disclaimer:
Past and simulated past performance is not a reliable indicator of future results.

Source:
Professors Andrew Clare, Steven Thomas & Dr. James Seaton

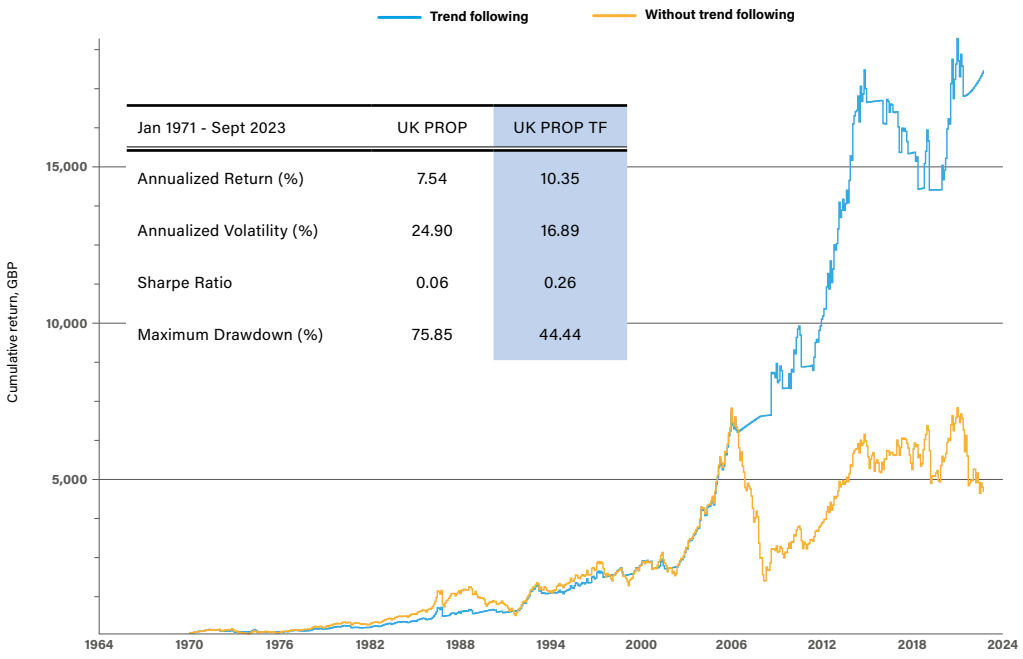


Jan 1971 - Sept 2023	S&P GSCI	S&P GSCI TF
Annualized Return (%)	8.20	9.84
Annualized Volatility (%)	20.96	17.05
Sharpe Ratio	0.11	0.23
Maximum Drawdown (%)	79.83	44.41

Figure 8:
UK Quoted Property
1971 – 2023

Important disclaimer:
Past and simulated past performance is not a reliable indicator of future results.

Source:
Professors Andrew Clare, Steven Thomas & Dr. James Seaton



Jan 1971 - Sept 2023	UK PROP	UK PROP TF
Annualized Return (%)	7.54	10.35
Annualized Volatility (%)	24.90	16.89
Sharpe Ratio	0.06	0.26
Maximum Drawdown (%)	75.85	44.44

Bringing it all together: Portfolio composition

Informed by these two main techniques (true diversification and formula-based trend following) – we have back tested a large universe of assets and trend following techniques to build a strategy that aims to generate consistent, meaningful returns, yet can minimise losses in those crash years we all dread.

The pie chart below shows our broad portfolio composition, which includes an allocation to developed and emerging equities (shares), various fixed income (bond) products, commodities, real-estate and infrastructure.

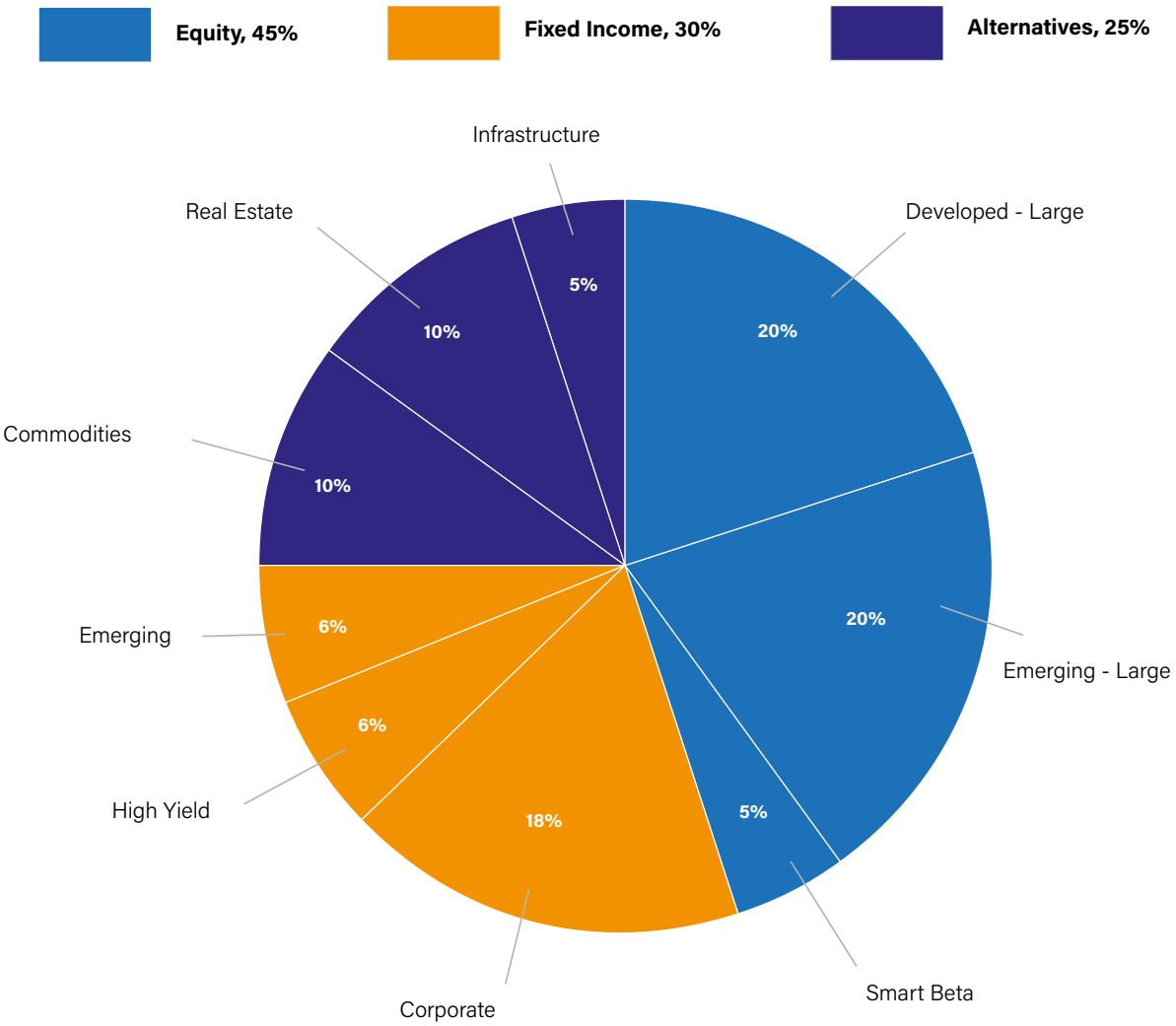


Figure 9:
Portfolio Composition

Important disclaimer:
Past and simulated past performance is not a reliable indicator of future results.

Source:
Professors Andrew Clare, Steven Thomas & Dr. James Seaton

The chart on the previous page shows our target asset-allocation.

In order to minimise dealing costs, the fund then only trades once a month on one specific (and fixed) trading day[12]. On each trading day we do two things:

First, we run our trend following methodology for each individual asset. This decides, quite simply, whether the fund will own each specific asset or switch out of it into cash (or a cash equivalent 'risk free' asset) to guard against a potential fall in that asset's value.

The decision is taken by using a simple backward looking trend following analysis of each asset individually. The decision taken is also binary: We are either in an asset or out of it.

Our process is entirely formulaic and rules based and there is never any change to the target asset allocation overall.

[12] Please note – we also run our trading signals and place trades for the fund if there is a large change in the amount invested in the fund during the course of any month (plus or minus 5%). This is because if there is a big inflow from a new investor, we need to get that money to work in the various underlying assets, rather than just sit in cash. Alternatively, if there is a big outflow, we need to sell assets in order to return money to the seller.

Secondly, having performed the above analysis for each asset, the fund will be rebalanced so that all assets are returned to the percentage allocations shown in the pie chart on the previous page.

By using trend following to decide whether we are "in" a certain asset class or "out" of it (and in cash) each month, the risk of loss is significantly reduced. You can see the evidence for this in the pages that follow.

I think it is worth explicitly noting that we implement our strategy by buying and selling assets which are some of the largest and most liquid in the world (please see page 54 for specific details). This means that there is essentially no liquidity risk in the fund at all – and there won't be until the fund is very large.

We can get into and out of the assets that we use very easily. At present, we could turn 100% of the fund into cash with one phone call and very likely within the course of an hour or two on any trading day other than in very extreme circumstances.

This is another point of differentiation between our approach and that of many other funds – particularly active funds that invest in single stocks for example.[13]

[13] Some readers may be interested to note that liquidity was the main cause of the well-publicised problems with former "star fund manager" Neil Woodford in 2019 and 2020.

Our process is entirely formulaic and rules based...

What this means...

How trend following minimises loss: Part 1

The chart below shows the maximum peak to trough loss you would have suffered as an investor since January 2001 if you had bought into the asset in question at the highest possible price and sold out of it at the lowest, in each of three scenarios:

01. The red line shows the biggest possible falls of the UK stock market ('UK MSCI' index – basically the same thing as the FTSE). You can see that you would have seen your investments fall by as much as 40% on two occasions.

02. The orange line shows a mixture of 70% world equities (shares) and 30% UK government bonds (gilts). This is the sort of combination of bonds and shares that many financial firms might recommend to you as a 'growth' portfolio. Here you can see that in 2002/3 you would have suffered falls of as much as 30% and then again in 2009 by around 20%.

03. Most importantly – the light blue and green lines show how applying our two primary investment techniques should have significantly minimised the chance of loss. The light blue line is our strategy using simulated numbers and the green line shows what the fund has actually done since it launched in September 2017.

With the mix of assets we are talking about and applying formula-based trend following, you would have very likely have seen a maximum peak to trough fall in the entire time period of around only 10%.

This shows yet again the remarkable benefits of trend following.

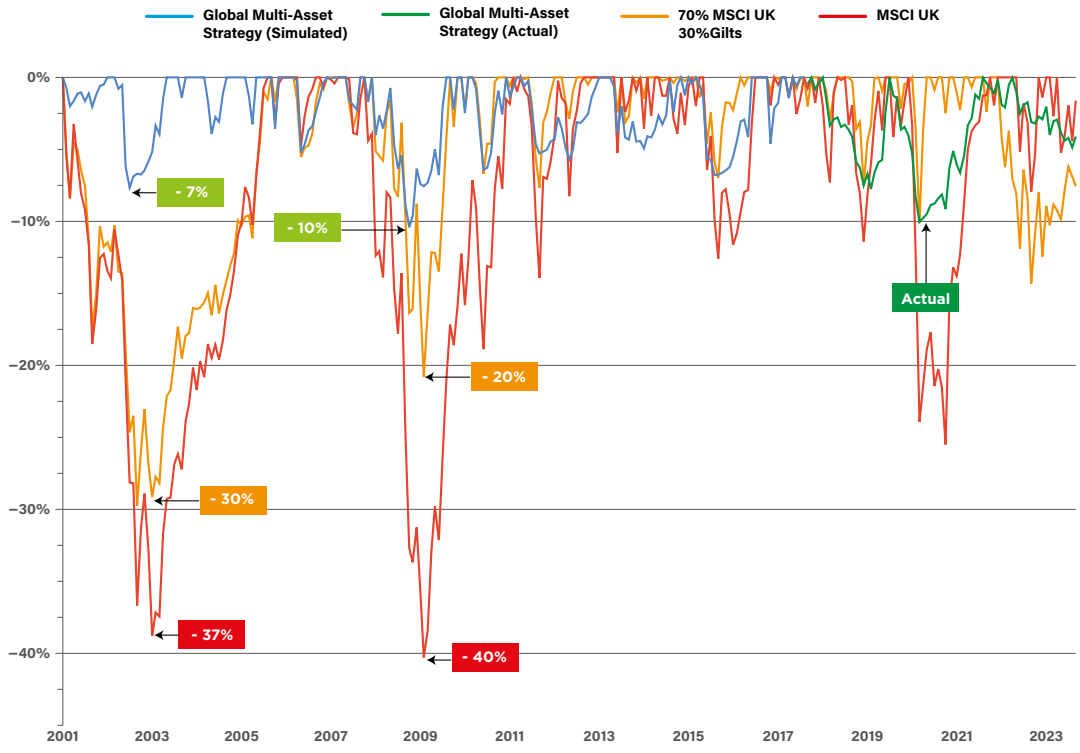


Figure 10:

Important disclaimer:
Past and simulated past performance is not a reliable indicator of future results.

Source:
Professors Andrew Clare, Steven Thomas & Dr. James Seaton

What this means...

How trend following minimises loss: Part 2

Another way you can see how the strategy is able to minimise loss the way it does is by looking at the graphic below. As a reminder: Each time the fund trades – it uses trend following to check each of the eighteen underlying assets that make up the fund (you can see these on p. 54) and decide whether to continue to own that asset or whether to switch into cash.

This means that when markets fall, the strategy should be selling out of those markets (US or UK shares for example) and positioning investors safely in cash to ride out the storm.

Below you can see just how effectively this would have worked/has worked.

Note that as 2008 went on - when markets all over the world were crashing - the strategy ended up being almost 90% in cash (see the grey shading). By early 2009, the strategy had nothing in shares (the blue shading) – literally zero – but as the year went on and markets recovered, the trend following method got the fund back into shares such that 45% of the strategy was in shares (blue shading) by half way through 2009 again.

This meant 2008 saw falls of only 8.0% in the strategy (compared to stock markets which were down more like 40%) and in 2009 the strategy returned 21.5% as it captured the rebound. This shows just how effective the method can be for minimising losses and catching gains.

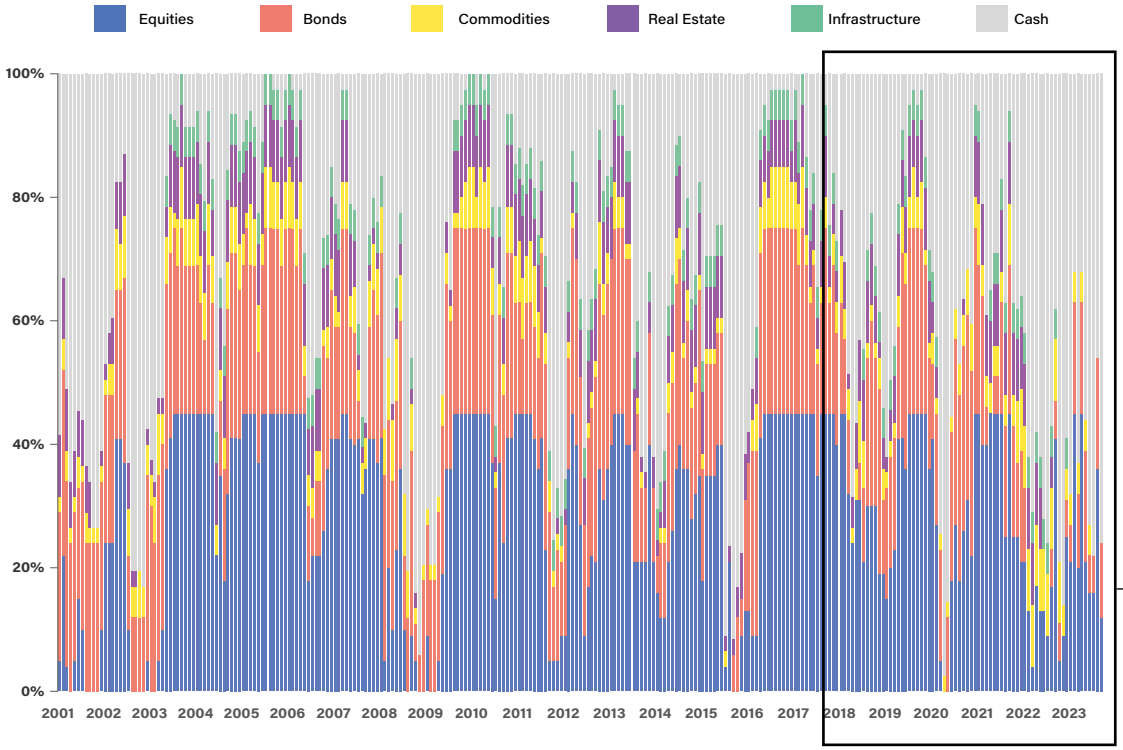


Figure 11:

Important disclaimer:
Past and simulated past performance is not a reliable indicator of future results.

Source:
Professors Andrew Clare, Steven Thomas & Dr. James Seaton

A note on backtesting

At this point it is perhaps worth saying something about how the numbers used throughout this document have been derived. Many readers will be familiar with the phrase "past performance is not a guide to future performance." :

This statement is ordinarily used when referring to funds which have already been trading for a certain time period – that is to say that the "past performance" is based on actual numbers.

Our fund has been trading since the last week of September 2017. As such, it is important to note that this document contains actual past performance numbers for the period since then but that the numbers in this document from before that time period – i.e., from January 2001 to August 2017 – are based on back-testing our strategy.

There are a few things to say about this:

First, and perhaps most obviously, this is self-evidently the only kind of past performance any investment company can give before a fund is launched.

Secondly, and arguably more importantly: It is perhaps important to note that past performance numbers that are "simulated" – that is to say derived from a model – are quite often looked on by the investment industry with disdain. They are invariably seen as inferior to actual performance numbers.

This is generally for two reasons:

— an inherent suspicion born of the idea that "statistics can be made to prove anything". This is arguably fair enough given just how many examples there have been in history of unscrupulous investment companies twisting the facts to flatter their back-tested models.

— because many models don't take account of trading (and other) costs, either sufficiently or, in many cases, at all. It is much easier to make your performance numbers look attractive if you live in an imaginary world where there is no cost involved in buying and selling the components of a fund.

We concede that the evidence presented for the performance of our strategy from before September 2017 is derived from backtesting a model. Set against this, however, we would highlight the fact that:

01. Our strategy arguably lends itself to backtesting more than many because it uses a fixed allocation to large, liquid assets – usually entire markets. We are not, for example, claiming we would have bought Facebook one day and Apple the next day (optimised for the days that would have delivered superb performance of course). We are

showing what would have happened in the real world, using strict, rules-based processes to invest in entire markets – (the full list of these is on page 54 – but it includes, for example, the S&P 500, FTSE 100, gold and so forth).

02. We have used trading cost assumptions in our model which we believe are conservative. In the first version of this overview document, published ahead of launching the fund, we assumed trading costs of 20 bps (0.2%) to ensure we were exceptionally conservative and would not be at any risk of misrepresenting the potential performance of the strategy. From November 2018 onwards, we reduced this number to 12 bps (0.12%). This is a more accurate reflection of the true costs of trading the strategy based on our real-world experience since launch. We actually pay 5bps to trade our portfolio but have included another 7 (i.e., to total 12) in a bid to reflect our all-in trading costs as accurately as possible. As a reminder, our fund uses ETFs to implement our strategy.

With these points in mind, we will look at the actual and backtested performance of our model in the pages that follow...

NOTE: The backtested numbers in the pages that follow are based on the performance of the relevant indices for each of the investment silos you will see listed on page 66.

We have been able to use a continuous series for all of these indices for the modelled period with one exception - Global Infrastructure (5% of the strategy). Here we have used the Dow Jones Brookfield index back to inception (December 2002) and the MSCI World Infrastructure index for the three years of the modelled period prior to that as what we believe to be the best proxy on infrastructure performance over the entire period.

C

Performance

— **The STRATEGY, backtested from Jan. 2001**
— **The FUND, performance from launch Sept. 2017**

The Strategy
Backtested from January 2001

In the pages that follow, we show how the Global Multi-Asset strategy would have performed since January 2001 on a back-tested basis.

It is perhaps worth noting that many funds in the UK market show no more than five years of historical performance. We have gone back as far as we can, given the constraints of the eighteen assets in our model. (We couldn't go back any earlier than January 2001 because some of the asset classes in our model did not exist prior to that).

We hope that the reader will agree that 16.5 years is a reasonable time frame, not least given that financial markets endured two enormous financial crashes in that period.

Please also note that all of the numbers in this section are given **after** accounting for trading costs and the annual management charge that is levied on the fund (of 0.9%) – i.e., these should be as close to **net real returns** to the investor as possible.

The numbers in the table on this page have been calculated *from the backtested period (of January 2001 to August 2017) only*. They do not include the *actual* numbers since launch in September 2017. You can see our actual performance numbers since the fund launched on page 49.

Source:
Professors Andrew Clare, Steven Thomas & Dr. James Seaton

JANUARY 2001 - AUGUST 2017	RESULT
Annualized Return (%)	**7.60**
Annualized Volatility (%)	7.42
Sharpe Ratio	0.73
Sortino Ratio	1.14
Maximum Monthly Return (%)	10.26
Minimum Monthly Return (%)	-5.56
Percentage of Positive Months (%)	66.50
Percentage of Negative Months (%)	33.50
Maximum Drawdown (%)*	12.32
Transaction Costs (%)	0.12
Annual Management Charge (%)	0.90

*Maximum peak-trough movement in the fund. i.e. if you had purchased shares in the fund at at the highest high, vs. at the lowest low.

Cumulative Returns

We have already seen how effective trend following can be for loss minimisation - something which is absolutely key for investors.

Arguably of even more interest, however, is that the combination of **true diversification** and **trend following** can also achieve impressive performance numbers over long periods of time.

In the chart on the next page, the light blue line shows the performance of 'owning the world' and trend following. The dark blue line shows 'owning the world' without any trend following.

The green line shows the actual performance of the fund since launch in September 2017.

Here you can see what can be achieved by investing over the very long run.

You can also see that the application of trend following (light blue line) could have reduced the maximum peak to trough loss in that time period to around 10%, whereas diversification with no trend following (dark blue line) suffered a fall of over 25% (both in the year 2008/2009 as shown in the call out box at the bottom of the page).

This is even more important than at first glance as we have seen already. Suffering a fall of more than 25% in your investment fund is obviously problematic but actually even more so than most people realise.

First, as we have seen earlier in this document when we discussed the break-even fallacy, if your fund falls 25%, you will need to return more than 33% to get back to square one.

Arguably even more insidious, however, is the role human psychology has to play here. Seeing your fund down 25% or more, significantly increases your risk of crystallising that loss – your risk of giving up in fear and exasperation such that you decide to sell out of the fund.

As you can see, in this instance, doing so would have resulted in the individual losing as much as a quarter of their money and, far more importantly, missing out on making the returns that the fund goes on to achieve in the years that follow.

Comparing the red line to our blue and green lines assumes that *someone still owns* what the red line represents of course. Given the human psychology point I have made above, far too many investors actually fail to do something as simple as buy and hold, or continue to make regular investments, in the real world.

The red line is miles below the blue line, but the reality is that a decent percentage of people would have given up on investment entirely if they were on the "red line" journey. The evidence is that at some point (between 2007 and 2009 perhaps), many people will have given up on stock market investment.

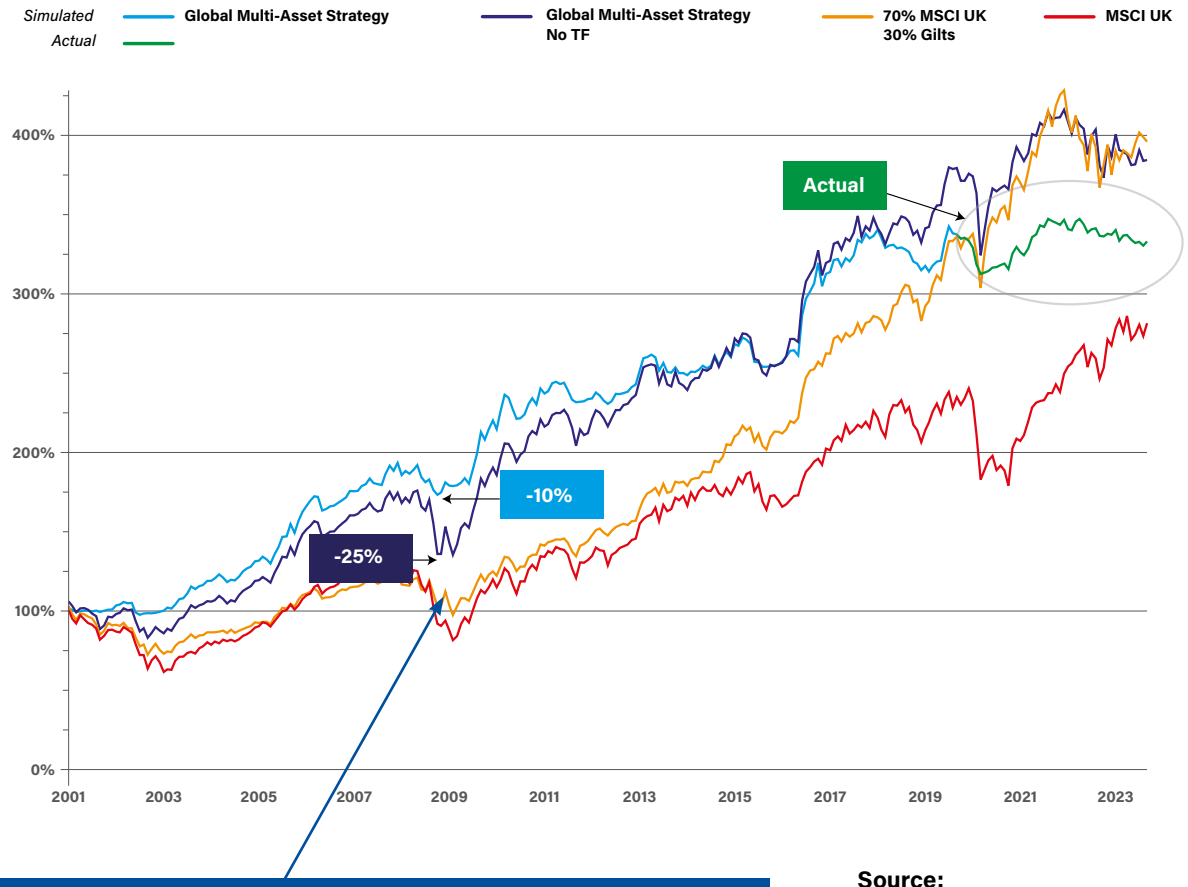
They would then have locked in a big loss and will not have captured the long run upside of even the red line - a disastrous result all round. This is the reality for far too many people when they approach investment.

You are a good deal less likely to give up on investment if your fund's worse fall over more than sixteen years of investment is more like 10% than 25% for reasons of deep-seated human psychology, particularly if you are investing regularly each month.

This shows us again why loss minimisation is so crucial for long run investment success and the significant merits of trend following in general.

These points are amplified for someone at or near retirement as we have also already seen. A 25% (or 50%) loss for someone aged sixty with a retirement pot of £1m or more could be catastrophic.

Figure 12: Cumulative Return of the Model



During the financial crisis of 2007-2009, trend following meant that the worst-case fall was only around **10% vs. 25%** with an own the world strategy and NO trend following and a much larger fall in most other conventional investments

Source:
Professors Andrew Clare, Steven Thomas & Dr. James Seaton

Disclaimer:
Past and simulated past performance is not a reliable indicator of future results.

Simulated Monthly Performance of the Strategy

Disclaimer

Simulated past performance is not necessarily a reliable indication of future performance.

The chart below shows the simulated monthly returns of the investment strategy from 2001 to 2017. The net result of combining our two techniques is to achieve meaningful long run returns on your money, with significantly reduced risk of loss. The fund is the investment equivalent of the tortoise – grinding out steady returns over time. As a result, the long run performance numbers are exceptional, as you can see below.

Compare the magnitude of the strong 'up' years (green boxes), to the minimal losses in 'down' years (orange boxes).

Source:
Professors Andrew Clare, Steven Thomas & Dr. James Seaton

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
2001	1.5	-0.4	-0.9	0.4	0.5	0.5	0.1	0.8	-1.0	0.7	0.6	-0.5	2.4
2002	2.6	0.9	1.4	-1.0	0.5	-5.6	-1.1	0.5	0.4	-0.0	0.4	0.8	-0.5
2003	0.9	1.6	-0.3	0.9	3.2	0.7	3.3	3.9	-1.6	1.9	0.8	2.0	18.6
2004	-0.2	1.1	1.8	-1.7	-2.2	1.1	-0.4	1.9	2.3	1.3	1.3	2.9	9.4
2005	0.1	1.4	-1.4	-1.6	4.4	3.2	4.2	-0.4	5.0	-3.6	5.5	3.8	22.1
2006	2.2	1.4	1.9	-0.6	-5.2	0.4	0.9	0.0	1.0	1.0	1.2	2.3	6.4
2007	0.0	-0.1	1.5	0.6	2.0	-1.3	-0.1	-0.1	3.5	2.9	-1.9	2.7	10.1
2008	-3.8	1.0	-1.2	0.4	0.9	-4.9	-0.5	0.9	-3.2	-2.6	0.8	4.0	-8.0
2009	-1.0	-0.0	0.2	0.1	1.9	-1.2	4.6	5.2	6.5	-2.5	3.8	2.6	21.5
2010	-2.5	5.5	4.9	-0.1	-2.2	-2.6	0.5	1.2	2.7	1.6	-1.2	4.0	12.0
2011	-1.8	0.8	2.4	0.8	-0.3	0.5	-1.7	-1.1	-0.4	0.2	0.2	0.3	-0.3
2012	0.3	1.6	-0.6	-1.4	-1.5	0.8	1.6	0.1	0.2	0.4	1.3	0.7	3.5
2013	3.3	3.3	0.4	0.3	-0.2	-3.5	2.0	-2.5	0.2	1.2	-1.6	0.2	2.9
2014	-0.4	1.0	-0.1	0.6	1.1	-0.6	0.7	2.5	-2.1	2.3	1.5	-1.6	4.8
2015	3.1	-0.7	2.3	-0.3	-0.6	-4.6	0.3	-1.2	0.1	0.1	0.2	0.2	-1.3
2016	0.8	1.5	1.2	-0.5	-0.8	10.3	3.7	1.5	1.4	3.6	-4.8	2.2	21.4
2017	0.3	2.8	0.3	-1.4	1.9	-0.5	1.6	2.1	*Actual Performance (see next page)*				7.3

Actual Performance of the Fund since Launch

ANNUAL PERFORMANCE

The table below displays the annualised performance of the fund from Q4 2018 to Q3 2023.

NOTE 1
The table below is given in the format mandated by the FCA in "COBS 4.6.4A". This requires that an investment firm show five complete 12-month periods.

Q4/2022 - Q3/2023	Q4/2021 - Q3/2022	Q4/2020 - Q3/2021	Q4/2019 - Q3/2020	Q4/2018 - Q3/2019
-1.0%	-2.80%	8.40%	-6.80%	3.40%

Source:
Valu-Trac Investment Management Limited

MONTHLY PERFORMANCE

The table below shows the monthly performance of the strategy since launch in September 2017.

***NOTE 2**
September 2017 was only a partial month, as the fund was launched on the 25th of September 2017.

NOTE 3
You should find ongoing monthly performance numbers and the fund's performance against a wide variety of market benchmarks on your stock-broker or fund provider's website.

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
2017	-	-	-	-	-	-	-	-	-0.5*	1.6	-0.8	0.4	0.7
2018	1.2	-1.5	-1.9	0.4	0.1	-0.7	0.2	-0.4	-0.5	-1.8	-0.4	-1.3	-6.4
2019	0.9	-1.1	1.2	0.8	0.2	3.6	3	-1.3	-0.2	-2.2	0.2	-0.6	4.4
2020	-1.3	-3.2	-1.9	0.3	0.3	0.7	0.1	0.4	0.3	-1.1	3.1	1.3	-1.2
2021	-1.0	-0.6	1.3	2.2	0.5	1.7	-0.3	1.5	-0.4	-0.3	-0.4	0.9	5.2
2022	-1.7	-0.2	1.6	0.5	-1.0	-1.5	0.6	0.2	-1.4	-0.1	0.5	-0.2	-2.9
2023	0.9	-2.0	1.0	0.1	-0.9	-0.6	0.2	-0.7	0.8				-1.2^

Source:
Valu-Trac Investment Management Limited

^ Year to date

DISCLAIMER

Past Performance is not an indication of future performance. The value of investments and any income from them is not guaranteed and can go down as well as up depending on market movements. You may not get back original amount invested. Price total return performance figures are calculated on mid price to mid price with net income (dividends) reinvested and net of fees.

Geoff Boycott and Aesop's Tortoise

It is very important to note that our fund is very much an investment "tortoise", rather than a hare. The other analogy that may be instructive here (and one I have used before) is to refer to our approach as the "Geoff Boycott" of strategies.

Cricket fans will know that Geoff Boycott was one of the most statistically successful batsmen in history. He did this by *focusing on defence above all else*. He was happy to endure a fair number of zeros and then only "hit sixes" when he was sufficiently confident that he wouldn't get bowled out.

This is philosophically very similar to our approach. Our fund tries above all else to avoid getting "bowled out" – which, in the investment world, would mean suffering a massive fall – with the result that you might then sell out of your position or, at the very least, would then need to make those huge returns to get back to square one because of the break-even fallacy as explained earlier.

We believe that our return profile is more likely to build real wealth over time than many other more volatile strategies.

"SAVINGS PLAN?"

In many ways our strategy is more like a "savings plan" than a conventional fund. If you save and invest a certain amount every month without fail - you will build a significant sum over time, even at times when the fund might "go nowhere" - just as you would by saving money in a conventional savings account.

The difference is, of course, that in the event that those big up years do then arrive, you will be making returns on all that capital, meaning that your long-run result could be a long way ahead of what you might have achieved in a cash ISA, current account or mattress.

SO WHY DOESN'T EVERYONE DO THIS?

Firstly, many investors chase high returns and time their entry and exit from investments following gut instinct, news flow and investment fads and fashions. They do this because they suffer from powerful "behavioural biases". These almost always make us worse investors and reduce our long-run investment returns, as we have seen.

Secondly, of course, there are many vested interests in promoting other ideas, as in any business context. In the main, investment companies the world over will likely make a great deal more money selling far less boring strategies than this one.

We need investment rules and techniques to overcome such biases. We believe that

"It may be able to produce not far-off stock market returns but with much lower than stock market risk"

true diversification and ***rules-based trend following*** are two such techniques. I would also suggest that we need to avoid the siren-song of the "I can make you higher returns" crowd – whether this be from "star" fund managers or all those crypto enthusiasts insisting that they have "the answer".

PATIENCE – ANOTHER KEY INVESTMENT TECHNIQUE

This all having been said, another *key* component of this broad approach is "patience". The strategy of switching into cash to protect downside can and will lead to under performance at times.

But the evidence shows that the tortoise will still very likely "win the race" over a lifetime of investment. The fact that the S&P and the Nasdaq have gone bananas in the last few years doesn't change any of this. Don't forget that the S&P fell nearly 40% in 2008 and the Nasdaq by more than 40%.

When this happens, you erase a great deal of the progress made in the good years very quickly – even after a period as strong as we have had of late. Remember that it only takes *one* large down year to undo many previous years of investing "like a genius" as presented in some detail above.

And, of course, if you are down 40%, the table earlier in this document shows us that you will then need to make no less a return than **66.7%** just to get back to square one. It is human nature to forget this reality every few years, particularly at times like this when the "hare" is running particularly fast.

Over the long run – the evidence is that the strategy presented in this document may be able to do something that is actually pretty astonishing in the investment world:

> ***It may be able to produce not far-off stock market returns but with much lower than stock market risk.***

Taken at face value, this could make it a solid long run investment strategy – even if the price you pay is that there can be quite long periods over the years where not much happens.

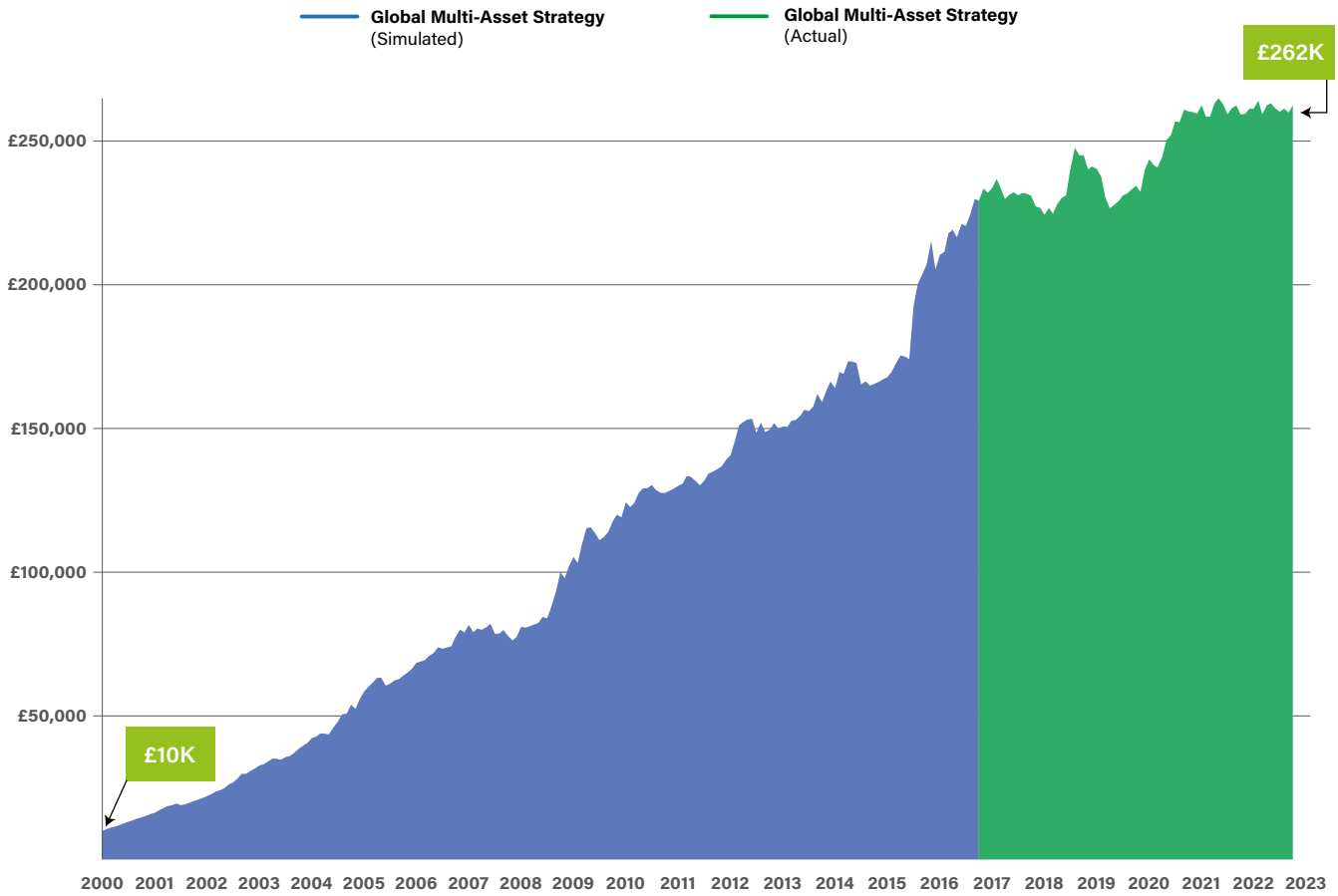
Our hope is that any strategy that gives you a shot at making those equity market returns but with far lower risk and volatility should be of real interest – to amateurs and professional investors alike...

An Example of Returns with Regular Investment

To see the real-world impact of these numbers, the chart below shows what could have happened to someone starting with a £10,000 investment pot in January 2001 and adding £500 each month to their stocks and shares ISA, for example. By September the 30th 2023, that person could have over £262,500 in their relevant investment account.

Note that this person would have invested £146,500 over twenty one years and 6 months (£10,000 + 273 x £500 investments each month) - and could have ended up with that £262,500. That is to say that fully £116,000 of the money at the period end has come from investment performance. This is the power of compounding over time with low volatility (although we would repeat that past performance is no guide, and this is purely for the purposes of illustration).

(We concede that someone will need to be on a pretty decent income in order to be able to invest £500 a month. That said, however, we would point out that £500 a month should be a number that many couples can aspire to save together – i.e. perhaps around £250 a month each. This is the same point we made earlier in the document...)



Source:
Professors Andrew Clare, Steven Thomas & Dr. James Seaton / Valu-Trac Investment Management Limited

Disclaimer:
Past and simulated past performance is not a reliable indicator of future results.

Global Multi-Asset Fund: Portfolio Composition

We have already seen on p. 37 – what the broad portfolio composition of the strategy is in terms of asset class. In the table that follows on the next page, we provide a list of the eighteen funds that we use to implement our strategy at the time of writing.

In previous editions of this Fund Overview document we said: "Please note that these will change if we find better or cheaper alternatives to the funds listed as more such funds are launched in future. The target allocation may also change if deemed appropriate in the future. Any such changes will always be "evolution, not revolution" and would be entirely evidence based."

In the second half of 2021, we conducted a review and optimisation exercise on the ETFs used to implement our strategy, in collaboration with Professors Thomas and Clare.

Our aim was to reduce the cost of the fund without impacting performance or liquidity. We made no change to the broad composition given in the pie chart on p. 37 but we have made the following minor changes *within* some of the asset class silos as a consequence of that exercise:

In **Emerging Markets** - we previously used 4 x 5% silos in each of "core" EM, Latin America, Asia and E. Europe and Russia.

We replaced this by using 2 x 10% "core" EM silos. This significantly reduced costs as the regional EM ETFs were expensive.

In **Commodities** - we previously used 4 x 2.5% silos in each of Agriculture, Energy, Industrial Metals and Gold. This was replaced with using 2 x 5% silos in a wide ranging General Commodities basket and Gold - again to reduce cost.

In **Real Estate** - we previously used 4 x 2.5% silos in each of US, UK, European and Asian real estate / property. We simplified this to 2 x 5% in UK and US real estate.

Our backtesting suggested that these changes may have a small (positive) impact on performance as well as on cost with negligible impact on volatility, hence our decision to make these small changes.

We have also replaced a number of the ETFs we used previously with better value versions where we could find them, given how many more products are now available in the ETF market.

This exercise reduced the OCF of the fund by 0.24% at the end of 2021.

Please also note that our back-testing is based on the relevant *indices* for each of the silos listed on the next page whereas the fund itself owns the actual *Exchange Traded Funds* you can see listed for each silo. We would remind the reader of the points we made about simulated versus actual performance numbers on page 42 to support the validity of our back-testing methodology.

ETF COMPOSITION (FROM Q1 2022)

	FUND	TARGET ALLOCATION (%)	RIC	SEDOL
EQUITY				
Developed Large				
Europe ex. UK	HSBC EURO STOXX 50	4	H50E LN	BW4PZL0
Japan	AMUNDI PRIME JAPAN	4	PRIJ LN	BJJZ257
Pacific ex. Japan	LYXOR MSCI PACIFIC EX	4	PAXJ LN	BWFZYM3
UK	INVESCO FTSE 100	4	S100 LN	B3XDD63
US	INVESCO S&P 500	4	SPXS LN	B540668
Emerging Large				
EM World 1	HSBC MSCI EM	10	HMEF LN	B5ZPRQ9
EM Word 2	ISHARES CORE EM IMI UCITS ETF USD (ACC)	10	EMIM LN	BKM4GY5
Smart Beta				
World Min Vol	X MSCI WORLD MIN VOL	5	XDEB LN	BRCJ8N2
FIXED INCOME				
Corporate				
$ Corporate	iShares $ Corp Bond UCITS ETF	6	LQDE LN	3289594
€ Corporate	iShares Core € Corp Bond UCITS ETF	6	IEAC LN	B3F81R3
£ Corporate	iShares Core £ Corp Bond UCITS ETF	6	SLXX LN	B00FV01
High Yield				
€ High Yield	iShares € High Yield Corp Bond UCITS ETF	6	IHYG LN	B66F475
Emerging				
$ EM Government	iShares J.P. Morgan $ EM Bond UCITS ETF	6	SEMB LN	B2NPKV6
ALTERNATIVES				
Commodities				
Gold	SG GOLD ETF	5	SG LN	B4R1D93
General Commods	UBS GENERAL COMMODS BASKET	5	UC15 LN	B53H013
Real Estate				
US	INVESCO US RE	5	XRES LN	BYXDT62
UK	iShares UK Property UCITS ETF	5	IUKP LN	B1TXLS1
Infrastructure				
Global	X S&P GLOBAL INFRA	5	XSGI LN	B1G5384
CASH EQUIVALENT / RISK FREE ASSET FUNDS				
RFA1	DBX Sterling Cash UCITS ETF	0	XSTR LN	B2PDKP2
RFA2	Lyxor Smart Cash UCITS ETF C-GBP	0	CSH2 LN	BY9D7D9
RFA3	iShares UK Gilts 0-5YR ETF GBP	0	IGLS LN	B4WXJK7
RFA4	Lyxor FTSE Actuaries UK Gilts 0-5Y	0	GIL5 LN	BD6P6G7
RFA5	iShares £ Ultrashort Bond UCITS ETF GBP	0	ERNS LN	BCRY644

PREVIOUS ETF COMPOSITION (TO Q4 2021)

	FUND	TARGET ALLOCATION (%)	RIC	SEDOL
EQUITY				
Developed Large				
Europe ex. UK	iShares Core EURO STOXX 50 UCITS ETF	4	CSX5	B4Z7940
Japan	iShares Core MSCI Japan IMI UCITS ETF	4	SJPA	B4L61L2
Pacific ex. Japan	iShares Core MSCI Pacific ex-Japan UCITS ETF	4	CPJ1	B580X30
UK	iShares Core FTSE 100 UCITS ETF	4	ISF	504245
US	Vanguard S&P 500 UCITS ETF	4	VUSD	B7NLJN4
Emerging Large				
EM World	iShares CORE EM IMI UCITS ETF USD (ACC)	5	EMIM	BKM4GY5
EM Asia	SPDR MSCI EM ASIA UCITS ETF	5	EMAS	B6WFJF2
EM Eastern Europe	iShares MSCI Eastern Europe Capped UCITS ETF	5	IEER	B0M6395
EM Latin America	iShares MSCI EM Latin America UCITS ETF	5	LTAM	B27YCK2
Smart Beta				
World Min Vol	iShares EDGE MSCI WRLD MINVOL ETF USD ACC	5	MVOL	B8FHGS1
FIXED INCOME				
Corporate				
$ Corporate	iShares $ Corp Bond UCITS ETF	6	LQDE	3289594
€ Corporate	iShares Core € Corp Bond UCITS ETF	6	IEAC	B3F81R3
£ Corporate	iShares Core £ Corp Bond UCITS ETF	6	SLXX	B00FV01
High Yield				
€ High Yield	iShares € High Yield Corp Bond UCITS ETF	6	IHYG	B66F475
Emerging				
$ EM Government	iShares J.P. Morgan $ EM Bond UCITS ETF	6	SEMB	B2NPKV6
ALTERNATIVES				
Commodities				
Agriculture	ETFS Agriculture	2.5	AIGA	B15KYH6
Energy	ETFS Energy	2.5	AIGE	B15KYB0
Industrial Metals	ETFS Industrial Metals	2.5	AIGI	B15KYG5
Gold	iShares Physical Gold ETC	2.5	SGLN	B4R1D93
Real Estate				
US	iShares US Property Yield UCITS ETF	2.5	IUSP	B1G5340
UK	iShares UK Property UCITS ETF	2.5	IUKP	B1TXLS1
Europe ex UK	iShares European Property Yield UCITS ETF	2.5	IPRP	B0M6328
Asia	iShares Asia Property Yield UCITS ETF	2.5	IASP	B1G5328
Infrastructure				
Global	iShares Global Infrastructure UCITS ETF	5	INFR	B1G5384
CASH EQUIVALENT / RISK FREE ASSET FUNDS				
RFA1	DBX Sterling Cash UCITS ETF	0	XSTR	B2PDKP2
RFA2	Lyxor Smart Cash UCITS ETF C-GBP	0	CSH2	BY9D7D9
RFA3	iShares UK Gilts 0-5YR ETF GBP	0	IGLS	B4WXJK7
RFA4	Lyxor FTSE Actuaries UK Gilts 0-5Y	0	GIL5	BD6P6G7
RFA5	iShares £ Ultrashort Bond UCITS ETF GBP	0	ERNS	BCRY644

Backtested Performance of Previous Composition

A Reminder...

Below we have included the backtesting results for our previous ETF composition for comparison to the table on page 45.

This enables our investors to see the detail of the impact of the ETF changes just explained.

JANUARY 2001 - AUGUST 2017	RESULT
Annualized Return (%)	**7.52**
Annualized Volatility (%)	7.46
Sharpe Ratio	0.69
Sortino Ratio	1.1
Maximum Monthly Return (%)	9.68
Minimum Monthly Return (%)	-5.71
Percentage of Positive Months (%)	66.5
Percentage of Negative Months (%)	33.5
Maximum Drawdown (%)*	10.41
Transaction Costs (%)	0.12
Annual Management Charge (%)	0.9

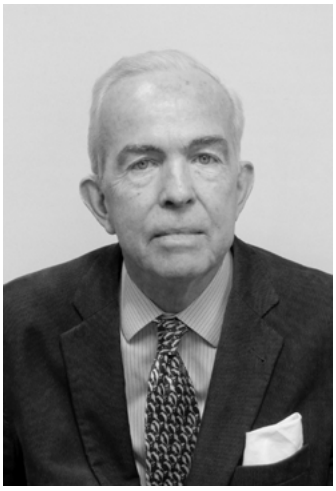
Source:
Professors Andrew Clare, Steven Thomas & Dr. James Seaton

D

Our Team

Plain English Finance has built the team needed to deliver life changing results for our clients and community. They are committed to our stated ambition to improve the financial affairs of as many people as possible.

01. Andrew Craig – Founder, Investment Manager and Author of "How to Own the World"



02. Roderick Collins – Investment Manager

03. Professor Andrew Clare – Investment Consultant

04. Professor Steve Thomas – Investment Consultant

OUR INVESTMENT TEAM

The Plain English Finance team brings together a wealth of relevant investment experience.

01. Andrew Craig
Director, Founder & Investment Manager

Andrew studied Economics and International Politics at the University of Birmingham, graduating in 1997. His first job took him to Washington DC to work as an intern for a US Congressman on Capitol Hill. Here he was lucky enough to research various topical policy issues and write a number of speeches for the Congressman.

On returning to the UK, he began his career in finance on the Eurobond desk of SBC Warburg (now UBS) but moved to equities two years later to join the UBS smaller companies team at the end of 1999. Andrew subsequently headed smaller company sales and sales trading at Williams de Broë and then held senior equity sales positions with Credit Agricole Cheuvreux and SEB in London and New York from 2007. In addition to his responsibilities at Plain English Finance, he was a partner at boutique life sciences investment bank, WG Partners, from January 2015 to May 2021.

During his career in finance, he has met with the senior management teams of well over one thousand companies and with several hundred professional investors. Andrew has regularly been involved in high profile stock market transactions. These have included the Kingdom of Sweden's sales of Nordea Bank AB in 2013 (totalling $7.6 billion) and the stock market flotation of several dozen companies including the likes of: easyJet, HMV, Burberry, Campari, Carluccio's, the Carbon Trust, and lastminute.com.

Since founding Plain English Finance in 2011, Andrew has appeared in numerous national and specialist financial publications including: The FT, The Mail on Sunday, The Mirror, CityAM, The Spectator, Shares and MoneyWeek magazines, YourMoney, This Is Money and Money Observer. He has been a regular commentator on Shares Radio and IG TV, was featured in Russell Brand and Michael Winterbottom's 2015 film "The Emperor's New Clothes" and interviewed by Eamonn Holmes for the Channel 5 programme "How the other half live".

The third edition of Andrew's book "How to Own the World", published by Hodder & Stoughton, has been No. 1 rated on Amazon in categories such as Pensions, Investments and Personal Finance for a good proportion of the last few years. It was the best-selling new finance book in the UK in 2019. The book currently enjoys more than 3,000 reviews across Amazon, Audible and Goodreads, the significant majority of which at five-stars and many of which describe it as "life-changing

02. Roderick Collins
Director & Investment Manager
Roderick has had a long and distinguished career in financial services and wealth management. He held senior management positions with NM Rothschild and James Capel and was the Chief Executive of the private banking activities of Matheson and Co from 1985 to 2000.

He has particular expertise in absolute return strategies. In addition to his role with Plain English Finance, Roderick has undertaken various non-executive directorships in his career and was previously a board Director of the J.P. Morgan Income & Capital Trust plc. Roderick has created Solent Systematic Investment Strategies with Professors Stephen Thomas and Andrew Clare of the Cass Business School and Dr. James Seaton to design formulaic investment strategies. Plain English Finance has leveraged Solent's expertise to develop the fund strategy and composition.

03. Prof. Andrew Clare
Bayes Business School
Andrew is the Professor of Asset Management at Bayes Business School. Before joining Bayes he was a Senior Research Manager in the Monetary Analysis wing of the Bank of England which supported the work of the Monetary Policy Committee.

Andrew also spent three years working as the Financial Economist for Legal and General Investment Management (LGIM), where he was responsible for the group's investment process and where he began the development of LGIM's initial Liability Driven Investment offering.

Andrew is co-author of "The Trustee Guide to Investment" and has published extensively in both academic and practitioner journals on a wide range of economic and financial market issues. In a survey published in 2007, Andrew was ranked as the world's ninth most prolific finance author of the past fifty years. Andrew serves on a range of pension trustee and investment committee boards. In June 2023 he published his first work of fiction, "The Old Lady".

04. Prof. Steve Thomas
Bayes Business School
Steve joined Bayes in February 2007, after being Professor of Financial Markets at Southampton University since 1996, and prior to that at the University of Wales, Swansea, from 1992.

He is a member of the editorial board of the Journal of Business Finance and Accounting and in a 2006 review was ranked 11th in Europe for finance research. Steve has had director experience at a leading global macro hedge fund and from 1988 through to 2016 has been consulting editor of a range of credit publications for the FT and subsequently Interactive Data.

He is an examiner for the Investment Management Certificate of the CFA UK, and author of the accompanying Official Training Manual.

05. Dimitri Goulandris – Non-Executive Chairman

06. Tim Peacock – Chief Operating Officer

07. Alan Back – Non-Executive Director

OUR BOARD

Andrew Craig and Roderick Collins are directors of Plain English Finance Limited. In addition, we draw on the extensive knowledge and experience of the following individuals who constitute the rest of our board.

05. Dimitri Goulandris
Non-Executive Chairman

Dimitri has an MBA from the Harvard Business School and an MA and BA in Electrical and Information Sciences from Cambridge University. He currently runs The Cycladic Group, an investor in, and creator of businesses. Founded in 2002, the Group has invested in over 40 businesses and founded five in the U.S., Europe, India, Africa and Latin America.

Dimitri's interests also hold significant stakes in a number of small public companies including Volex PLC and he sits on a number of public and private boards.

Previously Dimitri set up and ran the European operations of the private equity firm, Whitney & Company, and spent eight years at Morgan Stanley in its private equity group, structuring derivative products and executing mergers and acquisitions both in New York and in London.

06. Tim Peacock
Chief Operating Officer

Tim studied Computer Science at the University of Birmingham and brings a crucial skill-set to the board of Plain English Finance. He currently works for a FTSE100 mining business, running technology and data for one of its subsidiaries across the UK, Ireland, US, Germany and South Africa.

Prior to this, Tim lead technology and digital transformation for FTSE100 property owner, Landsec.

He previously ran the digital marketing agency, LAYER working with a number of high-profile clients, Virgin (virgin.com) and BT Business. Prior to that, he was a partner at M&M, another leading digital marketing agency in London. Tim also headed up digital strategy for London-based Stylo Design as well as part-funding and founding two web startups.

Tim started his career in technology with Computacenter where he spent eight years building their internet-related services business.

07. Alan Back
Non-Executive Director

Alan's engineering studies and qualifications led him to an IT career in the early days of the personal computer. Since then he has spent his time building and running information technology services businesses, with a focus on exemplary customer service.

Alan started his career in technology with Computacenter, one of Europe's leading IT services companies where he started in sales and over 20 years progressed to the executive position of Public Sector Director running the largest revenue generating division within the company.

Since leaving Computacenter he has launched a media start-up business, worked for a major US satellite services provider and most recently successfully ran and sold a PE backed IT services company.

OUR ADVISORY PANEL

The core Plain English Finance team are fortunate to have access to our advisory panel – who between them possess over a century of relevant experience. This is a highly supportive group of city experts who share our broad world view and have helped to shape the business.

A1. Matthew Kates

Matthew has over 20 years' experience in the investment industry, having worked previously at UBP Asset Management, Threadneedle Asset Management and Merrill Lynch. He holds the CFA designation and is also a Chartered Management Accountant.

A2. Geoff Miller

Geoff has over 35 years' experience working in research and fund management in the UK, specialising in the finance sector, with a focus on the specialty finance, insurance and investment company sub-sectors. He was a number one rated UK mid and small cap financials analyst covering investment banks, hedge funds and hedge fund managers, structured products, insurance vehicles, investment companies and real estate companies.

Subsequently, since moving overseas, he has acted as a Director of leading quoted and unquoted companies for the past 15 years, in both an executive and non-executive capacity. Those companies span three continents and a broad range of activities and stages of life cycle, from inception to exit. He is a Director of several private companies and a principal in a venture capital business based in Guernsey, focused on disruption in the finance, technology and life science sectors.

A3. Matthew Rhys-Evans

Matthew was a Director for West European Loan Origination at ING Bank NV, London where he worked from 2006 - 2021. He has arranged and syndicated UK and European corporate loans, M&A finance, leveraged finance, infrastructure finance and Middle East telecom loans for the past 20 years. He began his career at Lloyds TSB during which time he obtained accountancy and treasurer qualifications. He is also an investor and adviser to several start-up companies.

A4. Jeremy Smyth

Jeremy has worked in finance since 2000. His first job was with the North American Equities team at DLJ, followed by a five-year stint with the Debt Capital Markets sales desk at Deutsche Bank. Here he was fortunate enough to work with many leading institutions including the World Bank, International Monetary Fund and a large number of the Bank's corporate clients.

Jeremy also worked at GSA Capital – an award winning London-based quantitative hedge fund. Here he managed their global

alpha capture strategy. The role took him across the globe meeting in excess of two hundred brokerage firms, in an attempt to establish which of them had a consistent edge in investment.

Having read one of the first prints of "How to Own the World", Jeremy was inspired by Andrew's views and observations. He believes it is absolutely true that even those who work in the finance industry rarely take the time out to arrange their own personal finances properly. A Plain English Finance convert, he was only too eager to take the message to the US, where he now resides with his family in Texas.

A5. Philip Webster

Philip is a CFA charter holder and has worked in financial services for 20 years. He spent most of his early career playing hockey professionally as a member of the Scottish Institute of Sport and was also Player coach of Gordonians and the University of Edinburgh. Philip was capped 95 times for Scotland where he was also vice-captain of the team and was a regular member of the Great Britain Olympic squad.

Philip joined Aberdeen Asset Management in 2004, before moving to the Pan-European equities team in 2006 where he went onto become a Senior Investment Manager.

Philip was lead manager of Aberdeen Smaller Companies High Income Trust which was a top quartile performing fund. In his time at Aberdeen, he conducted over two thousand meetings with the senior management teams of listed companies.

In May 2016, he moved from Aberdeen to join Bank of Montreal Global Asset Management as a Director and Senior Fund Manager in Pan-European Equities where he ran their European Select concentrated mandate. Bank of Montreal was acquired by Columbia Threadneedle where Philip continued to manage European money until August 2023.

E

Additional information

How to buy the fund

The VT PEF Global Multi–Asset Fund is available from many of the leading stock broking and investment platform companies, or directly from the Authorised Corporate Director of the fund, Valu-Trac Investment Management Limited.

AUTHORISED CORPORATE DIRECTOR (ACD)

Valu-Trac Investment Management Limited
Mains of Orton, Orton, FOCHABERS, Moray
IV32 7QE

T. +44 1343 880344
F. +44 1343 880267
E. pef.gmaf@valu-trac.com

Key fund documents can be found in the Funds section of our website.

The fund should ordinarily be available to purchase in ISA, pension and other general investment accounts.

IDENTIFIER CODES

ISIN: GB00BDZZSM84
SEDOL: BDZZSM8
MEXID: WLJKH
CITICODE: O42K
Bloomberg Ticker: VTGMAAG
Lipper: LP68439582

We would also note that many providers will offer the facility to make regular monthly investments into the fund by direct debit, should that be of interest.

Please do let us know if the fund is not available at your current financial services provider by email.

A NOTE ON COSTS (AMC, OCF, TER)

There has already been a brief discussion of costs on page 42 of this document.

The point made there was that we believe our back-tested performance numbers have assumed sufficiently high trading costs such that we have not flattered the performance numbers in our model.

It is also perhaps worth a quick explanation of the costs of the fund more generally.

There are two cost numbers investment firms quote in connection with a fund: First, the AMC (Annual Management Charge) and secondly, something called an OCF (Ongoing Charges Figure).

The AMC – is whatever the fund management company charges the customer for running the fund. In the case of our fund, this is 0.9% for most investors and 0.7% for large "institutional" investors (this would ordinarily be for those investing a large six- or seven-figure sum).

As an illustration: For every £1,000 invested in the fund, a retail investor pays £9 to us for running it. The OCF includes this number (the AMC) plus certain other costs needed to run the fund.

The OCF is harder to calculate as a percentage of the fund than the AMC for the simple reason that many of the costs of running the fund are fixed annually. This means that the percentage they are of the fund will change as the size of the fund changes.

As an example - £50,000 a year of fixed costs on a £10 million fund will mean that the OCF is 0.5% higher than the AMC.

The same £50,000 of costs as a percentage of a £100 million fund will obviously only increase the number by 0.05% mathematically.

The OCF quoted in our formal fund documentation is currently 1.25% for retail investors and 1.05% for institutional. We would note that our long run aim is that the total cost of investing in the fund should be around 1% - a number we will achieve once the fund has c. £75 million invested in it.

Two other things to note are:

01. That our live performance numbers are all given *after* costs have been taken out.

02. Even if we continue to win assets, with the result that the OCF number comes down as a percentage of the fund - this will not be reflected in the formal fund documentation until the next July or January of the following year, because the rules are that you may only update the formal OCF number based on the audited fund accounts each half year.

We expect that the cost of owning our fund will decrease as the assets under management grow.

We would remind the reader that our real world **performance numbers are given AFTER costs**.

Indices used for modelling

EQUITY	
Developed Large	
Europe ex. UK	MSCI EUROPE EX UK :L E - TOT RETURN IND (~£)
Japan	MSCI JAPAN - TOT RETURN IND (~£)
Pacific ex .Japan	MSCI PACIFIC EX JP U$ - TOT RETURN IND (~£)
UK	MSCI UK - TOT RETURN IND (~£)
US	MSCI USA - TOT RETURN IND (~£)
Emerging Large	
EM World	MSCI EM U$ - TOT RETURN IND (~£)
Smart Beta	
World Min Vol	MSCI WORLD MINIMUM VOL(GBP) $ - TOT RETURN IND (~£)
FIXED INCOME	
Corporate	
$ Corporate	IBOXX $ LIQUID INVESTMENT GRADE TOP 30 - Tot. Rtn Idx Today
€ Corporate	IBOXX EURO CORPORATES - Tot. Rtn Idx Today
£ Corporate	IBOXX £ OVERALL - Tot. Rtn Idx Today
High Yield	
€ High Yield	IB EUR HY FXD RATE (DISC) - Tot Return Ind (~£)
Emerging	
$ EM Gov	FTSE Emerging Markets Broad Bond Index - Total Return
ALTERNATIVES	
Commodities	
Gold	Bloomberg-Gold Sub Index TR - RETURN IND. (OFCL) (~£)
General Comm.	Bloomberg-General Commodities Index TR - RETURN IND. (OFCL) (~£)
Real Estate	
US	FTSE EPRA Nareit UNITED STATES $ - TOT RETURN IND (~£)
UK	FTSE EPRA Nareit UK - TOT RETURN IND (~£)
Infrastructure	
Global	Dow Jones Brookfield Global Infra. Total Return Index (~£)

Important information about the simulated past performance

This is a list of the indices that have been used when calculating the simulated past performance shown on the various charts in this document.

All indices are denominated in Sterling with net income reinvested. Assumed dealing costs of 12 bps (0.12)% and Annual Management Charge of 0.9% have been deducted in calculating the simulated performance with the aim that these returns should be as close to the real returns of an investor as possible.

Simulated past performance is not a reliable indicator of future performance. The value of investments and any income from them may fall as well as rise, the return may increase or decrease as a result of currency fluctuations, and you may not get back the amount of your original investment.

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Further reading

ACADEMIC RESEARCH FOR TREND FOLLOWING

You may be interested in the following academic papers on the effectiveness of trend following, two of which we are proud to highlight have been written by our partners, Professors Clare and Thomas and Dr. James Seaton.

- ***A Century of Evidence on Trend following Investing*** – Brian Hurst, Yao Hua Oi and Lasse H. Pedersen.
- ***A Quantitative Approach To Tactical Asset Allocation*** –Mebane T. Faber.
- ***Sequencing, Perfect Withdrawal Rates and Trend Following Investing Strategies: Making the Known Unknown, Less Unknown*** – Andrew Clare, James Seaton, Peter N. Smith, Stephen Thomas.
- ***The trend is our friend: Risk parity, momentum and trend following in global asset allocation*** – Andrew Clare, James Seaton, Peter N. Smith, Stephen Thomas.

Andrew Craig has published two best-selling books over the past 10 years. Both are available at Amazon in paperback, Kindle and audiobook versions.

HOW TO OWN THE WORLD

Now in its third edition, published by Hodder & Stoughton, Andrew's book has been No. 1 rated on Amazon in categories such as Pensions, Investments and Personal Finance for a good proportion of the last few years. The third edition was the best-selling new finance book in the UK in 2019.

The book currently enjoys more than 3,000 reviews across Amazon, Audible and Goodreads, the significant majority of which at five-stars and many of which describe it as "life-changing.

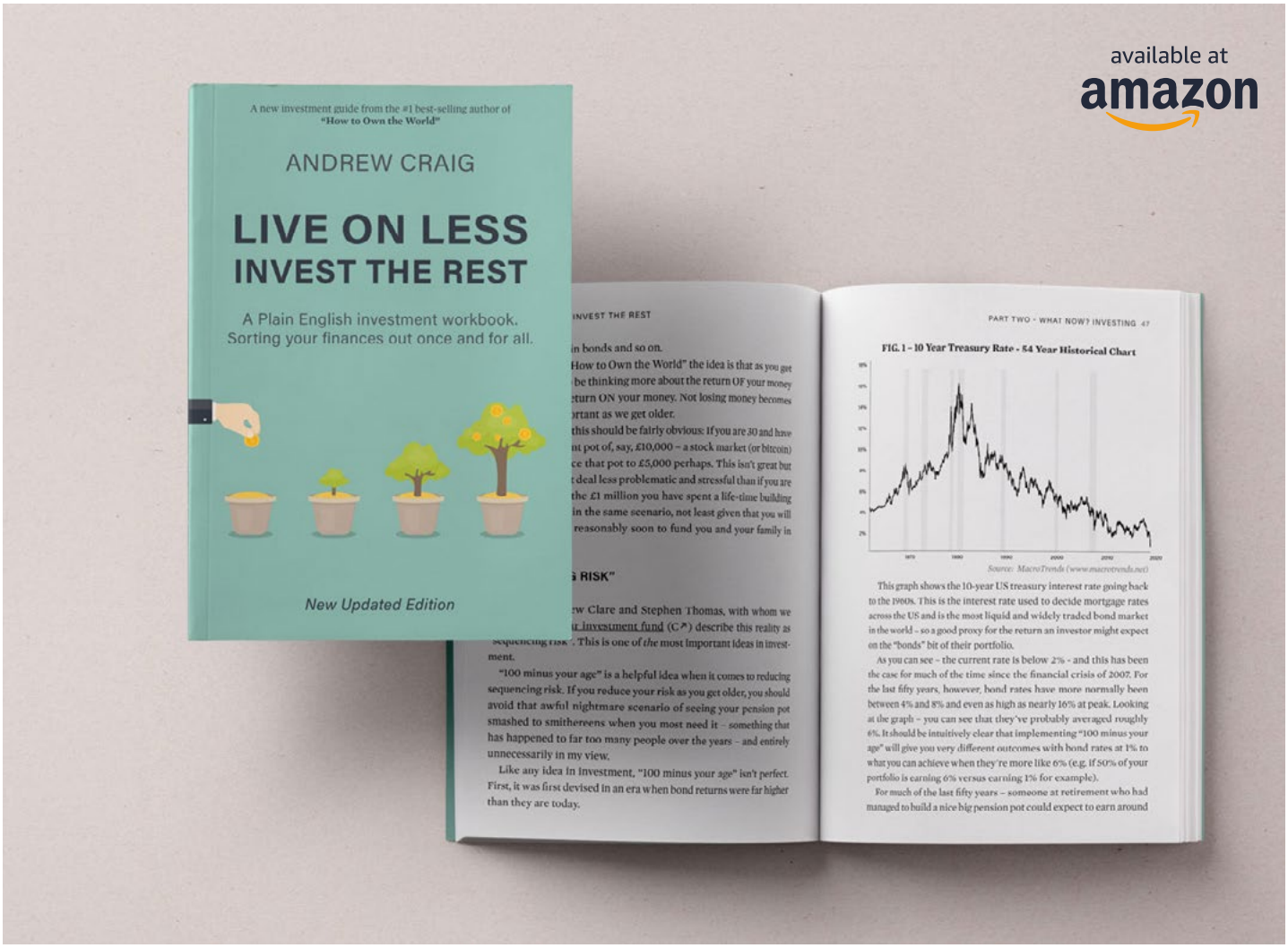
This accessible and timely book shows you how to invest for your future and how to make money from your money over time.

"For anyone who wants to understand how to best use the tools available in the modern world to learn about becoming a successful investor..."

— The Metro

"Without doubt the best book I have read in the last five years..."

— Emma Kane, CEO of SEC Newgate Communications & Deputy Chair of the Elton John AIDS Foundation



LIVE ON LESS, INVEST THE REST...

Picking up where Andrew Craig's No. 1 best-seller, "How to Own the World" leaves off, this workbook is a companion text to his original best-seller.

The book embeds what we have learned from our audience over the last several years.

Andrew

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