

A recipe for baking a Multi Award-Winning DFM Business

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AWARDS 2020

WINNER

**BEST DISCRETIONARY
FUND MANAGER**



CASTERBRIDGE WEALTH
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In July, Casterbridge Wealth won the highly-coveted **'Best Discretionary Fund Manager'** honours at the 2020 Money Marketing Awards. Here we explain the ingredients that we believe helped drive this success...

Ingredients:

(prep time— at least 4 years)

- 1 underlying idea for change
- 5 founding directors fed-up with the incumbents
- Quite a lot of capital
- 80+ years of investment Experience
- 15 dedicated team members
- A sprinkle of humour
- Years of hard work
- One large pinch of good luck

Method

Take the idea for change, mix well with the fed-up founding directors and seed capital, knead well for many months while looking for any lumps in the mix. Once well risen, begin to slowly add in the dedicated team members while keeping an eye on the overall consistency of the mix (you don't want add too many at once!) Pre heat the oven to £200m. Mix in the hard work, humour and good luck - place in a positive environment for at least four years, but ideally much, much longer — test regularly.

Voila...





Energising the discretionary fund management market

Our decision to set up a discretionary fund manager (DFM) business was inspired by the clear lack of variety and differentiation available within the marketplace. To us, it felt like Financial Advisers – and their clients – were being short-changed by the unremarkable offerings available. While costs were high, many DFM portfolios looked remarkably similar!

We decided it was time to offer an alternative recipe.

A true relationship-based approach

The first decision was to think about what Financial Advisers really wanted from us – not just as a service offering, but as a relationship geared towards achieving successful outcomes for their clients. We believe it is important to focus on supporting the interests and success of advice firms, working to achieve their clients' financial aspirations.





Experience that shapes investment decisions

Our investment team has more than 80 years of experience collectively, spanning four decades. But experience counts for little if it doesn't shape your thinking and ensure better returns. We have learned to temper our enthusiasm when markets appear exuberant, and to accept that we cannot capture all 'upside' during periods when markets rise strongly. Chasing returns is never in the best interests of investors over the long term, and we believe that investors feel more comfortable with a reliable and consistent approach.

If there is one clear message Financial Advisers should take from the way we manage money, it is that ***we believe managing downside risks in both portfolio construction and fund selection can help smooth the returns experienced by clients, and helps us steer a steadier course through periods of market volatility.***

As an example, the wealth of experience within our investment team led us to reducing equity weightings in late 2019. This decision came not from fears of COVID-19 (which was only just starting to become a health issue in China at that time), but was borne from decades of recognising the conditions that occur when investors appear overexuberant, and equity markets are unjustifiably expensive, and making the necessary portfolio adjustments.

This positioning served us well through 2020, providing our portfolios with an important element of downside protection, precisely at the time when investor sentiment went from excessively optimistic to overwhelmingly bearish. Our positioning ensured we were able to avoid some of the market volatility and heavy selling that dominated during March and April, and allowed us to increase our equity weightings when valuations began to recover.



Original thought - instead of 'group think'

We offer Financial Advisers and their clients a departure from traditional – often restrictive – investment thinking. Most investment companies employ a hierarchical top down decision-making structure – where portfolio managers determine portfolio construction, based on a particular benchmark, and the investment team is expected to reinforce the manager’s views. But we are confident enough to do things differently. The experience, and the closeness, of our investment team means we are ready to challenge conventional wisdom if it serves the needs of our clients.

Our quarterly investment meetings include members of the investment team, as well as experienced external Financial Advisers that provide independent oversight. They are there to challenge the robustness of the process and ensure that each strategy continues to meet its return and risk objectives for clients. At the same time, they understand the importance of investment agility that leads to better outcomes for clients.





Example: removing benchmarks from our portfolios

Steering clear from group think ensures we are not afraid to make the changes we believe will be in the best interests of clients. It also lets us ask the kind of bold questions that other DFMs wouldn't. A debate that began in one of our meetings resulted in us restructuring the way we report on our funds. The question was this: "Our clients don't care about benchmarks, so why do we use them?" The answer led us to three key assertions:

Benchmarks are misleading: They often contain holdings most investors are unable to hold in their own portfolios, meaning their performance cannot be fully replicated.

Benchmarks are restrictive: They encourage a herd mentality among fund managers who choose to 'hug' their benchmark rather than taking truly independent decisions that are more likely to lead to investment outperformance.

Benchmarks are usually out of date: Not all asset classes are priced on a daily basis (some property assets, for example, are only valued a few times a year) and some benchmark weightings can be as much as nine months behind the positioning of 'real' portfolios.

We reached the conclusion that our portfolio managers should focus on what is most important to investors, and we stopped publishing benchmarks for our portfolios. Clients now see the portfolio's current weightings and positioning, alongside pre-determined risk bands of the risk profile agreed with their Financial Adviser.

By showing investment decision making in terms of risk, clients get a more relevant, transparent and meaningful measurement of how their portfolio is performing, and can properly judge the contribution made by our investment teams.



Understand and respecting the adviser/client relationship

We recognise that some financial adviser firms are reluctant to build relationships with discretionary fund managers because they worry that their clients could at some point be stolen from them, or they will relinquish control over the investment relationship. But we start with the fundamental belief that we can make the lives of Financial Advisers easier. We have no legacy ownership issues that could cause conflicts of interest. In other words, we focus on managing the investments, and you focus on the relationship with your clients. ***You wouldn't want it any other way.***

A client-first culture the drives positive outcomes

However, while we are respectful of the adviser client relationship, we consider it our responsibility to work closely with financial advisers to deliver fully on their clients' needs. We never lose sight of the fact that we have been given the responsibility to look after your client's financial future, so we are committed to delivering the highest levels of client service and performance.





In Summary...

Winning awards is an indicator that your approach is working and getting noticed. But for us, it is far more important that the Financial Advisers we work with believe their relationship with us is:

- *Helping them to improve their product offering and generate new business*
- *Freeing up more time to focus on relationship building with existing clients*
- *Reducing the time and cost burden involved with managing client investments*

We understand the importance of creating portfolios built to withstand difficult conditions. It's why we call our seven managed portfolios the 'Hardy' range. But our success is because Financial Advisers know we have their best interests at heart, which is ultimately why they recognise us as their ***complete investment partner.***





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Important Information

About us

We, Casterbridge Wealth Limited, are authorised and regulated by the Financial Conduct Authority (FCA). Details of our authorisation are available on the FCA register under firm reference number 727583; www.fca.org.uk/register.

Casterbridge Wealth Limited is a registered Company in England and Wales.
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