



## Fair Value Assessment for Crossing Point Investment Management MPS

### Introduction

Crossing Point Investment Management Limited (company number 08776208) is a private limited company with seven founder shareholders and twelve IFA shareholders. It was incorporated in November 2013 and launched the model portfolio service to retail clients in February 2020 on conclusion of extensive academic research into an investment philosophy established upon trend following and tactical trading.

### **Principle Board Members**

Dr Tomiko Evans - Chief Investment Officer and Managing Director

Prof Mike Buckle - Investment Manager and SMF16

Chris Davies - Director

Andy Jones - Accountant

Alison Jackson - Compliance Officer

Registered office: 7 Uplands Crescent, Uplands, Swansea SA2 0PA.

### Our MPS service

Crossing Point model portfolio service (MPS) launched in February 2020 and offers a range of four investment solutions each with a number of risk-rated portfolios. Our MPS is available only to retail clients of FCA authorised independent financial advisors (IFA) investing via a platform. All our terms of Agreement are with IFA firms on an Agent as Client basis.

Our charge for all our portfolios which are actively managed is 0.3% of FUM per annum payable monthly via the platform chosen by the IFA. We publish full details of the portfolio costs monthly on our website.

**Guardian Portfolios** are suitable as a lifetime strategy for those looking to both accumulate and decumulate wealth i.e., sustained retirement income via drawdown. They are particularly suitable as a **decumulation strategy** due to lower volatility and maximum drawdowns. All funds used within the Guardian portfolios are UCITS funds as they are appropriate for retail clients and provide daily liquidity. The majority of these funds are passive investments as they provide a low-cost option which are managed within the fund structure.

**Fusion Portfolios** are positively aimed at those seeking a growth strategy utilizing a mixture of both active and passive funds. Like Guardian, Fusion portfolios are also suitable as a **lifetime strategy** for those looking to both accumulate and decumulate wealth. All funds used within the Fusion portfolios are UCITS funds as they are appropriate for retail clients and provide daily liquidity. The funds are a mixture of active and passive investments. Passive funds provide a low-cost option which are managed within the fund structure. The selected active funds provide more specialised and managed investments to allow for more control over where assets are distributed with the aim to providing better performance.



**Heritage Portfolios** are aimed at those seeking a **growth strategy in investment trusts** which are by nature a relatively high-risk strategy. Our Heritage range is dedicated to the use of investment trusts.

**Green Path Portfolios** are aimed at those seeking an investment whilst being mindful of global environmental and social challenges (**ESG**). All funds used within the Green Path portfolios are UCITS funds or ETFs as they are appropriate for retail clients and provide daily liquidity.

The selection of funds is supported by due diligence from FE Analytics, Morningstar Sustainability ratings and MSCI ESG ratings. We only select funds with at least four Morningstar Globes or an MSCI rating of BBB or above.

### **Our Unique Trend-Following Strategy**

All Crossing Point portfolios utilize a unique trend-following overlay which has been developed through academic and further research. Trend-following has been found to minimize sequence of returns risk, volatility, and maximum drawdowns by smoothing long-term returns. Crossing Point portfolios use a combination of trend-following, tactical trading, and a well-diversified asset allocation. The trend-following signals for the underlying funds are reviewed at least weekly. Our trading decisions are driven by technical data and signals that our sophisticated algorithms provide us on market momentum for each individual fund as well as economic indicators and announcements. This has proven to be beneficial in protecting client investments over the long term.

## **Target Market Assessment**

### **Guardian Portfolios**

- Guardian portfolios offer a range of six risk-rated portfolios with an increase in the percentage of equity assets held as risk tolerance increases.
- Positively aimed at those seeking capital growth.
- Whilst the Guardian portfolios do not have an income producing mandate, at times some of the funds held within the portfolios may make dividend distributions and therefore could provide some income.
- Intended for those with a medium to long-term investment horizon but are also suitable as a **lifetime strategy** for those looking to both accumulate and decumulate wealth i.e., sustained retirement income via drawdown.
- The Guardian range of portfolios offer no capital guarantees and have no maturity date.

### **Guardian Portfolio as a Decumulation Strategy**

Large drawdowns during periods of market turmoil can have a lasting impact on income seeking investors.

Crossing Point Guardian portfolios seek to minimize sequence of returns risk, volatility, and maximum drawdowns by smoothing long-term returns through trend-following, tactical trading, and a well-diversified asset allocation. The trend-following signals for the underlying funds are reviewed at least weekly. Our trading decisions are driven by technical data and signals that our sophisticated algorithms provide us on market momentum for each individual fund. We aim to rebalance monthly, however we may trade more frequently in times of market crisis. This has proven to be beneficial in protecting client investments over the long term.



## Fusion Portfolios

- Fusion Portfolios offer a range of six risk-rated portfolios with an increase in the percentage of equity assets held as risk tolerance increases.
- Positively aimed at those seeking a growth strategy utilizing a mixture of both active and passive funds. The portfolios can also utilize funds within our ESG range to offer further diversification.
- Whilst the Fusion portfolios do not have an income producing mandate, at times some of the funds held within the portfolios may make dividend distributions and therefore could provide some income.
- Intended for those with a medium to long-term investment horizon but are also suitable as a **lifetime strategy** for those looking to both accumulate and decumulate wealth i.e., sustained retirement income via drawdown.
- The Fusion range of portfolios offer no capital guarantees and have no maturity date.

### Fusion Portfolio as a Decumulation Strategy:

Crossing Point Fusion portfolios seek to minimize sequence of returns risk, volatility, and maximum drawdowns by smoothing long-term returns through trend-following, tactical trading, and a well-diversified asset allocation. The trend-following signals for the underlying funds are reviewed at least weekly. Our trading decisions are driven by technical data and signals that our sophisticated algorithms provide us on market momentum for each individual fund. We aim to rebalance monthly, however we may trade more frequently in times of market crisis as we will use a trend-following overlay which has proven to be beneficial in protecting client investments over the long term.

Our Fusion portfolios were launched in May 2022 we plan to review the underlying individual funds at least six monthly.

## Green Path Portfolios

- Green Path Portfolios offer a range of three risk-rated portfolios with an increase in the percentage of equity assets held as risk tolerance increases.
- Positively aimed at those seeking an investment whilst being mindful of global environmental and social challenges.
- Intended for those with a medium to long-term investment horizon seeking an accumulation of wealth.
- Unsuitable for those seeking a decumulation strategy, i.e., sustained retirement income via drawdown.
- The Green Path range of portfolios offer no capital guarantees and have no maturity date.

## Heritage Portfolios

- Heritage Portfolios offer a range of four risk-rated portfolios with an increase in the percentage of equity assets held as risk tolerance increases.
- Positively aimed at those seeking a growth strategy in investment trusts which are by nature a relatively high-risk strategy.
- Intended for those with a medium to long-term investment horizon seeking an accumulation of wealth.
- Unsuitable for those seeking a decumulation strategy, i.e., sustained retirement income via drawdown.



- The Heritage portfolios offer no capital guarantees and have no maturity date.
- Whilst Heritage investors may be prepared to accept a relatively high- risk strategy we still seek to provide a well-diversified asset allocation.

Most funds used within the Heritage portfolios are investment trusts as they can provide regular income, can have cheaper fees than their UCITS equivalents, and over long investment horizons can provide superior returns due to gearing. Some of the Heritage funds, especially those investing in fixed income or alternatives, can be UCITS as they are appropriate for retail clients and provide daily liquidity.

Further information can be found in our Target Market Assessment Documents available on our advisor and investor websites.

## **How we approached the value assessment**

Our senior management team has completed a value assessment of the products and services we manufacture. We approached our assessment in three stages:

### **Funds**

We reviewed all funds currently in our portfolios as part of our fund selection process, funds are screened for performance, cost, volatility, and maximum drawdown. We used FE Analytics, Morningstar Direct, fact sheets, and KIID documents to obtain the latest data. We also complete a daily review of fund performance and trends for the funds short-listed as part of our fund selection process. This gives us insight into how well a fund is performing and the value it provides to the end client. Any fund which is too expensive or does not provide value due to performance or cost is removed and replaced by a fund which is able to provide better value within its sector.

We also reviewed the Assessment of Value reports produced by each of the fund managers managing funds selected for our portfolios. The fund managers have assessed funds for eight criteria:

- Performance
- General costs of fund
- Economies of scale
- Comparable market rates
- Comparable services
- Classes of units
- Quality of service
- Overall fund rating

Most fund managers have adopted a traffic light system to assess their funds for each criterion.

### **Costs**

As our portfolios offer a unique trend-following strategy it is difficult to compare with other offerings in the marketplace. We have, however, compared our charges at 31 March 2023 with two other MPS providers comparing portfolios with similar risk ratings. The charges in each case were



taken from the data published by each MPS provider on their website. The costs of the Crossing Point portfolios are based on the Nucleus platform and other platforms may vary.

**Performance**

We reviewed the performance of our Guardian, Green Path, and Heritage portfolios over 1 and 3 years comparing their performance with other MPS providers. For Guardian portfolios we ran reports on Morningstar comparing performance against other blended MPS portfolios with equivalent benchmark equity. For Heritage and Green Path portfolios we ran reports comparing performance against other active MPS portfolios with equivalent benchmark equity.

We are not able to make a performance assessment of the Fusion portfolios as they were launched less than 12 months ago.

We have also tested the performance of our Guardian portfolios over periods of market crisis such as 2008 and the coronavirus pandemic as part of our trend-following testing. We have published the results both in our Guardian brochure and in other documentation available to IFAs and investors on our website.

The Fair value assessment was completed and signed off by the Senior Managers on 27 April 2023.

**Results**

**Fair value assessment**

After completing the three steps above our investment managers adopted the traffic light system to rate our portfolios against the same eight criteria.

The results are in the table below.

Portfolio name	Performance	General Costs of fund	Economies of scale	Consumer duty ratings		Classes of units	Quality of service	Overall Fund Rating	Comments
				Comparable market rates	Comparable services				
<b>Guardian</b>									
Guardian Adventurous	Yellow	Green	Yellow	Green	Green				*Performance in terms of returns has been lower than the group median, but improved for volatility and maximum drawdowns.
Guardian Strategic	Yellow	Green	Yellow	Green	Green				
Guardian Balanced	Green	Green	Yellow	Green	Green				
Guardian Cautious	Green	Green	Yellow	Green	Green				
Guardian Defensive	Green	Green	Yellow	Green	Green				
<b>Green Path</b>									
Green Path Strategic	Yellow	Green	Yellow	Green	Green				* Have used trend following to reduce volatility
Green Path Balanced	Yellow	Green	Yellow	Green	Green				
Green Path Cautious	Yellow	Green	Yellow	Green	Green				
<b>Heritage</b>									
Heritage Adventurous	Green	Green	Yellow	Green	Green				* Performance compared to similar investment trust portfolios is comparative
Heritage Strategic	Green	Green	Yellow	Green	Green				
Heritage Balanced	Green	Green	Yellow	Green	Green				
Heritage Cautious	Green	Green	Yellow	Green	Green				
				Green	Provided value, with action taken and/or further monitoring required				
				Yellow	Did not provide value, with action taken				



### **Economies of scale**

As an MPS provider on platform, investment decisions and trading costs are similar regardless of the number of IFAs and clients invested within our portfolios. We therefore expect costs per client to fall as new IFAs and clients invest within our portfolios. Due to our smaller size, we operate in a way which has been extremely cost effective. We have been able to keep overhead expenses to a minimum.

### **Classes of units**

Our use of platforms allows clients to have access to cheaper classes of funds as the platforms themselves can take advantage of their economies of scale and negotiate the use of funds in cheaper classes with lower OCFs. We also look to reduce costs by using the best value funds when reviewing our fund selection.

### **Guardian Portfolios**

We have tested the performance of our Guardian portfolios over periods of market crisis such as 2008 and the coronavirus pandemic. We have published the results both in our Guardian brochure and in other documentation available to IFAs and investors on our website.

- The target market for our Guardian portfolios includes investors who are at the decumulation stage of their investment. Research into sequence of returns risk shows that an early fall in an investment can cause long-term reductions in capital values that can affect the long-term viability of income withdrawals. This impact is magnified during decumulation when the process of selling underlying assets for income as the market is falling can have a greater impact on the reduction of the underlying capital. Guardian portfolios seek to minimise sequence of returns risk, volatility, and maximum drawdowns by smoothing long-term returns through trend-following, tactical trading, and a well-diversified asset allocation. The performance of the portfolios as a decumulation strategy against their benchmarks has been monitored and documented in our Guardian brochure available on the website. We have tested sequence of returns risk and impact of cost and made the results available to our IFAs in the form of documents.

We run monthly reports to review performance and further statistics such as volatility and maximum drawdown to compare our Guardian portfolios to their chosen benchmarks for returns and risk reduction.

### **Improvements identified**

- We will look into how we can undertake testing to see how our MPS investments might perform in different market conditions to ensure the potential risk/reward and likely drawdowns are properly understood.
- We have now incorporated a review of fair value into our fund selection process and will record our assessment process each time a fund change is made.

### **Conclusion for Guardian Portfolios**

#### **Target market**

- The target market (after the implementation of any recommended changes) has been specified at a sufficiently granular level, taking into account the characteristics, risk profile, complexity, and nature of the product.
- The additional needs, characteristics, and objectives of clients with characteristics of vulnerability have been sufficiently taken into account by ensuring the IFAs are equipped with the knowledge and understanding to deliver advice to vulnerable clients.



### **Design of product or service**

- The design of the portfolios meets the needs, characteristics and objectives of the target market and existing clients.
- Does not adversely affect groups of retail customers in the target market, nor existing retail customers (where applicable), including those with characteristics of vulnerability.
- Avoids causing foreseeable harm in the target market, and to existing retail customers.

### **Distribution strategy**

- The distribution strategy is appropriate for the target market.
- There are reasonable steps in place to ensure the products are distributed to the identified target market.

### **General**

- All relevant risks to the target market and existing retail customers, including those with characteristics of vulnerability, have been assessed.
- The portfolios are considered to provide fair value.

### **Green Path Portfolios**

The Green Path portfolios are aimed at those seeking an investment whilst contributing positively to global environmental and social challenges. With this target market in mind, the ESG fund selection criteria follow the core principles:

1. Maintaining integrity of the environment and the use of natural resources.
2. Recognising the civil, economic, and social rights of every human being.
3. Promoting sustainable development today without compromising the future.

The selection of ESG funds is supported by due diligence from Financial Express, Morningstar Sustainability ratings, and MSCI ESG fund ratings. We constantly monitor the ratings of our funds and remove funds from our portfolios if the ratings fall below the minimum ratings, we have set of 4 Morningstar Globes or MSCI BBB or above. ESG Ratings are available on our Green Path fund selection document on the website.

We have our Green Path MPS portfolios reviewed on Morningstar versus our competitors and by JPMorgan for Morningstar and MSCI analysis for the ESG criteria of the overall portfolios and their underlying funds.

### **Conclusion for Green Path Portfolios**

#### **Target market**

- The target market (after the implementation of any recommended changes) has been specified at a sufficiently granular level, taking into account the characteristics, risk profile, complexity, and nature of the product.
- The additional needs, characteristics, and objectives of clients with characteristics of vulnerability have been sufficiently taken into account by ensuring the IFAs are equipped with the knowledge and understanding to deliver advice to vulnerable clients.

#### **Design of product or service**

- The design of the portfolios meets the needs, characteristics and objectives of the target market and existing clients.
- Does not adversely affect groups of retail customers in the target market, nor existing retail customers (where applicable), including those with characteristics of vulnerability.



- Avoid causing foreseeable harm in the target market, and to existing retail customers.

### **Distribution strategy**

- The distribution strategy is appropriate for the target market.
- There are reasonable steps in place to ensure the products are distributed to the identified target market.

### **General**

- All relevant risks to the target market and existing retail customers, including those with characteristics of vulnerability, have been assessed.
- The portfolios are considered to provide fair value.

### **Heritage Portfolios**

Our Heritage MPS service is dedicated to the use of investment trusts. Investment trusts are closed-ended funds and are one of the oldest and most unique investment vehicles available to UK investors. Investment trusts are publicly listed companies and as a result they get all the benefits afforded to corporations such as the ability to borrow money to aid investment returns as well as the "closed-ended" advantage that allows the fund manager to be fully invested without having to keep cash in reserve to pay for redemptions as is the case with OEIC's.

One unique opportunity that close-ended funds offer investors is that a fund's price could be discounted from the value of the underlying stock. This allows funds to be bought at a lower price than their assets are worth. The market price of a closed-ended fund is based on investor demand and not as a calculation of net asset value. When selecting an investment trust, we do not buy a fund with more than a 15% discount or a 10% premium. Over -15% can be a cause for concern over the demand for the assets while over +10% is expensive and may not offer good value for investors.

Investment trusts also have the ability to borrow capital against the trust's assets to provide 'gearing'. This will increase returns to investors in a rising market – but can increase losses in a falling market. We ensure only the selection of investment trusts that have 20% or less gearing with the aim of minimising potential losses.

### **Improvements identified**

- Although Heritage target market investors are high risk/high reward investors, we will look into how we can undertake testing to see how our MPS investments might perform in different market conditions to ensure the potential risk/reward and likely drawdowns are properly understood.

### **Conclusion for Heritage Portfolios**

#### **Target market**

- The target market (after the implementation of any recommended changes) has been specified at a sufficiently granular level, taking into account the characteristics, risk profile, complexity, and nature of the product.
- The additional needs, characteristics, and objectives of clients with characteristics of vulnerability have been sufficiently taken into account by ensuring the IFAs are equipped with the knowledge and understanding to deliver advice to vulnerable clients.

#### **Design of product or service**

- The design of the portfolios meets the needs, characteristics and objectives of the target market and existing clients.





- Does not adversely affect groups of retail customers in the target market, nor existing retail customers (where applicable), including those with characteristics of vulnerability.
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