



evidence based investments

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**VANTAGE MANAGED  
PORTFOLIO SERVICE**

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**BLACKDOWN  
FINANCIAL**

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Independent Financial Advisers

**ebi.co.uk**  
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# THE RIGHT PATH TO SUCCESSFUL INVESTING

Your adviser is not alone in their thinking – there is a large body of advisers unconstrained by conflicts of interest and prepared to swim against the tide of opinion and human nature. They believe that winning investment strategies cannot be selected by simply looking at past performance or the latest technique designed to beat the market. Why? Because over 60 years of peer reviewed research tells us:

Your adviser is of the belief that evidence indicates that markets are efficient, there is a case to diversify more and focus on research.

- 1 **Capitalism Works**  
Investors should expect to receive a return above the risk-free rate in exchange for the capital they supply.
- 2 **Costs Matter**  
Identify and minimise costs of all kinds. Investors don't just lose the amount paid in fees, they lose the growth that money might have made for years to come.
- 3 **Risk and Return Are Related**  
Risk is the premium investors pay for the expectation of a greater return.
- 4 **Diversification Is Essential**  
Diversification is a risk management technique that mixes a wide variety of investments, covering multiple asset classes and with no bias to a specific industry or segment.
- 5 **Asset Allocation Is Key**  
Establishing an appropriate mix of equities and bonds is the dominant contributor to the total return of an investment portfolio.

Based on the above framework, advisers build very similar portfolios. Your adviser has chosen EBI to assist them in this process and to provide a continuous resource of data and research to allow them more time to spend on the elements of their business where they can add true value: working with their clients and their unique circumstances.

## EVIDENCE-BASED INVESTING

EBI model portfolios are an evidence-based investment solution, giving investors access to a highly diversified and low cost suite of portfolios designed to track and capture the returns of the market. The evidence employed is the product of more than 60 years of independent, peer-reviewed research and analysis by some of the world's leading academics, including numerous Nobel laureates. The evidence suggests that the most efficient way to invest is simply to buy and hold a broadly diversified portfolio of low-cost index funds.

# THE IMPORTANCE OF REBALANCING YOUR PORTFOLIO

Your risk capacity will have been matched with a suitable EBI portfolio and rebalancing is the means by which consistent risk exposure is maintained. If left unattended, the portfolio may increasingly become overpowered by the riskier assets, therefore rebalancing is an essential component of portfolio management.

Rebalancing is not only designed to keep the risk characteristic of a portfolio in check, but it also has the potential to enhance returns as rebalancing forces the portfolio to sell high and buy low, which in the long run should marginally enhance the returns.

However, calendar date based rebalancing has limitations and can be improved upon.

A simple portfolio based on 50% FTSE All-Share Index (equities) & 50% Treasury Bills (fixed income) in 1955 would have become 94% / 6% respectively by the end of 2018. Greatly exceeding the initial agreed risk capacity.

Your adviser will have discussed the relative merits of evidence-based investing and worked with you to determine an appropriate EBI portfolio matched to your capacity for risk.





# A BETTER REBALANCING SOLUTION UNDERPINNED BY A BODY OF EVIDENCE

Vantage Managed Portfolio Service (MPS) looks daily at the composition of each portfolio and determines whether a rebalance is necessary. The program and the algorithms that make this determination have been designed using in-house research which was based on an initial review of over 60 research papers.

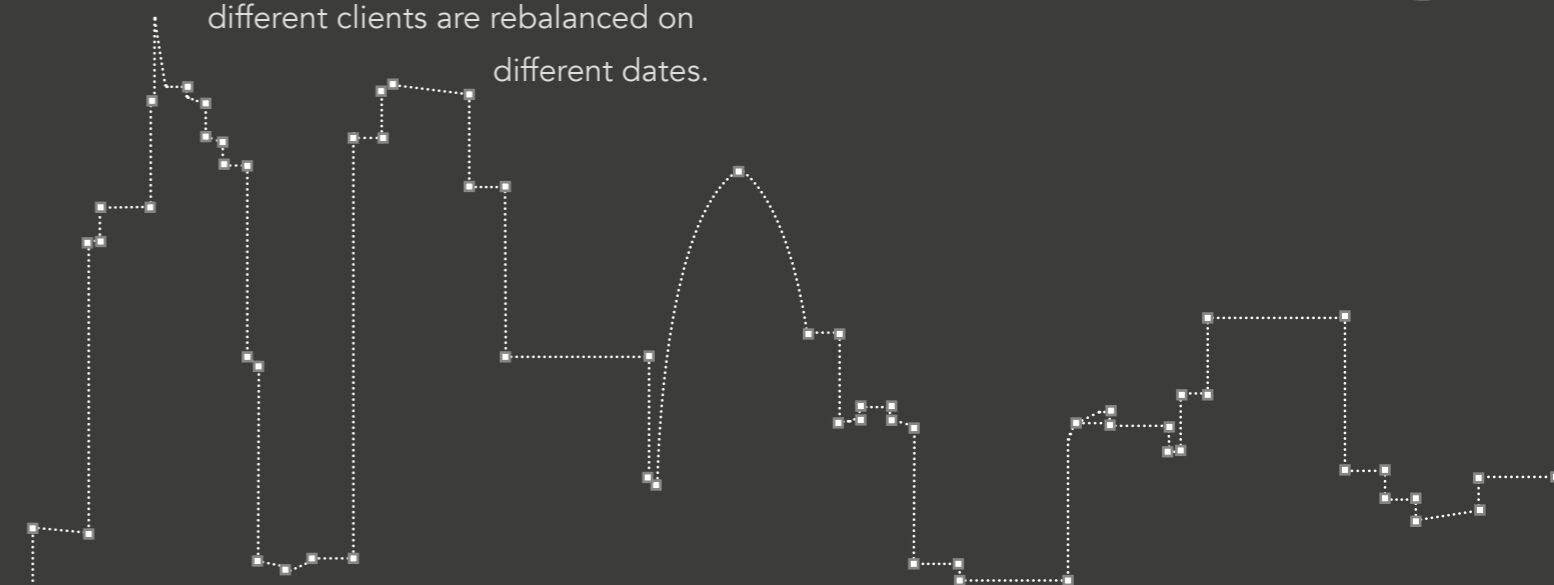
EBI's research was a continuation of ground breaking work<sup>1</sup> undertaken by Gobind Daryanani CFP, Ph.D., a prominent researcher in this area. EBI built on Daryanani's work, tailoring the solutions to work with UK platforms.

Vantage employs the findings of the research to monitor all EBI portfolios daily, ensuring that portfolios cannot drift outside of the agreed risk capacity<sup>1</sup>.

Vantage rebalances as and when predetermined tolerance bands are breached, this removes the dispersion of results that occur when

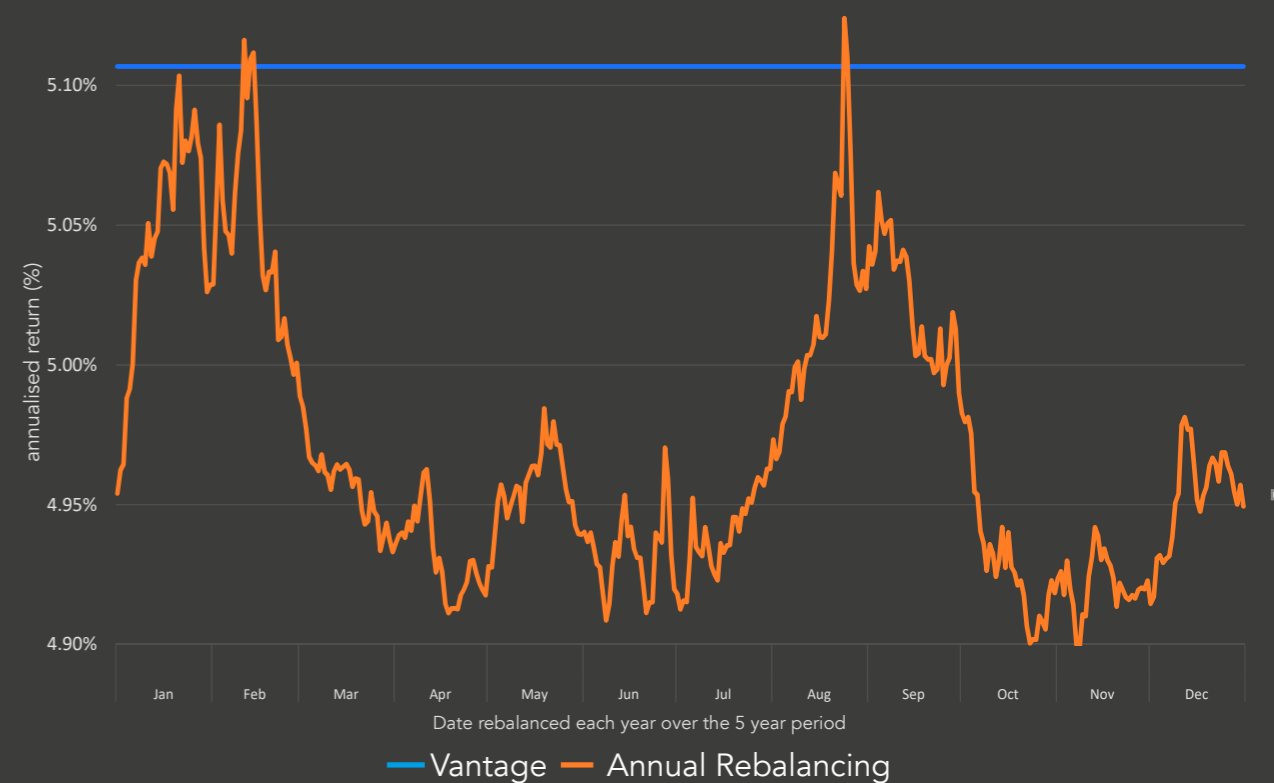
different clients are rebalanced on different dates.

## THE VANTAGE BENEFITS



The orange sawtooth line represents the range of annualised returns you would have received if you had rebalanced annually, on 1st Jan, 2nd Jan, 3rd Jan etc. (each day of the year) on the same day each year for the 5 year period, based on the performance of EBI UK Bias 60 from 2014 to 2018<sup>2</sup>. The blue straight line represents EBI UK Bias 60's annualised return using tolerance band based rebalancing via the Vantage Managed Portfolio Service, over the same period.

As the graph on the right shows, there was as much as a 0.21% annualised difference in returns based on annual rebalancing, whereas the Vantage return is consistent for all clients.



# VANTAGE HELPS YOUR ADVISED HELP YOU

Many advisers in the UK do not possess the relevant permission to make adjustments to portfolios without their client's authority. An adviser could be expected to manage several hundred accounts (ISAs, pensions, etc.); even if they could monitor all accounts daily and identify when they should be rebalanced, it would be extremely difficult to obtain consent from every client to rebalance that same day. Vantage resolves this problem.

In addition, without the relevant permission advisers cannot complete fund swaps without client authority. Even though with evidence-based portfolios, fund swaps are few and far between and invariably simply a replacement of one index fund with an identical fund running for lower costs, this restriction can delay clients obtaining access to a new fund for some time. EBI treats your adviser as an extension of their investment committee. All proposed changes are shared with your adviser weeks or months in advance giving them the opportunity to provide feedback. Your adviser is not delegating fund management to a third party, rather they are working with EBI on a common belief in an evidence-based investment philosophy.

## WHAT YOU NEED TO DO

The cost of the Vantage Managed Portfolio Service is 0.12%, making it one of the lowest cost Discretionary Investment Management services available to investors in the UK<sup>1</sup>.

Ask your adviser about accessing the Vantage service, EBI have implemented a simple and efficient process.



# VANTAGE

## THE TRUE COST

### EMPIRICAL STUDIES

EBI has conducted two studies comparing annually rebalanced portfolios to a tolerance band based rebalancing solution (Vantage). The first study analysed a 12-year period, 2001 to 2012, of simulated returns and the second study analysed 5 years of actual returns for the EBI UK Bias suite of portfolios covering 2014 to 2018<sup>1</sup>.

In both studies, nearly all of EBI's portfolios under the Vantage Managed Portfolio Service, net of DIM (Discretionary Investment Management) fees, carry a premium over the annually rebalanced portfolios.



The source of the Vantage premium is driven largely by the tolerance band based rebalancing which forces the portfolios to sell high and buy low. Vantage trades the funds furthest from their target allocation whilst leaving those closest to target. Annual rebalancing simply trades all assets regardless of how close they are to target. Vantage is more efficient at selling a little higher and buying a little lower than might normally be the case with annual rebalancing.

The below table shows the annualised returns of EBI's UK Bias portfolios from 01/12/2013 to 31/12/2018; rebalanced either annually or via the use of the Vantage Managed Portfolio Service.

| Portfolio    | Annual Rebalancing<br>(annualised) | Vantage <sup>2</sup><br>(annualised) | EBI Cost | Benefit |
|--------------|------------------------------------|--------------------------------------|----------|---------|
| Vantage 100  | 6.73%                              | 6.77%                                | 0.12%    | 0.04%   |
| Vantage 90   | 6.31%                              | 6.38%                                | 0.12%    | 0.08%   |
| Vantage 80   | 5.87%                              | 5.98%                                | 0.12%    | 0.11%   |
| Vantage 70   | 5.43%                              | 5.55%                                | 0.12%    | 0.13%   |
| Vantage 60   | 4.97%                              | 5.11%                                | 0.12%    | 0.14%   |
| Vantage 50   | 4.51%                              | 4.64%                                | 0.12%    | 0.14%   |
| Vantage 40   | 4.03%                              | 4.16%                                | 0.12%    | 0.12%   |
| Vantage 30   | 3.55%                              | 3.65%                                | 0.12%    | 0.10%   |
| Vantage 20   | 3.06%                              | 3.11%                                | 0.12%    | 0.06%   |
| Vantage 10   | 2.56%                              | 2.56%                                | 0.12%    | 0.00%   |
| Vantage Bond | 2.04%                              | 1.98%                                | 0.12%    | -0.07%  |

Past performance is not a reliable indicator of future results.

# ECONOMIES

## OF SCALE



EBI leverage their scale and influence to attract pricing agreements from fund providers and investment platforms with lower fees and access to reduced cost share classes that are unavailable to the public.

## CAN IT BE?

### QUANTIFIED?

The benefit of the Vantage Managed Portfolio Service is easily quantifiable in returns, but there are further advantages to be acknowledged. EBI conducts in-depth research on all chosen funds and continually reviews the best possible investment solutions.

The Vantage Managed Portfolio Service builds upon decades of peer-reviewed research and analysis by some of the world's leading academics, including numerous Noble laureates.

The tolerance band based rebalancing technology draws heavily from the ground-breaking work<sup>1</sup> undertaken by Gobind Daryanani CFP, Ph.D.



# PORTFOLIO TURNOVER

Intuitively, lower volumes of trades and thus lower amounts of funds 'out of the market' will generate fewer costs and keep more funds invested more of the time, which should improve returns for investors.

Portfolio turnover is a measure of how frequently assets within a fund are bought and sold by the managers. This turnover can impact returns in a number of ways, both explicit and implicit. Mutual funds, Unit trusts and ETFs (exchange traded funds) can all have costs that aren't clear to see, such as: swing price levies, bid/offer spreads and initial charges. The more assets that are traded, the higher the costs.

With trading, one can expect to be in cash and disinvested for a day or longer, for an element of the trades conducted, depending on the trading policy of the respective platform.

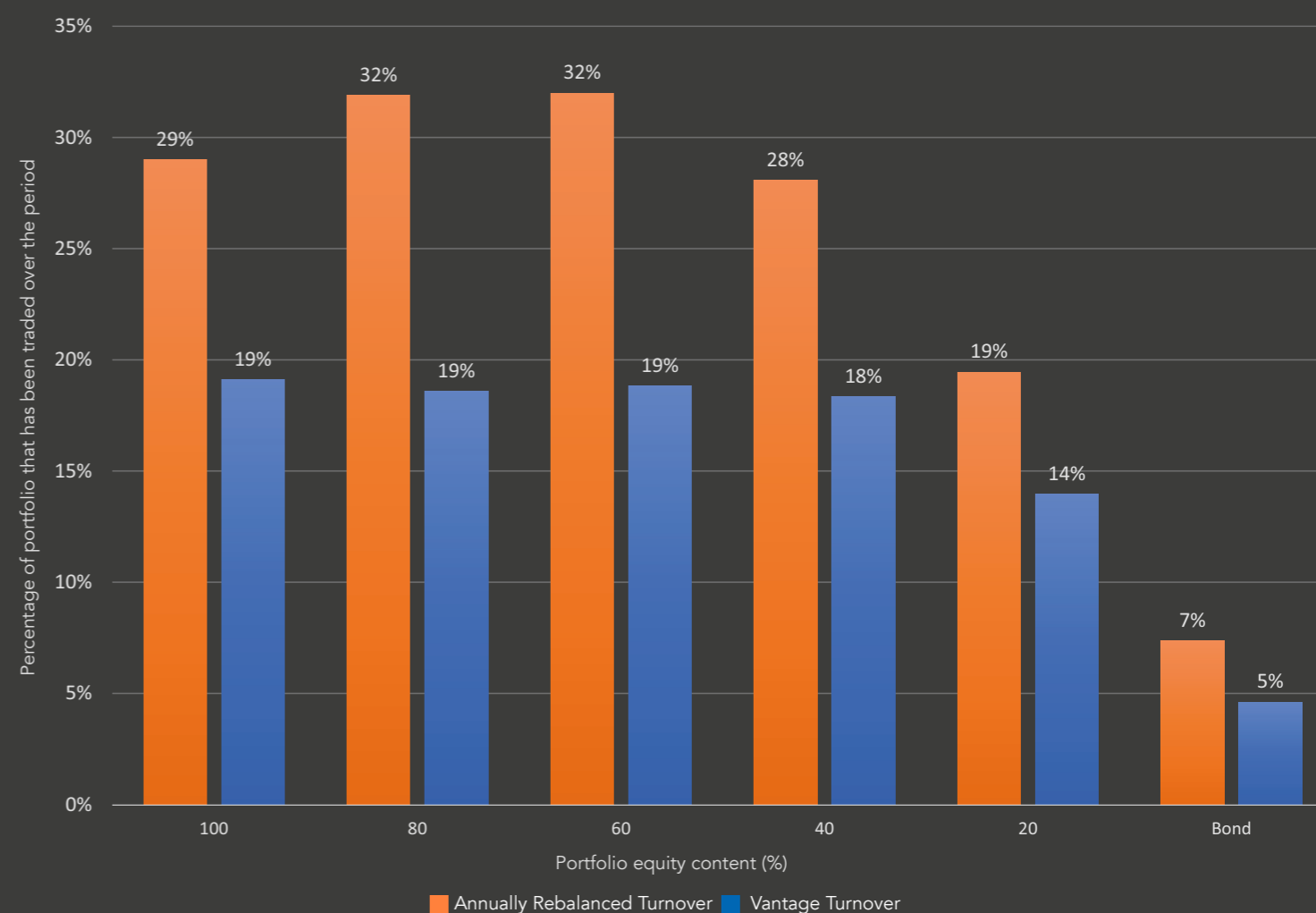
The following page shows the average percentage of funds traded over the 5 year period analysed in EBI's study, comparing annually rebalanced portfolios to their equivalent Vantage portfolio.

“Time in the markets,  
not timing the market”

James Norton

Total portfolio turnover for the period 2014-2018<sup>1</sup>

|                     | 100 | 80  | 60  | 40  | 20  | BOND |
|---------------------|-----|-----|-----|-----|-----|------|
| ANNUALLY REBALANCED | 29% | 32% | 32% | 28% | 19% | 7%   |
| VANTAGE             | 19% | 19% | 19% | 18% | 14% | 5%   |



Vantage clearly achieves one of its objectives to trade less assets less often.

Past performance is not a reliable indicator of future results.



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# MORE INFORMATION

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For more information about EBI Model Portfolios, or any of the other products and services that EBI provide, please contact us:

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