

INVESTMENT PHILOSOPHY

Built for the *long run.*

A Chapter3 Guide

The principles behind how I invest client money, the rules used to build portfolios and the behaviours the process is designed to protect against.

Investing comes down to *two questions*.

Most market commentary starts somewhere else: forecasts, headlines and recent winners. I prefer to start with the job the money needs to do.

QUESTION ONE

Why are we investing?

What is the money for, when may it be needed and what return does the plan actually require?

QUESTION TWO

How should it be invested?

What mix of assets gives the plan a sensible chance of working without taking more risk than is necessary?

COLIN'S VIEW

Most people assume investing is about making more. But many of the households I work with already have enough — which quietly changes the question from "how do I grow this?" to "why take any risk at all?" The honest answer is that "enough" does not stay still. Two forces work against it, and neither ever shows up on a bank statement. They are the two reasons that follow.

Cash can stay still while *its value falls*.

A bank statement shows the number of pounds. It does not show what those pounds can still buy. If the interest earned after tax is below inflation, the real value of the cash is falling. That does not make cash a bad asset — it makes it an asset for a particular job: emergency reserves, known spending, short-term withdrawals and money that cannot tolerate investment risk. Long-term money needs a different job.

UK CPI has averaged around 2.5–3% a year over the past 30 years, with notable peaks and quieter periods. The Bank of England's stated target is 2%. Cash held for many years at an interest rate below inflation loses purchasing power steadily, even where the balance itself is unchanged. Over a long retirement, the erosion is meaningful.

The point is not that cash is a bad asset. It is an excellent asset for the jobs it is designed to do — emergency reserves, short-term spending, known outgoings and money that cannot tolerate investment risk. It is a poor choice for the long-term money that has to keep pace with the cost of living.

The bank statement shows the number of pounds. It does not show what those pounds can still buy.

Inflation eroder

SET THE ASSUMPTIONS · WATCH THE VALUE FALL

Inflation each year	3.0%
Years from now	20 yrs

BUYS THE SAME AS

£55,368

TO STAND STILL, NEED

£180,611

VALUE LOST

45%

Illustrative. Purchasing power of £100,000 = £100,000 ÷ (1 + inflation)^years. Cash paying less than inflation loses real value every year, even where the balance is unchanged.

£100,000 today · what it can still buy

PURCHASING POWER OVER TIME

£55,368

£100,000 TODAY

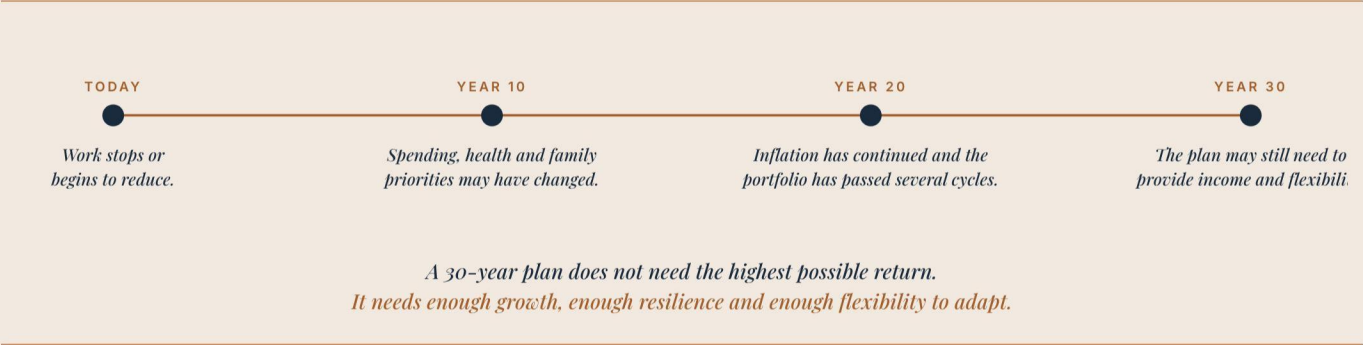
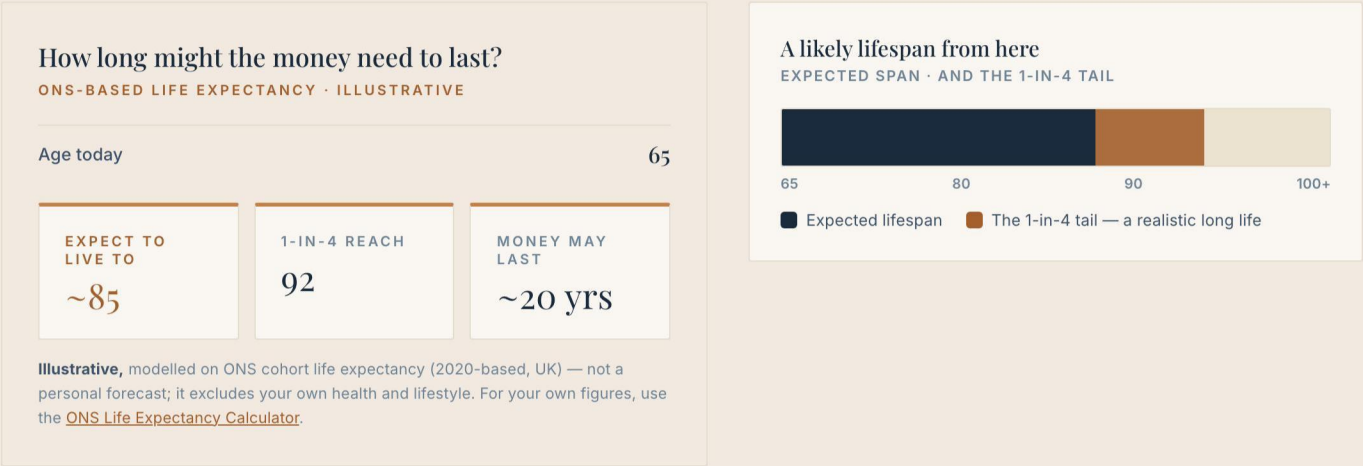
The balance on the statement is unchanged. What it will *buy* is not.

Sources: Office for National Statistics, Consumer Price Inflation time series; Bank of England, Inflation and the 2% target. Accessed June 2026.

Past performance warning: Historical inflation figures are drawn from published ONS data and do not indicate what future inflation will be. Actual outcomes will differ.

The money may need to *last longer than you expect.*

Retirement is no longer a short final stage of life. For many households it may last 25 or 30 years, and sometimes longer. The plan therefore needs to manage two competing risks: taking too much investment risk and suffering losses at the wrong time; or taking too little and allowing inflation to erode the spending power of the money. The answer is not the highest possible return. It is enough long-term growth, combined with cash and lower-risk assets for the years where stability matters more.



Source: Office for National Statistics, National Life Tables: UK, latest available edition. The 30-year timeline is a planning illustration rather than an individual life-expectancy forecast.

Own *productive businesses.*

An equity investment is a share of a real company: people, products, profits and future cashflows. The long-term case for equities is not that markets always rise smoothly. They do not. It is that profitable businesses adapt, invest, innovate and grow over time. A globally diversified portfolio spreads that exposure across thousands of companies rather than relying on one country, sector or forecast.



The return is not produced by a clever chart or a forecast. It comes from owning businesses that generate profits and adapt over time.

Compounding *rewards time, not activity.*

Investment growth becomes powerful when returns are allowed to build on earlier returns. The difficult part is that the useful result appears slowly. Frequent trading, high costs and repeatedly changing the strategy interrupt that process. A good long-term portfolio should be understandable, affordable and easy to leave alone.

An interactive compound-growth tool accompanies this section on the Chapter3 website. It lets you set your own starting amount, contribution level, return assumption and time horizon, and shows how the arithmetic of compounding responds. It is an educational tool for understanding the mechanism, not a projection of any particular outcome, and it is deliberately not reproduced as a fixed illustration in this document. Investment returns are not guaranteed and you may get back less than you invest.

Past performance warning: Historical returns and figures on this page are drawn from published market data and are illustrative only. Past performance is not a reliable indicator of future results. Actual returns will differ.

The best and worst days *often arrive close together.*

Leaving the market after a sharp fall can feel sensible. The problem is that recoveries often begin while the news still looks terrible. Missing a small number of strong days can materially reduce a long-term outcome. That does not mean every investor should hold the same amount of equity — it means the right level of risk should be agreed before the fall, with enough cash and lower-risk assets to avoid being forced into a decision at the worst point.



The answer is not to ignore risk. It is to choose a level of risk you can live with before markets become uncomfortable.

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Take the risk the plan needs — *no more.*

Higher expected returns normally require accepting larger and more frequent falls. The right portfolio is not the one with the highest expected return. It is the least risky portfolio that still gives the financial plan a reasonable chance of working. That depends on time horizon, the return required, secure income and cash reserves, capacity to absorb a loss, and how the investor is likely to react when markets fall.

CAUTIOUS <i>Chapter3 20</i> 20 / 80	MODERATE-CAUTIOUS <i>Chapter3 40</i> 40 / 60	BALANCED <i>Chapter3 60</i> 60 / 40	GROWTH <i>Chapter3 80</i> 80 / 20	ADVENTUROUS <i>Chapter3 100</i> 100 / 0
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BALANCED

Chapter3 60

Equities provide most of the expected long-term growth. Bonds provide diversification and a degree of stability.

EQUITY / BOND

60% / 40%

Equities provide most of the expected long-term growth; bonds provide diversification and a degree of stability.



UNDERLYING PORTFOLIO COST

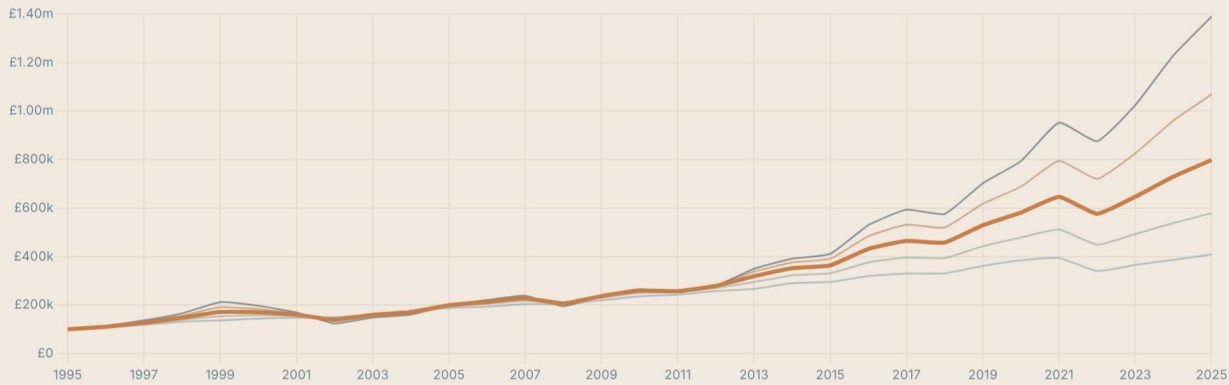
0.19% p.a.

Approximate weighted ongoing fund charge as at June 2026. Platform and advice fees are separate.

WORST CALENDAR YEAR (1995-2025)

-13%

Historical illustration: £100,000 invested 1 Jan 1995 to 31 Dec 2025, rebalanced annually
ANNUALISED RETURN · WORST CALENDAR YEAR · EQUITY/BOND SPLIT



Chapter3 20	Chapter3 40	Chapter3 60	Chapter3 80	Chapter3 100
30-YR TOTAL	30-YR TOTAL	30-YR TOTAL	30-YR TOTAL	30-YR TOTAL
+308%	+479%	+698%	+968%	+1289%
PER YEAR	PER YEAR	PER YEAR	PER YEAR	PER YEAR
+4.8%	+6.0%	+7.2%	+8.2%	+9.2%
WORST YR	WORST YR	WORST YR	WORST YR	WORST YR
-14%	-12%	-13%	-20%	-27%

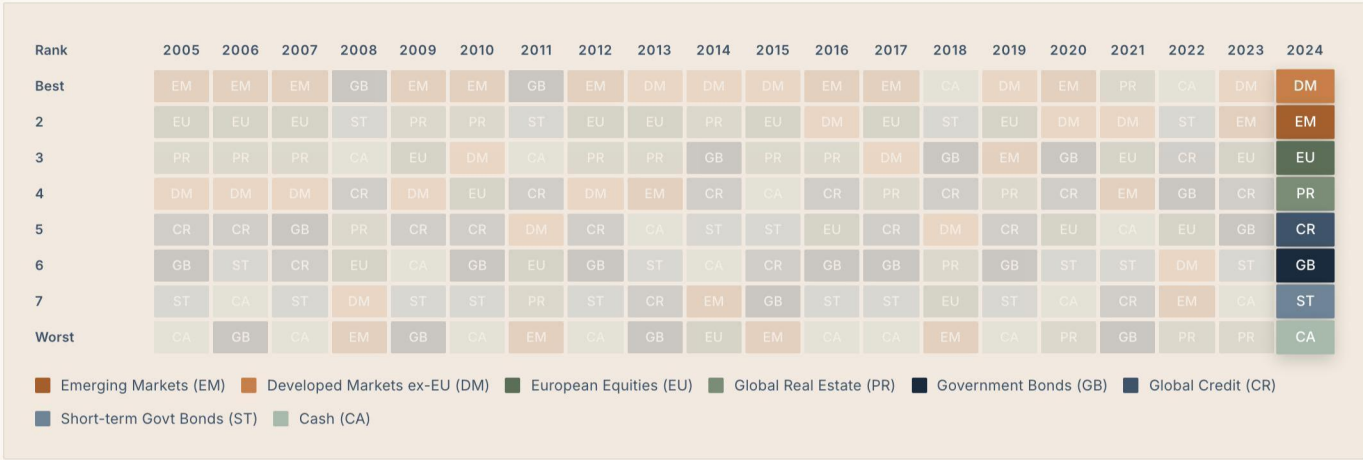
Higher-equity portfolios produced stronger returns over this period, but the journey involved larger temporary falls. The historical outcome is not a forecast.

- Chapter3 20 · 20/80
- Chapter3 40 · 40/60
- Chapter3 60 · 60/40
- Chapter3 80 · 80/20
- Chapter3 100 · 100/0

Sources and methodology: Equity proxy: MSCI World total-return data in GBP. Bond proxy: Bloomberg Global Aggregate Bond Index, GBP-hedged. Annual rebalancing. Gross of platform and adviser fees. Past performance is not a reliable indicator of future results.

Do not try to *pick the next winner*.

No one can reliably know which country, sector or investment style will lead next year. Diversification accepts that limitation and owns a broad spread instead. The purpose is not to hold every possible asset — it is to avoid allowing one prediction to decide the whole outcome. The quilt below shows annual asset-class leadership over time. **Leadership changes frequently. The pattern is the absence of a dependable pattern.**



Source and methodology: Annual asset-class total returns 2005–2024 (GBP terms where applicable). Index proxies and currency basis are listed on the Sources page. The UK is only a small part of the global listed-equity market — a large UK weighting is therefore an active choice rather than a neutral starting point.

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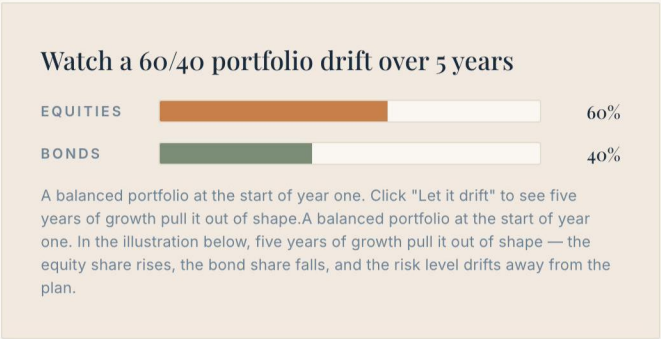
Use assets with *a clear job.*

The test is simple: how is the return expected to be produced, what can go wrong and what role does the asset play in the whole portfolio? Speculative assets may rise sharply, but they are not used for money the financial plan depends on.

LONG-TERM GROWTH Equities EARNINGS AND DIVIDENDS Long-term growth through ownership of profitable global businesses. The main engine of real return over multi-decade horizons.	STABILITY + INCOME Bonds INTEREST AND CAPITAL Income, stability and a counterweight to equity risk, depending on duration and credit quality.	SHORT-TERM SECURITY Cash KNOWN NOMINAL VALUE Short-term security and planned withdrawals. Not the main engine of long-term growth.
USED WHERE IT EARNS ITS PLACE Property & other assets RENT, YIELD, DIVERSIFICATION Used only where diversification, liquidity, cost and expected return justify their place. Held through diversified funds rather than concentrated direct positions.	OUTSIDE THE PLAN Speculative assets PRICE RELIES ON LATER DEMAND Speculative assets may rise sharply, but they are not used for money the financial plan depends on. A separate decision, made with money the household can afford to lose.	THE TEST What earns its place A CLEAR JOB How is the return expected to be produced? What can go wrong? What role does the asset play in the whole portfolio?

Markets move. *The portfolio is brought back to plan.*

A portfolio does not remain at its agreed risk level on its own. If equities rise faster than bonds, equity risk gradually becomes a larger part of the portfolio. After a fall, the reverse may happen. Rebalancing restores the agreed mix — usually trimming what has grown beyond its target and adding to what has fallen below it. The purpose is risk control, not a promise of extra return. It is done on a defined process rather than in response to headlines.



Trim what has *grown beyond its target*.
Add to what has *fallen below it*.

The purpose is risk control, not a promise of extra return.

It is done on a defined process rather than in response to headlines — so the portfolio stays at the agreed risk level rather than drifting away from it over time.

How I put it *together*.

No forecasts, secret funds or constant tinkering. The approach rests on four repeatable decisions.

PILLAR 01

SIMPLICITY

Invest in what can be explained.

Every holding has a clear source of expected return and a clear role.

If a holding cannot be explained simply, it does not belong in a financial plan that the household depends on.

PILLAR 02

GLOBAL

Use the global opportunity set.

The UK is one part of the world market, not the default centre of every portfolio.

UK equity sits at around 4% of the global market. A heavy UK weighting is a forecast, not a strategy.

PILLAR 03

BROAD & LOW COST

Keep the core diversified and affordable.

Most of the portfolio is held in broad, evidence-based funds.

Active or factor-based positions are used only where there is a clear reason, supporting evidence and a cost that can be justified.

Supporting evidence: S&P Dow Jones Indices, SPIVA Europe Year-End 2025. See the sources page for details.

PILLAR 04

GOALS

Set risk around the financial plan.

The portfolio is calibrated to the required return, the ability to absorb losses and real behaviour during difficult markets.

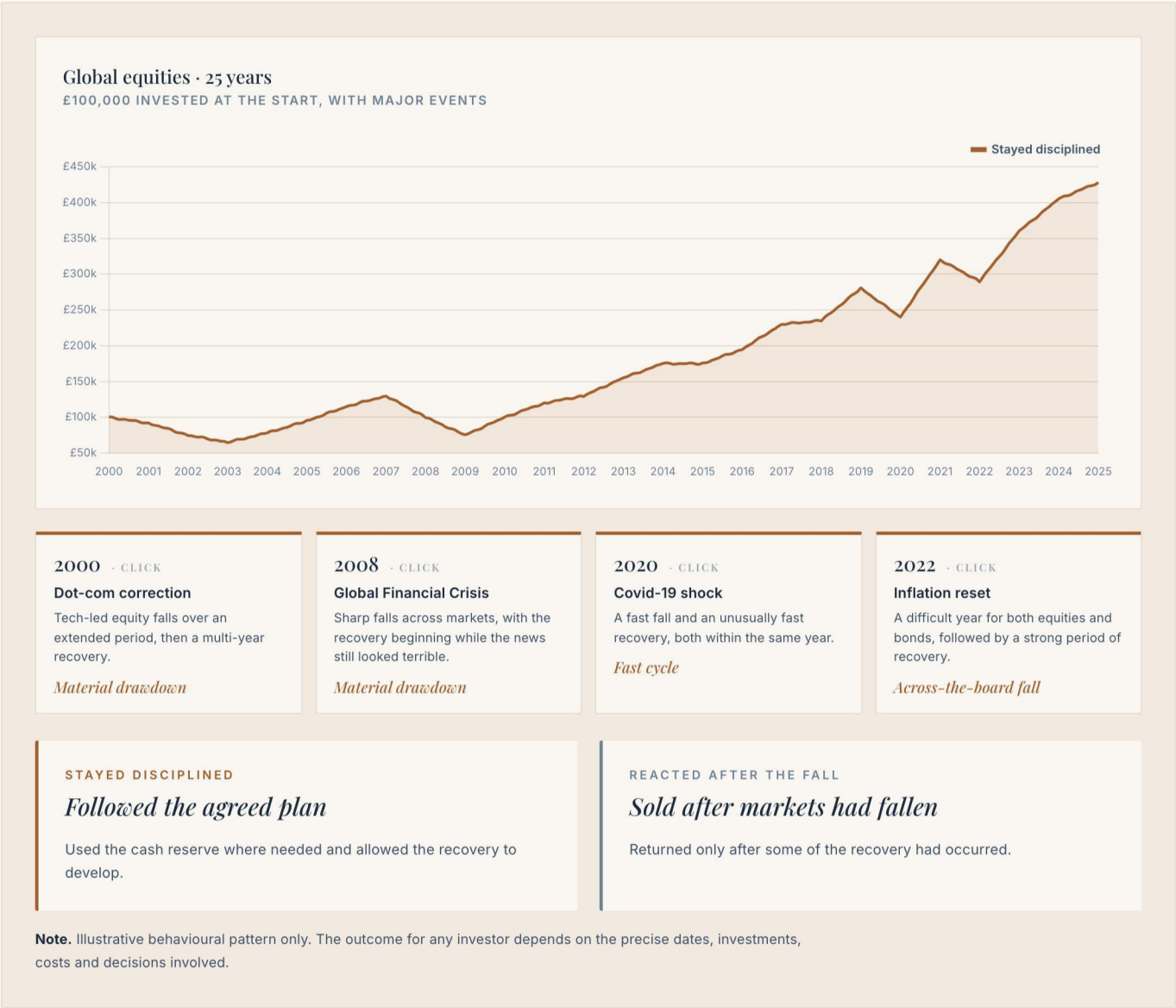
Most clients sit in C40–C80. The right level is the one that gives the plan a sensible chance of working without taking more risk than is necessary.

COLIN'S VIEW.

My job is not to produce an exciting portfolio. It is to make sure investment decisions support a good financial plan rather than undermine it.

A sensible portfolio can *still be used badly*.

Investors are most tempted to change course after markets have already moved. They buy when confidence is high, sell when fear is high and often miss part of the recovery. Part of my job is to help distinguish between a plan that genuinely needs changing and a market fall the plan was already built to survive. The portfolio, cash reserve and withdrawal strategy should be designed so that staying disciplined is realistic, not merely expected.



See how the assumptions *affect the outcome.*

Change the starting amount, contribution, timeframe and portfolio assumption to see how the illustration moves. The result is not a forecast — real returns arrive unevenly, costs vary and losses can occur at any point. The useful question is not whether the final figure is precise. It is whether the plan is relying on an unrealistic return or an uncomfortable level of risk.

Chapter3 20 20 / 80 +3.0% p.a.*	Chapter3 40 40 / 60 +4.5% p.a.*	Chapter3 60 60 / 40 +5.5% p.a.*	Chapter3 80 80 / 20 +6.5% p.a.*	Chapter3 100 100 / 0 +7.5% p.a.*
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* Illustrative long-term nominal return assumptions, not forecasts or guaranteed returns. Real-world returns arrive unevenly. You may get back less than you invest.

An interactive portfolio comparison accompanies this section on the Chapter3 website. It allows you to select a portfolio, set your own inputs and see how different asset allocations behave under a stated set of assumptions. The return assumptions used are illustrative long-term figures rather than forecasts, and the tool is intended to explain how allocation affects the shape of an outcome — not to project the value of any particular portfolio. It is therefore not reproduced as a fixed illustration here. Investment returns are not guaranteed, values can fall as well as rise, and you may get back less than you invest.

Five questions about *what you own*.

If these answers are difficult to find, the issue may not be the individual funds. It may be that no one has explained the portfolio clearly enough.

i.

What percentage is held in equities, bonds and cash?
Look at the total position across all pensions and investment accounts, rather than each wrapper separately.

ii.

How much of the equity exposure is genuinely global?
The UK is only a small part of the global market. Any larger UK weighting should be deliberate and understood.

%

%

iii.

What is the total annual cost in pounds and percentage terms?
Include adviser, platform, fund and portfolio-management charges.

%

% · £

iv.

What fall should you expect in a difficult market?
The answer will not be exact, but the likely scale should be understood before the fall occurs.

%

%

v.

What rule determines when the portfolio is rebalanced or changed?
There should be a defined process rather than a change being made whenever someone feels uncomfortable.

How to read the answers. If most are easy to find, the portfolio has probably been explained properly. If two or three are difficult, that itself is useful information. It does not automatically mean anything is wrong — it means the position deserves a clearer explanation.

Focus on what *can be controlled*.

A good investment process spends most of its effort on the things that can be controlled — and very little on the things that cannot.

WE CAN CONTROL

What we control

- The purpose of the money
- The amount of risk taken
- Diversification
- Costs and turnover
- Tax wrappers
- Cash reserves and withdrawal order
- Rebalancing
- Behaviour during difficult markets

WE CANNOT CONTROL

What we don't

- Short-term market returns
- Interest-rate forecasts
- Elections and headlines
- Which asset class wins next year
- The exact timing of the next fall or recovery

The most useful investment process is the one you can understand, afford and stick with when markets become uncomfortable.

— CHAPTER 3

Thank *you*.

Want to talk?

A 30-minute introductory call is usually enough to understand what you currently own, what the all-in cost is and whether the structure supports the wider financial plan.
Bring the latest investment statement, the fund or portfolio names and the fees being paid.

colin@chapter3fp.co.uk

Sources and *important information.*

The charts and calculators use long-run historical market data and simplified assumptions to explain investment principles. They are educational illustrations, not forecasts.

PAGE 03 · INFLATION

Office for National Statistics, Consumer Price Inflation time series (series ID D7BT, all items CPI, monthly index 12-month rate). Bank of England, 2% inflation target. Calculator is illustrative constant-rate compounding, calculation by Chapter3. Accessed June 2026.

PAGE 06 · COMPOUNDING

Chapter3 calculation workbook. Static constant-rate compounding with monthly contributions: cash illustration 1.5% p.a.; investment illustration 7.0% p.a. (default). Not a forecast.

PAGE 09 · ASSET-CLASS QUILT

Annual total returns 2005–2024 (GBP terms). UK equity: FTSE All-Share TR. US equity: S&P 500 TR (GBP). Developed ex-UK equity: MSCI World ex-UK NR (GBP). Emerging equity: MSCI Emerging Markets NR (GBP). Global REITs: FTSE EPRA Nareit Developed TR (GBP). Investment-grade bonds: Bloomberg Global Aggregate, GBP-hedged TR. High-yield: Bloomberg Global High Yield, GBP-hedged TR. UK cash: SONIA / Bank of England base rate. 60/40 reference: 60% MSCI World NR (GBP) / 40% Bloomberg Global Aggregate GBP-hedged, rebalanced annually.

PAGE 13 · MARKET-EVENT TIMELINE

Drawdown context drawn from MSCI World NR (GBP) and S&P 500 TR index series for the dot-com correction (2000–2002), the global financial crisis (2007–2009), the Covid-19 shock (Feb–Mar 2020) and the 2022 inflation reset. "Disciplined" and "reactive" labels illustrate behaviour, not specific investor outcomes.

PAGE 04 · LONGEVITY

Office for National Statistics, National Life Tables: UK, 2020–2022 edition (latest available). The 30-year timeline is a planning illustration rather than an individual life-expectancy forecast.

PAGES 08 & 14 · PORTFOLIO ILLUSTRATION

Equity proxy: MSCI World Index, net total return, GBP. Bond proxy: Bloomberg Global Aggregate Bond Index, GBP-hedged, total return. Period 1 Jan 1995 to 31 Dec 2025. Annual rebalancing. Income reinvested. Gross of platform, adviser and fund charges (page 14 deducts a 0.19% p.a. underlying-portfolio charge in the illustration only). Chapter3 calculation workbook.

PAGE 12 · PILLAR 3 SUPPORTING EVIDENCE

S&P Dow Jones Indices, SPIVA Europe Year-End 2025. 10- and 20-year periods to 31 Dec 2025. The share of active funds that beat their benchmark after fees varies by category, but is consistently in the minority across the categories most relevant to UK retail portfolios.

COST FIGURES

The 0.19% p.a. underlying-portfolio cost is the weighted ongoing fund charge across the Chapter3 model portfolios, checked against current fund factsheets in June 2026. Platform and adviser charges are stated separately and are not included in the illustrations.

Past performance is not a reliable guide to future returns. Investments can fall as well as rise and clients may receive back less than they invest. Tax treatment depends on individual circumstances and may change. This guide is general information rather than personal advice.

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