



## WHY ASSET ALLOCATION IS IMPORTANT

Checking that the investment portfolio matches your clients' needs is a key part of good investment governance and helps you to ensure Treating Customer Fairly (TCF) outcomes are met.

In order to ensure that an investment portfolio is suitable for a client, it's important to check asset allocation.

For many clients, spreading investments across a mix of asset classes can be a sensible approach in order to reduce risk. The problem is that working out what the

best asset allocation spread is for each of your clients and constantly reviewing this can be a complex area, never mind taking up valuable time and resource...

...and that's why we place particular focus on asset allocation governance within our Governed Range.

## ANNUAL RETURNS FROM DIFFERENT ASSET CLASSES

The diagram below shows the annual returns from different asset classes in recent years.

	30/09/2017 To 30/09/2018 % Growth	30/09/2016 To 30/09/2017 % Growth	30/09/2015 To 30/09/2016 % Growth	30/09/2014 To 30/09/2015 % Growth	30/09/2013 To 30/09/2014 % Growth	30/09/2012 To 30/09/2013 % Growth	30/09/2011 To 30/09/2012 % Growth	30/09/2010 To 30/09/2011 % Growth	30/09/2009 To 30/09/2010 % Growth	30/09/2008 To 30/09/2009 % Growth
Highest	21.31	22.57	36.67	11.37	19.61	44.92	25.61	11.86	22.35	33.12
	13.01	19.00	35.29	10.52	14.68	30.50	23.10	7.76	18.21	26.13
	8.39	17.77	34.60	10.11	8.79	30.48	21.43	3.87	17.00	25.49
	7.03	14.84	32.18	9.01	7.50	27.13	17.25	2.99	12.49	19.80
	5.87	14.64	24.08	8.21	6.75	19.00	16.06	2.31	11.81	15.76
	5.80	14.27	22.75	6.37	6.09	18.93	13.32	2.14	11.52	12.81
	4.92	12.59	21.77	6.28	5.86	16.81	13.19	2.05	11.39	11.94
	2.43	11.94	16.82	4.47	5.65	15.83	12.46	0.58	9.46	11.22
	2.40	10.40	14.00	0.48	5.56	5.77	8.29	-4.19	7.25	10.80
	1.34	7.85	12.64	-1.79	5.26	3.86	7.65	-4.36	5.16	5.31
	0.65	0.24	10.51	-2.30	4.55	2.97	4.59	-4.52	2.30	3.96
	0.62	-0.20	10.16	-3.00	3.92	1.04	1.50	-6.84	0.97	3.75
	0.50	-3.56	0.45	-9.65	1.26	0.49	0.59	-13.58	0.53	1.88
Lowest	0.16	-3.79	-0.66	-13.29	0.47	-3.02	-5.16	-14.92	-0.62	-17.19

### Index

ABI UK - UK Direct Property-Pen
FTSE 250 TR GBP
FTSE 350 Higher Yield TR
FTSE Actuaries UK Conven Gilts All Stocks TR GBP
FTSE Actuaries UK Idx-Lnk Gilts All Stocks TR GBP
FTSE All-Share TR
FTSE AW Europe ex UK TR GBP

### Index

FTSE Small Cap ex Investment Trust TR GBP
LIBID GBP 7 Day
Markit iBoxx Sterling Non Gilts Overall TR
MSCI AC Asia Pacific TR GBP
MSCI EM (Emerging Markets) TR GBP
S&P 500 TR
Topix TR

Source: Lipper, UK Pound Sterling returns, as at 30.09.2018. Past performance is not a guide to the future. Prices can fall as well as rise meaning you may not get back the value of your original investment. Investment returns may fluctuate and are not guaranteed.

If you think it looks like a ‘patchwork quilt’ you’d be right – even a cursory glance shows us that a single asset class is never the best for long and the fortunes of a particular asset class can quickly change. Not only that but it’s clear from glancing at the returns that some asset classes are more risky than others.

With all this uncertainty and the difficulty in linking the best asset allocation mix to risk profiles, we believe that it pays to have expert oversight.

And that’s why asset allocation governance lies at the heart of our Governed Range, helping you to provide a strong investment process to your clients and giving you support in meeting your TCF responsibilities.

## HOW WE CAN HELP

Our Governed Range of portfolios and lifestyle strategies are designed to provide an asset allocation depending on your client’s attitude to risk and time to retirement.

And our governance promise means that all of our investment options have a formal review process to ensure they continue to remain true to their time and risk profiles.

This can help you meet the TCF outcome to provide suitable advice that takes account of client circumstances.

## WHAT DOES THE REVIEW PROCESS PROVIDE?

- It reviews the asset allocation against the risk category to ensure it continues to remain appropriate. Any necessary changes are made automatically.
- It checks that the asset allocation continues to deliver amongst the best expected returns for the risk being taken, using modern portfolio theory techniques.

- Access to the expertise of Moody’s Analytics, a world-leading company in this field. For each review they carry out an extensive analysis of historical and current financial data, combined with a stochastic modelling process of the future. This quantitative analysis is overlaid with qualitative analysis from our Investment Advisory Committee.
- A clear audit trail of the asset allocation decision making process published on our website quarterly.
- You automatically benefit from this support if you choose an option from the Governed Range.

## HOW THIS BENEFITS YOU

- It means the portfolio that you identified as giving the best potential returns for the amount of risk taken is maintained.
- It reduces the need for you to constantly monitor your clients investment split and you don’t need to get subsequent approval from your client each time updates are made.
- It provides help in meeting TCF outcomes as the asset allocation remains matched to your client’s initial risk attitude as time passes.
- There is no extra cost for this service.

## HOW THIS BENEFITS YOUR CLIENT

- They can be comfortable with the level of risk they are taking at outset.
- As time passes their investments will be automatically updated to maintain the asset allocation in line with this level of risk.
- They can review the outcome of our Investment Advisory Committee meetings on our website every quarter.

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