

The Key Elements for Investment Success



MICHAEL HAYES

Investment Development
Manager
Irish Life

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'Diversification is vital to maintain balance within a portfolio'
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You would be forgiven for thinking that the title of this piece hints at some closely guarded secrets. In practice, however, it's more about common sense than any kind of investment alchemy. The role of a good advisor can be critical for successful investing: keeping clients on track and helping them avoid short-term thinking that may be detrimental to their long-term plans. I recently made presentations to PIBA Brokers at nationwide seminars on the topic of investments and how Irish Life can assist Brokers in planning effective investment solutions for clients. Part of the presentation referenced Vanguard, the world's largest index fund manager, who recently* laid down some solid guidelines for investing success by identifying four key areas: goals, balance, costs and discipline.

Identifying goals should be the first step in any investment plan. It is essential that clients also understand and are comfortable with risk. The risk of funds is now commonly rated on a scale of 1-7 but the advisor's role is critical in helping clients to understand the relevance and potential impact of a given level of risk in terms of their investments. Risk questionnaires are an important tool to aid an advisor's qualitative assessment of clients' needs, but they are no substitute for knowing and understanding a client's attitude to risk.

Diversification is vital to maintain balance within a portfolio. Decisions around what assets to invest in should match the portfolio's objectives, based on reasonable expectations for risk and returns. The danger of not rebalancing was clearly highlighted during 2007 when equities made up nearly 80% of the average fund, from a long term average of just over 70%. By the time markets started to recover in early 2009, this had fallen to just 60%. Consistent and timely rebalancing of a portfolio effectively manages the risk of it drifting away from its long-term target and keeps your client on track.

There are many things that are outside of our control, such as market returns and fund performance, but one thing we can control is costs. This is not to say that the lowest cost solution is always the best option, but obviously higher costs can significantly depress a portfolio's growth over long periods.

Discipline is the last principle for investing success. In terms of rebalancing, clients may resist selling down recent winners or increasing losers as it may seem counterintuitive to sell out of assets when they have performed well. The important thing is to stick to the agreed long-term asset allocation.

At Irish Life, we share the sentiment behind many of these investment principles. We are celebrating our 75th anniversary this year and have long recognised the benefit of planning for the future using our unit linked life and pension plans. Most recently, we leveraged our experience with expertise and global relationships to deliver the MAPS range of risk-rated funds available on our products. We believe that the four key benefits of MAPS strongly relate to the key elements for investment success.

Giving choice through a range of funds

There is one fund for each risk level — from careful to adventurous — available on our pension, savings and investment plans. Once you have identified the appropriate product for your client, using a risk questionnaire will help identify the appropriate Irish Life MAPS to set your client on the way to achieving their investment goal.

Generating smoother long-term returns

The most effective way to minimise risk and volatility is through diversification, and the Irish Life MAPS funds contain multiple layers of diversification. The funds are multi-asset (investing in shares, bonds, property, cash) multi-strategy (investing in passive, active, traditional and alternative strategies) and are also multi-manager, bringing together Irish Life Investment Managers (ILIM) and some world class alternative investment specialists chosen by ILIM. This level of diversification helps smooth or 'balance' the long term returns.

WARNING: The value of your investment may go down as well as up.

WARNING: If you invest in these funds you may lose some or all of the money you invest.

WARNING: These funds may be affected by changes in currency exchange rates.

Managing risk to stay on track

Rebalancing is a core investment discipline and ILIM rebalance the MAPS funds on a quarterly basis in line with the long-term strategic asset allocation for each fund. In addition all of the MAPS funds use the Dynamic Share to Cash (DSC) model. It is important to note that the DSC looks at long-term movements and trends in the market and is not designed to react to one-off or short-term jumps or shocks.

Delivering peace of mind

Irish Life MAPS aims to manage the uncertainty during your clients' investment journey. But most of all, you can take comfort from the fact that Irish Life MAPS represents the very best of what Ireland's biggest investment manager has to offer (€35.9bn in AUM, IAIM survey Dec 2013).

* Vanguard's principles for investing success, 2013.

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