Connection

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Selection of industry features for the professional adviser

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Features Synaptic Risk table inside, plus:

- The magic of markets: considering Risk, Capacity for Loss & Term. Eric Armstrong
- What MiFID is about when it comes to risk. Eric Armstrong

PROTECTION

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- Knowing me, knowing you. Introducing the Synaptic team

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The RSMR Discretionary Portfolios can be mapped to match existing risk profiling tools with choice and flexibility being key for the investor and adviser alike.
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Is Capacity for Loss irrelevant?

Following last year's investment into the Synaptic Suite, we are currently mid-way through our 'discovery period', where we are formalising our ideas in collaboration with our customers, and reflecting in design terms, what modern software can bring to the nuanced area of expertise we serve, the UK financial adviser.

In relation to our working assumptions in this task, one of the strangest points discussed on social media has been the 'capacity for loss is irrelevant' thread, something Synaptic could not agree with.

We can only assume that there are advisers out there who do not have a useful or proven guide to the likely outcome of any given investment or reliable measure for the likely losses that will be sustained in a 'bad year' (e.g. defined as one in twenty). This is a measure that can be taken straight from the stochastic simulation – and arguably the most reliable measure to input into consideration of a client's 'Capacity for Loss'.

Stochastic methodology has rocketed in importance, especially now that planning must deal increasingly with longevity and market risk in retirement. In absence of certainty, all we have is probability, so the proven accuracy of your forecasts, now tested by MiFID, will be essential for compliance as well as defining the success of your investment strategies. We can only assume that there are sub-standard models operating out there.

The Synaptic Risk approach is defined by Moody's Analytics research, and we are constantly checking and re-checking the reliability of the model. This is the same model whose assumptions famously accurately captured the likelihood and extent of losses for the 2008 downturn, following which no alterations where required, unlike their competitors who were often 'miles off'.

We would encourage any firm who is reviewing this particularly difficult area to download the Synaptic Risk White Paper from the Synaptic website, which seeks to explain the use of the Moody's model to create an efficient frontier and build an investment strategy.

The Moody's stochastic model resides at the heart of Synaptic's future plans, and when taken into consideration, takes 'Capacity for Loss' beyond relevant to indispensable.

Eric Armstrong
Editor

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Investec
Asset Management

Confessions of a value investor

Fallen angels or just the deeply unloved

Alastair Mundy | Head of Value | Investec Asset Management

Renowned value investor Alastair Mundy provides insight into how he and his team categorise the companies they select for their value portfolios.

Before buying a share, it is often a good thought exercise to try and understand why another investor is happy to sell it to you. After all, it is very likely that person is a professional investor with access to the same information as you, but has reached a diametrically opposed view. Sometimes the reason may have nothing to do with the underlying company – for example – the seller might be desperate to raise cash. More often, there is something else at play.

Over the years we have found we can put these more meaningful reasons into five separate pots. And each pot has a classic investment cliché we can attach to it.

Firstly, we like to invest in **fallen angels**. These are stocks which were previously adored by investors and viewed as having pre-eminent business models. However, at some point something happened – a large but non-fatal blow – which damaged investors' perceptions to such an extent that they lose hope in the business ever regaining its prime position, 'It used to be a good company, but now the competition's caught it up'. We often conclude that the company has temporarily lost its way but, despite a share price fall, that its longer-term prospects are fine…and just as importantly that investors will return and pay a higher price when the company is back on track.

Secondly, we invest in **cyclical winners**. These companies have perfectly respectable business models but can find themselves buffeted about by issues beyond their control. Perhaps supply has grown significantly ahead of demand in their industry or an economic recession has badly affected demand for their product. In this case, we hear comments such as, 'Why would I buy ahead of a recession'. The point here is that if the shares have already fallen heavily they may well already discount such a recession.

Thirdly, we look for **special situation recoveries**. A company may have disappointed because of unsuccessful acquisitions or poor strategic decisions. New management may have been appointed but have made it clear that the issues are complex and even if solvable, will take some time to correct. 'This stock's dead money. I can't see a catalyst' say the naysayers.

Fourthly, we try and find **hidden assets;** those parts of an underperforming business that are still doing well or are simply more valuable in another company's hands. This provides us with some confidence that much of the value of the company is under-written by the good parts and will hopefully be supported by the more troubled areas if they can be brought back to good health. Many investors have at this point given up hope and are more likely to believe the last shoe is about to drop, 'I'm selling before it gets too embarrassing for me'.

Finally, there are some companies which are simply **deeply unloved** because investors can see no future – only obstacles for the company. 'It's a poor business' or worse 'It's in structural decline'. We need to take these claims seriously, but often find companies have been driven into the ground by poor management and that a new set of eyes can provide a new perspective for a struggling business.

We hold companies from all these buckets within the portfolios in our Value capability. They will not all prosper and some may sorely test our patience before recovering, but historically we have found that stocks perhaps too eagerly discarded by other investors can potentially produce good long-term returns.

www.investecassetmanagement.com/value-investing

The value of investments and any income generated from them can fall as well as rise. Past performance is not a reliable indicator of future results. Investment objectives and performance targets may not necessarily be achieve, losses may be made.

There is a huge difference between good and great advice

Garrett Harbron | Head of wealth planning research | Vanguard Europe
Anna Madamba | Senior research analyst | Vanguard's Center for Investor Research

Advisers who understand the interplay between trust and satisfaction will make an exponential difference to their business, and to their client outcomes.

The only surprises about the advice gap are that it is not a lot larger than it is, and that it isn't a much hotter political potato.

The advice gap matters because financial advice is the best response we have to one of the most significant crises facing the UK – the retirement crisis. It currently takes a million pounds of investible assets, at an average annual return of 3%, taxed at 20%, to earn the mean personal income of £24,000.

Who thinks a million pounds in liquid assets is a lot of money? Probably most people. How many think £24,000 is a rich income? Probably almost no one. And that is just for a pension. Never mind late-life care, tuition fees, a home, a bequest, funding to start a business or any of the hundreds of other financial goals people may have.

Investors realise they need to act, but the task is a daunting one. Investors are confronted with a choice of literally thousands of funds, all of them offering uncertain outcomes, most of them requiring complex management and many of them expensive to the point of self-defeat. This has led to a sharp increase in demand for advice.

Market data backs up this growth in demand. According to figures collated by Platforum, assets under advice in the UK now total £521 billion as at September 2018, up from £64bn ten years ago and a rise of 25% since 2016[1].

The questions we need to answer are not whether advice is needed or why, but how it should be delivered and what it should look like.

It was from this starting point that Vanguard launched its 2018 UK Adviser-Client Survey. Some of the findings confirmed what many of us have suspected. Others were a surprise and may lead to further research.

Three significant, inter-related themes emerged from the survey:

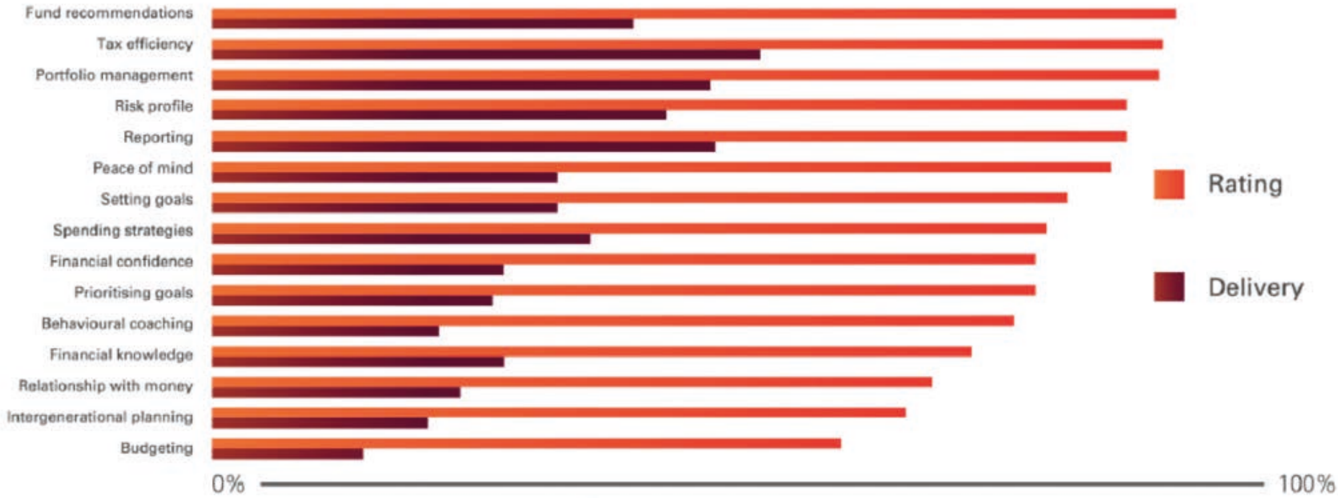
- There appears to be a gap between what clients (and advisers) rate as important in advisory services, and what clients feel is actually delivered
- Advisers are deploying automations in ways that seem to have the potential to help close that gap
- It is at the interplay between trust and satisfaction, between basic and holistic services, that advisers are at their most powerful

Perception Gap

Advisers and clients consider the services offered by advisers as valuable -- it would be curious if they didn't. But there appears to be a "gap" between the services advisers say they offer and the services clients report receiving from their adviser. While advisers report delivering a high number of services, the rate at which clients report receiving those services is far lower.

[1] Source: Platforum.

Client 'feeling' for delivery



Source: Vanguard

There may be a number of reasons for this. One is that advisers may be over-confident in assuming that their clients understand what they are doing and why. Another might be that advisers are struggling to communicate the value of their services. Our sense is that it is the latter rather than the former, but it is a point that might warrant further research.

Interestingly, when we asked advisers to value the same set of services in terms of revenue, there was little discernible correlation either with what clients valued or with what they felt was being delivered. A slightly worrying observation was that the most lucrative services are those which are easiest to automate.

Automation

We tend to think of automation as 'us and them'. There are robo-advisers 'out there', their massive, mindless algorithms chomping up market share, while human advisers work courageously on from the trenches, 'over here'.

The evidence does not support such a view. The relatively slow uptake of pure robo-advice offerings, both in the UK and the US, suggests to us that this is a model that will likely remain at the margin. According the Vanguard Adviser-Client Survey, what is actually happening is that advisers are developing a hybrid model that combines automated processes and personal interaction, a model that in our view has significant potential to close the perception gap by freeing time to communicate value.

We asked advisers to indicate which of their services they were automating, they intended to automate, or that they expected never to automate. What we found was that in many cases a large proportion of core services were already automated, or were in the process of being automated. These services included reporting, rebalancing, risk profiling, asset allocation, portfolio management, fund selection and cashflow projections.

This suggests that, at least in the near-term, the competitive risk from automation is not the pure-play online service but the adviser across the street. If your closest competitor is automating more than you are, he or she is likely to be reducing costs, speeding their processes and freeing their time to focus on building good client relationships and offering more holistic financial planning services, thus showing more value to their clients.

That is the tactical threat, the threat that most advisers need to think about in the short to medium term. Longer term, the evidence points in a different direction. Among advised clients who mix a personal financial adviser with a robo offering, 80% were under 40 while only 5% were over 60.

Among those who would be likely to shift to robo-only, 60% were under 40 while only 8% were over 60.

There was a further qualitative skew in the data that we thought was especially interesting. This was that sophisticated investors were also strongly represented among those most inclined to increase their use of fully automated services.

If your younger and more sophisticated clients are both tempted by robo-only and robo-biased offerings, this suggests a clear strategic threat and one that advisers might like to think about sooner rather than later. One way advisers can start to address this threat is by shifting their mix of services. Our survey found that while younger clients are more willing to adopt robo-advice, they also tended to value more holistic services, such as financial knowledge, good behaviours, goal setting, prioritising and the like -- services which are very difficult to automate.

Trust vs Satisfaction

Every shopkeeper knows that trust and satisfaction are important to keep customers happy and coming back. An unexpected finding in the survey was that, for financial advisers, the relationship between trust and satisfaction is not linear.

Given the importance of financial advice, we need to think not only about the extent and the cost of delivery, we also need to think about the means of delivery and the quality of the advice.

For an adviser, the benefits of having clients who are both high-trust and high-satisfaction are exponential. Take the number of clients putting all their investible assets with one adviser. For clients scoring medium-trust and medium-satisfaction the figure is 21%. For those scoring high-trust and medium-satisfaction, it was 31%. But for those with high-trust and high-satisfaction, it was 58%.

In other words, a shift from okay to great brought a three-fold likelihood in a client entrusting all their assets with their preferred adviser. In money, the difference was around £200,000.

Similar shifts were evident in other key service areas. Looking at those 'very unlikely to switch adviser', the score was 9% for medium-trust and medium-satisfaction, but 61% for those with high-trust and high-satisfaction.

Conclusion

Given the importance of financial advice, we need to think not only about the extent and the cost of delivery, we also need to think about the means of delivery and the quality of the advice. The Vanguard 2018 Adviser-Client Survey was an attempt to contribute meaningful statistical data to that conversation. It brought home some hard truths. It showed that clients are not feeling the value of the advice they are receiving. But it also showed that advisers are deploying technology to close that gap, and those that strike the sweet spot between client trust and satisfaction will be greatly rewarded.

Register your interest in a workshop on the UK Adviser-Client Survey:

https://www.vanguard.co.uk/adviser/adv/campaign/advantage-of-advice.jsp

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A multi-asset approach to retirement

Jonathan Arthur | Fund Product Specialist | Architas

In a Q&A, Jonathan Arthur explains why an investment style based on sound diversification can benefit pension holders

How can a multi-asset approach help a couple about to retire?

When people enter retirement, the investment risks they face change significantly. A couple that first starts to draw an income from their pensions is exposed to 'sequence risk'. So, if there is a significant market downturn at the time they begin to take a drawdown from their pension pots, then these market losses can become compounded. In other words, these initial market losses will have a negative knock-on effect on future pension returns.

A truly diversified multi-asset portfolio of bonds, equities and alternatives can help mitigate sequence risk. This is because the assets in a well-diversified portfolio can respond differently to particular economic factors. So, if some assets in a well-diversified portfolio are negatively affected by an economic event, others might be positively affected by it. As such, the probability of substantial declines occurring in a well-diversified portfolio would seem lower than in a poorly diversified portfolio.

We have recently seen government bonds performing positively at a time when equity markets have been weak. This highlights the continuing relevance of a mixed portfolio approach.

But the appropriate risk level of a multi-asset portfolio needs to be considered carefully. Taking too little risk can leave investors exposed to 'risk of ruin' towards the end of their retirement.

What multi-asset portfolios are available?

A key choice for multi-asset portfolios is between static and dynamic asset allocations. A dynamic asset allocation is typically updated every quarter to reflect the recent risk-and-return expectations for each asset class. In times of market stress, a fund with a dynamic approach may reduce exposure to riskier asset classes, such as emerging market equities. A static allocation remains rigid no matter what happens, for example 60% equities and 40% bonds.

Pension freedoms and defined benefit (DB) pension transfers have fuelled a boom in retirement solutions, particularly in multi-asset portfolios. With most pensions required to deliver income for periods of more than 25 years, the compounding effect of costs and charges can have a real impact on investment values.

Total annual fees or 'ongoing charges figures' (OCFs) typically range from 0.25% to 1.5%. Advisers must objectively analyse if the higher fees represent good value for money. The choice between using active or passive funds can also be key here, as passive funds generally have lower charges.

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Some retirement solutions offer benefits such as guaranteed incomes and capital protection. These can seem attractive, but are really forms of insurance that don't always lead to the best client outcomes.

How do multi-asset portfolios create retirement income?

Multi-asset products can be broadly split into two categories. The first, which often comes in the form of an income investment based largely on equities, distributes a yield-based annual income, such as 4% or 5%, for the entire retirement period. This income should match the annual spending requirements of the pensioner, while leaving the capital untouched. The second enables a sustainable drawdown from invested capital, such as 4% or 5%, for the entire retirement period, while ensuring the pension pot is not depleted before death.

There is an academic debate regarding the validity of each approach. Equity income investments were hit hard when the US Federal Reserve decided to raise interest rates, which sometimes translated into poor returns for these strategies. A multi-asset portfolio that enables a sustainable drawdown rather than a distributed yield can offer a more diversified approach.

Jonathan has been a senior multi-asset product specialist for the past three years. He provides technical investment expertise globally for multi-asset, specialist income, real assets and alternative investment strategies.

For further market insight please visit **www.adviserpointsofview.com**

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For more information, call us on 020 7562 4900; Monday to Friday 9.00am – 5.00pm, calls may be recorded, or visit **architas.com**

Environmental, social and governance investing

Steve Nelson | Head of research | the lang cat

Did you groan and roll your eyes? Shame on you! Shame! If there's anything the last few weeks of climate change protests or the continued distrust in financial services since the 2008 crash has shown us, is that this is a concern that isn't going away anytime soon.

Remember the days when 'ethical' investing was something that only really 'green' people used to ask about? You know the type; their hair was a wee bit frizzy, their kids were badly behaved, they wore old cardigans and smelled a bit (we've got a word for that in Scotland – foosty - look it up).

Outrageous stereotypes aside, nowadays it's difficult to pick up a trade publication or attend an event without hearing about the latest ethical development in the sector. Whether that be a new investment fund, a new piece of corporate governance or a change in corporate responsibility protocols. All sounds delicious.

We're suspicious types at the lang cat so we tried to get a handle on actual investment demand in our recent adviser census[1]. We asked our adviser panel about the demand they had seen from their clients for socially responsible investments and whether that translated into actual usage of ethical investments;

- 74% of respondents said that they use or consider socially responsible investments as part of their client investment proposition.
- However, only 5.7% of respondents reported that there has been a significant increase in clients asking them about socially responsible investments in recent years. 33.8% reported a slight increase with 60.0% reporting no real change.
- For 80% of advisers, the socially responsible component of the overall investment proposition is less than 10%

That's a lot of percentages to digest, so what does this tell us? It tells us that interest in ESG doesn't appear to be going away but that the pace of demand doesn't appear to be matching the wider socially-responsible tone of voice in other aspects of society.

Interest in ESG doesn't appear to be going away but that the pace of demand doesn't appear to be matching the wider socially-responsible tone of voice in other aspects of society.

[1] 235 members of the advice community took part in State of the Adviser Nation in December 2018.

Investing responsibly is nothing new. Charities have been doing it for years, long before corporate governance and responsible investing came into vogue. Let's re-focus and think about the challenges facing advisers and clients in this area.

There is some appetite for them, which presents an opportunity – for fund houses, for advisers and for investors. Sounds like a win, win, but the fact ESG represents quite a low proportion of advisers' business, suggests something is going on. Is it the lack of availability? Confusing terminology? Are ethical beliefs skewed towards the younger generation, with no investible assets? Poorer returns? A combination of all?

Investing responsibly is nothing new. Charities have been doing it for years, long before corporate governance and responsible investing came into vogue. Let's re-focus and think about the challenges facing advisers and clients in this area.

Confusing terminology and lack of clarity about who does what makes it difficult to compare investments. There's no scale of 'how ESG' one fund is to another; the green scale doesn't apply here (that's so early 2000s). There's also the confusing distinction between a provider being a 'responsible investor' although not offering ESG funds. Ultimately, for a client with strong ESG requirements, it can be difficult for them to find their route to market, either themselves or via an adviser.

And on that adviser point, we wonder if the march towards centralised investment propositions is playing a part too. Uptake of model portfolios in recent years has been huge, whether on an in-house or out-sourced basis, and the industrialised nature of these makes it difficult to step outside of the process for someone with bespoke demands. Technology can play its part here and make it easier to accommodate the altruistic beliefs of more foosty, sorry, altruistic customers.

On the provider side, it's easy to be wooed by lots of talk of robust processes, screening processes, experienced teams and watertight belief systems, but care should be taken when considering how to position the fund for the client – as part of a wider portfolio or as a single investment. Asset allocation, risk tolerance, capacity for loss and all those good things trump all.

Despite 'ethical' hitting puberty and developing into ESG, it's only recently that we've seen ESG portfolios with a more packaged solution feel breaking through. Perhaps the reluctance of advisers to embrace this market hasn't only been down to murky definitions or ***perception*** of lower returns, but because most existing solutions haven't been based on consumer research. There is very little research out there which asks consumers what they want and at what cost. We need to determine just how far the dedicated ethical investor or the socially conscious voyeur will go, or whether they'll have to compromise to meet their investment goals.

The next step in the evolution is in motion with the FCA collating responses to its discussion paper DP18:8: Climate change and green finance[2] It'll be interesting to see how this influences FCA actions. We, as financial services professionals and ***people***, should all have some responsibility for where we put our (and our clients') money and there are things we can do to help mature the ESG market. This isn't just moral grandstanding. We need to listen to consumers of all kinds to establish the levels of ESG they want and need. Providers need to take note.

And we need to collectively get better at defining this issue. Throughout this article we've been deliberately guilty (shame on us!) of conflating terminology all over the place. Ethical funds, socially responsible investments, corporate governance et al. All lumbered into the one pot. We suspect this isn't helping the issue and it's one we're going to be doing a bit of work on this year. Watch this space.

Visit **www.langcatfinancial.co.uk** for more from Steve and the rest of the lang cats.

[2] The FCA is collating responses following its discussion paper; DP18/8: Climate change and green finance in October 2018, so we can expect this to inform FCA actions in the following areas - pension investments; green finance products; disclosure to investors; and new reporting requirements

Playing Footsie (FTSE)

Ronan Kearney | Responsible for Fund Structure and Governance | Verbatim Investment Committee

In this article, Ronan Kearney Responsible for Fund Structure and Governance on the Verbatim Investment Committee, examines some of the investment assumptions many professional fund managers and advisers take for granted. He raises the questions: Are these investment assumptions justified? Or are there potentially alternative approaches to asset allocation and portfolio construction that could better serve the financial community?

The first question any adviser or investor alike should ask their investment manager is: Which FTSE 100 do you use for your analysis, and why? In taking a closer look at the FTSE 100 it often comes as a surprise to investors, and even to professional advisers, that there is more than one version of the FTSE 100. But should it really be a shock? After all, the FTSE 100 is a manufactured index, owned and licensed by a corporate entity, and product variation is to be expected.

The original FTSE100 was launched in 1984, with a base value of 1000, and it originally offered access to companies that generated the majority of their revenues in the UK. Because the stock market was relatively small at that time, it made sense to structure the index using the key characteristic of Market Capitalisation. That is to say, if you had invested £100 it would have been allocated according to the relative value of the companies in the index. A larger company would have more than £1 invested and a smaller company would potentially have as little as £0.10 invested.

In terms of performance, this was initially a very successful model, but over time two disadvantages have arisen from Market Capitalisation. The first is that the FTSE has increasingly become dominated by global multi-nationals that generate the majority of their revenues outside the UK (over 70% at the current time). This makes share price performance subject to changes in exchange rates as well as business performance, arguably adding to the volatility of the index. In addition, three sectors have come to dominate the FTSE in valuation terms, namely Energy, Financials and Pharmaceuticals. Investors therefore have to contend with less diversification and greater exposure to exchange rate risk, both of which add to the risk of their portfolio.

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In order to counter some of these aspects, other variants of the FTSE 100 have been published by the FTSE group that focus on alternative investment factors to market cap. In 2011, the first Equal Weight variant was published on a quarterly rebalanced basis, and in 2014 an additional Equal Weight variant was published on a semi-annual rebalanced basis. In 2017 a Minimum Variance version was also launched.

These additional indices comprise an attempt by FTSE to capture the new investment theory that has driven much institutional thought over the last 15 years, growing to $1,9 trillion in 2018. This is the concept, first published by Ross in 1976, that identified that factors other than size or Market Cap (for example, earnings growth), would drive a company's growth. This seems obvious to many, but is something that is often missed if you invest in a Market-Cap weighted index, that allocates your money based solely on company size.

For this reason, the Verbatim Multi-Index fund range utilises factor based investment strategies to identify and allocate to the key drivers of performance, and incorporates them into a UK Equity benchmark. Hundreds of equity factors have been identified in academic research. At Verbatim, we have set the following criteria for a factor to be eligible as part of our portfolios:

- **Commonly identified:** The factor has been shown to deliver attractive risk and return characteristics in a number of academic studies
- **Supported by a logical economic rationale or a behavioural bias:** There must be an explanation as to why the factor produces a return premium or reduces risk over the long term.
- **Persistent**: The factor must persist across time periods and across regions / markets.

With this in mind, we have identified the following key factors for inclusion in the Verbatim portfolios: **Value, Quality** and **Low Volatility.**

- **Value:** Aims to capture excess returns from stocks that have low prices relative to their fundamental value.
- **Quality:** Defined by low debt, stable earnings, consistent asset growth, and strong corporate governance.
- **Low Volatility:** Portfolios of low-volatility stocks can have higher risk-adjusted returns than portfolios with high-volatility stocks

The Verbatim Multi-Index fund range consists of four established multi-index, risk-managed portfolios.

To find out more about Verbatim visit **www.verbatimassetmanagement.co.uk** or contact us on 0808 12 40 007.

Making the most of an investment edge

Peter Elston | CIO | Seneca Investment Managers

Whether in skill games like Poker or luck games like Blackjack, repeatable success requires tilting the odds in your favour, then betting the appropriate amount as a percentage of your bankroll. In Blackjack, the way to tilt the odds towards you, and thus away from the house, is by counting cards (this however is considered cheating by casinos, so I wouldn't recommend it).

In Poker, you and your fellow players are on an equal footing, so to tilt the odds in your favour you just need to be better than them. You do this by having a better strategy or being better at bluffing or calculating probabilities (or a combination of all three). As for the percentage of your bankroll to bet, this relates directly to the extent to which you have tilted the odds in your favour.

What this all adds up to is understanding your edge and profiting from it. Investment success works very much in the same way.

The efficient market hypothesis says that stocks follow a random walk. Once transaction fees are taken into account, the odds are tilted away from you and it thus becomes practically impossible to beat the market. However, if this were true the likes of Warren Buffett and Renaissance Technologies' Jim Simons should not exist. Except they do and, statistically speaking, the likelihood of their high investment returns being attributable to luck is so small that it is practically zero. What they both did, and in very different ways, was to tilt the odds in their favour. In other words, they had an edge and put it to good use. Buffett's edge, in my humble opinion, has been his extraordinary understanding of human nature, both its strengths (what it takes to build a great company) and its weaknesses (propensity for humans to be greedy or to panic) combined with discipline, patience, honesty and a very good grasp of statistics and probabilities. Jim Simons, on the other hand, is a brilliant mathematician and has a smarter and faster computer than anyone else. While Buffett is the king of predicting share prices over 10 years, Simons is unrivalled over 10 minutes. All active investing, after all, involves making predictions.

It is clear that Buffett and Simons are rare birds, yet many still believe themselves to be good investors when the facts tell a different story. The reason for this is that we humans evolved a survival mechanism to believe that we are better than we are. Let's face it, a timid approach to facing down a sabre-toothed tiger or attracting a cave mate would not have met with much success. Furthermore, we have an asymmetrical capacity to blame our failures on (bad) luck but to attribute our successes to skill, known as the fundamental attribution error. Thus, you only need a couple of successes amongst all the failures to think that you're a skilful investor!

However, let's assume that you do in fact have an edge, in which case you need to know how to use it. Question: if you have a biased coin that you know has a 60% chance of landing heads and you are playing 'toss' with someone who does not know the coin is biased, what percentage of your bankroll should you bet each round in order to grow your wealth at the fastest possible rate over time?

We have an asymmetrical capacity to blame our failures on (bad) luck but to attribute our successes to skill, known as the fundamental attribution error. Thus, you only need a couple of successes amongst all the failures to think that you're a skilful investor!

If you bet nothing, you're wasting your edge (you know, he doesn't) and your wealth will remain the same.

If you bet your entire purse, there's a 40% chance the coin will come up tails, and you'll lose everything and be out of the game (even with the bias, the chance of there being one tail in 10 tosses is 99%).

To state the obvious, the optimal percentage therefore must be somewhere between 0% and 100%. The answer, in fact, is 20%. Bet 21% or 19% and over time you'll end up less wealthy than if you bet 20% (if you want to know more about the calculations involved in this, Google the term "Kelly betting criterion" or read William Poundstone's excellent book, Fortune's Formula).

How does this apply to investing?

In Buffett's case, he naturally understands that to put all one's eggs in one basket is foolish, but also that being overloaded with baskets, as it were, will wear you out. Modern portfolio theory says you should diversify as much as possible to eliminate stock specific risks. Buffett on the other hand actively seeks out stock specific "risk" because he knows that's where he has an edge. His comments "Wide diversification is for people who don't know what they're doing" and (on the efficient market hypothesis) "If you're in shipping it helps if your competitors believe the world is flat" are two of my favourites.

Does Buffett know precisely what his odds are? Of course not. What he does know is that he has a good feel for where a company will be in 10 years' time, giving him the confidence to run concentrated portfolios.

It seems in recent years to have become passé to cite Warren Buffet. This is a shame, as there is still much we can learn from him.

Nervous investors need advice four years into Pension Freedoms

Nick Dixon | Investment Director | Aegon

There's been huge growth in the retirement income advice market since the introduction of Pension Freedoms. New research from Aegon, commissioned to mark the fourth anniversary of the rules change, shows that we're already seeing big shifts in the retirement patterns of retirees.

It's no longer the case that most retire at a point in time and purchase an annuity. The retirement landscape has become more varied and complex, with retirees now choosing when they retire, how they invest and how much income they should take.

In this new world, most retire gradually, opt primarily for drawdown, and often hold a multi-asset investment strategy into retirement. However, investors are worrying about running out of money and remain unsure about how to navigate their options.

The need for advice in this space has never been greater.

Retirement patterns are fluid with partial retirement typical

Aegon's survey of 250 financial advisers found that a significant proportion of clients now opt to retire 'early' or 'late', with 37% saying most retire either before age 60 or after age 66. In addition, three quarters (74%) of advisers said most retire gradually, transitioning into retirement through a period of reduced hours or semi-retirement before stopping work completely. Just 20% said most clients go straight from their usual work pattern to full retirement.

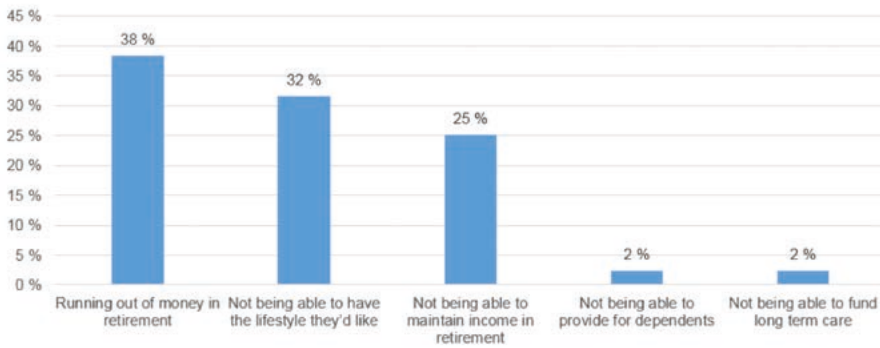
To meet these changing needs, the savings industry needs to offer strategies that cater for a broader range of retirement patterns. This includes partial-retirement, as well as pre- and post- retirement phases. Partial-retirement savings may need to provide some degree of regular income, and there should be a gradual preparation for retirement, while recognising that savings may still need to last for 30-40 years.

Retirees select drawdown but worry about running out of money

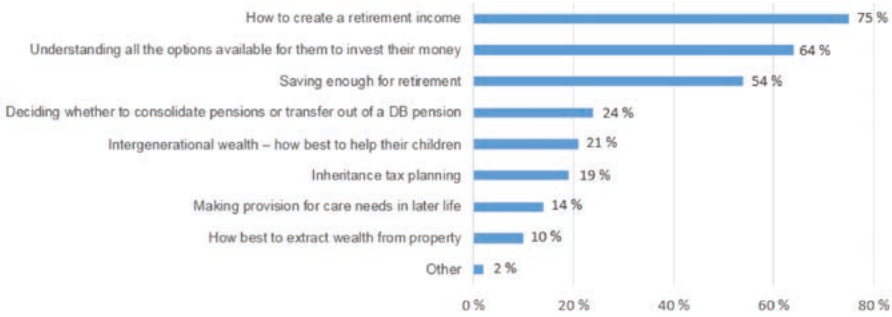
Our results also highlight the caution and concern that many investors now feel about their retirement finances. While advisers tell us that on average 74% of assets are invested in drawdown compared to annuities (16%) or cash (10%), a significant 38% said, running out of money in retirement was among the top three concerns their clients had.

The other top two concerns were fear of, not being able to have the lifestyle they'd like, (32%), and, not being able to maintain income in retirement, (25%).

What's the biggest financial fear of retiring clients?



What are the most common challenges retiring clients face – select up to three



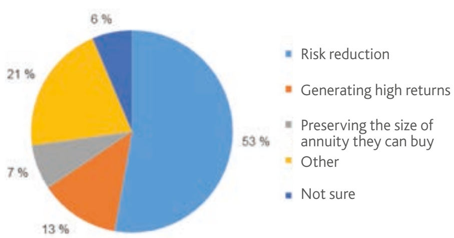
With pension freedoms providing greater flexibility and choice, retirees are looking to advisers for help with managing money in retirement. When asked about common challenges, how to create a retirement income (75%), understanding the options available (64%) and making sure they were saving enough (54%) were at the top of the list.

While clients seem to be taking advantage of greater financial flexibility, it appears that they do this with some reservations.

Focus on risk reduction over investment growth

When we look at investment strategies retiring clients favour, over half (53%) of advisers say clients prioritise risk reduction over generating high returns or preserving the size of annuity they will be able to buy.

What is most important to retiring savers?

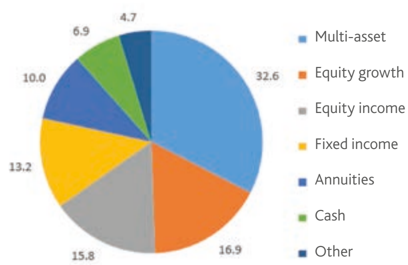


This emphasis on risk management makes a lot of sense, given the shorter investment horizon those in retirement will often have and the impact of regular income withdrawals on pension savings. However, too great a focus on keeping risk low could hamper savings growth and income longevity potential.

Multi-asset leads the pack

Interestingly, our results also show that a third of retiring clients' assets are invested in multi-asset strategies. These strategies are well diversified, and are easy to use and explain to clients. They also often come with in-built risk management. It's likely that advisers often recommend the same strategies that the client used in the accumulation phase, but dial down the risk level to cater for partial then full retirement.

What proportion of retiring clients' assets are invested in the following investment types?



A high proportion of assets also remain in equities (growth and income), in comparison to lower-risk fixed income and cash investments. This may demonstrate a recognition that retirees could be in retirement for several decades and that lower-risk investments may not provide the growth potential to sustain a decent level of income. The recent poor returns from fixed interest will also be a factor.

What is reassuring is the range of investment types being used. In an area of the market where risk management is key, there is benefit in taking a diversified approach.

Where next for the retirement income market?

Retirement is increasingly a journey of change rather than an event. This comes with a behavioural shift in the way retirees choose to take income in retirement, with many now relying heavily on drawdown.

In the light of greater flexibility and complexity, clients are relying on advisers for guidance in the decisions they make. Many retirees are unsure of their options and fear running out of money. It's crucial that these retirees seek financial advice to build confidence and manage their savings.

This is an area of the market that's changing rapidly, and it's one where we expect to see continued innovation. While the Pension Freedoms rules appear to have been embraced by many savers, they will only be tested in earnest when the majority rely primarily on defined contribution pensions, rather than defined benefit options.

This growing market creates opportunities for financial advice firms that can get to grips with this changing landscape and develop propositions to help retirees navigate their way to and through retirement.

The really big changes are yet to come.

To find out more about Aegon's retirement income options please go to www.aegon.co.uk/investments or talk to your usual Aegon representative.

Research carried out by Opinium on behalf of Aegon with 250 financial advisers. Fieldwork from 25 February – 1 March 2019.

The value of investments may go down as well as up. Clients may get back less than they invest.

Palm oil: nightmare or sustainable development dream?

Olivia Woodhead | Investment Assistant | LGT Vestra

To say that palm oil is popular would be an understatement. Palm oil's long shelf-life makes it one of the most widely used vegetable oils in the world; found in nearly 50% of the packaged products that we find in supermarkets, from pizza to chocolate, deodorant to lipsticks. It is also utilised in animal feeds and used as a biofuel in many parts of the world[1]. The fact is that the majority of us use palm oil on a daily basis without even realising it.

Palm oil plantations cover more than 27 million hectares and produce more than 70 million tonnes of palm oil annually. That is an area bigger than New Zealand producing double what they were producing just twenty years ago.[2] Withdrawing from palm oil is not a viable solution and given the high yield of the product and a growing global population, sustainable palm oil can provide significant benefits. It is arguably better to contribute to the sustainability of the sector by carefully investing in funds whose managers respect the need to support companies who are obtaining their palm oil from sustainable sources.

Forest fires across Malaysia and Indonesia and the resulting haze over many parts of South East Asia, forced the global community to confront the unsustainable nature of many palm oil producers. Despite the integral role it plays in our daily lives, palm oil attracts considerable controversy due to the environmental and ethical issues surrounding the development, operations and management of plantations. The demand for palm oil has led to the proliferation of plantations in Indonesia and Malaysia but often at the expense of local ecosystems, with forests burned to obtain land, resulting in smog pollution and rising levels of CO_2. Other controversial elements of the process include the labour force and their treatment, often with harsh working conditions and low pay.[3] If palm oil production continues to cause unconstrained deforestation, the destruction of biodiversity and the production carbon emissions, the industry is likely to seal its own fate.

Whilst many strong voices in the global debate passionately call on financial institutions to divest from palm oil completely, others call for active engagement and open dialogue. Advocates of the latter approach include non-governmental organisations such as the World Wildlife Foundation (WWF) who believe that divestment does not provide a solution. Despite the controversial nature of its production, the demand for palm oil is not slowing, rather it is expected to increase. Furthermore, for many local communities and rural economies, palm oil has become a major source of income.[4] Aside from benefitting society and the environment, the adoption of sustainable palm oil practices will also benefit palm oil companies, as they will have increased access to global markets and commercial opportunities, whilst securing their reputations. Ultimately for businesses, the implementation costs are a short term sacrifice for long term price premiums via stronger operational controls, reduced inputs and increased yields.[5]

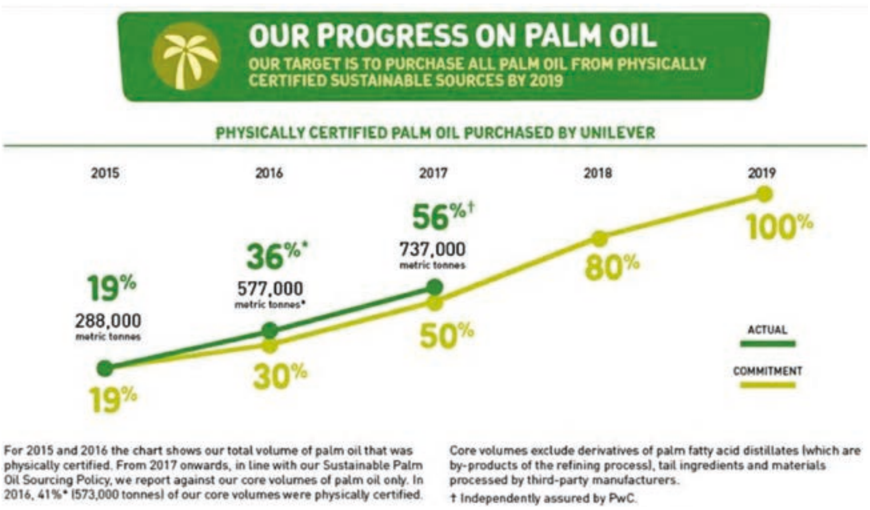
An encouraging number of companies have made the commitment to source palm oil sustainably, but with a vast and complex supply chain, palm oil supply is difficult to trace and certify.

Palm oil in itself is not a harmful substance. The damaging effects for our global community largely stem from abuses surrounding the production process. An encouraging number of companies have made the commitment to source palm oil sustainably, but with a vast and complex supply chain, palm oil supply is difficult to trace and certify. One of the world's largest buyers of palm oil is Unilever, who buy one million tonnes of crude palm oil and around half a million tonnes of palm kernel oil and other derivatives each year.[6] Understanding the need to change the wider industry through increased accountability and transparency in supply chains, Unilever helped pioneer the Roundtable on Sustainable Palm Oil (RSPO), the only globally recognised certification standard to drive sustainable production. This organisation involves growers and buyers, as well as influential organisations, non-profit groups, mill operators and commodity traders.[7] Unilever's efforts meant that in 2016, WWF awarded the company with a score of nine out of nine for its work towards their target, whilst Greenpeace commended the company for its transparency. By the end of last year, 56% of Unilever's volume of palm oil was from certified sources with 78% traceable and they have pledged to source all of its palm oil from sustainable sources by the end of 2019. As at 1st May 2019, they have already reached 81% of their palm oil ambition target and are on track to deliver it by the end of the year.[8] Unilever continues to drive change and increase its positive social impact to help make sustainable living commonplace.

Sustainability is a long-term force for change in communities and countries, markets and companies. We also strive to support socio-economic development and sustainable business practices. Through our recently launched LGT Vestra Sustainable Model Portfolio Service (Sustainable MPS), we aim to invest in funds that have a strong focus on the environment, society and good governance. Comprised of three diversified portfolios, our Sustainable MPS seeks to invest in funds holding companies that are categorised in one of three ways: Responsible, Sustainable or Impactful. Responsible focuses on the use of negative screening to filter out companies with connections to activities or industries deemed controversial. The Sustainable category focuses on the incorporation and integration of environmental, social and governance (ESG) factors. Lastly, the Impactful category aims to invest in funds that hold companies determined to create a positive environmental and social impact. By investing across these three categories, your clients will benefit from increased diversification, enabling a great degree of risk management in the portfolios, as well as our proven investment process and strategy.

We realise that wealth has social and human dimensions and that investment decisions are driven by hopes, fears and dreams as much as by facts and analysis. Our Sustainable MPS allows for clients to hold assets that are in line with their ethical values, making a positive contribution to society whilst aiming to generate consistent earnings. We believe that prioritising the future should not mean compromising your returns.

[1] https://www.wwf.org.uk/updates/8-things-know-about-palm-oil
[2] https://www.unilever.com/sustainable-living/reducing-environmental-impact/sustainable-sourcing/transforming-the-palm-oil-industry/
[3] https://www.ing.nl/media/ING_Responsible-investing-and-palm-oil_tcm162-159879.pdf p2
[4] https://www.stewartinvestors.com/globalassets/articles/sustainability/our-articles/sustainabile-palm-oil
[5] https://www.rspo.org/file/Palm%20Oil%20Investor%20Review%20Web%20Version.pdf
[6] Ibid
[7] https://rspo.org/about
[8] https://www.unilever.com/sustainable-living/reducing-environmental-impact/sustainable-sourcing/transforming-the-palm-oil-industry/our-approach-to-sustainable-palm-oil/



Source: https://www.unilever.com/sustainable-living/reducing-environmental-impact/sustainable-sourcing/transforming-the-palm-oil-industry/our-approach-to-sustainable-palm-oil/

Another PROD!

Jon Lycett | Business Development Manager | RSMR

In the last edition of Connection, I offered some thoughts on constructing a CIP and touched on the issue of the PROD rules (Product Intervention and Product Governance Sourcebook). These rules were introduced over a year ago, but got lost in the noise surrounding MiFID II. Evidence suggests that a significant number of advisers have yet to fully adopt these new rules and not surprisingly there's been quite a bit of negativity about what is seen as yet another box ticking exercise from the regulator.

We work in an industry awash with acronyms - which isn't necessarily a bad thing, as long as they don't crop up in conversations with investors. Mention PROD to Joe Public and it will no doubt raise suspicions of an electric shock applied to a cow's rear end - but like KYC and TCF that have come before, PROD introduces rules that protect investors and reduce business risk. What's more, if applied correctly, the new rules should also help advisers to run their businesses more efficiently and profitably – what's not to like?

Know Your Client

Financial advice, at its core, is about people. It's about understanding their goals and aspirations and offering solutions that provide the most suitable way of meeting them. That's probably why KYC seemed a much simpler concept to embrace than PROD – after all, 'knowing your client' is something that comes naturally as part of the advice process.

But let's be honest - on the face of it PROD seems more difficult. In years gone by, when Life Companies ruled the roost, products were pretty opaque and everyone just had to trust that the correct investment decisions were being made. For many investors this worked out okay – but for others it didn't, as anyone hit with an MVA on a With Profits policy, or a shortfall on their endowment policy will no doubt tell you.

Thankfully, we now work in a much more transparent industry – but the regulator isn't resting on its laurels and PROD now requires advisers to not only 'know their client' but to also 'know their product'. So what does this mean to advisers and how should these rules be incorporated into the investment process?

Segmentation

The first step should be quite straightforward for most firms – PROD is all about an advice firm understanding and categorising its clients so that it can offer services and products that are suitable for them. In my travels around the country speaking to advisers, most seem fairly clear about the 'typical' clients that they handle – for some that might be young professional entrepreneurs, for others it might be post-retirement drawdown clients. So while there are always the odd outliers, most advisers should be able to identify the broad client segments that sit within their client base.

PROD introduces rules that protect investors and reduce business risk. What's more, if applied correctly, the new rules should also help advisers to run their businesses more efficiently and profitably – what's not to like?

Once this process has been completed, an adviser can consider the choice of products and services that are best suited to each segment and which (if any) platform offers the best value for money. These categories will differ from firm to firm – for some it may be as simple as three segments; younger clients accumulating wealth, middle aged clients approaching retirement, and older clients taking retirement income. For others, it might be broken down further to categorise clients into simple or complex needs – for example where additional tax planning is required or in the case of more elderly clients, where IHT or trust planning is needed.

I'm of the opinion that most advisers, at an individual client level, are already applying these types of more sophisticated categories to clients. But at a business level, many firms are still segmenting their overall client base according to their wealth – a hangover from pre-RDR and perhaps exacerbated by the way that most platform charging works. It's clear that this won't wash with the regulator – so firms need to translate the knowledge that exists of individual clients into a set of documented principles that establish broader categories.

PROD-ing Along!

It's a matter of doing the hard yards. There's no opt out on PROD, so whilst for some advisers it might feel like a load of work just to keep the regulator happy, there's no doubt in my mind that it will have the desired effect of improving client outcomes. It will undoubtedly also bring all sorts of associated benefits to adviser firms, not least the obvious reduction in business risk. Alongside that, expect to see a significant reduction in admin time and resource.

So the client categories have been established (I made that sound easy didn't I?). This just leaves the process of identifying and monitoring the products and services that meet the objectives of each segment. Firms will approach this process in different ways – some will perform research in-house, while others will outsource to an external research provider who specialises in whole of market qualitative research (extra points for those who spot the brazen plug...).

Jon focuses on key relationships with RSMR's existing and new advisory client firms. He joined RSMR from Macmillan Cancer Support, where he led in the development of a unique financial guidance service tailored to the needs of cancer patients and their families.

Before this, Jon spent many years with HSBC Global Asset Management. He brings a wealth of relationship management experience – having worked with advisers, wealth managers and DFMs. He travelled internationally in his role at HSBC, but some years ago made the decision to return to Yorkshire to be closer to his family. Jon lives locally with his partner and young son and outside of work he enjoys family life, rugby league and real ale.

Contact us for more details at **enquiries@rsmgroup.co.uk** or register onto the RSMR Adviser Hub at rsmr.co.uk

The Clever way to run your money

Tom McGrath | Head Portfolio Manager | CleverMPS

When one thinks of Artificial Intelligence or complex computer models, typically the mind leaps to talking robots or driverless cars. But the reality is much closer to home and the applications in the world of finance are game changers. Tasks that would have required millions of man hours prior to the evolution of computing power, are now possible in hours and one of the most powerful areas where technology can help is in the domain of fund selection and portfolio management.

Back in the dark days of financial advice, fund selection was often driven by hearing a manager speak that you like or picking a fund management group that had a good name for an asset class; M&G for bonds, Baillie Gifford for Japan and so on. Or it might be from a cursory glance at Money Marketing in the sector tables to find the top quartile funds in bold. More recently, and prior to recent developments in fund screening, an experienced research team would decide that the best way to create a buy list was to look at discrete returns over the last few years and come up with a ranking for each sector. They might even dig a little deeper and see how the returns had been achieved by looking at returns adjusted for volatility, or even establish if the manager was achieving returns through beta or alpha. But that would likely be the end of the analytical journey, concluding that their methodology was applicable to each sector in the same fashion.

However, if you wanted them to look at all the key performance characteristics of all the 4000 FCA regulated onshore funds, including alpha, beta, sharpe, short term performance, volatility, drawdown etc... over the last few years it would require enormous resource. Particularly if you wanted them to establish which characteristic was most crucial for relative outperformance in each sector and then back-test to see what combinations identified the funds that delivered the result you were after. However, thanks to the advancements in data availability,

> By building complex 'what if' algorithms that test and re-test millions of data points, they are able to create a bespoke fund selection for each sector that not only provides a ranking system for buying funds, it crucially also tells you when to sell them.

This approach not only works in theory but has delivered quantifiably superior fund selection and monitoring that has powered adviser portfolios in the real world for nearly 10 years.

some Clever maths and the grunt of cloud computing it is now possible to process this information in a matter of hours.

With thanks to Steve Nelson at the Lang Cat who wrote in the Q1 issue of this very publication, predicting; "Clever Algorithms from Clever People" delivering enhancements to current investments practices. Apart from being spookily "on-brand" (Steve and the lang cat are not affiliated with Clever) he acknowledges that one of the few risk-free predictions in our industry is that the speed and complexity of technology will increase and (in theory) make all our lives easier.

Clever Technology Ltd. have built the necessary platform to complete such a task. By building complex 'what if' algorithms that test and re-test millions of data points, they are able to create a bespoke fund selection for each sector that not only provides a ranking system for buying funds, it crucially also tells you when to sell them. Critically, the system keeps learning. Every month the Clever algorithms are refined as new data becomes available, so the criteria for fund selection is constantly evolving – try asking a research team to rework their process every month! This approach not only works in theory but has delivered quantifiably superior fund selection and monitoring that has powered adviser portfolios in the real world for nearly 10 years.

The question is then how to translate this superior fund selection in to robust, risk graded models, and this is where Clever lean on the experience of the 8AM Global Investment Management Team and the risk profiling expertise of Dynamic Planner. Essentially, the Clever-driven fund selection is mapped by 8AM Global onto Distribution Technology's Asset Allocation and adjusted reactively in order to comply with their Risk Target Managed profile. This Dynamic Planner product guarantees each models continuous adherence to its risk profile rather than just at quarterly observation points.

Many model portfolios and multi-asset funds are run with specific exposure 'budgets' for each sector exposure, which are then populated with funds that fit the risk and return characteristics required to fit within those given allocations. The Clever investment process turns this on its head, as fund selection becomes the fixed point around which the asset allocation must flex to achieve consistent risk exposure.

This choice is borne of the desire of the whole team to avoid human bias wherever possible, and that if we believe that the funds picked by the system are quantifiably going to yield the best result – why dilute that by picking a lesser fund that fits the current allocation without weighting adjustment? Or colour the asset allocation with our own views, which irrespective of experience or expertise adds often needless complexity to long-term strategies.

This approach to fund selection and the building of model portfolios, is simply not possible without human input at key stages, but it does take away the 'heavy lifting' of data crunching and the unconscious (or conscious) biases that comes with humans performing this part of the fund research process. It also provides a compliant and repeatable framework for fund selection and quantifiable, auditable justification of any portfolio changes made.

If one was ever in doubt of the benefits that the application of technology can bring to this evolving world, IBMs Watson has already demonstrated a far more accurate diagnosis rate for lung cancers than Dr's can achieve, and my car is far more competent at parallel parking than I could ever hope to be.

In the ever-crowded world of model portfolio offerings, the 8AM Clever Models stand apart as evolutionary; using the technologies of tomorrow to provide a fair and transparent methodology by which to manage client assets.

Get in touch to book your online demo

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t: 01244 346343

e: **mail@cleveradviser.com**

Smith & Williamson

Cost versus value for money

Mickey Morrissey | Partner and head of distribution | Smith & Williamson Investment Management

The cost of investing has become a priority for regulators and investors alike. High costs can exert a meaningful drag on long-term returns and should undoubtedly form part of an adviser's decision-making process. However, low cost should not be confused with value for money, which is often neglected when evaluating discretionary management strategies.

In general, a low cost strategy will incorporate a far higher weighting in passives. There is a place for passive investments in portfolios: they have low fees and can benefit from significant economies of scale. However, they have limitations. A fundamental concern with passives is that they can channel money into areas that have already performed very well. Any strategy or asset class can be a bad investment if too much money goes in and investors buy at the top.

With this in mind, it is worth remembering that markets have been moving higher for almost a decade, notwithstanding the recent bout of volatility. No bull market lasts forever and there are pockets of over-valuation in the market. Often, the market indices on which passives are based are dominated by these over-valued companies. Over the long term, valuation is the core driver of the market, not sentiment.

It is also worth considering risk. At the end of a bull market, investors often focus in on a narrower range of assets, placing more and more of their investment into a few selected stocks. This naturally increases stock specific risk within a portfolio, which can raise volatility, delivering lumpier returns. In our view, this suggests that some passive strategies, while cheap, may not represent great value for money over the next few years.

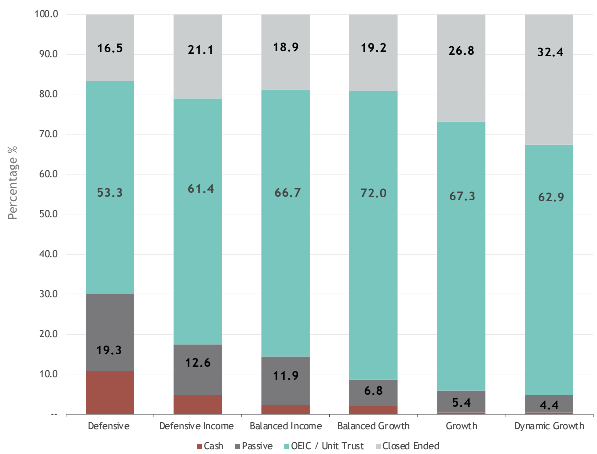
At the same time, lowering costs is one way to boost performance, but it is only one piece of the jigsaw. Picking the right active investments can also add significant value. Disappointment surrounding the performance of some active managers has driven investors towards passive vehicles, but we strongly believe that the best active managers deliver real value for money. That comes from both targeting mispriced opportunities and avoiding areas of real weakness.

We see this as particularly important today. In a period of technological change a large number of companies and sectors face disruption. Highly indebted companies or those with poor corporate governance are particularly vulnerable and investors risk permanent loss of capital by investing there. We see many businesses facing material threats even though their shares are trading on very high multiples. Often these risks are not being reflected in share prices. Anywhere where fundamentals do not match current valuations creates an opportunity for active managers. We believe that by being more selective, active managers may be able to navigate these markets more effectively than passive funds.

At the same time, portfolio balance is vitally important to reduce the risk of permanent loss of capital. With our managed portfolio service, we tilt portfolios to the outcomes we see as most probable, but they are always

Today, we find ourselves at the end of a lengthy bull market in equities and bonds. During the past decade it has been easy to conflate low cost with value for money because passive management has given a decent result, cheaply. We believe these returns will not be as easily won in future.

Seeking the most appropriate tool for the job



Source: Smith & Williamson Investment Management / FactSet as at 30.11.18 (unaudited)

constructed to ensure a spread of exposures that aim to do well in an array of scenarios. To our mind, this provides advisers and their clients with far better value for money than blindly allocating to individual companies according to market capitalisation, while ignoring valuation measures and business fundamentals.

Today, we find ourselves at the end of a lengthy bull market in equities and bonds. During the past decade it has been easy to conflate low cost with value for money because passive management has given a decent result, cheaply. We believe these returns will not be as easily won in future. Amid political uncertainty, technical disruption, investors will need a more nuanced approach. While there is undoubtedly value in holding passive investments, whose structure can offer exposure to specific sectors or geographies at very low cost, these should be viewed as most beneficial when used tactically, as part of the asset allocation of a sensible and well diversified actively-managed portfolio.

For further, please visit:
www.sandwdfm.com

Or contact Mickey Morrissey,
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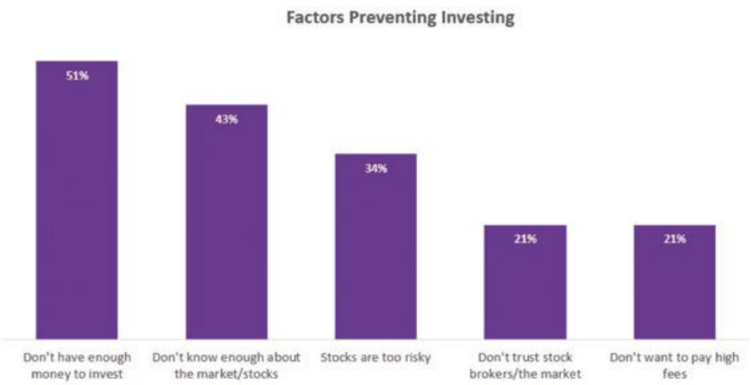
Important information

Tapping into your future income – encouraging the mass market to invest

Andrew Fay | CEO and co-founder | Munnypot

In my previous articles I have discussed the huge opportunity available to financial advisers today. By offering simple, fully automated advice to the mass market, you can generate significant revenue at minimal marginal cost. But the obvious question is: why is this segment of the market not already investing?



Source: Experian Survey Results: Personal Finance (https://www.experian.com/blogs/ask-experian/survey-results-personal-finance/)

In a 2016 survey*, Experian found that there were 5 main factors preventing people from investing in stocks and bonds.

1. Not enough money to invest

There are two ways in which this has an impact. The first is a lack of disposable income to invest. But with open banking data generating a huge new array of budgeting tools and micro-investments in ETFs possible from as little as pennies, it is becoming easier and easier to invest even small amounts each month.

The second is as a result of fees. Until now, it has simply not been commercially viable to provide investment advice to savers with smaller long-term savings pots. But with the advent of automation, affordability to drastically improving.

2. A lack of understanding

In today's world of Amazon and Trustpilot reviews, people want to know what they are buying. But they want to be told in language they understand. To encourage people from all wealth backgrounds to invest, financial advice must be kept simple and understandable for the mass market.

3. Too risky

It is essential to explain to first time investors how risk and return works in real-world terms. Only then can customers make an informed decision about their appetite for risk when considering long term saving.

4. A lack of trust and confidence

Financial advice has historically been vulnerable to human error. For complex arrangements, human input is crucial, but for simple advice, technology can now ensure consistency, reducing the compliance risk and over time improving trust.

5. High fees

Providing traditional financial advice is a high cost activity. This is necessary and appropriate for those customers with high levels of wealth and complicated investment requirements. However the majority of the mass market does not require such bespoke investment advice.

By removing the variable costs required for a human adviser to provide such advice, and by investing in multi-asset passive ETF funds, it is now possible to keep fees to an absolute minimum. Sometimes less than 1% in total.

From my experience, I would add another barrier to investing:

6. It is not the #1 priority until it is too late

It is human nature to focus on the things immediately in front of us. Only when our immediate concerns are satisfied do our brains generally have the capacity to focus on longer term concerns. But this is not sufficient and has resulted in a significant savings gap in the UK.

Similar to the government's switch to opt-out rather than opt-in pensions, sometimes people need a little more encouragement to focus on the long-term picture.

So how do you ease these concerns?

As I see it, there are 6 key ways to encourage everyone to start investing in their future today:

1. Make it real

Munnypot helps customers work towards real, tangible goals, such as a new car, a wedding, or a new home. This, like everything else on the platform, is entirely customisable. Customers can even open a Junior ISA for a child or grandchild to provide them with a head start when they turn 18.

2. Make it easy

With Munnypot, customers can be fully onboarded, entirely online in as little as 20 minutes, having completed the full advice journey and verification checks. This, alongside well-timed nudges, can help people to make long term an investing a priority today.

3. Make it affordable

As a result of end to end automation, Munnypot enables you to offer simple, personalised advice at a price which is affordable for those with small savings pots. As a result, the minimum investment on the Munnypot platform can be as little as £25 a month.

4. Demonstrate the value of investing and clearly explain the risks and rewards

The Munnypot platform does not show just one predicted investment growth line, but clearly shows estimated optimistic and pessimistic scenarios in relation to the amount paid in.

The numbers are dynamic as the customer changes their risk tolerance, time horizon and contributions to clearly demonstrate the trade off between value growth and risk and the significant advantages of longer time horizons.

5. Provide clear, regulated advice to generate trust and confidence

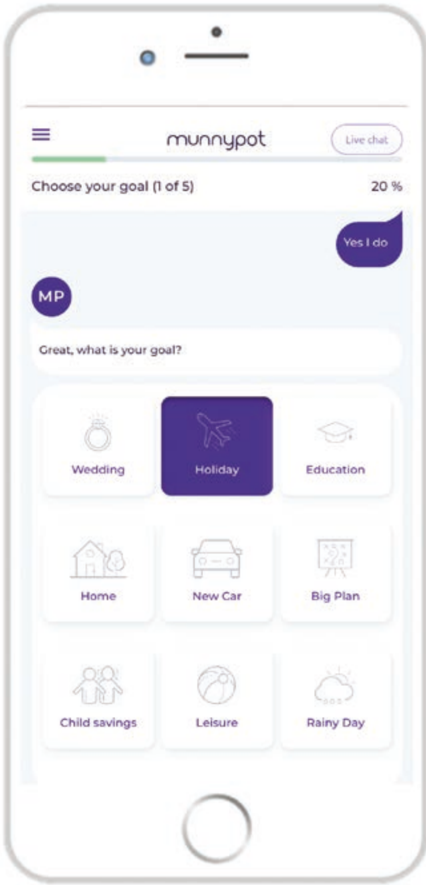
The Munnypot advice journey is straightforward and jargon free as appropriate for the mass market. Moreover it is delivered via an award-winning user interface which emulates the conversation a customer would have with a face to face adviser to ensure it is engaging for all users regardless of demographic.

Additionally, the financial advice journey provided by Munnypot is regulated by their FCA-authorised principal firm, to ensure that customers can be confident in the advice they are receiving.

6. Keep track of the customer's investment so they don't need to

Munnypot monitors the performance of the ETF investment against the customer's personalised goal and reaches out to the customer if the goal is off-track. If necessary it will then provide further advice to that customer so that the customer can go back to focussing on their today.

For more information on Munnypot or to arrange a demo, please email andrew.fay@munnypot.com or contact our offices on 01293 224 281.



Get in touch with us today to launch your own branded online investment advice platform. Let us help you generate significant revenues at minimum marginal cost, bring on new profitable customers and free up your advisers to focus on high value, complex arrangements for your wealthiest customers.

Important Information

Munnypot is a trading name of Munnypot Limited which is an Appointed Representative of Resolution Compliance Limited which is authorised and regulated by the Financial Conduct Authority. FRN 574048.

*Source: https://www.experian.com/blogs/ask-experian/survey-results-personal-finance/

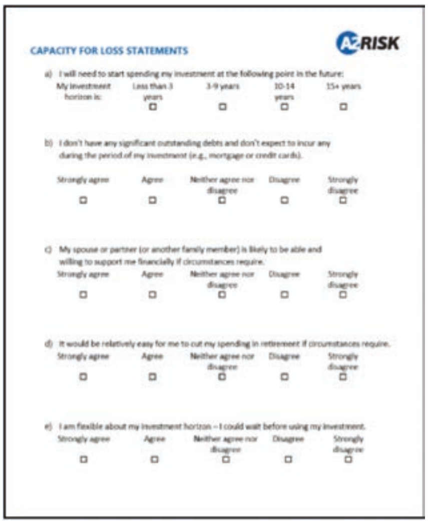
SYNAPTIC®
SOFTWARE

Synaptic research spotlight on VitalityInvest

VitalityInvest. A mission to create additional value in long-term savings

Justin Taurog, Deputy CEO of VitalityInvest, explained in a recent article some of the philosophy behind the recent launch of the Vitality Invest proposition. Whereas it wasn't immediately obvious to us how Vitality thought their well-established proposition in the Protection market would translate into investment, it soon became clear that the innovative approach captured the imagination of Synaptic customers, and some larger firms made it clear that they intended to include the new proposition in their approved investment list. We then worked with Vitality to ensure that research conducted in Synaptic's Comparator and Analyser tools was capable of capturing the unique 'booster' feature, which is activated on basis of loyalty.

To our minds, the 'purest' execution of the product makes most sense, using the low cost Risk Optimiser fund range, but real flexibility is included through a further selection of actively managed fund choices managed by Investec, and a third level of options offered from an even wider group of fund promoters. Synaptic users can look up the full list of investment options in Product and Fund. (See following tables).



CAPACITY FOR LOSS STATEMENTS

A2RISK

a) I will need to start spending my investment at the following point in the future:

My investment horizon is:	Less than 3 years	3-9 years	10-14 years	15+ years
	☐	☐	☐	☐

b) I don't have any significant outstanding debts and don't expect to incur any during the period of my investment (e.g., mortgage or credit cards).

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
☐	☐	☐	☐	☐

c) My spouse or partner (or another family member) is likely to be able and willing to support me financially if circumstances require.

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
☐	☐	☐	☐	☐

d) It would be relatively easy for me to cut my spending in retirement if circumstances require.

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
☐	☐	☐	☐	☐

e) I am flexible about my investment horizon – I could wait before using my investment.

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
☐	☐	☐	☐	☐

Justin Taurog: "Off the back of the success of the shared value approach of our life and health insurance businesses, and considering the nature of the challenges that face this market, we've identified long-term savings as the next opportunity for innovation built around improving customer outcomes. Hence, the launch of our new business VitalityInvest.

"As you may know, our insurance businesses are underpinned by a shared value model, which has already resonated with over a million Vitality health and life insurance clients."

VitalityInvest is based on the same shared value approach. In the case of Invest, we are encouraging people to save more effectively and look after their health. When they do, we benefit from more funds under management for longer. We are then able to share some of the additional value created with our investors in the form of discounts to fees and boosts to savings. This creates a virtuous cycle that improves client retention, strengthens savings behaviour and creates economic value for clients, advisers, ourselves and society.

Vitality shared value insurance has been adopted in 19 markets around the world, and the model is now impacting over 7 million lives globally. (Vitality internal source, December 31 2017).

About the contract

Extract from Synaptic Contract Fact sheet confirming full complement of product features. Drawdown, full or partial UFPLS are options for retirement.

Online services	Yes
Applications	Yes
Wet signature required	No
Electronic signature required	Yes
Investment statements/fund valuations	Yes
Projected illustrations	Yes
Switch facility	Yes
Redirect facility	Yes
Risk profiling tool	Yes
Illustrations	Yes
Asset driven growth rates	Yes
Asset driven growth rate vary with term	No
Adviser own growth rates	No
Fund specific charges	Yes
Adviser charges supported	Yes

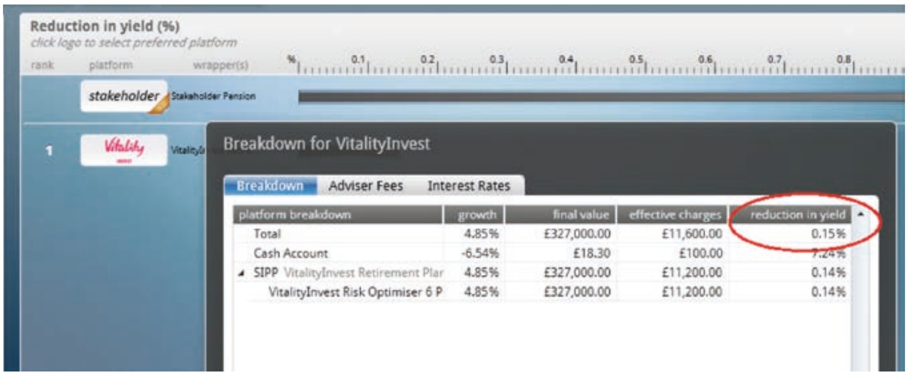
Out of 20 contract options, we obtained a top ranking for the contract based on some standard criteria:

Ranking results | Report | Save as PDF | Export | Back to ranking | Back to filtering | Help | Terms & Conditions

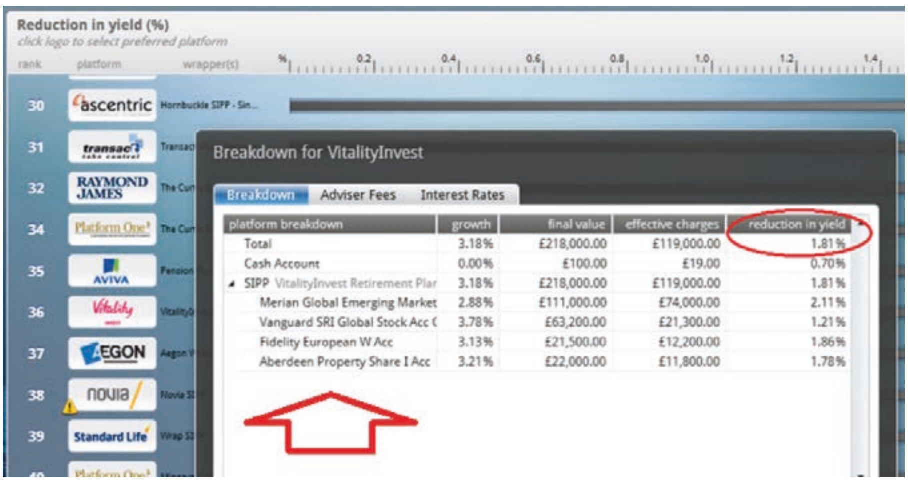
Total score				
1=	AEGON	One Retirement (SIPP)	52.0 pts	95%
1=	Scottish Widows	The Retirement Account - Initial Adviser Charging	52.0 pts	95%
1=	Scottish Widows	The Retirement Account - Initial Adviser Charging	52.0 pts	95%
1=	VitalityInvest	VitalityInvest Retirement Plan	52.0 pts	95%

Our first screen demonstrates how the 'booster' feature can impact costs, when the default VitalityInvest Risk Optimiser fund is selected. Our illustration here is for £100k investment into the VitalityInvest Retirement Plan. Illustration term is for 20 years. Includes Product and Fund charges, but not adviser charges, for illustration purposes.

0.15% R.I.Y. is a very low-cost profile to achieve on a pension investment.



The next screen shows a more conventional open architecture approach, also showing very respectable results in terms of cost and value for money.



The UK long-term savings market has become increasingly advanced and sophisticated, but it still faces a number of challenges stemming from issues like increasing life expectancy and the growing degree of individual responsibility for managing pensions.

Whereas it wasn't immediately obvious to us how Vitality thought their well-established proposition in the Protection market would translate into investment, it soon became clear that the innovative approach captured the imagination of Synaptic customers, and some larger firms made it clear that they intended to include the new proposition in their approved investment list.

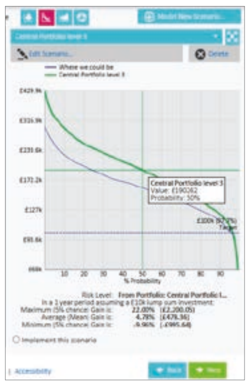
Risk and suitability in a perfect '10'

SYNAPTIC
MODELLER

Synaptic Modeller is now available with 1-10 risk categories as well as 1-5, defined by Moody's Analytics asset allocations

SYNAPTIC
RISK

- Synaptic Modeller provides complete risk and suitability and investment risk management for head offices, paraplanners and advisers, combining Moody's Analytics investment strategy and stochastic projections
- Accurate and consistent values for downside risk that can be used to align Capacity for Loss with risk in chosen investments
- Includes fully integrated ATR Questionnaire, Asset Allocations and stochastic engine for illustrative projections
- Synaptic Modeller offers key Moody's probability based risk metrics: the Value at Risk in any given investment scenario and the investment outcome
- Adviser controls inputs for investment amount, term, costs including adviser charges
- Perfectly complements RSMR qualitative research, accessible through Synaptic Product and Fund Fact sheets
- Integrates with Intelliflo via iO Store



Synaptic Modeller is available as a standalone module from £50 per month. Network deals can apply. Can also be deployed as part of the full Synaptic Research Suite.

For more information call 0800 783 4477 or email us at sales@synaptic.co.uk

GUARDIAN 1821
LIFE. MADE BETTER.

Simon Davis | CEO | Guardian

CEO on the road

Recently I've been out on the road meeting advisers across the country to better understand the challenges you face when speaking to your clients about protection.

There's clearly a deep-held belief that protecting your clients properly is hugely important. Your ambition is to help them feel secure and confident in their protection policies. However, there was some uncertainty about how best to position the protection conversation. And many of you expressed frustrations with the industry – specifically with the processes advisers have to go through, the time pressures faced and the lack of trust among consumers.

I wholeheartedly agree that these are the things the industry needs to do better.

When the core team first set about creating Guardian, armed with a blank sheet of paper, it was exactly these issues we wanted to tackle. Let's look at a couple of the things you mentioned.

How to position the protection conversation

For too long, many in the industry have seen protection as an add-on, secondary to a mortgage or investment sale. I strongly believe this needs to change. We need to move the protection conversation away from the product and towards a deeper understanding of a client's risk profile.

To date, most have considered risk profiles only in the context of what a client has to gain, applying it to investments and asset management. But a proper understanding of a client must also consider the downside – what can they afford to lose? When you think of them in terms of their risk profile, protection insurance for death or critical illness is not an add-on. It's a fundamental part of good financial planning.

A lack of trust

Which brings us to the second problem; it's difficult to have a protection conversation with someone if they fundamentally don't trust the industry. Two things have, in my view, contributed to this. First, for critical illness, definitions have been difficult to explain. A policyholder doesn't have complete certainty that they'll get a payout until the point of claim. Some of you may have had the deeply unpleasant experience of telling a client who's been diagnosed that they're

> People who have been paying premiums for years find they're penalised as their policies don't offer cover that's as comprehensive as newer policies. For those who have had to handle this, you'll know it's not nice for the client or for you.

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not eligible. And many of you will have had experience of trying to explain complicated T&Cs.

Secondly, people who have been paying premiums for years find they're penalised as their policies don't offer cover that's as comprehensive as newer policies. For those who have had to handle this, you'll know it's not nice for the client or for you. For others, how often have you had to revisit a client's protection needs because providers have improved their cover but it doesn't apply to your client on their existing policy?

Both these things undermine trust and make your job harder. You could be forgiven for wanting the industry to be bolder and braver, to try to change these things. Well, at Guardian that's exactly what we've done. We've dramatically simplified our definitions, so we now rely on confirmation from a UK Consultant for the most common conditions. We've also committed to 'future-proofing' our critical illness definitions through cover upgrades. In most cases, we'll apply any new improvements to all existing policies at no extra cost, meaning your clients will automatically be on the best policy terms.

Probate delays

Another thing that gives our industry a bad name is the time it takes for life insurance claims to go through probate. It's true that trusts can help avoid the delays. But how many of you write all your life policies in trust, and how long does it take to do? If a client dies and the policy hasn't been written in trust, there's a long wait for probate to complete before the client's beneficiaries can access the funds. This leaves them at a financial disadvantage at the time of greatest need.

At Guardian, we've directly tackled this. We've designed a simple-to-use mechanism that's completed at the application stage. It's called Payout Planner. This allows us to pay the death benefit to nominated beneficiaries immediately, with no probate delay.

These are just some of the many innovations we've introduced to solve industry challenges. I would of course say we have the best proposition in the market. But I've also heard from many advisers in these last few weeks that you also believe this to be the case. What came across loudly from my conversations:

1. Your strong affinity to the ethics and fairness of what we've built – our simpler definitions and unique features deliver quality and certainty for your clients.
2. Where you've used us, how supportive we've been in helping you get your clients on risk – whether that's through engagement with our underwriters, BDMs or servicing teams – making it a less stressful experience.
3. The ease of use of our systems and how they support you in taking less time to close the sales process.

We've had the unique opportunity to create a proposition from scratch, with the express ambition that every family can have protection that they truly believe in. We're here to help you build your business, and to support quality long-term relationships with your clients that are built on trust. If you haven't registered with us yet, then please do – it will only take you a couple of minutes.

Discover more at
adviser.guardian1821.co.uk

Mind your own business

Paul Quarendon | New Product Development Manager | Synaptic Software Limited

There were 5.7 million small and medium sized enterprises (SMEs) in the UK in 2018, which was over 99% of all UK businesses. Drilling down into that number, micro-businesses have one to nine employees, and there were 5.4 million of these in the UK for the same period, accounting for 96% of all businesses.

Adopting the usual definition of an SME as any business with fewer than 250 employees, this means that 96% of all UK businesses have fewer than 10 employees.

Yet surprisingly only 20,000 business protection policies were taken out in the UK during 2018.

Taking it one step further, there were 73,971 new loan approvals to SMEs across the UK in Q1 2018. Put simply, using the number of business protection policies taken last year and averaging by each quarter, it means that only 7% of these loans could have potentially been protected.

So why is this?

Is it because small to medium business owners don't prioritise or have enough time to dedicate to such matters? Is it because cover is deemed too expensive? Or perhaps they just haven't considered it and tend to consider their family's wellbeing over the future of their business!

Based on this insignificant 20,000, there remains tens of thousands of SMEs lacking the important life, critical illness and income protection cover they need to guard against most business-related scenarios. The average one-man band, for example, could not survive any more than a month were they to become unable to work due to accident or sickness. Worse if they died, leaving their family to deal with not only any outstanding debts and expenditure, but other business affairs as well.

Typically, and from previous experience, non-advised conversion rates for business protection are low, but the event trigger of borrowing funds, for example, should be an enabler to help any business owner identify why they need to protect themselves and what against. This in turn would give rise to better engagement levels and sales volumes for IFAs. Therefore, while subjective, one would expect a greater volume of adviser referrals due to higher levels of customer engagement.

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Customers need access to simple and transparent products and tools that provide absolute certainty around the need for simple protection. This will provide the customer and lender the opportunity to mitigate risk associated with death and subsequent repayment of borrowing.

Tackling the conundrum

How do we tackle this, if you can't rely on customers acting on their own merits, especially if protection is not a condition of a lending sanction?

Are we still victims of the risk that business protection is mis-construed as a form of PPI like other forms of protection? Any advice must leave customers in absolutely no doubt what they are purchasing, so if that box is ticked is it perhaps the process of buying protection against debt which is so divorced it is difficult to clearly see the advantages?

Customers need access to simple and transparent products and tools that provide absolute certainty around the need for simple protection. This will provide the customer and lender the opportunity to mitigate risk associated with death and subsequent repayment of borrowing.

Webline has seen a fivefold increase in Business Protection quotes since this time last year. One of those products often quoted for is Relevant Life Cover, which is a term life policy that is taken out by the business owner protecting the life of an employee, whereby the benefits from the policy are paid to the deceased's family or estate under trust. From experience, we know that every single business is likely to have at least one business protection need.

Whichever way you look at, business protection offers much needed cover to those currently embarking on their own businesses. So, what does it offer a business owner?

- There's the obvious financial safety net in the event of the death of a key person or them contracting a critical illness.
- The ability to provide funds to the remaining partners or shareholders helping them buy out the critically ill partner or shareholder.
- Purchase the deceased's shares from his or her estate.

Protection helps fund the repayment of any business loan, again in the event of death or a critical illness. It ensures business continuity by providing funds available to the remaining shareholders or partners to enable them to purchase the individual's share of the business, and it ensures that the deceased's family or the critically ill shareholder or partner receives a fair value for their share of the business.

Sounds perfect. Any downsides?

Trusts can cause headaches for the uninitiated and is one of the main reasons why businesses must seek financial advice. They can be relatively expensive to set up and maintain, especially when compared directly to sole trader and partnership agreements. Set-up fees could be reduced by using a proforma trust deed, but in most scenarios, one would need professional help in the first instance.

But, just like any major decisions made around finances, professional help is crucial in deciding whether a trust will be right for a business, and of course, which trust is most appropriate. This is probably the most important area to understand, whether you choose to go with a trust, sole trader, partnership or company agreement.

Synaptic can help with facilitating business protection advice process. Business protection is available through Webline portal – contact us to find out more and how we can help you to create better financial outcomes to your customers.

For more details contact **sales@synaptic.co.uk** or call us on **0800 783 4477**

SYNAPTIC® SOFTWARE

Knowing Me: Paul Quarendon, Knowing You: Richard Tailby. A-ha!

Richard Tailby | Head of Sales | Synaptic Software Limited

Synaptic Software has recently recruited a new team of Business Development Managers. A collective who bring to the business a breadth of knowledge and many years' experience in the financial services and digital worlds. Starting in this issue of Connection, I will be interviewing our new colleagues, helping you get to know them better through key insights and thought leadership. We start with Richard Tailby, our Head of Sales.

Richard has worked in financial services (apart from a few years exploring other less interesting industries), since 1995. This time has predominantly been spent with Legal & General in a variety of sales and management roles covering life and protection markets. He is a very keen squash player and represents Wales at over 45 level. Really? Yes, he really is over 45.

So, in true Alan Partridge style, knowing me: Paul Quarendon, knowing you: Richard Tailby. A-ha!

A-ha!

So, Richard, tell me, what do you see are the biggest challenges facing the insurance industry in 2019?

For the big insurer, despite their vast wealth, I am sure they will be very aware of the nimbler start-ups emerging in the marketplace - the talented people that will also be present in these 'fintechs' will also be worth admiring.

More specifically, I am sure there are tangible benefits to be had with better customer retention techniques. With social media and communications technology being so strong and present in our everyday lives, the opportunities to contact customers directly do seem endless. The trick will be in getting the balance right and communicating with customers in the way they expect, relevant to their demographic. I read a really interesting article in a back issue of this magazine that if you ignore the way in which both Millennials and Generation Z demographics manage their lives, you'll miss out on some very real openings to service their financial needs. Other challenges I would throw into the mix include Open Banking, AI and Big Data taking over the World, also the converging of businesses you wouldn't necessary think would come together from the fin and tech spaces.

How much do you foresee software needing to change to meet these? Any areas in particular?

What's most alarming is that the FCA says a third of firms do not perform regular cyber assessments – with smaller firms "generally relying on old school, manual processes – or no processes at all". Synaptic has always taken security very seriously, and I know we continue to drive best practice to encourage and deploy the latest security initiatives as standard. With the provision of online services becoming more and more the norm and it dominating so much of our lives, we must use protected and secure sites, and ensure we take responsibility to look after our personal information.

SYNAPTIC® SOFTWARE

With social media and communications technology being so strong and present in our everyday lives, the opportunities to contact customers directly do seem endless.

BREXIT! Discuss. Only joking, but do you see any immediate issues for advisers offering protection and annuity advice in the UK?

I believe one-third of insurance business stems from the UK-based insurers so we are certainly a force in the international market. I read recently that the Bank of England has estimated six million UK policyholders, and 30 million European Economic Area policyholders would be impacted by a loss of continuity of existing cross-border insurance contracts, should BREXIT affect our market.

It will be interesting to see how UK insurers who have benefitted from passporting will be impacted, and we'll likely see Solvency II affected given that was bound by EU laws, as is a lot of the UK's insurance market. Overall however, I would surmise that the UK insurance market will be able to formulate plans that impact us less than we originally thought.

We are seeing emerging technologies such as Blockchain, AI and Extended Reality (XR). Any views on how these will shape protection insurance and annuities in the coming year(s)?

I am yet to understand fully the real impact of XR on insurance but Blockchain and AI are two areas we should all be familiar with, or at least have a basic grasp of the benefits they bring us. Thinking about Blockchain, can you imagine a situation where insurance companies can share a customer's KYC information instead of having to investigate every individual that wants to buy insurance? It could result in significant savings. Multiple insurance companies providing information to the same ledger, and the trust that brings, means that applications and claims, and trust arrangements, will be accepted as authentic, and of course ground-breaking.

When I think of AI, I think of a chatbot. Someone, no something, I can relate to and that can answer my query without the human emotion that can sometimes dictate a conversation. I appreciate it isn't just about bots though. I love the idea of AI; basically, devising new products based on the data it gathers and offers to product managers for their product development needs.

Face-to-face advice or a hybrid of Robo-advice and face-to-face?

A hybrid model I think, ROBO appeals to the younger and more tech savvy customers so the adviser would potentially capture more customer opportunities, but at its roots, protection is better when it is sold, so there will always be a need for face to face advice.

From your experience, what are the biggest digital challenges IFAs face?

This can be spilt into two categories for small and large firms – for the smaller IFA business, budget and time restraints coupled with a lack of overarching strategy for digitisation are probably the key issues i.e. not the issue of wanting to move that way. For larger firms, organisational structure obstructing progress and employee pushback will be big issues.

What do you see as the main benefits of Webline and how it can be best used by advisers?

Webline is just ideal. Putting all your quotes into one 'shopping basket' is very common to online users these days, its ability to quickly requote different options and importantly, the storage/compliance facility makes it a market leading system. I regard it as 'Simplicity in strength, in a very cluttered, complicated market, where advisers want to provide their customers with simple, relevant and affordable products'.

If you could make one change to Webline, what would it be?

I would simplify the results screens, lots of results with lots of options on one screen does sometimes make things difficult to see. I would have an 'Amazon' type approach where one life office with multiple premiums and options would come on one line that offered "xxx office": Premiums between £6 & £24, for example with a drop down option to expose all the premiums in that range.

Lastly, Richard, what is your favourite Beatles' album?

"Tough one! I think I'd have to say… 'The Best of The Beatles'."

Webline offers life and protection quotations from all the top insurance providers in the market. Following just a few simple inputs, a life and/or protection quote can be quickly obtained either as standalone products or as part of the multi-benefit service we provide.

To find out more visit **www.synaptic.co.uk/research-tools/synaptic-webline-protection**

Up next – Ross Holloway on all things Wealth Management!

The Magic of the Markets: considering Risk, Capacity for Loss and Term.

Eric Armstrong | Client Director | Synaptic Software Limited

This edition's article is an attempt to expose the academic and practical underpinning to what we believe is the most rigorous and reliable risk model available to advisers. Synaptic does not mediate between the model and the adviser as other systems do.

The projections are applied uniformly to all investments, thereby providing a consistent measure for risk, presented as a VAR or 'Value at Risk' measure. This is the format most relevant to the requirements of MiFID, and more useful than being presented with analysis of historic volatility, or a 'qualitative overlay', which will be an expert's opinion, clouding any objectivity that should reside with the adviser.

Compound Interest is often referred to apocryphally as 'the eighth wonder of the world' – and has been variously attributed to Albert Einstein / Benjamin Franklin or John Maynard Keynes. But it would go unnoticed in an investment context if the markets didn't perform their own miracle, that of transforming a 'random walk' into an inexorable trend of growth. This is what happens when the millions of individual components that make up the economy pull in the same direction vis a vis the prospects of companies and markets, overall, to create growth. Aligning to markets is what customers seeking investment returns come to financial advisers for, and this is the great benefit they bestow. It's what differentiates speculation from investment.

It is a similar explanation as to why a dice may have 1 out of 6 outcomes in a throw, meaning the next throw is impossible to predict. However, throw a dice 10k times and the outcome can be predicted with certainty.

This article outlines some research to demonstrate the efficacy of the markets, in particular the role of 'term' in investment – effectively the 'managing out of risk' over time. It then offers an insight on how the Synaptic model frames risk-based decisions in an investment context, presenting finally, an example of how the Synaptic risk metrics can be used to create a matrix for the identification of an appropriate asset allocation in the advice context.

Consideration of term

Term changes everything. The higher the Capacity for Loss, the higher the investment risk an investor can afford to take. Investment risk diminishes as the term extends, as 'Sequence of Return Risk' is mitigated.

Why do Product Providers recommend portfolios with high equity content to 'Cautious' investors? When a fair assumption can be made regarding the long term commitment to the term by the client, often the case in pensions recommendations, this can be deemed suitable.

Establishing the client's long-term commitment to their investment term, in conjunction with the A2R Questionnaire, will qualify the role of term in reducing Capacity for Loss. See the matrix overleaf. It is not scored in the way an ATRQ is as the there is greater reliance on the judgement of the adviser. This secondary questionnaire therefore offers structure to the discussion, and implies a format for recording the advisers final recommendation on risk.

While clients seem to be taking advantage of greater financial flexibility, it appears that they do this with some reservations.

A2R: Customers have a lower capacity for loss when some or all of the following apply:

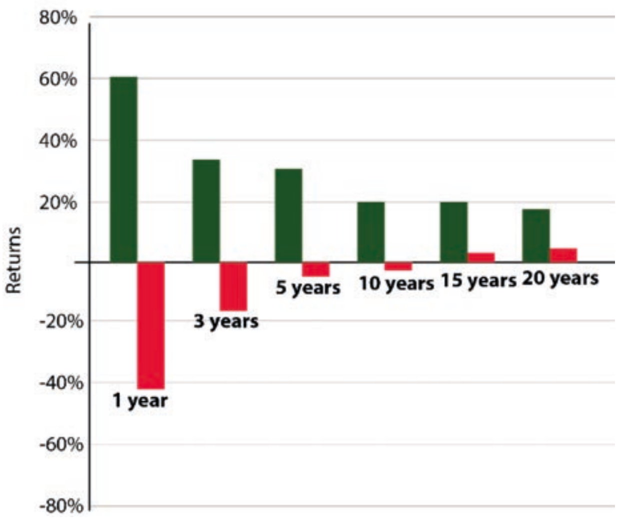
- They have no way to replenish their capital (for example, no longer earning);
- They rely on the investment for income in order to meet expenditure;
- They have a short investment horizon (losses are unlikely to be recouped prior to crystallisation);
- They are exposing a large part of their available assets to the risk of a fall.

How does term reduce risk of loss?

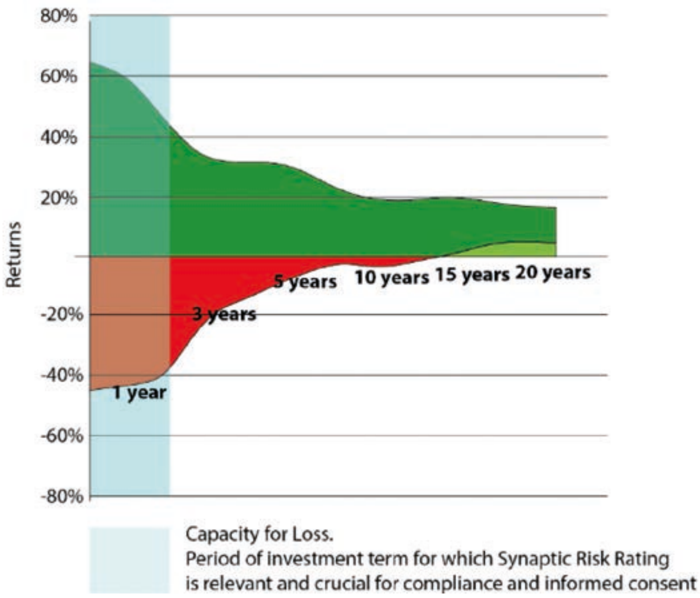
Over short time periods, an index such as a FTSE or S&P can deliver exceptionally high or low returns. If we look at the S&P 500, 1973 – 2016, the worst 1 year rolling return was -43% (to month ending February 2009). The best was +61% return (to month ending June 1983).

However, the worst 20 year rolling return was 6.4% (gain, to May 1979). The best rolling 20-year period delivered an average of 18% a year (to March 2000). So you could argue that if you are definitely going to be invested for 20 years, capacity for loss is irrelevant. The trouble is, that is not how compliance works!

Rolling Stock Market returns
The beauty of asymmetric investment returns over time



Rolling Stock Market returns / S&P 500 historic data
The beauty of asymmetric investment risk and return over time



SYNAPTIC RISK

The Ombudsman doesn't adjudicate on the ability of any sector, strategy or index to achieve profitability in the long term, despite often doing so. They adjudicate on the experience of loss in the short term (hence need for Capacity for Loss analysis). It may be appropriate to take on risk for the long term, but the risks need to be clearly explained and understood.

The A2R ATRQ has proven itself over many years and is widely used owing to its role as the designated questionnaire accompanying Moody's risk model.

Academic research has interrogated the questionnaire's population sample to provide scoring alignment with appropriate risk categories, which can then be mapped to suitable investments.

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Table showing equity portion in the asset allocation for each risk category. Contact Synaptic for full Strategic Asset Allocations

Risk Profile	Asset split type	Equity portion	*Asset allocation (10 year term analysis)
Very Cautious	Strategic	8	1
Cautious	Strategic	15	2
Moderately Cautious (Low End)	Strategic	40	3
Moderately Cautious (High End)	Strategic	46	4
Balanced (Low End)	Strategic	56	5
Balanced (High End)	Strategic	65	6
Moderately Adventurous (Low End)	Strategic	76	7
Moderately Adventurous (High End)	Strategic	82	8
Adventurous	Strategic	94	9
Very Adventurous	Strategic	100	10

Example of an investment strategy employed by a Synaptic customer, using Synaptic and Moody's research.

*Adjustment of asset allocation according to term

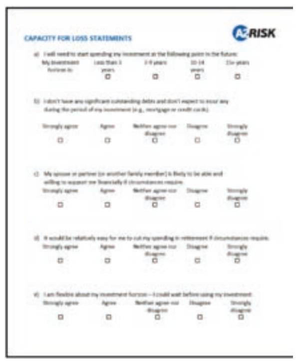
Risk Profile of customer	5 Year	10 years	15 years	20 years
Very Cautious		**1**	2	3
Cautious		**2**	3	4
Moderately Cautious (low end)	1	**3**	4	5
Moderately Cautious (high end)	2	**4**	5	6
Balanced (Low End)	3	**5**	6	7
Balanced (high end	4	**6**	7	8
Moderately Adventurous (low end)	5	**7**	8	9
Moderately Adventurous (high end)	6	**8**	9	10
Adventurous	7	**9**	10	10
Very Adventurous	8	**10**	10	10

A reminder of what MiFID is about when it comes to risk

MiFID II introduces a new requirement for firms to provide retail clients, receiving an advisory service, with a suitability report specifying how the advice given meets the client's circumstances. Important points to reflect on:

- Responsibility to undertake the suitability assessment lies solely with the firm;
- Where products are packaged or bundled, there is an obligation to ensure the overall package or bundle is suitable. Research tools like Synaptic that track funds by share class according to availability by product are essential for accurate illustrations;
- Confirming that the suitability assessment relates to buying investments, but also to hold or sell recommendations;
- Requiring firms to adopt policies and procedures to ensure that they understand the nature, features (including costs and risks) of instruments selected for clients;
- Advisers must begin disclosing actual costs and charges associated with client investments, rather than estimates, as well as comparing growth projections with actual performance. Accurate growth forecasts from a stochastic model such as Moody's suddenly becomes much more valuable;
- **Risk tolerance** is the measure of how much investment risk the client is willing and able to take;
- **Attitude to risk** is the client's psychological willingness to take risk, measured by the scoring from the psychometric questionnaire;
- **Capacity for Loss** is the client's financial ability to bear risk and cope with adverse outcomes. It relates to investment horizon, and the level of income, assets and liabilities. FCA policy also describes Capacity for Loss as the amount that a client can 'afford to lose before having a material impact on [their] standard of living';
- The expert assessment of the adviser (through fact finding, knowledge of the client's circumstances and, increasingly, use of cash-flow models), provides the **Capacity for Loss calculation**. This is the lynch-pin of advice and compliance;
- Need to take risk is measured by the advisers themselves by evaluating clients' investment goals, time horizon and the financial resources at their disposals;
- Reconciling attitude to risk, capacity for loss and the need to take risk is a key role of the adviser, and an area where substantial value can be added.

Below. Synaptic software includes the A2R Risk Questionnaire, the most widely used ATRQ in UK. To be used in conjunction with the Capacity for Loss Questionnaire, also below.

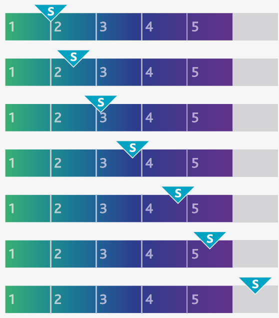


SYNAPTIC RISK

Synaptic Risk Rating Service

AEGON

- Aegon Conservative Core Portfolio
- Aegon Cautious Core Portfolio
- Aegon Balanced Core Portfolio
- Aegon Balanced Plus Core Portfolio
- Aegon Growth Core Portfolio
- Aegon Growth Plus Core Portfolio
- Aegon Adventurous Core Portfolio

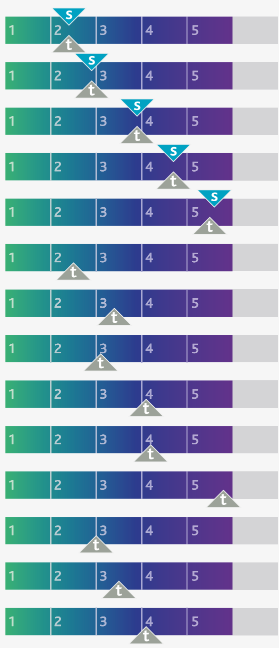


AVIVA INVESTORS

- MAF I
- MAF II
- MAF III
- MAF IV
- MAF V

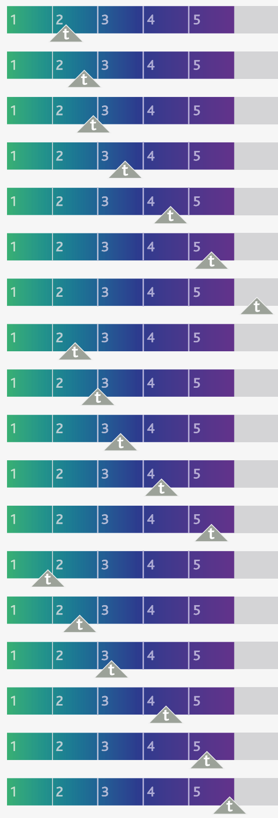
BMO Global Asset Management

- BMO MM Lifestyle 3 Fund
- BMO MM Lifestyle 4 Fund
- BMO MM Lifestyle 5 Fund
- BMO MM Lifestyle 6 Fund
- BMO MM Lifestyle 7 Fund
- Pyrford Global Total Return (Sterling)
- BMO MM Navigator Distribution Fund
- BMO MM Navigator Cautious Fund
- BMO MM Navigator Balanced Fund
- BMO MM Navigator Growth Fund
- BMO MM Navigator Boutiques Fund
- BMO Universal MAP Cautious
- BMO Universal MAP Balanced
- BMO Universal MAP Growth



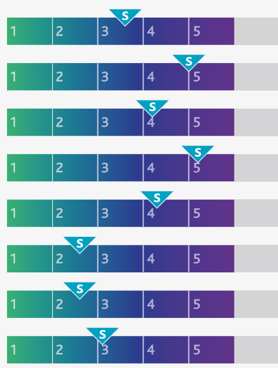
architas

- MA Passive Prudent
- MA Passive Reserve
- MA Passive Moderate
- MA Passive Intermediate
- MA Passive Progressive
- MA Passive Growth
- MA Passive Dynamic
- MA Blended Reserve
- MA Blended Moderate
- MA Blended Intermediate
- MA Blended Progressive
- MA Blended Growth
- MA Active Reserve
- MA Active Moderate Income
- MA Active Intermediate Income
- MA Active Progressive
- MA Active Growth
- MA Active Dynamic



BNY MELLON INVESTMENT MANAGEMENT

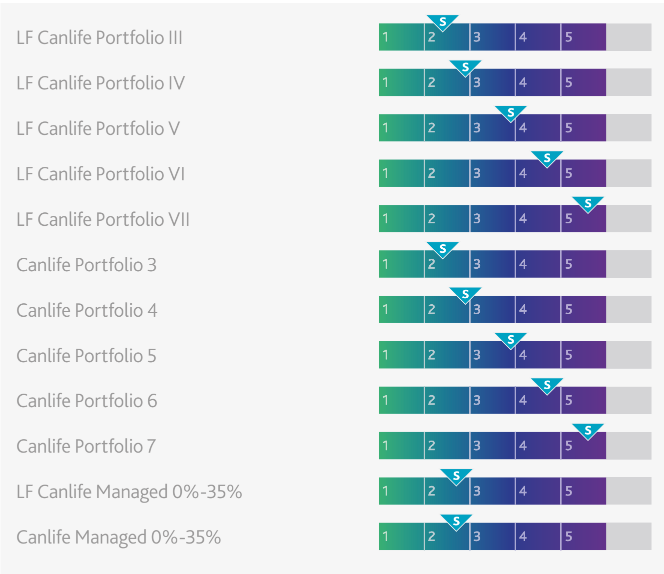
- Newton Multi-Asset Diversified Return
- Newton Multi-Asset Income
- Newton Multi-Asset Balanced
- Newton Multi-Asset Growth
- Newton Global Balanced
- Newton Global Dynamic Bond
- Newton Global Dynamic Bond Income
- Newton Real Return



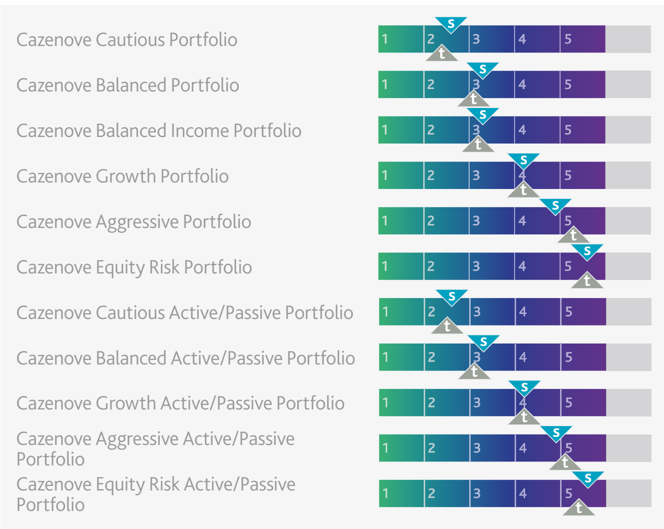
SYNAPTIC RISK

BREWIN DOLPHIN

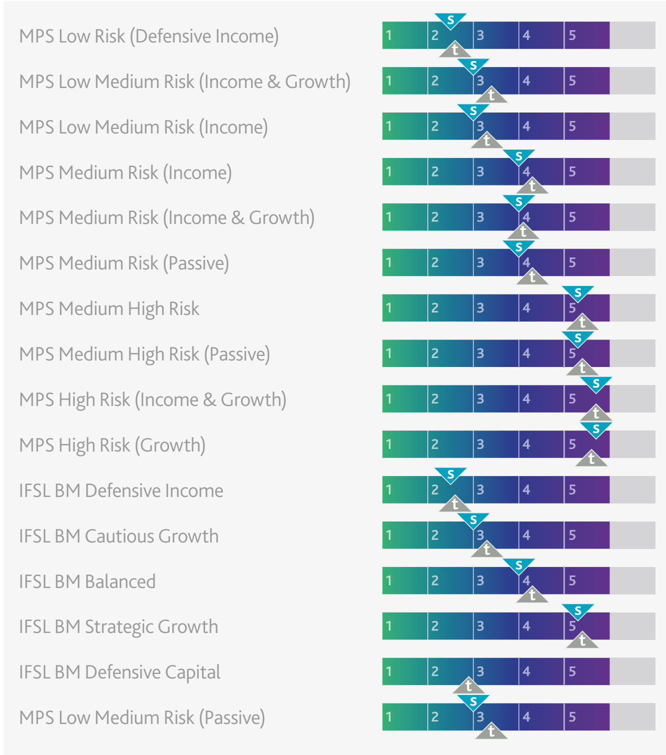
Canada Life Investments



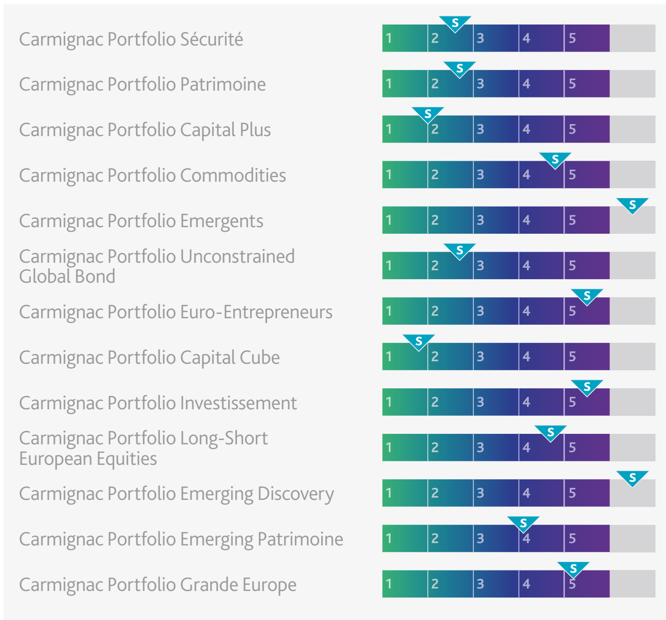
Cazenove Capital



BM BROOKS MACDONALD



CARMIGNAC RISK MANAGERS



SYNAPTIC RISK

Synaptic Risk Rating Service

CHARLES STANLEY

Dynamic Passive

- Dynamic Passive 1
- Dynamic Passive 2
- Dynamic Passive 3
- Dynamic Passive 4
- Dynamic Passive 5

CleverMPS

- 8AM Clever MPS 3
- 8AM Clever MPS 4
- 8AM Clever MPS 5
- 8AM Clever MPS 6
- 8AM Clever MPS 7

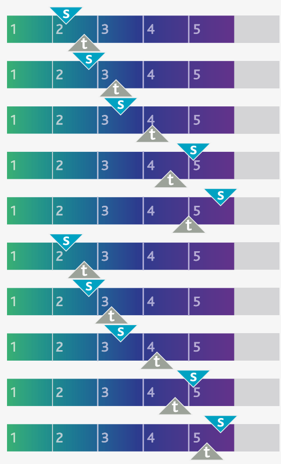
Fidelity INTERNATIONAL

- Multi Asset Allocator Adventurous
- Multi Asset Allocator Defensive
- Multi Asset Allocator Growth
- Multi Asset Allocator Strategic
- Multi Asset Allocator World
- Multi Asset Balanced Income
- Multi Asset Income
- Multi Asset Income & Growth
- Multi Asset Open Adventurous
- Multi Asset Open Defensive
- Multi Asset Open Growth
- Multi Asset Open Strategic
- Open World

CHARLES STANLEY

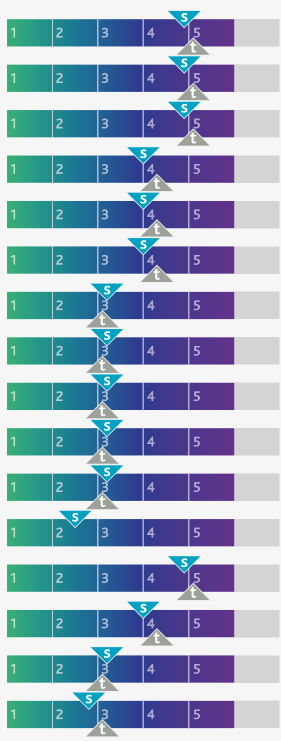
Multi Manager

- Multi Manager Income 1
- Multi Manager Income 2
- Multi Manager Income 3
- Multi Manager Income 4
- Multi Manager Income 5
- Multi Manager Total Return 1
- Multi Manager Total Return 2
- Multi Manager Total Return 3
- Multi Manager Total Return 4
- Multi Manager Total Return 5



Close Brothers Asset Management

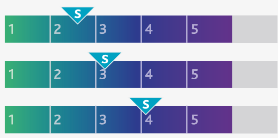
- Close Managed Growth Fund
- Close Tactical Select Passive Growth Fund
- Close DMS Growth
- Close Managed Balanced Fund
- Close Tactical Select Passive Balanced Fund
- Close DMS Balanced
- Close Managed Income Fund
- Close Managed Conservative Fund
- Close Tactical Select Passive Conservative Fund
- Close DMS Income Plus
- Close DMS Conservative
- Close Bond Income Portfolio Fund
- Close Growth Portfolio Fund
- Close Balanced Portfolio Fund
- Close Conservative Portfolio Fund
- Close Diversified Income Portfolio Fund



Access the Synaptic Risk Fact Sheets and the Synaptic Attitude to Risk Questionnaire by visiting **www.synaptic.co.uk/research-tools/synaptic-risk**

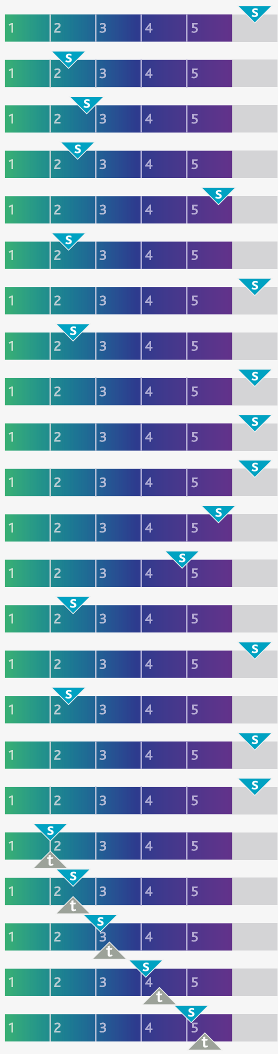
Goldman Sachs Asset Management

GS Global Multi Asset Conservative Portfolio
GS Global Multi Asset Balanced Portfolio
GS Global Multi Asset Growth Portfolio



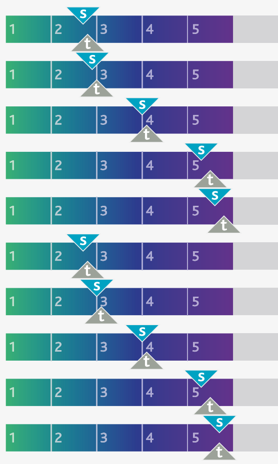
Invesco

Invesco Asian Fund (UK)
Invesco Corporate Bond Fund (UK)
Invesco Distribution Fund (UK)
Invesco Global Bond Fund (UK)
Invesco Global Smaller Companies Fund (UK)
Invesco Global Targeted Returns Fund (UK)
Invesco High Income Fund (UK)
Invesco High Yield Fund (UK)
Invesco Hong Kong & China Fund (UK)
Invesco Income Fund (UK)
Invesco Latin American Fund (UK)
Invesco Managed Growth Fund (UK)
Invesco Managed Income Fund (UK)
Invesco Monthly Income Plus Fund (UK)
Invesco Pacific Fund (UK)
Invesco Tactical Bond Fund (UK)
Invesco UK Smaller Companies Equity Fund (UK)
Invesco UK Strategic Income Fund (UK)
Invesco Summit Growth 1 Fund (UK)*
Invesco Summit Growth 2 Fund (UK)*
Invesco Summit Growth 3 Fund (UK)*
Invesco Summit Growth 4 Fund (UK)*
Invesco Summit Growth 5 Fund (UK)*



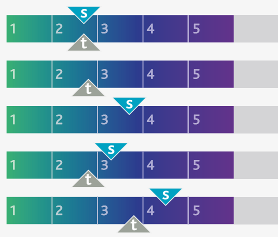
HSBC Global Asset Management

HSBC Global Strategy Cautious
HSBC Global Strategy Conservative
HSBC Global Strategy Balanced
HSBC Global Strategy Dynamic
HSBC Global Strategy Adventurous
HSBC Global MPS Cautious
HSBC Global MPS Conservative
HSBC Global MPS Balanced
HSBC Global MPS Dynamic
HSBC Global MPS Adventurous



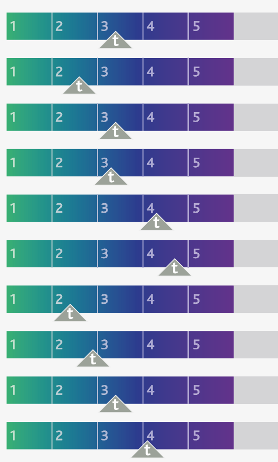
Investec Asset Management

Diversified Income Fund
Diversified Growth Fund
Investec Cautious Managed Fund
MAP
Investec Global Multi-Asset Total Return Fund



Janus Henderson INVESTORS

Henderson Cautious Managed
Henderson MA Absolute Return
Henderson MM Distribution
Henderson MM Income & Growth
Henderson MM Managed
Henderson MM Active
Henderson Core 3 Income
Henderson Core 4 Income
Henderson Core 5 Income
Henderson Core 6 Income



Synaptic Risk Rating Service

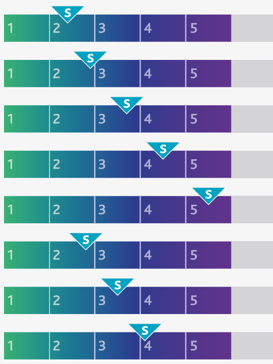
SYNAPTIC RISK

Jupiter Asset Management

Jupiter Absolute Return
Jupiter Strategic Bond
Jupiter Distribution
Jupiter Monthly Alternative Income
Jupiter Merlin Conservative Portfolio
Jupiter Merlin Income Portfolio
Jupiter Merlin Balanced Portfolio
Jupiter Merlin Growth Portfolio
Jupiter Merlin Worldwide Portfolio

Legal & General Investment Management

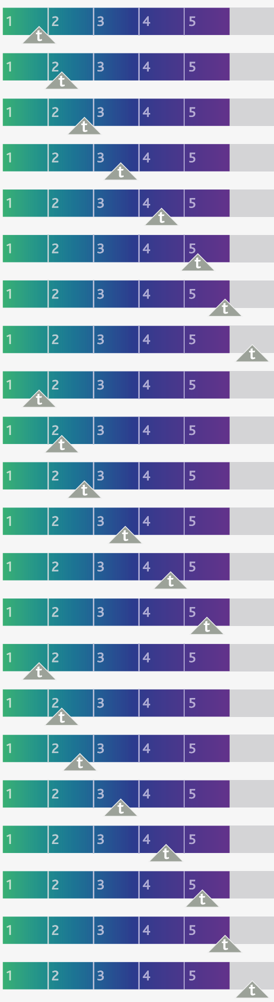
Multi-Index 3
Multi-Index 4
Multi-Index 5
Multi-Index 6
Multi-Index 7
Multi-Index Income 4
Multi-Index Income 5
Multi-Index Income 6



LIONTRUST

MPS

MPS Growth 1
MPS Growth 2
MPS Growth 3
MPS Growth 4
MPS Growth 5
MPS Growth 6
MPS Growth 7
MPS Growth 8
MPS Income 1
MPS Income 2
MPS Income 3
MPS Income 4
MPS Income 5
MPS Income 6
MPS Dynamic Beta 1
MPS Dynamic Beta 2
MPS Dynamic Beta 3
MPS Dynamic Beta 4
MPS Dynamic Beta 5
MPS Dynamic Beta 6
MPS Dynamic Beta 7
MPS Dynamic Beta 8



LIONTRUST

WSS

WSS Risk Grade 1
WSS Risk Grade 2
WSS Risk Grade 3
WSS Risk Grade 4
WSS Risk Grade 5
WSS Risk Grade 6
WSS Risk Grade 7
WSS Risk Grade 8
WSS Risk Grade 9
WSS Risk Grade 10
WSS Income 1
WSS Income 2
WSS Income 3
WSS Income 4
WSS Income 5
WSS Income 6
WSS Dynamic Beta 1
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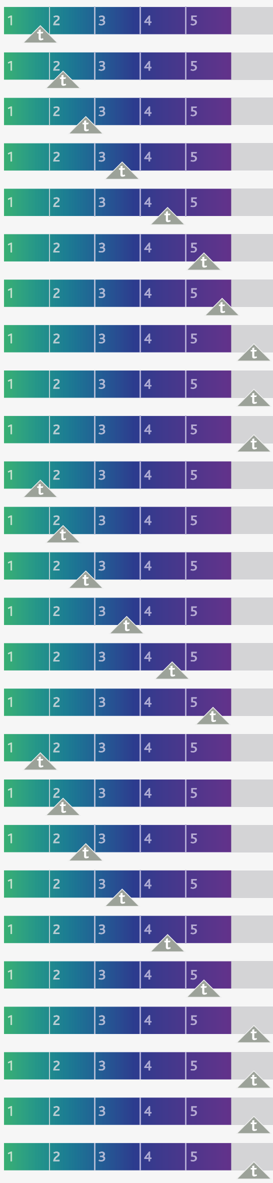
WSS Dynamic Beta 9
WSS Dynamic Beta 10



SYNAPTIC RISK

LGT Vestra

- MPS – Defensive
- MPS – Cautious
- MPS – Balanced
- MPS – Growth
- MPS – Adventurous
- MPS – Strategic Income
- Volare Defensive Fund
- Volare Cautious Fund
- Volare Balanced Fund
- Volare Growth Fund
- Volare Strategic Income Fund
- Sustainable MPS – Cautious
- Sustainable MPS – Balanced
- Sustainable MPS – Growth

Premier Asset Management

Portfolios

- Premier Capital Builder Portfolio
- Premier Capital Builder Plus Portfolio
- Premier Income and Growth Portfolio
- Premier Income Portfolio
- Premier Conservative Portfolio
- Premier High Income Portfolio
- Premier Balanced Portfolio
- Premier Balanced Plus Portfolio
- Premier Growth Portfolio
- Premier Growth Plus Portfolio
- Premier Dynamic Growth Portfolio

LV=

- Flexible Guaranteed Funds Cautious
- Flexible Guaranteed Funds Balanced
- Flexible Guaranteed Managed Growth

MAPS multi asset portfolio solutions

- MP3
- MP4
- MP5
- MP6
- MP7

Premier Asset Management

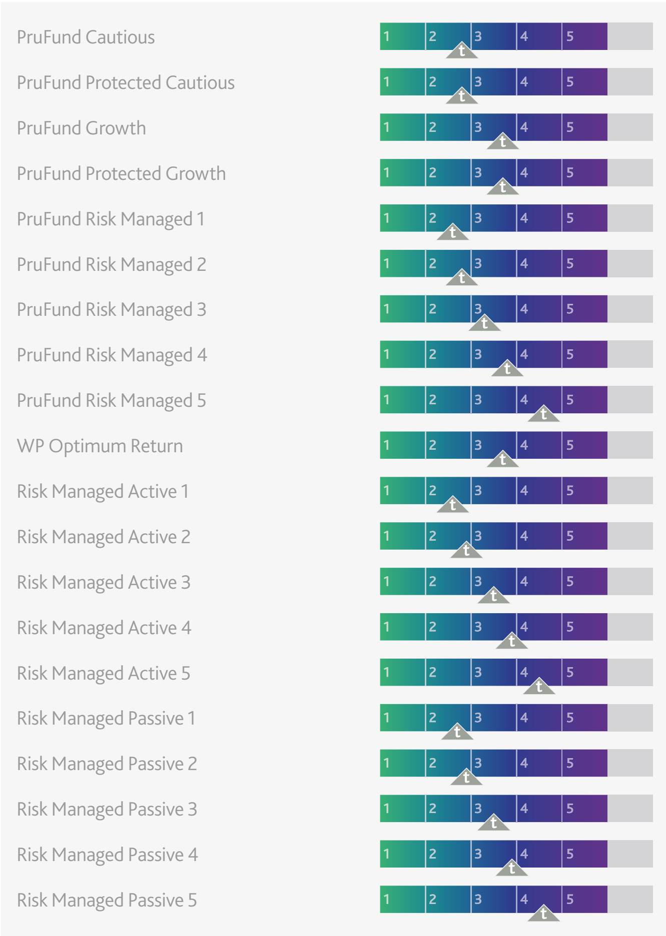
Funds

- Premier Multi-Asset Conservative Growth
- Premier Multi-Asset Absolute Return Fund
- Premier Multi-Asset Distribution Fund
- Premier Multi-Asset Monthly Income Fund
- Premier Multi-Asset Growth & Income Fund
- Premier Multi-Asset Global Growth Fund
- Premier UK Money Market Fund
- Premier Defensive Growth Fund
- Premier Corporate Bond Monthly Income Fund
- Premier Diversified Balanced Growth Fund
- Premier Diversified Cautious Growth Fund
- Premier Diversified Dynamic Growth Fund
- Premier Diversified Growth Fund
- Premier Diversified Income Fund
- Premier Liberation IV Fund
- Premier Liberation V Fund
- Premier Liberation VI Fund
- Premier Liberation VII Fund

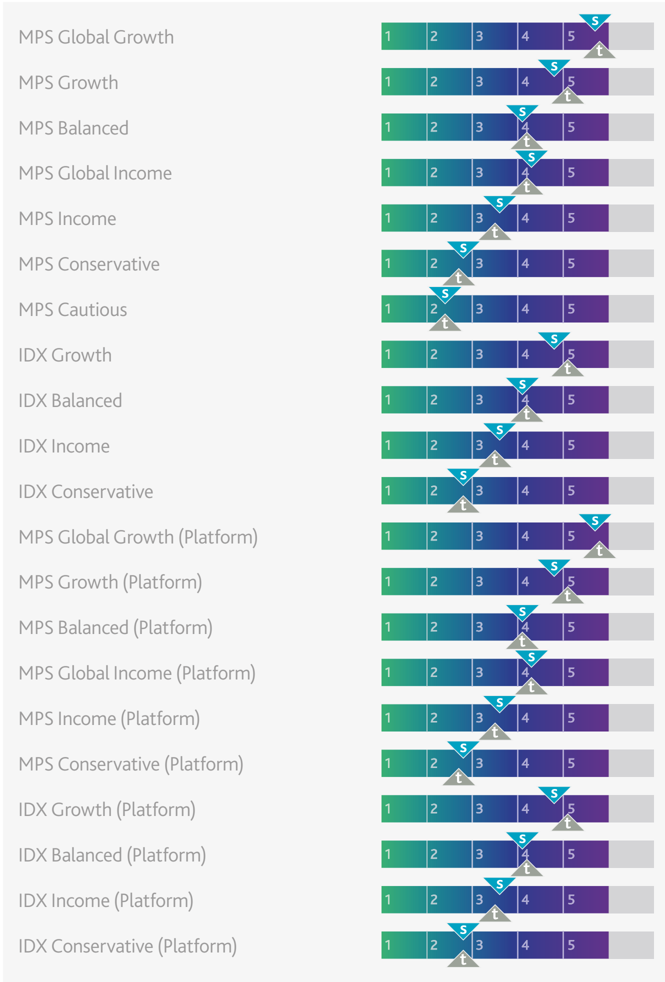
SYNAPTIC RISK

Synaptic Risk Rating Service

PRUDENTIAL



QUILTER CHEVIOT
INVESTMENT MANAGEMENT



SYNAPTIC RISK RATING 1	SYNAPTIC RISK RATING 2	SYNAPTIC RISK RATING 3	SYNAPTIC RISK RATING 4	SYNAPTIC RISK RATING 5
Cautious	Moderately Cautious	Balanced	Moderately Adventurous	Adventurous

Synaptic Risk Rating based on following analysis: S Strategic Asset Allocation t Tactical Asset Allocation

SYNAPTIC RISK

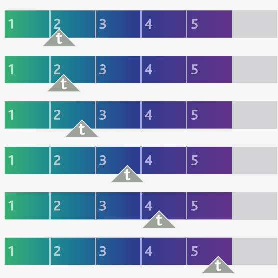
Quilter Investors

- QI Generation CPI+ 3
- QI Generation CPI+ 4
- QI Generation CPI+ 5
- Quilter Cirilium Conservative Fund
- Quilter Cirilium Balanced Fund
- Quilter Cirilium Moderate Fund
- Quilter Cirilium Dynamic Fund
- Quilter Cirilium Adventurous Fund
- Creation Conservative
- Creation Balanced
- Creation Moderate
- Creation Dynamic
- Creation Adventurous
- CRA 3 Active Managed Portfolio
- CRA 4 Active Managed Portfolio
- CRA 5 Active Managed Portfolio
- CRA 6 Active Managed Portfolio
- CRA 7 Active Managed Portfolio
- CRA 8 Active Managed Portfolio
- CRA 9 Active Managed Portfolio
- CRA 10 Active Managed Portfolio

Royal London

Global Multi Asset Portfolios

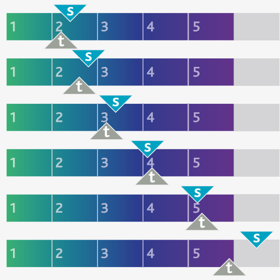
- RL GMAP Conservative
- RL GMAP Defensive
- RL GMAP Balanced
- RL GMAP Growth
- RL GMAP Adventurous
- RL GMAP Dynamic



Rathbones Look forward

Bespoke

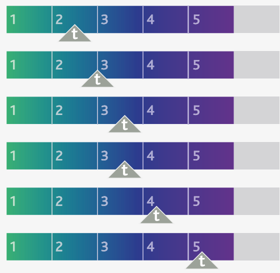
- Strategy 1
- Strategy 2
- Strategy 3
- Strategy 4
- Strategy 5
- Strategy 6



Rathbones Look forward

Managed Portfolios

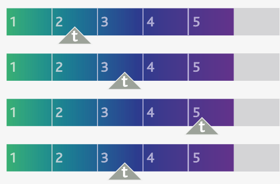
- Cautious
- Balanced
- Income
- Balanced Plus
- Equity
- Equity Plus



Rathbones Look forward

Multi Asset

- RMAP Total Return
- RMAP Strategic Growth
- RMAP Enhanced Growth
- RMAP Strategic Income



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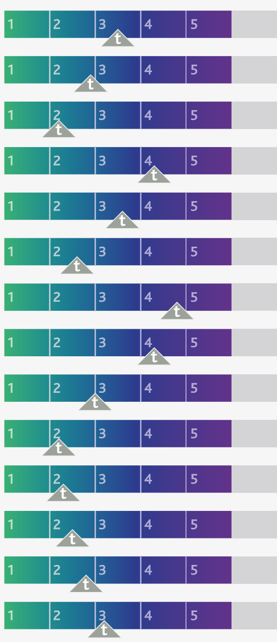
SYNAPTIC RISK

Synaptic Risk Rating Service

Royal London

Governed Portfolios

- RL Governed Portfolio 1 (l)
- RL Governed Portfolio 2
- RL Governed Portfolio 3 (s)
- RL Governed Portfolio 4 (l)
- RL Governed Portfolio 5
- RL Governed Portfolio 6 (s)
- RL Governed Portfolio 7 (l)
- RL Governed Portfolio 8
- RL Governed Portfolio 9 (s)
- RL GRIP 1
- RL GRIP 2
- RL GRIP 3
- RL GRIP 4
- RL GRIP 5

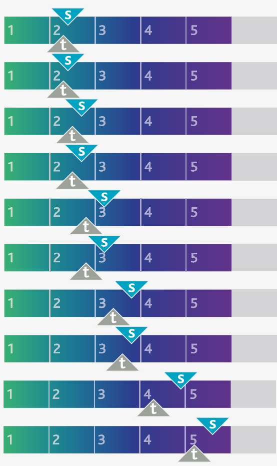


RSMR Portfolio Services

- RSMR Rfolio Defensive
- RSMR Rfolio Cautious
- RSMR Rfolio Prudent
- RSMR Rfolio Balanced
- RSMR Rfolio Growth
- RSMR Rfolio Dynamic
- RSMR Rfolio Adventurous
- RSMR Rfolio Income
- RSMR Rfolio SRI Cautious
- RSMR Rfolio SRI Balanced
- RSMR Rfolio SRI Dynamic

Sanlam

- 2 Portfolio
- 2 Income Portfolio
- 3 Portfolio
- 3 Income Portfolio
- 4 Portfolio
- 4 Income Portfolio
- 5 Portfolio
- 5 Income Portfolio
- 6 Portfolio
- 7 Portfolio



Russell Investments

- Russell Investments Secure Portfolio
- Russell Investments Cautious Portfolio
- Russell Investments Conservative Portfolio
- Russell Investments Moderate Portfolio
- Russell Investments Balanced Portfolio
- Russell Investments Progressive Portfolio
- Russell Investments Adventurous Portfolio
- Russell Investments Growth Portfolio
- Russell Investments Aggressive Portfolio
- Russell Investments Aggressive Plus
- Russell Investments Defensive Assets Fund
- Russell Investments Real Assets Fund
- Russell Investments UK Growth
- Russell Investments International Growth
- Russell Investments MA Growth 1
- Russell Investments MA Growth 2
- Russell Investments MA Growth 3
- Russell Investments MA Growth 4
- Russell Investments MA Growth 5
- Russell Investments MA Income

SYNAPTIC RISK

Santander Asset Management

- Santander Atlas 3
- Santander Atlas 4
- Santander Atlas 5
- Santander Atlas 6
- Santander Atlas 7
- Santander Atlas Income

Scottish Widows

- Pension Portfolio 1
- Pension Portfolio 2
- Pension Portfolio 3
- Pension Portfolio A
- Pension Portfolio B
- Pension Portfolio 4
- Pension Portfolio C
- Pension Portfolio 5
- Premier Pension Portfolio 1
- Premier Pension Portfolio 2
- Premier Pension Portfolio 3
- Premier Pension Portfolio A
- Premier Pension Portfolio B
- Premier Pension Portfolio 4
- Premier Pension Portfolio C
- Premier Pension Portfolio 5

Schroders

- Schroder MM Diversity
- Schroder MM Diversity Balanced
- Schroder MM Diversity Income
- Schroder MM Diversity Tactical
- Schroder MM International
- Schroder MM UK Growth
- Schroder Mixed Distribution Fund
- Schroder Dynamic Multi Asset
- Schroder Managed Balanced

SEVEN Investment Management

- Cautious
- Income
- Moderately Cautious
- Balanced
- Moderately Adventurous
- Adventurous
- Personal Injury

Smith & Williamson

- S&W Defensive Portfolio - 3
- S&W Defensive Income Portfolio - 4
- S&W Balanced Income Portfolio - 5
- S&W Balanced Growth Portfolio - 6
- S&W Growth Portfolio - 7
- S&W Dynamic Growth Portfolio - 8

Access the Synaptic Risk Fact Sheets and the Synaptic Attitude to Risk Questionnaire by visiting **www.synaptic.co.uk/research-tools/synaptic-risk**

SYNAPTIC RISK

Synaptic Risk Rating Service

Standard Life Investments

- MyFolio Market I
- MyFolio Market II
- MyFolio Market III
- MyFolio Market IV
- MyFolio Market V
- MyFolio Managed I
- MyFolio Managed II
- MyFolio Managed III
- MyFolio Managed IV
- MyFolio Managed V
- MyFolio Multi-Manager I
- MyFolio Multi-Manager II
- MyFolio Multi-Manager III
- MyFolio Multi-Manager IV
- MyFolio Multi-Manager V
- MyFolio Multi-Manager Income II
- MyFolio Multi-Manager Income III
- MyFolio Multi-Manager Income IV

thesis asset management

- Thesis Optima Income
- Thesis Optima Balanced
- Thesis Optima Growth
- Thesis Collectives 1 of 7
- Thesis Collectives 2 of 7
- Thesis Securities 3 of 7
- Thesis Securities 4 of 7
- Thesis Securities 5 of 7
- Thesis Securities 6 of 7
- Thesis Securities 7 of 7

TIME INVESTMENTS

- Commercial Long Income PAIF

Vanguard

- Vanguard LifeStrategy 20%
- Vanguard LifeStrategy 40%
- Vanguard LifeStrategy 60%
- Vanguard LifeStrategy 80%
- Vanguard LifeStrategy 100%

verbatim Asset Management

Portfolios

- HC Verbatim Portfolio 3
- HC Verbatim Portfolio 4
- HC Verbatim Portfolio 5 Growth
- HC Verbatim Portfolio 6
- HC Verbatim Portfolio 7
- HC Verbatim Portfolio 5 Income

SYNAPTIC RISK RATING 1	SYNAPTIC RISK RATING 2	SYNAPTIC RISK RATING 3	SYNAPTIC RISK RATING 4	SYNAPTIC RISK RATING 5
Cautious	Moderately Cautious	Balanced	Moderately Adventurous	Adventurous

Synaptic Risk Rating based on following analysis: S Strategic Asset Allocation t Tactical Asset Allocation

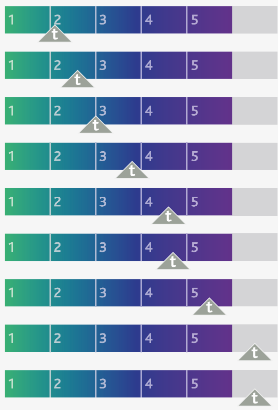
SYNAPTIC RISK

SimplyBiz Investment Services

PART OF THE SIMPLYBIZ GROUP

RSMR

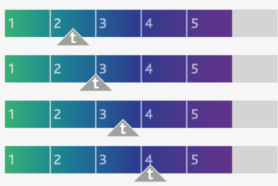
- RSMR Model Portfolio 2
- RSMR Model Portfolio 3
- RSMR Model Portfolio 4
- RSMR Model Portfolio 5
- RSMR Model Portfolio 6
- RSMR Model Portfolio 7
- RSMR Model Portfolio 8
- RSMR Model Portfolio 9
- RSMR Model Portfolio 10



verbatim Asset Management

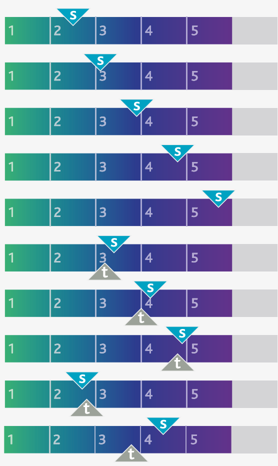
Total Clarity

- HC Verbatim Multi-Index Portfolio 3
- HC Verbatim Multi-Index Portfolio 4
- HC Verbatim Multi-Index Portfolio 5
- HC Verbatim Multi-Index Portfolio 6



Vitality INVEST

- VitalityInvest Risk Optimiser 3
- VitalityInvest Risk Optimiser 4
- VitalityInvest Risk Optimiser 5
- VitalityInvest Risk Optimiser 6
- VitalityInvest Risk Optimiser 7
- Vitality Investec Multi-Asset Moderate
- Vitality Investec Multi-Asset Balanced
- Vitality Investec Multi-Asset Growth
- Vitality Investec Multi-Asset Income
- Vitality Investec Dynamic Multi-Asset



verbatim Asset Management

VDS

- VDS JH 3
- VDS JH 4
- VDS JH 5
- VDS JH 6
- VDS JH 7
- VDS JH 8
- VDS RSMR 2
- VDS RSMR 3
- VDS RSMR 4
- VDS RSMR 5
- VDS RSMR 6
- VDS RSMR 7
- VDS RSMR 8
- VDS RSMR 9
- VDS RSMR 10
- VDS TCF 3
- VDS TCF 4
- VDS TCF 5
- VDS TCF 6
- VDS TCF 7
- VDS TCF 8
- VDS S&W 3
- VDS S&W 4
- VDS S&W 5
- VDS S&W 6
- VDS S&W 7
- VDS S&W 8
- VDS HR 3
- VDS HR 4
- VDS HR 5
- VDS HR 6
- VDS HR 7
- VDS HR 8

(s) These portfolios were constructed with short investment timelines (5 year) in mind.

(l) These portfolios were constructed with longer investment timelines (15 year) in mind. Otherwise Synaptic Risk Ratings assume a 10 year investment horizon. You should consult Royal London directly for further information before recommending.

About the service: Synaptic Risk Ratings are worked out by analysing the underlying asset classes within the fund or portfolio. Synaptic Software have requested asset allocation information from participating providers in a specific format aligned to the risk framework of the system. These asset classes are used by the model to determine the risk rating, a process that may result in a level of approximation though in most cases this will be insignificant. It is also possible that certain asset classes may not be represented exactly in the manner that providers would prefer.