

## Investment objectives

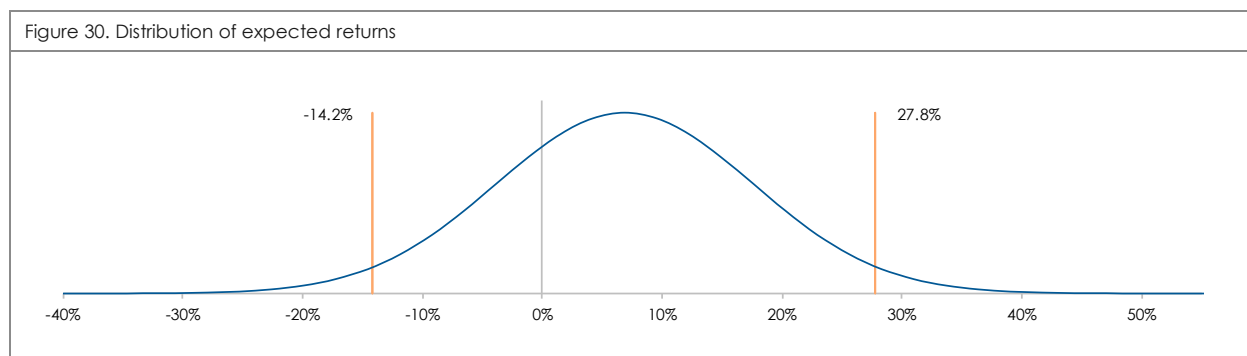
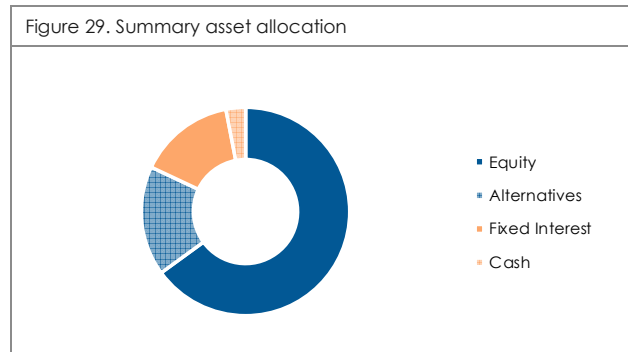
Our 'medium-term balanced' asset allocation model aims to maximise risk-adjusted returns over the longer-term using a diversified range of investments.

It comprises equity and 'alternatives' exposure in the region of 82% with the remaining 18% held in fixed interest and cash (see figure 29).

## Potential risks and returns

Our analysis (see important information) suggests that we can reasonably expect an annualised nominal rate of return somewhere between 4.4% and 9.3% with a midpoint of 6.9%, before deduction of charges and tax liabilities, from a portfolio matched to this asset allocation. Assuming a rate of inflation equal to 3.0%, we could see an annualised 'real' midpoint rate of return of around 3.7%.

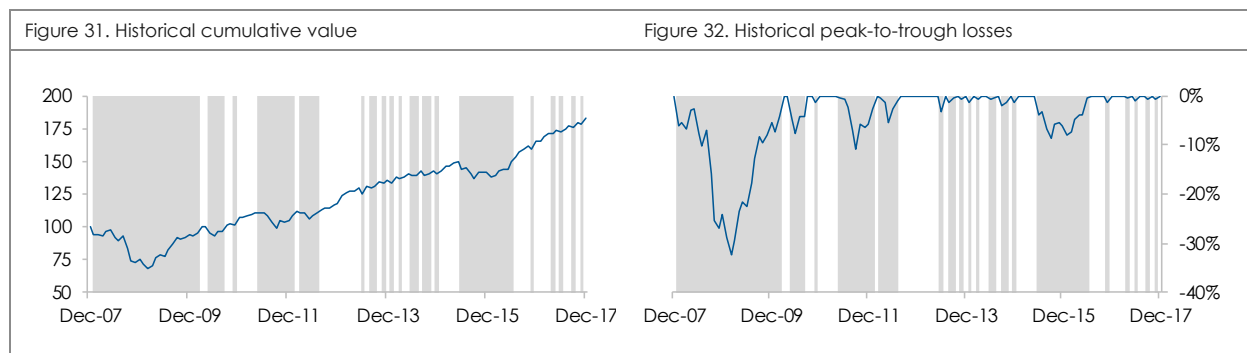
There is, of course, a great deal of uncertainty about these returns. For instance, we predict routine fluctuations in nominal values, in any one 12-month period, between -14.2% and +27.8% (see figure 30) with much greater potential for loss during unusually poor market conditions.



Indeed, looking back at performance over the last decade (December 2007 to December 2017, see figure 31), there was a period in the run up to Feb-2009 when a portfolio matched to this asset allocation experienced a maximum peak-to-trough loss of 34.4% (see figure 32).

There is no reason to believe that a loss of this magnitude, or greater, could not be repeated.

Note also, that the model has spent 35 consecutive months 'underwater' - that being the longest single period in the last decade that the portfolio has failed to gain in value.



## Cone of uncertainty

The table is intended to illustrate the wide range of possible future values, it provides ball-park estimates for the possible range of values for each £100 invested today at differing points in the future – at the 10, 15, 20 and 25 year horizon.

Description	10 years	15 years	20 years	25 years
Very High (95%)	339 or 13.0% p.a.	534 or 11.8% p.a.	827 or 11.1% p.a.	1,263 or 10.7% p.a.
High (75%)	244 or 9.3% p.a.	357 or 8.9% p.a.	519 or 8.6% p.a.	751 or 8.4% p.a.
Median (50%)	194 or 6.8% p.a.	270 or 6.8% p.a.	376 or 6.8% p.a.	523 or 6.8% p.a.
Low (25%)	154 or 4.4% p.a.	204 or 4.9% p.a.	272 or 5.1% p.a.	365 or 5.3% p.a.
Very Low (5%)	111 or 1.1% p.a.	136 or 2.1% p.a.	171 or 2.7% p.a.	217 or 3.1% p.a.

## Detailed asset allocation

The target weights, below, represent an idealised position; there are good reasons why your portfolio might differ from time to time<sup>1</sup>.

Asset Class	Strategic asset allocation	Tactical asset allocation	Difference
UK Value Companies	8.00%	14.00%	+6.00%
UK Large Companies	7.00%	11.00%	+4.00%
UK Mid Companies	8.00%	8.00%	No change
UK Smaller Companies	6.00%	6.00%	No change
US Equities	6.00%	8.00%	+2.00%
European Equities	6.00%	7.00%	+1.00%
Japanese Equities	6.00%	0.00%	-6.00%
Asia Pacific Equities	6.00%	8.00%	+2.00%
Emerging Market Equities	6.00%	3.00%	-3.00%
Short-Term Gilts	3.00%	3.00%	No change
Medium-Term Gilts	6.00%	0.00%	-6.00%
Index-Linked Gilts	4.00%	4.00%	No change
IG Corporate Bonds	4.00%	4.00%	No change
HY Corporate Bonds	2.00%	4.00%	+2.00%
Overseas Bonds	3.00%	0.00%	-3.00%
Money Market	3.00%	3.00%	No change
Property	10.00%	13.00%	+3.00%
Commodities	6.00%	4.00%	-2.00%

<sup>1</sup> Legacy holdings, product constraints and potential cost or taxation implications all have an impact which must be weighed