

## Investment objectives

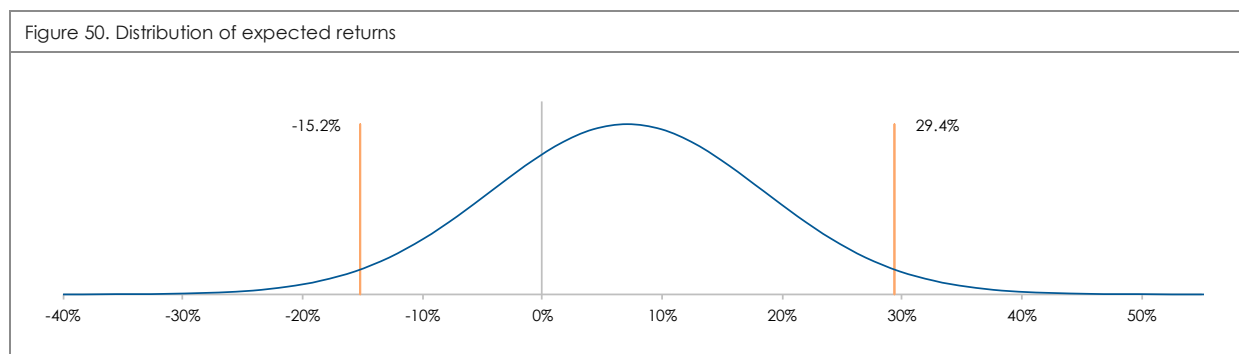
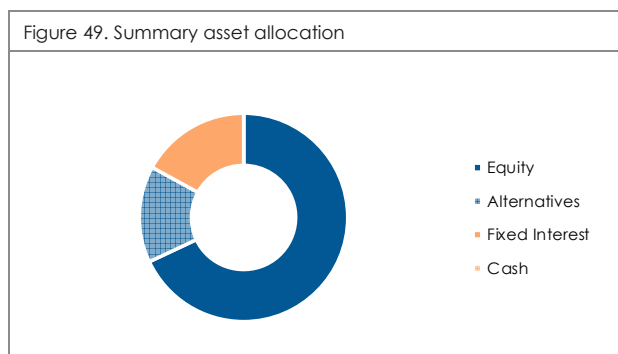
Our 'long-term balanced' asset allocation model aims to maximise risk-adjusted returns over the longer-term using a diversified range of investments.

It comprises equity and 'alternatives' exposure in the region of 83% with the remaining 17% held in fixed interest and cash (see figure 49).

## Potential risks and returns

Our analysis (see important information) suggests that we can reasonably expect an annualised nominal rate of return somewhere between 4.6% and 9.7% with a midpoint of 7.1%, 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 4.0%.

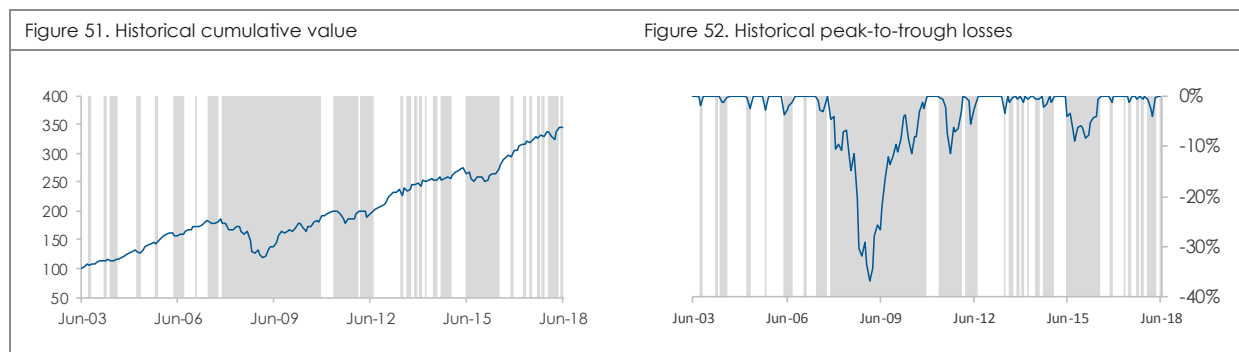
There is, of course, a great deal of uncertainty about these returns. For instance, we predict routine fluctuations in nominal values, in any one 12-month period, between -15.2% and +29.4% (see figure 50) with much greater potential for loss during unusually poor market conditions.



Indeed, looking back at performance over the last 15 years (June 2003 to June 2018, see figure 51), 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 36.3% (see figure 52).

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.



## Portfolio 3 (cont)

### 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%)	359 or 13.6% p.a.	579 or 12.4% p.a.	913 or 11.7% p.a.	1,422 or 11.2% p.a.
High (75%)	254 or 9.7% p.a.	378 or 9.3% p.a.	558 or 9.0% p.a.	819 or 8.8% p.a.
Median (50%)	199 or 7.1% p.a.	281 or 7.1% p.a.	396 or 7.1% p.a.	558 or 7.1% p.a.
Low (25%)	156 or 4.6% p.a.	209 or 5.0% p.a.	281 or 5.3% p.a.	381 or 5.5% p.a.
Very Low (5%)	110 or 1.0% p.a.	136 or 2.1% p.a.	172 or 2.7% p.a.	219 or 3.2% 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>13</sup>.

Asset Class	Strategic asset allocation	Tactical asset allocation	Difference
UK Value Companies	9.00%	15.00%	+6.00%
UK Large Companies	8.00%	10.00%	+2.00%
UK Mid Companies	9.00%	9.00%	No change
UK Smaller Companies	8.00%	8.00%	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	0.00%	1.00%	+1.00%
Medium-Term Gilts	8.00%	0.00%	-8.00%
Index-Linked Gilts	5.00%	5.00%	No change
IG Corporate Bonds	5.00%	5.00%	No change
HY Corporate Bonds	3.00%	6.00%	+3.00%
Overseas Bonds	4.00%	0.00%	-4.00%
Property	5.00%	11.00%	+6.00%
Commodities	6.00%	4.00%	-2.00%

<sup>13</sup> Legacy holdings, product constraints and potential cost or taxation implications all have an impact which must be weighed