

Investment objectives

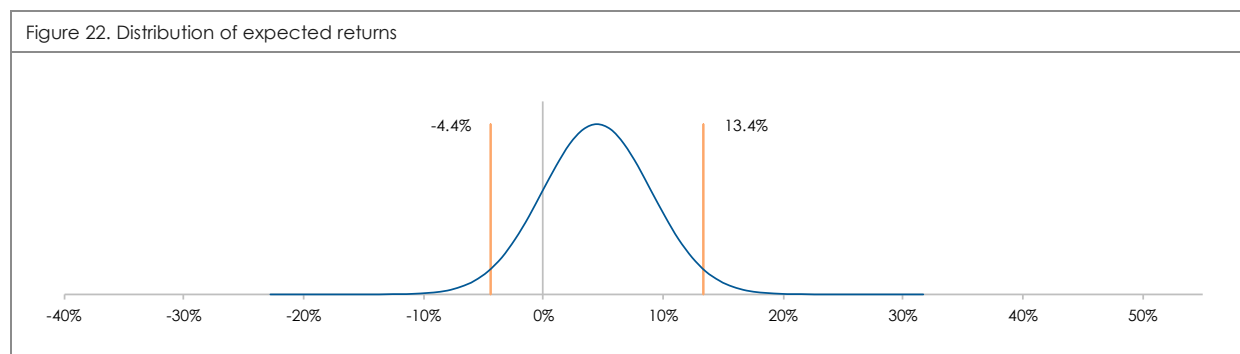
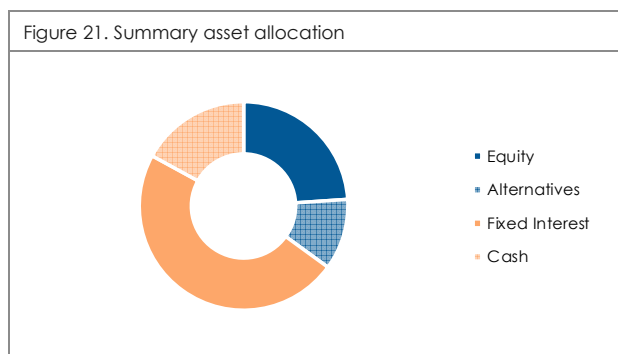
Our 'medium-term ultra-cautious' asset allocation model aims to maximise risk-adjusted returns over the longer-term using a diversified range of investments.

It comprises equity and 'alternatives' exposure in the region of 35% with the remaining 65% held in fixed interest and cash (see figure 21).

Potential risks and returns

Our analysis (see important information) suggests that we can reasonably expect an annualised nominal rate of return somewhere between 3.5% and 5.5% with a midpoint of 4.5%, 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 1.4%.

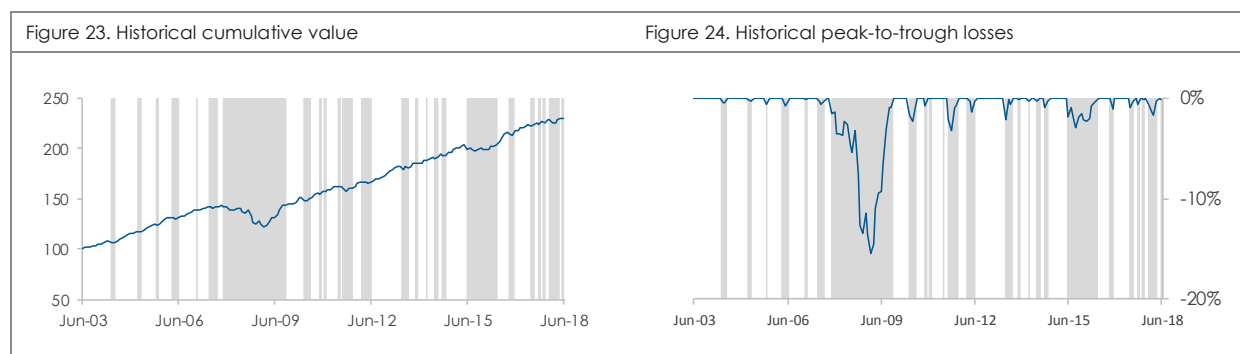
There is, of course, a great deal of uncertainty about these returns. For instance, we predict routine fluctuations in nominal values, in any one 12-month period, between -4.4% and +13.4% (see figure 22) with much greater potential for loss during unusually poor market conditions.



Indeed, looking back at performance over the last 15 years (June 2003 to June 2018, see figure 23), 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 15.4% (see figure 24).

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 24 consecutive months 'underwater' - that being the longest single period in the last decade that the portfolio has failed to gain in value.



Portfolio 6 (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%)	196 or 7.0% p.a.	257 or 6.5% p.a.	334 or 6.2% p.a.	432 or 6.0% p.a.
High (75%)	170 or 5.5% p.a.	217 or 5.3% p.a.	274 or 5.2% p.a.	347 or 5.1% p.a.
Median (50%)	155 or 4.5% p.a.	192 or 4.5% p.a.	239 or 4.5% p.a.	297 or 4.5% p.a.
Low (25%)	140 or 3.5% p.a.	171 or 3.6% p.a.	209 or 3.7% p.a.	255 or 3.8% p.a.
Very Low (5%)	122 or 2.0% p.a.	144 or 2.5% p.a.	171 or 2.7% p.a.	205 or 2.9% 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 time⁶.

Asset Class	Strategic asset allocation	Tactical asset allocation	Difference
UK Value Companies	4.00%	7.00%	+3.00%
UK Large Companies	4.00%	6.00%	+2.00%
UK Mid Companies	4.00%	4.00%	No change
UK Smaller Companies	3.00%	3.00%	No change
US Equities	1.00%	1.00%	No change
European Equities	1.00%	1.00%	No change
Japanese Equities	1.00%	0.00%	-1.00%
Asia Pacific Equities	1.00%	1.00%	No change
Emerging Market Equities	1.00%	1.00%	No change
Short-Term Gilts	8.00%	20.00%	+12.00%
Medium-Term Gilts	14.00%	0.00%	-14.00%
Index-Linked Gilts	11.00%	11.00%	No change
IG Corporate Bonds	11.00%	11.00%	No change
HY Corporate Bonds	6.00%	6.00%	No change
Overseas Bonds	8.00%	0.00%	-8.00%
Money Market	17.00%	17.00%	No change
Property	5.00%	11.00%	+6.00%

⁶ Legacy holdings, product constraints and potential cost or taxation implications all have an impact which must be weighed