

## Investment objectives

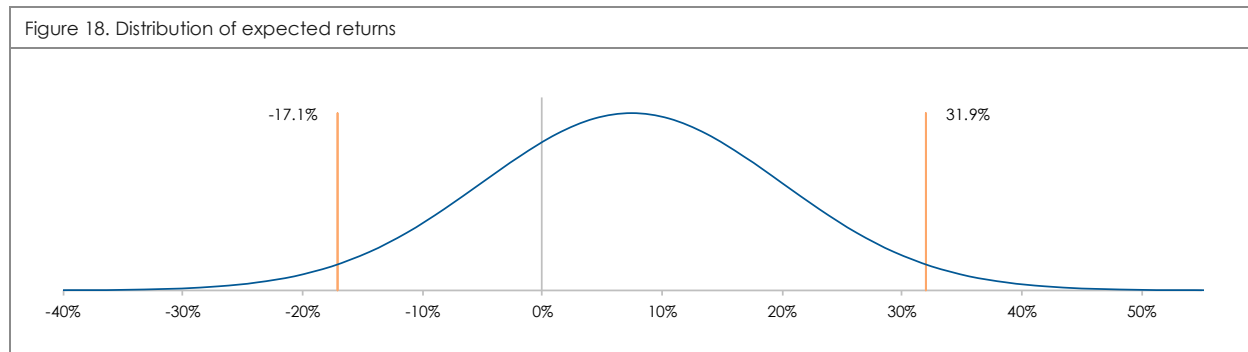
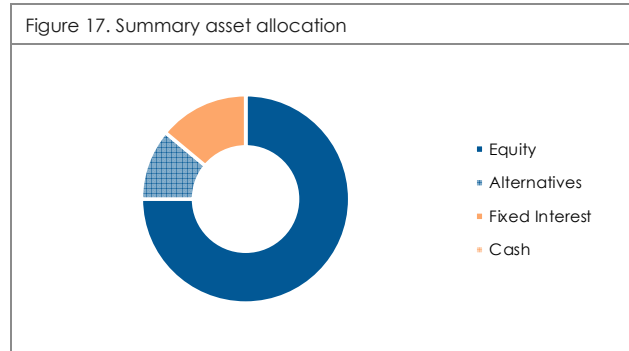
Our 'short-term speculative' asset allocation model aims to maximise risk-adjusted returns over the longer-term using a diversified range of investments.

It comprises equity and 'alternatives' exposure in the region of 86% with the remaining 14% held in fixed interest and cash (see figure 17).

## 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 10.3% with a midpoint of 7.4%, 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 4.3%.

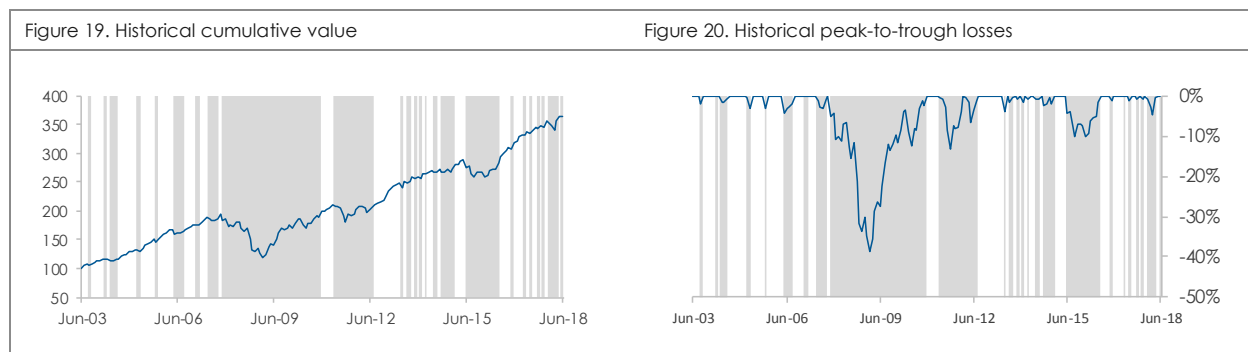
There is, of course, a great deal of uncertainty about these returns. For instance, we predict routine fluctuations in nominal values, in any one 12-month period, between -17.1% and +31.9% (see figure 18) with much greater potential for loss during unusually poor market conditions.



Indeed, looking back at performance over the last 15 years (June 2003 to June 2018, see figure 19), 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 37.9% (see figure 20).

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 15 (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%)	392 or 14.7% p.a.	650 or 13.3% p.a.	1,052 or 12.5% p.a.	1,678 or 11.9% p.a.
High (75%)	267 or 10.3% p.a.	406 or 9.8% p.a.	611 or 9.5% p.a.	915 or 9.3% p.a.
Median (50%)	205 or 7.4% p.a.	293 or 7.4% p.a.	419 or 7.4% p.a.	600 or 7.4% p.a.
Low (25%)	157 or 4.6% p.a.	211 or 5.1% p.a.	287 or 5.4% p.a.	393 or 5.6% p.a.
Very Low (5%)	107 or 0.7% p.a.	132 or 1.9% p.a.	167 or 2.6% p.a.	214 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>5</sup>.

Asset Class	Strategic asset allocation	Tactical asset allocation	Difference
UK Value Companies	11.00%	18.00%	+7.00%
UK Large Companies	8.00%	8.00%	No change
UK Mid Companies	11.00%	11.00%	No change
UK Smaller Companies	8.00%	8.00%	No change
US Equities	7.00%	9.00%	+2.00%
European Equities	7.00%	8.00%	+1.00%
Japanese Equities	7.00%	0.00%	-7.00%
Asia Pacific Equities	7.00%	9.00%	+2.00%
Emerging Market Equities	7.00%	4.00%	-3.00%
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%	6.00%	+4.00%
Overseas Bonds	4.00%	0.00%	-4.00%
Property	0.00%	6.00%	+6.00%
Commodities	7.00%	5.00%	-2.00%

<sup>5</sup> Legacy holdings, product constraints and potential cost or taxation implications all have an impact which must be weighed