

## Investment objectives

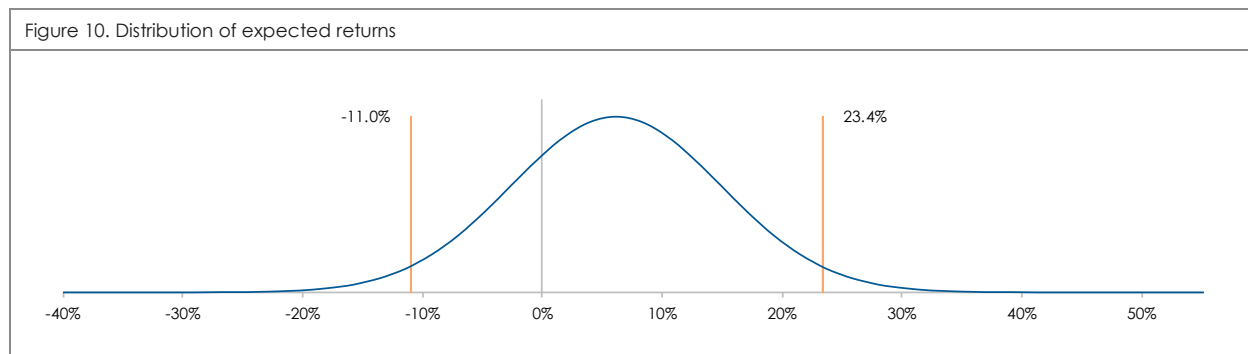
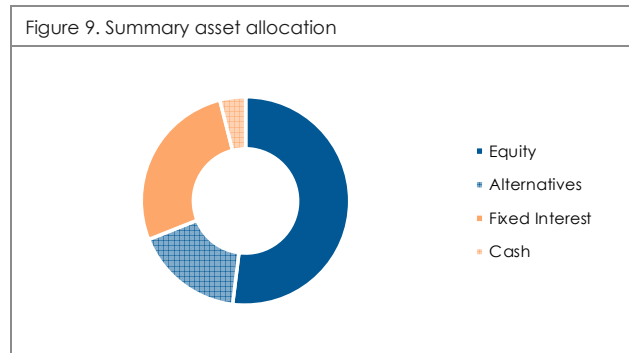
Our 'short-term balanced' asset allocation model aims to maximise risk-adjusted returns over the longer-term using a diversified range of investments.

It comprises equity and 'alternatives' exposure in the region of 69% with the remaining 31% held in fixed interest and cash (see figure 9).

## Potential risks and returns

Our analysis (see important information) suggests that we can reasonably expect an annualised nominal rate of return somewhere between 4.2% and 8.2% with a midpoint of 6.2%, 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 3.1%.

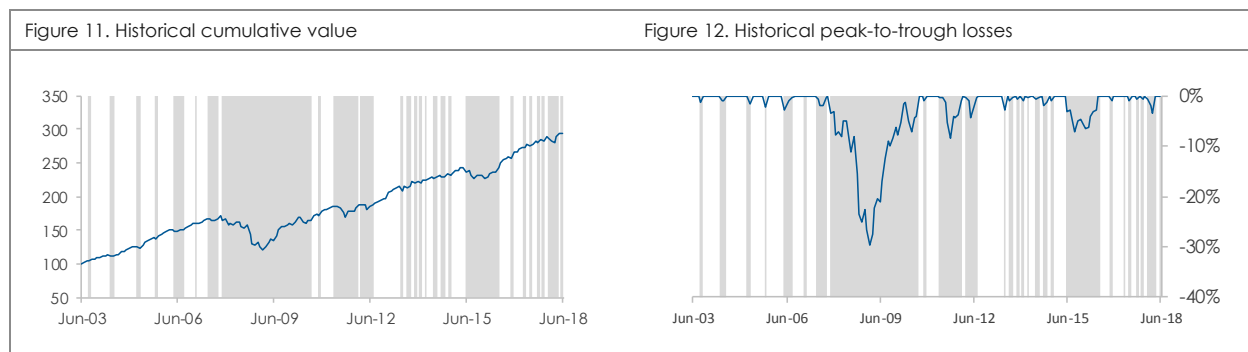
There is, of course, a great deal of uncertainty about these returns. For instance, we predict routine fluctuations in nominal values, in any one 12-month period, between -11.0% and +23.4% (see figure 10) with much greater potential for loss during unusually poor market conditions.



Indeed, looking back at performance over the last 15 years (June 2003 to June 2018, see figure 11), 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 29.0% (see figure 12).

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



## Portfolio 13 (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%)	287 or 11.1% p.a.	429 or 10.2% p.a.	631 or 9.6% p.a.	918 or 9.3% p.a.
High (75%)	219 or 8.2% p.a.	309 or 7.8% p.a.	431 or 7.6% p.a.	600 or 7.4% p.a.
Median (50%)	182 or 6.2% p.a.	245 or 6.2% p.a.	331 or 6.2% p.a.	446 or 6.2% p.a.
Low (25%)	151 or 4.2% p.a.	195 or 4.6% p.a.	254 or 4.8% p.a.	332 or 4.9% p.a.
Very Low (5%)	115 or 1.4% p.a.	140 or 2.3% p.a.	174 or 2.8% 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>3</sup>.

Asset Class	Strategic asset allocation	Tactical asset allocation	Difference
UK Value Companies	7.00%	13.00%	+6.00%
UK Large Companies	5.00%	9.00%	+4.00%
UK Mid Companies	7.00%	7.00%	No change
UK Smaller Companies	5.00%	5.00%	No change
US Equities	4.00%	5.00%	+1.00%
European Equities	4.00%	5.00%	+1.00%
Japanese Equities	4.00%	0.00%	-4.00%
Asia Pacific Equities	4.00%	6.00%	+2.00%
Emerging Market Equities	4.00%	2.00%	-2.00%
Short-Term Gilts	5.00%	11.00%	+6.00%
Medium-Term Gilts	10.00%	0.00%	-10.00%
Index-Linked Gilts	6.00%	6.00%	No change
IG Corporate Bonds	6.00%	6.00%	No change
HY Corporate Bonds	4.00%	4.00%	No change
Overseas Bonds	5.00%	0.00%	-5.00%
Money Market	4.00%	4.00%	No change
Property	10.00%	13.00%	+3.00%
Commodities	6.00%	4.00%	-2.00%

<sup>3</sup> Legacy holdings, product constraints and potential cost or taxation implications all have an impact which must be weighed