An Independent Guide To
Risk Profiling &
Investment Planning
“Tis the part of a wise man to keep himself today for tomorrow, and not venture all his eggs in one basket.”

Miguel de Cervantes
The Ingenious Gentleman Don Quixote of La Mancha 1605–1615
Most people I speak to in my job as Personal Finance Editor at the Mail on Sunday fully understand the need to invest for the future – to build a financial war chest that will see them through retirement.

It’s why they are comfortable contributing to their works pension or, if they are self-employed, a personal pension. It’s also why they are prepared to squirrel money away every month into tax-efficient Individual Savings Accounts.

They get it, the savings habit. Sacrificing today for the benefit of a financially worry-free retirement in the future.

Yet savvy as they are, many admit they go about this long term wealth building process in a somewhat haphazard way.

They have little idea as to whether they are investing enough (the answer is usually a resounding ‘no’). Furthermore, they take little time (understandably so) to sit back and assess whether the various investments they hold provide an overall portfolio that dovetails with their attitude to investment risk.

As a consequence, despite all their best investment intentions, they often end up with underfunded and unsuitable portfolios.

It’s why I constantly urge my lovely readers to seek professional financial advice from an independent financial adviser who can help them on their journey towards an enjoyable retirement.

And it’s why I am a keen advocate of sophisticated financial planning tools – such as the Dynamic Planner risk profiling process - that enables advisers to ensure their clients end up with a spread of investments that fits their actual (not perceived) propensity for risk. Not just for one moment in time but throughout their working lives and into retirement: Investments and investors in perpetual, perfect harmony.

I’m a big believer in the use of psychometric profiling to match investors with investments they are happy with in terms of risk and potential reward. Indeed, I’ve done many a test to strive towards investment perfection – and benefited financially as a result.

Investors need all the help they can get to meet their financial goals and fulfil their financial dreams. This guide sheds essential light on the benefits of understanding investment risk and robust asset allocation.

Absorb, enjoy and then put yourself on the road to a more secure financial future.

Jeff Prestridge
Personal Finance Editor, the Mail on Sunday

Jeff Prestridge has been a personal finance journalist for nearly 30 years. Along the way, he has won numerous awards for his campaigning work and commitment to excellence in personal finance journalism. As well as the Mail on Sunday, he writes for both the financial trade paper Financial Adviser and the consumer money magazine, Moneywise.
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1. About this guide

This independent guide is designed to support the financial planning you receive from your financial adviser or planner.

Your planner has chosen to use Dynamic Planner® to help structure their recommendations to you and this guide provides background and answers frequently asked questions about the Dynamic Planner approach.

As an independent guide, it is not linked to any specific product or product provider and so you can rely on its objectivity as the most widely used risk profiling and investment planning service in the UK.

2. What is investment risk?

Whether you are investing for a particular reason such as retirement, to generate an income or simply to make your savings work as hard as possible, the two questions you are most likely to ask before investing are: ‘What can I gain?’ (your potential reward) and ‘How much do I stand to lose?’ (your potential risk).

This guide will help to explain how risk profiling, as part of the investment planning process, answers these questions. It will also explain why independent, objective risk profiling is important for both investment selection and the ongoing management of your money, and how the Dynamic Planner service used by your financial planner supports this.

But let’s start at the beginning – with risk and reward. The Oxford English Dictionary states that one definition of risk is ‘the possibility of financial loss’ and defines reward as ‘to receive what one deserves’. As investors, we are generally much more concerned with how much money we could lose, than the amount we could gain, which means that assessing and managing risk forms a large part of the investment process.

Some of the most common investment risks are:

- Capital risk – the risk of not getting your money back
- Currency risk – the risk associated with investing in more than one currency
- Geographical risk – the risk associated with investing in more volatile or risky countries
- Inflation risk – the risk that your investment does not keep pace with inflation, making it worth less over time
- Interest rate risk – the risk of interest rate changes
- Product risk – the risk that your investment changes and no longer meets your original requirements (this can happen if a fund objective changes to become less cautious, for example)
- Volatility risk – the extent and frequency that investments rise and fall (a highly volatile investment can vary significantly on a daily basis, for example)

In the face of so many potential pitfalls, choosing the right investment can be tricky, which is why so many people choose to rely on professional financial advice to help them.

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3. What is risk profiling and why does it matter?

The Dynamic Planner risk profiling process has been used by financial planning firms since 2005 to help identify both their clients’ attitudes to risk and how much risk they can afford to take.

It is suited to the majority of individual adult UK investors and their partners. For those with significantly large investable assets, additional factors need to be taken into account, such as properties or privately held company shares that are substantial in value, as they can offset the attitude to risk result.

There are six steps in the Dynamic Planner risk profiling process:

1. Review existing portfolio
2. Assess attitude to risk
3. Check consistency of answers
4. Assess capacity for risk
5. Confirm value at risk
6. Match portfolio against goals

These steps help to build a deeper insight into your requirements and ensure that the final outcome is an accurate and fair reflection of your risk profile as well as your capacity to tolerate possible losses. We now examine each step of the process in turn.
1. Review existing portfolio

How much risk are you already taking with your existing portfolio? Most people are unaware of the risk that their existing investments represent, particularly if they have been investing for many years.

It’s common to start a review of your existing portfolio by seeing where it is invested and how much risk you are already taking with it. This could be too much or too little to meet your requirements. This is why it is important to assess both your attitude to risk and your capacity to accept any investment losses (i.e. how these might impact your standard of living).

The pie charts show an example of how an existing portfolio compares to a target risk profile in terms of its asset allocation (i.e. its investment mix). Studies have shown that asset allocation is responsible for more than 90% of the variation in returns\(^2\) and so understanding this is an important starting point.


“The asset allocation data from over 200,000 investment funds is sent each night to Dynamic Planner, helping your financial planner assess the risk of your existing portfolio.”
2. Assess attitude to risk

Although each investor is unique, it is possible to categorise someone’s attitude to risk using proven psychometric profiling techniques. Psychometrics is the branch of psychology that deals with the design, administration, and interpretation of tests to measure psychological factors such as intelligence, aptitude, and personality traits.

In this case, psychometric profiling identifies characteristics such as tolerance for ambiguity, desire for profit and investment experience. These are all general predictors of your likely tolerance for risk and provide a good indication of how you may feel about taking a risk with that investment.

Using psychometric risk profiling to determine the risk you are willing to take typically involves completing an attitude to risk questionnaire. You may be asked to complete this on paper or one of the popular Dynamic Planner risk profiling apps. Find a quiet moment where you won’t be disturbed to complete the questionnaire on your own. Don’t over think your responses; there are no right or wrong answers.

The 10- and 20- question questionnaires used by Dynamic Planner were developed in conjunction with Oxford Risk, a company led by academics from the University of Oxford who have considerable expertise in this sector.

The questionnaires have been rigorously tested and shown to have a reliability of 84% (10 question version) and 92% (20 question version) in predicting attitude to investment risk.

Your answers are a good starting point for discussing your attitude to risk and your financial future with your financial planner.

The questionnaires take into account a number of factors, which are known to be excellent predictors of your attitude to risk, including:

- Risk sensitivity
- Investment time horizon
- Desire for profit
- Financial awareness
- Tolerance for ambiguity
- Investment experience
- Outlook
- Suggestibility
As well as providing input into the questionnaires, Oxford Risk helped with calibrating the range of outcomes on a scale of 10 risk levels.

<table>
<thead>
<tr>
<th>Risk Profiles</th>
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</thead>
<tbody>
<tr>
<td>1</td>
</tr>
<tr>
<td>Lowest risk</td>
</tr>
</tbody>
</table>

Each risk profile is aligned to a description and to ensure clarity, each uses simple language that has been clarity approved with a Crystal Mark from the Plain English Campaign.

Each risk profile represents a proportion of the population, helping you see where you sit in your risk profile versus other investors. You can see where you are using the chart below. The taller bars represent the more popular risk profiles:

Source: Dynamic Planner Intelligence Report, Q2 2015 covering 136,440 respondents and their final selected risk profile.

Your attitude to risk is generally expected to stay constant over time. Much like your personality, while it does develop over the years, particularly as you gain more investment experience, it is unlikely to shift dramatically (for instance, from Risk Profile 3 to Risk Profile 7). What can change significantly however, is your capacity to take risk and this is explored in Section 4: Assess capacity for risk.
3. Check consistency of answers

While the Dynamic Planner psychometric tests and 10 associated risk profiles have their basis in science, we are all individuals and it may be that there are particular aspects of your attitude to risk that need to be discussed.

Over the years, the team behind Dynamic Planner has developed algorithms (problem-solving programs) based on hundreds of thousands of investor responses, which can help highlight areas for discussion.

Your financial planner will review your completed questionnaire with you and may take the opportunity to discuss your answers. There are no right or wrong answers but it is important that your investment plan is suitable for you as an individual.

4. Assess capacity for risk

The next step in the risk profiling process is to assess your capacity for risk, by exploring the impact that possible losses may have on your wider financial position.

This involves discussing the following key questions relating to your personal circumstances:

- How long you are planning to invest for
- How much you can afford to lose
- How quickly you would need access to the investment

Your answers do not change the attitude to risk questionnaire results. However, the way they are captured helps to prompt meaningful discussions with your financial planner and also provides a proper record behind the ultimate risk decisions taken.

It is not uncommon for us to have an attitude to risk that is different from our capacity to take it on. For example, younger but cautious investors investing for their retirement might have the capacity to take on more risk than they feel comfortable with, as they are unlikely to need access to their investments for many years. They might have a higher likelihood of achieving their goals if they were to take that extra risk.

Conversely, someone approaching or in retirement who has a high psychometric attitude to risk score may not have the capacity to take risk on, given their need for greater certainty of income. Again, discussing attitude and capacity with your financial planner is an important part of the process.

“It is possible for some of your answers to contradict your final agreed risk profile. That is the nature of psychometric questionnaires. Your planner may wish to discuss these with you.”
Case study – matching attitude to risk with capacity to take risk

Completing an attitude to risk questionnaire will provide you with your initial risk profile. Your final risk profile also takes into account how you answered the capacity for risk questions and any reaction you had to the initial risk profile (for example, you may not have felt comfortable with the likely potential gains and losses, and selected a lower risk profile instead).

James Harris lives in Nottingham and works at a local architect’s firm. Aged 55, he and his wife have savings available for emergencies and short-term needs through their cash ISAs as well as pension arrangements. James is looking to invest £40,000.

He plans to invest the money and use it for ‘spending money’ during his retirement and potentially a trip to see his children in Australia.

He thinks he is quite adventurous and his answers to the attitude to risk questionnaire confirm this, resulting in a Risk Profile 8 score (high risk).

However, James feels he wants to spend most of his time looking forward to enjoying retirement rather than worrying about his investments, so in discussion with his financial planner he chooses a lower risk profile. He accepts that while he may like to see higher gains, he is more comfortable with the lower likely losses that that he could experience at Risk Profile 5 (low medium risk) rather than Risk Profile 8.

He also likes the fact that he can keep track of how his investments are performing using the Dynamic Planner app his financial planner gave him.
5. Confirm value at risk

The risk descriptions identify that money can be lost as well as gained on investments. They also provide guidance on what the potential returns, adjusted for inflation to reflect the spending power of money in future, are likely to be over 1, 5 and 10 years based on average, below average and above average performance.

- **Below average performance** – a pattern of losses that an investor might experience only 5% of the time. They can and do happen but it would be a rare set of circumstances over the period in which the investment was held. 95% of the time you would expect the investment to perform better than this. While extreme, it is helpful to think about what would happen if these circumstances did materialise. Can you afford to take the risk?

- **Above average performance** – a pattern of gains that an investor might experience only 5% of the time. Growth which exceeds this level can and does happen but again it would be a rare set of circumstances. 95% of the time you would expect the investment to grow at less than this level.

- **Average performance** – the average pattern of growth that you would expect to see 50% of the time.

Put simply, 90% of the time you would expect investments aligned to the risk profile to perform between the two extremes described above, with average performance being in the middle ground.

For example, the potential losses and gains for £50,000 invested in Risk Profile 5 are shown below. Pay particular attention to ‘Below average performance’ as a good indicator of ‘Value at Risk’ in difficult market conditions.

Please remember these are not the maximum losses or gains in real terms that you might experience and cannot be guaranteed. They take no account of any charges associated with investments or your personal tax situation.

<table>
<thead>
<tr>
<th>Risk Profile 5</th>
<th>1 year</th>
<th>5 years</th>
<th>10 years</th>
<th>20 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below average performance</td>
<td>£43,522</td>
<td>£37,827</td>
<td>£34,833</td>
<td>£32,043</td>
</tr>
<tr>
<td>Average performance</td>
<td>£50,569</td>
<td>£52,908</td>
<td>£55,985</td>
<td>£62,687</td>
</tr>
<tr>
<td>Above average performance</td>
<td>£58,756</td>
<td>£74,002</td>
<td>£89,982</td>
<td>£122,638</td>
</tr>
</tbody>
</table>
The descriptions also list appropriate target asset classes per risk profile. More details on each risk profile and the set of investable asset allocations applied to them can be found in Chapter 5: How have the risk profiles performed over the last 10 years?

6. Match portfolio against goals

The final part of the process that your planner may discuss with you is matching your risk profile with your long term investment goals. These may be as simple as growing or preserving your wealth or generating regular income in retirement. They may be more specific, for example, funding school fees or paying off a mortgage.

The risk you take with your investments will have an impact on the likelihood of achieving these goals and so checking on the range of returns you might receive for taking a given degree of risk is helpful. It may be that you can actually take less risk than you thought to achieve your goals or perhaps you may need to invest more in order to have a realistic chance of meeting them. Your financial planner can talk to you about matching your risk profile against your goals using Dynamic Planner.
4. How does the Dynamic Planner service help?

Dynamic Planner is a tried and trusted risk profiling and financial planning service used by more than 6,000 UK financial planners to help ensure investment suitability. These include private banks and wealth managers, as well as high quality national, regional and local financial planning and advisory firms. In summary, the service enables them to:

- Accurately risk profile their clients
- Accurately assess the risk associated with their clients’ current investment portfolios
- Create risk-based financial plans and more comprehensive financial planning reports
- Choose suitable risk profiled investments
- Track and manage the suitability of clients’ investments on an ongoing basis
- Provide clients with regular reviews, reports and apps to help them keep track of their investments

Asset and risk modelling

At the heart of Dynamic Planner is powerful and robust asset and risk modelling, based on Modern Portfolio Theory (MPT) introduced by the Nobel Prize winner, Harry Markowitz, and others in 1952. MPT has been used to run very large pension funds for institutions for many decades. Dynamic Planner makes this technique available to individual financial planners and their clients.

Each of the 10 risk profiles has a corresponding asset allocation mix constructed from the 15 asset classes (investment types) employed within Dynamic Planner. The 15 classes can broadly be classified into cash, bonds (debt issued by companies or governments with a promise to pay interest), commercial property and equities (company shares traded on a stock market).

It is important to note that there is no such thing as the ‘best asset allocation’. There are lots of combinations that can achieve similar outcomes. For example, some financial planners and firms have an in-house view on their preferred approach, which may differ from Dynamic Planner’s default targets but still achieve similar outcomes.

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Making allocation decisions between various asset classes can create more ‘efficient allocations’ (that is, reduce expected risk without necessarily affecting expected returns). This is achieved through the concept of correlation across asset classes, (or how one asset class grows or falls in relation to another). Careful blending of asset classes can therefore help ensure that risk and investment returns are delivered in the most efficient manner based on the given assumptions.

Asset allocation (as opposed to individual stock selection) has been shown to be responsible for 90% of the variation in investment returns and the principle of diversification is actively used by many global investment managers with their funds.

In Dynamic Planner, the use of ‘riskier assets’ increases across the range from Risk Profile 1 through to Risk Profile 10. For example, Risk Profile 1 uses a cash-only asset allocation; Risk Profile 5 invests around 60% in equities, whilst Risk Profile 10 is predominately allocated to equities and indeed in riskier emerging or developing equity markets such as Asia.

Example asset allocations (as at November 2015)
Those combinations of asset classes that offer the highest possible expected return for a given level of expected risk collectively form the ‘efficient frontier’. The most efficient portfolios that align to the Dynamic Planner risk profile descriptions based on their expectations of return, volatility and correlation, are shown in the chart below. Expected return (i.e. annual growth) is shown after the impact of inflation has been removed. This is known as ‘real terms’.

Each quarter, the target asset allocations are reviewed by Dynamic Planner’s Investment Committee to ensure they comply with the guiding principles and remain both investable as well as suitable for use within Dynamic Planner.

As we know from Chapter 3, each risk profile description provides details of the expected performance, based on good, average and poor performance.

The next chapter looks at the most frequently selected Dynamic Planner risk profiles and their track record in more detail, including how they performed even during the worst financial crisis since the great Depression of the 1930s.
5. How have the risk profiles performed over the last 10 years?

The Dynamic Planner asset allocation models were created 10 years ago in 2005, and are supported by a dedicated and expert Asset and Risk Modelling team. The team is responsible for ensuring that the models are robustly process driven and deliver consistent and coherent results. This is powered by the use of both forward-looking and past-performance analysis to more accurately assess what is most likely to happen in future.

The models are reviewed each quarter and although no model can predict the direction of the stock market with complete precision 100% of the time, they focus on delivering results that can be relied on delivering higher returns for higher risk over the medium to long term.

In this chapter, we will show how successfully the profiles have performed over 10 years to June 2015, putting this into context with some key event highlights that affected the markets over this time.

Can asset modelling cope with market turmoil?

The worst financial crisis since the great Depression of the 1930s. On 15 September 2008, the fourth largest US investment bank, Lehman Brothers, filed for the largest bankruptcy in history, surpassing previous bankrupt giants, WorldCom and Enron. Its demise made it the largest victim of the US subprime mortgage-induced financial crisis, which swept through global stock markets. This collapse contributed to the erosion of around $10 trillion in share values globally the following month.

On 13 October 2008, the HM Treasury unveiled an emergency plan to pump £37bn of taxpayers’ money into Lloyds, HBOS and Royal Bank of Scotland in order to stop the British banking sector, and the wider economy, suffering the potentially largest recession on record.

In March 2009, the Bank of England had to cut the base lending rate to a record low of 0.5%, in response to the enveloping global financial crash. The European Sovereign Debt crisis deepened sufficiently to threaten both the solvency of the EU banking systems and the collapse of the Euro and the single currency union.

As a result, economists and fund managers rank the financial crisis as a ‘1 in 50 or 100 year storm’ or a ‘Black Swan event’, a rare and extreme occurrence with significant consequences.

The global financial crisis, changes in government, generational low interest rates and large fluctuations in commodity prices, together with the turmoil in Europe and the Middle East are just some of the factors that have impacted investment markets over the last decade. So the obvious question is how well did the Dynamic Planner risk profiles weather the storm?

This chapter answers this in detail by examining:

- Performance compared to the markets
- Performance of risk profiles compared to each other
- How each risk level performed over the 10 years
Performance against the markets

In Chapter 3, we learned that diversification of assets can reduce risk, as when certain asset classes fall in value, others may tend to rise.

Let’s examine how the UK gilt and UK equity markets have performed over the 10-year period to 30 June, 2015.

Source: Bloomberg 1 June 2005 - 1 June 2015.
Past performance is not necessarily a guide to future performance and the value of investments can fall as well as rise.

The black line clearly shows how UK equities (shares) were particularly affected during the financial crisis in 2007-2008 but have recovered strongly since those lows. As for gilts, traditionally these are quite lowly correlated to equities but given the unprecedented financial stimulus by the Bank of England (referred to technically as quantitative easing) and general move to less risky assets in times of market stress, they also performed strongly over the period.
Investing directly in government (gilts) or corporate bonds effectively means lending money to governments or companies in exchange for a rate of interest over a set period of time, after which capital is returned. Both payments depend on the creditworthiness of the institution.

Buying equities, also known as shares means taking a direct stake in a company. They are seen as one of the most risky asset classes as the dividends payable to shareholders as well as the share prices are linked to the prospects for the individual company. Stock market sentiment in general can also be highly unpredictable in how share prices are driven. Diversification across a number of shares can reduce this specific company risk.

Funds that invest in commercial property such as offices, retail parks and warehouses aim to deliver rental income and growth in the value of the properties held.

Careful blending of asset classes can help improve the efficiency of a portfolio.

Here we look at the target asset allocation behind Risk Profile 5, which is Dynamic Planner’s most frequently selected risk profile. It includes a broad spread of fixed interest (mainly gilts and higher quality investment grade corporate bonds plus some limited weighting in higher yielding global bonds), equities (mainly UK but including other developed markets of the US, Europe, Japan plus some limited exposure to developing Asia) and commercial property.

Please note that the following analysis is based on the performance of asset classes as represented by market indices. Each index (a way of measuring the price of a representative basket of stocks from each market) does not have any fund charges, or taxation applied to them.
The chart below shows how a Risk Profile 5 (low medium risk) asset allocation has performed compared to the gilt and UK equity indices over the same period.

The chart shows Risk Profile 5 (the red line) has delivered a better and smoother performance. In other words, it has proven to be more efficient than holding just UK equities and gilts, thanks to the power of diversification.

How the risk levels performed compared to each other

Each risk profile has a different target blend of asset classes, designed to create a harmonious portfolio of asset allocations, from the lowest risk level to the highest.

The asset allocation models for Risk Profiles 2 - 7 represent the most diversified portfolios in terms of the broad asset classes (cash, equity, bond or property) they invest in.

Asset allocation models for Risk Profiles 8 - 10 are considered the highest risk and are dominated by varying degrees of developed and emerging market equity assets.

One of the key features when setting any risk targeting asset allocation framework is that the allocations remain coherent relative to each other. What this means is that Risk Profile 5 is riskier than Risk Profile 4, which in turn is riskier than Risk Profile 3 and so on. The following chart shows that over the past discrete 3, 5, and 10-year periods ending 30 June 2015, this has remained consistently true across the risk profiles.
This coherency should also hold true, no matter how volatile the actual investment markets are. The results show that over the last decade, the asset allocations for the 10 risk profiles have indeed all remained differentiated from each other, across the entire period, despite the market turbulence during this time.

**Comparative rolling 5 year volatility for the Dynamic Planner risk profiles**

Source: Distribution Technology: 10 years to 30 June 2015.

Past performance is not necessarily a guide to future performance and the value of investments can fall as well as rise.
The actual peak to trough loss is referred to as ‘drawdown’ (which is different to pension drawdown). Drawdown is used to see how risk has been evident with each portfolio over the period, but from a different perspective.

The following chart shows the maximum drawdown experienced by each risk profile over the past 10 years. This also translates into a consistent view on maximum drawdown.

Source: Distribution Technology, 2015.

Past performance is not necessarily a guide to future performance and the value of investments can fall as well as rise.

The relationship also holds true for a ‘beta’ analysis. Beta analysis can be used to compare the relative market risk of the risk profiles to that of, for example, the UK equity market. You would expect a low risk investment to have a lower beta figure and a higher risk investment to be have a higher beta figure. This is demonstrated in the following chart.
Past performance is not necessarily a guide to future performance and the value of investments can fall as well as rise.

The chart below looks to answer the question ‘has taking higher risk actually been rewarded with higher returns?’

The average 10-year performance does reflect an increasing level of return as risk is increased; however Risk Profiles 9 and 10 have generally bucked the trend over the shorter time periods. This can be attributed to the higher asset allocation in Asian and Emerging Markets. They have typically struggled in the light of the growing slowdown in the Chinese economy and strength of the US dollar, to which many of their currencies and national debt are linked. Taking more expected risk as measured by volatility should be rewarded by higher returns. However, it cannot be guaranteed in the shorter term.

Source: Distribution Technology, 2015.
Past performance is not necessarily a guide to future performance and the value of investments can fall as well as rise.

Source: Distribution Technology.
Past performance is not necessarily a guide to future performance and the value of investments can fall as well as rise.
Another way of looking at how successful the Dynamic Planner service has been at describing the range of returns an investor might receive, is by looking at what would have happened if you had bought or sold an investment at any point over the last 10 years, and how often the returns gained would have been between below and above average performance.

The Dynamic Planner model assumes this should happen 90% of the time. Only in very extreme circumstances (good and bad) should they fall outside of this expectation.

The heat map below shows the pattern for Risk Profile 5, where 93% of actual returns have fallen between the boundaries over the last 10 years (thereby exceeding the long term target of 90%).

The white area within the red triangle reflects the global financial crisis which, as would be expected of an extreme event of this nature, falls outside of the normal range and would have delivered less than below average performance had an investor sold during mid-2008 to mid-2009, having bought in the previous two-and-a-half years.

Assuming the investor held onto their investment however, it would have moved back into the normal range within 12 months. This underlines the importance of long term investing, working with your financial planner and sticking with your plan during market turbulence.
6. Ensuring investment suitability

There are two sides to ensuring investment suitability. Assessing your risk profile as an investor is one; the other is assessing the risk of your investments.

Launched in 2010, Dynamic Planner’s Fund Risk Profile (FRP) service is used by asset managers who want to have their own funds or model portfolios assessed and positioned relative to the 10 risk profiles used within Dynamic Planner. This Fund Risk Profiling Service includes:

- An analysis of the fund’s asset allocation (dating back at least three years, to assess both strategic and tactical historic asset allocations)
- A review of the fund objective and investment mandate; where it can and cannot invest, and to what extent it can invest
- A review of the historic performance of the fund (to determine the fund’s past volatility and to assess the asset manager’s past efficiencies in portfolio management)
- An estimate of how the fund is likely to perform in the future relative to the target risk level asset allocation
- A qualitative assessment by the Asset and Risk Modelling Team (where the members ‘sense check’ the results provided from all the quantitative processes above)
Risk profiled funds are also eligible to use the appropriate Dynamic Planner Fund Risk Profile logo on their promotional material.

It is important to be aware that:

- The FRP process is not an endorsement of the fund or portfolio’s future success or a buy ‘rating’, or a guarantee of an expected level of return, but a relative view of potential risk.
- The FRP service cannot guarantee that a fund or portfolio’s actual risk profile will remain unchanged in future.
- Other factors need to be considered as a part of the advice process.

This service initially risk profiles each fund or portfolio and then subsequently reviews it on a quarterly basis, to ensure that the profile number remains appropriate.

Your financial planner can provide details of the risk profiled funds or portfolios that may be suitable for you.

**The quarterly review process**

Each fund or portfolio is actively monitored every quarter using the most recent data provided by the asset manager, such as the asset allocation, past performance figures and information relating to any changes to the investment process which may have subsequently occurred.

This data is used in conjunction with the historic information originally received. A report is then shared with the asset manager as part of the independent ongoing review service, using a traffic light filter system:

- **A red status** indicates that the fund or portfolio’s current risk profile is no longer appropriate and that it will be changed at the next quarter’s review, unless appropriate action is taken by the fund management team.

- **An amber status** indicates that one or more of the measures considered may indicate the possibility of an alternative risk profile. This could be due to short term tactical positioning within the fund or portfolio or other market considerations, and does not imply that the long term risk profile should necessarily change.

- **A green status** indicates that the fund or portfolio is in line with the assigned risk profile and no action is needed.
The Asset and Risk Modelling Team works closely with the asset manager to thoroughly consider the fund or portfolio’s long term strategic risk positioning, thereby avoiding unnecessary changes to your profile, caused by temporary factors or market events.

As a part of this process, the team also considers any changes in management process or fund manager. Depending on the importance of the change, a fund or portfolio profile may be placed on N/A (Not Available) until further analysis is carried out.

Since launching in 2010, the Dynamic Planner Fund Risk Profiling Service has reviewed over 1,000 investment funds and portfolios from 100 asset managers.

**Risk profiled funds – the volatility journey**

Funds or portfolios that adopt the Dynamic Planner Fund Risk Profiling Service are reviewed on a quarterly basis to ensure that their asset allocations and management approach remain appropriately aligned for the given risk profile, in addition to reviewing the relativity of the volatility journey. This is done by plotting the results against the acceptable limits for the comparable risk profile.

The chart below shows the acceptable volatility range (the gold block) for Dynamic Planner Risk Profile 5 and how the risk profiled funds measure up.

**Relative return and volatility against Risk Profile 5 asset allocation**

The vast majority of funds or portfolios have remained appropriately aligned to their corresponding risk profile over the 5-year period. In those isolated instances where a fund or portfolio has fallen outside of the boundary, it has either recently moved risk profile (which is the case with the fund or portfolio shown by a diamond on the far right) or a discussion is in progress with the asset manager to understand the drift (these funds may be given an amber status).
Dynamic Planner Risk Target Managed™ Investments

A Risk Target Managed (RTM) investment is one that is designed with reference to a specific Dynamic Planner risk profile, its risk boundaries and/or asset allocation.

What makes a risk targeted fund or portfolio different from a risk profiled variety, is that it is designed to stay within the given risk level. It also uses a different logo.

To be considered as a Dynamic Planner RTM investment, the asset manager has to agree to run the fund or portfolio and commit to the following:

- To keep the expected volatility of the fund or portfolio within the boundaries assigned to the respective Dynamic Planner risk profile and/or;
- To target the strategic asset allocations for the respective Dynamic Planner risk profile
- To offer suitably diversified exposure (either directly or synthetically) to at least 6 asset classes included within the Dynamic Planner strategic allocations
- To manage the underlying asset class exposure in a suitably diversified manner
- To manage derivative exposure mainly for the purposes of efficient portfolio management

In order to satisfy these diversification levels, the RTM service only includes Dynamic Planner Risk Profiles 3, 4, 5, 6, 7 and 8. Your financial planner can provide details of the RTM funds and portfolios that may be suitable for you.
7. Your risk profile explained

Profile 1 - Lowest risk

Description

You have selected profile 1. Your willingness to accept risk is in the ‘lowest’ profile.

The risk scale is made up of 10 profiles overall. This means that you are in the ‘lowest’ profile for how much risk you want to take with your investments.

Your score is important in two ways to the type of investments you should consider. These are shown below.

How comfortable you are with the possibility of losing money on your investments

You are likely to be far less comfortable and able to adapt less well to losing money on your investments than someone who has a ‘medium’ or ‘high’ attitude to risk, for example, someone in profiles 5 to 10.

How much you want to invest in higher-risk investments to get better returns

Higher-risk investments such as shares generally offer higher returns over the long term, but the investments also fluctuate more (go up and down in value). This means that while people may make more money in the long term with higher-risk investments, they are more likely to lose money in the short term.

As your willingness to accept risk is in the ‘lowest’ profile, you are probably very concerned about the possibility of losing money. You would probably prefer your investment to go up and down less and make more modest returns than risk losing money for higher returns. Keeping your money safe, rather than exposing it to the risks of financial markets, is likely to be your priority. However, inflation can eat into the value of your investment, and so it could reduce in ‘real terms’.

An investment portfolio for this risk level will be invested in cash and cash type assets, rather than higher-risk investments such as shares. When you have only cash in your portfolio, you can usually expect to get back the money you have invested.

Summary

- Your willingness to accept risk is in the ‘lowest’ profile.
- Your preferred investments will be in cash and cash-type assets.
- While your investment is extremely unlikely to fall in absolute value, inflation may mean its value in real terms may fall.

Expected performance for £50,000 investment (inflation-adjusted)

<table>
<thead>
<tr>
<th>Risk Profile 1</th>
<th>1 year</th>
<th>5 years</th>
<th>10 years</th>
<th>20 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below average performance</td>
<td>£48,150</td>
<td>£44,300</td>
<td>£40,550</td>
<td>£34,400</td>
</tr>
<tr>
<td>Average performance</td>
<td>£49,350</td>
<td>£46,850</td>
<td>£43,850</td>
<td>£38,450</td>
</tr>
<tr>
<td>Above average performance</td>
<td>£50,600</td>
<td>£49,500</td>
<td>£47,450</td>
<td>£43,000</td>
</tr>
</tbody>
</table>

Based on 30/06/2014 assumptions
### Actual performance (inflation-adjusted)

<table>
<thead>
<tr>
<th>Risk Profile 1</th>
<th>1 year</th>
<th>3 years</th>
<th>5 years</th>
<th>10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>£50,000 investment</td>
<td>£49,700</td>
<td>£47,350</td>
<td>£44,300</td>
<td>£45,450</td>
</tr>
<tr>
<td>Annualised Return</td>
<td>-0.7%</td>
<td>-1.8%</td>
<td>-2.4%</td>
<td>-1.0%</td>
</tr>
<tr>
<td>Annualised Volatility</td>
<td>1.1%</td>
<td>1.0%</td>
<td>1.2%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Beta</td>
<td>2.0%</td>
<td>0.7%</td>
<td>1.5%</td>
<td>-0.6%</td>
</tr>
<tr>
<td>Maximum Drawdown</td>
<td>1.1%</td>
<td>5.4%</td>
<td>11.6%</td>
<td>16.3%</td>
</tr>
</tbody>
</table>

- This risk profile allocates 100% to cash, which is considered to be either a bank deposit or a short term money market instrument and for the pure purpose of capital preservation in nominal terms.
- The returns are therefore closely aligned to that of the Bank of England base rate, which is currently set at 0.5%.
- Although the volatility experienced is incredibly low as expected, returns above inflation have steadily been eroded over time due to inflation and the generational low interest rate environment.
- The impact of this is magnified the longer the investment is held for.
- This steady lowering of interest rates is the key reason behind the inflation adjusted drawdown figures looking high.
Profile 2 – Very low risk

Description
You have selected profile 2. This means that your willingness to accept risk is ‘very low’. The risk scale is made up of 10 profiles overall. This means that your willingness to accepting risk is well below average.

Your score is important in two ways to the type of investments you should consider. These are shown below.

How comfortable you are with the possibility of losing money on your investments
You are likely to be far less comfortable and able to adapt less well to losing money on your investments than someone who has a ‘medium’ or ‘high’ attitude to risk, for example, someone in profiles 5 to 10.

How much you want to invest in higher-risk investments to get better returns
Higher-risk investments such as shares generally offer higher returns over the long term, but the investments also fluctuate more (go up and down in value). This means that while people may make more money in the long term with higher-risk investments, they are more likely to lose money in the short term.

As your willingness to accept risk is ‘very low’, you are probably very concerned about the possibility of losing money. You would probably prefer your investment to go up and down less and make more modest returns than risk losing money for higher returns. This means you should not expect the value of your investments to rise much more than if you had kept your money in a bank account or other low-risk investment. This also means that inflation could reduce the purchasing power (real value) of your investments.

An investment portfolio appropriate for this risk level may contain, for example, mainly lower and medium risk investments such as cash, cash-type assets, bonds and UK commercial property and fewer high risk assets such as shares. While a portfolio like this should go up and down in value less than a ‘high-risk’ portfolio, the value of investments can always go down as well as up.

Summary
● Your willingness to accept risk is ‘very low’.
● Your priority is likely to be getting as much back from your investments as you put in.
● You are probably less concerned with making high returns on your investments.
● Your preferred investments are likely to be lower-risk, such as cash and bonds and some medium-risk assets in the form of property.

Expected performance for £50,000 investment (inflation-adjusted)

<table>
<thead>
<tr>
<th>Risk Profile 2</th>
<th>1 year</th>
<th>5 years</th>
<th>10 years</th>
<th>20 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below average performance</td>
<td>£47,050</td>
<td>£43,100</td>
<td>£39,950</td>
<td>£35,450</td>
</tr>
<tr>
<td>Average performance</td>
<td>£49,800</td>
<td>£48,900</td>
<td>£47,800</td>
<td>£45,650</td>
</tr>
<tr>
<td>Above average performance</td>
<td>£52,700</td>
<td>£55,500</td>
<td>£57,200</td>
<td>£58,850</td>
</tr>
</tbody>
</table>

Based on 30/06/2014 assumptions
Actual performance (inflation-adjusted)

<table>
<thead>
<tr>
<th>Risk Profile 2</th>
<th>1 year</th>
<th>3 years</th>
<th>5 years</th>
<th>10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>£50,000 investment</td>
<td>£51,400</td>
<td>£51,250</td>
<td>£52,350</td>
<td>£55,350</td>
</tr>
<tr>
<td>Annualised Return</td>
<td>2.7%</td>
<td>0.8%</td>
<td>0.9%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Annualised Volatility</td>
<td>4.8%</td>
<td>3.3%</td>
<td>3.0%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Beta</td>
<td>25.2%</td>
<td>18.1%</td>
<td>9.9%</td>
<td>10.2%</td>
</tr>
<tr>
<td>Maximum Drawdown</td>
<td>3.3%</td>
<td>3.3%</td>
<td>3.3%</td>
<td>3.3%</td>
</tr>
</tbody>
</table>

- This risk profile predominately allocates to less risky assets: cash, index-linked gilts, gilts, UK corporate bonds, but does begin to introduce the concept of diversification through the inclusion of smaller allocations to higher risk assets.
- Shorter term volatility has been higher than long term expectations would dictate. However, returns have been stronger as a result. This is also evidenced with the higher beta number over 1 year as opposed to longer term figures.
- Returns over the longer time periods would have seen a net benefit above inflation to the order of around 1.0% with a stable volatility of around 3.0%.
- This allocation does remain heavily invested into bonds and whilst yields for sovereign bonds remain at ultra-low levels, they do provide a diversification benefit within the allocation.

The performance of £1 invested in the target asset allocation for Dynamic Planner Risk Profile 2
Profile 3 – Low risk

Description

You have selected profile 3. This means that your willingness to accept risk is ‘low’. The risk scale comprises 10 profiles overall. This means that your attitude to accepting risk is below average.

Your risk score is important in two ways to the type of investments you should consider. These are shown below.

How comfortable you are with the possibility of losing money on your investments

You are likely to be less comfortable and less well able to adapt to losing money on your investments than someone who has a ‘medium’ or ‘high’ attitude to risk, for example, someone in profiles 5 to 10.

How much you want to invest in higher-risk investments to get better returns

Higher-risk investments such as shares generally offer higher returns over the long term, but the investments also fluctuate more (go up and down in value). This means that while people may make more money in the long term with higher-risk investments, they are more likely to lose money in the short term.

As your willingness to accept risk is ‘low’, you are probably concerned about the possibility of losing money, but do not want to completely ignore the possibility of making higher returns. You probably want greater returns than are offered by bank accounts and other low-risk investments. As a result, you are prepared to accept some ups and downs. This means that you could make a loss on the amount you invest, particularly in the short term.

An investment portfolio appropriate for this risk level may contain, for example, mainly lower-risk investments such as cash, cash-type assets and bonds and medium-risk investments like UK commercial property, and a minority of higher-risk investments such as UK and overseas shares. While a portfolio like this should go up and down in value less than a ‘high-risk’ portfolio, the value of investments can always go down as well as up.

Summary

- Your willingness to accept risk is ‘low’.
- While you are likely to be concerned with not getting as much back from your investments as you put in, you may also want to make higher returns on your investments.
- Your preferred investments are likely to be mainly lower- and medium-risk investments such as cash, cash-type assets, bonds and UK commercial property, with a minority of higher-risk investments such as UK and overseas shares.

Expected performance for £50,000 investment (inflation-adjusted)

<table>
<thead>
<tr>
<th>Risk Profile 3</th>
<th>1 year</th>
<th>5 years</th>
<th>10 years</th>
<th>20 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below average performance</td>
<td>£45,900</td>
<td>£41,350</td>
<td>£38,300</td>
<td>£34,500</td>
</tr>
<tr>
<td>Average performance</td>
<td>£50,050</td>
<td>£50,250</td>
<td>£50,500</td>
<td>£51,000</td>
</tr>
<tr>
<td>Above average performance</td>
<td>£54,650</td>
<td>£61,150</td>
<td>£66,600</td>
<td>£75,450</td>
</tr>
</tbody>
</table>

Based on 30/06/2014 assumptions
**Actual performance (inflation-adjusted)**

<table>
<thead>
<tr>
<th>Risk Profile 3</th>
<th>1 year</th>
<th>3 years</th>
<th>5 years</th>
<th>10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>£50,000 investment</td>
<td>£52,900</td>
<td>£56,800</td>
<td>£61,400</td>
<td>£65,550</td>
</tr>
<tr>
<td>Annualised Return</td>
<td>5.8%</td>
<td>4.3%</td>
<td>4.2%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Annualised Volatility</td>
<td>6.7%</td>
<td>5.1%</td>
<td>4.5%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Beta</td>
<td>38%</td>
<td>33%</td>
<td>21%</td>
<td>22%</td>
</tr>
<tr>
<td>Maximum Drawdown</td>
<td>4.0%</td>
<td>4.0%</td>
<td>4.0%</td>
<td>11.4%</td>
</tr>
</tbody>
</table>

- This risk profile predominately allocates to less risky assets: cash, index-linked gilts, gilts, UK corporate bonds, but does reduce its allocation to cash significantly in favour of exposure to UK corporate bonds and developed equities.
- The returns from the allocation have been quite strong over the past 5 years as we have seen sovereign gilt yields continue to fall and credit spreads tighten – both have a positive impact on returns.
- Longer term per annum returns are a little more subdued due to the effects of the financial crisis whereby the allocation was impacted by significant equity market falls and widening credit spreads.
- The effects of the financial crisis are shown by the maximum drawdown experienced over the 10-year period being higher than any other period by some distance.
Profile 4 – Lowest medium risk

Description
You have selected profile 4. This means that your willingness to accept risk is ‘lowest medium’. The risk scale is made up of 10 profiles overall. This means that your attitude to accepting risk is below average.

Your risk score is important in two ways to the type of investments you should consider. These are shown below.

How comfortable you are with the possibility of losing money on your investments
You are likely to be less comfortable and less well able to adapt to losing money on your investments than someone who has a ‘high medium’ or ‘high’ attitude to risk, for example, someone in profiles 5 to 10.

How much you want to invest in higher-risk investments to get better returns
Higher-risk investments such as shares generally offer higher returns over the long term, but the investments also fluctuate more (go up and down in value). This means that while people may make more money in the long term with higher-risk investments, they are more likely to lose money in the short term.

As your willingness to accept risk is ‘lowest medium’, you are probably concerned about the possibility of losing money, but do not want to completely ignore the possibility of making higher returns. You probably want greater returns than are offered by bank accounts and other low-risk investments. As a result, you are prepared to accept some ups and downs. This means that you could make a loss on the amount you invest, particularly in the short term.

An investment portfolio appropriate for this risk level may contain, for example, mainly lower- or medium-risk investments such as cash, cash-type assets, bonds or UK commercial property, typically with a fewer higher-risk investments such as UK and overseas shares. While a portfolio like this should go up and down in value less than a ‘high-risk’ portfolio, the value of investments can always go down as well as up.

Summary
• Your willingness to accept risk is ‘lowest medium’.
• While you are likely to be concerned with not getting as much back from your investments as you put in, you may also want to make higher returns on your investments.
• Your preferred investments are likely to be mainly lower- or medium-risk investments such as cash, cash-type assets, bonds or UK commercial property, with typically fewer higher-risk investments such as UK and overseas shares.

Expected performance for £50,000 investment (inflation-adjusted)

<table>
<thead>
<tr>
<th>Risk Profile 4</th>
<th>1 year</th>
<th>5 years</th>
<th>10 years</th>
<th>20 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below average performance</td>
<td>£44,750</td>
<td>£39,700</td>
<td>£36,800</td>
<td>£33,650</td>
</tr>
<tr>
<td>Average performance</td>
<td>£50,350</td>
<td>£51,700</td>
<td>£53,400</td>
<td>£57,000</td>
</tr>
<tr>
<td>Above average performance</td>
<td>£56,650</td>
<td>£67,250</td>
<td>£77,500</td>
<td>£96,550</td>
</tr>
</tbody>
</table>

Based on 30/06/2014 assumptions
Actual performance (inflation-adjusted)

<table>
<thead>
<tr>
<th>Risk Profile 4</th>
<th>1 year</th>
<th>3 years</th>
<th>5 years</th>
<th>10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>£50,000 investment</td>
<td>£53,050</td>
<td>£61,150</td>
<td>£66,250</td>
<td>£66,200</td>
</tr>
<tr>
<td>Annualised Return</td>
<td>6.0%</td>
<td>6.9%</td>
<td>5.8%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Annualised Volatility</td>
<td>7.0%</td>
<td>5.7%</td>
<td>6.0%</td>
<td>7.4%</td>
</tr>
<tr>
<td>Beta</td>
<td>50%</td>
<td>47%</td>
<td>45%</td>
<td>49%</td>
</tr>
<tr>
<td>Maximum Drawdown</td>
<td>3.7%</td>
<td>3.7%</td>
<td>7.1%</td>
<td>27.8%</td>
</tr>
</tbody>
</table>

- This risk profile is more balanced between the broad asset classes, but still allocating mostly to bonds (mainly investment-grade bonds and gilts), compared to more higher-risk equities.
- The equity holdings are predominately UK-oriented but with some additional weightings in other developed markets. Smaller allocations to cash and property are maintained for added diversification benefits.
- The trends in returns are very similar to those for Risk Profile 3 in that the last 5 years have all been strong but the 10-year figures are a little subdued due to the events of 2007/2008.
- The drawdown in 2008 again supports this as credit spreads widened significantly and equity markets plummeted.
- A gradual increase in volatility and beta has been experienced relative to Risk Profile 3.
Profile 5 – Low medium risk

Description

You have selected Profile 5. This means that your willingness to accept risk is ‘low medium’. The risk scale is made up of 10 profiles overall. This means that you are about average in how much risk you want to take in your investments.

Your risk score is important in two ways to the type of investments you should consider. These are shown below.

How comfortable you are with the possibility of losing money on your investments
You are likely to be more comfortable and better able to adapt to losing money on your investments than someone whose attitude to accepting risk is lower, for example, someone in profiles 1 to 4. However, you are probably not as comfortable as someone in profiles 7 to 10.

How much you want to invest in higher-risk investments to get better returns
Higher-risk investments such as shares generally offer higher returns over the long term, but the investments also fluctuate more (go up and down in value). This means that while people may make more money in the long term with higher-risk investments, they may lose money in the short term.

As your willingness to accept risk is ‘low medium’, you would probably prefer your investment to go up and down less and make more modest returns than risk losing money for higher returns. However, you are probably prepared to accept some falls in order to make higher returns than just investing in low-risk investments. This means that you could make a loss on the amount you invest, particularly in the short term.

An investment portfolio appropriate for this risk level may contain, for example, a mix of lower and medium-risk investments such as cash, cash-type assets, bonds and UK commercial property, and higher-risk investments such as UK and overseas shares. While a portfolio like this should rise and fall in value less than a higher-risk portfolio, the value of investments can always go down as well as up.

Summary
- Your willingness to accept risk is ‘low medium’.
- While you are likely to be concerned with not getting as much back from your investments as you put in, you also probably want to make higher returns on your investments.
- Your preferred investments are likely to be a mix of lower- and medium-risk investments which may include cash, cash-type assets, bonds and UK commercial property, and higher-risk investments such as UK and overseas shares.

Expected performance for £50,000 investment (inflation-adjusted)

<table>
<thead>
<tr>
<th>Risk Profile 5</th>
<th>1 year</th>
<th>5 years</th>
<th>10 years</th>
<th>20 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below average performance</td>
<td>£43,550</td>
<td>£37,850</td>
<td>£34,850</td>
<td>£32,050</td>
</tr>
<tr>
<td>Average performance</td>
<td>£50,600</td>
<td>£52,950</td>
<td>£56,000</td>
<td>£62,700</td>
</tr>
<tr>
<td>Above average performance</td>
<td>£58,800</td>
<td>£74,050</td>
<td>£90,000</td>
<td>£122,650</td>
</tr>
</tbody>
</table>

Based on 30/06/2014 assumptions
Actual performance (inflation-adjusted)

<table>
<thead>
<tr>
<th>Risk Profile 5</th>
<th>1 year</th>
<th>3 years</th>
<th>5 years</th>
<th>10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>£50,000 investment</td>
<td>£52,600</td>
<td>£61,850</td>
<td>£66,450</td>
<td>£70,650</td>
</tr>
<tr>
<td>Annualised Return</td>
<td>5.2%</td>
<td>7.3%</td>
<td>5.8%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Annualised Volatility</td>
<td>7.7%</td>
<td>6.7%</td>
<td>7.5%</td>
<td>9.5%</td>
</tr>
<tr>
<td>Beta</td>
<td>62%</td>
<td>59%</td>
<td>60%</td>
<td>65%</td>
</tr>
<tr>
<td>Maximum Drawdown</td>
<td>4.5%</td>
<td>4.5%</td>
<td>10.3%</td>
<td>30.4%</td>
</tr>
</tbody>
</table>

- This risk profile invests more than half of assets in equities and retains a significant holding in bonds.
- Equities exposure consists mainly of developed markets and for bonds there is a good spread of gilt and investment grade corporate bonds.
- An allocation is still made to property but it holds no cash exposure.
- Returns over the last 3 years have been particularly good, although the last year’s return has been lessened by poor UK equity markets.
- The 10 year figures are again impacted by the events of 2008, impacting on the lower return.

Dynamic Planner Risk Profile 5
Broad Asset Class Mix

The performance of £1 invested in the target asset allocation for Dynamic Planner Risk Profile 5
Profile 6 – High medium risk

Description
You have selected Profile 6. This means that your willingness to accept risk is ‘high medium’. The risk scale is made up of 10 profiles overall. This means that you are about average in how much risk you want to take in your investments.

Your risk score is important in two ways to the type of investments you should consider. These are shown below.

How comfortable you are with the possibility of losing money on your investments
You are likely to be more comfortable and better able to adapt to losing money on your investments than someone whose attitude to accepting risk is lower, for example, someone in profiles 1 to 4. However, you are probably not as comfortable as someone in profiles 7 to 10.

How much you want to invest in higher-risk investments to get better returns
Higher-risk investments such as shares generally offer higher returns over the long term, but the investments also fluctuate more (go up and down in value). This means that while people may make more money in the long term with higher-risk investments, they are more likely to lose money in the short term.

As your willingness to accept risk is ‘high medium’, you would probably prefer your investment to go up and down less and make more modest returns than risk losing money for higher returns. However, you are probably prepared to accept some falls in order to make higher returns than just investing in low-risk investments. This means that you could make a loss on the amount you invest, particularly in the short term.

An investment portfolio appropriate for this risk level may contain, for example, mainly higher-risk investments such as UK and overseas shares, with some lower- and medium-risk investments such as cash, cash-type assets, bonds and UK commercial property. While a portfolio like this should rise and fall in value less than a higher-risk portfolio, the value of investments can always go down as well as up.

Summary
● Your willingness to accept risk is ‘high medium’.
● While you are likely to be concerned with not getting as much back from your investments as you put in, you probably also want to make higher returns on your investments.
● Your preferred investments are likely to include mainly higher-risk investments such as UK and overseas shares and typically some lower and medium-risk investments such as cash, cash-type assets, bonds and UK commercial property.

Expected performance for £50,000 investment (inflation-adjusted)

<table>
<thead>
<tr>
<th>Risk Profile 6</th>
<th>1 year</th>
<th>5 years</th>
<th>10 years</th>
<th>20 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below average performance</td>
<td>£42,350</td>
<td>£35,900</td>
<td>£32,750</td>
<td>£30,050</td>
</tr>
<tr>
<td>Average performance</td>
<td>£50,800</td>
<td>£54,000</td>
<td>£58,250</td>
<td>£67,850</td>
</tr>
<tr>
<td>Above average performance</td>
<td>£60,950</td>
<td>£81,150</td>
<td>£103,700</td>
<td>£153,400</td>
</tr>
</tbody>
</table>

Based on 30/06/2014 assumptions
**Actual performance (inflation-adjusted)**

<table>
<thead>
<tr>
<th>Risk Profile 6</th>
<th>1 year</th>
<th>3 years</th>
<th>5 years</th>
<th>10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>£50,000 investment</td>
<td>£52,250</td>
<td>£62,200</td>
<td>£67,850</td>
<td>£72,450</td>
</tr>
<tr>
<td>Annualised Return</td>
<td>4.5%</td>
<td>7.5%</td>
<td>6.3%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Annualised Volatility</td>
<td>8.4%</td>
<td>7.7%</td>
<td>9.0%</td>
<td>11.4%</td>
</tr>
<tr>
<td>Beta</td>
<td>70%</td>
<td>70%</td>
<td>73%</td>
<td>79%</td>
</tr>
<tr>
<td>Maximum Drawdown</td>
<td>4.9%</td>
<td>4.9%</td>
<td>12.6%</td>
<td>34.5%</td>
</tr>
</tbody>
</table>

- This risk profile continues the trend towards higher equity content and introduces some exposure to developed Asian and Emerging Market equities.
- It currently holds only a quarter of assets in fixed income with the majority in investment grade bonds plus some limited exposure to high yield bonds. There remains a small holding in property.
- Returns over the last 10 years are again subdued due to the events of 2008, with a lower return and higher volatility than subsequent periods.
- The volatility and beta figures are greater than in the previous profile.
Profile 7 – Highest medium risk

Description

You have selected Profile 7. This means that your willingness to accept risk is ‘highest medium’. The risk scale is made up of 10 profiles overall. This means that you are above average in how much risk you want to take in your investments.

Your risk score is important in two ways to the type of investments you should consider. These are shown below.

**How comfortable you are with the possibility of losing money on your investments**

You are likely to be more comfortable and better able to adapt to losing money on your investments than someone whose attitude to accepting risk is ‘low’ or ‘medium’, for example, someone in profiles 1 to 6.

**How much you want to invest in higher-risk investments to get better returns**

Higher-risk investments such as shares generally offer higher returns over the long term, but the investments also fluctuate more (go up and down in value). This means that while people may make more money in the long term with higher-risk investments, they are more likely to lose money in the short term.

As your willingness to accept risk is ‘highest medium’, you probably concentrate on getting higher returns on your investments. You are willing to accept the possibility of potential losses in order to pursue long-term investment growth.

An investment portfolio appropriate for this risk level may contain, for example, mainly higher-risk investments such as UK and overseas shares, with a few, if any, lower- and medium-risk investments such as bonds and UK commercial property. Because of this, there is a possibility you may not get back as much money on your investments as you put in, particularly in the short term.

Summary

- Your willingness to accept risk is ‘highest medium’.
- Your priority is likely to be making higher returns on your investments but you are probably still concerned about losing money due to market rises and falls.
- Your preferred investments are likely to contain mainly higher-risk investments such as shares with a few lower- and medium-risk investments such as bonds and property.

**Expected performance for £50,000 investment (inflation-adjusted)**

<table>
<thead>
<tr>
<th>Risk Profile 6</th>
<th>1 year</th>
<th>5 years</th>
<th>10 years</th>
<th>20 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below average performance</td>
<td>£41,150</td>
<td>£34,000</td>
<td>£30,600</td>
<td>£27,750</td>
</tr>
<tr>
<td>Average performance</td>
<td>£50,950</td>
<td>£54,800</td>
<td>£60,100</td>
<td>£72,150</td>
</tr>
<tr>
<td>Above average performance</td>
<td>£63,100</td>
<td>£88,400</td>
<td>£118,050</td>
<td>£187,600</td>
</tr>
</tbody>
</table>

*Based on 30/06/2014 assumptions*
### Actual performance (inflation-adjusted)

<table>
<thead>
<tr>
<th>Risk Profile 7</th>
<th>1 year</th>
<th>3 years</th>
<th>5 years</th>
<th>10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>£50,000 investment</td>
<td>£51,650</td>
<td>£61,950</td>
<td>£67,500</td>
<td>£75,200</td>
</tr>
<tr>
<td>Annualised Return</td>
<td>3.2%</td>
<td>7.4%</td>
<td>6.2%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Annualised Volatility</td>
<td>9.2%</td>
<td>8.8%</td>
<td>10.5%</td>
<td>13.2%</td>
</tr>
<tr>
<td>Beta</td>
<td>78%</td>
<td>80%</td>
<td>84%</td>
<td>92%</td>
</tr>
<tr>
<td>Maximum Drawdown</td>
<td>5.7%</td>
<td>5.7%</td>
<td>14.9%</td>
<td>37.2%</td>
</tr>
</tbody>
</table>

- This risk profile is predominantly invested in equities. Whilst there remains a bias towards the UK market, the holdings in developed Asian and Emerging Market equities have increased.
- Some limited holdings in fixed income and property are maintained.
- The returns are strong over 3 and 5 year periods. The last year’s returns have been impacted due to the poor performance of the equity markets, particularly Asian and Emerging Markets.
- 10 year figures show a lower return and higher volatility due to the 2008 events. This is also reflected in the large drawdown over this period.
Profile 8 – High risk

Description
You have selected Profile 8. This means that your willingness to accept risk is ‘high’.
The risk scale is made up of 10 profiles overall. This means that you are above average in how much risk you want to take in your investments.

Your risk score is important in two ways to the type of investments you should consider. These are shown below.

How comfortable you are with the possibility of losing money on your investments
You are likely to be more comfortable and better able to adapt to losing money on your investments than someone whose attitude to accepting risk is ‘low’ or ‘medium’, for example, someone in profiles 1 to 6.

How much you want to invest in higher-risk investments to get better returns
Higher-risk investments such as shares generally offer higher returns over the long term, but the investments also fluctuate more (go up and down in value). This means that while people may make more money in the long term with higher-risk investments, they are more likely to lose money in the short term.

As your willingness to accept risk is ‘high’, you probably concentrate on getting higher returns on your investments. You are willing to accept the possibility of potential losses in order to pursue long-term investment growth.

An investment portfolio appropriate for this risk level may contain, for example, mainly higher-risk investments such as UK and overseas shares, with very few, if any, lower- and medium-risk investments such as bonds and UK commercial property. Because of this, there is a possibility you may not get back as much money on your investments as you put in, particularly in the short term.

Summary
- Your willingness to accept risk is ‘high’.
- Your priority is likely to be making higher returns on your investments but you are probably still concerned about losing money due to market rises and falls.
- Your preferred investments are likely to contain mainly higher-risk investments such as UK and overseas shares with the occasional lower- and medium-risk investments such as bonds and UK commercial property.

Expected performance for £50,000 investment (inflation-adjusted)

<table>
<thead>
<tr>
<th>Risk Profile 8</th>
<th>1 year</th>
<th>5 years</th>
<th>10 years</th>
<th>20 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below average performance</td>
<td>£40,150</td>
<td>£32,350</td>
<td>£28,650</td>
<td>£25,650</td>
</tr>
<tr>
<td>Average performance</td>
<td>£51,050</td>
<td>£55,400</td>
<td>£61,400</td>
<td>£75,350</td>
</tr>
<tr>
<td>Above average performance</td>
<td>£64,950</td>
<td>£95,000</td>
<td>£131,550</td>
<td>£221,350</td>
</tr>
</tbody>
</table>

Based on 30/06/2014 assumptions
Actual performance (inflation-adjusted)

<table>
<thead>
<tr>
<th>Risk Profile 8</th>
<th>1 year</th>
<th>3 years</th>
<th>5 years</th>
<th>10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>£50,000 investment</td>
<td>£51,350</td>
<td>£59,900</td>
<td>£64,900</td>
<td>£75,100</td>
</tr>
<tr>
<td>Annualised Return</td>
<td>2.6%</td>
<td>6.2%</td>
<td>5.3%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Annualised Volatility</td>
<td>10.3%</td>
<td>9.6%</td>
<td>11.7%</td>
<td>14.7%</td>
</tr>
<tr>
<td>Beta</td>
<td>83%</td>
<td>82%</td>
<td>91%</td>
<td>100%</td>
</tr>
<tr>
<td>Maximum Drawdown</td>
<td>6.6%</td>
<td>7.1%</td>
<td>16.3%</td>
<td>39.8%</td>
</tr>
</tbody>
</table>

- This risk profile is predominantly invested in equities, with an increasing trend away from the UK and into more volatile equity markets of Asia and Emerging Markets.
- There remains a small holding in bonds and property for added diversification benefits from equities, but the risk profile dictates high equity exposure.
- The trend in returns is very similar to those of previous profiles, with the best returns observed over 3 and 5 year periods.
- Beta and volatility increase from the previous profile, along with the maximum drawdown observed.
Profile 9 – Very high risk

Description
You have selected Profile 9. This means that your willingness to accept risk is ‘very high’.
The risk scale is made up of 10 profiles overall. This means that you are well above average in how much risk
you want to accept for your investments.

Your risk score is important in two ways to the type of investments you should consider. These are shown below.

How comfortable you are with the possibility of losing money on your investments
You are likely to be more comfortable and better able to adapt to losing money on your investments than
someone whose attitude to accepting risk is ‘low’ or ‘medium’, for example, someone in profiles 1 to 6.

How much you want to invest in higher risk investments to get better returns
Higher-risk investments such as shares generally offer higher returns over the long term, but the investments
also fluctuate more (go up and down in value). This means that while people may make more money in the long
term with higher-risk investments, they are more likely to lose money in the short term.

As your willingness to accept risk is ‘very high’, you concentrate on getting higher returns and are less
concerned about losing money.

An investment portfolio appropriate for this risk level may contain, for example, mainly higher-risk investments
such as shares from outside the UK, and a large proportion of overseas shares, with very occasional lower-risk
investments such as bonds. Because of this, there is a possibility you may not get back as much money from
your investments as you put in, particularly in the short term.

Summary
• Your willingness to accept risk is ‘very high’.
• Your priority is likely to be making higher returns on your investments and so you accept that you may not
get as much back from your investments as you put in.
• Your preferred investments are likely to contain a large percentage of higher-risk investments such as
overseas shares.

Expected performance for £50,000 investment (inflation-adjusted)

<table>
<thead>
<tr>
<th>Risk Profile 9</th>
<th>1 year</th>
<th>5 years</th>
<th>10 years</th>
<th>20 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below average performance</td>
<td>£38,950</td>
<td>£30,400</td>
<td>£26,350</td>
<td>£23,000</td>
</tr>
<tr>
<td>Average performance</td>
<td>£51,150</td>
<td>£55,800</td>
<td>£62,200</td>
<td>£77,400</td>
</tr>
<tr>
<td>Above average performance</td>
<td>£67,100</td>
<td>£102,400</td>
<td>£146,850</td>
<td>£260,650</td>
</tr>
</tbody>
</table>

Based on 30/06/2014 assumptions
Actual performance (inflation-adjusted)

<table>
<thead>
<tr>
<th>Risk Profile 9</th>
<th>1 year</th>
<th>3 years</th>
<th>5 years</th>
<th>10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>£50,000 investment</td>
<td>£51,250</td>
<td>£57,750</td>
<td>£61,050</td>
<td>£84,700</td>
</tr>
<tr>
<td>Annualised Return</td>
<td>2.4%</td>
<td>4.9%</td>
<td>4.1%</td>
<td>5.4%</td>
</tr>
<tr>
<td>Annualised Volatility</td>
<td>11.8%</td>
<td>10.8%</td>
<td>13.2%</td>
<td>16.9%</td>
</tr>
<tr>
<td>Beta</td>
<td>88%</td>
<td>79%</td>
<td>95%</td>
<td>109%</td>
</tr>
<tr>
<td>Maximum Drawdown</td>
<td>7.6%</td>
<td>11.7%</td>
<td>19.2%</td>
<td>42.0%</td>
</tr>
</tbody>
</table>

- This profile is fully invested in equities, with an increasing weight away from the more developed markets.
- Returns over the last 10 years have been very high for this profile, despite the events of the financial crisis. This largely comes from the strong performance of Emerging Markets resulting from strong Chinese growth.
- The last year of performance has been lower due to the lower growth in Asia Pacific and Emerging Market regions.

Dynamic Planner Risk Profile 9 Broad Asset Class Mix

The performance of £1 invested in the target asset allocation for Dynamic Planner Risk Profile 9
Profile 10 – Highest risk

Description

You have selected Profile 10. This means that your willingness to accept risk is in the ‘highest’ profile. The risk scale is made up of 10 profiles overall. This means that you are in the highest profile for how much risk you want to take in your investments.

Your risk score is important in two ways to the type of investments you should consider. These are shown below.

How comfortable you are with the possibility of losing money on your investments

You are likely to be much more comfortable and better able to adapt to losing money on your investments than someone whose attitude to accepting risk is ‘low’ or ‘medium’, for example, someone in profiles 1 to 6.

How much you want to invest in higher-risk investments to get better returns

Higher-risk investments such as shares generally offer higher returns over the long term, but the investments also fluctuate more (go up and down in value). This means that while people may make more money in the long term with higher-risk investments, they are more likely to lose money in the short term.

As your willingness to accept risk is in the ‘highest’ profile, you probably concentrate on getting higher returns and are less concerned about losing money.

An investment portfolio appropriate for this risk level may contain, for example, only higher-risk investments such as overseas shares and no low-risk investments such as cash-type assets and bonds. Because of this, there is a possibility you may not get back as much money from your investments as you put in, particularly in the short term.

Summary

- Your willingness to accept risk is in the ‘highest’ profile.
- Your priority is likely to be making higher returns on your investments and so you accept that you may not get as much back from your investments as you put in
- Your preferred investments are likely to contain higher-risk investments such as overseas shares.

Expected performance for £50,000 investment (inflation-adjusted)

<table>
<thead>
<tr>
<th>Risk Profile 10</th>
<th>1 year</th>
<th>5 years</th>
<th>10 years</th>
<th>20 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below average performance</td>
<td>£38,050</td>
<td>£28,900</td>
<td>£24,700</td>
<td>£21,150</td>
</tr>
<tr>
<td>Average performance</td>
<td>£51,200</td>
<td>£56,250</td>
<td>£63,250</td>
<td>£79,950</td>
</tr>
<tr>
<td>Above average performance</td>
<td>£68,950</td>
<td>£109,400</td>
<td>£162,050</td>
<td>£302,500</td>
</tr>
</tbody>
</table>

Based on 30/06/2014 assumptions
## Actual performance (inflation-adjusted)

<table>
<thead>
<tr>
<th>Risk Profile 10</th>
<th>1 year</th>
<th>3 years</th>
<th>5 years</th>
<th>10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>£50,000 investment</td>
<td>£51,300</td>
<td>£55,750</td>
<td>£57,050</td>
<td>£93,750</td>
</tr>
<tr>
<td>Annualised Return</td>
<td>2.6%</td>
<td>3.7%</td>
<td>2.7%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Annualised Volatility</td>
<td>12.9%</td>
<td>11.4%</td>
<td>14.4%</td>
<td>19.1%</td>
</tr>
<tr>
<td>Beta</td>
<td>83%</td>
<td>73%</td>
<td>94%</td>
<td>116%</td>
</tr>
<tr>
<td>Maximum Drawdown</td>
<td>8.4%</td>
<td>14.9%</td>
<td>21.9%</td>
<td>44.7%</td>
</tr>
</tbody>
</table>

### Dynamic Planner Risk Profile 10

**Broad Asset Class Mix**

- This risk profile is fully invested in equities, with a bias towards the more volatile regions of Emerging Markets and Asia Pacific.
- As with the previous profile, strong performance came from the 10-year returns due to Emerging Market growth. Nevertheless, drawdowns remained high in this period.
8. About DT

Founded in 2003, DT (Distribution Technology) is the award-winning provider of Dynamic Planner, the digital risk profiling and financial planning service used by over 9,000 financial planners and a wide range of financial institutions.

The core risk profiling and asset allocation model was launched in 2005 and has grown in usage across the country ever since. Our team includes a unique blend of qualified investment analysts, financial planners and software usability, design and development experts.

The Dynamic Planner service makes DT the UK’s preferred provider of risk profiling and end-to-end investment process.

Key DT facts

- Winner of the European Wealth Briefing Award for Best Risk Profiling Tool 2014
- Winner of the Aberdeen Platform Award for Leading Integrated Planning Tool Provider in 2014
- Founded in 2003 with asset models that have an unrivalled 10-year track record
- More than 9,000 financial planners from over 700 firms use Dynamic Planner to ensure investment suitability
- 900 investments are risk profiled from more than 90 asset managers, each quarter
- £2.3 billion of funds are now managed against Dynamic Planner risk profile targets
- £1.2 billion of recommendations were made in 2014 using Dynamic Planner
- 400,000 risk profiles have been conducted in the last 4 years
- Dynamic Planner is integrated with over 25 investment platforms, providers and back office systems
- On a busy day Dynamic Planner supports over 1,000 financial planning sessions (more than any high street bank)
9. Financial terms explained

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annualised return</td>
<td>Annualised returns are specified period returns re-scaled to a period of 1 year. This allows investors to compare returns of different assets that they have owned for different lengths of time on a consistent annual basis.</td>
</tr>
<tr>
<td>Annualised volatility</td>
<td>Annualised volatility of returns is calculated by re-scaling the volatility of the specified period returns to a period of 1 year. This allows investors to compare volatility of different assets that they have owned for different lengths of time on a consistent annual basis.</td>
</tr>
<tr>
<td>Asset allocation</td>
<td>Asset allocation is the process of spreading your investment between different assets, like cash, bonds, equities (shares in companies) and property. This helps reduce risk and can improve overall returns through harnessing the power of diversification – in essence, not putting all your eggs in one basket.</td>
</tr>
<tr>
<td>Asset class</td>
<td>A group of securities that have similar financial characteristics, behave similarly in the marketplace, and are subject to the same laws and regulations. The 3 main asset classes are equities (stocks), fixed-income (bonds) and cash equivalents (money market instruments).</td>
</tr>
<tr>
<td>Attitude to risk</td>
<td>The psychometric characteristics towards taking risk include tolerance for ambiguity, desire for profit and investment experience. These are all general predictors of an individual’s likely tolerance for risk and provide an indication of how they may feel about taking a risk with that investment.</td>
</tr>
<tr>
<td>Beta</td>
<td>Beta is a measure of the volatility, or market risk, of a security or a portfolio in comparison to the market as a whole.</td>
</tr>
<tr>
<td>Bond</td>
<td>Government bonds, or gilts, and investment grade corporate bonds, are where you effectively lend money to governments or large companies in exchange for a fixed rate of interest.</td>
</tr>
<tr>
<td>Drawdown</td>
<td>A drawdown is usually quoted as the percentage between the best and worst past performance of an asset. It should not be confused with drawdown as a means of taking retirement income from investments.</td>
</tr>
<tr>
<td>Capacity for risk</td>
<td>The ability to take financial risk, which is usually dependent on the individual investor’s circumstances, their time horizon, their need to access the investment and the other assets they hold in relation to their current and future financial needs.</td>
</tr>
<tr>
<td>Cash</td>
<td>Cash is the least risky of the asset classes but it tends to deliver low returns, which means the value of your money can be eroded in times of high inflation.</td>
</tr>
<tr>
<td>Commercial property</td>
<td>Dynamic Planner uses direct UK commercial property investment in its asset allocation strategies. Investors usually gain access to this asset class via retail funds, which invest in physical bricks and mortar properties across various industry sectors and regions of the UK. Returns come from a combination of the rental income received and hopefully increased property valuations over time. Risk is spread across a number of different properties since if one property is not occupied and not earning rental income from the commercial tenant, others held within the fund will be. An important consideration for direct property investment, however, is that on occasions, buying or selling property can take a considerable period of time for the fund manager, and this could delay the sale of your investment. To reflect this liquidity risk, Dynamic Planner limits its asset allocations to a maximum of 10% in any one risk profile.</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>Corporate bonds are issued by companies that are looking to raise capital. They are seen as riskier than gilts, as companies are generally considered to be more likely to default on debt than the government. Again the principle of higher risk/higher rewards applies with corporate bonds, since they tend to offer a higher rate of interest compared to gilts.</td>
</tr>
<tr>
<td>Correlation</td>
<td>To benefit from diversification, you need to invest in assets that behave differently from each other. This is described as correlation. When two assets have low correlation the changes in their values have very little or no relation to each other. The real advantage is where their values move in opposite directions, which is referred to as negative correlation.</td>
</tr>
<tr>
<td>Dynamic Planner®</td>
<td>A premium quality, digital, end-to-end investment process which includes risk profiling, investment research and financial planning services to financial planners and financial institutions. Dynamic Planner helps financial planners to ensure investment suitability, deliver a great service and look good to their clients and customers by:</td>
</tr>
<tr>
<td></td>
<td>● Helping accurately risk profile investors as part of a risk based plan</td>
</tr>
<tr>
<td></td>
<td>● Ensuring investments in each Dynamic Planner Profile meet our definition of a suitable risk</td>
</tr>
<tr>
<td></td>
<td>● Tracking the risk of investments we profile as part of our service on a quarterly basis</td>
</tr>
</tbody>
</table>
**Efficient frontier**  
The principle of selecting a mix of assets to maximize expected return, or conversely, minimizing expected risk in a portfolio, forms the foundation of Modern Portfolio Theory, which was first introduced by Dr Harry Markowitz in 1952. Markowitz demonstrated that it was possible to create an ‘efficient frontier’ of diversified portfolios that maximise the expected long-term returns for a given degree of risk. He subsequently went on to be awarded the Nobel Prize for Economics in 1990.

**Equity**  
Buying an equity stake in a business, you become a shareholder and this is why shares are also known as equities.

Historically, equities have outperformed lower risk investments like deposit accounts and bonds. However, this has been at the expense of increased volatility.

Dynamic Planner asset allocations consider investment in a broad spread of equities across both the major developed markets (such as UK, US, Europe ex-UK, Japan) plus the Asia Pacific region and emerging markets.

The risks with direct equity investments and also retail funds that offer a diversified range of holdings can be summarised as follows:

- **Specific equity risk**: Equity prices fluctuate daily, based on many factors including general, economic, industry or company news.
- **Currency risk**: They can be exposed to different currencies, which could create losses when translated back to UK sterling.
- **Emerging markets generally carry greater political, legal, counterparty and operational risk.**
- **Liquidity risk**: In difficult market conditions, the fund may not be able to sell a security for its full value or at all. This could affect performance and could cause a retail fund to defer or suspend redemptions of its shares.

**FCA**  
The Financial Conduct Authority – the regulator for financial services.

**Financial planner**  
Financial or investment advisor.

**Fund risk profile**  
Fund/portfolio that has been profiled against the Dynamic Planner risk profiles.

**Gilts**  
UK gilts are generally considered to be very low risk investments because it is highly unlikely that the government would go bankrupt and not pay the interest due or repay the loan in full. Index-linked gilts pay interest and loan repayments linked to the Retail Price Index (RPI) so their value rises with inflation automatically over time.

**Inflation adjusted**  
An inflation-adjusted return reveals the return on an investment after removing the effects of inflation.

**Model Portfolio**  
A selection of funds that are constructed and managed in line with a specified strategy or target asset allocation.

**Property**  
See Commercial property.

**Psychometric risk profiling**  
This considers a range of behavioural traits under a range of different circumstances and is typically assessed via a Likert scale of questions, ranging from ‘strongly disagree’ to ‘strongly agree’.

These traits include risk sensitivity and financial awareness (which could affect reactions to market volatility); suggestibility (influencing the level of interest in new investment ideas and acceptance of advice); general outlook (the tendency to be self-disciplined or act spontaneously); and tolerance of ambiguity (which reflects reactions to uncertain situations). The overall results are tested against a sample population to ensure consistency of responses and the overall risk scoring.

**Risk questionnaire**  
The questionnaire used to determine attitude to risk.

**Risk targeted**  
A model that looks to target a given volatility that is pre-defined.

**Risk Target Managed**  
Those funds/portfolios that are committed to remain within the Dynamic Planner risk profile boundaries.

**Share**  
See Equity.

**Value at risk**  
An amount of money that could be lost under extreme circumstances. Dynamic Planner highlights events or sequence of events over a period of years that might be expected only 5% of the time over the long term (i.e. rare but quite possible). Its aim is to highlight the potential losses that could be experienced by the investor under these circumstances. It is not the maximum value that could be lost.

**Volatility**  
The extent to which the price of an asset (be it an individual share, security, fund or the level of a market) changes over time. High volatility implies rapid and large upward and downward movements over a relatively short period of time; low volatility implies much smaller and less frequent changes in value.
Disclaimer
Past performance is not necessarily a guide to future performance and the value of investments can fall as well as rise.

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