TRUE INSIGHT

True Potential Portfolios | Issue 13

PAGE 08

Staying the Course

Volatility may cause unease for investors, but history teaches us exiting prematurely at inopportune times in the cycles is a risky business.

true potential investments

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With investing, your capital is at risk. Investments can fluctuate in value and you may get back less than you invest. The contents of this magazine should not be interpreted as personalised financial advice.

View from the Riverside

Welcome to the first True Insight of 2019.

New year is traditionally a time for reviewing arrangements and reassessing strategies and the winds of change are definitely blowing through the financial markets.

Following December's sell off in the equity markets, particularly among the stock market darlings of the tech sector, the US Federal Reserve has reviewed its programme of planned interest rate hikes this year.

And with 2019 the year in which Brexit, in one form or another is set to occur, investors are preparing themselves for the turbulence that momentous changes bring and the opportunities that are invariably thrown up in the process.

On page 7 we look at the principal markets and what 2019 may hold in store for investors after the December shake out.

There is always a temptation during volatile markets to sell up with the intention of buying back in at the bottom. While very attractive in prospect, it is very difficult to pull off in practice.

On page 8, we show what happens if, having sold out, you miss the ten best recovery days and illustrate how, ultimately it makes sense to hunker down, ride out the storm and don't attempt to time the market.

We also shine a spotlight on investing for income. Selling down units to generatea regular payment is all very well while investments are rising in value but nibbling away at capital when markets are falling away can have serious consequences for the long-term value of a pension pot.

2019 looks like being an interesting year for financial markets but, as ever, together with our manager partners we stand ready to adapt to changing financial conditions and guide investors through the changing landscape as developments occur.

Barney Hawkins,
Investment Director.

Performance Update

The True Potential Portfolios are a suite of fully-diversified, discretionary-managed investment solutions.

With wide exposure to world-class investment managers, as well as diversifying their investment by asset class and geographic region, our clients benefit from having more potential to grow their money and manage volatility, all in one Portfolio.

And, as we're committed to helping our clients reach their financial goals, we continually monitor our Portfolios to make sure they perform as expected and remain within the chosen risk profile. We also rebalance for the future, rather than the past, taking an active approach to allocating your money where we see the greatest potential for growth.

We call this strategy **'Advanced Diversification'**. The results opposite show the performance of each Portfolio since we launched them in October 2015.

Portfolios	31 Dec 2015 to 31 Dec 2016	31 Dec 2016 to 31 Dec 2017	31 Dec 2017 to 31 Dec 2018	Since inception 1 Oct 2015 to 31 Dec 2018
Defensive	7.90%	4.00%	-2.44%	**10.46%**
Cautious	11.03%	5.29%	-3.89%	**14.66%**
Cautious +	10.09%	6.22%	-4.37%	**14.30%**
Cautious Income	11.46%	6.33%	-4.03%	**16.29%**
Balanced	13.83%	8.31%	-5.86%	**19.65%**
Balanced +	14.22%	8.89%	-5.24%	**22.01%**
Balanced Income	13.41%	6.80%	-5.07%	**18.06%**
Growth	16.39%	10.86%	-6.35%	**26.34%**
Growth +	13.84%	12.86%	-6.65%	**25.63%**
Aggressive	17.70%	13.54%	-7.52%	**30.42%**

As the most recent performance illustrates, 2018 was a difficult year across financial markets generally. However, the Portfolios held up well and the long term numbers since inception continue to support our belief in Advanced Diversification.

With investing, your capital is at risk. Investments can fluctuate in value and you may get back less than you invest. Past performance is not a guide to future performance.

Review of the Markets: Q4 2018

We started the quarter with the US equity market clocking up a new record; the longest “bull market” in history. As we moved forward, despite delivering three outstanding quarters of corporate earnings growth, the US market began to falter with hawkish rhetoric coming from the Federal Reserve and nervousness from the continuing US/Chinese trade war triggering falls across global equity markets.

Starting with the US Federal Reserve, it may seem odd that a group of some of the most respected central bankers, discussing how well the US economy was doing and why interest rates would need to keep rising steadily, would unsettle equity markets.

However, rising interest rates not only increase costs for companies but also deprive financial markets of liquidity. Companies with high price to earnings ratios struggle to maintain their valuations and these were the stocks that first sold off.

Trade tensions and the ever-growing doubt that US tech giants such as Apple and Amazon could live up to their newly-acquired $1trn valuations brought major indices in the US down with a bump, making the US one of the worst performers over the period, albeit after providing stellar returns in 2017 and early 2018.

As we moved through Q4 it was encouraging to see investors looking once again at Emerging Markets, recognising the value that is clearly on offer from companies, many of which are household names in the West.

In response to a slowing economy, and a currency that is languishing at a ten year low, the Chinese government introduced new measures to stimulate the economy and support the markets.

The UK did not fare so well with political risk continuing to dominate the domestic investment horizon. Brexit "deal or no deal” speculation varied on an almost daily basis but remained specific to the UK, not really moving markets globally. There is considerable debate over UK opportunities and what many regard as an undervalued market, something we are watching very closely.

Within bond markets, we saw a dichotomy of returns. Higher quality government stock, such as UK gilts, performed well as investors gravitated to those areas perceived as “safe” to invest in. Conversely, high yield bonds struggled as investors rotated into lower risk issues and a number of high profile corporate mishaps made market participants nervous.

In what was a difficult quarter for financial markets alternative assets came to the fore with investors looking outside the traditional areas of equities and bonds to try and find returns that were uncorrelated to stock market movements.

Gold fared particularly well as investors looked to derisk their positions. We continue to favour equities over other asset classes as do our investment partners.

Where we see quality investments available at discounted prices we will buy. Our portfolio structure and multi asset fund diversification means we have the ability to be tactical and switch between asset classes and so position the portfolios for what promises to be an interesting 2019.

Investment Outlook

There is a lot for investors to focus on at the moment. Growth in the US is slowing, albeit from an unsustainably high level. The easy money conditions, introduced in the wake of the 2008 financial crisis are being reversed. The tide of quantitative easing is turning into quantitative tightening and interest rates, at least in the US and UK, are slowly edging up.

The UK remains consumed by Brexit, while Europe, not immune itself from the UK leaving the EU, has its own little local difficulties represented by anti-government protests in France, the ever-present political chaos in Italy and a German automotive industry coming to terms with changes in emissions legislation, which is having a disproportionate effect on the country's economy.

Tech stocks have seen notable falls in recent months, Amazon and Apple both falling by more than a third during the last quarter. The companies in question remain world beating innovators but investment in them is something of a rollercoaster and at times they can make you scream.

Happily for the rest of us there are more comfortable rides in the fairground.

UK equities, universally unloved, are yielding an average of 4.3%. More selective equity income funds are paying dividends of closer to 5%. The companies generating these income streams have weathered political and economic storms before and emerged stronger as a result.

The UK stock market appears priced for a worst case scenario and represents a fantastic buying opportunity, especially for overseas investors benefitting from the fall in sterling.

The US Federal Reserve, under its relatively new chairman, Jerome Powell, is committed to "normalising" interest rates after a decade of emergency measures but is also tasked with promoting the conditions for economic growth and maintaining inflation at a steady 2%.

Recent indicators have suggested the pace of growth in the US is slowing but the data indicate the economy continuing to grow at a rate of 2.5%, in line with long term trends. Unemployment is low, average wages are continuing to rise while inflation, helped by a decline in oil and commodity prices, remains benign.

Analyst forecasts for up to three one quarter point rises in US rates are being hastily revisited and, depending on how the effect of previous rate tightening feeds through, and the progress made in trade talks with China, we may see the Fed adopting a much more cautious approach during 2019 than had been expected in the run up to the New Year.

Comments made after the last rate hike in December indicate the Fed being data dependent with no pre-set course for monetary policy. This could be interpreted as a desire to elongate this cycle for as long as possible.

Emerging markets, down 14% last year, continue to represent the best prospects for long term growth in the global economy.

Having been hit by fears of a slowdown in China, forecasts of higher US interest rates and a strong dollar, any moderation in monetary tightening by the Fed, a fall back in the dollar or signs of a breakthrough in US/China trade talks should provide a significant boost not only to the region's stock markets but also the underlying currencies which have been undermined during 2018.

Europe and Japan are not without their idiosyncratic concerns and both remain very dependent upon momentum being maintained in the global economy. However, while there are no initiatives to address the structural imbalances that persist in the European Union or the demographic issues in Japan, valuations appear attractive in both markets.

Any period of transition brings with it a degree of turbulence, especially after such a long period of growth and prosperity and the volatility that characterised the final quarter of 2018 is likely to stay with us for some little time. These bumps though must not be allowed to throw us off track.

The current environment offers multiple investment opportunities. While headline writers find easy copy in old testament forewarnings of impending storm and pestilence, investors would do better to bring to mind one of the great maxims of the American billionaire investor Warren Buffett, "Be fearful when others are greedy, and greedy when others are fearful". It is through times like these that the bedrock of long term investment is laid down.

Staying the Course

When investing, it is vital to remember your long-term goals. Investing in markets is the most traditional and illustrious method of achieving them. However, even multi asset investors find it is not always a smooth run and returns can be influenced by many factors, some immediately visible, others which are related to sentiment.

Some private investors aspire to 'time the market', a phenomenon that refers to entering a market during up-trends whilst exiting during down-trends, in other words, benefiting from the good times whilst averting the bad. In theory this sounds like the perfect investment strategy, however without access to wide ranging market information it can end badly.

History has taught us that it is very, very difficult to predict when the optimal time for either move is.

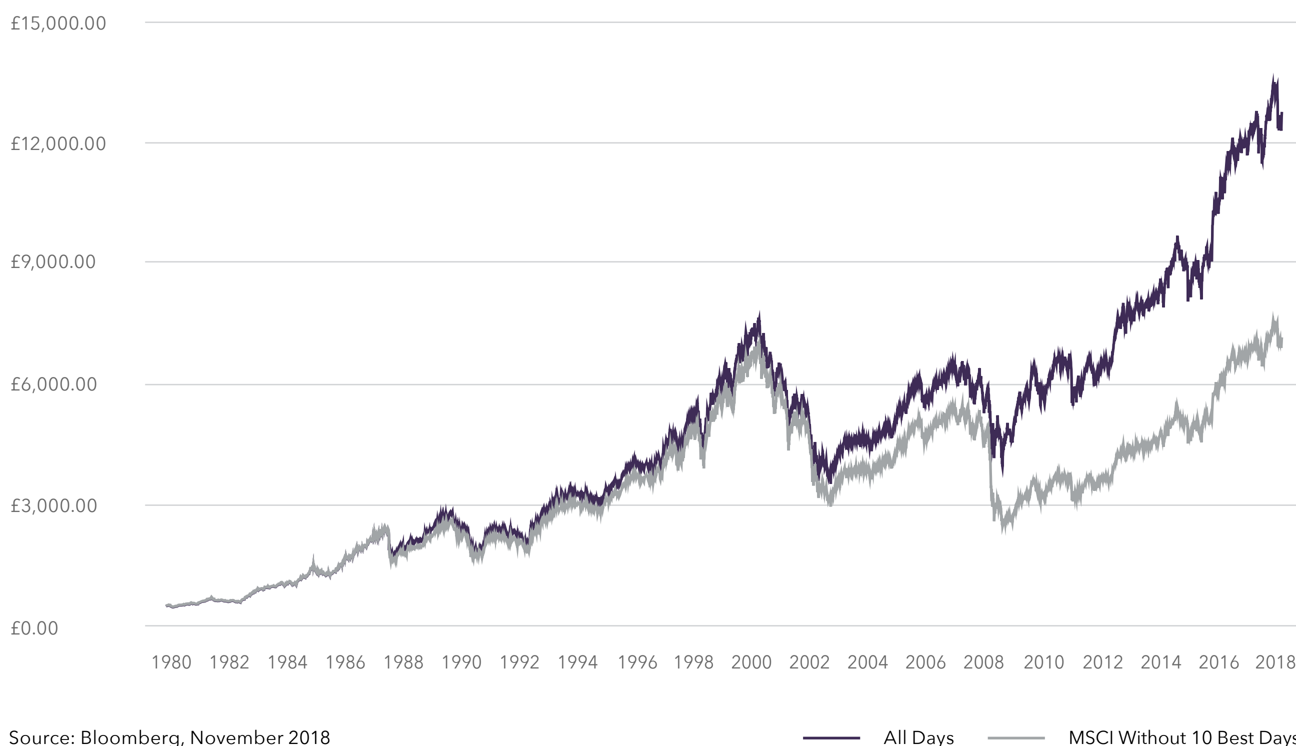
Market cycles are infamously unpredictable and can last anywhere from a matter of weeks to several years as we are experiencing now.

The best course of action at the outset is to be candid about your investment time horizon. If it is very short and you need to access funds prematurely you must think very carefully about your capacity for investing.

We can give an example of the importance of staying invested by using global equities represented below by the Morgan Stanley Capital Index. Granted, this is a single asset class, and not multi asset, which we recommend, but it does help convey the point about not trying to be too cute on timing.

If this just means that you miss one or two days of possible market positivity what is the problem of trying to time the market?

MSCI World Performance 1980 - 2018



Source: Bloomberg, November 2018

If you were able to invest **£1,000** in 1980 in the MSCI World Index and had left it untouched then your end value would be **£11,927.90** as of December 2018.

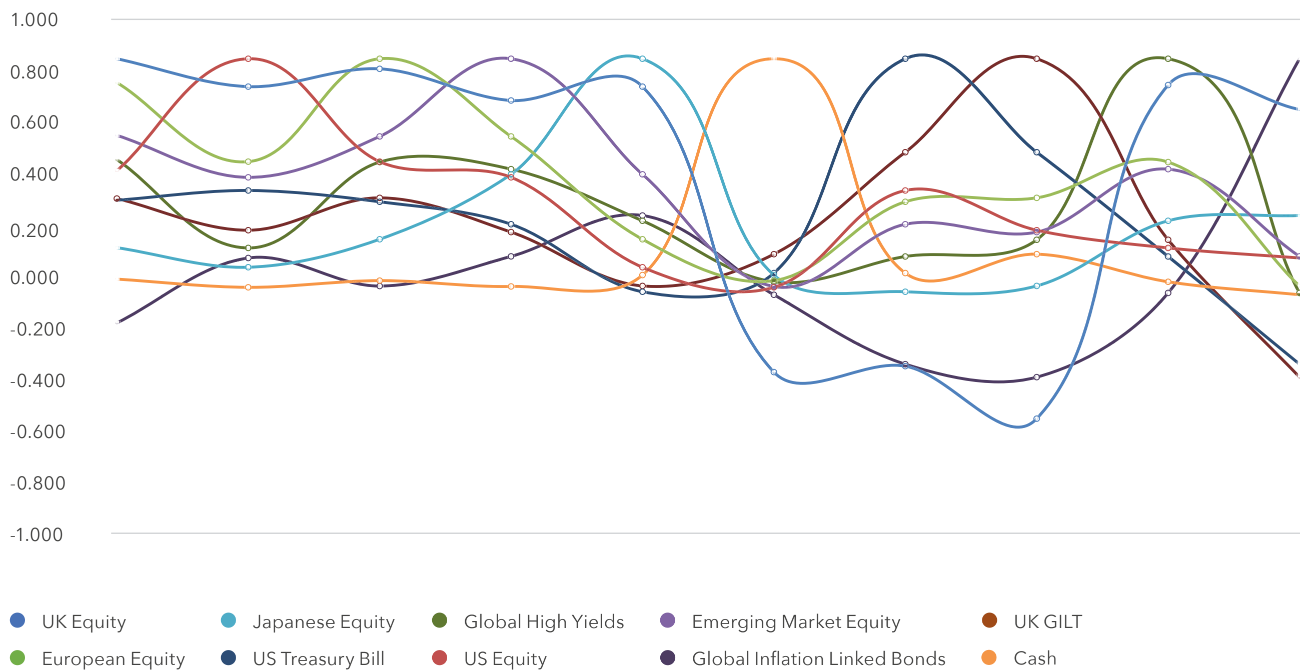
Conversely, if you'd attempted to time the market and only missed the ten best individual days of trading then your initial investment would have grown to £6,472.19; missing out on a possible £5,455.71 or 45.74% of additional returns.

In this context staying invested for the duration produces the best outcome. Of course, fund managers do not simply leave money to follow the trend of a certain market, during difficult times they utilise an array of strategies to make returns less volatile. The primary tool is diversification.

Diversification refers to the process of amalgamating an array of single asset classes in order to reduce an investor's dependence on one holding.

Effective diversification requires the combination of complementary assets that behave differently throughout various stages of the market-cycle.

Correlation between differing assets



When we use the term correlation we use values extending from 1 to -1, as shown opposite. If each asset class were to move in an identical manner, then there would be one straight line denoting a perfect positive correlation.

A value of 1 across all the assets opposite would make the wavy lines disappear. A value less than 1 is when assets are uncorrelated, less than zero they are negatively correlated. A measure of -1 is where two assets are perfectly negatively correlated. This is quite rare other than for very short periods.

A simple example, using arithmetic averages, can explain diversification. Imagine you have two investments with the same expected return, say 5%. If you invest half into each your combined average expected return stays the same at 5%. Similarly, if the two assets carry the same level of expected risk, say 10%, the average expected risk level is also 10%. Hopefully you can see the problem. If the assets perform the same there is no diversification benefit to be had.

For diversification to work you need to find assets that perform differently. If the assets are uncorrelated the level of expected risk begins to fall away. If the assets are perfectly negatively correlated (-1) they cancel each other out and the level of risk drops to zero.

Thus, with diversification you achieve a meaningful reduction in risk without compromising the expected return which stays at 5% in our example.

The benefit of this approach is that rather than taking money out during market volatility and potentially missing positive gains, investors can spread out their capital to other asset classes that perform differently.

Correlation is not a static measure, it shifts over time. This is why our manager partners look to invest across a range of asset classes and investment styles adjusting exposures through the cycle.

This helps dampen volatility from investing in riskier asset classes which can also deliver healthy returns when prices recover.

Whilst volatility may cause unease around an investor's decision to continue their investment, history teaches us exiting prematurely at inopportune times in the cycle can be detrimental to total return. Therefore, our view is to remain focussed, stay invested and let us work on your behalf to meet your investment goals.

The Value of Income Investing in Decumulation

Using savings or investments to generate a source of income via capital withdrawals is commonplace, but there is another method.

Income investing is about putting money to work in the financial markets to generate a regular income stream which will keep pace with rising inflation.

The True Potential Cautious Income and Balanced Income portfolios utilise income focused multi-asset funds. They are set up with the investment objective of providing a sustainable income stream without depleting the underlying capital sum invested. For example, a client with £300,000 invested in the True Potential Balanced Income portfolio yielding 3.91% could take a gross annual income of £11,730, leaving the principal (initial sum invested) intact.

Fund managers achieve this through a range of strategies such as buying higher yielding equities, buying corporate debt offering higher risk adjusted yields or employing income enhancing strategies such as covered call writing - selling the right to buy shares they own at a certain price, for which they are paid a premium.

For longevity of returns our investment partners take a prudent approach, opting to invest predominantly in higher quality assets which provide a regular income stream through interest and dividends.

For example, companies which have a discipline to pay out a regular dividend are often considered of higher grade and can provide a useful source of capital appreciation over the longer term. This builds up the investment value to be accessed at a later stage or passed on to the next generation avoiding the need to deplete capital.

The investment lifecycle

The lifecycle of investment for many individuals has two distinct phases, accumulation and decumulation. The duration of these periods will differ depending on the individual's circumstances and investment objectives, all of which require careful thought.

If the goal is to finance retirement, how long will that period be? How much money is needed at the end of the accumulation period to enable you to make the required withdrawals during the decumulation period to finance lifestyle objectives, and what if the requirements for income change up or down. It could be that the level of income is set too high and surpluses are left in cash, wasting the opportunity to grow in a meaningful way.

This hunt for the 'perfect withdrawal rate', which aims to ensure money continues to be available throughout retirement, is a difficult one but forms an essential part of financial planning. Simulations to calculate this rate incorporate numerous assumptions which are uncertain, based on expectations around income needs, inflation and market performance.

Setting the correct amount of capital aside to generate income should not be a once only decision as adjustments will invariably have to be made over the years. How this capital is deployed to generate income is very important. A low interest rate environment makes the hunt for income a difficult one in single assets. Adopting a multi-asset approach provides the ability for managers to remain active and continue to provide an income in a range of market conditions.

As with all True Potential Portfolios our Cautious Income and Balanced Income approach is one of diversification as the ability to generate secure and growing income is not restricted to any one asset class, industry or country.

Fund / Portfolio	Yield
True Potential Close Brothers Cautious Income	3.87%
True Potential Goldman Sachs Income Builder	4.00%
True Potential Threadneedle Monthly Income	4.41%
True Potential Schroders Cautious Income	3.30%
True Potential Cautious Income Portfolio	3.94%
True Potential Balanced Income Portfolio	4.07%

Fund/Portfolio as at 31st December 2018

Fund Manager Partner Survey 2019

As we embark on 2019, our fund manager partners forecast which asset classes they believe will perform well this year. As always, the views and opinions between them differ and this remains one of the key elements of the advanced diversification that lies at the heart of the True Potential portfolio range.

It is our job, as manager of the portfolios, to understand what factors could drive positive returns and what possible scenarios could negatively influence them. We look for areas where there is consensus as well as disagreement among our partners. Ultimately, we have to take a view and form our own opinion on whether the investment case stacks up.

We asked our managers to focus on the areas of the market they considered the most attractive and those they were likely to be underweight.

Which asset classes do you think will be the best performing during 2019?

Emerging Market Bonds and **Emerging Market Equities** were both ranked highly by our partners. Emerging Markets still face some headwinds in the form of rising US interest rates, dollar strength and the continuing trade wars between China and the United States. However, these have largely been priced into valuations making EM assets considerably cheaper than 12 months ago.

Japanese and **European equities** are both viewed favourably and remain supported by their respective central banks. Japan should benefit from the re-election of Prime Minister Shinzo Abe and the continuation of his economic policy plan dubbed 'Abenomics'.

In Europe corporate earnings are at post crisis highs and attractive valuations but our partners are conscious of populist forces in Germany, France and Italy.

Alternatives is a broad classification and includes anything that is a non-traditional asset. This is one of the areas that has attracted differing opinions but overall is regarded positively. Managers are attracted by the low correlation of alternatives to traditional equity and bond markets but others contend that finding low volatility, lowly correlated liquid alternatives may be challenging.

Which asset classes may remain out of favour during 2019?

UK Equities may remain undervalued due to continued Brexit uncertainty. However, once a clearer picture emerges of exactly what the future relationship with Europe is likely to be, our manager partners would expect value to return to the market.

Asia Pacific Equities have been hindered by a slowing China and the trade dispute with the US. Valuations remain attractive, though, and the economic fundamentals remain sound.

Gilts divide opinion. Regarded by some as a way to reduce risk in the event of a hard Brexit, others feel that in this event sterling would depreciate and cause inflation expectations to rise, potentially forcing the Bank of England to put up interest rates. Most of our partners agreed that gilts would be hurt in a soft Brexit scenario.

Similarly, **Global Inflation Linked Bonds** attract contrasting views. Some of our manager partners believe that index linked bonds are overvalued in relation to their inflation forecasts while others want to guard against inflation rising to a level higher than reflected in current market expectations.

Of all the asset classes we canvassed our managers about, they were most cautious around **High Yield Bonds**. The main concern is that credit spreads are very narrow, ie the extra return investors are being given to invest in these issues, rather than investment grade bonds, is not commensurate with the additional level of risk they are being asked to take and don't offer an attractive risk/reward opportunity.

The Science behind our portfolios

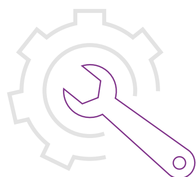
The construction of our Portfolios begins with a set of equally weighted models which correspond to the five Morningstar risk categories: Defensive, Cautious, Balanced, Growth and Aggressive.

For example, we offer nine funds within the Balanced category, therefore if no preference was given to one fund over another, an equally-weighted allocation to each fund would be 11%.

When we build our True Potential Portfolios, we tactically allocate away from the equally-weighted portfolios aiming for lower volatility, lower cost, higher expected returns and a better risk-adjusted return than could be expected from choosing an equal allocation.

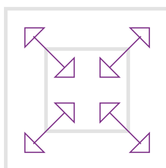
	Defensive	Cautious	Balanced	Growth	Aggressive	Cautious +	Balanced +	Growth +	Cautious Income	Balanced Income
Risk (Volatility)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Risk (Mapped)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Cost	✓	✓	✓	✓	✓	✓	✓		✓	✓
Long-Term Expected Return	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Risk-Adjusted Return	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Income									✓	✓

With investing your capital is at risk. Investments can fluctuate in value and you may get back less than you invest.



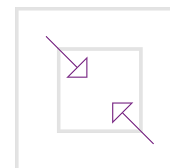
Risk (Baseline Portfolios)

Risk is estimated using the asset composition of each Portfolio. We use 'standard deviation', a measure to show how volatile the portfolios are. Where the measure of standard deviation is higher, the more volatile we judge the portfolio to be. We construct separate portfolios for each of the five risk categories containing all of the funds mapped to that risk category. When we optimise these Portfolios, we try to ensure they are lower risk than an equally-weighted Portfolio containing the same funds.



Risk (+ Portfolios)

Our three + Portfolios use funds outside the Portfolio's own risk category. For example, the Balanced + Portfolio does not include any Balanced funds but achieves the required risk profile by using funds from the Defensive, Cautious, Growth and Aggressive ranges. When we optimise for the + Portfolios, we are aiming for an improvement in the long term performance, accepting that volatility at times may be at the higher end of the risk bands applicable to each risk category.



Risk (Income Portfolios)

Our two Income Portfolios use all available income funds from the Cautious, Balanced and Growth risk categories. We then allocate accordingly to create one Portfolio mapped to the Cautious risk category and one mapped to the Balanced risk category.

Cost

This is an important factor as costs reduce future returns. This is why we build our Portfolios with the objective of being lower cost than an equally-weighted Portfolio. However, it should be noted that at times the choice may lie between lower cost and higher risk. Statistically/historically the impact from risk is disproportionate to the impact from cost. We are also proud to say that our funds are already amongst the lowest cost in the market.

Expected Return

When our Fund Managers change the underlying assets in our funds, the Portfolio compositions change. We analyse the expected returns for each of our funds and may rebalance the portfolios in order to help generate the best returns.

Risk-Adjusted Return

Risk-adjusted return is based on future expected returns for each Portfolio, minus the risk-free rate of return, divided by the level of expected volatility calculated for each portfolio. Our objective over time is to manage the portfolios to achieve the best risk-reward trade off.

True Potential Portfolios

Each True Potential Portfolio contains all of the funds available within its risk category. The True Potential Portfolios have an enormous degree of diversification, meaning they are less prone to highs and lows relative to our + portfolios. We optimise the portfolios with the objective of being lower risk than an equally-weighted portfolio. In addition, the True Potential Portfolios do not have an income focus, which makes them very different to our Income Portfolios.

However, when investing in a True Potential Portfolio, some clients are happy to take an income by selling units. Below are the optimisation results for the True Potential Portfolios. We always aim to optimise across all factors where possible. However, sometimes we may place more emphasis on one factor over another.

Strategy Allocation

Defensive

Strategy	Allocation
Manager of Managers - True Potential SEI Defensive	24.00%
Active Management with Passive Implementation - True Potential 7IM Defensive	22.00%
Agile, Low-Cost Value Investing - True Potential UBS Defensive	28.00%
Active Engagement, Positive Alignment - True Potential Growth Aligned Defensive	26.00%

Cautious

Strategy	Allocation
Manager of Managers - True Potential SEI Cautious	15.25%
Active Management with Passive Implementation - True Potential 7IM Cautious	16.00%
Direct Equity & Bond Investing - True Potential Close Cautious	17.00%
Momentum with Volatility Control - True Potential Allianz Cautious	11.00%
Fund of Funds - True Potential Schroders Cautious	9.00%
Agile, Low-Cost Value Investing - True Potential UBS Cautious	17.00%
Active Engagement, Positive Alignment - True Potential Growth Aligned Cautious	14.75%

Balanced

- **Manager of Managers** - True Potential SEI Balanced 16.00%
- **Active Management with Passive Implementation** - True Potential 7IM Balanced 11.00%
- **Direct Equity & Bond Investing** -True Potential Close Balanced 16.00%
- **Momentum with Volatility Control** - True Potential Allianz Balanced 10.00%
- **Fund of Funds** - True Potential Schroders Balanced 3.50%
- **Alternative Dynamic** - True Potenital Goldman Sachs Balanced 7.50%
- **Income Funds** - True Potential Goldman Sachs Income Builder 7.00%
- **Agile, Low-Cost Value Investing** - True Potential UBS Balanced 16.00%
- **Active Engagement, Positive Alignment** - True Potential Growth Aligned Balanced 13.00%

Growth

- **Manager of Managers** - True Potential SEI Growth 16.00%
- **Active Management with Passive Implementation** - True Potential 7IM Growth 13.00%
- **Direct Equity & Bond Investing** - True Potential Close Growth 20.50%
- **Momentum with Volatility Control** - True Potential Allianz Growth 15.00%
- **Agile, Low-Cost Value Investing** - True Potential UBS Growth 18.50%
- **Active Engagement, Positive Alignment** - True Potential Growth Aligned Growth 17.00%

Aggressive

- **Manager of Managers -** True Potential SEI Aggressive 25.00%
- **Active Management with Passive Implementation** - True Potential 7IM Aggressive 19.00%
- **Agile, Low-Cost Value Investing** - True Potential UBS Aggressive 28.00%
- **Active Engagement, Positive Alignment** - True Potential Growth Aligned Aggressive 28.00%

True Potential Portfolios

Asset Allocation

Asset Class	Defensive	Cautious	Balanced	Growth	Aggressive
UK Equities	5.62%	11.08%	13.46%	17.91%	21.74%
North American Equities	11.88%	15.79%	22.39%	28.01%	34.62%
European Equities	5.12%	7.57%	9.74%	11.51%	12.40%
Japanese Equities	3.07%	4.18%	5.20%	6.24%	8.00%
Asia Pacific Equities	0.65%	1.27%	2.21%	2.86%	2.53%
Emerging Market Equities	1.97%	3.97%	6.59%	8.92%	11.99%
Global Bonds	16.36%	13.84%	9.37%	5.05%	0.75%
Global Inflation Linked Bonds	2.39%	1.72%	1.46%	1.07%	0.34%
Emerging Market Bonds	1.59%	2.09%	2.59%	2.04%	0.77%
Global High Yield Bonds	1.77%	1.73%	4.50%	1.02%	0.00%
UK Gilts	6.45%	7.91%	4.42%	2.93%	0.45%
UK Credit	4.57%	6.61%	5.80%	3.49%	2.06%
Property	0.13%	0.06%	0.33%	0.26%	0.27%
Commodities	1.35%	2.05%	1.79%	2.09%	1.04%
Cash	37.07%	20.13%	10.15%	6.60%	3.04%

Source: Smith & Williamson, 31 December 2018

+ Portfolios

The + group of portfolios are more concentrated in their fund selection, containing larger fund positions than their risk category equivalents in the True Potential Portfolios. The + portfolios are constructed using funds from right across the risk spectrum, while staying within the risk band for their risk category.

The + portfolios do not include funds from the same risk category to which the portfolio is mapped. In other words, the Balanced+ Portfolio does not select funds mapped to the Balanced risk category. To optimise the portfolios in the + category we select from all of the funds outside of the portfolios' respective risk category. This approach enables us to optimise across all factors although sometimes we may place more emphasis on one factor over another.

Strategy Allocation

Cautious +

- **Manager of Managers** - True Potential SEI Defensive 31.0%
- **Direct Equity & Bond Investing** -True Potential Close Balanced 16.5%
- **Fund of Funds** - True Potential Schroders Balanced 6.5%
- **Active Management with Passive Implementation** - True Potential 7IM Growth 8.0%
- **Momentum with Volatility Control** - True Potential Allianz Balanced 10.0%
- **Agile, Low-Cost Value Investing** - True Potential UBS Growth 14.5%
- **Alternative Dynamic** - True Potenital Goldman Sachs Balanced 4.5%
- **Active Engagement, Positive Alignment** - True Potential Growth Aligned Defensive 9.0%

Balanced +

- **Manager of Managers** - True Potential SEI Cautious 30.0%
- **Direct Equity & Bond Investing** - True Potential Close Growth 19.5%
- **Active Management with Passive Implementation** - True Potential 7IM Aggressive 9.5%
- **Momentum with Volatility Control** - True Potential Allianz Growth 11.0%
- **Agile, Low-Cost Value Investing** - True Potential UBS Aggressive 15.5%
- **Fund of Funds** - True Potential Schroders Cautious 2.0%
- **Active Engagement, Positive Alignment** - True Potential Growth Aligned Cautious 12.5%

Growth +

- **Direct Equity & Bond Investing** -True Potential Close Balanced 24.0%
- **Manager of Managers** - True Potential SEI Aggressive 26.0%
- **Active Management with Passive Implementation** - True Potential 7IM Aggressive 8.0%
- **Agile, Low-Cost Value Investing** - True Potential UBS Aggressive 27.0%
- **Momentum with Volatility Control** - True Potential Allianz Balanced 6.0%
- **Active Engagement, Positive Alignment** - True Potential Growth Aligned Aggressive 9.0%

Asset Allocation

Asset Class	Cautious +	Balanced +	Growth +
UK Equities	10.59%	15.80%	20.53%
North American Equities	19.01%	24.85%	31.25%
European Equities	9.02%	10.71%	12.83%
Japanese Equities	4.96%	5.15%	6.56%
Asia Pacific Equities	1.86%	2.12%	2.65%
Emerging Market Equities	5.62%	7.12%	9.45%
Global Bonds	9.29%	8.09%	1.50%
Global Inflation Linked Bonds	1.54%	1.56%	0.33%
Emerging Market Bonds	2.21%	2.33%	0.47%
Global High Yield Bonds	2.41%	1.89%	0.06%
UK Gilts	5.13%	4.74%	2.89%
UK Credit	5.09%	3.29%	4.35%
Property	0.22%	0.20%	0.22%
Commodities	1.80%	1.95%	1.77%
Cash	21.25%	10.20%	5.14%

Source: Smith & Williamson, 31 December 2018

With investing, your capital is at risk. Investments can fluctuate in value and you may get back less than you invest.

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Income Portfolios

Each Income Portfolio in the True Potential Portfolios range is focused on yield and income sustainability so we have income as an additional optimisation factor.

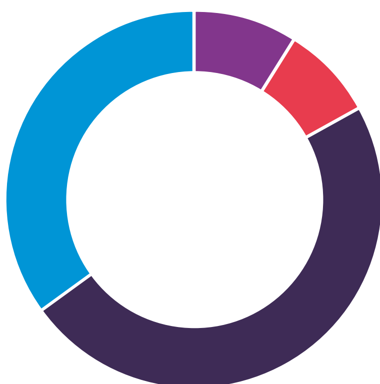
Given that investors in these portfolios are seeking income above capital growth, the income optimisation factor is our primary consideration. We have optimised on all factors for both portfolios; income, risk, cost, long-term expected return and risk-adjusted return.

Source: Goldman Sachs, Close Brothers, Threadneedle and Schroders, 31 December 2018

Strategy Allocation

Cautious Income

Direct Equity & Bond Investing - True Potential Close Cautious Income	34.5%
Income Focused - True Potential Threadneedle Monthly Income	10.0%
Income Funds - True Potential Goldman Sachs Income Builder	40.5%
Fund of Funds - True Potential Schroders Cautious Income	15.0%



Balanced Income

Direct Equity & Bond Investing - True Potential Close Cautious Income	9.0%
Income Focused - True Potential Threadneedle Monthly Income	8.0%
Income Funds - True Potential Goldman Sachs Income Builder	48.0%
Fund of Funds - True Potential Schroders Cautious Income	35.0%

Asset Allocation

Asset Class	Cautious Income	Balanced Income
UK Equities	23.83%	34.85%
North American Equities	12.66%	13.99%
European Equities	6.26%	6.26%
Japanese Equities	0.84%	0.63%
Asia Pacific Equities	0.86%	0.80%
Emerging Market Equities	0.03%	0.02%
Global Bonds	8.30%	8.96%
Global Inflation Linked Bonds	0.51%	0.13%
Emerging Market Bonds	0.87%	0.88%
Global High Yield Bonds	13.63%	16.15%
UK Gilts	1.78%	0.52%
UK Credit	13.13%	9.98%
Property	5.31%	1.72%
Commodities	2.65%	1.05%
Cash	9.34%	4.06%

Source: Smith & Williamson, 31 December 2018

Part of the True Potential group.

tpllp.com/portfolios

With investing, your capital is at risk. Investments can fluctuate in value and you may get back less than you invest. Past performance is not a guide to future performance. The contents of this magazine should not be interpreted as personalised financial advice.

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