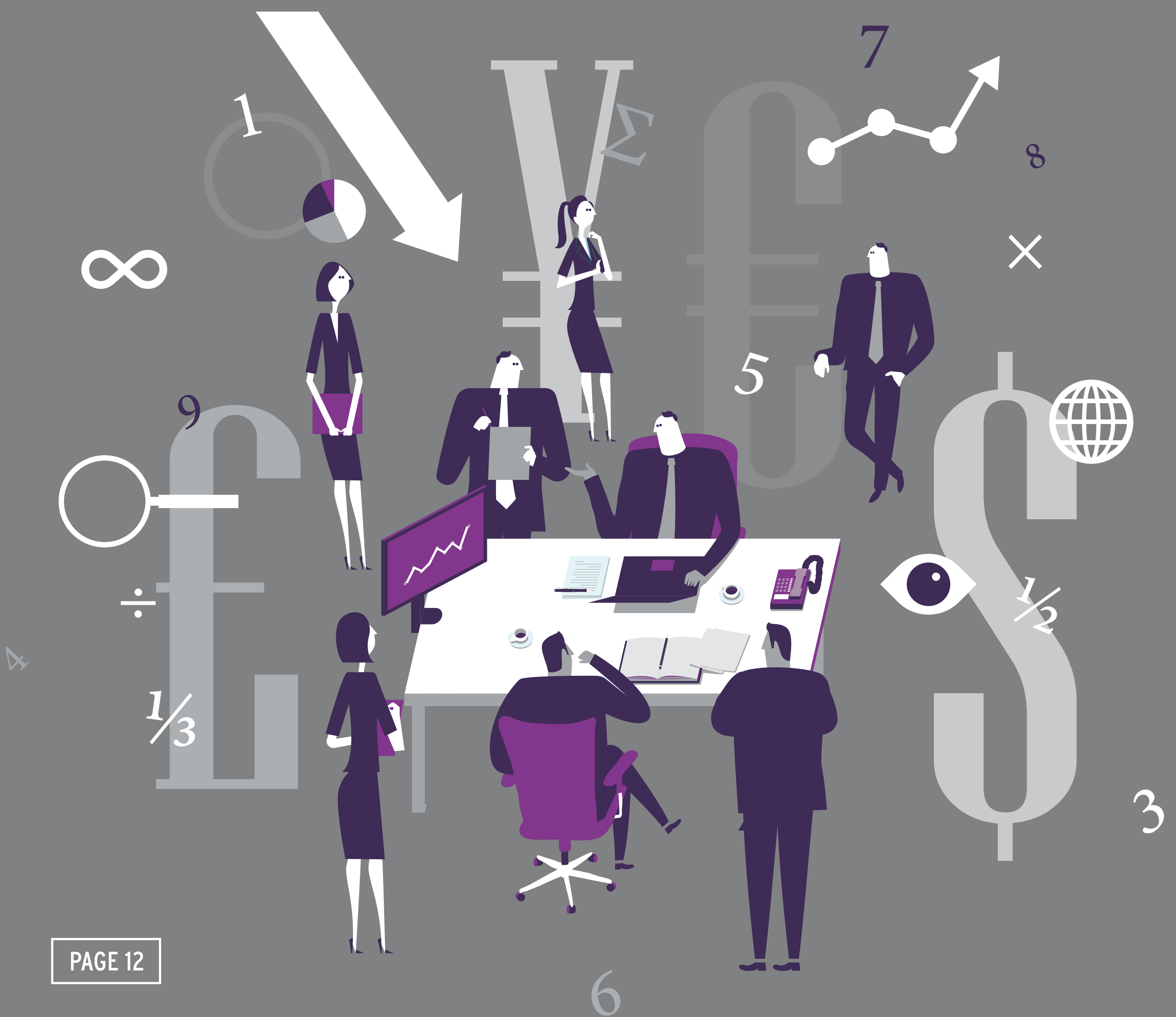
TRUE

INSIGHT

True Potential Portfolios | Issue 12



PAGE 12

Investment Planning

Savers make different investment choices because choosing how to invest for the best outcome isn't easy.

true potential investments

Contents

04 **Performance Update**
A review of how the True Potential Portfolios are performing

06 **Review of the Markets**
An overview of the markets and their behaviour in Q3 2018

07 **Investment Outlook**
We share the views of our investment partners on the future direction of the markets

08 **Portfolio Spotlight**
An overview of Portfolio allocation and performance

10 **Critical Factors**
An introduction to Factor Based Investing: what it is and how it aids diversification

12 **Investment Planning**
Why effective asset allocation is essential

16 **Social Mobility Pledge**
True Potential is a founding partner of the national Social Mobility Pledge

18 **Science Behind our Portfolios**
An overview of Portfolio allocation and performance

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

Happy Birthday to us! October marked the third anniversary of the True Potential Portfolios.

Launched in October 2015, by the end of that year the ten Portfolios had a total of £70 million under management.

Three years on and there are two additional fund ranges – UBS and our own Growth Aligned funds - while assets under management in the Portfolios have grown to £5.2 billion.

Much has happened in that time. Britain has voted to leave the European Union and with that decision acquired a new prime minister. Internationally, too, the political order has been reformed. Marking an abrupt change of political ideology and personal character Donald Trump has replaced Barrack Obama in the White House.

In China President Xi has had himself elected premier for life and is playing immovable object to Trump's irresistible force as their tit for tat trade wars play out on the world stage.

President Macron, with a party barely anyone had heard of, swept to power in France and although Angela Merkel is hanging on in Germany a wave of populism, fuelled by anti immigration protest is undermining the established political order across Europe, most notably in yet another Italian coalition government.

The last three years have also witnessed a sea change in prospects for the global economy. Regarded as fragile and patchy in 2015, the recovery has gathered pace to become self sustaining.

The support of Quantitative Easing is gradually being withdrawn and the tide of easy money replaced by a sterner regime of rising interest rates as central banks return to "normality". Or what they believe now passes for it.

The world seems an uncertain place but in truth it always was. The outlook in October 2015 was no clearer then than it is today and yet over that time the Defensive Portfolio has returned 13.7% with the equity heavy Aggressive Portfolio up 45% since launch.

On page 7 we address some of the issues facing investors at the moment and on page 10 we look at on Factor Based investing, what it is and the way it systematically targets attractive investment characteristics.

On page 12 we look at investing in all environments and examine the performance of assorted asset classes over the decade since the global financial crisis.

What stands out is that no single asset class has been the best – or worst – performer over two consecutive years, highlighting the fact that, as ever, diversification remains key.

After the summer lull volatility is beginning to pick up but such movements are part and parcel of investing and the beauty of multi asset investing is that there is always value to be found.

While we celebrate the achievements of the last three years our focus remains steadfastly forward looking and, with our management partners, we stand ready to take advantage of the opportunities such market movements invariably unearth.

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	30 Sept 2015 to 30 Sept 2016	30 Sept 2016 to 30 Sept 2017	30 Sept 2017 to 30 Sept 2018	1 Oct 2015 to 30 Sept 2018
Defensive	+8.33%	+3.24%	+1.65%	**+13.69%**
Cautious	+11.57%	+4.91%	+2.61%	**+20.10%**
Cautious +	+10.57%	+5.82%	+3.12%	**+20.66%**
Cautious Income	+12.70%	+6.61%	+1.78%	**+22.29%**
Balanced	+14.22%	+8.27%	+3.87%	**+28.45%**
Balanced +	+15.72%	+8.24%	+4.84%	**+31.32%**
Balanced Income	+14.39%	+7.82%	+2.46%	**+26.36%**
Growth	+17.87%	+10.63%	+5.87%	**+38.05%**
Growth +	+15.57%	+12.05%	+7.00%	**+38.56%**
Aggressive	+19.88%	+12.85%	+7.23%	**+45.07%**

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Review of the Markets: Q3 2018

Global equity markets ended the quarter in positive territory, up 5.1%, providing a continuation of the good returns we have seen this year.

The **US** continues its record-setting run, returning 10.6% so far this year and 7.7% over the quarter to be the best performing principal stock market. Over the period, the US Federal Reserve signalled a gradual pace of interest rate rises amid signs of economic expansion and double digit corporate profit growth which have boosted returns.

The so called FAANG stocks (Facebook, Amazon, Apple, Netflix and Google) remained firmly in the news with Apple the first US firm to reach a **$1trn valuation** driven by strong sales of their flagship product, the iPhone, and a huge capital returns programme running into hundreds of billions of dollars.

The **UK**, by contrast, was lacklustre, slipping back 0.70% over the quarter as investors weighed the effects of escalating trade tariffs and their impact, particularly on sectors such as mining. Sterling was volatile over the period, trading in a range of 1.27 to 1.32 against dollar, reflecting ceaseless commentary on life after Brexit and the ever changing mood music from Brussels and Michel Barnier, the EU's Chief Negotiator.

The Bank of England's Monetary Policy Committee voted unanimously to increase the UK's base rate at its August meeting in response to sustained growth in the economy. This was well anticipated and will allow the MPC to pare back rates if necessary next year.

Europe produced some strong returns over the quarter (+2.4%) as nervousness around Italy and fear of contagion from the collapse of the Turkish Lira abated. Worries that Italy could leave the Eurozone have eased with a more pro-European stance being taking by the Italian Government.

Divergence continued to be a theme within **Emerging Markets** which, overall, drifted back over the quarter (-1.0%). High profile currency collapses in Turkey and Argentina attracted headlines but, reflecting a greater resilience among the majority of developing economies, there has been no sign of the contagion, or domino effect, which has characterised previous bouts of turbulence. Sentiment towards the asset class has not been helped by bellicose trade war posturing. However, there is now a clear divergence in Emerging Market valuations which appear cheap, particularly compared to the US.

Apple is the first US firm to reach a $1trn valuation

Within lower risk assets, bond markets showed generally negative returns over the quarter, with the higher quality areas struggling the most as investors looked towards yields climbing in the UK with interest rates continuing to edge higher. The two areas that bucked the trend were global high yield bonds and Emerging Market bonds, with investors looking at the latter believing that Emerging Market currencies are now pricing on cheap valuations.

In summary:

A good quarter in general for equity returns with the US continuing its strong run. The question now is whether other areas will start to catch up and will the divergence in returns we have witnessed so far become a convergence. If this shift begins we can expect some volatility, unpleasant as this can be in the short term, it will bring further investment opportunities. However, conditions continue to be favourable with companies still generally posting good earnings, economic growth overall still strong and accommodative monetary policies all providing opportunities for multi asset investors.

Investment Outlook

The synchronicity evident in the global economy at the beginning of the year has evolved into a clear divergence between the United States and the rest of the world.

In the **United States** President Trump's tax cuts have continued to power the economy and provide a positive boost to equity markets. There is a school of thought that the stimulus was merely a short term "sugar rush" that will soon fade. However, all the indications are that the effects will be longer lived and extend well into next year. Unemployment is at record lows and wages have risen in real terms, outstripping inflation. The US consumer is on a roll and confidence is high.

In addition, tax reforms have encouraged the repatriation of $2.6 trillion of overseas earnings held offshore by corporate America, much of which will be used to fund special dividends and share buy backs which should continue to drive US markets well into next year.

The way, as ever, is not entirely clear. Valuations remain full, the escalating trade war with China remains an issue while the strength of the dollar and the Federal Reserve's determination to raise interest rates twice this year and three times in 2019 could slow the economy. However, while the Fed appears resolute in its intention to "normalise" interest rates, it remains alive to the effects of continued tightening and is unlikely to pursue any policy that might jeopardise the ongoing economic expansion.

In **Europe** the embryonic stirrings of monetary tightening are also evident but at a much slower rate. Quantitative Easing is being scaled back and will end this year but Mario Draghi, President of the European Central Bank, has signalled that interest rates will not rise for at least another year.

Sabre rattling by the anti euro Italian coalition government has become more subdued in recent weeks and for all the firebrand rhetoric severe doubts remain as to whether there is the political or popular appetite for a significant confrontation with the EU.

To many of our fund manager partners Italian table thumping represents just another day at the office. They mostly retain a neutral weighting, attracted by low valuations and the promise of accommodative monetary policy but wary of the uncertainty created by the UK's departure from the European Union and the potential for Italian politics to unsettle the economic outlook as well as the political status quo.

Japan. The continuation of quantitative easing and an absence of any immediate, idiosyncratic issues have increased Japan's appeal amongst global markets. A slowing China and the potential for trade tariffs remain a near term concern but valuations remain attractive and monetary policy accommodative.

Within **Emerging Markets** opinion is divided. The troubles besetting Argentina, Venezuela, Turkey and South Africa appear localised and specific with little risk of developing into a wider crisis. The double digit fall in the Chinese stock market this year is a reminder of how volatile emerging markets can be but managers with large positions in developing economies are, by and large, maintaining their holdings, regarding the current volatility as a necessary cost of harvesting the long term rewards that accrue from investing in the region.

In the **UK**, currency sensitive blue chip companies have been undermined by sterling weakness, a step up in the rhetoric around Brexit and by lacklustre commodity prices which have impacted upon the resource heavy main index. That said, economic growth continues to surprise, valuations remain attractive and the technical indicators point to a market very oversold and due for a bounce back.

Whether the global markets' current drifting just reflects the end of a quiet summer or indicates a more substantial inflexion based on a peak in global liquidity and a general tightening of monetary policy remains to be seen. In the meantime, market movements continue to expose opportunities which we remain perfectly positioned to capture.

Q+A

Under the Spotlight

In this issue of Under the Spotlight Barney Hawkins, our Investment Director and Fund Manager talks to Paul Durrans about whats been happening to markets around the globe.

Since the last edition of True Insight, how have markets changed?

The US market has been the best performing market, up nearly 8% over the third quarter, building on the strong returns which we've seen over the past year. US businesses have been reporting their latest set of accounts which have been impressive. Results in the first quarter were excellent but the second quarter has been even better with 80% of companies reporting better than expected results.

Loose monetary conditions and the recent tax cuts have energised the US economy and we expect this effect to continue for the rest of this year.

Looking at currencies, the US dollar has continued to rise against sterling, continuing this year's trend. With only around 150 days to go until the UK leaves the EU, how does this affect the portfolios?

Within the portfolios we deploy several different currency strategies through the managers we use. Some fully hedge their funds back to sterling, some half hedge their equity exposure, while others don't make any currency calls. Having various strategies helps with diversification and is designed to stop us becoming too exposed to the effects currency can have.

Of course, we've benefited at times from currency weakness. Holding foreign assets provides a windfall when sterling depreciates. Also, large UK international stocks, which have overseas earnings, receive an uplift when they convert these back to sterling.

Looking at the portfolios, I see we've been adding to the new True Potential Growth Aligned Funds in both the Managed and Plus portfolios. What are the reasons for this and can you give a bit of colour on how the funds have been positioned but also importantly on how they're performing?

It's early days for the Growth Aligned Range but the funds are performing well. In the UK we've placed a greater emphasis on the domestically orientated mid cap stocks rather than the more currency sensitive blue chips. We've been overweight US equities and in particular US smaller companies which has also served us well. We've been reducing our exposure to Emerging Markets which are coming under pressure from rising US rates and a stronger dollar and we've also been trimming Europe slightly as we watch what happens in Italy.

We've retained an overweight position in short dated bonds which has helped keep risk down and the low-cost charging structure means that we've been able to add to performance while reducing the overall cost of the True Potential Portfolios.

In terms of the manager partners, we've been overweight to the likes of UBS, SEI and Close Brothers. Have these been the right calls?

Absolutely. Close Brothers have had a very good month. They invest in direct equities and have been afraid to run some of their American stocks which have done very well. UBS has also been strong.

Their asset allocation has been spot on with a large overweight to the US. The currency fund element always has the potential to be volatile in the short term but is a valuable diversifier and has a very good track record. SEI, again has got its positioning right, overweight the US and underweight Emerging markets.

Looking ahead, are you confident that markets will continue to perform well towards the end of 2018?

It's worth remembering that the global economy is continuing to grow robustly. And, while interest rates are going up, they're rising only very gradually and are likely to peak far below levels seen in previous economic cycles. The currency fluctuations we have seen, particularly among certain emerging markets are part and parcel of a normal economic cycle and will present very attractive opportunities in due course.

Investing is a long-term game and any short-term pull back in some markets is an opportunity to get in at attractive levels. The benefit of the multi asset, advanced diversification approach is that our clients' investments are spread across a multitude of different assets, industries, regions and investment styles with our managers always able to allocate funds to the most attractive areas at any particular time.

Critical Factors

An introduction to Factor Based investing.

Diversification has long been used as a means of reducing investment risk while enhancing long term returns.

Our mantra of "Advanced Diversification" seeks to do just that – combining a diverse range of assets (equities, bonds, cash, property, commodities, currencies) employing myriad instruments (direct equities/bonds, collectives, futures, structured products) across a broad range of investment strategies to generate a low cost, above average, risk adjusted return.

When we launched the new Growth Aligned range of funds in the summer we were keen to include exposure to new types of investments which weren't already represented in the True Potential Portfolios. Given the diversity already within TPP this was always going to be something of a challenge.

However, in the new funds we have introduced a Factor Based investment run by HSBC which should provide an additional degree of diversification to the Portfolios.

So, factor based investing. What is it?

Although investors have long attempted to reduce risk through diversification, a rigorous examination of historic returns revealed that some investment portfolios were not always as diverse as originally thought.

This was because while investors may have been looking at different stocks or sectors they were unconsciously attracted by common attributes or characteristics within these supposedly unconnected investments.

What Factor Investing attempts to do is identify and isolate/ capitalise on those characteristics that are associated with higher returns such as:

Size

For example, we know that, though volatile, smaller companies, over time, exhibit faster growth than their larger, blue chip counterparts. So, irrespective of the sector or industry the advantage of size can be a factor to try and capture.

Value

Through analysing historical returns we can also identify that those stocks where the share price does not reflect the inherent worth or fundamental value of the company are, eventually, likely to outperform the market.

Momentum

Those companies that have outperformed in the past and are, "on a roll", on average, tend to keep going and exhibit strong returns going forward.

Quality

Well run companies with good management, prudent accounting policies, positive cash flow and a history of steadily rising earnings also tend to generate above average performance.

Volatility

Those companies that, for whatever reason, exhibit less share price volatility and eke out a steady, tortoise-like return are, as in the fable, likely to do better than their more volatile, hare-like brethren.

Like many of the terms used in investment management, Factor Based investing sounds complicated, is actually fairly simple in principle, but is also the product of a lot of very complex, academic research work.

Other factors have been identified other than the principal ones highlighted and debate surrounds how much exposure should be given to each factor – whether they should be given equal status or whether some factors are more desirable than others.

A great deal of scrutiny also goes into making sure that the selected companies continue to satisfy the criteria for inclusion and that they remain the best exemplars of their particular factor. The underlying companies, representing the preferred factors in the most appropriate combination must also blend to form a balanced portfolio of international equities.

Our partners at HSBC have precisely this type of analytical expertise, which in turn enables us to concentrate on managing the new Growth Aligned range of funds and ensuring that True Potential's Diversification remains as Advanced as ever.

Investment Plans
For any Environment

Savers make different investment choices because choosing how to invest for the best outcome isn't easy.

For some, leaving cash to build in a bank account appears less risky. However, it isn't 'riskless' and this choice hasn't been sensible for a very long time now. As you can see from the chart right, returns from deposits (using the base rate as a proxy) have been extremely poor since the financial crisis in 2008.

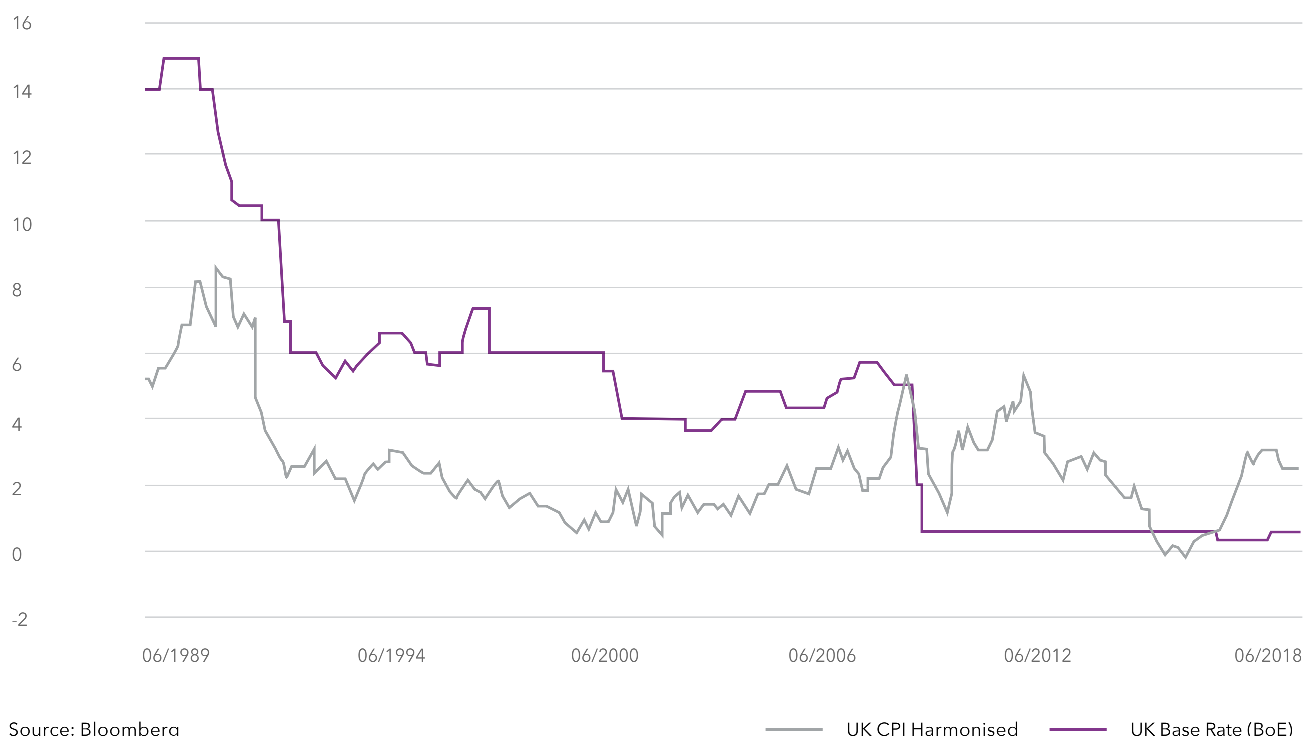
Inflation, apart from a brief spell in 2015, has continued to gnaw away at spending power. You can test the effects yourself on the Bank of England website inflation calculator. We looked at the present value today of £10,000, 10 years ago. The current value is £7,884. This is because inflation, averaging 2.7% per annum over this period, is ripping away at spending capacity. In this example £2,116 has been lost to inflation.

For long term saving a better outcome is needed. We need to choose differently and reframe our thinking. Higher return assets, individually, carry a higher risk.

However, by combining assets with different returns in a multi-asset model helps reduce that risk. Multi asset today is very different compared to its formative years. Early on, asset diversification was straightforward, with simple choices, generally UK gilts, UK equities and cash. Now there is a huge range of currencies, derivatives, commodities, strategies that work in falling markets and even different investor styles like growth and value.

Today's updated, sophisticated, asset diversification approach has a technical term, Mean Variance Optimisation or MVO.

UK Base Rates and CPI Comparison

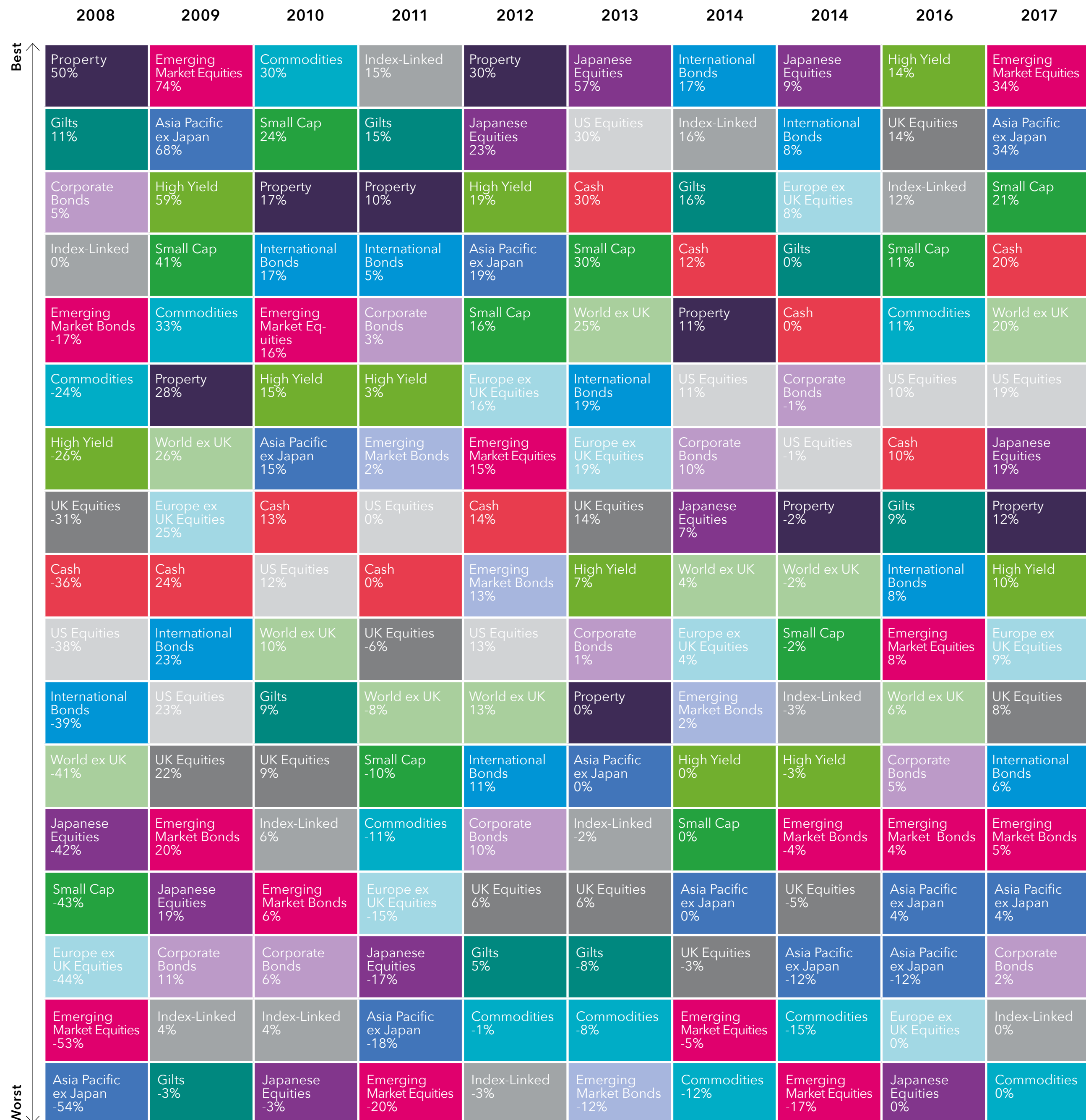


Source: Bloomberg

A common misconception about multi asset investing is that all you need is access to different assets to deliver optimum outcomes. However, for asset diversification to work effectively, investors need not only to combine different assets but investments that perform differently, at different times through a cycle to deliver optimum risk-adjusted outcomes.

The True Potential Portfolios are based on the underlying principle of optimal asset diversification. Our new Growth Aligned fund range is based on the same thinking. However, investment is also a craft.

In a globally connected world, access to a vast network of resource is required to gain insight into what constitutes the right investments.



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.

At True Potential we have a distinctive advantage. One that revolves around ten world-class investment partners. We are in a truly privileged position to discuss strategic thinking and to understand more about the most suitable choices.

This approach is focused and devoid of market noise. It rises above the confusing briefing notes from the unregulated and unaccountable financial press.

The partners we work with manage vast swathes of money, estimated at over £4trn. When we interact with them we are tracking the direction of money, not being spoon fed market rhetoric.

Our new Growth Aligned fund range represents an enhancement.

Using the new funds within our portfolios allows us to implement asset allocation decisions daily, quickly and from a position of knowledge and understanding, deduced from our unique partner relationships.

We have a plan. We can invest in any environment. And we are proud of the results shown on page 5 which illustrate how our clients are not only maintaining but also building up their spending power.

True Potential leads UK Social Mobility drive

In April True Potential became one of the first companies in the UK to sign the national Social Mobility Pledge – a campaign founded by the Harrison Foundation in partnership with former Secretary of State for Education, Justine Greening MP.

By signing the Social Mobility Pledge, businesses commit to working with schools, offering apprenticeships and adopting fair recruitment polices. The aim is to create a more level playing field where an individual's career chances are based on their talent, not where they come from or who they know.

Social mobility has been a problem in UK society for decades, and 69% of young people believe that a 'class ceiling' is holding them back in their careers.

In just six months, more than one million employees in the UK are now covered by the Social Mobility Pledge after some of Britain's largest businesses followed True Potential in signing up.

True Potential Managing Partner, and chairman of the Harrison Foundation, David Harrison, explains why he was moved to set up the Social Mobility Pledge.

"Many of today's young people will have to find their way in a world that is evolving faster than ever. Addressing social mobility means opening people's eyes to those opportunities and how to grasp them. Crucially, it also means growing businesses in the UK and attracting others to locate here. That in turn provides tomorrow's jobs and opportunities."

Through his ambitious entrepreneurial streak, he carved out his own social mobility journey and has made a hugely successful Fintech business at True Potential.

"Accent, upbringing and family connections with people at the top of organisations still unfairly influence recruitment and promotions in many workplaces," David said.

"That has always struck me as unfair to employees and counter-productive to businesses. I had to battle against that tide when I was starting out, so I was determined that True Potential should help to level the playing field for young people today. Social mobility benefits individuals, local communities, companies and the wider national economy."

Reacting to the news that over a million employees are now covered by the pledge, Justine Greening said:

"It's fantastic to see so many employees and sectors represented by the Pledge but there is more to do. I want to see a country in which talent and potential – and not upbringing or where a person is from – are the foremost considerations that determine how far you can go in life."

Here's how we've implemented the Social Mobility Pledge at True Potential:

- True Potential has partnered with the Beacon of Light School in Sunderland. It promotes education by delivering groundbreaking programmes to improve learning via engaging purpose-built classrooms, innovative teaching techniques and interactive spaces.
- More than 20 apprentices are now gaining valuable experience at True Potential, learning key IT and digital skills. Several former apprentices now have full time employed roles at True Potential.
- Working in partnership with our recruitment agencies, True Potential has adopted name-blind recruitment. This places a greater emphasis on a candidate's complete background and achievements when assessing their suitability for the roles we offer at True Potential.

The Social Mobility Pledge is A Harrison Centre for Social Mobility Initiative, proudly supported by the Harrison Foundation.

Harrison Centre for Social Mobility

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									✓	✓

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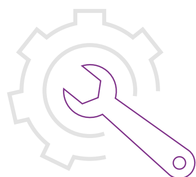
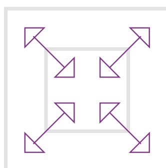


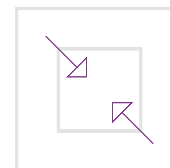
Risk (Baseline Portfolios)

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

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	**26.00%**
Active Engagement, Positive Alignment - True Potential Growth Aligned Defensive	**26.00%**

Cautious

Manager of Managers - True Potential SEI Cautious	**15.25%**
Active Management with Passive Implementation - True Potential 7IM Cautious	**16.50%**
Direct Equity & Bond Investing - True Potential Close Cautious	**16.50%**
Momentum with Volatility Control - True Potential Allianz Cautious	**11.50%**
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	**14.25%**

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	**15.50%**
●	**Momentum with Volatility Control** - True Potential Allianz Balanced	**10.50%**
●	**Fund of Funds** - True Potential Schroders Balanced	**3.50%**
●	**Alternative Dynamic** - True Potenital Goldman Sachs Balanced	**8.50%**
●	**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	**12.00%**

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	**20.00%**
●	**Momentum with Volatility Control** - True Potential Allianz Growth	**16.00%**
●	**Agile, Low-Cost Value Investing** - True Potential UBS Growth	**18.50%**
●	**Active Engagement, Positive Alignment** - True Potential Growth Aligned Growth	**16.50%**

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	6.91%	14.51%	16.78%	23.25%	25.34%
North American Equities	13.39%	17.68%	23.11%	28.22%	30.34%
European Equities	5.47%	7.05%	9.77%	10.13%	12.61%
Japanese Equities	2.99%	3.63%	5.09%	5.44%	7.12%
Asia Pacific Equities	0.69%	1.44%	2.28%	2.79%	2.22%
Emerging Market Equities	2.17%	3.46%	6.80%	10.02%	12.35%
Global Bonds	17.28%	11.31%	7.43%	3.55%	2.15%
Global Inflation Linked Bonds	2.11%	1.70%	1.22%	0.95%	0.66%
Emerging Market Bonds	0.91%	1.71%	3.00%	1.67%	0.83%
Global High Yield Bonds	2.93%	2.37%	4.69%	1.00%	0.00%
UK Gilts	7.18%	7.35%	3.75%	3.55%	0.89%
UK Credit	5.72%	10.63%	8.15%	4.91%	4.08%
Property	0.12%	0.06%	0.34%	0.26%	0.31%
Commodities	0.71%	1.19%	0.86%	0.79%	0.45%
Cash	31.43%	15.89%	6.71%	3.47%	0.66%

Source: Smith & Williamson, 30 September 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 +

Strategy	Allocation
Manager of Managers - True Potential SEI Defensive	32.0%
Direct Equity & Bond Investing -True Potential Close Balanced	15.5%
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	10.5%
Agile, Low-Cost Value Investing - True Potential UBS Growth	14.5%
Alternative Dynamic - True Potenital Goldman Sachs Balanced	5.0%
Active Engagement, Positive Alignment - True Potential Growth Aligned Defensive	8.0%

Balanced +

Strategy	Allocation
Manager of Managers - True Potential SEI Cautious	32.0%
Direct Equity & Bond Investing - True Potential Close Growth	19.0%
Active Management with Passive Implementation - True Potential 7IM Aggressive	9.5%
Momentum with Volatility Control - True Potential Allianz Growth	11.5%
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	10.5%

Growth +

Strategy	Allocation
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	8.5%
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	8.5%

Asset Allocation

Asset Class	Cautious +	Balanced +	Growth +
UK Equities	13.4%	19.6%	24.7%
North American Equities	18.0%	24.6%	28.2%
European Equities	8.6%	9.2%	12.2%
Japanese Equities	4.7%	4.7%	6.2%
Asia Pacific Equities	1.9%	2.2%	2.6%
Emerging Market Equities	5.0%	6.5%	9.3%
Global Bonds	9.0%	6.5%	1.6%
Global Inflation Linked Bonds	1.0%	1.8%	0.6%
Emerging Market Bonds	1.1%	1.7%	0.6%
Global High Yield Bonds	3.6%	3.6%	0.0%
UK Gilts	5.5%	5.1%	2.6%
UK Credit	7.8%	5.1%	8.1%
Property	0.2%	0.2%	0.3%
Commodities	1.1%	1.0%	0.8%
Cash	19.3%	8.1%	2.2%

Source: Smith & Williamson, 30 September 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.

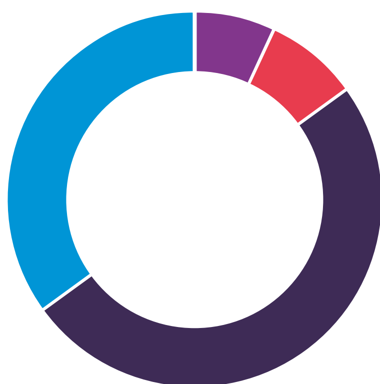
Given that investors in these portfolios are seeking income above capital growth, the income optimisation factor is our primary consideration. We have optimised on all factors for both portfolios; income, risk, cost, long-term expected return and risk-adjusted return.

Source: Goldman Sachs, Close Brothers, Threadneedle and Schroders, 30 September 2018

Strategy Allocation

Cautious Income

Strategy	Allocation
Direct Equity & Bond Investing - True Potential Close Cautious Income	32.5%
Income Focused - True Potential Threadneedle Monthly Income	10.0%
Income Funds - True Potential Goldman Sachs Income Builder	42.5%
Fund of Funds - True Potential Schroders Cautious Income	15.0%



Balanced Income

Strategy	Allocation
Direct Equity & Bond Investing - True Potential Close Cautious Income	7.0%
Income Focused - True Potential Threadneedle Monthly Income	8.0%
Income Funds - True Potential Goldman Sachs Income Builder	50.0%
Fund of Funds - True Potential Schroders Cautious Income	35.0%

Asset Allocation

Asset Class	Cautious Income	Balanced Income
UK Equities	24.58%	35.20%
North American Equities	13.30%	14.60%
European Equities	7.17%	7.36%
Japanese Equities	0.94%	0.69%
Asia Pacific Equities	0.90%	0.82%
Emerging Market Equities	0.02%	0.02%
Global Bonds	8.73%	9.68%
Global Inflation Linked Bonds	0.48%	0.10%
Emerging Market Bonds	0.57%	0.53%
Global High Yield Bonds	13.89%	16.34%
UK Gilts	2.19%	0.51%
UK Credit	12.68%	8.51%
Property	5.29%	1.56%
Commodities	2.58%	0.90%
Cash	6.67%	3.18%

Source: Smith & Williamson, 30 September 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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Issue 12