TRUE

# INSIGHT

True Potential Portfolios | Issue 14

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## Sailing Through Choppy Waters

In what remains a low growth, low inflation, low interest rate world, volatility is likely to persist. It is also likely to be a good way of making money.

true potential investments

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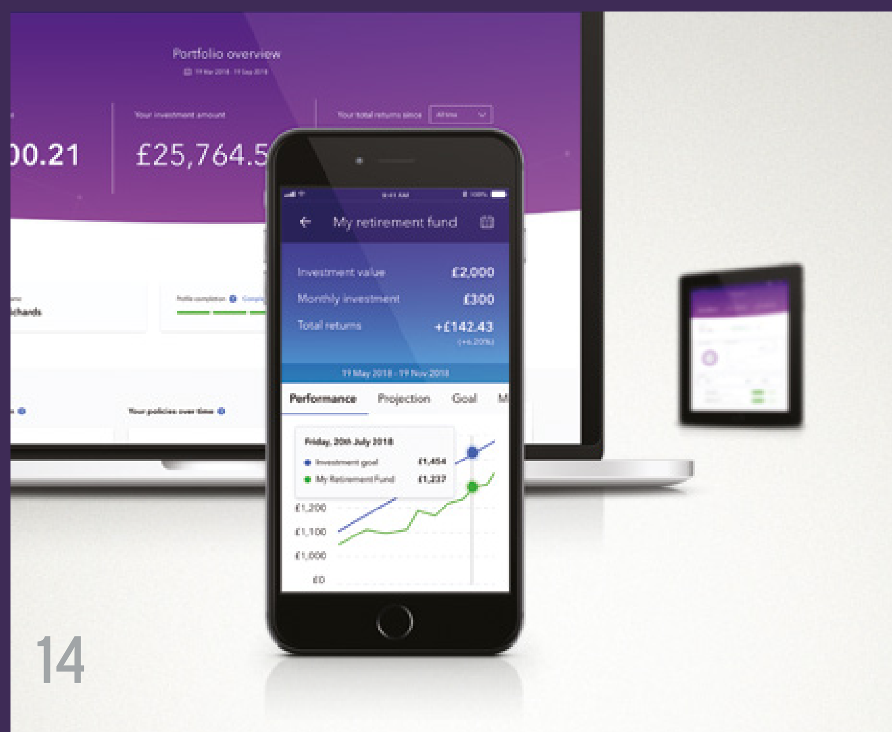
With investing, your capital is at risk. Investments can fluctuate in value and you may get back less than you invest. The contents of this magazine should not be interpreted as personalised financial advice.






# View from the Riverside

Welcome to this latest edition of True Insight.

The US Federal Reserve's rethink on interest rates, leaving them lower for longer, has got what looked like it might be a tricky year off to a great start with equity markets rebounding strongly.

It just goes to show how difficult (and futile) it can be to try and time markets, a point made in our last edition.

We look in greater detail at the subject of volatility on page 8: how it is calibrated by the VIX Index and how, through the alchemy of pound cost averaging, it can be beneficial to those making regular contributions to their investments. One of the essential components of Advanced Diversification is the variety, not just of asset classes within the True Potential Portfolios (cash, bonds, equities etc) but of the different styles our manager partners employ.

One such style is "Value", the discipline of buying an investment for less than it is intrinsically worth. On page 16 we cover this tried and tested form of investment which, having been out of favour for a number of years, appears to be coming back into vogue.

"Animal Spirits" is a phrase frequently cited in connection with financial markets, most notably optimistic "Bulls" and more cautious "Bears".

What the term underscores is that for all the technology employed in the financial services industry, markets, ultimately, are driven by people, individuals who are prone to make - or not make - decisions based on emotional and irrational responses.

On page 10 we explore some of the more common examples of the emotional foibles exhibited by investors.

Finally, on page 14 we touch on our new investment platform. A number of companies have been in the news recently regarding the transfer of client holdings on to a new platform. We haven't and that's the way we like it. Our migration of £8billion worth of assets has been completed on time, to budget and unnoticed by our clients.

Of the £8 billion on our platform I'm proud to say that £6 billion is now invested in our flagship product, the True Potential Portfolios.

As our business grows we are continuing to invest and technology lies at the heart of what we do, not for its own sake but to bring you closer to your investments.

**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 Mar 2016 to 31 Mar 2017 | 31 Mar 2017 to 31 Mar 2018 | 31 Mar 2018 to 31 Mar 2019 | Since inception 1 Oct 2015 to 31 Mar 2019 |
|---|---|---|---|---|
| Defensive | 7.67% | 0.46% | 1.69% | **13.39%** |
| Cautious | 11.67% | 0.26% | 2.85% | **19.60%** |
| Cautious + | 11.72% | 0.81% | 3.15% | **20.02%** |
| Cautious Income | 13.49% | -0.38% | 5.05% | **22.71%** |
| Balanced | 16.49% | 1.36% | 3.35% | **27.01%** |
| Balanced + | 16.55% | 1.36% | 4.33% | **29.96%** |
| Balanced Income | 15.07% | -0.18% | 5.09% | **25.94%** |
| Growth | 19.74% | 2.11% | 4.36% | **35.49%** |
| Growth + | 18.62% | 3.55% | 4.62% | **35.66%** |
| Aggressive | 21.79% | 4.13% | 3.81% | **40.91%** |

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: Q1 2019

The first quarter of 2019 has recorded the best quarterly performance for global equities since 2010 with global markets, in sterling terms, up over 9% following on from what was a challenging end to last year. Investors' concerns around a sharper than expected slowdown in China, monetary policy tightening in the US and Europe and a deteriorating trade relationship between the US and China have all eased. Corporate earnings and strong profit margins continue to support equity markets.

A change in tack by the Federal Reserve in January helped to push equity market returns higher, with the US Central Bank announcing a pause in raising interest rates as they wait for greater clarity before adjusting policy. As we entered the first quarter, the Fed had already raised interest rates nine times since December 2015 and many investors believed that this monetary tightening would continue into 2019.

In the event, the pause allowed markets some breathing space with the US offering the best return from any major equity market during the quarter.

The European Central Bank adopted a similarly dovish tone, announcing that interest rates in the Eurozone would not rise until next year at the earliest, and also offering fresh stimulus, in the form of cheap loans to try and help boost the economy.

Brexit completely dominated the political landscape in the UK with "deal or no deal" varying on an almost daily basis. However, Brexit has not been the main driver of returns within UK markets and investors may well be surprised that the UK was one of the best performing equity markets over the period.

Within bond markets, higher yielding issues gave the best returns as investors looked to add risk to their portfolios. Emerging Market debt performed particularly well with investors believing the Fed pause on the rising interest rate trajectory in the US could lead to a weaker US Dollar.

**In summary: A very strong quarter for stock markets, bouncing back after a weak Q4. Looking ahead, conditions continue to be favourable with monetary policy remaining at very accommodative levels and solid company earnings continuing to come through.**





# Investment Outlook

Globally a number of economic indicators, both in terms of business sentiment and consumer confidence continue to soften.

Hard data releases (GDP figures, retail sales, industrial production etc) remain poor in comparison to what we have become accustomed to, but headwinds to future economic growth should start to ease, allowing growth to stabilise and then turn up.

There is hope that US-China trade relations will improve with talks between the two sides continuing. No new tariffs have been imposed and there is increasing evidence that the impasse is beginning to be felt in both countries. Fiscal stimulus pulling through in China should help stabilise slackening trade growth and with President Trump looking to boost the US economy ahead of a re-election campaign next year a resolution to the trade war would appear an obvious path to greater prosperity.

In the US, the Fed have shifted policy. They are easing back financial conditions and this, coupled with slackening inflation, should underpin risk assets and generate wealth.

Fixed income yields have fallen and corporate bond spreads have tightened, suggesting a lower risk of default.

Growth in services is strong and employment conditions remain healthy in most developed economies although manufacturing and industrial activity remains under downward pressure. This should abate as inventory and supply gets recalibrated but may take some time.

The macroeconomic views of our managers have shifted to be, tentatively, more positive. For example, some are prepared to entertain the idea of a very elongated economic cycle.

However, worries persist that this cycle will end sooner rather than later. Those in the late stage of the cycle camp remain concerned about the lag effect from better employment conditions feeding into inflation and thence to interest rates, which remain at extremely low levels ten years after the financial crash. They worry that monetary policy may have to be tightened by central banks to counteract latent inflation. That said, inflation remains benign across the major developed economies and further fiscal stimulus measures are being called for in Europe.

The market wide sell-off, which kicked off meaningfully last quarter, caused worryingly high drawdowns but global stock markets have rebounded strongly this year. Support from central banks, low inflation, and the promise of further stimulus measures have helped.

However, some managers think it is premature to draw hard conclusions about the path of this cycle. They want more evidence that the current downturn has bottomed out.

For risk assets to continue to perform positively, economic expansion needs to return, back towards sustainable, trend levels without igniting inflation.

Having established a base line for risk appetite and recession probabilities amongst our manager partners we are in a good position to gauge levels of confidence regarding the future outlook for the global economy.

All our managers are active in relation to currency hedging, managing duration and actively managing fund risk. They, and we, continue to seek the best risk-return trade-offs as asset prices shift around. This is especially true during the Brexit phase underway where they remain alert for new opportunities on inexpensive valuations.

# *Sailing through choppy waters*

**More so than ever, the investment commentariat, whether it be the Federal Reserve Board, Mark Carney at the Bank of England or the financial media in general, is undecided about the course of financial markets.**

Does the current slowing of growth herald the "end of the cycle" we've been hearing so much about? Or will a pause in, or even a reversal of, interest rate hikes provide a further leg to the global economic recovery?

The jury is out. Or in in Central Bank language "future policy decisions will be increasingly data dependent". They don't know either.

However, what all commentators appear to agree on is that volatility will increase. And we've seen this already. In October last year global equities, in sterling terms, were down **5.2%**.

In November they stabilised. December witnessed a fall of **7.5%**, much of which was returned during January and February during which they gained **6.8%** in a very strong start to the year.

In actual fact, compared to historical norms, markets have not become more volatile. What we're seeing is perfectly natural. It just feels odd because for so long markets have been buoyed by the tide of easy money from quantitative easing (QE) which has served to "float all boats" and provide the means for markets, in all assets, to rise steadily higher.

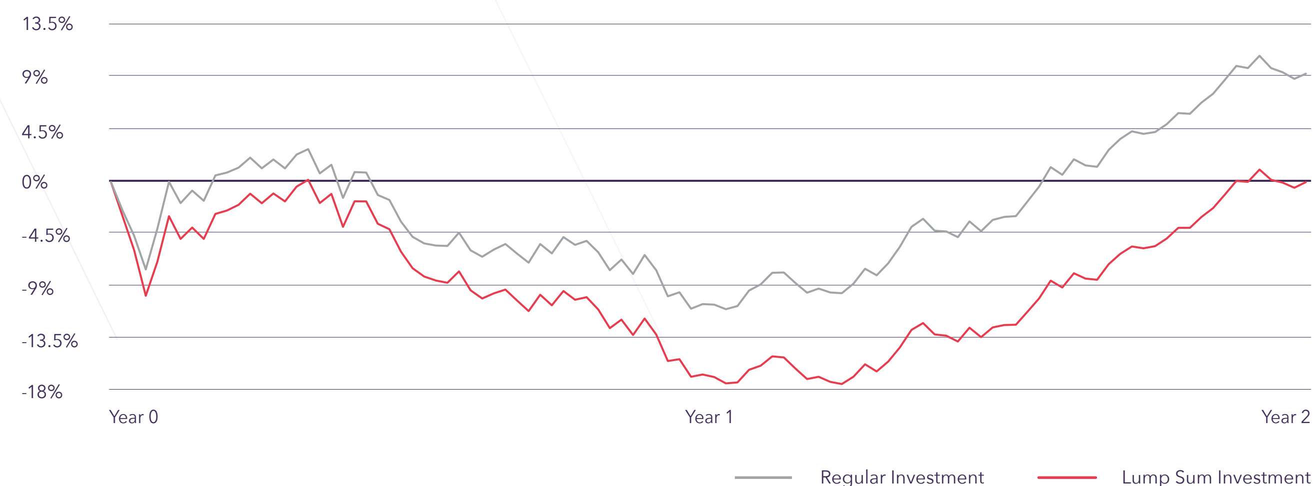
That was, in large part, what QE was designed to achieve. However, part and parcel of the economic revival and the return to some sort of normalcy is the reappearance of volatility. As you might expect market practitioners have a way of measuring this, expressing volatility as a number, and increasingly we see references to the VIX index.

With the current bull market the longest on record, but forecasters undecided on the direction of financial markets and much of the economic picture clouded by geopolitical concerns, turbulence is likely to characterise the foreseeable future and the only certainty may be continued uncertainty.

In what remains a low growth, low inflation, low interest rate world, volatility is likely to persist. It is also likely to be a good way of making money.

Academic research and, more to the point, anyone who has ever tried it, will tell you that it is next to impossible to time markets; to get in at the bottom and sell out at the top.

**Pound Cost Averaging (PCA)**




The VIX, or to give it its full name, the Chicago Board of Exchange Volatility Index, was first developed in 1992 and, using a complex formula based on the S&P 500 options market, it computes implied volatility on the broad US market.

The VIX index is designed to provide a theoretical expectation of short term volatility quoting the expected, annualised change in the S&P 500 over the next thirty days.

Like much of what happens in the financial markets, what began as an esoteric indicator, developed by academics and used by only a few practitioners, soon came to enjoy widespread prominence with the VIX regularly cited in articles describing the mercurial nature of global equity markets.

However, when markets are "trading sideways", rising and falling but ultimately not really moving up or down, they lend themselves to regular investment.

Through the alchemy of pound cost averaging regular savers, investing a specified amount over a period of time stand a better chance of outperforming the market compared to an initial lump sum investment. As the chart above shows, in volatile markets regular savers, investing the same amount each time will buy more shares/units of an investment when prices are lower and fewer when prices are higher. The upshot of this is that their average cost is likely to be lower than the average price of the investment over the period in question.

So, making regular commitments will bear fruit and while investing in uncertain markets is unnerving, the rewards of outperforming in volatile conditions are particularly sweet.

# EMOTIONAL HABITS

The investing **'ups' and 'downs'** you could be making without knowing it!





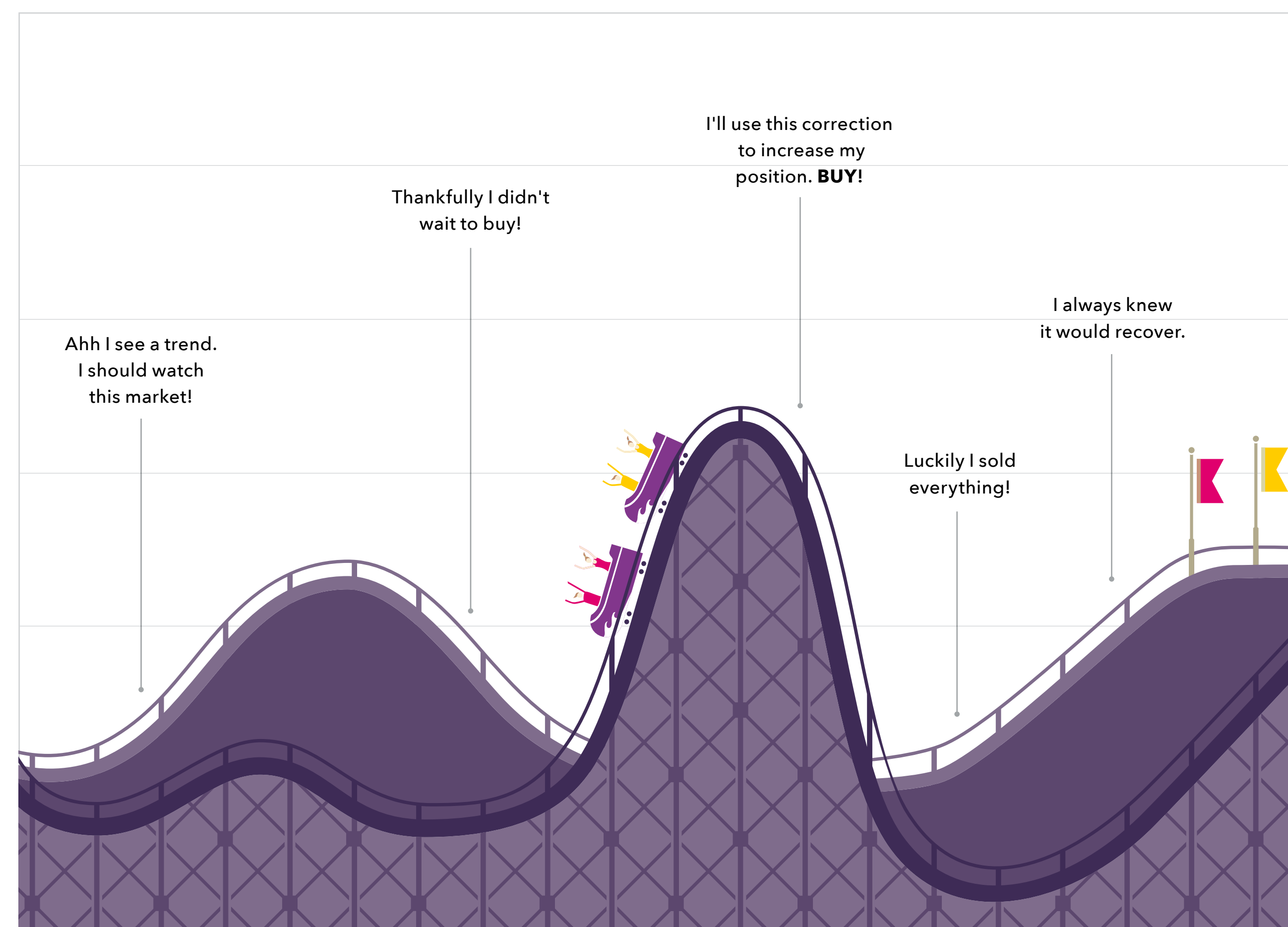
For all the modern analytical devices that today's investors can surround themselves with and for all the cool-headed rationality investors like to think they employ, we remain human.

As human beings, our behaviour and decisions are influenced by psychology. We all have strongly-ingrained biases that can serve us well in our day-to-day lives but can have the opposite effect when considering the financial markets.

No one likes to incur a loss. It's very easy to put off or delay an investment decision waiting for a better moment, we might be too keen to realise a small profit and miss out on a big one or we might be greedy and wait too long before selling, in which time the investment falls.

Of course, if it goes up it's due to our skill and if it goes down it's bad luck!

**Does this roller coaster feel familiar?**




Source: Credit Suisse, March 2019

Not surprisingly investor behaviour has been analysed and found to fall into two camps; cognitive (decisions relating to statistical, information processing or memory errors) and emotional (reasoning based on intuition or impulse which results in action based on feelings).

Set out below are just some of the **classic behavioural traits** investors exhibit.

## INERTIA AND DEFAULT

Inertia and Default, or the "status quo" bias in which people prefer to do nothing instead of making a change, is often found with Defined Contribution (DC) pension plans.

For those of us with a DC plan, how often have you reviewed or adjusted your fund selection or contribution rate since the plan's initiation? Do you know if you are on track to reach your retirement goal?

Evidence shows that the majority of plan participants do not review or change their asset allocation or contribution rate despite time, circumstances and goals changing.

## AVAILABILITY BIAS

Our thinking can be greatly influenced by what is personally most relevant, recent or dramatic. For some, the 2008 global financial crisis continues to be at the forefront of minds when investing, despite it occurring over ten years ago.

A monumental event indeed, but this was a once in a generation event, with the last financial crisis on a similar scale being the Great Depression of 1929-39. Those investors discouraged to invest by the 2008 market turmoil, preferred to keep cash in the bank. Safe? Not from inflation.

If at the end of 2008 you had placed £50,000 into a UK savings account, by the end of 2018, after adjusting for inflation, it would have been worth £48,808. Over the same period, £50,000 invested in global equities would have risen to £124,986 after inflation.

## PRUDENCE TRAP

Behavioural biases are not only exerted by investors; economists, analysts and even investment committees can be guilty too.

Economists are often required to make forecasts, for example what the oil price might be in a year's time. Say the oil price is currently $65 and consensus is for it to fall to $55 but one economist believes it will fall to $35, they may be tempted to temper their forecast and bring it closer to the consensus, say to $45.

In this way the prediction doesn't look as extreme, but they will still receive the same amount of credit should the oil price fall to $45 as they would if it fell to $35. This is known as the Prudence Trap.

## LOSS AVERSION

Let's say you buy Apple shares for $100 on the basis of speculation that the new iPhone will be the best yet.

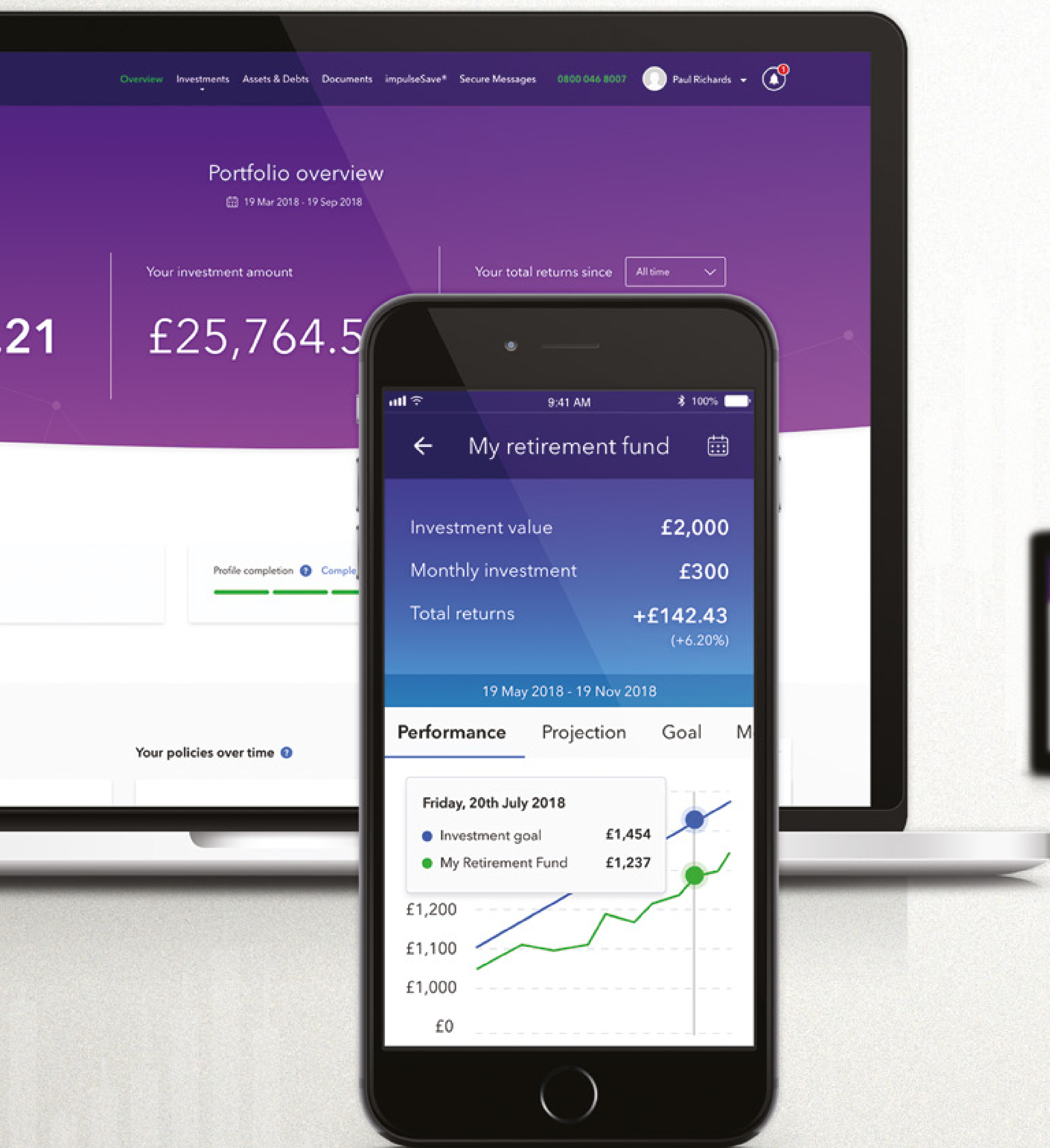
However, after launching, the share price falls to $70 with consumers disappointed by the new features. What do you do? Do you sell or hold?

Loss aversion occurs when investors hold, fearful of realising a loss even though rational analysis suggests the shares should be sold. Investors who exhibit loss aversion feel the pain of a loss approximately two to two and a half times as much as the joy of an equivalent gain!

One of the ways in which the investment industry has sought to avoid these behavioural influences, which can affect us all, is to build computer based, systematic strategies which are programmed to buy or sell under specific conditions. Of course, these are not without their faults and idiosyncrasies either.

As ever, in some circumstances there is a strong case for the emotionless logic of a systematic computer strategy: sometimes though, it makes sense to adopt the subjective judgement of human intervention. That's why we employ both within the True Potential Portfolios.

*Assumption: Average UK Savings rate taken from swanlowpark.co.uk, UK CPI used as the measure for inflation – source: Office for National Statistics




# New technology puts your investments on a solid platform

The technology behind your investments has just seen a major upgrade and the best thing about it was the seamless transition from old to new.

The financial trade press has been full of stories of large financial institutions having 're-platforming woes' including severe disruption for investors and advisers and multimillion-pound projects being substantially over budget.

None of this applies to our two-year project which has been delivered on time and on budget.

True Potential has a reputation for building award winning financial services technology, one of the reasons that over 20% of UK financial advisers choose us to help them deliver services to their clients. We use it extensively to run our business including the management of the billions of pounds in our portfolios.

It is vital that all the technology we use behind the scenes incorporates the most up to date thinking and this is why we are constantly making behind the scenes changes to our processing and safeguarding systems.

Innovation will always be important to us, for example you are amongst the exclusive group of investors who are able to top up investments from just £1 via impulseSave, an intuitive system that has resulted in over £150m cash being transferred into portfolios and funds, much of this into tax efficient ISA and pension accounts in a convenient and easy way using client websites or mobile Apps.

The recent technology upgrade reduces our dependence on third parties as it has been built entirely in-house, it increases our agility and will mean that new developments can be carried out quickly, whether these are consumer driven or required as a result of regulatory changes.

Your own client software has also been enhanced as a result of the wider upgrade and you can see all of this in action now by logging into your client site and by making sure you are running the latest version of our App on your mobile device.

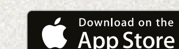
Being able to see the latest value of your investment and changes over time, importantly setting an investment goal and being able to assess progress towards this goal, is an essential part of your financial journey.

The ability to top up whenever required moves investment into the modern consumer driven world of convenience.

Our Head Office in Newcastle has become a Centre of Excellence for Financial Services Technology. Our experienced team of 35 developers continues to grow as we keep moving forward by recognising talent within the organisation.

We have an academy where people and ideas are nurtured and when the time is right those ideas find their way to you via the technology applications behind your investments.

**Download the True Potential App from the app store now.**



# WHAT'S IT WORTH?

## The Principles of Value Investing

At True Potential we put a lot of emphasis on diversification, not just between different asset classes or regions of the world but between different styles of investing. Each style has its own characteristics and generally comes into its own at different stages of the market cycle. Examples of investing styles include Value and Growth. In recent months it appears Value has been edging back onto the radar.

Value investing describes the process of buying assets regarded as undervalued and priced below their intrinsic value. Some companies may be cheap for a reason; they may reflect poor quality management or a poor trading outlook. On the other hand, some may be cheap because the market has not yet realised the potential they offer. The process of filtering, screening and doing the analytical work to identify these hidden gems is long and intensive but can bring about significant opportunities for return.

This typically works best in stressed or volatile market environments when investors don't have the benefit of a rising market to lift stock prices across the board. Analysts review a range of financial metrics to assess the financial health of a company and calculate the intrinsic or true value of a stock. This intrinsic value can then be compared to the current share price to allow the analyst to judge if the stock is over or under valued.

The ethos of value investing rests on the basis that markets are not fully efficient, in other words, that the share price does not reflect all the information available on the company (what assets it has, what areas it may be moving into, what plans the management has for the business etc). However, modern financial screening systems and filters now take a lot of the time consuming "donkey work" out of the initial selection process.

Value stocks have performed well over the last 10 years, up 235% in US dollar terms but it is important to see how that compares to other investment styles.

An alternative style to Value investing is "Growth" where investors are not so much looking for something that is valued at less than it is currently worth but for a company that is valued at less than it will be worth in the future if everything goes according to plan. This is a less contrarian approach and aims to gain exposure to those companies which offer above-average levels of expansion: the most famous examples of late being the darlings of the tech sector; Facebook, Apple, Amazon, Netflix and Google (FAANGs).

Chart 1 opposite illustrates that Growth stocks have outperformed value for much of the last decade and have been particularly strong over the past four years, driving many of the returns experienced in global equities. However, after being in the shadows for four years it appears that the gap in returns between Value and Growth is converging.

**Chart 1: 10 Year Performance**

Source: Bloomberg, March 2019 — MSCI World Value Index (US Dollar) — MSCI World Growth Index (US Dollar)

The second chart rebases this analysis over the longer term and demonstrates that generally over the last 20 years Value stocks have outperformed their more glamorous counterparts.

In this example you can see that Value, as a style, has significantly outperformed in the wake of market downturns, the 2000 dot com bubble and the 2008 financial crisis to name but two.

**Chart 2: 20 Year Performance**

Source: Bloomberg, March 2019 — MSCI World Value Index (US Dollar) — MSCI World Growth Index (US Dollar)

Within the True Potential Portfolios, we don't just rely on one of these styles, in the same way that we don't rely on one single asset class or region for returns.

We are partnered with global managers who implement a range of styles. For investors this means we aren't solely dependent on the market environment being right for the style of the Portfolios, we can adapt the portfolios to be right for the style of the market environment.

**We call this Advanced Diversification.**

# The Science behind our portfolios

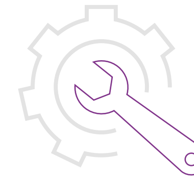
The construction of our Portfolios begins with a set of equally weighted models which correspond to the five Morningstar risk categories: Defensive, Cautious, Balanced, Growth and Aggressive.

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.

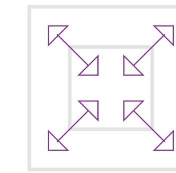
| | Defensive | Cautious | Balanced | Growth | Aggressive | Cautious + | Balanced + | Growth + | Cautious Income | Balanced Income |
|---|---|---|---|---|---|---|---|---|---|---|
| Risk (Volatility) | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Risk (Mapped) | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Cost | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ |
| 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.



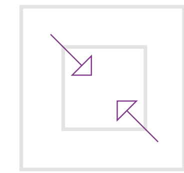
### Risk (Baseline Portfolios)

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.



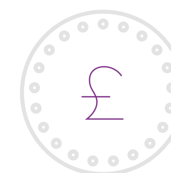
### Risk (+ Portfolios)

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 | 14.25% |
| **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 | 13.00% |
| **Fund of Funds** - True Potential Schroders Cautious | 9.00% |
| **Agile, Low-Cost Value Investing** - True Potential UBS Cautious | 16.00% |
| **Active Engagement, Positive Alignment** - True Potential Growth Aligned Cautious | 14.75% |

### Balanced

| Strategy | Allocation |
|---|---|
| **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 | 9.50% |
| **Fund of Funds** - True Potential Schroders Balanced | 3.50% |
| **Alternative Dynamic** - True Potential Goldman Sachs Balanced | 7.00% |
| **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 | 14.00% |

### Growth

| Strategy | Allocation |
|---|---|
| **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

| Strategy | Allocation |
|---|---|
| **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 | 5.69% | 11.42% | 13.73% | 18.05% | 21.95% |
| North American Equities | 10.76% | 15.42% | 22.99% | 28.38% | 34.38% |
| European Equities | 4.78% | 7.09% | 10.18% | 12.31% | 12.90% |
| Japanese Equities | 2.88% | 3.90% | 5.03% | 5.74% | 7.92% |
| Asia Pacific Equities | 0.63% | 1.50% | 2.42% | 3.06% | 2.63% |
| Emerging Market Equities | 2.08% | 4.32% | 6.95% | 9.61% | 12.25% |
| Global Bonds | 16.73% | 14.13% | 9.45% | 5.07% | 0.89% |
| Global Inflation Linked Bonds | 2.48% | 1.68% | 1.44% | 0.96% | 0.30% |
| Emerging Market Bonds | 2.39% | 2.78% | 3.29% | 2.95% | 1.44% |
| Global High Yield Bonds | 2.05% | 2.02% | 4.35% | 1.27% | 0.20% |
| UK Gilts | 5.74% | 7.44% | 3.79% | 2.53% | 0.30% |
| UK Credit | 3.58% | 6.17% | 5.10% | 2.28% | 1.19% |
| Property | 0.12% | 0.06% | 0.34% | 0.26% | 0.29% |
| Commodities | 1.34% | 2.04% | 1.78% | 1.97% | 0.79% |
| Cash | 38.75% | 20.03% | 9.16% | 5.56% | 2.57% |

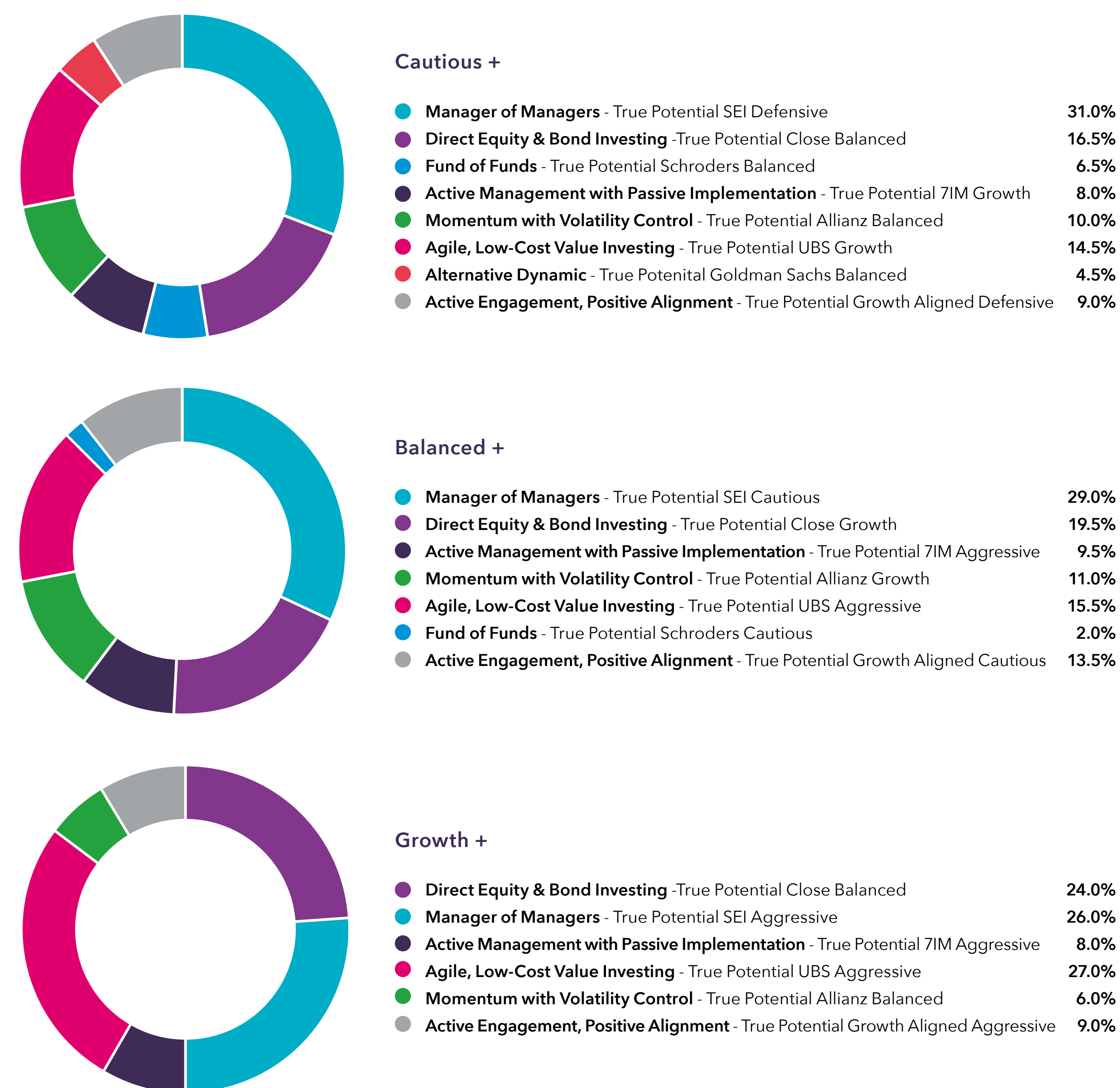
Source: Smith & Williamson, 31 March 2019

# + 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



## Asset Allocation

| Asset Class | Cautious + | Balanced + | Growth + |
|---|---|---|---|
| UK Equities | 10.90% | 15.88% | 20.36% |
| North American Equities | 18.84% | 24.76% | 32.19% |
| European Equities | 9.09% | 11.00% | 13.23% |
| Japanese Equities | 4.71% | 4.87% | 6.45% |
| Asia Pacific Equities | 1.92% | 2.28% | 2.77% |
| Emerging Market Equities | 5.62% | 7.55% | 9.68% |
| Global Bonds | 9.81% | 8.26% | 1.69% |
| Global Inflation Linked Bonds | 1.52% | 1.50% | 0.29% |
| Emerging Market Bonds | 2.43% | 2.79% | 0.97% |
| Global High Yield Bonds | 2.12% | 1.97% | 0.30% |
| UK Gilts | 4.73% | 4.40% | 2.08% |
| UK Credit | 4.61% | 2.78% | 3.82% |
| Property | 0.21% | 0.21% | 0.23% |
| Commodities | 1.86% | 1.89% | 1.59% |
| Cash | 21.63% | 9.86% | 4.35% |

Source: Smith & Williamson, 31 March 2019

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




# Investments on Demand

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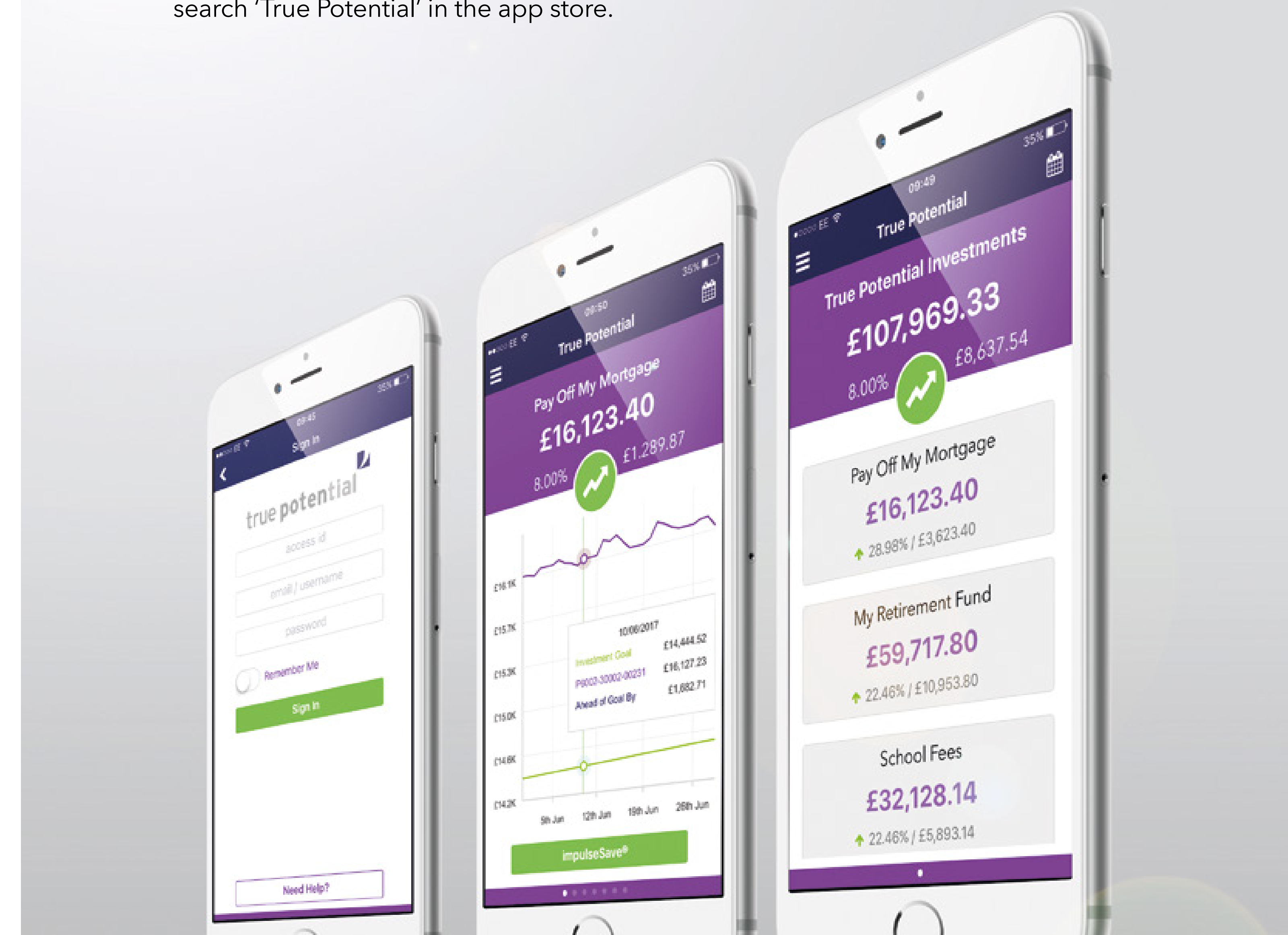

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# Income Portfolios

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.

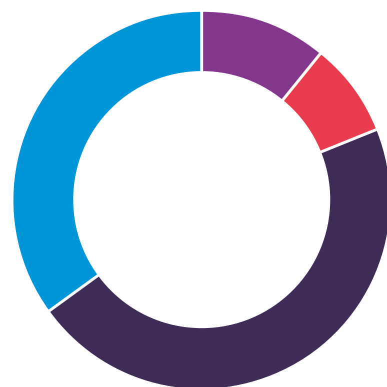
Given that investors in these portfolios are seeking income above capital growth, the income optimisation factor is our primary consideration. We have optimised on all factors for both portfolios; income, risk, cost, long-term expected return and risk-adjusted return.

Source: Goldman Sachs, Close Brothers, Threadneedle and Schroders, 31 March 2019

## Strategy Allocation

### Cautious Income

| Strategy | Allocation |
|---|---|
| **Direct Equity & Bond Investing -** True Potential Close Cautious Income | 36.5% |
| **Income Focused -** True Potential Schroder Cautious Income | 10.0% |
| **Income Funds** - True Potential Goldman Sachs Income Builder | 38.5% |
| **Fund of Funds -** True Potential Threadneedle Monthly Income | 15.0% |



### Balanced Income

| Strategy | Allocation |
|---|---|
| **Direct Equity & Bond Investing -** True Potential Close Cautious Income | 11.0% |
| **Income Focused -** True Potential Schroder Cautious Income | 8.0% |
| **Income Funds** - True Potential Goldman Sachs Income Builder | 46.0% |
| **Fund of Funds -** True Potential Threadneedle Monthly Income | 35.0% |

## Asset Allocation

| Asset Class | Cautious Income | Balanced Income |
|---|---|---|
| UK Equities | 23.63% | 34.78% |
| North American Equities | 11.88% | 13.00% |
| European Equities | 6.41% | 6.39% |
| Japanese Equities | 0.90% | 0.67% |
| Asia Pacific Equities | 0.83% | 0.75% |
| Emerging Market Equities | 0.03% | 0.02% |
| Global Bonds | 7.91% | 7.99% |
| Global Inflation Linked Bonds | 1.07% | 0.32% |
| Emerging Market Bonds | 0.77% | 0.75% |
| Global High Yield Bonds | 11.61% | 13.87% |
| UK Gilts | 1.82% | 0.64% |
| UK Credit | 17.73% | 11.76% |
| Property | 5.52% | 1.99% |
| Commodities | 2.72% | 1.16% |
| Cash | 7.17% | 5.91% |

Source: Smith & Williamson, 31 March 2019

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.

Head Office: Gateway West, Newburn Riverside, Newcastle upon Tyne, NE15 8NX

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