TRUE

INSIGHT

True Potential Portfolios | Issue 8

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In the Spotlight

True Potential Investment Director Barney Hawkins puts the spotlight on Columbia Threadneedle and Close Brothers.

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.

A WORD FROM OUR CHIEF INVESTMENT OFFICER

Our conviction behind multi-asset investing is fully embodied in the True Potential Portfolios. By blending our 27 funds, with different investments styles and strategies, we achieve Advanced Diversification. This is directly linked to our aim: producing a better than average return with lower than average risk and lower costs for all of our clients.

The funds we manage operate with markedly different strategies, some straightforward, some more complex. We purposefully combine active strategies with passive strategies; Passive management being typically lower cost and tracking an index, such as the top 100 companies in the UK stock market; Active management being choosier and thus more focussed, with the fund manager trying to beat an index.

However, when we say that passive managers track indices and active managers try to beat them, do you know what this means? When referring to active management do you have any idea how active managers construct portfolios or take decisions? It is all too easy to brandish terms such as active and passive in ways that fall short of giving more complete information. For us, painting a clearer picture is our way of helping to build understanding.

To help, Julius Poliakas, one of our analysts, has written an article on stock market indices and how they work. This fits together nicely with our feature interviews with Riitta Hujanen, fund manager at Close Brothers, and Richard Colwell, fund manager at Columbia Threadneedle. Riitta and Richard are stock pickers, managing funds actively and their interview will hopefully provide more insight into how active managers go about their work.

Our mantra is that confusion comes before understanding and with understanding we build knowledge. The savings gap we have in the UK is not just because people save too little, it is due to an insufficient number of people saving. Put another way, lack of understanding about investing encourages disengagement with the reality of the need to save. We know from experience that if people are unsure they invest less and take less risk. Taking less risk is one of the biggest ironies.

Risk taking is central to the ability to earn a higher return, which in turn can help produce a better livelihood for ourselves in the future. Risk is all around us in our everyday lives, investment risk and a willingness to accept this is part and parcel of successful long term financial planning. Your attitude to investing is crucial and, of course, personal to you.

The issues associated with the need to take some risk arise time and again, so the obvious starting point is confronting what we mean by risk. In this context, Paul Durrans, a senior analyst at True Potential, gives some insights into how we manage this in our portfolios. In the same article, George Bell, who oversees fund governance, takes this onto another level by looking at the subject in a broader context.

'Practical risk management', is worth reading as it will build confidence that risk management is integrated in the way we assess and manage the portfolios.

Finally, we have observed a long period of rising markets against a backdrop of heightened uncertainty amongst investors. Fearing the worst is natural. It offers us a protective layer, but it can put us in a worse situation financially. How can we make sense of this? Many readers will know nothing about skiing but one of the natural tendencies shown by beginners is an instinctive tendency to lean into the hill. In fact, as skiers gain experience they realise you must position your body to lean out from the hill.

This counterbalances the effects of the slope, keeping you safe and heading in the right direction. The 'leaning out' analogy has relevance for novice investors saving over a long period. If you think that taking little or no risk is keeping you safe it may in fact be making you poor. If you are a novice investor, with a long time ahead to save, what can I say except become more engaged with investing and learn to lean out.

Colin Beveridge, Chief Investment Officer.

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 your 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 approach 'Advanced Diversification'. The results opposite show the performance of each portfolio since we launched them in October 2015.

Portfolios	Since launch*	12 Month Performance**
DEFENSIVE	11.84%	3.24%
CAUTIOUS	17.05%	4.91%
CAUTIOUS +	17.01%	5.82%
CAUTIOUS INCOME	20.15%	6.61%
BALANCED	23.67%	8.27%
BALANCED +	25.26%	8.24%
BALANCED INCOME	23.33%	7.82%
GROWTH	30.40%	10.63%
GROWTH +	29.50%	12.05%
AGGRESSIVE	35.29%	12.85%

* 1st October 2015 to 30th September 2017
** 1st October 2016 to 30th September 2017

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: Q3 2017

Despite a continuation of geopolitical tensions, equity markets and some parts of the fixed income markets produced strong positive returns for investors during the three months to the end of September. This is consistent with upward movements in markets in the early part of the year meaning investors willing to take risk, through buying higher risk assets like equities, have been rewarded with greater returns.

Bonds offering high yields issued by governments and companies in emerging markets performed well, but bonds in aggregate have been facing a headwind from perceptions that interest rates may start to squeeze up slightly when the US central bank pulls away from quantitative easing (QE). Nevertheless, the third quarter of 2017 is seen as a good one for multi-asset investors.

One of the most influential aspects impacting multi-asset funds is currency movements. The devaluation of the pound caused by Brexit produced a strong windfall effect on assets denominated in foreign currency. Recently this devaluation effect has started to unwind a little, with the pound gaining some ground against the US dollar. In the last three months sterling appreciated 2.9% against the US dollar. There has been a growing sense that sterling had fallen to very low levels. This was underpinned by the release of stronger than expected retail sales figures and inflation sitting above the Bank of England's target. The possibility of a quarter point hike in higher interest rates that may take pace as early as November, provided sufficient ammunition for sterling to rally over the quarter.

Without the ability to hedge currency the rise in the pound detracts from returns earned by investing into foreign assets. However, our managers tend to hedge their overseas bond holdings and they also have a mix of strategies around hedging overseas equities. This broad mix of strategies within the True Potential Portfolios served investors well over the quarter.

Across the various investment categories UK equities have generally lagged behind but returns have been sufficiently attractive to reward investors. This quarter UK equities rose in value by 1.8% with some economically-sensitive sectors performing like the mining sector being a very strong contributor to performance. The sector was lifted by a stronger backdrop for industrial metal prices.

"One of the most influential aspects impacting multi-asset funds is currency movements."

Despite the devastation left behind by catastrophic hurricanes, US equities still delivered impressive returns over the quarter; 4.5% in local currency and 1.5% in sterling. Generally positive economic data, including an upward revision to second quarter GDP growth, were primary drivers. The fall in the value of the US dollar was also a key factor, depreciating 2.8% against sterling over the quarter.

Emerging market (EM) and Asia Pacific markets have attracted capital from investors this year with relatively lower valuations compared to developed markets, that have been supported by a generally healthier economic backdrop. EM and Asia Pacific equities have delivered 8.0% and 6.0% respectively in local currency over the quarter. A weaker dollar is also helping many EM companies to service their debt, which is largely dollar denominated.

The potential for a slight up-tick in UK interest rates caused UK gilt yields to move slightly higher. Therefore, returns from investments in UK gilts and UK corporate bonds were negative with prices falling by -0.4% and -1.0% respectively. While inflation expectations globally remain muted a tightening of monetary policy from central banks in the UK, and US in particular, is being factored into prices ahead of the action being undertaken by policy makers.

In commodity markets, we've seen a resurgence of the oil price, up 11.2%, reaching a two-year high on the back of greater demand from China and Turkey's threat to disrupt oil flows in Iraq's Kurdistan region. This is in addition to OPEC, Russia and several other oil producers cutting production helping to reduce the supply demand imbalance.

"Equity markets and some parts of the fixed income markets produced strong positive returns for investors."

INVESTMENT OUTLOOK

As ever, there is a lot going on to distract the markets which have only recently returned to "work mode" after the summer lull.

Sabre rattling in North Korea, met with tough talk by Trump, has grabbed the headlines but not had a material impact on financial markets. The level of Chinese debt is raising questions but, again, shows no sign of destabilising the synchronised growth currently under way around the globe.

Brexit negotiations, the leader writers' favourite topic, continues to generate more heat than light but there is a general feeling in the corporate sector that a deal of some sort is in both parties' interest and that common sense will ultimately prevail.

The key debate surrounds interest rates, the direction of travel for the Central banks and the implications for bond and equity markets of any tightening in monetary conditions.

The US has, of course, already raised rates twice. It has hinted at further hikes in the coming months and has also confirmed that it will begin the process of reversing Quantitative Easing, gradually to begin with but increasingly so in due course.

In the UK Mark Carney, Governor of the Bank of England, has given the strongest indication yet that the emergency quarter point cut in rates, made in the aftermath of the Brexit vote, will be reversed and that interest rates of 0.25%-0.5% are incompatible with current levels of economic growth.

In Europe, Mario Draghi, President of the European Central Bank, is, for now, remaining flexible. Despite declaring that the EU will curtail its QE programme Draghi has been reluctant to indicate any likely timetable for this tapering and so Europe is continuing to enjoy the benefits of ultra loose monetary policy.

However, there is a tacit acknowledgement that this state of affairs is unsustainable given the levels of economic growth across the bloc and that the days of easy money are numbered.

The authorities cannot yet smell inflation but they sense its presence.

Our investment partners all know this of course and they have given us different perspectives on what to expect. They range from 'this is going to be bad for bonds and growth equities' to, 'inflation is poised for a comeback, benefitting value but hurting bonds and growth equities'.

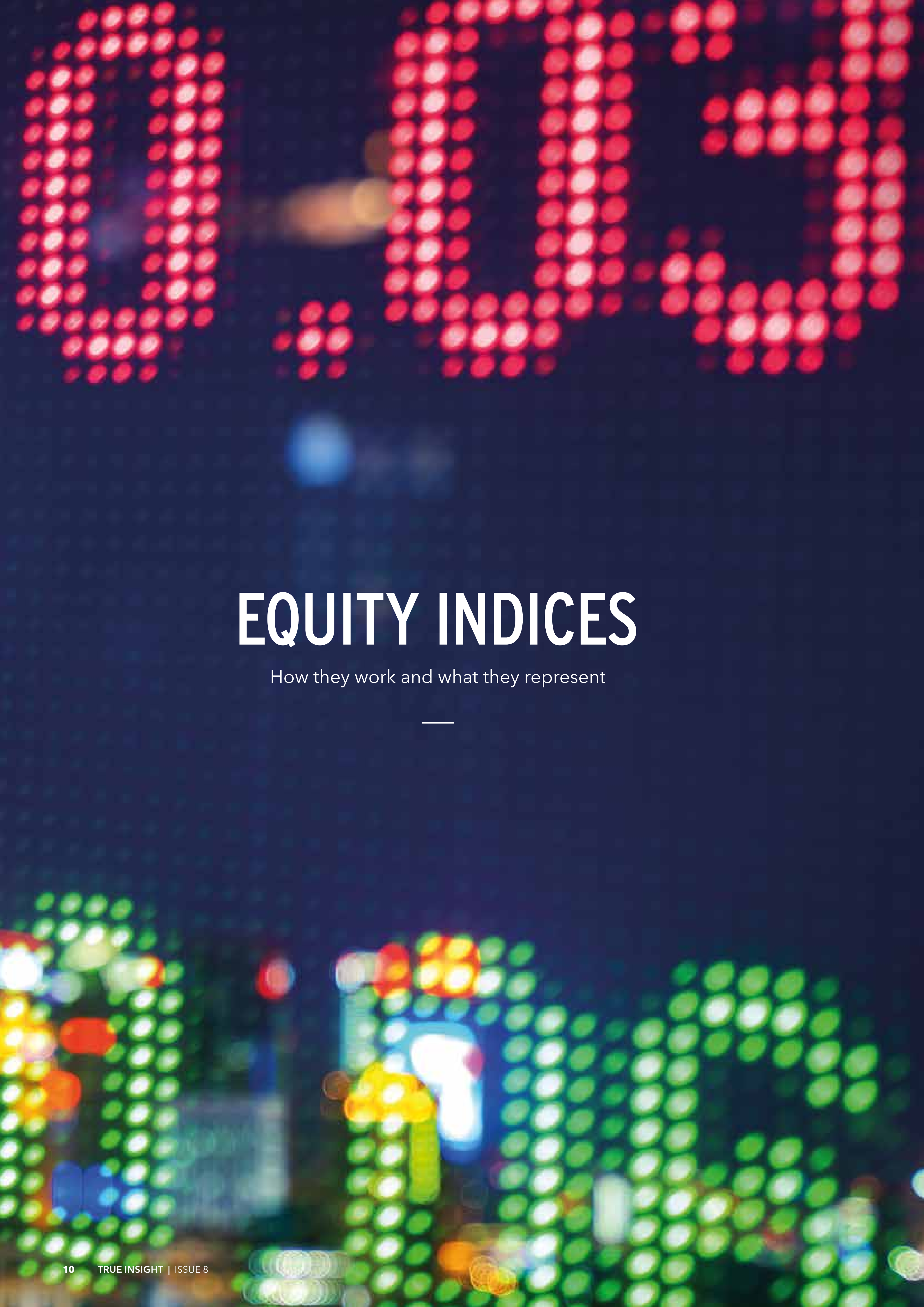
An out of consensus view is that stopping QE will lower inflation expectations and so be good for bonds. If this is correct then it suggests rates being lower for longer which means a continuation of stock markets grinding higher, growth working better than value as an investment style and longer dated bonds with higher duration paying off.

The second key issue for us is currency and the direction of the pound. When the pound strengthens, UK investors need overseas markets to perform well just to stand still. When the pound weakens, they effectively benefit from a tailwind.

Very few of our partners believe that sterling is significantly overvalued but they all recognise the hidden dangers of a bad Brexit.

While central bankers around the world all wish that interest rates were sitting at higher levels they are exhibiting extreme caution in relation to moving them up fearful of either choking off a still fragile economic recovery or undermining the financial markets.

With record levels of cash still on the side lines waiting to be invested, very cautious investor sentiment and the tentative nature of any moves towards interest rate "normalisation" by the financial authorities it is likely that markets will continue to edge higher with any set backs viewed as a buying opportunity.



EQUITY INDICES

How they work and what they represent

An equity index usually carries a strong association with a country. In the UK we have the 'Footsie 100', in the US the 'Dow Jones' and 'S&P 500' and in Japan the 'Nikkei'.

Indices also provide exposure to specific industry sectors and can be constructed to favour particular characteristics or 'factors' such as 'value', 'growth', or 'momentum'.

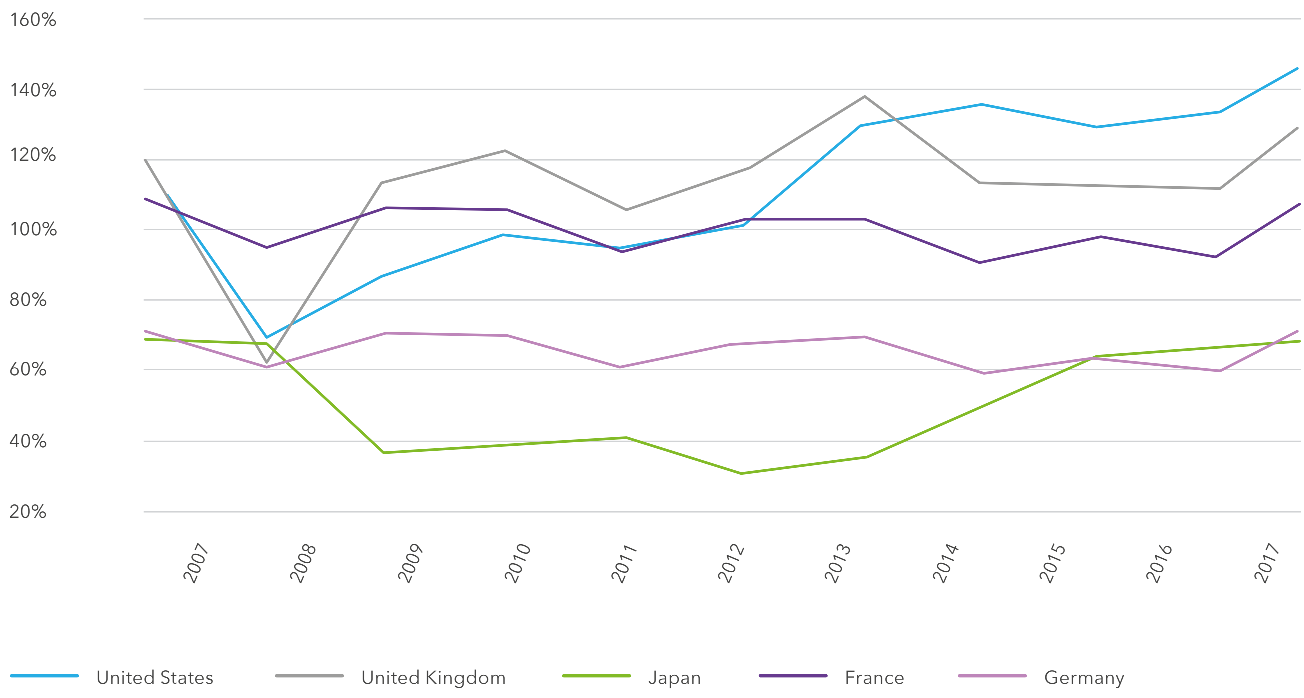
Historically, when it comes to equity index construction two main approaches are dominant: 'value-weighted' and 'price-weighted'. Value weighted is more common and ranks companies in order of stock market capitalisation (put simply the number of shares in issue multiplied by the share price).

Self-evidently, companies with a larger market capitalisation have a greater effect on the price movement of a value-weighted index than smaller cap companies. This is why some indices have adopted the practice of 'equal weighting' so in an index of 100 companies, each would carry a weight of 1%.

By contrast, the Nikkei in Japan and Dow Jones in the US are examples of price-weighted indices. This method of calculation is less commonplace and involves weighting companies according to share price. So, for example, shares with a price of $100 will have twice as much influence on the index as those shares priced at $50. Thus, a price weighted-index is disproportionately affected by movements in those stocks with the highest share price.

With stock market indices it is important to remember that while they comprise companies operating in the real economy, the indices themselves do not necessarily reflect the underlying economy.

Stock Market Capitalisation (% of GDP)



Source: Bloomberg 2017

As we can see from the chart, in the US and UK, stock market capitalisation, expressed as a percentage of economic output, or GDP, has risen since the onset of the financial crisis in 2007.

This means that stock market growth has outpaced overall economic growth. This can be taken as a sign of investor confidence but it may also be because the US and UK were the first countries to introduce Quantitative Easing in the aftermath of the crisis.

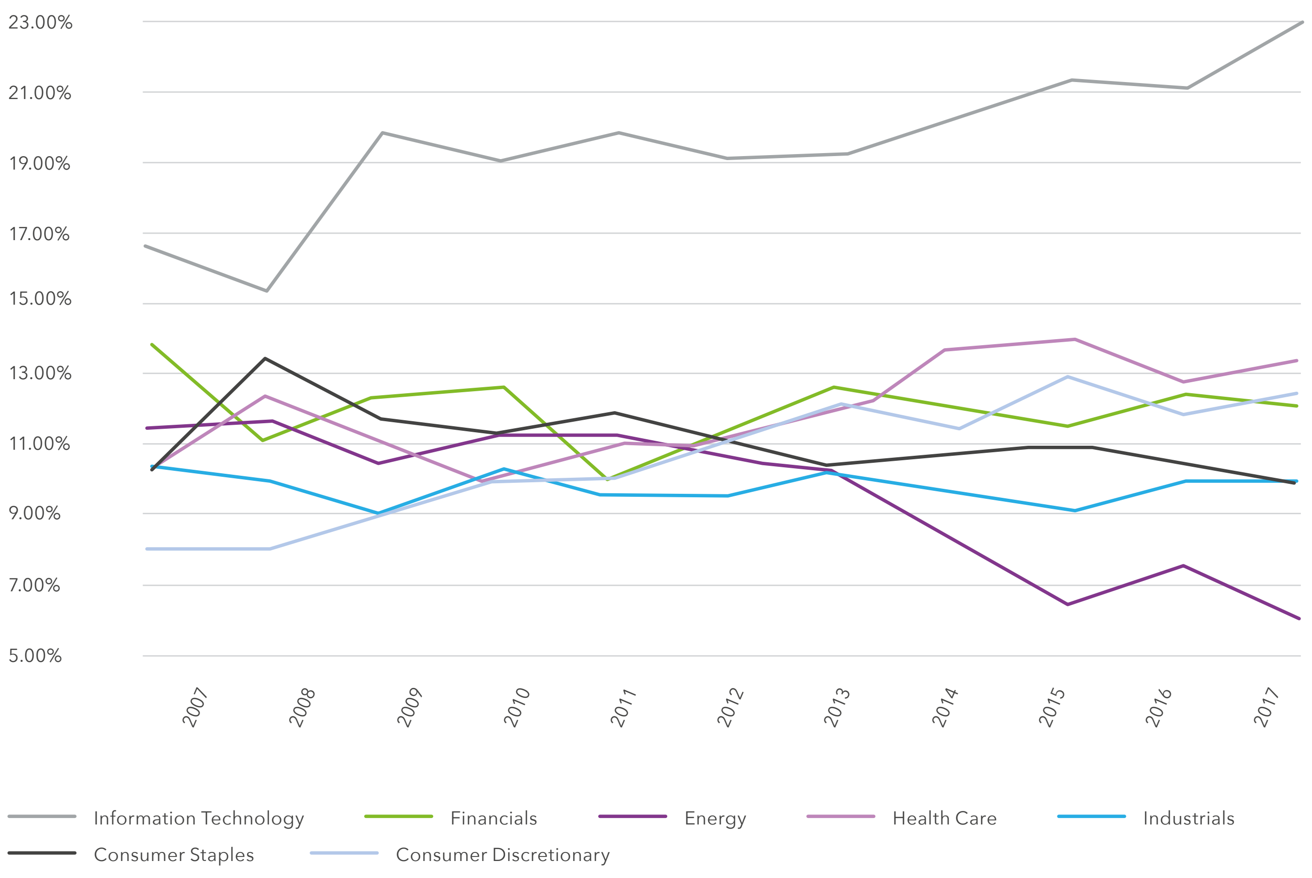
It may also reflect greater dominance in some sectors than others in what is a connected and highly competitive global economy. Therefore, understanding sector level composition, or what sort of companies make up the index, is also very pertinent.

The chart below shows the make-up of the S&P 500 index. As you can see, the index is heavily exposed to Information Technology (23%), Financials (13%) and Consumer Discretionary, such as leisure and retail (13%).

The UK is more focused towards the Financial, Consumer Staples (food, drink, tobacco) and Energy sectors, whereas Germany and France are more industrial-led. Sector exposures expand and contract with changes in the economic cycle.

As this happens the index can move significantly, particularly if it has a reliance on economically sensitive sectors like Energy (oil & gas) or Financials.

S&P 500 GICS Sector Exposure



Source: Bloomberg 2017

Indices reflect investor expectations. They also facilitate easy low-cost passive investment solutions which can be manipulated and biased towards certain sectors or types of company.

'Smarter' index solutions mount a serious challenge to both active and passive investments and even simple adjustments like moving index construction from market capitalisation weighted to equal weighting can impact performance dramatically.

We are very aware of the pros and cons of the different indices that exist. With our investment partners we employ the best passive and smart passive strategies as a cost effective way of investing and we use indices as one of the means of appraising performance.

However, we remain conscious never to let passive investing have too large an influence on the True Potential Portfolios or for benchmarking against an index to become the sole determinant of investment success.

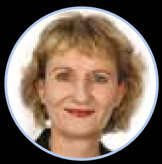
IN THE SPOTLIGHT

True Potential's investment director, Barney Hawkins, interviews Columbia Threadneedle and Close Brothers

IN THE SPOTLIGHT

With global stock markets at elevated levels we have been shifting our focus to our investment partners who run direct equity portfolios and who can continue to unearth interesting investment opportunities.

True Potential Investment Director Barney Hawkins met up with two such partners, Richard Colwell of Columbia Threadneedle and Riitta Hujanen of Close Brothers to ask them about their respective styles and the way they each manage money.



Riitta Hujanen
Close Brothers

Richard Colwell
Columbia Threadneedle

What is the biggest challenge you face managing a portfolio containing direct investment in companies?

RC. There will always be things outside your control. Having knowledge of behavioural finance and how these forces exert influence on yourself as well as the market is an advantage.

RH. Constructing well-balanced, diversified, global, multi-asset portfolios. We have dozens of companies to follow and this involves travelling to meet with management teams overseas as well as monitoring potential new stock ideas.

In a nutshell what is your style of management?

RC. As a patient, conviction investor, I use market volatility to add to favoured names at attractive valuations. I do not have a yield hurdle for individual stocks so I can buy a wide variety of companies, even some that do not pay dividends provided they offer significant capital gains

RH. Investing in undervalued good quality companies never goes out of style.

What techniques do you use to help you decide which stocks to buy?

RC. I focus on what I see as my core competency - bottom-up stock picking. I like to combine real engine room cash compounders with more contrarian names which have either fallen out of favour or are undergoing restructuring.

RH. We have a quant screen which evaluates companies based on their risk, profitability and earnings growth. Fundamental analysis helps us avoid "value traps" (companies that promise a lot but fail to deliver). Technical analysis identifies optimal momentum (price and profits rising) to support the purchase.

How much of your decision taking is objective and how much is subjective?

RC. We have a well-defined process which involves careful evaluation of a company's business model and management team but there'll always be an element of subjectivity moulded by experience and company meetings.

RH. Our investment idea generation is objective and relies on a quantitative stock screening tool to systematically scan potential opportunities. Subjective judgement identifies the potential investment ideas for further research and company meetings. Finally, technical analysis provides supplementary information for trading strategies.

What has been your best decision this year?

RC. Not being sucked in to the momentum driven 'Trump Trade'. Along with the aftermath of the Brexit vote, it was another demonstration that initial market reactions can often be short-lived.

RH. Not selling Cadence Design, Adobe System and Facebook. All three are US technology companies purchased years ago which had already done very well but which are up a further 50% or so this year.

It is reckoned that knowing when to sell is the hardest part of managing a portfolio. Can you describe your approach and give an example?

RC. Risk control plays a vital part in our portfolio management process and if a business materially alters its strategy or does a deal that we don't like we will reduce, and if necessary, sell.

RH. We have a target price for each investment. When this is reached, the holding is sold. Also, if the share price takes a decisive move in the wrong direction, this triggers a tactical exit for downside protection.

What gives you most satisfaction in your job?

RC. I enjoy lots of different aspects. Being a value investor can be lonely so when an investment turnaround comes though that's very rewarding.

RH. A client many years ago, said: "All my pension money is invested in your funds; I have nothing special to say, just wanted to wish you good luck". Helping provide clients with a financially more secure retirement gives a lot of job satisfaction.

PRACTICAL RISK MANAGEMENT

No one knows what the markets hold in store for us in the most immediate term. History can only ever be a guide. However, what history does tell us is that risk is often overlooked in the hubris of a bull market and that you ignore it at your peril.

Risk management takes many forms. Fundamentally though it is about effective communication. Our approach to risk, and the way we communicate results with one another internally, is something we take extremely seriously. We know it matters to our business and to our end clients. Responsibility for risk management is a senior management task. It permeates our culture and it operates from the top down.

In this article we look at how the management team makes use of risk-based information on the True Potential Portfolios and the underlying True Potential wealth strategy funds that make up the Portfolios.

We also go behind the scenes asking Paul Durrans, Investment Analyst, to provide his perspective on how to measure risk, based on price volatility. George Bell, Fund Governance Officer, explains his approach to containing other potential liabilities such as liquidity risk and drawdown exposure; sometimes knows as value-at-risk.

Paul Durrans is an Investment Analyst. He focuses on the management of the True Potential Portfolios and specialises in Risk. Building on his degree in Finance and Investment Management Paul is completing the final level 3 stage of the Chartered Financial Analyst exams.

The bedrock of multi asset portfolio management is the relationship between risk and return. Regarded as a 'dry' subject it gets a whole lot more interesting when applied in a dynamic setting.

For us it starts with our mean-variance model. A fancy term which, put simply, means we categorise and divide holdings into asset classes with different risk characteristics. At the next stage, we apply our risk data set - standard deviations and correlations - to the asset allocations. This shows how the different assets behave relative to each other. Using this approach, we assess the expected future price volatility of our portfolios.

The nature of investments is one where the market environment is forever changing. This means we must continuously assess the risk within each True Potential Portfolio and the underlying funds. Our mean-variance model provides us with a systematic and consistent approach and we update our models monthly to reflect the constantly changing asset mix of all our funds. In practice this ensures each portfolio is aligned to its risk profile and remains suitable for the client.

Sir Maurice Kendall, a famous British statistician, said something that sums up why we believe risk is a practical task and not a theoretical or academic one. Talking about risk management he said, "It's not the figures themselves, it's what you do with them that matters".

While it is necessary to calculate risk-data, interpreting the figures is more important, both for the investment team and our Investment Committee of independent experts.

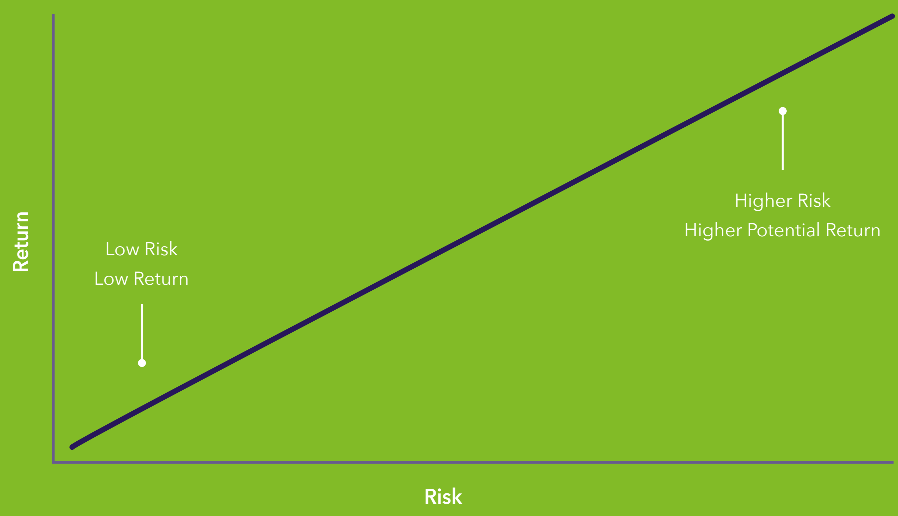
At True Potential, risk management and risk adjusted returns lie at the very heart of our investment process. Experience tells us is that those who recognise and respect risk are better prepared for market volatility and will recover more quickly in the aftermath of any weakness.

George Bell is Fund Governance Officer. George ensures our funds operate within their investment guidelines and objectives and makes sure all fund documentation is up to date and accurate. George obtained a first-class degree in Finance and Investment Management and is on the Dean's list for academic excellence.

In addition to expected volatility we also monitor liquidity risk and different market scenarios, which enables us to act on a forward looking basis.

We know from previous market events that liquidity and drawdown are highly inter related hence they come as a package. Drawdown measures the peak-to-trough fall of an investment value between two points in time and liquidity is a measure of how quickly or easily an asset can be sold without causing acute movements in price.

Risk/Return Tradeoff



In practice, liquidity tests are a little more complicated to compute than drawdown.

For example, in a difficult financial environment a manager may be forced to sell some or all of the fund's investment in a holding. Therefore, we simulate this by splitting each fund into the underlying holdings to see how long it would take to meet 50% and 80% redemptions out of the fund. If this process would exceed four working days, the holdings that remained unsold are exposed and it is our job to present these findings to the investment partner to ensure that their contingency plans are appropriate.

The importance of liquidity testing was brought to the attention of investors recently when those in direct property funds were exposed to exit penalties to discourage them from selling.

Our investment partners regularly conduct their own tests and our Authorised Corporate Director (ACD), Smith & Williamson, also conducts tests independently. It is our job to respond to the outputs they provide to us and to make good use of this additional layer of checking.

The value of pro-active stress testing has been acknowledged following several key historic financial events, some of which form the backdrop of the stress test simulations such as;

- **The Greek Financial Crisis (2015)**
- **US Debt Ceiling Crisis & Credit Downgrade (2011)**
- **The Russian Financial Crisis (2008)**
- **The Default of Lehman Brothers (2008)**

The practical application from conducting these tests for us is the way we link them to the five True Potential risk categories: Defensive, Cautious, Balanced, Growth and Aggressive. Although history does not repeat itself exactly we need reassurance that our funds are suitably stress tested and fit for purpose in all market conditions.

As an investment management firm we are constantly assessing risk not only within the portfolios but across the firm. We are strong believers that practical risk management is crucial to long term success.

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 eight 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 12.5%.

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 (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	38.0%
Active Management with Passive Implementation - True Potential 7IM Defensive	28.0%
Agile, Low-Cost Value Investing - True Potential UBS Defensive	34.0%

Cautious

Direct Equity & Bond Investing - True Potential Close Cautious	16.0%
Manager of Managers - True Potential SEI Cautious	18.0%
Active Management with Passive Implementation - True Potential 7IM Cautious	16.0%
Momentum with Volatility Control - True Potential Allianz Cautious	16.5%
Fund of Funds - True Potential Schroders Cautious	15.0%
Agile, Low-Cost Value Investing - True Potential UBS Cautious	18.5%

Balanced

- **Momentum with Volatility Control** - True Potential Allianz Balanced 15.0%
- **Direct Equity & Bond Investing -** True Potential Close Balanced 15.0%
- **Alternative Dynamic** - Goldman Sachs Dynamic 4.0%
- **Income Funds** - Goldman Sachs Global Income Builder 8.0%
- **Fund of Funds -** True Potential Schroders Balanced 10.0%
- **Manager of Managers** - True Potential SEI Balanced 19.5%
- **Active Management with Passive Implementation** - True Potential 7IM Balanced 10.0%
- **Agile, Low-Cost Value Investing** - True Potential UBS Balanced 18.5%

Growth

- **Momentum with Volatility Control** - True Potential Allianz Growth 21.0%
- **Direct Equity & Bond Investing -** True Potential Close Growth 20.5%
- **Manager of Managers** - True Potential SEI Growth 20.0%
- **Active Management with Passive Implementation** - True Potential 7IM Growth 17.0%
- **Agile, Low-Cost Value Investing** - True Potential UBS Growth 21.5%

Aggressive

- **Manager of Managers** - True Potential SEI Aggressive 32.5%
- **Active Management with Passive Implementation** - True Potential 7IM Aggressive 31.0%
- **Agile, Low-Cost Value Investing** - True Potential UBS Aggressive 36.5%

TRUE POTENTIAL PORTFOLIOS

Asset Allocation

Asset Class	Defensive	Cautious	Balanced	Growth	Aggressive
UK Equities	4.70%	13.60%	17.60%	20.90%	19.90%
North American Equities	13.30%	16.80%	21.80%	29.10%	36.80%
European Equities	5.00%	7.70%	10.70%	11.10%	14.10%
Japanese Equities	2.20%	3.70%	5.20%	4.90%	6.30%
Asia Pacific Equities	0.60%	1.00%	2.20%	2.30%	1.70%
Emerging Market Equities	2.20%	3.60%	5.80%	11.20%	13.20%
Global Bonds	13.30%	8.30%	5.80%	2.50%	0.50%
Global Inflation Linked Bonds	0.80%	0.80%	0.70%	0.60%	0.00%
Emerging Market Bonds	1.50%	2.20%	2.60%	2.60%	1.70%
Global High Yield Bonds	6.00%	4.40%	6.20%	3.20%	0.30%
UK Gilts	6.70%	6.40%	3.60%	2.20%	0.90%
UK Credit	6.00%	11.40%	8.70%	3.70%	1.80%
Property	0.00%	0.40%	0.40%	0.50%	0.00%
Commodities	1.10%	1.80%	1.30%	1.10%	0.90%
Cash	34.40%	17.90%	7.40%	4.10%	1.90%

Source: Smith & Williamson, 30 September 2017

+ 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 +

Direct Equity & Bond Investing - True Potential Close Balanced	14.5%
Fund of Funds - True Potential Schroders Balanced	12.0%
Manager of Managers - True Potential SEI Defensive	40.0%
Momentum with Volatility Control - True Potential Allianz Balanced	12.5%
Active Management with Passive Implementation - True Potential 7IM Growth	8.0%
Agile, Low-Cost Value Investing - True Potential UBS Growth	13.0%

Balanced +

Direct Equity & Bond Investing - True Potential Close Growth	19.0%
Manager of Managers - True Potential SEI Cautious	37.0%
Momentum with Volatility Control - True Potential Allianz Growth	13.0%
Active Management with Passive Implementation - True Potential 7IM Aggressive	10.0%
Agile, Low-Cost Value Investing - True Potential UBS Aggressive	13.0%
Fund of Funds - True Potential Schroders Cautious	8.0%

Growth +

Direct Equity & Bond Investing - True Potential Close Balanced	22.0%
Manager of Managers - True Potential SEI Aggressive	28.0%
Active Management with Passive Implementation - True Potential 7IM Aggressive	18.0%
Agile, Low-Cost Value Investing - True Potential UBS Aggressive	26.0%
Momentum with Volatility Control - True Potential Allianz Balanced	6.0%

Asset Allocation

Asset Class	Cautious +	Balanced +	Growth +
UK Equities	13.20%	18.50%	22.10%
North American Equities	17.30%	25.00%	32.10%
European Equities	10.30%	10.70%	13.00%
Japanese Equities	4.90%	4.50%	5.40%
Asia Pacific Equities	1.60%	2.00%	2.20%
Emerging Market Equities	4.60%	7.20%	10.60%
Global Bonds	8.50%	6.10%	1.00%
Global Inflation Linked Bonds	0.80%	1.60%	0.00%
Emerging Market Bonds	0.80%	2.00%	1.20%
Global High Yield Bonds	4.80%	4.70%	0.50%
UK Gilts	4.50%	4.00%	1.10%
UK Credit	7.10%	3.10%	5.90%
Property	0.30%	0.40%	0.50%
Commodities	1.10%	1.40%	1.20%
Cash	20.20%	8.80%	3.20%

Source: Smith & Williamson, 30 September 2017

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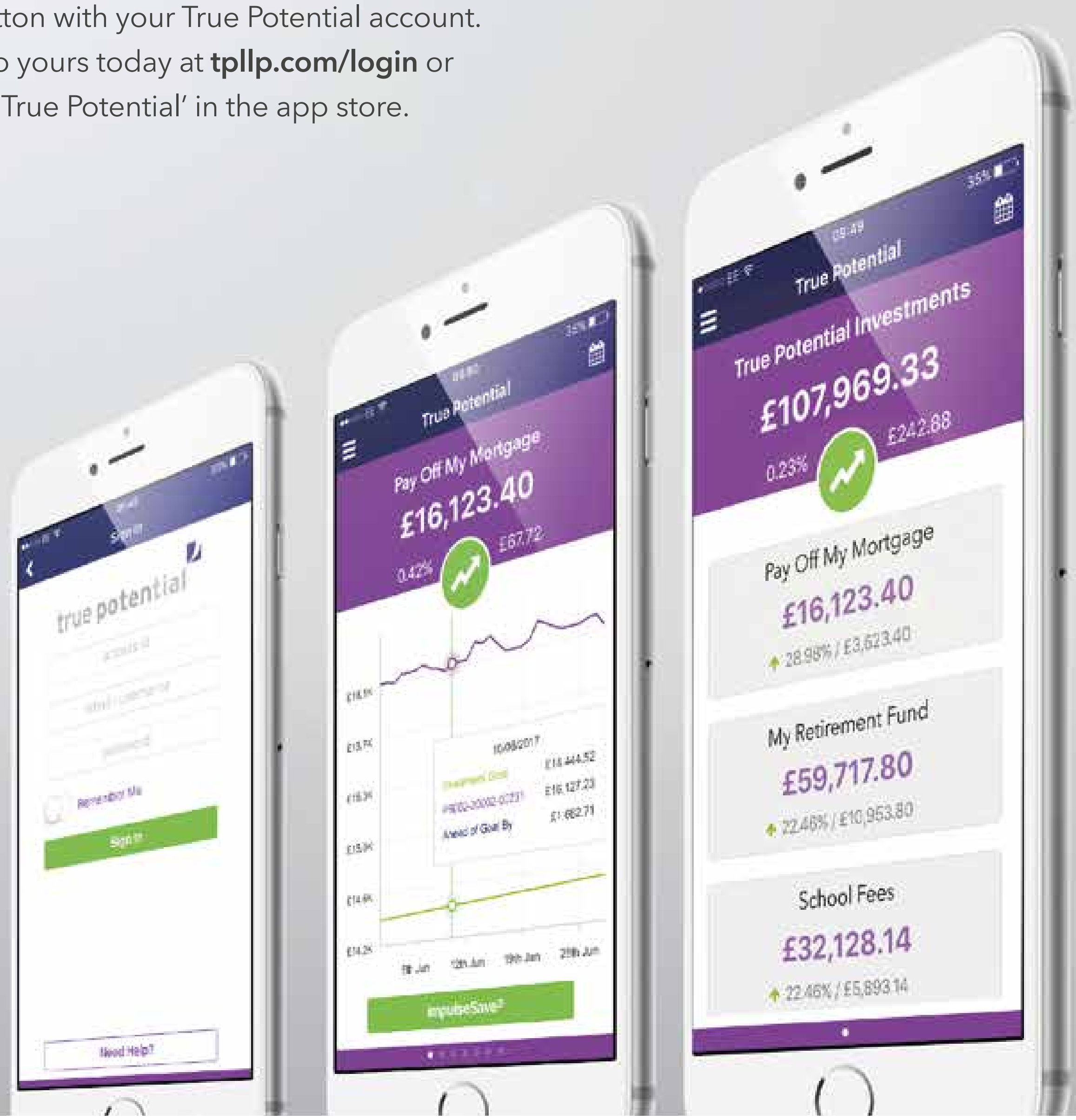

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INCOME PORTFOLIOS

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, 30 June 2017

Strategy Allocation

Cautious Income

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

Balanced Income

Direct Equity & Bond Investing - True Potential Close Cautious Income	6.0%
Income Focused - True Potential Threadneedle Monthly Income	35.0%
Income Funds - True Potential Goldman Sachs Income Builder	50.0%
Fund of Funds - True Potential Schroders Cautious Income	9.0%

Asset Allocation

Asset Class	Cautious Income	Balanced Income
UK Equities	22.30%	31.30%
North American Equities	11.60%	12.60%
European Equities	7.50%	7.40%
Japanese Equities	0.90%	0.60%
Asia Pacific Equities	1.50%	1.50%
Emerging Market Equities	0.10%	0.10%
Global Bonds	9.70%	10.10%
Global Inflation Linked Bonds	0.80%	0.10%
Emerging Market Bonds	0.70%	0.80%
Global High Yield Bonds	13.10%	15.40%
UK Gilts	1.50%	0.30%
UK Credit	13.90%	11.10%
Property	5.80%	1.50%
Commodities	2.50%	0.80%
Cash	8.10%	6.40%

Source: Smith & Williamson, 30 September 2017

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