Dynamic Planner Asset Allocations

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Principal Consultant
Dynamic Planner
Diversification across assets with different ‘characteristics’

• DT currently offers 10 risk targeted asset allocations
• Each offers maximised return for given level of risk
• DT are not tactical but take into consideration long term structural market challenges.

DT derives long term estimates of asset class returns

• Expected return, volatility and correlations
• All done on a real (inflation adjusted) basis
• Assumptions are mid to long term forward looking expectations
• Value at Risk analysis provides range of possible outcomes
• Forecasts are Stochastic rather than deterministic
Our Asset Allocation Process Overview

• Capital Market Assumptions (CMAs) set quarterly

• Expected returns are forward looking
  • Derived from gilt yields, GDP growth forecasts, dividend pay-out expectations

• Volatilities and correlations are based on historical 15 year levels
  • Uses historical monthly returns of standard market indices

• Asset Allocations reviewed quarterly, re-calibrated annually end September.

• Combined process is “quant to engaged qualitative overlay”
10 Dynamic Planner Risk Profiles

- Asset class changes will not generally exceed 5% between quarterly reviews
- Smooth progression of broad asset class split as risk increases
- Property exposure not larger than 10% in any allocation
- Proposed allocation change in efficiency minimised vs the unconstrained

The Efficient Frontier
### Dynamic Planner Allocations – Risk Analysis since Launch

#### Source: Lipper/DT 30 June 2005 to 1 Oct 2016

#### Maximum Drawdown

<table>
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<tr>
<th></th>
<th>MAXIMUM DRAWDOWN</th>
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<tbody>
<tr>
<td>RP 2</td>
<td>3.30%</td>
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<td>RP 3</td>
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<td>RP 9</td>
<td>42.17%</td>
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<tr>
<td>RP 10</td>
<td>43.80%</td>
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</table>

Source: Lipper/DT 30 June 2005 to 1 Oct 2016
Performance Analysis since Launch

Source: Lipper/DT 30 June 2005 to 1 Oct 2016
Sequence Risk explored – 4% pa withdrawal rate taken monthly

- Results since launch of model show impact regular withdrawals
- Nominal returns to date comfortably within our expectations

Figs include latest clean representative share class OCFs
Robust Basis for Fund Risk Profiling – DT Quarterly Oversight

Asset Allocation Comparison to Dynamic Planner

The historical volatility ‘journey’ relative to the Dynamic Planner asset allocation

Measured by tracking error analysis

Helps to understand the level of risk being taken

Historical Analysis

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## FRP vs RTM – the key differences

<table>
<thead>
<tr>
<th>Risk Profiled</th>
<th>Risk Target Managed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance focused but risk profile can change</td>
<td>Volatility focused so risk profile won’t change</td>
</tr>
</tbody>
</table>

### Risk Profiled

- 1
- 2
- 3
- 4
- 5

### Risk Target Managed

- 3
- 4
- 5

### Count:

- 1029 FRP’d funds + 452 DFM portfolios
- 56 RTM funds
Integrity of the DT Model – how have the conventional FRP funds fared?

Interquartile range data to 1 October 2016 – conventional multi-asset funds within DT FRP service.
DT indices use latest representative clean share class OCF’s.
Risk Target Managed Funds – what have been the risk outcomes?

Source: Lipper/DT from RTM launch in March 2015 to end Sept 2016
Brexit challenges & opportunities

Brexit panic wipes $2 trillion off world markets - as it happened

Pound tumbles to 30-year low as Britain votes Brexit

Investors pull £1.4bn from UK property funds in Brexit month

The Brexit economy: post-referendum data defies gloomy UK predictions

How long does the post-Brexit markets bounce last?

The Power of Diversification – correlations since launch of model

<table>
<thead>
<tr>
<th></th>
<th>UK Gilts</th>
<th>Global High Yield Bonds</th>
<th>UK IL Gilts</th>
<th>Global Bonds</th>
<th>Property</th>
<th>UK Corp Bonds</th>
<th>GEMs</th>
<th>Europe exUK</th>
<th>Japan</th>
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**Correlation Definition**

- **+1.0** Perfect +ve - When one asset moves, either up or down, the other security moves in lockstep, in the **same** direction
- **-1.0** Perfect -ve - When one asset moves, either up or down, the other security moves in lockstep, in the **opposite** direction
- **Zero** No relationship at all

- Property lowly correlated with all asset classes, although with liquidity risks
- High quality fixed interest lowly correlated with equities
- Equities highly correlated during generally low market volatility period
- High yield debt somewhere in the middle

Darker green is good
The Power of Diversification – challenges since Brexit

- Property still lowly correlated with all asset classes, although recent index valuation challenges
- High quality fixed interest increased correlation levels with global equities (apart from UK)
- UK equities negatively/lowly correlated with global equities (apart from Europe)

<table>
<thead>
<tr>
<th></th>
<th>UK Gilts</th>
<th>Global High Yield Bonds</th>
<th>UK IL Gilts</th>
<th>Global Bonds</th>
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Darker green is good
How has the model fared post-Brexit?
# Q4 Asset Allocation Changes

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<th>Asset Classes</th>
<th>UK Corporate Bonds</th>
<th>International Bonds</th>
<th>UK Gilts</th>
<th>UK Equity</th>
<th>Europe ex UK Equity</th>
<th>North American Equity</th>
<th>Japanese Equity</th>
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<td>3%</td>
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</table>

**Key themes:**

- Increased equity globalisation
- Reduction in UK gilts
- No change to property
- Consideration of Absolute Return and changes to indices for global bonds exposure
Dynamic Planner ACE™ Ratings

Jason Dewar
Senior Consultant
Dynamic Planner

Please open the MeeToo App or visit web.meetoo.io on your browser
• Purpose of the ratings service

• How we do our analysis

• Differences between research – quant & qual

• Proof of concept

• Your feedback is required!

Please open the MeeToo App or visit web.meetoo.io on your browser
Why is DT providing a fund rating service

- Independent, Whole of market
- Over 1000 risk profiled funds
- Completes the Investment suitability journey
-Reviewed on a rolling 3 month basis.
CONSISTENCY
is the fund a ‘good fit’ to the Dynamic Planner model?

EFFICIENCY
risk-adjusted performance delivery relative to its identified peers?

Asset Consistency and Efficiency = ACE

Complementary research for advisers using the DP Asset & Risk Model for their CIP

From a universe of around 2,600 funds, just over 300 have been rated (just under 12% qualify)
Quantitative research – our approach

- Peer group or Comparative group
- Standard deviation measurements based on thousands of data points
- Data supplied by Lipper
- Range of metrics. Performance, Risk, tracking error, frequency
- Z score system
Qualitative research

- Initial Screen
- Questionnaire
- Interview
- Analysis
- Short List
- Investment Committee sign off
We are only considering **actively managed retail focused funds** that are **listed in the IA sectors** within our selection criteria.

1) **Single sector funds** for the construction of model portfolios

2) **The IA universe for conventional Multi Asset Funds**, which also includes those which DT have not risk profiled

3) **Risk Targeted Fund Families** (includes the specific Dynamic Planner RTM funds)

4) **Targeted Absolute Return Funds**
Results similar in US, Europe, GEM, Bonds.
What you see in Dynamic Planner