Dynamic Planner Investment Philosophy & Process

Contents

1. Introduction

Dynamic Planner offers a unique combination of market leading financial planning tools, client management and reporting systems which have successfully been integrated with the UK's leading fund platforms and product providers.

At the essential core is a powerful and sophisticated asset allocation model which ultimately helps frame the suitability of the recommendations made within Dynamic Planner. It is supported by a dedicated and expert Asset and Risk Modelling Team at Distribution Technology (DT), whose mission is to power Dynamic Planner with repeatable and practical excellence in all aspects of financial modelling.

Whilst of course it is impossible to predict the future with complete accuracy, our asset allocation model equips the user with the combined advantages of forward-looking and past performance analysis to more accurately forecast what is *most likely* to happen in future.

The following analysis is multi-dimensional and is delivered in a highly governed and transparent environment:

- measurement of client attitude to risk utilising psychometric profiling and cash flow modelling techniques
- construction of efficient, practical and investible asset allocation strategies
- alignment of those investment strategies to client risk tolerances
- global asset class diversification for improved efficiency and greater opportunity set
- stochastic wealth forecasting and 'what if' scenario planning for financial goal planning
- fund risk profiling service to most accurately align investment solutions with agreed investment strategies
- quarterly asset model and fund risk profiling reviews for on-going suitability assurance

This document aims to provide professional advisers, asset managers and other external partner enterprises an in-depth portrayal of the investment philosophy and process employed by Dynamic Planner's in-house Asset and Risk Modelling Team.

Reliance on 'black box' derived answers runs the risk of misinterpretations and potential advice misalignment with a client's financial needs. The objective therefore is to describe the financial modelling methodologies used within Dynamic Planner's tool set to enable the user to understand how to interpret and evaluate the results as well being aware of its limitations.

2. Attitude to Risk Profiling

Understanding how much risk the customer is willing and able to take and ensuring suitability of the investment recommendations is vital in the advice process.

The Dynamic Planner Risk Profiling Process is designed to accommodate clients who fall into the following broad demographic:

Age	25-70 (the questionnaire can be used with people outside of these age ranges, but extra care needs to be taken when determining their risk profile)
Liquid assets	£3,000 and £10 million
Capacity for loss	Up to £5 million

Investors outside the target population distribution curve (ages 25-70) will require additional attention. Firstly, there is a potential for less reliable results for those under age 25, as they have less experience to draw upon. Secondly, clients aged over 70 may need to be considered with additional care, especially if their responses have a high level of inconsistency or they require greater support with understanding the process.

The process of creating an investor risk profile is divided into the following four steps:

2.1 Investment Experience

The Conduct of Business Sourcebook (COBS) specifies that when making a personal recommendation or managing investments, a firm must understand the client’s knowledge and experience in the investment field relevant to the specific type of designated investment or service.

Dynamic Planner has an investor experience questionnaire at the start of the risk profiling process. The investor experience questionnaire is designed to identify where a client may need extra help to fully understand the risks and benefits of investing. Unlike the attitude to risk questionnaire, it is not scored.

2.2 Willingness to take risk

Using psychometric risk profiling to determine the risk a customer is willing to take typically involves completing an attitude to risk questionnaire. Our risk questionnaire, designed by the experts in behavioural finance at the Henley Business School, University of Reading, captures the dynamic nature of risk in terms of three aspects:

Drivers: The reasons for engaging in risk-taking behaviours – these include underlying motivations for a desired end state (which may include the acquisition of material goods, the establishment of relationships, gaining knowledge/insight as well as defending what is already possessed or aspirations versus contentment with what they already have). Other relevant drivers may include how serious is a shortfall from the desired outcome (e.g. paying children's university fees versus buying a yacht).

Constrainers: These are the person-based factors that may hold back or enhance the impact of the drivers of risk behaviour. They may include personality factors, emotional pre-disposition and the locus of control (making sense of outcomes), and attitude to change: if people find it difficult to give up what they have at the moment then they may want to take less risk. In particular, the process includes questions which measure aspects such as anxiety and emotional stability. These are typically unchanging and deep-seated characteristics such as whether a person is calm or prone to stress, and cannot be changed easily.

Enablers: The circumstantial and environmentally based factors that could enable risk-related behaviours. These factors are less about stable internal personality characteristics and more subject to change. They include the knowledge, skill and overall circumstance of the individual when it comes to risk, which can enhance emotional intelligence. Enablers can be more easily modified than the other two factors, but knowledge and circumstances (capacity, liquidity and timeframe, for example) are measured separately from attitude to risk in the Dynamic Planner process.

2.3 Checking of Responses

Client responses to the attitude to risk questionnaire may be inconsistent. The scoring of the questionnaire will take the answers as given, and as such the result may not reflect the client's true risk attitude.

To mitigate this, Dynamic Planner provides an inconsistency check. This looks for questions which when taken in isolation are outside of the tolerances expected based on the overall result of the questionnaire. These inconsistencies are presented to the adviser following the completion of the attitude to risk questionnaire. Where an inconsistency occurs, the client's understanding of the question and the rationale for their response requires validation, which will appear in the risk profiling report.

These inconsistency tools will not be able to pick up every possible issue and are not intended as a substitute for a 'sense check' by the adviser. The adviser should look at the specific responses to each individual question and ensure that any final advice is consistent with these responses.

2.4 Assessing ability to take risk

The next step in the risk profiling process is to assess the customer's ability to accept investment risk, by exploring the impact that possible losses may have on his/her wider financial position. This approach adheres to the principles of the FSA's Guidance Consultation on Assessing Suitability (Jan 2011) and involves the customer answering additional questions related to the following:

- investment timeframe
- capacity to tolerate possible losses which could have a material detrimental impact on their standard of living
- liquidity requirements

2.5 Select & Agree Risk Level

The ATR profiler then ranks risk aversion on a scale of 1 to 10, with a score of 1 being the most averse and 10 the least. Dynamic Planner uses standard deviation as its measure of volatility and each corresponding investment risk profile has its own prescribed level of expected volatility deemed appropriate for a typical individual. For each risk profile, a suitable asset allocation is then selected from the Dynamic Planner sourced efficient frontier.

This is achieved by dividing the efficient frontier asset allocation strategy into 10 uniform volatility bands and thereby maintains consistency with the methodology used for the ATR profiler. For further details refer to Section 4 of this document.

Table 1: Current risk profile boundaries

Risk Profile	Lower boundary	Upper boundary
1	0.0%	2.1%
2	2.1%	4.2%
3	4.2%	6.3%
4	6.3%	8.4%
5	8.4%	10.5%
6	10.5%	12.6%
7	12.6%	14.7%
8	14.7%	16.8%
9	16.8%	18.9%
10	18.9%	21.0%

For the purposes of risk banding, volatilities up to 21% per annum are used, as that is the maximum potential range suitably diversified portfolios are positioned on the efficient frontier. The implicit assumption with this approach is that the range of volatility used within Dynamic Planner is appropriate for the majority of retail investors.

Dynamic Planner then provides a stochastic analysis for each of the 10 target asset allocations and calculates a range of ‘what if’ scenarios to help the adviser understand the expected risk and reward journey over various users defined time periods.

3. Capital Market Assumptions

Dynamic Planner’s Capital Market Assumptions (CMAs) are long term estimates of expected returns, volatilities and correlations for a range of core asset classes. These are used to drive fund risk profiling and the wealth forecasting tool within Dynamic Planner. All calculations are conducted on a ‘real’ (i.e. above inflation) basis which gives a more accurate reflection of an individual’s future purchasing power. This approach is consistent with the methodology used within Dynamic Planner.

The process for deriving the CMAs is predominantly quantitative but a qualitative oversight is provided by Dynamic Planner’s Investment Committee to ensure consistency with the models employed. They are set on a quarterly basis usually between 5-6 weeks post a quarter-end and implemented into Dynamic Planner at the first available production release date thereafter.

3.1 Quantitative Process

Expected Returns

For equities we estimate the expected real returns using the following:

a) Earnings Yield: This is the inverse of the P/E ratio, which measures the ex-ante real return on equities. We use multi-period trailing averages of reported earnings to smooth the cyclicality in annual earnings.

b) Dividend Discount Model (DDM) Yield: According to the DDM, the expected real return on equities is approximately equal to sum of dividend yield, expected growth in the dividends or earnings per share and the change in valuations. Region specific data is analysed within our forecasts.

We therefore use a mix of these ex-ante and forward-looking models to assess the expected return on equities.

For bonds, the prospective returns over a long horizon are strongly anchored to their gross redemption yields. While the yield of individual bonds would depend on the driving factors, specific to the bond in question, we assess expected returns on bonds based on a bond index which has a stable duration.

In the case of UK Investment Grade and Global High Yield Bonds, we use the prevailing option-adjusted yield spread (OAS) for the relevant credit index (or corresponding credit portfolio). The expected excess return from the OAS spreads are then added to our Government Bond assumptions.

Volatilities

Volatilities describe the potential for the asset classes to move up and down in value and are measured by using annualised standard deviations of real monthly returns. Dynamic Planner bases the volatility calculation on data available per asset class over various time periods.

Correlations

Correlations describe how asset classes move together with a correlation of 1 meaning that two asset classes will move perfectly up and down in tandem and correlation of -1 meaning that the two asset classes are imperfectly uncorrelated and will move in the exact opposite direction. When creating portfolios, asset classes that are un-correlated provide greater diversification benefits.

To estimate correlations Dynamic Planner uses observed data since 1990 for each asset class (the earliest start date for underlying index data being available across all the asset classes deployed in the software). Using recognised 'robustification' techniques, data outliers are ignored where it is deemed there is no impact on the long-term correlation assumptions.

A correlation matrix across a wide range of asset classes is then created.

3.2 Qualitative Process

The CMAs are calculated every quarter and then reviewed within Dynamic Planner's Investment Committee for consistency to ensure that the latest figures remain appropriate. This step is important as it captures potential anomalies that can be produced by pure quantitative processes that completely use a 'black box' approach.

The Investment Committee meets every quarter to assess the quarterly output from the quantitative analysis and to explore differing models to ensure that the process remains relevant and robust.

4.Asset Allocation Setting Process

The Asset and Risk Modelling Team generates capital market assumptions for how a wide range of asset classes are expected to behave over the mid to long term. Specifically the assumptions are created quarterly and cover: expected returns, volatility and the covariance matrix.

Modern Portfolio Theory techniques are then applied to the assumptions to derive an efficient set of asset allocations (they attempt to maximise expected returns for a given level of risk) that match the ten risk profile descriptions shown within Dynamic Planner. This is known as the optimisation process and is a purely quantitative step in the creation of the asset allocations.

Each asset allocation is built from the 15 asset classes employed within Dynamic Planner and the use of 'riskier assets' will increase across the range from risk level 1 through to 10. For example, risk level 1 uses a 'cash only' asset allocation, level 5 invests c. 60% in equities, whilst risk profile 10 is predominately allocating to emerging and Asia Pacific equities.

The asset allocation process used is broadly defined as follows:

4.1 Capital Market Assumptions

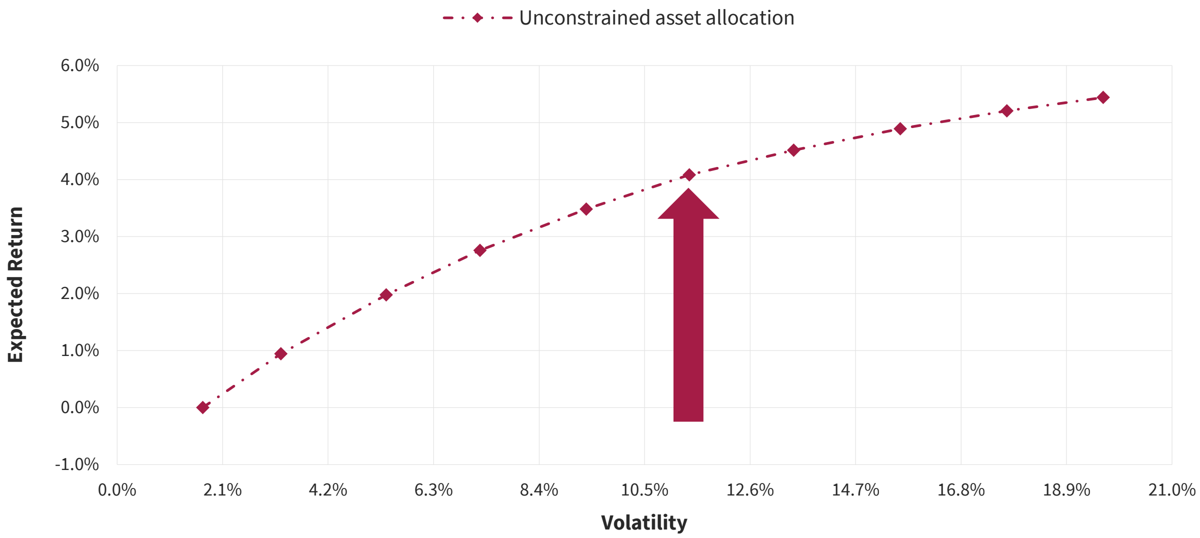
The Capital Market Assumptions (CMAs) are updated on a quarterly basis. This process defines an expected return, volatility measure and covariance matrix for Dynamic Planner's 15 broad asset class model. The process is predominately quantitative (see Section 3 for more details) but does employ qualitative oversight by the Investment Committee.

4.2 Mean Variance Optimisation

The fundamental goal of Modern Portfolio Theory is to optimally allocate an investment portfolio between different assets. This includes Mean Variance Optimization (MVO) which is a widely adopted and robust quantitative technique. We use the assumptions for expected returns, volatility and correlation as inputs to the MVO process in order to 'optimise' portfolios that offer the highest possible expected return for a given level of expected risk. Collectively these create what is described as the 'efficient frontier' and according to theory, it is assumed that all investors are rational and therefore should select portfolios that reside on the efficient frontier.

The most efficient portfolio is defined for the central volatility position of each of Dynamic Planner's risk boundaries – as described in table 1 of this document (and shown by the arrow in the chart below for the example of risk profile 6).

Figure 1: Efficient Frontier Curve (unconstrained example shown)



4.3 Investment Committee Oversight

The following table describes the qualitative framework that the Investment Committee then applies to the optimisation results to ensure the finalised allocations remain sensible from an investable point of view.

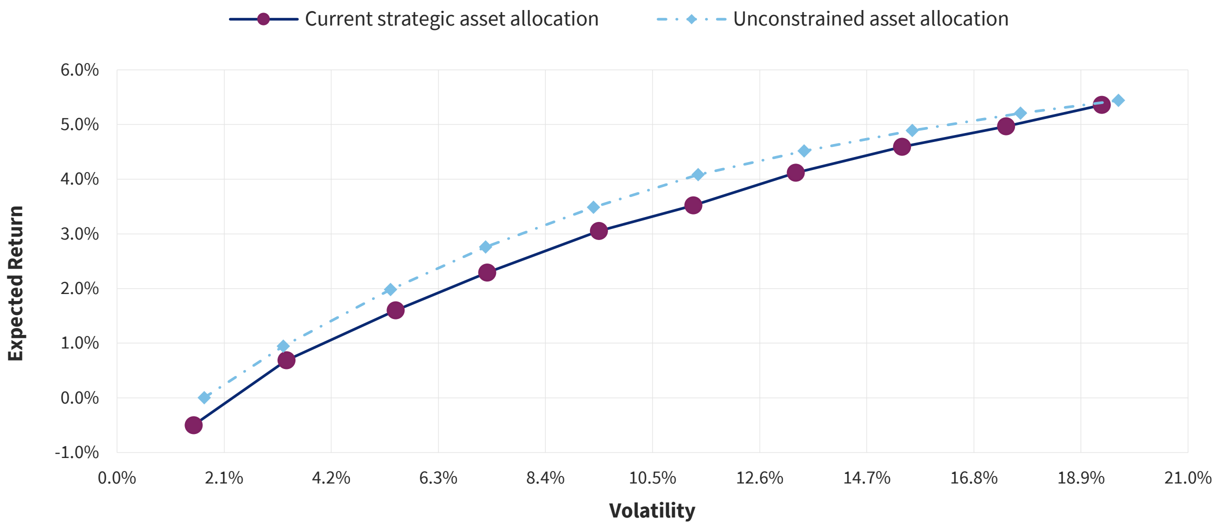
Table 2: Investment Committee qualitative overlay framework

1.	The finalised asset allocations shall comply with the risk profile descriptions as shown in Dynamic Planner.
2.	Portfolio 1 is 100% cash (money market) for nominal capital preservation purposes.

3.	The minimum allocation per asset class when utilised in a portfolio is 2%. There is no maximum allocation per asset class; however property shall not form a position larger than 5% in any allocation due to its illiquidity constraints.
4.	Asset class changes will not generally exceed 5% between quarterly reviews, although the Committee reserves the right to exceed this in extreme circumstances.
5.	Portfolios 2-7 represent the most diversified portfolios and shall therefore allocate to more than one broad asset class. A broad asset class is considered: cash, equity, bond or property.
6.	Portfolios 8-10 are considered the highest risk and will be dominated by equity assets.
7.	There should be a smooth progression from the broad asset class split over the increasing risk parameters. For example, the transition from a predominance in bonds to equity weightings.
8.	The change in efficiency (expected return per unit of risk) from the unconstrained model to the proposed allocation will be minimal.

Figure 2 shows there is very little difference from either portfolio in terms of anticipated efficiency; however the resulting strategic portfolios are more investable and sympathetic to reality.

Figure 2: Efficient Frontier Curves



4.4 Finalising the Allocations

The Dynamic Planner strategic asset allocations are currently changed annually but are reviewed on a quarterly basis using the latest quarterly Capital Market Assumptions data. This regular review process ensures that the allocations in production remain relevant and enables amendments to be made should there be a significant market event. However, the intention is to only make strategic allocation changes on an annual basis.

5. Fund Risk Profiling Service

5.1 Introduction

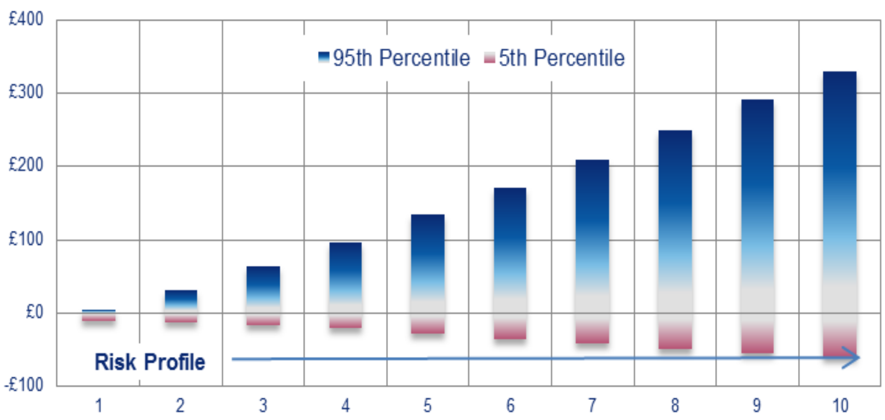
As described in Section 2, Dynamic Planner has a sophisticated set of client risk profiling tools which can be used by advisers and their clients to agree the most suitable investment risk profile on a 1 – 10 scale (with Risk Profile 1 meaning lowest risk and Risk Profile 10 meaning highest).

The underlying risk-adjusted benchmarks represent the most important constituents of the majority of available collective investments and model portfolios and are used to provide forecasts of expected returns and volatility.

An important requirement when implementing a specific portfolio for each investor is to understand the expected level of risk associated with any collective investment fund or portfolio being considered and how that aligns to the investor's tolerance for potential losses as well as gains. This approach is used within Dynamic Planner and adheres to the principles of the FCA's Guidance on Assessing Suitability.

Dynamic Planner's Fund Risk Profile (FRP) service is carried out by an experienced in-house Asset and Risk Modelling Team that looks to position investment solutions relative to the 1 -10 investor risk profiles used within Dynamic Planner. The resulting FRP score attributed is then used to estimate an underlying value at risk forecast based on the modelled underlying asset allocations.

The FRP service is an on-going process that begins with an initial assessment of an investment solution and is subsequently reviewed on a quarterly basis to ensure that the profile remains appropriate.



It is important to realise however that the FRP process is not an endorsement and that there are further considerations to be addressed when selecting a suitable investment solution. Additionally, a given risk profile is not a guarantee of an expected level of return and that it is possible to lose capital. The chart shows the potential dispersion of expected inflation adjusted returns per risk profile, for a £100 investment and based on a poor and good range of outcomes for each of Dynamic Planner's underlying asset allocations. This particular analysis shown above uses the annualised forecasts over a typical business cycle.

The complete process broadly follows the below steps – and within each of these steps the analysis approach is ***multi-dimensional***:

All calculations are conducted on a 'real' or 'above inflation' basis which gives a more accurate reflection of an individual's future purchasing power and is consistent with the methodology used by Dynamic Planner.
The risk profile score is our independent opinion of how volatile an investment solution is likely to behave in most market conditions. It is not an indicator of future success but a relative view of potential risk and therefore the FRP service must always be used within a regulated advice process.

5.2 Data Collection

For each fund analysed, the Asset and Risk Modelling Team requests detailed performance, underlying holdings and asset allocation history dating back at least three years. In the case of fund-of-funds solutions, the underlying fund holdings are also requested and analysed.

It is possible to risk profile a recently launched product, however more focus is placed on understanding its internal risk controls and investment process. Any simulated past performance data supplied by the asset manager is scrutinised for consistency before use within the analysis.

As a part of the collection process, there may be instances where the asset manager uses assets classes outside the standard Dynamic Planner model. Therefore, more detailed analysis is required to determine the appropriate level of risk, involving mapping assumptions to the wider range of asset classes modelled by Dynamic Planner. This usually is a collaborative process between the asset manager and Dynamic Planner and such assumptions are reviewed quarterly.

5.3 Quantitative Assessment

The two fundamental drivers to financial risk within a fund or portfolio are the asset allocation exposures and the type of underlying investments used to deliver them.

Dynamic Planner's process to derive an appropriate risk profile is multi-dimensional considering a number of quantitative attributes which can be broadly described as either asset allocation or performance related.

We therefore avoid focusing solely on the latest asset allocation snapshot, since this does not necessarily reflect the potential risks as a result of the asset manager's tactical decision making flexibility or stock selection process.

6.3.1 Asset allocation (ex-ante) analysis

Historical monthly holdings and asset allocations are received directly from the asset manager for a length of time that is deemed relevant to help assess the product's risk on a forward-looking basis (ex-ante). Therefore data provided prior to a structural fund change (e.g. a fund merger or significant objective change) would not be used within the analysis.

Typically, three years of history is a satisfactory length of time and from this data the distribution of a potential risk profile can be determined. The specific asset allocation attributes reviewed are detailed below:

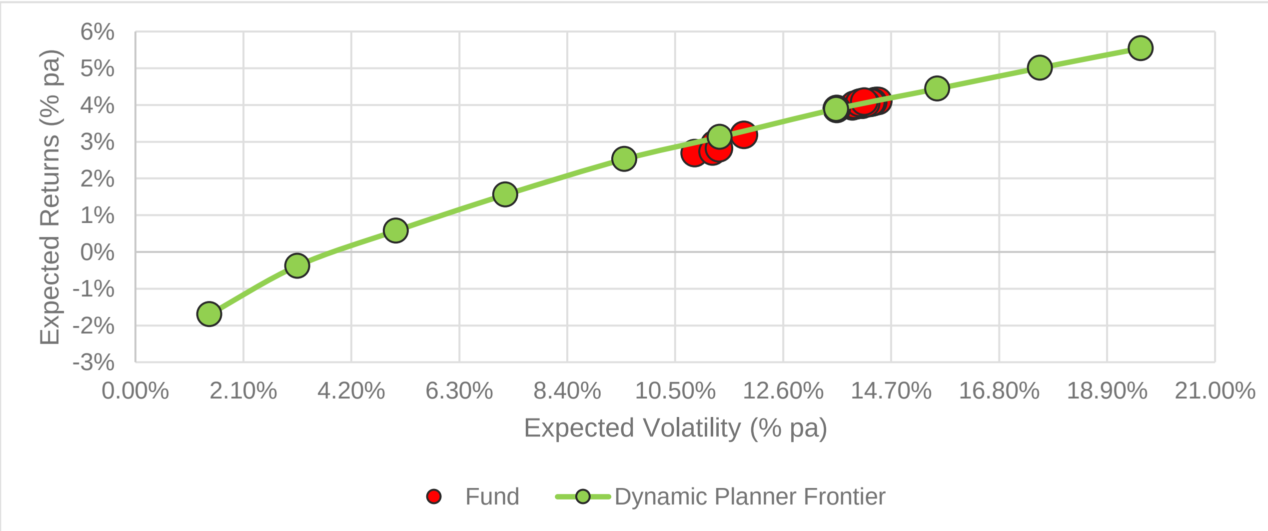
Key Attribute	Methodology
Strategic Allocations	Many investment solutions have a core or strategic allocation that is used as a central position upon which the asset manager bases tactical decisions. This position therefore provides an indicative long term 'average' allocation and forms a critical part of the overall analysis.
Tactical Allocations	The monthly historical tactical positions provide a view of how 'active' the asset manager has been. It enables a distribution of historical data to be created to determine the most frequently occurring asset allocation profile, in addition to the minimum and the maximum profiles experienced.
Potential Range	Similarly, to the experienced minimum and maximum ranges, it is also important to review the potential range of asset class exposures permitted within the fund mandate. From this, a view can be determined on a 'theoretical' fund risk profile.

By applying our latest quarterly Capital Market Assumptions (expected returns, volatilities and covariance), the asset allocation attributes of the investment solution can be plotted onto Dynamic

Planner's efficient frontier (or expected risk-return chart). These are then compared against the expected volatility of the underlying asset allocations for Dynamic Planner 1-10 Risk Profiles.

Fig 3 demonstrates the range of allocations experienced historically using a common set of capital market assumptions. From the positions shown a view can then be formed of the most appropriate risk profile. In figure 3 overleaf the locations of the vertical gridlines indicate the boundaries of expected real return and volatility for the current Dynamic Planner Risk Profiles.

Figure 3: Risk-return of historical asset allocation positions vs. current Dynamic planner efficient frontier



Fund Analysis

The expected real return and volatility of the historical allocations indicate a risk profile between the Dynamic Planner Risk Profile 6 and 7 boundaries. However, the most frequent and recent allocation modelling suggest Risk Profile 6 is most appropriate.

It is therefore evident that this fund has a flexible asset allocation mandate. On balance this fund was given a Dynamic Planner Risk Profile 6 for the asset allocation stage of the analysis.

5.3.2 Past performance (ex-post) analysis

Examining the volatility of past performance is an important part of Dynamic Planner's in depth quantitative (ex-post) assessment but is generally considered complementary to the prior asset allocation analysis carried out.

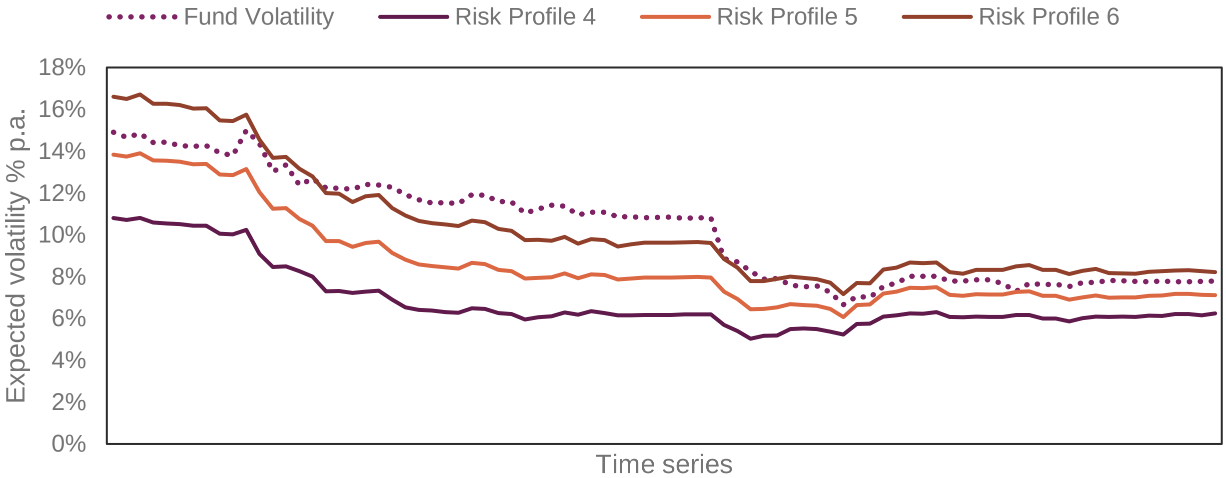
It provides evidence of an asset manager's past efficiencies in portfolio management and is reviewed on a ***relative*** basis (as explained below).

It is also important to note that for the performance history to have a bearing on the initial asset allocation analysis there must be at least three year's history.

Key Attribute	Methodology
Relative past performance	Comparing the observed volatility to a relevant index is useful for understanding how the product is operating relative to the general market. To do this Dynamic Planner looks at its past volatility on a 12-month rolling annualised basis. For example, if volatility in the broad market is low, we would expect most solutions with a relative performance objective to behave in a similar manner. Dynamic Planner reviews the investment solution's mandate to determine the relevance of an index. If it is a multi-asset solution, the comparator will most likely be the most appropriate asset allocations used for Dynamic Planner 1-10 Risk Profiles. In the case of a fund only investing in a single asset class, the appropriate comparator would be a common broad market index.

Once the relevant index has been established, tracking error analysis is carried out to determine the appropriate Dynamic Planner risk profile to apply. It is important to note that the 'volatility journey' will be largely driven by market events that are completely out of the hands of the asset manager. Therefore, there may be periods when the historical (ex post) annualised volatility may not be directly aligned with the long term expected volatility boundaries of its existing Dynamic Planner risk profile – hence the need for the relativity analysis, as measured by the observed tracking error.

Figure 4: Observed volatility relative to Dynamic Planner over rolling one-year periods



Fund Analysis

On a relative basis, the volatility of the example fund has mainly ranged between the level historically achieved by Dynamic Planner Risk Profiles 5 and 6. This therefore supports the evidence shown within the asset allocation analysis considered previously.

5.4 Qualitative Assessment

To complete the FRP process a qualitative assessment is then conducted by the Fund Risk Profiling Committee whereby the members discuss and debate the results provided from the quantitative process. The following provides detail on the key additional points that are often taken into consideration at this stage:

- The strength of the data mapping exercise carried out when the raw holdings data was received from the asset manager. For example, how the product's specific asset class exposures are gained relative to the broad market indices used in the analysis.
- Comparing the proposed FRP score to a peer that has already been risk profiled under the process. This enables a fair comparison to be made and can highlight any potential inconsistencies.
- Any relevant information that may have become apparent following active engagement with the asset manager and from reviewing the product's literature. This includes understanding how risk is measured and controlled – which is particularly important when reviewing absolute return funds. For such funds a more detailed set of questions are asked.
- The type of product being profiled is also a key point to consider as it fundamentally determines how much importance is placed on the quantitative attributes already

addressed. The table below provides the definitions for the broad fund types that Dynamic Planner believes needs differentiation.

Fund Type	Dynamic Planner Definition
Multi Asset Fund	We will adopt the Investment Association (IA) mixed asset or targeted absolute return sector definitions where appropriate. However, where a fund is currently listed within either an ‘unclassified’ or ‘specialist’ sector, or in the case of DFM model portfolio, it will be positioned as a multi asset solution should there be exposure to more than one broad asset class category (e.g. equities, bonds, property, absolute return or commodities).
Single Strategy Fund	A fund will be considered a single strategy fund if it is positioned in one of the IA Fixed Interest or Equity sectors. As a result, we would include a global equity fund, a strategic bond fund or a global bond fund in this category. This category will also include those absolute return type products offering exposure to one broad asset class (e.g. a long/short global equity fund, long/short global bond fund).
Absolute Return Funds	Absolute return funds aim to make positive returns across varying market cycles via the active use of various derivative instruments. Additionally, if a net exposure to an asset class is regularly ‘short’ via the use of derivative instruments because the asset manager is making an active decision to improve returns when markets are falling, we consider it to behave more like an absolute return portfolio. Relative analysis versus a representative index would therefore no longer be relevant, despite what the funds specific marketing intention may be. However, where a fund is simply using derivatives for the purpose of efficient portfolio management, or where usage level is minimal, then it is more likely to be considered by Dynamic Planner as a conventional multi-asset product.

This part of the qualitative part of the process is very important as it gives the opportunity to ‘sense check’ the results.

The final risk profile is then provided in a detailed research report submitted to the asset manager and a meeting is set up to discuss the results. Should these not be consistent with the views provided by the asset manager, more information is requested, and the dialogue will continue until agreement is gained. If no agreement is reached then the FRP service does not proceed.

5.5 Quarterly Review Process

Following the initial Fund Risk Profile assessment, the investment solution is actively monitored each quarter using Dynamic Planner’s latest CMA’s and the most recent holdings data provided by the asset manager. In addition to the extra three months of asset allocation and performance information, the asset manager is also asked to provide information relating to any changes to the investment process which may have subsequently occurred. This data is then appended to the historic information originally received and the asset allocation and performance figures are reviewed. A report is then shared with the asset manager as part of the on-going review service and a ‘traffic light’ filter system is deployed to flag any required actions.

	A red status indicates that the solution’s current risk profile is no longer appropriate and that it will be changed at next quarters’ review unless appropriate action is taken by the asset management team.
	An amber status indicates that one or more of the measures considered may indicate the possibility of an alternative risk profile. This could be due to short-term tactical positioning within the solution or other market considerations, and does not imply that the long term risk profile should necessarily change.
	A green status indicates that the solution is in line with the assigned risk profile and no action is needed.

Our intention is to work closely with the asset manager to thoroughly consider the product’s long term strategic risk positioning, thereby avoiding unnecessary risk profile changes caused by temporary tactical factors or market events. As a part of this process, it is also important to consider any changes in the management process or asset manager.

Important Information:

The service offers our informed opinion of the most appropriate risk profile of the investment solution over the longer term. Whilst the analysis is intended to be forward-looking, we do not guarantee that its actual risk profile will remain unchanged in future, although our service does include a quarterly review process. Please note that the resulting Dynamic Planner Risk Profile should not be viewed as an endorsement of the product, or a buy ‘rating’ and other factors need to be considered as a part of the advice process.

6. Frequently Asked Questions

1. What is the difference between Risk Profiled, Risk Target Managed, Risk Managed Decumulation and Risk Mapped funds?

In the wider market there are many approaches used for the assessment of a fund's volatility, however Dynamic Planner believes the following definitions are appropriate:

Risk Targeted: These solutions aim to achieve a volatility target on either a relative or absolute basis. The target is product specific and is completely dependent on how the asset manager measures risk.

For example: Fund X is looking to achieve a volatility that is 50% of the FTSE All Share, or Fund Y is looking to achieve a volatility of between 8-10% p.a. How the asset manager intends to achieve this becomes an important attribute when Dynamic Planner reviews the fund's overall risk profile.

An investment solution that is committed to staying within Dynamic Planner's risk framework is defined as being Risk Target Managed. This is the case since the asset management process is based on Dynamic Planner's interpretation of risk, delivered via specialist investment consulting services from the Asset and Risk Modelling team.

Risk Profiled: These are where Dynamic Planner has been requested by an asset manager to put them through its risk profiling process as set out in Section 7. In the case of conventional 'peer group aware' products, these are not managed specifically with Dynamic Planner's target volatility or asset allocations in mind. Therefore, the FRP service is provided to help the adviser select suitable solutions in line with a client's risk profile. As part of the quarterly review service, Dynamic Planner will flag any required changes to the FRP score so the adviser can take action if deemed necessary.

Risk Managed Decumulation: Both our Risk Target Managed and conventional Risk Profiling Services assess the risk of a fall in value from one year to the next, to align with the established annual review practice, assuming the investor remains invested during the year. However, where a client is taking a fixed cash amount each month, this distorts the accumulation model by introducing Sequence of Return risk.

To mitigate this additional risk and to ensure that the outcome is aligned to the client's risk profile, a different asset model and service is required.

Our Risk Managed Decumulation (RMD) Service has been designed specifically to solve this issue. By instead refocusing on monthly downside risk control, it aims to defend the remaining capital so it is more likely to last longer.

Risk Mapped Funds: These are often viewed as synonymous with Risk Profiled Funds but the process tends only to be based on a one-off asset allocation snapshot. Dynamic Planner prefers not to use the terminology of 'rated' since it could potentially be misconstrued as being part of its deeper researched FRP service and/or a recommendation of the solution's likely success.

2. How does Dynamic Planner consider an asset manager's own assumptions when Fund Risk Profiling?

There are multiple methodologies for setting market assumptions and asset allocations; Dynamic Planner is agnostic to the approach asset managers may take as a part of their process. For each risk profile score, Dynamic Planner allocates a forward-looking volatility boundary and this information is shared with the asset manager. In the case of an FRP asset manager, a decision may not necessarily be taken to amend the allocation exposures to deliver risk alignment going forwards. For RTM and RMD managers, there is however a clear commitment to do so.

3. What is the timescale to make a change to the FRP score?

As part of the on-going quarterly review process, Dynamic Planner clearly flags to the asset manager where the existing FRP score may need attention, using a traffic light process. The objective however is to not be unduly influenced by short term factors and an active engagement approach is followed with the asset manager to decide on the most appropriate course of action. The process is described in Section 5.5.

4. How independent is the FRP scoring process?

Dynamic Planner only profiles a fund based on demand from an authorised asset management firm. As these are risk profiles rather than a specific buy recommendation, professional service fees payable to Dynamic Planner in conducting its research has no bearing whatsoever on the score of 1 -10 allocated.

5. Why does Dynamic Planner not offer term related investment allocations?

Conflation Risk: Dynamic Planner considers investor term to be extremely important but believe that it should not be conflated directly from the results of a psychometric risk questionnaire. Conflating differing risk factors (e.g. term, liquidity, and existing wealth) makes it easy for investment into inappropriate assets classes as it loses sight of what the client's underlying attitude to risk truly is. Conflation was also a key concern that was raised within the FCA's investment suitability guidance.

Dynamic Planner enables an advisor to assess a client's attitude to risk before explicitly considering the impact of term, liquidity and capacity to bear losses. Additionally, Dynamic Planner's wealth forecasting functionality allows considerable flexibility in modelling 'what if' scenarios over user defined terms and risk tolerances. A client can then be better equipped to understand the personal impact of risk movements either graphically via a stochastic risk model, in monetary terms or in written word.

Complicated: Dynamic Planner believes that setting individual asset allocation targets for differing terms with potentially varying risk profiles has the potential to over-complicate the end solution. For example, if a risk scale went from 1-10 (like the Dynamic Planner model) and had four investment terms, 40 portfolios would need to be considered. These portfolios would overlap with each other on a risk scale and the asset allocations themselves would quite possibly require trivial allocations in order to develop portfolio differentiation.

As a further point, most investment solutions are not typically designed within a specific goal or term in mind and therefore aligning appropriate funds becomes more of a potential challenge.

Inefficient Portfolio Management: Dynamic Planner believes that running multiple portfolios concurrently creates inefficient client solutions and that all specific investment goals should be considered collectively when forming an initial investment strategy. It is not only costly to monitor, take advice on and have professionally managed, but also runs counter to portfolio theory which strongly suggests they should be managed collectively to truly understand the level of expected risk holistically.

By managing portfolio's collectively, all client goals can be considered at subsequent review meetings and if a client's objectives or wealth forecasts have materially changed, a new overall asset allocation strategy can be formulated using Dynamic Planner.

6. Is Modern Portfolio Theory still relevant when setting portfolios?

The relevance of the Modern Portfolio Theory (MPT) has come under considerable scrutiny from various market protagonists during times of market stress when all asset class correlations trend to +1 for a period of time.

When setting its allocations, Dynamic Planner is creating long term benchmarks that are positioned in relation to an investor's risk profile. Dynamic Planner does not attempt to second guess short term market trends and firmly believes that the benefits of portfolio diversification align with the interests of long-term investors.

However Dynamic Planner does not advocate a complete black box approach as many purist MPT advocates would purport and considers that a qualitative overview is still required. This ensures consistency across the quantitative results and that the assets remain appropriate and investable.

7. How frequently are the Capital Market Assumptions set?

These are set quarterly usually 5-6 weeks post a quarter end. They are then deployed within Dynamic Planner at the next available release date.

8. How frequently are the Asset Allocations set?

The Dynamic Planner strategic asset allocations are currently changed annually but are reviewed on a quarterly basis using the latest quarterly Capital Market Assumptions data. When they do change Dynamic Planner will give prior notice to those asset manager clients who have signed up to the Risk Target Managed service.

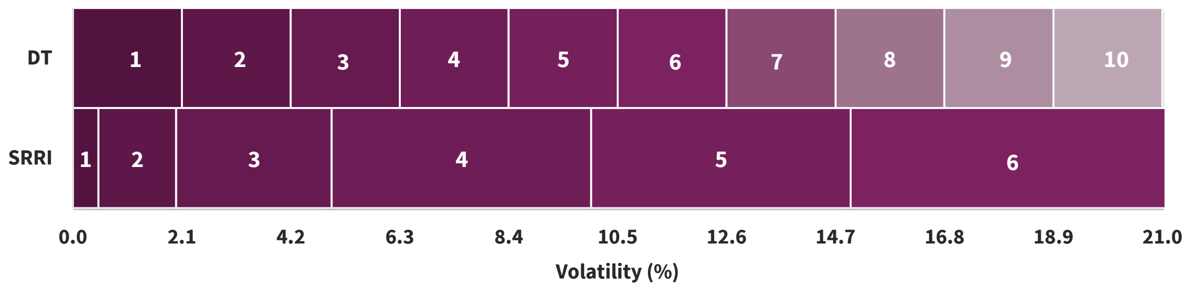
9. Why does Dynamic Planner set and deploy the Asset Allocations over this particular timeline?

This is to enable those asset managers who are direct followers of the Dynamic Planner allocations time to implement them by using regular fund cash flows. This avoids them being forced to perform portfolio switching activity and resultant costs being incurred. Additionally, it is important to note that the allocations would not change during the intervening period unless there was a significant structural shift in the broad market.

10. To which time periods do Dynamic Planner's Capital Market Assumptions relate?
Dynamic Planner's CMAs are agnostic to a specific time period and should be viewed as medium to long term annualised assumptions. They are reviewed and updated each quarter as new information becomes available. Dynamic Planner does not look to create tactical short-term forecasts when setting its allocations.

11. How does Dynamic Planner FRP profiles compare to KIIDS?

The Synthetic Risk Reward Indicator (SRRI) that appears on the KIIDs documents considers the volatility of the past 5 years of performance if available. It is therefore an ex-post (or after the event) indicator but based on a relatively short time frame. The risk scale is 1-7 and the chart below shows how this relates directly to the Dynamic Planner scale. However, it must be stressed that whilst the intention with both is to calibrate an investment solution to a set of risk boundaries, the methodologies and scale used are very different and hence should not be directly compared.



12. You only have 15 asset classes – why not more?
Dynamic Planner reviews its asset class coverage from time to time to ensure that its current constituents remain appropriate. A balance must be struck between providing too many asset classes within the strategic benchmark allocations and not enough – the former provides additional complexity whilst the latter can provide obscurity. As part of its risk profiling analysis, the Asset & Risk Modelling team models a much wider range of asset class types, as can be seen in Dynamic Planner.

13. Do you consider passive and active funds to be different from a risk perspective?
For multi-asset funds the majority of the risk being taken comes from the actual asset allocation rather than how the exposure is being gained. Therefore, Dynamic Planner aligns its process accordingly and considers the level of risk between an active and passive fund to be similar. Dynamic Planner does however pay attention to the actively managed fund's process to ensure that it does not have a large impact on the potential Fund Risk Profile.

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