An Independent Guide To Risk Profiling & Investment Planning
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1. About this guide

This independent guide is designed to support the financial planning you receive from your financial adviser or planner.

Your planner has chosen to use Dynamic Planner® to help structure their recommendations to you and this guide provides background and answers frequently asked questions about the Dynamic Planner approach.

As an independent guide, it is not linked to any specific product or product provider and so you can rely on its objectivity as the most widely used risk profiling and investment planning service in the UK.

2. What is investment risk?

Whether you are investing for a particular reason such as retirement, to generate an income or simply to make your savings work as hard as possible, the two questions you are most likely to ask before investing are: ‘What can I gain?’ (your potential reward) and ‘How much do I stand to lose?’ (your potential risk).

This guide will help to explain how risk profiling, as part of the investment planning process, answers these questions. It will also explain why independent, objective risk profiling is important for both investment selection and the ongoing management of your money, and how the Dynamic Planner service used by your financial planner supports this.

But let’s start at the beginning – with risk and reward. The Oxford English Dictionary states that one definition of risk is ‘the possibility of financial loss’ and defines reward as ‘to receive what one deserves’. As investors, we are generally much more concerned with how much money we could lose, than the amount we could gain, which means that assessing and managing risk forms a large part of the investment process.

Some of the most common investment risks are:

- **Capital risk** – the risk of not getting your money back
- **Currency risk** – the risk associated with investing in more than one currency
- **Geographical risk** – the risk associated with investing in more volatile or risky countries
- **Inflation risk** – the risk that your investment does not keep pace with inflation, making it worth less over time
- **Interest rate risk** – the risk of interest rate changes
- **Product risk** – the risk that your investment changes and no longer meets your original requirements (this can happen if a fund objective changes to become less cautious, for example)
- **Volatility risk** – the extent and frequency that investments rise and fall (a highly volatile investment can vary significantly on a daily basis, for example)

In the face of so many potential pitfalls, choosing the right investment can be tricky, which is why so many people choose to rely on professional financial advice to help them.

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3. What is risk profiling and why does it matter?

The Dynamic Planner risk profiling process has been used by financial planning firms since 2005 to help identify both their clients’ attitudes to risk and how much risk they can afford to take.

It is suited to the majority of individual adult UK investors and their partners. For those with significantly large investable assets, additional factors need to be taken into account, such as properties or privately held company shares that are substantial in value, as they can offset the attitude to risk result.

There are six steps in the Dynamic Planner risk profiling process:

1. Review existing portfolio
2. Assess attitude to risk
3. Check consistency of answers
4. Assess capacity for risk
5. Confirm value at risk
6. Match portfolio against goals

These steps help to build a deeper insight into your requirements and ensure that the final outcome is an accurate and fair reflection of your risk profile as well as your capacity to tolerate possible losses. We now examine each step of the process in turn.
1. Review existing portfolio

How much risk are you already taking with your existing portfolio? Most people are unaware of the risk that their existing investments represent, particularly if they have been investing for many years.

It’s common to start a review of your existing portfolio by seeing where it is invested and how much risk you are already taking. This could be too much or too little to meet your requirements and is why it is important to assess both your attitude to risk and capacity to accept any investment losses (i.e. how these might impact your standard of living).

The pie charts show an example of how an existing portfolio compares to a target risk profile in terms of the asset allocation (i.e. its investment mix). Studies have shown that asset allocation is responsible for more than 90% of the variation in returns\(^2\) and so understanding this is an important starting point.


“The asset allocation data from over 200,000 investment funds is sent each night to Dynamic Planner, helping your financial planner assess the risk of your existing portfolio.”
2. Assess attitude to risk

Although each investor is unique, it is possible to categorise someone’s attitude to risk using proven psychometric profiling techniques. Psychometrics is the branch of psychology that deals with the design, administration and interpretation of tests to measure psychological factors such as experience, aptitude and personality traits.

In this case, psychometric profiling identifies characteristics such as tolerance for ambiguity, desire for profit and investment experience. These are all general predictors of your likely tolerance for risk and provide a good indication of how you may feel about taking a risk with that investment.

Using psychometric risk profiling to determine the risk you are willing to take typically involves completing an attitude to risk questionnaire. You may be asked to complete this on paper or one of the popular Dynamic Planner risk profiling apps. Find a quiet moment where you won’t be disturbed to complete the questionnaire on your own. Don’t over think your responses; there are no right or wrong answers.

The 10 - and 20 - question versions on the questionnaires used by Dynamic Planner were developed in conjunction with Oxford Risk, a company led by academics from the University of Oxford who have considerable expertise in this sector.

The questionnaires have been rigorously tested and shown to have a reliability of 84% (10 question version) and 92% (20 question version) in predicting attitude to investment risk.

Your answers are a good starting point for discussing your attitude to risk and your future goals with your financial planner.

The questionnaires take into account a number of factors, which are known to be excellent predictors of your attitude to risk, including:

- Risk sensitivity
- Investment time horizon
- Desire for profit
- Financial awareness
- Tolerance for ambiguity
- Investment experience
- Outlook
- Suggestibility
As well as providing input into the questionnaires, Oxford Risk helped with calibrating the range of outcomes on a scale of 10 risk levels.

Each risk profile is aligned to a description and to ensure clarity, each uses simple language that has been clarity approved with a Crystal Mark from the Plain English Campaign.

Each risk profile represents a proportion of the population, helping you see where you sit in your risk profile versus other investors. You can see where you are using the chart below. The taller bars represent the more popular risk profiles:

Source: Dynamic Planner Intelligence Report, Q1 2016 covering 88,410 respondents and their final selected risk profile.

Your attitude to risk is generally expected to stay constant over time. Much like your personality, while it does develop over the years, particularly as you gain more investment experience, it is unlikely to shift dramatically (for instance, from Risk Profile 3 to Risk Profile 7). What can change significantly however, is your capacity to take risk and this is explored in Section 4: Assess capacity for risk.
3. Check consistency of answers

While the Dynamic Planner psychometric tests and 10 associated risk profiles have their basis in science, we are all individuals and it may be that there are particular aspects of your attitude to risk that need to be discussed.

Over the years, the team behind Dynamic Planner has developed algorithms (problem-solving programs) based on hundreds of thousands of investor responses, which can help highlight areas for discussion.

Your financial planner will review your completed questionnaire with you and may take the opportunity to discuss your answers. There are no right or wrong answers but it is important that your investment plan is suitable for you as an individual.

4. Assess capacity for risk

The next step in the risk profiling process is to assess your capacity for risk, by exploring the impact that possible losses may have on your wider financial position.

This involves discussing the following key questions relating to your personal circumstances:

- How long you are planning to invest for
- How much you can afford to lose
- How quickly you would need access to the investment

Your answers do not change the attitude to risk questionnaire results. However, the way they are captured helps to prompt meaningful discussions with your financial planner and also provides a proper record behind the ultimate risk decisions taken.

It is not uncommon for us to have an attitude to risk that is different from our capacity to take it on. For example, younger but cautious investors investing for their retirement might have the capacity to take on more risk than they feel comfortable with, as they are unlikely to need access to their investments for many years. They might have a higher likelihood of achieving their goals if they were to take that extra risk.

Conversely, someone approaching or in retirement who has a high psychometric attitude to risk score may not have the capacity to take risk on, given their need for greater certainty of income. Again, discussing attitude and capacity with your financial planner is an important part of the process.

“It is possible for some of your answers to contradict your final agreed risk profile. That is the nature of psychometric questionnaires. Your planner may wish to discuss these with you.”
5. Confirm value at risk

The risk descriptions identify that money can be lost as well as gained on investments. They also provide guidance on the potential returns, adjusted for inflation to reflect the spending power of money in future. This is done over 1, 5, 10 and 20 years based on average, below average and above average performance expectations.

- **Below average performance** – a pattern of losses that an investor might experience resulting in the investment having a value below this figure 5% of the time. They can and do happen but it would be a rare set of circumstances over the period in which the investment was held. 95% of the time you would expect the investment to perform better than this. While extreme, it is helpful to think about what would happen if these circumstances did materialise. Can you afford to take the risk?

- **Above average performance** – a pattern of gains that an investor might experience resulting in the investment having a value above this figure 5% of the time. Growth which exceeds this level can and does happen but again it would be a rare set of circumstances. 95% of the time you would expect the investment to grow at less than this level.

- **Average performance** – a pattern of growth that an investor might experience resulting in the investment exceeding this value 50% of the time.

Put simply, 90% of the time you would expect investments aligned to the risk profile to perform between the two extremes described above, with average performance being in the middle ground.

For example, the potential losses and gains for £50,000 invested in Risk Profile 5 are shown below. Pay particular attention to ‘Below average performance’ as a good indicator of ‘Value at Risk’ in difficult market conditions.

Please remember these are not the maximum losses or gains in real terms that you might experience and cannot be guaranteed. They take into account average fund related ongoing fees, but not your personal tax situation.

<table>
<thead>
<tr>
<th>Risk Profile 5</th>
<th>1 year</th>
<th>5 years</th>
<th>10 years</th>
<th>20 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below average</td>
<td>£43,600</td>
<td>£38,000</td>
<td>£35,200</td>
<td>£32,650</td>
</tr>
<tr>
<td>performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>£50,650</td>
<td>£53,200</td>
<td>£56,550</td>
<td>£63,900</td>
</tr>
<tr>
<td>performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Above average</td>
<td>£58,850</td>
<td>£74,400</td>
<td>£90,900</td>
<td>£125,050</td>
</tr>
<tr>
<td>performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: DT using Capital Market assumptions as at Q4 2015. Figures include allowances for ongoing investment fund related expenses.
The descriptions also list appropriate target asset classes per risk profile. More details on each risk profile and the set of investible asset allocations applied to them can be found in Chapter 5: How have the risk profiles performed over the last 10 years?

6. Match portfolio against goals

The final part of the process that your planner may discuss with you is matching your risk profile with your long term investment goals. These may be as simple as growing or preserving your wealth or generating regular income in retirement. They may be more specific, for example, funding school fees or paying off a mortgage.

The risk you take with your investments will have an impact on the likelihood of achieving these goals and so checking on the range of returns you might receive for taking a given degree of risk is helpful. It may be that you can actually take less risk than you thought to achieve your goals or perhaps you may need to invest more in order to have a realistic chance of meeting them. Your financial planner can talk to you about matching your risk profile against your goals using Dynamic Planner.
4. How does the Dynamic Planner service help?

Dynamic Planner is a tried and trusted risk profiling and financial planning service used by more than 9,000 UK financial planners to help ensure investment suitability. These include private banks and wealth managers, as well as high quality national, regional and local financial planning and advisory firms. In summary, the service enables them to:

- Accurately risk profile their clients
- Accurately assess the risk associated with their clients’ current investment portfolios
- Create risk-based financial plans and more comprehensive financial planning reports
- Choose suitable risk profiled investments
- Track and manage the suitability of clients’ investments on an ongoing basis
- Provide clients with regular reviews, reports and apps to help them keep track of their investments

Asset and risk modelling

At the heart of Dynamic Planner is powerful and robust asset and risk modelling, based on Modern Portfolio Theory (MPT) introduced by the Nobel Prize winner, Harry Markowitz, and others in 1952\(^3\). MPT has been used to run very large pension funds for institutions for many decades. Dynamic Planner makes this technique available to individual financial planners and their clients.

> "Each Dynamic Planner risk profile has a defined asset allocation target to match the individual investor’s risk profile."

Each of the 10 risk profiles has a corresponding asset allocation mix constructed from the 15 asset classes (investment types) employed within Dynamic Planner. The 15 classes can broadly be classified as cash, bonds (debt issued by companies or governments with a promise to pay interest), commercial property and equities (company shares traded on a stock market).

It is important to note that there is no such thing as the ‘best asset allocation’. There are lots of combinations that could be expected to achieve similar outcomes. For example, some financial planners and firms have an in-house view on their preferred approach, which may differ from Dynamic Planner’s default targets but still achieve similar outcomes.

Making allocation decisions between various asset classes can create more ‘efficient allocations’ (that is, reduce expected risk without necessarily affecting expected returns). This is achieved through the concept of correlation across asset classes (or how one asset class grows or falls in relation to another). Careful blending of asset classes can therefore help ensure that risk and investment returns are delivered in the most efficient manner based on the given assumptions.

Asset allocation (as opposed to individual stock selection) has been shown to be responsible for 90% of the variation in investment returns and the principle of diversification is actively used by many global investment managers with their funds.

In Dynamic Planner, the use of ‘riskier assets’ increases across the range from Risk Profile 1 through to Risk Profile 10. For example, Risk Profile 1 uses a cash-only asset allocation; Risk Profile 5 invests around 60% in equities, whilst Risk Profile 10 is mainly allocated to equities and indeed in riskier emerging or developing equity markets such as Asia and Latin America.

**Example asset allocations (as at Q1 2016)**
Those combinations of asset classes that offer the highest possible expected return for a given level of expected risk collectively form the ‘efficient frontier’. The most efficient portfolios that align to the Dynamic Planner risk profile descriptions based on their expectations of return, volatility and correlation, are shown in the chart below. Expected return (i.e. annual growth) is shown after the impact of inflation has been removed. This is known as ‘real terms’.

Each quarter, the target asset allocations are reviewed by Dynamic Planner’s Investment Committee to ensure they comply with the guiding principles and remain both investable as well as suitable for use within Dynamic Planner.

As we know from Chapter 3, each risk profile description provides details of the expected performance, based on good, average and poor performance.

The next chapter looks at the most frequently selected Dynamic Planner risk profiles and their track record in more detail, including how they performed even during the worst financial crisis since the great Depression of the 1930s.
5. How have the risk profiles performed over the last 10 years?

The Dynamic Planner asset allocation models were created over 10 years ago in 2005, and are supported by a dedicated and expert Asset and Risk Modelling team. The team is responsible for ensuring that the models are robustly process driven and deliver consistent and coherent results. This is powered by the use of both forward-looking and past-performance analysis to more accurately assess what is most likely to happen in future.

The models are reviewed each quarter and although no model can predict the direction of the stock market with complete precision 100% of the time, they focus on delivering results that can be relied on to deliver higher returns for higher risk over the medium to long term.

In this chapter, we will show how successfully the profiles have performed since June 2005 to end March 2016, putting this into context with some key event highlights that affected the markets over this time.

Can asset modelling cope with market turmoil?

The worst financial crisis since the great Depression of the 1930s. On 15 September 2008, the fourth largest US investment bank, Lehman Brothers, filed for the largest bankruptcy in history, surpassing previous bankrupt giants, WorldCom and Enron. Its demise made it the largest victim of the US subprime mortgage-induced financial crisis, which swept through global stock markets. This collapse contributed to the erosion of around $10 trillion in share values globally the following month.

On 13 October 2008, the HM Treasury unveiled an emergency plan to pump £37bn of taxpayers’ money into Lloyds, HBOS and Royal Bank of Scotland in order to stop the British banking sector and the wider economy suffering the potentially largest recession on record.

In March 2009, the Bank of England had to cut the base lending rate to a record low of 0.5%, in response to the enveloping global financial crash. The European Sovereign Debt crisis deepened sufficiently to threaten both the solvency of the EU banking systems and the collapse of the Euro and the single currency union.

As a result, economists and fund managers rank the financial crisis as a ‘1 in 50 or 100 year storm’ or a ‘Black Swan event’, a rare and extreme occurrence with significant consequences.

The global financial crisis, changes in government, generational low interest rates and large fluctuations in commodity prices, together with the turmoil in Europe and the Middle East are just some of the factors that have impacted investment markets over the last decade. So the obvious question is how well did the Dynamic Planner risk profiles weather the storm?

This chapter answers this in detail by examining:

- Performance compared to the markets
- Performance of risk profiles compared to each other
- How each risk level performed over the 10 years since launch of the model, to end February 2016
Performance against the markets

In Chapter 3, we learned that diversification of assets can reduce risk, as when certain asset classes fall in value, others may tend to rise.

Let’s examine how the UK gilt and UK equity markets have performed from 30th June 2005 to 31 March 2016, using a £100 investment example.

The black line clearly shows how UK equities (shares) were particularly affected during the financial crisis in 2007-2008 but have recovered strongly since those lows. As for gilts, traditionally these are quite lowly correlated to equities but given the unprecedented financial stimulus by the Bank of England (referred to technically as quantitative easing) and general move to less risky assets in times of market stress, they also performed strongly over the period.

Source: Bloomberg, 30 June 2005 to 31 March 2016. Past performance is not necessarily a guide to future performance and the value of investments can fall as well as rise.
Investing directly in government (gilts) or corporate bonds effectively means lending money to governments or companies in exchange for a rate of interest over a set period of time, after which capital is returned. Both payments depend on the creditworthiness of the institution.

Buying equities, also known as shares means taking a direct stake in a company. They are seen as one of the most risky asset classes as the dividends payable to shareholders as well as the share prices are linked to the prospects for the individual company. Stock market sentiment in general can also be highly unpredictable in how share prices are driven. Diversification across a number of shares can reduce this specific company risk.

Funds that invest in commercial property such as offices, retail parks and warehouses aim to deliver rental income and growth in the value of the properties held.

Careful blending of asset classes can help improve the efficiency of a portfolio.

Here we look at the target asset allocation behind Risk Profile 5, which is Dynamic Planner’s most frequently selected risk profile. It includes a broad spread of fixed interest (mainly gilts and higher quality investment grade corporate bonds plus some limited weighting in higher yielding global bonds), equities (mainly UK but including other developed markets of the US, Europe, Japan plus some limited exposure to developing Asia) and UK commercial property.

Please note that the following analysis is based on the performance of asset classes as represented by market indices. Each index (a way of measuring the price of a representative basket of stocks from each market) does not have any fund related charges, or taxation applied to them.
The chart below shows how a Risk Profile 5 (low medium risk) asset allocation has performed compared to the gilt and UK equity indices over the same period.

The chart shows Risk Profile 5 (the red line) has delivered a better and smoother performance. In other words, it has proven to be more efficient than holding just UK equities and gilts, thanks to the power of diversification.

**How the risk levels performed compared to each other**

Each risk profile has a different target blend of asset classes, designed to create a harmonious suite of asset allocations, from the lowest risk level to the highest.

The asset allocation models for Risk Profiles 2 - 7 represent the most diversified portfolios in terms of the broad asset classes (cash, equity, bond or property) they invest in.

Asset allocation models for Risk Profiles 8 - 10 are considered the highest risk and are dominated in varying degrees by developed and emerging market equity assets.

One of the key features when setting any risk targeting asset allocation framework is that the allocations remain coherent relative to each other. What this means is that Risk Profile 5 is riskier than Risk Profile 4, which in turn is riskier than Risk Profile 3 and so on. The chart overleaf shows that over the past discrete 3, 5, and since inception periods ending 31 March 2016, this has remained consistently true across the risk profiles.
This coherency should also hold true, no matter how volatile the actual investment markets are. The results in the chart below show that since inception, the asset allocations for the 10 risk profiles have indeed all remained differentiated from each other, across the entire period, despite the market turbulence during this time.

Comparative rolling 5 year volatility for the Dynamic Planner risk profiles

Source: Distribution Technology, since June 2010 to end February 2016.
Past performance is not necessarily a guide to future performance and the value of investments can fall as well as rise.
Another way to examine past performance is the actual peak to trough loss, referred to as ‘drawdown’ (which is different to pension drawdown). Drawdown is used to see how risk has been evident with each portfolio over the period, but from the different perspective of what was the worst percentage fall in my investment value.

The following chart shows the maximum drawdown experienced by each risk profile since inception. This also translates into a consistent view on maximum drawdown.

![Maximum Drawdown Chart]

Source: Distribution Technology, to end March 2016.
Past performance is not necessarily a guide to future performance and the value of investments can fall as well as rise.

The relationship also holds true for a ‘beta’ analysis. Beta analysis can be used to compare the relative market risk of the risk profiles to that of, for example, the UK equity market. You would expect a low risk investment to have a lower beta figure and a higher risk investment to be have a higher beta figure. This is demonstrated in the chart overleaf.
The chart below looks to answer the question 'has taking higher risk actually been rewarded with higher returns?'

Performance since inception of the model does reflect an increasing level of return as risk is increased; however Risk Profiles 8, 9 and 10 have generally bucked the trend over the shorter time periods. This can be attributed to the higher asset allocation in Asian and Emerging Markets. They have typically struggled in the light of the growing slowdown in the Chinese economy and strength of the US dollar, to which many of their currencies and national debt are linked. Taking more expected risk as measured by volatility should be rewarded by higher returns. However, it cannot be guaranteed in the shorter term.
6. Ensuring investment suitability

There are two sides to ensuring investment suitability. Assessing your risk profile as an investor is one; the other is assessing the risk of your investments.

Launched in 2010, Dynamic Planner’s Fund Risk Profile (FRP) service is used by asset managers who want to have their own funds or model portfolios assessed and positioned relative to the 10 risk profiles used within Dynamic Planner. This Fund Risk Profiling Service includes:

- An analysis of the fund’s asset allocation (dating back at least three years to assess both strategic and tactical historic asset allocations)
- A review of the fund objective and investment mandate; where it can and cannot invest and to what extent these positions can be held.
- A review of the historic performance of the fund (to determine the fund’s past volatility and to assess the asset manager’s past efficiencies in portfolio management)
- An estimate of how the fund is likely to perform in the future relative to the Dynamic Planner risk profile asset allocation
- A qualitative assessment by the Asset and Risk Modelling Team (who ‘sense check’ the results provided from all the quantitative processes above)
Risk profiled funds are also eligible to use the appropriate Dynamic Planner Fund Risk Profile logo on their promotional material.

It is important to be aware that:

- The FRP process is not an endorsement of the fund or portfolio’s future success or a buy ‘rating’, or a guarantee of an expected level of return, but a relative view of potential risk.
- The FRP service cannot guarantee that a fund or portfolio’s actual risk profile will remain unchanged in future.
- Other factors need to be considered as a part of the advice process.

This service initially risk profiles each fund or portfolio and then subsequently reviews it on a quarterly basis, to ensure that the profile number remains appropriate.

Your financial planner can provide details of the risk profiled funds or portfolios that may be suitable for you.

The quarterly review process

Each fund or portfolio is actively monitored every quarter using the most recent data provided by the asset manager. This includes the asset allocation data, past performance figures and information relating to any changes to the investment process which may have subsequently occurred.

This data is used in conjunction with the historic information originally received. A report is then shared with the asset manager as part of the independent ongoing review service, using a traffic light filter system:

- **A red status** indicates that the fund or portfolio’s current risk profile is no longer appropriate and that it will be changed at the next quarter’s review, unless appropriate action is taken by the fund 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 fund or portfolio or other market considerations, and does not imply that the long term risk profile should necessarily change.

- **A green status** indicates that the fund or portfolio is in line with the assigned risk profile and no action is needed.

“Over 1000 investments are risk profiled from more than 100 asset managers, each quarter.”
The Asset and Risk Modelling Team works closely with the asset manager to thoroughly consider the fund or portfolio’s long term strategic risk positioning, thereby avoiding unnecessary changes to the assigned profile caused by temporary factors or market events.

As a part of this process, the team also considers any changes in the management process or fund manager. Depending on the importance of the change, a fund or portfolio profile may be placed on N/A (Not Available) until further analysis is carried out.

Since launching in 2010, the Dynamic Planner Fund Risk Profiling Service has reviewed over 1,000 investment funds and portfolios from 100 asset managers.

**Risk profiled funds – the volatility journey**

Here we consider those multi-asset funds which have been through the FRP process over the last 5 years (to end of March 2016 since the service began). How have they behaved relative to the prescribed risk boundaries used within Dynamic Planner?

To provide the most representative picture of volatility, we show those funds that have been assigned the Dynamic Planner risk profiles 4, 5 & 6 since these have the widest range of solutions included in the service.

![Volatility over 5 years to 31 March 2016](image)

*Source: Distribution Technology and Lipper, to end of March 2016.*

Past performance is not necessarily a guide to future performance and the value of investments can fall as well as rise.

As can be seen the results have proved coherent since:

- Experienced volatility has increased the higher the Dynamic Planner risk profile selected.
- The lowest, average and highest experienced volatility have all increased the higher the Dynamic Planner risk profile selected.
- The respective Dynamic Planner asset allocations (prevailing 5 years ago) have delivered volatility results very close to the average of funds risk profiled.

This demonstrates the consistent risk framework provided by Dynamic Planner and why so many asset managers request the independent risk profiling service from Distribution Technology.
Dynamic Planner Risk Target Managed™ Investments

A Risk Target Managed (RTM) investment is one that is designed with reference to a specific Dynamic Planner risk profile, its risk boundaries and/or asset allocation.

What makes a risk targeted fund or portfolio different from a risk profiled variety, is that it is designed to stay within the given risk level. It is also allocated a different logo to conventional investment solutions.

To be considered as a Dynamic Planner RTM investment, the asset manager has to agree to run the fund or portfolio and commit to the following:

- To keep the expected volatility of the fund or portfolio within the boundaries assigned to the respective Dynamic Planner risk profile and/or;
- To target the strategic asset allocations for the respective Dynamic Planner risk profile
- To offer suitably diversified exposure (either directly or synthetically) to at least 6 asset classes included within the Dynamic Planner strategic allocations
- To manage the underlying asset class exposure in a suitably diversified manner
- To manage derivative exposure mainly for the purposes of efficient portfolio management

In order to satisfy these diversification levels, the RTM service only includes Dynamic Planner Risk Profiles 3, 4, 5, 6, 7 and 8. Your financial planner can provide details of the RTM funds and portfolios that may be suitable for you.
Introducing the Dynamic Planner ACE Rated Funds™ Service

So far we examined suitability from the perspective of expected and realised risk. However there is also an important next step in achieving suitability when choosing an investment fund or portfolio. With literally many thousands of funds available, how can you be in a better position to pick the best potential managers? What research can help with the selection of those funds that have delivered strong performance against the Dynamic Planner model and also their peer group of competitors?

The ACE Fund Ratings are an independent and whole-of-market fund research service uniquely aligned to the suitability research process within Dynamic Planner.

ACE stands for Asset Consistency and Efficiency

- **Consistency** considers how well the fund solution has performed relative the Dynamic Planner Asset & Risk Model outcomes
- **Efficiency** considers how the fund solution has performed relative to its identified competitors

**Methodology overview**

A dedicated team of fund research specialists at DT considers various performance attributes on an ongoing quarterly basis across the following types of investment solutions:

<table>
<thead>
<tr>
<th>The research coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Single asset funds - for the construction of model portfolios.</td>
</tr>
<tr>
<td>2. The Investment Association (IA) universe of multi-asset funds - which includes all those we have risk profiled.</td>
</tr>
<tr>
<td>3. Risk targeted funds - the subset of multi-asset funds that risk target to an asset allocation model or defined set of volatility boundaries and which are made available as part of a specific range of solutions.</td>
</tr>
</tbody>
</table>

We only consider actively managed unit trusts/OEICs which are listed in the IA sectors. The fund universe is then filtered via a quantitatively engaged process to include only retail focused funds.

**How are the ACE Ratings awarded?**

ACE ratings range from ACE 1 to 4 (being the highest).

<table>
<thead>
<tr>
<th>ACE</th>
<th>Consistency with the Dynamic Planner Asset &amp; Risk Model is low but performance efficiency is <strong>excellent</strong> over 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 ACE</td>
<td>Consistency with the Dynamic Planner Asset &amp; Risk Model plus performance efficiency are <strong>very good</strong> over 3 years</td>
</tr>
<tr>
<td>3 ACE</td>
<td>Consistency with the Dynamic Planner Asset &amp; Risk Model plus performance efficiency are <strong>very good</strong> over 5 years</td>
</tr>
<tr>
<td>4 ACE</td>
<td>Consistency with the Dynamic Planner Asset &amp; Risk Model plus performance efficiency are <strong>excellent</strong> over 5 years</td>
</tr>
</tbody>
</table>
7. About DT

Founded in 2003, DT (Distribution Technology) is the award-winning provider of Dynamic Planner, the digital risk profiling and financial planning service used by over 9,000 financial planners and a wide range of financial institutions.

The core risk profiling and asset allocation model was launched in 2005 and has grown in usage across the country ever since. Our team includes a unique blend of qualified investment analysts, financial planners and software usability, design and development experts.

The Dynamic Planner service makes DT the UK’s preferred provider of risk profiling and end-to-end investment process.

Key DT facts

- Winner of the European Wealth Briefing Award for Best Risk Profiling Tool 2014
- Winner of the Aberdeen Platform Award for Leading Integrated Planning Tool Provider in 2014
- Founded in 2003 with asset models that have an unrivalled 10-year track record
- More than 9,000 financial planners from over 700 firms use Dynamic Planner to ensure investment suitability
- Over 1000 investments are risk profiled from more than 100 asset managers, each quarter
- £2.1 billion (end of Feb 2016) of funds are now managed against Dynamic Planner risk profile targets
- £1.2 billion of recommendations were made in 2014 using Dynamic Planner
- Over 400,000 risk profiles have been conducted in the last 4 years
- Dynamic Planner is integrated with over 25 investment platforms, providers and back office systems
- On a busy day Dynamic Planner supports over 1,000 financial planning sessions (more than any high street bank)
Disclaimer
Past performance is not necessarily a guide to future performance and the value of investments can fall as well as rise.

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