Strategic asset allocation factsheets

May 2017

SOLOMON'S

FINANCIAL PLANNING FOR LIFE

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Investment objective and policy

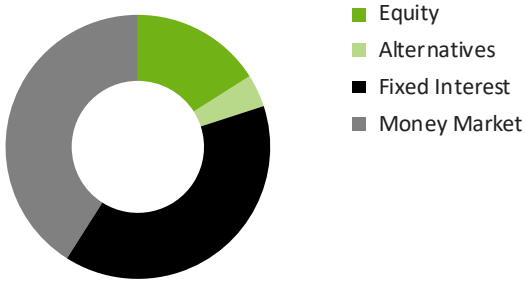
The objective of the Growth 20 asset allocation is to maximise risk-adjusted returns over the longer-term using a diversified range of collective investments which are recognised by the Financial Conduct Authority.

Strategic asset allocation

'Strategic asset allocation' is a process which seeks to combine differing types of investment in an effort to maximise long-term returns for a given level of risk.

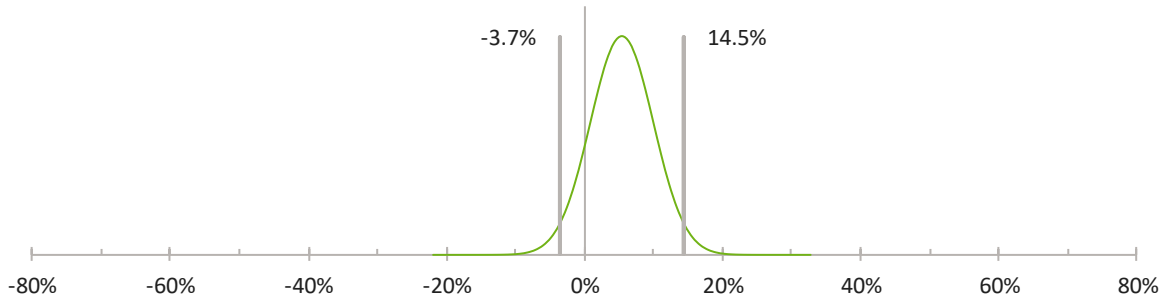
Asset and sub-asset categories have varying degrees of risk, return and correlation. The strategic allocation of portfolio assets is the most significant determinant of long-term investment returns and portfolio value stability.

This particular asset allocation comprises equity and alternatives exposure of around 21.0% with the remaining 79.0% held in fixed interest and money markets.

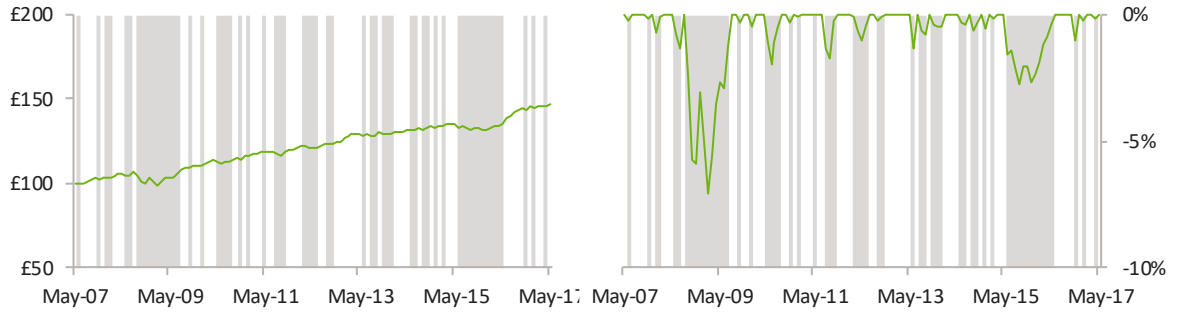


Potential risks and returns

Looking forward, we expect an annualised rate of return of around 5.4% per annum from a portfolio matched to this asset allocation. There is, of course, a great deal of uncertainty about this level of return and it would not be unusual to see values fluctuating in any one 12-month period between, say, -3.7% and +14.5% (see below and appendix I) with much greater potential for loss during unusually poor market conditions.



Looking back over the most recent decade, a portfolio matched to this asset allocation would have lost around -6.4% in the run up to February-2009 (see below and appendix II). Note also, that the portfolio has spent 11 consecutive months 'under water'. There is no reason to believe that a loss of this magnitude, or greater, could not be repeated.



Unfortunately, risk and return are inextricably linked - the greater the potential for gain the greater the potential for loss. That is why we go to some lengths to try to accurately assess the level of risk that is both appropriate and suitable for you. If you are in any doubt about the nature of this asset allocation, please contact us to discuss it further. It is important that clients understand the risk and return characteristics of their portfolio and are only invested to the extent to which they feel comfortable.

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Strategic asset allocation target weights

The target weights illustrated below represent an idealised position; there are many reasons why your portfolio might differ including the effects of legacy holdings, product constraints and cost/taxation implications. Within our Ongoing Financial Planning Service we offer investment advice which aims to marry our financial and investment planning expertise on the one hand, with your particular circumstances and requirements on the other.

Equity		16.00%
	UK Value	4.00%
	UK Large-cap	2.00%
	UK Small-cap	2.00%
	Overseas Value	8.00%
Alternatives		4.00%
	Commodity	4.00%
Fixed Interest		39.00%
	Short-term Gilts	16.00%
	Index-linked Gilts	12.00%
	High Yield Bonds	4.00%
	Overseas Bonds	7.00%
Money Market		41.00%
	Money Market	41.00%

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Investment objective and policy

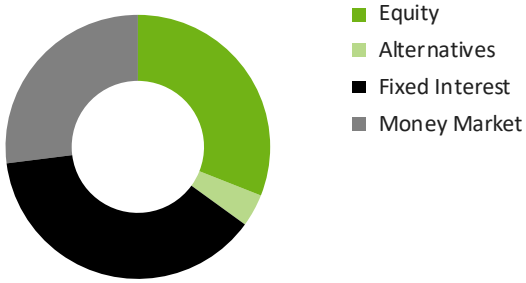
The objective of the Growth 35 asset allocation is to maximise risk-adjusted returns over the longer-term using a diversified range of collective investments which are recognised by the Financial Conduct Authority.

Strategic asset allocation

'Strategic asset allocation' is a process which seeks to combine differing types of investment in an effort to maximise long-term returns for a given level of risk.

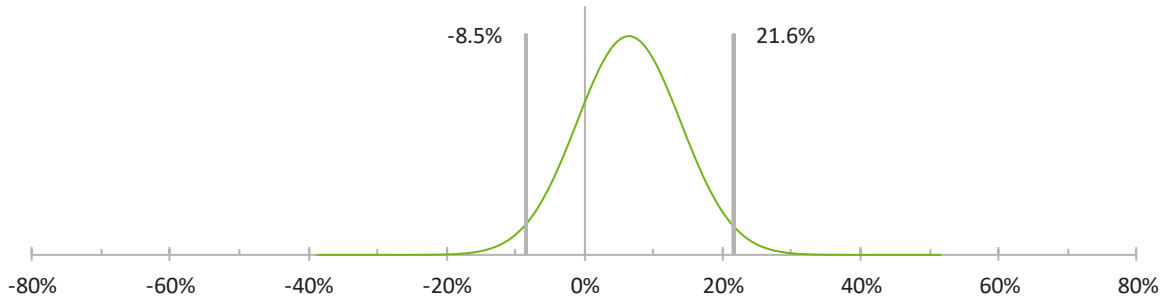
Asset and sub-asset categories have varying degrees of risk, return and correlation. The strategic allocation of portfolio assets is the most significant determinant of long-term investment returns and portfolio value stability.

This particular asset allocation comprises equity and alternatives exposure of around 36.0% with the remaining 64.0% held in fixed interest and money market.

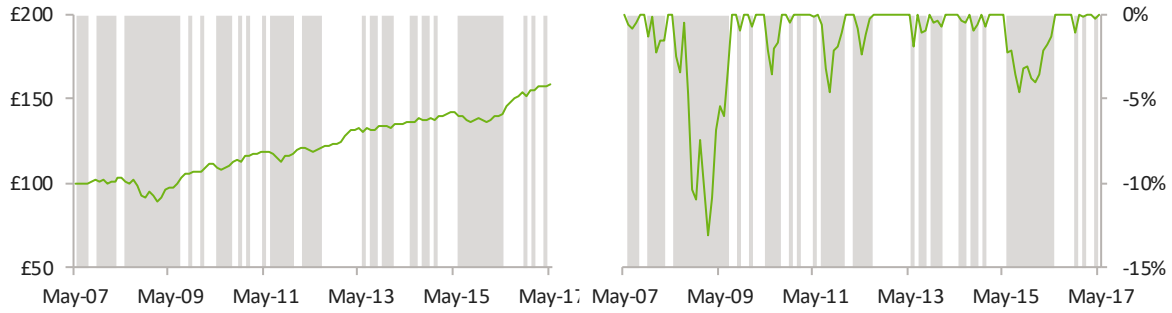


Potential risks and returns

Looking forward, we expect an annualised rate of return of around 6.5% per annum from a portfolio matched to this asset allocation. There is, of course, a great deal of uncertainty about this level of return and it would not be unusual to see values fluctuating in any one 12-month period between, say, -8.5% and +21.6% (see below and appendix I) with much greater potential for loss during unusually poor market conditions.



Looking back over the most recent decade, a portfolio matched to this asset allocation would have lost around -12.5% in the run up to February-2009 (see below and appendix II). Note also, that the portfolio has spent 21 consecutive months 'under water'. There is no reason to believe that a loss of this magnitude, or greater, could not be repeated.



Unfortunately, risk and return are inextricably linked - the greater the potential for gain the greater the potential for loss. That is why we go to some lengths to try to accurately assess the level of risk that is both appropriate and suitable for you. If you are in any doubt about the nature of this asset allocation, please contact us to discuss it further. It is important that clients understand the risk and return characteristics of their portfolio and are only invested to the extent to which they feel comfortable.

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Strategic asset allocation target weights

The target weights illustrated below represent an idealised position; there are many reasons why your portfolio might differ including the effects of legacy holdings, product constraints and cost/taxation implications. Within our Ongoing Financial Planning Service we offer investment advice which aims to marry our financial and investment planning expertise on the one hand, with your particular circumstances and requirements on the other.

Equity		31.00%
	UK Value	5.00%
	UK Large-cap	2.00%
	UK Mid-cap	4.00%
	UK Small-cap	3.00%
	Overseas Value	14.00%
	Emerging Markets	3.00%
Alternatives		4.00%
	Commodity	4.00%
Fixed Interest		38.00%
	Short-term Gilts	17.00%
	Index-linked Gilts	10.00%
	High Yield Bonds	6.00%
	Overseas Bonds	5.00%
Money Market		27.00%
	Money Market	27.00%

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Investment objective and policy

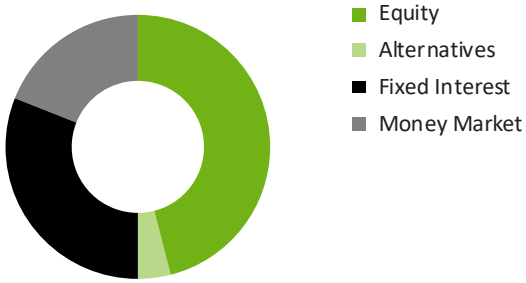
The objective of the Growth 50 asset allocation is to maximise risk-adjusted returns over the longer-term using a diversified range of collective investments which are recognised by the Financial Conduct Authority.

Strategic asset allocation

'Strategic asset allocation' is a process which seeks to combine differing types of investment in an effort to maximise long-term returns for a given level of risk.

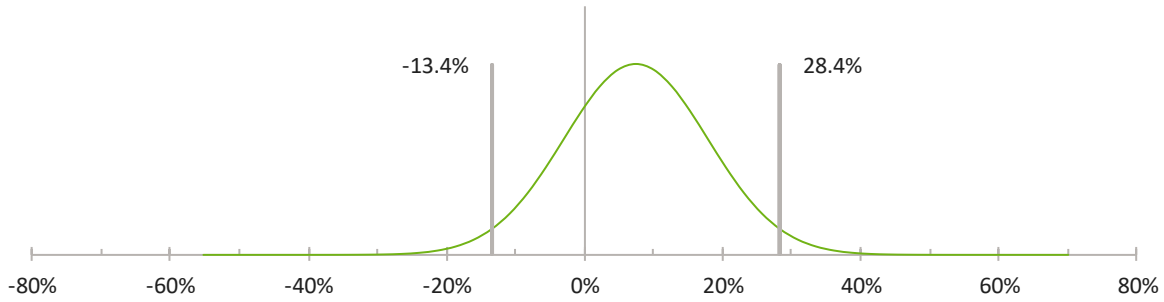
Asset and sub-asset categories have varying degrees of risk, return and correlation. The strategic allocation of portfolio assets is the most significant determinant of long-term investment returns and portfolio value stability.

This particular asset allocation comprises equity and alternatives exposure of around 50.0% with the remaining 50.0% held in fixed interest and money market.

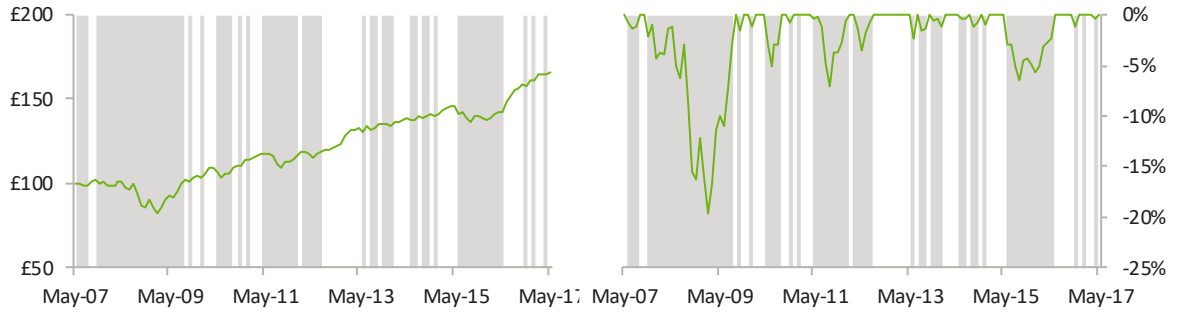


Potential risks and returns

Looking forward, we expect an annualised rate of return of around 7.5% per annum from a portfolio matched to this asset allocation. There is, of course, a great deal of uncertainty about this level of return and it would not be unusual to see values fluctuating in any one 12-month period between, say, -13.4% and +28.4% (see below and appendix I) with much greater potential for loss during unusually poor market conditions.



Looking back over the most recent decade, a portfolio matched to this asset allocation would have lost around -19.1% in the run up to February-2009 (see below and appendix II). Note also, that the portfolio has spent 22 consecutive months 'under water'. There is no reason to believe that a loss of this magnitude, or greater, could not be repeated.



Unfortunately, risk and return are inextricably linked - the greater the potential for gain the greater the potential for loss. That is why we go to some lengths to try to accurately assess the level of risk that is both appropriate and suitable for you. If you are in any doubt about the nature of this asset allocation, please contact us to discuss it further. It is important that clients understand the risk and return characteristics of their portfolio and are only invested to the extent to which they feel comfortable.

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Strategic asset allocation target weights

The target weights illustrated below represent an idealised position; there are many reasons why your portfolio might differ including the effects of legacy holdings, product constraints and cost/taxation implications. Within our Ongoing Financial Planning Service we offer investment advice which aims to marry our financial and investment planning expertise on the one hand, with your particular circumstances and requirements on the other.

Equity		46.00%
	UK Value	8.00%
	UK Large-cap	3.00%
	UK Mid-cap	5.00%
	UK Small-cap	4.00%
	Overseas Value	20.00%
	Emerging Markets	6.00%
Alternatives		4.00%
	Commodity	4.00%
Fixed Interest		31.00%
	Short-term Gilts	14.00%
	Index-linked Gilts	8.00%
	High Yield Bonds	4.00%
	Overseas Bonds	5.00%
Money Markey		19.00%
	Money Market	19.00%

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Investment objective and policy

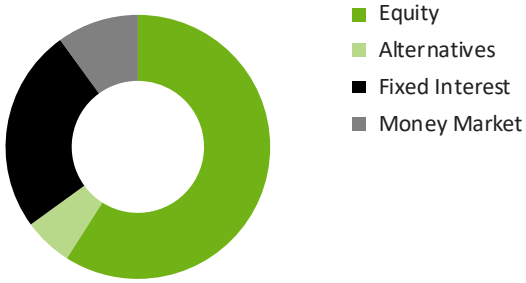
The objective of the Growth 65 asset allocation is to maximise risk-adjusted returns over the longer-term using a diversified range of collective investments which are recognised by the Financial Conduct Authority.

Strategic asset allocation

'Strategic asset allocation' is a process which seeks to combine differing types of investment in an effort to maximise long-term returns for a given level of risk.

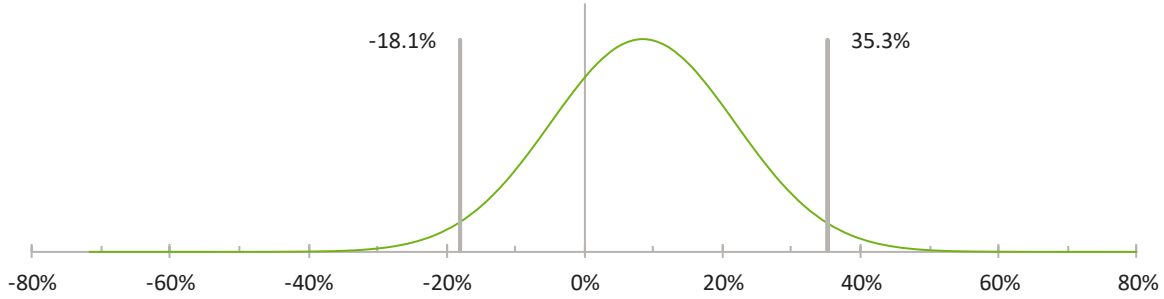
Asset and sub-asset categories have varying degrees of risk, return and correlation. The strategic allocation of portfolio assets is the most significant determinant of long-term investment returns and portfolio value stability.

This particular asset allocation comprises equity and alternatives exposure of around 65.0% with the remaining 35.0% held in fixed interest and money market.

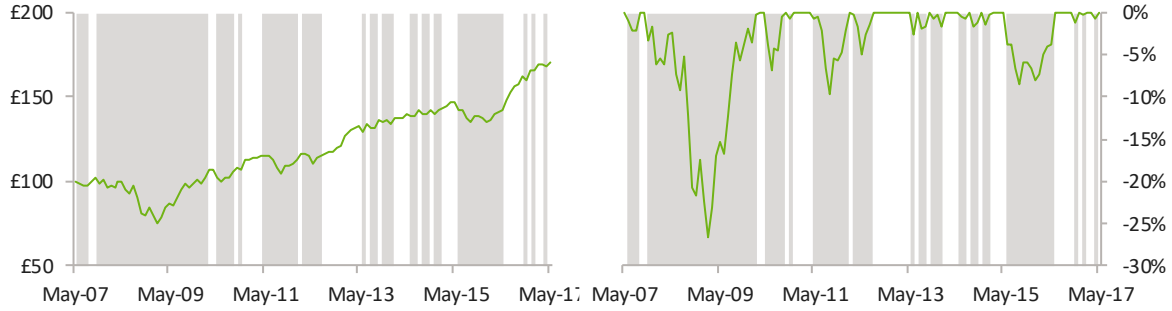


Potential risks and returns

Looking forward, we expect an annualised rate of return of around 8.6% per annum from a portfolio matched to this asset allocation. There is, of course, a great deal of uncertainty about this level of return and it would not be unusual to see values fluctuating in any one 12-month period between, say, -18.1% and +35.3% (see below and appendix I) with much greater potential for loss during unusually poor market conditions.



Looking back over the most recent decade, a portfolio matched to this asset allocation would have lost around -25.8% in the run up to February-2009 (see below and appendix II). Note also, that the portfolio has spent 25 consecutive months 'under water'. There is no reason to believe that a loss of this magnitude, or greater, could not be repeated.



Unfortunately, risk and return are inextricably linked - the greater the potential for gain the greater the potential for loss. That is why we go to some lengths to try to accurately assess the level of risk that is both appropriate and suitable for you. If you are in any doubt about the nature of this asset allocation, please contact us to discuss it further. It is important that clients understand the risk and return characteristics of their portfolio and are only invested to the extent to which they feel comfortable.

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Strategic asset allocation target weights

The target weights illustrated below represent an idealised position; there are many reasons why your portfolio might differ including the effects of legacy holdings, product constraints and cost/taxation implications. Within our Ongoing Financial Planning Service we offer investment advice which aims to marry our financial and investment planning expertise on the one hand, with your particular circumstances and requirements on the other.

Equity		59.00%
	UK Value	11.00%
	UK Large-cap	3.00%
	UK Mid-cap	6.00%
	UK Small-cap	5.00%
	Overseas Value	26.00%
	Emerging Markets	8.00%
Alternatives		6.00%
	Commodity	6.00%
Fixed Interest		25.00%
	Short-term Gilts	10.00%
	Index-linked Gilts	6.00%
	High Yield Bonds	4.00%
	Overseas Bonds	5.00%
Money Market		10.00%
	Money Market	10.00%

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Investment objective and policy

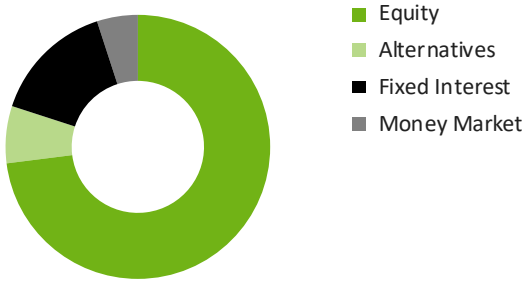
The objective of the Growth 80 asset allocation is to maximise risk-adjusted returns over the longer-term using a diversified range of collective investments which are recognised by the Financial Conduct Authority.

Strategic asset allocation

'Strategic asset allocation' is a process which seeks to combine differing types of investment in an effort to maximise long-term returns for a given level of risk.

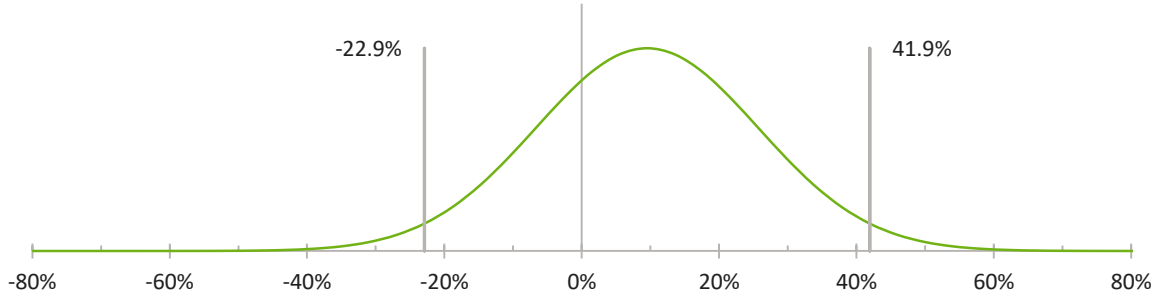
Asset and sub-asset categories have varying degrees of risk, return and correlation. The strategic allocation of portfolio assets is the most significant determinant of long-term investment returns and portfolio value stability.

This particular asset allocation comprises equity and alternatives exposure of around 80.0% with the remaining 20.0% held in fixed interest and money market.

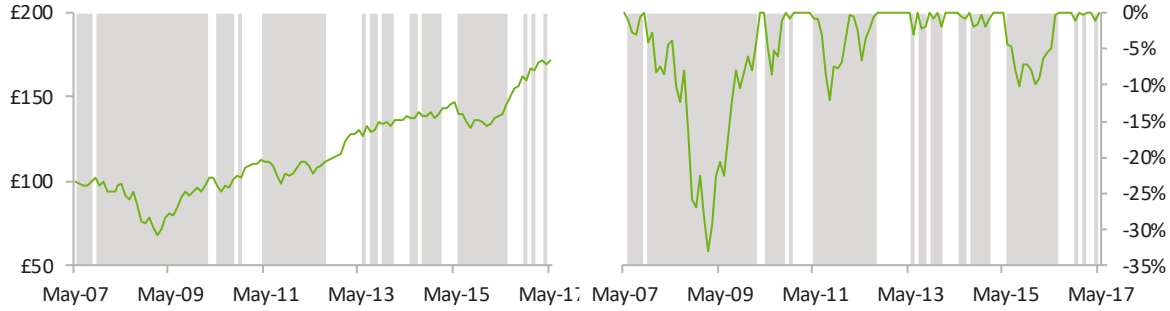


Potential risks and returns

Looking forward, we expect an annualised rate of return of around 9.5% per annum from a portfolio matched to this asset allocation. There is, of course, a great deal of uncertainty about this level of return and it would not be unusual to see values fluctuating in any one 12-month period between, say, -22.9% and +41.9% (see below and appendix I) with much greater potential for loss during unusually poor market conditions.



Looking back over the most recent decade, a portfolio matched to this asset allocation would have lost around -32.5% in the run up to February-2009 (see below and appendix II). Note also, that the portfolio has spent 28 consecutive months 'under water'. There is no reason to believe that a loss of this magnitude, or greater, could not be repeated.



Unfortunately, risk and return are inextricably linked - the greater the potential for gain the greater the potential for loss. That is why we go to some lengths to try to accurately assess the level of risk that is both appropriate and suitable for you. If you are in any doubt about the nature of this asset allocation, please contact us to discuss it further. It is important that clients understand the risk and return characteristics of their portfolio and are only invested to the extent to which they feel comfortable.

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Strategic asset allocation target weights

The target weights illustrated below represent an idealised position; there are many reasons why your portfolio might differ including the effects of legacy holdings, product constraints and cost/taxation implications. Within our Ongoing Financial Planning Service we offer investment advice which aims to marry our financial and investment planning expertise on the one hand, with your particular circumstances and requirements on the other.

Equity		73.00%
	UK Value	14.00%
	UK Large-cap	5.00%
	UK Mid-cap	7.00%
	UK Small-cap	6.00%
	Overseas Value	32.00%
	Emerging Markets	9.00%
Alternatives		7.00%
	Commodity	7.00%
Fixed Interest		15.00%
	Short-term Gilts	6.00%
	Index-linked Gilts	3.00%
	High Yield Bonds	3.00%
	Overseas Bonds	3.00%
Money Market		5.00%
	Money Market	5.00%

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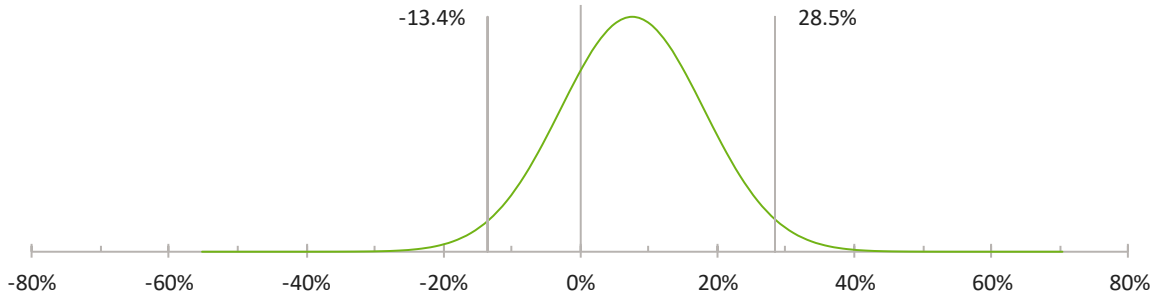
Important information

The statistics we have provided in the Potential Risks and Returns section of this factsheet are based on a large number of assumptions and should be considered only as a guide. For example, they will be accurate only if up to around 350 individual assumptions used in the calculations are correct – clearly this is unlikely. The historic calculations make the unlikely assumption that the asset allocation remained constant (i.e. rebalanced to its original mix each month), though this is useful because it is likely to result in emphasised downside risks. Please note that these figures are based only on the underlying asset allocation (a list of proxy indices is available on request) and not on any particular funds. There will be differences between the asset allocation returns detailed here and the actual portfolio.

Solomon's IFA does not guarantee the performance of this portfolio. The price of the funds within the portfolio may go up or down and the investor may not get back the amount invested. The portfolio income is not fixed and may fluctuate. Past performance is not a reliable indicator of future results. The value of the funds involving exposure to foreign currencies can be affected by exchange rate movements. Your portfolio may contain funds that are more risky and less risky than your risk tolerance but in combination, taking the portfolio as a whole, it is correctly set to provide the appropriate level of risk for your particular circumstances.

Appendix I: Interpreting the bell curve

The bell curve illustrated in this report represents a rough estimate of the possible distribution of 12-month returns for a particular asset allocation. The area underneath the curve represents all of the likely returns; it rises toward the centre because this is where most returns are likely to be. In the example below, the curve is at its highest at close to 8% on the horizontal axis. Our expected average return for this asset allocation is 7.5%. Intuitively, we know that investment is a risky venture. Hidden in the average, in this case 7.5%, is a wide range of possible returns; both higher and lower. The bell curve provides a useful guide to that range.



Higher returns are located on the right hand side and lower, including negative, returns are on the left. Since we are most concerned with risk (in terms of the potential for capital loss over a 12-month period) we can focus on the left hand side of the chart. The middle vertical line pinpoints the 0% mark. Returns to the left of this line are negative. You can see that a significant part of the curve lies to the left of this line (in this example it is just over 23% of the curve, though this will vary across differing asset allocations) meaning that there is a significant likelihood that returns in any one 12-month period will be negative. The more of the curve that lays to the left of the 0% mark the greater the likelihood of losses.

In the example above, we've included two more lines; one to the left of the 0% mark and one to its right. Approximately 95% of the area of the curve falls between these two lines. So, 95 times out of 100 we'd expect any 12-month returns to lie somewhere between these two points (-13.4% and 28.5% in the example above). The other 5% of returns are equally split; 2.5% to the left of this area and 2.5% to the right. Since we are most concerned with the risk of loss we should focus on the left. In the example above we can say that there is a 2.5% probability (equivalent to a 1 in 40 chance) that any 12-month returns will record a loss in excess of -13.4%.

Some of the limitations of the use of this statistic ought to be immediately apparent. It does not actually tell us what level of capital loss is possible – it only tells us that a loss in excess of -13.4% would be expected in a minority of occasions. Nor does it have much to say about the extent of likely losses over any other period of time, since it refers only to a period equal to 12 months. But it does inform a meaningful discussion about risk, one which at least attempts to illustrate the kinds of losses to which investors might be exposed.

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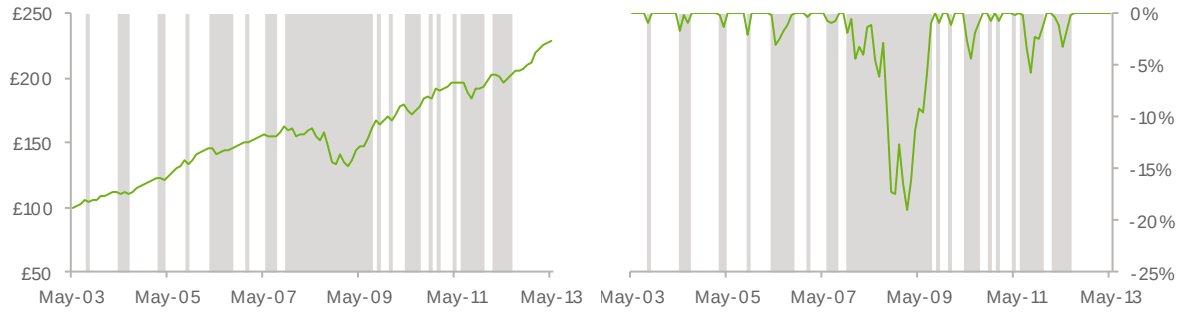
Appendix II: Interpreting the 'drawdown' charts

We've included two charts, the purpose of which is to illustrate the kinds of losses investors might experience in a portfolio which is matched to a particular asset allocation. The chart on the left is a familiar format; it tracks the cumulative value of the portfolio over the most recent decade (ending in June-2013 in the example below). The grey shaded areas represent the periods of time when the portfolio was falling in value. In the example below the widest grey shaded area encompasses 22 consecutive months – we say that the portfolio was 'underwater', in other words the portfolio fell in value and did not recover the value it had lost for a full 22 months.



The chart on the right focuses on those periods that the portfolio was falling in value and better represents the extent of the losses an investor might have experienced.

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