BURLINGTON
ASSOCIATES

# Lifetime Cash Flow

# & Investment / Retirement Modules

For

Mr Charles Smith

December 2012

**Next review:**

November 2013

A Financial Planner at Burlington Associates Limited

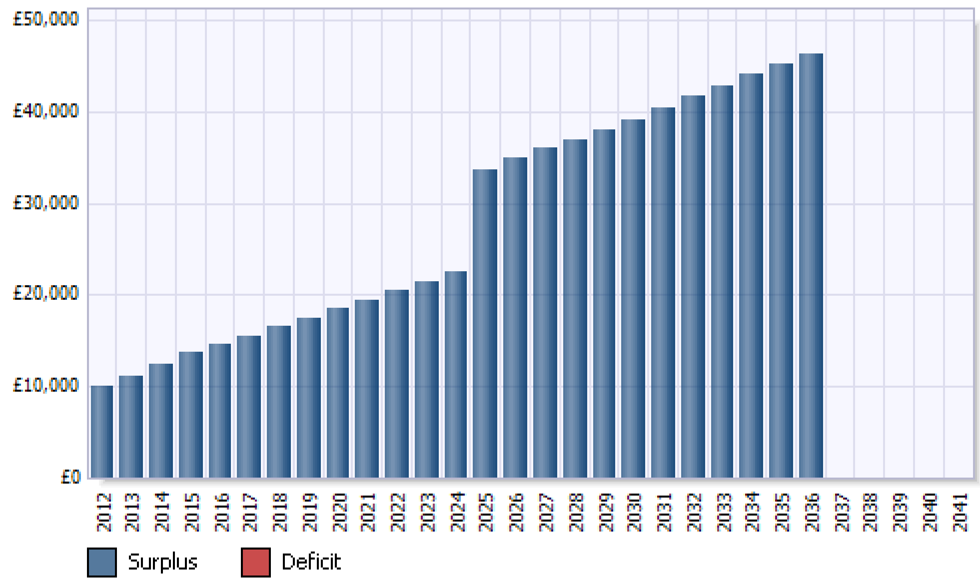
# Action Plan

| Plan Area | Goals | On track? | Action checklist |
|---|---|---|---|
| Budget | |  | - Review this analysis<br><br>- Maintain your household budget (and create one if you don't already have one!)<br><br>- Review your tax situation and ensure you are paying as little as you need |
| Retirement | - Charles Smith |  | - Consider saving more in your pension or adjusting your goals<br><br>- Re-balance your pension investments in line with your target asset allocation<br><br>- Get your State Pension forecast |
| Investing | - Wedding for Claire<br><br>- Buy Spanish Apt<br><br>- Charles Jnr (School Fees) |  | - Review risk analysis guidance provided<br><br>- Rebalance existing available investments in line with target asset allocation<br><br>- Invest new investments in line with target asset allocation |

## Income and Expenditure

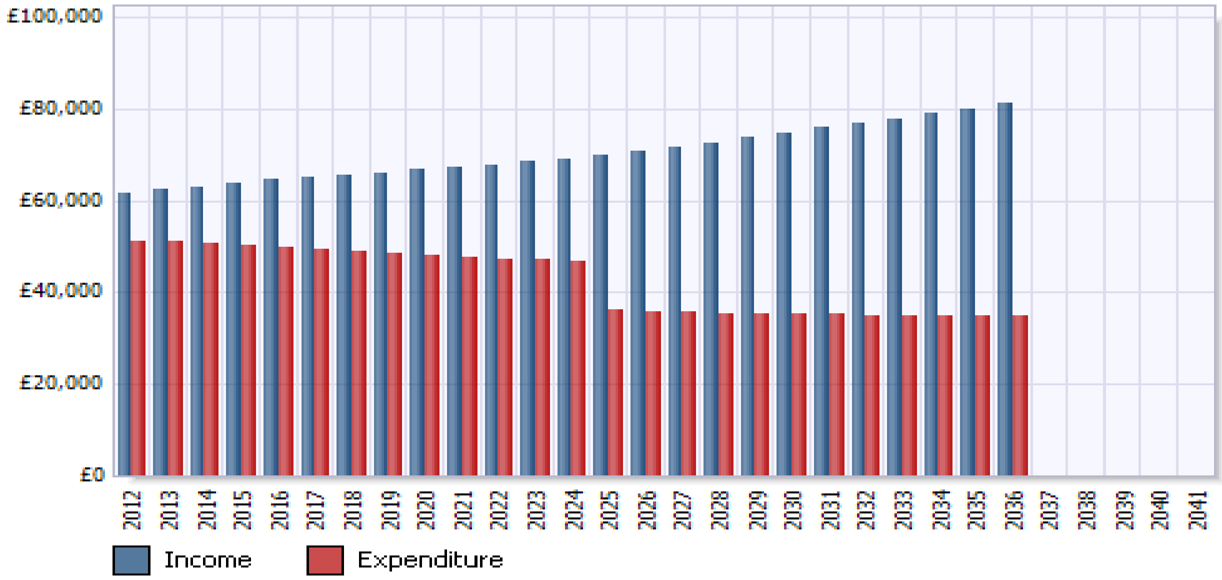
This section looks at your budget over the next few years. It presents a short-to-medium term picture of your finances and deliberately excludes information about what you might do after you stop work.

| At a glance | | |
|---|---|---|
| **Financial plan affordability** | | Status |
| This year: | **Affordable** |  |
| Beyond this year: | **Affordable** | No immediate action required, review next time |




| | |
|---|---|
| **Budget surplus over the coming years** | |
| This graph illustrates the household budget surplus. | |
| Household budget surplus is the result of subtracting planned outgoings from planned income. The calculation uses the figures entered on the previous Cashflow screen. | |
| Tax has been taken into account in these calculations. | |

Based on the information provided to us on your expectations of future income and expenditures, we can provide a picture of how your after-tax income can be expected to compare to your expenditure over time – which we plot on a graph (showing income in blue and expenditure in red).




The above graphs show figures in today's prices (i.e. assuming that prices don't rise and that £1 now will be able to buy the same amount in the future as it can now). We have estimated the amount of tax you may pay each year, however this is only an estimate. If you would like us to look more closely at your tax situation, please let us know. Other assumptions are listed in the section on 'Financial Planning Assumptions'.

This takes account of your existing provisions – Pensions, Investments and other assets that will be used to supplement your lifestyle, should it be required.

### This year

From the information provided you expect to have a positive cash flow over the next 12 months (the period which this plan covers) i.e. you plan to spend less than you gain in income (after tax).

| Item | Amount |
|---|---|
| Income after tax | £62,778.64 |
| Expenditure | £52,430.00 |
| Surplus (deficit) | £10,348.64 |

Some of the changes we have included in your plan may save you money, others may cost you money. From the information we have however it looks as though your plan is affordable over the next 12 months.

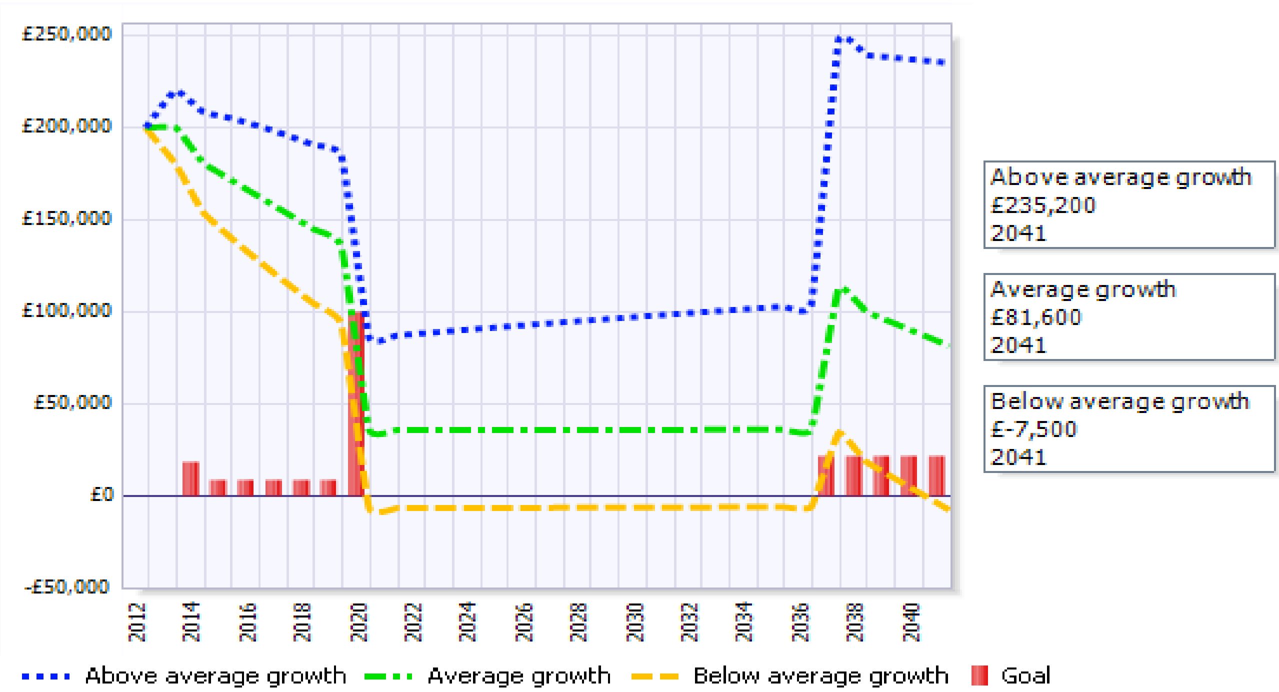
 

### Beyond this year

As you can see, based on your current plans your cash-flow will be positive throughout the period analysed i.e. you expect to spend less than you earn. This should enhance your overall wealth. Take a look at your Wealth Forecast in the Investing section, to see the impact on your investments.

## Life Wealth

Based on all of the additional information you have given us regarding your wealth, pensions, and expectations of future earnings, we can create a picture of how your overall wealth will change over time.




The above graph shows your available 'wealth' i.e. total value of your savings and investments – exclusive of your pension funds (instead, your pensions are used to generate an income that is factored into this picture), beginning from the year in which we consider your retirement to start.

This forecast takes your existing investment wealth, and projects it forward taking into account growth on the funds based on three different scenarios. For any given year, any income received (entered into Budget or calculated in Investment and Retirement) is added to the wealth, while any expenses (Budget outgoings or Investment and Retirement goals) are subtracted, which therefore demonstrates the likelihood of meeting any goals in the context of your overall plan.

From the above wealth forecast graph it looks unlikely that you will be able to meet your future goals as we understand them.

**In order to meet your goals on the average growth scenario, you would need to make a one off contribution of £69,236.67 lump sum, or an additional contribution of £94.77 per month on a monthly basis.**

# Investing

## Your current investments

The following table summarises your current investments:

| Investment | Type | Number of Units | Unit Price* (£) | Current Value | *Availability |
|---|---|---|---|---|---|
| Charles | | | | | |
| Wrapped Investments: | | | | | |
| Ascentric Investment account | Investment account | | | **£200,000.00** | Available |
| Stan Life Inv Gl AbsRt Str I | Unit trust/ICVC (OEIC) | 0 | 0.7184 | £10,000.00 | |
| Close Bond Income Portfolio I Acc | Unit trust/ICVC (OEIC) | 0 | 1.0340 | £25,000.00 | |
| UK equities | Individual stocks | 0 | 0.0000 | £40,000.00 | |
| Architas MA Active Growth R Acc | Unit trust/ICVC (OEIC) | 0 | 1.5750 | £10,000.00 | |
| Rathbone Ethical Bond Acc | Unit trust/ICVC (OEIC) | 0 | 1.4083 | £25,000.00 | |
| AXA Defensive Dist R Acc | Unit trust/ICVC (OEIC) | 0 | 1.3510 | £60,000.00 | |
| Savings Account | Savings account/deposit | 0 | 0.0000 | £20,000.00 | |
| Aberdeen American Equity A Acc | Unit trust/ICVC (OEIC) | 0 | 11.9648 | £10,000.00 | |
| | | | Total: | **£200,000.00** | |

## Your risk profile

You have completed the risk profiling exercise which looks at the trade-off between the risks involved in investing and the potential returns.

The following table shows the output from your risk profiling exercise:

| Client | Questionnaire Profile | Current Portfolio Risk |
|---|---|---|
| Charles | Profile 7 - Highest medium risk | Profile 4 - Lowest medium risk |

As a result of this exercise you have selected a risk level of 7 out of 10 and are happy with the "Profile 7 - Highest medium risk profile" as reflecting your attitude to risk for your investment strategy.

## Description

### Risk level 7 - Profile 7 - Highest medium risk

You have selected profile 7. This means that your attitude to accepting risk is ‘highest medium’.

The risk scale is made up of 10 profiles overall. This means that you are above average in how much risk you want to take in your investments.

Your risk score is important in two ways to the type of investments you should consider. These are shown below.

<u>How comfortable you are with the possibility of losing money on your investments</u>

You are likely to be more comfortable and better able to adapt to losing money on your investments than someone whose attitude to accepting risk is ‘low’ or ‘medium’, for example, someone in profiles 1 to 6.

<u>How much you want to invest in higher-risk investments to get better returns</u>

Higher-risk investments such as equities (shares) generally offer higher returns over the long term, but the investments also fluctuate more (go up and down in value). This means that while people may make more money in the long term with higher-risk investments, they are more likely to lose money in the short term.

As your attitude to accepting risk is ‘highest medium’, you probably concentrate on getting higher returns on your investments. However, you are still probably concerned about too many rises and falls and, as a result, the possibility of losing money.

An investment portfolio appropriate for this risk level may contain, for example, higher-risk investments such as shares, with a few lower- and medium-risk investments such as bonds and property. Because of this, there is a possibility you may not get back as much money on your investments as you put in, particularly in the short term.

<u>Summary</u>

• Your risk is ‘highest medium’.

• Your priority is likely to be making higher returns on your investments but you are still probably concerned about losing money due to rises and falls.

• Your preferred investments are likely to contain mainly higher-risk investments such as shares with a few lower- and medium-risk investments such as bonds and property.

It is important to note that when constructing a portfolio, we may recommend investments which, on their own, fall into a different risk category to the one you have selected. However, it is the overall risk of the total portfolio which must be consistent with your attitude, rather than each individual investment taken in isolation. This analysis is based on the latest asset allocation data available at the time of creating this report. The asset allocation is a snapshot of the funds current investments and each fund's allocation may change over time.

Funds which have been risk profiled by Distribution Technology are subject to additional analysis over and above the asset allocation snapshot. The risk profile given by the risk profiling service is not just based on the asset allocation snapshot, it also includes additional data such as strategic asset allocation and historical volatilities.

## Asset allocation

Anything that can be bought, sold or exchanged is an asset, and an asset class is simply a category of asset. The most popular traditional asset classes are cash, bonds and shares, but many more assets are considered as investments. These include commodities (such as gold or oil), art, and even classic cars and fine wines. In recent years there has been an upsurge of interest in " alternative" asset classes such as commercial property. " Modern alternatives" , including investments such as hedge funds, private equity and structured products are also becoming more popular.

Different types of assets, such as Equities or Bonds, behave in different ways. The first step in forming any investment strategy is to achieve the right balance between the major asset classes. This " asset allocation" is fundamental to meeting your investment goals in the medium to long term. In fact, asset allocation can be as important as the choice of the individual funds themselves.

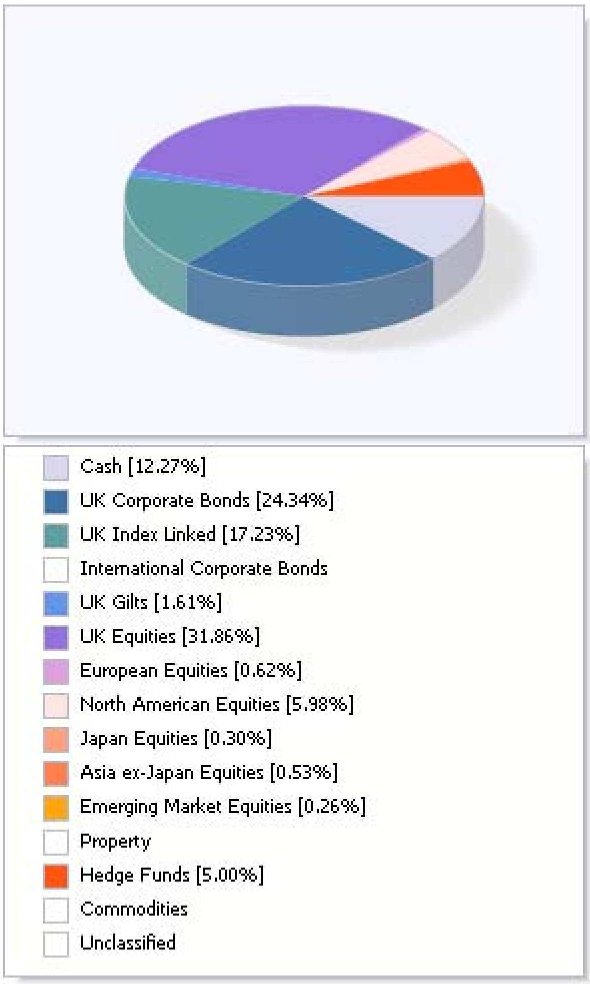
Asset allocation therefore is the most important factor affecting the level of risk and likely return that you might face when investing over the medium to long term. If you hold most of your money in cash then your chance of losing money is low but so will any returns be. If you invested most of your money in stocks and shares, the chance of losing money in the short term is higher, but in the long term the chances of a greater return are also higher.

Your investment portfolio should match both where you are now and where you want to be in the future. The challenge is to find the proper mix of investments with just the right amount of money in a variety of investments. Asset allocation is a strategy that can be used to maximise long term performance and reduce the volatility of returns.

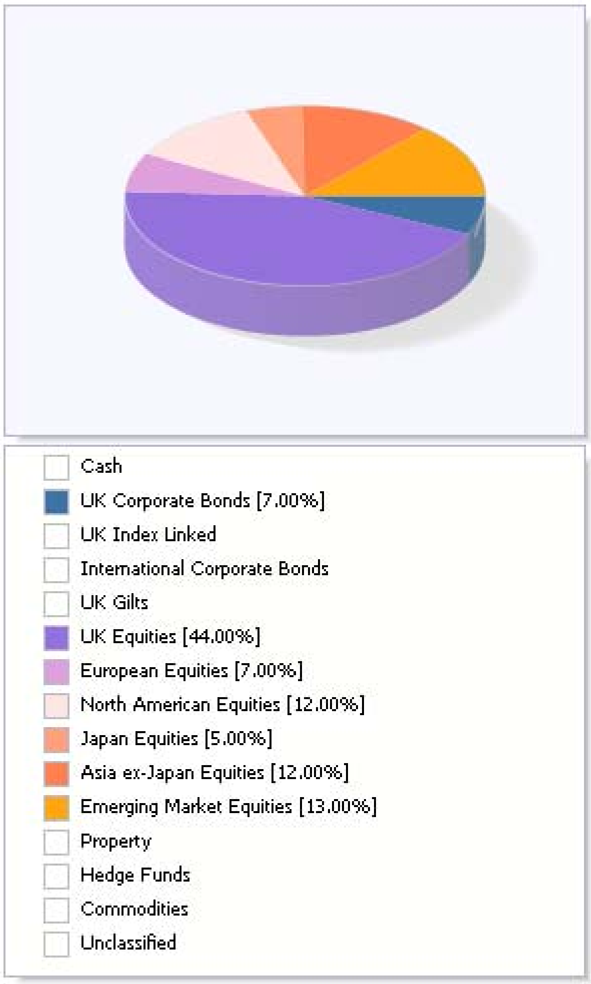
From the information we have about your current investments and savings they are comprised of the asset types shown below in the left hand chart. Based on your attitude towards risk however, we recommend the asset allocation on the right.

## Your Current and Target Asset Mixes

Current asset mix




Target asset mix




While the Current Portfolio (Profile 4 - Lowest medium risk) has an estimated potential annual growth rate (inflation adjusted) of 2.13% a year, the Target Portfolio (Profile 7 - Highest medium risk) estimated potential annual growth rate (inflation adjusted) of 4.53% a year.

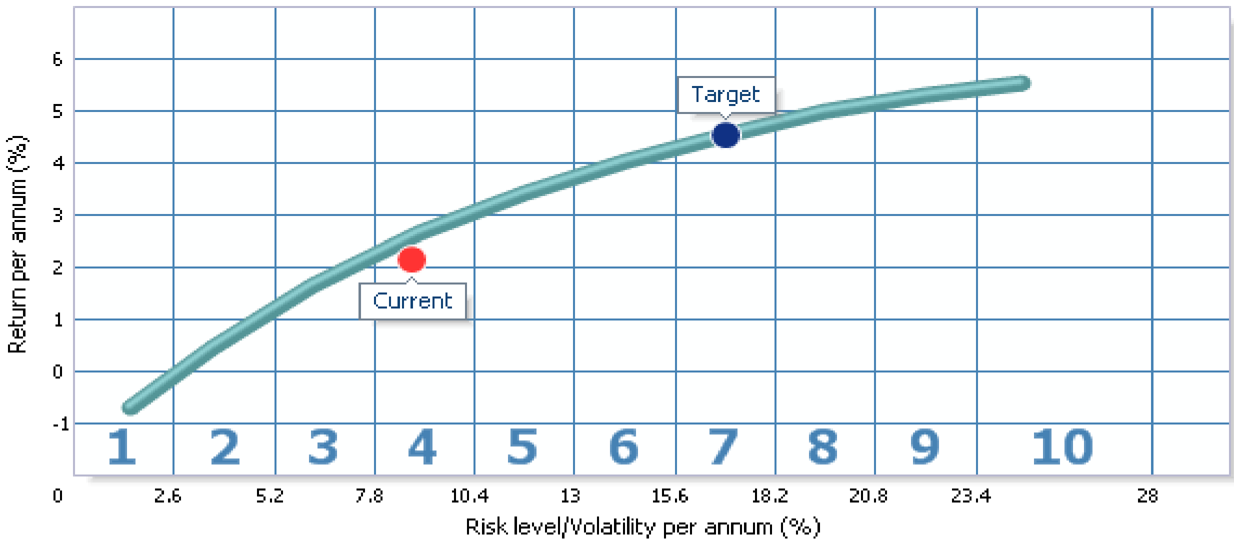
### Your target asset allocation

We believe that a portfolio of investments consisting of the target asset mix may be more appropriate for you.

The reason for this is that the portfolio is designed to deliver a balance between the opportunity for higher returns than cash deposits and protection against severe market falls. Although the capital value of the portfolio may fall, and you are not guaranteed to receive back the original amount invested, the risk of the loss is much less than an investment made directly in the stock market.

Any income received from this portfolio may fall as well as rise. This portfolio contains securities invested outside the UK, which may be subject to additional risks as a result of changes in currency exchange rates.

### Risk and return expectations




**This graph shows your current portfolio and our suggested target portfolio on a Risk and Return basis.**

The efficient frontier line shows the highest, most likely return you can expect for any level of risk you are prepared to take. This assumes average growth forecasts for the generic asset types. Anything under that efficient frontier line is said to be an inefficient portfolio. This is because you could either be achieving the same level of return for less risk or could achieve more return without increasing your risk.

By maintaining a portfolio in line with your target asset allocation, you can keep an efficient mix of risk and return.

## Forecasting against your goals

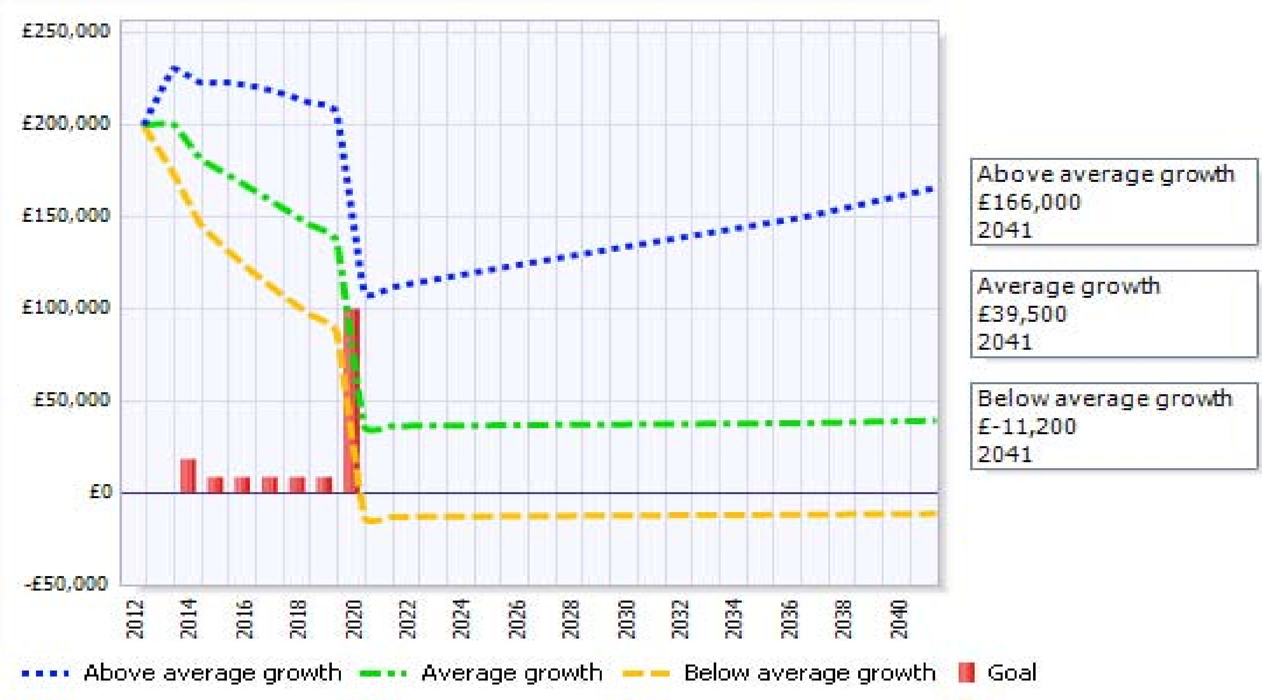
You have provided us with information on your investment goals. We can forecast the potential performance of your investments and determine whether it is likely that you will have sufficient assets to meet your goals.

### Your investment goals

The following table summarises your investment goals:

| Name | Amount | Start | End | Frequency | Growth |
|---|---|---|---|---|---|
| Wedding for Claire | £20,000.00 | May 2014 | May 2014 | One Off | 0% |
| Buy Spanish Apt | £100,000.00 | Jan 2020 | Jan 2020 | One Off | Price inflation |
| Charles Jnr (school fees) | £9,000.00 | Sep 2015 | Sep 2020 | Annually | Price inflation |

### Current portfolio performance (including goals and budget deficit)




The wealth forecast graph (above) shows how a portfolio of assets based on your current arrangements might perform over the long term based on a number of assumptions. This is not a projection of how the investments you currently hold might perform.

The graph shows potential investment values and goals in today's prices and includes any deficit from your Budget.

Please note that stock market related investments can fall as well as rise and returns are not guaranteed.

The figures used are only examples of what a particular asset allocation strategy might achieve and are not minimum or maximum amounts or guaranteed in any way. The actual level of any return will depend on the specific investments made, how these grow or fall and on the tax treatment and charges incurred of each specific product.

From the analysis of the current portfolio wealth forecast chart above it looks possible that you will be able to meet the investment goals you set (shown in the ‘Your investment goals’ summary). Based on very good and average growth scenarios no additional investment is currently required.

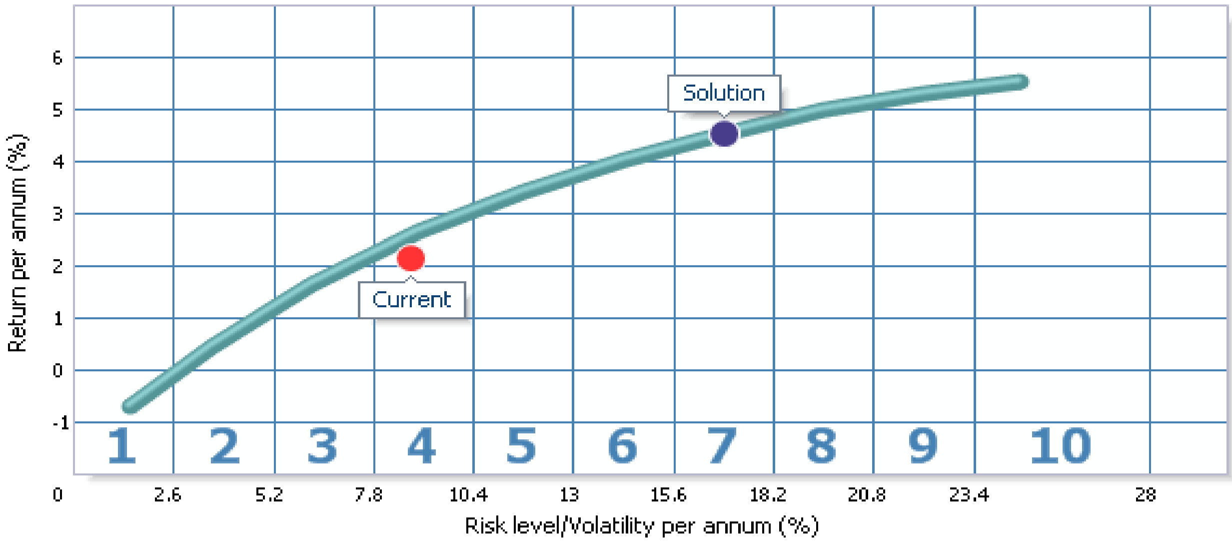
Please refer to the section on Financial Planning Assumptions for more detail on the analysis and assumptions used.

## How you can move towards an efficient portfolio

Our solution is to invest this money in the Profile 7 - Highest medium risk Portfolio for risk level 7.

The graph below shows the efficient frontier of your current, target and solution portfolio on a Risk and Return basis. The efficient frontier line shows the theoretical returns achievable for a given level of risk (volatility).

The solution asset allocation reflects your preference to maintain certain investments where they are. The underlying asset allocation for these earmarked investments is therefore left as it currently stands. The remaining balance of available funds can, however, be re-balanced into the more efficient target asset allocation.




The wealth forecast graph below shows how a portfolio of assets based on the solution asset allocation (when all available funds are re-allocated to the target asset mix but un-available funds are left untouched) might perform, taking into account any goals, over the long term based on a number of assumptions. This is not a projection of how the investments you currently hold might perform.

## Proposed Portfolio Transactions

If you wish to move your investment portfolio more in line with the suggested portfolio outlined over, you will need to effect the following changes:

| Holding | Holder | Current Value | New Value |
|---|---|---|---|
| Ascentric: Investment account | Charles | £200,000.00 | £200,000.00 |
| Fund switch | n/a | Based on the information provided I recommend... | |
| Stan Life Inv Gl AbsRt Str I | | £10,000.00 | |
| Close Bond Income Portfolio I Acc | | £25,000.00 | |
| UK equities | | £40,000.00 | |
| Architas MA Active Growth R Acc | | £10,000.00 | |
| Rathbone Ethical Bond Acc | | £25,000.00 | |
| AXA Defensive Dist R Acc | | £60,000.00 | |
| Savings Account | | £20,000.00 | |
| Aberdeen American Equity A Acc | | £10,000.00 | |
| Vanguard LifeStrategy 80% Equi Acc | | | £200,000.00 |

This report will not include reasons for the recommended provider at this stage. If you would like to consider the investment changes in more detail please do not hesitate to contact us.

### Not a tax planning tool

The aim of the tax calculations within this analysis is to present a reasonable idea of the dampening effect of taxation on the growth of assets. It is designed to serve as an introduction to discussions with an adviser and not as a replacement expert to tax planning. Specifically, the model does not calculate capital gains tax and investors with significant assets should take advice on this. If you require a more detailed analysis you may wish to consider our comprehensive financial planning service.

Summary Recommendation : **You should invest £200,000.00 into a "Profile 7 - Highest medium risk" portfolio of investments. I have recommended taking £0.00 from cash savings, with any balance from the consolidation of your other, diverse investment holdings.**

### Actions

| |
|---|
| - Review risk analysis guidance provided |
| - Rebalance existing available investments in line with target asset allocation |
| - Invest new investments in line with target asset allocation |

# Retirement

## Your current pensions

The following table summarises your current pension holdings:

| Pension | Who | Date when payable | Age when payable | Annual amount in year of retirement | Increase |
|---|---|---|---|---|---|
| AXA | Charles | Jan 2037 | 65 | £9,516.36 | Price inflation |
| Prudential | Charles | Jan 2037 | 65 | £1,540.44 | Price inflation |

You might expect to receive the following pensions from the state. Please be aware though that these are only estimates and are provided for guidance only. In order to get a detailed forecast you need to complete form BR19 and submit this to the Department of Work and Pensions.

| Who | Date when payable | Age when payable | State pension in year of retirement | Second state pension in year of retirement |
|---|---|---|---|---|
| Charles | Jan 2039 | 67 | £5,311.80 | £3,108.20 |

Charles is expected to have a total annual state pension of £8,420.00.

## Your risk profile

You have completed the risk profiling exercise which looks at the trade-off between the risks involved in investing and the potential returns. The following table shows the output from your risk profiling exercise:

| Client | Questionnaire Profile | Current Portfolio Risk |
|---|---|---|
| Charles | Profile 7 - Highest medium risk | Profile 6 - High medium risk |

As a result of this exercise you have selected a risk level of 4 out of 10 and are happy with the "Profile 4 - Lowest medium risk profile" as reflecting your attitude to risk for your investment strategy.

## Description

### Risk level 4 - Profile 4 - Lowest medium risk

You have selected profile 4. This means that your attitude to risk is ‘lowest medium’.

The risk scale is made up of 10 profiles overall. This means that your attitude to accepting risk is below average. Your risk score is important in two ways to the type of investments you should consider. These are shown below.

How comfortable you are with the possibility of losing money on your investments

You are likely to be less comfortable and less well able to adapt to losing money on your investments than someone who has a ‘high medium’ or ‘high’ attitude to risk, for example, someone in profiles 5 to 10.

How much you want to invest in higher-risk investments to get better returns

Higher-risk investments such as equities (shares) generally offer higher returns over the long term, but the investments also fluctuate more (go up and down in value). This means that while people may make more money in the long term with higher-risk investments, they are more likely to lose money in the short term.

As your attitude to accepting risk is ‘lowest medium’, you are probably concerned about the possibility of losing money, but do not want to completely ignore the possibility of making higher returns. You probably want greater returns than are offered by bank accounts and other low-risk investments. As a result, you are prepared to accept some ups and downs. This means that you could make a loss on the amount you invest, particularly in the short term.

An investment portfolio appropriate for this risk level may contain, for example, mainly lower- or medium-risk investments such as cash, bonds or property, typically with a few higher-risk investments such as shares. While a portfolio like this should go up and down in value less than a ‘high-risk’ portfolio, the value of investments can always go down as well as up.

Summary

- Your attitude to accepting risk is ‘lowest medium’.

- While you are likely to be concerned with not getting as much back from your investments as you put in, you may also want to make higher returns on your investments.

- Your preferred investments are likely to be mainly lower- or medium-risk investments such as cash, bonds or property, with typically fewer higher-risk investments such as shares.

It is important to note that when constructing a portfolio, we may recommend investments which, on their own, fall into a different risk category to the one you have selected. However, it is the overall risk of the total portfolio which must be consistent with your attitude, rather than each individual investment taken in isolation. This analysis is based on the latest asset allocation data available at the time of creating this report. The asset allocation is a snapshot of the funds current investments and each fund's allocation may change over time.

Funds which have been risk profiled by Distribution Technology are subject to additional analysis over and above the asset allocation snapshot. The risk profile given by the risk profiling service is not just based on the asset allocation snapshot, it also includes additional data such as strategic asset allocation and historical volatilities.

## Asset allocation

Anything that can be bought, sold or exchanged is an asset, and an asset class is simply a category of asset. The most popular traditional asset classes are cash, bonds and shares, but many more assets are considered as investments. These include commodities (such as gold or oil), art, and even classic cars and fine wines. In recent years there has been an upsurge of interest in " alternative" asset classes such as commercial property. " Modern alternatives" , including investments such as hedge funds, private equity and structured products are also becoming more popular.

Different types of assets, such as Equities or Bonds, behave in different ways. The first step in forming any investment strategy is to achieve the right balance between the major asset classes. This " asset allocation" is fundamental to meeting your investment goals in the medium to long term. In fact, asset allocation can be as important as the choice of the individual funds themselves.

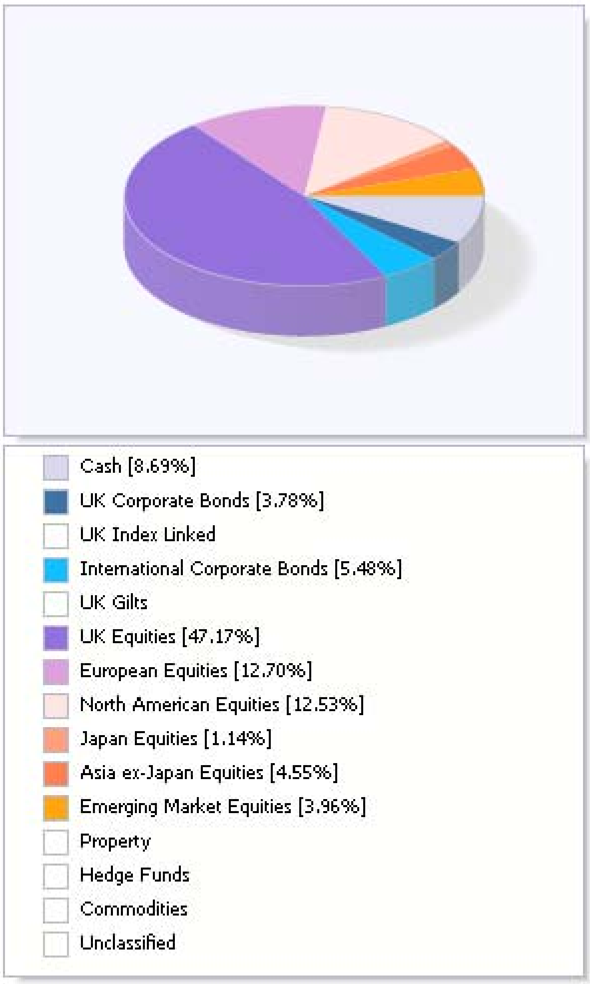
Asset allocation therefore is the most important factor affecting the level of risk and likely return that you might face when investing over the medium to long term. If you hold most of your money in cash then your chance of losing money is low but so will any returns be. If you invested most of your money in stocks and shares, the chance of losing money in the short term is higher, but in the long term the chances of a greater return are also higher.

Your investment portfolio should match both where you are now and where you want to be in the future. The challenge is to find the proper mix of investments with just the right amount of money in a variety of investments. Asset allocation is a strategy that can be used to maximise long term performance and reduce the volatility of returns.

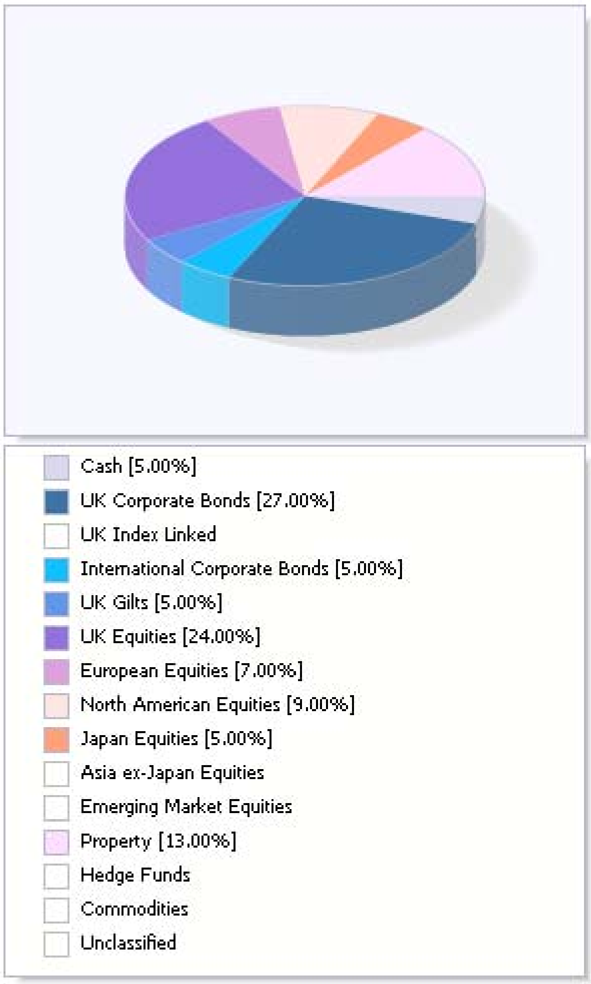
From the information we have about your current investments and savings they are comprised of the asset types shown below in the left hand chart. Based on your attitude towards risk however, we recommend the asset allocation on the right.

## Your Current and Target Asset Mixes

**Current asset mix**




**Target asset mix**




While the Current Portfolio (Profile 6 - High medium risk) has an estimated potential annual growth rate (inflation adjusted) of 3.79% a year, the Target Portfolio (Profile 4 - Lowest medium risk) estimated potential annual growth rate (inflation adjusted) of 2.64% a year.

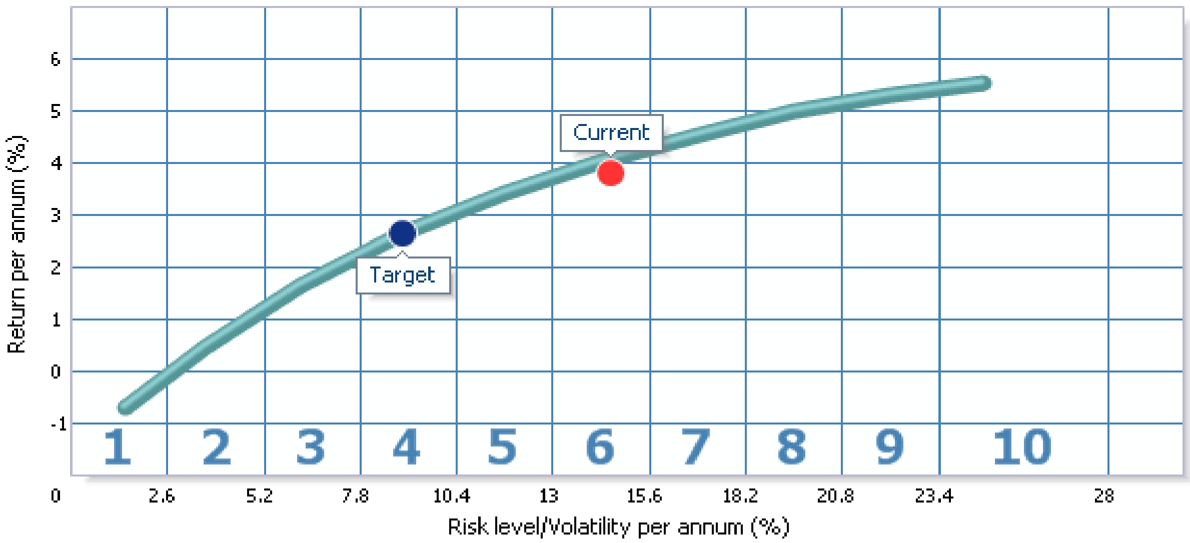
### Your target asset allocation

We believe that a portfolio of investments consisting of the target asset mix may be more appropriate for you.

The reason for this is that the portfolio is designed to deliver a balance between the opportunity for higher returns than cash deposits and protection against severe market falls. Although the capital value of the portfolio may fall, and you are not guaranteed to receive back the original amount invested, the risk of the loss is much less than an investment made directly in the stock market.

Any income received from this portfolio may fall as well as rise. This portfolio contains securities invested outside the UK, which may be subject to additional risks as a result of changes in currency exchange rates.

## Risk and return expectations



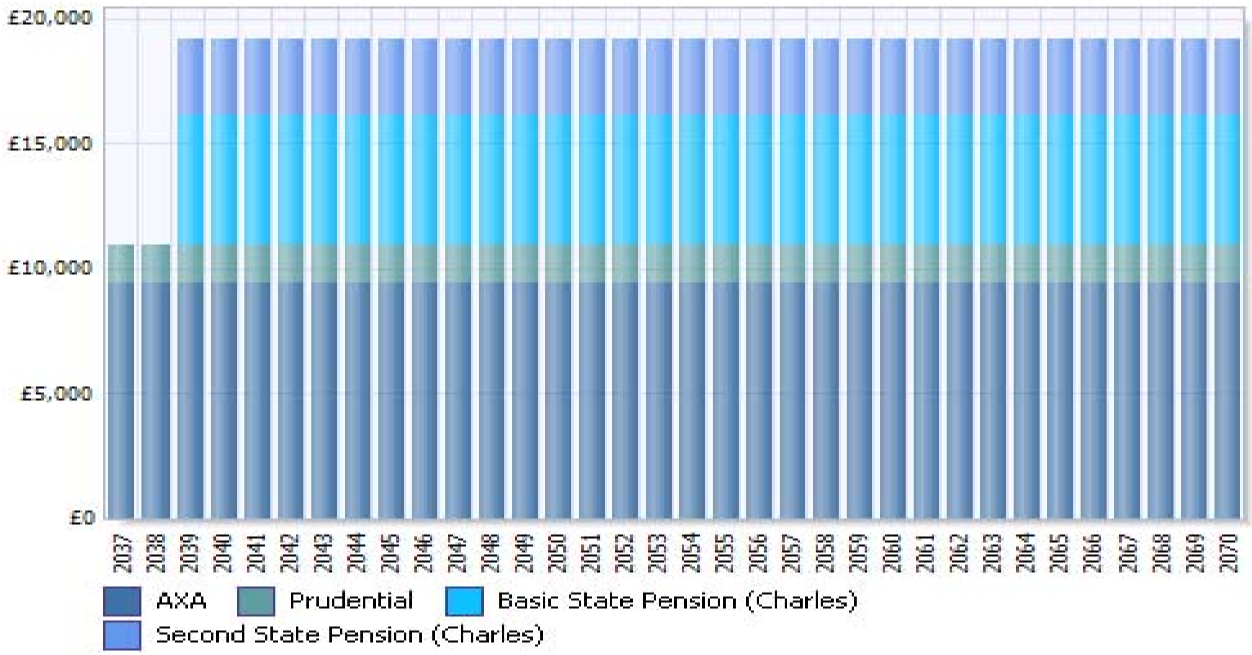

This graph shows your current portfolio and our suggested target portfolio on a Risk and Return basis.

The efficient frontier line shows the highest, most likely return you can expect for any level of risk you are prepared to take. This assumes average growth forecasts for the generic asset types. Anything under that efficient frontier line is said to be an inefficient portfolio. This is because you could either be achieving the same level of return for less risk or could achieve more return without increasing your risk.

By maintaining a portfolio in line with your target asset allocation, you can keep an efficient mix of risk and return.

## Forecasting against your goals

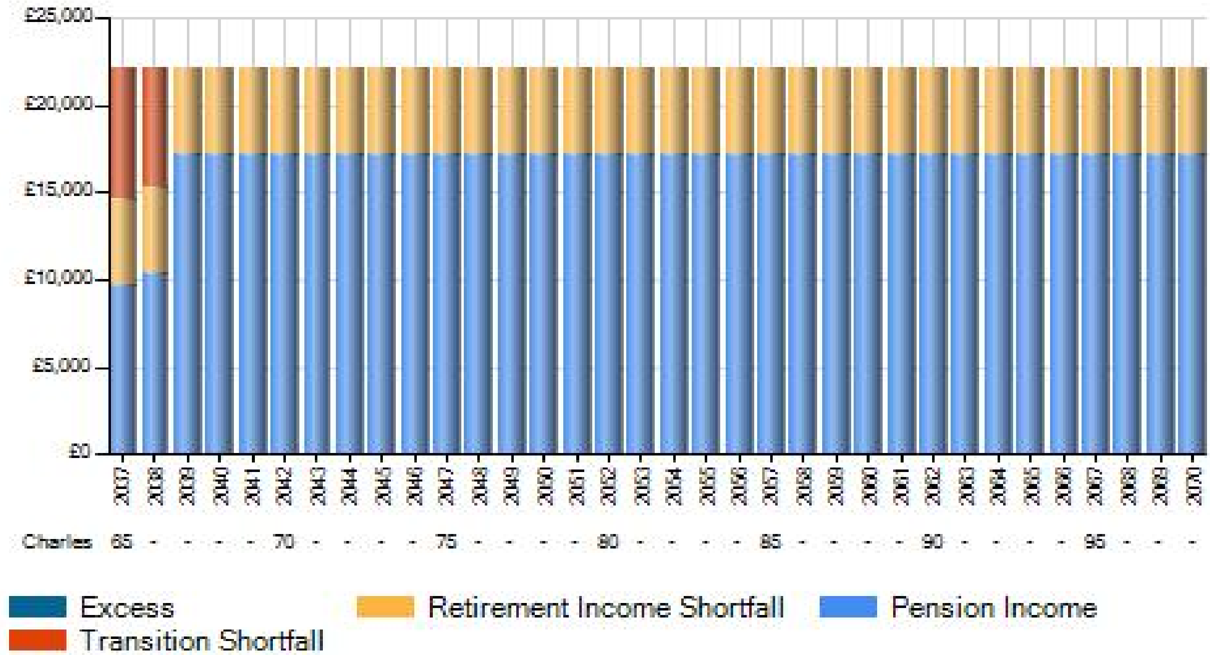
The chart below illustrates the level of household income you might expect to receive from state pensions and from each of your other pension schemes in each year after you plan to take the benefits.




Please see a detailed list of assumptions in the Appendix.

Charles indicated that he would like to support a lifestyle in retirement costing in the region of £40,000.00 per year, which we assume will start in February 2037 (i.e. when Charles is aged 65).

The following chart shows what your pension income might be after tax, and compares this net income to your retirement goal.



The analysis indicates that your pensions will not generate sufficient income to support your goal.

You can expect to have a transitional period between 2037 and 2039 during which not all of your pensions will be in payment. The analysis indicates that to meet this shortfall, you might need an additional £14,622.84 lump sum of capital, or to save an additional £55.34 per month per month until retirement – or a combination of the above.

Once all of your pensions are in payment, you can still expect to have a shortfall of around £409.38 per month. In order to meet this shortfall, you may need to save an additional £478.04 per month per month or find an additional £119,368.09 lump sum of capital.

We note that you do have other investment assets, an income surplus, and significant equity in your house, which you can use to finance your retirement if you wish – see the " about your finances" section above. Here we only consider the funding of your pensions towards your planned post-retirement lifestyle.

Please refer to the section on Financial Planning Assumptions for more detail on the analysis and assumptions used.

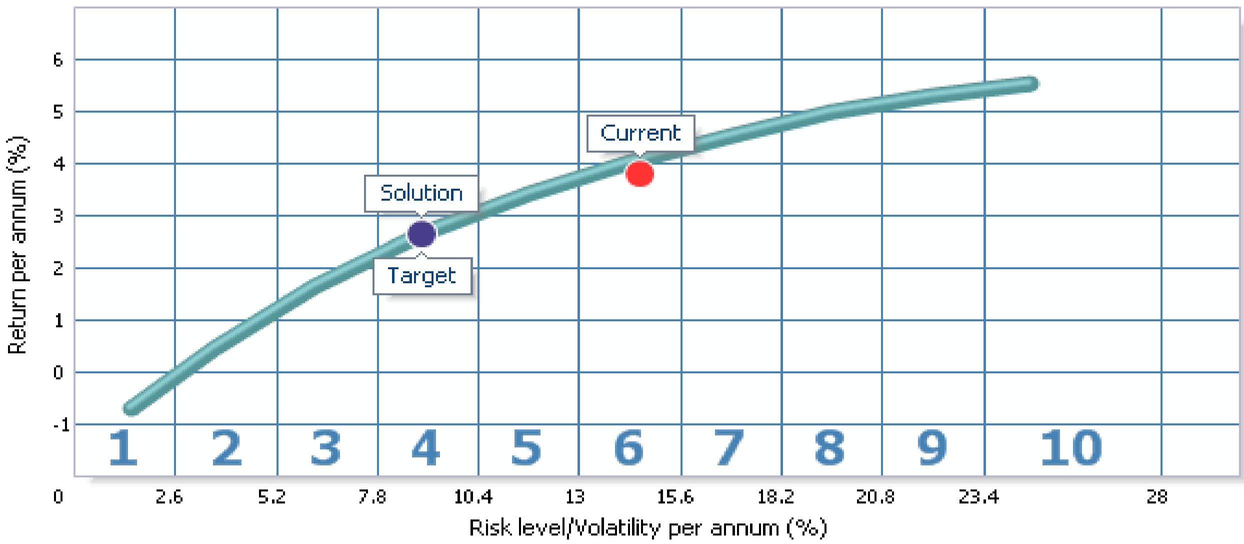
## How you can move towards an efficient portfolio

Our solution is to invest this money in the Profile 4 - Lowest medium risk Portfolio for risk level 4.

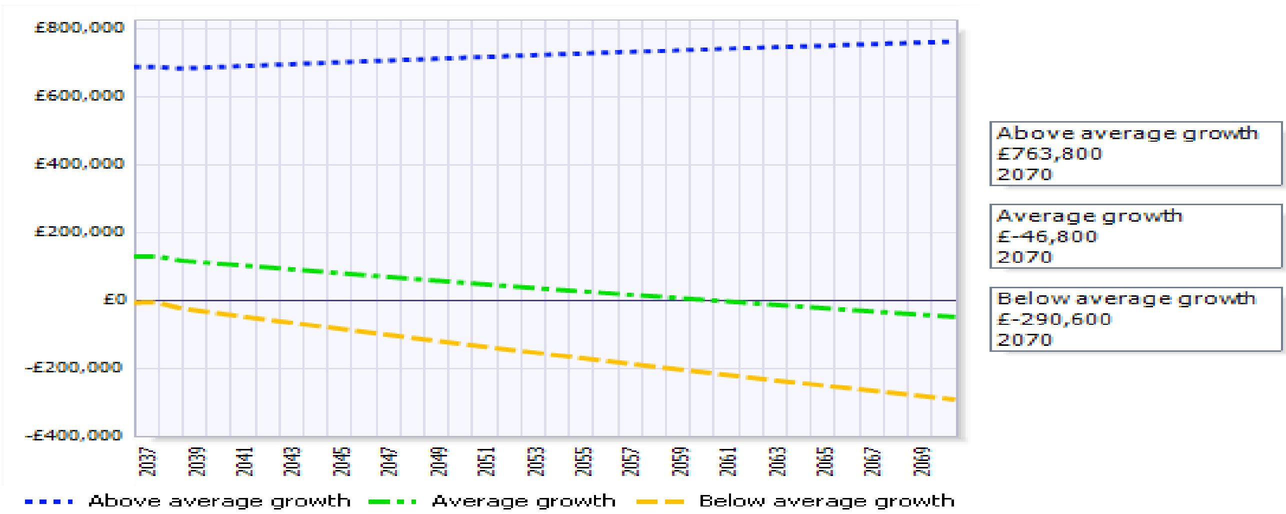
The below graph compares our suggested solution portfolio, Profile 4 - Lowest medium risk Portfolio with your current and target portfolio.

The solution asset allocation reflects your preference to maintain certain investments where they are. The underlying asset allocation for these earmarked investments is therefore left as it currently stands. The remaining balance of available funds can, however, be re-balanced into the more efficient target asset allocation.

The graph below shows the efficient frontier of your current, target and solution portfolio on a Risk and Return basis. The efficient frontier line shows the theoretical returns achievable for a given level of risk (volatility).




The wealth forecast graph below shows how a portfolio of assets based on the solution asset allocation (when all available funds are re-allocated to the target asset mix but un-available funds are left untouched) might perform, taking into account any goals, over the long term based on a number of assumptions. This is not a projection of how the investments you currently hold might perform.



## Pension Transfer Recommendations

If relevant...

## Proposed Portfolio Transactions

If you wish to move your investment portfolio more in line with the suggested portfolio outlined over, you will need to effect the following changes:

| Holding | Holder | Current Value | New Value |
|---|---|---|---|
| Prudential: Personal pension plan | Charles | **£40,000.00** | **£40,000.00** |
| Maintain | n/a | n/a | |
| Baillie Giff 60:40 Ww Equity Pn P | | £40,000.00 | £40,000.00 |
| AXA: Occupational money purchase | Charles | **£120,000.00** | **£120,000.00** |
| Maintain | n/a | n/a | |
| AXA Wealth Newton Managed | | £120,000.00 | £120,000.00 |

This report will not include reasons for the recommended provider at this stage. If you would like to consider the investment changes in more detail please do not hesitate to contact us.

### Summary Recommendation

**You should invest £160,000.00 into the Profile 4 - Lowest medium risk portfolio of investments. This comprises £160,000.00 of cash from savings, and the balance from consolidation of your other, diverse investment holdings.**

### Actions

- Consider saving more in your pension or adjusting your goals

- Re-balance your pension investments in line with your target asset allocation

- Get your State Pension forecast

# Appendix A

## Financial Planning Assumptions - Basic Methodology

We model asset returns using Geometric Brownian Motion, also known as the lognormal model. This model depends on two parameters: the expected growth rate (in our case the real i.e. inflation adjusted growth rate) and the volatility (standard deviation, a measure of the riskiness of the growth rate). These are estimated based on both historical returns and on an in house analysis of market data at the review date, including bond and gilt yields. We can then put these values into a closed form formula to calculate the likely returns at the 5%. 50% and 95% level into the future. For example we can calculate the annualised level of return the portfolio is likely to exceed over the next 20 years with a 95% probability.

The above assumptions are based on our analysis, however please note that stock market related investments can fall as well as rise and returns are not guaranteed. The figures used are only examples of what a particular asset allocation strategy might achieve and are not minimum or maximum amounts or guaranteed in any way. The actual level of any return will depend on the specific investments made, how these grow or fall and on the tax treatment and charges of each specific product.

| Portfolio | Assumed average growth rate | Assumed average volatility |
|---|---|---|
| Portfolio 1 | -0.70% | 1.50% |
| Portfolio 2 | 0.45% | 3.63% |
| Portfolio 3 | 1.63% | 6.23% |
| Portfolio 4 | 2.64% | 8.97% |
| Portfolio 5 | 3.42% | 11.71% |
| Portfolio 6 | 4.03% | 14.34% |
| Portfolio 7 | 4.53% | 16.93% |
| Portfolio 8 | 4.98% | 19.51% |
| Portfolio 9 | 5.29% | 22.12% |
| Portfolio 10 | 5.53% | 24.66% |

### The Wealth Forecast

This forecast takes the Estimated Potential Returns and Variance for each Asset class and grows the portfolio using these estimates. Any regular savings are added in as is any surplus income from the Budget. These inflows are assumed to be allocated across assets such that the overall asset allocation remains unaltered. Goals are subtracted at the end of the year in which they fall.

Three possible forecasts are shown:

- A good performance, where the assets have a run of continually good years over the forecast. Statistically there is a 95% chance that the assets will grow at less than this rate.
- An average performance, where the assets continually grow at the Estimated Potential Return rate. Statistically this is the (50th percentile) the average return rate expected.
- A poor performance where the assets have a run of continually poor years. Statistically there is only a 5% chance that the assets will perform worse than this.

For each of the 5 years prior to a goal it is assumed that 20% of the assets needed to meet a goal are transferred into a risk free asset (like cash or gilts) which grows only at the rate of inflation. This 'life-styling' reflects what should happen as an investor moves closer to their goal and investment gains are 'locked in', reducing the exposure to more volatile assets. It also produces a more cautious forecast.

## Asset Allocation

A study examining investment portfolios over many business cycles found that asset allocation accounts for more than 90% of a portfolio’s return over the longer term. It is fair to say the greater the variety of investments you have, the less likely you will be hurt by the poor performance of a single investment. Because investment markets move independently – and unpredictably – balanced investing increases the likelihood that at least some parts of your portfolio will be performing better than the others. True diversification between the asset classes is only achieved by combining assets that are lowly correlated with each other – i.e assets that move independently to one another.

Additionally, mixing traditional and non-traditional asset classes can also create new ways to manage short-term volatility. For example, if a fund manager includes hedge funds in a portfolio it can enable investors to enjoy the returns associated with stock market investment yet lower the risks involved. This is because they have the potential to make money whatever the market conditions, so even if the share portion of the portfolio falls the overall fund may not suffer too badly.

# Appendix B

## Recommendation Summary

### Retirement

| Name | Owner | Current Value | Delta Value | New Value | Accept? |
|---|---|---|---|---|---|

### Investment

<table>
<tr><th>Name</th><th>Owner</th><th>Current Value</th><th>Delta Value</th><th>New Value</th><th>Accept?</th></tr>
<tr><td>Investment account</td><td>Charles</td><td>£200,000.00</td><td>£0.00</td><td>£200,000.00</td><td></td></tr>
<tr><td colspan="6">Wrapper type: Investment account; Provider: Ascentric;</td></tr>
<tr><td colspan="4">Fund switch</td><td>n/a</td><td>[ Y / N ]</td></tr>
</table>

# Notes

### Profile notes

Where relevant will be provided...

### Cashflow notes

Where relevant will be provided...

### Risk profile notes

Where relevant will be provided...

### Investment recommendations notes

Where relevant will be provided...

### Retirement recommendations notes

Where relevant will be provided...

Crystal Mark 19858 Clarity approved by Plain English Campaign

Dynamic Planner risk profile descriptions have been approved by the Plain English Campaign