DYNAMIC PLANNER™
ENSURING INVESTMENT SUITABILITY

Tavistock Wealth – Risk Profile Report

December, 2018

Contents

Executive summary

DT (Distribution Technology) has reviewed and profiled 2 solutions offered by Tavistock Wealth within the risk profiles used on Dynamic Planner.

The main objective of the DT risk profiles and fund risk profiling service is to provide financial advisers and their clients with a meaningful measure of the long-term investment risk of fund strategies and a mechanism for selecting solutions appropriate for investor risk appetites and capacity for risk.

The profiles which DT has assigned to the solutions are set out in Table 1.

Solution	Assigned risk profile
Acumen Capital Protection Portfolio	4
Acumen Income-Protection Portfolio	5

Table 1: Fund risk profiles

The information contained in this report supplements methodologies used on the Platform. The report should be used in the context of these methodologies and advice provided on the Platform and not in isolation.

1 Introduction

This report was commissioned by Tavistock Wealth, who contracted DT to assess the appropriate risk profiles for 2 solutions within the risk profiles used in Dynamic Planner. The following solutions are reviewed in this report:

- Acumen Capital Protection Portfolio
- Acumen Income-Protection Portfolio

The profiles provided in this report are based on DT's Q4 2018 capital market assumptions, which are discussed in appendix A. The risk bands based on DT's assumptions are set out in appendix B.

DT provides this analysis on the understanding that investors will access the solutions through a regulated advice process. The recommendation on whether or not to include these solutions in an investor's portfolio and the amount to include should be made by advisers with the necessary Financial Conduct Authority permission to give advice on investments. DT accepts no liability in respect of any advice given to investors relating to investment strategy or the purchase of specific products.

The analysis in this report has been based on data and information provided by Tavistock Wealth and other third parties as set out in the appendices. Data received has been assumed by DT to be correct as of the date of this report.

The following section sets out the results of our analysis and subsequent sections set out the methodology and assumptions in more detail.

2 Investment objectives

A summary of each of the solutions‘ investment objectives is set out below.

Acumen Capital Protection Portfolio

The Acumen Capital Protection Portfolio is based on the Acumen Conservative Portfolio, which is already profiled by Dynamic Planner and has been assigned a Risk Profile of 4. To recall, the Conservative Portfolio aims to have a minimum fixed income and/or cash exposure of 30% and equity exposure ranging between 20-60%. This portfolio aims to gain exposure through investment in a diversified portfolio of regulated UCITS-compliant collective investment schemes, regulated or authorised collective investment schemes, investment trusts, investment companies, cash and near cash and deposits. The portfolio primarily invests in a range of low cost, index tracking funds or exchange traded funds but may also invest in other transferable securities and money market instruments in accordance with the rules in COLL. The portfolio aims to produce annualised volatility in the range of 5.1% to 7.0%.

Acumen Income-Protection Portfolio

The Acumen Income-Protection Portfolio is based on the Acumen Income Portfolio, which has already been profiled by Dynamic Planner and been assigned a risk profile of 5. To recall, the portfolio will maintain at least 30% exposure to fixed income and cash and between 20-60% exposure to shares. The portfolio aims to gain exposure through investment in a wide range of global asset classes including equities, bonds, commodities, property, cash, near cash and deposits. The portfolio may also be exposed to other transferable securities and money market instruments. The portfolio primarily gains exposure to the above asset classes by investing in a range of low cost, index tracking funds or exchange traded funds. The portfolio may also gain exposure to the above asset classes through investment in collective investment schemes, investment trusts, investment companies and where permissible by holding the asset classes directly. The portfolio aims to produce annualised volatility in the range of 7.1% to 9.0%.

In addition to the underlying portfolios, there are two more mechanisms of risk control structured within the respective Protection Portfolios. They are as follows:

1. **Volatility Control Mechanism**

   The volatility control mechanism is designed to maintain the ex-post volatility of both the Conservative and Income Portfolios within their respective target volatility ranges – viz., 5% to 7% for the Conservative Portfolio and 7% to 9% in the Income Portfolio. This is achieved by reducing exposure to the underlying portfolios and allocating to cash to stabilise the volatility. In effect, as volatility rises the portfolios are Protection Portfolios are de-risked by reducing allocation to Conservative and Income Portfolios and increasing allocations to cash – thus reducing participation in the returns generated by the portfolios.

2. **The Protection Mechanism**

   This is a mechanism which is designed to lock the value of the Protection Portfolios at a floor through a "put option" structure. The floor for the Capital Protection Portfolio is 90% of the highest value that the Portfolio achieved and the floor for the Income-Protection Portfolio is 85% of the highest value ever achieved. This is done through a derivative, implemented by Morgan Stanley, in the form of lookback put option with a rolling 4-year maturity. This is a derivative structure created on the same basket of investments as contained within the underlying portfolios, viz – the Conservative Portfolio and the Income Portfolio. In case the underlying falls in value, the price of the "put option" structure rises, compensating for the loss in value of the portfolio. Vice versa, when the value of the portfolio rises, the value of the "put option" structure falls, reducing the value of the portfolio. The pricing of the structure is carried out by Morgan Stanley, who is the issuer of the put option and forms an integral part of the NAV calculation of the portfolio.

3 Analysis and methodology

One of the key tasks for an investor is to determine how much investment risk to take on. This decision will depend on psychological, financial and other factors. The investor will want to maximise the reward for taking on this risk through the selection of optimal weights for each asset category included in the investment portfolio.

DT's asset allocation methodology is based on the principles of modern portfolio theory. The risk profiles provided by DT are risk profiles of the long-term asset allocations adopted for a solution. The actual riskiness over the long term will depend on, among other things, the level of flexibility in the manager's mandate and how far any deviations from the long-term position are and for how long.

The measure of risk DT has used for each solutions is the estimated volatility as determined using the solutions' internal asset allocations along with the estimates of the returns, volatilities and correlations of the DT primary asset classes. The analysis assumes that the actual holdings in each asset class can be broadly represented by the benchmark adopted for that asset.

The investment assumptions used in this review are those set by DT at the end of the fourth quarter of 2018. Risk bands based on DT's assumptions (as set out in appendix B) were used to ensure that the profiles assigned to each solutions are consistent with profiles and practices adopted within the implementation of Dynamic Planner. This ensures that the profiles can be used with outputs from psychometric risk profiling instruments used within Dynamic Planner.

For the purposes of constructing the efficient frontier, estimating return distributions and profiling solutions, DT splits the investment universe into the following asset classes, called the primary asset classes:

- Cash
- UK Corporate Bonds
- UK Index Linked Gilts
- International Bonds
- UK Gilts
- Global High Yield Bonds
- UK Equity
- Europe ex UK Equity
- North American Equity
- Japanese Equity
- Asia Pacific ex Japan Equity
- Emerging Markets Equity
- UK Commercial Property
- Commodities
- Absolute Return

For each of these asset classes, DT periodically reviews the appropriate set of investment assumptions for forecasting future returns and risk distributions. The assumptions are derived from historical and market data at each review date. Appendix A provides a summary of the methodology used to derive the investment planning assumptions used on Dynamic Planner. Further details can be found in DT's Capital Market Assumptions report.

4 Results

The risk profiles assigned to these solutions are based on the analysis done on the underlying Conservative and Income Portfolios as provided by the manager.

4.1 Analysis of asset allocations

Using DT's capital market assumptions, we calculated the expected long-term volatility of the benchmark asset allocation of each solutions. The following table sets out the fund risk profiles based on this approach.

Solution	Risk profile based on benchmark allocation
Acumen Capital Protection Portfolio	4
Acumen Income-Protection Portfolio	5

Table 2: Benchmark asset allocation positions

Tavistock Wealth provide us with quarterly data as a part of the review process. We have mapped these to our standard asset classes and calculated the expected volatilities using our DT assumptions.

In our current reviews, the Conservative and Income Portfolios have consistently been within their boundaries. This can be seen from the graph below. This shows the positioning of the monthly allocations of the portfolios against the Dynamic Planner Efficient Frontier. As can be seen the portfolios have been positioned safely within their assigned profiles.

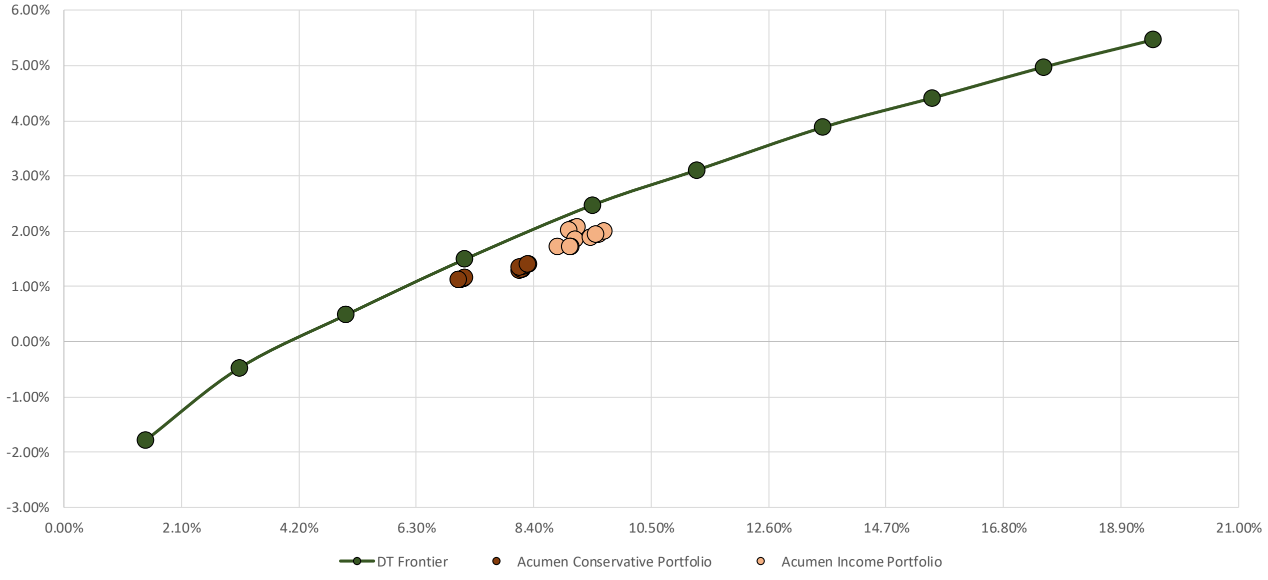

Chart 1: Acumen Conservative and Income Portfolio against the DP frontier

In assessing allocations by risk profile, we also estimate the annual Value at Risk (VaR) at the 95th percentile for the benchmark allocations. For Risk Profile 4 and 5, the annual VaR is calculated to be 9% and 12% respectively. Hence, in our opinion, the "put option" structure takes care of extreme situations and does not have significant impact on the expectation of risk.

Hence, we are comfortable with assigning the same profiles for the Protection portfolios as the underlying portfolios.

5 Summary

In Table 3 below, we summarise the risk profiles of the solutions based on the different measures set out above.

Solution	Benchmark asset allocation	DT assigned profile
Acumen Capital Protection Portfolio	4	4
Acumen Income-Protection Portfolio	5	5

Table 3: Summary of risk profiles

- We are comfortable assigning the same profiles to the Protection Portfolios as the underlying portfolios, viz., the Acumen Conservative Portfolio and the Acumen Income Portfolio.
- We will continue to monitor to underlying portfolios to assess the suitability of the risk profiles and in conjunction the Protection Portfolios. If the underlying portfolios change profile, the Protection Portfolios will also change profile accordingly.

Appendix A: Investment assumptions

This appendix sets out the method used to generate the planning assumptions used on the DT platform.

The estimate of returns for equities, property and corporate bonds are calculated as a premium over gilts and then expressed as real returns (i.e. returns in excess of inflation). In addition to analysing historical index data, DT also use the following market data to arrive at expected return assumptions:

- Yields on UK Gilts; conventional and index-linked,
- UK corporate bond yields,
- Yields on global bonds,
- Equity earnings and dividend yields,
- Economic growth forecasts.

Details of the DT estimation methodology can be found in DT's Capital Market Assumptions report, available on Dynamic Planner, and Investment Process report, available on request.

Appendix B: Risk profile boundaries

The following table sets out the lower and upper volatility boundary for each risk profile used in the implementation of DT's Dynamic Planner application.

Risk Profile	Volatility of asset allocation	Lower boundary	Upper boundary
1	1.4%	0.0%	2.1%
2	3.5%	2.1%	4.2%
3	5.5%	4.2%	6.3%
4	7.6%	6.3%	8.4%
5	9.9%	8.4%	10.5%
6	11.9%	10.5%	12.6%
7	14.2%	12.6%	14.7%
8	16.2%	14.7%	16.8%
9	18.1%	16.8%	18.9%
10	19.8%	18.9%	21.0%

Table 4: DT Risk Profile boundaries

Source of information

Tavistock Wealth, Bank of England, Barclays Capital Inc., Bloomberg LLC, Heriot Watt University Gilt database and Office of National Statistics

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www.dynamicplanner.com