

Sinfonia Asset Management – Risk Profile Report

May 2017



Contents

Executive summary.....	3
1 Introduction.....	4
2 Investment objectives	5
2.1 IFSL Sinfonia Income Portfolio.....	5
2.2 IFSL Sinfonia Cautious Managed Portfolio.....	5
2.3 IFSL Sinfonia Income & Growth Portfolio	5
2.4 IFSL Sinfonia Balanced Managed Portfolio	5
2.5 IFSL Sinfonia Adventurous Growth Portfolio	5
3 Analysis and methodology	6
4 Results.....	8
4.1 Analysis of asset allocations	8
4.2 Historical performance	12
4.3 Volatility Targets	14
5 Summary	15
Appendix A: Investment assumptions	17
Appendix B: Risk profile boundaries	21

Executive summary

DT (Distribution Technology) has reviewed and profiled portfolio offered by Sinfonia Asset Management Ltd (Sinfonia) 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 portfolios are set out in Table 1.

Portfolio	Assigned risk profile
IFSL Sinfonia Income	3
IFSL Sinfonia Cautious Managed	4
IFSL Sinfonia Income & Growth	5
IFSL Sinfonia Balanced Managed	6
IFSL Sinfonia Adventurous Growth	7

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 Sinfonia, who contracted DT to assess the appropriate risk profiles for some portfolios within the risk profiles used in Dynamic Planner. The following portfolios are reviewed in this report:

- IFSL Sinfonia Income
- IFSL Sinfonia Cautious Managed
- IFSL Sinfonia Income & Growth
- IFSL Sinfonia Balanced Managed
- IFSL Sinfonia Adventurous Growth

The profiles provided in this report are based on DT's Q1 2017 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 portfolios through a regulated advice process. The recommendation on whether or not to include these portfolios 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 Sinfonia 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

The investment objective of each portfolio is set out below.

2.1 IFSL Sinfonia Income Portfolio

The Portfolio aims to provide regular income with some potential for capital growth over the long-term. They aim to achieve this by investing in a diversified portfolio of equities, fixed interest securities, warrants and cash instruments primarily through investment in a portfolio of collective investment schemes. There will be a focus on UK assets.

2.2 IFSL Sinfonia Cautious Managed Portfolio

The Portfolio aims to provide long-term returns, by a combination of both capital growth and income generation. They aim to achieve this by investing in a diversified portfolio of equities, fixed interest securities, warrants and cash instruments primarily through investment in a portfolio of collective investment schemes. There will be a focus on UK assets.

2.3 IFSL Sinfonia Income & Growth Portfolio

The Portfolio aims to provide income and capital growth for investors over the long-term. They aim to achieve this by investing in a diversified portfolio of equities, fixed interest securities, warrants and money market instruments primarily through investment in a portfolio of collective investment schemes. There will be a focus on UK assets.

2.4 IFSL Sinfonia Balanced Managed Portfolio

The Portfolio aims to provide medium to long-term capital growth. They aim to achieve this by investing in a diversified portfolio of equities, fixed interest securities, warrants and money market instruments primarily through investment in a portfolio of collective investment schemes. There will be a focus on UK and European assets.

2.5 IFSL Sinfonia Adventurous Growth Portfolio

The Portfolio aims to provide long-term capital growth. They aim to achieve this by investing in a diversified portfolio of equities, fixed interest securities, warrants and money market instruments primarily through investment in a portfolio of collective investment schemes. There will be a focus on UK assets.

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 portfolio is the estimated volatility as determined using the portfolio's 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 during Q1 2017. Risk bands based on DT's assumptions (as set out in appendix B) were used to ensure that the profiles assigned to each portfolio 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.

For the purpose of this review, we derived additional assumptions for the portfolios. These assumptions are also included in appendix A.

4 Results

The risk profiles assigned to these portfolios are based on the strategic asset allocations, tactical asset allocations, historical performance and targeted volatilities 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 strategic asset allocation of each portfolio. The following table sets out the fund risk profiles based on this approach.

Portfolio	Risk profile based on strategic allocation
IFSL Sinfonia Income	3
IFSL Sinfonia Cautious Managed	4
IFSL Sinfonia Income & Growth	5
IFSL Sinfonia Balanced Managed	6
IFSL Sinfonia Adventurous Growth	6

Table 2: Strategic asset allocation positions

- The strategic asset allocation for the Income Portfolio is composed predominately of gilts, UK corporate and international bonds, making up almost three quarters of the total allocation. The remainder of the strategic allocation is held in UK, European, North American equities and cash.
- In comparison with the Income Portfolio, the strategic asset allocations of the Cautious Managed Portfolio has lower exposure to fixed income products which constitute over half of the allocation. Additionally, two fifths of the strategic allocation are comprised of developed equities with a bias towards UK equities. The remaining allocation is held in cash.
- More than half of the Income & Growth Portfolio's strategic asset allocation is invested in developed equities, with the UK equity exposure constitutes a third of the total allocation. The remaining strategic asset allocation is exposed mainly to UK bonds.

- The strategic asset allocation of the Balanced Managed Portfolio is composed primarily of global equities with a UK equity bias. Approximately, a quarter of the Portfolio's strategic allocation is held in bonds.
- The strategic asset allocation of the Adventurous Growth Portfolio is dominated by global equities which form 82% of the total allocation. The remainder of the strategic allocation is comprised of UK corporate bonds and a minor proportion of cash.

Sinfonia also provided us with the tactical asset allocation of the portfolios on a monthly basis from June 2015 to March 2017. We have mapped these to our asset classes and calculated the expected volatilities using our DT assumptions. These are summarised in the table below, the number in brackets denotes the number of allocations positioned within the relevant DT boundary.

Portfolio	Risk profile based on tactical allocation
IFSL Sinfonia Income	3 (22)
IFSL Sinfonia Cautious Managed	3 (3) / 4 (19)
IFSL Sinfonia Income & Growth	4 (6) / 5 (16)
IFSL Sinfonia Balanced Managed	5 (7) / 6 (15)
IFSL Sinfonia Adventurous Growth	6 (17) / 7 (5)

Table 3: Tactical asset allocation positions

- Similar to the strategic asset allocation, the tactical asset allocations of the Income Portfolio are composed primarily of bonds, with a bias towards UK fixed income solutions. The tactical asset allocations of the Portfolio have similar equity composition with its strategic allocation. The remainder of the Portfolio is allocated in cash and absolute return investments.
- In comparison with the Income Portfolio, the tactical asset allocations for the Cautious Managed Portfolio have lower exposure to fixed income products which dominate the Portfolio holdings by forming more than half of the historical asset allocations. Additionally, close to 40% of the latest asset allocations of the Portfolio is invested in global equities with a bias toward UK large cap equities. The remaining Portfolio is held in cash and absolute return investments.

- Similar to the strategic allocation, the tactical allocations of the Income & Growth Portfolio are dominated by global equities in which the UK equities constitute 30% of the latest allocations. In comparison to its strategic allocation, the Portfolio has lower exposure to UK corporate bonds in favour of global investment grade sovereign bond and gilt holdings. The remainder of the portfolio is held in cash.
- The Balanced Managed Portfolio has slightly higher exposure to cash at the expense of bond holdings. The equity components of the Portfolio constitute on average 70% of the Portfolio's historical asset allocations.
- Although, the tactical asset allocations of the Adventurous Growth Portfolio have relatively similar geographic exposure to equities with that of its strategic asset allocation, the tactical asset allocations have a bias towards large-cap equities. The remaining holdings for the Portfolio are comprised of UK corporate bonds, gilts and cash.

The figures from Table 2 and Table 3 are illustrated in Chart 1 below; the chart shows each allocation plotted on the risk-reward spectrum. We also show the location of the standard asset allocations for each DT profile. The vertical gridlines indicate the boundaries of the DT profiles.

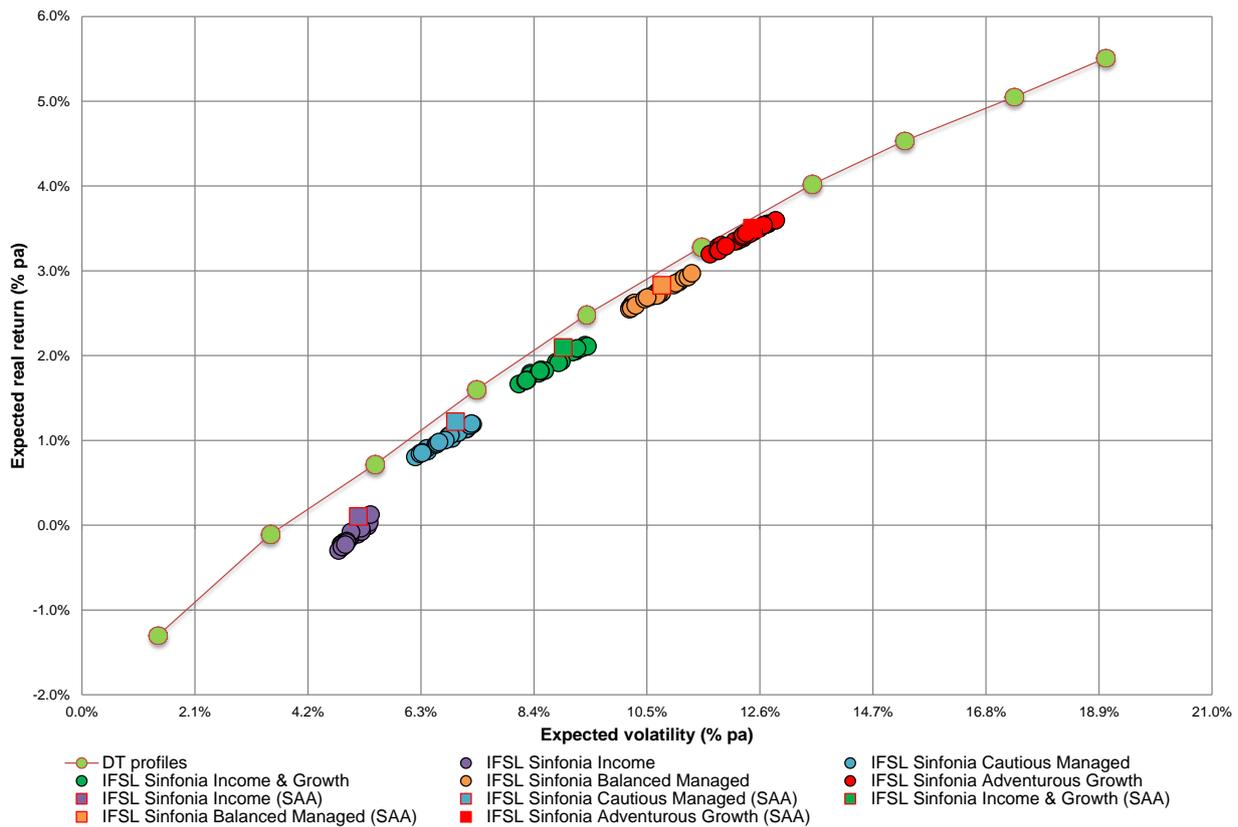


Chart 1: Asset allocations for the portfolios against the DT efficient frontier

- The strategic and tactical asset allocations for the Income Portfolio have been positioned comfortably within the DT 3 risk profile boundaries.

- The strategic asset allocations of the Cautious Managed, Income & Growth and Balanced Managed Portfolios along with the majority of their tactical asset allocations sit within the risk boundaries of DT 4, DT 5 and DT 6 respectively.
- For the Adventurous Growth Portfolio, we note that the expected volatility for its strategic asset allocation has been remarkably close to the DT 6 and DT 7 border. Additionally, the tactical asset allocations of the Portfolio have been positioned relatively close to the lower DT 7 risk profile boundary (i.e. 12.5%).

4.2 Historical performance

Based on performance figures provided by Sinfonia for the period from January 2014 to March 2017, we analysed the long term performance of each portfolio. These are summarised in the table below.

Portfolio	Absolute volatility based on last 12 months (% pa)	Absolute volatility based on last 36 months (% pa)
IFSL Sinfonia Income	6.5%	5.5%
IFSL Sinfonia Cautious Managed	6.0%	5.9%
IFSL Sinfonia Income & Growth	5.7%	7.1%
IFSL Sinfonia Balanced Managed	6.4%	8.4%
IFSL Sinfonia Adventurous Growth	7.4%	9.5%
AA 3	6.1%	5.6%
AA 4	5.8%	6.1%
AA 5	6.3%	7.0%
AA 6	7.6%	8.2%
AA 7	8.9%	9.4%

Table 4: Historical performance

- The realised absolute volatilities for the Income and Cautious Managed Portfolios have been in line with that achieved by AA 3 and AA 4 respectively over the last 12 and 36 months.

- Based on the last 12 months of data, the volatilities of the Income & Growth, Balanced and Adventurous Growth Portfolios have been close to that experienced by AA 4, AA 5 and AA6 respectively. However, over the longer period (i.e. 36 months) these portfolios have realised volatilities which have been closely aligned with that achieved by asset allocations of higher risk profiles.

To show how these portfolios correspond to the DT risk profiles, the rolling 24 month volatility¹ of the portfolios and the DT asset allocations (“AA”) have been plotted in Chart 2 below.

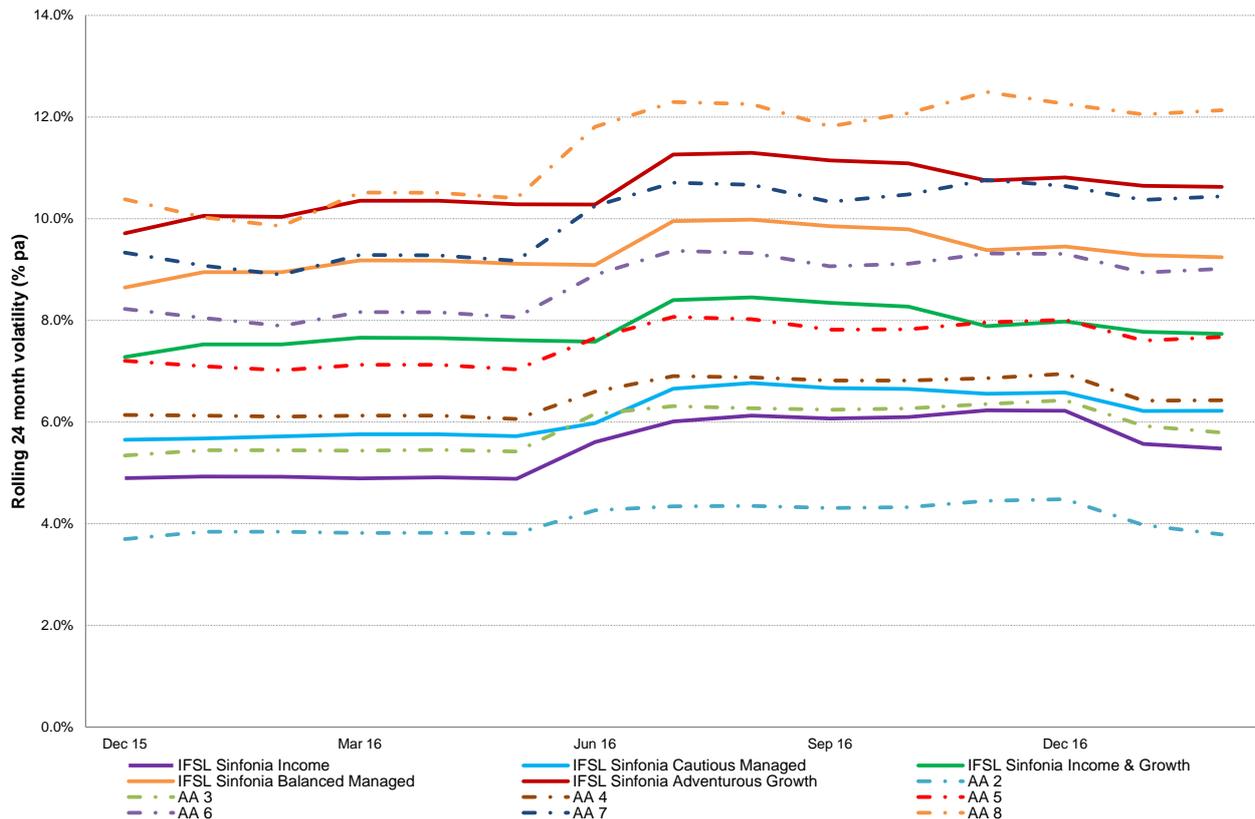


Chart 2: The portfolios rolling volatility against DT

- The rolling volatilities of the Income and Income & Growth Portfolios have plotted significantly close to that achieved by AA 3 and AA 5 over the analysed period.
- The realised rolling volatility of the Cautious Managed Portfolio has fluctuated between that experienced by AA 3 and AA4.
- From December 2015 to May 2016, the volatilities of the Balanced Managed and Adventurous Growth Portfolios were in line with AA 7 and AA 8 respectively. However, following this period, the Portfolios have realised volatilities which have plotted relatively close to that achieved by AA 6 and AA 7.

¹ The 24 month volatility at a given date is the annualised volatility of real performance over the previous 24 month period.

4.3 Volatility Targets

The portfolios are managed against the outlined volatility targets.

Portfolio	Minimum volatility	Maximum volatility	Risk profile based on volatility target
IFSL Sinfonia Income	4.4%	6.6%	3 / 4
IFSL Sinfonia Cautious Managed	6.6%	8.8%	4 / 5
IFSL Sinfonia Income & Growth	8.8%	11.0%	5 / 6
IFSL Sinfonia Balanced Managed	11.0%	13.2%	6 / 7
IFSL Sinfonia Adventurous Growth	13.2%	15.4%	7 / 8

Table 5: Volatility Targets

- These volatility targets are more in line with the risk profile boundaries of DT 3 through to DT 7.
- We note that the underlying assumptions for the asset classes that are used by Sinfonia are generated by Moody's analytics, therefore the expected volatility of the portfolios differs from that based on our assumptions.

5 Summary

In Table 6 below, we summarise the risk profiles of the portfolios based on the different measures set out above.

Portfolio	Strategic asset allocation	Tactical asset allocation	Comparative rolling volatility	Volatility Target	DT assigned profile
IFSL Sinfonia Income	3	3	3	3 / 4	3
IFSL Sinfonia Cautious Managed	4	3 / 4	3 – 4	4 / 5	4
IFSL Sinfonia Income & Growth	5	4 / 5	5	5 / 6	5
IFSL Sinfonia Balanced Managed	6	5 / 6	6 - 7	6 / 7	6
IFSL Sinfonia Adventurous Growth	6	6 / 7	7 - 8	7 / 8	7

Table 6: Summary of risk profiles

- The assigned profiles for the Income, Cautious Managed, Income & Growth and Balanced Managed Portfolios are in line with the majority of their tactical asset allocation positions along with their strategic asset allocations which are plotted within the risk boundaries of the respective assigned profiles. Additionally, the suitability of the assigned profiles is supported by the realised rolling volatilities of the Portfolios which have been closely aligned to that achieved by the asset allocations of the relevant assigned profiles over the most recent periods.

- The Adventurous Growth Portfolio has been assigned with DT 7 as the expected volatility of its strategic asset allocation has plotted significantly close to the DT 6 and DT 7 risk profile boundary. Moreover, we note that the majority of the tactical asset allocations for the Portfolio have been positioned very close to the lower DT 7 risk boundary while some of the historical asset allocations have been plotted within the DT 7 risk boundaries. In addition, the Portfolio has realised rolling volatility which is closely aligned with that achieved by AA 7. Therefore, the assigned risk profile of DT 7 is more prudent for the Portfolio than a lower risk profile.
- We also note that the assigned profiles for the Portfolios are consistent with their volatility targets.
- We will assess the appropriateness of the assigned profiles on an on-going basis through our quarterly review process.

Appendix A: Investment assumptions

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

The correlations and volatilities used on the DT platform are derived mainly from the last 15 years of historical index data for a representative index for each asset class.

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.

Full details of the DT estimation methodology can be found in DT's Capital Market Assumptions report, which is available on request.

Table 7, 8 and Table 9 show the real return and volatility assumptions of the Q1 2017 capital market assumptions that have been used to model assets under the DT standard and additional asset classes for the purpose of profiling the portfolios.

Table 10 contains the mappings for any additional asset classes used within the analysis of the portfolios.

Asset class	Expected real return	Volatility
Cash	-1.3%	1.4%
UK Corporate Bonds	0.1%	6.5%
UK Index Linked Gilts	-1.7%	8.4%
International Bonds	-0.9%	8.7%
UK Gilts	-0.9%	6.3%
Global High Yield Bonds	2.0%	10.6%
UK Equity	4.1%	13.9%
Europe ex UK Equity	4.1%	18.7%
North American Equity	3.5%	14.9%
Japanese Equity	2.7%	16.0%
Asia Pacific ex Japan Equity	5.0%	18.6%
Emerging Market Equity	6.0%	20.9%
UK Commercial Property	1.5%	11.0%
Commodities	3.6%	20.9%
Absolute Return	0.3%	8.9%
UK Equity Small Cap	4.9%	22.2%
UK Equity Mid Cap	4.7%	15.8%
UK Equity Large Cap	4.1%	13.9%

Table 7: Asset class returns and volatilities

Asset class	Expected real return	Volatility
Europe ex UK Equity Small Cap	4.8%	20.8%
Europe ex UK Equity Mid Cap	4.4%	20.0%
Europe ex UK Equity Large Cap	4.1%	18.7%
North American Equity Small Cap	4.1%	18.9%
North American Equity Mid Cap	4.0%	17.1%
North American Equity Large Cap	3.5%	14.6%
Japanese Equity Small Cap	3.1%	17.5%
Japanese Equity Mid Cap	3.0%	16.4%
Japanese Equity Large Cap	2.7%	15.9%
UK Gilt Mid Duration	-1.4%	5.6%
Global Investment Grade Sovereign Bonds	-1.5%	9.4
UK Corporate Bond 5-10 years	-0.2%	6.7%

Table 8: Asset class returns and volatilities (continue)

Asset class	Expected real return	Volatility
Asian Equity	5.5%	19.3%

Table 9: Returns and volatilities for the additional mappings

Asset class	Asian Equity
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	50%
Emerging Market Equity	50%
UK Commercial Property	
Commodities	
Absolute Return	

Table 10: Additional mappings

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	5.4%	4.2%	6.3%
4	7.3%	6.3%	8.4%
5	9.4%	8.4%	10.5%
6	11.5%	10.5%	12.6%
7	13.6%	12.6%	14.7%
8	15.3%	14.7%	16.8%
9	17.3%	16.8%	18.9%
10	19.0%	18.9%	21.0%

Table 11: DT Risk Profile boundaries

Copyright

© Distribution Technology 2017 onwards. All rights reserved.

The opinions expressed in this report are those formed by Distribution Technology (“DT”) and do not represent investment advice or a recommendation to buy or sell units or shares in a particular fund or portfolio. A significant part of this report and its results are dependent on information supplied by third parties and specifically information supplied by the manager of the funds analysed. The information does not indicate a promise, forecast or illustration of future volatility or returns.

DT is not liable for the data in respect of direct or consequential loss attaching to the use of or reliance upon this information. DT does not warrant or claim that the information in this document or any associated form is compliant with obligations governing the provision of advice or the promotion of products as defined by the Financial Services Act.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or any means, electronic or mechanical, including photocopying and recording for any purpose other than the purchaser’s personal use without the written permission of DT.

This publication may not be reproduced in full or in part without the express written permission of DT. Its findings may only be shared, along with all caveats and assumptions with professional investment advisers.

Source of information

Sinfonia Asset Management Ltd, Bank of England, Barclays Capital Inc., Bloomberg LLC, Heriot Watt University Gilt database and Office of National Statistics

Trademarks

DT may have patents or pending patent applications, trademarks, copyrights or other intellectual property rights covering subject matter in this document. The furnishing of this document does not give you any license to these patents, trademarks, copyrights or other intellectual property rights except as expressly provided in any written license agreement from DT.

All other companies and product names are trademarks or registered trademarks of their respective holders.

Publication date

08/05/2017

www.dynamicplanner.com