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# FundZone
## Your guide to sample portfolios

STANDARD LIFE

This guide has been written to explain what sample portfolios are, how they are built and how they can help you in advising your clients on how best to invest their assets.

## What is a sample portfolio?

Sample portfolios combine asset allocation with fund selection to create a range of portfolios based on different attitudes to risk, thereby saving you the time of selecting and investing in multiple funds.

Standard Life works in conjunction with Old Broad Street Research Limited (OBSR) to produce the sample portfolios – we provide the asset allocation for each portfolio and OBSR selects the funds to populate them.

These sample portfolios have been designed to be a starting point for discussions with your clients. Although they are subject to quarterly review, it is worth noting that existing client OBSR portfolios are not automatically updated as a result. Advisers retain responsibility for reviewing the portfolios to ensure that they reflect the needs of their client. Please note that the sample portfolios shown are restricted to the 'core' range of funds available through Standard Life's Wrap service.

### 10 sample portfolios

There are 10 possible sample portfolios to choose from, each of which has a different exposure to the main asset classes depending on risk strategy. The 10 portfolios are based upon a 10-year time horizon. The full range of portfolios is listed on pages 3 – 4.

| Sample Portfolio | Rating | Commentary |
|---|---|---|
| 1 | Very cautious | This portfolio consists of a large allocation to cash and fixed interest, together with a small weighting in property. |
| 2 | Very cautious to cautious | This portfolio has a bias towards fixed interest but also includes property, cash and a small allocation to UK equities. |
| 3 | Cautious | This portfolio has a bias towards fixed interest but also includes an allocation to property and UK equities. |
| 4 | Cautious to moderate | The allocation of this portfolio is reasonably balanced between UK fixed interest, property and equities but has a bias towards bonds. |
| 5 | Moderate | The allocation of this portfolio is reasonably balanced between UK fixed interest, property and equities but has a bias towards equities. |
| 6 | Moderate to speculative | The allocation of this portfolio is reasonably balanced between UK fixed interest, property and equities but has a bias towards equities. |
| 7 | Speculative | This portfolio is invested in UK fixed interest, property and equities but has a strong bias towards equities. |
| 8 | Speculative to very speculative | This portfolio is allocated to property and equities, with a strong bias to equities. |
| 9 | Very speculative | This portfolio is allocated to property and equities, with a strong bias to equities. |
| 10 | Ultra speculative | This portfolio is allocated entirely to equities. |

# OBSR Example Portfolios for Standard Life

| | Very Cautious | | Very Cautious to Cautious | | Cautious | | Cautious to Moderate | | Moderate | | Moderate to Speculative | | Speculative | | Speculative to Very Speculative | | Very Speculative | | Ultra Speculative | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Portfolio Number** | 1* | | 2* | | 3 | | 4 | | 5 | | 6 | | 7 | | 8 | | 9 | | 10 | |
| **Allocation Asset** | Asset | Fund | Asset | Fund | Asset | Fund | Asset | Fund | Asset | Fund | Asset | Fund | Asset | Fund | Asset | Fund | Asset | Fund | Asset | Fund |
| | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| **Cash/Money Market Funds** | 39.00% | 39.00% | 15.00% | 15.00% | 0.00% | | 0.00% | | 0.00% | | 0.00% | | 0.00% | | 0.00% | | 0.00% | | 0.00% | |
| Standard Life Investments Cash | | 39.00% | | 15.00% | | | | | | | | | | | | | | | | |
| **UK Fixed Interest (50% Gilts/50% Inv Grade)** | 52.00% | 52.00% | 60.00% | 60.00% | 56.00% | 56.00% | 42.00% | 42.00% | 27.00% | 27.00% | 15.00% | 15.00% | 5.00% | 5.00% | 0.00% | | 0.00% | | 0.00% | |
| Standard Life Investments UK Gilt | | 13.00% | | 10.00% | | 10.00% | | 10.00% | | 6.00% | | | | | | | | | | |
| Schroder Gilt and Fixed Interest | | | | 10.00% | | 8.00% | | | | | | | | | | | | | | |
| Standard Life Investments AAA Income | | 13.00% | | 10.00% | | 10.00% | | 11.00% | | 7.00% | | 7.00% | | | | | | | | |
| Old Mutual Corporate Bond | | 13.00% | | 10.00% | | 10.00% | | 11.00% | | 7.00% | | 8.00% | | | | | | | | |
| M&G Strategic Corporate Bond | | 13.00% | | 10.00% | | 10.00% | | 10.00% | | 7.00% | | | | | | | | | | |
| New Star Sterling Bond | | | | 10.00% | | 8.00% | | | | | | | | 5.00% | | | | | | |
| **Property** | 6.00% | 6.00% | 19.00% | 19.00% | 24.00% | 24.00% | 24.00% | 24.00% | 24.00% | 24.00% | 25.00% | 25.00% | 25.00% | 25.00% | 19.00% | 19.00% | 9.00% | 9.00% | 0.00% | |
| M&G Property | | 6.00% | | 10.00% | | 12.00% | | 12.00% | | 12.00% | | 13.00% | | 13.00% | | 10.00% | | 9.00% | | |
| Standard Life Investments Select Property | | 0.00% | | 9.00% | | 12.00% | | 12.00% | | 12.00% | | 12.00% | | 12.00% | | 9.00% | | | | |
| **UK Equity** | 3.00% | 3.00% | 6.00% | 6.00% | 20.00% | 20.00% | 20.00% | 20.00% | 25.00% | 25.00% | 30.00% | 30.00% | 35.00% | 35.00% | 40.00% | 40.00% | 46.00% | 46.00% | 50.00% | 50.00% |
| Cazenove UK Growth & Income | | | | | | 7.00% | | 7.00% | | 8.00% | | 8.00% | | 8.00% | | 8.00% | | 9.00% | | 9.00% |
| Investec UK Blue Chip | | 3.00% | | 6.00% | | 7.00% | | 7.00% | | 8.00% | | 8.00% | | 8.00% | | 8.00% | | 8.00% | | 9.00% |
| Standard Life Investments UK Equity High Income | | | | | | 6.00% | | 6.00% | | | | | | | | | | | | |
| M&G UK Select | | | | | | | | | | 5.00% | | 6.00% | | 8.00% | | 8.00% | | 8.00% | | 9.00% |
| SVM UK Opportunities | | | | | | | | | | 4.00% | | 4.00% | | 6.00% | | | | | | |
| M&G Recovery | | | | | | | | | | | | 4.00% | | 5.00% | | 6.00% | | 7.00% | | 9.00% |
| New Star UK Alpha | | | | | | | | | | | | | | | | 6.00% | | 8.00% | | 8.00% |
| Standard Life Investments UK Smaller Companies | | | | | | | | | | | | | | | | 4.00% | | 6.00% | | 6.00% |
| **North American Equity** | 0.00% | | 0.00% | | 0.00% | | 9.00% | 9.00% | 16.00% | 16.00% | 20.00% | 20.00% | 23.00% | 23.00% | 27.00% | 27.00% | 29.00% | 29.00% | 33.00% | 33.00% |
| Investec American | | | | | | | | | | | | 7.00% | | 8.00% | | 7.00% | | 7.00% | | 8.00% |
| UBS US Equity | | | | | | | | 5.00% | | 8.00% | | 6.00% | | 7.00% | | 6.00% | | 7.00% | | 8.00% |
| SG American Growth | | | | | | | | 4.00% | | 8.00% | | 7.00% | | 8.00% | | 7.00% | | 7.00% | | 8.00% |
| Merrill Lynch US Dynamic | | | | | | | | | | | | | | | | 7.00% | | 8.00% | | 9.00% |
| **European Equity** | 0.00% | | 0.00% | | 0.00% | | 3.00% | 3.00% | 5.00% | 5.00% | 6.00% | 6.00% | 7.00% | 7.00% | 8.00% | 8.00% | 9.00% | 9.00% | 10.00% | 10.00% |
| Cazenove European | | | | | | | | 3.00% | | 5.00% | | 6.00% | | 4.00% | | 4.00% | | 5.00% | | 5.00% |
| New Star European Growth | | | | | | | | | | | | | | 3.00% | | 4.00% | | 4.00% | | 5.00% |
| **Far East Equity (inc Japan)** | 0.00% | | 0.00% | | 0.00% | | 2.00% | 2.00% | 3.00% | 3.00% | 4.00% | 4.00% | 5.00% | 5.00% | 6.00% | 6.00% | 7.00% | 7.00% | 7.00% | 7.00% |
| Aberdeen Asia Pacific & Japan | | | | | | | | 2.00% | | 3.00% | | 4.00% | | 5.00% | | | | | | |
| Aberdeen Asia Pacific | | | | | | | | | | | | | | | | 3.00% | | 4.00% | | 4.00% |
| Martin Currie Japan | | | | | | | | | | | | | | | | 3.00% | | 3.00% | | 3.00% |

* As portfolios 1 & 2 suggest a significant allocation in cash they are not suitable for clients investing in stocks and shares ISAs or PEPs. As such, the cash element will need to be spread over other funds/tax wrappers depending on individual circumstances.

## How can sample portfolios help you?

As outlined on the previous pages sample portfolios are a useful tool for guiding initial discussions with your clients on how best to invest their assets.

In summary, sample portfolios:

- Provide an excellent starting point for your discussions with your clients on which funds to invest in to meet their investment objectives.
- Enable you to utilise OBSR's expertise in investment fund selection saving you the time of choosing and investing in individual fund selections.
- Make use of our Portfolio Planning Tool to quickly establish your clients' attitude to risk.
- Help you to maximise the efficiency of your clients' portfolio by encouraging you to review it regularly – sample portfolios are not automatically updated or rebalanced.

Ultimately, sample portfolios free up your time to concentrate on delivering maximum value to your clients.

**Please Note:**

- Standard Life and OBSR's sample portfolios are only intended to be examples of possible asset allocation and fund selection. They are in no way recommendations to buy or sell any product or fund and the adviser retains full responsibility for client advice.

These sample portfolios provide a suggested approach only – other approaches may be equally suitable. Every client's circumstances will be different and will require advice. Standard Life accepts no responsibility for advice which may be formulated on the basis of these examples.

## What is Standard Life's role?

Through the use of our Portfolio Planning Tool (PPT) Standard Life is responsible for the asset allocation of each of the sample portfolios by setting the parameters for the types of active Fund Manager to be used in each.

Types of active Fund Manager can be defined by the past and expected future behaviour of a Fund Manager against their asset class – be it equity, property or fixed interest.

### Portfolio Planning Tool

Standard Life introduced the Portfolio Planning Tool a number of years ago. This tool was built in conjunction with Tillinghast Towers Perrin and uses stochastic analysis to set asset allocations based around time horizons and risk appetite of individuals.

## What is OBSR's role?

OBSR's role is to provide independent and robust qualitative input to populate Standard Life's Portfolio Planning Tool. Chosen because of their extensive knowledge of each Fund Manager and fund group, OBSR is responsible for selecting funds to populate each portfolio.

### Research approach

OBSR use an investment research approach that is founded upon forward-looking, qualitative research. Their approach is to combine funds on the basis of their knowledge of the Fund Manager rather than solely on backward looking statistical analysis.

Funds selected for the sample portfolios are reviewed on a quarterly basis in line with OBSR's timetable of manager meetings.

In recognition of the fact there will always be times when individual funds experience more difficult periods OBSR don't make changes on the basis of short-term performance alone. Instead, OBSR focus on choosing a range of funds that as a whole group reflect the risk profile of the portfolio in question.

### Portfolio construction

The sample portfolios have been split into different categories, which for simplicity we have called Category 1, Category 2 and Category 3.

Each category has a different level of risk determined by the tracking error of each of the funds within it. The tracking error of a fund tells us the volatility of that fund in relation to the index it is measured against (e.g. FTSE All share) over a three year period – so the higher the tracking error the more volatile the fund from a relative perspective.

| Category 1 | Category 2 | Category 3 |
|---|---|---|
| Tracking error up to 4% | Tracking error up to 7% | Tracking error higher than 7% |

To ensure the appropriate exposure to risk within each portfolio the number of funds that can be used from each category is dependant upon the total number of funds being used per asset class. This is determined as follows:

| 2 funds or less | 2 to 4 funds | 5 funds or more |
|---|---|---|
| Category 1 funds only | Category 1 and 2 funds only | All categories can be used |

To manage risk effectively there should be representation from each category where possible and no more than 13% of a portfolio should be aligned to one fund.

This framework enables you to introduce active management of your portfolios whilst retaining some control over the additional risk that this brings.

If you wish to find out more about OBSR please visit their website at www.obsr.co.uk

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