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# FundZone

## Your guide to sample portfolios



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.

Model portfolio	Attitude to risk	Asset Allocation (%)						
		Money Market Instruments (including cash)	Fixed Interest	Property	UK Equity	US Equity	European Equity	Far East Equity
1	Low risk	36	47	11	6			
2		17	58	16	9			
3	Low to Medium risk		57	20	20	3		
4		44	23	20	10	3		
5	Medium risk		27	24	24	17	5	3
6		16	24	30	20	6	4	
7	Medium to High risk		6	24	35	23	7	5
8				19	40	27	8	6
9	High risk			10	45	31	8	6
10					50	33	10	7

## OBSR model portfolios

	Fund code	Portfolio 1* Fund Allocations	Portfolio 2* Fund Allocations	Portfolio 3 Fund Allocations	Portfolio 4 Fund Allocations
<b>Cash/Money Market Funds</b>		<b>36.00%</b>	<b>17.00%</b>		
Stan Life Inv Cash ret Acc	ZA63.LN	36.00%	17.00%		
<b>UK Fixed Interest</b>		<b>47.00%</b>	<b>58.00%</b>	<b>57.00%</b>	<b>44.00%</b>
Standard Life Gilt	SL58.LN	7.90%	9.70%	9.50%	7.40%
Schroder Gilt and Fixed Interest	UM31.LN	7.80%	9.70%	9.50%	7.30%
Standard Life AAA Income	SL73.LN	7.80%	9.60%	9.50%	7.30%
Old Mutual Corporate Bond	A3D1.LN	7.80%	9.70%	9.50%	7.30%
M&G Strategic Corporate Bond	ZR20.LN	7.90%	9.70%	9.50%	7.40%
Standard Life Corporate Bond	S506.LN	7.80%	9.60%	9.50%	7.30%
<b>Property</b>		<b>11.00%</b>	<b>16.00%</b>	<b>20.00%</b>	<b>23.00%</b>
M&G Property Portfolio	RZ94.LN	11.00%	8.00%	10.00%	11.50%
Standard Life Select Property	TP97.LN		8.00%	10.00%	11.50%
<b>UK Equity</b>		<b>6.00%</b>	<b>9.00%</b>	<b>20.00%</b>	<b>20.00%</b>
Investec UK Blue Chip	JH15.LN	3.00%	4.50%	6.00%	6.00%
Standard Life UK Equity High Income	SL86.LN	3.00%	4.50%	7.00%	7.00%
Newton Income	RZ02.LN				
M&G UK Select	MG37.LN			7.00%	7.00%
Investec UK Special Situations	GO22.LN				
M&G Recovery	MG52.LN				
Standard Life UK Smaller Companies	SL57.LN				
<b>North American Equity</b>				<b>3.00%</b>	<b>10.00%</b>
UBS US Equity	UD73.LN			3.00%	5.00%
Threadneedle American	TH28.LN				5.00%
Martin Currie American	SY02.LN				
Investec American	IF97.LN				
<b>European Equity</b>					<b>3.00%</b>
Cazenove European	KA51.LN				3.00%
<b>Far East Equity (inc Japan)</b>					
Aberdeen Asia Pacific & Japan	KV86.LN				
Martin Currie Japan	ND13.LN				
Martin Currie Asia Pacific	ND11.LN				

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

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Portfolio 5 Fund Allocations	Portfolio 6 Fund Allocations	Portfolio 7 Fund Allocations	Portfolio 8 Fund Allocations	Portfolio 9 Fund Allocations	Portfolio 10 Fund Allocations
<b>27.00%</b>	<b>16.00%</b>	<b>6.00%</b>			
6.00%					
7.00%	8.00%				
7.00%	8.00%				
7.00%		6.00%			
<b>24.00%</b>	<b>24.00%</b>	<b>24.00%</b>	<b>19.00%</b>	<b>10.00%</b>	
12.00%	12.00%	12.00%	9.50%	5.00%	
12.00%	12.00%	12.00%	9.50%	5.00%	
<b>24.00%</b>	<b>30.00%</b>	<b>35.00%</b>	<b>40.00%</b>	<b>45.00%</b>	<b>50.00%</b>
6.00%	6.00%	7.00%	6.00%	4.00%	
7.00%	7.00%	8.00%	8.00%	9.00%	11.00%
7.00%	6.00%	9.00%	9.00%	9.00%	11.00%
	5.00%	4.00%	6.00%	8.00%	10.00%
4.00%	6.00%	7.00%	7.00%	9.00%	11.00%
			4.00%	6.00%	7.00%
<b>17.00%</b>	<b>20.00%</b>	<b>23.00%</b>	<b>27.00%</b>	<b>31.00%</b>	<b>33.00%</b>
8.00%	7.00%				
9.00%	8.00%	9.00%	9.00%	11.00%	11.00%
	5.00%	6.00%	9.00%	11.00%	11.00%
		8.00%	9.00%	9.00%	11.00%
<b>5.00%</b>	<b>6.00%</b>	<b>7.00%</b>	<b>8.00%</b>	<b>8.00%</b>	<b>10.00%</b>
5.00%	6.00%	7.00%	8.00%	8.00%	10.00%
<b>3.00%</b>	<b>4.00%</b>	<b>5.00%</b>	<b>6.00%</b>	<b>6.00%</b>	<b>7.00%</b>
3.00%	4.00%	5.00%			
			3.00%	3.00%	3.50%
			3.00%	3.00%	3.50%

## 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 is a guideline only. While OBSR make every effort to apply this rule, it is not always possible to do so. In times of extreme market changes, tracking errors can move considerably.

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](http://www.obsr.co.uk)