



# Asset allocation and fund selection process

May 2021

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## Introduction

At Indigo, we are passionate in our belief that one size does not fit all, and so we offer a range of investment solutions to meet our clients' diverse requirements. This report explains our **Model Portfolio process**, which forms a significant component of those investment solutions.

All our investment solutions are underpinned by our investment philosophy which centres around two main tenets:

### Diversification

We aim to build a wide ranging investment solution for you, investing in a diversified portfolio – a broad selection of assets which meet your own attitude to risk and investment goals.

### Active –v- passive

Generally, we take a more **active** approach to investment – we believe that carefully selected active fund managers have the knowledge and research to maximise market movements and identify opportunities for 'outperformance' – i.e. doing better than average.

However, we cannot guarantee that this active approach is better than a more **passive** approach, which is underpinned by a belief that markets are efficient, and that 'demand and price' will balance themselves to a market average.

Typically, passive investments can have a role to play for those with smaller portfolios, or for long-term investors who don't regularly review the performance of their investments.

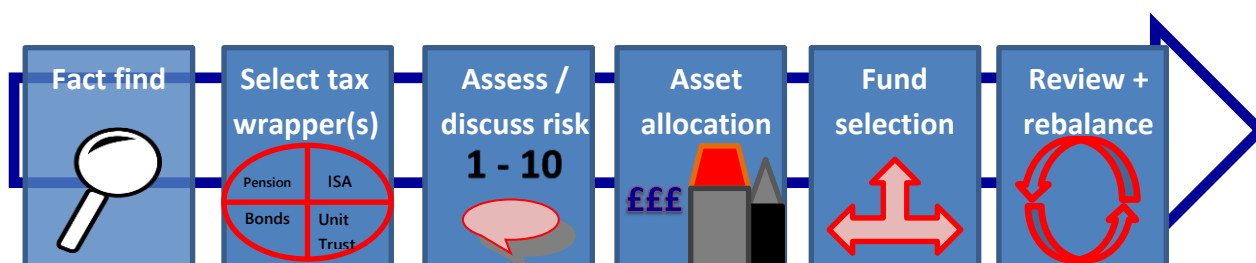
Therefore, we offer either of these approaches, or a blend to suit your attitudes and feelings.

This report is split into 2 sections. The first section describes our Model Portfolio process, and how it works in practice. The second section explains the funds which have been selected for inclusion in our Model Portfolio for this period.

## 1. OUR MODEL PORTFOLIO PROCESS

Our Model Portfolio process is a robust, repeatable and proven investment process. It involves the selection of a panel of funds by an independent Investment Committee (usually comprising 6-8 local advisers and a representative from a fund management group which meet every 6 months following appropriate research and due diligence. We then apply an 'asset allocation' approach to determine how your funds will be invested across that panel.

The diagram below shows how the Model Portfolio process fits into our broader Investment Process:



## **1.1 Fact find**

The logical starting point of the investment process is for us to get to know you. You have already been through our fact find process, which allows us to understand your personal and financial circumstances, your broader attitudes and values, and the level of experience and knowledge you have of investing and its associated risks.

## **1.2 Tax wrapper selection**

A tax wrapper is a financial product in which your investments can be held, and which usually has certain tax benefits. Different tax wrappers available to you include ISAs, Unit Trusts / Open-ended Investment Companies, Personal Pensions and Onshore Investment Bonds. Using the outcomes of the fact find process, we will work with you to explain the various options and identify which 'tax wrapper(s)' best suit your needs, often with a combination of these schemes.

## **1.3 Risk assessment and discussion**

Whatever your goals and circumstances, the investment strategy we recommend for you is determined by your attitude to investment risk. We have already worked with you to make an objective assessment of your attitude to investment risk. This has resulted in you being attributed a risk profile score, which is classified on a scale from 1 to 10.

We will discuss and reassess that risk on an annual basis, as part of your financial health check, to ensure that your attitude to risk remains consistent with your portfolio.

## **1.3 Asset allocation**

### **1.3.1 What is asset allocation?**

The allocation of your assets is a key element of the Model Portfolio Process.

Your funds are invested into a portfolio of assets – i.e. your investments are diversified across a variety of asset classes. The different asset classes in your portfolio could include investments in cash, government bonds, property, UK equities, and overseas equities, all of which have different performance characteristics.

As mentioned above, the diversification of your investments is central to our investment philosophy. When selecting asset classes in which to invest, it is almost impossible to predict 'a winner'. The table below compares the performance of a range of asset classes in the 10 years to 2018. Whilst this may seem very busy, the visual impact is to illustrate that holding a Diversified Portfolio" (in bright green) provides more consistency of returns than focussing on specific asset classes such as Emerging Markets (in salmon pink).

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Best	China 72.75	Emerging Markets 25.72	North America 7.31	UK Equities 14.32	Japan 35.02	North America 12.50	Japan 12.87	Emerging Markets 37.15	China 24.09	North America 8.59
	Asia Pac ex Japan 62.25	Asia Pac ex Japan 24.35	Japan 2.57	Europe ex UK 12.75	Europe ex UK 32.30	Property 8.39	Europe ex UK 8.49	Asia Pac ex Japan 34.97	Europe ex UK 19.03	Property 2.08
	Emerging Markets 59.94	China 21.45	Global Fixed Interest 1.17	North America 11.09	North America 28.68	China 4.73	North America 8.24	Japan 31.97	Diversified Portfolio 16.63	Global Equities 1.13
	Diversified Portfolio 41.51	Diversified Portfolio 17.85	UK Equities 0.60	Property 8.81	UK Equities 26.76	Asia Pac ex Japan 4.37	Property 7.92	China 29.68	Asia Pac ex Japan 16.46	Cash 0.39
	Europe ex UK 34.25	North America 15.99	Global Equities 0.11	Asia Pac ex Japan 7.61	Global Equities 24.30	Global Equities 4.24	UK Equities 6.86	North America 26.56	UK Equities 15.72	Global Fixed Interest -0.19
	UK Equities 30.76	UK Equities 15.60	Cash 0.09	Global Equities 7.59	Diversified Portfolio 17.09	Diversified Portfolio 4.11	Global Equities 4.55	Diversified Portfolio 24.84	Emerging Markets 15.07	Japan -2.42
	Global Equities 25.11	Property 15.06	Property -0.69	Diversified Portfolio 6.89	China 14.66	Global Fixed Interest 1.71	Diversified Portfolio 2.47	Global Equities 23.22	Global Equities 14.23	UK Equities -3.87
	Global Fixed Interest 24.48	Global Equities 14.63	Europe ex UK -5.86	Global Fixed Interest 6.07	Asia Pac ex Japan 12.03	Emerging Markets 0.55	China 2.34	Global Fixed Interest 21.76	North America 13.75	Diversified Portfolio -6.13
	North America 14.55	Global Fixed Interest 10.93	Asia Pac ex Japan -7.03	Emerging Markets 4.71	Property 8.77	UK Equities 0.54	Cash 0.06	Europe ex UK 19.09	Japan 11.49	Europe ex UK -7.11
	Japan 12.08	Europe ex UK 8.94	Diversified Portfolio -7.49	China 3.41	Emerging Markets 6.75	Cash 0.06	Global Fixed Interest -1.57	Property 8.65	Property 4.50	Asia Pac ex Japan -10.06
	Property 4.75	Japan 7.53	Emerging Markets -9.70	Cash 0.55	Global Fixed Interest 1.84	Japan -0.27	Asia Pac ex Japan -5.28	UK Equities 7.85	Cash 0.13	Emerging Markets -11.45
Worst	Cash 0.49	Cash 0.51	China -17.57	Japan -2.28	Cash 0.21	Europe ex UK -1.86	Emerging Markets -11.43	Cash 0.22	Global Fixed Interest -0.72	China -13.46

**Past performance is not a guide to the future. The value of units may fall as well as rise.** Source: FE Analytics. Total return, percentage growth, over the period 31/10/2008 to 31/10/2018. All asset classes are represented by their equivalent Investment Association (IA) sector. The diversified portfolio is an equal split of all shown asset classes and has been provided to illustrate the benefit, in general terms, of a diversified portfolio of assets. It is not Quilter Investors portfolio or fund. The information provided is for illustrative purposes only and doesn't represent the past performance of any particular investment. It is not possible to invest directly into an IA sector.

'Asset allocation' is about apportioning the amount you invest in those various asset classes according to your risk profile and investment goals: diversifying your investments, and thus balancing risk and reward to reflect your individual requirements.

Asset allocation is based on long-established and well-proven mathematical principles and makes use of a host of expertise from across the investment management profession. We rely for this part of the investment process on Old Mutual Wealth ('OMW'). OMW has worked with Willis Towers Watson, a leading firm of actuarial consultants to construct a portfolio designed to maximise returns for your agreed risk level.

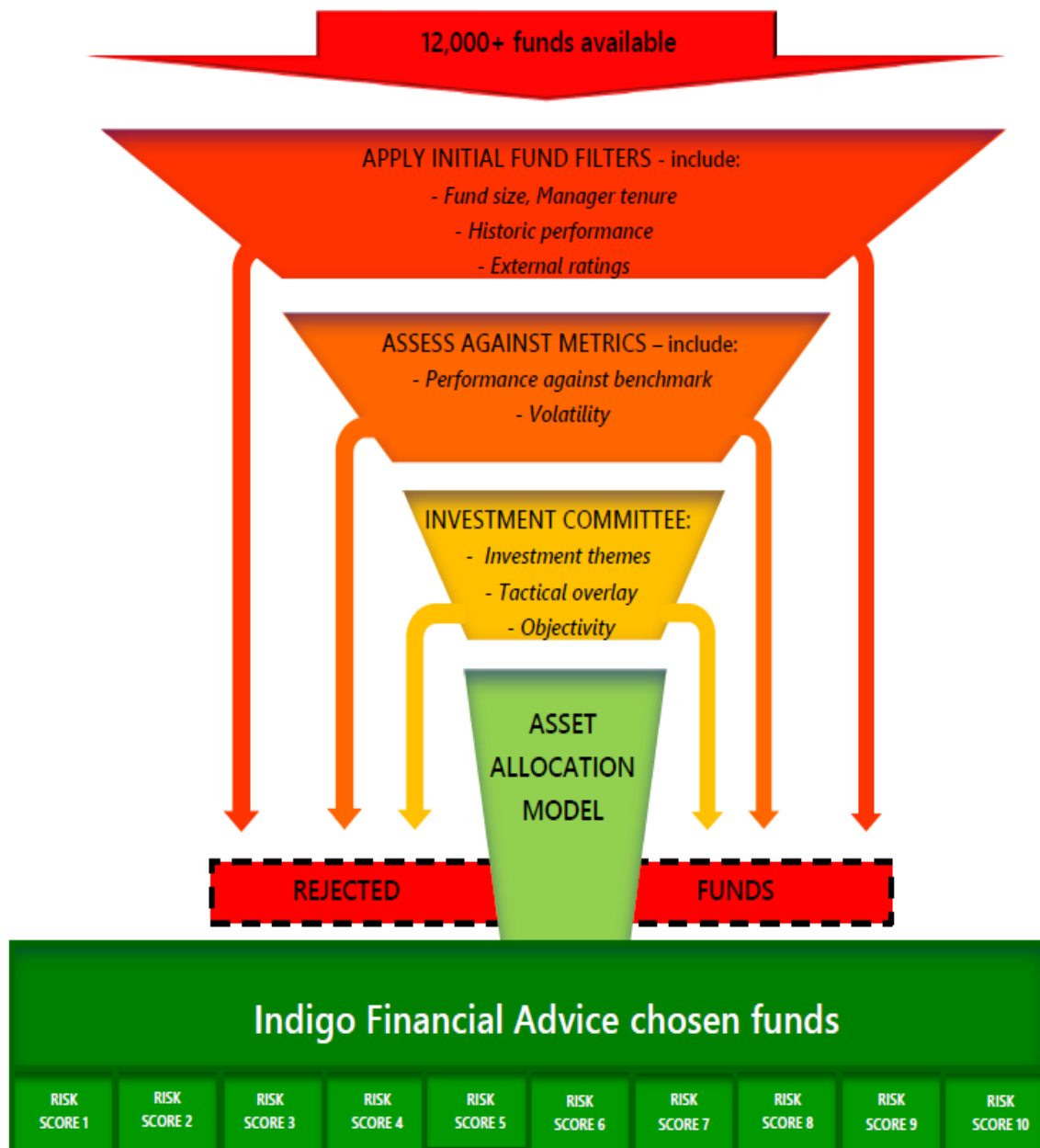
The asset allocations within that portfolio take into account a set of assumptions about economic conditions, fund expenses and tax that are reviewed periodically. Nobody can forecast the future, but by following a strategic approach to asset allocation, backed by robust forward looking economic data, we are able to build portfolios that have a greater probability of matching your expectations.

However, even with this level of expertise behind us, we still can't guarantee that the expected volatility range of a particular asset allocation will not be breached occasionally. The possibility always exists of exceptional market conditions, due to unanticipated external events.

### 1.3.2 How does asset allocation work?

Using complex mathematical calculations, Willis Towers Watson have determined an appropriate mix of assets for each different risk profile. These are reviewed quarterly. In short, the more cautious your attitude to risk is, the 'safer' the mix of assets in your portfolio will be. So, if you are a client with a cautious risk profile of 3, you will typically have a higher allocation of cash and property and fixed interest funds in your portfolio than a client with a more aggressive risk profile of 7. Conversely, if you are a client with a more aggressive risk profile, you will typically have a higher allocation of funds which invest in Equities, and lower exposure to funds that invest in cash or property.

Once the asset allocation stage has been completed, we need to choose appropriate investments to reflect the various asset classes in the proportions suited to your risk profile. There are thousands of investment options to choose from, so we focus on identifying the most suitable funds to meet our clients' needs. The diagram below summarises how the process of identifying those funds works:



### 1.4.1 Initial fund filtering

The first thing we do when selecting a fund for a client's portfolio is to filter down the full list of funds available to us as a retail investor in the UK using a series of criteria. If a fund does not pass all of these filters, it will not be considered except in exceptional circumstances – and only with full documentation. Below is a list of the initial criteria we apply:

- Fund domiciled in the UK and open to business
- Clean share classes only
- Total fund size greater than £100 million
- Fund manager tenure of at least 3 years
- Fund performance 2<sup>nd</sup> quartile or higher for its sector for at least 3 years
- OCF (i.e. total costs of managing the fund) less than 1.5%
- Annual volatility less than 20 over 36 months
- RSM-rated <sup>1</sup>
- Crown Rating of 3 or above<sup>2</sup>
- Fund available on the Old Mutual Wealth and ARC investment platforms<sup>3</sup>

<sup>1</sup> RSM ('Rayner Spencer Mills') is an independent fund research and ratings company

<sup>2</sup> Crown Rating is awarded to funds which have displayed superior performance in terms of stock-picking, consistency and risk.

<sup>3</sup> The Old Mutual Wealth and Aegon platforms provide a single place to build, manage and monitor investments. They provide access to a wide choice of funds and a range of tax-efficient ways to hold them in a single place. Platform research is carried out annually to confirm ongoing suitability.

Perhaps the most important of these criteria is the RSM rating, as this is awarded by an organisation which specialises in detailed research and due diligence into individual funds.

### 1.4.2 Assessment of funds against metrics

The funds which meet those initial filters are split into the following categories, or asset classes:

- UK Fixed Interest (Corporate Bonds, Strategic Bonds, High Yield & Gilts)
- UK Equities – with sub categories of Large Cap, Small Cap & Income
- US Equities
- European Equities
- Emerging markets' Equities
- Far East Equities (excluding Japan)
- Japanese Equities
- International Equities

- UK Property
- Cash/ Money Markets

(NB – in previous periods, there has also been investment in Overseas Bonds. This category was removed from the asset allocation in 2015 on the advice of Willis Towers Watson).

The qualifying funds in each of these sectors are then assessed using a series of predetermined metrics. These are selected from a list of 24 metrics, which measure various aspects of the performance of the funds, including:

- performance adjusted for the risk the fund is taking;
- the fund's return compared to its benchmark;
- the Fund Manager's performance in terms of risk and return compared to its benchmark; and
- fund volatility.

Based on performance against these metrics, we produce a shortlist of possible funds for inclusion in our portfolio. This list is then presented to the Investment Committee.

### 1.4.3 Investment Committee

The Investment Committee is convened twice yearly and made up of Independent Financial Advisers and fund management representatives. Its role is to assess and evaluate the short-listed funds and select the most appropriate managers for inclusion in our portfolios. The Investment Committee, with more than 100 years of combined financial services experience, brings objectivity and additional expertise to our rigorous fund selection process.

The Investment Committee applies additional challenges within the fund selection process. Depending on the prevailing economic conditions, these may include:

<b>Tactical overlay</b>	This involves challenging the prescribed asset allocation in the light of prevailing economic expectations – for example, excluding Global Fixed Interest due to exchange rate expectations.
<b>Investment themes</b>	When considering investment themes, the Committee may decide, while maintaining exposure to a particular asset class, to focus on a particular element within that asset class – for example, focusing only on short duration Corporate Bonds within the Fixed Interest asset class, to reduce volatility at a time when a rise in interest rates is imminent.

## 1.5 Review and rebalance

We rebalance our model portfolio on a 6 monthly basis, around May and November, with the Investment Committee meeting in or around those months. When undertaking the rebalance, we take into account a range of factors, including:

- market conditions;
- micro and macro-economics;
- professional guidance from market commentators; and
- the financial outlook as assessed by ten leading investment houses.
- The rebalancing process is also informed by OMW's review of their asset allocations.

## 2. May 21 to Nov 2021 – Our model portfolio

In this section of the report, we set out the asset allocations for each risk profile for the period. We then identify the funds selected for inclusion in the model portfolio for this period, along with a short commentary on why the funds were selected.

### 2.1 Asset allocation

The table below sets out the asset allocation percentages for each risk profile, for the coming period:

YOUR ATTITUDE TO RISK:	3	4	5	6	7	8	9
SECTOR	CAUTIOUS	CAUTIOUS - MODERATE	MODERATE	MODERATE - AGGRESSIVE	AGGRESSIVE	AGGRESSIVE - VERY AGGRESSIVE	VERY AGGRESSIVE
Cash/Money Markets	12	8	5.5	5	2	2	0
	12	8	5.5	5	2	1	0
UK Fixed Interest	15	13	12.5	9	7	2.5	0
	14	13	12.5	8	7	2.5	0
International Fix Int	0	0	0	0	0	0	0
Property	15	15	10	7	5	3	2
UK Equity	4	5	6	7	8	10	11
	4	5	6	6	8	10	10
	4	5	6	7	8	10	10
North America	5	7	9	11	13	14	16
Europe	4	5	7	9	10	11	13
Japan	1	2	2	3	3	4	4
Far East ex Japan	5	7	9	11	13	14	16
Emerging Markets	2	3	4	5	6	7	8
Global Specialist	3	4	5	7	8	9	10
	100	100	100	100	100	100	100

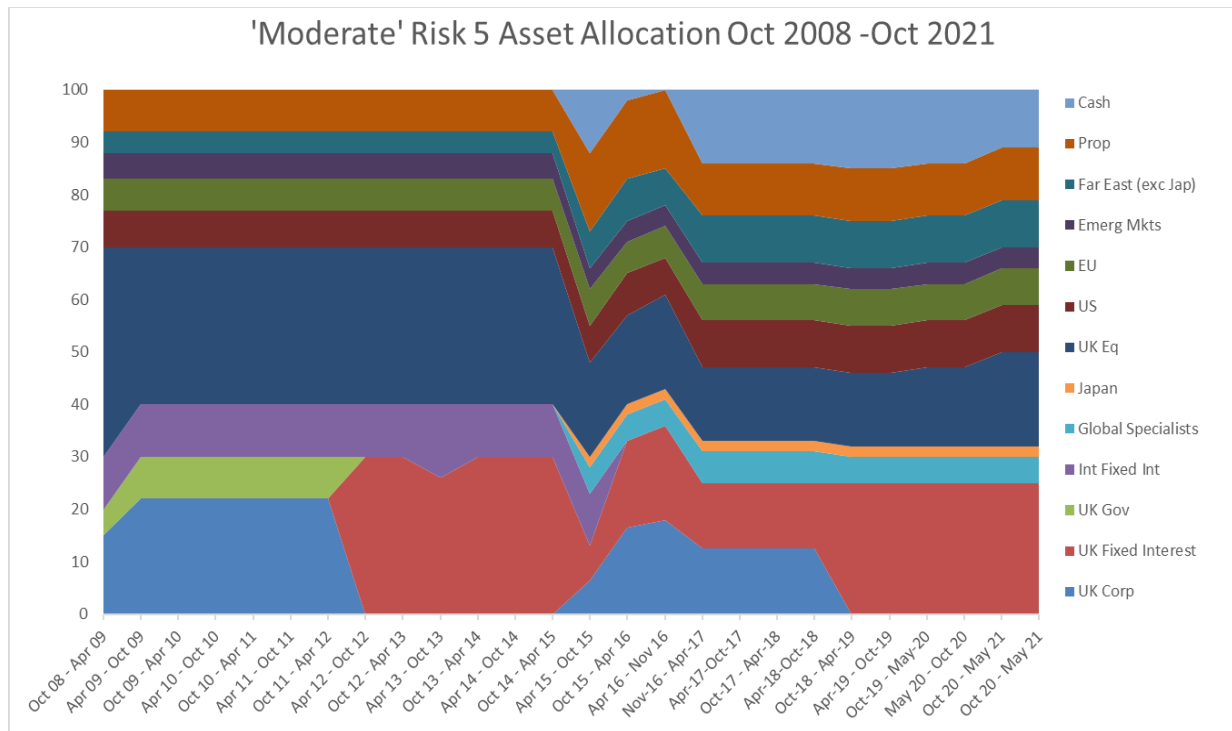
As anticipated, this shows that if you are a client with a more cautious attitude to risk, the single largest asset class in your model portfolio is UK fixed interest, with the majority of the remainder invested in cash and property funds. As attitude to risk becomes more aggressive, investment in cash and fixed interest funds reduces to 0% respectively, while investment in overseas equities comprises the bulk of the portfolio. The table also shows that there is no investment in international fixed interest bonds again in this period. This reflects the asset allocation advice provided by Willis Towers Watson.

It should be noted that during 2016, there was a significant repositioning of assets across all risk portfolios by Willis Towers Watson, with a move away from property and fixed interest to cash and money market funds. These seismic moves were as a result of lower expected risk-adjusted returns, which in turn are expected to cause fixed interest funds to become expensive relative to cash funds. However, the Investment Committee took the view that a longer-term view of the markets should be maintained and therefore the decision was made to continue some (albeit reduced) exposure to Fixed Interest Securities. The Committee acknowledged the importance of Willis Towers Watson's input, but concluded that maintaining the discipline of a balanced approach to investing across all major asset classes will outweigh any short-term knee jerk reactions. Therefore, a tactical overlay was applied to the Willis Towers Watson suggested allocation. Full meeting minutes are available upon request.



## 2.1a Changes to asset allocation from previous period

This chart demonstrates how, for our **moderate risk profile**, the asset allocation has changed over a thirteen year period. Asset Allocation across the risk portfolios will remain the same despite very subtle suggested changes from our consultants, Towers Watson Perrin, based on 10 year expectations of returns in Cash, UK Equities and Commercial Property reducing slightly.



## 2.2 Selected funds

The table below shows the selected funds for the period May 21 to November 2021. The various Alpha and Beta headings are the measures of performance/risk/quality that have been selected by Indigo as the most important metrics for assessing the funds. (see section 1.4.2). As shown in the table in section 2.1 above, our asset allocation determines the percentage invested in these various funds depending on your risk profile.

The preliminary fund research carried out prior to the Investment Committee meeting highlighted some anomalies in that only 9 of the current 14 funds made it through our rigorous filter criteria. Upon further investigation, the Morningstar Analyst Rating, which has been included in our filters for many years, were preventing otherwise solid funds from falling into the short-list basket.












































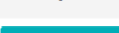




Inconsistencies were observed in the accurate reporting of Morningstar ratings being physically held by the fund but not being fed through to our in-depth fund research software, Financial Analytics. This coincided with Morningstar's recent change in the way it assesses funds and ultimately awards the ratings. This led the Investment Committee to decide that applying the RSM Rating (another reputable rating agency) would provide adequate initial filters to still carry out effective research on the new, enlarged shortlist.

Further enquiries will be made with Morningstar and Financial Analytics to a satisfactory conclusion. As a result, all existing funds consequently now reach the shortlist and continue to score strongly across the range of Metrics we scrutinise and therefore we have no reason to change the existing portfolio in its entirety at this review.

### RATIOS FROM 30/04/2018 - 30/04/2021

This table shows key performance ratios for your current holdings over the period shown. Funds/assets use the fund/asset's industry sector as the benchmark. Portfolios use the benchmark selected for this report.

INVESTMENTS	ALPHA	BETA	SHARPE	R <sup>2</sup>	VOLATILITY
Artemis US Select I Acc GBP	2.23	0.93	0.95	0.90	15.45
ASI Sterling Money Market I Acc	0.52	0.03	0.00	0.02	0.09
Baillie Gifford International B Acc	5.89	1.12	1.01	0.88	16.40
Fidelity Asia Pacific Opportunities W Acc	7.05	1.13	0.92	0.90	17.09
Fidelity European W Acc	4.10	0.82	0.53	0.94	14.04
Janus Henderson Strategic Bond I Acc	1.20	1.01	0.38	0.85	6.10
JPM Emerging Markets C Acc	6.21	1.01	0.66	0.89	16.85
JPM Japan C Acc	7.07	1.10	0.44	0.71	18.87
L&G UK Property Feeder I Acc	2.89	1.35	0.00	0.65	2.07
Lindsell Train LF Lindsell Train UK Equity Acc	5.21	0.59	0.29	0.60	14.13
Liontrust UK Smaller Companies I Acc	6.23	0.87	0.63	0.92	19.66
Royal London Cash Plus Y Acc	0.55	0.04	0.00	0.56	0.45
Royal London Ethical Bond M Acc	0.46	1.00	0.26	0.93	5.78
Vanguard FTSE U.K. All Share Index Unit Trust A Acc GBP	-0.87	0.85	0.00	0.94	16.15
Portfolio	2.43	0.88	0.55	0.97	8.46

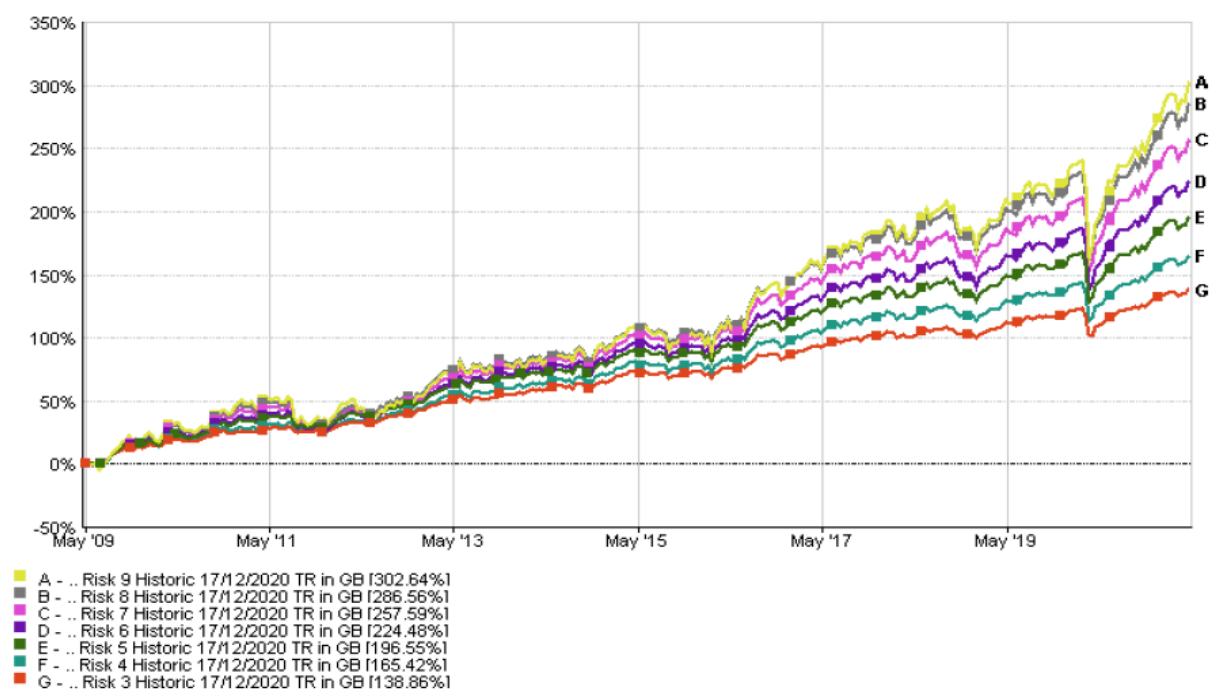
INVESTMENTS	MORNINGSTAR ANALYST RATING	FE FUNDINFO CROWN RATING	CITYWIRE RATING	RAYNOR SPENCER MILLS RATING	ALPHA MANAGER RATING
Artemis US Select I Acc GBP					-
ASI Sterling Money Market I Acc	-		-	-	-
Baillie Gifford International B Acc					
Fidelity Asia Pacific Opportunities W Acc					-
Fidelity Asia Pacific Opportunities W Acc					
Fidelity European W Acc			-		-
Janus Henderson Strategic Bond I Acc			-		-
JPM Emerging Markets C Acc			-		-
JPM Japan C Acc			-		-
L&G UK Property Feeder I Acc	-		-		-
Lindsell Train LF Lindsell Train UK Equity Acc					
Liontrust UK Smaller Companies I Acc					
Royal London Cash Plus Y Acc	-	-		-	-
Royal London Ethical Bond M Acc	-				-
Vanguard FTSE U.K. All Share Index Unit Trust A Acc GBP		-	-		-

## 2.3 Investment performance

The table below shows the actual performance achieved by each risk profile (3 to 9) in the past annual periods to April 2021:

Name	Discrete Annual Performance 22/04/2012 to 22/04/2013 Overall	Discrete Annual Performance 22/04/2013 to 22/04/2014 Overall	Discrete Annual Performance 22/04/2014 to 22/04/2015 Overall	Discrete Annual Performance 22/04/2015 to 22/04/2016 Overall	Discrete Annual Performance 22/04/2016 to 22/04/2017 Overall	Discrete Annual Performance 22/04/2017 to 22/04/2018 Overall	Discrete Annual Performance 22/04/2018 to 22/04/2019 Overall	Discrete Annual Performance 22/04/2019 to 22/04/2020 Overall	Discrete Annual Performance 22/04/2020 to 22/04/2021 Overall
.. Risk 3 Historic 17/12/2020 TR in GB	13.22	6.33	8.55	1.98	9.28	4.58	4.70	-1.01	14.34
.. Risk 4 Historic 17/12/2020 TR in GB	14.29	7.14	9.87	1.74	11.53	5.63	5.48	-1.44	18.04
.. Risk 5 Historic 17/12/2020 TR in GB	15.24	7.59	10.36	2.19	13.25	6.12	6.27	-2.04	21.96
.. Risk 6 Historic 17/12/2020 TR in GB	16.43	8.45	11.33	2.23	15.52	6.97	6.82	-2.42	26.06
.. Risk 7 Historic 17/12/2020 TR in GB	17.80	8.10	12.64	2.32	17.97	7.72	7.55	-2.80	29.81
.. Risk 8 Historic 17/12/2020 TR in GB	19.33	7.14	13.46	2.27	19.83	8.38	8.18	-3.57	33.55
.. Risk 9 Historic 17/12/2020 TR in GB	16.38	6.74	14.81	1.42	21.36	9.36	8.92	-4.04	36.99

Pricing Spread: Bid-Bid • Data Frequency: Daily • Currency: Pounds Sterling



05/05/2009 - 22/04/2021 Data from FE fundinfo2021

## Authorisation

Indigo Financial Advice Ltd is authorised and regulated by the Financial Conduct Authority.

Past performance is not an indication of the future and the value of investments can go down as well as up. Results are net of fund costs but not Platform Charge or Ongoing Adviser Charges.