

Risk Level Guidance

Netwealth Managed Portfolios



netwealth

Wealth management as it should be

Wealth management | Pensions & ISAs | Financial planning



Important Information

This document is intended for professional financial intermediaries and is not suitable for retail investors.

Netwealth Investments Limited is authorised and regulated by the Financial Conduct Authority with firm reference number 706988.

When investing your capital is at risk. The value of investments may go down as well as up, so you could get back less than you invested.

Netwealth offers advice restricted to the services provided, and does not provide independent advice across the market.

Netwealth is covered by the Financial Services Compensation Scheme (FSCS). In the event that we have stopped trading or are declared to be in default and cannot meet our obligations, a client may be able to claim compensation. This depends upon the type of business and the circumstances of the claim. The FSCS offers different levels of cover for different types of business. Most types of investment business are currently covered for 100% of the first £85,000. Further information is available from the FSCS website (www.fscs.org.uk).



01

Introduction

The purpose of this document is to provide professional financial intermediaries with the information required in order to determine the appropriate Netwealth Managed Portfolio for a client's given risk profile.

When mapping a risk profile to any Managed Portfolio Service (MPS) there are a few factors to consider, here we will take a look at three key steps.

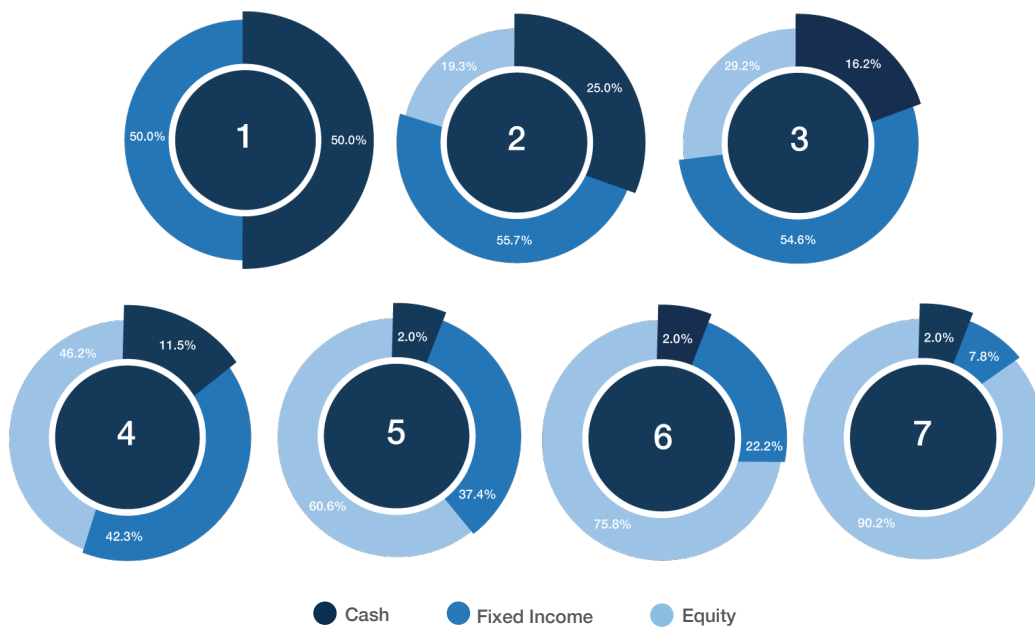
1. Asset Allocations and Volatility

Risk profiling tools are constructed around a client's tolerance and capacity to withstand periods of negative performance. As such, understanding the portfolio construction and expected volatility of a risk managed portfolio is often the first step in determining whether it is appropriate for a client's financial circumstances and objectives.

When mapping the outcome of a risk profiling questionnaire, or a client's existing portfolio, it is important to consider the asset allocations within the new portfolio to ascertain whether it is suitable. At Netwealth, we look at allocations to the following asset classes when assessing the risk profile of a client's existing investments in relation to our portfolios:

- Cash
- Fixed Income
- Equity; and
- Alternatives.

GBP Strategic Asset Allocations (as at 30th April 2020) Data as follows:



The equity exposure within a portfolio is the component that predominantly drives volatility. Generally speaking, increased exposure to equity can result in a potential for both higher returns and greater losses depending on market movements over the term of the client's investment.

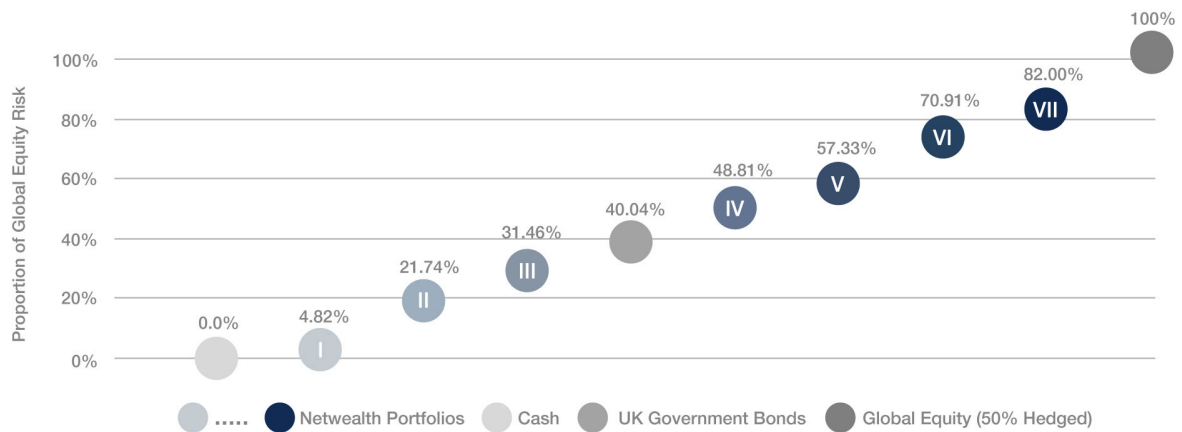
With this in mind, it is important to consider the allocation to equity within a client's risk profile, or existing portfolio, when mapping across to a new solution.

At Netwealth we do not hold alternatives as part of our strategic asset allocations, meaning we do not hold any alternative investments directly. However, the underlying instruments held within the portfolios may invest in alternatives such as AIM stocks or AIM funds, so for this reason they are included within our permitted ranges for Portfolios II-VII. Therefore, depending on the nature of any investments the client holds within this asset class, you may wish to consider these as an addition to the strategic equity allocation when assessing a client's existing portfolio in relation to one of our portfolios.



Portfolio Risk Characteristics

The chart below shows the historic proportion of global equity risk within each of the Netwealth portfolios. To provide context we have also included the historic proportions for cash, UK government bonds and global equity (50% hedged).



2. Understanding Risk Profiles

Recommending a new investment solution provides an opportunity to make sure that the client fully understands the characteristics of their risk profile, especially if they are simply switching their MPS provider as they may not have completed a risk profiling questionnaire since the original recommendation.

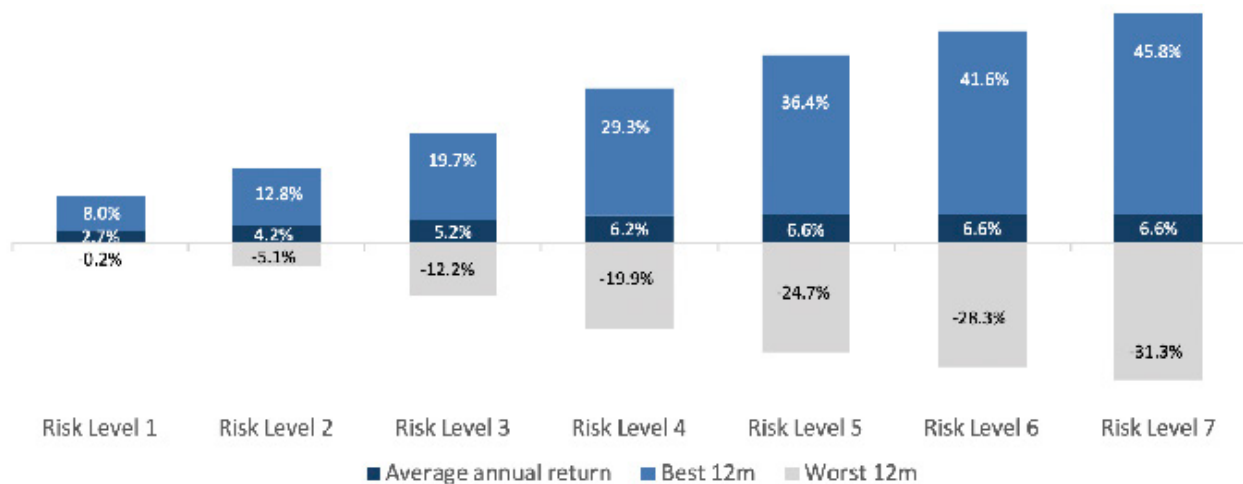
Behavioural economics shows us that individuals feel the pain of losing around twice as powerfully as the pleasure of gaining. Therefore, it is important to present the client with information on the potential for loss within their portfolio as part of any recommendation.

At Netwealth, we show the client the best and worst 12 month performance, as well as the average returns, over the last 25 years to help them understand all potential outcomes. They should be aware that both the positive and negative outcomes have occurred in the last 25 years and performance outcomes of a similar magnitude could potentially happen again at some point during the period of their investment.

This can provide useful data when mapping a risk profile or existing portfolio to a new solution.

Simulated Historic Return Characteristics (as at 31st December 2019) Data as follows:

Based on data from the last 25 years, we have presented below the average annualised returns for the portfolios across each Risk Level, as well as the worst and best 12 month returns throughout this period.



Source: Bloomberg and Netwealth

Please note that past performance is not indicative of future performance. When investing your capital is at risk.

*Simulated historic risk and returns are based on current strategic allocations, historical monthly asset class index returns and an estimate of costs and charges associated with investing.



3. Time Horizon and Objective - the table in this section should be updated to reflect the changes to the recommended minimum holding period. Data as follows:

Goal-based planning is an important part of helping clients to achieve their financial goals. By setting time horizons and framing a client's objectives, you can help them to understand their investment journey. The level of risk within their portfolio can impact the likelihood of them achieving their goals.

For clients with existing portfolios, this provides an opportunity to review their personal circumstances and objectives to make sure the current level of risk within their portfolio is still appropriate.

At Netwealth we provide clients with information on the portfolio return objectives, which are linked to the Consumer Price Index (CPI), and recommended minimum holding periods to help them consider their objectives in relation to their risk profile.

Netwealth Portfolio	1	2	3	4	5	6	7
Return Objective	Overnight Cash Rate (SONIA)	CPI	CPI + 1.0%	CPI + 2.0%	CPI + 2.5%	CPI + 3.0%	CPI + 3.5%
Recommended min. holding period	1 month – 2 years	3 years	3-5 years	5 years	5-7 years	7-10 years	10 years

02 Portfolio Information

Portfolio I

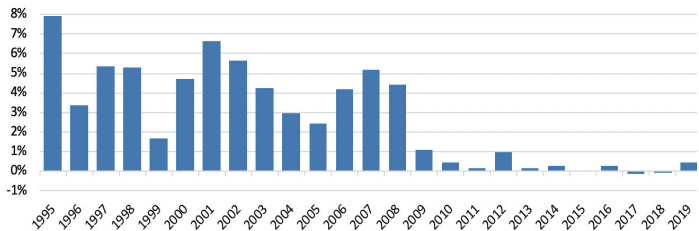
Portfolio I is appropriate for the most conservative investors who do not mind foregoing higher returns in order to maintain the value of their capital in real terms. They recognise that they may experience some volatility in portfolio values but expect these periods to be short-lived. The holding period is likely to be at least 1 month to 2 years.

Strategic allocations and permitted ranges (as at 31st December 2019):

	Strategic Allocations	Permitted Ranges
Currency exposure restrictions		
GBP	100.0%	100.0% - 100.0%
Asset class restrictions		
Cash	50.0%	0.0% - 100.0%
Fixed Income	50.0%	0.0% - 100.0%
Equities	0.0%	0.0% - 0.0%
Alternatives	0.0%	0.0% - 0.0%
Volatility and drawdown figures Calculated since inception using daily return data		
Annualised Volatility		1.83%
Realised Drawdown		-3.79%

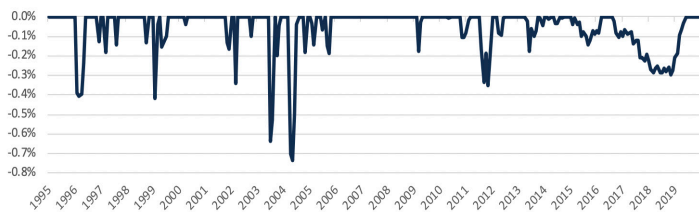
Historic annual returns*

1995 to 2019 (shown net of Netwealth fees at 31st December 2019):



Historic drawdowns*

1995 to 2019 (shown net of Netwealth fees at 31st December 2019):



Source: Bloomberg and Netwealth

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All figures are shown net of Netwealth fees of 0.48% as at 31st December 2018. *Simulated historic returns are based on current strategic allocations, historical monthly asset class index returns and an estimate of costs and charges associated with investing.



Portfolio II

Portfolio II is appropriate for moderately conservative investors who are prepared to give up the potential for significant capital growth in return for greater consistency. They will however, recognise that small allocations to riskier assets such as equities have the potential to improve their portfolio's returns over the medium term. The holding period is likely to be at least 3 years.

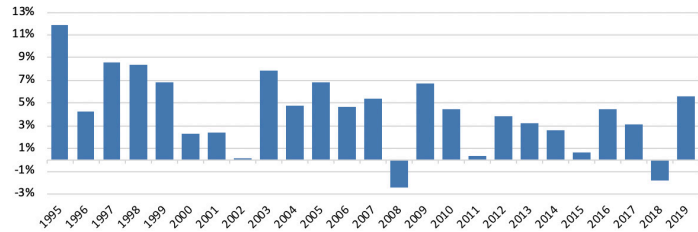
Strategic allocations and permitted ranges

(as at 31st December 2019):

	Strategic Allocations	Permitted Ranges	
Currency exposure restrictions			
GBP	91.8%	75.0%	100.0%
Asset class restrictions			
Cash	25.0%	0.0%	30.0%
Fixed Income	55.7%	40.0%	100.0%
Equities	19.3%	0.0%	30.0%
Alternatives	0.0%	0.0%	10.0%
Volatility and drawdown figures Calculated since inception using daily return data			
Annualised Volatility		3.25%	
Realised Drawdown		-7.33%	

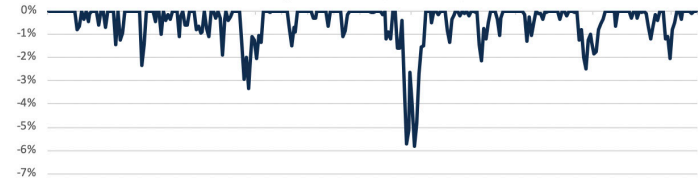
Historic annual returns*

1995 to 2019 (shown net of Netwealth fees at 31st December 2019):



Historic drawdowns*

1995 to 2019 (shown net of Netwealth fees at 31st December 2019):



Portfolio III

Portfolio III is appropriate for investors who are comfortable accepting a moderate level of risk. They should be willing to accept some periods of negative performance with the aim of achieving modest long-term total returns with a bias to income producing assets. The holding period is likely to be 3 to 5 years or more.

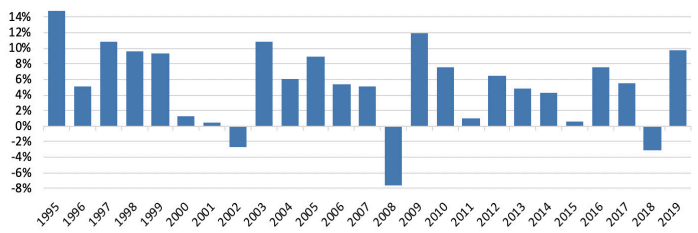
Strategic allocations and permitted ranges

(as at 31st December 2019):

	Strategic Allocations	Permitted Ranges	
Currency exposure restrictions			
GBP	87.1%	70.0%	100.0%
Asset class restrictions			
Cash	16.2%	0.0%	25.0%
Fixed Income	51.6%	40.0%	80.0%
Equities	29.2%	10.0%	40.0%
Alternatives	0.0%	0.0%	20.0%
Volatility and drawdown figures Calculated since inception using daily return data			
Annualised Volatility		4.68%	
Realised Drawdown		-10.59%	

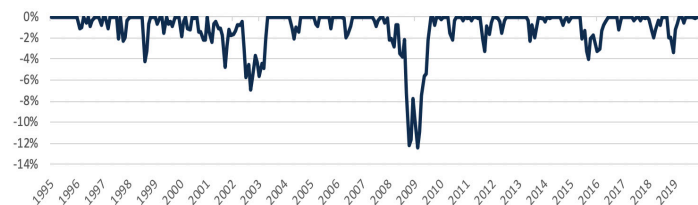
Historic annual returns*

1995 to 2019 (shown net of Netwealth fees at 31st December 2019):



Historic drawdowns*

1995 to 2019 (shown net of Netwealth fees at 31st December 2019):



Source: Bloomberg and Netwealth

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Portfolio IV

Portfolio IV is appropriate for investors who are comfortable accepting a moderate level of risk. They should be willing to accept periods of negative performance in order to strive for higher total returns from a combination of income and capital growth. The holding period is likely to be in excess of 5 years.

Strategic allocations and permitted ranges

(as at 31st December 2019):

	Strategic Allocations	Permitted Ranges	
Currency exposure restrictions			
GBP	80.7%	60.0%	100.0%
Asset class restrictions			
Cash	11.5%	0.0%	20.0%
Fixed Income	38.3%	30.0%	70.0%
Equities	46.2%	25.0%	55.0%
Alternatives	0.0%	0.0%	20.0%
Volatility and drawdown figures			
Calculated since inception using daily return data			
Annualised Volatility		7.03%	
Realised Drawdown		-16.01%	

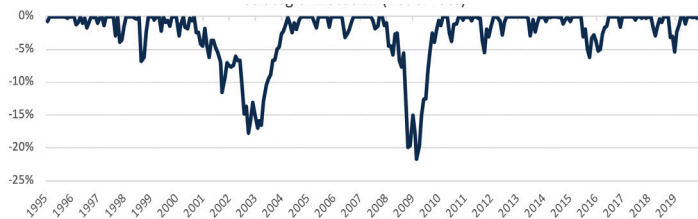
Historic annual returns

1995 to 2019 (shown net of Netwealth fees at 31st December 2019)



Historic drawdowns

1995 to 2019 (shown net of Netwealth fees at 31st December 2019)



Portfolio V

Portfolio V is appropriate for investors who are comfortable accepting a reasonably high level of risk. They should be willing to accept periods of negative performance in order to target higher total returns over the medium- to long-term. The holding period is likely to be 5 to 7 years or more.

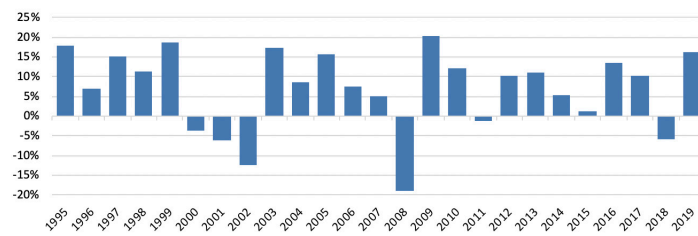
Strategic allocations and permitted ranges

(as at 31st December 2019):

	Strategic Allocations	Permitted Ranges	
Currency exposure restrictions			
GBP	75.7%	55.0%	100.0%
Asset class restrictions			
Cash	2.0%	0.0%	15.0%
Fixed Income	31.1	10.0%	60.0%
Equities	60.6%	40.0%	70.0%
Alternatives	0.0%	0.0%	20.0%
Volatility and drawdown figures			
Calculated since inception using daily return data			
Annualised Volatility		8.88%	
Realised Drawdown		-19.80%	

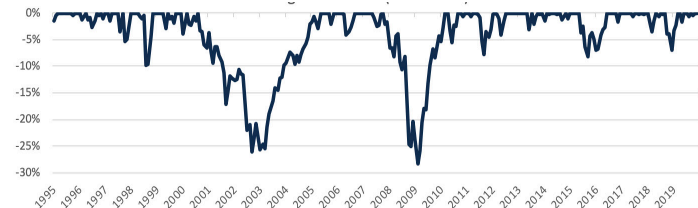
Historic annual returns*

1995 to 2019 (shown net of Netwealth fees at 31st December 2019):



Historic drawdowns*

1995 to 2019 (shown net of Netwealth fees at 31st December 2019):



Source: Bloomberg and Netwealth

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Portfolio VI

Portfolio VI is appropriate for ambitious investors, who are focused on achieving higher returns over the long-term and are willing to withstand periods of considerable negative performance in the interim. They should have access to other resources, if required, and would likely have a time horizon of 7 to 10 years or more.

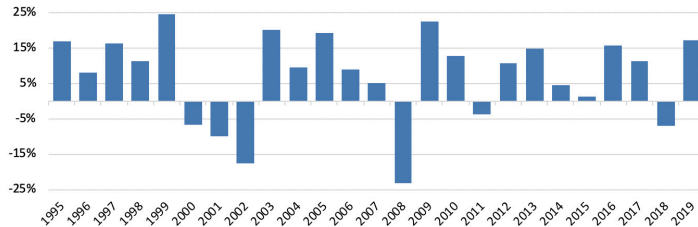
Strategic allocations and permitted ranges

(as at 31st December 2019):

	Strategic Allocations	Permitted Ranges	
Currency exposure restrictions			
GBP	70.1%	50.0%	90.0%
Asset class restrictions			
Cash	2.0%	0.0%	10.0%
Fixed Income	12.2%	0.0%	40.0%
Equities	75.8%	55.0%	85.0%
Alternatives	0.0%	0.0%	20.0%
Volatility and drawdown figures			
Calculated since inception using daily return data			
Annualised Volatility		11.19%	
Realised Drawdown		-24.33%	

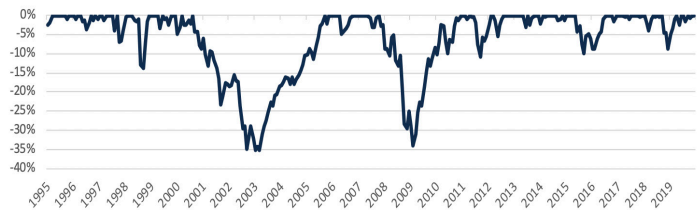
Historic annual returns*

1995 to 2019 (shown net of Netwealth fees at 31st December 2019):



Historic drawdowns*

1995 to 2019 (shown net of Netwealth fees at 31st December 2019):



Portfolio VII

Portfolio VII is appropriate for our most ambitious investors, who are focused on achieving higher returns over the long-term and are willing to withstand periods of significant negative performance in the interim. They should have access to other resources, if required, and would likely have a time horizon in excess of 10 years.

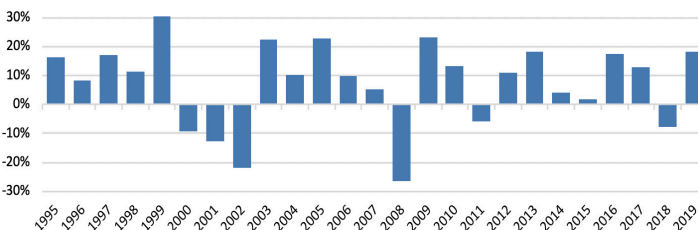
Strategic allocations and permitted ranges

(as at 31st December 2019):

	Strategic Allocations	Permitted Ranges	
Currency exposure restrictions			
GBP	64.9%	40.0%	85.0%
Asset class restrictions			
Cash	2.0%	0.0%	10.0%
Fixed Income	0.0%	0.0%	20.0%
Equities	90.2%	70.0%	100.0%
Alternatives	0.0%	0.0%	20.0%
Volatility and drawdown figures			
Calculated since inception using daily return data			
Annualised Volatility		13.12%	
Realised Drawdown		-27.25%	

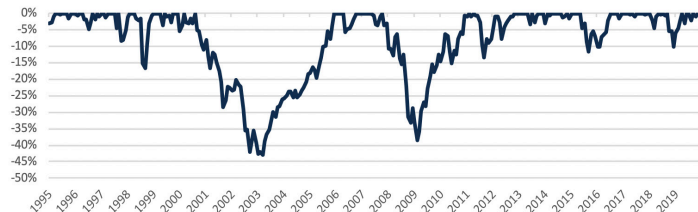
Historic annual returns*

1995 to 2019 (shown net of Netwealth fees at 31st December 2019):



Historic drawdowns*

1995 to 2019 (shown net of Netwealth fees at 31st December 2019):



Source: Bloomberg and Netwealth

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Contact



Telephone

+44 (0) 20 3795 4763



Email

intermediaries@netwealth.com



Address

60 Charlotte St, London W1T 2NU



Website

netwealth.com/intermediaries

