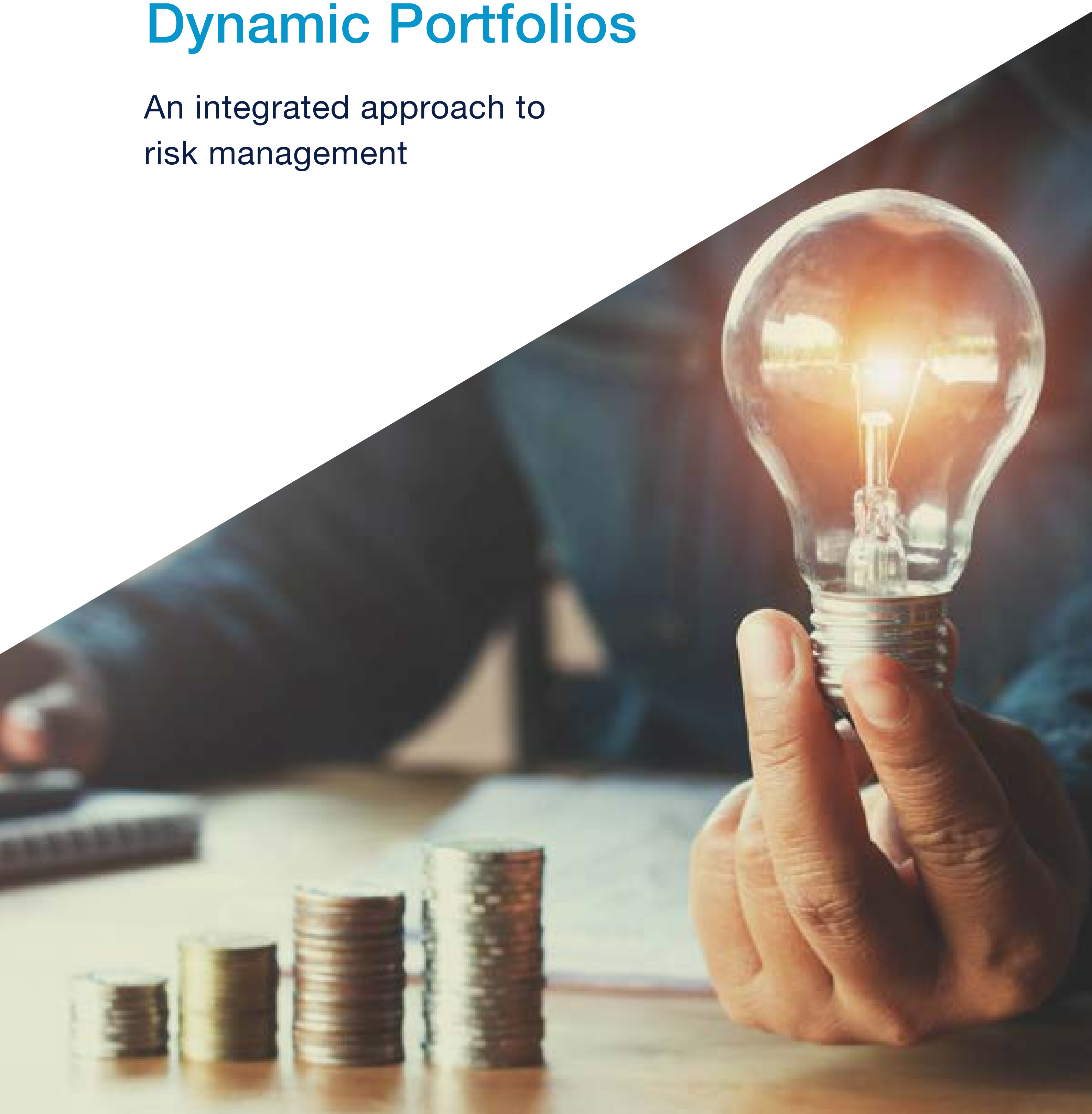
Investing with the Dynamic Portfolios

An integrated approach to risk management



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Investing with the Dynamic Portfolios

The world of investing can be complex and full of jargon. When reviewing your investment options, you may be faced with a multitude of decisions:

- How much investment risk should I take?
- How do I diversify my investment portfolio?
- How many different types of assets should I invest in, and in what proportion?
- Should I use active or passive investments?
- How should I respond to external influences?

What are the Dynamic Portfolios?

The Dynamic Portfolios are investment portfolios that have been carefully designed to balance investment risk with returns to help achieve your financial goals, taking into account your attitude to risk, time frame and capacity for loss.

Spread across two distinct offerings – Lite and Plus – you're able to choose the option that best matches your goals. Each of these portfolios can be further tailored with risk levels ranging from a low risk tolerance to a high risk tolerance. This allows us to select and put in place investment solutions that align with your personal needs and financial objectives in an ever-changing market.

The Dynamic Portfolios are distinctive because we can directly link the target investment returns of the Dynamic Portfolios with the annual returns you are aiming for. We believe this gives you the best chance of achieving your financial goals in your timescales.

Why are the Dynamic Portfolios different?

The Dynamic Portfolios are designed to offer you more than a standard investment portfolio, to deliver aspirational outcomes that reflect your financial objectives, build confidence, and solve common problems investors may encounter. The Dynamic Portfolios do this in 6 key ways.

- Continually respond to market conditions
- Select a risk level that matches you
- Benefit from a robust fund selection process
- Take advantage of frequent reviews
- Offer active and passive investment styles
- Understand expected returns

1

Continually respond to market conditions

Investment markets aren't static and, to get the most out of your investments, your portfolio shouldn't be either.

As their name suggests, the Dynamic Portfolios are designed to respond to events and market cycles. Investment returns and volatility are influenced by a range of market changes and external factors. What works well now, may not be suitable in the future. In addition, the risk level may vary in a portfolio that remains unchanged amid dynamic markets, affecting suitability.

The responsive approach of the Dynamic Portfolios means that your investments reflect up-to-date markets and continue to match a level of risk you're comfortable with. This includes changing the balance between active and passive investment strategies to align with the position of the current market cycle.

As an investor, it can be challenging to know when and how you should respond to market volatility. The Dynamic Portfolios take those concerns out of your hands. Their robust process for selecting investments, which includes external oversight, means you can have complete confidence in how your investment portfolio will adapt to market and economic conditions with your financial objectives in mind.

2

Select a risk level that matches you

Your financial objectives and risk tolerance should be an integral part of building your investment portfolio.

The Dynamic Portfolios range allows you to choose a level of risk that suits your goals and overall financial position. Whether you select a Lite or Plus Dynamic Portfolio, you can choose to invest with a level of risk that's suitable for you. The options range from a low risk tolerance to one that may be suitable for investors with a higher tolerance for risk.

An extensive decision making process determines how much risk each portfolio should take and how this should be achieved. The robust risk controlled framework makes sure each Dynamic Portfolio stays within defined parameters in terms of risk, even as they react to changing market conditions. This allows your portfolio to remain responsive to wider influences whilst making sure that your portfolio remains closely aligned to your risk objectives, both now and in the future.

To help manage and spread investment risk, assets are selected from a wide variety of classes and funds to sit inside the Dynamic Portfolios. Without knowledge of investment and asset classes, as well as sufficient resources, it may be difficult for you to create a diversified portfolio. You can trust the professional experts to choose the best mix of investments whilst keeping in mind a level of risk that you're comfortable with.

What is smart diversification? Smart diversification, where possible, involves investing across different asset types (i.e. bonds as well as equities, etc.), different investment styles (i.e. active management and passive investing) and different investment philosophies (i.e. growth and value).

While individual stocks and markets will continue to go up and down, smart diversification across assets, styles and philosophies can help investors minimise their risks. Although it does not guarantee against loss, smart diversification is the most important component of reaching long-range financial goals while minimising risk.

If you invest in the Dynamic Portfolios you will be assigned a portfolio based on your risk tolerance, your investment objectives and time frame. The higher your risk grade, the riskier the portfolio. The risk grades operate within defined risk corridors, the boundaries of which are measured using volatility.

Volatility refers to the amount of risk a portfolio takes. For example, a higher volatility means that a portfolio's value can change dramatically over a short period of time, up and/or down. Whereas, a lower volatility means that a portfolio's value does not fluctuate dramatically, but changes are at a steady pace over a period of time.

Every quarter, the volatility of each of the Dynamic Portfolios is calculated to make sure that the portfolio keeps within the boundaries of the volatility corridors for that risk grade. If the Dynamic Portfolio has drifted outside of these boundaries, changes are made to the portfolio's asset allocation and/or the percentage proportion of the underlying funds selected.

3

Benefit from a robust fund selection process

All funds that sit inside the Dynamic Portfolios are selected following a comprehensive quantitative and qualitative screening process that brings together both hard and soft facts.

This is an area that the external experts provide value to. Whilst your Foster Denovo Partner undertakes their own research when selecting investment opportunities, the outsourced experts provide additional intelligence and a level of oversight that's designed to deliver more certain outcomes.

Hard facts: This includes statistics and extensive historical data. This is known as a quantitative screening process.

Soft facts: This involves assessing the fund manager's views, philosophy and investing principles. This is known as a qualitative screening process.

The five step process for selecting funds

1. **Define the asset class universe:** funds are used from the following broad asset classes: equities, bonds, property, alternative and private equity. These classes then span across a wide range of sub-asset classes, covering geographical, industrial and specialist sectors.

2. **Define the investment fund universe:** the widest scope of investment funds available to UK retail investors are assessed. The bulk of the funds selected are UK OEICs (open ended investment companies) and unit trusts, but investment trusts, FCA (Financial Conduct Authority) recognised funds and ETFs (exchange traded funds) are also selected. At the end of this stage of the process, there are thousands of funds remaining.

3. **Critique the characteristics of the fund:** the funds are assessed based on the following criteria:
   - fund size: minimum fund size is £20 million, no maximum but above £1 billion, the fund is reviewed;
   - fund or fund manager(s) longevity: funds or fund managers with at least a five year performance history;
   - authenticity of active management: there is a process in place to make sure all active funds used in the Dynamic Portfolios are 'true' active funds and not 'closet trackers'; and
   - active manager alpha: alpha represents the outperformance of an active manager in comparison to a passive benchmark.

4. **Judge the active funds using quantitative ratios**: the remaining funds are judged using six financial ratios, based on the previous three and five-year performance periods.

5. **Judge the active funds using qualitative research:** the remaining funds will be filtered based on qualitative research and analysis of the fund managers. External experts independently conduct the qualitative research and analysis. These results are used to gain an in-depth understanding of how the fund managers make their investment choices and why they believe these choices will provide strong investment returns. The chosen fund managers will be clear about how they invest and why they make their decisions, have a transparent and repeatable investment process, and have a strong and defined firm culture.

With external experts challenging the investment decisions, we're confident that they consistently choose the most reliable and skilled fund managers available for each level of risk. An external, independent economist provides invaluable information that helps inform the overall investment strategy, including the implications of external factors. An external, expert qualitative consultancy provides comprehensive qualitative research that, again, is used to build the overall strategy of the Dynamic Portfolios. To find out more about the external experts, read the 'Who runs the Dynamic Portfolios?' section.

4

Take advantage of frequent reviews

We have confidence in the fund selection process, but to offer a truly Dynamic Portfolio that responds to external influences, reviews are an essential part of the process.

Each of the Dynamic Portfolios undergoes rigorous quarterly reviews that involve both internal and external investment experts. The portfolios are reviewed to the highest degree of detail, which then informs the investment strategies of each of the Dynamic Portfolios. It’s a step that can give you confidence that your investment portfolio consistently performs because it highlights where potential changes may need to be made to improve performance in line with your risk tolerance.

The review process is a core part of the dynamic offering, making sure you know that your portfolio is frequently reviewed with your risk tolerance and wider market and economic factors in mind. It means you don’t have to worry about how to respond to these external influences, your portfolio will be adjusted based on expert research and analysis.

5

Offer active and passive investment styles

One of the fundamental questions you face when investing is whether to use an active or passive investment style. These are two inherently different approaches to managing investments and achieving returns. The Dynamic Portfolios use both active and passive funds, offering you the best of both worlds.

Active management costs more than passive because investors are paying for the time and expertise of the fund manager. Some investors may make a decision based on cost, but value is more important. Both investment styles have advantages and disadvantages. How to invest in the different options should focus on what each can offer you in terms of achieving your financial objectives.

> “Price is the amount of money given in payment for something, whereas value is the worth of something compared to the price asked for it.”

What are active and passive investment styles? Actively managed funds are led by either a professional fund manager or a team of professional fund managers. They actively make investment decisions based on in-depth research and their own judgement and experience.

Passive investing is where investments are designed to mirror the movement of a certain market.

Neither investment style is ‘right’ or ‘wrong’. You may use one option now, but that doesn’t mean it’s still the best choice in the months or years to come. One solution is to use a combination of both investment styles, but this can raise several issues.

- How practical is it to invest in both styles?
- What is the right balance of active and passive?
- What if I don’t have the time to manage this balance?
- What happens when the markets change?

The Dynamic Portfolios could provide a solution to these issues. They offer you the expertise of an active fund manager, as well as the lower costs that come with passive investing.

6

Understand expected returns

Most of the Dynamic Portfolios have their own benchmark, known as Cash+.

This allows your Foster Denovo Partner to check each portfolio is performing as it should and allows you to see if your investments are on track and how your expectations align with your goals. The Cash+ benchmark assigned to each Dynamic Portfolio reflects the amount of risk the investments pose.

The idea behind a benchmarked investment is simple and attractive:

- it has a clearly defined target return; and
- it provides a gauge so that your Foster Denovo Partner can check the progress of the investment manager.

So you know whether your investment is on track.

The Cash+ benchmark is designed and put in place to encourage each Dynamic Portfolio to produce returns that are above those you would expect from putting money into a long-term cash deposit. Cash+ can help you see which Dynamic Portfolio is right for you and offers transparency on return expectations.

Choosing a Dynamic Portfolio for you

The Dynamic Portfolios don't provide a one size fits all solution. The range available to choose from means your investment portfolio can still be tailored to your needs and adjusted as your life changes. The Dynamic Portfolios reflect you by considering:

the amount of investment risk you are comfortable taking;

your capacity for loss; and

your investment objectives and time frame.

Designed to suit a range of investor profiles with different attitudes to risk, each portfolio has a defined range on the amount of risk it can take. This way your portfolio continues to reflect you with its dynamic approach, working to grow your wealth and help achieve your investment goals.

Why is taking investment risk important? It's important to remember that without investment risk, there would be little to no investment growth. There is a connection between the amount of investment risk taken and the amount of investment growth (or loss) that an investor receives.

Your investment time frame plays a crucial role in the amount of risk you can and should take. Generally speaking, the longer the investment time frame, the potentially greater investment risk you can take. This is due to having more time to recover from losses and short-term market volatility. If your investment time frame is shorter, a more conservative approach is often more appropriate. Your Foster Denovo Partner can help you understand which risk tolerance is right for you now and how this may change in the future.

The variety offered through the Dynamic Portfolios means that they can be used to make the most of your wealth at every life stage; from building up the value of investments to taking an income.

Just as the Dynamic Portfolios respond to changes in the market, it's important that your choice of Dynamic Portfolio considers your aspirations and lifestyle. Whilst a Plus Dynamic Portfolio with a risk rating of six may be right for you now, will this still be the case in ten years? How will your risk tolerance change as you approach retirement? Your investment decisions should consider a wider financial plan as a result.

Who runs the Dynamic Portfolios?

Carefully selected external experts make sure the Dynamic Portfolios are run effectively.

They provide additional oversight that supports the overall goals of each Dynamic Portfolio. The inclusion of this independent and external expertise means you can be confident in the process and how each investment decision is made.

The table below highlights how each expert plays a role in building investment portfolios that are dynamic, risk-considered, and aim to select the best available funds for each risk level.

AB Investment Solutions Limited	• Provides overall governance and regulatory responsibilities • Provides the discretionary management services • Implements investment recommendations in the portfolios • Identifies any potential investment issues • Helps to make sure the best available funds are used • Provides investment oversight to make sure all processes are up-to-date and run effectively and efficiently
FD Dynamic Portfolios Limited[1]	• Advises how much should be invested in each of the different asset types and funds • Advises on the percentage proportion allocated to each investment style • Advises on and selects individual funds, aiming to use those that it believes are the best available
Independent economist	• Gives an overview of the global economy and financial markets and the implications of these • Gives information to help decide on the overall strategy of the Dynamic Portfolios, including the proportion of each investment style used
A fund manager within an internationally renowned investment house with more than 20 years' experience, plays a key role in the tactical asset allocation policy. As an expert, external, independent economist, they provide criticism and challenge the investment decisions.	
Independent investment and research consultancies	• Provides the 'soft facts' used in the qualitative research for selecting funds • Supports the governance and oversight process • Interviews fund managers to capture their views and expert knowledge of the markets they invest in • Provides information and forecasts to help build the overall strategy of the Dynamic Portfolios
An independent investment and research consultancy provides external qualitative research which helps inform the investment decisions. The research focuses first and foremost on in-depth, qualitative fund research and provides tailored support to financial institutions.	

[1] FD Dynamic Portfolios Limited (FDDPL) is an appointed representative of Foster Denovo Limited, which is authorised and regulated by the Financial Conduct Authority. FDDPL is an investment adviser to the investment manager, AB Investment Solutions Limited (FRN 705062), which is authorised and regulated by the Financial Conduct Authority.

Where can I access the Dynamic Portfolios?

The Dynamic Portfolios can be accessed through the Foster Denovo Clearview platform.

The Clearview platform is an online portal that allows you and your Foster Denovo Partner to access a variety of investment products, including the Dynamic Portfolios, and view your investments online, in one place, at any time.

The Clearview platform has been tailored to our specifications, with the aim of simplifying the investment process and meeting your requirements.

Talk to us to find out more about your Clearview portal.

Interested in sustainable investing?

A growing number of investors are demanding investment choices that do more than provide them with a rate of return.

Investors are seeking options that will help their assets grow, whilst managing the risks to this growth from environmental, social and governance (ESG) factors.

In addition to the Dynamic Portfolios, we also offer the Sustainable Dynamic Portfolios, which offer the same benefits as the Dynamic Portfolios, but take into consideration environmental, social and governance (ESG) criteria, providing an extra layer of risk management.

If you have any questions about the Dynamic Portfolios, speak to your Foster Denovo Partner.

Or if you are new to Foster Denovo:

call 0330 332 7866;

email info@FDdynamicportfolios.com; or

visit www.fosterdenovo.com/tailored-financial-planning/our-investment-advice/

Calls are charged at your standard landline rate.

Potential investors should be aware that past performance is not an indication of future performance and the value of investments and the income derived from them may fluctuate and they may not receive back the money they originally invested.

The tax treatment of investments depends on each investor's individual circumstances and is subject to changes in tax legislation.