

## Select Portfolio 2

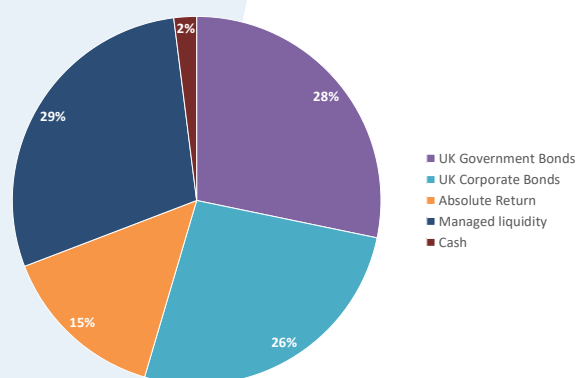
### Risk Profile

The portfolio is designed for a very cautious investor who is prepared to invest their capital over a reasonable period of time, normally in excess of five years. Capital preservation is very important to the investor and whilst they are prepared to experience some periods of negative returns due to market volatility, their prime consideration is preservation of capital. The investor understands that they are expecting to achieve a significantly lower level of investment return by investing in a portfolio that has a little to no equity exposure with the majority of its assets in bond and managed liquidity investments. Whilst UK government bonds and high grade corporate bonds have historically provided a lower level of risk, it is not possible to predict whether this will continue into the future. Bonds may also lose capital value should yields rise. This lower risk, combined with an expected lower rate of return, is something the investor is willing to accept in order to avoid the heavy equity market declines seen during periods of extreme market volatility.

**Portfolio Strategy - Strategy OCF (ongoing charges figure) : 1.12%, Strategy yield : 1.0% (may vary from platform to platform)**

The portfolio uses a mix of bond and managed liquidity assets that are held in proportions aimed at meeting the requirements of a very cautious investor. The portfolio will consist of three elements; (1) a fixed asset allocation to bond assets, (2) a fixed allocation to an absolute return strategy, (3) a risk on and risk off approach to UK government bonds. The risk on and risk off approach is designed to add a degree of risk management to the portfolio by increasing and decreasing the allocation to UK government bonds depending on their recent performance. As an example, if UK government bonds are performing poorly and trending negatively, they will be classified as Risk Off and the allocation reduced. If UK government bonds are trending positively, they will be classified as Risk On and they will receive their maximum allocation limit.

### Portfolio allocation as at 31<sup>st</sup> December 2018



Asset allocations are subject to market movements and portfolios will be re-balanced periodically. Allocations may vary from platform to platform.

### 10 year returns to 31<sup>st</sup> December 2018

Portfolio & Benchmark	3 month return	6 month return	1 year return	3 year return	5 year return	10 year return
Select Portfolio 2	-0.1%	-0.8%	-2.1%	1.0% p.a.	1.7% p.a.	2.2% p.a.
ARC Cautious	-3.7%	-3.3%	-3.8%	2.0% p.a.	2.2% p.a.	3.6% p.a.

### 10 year risk to 31<sup>st</sup> December 2018

Portfolio & Benchmark	Max annual loss	Max monthly loss	1 year volatility	3 year volatility	5 year volatility	10 year volatility
Select Portfolio 2	-2.5%	-1.7%	1.7%	2.8% p.a.	2.9% p.a.	2.6% p.a.
ARC Cautious	-3.8%	-2.1%	2.8%	2.9% p.a.	2.9% p.a.	3.2% p.a.

### Asset risk status as at 31<sup>st</sup> December 2018

UK equities are classed as\* :

**RISK ON**

UK government bonds are classed as :

**RISK ON**



As at 31<sup>st</sup> December 2018 UK equities and UK government bonds are in a positive long term trend and are therefore classified as Risk On. \*For info only, portfolio has no exposure to UK equities outside of a possible allocation within the absolute return portion of the portfolio.

#### Table key

Actual performance
Simulated performance

**Performance Notes :** Past performance is not a reliable guide to future performance. Performance for the Select portfolios, actual & simulated, is net of all fees and charges (iFunds' management fee, underlying fund fees & Parmenion's platform fees). Simulated performance has been calculated using monthly data & is a representation of what would have been experienced by an investor had the prescribed rules of the portfolio been applied. Simulated performance has only been used where insufficient data is available to show actual performance. Actual performance has been calculated from the point at which a portfolio was managed using that particular strategy. Max annual loss is the maximum loss over any rolling 12 month period. Max monthly loss is the maximum loss suffered over a calendar month. Volatility is a statistical measure of the extent to which a portfolio value changes over time. The higher the volatility the greater the fluctuation in the value, up or down, of the portfolio. Data has been supplied by iFunds Asset Management, ShareScope & other third party data providers.

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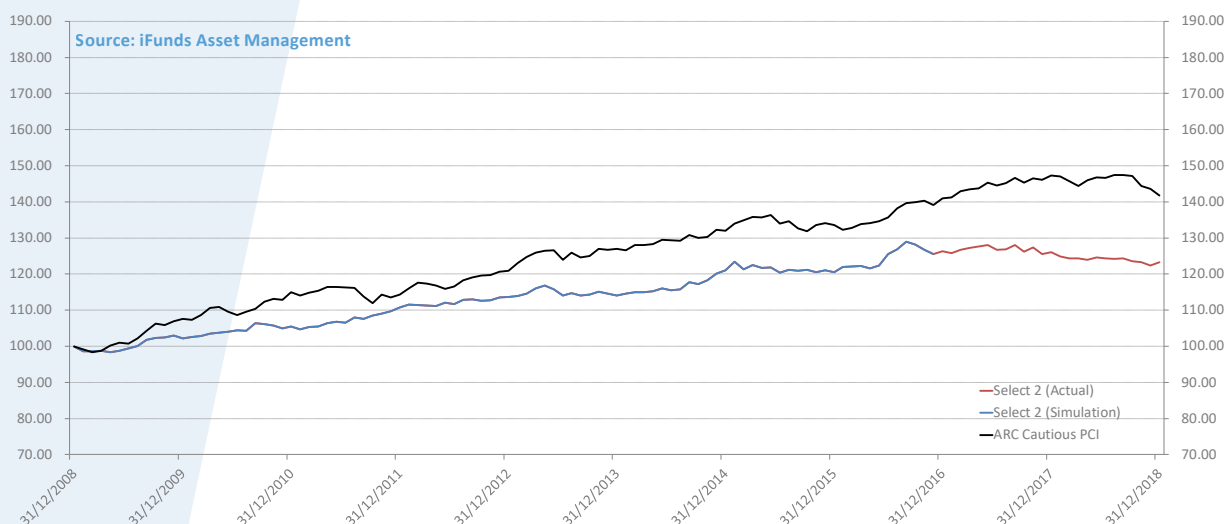
### Market commentary

Stock markets ended the year with further falls as a difficult and turbulent investment year came to a close. Over the quarter we saw UK equities fall by 9.6%, whilst European, US and Japanese equity markets fell 11.4%, 13.5% and 16.8% respectively. These falls, added to the falls of the first quarter, meant that many stock markets suffered their worst year since the 2008 financial crisis. US equities saw big falls, particularly across the technology sector, which up until this year, had delivered significant returns. In Japan, a stronger Yen, which is traditionally seen as a safe haven, has hurt profit margins for its many exporters. In Europe, Angela Merkel and Emmanuel Macron continue to face significant domestic problems that have hindered their plans for EU reform. In the UK, Brexit continues to be the main distraction, although UK equities did out perform the majority of other markets over the quarter, this was partly due to a weaker pound rather than positive economic performance. As we head into 2019, volatility remains high and is likely to continue until we see some resolution to a number of the major global issues. Moving away from equities, bonds enjoyed a positive quarter as investors looked towards defensive assets. In February and March last year we saw an asset wide sell off of both bonds and equities, whereas this time around, bonds were able to offer investors protection from equity falls with a number of Central Banks suggesting the rate rise cycle may be slower than previously planned.

Overall, the portfolio has taken a more defensive stance through their alternative allocation which has switched into a mixture of government bonds, cash and precious metals. UK equities are yet to go risk off but have moved closer to doing so following the negative quarter.

*Nigel Baynes - Investment Director*

### Performance index - 31<sup>st</sup> December 2008 to 31<sup>st</sup> December 2018



### Additional Information

**Strategy OCF (Ongoing Charges Figure)** - The annual cost of the strategy. It includes our management fee, the cost of the underlying investments and Parmenion’s platform fees. As at 31<sup>st</sup> December 2018 the OCF of the strategy is 1.12%.

**Benchmark** - The portfolio does not have a specific benchmark. However, for comparison purposes, we have used the ARC Sterling Cautious PCI index which is provided by Asset Risk Consultants [www.assetrisk.com](http://www.assetrisk.com).

### About iFunds Asset Management

iFunds develop and implement quantitative investment processes with the aim of delivering robust risk based portfolio solutions. Due to the quantitative and rules based nature of their investment strategies they are able to simulate the performance of a strategy and back test it over long periods that encompass different market cycles and periods of high market volatility and uncertainty. Back testing like this is not a forecasting method but it does allow investors to see what would have happened had they followed the strategy in question and whether the returns, volatility and drawdowns experienced are in line with their expectations and tolerances.

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