



Fit for the future: Dynamic enhancements to the Factor Series Range of Portfolios

Our investment team has undertaken an extensive review of our portfolios in the context of the expected medium-term return environment, and we will be implementing several practical and incremental enhancements to them. We would also like to re-emphasise that our outcome-based investing philosophy is not solely about the return but the interplay of several components.

Over many years, we have built and evolved a leading range of outcome-based solutions where the objective is anchored on three pillars, namely time horizon, risk budget and a resultant return target. It is important to stress that the three different components of the philosophy are important and need to be balanced. The interplay of these three creates an investor experience that the investment team manages over time. Investment returns, which we express as an expected real return target, cannot be guaranteed and are a function of the available opportunity set in any given environment (market reality), the risk budget and investment horizon.

The **time horizon** is the investment period we specify for a portfolio to be given the time required to extract the risk premia. This is the fixed component of the client experience for each portfolio and, therefore, we reference the time horizon in our naming convention of our Factor Range of Portfolios.

The **risk budget** will be re-articulated in terms of a value at risk (Var) to make it more intuitive for clients, rather than

the historical four-factor risk objective function, which took a long time to explain coherently. This is not a change to the risk management approach but instead a re-articulation and equivalent approach that is more intuitive for investors.

The **return target** will be expressed as a range relative to inflation (the Consumer Price Index or CPI) to clearly indicate that the expected return may vary, depending on prevailing market and economic conditions. This moves away from a point expectation, which sometimes is misunderstood to be a guarantee. We will make sure to update real return expectations based on market conditions so that advisers can adjust the real return expectation inputted into their advice models.

The **benchmark** is a strategic asset allocation benchmark and is our strategic point of departure around which we manage our portfolios. Based on our expectations on reasonable expected returns from the asset classes we invest in, a portfolio's strategic asset allocation is adjusted from time to time within the framework of our investment philosophy and process.

As the expected returns reduce for the foreseeable future, we will reduce the number of portfolios, allowing them space to be sufficiently differentiated from a risk profile perspective. As such, practically, we will combine our two most conservative portfolios. We are mindful to make sure there is sufficient differentiation between the Factor 7 and 6 portfolios to allow them to be the accumulation phase

portfolios in life-stage approaches. However, given the current low-return environment, Factors 3 and 4 are not differentiated and will be combined during the second quarter of 2021.

The changes made to the expected return target and the strategic asset allocation benchmarks will be reflected in the November 2020 fact sheet of each portfolio.

2020 will go down in history as a milestone that will have a pervasive and lingering influence on how we view and adapt to the world. It was a tough year, with hard lessons learnt, and deep reflection on how best to continue to serve you as custodians of your capital. We want our clients to rest assured that as our investment team evolves its response to the market changes, we continue to do what we have

always done, and that is to remain anchored in our outcome-based investing philosophy and process, which has stood the test of time. We believe our evolved thinking helps the portfolios to continue their strong legacy with tweaks that have been calibrated to changing market conditions.

Thank you for your ongoing commitment. Being the custodian of your investments was the highlight of our year. The team has emerged stronger than ever before, and we are excited about the opportunities in the new year. As the final curtain for 2020 falls, we wish you and your family a restful (and much-deserved) festive season. Take care, be safe and we will see you (hopefully more often in person than on Zoom) in 2021!

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