RIM INF 023 SIPP GUIDE – CR412 – 05-18 28071 449143

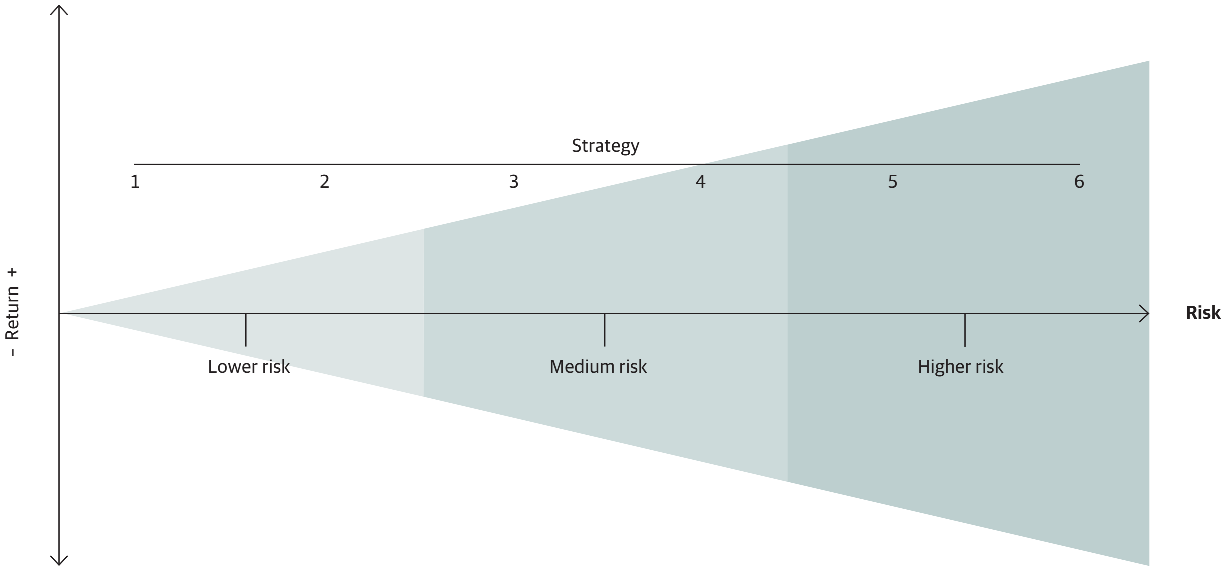
Investment management service

Rathbones pension asset allocation guidelines

Asset allocation

Rathbones manage pension scheme portfolios within a structured asset allocation framework. The framework is based around six core strategies covering a spectrum of different Risk Levels. Your Investment Manager will discuss with you your time horizon, anticipated method of drawing benefits, your financial circumstances and attitude to risk. This dialogue will support the initial construction of your Portfolio and provide guidance on the most appropriate Portfolio structure through the life of your SIPP. While we can not get away from the fact that all investments can fall as well as rise, the underlying principle behind this framework is that Portfolio risk should be reduced as the date of drawing benefits (vesting) approaches. Given the various options open to a scheme member when it comes to drawing benefits and the bespoke nature of our investment service, these strategies provide the flexibility for Rathbones to construct an appropriate Portfolio to meet your requirements both before and after vesting. Rathbones continually review this framework and underlying strategies to ensure they evolve with a changing investment environment. See chart 1 below.

1 The theoretical relationship between risk and return



Investment conditions and market valuations vary over time and the example strategies below show how we might construct portfolios to provide a range of Risk Levels, and how different asset categories may vary across these profiles. Broadly, the proportion of equity risk assets will increase as risk (and potential return) increases, while the balance invested in liquid and diversifying assets will decline. Actual weightings in your Portfolio will of course depend on your own circumstances, market conditions and how your Investment Manager constructs your Portfolio in the light of these factors. See chart 2 below.

2 Risk Level

Core strategy	1	2	3	4	5	6
Liquid assets						
Equity risk assets*	40%	55%	65%	80%	90%	100%
Diversifying assets						

*As well as equities (ie shares), includes all asset classes that are expected to lose value or become less liquid during periods of equity market distress.

The most sensitive time in managing a pension portfolio is usually as you approach vesting. Rathbones' normal recommendations for the maximum potential Risk Level, assuming either full annuity or 25% lump sum to be drawn at date of vesting, are shown overleaf.

A higher Risk Level than the framework suggests may be appropriate (for example if we only manage a part of your pension assets), but should be discussed with your financial adviser and Investment Manager to ensure suitability.

Please keep for your records.

Look forward

Rathbones pension asset allocation guidelines – continued

Suggested Risk Level assuming full annuity or 25% lump sum at vesting

Risk Level

Core strategy		1	2	3	4	5	6
Years to likely vesting	**Intended method of vesting**	**Potential Risk Level**					
5+ Years	Annuity						
	Drawdown						
3 – 5 Years	Annuity						
	Drawdown						
1 – 3 Years	Annuity						
	Drawdown						
<1 Year	Annuity	100% Liquid assets					
	Drawdown	25% Liquid assets					
Post-vesting	Drawdown						

Asset class categorisation

Asset classes are grouped based on their interaction with each other (ie their correlation) as well as their individual risk/return characteristics. Correlation establishes which investments will move in the same or opposite direction in certain market conditions and to what degree. The volatility of an investment refers to how far away from the average the rate of return might be in any one year.

Liquid assets

Securities that are expected to remain liquid during periods of market distress or dislocation, sometimes referred to as safe havens. These asset classes are expected generally to display a low or negative correlation to equities. These include cash, sovereign and corporate bonds rated 'AA' or above.

Equity risk assets

This includes all asset classes with a high correlation to equity markets. This not only covers equities globally, but all asset classes which are expected to lose value or become illiquid during periods of market distress. As such, they may offer limited diversification benefit in some market conditions. These include corporate bonds with ratings below 'AA', emerging market debt, all equity markets, private equity, listed property funds, industrial commodities and some hedge fund strategies.

Diversifying assets

Diversifying investments may display higher volatility of returns than liquid assets. However, only asset classes which demonstrate a lack of strong correlation to equity markets over market cycles will be included in this classification. These include precious metals and agricultural commodities, most hedge fund and absolute return strategies as well as certain infrastructure and property investments.

The list of asset classes shown in these classifications is by no means comprehensive and, from time to time, some assets can behave more like those in another grouping. However, these investments and how they are generally classified give the member an idea as to what type of asset could be found in each of the three categories.

Vesting

Pre-vesting

We will contact you and your financial adviser on the 5th, 3rd and 1st year anniversaries prior to date of vesting to review the suitability of the existing investment strategy. This is governed by the anticipated method of vesting (annuity/drawdown) and time to vesting as well as your appetite for risk and Investment Objectives.

Post-vesting

Existing drawdown rules offer considerable flexibility. As such asset allocation for a pension providing benefits post vesting is a complex issue where there are many different objectives. We recommend that you seek regular pension advice to ensure that income requirements are met.

The Rathbone pension asset allocation framework provides guidance for Investment Managers and allows sufficient flexibility to meet individual Portfolio requirements. These are not model portfolios and your manager does not have to adhere rigidly to specific asset allocation weightings. The outcome of our regular internal monitoring is reported to your Investment Manager who uses this information to assist Portfolio construction. Further information on the Rathbone Investment Process and our internal SIPP monitoring procedures are available from your Investment Manager.

To ensure ongoing suitability of Portfolio strategy, it is essential that Investment Managers are kept informed of any change in scheme members' circumstances that may have an effect on Portfolio requirements.

Rathbones
Look forward