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It should not be distributed to, or relied upon by, retail clients.

Risk questionnaire and asset allocation tools

Technical Guide for Elevate

Standard Life

There's a lot to look forward to

Contents

Please refer to the section 'Glossary' for an explanation of the words shown in bold.

Introduction

This guide is designed for use by financial advisers and regulated financial advisory businesses. You should read this if you or your business uses, or intends to use, the Attitude to Risk (ATR) Questionnaire or the asset allocations provided by the ATR Questionnaire to build your own model portfolios.

This guide provides a technical overview of the risk and asset allocation tools available from Elevate. It covers the methodology that underpins them, in order for you and your business to understand and assess whether it is suitable for use with your customers.

This guide is not directed at retail customers and should not be relied upon by prospective investors.

We would anticipate that firm principals, individuals or committees responsible for investment processes and governance would read and understand this document prior to adopting any of the tools or related investment solutions mentioned in this guide.

Who provides the tools available from Elevate?

Elevate provides access to a risk assessment tool that has been developed in conjunction with EValue and efficient portfolios (asset allocations) for each risk profile that are provided by EValue.

EValue are a professional services firm with expertise in the areas of risk, asset allocation, stochastic modelling and financial planning tools.

Limitations of the risk & asset allocation tools

Any tool has limitations. It is very important for you and you firm to recognise the specific limitations of the risk and asset allocation tools available from Elevate and consider these in the suitability assessment process.

The limitations of the ATR Questionnaire can be found on Page 5. The limitations of the asset allocation model can be found on Page 15.

What are your responsibilities?

The Financial Conduct Authority (FCA) requires financial advisory firms to obtain sufficient information about a customer to form a personal recommendation.

This information is required in order to make advised decisions when selecting investments that meet the customer's needs and circumstances and FCA requirements.

Firms remain responsible for assessing suitability, including assessing the risk a customer is willing and able to take, and ensuring investment selections are suitable, even when using tools.

The assessment of risk is therefore an important part of the 'Know your customer' process. Firms need to have a robust process in place for assessing the risk a customer is willing and able to take and for ensuring investment selections are suitable. Tools may be used to support such processes.

However, where tools are used, it is the responsibility of the firm to ensure they fully understand how the tools work. Firms need to recognise where a tool has limitations and consider these in the suitability assessment process. This includes having an informed discussion with the customer to clarify the risk they are willing to take and to check the customer's understanding of such risk.

You should only use the risk and asset allocation tools referred to in this guide if you are satisfied that they are appropriate and fit for purpose for you, your firm and your customer base.

FCA guidance

The FCA has issued guidance on factors advisory firms should consider when assessing risk for its customers. The regulator has historically highlighted a number of issues and concerns with the practices in use and has previously recommended improvements in a range of areas, the details of which can be found on the FCA website: **www.fca.org.uk**

The FCA has suggested matters for consideration when adopting third party tools and we have detailed here some related points for consideration

A consistent approach to assessing risk

It is important that customers' attitude to risk is assessed in a structured and consistent way as part of the 'Know your customer' process. Tools are available to support this process.

Establishing a starting point

The outcomes of an ATR Questionnaire are a starting point for a more detailed conversation between you and your customer and should not be relied upon as the sole means to assess risk.

Understanding tools

Advisers and firms must have a solid understanding of any tools they use to help them define the level of risk a customer is willing to take. Elevate is able to provide sufficient information about its risk questionnaire and asset allocation tools and the methodology that underpins them. This will help the user to understand how the tool works, whether it is appropriate to use with their customers, what its limitations are and how to explain the outcomes to their customers.

Considering individual goals

Whilst the ATR Questionnaire captures overall risk attitude, it is likely that your customer's risk tolerance will actually vary by investment and any specific goals that may apply. When explaining the questionnaire to your customer you should consider these points and discuss them with your customer in relation to:

- **Term -** The longer the intended term of the investment, the more capacity there is to tolerate short term volatility. However, this will depend on your customer.
- **Capacity for loss -** The customer's ability to lose their investment money without it affecting their standard of living. This is the customer's ability to take risk, whereas their attitude to risk is their willingness to take risk. (A customer may have a very high attitude to risk, but may not be able to invest funds as these are required for their daily living costs).
- **Other risks -** The ATR Questionnaire assesses the general level of investment risk that a customer is willing to accept within their investment portfolio. It does not define risk precisely. When selecting investments for customers it is important for advisers to take into account relevant risks such as inflationary risk, counter-party risk and risks arising from a lack of diversification.

The outcomes of an ATR Questionnaire are only intended as a guide. If you choose to base your customer's investment portfolio on the results, you should satisfy yourself that the investment portfolio chosen is in line with your customer's broader requirements and goals of which their attitude to risk is only one factor.

The Elevate risk assessment tools

The Elevate risk assessment tools incorporates a psychometric Attitude to Risk (ATR) Questionnaire. Once completed it assigns a risk rating, which in turn has a corresponding risk description to help when discussing the results with your customer.

The questions within this questionnaire have the same importance. The risk ratings are also coupled with a corresponding set of suggested optimised asset allocations, which may be used to construct an investment portfolio.

This data is made available both within the risk assessment tool and the Risk Report.

What is the Attitude to Risk (ATR) questionnaire?

The ATR Questionnaire has been designed to capture your customer's overall attitude to risk.

The ATR Questionnaire is provided by EValue, and the risk descriptions and Risk Report are provided by Elevate.

The questionnaire consists of 18 questions that are scored to produce a risk rating between either 1 and 7 or 1 and 10, depending on which risk scale your business selects to use.

In order to assist with the interpretation of these risk ratings, Elevate has produced a series of risk descriptions. Each of the risk ratings maps to a description, which can be used to test that you are comfortable with the result in collaboration with your customer, taking into account your knowledge of your customer's circumstances.

How to use the tool

It is important that a customer's attitude to risk is assessed in a structured and consistent way as part of the 'Know your customer' process and the Elevate risk assessment tool can support this.

The Elevate risk descriptions set Risk Profile 1 at 100% cash, recognising that customers with a very low risk tolerance should not normally consider any risky assets (please note that other investment risks, including counterparty risk and inflation, still apply).

The ATR Questionnaire should be answered by the customer without intervention or assistance, in order to get a more accurate picture of the customer's attitude to risk. Explaining investment risk to a customer before completion of the questionnaire may alter the result, in the same way as giving a guide about behaviour and personality before answering a personality questionnaire could also affect the results.

You should review your customer's responses, as well as the rating achieved, to check whether there are any answers they have given that seem contradictory to the overall risk rating or to their needs. The outcome of the questionnaire is not intended to be used in isolation. The questionnaire answers and results need to be considered whilst taking many other factors into account and the result should form a starting point for a more detailed 'Know your customer' conversation. There is no substitute for the expertise and understanding a regulated financial adviser brings to this process.

How flexible is the tool?

Elevate provides versions of the tool that can be used online and offline. All versions of the tool use the same set of ATR questions and a corresponding set of suggested optimised asset allocations. All versions are reviewed and updated at the same time to ensure that they are synchronised.

You can use the tool in a format that suits you:

- **Web app** – **riskapp.elevateplatform.co.uk** - this can be used online and offline
- **On Elevate** – integrated with the Elevate Wrap platform for new and existing clients
- **Paper** – downloaded from the Literature tab of Elevate.

What are the limitations of the questionnaire?

As with any tool, the ATR Questionnaire has limitations that you need to be aware of, and compensate for, as part of your 'Know your customer' process. The risk ratings and related descriptions are not specific to any individual and are meant as a guide only.

Specific limitations to consider and discuss with your customer are listed below.

- It takes no account of investment term.
- It is limited to assessing a customer's attitude to investment risk and not their ability to take investment risk or their capacity for loss.
- ATR Questionnaires assess the general investment risk the customer is willing to accept within their investment portfolio. Specific risks such as inflationary risk, counter-party risk and risks arising from a lack of diversification should also be taken into account.
- The ATR Questionnaire assesses the customer's attitude to risk at a moment in time. A customer's attitude to risk should be revisited regularly to check whether adjustments should be made and assess what impacts this may have on their investments.
- The ATR Questionnaire does not validate the responses provided and highlight contradictory responses.
- The ATR Questionnaire provides no guidance as to the closeness of the client's overall risk attitude to the adjacent lower or higher risk category.

When reviewing the questionnaire with your customer you should consider the overuse of 'middle ground' responses. Potentially when a customer often defaults to a middle ground question, this can be a sign of not understanding the question.

Whilst the ATR Questionnaire captures overall risk attitude, it is likely that your customer's risk tolerance will actually vary by investment and any specific goals that may apply.

When explaining the ATR Questionnaire to your customer you should consider these points and discuss them with your customer, specifically in relation to their capacity to accept investment risk in relation to their own circumstances.

If you choose to base your customer's investment portfolio on the results, you should satisfy yourself that the risk level is in line with your knowledge of your customer's attitude to investment risk, given the goals for this particular investment.

The questions and mapping of scores

A psychometric ATR Questionnaire is designed to use proven techniques to provide a guide as to how a customer 'feels' about risk.

Your customer will be allocated a risk rating between 1 and 7 or 1 and 10. In order to assist with the interpretation of the risk rating, Elevate has produced a series of seven risk descriptions, where each risk rating maps to a description. These can be used to test that you and your customer agree with the result, given your knowledge of each customer's circumstances.

Mapping of the risk categories to each of the risk scales

1-10 Risk Scale	Risk descriptions 1-10 Scale
1	Lowest
2	Low
3	Low
4	Low Medium
5	Medium
6	Medium
7	Medium High
8	High
9	High
10	Highest

1-7 Risk Scale	Risk descriptions 1-7 Scale
1	Lowest
2	Low
3	Low Medium
4	Medium
5	Medium High
6	High
7	Highest

What are the risk descriptions?

The risk descriptions associated with the risk ratings are described below and should be used as a guide to help your customer understand the potential risks.

Once you have discussed investment risk with your customer you may decide that the results of the ATR Questionnaire are not in keeping with your knowledge of your customer's attitude to investment risk, given the goals for this particular investment.

In this instance, you will need to ascertain an appropriate level of risk to take using alternative methods. You may wish to discuss investment risk in more detail or use alternative modelling methods, such as stochastic modelling and lifetime cash-flow planning.

Once you have determined the appropriate level of risk for your customer, you may wish to amend the level of risk within the tool to reflect this.

Risk Scale 1-10	Risk Scale 1-7	Risk Category Name	Description of risk
1	1	Lowest	• You don't want to risk your capital or take any risk with your money • You understand that inflation may reduce the real value of your investment • Investing is not appropriate for you
2	2	Low	• You're prepared to move away from investing in cash and to accept some investment risk in return for potential growth • You're prepared to invest in a variety of non-cash assets which can include exposure to shares • You accept that growth prospects are limited • You understand your investment value will fluctuate which could mean you may get back less than you invested
3		Low	
4	3	Low Medium	• You're prepared to accept investment risk in return for potential growth • You're prepared to invest in a wide variety of assets, including exposure to shares • You're aware this will increase the amount your investment will fluctuate in value • You could get back less than you invested
5	4	Medium	• You're looking for a balance of risk and reward with the potential for higher returns in the longer term • You will invest in a wide variety of assets • You're prepared to accept that the value of your investment will fall and rise in value and you could get back less than you invested
6		Medium	
7	5	Medium High	• You're prepared to accept a high level of risk on your investment with the potential for higher returns in the longer term • Typically, you will invest in a wide variety of assets • You're prepared to accept that this will increase the risk of large fluctuations in your investment value • You understand there's a possibility you may lose some or all of your capital
8	6	High	• You're prepared to accept a very high level of risk on your investment with the potential for very high returns in the longer term • You understand there may be sharp, day to day fluctuations in your investment value • You accept there is a risk of losing some or all of your capital
9		High	
10	7	Highest	• You are an experienced investor with a good understanding of the risk/reward balance • You understand your investment is exposed to a significant level of risk • You know your investment is exposed to significant and very sharp day to day fluctuations • You accept there is a risk of losing some or all of your capital

Amending the level of risk and the Risk Report

The tools provided by Elevate produce a customer facing report 'Investment Risk Questionnaire Report' (referred to as Risk Report within this document). The Risk Report explains the intention of the ATR Questionnaire and the outcome of completion, including, risk rating, risk descriptions, suggested optimised asset allocation and each of the questions including the answer the customer selected.

The outcomes of the ATR Questionnaire are only intended as a guide and you may determine that a lower or higher risk description is more appropriate for your customer. We would anticipate the Risk Report forming part of the record of your reasons for agreeing or amending the risk rating, as this may be used for your customer's and your own records.

If you choose to amend the risk rating, this will be captured both on the tool and within the Risk Report. You can also input the rationale behind the change and this will be transposed into the Risk Report.

If you use the ATR Questionnaire on the Elevate platform the rating and report will be automatically stored on platform for future reference.

If you use the ATR Questionnaire, web app we recommend you email yourself the Risk Report to maintain a compliant audit trail for your records.

What are the suggested optimised asset allocations?

For each of the risk rating outcomes of the ATR Questionnaire, EValue calculate example asset allocation portfolios based on EValue's asset model. These are 'efficient' portfolios which, for each given level of tolerated risk, offer the highest average expected returns based on the outcomes of EValue's asset model. As the model is stochastic, it's based on probabilities, not on certainties, as is true of investment markets themselves.

The model's assumptions are reviewed on a quarterly basis. At this point, the variables are reviewed by EValue in order to re-run their asset model. This quarterly review is likely to lead to a revised efficient frontier and with it revised asset allocations. However, in practice, as the portfolios are optimised for long term investment they are not expected to change significantly.

The updated asset allocations are added to Elevate each quarter, on the first working day of January, April, July and September. Each update will be in arrears. For example, the July update to Elevate will use the April asset allocation data provided by EValue.

For the latest asset allocations, please refer to the EValue efficient portfolios update on the Literature tab of Elevate.

Certain assumptions are required to ensure the model produces asset allocations suitable for each risk profile. Please refer to the 'What restrictions has Elevate placed on the asset allocations?' on page 13 which explains the asset class limits and how they change with the level of risk.

Modern Portfolio Theory (MPT)

Asset allocation models commonly rely on MPT and the use of stochastic models to define the risk/reward characteristics of particular assets.

What is MPT?

Modern Portfolio Theory is a generic term covering the development and management of investment portfolios. Research originated from Professor Markowitz in the 1950s and was further advanced by academics Fama and French.

At the heart of MPT is an understanding of the characteristics of each asset class and how to blend them to create a portfolio that minimises the risk for any given return or maximises the return for a given level of risk. This series of possible outcomes is represented by the efficient frontier which plots 'optimised' portfolios against a measure of estimated risk and estimated return.

Producing the efficient frontier requires knowledge of the characteristics of underlying assets that are used within a portfolio and an expectation of how these characteristics will change over time. The calculation of the expected returns and the expected risk of the considered asset classes can be performed using stochastic modelling which attempts to model the real world. To do this, the model must include a vast number of assumptions and run a very large number of different scenarios (which are all equally likely) to produce a range of possible outcomes for each asset class included in the model.

The asset allocations available on Elevate are reliant upon stochastic modelling and the assumptions inherent in the development of MPT itself. If the model, based on EValue's asset model, or the key assumptions below do not fit your requirements or beliefs, then the optimised portfolios made available by Elevate should not be used.

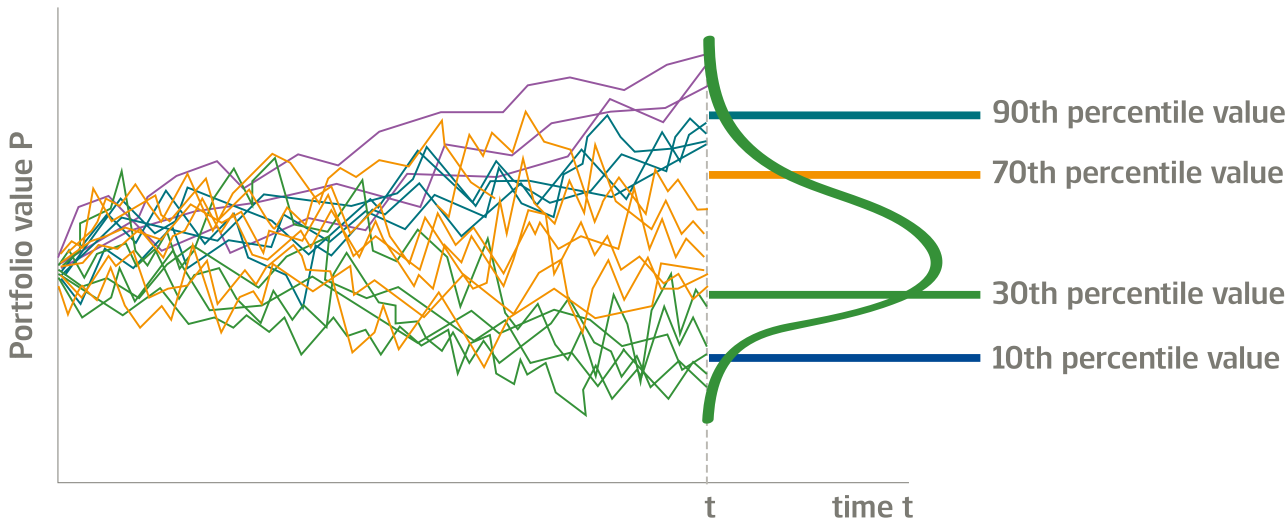
Combining assets that perform and behave differently from one another provides diversification in a portfolio, which reduces volatility. The aim is to provide a diversified portfolio with less volatility than the weighted average of the volatilities of its component parts. This is achieved by combining assets that have low 'correlations'. The lower the correlation between two assets, the more out of sync they are in how they behave, and the lower the standard deviation of any portfolio that combines them.

One option is to combine assets with negative correlation. These assets would perform in opposition to one another, effectively cancelling each other out and reducing volatility in the portfolio even further.

The primary role of the stochastic model is to provide a reasonable range of equally likely forecast future outcomes. The assumptions within the model and how the model actually constructs its answers are critical to the quality of the outcomes produced.

EValue's asset model considers not only a range of asset classes, but also the global impact of its assumptions, on both currencies and economic trading areas. Every three months, the model parameters are reviewed not only in relation to what has happened, but how they may be impacted in the future.

Fig. 1 – An example of scenarios generated by stochastic modelling



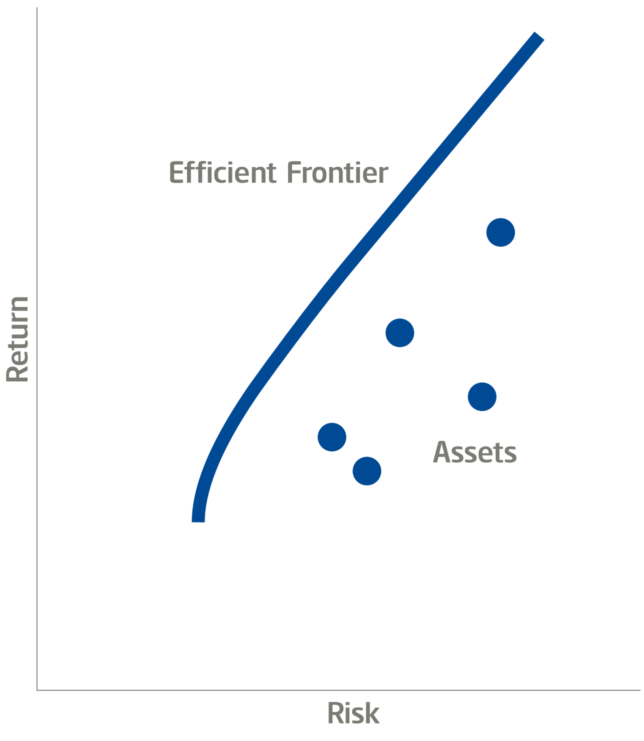
Key assumptions

- The portfolios are optimised over a single time horizon (Elevate's model is designed for an 11 to 15 year term which is based around a central 13 year term).
- Investors prefer more money to less.
- Investors require an increased expected return for accepting more risk.
- The attractiveness of any potential investment is measured using its expected return and standard deviation (the degree of movement in the return over a specified period measured against the expected return).
- At some point, a disproportionate amount of risk may be required to generate any improvement in returns.

The efficient frontier is a theoretical line that is generated by connecting the portfolios with the highest expected return for each level of risk. It should not be considered as the answer for any particular customer at any particular point in time, without more detailed 'Know your customer' considerations.

The diagram below illustrates the efficient frontier. The dots represent portfolios that are not efficient; it is possible to achieve higher returns for a given level of risk by using different assets to increase the diversification of the portfolio.

Fig.2 - Illustration of an efficient frontier



In theory no investments will 'beat' the efficient frontier produced by any particular model. On the other hand, portfolios could lie above the line if they are built using asset classes not included in the original model or if they disregard investment limits embedded in the original model e.g. max 10% in a specific asset class (see page 14). In practice these portfolios are unlikely to be considered suitable for investment as they are not built according to the general model guideline. However, the actual performance of a portfolio can vary due to the wide range of possible real-life outcomes. Naturally, different models will produce different efficient frontiers.

How is risk measured?

One measure of risk in investments is the standard deviation of investment returns, i.e. by how much returns could differ from their long-term average rate of return over a given period. This is the measure of risk that we have adopted within the Elevate tools.

Assets and investments with higher standard deviations may be thought of as more risky, because their higher volatility means there is more potential for both larger upwards and downward movements in price, and therefore value. Historically, equities have had a higher standard deviation of returns than fixed interest.

Risk has both an upside and a downside and this statement underpins MPT. If a higher return is required, then this generally requires the acceptance of higher risk as measured by standard deviation. It is possible to reduce the risk by introducing other assets; 'diversification'. More time typically makes the acceptance of increased investment risk more tolerable.

What is EValue's asset model?

EValue's asset model adopts a 4-stage approach. This is summarised below.

Primary Variables	Variables at the top of the cascade have a clear economic interpretation and describe general economic conditions: inflation, interest and economic growth rates.
Intermediate Variables	Intermediate variables depend on primary variables and are convenient building blocks, for example: currency rates, equity returns and credit spreads.
Final Variables	Final variables relate to the specific behaviour of assets e.g. intermediate corporate bond returns and international equity portfolio returns.
Derived Asset Models	Using all the variables in the model, a wide range of additional asset classes can be constructed.

The actual factors used within the model are heavily based on macro-economic data. The starting point is the Primary Variables, which then link to further variables in a cascade effect to derive the asset model.

The way these variables interact within EValue's asset model relies heavily on academic work in the field. The expected behaviours of the relevant asset classes generated by EValue's asset model can then be used to produce a series of risk-optimised portfolios along the efficient frontier.

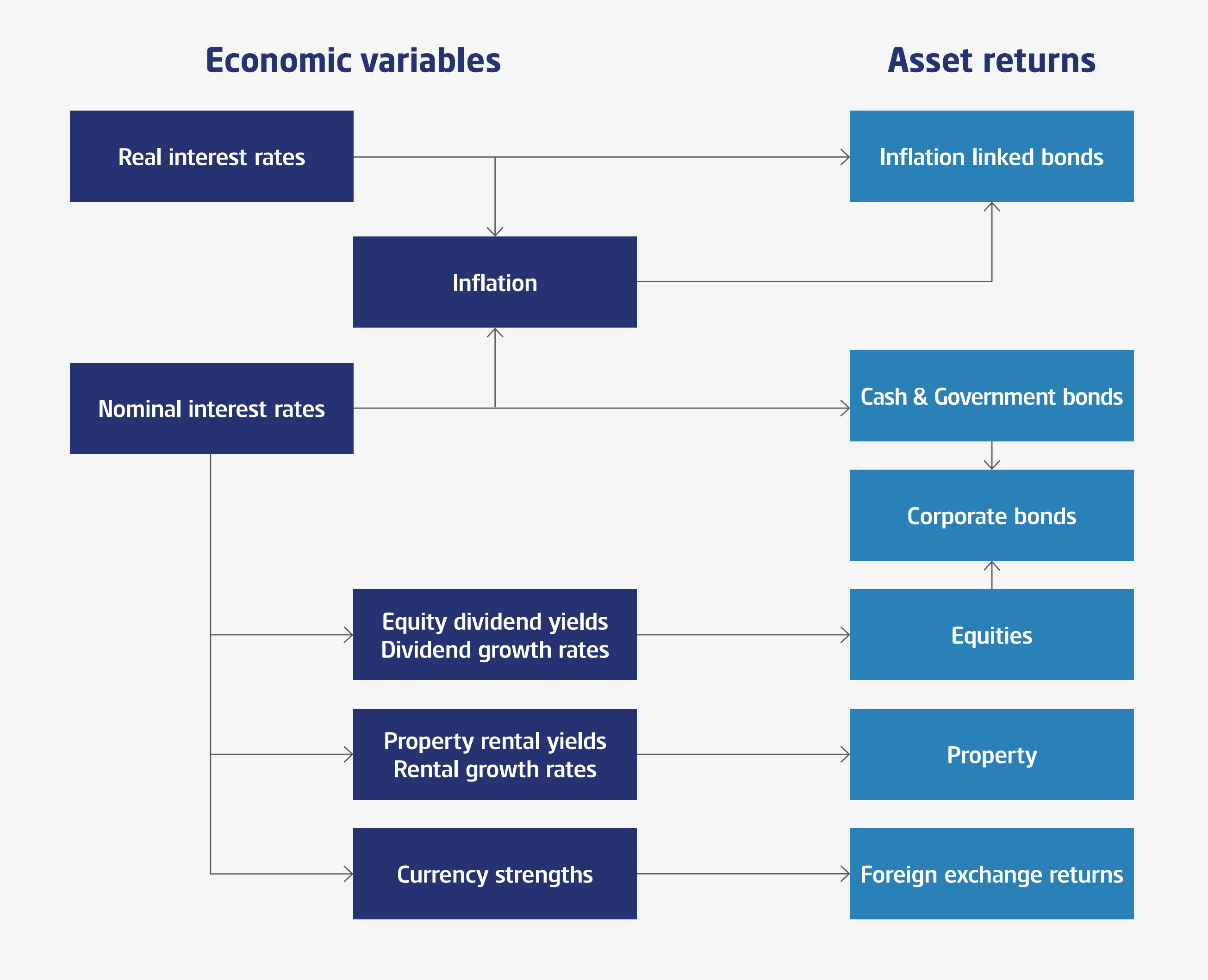
To ensure the model continues to represent an accurate view of the current environment and by association the future, its variables are reviewed quarterly by a specialist team. Through this continuous monitoring of the factors that drive the model and use of external expertise, EValue intend to ensure outcomes that are both a current and relevant representation of risk and reward.

Why does Elevate use EValue's asset model?

EValue's asset model was chosen because Elevate believes that its stochastic model offers sensible and consistent outcomes. We are confident it achieves this based on EValue's experience and the methodology it adopts. This includes its continuous review and the quarterly evaluation of the model's variables.

Any model is only suitable if it reflects the environment it is trying to predict. EValue's asset model offers a robust view of possible investment scenarios. It does this by linking economic events to capital markets, recognising how different regions as well as assets react and taking into account that 'shocks' increase correlation during downturns.

Structure of the EValue asset model



Factors used within EValue's asset model

- The Interest Rate Model is the starting point for deriving the returns on all the other asset classes.
- The Inflation Model is integral which means that nominal and real returns are consistently derived.
- A sophisticated Equity Model which incorporates an allowance for sudden market drops.
- A sophisticated Corporate Bond Model allows portfolios of bonds of different term and credit rating to be modelled with confidence.
- The Commercial Property Model links property prices to economic growth so projected combinations of returns from different asset classes are consistent.

The tools available to you on Elevate are simply a starting point. They are not offered, and should never be considered, as the only answer. Elevate is comfortable with offering EValue's ATR Questionnaire and related optimised portfolios because of the expertise, robustness and continuous review that comes with the model and processes. These tools and the asset allocations they provide may be discussed and form the basis of the investment solution for your customers.

Volatility and asset mapping

Elevate offers the choice of either a 7 or a 10 risk scale, but both use the same model and the same efficient frontier.

Further information regarding the Attitude to Risk (ATR) Questionnaire and the mapping to the risk scales is in 'The risk assessment tool' section on page 6.

Target standard deviation in comparison to cash

1-10 Risk Scale	Min	Max
1	Cash	
2	0.0%	7.8%
3	7.8%	8.7%
4	8.7%	9.6%
5	9.6%	10.7%
6	10.7%	12.0%
7	12.0%	13.3%
8	13.3%	14.8%
9	14.8%	16.5%
10	16.5%	

Data at April 2018

Producing optimised portfolios for each risk band can be achieved in many ways. In order to be effective, certain decisions need to be made such as the time horizon and which asset classes are being used. These decisions will affect the composition of any portfolio to match a specific risk profile.

Additionally, the behavioural elements of investment must also be considered to produce a series of portfolios that are relevant to customer needs. Portfolio theory could rightly suggest that large holdings of very volatile assets can be matched with negatively correlated assets to produce a low-risk portfolio, however a cautious investor would expect to see a more balanced and less aggressive approach to asset allocation.

1-7 Risk Scale	Min	Max
1	Cash	
2	0.0%	8.5%
3	8.5%	9.9%
4	9.9%	11.7%
5	11.7%	13.7%
6	13.7%	16.1%
7	16.1%	

Data at April 2018

The target risk bands are expressed as annualised standard deviations, as shown in the tables above and will be subject to change on a quarterly basis.

What are the asset classes?

The suggested asset allocation portfolio will comprise six asset classes defined by Elevate.

The Elevate asset classes are deliberately broad in order to provide stability to the model portfolios. This should avoid significant changes over short periods and with it the need for frequent rebalancing.

When deriving its optimised portfolios, the model takes into account a large number of asset classes, which are then mapped to the six high-level asset classes shown below.

Money Market (Cash)	Deposit based investments that pay interest held with institutions such as banks and building societies.
Property	Commercial property being offices, warehouses and shops.
Fixed Interest	Investments that pay a fixed income such as bonds offered by governments or corporations.
UK Equity	Shares in companies listed on the UK Stock Exchange.
Developed Market Equities	Shares in companies listed on stock exchanges outside the UK. The countries involved will have high standards of control and regulation such as the US, Europe, Japan and Australia.
Emerging Market Equities	Shares in companies listed on stock exchanges outside the UK. The countries involved will generally be fast growing and may have a less mature market structure for the trading of stocks and shares.

What restrictions has Elevate placed on the asset allocations?

Elevate will adopt the standard EValue model as closely as possible. The areas you will see some tailoring are:

- Risk profile 1 is 100% cash. This captures customers who have no appetite for investment risk
- The standard EValue model rounds asset allocations to the nearest 0.5%. Elevate will round to the nearest whole percentage point.

Asset allocation limits in percentage terms

Maximum proportions allowed in each asset class (1-7 Risk scale)

Portfolios	Cash	Fixed Interest	Property	UK Equity	Dev Mkt Equity	EM Mkt Equity
1 of 7	100%	0%	0%	0%	0%	0%
2 of 7	100%	100%	7.5%	100%	100%	0%
3 of 7	100%	100%	10%	100%	100%	0%
4 of 7	100%	100%	10%	100%	100%	0%
5 of 7	100%	100%	10%	100%	100%	5%
6 of 7	100%	100%	10%	100%	100%	7.5%
7 of 7	100%	100%	10%	100%	100%	15%

Maximum proportions allowed in each asset class (1-10 Risk scale)

Portfolios	Cash	Fixed Interest	Property	UK Equity	Dev Mkt Equity	EM Mkt Equity
1 of 10	100%	0%	0%	0%	0%	0%
2 of 10	100%	100%	5%	100%	100%	0%
3 of 10	100%	100%	10%	100%	100%	0%
4 of 10	100%	100%	10%	100%	100%	0%
5 of 10	100%	100%	10%	100%	100%	0%
6 of 10	100%	100%	10%	100%	100%	0%
7 of 10	100%	100%	10%	100%	100%	5%
8 of 10	100%	100%	10%	100%	100%	5%
9 of 10	100%	100%	10%	100%	100%	10%
10 of 10	100%	100%	10%	100%	100%	15%

What investment horizon is used?

Another key assumption to the model, and important factor in considering the optimised portfolios, is the investment period. Elevate's model is designed for an 11 to 15 year term which is based around a central 13 year term. This horizon was chosen as it was decided that an 11 to 15 year time span would suit the characteristics of a long term investor using this model.

The impact time has upon attitude to risk and especially the capacity to accept an investment loss is a key consideration in the use of any tool because it must fit the context of a customer's individual circumstances and any specific goals.

What are the limitations of the model?

The model is based on forecasts that cannot predict actual events and is no substitute for an experienced adviser. However, it can be a powerful aid for exploring customer appetite for risk. As with any model this approach has its limitations, including those outlined below.

A point for consideration is that the portfolios produced by the model are designed to produce returns consistent with the efficient frontier. This requires acceptance that achieving the targeted return is sufficient, rather than the higher returns that might be available if accepting the increased risk of investing in, for example, a single asset class.

Limitations of the model

- It does not consider product risks
- It only provides suggested portfolios at a high level, which are based on the asset classes defined
- A particular investment within that asset class may have very different risk and return characteristics than those assumed for the high level asset class.
- It excludes the practical implications of providing an investment solution, such as taxation and specific product charges
- It does not consider the customer's capacity for loss
- It is aimed at UK resident retail customers
- The model is designed for an 11 to 15 year term which is based around a central 13 year term
- The model assumes annual rebalancing to the optimised asset allocations. This is not possible in practice (regular rebalancing is possible).

Using the risk assessment to support portfolio construction

Does Elevate allow me to build and maintain my own model portfolios?

Elevate has functionality which provides you with the ability to create model portfolios that can be defined at client, adviser or firm level.

Adviser Model Portfolios:

- Created and managed at adviser or adviser firm level
- Can be applied across a number of different clients and wrappers
- Enables efficient investment for clients with similar needs

Client-specific Model Portfolios:

- Created and managed at firm or adviser level
- Applied to one client only but can be used across different wrappers in the same client account

The asset classes used in the EValue example portfolios are broad, allowing you to use your discretion and knowledge of your customer's needs to tailor an appropriate portfolio for their circumstances.

How do I use asset allocations as a starting point?

When building investment portfolios using actual investments, you should be mindful that the expected risk/return characteristics of the investments you select could deviate significantly from the example portfolio, even if the underlying broad asset classes are the same.

In addition, it is important to consider that portfolios designed to correspond to the EValue model, need to be monitored to ensure they continue to match the example asset allocations for the customer's risk profiles.

Over time, customer portfolios can become out of sync with the example asset allocations meaning that they may no longer meet the intended risk profile. These portfolios will need to be monitored and reviewed regularly to ensure they continue to represent the risk profile the customer is comfortable taking.

These considerations are important when you are building a portfolio of individual investments or using Elevate's model portfolio functionality to build an investment portfolio using the optimised asset allocations as a template.

It is your responsibility to ensure that the actual portfolios you build for your customers are suitable for their needs, and continue to be suitable for their needs, during the time they hold it.

For example, if building an investment portfolio of funds:

- A fund may invest in a sub-sector of one of the asset classes modelled which has quite different expected level and variability of returns from that of the generic asset class
- A fund may be managed actively, rather than passively
- A fund may use derivatives to hedge some of the potential risk

It is your responsibility to ensure that the actual portfolios you build for your clients are suitable for their needs.

The information provided is used at your own risk. Elevate does not warrant, represent or guarantee the contents of the information, nor does it accept any responsibility for errors, inaccuracies, omissions or any inconsistencies.

Asset allocation and target risk bands

The suggested optimised asset allocations operate within a target risk band measured by standard deviation.

When building investment portfolios using actual investments, it is necessary to have a detailed knowledge of portfolio construction and the necessary research capabilities to know and understand the behaviour, characteristics and performance metrics of each required asset class. If these factors are not fully considered during construction the resulting portfolio may not match the target risk band.

What are the investment selection considerations?

The FCA requires financial advisory firms to obtain sufficient information about a customer to form a personal recommendation and select investments that meet their requirements. Firms remain responsible for assessing suitability, including assessing the risk a customer is willing and able to take, even when using tools.

There are key points to be mindful of when selecting investments or an investment solution for your customer.

Please note that this is not an exhaustive list, and different risks and considerations may apply in the context of the particular investment or customer you are working with.

Attitude for risk is only part of the picture.	Though it forms an important part of the financial planning process, risk profile should not override your customers' other needs when forming recommendations. Full consideration should be given to customer circumstances, goals and other priorities, including debt repayment for example.
Customers need to understand the risks they are accepting.	Categories are often used to aid customer understanding and help verify that the risk assessment is correct. These descriptions should effectively explain and differentiate the different risk categories.
Consider the breadth of risk categories.	Where categories are broad it may be difficult to assign appropriate investment solutions to customers. In addition, firms should be wary of creating large variances in the risk level taken between consecutive risk categories: for example, options for customers to hold an 'intermediate' amount of equities should be available, rather than a jump from zero to a high proportion in equities.
Aligning investment solutions to risk profiles.	Firms should demonstrate an understanding of the structure and risks of the assets selected and how they match the chosen risk profile.
Ensure other risk factors are considered	Volatility of a portfolio should be one of a range of risks taken into account. The full range of potential risks should be considered, including inflationary risk, liquidity risk, counter-party risk and risks arising from a lack of diversification.
Beware of a 'best-fit' scenario.	The guidance reminds firms that if no suitable investment exists from the range available to them, then no recommendation should be made.

Final considerations

The models and tools available from Elevate are all designed to meet the requirements of a UK resident retail customer with a long-term perspective on investment.

Their use does not take away any of the responsibilities nor expectations required of the adviser/customer relationship and the regulatory environment of the UK Financial Services industry.

What EValue and Elevate are able to offer is a sophisticated approach to the provision of investment solutions as a foundation for building customer specific portfolios. However, suitability must still be determined on a case by case basis, not only at a customer level, but also bearing in mind specific customer goals. Understanding and appropriateness are still relevant considerations.

There are obvious benefits to using the tools provided by Elevate, not least the consistency of approach achieved by undergoing a risk assessment, which produces an appropriate asset allocation to achieve the target return. The FCA has reaffirmed that assessing the customer's attitude to risk remains the responsibility of the adviser and that tools can support a structured and consistent way to do this as part of a 'Know your customer' process.

If the tools and the associated investment solutions are understood and match the customer circumstances, then these can form an important part of your advice process

Get to know us better

We hope you've got a good insight into our platform and the potential benefits it can bring to you and your firm.

If there is anything more you want to know, please contact us.

Call us on 0345 600 2399

Our lines are open 8am to 6pm, Monday to Friday. As part of our commitment to quality service and security, telephone calls may be recorded.

Email us at Elevate_Enquiries@standardlife.com

Please be aware that emails are not secure as they can be intercepted, so think carefully before sharing personal or confidential information in this way.

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