EQ Investors –
Futures Leaders Range
Risk Profile Report

February 2021

Contents

Executive summary

Dynamic Planner has reviewed 6 solutions offered by EQ Investors within the risk profiles used on the Dynamic Planner platform.

The main objective of the Dynamic Planner Risk Profiles and Fund Risk Profiling Service is to provide financial advisers and their clients with a meaningful measure of the long-term investment risk of fund strategies and a mechanism for selecting solutions appropriate for investor risk appetites and capacity for risk.

The profiles which Dynamic Planner has assigned to the solutions are set out in Table 1.

Fund	Assigned risk profile	Profile type
Future Leaders Defensive	3	Risk Profiled
Future Leaders Cautious	4	Risk Profiled
Future Leaders Balanced	5	Risk Profiled
Future Leaders Balanced Plus	6	Risk Profiled
Future Leaders Adventurous	7	Risk Profiled
Future Leaders All Equity	8	Risk Profiled

Table 1: Risk profiles

The information contained in this report supplements methodologies used on the Platform. The report should be used in the context of these methodologies and advice provided on the Platform and not in isolation.

1 Introduction

This report was commissioned by EQ Investors, who contracted Dynamic Planner to assess the appropriate risk profiles for some solutions within the risk profiles used in the Dynamic Planner platform. The following solutions are reviewed in this report:

- Future Leaders Defensive Solution

- Future Leaders Cautious Solution

- Future Leaders Balanced Solution

- Future Leaders Balanced Plus Solution

- Future Leaders Adventurous Solution

- Future Leaders All Equity Solution

The profiles provided in this report are based on Dynamic Planner's Q1 2021 capital market assumptions, which are discussed in appendix A. The risk bands based on Dynamic Planner's assumptions are set out in appendix B.

Dynamic Planner provides this analysis on the understanding that investors will access the solutions through a regulated advice process. The recommendation on whether or not to include these solutions in an investor's portfolio and the amount to include should be made by advisers with the necessary Financial Conduct Authority permission to advise on investments. Dynamic Planner accepts no liability in respect of any advice given to investors relating to investment strategy or the purchase of specific products.

The analysis in this report has been based on data and information provided by EQ Investors and other third parties as set out in the appendices. Data received has been assumed by Dynamic Planner to be correct as of the date of this report.

The following section sets out the results of our analysis and subsequent sections set out the methodology and assumptions in more detail.

2 Investment objectives

A summary of each solution's investment objectives is set out below.

Future Leaders Defensive

This strategy selects passively managed funds that invest in well-run businesses, showing leadership within their sector in managing relevant environmental, social and governance (ESG) risks, and that avoid the most controversial sectors (armaments, tobacco, gambling). This is complemented by the addition of sustainable thematic funds targeting specific positive impacts. This portfolio maintains a bias towards lower volatility investments with equity holdings limited to 40%. It focuses on capital protection with moderate participation in equity market growth and aims to reduce investment risk by diversifying across regions and asset classes.

Future Leaders Cautious

This strategy selects passively managed funds that invest in well-run businesses, showing leadership within their sector in managing relevant environmental, social and governance (ESG) risks, and that avoid the most controversial sectors (armaments, tobacco, gambling). This is complemented by the addition of sustainable thematic funds targeting specific positive impacts. This portfolio maintains a bias towards lower volatility investments with equity holdings limited to 50%. It focuses on capital protection with moderate participation in equity market growth and aims to reduce investment risk by diversifying across regions and asset classes.

Future Leaders Balanced

This strategy selects passively managed funds that invest in well-run businesses, showing leadership within their sector in managing relevant environmental, social and governance (ESG) risks, and that avoid the most controversial sectors (armaments, tobacco, gambling). This is complemented by the addition of sustainable thematic funds targeting specific positive impacts. This portfolio has a range of investments with different risks, where equity holdings are limited to 70%. It aims to reduce investment risk by diversifying across regions and asset classes, and achieve a balance of capital protection and participation in equity market growth.

Future Leaders Balanced Plus

This strategy selects passively managed funds that invest in well-run businesses, showing leadership within their sector in managing relevant environmental, social and governance (ESG) risks, and that avoid the most controversial sectors (armaments, tobacco, gambling). This is complemented by the addition of sustainable thematic funds targeting specific positive impacts. This portfolio has a range of investments with different risks, where equity holdings are limited to 80%. It aims to reduce investment risk by diversifying across regions and asset classes, and achieve a balance of capital protection and participation in equity market growth.

Future Leaders Adventurous

This strategy selects passively managed funds that invest in well-run businesses, showing leadership within their sector in managing relevant environmental, social and governance (ESG) risks, and that avoid the most controversial sectors (armaments, tobacco, gambling). This is complemented by the addition of sustainable thematic funds targeting specific positive impacts. This portfolio maintains a bias towards higher volatility investments, with up to 90% invested in equity funds. It aims to diversify risk by investing across regions and enhance returns through its asset allocation strategy and fund selections.

Future Leaders All Equity

This strategy selects passively managed funds that invest in well-run businesses, showing leadership within their sector in managing relevant environmental, social and governance (ESG) risks, and that avoid the most controversial sectors (armaments, tobacco, gambling). This is complemented by the addition of sustainable thematic funds targeting specific positive impacts. This portfolio is designed for the most adventurous risk profile, with up to 100% invested in equity funds. It is unconstrained by selection criteria within the universe of available equity funds and can make concentrated investments, use sector-specific funds, and invest in any geographic region. As a high-risk portfolio, its performance is expected to be volatile.

3 Analysis and methodology

One of the key tasks for an investor is to determine how much investment risk to take on. This decision will depend on psychological, financial and other factors. The investor will want to maximise the reward for taking on this risk through the selection of optimal weights for each asset category included in the investment portfolio.

Dynamic Planner's asset allocation methodology is based on the principles of modern portfolio theory. The risk profiles provided by Dynamic Planner are risk profiles of the long-term asset allocations adopted for a solution. The actual riskiness over the long term will depend on, among other things, the level of flexibility in the manager's mandate and how far any deviations from the long term position are and for how long.

The measure of risk Dynamic Planner has used for each solution is the estimated volatility as determined using the solution's internal asset allocations along with the estimates of the returns, volatilities and correlations of the Dynamic Planner primary asset classes. The analysis assumes that the actual holdings in each asset class can be broadly represented by the benchmark adopted for that asset.

The investment assumptions used in this review are those set by Dynamic Planner at the start of the fourth financial quarter of 2020. Risk bands based on the Dynamic Planner assumptions (as set out in appendix B) were used to ensure that the profiles assigned to each solution are consistent with profiles and practices adopted within the implementation of the Dynamic Planner platform. This ensures that the profiles can be used with outputs from psychometric risk profiling instruments used within the Dynamic Planner platform.

For the purposes of constructing the efficient frontier, estimating return distributions and profiling solutions, Dynamic Planner splits the investment universe into a range of asset classes.

For each of these asset classes, Dynamic Planner periodically reviews the appropriate set of investment assumptions for forecasting future returns and risk distributions. The assumptions are derived from historical and market data at each review date. Appendix A provides a summary of the methodology used to derive the investment planning assumptions used on the Dynamic Planner platform.

4 Results

The risk profiles assigned to these solutions are based on the tactical holdings as provided by the manager.

EQ Investors provided us with the holdings of the Future Leaders range of solutions since February 2020 and we have used the data to assess the Risk Profile of the solution. We have mapped these to our asset classes and calculated the expected volatilities using our assumptions. These are summarised in the table below.

Fund	Risk boundaries based on tactical holdings
Future Leaders Defensive	3 (4)
Future Leaders Cautious	4 (4)
Future Leaders Balanced	5 (4)
Future Leaders Balanced Plus	6 (4)
Future Leaders Adventurous	7 (4)
Future Leaders All Equity	8 (4)

Table 2: Tactical asset allocation positions

In looking at the Future Leaders Range vis-à-vis the Dynamic Planner frontier, the allocations are positioned well within the risk profile boundaries. This can be seen in Figure 1. The Future Leaders Defensive solution is positioned at the top end of its risk profile boundaries, with it creeping up towards the top end in their most recent allocations. This is due to an increase in allocations to Equities, and a corresponding reduction in Fixed Income, which is barbelled with an increased in Cash allocations. The rest of the solutions have been more stable within the risk profile boundaries, apart from the allocations in the month of Apr-2020, wherein Equity allocations were dropped in the wake of Covid Crash. However, this did not cause the allocations to drop out of their respective risk profile boundaries.
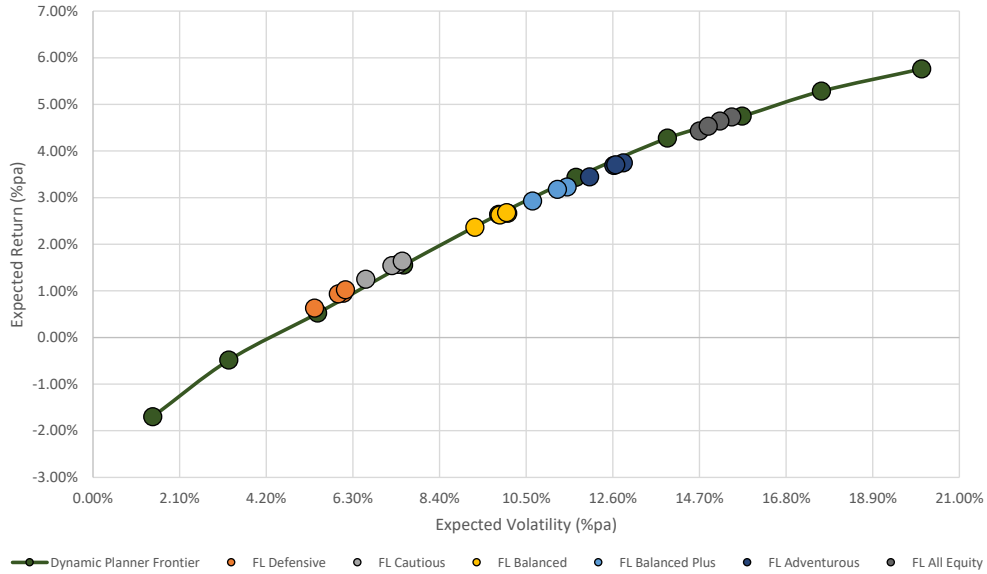
Figure 1: Position of Future Leader solutions vis-à-vis the Dynamic Planner frontier

Figure 2 shows the relative allocations to the broad asset classes across the different Future Leader solutions. As expected, allocation to equities increased as the risk profile of the solutions went up. Fixed Income allocations went from approximately 54% in the Defensive solution, which is profiled a Risk Profile 3, to no allocation in the All Equity solution, which is profiled a Risk Profile 8. Interesting, there is no allocation to any alternative strategies, like Property or REITs or Absolute Return Strategies.
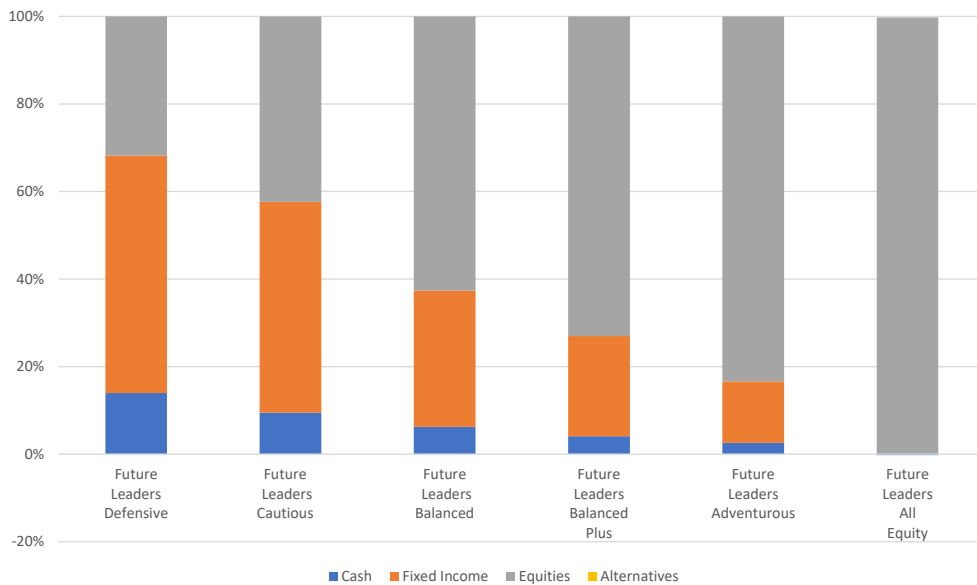
Figure 2: Broad Asset Allocations for the Future Leader solutions

Looking into the Fixed Income allocations, we find that the solutions are not invested in High Yield bonds at all. Across all solutions, the majority of the Fixed Income allocations are to Investment Grade Bonds, followed

by allocations to Government Bonds, with a small allocation to Emerging Market Bonds. Figure 3 shows the allocations to Fixed Income across the solutions.
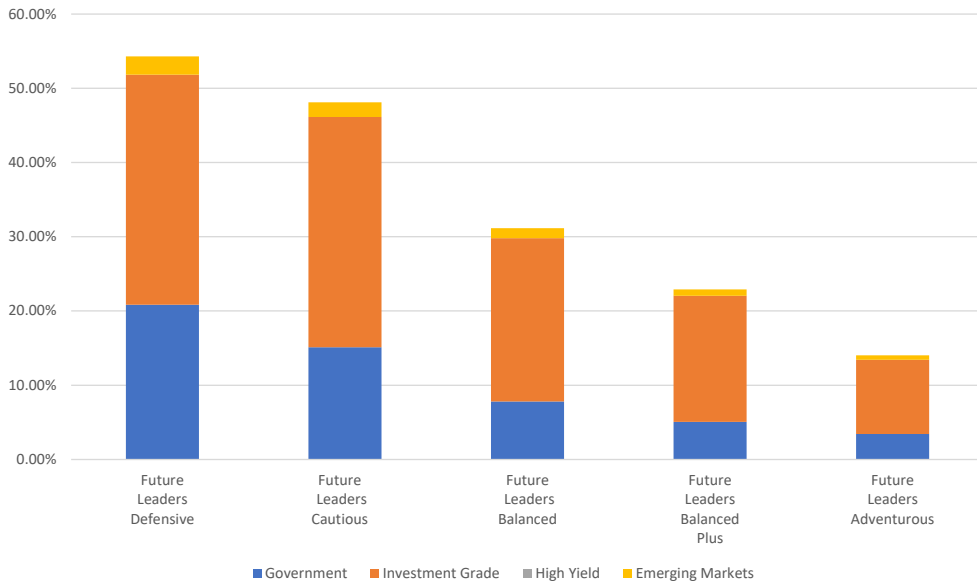
Figure 3: Fixed Income Allocations across Future Leaders solutions

The allocation to Equities goes from approximately 30%, with the Defensive solution to 100% in the All Equity solutions. The proportion of Equities allocated to different regions remains fairly stable across different solutions. The majority of the allocation is in North America, which is around 40%. The rest of the allocations are almost equally distributed within the different regions. Figure 4 shows the allocation to equities across the solutions.
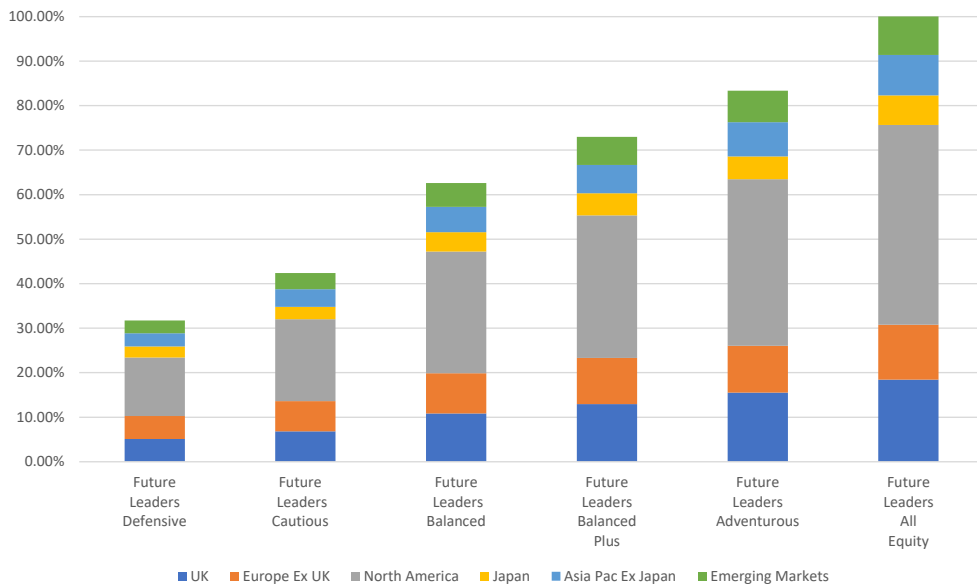
Figure 4: Equity Allocations across Future Leader solutions

5 Summary

In Table 4 below, we summarise the risk profiles of the solutions based on the different measures set out above.

Fund	Assigned risk profile	Profile type
Future Leaders Defensive	3	Risk Profiled
Future Leaders Cautious	4	Risk Profiled
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Future Leaders All Equity	8	Risk Profiled

Table 3: Summary of risk profiles

- Based on the analysis above, we are comfortable with the profiles assigned to the solutions.

- We will continue to assess the suitability of the assigned profiles in our quarterly reviews (QRP).

Appendix A: Investment assumptions

This appendix sets out the method used to generate the planning assumptions used on the DYNAMIC PLANNER platform.

The estimate of returns for equities, property and corporate bonds are calculated as a premium over gilts and then expressed as real returns (i.e. returns in excess of inflation). In addition to analysing historical index data, Dynamic Planner also use the following market data to arrive at expected return assumptions:

- Yields on UK Gilts; conventional and index-linked,

- UK corporate bond yields,

- Yields on global bonds,

- Equity earnings and dividend yields,

- Economic growth forecasts.

Details of the Dynamic Planner estimation methodology can be made available on request.

Appendix B: Risk profile boundaries

The following table sets out the lower and upper volatility boundary for each risk profile used in the implementation of the Dynamic Planner application.

Risk Profile	Volatility of asset allocation	Lower boundary	Upper boundary
1	0.01%	0.0%	2.1%
2	3.28%	2.1%	4.2%
3	5.38%	4.2%	6.3%
4	7.46%	6.3%	8.4%
5	9.60%	8.4%	10.5%
6	11.69%	10.5%	12.6%
7	13.89%	12.6%	14.7%
8	15.85%	14.7%	16.8%
9	17.96%	16.8%	18.9%
10	20.01%	18.9%	21.0%

Table 4: Dynamic Planner Risk Profile boundaries

Source of information

EQ Investors, Hedge Fund Research, World Bank, MSCI Inc, Intercontinental Exchange Data Indices LLC, Henley Business School, Bloomberg LLC, Strategic Frontier Management

Publication date

18/02/2021

www.dynamicplanner.com