

EQ Investors Quarterly Risk Profile Update Note Q3 2023



Summary

Solution	Weighted average asset allocation [^]	Latest historical asset allocation [*]	Comparable DP volatility [†]	Assigned risk profile	Status
Future Leaders Defensive	3 (3)	3 (3)	3	3	
Future Leaders Cautious	4 (4)	4 (4)	3	4	
Future Leaders Balanced	5 (5)	5 (5)	4	5	
Future Leaders Balanced Plus	6 (6)	6 (6)	4	6	
Future Leaders Adventurous	6 (6)	6 (6)	5	7	
Future Leaders All Equity	8 (8)	8 (8)	6	8	
Positive Impact Cautious	4 (4)	4 (4)	4	4	
Positive Impact Balanced	5 (5)	5 (6)	5	6	
Positive Impact Adventurous	7 (7)	7 (7)	7	7	
Positive Impact All Equity	8 (8)	8 (8)	10	8	
Positive Impact Cautious Plus	5 (5)	5 (5)	-	5	

() Analysis based on data to the end of March 2023 are shown in brackets.

[^] The weighted average approach incorporates the strategic asset allocation (if applicable) and the distribution of the historical asset allocations.

^{*} This column provides the position of the expected volatility based on the latest historical asset allocation (i.e. 30 June 2023). The figure in brackets illustrates the position of the volatility based on the previous quarter's allocation.

[†] DP has a set of asset allocation models which are managed to operate within each profile's boundaries. This column compares the annualised rolling volatility of each solution to the DP models and shows which model has been closest since inception. The rolling volatility period in each instance is assessed based on the performance data provided.

Please see Appendix for the Red, Amber & Green status descriptions.

Due to a slight increase in exposure to equity markets, the expected volatility for the Future Leaders Adventurous marginally increase towards the end of the quarter, however, the solution continues to remain below the lower boundary of its risk profile. Therefore, the solution remains on Amber status.

The *Positive Impact Balanced* solution now lies marginally below its assigned risk profile. This can be attributed to our model forecasting changes to asset class volatilities and correlations rather than changes in asset allocation. Because of this, we see no cause for concern and retain the funds Green status.

All remaining solutions remain on Green status.

We have based our review on the approach that was agreed at the start of the risk profiling service and used the DP capital market assumptions for Q3 2023. There have been no changes to the risk profile boundaries this quarter.

Comments from previous quarters

Q2 2023

This quarter, the *Future Leaders Adventurous* fund has seen a rise in expected volatility due to the increase in exposure to North American large cap equity. However, the solution continues to remain below its assigned risk profile. Therefore, we have maintained the Amber status and will continue to review in the coming quarters.

The *Positive Impact Balanced* solution has now returned to its risk profile and therefore, its status returns to Green.

All remaining solutions remain within their assigned boundaries and in turn, remain on Green status.

Q1 2023

The *Positive Impact Balanced* and *Future Leaders Adventurous* solutions continue to remain below their assigned risk profiles and therefore, remains on Amber status.

All remaining solutions remain within their assigned boundaries and in turn, remain on Green status.

Q4 2022

Positive Impact Range:

While on Green, it is worth noting that the *Defensive* solution has marginally breached the lower boundary of risk profile 4 in September. The fund has seen its risk level reducing since April. This is caused by the reduction in exposure to equity markets. Due to current market conditions we are not materially concerned as of now, however, we will continue to monitor going forward.

The *Balanced* solution has continued to see expected volatility fall. The decrease in risk can be attributed to diversification over the last 6 months. The fund has increased its exposure to alternative investments such as property, REITs and commodities as well as to bond markets, more specifically, investment grade sovereign debt. This combined with reducing exposure to large cap equities has caused the aforementioned diversification. For this reason, the fund continues to remain on Amber status.

During September, the *Adventurous* fund marginally breached the lower boundary of risk profile 7. As expected volatility hasn't fallen considerably since the previous quarter, we will retain its Green status and monitor its risk level in the coming quarters.

The remaining solutions in this range lie within their assigned boundaries and are therefore on Green status.

Future Leaders Range:

The *Adventurous* fund had a slight change of composition in August. Now the solution has less exposure to equity markets and is more exposed to investment grade sovereign bonds. Due to this significant change in risk level, we have placed the solution on Amber status. We will continue to monitor this fund and evaluate if this level of risk is to be maintained long term.

Each of the remaining solutions retain their Green status.

Q3 2022

Positive Impact Balanced:

This fund has had a significant decrease in expected volatility due to the increase in the exposure of the UK infrastructure market having a diversification effect on the portfolio. This has caused it to fall into a high RP 5 for both May and June. We have placed this fund on an Amber status this quarter.

Positive Impact All Equity:

Due to the huge reduction in exposure to global equities market along with positions taken in alternative investments this fund has seen expected volatility fall significantly from a low RP 8 to an extremely low RP 7. Given this, we have placed this solution on Amber status.

All other profiled solutions have maintained their Green status this quarter.

Q2 2022

All profiled solutions have been placed on Green this quarter and we have also included the Positive Impact Cautious Plus fund to the report.

While on Green, it is worth mentioning that the Positive Impact Balanced portfolio has continued to experience a fluctuation in volatility around the lower bound of a 6 which resulted in a breach in January 2022. We noticed that there was a reallocation from bonds to equities which marginally increased the risk level for February and March increasing the fund's risk level into a low 6. Please note however, that trades that reduce the risk may cause further breaches in the next quarter.

Each of the remaining solutions continue to lie safely within the assigned boundaries.

Q1 2022

This quarter we have maintained the statuses of the profiled solutions.

The Positive Impact Cautious stayed below the assigned risk boundary, therefore we have maintained its Amber status (second Amber). Please, refer to the comments below from the previous quarter.

The expected volatility of Positive Impact Balanced continued to decrease and it slightly violated the lower boundary. Since the breach has been marginal, we have not changed the status for this quarter. If the decrease in expected volatility continues during the next quarter, we will put the fund on Amber.

All remaining solutions are comfortably within assigned profiles.

Q4 2021

This quarter we have placed Positive Impact Cautious on Amber. All the remaining solutions have maintained their green statuses.

The expected volatilities of several solutions continue to be at the lower end of assigned risk boundaries. Positive Impact Cautious continued to have expected volatility below the assigned risk boundary throughout this quarter. Since similar breaches have happened in previous quarters as well, we have put this solution on Amber.

The expected volatility of Positive Impact Balanced has been at the low end of its risk boundary for July and August, while it slightly breached the boundary in September. Future Leaders Adventurous has also had expected volatility at the low end of its boundary.

All remaining solutions are comfortably within assigned profiles.

Q3 2021

All the profiled solutions have maintained their green statuses.

Like the previous quarter, many profiled solutions continue to have expected volatility either slightly below or at the lower end of the assigned risk profiles.

Due to a cash increase from bonds, Future Leaders Defensive has now dropped to safely within the assigned boundaries, from the top decile. On the other hand, Future Leaders Adventurous continued to stay marginally

below the lower boundary of risk profile 7 in April and moved to just at the lower boundary during the next two months, due to a slight increase in equity. Future leaders All Equity also experience an equity increase and has now moved to safely within the assigned boundaries.

Positive Impact Cautious has expected volatility below the assigned risk profile 5 for two months. The decline in expected volatility is explained by the increase in cash during the last two months of the quarter. Given that several points over the last six months have been safely below the assigned profile, this solution is in a position of concern and could be placed on Amber in the near future.

Following the March position, which was marginally below the lower boundary, Positive Impact Balanced is now back within the assigned boundaries but at the bottom decile.

All remaining solutions are comfortably within assigned profiles.

Q2 2021

We have placed the profiled solutions on green status.

We note that a number of the profiled solutions have expected volatility below or at the very lower end of their assigned risk profiles. Future Leaders Adventurous stands marginally below the lower boundary of its assigned profile boundary while Future Leaders All Equity is only marginally within profile on the lower boundary. Being products dominated by equity we deem the currently assigned profiles as appropriate. The expected volatility for Future Leaders Balanced Plus is more significantly below the lower boundary of its assigned profile. We have observed a notable decrease in equity between February and March which brought the risk from a safe mid risk profile 6 to the top quartile of risk profile 5. In contrast, Future Leaders Defensive breached its upper boundary in February, however it returned to being in the top decile of its assigned profile in March owing to a reduction in bonds and corresponding increase in cash.

In the world of the Positive Impact range, we note that Positive Impact Balanced finished March right on the is on the boundary of risk profile 5 and 6. Although there is a history of expected volatility being in the region of mid to late risk profile 5, with the relatively high proportion of equity the currently assigned profile continues to be most appropriate. In a similar vein Positive Impact Cautious finished March below its assigned profile of 5, in the top decile of 4 however given the composition of this solution, the assigned profile continues to remain appropriate.

All remaining solutions are comfortably within assigned profiles.

Appendix

Status descriptions



A **red** status indicates that the solution's current risk profile is no longer appropriate to the DP scale and that it will be changed at next quarter's review unless action is taken by the asset management team.



An **amber** status indicates that one or more of the measures considered may indicate the possibility of an alternative risk profile. This could be due to short-term tactical positioning within the solution or other market considerations, and does not imply that the long term risk profile should necessarily change.



A **green** status indicates that the solution is in line with the assigned risk profile and no action is needed.

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