

**EQ Investors**  
**Positive Impact Range**  
**Risk Profile Report**  
February 2021



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## Executive summary

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Dynamic Planner has reviewed 5 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
Positive Impact Defensive	4	Risk Profiled
Positive Impact Cautious	5	Risk Profiled
Positive Impact Balanced	6	Risk Profiled
Positive Impact Adventurous	7	Risk Profiled
Positive Impact 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

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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:

- Positive Impact Defensive Solution
- Positive Impact Cautious Solution
- Positive Impact Balanced Solution
- Positive Impact Adventurous Solution
- Positive Impact 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

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

### Positive Impact Defensive

This strategy selects funds that invest in companies helping to tackle social and environmental problems while avoiding sectors such as tobacco, armaments, pornography or gambling. 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.

### Positive Impact Cautious

This strategy selects funds that invest in companies helping to tackle social and environmental problems, while avoiding sectors such as tobacco, armaments, pornography or gambling. This portfolio maintains a bias towards lower volatility investments with equity holdings limited to 50%. It focuses on capital protection with a moderate participation in equity market growth, and aims to reduce investment risk by diversifying across regions and asset classes.

### Positive Impact Balanced

This strategy selects funds that invest in companies helping to tackle social and environmental problems while avoiding sectors such as tobacco, armaments, pornography or gambling. This portfolio maintains a bias towards lower volatility investments with equity holdings limited to 70%. 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.

### Positive Impact Adventurous

This strategy selects funds that invest in companies helping to tackle social and environmental problems while avoiding sectors such as tobacco, armaments, pornography or gambling. This portfolio maintains a bias towards lower volatility investments with equity holdings limited to 90%. 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.

### Positive Impact All Equity

This strategy selects funds that invest in companies helping to tackle social and environmental problems while avoiding sectors such as tobacco, armaments, pornography or gambling. 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

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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.

### Positive Impact Solutions

The Positive Impact Range is the one that EQ Investors have run the longest. Some of their products of this range have allocations from 2012, while the majority of the range has allocations from 2015. 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
Positive Impact Defensive	3 (1) / 4 (5)
Positive Impact Cautious	4 (10) / 5 (20)
Positive Impact Balanced	5 (10) / 6 (20)
Future Leaders Adventurous	6 (5) / 7 (27)
Future Leaders All Equity	7 (3) / 8 (15)

**Table 2: Tactical asset allocation positions**

The Positive Impact Range has moved around within and outside its Risk Profile boundaries than the Future Leaders range. Figure 1 shows the position of the solutions vis-à-vis the Dynamic Planner frontier. As is evident from the chart that the allocations, especially those of the Cautious and Balanced solutions have been in and out of their boundaries. But this has followed the ebb and flow of asset class performance and risk, as well as the development and broadening of the investment universe.



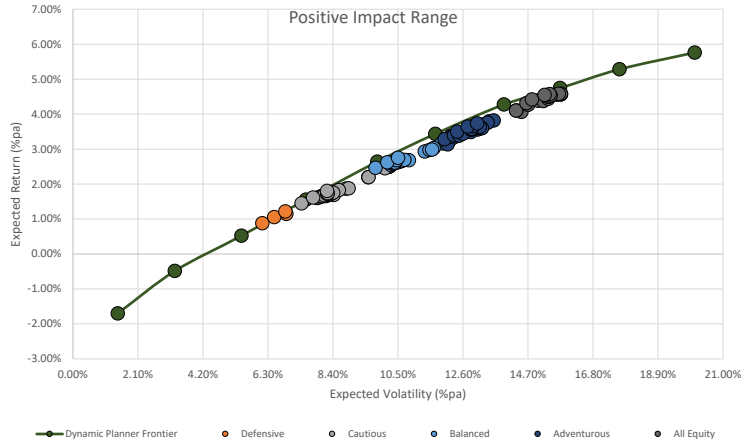


Figure 1: Position of Positive Impact solutions vis-à-vis the Dynamic Planner frontier

Figure 2 shows the evolution of the allocations to broad asset classes over time. In most of the solutions, equities and government bonds were the largest allocations at the beginning of the period, especially for the longest-running solutions. Over time, the solutions have increased allocations to Fixed Income, mainly in the Investment Grade space, which has coincided with increased issuance.

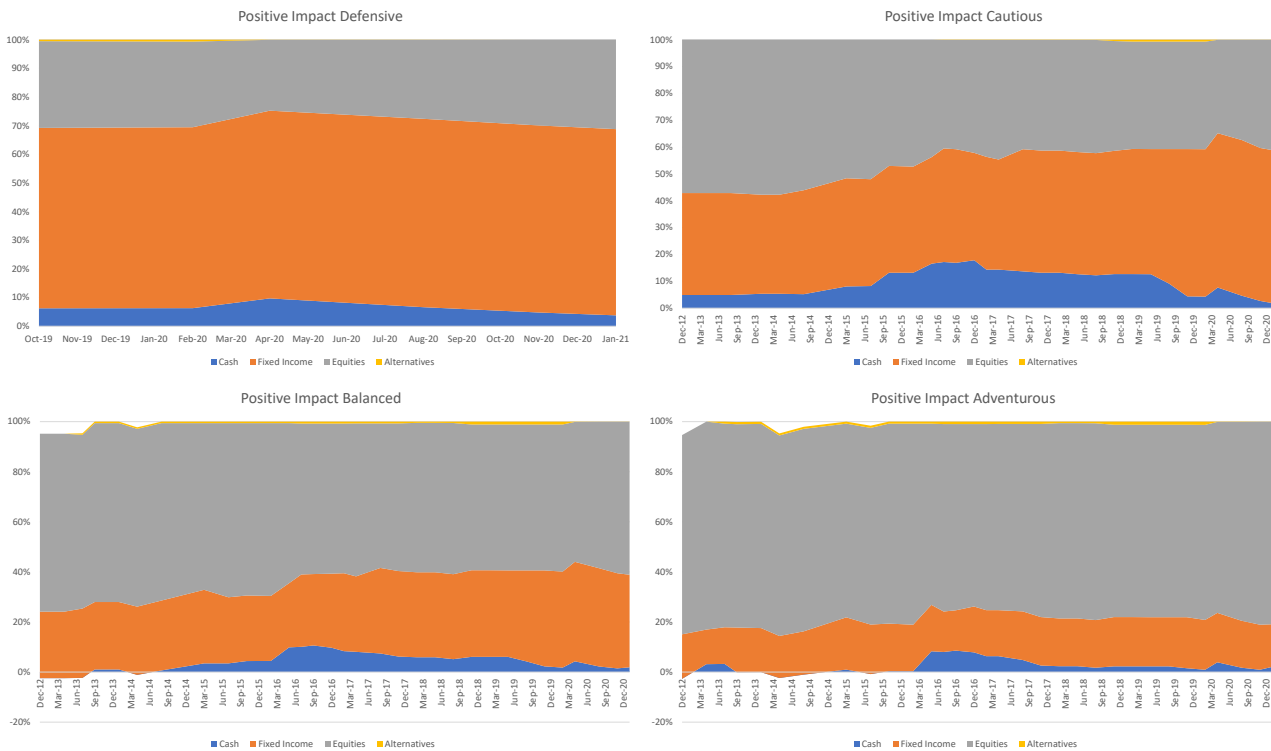
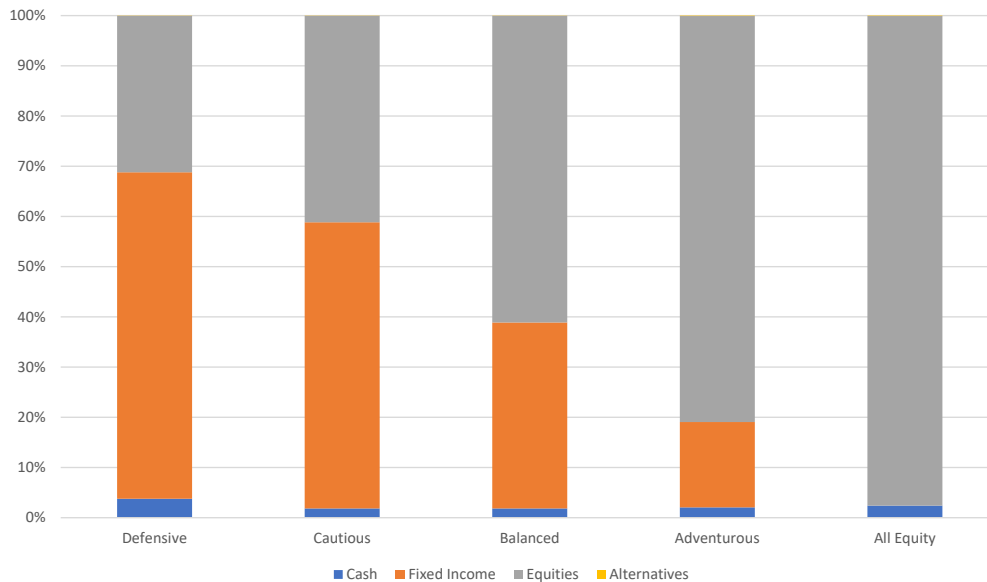


Figure 2: Change in Broad Asset Allocation of the Positive Impact solutions

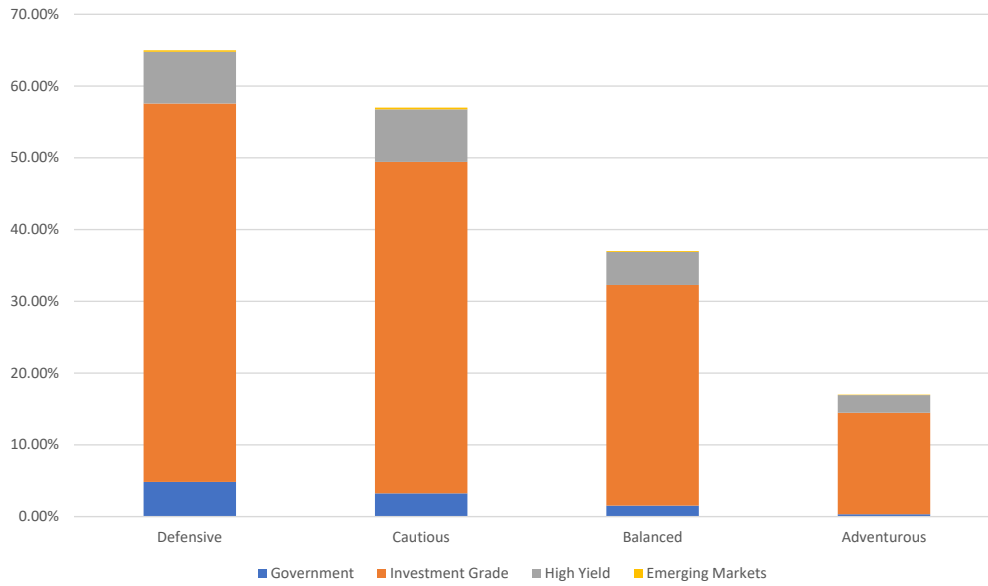
Figure 3 shows the relative allocations to the broad asset classes across the different Positive Impact solutions. As expected, allocation to equities increased as the risk profile of the solutions goes up. Fixed Income allocations decreases from approximately 60% in the Defensive solution, which is profiled a Risk Profile 4, to

no allocation in the All Equity solution, which is profiled a Risk Profile 8. Interesting, there is a minimal allocation to any alternative strategies, coming from REIT holdings in a couple of underlying holdings. Figure 2 and Figure 3 show that the allocations have been quite stable, with consistent changes across the solutions over time.



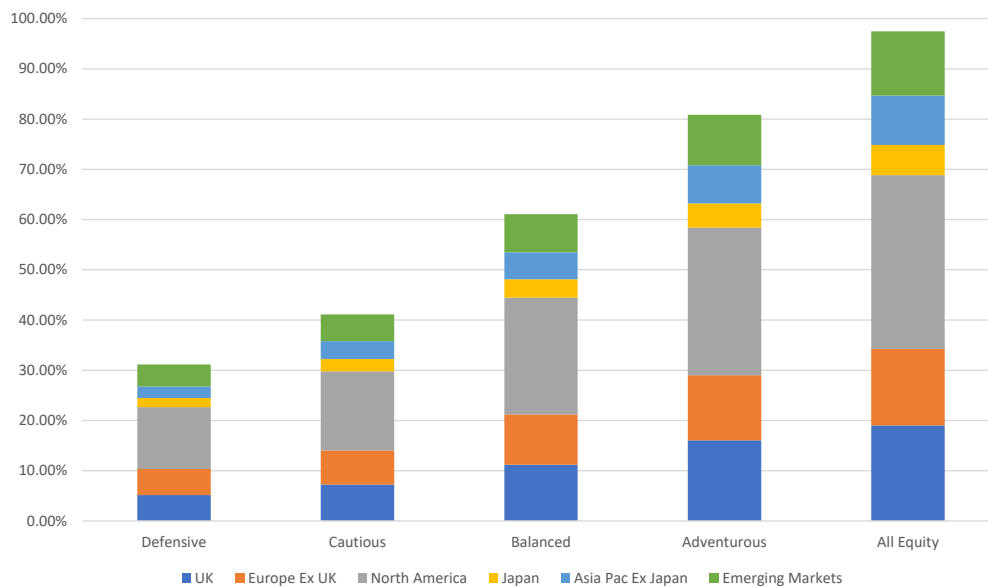
**Figure 3: Broad Asset Allocations for the Positive Impact solutions**

Looking into the Fixed Income allocations, unlike the Future Leaders solutions, the Positive Impact ones have a small allocation to High Yield Bonds, between 3% to 7%. Like the Future Leaders solutions, across all solutions, the majority of the Fixed Income allocations are to Investment Grade Bonds, followed by allocations to High Yield Bonds, Government Bonds, with a small allocation to Emerging Market Bonds. Figure 4 shows the allocations to Fixed Income across the solutions.



**Figure 4: Fixed Income Allocations across Positive Impact 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 5 shows the allocation to equities across the solutions.



**Figure 5: Equity Allocations across Positive Impact solutions**

## 5 Summary

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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
Positive Impact Defensive	4	Risk Profiled
Positive Impact Cautious	5	Risk Profiled
Positive Impact Balanced	6	Risk Profiled
Positive Impact Adventurous	7	Risk Profiled
Positive Impact 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

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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

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