

## **ECONOMY, ENERGY AND FAIR WORK COMMITTEE**

### **DAMAGES (INVESTMENT RETURNS AND PERIODICAL PAYMENTS) (SCOTLAND) BILL**

#### **SUBMISSION FROM: Pannells Financial Planning Ltd**

I write in response to the questions raised by your committee dated 24<sup>th</sup> October 2018 in respect of the above noted legislation.

In summary the questions raised and covered within this letter are as follows:-

1. Do you think the portfolio put forward in the Bill is suitable for the hypothetical investor, as also described in the Bill?
2. The Bill allows for a 0.5% adjustment to the discount rate to take into account the impact of taxation and the costs of investment advice on the award. Do you think this accurately reflects the likely costs to the injured person?
3. The Bill allows for a further 0.5% adjustment to protect against under-compensation due to investment volatility. What is your view of this further adjustment? Do you think it will provide the protection expected?
4. The Bill allows for the discount rate to be reviewed at least every three years. How often would an injured person's investment strategy be reviewed, and what implications does this have for the proposals in the Bill?

I have answered each of the above questions in turn through the remainder of this letter. I would comment that the first three questions asked are inherently linked as the structure of the notional portfolio will be used to calculate the projected gross rate of return which in turn will have a bearing on the calculation of an appropriate deduction for taxation and investment charges, whilst also impacting on the likely investment volatility which the further adjustment is included in the Bill to address.

#### **Background Information on Pannells Financial Planning Ltd**

Pannells Financial Planning Ltd (PFPL) is a firm of independent financial advisers established in 1989, and authorised and regulated by the Financial Conduct Authority (FCA). PFPL was previously PKF Financial Planning Ltd, a wholly owned subsidiary of PKF (UK) LLP. Following the merger between PKF (UK) LLP and BDO LLP in 2013, PKF Financial Planning changed its name to PFPL.

PFPL have a team of 21 regulated independent financial advisers who operate from 11 offices around the UK, this includes 3 Wealth Management Consultants and 1 Employee Benefits Consultant located in our Edinburgh and Glasgow offices. This letter has been prepared by James Glass FPFs who is a Chartered Financial Planner and Certified Financial Planner based in the Edinburgh office, with 14 years of experience of working for independent financial adviser firms in Scotland including the last 7 years at PFPL in Edinburgh.

PFPL's mandate is to deliver highly specialised financial advice to companies, professional partnerships and individuals. PFPL has considerable experience of advising individuals on suitable investment strategies, this currently incorporates advising on assets under management in excess of £70 million for Scottish clients (as at April 2018).

**1. Do you think the portfolio put forward in the Bill is suitable for the hypothetical investor, as also described in the Bill?**

We view the notional investment portfolio included in the Bill to be well diversified and believe that this would largely reflect the type of portfolio that would be adopted by a hypothetical investor as put forward in the Bill, albeit we would consider this portfolio to be overweight in Fixed Interest investments and underweight in Equities. In our experience the range of investment strategies and associated asset allocations used in practice by discretionary fund managers or financial advisers do differ considerably from one investment manager to another, although the notional investment portfolio is similar to the investment strategy used in reality for a cautious investor but when investing over a shorter investment horizon.

We would expect the asset allocation for any investor adopting any investment risk profile to differ according to the investment term. Within Pannells FP Ltd we use differing investment strategies for time horizons spanning 5 to 7 years, 8 to 15 years and 16 years plus. Generally where an investment strategy is for an investor with a long term (16 years plus) time horizon the portfolio would contain a higher exposure to Equity investments when compared to investors looking at investment over the shorter investment time horizons.

I have expanded on our views of an appropriate asset allocation, incorporating input from Investec Wealth & Investment Ltd, FE Invest and drawing on the current asset allocation for the FTSE UK Private Investor Indices within **Appendix 1** at the end of this letter. You will note from the information included within **Appendix 1** that the asset allocations included for the FTSE UK Private Investor Indices and FE Invest contain higher Equity content and lower Fixed Interest content when compared to the notional portfolio in the Bill. However, the notional investment portfolio asset allocation is closer to that favoured by Investec as a starting point for a cautious investor.

The notional portfolio on the face of the Bill includes a 20% allocation to Equities and 60% allocation in Fixed Interest investments, whilst our Cautious Long Term (i.e. 16 year plus) portfolio asset allocation would incorporate 36.5% in Equities and 40% in Fixed Interest investments. The notional portfolio asset allocation actually sits between that of our Cautious Short Term (i.e. 5 to 7 years) portfolio and Cautious Medium Term (i.e. 8 to 15 years) portfolio which I have also included within **Appendix 1** for your consideration.

We have considered the approach adopted by the Government Actuary's Department (GAD) to construct the notional portfolio in their report dated 5<sup>th</sup> September 2018, which involved them reviewing the investment strategies adopted by 20 investment funds categorised as "low risk" by Morningstar. We feel that the use of 20 "low risk" investment funds is too restrictive and therefore might provide an

artificial view of the long-term asset allocation appropriate for a cautious investor as described in the Bill.

The approach adopted by the GAD in constructing the notional portfolio results in a snapshot of the asset allocation of the 20 funds included in the sample being used which will essentially provide a reflection of the point in the economic cycle rather than what is suitable over a longer-term investment horizon. For example, the funds chosen may be positioned to have a lower exposure to UK Equities at the moment due to the potential impact of Brexit in the short term, however, this may be a temporary measure and does not reflect how the funds will invest over the long term. We feel that constructing the notional portfolio with at least some reference to market studies on long-term asset allocations would provide a better guide than taking a snapshot on the current position on 20 multi-asset funds.

Overall we feel that the notional portfolio included on the face of the Bill is overweight in Fixed Interest and underweight in Equities when considering a long-term investment horizon and therefore this is not appropriate given the parameters for the hypothetical investor described within the Bill. As noted we would view the notional portfolio asset allocation to be appropriate for an individual investing over a short to medium term (i.e. up to 15 years) investment horizon, whereby there may be insufficient time for the portfolio to cope with the greater volatility generally experienced on Equity investments.

**2. The Bill allows for a 0.5% adjustment to the discount rate to take into account the impact of taxation and the costs of investment advice on the award. Do you think this accurately reflects the likely costs to the injured person?**

We would consider the deduction of 0.5% p.a. to be largely appropriate when taking account of Taxation and the cost of investment advice assuming a “passive” investment strategy using index tracking funds. However, this deduction would appear too low when compared to the costs associated with an “active” investment strategy or where there is an ongoing advice charge paid to a IFA and/or a Discretionary Fund Manager.

I have commented on the Taxation and investment charges aspects separately below.

Taxation

In terms of Taxation the impact of this is difficult to quantify due to the different income, capital assets positions and compensation levels paid to each pursuer. In many cases any investment income generated is likely to be covered by the various tax allowances, although these allowances can and of course do change on a regular basis.

This may include Dividends being generated within the Dividend Allowance (£2,000 in 2018/19), interest within the Personal Savings Allowance (£1,000 for a Basic Rate taxpayer in 2018/19), use of the Income Tax Personal Allowance (£11,850 in 2018/19) and realising capital gains using the annual Capital Gains Tax Allowance

(£11,700 in 2018/19). The sensible arrangement of the investments resulting from the personal injury settlement across different tax wrappers, i.e. ISAs, Collective Investments, Investment Bonds and Pensions, would look to minimise tax liabilities where possible.

However, for larger personal injury settlements it is possible that Taxation may have an impact.

We have considered the potential Taxation position assuming a Collective Investment portfolio for a cautious investor of £500,000, £1million and £5million based on an assumed income yield of 2% p.a. (20% Equity Dividends and 80% Interest), a growth rate of 3% p.a. and a portfolio turnover of 10% p.a.-

<b>Portfolio Initial Value</b>	<b>£500,000</b>	<b>£1million</b>	<b>£5million</b>
Value at Year End	£515,000	£1,030,000	£5,150,000
Equity Dividends (0.40%)	£2,060	£4,120	£20,600
Interest (1.60%)	£8,240	£16,480	£82,400
<b>Total Income</b>	<b>£10,300</b>	<b>£20,600</b>	<b>£103,000</b>
Capital Gains on Disposals	£1,500	£3,000	£15,000
<b>Estimated Tax Liabilities - £</b>	<b>£Nil</b>	<b>£865</b>	<b>£29,583</b>
<b>Estimated Tax Liabilities - %</b>	<b>0%</b>	<b>0.08%</b>	<b>0.57%</b>

*Notes*

- Investor is entitled to a Dividend Allowance of £2,000, Personal Savings Allowance of £1,000 or £500 where appropriate, Personal Income Tax Allowance of £11,850 and a Capital Gains Tax Allowance of £11,700. Personal Income Tax Allowance is lost at £1 for every £2 of income above £100,000.*
- Scottish Income Tax Rates apply on income over the above allowances, these rates are as follows:-*

<b>Tax Band Name</b>	<b>Tax Band</b>	<b>Tax Rate</b>
Personal Allowance	£0 - £11,850	0%
Starter Rate	£11,850 - £13,850	19%
Basic Rate	£13,850 - £24,000	20%
Intermediate Rate	£24,000 - £43,430	21%
Higher Rate	£43,430 - £150,000	41%
Top Rate	Above £150,000	46%

- Dividend tax rates apply in line with UK Rates, i.e. 7.5% at Basic Rate, 32.5% at Higher Rate and 38.1% at Additional Rate. Capital Gains tax rates are 10% and 20% for Basic Rate and Higher Rate taxpayers respectively.*
- All investments are held via a taxable Collective Investment Portfolio, so no*

*account is taken of using ISA allowances, pensions, investment bonds or other investment wrappers.*

It should be noted that Pannells Financial Planning Ltd are not professional tax advisers and therefore the figures above are indicative only.

### Investment Management Costs

We largely agree with the comments made in the GAD report dated 5<sup>th</sup> September 2018 regarding the appropriate deduction for investment charges being in the region of 0.25%-1% p.a. assuming a “passive” investment strategy is adopted. The GAD state the following on page 30:-

- *It is reasonable to assume that pursuers will shop around for competitive fees;*
- *It is reasonable to assume that pursuers will directly invest in passive funds (on the grounds that any IFA advice or investment in active funds would be expected to deliver outperformance over passive fund returns);*
- *In the current economic environment, income yields are low in comparison to historical levels (particularly on bonds which make up a significant proportion of the portfolio) which eases the possible pressure of higher tax charges; and*
- *There are further prudence deductions included elsewhere in the PI discount rate.*

The approach to charges noted on the face of the Bill does not take any account of initial advice costs, these can typically range from 1%-3% of the amount invested. In respect of the second point noted, it is worth pointing out that it is unlikely that the pursuer would have the requisite knowledge or skill to choose a suitable asset allocation or appropriate investments to hold themselves without some advice, regardless of whether these are “passive” or “active” managed funds. It could therefore be argued that some account should be made for initial advice charges within the deduction to the discount rate.

It is possible that the pursuer could invest into passive managed funds, such as the Vanguard LifeStrategy or the L&G Multi-Index fund ranges, whereby the asset allocation of the funds across index-trackers is actively managed by the fund managers. These types of funds would generally have a Total Ongoing Charge of c 0.30%-0.33% p.a., but it is questionable if the pursuer would invest in these types of funds without some initial advice from an IFA.

In respect of the costs of managing the investments, in our experience the deduction of 0.5% p.a. would be too low if an actively managed or “Blended” investment strategy was adopted. Although the charge level of 0.5% p.a. is likely to apply to an investment portfolio made up exclusively of passively managed index-tracker funds, these typically have a Total Ongoing Charge (TOC) of 0.08%-0.3% p.a. Although this does not incorporate the additional costs associated with holding the assets on an Investment Platform which most wealth managers would utilise, these can typically range from 0.1%-0.35% p.a. depending on the value of the portfolio held.

The above example of a portfolio of passively managed index tracker funds held on an Investment Platform would result in investment management charges of c 0.18%-0.65% p.a. This does not incorporate any charge for ongoing advice from a wealth manager which would tend to be in the range of 0.5%-1.0% p.a. However, the wealth managers ongoing charge can vary depending on the value of the assets held, the frequency of reviews and the type of investment management on the portfolio. If it is assumed that a superior return is generated by using a wealth manager then it seems fair to not incorporate these ongoing advice charges within the deduction included in the Bill.

Overall, we believe that the deduction for taxation and charges of 0.5% does accurately reflect the likely ongoing costs to the injured person. On the basis that the costs associated with wealth management advice and the higher charges on actively managed funds should be ignored when assessing the compensation as the use of these by the pursuer should generate superior returns which counteract the impact of the higher charges paid. However, some account should perhaps be taken with regard to initial advice charges as it is unlikely that the pursuer would have the knowledge to choose an appropriate asset allocation or suitable investment funds.

**3. The Bill allows for a further 0.5% adjustment to protect against under-compensation due to investment volatility. What is your view of this further adjustment? Do you think it will provide the protection expected?**

We feel that it is appropriate to incorporate a further prudence adjustment within the discount rate setting process. This further prudence adjustment provides the means to adjust the discount rate to take account of various risks that may impact on the hypothetical investor. Our understanding of the discount rate setting process based on the Bill is as follows:-

1. Access gross rate of return from the notional portfolio;
2. Deduct RPI to allow for inflation;
3. Deduct 0.5% for tax and investment advice/management costs;
4. Deduct 0.5% "further adjustment";
5. Round up or down to the nearest 0.25%.

We would point out that the further adjustment of 0.5% does represent two points of rounding (i.e. to the nearest 0.25%) used within the discount rate setting process and this could therefore have a significant impact on the discount rate.

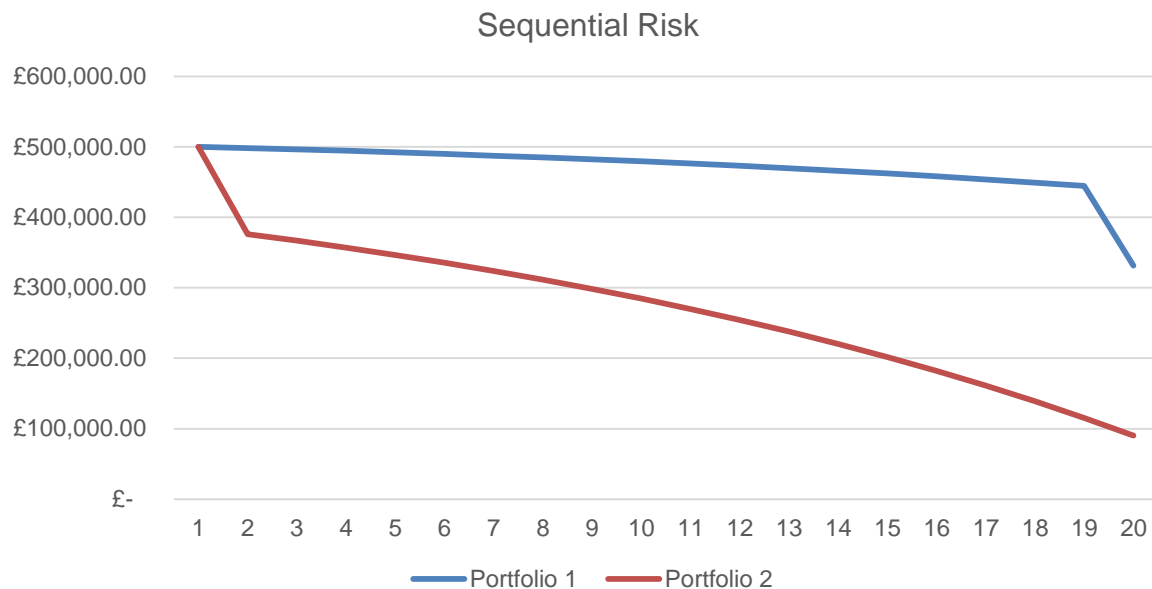
We would suggest that there are various risks that the further prudence deduction could address when setting the discount rate, with the primary aim of reducing the risks of under-compensation to pursuers. This could be used to take account of some of the following risks although this list is not exhaustive:-

*Investment Timing Risk*

Whilst the setting of the discount rate assumes consistent levels of return, in reality investment performance is variable. Early poor performance or falls in the value of an investment portfolio can have a disproportionate and negative impact on sustainability of the fund.

For this reason, it is important to consider the variability as well as the absolute returns on the investments within an investment portfolio.

The chart below shows two portfolios with a starting value of £500,000 invested over a 20 year period, with £30,000 p.a. being withdrawn. Both portfolios achieve exactly the same average growth rate but portfolio 1 suffers a 20% loss in year 10 whilst portfolio 2 suffers it in year 2. The return for all other years is 6% p.a. As can be seen the timing of this loss when income is being taken is fundamental in determining the sustainability of the fund.



The two charts below show the impact of differential returns on two investment portfolios of £100,000 with £4,800 p.a. income being taken over a period of 15 years. Both are invested in the ABI Mixed Investment 20-60% Shares sector yet the sharp falls at the beginning for the investment portfolio in the first chart means the portfolio struggles to recover. The investment portfolio in the second chart benefits from strong performance in the early years meaning it is better placed to suffer any subsequent falls with the income taken then representing a far smaller percentage of the fund:-



The further adjustment provides a facility to counteract the potential impact of this sequential or investment timing risk.

### Currency Exchange Rate Risk

At certain times the risks of investing overseas in a portfolio can be heightened purely due to currency rate volatility.

A recent example of this would be the large changes in the GBP exchange rate versus the US\$ following the Brexit vote and the positive impact this had on investment returns from US\$ denominated investments in 2016, this has been followed by some reversal of this as the exchange rate recovered.



## Inflation

Costs rise over time and it is possible inflationary pressures could be higher for personal injury claimants who require long term care. Whilst the discount rate review would take account of inflation as prescribed on the face of the Bill it is possible that the additional adjustment could be factored in to take account of higher inflation related to care costs etc.

In terms of care costs it is likely that these will increase by higher levels than inflation as a result of the costs being more typically related to increases in earnings rather than price inflation, this is due to the care costs predominately being made up of labour costs.

## Taxation Reforms

Taxation reforms can have an impact on future investment returns and therefore the further adjustment can factor in the perceived impact of additional Taxation on an investment portfolio. For example, the recent reduction in Dividend allowance from £5,000 in 2017/18 to £2,000 in 2018/19 could impact on the Taxation position of a Collective Investment Portfolio. The different rate of Scottish Income Tax when compared to the rest of the UK could also potentially impact.

Overall we feel that it is appropriate to incorporate the further prudence deduction when calculating the discount rate as it will provide scope to counteract some of the risks noted above. However, this is a more difficult figure to quantify when compared to the deduction for taxation and investment charges given the number of variable factors involved.

We believe that it is likely that the further adjustment will provide some protection against the risks noted above, however, as noted earlier we do believe that the asset allocation of the notional portfolio is overweight in Fixed Interest investments and underweight in Equities. Given the structure of the notional portfolio, i.e. with a 60% allocation to Fixed Interest investments and a 20% allocation to Equities, it is possible that the further adjustment of 0.5% is relatively high given the expected returns and exposure to investment volatility for this type of portfolio. As mentioned earlier the further adjustment of 0.5% does represent two points of rounding (i.e. to the nearest 0.25%) used within the discount rate setting process and this could therefore have a significant impact on the discount rate.

#### **4. The Bill allows for the discount rate to be reviewed at least every three years. How often would an injured person's investment strategy be reviewed, and what implications does this have for the proposals in the Bill?**

In our experience most wealth managers would review/revise the asset allocation of their portfolios on a 6-monthly or annual basis, this may take the form of differentiating between long term strategic asset allocation reviews and shorter term tactical asset allocation reviews.

We would therefore generally expect the asset allocation models used by most

wealth managers to be reviewed at least on an annual basis and perhaps more regularly, although whilst asset allocation reviews may take place on a 6-monthly basis most wealth managers would only meet with a client once a year when the asset allocation and investment strategy would be revised in their portfolio. Generally asset allocation models would be reviewed on a regular basis in order to take account of changing investment market and economic conditions and the impact this has on long term return expectations and risk.

We have included some commentary within **Appendix 2** at the end of this report on the approaches taken to the frequency of asset allocation reviews.

Clearly it may not be practical or cost effective to review/update the fixed notional portfolio for a cautious investor included within the Bill and undertake the associated discount rate review by the rate-assessor on an annual basis. This would potentially raise issues in respect of personal injury cases that can last for several years and allow 'gaming' within the system. Therefore an approach of reviewing the asset allocation on a 3-yearly basis seems reasonable, albeit the asset allocations used by wealth managers can change significantly during relatively short periods as demonstrated by some of the information included in **Appendix 2**.

Overall we feel that the proposals in the Bill to review the notional portfolio at least every 3 years is appropriate, as undertaking reviews more frequently than this would result in there being constant uncertainty regarding the discount rate to be used in personal injury cases.

## Appendix 1

### Portfolio Asset Allocation Examples

#### Investec Wealth & Investment Ltd

Investec apply benchmarks for their portfolios that are broadly based on the FTSE UK Private Investor Indices, details of which for a cautious investor are noted later in this report. You will however note that there are currently some significant differences between Investec's current asset allocation versus the FTSE UK Private Investor Conservative Index at the moment.

In broad terms, for a cautious risk investor seeking a return from a combination of income and growth the asset mix could be as follows:-

Asset Class	Investment Sector	Weighting	Asset Class Weighting
<b>Fixed Interest:-</b>			<b>57.0%</b>
Near Cash	Low Volatility Bond Funds	2.0%	
Insurance	UK Gilts	13.0%	
	UK Index-Linked Gilts	10.0%	
	Global Government Bonds	7.0%	
Credit Risk & Emerging Markets	Investment Grade Corporate	15.0%	
	High Yield Bonds & EM	10.0%	
<b>Equities:-</b>			<b>14.0%</b>
UK Equities		6.0%	
Overseas Equities		8.0%	
<b>Commercial Property:-</b>			<b>10.0%</b>
<b>Alternative Investments:-</b>			<b>15.0%</b>
Structured Products		5.0%	
Absolute Return/Hedge Funds		5.0%	
Other (e.g. Infrastructure)		3.0%	
Gold/Commodities		2.0%	
<b>Cash:-</b>			<b>4.0%</b>
<b>Total</b>			<b>100.0%</b>

(Source: Investec Wealth & Investments UK in July 2018)

This portfolio is a guideline for investment managers and would be a starting point for discussion with the client.

FTSE UK Private Investor Indices

Many wealth managers refer to the FTSE UK Private Investor Indices for guidance to construct an appropriate asset allocation for investors. These benchmarks provide:-

- A basis for discussing and reviewing the asset allocation and structure of a portfolio with the fund manager or stockbroker.
- A benchmark for assessing and comparing the performance of discretionary fund managers.
- A measure to compare the performance of similar Income, Growth and Balanced based funds.

Of the indices provided, it is likely the Conservative and Income Indices would be considered for cautious or low risk clients. The current asset allocation for these indices is as follows:-

Asset Class	Conservative Index		Income Index	
	Weighting	Asset Class Weighting	Weighting	Asset Class Weighting
<b>Fixed Interest:-</b>		<b>44.9%</b>		<b>31.1%</b>
- UK Government Bonds	7.3%		6.3%	
- Sterling Corporate Bonds	8.4%		6.0%	
- Global Bonds	29.2%		18.8%	
<b>Equities:-</b>		<b>30.7%</b>		<b>47.1%</b>
- UK Equities	9.7%		15.9%	
- Global Developed Markets	21.0%		31.2%	
<b>Commercial Property</b>		<b>1.3%</b>		<b>1.3%</b>
<b>Alternative Investments</b>		<b>9.4%</b>		<b>9.5%</b>
<b>Cash</b>		<b>13.7%</b>		<b>11.0%</b>
<b>Total</b>		<b>100.0%</b>		<b>100.0%</b>

(Source: FTSE Russell in April 2018)

Pannells Financial Planning Ltd / FE Invest

As independent financial advisers, we advise clients on portfolio construction with emphasis on using a diversified portfolio suitable for the level of risk the client wishes to take. For portfolios worth more than £100,000 we are likely to use model portfolios provided by FE Invest (FEI). In broad terms these portfolios aim to maximise returns for a given level of risk over a set time horizon. The asset allocation is provided by a stochastic modelling from EValue which provides a suggested asset mix that is suitable for each forecasted volatility level. FE analyse the observed volatility of each asset mix over a range of time periods and use this as a guide when constructing the portfolios. The asset mix and underlying fund choice is reviewed biannually.

Note that EValue alters the asset allocation according to the investment term. This is because short term fluctuations in higher risk asset classes are likely to be less impactful the longer the investor is intending to invest for.

The current portfolio asset allocation for a cautious and moderately cautious risk investors over the long term (16 years plus) is as follows:-

<b>Asset Class</b>	<b>Cautious</b>	<b>Moderately Cautious</b>
Alternative Investments	10.0%	0.0%
Cash	0.0%	0.0%
Fixed Interest	44.5%	39.5%
Global Developed Equity	28.5%	35.5%
UK Equity	12.0%	15.0%
Property	5.0%	5.0%
UK Smaller Companies	0.0%	5.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

(Source: FE Invest in October 2018)

In the case of Personal Injury compensation, it is likely that the Pursuer will require a regular stream of income. Where we advise clients who are in this position (for instance drawing their retirement income from the invested funds) we would normally recommend the first 2 to 3 years' income is held in cash. Therefore, the actual asset allocation for a client in the position the Rate Assessor is required to consider might look as follows:-

<b>Asset Class</b>	<b>Cautious</b>	<b>Moderately Cautious</b>
Alternative Investments	9.0%	0.0%
Cash	10.0%	10.0%
Fixed Interest	40.0%	35.5%
Global Developed Equity	25.5%	32.0%
UK Equity	11.0%	13.5%
Property	4.5%	4.5%
UK Smaller Companies	0.0%	4.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

(Source: FE Invest in October 2018)

The asset allocations currently used by PFPL and FEInvest for Cautious investors over a short term (5 to 7 years) or medium term (8 to 15 years) investment horizon would be as follows:-

<b>Asset Class</b>	<b>Cautious Short Term</b>	<b>Cautious Medium Term</b>
Alternative Investments	19.0%	4.5%
Cash	40.0%	10.0%
Fixed Interest	28.5%	50.0%
Global Developed Equity	5.0%	22.0%
UK Equity	7.5%	13.5%
Property	0.0%	0.0%
UK Smaller Companies	0.0%	0.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

## Appendix 2

### Reviewing Portfolio Asset Allocations

#### Investec Wealth & Investment Ltd

Investec provided the following comments on their asset allocation reviews:-

*“We review our strategic (long-term) asset allocation for portfolios on an annual basis, and also should the situation arise that it is appropriate to do so sooner than annually then we will also adjust it on an ad-hoc basis, although this would be unusual.*

*Our Asset Allocation Committee sits monthly to review our tactical (short-term) asset allocation. Again, if they need to sit additionally to these systematic meetings they will do so but it is again unusual as we do not wish to undertake knee-jerk reactions.*

*Investment Managers then review and manage clients’ asset allocation from a practical perspective on an ongoing basis.”*

We have included a summary below comparing the current asset allocation with the one from May 2017, the following changes have occurred to their low risk portfolio:-

<b>Asset Class</b>	<b>Investec Low Risk Portfolio Differential (+ or -)</b>
Alternative Investments	+ 4.0%
Cash	- 6.0%
Fixed Interest	+ 2.0%
Global Developed Equity	+ 1.0%
UK Equity	- 3.0%
Property	+ 2.0%

(Source: Investec Wealth & Investment Ltd in July 2018)

As you can see from the information above there have been some meaningful changes in the asset allocation adopted by Investec for a low risk investor in the period between May 2017 – July 2018.

#### Pannells Financial Planning Ltd / FE Invest

The asset allocation reviews on the portfolios that Pannells FP Ltd use from FE Invest are undertaken on a 6-monthly basis in April and October each year, with the following table showing the asset allocation changes for the Cautious Long Term and Moderately Cautious Long Term portfolios from the previous review:-

<b>Asset Class</b>	<b>Cautious Differential (+ or - )</b>	<b>Moderately Cautious Differential (+ or - )</b>
Alternative Investments	No Change	No Change
Cash	No Change	No Change
Fixed Interest	+ 4.5%	- 0.5%
Global Developed Equity	+ 3.0%	- 9.5%
UK Equity	- 7.5%	+ 10.0%
Property	No Change	No Change
UK Smaller Companies	No Change	No Change

(Source: FE Invest in October 2018)

Once again there have been some meaningful changes to the investment strategy adopted in respect of the above risk profiles during a 6-month review period.

Whilst the asset allocation of our portfolios is reviewed on a 6-monthly basis we would normally only undertake a review meeting with a client once a year when the most recent asset allocation would be implemented into their portfolio.

#### FTSE UK Private Investor Indices

In terms of the FTSE UK Private Client Investor Indices, the asset allocations are reviewed on a 6-monthly basis in March and September each year. These reviews are based on Morningstar data as at the close of business on the last business day of the previous quarter. The new asset allocations are implemented after the third Friday of March and September. In June and December, each of the Private Investor Indices will be reweighted to the asset allocation levels set in the immediate prior review.

As with the Investec asset allocation, we also included the asset allocation data for the FTSE UK Private Client Conservative and Income Indices within our report of May 2017. We can therefore provide the following summary of changes within their asset allocations during the interim period:-

<b>Asset Class</b>	<b>Conservative Index Differential (+ or -)</b>	<b>Income Index Differential (+ or -)</b>
Alternative Investments	- 8.1%	- 3.0%
Cash	+ 8.7%	+ 6.0%
Fixed Interest	+ 4.9%	+ 6.1%



<b>Asset Class</b>	<b>Conservative Index Differential (+ or -)</b>	<b>Income Index Differential (+ or -)</b>
Global Developed Equity	+ 7.5%	+ 11.2%
UK Equity	- 9.3%	- 16.6%
Property	- 3.7%	- 3.7%

(Source: FTSE Russell in April 2018)

Clearly the increased volatility experienced in global investment markets in Q1 2018, the impact of interest rates rising in the US, Brexit and changing medium to long term views on economic and market conditions will have been factors in the asset allocation changes noted above. This follows a period of very low volatility in investment markets in the preceding 12-18 months before Q1 2018.