

October 2021

# Assessing Investment Risk

Mike Bull

Executive Director

STEP Jersey Conference 21/10/2021



QUILTER CHEVIOT

INVESTMENT MANAGEMENT

# Reducing your risk

Outsource hazards and improve scalability

Around **55%** of intermediary clients state that compliance burden is the biggest challenge in their business.

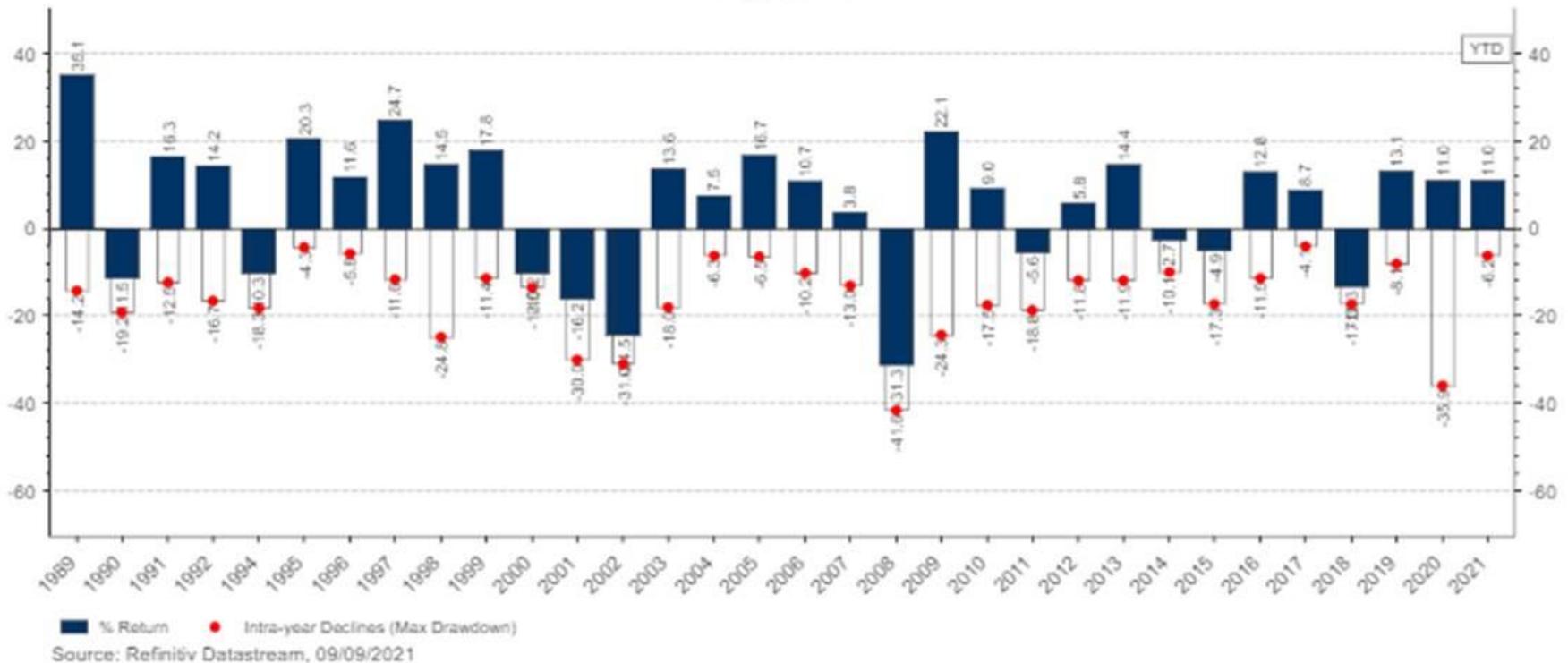
(Morningstar 2017)



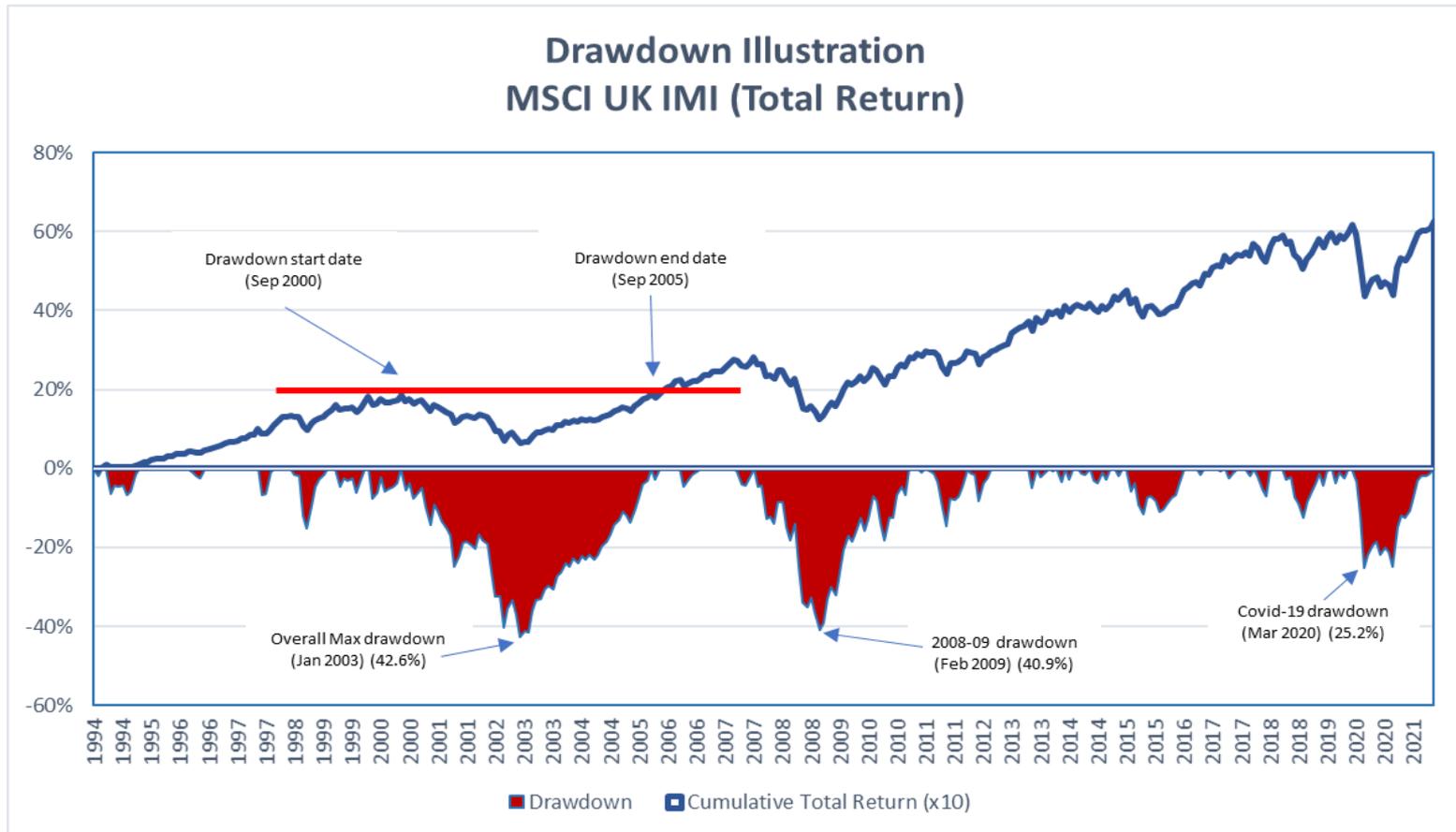
# Manage client risk expectations – UK Equity

## 10% setback is 'normal'

Intra-year Declines (Max Drawdown) vs Calendar Year Capital Returns  
MSCI UK IMI



# Manage client risk expectations - peak to trough 'drawdown'



Source: Refinitiv Datastream, 09/21



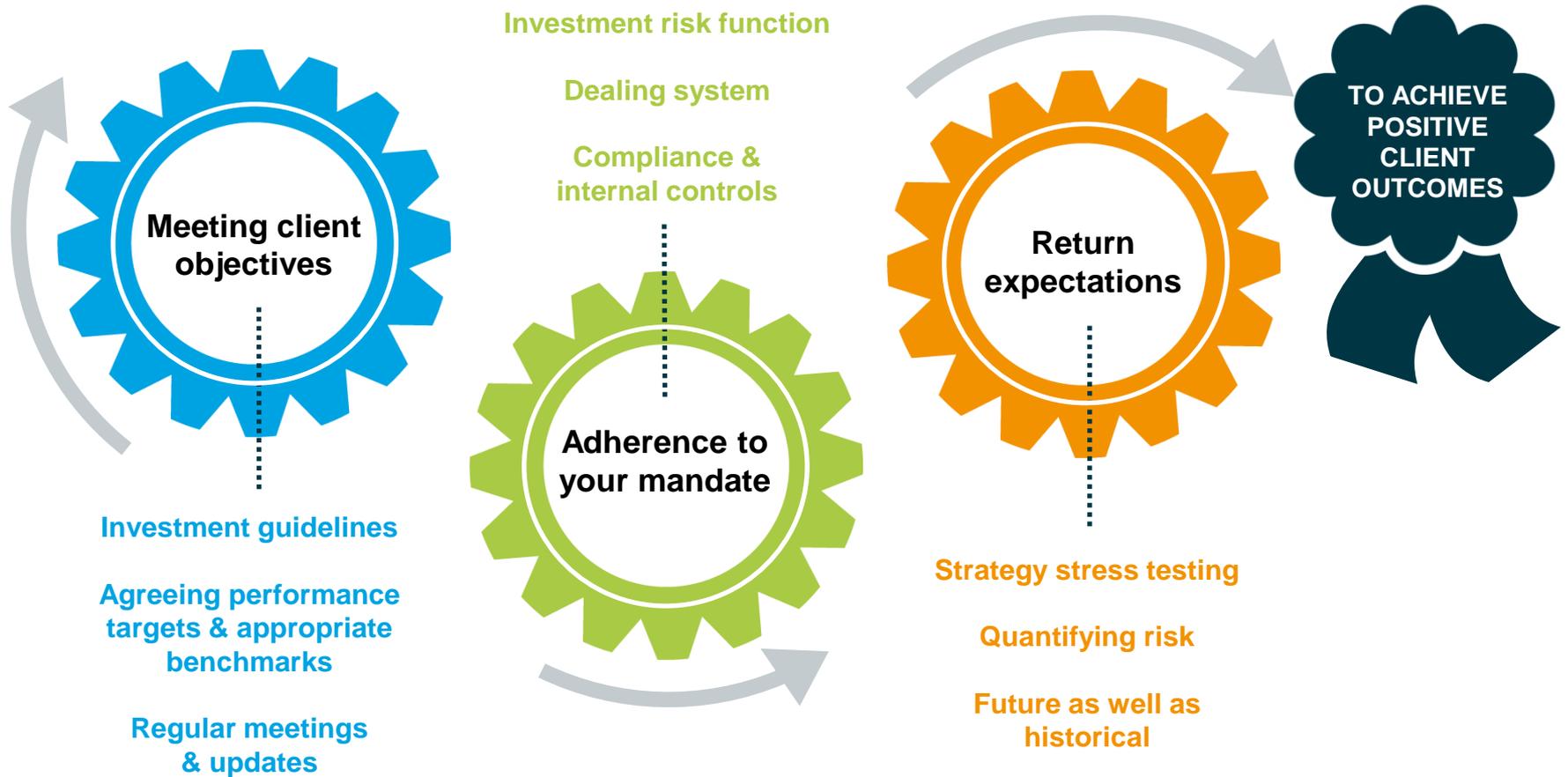
# The emotional rollercoaster of investing



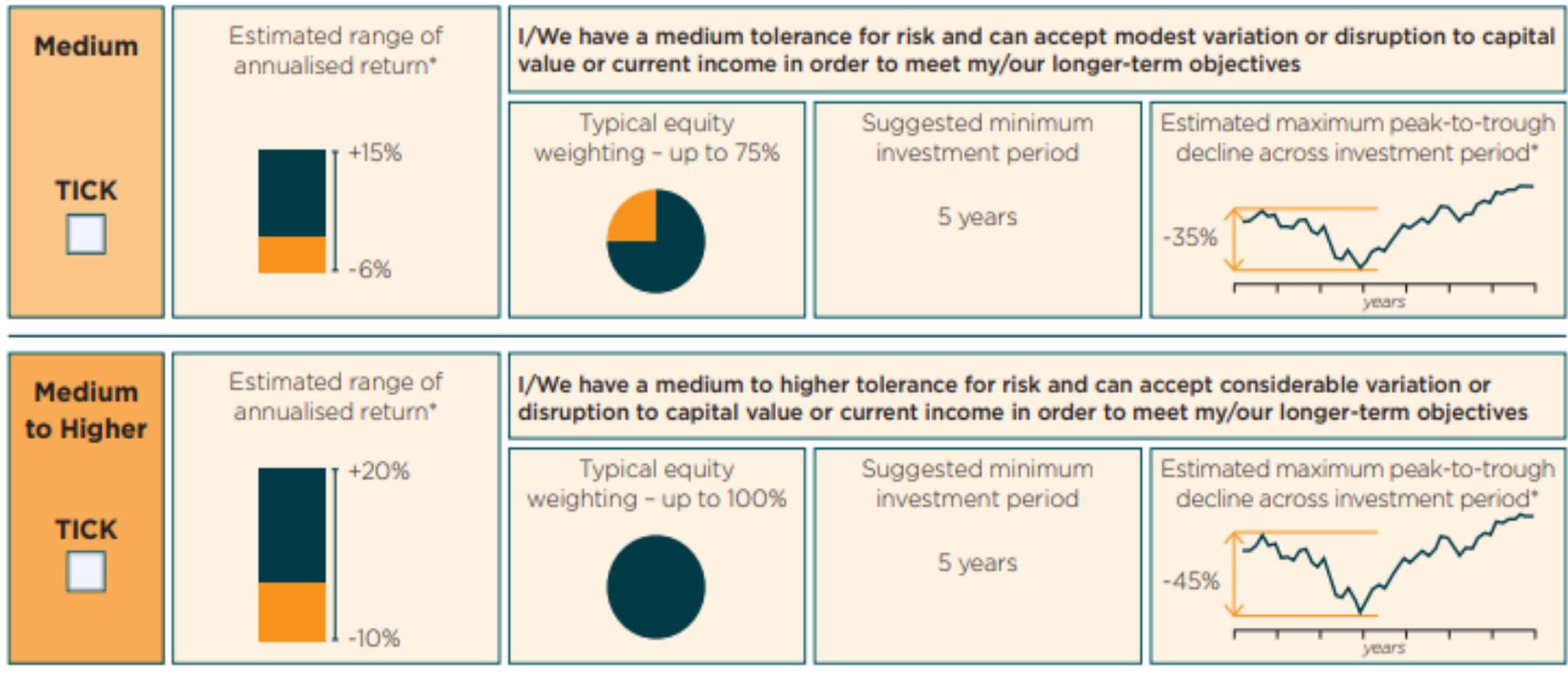
- Loss averse investors who bracket narrowly are likely to experience poorer outcomes than if they had bracketed over a wider timeframe.
- It is 'the combination of loss aversion and narrow bracketing, that causes problems'.



# RISK management is embedded in the process



# Manage client risk expectations - willingness to accept risk



\* Source: Quilter Cheviot. These figures are for illustrative purposes and represent estimated pattern of return for each risk profile. Past performance is not indicative of future performance and actual performance may vary.



# Investment Risk - main areas of oversight

Outlier Type	Outlier Description
<b>Maximum Equity Content</b>	Portfolios are flagged when the maximum % equity for a client's given risk tolerance category is exceeded
<b>Buy List Framework</b>	Portfolios are flagged when minimum investment in high conviction firm recommendations is not met
<b>Concentration Limits</b>	Portfolios are flagged when the maximum % holding for a single security is exceeded.
<b>Cash Limits</b>	Portfolios are flagged when in breach of the maximum cash limit.
<b>Asset Allocation Deviations</b>	<i>Portfolios are flagged when the asset allocation is outside of the defined min and max thresholds</i>
<b>Tracking Error</b>	Portfolios are flagged where estimated tracking error exceeds the limit for the client's risk tolerance.
<b>Turnover</b>	<i>Portfolios are flagged when there is excessive turnover.</i>
<b>Short Term Performance Outliers</b>	<i>Portfolios are flagged when performance significantly deviates from the benchmark</i>



# INVESTING: WHERE TO START



## How comfortable you are with risk

How much risk are you prepared to take in order to achieve your goals? It is important to decide on this and set a tolerance, although you can adjust this as your life stages change.

For example, if you start a family, you may want to reduce risk to protect the money you have put aside to provide for your children.



## How long you can keep your money invested

Do you think you might need access to your invested money in case of an emergency? If so, a lower risk investment may be the most suitable option.

Alternatively, if you are saving for a pension over the long-term, you may consider higher-risk investments because there should be plenty of time to ride out the ups and downs of the markets.



## Whether you want growth or income

Do you want to grow your wealth steadily over the long-term, or will you need regular access to your investments' earnings to supplement your income?

You can opt for a combination of both, or change your strategy as your objectives change.

# BITA Risk

Max Equity



0

80/20



0

Concentration



0

Volatility



0

Tracking Error



0

FI UK



FI OS



EQ UK



EQ OS



CASH



ALT



1Y Abs Perf



1Y Rel Perf



Turnover



KE Expiry



KE Status



# OUR RESEARCH ADVANTAGE

Fundamental to our success is the research provided by our in-house team of equity, fixed interest and collective (fund) analysts who have direct access to the management of listed companies and to managers of funds we invest in, giving us unique insights and investment opportunities.



Analysts identify **future trends** that your portfolio can benefit from in the long-term as well as monitoring for short-term market opportunities.



We take a **global outlook**. Recommendations include global equities and emerging markets as well as government bonds, property and alternative investments.



Combining **proprietary and external research** enables analysts and investment managers to take an impartial and informed view of assets.



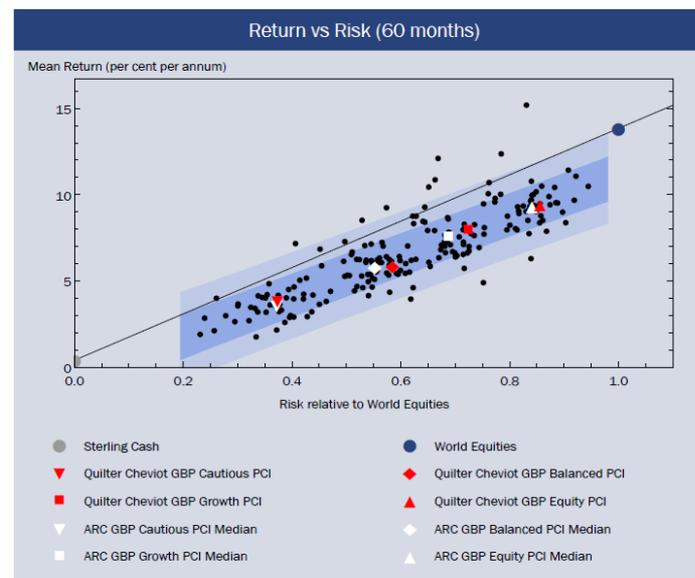
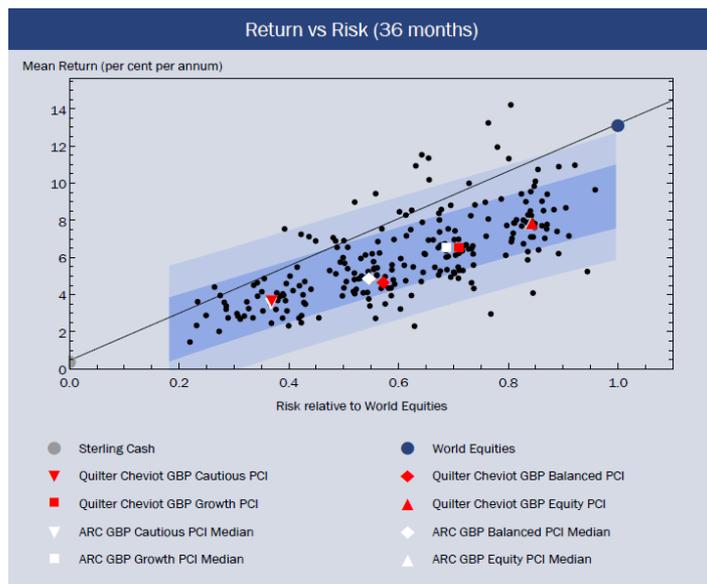
Investment Managers sit alongside research analysts on **investment oversight committees**, providing feedback and recommendations on holdings.

# HOW WE CLASSIFY THE ALTERNATIVES WE INVEST IN

<b>RETURN DIVERSIFIER</b>		<b>Commercial property</b>	
<b>INCOME GENERATOR</b>		<b>Infrastructure</b>	
<b>VOLATILITY DAMPENER</b>		<b>Hedge funds Absolute return funds</b>	
<b>EVENT RISK HEDGE</b>		<b>Gold</b>	



# Monitoring client performance

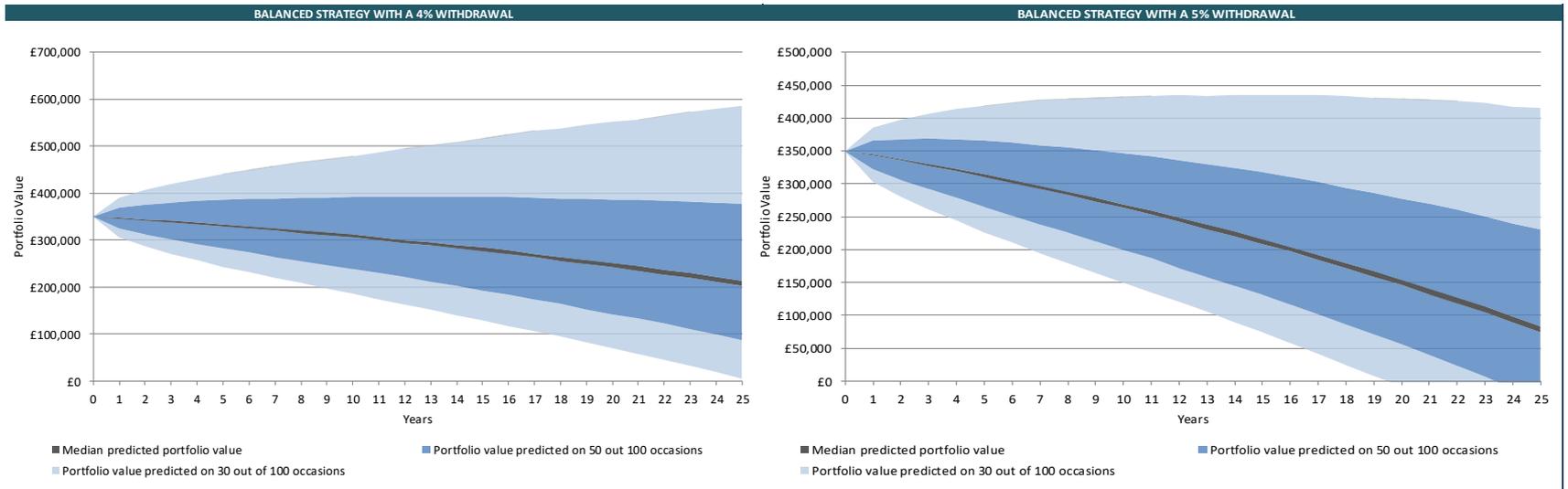


The red shapes represent the average of our private client returns over the period and the black dots are the results reported by other firms.

Source: ARC Research Ltd PCI, June 2021. [www.assetrisk.com/pci](http://www.assetrisk.com/pci)  
Past performance should not be seen as a reliable indication of future performance



# Drawdown with income withdrawal



## INTERPRETING THE FAN CHART

The fan chart depicts the probability of various portfolio value outcomes over time. If our economic estimates were to prevail, we predict that on 50 out of 100 occasions the portfolio value would lie within the dark blue shaded area. On 30 out of 100 occasions we predict that the portfolio value would lie within the light blue shaded area. On the remaining 20 occasions we predict the portfolio value would fall somewhere else on the fan chart, outside the shaded areas. The grey line in the centre of the chart represents the average expected outcome for the portfolio value.

Source: ARC Research Ltd PCI, June 2021. [www.assetrisk.com/pci](http://www.assetrisk.com/pci)  
 Past performance should not be seen as a reliable indication of future performance



# Disclaimer

This presentation has been prepared only for the recipient and date shown on the front page. It is not intended for any other persons and should not be relied upon by other persons.

This presentation has been prepared for information purposes only and is not a solicitation or an offer to buy or sell any security. It does not purport to be a complete description of our investment policy, markets or any securities referred to in the material. The information on which the presentation is based is deemed to be reliable, but we have not independently verified such information and we do not guarantee its accuracy or completeness. All expressions of opinion are subject to change without notice. Any reference to the Quilter Cheviot model portfolio, which is used for internal purposes, is purely illustrative and should not be relied upon. The figures quoted do not include charges.

The value of investments, and the income from them, can go down as well as up and that past performance is no guarantee of future return. You may not recover what you invest. Changes in exchange rates may have an adverse effect on the value, price or income of foreign currency denominated securities. Levels and bases of taxation can change. Investments or investment services referred to may not be suitable for all recipients.

Quilter Cheviot Limited is registered in England with number 01923571, registered office at Senator House, 85 Queen Victoria Street, London EC4V 4AB. Quilter Cheviot Limited is a member of the London Stock Exchange, authorised and regulated by the UK Financial Conduct Authority; and regulated under the Financial Services (Jersey) Law 1998 by the Jersey Financial Services Commission for the conduct of investment business in Jersey and by the Guernsey Financial Services Commission under the Protection of Investors (Bailiwick of Guernsey) Law 1987 to carry on investment business in the Bailiwick of Guernsey. Accordingly, in some respects the regulatory system that applies will be different from that of the United Kingdom. This document is intended solely for the addressee and may contain confidential or privileged information. If you have received this document in error, please permanently destroy it and do not use, copy or disclose it.

