Standard Life
There's a lot to look forward to

MyFolio
Suitability aid

For financial advisers only

This document is designed to aid you with your due diligence and outsourcing requirements by providing some information on MyFolio.

1. About MyFolio funds

1.1 Why invest in the MyFolio funds?

The MyFolio fund range is a family of carefully built funds designed to maximise returns for the level of risk that you have agreed you are comfortable with.

By offering a range of funds across different risk levels and investment styles, it is easier to find a fund that is appropriate for you.

Each option invests across a wide range of asset classes, which can help to spread risk while also providing different sources of return. The different funds can also be mixed to create bespoke portfolios designed to help you meet your specific investment goals.

1.2 Choice of risk levels

The MyFolio funds offer a range of five risk levels which are designed to match different attitudes to risk.

You have selected the risk level that's most appropriate for you and the fund will always be managed to meet its risk level.

Generally, the higher the risk level, the higher the potential return and the lower the risk level the lower the potential return. You should remember that the value of a MyFolio fund can fall as well as rise. Even the lowest risk fund can still fall in value.

1.3 Risk level descriptions

MyFolio I
This investment option is designed for a customer who is conservative with their investments. They prefer taking a small amount of risk to achieve modest or relatively stable returns. They accept there may be some short-term periods of fluctuation in value.

MyFolio II
This investment option is designed for a customer who is relatively cautious with their investments. They want to try to achieve a reasonable return, and are prepared to accept some risk in doing so. Typically these funds will exhibit relatively modest yet frequent fluctuations in value.

MyFolio III
This investment option is designed for a customer with a balanced attitude to risk. They don't seek risky investments but don't avoid them either. They are prepared to accept fluctuations in the value of their investments to try and achieve better long-term returns. Their investments may be subject to frequent and, at times, significant fluctuations in value.

MyFolio IV
This investment option is designed for customers who are relatively comfortable with investment risk. They aim for higher long-term returns and understand that this can also mean some sustained periods of poorer performance. They are prepared to accept significant fluctuations in value to try and achieve better long-term returns.

MyFolio V
This investment option is designed for customers who are very comfortable with investment risk. They aim for high long-term investment returns and do not overly worry about periods of poorer performance in the short to medium term. Ordinarily these funds can be subject to the full extent and frequency of stock market fluctuations.

1.4 Greater diversification

A golden rule of investing money is diversification. Spreading your money across asset classes can help to smooth out your investment returns over time.

An 'asset class' is a category of investments, such as equities or bonds. Normally assets in the same class have similar characteristics. However, they can have very different returns and risks.

The value of the investments in any asset class can go up or down, and may be worth less than what was paid in – there are no guarantees.

- The MyFolio Active Funds invest in a diverse range of assets and investment strategies, such as equities (shares), bonds, property and absolute returns, as well as across different countries. They do this mainly through actively managed funds from abrdn

- The MyFolio Market Funds invest in a diverse range of assets, such as equities (shares), bonds and property, as well as across different countries. They do this mainly through (passive) index funds but may also invest in actively managed funds
- By including commercial property (in all funds) and absolute return strategies (in the MyFolio Active funds), the fund manager looks to further increase diversification. Be aware that even a well-diversified portfolio can still fall in value

1.5 Transparency and easy access

- abrdn clearly understands and can openly communicate about the assets and strategies that the MyFolio funds invest in
- MyFolio funds are priced daily, so you can buy, sell or switch units in the same way as you can for any other fund

2. The management process

2.1 Strategic Asset Allocation

The Strategic Asset Allocation (SAA) for the funds is determined by abrdn in consultation with Moody's Analytics, a world leader in financial risk modelling. The SAA is formally reviewed on a quarterly basis on completion of the Moody's Analytics analysis.

Moody's Analytics undertake a risk/return optimisation process using the appropriate strategic asset classes as agreed with abrdn and make recommendations to abrdn as to the optimum strategic mix of those assets. The mix of assets is constrained to ensure a suitably diversified portfolio is achieved. The constrained optimisation process uses a 10 year time horizon to construct the strategic asset allocation benchmarks with the aim of generating optimal returns for each level of risk over the period. The resulting asset allocations are used to populate the asset mix 'pots' for the MyFolio Market Funds.

For MyFolio Active funds there is an additional step. abrdn believe that absolute return strategies offer a further valuable source of diversification for multi-asset portfolios.

2.2 Tactical Asset Allocation (MyFolio Active only)

Tactical Asset Allocation (TAA) positions for each fund will be decided by the Multi-Asset Investing (MAI) Team within abrdn. The MAI Team will apply their tactical investment views to fine tune the strategic asset allocation and take advantage of shorter term opportunities. In practice this will tilt the strategic asset allocation benchmarks in the direction of favoured asset classes over the shorter term. The TAA positions implemented across the multi-asset portfolios are reviewed on a regular basis with any changes being driven by a change in recommendation from the Global Investment Group (GIG), the team that collates their House View or by a change in the benchmark weighting in a specific asset class. The nature of the five risk based funds requires disciplined strategic risk controls consistently applied across the suite of funds , therefore the maximum TAA positions permissible within each asset class is + /- 5%. An additional risk control is also applied at defensive and growth assets level. This higher level constraint is at the same level of +/- 5%.

2.3 Fund rebalancing

abrdn aim to always keep trading costs to a minimum whilst ensuring funds remain within their agreed risk parameters. Fund holdings are reviewed daily to determine what, if any, re-balancing is required as a result of market movements and cash flow. Daily re-balancing back to an exact pre-determined TAA position without any tolerance levels would, they believe, be counterproductive from a cost perspective.

As such they consider three key areas on a daily basis, asset allocation tolerance, portfolio tracking error and deal size to determine their dealing strategy for the fund.

Asset allocation tolerance - aim to keep the daily positions of each asset class within +/- 1.25% of the TAA position

Portfolio tracking error - aim to have a low daily tracking error relative to the default portfolio position

Deal size - deal sizes are considered to ensure dealing costs are not disproportionately high relative to the cash allocation. Before any deals are struck they go through an iterative process that determines the most cost effective dealing strategy taking into account the above factors. They believe they add value through this process by keeping dealing costs low whilst ensuring the funds remain within their defined risk parameters.

3. The fund managers

3.1 abrdn

abrdn manages €531bn for its customers, making it the largest active manager in the UK and one of the largest in Europe. It has offices around the world giving it the scale and expertise to help customers meet their investment goals.

Source: abrdn as at 30 June 2021.

3.2 Vanguard

Vanguard manage the passive investments in MyFolio Market. They are one of the world's largest investment companies and were selected for their expertise in passive investing.

4. Your fund choice

4.1 Mixing and control

You have chosen a solution where MyFolio Funds are used in combination with other MyFolio Funds that have different investment style(s), but maintain the same risk level, to create a tailored investment. This is a good way of controlling costs and managing style, risk and asset diversity.

4.2 MyFolio Active

The MyFolio Active Funds aim to provide a total return from a combination of income and capital growth over the longer-term.

These mainly invest in funds which are actively managed by abrdn.

abrdn will choose how much to invest in the different types of funds with the aim of achieving the best possible return for each MyFolio Active Fund's risk level.

4.2.1 Suitability – MyFolio Active Funds may not be suitable if you:

- Do not wish to take any risk with your capital
- Are investing for less than five years
- Do not wish to invest in a fund that can invest in collective investment schemes
- Do not wish to invest in a fund that invests in property
- Do not wish to invest in a fund that can invest in absolute returns in order to achieve their objectives

4.2.2 Suitability – MyFolio Active Funds may be suitable if you:

- Wish to invest in a fund that aims to provide a total return from a combination of income and capital growth over the longer-term
- Are seeking a fund solution that is tailored to closely match your attitude to risk and reward
- Are comfortable with the potential risks and benefits that may be achieved through diversification of assets and rebalancing

4.3 MyFolio Market

The MyFolio Market Funds aim to provide a total return from a combination of income and capital growth over the longer-term.

They mainly invest in passive funds (known as index funds) from large, highly regarded providers. Index funds aim to replicate (or track) the performance of a stock market index (before fund charges). abrdn will actively choose how much to invest in the different index funds and, to provide additional diversification, may also invest in actively managed funds. As index funds tend to have lower fund management charges than actively managed funds, this is a lower cost MyFolio option.

4.3.1 Suitability - MyFolio Market Funds may not be suitable if you:

- Do not wish to take any risk with your capital
- Are investing for less than five years
- Do not wish to invest in a fund that can invest in collective investment schemes
- Do not wish to invest in a fund that invests in direct property

4.3.2 Suitability - MyFolio Market Funds may be suitable if you:

- Wish to invest in a fund that aims to provide a total return from a combination of income and capital growth over the longer-term
- Are seeking a fund solution that is tailored to closely match your attitude to risk and reward
- Are comfortable with the potential risks and benefits that may be achieved through diversification of assets and rebalancing

Appendix

Additional information and risks

As with all investments, there are risks associated with investing in the MyFolio funds. We have discussed them and they are shown below. Please do take the time to read these risks, as it is important you understand them. Some of the risks may use terminology you may not be as familiar with.

General risks

As with any investment, the value of your fund can go up or down and may be worth less than what was paid in.

Collective Investment Schemes – The funds can invest in collective investment schemes which can themselves invest in a diverse range of other assets. These underlying assets may vary from time to time but each category of asset (which may include equities, bonds or immovable property) has individual risks associated with them. The funds may not have any control over the activities of any collective investment scheme invested in by the funds.

Past performance is not a reliable guide to future performance.

Risk factors

The funds can invest in a wide variety of investment strategies and assets. Here are the specific or heightened risks applicable to the MyFolio funds (it's not an exhaustive list of all potential strategies or asset classes).

Market risk is the risk that market conditions can negatively impact investment returns. For instance, the prices of securities are dependent on general supply and demand that fluctuates independently of any security in particular. Market risk is generally dependent on economic conditions, such as inflation, consumer sentiment, or credit availability.

Emerging markets tend to be more volatile than more established stock markets and therefore your investment may be subject to greater risk. Political and economic conditions should also be taken into account. The reliability of trading and settlement systems in some emerging markets may not be equal to that available in more developed markets, which may result in delays in realising investments within the funds.

Currency risk means investments may be made in assets denominated in various currencies, and movements in exchange rates may have a separate effect on the value of and the returns from such investments.

Financial risk or default/credit risk is the risk that a business will not be able to make payments due to its debt load. Interest and principal must be paid on borrowed money – failure to make payments can force the business into bankruptcy. A business with large amounts of debt relative to income does not have much reserve for unexpected expenses or lower income, and can fail if the economy sours or if it encounters some other factor that lowers income or increases expenses. Funds investing in corporate bonds are therefore subject to default on the interest owed and/or the ability of the bond issuer to return capital on the redemption date. The risk of this happening is usually higher with bonds classified as 'sub-investment grade'. These may produce a higher level of income but at a higher risk than investments in 'investment grade' bonds. In turn, this may have an adverse impact on funds that invest in such bonds. The yields offered by funds investing in fixed interest securities reflect, in part, the risk rating of the issuers of these securities.

Interest rate risk is a risk that lowers yields or returns due to changes in the prevailing interest rate. Interest rate risk can affect different securities in different ways. The price of bonds in the secondary market, for instance, varies inversely to interest rates i.e. when interest rates rise, the price of bonds drops, and vice versa.

Inflation risk is a risk that lessens real returns due to the decreasing purchasing power of the returns.

Liquidity risk is the risk that an investment cannot be sold quickly for a reasonable price. Real estate or property, for instance, is an illiquid investment because it can take considerable time to sell unless it is sold below market value. Other markets can also be less liquid and therefore can be more volatile, such as smaller companies securities or emerging markets.

Property risk occurs as the valuation of property is a matter of judgment by an independent valuer. The value of capital and income will fluctuate as property values and rental incomes rise and fall.

Where investment in property is made, either directly or indirectly, it should be noted that due to the nature of these assets, significant volatility may be experienced during times of extreme market turmoil.

The underlying investments of property funds can generally be less liquid than equities or bonds and, as such, purchases and sales may be a long and uncertain process. At times, cash may remain uninvited if it proves difficult to make purchases. Equally, there may be times when property has to be sold quickly and for less than expected.

Business risk is any risk that can lower a business net assets or net income that could, in turn, lower the return of any security based on it. Some business risks are sector risks that can affect every company in a particular sector, while some business risks affect only a particular company. Higher mortgage rates can increase the business risk for real estate or construction companies, for instance. However, even similar businesses can have widely different risks depending on the quality of management and the resources that are available to the business.

Event risk is the risk of an event that can have an impact on the potential return of an investment. Generally, event risk is risk that affects a single company and its securities, such as the loss of a major lawsuit or an accounting scandal. Sometimes event risk can affect a number of securities, such as the political risk that a country will do something that will drive down the prices of any securities issued by companies located there, such as increasing taxes, discouraging foreign investment, or in extreme cases, nationalising the companies without proper compensation.

Absolute Return risks

MyFolio Active Funds may invest in absolute return funds. It is important when considering absolute return funds or absolute return investing not to confuse this with guaranteed funds or products which guarantee a positive nominal return over any period.

Intangible risks and volatility

The risks of a fund can be measured in different ways. Volatility (a measure of how much a fund's price has varied in the past) will not necessarily always provide a complete picture of a fund's risk. Some risks are not represented in the movement of the unit price until they emerge and only then will they have a significant effect on a portfolio.

Absolute return funds can invest in a wide variety of investment strategies and assets.

Extensive use of derivatives

In order to achieve its objectives an absolute return fund utilises a combination of traditional investments (such as equities, bonds and foreign exchange) and advanced techniques where it can use derivatives extensively. Derivatives are financial instruments which derive their value from an underlying asset, such as a share or bond, and are used routinely in global financial markets. Used carefully, derivatives offer an effective and cost-efficient way of investing in markets. However, derivatives can lead to increased volatility of returns in a fund, thus requiring a robust and extensive risk management process. While the fund will not borrow cash for investment purposes, the total value of exposures to markets will routinely exceed the fund's net asset value. Derivatives may be Exchange Traded or Over the Counter (OTC).

Use of 'short' positions

Typically, UK authorised collective investment schemes invest on a 'long only' basis. A fund, by employing certain derivative techniques, will establish both 'long' and 'short' positions in individual markets and sectors. Investing on a 'long' basis means that the value of the derivative will rise or fall in the same direction as the underlying market value of the asset from which it is derived. If investments are made on a 'short' basis the value of the derivative will rise and fall in the opposite direction to the underlying market value of the asset from which it is derived.

Counterparty risk

The Investment Manager may use one or more separate counterparties to undertake derivative transactions on behalf of a fund. From time to time a fund may be required to pledge collateral, and when this is required it will be paid from within the assets of the fund. When a derivatives contract moves in favour of the fund there is a risk that the counterparty may wholly or partially fail to honour their contractual obligations under the arrangement. The Investment Manager assesses the creditworthiness of counterparties as part of the risk management process and will ordinarily hold collateral to mitigate this.

Active fund management

The majority of risks within traditional investment funds are driven by the type of investments held (i.e. equities, fixed interest or property, etc). The risks that fund management decisions add are generally of a smaller magnitude than those of the asset types themselves. Funds which employ an absolute return strategy may not have a structure where most of the returns are generated from traditional asset types. Rather, they may derive most of their returns from very specific strategies. As a result of this, the risks of the fund are driven primarily by these fund management decisions, and less by the characteristics of the underlying traditional asset types.

Correlation

A fund will invest in a diverse set of investment strategies, which in the opinion of the investment adviser have attractive risk reward characteristics. While the breadth of the strategies is significant, should they start to exhibit closer correlation i.e. move in the same direction as one another, the fund may be subject to a higher level of risk and volatility than anticipated.

(01) 639 7000 **www.brokerzone.ie** brokersupport@standardlife.ie

