



M&G Wealth

Initial Risk Profile Report

July, 2022



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Executive summary

Dynamic Planner has reviewed 10 solutions offered by Hymans Robertson.

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
Passive MPS 1	3	Risk Profiled
Passive MPS 2	4	Risk Profiled
Passive MPS 3	5	Risk Profiled
Passive MPS 4	6	Risk Profiled
Passive MPS 5	7	Risk Profiled
Hybrid MPS 1	4	Risk Profiled
Hybrid MPS 2	5	Risk Profiled
Hybrid MPS 3	5	Risk Profiled
Hybrid MPS 4	6	Risk Profiled
Hybrid MPS 5	7	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

This report was commissioned by M&G Wealth, who contracted Dynamic Planner to determine the appropriate risk profile for a solution based on the risk profiles used in the Dynamic Planner platform. The following solutions are reviewed in this report:

- Passive MPS 1
- Passive MPS 2
- Passive MPS 3
- Passive MPS 4
- Passive MPS 5
- Hybrid MPS 1
- Hybrid MPS 2
- Hybrid MPS 3
- Hybrid MPS 4
- Hybrid MPS 5

The profile provided in this report are based on Dynamic Planner's Q2 2022 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 M&G Wealth 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

Hybrid Range:

Hybrid is a range of five risk-managed portfolios, with the following characteristics:

Blend of active and passive Investments

The portfolio is invested in passive and active funds. Actively managed investment funds predominantly employ fundamental investment analysis to achieve their objectives. Passively managed investment funds typically track a market index or specific area of the market. M&G Wealth determines which passive and active funds are used, taking into account the potential to generate returns and fund costs.

Invested regionally

The majority of the portfolio is invested in funds that hold equities and bonds from specific regions, such as a UK equity fund or UK corporate bond fund. This means the active fund managers used within the portfolio are focused on selecting companies within a specific country or region

Passive Range:

Passive is a range of five risk-managed portfolios, with the following characteristics:

Uses passive investments

The portfolios are predominantly invested in passive funds. These funds typically track a market index or specific area of the market.

Invested regionally

The majority of the portfolio is invested in funds that hold equities and bonds from specific regions, such as a UK equity fund or UK corporate bond fund.

3 Analysis and methodology

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 as of Q2 2022. 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 profile assigned to these solutions are based on the holdings provided by the manager.

M&G Wealth provided us with data for January, February, and June 2022. We have used the data to assess the Risk Profile of the solutions by mapping the holdings to our asset classes and calculating the expected volatility for each solution using our assumptions. The most recent positions will have the most weight in assigning the Risk Profile.

4.1 Analysis

We have profiled the solutions based on data provided which is representative of the way the portfolio will be managed as they are yet to launch.

The figure below shows the position of each solution with respect to Dynamic Planner’s frontier. The grid lines show the boundaries of each risk profile defined by Dynamic Planner. For example, risk profile 1 corresponds to volatility of 0-2.1%, risk profile 2: 2.1-4.2%, and so on.

All solutions are in line with expectations.

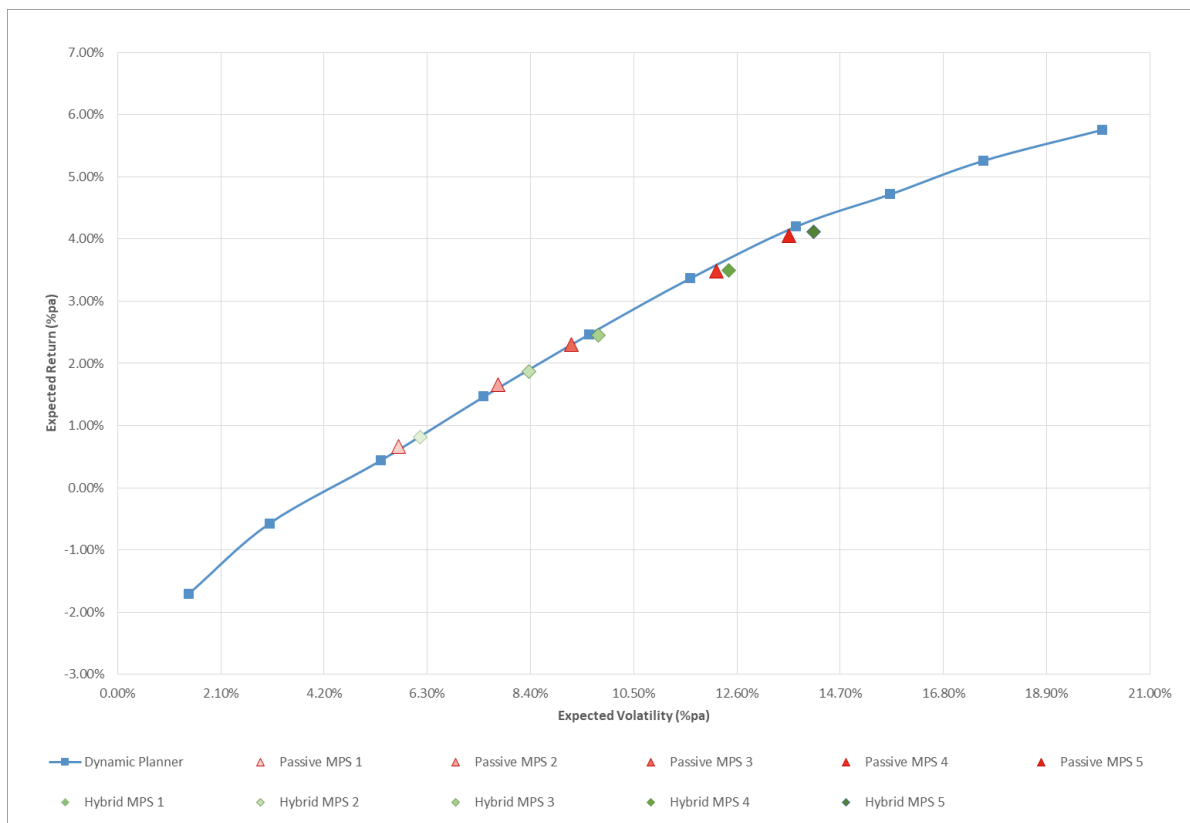


Figure 1: Solutions vis-à-vis the Dynamic Planner frontier

All following charts in this section show a breakdown of the holdings in a risk-adjusted basis for June 2022.

Figure 2 shows the relative allocations to the broad asset classes across the fund. The equity exposure increases and the fixed income exposure decreases proportionally from MPS 1 to MPS 5 in both Passive and Hybrid. The cash portion remained mostly the same between profiles in each range.

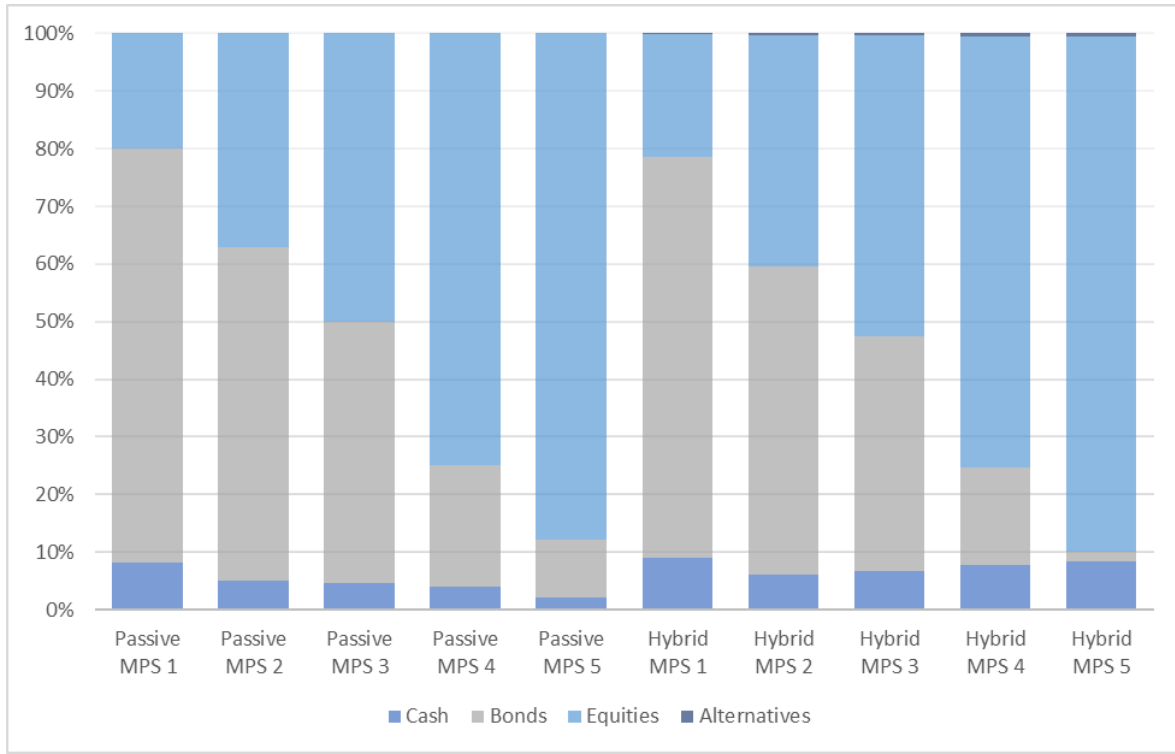


Figure 2: Broad Asset Allocations

The Figure 3 shows the contributions to risk from the broad asset classes, which are not distributed in the same way as asset class weights: equities being the riskiest asset class of the four has the highest contribution to risk in the whole fund.

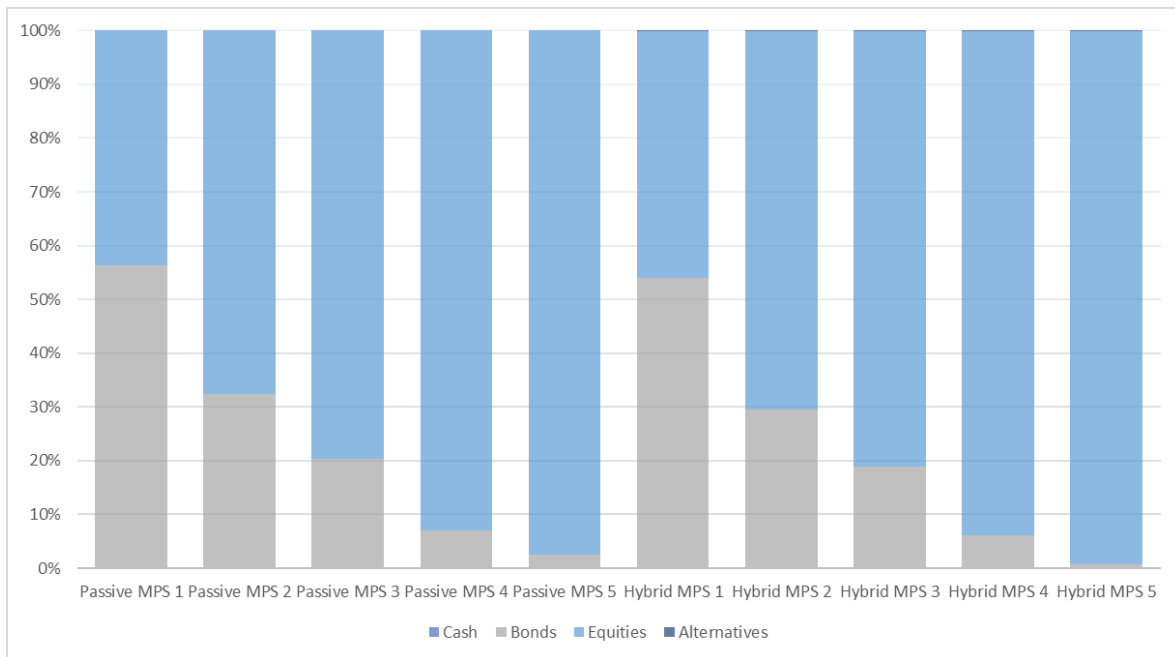


Figure 3: Risk Contribution from broad asset classes

The Figure 4 shows the regional breakdown of equity allocations. The solutions invest mainly in UK Equity, North American Equity and Asia Pacific ex Japan Equity, but all allocations increase almost proportionally. This is in line with the investment objective of both ranges which states that the funds invest globally.

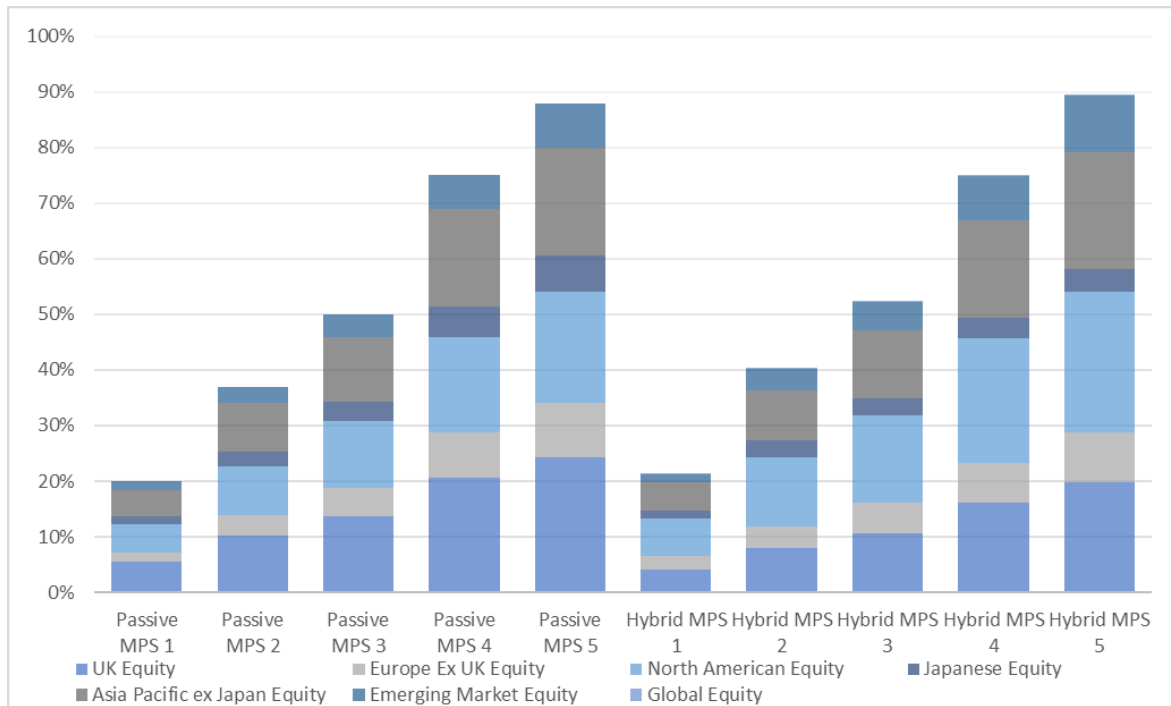


Figure 4: Equity Risk Allocations

In terms of market cap breakdown, the allocations are predominantly large cap followed by 'All Cap'. This implies that regional exposures are the main drivers of risk. Please note that 'All Cap' refers to positions which could not be split by market capitalisation.

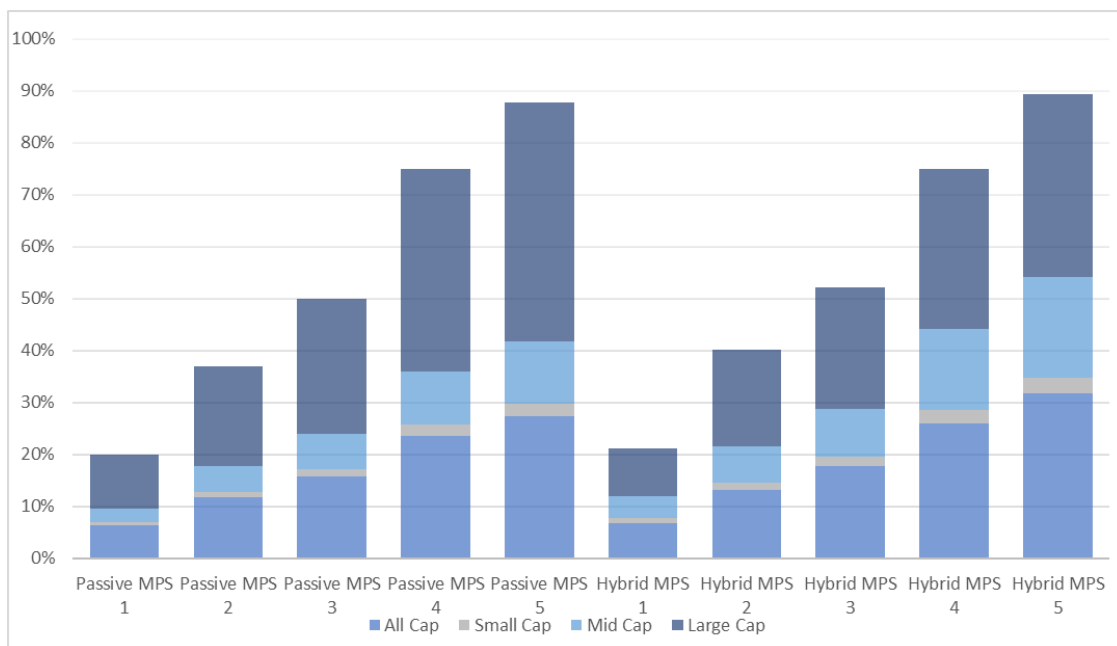


Figure 5: Market Cap breakdown of Equities

In terms of Fixed Income, while the majority of the Fixed Income exposure is Investment Grade, there is significant exposure to High Yield and Emerging Market bonds for both the Passive and Hybrid range. This results in the fixed income allocation having a greater contribution to risk than equity for the Hybrid MPS 1 and Passive MPS 1, as can be seen in Figure 3. There is a substantial decrease in both ranges between MPS 3 and MPS 4 with fixed income exposures decreasing by over 20% which can also be seen in the change in volatility in Figure 1. The fixed income exposures can be seen below in Figure 6.

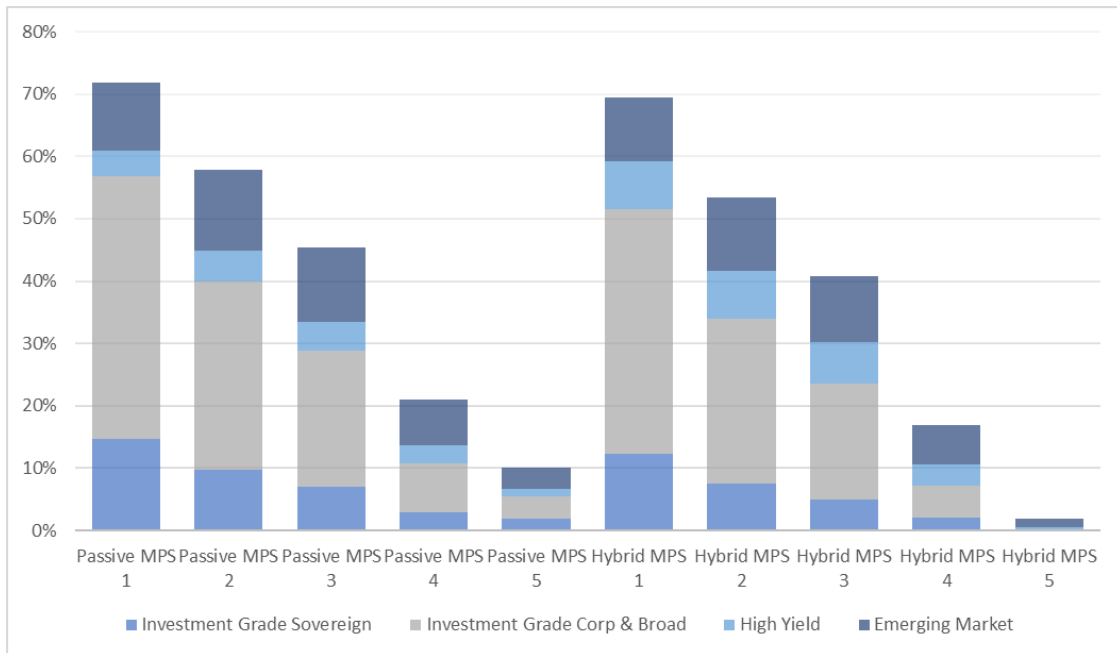


Figure 6: Fixed Income allocations

5 Summary

In Table 2 below, we summarise the risk profiles of the solutions based on the different measures set out above.

Fund	Calculated Risk Profile	Assigned Risk Profile
Passive MPS 1	3	3
Passive MPS 2	4	4
Passive MPS 3	5	5
Passive MPS 4	6	6
Passive MPS 5	7	7
Hybrid MPS 1	4	4
Hybrid MPS 2	5	5
Hybrid MPS 3	5	5
Hybrid MPS 4	6	6
Hybrid MPS 5	7	7

Table 2: Summary of risk profile

- 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

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 3: Dynamic Planner Risk Profile boundaries

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