



# Fund Guide

Getting to know  
the MyFolio Funds



**Standard Life**  
**Investments**

This document is only intended for use by investment professionals in the United Kingdom

## **Contents**

- 1 Introducing the MyFolio Funds**
- 2 MyFolio Funds**
- 3 MyFolio Multi-Manager**
- 4 MyFolio Market Funds**
- 5 MyFolio Managed and MyFolio Multi-Manager**
- 6 MyFolio Multi-Manager**
- 7 Blending different styles to create a bespoke investment**
- 8 How the MyFolio Funds are built**
- 9 How to access the MyFolio Funds**

# Introducing the MyFolio Funds

The MyFolio Funds are a family of carefully constructed risk-based portfolios, managed by Standard Life Investments, that offer you and your clients a choice of active and passive investment strategies across five risk levels.

Whatever your investment philosophy, you decide on the most suitable risk profile and investment style for your client and select the appropriate MyFolio Funds - the rebalancing and monitoring are all taken care of.

# MyFolio Funds

## Innovative approach to asset allocation

Aiming to maximise returns for the level of risk selected, asset allocation strategies that you wouldn't expect to find in most risk-based portfolios are used:

- ▶ A strategic asset allocation benchmark that is designed to generate the highest expected return for the given level of risk in each fund. We currently engage Barrie & Hibbert, world-leading experts in risk modelling solutions in the financial services industry, to consult with us on the optimum strategic asset allocation for each fund.
- ▶ Commercial property is part of all the MyFolio Funds, including the tracker-based suite, the MyFolio Market Funds
- ▶ Absolute return investment strategies are incorporated across the two active options – the MyFolio Multi-Manager Funds and the MyFolio Managed Funds
- ▶ In addition Standard Life Investments provides tactical asset allocation across all MyFolio Funds.

## A new dimension of control

It's the ability to use the MyFolio Funds in combination that also sets them apart.

With the MyFolio range you can mix and match funds of the same risk level confident that your client's portfolios will stay within their chosen risk profile. This gives you the unique ability to blend different investment styles to create bespoke investments that you won't have to rebalance.

## Monitoring and rebalancing as standard

To keep your client's investment on track, rebalancing, monitoring and governance are built in to the MyFolio Funds:

- ▶ The strategic asset allocation is regularly reviewed to optimise the expected return of each portfolio
- ▶ The portfolios are rebalanced on an ongoing basis to maintain the target asset allocation position
- ▶ Tactical asset allocation is continually monitored to take advantage of shorter-term investment opportunities
- ▶ The performance of the underlying funds in the MyFolio Funds is monitored and funds are replaced wherever a more appropriate alternative is found
- ▶ The Fund Selection Governance Committee oversees the fund research process and includes independent experts from outside the Standard Life group. This provides independent challenge to our fund research and selection processes.

## Easy access

The MyFolio Funds are available through direct investment, Standard Life platforms and tax wrappers (excluding stakeholder) and selected third party platforms.

## Choose a style to suit your investment philosophy

- ▶ **MyFolio Market Funds** – a lower-cost option investing mainly in tracker funds.
- ▶ **MyFolio Managed Funds** – an actively managed and competitively priced option that invests mainly in funds managed by Standard Life Investments.
- ▶ **MyFolio Multi-Manager Funds** – portfolios of carefully selected funds from some of the leading managers in the market.

## And a level of risk to suit your client

MyFolio Funds are risk-rated I to V:

### MyFolio I

Conservative with their investments. These clients 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

Relatively cautious with their investments. These clients want to try to achieve a reasonable return, and are prepared to accept some risk in doing so. Typically these portfolios will exhibit relatively modest yet frequent fluctuations in value.

### MyFolio III

Balanced in their attitude towards risk. These clients 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. These portfolios will be subject to frequent and at times significant fluctuations in value.

### MyFolio IV

Relatively comfortable with investment risk. These clients 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 fluctuation in value to try and achieve better long-term returns.

### MyFolio V

Very comfortable with investment risk. These clients 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 portfolios can be subject to the full extent and frequency of stock market fluctuations.

# MyFolio Market Funds

Designed to offer a lower-cost investment solution, the MyFolio Market Funds invest in a carefully selected portfolio that's mainly made up of tracker funds. The tracker funds are largely selected from a few high quality providers where appropriate discounts have been agreed. This fits with the 'low cost to consumer' nature of tracker investing.

There may be times when no tracker fund meets the strict selection criteria. If this happens, then the affected part of the portfolio will temporarily be allocated to the most suitable alternative.

To set the MyFolio Market Funds apart, they also invest in a number of direct property funds. This gives your clients a lower-cost investment, plus exposure to a wider range of assets than they might achieve in an ordinary portfolio of tracker funds.

## How property gives the MyFolio Market Funds a unique advantage

The MyFolio Market Funds' manager carefully selects active property funds from across the market in order to provide diversified exposure to the property market in addition to the other asset classes.

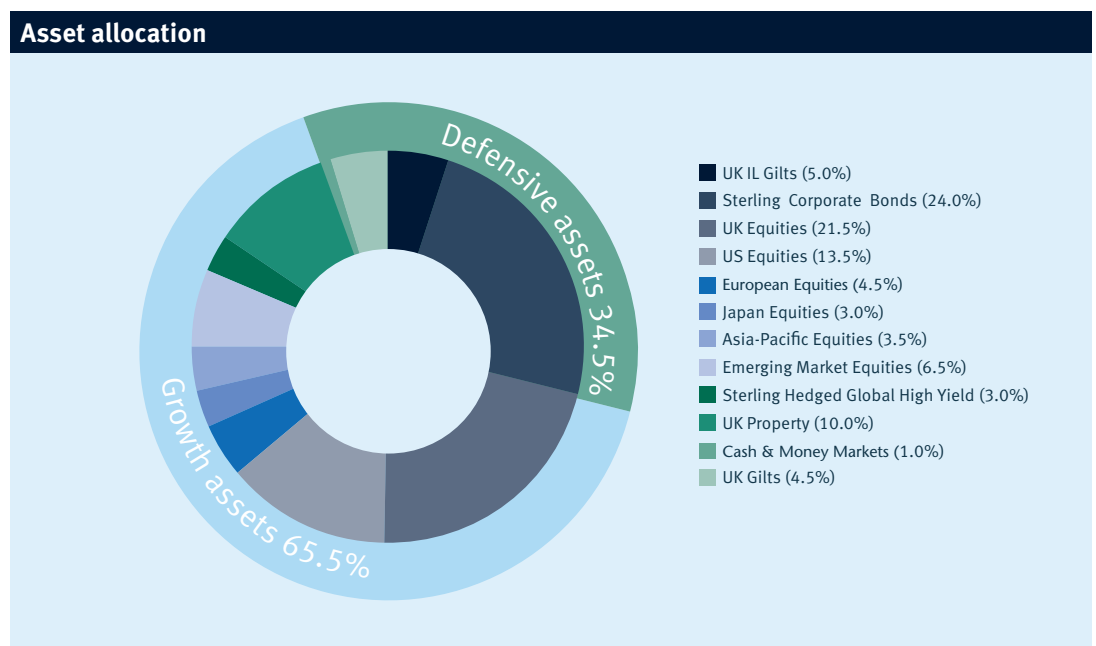
This is done as there is no conventional way to track the performance of the property market. Each building is unique and owned by one or a small number of investors, which means it's not possible to invest directly in the whole property market as a tracker fund would need to.

Investing in a number of diversified property funds secures a stake in a greater number of properties, giving clients broader property market exposure. It also reduces the risk of exposure to a single, poorly performing fund manager.

By providing broad access to the property market as well as reducing fund manager risk, this approach is consistent with the philosophy of tracker investing.

## Asset allocation

This example is based on the risk level III portfolio's current strategic asset allocation benchmark. Remember, the funds' actual exposure to these asset classes will vary around the strategic position. This is due to a number of factors including tactical asset allocation and the precise make up of the underlying funds.



# MyFolio Managed and MyFolio Multi-Manager

These two styles are mainly composed of actively managed funds and offer broad asset diversification:

- ▶ **MyFolio Managed Funds** mainly uses Standard Life Investments funds, allowing us to offer them at a better price than most multi-manager solutions.
- ▶ **MyFolio Multi-Manager** uses a range of funds from leading managers to diversify manager risk beyond Standard Life Investments.

Both styles include absolute return funds.

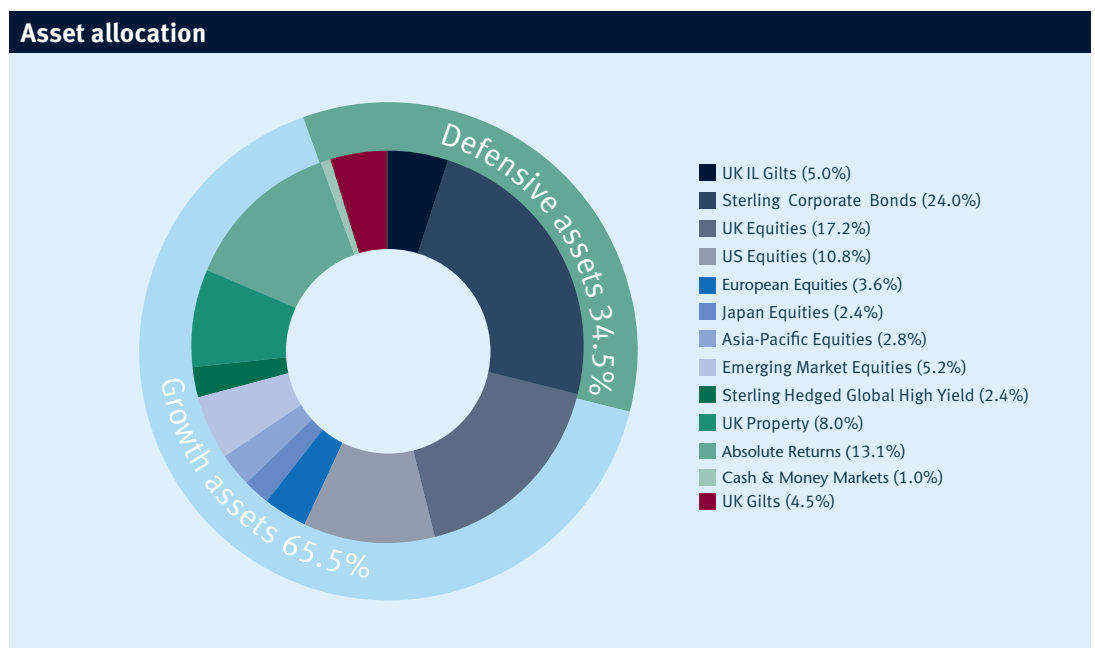
## Absolute return funds

Absolute return funds aim to provide positive returns in both rising and falling markets by using a combination of investment techniques including derivatives. The MyFolio Managed and Multi Manager Funds currently invest in our Global Absolute Return Strategies Fund (GARS), providing the funds with an innovative source of diversification.

Our GARS Fund seeks strategies from across the entire universe, including traditional asset classes and advanced strategies, often utilising derivatives, that span global markets. Currently a proportion (20%) of the traditional growth assets has been replaced by GARS to take advantage of its expected low volatility.

## Asset allocation

This example is based on the risk level III portfolio's current strategic asset allocation benchmark. Remember, the funds' actual exposure to these asset classes will vary around the strategic position. This is due to a number of factors including tactical asset allocation and the precise make up of the underlying funds.



# MyFolio Multi-Manager

## How we select funds

The MyFolio Multi-Manager Funds have been carefully selected from across the market because we believe they have the best potential to perform well in their respective asset classes. A rigorous process is followed to select these funds, based on in-depth quantitative and qualitative research.

## Who selects the funds?

Standard Life Investments' highly experienced Fund Solutions team undertakes fund analysis and fund selection for the MyFolio Funds.

## How are the funds chosen?

The first task is to use quantitative analysis to narrow down the list of over 2000 UK-authorized funds. To make the quantitative analysis more manageable a variety of factors are looked at to find those funds that can be compared like-for-like. Finally, qualitative analysis is carried out within these like-for-like groups, to find funds that stand out from the rest and meet the team's strict selection criteria.

Quantitative analysis looks at past performance. Whilst past performance is no guarantee of future performance, qualitative assessment is the key to identifying the potential for good future performance. This qualitative assessment helps to fine-tune the shortlist and highlights those funds expected to perform well in the future.

The research analysts insist on face-to-face meetings with fund managers to understand the thinking behind funds and how they are run.

Crucially, we need to be confident that fund managers know exactly what has driven their performance; that they know what the key asset allocation and stock selection decisions were, and they have the people and systems in place to allow them to perform in the future.

## Continuous monitoring

If it's decided a fund is no longer suitable or it doesn't meet the selection criteria, then it is replaced.

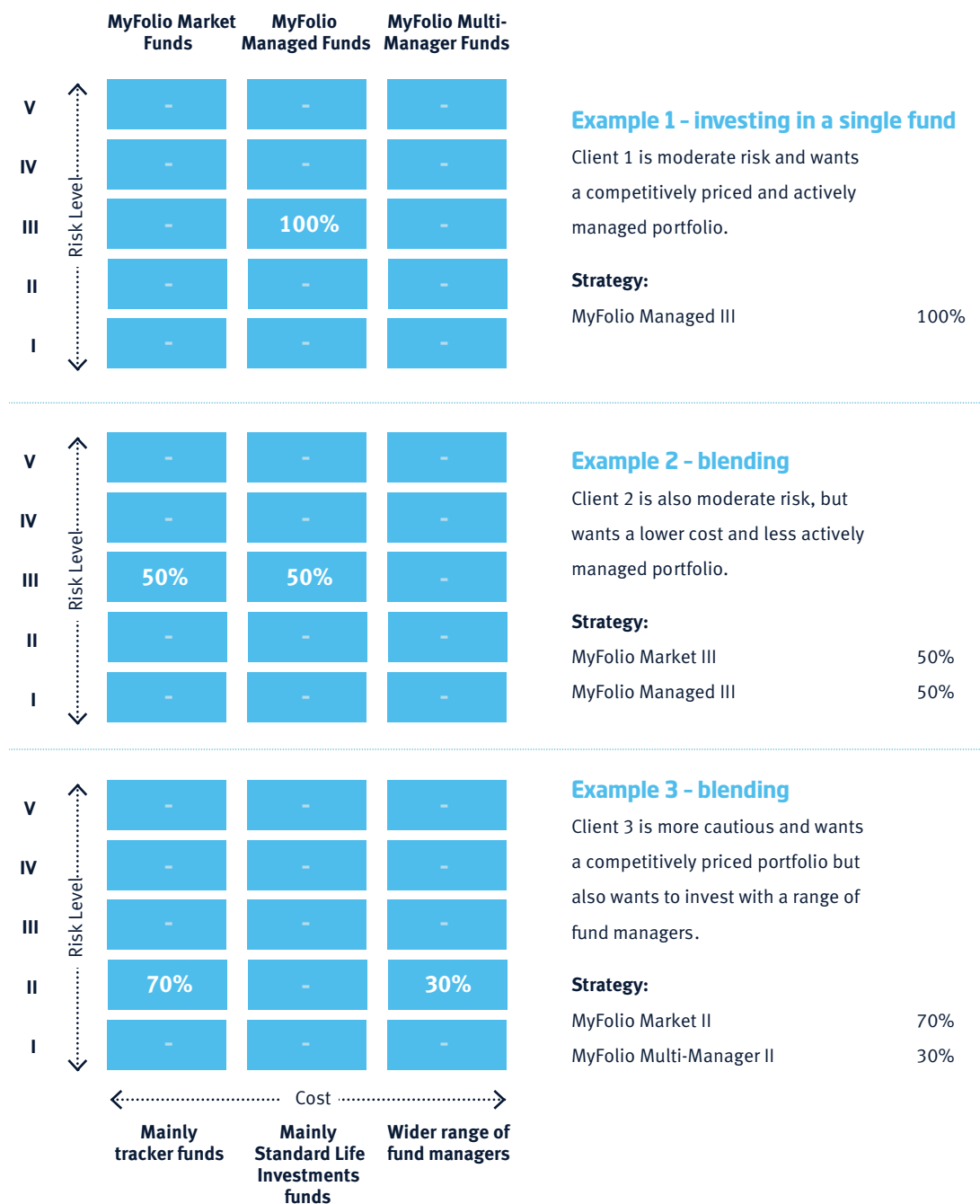
As well as formal annual reviews of each fund, the management teams of all funds are visited as often as necessary to make sure they're continuing to meet the selection requirements. The robust selection and monitoring process ensures all funds are analysed in exactly the same way and subjected to thorough, ongoing research.

## Independent review

The Standard Life Fund Selection Governance Committee meets regularly to review the fund research and fund selection processes. The committee includes two independent experts from outside the Standard Life group to provide an independent view. This provides independent challenge to our fund research and selection process.

# Blending different styles to create a bespoke investment

With the MyFolio range you can mix and match funds of the same risk level confident that your clients' portfolios will remain within their selected risk profiles. This means you can give your clients the freedom to invest in more than one style, without you having to rebalance.

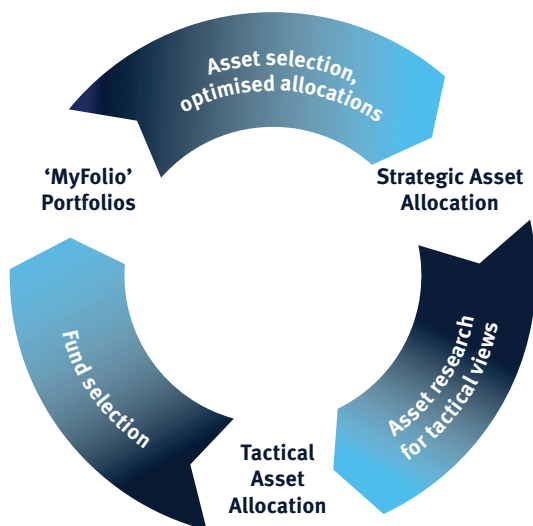


# How the MyFolio Funds are built

All the MyFolio Funds target the highest returns achievable for the chosen level of risk.

The process to achieve this contains four key steps:

- ▶ Identify the asset classes we want to invest in over the long term
- ▶ Use a portfolio optimisation process to identify the strategic asset allocation for each fund
- ▶ Fine-tune this asset selection to take advantage of short-term investment opportunities
- ▶ Select the most suitable funds to invest in.

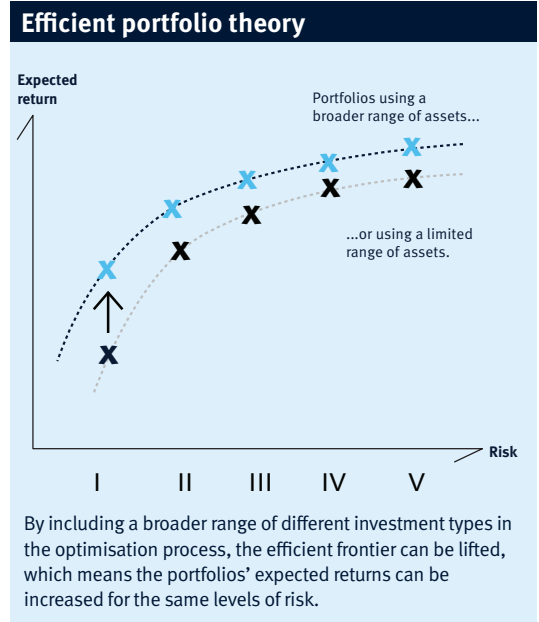


## 1. Identifying asset classes

The MyFolio Funds look beyond the traditional asset classes to maximise diversification by including commercial property in all three styles, and absolute return strategies in both actively managed styles.

## 2. Efficient asset allocation

A process called constrained optimisation is designed to create the most efficient asset mix. This starts with a detailed understanding of how each asset class is expected to behave: how it's expected to perform over the longer term; its volatility; and how its performance correlates with other asset classes. Investing in asset classes that behave differently is essential for maximising the benefits of diversification.



Optimisation helps to construct the strategic asset allocation benchmarks that are expected to generate the highest returns for each level of risk. Each selected asset combination will represent one of the five risk levels offered through the MyFolio Funds.

The output from the optimisation process is dependent on the quality of the forecasts, risk estimates and assumptions used. Regular reviews take place to make sure asset allocations are still appropriate.

The description above applies to the strategic asset allocation process for the MyFolio Market Funds. For the two sets of active MyFolio Funds there is an additional step.

Absolute return funds offer a valuable source of diversification for multi-asset portfolios. But using an optimisation process to set allocations to absolute return strategies is less rigorous than for traditional asset classes.

As a result, the proportion of absolute return investments included is a matter of judgement – if you believe strongly in absolute return investing there is nothing to limit the allocation. To maintain the diversification of the active MyFolio Funds to different sources of potential return we have elected to replace 20% of their growth assets with an absolute return component.

### 3. Tactical asset allocation overlay

The next stage is to apply Standard Life Investments' tactical investment views. This is done to take advantage of shorter-term investment opportunities by fine-tuning the strategic asset allocation with the aim of adding to performance.

These positions are continuously monitored and adjusted as appropriate.

### 4. How funds are selected for the MyFolio range

Fund selection varies across the three styles available in the MyFolio range:

**MyFolio Multi-Manager Funds** largely invest in carefully selected funds from across the market that we believe are among the best in their respective asset classes.

**The MyFolio Managed Funds** mainly invest in Standard Life Investments funds, allowing us to offer them at a better price. The Fund Manager may have some exposure to carefully selected funds from across the market.

**MyFolio Market Funds** mainly invest in trackers from across the market that meet our stringent selection criteria. The funds' manager carefully selects active property funds from across the market.

## How to access the MyFolio Funds

**MyFolio Funds are available through direct investment, Standard Life platforms and tax wrappers (excluding stakeholder) and selected third party platforms.**

As with all investments, the value of any funds your clients invest in can go down as well as up and they may not get back as much as they invest.

**standardlifeinvestments.co.uk**

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