



## Portfolio Architect: Evidencing best practice investment processes for pension transfers

The FSA's thematic review on pension switching clearly highlighted the importance of establishing a client's attitude to risk (ATR), ensuring that the recommended investment strategy is in line with this, that it's clearly recorded for your audit trail and that a suitable review process and remuneration structure is in place and evidenced.

While no tool can ever totally replace experience and personal judgement, Portfolio Architect can help to enhance your existing processes for risk profiling, asset allocation and client reporting.

In their report 'Quality of advice on pension switching – A report on the findings of a thematic review'<sup>\*</sup>, the FSA identified the following examples of good practice in relation to portfolio planning and reviews:

- The firm used a risk profiling tool to make an initial assessment of the customer's ATR.
- They then used a stochastic modelling tool to create a series of model portfolios, with the individual funds selected by an independent fund research company.
- Although systematised, the approach was not used as a 'black box' – the tools were used as a basis for discussion and the process was adapted, when merited, for individual customers.
- One firm had a very clear explanation in the template suitability report describing why ongoing reviews and rebalancing were needed for their portfolios (where an asset allocation approach had been recommended).
- Their standard service for customers also incorporated a full annual review and biannual rebalancing.'

<sup>\*</sup> Source: FSA December 2008

# The Portfolio Architect Solution

## Risk profiling

How do you evidence a robust and unbiased process for assessing your client's attitude to risk? Portfolio Architect provides a psychometric risk profiling questionnaire to support the analysis of your client's ATR. Their responses will map them to one of ten different risk profiles which have been stochastically modelled and back-tested. It can help you to quickly and impartially assess your client's attitude to risk.

We provide 10 different asset allocations to match your client's ATR. They can help you to identify appropriate fund choices in order to build a dynamic, multi-fund portfolio for your clients. They can also be amended to take into account your business's strategic and tactical asset allocation requirements.

## Stochastic modelling

Portfolio Architect can also help you to convert the client's risk profile into a suitable investment strategy – whether they're targeting a specific fund value or looking to meet a required yield.

It will also provide an illustration of the client's existing investment profile, your recommended profile, and can also include a third profile with a different level of risk. For example, you could include an additional profile that meets their investment objectives but with less risk than a profile mapped straight from their ATR.

## Clear client reporting

Portfolio Architect generates clear reports to help you to demonstrate the investment recommendations you're making. The report can also serve as evidence of the investment advice process in your client files.

The client-facing report outlines their risk profile and their investment objectives. It also provides a comparison between their current and your recommended asset allocation including a comparison of the likely performance and returns of both, helping your clients to make informed decisions.

The report is produced in rich text format, giving you the flexibility to add or amend the content to meet your specific client requirements and business needs.

**Portfolio Architect is intended to help enhance your existing processes for risk profiling, asset allocation and client reporting. It should not be solely relied upon when advising clients or making investment decisions.**



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48911 06/10