



# Vanguard Quarterly Risk Profile Update Note

## Q3 2021



## Summary

Fund	Weighted average asset allocation <sup>^</sup>	Latest historical asset allocation <sup>*</sup>	Comparable DT volatility <sup>†</sup>	Assigned risk profile	Status
LifeStrategy 20% Equity	3 (3)	3 (3)	3 (3)	3	
LifeStrategy 40% Equity	4 (4)	4 (4)	3 (3)	4	
LifeStrategy 60% Equity	5 (5)	5 (5)	4 (4)	5	
LifeStrategy 80% Equity	6 (6)	6 (6)	6 (6)	6	
LifeStrategy 100% Equity	7 (7)	7 (7)	7 (7)	7	
Global Balanced	5 (5)	6 (5)	-	5	
LifeTarget Cautious	3 (3)			3	
LifeTarget Defensive	4 (4)			4	
LifeTarget Moderate	5 (5)			5	

This quarter we have placed Global Balanced on Red status and maintained the Green status of the LifeStrategy range while the LifeTarget range has been placed on Amber for insufficient data provision this quarter.

Due to updates in our mappings the expected volatility of Global Balanced has gone from marginally below the upper profile limits to safely above. At this point, we have placed the solution on Red status.

We have based our review on the approach that was agreed at the start of the risk profiling service and used the DT capital market assumptions for Q3 2021. There have been no changes to the risk profile boundaries this quarter.

( ) Analysis based on data to the end of March 2021 are shown in brackets.

<sup>^</sup> The weighted average approach incorporates the strategic asset allocation (if applicable) and the distribution of the historical asset allocations.

<sup>\*</sup> This column provides the position of the expected volatility based on the latest historical asset allocation (i.e. 30 June 2021). The figure in brackets illustrates the position of the volatility based on the previous quarter's allocation.

<sup>†</sup> DT has a set of asset allocation models which are managed to operate within each profile's boundaries. This column compares the annualised rolling volatility of each solution to the DT models and shows which model has been closest since inception. The rolling volatility period in each instance is assessed based on the performance data provided.

Please see Appendix for the Red, Amber & Green status descriptions.

## Comments and notes from previous reviews

### Q2 2021

This quarter we have maintained the statuses of the solutions.

In a similar vein to last quarter, for the Global Balanced solution January saw an increase in cash at the expense of equities, however this move was reversed in February and maintained in March. As a result the solution is still remains very marginally below the upper boundary of risk profile 5 and is thus maintained on amber status. The expected volatilities of the LifeStrategy solutions remain largely unchanged.

### Q1 2021

This quarter we have maintained the statuses of the solutions.

In October there was a reduction in equity in favour of cash for Global Balanced, bringing the expected volatility safely within boundaries. However, equity was again increased in November and December pushing the expected volatility again to on the boundary edge. As such, we have maintained the Amber.

### Q4 2020

This quarter we have placed Global Balanced on Amber status and each of the other solutions on Green status.

Global Balanced has increased equity from the end of June position, moving the expected volatility back to on the boundary edge between risk profiles 5 and 6, as such, we have placed the solution on Amber.

Based on our updated assumptions and mappings, we are happy with the assigned profile for LifeStrategy 100% Equity and have placed it back on Green status.

### Q3 2020

This quarter we have maintained the Amber status of LifeStrategy 100% Equity and placed each of the remaining solutions on Green status.

Due to the significant market event, our assumptions have also changed significantly, and the LifeStrategy 100% Equity is more safely positioned within the currently assigned boundaries. Based on this and further updates currently being carried out in our analysis we have held the solution on Amber at this stage.

Since our initial risk profiling of the Global Balanced Fund, there has been an increased level of investment in fixed income, taken from cash. This, along with changes to our assumptions from market events, has meant that the expectation of positions from September 19 have been above and around the upper profile limits. However, a reduction in North American and Japanese equity in June has brought the expectation back to safely within profile. Overall, while we have some concerns around the more recent positions we have placed the solution on Green status at this time given the latest position is in line but will look to discuss this with Vanguard if the expectation goes back to the profile edge.

### Q2 2020

This quarter we have placed each of the solutions on Amber status as sufficient data was not provided early enough within the quarter to complete our analysis. The Global Balanced Fund was due to be added to this quarter's review and has also been placed on Amber for this reason.

### Q1 2020

This quarter, we have placed the 100% Equity Fund on Amber status.

We have placed the 100% Equity Fund on Amber to discuss due to our long term expectations of global equity, which are within Risk Profile 8, and our expectation of the volatility remaining only marginally below the Risk Profile 8 boundaries.

The regional split of the Fund is not dissimilar to market global equity, other than a greater weight to UK than North America, which does not greatly affect the expectation of volatility. Furthermore, due to the investment base being entirely passive instruments, we would not expect any significant difference to our global equity expectations.

## Appendix

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### Status descriptions

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A **red** status indicates that the solution's current risk profile is no longer appropriate to the DT scale and that it will be changed at next quarter's review unless action is taken by the asset management team.



An **amber** status indicates that one or more of the measures considered may indicate the possibility of an alternative risk profile. This could be due to short-term tactical positioning within the solution or other market considerations and does not imply that the long-term risk profile should necessarily change.



A **green** status indicates that the solution is in line with the assigned risk profile and no action is needed.

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