

## Assessing suitability & the FCA

In a post-RDR world (and indeed before), advisers need to be able to clearly demonstrate they are providing an ongoing and compliant service to their clients, that is also profitable for their business.

In 2011, the FCA made it clear that assessing suitability in terms of determining the risk a customer is willing and able to take is a key part of the advice process. Using risk profiling and risk profiled funds or portfolios, is one excellent way to demonstrate 'good practice' in this area.

## How Distribution Technology does risk profiling

The Distribution Technology investment team generates estimates as to how a wide range of asset classes are expected to behave over the long-term with respect to: returns, volatility and co-variance. These estimates are collectively known as the Capital Market Assumptions, and are produced following thorough analysis of historic data, current market yields and estimates of risk premiums, as well as other factors such as, current corporate debt default rates and inflation.

From this, the team can produce a spectrum of asset allocations that gradually increase in risk from level 1 to 10 risk levels. Their methods for doing this are based on Modern Portfolio Theory techniques to derive efficient portfolios, which maximise expected returns for any given degree of risk and when plotted collectively, form an efficient frontier.

To risk profile funds and portfolios, Distribution Technology looks at a combination of the following attributes and uses its Capital Market Assumptions where necessary, to understand the level of risk expected within the portfolio:

- Historical data of each fund's past asset allocation positions, which we map to our standard asset classes
- The volatility derived from the fund's strategic benchmark, where appropriate
- The volatility of the actual performance achieved by each fund

Distribution Technology then benchmarks the results against their spectrum of 10 Dynamic Planner risk profiles.

Risk profile	1	2	3	4	5	6	7	8	9	10
Descriptor	Lowest risk	Very low risk	Low risk	Lowest medium risk	Low medium risk	High medium risk	Highest medium risk	High risk	Very high risk	Highest risk

The fund or portfolio is then allocated a Dynamic Planner Fund Risk Profile.

Asset Managers regularly use the Dynamic Planner Fund Risk Profile logos as part of their fund promotions.

Look out for them online and in their brochures and fund factsheets.



## Fund risk profiling reviews

**Quarterly fund reviews by DT are an ideal way to offer an ongoing service to clients and meet your FCA obligations for managing risk profiled portfolios.**

Every three months, each fund is reassessed and our reports are then sent to the Asset Manager.

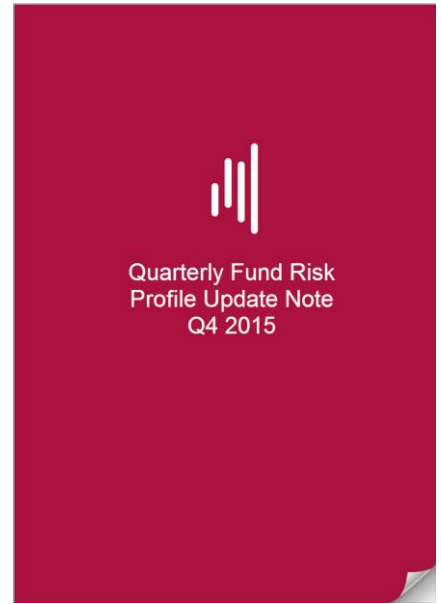
This involves using our latest quarterly Capital Market Assumptions and our risk profiling methodology to:

- analyse the volatility over rolling 12 month periods
- re-examine the historical asset allocations
- check the current risk profile against the profile previously assigned and provide a status update.

## Latest fund risk profiles

As the market leader in fund risk profiling, we have risk profiled over 700 funds and portfolios from around 70 of the key Asset Managers.

You can see a full list of current investments and their fund risk profiles as part of the risk profiling process within Dynamic Planner and on our website.



## SRRI vs Dynamic Planner fund risk profiles

The synthetic risk and reward indicator (SRRI) measures the past performance of the fund and quantifies the annualised volatility. To do so, it only uses the past returns or benchmark data for the past five years and scales it from 1 (0-0.49% volatility) to 7 (25% + volatility).

**Dynamic Planner fund risk profiling is not about a specific volatility number and goes far beyond looking at historical performance.**

**It offers the ability to benchmark funds and portfolios against the client's Dynamic Planner risk profile and to be regularly tracked for portfolio drift.**

Dynamic Planner fund risk	1		2		3		4		5		6		7		8		9		10								
SRRI profile	1	2	3		4		5		6		7		8		9		10		11								
Volatility %	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26

**Find out more about using Dynamic Planner risk profiled funds and portfolios**

**Contact us on 0333 6000 500 or email [sales@dynamicplanner.com](mailto:sales@dynamicplanner.com)**