

Rebalancing

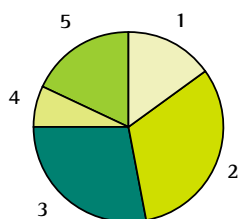
– keeping your investments in line with your objectives

When making an investment, your IFA will agree your needs and objectives with you, and establish a risk profile. The results of this will determine how your investment portfolio should be weighted across the main asset classes (cash, bonds, property and shares). Your profile may well be different from other investors, depending on the degree of risk you are prepared to accept.

Asset classes perform differently over time. This results in the constituent parts of your portfolio moving to different weights than agreed upon at outset, and potentially your portfolio will no longer reflect your attitude to risk. Having the wrong asset allocation can prove costly at times of change in the market.

Imagine the following scenario

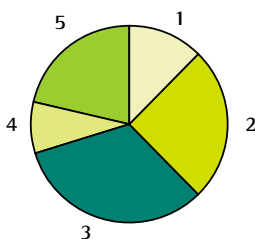
An investment bond of £100,000 is established. The investor's attitude to risk, on Selestia's risk profile, is 5 (0 being the least tolerant to risk and 10 the most). Using Selestia's asset allocation tools, the following portfolio is created.



Portfolio at outset, £100,000 invested, risk profile 5

1. £15,000 UK Equity (15%)
2. £32,000 International Equity (32%)
3. £28,000 UK Fixed Interest (28%)
4. £7,000 International Fixed Interest (7%)
5. £18,000 Property (18%)

Markets are not static by nature. Over the past few years there has been a decline in equity markets worldwide. In this scenario the £100,000 decreases in value to £89,000, with some asset classes increasing (i.e. property/fixed interest) and others decreasing (i.e. equities). The portfolio now has the following structure:



Movement in portfolio, £89,000 in investment, risk profile 4

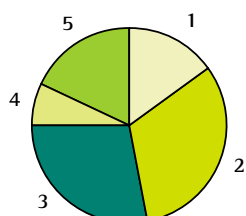
1. £11,000 UK Equity (12.36%)
2. £22,500 International Equity (25.28%)
3. £29,000 UK Fixed Interest (32.58%)
4. £7,500 International Fixed Interest (8.43%)
5. £19,000 Property (21.35%)

Potential implications

- The new portfolio is a risk profile 4 which may no longer address the needs and objectives originally agreed upon, if the attitude of the investor to risk has not changed.
- The investor may miss out on future gains should equities recover.

Rebalancing will address both these issues.

The investor may decide therefore to rebalance the £89,000 to risk profile 5, so it is in line with the investor's original attitude to risk.



Rebalanced portfolio, £89,000, risk profile 5

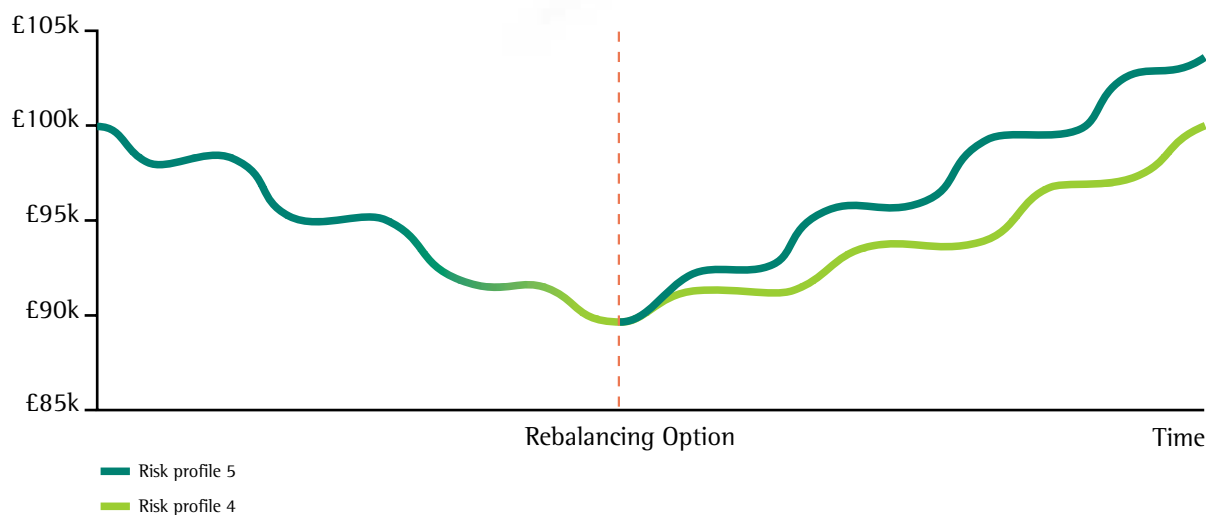
1. £13,350 UK Equity (15%)
2. £28,480 International Equity (32%)
3. £24,920 UK Fixed Interest (28%)
4. £6,230 International Fixed Interest (7%)
5. £16,020 Property (18%)

Equity market recovery

Compare now the results of the 2 risk profiles should the equity markets recover, and fixed interest and property markets decline.

Movement in asset class	Leaving portfolio at risk profile 4	Having rebalanced to risk profile 5
UK Equity (+36.36%)	£15,000	£18,204.55
International Equity (+42.22%)	£32,000	£40,504.89
UK Fixed Interest (-3.45%)	£28,000	£24,060.69
International Fixed Interest (-6.67%)	£7,000	£5,814.67
Property (-5.26%)	£18,000	£15,176.84
Total	£100,000	£103,761.63

The impact of a higher weighting in equities means that risk profile 5 will outperform risk profile 4.



Selestia's automatic Rebalancing Option

- Can be selected when applying for an investment.
- If selected, it will automatically reset your portfolio to the latest asset class split selected, on a yearly basis.
- If you add to your portfolio, you will have the opportunity to reconfirm your latest asset allocation or issue new instructions.
- If your attitude to risk changes (e.g. on retirement), you may wish to proactively change the mix of assets in your portfolio.
- Rebalancing your portfolio to match your new risk profile is easy.
- Selestia has no limit to the number of switches you are able to make, and each is free of a Selestia charge.
- The asset allocation of your portfolio can immediately be brought in line with your new needs and objectives.

Rebalancing is a tool that enables you to restore your existing portfolio to the asset allocation specified by you at the outset, or to select a new asset allocation to reflect your changing lifestyle.

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