MAY 2019

Navigating your investment routes

Investing is a means to an end. It's a way to help grow money, earn an income or a mixture of both, and as with many journeys there's more than one potential route to reach your goal.

Markets are inherently unpredictable - even without the current background of an expected downturn in the global economic cycle, the shifting sands of central bank monetary policy and major political events like Brexit. It's essential, then, that any investment portfolio has the right mix of assets and an effective diversification strategy to help meet its objectives, regardless of the prevailing market conditions.

Learn more

Read our monthly *A Month in the Markets* for our expert's latest views on current economic conditions and what these mean for investors.

Your personal goals, time horizon and how much risk you are willing and able to take are all relevant to what the right portfolio looks like for you. At the high level there are several potential routes to choose from when building and maintaining a portfolio, and it's possible to choose more than one, blending them together to help reach your goal.

Build your own	Multi-asset fund	Model portfolio service	Bespoke service
Build and manage your own personal portfolio of investments.	Invest in a fund that offers a diversified, mixed asset portfolio appropriate to meet your needs.	Your portfolio is managed in line with a model portfolio, managed by a professional as a service to you and others with similar investment needs.	Have a professional build and manage a portfolio that's personal to you.

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Build your own

The build your own route may appeal if you are a confident investor and want to take full responsibility for your own portfolio. However, few private individuals have the time, access to the expert resources or economies of scale that investment professionals do, so they look to those professionals to run portfolios on their behalf.

Multi-asset fund

One of the big developments within the investment world in recent years is the rise of multi-asset funds. By investing across different asset classes to meet agreed objectives, these funds offer their investors access to an instant diversified portfolio and one that is actively managed on an ongoing basis as market conditions change.

There's a huge variety of multi-asset funds available, covering different objectives, risk levels, in investment styles, asset class mixes and regions around the world. Some invest directly in underlying assets, others in a range of underlying funds that specialise in particular areas (known as a multi-manager or fund of funds approach) and some combine both.

Learn more

Read *Investing for all seasons* for more about how multi-asset funds can help keep you on track towards your financial goals.

Model portfolio service

Model portfolio services work on a similar principle. A manager builds and manages a model diversified portfolio of investments (usually funds) designed to meet a defined set of investing objectives and operating at a particular risk level.

But, as the name suggests, a model portfolio is run as a service and not as a fund in its own right.

As an investor in the model portfolio service, you will hold the funds set by the model portfolio manager. The model portfolio manager will create the models which will be managed to different risk apetities and time horizons. You give the manager permission to make adjustments to your investments from time to time to keep everything running in line with the portfolio's objectives and risk levels. Those adjustments can range from replacing one or more portfolio constituents to adjusting the proportions in which they are held.

Bespoke service

It is possible to pay a professional to design and manage a personal portfolio around your particular needs and objectives. Minimum investment levels for this type of service tend to be on the higher side (amounts of £250,000 and upwards are normal) and the level of fees you pay will reflect its personal nature. So for many people, the answer lies somewhere in between.

Which route to take?

From the investor point of view, the essential requirement is to have a portfolio that's suitable for your personal goals, time horizons and risk profile. This is something a financial adviser can help you with if you are unsure how to approach investing by yourself, you may wish to speak to a Financial Advisor who can talk you through all the options, and help you decide whether a multi asset fund or model portfolio service is right for you.

Both will be actively managed to make sure they stay on track towards their objectives whatever the market conditions. But there are some differences to be aware of too.

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Your guide to the similarities and differences

	Multi-asset fund	Model portfolio service
Legal basis	• The fund is a legal entity in its own right and is the beneficial owner of the investments in its portfolio. • You own a share in the fund.	• Your portfolio is run as a service, governed by a contract. • You are the beneficial owner of each of the investments in your portfolio.
Regulation	• Most multi-asset funds offered for sale in the UK must be run in accordance to rules and regulations set out by the Financial Conduct Authority (FCA). • They are regulated as products in their own right.	• Model portfolio services are not regulated as products in their own right, but any funds you hold in them are likely to be. • The service manager will also be regulated.
Charges	• You pay a charge to the fund manager, covering their costs for managing the fund, including any charges due to the managers of other funds that they invest in. • Ongoing trading charges for keeping the fund's portfolio on track are absorbed by the fund. Like all costs, these will impact on its returns.	• You pay a charge to the service manager for their expertise and time in running the portfolio. • You pay charges to the managers of any funds you are invested in to make up the portfolio. • You pay any trading charges that apply when investments in your portfolio are bought or sold.
	Be aware The costs and charges for a multi-asset fund could work out to be more or less overall than the total you'll pay when using a managed portfolio service. The key difference is that with multi-asset funds the charges are effectively bundled into one that you pay the fund manager. With managed portfolio services they are broken out and you pay each element separately.	
Information about your investment	• Funds must provide a prospectus with details of their investment objectives and how they are run. • They must also provide a summary document required by the FCA, giving all investors key information they need to know (the Key Investor Information Document (KIID)). • Fund managers usually provide other information materials too, including regularly updated fund factsheets summarising things like key holdings and giving a commentary on fund performance.	• The information materials supplied by your service manager will be the main source of detail about your portfolio's objectives and how it is run on an ongoing basis. • If your managed portfolio invests in other funds, you'll know what these are as your portfolio investments are beneficially owned by you. So you'll be able to review the prospectus and KIID for each to find out more about them if you wish.

	Multi-asset fund	Model portfolio service
Investment approach	• The way a fund manager goes about meeting a fund's objectives is detailed in its prospectus. There may be maximum limits for some types of investment or certain types it can't use for example. • The number of underlying investments in a fund's portfolio can vary significantly. Funds may also make use of derivatives to help manage risk in their portfolios. Depending on how dynamically your fund is managed it may not be possible to keep up with the detail of exactly what your fund is invested in at any point in time. • A fund will be managed in line with its manager's investment process. Most funds are monitored daily and the investments in them are reviewed on a regular cycle.	• The way a model portfolio is run is governed by the contract between you and the service provider. If maximum limits and restrictions apply, they would be governed by the contract also. • The number of underlying investments in a model portfolio can also vary but can be a smaller number than you might find inside an individual fund. You'll always know what investments you hold in your portfolio at any point in time as you are the beneficial owner of these, so will see them detailed on any statement you can access. • Your portfolio will be managed in line with the service manager's process. It's common for managed portfolios to be reviewed on a monthly or quarterly basis.

Making the right choice for you

Investment values can always go down as well as up and there will always be the risk you may get back less than you put in. But identifying the right portfolio and route for you can help get your investing journey off to be best possible start and keep it on track, regardless of what's on the horizon for markets.

Let's be clear!

Investment terms explained

Asset class: A group of investments with similar traits. Shares, bonds, property, cash and alternatives are all examples of asset classes.

Beneficial owner: A beneficial owner is the person who enjoys the benefits of owning an investment. The beneficial owner may not be the same as the legal owner, in whose name the investments are held, usually for reasons of administrative convenience.

Bonds: A bond is a loan issued by a government or a company. When you buy a bond, the issuer promises to pay a certain amount of income until the bond redeems and is repaid by the issuer. The strength of that promise varies by the issuer of the bond. This is known as creditworthiness.

Central bank: A bank that looks after the currency and money supply of a nation state or group of nation states and helps the relevant government to implement its financial policies.

Derivative: A financial security that is traded between two parties and that gets its value from how an underlying investment or group of investments performs.

Diversification: Spreading your money across different investments to help manage risk.

Economic cycle: Economic cycles are part of the normal ebb and flow of investing. Each cycle usually has four main stages: peak, recession (when the economy is going through a downturn), trough and expansion (when the economy starts to grow again).

Investment risk: The uncertainty that goes with inve sting and that means investments can go down in value as well as up.

Monetary policy: how a central bank controls the money supply and cost of borrowing for its country. Monetary policy can be tight or loose. Tight monetary policy is when the bank attempts to restrict the available money supply, for example by raising interest rates. Loose monetary policy is when it attempts to increase the available monetary supply, for example by lowering interest rates or quantitative easing.

Portfolio: a group of investments that are managed together to meet a particular objective.

Quantitative easing: when a central bank adds new money to a country's money supply.

Shares: Often referred to as equities or stocks; in investing, this is a share of ownership in a company. Investing in a fund gives exposure to underlying share prices without investors actually owning the shares themselves.

Time horizon: How long you expect to be investing for before you might need your capital back. Investing should usually be for a minimum of five years or more.