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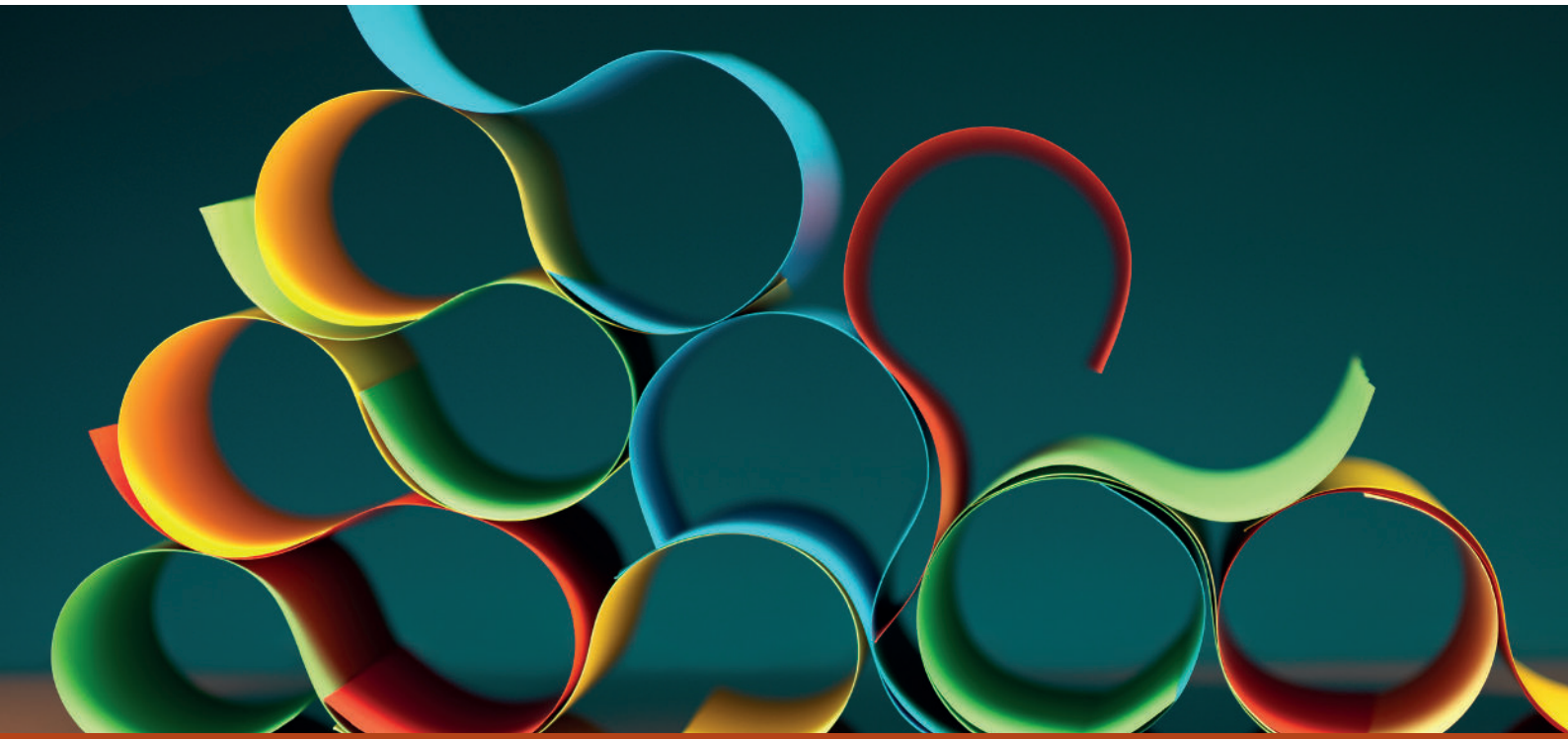

KEY GUIDE

Investment planning and asset allocation

Introduction

Investment planning is the process of matching your financial goals and objectives with your financial resources. Technology, such as artificial intelligence, investment opportunities and regulations all continue to evolve. But has your investment strategy kept pace?

Investment planning and asset allocation is a multi-stage process. The actual execution of investment transactions is virtually instantaneous, but the decisions behind them need time and should not be hurried. There are many different approaches to the investment planning and asset allocation process, but most will broadly follow the step-by-step framework explained in this guide.

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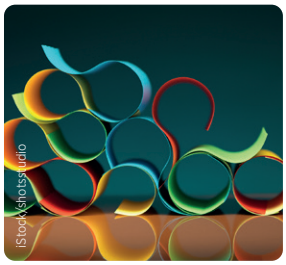


UNDERSTANDING RISK

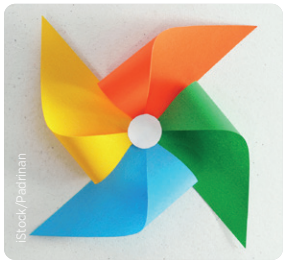
How knowing your attitude to risk should be an integral part of your investment strategy

HOW TO PICK AN INVESTMENT FUND

What you should consider when picking a fund to invest in

ASSET ALLOCATION

Asset allocation is arguably one of the most important factors for generating returns



STRUCTURING YOUR INVESTMENTS

Once you have an investment plan, you should choose your tax structure and investment platform

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When should you review your plans?

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Your investment plans would probably benefit from careful examination if:

- Your investment holdings have not been reviewed in the past year.
- Your financial objectives have changed since your holdings were last reviewed or are likely to do so in the near future.
- You are still holding funds that you bought more than ten years ago.
- You have inherited investments that were simply added to your portfolio without review.
- The investments underpinning your pension arrangements have not been considered in setting your overall investment strategy.
- One or more of your investments has performed particularly well or very badly, which can create an imbalance in your overall portfolio.

Planning point

The investment planning process will help you understand your investment plans and regularly track their performances. So, it is worth taking the time to understand how it works.

Key points in the investment planning and asset allocation process

Setting goals
Risk profilling
Asset allocation
Fund selection
Tax structure decision
Platform selection
Implementation
Review

A FEW WORDS ABOUT RISK

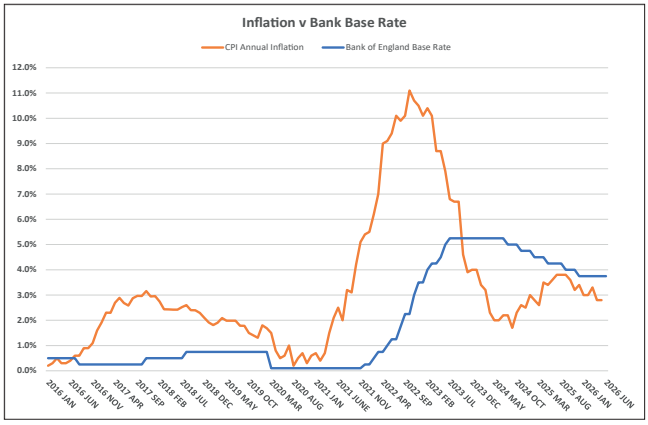
Risk is at the heart of many investment decisions and, as the diagram above shows, it is typically at the starting point of the investment planning process. There could be several types of risk in any investment. Helping you to understand the risks is a key responsibility of your investment adviser. You should never be in the position of saying 'I didn't know that could happen'.

For example, putting cash in a bank or building society provides security of the capital and some interest. But even the 'safety' of deposits can be compromised by a bank failure.

Another risk for deposits, in plain sight recently, is inflation. Over the years, this has often negated most or all of the interest earned, once tax is taken into account. The eroding effect of inflation is particularly relevant because:

- Deposit rates only rose above the level of inflation about two and a half years ago. The Bank of England base rate is now 3.75% (July 2026), having oscillated in a narrow band of 0.1% to 0.75% between March 2009 and May 2022 before rising rapidly until August 2023. The rate of inflation began falling from its 11.1% peak in late 2022 and fell to a low of 1.7% in September 2024 before starting to rise again. CPI annual inflation had been expected to fall to around 2% this year. However, the jump in oil and gas prices prompted by the Iran war has changed the outlook. In June the Bank of England said inflation (then 2.8%) "...is expected to rise later this year as the effects of higher energy prices continue to pass through".

- After a cut of 1.5% from its peak, the fallout from the Iran war means that bank rate is now expected at best to not increase this year.



Office of National Statistics June 2026

One risk that has been all too apparent in recent times is political risk, with markets responding rapidly, for example, to reports of social media comments from Donald Trump. The longer-term impact of what are often short-term shocks, such as market reaction to Trump's 'Liberation Day', in April 2025 should be addressed in regular reviews. In the long run, much instant market reaction is best ignored as little more than background noise.

In theory, the higher the investment risk you are prepared to accept, the greater your *potential* returns. However, a higher return from higher risk is not a certainty; if it were, there would be no risk. While the process of portfolio construction now includes sophisticated strategies to reduce risk, it cannot be eliminated.

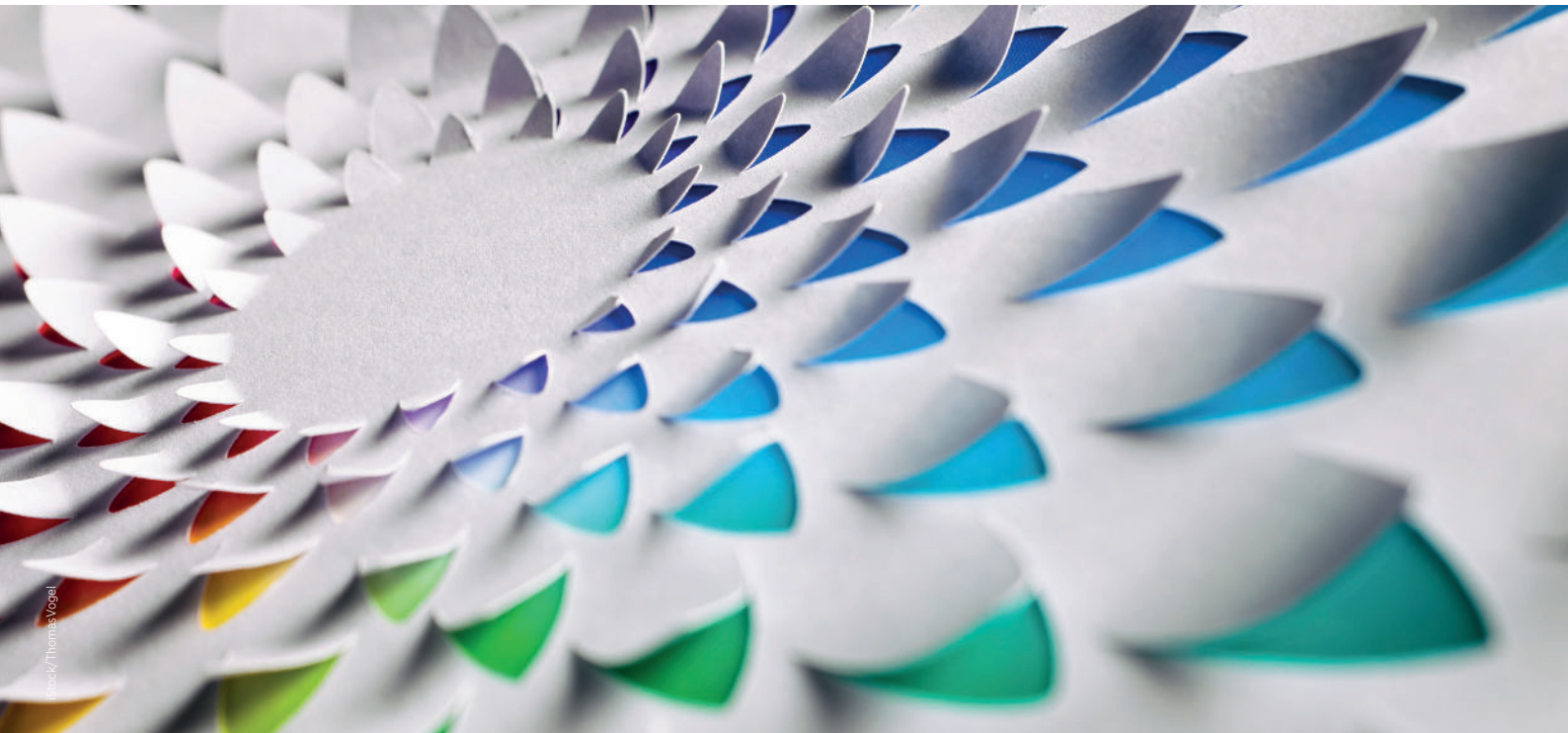
Planning point

Identifying what you want to achieve with your investments is the first step in putting together your strategy. Without this goal setting, you may not make best use of your capital in the short or long term.

Setting goals

You would not start on a journey without knowing where you want to go. The same principle applies to investment planning: you need to decide what you are trying to achieve with your capital before making any investment. For example, you might want to produce a specific level of income or aim for a capital sum at a future date. Different investment objectives require different strategies.

Those objectives need to be realistic: if you want a high income, you cannot also expect similarly high capital growth. Also, you need to be comfortable with the goals you have set and stick with them until your circumstances prompt a change. If your aim is long-term capital growth, then you should not expect to outperform deposit returns every month. Goals should not be changed retrospectively any more than investments can be made with the benefit of hindsight. Instead, new goals can be set during a review.



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At the goal setting stage, you also need to consider whether there are any ethical considerations you wish to place on your investments. The environmental, social and governance (ESG) aspects of investment are important factors to many individual and institutional investors. As at April 2026, there was £108.4 billion invested in UK responsible investment retail funds according to the Investment Association (IA). Under the Financial Conduct Authority's Sustainability Disclosure Requirements (SDR), investment labels and sustainability claims are regulated to help prevent greenwashing.

Risk tolerance and capacity

In considering risk at the personal level, there are two thresholds that must be assessed:

1. **The level of risk you are prepared to accept.** The assessment of your risk tolerance is now usually carried out with the help of a series of profiling questions, which may be in the form of a computerised questionnaire.

2. **The level of capital loss that your finances can absorb.** You may feel comfortable about taking a high-risk approach to your investments, but that does not automatically mean you should invest in volatile assets. The greater the risk, the greater the possibility of a substantial loss. Unless you have sufficient resources to cope with potential significant loss, you should not expose yourself to the risk. Your adviser will assess your loss capacity, based on a detailed analysis of your assets and liabilities through the investment term. The result of that exercise could mean your recommended portfolio has a lower level of risk than your attitude to risk alone suggests would be appropriate.

Planning point

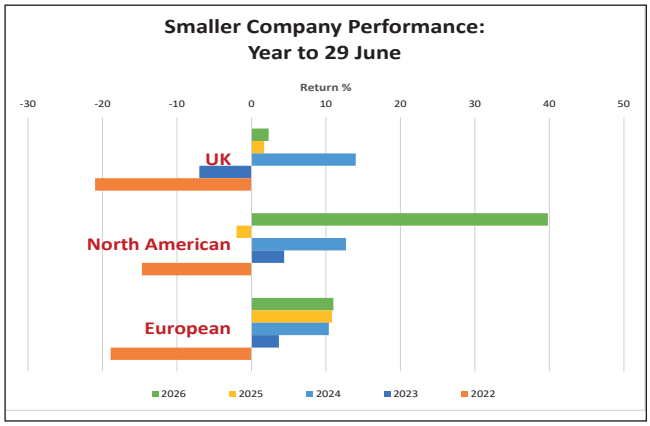
Investment markets can be very volatile, especially in the short term. There are no guarantees a high-performing fund will repeat its success in the future.

ASSET ALLOCATION

There is considerable academic research to show that asset allocation is a crucial factor in determining overall investment

returns. This is demonstrated by IA sector fund performance over various terms. The table below shows results across five calendar years, revealing the interesting fact that the top and bottom performing sectors in 2021 reversed roles in 2025.

Asset allocation is not just about picking asset sectors. As the table shows, the top sectors are often at the more volatile, higher end of the risk scale such as emerging markets and smaller companies. The volatility of smaller company performance is demonstrated in the graph.



Source: Trustnet 30 June 2026

The asset allocation decision is especially important in the management of risk. Diversifying across different asset classes,

IA sector performance

Year	Best performing sector	Average fund	Worst performing sector	Top fund
2025	Latin America	38.7%	India/Indian Subcontinent	-0.1 %
2024	Financials and Financial Innovation	24.3%	Latin America	-19.9%
2023	Technology & technology innovation	+39.2%	China/Greater China	-8.9%
2022	Commodity/natural resources	+18.8%	UK Index Linked Gilts	-31.6%
2021	India/Indian subcontinent	+28.3%	Latin America	-6.3%

Return figures are calculated on a bid price to bid price basis (mid to mid for open-ended investment companies (OEICs)) with net income reinvested. Source: Trustnet.com. 2 January 2026. Past performance is not a guide to the amount you will receive in the future.

such as UK shares, foreign shares, fixed interest securities, property and commodities, can reduce your investment portfolio's volatility. What is bad news for one asset class might be good news for another.

For example, a rise in inflation, such as the UK until recently experienced, can be negative for fixed interest securities, but may be positive for commodities. The same can hold true for individual shares. For instance, the initial impact of Donald Trump's Liberation Day and other isolationist measures was bad for the share prices of oil majors such as BP because of initial recessionary fears, but better news for the European armaments companies, such as British Aerospace, that stood to benefit from Trump's demands for increased European defence expenditure.

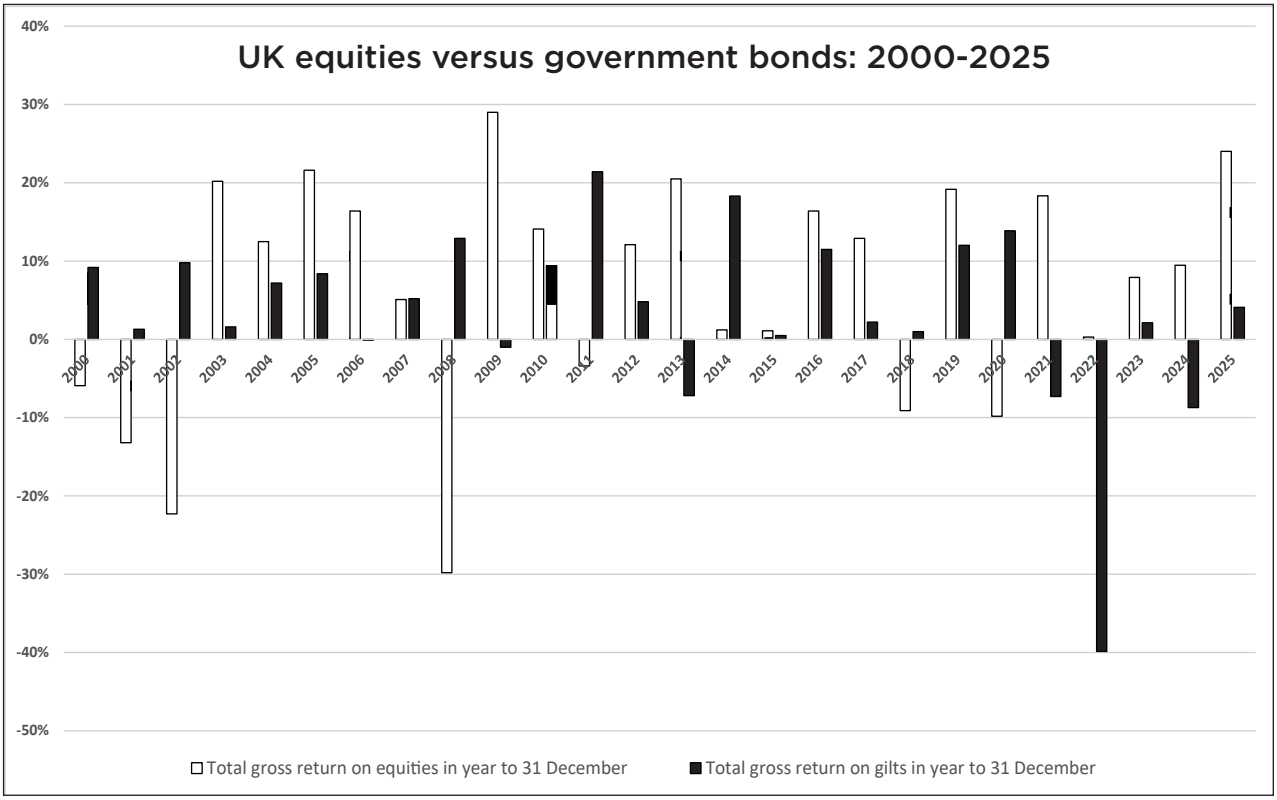
An example of the differing fortunes of two main UK asset classes – equities and long-dated government bonds (gilts) – is shown in the graph below. In most years, both asset classes have moved in much the same direction, if not to the same degree, but there have been notable exceptions. This was particularly the case in 2020, when the Covid-19 pandemic prompted a rise in government bond values while shares fell sharply. However, in 2021 the picture was reversed, with equities showing strong performance and gilts, hit by rising inflation, producing a loss over the year. Since 2021 and the return of above target inflation, shares have outperformed bonds.

The process of matching asset allocation to your risk profile and investment goals is now one that can rely on computing

power. This allows a portfolio to be constructed that takes account of historic performance relationships or correlations between asset classes.

Planning point

A diverse investment portfolio can help mitigate the risks of volatility in individual sectors.



Source: Barclays Capital Equity Gilt Study/FTSE

HOW TO PICK AN INVESTMENT FUND

Once the asset allocation has been set, the next decision is how to invest in the selected asset classes. For most private investors, that will mean using collective funds, such as unit trusts and open-ended investment companies (OEICs). The direct purchase of assets may not make sense because of the costs involved and/or the difficulty of achieving an adequate spread within the asset class. Even for the wealthiest private investors, collective funds may be the only option for some asset classes, such as commercial property.

Fund selection is not a simple matter of looking at a set of performance league tables and picking one of the top three. League tables only tell you what has been achieved, not how it was done, nor the likelihood of continued performance. For instance, a top-performing fund may have:

- Adopted an unacceptably high-risk strategy which, as past high-profile cases have shown, may not be immediately apparent to investors.
- Performed well while the fund was small but may now be much larger and less flexible.
- Recently lost its lead manager to another investment group.
- Just struck lucky. The fact is that luck can play a role in fund performance, particularly for more concentrated funds that have few relatively large holdings.

The uncertainties about future fund performance have prompted the increased use of index-tracking funds. They are often called 'passive' funds to distinguish them from 'active' funds where decisions are made by an investment team rather than an index setter.

Proponents of active fund management argue that an index fund should deliver returns slightly below the market index it is tracking, because of the effect of charges, whereas an active fund, without index constraints, can outperform. Passive fund managers accept this point but argue that picking next year's outperforming fund is virtually impossible and that overall, the higher costs incurred by active funds more than counter their supposed performance benefits. For both passive and active funds, selection involves an in-depth analysis of a variety of performance statistics. But it also requires a qualitative assessment of the fund manager. Even funds tracking the same index have differing returns. For active fund selection, it is also necessary to investigate the manager's investment process.

Planning point

There is a wealth of information on fund performance available to investors. With some research you can build a greater understanding of how and why a fund may succeed.

TAX STRUCTURE DECISION

Tax is not always directly relevant to the design of an investment portfolio and should never dictate an investment decision. If tax saving is the sole motivation for your investment, then warning bells should sound. History is littered with tax-efficient, loss-making investment schemes. However, once the choice of asset classes and funds has been made, your personal tax position does become relevant in determining the structure – sometimes referred to as a 'wrapper' – in which you should hold the investments. For instance, you could hold the same investment fund directly, or in an individual savings account (ISA), or in a self-invested personal pension (SIPP) or in an investment bond. A regulated financial adviser can provide personalised recommendations based on your situation.

The tax consequences of each option are different. There are two layers of tax treatment to consider – within the chosen investment wrapper, and then your personal position when you take withdrawals from it – unless you choose to hold the investments directly.

The use of a variety of wrappers need not add great complexity to the management of your portfolio, as we explain in the next section. Some investments are better suited to

iStock/matdesign24

being held in tax wrappers rather than directly. For example, income from fixed-interest funds is free of UK tax in an ISA, but currently taxed at rates of up to 45% (rising to 47% from 2027/28) if held personally.

Tax treatment depends on individual circumstances and is subject to change.

PLATFORM SELECTION

The construction and management of fund-based investment portfolios is now largely undertaken using investment platforms. At its simplest, an investment platform provides a means of assembling and administering a spread of different funds from a range of investment managers, which can be held in a variety of tax structures.

Your adviser will consider a range of factors when recommending a platform to you, including:

- choice of funds and investment managers – generally the more the better;
- range of tax structures available;
- provider's record for administrative efficiency;
- level of fees charged and their collection method; and
- financial strength of the platform provider.

Planning point

Your investment plan needs to be dynamic and respond to changes in performance and values, as well as your requirements. So, you should regularly review your portfolio.

REVIEWING YOUR PORTFOLIO

The selection of the platform providers is the final step before the creation of your investment portfolio, but it is by no means the end of the process. Your investment plan should never be fixed or incapable of change. It needs to be regularly reviewed to check that both the asset allocation and chosen investments are still appropriate to your financial goals and that those goals have not altered.

A review that makes no changes is rare. For example, to maintain the original asset allocation there will often be a need to rebalance holdings because of intervening moves in investment values. At the fund level, manager changes, revised fund objectives or disappointing performance can all prompt adjustments. New investment opportunities also need to be considered. Adjustment for its own sake, however, or in answer to short-term shocks such as those following the 2025 flexing of US trade tariffs, should not be undertaken without a full review or advice.

If your portfolio is not subject to regular and systematic reviews, it may soon become just a random collection of investments rather than a coherent portfolio. The discipline of a regular review is therefore a key component of successful investment planning.

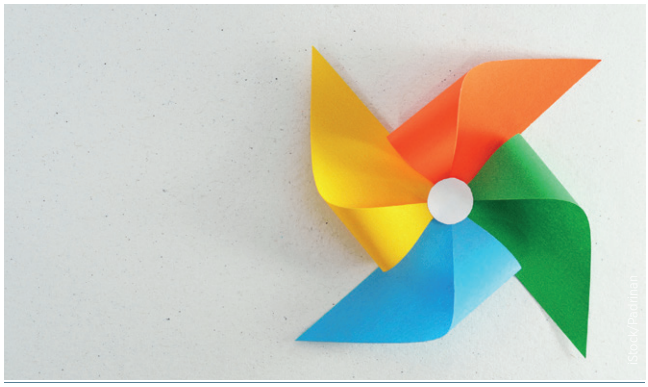
The value of investments and the income they produce can fall as well as rise. You may get back less than you invested.

Past performance is not a reliable indicator of future performance.

Investing in stocks and shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and your financial circumstances.

Tax planning is not regulated by the Financial Conduct Authority.

Tax treatment varies according to individual circumstances and is subject to change.



HOW WE CAN HELP

We can help with your investment planning and asset allocation in several ways:

- Obtain up-to-date valuations, acquisition dates and initial outlay for your existing investments, including pension plans and any investment-linked life assurance. This gives a clear picture of your starting point.
- Guide you through the setting of your investment goals, helping you to consider how much risk you are willing to accept and the level of potential loss that you can tolerate.
- Recommend appropriate asset allocations, fund and platform providers, drawing on our extensive market knowledge.
- Undertake reviews of your plan to keep it on track with your investment goals.
- Keep you advised on how any new government legislation could affect your investments.

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