Build diversification into your portfolio

The objective of investing is to increase wealth. Building a diversified portfolio with assets from a variety of sectors and industries can help reduce and spread risk.

Diversification, in investment terms, is the practice of spreading risk across several different asset types to reduce the likelihood of a large loss in your portfolio should one asset or sector suffer a sudden drop in value. It acts as a safety net while you build your wealth, and helps you meet your goals without worrying about the impacts of market volatility on particular sectors or assets.

Diversification is about spreading your risk across:-

- Different geographies or markets
- Different fund or asset managers
- Different products or investment vehicles
- Different currencies

Each of these elements has a different 'risk driver'. By making investments across a broad range of uncorrelated assets, this can reduce the likelihood of significant drops in the value of your portfolio. Structuring your portfolio in this way should create an efficient set of investments, which can help you to maximise your wealth generation potential.

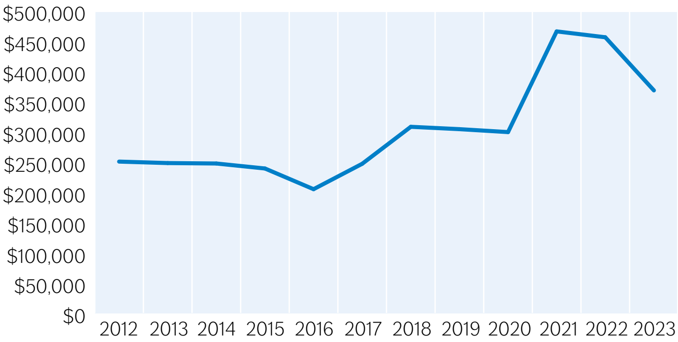
How does diversification mitigate against loss

Portfolio diversification is a key tool when investing. The technique of diversification allows a portfolio to mitigate against loss by allocating investments across various investment types, categories and countries. By investing in different areas and sectors, a portfolio can be shielded from the effect of one particular external force more than if it was invested solely in one particular sector.

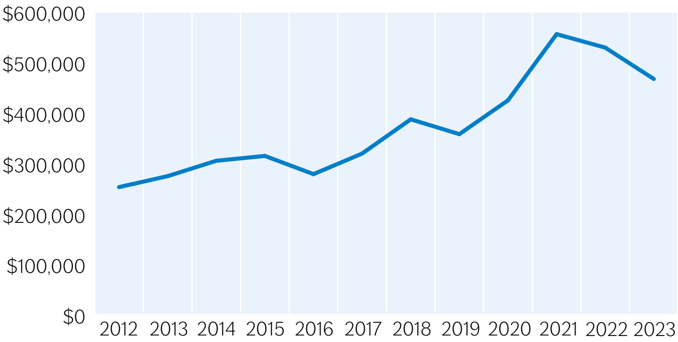
For example, by having your investment in one country means that any factors affecting that country, such as political or financial unrest, could dramatically affect the performance of that investment which will have a knock on affect of the performance of a customer's portfolio.

A portfolio will have many highs and lows. By using diversification, we are attempting to smooth these peaks and troughs, to create steady, gradual growth.

Single country Equity Fund Performance



Diversified Portfolio Performance



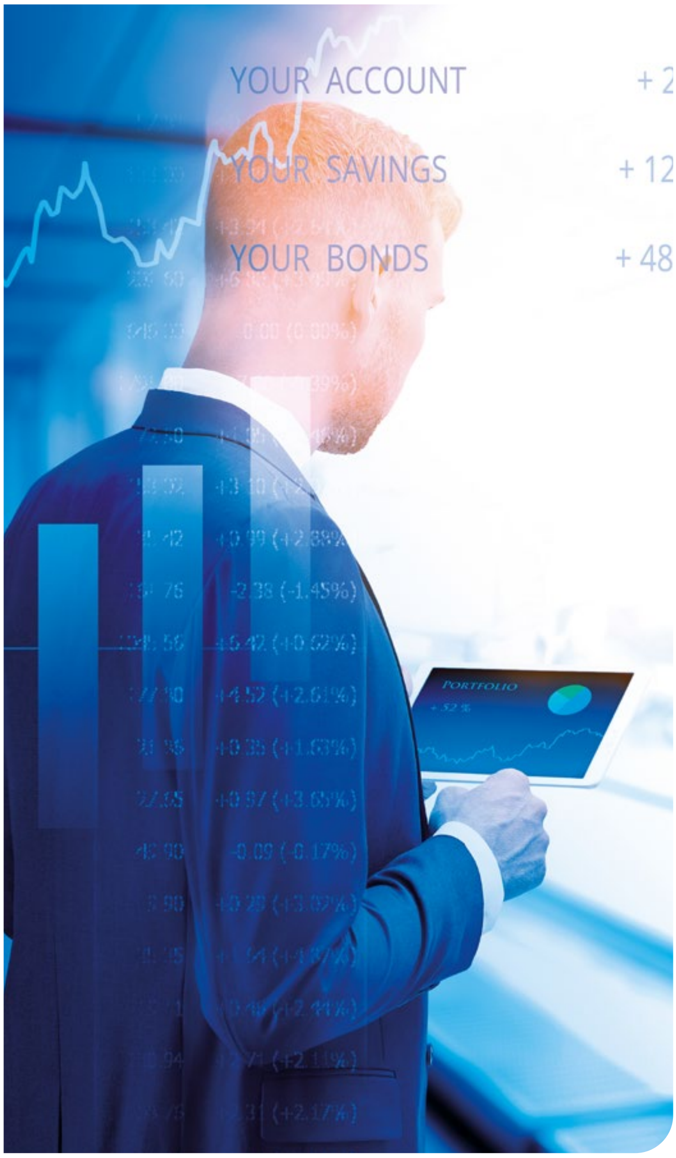
Diversifying your portfolio

All investments have a number of external forces which contribute to their overall financial performance. Identifying these forces and ensuring none of your other investments have similar factors will enable your portfolio to remove volatility and the risk of significant one-off losses.

For example, during the recent pandemic, people were unable to travel due to restrictions on movement. As a consequence, holiday and travel companies struggled for growth and investors in this sector will have seen their investments reduce in value quite significantly.

During the same period, investment in E-Commerce and E-Gaming rose as people were forced to stay in their homes and take advantage of online facilities. Investing across different sectors reduces the likelihood of significant drops in the value of your portfolio.

This highlights the importance of regular portfolio reviews, ensuring your portfolio is diversified enough to deal with external factors will help deliver your long term financial goals in a more stable and risk averse environment.



Example portfolio single country equity fund vs a diversified portfolio

Portfolio 1 below shows how a "Single Country Equity" might perform over 10 years. The funds could be invested solely in a blue chip company in the US for example. The portfolio has periods when it has performed badly, but it has also had periods of growth that have generated some profit.

Portfolio 2 is diversified across five sectors equally. The investments are across a broad range of uncorrelated assets. If one investment is not performing as it should, the other investments within the portfolio should have opportunities to grow as they are not driven by the same factors. The plan for the portfolio is to create steady growth, which is able to ride out peaks and troughs of the financial markets. This diversified approach sets the portfolio up to perform in a variety of market conditions and should enable the portfolio to achieve greater, sustained growth.

Portfolio 1	Value at year end											
Fund name / Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Single country Equity	$250,000	$247,575	$246,847	$238,603	$204,413	$246,362	$307,468	$303,588	$298,739	$465,082	$455,383	$367,604

Portfolio 2	Value at year end											
Fund name / Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Emerging Markets	$50,000	$53,113	$51,751	$52,140	$41,712	$52,685	$72,412	$62,763	$73,891	$98,949	$87,043	$75,331
Global Equity	$50,000	$58,995	$80,247	$88,183	$75,926	$91,975	$114,903	$106,702	$134,480	$189,771	$193,563	$166,843
Global Managed	$50,000	$53,515	$54,688	$56,039	$51,489	$56,350	$62,333	$60,212	$67,079	$76,029	$75,222	$69,943
Global Fixed Interest	$50,000	$49,123	$48,246	$48,026	$46,711	$46,272	$49,123	$48,246	$51,316	$54,605	$50,658	$44,518
Responsible Investing	$50,000	$56,991	$67,257	$67,434	$59,912	$69,204	$85,575	$77,080	$95,221	$133,894	$120,089	$107,699
Total Value	$250,000	$271,736	$302,188	$311,822	$275,749	$316,486	$384,347	$355,001	$421,987	$553,248	$526,574	$464,334

How can I diversify my portfolio?

Speak to your Financial Adviser, they will be able to provide you with fund factsheets and information. They will be able to provide you with a breakdown of assets within your portfolio. They will also assist you in creating a well diversified portfolio to suit your circumstances.

Disclaimer

The rate of return used above and on the previous page are for illustrative purposes ONLY. These returns are not based on any actual past performance and the actual returns on your investment will be different. What you get back in the future depends on how your investments perform. The value of your investments can go down and up an you could get back less than you paid in. Some assets carry a higher level of risk than others and may be subject to sudden and large falls in value, which could erode all or some of your capital.

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