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 is an investment strategy that aims to mitigate the risk and maximise returns by mixing a variety of investments within a portfolio.

Holding a variety of investments can act as a safety net from market volatility in a particular sector. Reducing market volatility helps increase your wealth and smooth-out the performance of your portfolio.

Diversification is about spreading your risk across different industries, sectors, products/ investment vehicles, currencies and asset classes:

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

Each investment has different levels of risk. By spreading your money across various uncorrelated or unrelated assets, this can reduce the risk of significant drops to your portfolio.

"DO NOT PUT ALL YOUR EGGS IN ONE BASKET"

WARREN BUFFET

RL360°

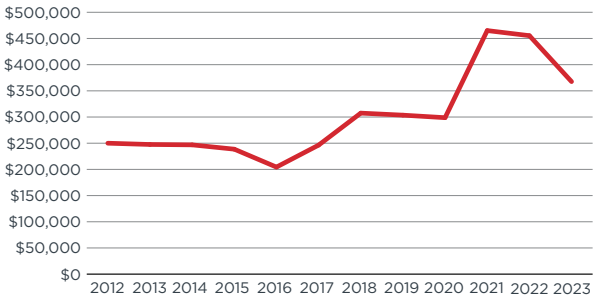
HOW DOES DIVERSIFICATION MITIGATE AGAINST LOSS

An important factor to successful investing is learning how to balance your level of risk against your time horizon. Portfolio diversification can mitigate loss by allocating investments across different areas and sectors so that your exposure to any one type of asset is limited.

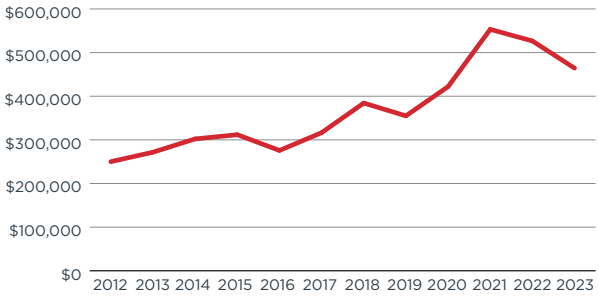
For example, having your investments in one sector or country means that any geopolitical factors affecting that sector or country could have a significant impact on the performance of your chosen investment.

A portfolio will have many highs and lows and exposure to investment risk cannot be completely eliminated, however it can be reduced through diversification 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 reduce volatility and the risk of significant one-off losses.

Frequent or timely reviews of your investment portfolio are the key to stable returns. Ensuring your portfolio is diverse enough to deal with external factors such as inflation, political or global events will help deliver your long term financial goals, in a 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 a period of time. There are a wide variety of funds to choose from; for this example we have selected a Far East equity fund with a single-country focus for illustrative purposes.

The portfolio had periods where the investment performed poorly although it had years of significant growth that has generated 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 and 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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