**For advisers only**

# Aegon Core Portfolio Solutions

A range of ready-made portfolios to suit different client risk profiles

Pensions | Investments | Protection

# Contents

# Introducing the Aegon Core Portfolio Solutions

The Core Portfolios offer access to a complete portfolio of investments in a single fund. With seven portfolios to choose from, ranging from Conservative to Adventurous. These portfolios are funds of funds and are focussed on value for money in a regulatory climate where every basis point is under scrutiny. With industry experts from Morningstar's Investment Management Group advising on asset allocation, backed by Aegon's fund governance and management, we believe they offer a straightforward way to outsource portfolio building.

## What the Core Portfolios offer you

- A strong five-year track record
- Ready-made investment solutions to suit different client risk profiles
- Active asset allocation but passive components, keeping costs low
- Quarterly governance reporting so you can keep clients up-to-date
- A simple way to outsource investment management
- Rigorous fund governance and reporting provided by Aegon

## What the Core Portfolios offer your clients

- A single, well-diversified portfolio
- Active asset allocation but passive components, keeping costs low
- A balance between risk and return that suits them
- Rigorous governance
- One fund to keep track of instead of several
- Regular online reporting

## Who the Core Portfolios may suit

- Accumulators – those saving for retirement over the long term.
- Transactional or disengaged clients who prefer to keep investing simple.
- Inexperienced investors who want the comfort of knowing an expert is investing their money for them.
- Cost-conscious clients who don't want to pay a premium for active management.
- De-cumulating clients – those who may choose to move to the lower-risk Core Portfolios as they approach and enter retirement.

**The above is intended as guidance, not advice. Only you know which funds are suitable for your clients based on your knowledge of their attitudes and financial circumstances. Past performance is no guide to future performance. There's no guarantee the funds will meet their objectives and their value can go down as well as up. Investors may get back less than the amount invested.**

# The range at a glance

## Key information

### Fund objectives

Each portfolio aims to provide investors with long-term capital growth while keeping risk at a level appropriate to its risk rating. To achieve this, each portfolio invests in a diversified mix of assets appropriate to that risk level. We've engaged Morningstar Investment Management Europe Limited ("Morningstar") to help us select the blend of funds they contain based on their view of long-term expectations for each asset class. Each portfolio is built mainly using passive funds to keep costs low.

| Core Portfolio name | Aegon risk rating* | Dynamic Planner risk rating** | Fund charge p.a.† |
|---|---|---|---|
| Adventurous | Above average | 8 | 0.20% |
| Growth Plus | Above average | 7 | 0.25% |
| Growth | Above average | 6 | 0.25% |
| Balanced Plus | Average | 5 | 0.25% |
| Balanced | Below average | 4 | 0.25% |
| Cautious | Below average | 3 | 0.25% |
| Conservative | Low | 3 | 0.25% |

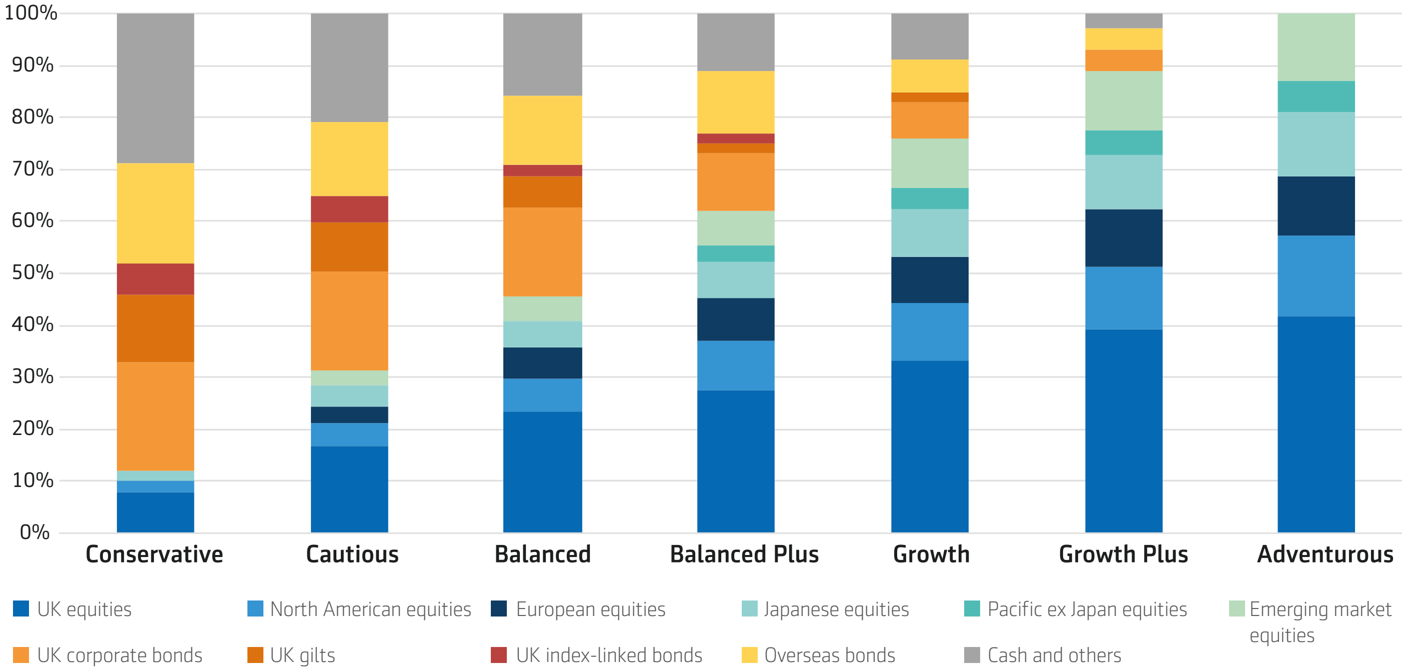
* We grade each fund in relation to its risk against all other funds in our insured range. The rating is not an industry standard and it has no relevance or relationship to the fund risk ratings of other fund providers.

** Source: Dynamic Planner as at quarter 4 2017. The ratings are intended as a guide and should not form the sole basis for advice to invest in a particular fund.

† This is the ongoing charges figure (OCF) for Aegon Retirement Choices and One Retirement and is on top of any product or adviser charge your clients pay and includes a fixed management fee plus other expenses that vary with the day to day costs of running the fund. Information correct as at 30 September 2018.

## Current asset allocations

Aegon's Fund Governance Group takes advice from Morningstar on the asset allocation for the Core Portfolios, based on the latter's views of the long-term prospects for each asset class. In the interim, to ensure allocations don't drift from those recommended, the portfolios incorporate an automatic re-balancing process using a tolerance of +/- 2%.



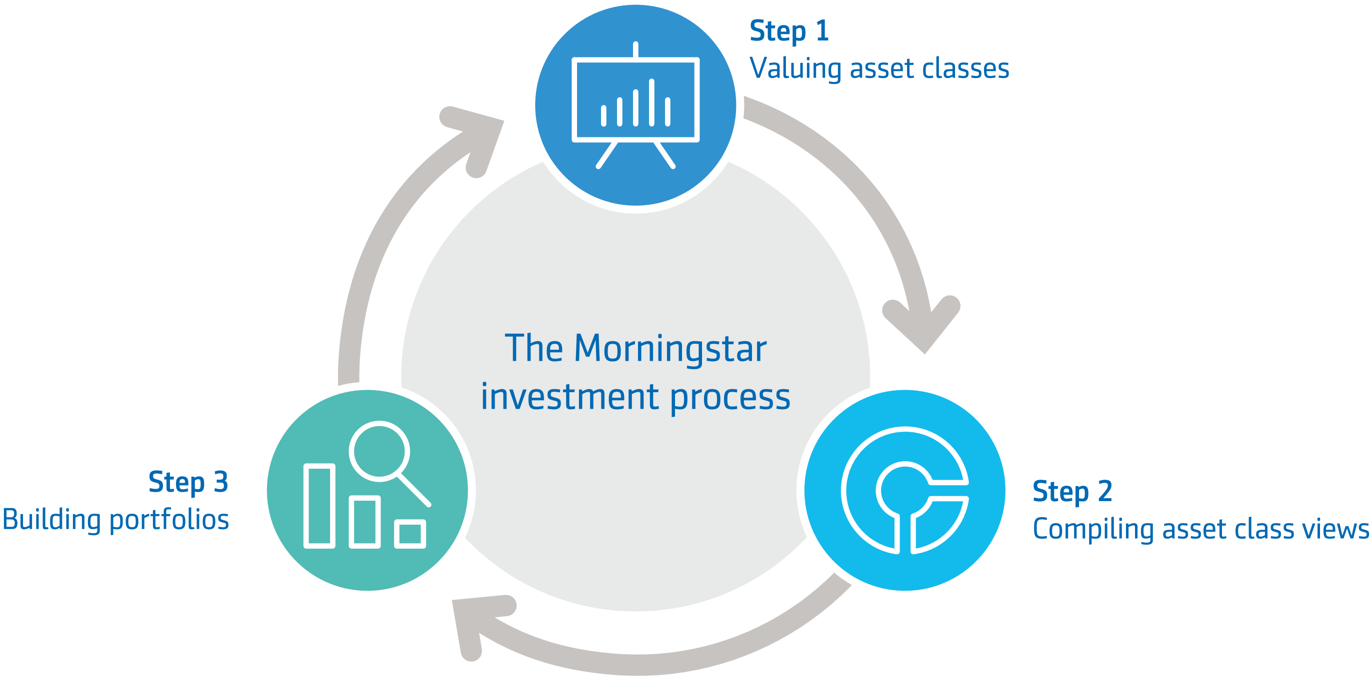

**Figures correct as at 30 September 2018.**

### Key risks

- There's no guarantee that the Core Portfolios will meet their objectives. The value can go down as well as up and your clients could get back less than they invested.
- These portfolios are designed primarily as long-term investments so may not be suitable for short-term investing of less than five years.
- The portfolios invest overseas, so are exposed to exchange rate risk.
- The portfolios, particularly the lower risk portfolios, invest in bonds and there's a risk that these companies or government bodies may default on the loan.
- The portfoilos may also invest in property, which can be hard to sell, so we may have to delay or reduce payments out to investors making claims at these times.

# Morningstar's asset allocation process

Morningstar is widely acknowledged as one of the leading authorities on the development of capital market expectations and has won multiple Graham Dodd awards in the field of asset allocation. Morningstar's investment process is the result of years of research and experience, which is why we've partnered with them to help us build and monitor the Core Portfolios. Below is a brief summary of that process.




## Step 1 | Valuing asset classes

Morningstar uses a valuation-driven approach to investing which is rooted in the understanding of what an asset is really worth. That worth, called the fair value or intrinsic value, is central to Morningstar's decision-making process and to keeping emotions out of the picture. Fair value is the anchor in a sea of irrationality. When the market pushes asset prices well ahead of their fair value, this is a signal to consider reducing exposure to that asset. Similarly, when assets are priced well below fair value, this becomes a potential opportunity.

Buying under-priced asset classes builds an element of risk management into every portfolio purchase. Under-priced asset classes have less room to fall from their intrinsic value than over-priced asset classes do. Value investors have long considered this a "margin of safety" when buying undervalued asset classes – a payment of sorts to the investor for the uncertainty of investing in an unloved region. Because asset classes rarely go bust like companies do, a valuation-driven approach to multi-asset investing demands a smaller margin of safety than those sought by equity value investors.

> Risk management is inherent in valuation-based investing

## Step 2 | Compiling asset class views

Using the analysis carried out in Step 1, Morningstar compiles a ranking of the investment universe by asset class based on four key pillars.

**Four key pillars**

| Absolute valuation | Relative valuation | Contrarian sentiment | Fundamental risk |
| --- | --- | --- | --- |
| Clear understanding of what each asset can be expected to deliver over a 10-year time horizon. | How well the asset ranks compared to other markets. | Is current sentiment supportive to the conviction in a long-term context? | Range of possible scenarios, plus any risk that would cause Morningstar's base case to be inaccurate over the investment horizon. |

These key pillars are then used to arrive at an overall conviction level, reflecting the relative attractiveness of an asset based on a 10 year horizon where 'Low' means the reward-to-risk is likely to be subdued and 'High' means reward-to-risk is appealing.

A sample of what this looks like is shown below, and Morningstar analyses many more asset classes than those shown. This is a continual process so these will change over time.

| Asset class | | Overall conviction | Key long-term drivers |
| --- | --- | --- | --- |
| Equities | United States | Low | Valuation pressures continue to be our primary concern. Profit margins remain elevated, although healthcare looks interesting. |
| | Europe ex-U.K. | Low to medium | Sales remain depressed across large parts of Europe, adding to valuation pressures. However, sector dispersion creates opportunities. |
| | U.K. | Medium | U.K. equities are a tale of two markets. The multinationals have scope for improving earnings, while the domestic-focused face headwinds. |
| | Japan | Medium | Structural reform could provide upside to earnings drivers. Relative to other regions, valuations also remain fairly positioned. |
| | Asia Pacific ex-Japan | Low | Developed Asia Pacific is fragmented, with Australian equities offering a poor outlook. South Korea and Taiwan look more attractive. |
| | Emerging markets | Medium | Unloved areas such as emerging Europe offers decent reward for risk. Asian valuations are also improving following recent price weakness. |
| Fixed income | U.S. government bonds | Low to medium | Valuation-implied returns are improving from very low levels, but still barely cover inflation risks. |
| | European government bonds | Low | European bond yields remain low in absolute and relative terms. The asset class remains unfavourable in a long-term context. |
| | U.K. government bonds | Low | U.K. gilts have abnormally long duration risk, offering low reward for risk in a long-term context. |
| | High yield credit | Low to medium | High-yield spreads have tightened considerably, reducing the likelihood for future gains. We therefore advocate increasing caution. |
| | Emerging-markets debt | Medium | Emerging-markets debt exposure is reasonably attractive due to high relative yields, including both hard- and local-currency exposure. |
| Special mentions | U.S. healthcare | Medium | Healthcare looks attractive relative to other U.S. assets. This is tempered by regulatory and M&A risk. |
| | European tele-communications | Medium | Following sizeable underperformance, we see contrarian appeal. Sector risks linger, although we see potential upside to earnings. |

**Source: Morningstar Investment Management group, conviction levels confirmed at 31 August 2018. This is intended as an example of Morningstar's asset allocation process and shouldn't be used as a basis for recommendation. This is a snapshot - we have not included all asset classes typically analysed by Morningstar here. By the same token, not all of the asset classes shown above will be included in the Core Portfolios. Morningstar's convictions are reviewed regularly and may have changed since publication.**

## **Step 3** | Building portfolios

The next step is to pull these convictions together into a portfolio context that maximises reward for risk. Multi-asset investing has traditionally depended on diversifying among assets that have low correlation with each other to reduce volatility and create a smoother investment journey. However, a simple approach to diversification may not always be effective in reducing the risk of permanent capital loss as it is possible for the majority of assets to be overvalued at the same time. In addition, since valuation anomalies tend to be driven by investor sentiment, it's possible for investments in different asset classes to be affected by the same economic developments.

It's therefore important to understand risk looking ahead into the future, not looking at the past. Morningstar's research produces insight into not only future investment opportunities but also their attendant fundamental drivers of risk. By better understanding these forward-looking risk drivers, they can diversify portfolios for the future rather than basing these decisions on the past.

**Find out more**

We've provided a very brief insight into Morningstar's asset allocation process here. If you want to know more, please ask your Aegon representative for a copy of Morningstar's full investment process.

# Governance

Rigorous governance is our highest priority and is underpinned by our Funds Promise:

- We aim to offer high quality funds which meet their objectives;
- We monitor funds to check if they perform as expected;
- We take action if funds don't meet expectations; and
- We give you the facts you need to make decisions.

As our flagship range, and with over £1.7 billion* in assets under management, the Core Portfolios receive extensive scrutiny from our Fund Governance Group (FGG) with the aim of ensuring they continue to meet their objectives, however there's no guarantee.

* As at 30 June 2018.

Aegon Fund Governance Group

AEGON + MORNINGSTAR® =

Aegon specialists | Independent investment specialists | Fund Governance Group

The FGG is attended by investment experts from both Aegon and Morningstar. It meets once a month to monitor our funds and fund ranges. It receives regular performance summaries and in-depth analysis on the Aegon Core Portfolio Solutions.

Fund monitoring | Portfolio changes | Fund range changes

## Responsibilities for the Aegon Core Portfolio Solutions

Governance of the Core Portfolios involves considering macro-economic factors as they may affect the asset mix and a look-through analysis of the portfolio components so that decisions can be made on whether or not the asset weights or components of the portfolio need to change.

On a quarterly basis, Morningstar attends the FGG to provide a face to face performance review. The review covers various performance measures, including:

- total and annualised returns over various time periods against expected;
- performance relative to other portfolios in the range, and against competitors;
- risk (as measured by standard deviation) of portfolios and components;
- main detractors/contributors to performance.

# Credentials

## Aegon and Morningstar - a powerful combination

**MORNINGSTAR®**

- More than $207 billion in assets under advisement & management globally
- Access to the peerless investment coverage of the wider Morningstar Group – 621,370 investments and 5,835 analyst reports
- Award-winning asset allocation methodology – 11 Graham Dodd awards
- Research driven methodology

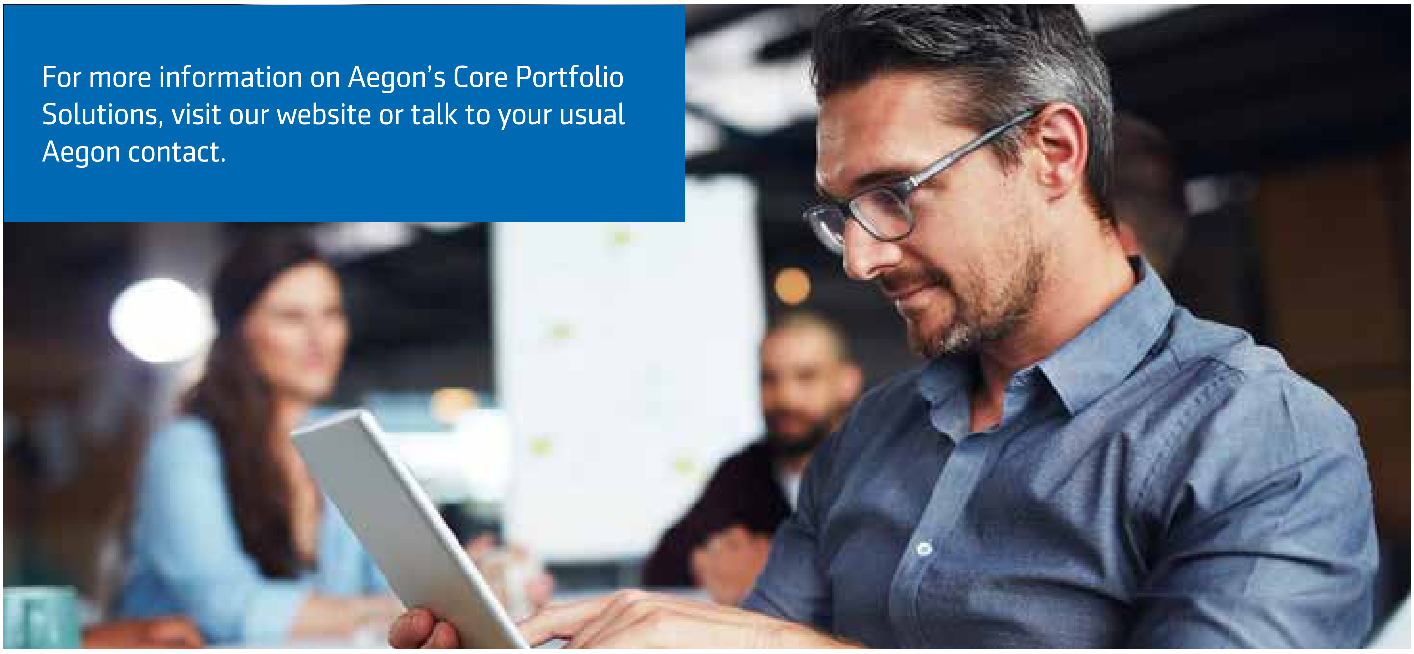
Information correct as at 30 September 2018.

**AEGON**

- Global savings and investment provider serving 30 million customers in over 20 countries
- Founded in 1831 as Scottish Equitable and became part of Aegon in 1994
- Over 29,000 employees, with over 3,000 based in the UK
- Manages over €825 billion in assets on behalf of savers and investors worldwide

Asset value as at August 2018.
All other information correct as at 11 May 2017.

For more information on Aegon's Core Portfolio Solutions, visit our website or talk to your usual Aegon contact.



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