A long-term approach is one of the key principles of our investment philosophy. We believe that by investing over an extended period, we see greater potential to maintain the value of your capital and achieve real growth in the value of your portfolio, with less potential risk.

Our research shows that the probability of loss reduces significantly when investing for the long term compared to the medium and short term. By long term we mean investment periods of at least ten years.

Setting your portfolio’s long-term strategy

In a perfect world, your investment portfolio would expose your money to a consistent level of risk, and earn predictable returns in all market conditions, year after year.

How close your portfolio can get to this ideal depends on the exact blend of assets it contains. So the process of deciding on this blend, known as the strategic asset allocation, is crucial to your investment’s long-term performance.

The importance of strategic asset allocation

Asset allocation is a strategy that aims to balance risk and reward by adjusting the percentage of each asset in your portfolio according to your risk tolerance, goals and investment time frame. As every asset class carries a different level of risk and growth potential our role is to determine which assets have the best potential returns, at the right level of risk to suit each portfolio. Many financial experts see strategic asset allocation as the most important factor in determining returns for a portfolio. We can see this reflected in the chart which shows the contribution that strategic asset allocation made as a percentage of overall returns within three different investment categories.

<table>
<thead>
<tr>
<th>Mutual funds</th>
<th>Pension funds</th>
<th>Hedge funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>94%</td>
<td>96%</td>
<td>67%</td>
</tr>
</tbody>
</table>

Source: Ibbotson and Kaplan, Darolles and Vaissié, Lloyds Bank Private Banking, 2010
Past performance is not a reliable guide to future performance.

The asset allocation process

The first step in the strategic asset allocation process is to consider the long term outlook and our expectations for the risk and reward characteristics of each asset class. To help us with this, we conduct detailed research on economic growth trends and forecasts as well as analysing the current value of individual investments. We will also examine other factors that we believe may influence the way financial markets behave in the future.

We also examine the relationship between individual asset classes. Our objective is to select a broad range of investments that are likely to have a low correlation in terms of performance. In doing this our aim is to preserve the potential for capital growth and maintenance across differing economic backdrops.
In a diversified portfolio, and in normal market conditions, different asset classes will react differently to price-sensitive news and developments. Through appropriate diversification in the asset allocation mix, we attempt to enhance the portfolio’s risk-adjusted performance by altering exposure to different asset classes depending on our interpretation of various economic and financial trends which, in turn, determines our outlook for each individual asset class.

**Defining the asset allocation to suit you**

The next part of the strategic asset allocation process is financial modelling. This is where we combine all these insights together, running thousands of different scenarios to make sure the strategic asset allocation we use for your portfolio is as robust as it can be. Our aim is to generate portfolios with the best blend of assets in order to meet your stated objectives and risk profile. For example, if maintaining the value of your capital is important to you, your portfolio might include a greater percentage of lower risk asset classes like bonds and fewer of the riskier types of assets like equities.

**Sticking to the plan**

The final part of the process is all about investment discipline. After all, there is little point in doing all the analysis and laying the groundwork for your investment plan if you are not going to stick with it over the long-term. Although nothing is guaranteed, you are only likely to reap the benefits from any plan provided you follow it, and your financial plan is no different. So, once we have agreed the plan with you, our role is to keep you updated so you can have confidence you remain on the right track towards achieving your financial goals and objectives.

In summary, strategic asset allocation is all about assessing the future potential for differing financial markets, analysing the options available to you, deciding on the most appropriate strategy to meet your objectives and then sticking to the plan.

**Strategic weighting based upon longer-term asset class risk and returns**

The chart shows how the strategic asset allocation process works by blending asset classes together with the aim of enhancing the portfolio’s risk-adjusted performance – combining them in the right proportions could result in a better risk and reward outcome within portfolios. Please note, the value of investments in each of these asset classes and the income from them may fall as well as rise and is not guaranteed. An investor may get back less than the original amount invested.
OUR INVESTMENT PROCESS

In working towards getting the right investment plan for you, we follow our eight step investment process.

1. Risk Profiling
   Understanding your financial objectives, personal circumstances and attitude to risk.

2. Strategic asset allocation
   Defining the most appropriate long-term asset mix for you.

3. Tactical asset allocation
   Using tactical expertise to evaluate potential opportunities over the shorter-term.

4. Investment selection
   Selecting the investments and managers best suited to meeting your financial needs.

5. Portfolio construction
   Building and evolving your chosen portfolio attuned to your needs and based on our financial expectations.

6. Risk management
   Portfolio oversight to maintain risk levels within the agreed parameters for your profile.

7. Performance measurement
   Monitoring your portfolio to help ensure long-term performance is in line with its benchmark.

8. Client reporting
   Keeping you up to date and informed about your investment.

Please contact us if you would like this information in an alternative format such as Braille, large print or audio.

If you have a hearing or speech impairment and would prefer to use a Textphone, please feel free to call us on 0345 300 2281 (lines open 24 hours a day, seven days a week).

If you are Deaf and prefer to use BSL then you can use the SignVideo service available on our website lloydsbank.com/signvideo.asp

Your call may be monitored or recorded in case we need to check we have carried out your instructions correctly and to help improve our quality of service.

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