Standard Life

MyFolio suitability

Letter template

For use by professional advisers only

This document is designed to aid you with your due diligence and outsourcing requirements by providing some factual information you may find of use when drafting your suitability letters. The headings and layout are only examples and should not be taken as a guide for how elements of your suitability letter should look or what it should include.

Before giving advice to your clients, you should have carefully considered their financial needs, their attitude to risk and their own financial circumstances, as all these factors will influence the recommendations that you make to them.

Please note that it is your responsibility and not that of Standard Life to ensure your letter is compliant with the rules of the regulator. Particularly with regard to the suitability of the investment for your particular client and the inclusion of any appropriate risk warnings.

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We are not providing advice where you use any of this wording to contact your clients. No responsibility is accepted by Standard Life for your reliance on, or use of, this information, which is supplied at your own risk.

1. About MyFolio Funds

1.1 Why invest in the MyFolio Funds?

The MyFolio Fund range is a family of carefully built portfolios designed to maximise returns for the level of risk that you have agreed you are comfortable with.

By offering a range of funds across different risk levels and investment styles, it is easier to find a fund that is appropriate for you.

Each option invests across a wide range of asset classes, which can help to spread risk while also providing different sources of return.

The different funds can also be mixed to create bespoke portfolios designed to help you meet your specific investment goals.

1.2 Choice of risk levels

The MyFolio Funds offer a range of five risk levels which are designed to match different attitudes to risk.

You have selected the risk level that's most appropriate for you and the fund will always be managed to meet its original risk level. For a description of each risk level, see appendix a.

Generally, the higher the risk level the higher the potential return, while the lower the risk level the lower the potential return. You should remember that the value of a MyFolio Fund can fall as well as rise. Even the lowest risk fund can still fall in value.

1.3 Greater diversification

A golden rule of investing money is diversification. Spreading your money across asset classes can help to smooth out your investment returns over time.

An 'asset class' is a category of investments, such as equities or bonds. Normally assets in the same class have similar characteristics. However, they can have very different returns and risks.

The value of the investments in any asset class can go down as well as up, and may be worth less than what was paid in – there are no guarantees. Past performance is not a reliable guide to future performance.

(Use the following as appropriate)

- The MyFolio Multi-Manager and Multi-Manager Income Funds invest in a diverse range of assets and investment strategies, such as equities (shares), bonds, property and absolute returns, as well as across different countries. They do this through actively managed funds from some of the leading managers in the market. The Income Funds invest in funds which focus on creating income, for example through equity dividends, bond yields and property rental income.
- The MyFolio Managed and Managed Income Funds invest in a diverse range of assets and investment strategies, such as equities (shares), bonds, property and absolute returns, as well as across different countries. They do this mainly through actively managed funds from Aberdeen Standard Investments. The Income Funds invest in funds which focus on creating income, for example through equity dividends, bond yields and property rental income.
- The MyFolio Market Funds invest in a diverse range of assets, such as equities (shares), bonds and direct property, as well as across different countries. They do this mainly through passive (tracker) funds but may also invest in actively managed property funds.
- By including commercial property (in all funds) and absolute return strategies (in all funds apart from MyFolio Market Funds), the fund manager looks to further increase diversification. Be aware though that even a well-diversified portfolio can still fall in value.

1.4 Standard Life volatility ratings

Investing in any fund runs a risk of losing money. Some funds are riskier than others. Looking at the volatility of the fund is one way to measure the risk involved. Volatility is an indication of the rate and amount that a fund moves up and down in value.

High volatility means that a fund is more likely to suddenly fall or rise in value than a fund with lower volatility. The amounts are also likely to be more significant.

The volatility rating of a fund indicates how much the fund price might move compared to other funds. The higher the volatility rating, the less stable the fund price is likely to be. You can use this to help you decide how much risk you're comfortable taking with your investments.

Standard Life sets ratings based on its experts' judgement, using data on:

- How the fund price has varied from month to month in the past, compared to other funds available
- How investments in similar asset classes vary from month to month and the investment policy of the fund

The volatility ratings of the MyFolio Funds are shown below.

MyFolio risk level	Volatility rating
I	2
II	3
III	4
IV	5
V	6

Standard Life regularly reviews volatility ratings for funds, and these can change.

The risk level of the MyFolio Fund you have chosen as most appropriate for your attitude to risk has an associated Standard Life volatility rating of X **(Adviser – insert SL volatility rating)**.

You can use this Standard Life volatility rating to see how your fund compares to others in the Standard Life range.

1.5 Transparency and easy access (Suitable for all MyFolio clients)

- Aberdeen Standard Investments clearly understands and can openly communicate about the assets and strategies that the MyFolio Funds invest in.
- MyFolio Funds are priced daily, so you can buy, sell or switch units in the same way as you can for any other fund.

2. The management process (Suitable for all MyFolio clients)

2.1 Automatic rebalancing (Suitable for all MyFolio clients)

As the assets in the MyFolio Funds will all perform differently, Aberdeen Standard Investments' team of experts will regularly review the proportion of each asset held. If appropriate, they will change the proportion of assets to make sure the funds stay in line with their original risk level. This is called rebalancing and happens regularly within the funds.

2.2 Strategic asset allocation and tactical asset allocation (Suitable for all MyFolio clients)

The process for picking the strategic asset allocation and reviewing it on a regular basis is managed in consultation with Moody's Analytics, a world leader in financial risk modelling.

The fund management team at Aberdeen Standard Investments may also make tactical asset allocation decisions to optimise the fund performance in certain market conditions. By doing this, the team aims to fine-tune performance by taking advantage of any market anomalies.

* Use as appropriate.

3. The fund manager - Aberdeen Standard Investments

3.1 Aberdeen Standard Investments (Suitable for all MyFolio clients)

Aberdeen Standard Investments manages £557.1bn for its customers, making it the largest active manager in the UK and one of the largest in Europe. It has offices around the world giving it the scale and expertise to help customers meet their investment goals.

Source: Aberdeen Standard Investments as at 30 June 2018. Aberdeen Standard Investments is a brand of the investment businesses of Aberdeen Asset Management and Standard Life Investments.

4. Your fund choice

4.1 Mixing and control*

You have chosen a solution where MyFolio Funds are used in combination with other MyFolio Funds that have different investment style(s), but maintain the same risk level, to create tailored investments. This is a good way of controlling costs and managing style, risk and asset diversity.

4.2 About MyFolio Multi-Manager Funds*

The MyFolio Multi-Manager Funds aim to maximise returns for the level of risk selected through a combination of income and capital growth over the longer-term.

They invest in premium actively managed funds from some of the leading managers in the market. Aberdeen Standard Investments carries out in-depth research to identify funds it believes are the best in the market. It will also choose how much to invest in the different types of funds with the aim of achieving the best possible return for each MyFolio Multi-Manager Fund's risk level. As this option invests in premium funds from across the industry, fund management charges may be higher than for other MyFolio options.

4.2.1 Suitability – MyFolio Multi-Manager Funds may not be suitable if you*:

- Do not wish to take any risk with your capital.
- Are investing for less than five years.
- Do not wish to invest in a fund that can invest in collective investment schemes.
- Do not wish to invest in a fund that invests in property.
- Do not wish to invest in a fund that can invest in absolute returns in order to achieve its objectives.

4.2.2 Suitability – MyFolio Multi-Manager Funds may be suitable if you*:

- Wish to invest in a fund that aims to maximise returns for the level of risk selected through a combination of income and capital growth over the longer-term.
- Are seeking a fund solution that is tailored to closely match your attitude to risk and reward.
- Are comfortable with the potential risks and benefits that may be achieved through diversification of assets and rebalancing.

* Use as appropriate.

4.3 About MyFolio Multi-Manager Income Funds*

The MyFolio Multi-Manager Income Funds aim to provide income-focused total returns over the longer-term, for example through equity dividends, bond yields and property rental income.

They invest in premium actively managed funds from some of the leading managers in the market. Aberdeen Standard Investments carries out in-depth research to identify funds it believes are the best in the market. It will also choose how much to invest in the different types of funds with the aim of achieving the best possible return for each MyFolio Multi-Manager Income Fund's risk level. As this option invests in premium funds from across the industry, fund management charges may be higher than for other MyFolio options.

4.3.1 Suitability – MyFolio Multi-Manager Income Funds may not be suitable if you*:

- Do not wish to take any risk with your capital.
- Are investing for less than five years.
- Do not wish to invest in a fund that can invest in collective investment schemes.
- Do not wish to invest in a fund that invests in property.
- Do not wish to invest in a fund that can invest in absolute returns in order to achieve its objectives.

4.3.2 Suitability - MyFolio Multi-Manager Income Funds may be suitable if you*:

- Wish to invest in a fund that aims to provide income-focused total returns over the longer-term.
- Are seeking a fund solution that is tailored to closely match your attitude to risk and reward.
- Are comfortable with the potential risks and benefits that may be achieved through diversification of assets and rebalancing.
- Understand the differences between income and growth funds, and how they achieve their returns.

Important – Please note that any income generated within the life and pension MyFolio Multi-Manager Income Funds will be reinvested in the funds rather than paid out.

4.4 About MyFolio Managed Funds*

The MyFolio Managed Funds aim to provide a total return from a combination of income and capital growth over the longer-term.

These mainly invest in funds which are actively managed by Aberdeen Standard Investments, who will choose how much to invest in the different types of funds with the aim of achieving the best possible return for each MyFolio Managed Fund's risk level.

* Use as appropriate.

4.4.1 Suitability - MyFolio Managed Funds may not be suitable if you*:

- Do not wish to take any risk with your capital.
- Are investing for less than five years.
- Do not wish to invest in a fund that can invest in collective investment schemes.
- Do not wish to invest in a fund that invests in property.
- Do not wish to invest in a fund that can invest in absolute returns in order to achieve their objectives.

4.4.2 Suitability – MyFolio Managed Funds may be suitable if you*:

- Wish to invest in a fund that aims to provide a total return from a combination of income and capital growth over the longer-term.
- Are seeking a fund solution that is tailored to closely match your attitude to risk and reward.
- Are comfortable with the potential risks and benefits that may be achieved through diversification of assets and rebalancing.

4.5 About MyFolio Managed Income Funds*

The MyFolio Multi-Manager Income Funds aim to provide income-focused total returns over the longer-term, for example through equity dividends, bond yields and property rental income.

They mainly invest in funds which are actively managed by Aberdeen Standard Investments, who will choose how much to invest in the different types of funds with the aim of achieving the best possible return for each MyFolio Managed Income Fund's risk level.

4.5.1 Suitability - MyFolio Managed Income Funds may not be suitable if you*:

- Do not wish to take any risk with your capital.
- Are investing for less than five years.
- Do not wish to invest in a fund that can invest in collective investment schemes.
- Do not wish to invest in a fund that invests in property.
- Do not wish to invest in a fund that can invest in absolute returns in order to achieve their objectives.

4.5.2 Suitability - MyFolio Managed Income Funds may be suitable if you*:

- Wish to invest in a fund that aims to provide income-focused total returns over the longer-term.
- Are seeking a fund solution that is tailored to closely match your attitude to risk and reward.
- Are comfortable with the potential risks and benefits that may be achieved through diversification of assets and rebalancing.
- Understand the differences between income and growth funds, and how they achieve their returns.

Important – Please note that any income generated within the insured life and pension MyFolio Managed Income Funds will be reinvested in the funds rather than paid out.

* Use as appropriate.

4.6 About MyFolio Market Funds*

The MyFolio Market Funds aim to provide a total return from a combination of income and capital growth over the longer-term.

They mainly invest in passive funds (known as trackers) from large, well known providers. Tracker funds aim to replicate (or track) the performance of a stock market index before fund charges. Aberdeen Standard Investments will actively choose how much to invest in the different tracker funds and, to provide additional diversification, may also invest in actively managed property funds. As tracker funds tend to have lower fund management charges than actively managed funds, this is the lowest cost MyFolio option.

4.6.1 Suitability - MyFolio Market Funds may not be suitable if you*:

- Do not wish to take any risk with your capital.
- Are investing for less than five years.
- Do not wish to invest in a fund that can invest in collective investment schemes.
- Do not wish to invest in a fund that invests in direct property.

4.6.2 Suitability - MyFolio Market Funds may be suitable if you*:

- Wish to invest in a fund that aims to provide a total return from a combination of income and capital growth over the longer-term.
- Are seeking a fund solution that is tailored to closely match your attitude to risk and reward.
- Are comfortable with the potential risks and benefits that may be achieved through diversification of assets and rebalancing.

5. Appendix A

Risk level descriptions

MyFolio I

This investment option is designed for a customer who is conservative with their investments. They prefer taking a small amount of risk to achieve modest or relatively stable returns. They accept there may be some short-term periods of fluctuation in value.

MyFolio II

This investment option is designed for a customer who is relatively cautious with their investments. They want to try to achieve a reasonable return, and are prepared to accept some risk in doing so. Typically these portfolios will exhibit relatively modest yet frequent fluctuations in value.

MyFolio III

This investment option is designed for a customer with a balanced attitude to risk. They don't seek risky investments but don't avoid them either. They are prepared to accept fluctuations in the value of their investments to try and achieve better long-term returns. Their investments may be subject to frequent and, at times, significant fluctuations in value.

MyFolio IV

This investment option is designed for customers who are relatively comfortable with investment risk. They aim for higher long-term returns and understand that this can also mean some sustained periods of poorer performance. They are prepared to accept significant fluctuations in value to try and achieve better long-term returns.

MyFolio V

This investment option is designed for customers who are very comfortable with investment risk. They aim for high long-term investment returns and do not overly worry about periods of poorer performance in the short to medium term. Ordinarily these portfolios can be subject to the full extent and frequency of stock market fluctuations.

6. Appendix B

Additional information and risks (Optional paragraph)

As with all investments, there are risks associated with investing in the MyFolio Funds. We have discussed them and they are shown below. Please do take the time to read these risks, as it is important you understand them. Some of the risks may use terminology you may not be as familiar with. If this is the case, please ask me for further explanation.

Flexible income (drawdown) risk

If investment markets fall while you're taking a flexible income from your pension (either a regular income or ad-hoc withdrawals), the impact of these withdrawals could be greater and lead to your pension savings running out faster. It's important to review your investments regularly.

General risks (Suitable for all MyFolio clients)

As with any investment, the value of your fund can go down as well as up and may be worth less than what was paid in.

Collective Investment Schemes – The funds can invest in collective investment schemes which can themselves invest in a diverse range of other assets. These underlying assets may vary from time to time but each category of asset (which may include equities, bonds or immovable property) has individual risks associated with them. The funds may not have any control over the activities of any collective investment scheme invested in by the funds.

Past performance is not a guide to the future.

Risk factors (Suitable for all MyFolio clients unless shown otherwise)

The funds can invest in a wide variety of investment strategies and assets. Below we document the specific or heightened risks applicable to the MyFolio Funds rather than an exhaustive list of all potential strategies or asset classes.

Market risk is the risk that market conditions can negatively impact investment returns. For instance, the prices of securities are dependent on general supply and demand that fluctuates independently of any security in particular. Market risk is generally dependent on economic conditions, such as inflation, consumer sentiment, or credit availability.

Emerging markets tend to be more volatile than more established stock markets and therefore your investment may be subject to greater risk. Political and economic conditions should also be taken into account.

The reliability of trading and settlement systems in some emerging markets may not be equal to that available in more developed markets, which may result in delays in realising investments within the funds.

Currency risk means investments may be made in assets denominated in various currencies, and movements in exchange rates may have a separate effect on the value of and the returns from such investments.

Financial risk or default/credit risk is the risk that a business will not be able to make payments due to its debt load. Interest and principal must be paid on borrowed money – failure to make payments can force the business into bankruptcy. A business with large amounts of debt relative to income does not have much reserve for unexpected expenses or lower income, and can fail if the economy sours or if it encounters some other factor that lowers income or increases expenses.

Funds investing in corporate bonds are therefore subject to default on the interest owed and/or the ability of the bond issuer to return capital on the redemption date.

The risk of this happening is usually higher with bonds classified as 'sub-investment grade'. These may produce a higher level of income but at a higher risk than investments in 'investment grade' bonds. In turn, this may have an adverse impact on funds that invest in such bonds.

The yields offered by funds investing in fixed interest securities reflect, in part, the risk rating of the issuers of these securities.

Interest rate risk is a risk that lowers yields or returns due to changes in the prevailing interest rate. Interest rate risk can affect different securities in different ways. The price of bonds in the secondary market, for instance, varies inversely to interest rates i.e. when interest rates rise, the price of bonds drops, and vice versa.

Inflation risk is a risk that lessens real returns due to the decreasing purchasing power of the returns.

Liquidity risk is the risk that an investment cannot be sold quickly for a reasonable price. Real estate or property, for instance, is an illiquid investment because it can take considerable time to sell unless it is sold below market value. Other markets can also be less liquid and therefore can be more volatile, such as smaller companies securities or emerging markets.

Property risk occurs as the valuation of property is a matter of judgment by an independent valuer. The value of capital and income will fluctuate as property values and rental incomes rise and fall.

Where investment in property is made, either directly or indirectly, it should be noted that due to the nature of these assets, significant volatility may be experienced during times of extreme market turmoil.

The underlying investments of property funds can generally be less liquid than equities or bonds and, as such, purchases and sales may be a long and uncertain process. At times, cash may remain uninvited if it proves difficult to make purchases. Equally, there may be times when property has to be sold quickly and for less than expected.

Business risk is any risk that can lower a business's net assets or net income that could, in turn, lower the return of any security based on it. Some business risks are sector risks that can affect every company in a particular sector, while some business risks affect only a particular company. Higher mortgage rates can increase the business risk for real estate or construction companies, for instance. However, even similar businesses can have widely different risks depending on the quality of management and the resources that are available to the business.

Event risk is the risk of an event that can have an impact on the potential return of an investment. Generally, event risk is risk that affects a single company and its securities, such as the loss of a major lawsuit or an accounting scandal. Sometimes event risk can affect a number of securities, such as the political risk that a country will do something that will drive down the prices of any securities issued by companies located there, such as increasing taxes, discouraging foreign investment, or in extreme cases, nationalising the companies without proper compensation.

Tax risk is the risk that a taxing authority will change tax laws which could have a negative impact on investment. Higher taxes on investment income reduce real returns and can lower the prices of investments in the secondary markets. Higher taxes on businesses will lower their net income, which will usually lower the stock price, and may lower its bond prices in the secondary market if their credit rating is lower as a result of the lower income.

Absolute Return risks

MyFolio Funds may invest in absolute return funds (currently MyFolio Managed I, II, III, IV & V and MyFolio Managed Income I, II, III, IV & V, MyFolio Multi-Manager I, II, III, IV & V and MyFolio Multi-Manager Income I, II, III, IV & V).

It is important when considering absolute return funds or absolute return investing not to confuse this with guaranteed funds or products which guarantee a positive nominal return over any period.

Intangible risks and volatility

The risks of a fund can be measured in different ways. Volatility (a measure of how much a fund's price has varied in the past) will not necessarily always provide a complete picture of a fund's risk. Some risks are not represented in the movement of the unit price until they emerge and only then will they have a significant effect on a portfolio.

Absolute return funds can invest in a wide variety of investment strategies and assets. Below we document the specific heightened risks applicable to these types of funds rather than an exhaustive list of risks for potential strategies or asset classes.

Extensive use of derivatives

In order to achieve its objectives an absolute return fund utilises a combination of traditional investments (such as equities, bonds and foreign exchange) and advanced techniques where it can use derivatives extensively. Derivatives are financial instruments which derive their value from an underlying asset, such as a share or bond, and are used routinely in global financial markets. Used carefully, derivatives offer an effective and cost-efficient way of investing in markets. However, derivatives can lead to increased volatility of returns in a fund, thus requiring a robust and extensive risk management process. While the fund will not borrow cash for investment purposes, the total value of exposures to markets will routinely exceed the fund's net asset value. Derivatives may be Exchange Traded or Over the Counter (OTC).

Use of 'short' positions

Typically, UK authorised collective investment schemes invest on a 'long only' basis. The fund, by employing certain derivative techniques, will establish both 'long' and 'short' positions in individual markets and sectors. Investing on a 'long' basis means that the value of the derivative will rise or fall in the same direction as the underlying market value of the asset from which it is derived. If investments are made on a 'short' basis the value of the derivative will rise and fall in the opposite direction to the underlying market value of the asset from which it is derived.

Counterparty risk

The Investment Manager may use one or more separate counterparties to undertake derivative transactions on behalf of the fund. From time to time the fund may be required to pledge collateral, and when this is required it will be paid from within the assets of the fund. When a derivatives contract moves in favour of the fund there is a risk that the counterparty may wholly or partially fail to honour their contractual obligations under the arrangement. The Investment Manager assesses the creditworthiness of counterparties as part of the risk management process and will ordinarily hold collateral to mitigate this.

Active fund management

The majority of risks within traditional investment funds are driven by the type of investments held (i.e. equities, fixed interest or property, etc). The risks that fund management decisions add are generally of a smaller magnitude than those of the asset types themselves. Funds which employ an absolute return strategy may not have a structure where most of the returns are generated from traditional asset types. Rather, they may derive most of their returns from very specific strategies. As a result of this, the risks of the fund are driven primarily by these fund management decisions, and less by the characteristics of the underlying traditional asset types.

Correlation

The fund will invest in a diverse set of investment strategies, which in the opinion of the investment adviser have attractive risk reward characteristics. While the breadth of the strategies is significant, should they start to exhibit closer correlation ie move in the same direction as one another, the fund may be subject to a higher level of risk and volatility than anticipated.