How does Magnet work?

Determine ···> Optimise ···> Fine Tune ···> Review

Step 01: Determine

The first stage of the Magnet process is to determine what types of investments we want to look at for our portfolios. It may sound strange, but many managed funds won't look at all investment opportunities available to them. They may limit themselves to traditional asset classes such as equities, government bonds and commercial property.

Over recent years investment managers have more and more options at their disposal. Additional asset classes have become more main-stream and sophisticated investment strategies have been developed to help manage risk.
We currently assess the following investment types:

- Developed Market Equities
- Emerging Market Equities
- Euro Government Bonds
- Euro Corporate Bonds
- Commercial Property
- Commodities
- Currency Strategies
- Other Alternative Strategies
- Cash

As part of this process we set broad parameters as to how much of each asset type each portfolio may hold. These act as a guide and sense check for when we look at the optimum portfolio data produced in step 2.

Step 02: Optimise

We assess thousands of potential portfolios to derive optimum asset mixes for each Magnet option. As part of this process we use economic scenarios provided by the Actuarial and Advanced Analytic Department of Deloitte. This process is designed to estimate the long term asset mix which we feel has a good chance of maximising returns for the given risk profile.

The process projects the long term investment potential of each asset class and how correlated their performance is likely to be to each other. Correlation is particularly important. If two assets have a low correlation, it means that they tend to have their ups and downs at different times. Putting two uncorrelated risky assets together can actually reduce the overall risk of a portfolio, as when one is performing poorly, there is no reason why the other is not doing well.

In determining the most efficient asset mix for a given risk profile, we don't just look at getting the balance between risky and less risky assets right. We also ensure we have the right balance of different types of risky assets.

Determining long term asset allocation is the most important part of the Magnet investment process as this is fundamental to managing long term risk and return.

Step 03: Fine Tune

The optimisation process described in STEP 2 will provide optimal ranges for each asset class and strategy. We then look to fine tune each portfolio by:

- Determining actual asset allocation within the given ranges.
- Selecting funds and fund managers from Friends Firsts investment range to populate each asset class across each portfolio.
- Ensuring that the total underlying fund charges incurred by each portfolio are within acceptable limits.

In determining final asset allocations we look at alternative investment strategies differently. Due to the very nature of some of these strategies, modelling weightings for them can be less precise than for traditional assets. The allocation to alternative strategies on each portfolio is therefore more of a subjective call.

Step 04: Review

We review each portfolio on an ongoing basis to ensure that they are operating within their targeted risk range; that asset allocations haven't deviated from optimum levels and assess the performance of active asset managers.

Deloitte.

Within the above process Economic scenarios are provided by Deloitte's economic scenario modelling service, XSG. Deloitte's team of quantitative finance experts and technology professionals have produced economic scenario models for over 15 years, and are at the forefront of actuarial developments in stochastic modelling of market risks. They licence their modelling software, and provide scenarios generated from it, to a range of UK and European life and general insurers.

IMPORTANT INFORMATION

The funds referred to in this document may be linked to an insurance-based investment product and the Key Information Document (KID) for this product is available at www.friendsfirst.ie/kids. The Risk Ratings of the funds referred to in this document differ from the corresponding Summary Risk Indicators shown in the KID. An explanation of the differences between the Risk Rating and the Summary Risk Indicator is available at the location above.

Warning: Past performance is not a reliable guide to future performance.
Warning: The value of your investment may go down as well as up.
Warning: Funds may be affected by changes in currency exchange rates.
Warning: If you invest in this product you may lose some or all of the money you invest.