

What is Re-balancing?

Re-balancing is the process of buying and selling assets within your portfolio to set the weight of each asset class back to its original state. In addition, if your investment strategy or tolerance for risk has changed, you can use re-balancing to readjust the weightings of each security or asset class in the portfolio to fulfil a newly devised asset allocation. This means you can opt to change your TRAILS™ portfolio to a different risk category if you choose. **See the diagram below on page 2.**

Why re-balance? What is the main goal?

The primary goal of a re-balancing strategy is to minimise or control risk (or more accurately, volatility), relative to a target asset allocation. It is not done specifically to maximise returns, which may appear odd, although it can result in additional returns over time. A portfolio's asset allocation is the major determinant of a portfolio's risk-and-return characteristics.

Over time, asset classes produce different returns, so the portfolio's asset allocation changes. Therefore, to recapture the portfolio's original risk-and-return characteristics, it is important to re-balance.

How often should you re-balance?

We believe it is best to re-balance portfolios annually. Annually in our view minimises errors, taxes, and costs.

What are the costs?

- Tandem Financial does not charge to re-balance.
- There are nominal platform costs.
- There are no costs to sell funds.
- There are no initial fees from the fund managers on new purchases.

- There are some minor initial costs, which include dilution levies and/ or stamp duty (for UK equities). These charges are incurred only on the purchase of 1 of the 10 TRAILS™ funds. This is equivalent to less than 0.01% on average, across the seven portfolios within TRAILS™.
- N.B. The entire portfolio is not sold and re-purchased. Instead, the percentage that is, is very low, using no more than 5-10%.
- Example of potential costs: for a portfolio of £100,000 the approximate cost to re-balance 5-10% of the portfolio is between £0 - £10 depending on the percentage re-balanced and the TRAILS™ portfolio in question. This fee is reflected within the unit price and cash balance.

What about Capital Gains Tax (CGT)?

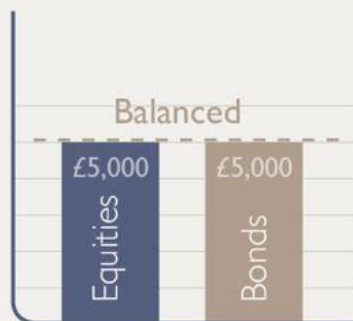
CGT is not relevant within a pension, ISA or bond portfolio, because it does not apply. Only if you have a general investment account (GIA) is this potentially relevant. We do look at all large GIA portfolios as to whether there will be a capital gain where CGT applies. UK investors have an annual exemption of £6,000 so they can achieve a net gain of up to this amount before incurring CGT at their respective rate. If you have used some, or all of your CGT allowance in the tax year 2023-24, or if you are concerned about CGT, do get in touch with us. It is unlikely that you will incur any CGT through the act of annual re-balancing, unless you have a particularly large holding in your General Investment Account.

What do I need to do?

You do not need to do anything or give us additional consent to re-balance on your behalf. This consent was given when you signed the original TRAILS™ portfolio breakdown. We only require your consent if we switch any funds. Please do let us know if you do not wish to re-balance. This FAQ section is largely for information purposes only. Feel free to get in touch with us if you have any further questions or concerns.

Risk is a 'rebalancing' act

Your initial 'balanced' fund



Your fund starts with £10,000. £5,000 in equities and £5,000 in bonds.

This is just how you wanted it. Not overly exposed to fluctuations in the market (bonds) but with the ability to harness growth (equities).

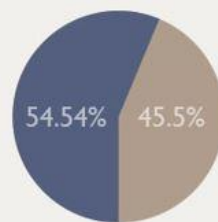


After 12 months



Your equities increase in value to £6,000. But your bonds remain at £5,000.

That means your portfolio is now 54.54% equities and 45.4% bonds. This would clearly increase your exposure to equities (thus to greater volatility).



Your 'rebalanced' fund



You sell high-priced equities and buy low-priced bonds. Fund is bigger, but back in balance.

To rebalance, we administer the necessary 'sells' and 'buys' to reinstate the original percentages. Fund now less exposed to risk and less volatile.

