embark investments

EMBARK HORIZON MULTI-ASSET FUNDS

DUE DILIGENCE GUIDE

defaqto
Risk Targeted Fund Family 2024
EXPERT RATED

Signatory of:

PRI Principles for Responsible Investment

For professional advisers only

CONTENTS

INTRODUCING EMBARK INVESTMENTS

Embark Investments is the Authorised Corporate Director of the Embark Horizon Multi-Asset Funds.

In January 2022, Embark Group became part of the Lloyds Banking Group, a leading UK based financial services group providing a wide range of banking and financial services.

Embark Investments is the trading name of Embark Investments Limited, which is the Authorised Corporate Director (ACD) of the Embark Horizon Multi-Asset Funds. Embark Investments is a wholly owned subsidiary of the Embark Group and is authorised and regulated by the FCA.

Embark Investments designs and manufactures investment solutions, such as the Embark Horizon Multi-Asset Funds (Horizon Funds), for the UK retail market, with a focus on delivering investment outcomes to meet specific client needs.

EMBARK INVESTMENTS

- Matches fund design to client risk profile needs
- Appoints Depositary, Risk Profile provider, and Investment Manager
- Ongoing oversight of outsourced activities and risk management

EMBARK HORIZON MULTI-ASSET FUND RANGE	5 RISK PROFILED FUNDS	RISK PROFILE PROVIDER – EV	INVESTMENT MANAGER – BLACKROCK

MODEL ASSET ALLOCATION GUIDE

For over 20 years, EV has worked with product providers, banks, advisers, and asset managers to help people understand their finances and make complex, individual financial decisions with a unique risk rating proposition.

FORWARD LOOKING, CUSTOMER FOCUSED RISK RATING	STOCHASTIC MODELLING	UNBIASED AND INDEPENDENT	SCALABLE AND FLEXIBLE	REGULAR UPDATES REFLECTING REAL WORLD EVENTS
Measure of risk is based on the individual's planning objectives and current circumstances.	Captures term structure of risk, return and correlation. Adapts to changing market conditions. Model income and capital growth separately.	The model is agnostic to individual fund managers, benchmarks and recent historical performance.	Funds with no performance history and new combinations of funds or asset classes can be easily added for risk rating purposes.	EV update the asset model quarterly or more frequently if there has been an exceptional event.

Measuring risk is important, matching it with investment goals is more so, and a process built on realistic foundations is comforting, but investors still want to end up with as much money as possible. EV's asset allocations have been long-term winners in multi-asset performance, and **today they are a leading asset allocation specialist**.

EV uses technology and a pioneering asset model to help end-consumers make better informed decisions about their finances. EV products combine expert actuarial knowledge, pioneering asset modelling and risk management.

Financial advisers use EV's software to identify their clients' financial goals, analyse their tolerance for investment risk, construct appropriate investment portfolios and forecast various financial outcomes based on risk/reward trade-offs.

Many consumers in the workplace use EV tools to make decisions about their retirement and other financial planning needs.

MODEL ASSET ALLOCATION GUIDE (CONTINUED)

Stochastic modelling

Stochastic modelling has underpinned EV since its original establishment within Towers Perrin. EV's Asset model is based on analysis of historical and current market data which is used to build a full and coherent picture of what could happen in the markets. It generates a set of scenarios corresponding to the picture that make it easy to apply to individual investment situations. Each scenario presents an internally consistent path through which a range of economic and market indicators might evolve. As a group they reflect the range and distribution of possible outcomes including investment returns. These scenarios are used together with the investment strategy by EV's optimiser to produce model asset allocations. The EV Asset Model takes an asset allocation level view of investment prospects and models broad asset class characteristics and does not seek to precisely replicate an explicit index.

Creating the asset allocations

Asset allocations are derived from the EV Asset Model using an adapted version of the standard efficient frontier methodology familiar since the work of Markowitz. The method involves finding the asset allocations which will achieve the maximum expected fund growth rate for a given risk target over the relevant investment period. In the case of the Horizon Multi-Asset Funds the investment period is assumed to be 18 years.

Setting risk targets

Risk levels are set relative to asset classes chosen to represent the lowest and highest risk investments suitable for the portfolio of an individual investor. In the case of the Horizon Funds, the lowest risk investment is assumed to be Cash while the highest risk is assumed to be Developed Market Equities. The remaining risk levels are spread proportionately between these bounds so that lower risk levels are closer together than higher ones, the rationale being that low risk investors are more sensitive to changes in outcome than high risk ones. EV calculations then identify the asset allocations that have the given risk level and the highest average return over the investment horizon according to the EV Asset Model. In this case the horizon is 18 years.

Keeping allocations stable

For practical purposes, it is desirable for the allocations to be relatively stable over time and not to be unduly affected by small changes each quarter. Where assets are very closely correlated or certain combinations of assets have very similar characteristics, small shifts in underlying expectations can suggest large changes in allocations to achieve very small gains in expected returns. To avoid this and potentially unnecessary transaction costs, a mechanism is used to make a trade-off between size, and therefore cost, of change and portfolio efficiency. For some groups of highly correlated asset classes the ratios between portfolio weights may be fixed.

Applying market constraints

The asset grouping and risk targets corresponding to each investment time horizon are in theory sufficient to create efficient portfolios. However, the results might not always be desirable or achievable.

For example, particularly large allocations to property could be unacceptable under certain circumstances due to poor liquidity and potential lack of diversification. Therefore market related constraints are applied to ensure reasonable levels of diversification and liquidity.

Optimise allocations

EV's investment team uses mathematical techniques to identify the mix of assets which is expected to give the highest average return given the constraints and targets. Results are then reviewed by the EV investment committee for consistency and suitability. The asset allocations vary by term and over time as the risk/reward characteristics for each asset also vary with changing markets. This generally means that allocations for shorter terms have a greater proportion of less volatile assets included.

The information on this page has been supplied by EV as at 31/12/2023. Embark Investments is not responsible for the information they have provided.

ABOUT BLACKROCK

BlackRock is one of the world's preeminent global asset management firms and a premier provider of investment management. Their purpose is to help more and more people experience financial well-being, and help people invest to build savings that serve them throughout their lives.

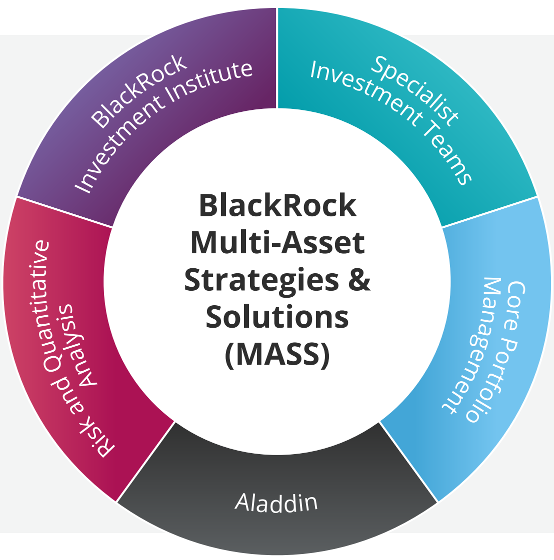
Multi-asset investing

BlackRock's investment approach is formed by three key principles. (1) understanding the client's investment objectives; (2) seeking the best risk-adjusted returns within the scope of the mandate given to them; and (3) underpinning their work with specialist research, data, and analytics.

BlackRock's Multi-Asset Strategies & Solutions (MASS) team, responsible for the investment management process, have the versatility to scour a broad investment universe for opportunity. The MASS Team has over 30 years of experience in multi-asset investing, incorporates over 350 multi-asset investment professionals globally, works from 18 different offices from around the world, and across 14 countries covering both institutional and wealth clients.[1]

MASS draws on the toolkit of BlackRock's index, factor, and alpha-seeking capabilities with the aim to deliver innovative insights and precise investment outcomes. As part of the robust multi-asset investment process, BlackRock also employ their industry-leading Aladdin* technology and harness diverse perspectives from across the firm to leverage the breadth and depth of their capabilities in managing portfolios.

BlackRock Multi-Asset Capabilities



Leveraging the breadth of BlackRock's capabilities [2]

- **BlackRock Investment Institute** provides connectivity between BlackRock's **1,900+** investment professionals and regularly publishes insights
- **Specialist Investment Teams** provide subject matter expertise in specific asset classes and regions
- **Core Portfolio Management** team, implements custom multi-asset portfolios in an efficient and risk-controlled manner
- Powered by **1,000+** developers focused on continuous enhancements, **Aladdin**® monitors **2,000+** risk factors daily
- **200+ dedicated risk professionals** partner with investment teams to help us build risk-aware portfolios

[1] Source: Blackrock as at 31/03/2023. Updated annually.

[2] Source: BlackRock as at 30/09/2023. Subject to change. Updated annually.

*Aladdin – While proprietary technology platforms may help manage risk, risk cannot be eliminated.

ABOUT BLACKROCK (CONTINUED)

BlackRock

Manager research and manager selection

BlackRock leverage their dedicated Manager Research team within MASS to identify and select third-party managers. BlackRock has 150+ manager researchers firmwide across public and private markets who apply their expertise and comprehensive understanding of global markets, and use a combination of BlackRock's collective intelligence, scale, and unique tools.[3]

As part of their well-established open architecture third-party manager selection process, BlackRock systematically follow three main steps:

1. Build resilient portfolios

Blend complementary alpha sources that in combination can generate alpha across all market environments and align with the chosen risk profile.

2. Ensure deliberate & diversified risk-taking

Avoid over reliance on any single strategy and unwanted structural biases to any single factor or sector.

3. Avoid over-diversification

Offset manager and style biases in the underlying funds through opportunistic and tactical decisions to maintain meaningful alpha.

[3] Source: BlackRock, as at 01/02/2024. Updated annually.

Tactical decision making and implementation

As part of their tactical asset allocation management process, BlackRock's EMEA Regional Allocation Council (RAC), which consists of senior investors across solutions, are responsible for defining the economic and market outlook, investment views and associated portfolio tilts. The three pillars driving RAC views are the Economic Cycle, Valuation, and Sentiment Indicators.

BlackRock, as the Investment Manager of the Horizon Funds, is responsible for the Tactical Asset Allocation (TAA) part of the investment process, which involves tactical decision-making and fund selection with the aim to deliver additional performance and diversification based on prevailing market conditions.

In doing so, BlackRock build the portfolios from select list of in-house active and passively managed funds and actively managed third-party funds. This process is managed by BlackRock's MASS team and the resources of a dedicated Manager Research Team.

BlackRock are deliberate in selection and sizing of alpha-seeking managers to create an optimal blend within an asset class in order to build resilient and complementary portfolios by ensuring deliberate & diversified risk-taking and avoiding over-diversification.

THE CASE FOR MULTI-ASSET FUNDS

The Embark Horizon Multi-Asset Funds are five globally diversified, volatility managed solutions, designed to cater for different investor risk appetites and attitudes to risk.

Changes in the economic environment affect different asset classes in different ways. This means that the investment returns from one class do not tend to correlate with those from other classes. Knowing how, where, and for how long to invest in today's complicated global economy can be challenging. No matter what the financial goals of investors may be, selecting the right mix of investments to meet investment objectives and goals is crucial.

The Horizon Funds aim to achieve positive investment returns over the medium to long term (5 or more years), for a targeted level of risk by investing in a mix of asset classes and reviewing and changing the weightings between these classes in response to changing market conditions and assumptions.

The Investment Manager of the Horizon Funds, BlackRock, is a proven global multi-asset investment manager with over 30 years of experience in managing multi asset strategies.

BlackRock's culture of teamwork and sharing ideas means that there is significant interaction across the MASS team, specialist investment teams, and core portfolios management team, and dedicated risk professionals.

MASS is able to draw upon this expertise to make sure that every Horizon Fund benefit from the best in-house investment ideas and research, as well as chosen top tier third-party managers.

RISK PROFILING

What is risk profiling?

You can be confident that if your clients invest in a risk profiled Horizon Fund, they are regularly monitored to fit within the risk profile provided by EV. The Horizon Multi-Asset funds are managed in line with the EV's 5 point risk profile scale, so all you need to do is monitor your clients' risk appetite and investment horizon. All the work around maintaining a portfolio that is appropriate for a particular level of risk and investment horizon is conducted by the Investment Manager, with reference to EV's asset allocations.

The Horizon Fund range is managed in line with EV's risk profiles. However we work with other third party providers to map the Horizon Funds to other popular risk profiling tools. BlackRock's investment approach starts by using the asset allocation provided by EV and then takes into account BlackRock's views on any market sectors expected to under/over perform in the next period – making sure that the Horizon Funds still lie within the risk profiles. Please visit the Horizon Funds' risk profiling summary on our **website**.

FUND	HORIZON MULTI-ASSET I	HORIZON MULTI-ASSET II	HORIZON MULTI-ASSET III	HORIZON MULTI-ASSET IV	HORIZON MULTI-ASSET V
RISK LEVEL	LOWER RISK	←		→	HIGHER RISK

HORIZON MULTI-ASSET FUND RANGE

Embark Investments' role

Embark Investments is the Authorised Corporate Director of the Horizon Funds.

The Horizon Funds cater for different risk appetites.

A risk profiling tool from EV is available on the financial adviser section of the Scottish Widows Platform. This tool helps advisers to discuss their clients' attitude to risk with them. It helps advisers talk about the impact of those risks, alongside the rewards of their clients' investment choices, and select suitable investment products. It can also be used as part of a regular review process.

- Risk profiled to easily choose the right option for your clients' needs
- Managed by industry experts through a unique and robust investment process
- Globally diversified across different assets, geographical regions, and styles
- Established long-term performance track record since 2013
- Defaqto 4 Diamond Award 2024

Embark Investments has designed funds to offer advisers a potential fund solution to match the current risk attitudes of their clients.

The Horizon Funds are managed to risk profiles staggered from the lower-risk Horizon Fund I, through to the higher-risk Horizon Fund V.

Investing for growth

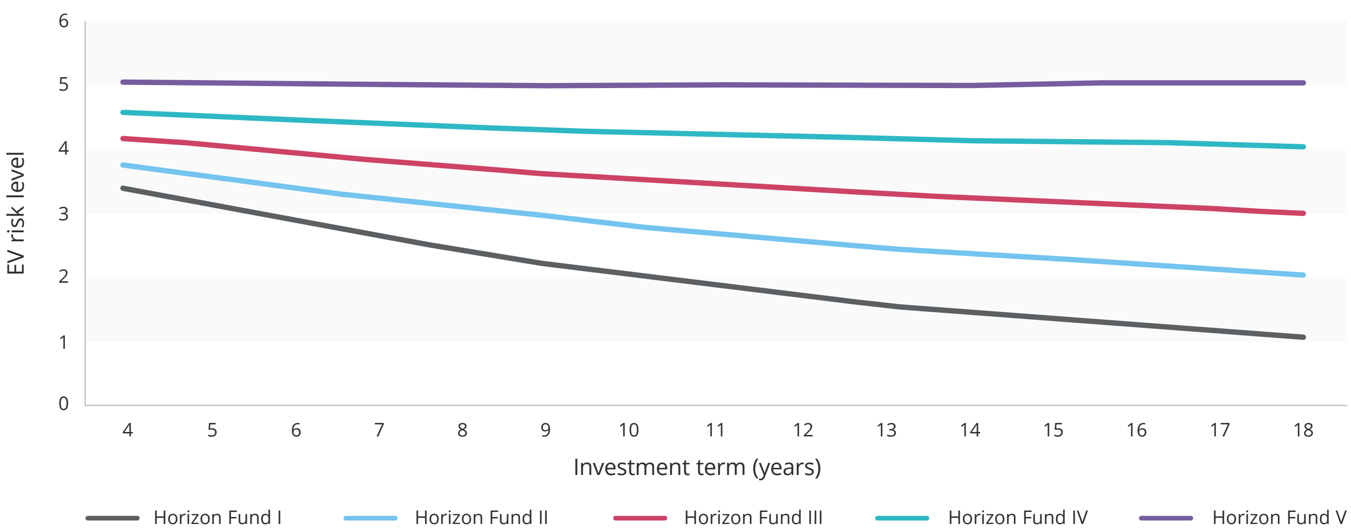
Embark Investments work with EV and BlackRock to design the Horizon Funds range with an objective to grow investments over the medium to long term (5 or more years).

The EV tool has three investment term bands, 3-5 years, 6-15 years and 16+ years, and we use asset allocations derived from EV's longest term time horizon to deliver an appropriate balance of risk adjusted returns. EV use an 18 year investment period to model the long term.

You can use EV's fund risk assessor tool to profile these funds for clients relative to their individual investment term. Please be aware that the EV risk levels for longer time-scales do not translate directly into equivalent risk levels for shorter time-scales.

For example, as the chart below shows, a fund based on an asset allocation suitable for risk profile 1 over 18 years would map to a higher risk profile for a client investing over a shorter period. However, Horizon Fund V will typically be the highest risk fund and Horizon Fund I will be the lowest risk fund at all investment durations.

Indicative EV fund risk level at different investment terms



HOW THE FUNDS ARE MANAGED

The Horizon Funds use the five strategic weightings of asset classes produced by EV. EV updates its strategic asset weightings every quarter.

BlackRock are the Investment Manager for the Horizon Funds and believe in active fund management, so they can make tactical changes to the EV asset class weighting.

However, all of these decisions are taken in the context of the risk models with the aim of ensuring that the funds remain aligned to their risk profiles.

The Investment Manager adds two layers of active management.

- The Investment Manager's own views on asset allocation is overlaid on that produced from EV.
- The Investment Manager actively selects which underlying funds to include within the tactical asset allocation.

Underlying funds

Once the asset allocation is set, Blackrock select a blend of their in-house active and passively managed funds and actively managed third-party funds. The aim is to strengthen the depth and breadth of the fund selection universe and align to the risk profiles while maximising possible returns.

BlackRock are deliberate in selection and sizing of alpha-seeking third-party managers to create an optimal blend within an asset class in order to build resilient and complementary portfolios by ensuring deliberate & diversified risk-taking and avoiding over-diversification.

Horizon Funds I-V: Asset allocations guidelines & parameters

The Embark Horizon Multi-Asset Fund range is part of the IA Volatility Managed sector. This means we have a strong focus on the expected volatility for each risk profile and ensure that the forecasted 18-year volatility always stays within the boundaries set for each risk profile. Tactical tilts BlackRock can make, either within the set range of absolute allocation percentages or relative to the EV asset allocation.

	Embark Horizon Multi-Asset Fund I	Embark Horizon Multi-Asset Fund II	Embark Horizon Multi-Asset Fund III	Embark Horizon Multi-Asset Fund IV	Embark Horizon Multi-Asset Fund V
Total Global Equities	15%-50%	20%-55%	50%-75%	50%-95%	60%-100%
Emarging Market Equities (included in Total Equities)	0%-7%	0%-10%	SAA +/- 10% (max 12%)	SAA +/- 10% (max 17%)	SAA +/- 10% (max 22%)
Total Fixed Interest	SAA +/- 20%	SAA +/- 20%	SAA +/- 20%	SAA +/- 20%	SAA +/- 20%
High Yield Bonds (included in Total Fixed Interest)	SAA +/- 5%	SAA +/- 5%	SAA +/- 5%	SAA +/- 5%	SAA +/- 5%
Emerging Market Bonds (included in Total Fixed Interest)	0%-5%	0%-5%	0%-5%	0%-5%	0%-5%
Cash & Money Markets	1%-10%	1%-10%	1%-10%	1%-10%	1%-10%
Commodities & Property[4]	0%-15% (Property currently capped at 0%)	0%-15% (Property currently capped at 0%)	0%-15% (Property currently capped at 0%)	0%-15% (Property currently capped at 0%)	0%-15% (Property currently capped at 0%)

Additionally, the expected volatility of the asset allocation of each sub-fund – as measured by the tools provided by EV – should remain within the bands prescribed for the risk profile of the relevant sub-fund. No allocation can be below 0%.

Source: Embark Investments Ltd.

[4] This limit is combined for Commodities and Property. If Property were to be allowed a non-zero allocation, the 0%-15% limit would apply to the sum of both. Please note the ACD may adjust these in the future, and the above limits are subject to additional constraints which can be found in the Fund Prospectus.

INVESTMENT PROCESS OVERVIEW

Stage 1 – Investment strategy

Embark Investments, as the ACD, designs the Horizon Fund range and sets the investment mandates including fund objectives, guidelines and constraints.

Stage 2 – EV strategic asset allocation

Every quarter, EV review and update the targets and bands of forecasted long-term volatility as well as the asset allocation for each of their risk profiles.

Stage 3 – Tactical asset allocation and fund selection

Blackrock consider the EV asset allocations and risk bands, and decide on the tactical asset allocations for the Horizon Funds.

BlackRock is responsible for overlaying Tactical Asset Allocation and Fund Manager Selection to reinforce short term opportunities with an aim to deliver additional performance and diversification.

This helps drive their asset allocation model which is used as a base for building the Horizon Funds.

Stage 4 – Risk management

BlackRock's dedicated risk professionals' partner with investment teams to help them build risk aware portfolios. BlackRock also use Aladdin®, their internal risk management system, to make smarter investment decisions.

It combines sophisticated risk analytics and highly scalable processing capabilities to understand risks and exposures and act with speed and precision. BlackRock continuously analyse each of the Horizon Funds to review any potential investments which could result in the Horizon Funds having an undue concentration of risk, and to ensure they remain within their designated risk profile.

Stage 5 – Ongoing oversight

In addition to the above, Embark Investments undertake ongoing governance and oversight of risk management of the Horizon Funds to ensure they are managed in accordance with objectives and guidelines.

USEFUL INFORMATION

Availability

The Horizon Funds are available through the Scottish Widows Platform and other selected platforms.

You can invest in these funds through the Scottish Widows Platform's Investment Account, ISA or Personal Pension.

Please contact your local business development manager for more information regarding external platform partner availability.

Available share classes

Class I Accumulation Shares and Class Z Income Shares and Accumulation Shares are available for all five Horizon Funds. See **prospectus** for full details.

Financial Conduct Authority regulation

The Horizon Funds are UK funds regulated by the Financial Conduct Authority, structured as Non-UCITS Retail Schemes (NURS). This gives Columbia Threadneedle Investments the flexibility to include property investments as part of their asset allocation.

Charges

The Horizon Funds have no initial charge, no performance fee and no bid offer spread.

The share classes are 'clean', so there is no rebate to declare for tax purposes.

Price comparison

The Horizon Funds are competitively priced relative to other similar actively managed risk profiled funds. The Ongoing Charges Figure (OCF) is based on the previous year's expenses and may vary from year to year. It includes charges such as the fund's annual management charge, registrar fee, custody fees and distribution costs.

Information for customers

Up to date information about the Horizon Funds and the Key Investor Information Documents (KIIDs) which are available on the **website**.

Performance Comparators

There are many different investment approaches within the IA Volatility Managed sector and there are currently no sub-groups within it to compare to the individual Horizon Funds. Therefore investors may wish to consider the performance of the funds by looking at the performance of the below IA sectors as outlined in the Prospectus.

Fund	IA Sectors
Horizon Fund I	Mixed Investment 20% – 60% Shares
Horizon Fund II	Mixed Investment 20% – 60% Shares
Horizon Fund III	Mixed Investment 40% – 85% Shares
Horizon Fund IV	Mixed Investment 40% – 85% Shares
Horizon Fund V	Flexible Investment

Where to invest

The Embark Horizon Multi-Asset Funds are available on a wide range of different investment platforms, including the M&G Wealth Platform.

More information

For more information on the Horizon fund range including risk profiles and asset allocation, please read the Fund Factsheets which you can find at **www.embarkinvestments.co.uk/document-library**.

KEY RISKS EXPLAINED

Investment risk

The value of investments can fall as well as rise and investors might not get back the sum originally invested. There is a risk the fund may not meet the aim expressed in the risk profile.

Effect of Risk Profile

Each fund's Risk Profile may limit the performance of the fund.

Suitability of investment

Because the fund is a risk profiled fund, investors should regularly consult with a financial adviser to ensure that the fund continues to be a suitable investment for them.

Investment in funds

As this fund invests into other funds, investors should consider the underlying investments and overall risks.

No capital guarantee

Positive returns are not guaranteed and no form of capital protection applies.

Credit risk

Bonds are affected by changes in interest rates, inflation and any decline in the credit worthiness of the issuer. It is possible that bond issuers will not pay the interest or return of capital promised.

Interest rate risk

Changes in interest rates are likely to affect each fund's value. In general, as interest rates rise, the price of a fixed rate bond will fall, and vice versa.

Inflation risk

Most bond and cash funds offer limited capital growth potential and an income that is not linked to inflation. Therefore, inflation can affect the real value of capital and income over time.

Currency risk

Where investments are made in assets that are denominated in multiple currencies changes in exchange rates may affect the value of the investments.

Political and financial risk

Some funds invest in markets where economic and regulatory risk can be significant. These factors can affect liquidity, settlement and asset values. Any such event can have a negative effect on the value of your clients' investment and investors might not get back the sum originally invested.

Liquidity risk

Fund invests in other funds and its liquidity depends upon the liquidity of the underlying funds and the investments they hold.

IMPORTANT INFORMATION

The document is issued by Embark Investments, for professional financial advisers only.

BlackRock is the investment manager.

Nothing contained within this document should be construed as the giving of investment advice or a recommendation to invest or an offer to buy or sell shares.

No other person should rely on, or act on any information in this document when making an investment decision. If you require further information on any of the Embark Horizon Multi-Asset Funds, the Key Investor Information Documents (KIIDs) and the prospectus are available on the **website.**

Past performance is not a reliable indicator of future results and the value of investments (and any income from them) can go down, so an investor may get back less than the amount invested. No guarantee is given for the performance of the Horizon Funds.

embark investments

For further information please visit our **website** or contact your local business development manager.

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