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The True and Complete Client Risk Profile

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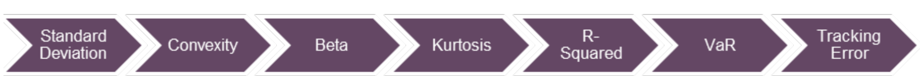
Risk of Misunderstanding Investment Risk

If you are not careful, the investment industry can make you feel like you are back in a statistics or calculus class or some combination thereof. Quantitative measures of various forms of investment risk are not in short supply:

Warning: Analysis Paralysis Ahead



Understanding these measures is important, but only one aspect of assessing investment risk. Maintaining an open dialogue and educating clients on investment risk and its link to personal or organizational financial needs, priorities and objectives, and aspirations helps align mathematical risk metrics with perceptions of risk. As fiduciaries we believe holistic risk architecture is central to effective portfolio design, implementation, and oversight.

Risk Profiling Equation

Even the most novice investor can grasp the importance of investment 'risk tolerance.' This is the psychological comfort level or attitude toward investment risk – i.e. one's willingness to accept risk to achieve a desired return or goal. In our view, however,

Next Level Retirement Plan Governance to be Discussed at the next Hartland Leadership Series Event

We hope you can attend the next Hartland Leadership Series event, titled ***Next Level Retirement Plan Governance***, on the morning of March 20, 2018.

Retirement plan sponsors struggle with balancing regulatory complexities, fiduciary responsibilities, and driving favorable participant outcomes. Hartland believes that consistent process and strong governance lead to optimal outcomes for both participants and fiduciaries.

Next Level Retirement Plan Governance will bring plan sponsors and industry professionals together for a discussion regarding fiduciary responsibilities, best practices and achieving favorable participant outcomes. More details coming soon.

Tuesday, March 20, 2018

8:00 am - 10:00 am

Please contact Sarah Parker,
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relying solely on risk tolerance can lead to suboptimal portfolio design and poor investment decision-making, especially during times of financial market stress. Perhaps the more important concepts to consider are 'risk capacity' and 'risk need.'

- **Risk Capacity:** the ability to absorb investment risk without jeopardizing financial circumstances and objectives.
- **Risk Need:** the level of investment risk needed to support a lifestyle, meet a long-term goal, liability, commitment, etc.

The differences are subtle, yet crucial to discern for all investor types: nonprofits, pension funds, insurance companies, individuals, and family entities.

As you can imagine, potential mismatches between these three risk identification categories is quite possible. For instance, an investor's capacity to accept risk may be exceedingly high, but he may be unwilling to stomach market swings; committee members can have contradictory views of needed investment risk for an organization; and conflicting risk attitudes between married couples with pooled investments is certainly a possibility. Furthermore, while it is necessary for each component of a true risk profile to be reconciled, personal client circumstances will dictate their influence on the profile equation:

- The 'risk tolerance' of an investor in the asset accumulation stage of life, with years' of earned income potential ahead, strong financial stability, and long-term goals should carry little weight in the risk profiling equation.
- The 'risk need' of a post-retirement investor, with minimal or no reliance on the portfolio to support living expenses and a strong financial foundation, is low from a personal standpoint. If there are hopeful aspirations for the investor (e.g. philanthropic funding, multi-generational planning for heirs, etc.), 'tolerance' and 'capacity' factors are likely to be the driving force for the risk profile of those assets.

Simply put, all investors have unique risk profile characteristics that should not be viewed in isolation, nor dictated by views on short-term financial asset return expectations. To ensure the various risk elements are working in unison and aligned with prudent portfolio structure, they need to be integrated into the risk profiling equation, thoroughly and regularly reviewed, and documented within Investment Policy Statements.

Let's Talk

Begin to think through your risk profiling equation and reach out to your Hartland team if you need guidance or support that we can provide. Amidst equity markets' smooth ride to new highs, tax reform providing an added boost to an economic cycle several years in the making, and a growing impression of consensus optimism, now appears to be a great time to discuss the principles outlined in this article. We look forward to the year ahead where we can confirm or identify your true and complete risk profile.

MARKET BENCHMARK RETURNS

January 31, 2018		1M	3M	12M	YTD
US Large Cap	S&P 500	5.7%	10.2%	26.4%	5.7%
US Small Cap	Russell 2000	2.6%	5.1%	17.2%	2.6%
Developed Intl	MSCI EAFE	5.0%	7.8%	27.6%	5.0%
Emerging Intl	MSCI Em Mkt	8.3%	12.4%	41.0%	8.3%
Real Estate	NAREIT	-3.2%	-0.8%	5.5%	-3.2%
Core Fixed	BarCap Agg	-1.2%	-0.8%	2.1%	-1.2%
Short Fixed	BarCap 1-3Yr	-0.3%	-0.4%	0.4%	-0.3%
Long Fixed	BarCap LT G/C	-2.1%	0.3%	8.1%	-2.1%
Corp Debt	BarCap Corp	-0.9%	-0.2%	4.8%	-0.9%

Source: Bloomberg

The performance data shown represent past performance. Past performance is not indicative of future results. Current performance data may be lower or higher than the performance data presented.