HL GROWTH FUND:
ANNUAL ASSET ALLOCATION REVIEW 2025

For professionals only

Hargreaves Lansdown (HL) provides workplace members with a default investment arrangement comprising a two-stage lifestyle profile. During the growth phase, members are fully invested in the HL Growth Fund. Starting ten years prior to their selected retirement age, a mechanised switching process lifestyles members into BlackRock MyMap 4 Fund, reaching a 100% allocation at their NRA. This fund remains the default option in retirement.

In the growth stage, we target exposure to 85% of market risk, which we believe offers the optimal balance between volatility management and long-term return potential. This approach reflects the two-stage structure of the lifestyle strategy and recognises the typically low engagement and confidence levels among workplace savers.

To align with this philosophy, the HL Growth Fund has the objective of delivering long-term growth over any 10-year period, while also maintaining volatility between 80-90% of the volatility of the MSCI All Countries World Index NR GBP, over any 5-year period. Volatility is measured on a forward-looking basis. Since launch on 15th December 2021, it has delivered growth of 9.2% to 30 April 2025, versus average performance of similar funds in the IA Mixed Investment 40-85% Shares Sector of 4.5%.

At retirement, we retain a relatively high level of volatility. BlackRock MyMap 4 targets an absolute volatility of 6–9% over rolling 5-year periods (ex-ante), which we believe is appropriate for our membership, who most commonly remain invested via drawdown. An approach that aims to manage absolute volatility also promotes greater stability of outcomes compared to a relative risk target, particularly appropriate for those approaching or in retirement.

HL undertakes an annual review of the fund's Strategic Asset Allocation (SAA). This process is led by the Strategic Asset Allocation Forum—a group of investment professionals from the fund management and asset management arms of our business - with collective expertise in asset allocation, fund management, research and risk management. The Forum's role is to construct diversified portfolios that meet defined objectives within risk parameters and reflect our latest capital market assumptions (CMAs).

Following the 2025 review, we have maintained a diversified allocation across listed equities and bonds, with a modest increase in equity exposure. No asset classes have been added or removed, following careful consideration of several alternatives.

Trading to the new SAA target weights completed on 14th May, and we're delighted to share our rationale for the changes made.

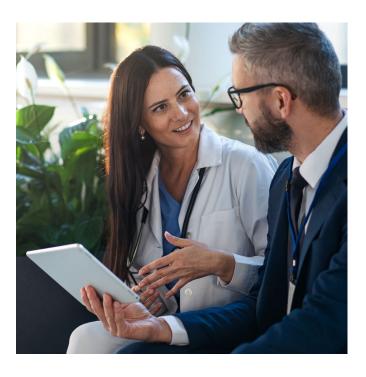# HL's Strategic Asset Allocation Philosophy

The HL Growth Fund's strategic asset allocation is shaped by our 10-year market outlook, underpinned by a mean-variance optimisation framework. Forecasts for asset class risks and returns are derived from a combination of "anchor beliefs" and observable economic indicators such as interest rates and inflation.

Anchor beliefs include structural expectations like the equity risk premium (the additional return expected for taking equity risk), the foreign exchange premium, and regional market betas (sensitivities to global equity market movements). They are informed by market-implied expectations, consensus economic views, investment theory and historical performance.

Total expected returns for each asset class are built from the risk-free rate (proxied by cash returns) plus the relevant premiums derived from our anchor beliefs. These anchor beliefs are reviewed and reset every two years to reflect structural shifts in the drivers of our capital market assumptions.

Our portfolio construction process starts by considering the characteristics which define an asset class. To be considered for potential inclusion in our SAA models, we expect an asset class to exhibit the following eight characteristics:

1. **Include stable composition** – e.g. high dividend yield indices are excluded are the constituents are prone to high turnover.

2. **Must be directly investable** – this excludes private equity, due to the skill required and inability to invest via an index.

3. **Internally homogenous** – within asset classes, components are similar.

4. **Externally heterogenous** – each asset class is distinguishable from another.

5. **Raise expected utility when added to a portfolio.**

6. **Cannot require selection skill** – which challenges investing in private assets and commercial property as passive options are unavailable.

7. **Must be accessible at scale in a cost-effective way** – rules out more niche alternative asset classes such as art, collectables, and music royalties.

8. **Must be credibly forecastable** – e.g. cryptocurrency is excluded.

Since the last review, we conducted detailed analysis on the inclusion of gold and commodities. Neither asset class is selected by our optimiser on an unconstrained basis, so we aimed to identify whether an allocation would benefit the fund in ways beyond a simple Sharpe ratio perspective. Both asset classes exhibited lower expected returns and higher volatility compared to bonds, which would be sold to fund an allocation to either. While they can offer inflation protection and downside resilience in certain environments, their performance is inconsistent—particularly during deflationary shocks like 2008.

On balance, the benefits were inconclusive, so we have not included them. We will continue to review their suitability in future assessments.

Equities	Fixed Income	Alternatives
UK	Developed Market Global Corporate Bonds	Gold
Developed Markets Ex-UK	Global Government Bonds	Commodities
Emerging Markets	Global Inflation-Linked Government Bonds	
World Small-Cap	High Yield Bonds	
	Emerging Market Debt	

Changes to the HL Growth Fund's Asset Allocation

The 2025 asset allocation review aligned with the biennial reset to our anchor assumptions, in addition to the routine update that accounts for prevailing market and economic conditions. Because the model focuses on long-term (10-year) projections, year-on-year changes to asset allocation are typically modest, supporting low portfolio turnover and minimising trading costs. However, in years when anchor beliefs are updated, changes may be more pronounced.

Since the last review, the expected return on cash (estimated using short-term zero-coupon government bonds) has declined, pulling down expected returns across risk assets. Expected volatility has also fallen slightly, reflecting the trend of lower market volatility observed in the lead-up to the review (data as at 30 September 2024).

In response, the 2025 review led to a modest reallocation from bonds to equities to bring the portfolio's expected volatility back toward the midpoint of its target risk range. We have increased exposure to larger companies in developed markets (excluding the UK), at the expense of smaller global companies and emerging markets. This equity increase was funded by a reduction in developed market corporate bonds.

The new asset allocation is compared with the previous allocation below:

Asset Class	Previous Portfolio Target Weight	New Portfolio Target Weight
Dev Market Global Corporate Bonds	10.3%	7.5%
Global Government Bonds	2.0%	2.0%
Global Index-Linked Government Bonds	2.0%	2.0%
Global High Yield Bonds	2.0%	2.0%
Blended Emerging Market Debt*	2.0%	2.0%
Total Fixed Income	**18.3%**	**15.5% ▼**
UK Equities	10.8%	9.7%
Dev Market Ex-UK Equities	50.6%	56.2%
Emerging Market Equities	9.7%	7.6%
Global Smaller Companies	10.6%	11.0%
Total Equities	**81.7%**	**84.5% ▲**
Total	**100%**	**100%**

*Blended EM Debt consists of one-third hard currency sovereign bonds, one-third local currency sovereign bonds and one-third hard currency corporate bonds. Local currency bonds are unhedged, while exposure to hard currency bonds will be fully hedged.

What Has Changed and Why?

Equities

The main change to the asset allocation this year is a meaningful increase in exposure to developed market ex-UK equities, which receive an additional 5.2% of the fund's overall allocation.

This shift is partly driven by changes to our valuation models for emerging market equities. Updates to our methodology have led to higher expected returns but also higher expected volatility and higher correlations to other equity markets for the asset class. These adjustments bring our outlook more closely into line with the broader industry consensus but result in a less attractive risk-adjusted return profile. As a result, we have moved to a modest underweight in emerging market equities relative to the MSCI ACWI.

Within the equity portfolio, we continue to see long-term potential in global smaller companies, alongside the more traditional large- and mid-cap exposures. During the 2025 review, our optimisation engine indicated a preference for increasing small-cap allocations, based on their attractive risk-adjusted return expectations. However, given the elevated risks associated with small caps in the current environment—and the fact that we're already slightly overweight relative to the MSCI ACWI IMI —we chose to maintain our existing weight, as a % of equities. The result is a slight increase in small-cap exposure at the total portfolio level, driven by the broader rise in equity allocation.

Given the decision to maintain our small-cap weight (as a proportion of total equities) and reduce our allocation to emerging markets, we considered how best to redeploy the additional equity capital. The choice lay between developed market ex-UK and UK equities. Based on forecast returns, expected correlations, and the presence of an existing home bias, we opted to allocate to developed market ex-UK equities. This preserves international diversification, while the UK equity allocation has been reduced from 10.8% to 9.7%, slightly lowering the overall home bias.

Overall, the increased weights to developed market ex-UK equities and small caps are partially offset by reductions in UK and emerging markets, resulting in a net 2.8% increase in the fund's total equity exposure.

Fixed Income

Within fixed income, changes were minimal. Our optimisation engine continues to show a strong preference for developed market investment-grade corporate bonds over other fixed income segments. On an unconstrained basis, it would allocate the entire fixed income portion to this asset class.

However, HL's Strategic Asset Allocation Forum exercises judgment to override this outcome, ensuring the fixed income portfolio includes a broader mix of sub asset classes to diversify credit risk and introduce an element of inflation hedging through index-linked government bonds.

To achieve this, we constrain the optimiser to allocate a minimum of 2% to each alternative fixed income asset class, with the remaining allocation determined by the optimiser.

As noted earlier, both equities and fixed income assets are forecast to exhibit lower volatility this year relative to last. To maintain the portfolio's overall volatility target, a higher allocation to equities was required, funded by a reduction in fixed income.

Meet the Strategic Asset Allocation Forum

The SAA is set by the Strategic Asset Allocation Forum ("SAAF"), Chaired by Robert Farago, Head of Strategic Asset Allocation, the Forum meets monthly. It is responsible for the annual rebalance of SAA models, quarterly assessment of model risks, and pursues a research agenda to inform future thinking, including on alternative asset classes and portfolio construction techniques. The Forum is made up of five voting members:

Robert Farago – Head of Strategic Asset Allocation
Robert joined HL in November 2021 to develop our strategic asset allocation models for the HLFM range. Robert joined from Aberdeen Standard Investments where he held the position of Head of Thought Leadership. Prior to that he was the Head of Asset Allocation at Schroders Private Bank.

Toby Vaughan – Chief Investment Officer
Toby joined HL in June 2023 as Chief Investment Officer of Hargreaves Lansdown Fund Management. Toby has held senior positions in a variety of roles within the industry including in asset allocation and portfolio management capacities. Toby served as Head of Multi Strategy Solutions at Santander, and immediately prior to joining HL he was the Chief Investment Officer at Brown Shipley.

Emma Wall – Head of Investment Analysis & Research
Emma joined HL as Head of Investment Analysis in April 2019 having previously worked at Morningstar where she was Senior International Editor, providing investment news, views and analysis to individual investors across the UK, Australia, Canada and India.

Tom Nall – Head of Investment Proposition
Tom joined HL in December 2019 to build out our investment proposition across all distribution channels. Prior to joining HL, Tom was a Director of a proposition development consulting firm specialising in pensions and employee benefits. His experience includes eight years in proposition development and benefit consulting for Aviva, and holding the post of Workplace Solutions Director at SimplyBiz, where Tom developed their auto-enrolment solution.

Ziad Gergi – Head of Multi Manager Funds
Ziad joined HL from Barclays in December 2021, where he worked for 17 years. He ended his tenure as the head of its high-net-worth multi-asset team and was featured in Citywire Wealth Manager's Top 100 study into the most influential people in UK fund selection. Ziad leads the team responsible for managing the HL Growth Fund.

In addition, the SAAF has a number of other members who provide additional expertise and challenge to the voting members. They are:

Stephen Barnett – Head of Quantitative Investment Analysis
Stephen joined HL in August 2021 to head up our team of Quantitative Investment Analysts within HLFM. Prior to joining HL, Stephen was a Director of Fidelity International and Head of Portfolio Construction and Risk for Europe. Stephen also has experience as Head of Fundamental Equity Portfolio Construction at Goldman Sachs and as an analyst at JPMorgan.

John Page – Head of Investment Risk
John joined HL in November 2021. He provides independent oversight of HLFM's investment activities and heads our team of Investment Risk Managers. John joins HL after a long stint at Aberdeen where, most recently, he held the role of Head of Investment Risk Oversight.

Other subject matter experts are invited as necessary to contribute to the Forum.

The Forum blends the wealth of knowledge held collectively by its members with a range of quantitative inputs.

Forecasts must be treated as estimates only and are subject to considerable uncertainty. They reflect our views as a snapshot on 30 September 2024 and do not allow for subsequent market developments. CMAs are not guaranteed, and actual performance and risk is likely to differ from the forecasts.

Contact details, disclosures, key information.

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