# Risk Appetite Matrix Tearsheet

**PORTFOLIO RISK TILT GUIDANCE**

**RISK APPETITE RATINGS**

**CREDIBLE AND RELEVANT SIGNALS**

**SIGNAL ALIGNMENT RATED**

**SHORT AND MEDIUM TERM HORIZONS**

The Risk Appetite Matrix is designed to guide the investor to the appropriate **tactical total portfolio risk tilt** relative to their neutral or core/SAA benchmark.

We define the portfolio risk tilt as the sensitivity of the portfolio NAV to changes in developed market equity prices. When the tilt is "risk on", daily portfolio returns tend to correlate positively with DM equity returns, and vice versa, when the tilt is "risk off".

In deciding the direction and magnitude of the tilt, it helps to have a **framework for identifying the outlook for investor risk appetite (i.e. demand for equity exposure).**

Risk appetite is driven by different factors over different investment horizons, so we construct both a **short-term** risk appetite matrix (estimating what the appetite is likely to be to "take on" risk over the next 6 months) and a **medium-term** matrix (over the next 6-12+ months). These matrices measure the positive/negative alignment of signals likely to influence equity returns over these two holding periods, and translate this into a **risk appetite rating**, designed to guide the portfolio tilt decision. There are **seven rating levels**, ranging from three red squares ("aggressively risk off") to three green squares ("aggressively risk on"). Depending on an investor's risk preferences and constraints, these ratings can be mapped to specific portfolio risk levels.

We would expect matrix ratings to show a positive correlation with our equity **Investment Ratings**, as identical signals and weights are deployed, with the exception of carry/return/theme inputs are not included in the risk appetite matrices.

**» PRIMER**
**» WORKSHOP DECK**



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