

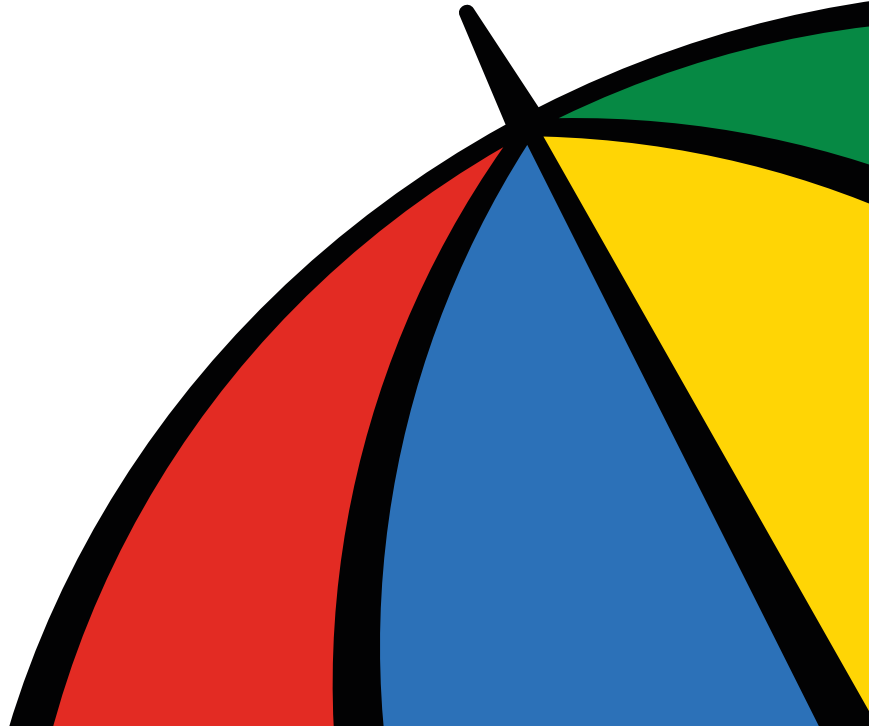
# Mental minefields

How we can control behavioural biases to make better investment decisions

**Ryan Boothroyd**

Senior Investment Specialist, Asset Allocation

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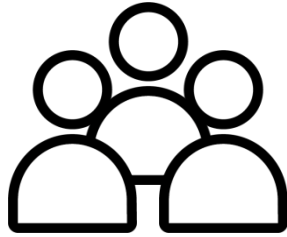


# Learning objectives

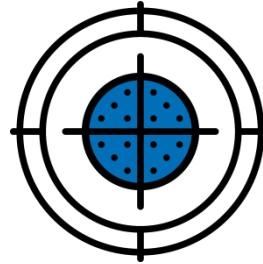
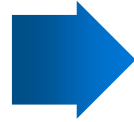
By the end of this session, delegates will be able to:

- 1. Understand how behavioural bias can impact investment decisions.**
- 2. Identify the most common behavioural biases that influence investors.**
- 3. Understand what measures can be used to overcome behavioural biases and how this is factored into an investment process.**

# Biases can sneak in at all stages of investing



How we work



How we invest



Once invested

1

Shortcut keys to make decisions faster

2

Evolution takes 100,000+ years

3

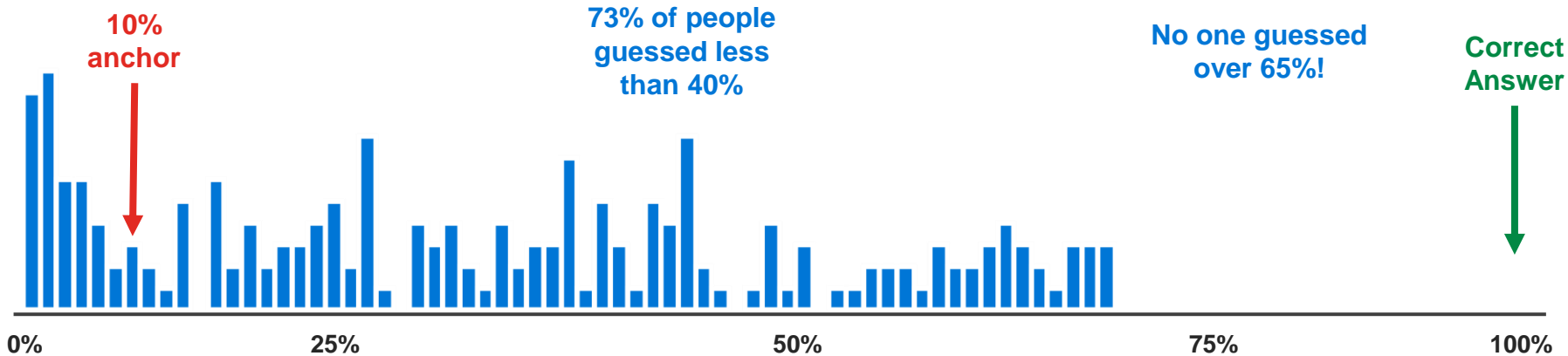
Better suited to hunter-gathering than investing

# The power of presentation

How information is **anchored** can influence behaviour

**Question 1:** Are more or less than 10% of African countries members of the United Nations?

**Question 2:** What percentage of African countries are members of the United Nations?

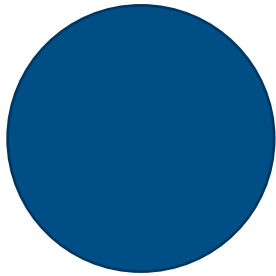


Anchoring and adjustment

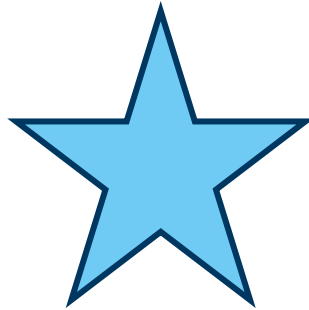
# The power of presentation

How information is **framed** can influence behaviour

Pick a shape at random to check the clickers work



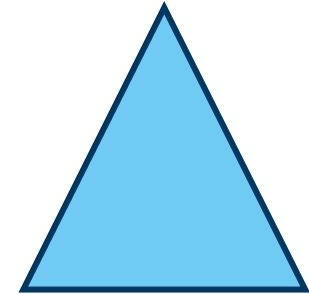
14%



57%



11%

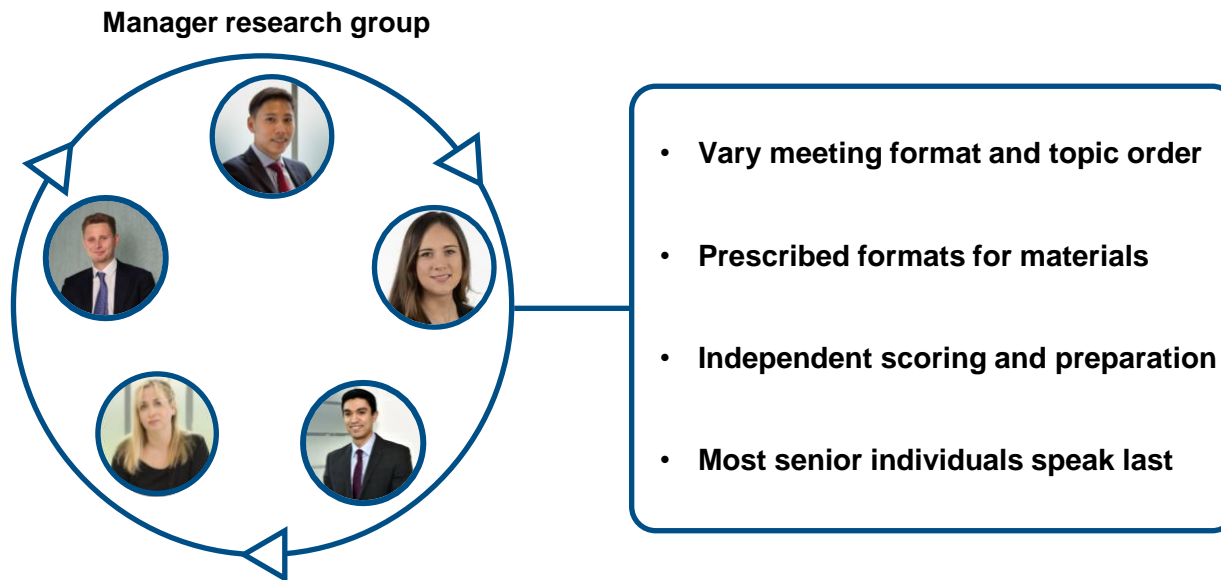


18%

Framing effect

# Mix it up

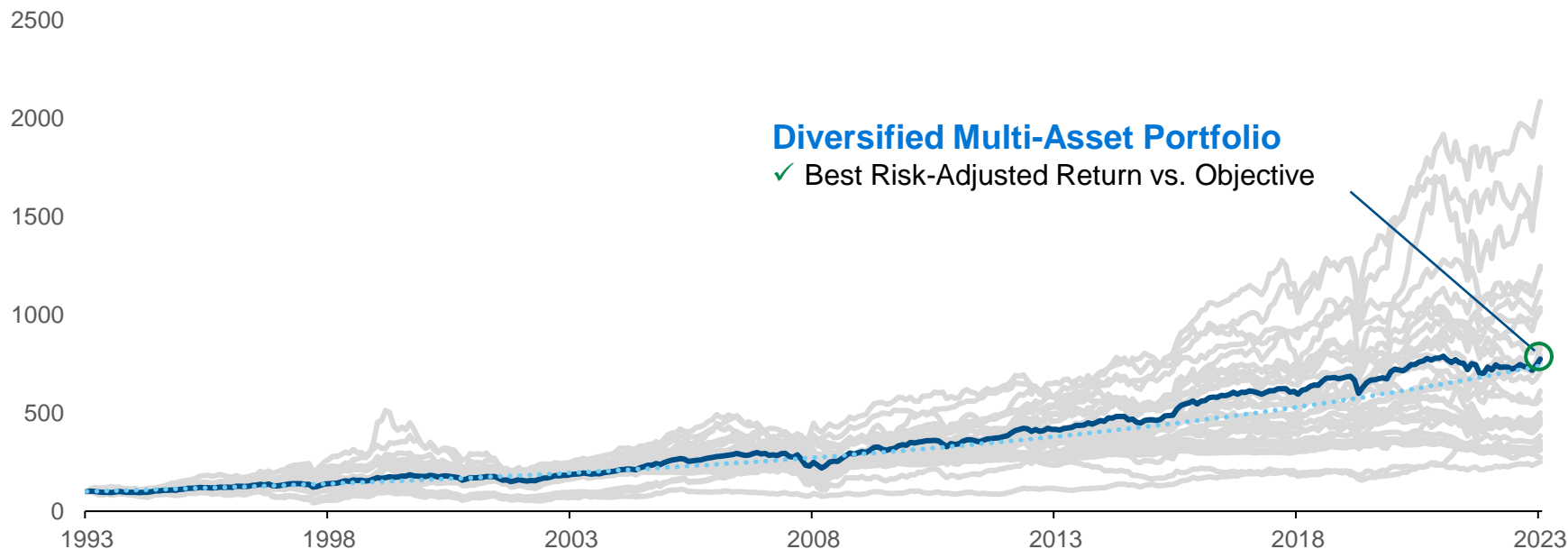
Changing the structure of a process helps avoid **anchoring**



Combatting known behavioural biases

# Wisdom of crowds

Recognise that sometimes more is better - prepare don't predict

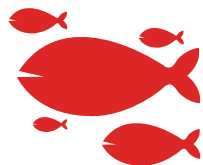
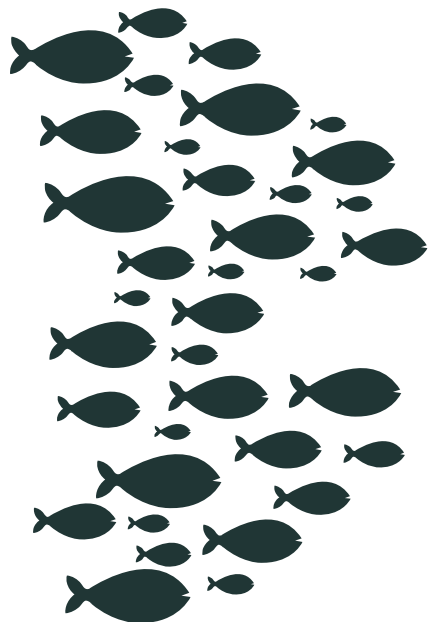


Limiting the risk of individuals biases and blind-spots

Source: LGIM, Bloomberg, Datastream as at 30 May 2024. Performance between January 1993 and May 2024. \*The Diversified Multi-Asset Portfolio, is derived from published index values and is based on back-tested data using the LGIM Diversified Fund strategic asset allocation from 1993 to 2012 and gross of fees live fund performance from 2012 onwards. Simulated Past performance is not a guide to the future. Performance is shown gross of fees and charges. The effect of fees and charges would reduce the returns shown.

# Stupidity of crowds

Decisions made in small groups helps avoid **consensus thinking**



MPS Example:

**Overweight to  
Decarbonisation  
Equities**



**Patrick Greene**  
Strategist  
**Thematic Analysis**



**James Giblin**  
Fund Manager  
**Position Sizing**



**Mireille Bensimon**  
Research Analyst  
**Manager Research**



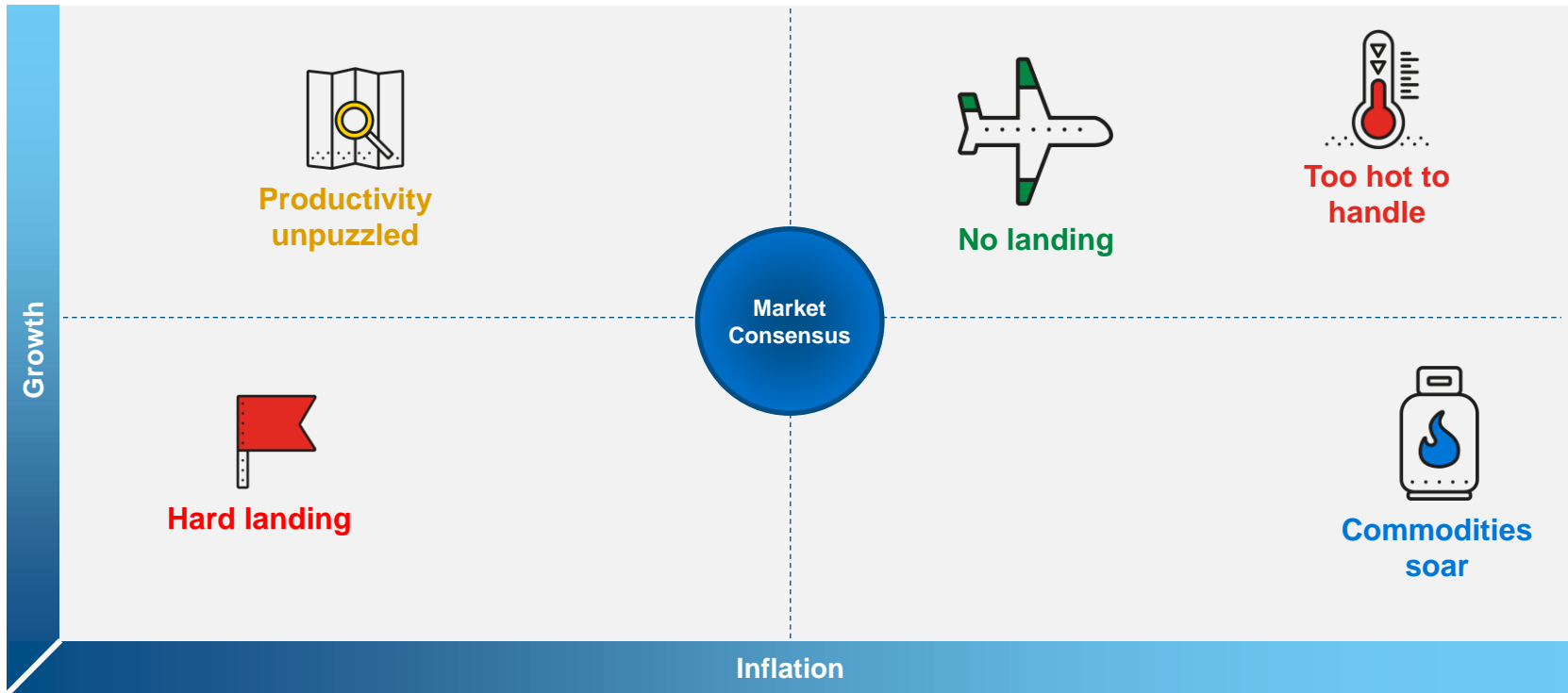
**Nick Stansbury**  
Head of Climate Solutions  
**Carbon Data and  
Research**

**Avoiding groupthink**



# Embrace uncertainty

Prepare for a range of outcomes



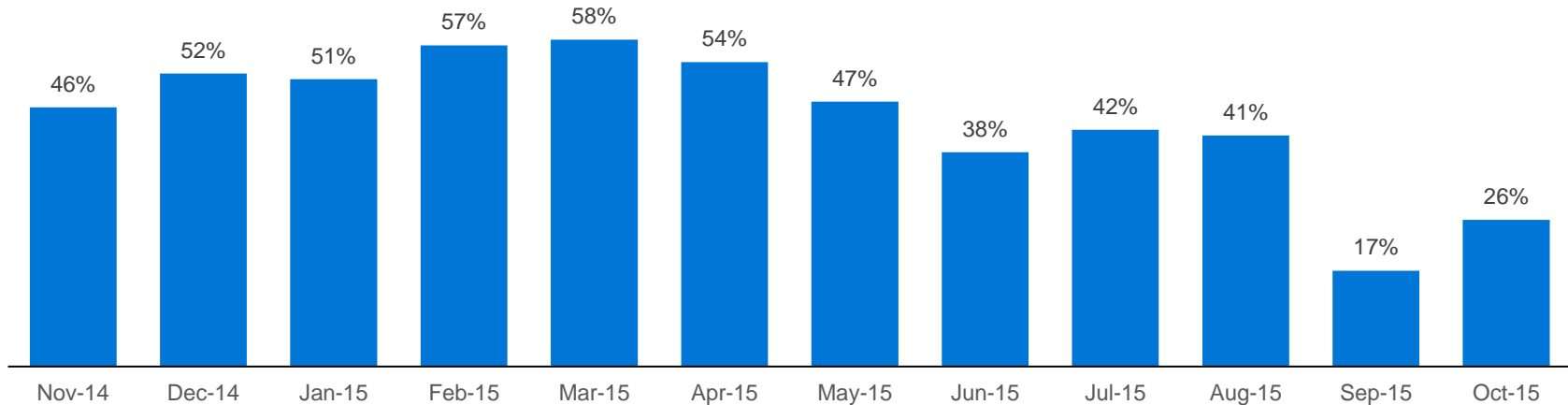
# Don't overweight recent events

It's hard to combat even with professional experience and awareness of the bias

## Last month equity return



## % Fund Managers Overweight Equities

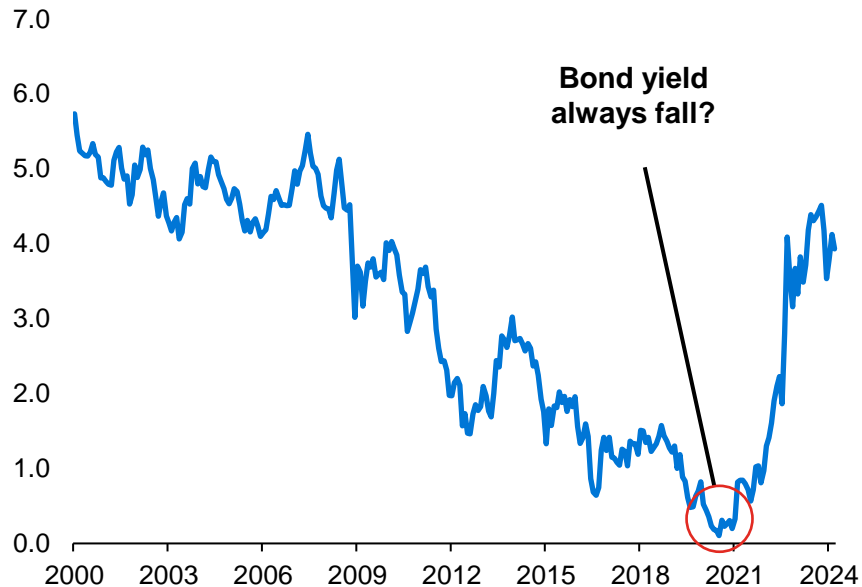


Recency bias

# Beware the new normal

Easy to assume that historical abnormalities persist

UK 10-Year Gilt Yield (%)



Increased exposure in the US in FTSE Developed Index



## Normalcy effect

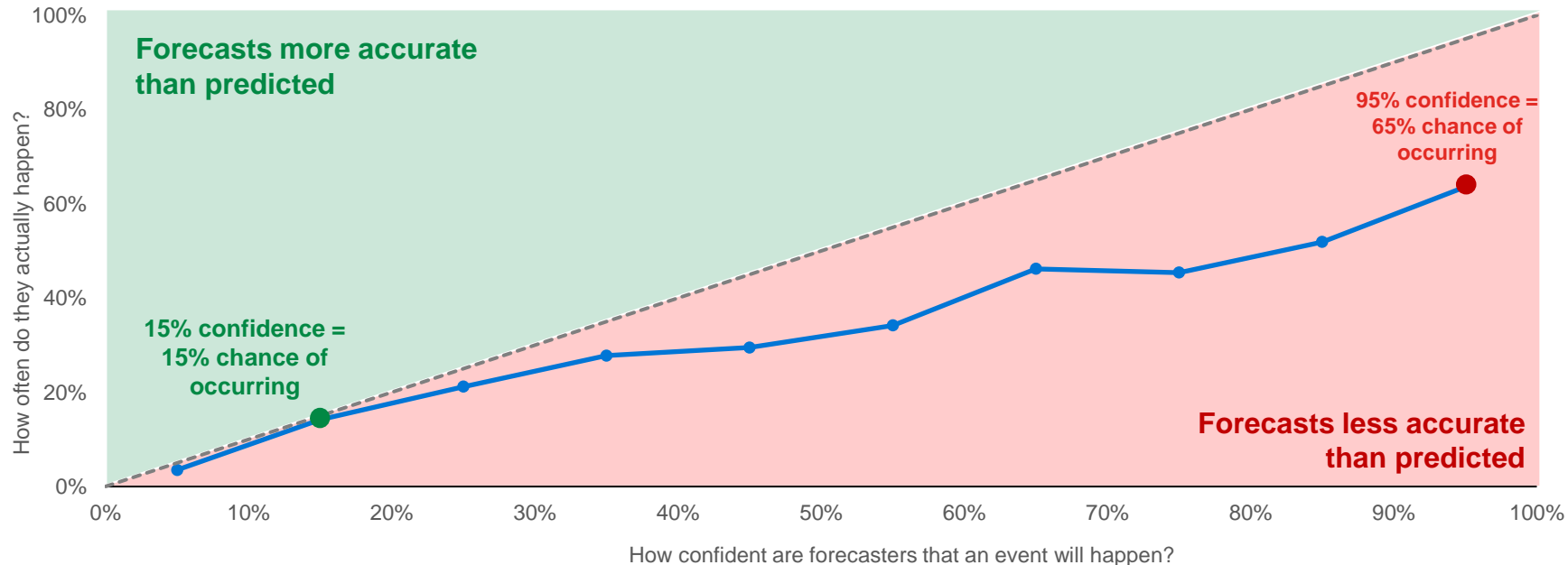
Source: Left hand graph: LGIM, Bloomberg, Thomson Reuters as at 30 June 2023. Right hand graph: LGIM, FTSE as at 31 December 2022. For illustrative purposes only. Reference to a particular security is on a historical basis and does not mean that the security is currently held or will be held within an LGIM portfolio. **The above information does not constitute a recommendation to buy or sell any security.**



# Overconfidence: both pervasive and expensive

It's a problem in all decision making, but seems to be even larger in some parts of investing!

## Professionals: economic forecasts



Source: Campbell and Moore (2004), Overprecision in the Survey of Professional Forecasters, Collabra: Psychology, LGIM.

Confidence and accuracy evaluated across over 32,000 forecast probability distributions for growth, unemployment or inflation captured by the Survey of Professional Forecasters from 1968 to 2023. **Assumptions, opinions and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass.**

# Why is it hard to make change?

LGIM conducted experiments at several conferences and looked at external survey data too

## The Africa Experiment



Confirmation bias

## The Covid Experiment



Hindsight bias

# Tackling hindsight bias

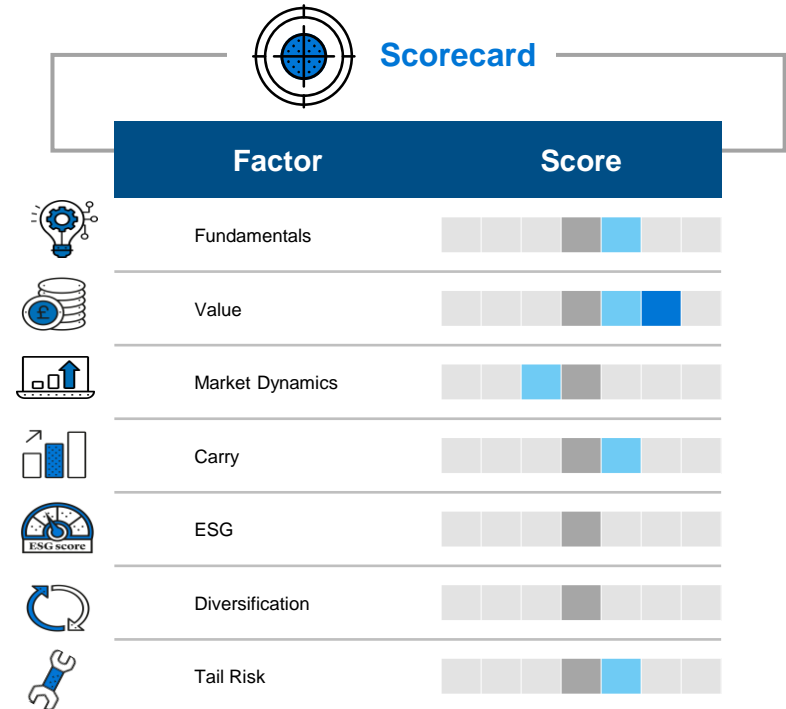
Similar techniques might be applicable for limiting it around consumer duty

## Steps we take as fund managers

1. Assessing trade ideas all on the **same seven criteria**
2. Including **signposts** for when to exit trades
3. **Post-mortems** on all trades, positive as well as negative
4. **Scenario testing on portfolios**, to identify foreseeable risks

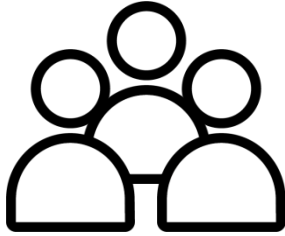
## Could we help advisers with Consumer Duty?

1. Produce a register of reasonably foreseeable investment risks
  2. Estimate potential impacts under those scenarios
  3. Share them regularly with advisors
- ⇒ Help meet Consumer Duty needs and reduce hindsight bias?



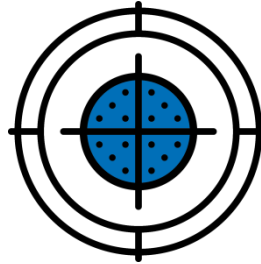
# Lessons learned

How can we manage our biases?



## How we work

- ✓ Change structure, avoid routine
- ✓ Large groups for thorough risk assessment or diversification...
- ✓ ... but small groups to avoid consensus thinking
- ✓ Present information carefully



## How we invest

- ✓ Don't overweight recent events
- ✓ Question what is 'normal'
- ✓ Prepare for a range of outcomes not a single central case



## Once invested

- ✓ Be mindful of overconfidence – record your rationales
- ✓ It's hard to be objective – set signposts to re-evaluate
- ✓ Conduct post-mortems

# Learning objectives

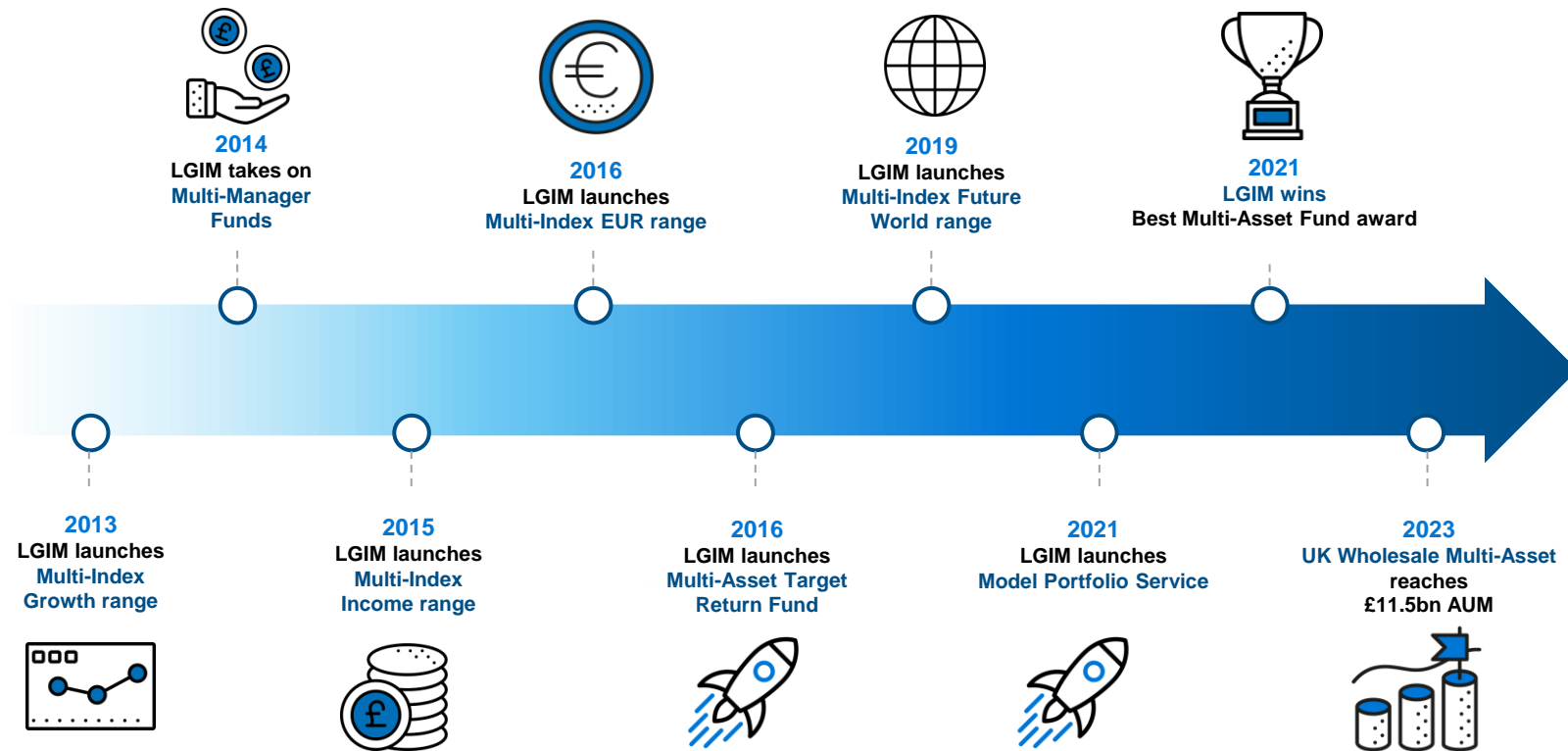
Delegates can now:

- 1. Understand how behavioural bias can impact investment decisions.**
- 2. Identify the most common behavioural biases that influence investors.**
- 3. Understand what measures can be used to overcome behavioural biases and how this is factored into an investment process.**

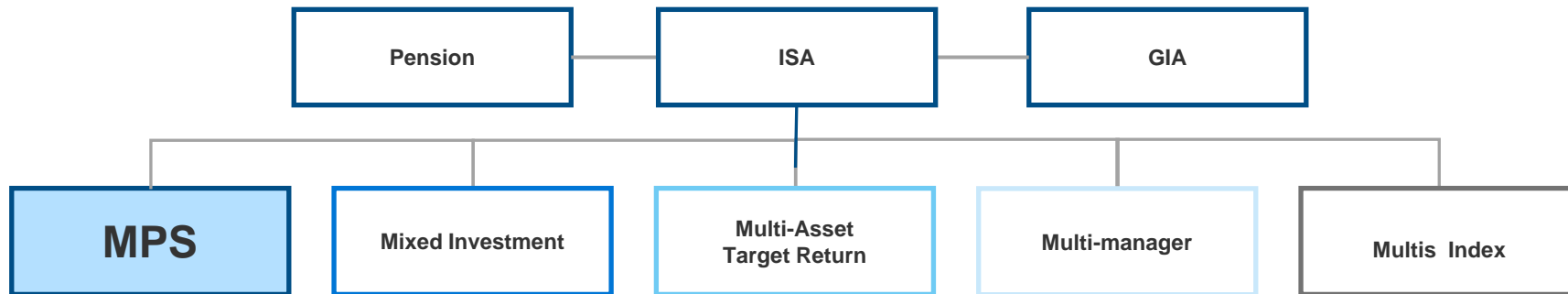


# LGIM's multi-asset proposition for UK wholesale

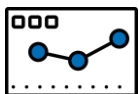
How we have evolved our offering to a full suite of solutions



# LGIM's multi-asset proposition



## Our MPS offering



**Index**  
7 risk profiles



**Blended**  
7 risk profiles



**Income**  
3 risk profiles



**ESG**  
7 risk profiles



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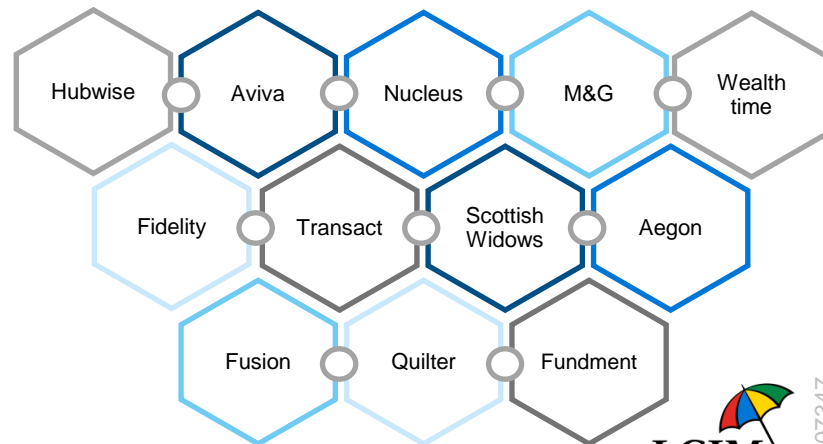


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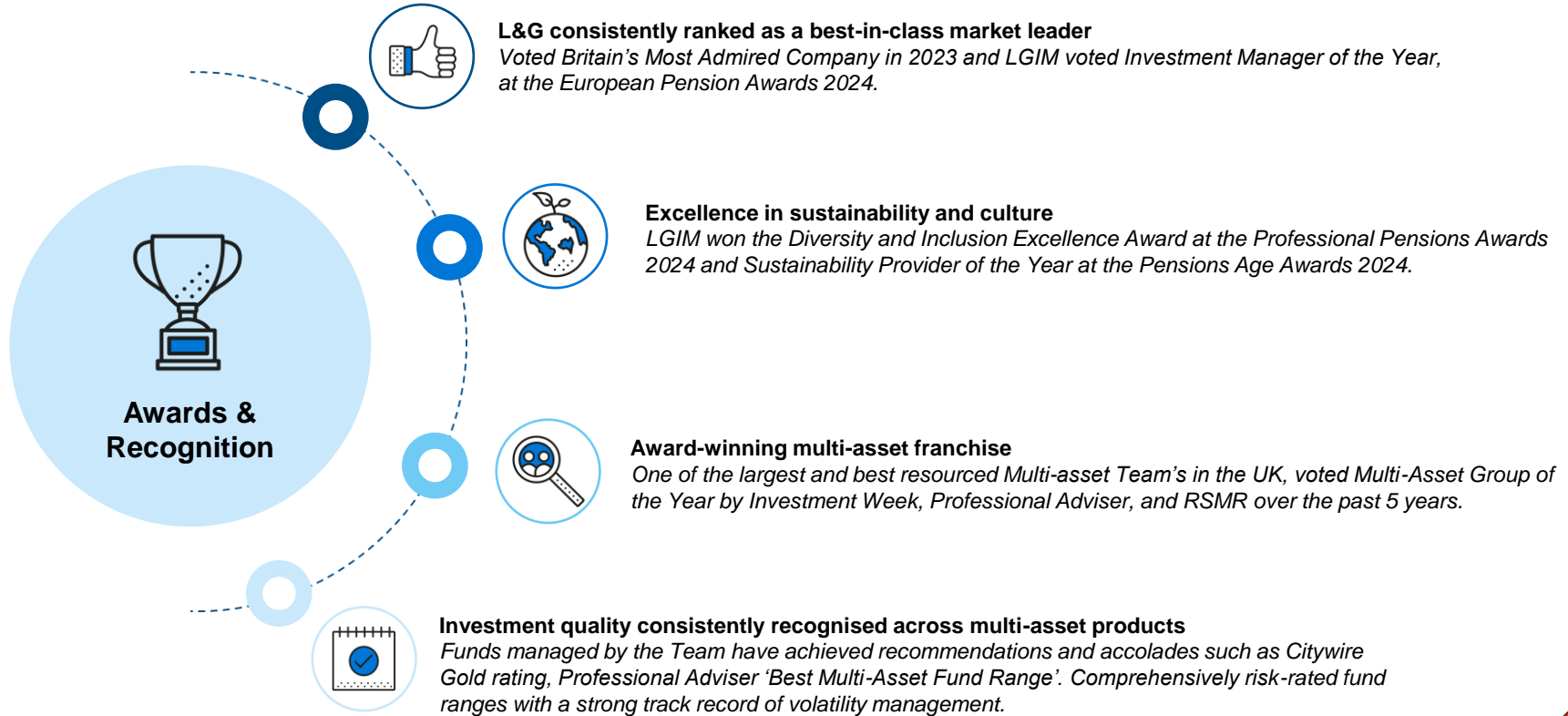


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## Our platform partners



# Ratings and recognition



# Adviser support

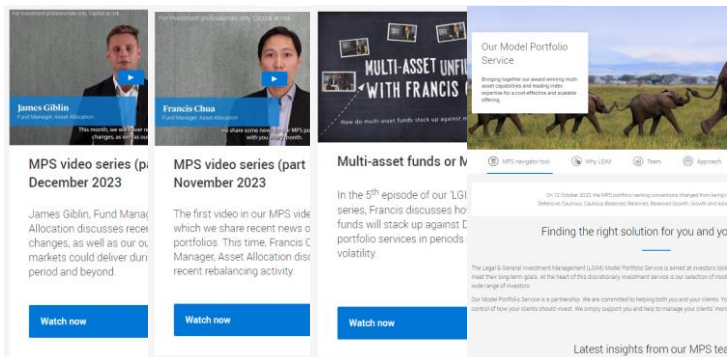
Regular communications and digital hub to support your business

## Collateral

Adviser and investor brochures to support with client conversations

**Interactive digital hub** - A dedicated MPS digital hub featuring:

- Brochures and product information
- Monthly factsheets
- Quarterly reports
- MPS introductory video
- Monthly videos
- Interactive model portfolio navigator
- MPS illustration



20 | Source: LGIM. For illustrative purposes only.

All investing involves risk



Adviser collateral



Interactive digital hub



Weekly views



Reports



Webinars



Thought leadership



**Thank you!**

# LGIM Diversified Fund

Return (% p.a.)	Diversified Fund	Long-term comparator developed equities	Risk-free + 3.75%*
2016	20.5	18.8	4.2
2017	9.6	16.0	4.1
2018	-2.9	-5.6	4.4
2019	14.8	24.5	4.5
2020	5.8	12.9	4.0
2021	9.2	23.1	3.9
2022	-9.0	-12.0	5.2
2023	7.7	20.1	8.4
YTD 2024	2.9	10.3	3.7
<b>5 years (p.a.)</b>	<b>4.4</b>	<b>12.9</b>	<b>5.6</b>
<b>Since Inception** (p.a.)</b>	<b>6.9</b>	<b>12.4</b>	<b>4.8</b>

Source: LGIM, gross of fees. Chart shows performance since launch date of the Diversified Fund (10 January 2012) to 31 May 2024. Comparator shown is 50% FTSE All World Developed Index, 50% FTSE All World Developed Index (hedged to GBP), daily rebalanced. Volatility figures are based on annualised volatility of monthly returns.. \*We expect the long-term geometric return of developed market equities to be around risk-free rates +3.5-4.0%. \*\* Performance since launch date of the Diversified Fund (10 January 2012). Performance data in the table for the Diversified Fund is based on weekly close prices. Performance data in the graph for the Diversified Fund is based on weekly close prices. **Past performance is not a guide to the future. The value of an investment and any income taken from it is not guaranteed and can go down as well as up; you may not get back the amount you originally invested. Performance is shown gross of fees and charges. The effect of fees and charges would reduce the returns shown.**

# LGIM Index MPS

	3 Months	YTD	1 Year	Since inception
LGIM Index Defensive	0.64	1.44	6.61	-3.12
IA Mixed Investment 0-35% Shares NR	0.65	2.16	7.64	-3.90
LGIM Index Cautious	1.10	2.84	8.74	0.29
IA Mixed Investment 0-35% Shares NR	0.65	2.16	7.64	-3.90
LGIM Index Cautious Balanced	1.42	4.17	10.34	2.39
IA Mixed Investment 20-60% Shares NR	1.20	3.73	9.74	0.46
LGIM Index Balanced	1.80	5.33	11.83	5.71
IA Mixed Investment 20-60% Shares NR	1.20	3.73	9.74	0.46
LGIM Index Balanced Growth	1.96	5.72	12.30	7.37
IA Mixed Investment 40-85% Shares NR	1.69	5.92	12.25	4.09
LGIM Index Growth	2.22	7.17	14.04	9.90
IA Mixed Investment 40-85% Shares NR	1.69	5.92	12.25	4.09
LGIM Index Adventurous	2.88	8.66	15.72	13.75
IA Flexible Investment NR	1.94	6.86	13.20	5.05

Source: Lipper LGIM as at 30 June 2024, All performance figures shown on this factsheet are net of underlying fund charges but gross of Legal & General Investment Management's management fees and adviser charges. Deduction of these fees and charges will impact on the performance shown. The effect of fees and charges would reduce the returns shown. Since inception date is : 01 September 2021 **Past performance is not a guide to the future.**

# Legal & General Investment Management

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The value of investments and the income from them can go down as well as up and you may not get back the amount invested. Past performance is not a guide to future performance.

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