Investing in Context

Understanding portfolio drift and rebalancing

Avoiding drifting off

Even the most carefully built portfolio will not stay perfectly balanced forever. Markets move at different speeds, and over time your mix of investments can gradually shift away from your original plan. This can often happen without you noticing. This gradual change is called portfolio drift.

What is portfolio drift?

Portfolio drift happens when certain investments grow faster than others. Over time, those faster growing assets take up a larger share of your portfolio, while slower growing ones shrink proportionately. **This shift can quietly change the level of risk** you are taking and move you away from the investment goals you originally set.

What is rebalancing?

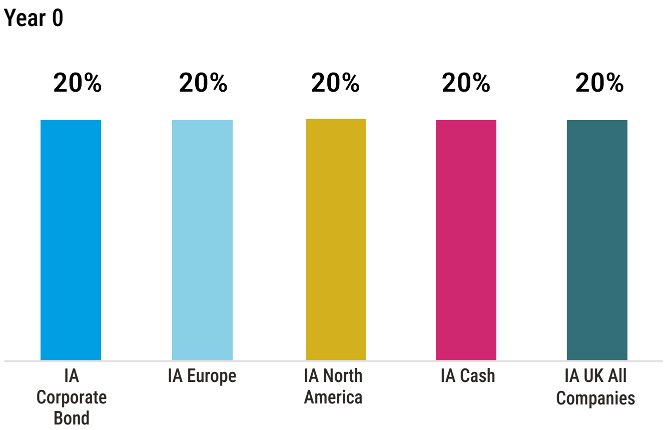
Rebalancing is about controlling risk, not predicting markets.
This is done by selling a portion of investments that have grown too large in your portfolio and using the proceeds to buy more of those that have become proportionately smaller.

The goal is not to chase performance, it is to bring your portfolio back to the target mix you started with, so the level of risk remains in line with that which you originally chose.

How a portfolio can drift over time

The portfolio is originally invested across 5 different types of investments. Each investment type has a weighting of 20% in the portfolio.

Corporate Bonds, European Equities, North American Equities, UK Equities and Cash.



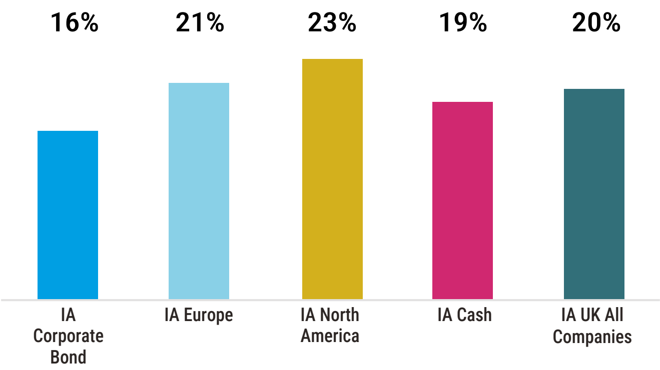
Source: Lipper, IA Sector performance, as of 31/12/2025. For illustrative purposes only

Nothing dramatic happened and yet everything changed

After 3 years, due to the different growth levels of each investment type, each of the investment's weightings in the portfolio has changed.

In this example, investments in North American stocks have grown more than the other four.

Year 3

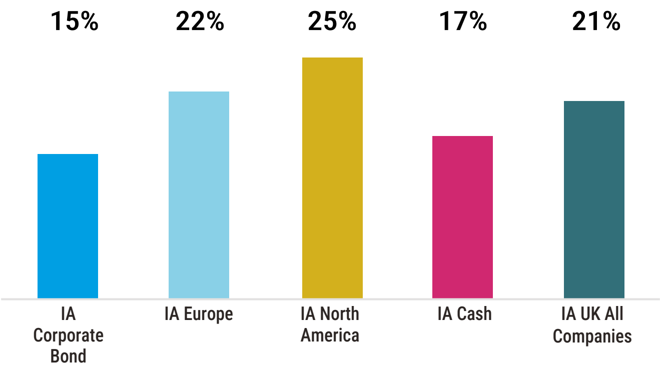


Source: Lipper, IA Sector performance, as of 31/12/2025. For illustrative purposes only

By 5 years, the weightings within the portfolio have changed further. For example, Corporate Bonds have fallen to a 15% weighting and the exposure to North America has increased to 25%.

This means that your exposure to the 5 investments areas is no longer balanced, and the risk in your portfolio, is different to what you originally planned.

Year 5



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Why does portfolio drift matter to you as an investor?

- **Risk creep** – Small, gradual changes in your portfolio over time, can mean you are taking on more risk than you realise. If one area grows too large, you may be more exposed to that sector than intended
- **Goal drift** – Your investment was made to meet specific objectives. If the mix of the portfolio shifts too far from the plan, it may reduce your chances of achieving those goals
- **Natural but manageable** – Portfolio drift is inevitable, but rebalancing brings you back on track, keeping your investments aligned with your chosen risk profile

Key points

- Different investments grow at different rates, even when nothing feels like its changed
- Keep an eye on portfolio drift, so your risk and return stay in line with your goals
- Rebalance regularly to bring your investments back to your intended plan

Portfolio drift is inevitable. Managing it and keeping your investments aligned with your goals, is where ongoing advice adds real value.

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