

# Risk guide

For Intermediaries

RBC Brewin Dolphin Domestic Strategy



Brewin  
Dolphin

## Important information

All of the solutions we offer involve some form of investment risk. Your clients should be aware that the value of investments and any income from them can fall and they may get back less than originally invested.

If your clients invest in currencies other than their own, fluctuations in currency value will mean that the value of their investment will move independently of the underlying asset.

You may be providing your client guidance on using tax-efficient structures such as making use of tax allowances. Your clients should be aware that tax structures are subject to changes in legislation and their value depends on their personal circumstances.

Your clients have sole responsibility for their management of their tax and legal affairs including all applicable tax filings and payments for complying with applicable laws and regulations. We are not specialist tax advisers and will not provide your clients with tax or legal advice and recommend that you obtain independent tax and legal advice, tailored to your clients' individual circumstances.

Neither simulated nor actual past performance are reliable indicators of future performance. In this document performance is quoted before fees, charges, levies and taxes and these will have the effect of reducing the illustrated performance. All performance shown is based upon any income generated being re-invested, except for the Average Capital Return and Average Yield figures.

The expected returns shown are based on our long-term forecasts, for a mix of assets similar to a portfolio suitable for an investor aligned to the Risk Category indicated.

The data in our sample charts is based on reasonable assumptions which are in turn based on objective data. There are no guarantees that these levels of performance will be achieved, in which case any returns will differ from those illustrated.

All data as at 31 December 2025.

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**This is for FCA authorised individuals only and should not be distributed in whole or part to retail clients.**

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# Overview

## Introduction

Our service takes away the time consuming day to day management of your clients' investment portfolios, allowing you to focus on relationships and planning in the confidence that their investments are in the best hands.

Understanding your clients' risk appetite and capacity for loss is essential if we are to create the optimum portfolio to match each client's objectives.

In this guide we will explain each of the RBC Brewin Dolphin risk categories and how we partner with you to thoroughly understand your clients' risk profile to create their bespoke portfolio.

## Selecting the risk category

How your clients' portfolios are constructed will depend on their willingness and ability to accept risk.

Under the terms of business you have with RBC Brewin Dolphin, you have responsibility for assessing suitability, demonstrating 'know your customer' and agreeing the most appropriate risk profile.

Before we can put a client proposal together, we will spend time with you to understand the risk mandate and explain the RBC Brewin Dolphin risk categories. Your RBC Brewin Dolphin Investment Manager can also assist you with mapping to the various industry risk profiling tools that you may use in your business.

Once we have agreed the mandate, we then invest strategically across all appropriate asset classes to suit each risk profile. These include fixed income, equities, cash and alternative investments.

Cash can be held on deposit, such as with a bank paying interest, or via cash-like money market investments that provide liquidity and low-risk returns. Fixed income can comprise bonds issued by governments and companies, with fixed or inflation-linked payments. Equities can be shares issued by companies listed on UK or overseas stock markets. Alternatives include absolute return funds, or commodities which could include gold, or real estate assets. Please refer to the appendix for more information on the asset types and their risks.

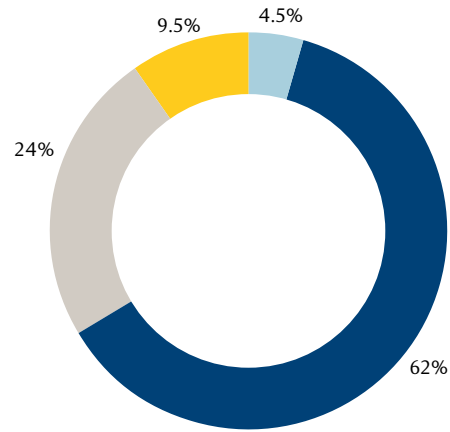
The mix of assets is important as it influences the possible return and the amount of risk within the portfolio.

Mandates following our domestic strategies will have a higher proportion invested in UK markets than our mandates following global strategies, which are more internationally focused.

Our mandates are driven by our Strategic Asset Allocation, the long-term strategy on how we invest.

## Example Asset Mix - Intermediary Risk Category 5

Example mix of assets that fits this risk profile.



We set allocation limits on this mix of assets to control risk and over time we will review these to ensure that they are still appropriate.

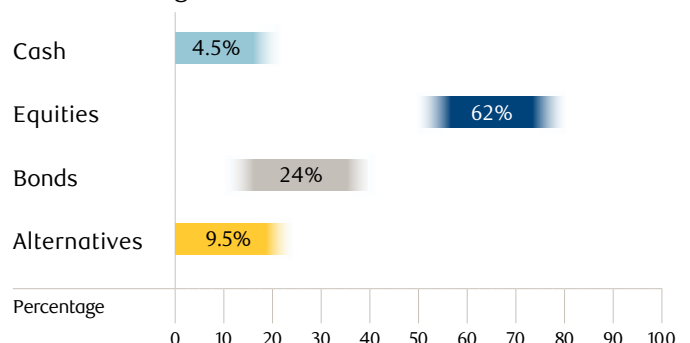
The sample chart below shows our Strategic Asset Allocation for an Intermediary Risk Category 5 portfolio. Our investment managers can adjust the asset mix and weightings in accordance with RBC Brewin Dolphin's tactical asset allocation view (short-term override of the long-term strategy to seek market opportunities or manage risks), considering both the specific investment objectives and the prevailing market conditions.

## Example Asset Mix Range (Intermediary Risk Category 5)

Example mix of assets that fits this risk profile.



### Asset mix range



## How much could the portfolio grow?

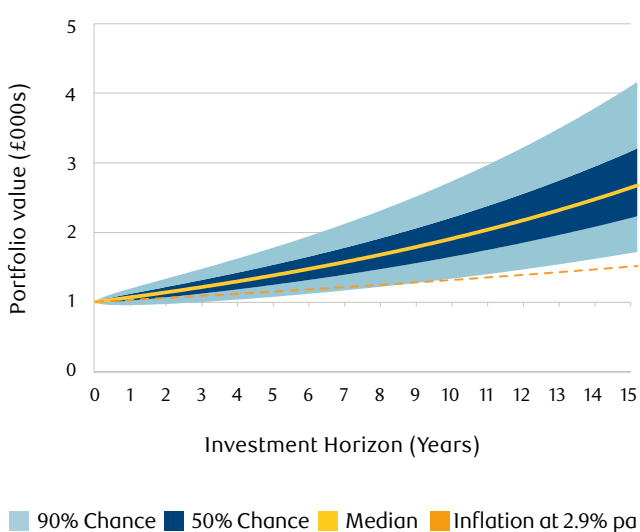
For illustrative purposes, the chart below shows the range of likely returns, based on Intermediary Risk Category 5. As you can see, in the early years the range of returns is smaller but easier to predict. In the long term, the returns are greater, but more difficult to predict as shown by the widening shaded area on the chart.

The yellow line on the chart represents the mid-point of the range of forecast outcomes. This means that there is an equal probability of the value of the portfolio either being above or below the yellow line at any point in time.

The expected returns detailed in the sample chart are based on RBC Brewin Dolphin's return forecasts for a mix of assets similar to a portfolio suitable for an investor in Risk Category 5. The size of the shaded bands, which represents potential future outcomes, is based on historical market data covering the previous 15 years from 31 December 2025.

### Example Projected Accumulation of Wealth (Intermediary Risk Category 5)

The potential value of a portfolio over a projected 15 year period from 31 December 2025.



Source: RBC Brewin Dolphin, LSEG Workspace, Morningstar from 31 December 2010 to 31 December 2025. Please note, in the example chart above, we have used a market-based rate of 2.9% for inflation. Forecasts are not a reliable indicator of future performance. Performance is quoted before charges which will reduce illustrated performance.

The sample chart shows the expected amount of return that could be created in a portfolio over a 15 year period with an initial investment of £1,000 assuming that all income generated by the portfolio is invested.

Two key points that sample charts like these aim to illustrate are:

- The longer the period the client invests for, the less predictable the returns will be.
- The more investment risk taken, the less predictable the returns achieved will be.

The shaded areas of the chart represent various forecasts showing the likelihood of achieving a level of wealth accumulation, as follows:

- 90% of all forecasts fall within the overall shaded area. For example, we believe that there is a 90% probability that the accumulated wealth in the portfolio shown would range between £1,700 (the lower point on the light blue shaded area) and £4,150 (the upper point on the light blue shaded area), after 15 years.
- In 50% of cases we forecast the investment return will fall within the area of the graph that is shaded dark blue.
- There is a 10% probability that the value of the portfolio could be outside of the ranges shown by the shaded areas – either above or below the ranges shown.

All of the shaded areas in the sample chart get wider as time goes on - this shows that the longer the period of investment, the higher the range of potential outcomes hence the less predictable the returns from the portfolio will be.

All performance is quoted before our fees and your adviser charges which will have the effect of reducing the illustrated performance.

## Portfolio benchmarks

Each investment mandate has its own performance benchmark against which you will be able to measure portfolio performance. For more information, please refer to the section entitled 'Our performance benchmarks' on page 15.

# What are the RBC Brewin Dolphin risk categories?

The following table provides a brief description of our 7 risk categories.

Risk Category	Description
1	<p><b>Intermediary 1</b></p> <p>Your client places a higher priority on preserving the value of their investments over investment returns and typically will be sensitive to large negative movements in the value of their investment. Your client is looking to maintain the real value of their investments against inflation and are happy to accept a small degree of fluctuation in the value of the portfolio to achieve this. As a result, the portfolio will hold a greater proportion in lower risk asset classes, such as cash, fixed income and alternatives, relative to the higher risk asset class of equities.</p>
2	<p><b>Intermediary 2</b></p> <p>Preserving the value of their investments remains important to your client and they would like to maintain the real value of their investments against inflation. The portfolio is likely to be more evenly balanced between equities and fixed income investments. The amount invested in equities is such that the portfolio is likely to experience some market volatility in exchange for the potential of increased levels of return.</p>
3	<p><b>Intermediary 3</b></p> <p>Your client is looking to maintain the real value of their investments by achieving returns above inflation. Preserving the value of their investment remains important, but they are willing to accept short-term volatility to generate potentially higher long-term investment returns. The portfolio will be more evenly balanced between equities and the combined asset classes of cash, fixed interest and alternatives.</p>
4	<p><b>Intermediary 4</b></p> <p>Your client is still looking to maintain the real value of your investments by achieving returns above inflation. They will be seeking higher returns and be willing to accept the associated risks of higher equity content. The portfolio will be balanced between equities and the combined asset classes of cash, fixed interest and alternatives.</p>
5	<p><b>Intermediary 5</b></p> <p>Your client is prepared to have a greater proportion of their investment held in equities with the aim of achieving a higher investment return over the long term. The greater allocation to equities means their portfolio may experience heightened levels of volatility over the investment term. The portfolio will typically include two thirds of the assets invested in equities whilst the remainder will be split between cash, fixed income and alternatives. Your client is prepared to accept fluctuations in the value of their portfolio to achieve their investment goals.</p>
6	<p><b>Intermediary 6</b></p> <p>Your client is seeking to generate higher investment returns through an increased exposure to equities to help achieve their long-term investment goals. The portfolio will typically have a very high proportion of their investment held in equities and very low levels of fixed income, cash and alternative asset classes. A larger proportion invested in equities is likely to lead to increased volatility in the overall value of the portfolio.</p>
7	<p><b>Intermediary 7</b></p> <p>Your client is looking to increase their investment returns by having a portfolio invested almost entirely in equities. Significant levels of volatility and more frequent changes in the value of the investments can be expected, but your client is willing to accept these risks to achieve their investment goals.</p>

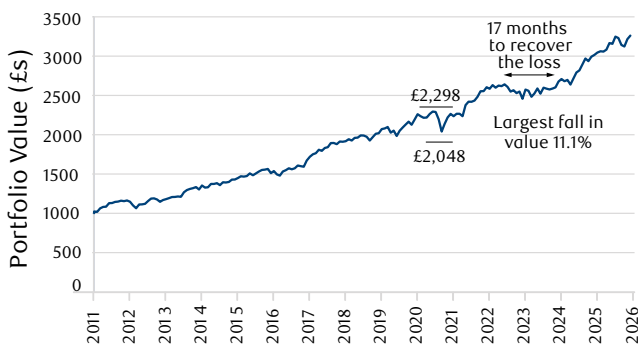
### How much might the portfolio reduce in value?

We cannot say with certainty how much a portfolio value could change. However, we can estimate the possible change based upon historical data. Although the past performance of financial markets is not a reliable guide to how any investment will perform in the future, it can provide a useful guide to help you understand the changes that the portfolio might experience.

In the illustration shown, we can see a significant drop in the value of the asset mix. The fall took the portfolio value to £2,048. However, as you can see the value of the portfolio then increased over time and would have been worth £3,270 over the full 15 year period.

### Example historical 15 year performance

The past performance of a mix of assets similar to a portfolio suitable for an investor in Intermediary Risk Category 5.



Source: RBC Brewin Dolphin, LSEG Workspace, Morningstar from 31 December 2010 to 31 December 2025.

### How long could the client’s portfolio take to recover?

The following table shows the biggest loss and the longest period to recover the value of the portfolio in the example chart.

### Example Historical Asset Mix Characteristics for the last 15 years (Intermediary Risk Category 5)

Average total return per year	8.2%
Average capital return per year	5.6%
Gain over the period	227.0%*
Capital return over the period	126.1%
Largest fall in value during the period	11.1%*
Longest time to recover (months)	17*
Annualised Volatility	6.9%*

Source: RBC Brewin Dolphin, LSEG Workspace, Morningstar as at 31 December 2025.

\* Based on total return



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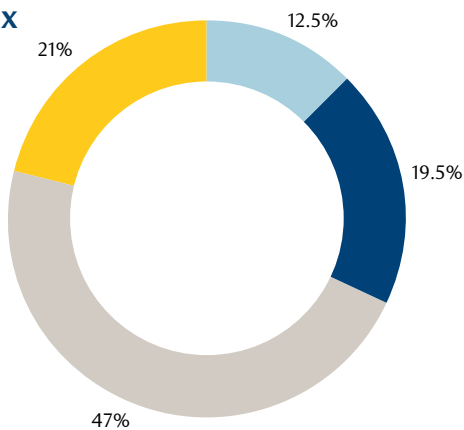
LOWER RISK

HIGHER RISK

### Intermediary 1

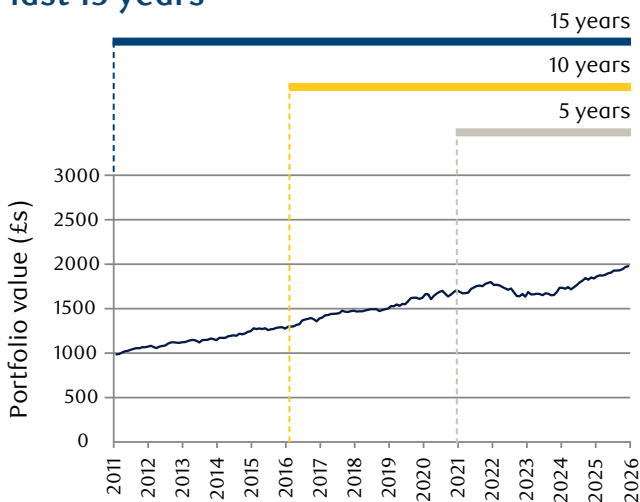
Your client places a higher priority on preserving the value of their investments over investment returns and typically will be sensitive to large negative movements in the value of their investment. Your client is looking to maintain the real value of their investments against inflation and is happy to accept a small degree of fluctuation in the value of the portfolio to achieve this. As a result, the portfolio will hold a greater proportion in lower risk asset classes, such as cash, fixed income and alternatives, relative to the higher risk asset class of equities.

#### Asset mix



■ Cash
 ■ Equities
 ■ Bonds
 ■ Alternatives

#### Performance for this asset mix over the last 15 years

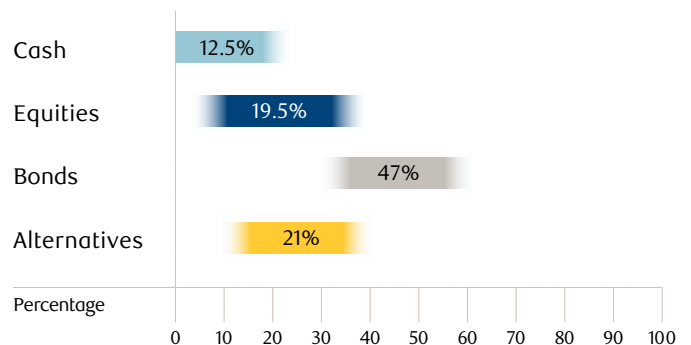


For more information about our performance benchmarks, please refer to the section entitled 'Our performance benchmarks' on page 15.

Source: RBC Brewin Dolphin, LSEG Workspace, Morningstar from 31 December 2010 to 31 December 2025.

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#### Asset mix range



#### Historical asset mix characteristics for the past 15 years

Average total return per year	4.7%
Average capital return per year	2.5%
Gain over the period*	98.3%
Capital return over the period	44.2%
Largest fall in value during the period*	9.0%
Longest time to recover (months)*	31
Annualised Volatility*	3.9%

#### Historical asset mix characteristics for the past 10 years

Average return per year	4.4%
Average capital return per year	2.5%
Gain over the period*	54.2%
Capital return over the period	27.7%
Largest fall in value during the period*	9.0%
Longest time to recover (months)*	31
Annualised Volatility*	4.1%

#### Historical asset mix characteristics for the past 5 years

Average return per year	3.0%
Average capital return per year	1.0%
Gain over the period*	15.7%
Capital return over the period	5.2%
Largest fall in value during the period*	9.0%
Longest time to recover (months)*	31
Annualised Volatility*	4.1%

\* Based on total return



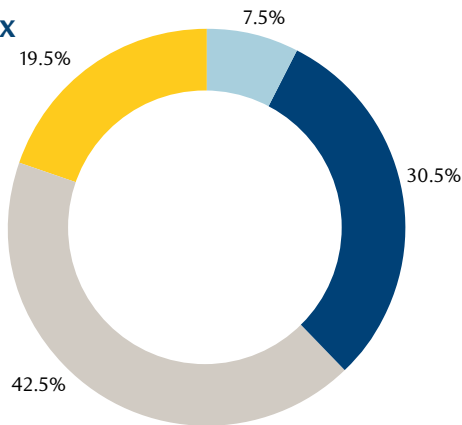
LOWER RISK

HIGHER RISK

## Intermediary 2

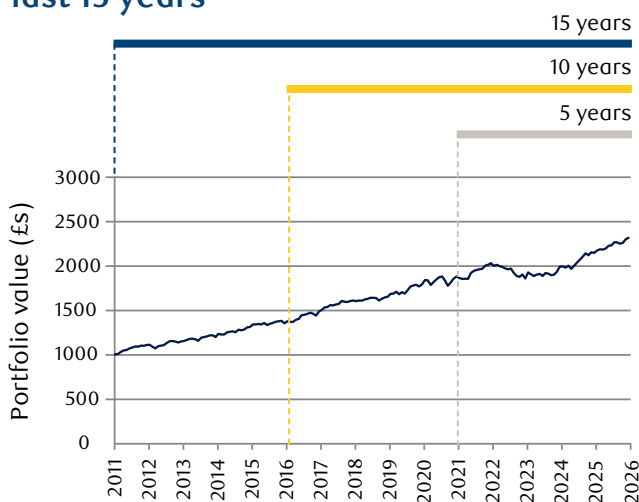
Preserving the value of their investments remains important to your client and they would like to maintain the real value of their investments against inflation. The portfolio is likely to be more evenly balanced between equities and fixed income investments. The amount invested in equities is such that your portfolio is likely to experience some market volatility in exchange for the potential of increased levels of return.

### Asset mix



■ Cash
 ■ Equities
 ■ Bonds
 ■ Alternatives

### Performance for this asset mix over the last 15 years

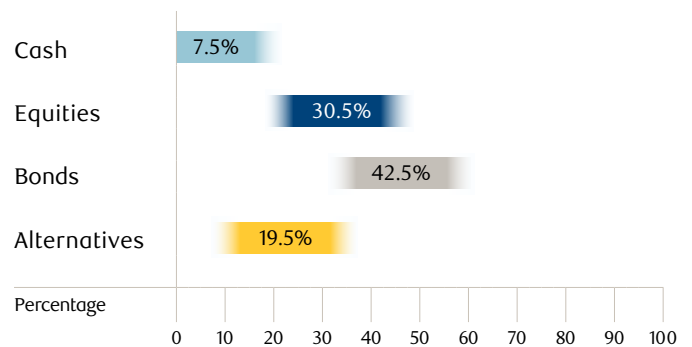


For more information about our performance benchmarks, please refer to the section entitled 'Our performance benchmarks' on page 15.

Source: RBC Brewin Dolphin, LSEG Workspace, Morningstar from 31 December 2010 to 31 December 2025.

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### Asset mix range



### Historical asset mix characteristics for the past 15 years

Average total return per year	5.7%
Average capital return per year	3.3%
Gain over the period*	129.7%
Capital return over the period	63.7%
Largest fall in value during the period*	8.4%
Longest time to recover (months)*	29
Annualised Volatility*	4.4%

### Historical asset mix characteristics for the past 10 years

Average total return per year	5.5%
Average capital return per year	3.4%
Gain over the period*	70.4%
Capital return over the period	39.8%
Largest fall in value during the period*	8.4%
Longest time to recover (months)*	29
Annualised Volatility*	4.6%

### Historical asset mix characteristics for the past 5 years

Average total return per year	4.2%
Average capital return per year	2.2%
Gain over the period*	22.9%
Capital return over the period	11.2%
Largest fall in value during the period*	8.4%
Longest time to recover (months)*	29
Annualised Volatility*	4.5%

\* Based on total return

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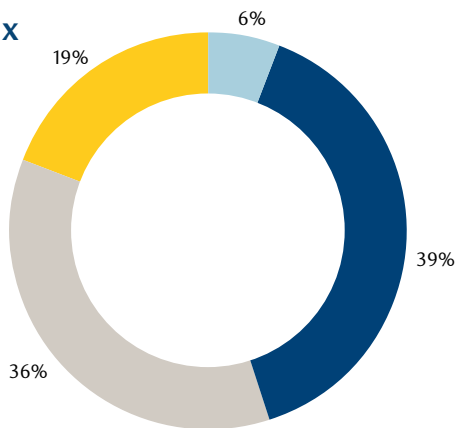
LOWER RISK

HIGHER RISK

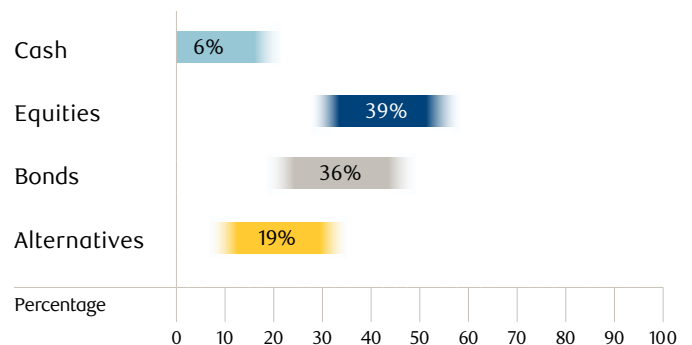
### Intermediary 3

Your client is looking to maintain the real value of their investments by achieving returns above inflation. Preserving the value of their investment remains important, but they are willing to accept short-term volatility to generate potentially higher long-term investment returns. The portfolio will be more evenly balanced between equities and the combined asset classes of cash, fixed interest and alternatives.

#### Asset mix

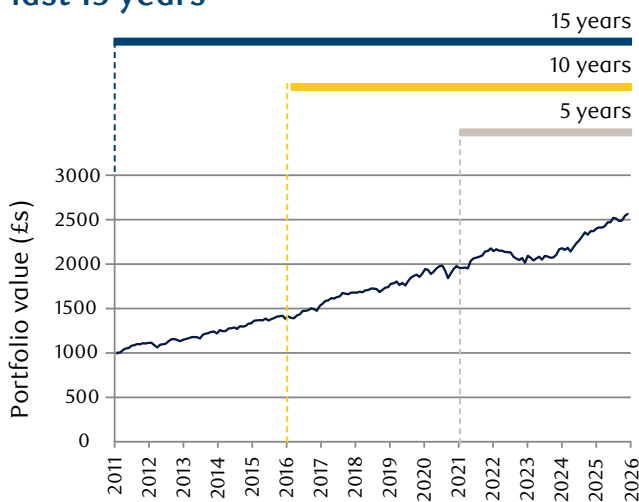


#### Asset mix range



■ Cash
 ■ Equities
 ■ Bonds
 ■ Alternatives

#### Performance for this asset mix over the last 15 years



For more information about our performance benchmarks, please refer to the section entitled 'Our performance benchmarks' on page 15.

Source: RBC Brewin Dolphin, LSEG Workspace, Morningstar from 31 December 2010 to 31 December 2025.

Please see the Important information on page 2

#### Historical asset mix characteristics for the past 15 years

Average total return per year	6.5%
Average capital return per year	4.1%
Gain over the period*	156.3%
Capital return over the period	81.7%
Largest fall in value during the period*	7.4%
Longest time to recover (months)*	24
Annualised Volatility*	5.0%

#### Historical asset mix characteristics for the past 10 years

Average total return per year	6.3%
Average capital return per year	4.2%
Gain over the period*	84.4%
Capital return over the period	51.3%
Largest fall in value during the period*	7.4%
Longest time to recover (months)*	24
Annualised Volatility*	5.1%

#### Historical asset mix characteristics for the past 5 years

Average total return per year	5.3%
Average capital return per year	3.2%
Gain over the period*	29.5%
Capital return over the period	17.2%
Largest fall in value during the period*	7.4%
Longest time to recover (months)*	24
Annualised Volatility*	4.9%

\* Based on total return



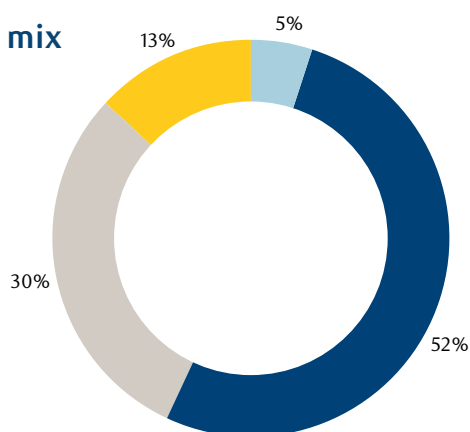
LOWER RISK

HIGHER RISK

### Intermediary 4

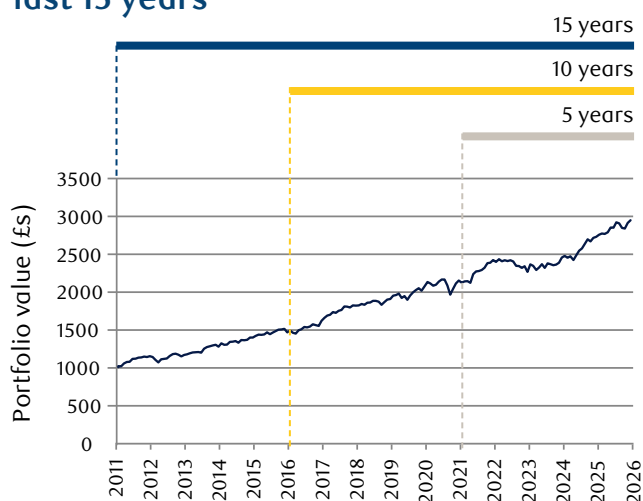
Your client is still looking to maintain the real value of your investments by achieving returns above inflation. They will be seeking higher returns and be willing to accept the associated risks of higher equity content. The portfolio will be balanced between equities and the combined asset classes of cash, fixed interest and alternatives.

#### Asset mix



■ Cash
 ■ Equities
 ■ Bonds
 ■ Alternatives

#### Performance for this asset mix over the last 15 years

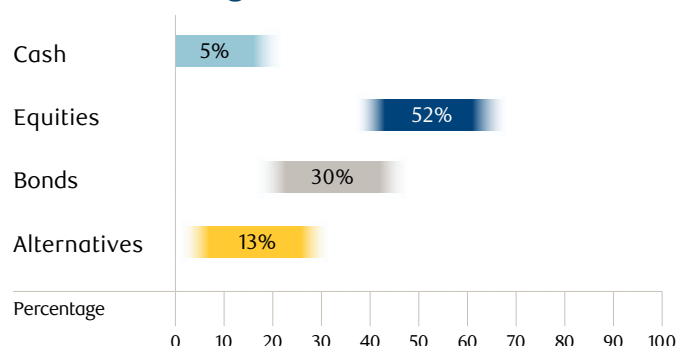


For more information about our performance benchmarks, please refer to the section entitled 'Our performance benchmarks' on page 15.

Source: RBC Brewin Dolphin, LSEG Workspace, Morningstar from 31 December 2010 to 31 December 2025.

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#### Asset mix range



#### Historical asset mix characteristics for the past 15 years

Average total return per year	7.4%
Average capital return per year	4.9%
Gain over the period*	192.7%
Capital return over the period	104.2%
Largest fall in value during the period*	9.2%
Longest time to recover (months)*	21
Annualised Volatility*	6.0%

#### Historical asset mix characteristics for the past 10 years

Average total return per year	7.2%
Average capital return per year	5.1%
Gain over the period*	100.7%
Capital return over the period	63.8%
Largest fall in value during the period*	9.2%
Longest time to recover (months)*	21
Annualised Volatility*	6.2%

#### Historical asset mix characteristics for the past 5 years

Average total return per year	6.5%
Average capital return per year	4.3%
Gain over the period*	37.0%
Capital return over the period	23.7%
Largest fall in value during the period*	6.9%
Longest time to recover (months)*	21
Annualised Volatility*	5.8%

\* Based on total return

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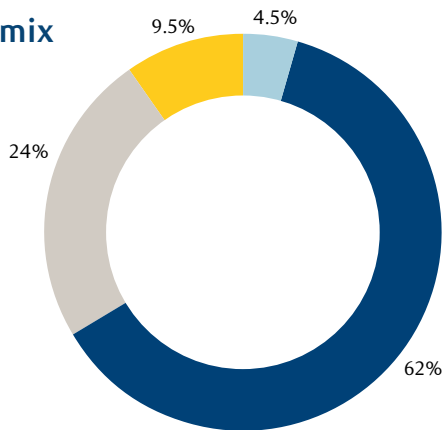
LOWER RISK

HIGHER RISK

### Intermediary 5

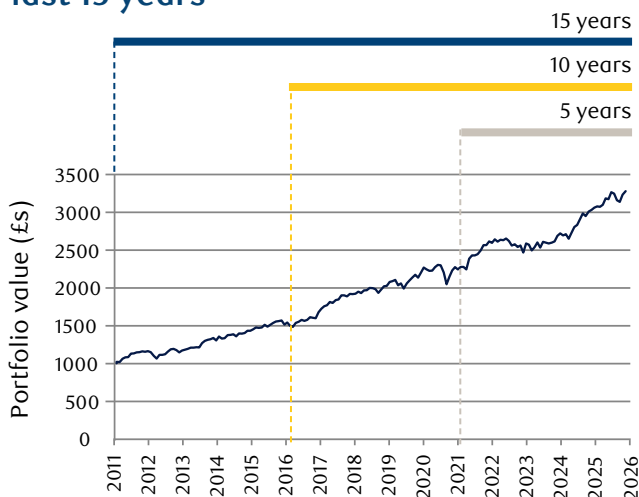
Your client is prepared to have a greater proportion of their investment held in equities with the aim of achieving a higher investment return over the long term. The greater allocation to equities means their portfolio may experience heightened levels of volatility over the investment term. The portfolio will typically include two thirds of the assets invested in equities whilst the remainder will be split between cash, fixed income and alternatives. Your client is prepared to accept fluctuations in the value of their portfolio to achieve their investment goals.

#### Asset mix



■ Cash
 ■ Equities
 ■ Bonds
 ■ Alternatives

#### Performance for this asset mix over the last 15 years

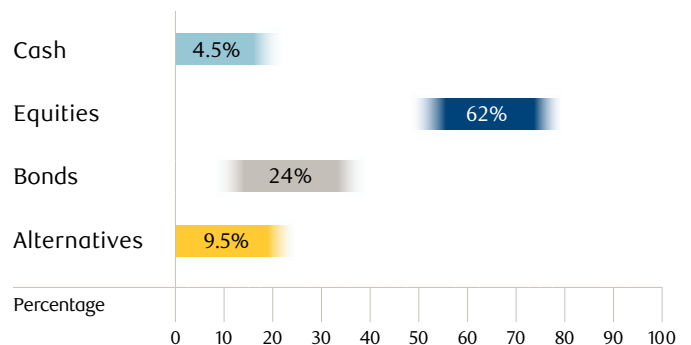


For more information about our performance benchmarks, please refer to the section entitled 'Our performance benchmarks' on page 15.

Source: RBC Brewin Dolphin, LSEG Workspace, Morningstar from 31 December 2010 to 31 December 2025.

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#### Asset mix range



#### Historical asset mix characteristics for the past 15 years

Average total return per year	8.2%
Average capital return per year	5.6%
Gain over the period*	227.0%
Capital return over the period	126.1%
Largest fall in value during the period*	11.1%
Longest time to recover (months)*	17
Annualised Volatility*	6.9%

#### Historical asset mix characteristics for the past 10 years

Average total return per year	8.0%
Average capital return per year	5.8%
Gain over the period*	116.4%
Capital return over the period	76.3%
Largest fall in value during the period*	11.1%
Longest time to recover (months)*	17
Annualised Volatility*	7.1%

#### Historical asset mix characteristics for the past 5 years

Average total return per year	7.6%
Average capital return per year	5.4%
Gain over the period*	44.1%
Capital return over the period	30.0%
Largest fall in value during the period*	7.0%
Longest time to recover (months)*	17
Annualised Volatility*	6.7%

\* Based on total return

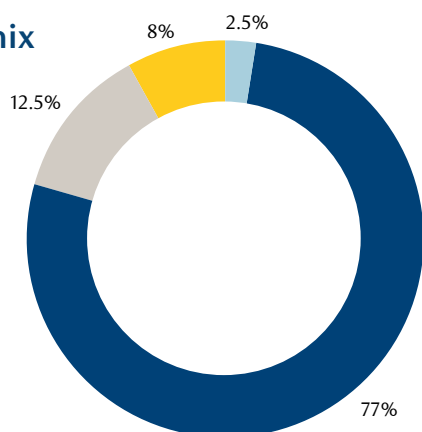
LOWER RISK

HIGHER RISK

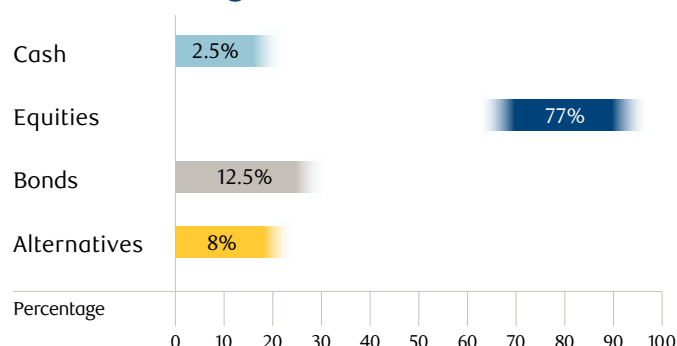
### Intermediary 6

Your client is seeking to generate higher investment returns through an increased exposure to equities to help achieve their long-term investment goals. The portfolio will typically have a very high proportion of their investment held in equities and very low levels of fixed income, cash and alternative asset classes. A larger proportion invested in equities is likely to lead to increased volatility in the overall value of the portfolio.

#### Asset mix

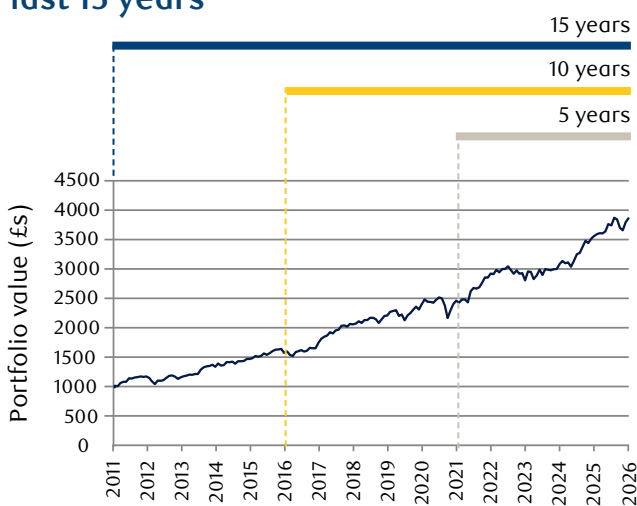


#### Asset mix range



■ Cash 
 ■ Equities 
 ■ Bonds 
 ■ Alternatives

#### Performance for this asset mix over the last 15 years



For more information about our performance benchmarks, please refer to the section entitled 'Our performance benchmarks' on page 15.

Source: RBC Brewin Dolphin, LSEG Workspace, Morningstar from 31 December 2010 to 31 December 2025.

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#### Historical asset mix characteristics for the past 15 years

Average total return per year	9.4%
Average capital return per year	6.8%
Gain over the period*	286.8%
Capital return over the period	167.3%
Largest fall in value during the period*	13.8%
Longest time to recover (months)*	17
Annualised Volatility*	8.5%

#### Historical asset mix characteristics for the past 10 years

Average total return per year	9.3%
Average capital return per year	7.2%
Gain over the period*	144.1%
Capital return over the period	99.7%
Largest fall in value during the period*	13.8%
Longest time to recover (months)*	17
Annualised Volatility*	8.7%

#### Historical asset mix characteristics for the past 5 years

Average total return per year	9.4%
Average capital return per year	7.2%
Gain over the period*	56.6%
Capital return over the period	41.5%
Largest fall in value during the period*	7.8%
Longest time to recover (months)*	17
Annualised Volatility*	8.1%

\* Based on total return

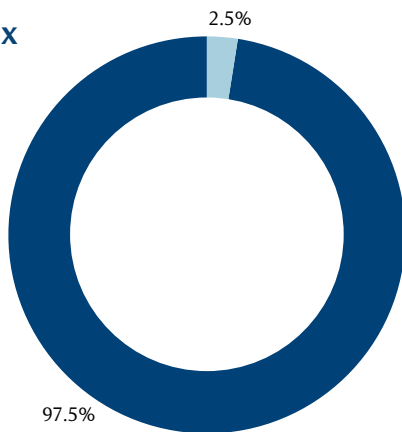
LOWER RISK

HIGHER RISK

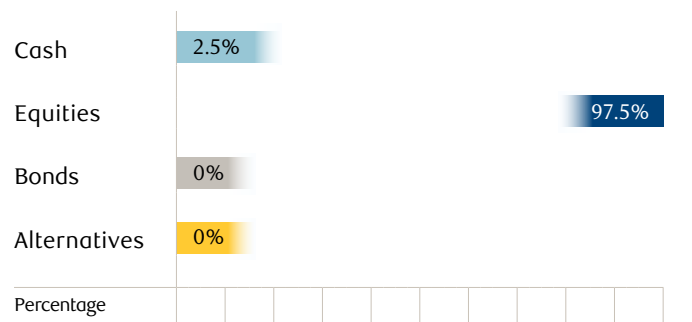
### Intermediary 7

Your client is looking to increase their investment returns by having a portfolio invested almost entirely in equities. Significant levels of volatility and more frequent changes in the value of the investments can be expected, but your client is willing to accept these risks to achieve their investment goals.

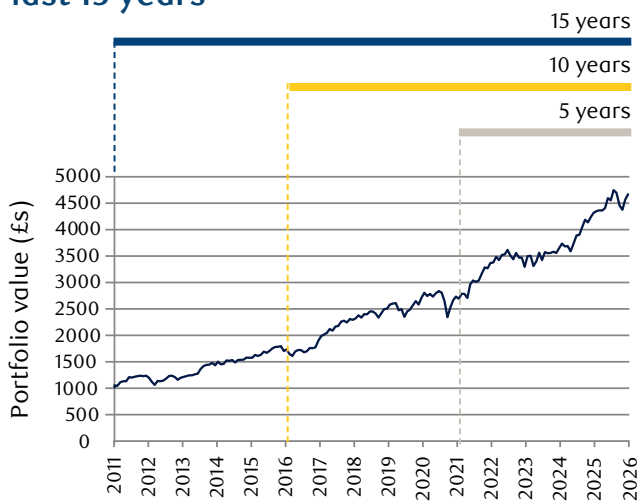
#### Asset mix



#### Asset mix range



#### Performance for this asset mix over the last 15 years



For more information about our performance benchmarks, please refer to the section entitled 'Our performance benchmarks' on page 15.

Source: RBC Brewin Dolphin, LSEG Workspace, Morningstar from 31 December 2010 to 31 December 2025.

Please see the Important information on page 2

#### Historical asset mix characteristics for the past 15 years

Average total return per year	10.8%
Average capital return per year	8.1%
Gain over the period*	367.5%
Capital return over the period	220.4%
Largest fall in value during the period*	17.6%
Longest time to recover (months)*	17
Annualised Volatility*	10.7%

#### Historical asset mix characteristics for the past 10 years

Average total return per year	10.7%
Average capital return per year	8.5%
Gain over the period*	176.4%
Capital return over the period	126.9%
Largest fall in value during the period*	17.6%
Longest time to recover (months)*	17
Annualised Volatility*	11.0%

#### Historical asset mix characteristics for the past 5 years

Average total return per year	11.4%
Average capital return per year	9.2%
Gain over the period*	71.4%
Capital return over the period	55.1%
Largest fall in value during the period*	8.9%
Longest time to recover (months)*	17
Annualised Volatility*	10.3%

\* Based on total return

# Our domestic performance benchmarks

Each investment mandate has its own performance benchmark (a yardstick to measure the performance of the portfolio). The performance benchmarks can be found on the Indices page of your client's Quarterly Valuation report. We use the Investment Association's (IA's) sectors, which groups comparable funds sold in the UK for benchmarking. These sectors are based on Growth or income, Asset types and Geographic location.

While the sectors enable fund comparison, we consider they provide an appropriate proxy for the portfolios as the investment strategies are similar.

Therefore, each of the portfolio's investment mandate falls into a specific risk category, with a linked performance benchmark. It should be remembered that a benchmark is for guidance only. It is not a guarantee that a portfolio will perform in line with the benchmark.

## Each Risk Category Benchmark Description

Risk Level	Benchmark Name	Description
Intermediary 1	IA Mixed Investment 0-35% Shares	Funds in this sector are required to have a range of different investments. Up to 35% of the fund can be invested in equities. At least 45% of the fund must be in fixed income investments (for example, corporate and government bonds) and/or cash and cash equivalent investments.
Intermediary 2	IA Mixed Investment 0-35% Shares	Funds in this sector are required to have a range of different investments. Up to 35% of the fund can be invested in equities. At least 45% of the fund must be in fixed income investments (for example, corporate and government bonds) and/or cash and cash equivalent investments.
Intermediary 3	IA Mixed Investment 20-60% Shares	Funds in this sector are required to have a range of different investments. The fund must have between 20% and 60% invested in equities. At least 30% of the fund must be in fixed income investments (for example, corporate and government bonds) and/or cash and cash equivalent investments.
Intermediary 4	IA Mixed Investment 20-60% Shares	Funds in this sector are required to have a range of different investments. The fund must have between 20% and 60% invested in equities. At least 30% of the fund must be in fixed income investments (for example, corporate and government bonds) and/or cash and cash equivalent investments.
Intermediary 5	IA Mixed Investment 40-85% Shares	Funds in this sector are required to have a range of different investments. However, there is scope for funds to have a high proportion in equities. The fund must have between 40% and 85% invested in company shares and equity funds.
Intermediary 6	IA Flexible Investment	The funds in this sector are expected to have a range of different investments. However, the fund manager has significant flexibility over what to invest in. There is no minimum or maximum requirement for investment in company equities and there is scope for funds to have a high proportion of shares. The manager is accorded a significant degree of discretion over asset allocation and is allowed to invest up to 100% in equities at their discretion.
Intermediary 7	IA Global	Funds in this sector invest at least 80% of their assets globally in equities. Funds must be diversified by geographic region.

# Appendix

## A description of assets and a guide to their risks.

Most of the solutions we offer involve some form of investment risk and you should be aware that the value of investments and any income from them can fall and your client may get back less than the amount invested.

Our services provide exposure to financial assets – such as equities and bonds – all of which are subject to some form of investment risk. It is important to understand that the investment return your client can expect is related to the level and type of risk for that investment.

Below we discuss in detail the many types of risk that can impact upon the performance of an investment. First, we will look at the broad categories of investment risk and second at the different types of investment asset and the specific risks that apply to each.

Please note that this does not necessarily mean that the portfolio(s) will contain these types of investment directly.

### Types of investment risk

#### Volatility risk

'Volatility' is a measure of the relative rate at which the price of a particular investment moves up and down. If the price of an investment moves up and down rapidly over short time periods it can be described as having high volatility. If the price changes relatively infrequently, it can be described as having low volatility. The movements in price of an investment could be caused by events in the domestic or global economy, changes in interest rates or currency exchange rates, general political factors or company or investment-specific factors. Some investments are more volatile than others – for example, equities would generally be more volatile than government bonds, and cash would be the least volatile.

However, it is important to understand that there is a 'trade-off' between the level of volatility investors are prepared to accept and the return they can expect to achieve from an investment. As a general rule, the higher the volatility of an asset, there is not only the greater potential for positive returns but also the

greater potential for losses. This is often referred to as the trade-off between risk and reward. Overall, it is important to remember that investments and the income from them may go down and your client may get back less than the amount invested.

**Inflation risk:** If your client is investing over a long period of time, investors need to be aware of the long-term impact of inflation. Inflation erodes the 'purchasing power' of assets – i.e. it reduces how much they will be able to buy at future price levels. Of course, inflation risk can have an impact on all types of investment but some types are more at risk than others. For example, cash is among the asset classes most vulnerable to inflation risk. If the interest rate payable on a cash deposit in a bank or building society is consistently below the rate of inflation over time, then the 'real' value (after inflation) of that cash will be eroded. This is particularly relevant to the market conditions we have experienced in the last few years, where interest rates available on deposit accounts have been generally lower than the prevailing level of inflation for some time.

#### Currency risk

This form of risk relates to all investments denominated in foreign currency, for example US government bonds or Continental European company shares. These assets will generally be priced in the currency of the country of origin – US government bonds will generally be denominated in US dollars and Continental European company shares will generally be priced in euros. UK investors – whose investment portfolios will usually be priced in sterling – therefore need to be aware that the value of the foreign assets that they own will depend not only on the price movements of the assets themselves in the local foreign currency but also on the movements of the exchange rate of the currencies against sterling. This can mean that investments denominated in foreign currency can be more volatile than those denominated

in sterling. Movements in exchange rates may cause the value of an investment to fluctuate either in a favourable or unfavourable manner and also independently of the value of the underlying asset.

### Liquidity risk

The investment term 'liquidity' essentially means the ease with which an investment can be bought and sold. For example, the shares of large companies in developed countries such as the UK have a relatively high level of liquidity – there are typically a large number of buyers and sellers in these markets and these shares can usually be bought and sold readily. They can therefore be said to have a low level of liquidity risk – should investors want to 'cash in' the investment held in the shares of a large UK company they will generally be able to do so easily and relatively quickly. On the other hand, there are a number of assets which can be described as having a relatively high level of liquidity risk. These could include the shares of very small, relatively unknown companies where there is a narrow market for the shares (i.e. a relatively small number of potential buyers and sellers) and they are therefore infrequently traded. An investor who owns such 'illiquid' shares and wants to sell them may find that it takes a considerable amount of time to find a buyer, or that they will need to reduce the price they are prepared to sell the shares for in order to sell them quickly. It is this latter point particularly that your client should be aware of when considering investing in relatively illiquid assets – it can sometimes prove difficult to sell these investments in a timely way and there may be a significant risk of capital loss. In extreme cases an investment may become 'non-readily realisable'. In this case the investment may not be easily tradable, and it may be difficult to obtain any reliable independent information about the value and risks associated with such an investment.

### Leverage/gearing risk

Collective funds (such as investment trusts) and companies may make use of borrowing in order to enhance returns. This is known as leverage or gearing and increases both the volatility and the risk level of an investment. It applies if a company has borrowed significant amounts of money, or if an investment vehicle (such as an investment trust) otherwise allows an investor to gain much greater exposure to an asset than is paid for at the point of sale (i.e. money is borrowed to obtain the increased exposure to that asset). It also applies if an investor borrows money for the specific purpose of investing.

The impact of leverage can mean that movements in the price of an investment lead to much greater volatility in the value of the leveraged position, and

this could lead to sudden and large rises and falls in value. The impact of interest costs from borrowing may also lead to an increase in any rate of return required to break even while there is also a risk that the investor may receive nothing back once the leverage is repaid if there are significantly large falls in the value of the investment.

### Stabilisation

This activity enables the market price of a security to be maintained artificially during the period when a new issue of securities is sold to the public. Stabilisation may affect not only the price of the new issue but also the price of other securities relating to it. Stabilisation can help to counter the fact that, when a new issue comes onto the market for the first time, the price can sometimes drop for a time before buyers are found due to the excess supply of shares. Stabilisation is carried out by a 'stabilisation manager' (normally the firm chiefly responsible for bringing a new issue to market). As long as the stabilisation manager follows a strict set of rules, he is entitled to buy back securities that were previously sold to investors or allotted to institutions which have decided not to keep them. The effect of this may be to keep the price at a higher level than it would otherwise have been during the period of stabilisation.

### Settlement risk

This is the risk that one counterparty to a transaction does not deliver a security or its value in cash as agreed when the security was traded after the counterparty has delivered either the cash or security as per the trade agreement.

### Legal risk

We instruct various intermediaries and third parties to provide us with a service or product to enable us to administer your clients' account such as a market counterparty to buy or sell a stock in the market. Another example is client money held by a bank instructed by us. We take great care in selecting reputable Intermediaries, however, should they default or be unable to perform their obligations by reason of any cause beyond our control, this may mean that your client will bear the loss of the default to their account or change to our service. Your clients' investments will be pooled with investments owned by other clients, therefore their individual investments are not separately identifiable. Stocks are regularly reconciled but in the unlikely event that there is an irreconcilable shortfall, your client may not receive their full entitlement and share in the shortfall in proportion to their holding. The majority of our clients' pooled investments in the UK are held by one of our wholly-owned nominee companies for which we would be responsible if it acted wrongly.

There is an additional risk of investing in overseas stocks as they are held by an overseas custodian or sub-custodian which may be pooled and subject to different rules and laws governing investment. We take care in appointing the custodian and perform periodic reviews on the custodian but should it become insolvent, this may cause delay in settling a transaction or transferring investments or worse, a loss to clients' investment. Unless we have been negligent in appointing the custodian, we will not be responsible for the custodian's insolvency.

## Investment-specific risks

In the following, we look at the various asset classes and the investment risks that are specific to each.

### Equities

#### Company shares – attributes

Equities or company shares – and collective funds that invest in them – are commonly used by investors seeking longer-term capital growth.

- Each company share represents a stake in the ownership of that firm. In most cases, the company will be listed on a stock exchange (such as the London Stock Exchange)
- Most large company shares can be readily bought and sold under most market conditions. They entitle the shareholder to the payment of dividends – a regular payment made out of the company's profits
- Although a company is not obliged to pay a dividend its management can be held accountable by shareholders if they do not provide a reasonable return
- Over the longer term company shares have historically provided a reasonable return together with a degree of inflation protection. Although past performance is not a guide to future performance.

#### Specific risks

- Returns on company shares cannot be guaranteed. The price of a company's shares can go up and down and your client may get back less than they originally invested
- The price variability of international shares denominated in a currency other than sterling may be higher or lower than that of UK shares once foreign currency exchange rates are taken into account
- As ownership of an equity represents a direct stake in the company concerned this will give your client full exposure to the economic risks faced by the

company and its value can therefore fall as well as rise. The price volatility of equity markets can change quickly and cannot be assumed to follow historical trends

- In times of particularly difficult market conditions, there is the potential to suffer irrecoverable capital losses. In the worst case, a company could fail and, if this happens, its equity can become worthless.

Examples of typical company characteristics which could mean a heightened level of equity investment risk are:

- The company's market value is relatively low (otherwise known as the 'market capitalisation')
- The products that the company offers are undiversified (i.e. it relies on one or a few product lines or services for the bulk of its profits) or the company relies on a single market as a major source of income
- A significant reliance on borrowing as a source of finance
- A significant level of up-front fixed costs to pay (for example, payments for the leasing of business premises) which are not directly related to the company's level of production
- Major income sources which are seasonal or 'cyclical' (i.e. they vary according to prevailing economic conditions) in nature
- Companies trading primarily in developing countries, particularly during poor market conditions, or in countries where legal property rights may be difficult to enforce.

Most shares that we would buy for your clients can be readily bought and sold under most market conditions, although this might not always be the case with shares from some very small companies. The shares of some smaller companies may trade in very low volumes, and an investment in these kinds of shares will usually involve a proportionately large difference between the market buying and selling price. This could mean that a purchase of shares of this kind followed by an immediate sale may lead to a significant loss. Some smaller companies may not be subject to the rules of a listing authority (for example, the London Stock Exchange). Such companies are likely to be higher-risk ventures and may have an unproven trading history or management team. These shares may not be readily sold, and it could be difficult to value them independently as they are not easily tradable.

Overall, the risks involved in investing in company shares can often be managed by using collective funds (such as unit trusts and investment trusts) which

have a diversified portfolio of holdings or by investing directly in a wide range of shares which give exposure to a variety of industries, countries and currencies.

### Collective investment schemes – attributes

A collective investment scheme is a form of investment fund that enables a number of investors to ‘pool’ their assets and invest in a professionally managed portfolio of investments – typically company shares and fixed income investments.

- Collective funds are an easy way for investors to obtain diversity in a portfolio or exposure to a particular sector
- A reduction in risk is achieved because the wide range of investments in a collective investment scheme reduces the effect that any one investment can have on the overall performance of the portfolio
- By pooling the assets of many investors, collective funds offer ‘economies of scale’. The collective fund will buy and sell investments in large amounts and the costs of this will be shared by all of the investors in the fund. The costs of investing would therefore usually be lower for each individual investor than if they were investing privately
- Investors may benefit from the skills, experience and resources a professional management company can offer
- Collective investments may be more expensive due to additional fund management fees.

### Specific risks

- The price of a collective investment scheme is determined by the price of the underlying assets of the fund. Therefore the price of a fund will rise or fall in line with the underlying rise or fall of underlying asset values
- Returns on company shares, and therefore the investment funds that invest in them, are not guaranteed
- As with company shares, in times of particularly difficult market conditions, there is the potential to suffer irrecoverable capital losses
- Some collective investments may be in unquoted investments or property and therefore potentially higher risk and illiquid and therefore not easily realisable
- There may be exposure to foreign currency fluctuations which could amplify losses that may be incurred on typical investments.

As the underlying components of collective investment schemes are chiefly company shares and fixed income investments, please see these sections for fuller

explanations of their attributes and the associated risks to which your client may be exposed.

### Investment trusts – attributes

Investment trusts (specialist companies set up for the purpose of investment that are listed on a stock exchange) are a type of collective fund – an equity investment that pools money from many different investors.

- Investment trusts are known as ‘closed ended’ – that is, they have a set number of shares that can be traded on a stock exchange (although investment trusts do occasionally issue more shares or buy some of their shares back)
- The share price of an investment trust is determined by supply and demand for the shares and can be higher or lower than the value per share of the underlying assets (this is called the ‘net asset value’ or NAV). When the share price is higher than the NAV, the investment trust will be trading at a ‘premium’ but when the share price is lower than the NAV it will be trading at a discount. The concept of investment trust discounts and premiums is a key risk for investors to be aware of – it is important that you refer to the specific risks set out below for further information
- Investment trusts can make use of borrowing in order to enhance returns (known as ‘leverage’ or ‘gearing’) or may invest in other companies that may use gearing.

### Specific risks

- While gearing can potentially produce stronger investment returns if used successfully it also increases both the volatility (a measure of the relative rate at which the price of a particular investment moves up and down) and the overall risk level of an investment in investment trust shares
- As a result, movements in the value of the leveraged position (the investments purchased using the borrowed funds) may be more volatile than the movements in the price of the underlying investment. The value of the leveraged position may be subject to sudden and large falls in value and your client may get back nothing at all if the fall in value is sufficiently large
- Investing in the shares of an investment trust is subject to similar risks to investing in company shares, although the share price can also be impacted by the performance of the underlying investments
- While the share price of an investment trust may be influenced by the performance of the underlying investments and thus the NAV, there is no guarantee

that a discount will close or that an investment trust will move to a premium even if the underlying investments are performing well.

### Structured products – attributes

A structured product is the generic term for manufactured investment products used by investors to provide exposure to a wide range of underlying asset classes (for example, equities).

- Generally they have a limited lifespan and a maturity date
- It is important that an investor in a structured product understands both the nature of the underlying assets and the extent of the exposure to those assets. In some cases, structured products may offer a high income or a high level of access to the capital growth of the underlying assets
- Structured products are generally issued by investment banks. The solvency of these institutions is crucial for not only the investment return but also for the ability of investors to buy and sell structured products (i.e. their 'liquidity')
- The level of income and/or capital growth provided by a structured product is usually linked in some way to the performance of a specified underlying asset class. Some structured products aim to at least return the initial capital invested at the end of the term
- Structured products can also come in the form of credit-linked notes, where product performance is linked to a fixed income index or a particular bond. This type of product is more likely to behave like an ordinary bond that pays a regular coupon and so should be categorised in the fixed income asset class. However, structured product returns are never guaranteed
- The investment return (i.e. the level of income and/or capital growth) is usually linked in some way to the performance of the relevant underlying assets
- Structured products can be complex – supported by our Research Team, we will examine closely the precise details of an individual product before investing.

### Specific risks

- Investors should be aware that the return of capital invested at the end of the investment period is not guaranteed, and therefore your client may get back less than was originally invested
- Structured products can expose your client to a range of different investment risks. We will monitor these risks and associated risks on an ongoing basis.

This is crucial as the risk of structured products evolves as time passes

- Structured capital-at-risk products (known as SCARPs) aim to return the original money invested at the end of the term unless the index or asset price to which the product is linked has fallen below a predetermined threshold. If this happens your client can quickly lose all or part of the original capital invested
- Prices can fluctuate below the level at which originally invested, due to market forces such as interest rates. If the product is sold before its maturity date the return may be less than invested, irrespective of the performance of the underlying asset
- Structured products will not necessarily outperform the underlying asset to which they are linked
- In a similar way to bonds and debt instruments, most structured product strategies are exposed to the credit risk of the product issuer, meaning that investments could be entirely lost if the issuer is not able to repay the sums due under the terms of the product
- Structured products generally include leverage (i.e. borrowing), and their value can be subject to sudden and large falls if conditions arise which mean that the product is unable to repay the full amount invested
- Investors should review detailed product information and other literature carefully for details of any factors which might impact how the payout from a structured product may change under different economic or market conditions. In particular, where a product aims to repay the amount invested, which is subject to certain conditions being met, the value of an investment will be exposed to the full risk of the underlying assets if these conditions are not met
- It is important to be aware that the product terms for a structured product will only apply to investors who invest at launch and who hold the product until final maturity. Early redemption or purchase after launch could result in a capital loss, even where the product aims to return the amount purchased. These products may also not be readily realisable, which means that it may be difficult to sell a product of this type
- Investors should only invest in structured capital at risk products if they are prepared to accept the risk of sustaining a total or substantial loss of the money they have invested, plus any commission or other transaction charges. Furthermore, some structured

products may not be covered by the Financial Services Compensation Scheme or the Financial Ombudsman Service

- The payoff of a structured product can be linked to the performance of any asset class such as equities, fixed income or commodities. The type of asset will largely determine the risk/return profile of the structure. If the product performance is linked to an equity index such as the FTSE 100 then the structure will exhibit equity-like risk-return characteristics and so it should be allocated to the equity asset class. Some structured products with partial capital protection may be linked to more than one asset class at the same time. An example of this would be a 'geared supertracker' where the product performance is linked to the gold price while the capital protection is linked to an equity index.

## Fixed income bonds and bond funds – attributes

A fixed income investment is a security that pays a known return, often with lower risk than equities. Bonds are the most common form of fixed income security – these are loans mainly issued by governments, companies or other organisations.

- The bond issuer promises to repay the amount borrowed at the end of the bond's life and also promises to make predetermined interest payments during the life of the bond
- There are various types, ranging from bonds issued by robust governments/countries, where the risk that an investor will not be repaid tends to be very low, to corporate bonds (bonds issued by companies) where the risk is generally higher
- Government bonds can generally be bought and sold easily while corporate bonds vary more in terms of the ease with which they can be traded
- The price of bonds often moves inversely to changes in cash interest rates.

### Specific risks

- Bonds issued by major governments (e.g. UK government bonds, often referred to as 'gilts') or supranational bodies (for example, the European Investment Bank) tend to be lower-risk investments
- The risks of other types of bonds (such as those issued by developing countries or individual companies) can vary greatly
- For example, if an issuer is in financial difficulty, there is an increased risk that they may be unable to meet the payments to bondholders that they are due to make. In this event, little or no capital may

be recovered and any amounts repaid may take a significant amount of time to obtain

- The payments received from bonds are typically fixed (hence the term 'Fixed Income') which means that inflation can erode their 'real' value to some extent.

The value of bonds can generally be expected to be more stable than that of company shares. However, in some circumstances the value of most bonds can also be volatile and prices can go up or down. The factors which are likely to have an impact on the value of a bond are:

- The financial position of the bond issuer
- Changes to market interest rate expectations
- The bond issuer's credit rating (which reflects their ability to repay the amounts payable when they fall due)
- The amount of interest payable (otherwise known as the 'coupon')
- The length of time until the debt falls due for repayment
- Where the bond ranks in terms of the issuer's other liabilities (referred to as the 'seniority'), and the quality of any security available. Should a company be wound up, bonds rank above equities in terms of claims on the company's assets and are therefore less risky.

Government bond investments can generally be sold easily to release funds if required. Corporate bond investments (loans to companies) vary more in terms of the ease with which they can be bought or sold. Holding bonds in an investment portfolio can partially reduce the level of risk in a portfolio as bonds often make gains when company share prices fall. However, the price of bonds often moves inversely to changes in cash interest rates.

## Cash – attributes

The main form of cash for investment purposes is savings or deposit accounts which generally (but not always) pay interest on the amount deposited.

- Our investment managers will generally hold a certain amount of cash in a portfolio to enable them to take advantage of investment opportunities as and when they arise
- Cash is also used to reduce the volatility of a portfolio and this can be of particular use in terms of helping to protect its value during periods of falling markets.

## Specific risks

- Broadly speaking, cash has virtually no short-term risk of capital loss (other than due to a default by the institution taking the cash deposit) and can be readily accessed (e.g. an instant access deposit account will allow your client to withdraw cash whenever they want to)
- However, cash frequently provides a return that is below the prevailing rate of inflation – particularly in recent years as interest rates have been at historically low levels – meaning that the ‘real’ value, i.e. buying power, of cash is eroded over time.

## Alternative investments

‘Alternative investments’ are a range of assets which have different characteristics from equities, bonds and cash and may be used by our investment managers for diversification and risk management purposes. Diversifying through alternative investments may be used to further mitigate against the investment risks within a portfolio.

These investments may involve unique or unusual risks as a result of providing alternative sources of return for a portfolio. It is important that investors understand the properties of the particular type of assets they are planning to use before making such an investment. Many alternative investments are structured as unregulated funds. This means that standards of operation, administration and management are determined privately by the operator of the fund, rather than being driven by regulation. It is important to understand that it may be difficult to sell an investment of this type, or to obtain an independently determined fair valuation for a holding in this kind of investment.

In addition, investors may not be protected by financial regulations or compensation schemes in the event that a company operating an alternative investment scheme acts unlawfully and causes a loss to investors when managing fund assets. Such risks can be mitigated by conducting thorough research prior to investment, or through investment via a professionally managed fund of funds.

Investors should only invest in these products if they are prepared to sustain a total or substantial loss of the money invested, plus any commission or other transaction charges. The term ‘alternative investments’ covers a very wide range of investment products – the attributes and risks specific to the most widely used categories of these products are set out here.

### Absolute Return – attributes

Absolute Return funds aim to deliver positive returns in any market condition, but returns are not guaranteed. Absolute Return is a very broad

category that encompasses most asset classes and investment techniques.

- An Absolute Return fund may invest in any asset class such as equities, bonds, currencies, commodities or derivatives
- Absolute Return funds employ various investment strategies, many of which are similar to the strategies employed by hedge funds. Below are some examples:
  - Short selling – selling securities and buying them back at a later date if a security price is expected to fall
  - Relative value trades – selling one security whilst simultaneously buying another one with similar characteristics
  - Trend/Momentum trades – buying or selling securities based on their recent performance
  - Curve/Duration trades – buying or selling bonds with different maturities according to portfolio managers’ interest rate expectations
  - Absolute Return funds can be complex – supported by our Research Team, we will examine the details of individual funds to try and reduce the risk of investing.

## Specific risks

- Although Absolute Return funds aim to achieve positive returns, this objective is not guaranteed
- Absolute Return funds often invest in derivatives which can have additional risks associated with them
- Selling assets (‘going short’) exposes the investors to a higher level of risk than buying securities. This is because the losses are potentially unlimited as the price of sold securities can go up perpetually. Additionally there is a regulatory risk, e.g. the Financial Conduct Authority (FCA) may place a ban on short sales
- Absolute Return funds may employ leverage either through borrowing or through derivative positions. Whilst it can enhance the potential returns it also exaggerates potential losses
- Often Absolute Return funds take positions in exotic or thinly traded assets to earn extra returns from holding illiquid assets.

### Property – attributes

The main type of property that is typically purchased for investment portfolios is commercial property – this encompasses shops, offices and other types of business premises and is usually acquired via units in a property fund.

- Investment in commercial property entitles the holder to rents paid by the tenant as well as the disposal proceeds if property is sold
- Over longer periods the capital growth and income returns it can generate have historically provided a level of protection against inflation. Although past performance is not a guide to future performance.

### Specific risks

- The rental income from and value of a given property will be impacted by demand, although it is important to emphasise that property can be difficult to value independently. There is no guarantee that the underlying properties invested in by a property fund will remain occupied and they may incur significant maintenance or restoration costs which could impact on the returns available. All property is subject to local risks which may be unique in nature and may be caused by factors such as prevailing legal, economic, environmental or political circumstances
- One of the key risks of investing in property is that it is the least 'liquid' of the main asset types – that is to say the relatively long time it can take to buy and sell property means that direct investment in this asset class will generally not offer quick access to your clients' money if they want to sell. In weak market conditions it may prove more difficult to sell a property
- Our investment managers use 'collectives' such as unit trusts or investment trusts (funds) that invest in property, meaning they can usually sell holdings on any working day. However, there have historically been a few examples of funds having to suspend investors' rights to withdraw money, sometimes for a substantial period of time, in order to balance the interests of investors exiting a property fund with those staying in the fund
- These delays can be up to six months in duration in the case of funds which invest directly or indirectly in buildings or land
- Investment in property development funds carries additional risks related to the successful completion of the development project both on time and according to budget. Even if a project is successfully completed, there is no guarantee that properties will either be sold or become occupied with tenants at the intended price or within the intended timeframe
- Commercial property is also subject to risks related to the type of use associated with the property, and the prosperity of the local or national economy relevant to the tenants and their business. Returns available from property funds may also be affected by leverage where borrowing is used to finance either construction or purchase.

### Hedge funds – attributes

- Hedge funds are pooled investments which, in contrast to conventional collective funds, will use a wide variety of different trading strategies in order to produce returns.
- One example of this is 'short selling' – an investment technique that enables a fund to potentially benefit from falling share prices
- The type of strategies and investments used by a hedge fund will be a key determinant of how risky the investment will be
- Our investment managers may use absolute return funds and funds of hedge funds in client portfolios (these offer diversified exposure to a range of types of hedge fund and are managed by specialists dedicated to hedge fund analysis).

### Specific risks

- Strategies may range from lower-risk funds which aim to deliver a positive return regardless of market conditions (known as 'absolute return funds') to high-risk or speculative funds which make use of borrowing (or 'leverage') in an attempt to maximise returns
- While this borrowing will serve to magnify positive returns it will also make losses larger than they would have been had the borrowed money not been invested
- Investments made by hedge funds may also be narrowly based around a specific type of asset or trading strategy and the returns experienced by investors in these funds may be adversely affected by very specific market or industry circumstances. It is therefore important to understand the type of strategy and investment to be used
- Potential for high volatility
- Returns on hedge funds are not guaranteed, your client may get back less than they invested.

### Infrastructure – attributes

The term infrastructure refers to investment in vital economic assets including roads, railways, airports, oil and gas storage and transportation facilities, marine ports and electricity and water utilities.

- Investing in infrastructure offers the potential for capital growth as well as a degree of protection from inflation – broadly speaking, infrastructure investments tend to generate relatively stable levels of income (although this cannot be guaranteed).

### Specific risks

- A key risk to investing in this sector is that companies involved in infrastructure-related

industries are subject to environmental considerations and government regulation, which may impact on returns to investors.

### Commodities-linked products – attributes

This broad term refers to natural resources that are either mined, extracted or harvested. Commodities encompass energy (i.e. oil, coal and natural gas), ‘soft’ commodities (i.e. agricultural goods such as coffee and wheat), ‘hard’ commodities (i.e. industrial metals such as copper and tin) and precious metals such as gold.

- A key reason for investing in commodities is that it can offer some protection from inflation. Virtually everything that is produced, bought and sold makes either a direct or indirect use of commodities of one form or another so a general rise in prices is likely to be associated with a rise in the price of at least some key commodities. Therefore, getting exposure to commodities should in theory help to maintain the purchasing power of an investment portfolio
- Investment in commodities (including precious metals) is often achieved either via a structured product based on a commodities index or basket of different commodities, or by using a commodity derivative (a financial contract which derives its value from the performance of an underlying asset or market index), or by the use of an Exchange-Traded Fund (ETF) which aims to track the price of the commodity itself
- Precious metals have their own distinct characteristics and a key reason for using these in a portfolio (indirectly through an ETF) is that their value is generally not connected to the performance of the other more mainstream asset classes such as company shares or bonds
- In particular, gold and other precious metals are seen as more likely to hold or even increase their value during times of severe economic and social turbulence as theoretically investors will flock to them as ‘safe havens’ and this has proved to be the case on a number of occasions in history.

### Specific risks

- A key risk to be aware of is that commodity prices can be extremely volatile – that is the price can change dramatically from month to month or over very short time periods
- They can also be very difficult to predict – commodities may be affected by a variety of political, economic, environmental and seasonal factors which impact on the demand for or the available supply of the given commodity. For example, the prices of agricultural goods will be

impacted if severe weather events affect crop yields, while the price of oil has historically been strongly linked to global political events such as tensions in the Middle East.

### Private equity – attributes

This term refers to investment in companies that are not traded on a public stock exchange (for example, the London Stock Exchange), but can offer access to strong growth potential.

- These companies raise finance privately and are not subject to the stringent requirements faced by companies that do list on a stock exchange
- The type of unlisted companies that a private equity fund may invest in could range from small start-up companies to larger firms with a long and established trading history
- By definition private equity is not dealt on public stock exchanges and is therefore generally difficult to trade in. Our investment managers tend to access private equity through collective investments which are usually dealt on a daily basis.

### Specific risks

- As private equity investments are not traded on public stock exchanges, there is a risk that they may prove difficult to sell as it may take time to find a buyer – i.e. they can be significantly less ‘liquid’ than other investments
- This may also affect the price at which the investment can be sold (i.e. your client may have to accept a price that is lower than fair value in order to achieve a sale)
- A further risk is that as private companies do not have to meet the requirements of a company that lists on a stock exchange, there is a risk of a lower level of scrutiny of the management of these companies. As a result, the management may be less accountable to shareholders for decisions that they make than the management teams of public companies
- One of the features of private equity fund investment is a concept called ‘capital commitment’. This is an agreement between an investor and a private equity fund under which the investor is obliged to contribute money to the fund. The investor may pay all of the committed capital at one time or over a period of time (known as the ‘capital commitment period’). Investors must therefore be capable of making payments to satisfy the requests for capital made throughout the commitment period
- Private equity investment may involve a focused portfolio of investments, which could lead to

exposure to undiversified underlying assets. It may also involve the use of significant leverage or borrowing, which amplifies potential risks

- Payments to investors from private equity funds are generally made in cash. However, if a fund is unable to sell its interest in a private company, it may instead distribute holdings in these companies to investors in the fund.

Overall, it is important that your clients are familiar with the terms of, and risks associated with, any private equity fund that they invest in.

## Other investment products and their risks

### Derivatives for hedging and income enhancement – attributes

In some circumstances, derivatives (securities whose price is dependent upon or derived from one or more underlying assets – the derivative itself is a contract between two or more parties) may be used to offset certain risks that may exist in a portfolio. This is known as ‘hedging’.

- For instance, a holding in a foreign company exposes an investor to the movements of the currency that the company is denominated in, as well as the economic risks of the company. It is possible to offset some of the currency risk by purchasing an appropriate derivative contract
- Similarly, derivative contracts which aim to cover risks associated with interest rate movements, company defaults or falls in equity values can also be purchased.

### Specific risks

- The cost of the derivative contract may lower the returns that a portfolio might have otherwise earned if the risk was left ‘unhedged’
- The derivative contract may not perfectly offset the risk that it is intended to offset
- The counterparty which issues the derivative may default and not be able to honour the contract
- The price of a derivative can move independently of underlying assets
- The use of derivatives may amplify losses.

In some instances derivatives may be used to enhance the income of a portfolio and the same risks are applicable.

### Exchange Traded Funds (ETFs) and Exchange Traded Notes (ETNs) – attributes

ETFs and ETNs are exchange traded funds which try to match a specified benchmark index. There are a number of different structures that are used to create these funds.

### Specific risks

- The risks that an investor is exposed to depend partly on the structure of the fund and partly on the index that the fund is designed to track
- If the benchmark index is an equity index then an investor is exposed to the same risks as those for equity funds. Similarly, if the benchmark index is a bond index then an investor is exposed to the same risks as those for bond funds
- The benchmark index could instead be related to commodities or some other index which may have its own idiosyncratic risks
- Further to the risks inherent in the benchmark, the structure of the ETF or ETN may give rise to the following risks:
  - A fund may not fully replicate the benchmark index and may therefore not produce the intended results
  - The fund may engage in securities lending. Securities lending involves the risk that the fund may lose money because the borrower of the loaned securities fails to return them in a timely manner or at all
  - Where a fund uses derivatives to recreate the benchmark index returns, there is a risk that the counterparty which issues the derivative may default and not be able to honour the contract.

### Non-Mainstream Pooled Investments (NMPI) – attributes

Non Mainstream Pooled Investments (NMPIs) are pooled investments or funds, which are characterised by unusual, speculative or complex assets, product structures, investment strategies and/or terms and features.

- NMPIs are a particular type of pooled investment vehicle and are generally regarded as high-risk products that often invest in assets which are typically not traded in established markets and which are therefore difficult to value and may be highly illiquid
- The investments are often complex and difficult to understand and performance information may be unavailable or unreliable

- NMPI's may invest in one or more volatile assets, such as property, emerging market stocks, renewable energy or fine wine, and therefore the risk of an investor losing all or part of their money are much higher than other investment types such as Collective Investment Schemes (CIS)
- A NMPI encompasses:
  - Units in an Unregulated Collective Investment Scheme (UCIS)
  - Units in a Qualified Investor Scheme (QIS)
  - Securities issued by special purpose vehicles (SPVs) (other than excluded securities)
  - Traded life policy investments (TLPs); and Rights to or interests in investments in any of the above.
  - NMPIs are unlikely to be suitable for the average or ordinary retail investor; they are more likely to be appropriate for professional or institutional investors and to those clients who are sophisticated investors, and have significant investment experience of investing in these types of investments, and understand all the associated risks
- While our investment managers may make occasional use of UCIS in client portfolios, these are not a core investment type.

### Specific risks

- High risk and illiquid
- A client investing in a NMPI could lose some or all of their investment
- Unlike regulated CIS, NMPI may not be subject to investment and borrowing restrictions aimed at ensuring a prudent spread of risk, therefore the risk of a total or partial loss of capital is much higher. As a result they are generally considered to be a high-risk investment and your client should always ensure that they understand the risks before investing
- If your client has a complaint about their NMPI, they may not be able to take their case to the Financial Ombudsman Service (FOS) or the Financial Services Compensation Scheme (FSCS) should they need to seek compensation.
- Some investments do not have cancellation rights
- UCIS are not regulated by the UK (or other) authorities and therefore do not provide the same protections as regulated investment funds. Furthermore, their holdings are difficult to value because of the lack of market pricing.

### Investment bond products – attributes

Life assurance bonds (or life bonds) are a form of insurance contract which provide both an element of insurance in the case of the death of the covered person or persons in addition to having an ongoing value as an investment (as opposed to expiring worthless at the end of a defined period or term).

- An investment will be subject to the ability of the insurance company to repay the sums owing to an investor when they fall due for payment
- This means that the creditworthiness of the insurance company is important, much in the same way as for any other bond
- Investment bond providers generally maintain a range of collective investment funds with different asset allocations and market exposure.

### Specific risks

- In some cases, the returns available from an investment bond are linked directly to a specific pool of assets held by the insurance company
- In other cases, the returns could be linked more generally to the profits of the insurance company in general, which reduces the overall transparency of returns.

If your client wishes to invest in a life bond, they will need to be presented with specific information about the type of contract, its terms, charges and more general information about the insurer and its financial strength.

Please refer to this information for specific details about the policy and a more detailed description of the investment risks.

### Warrants – attributes

A warrant is a security that entitles the holder to buy the underlying stock of the issuing company at a fixed exercise price until the expiry date.

- A relatively small movement in the price of the underlying security can result in a disproportionately large movement, unfavourable or favourable, in the price of the warrant
- Warrants may appear in clients' portfolios after the process of an initial public offering of an investment trust as they are often issued with ordinary shares at the same time
- It is however, unlikely that an investment manager would include warrants in a client's portfolio.

### Specific risks

- The price of warrants can be volatile
- It is essential for anyone who is considering purchasing warrants to understand that the right to subscribe which a warrant confers is invariably limited in time – should the investor fail to exercise this right within the predetermined time-scale then the investment becomes worthless.

Warrants are usually only appropriate for clients with the willingness and ability to take a high degree of risk with their investments – your client should not buy a warrant unless they are prepared to sustain a total loss of the money they have invested plus any commission or transaction fees.

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The value of investments and any income from them can fall and you may get back less than you invested.

Information is provided only as an example and is not a recommendation to pursue a particular strategy.

If you invest in currencies other than your own, fluctuations in currency value will mean that the value of your investment will move independently of the underlying asset.

Please note that this document was prepared as a general guide only and does not constitute tax or legal advice. While we believe it to be correct at the time of writing, RBC Brewin Dolphin is not a tax adviser and tax law is subject to frequent change.

Tax treatment depends on your individual circumstances; therefore you should not rely on this information without seeking professional advice from a qualified tax adviser.

Past performance is not an indication of future performance. In this document performance is quoted before fees, charges, levies and taxes and these may have the effect of reducing the illustrated performance. All performance shown is based upon any income generated being re-invested, except for the Average Capital Return and Average Yield figures.

The expected returns shown are based on our long-term forecasts, for a mix of assets similar to a portfolio suitable for an investor aligned to the Risk Category indicated.

The data in our sample charts is based on reasonable assumptions which are in turn based on objective data. There are no guarantees that these levels of performance will be achieved, in which case any returns will differ from those illustrated.







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