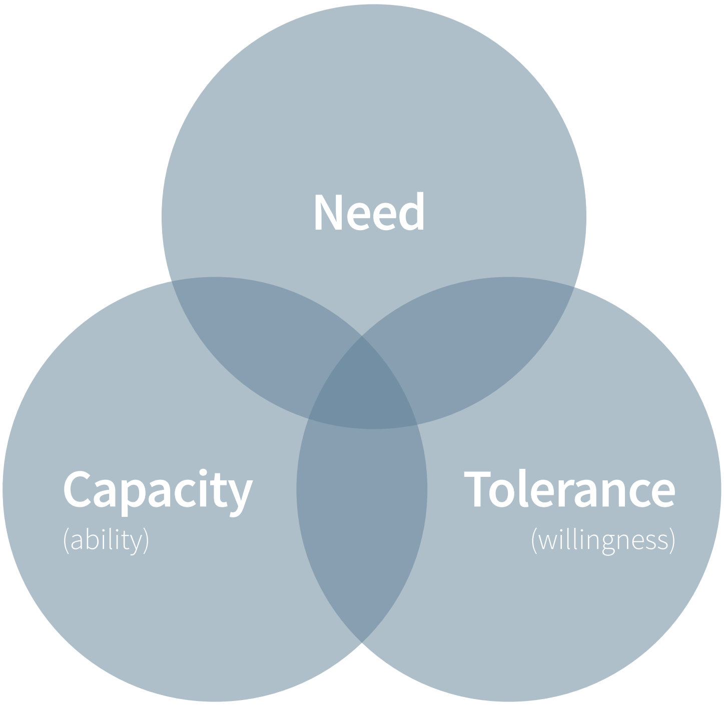
THOMSON TYNDALL

FINANCIAL ADVICE | INVESTMENT MANAGEMENT

Risk Aide Memoire

Why do we talk about investment risk and what is it?

Risk means different things to different people; it may imply danger or thrill, worry or excitement, opportunity or uncertainty. Establishing how you view risk in relation to your financial goals and investments is a vital part of the planning and investment process. It is important to remember that you can have a different risk capacity and risk tolerance for different financial goals.



When talking about investment risk, we look at three separate elements:

1. **Need to take Risk:** This is simply establishing whether you need to take any investment risk in order to meet your investment objectives. If your timeframe is short-term and you have sufficient cash assets to meet your objective, then it is unlikely that you need to take any investment risk. If, however, you need to see your investible assets grow in order to meet your objectives then it follows that you need to take some investment risk. The next question, is how much?

2. This is where we consider your **Risk capacity.** This is the amount of uncertainty or loss that you are able to accept in order to achieve your goals without adversely impacting your lifestyle or security. If a small loss in your investments will have a big impact on your financial well-being, then you have a low risk capacity. If you have a "buffer zone" which will allow you to accept financial uncertainty and market volatility, then you have a higher risk capacity. Looking at the time horizon of your goals and the initial capital invested will have a bearing on your risk capacity.

3. Next, we consider your **Risk tolerance**. This is much more to do with the psychological impact of risk; it is the degree of volatility or change that you are prepared to endure with your investments. This is your risk "comfort zone" or the amount of risk you are happy to take while retaining a feeling of security. Risk tolerance will vary depending on age, income needs and individual financial goals. It is all about your specific circumstances.

By considering these three elements of risk, we aim to establish what type of investor you are.
Opposite are the three categories that we use. It may be useful for you to complete our quick Risk Questionnaire as this should help you focus on some of the key considerations.

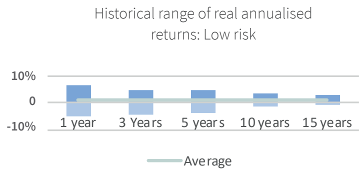
A low risk portfolio

By choosing this risk mandate, you are most likely to be holding your investible assets in cash. You should be aware of the impact of inflation on your investments. This is referred to as Inflation risk.

Objective:
Avoiding any loss is the key reason to hold cash over other investments; no investment risk should be taken. It is important to understand that the purchasing power will be eroded if inflation exceeds the interest rates paid on the cash deposit.

Average real returns (over past 18 years)

Average return of 3.2%
The best year returned 6.3%
The worst year saw a return of 0.5%



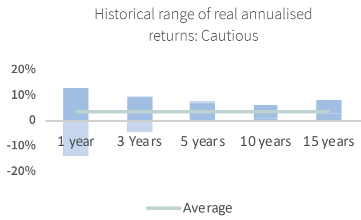
Investments	
Cash	High
Bonds	Low
Equities	None
Property	None
Alternatives	None
Higher risk investments	None

A cautious portfolio

By choosing this mandate you accept that there will be some volatility of returns over the medium term and you will need to put some of your money into investments where there is a possibility of losing some of the capital. Whilst a majority of the portfolio will be in less volatile assets such as bonds and cash, UK and overseas equities might, at times, constitute 25% of the total of the portfolio.

Objective:
Moderation is key for the Cautious investor. This portfolio will hold investments that carry some risk in order to beat inflation over the long term; the majority of the portfolio will be made up of investments with low volatility such as fixed interest securities.

Average real returns (over past 18 years)
Average return of 5.7%
The best year returned 13.1%
The worst year saw a return of -5.6%



Investments	
Cash	High
Bonds	High
Equities	Low
Property	Low
Alternatives	Medium
Higher risk investments	None

A medium risk portfolio

This mandate will be invested in a diversified portfolio that includes a proportion of equities, both in the UK and overseas, that at times might exceed 50% of the total. It could also include an element of more speculative investments, such as smaller company equities, and the balance will typically be held in less volatile assets such as bonds and cash.

Objective:
The investor with a Medium risk portfolio accepts that returns will be more variable, and volatility higher, in order to achieve greater returns over the medium to long term. It is likely that there will be a balance between income and capital growth in order to achieve the objective of this portfolio.

Average real returns (over past 18 years)
Average return of 6.0%
The best year returned 15.9%
The worst year saw a return of -13.5%

Investments	
Cash	Medium
Bonds	Medium
Equities	Medium
Property	Low
Alternatives	Medium
Higher risk investments*	Low

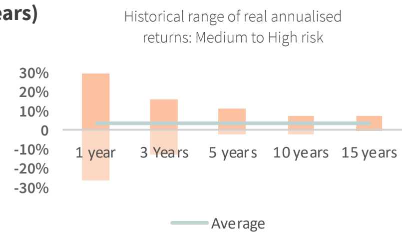
A medium to high risk portfolio

You are prepared to take capital risk with your investment portfolio in pursuit of higher returns over the longer term. To achieve this, you are willing to put the majority of your money into investments where there is a real possibility of losing some of the amount invested. Your money will be invested in a diversified portfolio that includes a proportion of equities, both UK and overseas, that might at times exceed 65% of the total. It may also include a meaningful exposure to more speculative investments, such as smaller company equities with the remainder in cash.

Objective:
Growth, often achieved through a combination of income and capital appreciation, is the key objective of this portfolio. Long term returns should be comfortably above inflation but the degree of short-term fluctuations in values will be greater.

Average real returns (over past 18 years)

Average return of 6.3%
The best year returned 18.8%
The worst year saw a return of-16.8%



Investments	
Cash	Low
Bonds	Low
Equities	High
Property	Medium
Alternatives	High
Higher risk investments*	Some

An adventurous portfolio

By selecting this mandate you are prepared to take significant risks with your investment portfolio in pursuit of higher long-term performance. You are prepared to accept large fluctuations in capital values in the short to medium term and are comfortable putting your money into investments where there is a possibility of losing capital. It will be a diversified portfolio with the equity element at times exceeding 85% of the total. It could also include an allocation to higher risk investment, such as AIM stocks and more illiquid investments, in order to achieve specific planning objectives.

Objective:
The Adventurous portfolio has a high level of exposure to equities and therefore is likely to encounter periods of high volatility. Over the medium term, returns should comfortably exceed inflation but the risk within the portfolio will be inherently higher. Fluctuations in value could be broad so a longer-term time horizon is required.

Average real returns (over past 18 years)

Average return of 6.7%
The best year returned 24.3%
The worst year saw a return of-25.2%

Investments	
Cash	Low
Bonds	None
Equities	High
Property	Medium
Alternatives	High
Higher risk investments*	Some

When reviewing historic performance data, it is important to note that this should not be assumed as a guide to future performance. You should have realistic expectations about investment returns and the possibility of incurring losses.

***A word on higher risk investments:**

In specific circumstances, e.g. as part of an IHT strategy, it may be appropriate to include some higher risk investments. The greater risk attributed to these investments is normally due to a different product structure (such as a partnership), greater volatility (e.g. AIM stocks), reduced liquidity (forestry investments) or specific holding periods required to obtain tax benefits (EIS & business relief investments). There will be additional risk disclaimers contained within the advice reports we send and you will be required to sign additional forms if you require advice on this type of investment.

It is important to note that these investments are not normally protected by the Financial Services Compensation Scheme.

Source for all returns data: Bloomberg

What type of investor are you?

A Conservative investor

Risk capacity (ability)	Risk tolerance (willingness)
Limited	Lower
• With a limited risk capacity, the degree of loss you could endure is typically up to 10% of your invested capital. • A loss that is greater than this could have a detrimental impact on your standard of living or severely threaten your ability to meet a specific goal. • It is likely that either a Low Risk or a Cautious mandate would best suit your needs.	• Although, as a lower risk investor, you prefer not to take risk with your investments you may be prepared do so to a limited extent in order to beat inflation. • To you the word risk is most closely associated with "uncertainty" and you would be concerned if the returns from your investments fluctuated to any great degree. • Whilst you would prefer to hold cash, fixed interest and investments aimed at achieving absolute returns, you do understand that there needs to be some exposure to equities in order to maintain the purchasing power of your investments.

An investor who is prepared to take some risk with these investments

Risk capacity (ability)	Risk tolerance (willingness)
Moderate	Medium
• With a moderate risk capacity, the degree of loss that you could endure is typically up to 25% of your invested capital. This means that you can withstand a fair amount of change (volatility) in your investment returns and still meet your specific goals. • However, if you sustained a loss greater than this amount it would have detrimental implications for both your lifestyle and your ability to meet longer term objectives. • It is probable that a Cautious mandate would best suit your needs if you have a time horizon between 3 and 5 years. If the time horizon for a specific objective is more than 5 years, then a Medium risk mandate may be appropriate	• As an investor with a medium risk tolerance, you understand that you will need to take a degree of risk to meet your financial goal(s). • To you the word risk is more closely associated with opportunity and you would not worry too much if your investments fluctuated in the short term. • It is likely that you will have some experience in making investment decisions and that you have a fair understanding of the basic principles of investing. • You would expect to hold a broad spread of investments with exposure to all the main asset classes. • Generating an income may well be a key factor for you so managing the stability of your income stream may also be an important consideration.

An investor happy to take a higher level of risk with these investments

Risk capacity (ability)	Risk tolerance (willingness)
Greater	Higher
• With a greater risk capacity, the degree of loss that you could endure is up to 40% or more of your invested capital. This means that you can withstand quite a lot of change (volatility) in your investment returns and still meet your longer-term objectives. • However, if you were to sustain a loss greater than this amount it would have an impact on your ability to meet specific goals and also on your lifestyle. • It is probable that a Medium to High Risk mandate would best suit your needs if you have a time horizon between 5 and 10 years. If the time horizon for a specific objective is more than 10 years, then an Adventurous portfolio may be appropriate. • In very specific circumstances, such as some elements of Inheritance Tax (IHT) planning, high risk and illiquid investments may make up a proportion of your portfolios.	• As an investor with a high risk tolerance, you understand that you will need to take quite a lot of risk in order to meet your financial goal(s). • To you the word risk is more closely associated with excitement and you are prepared to accept a high degree of performance volatility. • It is likely that you will have a fair amount of investment experience and feel confident making investment decisions. • You would expect to hold a broad spread of investments with exposure to all the main asset classes but understand that equities will make up the lion's share of the portfolio(s). • In certain circumstances, tax mitigation strategies may require you to hold higher risk investments and as a high-risk investor you are aware of the additional volatility of returns that come with this decision.

We set out below the main types of risk that may affect your portfolio. Please read through these and ask for further clarification on anything that you do not fully understand.

Inflation risk
Inflation is often seen as a "stealth tax" that eats away at the value of your money. Inflation risk is the risk you may be taking when holding cash or investing in a fixed interest asset which is not linked to inflation. If the interest paid on your cash deposit is lower than the rate of inflation, then the "purchasing power" of each pound held will be eroded by inflation. The important thing to consider is that whilst cash is seen as a safe investment it is not without risk. Over time inflation risk can have a material impact on your cash and therefore understanding inflation risk is an important part of deciding the overall allocation to cash in your investment plans.

Shortfall risk
Shortfall risk is simply the risk of failing to meet your long-term investment goal. This could happen if you didn't take on enough risk to achieve the returns required. Alternatively, you could invest in too many high-risk assets causing your portfolio to lose value at the wrong time. It is therefore important that sufficient capital is allocated and the appropriate level of risk is taken to ensure that your goal can be achieved within the desired timeframe. This is the best way to mitigate shortfall risk.

Economic/political risk
Factors such as economic growth, inflation, employment, interest rates and business sentiment play an important role in the performance of investment markets. Other factors such as changes in government, political uncertainty and international conflicts are also important considerations. However, history has shown that economic forecasters do not have a good track record in anticipating these events or sensibly predicting the outcomes; it is important that you are aware of these factors and we will periodically update you on our own views. Diversification of asset class and geographical area is the key tool used to address these risks.

Other types of risk that may impact on your investments include:

- **Liquidity risk**
  The chance that an investment will be difficult to buy or sell.
- **Currency risk**
  The risk that changes in currency exchange rates will cause the value of an investment to decline.
- **Credit risk**
  The possibility that a bond issuer will fail to repay interest and capital on time. Funds that invest in bonds are exposed to credit risk.
- **Interest rate risk**
  The possibility that the prices of bonds will fall if interest rates rise.
- **Counter-party risk**
  The risk that another party involved in a transaction fails to meet its financial or administrative obligations.
- **Legislation risk**
  The risk that a change in legislation (typically tax, pension or trust law) will have an impact on your investments or the effectiveness of your financial plan.
- **Country**
  The risk that domestic events – such as political upheaval, financial troubles, or natural disasters – will weaken a country's financial markets.

THOMSON TYNDALL

FINANCIAL ADVICE | INVESTMENT MANAGEMENT

1 The Sanctuary
London
SW1P 3JT
Tel: +44(0)20 7100 3667
Email: info@thomsontyndall.com
www.thomsontyndall.com