Investment Risk Scale

When investing funds in any format, you need to understand the investment approach and risk involved in the planning you undertake. Example investment risk categories are as follows:

1-10 Risk Scale		Investment Risk Description
1 **Very Low Risk**	**Very Low Risk**	You are most comfortable with cash deposits in a bank or building society. You do not wish to accept the risk of any loss of capital but your capital will not necessarily be protected from inflation and the value of your money may fall in real terms if inflation exceeds the return achieved. There will be a risk that interest rates could reduce and there are limits to the amount of protection available on deposits held in banks and building societies in the event of their collapse.
2-3 **Low Risk**	**Low Risk**	You are wary of risk but looking for a better return than that available from a bank/building society account. You accept there is a risk of capital loss but wish to avoid rapid fluctuations in the value of your investment. Minimising loss is more important than the prospect of growth but, because the investment can fluctuate in value, if you need access to your capital during a time when the value has fallen, you accept that you may get back less than you invest.
3-4 **Cautious Risk**	**Cautious Risk**	You are prepared to accept a higher risk of capital loss in return for the potential of growth over the longer term, but would prefer not to see your investment fluctuate in value sharply or quickly. This type of investment may typically include some exposure to UK-based equities but this would be balanced with lower risk fixed interest and property fund investments. The assets can drop in value which could result in you getting back less than you invest.
5 **Balanced Risk**	**Medium Risk**	You are looking for a balance of risk and reward and accept that seeking higher returns means there is an increased risk of capital loss because the value of the investments is likely to fluctuate more rapidly and quickly over short periods of time than lower risk investments. This is likely to include exposure to both UK and overseas equity based investments, which increases the risk because of currency fluctuations. In certain circumstances, there may be restrictions on access to funds.
6-8 **Adventurous Risk**	**High Risk**	You are willing to accept a high risk of fluctuations in the investment value, hoping to achieve higher returns in the longer term. This type of investment involves a high degree of exposure to equity based investments in various overseas as well as UK markets. The performance of such investments may be highly volatile with added risk from currency fluctuations. Although risk can be reduced by diversifying investments across sectors and markets, there may be restrictions on access to your funds.
9-10 **Highest Risk Very Adventurous Risk**	**Very High Risk**	You are prepared to accept high levels of risk with your investments, particularly over the short term, for the increased potential for significant long-term growth. You are likely to be a very experienced investor with a high tolerance of and capacity for loss accepting a very high exposure to equities, specialist funds, emerging markets and products where performance may be extremely volatile with sharp daily fluctuations. You risk losing a significant proportion (possibly all) of your investment.

Ethical stance	As well as your attitude to investment risk, you may also have strong moral, ethical, ecological or socially responsible views on how your money should be invested. This may mean imposing investment restrictions to avoid certain areas or markets, or introducing specific requirements on issues you wish to emphasise.

Important notes overleaf

Important Client Notes

There is some risk associated with all investment – even saving in something as apparently 'safe' as a bank account can mean that, although the level of your capital may not go down, the interest rates may not keep pace with inflation so your money loses buying power – see Inflation Risk below.

It is important to establish how much investment risk you are willing, able and need to take to achieve your financial objectives.

Risk you are **able** to take – can depend on

- timeframe – the more years you expect to hold your investment the more risk that can be taken
- overall wealth – those with a high disposable income or high value of assets relative to needs will have a higher ability to take risk and a higher capacity to accept potential losses
- need for income or access to capital
- reason for investing – e.g. the investment strategy you follow for an education fund for your child may be different from that used for your own retirement provision
- personal circumstances – age, health, family situation

Risk you are **willing** to take

Just because your circumstances suggest that you are able to take on risk does not mean that you would be comfortable living with that risk – you may not want that level of risk

Risk you **need** to take

The level of risk you need to take in order to achieve your objectives may be different from those you are willing or able to take. On the one hand, there is no point in taking more risk than you need to in order to meet your objectives. On the other hand you may need to reconsider your objectives if the risk needed to meet them is far more than you are actually willing or able to take

Inflation Risk

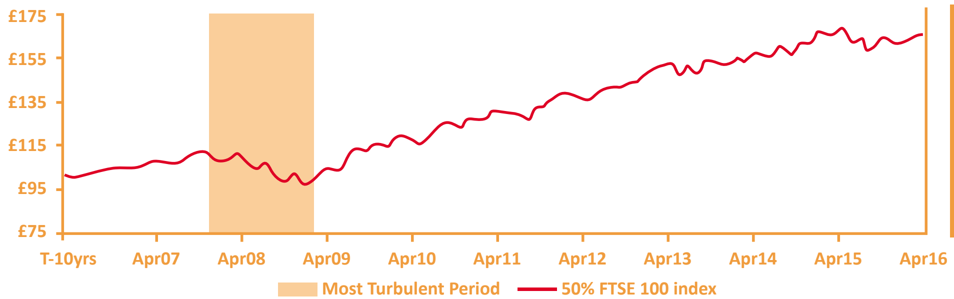
Investors should be aware of the risks that inflation poses, particularly over the longer term. Inflation erodes the real value of money. The rate of decline in the value of every £1 is illustrated below over differing timeframes (Source: Bank of England Inflation Calculator using a composite price index produced by the Office for National Statistics). Although inflation has been relatively low in recent years, there is no reason to believe inflation will remain low indefinitely.

- **10 years to end 2015 – average 3.0% per annum.**
  This means that on average you would need to pay £1.35 in 2015 for something that only cost £1 in 2005 or, to put it another way, your £1 in 2005 would only be worth 74p in 2015
- **20 years to end 2015 – average 2.8% per annum**
  (i.e. on average you would need to pay £1.73 in 2015 for something that only cost £1 in 1995, or your £1 in 1995 would only be worth 58p in 2015
- **30 years to end 2015 – average 3.4% per annum**
  (i.e. on average you would need to pay £2.73 in 2015 for something that only cost £1 in 1985, or your £1 in 1985 would only be worth 37p in 2015

Example Investment Risk (Guide only, initial investment of £100)

Investment risk and return, in the aggregate, are inextricably linked. Generally speaking, the higher the percentage you invest in risky assets the higher the potential for losses, particularly in the short term. Below, we have illustrated performance over the 10 years ending in April 2016 for a very simple example medium risk portfolio comprising 50% invested in the FTSE 100 Index (as a guide for equity investment) with the remaining 50% assumed to be invested in the gilt market (UK government bonds). The chart shows that, although the value did increase over the longer term, during the worst run between 2007 and 2009 the value fell by 14.9%. Even portfolios run on a more cautious basis lost money over this period and there is no reason to believe that losses like these (or even higher) will not happen again.
NB – the figures illustrated do not include any allowance for charges
(Source: Financial Analytics/Cormorant Capital Strategies Limited).

Medium Risk



Medium Risk

Past performance is not a guarantee of future performance.
The investment value and income generated can fall as well as rise