Out of the Ordinary

Investec
Wealth & Investment

Managing

Your Investments

International Clients

Managing your investments

Building trust from the start

Naturally, when you entrust us with the management of your money you want to know exactly what we will do with your investment.

- How will we be able to meet your requirements?
- Where will we invest your money?
- What risks are involved?
- How do we monitor and control our service?

We encourage our clients to ask as many questions as possible. This is where relationships built on long-term trust begin.

The following pages set out the steps taken when investing our clients' money and answer the questions we are frequently asked by people who are thinking of using our services. Our aim is to give you as much information as possible to help you make an informed decision about whom to entrust with your investments.

Understanding you

To manage your money, we need to create an investment strategy based on your unique requirements. Your personal circumstances, objectives, knowledge and experience and attitude to risk will be our starting point, so we will want to discuss:

- Your personal details such as your work and family situation, your age and anything else that could have a bearing on your future. Are there any major life changes on the horizon?
- Your financial position. We will need a summary of your assets and liabilities, your income and expenditure, and to know about your tax status.
- Your knowledge and experience. We will assess your understanding of the risks attached to the services offered by Investec Wealth & Investment.
- Your needs and aspirations. This includes what you realistically need or want your investments to achieve over a certain period of time.

Choosing the right investment objective

What do you want your investments to deliver? Depending on whether you aim to preserve or grow your investments, you can choose an option that offers:

- A balanced return from income and capital growth
- Primarily to maximise income
- Primarily to maximise capital growth.

The level of income or capital growth you could potentially achieve will depend on how much risk you are prepared to take and how well markets perform. We will discuss each option with you to help determine which one would best suit your circumstances.

The right investment strategy balances potential risks with potential returns. Whatever your investment objective, the greater the return you seek, the more risk you should be prepared to take.

Managing your investments

Service descriptions

It is extremely important that clients understand the services we offer. We provide a clear explanation here:

Discretionary Portfolio Management – this means that Investec Wealth & Investment manages your portfolio in line with specified investment objectives as agreed with you and within your particular risk profile. Investec Wealth & Investment has full authority at our discretion to buy and sell particular shares, funds and investments without prior reference to you, and to enter into any kind of transaction or arrangement for your account which is in line with agreed criteria. Discretionary Portfolio Management is preferred by most clients as it simplifies what can be a complicated investment management process and is often seen as the 'traditional' wealth management service.

Advisory Management – this means that you retain full control over, and are responsible for, all investment decisions. Investec Wealth & Investment will provide you with recommendations on the basis of your specified investment objectives and risk profile – for example we may recommend you invest in a particular fund or stock given your particular risk profile. Like a discretionary management service, we will accept responsibility for the suitability of our recommendations and – to the extent that clients follow these recommendations – for the portfolio as a whole. We cannot, however, accept responsibility if our recommendations are not followed.

Advice status

In respect of our investment management business, any advice given will be classified as restricted. We will only assess whether our services meet your needs and objectives. Within our investment management service we can advise and invest in a wide range of investments in order to construct a diversified portfolio. The types of investments we offer within our investment management services and their associated risks are described in the section called Asset Class Descriptions (page 29). Our investment management service will not advise on investments such as life policies and pensions.

We will assess the breadth of the whole market for those types of investments we do offer. We are not tied to any providers. We may from time to time invest or advise on investments produced within the Investec Group. These will only be offered if the performance is comparable to investments of their peer group.

We will not invest or recommend on any investments or types of structures outside of this unless agreed otherwise.

Although we assess risk at a portfolio level it is important that you understand the underlying investments and the risks attached to these in order to gain a clearer picture of the risks inherent in your portfolio.

Our investment process

Our research capability allows us to do comprehensive due diligence on various asset classes such as bonds, equities and collective investments such as unit trusts. Our Research Team is supported in this task by a number of formal committees. The due diligence they undertake includes screening for various kinds of potential risk, such as lack of liquidity or counterparty risk. This process covers the vast majority of holdings, but in addition our Investment Managers also have the responsibility for carrying out due diligence where appropriate.

Our goal is to build well balanced portfolios from the universe of assets.

For more information on our investment process and for the different types of investments we offer please also refer to the section Asset Class Description section (page 29).

Our investment offering and risk warnings

Against each class of investment we have included a risk rating based on volatility in order to assist you in understanding how these assets perform in different market conditions.

We treat a collective investment or fund as being in the same category as the investments it contains; for example, equity funds generally behave in a similar way to equities.

Managing your investments

Thinking seriously about risk

In constructing an investment objective, many people think first about the potential rewards. However, we will also need to have a conversation about risk. This will involve three aspects:

1. We will seek to establish your financial ability to withstand a loss of capital in your portfolio – your capacity for loss. Capacity for loss means the degree of loss in the value of your investment portfolio that you are able to accommodate without the loss resulting in a material decline in your standard of living.
2. How much risk you are comfortable to take in order to meet your chosen investment objectives – your attitude to risk.
3. How much risk you need to take in order to meet your chosen investment objectives – the required risk level.

It is important that the following risk conditions are met:

- Investing via Investec Wealth & Investment requires you to have both the capacity and willingness to accept a degree of loss of your capital; and
- The risk that you need to take to achieve your chosen objectives (the required risk level) must not exceed the risk that you are willing and/or able to take (i.e. the lower of your attitude to risk or your capacity for loss).

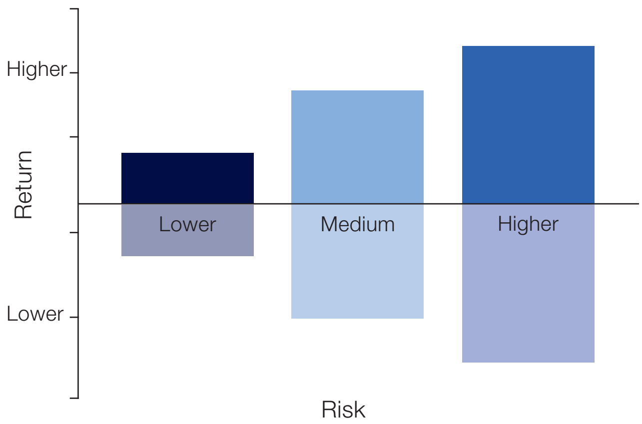
If these conditions are not met, then we will be unable to proceed, unless either your investment aspirations are tempered or you are prepared to accept a higher degree of risk to achieve your objectives. However, this is always subject to your capacity to withstand a loss.

Investing with Investec Wealth & Investment involves exposing you to investment risk. Accordingly you must have a capacity for loss otherwise we will be unable to proceed with any investment management service.

It is vital that we fully explore and consider the different aspects of risk to ensure we recommend the best way forward for you. To help you in this process, please carefully consider these questions:

- How long do you want to invest your money for? Is there a particular time when you want to realise your assets, such as when you retire?
- How do you feel about putting your money at risk? How would you feel if some or all of it was lost, even over a short period of time?
- If you did lose money, how easy would it be for you to accommodate those losses? How, for example, might it affect your family or lifestyle?

This chart provides an idea of the relationship between risk and return. It is generally accepted that your chances of receiving better returns are improved if you are prepared to take more risk. However, you must be able to afford to do so.



Portfolios constructed to be low risk do not always produce the lowest returns or pose the lowest risk to your capital. Neither do high risk portfolios always lead to the greatest returns.

Volatility

Volatility is a measure of the change in value that an investment may exhibit over time. For example, if the price of an investment moves significantly over a short period of time it is commonly described as carrying high volatility. Conversely, low volatility typically demonstrates modest short-term fluctuations in value.

Our research process analyses how well five asset classes have performed in the past, how we might expect them to perform in the future in 'normal' economic conditions, together with their potential volatility. Fig 1 in the section called Asset Class Descriptions shows volatility against each of the types of investments which form part of portfolio construction.

Once we have come to an agreement about your objectives and appetite for risk, ask yourself these questions:

- Do I fully understand the risks being taken to meet my objectives?
- With this in mind, are my objectives and timescales realistic?
- Have I taken my current personal circumstances into full consideration, and thought about what might happen in the future?
- The value of my investments will fluctuate with market conditions, how will I feel about this?

Once you feel confident that we have identified the right objectives and risk profile, we can start looking at how your money will be invested.

Selecting the right investments

Normally, your portfolio will contain a number of different types of investment, also called assets, each belonging to a particular asset class. Different asset classes, and the money invested in them, carry different levels of risk and possibilities for returns.

When we set up and manage your portfolio we go to great lengths to ensure we are selecting a suitable balance of investments to achieve your objectives.

In constructing your portfolio, not only do we take into account the expected risk and return from each asset class but also a number of additional factors, including the appropriate amount that should be held in a combination of the largest, most liquid companies and 'generalist' collective funds.

Our formal monitoring process is also designed to ensure that concentration risk (i.e. not having too many of your eggs in one basket) is controlled and that the quality of the investment portfolio is appropriate to the mandate selected.

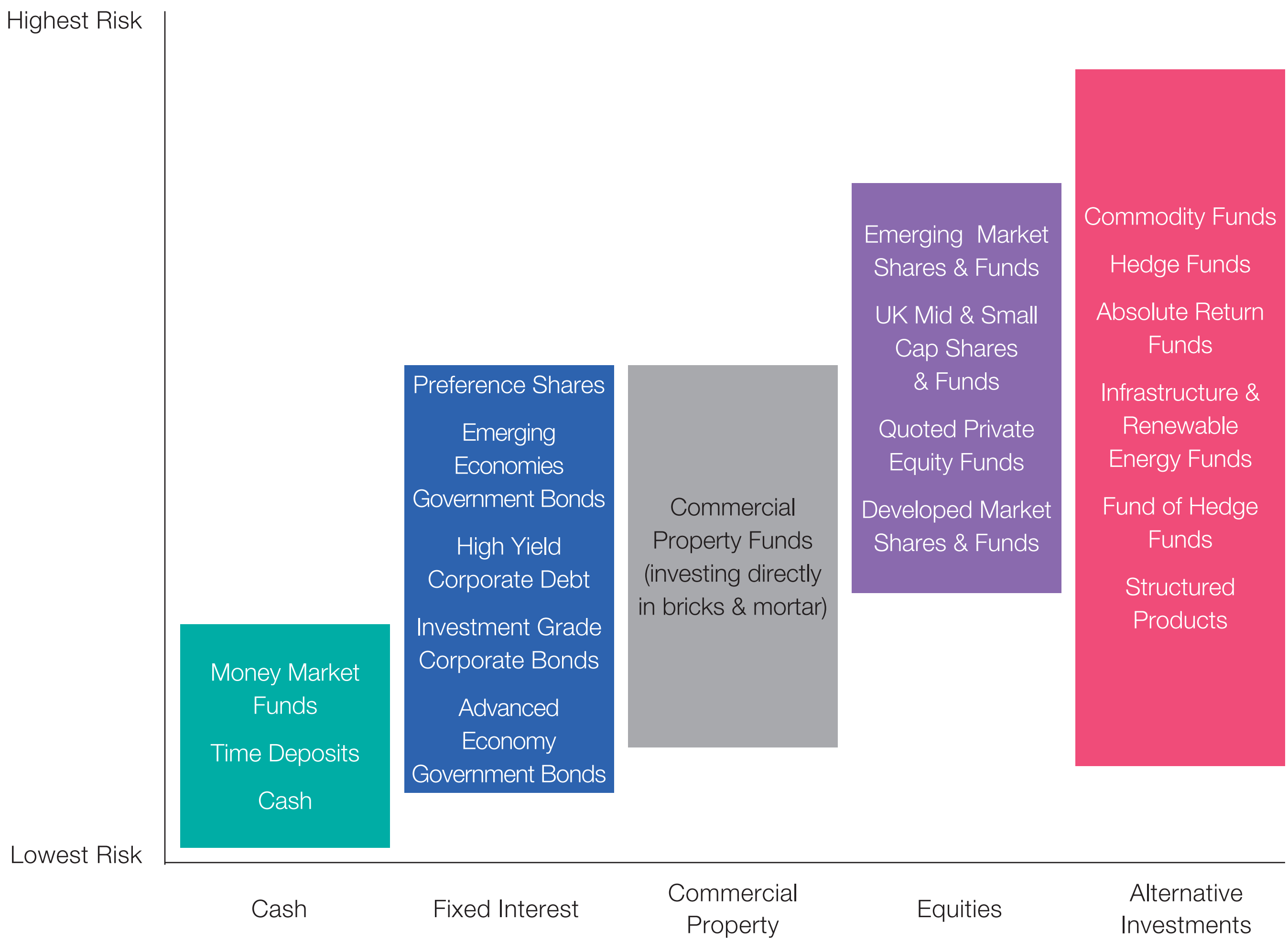
We believe in a collegiate approach to selecting investments. Experienced researchers and Investment Managers, when supplied with the best available inputs within a disciplined framework should collectively arrive at better decisions than either could hope to separately. Our Investment Managers and research analysts work together to identify and collate our preferred lists for equities, bonds and collective funds, which will form the foundation of your investment portfolio.

Managing your investments

Asset classification

This diagram shows the five main asset classes that we use. It illustrates our view of the amount of risk each asset class carries relative to the others. Listed within the ranges are our views on the classification of some of the main types of investments that your portfolio may contain.

For a fuller description please refer to the section called Asset Class Descriptions.



Risk of Capital Loss in Nominal Terms
An example as at January 2020

Choosing an appropriate level of risk for your portfolio

To decide on a suitable risk level for your portfolio, you need to weigh up your objectives, timescales and appetite for risk. We offer five risk levels to choose from:

- Low
- Low/Medium
- Medium
- Medium/High
- High

Every investor needs to understand that there is a direct link between risk and return: if you are aiming for a higher return, then you will need to take a higher level of risk and be ready to tolerate greater volatility in the value of your portfolio.

Managing a portfolio that includes a broad range of investments reduces the risk and this is referred to as diversification.

The investment mandate

The combination of your investment objective (income, income & growth ['balanced'] or growth) a choice of appropriate risk level (low, low/medium, medium, medium/high or high) and any additional investment preferences you may wish to have taken into consideration, collectively define your investment mandate to your investment manager.

Managing your portfolio

Once the preparatory work is complete, your Investment Manager will begin to structure your portfolio according to your investment mandate. We set out to construct a well diversified portfolio made up of different asset classes in order to spread the risk.

Asset allocation

At the heart of our investment process is a rigorous and disciplined approach to asset allocation. This means choosing an appropriate blend of assets to achieve your investment objectives.

Our approach to asset allocation is based on fundamental analysis of long-term trends in economies, financial markets and our observation of the returns and associated risks from investing in five major asset classes:

- Fixed Interest
- Equities
- Commercial Property
- Alternative Investments
- Cash

These assets are then blended together using both Strategic Asset Allocation and Tactical Asset Allocation disciplines.

(More information can be found in the section called Asset Class Descriptions).

Managing your investments

Strategic Asset Allocation

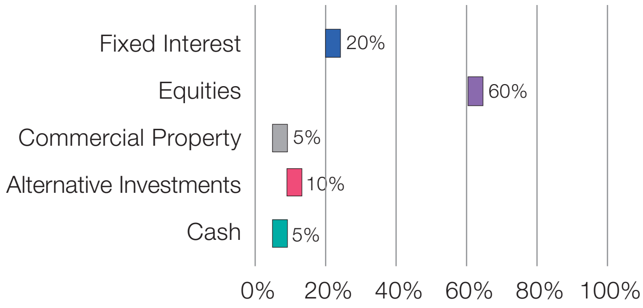
Our research process analyses how well the five asset classes have performed in the past, how we might expect them to perform in the future in 'normal' economic conditions, together with their potential volatility.

Using this information, we then construct a Strategic Asset Allocation (SAA) for each investment mandate. This is the single combination of assets that we believe is most likely to achieve the portfolio's return objectives over the full investment time horizon without assuming undue risks.

The resulting Strategic Asset Allocation forms the default 'neutral' position for the investment portfolio, expected to be adopted if conditions are normal or when there is no anticipated advantage in moving away from this position.

The Strategic Asset Allocation is formally reviewed annually, but material changes are rare, driven only by changes in the long-term outlook for the component asset classes. It will be unaffected by normal short-term market fluctuations (see Tactical Asset Allocation section overleaf). In 2017, as a result of the significant changes in the investment landscape, particularly the fall in cash and bond yields due to quantitative easing over a long period, we felt some modest alterations were appropriate to our standard mandates. Any material changes in the future will be communicated in the normal course of client reporting. (The mandate factsheets in this document are correct as at January 2020.)

For example our current strategic allocation for a medium risk portfolio invested for a balanced mandate:



An example as at January 2020

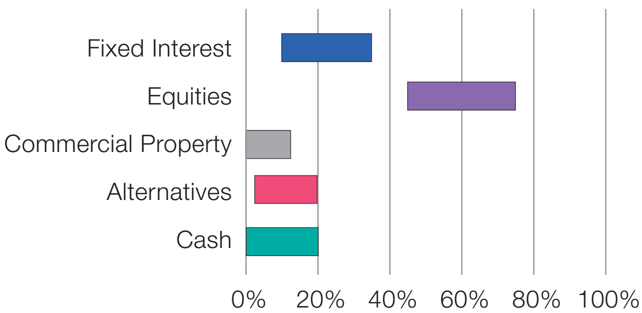
If the world was perpetually in a 'normal' state, there would be no need to alter this mix.

Tactical asset allocation

As we rarely experience what could be described as “normal” economic conditions, a key part of our process is to establish our preferred asset allocation to best reflect, at any one moment in time, the prevailing and anticipated economic climate. This we refer to as Tactical Asset Allocation which is established, reviewed and revised by our Asset Allocation Committee.

This tactical position can be set either side of the strategic position, but within additional boundaries (that we refer to as ‘corridors’) which we have defined to give us the flexibility to manage your investments within well-defined risk bounds. This creates an asset allocation range for each asset class with a minimum and a maximum exposure.

The asset allocation corridors for each portfolio profile are set out later in this document, but the following example is for the medium risk portfolio invested for a balanced mandate:



An example as at January 2020

Defined mandates

If you want your portfolio to follow a specific investment style, or to invest in particular asset classes with more flexibility, we will agree with you a mandate defined for those requirements. For this, we will need to agree:

- The parameters within which we can operate
- How much risk you are prepared to take
- The best way to measure your portfolio’s performance (a benchmark)

Whichever investment style is adopted, our approach to selecting an appropriate level of risk for your portfolio will always apply.

Under this umbrella, we offer additional investment services to clients with specific needs, such as institutional clients, offshore trusts & companies and charities. If these services more closely match your needs, please contact us for further information..

Your questions answered

Our clients, both potential and existing, come to us with many questions. These are the most frequent.

Who oversees your investment process?

At Investec Wealth & Investment, our Investment Committee and Asset Allocation Committee meet regularly to review and oversee our investment process and the assets in which we invest.

Our Investment Committee oversees our investment process and makes sure that we are drawing on the highest-quality resources. The Committee comprises Senior Investment Managers, Investment Specialists and our Research Team.

Each month the Asset Allocation Committee sets Tactical asset allocations for each asset class. These are guided by Investec Wealth & Investment's overall view of world markets and provide timely guidance for your Investment Manager.

Do you have your own in-house Research Team?

Yes. Our independent Research Team includes a strong team of analysts who follow disciplined and consistent processes for the sole purpose of supporting our Investment Managers. Regular communications keep our Investment Managers informed of moves in the markets.

We seek out long-term investments in good-quality assets. But there is value to be found in shorter-term market movements too, and we are constantly on the lookout for these opportunities.

How are investments selected?

Our Investment Managers draw on the expertise and knowledge of both our in-house analysts and our external sources.

Our collegiate approach of using the expertise of both our Investment Managers and our dedicated research analysts allows us to select lists of good-quality equities, funds and bonds to assist your Investment Managers with the construction of your portfolio.

We do not only invest in large companies. One of our strengths is in our ability to find attractive opportunities in medium-sized companies. Whether or not we include these investments in your portfolio will depend on the risk level you have chosen.

Are my investment choices limited?

No, we do not restrict your choice of investments held within your portfolio or the approach adopted as you can request a 'defined mandate', provided this is compatible with your chosen portfolio risk grade.

Who selects my investments?

Dedicated Investment Managers are responsible for choosing each investment for your portfolio. They will consult the latest information, draw on a number of sophisticated tools and consider recommendations made by our Research Team. In order to fully meet your specific needs (within your risk appetite), your Investment Manager may from time to time conduct research into securities outside the universe covered by our in-house Research Team, including the purchasing of new holdings, or the retention of, existing holdings. In line with the firm's internal procedures, this research will be properly documented and regularly monitored. Similarly, your Investment Managers can agree with you an alternative approach or preferred investments in order to achieve your goals.

How often will you review my portfolio?

Our Tactical asset allocations are under constant review, as are the specific investments we recommend. Your portfolio is constantly monitored so that:

- Changes in our preferred holdings are effected when appropriate
- Where practicable it remains within the asset allocation range
- It contains the appropriate investments for your specific risk profile
- It contains a diverse range of investments, which are not overly concentrated in any particular area

If you have requested a 'defined mandate' some or all of this monitoring may not apply.

What flexibility does my Investment Manager have?

We do not impose model portfolios on you. Every one of our Investment Managers has a wealth of resources at their fingertips. This includes detailed and timely guidance on asset allocation, stock selection and our investment strategy. They receive daily updates and briefings, together with additional research information which is constantly available to our offices throughout the day. This approach gives your Investment Manager the flexibility to create a portfolio, within reasonable parameters, to reflect your individual needs.

How do I measure performance?

Your Investment Manager will discuss and agree with you an appropriate benchmark to allow you to assess the performance of your portfolio. Each Mandate Factsheet includes details of our suggested benchmarks (please refer to pages 15 to 25). Portfolio performance will be measured using chain-linked, time-weighted methodology.

Will my capital be put at risk?

Yes. The investment management service provided by Investec Wealth & Investment requires all clients to be exposed to some degree of risk. As such, a threshold condition is that you must be prepared for, and be financially capable of, withstanding a loss of capital.

Could I get back less than I originally invest?

Investments can go down in value as well as up. A loss of value in a particular asset may be temporary or permanent. For example, a company's share price may be adversely affected by temporary market conditions without there being anything wrong with the business. Alternatively, its value may be permanently impaired by the company becoming less profitable. The impact of individual short-term adverse price movements can be mitigated over the longer term; however, there may be a need to realise a loss at a particular time, for example to protect against further loss or to meet a withdrawal from the portfolio.

How do you control risk?

Our approach to asset allocation, combined with our strong internal policies around the diversification and concentration of investments, is designed to reduce your exposure to risk, within your agreed risk profile, as much as possible. Our procedures, disciplines, resources and monitoring processes are applied to all client portfolio strategies as appropriate.

How secure are my investments?

Assets of clients held in our Nominee Company are recorded in such a manner to clearly indicate that they do not belong to the firm. Therefore, in the unlikely event of the insolvency of Investec Wealth & Investment, a liquidator would be legally prevented from using clients' assets to settle the firm's liabilities.

As a firm regulated by the Financial Conduct Authority (FCA), we follow the rules prescribed by the FCA in choosing where stock or cash will be deposited for safe keeping or custody. In relation to cash balances, the FCA client asset rules on most occasions require us to deposit client money in a client account with a bank or other credit institution of a type permitted under the rules. The rules also require us to exercise all due skill, care and diligence in the selection, appointment and periodic review of the bank, taking into account the standing, expertise and market reputation of the bank.

What happens if my circumstances change?

Discuss these changes with your Investment Manager who will review your investment objectives and level of risk to ensure that these fully reflect your new situation and then make any changes that are necessary to your portfolio.

How do I find out more?

After we have met and considered your requirements and circumstances – both now and in the future – we will give you a detailed report recommending which, if any, portfolio objective and risk grade we think is right for you. You will find more information in our series of factsheets, brochures and in our application packs. If you have any further questions, please speak to your Investment Manager if you are an existing client. If you are thinking of investing with Investec Wealth & Investment, please call your local office and ask to speak to someone in our investment management team.

Mandate Factsheets

The following factsheets cover our full range of risk mandates and objectives as described earlier in this document. The figures on the right refer to the new Strategic Asset Allocation (SAA) benchmark which will be shown on your valuation, whilst the longer term strategy relates to inflation and the peer group nearest fit on a risk basis.

Our benchmarking framework is based on three distinct measures.

- First, the primary measure will be a bespoke benchmark index, adjusted to reflect your SAA.
- Second, we will monitor a long term objective to reflect a steady return figure that we would expect your investments to deliver over the long term, although there is likely to be considerable shorter term fluctuation. We may refer to this from time to time but we do maintain it for comparison purposes.
- Third, we maintain a comparison of performance against peer group investment firms which will be produced by an independent organisation, such as Asset Risk Consultants (ARC) or the Investment Association (IA). We generally keep a note of this on a quarterly basis which doesn't necessarily fit with your valuation dates. It will not be published in our investment reports but is available from your Investment Manager on request.

To explain these benchmark changes, you will find included within this document a section entitled 'A Guide to Understanding Your Benchmark' which provides you with a more detailed explanation behind the adjustments and new comparative features.

In your regular investment reports we will primarily show the bespoke benchmark index reflecting your SAA, but we will continue to also show a range of indices measuring the performance of global markets by way of comparison.

The Consumer Price Index (CPI) is a globally agreed standard used by the Bank of England to help set interest rates. Our aim is to illustrate how each mandate is expected to increase the purchasing power of your money over the longer term.

The four ARC categories are Cautious, Balanced, Steady Growth and Equity Risk. They are indices independently calculated from a large number of actual client net returns from subscriber firms (including Investec) classified according to the historical volatility of each account. This is in turn largely driven by the proportion held in equity investments and the success of the manager in diversifying such risks using other asset classes. Our aim is to illustrate your performance in the context of a fair and independent comparison with our competitors.

The charts contained in the factsheets show the suitability corridors applicable to the mandate.

Mandate factsheet | Low risk portfolios

Structure

- **Quality:** All of the equity content should be researched in house and 70% held in a combination of individual large capitalisation stocks in developed markets and of 'generalist' collective funds.
- **Concentration:** No individual equity holding may account for more than 10% of the equity content of the portfolio. No individual bond may make up more than 10% of the total portfolio.
- **Diversification:** Direct equity holdings valued at over 5% of the portfolio may not, in aggregate, represent more than 40% of the portfolio. Generally, for this mandate the overseas equity content will be at least 50% invested into collective funds. For portfolios of less than £150,000, the entire portfolio will usually invested in collective funds.

We do not intend that all these restrictions should apply simultaneously at all times and we allow our Investment Managers flexibility in the management of your portfolio. However, your Investment Manager has the ability to manage your portfolio to these full criteria should you wish to choose this more structured approach to your investments.

Suggested benchmark

- The benchmark for the portfolio will reflect the strategic (long-term objective) asset allocation of your investments.

Volatility

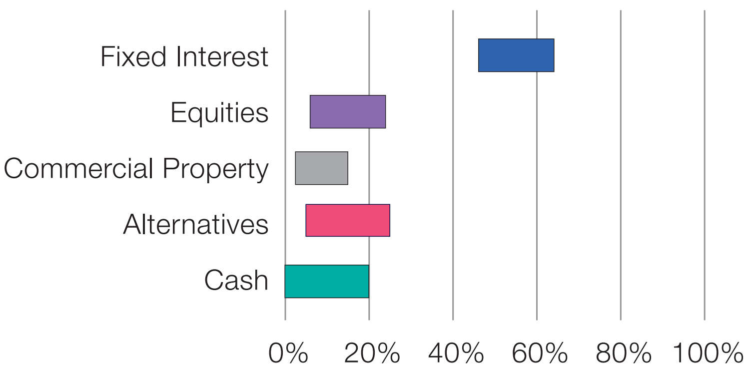
- A low risk portfolio will typically demonstrate modest short-term fluctuations in value.
- However, there may be some sensitivity to equity market movements, market interest rate expectations and to the change in value of other investments.
- This mandate has a target volatility that is 30% of global equity markets.

Time horizon

- The nature of the portfolio will suit those seeking to invest for a minimum of three years.

Low risk income portfolio

Income investors seek a return in the form of income rather than capital appreciation. The level of income achievable is subject to your risk tolerance and market conditions.



An example as at January 2020.

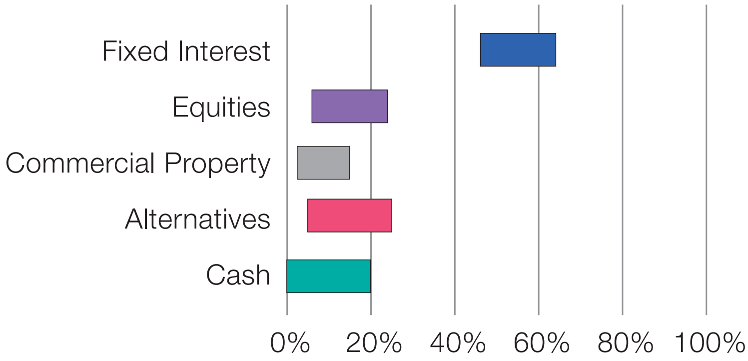
Long-term strategy - CPI+1%

Peer Group - ARC Cautious

Fixed Interest	
• Government	15.0%
• Index Linked	10.0%
• Corporate	30.0%
Equities	15.0%
Commercial Property	10.0%
Alternatives	15.0%
Cash	5.0%

Low risk balanced portfolio

Balanced investors seek a return in the form of both income and capital appreciation.
The level of return achievable is subject to your risk tolerance and market conditions.



An example as at January 2020.

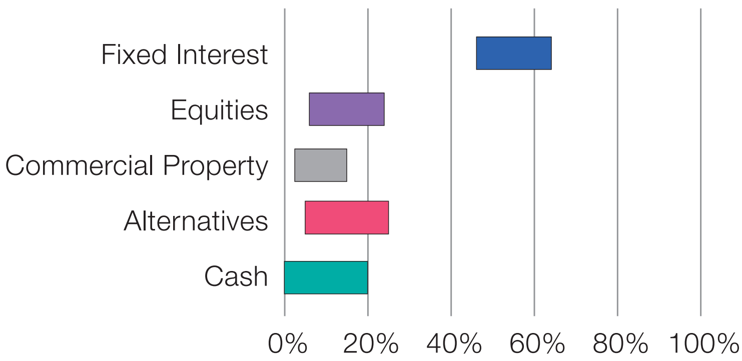
Long-term strategy - CPI+1%

Peer Group - ARC Cautious

Fixed Interest	
• Government	15.0%
• Index Linked	10.0%
• Corporate	30.0%
Equities	15.0%
Commercial Property	10.0%
Alternatives	15.0%
Cash	5.0%

Low risk capital growth portfolio

Capital growth investors seek a return in the form of capital appreciation rather than income.
The level of capital appreciation is subject to your risk tolerance and market conditions.



An example as at January 2020.

Long-term strategy - CPI+1%

Peer Group - ARC Cautious

Fixed Interest	
• Government	15.0%
• Index Linked	10.0%
• Corporate	30.0%
Equities	15.0%
Commercial Property	10.0%
Alternatives	15.0%
Cash	5.0%

Mandate factsheet | Low/medium risk portfolios

Structure

- **Quality:** We aim to hold at least 70% of the developed market equity content in a combination of individual large capitalisation stocks and of 'generalist' collective funds.
- **Concentration:** No individual stock should account for more than 10% of the equity content of the portfolio. No individual bond should account for more than 10% of the total portfolio.
- **Diversification:** Any holdings valued at over 5% of the portfolio may not, in aggregate, represent more than 40% of the portfolio. We shall endeavour that at least 50% of the overseas equity content will be held in generalist collective funds. For portfolios of less than £150,000, the entire portfolio will be invested in collective funds.

We do not intend that all these restrictions should apply simultaneously at all times and we allow our Investment Managers flexibility in the management of your portfolio. However, your Investment Manager has the ability to manage your portfolio to these full criteria should you wish to choose this more structured approach to your investments.

Suggested benchmark

- The benchmark for the portfolio will typically reflect the strategic (long-term objective) asset allocation of your investments.

Volatility

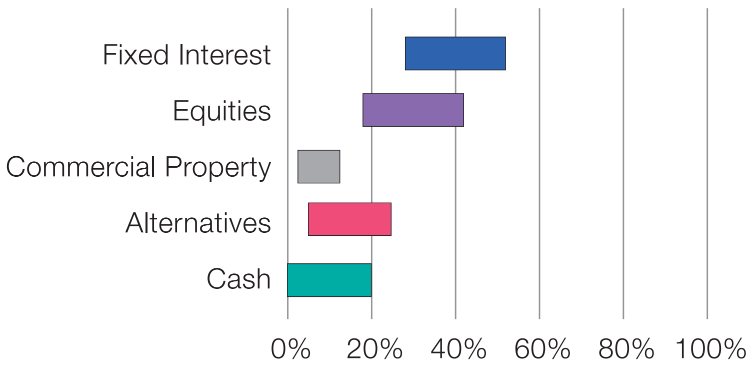
- The potential for equity investment will mean that the portfolio may be prone to shorter-term periods of fluctuating value. This mandate has a target volatility that is 45% of global equities.

Time horizon

- The potential to include equity investment means that a low/medium risk portfolio should be viewed on a longer-term horizon, typically an investment period of more than three years.

Low/medium risk income portfolio

Income investors seek a return in the form of income rather than capital appreciation. The level of income achievable is subject to your risk tolerance and market conditions.



Long-term strategy - CPI+2%

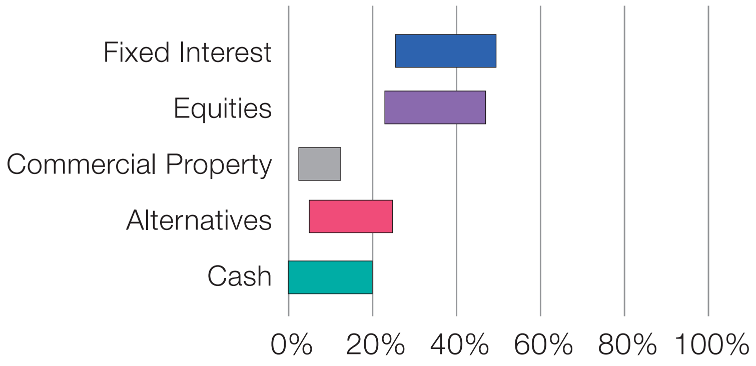
Peer Group - ARC Balanced

Fixed Interest	
• Government	12.0%
• Index Linked	8.0%
• Corporate	20.0%
Equities	30.0%
Commercial Property	10.0%
Alternatives	15.0%
Cash	5.0%

An example as at January 2020.

Low/medium risk balanced portfolio

Balanced investors seek a return in the form of both income and capital appreciation.
The level of return achievable is subject to your risk tolerance and market conditions.



Long-term strategy - CPI+2%

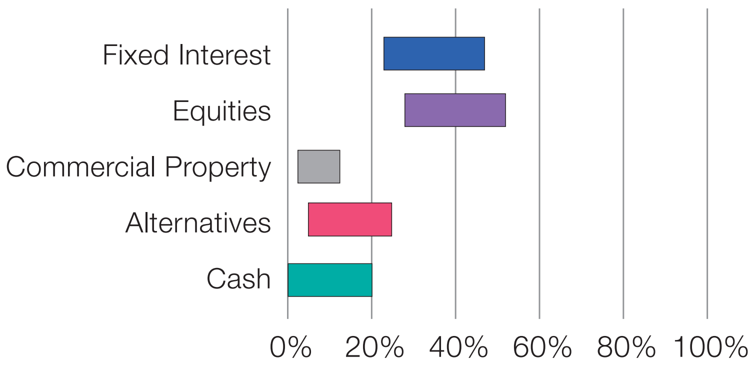
Peer Group - ARC Balanced

Fixed Interest	
• Government	12.0%
• Index Linked	8.0%
• Corporate	17.5%
Equities	35.0%
Commercial Property	7.5%
Alternatives	15.0%
Cash	5.0%

An example as at January 2020.

Low/medium risk capital growth portfolio

Capital growth investors seek a return in the form of capital appreciation rather than income.
The level of capital appreciation is subject to your risk tolerance and market conditions.



Long-term strategy - CPI+2%

Peer Group - ARC Balanced

Fixed Interest	
• Government	12.0%
• Index Linked	8.0%
• Corporate	15.0%
Equities	40.0%
Commercial Property	5.0%
Alternatives	15.0%
Cash	5.0%

An example as at January 2020.

Mandate factsheet | Medium risk portfolios

Structure

- **Quality:** We aim to hold at least 60% of the developed market equity content in a combination of individual large capitalisation stocks and of 'generalist' collective funds.
- **Concentration:** No individual stock should account for more than 10% of the equity content of the portfolio. No individual bond should account for more than 10% of the total portfolio.
- **Diversification:** Any holdings valued at over 5% of the portfolio may not, in aggregate, represent more than 40% of the portfolio. We shall endeavour that at least 50% of the overseas equity content will be held in generalist collective funds. For portfolios of less than £150,000, the entire portfolio will be invested in collective funds.

We do not intend that all these restrictions should apply simultaneously at all times and we allow our Investment Managers flexibility in the management of your portfolio. However, your Investment Manager has the ability to manage your portfolio to these full criteria should you wish to choose this more structured approach to your investments.

Suggested benchmark

- The benchmark for the portfolio will typically reflect the strategic (long-term objective) asset allocation of your investments.

Volatility

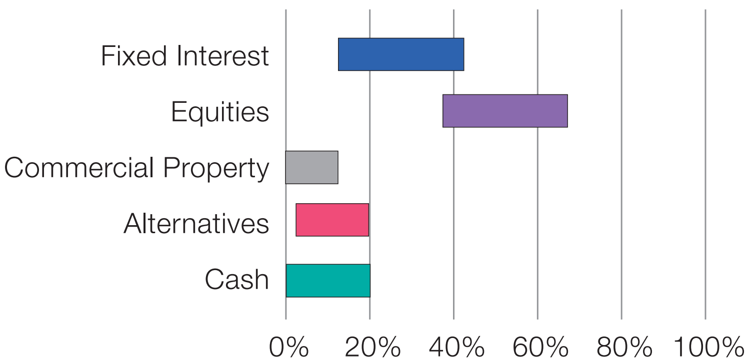
- This mandate has a target volatility that is 60% of global equity markets.

Time horizon

- The likely higher equity content means that a medium risk portfolio is suitable for the longer-term investor, with a minimum investment period of five years.

Medium risk income portfolio

Income investors seek a return in the form of income rather than capital appreciation. The level of income achievable is subject to your risk tolerance and market conditions.



An example as at January 2020.

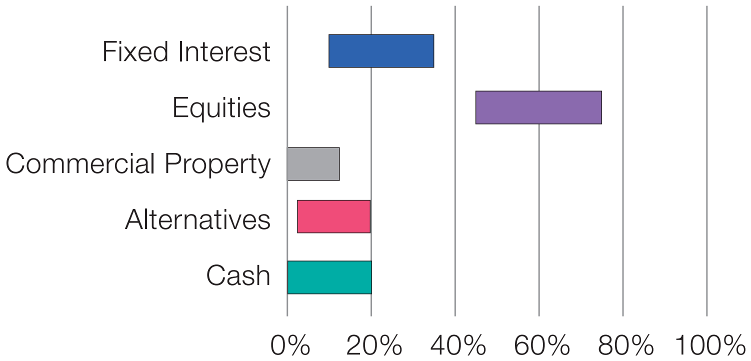
Long-term strategy - CPI+2.5%

Peer Group - ARC Balanced

Fixed Interest	
• Government	9.0%
• Index Linked	6.0%
• Corporate	12.5%
Equities	52.5%
Commercial Property	5.0%
Alternatives	10.0%
Cash	5.0%

Medium risk balanced portfolio

Balanced investors seek a return in the form of both income and capital appreciation.
The level of return achievable is subject to your risk tolerance and market conditions.



Long-term strategy - CPI+2.5%

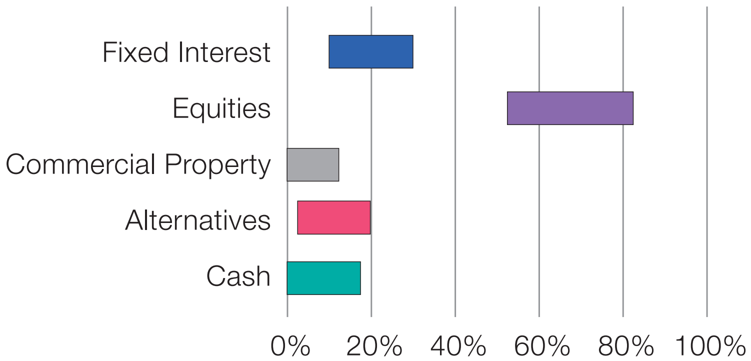
Peer Group - ARC Steady Growth

Fixed Interest	
• Government	7.5%
• Index Linked	5.0%
• Corporate	7.5%
Equities	60.0%
Commercial Property	5.0%
Alternatives	10.0%
Cash	5.0%

An example as at January 2020.

Medium risk capital growth portfolio

Capital growth investors seek a return in the form of capital appreciation rather than income.
The level of capital appreciation is subject to your risk tolerance and market conditions.



Long-term strategy - CPI+2.5%

Peer Group - ARC Steady Growth

Fixed Interest	
• Government	6.0%
• Index Linked	4.0%
• Corporate	5.0%
Equities	67.5%
Commercial Property	5.0%
Alternatives	10.0%
Cash	2.5%

An example as at January 2020.

Mandate factsheet | Medium/high risk portfolios

Structure

- **Quality:** We aim to hold at least 40% of the developed market equity content in a combination of individual large capitalisation stocks and of 'generalist' collective funds.
- **Concentration:** No individual stock should account for more than 10% of the equity content of the portfolio. No individual bond should account for more than 10% of the total portfolio.
- **Diversification:** Any holdings valued at over 5% of the portfolio may not, in aggregate, represent more than 40% of the portfolio. There is no restriction on the percentage of the overseas equity content in generalist collective funds. For portfolios of less than £150,000, the entire portfolio will be invested in collective funds.

We do not intend that all these restrictions should apply simultaneously at all times and we allow our Investment Managers flexibility in the management of your portfolio. However, your Investment Manager has the ability to manage your portfolio to these full criteria should you wish to choose this more structured approach to your investments.

Suggested benchmark

- The benchmark for the portfolio will typically reflect the strategic (long-term objective) asset allocation of your investments.

Volatility

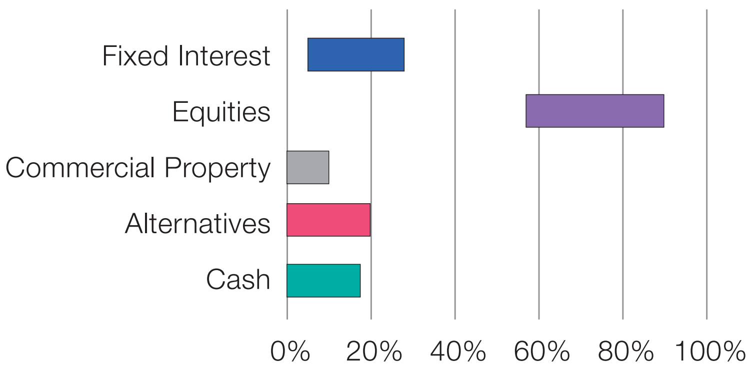
- This mandate has a target volatility that is 75% of the global equity markets.

Time horizon

- The likely higher equity content means that a medium/ high risk portfolio is suitable for the longer-term investor, with a minimum investment period of five years.

Medium/high risk income portfolio

Income investors seek a return in the form of income rather than capital appreciation. The level of income achievable is subject to your risk tolerance and market conditions.



An example as at January 2020.

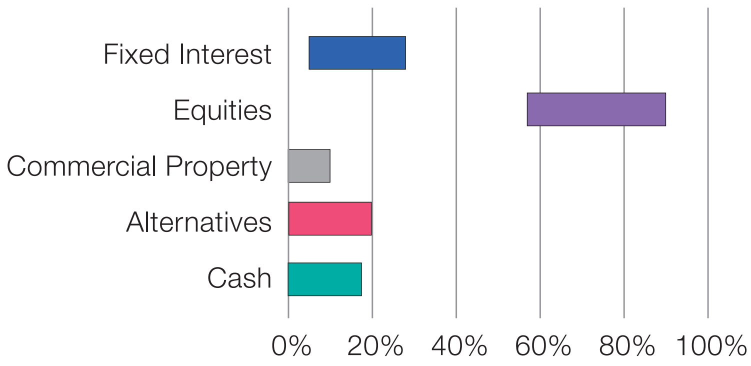
Long-term strategy - CPI+3.0%

Peer Group - ARC Steady Growth

Fixed Interest	
• Government	3.0%
• Index Linked	2.0%
• Corporate	5.0%
UK Equities	75.0%
Commercial Property	2.5%
Alternatives	10.0%
Cash	2.5%

Medium/high risk balanced portfolio

Balanced investors seek a return in the form of both income and capital appreciation.
The level of return achievable is subject to your risk tolerance and market conditions.



An example as at January 2020.

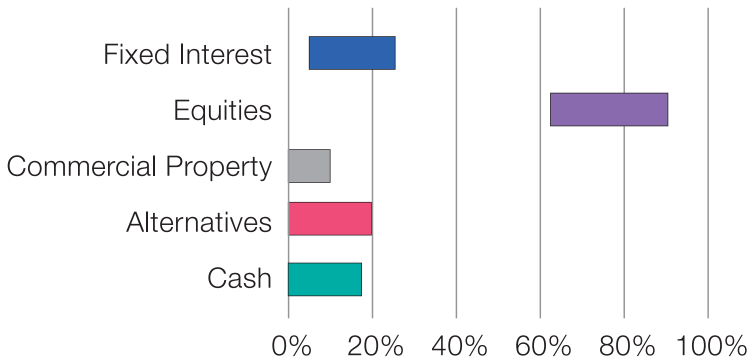
Long-term strategy - CPI+3.0%

Peer Group - ARC Steady Growth

Fixed Interest	
• Government	3.0%
• Index Linked	2.0%
• Corporate	5.0%
UK Equities	75.0%
Commercial Property	2.5%
Alternatives	10.0%
Cash	2.5%

Medium/high risk capital growth portfolio

Capital growth investors seek a return in the form of capital appreciation rather than income.
The level of capital appreciation is subject to your risk tolerance and market conditions.



An example as at January 2020.

Long-term strategy - CPI+3.0%

Peer Group - ARC Equity Risk

Fixed Interest	
• Government	3.0%
• Index Linked	2.0%
• Corporate	2.5%
UK Equities	80.0%
Commercial Property	2.5%
Alternatives	7.5%
Cash	2.5%

Mandate factsheet | High risk portfolios

Structure

- The high risk mandate is focused upon equity investments, but allows the Investment Manager some flexibility to respond to market conditions.
- **Concentration:** No individual stock should account for more than 10% of the equity content of the portfolio. No individual bond should account for more than 10% of the total portfolio.

Suggested benchmark

- The benchmark for the portfolio will typically reflect the strategic (long-term objective) asset allocation of your investments.

Volatility

- This mandate has a target volatility that is 90% global equity markets.

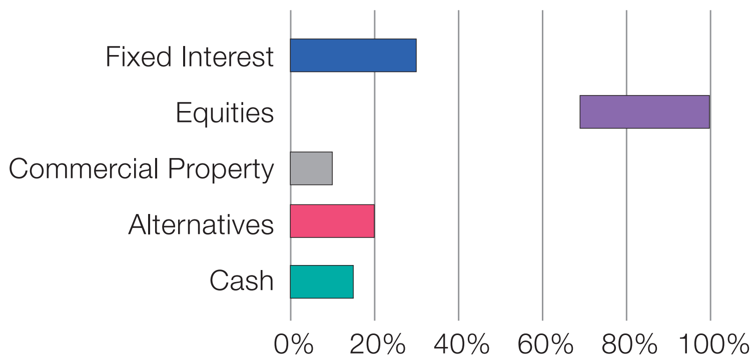
Time horizon

- A high risk portfolio is only suitable for those prepared to invest for the Long-term, typically a minimum of seven years.

Investment Managers have a comprehensive range of tools to test for portfolio concentration and diversification characteristics, which they will apply as directed or otherwise at their own discretion.

High risk income portfolio

Income investors seek a return in the form of income rather than capital appreciation.
The level of income achievable is subject to your risk tolerance and market conditions.



An example as at January 2020.

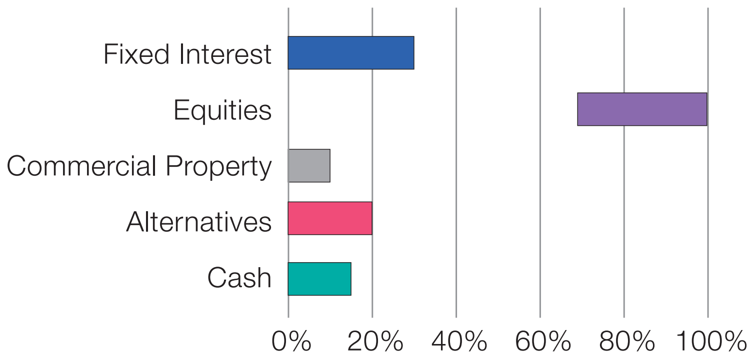
Long-term strategy - CPI+3.5%

Peer Group - ARC Equity Risk

Fixed Interest	
• Government	3.0%
• Index Linked	2.0%
• Corporate	5.0%
Equities	90.0%
Commercial Property	0.0%
Alternatives	0.0%
Cash	0.0%

High risk balanced portfolio

Balanced investors seek a return in the form of both income and capital appreciation.
The level of return achievable is subject to your risk tolerance and market conditions.



An example as at January 2020.

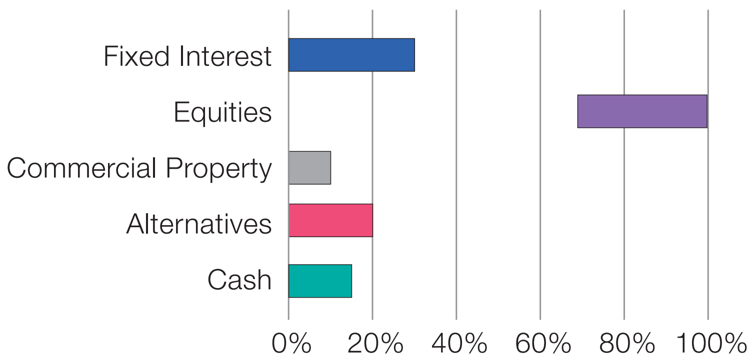
Long-term strategy - CPI+3.5%

Peer Group - ARC Equity Risk

Fixed Interest	
• Government	3.0%
• Index Linked	2.0%
• Corporate	5.0%
Equities	90.0%
Commercial Property	0.0%
Alternatives	0.0%
Cash	0.0%

High risk capital growth portfolio

Capital growth investors seek a return in the form of capital appreciation rather than income.
The level of capital appreciation is subject to your risk tolerance and market conditions.



An example as at January 2020.

Long-term strategy - CPI+3.5%

Peer Group - ARC Equity Risk

Fixed Interest	
• Government	3.0%
• Index Linked	2.0%
• Corporate	5.0%
UK Equities	90.0%
Commercial Property	0.0%
Alternatives	0.0%
Cash	0.0%

A guide to understanding your benchmark

Every portfolio that we manage on behalf of our clients has a benchmark index against which the performance of those investments can be compared. The following is designed to help you understand why your benchmark has been recommended to you, what your benchmark will tell you and, where applicable, what limitations it has. This will enable you to make informed judgements about how well your portfolio and strategy is meeting your investment goals.

The most important feature of a benchmark index is that it should reflect your investment objectives as closely as possible, not only from the perspective of desired returns, but also taking into account your agreed risk level. Sometimes selecting a benchmark is straightforward. One instance of this is when a portfolio is invested in only one type of asset, for example stocks and shares. In this example there are existing industry standard benchmarks that are independently calculated and readily available. For example, choosing either the MSCI or FTSE All Share Index as a benchmark for a portfolio, with a mandate to invest in a broad range of shares listed in the UK, would be a logical option.

However, where clients have portfolios which are diversified across a number of different asset classes (for instance shares, fixed-income securities and cash), benchmarking becomes a lot more complicated, because in simple terms there is no independent yardstick that could be used to measure such a bespoke mix of investments.

At Investec Wealth & Investment, the majority of our clients are in this position of having diverse portfolios designed to suit them as individuals and to meet differing objectives. This leaves us with a challenge as to how best to provide you with benchmarks that will give you the confidence that your investments are performing in line with your objectives and in comparative terms in line with the wider market.

The indices of the leading private client fund management industry body PIMFA (formerly the Wealth Management Association [WMA]) address only some of these issues by providing a set of indices that calculate the performance of only four objective based mandates and one risk mandate. In order to overcome the challenge of benchmarking a diversified range of investments, one option is to create a bespoke benchmark index to match the individual mix of asset classes held in your portfolio, which we call Strategic Asset Allocation (SAA). The limitation of this approach is that it lacks the reassurance of a benchmark index that is independently calculated and published, although the underlying components are well known indices. Choosing a measure that is precisely aligned with your SAA means that a simple comparison of your portfolio with this benchmark would give you a fair picture of how well it is performing.

A further approach, when trying to define an effective benchmarking model for our clients, is to align measurement with the insight that most investors think of their long-term objectives in simple terms. For example, how much they need to grow their capital to meet their individual aspirations. Taking this insight into client thinking allows us to create a simple and clear benchmark which can be expressed in various ways, as follows:

a) Excluding inflation (e.g. perhaps 5% return per year)
b) After allowing for inflation (e.g. 2% per year above inflation of 3% = 5% in total)
c) Compared with cash interest rates (e.g. current Bank of England base rate plus 2%)

Whilst very simple, in concept there are again limitations in this approach, due to the deviations between the actual portfolio and the benchmark typically being very large in the short term, irrespective of the portfolio being well managed.

The final benchmark option is a comparison with other Investment Managers, our peer group investment firms. These comparisons have an advantage in that they are net of all charges and are audited independently, but are not always produced on a timely basis.

In conclusion, as no individual benchmarking model satisfies all criteria, we provide our clients with a benchmarking framework based on the three distinct measures as featured in this guide, namely:

1. A bespoke benchmark index which is based on your SAA.
2. A long-term objective to reflect a steady return figure that we would expect your investments to deliver over the long-term, although there is likely to be some considerable shorter-term fluctuation.
3. A comparison of performance against peer group investment firms which will be produced by an independent organisation.

The primary benchmark will be the bespoke benchmark index based on the longer-term SAA. This will feature most prominently in the regular portfolio statements that your Investment Manager will send to you. As each of the above benchmark options has its own strengths and weaknesses, the fullest insight will be gained by us keeping an eye on all three of them, remembering what each one can tell you and discussion between you, and your Investment Manager.

Benchmark represented by:

Fixed Interest	
Government Stock	BofA Merrill Lynch US Treasury 5-10 year
Government Index Linked	BofA Merrill Lynch US Treasury Index Linked 5-10 year
Corporate Credit	BofA Merrill Lynch US Corporate
Equity	
US Equities	S&P 500 Composite
Overseas Equities	MSCI All Country World excl USA
Other	
Property	FTSE EPRA/NAREIT US
Alternatives	IW&I USD Alternatives Benchmark
Cash	US Fed Funds Rate (-0.5%)
Alternatives	
37.50%	BofA Merrill Lynch US Corporate
37.50%	S&P 500 Composite
25.00%	US Fed Funds Rate (-0.5%)

Euro Benchmark represented by:

Fixed Interest	
Government Stock	BofA Merrill Lynch All European Govt 5-10 year
Government Index Linked	BofA Merrill Lynch Euro Inflation Linked Govt 1-10 year
Corporate Credit	BofA Merrill Lynch Euro Corporate
Equity	
European Equities	MSCI Europe excl UK
Overseas Equities	MSCI All Country World excl Europe
Other	
Property	FTSE EPRA/NAREIT Europe excl UK
Alternatives	IW&I EUR Alternatives Benchmark
Cash	ECB Main Refinancing Operations Rate (-0.5%)
Alternatives	
37.50%	BofA Merrill Lynch Euro Corporate
37.50%	MSCI Europe excl UK
25.00%	ECB Main Refinancing Operations Rate (-0.5%)

Global Benchmark (in USD) represented by:

Fixed Interest	
Government Stock	BofA Merrill Lynch Global Govt 5-10 year
Government Index Linked	BofA Merrill Lynch Global Inflation Linked Govt
Corporate Credit	BofA Merrill Lynch Global Corporate
Equity	
Global Equities	MSCI All Country World
Other	
Property	FTSE EPRA/NAREIT Global
Alternatives	IW&I Global Alternatives Benchmark
Cash	US Fed Funds Rate (-0.5%)
Alternatives	
37.50%	BofA Merrill Lynch Global Corporate
37.50%	MSCI All Country World
25.00%	US Fed Funds Rate (-0.5%)

Appendix 1

General risk warning

Investing in the type of securities traded on stock exchanges will mean that the value of the assets, and the income received from them, may go down as well as up and you may not get back all the money invested. There are seven main reasons why this might happen:

- The actual or perceived financial standing and trading well-being of the organisation involved may change.
- The investments themselves are subject to the laws of supply and demand and are capable of significant price movements irrespective of market and corporate factors. Such movements could be a reflection of the company size, marketability and liquidity.
- The stock market itself is capable of large movements due to economic, political and other factors.
- Fixed interest investments are subject to the above factors, and values are particularly affected by actual or expected changes in levels of interest rates.
- If they are purchased above their ultimate redemption price, a capital loss will be incurred if held to redemption.
- Investments may be denominated in a currency other than your base reference currency. Where an investment is denominated in a different currency you are exposed to fluctuations in the exchange rate of that currency as well as to the movement in the price of the investment itself. Changes in the exchange rate can cause the overall value of an investment to fall as well as to rise.
- The tax treatment of any investment is determined by the specific circumstances of each client. Taxation may change during the lifetime of an investment. This may result in unanticipated tax liabilities. You should take tax advice in order to be aware of the potential liabilities before making an investment. If your circumstances change or you are uncertain of how an investment might affect your own tax position you should seek professional advice.

Assessing the relative risk of any of the factors referred to previously is highly subjective and can change over time in response to specific events or revised social or economic forecasts. It is not possible to lay down precise guidelines for the measurement of risk or the potential impact, whether positive or negative, upon an investment portfolio.

The services provided to you under any agreement with us may have additional risks related to their specific features for the operations to be executed or their price may depend on or fluctuate in financial markets due to conditions outside our control. Past performance is no indication of future performance and prices may go down as well as up.

Foreign currencies

If you deal in investments priced in foreign currencies (foreign currency denominated investments) this involves you entering into a related foreign exchange transaction in connection with the purchase or sale of the investment concerned. This involves the risk that a change in the rates of exchange between currencies may cause your investment, or the income from it, to go down.

Collective investments and funds

The risks of investing directly in equities may be spread by investing in diversified investment vehicles such as equity funds. These come in a wide variety of forms which follow a variety of investment strategies and are also subject to different styles and qualities of regulatory oversight. It is also possible that the manager of the fund may change at any time. There are two typical types of funds, open-ended funds and closed-ended funds. The table overleaf details how we use funds as part of our investment process.

Open-ended funds

Open-ended funds will be calculated according to the net asset value. Large funds may become too diverse to outperform and behave similarly to their underlying indices, while the performance of smaller funds may fluctuate with flows of money in and out of the fund.

Asset Class Descriptions

As part of our Markets in Financial Instruments Directive II (MiFID II) obligations, we are required to provide an explanation of our investment process and the risks associated with investing in various asset classes. We have divided these into the five main asset classes as referred to earlier in this document.

Cash

Fixed Interest

Commercial Property

Equities

Alternative Investments

The following tables are general in nature and not exhaustive in coverage. You may or may not deal in some of these instruments listed.

In the descriptions here, risk is thought of as price volatility. Volatility is the variability of the price of each asset type, due to both daily market effects and the effect of price change due to change of corporate profitability, perceived security of capital, exchange rates and so forth.

FIGURE 1

Cash

		Description	Historic annual volatility	Returns generally from
ASSET CLASS	CASH	Funds that are held on individual or pooled bank deposit accounts. This asset class may also include high-quality liquid bonds with very short maturities (less than 1 year) as well as money market funds.		
Sub-Group/ Region	Money Market Funds	A money market fund is a kind of mutual fund that invests only in highly liquid instruments such as cash, cash equivalent securities, and high credit rating debt-based securities with a short-term, maturity – less than 13 months.	Low	Income
	Time Deposits	A time deposit is an interest-bearing bank deposit account that has a specified date of maturity, such as a certificate of deposit (CD). The deposited funds must remain in the account for the fixed term to receive the stated interest rate.	Low	Income
General Risk Warning	The main risk in cash funds is, in the case of deposit accounts, the credit risk of the banking entities involved, which is minimised by the use of pooled deposits, or in the case of very short-dated money market instruments, by small interest rate sensitivity and/or some credit risks.			

Fixed Interest

		Description	Historic annual volatility	Returns generally from
ASSET CLASS	FIXED INTEREST	Fixed incomes, or bond investments, generally pay a set rate of interest over a given period, then return the investor's principal. They offer a more predictable nominal return over time but may suffer shorter-term volatility. They provide good protection against loss of capital, but with the exception of index-linked bonds, little protection against inflation.		
Sub-Group/ Region	Preference Shares	Preference shares, more commonly referred to as preferred stock, are shares of a company's stock with dividends that are paid out to shareholders before common stock dividends are issued. If the company enters bankruptcy, preferred stockholders are entitled to be paid from company assets before common stockholders. Most preference shares have a fixed dividend, while common stocks generally do not.	Medium	Income
	Emerging Economies Government Bonds	Emerging market bonds – the fixed income debt that is issued by countries with developing economies as well as by corporations within those nations – have become increasingly popular in investor portfolios in recent years. Their traction has been attributed to the bonds' rising credit quality and their higher yields, relative to U.S. corporate and Treasury bonds.	Medium	Income
	High Yield Corporate Debt	Bonds issued by companies with credit ratings below 'investment grade' or from companies or institutions based in emerging markets. Because the risk of default is higher than for investment grade bonds from developed markets, coupons are typically higher for high yield and emerging market debt.	Medium	Income
	Investment Grade Corporate Bonds	Bonds issued by companies with credit ratings below 'investment grade' or from companies or institutions based in emerging markets. Because the risk of default is higher than for investment grade bonds from developed markets, coupons are typically higher for high yield and emerging market debt.	Low-Medium	Income
	Advanced Economy Government Bonds	Bonds issued by advanced economies such as the United Kingdom, generally with a promise to pay periodic interest payments (coupon) and to repay the face value on the maturity date.	Low	Income

Fixed Interest

	Description
General Risk Warning	Bonds tend to provide a lower but more predictable overall return than equities. The interest payable on these may be fixed or variable, the former providing a greater surety of return. Bonds are issued by both governments (sovereign debt) and by companies (corporate debt). The return from a fixed income bond is dependent upon the rate of interest paid and the price paid for that bond. The market prices of bonds with different credit ratings may behave in different ways as the assessment of the economic cycle changes. The most significant determinants of the value of a fixed interest bond in the market are the financial position of the issuer and changes in the interest rate environment. In the shorter term, the market price of fixed income stocks will change in accordance with the market's anticipation of moves in interest base rates and the likely future course of inflation. We may also invest from time to time in index-linked stocks. Both the interest paid by these stocks and the sum received on redemption are linked to inflation, unlike conventional fixed income stocks where both are fixed. We may choose to invest in bond funds, rather than in specific fixed income stocks. This may be for a number of reasons including diversification, income objectives and a desire to invest in bonds denominated in a currency other than sterling. Both the value of the units in a bond fund and the income received from it may fluctuate.
Our investment process	The fixed interest process will first assess the split between index-linked and conventional bonds on the basis of the overall inflation protection available within the portfolio. We will have a set policy on the target interest rate sensitivity of the remaining bonds; the remaining decision is on how much credit risk is appropriate. This will depend on the client's income requirements and the relative pricing of the various credit bands in the market. The choice between using individual bond holdings and funds depends on the portfolio size, and thus costs to the client, and where in the credit spectrum we are investing. It also depends on our judgement of the outperformance that we expect from third party providers.

Commercial Property

		Description	Historic annual volatility	Returns generally from
ASSET CLASS	COMMERCIAL PROPERTY FUNDS (Investing directly in bricks and mortar)	Commercial Property comprises collective funds that are invested across a range of bricks and mortar properties. These may be UK or internationally based. Both the expected returns and inflation protection characteristics lie somewhere between fixed interest and equities.	Medium	Capital and Income
General Risk Warning	If we invest in commercial property it will only be through funds or quoted equities. Closed-ended property funds may trade at a significant discount to underlying asset value, meaning that you may sell at a loss even if the value of the underlying assets rises. Open-ended funds are likely to underperform a rising market as they may receive a steady flow of cash for investment at ever higher values, while the illiquidity of property means that funds may refuse redemptions for extended periods while cash is raised. This will mean that you may be locked into falling prices for many months.			
Our investment process	Property exposure is accessed through our research recommended funds. The asset class has attractive real income characteristics and helps to lower the risk of the overall portfolio. Funds can target selective areas that may be more or less exposed to the economic cycle. The weight we allocate to clients is sensitive to their investment horizon, income needs and risk target, as the funds are relatively illiquid.			

Equities

		Description	Historic annual volatility	Returns generally from
ASSET CLASS	EQUITIES	Equities represent shares of ownership in publicly held companies. Shares in these companies are listed and traded on public stock exchanges around the world. They are individually volatile and sensitive to many unpredictable variables. As compensation for taking these risks, a higher return than for Fixed Interest assets is expected over the Long-term. A measure of inflation protection should also be provided through this asset class.		
Sub-Group/ Region	Emerging Market Shares & Funds	Investment in public companies listed in emerging markets. Corporate governance standards may be relatively less rigorous and capital markets shallower when compared with developed markets. However, emerging market economies are typically growing much faster than developed markets.	Medium-High	Capital and Income
	UK Mid & Small Cap Shares & Funds	Mid cap stands for middle capitalisation and is a term used to group stocks and shares. Investment in public companies listed in the UK and therefore subject to UK corporate governance standards. Generally these companies will have more of a bias towards the UK than international peers. However, given the global nature of many large companies, around 75% of FTSE 100 revenues are from overseas.	High	Capital and Income
	Quoted Private Equity funds	Private equity funds are, in the main, available only to very large investors who have the financial resources to make significant long-term commitments. As a consequence, traditional forms of private equity can be difficult to access for the vast majority of smaller investors. Fewer still have the ability to buy private companies directly.	High	Capital and Income
	Developed Market Shares & Funds	Investment in public companies listed in emerging markets. Corporate governance standards may be relatively less rigorous and capital markets shallower when compared with developed markets. However, emerging market economies are typically growing much faster than developed markets.	Medium-High	Capital and Income

Equities

	Description
General Risk Warning	Equities are units of ownership in individual companies. By investing in equities clients will participate in the economic success or failure of the company. As a consequence a company's shares may fall as well as rise. Volatility in equity markets can change quickly and does not necessarily follow historical trends. If a company becomes insolvent the value of its equities will also fall, potentially to the point where it has no value at all. Long-term returns from equities will come from a combination of capital growth and dividend payments. We may also advise on investments in, or execute transactions in, smaller companies, including penny shares. There is an extra risk of losing money when shares are bought in smaller companies including penny shares as there is a big difference between the buying price and the selling price of these shares. If they have to be sold immediately, you may get back much less than you paid for them. The price may change quickly and it may go down as well as up.
Our investment process	The equity portion of the portfolio gives our client exposure to real assets (those whose value tends to move in line with inflation) and to economic growth (via corporate earnings). Provided we have the risk budget, they typically form the core of the portfolio. Equity selection is driven by relative valuation analysis with a bias to strong and sound companies that we believe will prosper through the business cycle. On top of this, client income requirements will drive specific stock selection choices. We will hold an increasing proportion of international equities the larger the overall equity allocation, as this gives us the best chance to select long-term winners via our in-house research process. The choice between direct holdings and collectives is a complex function of portfolio size, relative valuation prospects on purchase, liquidity constraints, total costs to the client and our view on the potential for outperformance from third party providers.

Alternative Investments

		Description	Historic annual volatility	Returns generally from
ASSET CLASS	ALTERNATIVE INVESTMENTS	Alternative Investments covers all non-traditional asset classes (Fixed Interest, Equities or Cash). The most common sub-groups are listed below.		
Sub-Group/ Region	Commodity Funds	Investment in physical commodities or financial contracts linked to their value. Commodities have no income stream attached with them (compared to a coupon for a bond or a dividend for equities) so returns are entirely from capital.	High	Capital
General Risk Warning	Returns from commodities (including precious metals), either through funds or direct investment, should be expected to be highly volatile. Commodities pay no income and are thus completely subject to patterns of buying and selling in the market. Factors that may influence these patterns are the global economic cycle, production patterns, shifts in the futures markets, currency movements, extreme weather and the performance of other assets, including equities and bonds.			
Sub-Group/ Region	Hedge Funds	Hedge funds can invest in a range of financial assets rather than being limited to individual asset classes. Unlike conventional funds, hedge funds have the ability to 'short' assets, i.e. to profit when the value falls.	Medium-High	Capital
General Risk Warning	Hedge funds are investments which employ a wide variety of trading strategies in order to produce returns. The strategies vary enormously from fund to fund and may include borrowing money in order to seek to increase returns of investment (known as gearing), the use of derivatives to either increase or reduce risk and the short selling of securities. As a consequence, the overall risk of each fund varies considerably. In addition to risks arising from the strategies of hedge funds there are also risks that arise from the regulatory environment in which the fund is based. Many hedge funds are domiciled in overseas locations where the style and quality of regulation differs from that in the UK. As a consequence, the funds may be subject to different disclosure requirements. This may result in funds being able to make changes in their strategy that have considerable impact upon the investor without necessarily disclosing them publicly. Funds of hedge funds will usually have greater liquidity than their underlying holdings. However, management fees may be high and include a charge for performance above a predetermined level. These high charges may reduce reported performance and may lead the managers to seek higher returns than might otherwise have been expected. A large seller may also distort the price to the detriment of other unit holders. Since a fund of funds buys many different funds which themselves invest in many different securities, it is possible for the fund of funds to own the same stock through several different funds and it can be difficult to keep track of the overall underlying holdings. The fund's management team is often small and it is not uncommon for hedge funds only to offer infrequent opportunities to sell. Funds with monthly, six-monthly or even annual lock-ups are not unusual. The pricing of closed-ended funds of hedge funds and single manager hedge funds is subject to market forces and may be at a premium or discount to the underlying net asset value. It is therefore possible that you realise a loss on the investment even though the underlying assets have risen or that smaller falls in net asset value are magnified into substantial falls in share prices.			

Alternative Investments (continued)

		Description	Historic annual volatility	Returns generally from
Sub-Group/ Region	Absolute Return Funds	Absolute return is the return that an asset achieves over a certain period of time. This measure looks at the appreciation or depreciation, expressed as a percentage, that an asset, such as a stock or a mutual fund, achieves over a given period of time.	Low-Medium	Capital
	Infrastructure & Renewable Energy Funds	Clean energy ETFs are exchange-traded funds that invest primarily in alternative energy sources, such as solar, wind, water, geothermal and nuclear. These alternative energy funds typically track the performance of an underlying index comprised of stocks of companies involved in clean and renewable energy sources.	Medium	Capital and Income
	Fund of Hedge Funds	A fund of hedge funds (or "fund of funds") is a pooled investment fund that invests in other hedge funds in order to provide investors access to many different fund managers and their investment strategies, while generally spreading the risks over a variety of funds.	Medium	Capital
	Structured Products	Structured products are investments designed to meet a specific return profile over a defined period by packaging bank bonds with derivatives strategies. They typically have a degree of capital protection and can make a positive return in a variety of market conditions.	Medium	Capital

Alternative Investments (continued)

	Description
General Risk Warning	Structured products is a general term to describe investments which provide exposure to a wide range of asset classes through a combination of financial instruments (typically including zero coupon bonds and/or derivatives) brought together to provide a single investment product. The nature of the financial instruments included in a structured product will depend upon the type of exposure being sought by investors. A structured product should be considered as a term investment, where the expected returns will occur at, or shortly before, maturity. In the time before then, the price of the product may not reflect changes in the underlying assets and in certain cases will initially be more sensitive to changes in the price of the issuer's bonds. The market price of the structure will also be affected by rises and falls in volatility and by market interest rates. One of the main risks when purchasing a structured product is the credit risk of the issuer. A zero coupon bond typically makes up much of the asset value of certain structured products and the price of this bond will vary according to the issuer's credit rating and market perceptions of its creditworthiness. The nature of the zero coupon bond may also mean that holders of capital protected products may face losses if forced to sell before maturity of the structure and may be locked into low returns for the life of the product if the price of the underlying asset fails to perform as anticipated. Holders of structured products may also lose if the issuer of the derivatives in the product were to default. The derivatives that make up a structure are very rarely actually purchased on the exchange. As a result, if the issuing counterparty were to default, then the derivatives involved in the structure would effectively be written off and it is likely that the holder of the product would be considered to have no rights to these derivatives. Certain structured products are dependent upon the performance of an index or indices, so that a fall in the index or any of the indices below a predetermined level may result in irrecoverable losses. Buying structured products in the secondary market may also create a number of additional risks. Capital protection, where applicable, is only applicable to the price at launch and secondary purchases may therefore be liable to large potential losses. The taxation of structured products may be yet to be determined and it is possible that products that we believe to be liable to capital gains tax could in future be taxed as income or subject to further change. You should be aware that the real value of any capital protection may be reduced by inflation. Structured products are not suitable for investors with no capacity for loss.
Our investment process	Our favoured alternative investments provide attractive real income streams, exposure to lowly correlated assets and to markets such as currencies where we rarely take specific house views. We also favour defensive equity structures, which offer partial equity upside for lower overall risk and significant downside protection. This broad category includes commodity funds and gold. Exposure is via funds and in-house researched structures. The main drivers will be client income requirements, the need to reduce overall portfolio volatility to meet client risk preferences, liquidity considerations and whether we can see value in both the assets and the external managers' ability to add value in third party funds.

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