Out of the Ordinary

Investec
Wealth & Investment

'Managing Your Investments' Supplement

Alternative Portfolio Strategy (APS)

Alternative Portfolio Strategy (APS) Service

This document must be read in conjunction with the 'Managing Your Investments - International Clients' brochure.

Introduction

The Alternative Portfolio Strategy (APS) Service is primarily offered to International clients and high net worth clients looking for a defined mandate. APS adopts a capital preservation approach to investing – nevertheless it should be understood that all offerings in this service do entail some capital risk.

Our disciplined process blends investment art with science. Decisions are made by an experienced team of fund managers and researchers, drawing on the resources of the entire group. Quantitative risk management techniques govern the implementation of our decisions and detailed performance monitoring impartially measures their effectiveness.

Diversification is used to build sound portfolios, which blend fixed income, global equities, hedge funds, real estate and commodities.

Investment portfolios are managed actively, as the sources of risk and return are not constant but can be identified and exploited, however controlling cost is an important element in targeting positive returns. Less activity with more meaningful changes is preferred to an ongoing fine-tuning of portfolios. Please note that target returns are not guaranteed.

The service invests predominantly through collective investments (i.e. funds). The funds are chosen from an open architecture platform ensuring that the best available options are selected for our clients' portfolios, in all areas, wherever they may be.

Choosing an Appropriate Level of Risk for Your Portfolio – APS Service

The Alternative Portfolio Strategy is suitable for clients who typically have a deeper understanding of more complex asset classes and are willing to accept the potential use of more illiquid assets, such as alternative investments; for clients with no income requirements and where tax considerations are not a significant constraint. We offer five risk levels to choose from:

- **Low** – clients would expect returns to be marginally better than cash with a small amount of annual volatility. The portfolio is likely to be largely invested in lower risk assets such as cash and fixed income and may have limited exposure to higher risk assets including equities, alternative investments, property and commodities. The blend of asset classes should be towards the low end of the risk/return scale.
- **Low / Medium** – clients would expect returns to be marginally better than cash with some asset price volatility in the short term. The portfolio is likely to be invested largely in lower risk assets such as cash and fixed income but will have some exposure to higher risk assets including equities, alternative investments, property and commodities. The blend of asset classes should be towards the lower end of the risk/return scale.
- **Medium** – clients would be prepared to accept asset price volatility in the short term with the aim of achieving above average returns over the long run. The portfolio is likely to be invested to maintain a balance between lower risk assets such as cash and fixed income and higher risk assets including equities, alternative investments, property and commodities. The blend of asset classes would be towards the middle of the risk/return scale.
- **Medium / High** – clients would be prepared to accept asset price volatility in the short term with the aim of achieving above average returns over the long run. The portfolio is likely to be invested to maintain a significant exposure to higher risk assets including equities, alternative investments, property and commodities. Clients would expect the combination of assets and concentration of risk to be towards the higher end of the risk/return scale.
- **High** – clients would be prepared to accept substantial price volatility in the short term with the aim of achieving higher returns in the long run. The portfolio would comprise principally of higher risk assets including equities, alternative investments, property and commodities. The blend of asset classes would be towards the high end of the risk/return scale.

The Investment Process

Our clients' assets are invested depending on their financial objectives, tolerance for market fluctuations and their time horizon. We manage the portfolios using a structure that leverages the resources of the Group and the work that we do for other clients with similar objectives.

We begin by providing each client with an investment policy that has been specifically designed with their unique circumstances in mind. This is embodied in their Strategic Asset Allocation (SAA - see below].

Having decided on the long term investment policy, we make asset allocation decisions using a top down investment process. This means that the strategic investment position is adjusted to take account of the macroeconomic environment, both on a long term (secular/thematic) and a shorter term (cyclical/tactical) perspective.

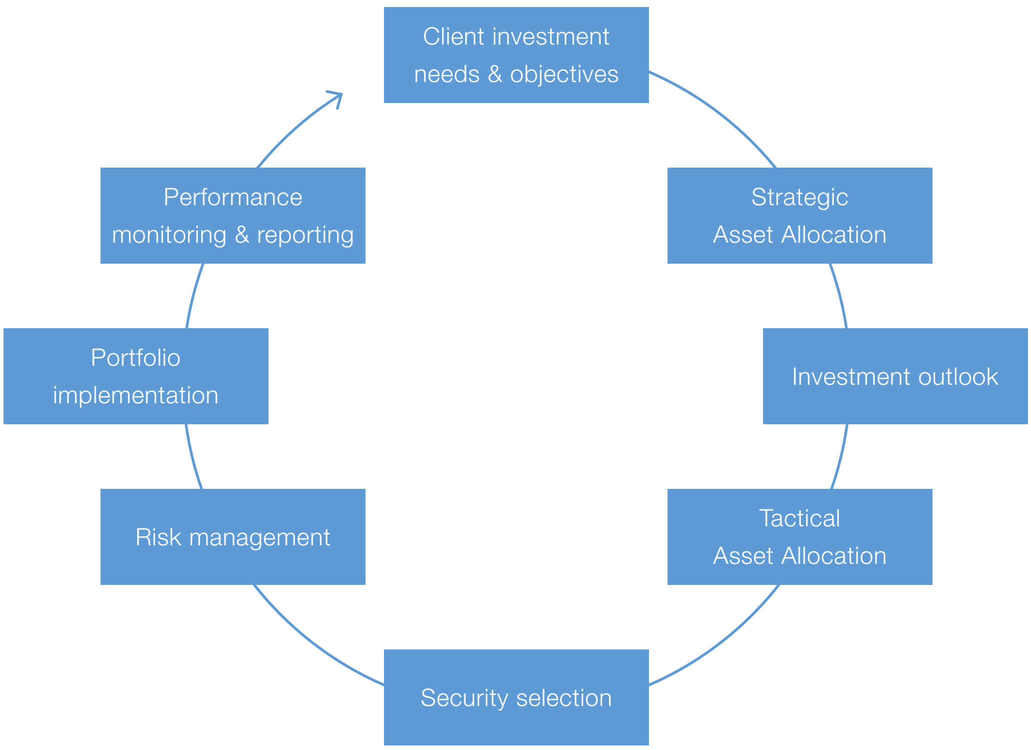
The resulting adjustments to the Strategic Asset Allocation are referred to as a portfolio's Tactical Asset Allocation (TAA – see below).

We leverage the resources of the Group and the work that we do for clients with similar objectives by crystallising our investment decisions in a family of internal portfolio strategies that we call Framework Investment Portfolios (FIPS – see below).

The FIPS are then customised for individual clients as appropriate (according to different circumstances or preferences) by a dedicated Investment Manager.

The Investment Manager takes care of the day-to-day management of the clients' portfolios and ensures that they reflect our investment view and the clients' interest. It is also part of the Investment Manager's role to review the clients' personal circumstances and financial objectives on a regular basis to make sure that their portfolios are always aligned with them.

Our clients receive a personal service. Regular updates on the performance of their portfolios and the assets within them are given and the Investment Manager is available for consultations at any time.



1.1 Strategic Asset Allocation (SAA)

The SAA is the mix of assets that, we believe, will deliver returns consistent with the client's long term objectives and risk appetite. The SAA is based on our forward-looking estimates of returns and volatilities of the asset classes that are most likely to help us achieve our clients' investment objectives.

Our service currently provides guideline strategic asset allocations for three levels of risk tolerance:

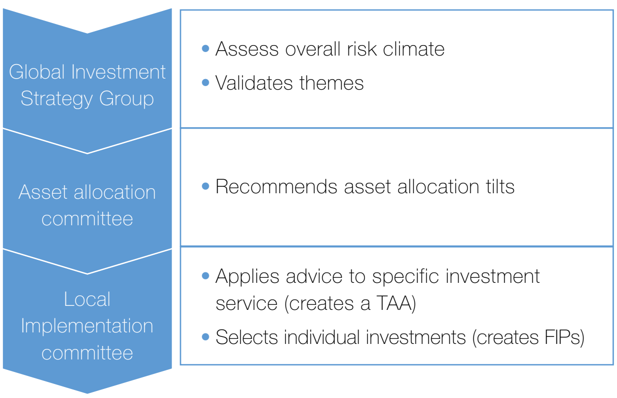
- **Cautious** – low to medium risk tolerance
- **Balanced** – medium risk tolerance
- **Capital growth** – medium to high risk tolerance

The SAA aims to maximise the returns for a given level of risk. Portfolio liquidity characteristics are considered as a key component to risk. All of these services entail some risk of capital loss. Should your appetite for risk be higher or lower than provided by these options, a bespoke solution can be designed in consultation with your Investment Manager.

1.2 The Investment Outlook

Our view of the investment environment is formed using the global research process within Investec Wealth & Investment. Our views are the combination of in-house research contrasted with the views of independent research organisations and challenged by our most experienced Investment Managers.

We use a top-down investment process because we believe there is an intrinsic relationship between the performance of financial assets and the real economy.



Initially, our Global Investment Strategy Group judges the investment climate and advises all our businesses as to how much (or how little) risk we should be taking, independent of location or type of client. An Asset Allocation Committee then interprets this message into specific asset class tilts relative to a "neutral" benchmark. This information (a firm-wide risk appetite and an illustrative asset class tilt) is used by the Local Implementation Committee to guide the investment policy of each service that we provide. This is expressed in a Tactical Asset Allocation for each risk profile (Cautious/Balanced/Capital growth).

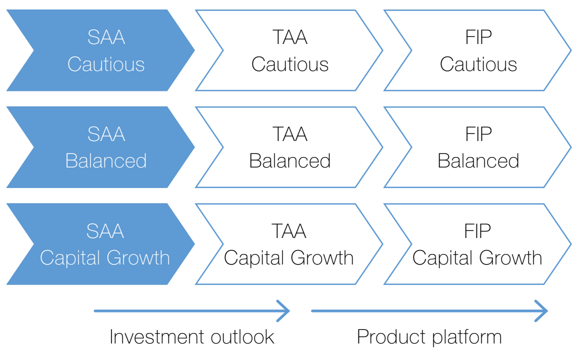
1.3 The Tactical Asset Allocation (TAA)

The TAA takes near term market conditions into account to adjust the SAA towards incremental return opportunities and away from unusually elevated risk. Our approach favours less frequent, more meaningful changes to a constant fine-tuning of portfolios.

Our views can be deployed in a variety of ways: changes in asset class weights, regional allocations, style or thematic expression. These are then translated (using real investment choices) into the FIPS that are used as the practical guidelines for our clients' portfolios.

1.4 Framework Investment Portfolios (FIPs)

The portfolio construction process is crystallised in illustrative internal portfolio strategies segmented by risk appetite that we call Framework Investment Portfolios, or "FIPs". The FIPs are constructed by the Investment Managers and the research department together using investments selected from the carefully filtered options provided by our research department (the "product platform").



1.4.1 Portfolio construction

Our portfolios are built using a core and satellite approach. Core investments are selected to give us efficient exposure to the asset class or to secular investment themes. Satellite investments, on the other hand, target shorter term opportunities.

1.4.2 Security selection

Typically we use collective investments (i.e. funds) rather than individual securities in constructing portfolios. This gives us access to specialised investment expertise, a wider range of investment options and appropriate diversification. Our open architecture platform ensures that the best available options are chosen. Where appropriate, or if directed by clients, we may use single-line securities on an ancillary basis.

1.4.3 Risk management

Once we have identified the assets that we want to hold in the portfolio, the size of the exposure is then quantitatively determined using independent risk measurement systems. The contributions to risk on a portfolio level are monitored constantly to ensure that the assets selected are performing in line with our expectations.

We use a number of different measures of risk (drawdown, volatility, equity beta, value at risk), believing that no single one is ideal, each has a value in differing investment environments and all are helpful for improving client understanding of our objectives.

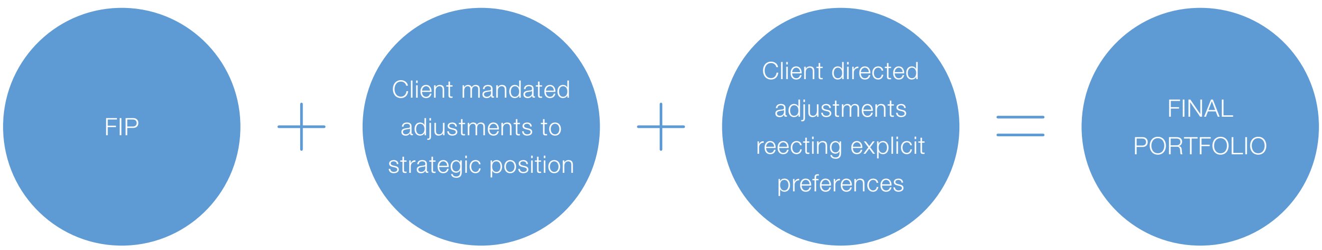
1.5 Portfolio implementation

Individual Investment Managers then tailor this solution to the client's requirements under the supervision of an investment committee tasked with ensuring such adjustments are consistent with the mandate.

The structure is simple and collaborative and aims to harness the depth of knowledge and experience that exists throughout the Group, whilst keeping the final investment decisions as close to the client as possible. In short, we are informed by the house views and positions, but are not inflexibly bound to them.

1.6 Foreign exchange policy

Our strategic policy is to fully hedge any foreign currency exposure in Cash, Fixed Income and Hedge Funds into the base currency of the portfolio to preserve their insurance value in volatile markets, unless otherwise directed by the client. Tactical views on the foreign currency exposure on equities and commodities may be taken but are resisted and are therefore very infrequent. Clients may brief their personal Investment Manager to be more active in this area, should they wish to seek incremental returns, whilst understanding that increased risk to capital is also assumed in the pursuit.



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Notes

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IWI542 v6 03/18