Brewin Dolphin

Risk guide

RBC Brewin Dolphin Ireland

Risk warnings

All of the solutions we offer involve some form of investment risk and you should be aware that the value of investments can fall and you may get back less than you invested.

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

You should be aware that tax legislation is subject to change. You have sole responsibility for the management of your tax and legal affairs including all applicable tax filings and payments and for complying with applicable laws and regulations. We are not specialist tax advisers and will not provide you with tax or legal advice and recommend that you obtain your own independent tax and legal advice, tailored to your individual circumstances.

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

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

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

Our services are not suitable for everyone, but we can advise you on the specific services that are suitable for you.

There are no guarantees that historical levels of performance will be achieved, or that RBC Brewin Dolphin's performance will match that of our performance benchmarks. There is a possibility that you may get back less thsan you invested.

All data as at 31 December 2024. All performance data is presented using monthly data unless otherwise specified.

Warning: past performance is not a reliable guide to future performance.

Warning: the value of your investment may go down as well as up.

Warning: you may lose some or all of the money you invest.

Warning: your investment may be affected by changes in currency exchange rates.

Warning: any income you get from this investment may go down as well as up.

There are a number of ways to contact Brewin Dolphin and keep in touch with us:

For new clients:

T: +353 (0)1 260 0080

E: info@brewin.ie

W: www.brewin.ie

For existing clients:

Please contact your Investment Manager

Contents

Overview

Introduction

This document provides an overview of the risk categories used by RBC Brewin Dolphin to determine an investment mandate. We set out the types of investments a portfolio is likely to be composed of and we also give an indication of the level of risk and potential return.

We provide example charts to help you understand the financial concepts involved and what could happen to the portfolio.

How long should you invest for?

In general terms, the longer the time horizon the better, particularly if you need to maximise your capital growth. Investing with a longer-term view – for example, 10 years or more – gives more time to recover losses on the portfolio which may be caused by periods of market volatility and therefore sits relatively well with higher-risk investment strategies. Investing on a shorter-term view, such as three to five years reduces the time available to recover losses and costs. Investing with a higher-risk investment strategy over the short-term will require a greater ability to withstand losses.

Attitude to investment risk

Together with Oxford Risk, we have developed a short and easy to complete questionnaire which will help us to understand your current attitude to investment risk. The results of this questionnaire, when combined with your stated investment time horizon, give us a starting point for identifying a risk category which is suitable for you. However, your investment manager will conduct a full review of your personal and financial circumstances in order to agree a mandate tailored for your specific needs.

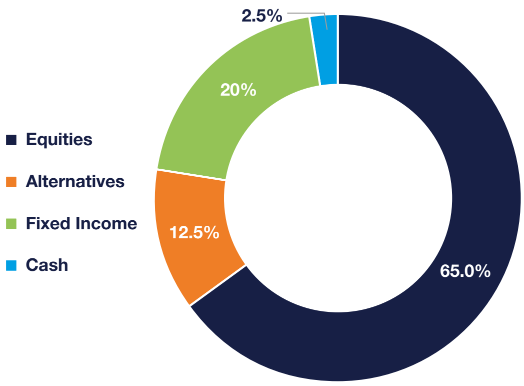
What will your portfolio be invested in?

How the portfolio is constructed will depend on the investment mandate, and we will consider how much return you are trying to achieve in the context of your willingness and ability to accept risk.

We will agree a mandate with you to help achieve your objectives by investing in a mix of asset classes such as fixed income, equities, cash and alternative investments. The mix of assets is important as it influences the possible return and the amount of risk within the portfolio.

Please refer to the appendix for more information.

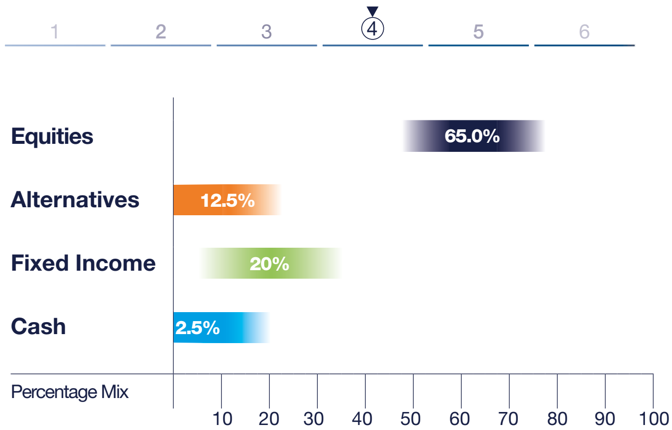
Example asset mix (Risk Category 4)



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

The sample chart below shows how we can tailor the asset mix for each risk category to better meet your needs. We will adjust the asset mix around the midpoint (shown for each asset class) to take account of both the specific investment objectives and prevailing market conditions.

Example asset mix range (Risk Category 4)



We have three broad categories of investment objectives to choose from:

- **Income** (where your priority is to generate an income from your investments)
- **Capital growth** (where you have a priority to grow your investments)
- **Income and capital growth** (where you require a combination of both income and capital growth).

These investment objectives could also have a bearing on the composition of the portfolio.

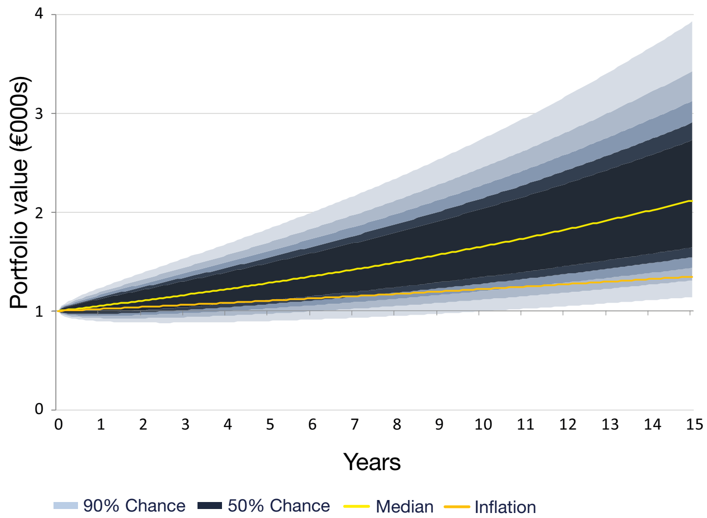
How much could the portfolio grow?

The market changes a great deal but your investment manager, supported by our research team, will endeavour to manage the portfolio to achieve your investment objectives. The longer the period you invest for, the more chance the portfolio has to grow.

For illustrative purposes, the following chart shows the range of likely returns, based on a moderate level of risk. As you can see, in the early years the range of returns is smaller but easier to predict. In the long-term, the returns are greater, but more difficult to predict as shown by the widening shaded area on the chart.

Example projected accumulation of wealth (Risk Category 4)

The potential value of a portfolio of €1,000 over a projected 15-year period from 31 December 2024.



Source: Datastream as at 31 December 2024
Please note, in the example chart above, we have used a market-based rate of 2.0% for inflation.

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

The expected returns detailed in the above sample chart are based on RBC Brewin Dolphin's return forecasts for a mix of assets similar to a portfolio Risk Category 4. The size of the shaded bands is based on historic market data covering the previous 20 years up to 31 December 2024.

The sample chart shows the expected amount of return that could be created in a portfolio over a 20-year period with an initial investment of €1,000. For illustrative purposes, the chart shows the total return assuming that all income generated by the portfolio is reinvested.

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

- The longer the period invested, the less predictable the returns achieved will be.
- The more investment risk accepted, the less predictable the returns achieved will be.

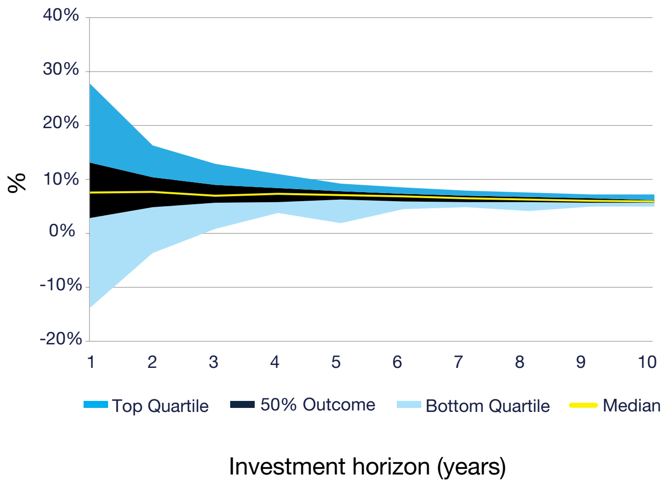
The shaded areas of the chart represent various forecasts showing the likelihood of achieving a level of asset accumulation, as follows:

- The dark blue area shows 50% of all forecasts.
- The lighter coloured areas represent less likely outcomes with 90% of all forecasts falling within this illustration. For example, we believe that there is 90% probability that the accumulated assets in the portfolio shown would range between €1,142 and €3,936 after 15 years.
- There is a further 10% probability that the value of the portfolio could be outside of the ranges shown in this illustration – either above or below the ranges shown.

Please see the Important information on page 2

What is the advantage of investing over a longer time horizon?

The chart below illustrates the range of annualised returns that an investor would have historically received over different periods. For shorter periods there is a wider range of outcomes, but as the time held lengthens, the range narrows. The shorter-term variability of returns is smoothed over time. The chart shows holding periods covering data up to 10 years.



Source: Datastream as at 31 December 2024

Rebalancing

Over time, the asset mix within your portfolio will fluctuate within a range around the strategic asset allocation as set out in this brochure. This can be due to a number of factors, including, but not limited to, our views of the relative valuations of the various asset classes, varying investment performance, cash flows in and out of the portfolio or any restrictions placed on the portfolio by you such as 'cherished' holdings or tax considerations.

Your investment manager will regularly monitor the composition of your portfolio against the asset allocation of the agreed risk category, as any significant differences from the target allocations will impact the investment performance. An important part of what we do is taking the decision to 'rebalance' the portfolios we manage, which involves buying and selling investments to move the portfolio closer to the target asset allocation when we believe it is necessary.

However, we recognise that exceptions will arise from time to time and we will ensure that these are appropriately managed. For example, in times of extreme market movements, when over or under valuation may occur in asset classes, portfolios may have asset allocations which are outside the ranges shown in this booklet for an extended period of time.

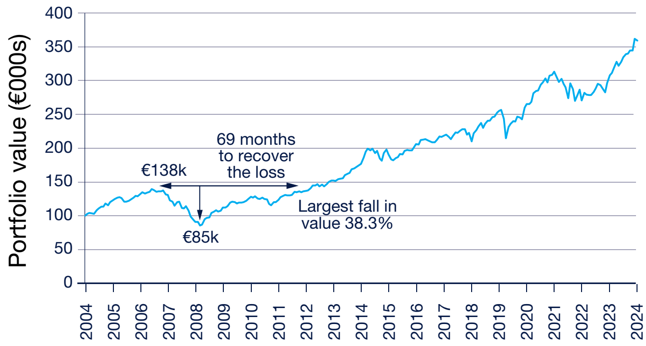
How much might I lose?

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

In the illustration shown, we can see one significant drop in the value of the asset mix. The fall took the portfolio value below the initial amount invested of €100,000. However, as you can see the value of the portfolio then increased over time and was worth €357,627.95 over the full 20 year period.

Example Historical 20 Year Performance

The past performance of a mix of assets similar to a portfolio suitable for an investor in Risk Category 4.



Source: Datastream from 31 December 2004 to 31 December 2024.

How long could my portfolio take to recover?

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

Example Historical Asset Mix Characteristics for the last 20 years (Risk category 4)

Average return per year	6.6%
Gain over the period	257.6%
Average capital return per year	4.6%
Average yield	1.9%
Largest fall in value during the period	38.8%
Longest time to recover (months)	69

Source: Datastream from 31 December 2004 to 31 December 2024.

How can I assess the performance of my portfolio?

Each investment mandate has its own bespoke performance benchmark against which you will be able to measure your portfolio's performance. For more information, please refer to the section entitled 'Our Performance Benchmarks' on page 14.

What are the RBC Brewin Dolphin Risk Categories?

The following table provides a brief description of the 6 Risk Categories we have identified, including the level of investment risk represented by each category.

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

ESMA Risk Rating

In addition to our internal risk grading, RBC Brewin Dolphin has risk graded our portfolios in line with the European Securities and Markets Authority (ESMA) methodology.

In arriving at its ESMA ratings, RBC Brewin Dolphin has used benchmark (index) returns and target asset mix to calculate the risk rating of each portfolio. This is because our discretionary portfolio exposures may differ somewhat due to their bespoke nature and hence the use of benchmark returns. As a result, the ESMA rating for a particular portfolio may differ from that indicated.

The ESMA rating system looks at a portfolio's volatility over the last 5 years and then categorises it according to volatility bands. Volatility refers to the potential ups and downs that the portfolio's investments may experience over time.

Volatility can be described as a measure of how much the returns from a portfolio are different from the average longer term returns from that portfolio.

Generally, the greater the volatility or difference from average return, the riskier a portfolio will be, but also the greater the potential returns may also be.

Our ESMA ratings assume that investments are held for a five year period. Investments held for a shorter period will have a greater level risk than that indicated in this guide.

The ESMA risk calculations are based on historical data and may not be a reliable guide to the future risks of a portfolio.

ESMA	RBC Brewin Dolphin
3	Risk Category 1
4	Risk Category 2
4	Risk Category 3
5	Risk Category 4
5	Risk Category 5
6	Risk Category 6

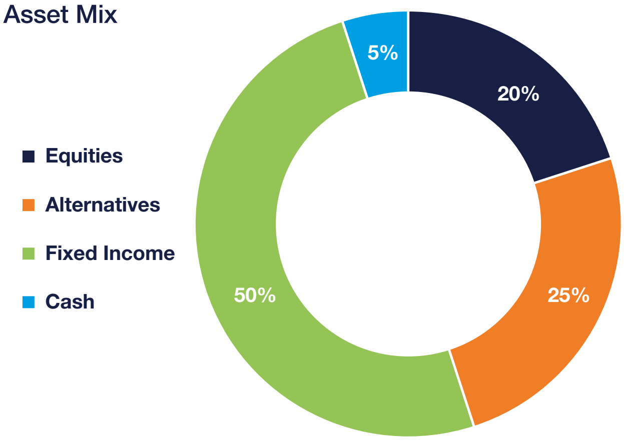
1 2 3 4 5 6

LOWER RISK — HIGHER RISK

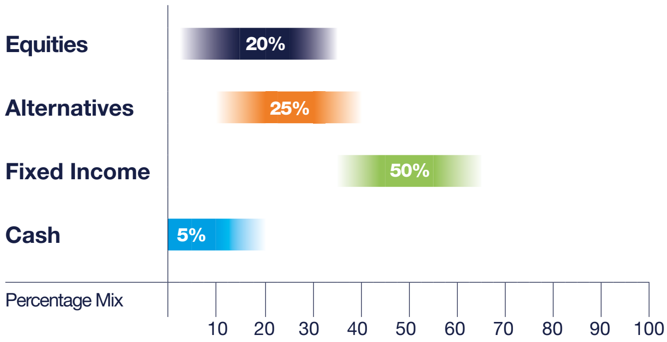
RISK CATEGORY 1 | ESMA 3

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

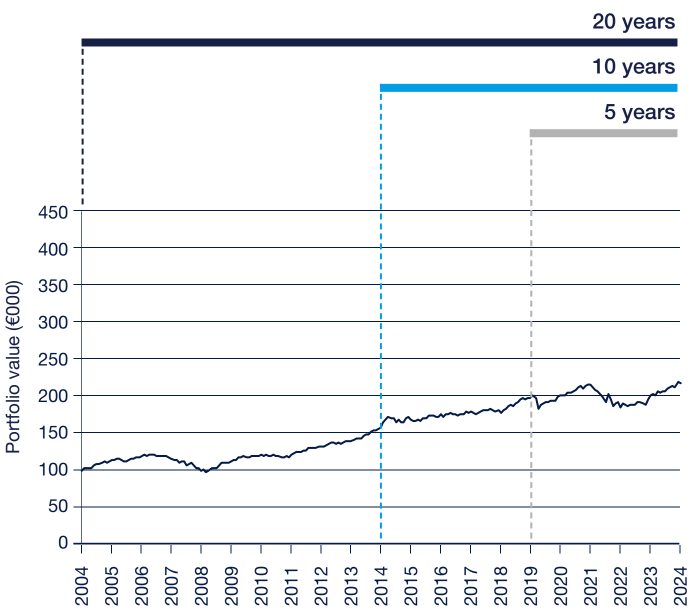
Asset Mix



Asset Mix Range



Performance for this asset mix over the last 20 years



The historical performance has been generated using the composite benchmark for this Risk Category.

For more information about our performance benchmarks, please refer to the section entitled 'Our Performance Benchmarks' on page 14 of this document.

Source: Datastream from 31 December 2004 to 31 December 2024

Historical asset mix characteristics for the past 20 years

Average total return per year	3.9%
Average capital return per year	1.7%
Average yield	2.2%
Gain over the period	116.4%
Largest fall in value during the period	19.1%
Longest time to recover (months)	56

Historical asset mix characteristics for the past 10 years

Average total return per year	3.2%
Average capital return per year	1.5%
Average yield	1.7%
Gain over the period	37.1%
Largest fall in value during the period	13.9%
Longest time to recover (months)	35

Historical asset mix characteristics for the past 5 years

Average total return per year	1.8%
Average capital return per year	0.3%
Average yield	1.6%
Gain over the period	9.4%
Largest fall in value during the period	13.9%
Longest time to recover (months)	35

Please see the Risk Warnings on page 2

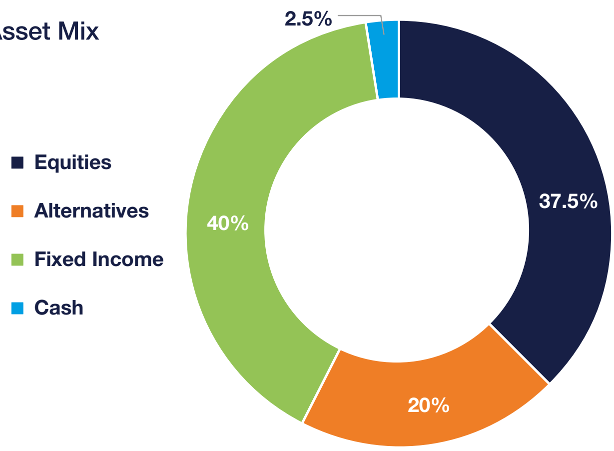
1 2 3 4 5 6

LOWER RISK HIGHER RISK

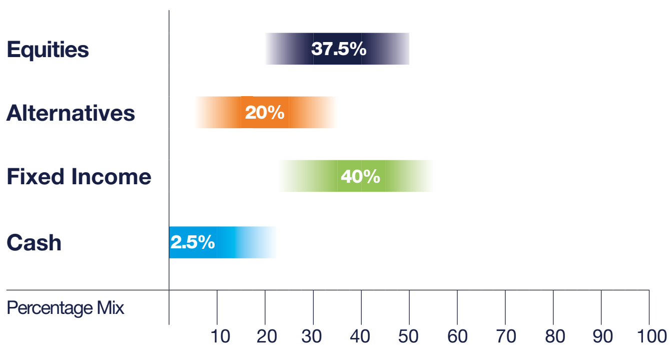
RISK CATEGORY 2 | ESMA 4

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

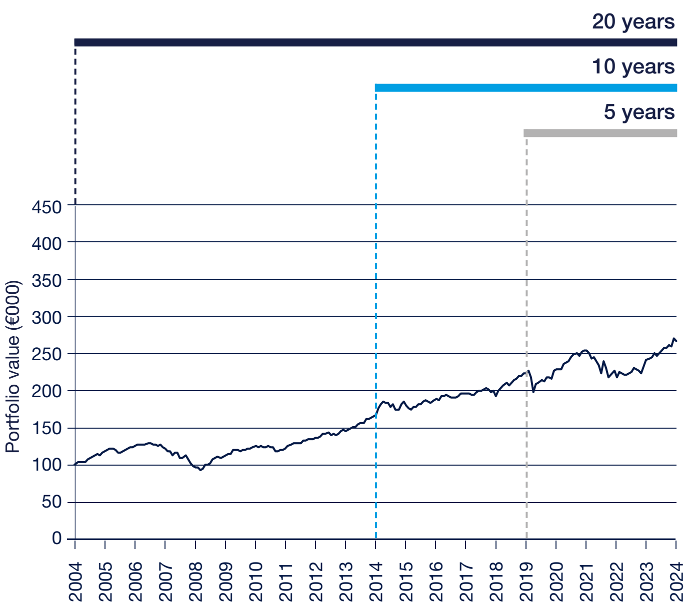
Asset Mix



Asset Mix Range



Performance for this asset mix over the last 20 years



The historical performance has been generated using the composite benchmark for this Risk Category.

For more information about our performance benchmarks, please refer to the section entitled ‘Our Performance Benchmarks’ on page 14 of this document.

Source: Datastream from 31 December 2004 to 31 December 2024

Historical asset mix characteristics for the past 20 years

Average total return per year	5.0%
Average capital return per year	2.8%
Average yield	2.2%
Gain over the period	166.4%
Largest fall in value during the period	28.5%
Longest time to recover (months)	61

Historical asset mix characteristics for the past 10 years

Average total return per year	4.8%
Average capital return per year	2.9%
Average yield	1.9%
Gain over the period	59.5%
Largest fall in value during the period	14.8%
Longest time to recover (months)	31

Historical asset mix characteristics for the past 5 years

Average total return per year	3.7%
Average capital return per year	2.0%
Average yield	1.7%
Gain over the period	19.7%
Largest fall in value during the period	14.8%
Longest time to recover (months)	31

Please see the Risk Warnings on page 2

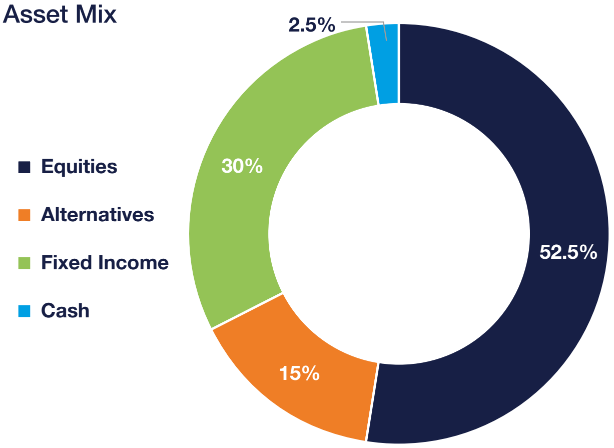
1 2 3 4 5 6

LOWER RISK HIGHER RISK

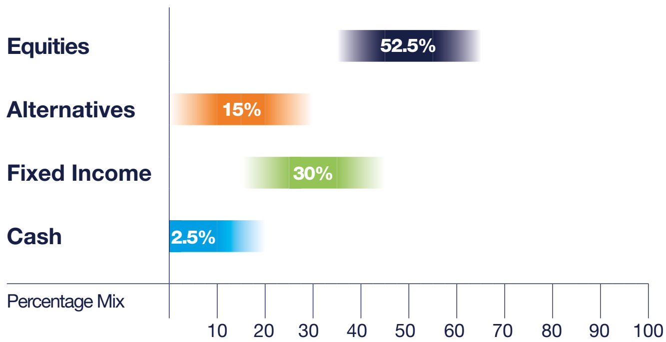
RISK CATEGORY 3 | ESMA 4

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

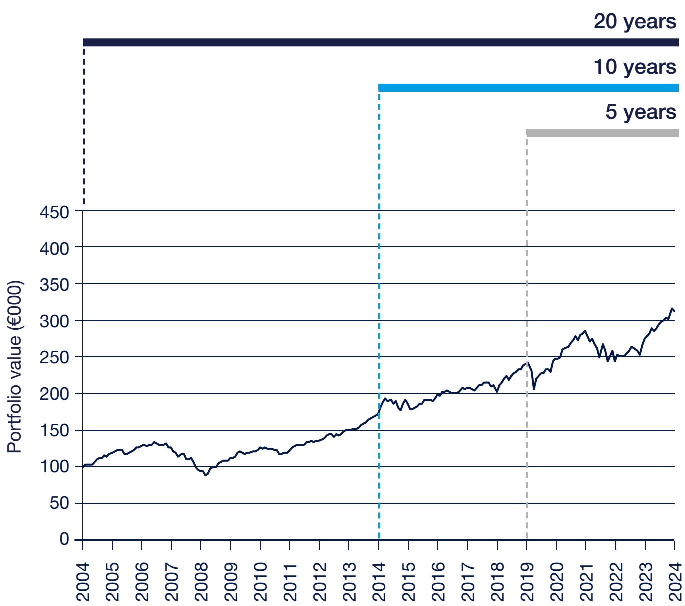
Asset Mix



Asset Mix Range



Performance for this asset mix over the last 20 years



The historical performance has been generated using the composite benchmark for this Risk Category.

For more information about our performance benchmarks, please refer to the section entitled 'Our Performance Benchmarks' on page 14 of this document.

Source: Datastream from 31 December 2004 to 31 December 2024

Historical asset mix characteristics for the past 20 years

Average total return per year	5.9%
Average capital return per year	3.8%
Average yield	2.0%
Gain over the period	213.3%
Largest fall in value during the period	33.9%
Longest time to recover (months)	62

Historical asset mix characteristics for the past 10 years

Average total return per year	6.2%
Average capital return per year	4.3%
Average yield	1.8%
Gain over the period	81.7%
Largest fall in value during the period	14.5%
Longest time to recover (months)	27

Historical asset mix characteristics for the past 5 years

Average total return per year	5.5%
Average capital return per year	3.8%
Average yield	1.6%
Gain over the period	30.7%
Largest fall in value during the period	14.5%
Longest time to recover (months)	27

Please see the Risk Warnings on page 2

1 2 3 4 5 6

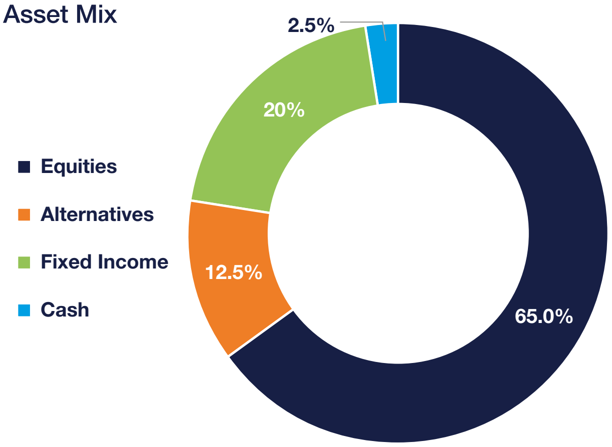
LOWER RISK HIGHER RISK

RISK CATEGORY 4 | ESMA 5

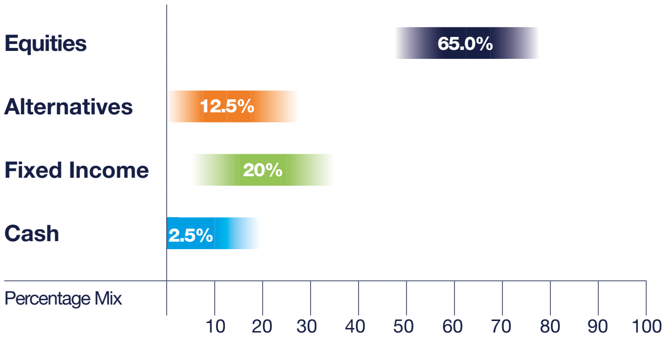
You are prepared to have a greater proportion of your investment held in equities with the aim of achieving a higher investment return over the long-term. The greater allocation to equities means the portfolio may experience heightened levels of volatility over the investment term.

The portfolio will typically include approximately two thirds of the assets invested in equities whilst the remainder will be split betweencash, fixed income and alternatives. You are prepared to accept fluctuations in the value of the portfolio to achieve your investment goals.

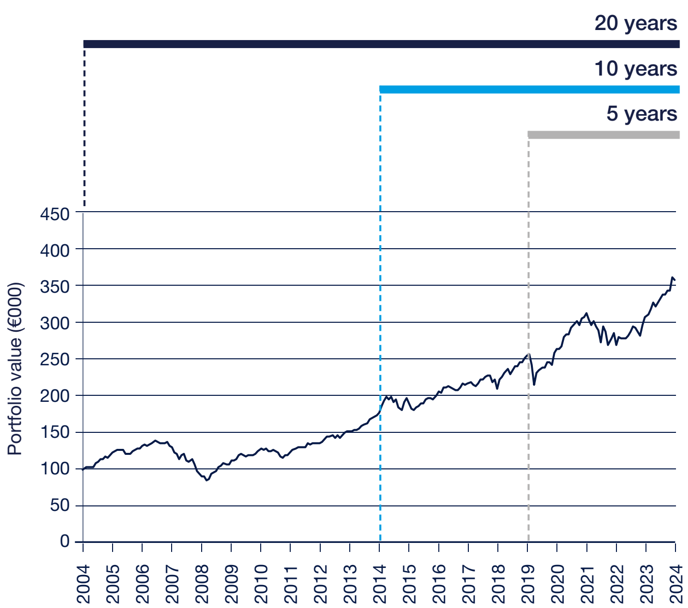
Asset Mix



Asset Mix Range



Performance for this asset mix over the last 20 years



The historical performance has been generated using the composite benchmark for this Risk Category.

For more information about our performance benchmarks, please refer to the section entitled 'Our Performance Benchmarks' on page 14 of this document.

Source: Datastream from 31 December 2004 to 31 December 2024

Please see the Risk Warnings on page 2

Historical asset mix characteristics for the past 20 years

Average total return per year	6.6%
Average capital return per year	4.6%
Average yield	1.9%
Gain over the period	257.6%
Largest fall in value during the period	38.8%
Longest time to recover (months)	69

Historical asset mix characteristics for the past 10 years

Average total return per year	7.3%
Average capital return per year	5.5%
Average yield	1.8%
Gain over the period	103.0%
Largest fall in value during the period	16.3%
Longest time to recover (months)	26

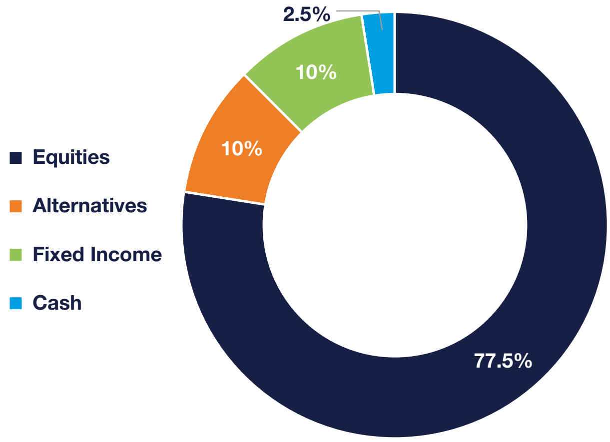
Historical asset mix characteristics for the past 5 years

Average total return per year	7.1%
Average capital return per year	5.4%
Average yield	1.6%
Gain over the period	40.6%
Largest fall in value during the period	16.3%
Longest time to recover (months)	26

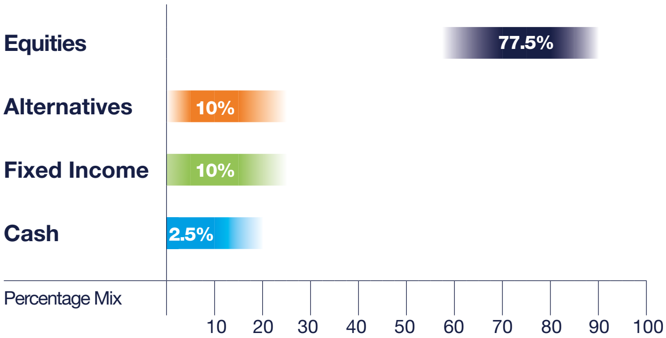
RISK CATEGORY 5 | ESMA 5

You are seeking to generate higher investment returns through an increased exposure to equities to help achieve your long-term investment goals. The portfolio will typically have a very high proportion of the investment held in equities and very low levels of fixed income, cash and alternative asset classes. A larger proportion invested in equities increases the likelihood of volatility and degree of change in the overall value of the portfolio.

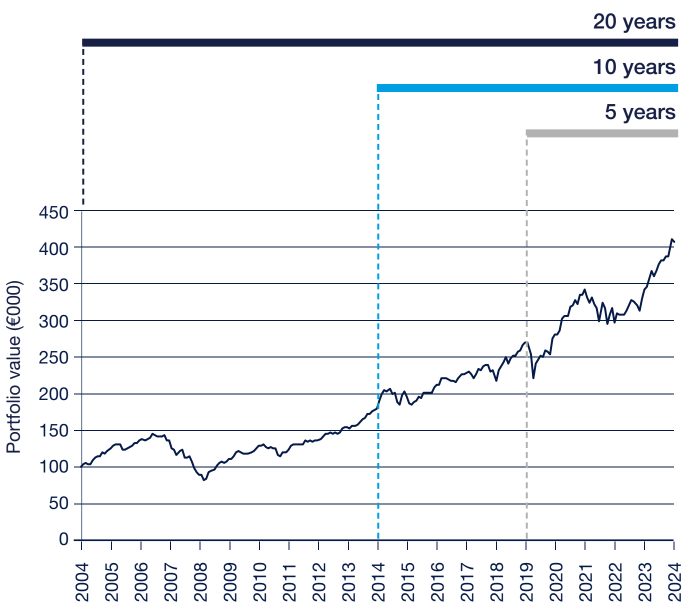
Asset Mix



Asset Mix Range



Performance for this asset mix over the last 20 years



The historical performance has been generated using the composite benchmark for this Risk Category.

For more information about our performance benchmarks, please refer to the section entitled 'Our Performance Benchmarks' on page 14 of this document.

Source: Datastream from 31 December 2004 to 31 December 2024

Historical asset mix characteristics for the past 20 years

Average total return per year	7.3%
Average capital return per year	5.4%
Average yield	1.8%
Gain over the period	306.5%
Largest fall in value during the period	43.5%
Longest time to recover (months)	70

Historical asset mix characteristics for the past 10 years

Average total return per year	8.5%
Average capital return per year	6.6%
Average yield	1.8%
Gain over the period	126.3%
Largest fall in value during the period	18.2%
Longest time to recover (months)	25

Historical asset mix characteristics for the past 5 years

Average total return per year	8.6%
Average capital return per year	6.9%
Average yield	1.6%
Gain over the period	51.1%
Largest fall in value during the period	18.2%
Longest time to recover (months)	25

Please see the Risk Warnings on page 2

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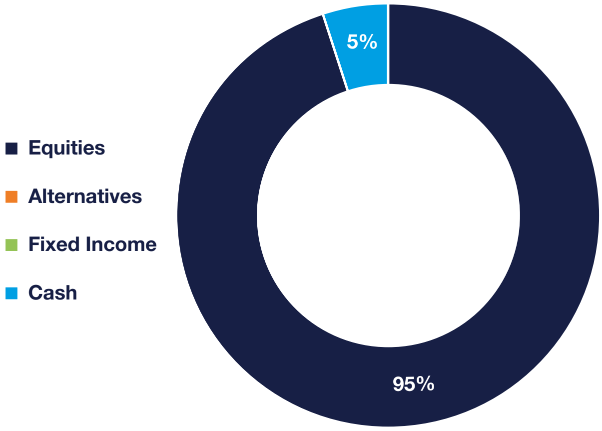
LOWER RISK — HIGHER RISK

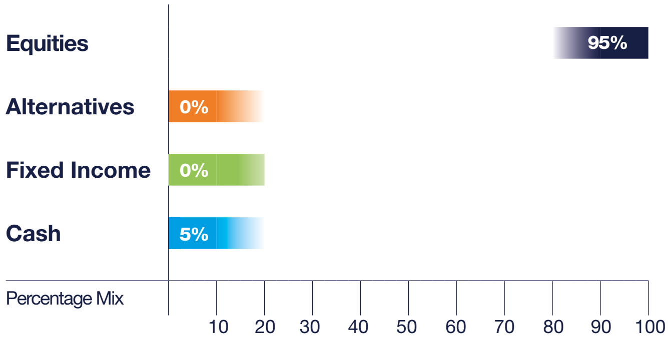
RISK CATEGORY 6 | ESMA 6

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

Asset Mix



Asset Mix Range



Performance for this asset mix over the last 20 years

The historical performance has been generated using the composite benchmark for this Risk Category.

For more information about our performance benchmarks, please refer to the section entitled ‘Our Performance Benchmarks’ on page 14 of this document.

Source: Datastream from 31 December 2004 to 31 December 2024

Please see the Risk Warnings on page 2

Historical asset mix characteristics for the past 20 years

Average total return per year	8.1%
Average capital return per year	6.3%
Average yield	1.7%
Gain over the period	378.7%
Largest fall in value during the period	47.1%
Longest time to recover (months)	67

Historical asset mix characteristics for the past 10 years

Average total return per year	10.0%
Average capital return per year	8.1%
Average yield	1.7%
Gain over the period	158.7%
Largest fall in value during the period	19.8%
Longest time to recover (months)	24

Historical asset mix characteristics for the past 5 years

Average total return per year	10.8%
Average capital return per year	9.0%
Average yield	1.6%
Gain over the period	66.8%
Largest fall in value during the period	19.8%
Longest time to recover (months)	24

Our Performance Benchmarks

Each investment mandate has its own bespoke performance benchmark (a yardstick to measure the performance of a portfolio) which we construct from a combination of market indices which represent the asset classes that make up each mandate (Equities, Fixed Income, Alternatives and Cash). For example, for Equities we use the Refinitiv Global index.

The weighting of each of the individual indices in the overall benchmark for each Risk Category will depend on the asset mix for that particular Risk Category. For example, for Risk Category 4, the asset mix includes 65% in Equities. Please see the table below for details of the individual indices for each asset class (on the right hand side of the table) and their weightings in the bespoke benchmark for each Risk Category.

Please note that the benchmark composition numbers in the table below are based on the strategic asset allocations for each Risk Category and that the benchmark for your portfolio may be tailored to meet your individual needs. The strategic asset allocations are reviewed on a regular basis by the RBC Brewin Dolphin Investment Governance Committee. The underlying indices used to construct our benchmarks are indicative of the asset classes, geographies and markets we typically invest in. However, the underlying investments held in portfolios will not necessarily reflect these indices, depending on your individual mandate as well as our view of the relative prospects of various sectors, economies or asset sub-classes.

Composition of benchmarks for each Risk Category

Asset Mix	Asset Class	Risk Category 1	Risk Category 2	Risk Category 3	Risk Category 4	Risk Category 5	Risk Category 6	Indices
Cash	Cash	5.0%	2.5%	2.5%	2.5%	2.5%	5.0%	€STR
Equities	Global Equities	20%	37.5%	52.5%	65.0%	77.5%	95.0%	Refinitiv Global TR* (Euro)
Fixed Income	Bonds	50.0%	40.0%	30.0%	20.0%	10.0%	0.0%	BofA Merrill Lynch Euro Broad Market Index# – TR*
Alternatives	Absolute return	15.0%	10.0%	7.5%	6.25%	5.0%	0.0%	HFRX Absolute Return TR* Euro
	Property	10.0%	10.0%	7.5%	6.25%	5.0%	0.0%	Refinitiv European Real Estate Total Return Euro

*TR – Total Return is the return an investor receives when income is reinvested. The Refinitiv indices are calculated using a gross return calculation methodology. This can overstate the actual historical outcome achieved by investors in these indices due to the presence of varying global withholding tax rates. To correct for this, we have reduced the historical performance of these indices through the inclusion of a withholding tax drag, calculated using the average of the past five years withholding taxes from comparable index providers who prepare their indices on a gross and net basis.

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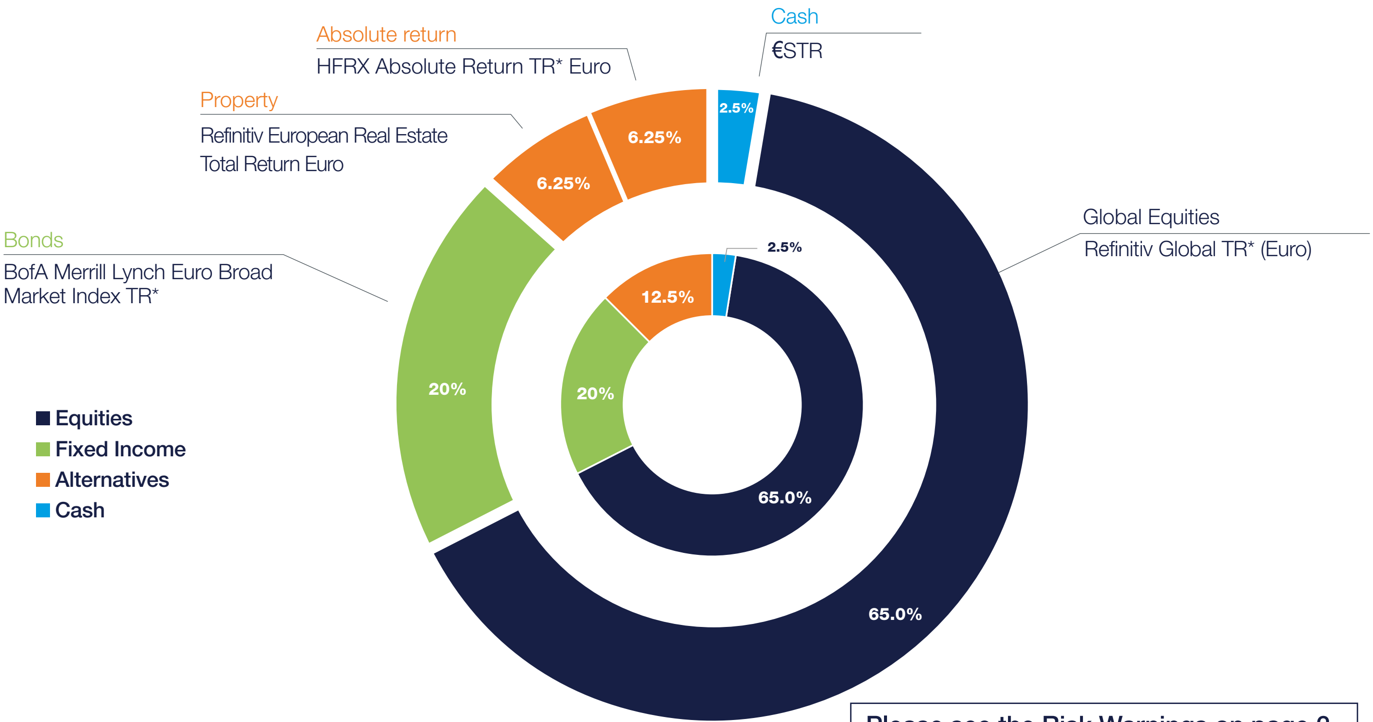
Example Composite of benchmark for Risk Category 4



Please see the Risk Warnings on page 2

Appendix

A description of assets and a guide to their risks

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

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

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

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

Types of investment risk

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

However, it is important to understand that there is a 'trade-off' between the level of volatility you are prepared to accept and the return you can expect to achieve from an investment. As a general rule, the higher the volatility of an asset, there is not only the greater potential for positive returns but also the greater potential for losses. This is often referred to as the trade-off between risk and reward. Overall, it is important to remember that investments and the income from them may go down and you may get back less than the amount invested.

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

Currency risk: This form of risk relates to all investments denominated in foreign currency, for example US government bonds or UK company shares. These assets will generally be priced in the currency of the country of origin – US government bonds will generally be denominated in US dollars and UK company shares will generally be priced in sterling. Euro based investors investors – whose investment portfolios will usually be priced in Euro – therefore need to be aware that the value of the foreign assets that they own will depend not only on the price movements of the assets themselves in the local foreign currency but also on the movements of the exchange rate of the currencies against Euro. This can mean that investments denominated in foreign currency can be more volatile than those denominated in Euro. Movements in exchange rates may cause the value of an investment to fluctuate either in a favourable or unfavourable manner and also independently of the value of the underlying asset.

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

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

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

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

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

Legal risk: We instruct various agents and third parties to provide us with a service or product to enable us to administer your account such as a market counterparty to buy or sell a stock in the market. Another example is client money held by a bank instructed by us. We take great care in selecting reputable agents and third parties, however, should they default or be unable to perform their obligations by reason of any cause beyond our control, this may mean that you will bear the loss of the default to your account or change to our service. Your investments will be pooled with investments owned by other clients, therefore your individual investments are not separately identifiable. Stocks are regularly reconciled but in the unlikely event that there is an irreconcilable shortfall, you may not receive your full entitlement and share in the shortfall in proportion to your holding.

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

Investment-specific risks

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

Equities

Company shares – attributes

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

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

Specific risks

- Returns on company shares cannot be guaranteed. The price of a company's shares can go up and down and you may get back less than you originally invested
- The price variability of international shares denominated in a currency other than Euro may be higher or lower than that of European shares once foreign currency exchange rates are taken into account
- As ownership of an equity represents a direct stake in the company concerned this will give you full exposure to the economic risks faced by the company and its value can therefore fall as well as rise. The price volatility of equity markets can change quickly and cannot be assumed to follow historic trends
- In times of particularly difficult market conditions, there is the potential to suffer irrecoverable capital losses. In the worst case, a company could fail and, if this happens, its equity can become worthless.

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

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

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

Overall, the risks involved in investing in company shares can often be managed by using collective funds (such as unit trusts and investment trusts) which have a diversified portfolio of holdings or by investing directly in a wide range of shares which give exposure to a variety of industries, countries and currencies.

Collective investment schemes – attributes

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

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

Specific risks

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

As the underlying components of collective investment schemes are chiefly company shares and fixed income investments, please see these sections for more extensive explanations of their attributes and the associated risks to which you may be exposed.

Investment trusts – attributes

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

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

Specific risks

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

Structured products – attributes

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

- Generally they have a limited lifespan and a maturity date
- It is important that an investor in a structured product understands both the nature of the underlying assets and the extent of the exposure to those assets. In some cases, structured products may offer a high income or a high level of access to the capital growth of the underlying assets

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

Specific risks

- You should be aware that the return of capital invested at the end of the investment period is not guaranteed, and therefore you may get back less than was originally invested
- Structured products can expose you to a range of different investment risks. We will monitor these risks and associated risks on an ongoing basis. This is crucial as the risk of structured products evolves as time passes
- Structured capital-at-risk products (known as SCARPs) aim to return the original money invested at the end of the term unless the index or asset price to which the product is linked has fallen below a predetermined threshold. If this happens you can quickly lose all or part of the original capital invested
- Prices can fluctuate below the level at which originally invested, due to market forces such as interest rates. If the product is sold before its maturity date the return may be less than invested, irrespective of the performance of the underlying asset
- Structured products will not necessarily outperform the underlying asset to which they are linked
- In a similar way to bonds and debt instruments, most structured product strategies are exposed to the credit risk of the product issuer, meaning that investments could be entirely lost if the issuer is not able to repay the sums due under the terms of the product
- Structured products generally include leverage (i.e. borrowing), and their value can be subject to sudden and large falls if conditions arise which mean that the product is unable to repay the full amount invested
- Investors should review detailed product information and other literature carefully for details of any factors which might impact how the payout from a structured product may change under different economic or market conditions. In particular, where a product aims to repay the amount invested, which is subject to certain conditions being met, the value of an investment will be exposed to the full risk of the underlying assets if these conditions are not met
- It is important to be aware that the product terms for a structured product will only apply to investors who invest at launch and who hold the product until final maturity. Early redemption or purchase after launch could result in a capital loss, even where the product aims to return the amount purchased. These products may also not be readily realisable, which means that it may be difficult to sell a product of this type
- Investors should only invest in structured capital at risk products if they are prepared to accept the risk of sustaining a total or substantial loss of the money they have invested, plus any commission or other transaction charges. Furthermore, some structured products may not be covered by the Investor Compensation Scheme of the Financial Services Ombudsman
- The payoff of a structured product can be linked to the performance of any asset class such as equities, fixed income or commodities. The type of asset will largely determine the risk/return profile of the structure. If the product performance is linked to an equity index such as the FTSE 100 then the structure will exhibit equity-like risk-return characteristics and so it should be allocated to the equity asset class. Some structured products with partial capital protection may be linked to more than one asset class at the same time. An example of this would be a 'geared supertracker' where the product performance is linked to the gold price while the capital protection is linked to an equity index.

Fixed income bonds and bond funds – attributes

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

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

Specific risks

- Bonds issued by major governments (e.g. German government bonds) or supranational bodies (for example, the European Investment Bank) tend to be lower-risk investments
- The risks of other types of bonds (such as those issued by developing countries or individual companies) can vary greatly
- For example, if an issuer is in financial difficulty, there is an increased risk that they may be unable to meet the payments to bondholders that they are due to make. In this event, little or no capital may be recovered and any amounts repaid may take a significant amount of time to obtain
- The payments received from bonds are typically fixed (hence the term 'Fixed Income') which means that inflation can erode their 'real' value to some extent.

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

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

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

Cash – attributes

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

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

Specific risks

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

Alternative investments

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

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

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

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

Absolute Return – attributes

Absolute Return funds aim to deliver positive returns in any market condition, but returns are not guaranteed. Absolute Return is a very broad category that encompasses most asset classes and investment techniques.

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

Specific risks

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

Hedge funds – attributes

Hedge funds are pooled investments which, in contrast to conventional collective funds, will use a wide variety of different trading strategies in order to produce returns.

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

Specific risks

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

Property – attributes

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

- Investment in commercial property entitles the holder to rents paid by the tenant as well as the disposal proceeds if property is sold

Over longer periods the capital growth and income returns it can generate have historically provided a level of protection against inflation. Although past performance is not a guide to future performance.

Specific risks

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

Infrastructure – attributes

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

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

Specific risks

- A key risk to investing in this sector is that companies involved in infrastructure-related industries are subject to environmental considerations and government regulation, which may impact on returns to investors.

Commodities – Linked Products – attributes

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

- A key reason for investing in commodities is that it can offer some protection from inflation. Virtually everything that is produced, bought and sold makes either a direct or indirect use of commodities of one form or another so a general rise in prices is likely to be associated with a rise in the price of at least some key commodities. Therefore, getting exposure to commodities should in theory help to maintain the purchasing power of an investment portfolio
- Investment in commodities (including precious metals) is often achieved either via a structured product based on a commodities

index or basket of different commodities, or by using a commodity derivative (a financial contract which derives its value from the performance of an underlying asset or market index), or by the use of an Exchange-Traded Fund (ETF) which aims to track the price of the commodity itself

- Precious metals have their own distinct characteristics and a key reason for using these in a portfolio (indirectly through an ETF) is that their value is generally not connected to the performance of the other more mainstream asset classes such as company shares or bonds
- In particular, gold and other precious metals are seen as more likely to hold or even increase their value during times of severe economic and social turbulence as theoretically investors will flock to them as 'safe havens' and this has proved to be the case on a number of occasions in history.

Specific risks

- A key risk to be aware of is that commodity prices can be extremely volatile – that is the price can change dramatically from month to month or over very short time periods
- They can also be very difficult to predict – commodities may be affected by a variety of political, economic, environmental and seasonal factors which impact on the demand for or the available supply of the given commodity. For example, the prices of agricultural goods will be impacted if severe weather events affect crop yields, while the price of oil has historically been strongly linked to global political events such as tensions in the Middle East.

Private Equity – attributes

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

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

Specific risks

- As private equity investments are not traded on public stock exchanges, there is a risk that they may prove difficult to sell as it may take time to find a buyer – i.e. they can be significantly less 'liquid' than other investments
- This may also affect the price at which the investment can be sold (i.e. you may have to accept a price that is lower than fair value in order to achieve a sale)
- A further risk is that as private companies do not have to meet the requirements of a company that lists on a stock exchange, there is a risk of a lower level of scrutiny of the management of these companies. As a result, the management may be less accountable to shareholders for decisions that they make than the management teams of public companies
- One of the features of private equity fund investment is a concept called 'capital commitment'. This is an agreement between an investor and a private equity fund under which the investor is obliged to contribute money to the fund. The investor may pay all of the committed capital at one time or over a period of time (known as the 'capital commitment period'). Investors must therefore be capable of making payments to satisfy the requests for capital made throughout the commitment period
- Private equity investment may involve a focused portfolio of investments, which could lead to exposure to undiversified underlying assets. It may also involve the use of significant leverage or borrowing, which amplifies potential risks
- Payments to investors from private equity funds are generally made in cash. However, if a fund is unable to sell its interest in a private company, it may instead distribute holdings in these companies to investors in the fund.

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

Other investment products and their risks

Derivatives for hedging and income enhancement – attributes

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

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

Specific risks

- The cost of the derivative contract may lower the returns that a portfolio might have otherwise earned if the risk was left 'unhedged'
- The derivative contract may not perfectly offset the risk that it is intended to offset
- The counterparty which issues the derivative may default and not be able to honour the contract.

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

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

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

Specific risks

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

Life assurance products – attributes

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

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

Specific risks

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

If you wish to invest in a life bond, you will be presented with specific information about the type of contract, its terms, charges and more general information about the insurer and its financial strength. Please refer to this information for specific details about the policy and a more detailed description of the investment risks.

Warrants – attributes

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

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

Specific risks

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

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

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