QUILTER CHEVIOT

Understanding your investment portfolio

A guide for clients

SPECIALISTS IN INVESTMENT MANAGEMENT

Approver: Quilter Cheviot Limited 23 May 2024.

Source: iStock

QUILTER CHEVIOT

Welcome to Quilter Cheviot

Quilter Cheviot are firm believers in active investment management and provide fully diversified multi-asset portfolios, designed to deliver superior risk-adjusted returns for longer-term investors.

We believe the best way to meet the challenges of today's dynamic market environment is through a carefully controlled investment framework that combines the skills of a dedicated research team with those of experienced investment managers.

Our unique and agile investment process combines our top-down view, based largely on macro-economic inputs and market valuations, with bottom-up recommendations from our team of in-house analysts.

Your investment manager is guided by our internal investment and oversight committees – experienced professionals who meet regularly to discuss the investment environment and any opportunities and risks that have been identified.

They also provide the recommended asset allocations and investment selections to our investment management teams, which are used to implement each individual client's investment strategy.

The following guide has been created to help give you an understanding of your investment portfolio and how your investment manager has embarked upon choosing the investments/holdings.

Getting started

To make an informed recommendation it is important for us to understand your financial circumstances, your investment objectives and expectations, including the level of risk you are willing to take, as well as your ability to absorb financial loss.

Your investment objectives

By using income or savings to invest, you can potentially preserve and grow your wealth to meet a future requirement. People invest for a number of reasons; we will help you define your main investment objective which is usually one of the following:

- To grow the capital value of the portfolio
- To grow the capital value, as well as generate some degree of income from the portfolio
- To generate income from the portfolio

Your objective will influence the investment strategy we recommend. The greater your requirement for capital growth, the more likely we are to include investments with the potential to increase in value over time, such as equities.

Alternatively, if your main objective is to generate immediate – and perhaps stable – income, we are likely to suggest a strategy that includes greater exposure to fixed interest investments, such as government or corporate bonds.

There may be circumstances where your requirement for income, or to make regular cash payments exceeds the portfolio's natural income flow from interest and dividend payments. This can be incorporated as part of your investment strategy, but there is an increased risk of capital erosion over time.

What drives the value of your portfolio?

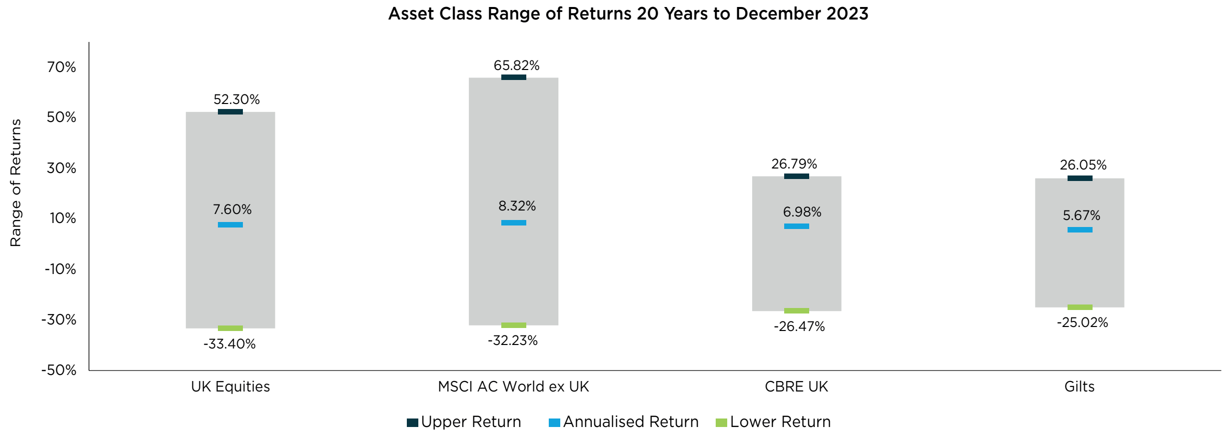
Investments offering the potential to grow usually provide higher returns over the longer-term. For example, equity shareholders - whether held direct or through a fund - can participate in future growth in profits and dividends of the underlying companies, both of which can drive an increase in the value of your original investment and help to mitigate the effect of inflation.

However, uncertainty over the future profitability means that share prices of the underlying companies quoted on a stock market may fluctuate significantly as investors adjust their expectations to economic conditions and company developments. In extreme circumstances, an unsuccessful company can become valueless, so investment in equities is considered higher risk.

Returns on fixed interest investments provide regular and predictable income which is currently lower than that received from a fund or portfolio populated with equities. The increased certainty offered by this type of investment means they are considered lower risk than equities and, most importantly for long-term investors, may not keep pace with inflation. The implication of this is that over time, the spending power of the income will reduce.

In recent years, the range of investment opportunities has expanded beyond quoted equities and fixed interest. These are often referred to as alternatives and include private equity, various types of property, infrastructure, renewables, commodities and structured products. Many of these have the potential to increase in value like equities, while others offer higher income. Like all investments, they do involve a degree of risk and in certain circumstances may be less easily realisable at short notice in adverse market conditions.

The chart below shows how different types of investments have performed over the last 20 years and the range of returns experienced. While past performance is no guarantee of the future, it helps to illustrate that over time riskier investments – such as UK equities, can produce higher returns than lower risk ones, such as UK government bonds.

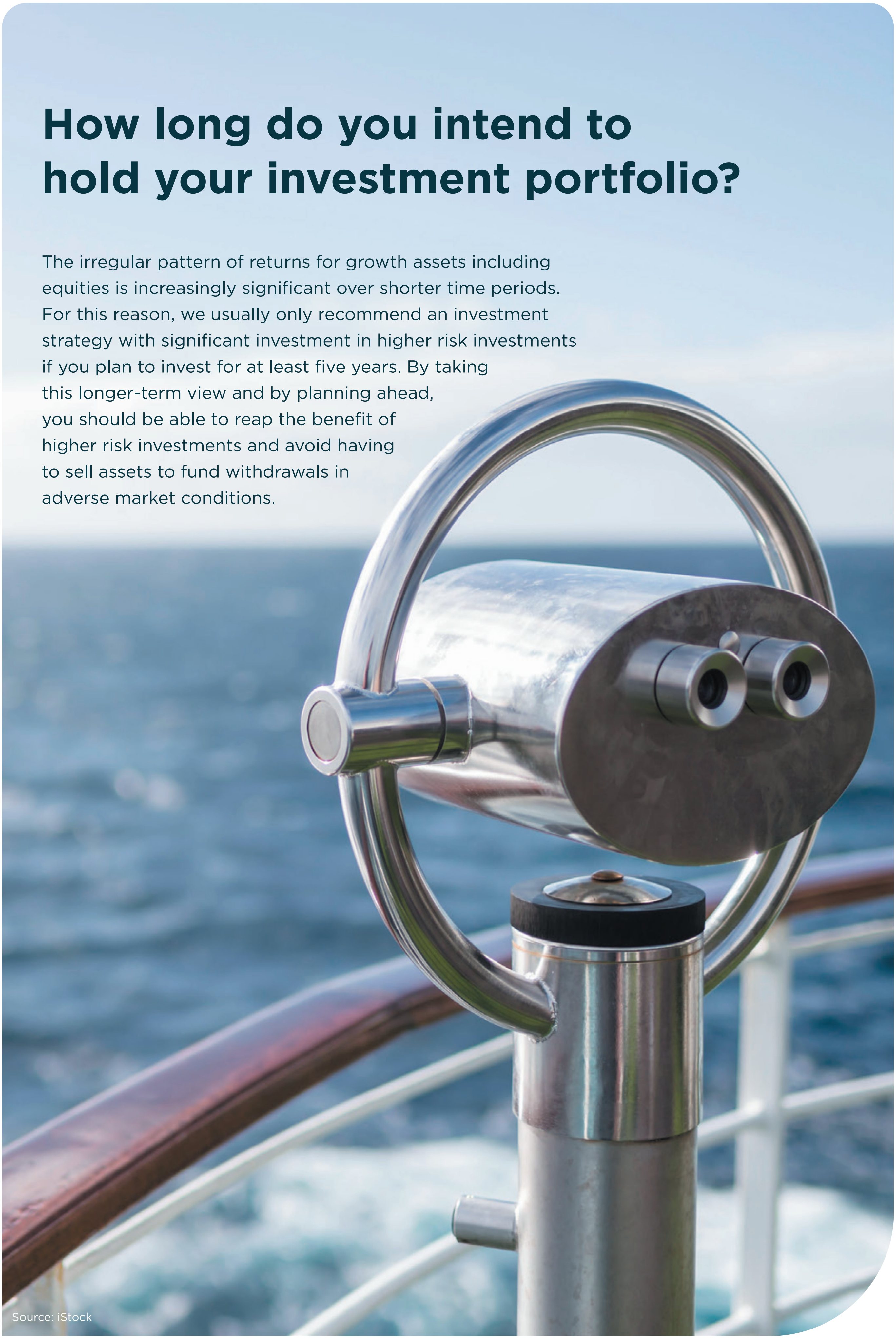


Source: MSCI UK IMI, MSCI World ex UK (£), CBRE, iBOXX UK gilts, 31/12/2023.

There is a wide variation in returns of different asset classes year to year, reflecting a variety of factors including economic growth, interest rates, inflation and investor sentiment.

How long do you intend to hold your investment portfolio?

The irregular pattern of returns for growth assets including equities is increasingly significant over shorter time periods. For this reason, we usually only recommend an investment strategy with significant investment in higher risk investments if you plan to invest for at least five years. By taking this longer-term view and by planning ahead, you should be able to reap the benefit of higher risk investments and avoid having to sell assets to fund withdrawals in adverse market conditions.



Source: iStock

Understanding investment risk

Obtaining an investment return higher than cash deposits will involve taking risk.

To meet your longer-term objectives, you may have to be prepared to take on a higher level of risk than you have historically.

Risks associated with **investments** can take various forms, including:

- The sensitivity of your **investments** to various market events or economic factors, including changes to interest rates and inflation
- The possibility that your **investments** do not meet your objective, such as a specific amount for targeted future expenditure
- The chance of irregular or unusual **investment** returns, particularly in times of economic crisis
- The likelihood of temporary or permanent loss of capital or income
- The possible lack of liquidity, meaning that in certain market circumstances, it might not be possible to sell a particular investment

Source: iStock

Quantifying your risk profile

Your investment objective, specifically the level of growth or income you are seeking, is linked to the level of risk you are willing to take and that you can afford in your investment portfolio.

To establish your risk profile, we consider two aspects:

- Your willingness to accept risk in the portfolio, often referred to as risk tolerance
- Your financial ability to withstand losing some or all of your investment portfolio, referred to as your capacity to absorb financial loss.

We categorise your risk tolerance within one of five bands from lower to higher. The risk tolerance dictates the maximum level of risk assets such as equities that should be held in your portfolio.

The relationship between your objective, risk tolerance and capacity to absorb financial loss interconnect to provide your overall risk profile.

Source: iStock

Your willingness to accept risk

No risk tolerance

Estimated range of annualised return: **0%**

Lower risk tolerance

Typical equity weighting up to:

25%

Estimated range of annualised return:*

+8%

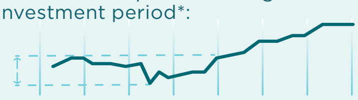
-3%

Suggested **minimum** investment period:

1 year

Estimated maximum peak-to-trough decline across investment period*:

-15%



years

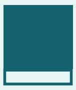
Lower to Medium risk tolerance

Typical equity weighting up to:

50%

Estimated range of annualised return:*

+11%



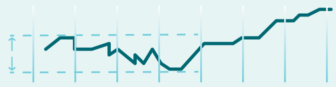
-3%

Suggested **minimum** investment period:

3 years

Estimated maximum peak-to-trough decline across investment period*:

-20%



years

Medium risk tolerance

Typical equity weighting up to:

75%

Estimated range of annualised return:*

+15%

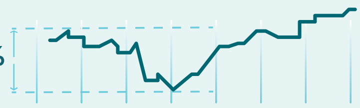
-6%

Suggested **minimum** investment period:

5 years

Estimated maximum peak-to-trough decline across investment period*:

-35%



years

Medium to Higher risk tolerance

Typical equity weighting up to:

100%

Estimated range of annualised return:*

+20%

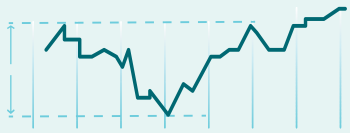
-10%

Suggested **minimum** investment period:

5 years

Estimated maximum peak-to-trough decline across investment period*:

-45%



years

Higher risk tolerance

Typical equity weighting up to:

100%

Special situations apply to specialist investment instructions where the range and concentration of riskier assets could be significantly increased

Suggested **minimum** investment period:

7 years

Estimated maximum peak-to-trough decline across investment period*:

Greater than -45%

years

*Source: Quilter Cheviot. These figures are for illustrative purposes and represent estimated pattern of return for each risk profile. Past performance is not indicative of future performance and actual performance may vary.

Measuring risk

Your overall risk profile cannot be accurately summarised in a single statistic. Academics and investment professionals often associate risk with fluctuations/volatility of returns, but this is not the complete picture, especially for investors whose objective is wealth preservation.

In the table on page 9 we show the estimated future returns, and the historic upper and lower and average figure for each level of risk. These are estimates for an investment cycle covering several years and include both capital gain and income receivable:

- The lower your indicated level of risk, the more likely we are to recommend an investment strategy which has a more predictable, albeit lower, estimated return and which limits the potential fall in adverse market conditions.
- The higher your indicated level of risk, the more scope we have to recommend an investment strategy aimed at a greater potential return. The medium to higher risk strategies usually carry higher volatility and, therefore, have a wider range of return outcomes.

The peak-to-trough measure provides an indication of how an investment strategy we recommend for a given risk profile might fall in value during extreme market conditions, before recovering. The time taken to recover will vary but your investment manager will work to avoid having to realise some or all of your portfolio under such adverse circumstances.

Our estimates are based on a number of economic and market factors, historic and probability-based outcomes. The return from your portfolio will depend on when you invest and withdraw your capital, which could span several investment cycles.

Source: iStock

Your Responsible Investment Preference

As a responsible investor Quilter Cheviot is committed to its role as a steward of clients' assets in order to protect and enhance long-term returns. This encompasses our engagement with investee companies, through proxy voting and face-to- face dialogue, as well as taking into account environmental, social and governance (ESG) factors which could impact shareholder returns.

It is important that your portfolio reflects your responsible investment considerations, and we shall be pleased to discuss these with you.

We believe that most clients will be happy with our firmwide approach and therefore, unless you advise us otherwise, we shall treat you as having an Aware preference. By this we mean that your aim is to optimise financial returns for your risk level, and acknowledge that being aware of ESG factors is an input to achieve this. For clients in the Aware category, investment managers can invest across the full spectrum of Quilter Cheviot's research universe of securities and funds on their behalf.

We also have Engaged and Dedicated preference categories for clients who wish to invest with a focus on ESG factors or on a sustainable basis where the consideration of ESG factors drives the investment decisions. From our research universe we use a series of positive (investments for potential inclusion in a portfolio) and negative (exclusion) screens to select those suitable for clients with these preferences.

Source: iStock

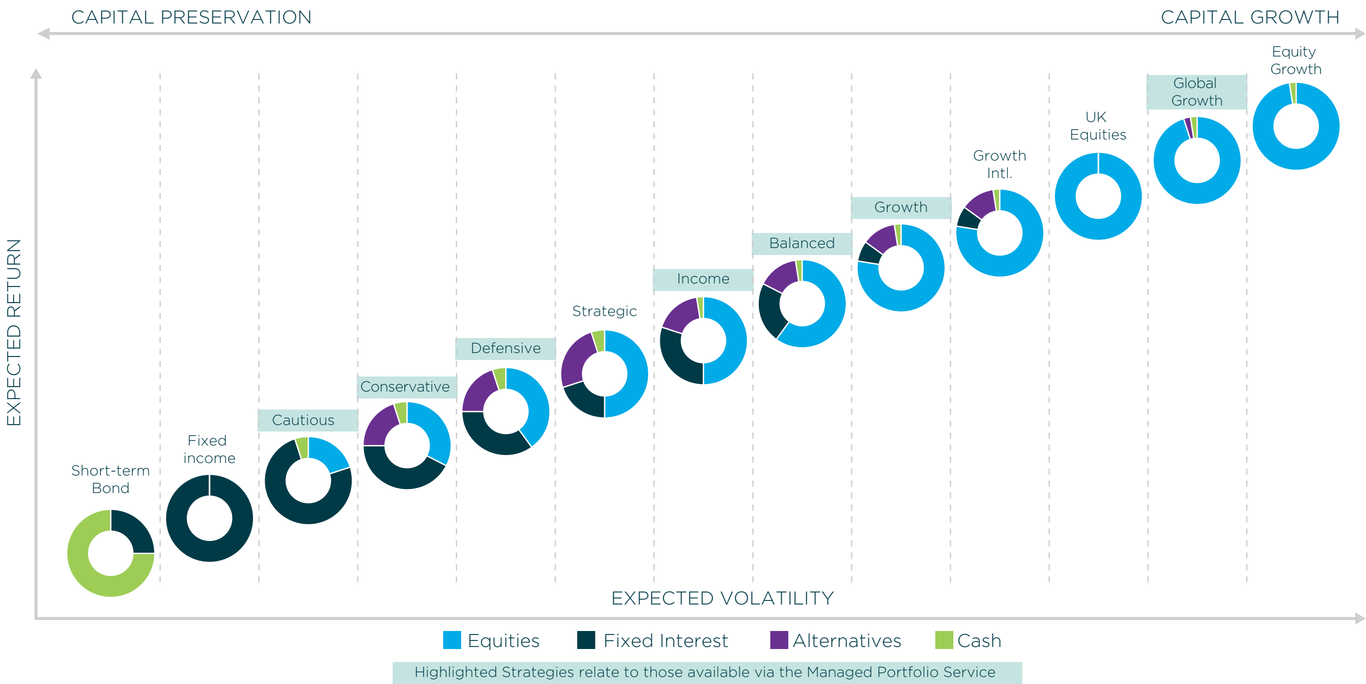
This applies to centrally monitored holdings only. Your Investment Manager has the flexibility, within a controlled framework, to tailor your portfolio with regard to asset allocation and security selection, in order to accommodate your investment requirements.

Selecting your investment strategy

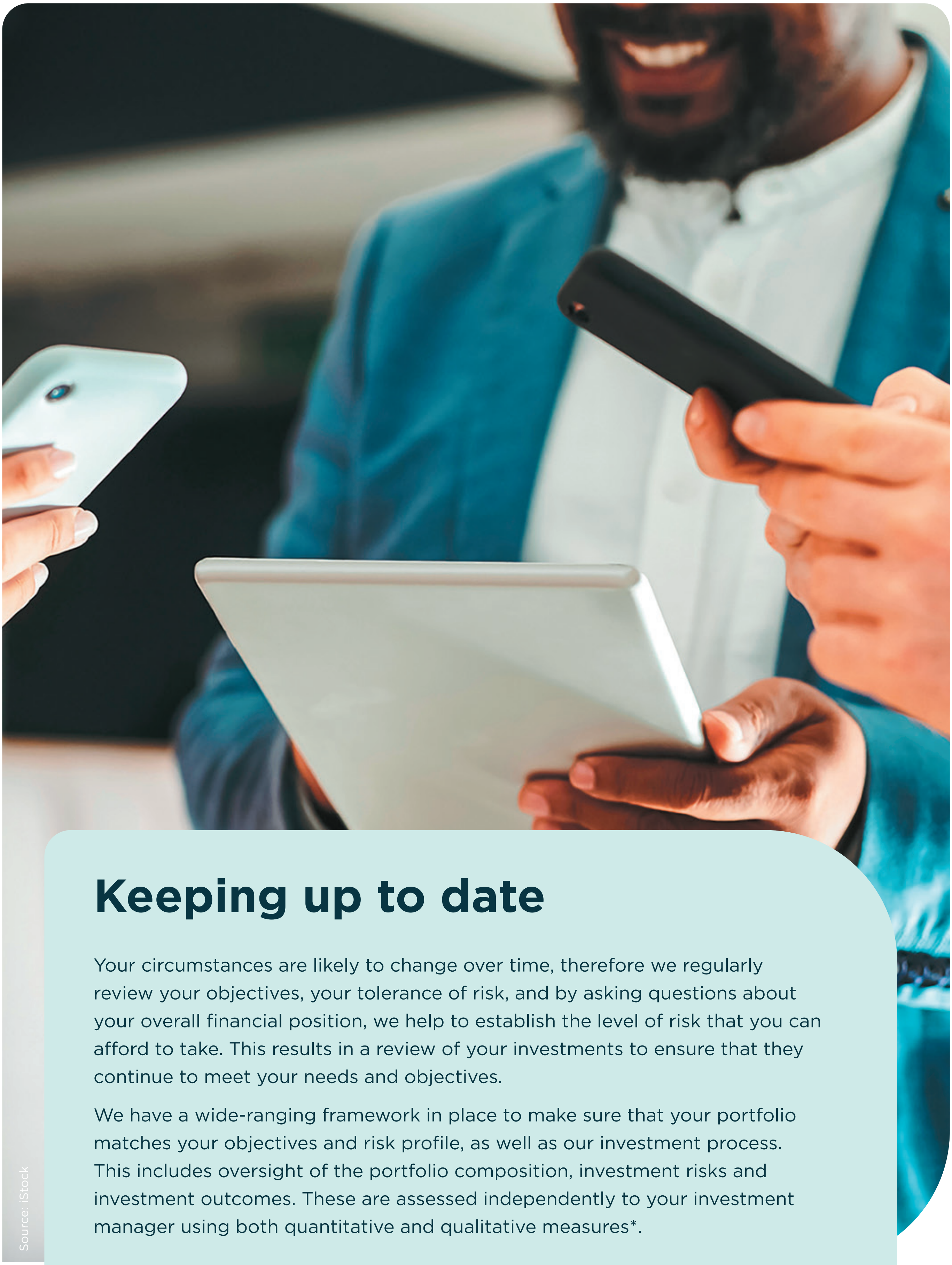
Once we have established your objective and risk profile, we agree with you an optimal investment strategy to balance your risk/reward profile.

The strategy will determine which types of investment we recommend and the amount allocated to each, a process referred to as asset allocation. This will be used as a basis for the selection of individual securities or funds.

Our recommended strategies contain either directly - or through funds - a blend of equities, fixed interest, commercial property and alternative investments – as well as an element of cash – designed to meet different objectives and risk profiles. The chart below shows the range of core strategies:



Source: Quilter Cheviot Strategic Asset Allocation, October 2023



Source: iStock

Keeping up to date

Your circumstances are likely to change over time, therefore we regularly review your objectives, your tolerance of risk, and by asking questions about your overall financial position, we help to establish the level of risk that you can afford to take. This results in a review of your investments to ensure that they continue to meet your needs and objectives.

We have a wide-ranging framework in place to make sure that your portfolio matches your objectives and risk profile, as well as our investment process. This includes oversight of the portfolio composition, investment risks and investment outcomes. These are assessed independently to your investment manager using both quantitative and qualitative measures*.

* Quantitative analysis is a forecasting method that relies on the statistical analysis of historical data and is therefore objective; quantitative analysis is more subjective and is concerned mainly with social, institutional, commercial and political themes.

Our experts are here to help you

Speak to our team today

Contact us today to find out how we can support you and your clients.

+44 (0)20 7150 4000

enquiries@quiltercheviot.com

quiltercheviot.com

1. Belfast
2. Birmingham
3. Bristol
4. Edinburgh
5. Glasgow
6. Leeds
7. Leicester
8. Liverpool
9. London
10. Manchester
11. Salisbury

QUILTER CHEVIOT

SPECIALISTS IN INVESTMENT MANAGEMENT

Investors should remember that the value of investments, and the income from them, can go down as well as up and that past performance is no guarantee of future returns. You may not recover what you invest. This document is directed at and is intended to be viewed by investment professionals only; it should not be disseminated to or relied upon by any other person.