QUILTER CHEVIOT
INVESTMENT MANAGEMENT

UNDERSTANDING YOUR INVESTMENT PORTFOLIO

A GUIDE FOR OUR PORTFOLIO SERVICES

CONTENTS

OUR APPROACH TO BUILDING YOUR PORTFOLIO

The aim of this guide is to help you better understand how we will work with you – and your financial adviser if you have one – to manage a portfolio of investments that is suitable for you.

The investment outcomes achieved from your portfolio are important to you, and to us

GETTING STARTED

It is important for us to understand your financial circumstances, knowledge and experience, and your investment objectives and expectations, including the level of risk you are prepared to take.

INVESTMENT OBJECTIVES

People invest for a number of reasons, which is usually one of the following:

- to grow the capital value of the portfolio;
- to grow the capital value of, as well as generate some income from, the portfolio;
- to generate income from the portfolio.

Your objective will influence the investment strategy chosen and assets selected.

CAPITAL GROWTH

The greater your need for capital growth, the more likely we are to include higher risk and more volatile investments, such as company shares.

Volatility is a measure of the amount an investment or index has moved either up or down over a period of time. The more movement or fluctuation in price, the higher the volatility.

Historically, company shares often provide the greatest opportunity for capital growth. Shares are not constrained in the same way that fixed interest investments are to a specific determined return, and equally, a shareholder in a successful company may benefit from both dividends and an increased share price.

However, the share prices of companies may fluctuate significantly as investors adjust their expectations to economic conditions and company developments. In extreme circumstances an unsuccessful company can lose all its value, so this type of investment is considered higher risk.

INCOME

Alternatively, if your main objective is to generate income, we are more likely to include a high proportion of fixed interest investments, such as government or corporate bonds, although we may also include company shares which have traditionally paid regular dividends.

Returns on fixed interest investments often provide regular and relatively predictable income. The increased certainty offered by fixed interest investments means they are usually considered lower risk than company shares.

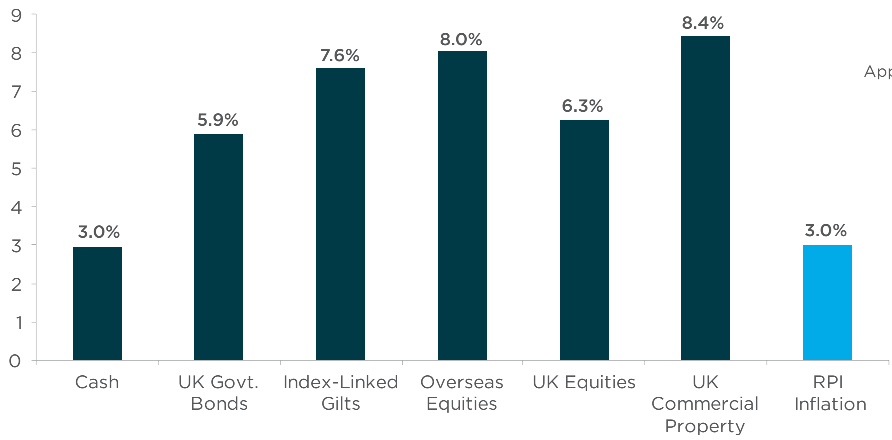
However, the amount of income that fixed interest investments generate could be lower than that received from dividends paid on company shares, and it may not keep pace with inflation.

Sometimes your need for income may be more than the income the portfolio can generate through interest and dividends. If you take a higher income, it may reduce the value of the original amount you invested. If you did this over a long period, you could be left with nothing.

We understand that people invest for a number of reasons

Chart 1 (over the page) shows how different types of investments have performed over the last 20 years. While past performance is not a guarantee of future returns, it helps to show that over time riskier investments – such as international equities – can produce higher returns than lower risk ones – such as UK government bonds.

Chart 1: The average annual return over the past 20 years



Source: Datastream. Average annual sterling total returns including capital growth and income, 20 years to 31 December 2017. Estimated future returns are shown in the Application Form and in Strategy Factsheets available from your Investment Manager.

The 20 year returns in Chart 1 have varied significantly year-to-year reflecting a variety of factors, including economic growth, interest rates, inflation and investor sentiment.

Chart 2 shows the yearly return for types of assets (classes) that we may recommend for your portfolio. For each year we have highlighted the best performer.

Our general approach to investing for clients is a medium or longer term one and our service will not be appropriate if you want to invest for a short period only. By taking a longer-term view, you should be able to reap the benefits of higher risk investments and avoid having to sell assets in adverse market conditions.

Chart 2: Percentage yearly returns by asset class

	RETAIL PRICE INDEX	UK GOVT. BONDS	INTERNATIONAL EQUITIES	UK EQUITIES	UK COMMERCIAL PROPERTY
1993	1.6	34.4	19.7	28.4	16.3
1994	2.5	-12.2	0.8	-5.9	15.3
1995	3.4	17.4	19.9	23.9	3.2
1996	2.5	7.3	1.3	16.7	9.4
1997	3.1	14.1	19.1	23.6	15.4
1998	3.4	18.9	21.9	13.8	12.2
1999	1.6	-0.9	31.7	24.2	14.1
2000	2.9	8.8	-4.4	-5.9	10.5
2001	1.8	3.0	-13.9	-13.3	7.1
2002	1.6	9.3	-27.1	-22.7	10.4
2003	2.9	2.1	21.1	20.9	11.2
2004	3.0	6.6	7.9	12.8	18.9
2005	2.8	7.9	25.3	22.0	18.8
2006	3.2	0.7	6.4	16.8	18.1
2007	4.3	5.3	11.2	5.3	-5.5
2008	4.0	12.8	-18.5	-29.9	-22.5
2009	-0.5	-1.2	20.6	30.1	2.2
2010	4.6	7.2	17.2	14.5	14.5
2011	5.2	15.6	-6.9	-3.5	8.1
2012	3.2	2.7	12.1	12.3	2.4
2013	3.0	-3.9	21.2	20.8	10.9
2014	2.4	13.9	12.2	1.2	19.3
2015	1.0	0.6	4.4	1.0	13.8
2016	1.7	10.1	30.4	16.8	2.6
2017	4.1	1.9	14.0	13.1	11.2

Source: Datastream. Annual sterling total returns

UNDERSTANDING INVESTMENT RISK

Achieving an investment return higher than cash deposited at a bank 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 in the past.

Risks associated with investments can take various forms

We outline the main risks of our services in our terms and conditions and they are available on our website: https://www.quiltercheviot.com/risk-factors/

Risks associated with investments include:

- sensitivity to market events or economic factors, such as changes to interest rates and inflation;
- the chance of irregular or unusual investment returns, particularly in times of economic crisis;
- a temporary or permanent loss of capital or income; and
- the possible lack of liquidity, meaning that in certain circumstances it might not be possible to sell a particular investment.

QUANTIFYING RISK

The relationship between your objective, experience and knowledge of investment, your risk tolerance and ability to withstand loss shapes your overall risk profile

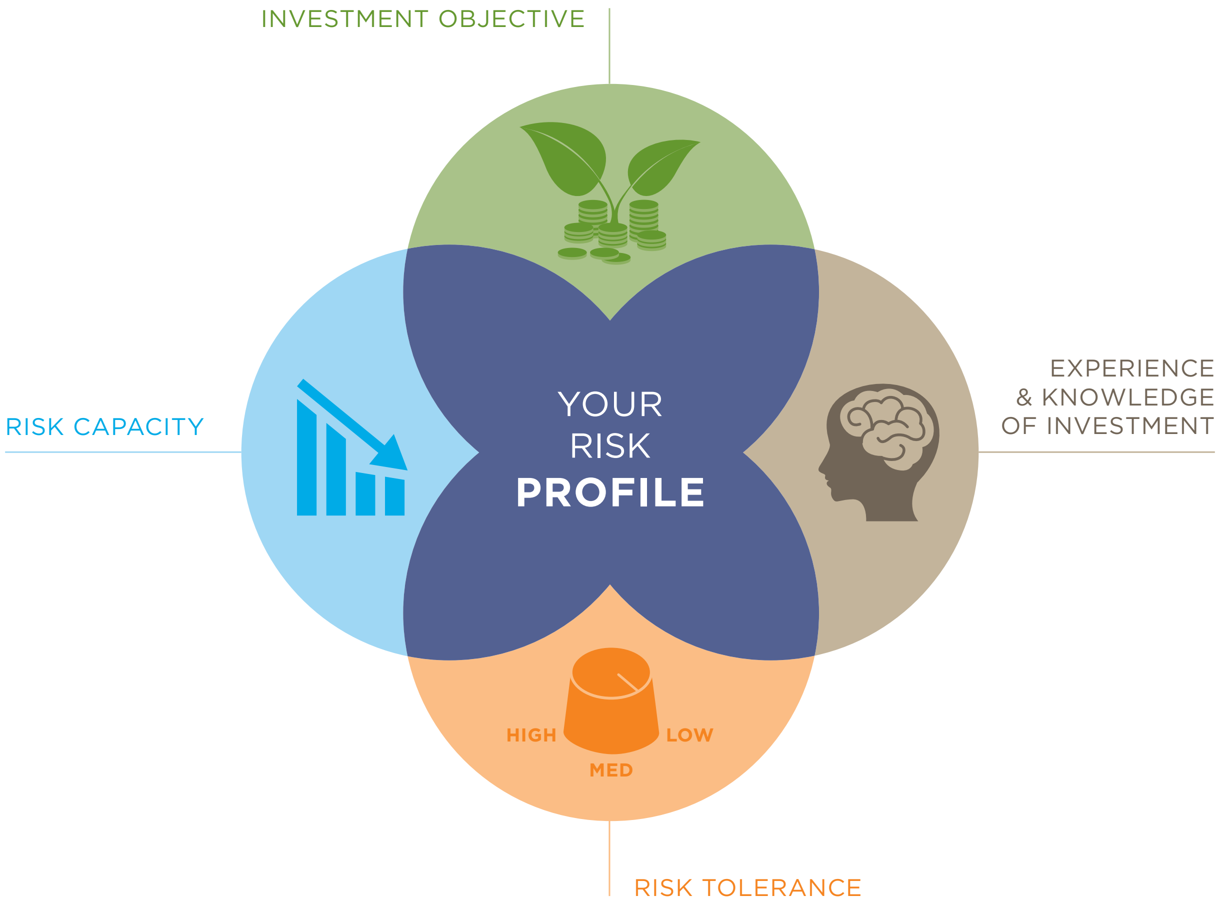
Your investment objective, specifically the level of capital growth or income you are looking for, is linked to the level of risk you are willing to take and that you can afford to take in your investment portfolio.

To decide on your risk profile, we consider your investment objective, knowledge and experience, alongside two further aspects:

- your willingness to accept risk in the portfolio, often referred to as risk tolerance; and
- your financial ability to withstand losing some or all of your investments, often referred to as risk capacity.

The relationship between your objective, experience and knowledge of investment, risk tolerance and capacity for loss shape your overall risk profile as illustrated in Chart 3.

Chart 3: Establishing your risk profile



We cannot accurately summarise your overall risk profile in a single statistic. Academics and investment professionals often associate risk with fluctuations or volatility of returns, but this is also not the complete picture.

To help you understand your risk profile in our conversations, and in our application form, Chart 4 uses a combination of methods to show the range of estimated returns and potential peak-to-trough movement in value through one investment cycle.

For each level of risk, the range of estimated returns show an upper, lower and average figure. These are estimates for an investment cycle covering several years and include both capital gain and income you may receive:

- The lower the level of risk you are prepared to take, the more appropriate an investment strategy which has a more predictable, although lower, estimated return would be.
- The higher the level of risk, the more appropriate an investment strategy aimed at a greater potential return would be. The medium to higher risk strategies usually carry higher volatility and therefore have a wider range of potential return outcomes.

The peak-to-trough measure gives you an idea of how a portfolio with an investment strategy appropriate for a given risk profile might fall in value during extreme market conditions, before recovering.

It is also based on a full investment cycle covering several years. The time taken to recover will vary but your investment manager will work to avoid having to cash in some or all of your portfolio in poor market circumstances.

Fluctuations or volatility of returns can be a useful guide but this is not the complete picture

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

Chart 4: Your willingness to accept risk

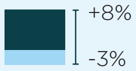
None

Estimated range of annualised return*
0%

I/We have no tolerance for risk and regardless of market circumstances, I/We would not be comfortable with any variation or disruption to capital value or current income

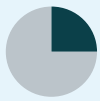
Lower

Estimated range of annualised return*



I/We have a lower tolerance for risk and regardless of market circumstances, I/We would only be comfortable with minimal variation or disruption to capital value or current income

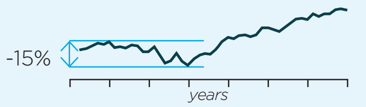
Typical equity weighting – up to 25%



Suggested minimum investment period

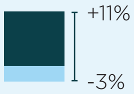
1 year

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



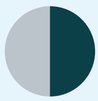
Lower to Medium

Estimated range of annualised return*



I/We have a lower to medium tolerance for risk, I/We would only be comfortable with modest variation or disruption to capital value or current income

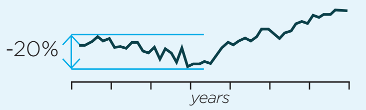
Typical equity weighting – up to 50%



Suggested minimum investment period

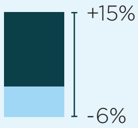
3 years

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



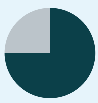
Medium

Estimated range of annualised return*



I/We have a medium tolerance for risk and can accept modest variation or disruption to capital value or current income in order to meet my/our longer-term objectives

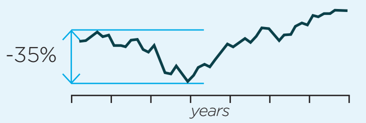
Typical equity weighting – up to 75%



Suggested minimum investment period

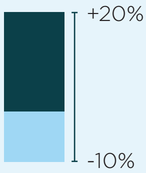
5 years

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



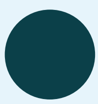
Medium to Higher

Estimated range of annualised return*



I/We have a medium to higher tolerance for risk and can accept considerable variation or disruption to capital value or current income in order to meet my/our longer-term objectives

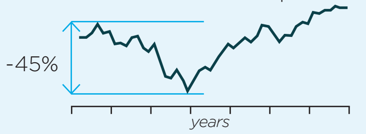
Typical equity weighting – up to 100%



Suggested minimum investment period

5 years

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

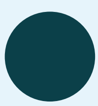


Higher

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

I/We have a higher tolerance for risk and can accept considerable variation or disruption to capital value or current income in order to meet my/our longer-term objectives

Typical equity weighting – up to 100%



Suggested minimum investment period

7 years

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

* 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.

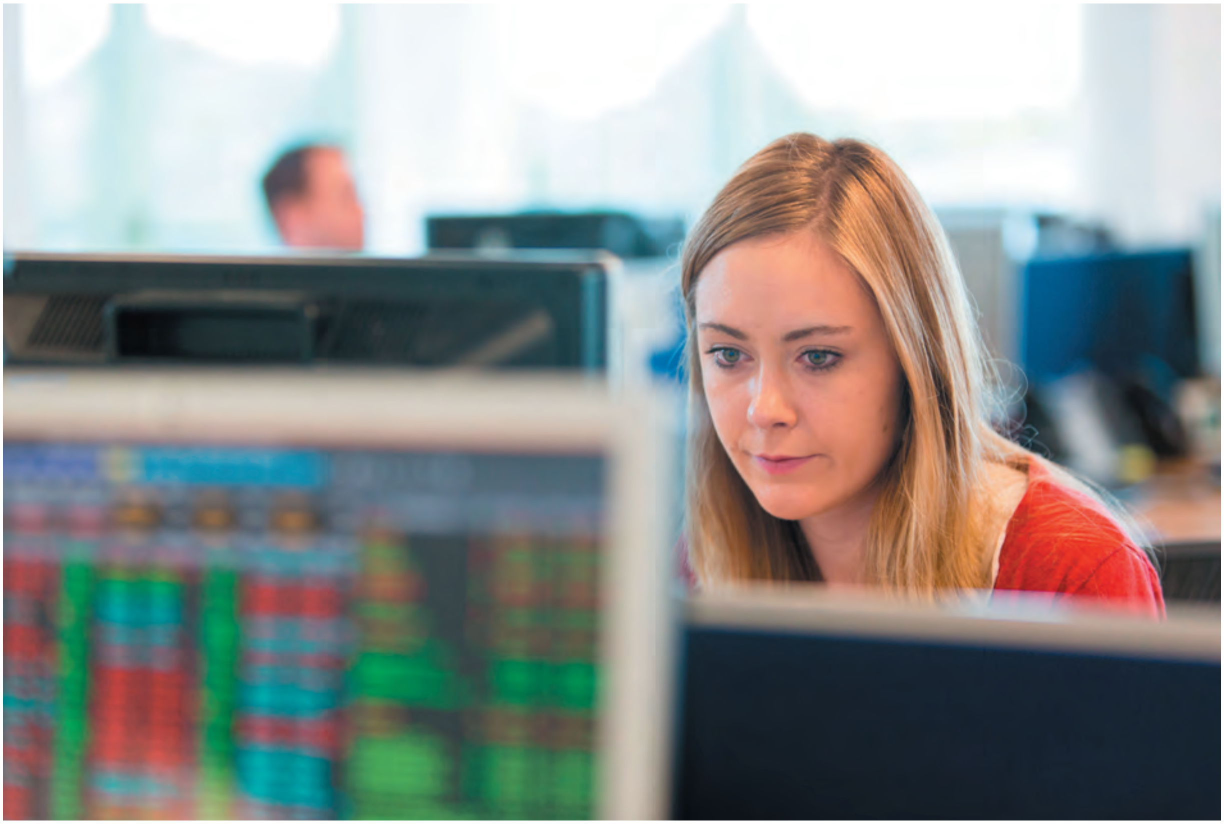
CREATING YOUR PORTFOLIO

Once we have established your objective and risk profile, we agree with you an optimal investment strategy, which could be either one of our core investment strategies or a tailored one.

The resulting strategic allocation to different types of investment, a process referred to as asset allocation, will be the basis of the selection of individual securities.

We regularly review the strategy, asset allocation and individual investment selection processes, so that your investment manager makes sure you continue to receive a tailored portfolio that meets your requirements.

Your investment manager ensures you continue to receive a tailored portfolio to meet your requirements

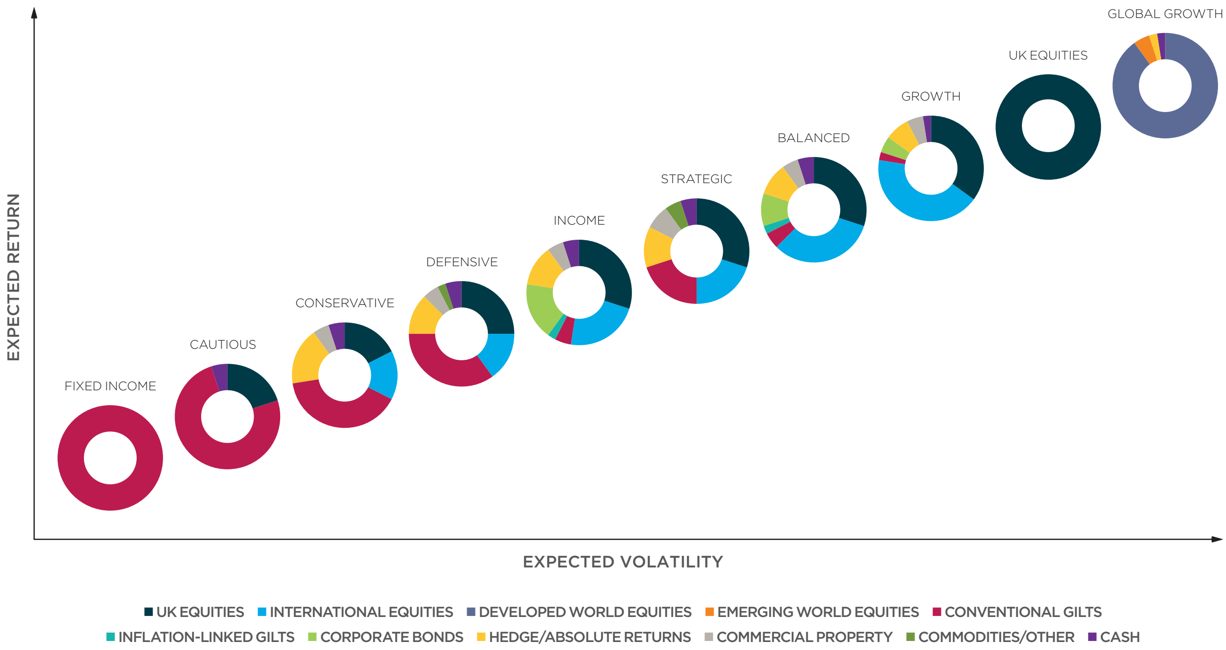


OUR CORE INVESTMENT STRATEGIES

Investment firms usually work with a range of strategies to help to provide for clients' most common investment objectives.

Our core strategies (see chart below) contain a blend of equities, fixed income, commercial property and alternative investments (such as absolute return funds, commodities and private equity) – as well as a small element of cash – designed to meet different objectives and risk profiles.

Chart 5: Discretionary Portfolio Services investment strategies



Source: Quilter Cheviot Strategic Asset Allocation, 31 January 2019.

Further details on each of these strategies can be found in our factsheets available from your investment manager.

Investment markets are always changing so we have an Asset Allocation Committee, which meets regularly to review and agree the shorter-term tactical asset allocation in line with our latest views on the market.

Our individual investment recommendations are drawn from a very wide universe and we can invest directly in equities, fixed interest securities and alternative investments, as well as through collective funds such as investment trusts and open ended investment companies (OEICS).

Our dedicated team of research analysts and investment managers research our recommended holdings. Our Security Selection Committees – whose membership includes the Chief Investment Officer, Chief Investment Strategist, analysts and senior investment managers – identify and agree a list of core recommendations which are suitable for most client portfolios.

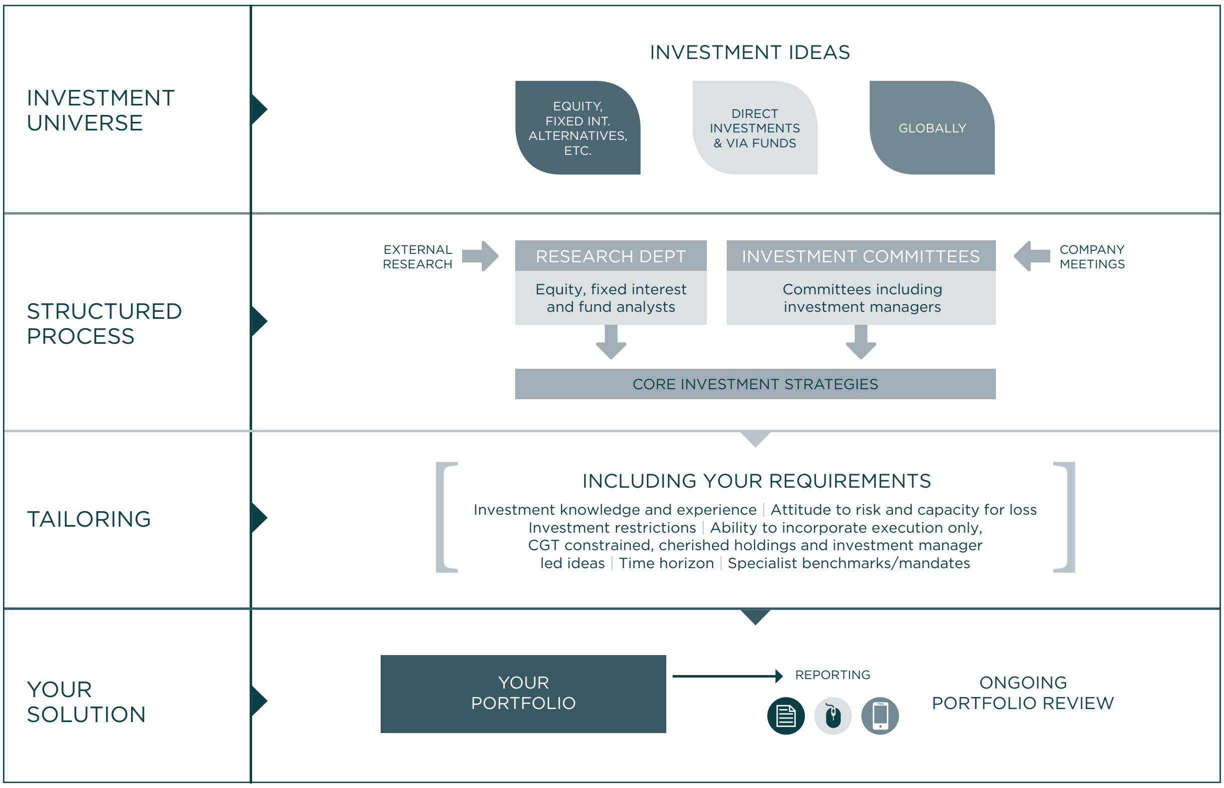
Your investment manager has the flexibility, within a controlled framework, to tailor your portfolio in terms of asset allocation and the selection of investments, to accommodate your investment requirements. These may include taking account of your investment restrictions such as avoiding tobacco, including holdings you wish to keep and capital gains tax (CGT) limitations, as well as other adjustment our investment managers may choose to make.

Our dedicated team of research analysts and investment managers research our recommended holdings

Your investment manager will give you a detailed illustration of your proposed portfolio showing the asset allocation – and if required, the initial individual holdings – most suited to your requirements.

Chart 6 summarises the main elements of our investment process.

Chart 6: Our investment process



SPECIALIST INVESTMENT MANDATES

We recognise that some of our clients will have investment requirements that do not align with any of our core investment strategies.

In these cases, we will work with you to agree your investment objectives, risk profile and time line, so that we can build you a portfolio with an appropriate asset allocation and underlying holdings to meet your special requirements.

REVIEWS AND MONITORING

For our discretionary service, you can expect us to change the asset allocation and underlying holdings within your portfolio to reflect our current views. For our advisory service, we recommend the changes.

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 independent oversight of portfolio composition, investment risks and investment outcomes by someone other than your Investment Manager.

SECURITY OF ASSETS

We are regulated by the Financial Conduct Authority (FCA), as well as other supervisory bodies in various countries, such as the JFSC in Jersey and the DFSA in Dubai. The FCA and JFSC rules strictly govern the way we hold and register client assets, this makes sure your assets are always kept separately from those belonging to the firm. We pool together your cash with the cash of other clients and hold it in 'Client' designated accounts under statutory trust protection with a number of approved banks. This ensures the segregation of the firm's cash and a degree of bank diversification.

We pool together our client's investment and register them in one of our nominee companies, which we own completely; a nominee company belonging to one of our approved custodians, or 'Client' designated accounts with approved overseas custodians. This means your investment will always remain your property and will be registered separately from the investment of the firm.

UNDERSTANDING YOUR INVESTMENT PORTFOLIO

We hope you will find this guide helpful in understanding your investment portfolio.

Should you have any questions, please contact your Investment Manager who will be pleased to help you.

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