QUILTER CHEVIOT

INVESTMENT MANAGEMENT

UNDERSTANDING YOUR INVESTMENT PORTFOLIO

A GUIDE FOR OUR MANAGED PORTFOLIO SERVICE

CONTENTS

Our Approach to Building Your Portfolio	03
Getting Started	03
Investment Objectives	04-05
Understanding Investment Risk	06
Quantifying Risk	07-09
Choosing Your Managed Portfolio	10
Our Core Investment Strategies	11-12
Reporting And Monitoring	13
Security of Assets	13
Understanding Your Investment Portfolio	14
Contact Us	14

OUR APPROACH TO BUILDING YOUR PORTFOLIO

The aim of this guide is to help you better understand how we shall work with you – and your financial adviser if you have one - to recommend a managed portfolio which is suitable for you. Your Investment Manager at Quilter Cheviot is responsible for recommending a managed portfolio.

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

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 prepared to take, and that which you can afford to take.

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 and 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 funds that invest in 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 bonds or corporate bonds.

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

Investments offering the potential to grow usually provide higher returns over the longer-term. So for example, a fund comprised of equity holdings has the opportunity to participate in future growth in profits and dividends of the underlying companies, both of which can lead to an increase in the value of your original investment.

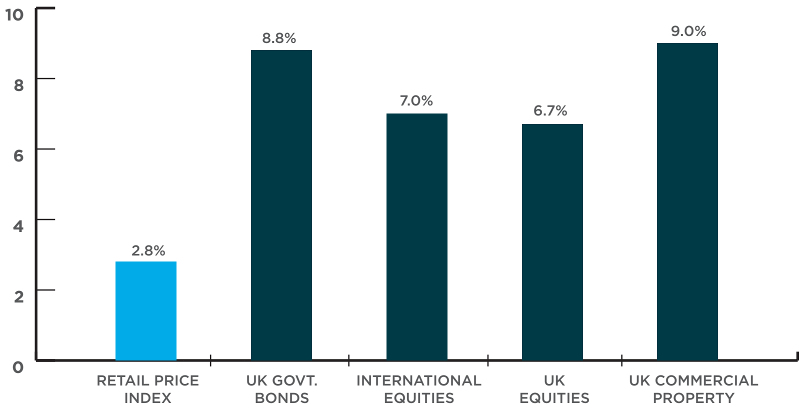
However, uncertainty over the future profitability means that share prices of the underlying companies quoted on a stock market may fluctuate significantly as investors adjust their expectations to economic conditions and company developments. In extreme circumstances an unsuccessful company can become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

Returns on fixed interest investments provide a regular and predictable income which is typically lower than that received from funds 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.

People invest for a number of reasons and we will help you define your main investment objective

Chart 1 (opposite) shows how different types of investments have performed over the last 20 years. 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.

Chart 1: Annualised Returns Over 20 Years



Source: Datastream. Annualised sterling total returns including capital growth and income, 20 years to 31 December 2015. 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 across the different investments reflecting a variety of factors including economic growth, interest rates, inflation and investor sentiment.

Chart 2 shows the annual return for asset classes that we may feature in your managed portfolio. For each year we have highlighted the best performer.

The irregular pattern of returns is increasingly significant over shorter time periods you have to invest. For this reason we would usually only recommend an investment strategy with significant investment in higher risk investments such as equities if you plan to invest for at least five years. By taking this longer-term view and 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.

Chart 2: Percentage Annual 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

Source: Datastream. Annual sterling total returns

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

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

QUANTIFYING RISK

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

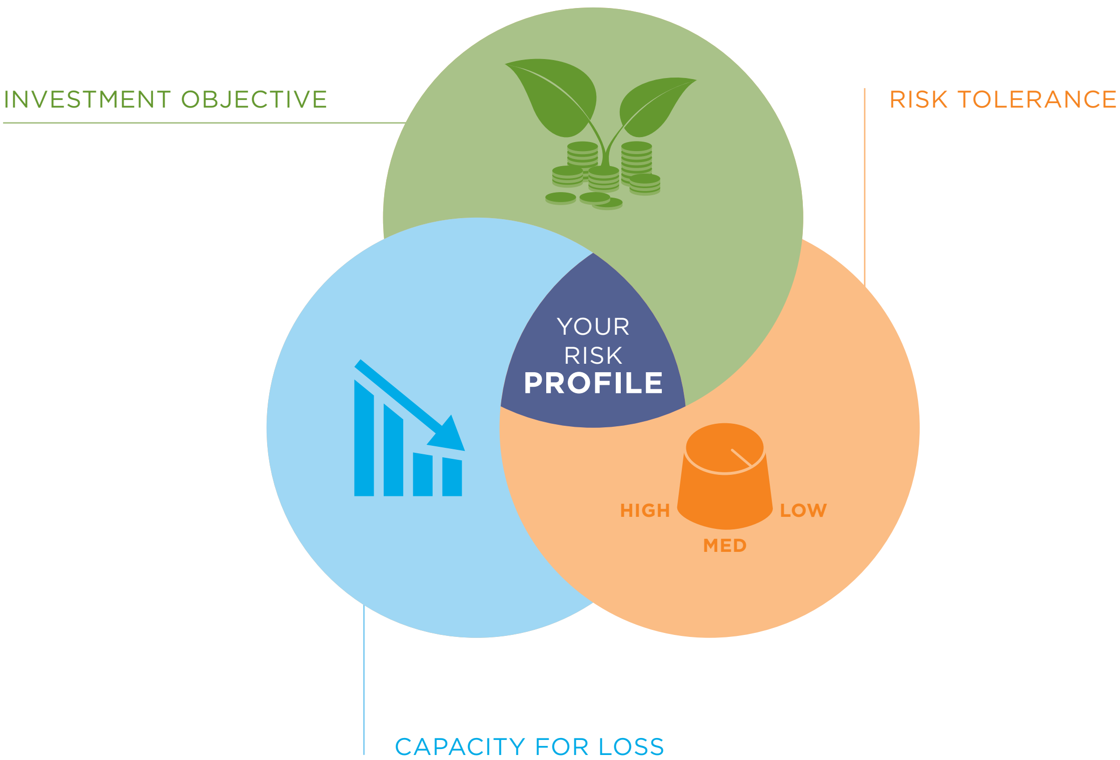
Your investment objective, specifically the level of growth or income you are seeking, is linked to the level of risk you are willing to take and that you can afford to take in your investment portfolio.

To establish your risk profile we consider your investment objective alongside two further 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 risk capacity

The relationship between your objective, risk tolerance and capacity for loss interconnect to provide your overall risk profile as illustrated in Chart 3:

Chart 3: Establishing Your Risk Profile



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.

To help you understand your risk profile in our conversations, and in our application form, we use a combination of written description as well as graphical representations of the range of estimated returns and potential peak to trough movement in value through one investment cycle as shown in the chart on the following page.

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 receivable:

- The lower your indicated level of risk, the more likely we are to recommend an investment strategy which has a more predictable, although lower, estimated return
- 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. It is also based on a full investment cycle covering several years. The lower your indicated level of risk, the more likely we are to recommend an investment strategy which limits the fall in market value from peak to trough. 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.

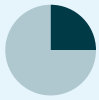
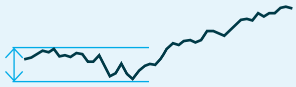
Fluctuations or volatility of returns can be useful but this is not the complete picture

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

Chart 4: Your Willingness to Accept Risk

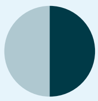
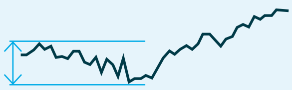
Lower

I/we have a low 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	Estimated range of annualised return*	Estimated peak to trough decline across investment period*
	1 year or more	+8% / -2%	-15% 

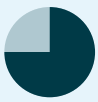
Lower to Medium

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

Typical equity weighting – up to 50%	Suggested minimum investment period	Estimated range of annualised return*	Estimated peak to trough decline across investment period*
	3 years or more	+15% / -3%	-20% 

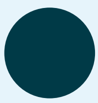
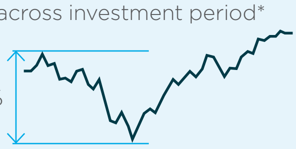
Medium

I/we have a medium tolerance for risk and can accept moderate 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	Estimated range of annualised return*	Estimated peak to trough decline across investment period*
	5 years or more	+20% / -6%	-35% 

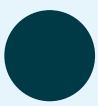
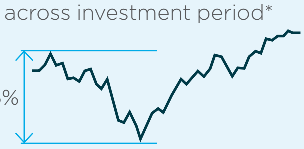
Medium to Higher

I/we have a medium to high tolerance for risk and can accept significant 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	Estimated range of annualised return*	Estimated peak to trough decline across investment period*
	5 years or more	+25% / -10%	-45% 

Higher

I/we have a high tolerance for risk and can accept significant 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	Special situations apply to specialist mandates where the types and concentration of riskier assets could be significant	Estimated peak to trough decline across investment period*
	7 years or more		>-45% 

* 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.

CHOOSING YOUR MANAGED PORTFOLIO

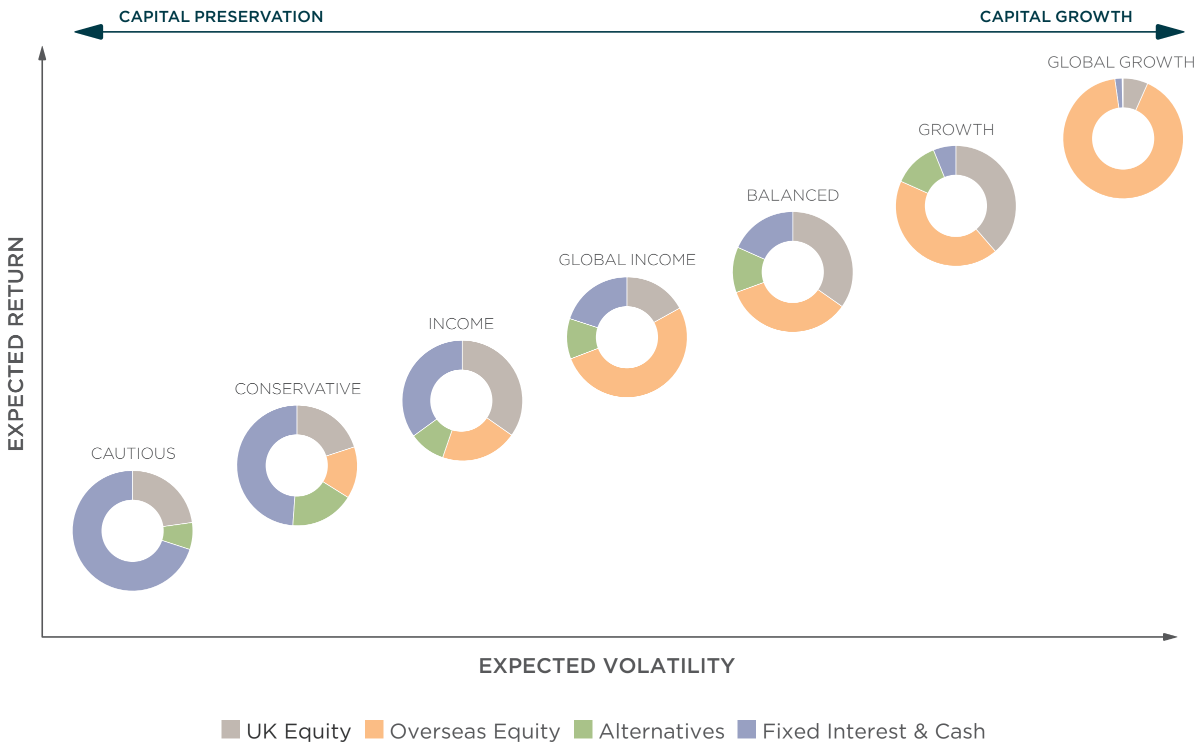
Once we have established your objective and risk profile we agree with you an optimal investment strategy to balance your risk/reward profile. The resulting strategic allocation to different types of investments – a process referred to as asset allocation – will be used as a basis for the selection of individual securities.

Your Investment Manager will recommend one of our core investment strategies that most closely matches your requirements.

OUR CORE INVESTMENT STRATEGIES

The core strategies contain a blend of equities, gilts, commercial property and alternative investments – as well as an element of cash – designed to meet different objectives and risk profiles. Chart 5 shows the range of core strategies:

Chart 5: Managed Portfolio Services Investment Strategies



Source: Quilter Cheviot Strategic Asset Allocation, December 2015.

Rigorous research forms the foundation of our MPS investment process. We endeavour to achieve the highest risk-adjusted return for each strategy.

This is obtained by following a three stage approach to portfolio construction:

STRATEGIC ASSET ALLOCATION
Structuring the portfolios to reflect long-term investment themes.

TACTICAL ASSET ALLOCATION
Portfolio adjustments to exploit short-term market opportunities.

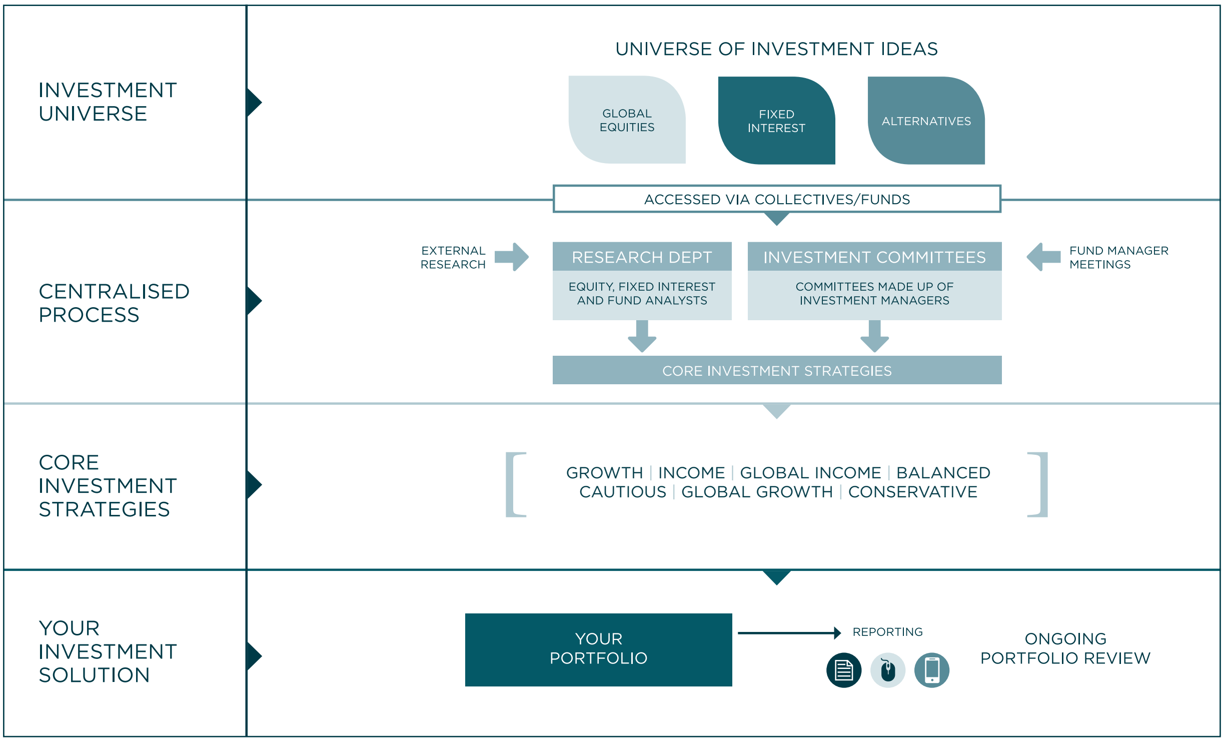
FUND SELECTION
Identify leading specialist managers to target long-term outperformance.

The following pages explain why each of these stages is crucial, and demonstrate how they have contributed to our long-term track record.

Selected holdings are researched by our dedicated team of research analysts and Investment Managers

Chart 6 summarises the key elements of our investment process.

Chart 6: Our Investment Process



REPORTING AND MONITORING

The strategies are monitored and reviewed by the MPS team to ensure that they are in line with their stated objective and our investment process, adjusting if necessary. You can expect the asset allocation and underlying holdings within the strategies to change in line with our current views.

An extensive governance framework is in place to make sure that the strategies are being managed in a way consistent with their objectives and our investment process. This includes independent (from the investment team) oversight of portfolio composition, investment risks and investment outcomes.

If there is a material change in your circumstances please advise your Investment Manager so that your portfolio can be adjusted if required.

SECURITY OF ASSETS

We are regulated by the Financial Conduct Authority (FCA). The regulatory rules strictly govern the way we hold and register client assets, ensuring your assets are always kept separately from those belonging to the firm. Your cash is pooled with the cash of other clients and held in 'Client' designated accounts under statutory trust protection, with a number of approved banks, ensuring segregation from firm's cash and a degree of bank diversification. Clients' investments are pooled and registered in one of our wholly owned Nominee Companies, or in a Nominee Company belonging to one of our approved Custodians, or in 'Client' designated accounts with approved Overseas Custodians. This means your investments will always remain your property and will be registered separately from the investments of the firm.

UNDERSTANDING YOUR MANAGED PORTFOLIO

We hope you will find this guide helpful in understanding your investment portfolio, the basis on which we make recommendations, the risks involved and how your Investment Manager will work with you to manage your portfolio.

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

CONTACT US

QUILTER CHEVIOT

One Kingsway
London WC2B 6AN

CONTACT

Please contact our Managed Portfolio Service team on +44 (0)20 7220 7103

OTHER QUILTER CHEVIOT OFFICES:

Belfast	t: +44 (0)28 9026 1150
Birmingham	t: +44 (0)121 212 2120
Bristol	t: +44 (0)117 927 3377
Dublin	t: +353 1 799 6900
Edinburgh	t: +44 (0)131 221 8500
Glasgow	t: +44 (0)141 222 4000
Jersey	t: +44 (0)1534 506 070
Leicester	t: +44 (0)116 249 3000
Liverpool	t: +44 (0)151 243 2160 / t: +44 (0)1492 530 677
Manchester	t: +44 (0)161 832 9979
Salisbury	t: +44 (0)1722 424 600

quiltercheviot.com

QUILTER CHEVIOT

INVESTMENT MANAGEMENT

quiltercheviot.com