Description Of Attitude To Risk (ATR)

No Risk

You have no tolerance to investment risk, you should consider paying off any debts that you may have and then building up a reserve in a high interest deposit account or national savings.

(TYPICAL EXPOSURE: Cash 100%)

Very Cautious

You have a low tolerance to investment risk. This implies that you would accept a small amount of investment risk to achieve the growth that you require but only if this can be achieved with a low degree of price volatility. Whilst your tolerance to risk is low, you recognise that diversification is important and therefore, you accept a limited amount of equity exposure. Although the volatility of your asset mix may be less than that of the Moderate Portfolio, you accept that by taking a conservative approach, inflation may reduce the purchasing power of your savings. You should note that these funds are subject to market movements, but you would feel very uncomfortable if your investment rose and fell in value very quickly.

(TYPICAL EXPOSURE: Cash 60%; Fixed Interest 20%; Property 10%; Equities 10%)

Cautious

You accept that investment risk is inevitable if you are to achieve reasonably attractive real returns. Funds in this category usually offer reasonable growth potential in the medium term and can produce an income. Similarly, their currency risk is reduced through limiting the exposure to overseas assets, however, you should note that these funds are still subject to market movements, but you would feel very uncomfortable if your investment rose and fell in value very quickly.

(TYPICAL EXPOSURE: Fixed Interest 60%; Property 10%; Equities 30%)

Moderate

You accept that an increased investment risk is inevitable if you are to achieve attractive real returns. Investments in this category usually offer reasonable growth potential in the medium term. Although risk is reduced through diversification across markets, the Fund Manager can use this wide choice of assets to adjust exposures according to specific market conditions. You should note that these funds are subject to market movements and currency risk.

(TYPICAL EXPOSURE: Fixed Interest 30%; Property 15%; Equities 55%)

Aggressive

You have a willingness to accept high investment risk. This enables you to include a wide range of equity assets with good long-term growth prospects. Although asset class diversification will usually be compromised in an effort to achieve higher real returns, the Fund Manager can use both UK and overseas equities to react to specific market conditions. You should note that these funds are subject to market movements and currency risk.

(TYPICAL EXPOSURE: Equities 100%)

Very Aggressive

You have a very high tolerance to investment risk. This will allow you access to a wide range of funds, which will target specific assets with potential for high growth. These funds can offer a high level of real return in the longer term. As they focus on asset types or specific markets that undergo a high degree of price change, they can, and often do, experience greater than average volatility. Diversification will usually be compromised in an effort to achieve higher real returns and there will be a significant chance that the value of your assets may fall and could take several years to recover their original value. It is likely that you are looking to invest over the long-term. You should note that these funds are subject to market movements and currency risk.

(TYPICAL EXPOSURE: Equities 80%; Specialist Investment 20%)

Description Of Asset Classes

Cash

Cash generally refers to investments in bank bills and similar securities which have a short investment timetable. They provide a stable, low risk income, equally in the form of regular interest payments. Alternatively, funds are held in deposit accounts paying monthly/annual income. The capital is guaranteed (subject to the Financial Services Compensation Scheme limit). Risk is present in the reduction in real value (i.e. after inflation adjustment), of the deposit holding.

Fixed Interest

Mostly government bonds, corporate bonds, mortgages and hybrid securities which generally operate in the same way as loans. The income return is usually in the form of regular interest payments for an agreed period of time and a par value of the original capital loan is returned at redemption date. Due to their ranking in corporate debt, fixed interest security is considered lower risk in comparison to a share and price trading normally results in reduced volatility.

Property

Property has bond-like qualities, in that it represents a solid asset that produces an income via rents, where the yield rises as the price falls and vice-versa (provided the rental income doesn't fall, of course). Property also offers some of the rewards and risks of equities:

i) The opportunity to make long-term capital gains.
ii) The potential for income to rise over time, ahead of inflation.
Bricks-and-mortar property offers some diversification away from equities.

UK Equities/Shares

A share represents part ownership of a company. Shares are generally bought and sold on the Stock Exchange with potentially wide price swings. Returns usually include capital growth (or loss) and income through dividends. Equity would be considered a volatile investment for a higher risk investor.

Overseas Equities/Shares

Overseas shares generally work the same as UK shares. The additional benefit is the increased opportunity to invest in a much wider range of countries (e.g. Europe, Asia) and a broader selection of companies (e.g. Microsoft, Johnson and Johnson) outside the UK. However currency valuations can negatively affect performance over and above the risks noted above.

Specialist

Specialist shares are also traded on exchanges. Their specialist nature means they can be sector specific (i.e. mining, oil, gold etc). The benefit is the increased opportunity to invest within a specific industry/sector inside or outside the UK. However, currency valuations and poor liquidity can negatively affect performance over and above the risks noted above. Their ability to hold alternative investment instruments (i.e. derivatives, venture capital and private equity) also has a dramatic effect on volatility. Specialist shares are extremely volatile and would be appropriate to a very aggressive investment.