GUIDE TO INVESTING

Understanding Risk, Returns & Objectives

Redmayne Bentley

Guide
to Investing

There are many reasons for investing, such as financial prosperity and security, but ultimately they are driven by the desire to enjoy life, safe in the knowledge that your investments are working for you.

Whatever your focus might be, our trusted and experienced investment managers will work with you to understand your personal circumstances and requirements so that we can tailor a portfolio that is right for you and your priorities.

This guide has been produced to help you understand the fundamentals of how we approach investing, including objective setting and risk profiling. These considerations and others need to be established with our trusted and experienced investment managers, before a tailored portfolio can be constructed to suit your needs.

This guide is aimed at investment management clients, however, clients of our other services may also find it helpful in order to gain further insight, in particular the exploration of links between risk and returns and the characteristics of asset classes we utilise in the investment universe.

You should read this guide in conjunction with our *Terms of Business*, which is included in your welcome pack and available at **www.redmayne.co.uk/terms**

Investing *with us*

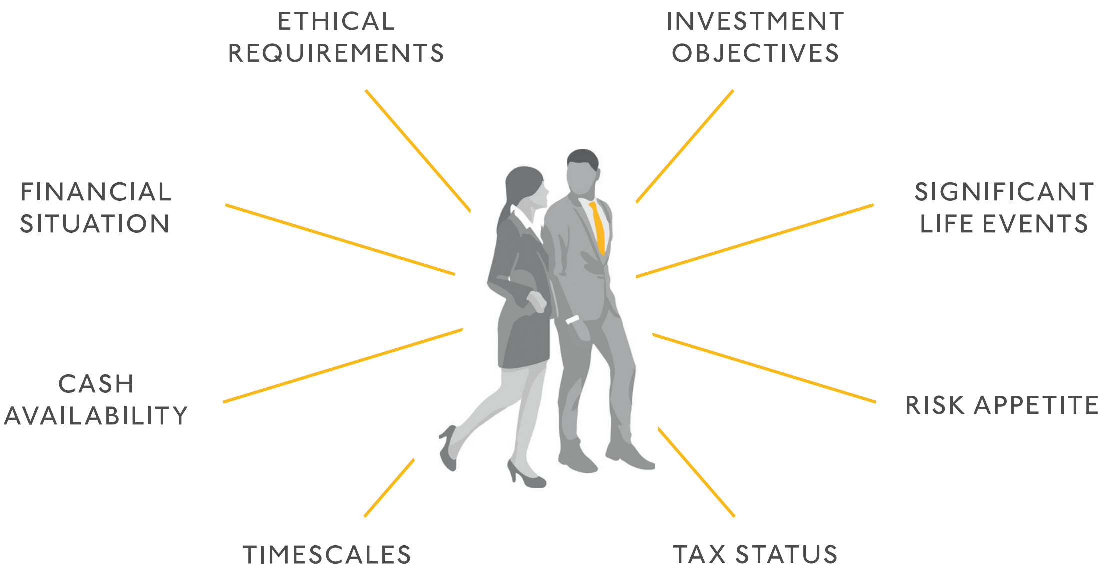
Investing with us via our investment management services will see you and your investment manager work together to balance your priorities, needs and objectives with the amount of risk you are able and willing to take.

Your understanding of, and attitude to, risk will define how you or your investment manager invest.

It is often stated that risk is explicitly linked to returns. The greater the amount of returns you aim to generate, the greater the level of risk you would likely have to take in order to achieve those higher returns.

It is, therefore, essential that from the start of your relationship with us we understand exactly what your aims and objectives are, so that we only take the amount of risk that is needed to achieve those aims and objectives.

THE FACTORS WE WILL CONSIDER



Investing is what Redmayne Bentley has been doing since 1875

We also understand that your priorities and circumstances may change over time and, therefore, so will your attitude to risk and the level and type of returns you will require. For example, a capital growth objective may be superseded by a requirement for a certain level of income in retirement.

In addition to understanding your objectives, it is key for us to understand your investment time horizon.

The length of time you can invest for affects the amount of risk you are able to take and also the types of investments that will be suitable for you.

After considering your objectives, risk and time horizon your investment manager will be able to invest your money in order to meet your needs, constructing a bespoke portfolio tailored just for you.

Is investing *right for you?*

SAVING

Saving is often referred to as the money you put aside in a safe place, typically with a high street bank or building society. It is usually short term, as you may need it for a rainy day or a holiday, so that you can withdraw the money anytime you choose. Your capital is generally protected and therefore any returns will be typically limited to an agreed (but usually low) rate of interest.

It is important to note that cash carries the risk that it will decline in real value due to the impact of inflation.

INVESTING

Investing generally means putting your money into assets, such as bonds, shares or property, with the aim of increasing the value of monies invested over time. Those assets may provide regular income or capital growth, or both. Typically, there is no guarantee of either income or growth.

There is a possibility that you may need to have access to your money at a time when it has gone down in value. If you are not comfortable with this, then the investment services that Redmayne Bentley offers are not suitable for you. It is likely that you may be more suited to traditional saving approaches where the main objective is to preserve your capital.

In general, our clients expect a higher return than can be achieved via cash deposits. This, therefore, means their capital is at risk and could suffer loss.

Defining
your objectives

BROAD OBJECTIVES

Establishing your broad objectives in the first instance will help ensure that we construct a portfolio of investments that focuses on your needs. Examples of broad objectives and what they encompass are as follows:

- CAPITAL GROWTH PRIORITY
  Your focus is on growing your capital, therefore, income requirements will not be a key consideration.

- INCOME PRIORITY
  Your focus is on generating income and this is a priority over the growth of the portfolio.

- BALANCE OF CAPITAL GROWTH AND INCOME
  Your focus is a balance between capital growth and income. As this is a balance, the level of growth and income produced will be lower than if you solely focused on one of these objectives.

Why are *you investing?*

In order to define your objectives in detail we need to understand why you are investing. This will be specific to you, influenced by your personal and financial circumstances. We need to understand why you are investing so we can ascertain what you really want to achieve.

FOR RETURNS GREATER THAN FROM A BANK

TO SUPPLEMENT PENSION INCOME

FOR RETURNS GREATER THAN INFLATION

WHY ARE YOU INVESTING?

TO GENERATE A SPECIFIC RETURN E.G. 5% PER ANNUM

TO PRESERVE CAPITAL AND PASS ON WEALTH

TO PROVIDE FOR SCHOOL /UNIVERSITY FEES

CHANGING YOUR OBJECTIVES

We consider defining your objectives to be a continuous process over time. There is every possibility that your objectives will adjust as your priorities and circumstances change. It is important to us that we are aware of this so that we can continue to take the appropriate actions.

EXPECTATIONS OF YOUR OBJECTIVES

There is a possibility that what you initially want to achieve does not align with the level of risk you are able to take. We will therefore discuss this in depth to ensure that the appropriate balance is taken. The time horizon of your objectives will also need to be considered.

Understanding *risk and returns*

WHAT IS RISK?

The simplest way to describe risk is to think about it as the possibility of your investments losing value. But risk is not necessarily a bad thing as it often leads to higher returns.

RISK AND RETURN

If we look at the historical performance of different types of investments (asset classes) over a very long time period we can see the relationship that exists between the level of risk taken and the expected returns.

VOLATILITY

Volatility is the rate at which an asset's price increases or decreases over a particular period. The greater the rate of an asset's price movement, the higher the risk of the asset.

LARGEST FALL

The data also shows the 'largest fall', sometimes referred to as drawdown; this is the difference in the value of an asset class between its highest and lowest points over the 20-year period. Again, this illustrates how volatile or 'risky' an asset can be.

The data below shows the performance of different asset classes and the different possibilities of losses and gains (volatility) or risk, associated with them.

ANNUALISED RETURNS FOR VARIOUS ASSET CLASSES OVER THE LAST 20 YEARS

			HISTORICAL VOLATILITY	HISTORICAL RETURN	LARGEST FALL
Cash			0.26%	1.73%	0.00%
UK Government Bonds	FIXED INTEREST	INCREASING VOLATILITY	7.26%	3.14%	-35.45%
Corporate Bonds			8.22%	5.14%	-12.51%
UK Index-Linked Government Bonds			12.69%	4.67%	-48.93%
Overseas Equities	EQUITIES	INCREASING VOLATILITY	15.61%	9.63%	-38.87%
UK Equity Large Companies			17.16%	7.55%	-39.07%
UK Equity Small Companies			17.83%	9.76%	-60.54%
Emerging Market Equities			19.12%	10.31%	-52.21%
UK Equity Mid Companeis			19.44%	8.49%	-55.81%
Property	ALTERNATIVES		3.21%	4.03%	-39.08%
Fund of Hedge Funds		INCREASING VOLATILITY	8.05%	4.39%	-39.75%
Private Equity			12.67%	9.25%	-65.99%
Commodities			15.84%	2.86%	-56.75%

Source: FE Analytics
Note: Data from 31/12/2002 to 31/12/2022. Calculated based on monthly data.

Past performance cannot be relied upon as a guide to future performance.

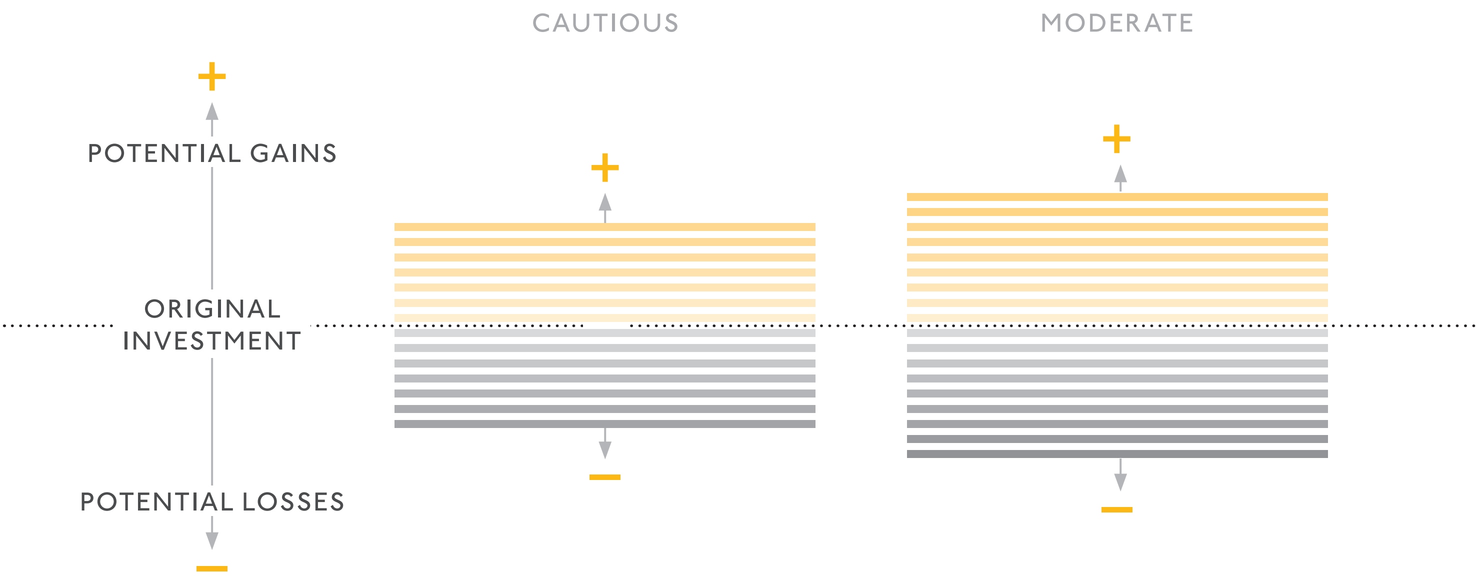
In summary, the historical data demonstrates the relationship between risk and return. As an investor over the medium to longer term (5–10 years) you expect to be rewarded for taking greater risk. We take many steps to help manage and monitor the level of risk taken, however, you must be comfortable with the potential downsides that it can also bring.

Assessing your risk profile

We begin with a *Risk Profile Questionnaire*, a range of questions based on different scenarios, to evaluate your overall attitude to risk. We also assess your capacity for loss; essentially in Pound terms how much money you can afford to lose. This is then combined with your attitude to risk so we can factor in how much risk you are willing to take and how much risk you are actually able to take.

WHAT DOES YOUR RISK PROFILE MEAN?

We manage our portfolios within four distinct investment risk categories depending on a detailed risk assessment:



For illustrative purposes

CAUTIOUS

The priority for the portfolio is the preservation of your wealth and maintaining the real value of your investment against inflation.

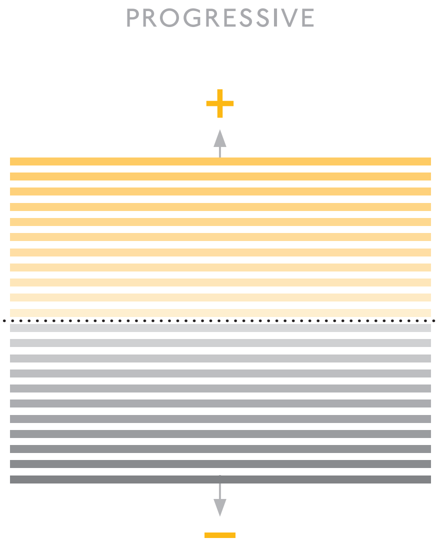
To minimise the risk to your portfolio, you will have less than 55% invested in equities, which can demonstrate a high level of volatility. The portfolio will be more evenly balanced between more risk-averse asset types such as fixed income, while at the same time allowing for potential increased levels of returns.

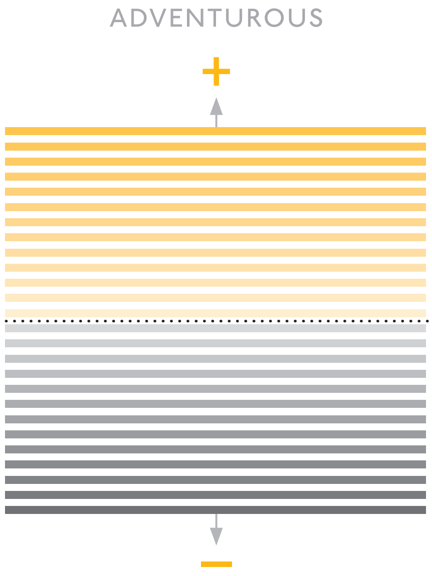
A cautious risk portfolio is appropriate if you have a short to medium-term timescale for investing and capacity to tolerate some volatility. Cautious risk portfolios are benchmarked against MSCI PIMFA Equity Risk 2 Index for performance comparison purposes.

MODERATE

The portfolio will seek, over time, to generate returns above the rate of inflation and should reflect a good proportion of the fluctuation in value of equity markets.

Although varying over time depending on market sentiment, your portfolio will have no more than 70% held in equities, alongside an allocation to fixed income and alternatives to maintain diversification, but will still generate potentially higher returns than a Cautious portfolio. Moderate risk portfolios are benchmarked against MSCI PIMFA Equity Risk 3 Index for performance comparison purposes.





PROGRESSIVE

The portfolio will seek, over the long term, to generate strong returns and is therefore likely to reflect the majority of the fluctuation in value of equity markets.

A significant proportion of the investments is likely to be held in volatile asset classes, such as equities, in order to have the potential to achieve higher returns. The extent of equity exposure could be up to 90% of the portfolio dependant on the investment manager's discretion. The opportunity to generate higher returns comes at the expense of greater risk to capital and the portfolio is likely to experience reasonably high levels of volatility. Progressive risk portfolios are benchmarked against MSCI PIMFA Equity Risk 4 Index for performance comparison purposes.

ADVENTUROUS

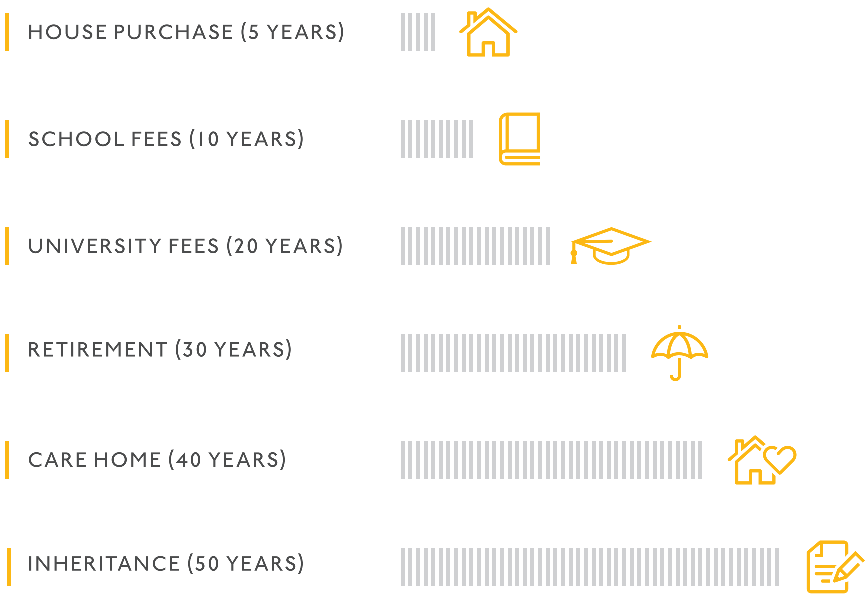
The portfolio will target high return generation over the long term, as such the value of an adventurous portfolio may fluctuate significantly, in line with or more than equity markets.

The portfolio will typically be almost exclusively invested in equities (up to 100% of the portfolio), potentially including a greater proportion of shares in medium-sized and smaller companies and is therefore likely to experience high market volatility.

An adventurous portfolio is appropriate if you have a long-term timescale for investing and the capacity to suffer a temporary or permanent capital loss. Adventurous risk portfolios are benchmarked against MSCI PIMFA Equity Risk 5 Index for performance comparison purposes.

Time *horizon*

How long you intend to invest for in order to meet your objectives is an important consideration. You may have a specific time horizon, for example 5 or 10 years, or you may require the time horizon to continue beyond your lifespan, for instance, if your assets are intended to be passed on to one or more beneficiaries.



The above illustrates a broad timeline with some of life's key events that you may be planning for. It would be worthwhile to imagine where your plans coincide with this example to help you determine your time horizon in conjunction with your investment objectives.

DIFFERENT TIME HORIZONS AND RISK

The length of time you have to reach your objectives is also considered in conjunction with the level of risk you are able to take. As previously highlighted, the value of investments can go up and down (volatility), so if you have a relatively short time frame, for example one to three years, you may not be able to invest in riskier assets as you have a shorter time frame in order to meet your objectives and will not be able to withstand the fluctuations in value.

If you have a longer time horizon, for example five to ten years, you may be able to tolerate potential fluctuations in value as you have longer to meet your objectives.

SIGNIFICANCE OF LONGER TIME HORIZONS

Investing in equities ideally requires a minimum time horizon of three to five years but, realistically, the longer the better. On a ten-year view, for instance, historical data shows that the probability of loss is negligible, while the potential returns are significant. If you are willing and able to tolerate the volatility, then time is expected to bring you rewards as an investor.

The table below shows the evidential data to illustrate this point.

WHY TIME MATTERS IN THE STOCK MARKET

HISTORIC PERFORMANCE RANGE *(based on £100,000 starting investment in UK Equities)*		
ROLLING TIME PERIOD	PROBABILITY OF LOSS*	AVERAGE PORTFOLIO END VALUE
1 day	46.08%	£100,038.95
1 week	43.09%	£100,188.36
1 month	37.84%	£100,805.69
1 year	24.02%	£109,768.06
3 years	17.11%	£130,221.25
5 years	9.65%	£153,562.67
10 years	0.92%	£234,706.56

↑ Invest for a longer time horizon

↑ Probability of loss is negligible

↑ Potential returns improve significantly

** Probability of Loss shows the percentage of rolling time periods within the data range that produced a negative return.*
Source: Redmayne Bentley Factset Date Range: 31/12/1985 – 31/12/2022

Past performance cannot be relied upon as a guide to future performance.

Investment Universe

In order to provide some context of what type of investments we would potentially include in your portfolio, the following provides a summary of the main asset classes that we would consider investing in.

(Please note this is not a definitive list and others are accessible in the investment universe).

BONDS

Bonds are loans taken out by an organisation which normally pays a rate of interest (a coupon) over a specified time. At the end of the time period the loan is repaid so the investor would receive their capital back.

EQUITIES

When investing in equities you buy a share of a public company. The value of the share is likely to go up and down based on the expected performance of the company. The company may also distribute a dividend which would be based on any profits that have been made.

PROPERTY FUNDS

Property is a physical asset, as you are investing in bricks and mortar. This is mainly accessed through commercial property (such as offices, industrial warehouses and shopping centres) or possibly residential property.

ALTERNATIVES

Alternatives typically include less traditional asset classes that usually have different characteristics, and as such may perform differently depending on market conditions. They can, therefore, bring diversification benefits to a portfolio.

The investments highlighted can either be invested in directly or through an investment fund *(which invests in multiple direct holdings to construct a diversified portfolio)*.

Investment Universe

BONDS

UK Government Bonds	UK Index-Linked Government Bonds	Corporate Bonds	High Yield Bonds
EXPECTED RETURN DRIVERS			
Income from coupons	Income linked to inflation from coupons	Income from higher coupons, possibly inflation-linked	
EXPECTED RISK FACTOR(S)			
Very low – backed by UK Government		Company possibly defaults on loan repayments and/or falls into administration	Company more likely to default on loan repayments and/or fall into administration

EQUITIES

UK Equities	Overseas Developed Equities	Emerging Market Equities
EXPECTED RETURN DRIVERS		
Capital growth Income from dividends		Potentially strong capital growth Income from dividends
EXPECTED RISK FACTOR(S)		
Value of shares fall significantly and/or falls into administration	Value of shares fall significantly and/or falls into administration Currency fluctuations	Value of shares fall significantly and/or falls into administration Currency fluctuations Political instability

ALTERNATIVES

Infrastructure Funds	Commodity Funds	Absolute Return Strategies	Private Equity
EXPECTED RETURN DRIVERS			
Income distributions which may be linked to inflation Moderate capital growth	Capital growth	Capital growth – potential target above inflation	Potentially strong capital growth Income from dividends
EXPECTED RISK FACTOR(S)			
Lower risks at mature end of the project life cycle Government intervention	Supply and demand volatility Investor flows cause large price movements	Lack of transparency Skilled manager and robust investment process required	Limited information on Company Market can be illiquid as up-to-date pricing not always available

PROPERTY

Property Funds	
EXPECTED RETURN DRIVERS	
Income from rentals, structured to incorporate inflation-linked uplifts	Moderate capital growth
EXPECTED RISK FACTOR(S)	
Value may fall – although land value underpins the property	Can take longer to buy and sell property compared to other markets – less liquid

Summary

The principal objective of this guide is to demonstrate how we think about investing and the components that we believe are critical in order to invest your money appropriately.

It is important to us that you understand the link between risk and return at the beginning of your relationship with us.

In addition, before we even consider how to invest your money, we assess your risk profile, objectives and time horizon.

We are confident that our investment process and our tools to manage risk are in-depth and robust, to ensure that we put ourselves in the best position to construct a portfolio to meet your needs.

Next steps

Investing cash or transferring an existing portfolio to us is very straightforward.

We welcome the opportunity to speak to you or your advisor to understand your needs, and how we can achieve your financial objectives.

Details of our offices can be found at
www.redmayne.co.uk

Alternatively, please call
0344 259 0001

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