

# GUIDE TO INVESTING

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Understanding Risk, Returns & Objectives



# 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](http://www.redmayne.co.uk/terms)

# Investing *with us*

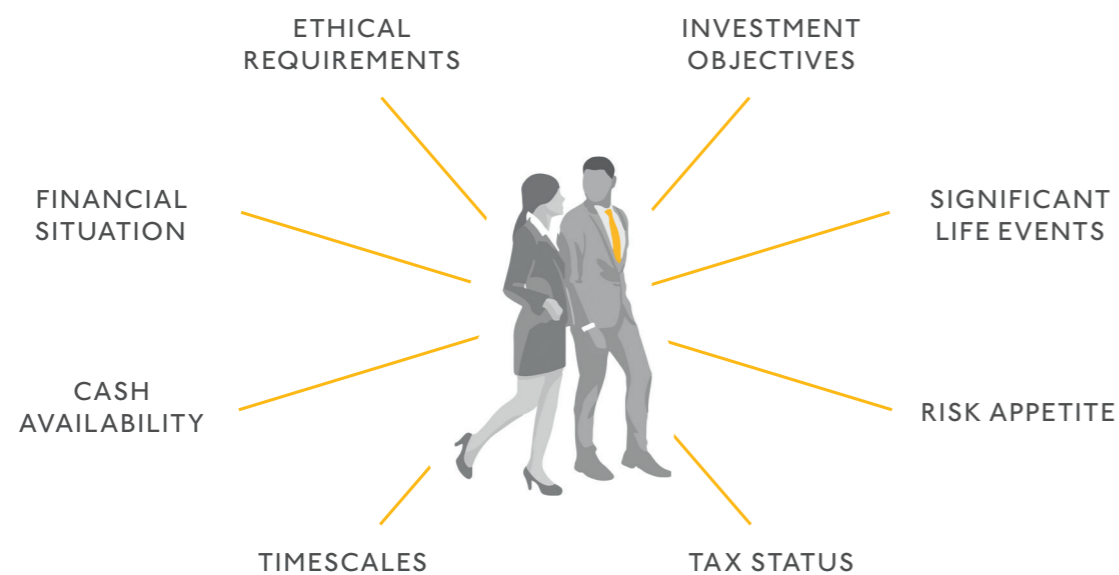
Investing with us via our investment management services will see you and your investment manager work together to balance your priorities, needs and objectives with the amount of risk you are able and willing to take.

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 make way for the requirement of 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*

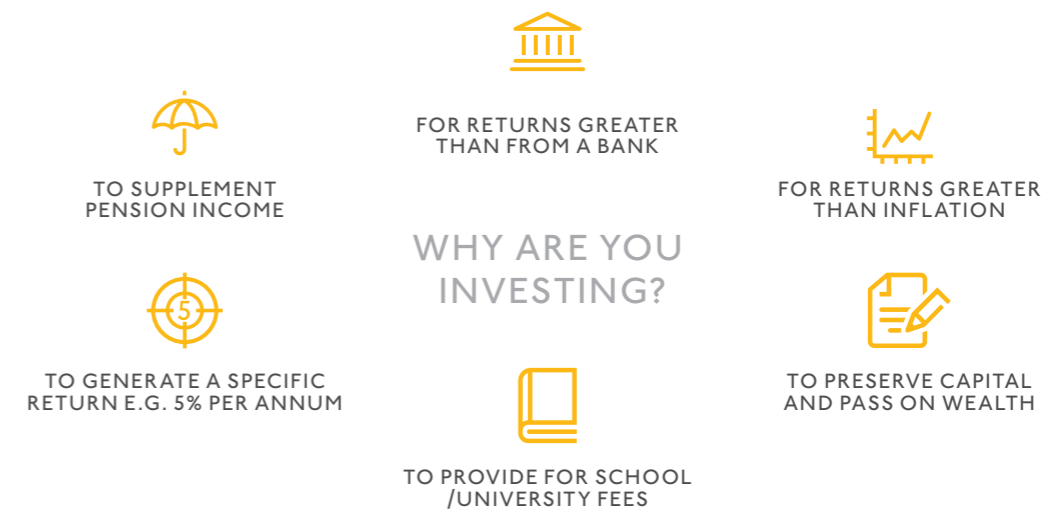
## BROAD OBJECTIVES

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.



## CHANGING YOUR OBJECTIVES

We consider defining your objectives as 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 essentially shows the range of returns. The higher the volatility figure, the riskier the asset class is; this means the value of the asset is likely to go up and down to a greater extent.

## 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			0.7%	3.2%	0.0%
UK Government Bonds	FIXED INTEREST	INCREASING VOLATILITY	5.4%	5.4%	4.5%
Corporate Bonds		↓	5.9%	6.5%	16.7%
UK Index-Linked Gilts		↓	7.5%	7.4%	12.7%
UK Equity Large Companies	EQUITIES	INCREASING VOLATILITY	13.7%	5.7%	44.4%
Overseas Equities		↓	14.9%	7.9%	49.7%
UK Equity Mid Companies		↓	16.6%	10.7%	47.4%
UK Equity Small Companies		↓	17.4%	7.5%	50.6%
Emerging Market Equities		↓	22.4%	9.1%	43.6%
Private Equity		↓	22.6%	8.8%	76.6%
Property	ALTERNATIVES	INCREASING VOLATILITY	3.9%	8.6%	36.8%
Fund of Hedge Funds		↓	9.9%	4.0%	31.4%
Commodities		↓	14.9%	-0.3%	54.5%

Source: Redmayne Bentley, Factset

Note: Data to 31 October 2017. Calculated based on monthly data.

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

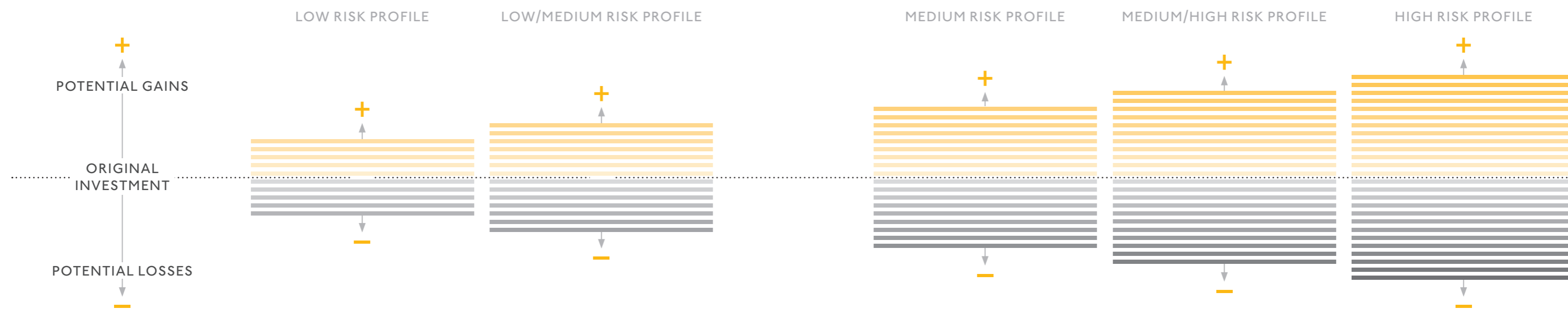
In summary, the historical data demonstrates the relationship between risk and return. As an investor over the medium to longer term (5–10 years) you expect to be rewarded for taking greater risk. We take many steps to help manage and monitor the level of risk taken, however, you must be comfortable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

There are 5 risk categories which we use as a starting point to construct your portfolio:



*For illustrative purposes*

### LOW RISK

The portfolio is likely to invest in assets that would focus on capital preservation and/or providing income. As such, the portfolio may have limited growth potential but will seek over time to generate returns that exceed the return available on cash deposits. The returns should be achieved with significantly less fluctuation in value than equity markets.

A low risk portfolio is appropriate if you have a short-term timescale for investing and/or a modest capacity for loss.

### LOW/MEDIUM RISK

The portfolio will seek over time to generate returns that exceed the returns of a low risk portfolio. These returns may come from capital growth and/or income but should still be achieved with less fluctuation in value than equity markets.

The portfolio is likely to differ from a low risk portfolio by having greater exposure to equities.

A low/medium risk portfolio is appropriate if you have a short to medium-term timescale for investing and capacity to tolerate some volatility.

### MEDIUM RISK

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

The portfolio is likely to differ from a low/medium risk portfolio through lower diversification by asset class and/or having greater exposure to equities, including possible exposure to shares in smaller and medium-sized companies.

A medium risk portfolio is appropriate if you have a medium to long-term timescale for investing and capacity to tolerate a temporary or (albeit unlikely) permanent loss to your capital.

### MEDIUM/HIGH RISK

The portfolio will seek over time to generate returns that exceed a medium risk portfolio and should reflect the majority of the fluctuation in value of equity markets.

The portfolio is likely to differ from a medium risk portfolio through lower diversification by asset class and greater exposure to equities, which are likely to include some shares in smaller and medium-sized companies. The portfolio may also have little exposure to asset classes with low-risk characteristics.

A medium/high risk portfolio is appropriate if you have a long-term timescale for investing and capacity to accept a temporary, or possible permanent, capital loss.

### HIGH RISK

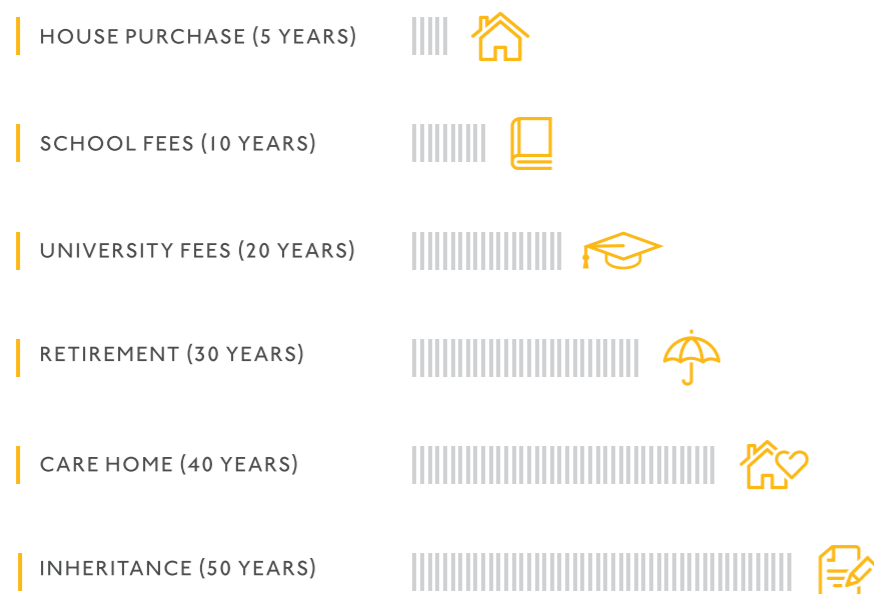
The portfolio is likely to invest in assets that over time seek to provide strong growth. The value of a higher risk portfolio may fluctuate significantly, in line with or more than equity markets.

The portfolio is likely to differ from a medium/high risk portfolio through lower diversification and greater exposure to equities, this could include a greater proportion of shares in smaller and medium-sized companies. The portfolio may also have little exposure to asset classes with low-risk characteristics.

A high risk portfolio is appropriate if you have a long-term timescale for investing and the capacity to suffer a temporary or permanent capital loss.

# 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 1–3 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 5–10 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 3–5 years but, realistically, the longer the better. On a 10-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)		
TIME PERIOD	PROBABILITY OF LOSS	AVERAGE PERFORMANCE
1 day	44.6%	£100,040
1 week	43.1%	£100,200
1 month	37.1%	£100,870
1 quarter	31.1%	£102,610
1 year	23.6%	£110,730
3 years	17.5%	£133,270
5 years	11.5%	£159,310
10 years	1.2%	£244,380

↑ Invest for a longer time horizon     
 ↑ Probability of loss is negligible     
 ↑ Potential returns improve significantly

Source: Morningstar Direct using the FTSE All-Share Index total return data from 31.12.85 to 31.12.16 covering every ten-year period from Dec 1995 rolled forward each month to Dec 2016. Woodford Investment Management.  
 Note: Probability of loss and historic performance ranges for other markets, individual securities or funds will be different.

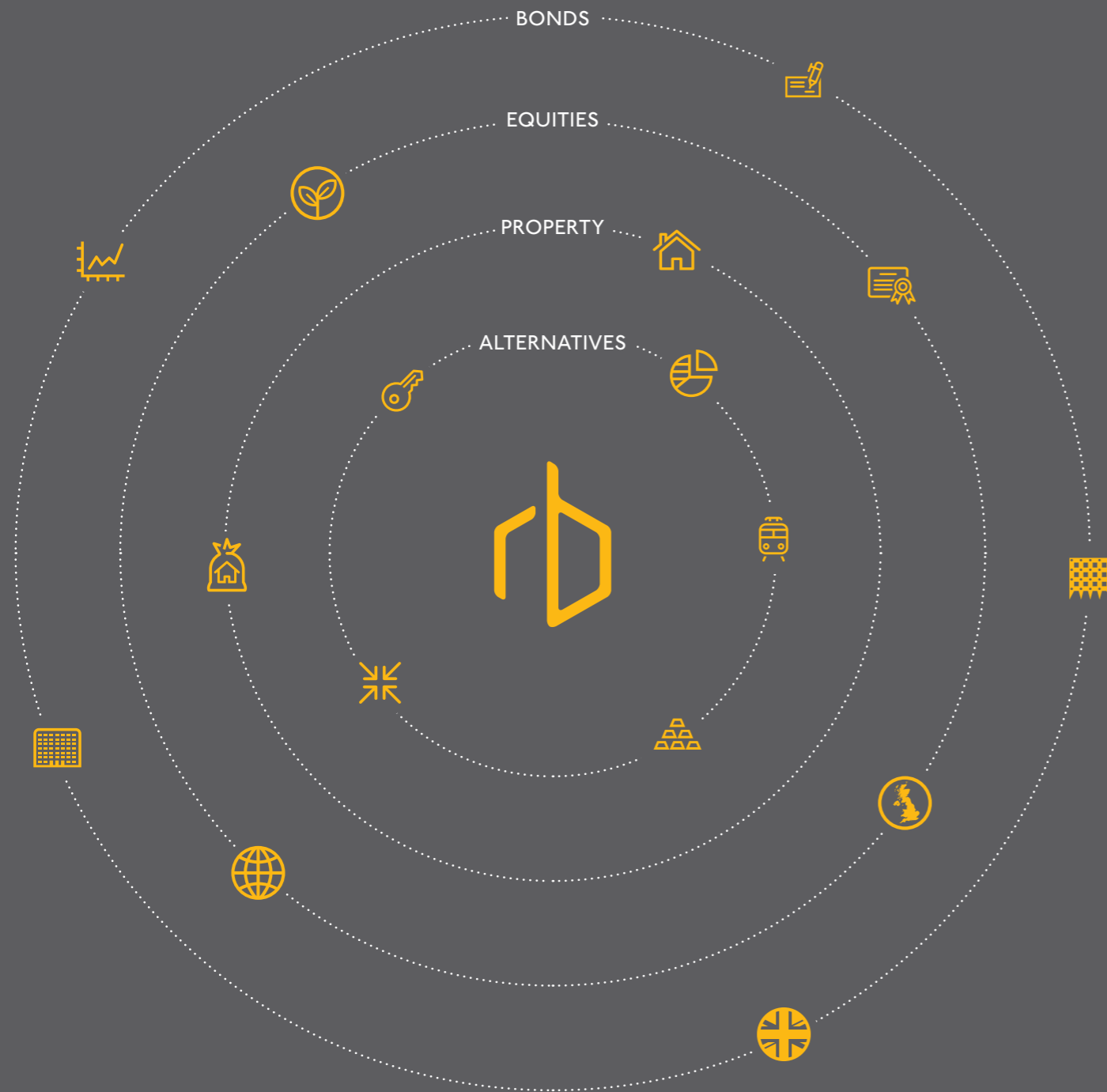
Past performance cannot be relied upon as a guide to future performance.



# 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](http://www.redmayne.co.uk)**

Alternatively, please call **0344 259 0001**

