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Bordier & Cie (UK) PLC

An investor's guide to risk, suitability & investment strategies

3rd Edition
31 December 2016

Introduction

This guide is designed to give you a better understanding of investment risk and the factors you should take into consideration when choosing one of our investment strategies. We would ask that you read it carefully before completing our account opening documents and when contemplating a change of strategy.

Topics covered in this guide can be summarised as follows:

- Suitability.
- Risk tolerance and capacity for loss.
- The different types of investment risk.
- Volatility.
- Combining assets with different risk characteristics to form a portfolio.
- Asset classes and their historic behaviour.
- Delivering your objectives.
- Overview of our investment strategies.
- The importance of diversification and long-term investment.
- Expectations of portfolio return, risk and potential loss.
- Illustrative past performance.
- Our five investment strategies in detail.

Suitability

When selecting an investment strategy, it is important that it is suitable for you after considering your financial circumstances. The role of assessing the suitability of your chosen investment strategy will fall on either your professional adviser or, if accessing our services directly, your Bordier UK investment manager. The main aspects of suitability are:

- Understanding your investment objectives.
- Monitoring your overall financial circumstances to determine what level of potential investment loss you can bear.
- Ensuring you have the adequate knowledge and understanding of the risks associated with your chosen risk profile and objective.
- Ensuring the construction of your portfolio is consistent with your risk tolerance and investment objective.

Whether the responsibility for assessing suitability is held with us or your professional adviser will be clearly set out in your Wealth Management Service engagement letter. If you are investing via the Bordier UK Managed Portfolio Service or Platform Managed Portfolio Service, the responsibility of suitability will always lie with your professional adviser.

Your professional adviser or Bordier UK investment manager will assess the suitability of your portfolio in the light of what they know about your individual circumstances. They will capture and record information about your individual circumstances in order to determine your ability, willingness and need to take investment risk. This may include replaying how you might react to different investment scenarios and the implications for your current or projected lifestyle. Achieving the right balance between risk and reward will depend on your overall financial position, your investment time horizon, your psychological comfort with uncertainty, the possibility of incurring short-term losses and your long-term investment goals.

The various factors that your professional adviser or Bordier UK investment manager will take into consideration when assessing the suitability of an investment strategy are described in detail in the rest of this document. It is important that you understand these factors and you should consult your professional adviser or investment manager if you have any doubts about the suitability of your investment portfolio with us.

Risk and capacity for loss

All decisions concerning the investment of capital involve some risk; even a decision to leave cash in the bank carries the risk that, after taxes, the capital will probably be eroded in real terms by inflation, and in recent times the very security of investors' original capital has been called into question at some banks. Furthermore, broad brush definitions of risk such as low, medium and high, can be confusing in themselves. A low risk approach will almost certainly result in low reward, but it is far from certain that a high risk approach will lead to high reward. It should also be borne in mind that almost all types of investment carry the risk of capital loss, and the 2008 financial crisis illustrated that even conventionally lower risk assets can lose capital value in times of extreme market distress.

Your 'capacity for loss' is the level of risk of loss in the portfolio you are willing and able to tolerate. Assessing your capacity for loss is essential to sound investment advice because if your capacity for loss is exceeded you may make a snap decision, such as selling investments at or near the bottom of a downturn, which would simply serve to lock in losses and negatively impact your long-term investment returns.

The starting point for any period of investment can have a significant impact on one's overall return, although generally the longer the period of investment the better returns have been historically. It is important, therefore, that you consider your appetite or willingness to accept losses on your investments, particularly over shorter time periods.

Your risk tolerance

There are three main factors that help to determine the level of risk you are willing and able to take. They are:

1 Ability to take risk

This relates to overall wealth relative to your liabilities, liquidity, time horizon and investment experience.

Overall wealth

Investors with a higher asset base relative to their future needs will generally have a higher ability to take risk. In addition, investors with a higher disposable income will be able to offset losses with higher savings and therefore may have a higher ability to take risk. When looking at your overall wealth you should consider whether it would be prudent to reduce significant borrowings such as mortgages and loans and consider how much cash you should put to one side for a 'rainy day' or emergencies.

Liquidity

If income or withdrawals are required to be taken from the portfolio, especially in the immediate future, the level of risk that can be afforded will be reduced.

Time horizon

Your ability to take risk is heavily influenced by your investment time horizon – the longer the time horizon for investment, the greater risk that can generally be afforded. You may have a different attitude to risk in respect of different types of investments. For example, you might be happy to take some risk with money you will not need access to for many years – but if you are also saving up for something over just a few years, you will need to be much more cautious.

We believe that the investment solutions offered by us are generally for investors with a time horizon of at least five years, and at times longer than this. It is over periods of at least this length, to include a full market cycle of bad and good markets, that we aim to deliver satisfactory returns for our clients. It is not practical to construct and manage an investment portfolio which can outpace benchmarks, year in, year out. Instead, we concern ourselves with meeting the longer-term aspirations and objectives of our clients. There will be times when returns look modest, and times when returns look rather better than could be reasonably expected. Investors must recognise and acknowledge this.

Investment experience

If you have limited experience of investing in financial markets you may need to take greater care in determining your appetite for risk and capacity for loss than someone who has the benefit of experiencing the behaviour of various asset classes over several years or a full economic cycle.

2 Willingness to take risk

This relates to psychology – it is how you feel about risk. Another way of looking at this is to ask yourself whether you will sleep soundly at night given the possible outcomes from the strategy that has been recommended. You may find the possibility of short-term losses would cause you great stress and anxiety. On the other hand you feel comfortable with, or accepting of, investment volatility.

3 Need to take risk

Just because you may have a high ability to take risk does not mean that you need to take more risk. It is likely that either your individual circumstances or investment objective will change over time. It is important to let us know of any changes as they happen so that we can assess whether the portfolio remains suitable.

Investment risk

Although all investments involve risks, some investments are safer than others. High risk investments, such as shares, may have the potential for higher returns but also for greater losses. To help you better understand the possible outcomes from our investment strategies we explore below risks that cannot be diversified and those that can.

There are certain macro investment risks that affect the financial markets and cannot be diversified:

Inflation risk:

The risk that the rate of inflation will exceed the rate of return on an investment. For example, if the rate of inflation is 5% over a year and the rate of return is 3%, you would have effectively experienced a loss in real terms (after inflation) of 2%, even though you would have made a gain in absolute or nominal terms.

Shortfall risk:

The risk that the actual return from the portfolio will be less than the return needed to meet your investment goals.

Market risk:

The possibility that you may experience losses due to factors that affect the overall performance of the financial markets.

Market risk, also called 'systematic risk', cannot be eliminated through diversification.

Economic and political risk:

This is a variation on market risk represented by the risk of political interference (such as war, nationalisation and the imposition of exchange controls), an unexpected economic event such as a rise in interest rates or a major terrorist attack. The magnitude of the terrorist attacks on the US in September 2001 caused major disruption and uncertainty in financial markets, and introduced new, and previously unforeseen, risks to investment.

Other risks:

These are also variations on market risk and would include natural disasters such as a tsunami, an earthquake or a pandemic.

The following investment risks are associated with individual investments and can be reduced (but not eliminated) by having a diversified portfolio of investments:

Country:

The risk that a domestic event (for example a change of government) affects the level of the local market.

Credit:

The risk that a borrower defaults.

Currency:

The risk that a devaluation causes the investment to decline in the reported currency.

Interest rates:

The risk that a rise causes the local bond market to fall.

Liquidity:

The risk that an investment may be difficult to sell.

Manager:

The risk that the manager underperforms the benchmark.

The old adage "Don't place all your eggs in one basket" is particularly pertinent when it comes to portfolio construction. Our portfolios which are diversified across a broad range of asset classes such as shares, government bonds (e.g. conventional gilts), index-linked gilts, corporate bonds, commercial property, gold, alternative investments and cash will have a significantly reduced level of risk compared with, say, a portfolio which only includes a handful of shares.

Studies show that combining assets with historically low, or no, correlation with each other can also significantly reduce portfolio risk and potentially increase a portfolio's return. We principally use collective investment funds to construct client portfolios. The use of these, rather than individual shares or bonds, automatically introduces significant diversification to the portfolios we manage and reduces the risk of any single underlying investment negatively impacting a portfolio's overall return.

Volatility

Volatility is one gauge of risk in that it is a measure of the fluctuations in the value of a particular investment, asset class or portfolio. Volatility will vary depending on the nature of the investment, the time period over which the fluctuations in value are observed, and the manner in which different investments are combined. For example, it would be quite possible for an individual company's share price to rise or fall by, say, 5% in a single day, whereas a government bond (gilt) may see a daily fluctuation of a fraction of 1%. A portfolio comprising a range of equity-based collective funds and funds investing in fixed income securities would typically be expected to fluctuate much less in value than the underlying constituents due to the manner in which such constituents behave, or correlate, in relation to each other.

Investors may be prepared to tolerate fluctuations in value, but this should not be confused with investors' capacity to accept losses on their investment portfolio, particularly if any such losses lead to their objectives not being achieved or cause an irreversible alteration to their financial circumstances or lifestyle.

Looking at the portfolio as a whole

Individual investments should not be considered in isolation; it is the overall level of risk in the portfolio which is important. The inclusion of a small investment in a low/non-correlated, higher risk investment, even within a portfolio that has been constructed to meet a low level of risk appetite, can reduce portfolio risk overall and improve returns. The individual components in your portfolio will have varying degrees of risk which, when looked at together, will form a portfolio which is suitable to meet your requirements.

Asset classes and their historic behaviour

As noted, we invest in a wide range of asset classes when constructing portfolios. Descriptions of the most commonly used asset classes are outlined below, together with an indication of their likely behaviour based on historic performance. Please note that the value of investments, and any income from them, can fall as well as rise and is not guaranteed, and you may get back less than you invest. The likely behaviour of different asset classes noted below is a guide only. Past performance is not a guide to future performance.

Fixed income securities (bonds)

These are debt investments where an entity (usually a company or government) borrows money for a defined period of time at a specified interest rate. The indebted entity issues investors a certificate, or bond, that states the interest rate (coupon rate) that will be paid and when the loaned funds are to be returned (maturity date). Interest on bonds is usually paid every six months. UK government bonds are known as gilts and company bonds are known as corporate bonds. We tend to purchase specialist funds which invest in particular types of bonds – conventional gilts, index-linked gilts or corporate bonds – or strategic bond funds which are largely unconstrained and may invest in a wide range of global government and corporate bonds.

Fixed income securities typically exhibit low levels of volatility, with the main source of return coming from the interest paid. The capital value of fixed interest securities will be particularly influenced by movements in, or anticipated movements in, the level of interest rates and inflation. In times of falling interest rates and relatively low and stable inflationary conditions, fixed income securities are likely to appreciate in value and see income yields fall.

The main risks for fixed income securities can be split into two categories: the risk to income, where the issuer (e.g. a government or company) defaults on its interest payment; and the risk to capital, where the issuer does not repay the debt. Additionally, a rise in interest rates or inflation could cause a sharp drop in capital value. Many of these risks can be significantly reduced through investment in diversified fixed income funds. However, it is more difficult to reduce the impact of rising interest rates and inflation on the value of fixed income investments, and (particularly in an environment of sharply rising interest rates) large falls in capital value could be experienced.

Equities (shares)

Buying ordinary shares in a company confers ownership rights over the assets, potential profits and dividends. The payment of dividends designated by a board of directors is distributed pro rata among the shares in issue. The dividend varies with the fortunes of the company and may be omitted if business is poor or the directors determine to withhold earnings to invest in assets such as plant and equipment. Sometimes a company will pay a dividend out of past earnings even if it is not currently operating at a profit. Share prices typically reflect the fortunes of a company in terms of the profits (or losses) it is producing, the value of its assets and its dividend policy.

Equities typically exhibit higher levels of volatility than fixed income securities but over the very longer term have provided greater levels of reward, reflecting the participation equity investors have in corporate profitability. Because equity investors rank behind creditors in the event of a company's default, investors can potentially lose the entire amount invested. For this reason, diversification across various companies, sectors and geographic regions is important and can help reduce the likelihood of capital loss. Investment through diversified collective investment funds can reduce the risk of investing in equities.

As the examples below illustrate, stockmarkets have bad years as well as good ones and the length of time it takes to recover the lost ground is variable.

- Black Monday, October 19, 1987

The stockmarket crash began in Hong Kong and spread west to Europe, hitting the United States after other markets had already declined sharply. In the US, the Dow Jones Industrial Average dropped by over 500 points, or over 20%, in a single day and did not regain the August 25, 1987 closing high of 2,722 points until almost two years later.

- The Dot-Com bubble, 1997-2000

A speculative bubble during which stockmarkets rose strongly as investors overlooked traditional metrics such as the price-earnings ratio in favour of confidence in technological advancements. The collapse of the bubble took place during 2000-2001, when the UK stockmarket declined by over 50% from peak to trough. It took an index of the UK's 100 largest companies over 15 years to surpass its December 1999 closing level.

- The Global Financial Crisis of 2007–2008

The crisis resulted in the threat of total collapse of large financial institutions, the bailout of banks by national governments, and downturns in stockmarkets around the world. The crisis played a significant role in the failure of key businesses, led to significant declines in consumer wealth, a prolonged global recession and the European sovereign-debt crisis. In the US, the Dow Jones Industrial Average peaked at over 14,000 points in October 2007 but by March 2009 it had reached a trough of around 6,600. It took over five years for this stockmarket index to recover to a level above its 2007 peak, but the period of recovery since March 2009 was particularly strong.

Commercial property

This refers to investments in office buildings, industrial property, warehouses, shopping centres and retail stores. The return from an investment in commercial property can be achieved from two sources: an income return, via rental income from the occupiers (tenants) of the underlying property, and capital growth through general appreciation in the property's value over the longer term. We buy funds which focus on protecting and enhancing the existing rental income in the portfolio, coupled with acquiring properties with solid fundamental characteristics that provide either long, secure income, or that offer growth prospects and active management for future performance.

Commercial property assets typically exhibit low levels of volatility, reflecting the generally low level of transactional activity, long lease commitments and steady stream of rental income. Longer-term returns from commercial property have generally been greater than fixed income securities, but not as high as those from equities. Commercial property returns are influenced by changes in interest rates and inflation, and the economy as a whole, which influences the supply and demand for specific properties and property sectors.

Commercial property is a less liquid asset class than fixed income investments and equities, and it can take time to complete either purchase or sale transactions. Like residential property, the commercial property market also relies on relatively high levels of borrowing to assist with property acquisition. In times of particular financial market stress, as was seen in the 2008 financial crisis, transactional activity dried up and banks reduced their lending to property investors, resulting in sharp falls in commercial property values. This was an exceptional period of stress, and a recovery in values has subsequently occurred, although this recovery has been very slow. The typical longer-term characteristics of this asset class are steady capital appreciation combined with an attractive level of income.

Alternative investments

Included under this heading are 'absolute return' funds and gold. Absolute return funds aim to deliver a positive return, irrespective of whether markets are rising or falling, over a typical market cycle. The sector contains a wide variety of funds with managers using contrasting methods across a wide range of asset classes, including shares, bonds, cash and property. We use these funds as portfolio diversifiers to lower the overall level of volatility. Such funds are also able to use derivatives to profit when a stock or index falls in value (known as 'shorting'), and to shelter the fund's value against market falls. When used effectively, these tools should lead to better performance than traditional funds in a falling market, but are also likely to lead to reduced gains in a rising market. Ultimately it is typically the manager's investment decisions, and not the general movement of the market, that will determine returns.

Cash

Cash is a safe and low risk investment and can be a useful asset class, particularly in times of market stress. However, as noted earlier, during the 2008 financial crisis the security of cash deposits was called into question when certain banks came under financial strain. The return from cash deposits, which is solely from the interest paid, will be highly dependent upon, and influenced by, changes in the Bank of England's and other central banks' base lending rates. Generally it is very unlikely that investors will lose any money by investing in cash deposits, but investors should also bear in mind that their capital may be eroded by inflation and taxes. Over the longer term, the real (inflation-adjusted) returns from cash deposits have been below those from most other asset classes, and in some lengthy periods the real return has been negative.

Determining your objectives

We believe that many investors confuse their investment objectives with their acceptable level of risk, or what we term risk profile. For example, many investors opt for what is termed as a balanced portfolio, but such an approach is not an objective in its own right.

We suggest that there are only two prime investment objectives:

- To grow your capital.
- To obtain an income from your capital.

Capital growth

Growth of capital as an investment objective will vary from simple preservation of your existing capital, which means that it must keep pace with inflation, to a more ambitious wish to create additional wealth. Many investors have no wish to create additional wealth, but simply want to preserve existing capital in real terms. In a low inflation environment, this can generally be achieved without adopting significant risk. If you want your capital to grow at more impressive rates, this can normally only be achieved by the adoption of more risk.

Generation of income

Many investors need an income from their investments, and also need this income to be capable of growing over the years. If you wish to invest for income, you have to decide the extent to which short-term higher levels of income are more important to you than longer-term protection of the portfolio's ability to keep paying progressively higher levels of income. Broadly speaking, the pursuit of higher than average short-term levels of income will have a detrimental impact on the longer-term income producing ability of your portfolio, as well as on its potential for capital returns.

Some investors may be content with meeting their income needs from a combination of the income produced from their investment portfolio and any capital growth that the portfolio achieves – commonly called a 'total return' approach. This may allow for a portfolio strategy which reduces the commitment to, say, traditionally lower-risk, income-producing asset classes such as fixed income securities, and gives greater emphasis to investments with potential for long-term capital appreciation. It may also be tax-efficient to adopt such a 'hybrid' investment strategy to meet one's 'income' needs. However, there are also risks to this strategy – any capital growth required to augment the natural income produced by a portfolio may not materialise and cause the portfolio to be depleted. The withdrawal of capital from the portfolio at a level below which the portfolio is growing may also reduce the portfolio's ability to produce income at the current rate, or restrict the ability to increase the future level of income.

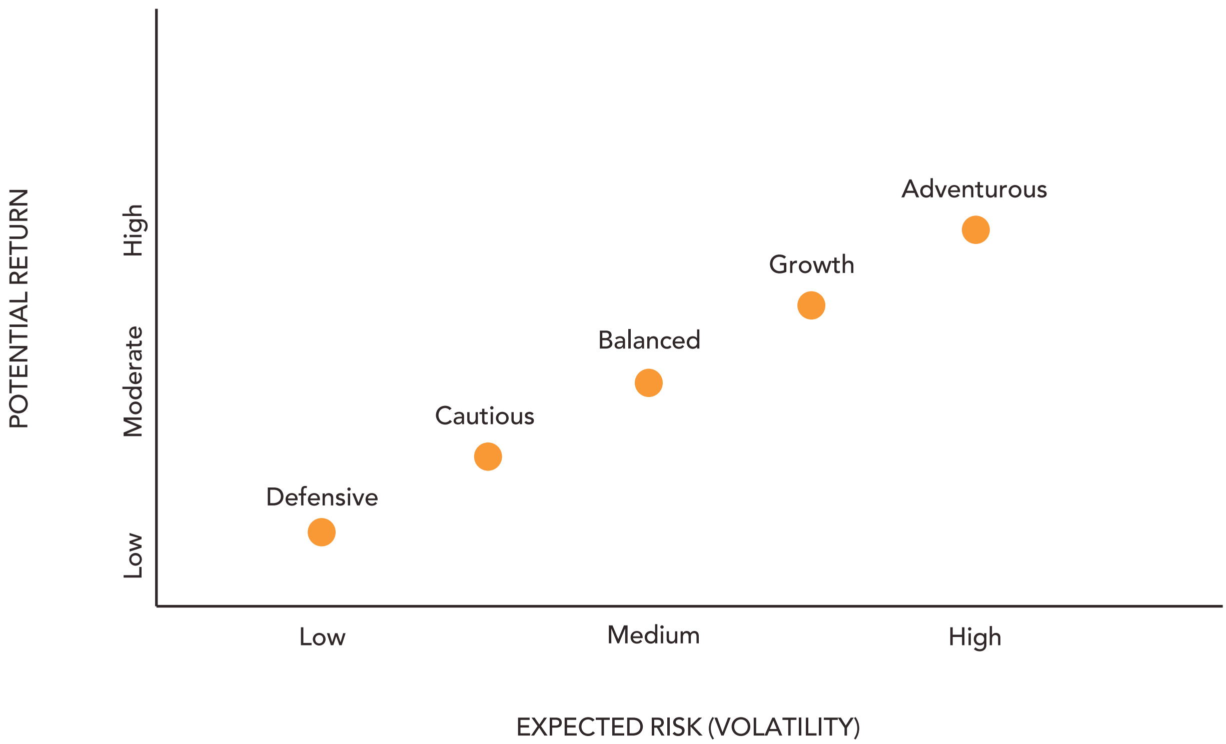
Overview of our investment strategies

Our portfolios are constructed around five investment strategies, each with a differing commitment to equities (via collective funds) and other asset classes. Our strategies are characterised by a long-term or strategic, commitment to equities and an active range for shorter-term or tactical, positioning by our Investment Committee.

The non-equity exposure in each strategy is invested across a wide range of asset classes which the Investment Committee believes offer the dual properties of value and diversification. Our Defensive and Cautious strategies focus on wealth preservation in real terms whilst our Balanced, Growth and Adventurous strategies are more aligned to building wealth in real terms over the longer term.

Investment strategy	Active equity participation ranges	Long-term equity participation
Defensive	0% to 20%	10%
Cautious	20% to 40%	30%
Balanced	40% to 60%	50%
Growth	60% to 80%	70%
Adventurous	80% to 100%	90%

Over the very long term, a guide to our expectations for return and risk from each of the five strategies is shown in the stylised chart below:



The importance of diversification and investing for the long term

Over the very long term, equities have generally produced the best real (inflation-adjusted) returns, although as shown in Table 1, the real annualised return from UK equities over the past 25 years has been broadly the same as, or slightly lower than, the returns from what are traditionally seen as lower risk assets, such as government bonds (e.g. gilts) and commercial property. This is more a reflection of the very strong performance from bonds and property during the post financial crisis period of monetary stimulus (2008 to date), a situation which is unlikely to be sustained over the longer term:

Table 1: Annualised real returns by asset class (% per annum)

	3 years	10 years	25 years
UK equities	+3.6	+2.2	+5.0
Gilts	+6.6	+3.5	+4.7
Property	+9.8	+1.1	+5.9
Cash	-1.2	-1.6	+0.6

Source: Morningstar & Bordier UK.
Figures to 31 December 2016.

Generally speaking, equities are considered to offer the greatest long-term potential for reward. However, this potential reward comes at a cost – over the longer-term equity returns have historically shown greater fluctuations in value (i.e. have exhibited greater volatility, or risk) than other asset classes. For this reason, our five core investment strategies are built around different levels of equity exposure to reflect different levels of portfolio risk. Over shorter periods it is possible for traditionally lower risk assets, like fixed income securities, to exhibit greater volatility and suffer larger declines in value than fundamentally riskier asset classes, such as equities. This may occur, for example, when economic growth is expanding and interest rates are rising from particularly low levels. Similarly, even over quite long periods, it is possible for the returns from traditionally lower risk/lower reward asset classes to outstrip those from riskier assets. This may occur during periods of economic decline or specific market stress, where 'safe haven' assets are more in demand. There are times, therefore, when it is possible for the behaviour of most asset classes to become somewhat detached from their longer-term characteristics. This means that it is important to use a wide range of asset classes and remain flexible in terms of the allocations to each.

As noted, our five investment strategies are defined by their long-term or strategic commitment to equities, with upper and lower limits in terms of exposure. We will alter the commitment to equities depending on our confidence in, and outlook for, various equity markets. At the same time we will vary the commitment to other asset classes, keeping a close eye on the overall portfolio structure and the overall portfolio risk.

Expectations of portfolio return, risk and potential loss

Our five investment strategies have not been in existence for a sufficiently long period to give investors a meaningful indication of their very long-term behaviour, including the gains, losses and volatility that investors might have experienced in any particular period. In any case, it is important to stress that past performance is not a guide to future performance, so what may have happened in the past may not be repeated. However, we believe it is important to give you a reasonable indication of the possible behaviour of our strategies in relation to each other, based upon some long-term historic returns from key asset classes.

The emergence of new asset classes and the manner in which certain collective investment funds can now utilise more sophisticated investment tools to control risk are very useful features of modern portfolio construction. Unfortunately, long-term performance data surrounding some of these asset classes and funds is not yet available. Therefore, in the following charts and tables we have used core, long-term asset classes to construct a series of illustrative portfolio returns as a guide only to show the manner in which varying combinations of such asset classes have behaved in the past.

The illustrative portfolio asset allocations have been constructed using the following asset classes. The historic returns for these asset classes have been taken from the benchmarks shown in brackets:

- UK equities (MSCI UK Index)
- Overseas equities (MSCI World ex UK Index)
- Gilts (J P Morgan Govt. Bond Index UK Traded)
- Property (Investment Property Databank (IPD) UK All Property Index)
- Cash (UK Savings NR)

In creating these illustrative portfolios, we have aligned the total equity market exposure with the same long-term equity market participation that we would expect to have in our five investment strategies. These long-term allocations to equities represent the middle of each equity market range for our five strategies. We have then allocated exposure to the other asset classes to reflect the nature of each portfolio strategy.

Again, it is important to stress that this is a guide only to help investors with their understanding of, and expectations for, risk and reward based on historic evidence; it does not represent how we have allocated capital across our five strategies in the past, or how we will allocate capital in the future, although we believe the allocations between equities and non-equity assets are broadly representative of our expected positioning.

Table 2 below summarises the percentage asset allocations used for each illustrative portfolio:

Table 2: Asset allocations for illustrative portfolio strategies (percent)

Strategy	Gilts	Equities			Property	Cash
		UK	Overseas	Total		
Defensive	50	10	0	10	10	30
Cautious	40	20	10	30	10	20
Balanced	25	30	20	50	10	15
Growth	15	40	30	70	5	10
Adventurous	10	50	40	90	0	0

Source: Bordier UK.

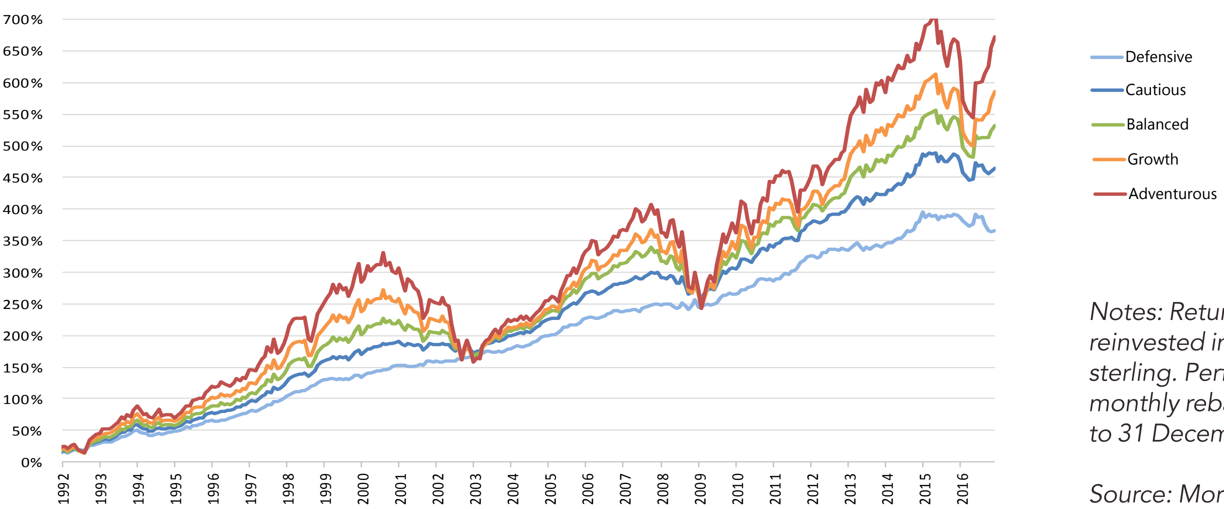
Illustrative past performance and risk characteristics for each strategy

Important note:

The performance and statistical information that follows is for illustrative purposes only to help align expectations of the risks of, and rewards from, investments with historic evidence. It is important to stress that past performance is not a guide to future performance, so what may have happened in the past may not be repeated. The asset allocations and performance of actual portfolios may differ from the illustrative strategies used in this guide.

Chart 1 below shows the cumulative performance of the five illustrative strategies over the past 25 years. As can be seen, the strategy with the lowest exposure to equity markets, and the strategy that we consider to exhibit a low level of risk (i.e. Defensive), has also produced the lowest return over this period; similarly, the strategy with the highest exposure to equity markets, and the strategy that we consider to exhibit high level of risk (i.e. Adventurous), has produced the highest level of cumulative return. As is also clear, there have been shorter periods during this 25-year period when an adventurous strategy would have experienced greater falls in value than a defensive strategy, and it is only when viewed over the longer-term period that these shorter periods of decline are 'ironed out'.

Chart 1: Cumulative performance for each illustrative strategy over 25 years



Notes: Returns include reinvested income and are in sterling. Performance assumes monthly rebalancing. Figures to 31 December 2016.

Source: Morningstar.

The previous chart therefore illustrates the importance not only of longer-term investment, but also the difficult decisions that some investors may face if they have not prepared themselves for, or are fundamentally unsuited to, interim falls in value along a longer-term investment path.

It is these potential shorter-term fluctuations in value - and the financial implications for, and reaction by, investors when they occur - that also need to be borne in mind when selecting the most suitable strategy.

Table 3 below summarises some important portfolio risk and 'drawdown' information for the five illustrative strategies using historic data over the past 25 years:

Table 3: Summary of illustrative portfolio volatility (risk) and drawdown (loss) characteristics

	Defensive	**Cautious**	**Balanced**	**Growth**	**Adventurous**
Maximum loss in any period	-5.8%	-10.8%	-19.9%	-30.2%	-40.3%
Maximum loss in any 12 month period	-2.0%	-8.9%	-15.6%	-20.8%	-27.0%
Cumulative return (25 yrs)	366.5%	465.2%	533.1%	585.5%	673.0%
Annualised return (25 yrs)	6.4%	7.2%	7.7%	8.0%	8.5%
Annualised volatility	3.4%	4.9%	7.1%	9.7%	12.3%
Number of positive months	212	210	199	194	188
Number of negative months	88	90	101	106	112

Source: Morningstar. Figures are based on total return, in sterling, over 25 years to 31 December 2016.

As the table above shows, a Defensive strategy is likely to exhibit smaller fluctuations in value and experience a relatively low number of months of decline. Conversely, an Adventurous strategy is likely to exhibit large fluctuations in value and experience a higher number of months of decline.

Therefore, in each of the above individual simulated strategies we have not only shown the returns that might have been achieved, but also the potential losses that might have been incurred along the investment journey of 25 years – we believe that this overview of potential losses is important as it should help in the assessment of an investor's ability, willingness and need to take risk, and their capacity for loss.

To put the above annualised volatility statistics into context, Table 4 opposite shows equivalent data for the UK and world stockmarkets, as well as gilts. As can be seen, this also shows the benefits of diversification, which can help reduce overall volatility (risk).

Table 4: Illustrative portfolio volatility versus equities and gilts – 25 years

Strategy	**Annualised volatility %**
Defensive	3.4
Cautious	4.9
Balanced	7.1
Growth	9.7
Adventurous	12.3
UK equities	13.7
World (ex UK) equities	14.6
Gilts	6.0

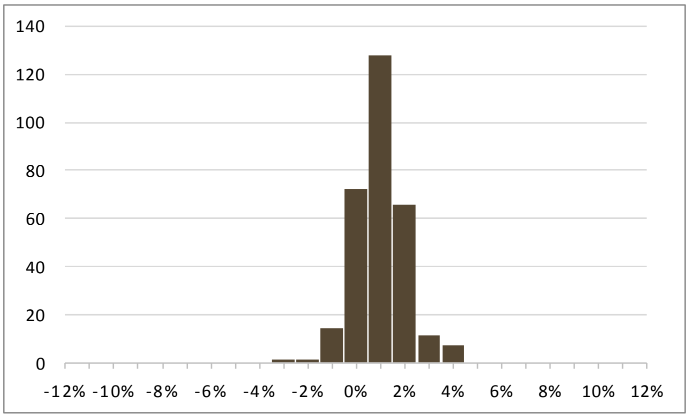
Source: Morningstar. Figures are based on total return, in sterling, over 25 years to 31 December 2016.

Illustrative return distributions for different strategies

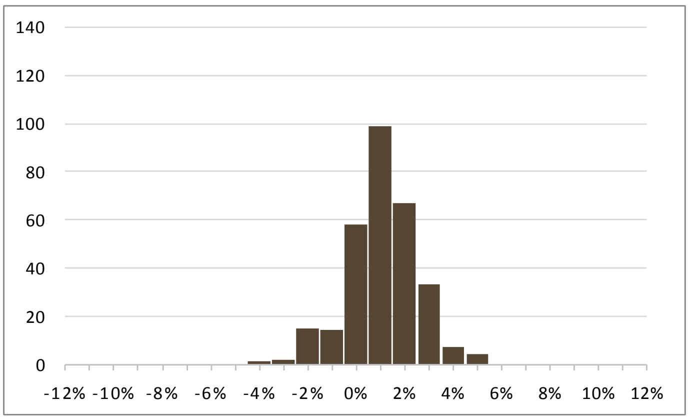
The following charts show the distribution of monthly returns from the five illustrative strategies. The horizontal axis shows the monthly return and the vertical axis the number of months that a particular return has been achieved over the past 25 years.

The more concentrated the returns are around a particular point, the more predictable the returns have been in the past. If the chart shows returns which are more spread out, this indicates that the likely return in any one month is more uncertain.

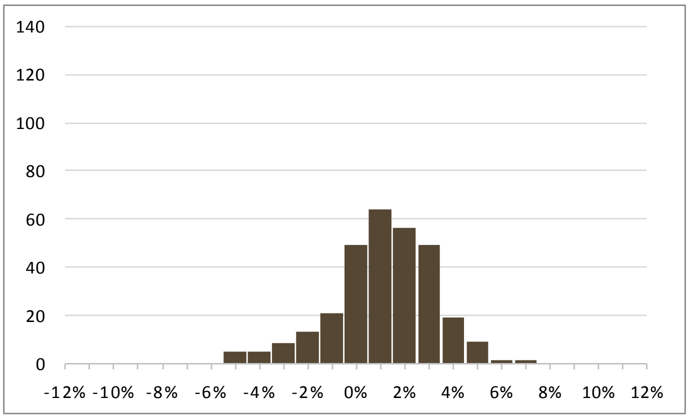
1. Defensive - Return distribution



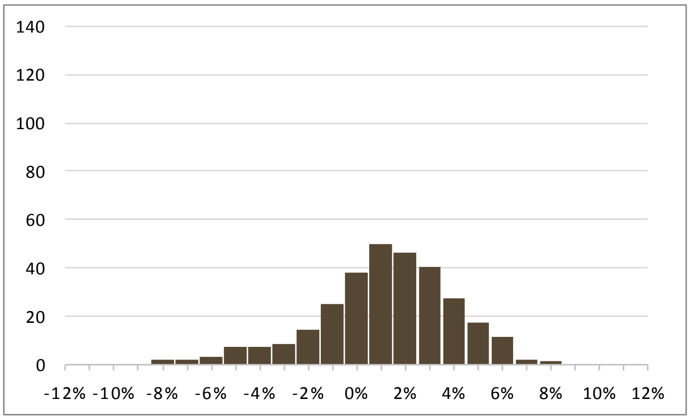
2. Cautious - Return distribution



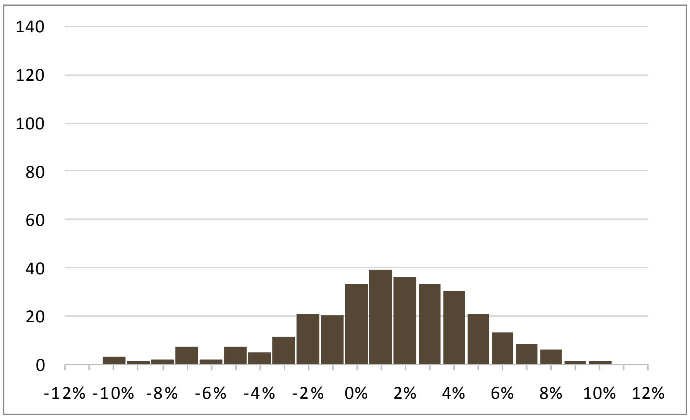
3. Balanced - Return distribution



4. Growth - Return distribution



5. Adventurous - Return distribution

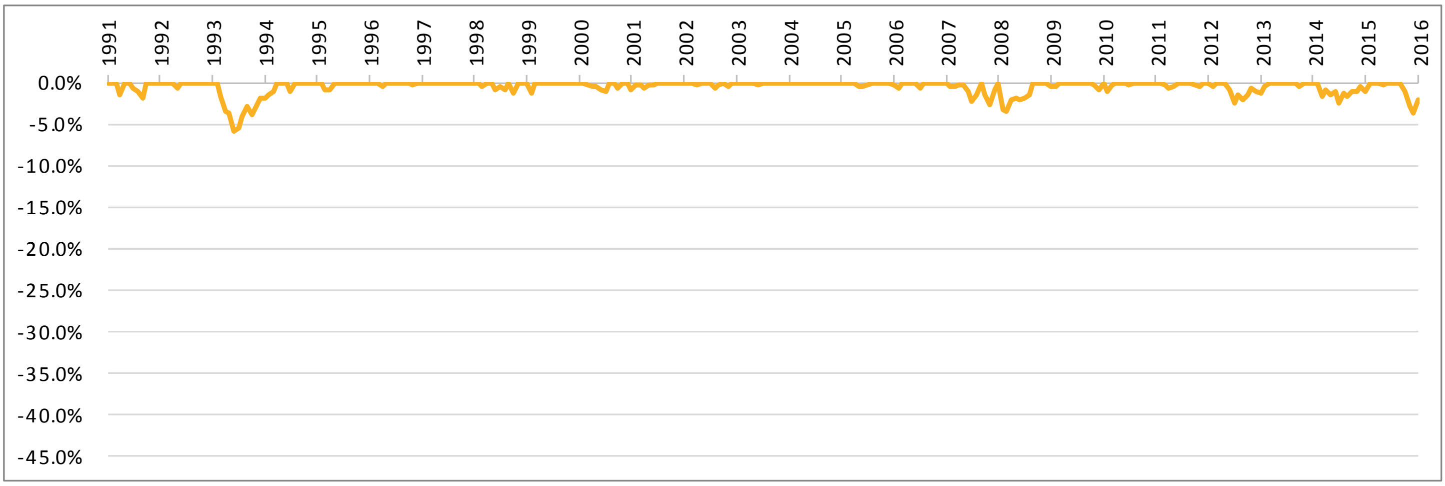


Source: Morningstar. Figures are based on total return, in sterling, over 25 years to 31 December 2016.

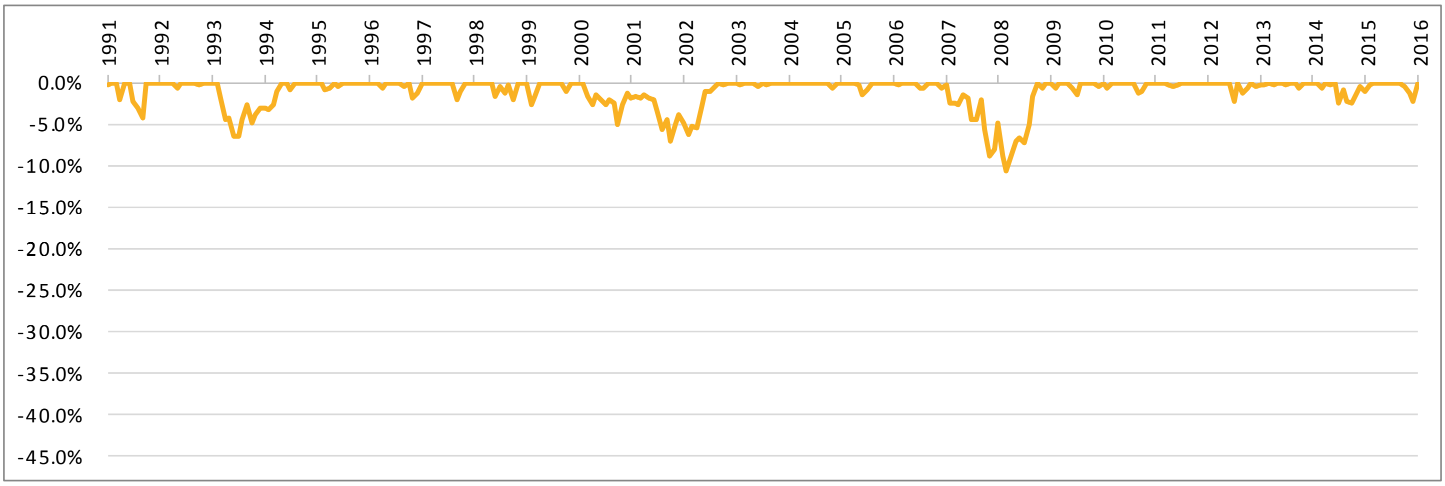
Illustrative drawdown for different strategies

The following charts show, for each illustrative strategy, the maximum amount that has historically been lost, taking the highest month-end value and the next lowest month-end value over the past 25 years. A short 'tooth' indicates a period of small decline from the previous high point, whereas a longer 'tooth' indicates a greater decline in value (maximum loss) from the previous high point. The longer the line stays below the line, the longer it has taken in the past for the strategy to regain its previous high point. The sharper the 'tooth' in the chart, the quicker the strategy has been to regain its previous high point.

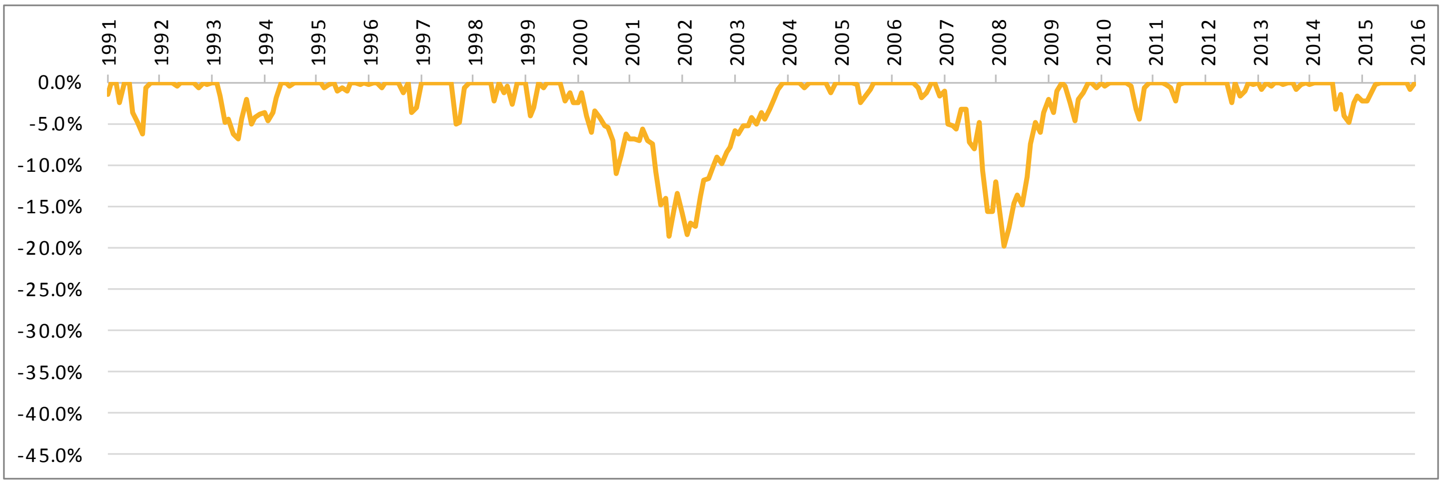
1. Defensive - Drawdown



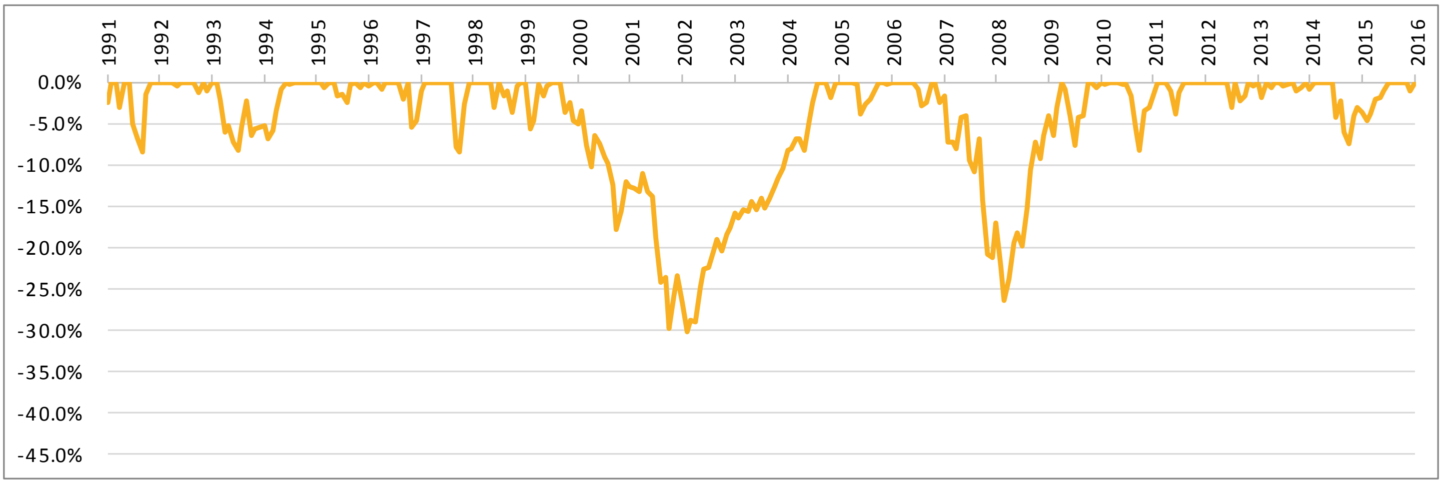
2. Cautious - Drawdown



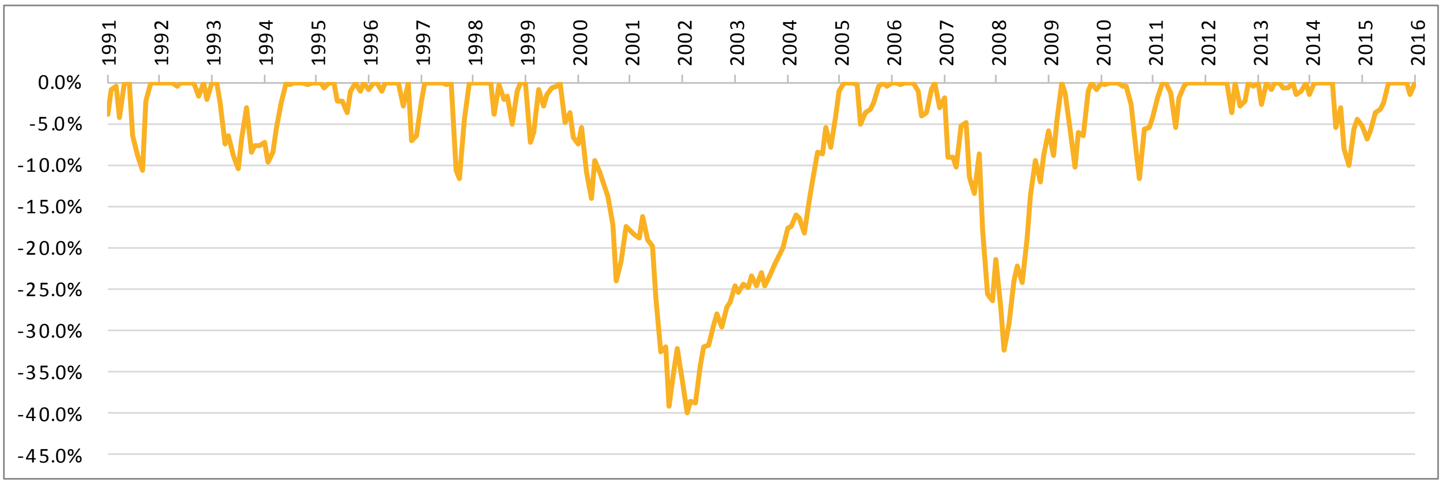
3. Balanced - Drawdown



4. Growth - Drawdown



5. Adventurous - Drawdown



Source: Morningstar. Figures are based on total return, in sterling, over 25 years to 31 December 2016.

Descriptions and expectations for Bordier UK's investment strategies

DEFENSIVE STRATEGY (RISK PROFILE 1)

Overview

The portfolio is likely to include a broad cross section of lower risk asset classes, and may typically include a high proportion in fixed interest securities, alternative investments and cash, with smaller commitments to equity investments. It is likely to have a default commitment to conventional equity markets of about 10%, because the portfolio needs to include at least some assets which are capable of longer-term real growth. The portfolio's commitment to all equity markets is likely to be principally in the domestic market and currency of the investor. If we are pessimistic about equity markets, our commitment to them may be as low as zero. If we are optimistic, our maximum commitment to them is in the region of 20%. Given the cautious nature of this profile we would expect the portfolio to have a high commitment to so called "safe assets" such as fixed interest securities, cash and alternative investments.

Expectations

Although the portfolio may be lower risk in nature, it may still fluctuate in value and will not be immune to market declines. The returns from the portfolio are likely to be in excess of cash over the medium to longer term and volatility is likely to be relatively low. Overall however, the portfolio will still be subject to the direction of, and fluctuations in, interest rates and inflation. Investors cannot expect a portfolio of this nature to keep pace with equity markets if they rise substantially. In times of significant market stress, even a lower risk portfolio of this nature will suffer to some extent and fall in value, but it is likely to be cushioned from any significant equity market falls due to its low commitment to equities.

Benchmarks

The lower risk nature of this profile means that an equity market related benchmark is inappropriate. We would normally expect the portfolio's performance to be measured against appropriate lower risk yardsticks agreed at the outset, and also the performance of lower risk portfolios managed by our peers. We would expect the portfolio's performance to be judged on a minimum 5-year rolling basis.

Executive summary

- Wide range of asset classes;
- Low exposure to equity markets (not usually more than 20%);
- High exposure to fixed interest securities, cash and alternatives;
- Will not match equity returns; and
- Significant fluctuations in capital values, especially in times of significant market distress / reasonable reward.

CAUTIOUS STRATEGY (RISK PROFILE 2)

Overview

The portfolio is likely to include a broad cross section of asset classes, and may typically include investments in fixed interest securities, alternative investments, equity investments, and cash. It is likely to have a default commitment to equity markets of about 30%. The portfolio's commitment to equities is likely to include some exposure to overseas markets, although the core will be in the domestic market and currency of the investor. If we are pessimistic about equity markets, our commitment to them may fall back to about 20%. If we are optimistic, our maximum commitment to them is in the region of 40%.

Expectations

The performance of the portfolio will tend to move in the same general direction as equity markets, but is unlikely to match their returns. The returns from the portfolio are likely to be in excess of inflation over the longer term, but will be volatile over shorter periods. The greater the commitment of the portfolio to equity holdings, the more closely matched its performance will be to equity markets, but investors cannot expect a portfolio of this nature to keep pace with equity markets if they rise substantially. However, the portfolio is unlikely to be solely reliant upon a rising equity market to produce satisfactory returns. Overall, the portfolio will still be subject to the direction of, and fluctuations in, equity markets, currency markets, interest rates and inflation. In times of significant market stress, even a slightly lower risk portfolio of this nature is likely to suffer, and fall in value.

Benchmarks

The moderate risk nature of this profile means that an equity market related benchmark is of interest, but should not be the only yardstick for comparison. We would normally expect the portfolio's performance to be measured principally against appropriate lower risk yardsticks agreed at the outset, and also the performance of lower risk portfolios managed by our peers. We would expect the portfolio's performance to be judged on a minimum 5-year rolling basis.

Executive summary

- Wide range of asset classes;
- Moderate exposure to equity markets (not usually more than 40%);
- Will not match equity market returns; and
- Fluctuations in capital values / moderate reward, but more fluctuations in periods of significant market distress.

BALANCED STRATEGY (RISK PROFILE 3)

Overview

The portfolio is likely to include a broad cross section of asset classes, and may typically include investments in fixed interest securities, alternative investments, equity nvestments, and cash. It is likely to have a reasonably high default commitment to equity markets of about 50%. The portfolio's commitment to equity markets is likely to include exposure to overseas markets, although the core will be in the domestic market and currency of the investor. If we are pessimistic about equity markets, our commitment to them may fall back to about 40%. If we are optimistic, our maximum commitment to them will rarely exceed 60%.

Expectations

The returns from the portfolio are likely to be in excess of inflation over the longer term, but will be volatile over shorter periods. The greater the commitment of the portfolio to equity markets, the more closely matched its performance will be, as well as its reliance upon a rising equity market to produce satisfactory returns. Investors can expect a portfolio of this nature to be subject to the direction of, and fluctuations in, equity markets, currency markets, interest rates and inflation. In times of significant market stress, a portfolio of this nature will suffer potentially significant falls in its value.

Benchmarks

We would normally expect the portfolio's performance to be measured against appropriate equity market yardsticks agreed at the outset, and also the performance of balanced portfolios managed by our peers. We would expect the portfolio's performance to be judged on a minimum 5-year rolling basis.

Executive summary

- Wide range of asset classes;
- Moderate to high exposure to equity markets (not usually more than 60%);
- Reasonable correlation to equity market behaviour and returns; and
- Significant fluctuations in capital values, especially in times of significant market distress / reasonable reward.

GROWTH STRATEGY (RISK PROFILE 4)

Overview

The portfolio is likely to include a broad cross section of asset classes, but will be dominated by a high default commitment to equity markets of about 70%. Other asset classes may include fixed interest securities, alternative investments and cash. The portfolio's commitment to equity markets is likely to include exposure to overseas markets and smaller markets, although the core will be in the domestic market and currency of the investor. If we are pessimistic about equity markets, our commitment to them may fall back to about 60%. If we are optimistic, our maximum commitment to them will be in the region of 80%.

Expectations

The returns from the portfolio are likely to be in excess of inflation over the longer term, but will be fairly volatile over shorter periods. The greater the commitment of the portfolio to equity markets, the more closely matched its performance will be, as well as its reliance upon a rising equity market to produce satisfactory returns. The portfolio will be subject to the direction of, and fluctuations in, equity markets, currency markets, interest rates and inflation. In times of significant market stress, a portfolio of this nature is likely to suffer potentially substantial falls in its value.

Benchmarks

We would normally expect the portfolio's performance to be measured against appropriate equity market yardsticks agreed at the outset, and also the performance of balanced and equity risk portfolios managed by our peers. We would expect the portfolio's performance to be judged on a minimum 5-year rolling basis.

Executive summary

- Restricted range of asset classes;
- Concentrated exposure to equity markets (not usually more than 80%);
- High correlation to equity market behaviour and returns; and
- Substantial fluctuations in capital values, especially in times of significant market distress / high reward.

ADVENTUROUS STRATEGY (RISK PROFILE 5)

Overview

The portfolio is likely to be dominated by a high default commitment to equity markets which will frequently represent virtually the entire portfolio, with only modest exposure to fixed interest and alternative investments. The portfolio's commitment to equity markets is likely to include exposure to overseas and smaller stockmarkets, although the core will probably be in the domestic market and currency of the investor. If we are pessimistic about equity markets, our commitment to them may fall back to about 80%.

Expectations

The returns from the portfolio are likely to be in excess of inflation over the longer term, but can potentially be very volatile over shorter periods. The performance of the portfolio will be very closely linked to that of equity markets and entirely reliant upon a rising equity market to produce satisfactory returns. The portfolio will be subject to the direction of, and fluctuations in, equity markets, currency markets, interest rates and inflation. In times of significant market stress, a portfolio of this nature is likely to suffer potentially substantial falls in its value.

Benchmarks

We would normally expect the portfolio's performance to be measured against appropriate equity market yardsticks agreed at the outset, and also the performance of equity risk portfolios managed by our peers. We would expect the portfolio's performance to be judged on a minimum 5-year rolling basis.

Executive summary

- Dominated by high exposure to equity markets (at least 80%);
- High correlation to equity market behaviour and returns; and
- Very substantial fluctuations in capital values, especially in times of significant market distress / high reward.

Risk warning

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