Close Brothers
Asset Management

Guide to risk

AN INSIGHT INTO HOW WE CONSTRUCT INVESTMENT STRATEGIES THAT ALIGN WITH CLIENT RISK PROFILES

Important information and risk

This guide is not aimed at retail clients and should not be relied upon by prospective investors nor be interpreted as investment advice. It is provided for information purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any investment.

It is the responsibility of the professional financial adviser to ensure that they fully understand the investment strategies and techniques referred to in this document.

The professional financial adviser remains responsible for assessing their clients' suitability, including the risk that a prospective investor is willing and able to take, and ensuring that investment selections are suitable. No account has been made of the individual taxation, financial and legal circumstances of prospective investors.

All investments carry some risk. The value of investments and any income received from them can fall as well as rise and investors may not get back what they invested.

Where assets are invested in overseas markets, returns will be exposed to both exchange rate and stock market risk. For sterling based investors, changes in the value of the pound may either enhance or depress the performance of any such holdings.

The forecast information contained within this document is based on reasonable assumptions supported by objective data. For more information regarding these assumptions, please refer to pages 7 and 11. It is important to note that such forecasts are not a reliable indicator of future performance and that the forecast returns are in no way guaranteed.

Close Brothers Asset Management investment strategies align with six broad risk levels that can be used by advisers when talking to clients about their attitude to risk. It is important to note that the selection of an appropriate investment strategy depends on a number of other factors in addition to the risk level, such as a client's capacity for loss, time horizon and savings objectives.

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Understanding risk

We recognise the importance of helping clients to define their return expectations based on their risk appetite. There are many issues to consider. These include financial circumstances, the capacity to absorb losses, the level of comfort with investing in financial markets and the timing and need for income and/or capital growth.

To meet the differing needs of clients, we offer a range of investment solutions that help grow a client's wealth over time in a manner consistent with their objectives and appetite for risk, or individual risk profile.

The objective of this guide is to help explain how we map our investment solutions to key risk and return objectives.

This document details our investment management approach, including our asset allocation assumptions and our long-term risk and return framework. As investment managers, we provide this important information to help identify the most appropriate investment solution for your clients.

AN UNDERSTANDING OF RISK IS KEY TO SELECTING THE MOST APPROPRIATE INVESTMENT STRATEGY.

MEETING CLIENT NEEDS... YOU NEED TO CONSIDER A HOST OF FACTORS:

Objectives

- Return and income needs
- Frequency of withdrawal and cash flow needs
- Capital in context of overall wealth
- Time horizon

Financial Circumstances

- Assets and liabilities
- Other funds or sources of income
- Future expenditure
- Capacity for loss

Your client's wealth and goals

Attitude to risk

- Willingness to take financial market risk
- Investment experience
- Age/time horizon
- Understanding of the role of different asset classes and risks associated with each. This includes factors such as:
  - volatility
  - currency
  - liquidity

Tax and protection considerations

- Capital gains tax position
- Use of allowances
- Savings wrappers
- Protection
- Inheritance tax planning

Our risk levels in detail

Close Brothers Asset Management investment strategies align with six sub-risk levels that can be used to help determine the most appropriate investment risk and return combination. It is only a guide as client requirements will vary depending on additional factors such as time horizon and savings objectives. For example, an investor may be medium risk for ISA money invested with a 5 year time horizon but higher risk for a SIPP with a 20 year+ time horizon.

Within these six broad risk levels we offer a mix of income and total return seeking strategies, whose characteristics are described below.

Although all our strategies align to a common risk classification and sit within a defined forecast volatility range, our actual asset allocation for income orientated strategies may differ compared with total return strategies. In particular, they will tend to have a greater exposure to higher yielding assets such as UK shares and diversifiers, including property and infrastructure based vehicles.

Advisers working with clients should choose the most appropriate risk-return profile to suit their risk appetite.

Risk level	Sub-risk level	Investment strategy description	Forecast volatility range (%)
Lower	Low	Within Low we offer two distinct variants: **Fixed Income only** - this strategy can only hold bonds and bond-like investments. The objective is to generate income while maintaining capital value over the medium term. **Defensive Income** - in addition to bonds and bond-like investments, this strategy can also hold up to 20% in ordinary shares to provide further diversification, with some of the equity exposure taking the form of equity-like diversifiers, such as property or commodities. The objective is to generate income with some capital growth.	0.0 – 5.0
Lower	Cautious	Invests in bonds, UK and international shares with a dividend focus, and income-orientated diversifiers, which help spread risk. The objective is to generate a steady income stream with some capital growth.	5.0 – 8.0
Medium	Lower Moderate	Invests in bonds, UK and international shares, and diversifiers, which help spread risk. The objective is to deliver moderate capital growth with some income.	6.5 – 11.0
Medium	Moderate	Invests in bonds, UK and international shares, with some exposure to diversifiers which help spread risk. The objective is to grow the capital value with some income.	8.0 – 14.0
Higher	High	Invests primarily in UK and international shares, with some exposure to bonds and diversifiers to help reduce risk. The objective is to grow the capital value.	11.0 – 17.0
Higher	Highest	This strategy invests almost entirely in shares, both UK and international. The objective is to maximise capital growth over the longer term.	14.0 – upwards

Note: The higher clients move up the risk spectrum, the more risk they are taking, not only in terms of forecast volatility (the experience of market movements) but also risks such as foreign currency (FX), as portfolios are likely to be more global in nature. Lower risk profiles should in most cases have much lower levels of volatility, but could embed other risk such as liquidity, as the UK bond market can tend to be less liquid than share markets in certain market environments.

Our investment approach

EACH OF THESE STRATEGIES FOLLOWS A CONSISTENT AND DISCIPLINED INVESTMENT APPROACH

We are multi-asset class investors, as we believe the best way to achieve strong risk-adjusted returns is through the right level of diversification. Our objective is to provide investors with a broad range of investments that are likely to have a low correlation in terms of performance.

STRATEGIC ASSET ALLOCATION

We believe that achieving the optimal asset allocation is the most important factor driving long-term returns. Our investment approach is therefore based on identifying the most effective combination of asset classes that, over the longer term, achieve the best possible return for a given level of risk. This is the long-term strategic asset allocation (SAA) which we have calibrated for each risk profile.

Our SAAs use optimisation scenarios based on externally validated return assumptions to project possible future returns.

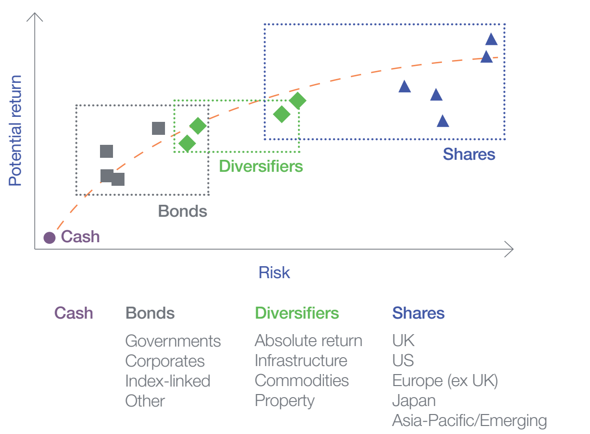
RISK AND RETURN ASSUMPTIONS

Our assumptions are based on the output of Moody's Analytics' Economic Scenario Generator (ESG). The ESG uses stochastic modelling, an advanced mathematical technique, to simulate the relationships between different economic variables and asset class returns. Using thousands of different scenarios, it seeks to find the best combination of different asset classes for a given level of risk. These techniques, which are commonly employed by large institutional investors, are used by Close Brothers Asset Management to inform our SAA process.

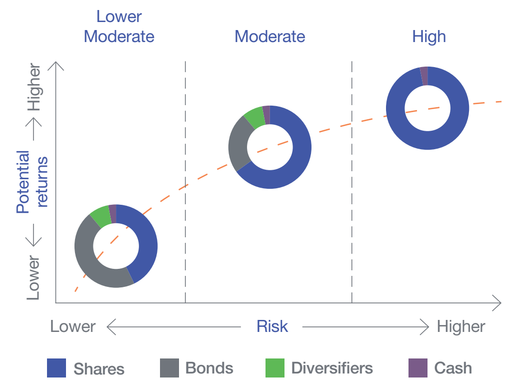
The asset class combinations we use to build our model are shares, bonds and diversifiers (alternatives) - see chart on the left below. Each asset class has different risk and return characteristics and contributes to performance in different ways.

We use this model to project long-term forecast returns and volatility for each risk profile, and then select the optimal combination of asset classes: shares, bonds and diversifiers that deliver a range of returns across the risk spectrum. Please see chart on the right as an example of three of our SAA combinations for Lower Moderate, Moderate and High. The full asset allocation combinations are detailed on the next page and in the sections marked in the detailed risk profiles.

INVESTMENT ASSET CLASSES: RETURN VERSUS RISK

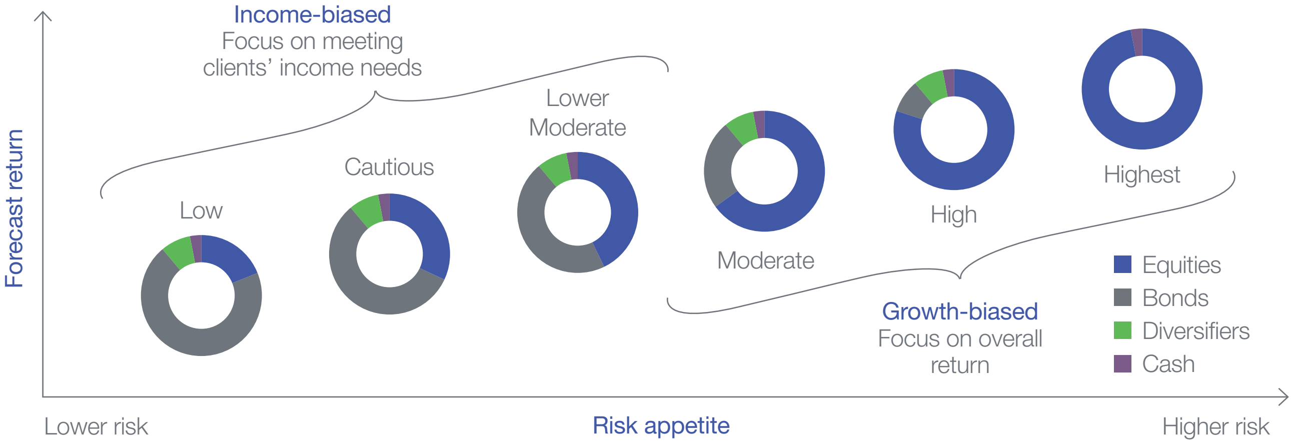


STRATEGIC ASSET ALLOCATION MIX



Our investment approach (cont'd)

We can further divide our portfolios into Income-biased strategies, where the focus is on generating income, at the lower risk end of the spectrum and Growth-biased strategies where the emphasis is on total returns, at the higher end. In the chart below, we have articulated what this means in terms of forecast long-term return and volatility and asset class combinations for each strategy. These forecasts are based on 20 year time horizons. We seek to add further value against these return and risk assumptions through our active management.



SAA LONG-TERM FORECAST RISK AND RETURN*

Return	2.2%	2.9%	3.5%	4.8%	5.8%	6.7%
Volatility	4.7%	6.3%	7.7%	10.9%	13.2%	15.2%

For illustrative purposes only. This information is based on work conducted by an externally appointed firm, Moody's Analytics, one of the market leaders for the provision of stochastic modelling as described on page 3. Such forecasts are not a reliable indicator of future performance. No investment, or investment strategy, is without risks. The value of investments will go down and up, and clients may get back less than invested. *20 year projections including our assumptions for fees.

We have set out below the main assumptions and limitations of the ESG Model. Advisers should be aware of these when providing advice to clients based on these numbers.

ASSUMPTIONS

- The ESG Model assumes that income is reinvested and that there are no additional cash or asset inflows or outflows
- Forecast returns and volatility are based on a 20 year time horizon
- Maximum and minimum expected outcomes illustrated on Pages 12-18 are based on upper 5% and lower 5% range of possible outcomes, which means that there is a 1 in 10 chance that growth over the 20 years could be higher or lower than this. This equates to a 90% confidence level
- The returns for each sub-risk level assume that an investor's attitude to risk does not change over the holding period
- The ESG Model assumes that investors are willing to make investments with greater risks than bank deposits
- Projected returns include a 0.9% p.a. fee assumption, except for the cheaper Low - Fixed Income strategy where the fee assumption is 0.5% p.a.. Actual costs will depend on the investment solution selected

LIMITATIONS

- The ESG Model cannot predict actual events and only provides an indication of possible outcomes
- The forecast information is not guaranteed. Actual outcomes from particular investments may vary significantly
- The ESG Model does not consider the practical considerations of implementing an investment solution, such as taxation or individual product risks
- No account has been made for an investor's capacity for loss
- The time horizon is fixed
- Asset class returns are derived from a set of fixed market indices and benchmarks. Please refer to the FAQ section on page 19 for more information

Active management

We use our active management capabilities to enhance returns and/or reduce risk relative to our long-term SAA assumptions. In other words as active managers, we seek to add further value to the forecast returns and/or risk through how we manage client portfolio day to day. We do this through a disciplined investment process, seeking to deliver this in two different ways, namely tactical asset allocation and security selection.

DISCIPLINED INVESTMENT PROCESS

Our asset allocation decisions are guided by a disciplined investment process and underpinned by our Strategic Policy Committee (SPC) which meets five times a year. This is complemented by a monthly asset allocation committee, composed of senior investment managers from each team. Its main function is to agree the target tactical weightings for each of our risk profiles. We define these as our Tactical Asset Allocation (TAA) weightings.

On the investment selection side, we have expertise in global equities, bonds and diversifier investments, which constitute the building blocks of our portfolios. This also includes externally managed funds and passive instruments where appropriate. All investments are subject to disciplined and detailed review and rely on a process of fundamental research and peer group challenge. This approach has allowed us to continue to deliver strong and consistent investment performance and add value relative to the long-term strategic risk and return assumptions.

Although we have regard to market index weightings when constructing portfolios, there may be significant stock variations across portfolios. This especially applies to our Bespoke proposition, where a higher degree of customisation may be required, and to Socially Responsible Investment mandates, where stock selection will factor in ethical considerations.

BREADTH OF TEAM

We are a team of more than 80 investment professionals, of whom more than two-thirds have more than 15 years' investment experience. We encourage open debate within a structured framework of daily, weekly, monthly and quarterly meetings to ensure we rigorously review and evaluate investment opportunities with a global perspective.

OUR ACTIVE MANAGEMENT CAPABILITIES

Multi-asset focus and expertise
Over 80 investment professionals
Global perspective

Equity research | Fixed income research | Strategic Policy Committee | Alternatives research | Funds and passives research

Range of portfolio solutions for investors

Close Discretionary Funds

Segregated Portfolio Services

Our investment solutions

The risk profiles described in this document are then used to power a range of investment solutions to meet the needs of different types of clients. These solutions are offered in both unitised fund and segregated portfolio format. Within the funds universe, our Close Discretionary Funds (CDF) proposition, a UK umbrella unit trust proposition offers a variety of implementation styles to align with adviser and client preference:

- **Direct**, benefiting from Close stock selection expertise
- **Multi-manager**, investing through third party vehicles
- **Passive**, largely invested in low-cost index tracking strategies

Our segregated portfolio services include our Discretionary Management Service (DMS) and HNW Bespoke proposition for clients requiring a greater degree of customisation and larger portfolio size.

Our risk-graded strategies are available in a wide range of styles and are structured to achieve both income and capital growth objectives. Each follows the same overall asset allocation methodology (described in more detail in this guide), but has different cost implications and structures to offer the widest possible choice.

All of our investment strategies benefit from the same depth of research and discipline that guides all our investment propositions.

Strategies highlighted in light blue have an explicit income oriented objective.

DMS Bespoke has slightly wider risk bands to accommodate client customisation – clients may either be in the broader Lower, Medium or Higher risk classification or the narrower sub-risk levels as befits client needs (see page 2)*.

ONE INVESTMENT ENGINE, MULTIPLE SOLUTIONS

FUNDS (CDF)

Offered in Direct, Multi-manager, Passive format

- Fixed Income (Bond Income or Select Fixed Income)
- Diversified Income
- Income Plus
- Conservative
- Balanced
- Growth

SEGREGATED PORTFOLIO SERVICES

Discretionary Management Service (DMS)

- Defensive Income
- Income Plus
- Conservative
- Balanced
- Growth

Bespoke

- Lower: Low, Cautious
- Medium: Lower Moderate, Moderate
- Higher: High, Highest

*Note that our investment solutions can also be delivered against Socially Responsible or Ethical mandate considerations.

Risk management

Our objective is to deliver consistent real returns within a defined risk range, having regard to changing market conditions. We review our performance against both market indices and peer group rankings.

Oversight of our performance and risk involves regular reviews to ensure strategies remain in line with their risk and return objectives.

Our performance and risk review process is highly disciplined. It is managed by an independent Investment Performance and Risk team that monitors portfolios through a wide range of risk and performance analytics to ensure outcomes are aligned with risk profile expectations.

This process is reviewed at the monthly Investment Review Committee meetings. These involve detailed review of the performance, risk and consistency of each of the Close Brothers Asset Management investment propositions.

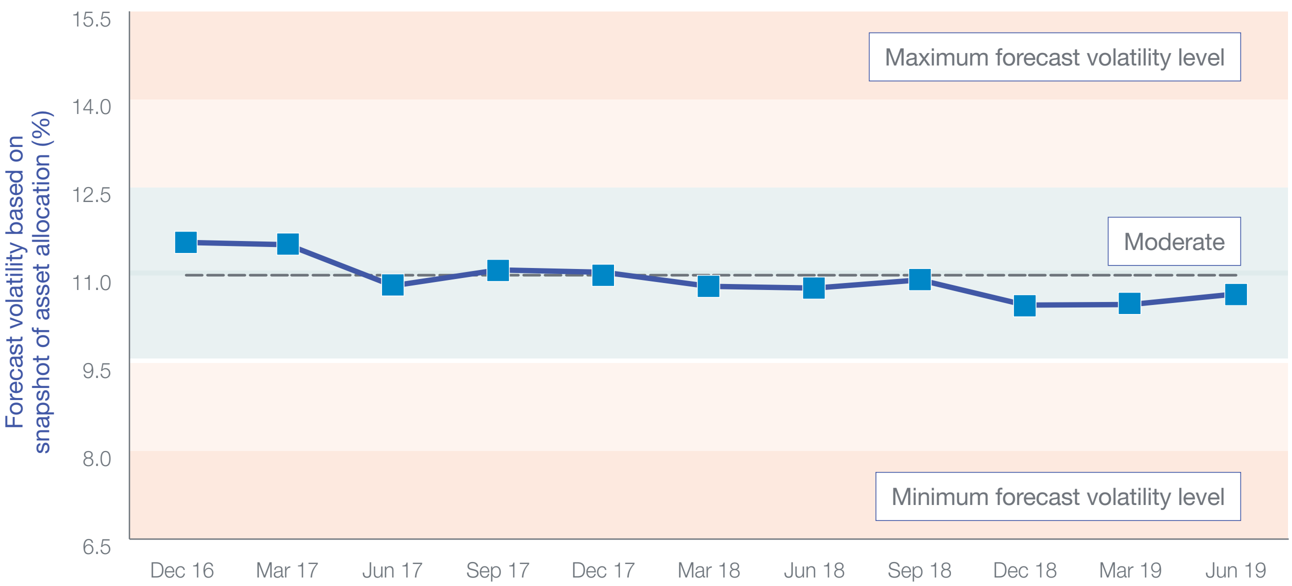
The chart below illustrates how we think about risk. A Moderate (also known as Balanced) portfolio should be consistent with a medium risk experience. We monitor the risk of the strategy using the annualised standard deviation and variance away from the forecast volatility for this risk profile.

If mandates deviate from the defined risk corridors, investment managers are alerted that they need to reduce or increase risk. These are not mandate restrictions, but serve as a useful guide to ensure we are managing to the appropriate risk-graded strategy.

In addition to monitoring alignment of portfolios within their expected volatility corridor, we also review risk in other areas notably:

- Concentration
- Liquidity
- Foreign Currency

PRODUCING AN APPROPRIATE AND SUITABLE CLIENT EXPERIENCE



This chart represents how we can monitor mandate volatility for each risk profile relative to our SAA tolerance levels.

The power of compounding

For each sub-risk level, we set out the long-term return and risk assumptions associated with the relevant strategies. These assumptions are based on a static implementation and use Moody's Analytics long-term stochastic modelling as described on pages 3-4. These return and risk assumptions are in no way guaranteed, but should help guide risk-return expectations for a given strategy, over a 20 year investment time horizon. These return assumptions include a 0.9% p.a. allowance for investment management fees with the exception of the cheaper Low - Fixed Income strategy where the fee assumption is 0.5% p.a.. The actual cost will depend on the nature of the proposition selected.

Having a long-term return framework allows us to demonstrate the power of compounding. The example below shows this effect. We have compared the value of £100,000 invested at different sub-risk levels. While the difference between an investment return of 1% in a given year may not sound like a lot, the effect of compounding over 20 years can be very different, as the table below illustrates.

Individuals who do not save or do not take enough risk (appropriate for their circumstances) forego the power of this compounding. However, higher risk strategies can expose investors to unrealised capital loss, so investors in these categories must have the capacity for this.

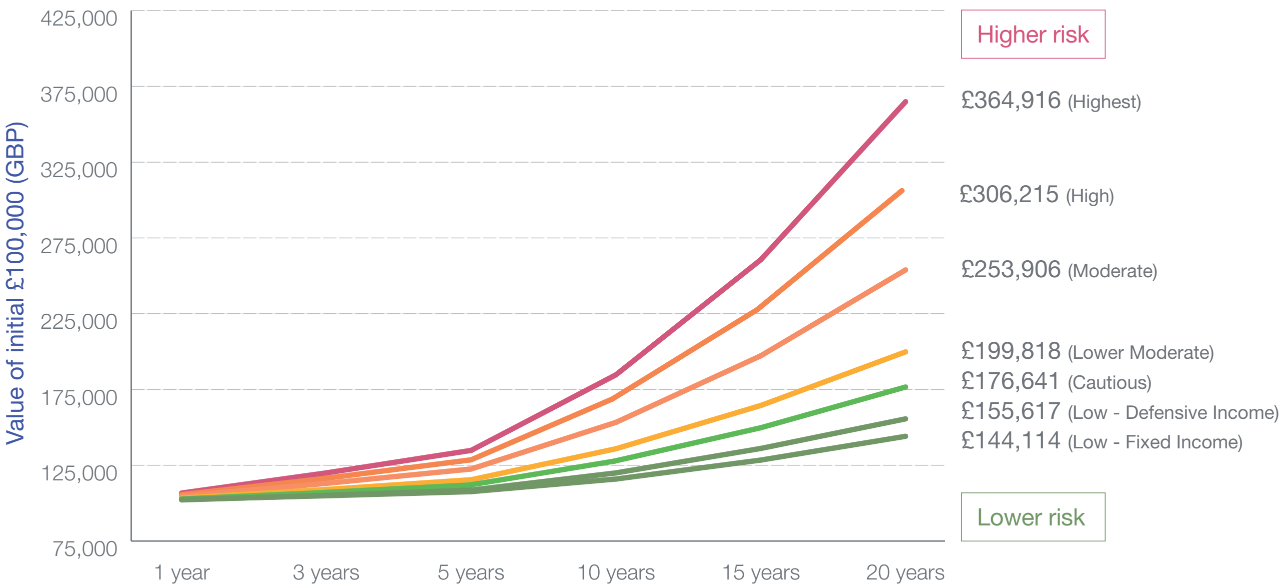
Sub-risk level	Forecast long-term return (net)	Forecast long-term volatility
Low - Fixed Income	1.8%	3.0%
Low - Defensive Income	2.2%	4.7%
Cautious	2.9%	6.3%
Lower Moderate	3.5%	7.7%
Moderate	4.8%	10.9%
High	5.8%	13.2%
Highest	6.7%	15.2%

SOURCE: Close Brothers Asset Management/ Moody's Analytics.
Based on a 90% confidence level, see page 7.

> **"COMPOUND INTEREST IS THE EIGHTH WONDER OF THE WORLD. HE WHO UNDERSTANDS IT, EARNS IT; HE WHO DOESN'T, PAYS IT"**

ALBERT EINSTEIN

PRODUCING AN APPROPRIATE AND SUITABLE CLIENT EXPERIENCE



Important note: The projected returns in this graph assume a smoothed compound rate of return with income reinvested, no withdrawals or new money and an investment management fee of 0.9% p.a., with the exception of Low - Fixed Income where the fee assumption is 0.5% p.a. They are based on the ESG Model as described on page 4. Actual returns may vary significantly so this should not be relied upon as an indicator of future performance.
SOURCE: Close Brothers Asset Management/Moody's Analytics.

Investment time horizon

We advise all of our clients on the importance of being long-term in their investment time horizons. The experience of risk as measured by volatility reduces over time. For medium-risk investors in a Moderate strategy, our work with Moody's Analytics suggests that a long-term forecast annualised return, net of fees, of around 4.8% might be achievable.

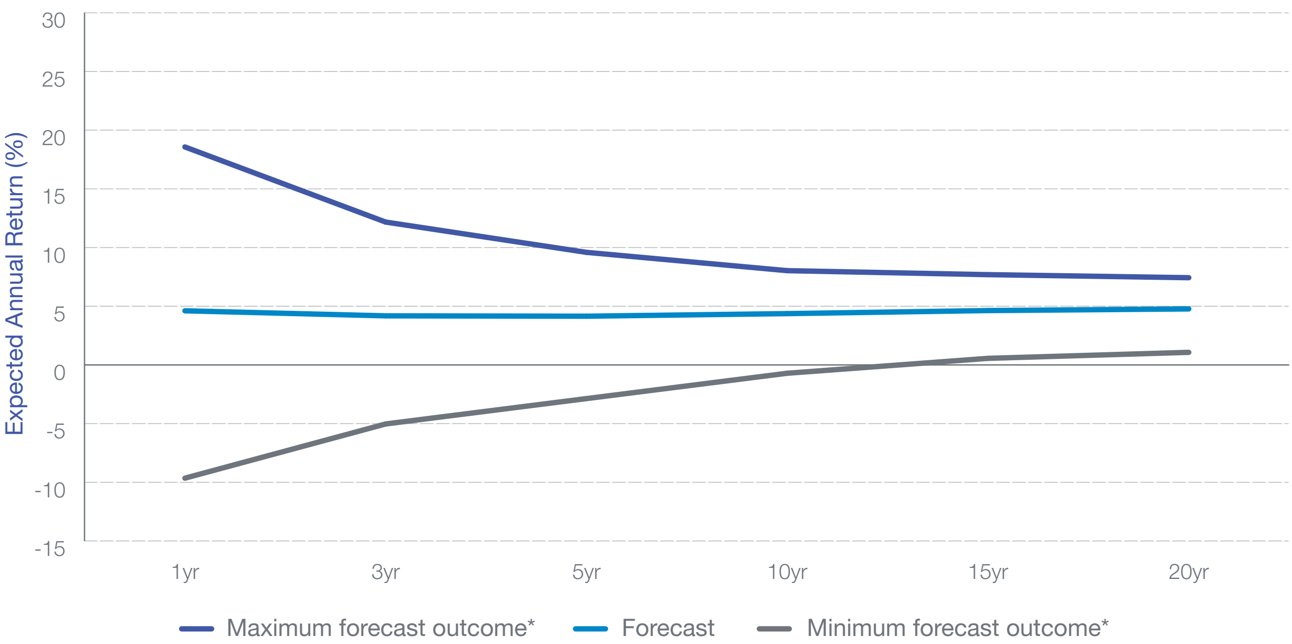
These investors would have exposure to a blend of lower and higher volatility assets. However, in some years returns could be significantly higher or lower. As indicated in the diagram below, the probability of achieving the forecast return in any given year is low; you could see returns much higher or much lower over this short time horizon.

The probability of achieving this return in a given year is also less predictable the higher up the risk spectrum you move. In other words, higher risk strategies come with increased variability of return in any given year. Time in the market increases the probability of achieving this return.

However, as shown in the chart below, the longer an investor remains in the strategy, the lower the variability around achieving the forecast return.

This illustrates the importance of having a long-term investment horizon.

TIME INCREASES THE RELIABILITY OF RETURN



SOURCE: Moody's Analytics.
*Based on a 90% confidence level.

Based on the ESG Model, the funnel chart above illustrates how time increases the reliability of return for a Moderate strategy. The forecast long-term model return for this asset mix is 4.8% annualised, net of fees at 0.9% p.a.. The return in any single year could in fact vary between +19% and -10%. However, after 10 years the outcome is more certain, as the impact of individual good or bad years evens out. Of course, it is possible that the actual model returns experienced could be significantly greater or less than the maximum and minimum forecasts. See pages 4 and 11 for more information.

Forecast returns should not be relied on as an indicator of future performance.

In brief

In each of the pages that follow, we have illustrated our investment approach for our six sub-risk categories.

This summarises:

- What we are aiming to deliver for each sub-risk strategy
- The forecast long-term risk and return assumptions for each strategy (based on our model)
- The long-term SAA mix informed by our work with Moody's Analytics
- The tolerance ranges in which we can make our active TAA decisions
- The impact of compounding assuming £100,000 invested
- The funnel chart for each strategy which shows the variability around the forecast long-term return

Although we cannot predict the future, stochastic modelling combines historic returns with forward looking economic data to provide a more informed view of how a given mix of assets might perform over the longer term (this guide uses 20 year forward projections). However, it is important to understand that the returns shown are in no way guaranteed and that these are not target return strategies. The forecasts are based on the ESG Model and are net of fees at 0.9% p.a., with the exception of Low - Fixed Income where the fee assumption is 0.5% p.a.. This information is for use by professional financial advisers only. No other person should rely on, or act on any information in this document when making an investment decision.

Key to risk profile summaries

In each of the pages that follow, we have summarised our investment approach for a given level of risk. Within our guide, we include one-page summary sheets for each investment strategy to illustrate forecast risk and return and the type of assets they might hold. This will help you to match our investment propositions against your client's risk appetite and savings objectives.

KEY

1. Sub-risk category indicator

2. We start with a verbal description of the risk category and the objective

3. Forecast long-term risk and return assumptions

- Forecast annualised return represents the forecast annualised total return on the strategy over 20 years, net of charges at 0.9% p.a..* This is not a forecast of a return in one year, but rather what might be achieved if held over 20 years, expressed as an annualised compound return expectation.
- Forecast annualised volatility represents the expected annualised volatility or variance of return of the strategy over 20 years.
- Volatility is one of the key risk measures. By monitoring this regularly we can demonstrate that our strategies remain suitable for the particular investor risk category for which they are intended.
- All of the forecast outcomes are based on a 90% confidence level, which means there is a 10% probability actual returns will fall outside the stated range.

4. What is the long-term SAA?

Here we define the long-term strategic asset mix on which our risk and return assumptions are based. The pie chart shows the allocations by broad asset type, the column chart then breaks this down into individual categories.

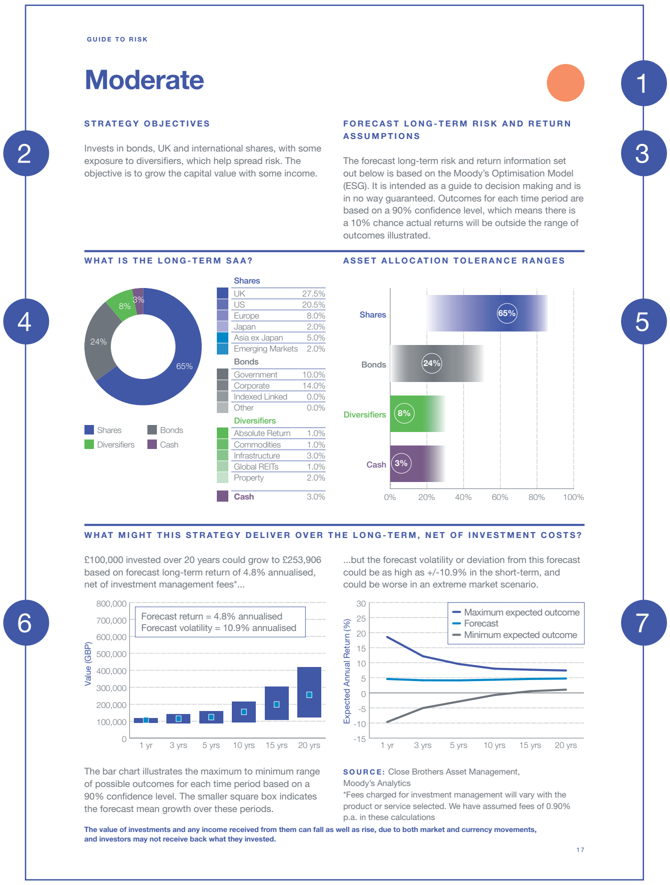
5. Asset allocation tolerance ranges

For each sub-risk profile we have established minimum and maximum allocations for our active decisions to each broad asset type.

6. What can I expect this strategy to deliver over the long-term (net of investment costs)

In this section of the summary sheet, we illustrate the compounding effect of the forecast return, and what this might mean for an initial £100k investment after 5, 10, 15 and 20 years. It demonstrates the benefits of compounding over a long-term time horizon. The numbers assume investment management fees of 0.9% p.a..*

*For Low - Fixed Income, the fee assumption is 0.5% p.a.



GUIDE TO RISK

Moderate

STRATEGY OBJECTIVES

Invests in bonds, UK and international shares, with some exposure to diversifiers, which help spread risk. The objective is to grow the capital value with some income.

FORECAST LONG-TERM RISK AND RETURN ASSUMPTIONS

The forecast long-term risk and return information set out below is based on the Moody's Optimisation Model (ESG). It is intended as a guide to decision making and is in no way guaranteed. Outcomes for each time period are based on a 90% confidence level, which means there is a 10% chance actual returns will be outside the range of outcomes illustrated.

WHAT IS THE LONG-TERM SAA?

Shares 65%, Bonds 24%, Diversifiers 8%, Cash 3%

Shares	
UK	27.5%
US	20.5%
Europe	8.0%
Japan	2.0%
Asia ex Japan	5.0%
Emerging Markets	2.0%
Bonds	
Government	10.0%
Corporate	14.0%
Indexed Linked	0.0%
Other	0.0%
Diversifiers	
Absolute Return	1.0%
Commodities	1.0%
Infrastructure	3.0%
Global REITs	1.0%
Property	2.0%
Cash	3.0%

ASSET ALLOCATION TOLERANCE RANGES

Shares 65%, Bonds 24%, Diversifiers 8%, Cash 3%
0% 20% 40% 60% 80% 100%

WHAT MIGHT THIS STRATEGY DELIVER OVER THE LONG-TERM, NET OF INVESTMENT COSTS?

£100,000 invested over 20 years could grow to £253,906 based on forecast long-term return of 4.8% annualised, net of investment management fees*...

...but the forecast volatility or deviation from this forecast could be as high as +/-10.9% in the short-term, and could be worse in an extreme market scenario.

Forecast return = 4.8% annualised
Forecast volatility = 10.9% annualised
Value (GBP): 0 – 800,000; 1 yr, 3 yrs, 5 yrs, 10 yrs, 15 yrs, 20 yrs

Expected Annual Return (%): -15 – 30; 1 yr, 3 yrs, 5 yrs, 10 yrs, 15 yrs, 20 yrs
Maximum expected outcome
Forecast
Minimum expected outcome

The bar chart illustrates the maximum to minimum range of possible outcomes for each time period based on a 90% confidence level. The smaller square box indicates the forecast mean growth over these periods.

SOURCE: Close Brothers Asset Management, Moody's Analytics
*Fees charged for investment management will vary with the product or service selected. We have assumed fees of 0.90% p.a. in these calculations

The value of investments and any income received from them can fall as well as rise, due to both market and currency movements, and investors may not receive back what they invested.

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7. Probability of achieving return

We also look at this as an annual percentage return. In the early years the range of outcomes can be quite wide, depending on market conditions. Over time, this volatility narrows as the positive contribution from good years smooths out the negative impact of bad years. This is illustrated in a funnel chart, where the forecast range of outcomes narrows over time. The longer the time horizon, the greater the confidence we can have over the forecast return.

The long-term risk and return assumptions underpinning our SAAs factor in both market and currency movements. Both of these can significantly impact short-term performance, in particular at the higher end of the risk spectrum where we have greater exposure to global stock markets.

Low - Fixed Income

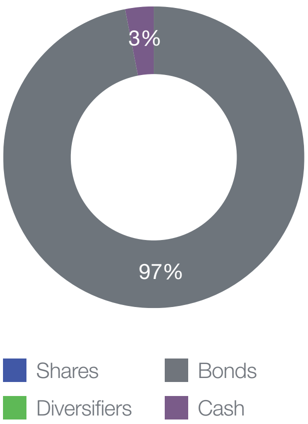
STRATEGY OBJECTIVES

This strategy can only hold bonds and bond-like investments. The objective is to generate income while maintaining capital value over the medium term.

FORECAST LONG-TERM RISK AND RETURN ASSUMPTIONS

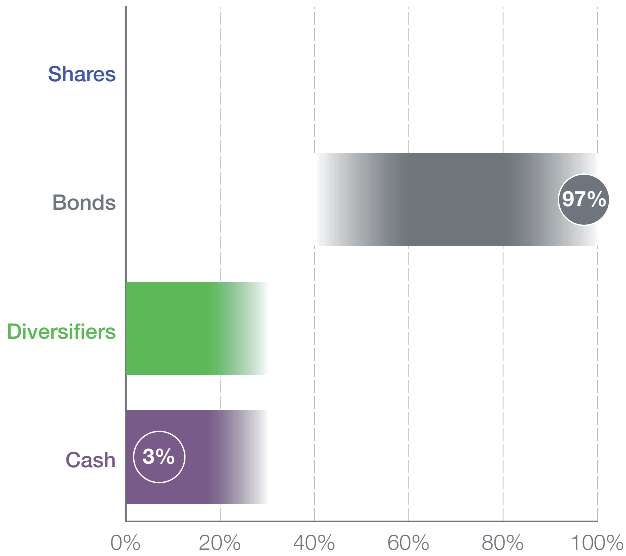
The forecast long-term risk and return information set out below is based on the Moody's Optimisation Model (ESG). It is intended as a guide to decision making and is in no way guaranteed. Outcomes for each time period are based on a 90% confidence level, which means there is a 10% chance actual returns will be outside the range of outcomes illustrated.

WHAT IS THE LONG-TERM SAA?



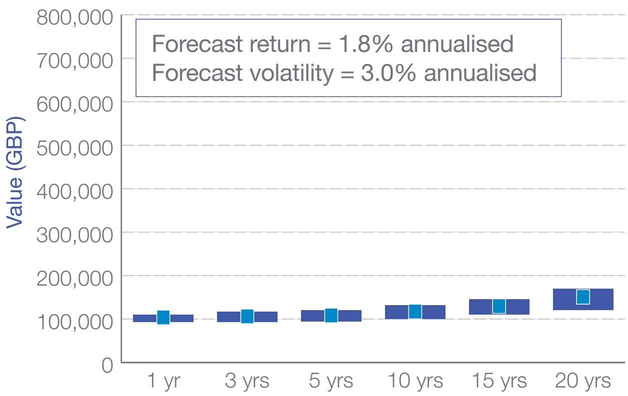
Shares	
UK	0.0%
US	0.0%
Europe	0.0%
Japan	0.0%
Asia ex Japan	0.0%
Emerging Markets	0.0%
Bonds	
Government	10.0%
Corporate	87.0%
Indexed Linked	0.0%
Other	0.0%
Diversifiers	
Absolute Return	0.0%
Commodities	0.0%
Infrastructure	0.0%
Global REITs	0.0%
Property	0.0%
Cash	3.0%

ASSET ALLOCATION TOLERANCE RANGES

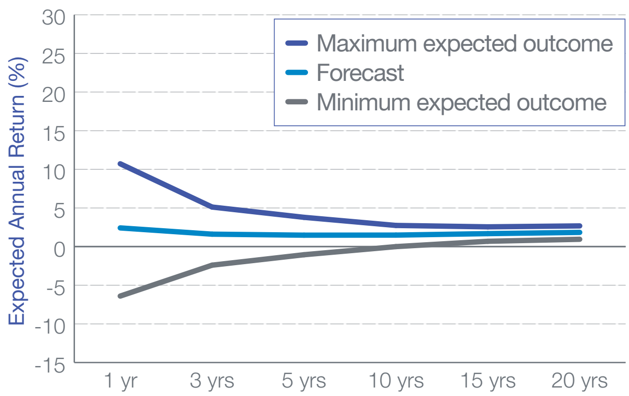


WHAT MIGHT THIS STRATEGY DELIVER OVER THE LONG-TERM, NET OF INVESTMENT COSTS?

£100,000 invested over 20 years could grow to £144,114 based on forecast long-term return of 1.8% annualised, net of investment management fees*…



…but the forecast volatility or deviation from this forecast could be as high as +/-3.0% in the short-term, and could be worse in an extreme market scenario.



The bar chart illustrates the maximum to minimum range of possible outcomes for each time period based on a 90% confidence level. The smaller square box indicates the forecast mean growth over these periods.

SOURCE: Close Brothers Asset Management, Moody's Analytics.
*Fees charged for investment management will vary with the product or service selected. We have assumed fees of 0.50% p.a. in these calculations.

The value of investments and any income received from them can fall as well as rise, due to both market and currency movements, and investors may not receive back what they invested.

Low - Defensive Income

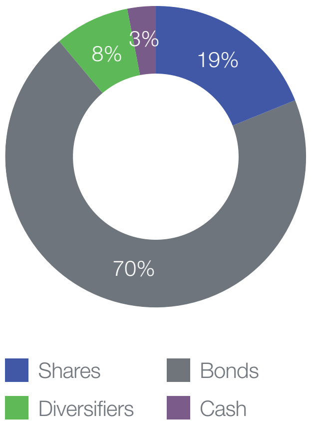
STRATEGY OBJECTIVES

In addition to bonds and bond-like investments, this strategy can also hold up to 20% in ordinary shares to provide greater diversification, with some of the equity exposure taking the form of equity-like diversifiers, such as property or commodities. The objective is to generate income with some capital growth.

FORECAST LONG-TERM RISK AND RETURN ASSUMPTIONS

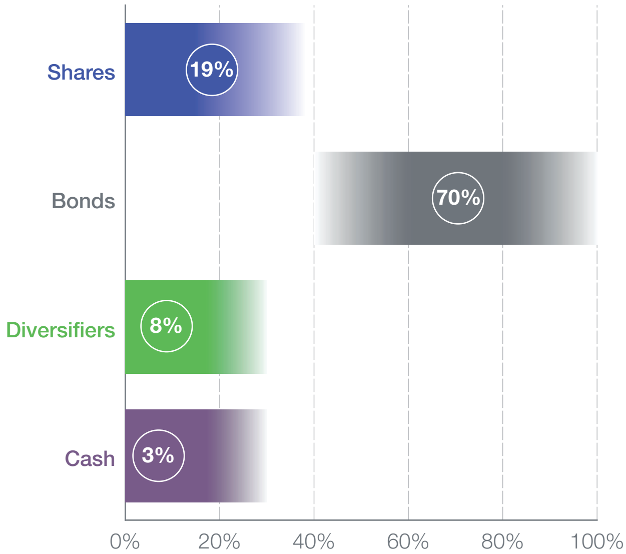
The forecast long-term risk and return information set out below is based on the Moody's Optimisation Model (ESG). It is intended as a guide to decision making and is in no way guaranteed. Outcomes for each time period are based on a 90% confidence level, which means there is a 10% chance actual returns will be outside the range of outcomes illustrated.

WHAT IS THE LONG-TERM SAA?



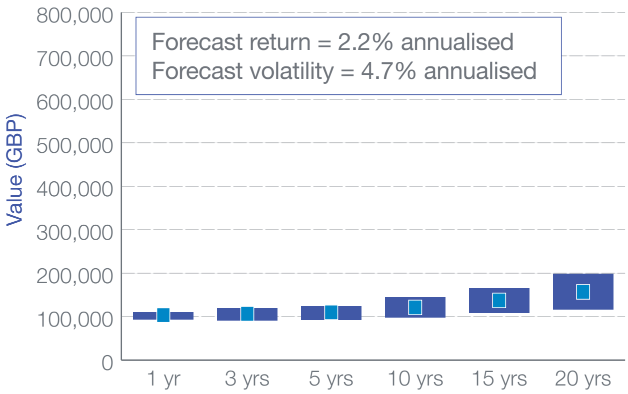
Shares	
UK	14.0%
US	2.5%
Europe	1.0%
Japan	0.5%
Asia ex Japan	0.5%
Emerging Markets	0.5%
Bonds	
Government	29.0%
Corporate	41.0%
Indexed Linked	0.0%
Other	0.0%
Diversifiers	
Absolute Return	1.0%
Commodities	1.0%
Infrastructure	3.0%
Global REITs	1.0%
Property	2.0%
Cash	3.0%

ASSET ALLOCATION TOLERANCE RANGES

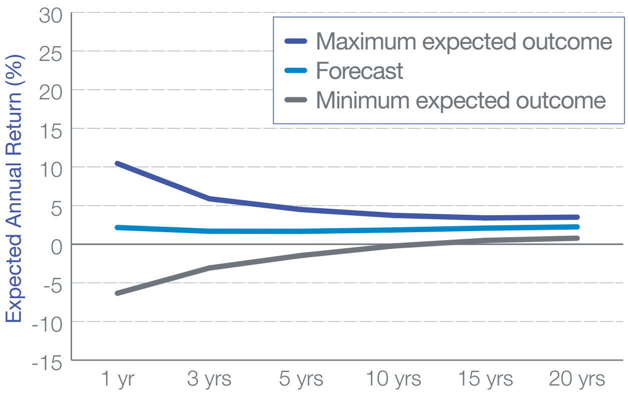


WHAT MIGHT THIS STRATEGY DELIVER OVER THE LONG-TERM, NET OF INVESTMENT COSTS?

£100,000 invested over 20 years could grow to £155,617 based on forecast long-term return of 2.2% annualised, net of investment management fees*…



…but the forecast volatility or deviation from this forecast could be as high as +/-4.7% in the short-term, and could be worse in an extreme market scenario.



The bar chart illustrates the maximum to minimum range of possible outcomes for each time period based on a 90% confidence level. The smaller square box indicates the forecast mean growth over these periods.

SOURCE: Close Brothers Asset Management, Moody's Analytics.

*Fees charged for investment management will vary with the product or service selected. We have assumed fees of 0.90% p.a. in these calculations.

The value of investments and any income received from them can fall as well as rise, due to both market and currency movements, and investors may not receive back what they invested.

Cautious

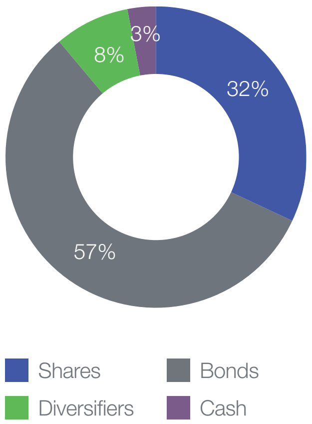
STRATEGY OBJECTIVES

Invests in bonds, UK and international shares with a dividend focus, and income-orientated diversifiers, which help spread risk. The objective is to generate a steady income stream with some capital growth.

FORECAST LONG-TERM RISK AND RETURN ASSUMPTIONS

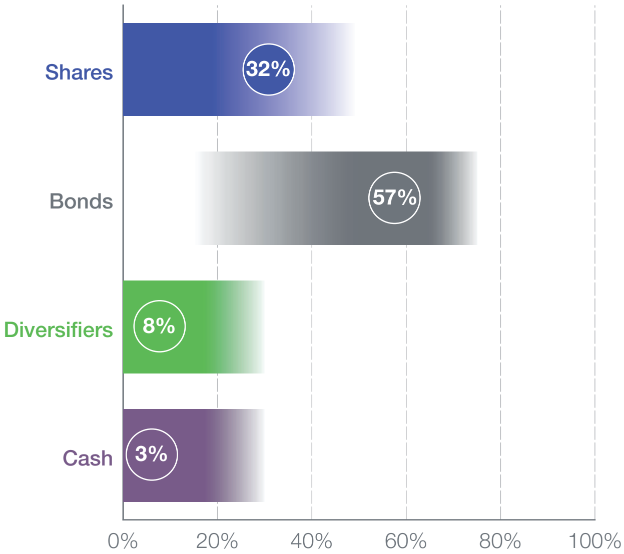
The forecast long-term risk and return information set out below is based on the Moody's Optimisation Model (ESG). It is intended as a guide to decision making and is in no way guaranteed. Outcomes for each time period are based on a 90% confidence level, which means there is a 10% chance actual returns will be outside the range of outcomes illustrated.

WHAT IS THE LONG-TERM SAA?



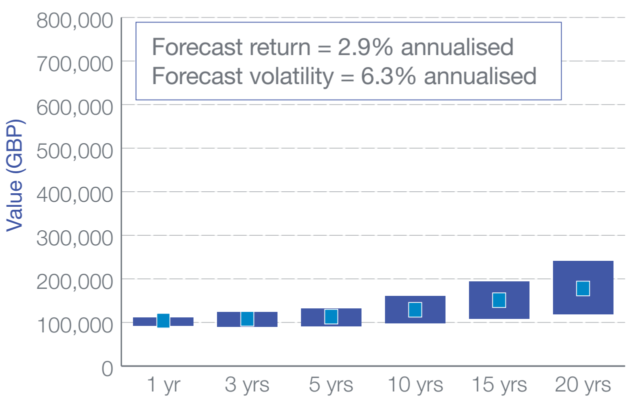
Shares	
UK	20.0%
US	6.5%
Europe	2.5%
Japan	1.0%
Asia ex Japan	1.5%
Emerging Markets	0.5%
Bonds	
Government	24.0%
Corporate	33.0%
Indexed Linked	0.0%
Other	0.0%
Diversifiers	
Absolute Return	1.0%
Commodities	1.0%
Infrastructure	3.0%
Global REITs	1.0%
Property	2.0%
Cash	3.0%

ASSET ALLOCATION TOLERANCE RANGES



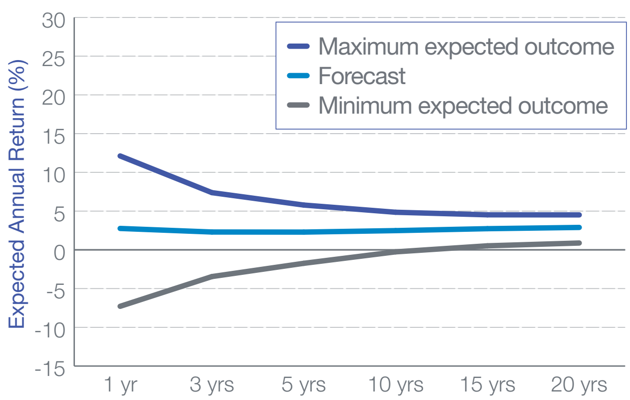
WHAT MIGHT THIS STRATEGY DELIVER OVER THE LONG-TERM, NET OF INVESTMENT COSTS?

£100,000 invested over 20 years could grow to £176,641 based on forecast long-term return of 2.9% annualised, net of investment management fees*…



The bar chart illustrates the maximum to minimum range of possible outcomes for each time period based on a 90% confidence level. The smaller square box indicates the forecast mean growth over these periods.

…but the forecast volatility or deviation from this forecast could be as high as +/-6.3% in the short-term, and could be worse in an extreme market scenario.



SOURCE: Close Brothers Asset Management, Moody's Analytics.
*Fees charged for investment management will vary with the product or service selected. We have assumed fees of 0.90% p.a. in these calculations.

The value of investments and any income received from them can fall as well as rise, due to both market and currency movements, and investors may not receive back what they invested.

Lower moderate

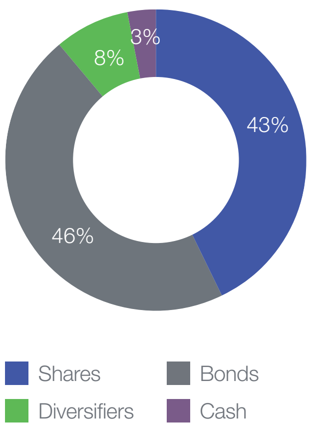
STRATEGY OBJECTIVES

Invests in bonds, UK and international shares and diversifiers, which help spread risk. The objective is to deliver moderate capital growth with some income.

FORECAST LONG-TERM RISK AND RETURN ASSUMPTIONS

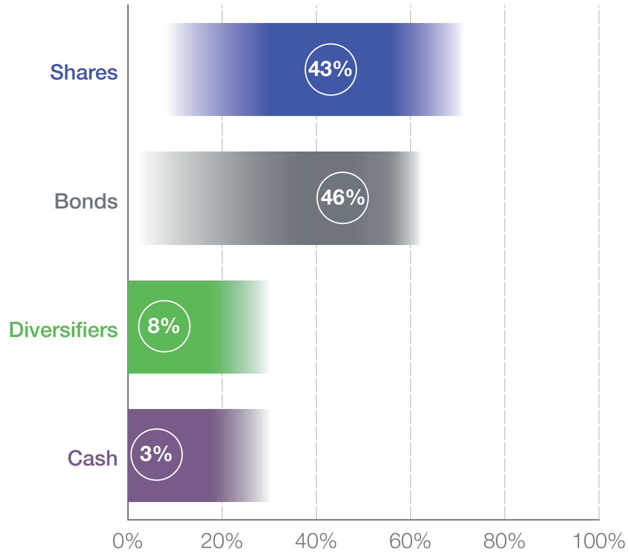
The forecast long-term risk and return information set out below is based on the Moody's Optimisation Model (ESG). It is intended as a guide to decision making and is in no way guaranteed. Outcomes for each time period are based on a 90% confidence level, which means there is a 10% chance actual returns will be outside the range of outcomes illustrated.

WHAT IS THE LONG-TERM SAA?



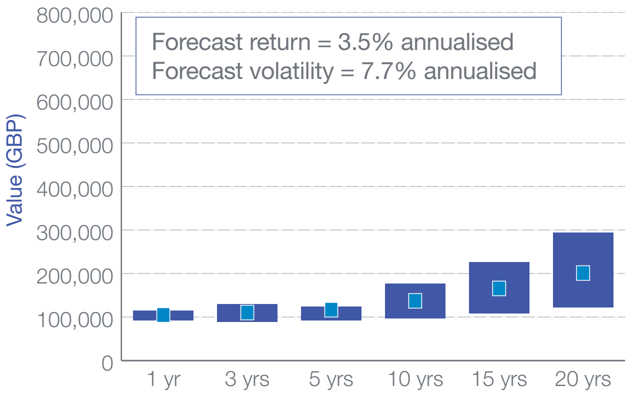
Shares	
UK	22.5%
US	11.0%
Europe	4.5%
Japan	1.0%
Asia ex Japan	3.0%
Emerging Markets	1.0%
Bonds	
Government	19.0%
Corporate	27.0%
Indexed Linked	0.0%
Other	0.0%
Diversifiers	
Absolute Return	1.0%
Commodities	1.0%
Infrastructure	3.0%
Global REITs	1.0%
Property	2.0%
Cash	3.0%

ASSET ALLOCATION TOLERANCE RANGES

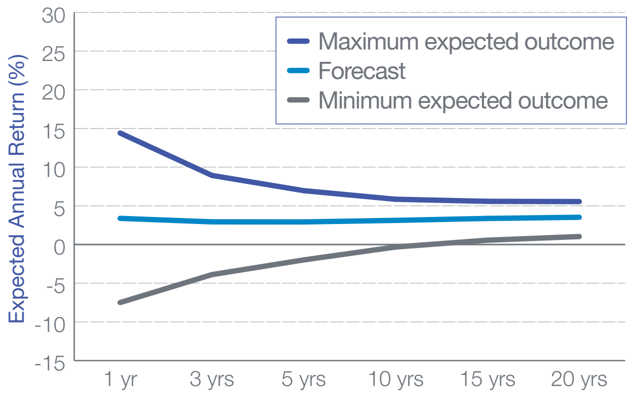


WHAT MIGHT THIS STRATEGY DELIVER OVER THE LONG-TERM, NET OF INVESTMENT COSTS?

£100,000 invested over 20 years could grow to £199,818 based on forecast long-term return of 3.5% annualised, net of investment management fees*…



…but the forecast volatility or deviation from this forecast could be as high as +/-7.7% in the short-term, and could be worse in an extreme market scenario.



The bar chart illustrates the maximum to minimum range of possible outcomes for each time period based on a 90% confidence level. The smaller square box indicates the forecast mean growth over these periods.

SOURCE: Close Brothers Asset Management, Moody's Analytics.
*Fees charged for investment management will vary with the product or service selected. We have assumed fees of 0.90% p.a. in these calculations.

The value of investments and any income received from them can fall as well as rise, due to both market and currency movements, and investors may not receive back what they invested.

Moderate

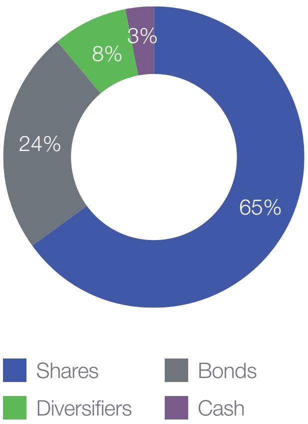
STRATEGY OBJECTIVES

Invests in bonds, UK and international shares, with some exposure to diversifiers, which help spread risk. The objective is to grow the capital value with some income.

FORECAST LONG-TERM RISK AND RETURN ASSUMPTIONS

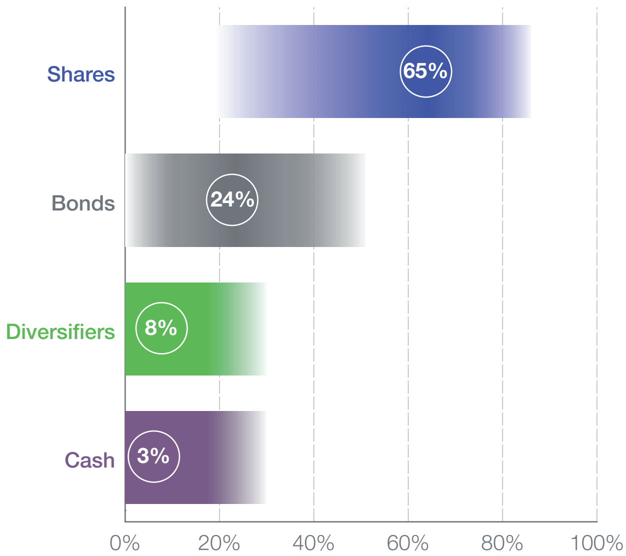
The forecast long-term risk and return information set out below is based on the Moody's Optimisation Model (ESG). It is intended as a guide to decision making and is in no way guaranteed. Outcomes for each time period are based on a 90% confidence level, which means there is a 10% chance actual returns will be outside the range of outcomes illustrated.

WHAT IS THE LONG-TERM SAA?



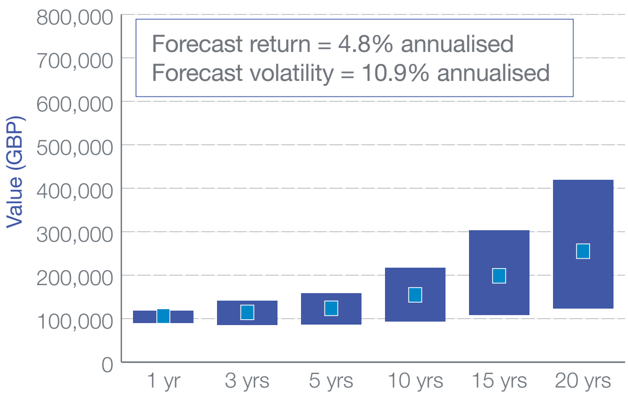
Shares	
UK	27.5%
US	20.5%
Europe	8.0%
Japan	2.0%
Asia ex Japan	5.0%
Emerging Markets	2.0%
Bonds	
Government	10.0%
Corporate	14.0%
Indexed Linked	0.0%
Other	0.0%
Diversifiers	
Absolute Return	1.0%
Commodities	1.0%
Infrastructure	3.0%
Global REITs	1.0%
Property	2.0%
Cash	3.0%

ASSET ALLOCATION TOLERANCE RANGES



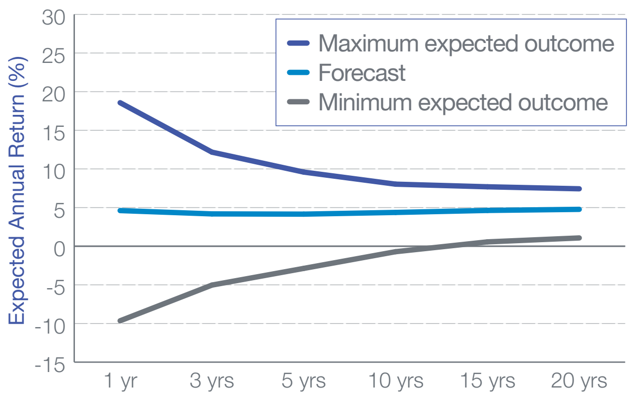
WHAT MIGHT THIS STRATEGY DELIVER OVER THE LONG-TERM, NET OF INVESTMENT COSTS?

£100,000 invested over 20 years could grow to £253,906 based on forecast long-term return of 4.8% annualised, net of investment management fees*…



The bar chart illustrates the maximum to minimum range of possible outcomes for each time period based on a 90% confidence level. The smaller square box indicates the forecast mean growth over these periods.

…but the forecast volatility or deviation from this forecast could be as high as +/-10.9% in the short-term, and could be worse in an extreme market scenario.



SOURCE: Close Brothers Asset Management, Moody's Analytics.

*Fees charged for investment management will vary with the product or service selected. We have assumed fees of 0.90% p.a. in these calculations.

The value of investments and any income received from them can fall as well as rise, due to both market and currency movements, and investors may not receive back what they invested.

High

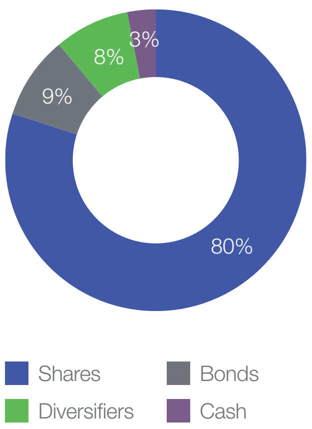
STRATEGY OBJECTIVES

Invests primarily in UK and international shares, with some exposure to bonds and diversifiers to help reduce risk. The objective is to grow the capital value.

FORECAST LONG-TERM RISK AND RETURN ASSUMPTIONS

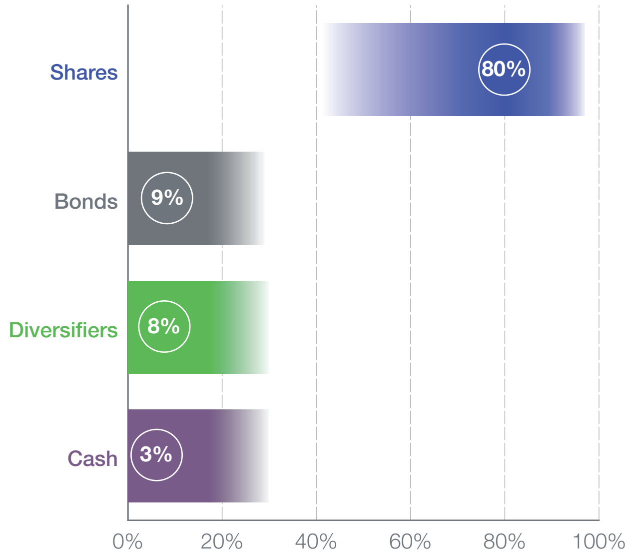
The forecast long-term risk and return information set out below is based on the Moody's Optimisation Model (ESG). It is intended as a guide to decision making and is in no way guaranteed. Outcomes for each time period are based on a 90% confidence level, which means there is a 10% chance actual returns will be outside the range of outcomes illustrated.

WHAT IS THE LONG-TERM SAA?



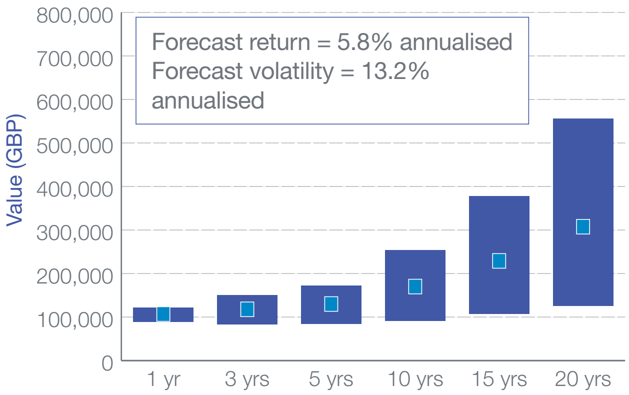
Shares	
UK	26.0%
US	29.0%
Europe	11.5%
Japan	3.0%
Asia ex Japan	7.5%
Emerging Markets	3.0%
Bonds	
Government	4.0%
Corporate	5.0%
Indexed Linked	0.0%
Other	0.0%
Diversifiers	
Absolute Return	1.0%
Commodities	1.0%
Infrastructure	3.0%
Global REITs	1.0%
Property	2.0%
Cash	3.0%

ASSET ALLOCATION TOLERANCE RANGES

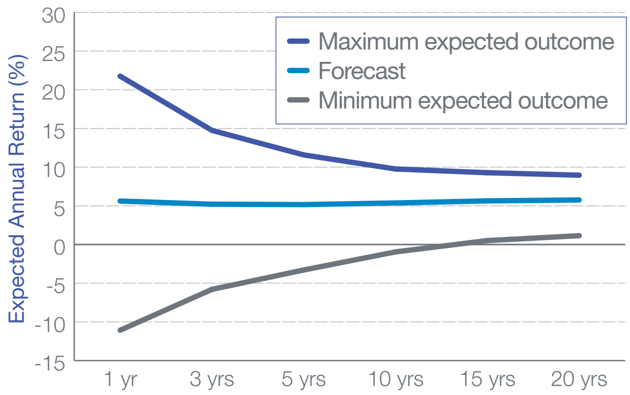


WHAT MIGHT THIS STRATEGY DELIVER OVER THE LONG-TERM, NET OF INVESTMENT COSTS?

£100,000 invested over 20 years could grow to £306.215 based on forecast long-term return of 5.8% annualised, net of investment management fees*…



…but the forecast volatility or deviation from this forecast could be as high as +/-13.2% in the short-term, and could be worse in an extreme market scenario.



The bar chart illustrates the maximum to minimum range of possible outcomes for each time period based on a 90% confidence level. The smaller square box indicates the forecast mean growth over these periods.

SOURCE: Close Brothers Asset Management, Moody's Analytics.

*Fees charged for investment management will vary with the product or service selected. We have assumed fees of 0.90% p.a. in these calculations.

The value of investments and any income received from them can fall as well as rise, due to both market and currency movements, and investors may not receive back what they invested.

Highest

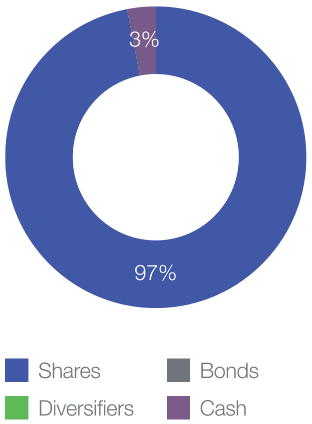
STRATEGY OBJECTIVES

This strategy invests almost entirely in shares, both UK and international. The objective is to maximise capital growth over the longer term.

FORECAST LONG-TERM RISK AND RETURN ASSUMPTIONS

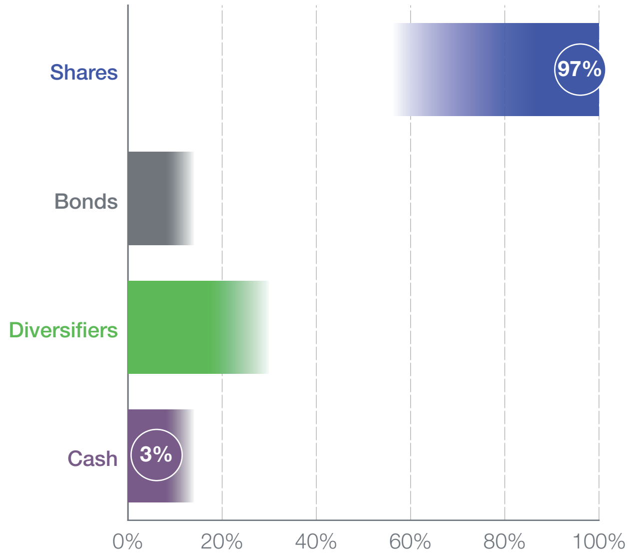
The forecast long-term risk and return information set out below is based on the Moody's Optimisation Model (ESG). It is intended as a guide to decision making and is in no way guaranteed. Outcomes for each time period are based on a 90% confidence level, which means there is a 10% chance actual returns will be outside the range of outcomes illustrated.

WHAT IS THE LONG-TERM SAA?



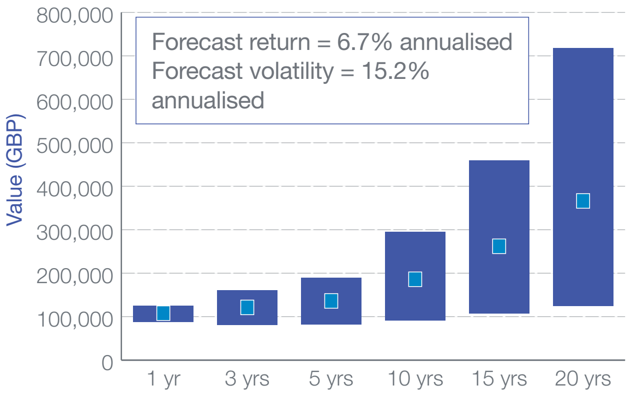
Shares	
UK	22.0%
US	40.5%
Europe	16.5%
Japan	4.0%
Asia ex Japan	10.0%
Emerging Markets	4.0%
Bonds	
Government	0.0%
Corporate	0.0%
Indexed Linked	0.0%
Other	0.0%
Diversifiers	
Absolute Return	0.0%
Commodities	0.0%
Infrastructure	0.0%
Global REITs	0.0%
Property	0.0%
Cash	3.0%

ASSET ALLOCATION TOLERANCE RANGES

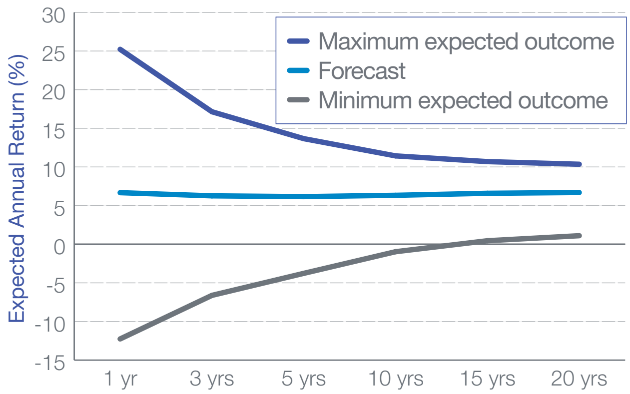


WHAT MIGHT THIS STRATEGY DELIVER OVER THE LONG-TERM, NET OF INVESTMENT COSTS?

£100,000 invested over 20 years could grow to £364,916 based on forecast long-term return of 6.7% annualised, net of investment management fees*…



…but the forecast volatility or deviation from this forecast could be as high as +/-15.2% in the short-term, and could be worse in an extreme market scenario.



The bar chart illustrates the maximum to minimum range of possible outcomes for each time period based on a 90% confidence level. The smaller square box indicates the forecast mean growth over these periods.

SOURCE: Close Brothers Asset Management, Moody's Analytics.
*Fees charged for investment management will vary with the product or service selected. We have assumed fees of 0.90% p.a. in these calculations.

The value of investments and any income received from them can fall as well as rise, due to both market and currency movements, and investors may not receive back what they invested.

Frequently asked questions

Why do you use Moody's Analytics?

Previously known as Barrie & Hibbert, prior to their acquisition by Moody's Analytics in 2011, they are one of the UK's leading stochastic modelling providers. Their products and services are used for risk and asset-liability management across the financial services and wealth management sectors, including banks, insurance companies and pension funds. They employ a team of over 70 specialists responsible for their Economic Scenario Generator (ESG) research, development and maintenance which is recalibrated and updated every quarter.

Can I rely on the risk and return assumptions included in this guide?

The numbers quoted are only a guide and you should not rely on them. They are generated through an Optimisation Model which combines actual historical performance with forward looking indicators, using probability analysis to predict the most likely scenarios based on different confidence levels. As they are long-term (20 year annualised), the numbers will only vary slightly from quarter to quarter. They should not be used as a basis for short-term decision making, but do provide a useful guide to how a strategy might perform over the longer term.

What market indices have you used to construct your strategic asset allocations (SAAs) for each risk profile?

The asset classes used by Moody's Analytics to construct our SAAs share similar characteristics to the following local currency market indices or benchmarks:

REPRESENTATIVE INDICES

Shares	
UK	MSCI UK
US	MSCI US
Europe	MSCI Europe (ex UK)
Japan	MSCI Japan
Asia Pacific	MSCI AC Asia Pacific
Emerging	MSCI EM
Bonds	
UK Govt	Merrill Lynch UK Gilts
UK Index Linked	Merrill Lynch UK Gilts Index-Linked
UK Corporates	Merrill Lynch Sterling Corporate Securities
Other	Bloomberg Barclays Global Aggregate Index
Diversifiers	
Absolute Return	Representative absolute return fund
Commodities	Bloomberg Commodity Index
Infrastructure	S&P Global Infrastructure Index
Global REITS	EPRA/NAREIT Global REITs Index
UK Property	EPRA/NAREIT UK REITs Index
Cash	Money Market Investments

How are the investments included in your funds or portfolios selected?

We use in-house analysts and some external sources, such as broker research, to inform our investment decisions. Our investment professionals work on a collegial basis, undertaking deep fundamental research and sharing specialist knowledge in equities, fixed income, diversifier asset classes and funds to build investment portfolios, whose asset mix and risk profiles are derived from the SAAs described in this document.

How often will you review your portfolios?

The strategies themselves will be reviewed at least annually, but are unlikely to change significantly as they are very much long-term. The TAAs of the actual portfolios or funds are reviewed weekly, whereas the underlying stock or fund holdings are subject to continuous review. The Performance and Risk Team undertakes regular assessment of portfolios, both in isolation and relative to other portfolios with similar objectives and risk profiles, reviewing both the security selections and any thematic or strategic differences. These are undertaken on an absolute and relative basis and the results are reported to the Investment Review Committee which meets monthly and is attended by Close Brothers Asset Management's Chief Executive Officer, Head of Investment Services and Head of Compliance.

Glossary

DEFINITIONS OF TERMS INCLUDED IN THE GUIDE THAT YOU MAY FIND USEFUL:

Active management – Investment managers seek to add value relative to target through their tactical asset allocation and security/instrument selection decisions. The use of a longer term strategic asset allocation for each risk profile allows us to compare actual returns on the portfolios or funds we are managing, relative to the performance of our strategic asset allocation, which is based on a combination of different market indices summarised on page 19.

Compounding – This is one of the fundamental principles of investment. It can be thought of as reinvested returns or interest on money already invested – the higher the rate achieved and length of time invested, the higher the amount that will accrue. Although market volatility still impacts the return achieved, leaving money invested over long time periods allows portfolios to benefit from the compounded effect of reinvested income and realised returns.

Forecast vs. historic volatility – Volatility varies over time, with some periods characterised by higher volatility than others. Volatility since the 2007-9 credit crunch has been lower than normal due to the impact of Central Bank quantitative easing, so historic volatility over the past 5 years is currently lower than the prospective volatility generated by the stochastic forecasting model. All of the volatility numbers quoted in this guide are prospective, based on a 20 year+ time horizon.

Investment time horizon – How long a sum of money is invested can have a huge impact on the value of a fund or portfolio. Short-term investors are more likely to be impacted by market volatility than long-term investors, so time horizon is a key consideration when selecting an appropriate investment strategy. All of the numbers quoted in this guide are based on a 20 year + time horizon.

Long-term risk and return – The relationship between risk and return can and does vary. However, over the longer term, lower risk combinations of assets generally underperform higher risk combinations. Long-term investment is a trade-off between these two variables, with the higher risk of loss as one goes up the investment spectrum offset by higher returns as investors demand a higher premium for bearing this additional risk.

Multi-asset investing – Investment through a broad mix of asset classes (shares, bonds and diversifiers) and geographical regions to provide wider portfolio diversification. This reduces risk or volatility, but can also dilute potential returns compared with a single asset class, such as UK shares.

Risk profile – Key to determining the most appropriate risk and return combination is an investor's own risk appetite and circumstances. This will vary according to their capacity for loss, investment time horizon and personal attitude to risk. The latter can be captured through risk profiling questionnaires but these then need to be matched to a client's saving objective and circumstances. Within this guide, we have allowed for six different investor profiles ranging from lower risk portfolios with small share exposure to higher risk 100% shares portfolios.

Sources of risk and return – Different asset classes exhibit different risk characteristics. Shares, for example, tend to be more volatile and therefore higher risk than bonds, whereas diversifier-type assets such as property and infrastructure based vehicles will normally sit somewhere in between. For each asset class, the potential return (and risk) will depend on different variables. These risks include:

- Stock/sector specific - relating to an individual security or sector
- Market related - dependent on wider market conditions and sentiment
- Currency based - where assets are either priced in or derive significant revenue from foreign currency

Stochastic modelling – Used to forecast future returns and volatility for a given asset class mix. This financial modelling method uses random variables to estimate the probability of outcomes based on different market scenarios. It combines both historical returns and forward looking projections. The most commonly used example in finance is called "Monte Carlo Simulation". This involves multiple simulations of portfolio performance based on the probability distributions for different asset classes which are then aggregated. A statistical analysis of the results is then used to determine how a portfolio is likely to perform, based on different confidence levels.

Strategic asset allocation – The long-term asset class mix designed to produce the best outcome under a range of different market scenarios, both good and bad, for each investor risk profile.

Tactical asset allocation – Short-term adjustments to the long-term asset mix to take advantage of market opportunities or reduce risk during periods of volatility. The value added from such activity is measurable relative to the strategic asset allocation benchmark for each investor risk profile.

Tolerance ranges – Risk and return forecasting is not an exact science, so for each risk profile we have built in a tolerance range to allow for deviation from the expected long-term assumptions. This is entirely normal but the use of risk corridors as described on page 9 allows us to monitor this.

Award winning service

Our investment management is respected by industry professionals and clients alike. We continually strive to improve our services. Our commitment to this endeavour and quality of service has been recognised by a number of industry awards.

PRIVATE ASSET MANAGER AWARDS

Winner Client Service Quality*
(HNW) in 2012, 2013, 2015 and 2017.
Finalist in 2014, 2016 and 2019.

Winner Quality & Clarity of Reporting*
2013 and 2015.
Finalist in 2012, 2014, 2016, 2017 and 2018.

Winner Image & Reputation (HNW)*
in 2014. Finalist in 2013 and 2015, 2016.

Winner Investment Performance*
Cautious Portfolios in 2017.
Finalist in 2013, 2014, 2015, 2016 and 2018.

Finalist Investment Performance*
Defensive Portfolios in 2013 and 2018.

Finalist Investment Performance*
Growth Portfolios in 2014.

*HNW: High Net Worth is for clients with £1m+ of investable assets.
Past performance is not a reliable indicator of future returns.

Notes

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