EVASON FILDES

Mr An Example

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Attitude to Risk Report for: Mr An Example
Prepared by: An Adviser

It is important to understand the level of risk you are prepared to take with your investments. When discussing your attitude to risk you answered a series of questions using a risk questionnaire.

The risk questionnaire has been developed to help understand your risk profile and assist me in the design and recommendation of your investment portfolio. The results in this report will be used alongside other information about you in order to generate your personal investment recommendations.

What is Risk?
Risk means that there could be a number of different possible outcomes associated with a particular action or activity and we do not know beforehand which one will occur, such as making a financial loss or the chances of not meeting your goals and objectives. The concern here is with financial risk i.e. the volatility associated with prices of and returns from investments.

How has the risk questionnaire been designed?
The risk questionnaire is provided by Moody's Analytics : designed by Dr Alistair Byrne and Dr David Blake. Copyright © 2006. Alistair Byrne CFA is a Fellow of the Pensions Institute at Cass Business School in London and an Honorary Professor at the University of Edinburgh Business School. David Blake is the Director of the Pensions Institute and Professor of Pensions Economics at Cass Business School in London.

Through the application of psychometric tests, the science of measuring individuals' attitudes, they have developed a series of questions designed to capture several aspects of risk attitude:

1. **Financial Knowledge** - generally, individuals who are more knowledgeable about finance and investment are more willing to accept investment risk. Knowledgeable investors are likely to understand that some element of risk is required to generate higher returns and that short-term fluctuations need not matter to meet longer-term goals.

2. **Comfort with Risk** - some individuals have psychological traits that allow them to take risk. These individuals typically see risk as involving a 'thrill' or 'opportunity' rather than as 'danger' or a 'loss'.

3. **Investment Choice** - risk attitude can also be gauged in preferences for different types of investments e.g. the relative safety of a bank account versus the potential risk of stocks & shares.

4. **Regret** - is the negative emotion that arises from making a decision that is, after the fact, wrong.

What does the risk questionnaire tell you?
It is designed to give you a representative view of an investor who has answered the questions as you have by equally weighting the answers to the various questions and providing an attitude to risk profile.

However, you should not rely solely on the initial results of answering the questions and the subsequent risk profile provided. Other factors such as your investment objectives and your risk capacity i.e. your ability financially to 'shoulder the risk' of potential loss and cope with it must also be taken into account.

This report confirms your risk profile as a result of you answering the questions and our subsequent discussions to fully determine whether the risk profile is suitable for you, having discussed your personal circumstances, attitudes and financial objectives. The risk profile also describes a Strategic Asset Allocation suitable for this type of investor.

What is a Strategic Asset allocation?
Asset allocation is the mix of underlying asset classes held within an investment portfolio. A Strategic Asset Allocation is designed to target a specified level of risk - potential loss. The Strategic Asset Allocation does not take into account short-term 'tactical' views of the relative value or forecast short-term return for different asset classes.

With actively managed investment funds, the actual asset allocation of the portfolio may change according to the fund manager's view of investment conditions.

To build a financial plan which is right for you, I will take into account your attitude to risk together with your financial objectives and capacity for loss and recommend an asset allocation accordingly. See "How will the asset allocation model be used" below.

How is the Strategic Asset Allocation model developed?
Six Strategic Asset Allocation benchmarks have been designed to target different levels of Potential Loss. The associated asset mix is produced by Moody's Analytics using their product risk modelling tools and indicates one scenario which may be suitable to your Risk Profile. Moody's Analytics is one of the world's leading financial market risk modelling companies providing asset models to many UK and global insurance companies.

What are the asset classes?
Each Strategic Asset Allocation benchmark is made up of the following asset classes each with a different percentage spread to take account of the level of risk and return associated with the risk profile:

- Cash
- Fixed Interest (Bonds)
- Commercial Property
- UK Equities
- Global Equities

How will the asset allocation model be used?
The asset allocation indicated is an example only and indicates an investment mix that, over the long term, might be suitable for the Risk Profile of investors. There are other combinations of assets which may include alternative asset classes that might also be suitable. This information therefore should not be taken as an investment recommendation.

While each risk profile has been associated with an indicative strategic asset allocation, this is for guidance purposes only.

Attitude to Risk is only one factor in determining a suitable investment strategy, potential loss must also be considered in relation to your financial objectives and risk capacity. Therefore, the actual investment portfolio recommended may be different to that suggested in the risk profile reflecting your capacity for loss in relation to your financial objectives.

Investment returns and volatility
It is important to understand that investment returns cannot usually be guaranteed and that any investment strategy brings with it the potential for loss especially in the short term. The higher the risk profile, the greater potential returns but also the potential for higher losses - particularly in any one year. Each risk profile has a typical range of returns and you should use this to determine your own attitude to potential loss and, therefore, which risk profile best describes your risk attitude.

At the back of this report you will find all the risk profile descriptions. If, having reviewed these again, you change your mind about your agreed risk profile please let me know straight away so that I can take any appropriate action.

Your Risk Questionnaire Responses

Question	Response
People who know me would describe me as a cautious person.	No Strong Opinion
I feel comfortable about investing in the stockmarket.	Agree
I generally look for safer investments, even if that means lower returns.	Disagree
Usually it takes me a long time to make up my mind on investment decisions.	Disagree
I associate the word 'risk' with the idea of 'opportunity'.	Agree
I generally prefer bank deposits to riskier investments.	Disagree
I find investment matters easy to understand.	Agree
I'm willing to take substantial financial risk to earn substantial returns.	Disagree
I've little experience of investing in stocks and shares.	Agree
I tend to be anxious about the investment decisions I've made.	Disagree
I'd rather take my chances with higher risk investments than increase the amount I'm saving.	Disagree
I'm concerned by the volatility of stockmarket investments.	Agree

Having reviewed the answers to the risk profile questions, the risk category has been calculated and the results suggest you are a **Dynamic Investor**.

Dynamic investors typically have quite high levels of financial knowledge. They will usually be experienced investors, who have used a range of investment products in the past.

In general, Dynamic investors are happy to take investment risk and understand this is crucial in terms of generating long-term return. They are willing to take risk with most of their available assets.

Dynamic investors will usually be able to make up their minds on financial matters quite quickly. While they can suffer from regret when their decisions turn out badly, they are able to accept that occasional poor returns are a necessary part of long-term investment.

Your Risk Profile

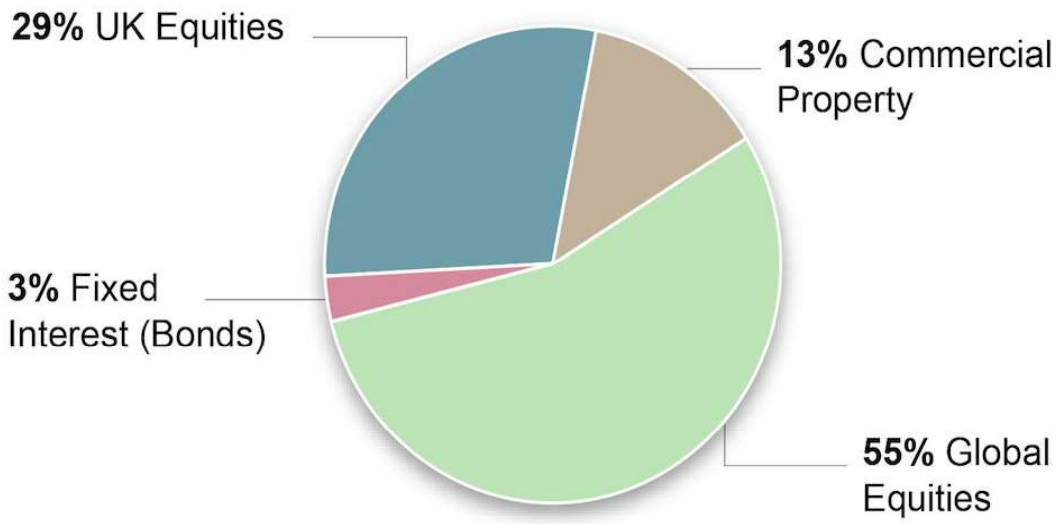
Having discussed your personal circumstances, attitudes and financial objectives, your agreed risk rating is as follows:

Your chosen Attitude to Risk - Dynamic Investor
Dynamic investors typically have quite high levels of financial knowledge. They will usually be experienced investors, who have used a range of investment products in the past.

In general, Dynamic investors are happy to take investment risk and understand this is crucial in terms of generating long-term return. They are willing to take risk with most of their available assets.

Dynamic investors will usually be able to make up their minds on financial matters quite quickly. While they can suffer from regret when their decisions turn out badly, they are able to accept that occasional poor returns are a necessary part of long-term investment.

Illustrative Strategic Asset Allocation for a Dynamic Investor



The asset allocation indicated is an example only and indicates an investment mix that, over the long term, might be suitable for Dynamic Investors. There are other combinations of assets which may include alternative asset classes that might also be suitable. This information therefore should not be taken as an investment recommendation.

A stochastic model (supplied by Moody's Analytics) has been used to generate thousands of possible future scenarios for this Strategic Asset Allocation. Stochastic modelling is a standard industry tool, and allows us to estimate the measures of risk and return shown in the Potential Returns section that follows.

Risk attitude is only one factor in determining a suitable investment strategy. You must also consider your ability to withstand short term losses, and your need to take risk to achieve your financial goals.

You should always discuss appropriate investments with your financial adviser. Your decision to make any investments should have regard to the way your money is to be managed, the impact of inflation and the length of time you wish to invest.

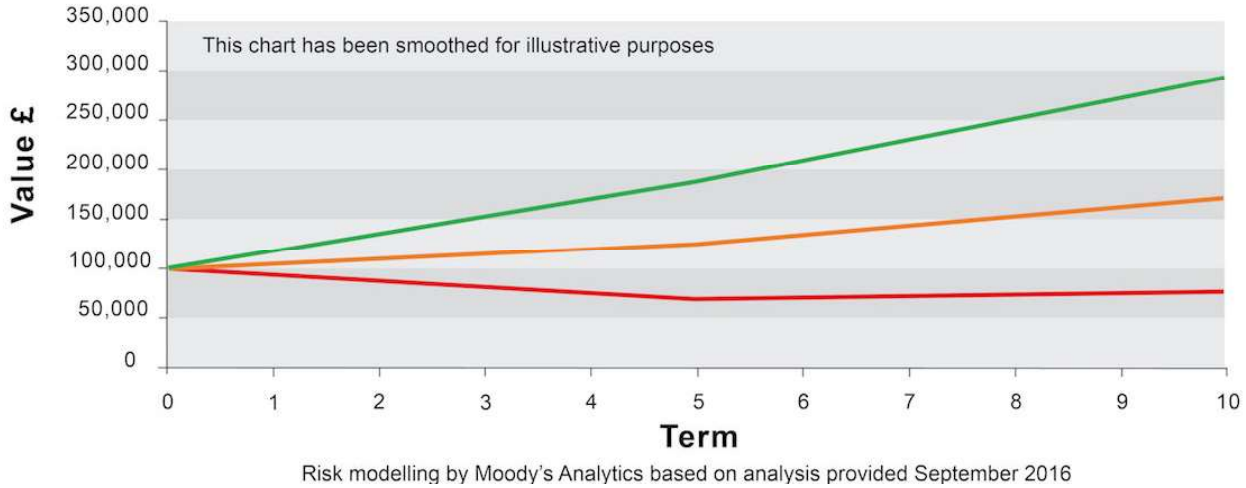
Potential Returns - Dynamic Investor

When investing, you must accept there will be times when the value of your portfolio will fall. There will be good years and bad years. The important thing is to understand the potential volatility of this investment strategy, what a bad year might look like and be able to cope with it.

As an example only, were you to invest in the illustrative asset allocation then the downside risk in a single bad year is estimated as a loss of 20% or worse of your investment before charges (equivalent to a £20,000 loss or worse on £100,000). The likelihood of this happening is estimated as having odds of 1 in 20 each year. A bad year could occur at any time, including the first year of the investment.

But remember, there are no guarantees. Also it is important to be aware that your actual investments will be different - Fund Managers will not hold the same investments as the illustrative asset allocation, and so will give rise to different outcomes for potential loss/volatility and potential returns.

The graph below is an example of the potential returns based on an assumed £100,000 invested for a term of 10 years following the illustrative asset allocation, assuming no charges, no active management and with regular rebalancing. The chart has been simplified, in that it does not show potential daily market fluctuations, or account for your specific financial objectives, but is an illustration of the variability in long term returns before charges that might be experienced with the illustrative asset allocation:



Potential Growth - the top line shows there is a 1 in 10 probability of achieving at least £290,821 after 10 years. This is what you might get back from your original investment if market conditions are very good.

Average Growth - The middle line shows there is a 1 in 2 probability of achieving at least £171,032 after 10 years. This is what you might expect to get back from your original investment under average market conditions.

Lower Growth - The bottom line shows there is a 1 in 20 probability of achieving less than £77,651. This is what you might get back from your original investment if the market conditions are poor.

There are no guarantees with this investment strategy and actual results achieved may be higher or lower than those shown. As the investment strategies increase in risk and potential reward, so does the amount you may lose in a bad year. Conversely the investment gain in a good year also increases. However, we believe these probable returns are a sensible way of understanding the potential downsides as well as the upsides when saving or investing this way.

All Risk Profiles

All the risk profile descriptions associated with the risk questionnaire are described in the table below. You should read these descriptions as you might find another description better describes your attitude to investment risk, in which case you should let me know straight away.

Risk Rating	Description
Risk Averse Investor	Risk averse investors typically have very limited knowledge of financial matters. They are unlikely to have experience of investment. Risk averse investors prefer knowing that their capital is safe rather than seeking high returns. They are not comfortable with the thought of investing in the stockmarket and want to keep their money in the bank. Risk averse investors can take a long time to make up their mind on financial matters and will usually suffer from severe regret if their decisions turn out badly. They typically hold all of their money in cash deposits. Risk averse investors need to be aware that their unwillingness to take any risk with their money may mean that the value of their savings does not keep pace with rises in the cost of living ("inflation").
Conservative Investor	Conservative investors typically have fairly limited knowledge of financial matters. They are unlikely to have much experience of investment. In general, Conservative investors prefer knowing that their capital is safe rather than seeking high returns. They are not particularly comfortable with the thought of investing in the stockmarket and would rather keep most of their money in lower risk assets. Conservative investors can take a relatively long time to make up their mind on financial matters and will usually suffer from regret if their decisions turn out badly.
Balanced Investor	Balanced investors typically have modest levels of knowledge about financial matters. They may have some experience of investment in riskier assets. In general, Balanced investors prefer not to take much risk with their investments, but will do so to an extent. They prefer lower risk assets, but realise riskier investments are likely to give better longer term returns. Balanced investors can take some time to make up their mind on financial matters and can often suffer from regret when decisions turn out badly.
Moderate Investor	Moderate investors typically have a degree of knowledge about financial matters. They usually have some experience of investment, including investing in products containing higher risk assets such as equities. In general, Moderate investors understand that they have to take investment risk in order to be able to meet their long-term goals. They are likely to be willing to take risk with a high proportion of their available assets. Moderate investors will usually be able to make up their minds on financial matters relatively quickly, but still suffer from some feelings of regret when their decisions turn out badly.
Dynamic Investor	Dynamic investors typically have quite high levels of financial knowledge. They will usually be experienced investors, who have used a range of investment products in the past. In general, Dynamic investors are happy to take investment risk and understand this is crucial in terms of generating long-term return. They are willing to take risk with most of their available assets. Dynamic investors will usually be able to make up their minds on financial matters quite quickly. While they can suffer from regret when their decisions turn out badly, they are able to accept that occasional poor returns are a necessary part of long-term investment.

Adventurous Investor	Adventurous investors typically have high levels of financial knowledge. They often have substantial amounts of investment experience and may have been active in managing their investment arrangements. In general, Adventurous investors are looking for a high return on their capital and are willing to take considerable amounts of risk to achieve this. They are usually willing to take risk with all of their available assets. Adventurous investors typically will make up their minds on financial matters quickly. They do not suffer from regret to any great extent and can accept occasional poor returns without much difficulty.