VERMEER
PARTNERS

UNDERSTANDING RISK AND REWARD

2025

CONTENTS

INTRODUCTION

This guide aims to improve your understanding of investment risk and to help identify an appropriate investment strategy for you. It also serves to explain how we construct portfolios and why we make certain investments on your behalf.

In order to construct the most appropriate portfolio for you, we must first assess your experience of financial markets, the level of risk you are willing to take and your capacity to bear loss, as well as any individual requirements such as portfolio restrictions or tax considerations. From this assessment, we will then select the most suitable investment strategy to deliver your financial goals.

An overview of each risk level and a description of our investment strategies are provided within this guide. We recommend careful consideration of each description to ensure we agree the most appropriate way forward for you.

UNDERSTANDING YOUR RISK PROFILE

To ensure your investment strategy is suitable for you, it is important to understand the level of risk associated with investing.

We provide six risk levels, ranging from “High” to “None”. Each risk level is defined by the level of equity (stocks and shares) exposure of the portfolio. This is because equities are deemed to be a higher risk and more volatile asset class.

EXAMPLE: An investor in the “High” or “Medium to High” risk levels will have a greater proportion of equity exposure (often up to 100% of a portfolio) than an investor in the ‘Low to Medium’ risk level (who might have less than 50% of their portfolio invested in equities).

When measuring risk, we look at two aspects:

RISK TOLERANCE

Your risk tolerance deals with how comfortable you are with taking risks. It varies considerably by individual and is, often, a personality-based concept.

NATURALLY RISK AVERSE: will demand risk is minimised even if it means giving up the potential for higher returns. In investment terms, an increase in volatility and the discomfort that this can cause, can outweigh the potential increase in returns. Such individuals are often less willing to accept risk.

NATURAL RISK TAKERS: will be comfortable with periods of volatility and will often have a higher willingness to embrace risk.

CAPACITY TO BEAR LOSS

Your capacity to bear loss refers to your financial ability to accept short-term fluctuations in the value of your portfolio.

Consider whether you would need to access capital from your portfolio at the time of a fall in its value, and would therefore have to realise losses on individual investments, or whether you have the capacity to wait for the value to recover. Those who can wait tend to have a higher capacity to bear loss.

KEY FACTORS TO ALSO CONSIDER

YOUR TIME HORIZON

Another important consideration is your time horizon – the period over which you intend to invest. Higher risk portfolios will be more volatile than lower risk portfolios and demand a longer time horizon.

History has shown if you are willing to weather some short-term volatility and remain invested over the long-term, your returns tend to be higher. Although it is important to understand that history is no guarantee of future performance.

FUTURE CIRCUMSTANCES

It is important that you consider any significant changes to your circumstances that you can foresee. These could include the purchase or sale of a house, the birth of a child or grandchild, school fees or an inheritance.

PORTFOLIO RESTRICTIONS

You should think carefully about whether you would wish to exclude any investments, geographies or asset classes from your portfolio due to tax considerations, a professional or personal conflict, or an ethical and / or environmental concern.

OTHER INVESTMENT RISKS WE CONSIDER FOR YOU

Market and Geopolitical Risk: investments can be affected by higher taxes, tariffs, nationalisation, or regime change. This type of risk can affect the entire market.

Currency Risk: also known as exchange rate risk or foreign exchange risk, refers to the potential for financial losses due to fluctuations in exchange rates.

Stock Specific Risk: individual investments can rise and fall due to specific events and actions.

Interest Rate Risk: the potential for investment losses due to fluctuations in interest rates. This type of risk primarily affects fixed interest investments, such as bonds (in effect where investors lend money to a company), but can also impact other investments such as property and infrastructure. Typically, the price of bonds falls when interest rates rise and vice-versa.

Liquidity Risk: this refers to the potential difficulty in selling an investment without significant loss in value. There are two types of liquidity risk: asset liquidity involves the ease with which assets can be sold in the market without affecting their price. Highly liquid assets, like shares of large companies, can be sold quickly; whereas less liquid assets, like property, may take longer to sell; liquidity risk can also be influenced by market conditions – for example, during financial crises even typically liquid assets can become difficult to sell without significant price reductions.

Inflation Risk: the potential for the value of investments to be eroded by rising prices over time. The value of your investments may rise over time but at a lower rate than inflation. Investments like bonds and certain types of pensions are particularly vulnerable.

YOUR RISK TOLERANCE

The standard industry measure of risk is known as **volatility**. Volatility measures the degree that monthly returns vary over a specific period from the average return over the same period. It is usually expressed as a percentage value on an annualised basis.

At the simplest level, all investments (apart from cash) are volatile; but some are more volatile than others. Equities will often show higher volatility than fixed interest investments ("bonds"). And small-cap equities ("smaller companies") will tend to be more volatile than large-cap equities. Portfolios that have more invested in equities can be more volatile but will also have the potential for higher growth.

YOUR RISK TOLERANCE

Risk Tolerance	Time Horizon	Willingness to accept volatility in the capital value and income of your portfolio	Equity Exposure
High	7+ Years	Extremely comfortable with periods of volatility	Up to 100%
Medium to High	5+ Years	Very comfortable with periods of volatility	Up to 100%
Medium	5 Years	Comfortable with periods of volatility	Up to 75%
Low to Medium	3 Years	Uncomfortable with periods of volatility	Up to 50%
Low	1 Years	Very uncomfortable with periods of volatility	Up to 25%
None*	0 Years	Extremely uncomfortable with periods of volatility	0%

***Please note** that if you are not prepared to accept any level of risk or have no capacity to bear losses then our services are not suitable for you.

YOUR CAPACITY TO BEAR LOSS

To guide you on your risk level further, we can look at **maximum drawdown**. This is the estimated maximum loss from peak to trough of a portfolio, based on historical data.

It provides an indication of how much you may lose over a specified period and can help determine your capacity to bear loss.

EXAMPLE: If the maximum drawdown is 30% and your portfolio falls by this amount, you should consider two questions.

1. **What impact will this fall have on your standard of living?**
2. **Can you support your outgoings without accessing capital from your portfolio during this period?**

Investors who are unaffected by this fall would have a higher capacity to bear loss than investors who are affected by this fall.

YOUR CAPACITY TO BEAR LOSS

Capacity To Bear Loss	Time Horizon	Effect of a fall in the capital value of your portfolio	Equity Exposure
High	7+ Years	No impact on my standard of living	Up to 100%
Medium to High	5+ Years	Limited impact on my standard of living	Up to 100%
Medium	5 Years	Modest impact on my standard of living	Up to 75%
Low to Medium	3 Years	Material impact on my standard of living	Up to 50%
Low	1 Years	Substantial impact on my standard of living	Up to 25%
None*	0 Years	Unacceptable impact on my standard of living	0%

***Please note** that if you are not prepared to accept any level of risk or have no capacity to bear losses then our services are not suitable for you.

RISK AND REWARD

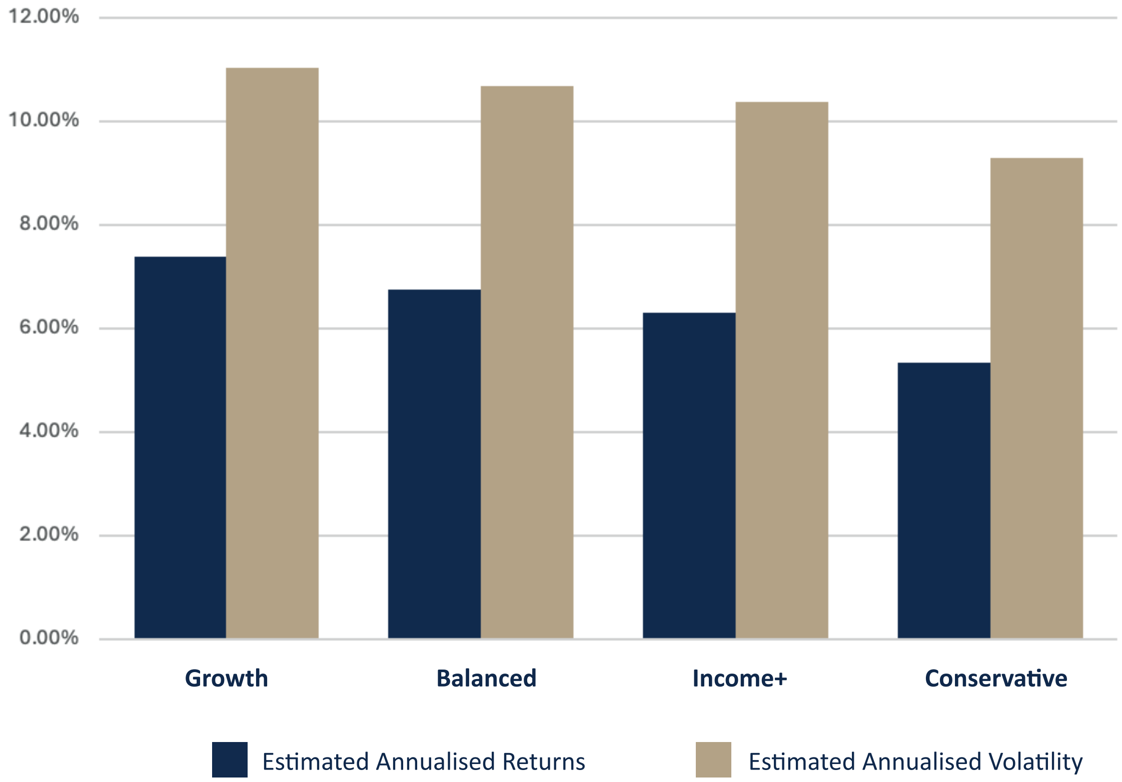
You can see in the "Your Risk Tolerance" and "Your Capacity to Bear Loss" tables on the previous pages that each risk level comes with a recommended time horizon.

Please be aware any information relating to past performance of an investment or investment service is not necessarily a guide to future performance.

Based on historic benchmark return data, we provide an illustration to help explain the concept of risk and return in financial markets.

The chart below estimates the returns and volatility associated with each of our four Investment Strategies and the following pages provide further details on each strategy.

ESTIMATES OF RETURNS AND VOLATILITY*



*These have been calculated by taking the current asset allocations from our Investment Strategies and then backdating the historic performance through the use of industry standard benchmark returns for each asset class.

Given that the data is derived from historic returns, the chart above illustrates our best estimates for the expected future returns, and levels of volatility, for each of our Investment Strategies.

The benchmark data used is for the period from 31/12/2004 to 31/12/2024; and asset allocation as set by MSCI PIMFA at 31/12/2024.

All figures are GBP total returns before fees. The figures refer to simulated past performance and that past performance is not a reliable indicator of future performance.

YOUR INVESTMENT OBJECTIVE

Having assessed your risk profile, we need now to understand your investment objective. Your investment objective will determine the overall aim of your portfolio.

There are many reasons why people invest, and we will help you define your main investment objectives.

OUR THREE MAIN OBJECTIVES ARE:

A FOCUS ON CAPITAL GROWTH

To primarily grow the capital value of the portfolio over the long-term.

A BALANCE OF CAPITAL GROWTH & INCOME

To grow the capital value of the portfolio as well as generate some degree of income.

AN EMPHASIS ON INCOME

To generate a higher level of income from the portfolio. Suitable for those who require regular withdrawals to support expenditure.

BENCHMARKS AND PEER GROUPS

It is often useful to select a benchmark or peer group against which the performance of your portfolio can be measured.

A benchmark will usually be a single equity or bond index, while a portfolio that invests in multiple asset classes will often be compared to a “multi-asset” benchmark such as the MSCI PIMFA indices which are made up of various underlying single indices to reflect different regions and asset classes.

A peer group looks at the average returns delivered to clients by other investment firms. The ARC Private Client Indices (PCI) are a set of risk-based indices designed to be used by private clients and their advisers to compare the performance of their portfolio against. The PCI are peer group comparisons with real performance data compiled from over 70 private client investment managers, allowing performance to be assessed against a realistic and sizeable peer group.

VERMEER PARTNERS' INVESTMENT STRATEGIES

GROWTH

Our Growth Strategy would suit clients looking for long-term capital growth and who are very comfortable with periods of volatility in capital and income.

BALANCED

Our Balanced Strategy would suit clients looking for long-term capital growth as well as generating a degree of regular income (to be withdrawn or reinvested).

INCOME+

Our Income+ Strategy would suit clients looking for long-term capital growth as well as generating a higher level of regular income (which, typically, would be withdrawn).

CONSERVATIVE

Our Conservative Strategy would suit clients looking for some capital growth as well as generating some regular income (to be withdrawn or reinvested), without taking on too much equity risk.

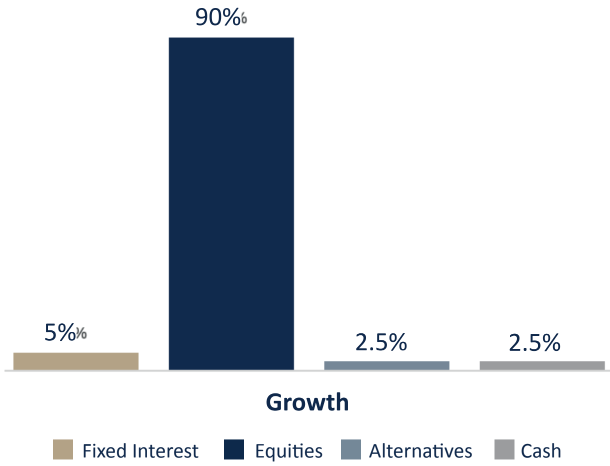
GROWTH

“High” or “Medium to High” risk tolerance and capacity to bear loss

Our Growth Strategy would suit clients looking for long-term capital growth and who are very comfortable with periods of volatility in capital and income.

In normal market conditions, up to 100% of the value of the portfolio could be invested in domestic and international equities, although we will always seek to diversify into other asset classes - such as cash, fixed interest and/or other alternative investments - where we feel it is appropriate.

A typical asset allocation could look like this:



Features

Equity Range	65% to 100%	**Estimated Volatility**	11%
Estimated Annual Returns	7.4%	**Estimated Maximum Loss**	-30.3%

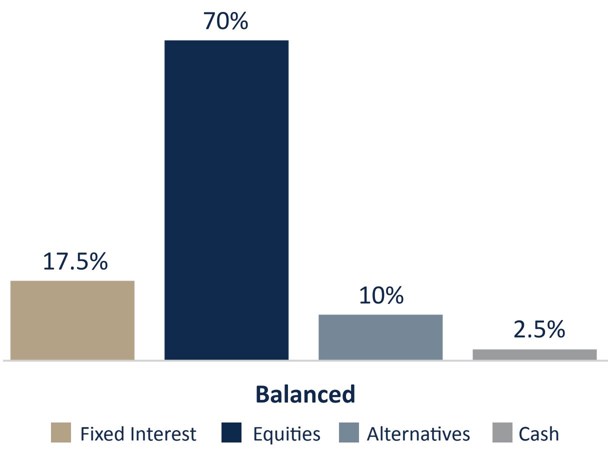
BALANCED

“Medium to High” or "Medium" risk tolerance and capacity to bear loss

Our Balanced Strategy would suit clients looking for long-term capital growth as well as generating a degree of regular income (to be withdrawn or reinvested).

Such clients tend to be comfortable with periods of volatility in both their capital and income. Up to 75% of the value of the portfolio could be invested in domestic and international equities and the remainder will be invested in other asset classes such as cash, fixed interest and/or other alternative investments.

A typical asset allocation could look like this:



Features

Equity Range	50% to 75%	**Estimated Volatility**	10.7%
Estimated Annual Returns	6.8%	**Estimated Maximum Loss**	-29.1%

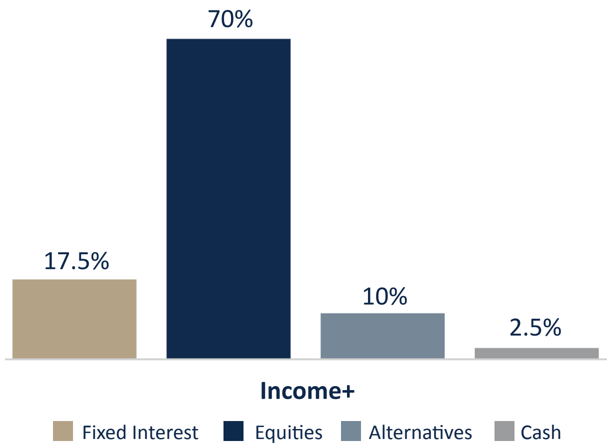
INCOME+

"Medium to High" or "Medium" risk tolerance and capacity to bear loss

Our Income+ Strategy would suit clients looking for long-term capital growth as well as generating a higher level of regular income (which, typically, would be withdrawn).

Such clients tend to be comfortable with periods of volatility in both their capital and income. Up to 75% of the value of the portfolio could be invested in domestic and international equities and the remainder will be invested into other asset classes such as cash, fixed interest and/or other alternative investments.

A typical asset allocation could look like this:



Features

Equity Range	50% to 70%	**Estimated Volatility**	10.4%
Estimated Annual Returns	5.9%	**Estimated Maximum Loss**	-28.6%

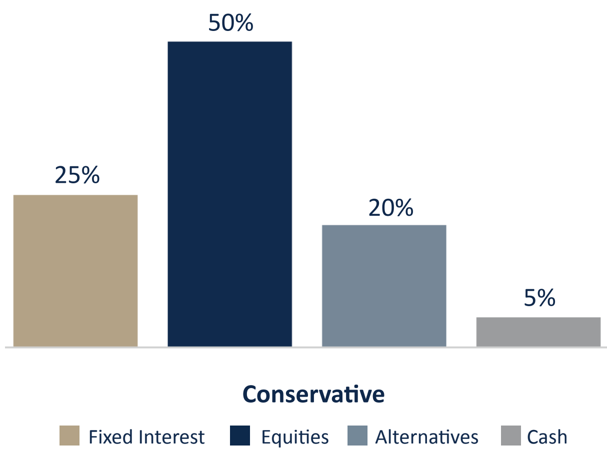
CONSERVATIVE

"Low to Medium" risk tolerance and capacity to bear loss

Our Conservative Strategy would suit clients looking for some capital growth as well as generating some regular income (to be withdrawn or reinvested), without taking on too much equity risk.

Such clients tend to be less comfortable with periods of volatility in both their capital and income. Up to 50% of the value of the portfolio could be invested in domestic and international equities and the remainder will be invested into other asset classes such as cash, fixed interest and/or other alternative investments.

A typical asset allocation could look like this:

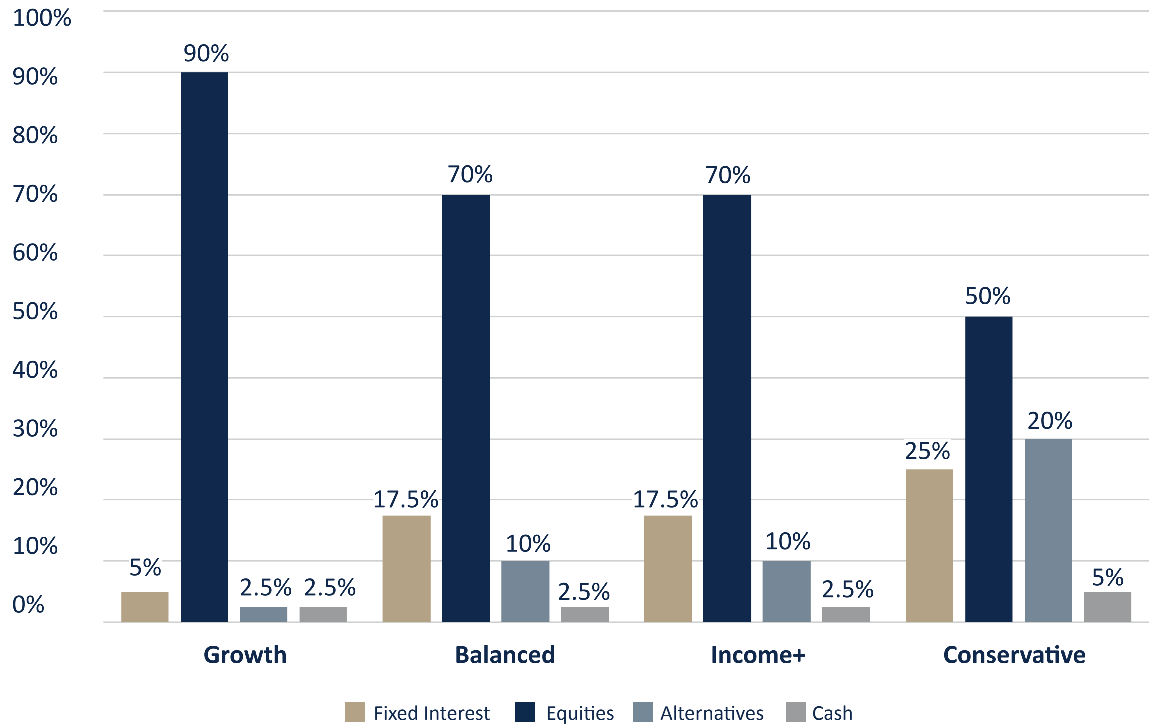


Features

Equity Range	20% to 50%	**Estimated Volatility**	9.3%
Estimated Annual Returns	5.3%	**Estimated Maximum Loss**	-24.8%

SUMMARY OF INVESTMENT STRATEGIES

Typical Asset Allocation: We actively manage portfolios' asset allocation over time, but the below table is an illustration of our typical asset allocation at any given time:



	Growth	Balanced	Income +	Conservative
Fixed Interest	5%	17.5%	17.5%	25%
Equities	90%	70%	70%	50%
Alternatives	2.5%	10%	10%	20%
Cash	2.5%	2.5%	2.5%	5%

Risk Matrix: The below table illustrates which strategies would be suitable for you depending on your level of risk and time horizon.

Risk Tolerance	Level of Risk	Time Horizon	Equity Exposure	Growth	Balanced	Income+	Conservative
High	High	7+ Years	Up to 100%	Discuss further with you Investment Manager			
Medium to High	Medium to High	5+ Years	Up to 100%	✓	✓	✓	✓
Medium	Medium	5 Years	Up to 75%	✗	✓	✓	✓
Low to Medium	Low to Medium	3 Years	Up to 50%	✗	✗	✗	✓
Low	Low	1 Year	Up to 25%	Discuss further with your Investment Manager			
None	None	0 Years	0%	✗	✗	✗	✗

ASSET CLASSES

CASH
This is the safest of the asset classes. It provides security and readily available funds should you need access to them quickly. The trade-off here is that cash tends to provide the lowest returns (dependent on the interest rate available) and purchasing power can be eroded by inflation.

FIXED INTEREST
Governments and companies can raise money by issuing debt in packages usually referred to as bonds. Investors buying these bonds will receive interest across the life of the bond plus repayment of the principal - the original sum loaned - at maturity. The level of interest is usually pre-determined, as is the date of maturity.
Interest payments tend to be fixed - which is why they are termed "fixed interest" or "fixed income" - and are generally a safer asset class than equities in normal market conditions. Fixed interest investments are not without risks though – particularly longer-dated bonds and bonds issued by lower quality companies; returns can be eroded by inflation, the price of the bond can fall if interest rates rise, and the issuer could default on the debt.

EQUITIES
Also referred to as stocks and shares, an equity investment represents part ownership in a public company, listed on a recognised stock exchange. Equities are our preferred asset class over the long-term on a returns basis, but they can be volatile over the short to medium-term.

We target investment in companies with a great product, market position or brand, with the view they will deliver above average profits over the long-term; or companies that, simply, we deem to be materially undervalued, often because short-term sentiment or news flow is poor, and thus they have the potential to be re-rated.

ALTERNATIVE INVESTMENTS
Investments that have different economic drivers from fixed interest and equities may be described as alternative investments. Including these investments in your portfolio provides increased diversification and can reduce the overall portfolio risk. A few of the alternative investments we may make for you are as follows:

Property investments are usually made through collective funds that specialise in property, such as a REIT. They often concentrate on a sector (residential, commercial etc.) or a particular geography. In recent years, property has been a good source of income returns.

Infrastructure funds are used in much the same way as property investments. The revenues from infrastructure projects such as airports, toll roads and hospitals may be backed by major governments which adds a degree of security and are often inflation-linked.

Private Equity funds behave in a similar fashion to equities. The difference is that instead of investing in public companies listed on a stock exchange, they invest in private companies. In the absence of a public price, the investments become harder to buy and sell, and therefore carry more liquidity risk, while it can be harder to ascertain their true value.

Absolute Return funds aim to provide positive returns in both rising and falling markets with less volatility. This is often achieved using complex financial instruments. They typically don't provide an income return but can be particularly useful when the rest of the market is falling.

Commodity investments such as gold or silver bullion may form part of your investment portfolio. Although their true value is sometimes difficult to quantify and again there is no income component, they have provided diversification benefits in the past and can also perform well in periods of market stress.

GLOSSARY

GENERAL TERMS	
Asset Allocation	The process of dividing an investment portfolio among different asset classes, such as equities, bonds and cash, to balance risk
Bank Rate / Base Rate	The interest rate which the central bank charges on its loans and advances to other commercial banks. This interest rate tends to drive all other costs of borrowing, whether it be mortgages, personal loans or companies issuing debt
Basis Point (BPS)	A unit of measurement to describe small changes in percentage values. One basis point is equal to 0.01%. 25 basis points is equal to 0.25%
Bull Market	A sustained period of rising markets (often by 20% or more)
Bear Market	A sustained period of falling markets (often by 20% or more)
Capital Gains Tax (CGT)	A type of UK tax charged on gains made when an asset is sold or transferred. It applies to individual investments within the portfolio, not the portfolio as a whole. ISAs, and other “tax wrappers”, are exempt from CGT
CGT Allowance	The amount of net gains an individual or trust is allowed to make each year before paying CGT
Capital Growth	An increase in the value of an investment over time. This is separate to the income return
Capital Loss	The loss incurred when an investment decreases in value
Consumer Price Index (CPI)	Tracks the rate of change of inflation over time based on prices that consumers pay for goods and services
Risk-Free Rate	The theoretical rate of return on an investment with no risk of loss. It is used in financial valuations, including discounted cash flow (DCF) analysis, to estimate the present value of future cash flows. The return on a government bond is often used as a proxy for the risk-free rate
Volatility	Investment volatility is the degree to which the price of an investment fluctuates over time. It's a measure of the risk and uncertainty associated with an investment's value. People often think about volatility only when prices fall; however, volatility can also refer to sudden price rises too

FIXED INTEREST	
Gilts	Bonds issued by the UK Government to raise money to pay for public services and other government obligations
US Treasuries	Bonds issued by the US Government to raise money to pay for public services and other government obligations
Corporate Bonds	Bonds issued by companies in order to raise money for funding their business needs. It is an alternative source of financing to offering shares in the company
Convertible Debt	Debt where the investor has the option to convert the bond into ordinary shares as opposed to receiving repayment in cash. Convertible bonds will tend to have a higher degree of equity sensitivity
Coupon	The annual interest rate paid on a bond. This is normally a fixed rate, but some bonds will be issued with a floating rate (normally linked to the base rate or, in the case of "index-linked", to the inflation rate)
Face Value	The face value, or "principal" of a bond, is the amount paid back to the investor at maturity (the end of the loan period). Again, with index-linked bonds, the principal paid back is linked to the level of inflation
Yield to Maturity (YTM)	The percentage return of an investment in a bond if the investor holds the bond until maturity – ie the coupons received plus the face value

EQUITIES	
Dividends	A dividend is a distribution of some or all of a company's profits to its shareholders. A company that is growing its profits will be expected to raise its dividend each year; however, some fast-growing companies will elect to reinvest their cash profits into future growth in the business, rather than pay the cash out in the form of a dividend
Share Buybacks	Also known as "share repurchases", allow companies to invest in themselves. Reducing the number of shares outstanding in the market, increases the proportion of shares owned by investors. A company may launch a buyback, often as an alternative to (or alongside) paying dividends, if it believes its shares are undervalued and to provide investors with a better return than investing the cash in the business
Turnover	Often referred to as "revenue" or "sales", the total amount of money a company generates from the sale of goods or services during a specific period

Profit	Often referred to as “net income” or “earnings”, the amount of money or “profit” reported after accounting for all expenses
Cash Flow	This refers to the actual cash generated by a company and can differ from profit, as profit figures can be manipulated by non-cash items such as depreciation or goodwill write-offs. The cash generated by a company is often a better indicator of its financial health than stated profits
Price to Earnings Ratio	The profits (or “earnings”) generated by a company as a percentage of its current value. A company trading on a high p/e ratio can be seen as being on an expensive rating, whereas a low p/e ratio can indicate it is cheap
Growth Companies	So called “growth” companies are companies that are either growing, or are expected to grow their profits sharply and so will normally trade on an expensive rating. Many growth companies will operate in fashionable and fast-growing sectors but often carry the risk of sharp corrections should sentiment fall
Value Companies	So called “value” companies are typically considered to be undervalued by the market and will often trade on a cheap rating. Value companies may not be growing very fast, and often operate in unfashionable sectors, but they can often come back into fashion (or be “re-rated”)
Market Capitalisation	The total value of a company’s outstanding shares. Calculated by multiplying a company’s shares by the current market price of one share. It determines a company’s size. The more a company’s share price goes up, the more the company is valued at

ALTERNATIVES

Leverage	Another term for borrowing. Often a fund will use leverage to attempt to improve its returns, which means it is likely to be a higher risk strategy
Derivatives	A financial contract based on the value of an underlying asset, such as a stock or index. Derivatives can be traded on an exchange or over-the-counter (“off-exchange”) and are often leveraged, which increases the potential risks and rewards
Short-position	When an investor sells a stock that they do not already own, with the plan to buy it back later at a lower price. It is also known as “short-selling” or “going short” and is used as a way to profit from an investment falling in value

Hedge Funds	A "one-size fits all" term – there are many different types of hedge funds, but they are normally all characterised as being higher risk, complex and often use leverage and "short-positions", as well as having higher fee structures
Private Equity	A private equity fund will invest in unquoted assets – ie companies or other types of investments not listed on a recognised stock exchange (or not "publicly quoted"). Like hedge funds, private equity funds will often use leverage to accentuate returns, and will almost always have higher fee structures
REIT	REIT stands for Real Estate Investment Trust, a listed company that invests in real estate, such as commercial or residential property

FUNDS

An investment fund is a pool of money collected from many investors to invest in securities like shares, bonds, and other assets.

We will invest in funds where we want to access a specific asset class or region, and we feel that it cannot be done directly. There are many different types of fund structures, but all are either "actively managed" – the manager actively picks investments in an attempt to beat the benchmark; or "passively managed" – the manager mimics a benchmark index or theme.

A fund will often specialise in a specific area or asset class – such as a Japanese equity fund or a high-yield bond fund. All funds will charge their own fee reflected in the price of the fund.

Open-Ended Fund	Open-ended funds, often structured as "unit trusts" or "OEICs", continuously accept new investors, issuing new shares or units at the fund's (usually daily) valuation point. All investors buy and sell at the same price each day, and, in theory, the size of an open-ended fund can grow ad infinitum, although they are often capped or closed at a certain level
Investment Trust	Often referred to as a closed-ended fund, this is another type of collective fund that has a fixed number of shares available and can be bought or sold like an individual share on a recognised exchange. Because of this, and like a share, an investment trust can trade at a discount or premium to its underlying value driven by sentiment and underlying supply and demand

Exchange Traded Funds (ETF)	A sort of hybrid between Open-Ended Fund and Investment Trust – an ETF is open-ended in that new shares are created or redeemed on a daily basis based on investor demand. But like an investment trust, an ETF can be bought and sold like an individual share. Many ETFs are passive strategies – ie they are designed to track specific sectors or themes, rather than actively pick investments. They are often lower cost than open-ended funds and investment trusts

OTHER

Some other colloquialisms and abbreviations that might help you understand what we are going on about!

Million is usually shortened to "m", billion to "bn", while the now not so rare trillion usually remains as "trillion". So, Apple has around 155m iPhone users in the US alone, it has annual revenues of around $400bn and a market capitalization of around $3 trillion (at April 2025).

A quarter is a three-month period. Almost all companies will report on a quarterly basis, as well as talk about the first and second half of a particular year or even the full year. It is the same with investment managers – we will refer to performance over, say, the third quarter of last year ("Q3") or the full year ("FY") or year-to-date ("YTD").

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