UNDERSTANDING RISK AND REWARD

2023

VERMEER
PARTNERS

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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 provide a rationale of the investments we may make on your behalf.

In order to construct the most appropriate portfolio for you, we must first assess your experience of financial markets, the risk you are willing to take, and your capacity to bear loss. From this assessment, we will then select the most suitable 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 strategy for you.

TIME HORIZON

RISK AND REWARD

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UNDERSTANDING YOUR RISK PROFILE

It is important to establish your risk level first before agreeing on an investment strategy. When measuring your risk level we look at two aspects: your **risk tolerance** and your **capacity to bear loss**.

Your **risk tolerance** deals with how comfortable you are with taking risk. It varies considerably by individual and is a personality-based concept. Some people are naturally risk averse and will demand risk is minimised even if it means giving up higher returns. In investment terms, an increase in volatility and the discomfort that this causes, can outweigh the potential increase in returns. These people are less willing to accept risk.

Others are natural risk takers. They are comfortable with periods of volatility and these people have a higher willingness to take risk.

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 in the event of a short-term fall, or whether you have a capacity to wait for the value to recover. Those who can wait tend to have a higher **capacity to bear loss**.

Risk Levels

We provide six risk levels, ranging from 'High' to 'None' in the next two tables. 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 asset. By way of example, an investor in the 'High' risk level will have a greater proportion of equity exposure than an investor in the 'Low to Medium' risk level.

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

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.

Future Circumstances

It is important that you consider any significant changes to your circumstances that you 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 a professional or personal conflict or an ethical and / or environmental concern.

YOUR RISK TOLERANCE

Volatility Risk

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

Associated with the value is a degree of confidence that we expect returns to fall within. Typically, we say that 95% of the time, the expected return of a portfolio will be in the range of the average return plus or minus twice the volatility figure.

The concept is better explained in practice. For example, if a portfolio has an average return of 8% and a volatility figure of 3%, we expect the return will be between 2% and 14%, 95% of the time.

8% average return + (2 x 3%) volatility = 14%

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 Year	**Very uncomfortable** with periods of volatility*	Up to 25%
None	0 Years	**Extremely uncomfortable** with periods of volatility	0%

Please Note if you are not prepared to accept any level of investment risk or have no capacity to bear loss then our services are not suitable for you.

*Discuss further with your Investment Manager.

YOUR CAPACITY TO BEAR LOSS

Maximum Drawdown

To guide you on your risk level further, we can look at maximum drawdown. This is the maximum loss from peak to trough of a portfolio. It provides an indication of downside risk over a specified period and can help determine your capacity to bear loss.

For example, if the maximum drawdown is 30% and your portfolio temporarily falls by this amount, you should consider two questions. Firstly, what impact will this fall have on your standard of living and secondly, 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.

The charts on the following page help to explain the above concepts further.

Capacity to bear loss	Time Horizon	Effect of a short term 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 Year	**Substantial** impact on my standard of living*	Up to 25%
None	0 Years	**Unacceptable** impact on my standard of living	0%

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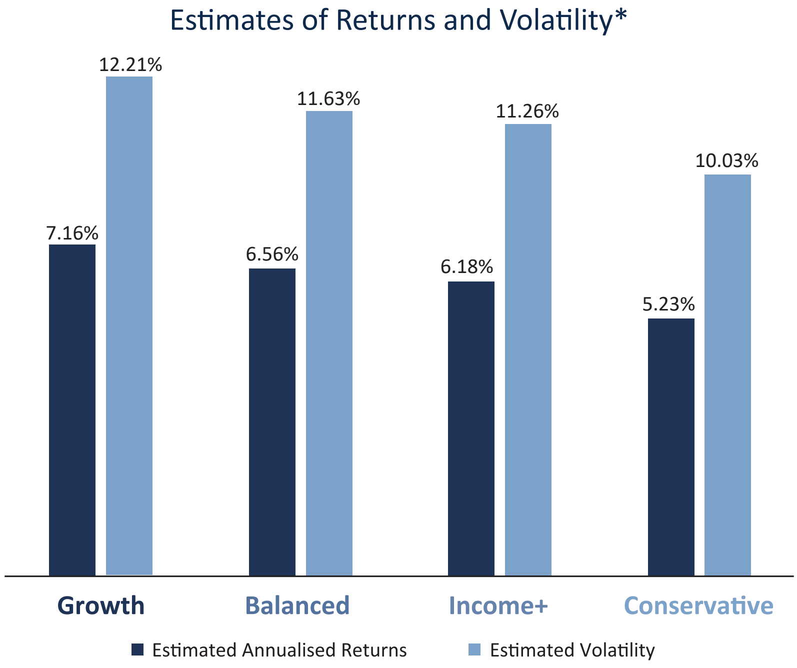
*Discuss further with your Investment Manager.

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



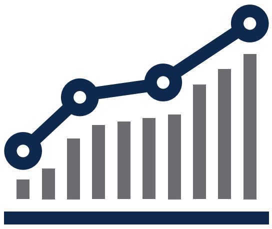
*These have been calculated by taking current asset allocations from Vermeer Partners’ Investment Strategies and backdating the historic performance over 17 years using industry standard benchmarks for each asset class

The chart illustrates Vermeer Partners’ estimated expected return and volatility for each investment strategy using historic benchmark returns from 31/05/2006 to 31/12/2022 and asset allocation as set by MSCI PIMFA at 31/12/2022. All figures are GBP total returns gross of fees. These illustrations are based on several working assumptions that may not be possible in actual investment management situations.

YOUR INVESTMENT OBJECTIVE

Having assessed your risk profile, we can now define your investment objective. Your investment objective will determine the overall goal of your portfolio. There are many reasons why people invest and we will help you to define your main investment objective.

Our three main investment objectives are:



1. A FOCUS ON CAPITAL GROWTH

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

2. A BALANCE OF CAPITAL GROWTH AND INCOME

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

3. AN EMPHASIS ON INCOME

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

Benchmarks

At Vermeer Partners we compare the performance of your portfolio against one of the industry's standard benchmarks, the MSCI PIMFA Indices, or an appropriate industry peer group such as those provided by Asset Risk Consultants (ARC). Each of our strategy benchmarks are listed in the forthcoming pages. Please note, your investment manager is not focused on tracking these indices.

VERMEER PARTNERS' INVESTMENT STRATEGIES

Growth

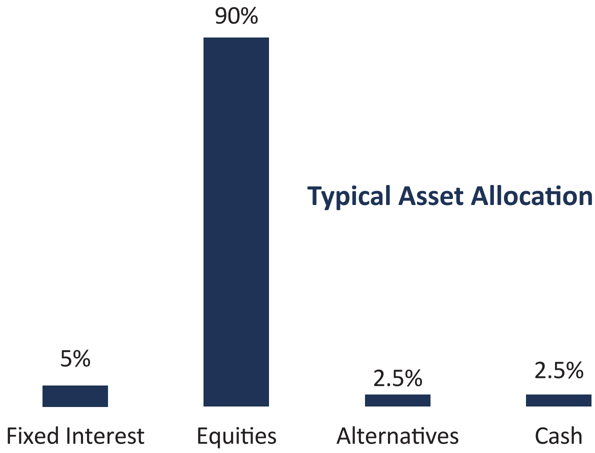
Vermeer Partners' Growth Strategy would suit clients looking for long-term capital growth and who are very comfortable with periods of volatility in capital and income. In normal market conditions, up to 100% of the value of the portfolio could be invested in domestic and international equities, although 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.

Equities are higher risk investments and so periods of high volatility should be expected. The Growth Strategy is therefore suitable for clients with a minimum five-year time horizon. Typically, this strategy would suit clients with either a "High" or "Medium to High" risk tolerance and capacity to bear loss.

Features

Equity Range	65% to 100%
Estimated Annual Returns	7.16%
Estimated Volatility	12.21%
Estimated Maximum Drawdown	-32.67%

Typical Asset Allocation



Balanced

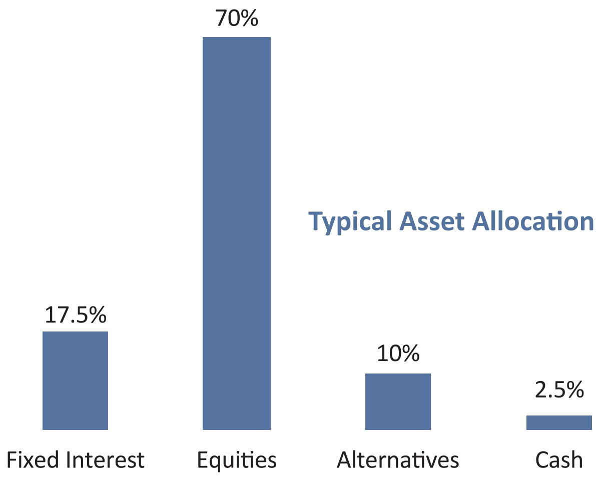
Vermeer Partners' Balanced Strategy would suit clients looking for long-term capital growth as well as generating a degree of regular income (to be withdrawn or reinvested). Such clients tend to be comfortable with periods of volatility in both their capital and income. Up to 75% of the value of the portfolio could be invested in domestic and international equities and the remainder will be invested into other asset classes such as cash, fixed interest and / or other alternative investments.

Equities are higher risk investments and so periods of high volatility should be expected. The Balanced Strategy is therefore suitable for clients with a minimum five-year time horizon. Typically, this strategy would suit clients with either a "Medium to High" or "Medium" risk tolerance and capacity to bear loss.

Features

Equity Range	50% to 75%
Estimated Annual Returns	6.56%
Estimated Volatility	11.63%
Estimated Maximum Drawdown	-32.34%

Typical Asset Allocation

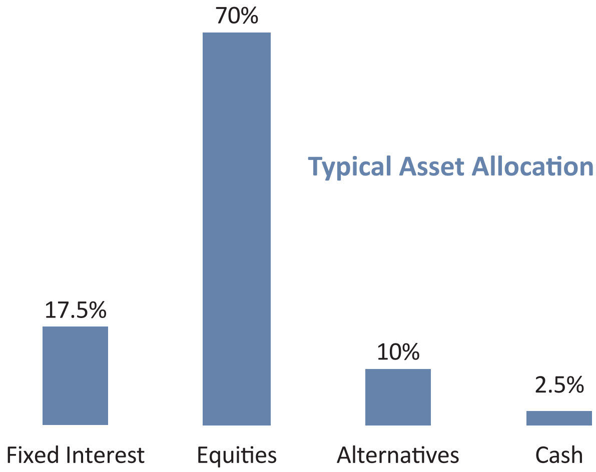


Please be aware any information relating to past performance of an investment or investment service is not necessarily a guide to future performance.

Income+

Vermeer Partners' 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.

Equities are higher risk investments and so periods of high volatility should be expected. The Income+ Strategy is therefore suitable for clients with a minimum five-year time horizon. Typically, this strategy would suit clients with either a "Medium to High" or "Medium" risk tolerance and capacity to bear loss.



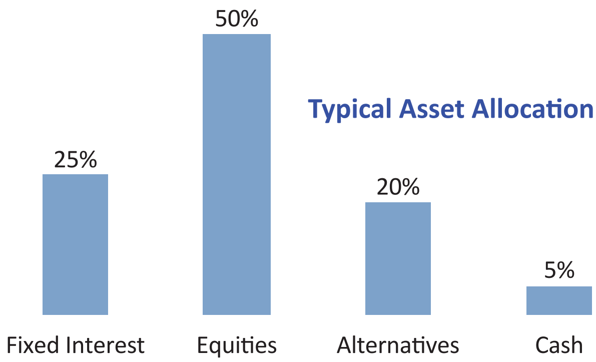
Features

Equity Range	**50% to 75%**
Estimated Annual Returns	**6.18%**
Estimated Volatility	**11.26%**
Estimated Maximum Drawdown	**-32.51%**

Conservative

Vermeer Partners' 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.

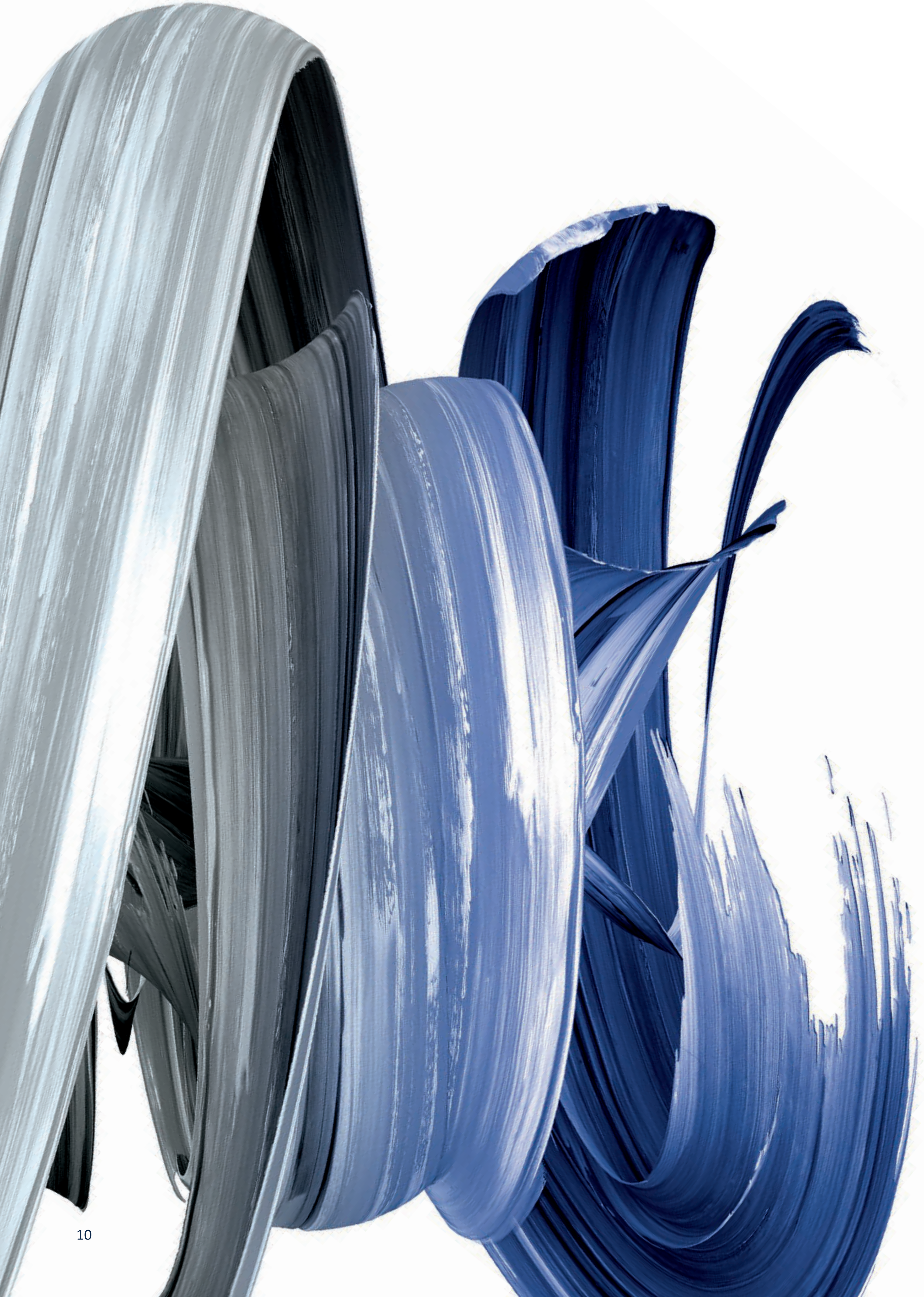
Equities are higher risk investments and so periods of high volatility should be expected. The Conservative Strategy is therefore suitable for clients with a minimum three-year time horizon. Typically, this strategy would suit clients with a "Low to Medium" risk tolerance and capacity to bear loss.



Features

Equity Range	**20% to 50%**
Estimated Annual Returns	**5.23%**
Estimated Volatility	**10.03%**
Estimated Maximum Drawdown	**-30.53%**

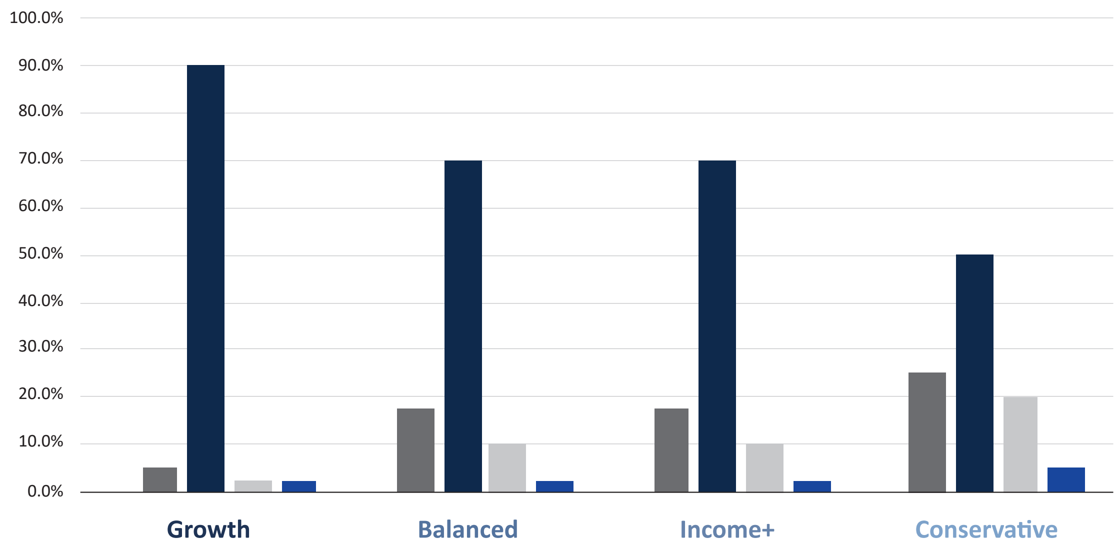
Please be aware any information relating to past performance of an investment or investment service is not necessarily a guide to future performance.



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	5.0%	17.5%	17.5%	25.0%
Equities	90.0%	70.0%	70.0%	50.0%
Alternatives	2.5%	10.0%	10.0%	20.0%
Cash	2.5%	2.5%	2.5%	5.0%

Risk Matrix

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

Level of Risk	Time Horizon	Equity Exposure	Growth	Balanced	Income+	Conservative
High	7+ Years	Up to 100%	Discuss further with your Investment Manager			
Medium to High	5+ Years	Up to 100%	✓	✓	✓	✓
Medium	5+ Years	Up to 75%	✗	✓	✓	✓
Low to Medium	3 Years	Up to 50%	✗	✗	✗	✓
Low	1 Year	Up to 25%	Discuss further with your Investment Manager			
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 and purchasing power can be eroded by inflation.

Fixed Interest

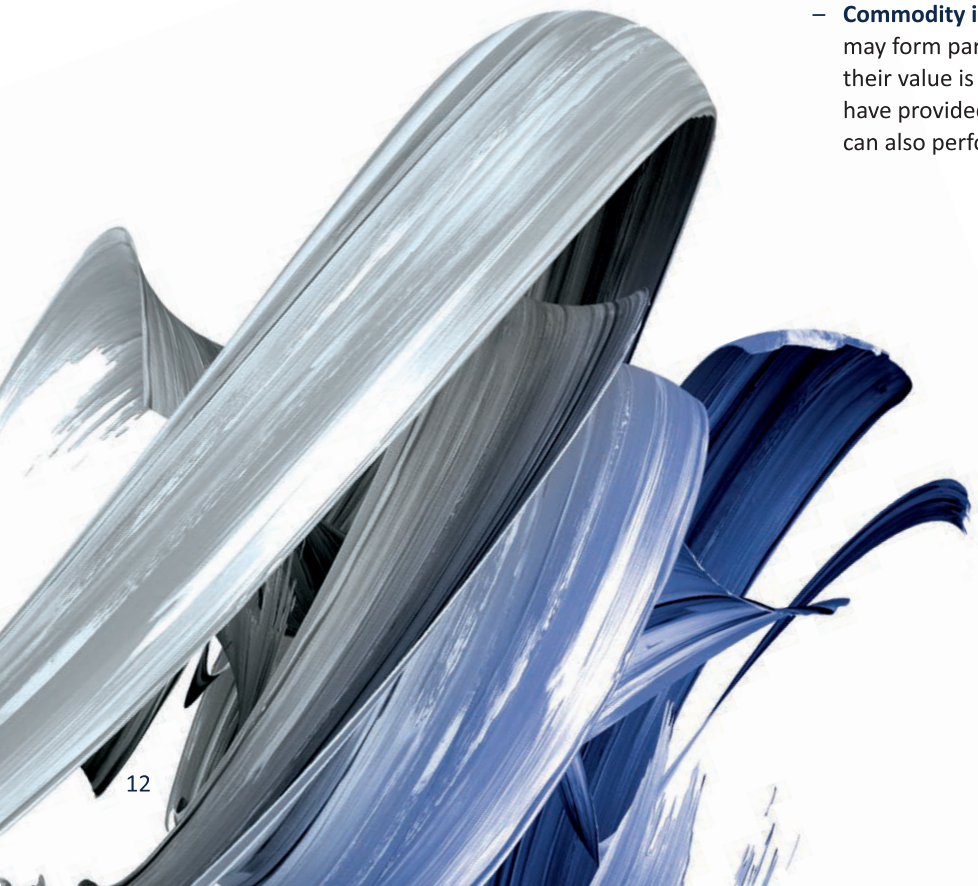
Companies and governments can raise money by issuing debt in packages usually referred to as bonds. Investors buying these bonds will receive interest across the life of the bond plus repayment of the principal – the original sum loaned – at maturity. The level of interest is usually pre-determined, 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. The investment is not without risk; 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. It is our preferred asset class over the long term on a returns basis, but it can be volatile over the short to medium term.

We target investment in companies with a great product, market position, capability or brand with the view these will deliver above average profits over the long term.



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 described below:

– **Property investments** are usually made through collective funds that specialise in property. 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.

– **Private Equity funds** behave in a similar fashion to the 'equities' asset class. The difference is that instead of 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.

  A private equity fund will typically invest in a portfolio of private companies to introduce some diversification.

– **Absolute Return funds** aim to provide positive returns in both rising and falling markets. This is 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 value is sometimes difficult to quantify, they have provided diversification benefits in the past and can also perform well in periods of market stress.

OTHER RISKS

Whilst stock specific risk is one of the main investment risks there are other risks to consider:

Interest Rate Risk

Effect of interest rate moves on the price of fixed interest investments

Liquidity Risk

Ability to trade in the underlying holdings

Inflation Risk

Purchasing power of the portfolio can be eroded over time by inflation

Political Risk

Higher taxes or renationalisation

Market Risk

The risk of investments declining in value because of economic developments or other events that affect the entire market

Currency Risk

Investing in currencies other than the portfolio's base currency

Vermeer Partners look to minimise these risks for each asset class.

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