Investment Approach and Risk

Private Clients

THE ROBERTS PARTNERSHIP

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Introduction

We believe that investment management has to be set in the context of a client's overall financial situation. No two clients are the same. We therefore spend considerable time getting to know each and every client. Through this process we establish a clear and detailed understanding of your requirements, objectives and attitude to risk.

We tailor our style to meet your requirements, providing you with a bespoke portfolio of investments, pensions and trusts as appropriate. The result of our investment philosophy is the production of a balanced, diversified and actively managed portfolio for each of our clients.

This document will take you through our approach to managing an investment portfolio. This includes

- Understanding Risk
- Asset Class Investment
- Investment Research
- Portfolio Construction

UNDERSTANDING RISK

Why is risk profiling important?

Investment risks and returns are inextricably linked and are the appropriate starting point in the formulation of an investment strategy. It is important that we build a clear understanding of a clients "attitude to risk". This allows us to ensure that our management of your portfolio is consistent with what you are trying to achieve.

Different types of investment generate different rates of return and carry different levels of risk. Higher risk can mean a greater opportunity for increased returns but the potential for increased loss also. The level and type of risk a client is prepared to accept will therefore determine how their investments are likely to perform.

What is risk?

Risk is the uncertainty and variability of future investment returns. This is often referred to as volatility, or the tendency of an investment to fluctuate in value over time. Lower risk investments exhibit lower volatility than higher risk ones.

Risk is subjective; investors have different attitudes to risk depending on their circumstances and their personal experience. Although understanding risk is not always straightforward, we feel you should consider the following criteria to assist you before deciding on your attitude to risk.

Timescale

Generally speaking, if you invest over a longer period, you can ignore the short term fluctuations which are associated with higher risk investments in order to benefit from longer term gains.

There are exceptions though. If, for example, you are nearing retirement, short term fluctuations in value are much more important. In such cases, lower risk investments with less volatility may be preferable.

Wealth

It may be appropriate to consider higher risk investments with some of your wealth that you feel is "surplus" to your basic needs. However, even if you have a long timescale, you may prefer more caution if you feel you have little or no surplus wealth.

Inflation Risk

Inflation causes money to decrease in value at some rate, and does so whether the money is invested or not. Inflation has been low in recent years (below 2.5%), but even if it remains at this level, the price of goods and services will still nearly double over the next 30 years. When inflation is taken into account investments related to real assets such as shares and property have been the only area of investment that have been able to increase the underlying capital base over a long and sustained period.

Past Experience

This could well colour your investment decisions. If you have a history of equity investing, you will have some understanding of the inherent risks involved. If you have no background of taking either investment or business risks, equity investing may just feel too risky. In addition, if you have experienced poor returns from an asset class in the past, it might unduly colour your perception of the potential advantages of considering it again.

Attitude to Risk

Your attitude to risk might not be uniform across all your wealth. For example, you may wish to take a different approach and be more risk averse when accumulating your pension funds if you have a business which has a high degree of financial risk involved.

Investment risk and your portfolio

We believe that it is important to have a client focused approach to risk assessment. By matching your needs and expectations to an understanding of potential risks and returns we can guide you on an appropriate strategy. This means that we can tailor the portfolio to your requirements and preferences.

We believe risk can be managed through creating a diversified portfolio of funds provided by leading investment companies.

Using our experience and knowledge, we have formulated asset class parameters, which reflect different risk profiles. These range from Conservative (the lowest risk profile) to Growth (the highest). These parameters are designed to be flexible as the most important thing is to ensure that capital is invested in accordance with your aims and risk preferences. We will make sure you understand what we are recommending to you and ask you to confirm this to us before we proceed with any new investments.

We will then undertake to review your portfolio on an ongoing basis to ensure that it continues to meet your objectives and attitude to risk as reasonably and as practicably as can be achieved.

Indicative Asset Allocation Parameters

	Cash	Fixed Interest	Property	Equity	Alternative / Structured
Conservative	100 - 100	0 – 0	0 – 0	0 – 0	0 – 0
Income	5 - 30	15 – 40	0 – 20	30 – 65	0 – 10
Balanced	0 - 20	5 – 20	0 – 15	45 – 80	0 – 10
Growth	0 - 15	0 - 10	0 – 15	45 – 85	0 – 10

Conservative

This is for the client who, for whatever reason, wants no loss of capital in money terms. We would be looking to manage their cash requirements by taking advantage of the best deposit or similar investment type rates in the Money Markets. We would always try to do this on the most tax efficient terms to enhance the net result.

Income

This aims to provide a reasonably high income with prospects for growth over time. It is also important to try to maintain real capital worth so an element of investment in equities would be necessary to do this. However, we are trying to achieve a reasonably consistent and secure income first and that is the priority.

Balanced

This aims to make the “real” value of your capital grow over time with moderate volatility of capital values. Capital values will fluctuate but over the medium term and beyond there should be greater returns than pure deposit based investments.

Growth

Here we are aiming to grow the real value of your capital. This means that to beat inflation consistently real assets such as shares (equities) and property would form a larger part of a portfolio. This inevitably means more variability of capital value in the short to medium term (0-5 years) but this is to be expected in return for the prospect of higher returns later.

In all these approaches (bar Conservative), we want you to understand that the time frame for investment should be seen as at least five years. Therefore any expenditure or cash requirements which may arise in the short term, including a reserve for emergencies, should be funded for by cash resources before capital is allocated into investments.

ASSET CLASS INVESTMENT

Investing all your money in one type of asset might maximize your potential return over the long term. But it also maximizes your risk.

At its simplest, reducing risk boils down to don't put all your eggs in one basket. For investors, that means diversification, or spreading investments across a range of assets.

Asset class investment

In building up an investment portfolio it is worthwhile understanding the salient characteristics of each of the main asset classes.

Cash Deposits	Cash includes bank account deposits and short-term deposits. Cash based investments have low risk and volatility. However, cash should not be seen as a totally risk free investment. Over time the real value can be eroded by inflation. There is also an 'opportunity risk' of not being invested into other types of investment which might provide a higher rate of return.
Fixed Interest and Index Linked	When you purchase a fixed interest investment, you are lending your money to a government or company. In return, the borrower promises to pay interest at a set rate for a defined period. At the end of that period the borrower returns the money invested. The most common form of fixed interest is gilt-edged securities (gilts) which are issued by the UK Government. These are secure investments, with the interest and the repayment guaranteed by HM Treasury. Fixed interest investments are also offered by companies in the form of corporate bonds. These are effectively loans from investors to the company in question and they are generally rated according to how likely it is that the income payments and capital return will be met by the company concerned.

There are also Index Linked issues of these investments – issued solely by Government agencies where the interest and the certificate amount are linked to an inflation index.

As with cash deposits, the real value of the fixed interest investment is eroded over time by the rate of inflation. In general, the value of a bond goes up when interest rates go down, and the value will fall when interest rates rise. Index Linked stocks provide protection against this.

When stock markets are volatile, fixed interest and index linked investments offer stability with the opportunity for higher returns than cash investments.

Commercial Property

The attraction of investing into commercial property is that it provides a rental yield as well as the opportunity for capital growth as it should benefit from any long term growth in the economy and/or inflation.

As with all investments it is best not to be too reliant on one asset. An investor should therefore look to have a portfolio of properties so as to balance the risk of having a property vacant for any period of time.

Given the cost of property it is often not possible for an individual investor to be able to acquire attractive properties or sufficient properties to create a balanced portfolio. As a consequence, we recommend investment into commercial property using collective funds which invest into larger scale office, industrial and retail properties throughout the UK or across the world.

Commercial property tends to be negatively correlated with equities and bonds. This means that property can still increase in value when equity and bond markets are falling (and vice versa).

Equities

These represent a direct investment in the equity of a company listed on the UK or other world Stock Exchanges.

The investment is speculative since its value is dependent upon many factors and can rise or fall by significant amounts. The value of the investment can be influenced by general market factors which are not related to the performance of the company in question. Therefore buying a high performing company does not reduce the risk of being invested in a volatile stock market.

Over the longer term, equities have generally produced higher returns when compared to other asset classes. Returns from equities remain volatile, not just on a daily basis but also year-by-year.

Structured Products

Structured products aim to reduce the risk associated with, but still benefit from the performance of, a particular asset class.

Structured products generally consist of two components – an element of capital protection and/or an ‘at-risk’ element, which offers the performance potential. They are also usually linked to an index.

The fund manager may buy an option that tracks the FTSE 100 share index. They can then use further derivatives to manage the risk of this holding. For example, the fund manager might arrange to give up some of any increase in the FTSE 100 in exchange for insurance against a fall.

The amount you get back may be less than the original investment. Growth is not guaranteed, as this depends on market performance.

Hedge Funds

Hedge funds give the fund manager as much flexibility as possible. They can take high risk positions where they have strong conviction regarding the outcome. This involves identifying investments that they believe are either too cheap, or too expensive.

Hedge funds can buy an asset in the expectation that its price will rise over the long term. They can also take ‘short’ positions where they have a negative view. That is, they can sell a stock they do not own, in the expectation the price will fall and they will be able to buy it later at a lower price.

Private Equity

Private equity has only recently become accessible by retail investors.

As a rule, a private equity firm combines its clients’ money with bank loans to buy the entire equity capital of a target company. The private equity firm will then work with a management team to effect changes in the business. This involves cutting costs and selling off non-core interests, in order to increase its value with a view to selling at a profit over a two to five year period.

Commodities

Further investment diversification can be achieved through the use of commodities which encompass mainstream areas such as Oil and Gas as well as more esoteric assets including Gold and Agricultural commodities. Exposure can be achieved through direct equity holdings, or via specialist vehicles, including Exchange Traded Funds (ETFs) which allow participation in a commodity’s price movement through a form of index tracking fund. It is also possible to purchase direct physical investments in certain commodities.

Access to the asset classes

As we have already outlined, it is important that your investment portfolio is diversified both between and within asset classes. It is possible to do this through direct holdings or through collective investments such as unit trusts.

Direct Holdings	In our view, a direct holding is only appropriate where an investor derives enjoyment from specific involvement with particular assets. Otherwise, to obtain an adequately diversified portfolio a wide spread of investments is usually required, rather than just a limited number of holdings.
Collective Investments	Collective investments, also known as investment funds, are a cost effective and efficient way of investing into the various asset classes. An investment fund pools together money from many investors. This combined pool of money is then spread across a wide number of investments with the aim of reducing the risk of the overall portfolio. The investment decisions are entrusted to a specialist and professional fund manager. The manager of the fund invests on your behalf and decides on the investment strategy to be followed. Each fund has an objective which describes what it aims to accomplish and how it plans to achieve it. Changes within the funds are normally exempt from capital gains tax but investors are taxed on any gains (outside their yearly allowances) when they sell their investments. Income tax may also be payable on dividends generated.

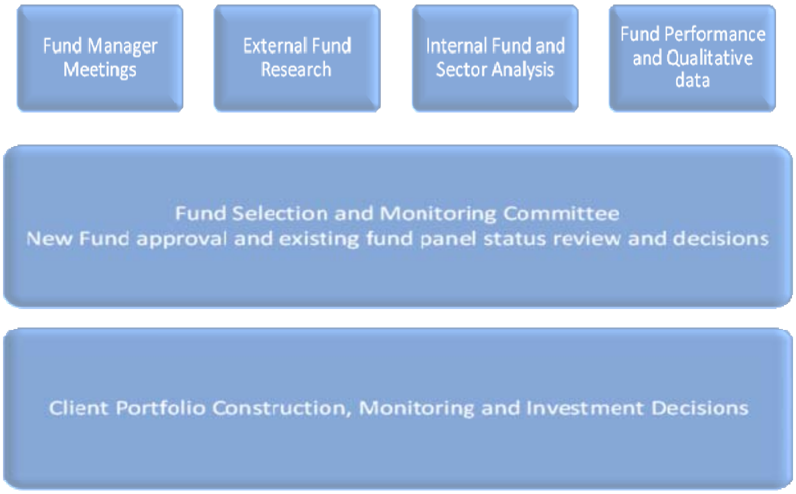
INVESTMENT RESEARCH

At the Roberts Partnership, we place significant investment in researching collective investments. The aim of our investment research is to select a group of fund managers who we believe will add value to a client's portfolio. We work on the premise that the fund selection process should, whilst taking into account past performance of the manager and the fund, ascribe greater credence to identifying the factors which will affect future performance.

We therefore place emphasis on a qualitative analysis of funds including corporate strength, team approach versus reliance on a single manager, investment style, stock selection process, risk controls and interviewing the fund managers at our offices.

Our investment team produces a detailed assessment of the fund for review by the investment committee (who meet on a monthly basis). The investment committee operates an approved fund list. The recommended funds are continually monitored to ensure they continue to meet the appropriate selection criteria, whilst we also identify those which are up and coming.

Our fund selection process provides access to leading fund managers, with diversification of investment style and market capitalisation as well as maximising investment potential.



PORTFOLIO CONSTRUCTION

As it is not possible to accurately predict market movements, diversification across asset classes remains the best way to manage investment risk. Diversification is about not putting all your eggs in one basket. If all your investments are in one sector of the economy, one region, or one industry and adverse conditions affect that sector, the entire portfolio will be affected. By carefully choosing where investments are made and offsetting conservative investments with riskier ones, the portfolio won't be as adversely affected by market changes.

We believe actively considering asset allocation and diversification is vital in properly managing client portfolios. A diversified portfolio will hold a combination of assets. The weight that is given to each category will depend on the client's situation.

Asset allocation

Different types of investments (asset classes) perform differently over time and carry different levels of risk and reward. Therefore, we seek to maintain a blend of investments in your portfolio—such as cash, bonds, shares and property. The percentage invested in each asset class will depend on your risk tolerance, objectives and time horizon of your investment goals.

Geographic diversification

Geographic diversification and exposure to different regions is valuable, although the correlation between world stock markets is now quite high given the increasing globalisation of trade, information and markets. Investing in different global markets can be another way of increasing your investment opportunities whilst reducing the risk associated with simply investing in the UK.

Market capitalisation

Market conditions often favour one size of company over another. For example, large companies may be preferable to smaller companies at different times in the economic cycle. Having exposure to varying sizes of company reduces volatility and the downside risk.

Investment style

Funds can also be differentiated by the investment style/preference of the specific fund manager and the way he or she values and selects stocks. *Growth funds* hold shares in companies that have experienced sustained growth in sales and earnings, which the fund manager believes will continue. *Income funds* hold shares in companies which have a dividend policy which favour paying out a proportion of their profits to shareholders. *Value funds* hold shares in companies whose share price is below market averages. Again the key is to have exposure to different styles at all times. Investment trends vary and it is important not to miss out as investment styles fall out of and back into favour.

Fund Managers

We recognise that different fund managers have differing ways of managing investments. Our ability to use external fund management groups means we can select fund managers with identifiable and proven investment styles.

Single asset funds

The manager will use investors' money to buy a range of holdings in a particular asset class, such as equities, and will then manage the portfolio of securities according to the fund's investment objective.

Multi-asset funds

The manager will use investors' money to buy a range of holdings across the spectrum of asset classes, including cash, fixed income, equities, commercial property and alternative investments. Funds investing in line with this methodology are either multi-asset funds which invest directly into securities in the different asset classes or multi-manager funds where the fund invests into other funds managed by both the principal fund management group and third party fund managers.

Our approach to portfolio management gives clients access to funds managed by leading fund managers from across the industry. By using a number of different funds we can ensure that a client's portfolio is never over-exposed to just one investment manager or process.