&ADAM
company
WEALTH MANAGEMENT

A Canaccord Genuity Group Company

Our investment risk framework

Everybody takes risks every day. Crossing the road involves risk. The amount of risk you take will be influenced by both your personality and the amount you could gain by taking the risk.

In an investment context, risk is a measure of the extent by which investment returns may deviate from expectations. As it is impossible to predict future events with any certainty, all investment involves risk.

When you join us as a client, we spend time getting to know you and finding out about your attitude to investing and your long-term objectives and wishes. This enables us to discuss and agree the appropriate level of investment risk for your circumstances. Generally, the greater the risk you are prepared to take, the greater the potential return you may make, but the greater the potential loss you could sustain.

We want to ensure you are comfortable with the level of risk you are taking and that you understand how much your investments might fall in return for the potential for increased returns. This short guide provides an overview of our investment risk framework and, based on past performance, outlines what you might expect for each risk level. In particular, we demonstrate the three key variables for each type of investment portfolio based on its risk profile:

1. Investment past performance
2. Drawdown* – including an investment's maximum historic loss
3. Volatility†.

It is important to remember that the income from investments can go down as well as up and you may not get back the amount originally invested. Past performance does not necessarily dictate what will happen in the future.

* **Drawdown** helps determine an investment's financial risk. A drawdown from an investment's high to its low is considered its 'drawdown amount'. It is usually recorded during a specific period and quoted as the percentage between the peak and the subsequent trough.

Drawdowns present a significant risk to investors when considering the uptick in investment value/price needed to overcome a drawdown. The greater the loss, the more needed to recover. For example, it may not seem like much if an investment loses 1%, as it only needs an increase of 1.01% to recover to its previously held position. However, a drawdown of 20% requires a 25% return, while a 50% drawdown – seen during the 2008 to 2009 Great Recession – requires a whopping 100% increase to recover the same position.

The **maximum historic loss** is the maximum loss from peak to trough in an investment's history.

† **Annualised volatility** is a measure of how much the price or return of an investment fluctuates over a certain period. High volatility means the value of an investment is likely to change dramatically over a short time frame, while low volatility indicates an investment's value will be relatively stable.

Risk profile 1

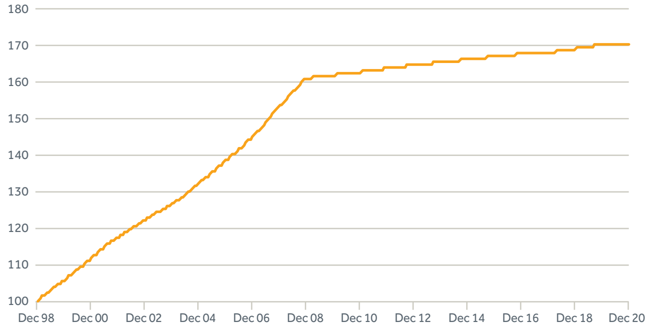
You are looking for absolute security for your assets and do not wish to suffer any capital loss. You understand the returns from this strategy are tied to the prevailing short-term interest rates.

Portfolios in this risk profile may only hold secure cash deposits from highly-rated banks. At times of very low interest rates, it is unlikely that we will be able to offer this service, due to the costs associated with it compared with the returns available.

For illustrative purposes, we have created a risk profile 1 composite benchmark index to show its performance, drawdown and volatility over the last 22 years. The benchmark portfolio is made up of 100% in cash and this has not suffered a historic loss.

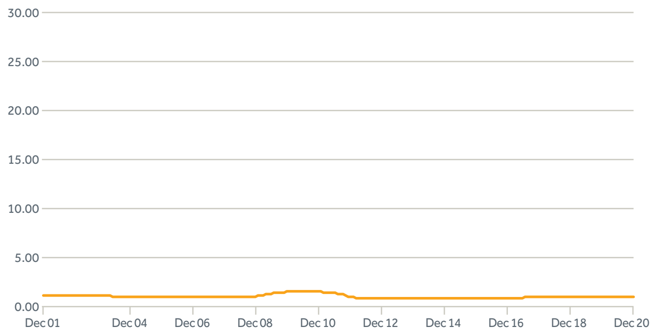
Perfectly tracking this index from 30 November 1998 to 31 December 2020 would have turned £100 into £171, the equivalent of a 2.46% compound annual growth rate‡.

Performance rebased to 100



Drawdown* %

3-year annualised volatility† %



Benchmark allocation

‡ See Glossary for full details.

Source: Bloomberg, CGWM and Adam & Company.

Past performance is simulated, although using actual data with no assumptions made. Past performance is not a reliable indicator of future returns.

Risk profile 2

You are sensitive to risk, and capital protection is a very high priority for you, although you are prepared to take on some risk in order to generate somewhat higher returns.

You understand this strategy is likely to generate relatively low, but relatively secure returns. There are a number of ways that it is possible to create a similar client outcome (in terms of return, volatility and drawdown). However, for our central process, we adopt the following approach:

Portfolios in this strategy may have a very high exposure to secure cash deposits (up to 100%). When this exposure is lower, your portfolio may be supplemented by up to:

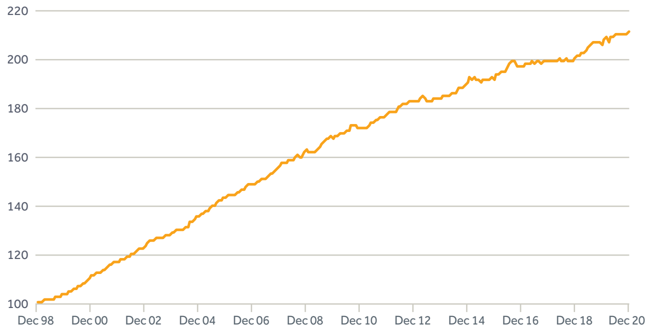
- A maximum of 10% in equities (although usually much less)
- 80% in fixed income assets* likely to have a focus on government debt
- 40% in well-diversified alternative investments.

Other variants of this risk profile may have differing asset allocation bands, although the overall intended outcome should be broadly the same.

For illustrative purposes, we have created a risk profile 2 composite benchmark index to demonstrate its performance, drawdown and volatility over the last 22 years. The benchmark portfolio is made up of 35% in fixed income assets and 65% in cash.

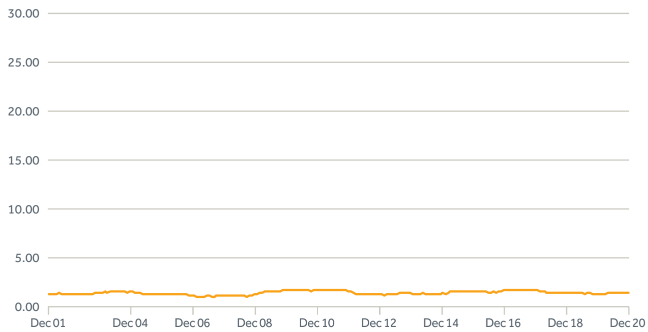
Perfectly tracking this index from 30 November 1998 to 31 December 2020 would have turned £100 into £212, the equivalent of a 3.47% compound annual growth rate‡.

Performance rebased to 100

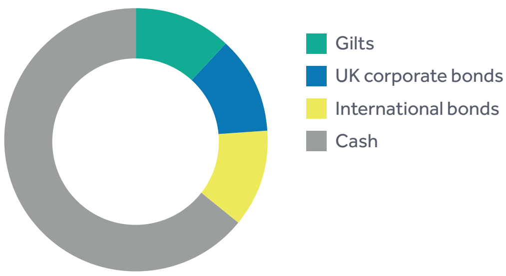


Drawdown* %

3-year annualised volatility† %



Benchmark allocation



‡ See Glossary for full details.

Source: Bloomberg, CGWM and Adam & Company.

Past performance is simulated, although using actual data with no assumptions made. Past performance is not a reliable indicator of future returns.

Risk profile 3

You are prepared to accept some occasional and modest losses in order to generate slightly higher total returns.

You understand the strategy is designed to generate modest returns over time, but with relatively low volatility and loss potential. A large proportion of the portfolio is likely to comprise high-quality fixed income assets. There are a number of ways that it is possible to create a similar client outcome (in terms of return, volatility and drawdown). However, for our central process, we adopt the following approach:

Portfolios in this strategy may hold up to:

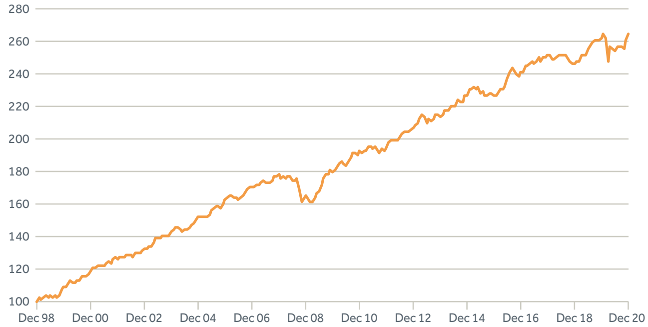
- 20% in equities
- 85% in fixed income assets
- 55% in diversified alternative investments
- A maximum of 40% in secure cash deposits.

Other variants of this risk profile may have differing asset allocation bands, although the overall intended outcome should be broadly the same.

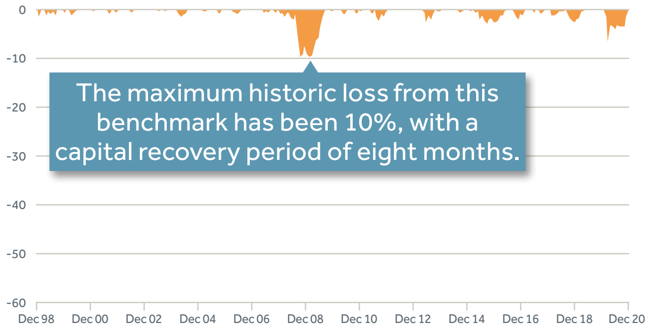
For illustrative purposes, we have created a risk profile 3 composite benchmark index to show its performance, drawdown and volatility over the last 22 years. The benchmark portfolio is made up of 7.5% in equities, 55% in fixed income assets, 30% in alternative investments and 7.5% in cash.

Perfectly tracking this index from 30 November 1998 to 31 December 2020 would have turned £100 into £267, the equivalent of a 4.58% compound annual growth rate‡.

Performance rebased to 100

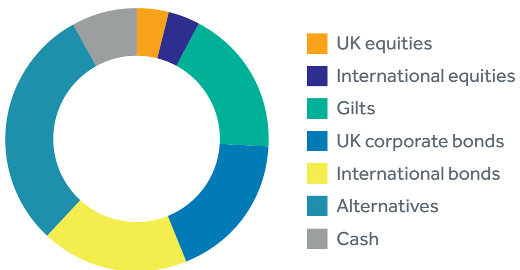


Drawdown* %



3-year annualised volatility† %

Benchmark allocation



‡ See Glossary for full details.

Source: Bloomberg, CGWM and Adam & Company.

Past performance is simulated, although using actual data with no assumptions made. Past performance is not a reliable indicator of future returns.

Risk profile 4

You can accept occasional moderate capital losses in order to achieve slightly higher total returns.

You understand the strategy will generate long-term returns some way below those of major equity markets and is likely to have a large exposure to fixed income assets. There are a number of ways that it is possible to create a similar client outcome (in terms of return, volatility and drawdown). However, for our central process, we adopt the following approach:

Portfolios in this strategy may hold up to:

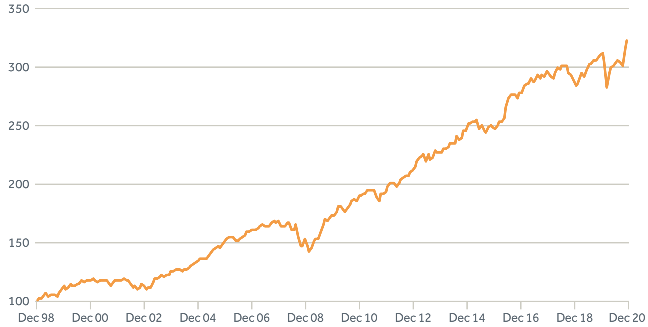
- 50% in equities, of which a portion may be in smaller companies*
- 75% in fixed income assets
- 30% in diversified alternative investments
- 27.5% in cash.

Other variants of this risk profile may have differing asset allocation bands, although the overall intended outcome should be broadly the same.

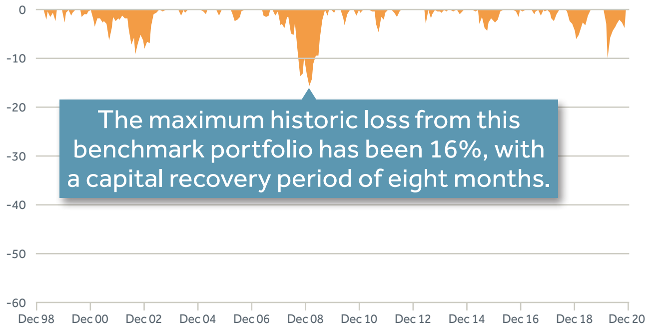
For illustrative purposes, we have created a risk profile 4 composite benchmark index to show its performance, drawdown and volatility over the last 22 years. The benchmark portfolio is made up of 35% in equities, 52.5% in fixed income assets, 10% in alternative investments and 2.5% in cash.

Perfectly tracking this index from 30 November 1998 to 31 December 2020 would have turned £100 into £323, the equivalent of a 5.47% compound annual growth rate‡.

Performance rebased to 100

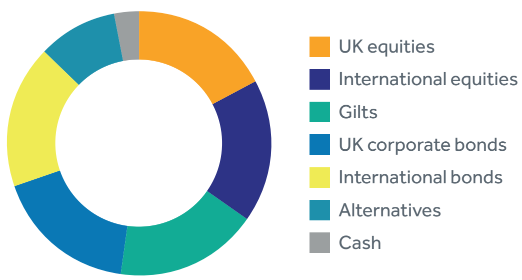


Drawdown* %



3-year annualised volatility† %

Benchmark allocation



‡ See Glossary for full details.

Source: Bloomberg, CGWM and Adam & Company.

Past performance is simulated, although using actual data with no assumptions made. Past performance is not a reliable indicator of future returns.

Risk profile 5

You are prepared to accept a more material degree of short-term losses in exchange for the possibility of higher total returns.

You understand that, at times of extreme financial market stress, this strategy has generated losses of close to 25%. Long-term returns are likely to be below those available from major equity markets, although equities are likely to be the largest asset class in your portfolio. There are a number of ways that it is possible to create a similar client outcome (in terms of return, volatility and drawdown). However, for our central process, we adopt the following approach:

Portfolios in this strategy may hold up to:

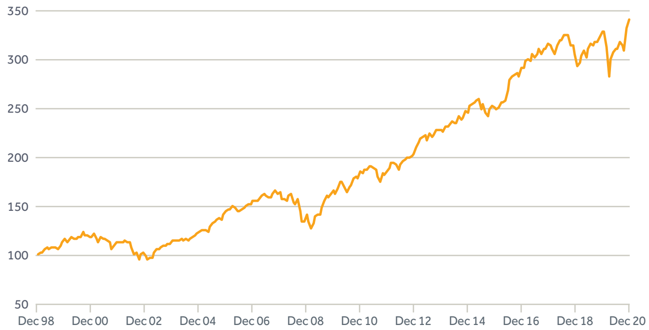
- 70% in equities, of which a portion may be in smaller companies
- 55% in fixed income assets
- 25% in diversified alternative investments
- 25% in cash.

Other variants of this risk profile may have differing asset allocation bands, although the overall intended outcome should be broadly the same.

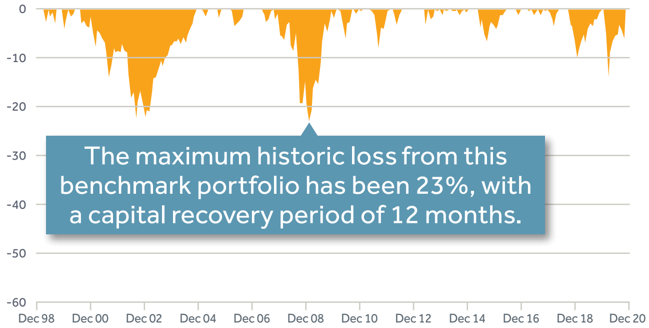
For illustrative purposes, we have created a risk profile 5 composite benchmark index to show its performance, drawdown and volatility over the last 22 years. The benchmark portfolio is made up of 57.5% in equities, 35% in fixed income assets, 5% in alternative investments and 2.5% in cash.

Perfectly tracking this index from 30 November 1998 to 31 December 2020 would have turned £100 into £340, the equivalent of a 5.72% compound annual growth rate‡.

Performance rebased to 100

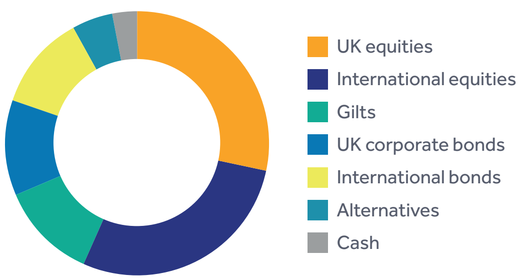


Drawdown* %



3-year annualised volatility† %

Benchmark allocation



‡ See Glossary for full details.

Source: Bloomberg, CGWM and Adam & Company.

Past performance is simulated, although using actual data with no assumptions made. Past performance is not a reliable indicator of future returns.

Risk profile 5 PIMFA 'balanced'

With the risk 5 PIMFA 'balanced' portfolio (an industry standard benchmark), you are prepared to accept a more material degree of short-term losses in exchange for the possibility of higher total returns.

You understand that, at times of extreme financial market stress, this strategy has generated losses of close to 32%. Long-term returns are likely to be below those available from major equity markets, although equities are likely to be the largest asset class held. Due to the composition of the benchmark, you understand the recovery period from market falls has historically been up to almost three years.

Portfolios in this strategy may hold up to:

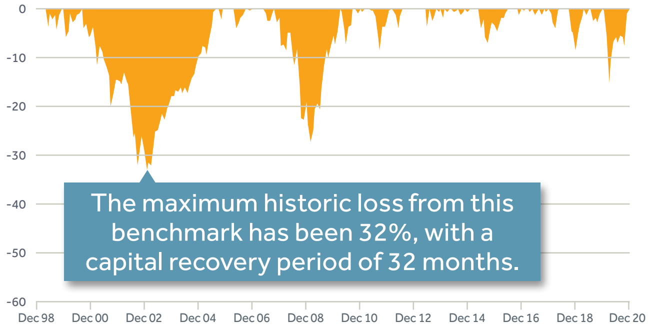
- 75% in equities, of which a portion may be in smaller companies
- 30% in fixed income assets
- 30% in diversified alternative investments
- 25% in cash.

The composite benchmark index used for illustrative purposes is set by PIMFA (the Personal Investment Management and Financial Advice Association) and its index provider, and is currently made up of 62.5% in equities, 17.5% in fixed income assets, 5% from alternative investments, 10% from property and 5% cash. The benchmark allocation changes regularly, which can materially change its risk characteristics.

Perfectly tracking this index from 30 November 1998 to 31 December 2020 would have turned £100 into £322, the equivalent of a 5.46% compound annual growth rate‡.

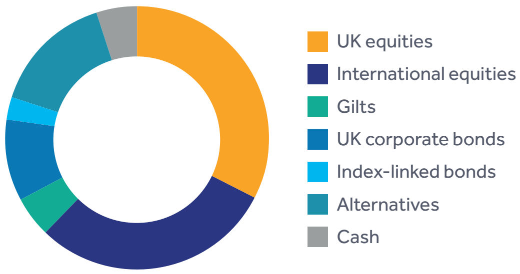
Performance rebased to 100

Drawdown* %



3-year annualised volatility† %

Benchmark allocation



‡ See Glossary for full details.

Source: Bloomberg, CGWM and Adam & Company.

Past performance is simulated, although using actual data with no assumptions made. Past performance is not a reliable indicator of future returns.

Risk profile 6

You can accept a very high proportion of equity risk in pursuit of returns closer to the longer-term returns available from major equity markets. By the same token, at times of stress, the benchmark has generated losses slightly lower than those from major equity markets. You understand that the strategy is therefore likely to be heavily exposed to equities, which increases the risk of losses that may take some years to recover.

There are a number of ways that it is possible to create a similar client outcome (in terms of return, volatility and drawdown). However, for our central process, we adopt the following approach:

Portfolios in this strategy may hold up to:

- 95% in equities, of which a significant portion may be in slightly smaller companies
- 37.5% in fixed income assets
- 20% in diversified alternative investments
- 25% in cash.

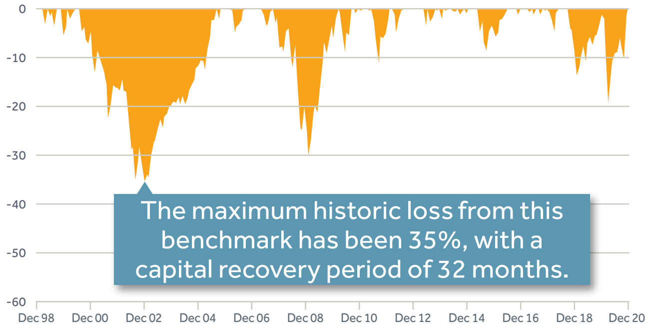
Other variants of this risk profile may have differing asset allocation bands, although the overall intended outcome should be broadly the same.

For illustrative purposes, we have created a risk profile 6 composite benchmark index to show its performance, drawdown and volatility over the last 22 years. The benchmark portfolio is made up of 80% equities, 17.5% fixed income assets, and 2.5% cash.

Perfectly tracking this index from 30 November 1998 to 31 December 2020 would have turned £100 into £351, the equivalent of a 5.88% compound annual growth rate‡.

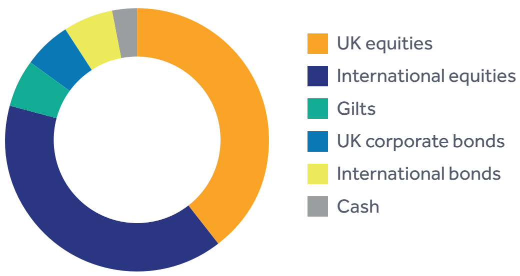
Performance rebased to 100

Drawdown* %



3-year annualised volatility† %

Benchmark allocation



‡ See Glossary for full details.

Source: Bloomberg, CGWM and Adam & Company.

Past performance is simulated, although using actual data with no assumptions made. Past performance is not a reliable indicator of future returns.

Risk profile 7

You have a very high tolerance for risk in the pursuit of higher long-term total returns.

You are prepared to accept full exposure to equity risk and the associated potential for very significant losses of capital at times of market stress. There are a number of ways that it is possible to create a similar client outcome (in terms of return, volatility and drawdown). However, for our central process, we adopt the following approach:

Portfolios in this strategy may hold up to:

- 100% in equities of which a very significant portion may be in smaller companies
- 20% in fixed income assets
- 15% in diversified alternative investments
- 25% in cash.

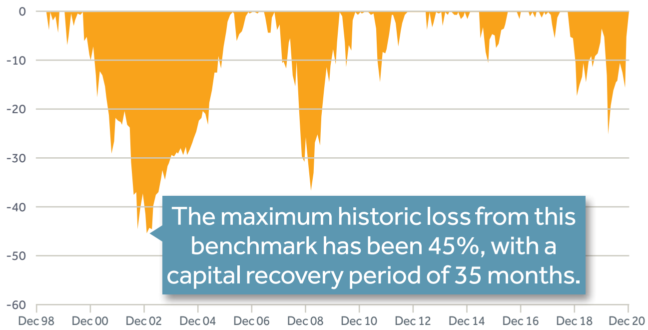
Other variants of this risk profile may have differing asset allocation bands, although the overall intended outcome should be broadly the same.

For illustrative purposes, we have created a risk profile 7 composite benchmark index to show its performance, drawdown and volatility over the last 22 years. The benchmark portfolio is made up of 50% predominantly larger company equities listed outside the UK, with the balance made up with companies from the FTSE All-Share Index.

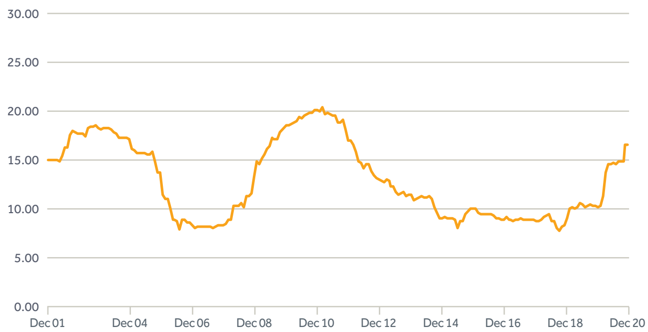
Perfectly tracking this index from 30 November 1998 to 31 December 2020 would have turned £100 into £352, the equivalent of a 5.89% compound annual growth rate‡.

Performance rebased to 100

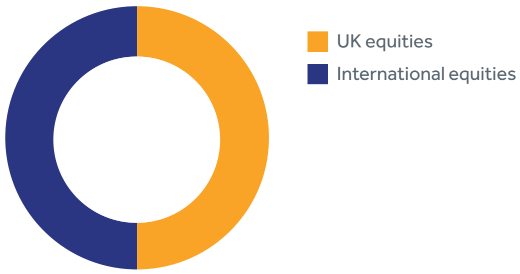
Drawdown* %



3-year annualised volatility† %



Benchmark allocation



‡ See Glossary for full details.

Source: Bloomberg, CGWM and Adam & Company.

Past performance is simulated, although using actual data with no assumptions made. Past performance is not a reliable indicator of future returns.

Risk profile 8

You have an extremely high tolerance for risk when looking for higher long-term total returns and are happy to invest in speculative small companies* to boost returns further.

You are prepared to accept full exposure to equity risk and the associated potential for very significant losses of capital at times of market stress, including other risks associated with international equities and significant smaller company exposure.

This portfolio service is unconstrained, which allows your Investment Manager to select asset classes and securities from across the entire spectrum of CGWM's approved investment lists in any proportion they see fit. Nonetheless, we look to maintain the historic volatility of portfolios in this risk profile within a current range of 10%-18%, although this may change over time. We use a third-party risk analysis tool to measure this.

The freedom we give investment managers means that you must be prepared for the possibility of a marked difference from the illustrated benchmark performance and, if your manager makes an aggressive allocation to high-risk securities at a time of market stress, you may lose very significant amounts of your capital.

The benchmark strategy for this risk profile holds:

- 40% in international (typically large company) equities
- 20% in the FTSE 250 Index
- 20% in the FTSE Small Cap Index
- 20% in the FTSE AIM Index

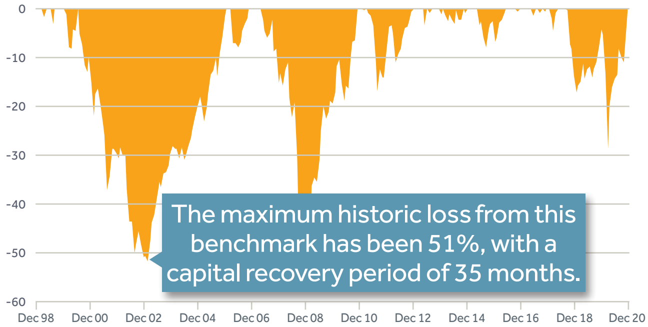
However, your investment manager may hold assets in any proportion in your portfolio, subject to the service's volatility constraint.

For illustrative purposes, we have created a risk profile 8 composite benchmark index to show its performance, drawdown and volatility over the last 22 years. The benchmark portfolio is made up of 40% predominantly larger company equities listed outside the UK, 20% from the FTSE 250 Index, 20% from the FTSE SmallCap Index and 20% from the FTSE AIM Index.

Perfectly tracking this index from 30 November 1998 to 31 December 2020 would have turned £100 into £453, the equivalent of a 7.11% compound annual growth rate‡.

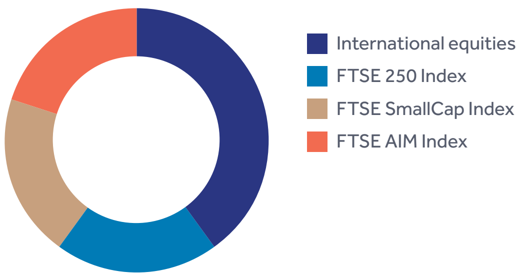
Performance rebased to 100

Drawdown* %



3-year annualised volatility† %

Benchmark allocation



‡ See Glossary for full details.

Source: Bloomberg, CGWM and Adam & Company.

Past performance is simulated, although using actual data with no assumptions made. Past performance is not a reliable indicator of future returns.

Risk profile 9

This portfolio service is unconstrained, which allows your Investment Manager to select asset classes and securities from across the entire spectrum of CGWM's approved investment lists in any proportion they see fit. This freedom means that you must be prepared for the possibility of a marked difference from the illustrated benchmark performance and, if your manager makes an aggressive allocation to high-risk securities at a time of market stress, you may lose very significant amounts of your capital.

Although your Investment Manager will usually intend to focus on a selection of smaller and occasionally speculative UK-listed companies, from time to time – and depending on market conditions and when they deem it appropriate – they will have the freedom to move into any asset class. For example, in theory they can range from 100% cash to 100% in AIM stocks. Nonetheless, we look to maintain the historic volatility of portfolios in this risk profile within a current range of 10%-24%, although this may change over time. We use a third-party risk analysis tool to measure this.

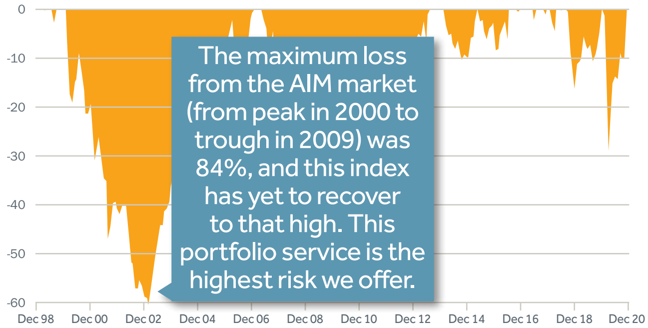
For illustrative purposes, we have created a risk profile 9 composite benchmark index to show its performance, drawdown and volatility over the last 22 years. The benchmark portfolio is made up of 30% from the FTSE 250 Index, 30% from the FTSE SmallCap Index and 40% from the FTSE AIM Index.

Since your Investment Manager is unconstrained, and has the potential freedom to invest all your assets in the worst performing asset class, here we show the maximum historic loss from the worst performing benchmark component.

Perfectly tracking the composite index from 30 November 1998 to 31 December 2020 would have turned £100 into £412, the equivalent of a 6.65% compound annual growth rate‡.

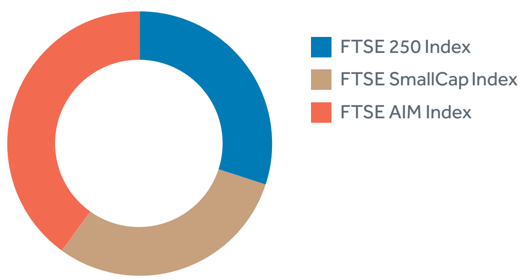
Performance rebased to 100

Drawdown* %



3-year annualised volatility† %

Benchmark allocation



‡ See Glossary for full details.

Source: Bloomberg, CGWM and Adam & Company.

Past performance is simulated, although using actual data with no assumptions made. Past performance is not a reliable indicator of future returns.

AIM Listed Portfolio Service

The AIM Listed Portfolio Service is designed to reduce inheritance tax (IHT) while offering growth potential to enhance your legacy. It invests in certain companies chosen from the Alternative Investment Market (AIM), which qualify for a tax relief called Business Relief (BR) and therefore fall out of your estate for IHT purposes once held for two years.

Since the portfolio only invests in stocks listed on AIM, you should be aware of the risks of very significant capital loss by following this strategy. Although your Investment Manager intends to focus on a selection of qualifying AIM companies with what we consider to be relatively strong financial metrics, there are much lower levels of available research and financial information on these companies and there is a commensurately much higher risk of unforeseen bankruptcy or corporate default amongst them.

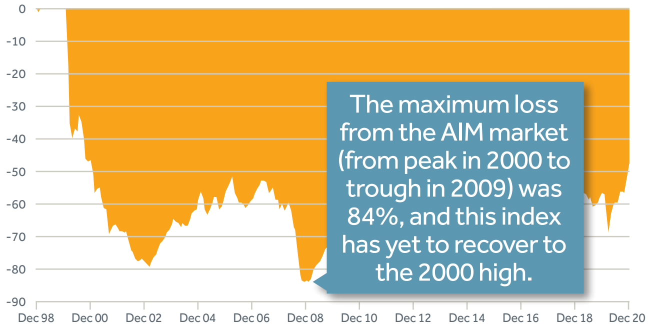
This increases the chances that individual holdings within the portfolio may be rendered worthless. You should weigh this possibility against the potential tax benefits the strategy is designed to provide, and we recommend you engage an independent professional tax adviser for advice based on your personal circumstances and the latest tax rules.

Although the FTSE AIM Index includes stocks that do not qualify for BR under current rules, this index is the benchmark index used for illustrative purposes.

Perfectly tracking this index from 30 November 1998 to 31 December 2020 would have turned £100 into £181, the equivalent of a 2.73% compound annual growth rate‡.

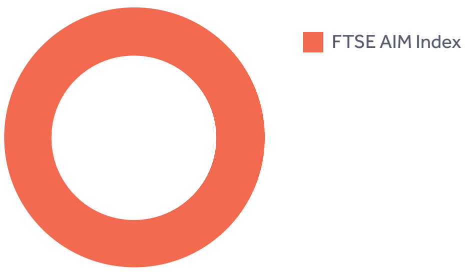
Performance rebased to 100

Drawdown* %



3-year annualised volatility† %

Benchmark allocation



‡ See Glossary for full details.

Source: Bloomberg, CGWM and Adam & Company.

Past performance is simulated, although using actual data with no assumptions made. Past performance is not a reliable indicator of future returns.

Glossary

Compound annual growth rate

A compound annual growth rate (CAGR) represents the rate at which your investment would grow if it had a steady rate of growth i.e. it is an average annual growth rate to show you smoothed annualised returns. For example, an investment may increase in value by 8% in one year, decrease in value by 2% the following year and increase in value by 5% in the next. With this inconsistent annual growth, a CAGR of 3.6% may be used to give a broader picture of an investment's progress.

Fixed income assets

When referring to fixed income assets we mean any type of investment in which real return rates or income are received at regular intervals and at reasonably predictable levels. The most common examples are bonds issued by governments and major corporations. UK government bonds are known as gilts.

Smaller companies

When we talk about investing in small or smaller companies, we mean companies listed on AIM or those with a market capitalisation of less than £2bn, which are not within the FTSE 100. The companies listed on AIM can have market capitalisations above £2bn. In addition, we mean equivalent companies listed outside the UK, although size thresholds may differ from jurisdiction to jurisdiction.

Moving forward together

If you would like to know how enlightened wealth management could empower you to create the future you want, please get in touch. We'll be delighted to answer your questions and provide more details of our philosophy and services.

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Telephone calls may be recorded.

Important information

Investment involves risk. The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. The investments described in this brochure may not be suitable for all investors. Investors should make their own investment decisions based upon their own financial objectives and financial resources and, if in any doubt, should seek advice from an investment adviser.

Specific risks of the AIM Listed Portfolio Service investing in AIM-listed companies include the potential volatility and illiquidity associated with smaller capitalisation companies. There may be a wide spread between buying and selling prices for AIM-listed shares. If you have to sell these shares immediately you may not get back the full amount invested, due to the wide spread. AIM rules are less demanding than those of the official list of the London Stock Exchange, and companies listed on AIM carry a greater risk than a company with a full listing.

Inheritance tax rates and Business Relief rules are subject to change. In addition, you must be prepared to hold your shares in AIM-listed companies for a minimum of two years or these assets will be considered part of your estate in the IHT calculation.

Smaller company shares can be more volatile than those of larger companies because a small change in the financial performance can have a bigger impact on the company's value. These companies also tend to have less resources to overcome financial difficulties.

Sometimes it can be difficult to buy and sell large volumes of these shares at the market price. Although smaller company shares can be traded on a regulated market, it is common for them to be traded on a less regulated market, or a 'multilateral trading facility', such as London's Alternative Investment Market (AIM). Companies whose shares trade on these markets are subject to less regulation than those on regulated markets.

This document is for information only and is not to be construed as a solicitation or an offer to purchase or sell investments or related financial instruments. This has no regard for the specific investment objectives, financial situation or needs of any specific investor.

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