Investment Risk Scale

When investing funds in any format, you need to understand the investment approach and risk involved in the planning you undertake. Example investment risk categories when investing capital or income are as follows:

1-10 Risk Scale		Investment Risk Description
1-2 **Lowest Risk** **Very Cautious Risk**	**Low Risk**	You are not prepared to accept any exposure to investment loss although you are aware that any investment has some possibility of loss, for example if a bank holding your money was to collapse. The value of your money may also fall in real terms if inflation exceeds the return that your investment achieves. You accept that the returns from your investments are likely to be low compared to the potential returns from investments that have a higher risk rating.
3-4 **Cautious Risk**		You are prepared to accept a higher risk of capital loss in return for the opportunity to earn more than from deposits and low risk type investments but do not wish to take as much risk as with a medium risk strategy. While there can be no guarantee, investments in this category are not likely to fluctuate in value as sharply or as quickly as a portfolio largely made up of equity investments.
5-6 **Balanced Risk**	**Medium Risk**	You are prepared to accept that the value of your investments will fluctuate with the aim of achieving higher returns in the medium to long term. You accept that there is an increased risk of capital loss over investing in more low risk investments. Medium risk investments can fluctuate in value more rapidly and quickly over a short periods of time than more low risk investments.
7-8 **Adventurous Risk**	**High Risk**	You are prepared to accept fairly high levels of risk with your investments, with the aim of achieving higher investment returns in the longer term. You accept that this may mean that the value of your investments may fluctuate considerably over a short periods of time and that there is an increased risk of capital loss compared with a lower risk investment strategy. Therefore, you may consider investments mainly in equities/shares and is likely to involve investment in various overseas markets as well as UK markets. This increases risk because of currency fluctuations as well as investment risk. Risk can be reduced by diversifying your investments across sectors and markets.
9-10 **Highest Risk** **Very Adventurous Risk**		You are prepared to accept high levels of risk with your investments, with the aim of achieving higher investment returns in the longer term. You accept that this may mean that the value of your investments may fluctuate significantly over a very short periods of time and you could lose a significant proportion (possibly all) of your investment. **Chapters Financial Limited would not normally recommend this level of investment risk.**

Important notes overleaf

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<u>**Important Client Notes**</u>

1. Inflation Risk

Investors should be aware of the risks that inflation poses, particularly over the longer term. Inflation erodes the real value of money. The rate of decline in the value of every £1 is illustrated below over differing timeframes. The most recent timeframes have seen relatively low inflation. However, there is no reason to believe inflation will remain low indefinitely.

- 10 years to end 2014 – 3.2% per annum
- 20 years to end 2014 – 2.9% per annum
- 30 years to end 2014 – 3.5% per annum

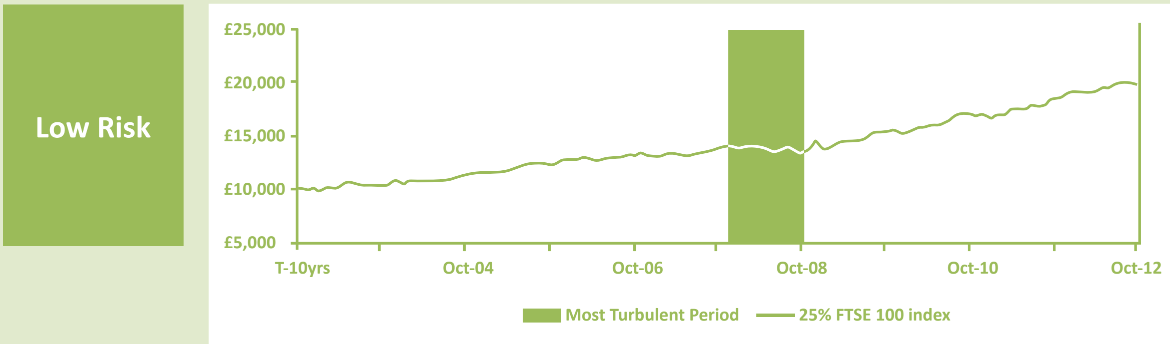
Inflation rates can fall as well as rise and are not guaranteed. Examples only.

2. Example Investment Risk (Guide only, Initial investment of £10,000)

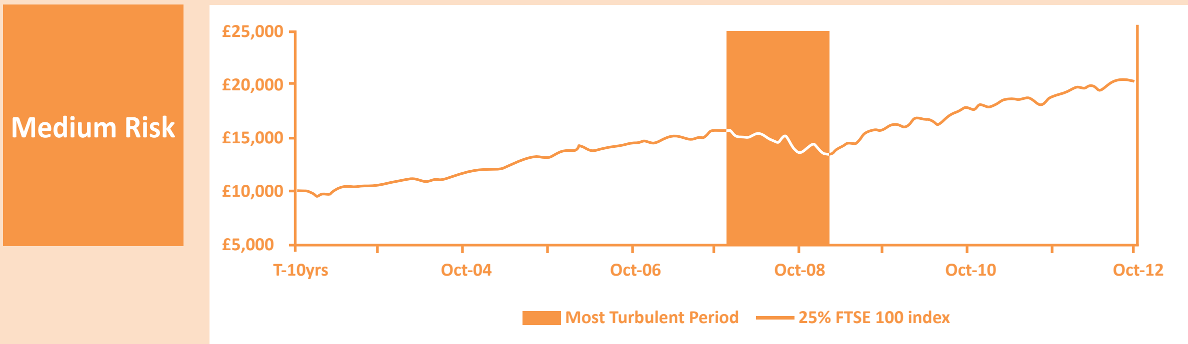
Investment risk and return, in the aggregate, are inextricably linked.

Generally speaking, the higher the percentage you invest in risky assets the higher the potential for losses, particularly in the short term. Below, we have illustrated the worst run of performance for 3 'model' portfolios containing increasing amounts invested in the FTSE 100 Index (as a guide for equity investment) over the 10 years ending in October 2012 ***(Source: Financial Analytics/Cormorant Capital Strategies Limited)***. The balance is assumed to be invested in the gilt market (UK government bonds).

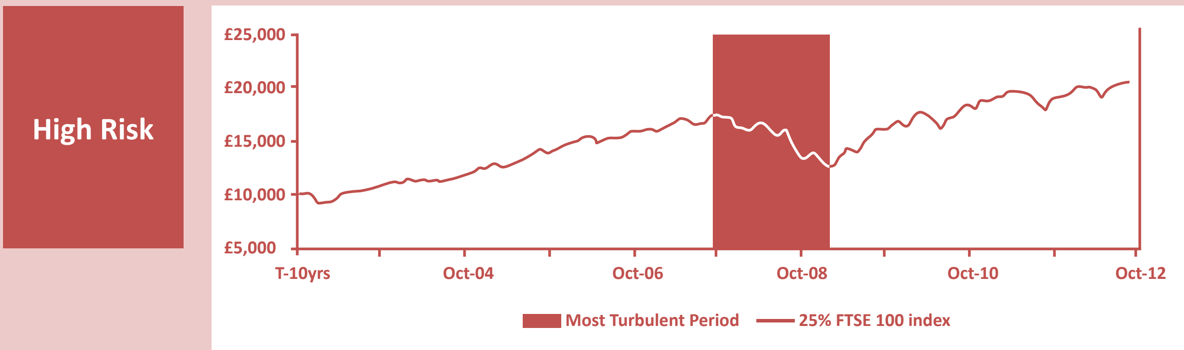
- **Low Risk - 25% FTSE 100 Index lost 5.1% between December 2007 and October 2008**



- **Medium Risk - 50% FTSE 100 Index lost 14.9% between December 2007 and February 2009**



- **High Risk - 75% FTSE 100 Index lost 28.2% between October 2007 and February 2009**



There is no reason to believe that losses like these will not happen again, or indeed be breached.

**Past performance is not a guarantee of future performance. Income and capital invested can fall as well as rise.
Fund charges need to be taken into account when considering investment return.**