VERUS Wealth
Chartered Financial Planners

Investment Policy Statement

This generic document sets out our approach to the investment of our clients' capital and the high-level principles in which we firmly believe, and which guide our investment recommendations.

Our Investment Philosophy summary

1 **Your values and desired lifestyle, your investment preferences, needs, attitude to risk, time-horizon and capacity for loss should be all at the centre of all investment planning.**

- Although not perfect, Capital Markets work and throughout the world they have historically rewarded long-term investors for the capital they supply.

2 **Risk and return are related, i.e. the only way to earn higher returns over the longer term is to accept greater risk.**

3 **Only take the risks supported by evidence:**

- Shares have a higher expected return than fixed-interest investments.
- Small company shares have a higher expected return than large company shares.
- Lower-priced "value" shares have a higher expected return than higher-priced "growth" shares.

4 **Employ "asset class investing":**

- Structure is the strategy, not speculation, as >90% of a portfolio's investment performance can be explained by its high-level asset allocation.

5 **Diversify globally across asset classes, industry sectors and investment styles:**

- A diversified portfolio can achieve higher expected returns at a lower risk.

6 **Invest in collectives (mutual funds) as these offer greater tax-efficiency and diversification at a lower cost than direct equity investment.**

7 **Keep investment costs down and mitigate tax so that you retain a greater share of the investment return.**

8 **Be disciplined, monitor progress, and stick to the agreed strategy:**

- Remain invested – i.e. do not sell in uncertain times or attempt to "time the market".
- Portfolios should be rebalanced regularly (we recommend annually), so asset allocation remains consistent with the original, agreed structure/strategy (see 5 above).

9 **Invest using Passive vehicles (wherever practicable):**

- Active management can be expensive, and the vast majority of actively managed funds fail to deliver returns in excess of the market return, especially over the medium to longer term.

- The often-quoted fund's annual charges [Annual Management Charge (AMC) and Ongoing Cost of Fund (OCF)] do not include portfolio turnover costs. These additional "hidden" costs are significantly higher for actively managed funds than for passive funds.

- Asset-class and index-tracker funds target market returns at a low cost and are generally much more widely diversified (in terms of the number of individual securities held) than actively managed funds. As a result, these funds typically experience lower volatility than most actively managed funds in the same fund sector.

10 **Review Investments Regularly**

- Your investments should be reviewed annually, in the proper context of your circumstances and goals (see point 1 above).

Introduction

Purpose of investment policy statement

This Investment Policy Statement (IPS) outlines the over-arching principles that guide us in our investment recommendations.

This IPS will be used as the basis for all investment decisions in order to help you achieve your objectives and manage the portfolio's investment risk. Adhering to this investment discipline will help ensure that you stay on course and avoid emotional reactions to short-term market fluctuations.

The need for an investment policy statement

This IPS describes our investment philosophy and the investment management procedures to be used for the assets identified for investment. The principal reason for developing a written investment policy is to protect your portfolio from ad hoc or irrational revisions and to maintain a sound medium to long-term strategy.

Important information

Capital markets and asset values fluctuate, especially over shorter time periods, therefore it is important to recognise the possibility of capital loss. However, historical data suggests that the risk of capital losses can be minimised if the investment strategy employed under this IPS is maintained for at least five years (and ideally seven years plus).

This IPS does not offer any guarantees and past performance is not a guide to future performance

Investment consulting fees

We operate on a fee-for-service basis as the emphasis is on relationship-driven planning (as opposed to commission or one-off, product dependant sales).

In line with our Client Agreement, a maximum initial fee of 1% of your investable assets is typically charged to implement your investment plan. A maximum ongoing fee of 1% per annum of your investable assets will typically be charged to manage and administer your investment portfolio.

Typically, lower scale ongoing fees are applied to larger investments (ie >£500,000).

The initial fee can either be paid by cheque or deducted from your funds before investment is made.

The ongoing annual fee is deducted from your portfolio(s) on a monthly basis.

Investment philosophy

There is a "new model" of investing: a model based not on speculation but on the science of capital markets where decades of research and evidence lead the way.

We recommend a "passive" investment strategy (as opposed to an "active" investment strategy) and the aim of Verus Wealth is to deliver the performance of capital markets and invest in funds which increase returns through portfolio design and fund selection.

We do not support tactical asset allocation which is essentially market-timing and speculation. Attempting to forecast which fund managers will outperform the market or the future movement of an individual security, asset class, industry sector or geographic region, cannot be achieved with consistent success, because no one knows the future.

In other words, we don't speculate with our clients' money, we invest it, sensibly.

Our approach is underpinned by the 10 key points listed above and we recommend portfolios which are globally diversified across asset classes, within asset classes and across industry sectors.

Defining Your Investment Risk Profile

A vital step in constructing your portfolio is defining your attitude to investment risk as this has a direct impact on returns. We use Morningstar's Attitude to Risk questionnaire to help us define your investment risk profile in to one of the following categories:

Cautious

As a cautious investor you are very worried about short-term losses. As a cautious investor you are willing to accept a lower return to help achieve your goal of keeping your investment safe. As a cautious investor you accept that to achieve a return higher than a very secure investment such as a bank account, your money will be invested in assets that can rise and fall in value and so your money is at risk and you could lose some of it.

Moderately Cautious

A moderately cautious investor is worried about short-term losses. As a moderately cautious investor, you are uncomfortable taking risks with your investment but are willing to do so to help you achieve higher returns than could be achieved in more secure investments such as a bank or building society account. As a moderately cautious investor, you are willing to accept lower returns to reduce risk to the value of your investment and can accept that your money will be invested in assets that can rise and fall in value and so your money is at risk and you could lose some of it.

Moderate

The moderate investor is not overly concerned by short-term losses and understands that some risk is needed to have the opportunity to achieve better returns. The moderate investor believes that the safety of their investment and investment returns are equally important. The moderate investor is able to leave their money invested despite a fall in the value of their investment in order to try to recover their losses.

Moderately Adventurous

The moderately adventurous investor's main aim is to increase the value of their investments. They are willing to accept a higher risk of losing their money in order to achieve this. A moderately adventurous investor is willing to leave their money invested despite a large fall in the value of their investment to recover their losses and to achieve their long-term investment aims.

Adventurous

The adventurous investor aims to achieve the highest possible returns over the long term. They are not concerned about possible short-term losses. An adventurous investor is most concerned with high returns and can accept both large and frequent losses to the value of their investment over time in exchange for the opportunity of a higher return over the long term.

The portfolio that we create for you will also take account of the following:

- Your current circumstances including lifestyle, financial and investment objectives.
- Your investment knowledge and experience
- Your capacity for loss
- Your attitude towards past returns data of sample portfolios representing our investment approach.

Importantly, we will consider the level of risk you are 'willing' to take and the level of risk you are 'able' to take. We refer to the former as your sensitivity to volatility (or attitude to risk) and the latter as your capacity for loss.

Essentially, capacity for loss refers to the proportion of your investments which you could afford to lose without impacting on your desired lifestyle and goals. Sensitivity to volatility is how much the total value of your investments could go down before you would begin to feel uncomfortable.

Example Portfolios

We have created eight Model Portfolios. Each portfolio is invested in fixed-interest securities (aka bonds) and/or equities (aka shares). The greater the equity content, the higher the risk (i.e. price volatility) and also the higher the potential returns.

The equity content within the portfolios varies between 0% for Ultra-Low Risk investors and 100% for High Risk investors as follows:

Portfolio	Equity Content	Risk Descriptor
Verus 0	0%	CAUTIOUS
Verus 30	Up to 30%	MODERATELY CAUTIOUS
Verus 40	Up to 40%	
Verus 50	Up to 50%	MODERATE
Verus 60	Up to 60%	
Verus 70	Up to 70%	MODERATELY ADVENTUROUS
Verus 80	Up to 80%	ADVENTUROUS
Verus 100	Up to 100%	

Asset Allocation

Your portfolio will probably include cash, fixed interest securities (government bonds, corporate bonds) and global equities/ shares (UK, International and Emerging Markets).

Asset class allocation and target returns for the seven example portfolios are shown below ***and are for illustrative purposes only:***

Asset Class	Asset Class Assumed Return pa*	PORTFOLIOS							
		0	30	40	50	60	70	80	100
Fixed Interest	3%	100	70	60	50	40	30	20	0
UK Equities	7%	0	4.5	6	7.5	9	10.5	12	15
International Equities (Developed World)	7%	0	16.5	22	27.5	33	38.5	44	55
Global Small Cap Equities	8%	0	4.5	6	7.5	9	10.5	12	15
Global Emerging Market Equities	8%	0	4.5	6	7.5	9	10.5	12	15
Total allocation %	100	100	100	100	100	100	100	100	100
Portfolio Mean Assumed Return pa %*		3.0	4.3	4.7	5.2	5.6	6.0	6.4	7.3
Targeted max volatility (%) **		5	6	7	8	9	10	11	12

**Asset class Mean Assumed Returns are the weighted averages of the Asset Class Assumed Return for each portfolio. These figures exclude product and adviser charges. These figures are not guaranteed. Past performance is not a reliable guide to future returns.*

***As measured by historical 3-year Standard Deviation. This depicts how widely a portfolio's returns varied over time. When a portfolio has a high standard deviation, the predicted range of performance is wide, implying greater volatility. In general terms, aapproximately 68% of the time, returns from the portfolio will fall within one standard deviation of the mean return for the fund, and 95% of the time within two standard deviations. For example, for a fund with a mean annual return of 5% and a standard deviation of 8%, one might expect about 68% of all annual returns to within the range of -3% and +13%, and about 95% of all annual returns to be within the range of -11% and +21%.*

The UK Government's current target for inflation is 2.0% per annum.

Investment Policy Factors

Investment time horizon

The length of time you intend to hold your portfolio affects your overall investment strategy. The longer the expected holding period, the more likely your portfolio will achieve its target return.

Your recommended portfolio will be designed based on your stated investment time horizon.

Risk tolerance and portfolio volatility

In general, the type of portfolio we propose should suit the level of risk you are 'willing' and 'able' to take, however there could be periods when your portfolio experiences periods of volatility out-with your usual risk tolerance.

Income and capital gains tax

No investment decisions should be based solely on tax considerations. However your personal tax situation is likely to affect your investment decisions and there may be tax consequences when implementing and rebalancing your portfolio. Specifically, rebalancing may require the sale of funds where the realized gain will crystalise a Capital Gains Tax liability. (This consideration does not apply to funds held within Pension, ISA or Investment Bond tax wrappers)

Ongoing Charges Figure (OCF)

The OCF of a fund reflects most of the expenses which are associated with the running of an investment fund. They are deducted from the fund and are reflected in the fund price. They include the costs of fund management which are paid for by an explicit charge (the Annual Management Charge) made by the fund manager. OCFs vary by fund and over time depending on the costs incurred.

The typical weighted OCF of our portfolios is around 0.18% pa. However, you will be advised of the specific applicable OCFs in relation to our recommendation in your case. This may be lower or higher than 0.18% pa.

OCF does not include the transaction costs incurred by a the funds (ie the costs associated with buying and selling). For our portfolios, these costs amount to around 0.05% pa.

The total fund costs for our portfolios are therefore typically around 0.23% pa.

NB: This figure does not include Tax-Wrapper (i.e. platform) fees or Verus Wealth's ongoing fees.

Liquidity of invested capital (ie non-cash assets)

Personal circumstances can change with little or no notice and funds might be required unexpectedly. Although funds can be made available, there may be a delay in transferring these to you as sale of assets might be required to meet these requirements. All of the funds we recommend offer daily liquidity, although trade settlement periods can be up to T+3 days in some cases. It may take longer to then extract and pay out the sale proceeds from the platform to you. We recommend you allow up to ten days for any unscheduled/ ad-hoc capital withdrawals.

ESG Investment factors

ESG stands for "Environmental, Social and Governance". Also known as "socially responsible investing", "impact investing", and "sustainable investing", ESG refers to investing in a way which prioritises optimal environmental, social, and governance (ESG) factors or outcomes. ESG investing is widely seen as a way of investing "sustainably" - where investments are made with consideration of the environment and human wellbeing, as well as the economy.

Our model portfolios are <u>not</u> screened for ESG factors.

However, where a client expresses a preference or requirement for ESG investing, we offer a bespoke ESG portfolio service.

We firstly identify (via a comprehensive questionnaire) the positive and negative ESG factors that the client wishes to include or avoid. We then apply these criteria to a fund screening tool which identifies funds which meet the selection criteria.

From those filtered funds, we then apply other fund selection considerations (such as cost, security and sector diversification, past performance and how long the fund has been trading) to create a bespoke portfolio recommendation which most closely meets the client's needs.

The portfolio will be similarly geographically diversified as our model portfolios and include a suitable blend of equities and bonds (ie asset allocation) to meet the client's requirements, taking account of their attitude to risk, capacity for loss, time horizon and investment objectives.

This portfolio will be reviewed annually to ensure its ongoing suitability.

Tax-wrappers

The following table summarises the tax-wrappers that can be included in your portfolio:

Tax-Wrappers
Self-Invested Personal Pension (SIPP)
Stocks & Shares Individual Savings Account (ISA)
General Investment Account
Offshore (International) Bond
Onshore Bond

Performance benchmarks

The asset classes reflected in your portfolio will be assessed relative to the following benchmarks:

Asset Class	Benchmark / Index
UK Corporate Bond	Markit iBoxx GBP Non-Gilts Overall TR Index
Global Fixed Interest	Barclays Capital Global Aggregate Float Adjusted Bond
UK Equities	FTSE All-Share Index
International Equities	FTSE Developed World Ex-UK Index
Global Small / Value Equities	MSCI World Small Cap Index
Emerging Market Equities	FTSE Emerging Index

Investment Management Guidelines

Diversification

The single most important strategy used to manage investment risk is diversification. The following table summarises the four different types of diversification:

Type	Description
By asset classes	Diversify by asset class by combining different asset classes in the portfolio, such as money market, fixed-interest (bonds), commerical property and equities / shares.
Within each asset class	Diversify within each asset class by holding investments with different risk-return characteristics e.g. across industry sectors and company size (large, mid and small-cap equities) while bonds are diversified by credit rating and term to maturity.
Geographically	Diversify by investing internationally in companies outside of the UK as well as UK companies.
By security spread	Diversify equities/shares by choosing funds which hold a large number of individual securities.

Investment products

In our view, collective investment funds such as unit trusts, open-ended investment companies (OEICs) and exchange traded funds (ETFs) offer the most attractive and cost-effective means of accessing the global financial markets. It is virtually impossible to deliver a tax-efficient, sufficiently-diversified investment portfolio at a low-cost, through direct equity investment only.

Fund Selection

We generally select and recommend passive-style funds taking account of the following factors:

1. Fund ongoing costs (ie TER or OCF: the lower the better)
2. Tracking error and Tracking Difference: we prefer funds with a low tracking error* and a low tracking difference**
3. Diversification of the fund’s underlying securities/ assets: the more securities held, the better
4. Currency: denominated in £GBP only
5. Manager Domicile: UK or EU only

**Tracking error is the volatility of the difference of the returns between a product and its benchmark. Tracking error is calculated as the standard deviation of a product's returns against its benchmark. It shows how consistent the fund has been in replicating its benchmark.*

***Tracking difference is the difference between a product's return and that of its benchmark over a specific time period. Tracking difference is calculated by accessing the difference between the return of a benchmark and the return of the fund designed to track it. It shows the magnitude of underperformance. There will always be an element of tracking difference because of fees. Tracking difference is usually negative, meaning that the fund underperforms its benchmark net of fees. However, sampling replication and revenue from securities lending can both cause funds to have a positive tracking difference, in which case the fund has outperformed its benchmark.*

Rebalancing of strategic asset allocation

Asset class allocations may fluctuate over time due to market movements. The portfolio allocations should be reviewed at least annually. Cash inflows and outflows can be used to maintain the long-term strategic allocation.

Please refer to Appendix for ‘Rebalancing Your Portfolio’ which this IPS recommends.

Portfolio review and monitoring

You will receive regular statements detailing your existing holdings and any transactions. We will provide you with a Portfolio Review at least annually to assess your portfolio’s progress and to ensure that the parameters of this IPS continue to meet your requirements.

APPENDICES

Appendix I

Investor Protection

Financial Services Compensation Scheme

For investment business, the FSCS provides cover of 100% of the first £85,000 (per person, per regulated firm) from January 2017. It is our view that client investments are protected in the event of insolvency of a mutual fund manager due to the requirement of the fund manager to appoint a depositary and custodian. One of the primary functions of the custodian is the safekeeping of securities and cash in deposit accounts, held in the name of the depositary. This has the effect of segregating the funds from the fund manager's own monies and effectively protects the client's investments should the fund manager become insolvent.

For the investor this means that the only time they would need to look to the FSCS for compensation would be in the event of the fund manager acting dishonestly, fraudulently or negligently.

Compensation under the Financial Services Compensation Scheme will generally not be available in connection with funds domiciled in Ireland. These include the Vanguard Global Bond Index fund; the Vanguard Global Small-Cap index fund; these funds are represented in our client portfolios.

How are my investments protected in a Vanguard fund?

When investing directly with Vanguard, you own the shares in the fund once you have paid for them and your name will appear on the shareholder register. These investments are kept separate from the assets belonging to VGIL. A separate institution called a depositary safeguards Vanguard fund assets and looks out for your interests.

The depositary also oversees the fund provider and makes sure Vanguard fund assets operate properly and in line with regulatory safeguards.

For funds that have been authorised as Undertakings for Collective

Investment in Transferable Securities (UCITS), the depositary must be a separate entity from VGIL, which ensures that the oversight of the fund management company is fully independent. As your name appears directly on the shareholder register, in the event of

insolvency of VGIL, you will retain the value of the shares that you own.

General

Holdings on the investment platforms / “funds supermarkets” are held in nominee accounts and are separate from the platform provider’s own assets.

Self-Invested Personal Pension (SIPP)

All portfolios invest in external mutual funds, if the Nominee were to default, the investments cannot be touched by creditors of the Nominee. If an external fund manager defaults, the investments are still safe. The assets are held by the appointed Custodian and separate from the fund manager's own assets and therefore enjoy a robust level of protection in the event of insolvency of the fund manager.

Stocks & Shares ISA, Personal Portfolio and International Bond

All portfolios invest in mutual funds and fund managers are required by the FSA to appoint a custodian or depositary who is responsible for the safekeeping of the assets. The depositary will normally appoint a Custodian to act on their behalf. One of the Custodian's primary functions is the safekeeping of securities and cash in deposit accounts, held in the name of the depositary. This has the effect of segregating the fund from the fund manager's own monies. By segregating and ring-fencing the assets, this should provide adequate protection from creditors if a fund manager goes into liquidation.

Appendix II

Risk Warnings

Investment in all funds carries with it a degree of risk including, but not necessarily limited to, the risks referred to in a fund's Prospectus. There can be no guarantee that the funds invested in will achieve their investment objective. The Net Asset Value of a fund, and the income generated from it, may go down as well as up and investors may not get back the amount invested or any return on their investment. Investing in securities issued by companies and governments in different countries, especially those in emerging market countries, involves considerations and possible risks not associated with investing in issuers of one country. The values of investment assets dominated in currencies other than the base currency of a fund are affected by changes in currency exchange rates. Some bond funds will seek to adopt currency hedging strategies to mitigate this risk factor.

Investing in multiple jurisdictions involves consideration of different exchange control regulations, legal risks, tax law, including withholding taxes, changes in government administration or economic or monetary policy or changed circumstances in dealings between nations. Currency exchange rates may fluctuate significantly over short periods of time causing a fund's net asset value to fluctuate as well.

Risk Definitions

• *Investment Market Risk* - The possibility that all investments in a market sector (e.g. shares) will be affected by an event.

• *Investment Specific Risk* - The possibility that a particular investment may under-perform the market or its competitors.

• *Inflation Risk* - This is the possibility that your investment return is below the inflation rate which reduces the spending power of your money.

• *Credit Risk* - The potential failure of a debtor to pay amounts they owe. Also known as Default Risk

• *Interest Rate Risk* - Interest rate risk is the possibility that your investment will be adversely impacted by a fall or rise in interest rates.

• *Legislative Risk* - Legislative risk is the possibility that a change in legislation will impact the appropriateness of certain investments for you.

• *Liquidity Risk* - Liquidity risk relates to the ease with which you can sell or liquidate your investments. Some investments impose exit fees or have limitations on your withdrawals. Other investments may be difficult to sell due to a lack of buyers.

• *Currency Risk* - If you invest in funds which invest abroad, movements in currency exchange rates may cause the value of your investment to go up or down.

• *Counterparty Risk* - The risk to each party of a contract that the counterparty will not live up to its contractual obligations. Counterparty risk as a risk to both parties and should be considered when evaluating a contract. In most financial contracts, counterparty risk is also known as "default risk".

Appendix III

Investment Types

Cash and Money Market Funds

In the UK, the Financial Services Compensation Scheme guarantees the capital value of cash on deposit with UK regulated banks up to a maximum of £85,000. This is probably done less from goodwill than to ensure that the British banking system as a whole remains stable. But while the total sum may be guaranteed, there are still risks to leaving cash on deposit. One is inflation, which erodes the purchasing power of money. Interest rates may eventually rise to account for inflation, but only after some delay. The other is known as 'opportunity cost'. Interest rates on cash are set at the lowest level of return. In holding cash, investors give up the opportunity of achieving a higher return for what may only be a moderate amount of additional risk.

Fixed Interest

Also known as 'Bonds', fixed interest investments are generally thought of as the lower risk among 'real' financial assets. Neither the income from a fixed interest investment, nor the capital value, is necessarily guaranteed. Interest rates are often variable and can be altered as circumstances evolve, usually in reference to the Bank of England base rate. Where the rate of interest cannot be varied, the capital value will rise or fall to make up the difference. The following are examples of different types of Bonds, and their risks.

1. Government Bonds

Bonds issued by the UK government – commonly referred to as 'gilts' – are often described as 'risk free'. This is not strictly true, as gilt prices rise and fall daily, but since it is the government that guarantees sterling deposits (or cash), the risk of holding a government bond is clearly not much different. Their risk-free status reflects the low probability that the UK government would ever default. It never has in the past. And it is different to a business in that if it needs money, it has only to pass a law to raise taxes or print more money. There are still some risks to consider, however. Like cash, the value of government bonds can be eroded through inflation. And like cash, they tend to pay a small return. They will tend to be preferred by investors whose priority is preservation of capital.

Bonds issued by other G5 governments – the US, Germany, France and Japan – are also considered to be risk free. Again, this is not strictly true, as we have seen in the successive sovereign debt crises of recent years. However, these are powerful economies, and their government bonds are used as benchmarks to measure financial risk.

2. Index-Linked

Index-Linked gilts were first issued by the UK government in 1981. The value of the capital you invest, and the level of interest are adjusted in line with the Retail Price Index (RPI). Index-Linked gilts reduce the effect of inflation, but they are not without risks of their own. The basic interest rate tends to be less than it is for 'conventional' gilts, which means that overall returns are lower than conventional gilts if there is little or no inflation.

3. Corporate Bonds

Companies have been issuing bonds in Britain for over 200 years. The sterling corporate bond market is very active, with a great range of opportunity. Companies, however, are not like the government. Every one of them is, to some extent, unique, and if they are short of money, they can't just vote in a tax rise! Every company, in other words, carries a different risk. The degree of risk attributable to any corporate bond is reflected in its 'credit rating'. This is assigned, for a fee, by rating agencies, the best known of which are Fitch, Moody's and Standard & Poor's.

Because companies are higher risk than the government, they pay higher interest rates. Many companies, commonly known as 'investment grade', are relatively low risk. Companies in this category form the mainstream of the traditional corporate bond market. Typically, they are large companies with secure long-term profits. Examples are utilities or businesses in such core sectors as banking, insurance, telecoms, pharmaceuticals, commercial property, or resources.

4. High Yield Bonds

As the name suggests, high yield bonds pay more than investment grade bonds. Against, it is a further step up the risk ladder. They are offered by companies with a less certain financial base. This can be for many reasons. It might be a start-up. It might be a company that already has substantial debt. Companies with high investment needs often turn to high yield. An example of this would be a cable television company needing to invest in laying cable in order to deliver its product. High yield bonds are mainly issued in US dollars or euros and therefore may carry an additional currency risk for UK-based investors (see 'currency risk').

5. Emerging Market Debt

Emerging Market Debt is a variation of high yield bonds. The core of the market consists of US dollar-denominated bonds issued by governments in emerging markets, such as India. These tend to be less stable than developed economies and, sometimes, dependent on a narrow range of commodities. In recent years, as emerging markets have become a more important part of the global economy, the market has expanded to include bonds issued in local currencies as well as in dollars, and bonds issued by companies as well as governments.

Equities

Equity means ownership. Equity in companies is often referred to as 'shares' because it represents a share of the ownership. An equity investor carries the same risk as someone who owns other types of property. If you own your house and you sell it, once you have paid off any charges, such as a mortgage, the proceeds are yours. On the other hand, if it burns down, the loss is yours too, or your insurer's. Equities can deliver substantial rewards. At the extreme, there are businesses that start small, but whose technologies lead to positions of global domination. More usually, a well-managed company with strong range of products will be able to sustain profit growth at a higher rate than other companies, giving investors a superior return over time. In practice it is rare for a UK listed company to approach insolvency, but there are still real risks to investing in equities.

There are two types of return from equities; the share price and the income companies pay to shareholders, otherwise known as dividends. Both are products of the company's profitability and are closely inter-related, but each has slightly different risks. The share price is essentially an estimate of the company's future profits – and therefore its ability to pay dividends. A company with considerable potential to grow its profits may see its share price rise significantly, even though its current dividends are low. Another company may pay high dividends, but with little prospect of future increases to its profits, with the result that its share price remains static. The risk to the former – sometimes called a 'growth' share – is that it will be unable to fulfil its promise to increase profits. The risk to the latter – sometimes called a 'value' share – is that it will be unable to sustain its current profits. Of the two, growth shares are usually considered higher risk as their profits are yet to materialise. They tend to be preferred during periods of economic strength or by investors seeking long-term returns. Conversely, value shares, with their more transparent and predictable business models, will generally be preferred during periods of economic weakness or by investors to whom present income is more important than longer term capital gains. However, while growth shares are likely to result in a higher overall return in the long term, value shares can deliver strong compounded returns if dividends are re-invested rather than withdrawn.

Large Companies

Large companies tend to be the lowest risk relative to the equity market as a whole because they have a lot of shareholders, they are extensively followed and researched, among brokers and investors, in the media, by competitors, regulators, politicians and private shareholders. If anything is going to go wrong, it is likely to be seen well in advance. They are likely to have significant financial resources otherwise they would not be large! This allows them to sit out difficult periods. It also gives them the wherewithal to afford the best advice and attract the best management. Large companies are also by definition more diversified. Even where a large company operates within a particular sector, such as energy or retail, it is likely to have significant built-in diversity, such as operations across different markets, geographies, product-lines or intellectual properties. As significant purchasers, they are also likely to have more influence over costs and prices.

Medium-sized Companies

In stock market terms, a medium-sized company is quite large, covering companies valued from around £500 million to £5 billion. It is a higher risk investment than a large company because it will be less extensively followed, fewer people will be looking at it and its affairs are unlikely to attract media interest. Potential upsets are less likely to be seen and publicised. A medium-sized company will also typically have less recourse to loans and other forms of fresh capital. However, just as the risks are greater, so are the potential rewards.

Small Companies

Electronic trading has so enhanced the efficiency of financial markets that it is now possible for very small companies to list on the stock exchange. However, while the smallest public companies may have a value of as little as £5 to £10 million, it is unusual for a professional fund manager to invest in companies valued at less than £50 million. The risks of investing in small and 'micro' companies is the same as for medium-sized companies, but more so as you go down the scale. Small companies are likely to be less diversified and many will be niche businesses, some with a single product. They are more likely to face actual insolvency, while the lack of extensive external research makes it more likely that mishaps will not be properly forecast or communicated. The relative lack of research also means that their shares are likely to be more vulnerable to mispricing. Smaller companies are also likely to have a smaller number of shareholders, which can sometimes make it more difficult to buy and sell shares and making the market in their shares potentially more volatile.

Overseas Equities (aka International Equities)

The risks in investing in overseas equities are different from those associated with UK equities and usually greater. The first is that. listed companies in markets other than the UK keep their accounts, denominate their shares and pay their dividends in foreign currencies. A second is that their accounting customs, despite the trend for international standards, along with legal and regulatory frameworks and cultural values, are in various degrees different to ours. It is not necessarily the case that standards will be lower, but misunderstandings - and therefore mistakes - are more likely to arise in circumstances which are unfamiliar to us.

Emerging Markets Equities

A good number of emerging markets seem to have emerged so much in recent years that they are now world-leading economies. China is the prime example, as it is now the world's second largest economy. Brazil, India and Russia are gaining in importance, as are Turkey, Mexico and South Africa. Emerging markets carry similar risks to all overseas markets, in terms of currency, accounting, law and culture, bur more so. They tend to be less transparent societies, more vulnerable to political and regulatory risk, including corruption. Emerging market economies also tend to be particularly narrow, with only a handful of companies meriting equity investment. While this may be increasingly less true of China and even India, it remains the case with even relatively large markets such as Russia and Brazil. A further factor with emerging markets is the sheer range of countries in the category. At the one end are economies such as the Czech Republic or Slovenia, which are close to fully developed members of the European Union, with highly educated workforces and industrial economies. Korea is another example of a near-developed economy which remains classed as emerging. Others, such as Taiwan and Mexico, combine highly developed industrial sectors with less developed regions. Many, such as Peru or Chile or Indonesia, depend on one or two commodities. Others again, such as Egypt or Pakistan, or a number of African countries, are only just beginning their integration into the modern world economy.

Appendix IV

Rebalancing Your Portfolio

1. What is portfolio rebalancing?

This is the process of re-establishing your portfolio to its targeted and originally agreed asset allocation. This means selling over-weighted securities in your portfolio to buy under-weighted securities.

2. Why should your portfolio be rebalanced?

The investments in your portfolio will perform according to the market. As time goes on, your portfolio's asset allocation could move away from the original and agreed target asset allocation. If left unchecked, your portfolio could become either too risky or too conservative.

3. How often should we rebalance your portfolio?

There is no right or wrong answer here. However, we recommend that portfolios are rebalanced on an annual basis

4. When will Verus Wealth rebalance your portfolio?

Unless agreed with you otherwise, we will generally aim to rebalance your portfolio on an annual basis. We will not rebalance your portfolio without your prior knowledge.

5. Are there other occasions where your portfolio will be rebalanced?

Investment portfolios generally have a minimum of 1% allocated to cash to meet the ongoing costs and fees. If your portfolio has negative cash balances, we will notify you either by phone, in writing or by email.

6. What will you receive prior to your portfolio being rebalanced?

Prior to rebalancing your portfolio, we will confirm the:

• Asset allocation compared to the targeted asset allocation; and

• Recommended transactions in order to re-establish your portfolio to its targeted and originally agreed asset allocation.

7. What happens if we encounter "Open Orders" when rebalancing?

Rebalancing your portfolio to the original portfolio implemented is a very straight forward process. However, if your portfolio is being rebalanced to a new asset allocation or includes different funds etc, we will wait until the orders (i.e. any pending sales or purchases) are complete before rebalancing.

Please contact Verus Wealth if you have any questions relating to rebalancing.

NOTES

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