EQUILIBRIUM

Managing your Investments

Inside this document

An introduction from Colin Lawson

Founder of Equilibrium

Equilibrium's uniquely flexible investment proposition is the result of our desire to constantly evolve and meet the diverse needs of our clients. We have developed a fantastic range of financial solutions that, although sophisticated, are easy to understand once explained clearly.

The purpose of this booklet is to help our clients and potential clients gain a foundation level of knowledge about how we do what we do. Our process is explained in increasing detail to allow you to read as much as you are interested in.

Please don't worry if there is anything you are unsure about or if you would like further information. Your financial planner is always on hand to explain our approach in further detail and fill in any gaps, supported by our team of client managers.

If you have any questions, queries or feedback, please contact your client manager who will be happy to help.

Colin Lawson

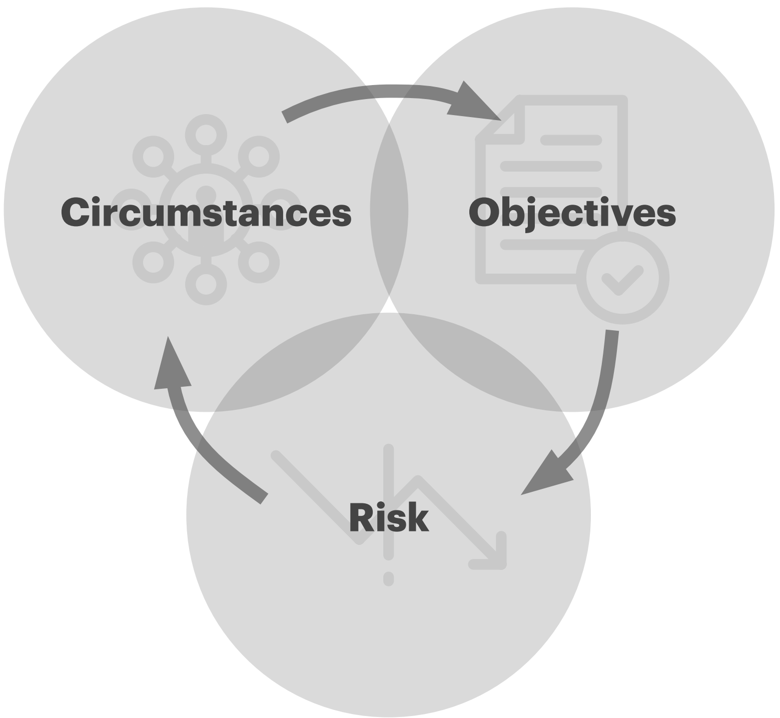
Colin Lawson
Founder

The Equilibrium investment process

When you first become a client, your financial planner will guide you through our two-stage investment process, outlined in simple terms below.

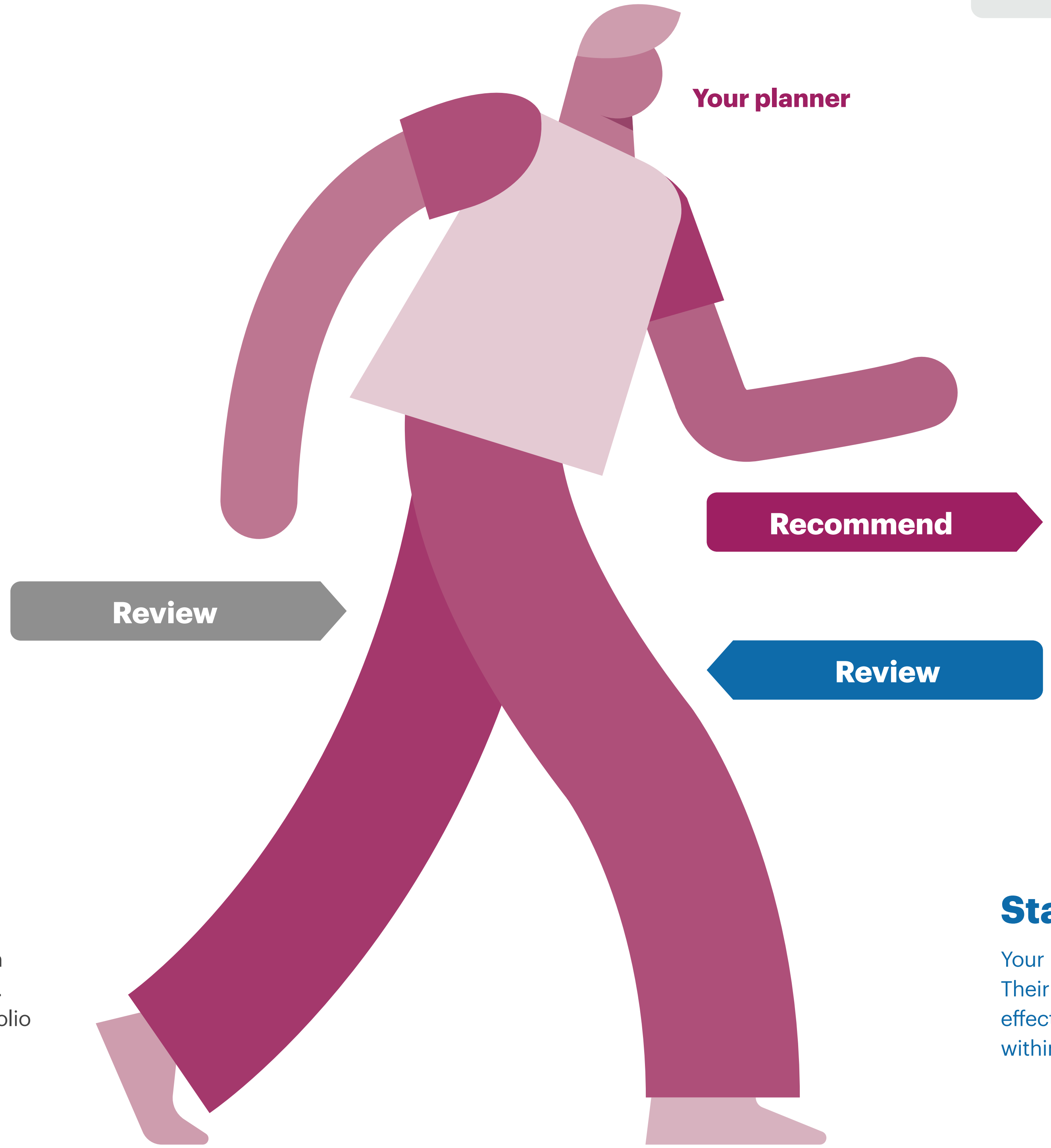
We will then monitor the ongoing suitability of your portfolio on a regular basis, recommending changes as appropriate.

The following pages of this guide provide an overview of how we approach each of these aspects.



Stage 1. Getting to know you

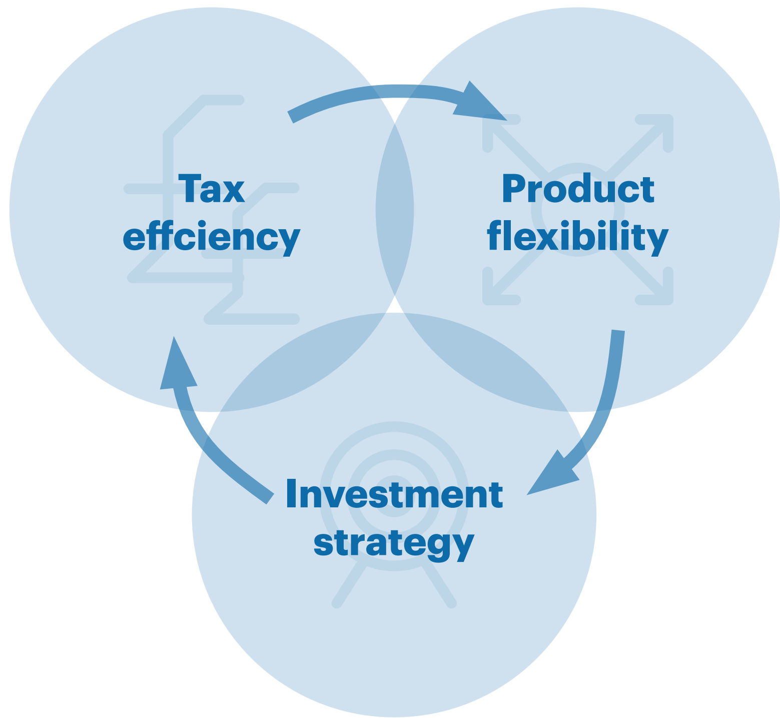
It is your financial planner's role to acquire and maintain a thorough understanding of your circumstances, objectives and views on risk. They will use this information when initially constructing your portfolio and for any future adjustments should the details change.



Section key

Financial planner
Responsible for creating your financial plan and recommending an investment strategy. Referred to as your planner hereafter.

Client manager
Your first point of contact and responsible for implementing the agreed strategy. Clients are usually allocated a small team of client managers to ensure someone is always available to help.



Stage 2. Constructing your portfolio

Your planner will approach this by focusing on three interrelated areas. Their recommendations will concentrate on developing the most effective investment strategy based on the flexibility of the products within the portfolio in conjunction with your personal tax position.

Getting to know you

Your planner will take as long as they need to get to know you. They will ask a series of questions about your situation and your plans for the future. They will also want to understand your views on a number of issues, some of which you might not have considered before.

Your planner's ultimate goal is to feel confident that their recommendations are suitable to meet your needs. Their approach is outlined over the next few pages.

Your circumstances

The information we gather covers a range of different subjects and may include some, or all, of the following:

- Basic personal details: dates of birth, marital status etc
- Assets and liabilities: your balance sheet
- Income and expenditure: your cash flow statement
- Family tree: parents, children, grandchildren etc
- Wills and powers of attorney
- Details of any other professional advisers: accountant and solicitor

We also deal with trustee and corporate clients. In these instances, the information collected is a variation on the above.

Key point

We work on a full disclosure basis and will request that you tell us about everything relevant to your situation. It should be noted that the suitability of our recommendations could be affected if you decide to withhold any information.

Your objectives

When people come to see us for the first time there is usually a specific reason or event that sparked the desire for an appointment. This is often linked to a significant change in circumstances, such as retirement, the sale of a business or an inheritance. Alternatively, it could be related to external factors such as turbulent stock markets or changes in legislation, such as pension or income tax rules.

In your initial meetings, your planner will look to identify your primary objectives. They will also record any secondary requirements that arise.

Key point

Your objectives will always be directly linked to the investment strategy recommended when constructing your portfolio.

The primary objectives we record will frequently include phrases such as:

- ✓ 'plan for your retirement, making the transition from earned income to being supported by an investment portfolio'
- ✓ 'create a sustainable income to meet expenditure over the long term'
- ✓ 'design an intergenerational plan to pass wealth down to future generations of the family... and importantly, ensure that they are prepared to receive it'
- ✓ 'ensure that your portfolio is well managed and as a result free up time for you to spend on alternative pursuits'
- ✓ 'allow you to make informed decisions in the context of the changing economic environment'
- ✓ 'develop a flexible cash flow plan that can provide you with capital and income to meet known future events'
- ✓ 'ensure that you don't die with too much capital... or too little'

Secondary requirements tend to be more specific or focused, such as:

- ✓ 'identify capital to meet your home renovation expenditure plans'
- ✓ 'make a gift to your daughter to help with the purchase of her first home'
- ✓ 'review your pension and assess whether it should be retained or transferred to a more appropriate option'

Important to know

Whatever your personal objectives turn out to be, we will also aim to achieve our key goal: 'to provide you with financial confidence now and in the future'.

How we assess risk

Your attitude to risk

Once we have a good understanding of your current situation and what you are looking to achieve, the next step is for us to assess how you feel about investment risk. We break this down into several categories to provide a full picture upon which to base our investment recommendations.

Knowledge & experience

The first factors we take into account are the knowledge and experience that you have with investing your money. These will influence how confident you feel when making investment decisions and how nervous you are at times of high market volatility.

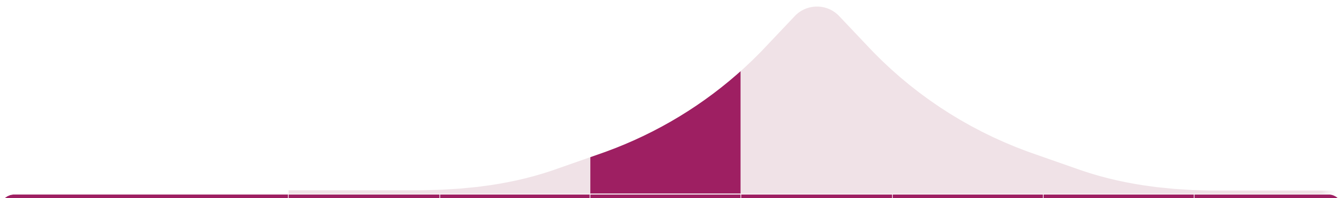
Capacity for loss

The next aspect of risk we consider is your capacity for loss. This is a general assessment of your personal financial situation and the impact that losses could have on your standard of living. We will assess your capacity for loss as follows and provide justification for our assessment.

Classification	Clients would tend to have...	Impact of losses on standard of living	Impact of losses on how you feel
High	Significant excess capital or high levels of guaranteed income	Not affected	Not affected
Medium	Enough flexibility with capital or income to adapt to reasonable market volatility	Some short term changes may be needed to nonessential expenditure	Feeling uncomfortable while market volatility continues
Low	A high dependency on their capital or income which may only just meet desired expenditure	Could result in major changes being required to expenditure	Outside of your comfort zone

Tolerance

We use the FinaMetrica risk profiling service to measure your risk tolerance, and every client is asked to complete a short questionnaire to determine their personal risk tolerance score. These scores are then applied to the chart below to show how it compares to a representative sample of the investing population, with 50 being the average score. The red shaded area illustrates the example score range of risk group 3.



Risk group	1	2	3	4	5	6	7
Score range	Below 25	25-34	35-44	45-54	55-64	65-74	75+
% in group	1%	6%	24%	38%	24%	6%	1%

The questionnaire will also illustrate how you may differ from other individuals in the same risk group, which will help your adviser understand how you view risk. The outcome of assessing your risk tolerance is to match your score (or joint scores) to our strategic portfolios to determine your tolerance portfolio. This will be the highest risk portfolio that you could hold without feeling uncomfortable.

For joint clients, such as spouses, we prefer each individual to complete the risk questionnaire independently. Once the scores are known, we will either use an average of the scores or alternatively agree to use one of the scores as the measure of risk tolerance for both parties. Where scores differ significantly, this can sometimes mean that the individual with the lower score could potentially be uncomfortable with the portfolio we recommend. Your adviser will indicate if this is likely to be the case and discuss how this might affect how decisions are made.

Key point

Our approach is to recommend the portfolio that meets your objectives at the lowest level of risk. This means that in normal market conditions your tolerance portfolio is generally not the one we will recommend for you to invest in, if a lower risk alternative meets your needs.

Need for risk

Your need for risk is a very important factor in determining the portfolio into which you should invest. This is the level of risk that you actually need to take in order to meet your investment goals. It is often lower, but can sometimes be higher than your risk tolerance. We will assess this on a regular basis as part of our ongoing service and adjust the target portfolio as appropriate.

Desire for risk

At the same time as we are assessing the factors above, you are also likely to be reflecting on your personal views in this area. This will be influenced by the prevailing market conditions and your past experience of investing. Your planner will frequently talk to you about your desire for risk to ensure you remain comfortable with your investment portfolio as your views change over the years. We will assess this on a regular basis as part of our ongoing service and adjust the target portfolio as appropriate.

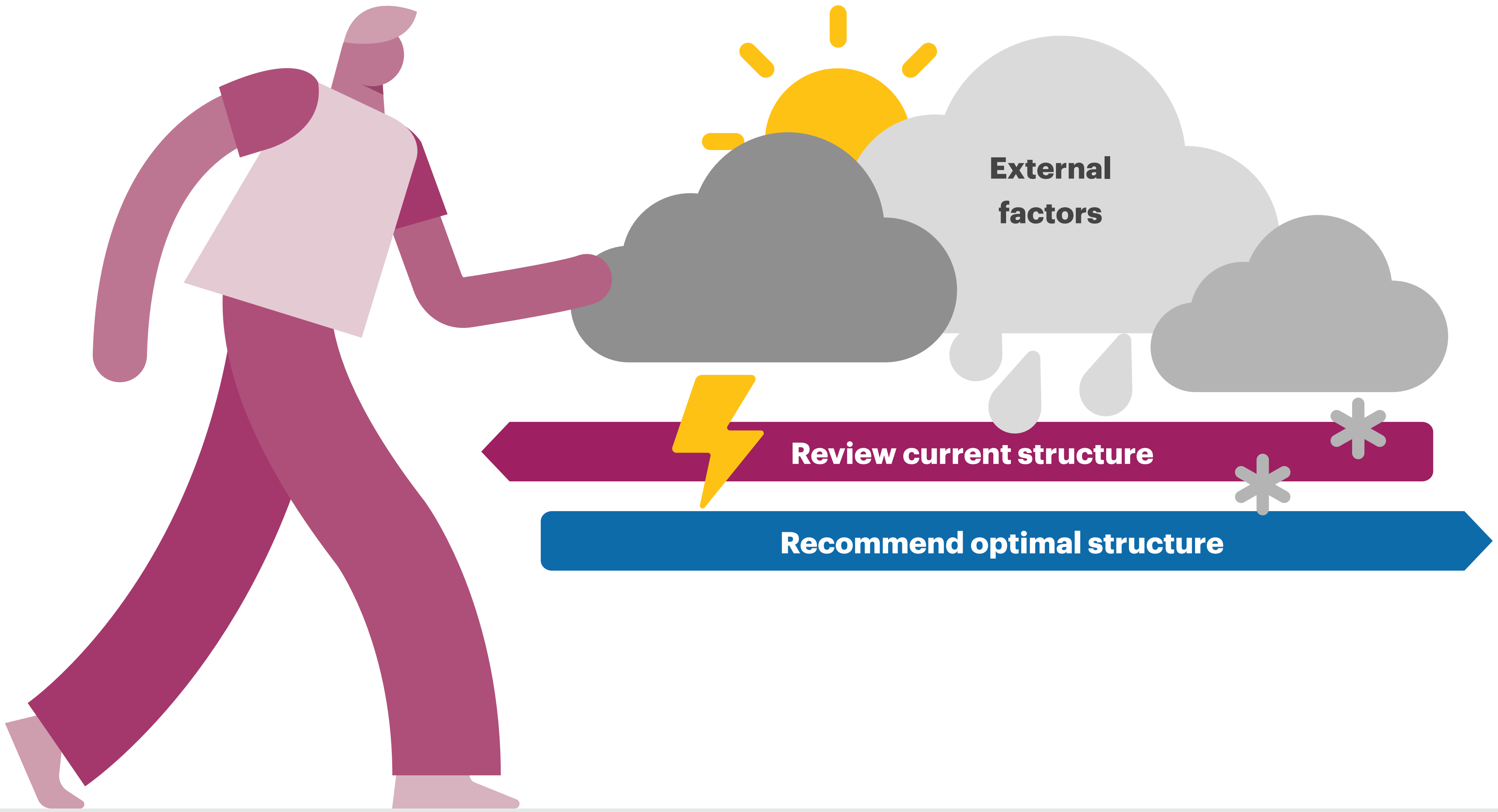
Constructing your portfolio

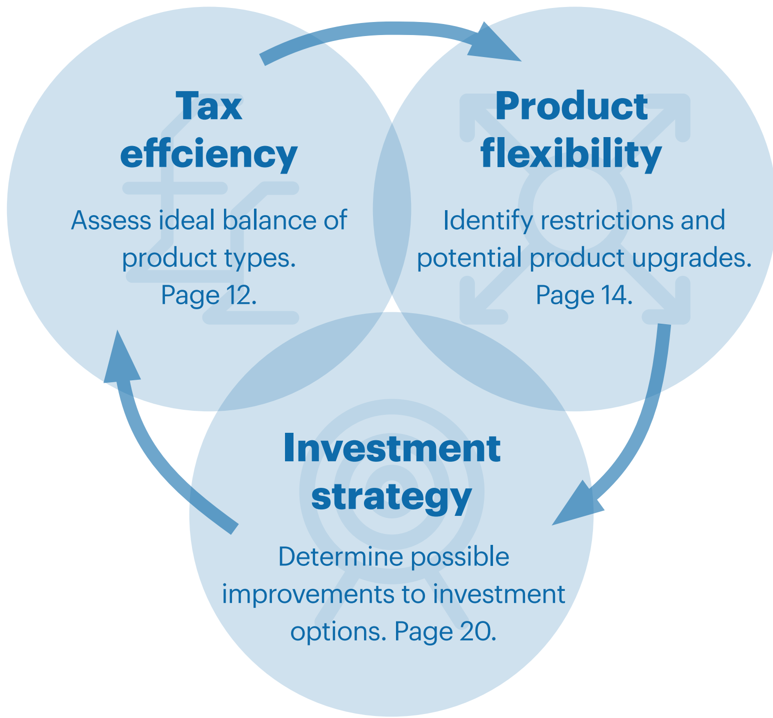
In stage two of our investment process, your planner uses the information they have gathered to design a portfolio to meet your specific requirements. They will aim for the optimal portfolio structure, which we define as the ideal balance between tax efficiency and investment options, taking into account product flexibility.

The diagram below shows how we approach this and indicates where you can find further details:

Important to know

In reality the optimal portfolio structure is never achieved for long due to the fast-paced nature of financial services in the modern world. For this reason we regularly review all client portfolios.





External factors

The ideal portfolio structure can be compromised by external factors beyond our control.

- Changes in legislation and government policy, such as the recent rule changes to pensions, can cause a major rethink to the portfolio strategy. Another example of this is inheritance tax, where the major political parties have very different ideas on how this should be applied.
- Tax changes can also significantly alter the ideal balance of a portfolio. An example of this could be changes to capital gains tax, which can influence the selection of a general investment account compared with an investment bond.
- New products such as Junior ISAs and Lifetime ISAs can increase planning opportunities for some clients.
- Changes to interest rates and exchange rates can impact the investment strategy and the desire to hold cash deposits.

The key here is to retain flexibility within the portfolio structure. The investment platforms that we use are an essential part of this, enabling us to quickly make changes between product types if required.

Tax efficiency

One of the key aspects of planning your investment portfolio is how we set it up to maximise tax efficiency. Your planner will typically recommend a range of product types to meet your requirements, including some or all of the types below:

General Investment Accounts

This type of account allows you to hold a number of collective investment funds in one account. It is effectively the same as investing in the funds directly, without the administrative burden of creating multiple accounts with each fund provider.

Dividends and interest received within the account are taxable as income. Any gains made are subject to capital gains tax (CGT) if they are in excess of the annual exemption(s) of the account holder(s).

Investments held within a general account can be used to fund ISA and pension contributions as part of your tax planning strategy. This is something we will look to undertake each year for you as part of our service.

It is also possible to designate a general account for a child and use it to invest on their behalf, potentially utilising their CGT allowances.

Individual Savings Accounts (ISAs)

An ISA is a tax efficient account which allows you to earn interest and dividends without paying income tax or CGT on capital growth. The amount you are able to contribute to an ISA is therefore restricted on an annual basis and we generally recommend that our clients utilise their ISA allowances in full each tax year where possible. There are two forms of ISA account: cash and stocks & shares. We focus on the stocks & shares ISA which is effectively the same as a general investment account, but with a tax efficient status.

There are two alternative forms of ISA available; namely Junior ISAs for children below the age of 18 and Lifetime ISAs for young adults saving for a first home or their retirement from age 60.

Pension and Drawdown Accounts

A pension is a long-term savings vehicle that can be used to build up a pot of money for retirement. To incentivise people to contribute to a pension, HM Revenue & Customs (HMRC) allow tax relief on personal contributions into registered pension schemes, thereby boosting the amount invested. Once contributions are held within a pension, the tax environment within is identical to that of an ISA outlined above.

The consequence of this tax efficiency is that access to pension benefits is restricted by age. In addition, although part of the benefits can be taken tax free, the remainder is taxable as income at the individual's marginal rate.

A drawdown account is the name given to a pension account if an individual starts to draw benefits with the residual fund remaining invested. It should be noted that this is only one way of receiving pension benefits and we will recommend the most appropriate method on a client by client basis.

We can also arrange pensions for children and grandchildren as part of a highly tax efficient estate planning strategy.

Onshore and Offshore Investment Bonds

Investment bonds are life assurance policies where the primary focus is for tax efficient investment rather than life cover, which is minimal under this type of policy. Investment bonds can be set up on a single life, joint life or multiple life basis. This decision is important as it determines the lifespan of the policy.

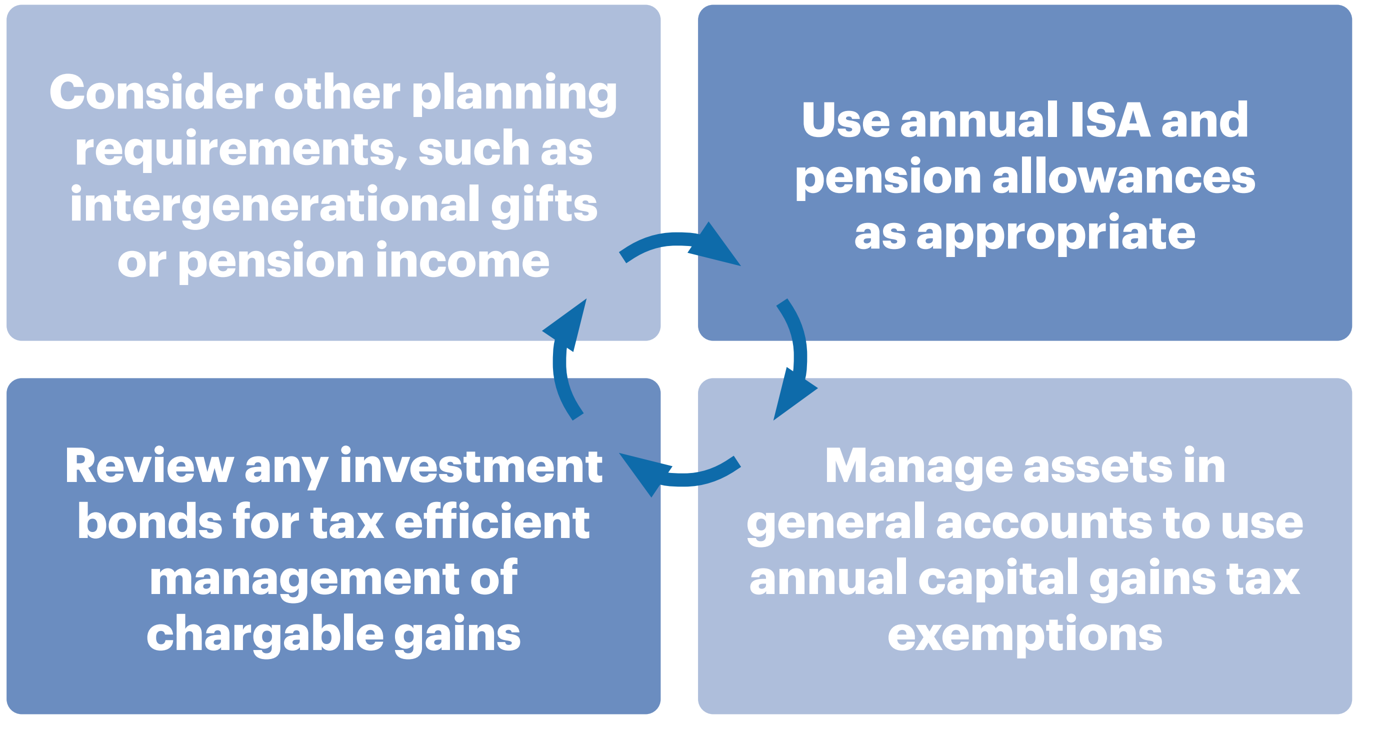
Chargeable gains produced by an investment bond are subject to income tax rather than CGT, with the tax liability only being assessed on a 'chargeable event', such as the full encashment of a policy. This is useful as it allows us to plan when to create a tax liability, while giving us complete freedom in terms of switching funds within the policy in the meantime. It is also possible to take withdrawals of up to 5% per annum on a tax deferred basis.

Onshore and offshore investment bonds have differing internal taxation and the selection of one over the other will depend on a client's financial circumstances and the structure of their existing portfolio.

We will regularly review the balance of the products held to ensure your portfolio remains tax efficient. Some of the factors we will consider include:

- The amount you have to invest and the structure of any existing investments, for example, existing ISAs, pensions or investment bonds.
- Whether tax allowances are used from the portfolio or new cash investments.
- Your tax position, such as income tax, capital gains and inheritance tax.
- Your regular income requirements and whether additional withdrawals might be required.

The diagram below shows our general approach to the regular review of your portfolio structure.



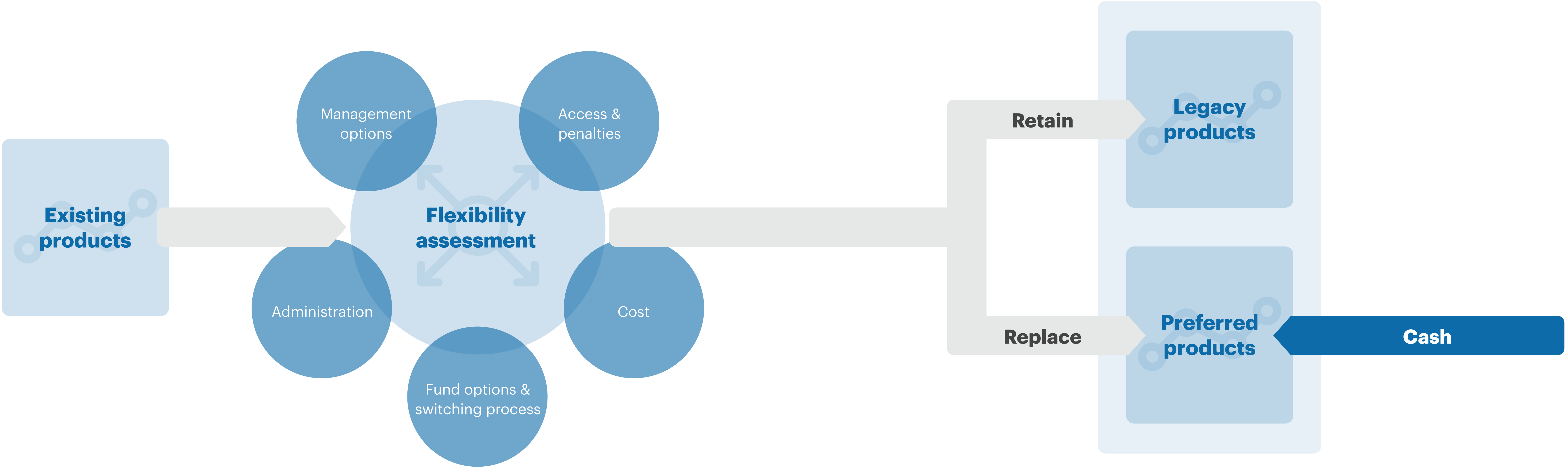
Product flexibility

Our ability to deliver the optimal portfolio strategy will often be restricted by the features of the products in which you invest. An example of this is where older style contracts have limited fund options, which will generally mean we need to select second best funds.

When constructing your portfolio, we will look to identify any products that do not meet our requirements and potentially replace them with more suitable alternatives. Sometimes this might not be possible, such as where there are exit penalties or a high tax liability. In this case we would create a strategy to work for that particular product.

On the other hand, if you are investing from cash, we will simply recommend the most appropriate provider to meet your requirements. A portfolio could therefore be held in one of three ways: completely with our preferred providers, solely with legacy providers, or a combination of the two.

An outline of our flexibility assessment process is shown below. We will repeat this exercise on a regular basis for any legacy products retained and also if our preferred providers change.



Investment platforms

We use a particularly flexible type of product provider for the majority of client portfolios, known as an investment platform. The platforms we recommend have the following features:

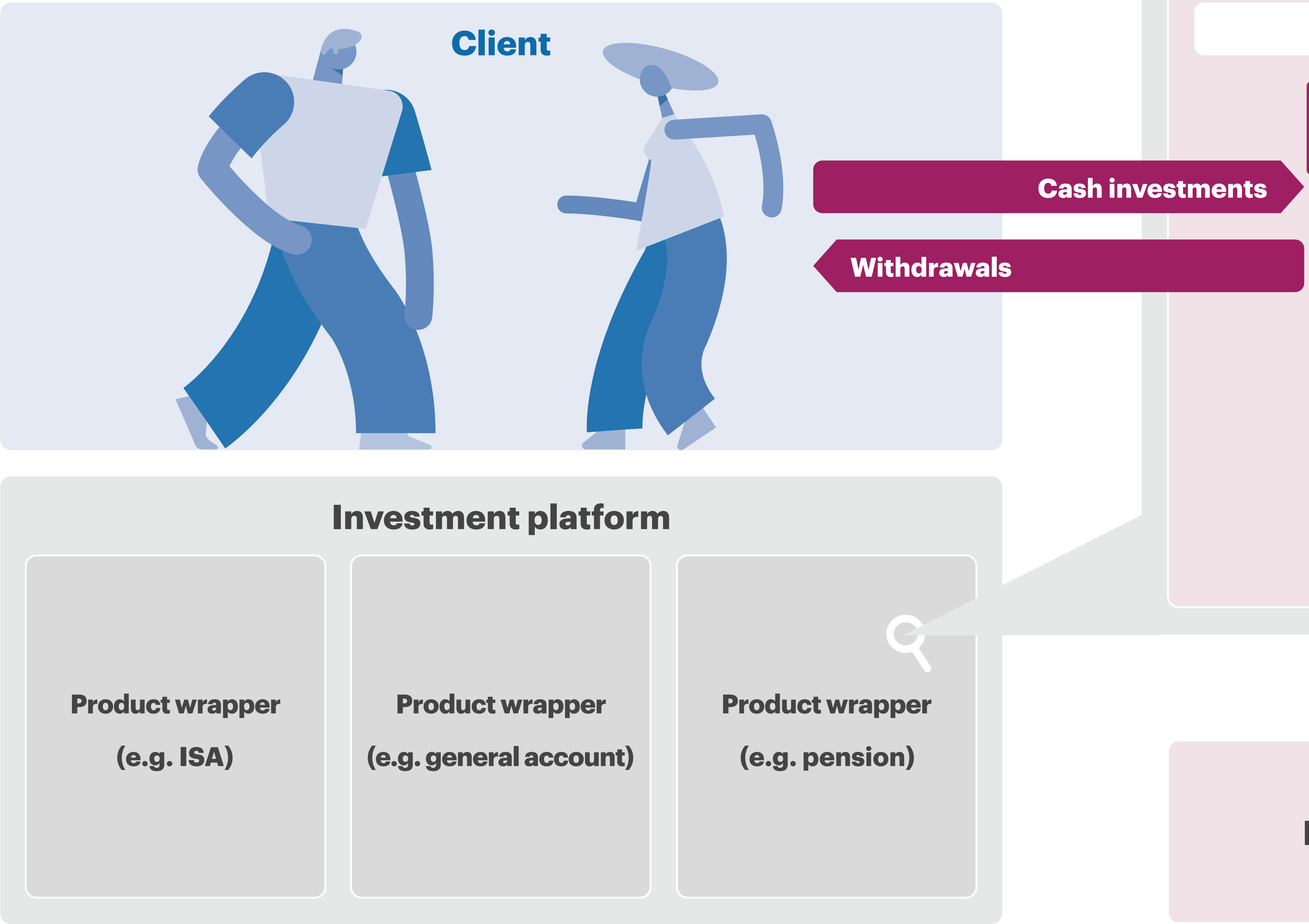
- Your portfolio is held electronically and can be valued at any time online by logging into a dedicated portal.
- We can access an unrestricted fund choice from all UK investment groups, plus all UK listed shares and investment trusts.
- Gains or losses can be viewed at a glance through a capital gains tax report.
- Funds can be purchased at institutional rates and often with no initial charge. This often includes an annual management charge discount when compared with purchasing the same fund via an insurance company.
- There is complete transparency over all costs and how these are divided between the platform and Equilibrium.
- There are no exit penalties at any time. This means that we have flexibility to alter the product selection if needed, including the ability to transfer assets between family members.
- We are able to offer a discretionary management service if this is needed.

We regularly review the investment platform marketplace to ensure that our preferred providers remain the most competitive and flexible options available. The following pages provide more information about how an investment platform works and describe the specific features of our preferred providers.

How an investment platform works

An investment platform is an administrative service that allows you to hold your portfolio in a single location.

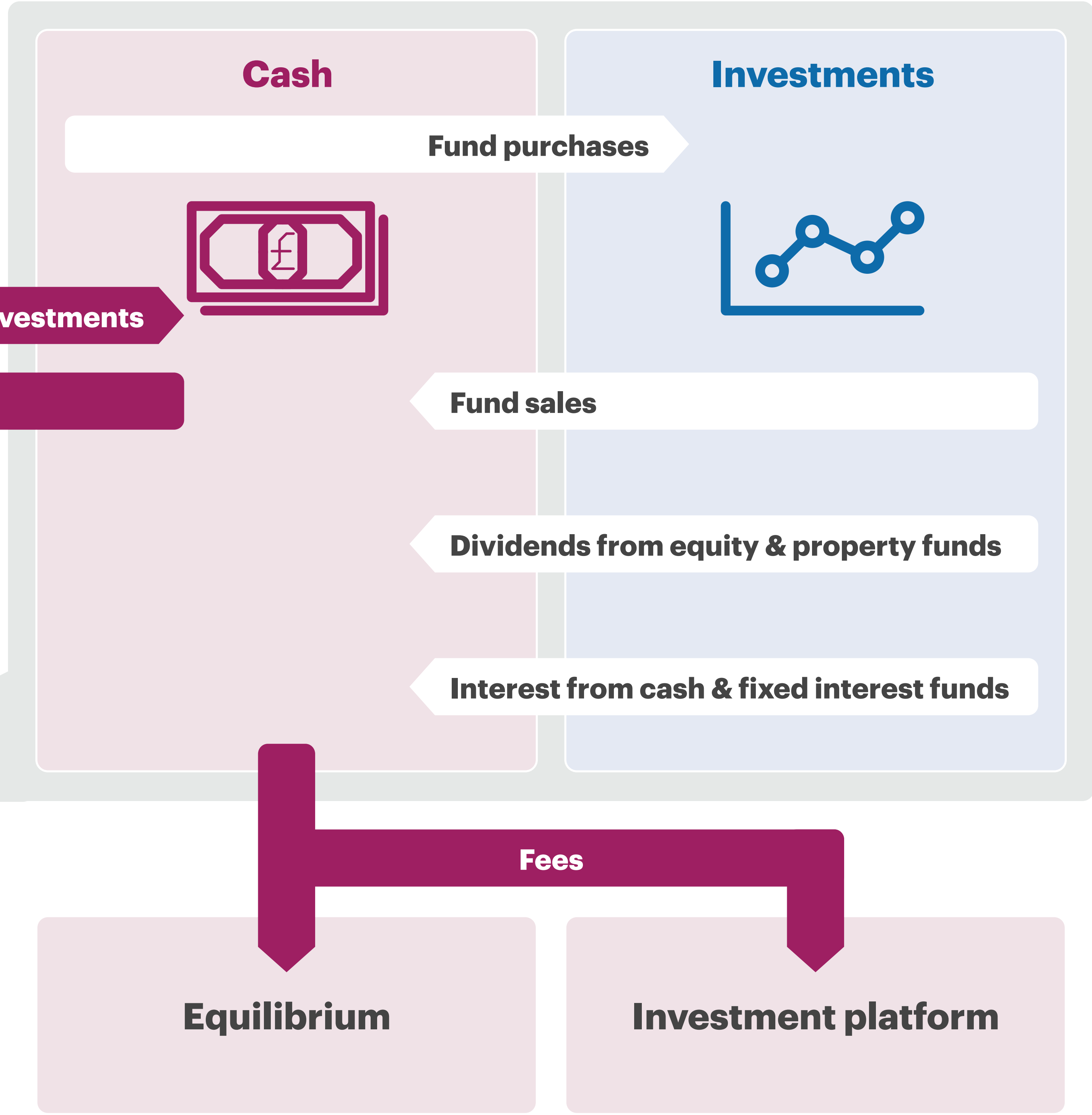
It effectively allows you to invest in a number of different product types (or wrappers) without the need to use multiple providers.



Important to know

Withdrawals can be made to either the client's linked bank account or other products within the same or linked wrap account.

Looking inside a product wrapper



As shown above, each product wrapper contains cash in addition to the investment funds to facilitate the operation of the account. Within each contract you must generally hold 1% in the cash account, which is used to cover charges.

Our preferred providers

We currently use three preferred investment platform providers and one investment fund provider. We can also hold our Core funds* directly if appropriate. We may recommend one or more of these options depending on your individual circumstances. The main features of these providers are below:

	Provider	Details	Available products	Discretionary management available**	Statement frequency	Additional Features
Investment platform	**Nucleus Financial Services** Nucleus HQ, Greenside, 12 Blenheim Palace, Edinburgh EH7 5JH **t:** 0131 226 9535 **e:** client.contact@nucleusfinancial.com **w:** www.nucleusfinancial.com/client-home	Nucleus was founded in 2006 by a number of Independent Financial Advisers (IFAs) who wanted to create a platform where the client is the central focus of its service.	• General Investment Account • ISA • Pension and Drawdown Accounts • Onshore and Offshore Investment Bonds	Yes	Quarterly	• Flexibility to move between multiple product wrappers. • No additional charges for moving to a pension drawdown account and taking income payments. • Discounted fee structure for holders of our Core funds.
Investment platform	**Seven Investment Management (7IM)** 55 Bishopsgate, London EC2N 3AS **t:** 0203 823 8599 **e:** ps3@7im.co.uk **w:** www.7im.co.uk	7IM was founded in 2002 and offers a variety of different investment services, including their wrap platform. The platform was originally developed to provide a discretionary management service to 7IM's high net worth clients. In 2005, it was then opened up to other financial advisers, who were looking for a cost effective way to manage their clients' assets.	• General Investment Account • ISA • Junior ISA • Pension and Drawdown Accounts	Yes	Quarterly	• A loan service is available where clients can borrow up to 50% of the value of assessable assets. • Foreign shares, investments and currencies can be purchased if appropriate. • Live trading stockbroking service provided within standard platform cost.
Investment platform	**Transact** 29 Clement's Lane, London EC4N 7AE **t:** 0207 608 4900 **e:** info@transact-online.co.uk **w:** www.transact-online.co.uk	Launched in 2000, Transact is a well established platform providing various financial products to investors. The platform holds over £30bn of assets for more than 150,000 investors.	As Nucleus, plus: • Junior ISA • Lifetime ISA	No	Quarterly	• The only provider to offer a suitable Lifetime ISA product.
Investment fund provider	**Investment Fund Services Limited (IFSL)** Marlborough House, 59 Chorley New Road, Bolton BL1 4QP **t:** 0808 178 9321 **e:** ifslclientsupport@ifslfunds.com **w:** www.ifslfunds.com	IFSL is part of the Marlborough group of companies which has been managing funds since 1986 and has £10bn of assets under management. IFSL are the Authorised Corporated Director (ACD) of the Equilibrium Portfolio Funds and provide a full range of fund administration services.	• General Investment Account • ISA • Junior ISA	No	Six monthly	• No additional product fees are charged • Only available for holders of our Core funds.

Provider fees commence as money is invested into each product. They are usually based on daily values and collected monthly in arrears. Share dealing will incur additional charges on Nucleus and Transact. 7IM offers UK share dealing at no charge.

* **Our Core funds**: The IFSL Equilibrium Portfolio funds (see page 29 for further details).
** This refers to whether we currently offer discretionary management via this provider.

Our investment proposition

The description of our investment proposition can be separated into two subjects:
1) **Our investment philosophy**: how we create our ideal asset allocations. (Pages 22 to 27)
2) **Our investment strategies**: the practical application of our investment philosophy. (Pages 28 to 31)

Our investment philosophy

We have developed our own framework of fundamental principles to guide the decision-making process.

Our first principle:

There are four main places in which to invest your money.

The four asset classes we are referring to here are cash, fixed interest, property and equity. These are expanded upon in Where we invest (pages 22 to 23). You will note that we have added a fifth category of Alternative Equity which, although a variation of traditional equity, is worth explaining separately.

Our second principle:

We focus on the portfolio asset allocation. Everything else is of secondary importance.

Asset allocation: the mixture of assets in which a portfolio is invested. This is usually a diversified blend of asset and equity classes.

Extensive research has shown that this is the most important decision when creating an investment portfolio, with the individual stocks or funds purchased within each asset class of lesser significance.

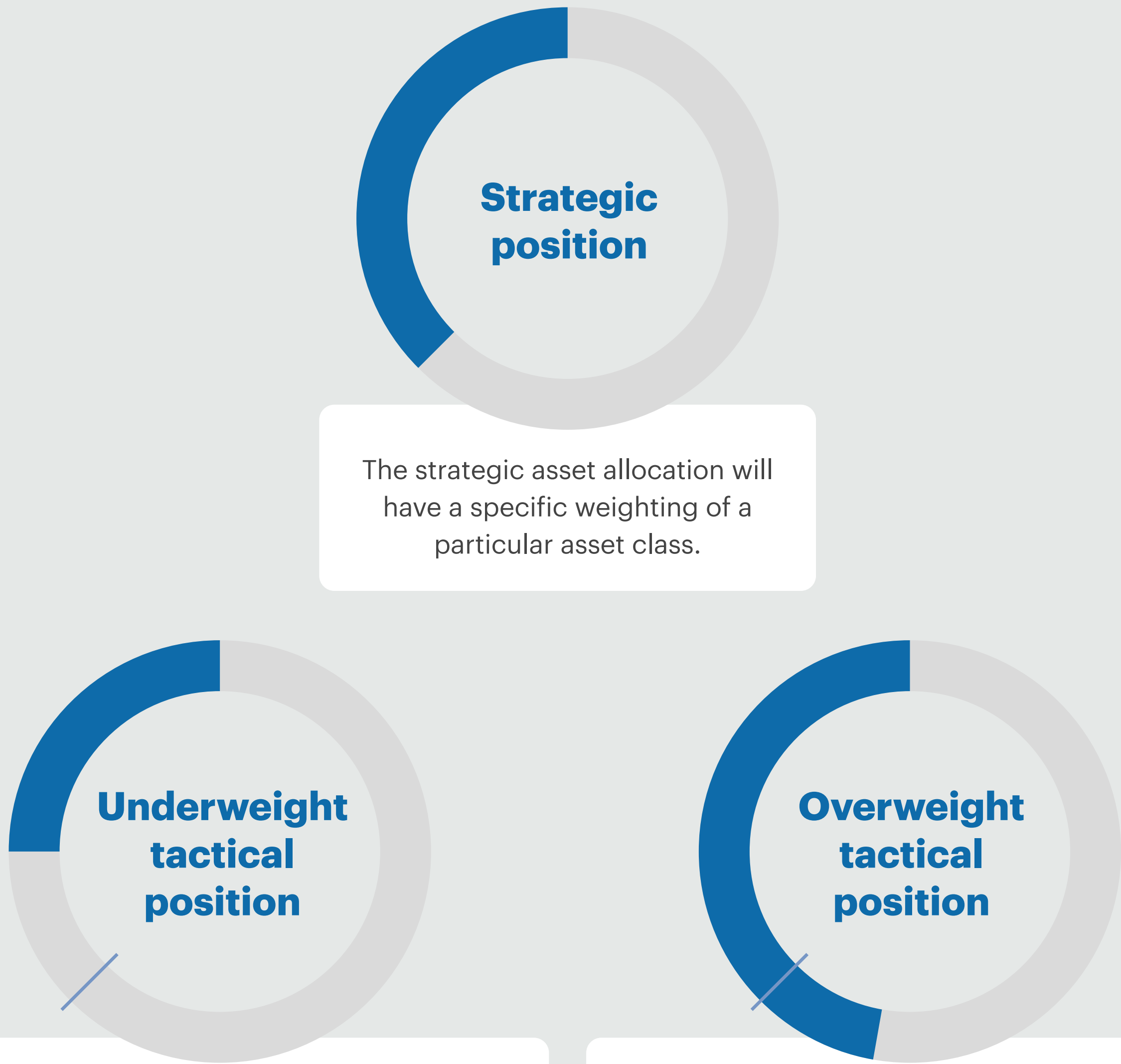
Our third principle:

A target asset allocation should be adjusted on a regular basis to take account of short-term market expectations.

We achieve this through **strategic** and **tactical** asset allocations.

Asset allocation	Description	Timeframe
Strategic	The theoretical target asset allocation. The foundation of the portfolio.	Long-term (5 years)
Tactical	The adapted strategic asset allocation taking into account current market conditions. The current portfolio target.	Short-term (18 months)

Taking tactical positions



The strategic asset allocation will have a specific weighting of a particular asset class.

If we felt this asset class had lower prospective returns, or higher risks than normal over the short-term, we might hold less exposure than in the strategic asset allocation.

Conversely, if we believed that the asset class had lower risks, or higher prospective returns over the short-term, we might increase exposure.

Key point

A tactical asset allocation could match its strategic foundation if all constituent asset classes were perceived to be valued normally.

The following pages outline the asset classes we use and then how these are combined to create our strategic asset allocations.

Where we invest

Cash

- Cash held in a bank account attracting a rate of interest.
- Returns are from interest payments only with no capital growth potential.
- Brings liquidity to a portfolio and allows us to act quickly or cover fees or withdrawals.

Fixed interest

- Funds investing in debt instruments, such as government gilts and corporate bonds. The underlying securities usually have a fixed rate of interest, but the capital value can go up or down.
- Returns are typically from interest payments combined with an element of capital growth.
- Usually regarded as lower risk than equities but can be affected by changes in interest rates or inflation. It is not always easy or quick to trade in the underlying securities as there is no formal exchange.
- We can also hold Short Dated Fixed Interest funds. These invest in fixed interest securities, which are relatively close to maturity, with the aim being to achieve returns just above those available from cash.

Property

- Funds that primarily invest directly in a number of 'bricks and mortar' commercial properties. Our property portfolio will have no more than 20% in property shares.
- It takes a long time to buy or sell a building so this asset class can be relatively illiquid.
- Returns are from rental income or capital growth in the value of the underlying properties.

Alternative equity

- Funds that utilise non-traditional investment styles including long/short funds, hedge funds, structured products, private equity, currencies, infrastructure, commodities and other alternative investment classes.
- It is expected that this asset class will have some equity correlation but will typically have lower volatility than traditional equity.
- Returns are likely to be all capital growth related. Although income can sometimes be generated, it is generally very low.

Increasing risk and return

Equity

- Funds that predominantly hold shares in companies listed on a recognised stock exchange.
- Usually viewed as a long-term investment with high potential returns, but with potential for significant losses.
- Returns are from capital growth and company dividends.
- Our equity portfolios are made up of five core equity classes that we blend based on market conditions.

UK equity

UK conservative equity

Funds that invest in companies that typically have lower volatility than the market as a whole. We tend to use actively managed funds which often employ an equity income style of investing, often with substantial exposure to larger companies.

UK all companies equity

Funds that invest in the UK stock market as a whole. These tend to be index tracking funds with a passive investment strategy.

UK dynamic equity

More aggressive funds that will typically have greater volatility than the market as a whole. These funds will often take more risk by investing in smaller companies, or those companies with special or unusual circumstances.

Global equity

Global established equity

Funds investing in companies listed on the established and developed global markets of North America, Western Europe and Japan. This will include large and small companies in these regions.

Global speculative equity

Funds investing in companies listed on emerging and undeveloped global stock markets. These markets tend to have higher volatility and associated risks.

Important to know

Our tactical portfolios also invest in **Defined Returns**. These return a defined rate if the underlying index is above a specific level on the anniversary of the product (known as the 'kick out' date).

Expected returns

Our investment approach is to seek an appropriate balance between risk and return. We have developed our strategic asset allocations with this in mind, to target increasing levels of return at consequently rising levels of risk. This relationship between risk and return is explored below.

We have assigned an expected annual growth rate (AGR) assumption to each asset class from the previous page. These are based on a long-term inflation assumption of 2% in conjunction with past behaviour. When we construct a strategic asset allocation, we therefore derive an expected AGR from that particular blend of assets.

The chart below shows this for our balanced strategic asset allocation which is designed to return 5% per annum above inflation. The expected performance ranges based on historical data are also shown for context (source: Financial Express, please see the appendix for how these historical figures are calculated). These ranges give an idea of the annualised variations in performance that could be expected over a typical five-year period.

Asset class	◇ Expected return[1] %	Historical high[2] %	Historical low[3] %
Cash	2.00	4.74	0.36
Fixed interest	5.00	9.11	1.67
Property	6.00	15.34	-2.20
Alternative equity	8.00	13.19	1.21
Equity	9.00	19.95	-4.52
Balanced strategic asset allocation	**7.00**	**14.05**	**1.35%**

1 Long-term expected annual return assumption for each asset class. 2 The best five-year annualised return between 1990 and 2017. 3 The worst five-year annualised return between 1990 and 2017

Key point

Our portfolios are designed to be held for a minimum of five years. As such, the expected and historical returns quoted above are also over five year periods. It is only when you have five years of annual returns data that your performance can be compared with our expectations. Returns over shorter periods can be much more volatile.

Important to know

Actual returns could of course be higher or lower than our expected figures. They could even exceed the historical ranges if market conditions are more volatile in the future than we have seen in the past.
In other words, returns are not guaranteed and your capital is at risk. You may not get back the amount originally invested.

Our target asset allocations

We have three strategic portfolios (shown opposite) which act as the long-term target asset allocations for most of our clients. Each level of risk has progressively more equity and therefore correspondingly lower levels of the other asset classes.

Financial Express

The data we use for analysing risk and return is sourced from Financial Express (FE), the UK's leading investment ratings and research agency. FE are completely independent and not affiliated to any asset manager or other financial institution.

We use FE Risk Scores to assess the level of risk within our asset allocations. These scores define risk as a measure of volatility relative to the leading 100 shares in the UK, which has a rating of 100. Other assets are then given a relative score as shown below:

150	More volatile than the benchmark (150% of the benchmark)
100	**Benchmark: UK leading 100 shares**
50	Less volatile than the benchmark (50% of the risk of the benchmark)
00	Cash

Scores are recalculated weekly on a rolling three-year total returns basis. Funds need an 18-month track record to be eligible for a FE Risk Score. A decay factor is used so that older values carry less weight, meaning that the scores are responsive to recent events without being excessively sensitive.

FinaMetrica Mapping

We map FE Risk Scores to the FinaMetrica risk profiling system and thereby assess the relative suitability of an asset allocation for different levels of risk tolerance. This is shown for our strategic asset allocations by referring to levels of comfort. We show the comfort ratings of an asset allocation as follows:

38 | Comfort Rating | 28

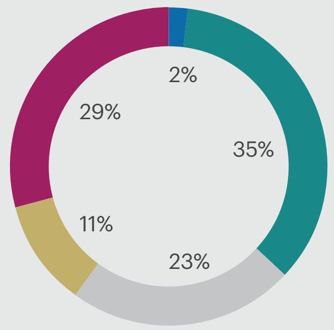
Comfortable
With this FinaMetrica score (or above) you would be generally comfortable with the level of risk being taken.

Occasionally uncomfortable
If your score is within this range, you might be occasionally uncomfortable with the level of risk.

Uncomfortable
With this FinaMetrica score (or below) you would be uncomfortable with the level of risk being taken.

Increasing risk and return

Cautious strategic asset allocation

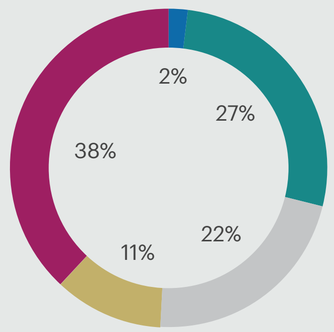


FE risk score
35

34 | 24
Comfort rating

Long-term expected returns
High 13.0%
6.7%
Low 1.7%

Balanced strategic asset allocation

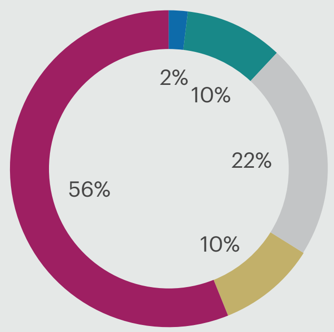


FE risk score
40

38 | 28
Comfort rating

Long-term expected returns
High 14.1%
7.0%
Low 1.4%

Adventurous strategic asset allocation



FE risk score
55

49 | 40
Comfort rating

Long-term expected returns
High 16.1%
7.7%
Low 0.5%

Cash | Fixed interest | Property | Alternative equity | Equity

Selecting an investment strategy

This is the culmination of our portfolio construction process. Your planner will have completed their tax efficiency and product flexibility review and the portfolio structure will have been established. The final piece of the jigsaw is therefore how to apply our investment philosophy.

Your planner will approach their recommendations in four stages:

Target setting

1 Overall portfolio target

2 Individual product targets

Investment selection

3 Investment options

4 Management style

Target setting

Stage 1: Overall portfolio target

Your objectives and views on risk are the primary considerations when setting this target. We will look to select an option which achieves your requirements at the lowest level of risk. Most client portfolios are targeted to one of our strategic asset allocations, but there are also situations where alternative targets might be appropriate.

Stage 2: Individual product targets

Once the overall target has been established, we will then look at how each product should be aligned with this. In many cases, it is appropriate for each product to simply be invested in line with the overall target. However, there are also circumstances where it makes sense to vary risk levels between products, for example:

- Taking more risk in longer term investments, such as pensions.
- Working with a product that has a restricted fund range.
- Taking less risk in personal assets as part of an estate planning strategy.

Investment selection

Stage 3: Investment options

Your planner has access to a range of flexible investment options provided by Equilibrium Investment Management LLP (EIM):

	Core	Select
Overview	Three unique investment funds that correspond to our strategic asset allocations, managed by our in-house investment managers. These funds are held by clients at all asset levels and are the simplest way to access our investment expertise.	An ongoing investment management service provided by EIM. This is our alternative to investing in the Core fund range. The underlying investment holdings will usually be the same as the Core funds. If product flexibility does not allow this, other suitable investments will be selected.
How it works	Your planner would simply recommend one or more of the following funds are held within your products or direct with IFSL: - IFSL Equilibrium Cautious Portfolio A Acc- IFSL Equilibrium Balanced Portfolio A Acc - IFSL Equilibrium Adventurous Portfolio A Acc Your products and fund holdings are then monitored on a regular basis by your planner.	An ongoing investment management service provided by EIM. This is our alternative to investing in the Core fund range. The underlying investment holdings will usually be the same as the Core funds. If product flexibility does not allow this, other suitable investments will be selected.
Asset allocation changes	These are completed within each Core fund by our investment managers. This means that the asset allocation and underlying holdings will always be up to date with any changes.	Implementing changes can be complex and client specific. Transactions will be undertaken in bulk where possible, but manual intervention is often necessary.

We also offer a **Specialist** service option as part of **Select**. This is a series of more specialised investment options for clients with specific requirements, such as part of an estate planning strategy. This includes our Alternative Investment Market (AIM) portfolio.

Your planner could potentially recommend both Core and Select options for your portfolio. However a particular product must either be one or the other; it cannot be split between the options.

Investment selection

Stage 4: Management style

Select

We can agree for EIM to manage a product within your portfolio in one of two ways:

Advisory: An investment manager will make recommendations in relation to your portfolio. You will then decide whether to proceed each time.
Discretionary: You will delegate ongoing investment decisions to our investment managers. They will be able to make appropriate changes to your investments without contacting you first.

Your planner will recommend an appropriate style to match your investment objectives for each individual product. Discretionary management is only available via our preferred investment platforms. Further information on these management styles can be found in the appendix.

Core

As specified on the previous page, we do not provide an ongoing investment management service for the Core funds as the asset allocation changes take place within the funds themselves. As such, any changes to the funds are undertaken on an advisory basis following recommendations by your planner. That said, we look to amend this position slightly for products held with Nucleus and 7IM. This is because:

- On an investment platform we need to maintain a cash balance for monthly fees and withdrawals.
- In our experience, platforms cannot effectively manage cash levels without our regular intervention.
- On an advisory basis we would need to make a recommendation and obtain your agreement to proceed, even if the change is minor. This is inefficient and could cause delays.

We would therefore recommend a cash monitoring facility should you hold our Core funds on an investment platform. This would allow us to monitor and adjust cash levels on your behalf using EIM discretionary permissions.

Core+

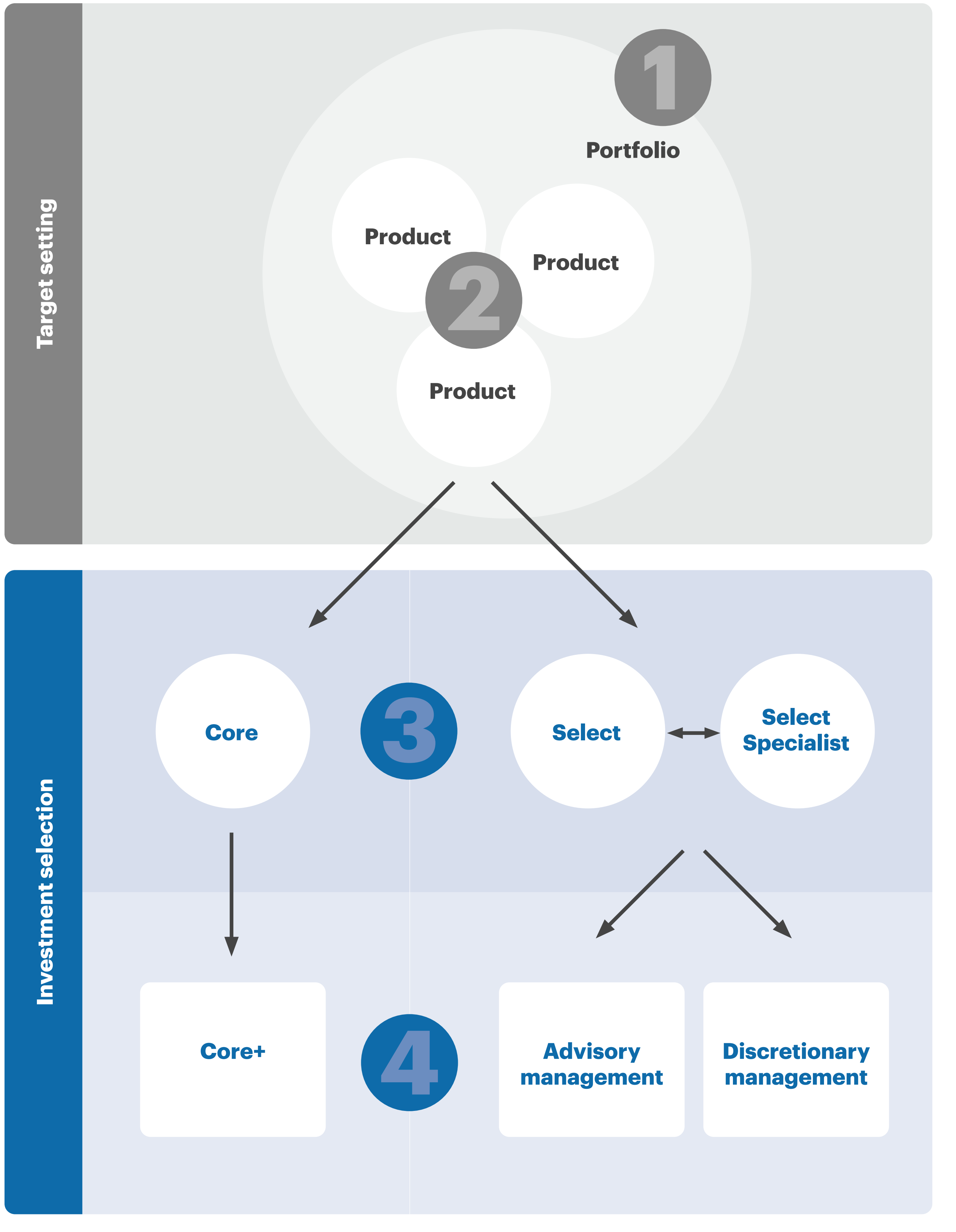
We will still treat your investments as being advisory. This is because discretion is **very** limited as follows:

- We **can** sell Core fund holdings to create cash for regular and ad hoc withdrawals, inter-account transfers or fees.
- We **can** also adjust cash levels within each product to efficiently keep cash to a minimum, targeting 0.5% of the product value.
- We **cannot** sell a Core fund for any other reason, such as to switch into another Core fund. This would require a written report from your planner.

Your Service Agreement will specify the products where Core+ cash monitoring applies. There are **no additional fees** for Core+ due to the efficiencies created. You can opt out but should be aware of the increased chance of transactions being delayed.

Investment strategy matrix

The diagram below summarises the last three pages, showing the flow of the process from start to finish.



How your money is protected

An overview of how your investments are protected is provided below. This is a complex subject, so please do not hesitate to speak to your planner if you would like further information or clarification.

The Financial Services Compensation Scheme (FSCS) was established in 2001 and is the UK's fund of last resort for clients of authorised financial services firms. It protects consumers when firms go bust, providing compensation if a firm has stopped trading or does not have enough assets to pay the claims against it. The cover is provided against the firms that provide the investments or give the advice to invest, not the investments themselves. In other words, in order to claim under the FSCS:

- You would need to have experienced a financial loss as a result of bad advice, fraud or mismanagement.
- The authorised firm responsible would need to be in default.
- The loss could not be from poor investment performance.

Compensation limits

The amount of compensation available would depend on the basis of your claim as shown below. Please note that the stated compensation limits are per person, per firm.

Cash Deposits - £85,000
This applies to cash in a bank or building society and sometimes on an investment platform. If you have cash deposits over the limit with one provider, it is good practice to look at spreading this over a number of providers to stay within the compensation limits.

Investments - £50,000
This applies to cash in a bank or building society and sometimes on an investment platform. If you have cash deposits over the limit with one provider, it is good practice to look at spreading this over a number of providers to stay within the compensation limits.

The factors to consider here are:

- If the fund management firm goes into liquidation, there are safeguards in place to prevent the assets of its investment funds being used to bail it out. This is known as ring-fencing i.e. the assets owned by each fund are held and accounted for completely separately from any other assets owned by the fund manager itself.
- Conversely, if there are losses in a fund due to fraud or mismanagement then the corporate assets of the fund management firm can be called upon to cover these losses. If this does not provide sufficient assets to meet the claims for losses within the fund, this is where FSCS protection would kick in.

Long-term insurance - 100% without limit
Applies to insurance companies providing pension and onshore investment bond products. Protection for offshore investment bonds depends on the nationality of the provider.

The table below provides a summary of the FSCS cover available relevant to clients of Equilibrium

Claim against	Product provider	Product type	Cash deposit compensation limit	Investment compensation limit
Equilibrium	N/A	N/A	N/A	£50,000 per person
An investment platform or funds (including our Core funds) held on an investment platform	Nucleus, 7IM or Transact	ISA, general, pension	£85,000 per person per provider	£50,000 per person per provider
	Sanlam Life & Pensions Limited (Nucleus)	Onshore Bond	N/A	100% without limit
	RL360 (Nucleus)	Offshore Bond	N/A	Protected by the Isle of Man Policyholders' Compensation Scheme: 90% of the liability
The provider of our Core funds when held direct	IFSL	ISA, general	N/A	£50,000 per person
Other providers	Investment providers	ISA, general, pension	£85,000 per person per provider	£50,000 per person per provider
	Insurance companies	Pensions and onshore bonds	N/A	100% without limit

Key point

All regulated fund managers have to publish annual reports subject to external audit and FCA scrutiny. The fact that client money is segregated means that it might not actually be necessary to claim under the FSCS as the fund assets themselves should be unaffected.

Important to know

Direct shares and our defined returns products are not covered by the FSCS.

Appendix

Historical Annual Growth Rates (AGR)

As our portfolios are designed to be held for a minimum of five years, the historical growth rates that we use for our asset classes are also over five year periods. The figures we use are based on a combination of historical index average returns and unit trust sector average returns and assume no active asset allocation changes or rebalancing. The data looks at five year periods since 1990, which is when many of the benchmarks were launched. If we considered earlier figures this could change the results. However, this period includes various good and bad times for each of the asset classes and so we believe it provides a good indication of how returns vary. The indices used to produce the figures are as follows:

Asset class	Benchmark used
Equity	UK Allsahre Index
Alternative equity	UT Mixed Investment 20-60% Shares Sector
Property	IPD UK All Property Index
Fixed interest	80% UT Sterling Corporate Bond Sector; 20% UT Gilt Sector
Cash	UT Money Market Sector

All figures are taken from Financial Express. Returns are gross with the exception of cash, where figures are shown net of 20% tax. The quoted figures also ignore rebalancing and any tactical changes we would have made. We use this data to show what the best and worst five year periods have been for each asset class and therefore each asset allocation over that period.

Things you need to know about our Select advisory service

- Recommendations under our advisory service will lag those of our discretionary service due to the time involved in making the specific recommendations and the potential additional time of processing the switch. A delay could have a negative effect on the performance of a portfolio.
- All recommendations will be accompanied by a short written report from an EIM Investment Manager explaining our advice and anything that you may need to consider, including costs, benefits and risks. The changes will only be processed after we have your permission to proceed.
- Investment switches may be completed online if we are able to do so. In certain cases we will require written authority or a client to complete a switch form.
- When managing assets where we cannot undertake electronic dealing, trades may take significantly longer to be carried out, due to instructions often being required by post. You may therefore experience a delay following your agreement to proceed with a switch.

Things you need to know about our Select discretionary service

- By giving us discretion to manage your portfolio you are giving up an element of control. We will not contact you before making most changes to your portfolio. You will not generally have the opportunity to turn down a proposed transaction in advance.
- Changes we make to your portfolio could have a negative effect on performance. Changes that we make to your portfolio could give rise to a tax liability, particularly capital gains tax.
- If your circumstances have changed and we have not been made aware, we may make investment decisions which could turn out to be inappropriate given your new requirements.

Other factors to consider

As outlined in the 'Where we invest' section (page 22), our portfolios will potentially invest across the following areas: fixed interest, property, structured products and equities. You should therefore be aware of the following factors:

- Fixed interest investments are sensitive to interest rate movements and the value of your capital can fall as well as rise.
- All funds, particularly property funds, can enforce a time delay on any withdrawals should market conditions dictate. They can also change the pricing basis of their fund from an 'offer' to a 'bid' price, which can have the effect of devaluing the fund overnight. Whilst this is more prevalent with property funds it can apply to any fund.
- Where a fund holds illiquid assets, such as property, the value can sometimes be considered to be a matter of opinion rather than fact.
- The returns of our defined returns products are provided by a counterparty. If that counterparty goes bankrupt, you could lose some or all of your money. These products are not covered by the Financial Services Compensation Scheme (FSCS). The returns generally depend on the performance of a stock market index. If the level of that index falls during the term of the investment you may lose some or all of the original amount invested. Even though the products are linked to the performance of a stock market index, you will not receive any dividend income from the companies that make up that index.
- Whilst equity investments generally carry potential for greater returns over the longer term relative to investment in other asset classes, the volatility of these returns is also generally greater, thereby increasing the potential for capital loss. Some of our equity holdings are based overseas, you should therefore note that changes in exchange rates between currencies may cause the value of your capital and/or income to increase or decrease.
- Alternative equity has many of the same risks as traditional equity.

Strategic asset allocation benchmark

Our strategic asset allocations are all benchmarked against the **UT Mixed Investment 20-60% Shares** sector. UT refers to Unit Trust. Data from FE.

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