OPES
INDEPENDENT FINANCIAL ADVISERS

Investment Risk & Risk Profiling

This independent guide is designed to support the financial planning you receive from your Opes™ Financial adviser and is not linked to any specific product or product provider so you can rely on its objectivity.

What is Investment Risk ?

Whether you are investing to generate growth, income, funding retirement, buying your first home, starting or growing a business, multiple goal building through Opes™ Financial's Life™ Plan service or simply to make your savings work as hard as possible, the two questions you are most likely to ask before investing are: 'What can I gain?' (your potential reward) and 'How much do I stand to lose?' (your potential risk).

This guide will help to explain how risk profiling, as part of the investment planning process, answers these questions. It will also explain why independent, objective risk profiling is important for both investment selection and the ongoing management of your money, and how the Dynamic Planner service used by your financial planner supports this.

But let's start at the beginning - with risk and reward. The Oxford English Dictionary states that one definition of risk is 'the possibility of financial loss' and defines reward as 'to receive what one deserves'. *As investors, we are generally much more concerned with how much money we could lose, than the amount we could gain, which means that assessing and managing risk forms a large part of the investment process'.

Some of the most common investment risks are:

- Capital risk – the risk of not getting your money back
- Currency risk – the risk associated with investing in more than one currency
- Geographical risk – the risk associated with investing in more volatile or risky countries
- Inflation risk – the risk that your investment does not keep pace with inflation, making it worth less over time
- Interest rate risk – the risk of interest rate changes
- Product risk – the risk that your investment changes and no longer meets your original requirements (this can happen if a fund objective changes to become less cautious, for example)
- Volatility risk – the extent and frequency that investments rise and fall (a highly volatile investment can vary significantly on a daily basis, for example)

In the face of so many potential pitfalls, choosing the right investment can be tricky, which is why so many people choose to rely on professional financial advice to help them.

[1] Amos Tversky and Daniel Kahnman, Loss Aversion In Riskless Choice: A Reference-Dependent Model, The Quarterly Journal of Economics, November 1999.

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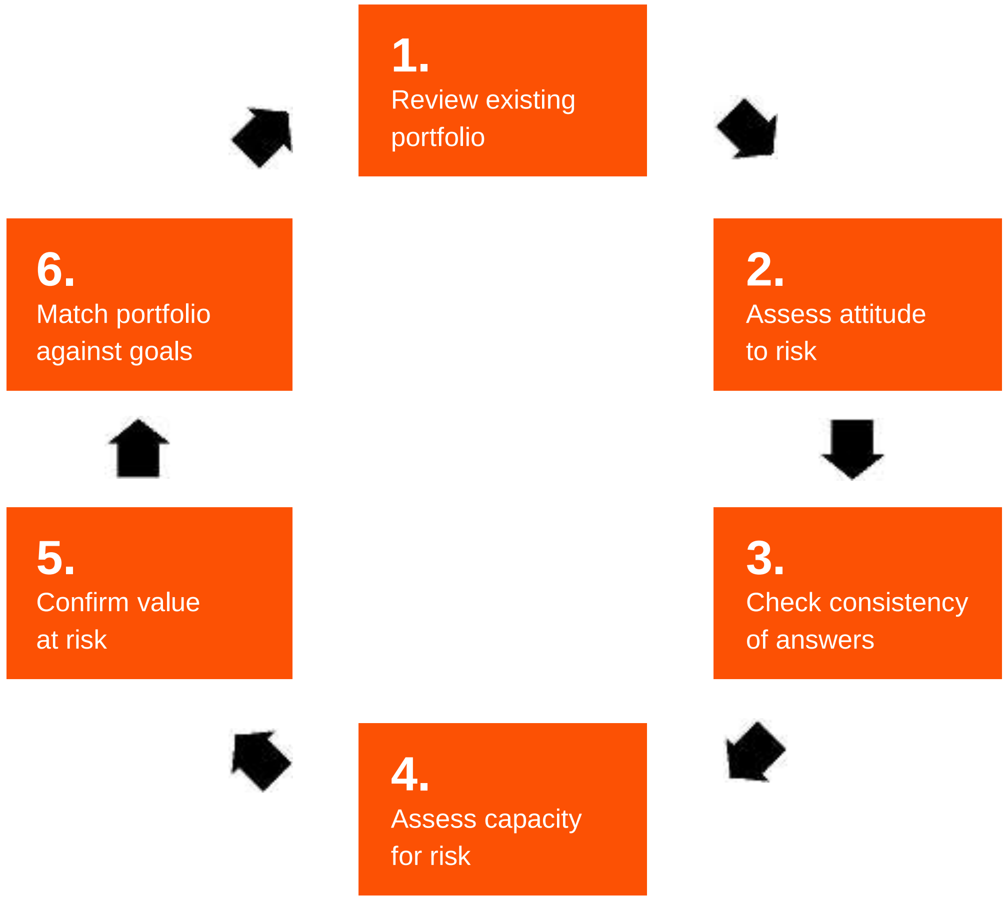
What is Risk Profiling ?

Opes™ Financial's risk profiling process is used to help identify both our clients' attitudes towards investment risk and how much risk a client can afford to take. Ultimately our aim is to ensure both initial and ongoing investment suitability for our clients.

It is suited to the majority of individual adult UK investors and their partners. For those with significantly large investable assets, additional factors need to be taken into account, such as properties or privately held company shares that are substantial in value, as they can offset the attitude to risk results.

There are six steps in our risk profiling process :



These steps help to build a deeper insight into your requirements and ensure that the final outcome is an accurate and fair reflection of your risk profile as well as your capacity to tolerate possible losses. We now examine each step of the process in turn.

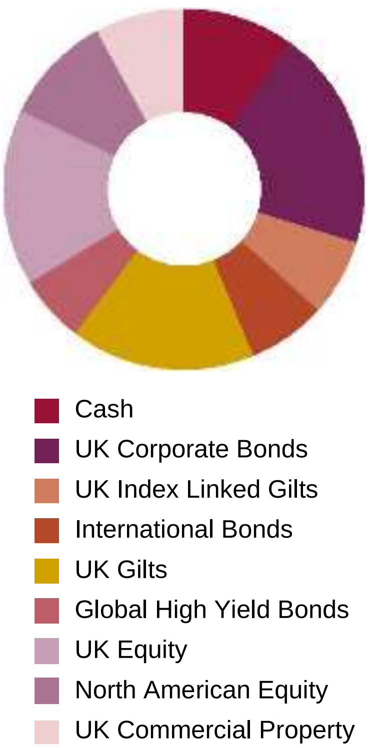
Review Existing Portfolio

How much risk are you already taking with your existing portfolio ? Most people are unaware of the risk that their existing investments represent, particularly if they have been investing for many years.

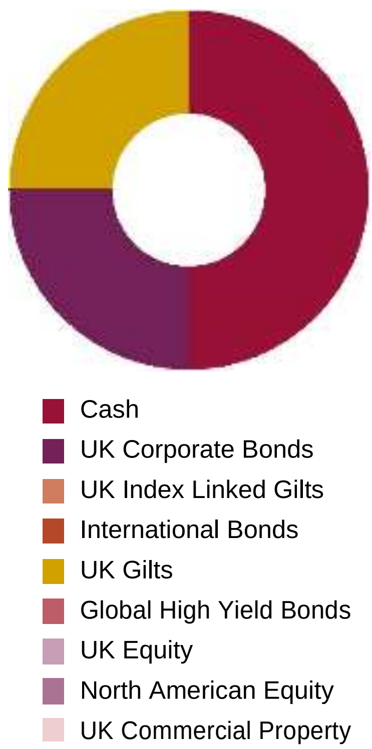
It's common to start a review of your existing portfolio by seeing where it is invested and how much risk you are already taking. This could be too much or too little to meet your requirements and is why it is important to assess both your attitude to risk and capacity to accept any investment losses (i.e. how these might impact your standard of living).

The pie charts show an example of how an existing portfolio compares to a target risk profile in terms of the asset allocation (i.e. its investment mix). Studies have shown that asset allocation is responsible for more than 90% of the variation in returns[2] and so understanding this is an important starting point.

Target Asset Allocation



Current Asset Allocation



[2]Gary P. Brinson, Brian D. Singer, and Gilbert L. Beebower, Determinants of Portfolio Performance II: An Update, The Financial Analysts Journal, 47, 3 (1991).

Assess Attitude to Risk

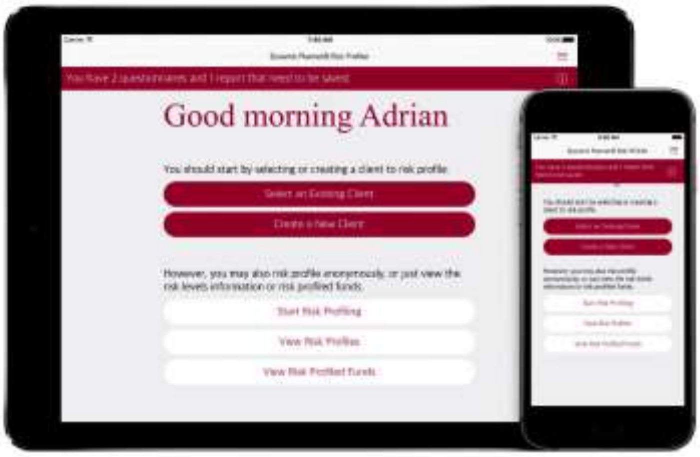
Although each investor is unique, it is possible to categorise someone's attitude to risk using proven psychometric profiling techniques. Psychometrics is the branch of psychology that deals with the design, administration and interpretation of tests to measure psychological factors such as experience, aptitude and personality traits.

In this case, psychometric profiling identifies characteristics such as tolerance for ambiguity, desire for profit and investment experience. These are all general predictors of your likely tolerance for risk and provide a good indication of how you may feel about taking a risk with that investment.

Using psychometric risk profiling to determine the risk you are willing to take typically involves completing an attitude to risk questionnaire. You may be asked to complete this on paper or via an app. Find a quiet moment where you won't be disturbed to complete the questionnaire on your own. Don't over think your responses; there are no right or wrong answers.

Opes™ Financial uses a 10 question version of Dynamic Planner's risk questionnaire, which was developed in conjunction with Oxford Risk, a company led by academics from the University of Oxford who have considerable expertise in this sector.

Your answers are a good starting point for discussing your attitude to risk and your future goals with your financial planner.



The questionnaires take into account a number of factors, which are known to be excellent predictors of your attitude to risk, including :

- Risk Sensitivity
- Investment time horizon
- Desire for profit
- Financial awareness
- Tolerance for ambiguity
- Investment experience
- Outlook
- Suggestibility

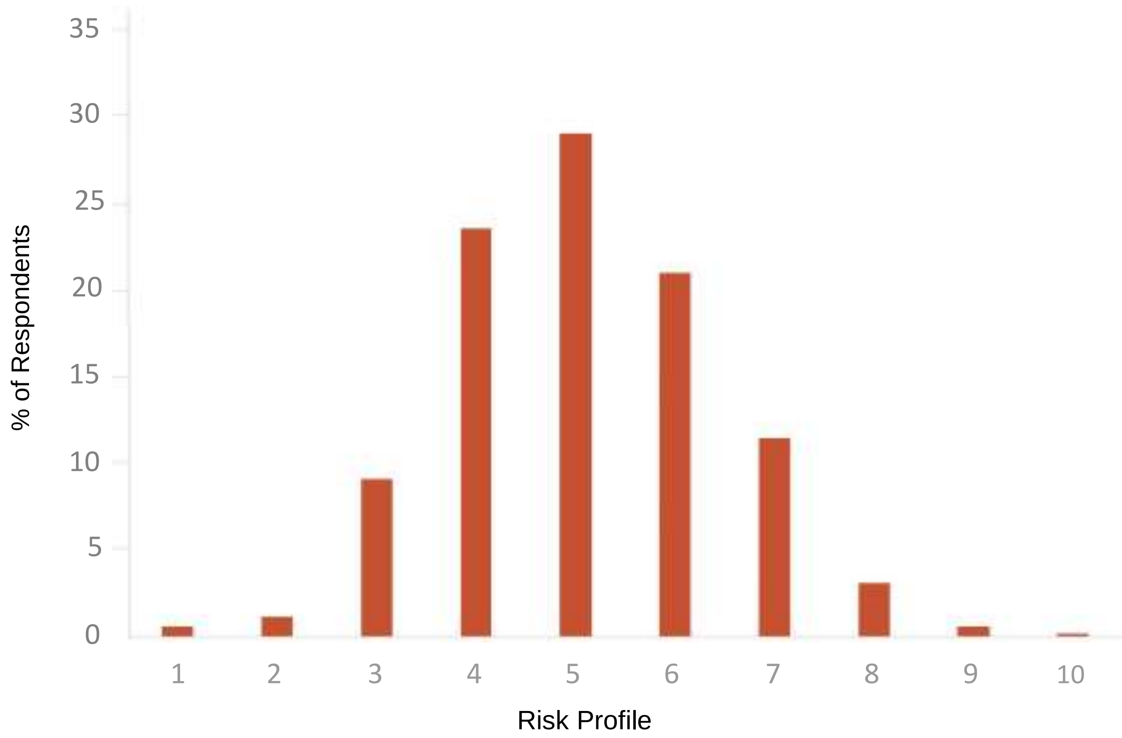
As well as providing input into the questionnaire, Oxford Risk helped with calibrating the range of outcomes on a scale of 10 risk levels.

Risk Profiles									
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Lowest risk	Very low risk	Low risk	Lowest medium risk	Low medium risk	High medium risk	Highest medium risk	High risk	Very high risk	Highest risk

Each risk profile is aligned to a description and to ensure clarity, each uses simple language that has been clarity approved with a Crystal Mark from the Plain English Campaign.

Crystal Mark 19858 Clarity approved by Plain English Campaign

Each risk profile represents a proportion of the population, helping you see where you sit in your risk profile versus other investors. You can see where you are using the chart below. The taller bars represent the more popular risk profiles:



Source: Dynamic Planner Intelligence Report, Q1 2016 covering 88,410 respondents and their final selected risk profile.

Your attitude to risk is generally expected to stay constant over time. Much like your personality, while it does develop over the years, particularly as you gain more investment experience, it is unlikely to shift dramatically (for instance, from Risk Profile 3 to Risk Profile 7). What can change significantly however, is your capacity to take risk and this is explored in the next page : Assess capacity for risk.

Check Consistency of Answers

While the psychometric tests and 10 associated risk profiles have their basis in science, we are all individuals and it may be that there are particular aspects of your attitude to risk that need to be discussed.

Over the years, the team behind Dynamic Planner has developed algorithms (problem - solving programs) based on hundreds of thousands of investor responses, which can help highlight areas for discussion.

Your Opes™ Financial planner will review your completed questionnaire with you and may take the opportunity to discuss your answers. There are no right or wrong answers but it is important that your investment plan is suitable for you as an individual.

Assess Capacity for Risk

The next step in the risk profiling process is to assess your capacity for risk, by exploring the impact that possible losses may have on your wider financial position.

This involves discussing the following key questions relating to your personal circumstances :

- How long you plan to invest for
- How much you can afford to lose
- How quickly you would need access to the investment

Your answers do not change the attitude to risk questionnaire results. However, the way they are captured helps to prompt meaningful discussions with your Opes™ Financial planner and also provides a proper record behind the ultimate risk decisions taken.

It is not uncommon for us to have an attitude to risk that is different from our capacity to take it on. For example, younger but cautious investors investing for their retirement might have the capacity to take on more risk than they feel comfortable with, as they are unlikely to need access to their investments for many years. They might have a higher likelihood of achieving their goals if they were to take that extra risk.

Conversely, someone approaching or in retirement who has a high psychometric attitude to risk score may not have the capacity to take risk on, given their need for greater certainty of income. Again, discussing attitude and capacity with your financial planner is an important part of the process.

Confirm Value at Risk

The risk descriptions identify that money can be lost as well as gained on investments. They also provide guidance on the potential returns, adjusted for inflation to reflect the spending power of money in the future. This is done over 1, 5, 10, and 20 years based on average, below average and above average performance expectations.

- Below average performance – a pattern of losses that an investor might experience resulting in the investment having a value below this figure 5% of the time. They can and do happen but it would be a rare set of circumstances over the period in which the investment was held. 95% of the time you would expect the investment to perform better than this. While extreme, it is helpful to think about what would happen if these circumstances did materialise. Can you afford to take the risk?

- Above average performance – a pattern of gains that an investor might experience resulting in the investment having a value above this figure 5% of the time. Growth which exceeds this level can and does happen but again it would be a rare set of circumstances. 95% of the time you would expect the investment to grow at less than this level.

- Average performance – a pattern of growth that an investor might experience resulting in the investment exceeding this value 50% of the time.

Put simply, 90% of the time you would expect investments aligned to the risk profile to perform between the two extremes described above, with average performance being in the middle ground.

For example, the potential losses and gains for £50,000 invested in Risk Profile 5 are shown below. Pay particular attention to 'Below average performance' as a good indicator of 'Value at Risk' in difficult market conditions.

Please remember these are not the maximum losses or gains in real terms that you might experience and cannot be guaranteed. They take into account average fund related ongoing fees, but not your personal tax situation.

Risk Profile 5	1 year	5 years	10 years	20 years
Below average performance	£43,600	£38,000	£35,200	£32,650
Average performance	£50,650	£53,200	£56,550	£63,900
Above average performance	£58,850	£74,400	£90,900	£125,050

Source: DT using Capital Market assumptions as at Q4 2015. Figures include allowances for ongoing investment fund related expenses, are subject to change on a quarterly basis.

Match Risk Profile Against Goals

The final part of the process that your Opes™ Financial planner may discuss with you is matching your risk profile with your long term investment goals. These may be as simple as growing or preserving your wealth or generating regular income in retirement. They may be more specific, for example, funding school fees or paying off a mortgage.

The risk you take with your investments will have an impact on the likelihood of achieving these goals and so checking on the range of returns you might receive for taking a given degree of risk is helpful. It may be that you can actually take less risk than you thought to achieve your goals or perhaps you may need to invest more in order to have a realistic chance of meeting them. Your financial planner will talk to you about matching your risk profile against your goals.

So there you have it, a professional comprehensive means of establishing a suitable level of risk for your investments ! The next step is building your investment portfolio to match your risk profile. Please visit www.opesifas.co.uk/investmentproposition for further information.