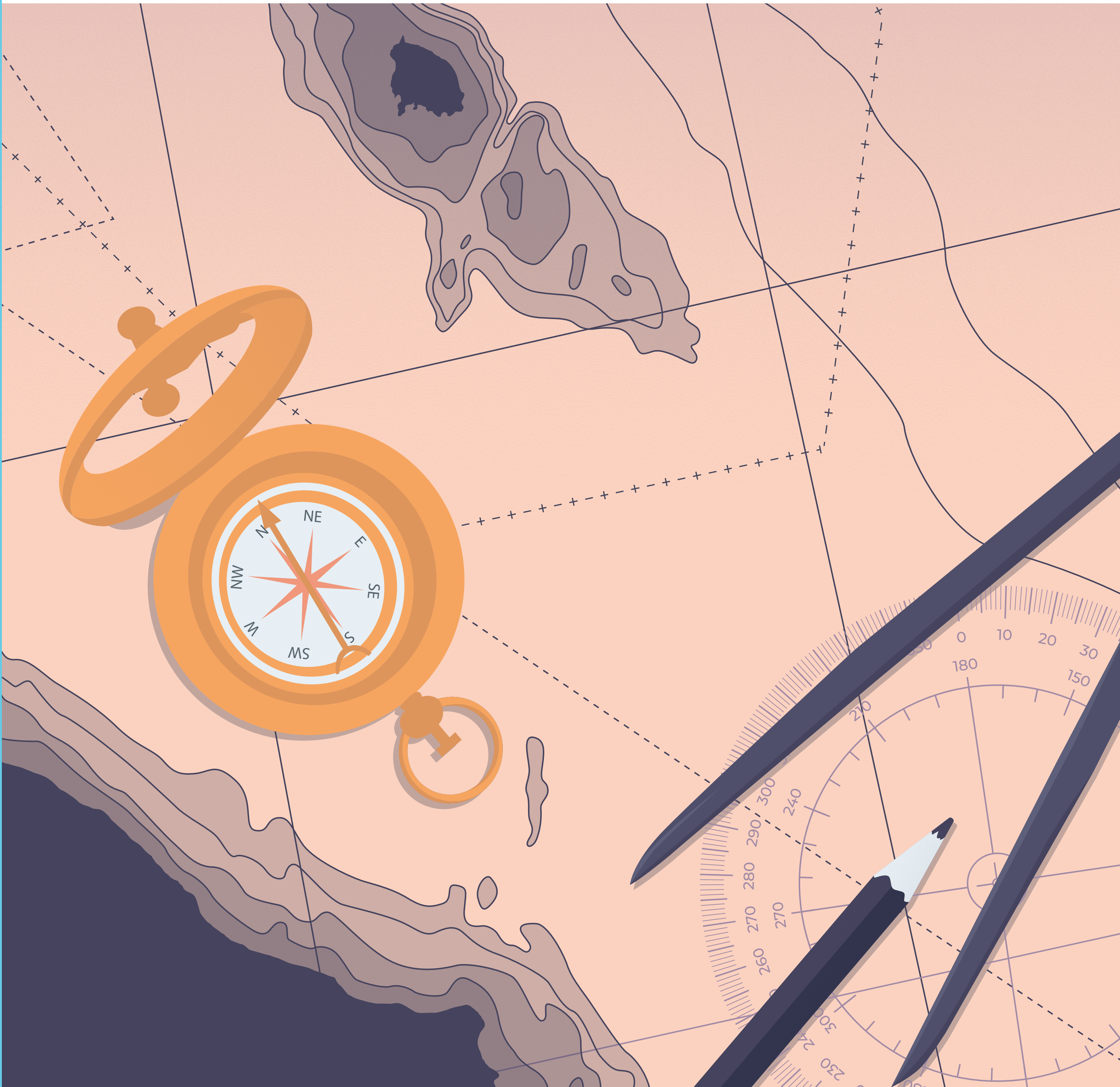
JM FINN

Investment | Wealth

# Wealth Management Service

## Investment Strategies and Risk



# What is risk?

**Risk can mean different things to different people and one person's tolerance of risk, can be very different to the next person's. Understanding risk is a key aspect of managing an investment portfolio.**

Like many other things in life, there is an element of risk in investing. Before getting started, it is important to be fully informed to ensure you know what you could potentially stand to gain, as well as what you could possibly lose.

## Why does risk matter?

Understanding how long you could tolerate a downturn in the markets helps us understand how to invest your assets in order to meet your investment objectives. Knowing your capacity to bear a loss, even for a short while, tells us how much risk to take and helps you understand what level of return you could accept for that risk.

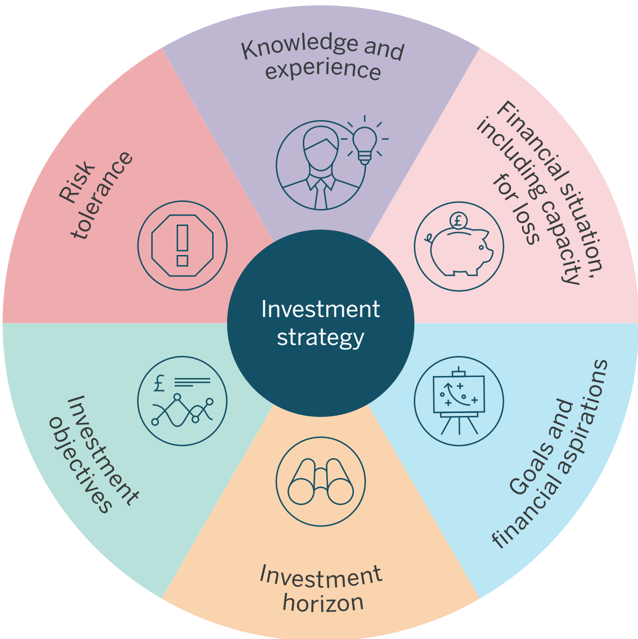
## How do we assess your level of risk?

We set expectations, using forward looking assumptions of the performance of a range of investment strategies, by defining the exposure we have to ‘risk assets’, which we define as equities (company shares).

To understand your investment criteria we have partnered with a behavioural finance specialist called Oxford Risk who have developed a financial personality assessment. This can be defined as an investor’s stable, long-term, reasoned willingness to accept the possibility of lower long-term outcomes for a greater chance of higher, long-term returns in the context of overall wealth.

The financial personality assessment consists of a series of questions which capture your risk tolerance and composure. The identified attitude to risk will then be used by us as part of a holistic suitability assessment in conjunction with your individual financial circumstances, your capacity for loss and your knowledge and experience as well as your investment horizon, investment objectives and current financial situation to arrive at an agreed investment strategy.

Your investment strategy is based upon:



## How do we manage your investments in line with your risk tolerances?

We offer a range of five risk strategies, which differ from each other by the amount of exposure they have to four core asset classes. Our primary measure of risk is determined by your portfolio's exposure to equity investments; generally, the more equity exposure, the higher the risk, and of course, the higher the potential for greater returns.

## JM Finn's investment strategies

| Portfolio risk level | Strategy name | Client risk tolerance | Exposure to company shares | Client capacity for loss | Typical time horizon (years) |
|---|---|---|---|---|---|
| 01 | Cautious | Low | Low | Cautious investor concerned about losing money | 5+ |
| 02 | Conservative | Medium low | Moderate | Cautious investor able to suffer a degree of loss | 5+ |
| 03 | Moderate | Medium | Significant | Able to tolerate temporary loss of capital | 5+ |
| 04 | Progressive | Medium high | High | Able to tolerate higher risk of losing capital | 5+ |
| 05 | Adventurous | High | High | Looking for capital growth with acceptance of a higher risk of capital loss | 5+ |

The outcome of the risk assessment may not necessarily match a given strategy and further discussion with your investment manager may be required before a final investment strategy is agreed.

Our five strategies offer clearly defined asset allocations to help you understand what your agreed risk categorisation could deliver and the risks you would be exposed to. The five strategies are anchored to a long-term strategic asset allocation determined by the split across four asset classes.

1. **Fixed Income:** these are instruments that generally pay fixed levels of interest and are split into two categories:
   I. Sovereign debt, such as UK government debt, more commonly known as gilts; and
   II. Corporate debt which is in the form of bonds issued by companies as a way of borrowing money from investors.
2. **Equities:** equities are investments in company shares that are traded publicly on stock exchanges. The likely level of risk will depend upon many factors such as the size of the company, whether it makes money, the type of business it is in, its track record, its future projections and how easy its shares are to sell.
3. **Diversifiers:** these are instruments designed to add diversification to a portfolio and deliver returns that are uncorrelated to the performance of stock or bonds. These can include investments into property, infrastructure or private equity, as well as commodities, such as gold; generally these are accessed via liquid, collective investment funds.
4. **Cash:** we also hold a small proportion in cash for some risk strategies. Typically this will be in overnight deposits or via money market funds.

# Understanding investment volatility

## Volatility refers to the fluctuations in share prices and subsequent changes in the overall value of investor portfolios.

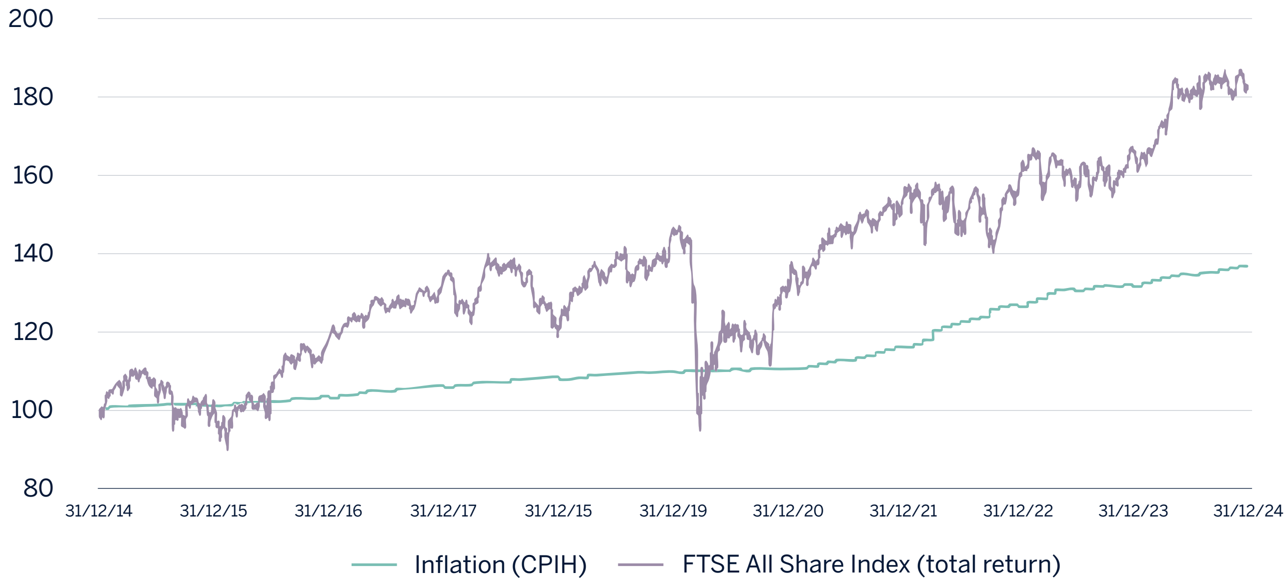
Share prices change on a daily basis, so in the short term there will naturally be gains and falls in their value. A 'high' volatility means a wider degree of variance in share and portfolio values over the short term, while 'low' volatility means that short-term values do not go up and down as much.

Over the long term, these short-term fluctuations in equities and portfolio values may typically even out into a pattern of growth overall.

The chart depicts the performance of the FTSE All Share over 10 years: despite all the periods of instability witnessed during this time, total returns have gone up over the period. This shows how important it is to remain invested over a longer time frame if possible – as this can enable investors to ride out short-term volatility.

### 10 year returns of the FTSE All Share vs Inflation (2014 - 2024)

The chart shows the performance of each index rebased to 100 as at 31st December 2014.




Source: CPIH - Office for National Statistics, FTSE All Share - FactSet

Invariably, there will be unforeseen events that cause short-term dips in market performance – but capital is only actually lost if investors panic and sell their holdings. This can often be an instinctive psychological reaction to a dip in market performance, however having the fortitude not to react and to stay invested can yield capital growth over the long term.

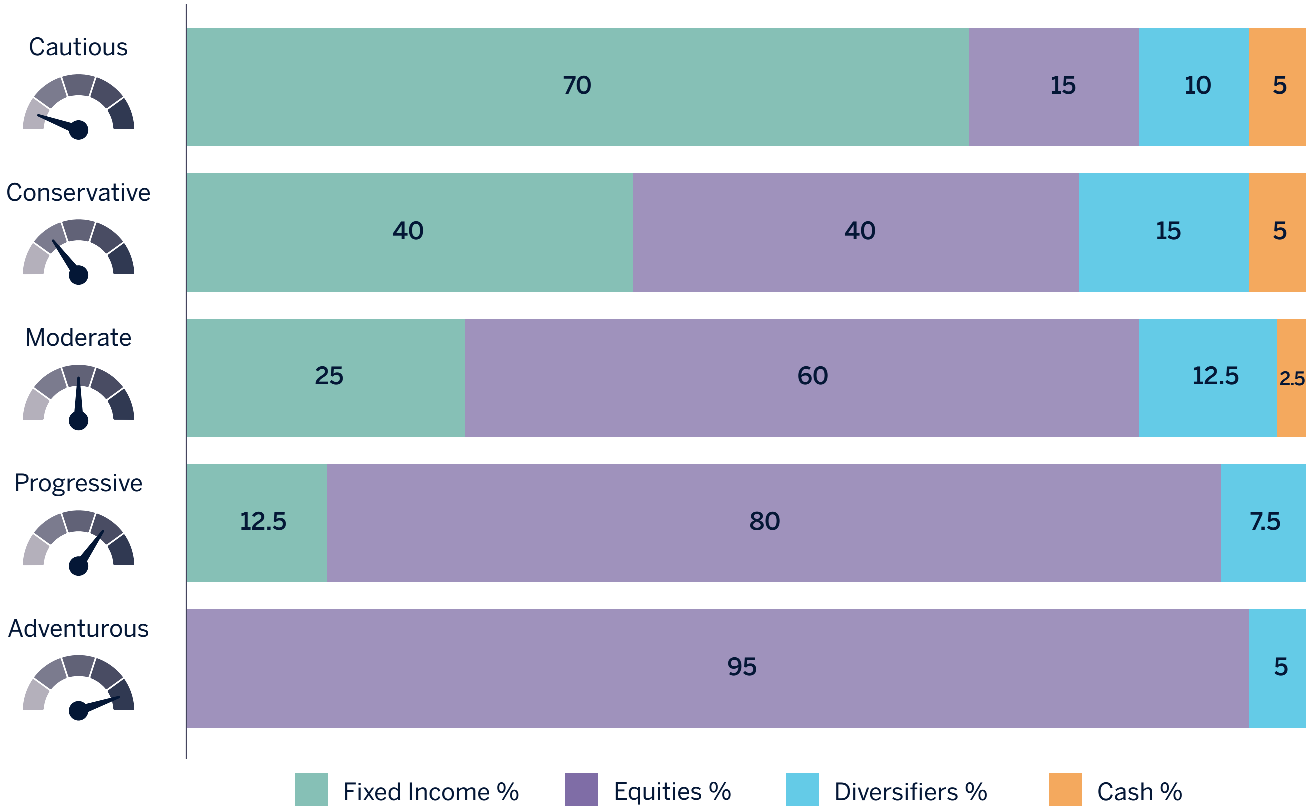
Understanding your individual capacity for loss can help you determine the level of risk you are comfortable with, and therefore the growth expectations for your wealth. We show the drawdown, or the largest cumulative loss experienced by the portfolio, and the length of time it took to recover this loss, which is designed to help you in your decision making when it comes to which risk strategy to adopt.

It should also be borne in mind that taking some degree of risk in investing can also be necessary to achieve growth in the long term – and that conversely, not taking enough risk can mean growth in a portfolio is not enough to outpace growth in inflation, leading to a loss in real terms over time.

# Our investment strategies

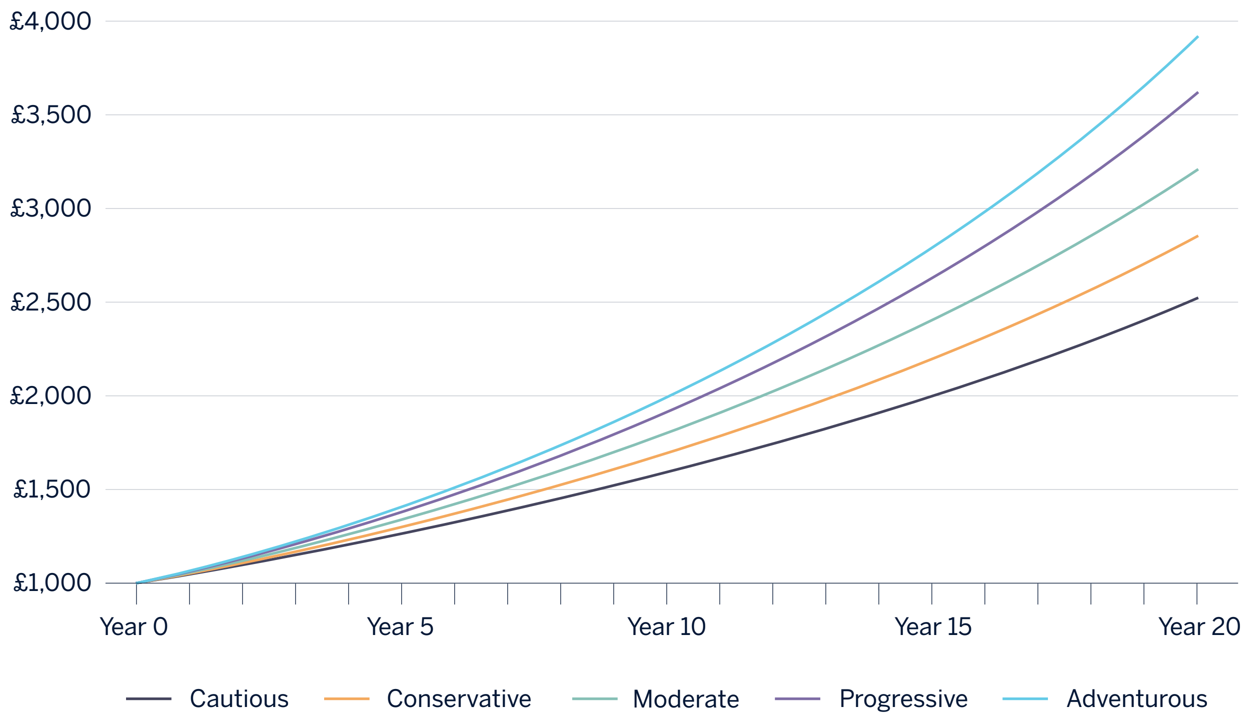
## Our five strategies offer clearly defined asset allocations to help you understand the investment outcome you might expect based on the level of risk you take.

The graphics below detail the long-term Strategic Asset Allocation of our five strategies and the anticipated long-term performance of these strategies, given the asset allocation.



To understand the return profile of each strategy, we have made assumptions about the investment returns of each core component of the asset allocation to demonstrate how adjusting the equity portion of a portfolio, i.e. changing the level of risk, can affect the anticipated returns. The below chart details the long term return profile of each strategy and the following pages go into more detail, including a measure of maximum single loss, known as drawdown. In each chart, it is assumed that £1,000 is invested into each fund at year 0. For further information about the assumptions made and for definitions please see page 15.

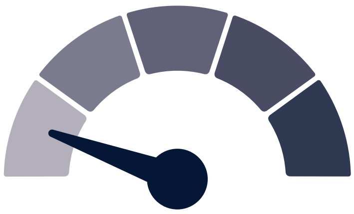
### Illustrative long term performance




The above assumptions are not a reliable indicator of future performance. Market conditions - both positive and negative - have not been factored in to reflect the nature and risks of specific types of investment instruments within the portfolios.

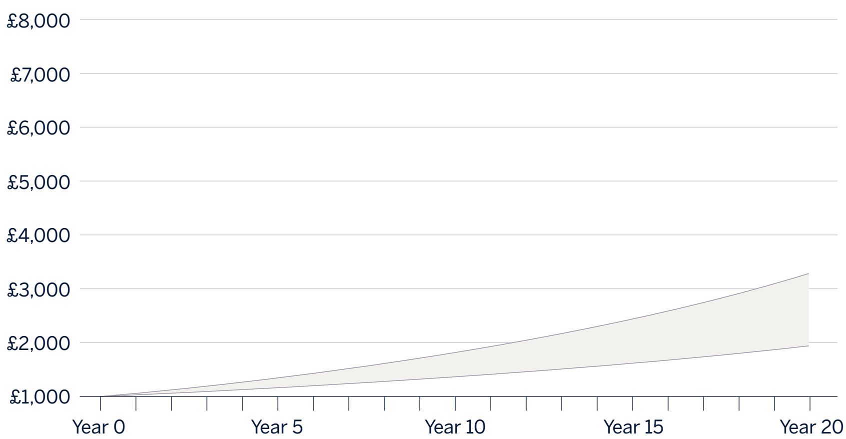
Investment strategy:

# Cautious



This is our lowest risk strategy and may be suitable for an investor with a low risk tolerance looking to generate a return over time which exceeds the return available on cash deposits.

## Illustrative long term performance

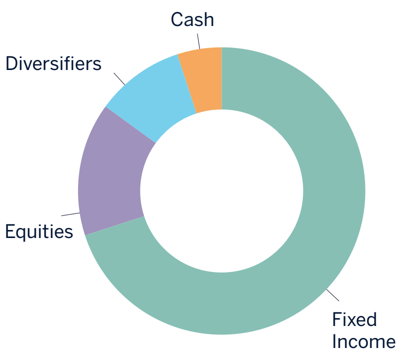


This forecast is not a reliable indicator of future performance

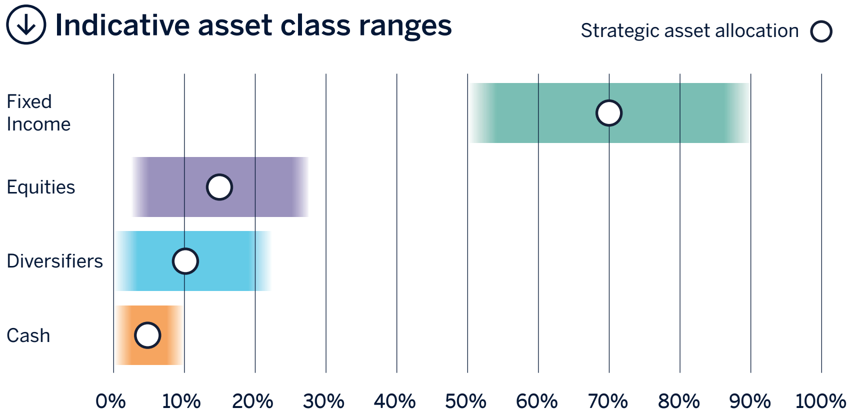
### Investment Comparators

| | |
|---|---|
| Relative | JMF Composite 1 |
| Absolute | Cash |
| Peer groups | ARC Cautious |

## Strategic asset allocation




## Indicative asset class ranges




## Historic returns

As at 31st December 2024

| | 1 year return | 3 year return | 5 year return | 10 year return |
|---|---|---|---|---|
| Total return | 3.60% | -2.26% | 9.92% | 43.03% |
| Annualised return | 3.60% | -0.76% | 1.91% | 3.64% |
| Max drawdown | -1.19% | -14.22% | -21.76% | -21.76% |
| Time to recovery (months) | 1 | - | 9 | 9 |

Source: JM Finn

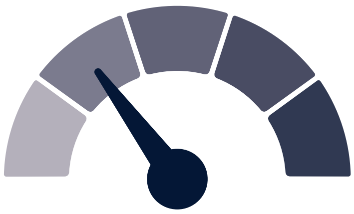
**Important information:**

Source: JM Finn. For more information about these illustrations, please refer to page 15.

**The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. Past performance is not a reliable guide to future returns.**

Investment strategy:
# Conservative

With moderate exposure to equity investments this strategy represents low risk and can be suitable for investors looking for a return and willing to accept a degree of loss.

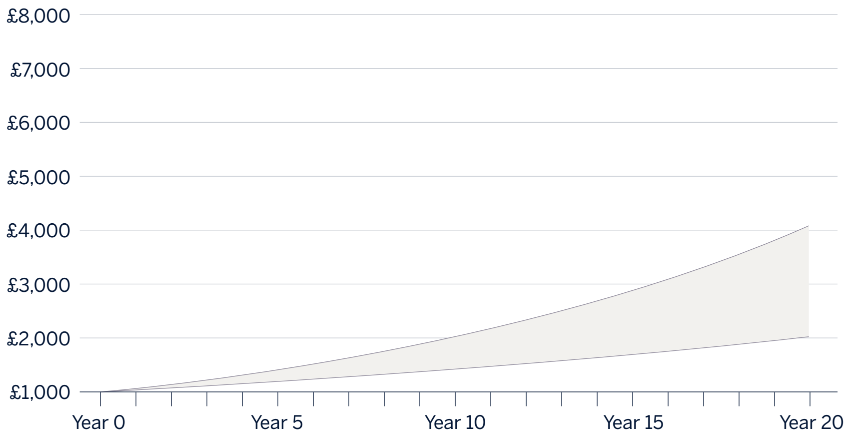


### Investment Comparators

| | |
|---|---|
| Relative | JMF Composite 2 |
| Absolute | Inflation (CPIH) |
| Peer groups | ARC Cautious / ARC Balanced |

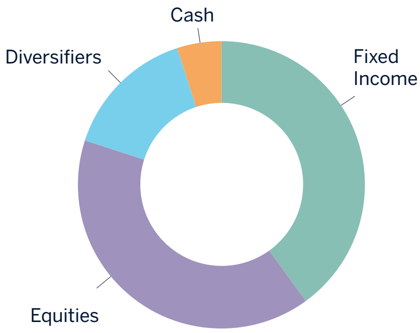
## Illustrative long term performance

Anticipated range of returns



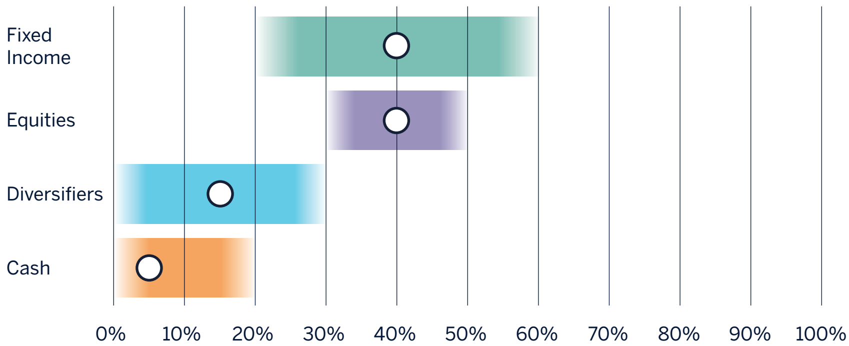

This forecast is not a reliable indicator of future performance

## Strategic asset allocation




## Indicative asset class ranges

Strategic asset allocation




## Historic returns

As at 31st December 2024

| | 1 year return | 3 year return | 5 year return | 10 year return |
|---|---|---|---|---|
| Total return | 4.98% | -5.66% | 8.08% | 52.98% |
| Annualised return | 4.98% | -1.92% | 1.57% | 4.34% |
| Max drawdown | -2.40% | -17.16% | -21.19% | -21.19% |
| Time to recovery (months) | 2 | - | 8 | 8 |

Source: JM Finn

**Important information:**

Source: JM Finn. For more information about these illustrations, please refer to page 15.

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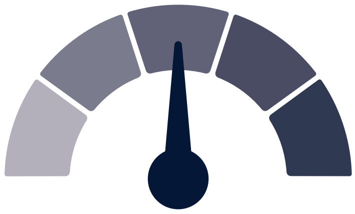
Investment strategy:

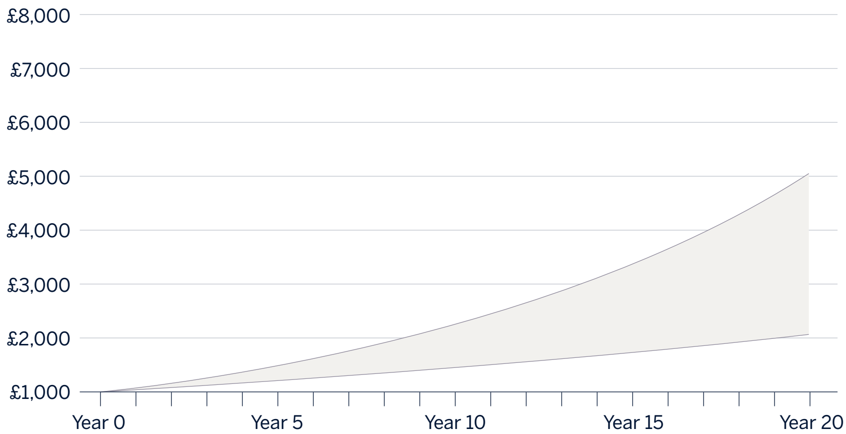
# Moderate



A higher and significant exposure to equities offers the potential for greater returns but places a higher level of risk on the investment. Clients in this strategy must be able to accept at least a temporary loss of capital.

## Illustrative long term performance

Anticipated range of returns

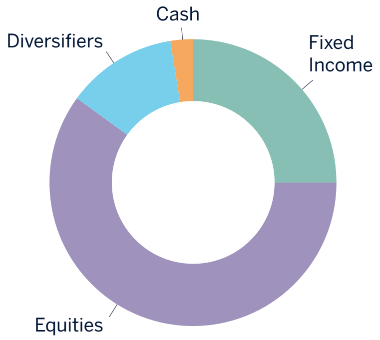



This forecast is not a reliable indicator of future performance

### Investment Comparators

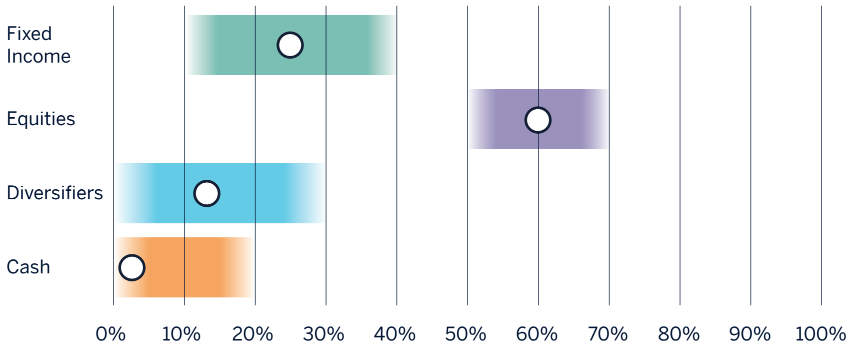
| | |
|---|---|
| Relative | JMF Composite 3 |
| Absolute | Inflation (CPIH) |
| Peer groups | ARC Balanced / ARC Steady Growth |

## Strategic asset allocation




## Indicative asset class ranges

Strategic asset allocation




## Historic returns

As at 31st December 2024

| | 1 year return | 3 year return | 5 year return | 10 year return |
|---|---|---|---|---|
| Total return | 6.46% | -1.93% | 16.45% | 62.01% |
| Annualised return | 6.46% | -0.65% | 3.09% | 4.94% |
| Max drawdown | -3.27% | -16.54% | -22.47% | -22.47% |
| Time to recovery (months) | 2 | - | 8 | 8 |

Source: JM Finn

**Important information:**

Source: JM Finn. For more information about these illustrations, please refer to page 15.

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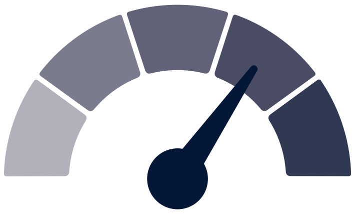
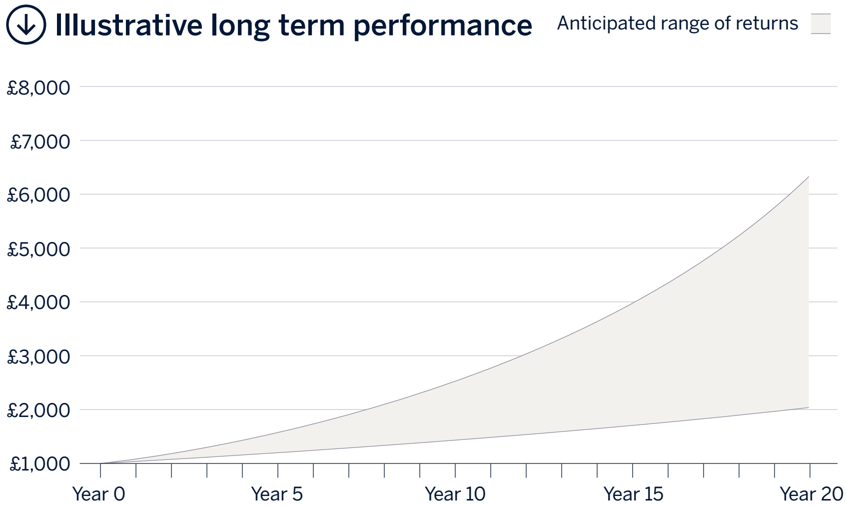
Investment strategy:

# Progressive



With an anticipated 80% of the portfolio invested in equities, this might be suitable for those investors looking to grow their assets but able to tolerate a higher risk of losing their capital.

## Illustrative long term performance

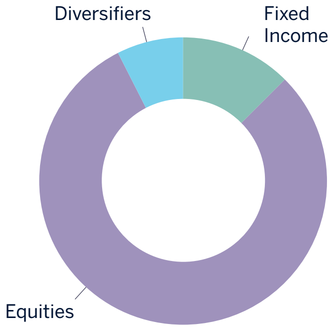



This forecast is not a reliable indicator of future performance

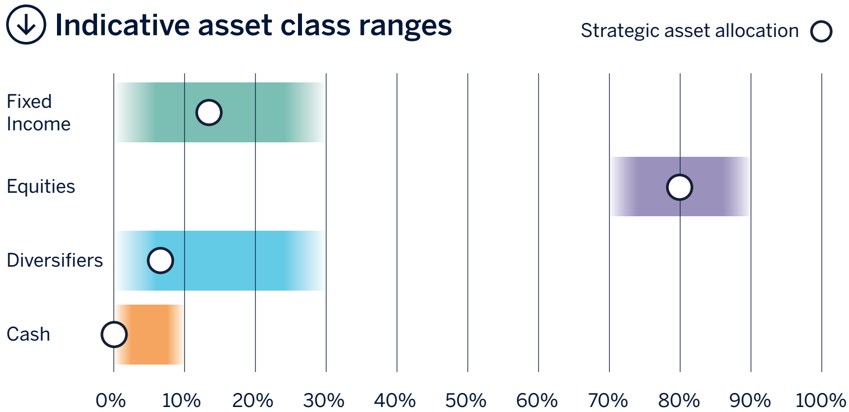
**Investment Comparators**

| | |
|---|---|
| Relative | JMF Composite 4 |
| Absolute | Inflation (CPIH) |
| Peer groups | ARC Steady Growth/ ARC Equity Risk |

## Strategic asset allocation




## Indicative asset class ranges




## Historic returns

As at 31st December 2024

| | 1 year return | 3 year return | 5 year return | 10 year return |
|---|---|---|---|---|
| Total return | 7.09% | -2.04% | 19.13% | 72.11% |
| Annualised return | 7.09% | -0.68% | 3.56% | 5.58% |
| Max drawdown | -3.97% | -18.25% | -24.42% | -24.42% |
| Time to recovery (months) | 2 | - | 8 | 8 |

Source: JM Finn

**Important information:**

Source: JM Finn. For more information about these illustrations, please refer to page 15.

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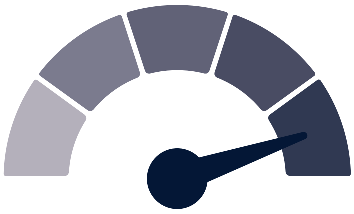
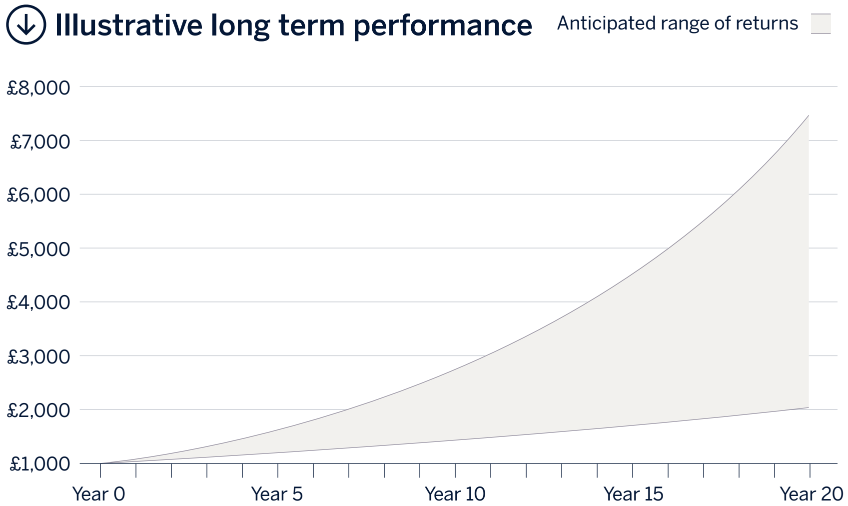
Investment strategy:
# Adventurous



This is the highest risk strategy, with almost all of the portfolio invested in equities. This can be suitable for long-term investors willing to accept a higher risk of capital loss in return for greater returns.

## Illustrative long term performance

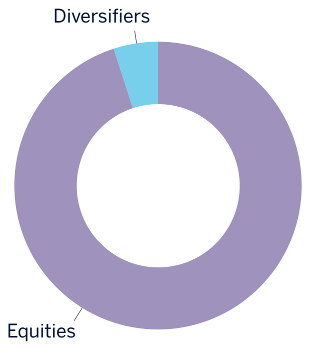



This forecast is not a reliable indicator of future performance

### Investment Comparators

| | |
|---|---|
| Relative | JMF Composite 5 |
| Absolute | Inflation (CPIH) |
| Peer groups | ARC Equity Risk |

## Strategic asset allocation




## Indicative asset class ranges


## Historic returns

As at 31st December 2024

| | 1 year return | 3 year return | 5 year return | 10 year return |
|---|---|---|---|---|
| Total return | 7.35% | -2.18% | 21.21% | 80.96% |
| Annualised return | 7.35% | -0.73% | 3.92% | 6.11% |
| Max drawdown | -4.69% | -19.41% | -27.48% | -27.48% |
| Time to recovery (months) | 4 | - | 8 | 8 |

Source: JM Finn

**Important information:**

Source: JM Finn. For more information about these illustrations, please refer to page 15.

**The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. Past performance is not a reliable guide to future returns.**

## Understanding the illustrations

To illustrate the potential long-term returns of each strategy, we have made the following assumptions:

- For equity returns, we assume a gross annual return of 7.25%. This considers expected dividends and price gains, calculated based on price-earnings expectations.
- For fixed income instruments, an expected gross annual return of 4.5% is assumed considering a return above expected inflation, as well as a premium for assuming credit risk.
- For diversifiers we assume 4% and for cash 2%.

We have shown a range of anticipated returns, highlighting our best estimates, which details our base case that we consider most realistic, calculated based on currently available information. Please note, we provide no guarantee that these returns will be achieved as unexpected circumstances can affect stock markets and, conversely very optimistic stock markets can exceed our expectations. The lowest return scenario takes into account the historical volatility of our investment profiles. These assumptions are on a total return basis and are gross of fees which means that costs of managing the portfolio, i.e. JM Finn's costs, have not been considered. Note that the assumptions do not reflect the volatility you may encounter.

When calculating the historic returns we used all existing discretionary portfolios above £250,000 without any restrictions and aggregated their returns per investment strategy. For example, portfolios with 70-90% equity are accounted for in the JM Finn Progressive strategy.

Drawdown is a measure of the largest cumulative loss that could theoretically be experienced by each strategy between the highest point and the subsequent lowest point during the stated period. For example, the drawdown for the Progressive Strategy over the 3 year period was -18.25%. This means that the largest single fall in value of a portfolio within this strategy was by this amount. The subsequent field in the table is "time to recover". This details the number of months it took the portfolio to recover back to the original value, prior to the drawdown. This is useful as it helps investors understand their capacity for loss.

**Please remember that the value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. Past performance is not a reliable guide to future returns.**

## How can you compare our investment performance?

To help you measure the return on your investments, we have identified three comparators for each strategy designed to provide a measure of absolute, relative and peer group comparisons.

1. **Relative comparators**
   We have developed a series of comparator indices, which also act as the basis for our long-term strategic asset allocation. By partnering with Morningstar, one of the world's leading providers of data and research in financial markets, we have been able to develop an index by which each of our five strategies can be measured.

2. **Absolute comparators**
   Clients typically come to JM Finn to preserve and grow their wealth over the long term, which generally sees us trying to grow portfolios in excess of inflation, after costs. The absolute benchmark for the Cautious strategy is the Morningstar Cash index, used as a proxy for the return on cash deposits. For the remaining strategies we use CPIH as a proxy for inflation. This is the Consumer Price Index including occupiers' housing costs and is a common measure of the rate of inflation.

3. **Peer group comparators**
   We use a peer group average to assess how the strategies have performed compared to other investment managers. ARC (Asset Risk Consultants) are a consultancy firm that have developed a range of indices for both private clients and charities, that measure the returns of 'real life' portfolios from across our industry. They collate the data and outcomes from over 350,000 investment portfolios at more than 120 firms and are recognised as representative performance benchmarks in our industry.

## Who our Wealth Management Service is typically appropriate for

Our Wealth Management Service is built around the discretionary management of portfolios and is typically suited to those who:

— Can remain invested for a medium to long-term period – typically a minimum of 5 years

— Are able to understand that investment valuations are subject to fluctuations – and that this means that withdrawing investments after a short time frame may well result in a loss of capital

— Have their priority financial needs met. For example, they do not need to reduce existing debt; have adequate access to liquid cash; have made adequate arrangements for core protection needs (including insurance and pension arrangements)

— Have capital they wish to invest and are willing and can afford to take some risk with

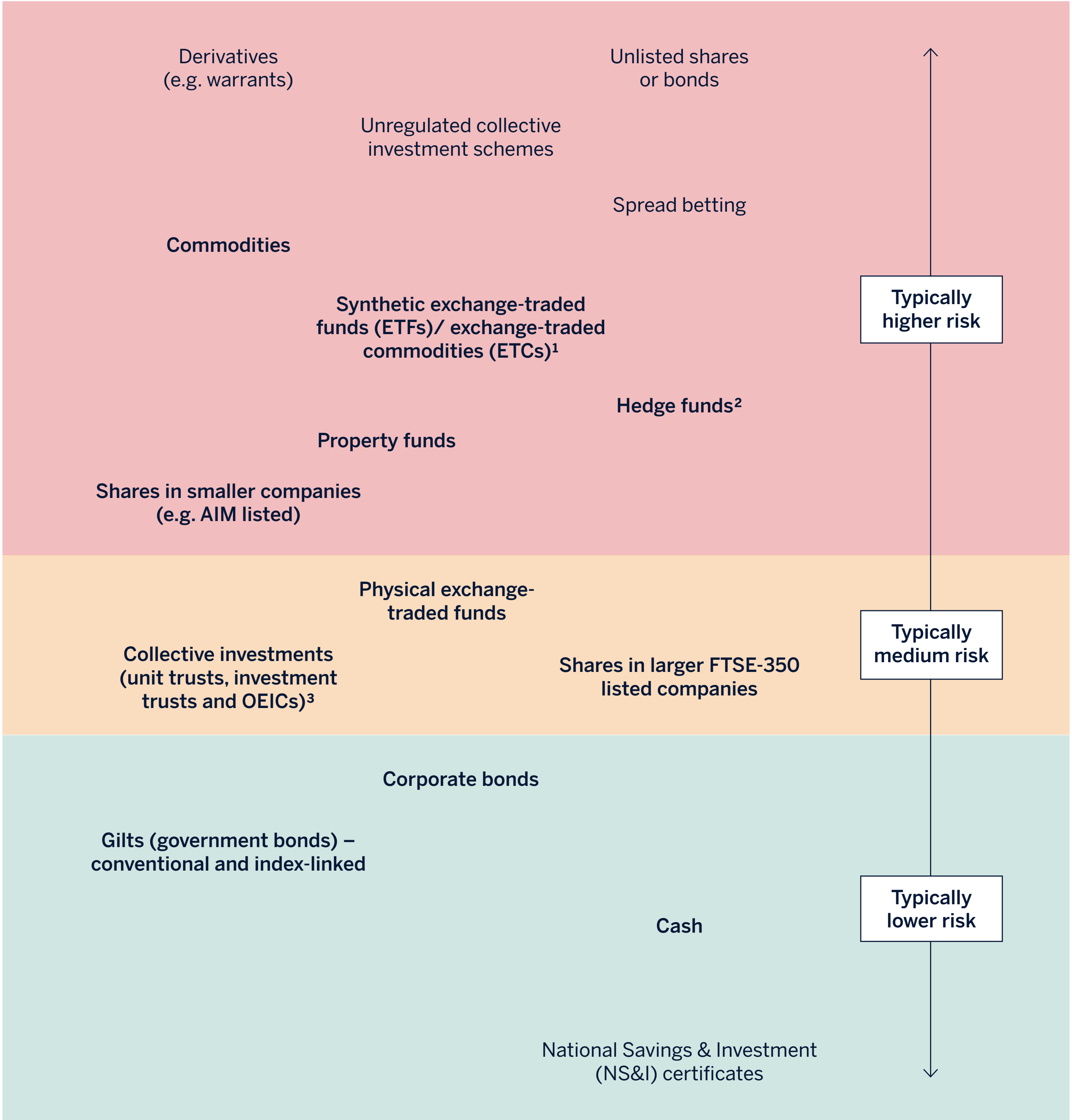
— Where a qualified financial adviser, or one of JM Finn's Wealth Planners, has recommended investing following appropriate suitability tests.

## A word about short-term investing

Investment should not typically be considered as a short-term option. Stock markets fluctuate and can have a general downturn when even top-quality companies can experience a large fall in their share prices. If your investment time horizon is too short it may be that when you want to sell, it coincides with a drop in value of your investments, meaning that you could well lose some or all of the capital you originally invested. Remaining invested for the medium and long term can overcome short-term market volatility, allowing your investments to recover and grow. For some investors, taking a longer-term view of their investments generally means they may be able to afford to take more investment risk.

# Investment risk of different asset classes

The following chart is intended as an illustrative guide only to the possible risk level of different types of assets.




**Note:** the actual risk of asset classes can vary. Some of the securities in this chart are deemed unsuitable for investment by JM Finn due to their complex nature. Assets that JM Finn invests in under in any circumstances are displayed in bold. For further detail on asset classes, please refer to JM Finn's Terms and Conditions.

[1] Due to their complex nature, JM Finn only permits investment in ETFs/ ETCs in very limited circumstances.
[2] JM Finn does not invest in illiquid hedge funds with infrequent redemption dates.
[3] Some collective investment schemes are riskier than others – for example funds investing in emerging markets or smaller companies would be considered higher risk than those investing in large UK companies.

## How you can help us to help you during and after onboarding as a client

As an investment firm, we are subject to high-level principles and many detailed rules that govern our relationship with you as a client. We have an overarching duty to achieve 'good outcomes' for consumers and it is important to note that 'good outcomes' do not solely relate to your portfolio's performance, rather it means that we must ensure that you receive communications you can understand, products and services that meet your needs and offer fair value, and that you can get the support you need.

Please consider the guidelines set out below, which can help us to give you the best possible service.

- Read any promotional material, explanatory documents, terms and conditions, material required by regulation and other documents carefully.
- Engage with appropriate assistance from the firm, listen actively and attentively in any fact-finding process, do not withhold information you know to be important and do not provide inaccurate information.
- Ask questions where you feel uncertain, including about the purpose and risks of the products and services recommended; make sure you understand what the Investment Manager will be investing in on your behalf.
- Read and reflect upon any communications containing advice or a summary of objectives provided by the firm to ensure that they properly reflect the discussions you have had.
- Take into account any other relevant advice you may simultaneously be receiving from other professional advisers such as accountants or lawyers, and discuss this advice with your Investment Manager.
- Continue to review your financial needs and position on a regular basis and notify your Investment Manager or consider obtaining further advice where there has been a material change in your personal circumstances.

## Please note: our investment advice is impartial but restricted

Our investment services are regarded as ‘restricted advice’ under the regulations. They are restricted because we do not advise or make investment management decisions in relation to certain types of assets such as structured products, unregulated collective investment schemes and synthetic exchange traded funds, which in general we consider unlikely to meet the investment needs of our clients.

## Important Information

**Investment involves risk. The investments discussed in this document may not be suitable for all investors.**

The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. This document is for information purposes only and has no regard for the specific investment objectives, financial situation or needs of any specific investor.

JM Finn is a trading name of J.M. Finn & Co. Ltd which is registered in England with number 05772581. Authorised and regulated by the Financial Conduct Authority.

## Beware of investment scams

To avoid becoming a victim, you should familiarise yourself with common investment scams. For more information on how to spot scams, particularly cybercrimes, please visit our website at www.jmfinn.com/cyber-crime-awareness.

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Investment | Wealth

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