

# Investment Policy Statement

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## Introduction

The purpose of this Investment Policy Statement is to provide you with a comprehensive overview of our investment philosophies, strategies and processes. Our aim is to help you make smart decisions about your money and enjoy the peace of mind arising from a successful investing experience.

The benefits of creating an Investment Policy Statement are:

- ✓ You have a clear understanding of your attitude to investment risk.
- ✓ Your performance objectives and expectations are clarified.
- ✓ Misunderstandings are less likely.
- ✓ You understand our investment philosophies, strategies and processes.
- ✓ Approved procedures and the agreed means of evaluating the performance of your investments are recorded.

Our desired outcome is to deliver to you the returns of asset class investing. That is: exposure to globally diversified markets, tilted towards small and value stocks, tempered with fixed income investments, less fees and taxes (where applicable).

To achieve this outcome we will:

- ✓ Determine your individual capacity for investment risk and match it to the most appropriate investment portfolio.
- ✓ Utilise a proven scientific approach to asset allocation and fund selection which employs the latest fund management software and online monitoring systems to help you achieve your investment objectives.
- ✓ Review your existing investments to ensure they are in line with your current and future objectives.
- ✓ Make recommendations to bring your existing investments into line with your risk profile and performance objectives.

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## Investment decisions

Your investment decisions are influenced by two factors: information that is factual and information which is based on opinion.

The value of your equity-based investments today, whether they be pensions, unit trusts or other collective investments is a historical fact based on share prices on the date of valuation.

The value of your investments tomorrow is an unknown quantum because the future value of equities is uncertain and your capital is at risk.

Markets are moved by news and news, by definition, is unpredictable and therefore random. Extensive studies based on the original "Random Walk" theory first discussed by Louis Bachelier in 1900, have found overwhelming evidence to support the view that the behaviour of stock prices is indeed random. Whilst the reactions of investors to events may be logical or emotional, well-informed or irrational, news is always unpredictable. Therefore, share prices tomorrow may rise, fall, or remain about the same but the only certainty is that the outcome is uncertain. Therefore, your assessment of the suitability of an investment must be based on the degree of uncertainty you are prepared to face at any one time and the extent to which you can risk capital.

The future value of a portfolio primarily invested in Fixed Interest or Cash is still an unknown quantum because movements in interest rates will affect its value. However, being less volatile, returns are more predictable. Interest rates may remain the same, fall or rise, but in building your own portfolio you need to determine whether removing uncertainty about future investment performance is the right decision for you. If so, tempering your exposure to equities by the use of cash and fixed interest will remove some of that uncertainty, but you will need to accept that expected returns will be lower.

Investors who treat the opinions of others as if they were facts, however compelling they might sound, may well suffer serious consequences. What matters is your assessment of the amount of risk you can tolerate. Our objective is to provide you with information, a means of assessing risk and, ultimately, the means for the removal of uncertainty. In order to do this, we must first distinguish between facts and opinions and, having done so, provide you with a decision-making process that treats each according to its merits.

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## Model portfolio construction

A key element of the our investment process is the construction of risk graded model portfolios. Model portfolios are used in our financial planning process to provide a robust investment engine for the realisation of your financial and life goals and are designed to offer a range of investment experiences which can be matched with your capacity for investment risk.

The construction of our model portfolios is the result of a properly structured decision process which is based on the work of leading academics in the field of financial economics. This body of work, collectively termed Modern Portfolio Theory, provides us with a framework which we have documented here to provide investors with a consistent audit trail as to the asset classes and processes we include in our models – and those we have rejected.

Our investment process is underpinned by five key principles:

### 1. Capitalism, and capital markets, work

Capital markets have consistently rewarded investors for the capital they supply. Companies compete for the supply of investment capital and millions of investors compete with each other on a daily basis for the most attractive returns. This competition drives prices towards fair value so that on any given day a point of equilibrium is reached between the buyers (optimists) and sellers (pessimists) on the price of a security. This price moves randomly and almost instantaneously to reflect new information such that it is difficult for any individual to systematically profit from market mis-pricings. We therefore accept market rates of return.

Many investment managers believe that they can actively exploit market mis-pricings by stock-picking or market-timing - the traditional activities of active fund management. If markets were not efficient then the brightest, hardest-working and most highly paid fund managers would be able to beat a simple buy-and-hold strategy over time. But nearly forty years of academic research has shown that traditional investment managers are unable to outperform markets by anything more than the amount we would expect by chance. Indeed, a multitude of studies has reached the same general conclusion: the average actively managed fund does no better than the market after fees, transaction costs and taxes.

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# Model portfolio construction

## 2. Risk and return are related

We believe that it is impossible to achieve greater returns than the market return without taking more risk. The key priority is to identify those risks which owe investors positive expected returns and capture them in a cost-efficient manner.

It comes as a surprise to many investors that the potential for financial loss is also the reason that they earn a return. We face risk because nobody can reliably predict the future - but risk, return and time are interconnected. Higher exposure to the right risk factors leads to higher expected returns but is no guarantee of them. Risk is the currency of return, in that a greater return can be considered a payment to investors for subjecting their capital to greater uncertainty.

## 3. Diversification is your friend

Diversification in investing refers to the process of spreading out risk. The risk associated with one individual shareholding can be easily eliminated with diversification and consequently the market does not reward investors with a return premium for this 'nonsystematic' risk. When investors concentrate their investments, they are increasing their risk with no added benefit of a higher expected return. Systematic risk, on the other hand, cannot be diversified away as it is the risk common to the market as a whole.

***The most prudent approach to minimising risk and maximising the probability and statistical reliability of achieving a market rate of return is to hold the entire market index. In this way the specific risk of holding each individual stock within the market is diversified down to near zero leaving investors with the systematic risk of the market the index is designed to track.***

Global diversification is beneficial because it applies the same rationale as above. There are more risk factors in international markets that can both smooth out volatility and increase expected returns in a portfolio.

## 4. Costs matter

The taxes, expenses and transaction costs incurred in the management of a portfolio have a direct impact on returns. All other things being equal, we seek the most cost-efficient route to market returns.

## 5. Structure explains returns

Our process is derived from a Five-Factor Risk Pricing Model which is primarily drawn from the Nobel prize-winning work of Professor Eugene Fama of the University of Chicago and Professor Kenneth French of Dartmouth University.

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# Model portfolio construction

Their model has successfully identified and isolated the risk factors that investors should pay attention to in the construction of their portfolios. In essence there are three factors that explain equity returns (market, size and value, with a tilt towards profitability) and two factors for fixed income (term and default risk).

## Expected returns

*Academic research has identified these dimensions, which are well documented in markets around the world and across different time periods.*



### 5.1 Equity returns

Expected returns in equity markets can be summarised in three dimensions. The first is that stocks are riskier than bonds and have greater expected long-term returns. Relative performance between stocks is largely driven by two other dimensions: small company shares have higher expected returns than large company shares, and value companies outperform growth companies over time. Economists believe this is because the market discounts their prices to reflect the underlying risk and consequently, these lower prices give investors greater upside potential as compensation to bear this risk.

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# Model portfolio construction

## Dimensions of expected returns

10-year annualised premiums (2012-2021): European, UK, US, and Emerging Markets

### Company Size

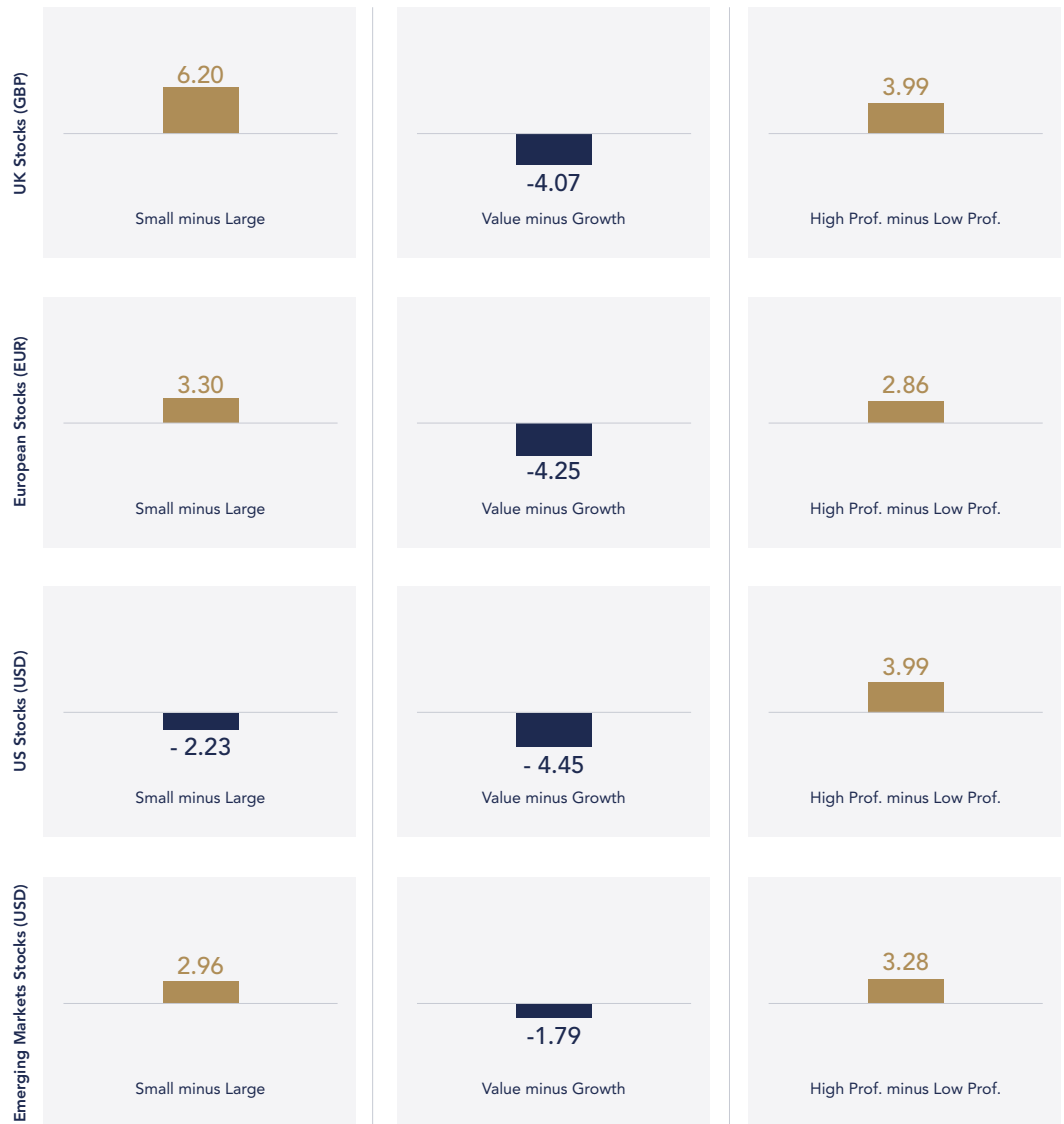
Relative performance of small cap stocks vs. large cap stocks (%)

### Relative Price

Relative performance of value stocks vs. growth stocks (%)

### Profitability

Relative performance of high profitability stocks vs. low profitability stocks (%)



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# Model portfolio construction

## 5.2 Fixed income returns

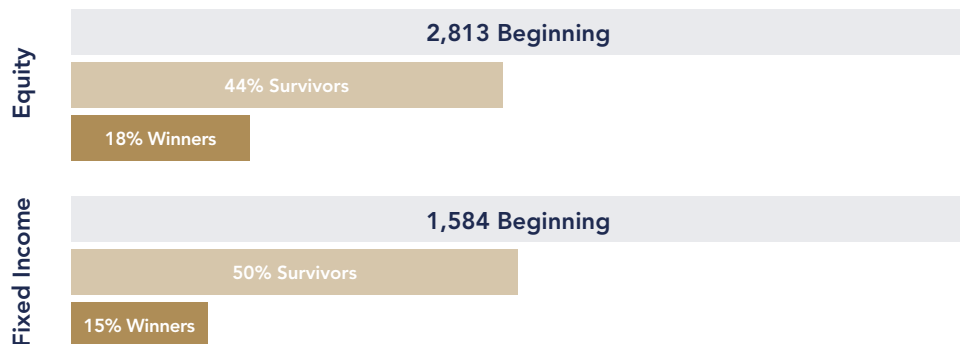
The two dimensions which explain fixed interest returns are the 'Term Factor' (the difference between long-term and short-term government and corporate bonds) and the 'Default Factor' (the possibility of capital loss).

Whilst the Term Factor provides higher expected returns, the excess returns diminish significantly beyond a term of five years, so bonds with terms in excess of five years are generally avoided.

### Few US-Domiciled fixed income mutual funds have survived and outperformed

US-Domiciled Fund Performance, 2002–2021

*The market's pricing power works against fund managers who try to outperform through stock picking or market timing. As evidence, only 18% of US-domiciled equity funds have survived and outperformed their benchmarks over the past 20 years.*



We believe that fixed income investments play a vital role in balanced portfolios to dampen volatility rather than as a source of higher returns. As short-term, high-quality debt instruments have lower risk (volatility) than long-dated or lower-quality bonds, our portfolios exploit this characteristic to take more risk in equities where expected returns are higher.

Equipped with the three risk factors of equities and the two risk factors of bonds, it is possible for investors to select from a wide array of risk and return combinations when building efficient portfolios. The resulting trade-off is known as the "eat well / sleep well dilemma." If investors want to eat well and earn higher returns with stocks they need to be prepared to take more risk and accept the roller-coaster ride of fluctuations in the value of their portfolio. If they want to sleep well, they must take less risk and invest in fixed-income investments such as bonds and accept that they will earn lower returns.

The blending of these components in an investment portfolio is called 'Asset Allocation'.



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# Model portfolio construction

## What is an asset class – and what isn't?

In designing our model portfolios, we seek to exploit the individual characteristics of asset classes and, by combining them into risk-graded portfolios, achieve the benefits of diversification. So, what do we define as an asset class?

Simply put, an asset is an economic resource that delivers a positive expected cash flow to investors in return for the use of their capital – either through lending or ownership. Typically, we think of those assets that are a 'natural' source of income as being:

- ✓ Cash or Fixed Income – which pay interest in exchange for borrowing capital
- ✓ Property (which pays rent)
- ✓ Equity – which pays dividends in exchange for a share in the ownership of those assets

There is a material difference in the nature of risks between lending and ownership which provides investors with a set of trade-offs in their expected returns. For example, bond holders have seniority over ordinary shareholders when it comes to being paid a return and there is less risk to their capital in the event that a company fails. Without an expectation of higher returns, there would be no reason why a rational investor would hold equities over bonds. In addition to the natural income, the total return of the asset can also include the capital growth.

Assets, such as Fixed Income and Equities may also be traded on a secondary market, which determines their value on any given day as a result of the equilibrium price arrived at between buyers and sellers; a balance of competing opinions about the expected future cash flows and capital growth for each asset.

We define an asset class as being a group of assets that have similar characteristics and whose price movements can be expected to react to market conditions or events in the same way. The relationship of the individual asset to the asset class is arrived at by establishing the covariance (a statistical measure of how much two variables change together) and, in order to calculate this, reliable evidence with a long and robust data set will be required.

The question then arises of whether a resource that does not pay a natural income to the investor and has no expected return is, likewise, an asset. Examples might be the acquisition of a piece of raw land in anticipation of obtaining planning permission and developing it or buying a commodity such as gold. These assets might better be thought of as speculative investments, as the potential return is contingent upon some event or circumstance which results in the outcome being win / lose for the investor. This is sometimes known as the 'greater fool theory'.

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# Model portfolio construction

In order for you to profit, you need someone else to buy your 'asset' believing it is going to continue to rise in value so they too can sell it on for a profit.

***In our definition of an asset class, we exclude such speculations and concentrate on those assets which have an expected return, can be traded and priced on a regular (daily) basis and for which an efficient market exists.***

## Hedge funds, absolute return funds and structured products

We have described the way in which the four main asset classes pay investors for the use of their capital as being 'natural.' In contrast, we regard the returns generated by a hedge fund manager, for example, to be synthetic. That is to say, fabricated from the natural components but modified with, say, leverage or derivatives to produce a different pay-off structure. In our opinion this is an investment strategy, not an asset class. The question arises, however, as to whether a fund of hedge funds or an index fund of hedge funds, might qualify as an asset class?

In order to be considered an asset class, hedge funds would have to respect several criteria. For example, prices and composition information would need to be readily and constantly available and this is not the case in the hedge fund universe. Another example is the opportunity to invest passively meaningful amounts in the asset class at quoted prices. Since a significant number of hedge funds are closed to additional investment, this criterion cannot be respected.

In addition to these shortcomings, there are practical challenges;

1. Closed hedge funds and the introduction of new funds make calculating a relevant index very complicated.
2. Secondly, the methods for calculating net asset values vary widely across hedge fund managers and this creates a bias in the creation of an investable benchmark index.
3. There are significant problems with the availability and reliability of data due to backfill and survivorship bias that leads to big differences between the universe covered by the index and the true investable hedge fund universe.
4. Charges and fees tend to be considerably higher than for traditional collective investments.

***We do not include Hedge Funds, Absolute Return Funds or Structured Products in our model portfolios because of their overly complex structures and hidden risks, high fees and lack of liquidity.***

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# Model portfolio construction

## Asset classes explained

By using the Five-Factor model as the basis for our portfolio design we are able to select assets to play a distinct role;

Liquidity	Return Smoother	Return Generator	Return Enhancer
Cash	Fixed Interest	Developed Market Equity	Emerging Market Equity
	Indexed-Linked	Property *	Small Company Equity
			Value Company Equity
			Company Profitability

\* Whilst Property certainly qualifies as a 'natural' asset class, we have decided not to include it in our model portfolios for the following reasons:

1. It is a difficult asset class to capture passively.
2. Although Real Estate Investment Trust (REIT) funds are available as collective investments - mostly as Exchange Traded Funds (ETF's) - their structure can be unsuitable for regular investors.
3. Unlike Equity and Bond market indices which are updated daily based on the movement of prices in the market, Property indices such as the Investment Property Databank (IPD) index are appraisal based and are only updated quarterly. Consequently, it cannot be said that the asset price is derived from an efficient market process which is subject to daily pricing.
4. Funds investing directly into property are not always liquid and can restrict an investor's ability to redeem funds when asset values are adversely affected by market conditions.
5. Whilst not directly related to the dynamics of portfolio construction, many investors already have a significant exposure to property in their overall net worth.

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## International diversification

Successful investing means not only capturing risks that generate expected return but reducing risks that do not. Avoidable risks include holding too few securities. Diversification is the antidote to all these risks as it washes out the randomness of returns of individual companies, sectors and markets and positions the portfolio to capture the returns of broad economic factors.

Most UK investors have habitually over-weighted the UK equity holdings in their portfolios but does this make sense in a world where the UK only represents less than 10% of the world's market capitalisation? The two reasons most often given for this over-weighting are: a familiarity bias for UK companies they are investing in and a concern for currency exchange rate fluctuations which can impact portfolio returns.

Whilst understandable, familiarity bias is increasingly less justifiable, especially when the earnings of so many large UK companies derive their income overseas.

The second issue, currency risk, is of far less concern in the long term than in the short term. Long term, the fluctuations between currencies tend to cancel each other out, but they can be volatile in the short term. Our portfolios are primarily designed for long-term, buy-and-hold investors, but we recognise that this needs a balanced approach.

When considering the question of international diversification, we have two obvious anchor points. Firstly, we could adopt a purely global approach and hold a diversified index which replicated world market capitalisation weightings. Secondly, we could be completely biased to our domestic equity market and simply hold a FTSE All-Share Index fund.

Although the FTSE All Share index is diversified across a large number of UK companies, investors can benefit by adding in some international diversification. Our portfolios are globally diversified which is especially relevant at times of political uncertainty.

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# International diversification

Diversification helps take the guesswork out of investing

Annual returns (%): 2007–2021

*You never know which markets will outperform from year to year. By holding a globally diversified portfolio, investors are positioned to capture returns wherever they occur.*

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Higher Return	26.1	9.9	73.4	32.0	6.2	21.8	22.4	39.8	12.1	14.9
	4.9	7.5	32.5	27.5	5.5	18.1	20.5	25.0	11.8	14.1
	4.3	4.6	29.5	24.0	5.1	16.8	0.4	11.8	8.8	10.1
Lower Return	4.2	-3.1	24.2	11.7	2.9	13.5	0.1	8.4	1.0	4.1
	3.2	-34.2	14.0	6.8	1.2	10.1	0.0	7.4	0.5	3.2
	2.3	-42.2	2.5	3.5	0.4	4.4	-0.6	7.4	-0.1	2.3
	-3.3	-43.3	1.1	2.1	-7.5	1.8	-1.6	1.8	-0.4	0.1
	-19.8	-50.8	1.1	0.6	-15.4	0.4	-6.5	0.1	-4.9	-0.3

	2017	2018	2019	2020	2021
Higher Return	21.0	0.0	31.8	9.5	42.6
	10.9	-0.2	26.9	8.9	33.0
	7.3	-0.4	26.8	6.3	25.9
Lower Return	3.3	-0.6	21.1	4.8	5.2
	0.3	-1.6	8.6	1.9	-0.6
	-0.4	-3.2	4.5	-0.5	-1.6
	-0.8	-9.9	0.9	-2.8	-1.8
	-4.6	-10.0	-0.4	-15.7	-3.1

Key:

- Developed Markets ex Europe Equities
- Emerging Markets Equities
- Global Real Estate
- European Equities
- Government Bonds (hedged)
- Global Credit (hedged)
- Short-Term Government Bonds (hedged)
- Euro Short Term Rate

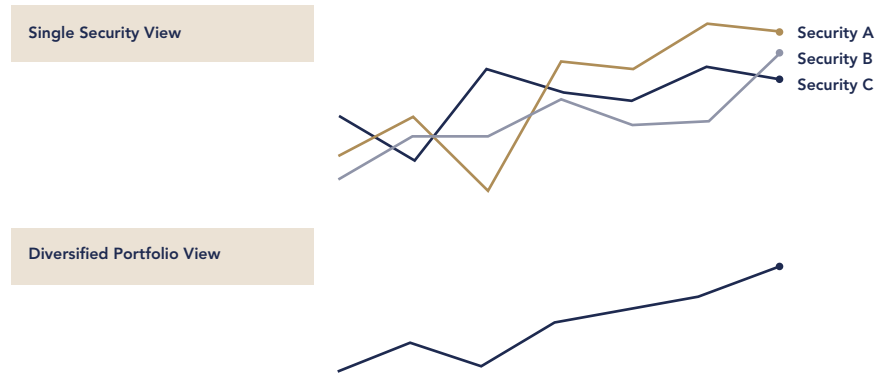
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# International diversification

## Diversification smooths out some of the bumps

*A well-diversified portfolio can provide the opportunity for a more stable outcome than a single security.*



## Size and value effects

As discussed, Fama and French's analysis of the sources of investment risk and return has reshaped portfolio theory and greatly improved investors' understanding of the factors that drive equity performance.

The notion that equities behave differently from fixed interest is widely accepted. However, within equities as a whole, Fama and French find that the differences in returns are due to company size and price characteristics. Taken together, these three factors explain more than 90% of the variation in average equity portfolios. Because they are riskier, smaller companies and financially less-healthy "value" companies have higher costs of capital than financially healthier "growth" companies.

For example, if a "value" company and a "growth" company issue shares, the price of a "value" company's shares is lower because the market perceives the stock to be riskier. The market drives down the price so that the expected return is high enough for investors to hold it, in spite of the extra risk. The market sets the price at a discount so the expected return is higher. This ensures the stock will be purchased even though "growth" companies have better earnings prospects and generally appear safer. The three factor model defines risk with a precision that has made it the modern investment research standard. Size and price characteristics, along with broad stock market exposure, are the major explanatory variables in equity returns.

Our portfolios are designed to increase the weightings to small company and value stocks as the proportion of equity rises, from zero tilt in our lowest risk portfolios up to a 30% tilt to small and value in our highest risk portfolio.

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# International diversification

## Investment process - risk capacity

Investors are entitled to a level of return that is commensurate with their risk capacity. Therefore, the importance of the measurement of risk capacity in the investment process cannot be understated. For example, if an investor selects a portfolio that is overly conservative, the danger is that when the stock market starts to rise rapidly they adopt a more aggressive stance which increases their risk exposure beyond their risk capacity. At this level, the higher volatility ultimately has the effect of scaring them back to a more conservative risk exposure which is not a satisfactory investment strategy.

The five risk dimensions of individual risk capacity are:

### 1. Time horizon and liquidity needs

This dimension estimates how rapidly investors may need to withdraw money from their investments. The longer an investor holds onto a risky asset with at least a twenty-year record of associated returns, the less chance there is of obtaining poor cumulative returns.

### 2. Attitude to risk

This dimension estimates aversion or attraction to risk – defined as “the possibility of loss” - and addresses an investor’s ability to withstand the fluctuations in the value of any investment that is subject to risk. The longer an investor holds on to a risky asset with at least a twenty-year record of associated returns, the less chance there is of obtaining poor cumulative returns.

### 3. Net-worth

This dimension estimates the investor’s capacity to take various levels of risk. An investor of high net worth has a cushion for the uncertainty of future cash needs. Because life is uncertain, we can never be certain of tomorrow’s requirements. However, the more assets an investor has in reserve, the higher their capacity for risk.

### 4. Income and savings rate

This dimension estimates the investor’s excess of current income and ability to add to savings. The higher the score, the more likely it is that the investor will have a higher discretionary income available for investment and they will also have a greater cushion against future emergency cash requirements.

### 5. Investment knowledge

This dimension considers the investor’s knowledge about investing in general and, more specifically, their understanding of the relationship between risk, return, and time.

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# International diversification

## Model portfolios

The challenge for investors is to find the most appropriate allocation between safe assets and risk assets to maximise the probability of accomplishing long-term goals.

	Less Risky Assets	More Risky Assets
<b>Assets</b>	Cash, Fixed Income	Globally diversified equities
<b>Volatility</b>	Low; minimal price fluctuation	High; large price fluctuation
<b>Expected Return</b>	Low	High
<b>Risk to Investor</b>	Am I going to run out of money?	Am I going to lose money?

We use a Psychometric risk profiling process in order to give us a broad indication of your risk capacity. The results of the risk profiling exercise indicate which of our model portfolios would provide an asset allocation and an investment experience commensurate with your tolerance for risk. This then forms the basis of a detailed discussion with you on the role that risk and return plays in delivering the desired outcome of the financial plan we build for you.

Our guiding principle is that you should only take on the amount of investment risk you are comfortable with as it is essential that you are able to maintain investment discipline.

There are theoretically an infinite number of portfolios that could be created from the combination of the five risk factors. However, our design criteria for our model portfolios are that there should be a distinct and material difference in the risk/return characteristics of each portfolio. We seek a measurable difference in the expected annual return with a quantifiable increase in standard deviation between each portfolio. So, accepting some slight variations between the portfolios, this results in 7 model portfolios ranging from 0% Equity / 100% Fixed Income, to 100% Equity / 0% Fixed Income.

Whilst we endeavour to guide you to the most appropriate portfolio, the ultimate test will be your acceptance of the volatility you will experience in real life.



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# International diversification

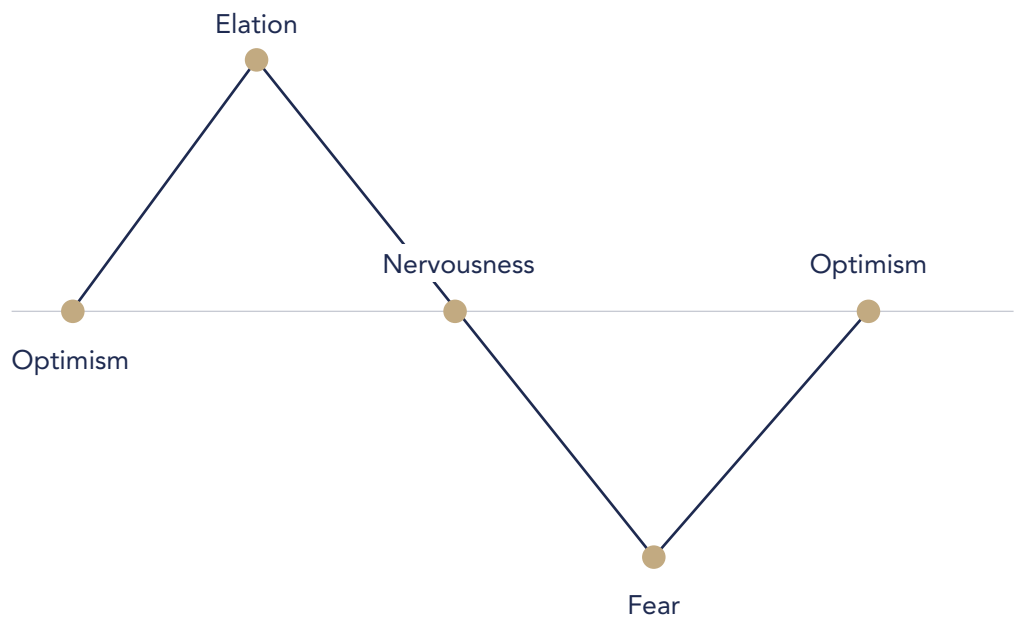
## Investment discipline

*The investor's chief problem – and even his worst enemy – is likely to be himself. Benjamin Graham "Security Analysis", 1934*

Investing is often likened to a ride on an emotional roller coaster. If you consider the typical behaviour of the vast majority of investors, you can understand why. When an upward trend – either for an individual stock or indeed the market as a whole – starts to emerge, the investor follows the trend but only buys in once he is convinced that it is for real. Unfortunately, this is usually at the point that all the gains have been achieved and the trend reverses. Thus, it can be seen how the **emotions that drive investors are a powerful force that lead them to buy high and sell low.**

## Manage your emotions

*Many people struggle to separate their emotions from investing. Markets go up and down. Reacting to current market conditions may lead to making poor investment decisions.*



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## International diversification

### Investment discipline

The solution therefore is for the investor to select a portfolio that would allow him to remove his emotions from the investment equation. This can be achieved by the use of a portfolio of globally diversified index funds, tempered with a fixed income component to reduce volatility. This allows them to stay invested at a risk level with which they feel comfortable and which minimises their urge to move. In that sense, it could be said that the stock market is like a wild bull trying to buck investors off its back. The investor's objective is to find the bull he can stick with and ride until the buzzer sounds. The buzzer in this analogy represents an investor's need to withdraw his funds from the market at a time of their choosing.

### Humans are not wired for disciplined investing

*When people follow their natural instincts, they tend to apply faulty reasoning to investing.*



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# International diversification

## Rebalancing portfolios

Rebalancing a portfolio is an important factor in achieving long-term returns. If you accept that your risk capacity should be matched with a suitable portfolio then rebalancing is the means by which you maintain a consistent risk exposure. For example, after a prolonged bull market the balance of equities and fixed income in your portfolio might have shifted from 60/40 to 70/30 – leaving you more exposed to the downside than you are prepared for.

Although rebalancing is a simple concept, realising its benefits is a challenge for many investors because it involves selling assets that have recently done well and buying assets that have recently done poorly in order to return to the original allocations. However, an understanding that, over the long term, asset class performance tends to revert to the mean (i.e. periods of above average performance are followed by periods of below average performance), rather than maintain upward or downward trends indefinitely, will help the investor overcome his reluctance to do what appears to be counter-intuitive – i.e. sell a successful investment rather than hold on to it.

Rebalancing has been proven to increase portfolio returns with no additional cost in terms of risk. However, it is not an entirely 'free lunch' as, in order to rebalance, some transactional fees and expenses may be incurred. The key, then, is to maintain discipline as to when and why the portfolio will be rebalanced.

As a general rule, a portfolio is tested quarterly and rebalanced when necessary to revert to its original allocation. In addition, your risk capacity should be assessed regularly or when a significant life event occurs such as loss of job, marriage, divorce, birth of children or death, to determine whether any structural change in asset allocation is required.

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## Our responsibilities

In addition to any responsibilities imposed by law or by the rules of our regulators, our responsibilities at AES are:

1. When so requested by you, to help you decide on a suitable asset allocation policy. To recommend pensions, offshore bonds, individual savings accounts, unit trusts, investment trusts and/or investments managed by insurance companies and/or others and to attempt to arrange for you the investments you select.
2. You have not imposed any specific restrictions on the type of investments you may wish to consider, thereby leaving us free to suggest whatever may seem appropriate having regard to your circumstances at any particular time.
3. For the avoidance of doubt, it is understood and agreed that AES is not a manager of investments. When so requested, we will recommend fund managers and we will monitor the performance of those managers.
4. When so requested by you, to provide valuations of the investments it has arranged for you. These valuations are normally supplied digitally via your personal online account where you can view them at any time of your choosing in a secure environment.
5. It is understood and agreed that we should use our best endeavours to meet your investment performance expectations but will incur no liability to you if unsuccessful.

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## Your responsibilities

1. To review this Investment Policy Statement and satisfy yourself that it is acceptable to you. If any points are not clear you should discuss them with us.
2. To advise us in writing if at some future date the terms of the Investment Policy Statement become unacceptable to you.
3. To advise us in writing if you anticipate any significant encashment of your equity linked investments within the next five years. This means a rolling five years. We normally recommend such investments on the assumption that, emergencies excepted, they will be held for at least 5 years and if you identify a future need to release capital from your portfolio it would be helpful for us to be aware of this.
4. To read any investment literature provided for you by us or by the managers of your investments and to notify us if there are any points which you do not understand. You retain absolute discretion over all investment and implementation decisions.
5. To advise us in writing if you wish any specific 'ethical' concerns to be considered before investment advice is given to you. This could cover, for example, industries such as alcohol, armaments or tobacco or might relate to investment in countries with a political regime which you would find unacceptable. You should note that with collective investments, other than the small number of specifically 'ethical' funds, it may not be possible to identify from day to day the exact constituents of a fund in which you have invested or in which you are considering investing so it would be appreciated if you would stipulate investment constraints only in relation to those matters about which you feel strongly. To date you have made no such stipulation.
6. Should you wish to follow our ongoing advice, to reply to our communications recommending any fund switches, promptly and clearly.
7. To maintain a disciplined approach to investment.

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# Your understanding

You understand the following:

1. There are many kinds of investment risk including but not restricted to:
  - 1.1 The systematic risk of markets
  - 1.2 Income risk
  - 1.3 Inflation risk
  - 1.4 Currency and exchange rate risk
  - 1.5 Default risk
  - 1.6 The non-systematic risks of securities
  - 1.7 Liquidity risk
  - 1.8 Capital risk
  
2. There is no such thing as an investment which will give above average returns without the acceptance of above average risk and that above average risk does not guarantee higher returns.
  
3. Your investments may go down in value as well as up and that past performance is not a reliable guide to future performance. You also understand you may not recover from a non-Cash investment the whole of the sum originally invested.

It is important to us that you have a good investment experience and understand our investment philosophy and our strategy. We are always on hand to help you to understand and answer any of your queries.

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## Your understanding

Our clients understand and appreciate the benefits of our advice and adopting a long-term strategy:

### They do **NOT** act on impulse

<i>"I can't take this bear market — I'm getting out!"</i>		<i>"Everyone's making money — I want a piece of the action."</i>
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### They are **NOT** swayed by the media

<i>"The unlikely stock market that's delivered a 33pc return in 2016"</i> <small>The Daily Telegraph 05/04/2022</small>	<i>"Why you shouldn't buy London property"</i> <small>This Is Money 04/04/2022</small>
<i>"From gold to classic cars, wine and stamps, how to make money tax-free from alternative investments"</i> <small>This Is Money 18/04/2022</small>	<i>"4 Small Cap Bargains You Simply Can't Afford To Miss!"</i> <small>Motley Fool 22/04/2022</small>

### They do **NOT** bet their savings on tips and hunches

<i>"I heard it on the news. I'd better sell!"</i>	<i>"I got a hot tip from my neighbour. It's an open goal."</i>	<i>"I've loved their products for years — it's a dead cert."</i>
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### They do **NOT** try to predict the future

<i>"I have a proven system for picking winning shares."</i>		<i>"That sector will continue advancing through next year."</i>
<i>"The market is primed for a retreat."</i>		

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## Your understanding

### Only focus on what you can control

*A professional adviser can offer expertise and guidance to help you focus on actions that add value. This can lead to a better investment experience.*

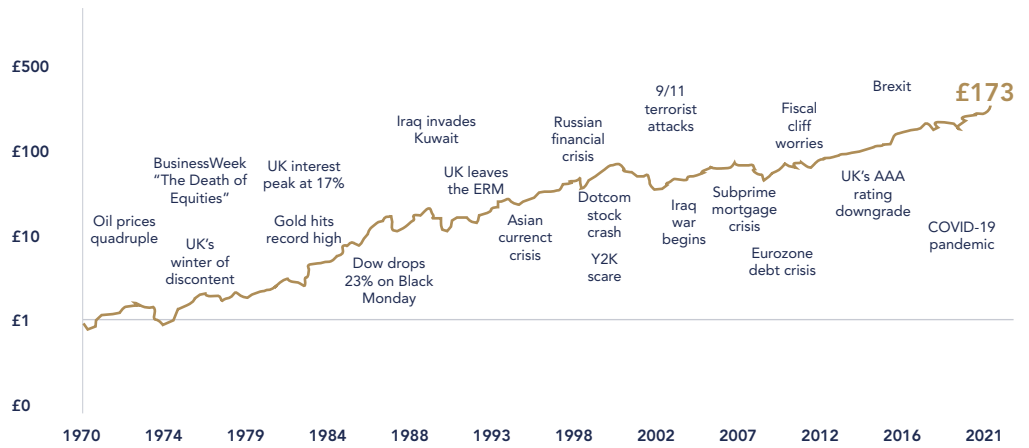
- ✓ Create an investment plan to fit your needs and risk tolerance
- ✓ Structure a portfolio along the dimensions of expected returns
- ✓ Diversify globally
- ✓ Manage expenses, turnover, and taxes
- ✓ Stay disciplined through market dips and swings



### Markets have rewarded discipline

Growth of a pound—MSCI World Index (net div.), 1970–2021

*A disciplined investor looks beyond the concerns of today to the long-term growth potential of markets.*



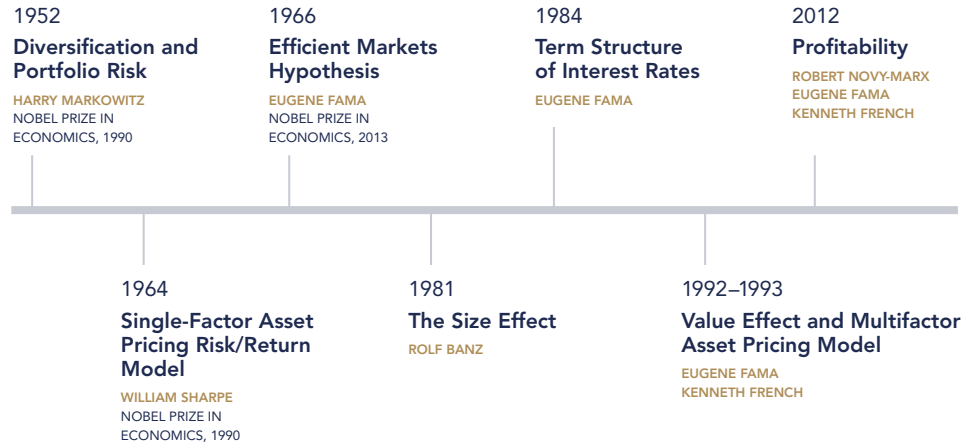


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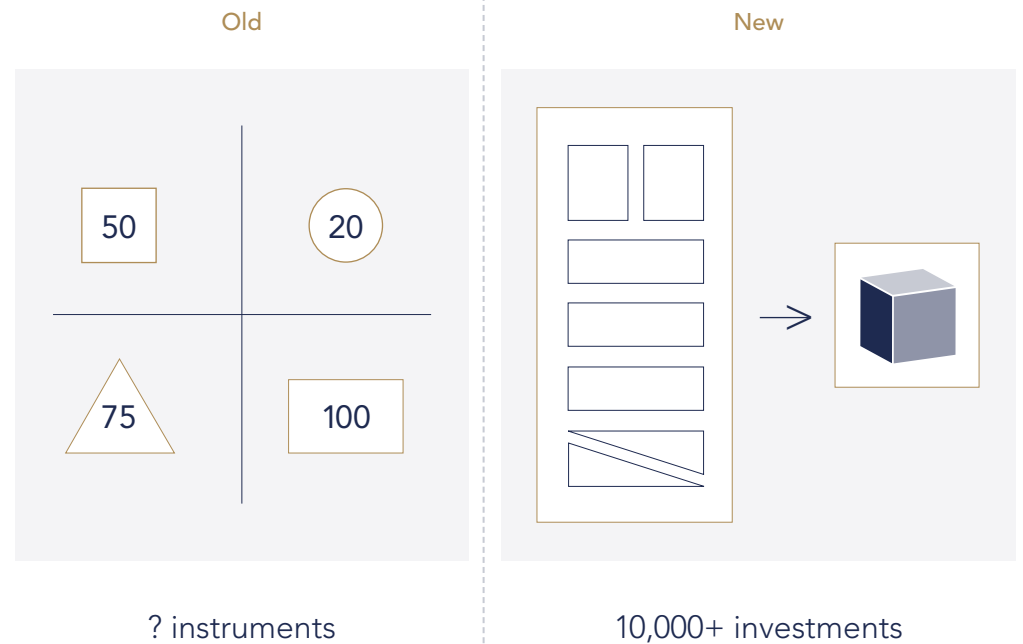
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## Your understanding

Many of the greatest advancements in finance have come from academia



What does portfolio diversification look like now?





Engage with us:



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[www.aesinternational.com](http://www.aesinternational.com)

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**Risks: Investment involves risks. The investment return and principal value of an investment may fluctuate so that an investment, when redeemed, may be worth more or less than the capital invested. Past performance is not a guarantee of future results. There is no guarantee strategies will be successful.**

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