darnells
Wealth Management Ltd

Investing

a **Darnells** guide

Contents

INTRODUCTION

The starting point for a successful investment journey is deciding on how much investment risk you are willing to take. As your partners in this investment journey, it is important that we fully understand:

- The risk you are willing to take and a more subjective measure of risk
- The risk you are able to take (often referred to as your capacity for loss and is quite factual - what level of loss will affect your everyday standard of living)
- The risk you need to take (if you have a specific investment goal and a specific investment amount, how much risk do you need to take to make that goal realistically achievable?)
- Your investment horizon - how long you are planning to invest for?
- Your knowledge and experience - have previous investments helped you understand and cope with market fluctuations?

This brochure aims to set out the process we undertake to allocate you a suitable level of investment risk.

When investing for a client, there are the steps we will take:

1. Allocate a suitable level of investment risk

2. Research a suitable selection of investments to meet that risk (referred to as asset allocation)

3. Populate that allocation with suitable investment funds

4. Review the portfolio on an ongoing basis

This brochure covers the first crucial step, Investment Risk.

INVESTMENT RULES

Darnells Wealth Management clients benefit from our experience, knowledge and skill to provide an investment journey with care and attention every step of the way.

DO	DO NOT
Stay invested	Try and forecast future events
Diversify your investments	Put all your eggs in one basket
Ignore your emotions	Focus on the short term "noise"
Trust our process	Lose your discipline

RISK VERSUS REWARD

When it comes to investing, risk and reward go hand in hand. All investments involve some degree of risk.

RISK - If you intend to purchase any investment - such as equities, property or bonds - it is important that you understand before you invest that you could lose money.

REWARD - The reward for taking risk is the potential for a greater investment return above deposit based investments. If you have a long term financial goal, you might expect to make more money by carefully investing in asset categories with greater risk, like equities or bonds, rather than restricting your investments to assets with less risk, like cash. On the other hand, investing solely in cash investments may be appropriate for short-term financial goals, yet you may still expose yourself to risks, such as low interest rates or inflation that gradually erode the purchasing power of your money. However, just because you have a long time horizon, you do not always need to take higher risk. Helping you with this decision is a central part of our advice process.

RISK IN VARYING FORMS

When we refer to risk, not only do we consider capital risk via market fluctuations, there are other risks to consider – these include:

Interest Rate Risk – the risk that interest rates should rise and how this would affect asset prices, particularly in bond investments.

Inflation Risk – the risk that the growth of your assets is below inflation, resulting in a reduction in the future purchasing power of your assets.

Political Risk – Politics has a destabilising effect on many investment markets, new policies and announcements can affect investor sentiment and confidence in certain markets.

Longevity Risk – the risk of your capital being eroded by poor performance / charges / fees and not being sufficient to meet your longer term objectives – you simply run out of money.

Event Risk – Whilst we endeavour to build diversified portfolios, when extreme events occur – such as the 2007-09 credit crisis, or the 2020 Covid pandemic, all assets can fall in value at the same time.

This is far from an exhaustive list; however this does underline the amount of work we undertake on your behalf to ensure that your investment portfolio is not exposed to unnecessary risks.

ASSET CLASSES - THE SOURCE OF RISK AND REWARD

Asset Allocation is an important part of the investment process. By selecting suitable blends of the main asset classes, we aim to match your portfolio to your recommended level of investment risk. The higher the risk, the greater the exposure to higher risk asset classes.

Increased Investment Risk

Cash

Easy to understand as we all have cash and whilst very low risk, banks can default and low interest rates combined with higher inflation can erode the real value of our capital.

Bonds

A bond is an investment whereby an entity (usually a Government or a Company) borrows money for a defined period of time at a variable or fixed interest rate. Therefore, bonds can also be known as "Fixed Income" investments. These types of investments are considered to be less volatile as the loan is secured against the entity, although the price will fluctuate depending on factors such as the credit quality of the entity, the time to repayment of the loan and the attractiveness of the income versus other available asset classes.

Property

Commercial Property funds predominantly invest in Bricks and Mortar property, not property shares. The term commercial property (also called commercial real estate) refers to buildings or land intended to generate a profit, either from capital gain or rental income, or a mix of both.

Alternatives

Cash, Bonds, Property and Equities are seen as the main asset clases, but at times of market stress these assets can move down together, so we also consider alternative sources of risk and reward, like commodities (precious metals, crops etc) to further diversify your portfolio.

Equities

Equities are share holdings in companies that allow an investor to participate in the growth of the firm. As companies grow through time they will experience good times and hard times and their share price will fluctuate accordingly. Equities are therefore higher risk investments and you need a long investment horizon to hold a portfolio invested predominantly in equities to allow your portfolio time to recover from any periods of market weakness. We invest in more mature Developed Markets (such as UK and the US) along with Developing Markets that are younger and more volatile[1] (such as Asia and Emerging Markets). As you move up the risk profile towards 10 out of 10, you will hold more Developing Market equities for the long term growth potential on offer. This comes with a higher level of capital fluctuation – both positive and negative.

WHY ASSET ALLOCATION IS IMPORTANT

By including diversified asset categories with investment returns that move up and down under different market conditions within a portfolio, an investor can try and mitigate against significant losses. Historically, the returns of the four major asset categories do not always move up and down at the same time. By investing in more than one asset category, you should reduce the risk to capital and your portfolio's overall investment returns will have a smoother ride. If one asset category's investment return falls, you should be in a position to counteract your losses in that asset category with better investment returns in another asset category.

There are two main types of asset allocation that we use and refer to in our literature:

Strategic Asset Allocation — the primary goal of a strategic asset allocation is to create a diversified asset mix that provides the optimal balance between expected risk and return for a long-term investment horizon.

Tactical Asset Allocation — a shorter term view in which an investor takes a more active approach that tries to position a portfolio into assets, sectors, or individual stocks that show the most potential over the short term, usually in line with a view on the current macro environment.

THE POWER OF DIVERSIFICATION

The practice of spreading money among different investments and asset classes to reduce risk is known as diversification. By picking the right balance of investments, you may be able to limit your losses and over the short term the fluctuations of investment returns, without sacrificing too much potential gain. This benefit, if implemented correctly, is usually seen over the longer term.

In addition, asset allocation is important because it has a major impact on whether you will meet your financial goals. For example, if you are saving for a long-term goal such as retirement or university, most financial experts agree that you will probably need to include at least some equities or collective (pooled equity holdings) funds in your portfolio. On the other hand, if you include too much risk in your portfolio, the money for your goal may not be there when you need it. A portfolio heavily weighted in equities or equity collective funds, for instance, would be inappropriate for a short-term goal.

DO YOU WANT THE JOB OF FORECASTING MARKET RETURNS? NO? SO DIVERSIFY

2009	2010	2011	2012	2013	2014	2015
Emerging Market Equity 61.1%	Private Equity 41.1%	Gilts 16.7%	Private Equity 29.2%	Japan Equity 54.6%	REITs 15.0%	Private Equity 12.3%
Global High Yield 57.3%	Gold 29.4%	Global Inflation Linked Bonds 11.5%	REITs 27.7%	Private Equity 37.8%	Gilts 14.6%	Japan Equity 9.9%
Private Equity 52.3%	Emerging Market Equity 23.1%	Gold 10.1%	Japan Equity 21.6%	US Equity 31.5%	US Equity 13.0%	European Equity 3.8%
REITs 37.1%	REITs 19.6%	Emerging Market Bonds 9.3%	Global High Yield 19.1%	UK Equity 20.5%	UK Corporate Bonds 12.5%	Emerging Market Bonds 1.9%
UK Equity 29.7%	Commodities 17.4%	UK Corporate Bonds 6.5%	Emerging Market Bonds 17.8%	European Equity 17.9%	Private Equity 9.9%	Global Govt Bonds 1.8%
US Equity 25.6%	Global High Yield 15.7%	Global Govt Bonds 6.0%	UK Corporate Bonds 15.5%	Alternatives 7.0%	Japan Equity 9.5%	US Equity 0.7%
Gold 25.5%	UK Equity 14.4%	Global Corporate Bonds 5.0%	US Equity 15.2%	Global High Yield 6.7%	Global Inflation Linked Bonds 9.4%	UK Corporate Bonds 0.7%
Emerging Market Bonds 25.4%	US Equity 14.4%	Global High Yield 3.4%	European Equity 13.8%	REITs 3.7%	Global Govt Bonds 8.5%	UK Equity 0.7%
Commodities 23.5%	Emerging Market Bonds 11.6%	US Equity 1.5%	Emerging Market Equity 12.9%	UK Corporate Bonds 1.6%	Global Corporate Bonds 7.9%	Cash 0.6%
European Equity 21.1%	UK Corporate Bonds 8.9%	Cash 0.7%	UK Equity 12.0%	Cash 0.5%	Emerging Market Bonds 6.2%	Gilts 0.5%
Global Corporate Bonds 16.5%	Gilts 7.5%	UK Equity -3.2%	Global Corporate Bonds 11.1%	Global Govt Bonds 0.3%	Emerging Market Equity 4.0%	Global Corporate Bonds 0.1%
UK Corporate Bonds 14.7%	Global Corporate Bonds 7.3%	REITs -6.5%	Gold 7.1%	Global Corporate Bonds 0.2%	Global High Yield 2.7%	Global Inflation Linked Bonds -0.7%
Alternatives 13.4%	Global Inflation Linked Bonds 5.6%	Commodities -8.3%	Global Inflation Linked Bonds 5.9%	Gilts -4.2%	European Equity 1.2%	REITs -0.8%
Japan Equity 9.1%	Alternatives 5.2%	Alternatives -8.4%	Global Govt Bonds 4.7%	Emerging Market Equity -4.5%	UK Equity 1.2%	Global High Yield -0.8%
Global Inflation Linked Bonds 8.9%	Global Govt Bonds 3.9%	European Equity -17.1%	Alternatives 3.4%	Commodities -5.0%	Cash 0.5%	Alternatives -3.8%
Global Govt Bonds 1.4%	Japan Equity 0.6%	Private Equity -17.2%	Gilts 2.9%	Global Inflation Linked Bonds -5.4%	Alternatives -0.5%	Emerging Market Equity -10.0%

Performance is Total Return and in Local Currency of the Index, or Hedged to GBP. The only exception to this is EM Equity where Returns are unhedged for a GBP investor. This is due to the cost and constraints on hedging EM currency. Source: 7IM / Bloomberg Finance L.P. January 2023

DIFFERENT ASSET CLASS PERFORMANCE IN EACH CALENDER YEAR

2016	2017	2018	2019	2020	2021	2022
Emerging Market Equity 32.7%	Emerging Market Equity 25.3%	Global Govt Bonds 1.1%	Private Equity 46.4%	Gold 24.4%	Private Equity 64.2%	Commodities 16.1%
UK Equity 16.8%	US Equity 21.1%	Cash 0.7%	US Equity 30.7%	US Equity 17.8%	Commodities 38.5%	Cash 1.5%
Global High Yield 15.0%	Japan Equity 19.7%	Gilts 0.5%	European Equity 24.8%	Emerging Market Equity 14.9%	US Equity 28.2%	UK Equity 0.8%
UK Corporate Bonds 12.3%	Gold 13.5%	Global Inflation Linked Bonds -1.5%	REITs 21.9%	UK Corporate Bonds 9.1%	REITs 26.1%	Gold -0.3%
Private Equity 11.6%	UK Equity 12.9%	Gold -1.6%	UK Equity 19.2%	Global Inflation Linked Bonds 9.0%	European Equity 21.0%	Japan Equity -4.5%
US Equity 11.2%	Private Equity 12.0%	UK Corporate Bonds -2.2%	Gold 18.8%	Gilts 8.9%	UK Equity 18.2%	Alternatives -5.0%
Gilts 10.7%	REITs 10.4%	Global Corporate Bonds -2.7%	Japan Equity 18.5%	Japan Equity 8.8%	Japan Equity 13.4%	European Equity -9.5%
Global Inflation Linked Bonds 10.3%	Emerging Market Bonds 7.2%	Global High Yield -4.5%	Emerging Market Equity 13.8%	Global Corporate Bonds 7.2%	Global Inflation Linked Bonds 5.4%	Emerging Market Equity -10.6%
Emerging Market Bonds 9.4%	Global High Yield 7.2%	US Equity -4.9%	Global High Yield 11.1%	Emerging Market Bonds 5.8%	Alternatives 3.3%	Global Govt Bonds -11.7%
Commodities 9.3%	European Equity 6.5%	REITs -5.6%	UK Corporate Bonds 11.0%	Global Govt Bonds 4.6%	Global High Yield 1.4%	Global High Yield -13.2%
Gold 8.0%	UK Corporate Bonds 4.9%	Emerging Market Bonds -7.1%	Global Corporate Bonds 10.6%	Global High Yield 4.2%	Cash 0.0%	Global Corporate Bonds -15.3%
Global Corporate Bonds 5.8%	Global Corporate Bonds 4.6%	Alternatives -8.9%	Emerging Market Bonds 10.5%	Alternatives 3.2%	Global Corporate Bonds -1.0%	Global Inflation Linked Bonds -18.1%
REITs 4.1%	Alternatives 4.3%	Emerging Market Equity -9.4%	Commodities 9.4%	Private Equity 1.1%	Emerging Market Equity -1.7%	US Equity -18.5%
Global Govt Bonds 3.6%	Global Inflation Linked Bonds 2.3%	UK Equity -9.5%	Gilts 7.1%	Cash 0.4%	Global Govt Bonds -2.0%	UK Corporate Bonds -19.3%
Alternatives 1.4%	Gilts 2.0%	Private Equity -10.8%	Global Inflation Linked Bonds 6.8%	European Equity -5.1%	UK Corporate Bonds -3.3%	REITs -25.1%
European Equity 0.7%	Global Govt Bonds 1.1%	Commodities -12.4%	Global Govt Bonds 5.5%	REITs -9.0%	Gold -3.4%	Gilts -25.1%

ASSESSING AND ALLOCATING RISK PROFILES - WHAT DO YOU NEED TO KNOW?

It is important that, as a potential investor, you understand the risk profiles we invest within.

RISK PROFILES

Part of our process is to allocate you a suitable risk profile from the options set out below.

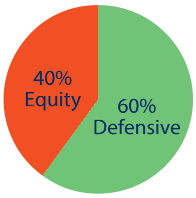
A low risk profile suggests you are only willing to invest a small amount of your assets in higher risk equity investments, instead preferring to focus on slow and steady growth, whereas a high risk profile suggests you are willing to invest all of your assets in higher risk equity investments and you are willing to risk large losses in capital to pursue higher long term returns.

We allocate the following risk profiles:

Cash

If clients are not able to accept any investment risk, we cannot offer a suitable investment proposition.

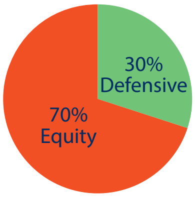
Average Allocation



Low

You seek additional capital and/or income growth over the rate of inflation and capital protection is less important to you than achieving a better return on the investment. You are prepared to accept more risk in the hope of achieving this. You should expect an investment portfolio in this category to invest in a mixture of investments including fixed interest securities and equities. Other assets, such as property, alternatives (including infrastructure) and commodities may be used to diversify the risk within the portfolio. You are willing to accept fluctuations in your investments but, in order to minimise the impact of short-term market falls in the value of your money, you are prepared to invest for a minimum of five years. It is unlikely that you would have more than 40% of your portfolio invested in equities.

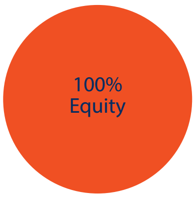
Average Allocation



Medium

You are prepared to take a higher degree of risk with your investment in return for the prospect of higher possible longer-term performance. You understand the risk and reward relationship of investing in equities. You should expect an investment portfolio in this category to be invested predominantly in equities, both in the UK and overseas, but may also use other assets, such as property, alternatives (including infrastructure, structured products) and commodities, to obtain diversification. You appreciate that over some periods of time, there can be falls of over 10%, as well as rises, in the value of your investment. In order to bear the impact of short-term market falls in the value of your money, you are prepared to invest for a minimum of at least five years. It is, however, unlikely that you would have more 85% of your portfolio invested in equities.

Average Allocation



High

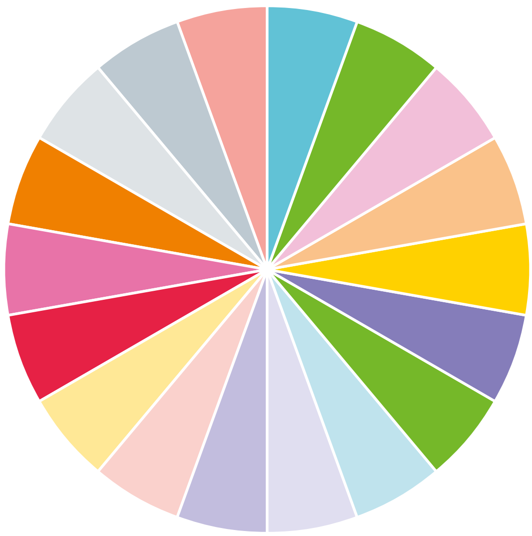
You are prepared to take a large degree of risk with your investment in return for the prospect of longer-term performance. You understand the risk and reward relationship of investing in equities. You should expect an investment portfolio in this category to be usually invested entirely in equities, both in the UK and overseas. Other assets, such as property, alternatives (including infrastructure and structured products) and commodities may be used from time to time in order to diversify the risk within the portfolio. You appreciate that over some periods of time, there can be significant falls, as well as rises, in the value of your investments. As this strategy holds significant risk in the shorter term, you are prepared to invest for a minimum of at least five to ten years.

Major Asset Classes

The above examples show a simple asset allocation of defensive assets and equities. In line with pages 6 and 7 we would actually consider all major asset classes for inclusion in all client portfolios.

Key

- EM Equities
- Private Equities
- Japan Equities
- European Equities
- UK Equities
- US Equities
- UK Properties
- Corporate Bond
- Timber
- Hedge Funds
- Gold
- Index Linked
- Gilts
- Cash
- UK Property
- Emerging Markets Bonds
- Global Govt. Bonds
- Commodities

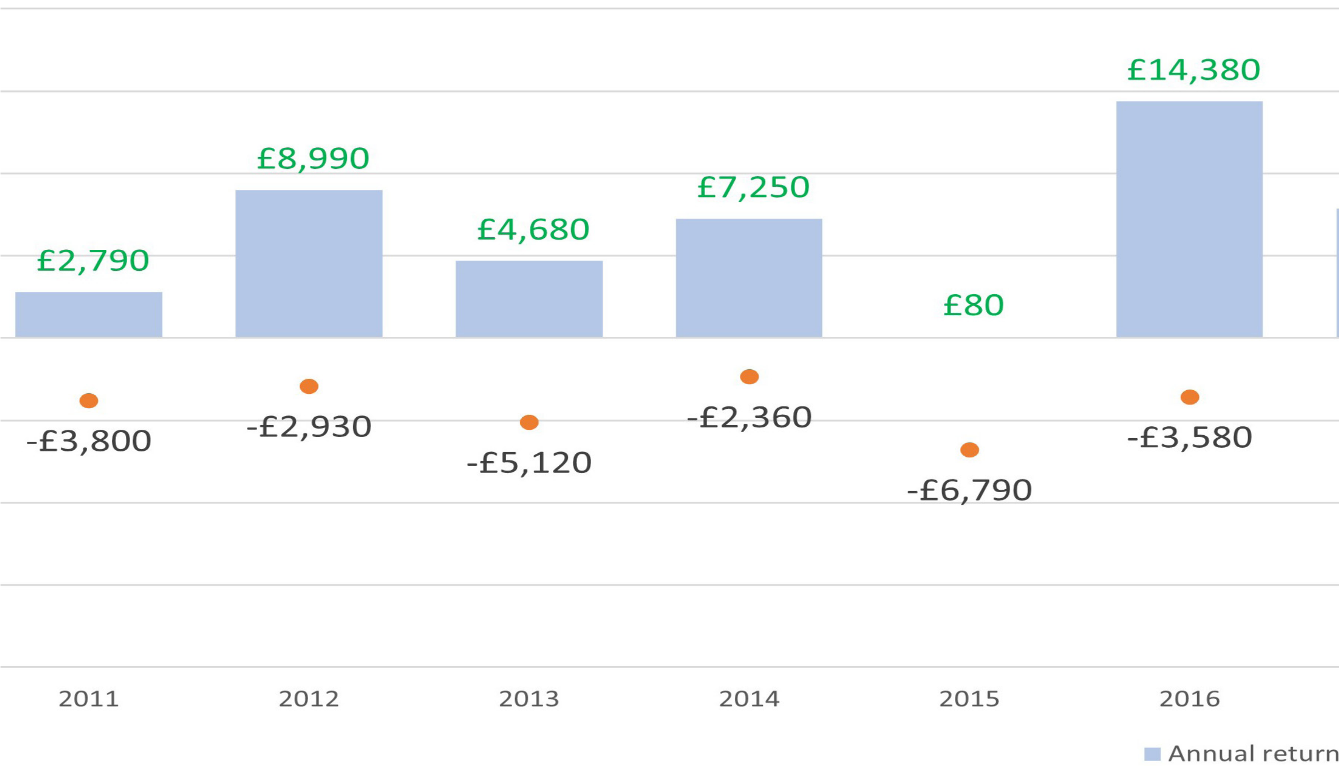


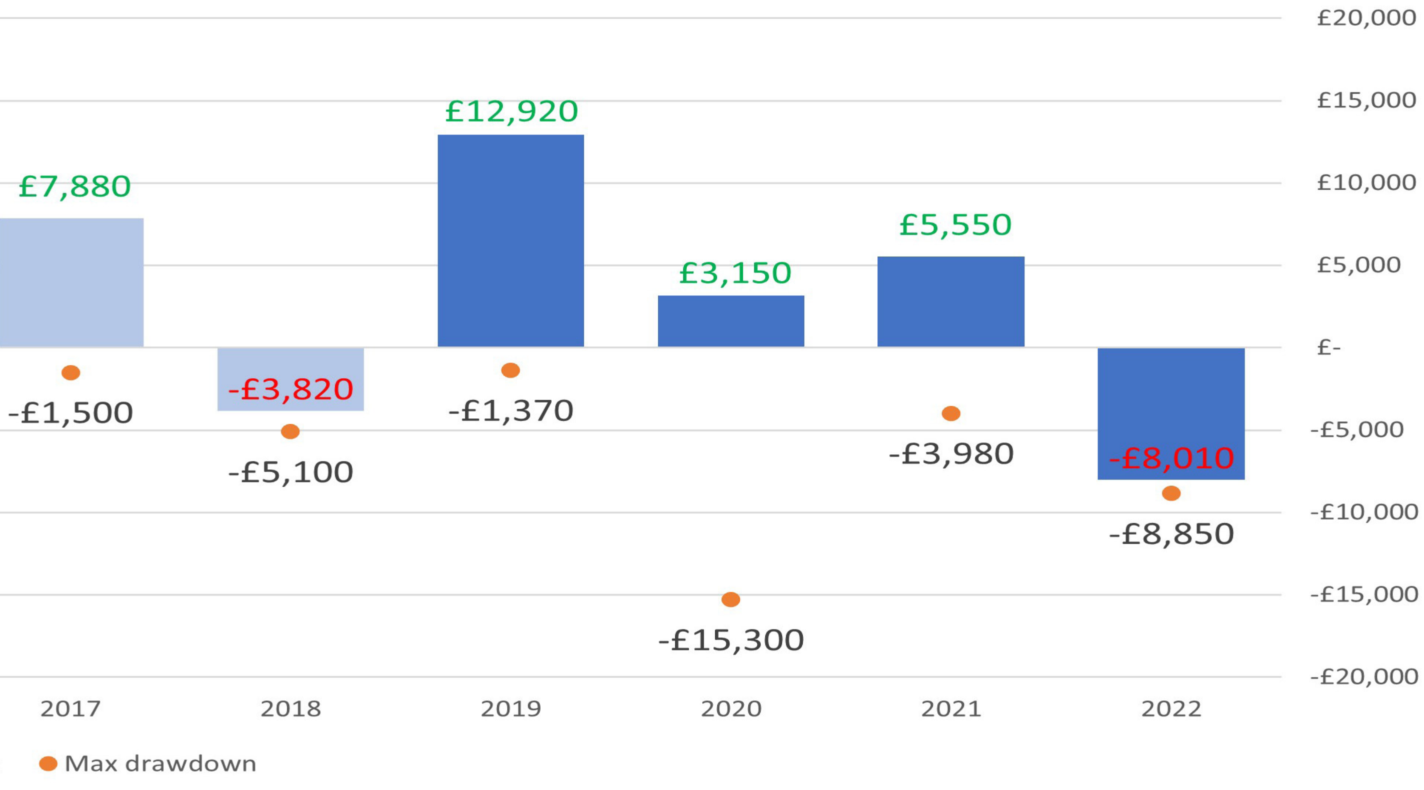
RANGE OF INVESTMENT RETURNS

The bar charts in the following pages show the discrete annual return on **£100,000 invested** in each of three different risk profiles. The charts show the final gain or loss in any one year (Annual Return in blue) versus the maximum intra-year loss (Max Drawdown in orange). The Max Drawdown figure is a maximum loss actually experienced in that calendar year by investing at the highest point the market reached and selling at the lowest.

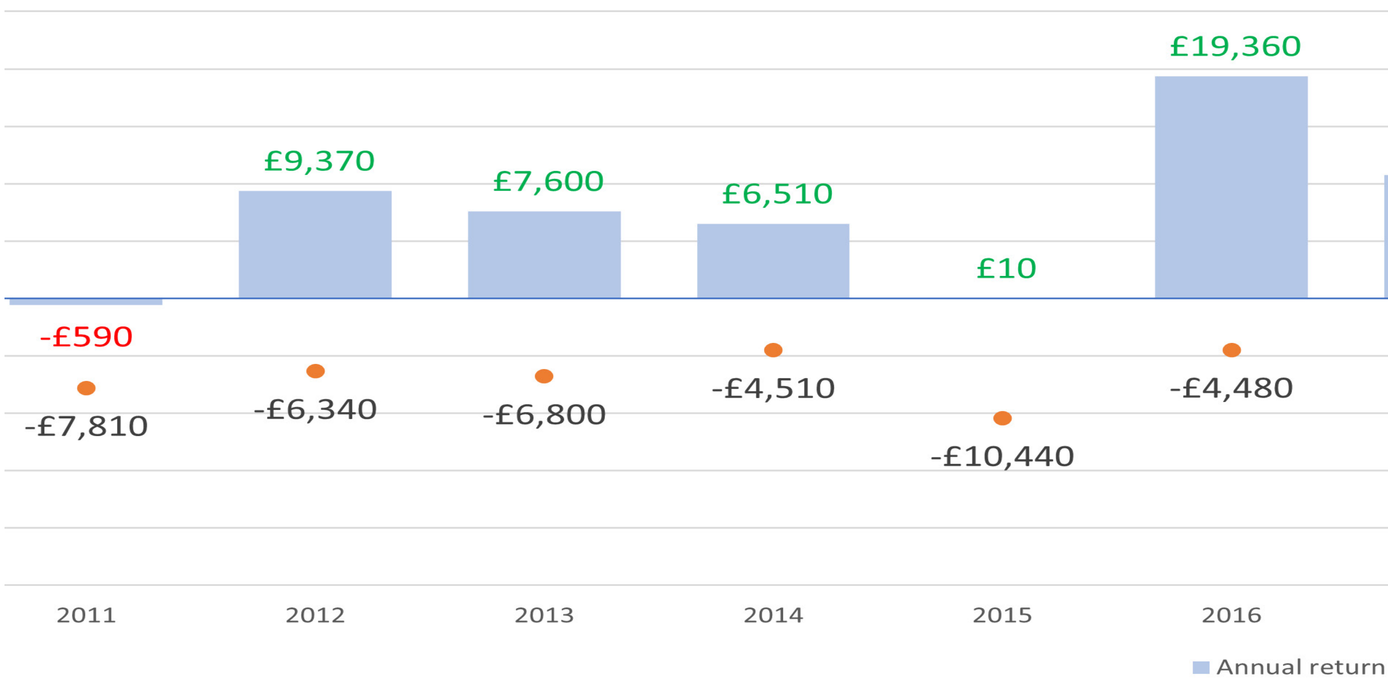
These charts can be used to discuss the risk you are able to take. You may be **"willing"** to take a high level of risk, but can you actually afford to? This is a key discussion in allocating our clients a suitable risk profile and investment portfolio. Markets do fluctuate over time and understanding this and considering a client's reaction to such changes allows us to form a view on the sort of investment journey you could tolerate. The dark blue bars relate to our actual portfolio returns on a range of model portfolios since January 2019. Before this, we have used market index returns (light blue bars) based on our current asset allocations to show you how our portfolios may have performed through different market events. Please look at the different returns and make sure you are comfortable with the capital fluctuations that you could realistically expect moving forwards.

LOW RISK

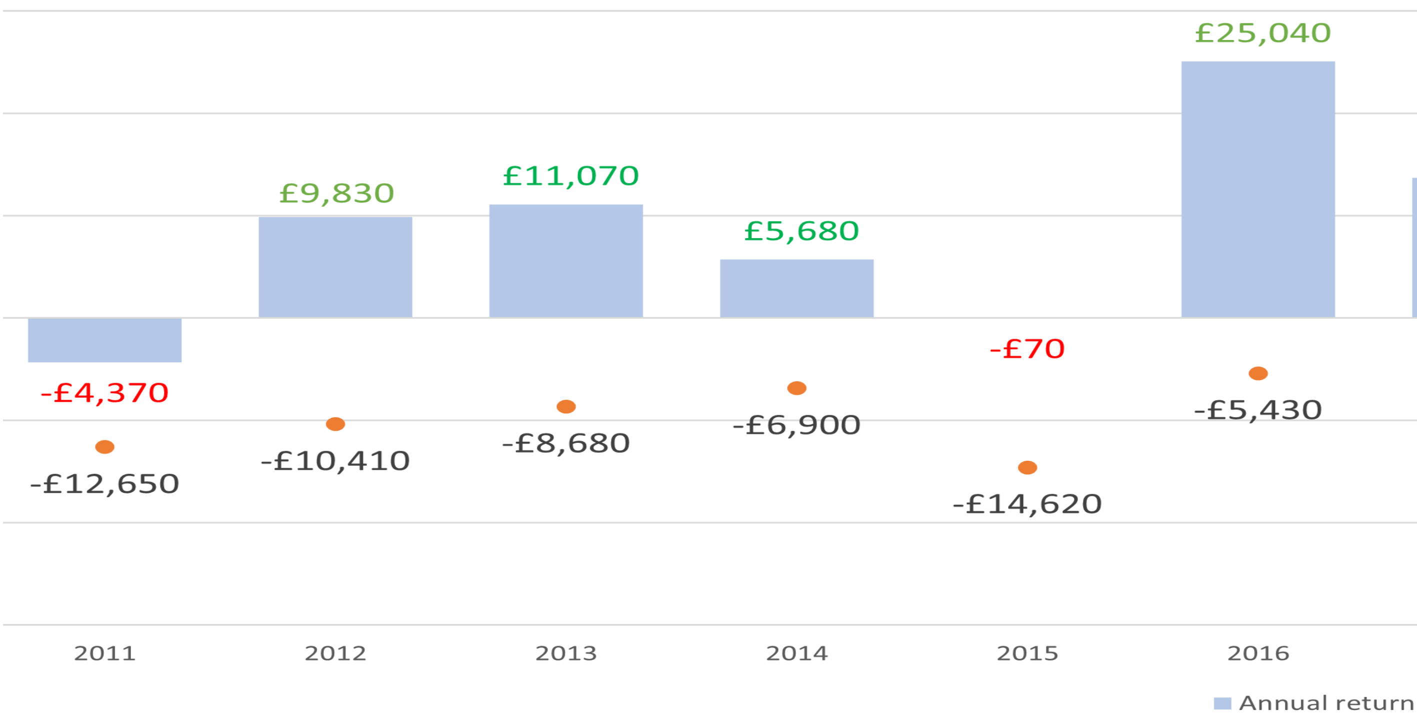


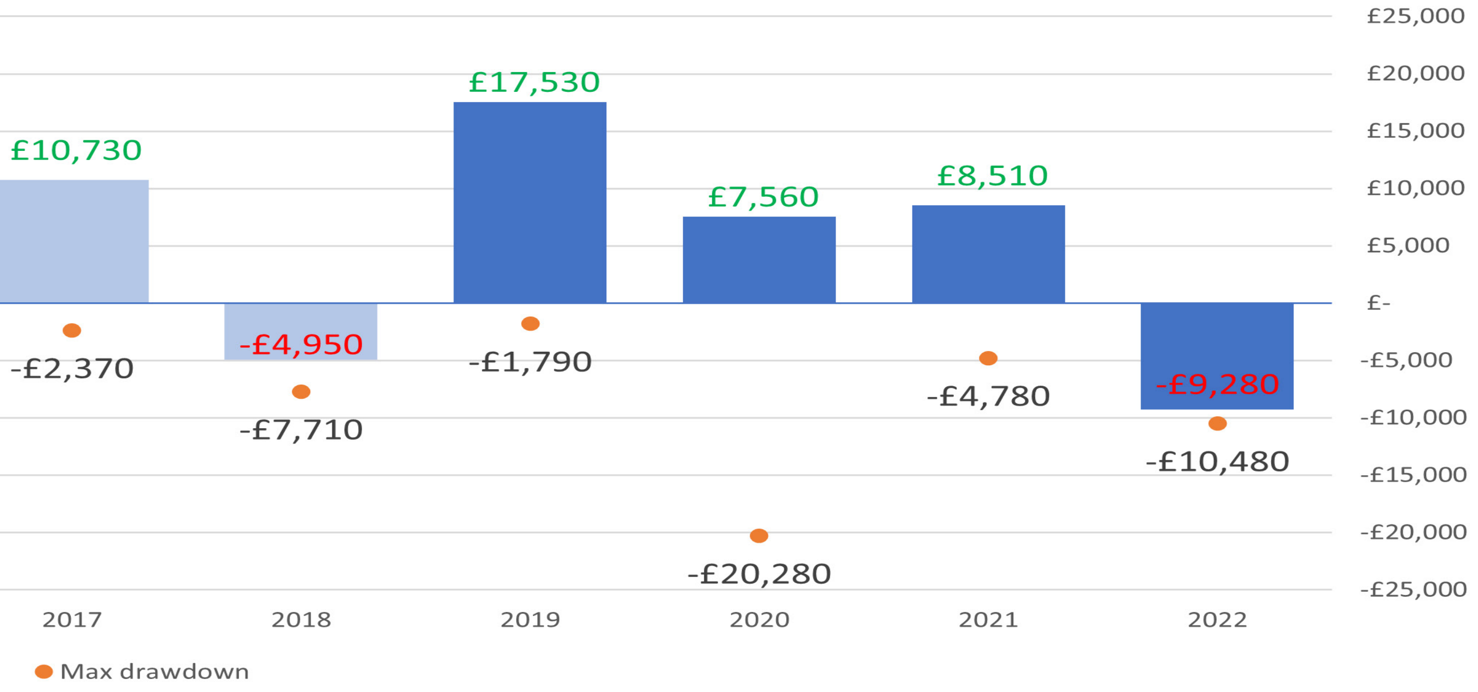

£20,000
£15,000
£10,000
£5,000
£-
-£5,000
-£10,000
-£15,000
-£20,000
£7,880
-£1,500
-£3,820
-£5,100
£12,920
-£1,370
£3,150
-£15,300
£5,550
-£3,980
-£8,010
-£8,850
2017
2018
2019
2020
2021
2022
Max drawdown

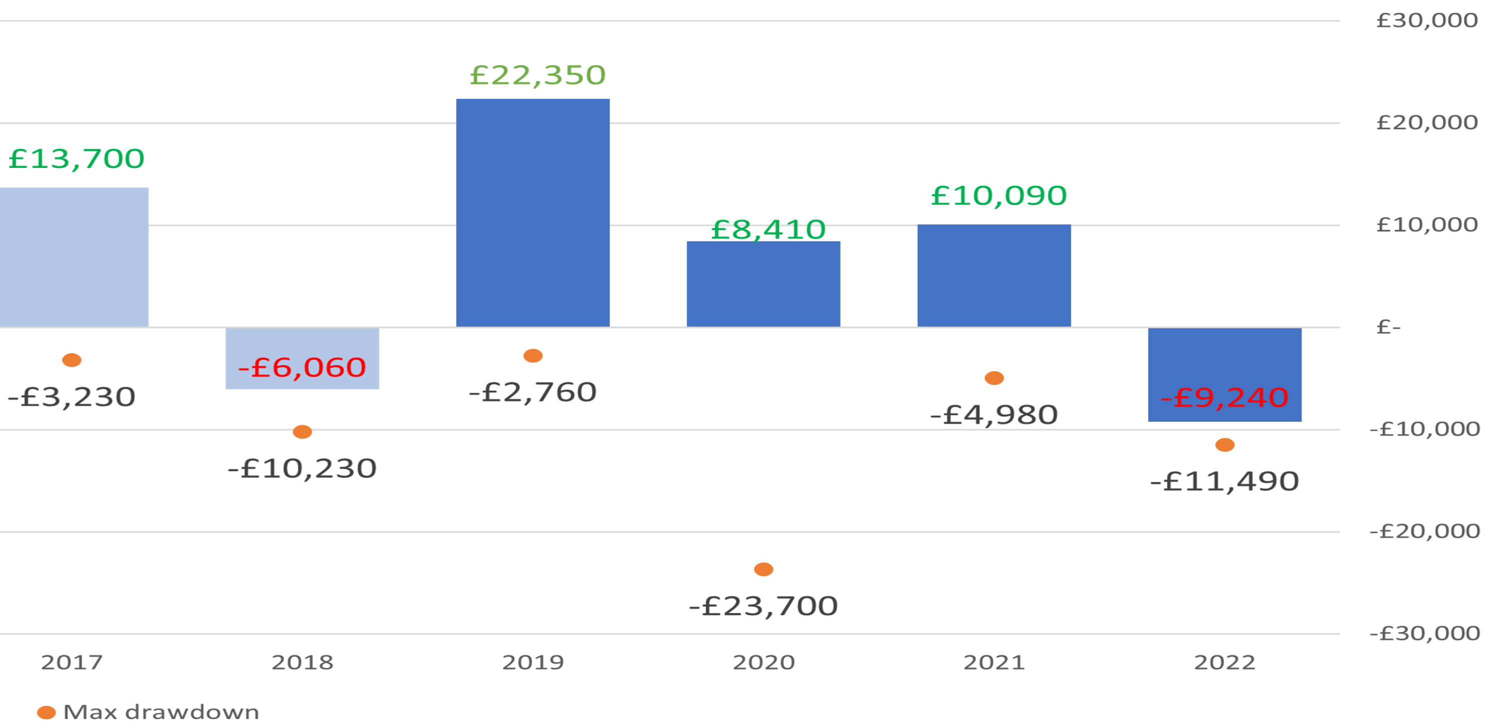
MEDIUM RISK



HIGH RISK




£25,000
£20,000
£15,000
£10,000
£5,000
£-
-£5,000
-£10,000
-£15,000
-£20,000
-£25,000
£10,730
-£2,370
-£4,950
-£7,710
£17,530
-£1,790
£7,560
-£20,280
£8,510
-£4,780
-£9,280
-£10,480
2017
2018
2019
2020
2021
2022
Max drawdown


£30,000
£20,000
£10,000
£-
-£10,000
-£20,000
-£30,000
£13,700
-£3,230
-£6,060
-£10,230
£22,350
-£2,760
£8,410
-£23,700
£10,090
-£4,980
-£9,240
-£11,490
2017
2018
2019
2020
2021
2022
Max drawdown

WHAT ELSE DO WE NEED TO KNOW?

There are five parts to consider when allocating a suitable investment portfolio.

i). HOW MUCH RISK ARE YOU WILLING TO TAKE?

We will first discuss the risk you are willing to take to reach your financial goals (often referred to as '**Attitude to Risk**'). Establishing your Attitude to Risk involves a discussion based on your personal opinion. For a new investor, we may use a risk profile questionnaire to help with the first part in this process. If you have invested before, we will simply discuss this area in more detail.

Capital Fluctuations

- Before we consider investing, can you tolerate **any** fluctuation in the capital under consideration?
- If not, then we may not be able to assist you as most investments carry an element of capital / market risk.

ii). HOW MUCH RISK ARE YOU ABLE TO TAKE?

Once we have established how much risk you are willing to take, we also need to consider how much risk you can **actually** tolerate. This usually involves considering your net income and additional assets. What other money do you have and can it sustain you throught a period of market volatility? Otherwise, you may need to access your capital at a level below your initial investment.

This is often referred to as your '**Capacity for Loss**' and this is defined by our regulators, the Financial Conduct Authority, as:

> "By capacity for loss, we refer to a customers ability to absorb falls in the value of their investment. If any loss of capital would have a materially detrimental effect on their standard of living, this should be taken into account in assessing the risk they are able to take."

We will therefore need to establish your required standard of living by reviewing essential expenditure (mortgage etc) versus discretionary spending (holidays etc).

• **Net income vs expenditure** - If your net income is in excess of your expenditure, you may be able to take a higher level of investment risk as you are unlikely to require the capital over the shorter term.

• **Net wealth** - If you have no debt, there may be less likelihood of your assets being called upon in the shorter term.

• **Emergency Funds** - If you have significant emergency funds, this may make you less likely to require access to your capital and allow a higher risk profile.

• **Life Stage** - If you approaching a key life stage, such as retirement, your requirements for accessing the capital may change.

This list is not exhaustive and will be discussed with you in detail to allocate you a suitable Capacity for Loss.

Having a high Capacity for Loss does not mean you must adopt a high risk profile, but a low Capacity for Loss does suggest you cannot afford investment risk.

iii). RISK YOU NEED TO TAKE

What are you investing for and how much risk do you need to take?

We also need to understand what you want from your investment. You may need to take risk to meet a goal as your current capital/income is not sufficient, or you may already be at the figure of capital/income required, therefore why take any market risk?

iv). KNOWLEDGE AND EXPERIENCE

It is important that we understand how much you understand about the investment world, as more knowledge may influence your ability to deal with capital loss. We also need to consider your previous experience. If you have invested before, how have you dealt with previous periods of market volatility? Understanding this will help us allocate you a more appropriate level of investment risk. Having little or no knowledge or experience may mean we allocate you a lower level of risk to begin with.

If you previously surrendered an investment after a period of poor performance due to concerns it would get worse, we could discuss what drove you to make this decision. Equally, have you invested new money at market low points. Talking about your investment experience is an important part of allocating a suitable Attitude to Risk.

v). INVESTMENT HORIZON

When do you need access to income from your investment?
When do you expect to access a meaningful lump sum (eg. 20%)?

How long are you looking to invest for? We would not want to allocate you a high level of volatile equities if you wish to take the money in two years time. At the same time, if you have a very long investment timeline, a portfolio invested mainly in cash may also not be suitable.

SOME INVESTMENT OPTIONS

At Darnells Wealth Management we offer various investment solutions:

Advisory Portfolios
We use our experience in the marketplace to recommend a diversified portfolio of investment funds that we report on annually to you

Discretionary Fund Management (DFM) "Whole of Market"
We can offer access to whole of market discretionary services that review the entire open market of over 3,000 funds to select the most suitable funds and managers for you. This portfolio will make changes on your behalf to ensure the portfolio remains within your selected risk profile.

Discretionary Fund Management (DFM) "Environmental, Social and Governance (ESG) Investment"
The aim of this investment is to grow the value of your original investment over the term primarily through capital growth and some income. The portfolios will mainly invest in "Environmental, Social and Governance" strategies focussing on key areas where managers are able to protect the world, ensure social progress and improve the organisational standards that underpin the development and prosperity of the global economy.

These are not the only options available to our clients and specific requirements can be discussed in full with your adviser. Darnells Wealth Management Ltd are not themselves an authorised discretionary fund manager, therefore if a discretionary service is required, we can offer carefully selected third parties to carry this out for our clients.

SUMMARY

Now you have considered all the important elements we consider in allocating you a suitable level of investment risk, your adviser will now bring these together with a review of your personal assets to start the advice process that leads to our investment recommendations.

darnells
Wealth Management Ltd

4 The Maltings, Teign Road, Newton Abbot, Devon, TQ12 4AA

T | 01626 247630

E | wealth@darnellswm.co.uk

W | www.darnellswm.co.uk

Version 7 - March 2023