This document is intended to assist in discussions between you and your financial adviser when assessing your attitude to investment risk. It cannot represent an individual investment recommendation and by its nature cannot take into account your personal circumstances. It is a basis for discussions only.

Understanding

the risks of investing

folwealth architas

UNDERSTANDING **THE RISKS OF INVESTING**

There are risks associated with many things in life and making investments is no exception. There is no such thing as a risk-free investment but investments can vary from lower risk to very high risk. Typically the more risk you are willing and able to accept, the higher the potential for increased returns, but there is also a greater risk of suffering significant losses.

In constructing a portfolio your adviser will help you to understand different asset classes, how they can generate different returns and the risks associated with them. This will help you better understand your portfolio, and how combining asset classes will help you achieve your long-term investment goals.

Different types of risk

There are a number of different types of risk that can affect how your portfolio may perform, some of these are listed below.

Inflation risk
The return on your investment or the income from it could fall below the rate of the rise in prices reducing the spending power of your money.

Interest rate risk
Your investment could be adversely impacted by a fall or rise in interest rates.

Credit risk
There is the potential that a debtor could fail to make payments on amounts they have borrowed.

Business default risk
The possibility that the issuer of a stock or bond may be unable to pay interest or even become bankrupt.

Market risk
For example equities could increase or decrease in value over a period of time, with the potential to leave you with less than you expected.

Legislative risk
Changes in legislation could impact on certain investments you have in your portfolio.

Other key considerations and discussions with your adviser will be based upon how much risk you are willing to take, also known as your attitude to risk and how much risk you are able to accept, which is your capacity for loss.

How much risk are you willing to take?
When making a decision to invest with your adviser, the starting point for your discussions will be around assessing if investing is suitable for you and how you feel about the risks associated with it.

In conjunction with in-depth discussions, your adviser may also ask you to complete an 'Attitude to Risk' questionnaire. The outcome of the questionnaire will act as a guide for your adviser to form a profile of what type of investor you may be.

Following further discussions and considerations, your adviser will assess what risk profile may be suitable for you based on the information and answers you have given.

How much risk are you able to take?
Your conversations with your adviser may identify that you have a high tolerance to risk and you are comfortable with a higher level of risk in the hope of achieving higher returns. However your adviser has a responsibility to assess how much risk you can accept without it having a major impact on your day-to-day life: your capacity for loss. This means assessing whether, if the worst were to happen and you lost a large proportion or all of your investment, it would have a detrimental effect on your standard of living.

So it's not just a case of how much risk are you willing to accept, you also need to consider how much risk you are able to accept

Please note there may be some terms in this guide you are unfamiliar with, therefore we have included a glossary at the end of this document for your reference.

“**Capacity for loss** – a customer’s 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** that they are able to take.”

Financial Conduct Authority (formerly FSA) – Assessing Suitability, March 2011.

RISK
PROFILES

The Architas funds are risk profiled on a 1-7 scale, where risk profile 1 represents keeping cash in a bank or building society deposit account and not investing it because you are not comfortable with taking any investment risk.

The lowest risk rating of our funds is risk profile 2. Risk profile 7 is the highest risk rating on our scale and is aimed at those investors who are comfortable being exposed to a higher level of risk to try to achieve higher returns.

There are a number of different methods and tools for risk profiling and you may have a different profile score depending on which tools are used. The value of your investments and any income from them can go down as well as go up and is not guaranteed. You could get back less than you invested.

1

- You don't want to risk your capital or take any risk with your money
- You understand that inflation may reduce the real value of your investment
- Investing is not appropriate for you

2

- You're prepared to move away from investing in cash and to accept some investment risk in return for potential growth
- You're prepared to invest in a variety of non-cash assets which can include exposure to shares
- You accept that growth prospects are limited
- You understand your investment value will fluctuate which could mean you may get back less than you invested

3

- You're prepared to accept investment risk in return for potential growth
- You're prepared to invest in a wide variety of assets, including exposure to shares
- You're aware this will increase the amount your investment will fluctuate in value
- You could get back less than you invested

4

- You're looking for a balance of risk and reward with the potential for higher returns in the longer term
- You will invest in a wide variety of assets
- You're prepared to accept that the value of your investment will fall and rise in value and you could get back less than you invested

5

- You're prepared to accept a high level of risk on your investment with the potential for higher returns in the longer term
- Typically, you will invest in a wide variety of assets
- You're prepared to accept that this will increase the risk of large fluctuations in your investment value
- You understand there's a possibility you may lose some or all of your capital

6

- You're prepared to accept a very high level of risk on your investment with the potential for very high returns in the longer term
- You understand there may be sharp, day to day fluctuations in your investment value
- You accept there is a risk of losing some or all of your capital

7

- You're an experienced investor with a good understanding of the risk/reward balance
- You understand your investment is exposed to a significant level of risk
- You know your investment is exposed to significant and very sharp day to day fluctuations
- You accept there is a risk of losing some or all of your capital

RISK PROFILING WITH **EVALUE**

Risk profiling and forecasting tools are used by fund managers to provide risk ratings for their investment products. Architas work with EValue and utilise their financial forecasting tools. This can help advisers and their clients see the potential risks and rewards from their investment choices.

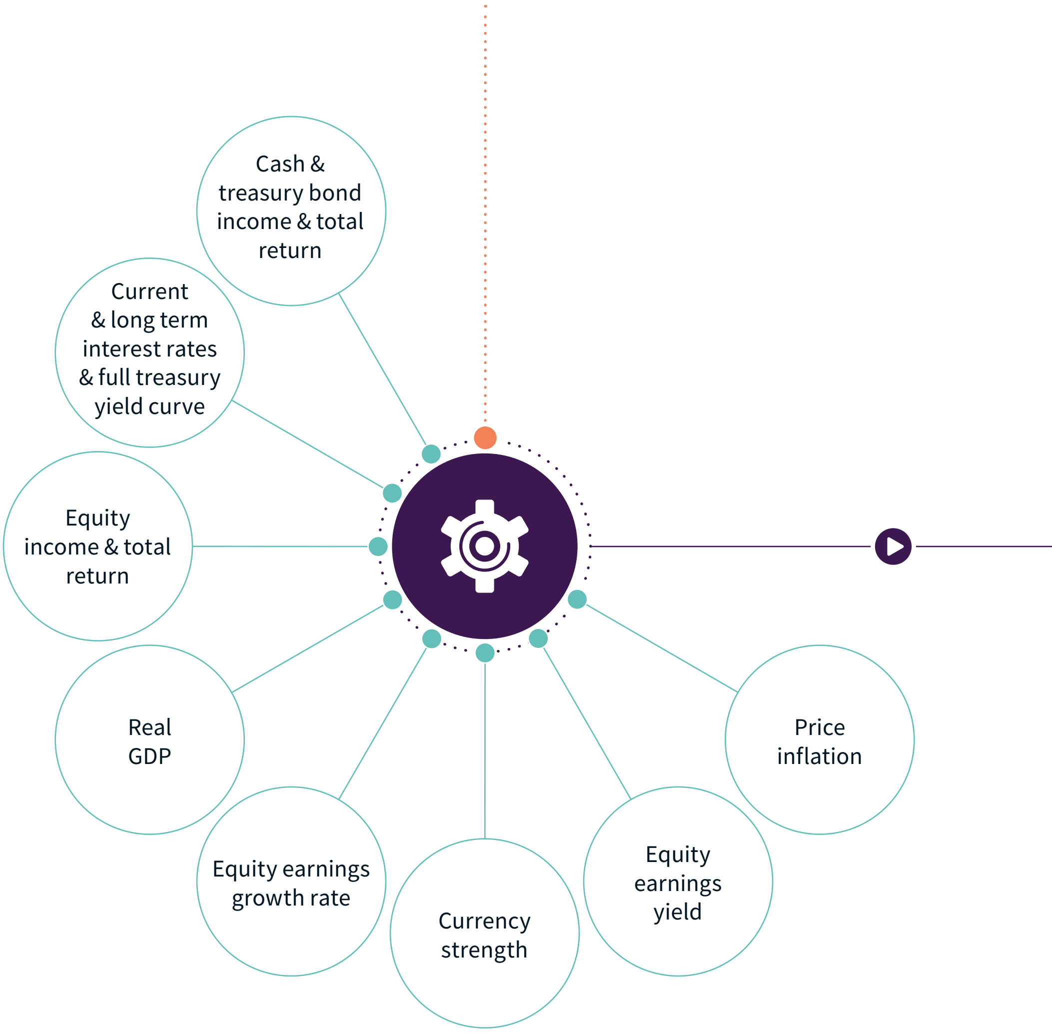
The EValue model produces 'optimised portfolios' which are ideal asset allocations that act as a guide to the proportion of each fund that should be invested in a particular type of asset. Based on how much risk is acceptable for the risk profile, the model helps to achieve the correct balance of holdings.

As the data used within the EValue model changes, the EValue model itself will naturally evolve and the asset allocation outputs will change. This is why we update our asset allocations on a quarterly basis.

High level example of how the EValue model works

1

Past and current data from different financial markets, such as real GDP and currency strength, is analysed to make assumptions about what could happen in the markets. This gives sets of scenarios such as what could happen to different types of investments if inflation rates were to rise.

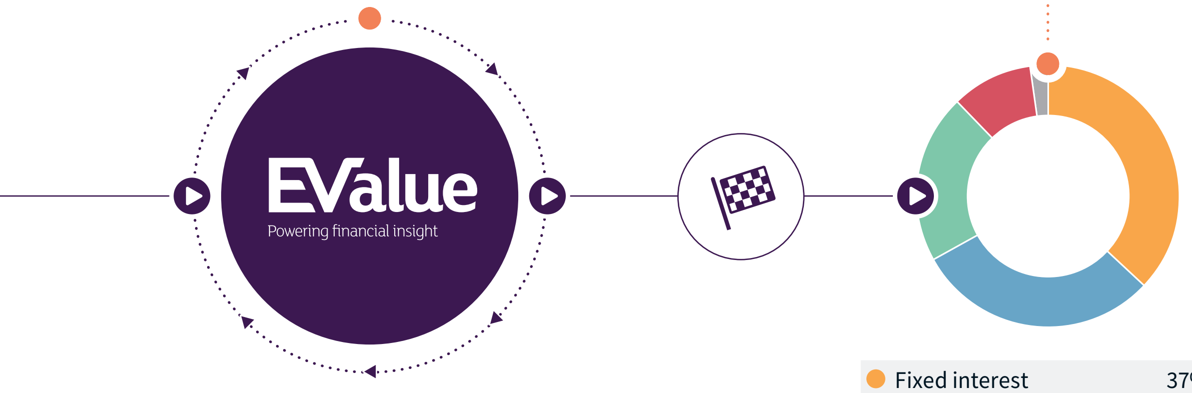


2

These scenarios are fed into the EValue model, which uses the data to produce a series of model portfolios and asset allocations for a range of risk profiles.

3

The asset allocations have different levels of risk to meet the needs of different types of investors from low risk for cautious investors to high risk for more adventurous investors.



Fixed interest	37%
Developed markets equity	30%
UK equity	21%
Property	10%
Emerging markets equity	2%

The above graph is an illustrative example of target asset allocation for risk profile 4. The risk profiles are based on forecasts about the future performance of various types of investment (or 'asset classes'). The forecasts are derived from analysis of large sets of current and historical performance data, over a long period of time. We believe that this approach offers a robust and reliable guide to assessing and managing the risk of a range of investment portfolios. However, past performance is not in itself a guide to future performance. Furthermore such forecasts are not a reliable indicator of future performance.

RISK PROFILES **IN PRACTICE**

You and your adviser have assessed your attitude to risk and how much risk you are able to take. Your adviser has made a recommendation that fits within one of the risk profiles overleaf. Each risk profile has a different level of risk and you should make sure that you are comfortable with this before proceeding further.

The following charts are designed to give an illustrative example of what could happen to the money you are investing. It is not guaranteed and under no circumstances should they be relied on as what will happen.

What do the figures represent?

The potential return percentages are forward-looking, annualised projections of outcomes that could be achieved over 1, 3, 5, 7, 10 and 15 years.

Based on the example opposite, which is built around a sample of 95% of the potential investment outcomes, an investment made and held for 10 years could return an annualised 10.8% or could lose an annualised -2.2%. However investors must be aware that in any one year within the 10-year period there is the potential for a much wider range of returns and could see a return on their investment of 23.5% or more or a fall in their investment of -15.2% or greater.

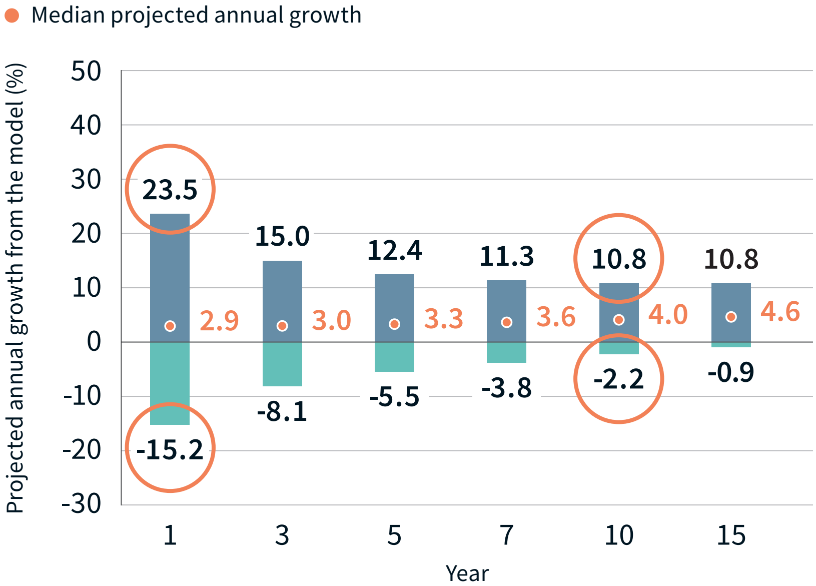
The volatility is potentially smoothed out the longer you hold the investment, which is why you see the numbers moving closer together over time.

You must always remember that these are based on a forward-looking projection up to 15 years, the future cannot be predicted and there are no guarantees.
The Architas funds may not be appropriate for investors who plan to withdraw their money within five years. If you choose to hold an investment for less than five years this may have an effect on the level of volatility you are exposed to.

An assumed level of charging has been included in the charts. The funds that you actually invest in and the product wrappers you invest through will have their own charges that can not be forecast and therefore have not been assumed or included. These will have the effect of reducing the future performance shown.

You should check exactly what fees are being charged with your adviser.

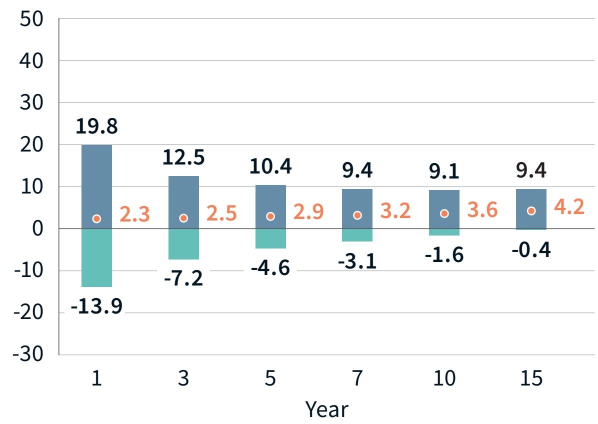
Illustrative example of potential returns for risk profile 4



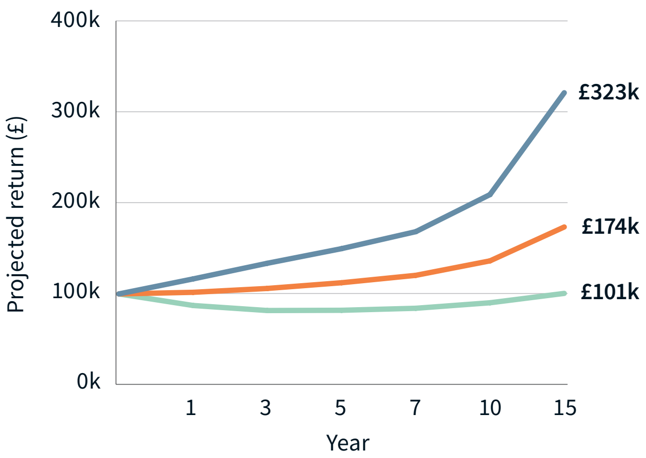
RISK **PROFILE 2**

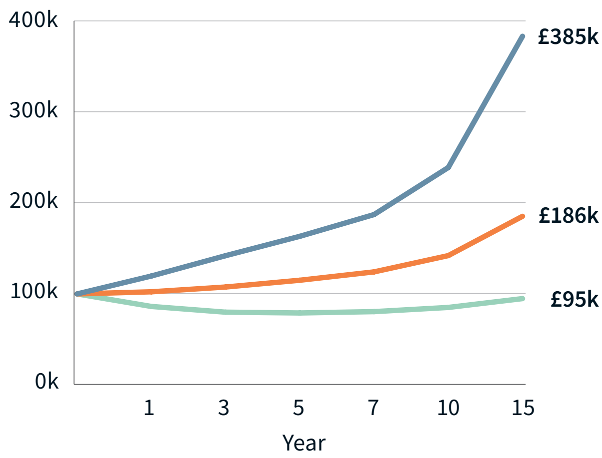
RISK **PROFILE 3**

POTENTIAL RETURN %

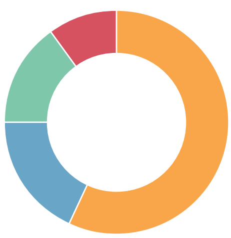


POTENTIAL RETURN ON INITIAL £100,000 INVESTMENT

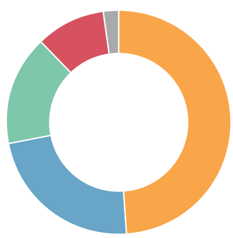




TARGET ASSET ALLOCATION



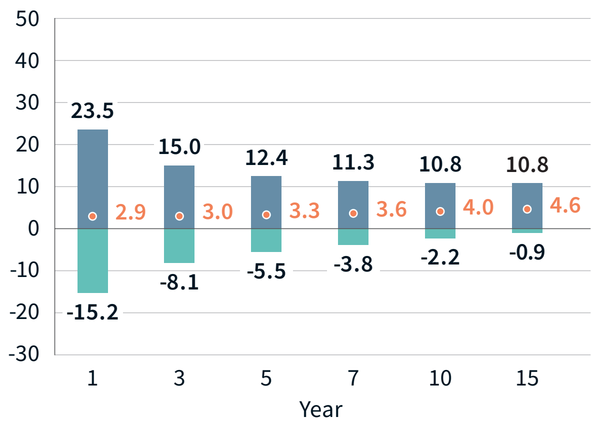
Fixed interest	57%
Developed markets equity	18%
UK equity	15%
Property	10%

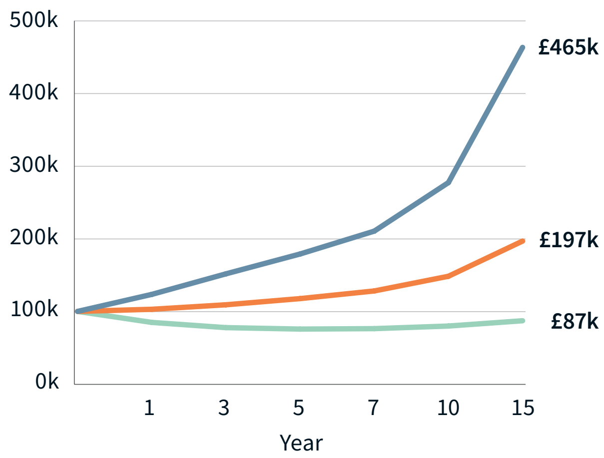


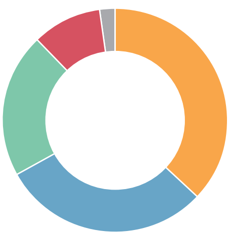
Fixed interest	49%
Developed markets equity	23%
UK equity	16%
Property	10%
Emerging markets equity	2%

Please refer to pages 4-5 for a description of each risk profile.
EValue as at 1 April 2018. Graphs and target asset allocation are for illustrative purposes only. Target asset allocation implemented by Architas from the

RISK
PROFILE 4

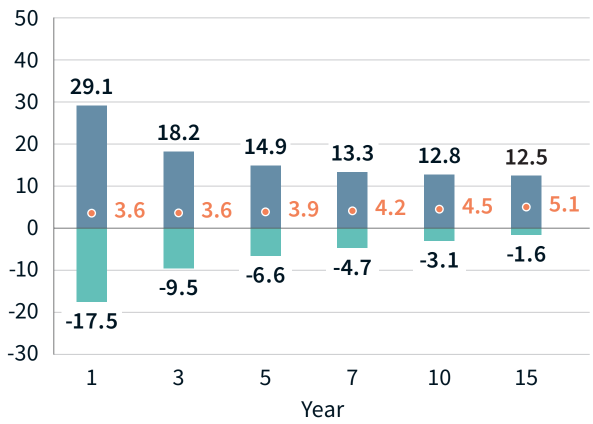


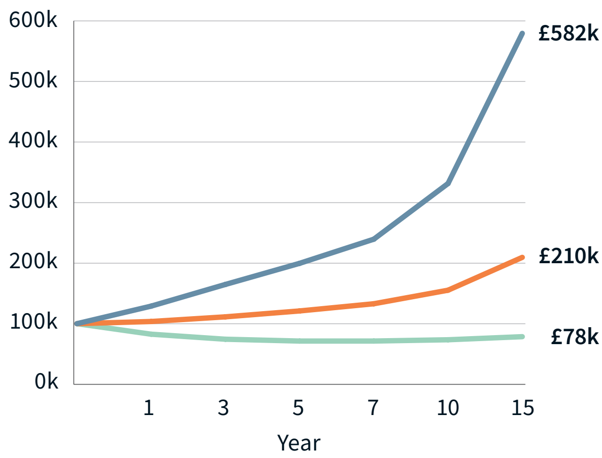


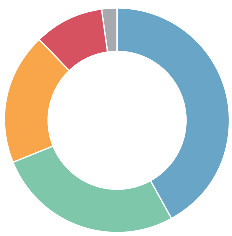


Fixed interest	37%
Developed markets equity	30%
UK equity	21%
Property	10%
Emerging markets equity	2%

RISK
PROFILE 5







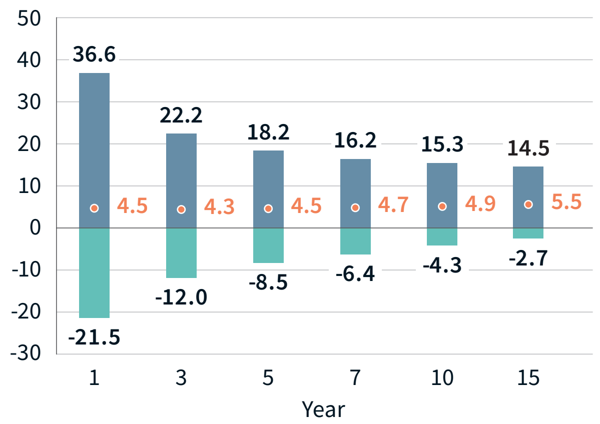
Developed markets equity	42%
UK equity	27%
Fixed interest	19%
Property	10%
Emerging markets equity	2%

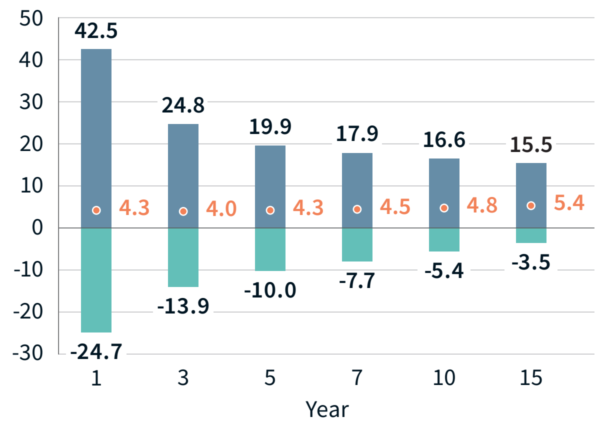
first working day of June 2018. Past performance is not a guide to future performance. The value of investments and any income provided by them can go down as

RISK **PROFILE 6**

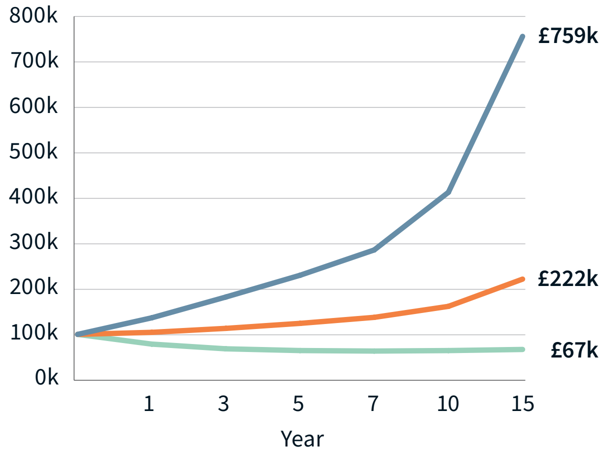
RISK **PROFILE 7**

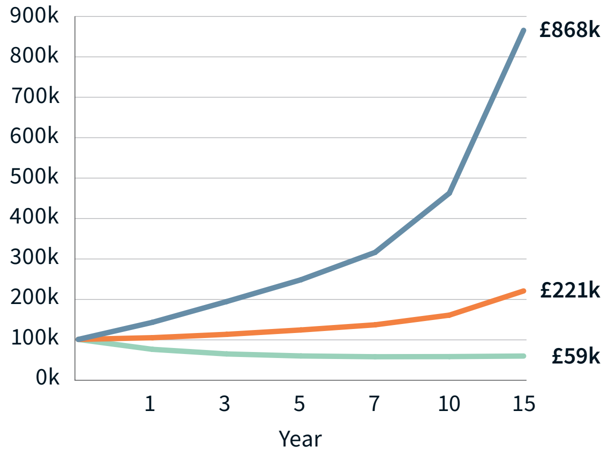
Median projected annual growth

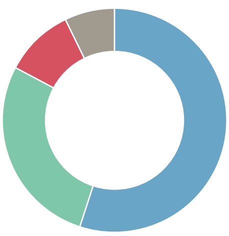




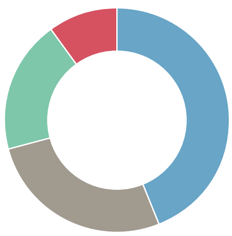
High potential return Median potential return Low potential return







Developed markets equity	55%
UK equity	28%
Property	10%
Emerging markets equity	7%



Developed markets equity	44%
Emerging markets equity	27%
UK equity	19%
Property	10%

well as up and is not guaranteed. You may get back less than you invested.

GLOSSARY

ASSET ALLOCATION

Asset allocation is an investment strategy that attempts to balance risk versus reward by adjusting the percentage of each asset in an investment portfolio according to the investor's risk tolerance, goals and investment time frame.

BONDS

Bonds are issued by governments and companies who are seeking to raise money. Investors who buy bonds are, in effect, lending money to the issuer.

In return, they expect to receive regular interest payments until the bond matures, at which point they expect to receive back the original amount they invested. The annual interest rate payable – called the coupon – is set when the bond is first issued. Because the rate of interest is fixed at the outset, bonds are often referred to as 'fixed income' securities. The life of a bond can vary from just three months to 30 years or more and most bonds are assigned a credit rating to reflect the creditworthiness of the issuer. One thing to note with bonds is the potential risk that capital may not be repaid so bond prices move to reflect this likelihood.

Bond prices also move to reflect the way in which inflation will affect the real purchasing power of the money you expect to get back.

EQUITIES

Equities (also known as shares) are a common form of investment that give the holder an ownership stake in a company. In return, an investor may receive a share of any profits. These profits may be paid out to shareholders at regular intervals in the form of a dividend, or they may be retained by the company to fund its business activities or further growth.

Equity prices move up and down as investors' expectations about the profits and dividends of the company change.

GROSS DOMESTIC PRODUCT (GDP)

The gross domestic product (GDP) is the total value of all goods and services produced domestically by a country each year. This can be calculated as gross national product minus income from abroad. This is a key measure of national economic health.

RISK

Risk is the measurable probability of loss or less than expected returns from an investment, asset or business activity.

RISK PROFILING

The aim of risk profiling is to help people determine how much risk they might be prepared to take to meet their investment goals. Once this has been established, risk profiling can help people identify funds and investments that might – or might not – be suitable for them.

STOCHASTIC MODELLING

Stochastic modelling is a statistical process that uses probability and random variables to create projections of a range of probable investment performances.

The mathematical principles behind stochastic modelling are very complex. Based on information you provide about your age, investments and risk tolerance, financial analysts may use stochastic modelling to help you evaluate the probability that your current investment portfolio will allow you to meet your financial goals.

TREASURY BILLS

Treasury bills are short-term government bonds that bear no interest. They are sold at a discount and then redeemed at a predetermined price.

YIELD

Yield is the yearly rate of income return on an investment. There are many different ways to calculate yield, depending on what type of investment it is.

YIELD CURVE

The yield curve is the relation between the (level of) interest rate (or cost of borrowing) and the time to maturity, known as the 'term', of the debt for a given borrower in a given currency. For example, the U.S. dollar interest rates paid on U.S. Treasury securities for various maturities are closely watched by many traders, and are commonly plotted on a graph which is informally called 'the Treasury yield curve'.

IMPORTANT **INFORMATION**

Risk profiles in practice illustrations

Source: EValue as at 1 April 2018. Target asset allocation implemented by Architas from the first working day of June 2018. Based on annualised expected returns up to 15 years. Price total return figures calculated on a single priced basis with net income (dividends) reinvested. Calculated in part using past performance data which cannot be relied on as an indication of future performance. Funds may have an initial charge, as may the product wrapper, together with other charges, all of which will have the effect of reducing the future performance figures shown.

Each scenario presents an internally consistent path through which a range of economic and market indicators might evolve. By covering more than 15 different economic zones, the results from these scenarios represent a wide range of potential market conditions that present a reflection of the potential international effects and their potential effect on investment returns.

EValue is a stochastic model designed to provide an idea of future investment returns. It takes into account many scenarios which would affect returns including, for example, inflation.

It does not offer a guarantee of what will actually happen. Based on the expected returns generated, EValue's Portfolio Optimiser builds the allocation targets for each specific risk profile, with the objectives of minimising expected volatility and maximising expected return over the defined time horizon of 15 years.

The AXA Group includes other fund management companies which we refer to as in-house managers, such as AXA Investment Managers and AllianceBernstein. We, Architas, may choose to include funds managed by in-house managers, which we refer to as in-house funds, within our multi-manager funds.

AXA also works closely with a select number of external fund managers which are referred to as strategic partners. These partners are selected on the basis of their strengths under certain criteria and we may choose funds from the strategic partners to make up our multi-manager funds. In the UK, we follow an in-depth research process that ensures that the funds selected for our multi-manager funds are included on the potential benefits they could bring to our Architas funds. We are not influenced by the AXA Group to include in-house or strategic partner funds over funds from other fund managers; funds are selected on their consistency to meet their objectives. We regularly review our selection of funds, including those from strategic partners and in-house managers, to ensure they continue to be appropriate and in your best interests.

More information about our use of funds from strategic partners and in-house managers is available at **architas.com/inhousestratpartners/**

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Call 020 7562 4900

Monday to Friday 9.00am–5.00pm; calls may be recorded.

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