EXE Capital Management

Guide to Investment Risk

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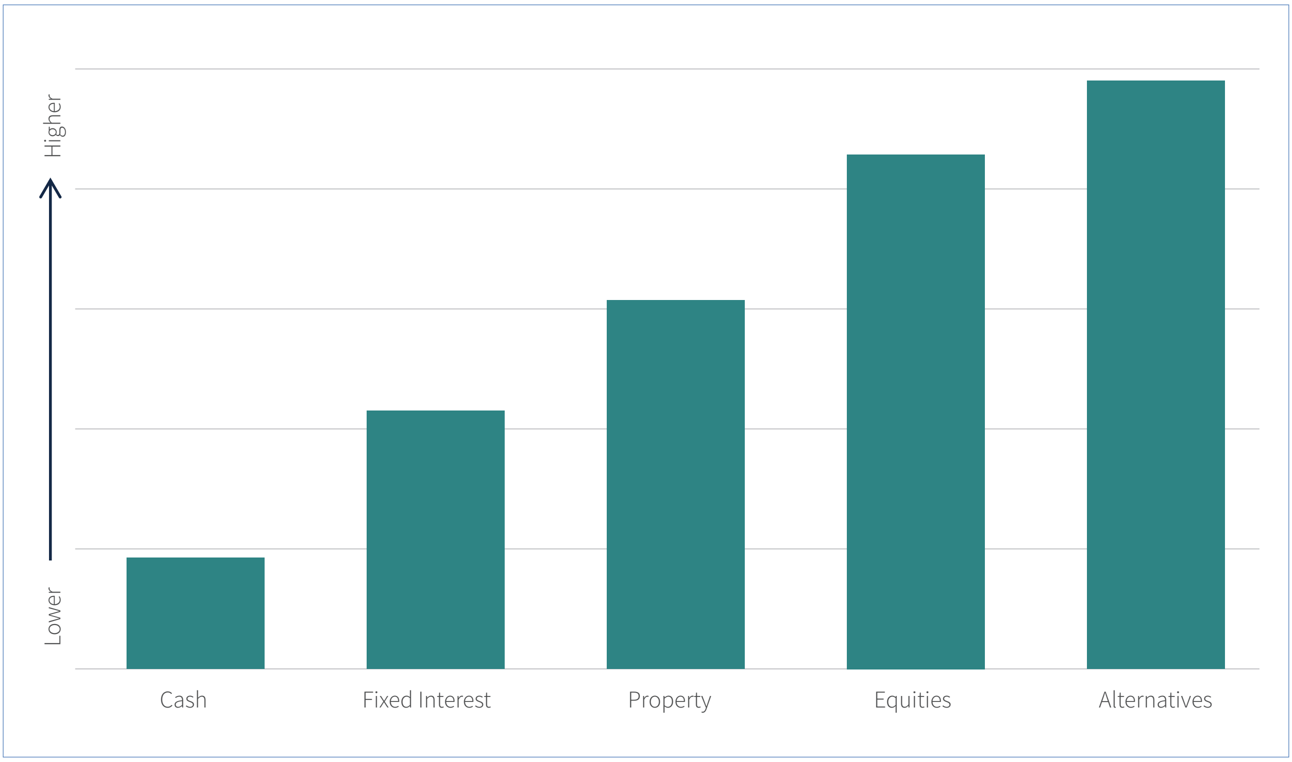
All investments have specific risks attached to them. Even cash, which is regarded as low risk, is exposed to the potential effects inflation can have over long periods.

Diversification is an effective way to help mitigate risk. The chart below illustrates the levels of risk typically attached to the main asset classes. It is worth keeping in mind that high risk does not necessarily lead to higher returns. Please note this chart is for illustration purposes only and is not to scale.

Theoretical Risk/Reward Relationship



Asset Classes, Features and Risks

Cash	Cash provides a high level of liquidity and is one of the safest forms of investment. Whilst bank accounts offer a variety of fixed and variable interest rates, inflation can erode the purchasing power of the sum deposited over the longer term.
Fixed Interest	A bond or fixed income asset is effectively a loan and is generally perceived to be at the lower end of the risk scale. A government or company can borrow money by issuing a bond. In return for lending money, the borrower (the government or company), promises to pay a pre-determined rate of interest in addition to paying back the original loan amount when the bond matures. Bonds provide a stable income stream with relative capital security compared to equities.
Equities	Equities are a unit (or share) in a company listed on a stock exchange. The overall value of the company fluctuates based on a variety of factors including the demand and supply for the goods or services the company is offering, merger and acquisition activity, competitor activity and the economic environment, all of which can impact the share price. Equities are volatile but do offer the prospect of superior long-term returns relative to cash and fixed interest.
Property	Investing in commercial property such as offices, supermarkets and warehouses can grow your investment through rental income and by the appreciation in value of the underlying property. Risks include potential poor liquidity, with properties taking time to sell and the risk that a property remains empty.
Infrastructure	Infrastructure assets typically provide essential public goods or essential services to a broad range of users. While infrastructure as an asset class is often compared with private equity and real estate, it has distinct characteristics such as substantially longer duration, historically lower risk and less sensitivity to the business cycle.
Targeted Return Strategies	Targeted return investments use multi asset strategies to smooth out returns across the business cycle. Investments typically combine equities, fixed interest, commodities and currencies. Hedge fund strategies such as short selling and the use of derivatives may also be utilised to dampen volatility.
Commodities	Commodities are raw materials, such as food or materials. Commodities include, oil and gas, agricultural products and precious metals, like gold and platinum. Commodity prices can be extremely volatile and can be significantly affected by world events, import controls and economic conditions. In the past, they have proved to be a good investment during times of high inflation.

Asset Related Risks

Market Risk

This incorporates a wide range of risk components, including news flow about the economic outlook, trends in company announcements, political developments and the market's technical background. Market risk is elevated when valuations of companies are considered high in a historic context. UK market risk can be influenced by developments in overseas markets, particularly given the trend of globalisation.

Credit Risk

This applies to corporate bond securities and funds. Credit risk is lessened substantially through investing in Government Bond and Investment Grade Corporate Bond funds, which are typically well diversified with upwards of eighty holdings. Investment Grade credits compromise stocks from AAA to bonds with a BBB rating and are assessed as having a relatively low credit risk. High Yield credits are rated below BBB and are associated with a higher level of credit or default risk in periods of very weak economic growth or in recessions, the risk of defaults tends to increase.

Stock Specific Risk

This incorporates a wide range of risks associated with investment in shares of an individual company. They include financial risks associated with the balance sheet, changes in senior management, deterioration in the sales and profit outlook, new technology challenges, risks associated with acquisition plans, failure to comply with regulations and reputational risks.

Concentration Risk

This typically involves a high level of risk inherent on a portfolio with only a very narrow number of investment holdings. It may be associated with an extremely limited number of industries represented in a fund or portfolio, such that a change in circumstances could materially affect the returns compared with the underlying index. A concentrated portfolio is usually associated with above average volatility levels.

Political Risk

This category of risk is inherently unpredictable and are subject to events, both planned and unplanned General Elections, budget announcements, referendums, new legislation, divisions or serious dissent within governments and senior political resignations can potentially impact sentiment and confidence within investment markets. Political risks are often relatively elevated in developing countries.

Currency Risk

For investors based in the UK, the trend in Sterling is obviously a key consideration: Weakness in the pound tends to boost returns from international investments and also typically encourages positive sentiment towards larger companies, especially those with a high proportion of earnings derived from overseas. In periods when Sterling strengthens against the US Dollar and the Euro, the appreciation in value of international holdings is moderated.

Asset Related Risks

Inflation Risk

Inflation erodes the longer-term buying capacity of money. Following a series of recent events, Covid-19, Russia's invasion of Ukraine and more recently the Israeli-Palestinian Conflict, global trade has faced significant restrictions which has caused a universal increase in the rate of inflation. If one's assets do not grow ahead or equal to the rate of inflation, this effectively means those assets are losing value to inflation and are therefore worth less.

Interest Rate Risk

Rising interest rates are often associated with tightening credit conditions. Higher interest rates are a challenge for companies which have high debt levels. In addition, rising interest rates can adversely affect the value of fixed interest securities, with this impact known as duration risk. Conversely, modestly rising interest rates, initiated in a timely manner to moderate the impact of inflation expectations, may be helpful for equity markets.

Leverage Risk

Gearing is the effect of borrowing money either over the short or long term for investment purposes (financial gearing). Gearing is used in the expectation that the investment returns on the purchased securities will exceed the cost of the borrowings.

Synthetic gearing can also be used, for example, derivatives and foreign exchange hedging. Leverage is the sum of all gearing and where leverage is used the gains and losses can be greater than investments that do not utilise borrowing. Investment Trusts are one investment instrument that utilises leverage and individual investment trusts have different levels of gearing and this can affect their relative performance. Leverage potentially increases market risk on the instrument.

Liquidity Risk

This risk reflects the difficulty of undertaking a particular investment transaction. It may be affected by the size of the proposed deal, market conditions and the technical position at the time. Smaller companies, investment trusts under £400m market capitalisation, individual corporate bonds and convertibles are particularly susceptible to liquidity risks. In addition, retail property funds do face occasional periods of exceptional redemption levels which may necessitate market valuation adjustments and, in extreme instances, dealing can be suspended.

Choosing the Appropriate Level of Risk

Before becoming a client of **EXE** Capital Management, your Investment Adviser will carefully discuss with you your personal circumstances and investment requirements, including tolerance to risk. This will allow us to assess your ability to withstand a loss of capital and/or income and to determine if this would result in a material impact on your current standard of living.

We recognise every client will have their own particular investment requirements and our Discretionary Management Service has been specifically designed to accommodate your individual needs. With your Investment Adviser you will agree the level of risk you are prepared to take in order to meet your future aims and objectives.

Your portfolio will be constructed from a range of asset classes and comprise a diversified mix of investments according to your risk profile and investment objectives.

Choice of Risk Levels

Low	These portfolios are designed for enhanced returns over cash deposits. Asset allocation will mainly focus on fixed interest, infrastructure, property and minimal equity exposure. It is important to note that capital is not guaranteed, and these portfolios will have higher volatility characteristics than cash deposits.
Low to Medium	These portfolios are designed for investors who are willing to accept a higher level of equity risk but where capital preservation over the medium to longer term is also important. Investors must be prepared to accept modest levels of volatility.
Medium	These portfolios are designed for investors seeking greater returns from a higher level of equity investment. Investors must, therefore, be prepared to accept a higher level of variation to capital value and/or income in order to meet their longer-term objectives.
Medium to High	These portfolios are designed to match or exceed the longer-term return from equity markets. The portfolio will have high equity exposure and is likely to display significant short term volatility characteristics.
High	These portfolios are designed for investors seeking superior long term returns. Investors must be prepared to accept high volatility and the potential for significant temporary or permanent loss of capital. These portfolios will typically have higher exposure to smaller companies, Emerging Markets and less liquid investments.

Important Points to Remember

By using **EXE** Capital Management services, your capital is at risk.

The higher risk you take with your investments, the greater the chance of losing some or all of your initial investment.

Investment portfolios should be considered as a medium to long term arrangement (over five years).

If you're investing over the short term (less than five years), it's advisable not to take excessive risk.

Investors should consider their ability to absorb financial loss to capital and/or income either on a permanent or temporary basis.

Past performance is not a guide to future performance.

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