Brooks Macdonald
Client investing guide

BROOKS MACDONALD

Contents

Introduction

This guide provides basic information about Brooks Macdonald's investment services. Its intention is to assist you in making an informed decision(s) regarding the use of our services. Specifically, it is aimed at anyone interested in either our Bespoke Portfolio Service (BPS) or Managed Portfolio Service (MPS), although information pertaining to our other services is also included. Your professional adviser or your Brooks Macdonald investment manager can provide you with further information if necessary.

Whether you are an experienced investor or considering investing for the first time, we recommend that you read this guide before applying for any of our services.

Why should you invest?

Whether you want to build a pension for retirement, save a deposit for a house, or generate extra income to cover an expense (such as school fees), any savings you may have been able to accrue that are not required to finance your day-to-day living may provide a more substantial return if you invest them.

Even for the most cautious investor, a diversified portfolio of investments provides the opportunity to at least maintain their wealth by combatting the erosive effect of inflation on their spending power over time.

Historically, diversified investment portfolios have provided greater investment returns than cash held in a bank over longer-term timeframes. That said, there is no guarantee that investments that have performed well in the past will continue to do so in the future; an investment's past performance is not an indicator of its future returns.

Our discretionary investment management services

Our business and services

Our discretionary investment services are suitable for both inexperienced investors who want to access a sophisticated investment management service and sophisticated investors who do not wish to manage their own investments. Our typical clients are private individuals, trusts, charities and pension funds.

Under our discretionary investment services, clients grant us the authority to manage their investments in line with agreed mandates, without the need for us to seek their consent to buy or sell assets on their behalf. Our experienced investment managers apply our centralised investment process to design and construct portfolios to meet clients' individual requirements. Client portfolios are constantly reviewed and adjusted to ensure that they continue to meet their requirements on an ongoing basis.

We offer two core discretionary investment management services, our BPS and our MPS. If no distinction is made between BPS and MPS in this guide, assume the same is true for both services. The guide will refer to the specific service where their characteristics differ. We also offer a number of other services, which are summarised in this section.

Although we invest in a wide range of asset types on behalf of our clients, and provide advice and recommendations in relation to our own discretionary investment services, we do not provide advice across all retail investment products and we are required to notify you that we are a "restricted" firm.

We do not provide financial advisory services. Likewise, we do not offer advice on general financial affairs, pensions, taxation or other matters relating to your personal circumstances.

Bespoke Portfolio Service - minimum initial investment £250,000

As the name suggests, our BPS is designed for clients who want an individual investment portfolio constructed to meet their specific requirements (i.e. fully bespoke).

BPS portfolios are managed by investment managers operating within teams (the team-based structure ensures cover). Each team is led by one of our experienced investment team directors and supported by our investment, asset selection and asset allocation committees. BPS portfolios are run in line with our centralised investment process.

You can access our BPS through a professional adviser authorised to give financial advice, or you can become a direct client of Brooks Macdonald. Your professional adviser or your Brooks Macdonald investment manager (as applicable) will advise you about suitability concerning your BPS portfolio (further information regarding suitability is provided later in this guide).

Our BPS is available to retail and professional clients and eligible counterparties of all investment knowledge and experience levels. Clients of our BPS must have an ability to sustain capital losses. It offers no capital guarantees and is not deemed suitable for investors who have no ability for capital loss, or those who have an investment time horizon of less than three years. It offers five risk profiles from which clients choose and is available in both growth and income objective combinations. It can also incorporate ethical needs if specified.

Complex products generally are only available to professional investors, but as our BPS portfolios are managed on a discretionary basis, they are able to invest in products that are deemed both complex and non-complex if your investment manager judges them to be suitable in meeting your objectives.

The costs and charges for this service can be found in your personalised investment proposal. For standard costs based on the minimum investment amount, please refer to http://www.brooksmacdonald.com.

AIM Portfolio Service - minimum investment £100,000

Our AIM Portfolio Service (APS) provides clients with access to a carefully selected portfolio of companies that are members of the London Stock Exchange's (LSE) Alternative Investment Market (AIM). We restrict our investment universe to companies that we believe qualify for Business Property Relief (BPR). BPR essentially allows a reduced value of an asset to be used when calculating Inheritance Tax (IHT) on its transfer. More details on BPR are provided later in this document.

The volatile nature of the AIM market and the fact that the portfolio will remain fully invested in a single asset class and geography (i.e. small to medium sized UK equities) leads us to describe this mandate as 'high risk'. Further risks include the reduced liquidity associated with the AIM market (meaning that it could be difficult to sell shares during periods of market stress) and the fact that the BPR regime itself could be subject to change (or withdrawal) in the future. It is important to note that BPR qualification remains at the discretion of HMRC and is only tested upon the transfer of inheritance. Accordingly, BPR is not guaranteed and as such there is a risk that a holding may not ultimately qualify. We do, however, endeavour to ensure that our investment universe is restricted to those companies that we believe qualify for BPR.

The APS does not follow the same centralised investment process as our BPS or MPS. Primary responsibility for the APS investment strategy and the research that underpins it lies with the head of our equity research team. Support is provided by other members of the team and the service's overall investment process is monitored by our investment committee.

Our APS is available through professional advisers authorised to give financial advice.

Our APS is available to retail and professional clients and eligible counterparties of all investment knowledge and experience levels. Clients of our APS must have an ability to sustain up to 100% capital losses. It offers no capital guarantees and is not deemed suitable for investors who have no ability for capital loss, or those who have an investment time horizon of less than five years. Clients of our APS must have high risk profiles, given its exposure to smaller-company equities. Due to the specific objective of the APS, it does not service any particular income requirement.

The costs and charges for this service can be found in your personalised investment proposal. For standard costs based on the minimum investment amount, please refer to http://www.brooksmacdonald.com.

Managed Portfolio Service - minimum initial investment £20,000

Our MPS provides a choice of investment into a number of risk-rated model portfolios, each investing in an array of different assets. Each model portfolio is designed to achieve specific investment objectives within its agreed risk profile. Your professional adviser will help you to choose the model portfolio that best suits your goals, investment objectives and risk profile.

MPS portfolios are managed by a dedicated team of investment managers, supported by our investment, asset selection and asset allocation committees, and apply our centralised investment process. As our MPS is a model portfolio service, your individual portfolio will hold identical investments to portfolios of other clients who choose the same MPS model portfolio.

Our MPS is available to clients only through professional advisers authorised to give financial advice.

Our MPS is available to retail and professional clients and eligible counterparties of all investment knowledge and experience levels. Clients of our MPS must have an ability to sustain capital losses. It offers no capital guarantees and is not deemed suitable for investors who have no ability for capital loss, or those who have an investment time horizon of less than three years. It offers ten investment strategy models from which clients choose and is available in both growth and income objective combinations.

Complex products generally are only available to professional investors, but as our MPS portfolios are managed on a discretionary basis, they are able to invest in products that are deemed both complex and non-complex if your investment manager judges them to be suitable in meeting your objectives.

The costs and charges for this service can be found in your personalised investment proposal, if you are transferring assets to us in-specie, or for standard costs based on the minimum investment amount, please refer to http://www.brooksmacdonald.com.

Fund Portfolio Service

We have established minimum sizes for BPS and MPS accounts to allow for the effective implementation of our portfolio construction processes and to limit the impact that charges might have on portfolio performance.

However, for some clients, it may be appropriate to invest the portfolio in one of our multi-asset funds. In this scenario, your Brooks Macdonald investment manager may invest your portfolio in one or more of our multi-asset funds, selected from Brooks Macdonald's Multi-Asset Funds and Cornelian's Risk Managed Fund Range and Risk Managed Passive Range. This is our Fund Portfolio Service and is available either direct or via a professional adviser. As a discretionary account, it is the responsibility of your Brooks Macdonald investment manager, or your professional adviser, to ensure the suitability of these investments (further information regarding suitability is provided later in this guide).

Execution-only service

For BPS clients, we can offer an execution-only service as a separate facility. This involves opening a separate account that can be used to buy or sell investments based solely on the client's instructions, thereby ensuring that investments over which we hold no discretion remain distinct from investments held as part of our BPS. We will not provide any investment advice in relation to execution-only accounts, even if it is requested.

The execution-only service is most appropriate for clients who have previous investment experience and investment knowledge.

Your professional adviser

We work closely with professional advisers regulated by the Financial Conduct Authority (FCA) that are authorised to give financial advice. If you are introduced to us by a professional adviser, it is important that you understand the respective responsibilities of each party.

Your professional adviser will provide you with general financial planning advice. Depending on your requirements this may cover pensions, savings and investments, tax planning, mortgages, and loans. We are not responsible for any fees or charges agreed between you and your professional adviser, although you can instruct us to pay your professional adviser from your Brooks Macdonald account upon successful completion of our application process.

We are responsible for managing your investment portfolio on a discretionary basis.

Applications for our MPS can only be undertaken through a professional adviser. Applications for our BPS can be undertaken through a professional adviser or directly though

[1]Marketed variously as, in Cornelian, the Diversified Portfolio Service or the Cornelian Portfolio Service and, in Brooks Macdonald, the Small Accounts Service

a representative of Brooks Macdonald. During the application process, we will ask clients to complete an application pack that clearly sets out both our and your professional adviser's responsibilities.

Suitability

Firms that provide investment services to retail clients (such as investment advice and or discretionary investment management services) are required to ensure that such services are suitable. Assessing suitability involves understanding a client's individual investment requirements and personal circumstances. It includes:

- Understanding their investment objectives.
- Reviewing their financial circumstances to determine what level of investment risk (or potential investment losses) they can bear.
- Ensuring that they have adequate knowledge and understanding of the risks associated with the proposed service.
- Ensuring that their investment portfolio is consistent with their investment objectives and risk profile.

For clients that are introduced to us by a professional adviser, either we or the professional adviser can hold responsibility for assessing whether the service we provide them is suitable. For our direct clients, we will always be responsible for assessing suitability. When a client applies for a BPS account, we will clarify who holds responsibility for assessing the service's suitability (ourselves or their professional adviser).

MPS clients and Fund Portfolio Service clients referred from a professional adviser do not provide us with sufficient information to be able to complete a suitability assessment. As such, their professional adviser will always be responsible for carrying out their suitability assessment, as far as this product is concerned.

As a discretionary investment manager, we always hold responsibility for ensuring that the investment portfolios we manage on behalf of our clients are consistent with their investment objectives and risk profile (BPS), or the description of their chosen investment portfolio (MPS) or chosen Fund Portfolio (Fund Portfolio Service).

Affordability (capacity for loss)

Part of conducting a suitability assessment involves assessing the degree to which you are financially able to bear investment risk, consistent with your objectives. In other words, assessing the extent to which a decline in the value of your portfolio would have a detrimental effect on your standard of living.

Your capacity for loss largely depends on your time horizon and the purpose of your investment. For example, a young investor contributing to a pension is likely to have a greater capacity for loss than an individual who is close to retirement.

In deciding whether an investment service is appropriate, your professional adviser or Brooks Macdonald investment manager will ask you to consider what impact a fall in the value of your portfolio would have. There are a number of factors that you should consider in assessing this impact, including:

- Your general financial circumstances:
  - The amount of debt you have
  - Your level of income
  - Whether you consider your income stream to be reliable
  - What sort of insurance coverage you have (eg income Protection, long-term illness cover)
  - Your overall attitude to risk
  - Your investment knowledge and experience
- The proportion of your assets you are investing: If all your assets (excluding your home) are being invested, this doesn't leave you with any money to provide for unexpected expenses. You may be forced to sell some, or all, of your investment portfolio without being able to ride out any short-term investment losses you may experience.
- The purpose of your investment portfolio: Your portfolio's investment objective(s) is very important in determining whether you can afford investment losses. If you are relying on your investment portfolio to produce income to cover day-to-day expenses, you must consider how you would meet those expenses if the income from your investment portfolio was reduced.
- The source and reliability of your income stream(s): You may be more able to sustain investment losses if you consider your source of income to be secure. If your income from employment is sufficient to meet your regular outgoings and you have adequate insurance to protect your income, you may have a greater capacity to withstand investment losses.
- Whether you have access to emergency funds: If there is an unexpected change in your circumstances (such as being made redundant or a long-term illness), do you have access to sufficient funds to cover your day-to-day living expenses for a prolonged period of time?
- The period of time over which you wish to invest (time horizon): If you are seeking to invest over a longer period of time, you may be able to take a greater level of risk as you are more likely to be able to ride out short-term investment losses.
- The amount of time before you expect to retire: If your retirement is many years away you may be able to use your earnings to replace any investment losses. If you plan to retire soon, investment losses could have a long-term impact that is irreversible.

A typical portfolio will own a variety of investments with their own inherent level of risk. For example, a medium-risk portfolio may contain some low-risk, some medium-risk, and some high-risk investments. All portfolios that we manage may hold some high-risk investments. The higher a portfolio's risk, the greater its potential exposure to high-risk investments. Our obligation is to ensure that the level of risk you have chosen to take is reflected at the portfolio level, not necessarily in terms of each individual security. Nevertheless, it is important to understand that all investments inherently carry risk and we cannot guarantee that all of your invested capital will be returned.

Deciding how much risk you want to take involves weighing up a number of different factors. The 'your investment profile' section of this document contains a chart that provides estimates of potential investment losses by assessing how similar portfolios have performed in the past (although past performance is not necessarily an indicator of future returns). Please refer to this section for more information..

Our investment philosophy and approach

Our investment philosophy and approach is founded on three key principles:

1. Utilise a proven active investment process
   Our well-established, centralised investment process combines strategic and tactical approaches to asset allocation with vigorous individual security selection. It allows us to leverage the broad expertise of our asset allocation and investment committees, as well as the in-depth knowledge of our specialist sector research teams. It is designed to identify the best investments amid the ever-changing investment environment and has been proven to add value for our clients.

2. Integrate effective risk management
   Risk management is central to our investment philosophy. We seek to produce strong risk-adjusted returns; this means that we do not only seek to generate profits, but simultaneously endeavour to limit the potential for losses. To accomplish this we have embedded qualitative and quantitative risk controls into our investment process, while ensuring that adequate portfolio diversification is achieved by investing in a wide range of traditional and alternative asset classes.
3. Maintain portfolio focus
   To enable us to implement suitable and effective investment strategies for all of our clients, we grant our individual investment managers a level of discretion in managing client portfolios to their individual mandates. This discretion is limited within defined boundaries established by our investment and asset allocation committees, thereby ensuring that the influence of our centralised investment process is maintained. As our sector research teams are comprised of investment managers, we ensure that the managers of client portfolios are at the centre of our investment process.

Our centralised investment process

Summary

Our centralised investment process is designed to ensure that your investment portfolio leverages the broad and varied expertise of our asset allocation committee, investment committee and specialist sector research teams. It allows us to create diversified investment portfolios with varying risk profiles and ensures that the principles of our investment philosophy are reflected in client portfolios. All BPS and MPS portfolios follow our centralised investment process.

The process combines an asset allocation strategy (or a 'top-down' approach), with rigorous individual security selection (or a 'bottom-up' approach). It incorporates a number of processes designed to ensure that investment portfolios are adequately diversified and that investment risk is appropriately managed. These are primarily implemented during the portfolio construction phase, whereby your portfolio is invested (both initially and on an ongoing basis). Each of these elements is explained further in this section.

Asset allocation strategy

Asset allocation is a type of investment strategy that involves the distribution of capital to various asset classes and geographies. It is based on the principle that the values of different assets react in different ways as a result of changes in economic and market conditions (i.e. some asset prices rise while others fall).

Because of this principle, a portfolio's risk profile can be altered by changing the composition of its underlying asset allocation. As such, portfolios with varying risk profiles can be designed by varying their underlying exposure to different asset classes. For example, investing in equities has historically tended to be more risky than investing in bonds; therefore, by reducing a portfolio's overall exposure to equities and increasing its exposure to bonds you can reduce its overall risk profile (and vice versa).

Given the ever-changing economic environment, asset allocation is a key component of our investment process. Our asset allocation strategy is established and managed by our asset allocation committee, which consists of a number of highly experienced investment professionals.

In setting asset allocation strategy, the committee evaluates investment research to make short-term (tactical) and longer-term (strategic) assessments of the prevailing global economic and financial conditions. The research used by the committee is both generated internally and sourced from external research providers. The committee quantifies its assessments and communicates asset allocation strategy through a number of 'guidance portfolios', each of which provides a framework for the construction of client portfolios with specific risk profiles. Each guidance portfolio consists of recommended allocations to various asset classes.

Although guidance portfolios provide explicit asset allocations to various asset classes, the committee has also established tolerance ranges around these levels. Individual investment managers hold discretion to allocate the assets of client portfolios within these tolerance ranges. This provides each investment manager with flexibility in constructing their client's portfolios, thereby ensuring that they can be effectively managed to their individual mandates.

The common asset classes in which we invest include equities, bonds and alternatives (hedge funds, property, etc.). Some of the types of investments held in BPS portfolios, or underlying investments in Fund Portfolios, are not considered for MPS portfolios, most notably individual investments into equities and fixed interest securities. Further information regarding asset classes is provided later in this guide.

Security selection

Investment managers are organised into sector research teams, each of which specialises in a particular area of the market. This structure allows investment managers to pool their knowledge and experience. We have sector research teams covering the following areas:

- UK funds
- International funds
- UK equities

- International equities
- North America
- Europe
- Japan
- Far East and Emerging Markets
- Fixed interest
- Thematic investing
- Alternative investments
- Structured notes
- Property

It is the responsibility of each sector team to produce a list of recommended investments pertaining to their area of specialisation that are judged to offer compelling investment cases (i.e. the best investments). When combined, these lists form a central buy list that consists of a range of different types of investments.

Each sector team maintains different procedures for undertaking due diligence in relation to prospective investments. These procedures are specifically designed to consider the characteristics of the asset class that is being researched. Investments are only added to the buy list after adequate due diligence has been carried out and approved by the investment committee. The investment cases of all buy list investments are reviewed regularly.

During the portfolio construction process, client portfolios will purchase investments recommended on the central buy list. Client portfolios are able to invest in non-buy list investments under certain circumstances (discussed in 'managing investment risk' in this section), but the vast majority of investments we make will be in investments listed on our buy list.

Diversification

Diversification is the process of investing in different assets to reduce risk. Each individual asset has its own properties, which cause it to react in certain ways to changes in economic and market conditions. Assets that consistently react differently to each other are known as uncorrelated (or non-correlated) assets. By purchasing uncorrelated assets investment managers are able to diversify portfolios, thereby reducing their overall risk.

A portfolio may be diversified in several ways:

- Asset class diversification: a portfolio that owns different types of assets is less likely to be affected by price declines in any single asset class.
- Geographic diversification: investing in assets in, or with exposure to, different parts of the world may reduce exposure to risk surrounding specific currencies, regional economic differences and geopolitical issues.
- Industry diversification: some types of businesses react to economic circumstances in different ways. For example, lower oil prices will be detrimental to oil producers but may benefit oil consumers, such as airlines.

Managing investment risk

We consider risk management to be a key component of our investment philosophy. We have embedded a number of controls into our investment process that are designed to ensure sufficient diversification is built into client portfolios. Specifically, our asset allocation strategy considers risk at the overall portfolio level, while investment managers consider it when selecting individual investments. Furthermore, our investment committee has established a number of policies that investment managers must follow. These policies assist in ensuring that portfolios reflect the objective of the chosen model (MPS) or the client's investment objectives and risk profile (BPS). Examples of current investment policies include:

- Asset allocation limits: Portfolios must reflect the asset allocation guidance specified within the relevant guidance portfolio, within allowed tolerances.
- Volatility bands: Volatility is a measure of the variation in an investment's price over time. The volatility of an investment portfolio is reflective of the volatility of the individual investments within it. Our investment committee has assigned a volatility band for each risk profile. Investment managers must ensure that portfolio volatility remains within the relevant band over specified timeframes.
- Unit size restrictions: There are limitations on the proportion of a portfolio's assets that can be invested in any single investment. These limits are partly dependent on the nature of the investment itself.
- Concentration limit: As well as unit size restrictions, there are limits as to the maximum percentage of a particular security that can be held by our discretionary clients in aggregate (for example, maximum ownership of an individual company's outstanding shares). The investment committee reviews firm-wide exposure to particular types of assets to ensure there is clarity on our overall holding. Once an agreed threshold is reached, investment managers can no longer purchase that asset for any discretionary client.
- Non-buy list requirements: Investment managers are allowed to purchase investments that are not on the buy list under certain circumstances, although any such investments must be thoroughly researched and approved by the investment committee prior to purchase. The percentage of an investment portfolio that can be invested in non-buy list assets is restricted. High-risk accounts can own more non-buy list investments than lower-risk accounts.
- Illiquid investments: There are limitations on the proportion of a portfolio's assets that can be invested in unlisted assets, or illiquid assets. An illiquid investment cannot easily be immediately sold without a substantial loss in value, especially during periods of market turmoil.

Portfolio construction - BPS clients

Investment managers are granted a degree of discretion in constructing client portfolios. This discretion takes the form of tolerance ranges around the asset allocation levels specified by our asset allocation committee, as well as responsibility for selecting the individual securities that are purchased within each asset class (normally, from investments listed on our central buy list). However, they must also abide by the investment policies established by the investment committee in regard to managing investment risk.

When investment managers take on a BPS portfolio, they have scope to phase its construction over a period of up to six months. This allows them to take market conditions at the time of construction into account, thereby reducing risk. After six months, the portfolio will be invested within the tolerance ranges of the relevant guidance portfolio – this is known as being fully invested.

If you would prefer your funds to be invested immediately, you should communicate this to your investment manager either directly or through your professional adviser.

Portfolio construction - MPS clients

MPS portfolios are centrally managed by our Multi Asset team. Our MPS is not a bespoke investment service, since it is a model portfolio service. Nevertheless, it uses the same centralised investment process as our BPS, albeit without any direct engagement between the client and a Brooks Macdonald investment manager.

The Multi Asset team holds a degree of discretion in constructing MPS portfolios. This discretion takes the form of tolerance ranges around the asset allocation guidance provided by our asset allocation committee. They are also responsible for selecting the individual securities that are purchased within each asset class (normally, from investments listed on our central buy list). However, they must also abide by the investment policies established by the investment committee in regard to managing investment risk.

MPS portfolios are not subject to any phasing in process. All funds are invested as soon as possible after their receipt (in line with the relevant portfolio's efficient management). This increases the potential for positive returns if markets rise immediately following a client's investment, but also increases the potential for losses if markets fall.

Portfolio construction - Fund Portfolio clients

Fund Portfolios will comprise one or more Brooks Macdonald funds and the funds used will be managed to align investors risk tolerance.

Capital Gains Tax

We do not provide tax advice, although in regard to our BPS we consider the implications of a client's Capital Gains Tax (CGT) position when managing their investment portfolio(s). Your annual CGT allowance permits you to make a certain amount of tax-free gains each tax year (from 6 April to 5 April). When we sell an investment from your portfolio at a profit, you may be liable to pay CGT on that profit.

Our priority is to ensure that the portfolios of BPS clients meet their investment requirements. As a result, it is not always possible to utilise a client's entire CGT allowance. However, if you inform us how much of your CGT allowance has been used, we will endeavour to make the use of the remaining allowance on your behalf, if appropriate.

We do not take individual CGT positions into account when making investment decisions for MPS portfolios. However, MPS portfolios, as individual investment accounts, still produce capital gains or losses when investments are sold within them. Consequently, you may still utilise some or all of your CGT allowance through an MPS portfolio and you could also realise more capital gains than your allowance.

As the underlying investments in Fund Portfolios are held in a fund structure the changes to investments within the Funds do not result in capital gain liability. This makes the Fund Portfolios efficient for tax purposes. Capital growth in the overall Fund Portfolio may result in liability to CGT and your Investment Manager can advise you on how your CGT allowance may be utilised.

Please note that tax treatment will depend on your individual circumstances and may be subject to change in the future.

BPS – CGT account

BPS portfolios may own investments that have large inbuilt gains that would be subject to CGT if sold. If this is the case in your portfolio and you would prefer to keep the holding, we can accommodate this if the holding does not adversely affect our ability to manage the account so that it is consistent with your investment profile. Alternatively, we can place the holding in a separate 'CGT account'.

Tax – Individual Savings Accounts

An Individual Savings Account (ISA) is a tax-advantageous savings account. We are able to manage part of your portfolio within an ISA. Investments held within an ISA are not subject to CGT and you do not need to declare any income earned from investments held within an ISA on your tax return. Limits apply as to the maximum amount that can be invested into an ISA in any single tax year.

You can instruct us to automatically invest into an ISA every tax year on your behalf by completing a form. As long as you have the cash available, we will automatically invest the money into your ISA.

For MPS clients, your ISA account will automatically be invested into the same MPS portfolio as your main MPS account by default, although you can instruct us to invest it into a different investment portfolio if you choose.

The amount of money that you can invest in an ISA each tax year is fixed by the government. If you oversubscribe to an ISA, the excess payments are invalid and you are not entitled to any tax relief on investments purchased with the excess payments. It is therefore important to tell your professional adviser or Brooks Macdonald investment manager if you have used part, or all, of your allowance elsewhere.

We also offer Lifetime Individual Savings Accounts (LISA) to eligible investors aged 18-39 years. The amount of money that you can invest in a LISA each tax year is fixed by the government. We require written/email confirmations in order to make subscriptions to LISAs. We cannot do this on a discretionary basis.

Investment risk – MPS and Distribution Technology

Distribution Technology (DT) is a prominent financial planning technology firm. It provides the leading fund risk-profiling service in the UK. It periodically assesses our MPS portfolios and judges each portfolio's level of risk in order to match it to one of their dynamic planner risk profiles. Many professional advisers use DT's risk profiling service to assist them in determining the suitability of investment portfolios for their clients.

Benchmarks and portfolio reporting

You will be provided valuation reports every three months. Valuation reports list your cash balances, the investments that you own, the transactions that we conducted on your behalf during the preceding period and the costs incurred, including investment management fees. In addition to receiving valuation statements, clients can securely view their account details online at any time.

Valuation reports also state portfolio performance. To help you put this into context, the report will also include the performance of a relevant benchmark (a measure of investment performance). There are many different types of benchmarks, but some of the most commonly used are indexes that measure the performance of certain stock markets. For example, the MSCI UK Index is designed to measure the performance of the large and mid-cap segments of the UK market.

In order for a meaningful comparison to be made, your benchmark should be relevant to the type of investment portfolio we manage on your behalf. Your Brooks Macdonald investment manager and/or professional adviser will be able to discuss the most appropriate benchmark for you.

You will also be notified if the overall value of your portfolio, relative to its value at the beginning of each quarter, depreciates by 10%, and multiples of 10% thereafter.

Your investment profile (BPS)

Only you can determine your investment profile. However, the information in this guide is intended to help you make an informed decision.

Your investment profile consists of:

- Your investment objective(s): The outcome that you wish your investment portfolio to achieve. This is often a choice between (or combination of) protecting your wealth, growing your wealth, or producing a level of income.
- Your risk profile: The maximum amount of risk that you are prepared to take to achieve your investment objective(s). The more risk you take, the larger the potential returns. However, if you take more risk you increase both the chance that you will lose money and the potential amount of money that you may lose.
- Your investment horizon: The length of time that you plan to invest for.

If you have a professional adviser that has agreed to be responsible for assessing the suitability of investment services, they will advise you about your investment profile. If you do not have a professional adviser, your Brooks Macdonald investment manager will help you establish your investment profile.

Investment objective(s) (BPS)

Identifying your investment objective(s) involves assessing the relative importance of several potential investment outcomes. We will ask you to choose one of the following investment objective(s):

- Income: You want an investment portfolio designed to produce a regular income. Growing the value of your portfolio is less important to you than achieving a steady income.
- Growth: You want to grow the value of your investment portfolio over time. Producing a level of income is less important than increasing the value of your investment portfolio.
- Income and growth: You want your portfolio to both produce a level of income and increase in value over time.
- You may also have some specific objectives that you want your portfolio to achieve, such as:
- Producing income to pay for a care home for a family member.
- Purchasing a holiday home in a few years time.
- Providing funds for your retirement.
- It is important to notify us of any specific objectives you have, in order for us to construct a suitable portfolio on your behalf.

Risk profile (BPS)

All investments involve a degree of risk. Investments that provide the potential for higher investment returns typically involve higher risk, while taking more risk increases both the possibility that you might lose money and the amount of money that you might lose.

You should never accept more risk than you are comfortable with. Your risk profile describes the amount of investment risk that you are prepared to accept and this will affect both the overall composition of your investment portfolio and the types of investments that we purchase on your behalf.

Determining the level of risk you are prepared to accept involves weighing risk against potential return. Taking more risk may provide better investment returns, but it could also result in greater investment losses. Your professional adviser or your Brooks Macdonald investment manager will help you to decide how much risk to take. Factors that you should take into account include:

- Your investment objectives
- Your financial circumstances, including your capacity for loss
- Your age
- The period over which you wish to invest

A typical BPS portfolio will include a variety of different investments. Unless you have specific requirements or preferences about your investments, your portfolio may include exposure to some of the types of investments listed below:

- UK and international bonds
- UK and international equities
- Collective investments (funds)
- Investment trusts
- Structured notes
- Alternative investments (convertible bonds, hedge funds, commodities)
- Property
- Cash
- As the level of risk you are prepared to take increases, the exposure of your portfolio to each type of investment will change. Higher-risk portfolios are likely to hold greater exposure to:
- Equities
- Assets outside the UK
- Assets with historically higher volatility (e.g. certain financial stocks)
- Investments that are exposed to emerging markets
- Investments that are not on our buy list
- Illiquid assets

It should be noted that all portfolios, whatever their level of risk, may contain some exposure to each of the types of investments mentioned above.

Available risk profiles (BPS)

Through our BPS, we offer portfolios with five different risk profiles, ranging from low risk to high risk. After consultation with your professional adviser or your Brooks Macdonald investment manager, we will ask you to select a risk profile that reflects the investment risk you are prepared to accept. In general, peoples' understanding of risk is very subjective; therefore, we will carefully describe each risk category in order to help you select an appropriate risk profile.

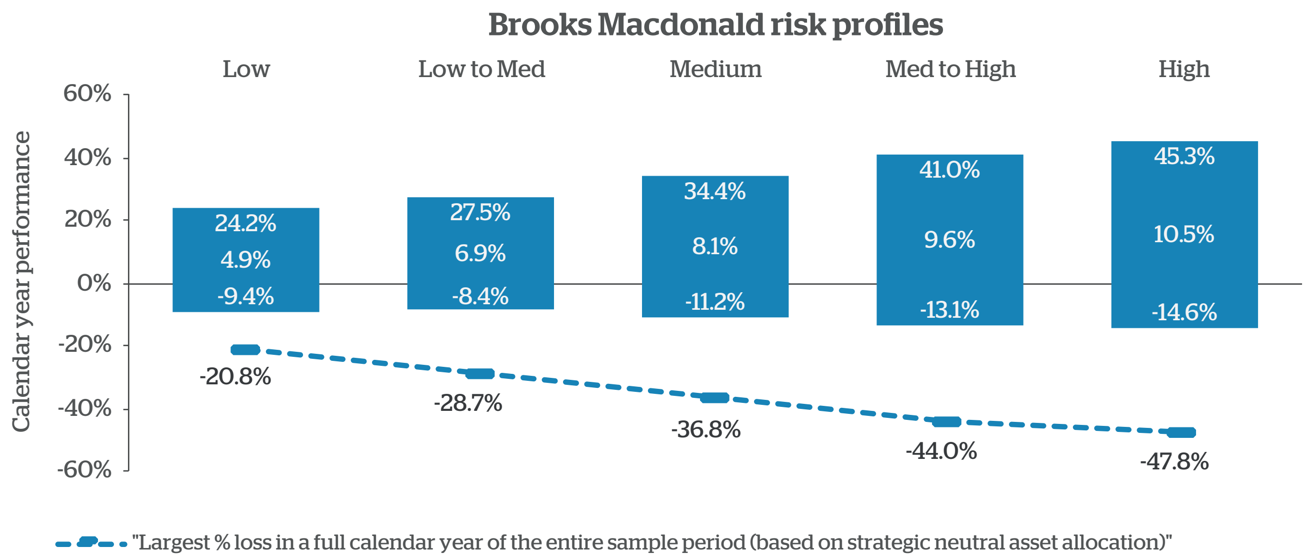
One way to assess the risk that you face as an investor is to consider how similar investments have performed in the past (although past performance is not necessarily an indication of future returns). We used data sourced from the 'Barclays Equity Gilt Study' (an authoritative survey of annual investment returns from 1900 to present) to estimate how portfolios representing each of our risk profiles would have performed in each calendar year during the period, if their asset allocation levels had been left unchanged.

For each risk profile, the following chart reflects the maximum gains and losses that would typically have been achieved in a single calendar year. To avoid distorting the results, we have excluded the most extreme annual investment gains and losses in calculating these figures. As a result, the annual investment return for each risk profile would have fallen within the shaded area of each bar 90% of the time.

For example, for a medium-risk portfolio, the maximum typical annual gain over the period would have been 34.4%, while the maximum typical loss would have been 11.2%. Because the most extreme results are excluded, this means that in 9 out of 10 years the return of a medium-risk portfolio would have been between these two levels.

During periods of market turbulence investment portfolios can be subject to increased volatility. As a result, the chart also shows the largest loss sustained during a calendar year for each risk profile. For a medium-risk portfolio, the actual largest loss would have been 36.8%.

Calendar year returns from 1900 to 2017



The indicative returns shown above are all based on a portfolio designed to produce income and growth, aside from the Low Risk portfolio, which is an income-focused portfolio. The performance of a portfolios with different investment objectives will not be the same. Calculated returns are gross of fees.

The chart also records the average annual investment return for each risk profile using the full sample (with the most extreme results included). For a medium-risk portfolio, this would have been 8.1% per annum.

The chart provides only an estimate. Some types of investments are relatively new and did not exist throughout the period; as such, we have had to estimate their performance using investments that did exist that we consider similar.

The sole purpose of the chart is to help you to determine your risk profile. It is important to realise that the returns shown are not a record of our actual investment performance, while the figures do not provide a guarantee of future investment performance. Your investments might perform better than or worse than the figures shown.

This information is replicated in the following table for portfolios reflecting each risk profile.

Low Risk

Estimated performance:

Av. +4.9%

Low: -9.4% loss

High: +24.2% gain

Worst: -20.8% loss

- you are a cautious investor seeking to protect your wealth
- you are more interested in avoiding losing money than in maximising potential investment gains
- you are prepared to tolerate small fluctuations in the value of the portfolio in order to achieve greater investment returns than a bank or building society deposit
- equity exposure is likely to range between 0-30%

Low/Medium Risk

Estimated performance:

Av. +6.9%

Low: -8.4% loss

High: +27.5% gain

Worst: -28.7% loss

- you are a conservative investor seeking to maintain your capital
- you are prepared to accept a lower investment return than equity markets over the longer term in exchange for trying to minimise potential losses
- you accept that the portfolio will be subject to fluctuations in value to achieve above inflation investment returns over the longer term
- equity exposure is likely to range from 30-55%

Medium Risk

Estimated performance:

Av. +8.1%

Low: -11.2% loss

High: +34.4% gain

Worst: -36.8% loss

- you aim to achieve a greater investment return from the portfolio
- you are prepared to own a significant proportion of higher risk investments in order to try to produce a higher investment return
- you are prepared to accept that the value of the portfolio may fluctuate significantly in order to achieve potentially greater investment returns over the longer term
- equity exposure is likely to range between 55-75%

Medium/High Risk

Estimated performance:

Av. +9.6%

Low: -13.1% loss

High: +41.0% gain

Worst: -44.0% loss

- you aim to achieve large investment gains
- you are prepared to own a very significant proportion of higher risk investments in order to try and achieve large investment gains. Most of your portfolio will be invested in risky investments
- you are willing (and can afford) to sustain significant investment losses over a prolonged period of time in order to achieve better long term investment returns
- equity exposure is likely to range between 75-95%

High Risk

Estimated performance:

Av. +10.5%

Low: -14.6% loss

High: +45.3% gain

Worst: -47.8% loss

- you aim to maximise your investment returns over the long term
- you are prepared to be fully invested in equities or other higher risk investments to achieve the highest possible investment returns
- you are willing to sustain and can afford substantial investment losses over a prolonged period of time

The indicative returns shown above are all based on a portfolio designed to produce income and growth, aside from the Low Risk portfolio, which is an income-focused portfolio. The performance of a portfolios with different investment objectives will not be the same.
Calculated returns are gross of fees.

Time horizon (BPS)

As all BPS portfolios typically hold some exposure to equities, we suggest a minimum investment horizon of three years for a low-risk portfolio and five years for portfolios of any other risk profile. If you plan to sell your investments earlier than this, our services may not be suitable for you. This said, investing over a longer time horizon does not guarantee that you will achieve your investment objectives.

In deciding your investment horizon, you must consider your personal financial circumstances. An investor aged 30 might plan to invest for a longer period than an investor close to retirement. Similarly, investing in equities would not be appropriate if you plan to use the money to buy a house in 12 months time.

Ethical investments (BPS)

If you provide us with clear instructions about investments that you wish to avoid (such as companies selling armaments), we will make our best efforts to avoid investing in them directly. However, we cannot undertake this pledge in relation to indirect investments made through collective investment schemes, as we hold no discretion over the investment decision making processes of the managers of such products.

If you ask us not to invest in certain types of businesses you will not benefit from any investment growth in that sector and your investment performance could be reduced.

It is important that your requirements are carefully defined and that they are achievable. If your instructions are unclear, we may not be able to observe your wishes.

Specific portfolio mandate (BPS)

You may have specific requirements for your investment portfolio, such as restrictions as to the asset classes in which it invests.

If your requirements result in your portfolio falling outside the asset allocation boundaries of our standard BPS investment process, we can construct a bespoke portfolio for you with its own asset allocation. The bespoke portfolio that we propose will be designed to reflect your risk profile, investment objectives and specific requirements or restrictions.

Please speak to your professional adviser or your Brooks Macdonald investment manager for further information.

Combined Accounts (BPS)

If you have two or more BPS accounts, you may want us to manage them as a single portfolio. For example, you may have a BPS account in your own name and a Self Invested Personal Pension (SIPP). Alternatively, you and your spouse may both have separate BPS accounts.

We ask each client that participates in a combined account arrangement to agree on a single investment profile (an investment objective, risk profile and time horizon), which will then apply to all of the accounts. As a result, the participating accounts will not have an investment profile of their own. Your Brooks Macdonald investment manager will be responsible for ensuring that the investments held by all of the individual accounts in aggregate are consistent with the single investment profile applicable to the combined account arrangement.

It is possible that each account that participates in a combined account arrangement may contain more higher- or lower-risk investments, or more illiquid investments, than would be the case if each portfolio was managed separately, as the composition of each account will differ. Consequently, investment gains and losses will not be distributed evenly across each account and the investment performance of each account may be very different from the performance of other accounts within the combined account arrangement.

Separate accounts, that are not combined, have their own investment profiles, therefore each portfolio would have exposure to various investment types in order for it to reflect its individual investment profile. For combined account arrangements, we can invest the assets of each account to take full advantage of different tax treatments. For instance growth investments (such as equities) could be purchased in a SIPP, which benefits from a degree of capital gains tax exemption, whereas interest-bearing investments (such as bonds) could be purchased in the account of the client in the lowest tax bracket, thereby reducing the amount of tax paid on interest payments received.

When assessing the investment performance of a combined account, you should consider the performance of all the participating accounts together. The valuation statements that we send you will only show the performance of the combined account as a whole; the performance of each participating account will not be shown.

We can manage the following types of account as part of a combined account:

- Individual account(s) for either spouse or civil partner
- Joint accounts held by married couples or civil partners
- SIPPs and offshore bonds for either spouse or civil partner

Please note:

We will automatically combine a client's individual portfolio and ISA account(s) unless instructed otherwise.

SIPPs are restricted in terms of the types of assets they may purchase. These restrictions can vary by SIPP provider. A client's SIPP may therefore be restricted as to the type of investments it can hold.

For more information on combined accounts and how to open them, please contact your professional adviser or Brooks Macdonald investment manager.

Our AIM Portfolio Service

Alternative Investment Market

AIM was set up in 1995 to provide smaller, growing companies with better access to equity capital. Smaller companies often lack the long trading histories and resources of their larger counterparts; therefore AIM holds more lenient listing conditions regarding track record and financial disclosure than the main market of the LSE.

Companies that are members of AIM are generally more dynamic and hold higher growth potential than those traded on the LSE's main market. The daily-traded value of AIM companies is also typically much lower than their larger counterparts. As a result, their share prices are usually more volatile and they are generally less easy to sell at, or near, their quoted price, particularly for large transactions.

All share investments carry some risk. Because of the factors discussed above, investments in AIM-member company shares are likely to carry higher risk than investments in shares traded on the main market of the LSE.

One way to assess the risk you face as an investor is to consider how similar investments have performed in the past (although we note that past performance is not a reliable indicator of future results). Although the AIM market only launched in 1995, data for the Numis Alternative Markets Index provides a proxy as to how the market would have performed since 1980. This data indicates that its worst calendar-year performance was in 2008 at the start of the Global Financial Crisis, where it declined by 58.6%. Conversely, its best calendar-year performance was in 1999, where the Index returned 126.9%. On average, the Index has returned 7.8% over this period. The data confirms that returns from the AIM market can be more extreme than from other equity markets.

Business Property Relief – Inheritance Tax

Certain tax incentives have been established to encourage investors to provide equity capital to qualifying AIM-member companies. One such incentive pertains to Business Property Relief, which essentially allows a reduced value of an asset to be used when working out how much IHT has to be paid on its transfer. Investments in qualifying AIM-member companies are eligible for BPR once they have been owned for a minimum of two years. Currently, after two years their shares fall outside the estate of the deceased for IHT purposes.

To obtain this benefit the shares need to have been owned directly, rather than indirectly, for example, via a collective fund. If the shares are sold before the two-year qualifying period has elapsed, for example, because the shareholder believes they are no longer attractive, any IHT relief accrued may be preserved if the sale proceeds are re-invested into other qualifying AIM-member company shares.

The tax treatment of an investment is relevant only to the specific circumstances of each investor. There is no guarantee that the nature, basis or incidence of taxation will not change during the lifetime of an investment. We do not advise our clients on their general financial affairs, matters relating to their personal circumstances, or the impact of investment decisions relating to taxation.

AIM Portfolio Service

Clients can access our APS through a professional adviser authorised to give financial advice. Your professional adviser will advise you about suitability concerning your APS portfolio.

Our APS provides clients with access to a carefully selected portfolio of AIM-member companies that we judge to have attractive long-term investment potential, while meeting the current qualifying criteria for BPR. As APS portfolios will typically be fully invested in a concentrated group of small-to-medium sized UK companies, we consider our APS to be 'high risk'.

The APS does not follow the same centralised investment process as our BPS or MPS. The stock selection process employed reflects the research process of our broader equity research team, who regularly meet with senior management of AIM-member companies (both current and potential investments) in order to assess their investment cases. The analysis of companies focuses on criteria including:

- A track record of profitability
- A strong balance sheet
- Free cash flow generation
- A strong market position
- Attractive long term growth opportunities

Based on our analysis, portfolios generally holding between 30 and 40 individual companies are constructed for our clients. While each client with an AIM service portfolio will hold their own portfolio separately, all AIM service portfolios will be, as far as possible, identical in terms of their underlying investments.

Your portfolio selection (MPS)

We do not ask MPS clients to provide information about their investment profile because their professional adviser will always be responsible for assessing the suitability of our MPS service. Your professional adviser will help you establish your investment profile. This will include information about your investment objective, risk profile and time horizon. We will only ask you to choose the MPS portfolio that meets your investment requirements.

Your portfolio selection (Fund Portfolio Service)

For clients investing through professional advisers, we do not ask clients to provide information about their investment profile because their professional adviser will always be responsible for assessing the suitability of our Fund Portfolio Service. Your professional adviser will help you establish your investment profile. This will include information about your investment objective, risk profile and time horizon. We will only ask you to choose the Fund Portfolio that meets your investment requirements.

Investment risk analysis

All investments involve a degree of risk. There are a wide variety of risks that affect how investments perform. The key risks that you should be aware of include:

Market risk

The risk of a general decline in investment markets. Numerous factors affect the overall direction of investment markets, including the state of the global economy and various political developments.

A prolonged general market decline is called a 'bear market'. Even companies that are growing and profitable may suffer declining share prices in bear markets. A prolonged period of general market rises is known as a 'bull market'. In a bull market a company's share price may increase even if its business is not profitable.

Inflation risk

Inflation is a measure of changes in the price of goods and services over time. The purchasing power of your investments will decline if they do not increase in value by at least the rate of inflation. Although cash is often perceived as a risk-free investment, the purchasing power of a cash holder will decline unless they earn a return (interest) on it that at least matches the rate of inflation.

Liquidity risk

Being able to sell your investments quickly is important to investors, both in terms of being able to take decisive action in the event of a sudden change in market circumstances and in terms of raising cash if there is a change in your personal circumstances.

Investments that are hard to sell generally represent greater risk for two reasons; firstly, you may not be able to sell the investment immediately; secondly, a significant imbalance between buyers and sellers can cause a significant (and unfavourable) increase or decline in the price of an asset when it is traded.

Exchange rate (currency) risk

Investments in foreign assets involve exchange rate risk. Investment returns earned from overseas assets may be affected by exchange rate movements. Even if the price of an overseas asset rises, it is possible that its investors will still suffer investment losses in domestic-currency terms as a result of exchange rate movements.

Changes in exchange rates can also affect a company's profitability, especially where a company's costs / revenues are paid / earned in different currencies.

Re-investment risk

Re-investment risk describes the risk that earnings or profits derived from an investor's existing investments cannot be re-invested in investments that generate equivalent returns.

This risk is of particular relevance to bond investors, as the holders of such assets usually receive interest income payments. The amount of interest that a bond pays is generally established when the bond is issued and most bonds continue to pay the same interest rate throughout their term (lifetime). As such, if interest rates fall during the term of a bond it may be difficult to re-invest the money received when the original bond matures.

Re-investment risk can be reduced by purchasing investments with longer maturities. The longer the period of time that a rate of return can be guaranteed, the lesser the re-investment risk. However, bonds with longer-dated maturities also tend to be more volatile than bonds with short-dated maturities (please see the section on bonds in the 'Asset classes / types' section of this document for more information). If appropriate, we may be able to purchase bonds that are aligned to your time horizon and mature at, or near, the time you expect to require funds from your portfolio..

Interest rate risk

The value of certain types of assets is affected by prevailing market interest rates. Traditionally, bonds have been more heavily affected by interest rate changes than other types of investments.

Bond prices have an inverse relationship with interest rates. When interest rates rise, newly issued bonds pay higher interest rates than bonds issued when interest rates were lower and older bonds become less attractive to investors (who can now earn higher interest rates elsewhere); as a result, the price of the old bond is likely to fall (and vice versa).

Floating rate notes are bonds that pay variable interest rates determined via reference to various market interest rates. Nonetheless, they are subject to the same dynamics as other bonds.

Credit (default or counterparty) risk

Credit risk generally refers to the risk that the issuer of a bond (be that a firm, government or other entity) will not pay the agreed interest amounts or return the nominal amount at the bond's maturity. If a bond issuer fails to make such a payment it is said to be in default. Upon the issuance of a bond, the issuer and bond investor are said to be 'counterparties'.

The level of credit risk that a bond issuer is assessed to represent affects the interest rate that it must pay. An issuer that is perceived to represent greater credit risk generally has to pay higher interest rates to its investors.

Holders of structured notes are also exposed to credit risk associated with their issuers.

Business risk

Business risk is the risk associated with a particular business. It encompasses all risks that affect a business's operations and, therefore, its future cash flows and profitability. Business risk is affected by numerous factors specific to the business. Typical business risks include, but are by no means limited to, competition, technological change, the economic climate and regulation.

Traditionally, business risk has most heavily affected equity investments, although it can also be relevant to other investments such as bonds.

Taxation risk

This refers to the risk that the tax treatment of a particular investment may change. As well as increasing the amount of tax that an investor may have to pay, changes in the tax regime may make certain types of assets less attractive to own, which can cause their prices to decline.

Asset classes / Asset types

As a specialist discretionary investment management firm, we are able to invest in a wide range of different asset types on behalf of our clients. These include sophisticated investments.

All of our BPS portfolios are likely to hold some exposure to the various types of assets listed in this section (notwithstanding a client's instructions otherwise). However, some of these of assets types are not purchased for our MPS portfolios (specifically, our MPS portfolios do not purchase equities or bonds directly).

To help you better understand the risks involved in investing in a Brooks Macdonald portfolio, this section sets out a description of each of these asset types, indicates the level of risk that they generally represent and describes their main advantages and risks..

Cash and deposits: (Low Risk)

Cash deposits are generally considered to be safe investments. You may receive interest on cash held in your portfolio.

Advantages

- There is very little risk in holding cash (although cash is not risk free)
- Cash deposits are readily accessible
- For most private investors smaller cash deposits in the UK are protected by the Financial Services Compensation Scheme
(see 'Security of your investments' section for more information)
-

Risks

- Cash deposits only provide a real investment return if the interest rate paid on deposits exceeds inflation
- There is no opportunity for growth
- Investors can be exposed to the risk that the financial institution holding your cash goes into liquidation

Bonds (fixed-income/fixed-interest securities): (Low – High Risk)

Bonds (also known as fixed interest or fixed income securities) are types of loans. They are issued by a wide range of different institutions, including companies, governments and supranational agencies (such as the World Bank). There are many different types of bond, each involving different levels of risk. Some bonds have fluctuating interest rates, others have no maturity date, and some pay no interest. The bond market is highly innovative.

Bonds are issued to raise money for their issuer. For example, the UK government issues bonds (known as 'gilt-edged securities', or 'gilts') to finance its fiscal spending, whereas a company may issue bonds to finance various activities.

When a bond is issued, its purchaser effectively lends money to the issuer. In return, the issuer generally agrees to pay periodic interest amounts to the bond holder (normally annually or semi-annually).

Bonds usually have a maturity date, at which time the issuer pays a cash amount to the holder of the bond, thereby repaying the loan. Typically, the maturity date is pre-determined and the purchaser knows exactly when the money will be repaid (although there are some types of bonds that can be redeemed unexpectedly). The amount of money that is paid at maturity is also generally predetermined. Bonds are usually redeemed at 'par' or 'face value', i.e. the amount initially paid by the bond purchaser is paid to the bond holder.

In general, bond prices are sensitive to changes in market interest rates. A bond's 'duration' will affect its sensitivity to changes in market interest rates. The price of a bond that has a long time to maturity tends to be more volatile than that of a bond that is maturing in the near future. This is because of the compounding effect of interest rates; all else being equal, any changes in market interest rates will likely have a larger impact on bonds that mature further into the future. A 'short-dated' bond (that matures soon) is generally perceived as being lower risk than a 'long-dated' bond (whose maturity may be many years away).

Another critical factor in a bond's pricing is the creditworthiness of its issuer, i.e. the ability of the issuer to make agreed bond payments. There are a number of independent credit rating agencies that assess issuers' ability to make agreed bond payments and assign them credit ratings. Companies or governments that are perceived as being financially strong, or more creditworthy, are likely to have to pay lower interest rates than lenders that are less creditworthy.

Bonds rated as 'investment grade' have issuers with high credit ratings and are likely to be easy to buy and sell. Bonds that are issued by lenders that have the lowest level of creditworthiness are called 'high yield' bonds. In addition, some bonds are unrated as the issuer has not sought to be rated by one of the rating agencies.

Advantages

- Bonds tend to pay a higher income than cash deposits
- Bonds are attractive to investors that require a defined level of income.
- Most bonds are designed to be repaid at a particular time and price, this degree of certainty is valuable to investors
- Generally speaking, bonds are less risky than equities
- It is usually quite easy to purchase or sell bonds that have high credit rating

Risks

- If the issuer cannot repay the bond at the maturity date, the holder could lose their entire investment.
- Bond prices are affected by both market interest rates and by the ability of the issuer to repay the bond when it matures. If you sell your bond before it matures you could lose money.
- The longer the period of time to maturity, the more susceptible the bond is to price changes.
- Sometimes it can be difficult to sell a bond. Most corporate bonds are not traded on an exchange, therefore if a bond trades infrequently it may be difficult to determine its current market value.
- Bond investors face re-investment risk. When bonds mature, investors may not be able to re-invest the money at the same rate of return.

Shares (equities): (Medium – High Risk)

Shares (or equities) are units of ownership in a company. Normally, the shares in which we invest are publically traded (traded on a stock exchange).

Over the long run, the value of a company's shares will depend on the success of its business, although the value of a share can depend on a variety of factors at any one time.

Some shares pay a periodic cash payment (a dividend) to their owner, generally quarterly or semi-annually. The dividend is determined by the company's Board of Directors. Well-established, profitable companies tend to pay a dividend.

Less-established companies that are seeking to grow their business may not pay a dividend. Instead of paying cash to shareholders, such companies tend to finance their expansion by re-investing their profits.

Shares can be bought in companies of different sizes, different types of business and in different parts of the world. The shares of established, profitable companies are likely to be less risky than the shares of new companies that intend to grow.

Share prices can fluctuate significantly over time and it is quite difficult to predict what the price of a share will be in the near future. They are generally perceived as being long-term investments. Shares are considered to be among the riskiest types of asset classes, although they have historically justified this risk through relatively large investment gains.

If the company goes bankrupt its shareholders may lose their entire investment. When a company goes into liquidation its assets (if it has any) will be sold and any money received from the sale of its assets is first distributed to its creditors and then to its bond holders. Any money left over will be distributed to the company's shareholders, but often shareholders receive nothing when the underlying company goes bankrupt.

The price of a share is affected by many different factors, including:

- The business prospects of the underlying company.
- The company's earnings (the profit earned by the company's business).
- The general state of investment markets.
- Whether or not the company's shares can easily be purchased or sold.
- How the share prices of other companies in the same industrial sector are performing.

Advantages

- Shares provide an opportunity to grow the value of an investment portfolio. They can provide substantial investment returns over time.
- In the past, shares have proven to be better long-term investments than either bonds or cash (although past performance is not necessarily a guide to future performance).
- By buying shares in companies with a long track record of paying dividends, investors can own assets that may produce an income and may grow in value.
- Shares that are traded on stock exchanges can generally be bought and sold at relatively low cost and with relative ease.

Risks

- Shares tend to be riskier than either bonds or cash. Share prices are volatile and shares are susceptible to considerable declines in value. Share prices can remain depressed for a long time and if a company goes into liquidation its shares may become practically worthless.
- There are many different reasons why the price of a share can decline. Predicting the future price of a share is very difficult.
- Shares are long-term investments. If the value of a share investment declines, it may take a long time to recover (if it recovers at all).
- Shares in smaller companies are often highly volatile and may be subject to substantial price changes. It may be difficult to sell shares in smaller companies (as a result of liquidity), which increases their risk.
- Shares that are not publicly traded (unquoted companies) tend to be more risky and may be even more difficult to sell.

Property ('real investments'): (Low – High Risk)

Property is sometimes referred to as being a 'real investment', as properties are tangible assets, as opposed to other investments, such as equities or bonds. However, investing in property usually involves purchasing units in a collective investment vehicle. In turn, these funds own individual properties, often in specific sectors such as retail, residential, commercial or industrial. This method facilitates greater accessibility to the asset class.

Historically, property was deemed to be a lower-risk investment. However, investors reassessed that assumption after the bursting of the US housing bubble at the start of the Global Financial Crisis. Nevertheless, property investments are considered able to provide additional diversification to investment portfolios.

Advantages

- Property investments are generally 'uncorrelated' with traditional asset classes, so property values may increase when the values of other assets are falling and may decrease when the values of other assets are rising.
- The long-term investment returns earned by property have historically been higher than cash or bonds, but lower than equities.
- As an asset class, property has historically exhibited lower volatility than other asset types.

Risks

- Property funds may invest in assets that are not regularly valued. Therefore large price fluctuations may occur when their underlying assets are valued.
- Property is an illiquid asset and some property funds impose restrictions on fund redemptions during periods of market volatility, meaning an investor may not be able to exit the investment when they would like.
- Some property funds may use financial engineering tools to generate higher investment returns or to try to reduce the overall risk of the fund. However, this can add risk to such funds and may make them difficult to value.
- Some funds invest in overseas property assets, which may expose them to exchange rate risk.

Structured notes: (Low – High Risk)

Structured notes are investments that combine features of a bond with those of equity-like investments. In some cases, structured notes offer a principal guarantee that gives a degree of capital protection if the investment is held until maturity. Like bonds, structured notes have defined maturity dates and can offer defined return profiles (subject to specific underlying conditions being met).

Structured notes can be highly customised and offer investment managers the opportunity to enhanced investment returns while managing risk. They are complex investments and can incorporate a number of features. These different features can affect the level of risk such securities represent.

Structured notes are intended to be purchased as longer-term investments.

Advantages

- They may increase the investment return in a portfolio while assuming relatively little risk (compared to other types of investment).

- Can be highly customised and therefore a useful tool in the context of an investment portfolio's overall construction.
- They provide a known investment return as long as relevant conditions are met.
- Have known maturities which can be tailored to an investor's time horizon.

Risks

- Structured notes are complicated investments.
- Capital protection may only apply if the investment is held to maturity; if sold before maturity the investor may lose money.
- Investors are exposed to credit risk. If the issuer cannot repay the structured note at maturity, the holder could lose their entire investment.
- If you only get back your original capital, you may have lost money in real terms because the value of your capital may have been eroded by inflation.
- In certain market conditions it may be difficult to sell a structured note as the counterparty is often the sole market maker.
- Structured notes are not necessarily priced daily and it may be difficult to accurately value a particular issue.
- Investors who purchase structured notes do not normally receive income from the underlying investment. For example, where the underlying exposure of a structured note is to a share, the owner of the structured note would not normally receive any dividend income paid out by the associated share.

Collective investments (funds): (Low – High Risk)

Collective investments (also known as funds) are entities that allow large numbers of investors to pool their money and invest together. They are normally managed by professional investment management companies that receive fees for their services. There are many different types of collective investments, including open ended investment companies (OEIC), investment trusts (investments in investment trusts are technically classified as equities, but they act similarly to collective investments), unit trusts and Exchange Traded Funds (ETF).

By investing in a range of underlying investments, collective investments can achieve a level of diversification that their individual investors might not be able to achieve economically by themselves. As a result, they can offer investors the opportunity to reduce investment risk.

Funds can either be bought and sold in the market, or are issued and redeemed by their management company.

Advantages

- An investor can take advantage of a fund manager's specialist investment knowledge.
- Collective investments can provide access to skilled investment managers that may otherwise be inaccessible to an investor.
- They can provide greater portfolio diversification than might otherwise be possible, given the size of an investor's portfolio and minimum investment levels in certain types of assets.
- There are many different collective investments available which can suit different risk profiles, provide exposure to different types of investments, and apply various investment strategies.

Risks

- Collective investments are subject to the same investment risk as their underlying assets. The value of a collective investment fund may decline if the value of its underlying assets declines.
- Investors have no influence over the investment decisions of a collective investment fund's manager.
- Some collective investment funds concentrate their investments in particular areas of the market and may therefore represent higher risk (as they are less well diversified).
- Some funds are allowed to suspend redemptions under certain conditions. This means that investors may not be able to redeem their investment when they want to.
- Funds that invest outside the UK may own assets denominated in foreign currencies and may expose their investors to exchange rate risk as a result.
- Some funds may employ leverage and may therefore represent higher risk.
- The fees paid to a fund's management company will reduce the net investment return its investors will receive.
- Collective investment fund investors forgo any shareholder benefits that are available to direct investors in the underlying companies' shares (such as voting rights).

Brooks Macdonald funds

A typical BPS or MPS account may own one or more of our in-house funds. These funds are subjected to the same rigorous investment analysis as other investments.

The fees we charge for managing client portfolios are based on a percentage of the value of their assets, including assets that are allocated to in-house funds. The management companies of collective investment funds (including ourselves) also receive fees (as will be disclosed in the fund's prospectus). The fees paid to the collective investment fund's management company will reduce the net investment return an investor will receive. As a result, fees are a key factor that is considered in the evaluation of a collective investment fund's investment case.

Alternative investments: (Low – High Risk)

Alternative investments are investments that fall outside of the traditional asset classes (such as equities, bonds and cash). They include unquoted tangible assets as well as financial assets, such as hedge funds and commodities. Typically, Brooks Macdonald will invest in financial alternative assets.

Although the alternative investment asset class is sometimes considered to consist of risky asset types, there are many different types of alternative investment and these represent varying levels of risk. Investors can use alternative investments to diversify a portfolio and therefore to reduce its overall risk.

Advantages

- Alternative investments can be used to profit when other asset classes are losing value.
- Some alternative investments are uncorrelated with equities and bonds; consequently, they can be used to reduce risk in a portfolio through diversification.

- Alternative investments can provide access to skilled investment managers that may otherwise be inaccessible to an investor.
- There is a vast range of alternative investments available. These can enable investors to gain exposure to investments that they may otherwise not be able to purchase.

Risks

- Many types of alternative investments are not traded on a stock exchange. Therefore, determining the price of such investments may be difficult.
- Alternative investments can be difficult to sell.
- Alternative investments can be highly complex and a greater degree of investment sophistication may be required to properly determine their associated risks.
- Some alternative investments are unregulated, therefore investor protections that apply to regulated assets may be absent.

Security of assets

Financial Conduct Authority regulation

We are fully authorised and regulated by the FCA. You can confirm our registration by telephoning the FCA Consumer Help Line on 0800 111 6768; writing to the FCA Consumer Help Line at 12 Endeavour Square, London, E20 1JN; or via the FCA website at www.fca.org.uk.

The protection of client money is of paramount importance to investor confidence. We must comply with the FCA's comprehensive client money rules, which ensure a clear separation between our money and money that belongs to our clients. The client money rules are designed to protect the money of a firm's clients in the event of its insolvency.

Brooks Macdonald is an IFPRU Significant firm. As an IFPRU firm, we are required to hold a mandatory capital amount and have a wind down plan in place that identifies the steps and resources that would be taken in such eventuality. We are also required to report the capital we hold to the FCA on a quarterly basis and obligated to notify them of any shortfall immediately.

More information can be found at http://www.fca.org.uk/firms/firm-types/intermediaries/client-money.

How is your money held?

We are not a bank or licensed deposit taker. Unlike a bank, we are not permitted to use client money to run our business, nor are we permitted to lend client money to any other party. FCA rules require that we hold client assets entirely separately from our own assets and our clients' assets cannot be used to satisfy our creditors in the event of the liquidation of our business.

Your cash is pooled with cash belonging to other clients. It is held in trust in accounts with a number of large banking institutions. We are required to obtain written confirmation from each bank that the money belongs to our clients, not to us. We place client money with several banks to ensure that it is not concentrated in one place.

Our overriding priority in choosing which banks to use is security of assets. Our treasury committee carefully considers which banks to place client money with, taking into account their size, reputation and credit rating. We review the banks that we use on an ongoing basis to ensure their continued suitability.

Where do we hold your investments?

The majority of client assets are held in nominee company accounts in the name of "Brooks Macdonald Nominees Limited". We maintain nominee company accounts with a number of different regulated financial institutions. A nominee company is a company formed specifically to hold and administer assets, as a custodian, on behalf of their owner, under a custodial arrangement. They are non-trading entities. Our own assets are held entirely separately to those belonging to our clients.

We undertake appropriate due diligence in the selection, appointment and periodic review of the financial institutions we choose to provide custodial services through nominee companies. Clients retain beneficial ownership of assets held by nominee companies.

Under certain restricted circumstances client assets can be held by third-party nominee companies, which are normally owned by third-party financial institutions. Assets may also be registered in 'own name' non-nominee form and we may provide appropriate safekeeping for such assets, again under certain restricted circumstances.

Specific details surrounding the custody of assets are provided below:

- UK equities and investment trusts

  UK equities and investment trusts are held in electronic form in the Central Securities Depository for the UK, the Certificateless Registry for Electronic Share Transfer (CREST), or through Euroclear, a leading global financial services company.

- Collective investments

  Most collective investment fund investments are held through Cofunds' institutional service, in an account designated as holding client assets. Cofunds is a leading UK investment platform. Some collective investment funds are held directly with their provider in nominee company accounts. Funds that cannot be held via Cofunds are held directly through the fund provider.

- Overseas assets

  Overseas assets are held by BNP Paribas Securities Services and AJ Bell through a local institution. BNP Paribas Securities Services is a leading global provider of securities services, AJ Bell is a leading UK investment platform.

- Fixed income and structured notes

  Fixed income securities and structured notes issued in the UK are held in CREST. Bonds and structured notes issued outside the UK are held by AJ Bell.

Financial Services Compensation Scheme

We are covered by the Financial Services Compensation Scheme (FSCS), the UK's compensation fund of last resort for customers of authorised financial services firms. The FSCS offers protection to consumers across the spectrum of financial services including bank account deposits, insurance, investments and mortgages.

FSCS may pay compensation to consumers in the event that they lose money held with a financial services firm that stops trading. FSCS is an independent body set up by the government under the Financial Services and Markets Act 2000. It is funded by financial services firms.

FSCS compensation limits

There are limits as to how much compensation FSCS can pay. These limits vary for different types of financial products.

FSCS protects cash deposits in current accounts and savings accounts up to the amount of £85,000 per person. Please be aware that the limit applies to eligible claimants, not to accounts. If you have a joint account with your spouse or partner, and no other accounts of your own, you could each receive up to £85,000.

FSCS can also pay compensation in respect of investment business in the event that our business has gone into liquidation and cannot return your investments. The limit in respect of investment business is £50,000 per person.

FSCS eligibility

Individuals and small companies can claim compensation from FSCS but larger companies are generally excluded.

FSCS does not compensate investors for underperforming investments.

More information can be found at www.fscs.org.uk.

Opening your account

Account documentation

If you are opening a BPS account, either your professional adviser or your Brooks Macdonald investment manager will provide you with the documentation we require you to complete.

Our BPS application pack will clearly set out who is responsible for determining the suitability of the service. If Brooks Macdonald is assessing suitability, we will ask you to provide us with more information about your personal circumstances.

If you are opening an MPS account, your professional adviser will provide you with the documentation that we require you to complete. They will also help you decide which MPS portfolio to invest in (you can choose to invest in multiple portfolios if you wish).

For all MPS and BPS account applications where your professional adviser is assessing suitability, they must also sign your completed application pack to confirm that they have undertaken this process.

For both BPS and MPS accounts, we also require documents that help us to verify your identity. The different types of documents we require are listed in the relevant application packs. Please read the application pack carefully and complete it with as much detail as possible.

Providing complete and accurate information is extremely important. If the information you provide is inaccurate, the investment service that we provide may not be suitable for you.

Please note that if the information we receive is incomplete, FCA rules mean that we will not be able to accept your application.

Investment proposal

For BPS clients, no matter who is assessing the suitability of our investment service, we will provide you with an investment proposal document. This will set out your key investment requirements (as we understand them) and provide details about the investments we propose to make on your behalf. Specifically, we will provide a breakdown of the types of assets we plan to purchase for you, as well as details of the individual investments we may buy.

If you decide to change your investment requirements after you receive your investment proposal, we will prepare another investment proposal for you based on your new requirements.

After receiving an investment proposal, you are under no obligation to proceed with any of our services. We make no charges for providing investment proposals.

For MPS clients, an investment proposal will be provided if you are transferring assets to us in-specie. Otherwise, one can be provided upon request.

Once your account is open

Once we receive your completed application pack we will open an account for you. If you are investing in more than one portfolio, we will open multiple accounts for you. Shortly after we open your MPS or BPS account(s), we will send you a 'welcome letter' which will confirm the key details of the account(s), including our fees and charges. Please notify us if you believe any of these details are incorrect.

You can access your portfolio online at any time; we will provide you with a user ID and password to enable you to do this. If you have one, we will provide your professional adviser with access to view your account so that they can appropriately advise you on an ongoing basis. If you wish, you can also authorise your professional adviser to request payments to be made to your bank account, or you can authorise another person to be able to view your account and make requests for payments to your bank account.

Our fees and charges

Brooks Macdonald Fees

The charges we apply vary according to the service(s) that we provide, as detailed in our 'fee schedule'.

Our charges will be set out in the investment proposal we will provide you during the application process. We will ask you to confirm your agreement to the fee arrangement in the application pack. It is important for us to ensure that you clearly understand how much our services will cost.

Our investment management charges are fee based and are charged quarterly. They will be based upon the value of the assets in your account.

Where you are invested into a Brooks Macdonald fund under our Fund Portfolio Service the fund's Annual Management Charge (AMC) will be levied and there is no other investment management charge. An Investment Servicing Fee may be charged to cover administration costs.

Professional adviser fees

You can instruct us to pay your professional adviser's fees from your Brooks Macdonald account by providing us with a written instruction.

Ongoing service

On a quarterly basis, we will send you valuation statements that will provide key information about your portfolio, including:

- A breakdown of the investments and cash balances in your portfolio.
- The investment performance of your portfolio compared to an agreed benchmark.
- Details of payments received or remitted.
- Details of purchases and sales.
- Details of any costs and charges, including fees and commissions.

To give us the best opportunity to manage your portfolio in your best interests, it is very important that you let your professional adviser or Brooks Macdonald investment manager know of any change in your circumstances.

We hope that this guide has been helpful. If you have any questions about this guide or our investment services, please contact your professional adviser or your Brooks Macdonald investment manager.

Important information

All information as at 1 March 2020 unless otherwise stated.

Brooks Macdonald is a trading name of Brooks Macdonald Group plc used by various companies in the Brooks Macdonald group of companies. Brooks Macdonald Group plc is registered in England No 4402058. Registered office: 21 Lombard Street, London EC3V 9AH.

Brooks Macdonald Asset Management Limited is authorised and regulated by the Financial Conduct Authority. Registered in England No 3417519. Registered office: 21 Lombard Street, London EC3V 9AH.

More information about the Brooks Macdonald Group can be found at www.brooksmacdonald.com.