



PEACE OF MIND IN TURBULENT TIMES

A photograph of a white lighthouse with a red lantern room, situated on a rocky island. The lighthouse is perched on a large, light-colored rock formation. The foreground is filled with large, smooth, grey rocks. The ocean is visible on the left, with white foam from breaking waves. The sky is filled with dramatic, dark clouds, suggesting a sunset or sunrise.

GUIDE TO  
DISCRETIONARY  
PORTFOLIO  
MANAGEMENT

your questions answered

# A COMMON SENSE APPROACH TO INVESTING

THE CENTRAL TENET OF OUR PHILOSOPHY IS OUR BELIEF IN CAPITAL PRESERVATION. TO PUT IT BLUNTLY, THE BEST WAY OF MAKING MONEY IS NOT TO LOSE IT IN THE FIRST PLACE.



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### **What is discretionary investment management?**

#### **Who is the right investment manager?**

This guide aims to answer questions like this – whether you're an experienced investor or considering your choices for the first time.

We have included a glossary of investment terms and a list of places where you can find more information.

### **Why might I want a discretionary investment management service?**

ARIAs discretionary portfolio management is a service offered by professional investment managers who specialise in managing individual investment portfolios for private investors and trustees. The professional investment manager will take responsibility for making all the decisions about the investments in your portfolio at their discretion, based on your requirements. This contrasts with a stockbroker, who may only give you advice about investments or act on your specific request.

You may have acquired a reasonable capital sum that you want to invest over the medium to long-term, rather than spend immediately. This capital may have come from, for example, the sale of a property or business, a lump sum from a pension plan, or an inheritance.

You may have decided to invest part or all of your capital into something other than a building society or bank deposit account, with the aim of increasing its value. You will also have decided that you don't want to manage your own investments on a day-to-day basis. If this sounds like you, then discretionary investment management may well be a sensible option.

# ABSOLUTE RETURN STRATEGIES.

**“ GENUINE MULTI ASSET CLASS INVESTING AND INTELLIGENT PORTFOLIO DESIGN WITH A COMMON SENSE APPROACH TO INVESTING. ”**

## Why use a professional investment manager rather than manage my own investments?

You may have investment aims that you need help to achieve, such as generating income or managing pension assets (typically in a self-invested personal pension) to provide income and capital in retirement.

Or you may have duties as a trustee which you would like to delegate. Some private investors do manage their own investments and enjoy doing so. But in practice few people have much time to spend on their investments (or they have other things they'd rather do). Even fewer can monitor the progress of their portfolio consistently and respond to events confidently. Further, while investment information is much more widely available these days, thanks to the internet, private investors acting alone still don't compete on equal terms.

As well as the practical experience that professional investment managers have built up over long periods, they generally have easier access to more real-time information and detailed research than private individuals.

Investment managers (particularly those within larger firms) can also meet and question face-to-face the people who manage the companies or investment funds they invest in. Few private investors get that opportunity. Also, investing to meet your personal aims is not just about picking the right stocks or assets – it's about building an overall portfolio with the right mix of risk versus return as well as the right spread between different sorts of investments. These investments might include:

- cash and bonds;
- ETFs;
- funds or OEICs; and
- alternative investments or strategies, such as absolute return funds, private equity, commodities or structured products.

The process of building an appropriate asset allocation is key to a successful service to private investors. So is the need to take account of your tax position, which can also affect the choice of investments.

## How is my money likely to be invested?

Different discretionary investment firms manage their clients' money in different ways, so it's important to understand the different services you may be offered:

### Directly invested

Some investment managers may place a proportion of clients' investments directly into shares to gain exposure to the UK stockmarket for example. In addition they may then combine those holdings with a range of investments, such as fixed-interest bonds, overseas equities, funds (often from a range of third-party investment funds). Portfolios are then managed in line with a range of common investment strategies, typically classified as growth, income or balanced, depending on what they aim to achieve.

### Funds

ARIA Capital Management prefers to use building block funds to exploit cost and tax efficiencies in your portfolio, rather than direct share exposure. Some investment firms will buy such funds for smaller clients (definitions of small can vary though, from £100,000 to £500,000) but manage larger portfolios on a bespoke basis, however, we feel it's more cost effective for all portfolio sizes, allowing us to be very active without incurring significant trading costs.

We seek to take advantage of the benefits of alternative investments which can include funds of hedge funds and structured products. These have become increasingly accessible to private clients in recent years, previously the preserve of the super rich. Often depending on our current asset allocation view, your portfolio may be partially or fully invested in some of our own funds depending on the discretionary strategy you have chosen.

Many discretionary managers do this and therefore you should feel comfortable asking what percentage of your portfolio will be invested in unit trusts or other funds managed by the firm you appoint (technically referred to as in-house funds) and how well these funds have performed.

In ARIA Capital Management's case, we're very comfortable using our own funds as we feel clients are advantaged by using them in a number of ways. They allow us to modify our client's portfolio asset allocation quickly and cost effectively. Moreover they afford client's portfolios access to investments or asset classes that are not offered widely by external funds.



### Are traditional assets used in my portfolio construction?

Fixed-interest bonds (issued by governments and companies), equities (shares in companies listed on recognised stock exchanges), and funds all continue to form part of most private-client portfolios, including ARIA Capital Management's. Even if you are generally unfamiliar with investments, you will recognise many of the company names whose shares might be included in your portfolio building block funds, such as high-street banks

### What is my role if I choose discretionary investment management?

The first step is to discuss your requirements with your adviser, be it an independent financial adviser, solicitor or accountant. Requirements may include a need for income from your investments, your attitude to risk, and your wider financial circumstances and future plans. ARIA Capital Management will receive details of all these requirements from your financial adviser and will take these into consideration when building your portfolio.

### How often is the asset allocation of my portfolio reviewed?

With regard to rebalancing your portfolio, asset allocations are reviewed in a formal manner on a monthly basis by the portfolio management team, under the direct supervision of a Senior Portfolio Manager. At this time any amendments to asset allocation are adjusted to a tolerance level of 25% of the model portfolio, by placing the required deals.

However, asset allocation decisions can be made immediately should all members of the Investment Committee agree, particularly if related to tactical tilts or if sell triggers are met to protect gains. Finally, within a number of your holdings, such as FA AR Equity Market Neutral, FA AR Alternative Income and FA AR Global Macro, are investments which are actively managed in real-time, to respond to fluctuating market conditions.

# ALTERNATIVE INVESTMENTS

## WE BELIEVE BRING DIVERSIFICATION BENEFITS AS PART OF A BALANCED INVESTMENT PORTFOLIO.

### What do you mean by 'alternative investments'?

This is a broad term used to encompass a range of what we call non traditional assets (traditional assets being equities and bonds). In principle they can include everything from art and antiques to fine wine and collectables such as sports cars.

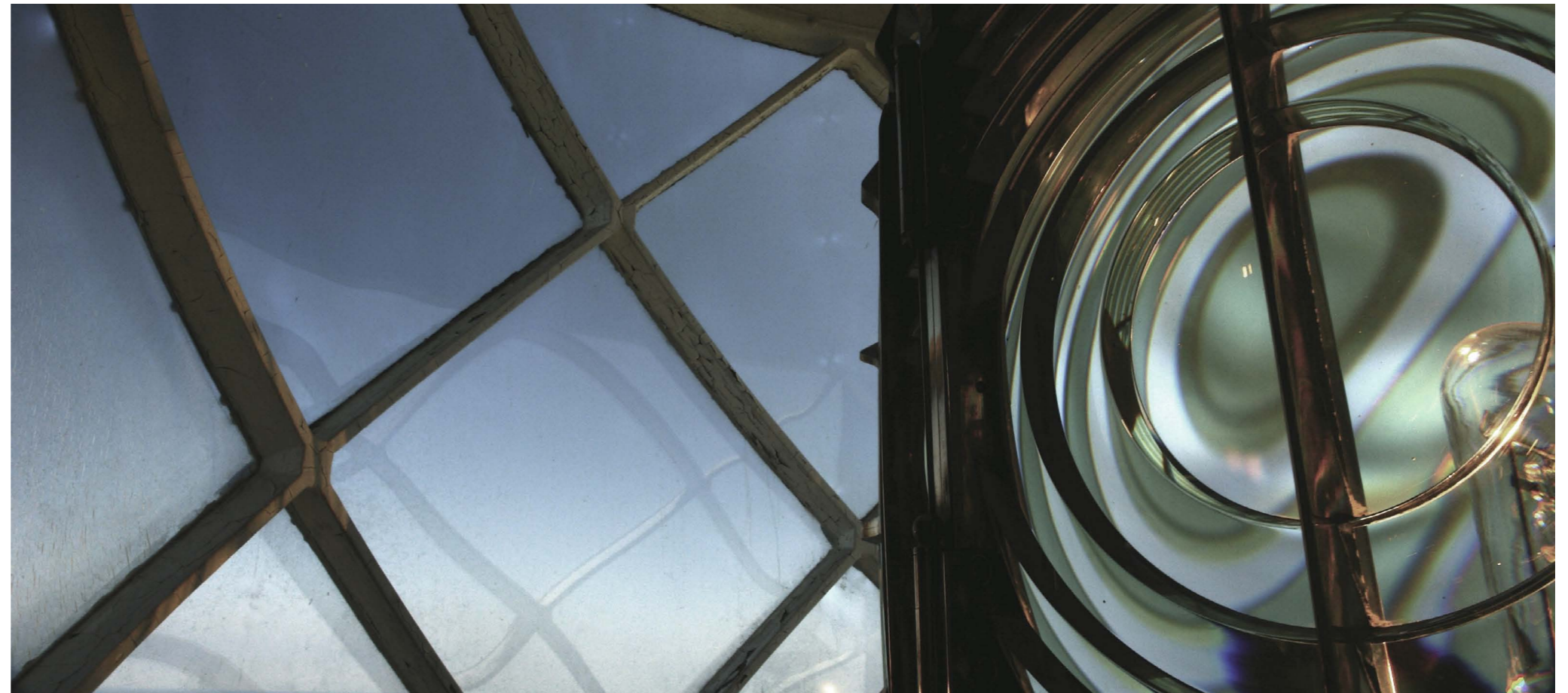
In terms of investment management, the most commonly used alternative investments include:

- absolute return funds and structured products;
- property; and
- commodities funds.

Alternative investments, we believe bring diversification benefits as part of a balanced investment portfolio. In recent years, funds and products have been developed that are more accessible for individual investors, with lower minimums for investment, shorter investment periods and – importantly – more appropriate tax structures. These are usually referred to as absolute return investments. However, researching this fast-moving market is time-consuming, and professional investment managers can generally buy these investments on more attractive terms than individual

investors can, because they have greater buying power. In meeting our absolute return mandates, portfolios and funds invested in will have exposure to alternative investment strategies, for the diversification benefits they bring, as well as returns which are traditionally less correlated to stock market performance.

Absolute return funds or portfolio strategies can operate a flexible, unconstrained investment strategy, which may include the use of gearing, derivatives and short selling to enhance returns. Furthermore they may have less frequency of dealing dates or potentially greater illiquidity. That said such funds or strategies in theory should be less volatile than traditional assets, and improve the diversification within your asset allocation given their more uncorrelated nature to stock markets.



### **Will I really get a genuine personal service?**

In all honesty both yes and no. All firms offer, and all clients expect, different amounts of personal contact. You should make sure you set the terms and that everyone is clear about what is expected. Do you want a relationship directly with the person who will manage your investments, or are you happy to deal with simply your adviser? It's important that everybody understands the expectations of them.

Typically we work in conjunction with your financial adviser as we feel the combination of your intermediary and your investment manager working in tandem improve the odds of you achieving your financial objectives. It also allows the respective parties to concentrate on what they are good at.

Many clients and advisers have a personal relationship and see us as the 'outsourced investment experts', however we are always available by telephone to talk through your investments or perhaps global developments. Moreover, we are more than happy to meet or invite you to our offices for a face to face meeting.

### **Can you provide more details on how my portfolio is constructed and managed? Could you give a brief overview of what your portfolio management process and approach might involve?**

Academic studies demonstrate how asset allocation is the primary determinant of a portfolio's return. Asset allocation simply describes the spread of your investments across different asset classes, such as equities, fixed interest, property & cash. The university endowment funds of Harvard and Yale have been leaders in diversified multi-asset class investing for over two decades. Through this approach to investing and their exposure to alternative asset classes they have achieved attractive annual returns with lower risk and only moderate draw-downs. We also employ multi-asset class or multi-strategy approach in building your portfolio.

We do not set long term strategic asset allocations and then forget about them. While some of the largest institutional investors may be comfortable holding assets throughout an entire economic cycle, we believe our clients rightfully expect us to adjust their asset mix to match the moment.

Unlike more traditional approaches, our absolute return portfolio strategies, and their construction, provide us with the capability to actively manage your stock

market exposure, in a very cost effective manner.

We always manage your portfolio in line with the prevailing economic conditions and investment opportunities. While we have a deep understanding of long term economic trends our main interest is in how they influence where we can find value for our clients now and in the near future. We focus on opportunities that will generate value in the immediate future, as well as capturing longer term thematic drivers.

Therefore, we invest in a wide variety of assets, including equities, bonds, currencies, property, commodities and private equity as well as other alternative investments such as forestry, and commodities. Both funds and portfolios can also invest in cash and use derivatives in order to enhance returns and/or limit downside volatility.

Furthermore, we may well buy investments which are denominated in foreign currencies, if we feel that would prove sensible diversification for a Sterling denominated investor.

# ABSOLUTE RETURN INVESTING Vs RELATIVE RETURN INVESTING

**// WE SEEK TO FIND INVESTMENTS WHICH ARE NOT SOLELY RELIANT ON STOCK MARKETS GOING UP IN ORDER TO GENERATE POSITIVE RETURNS //**

## Could you provide some information on how the process of asset allocation is done?

The process of determining the appropriate exposures to the asset classes or geographical regions we select requires:

### Strategic asset allocation

- Identification of asset classes and geographic areas in which to invest using fundamental and technical analysis
- Combination of strategies, style and managers to meet the portfolios return and risk objectives
- Assessing asset classes for relative value, in addition to quantitative review of market sentiment/ personality, drawing on our proprietary combination of indicators
- Consideration of the best risk adjusted means of implementing long term thematic trends

### Tactical asset allocation

There will be periods where asset classes are trading at either a premium or a discount to fair value. During these periods we overweight the cheaper asset class(es) and underweight the more expensive one(s).

### Risk management

Risk management and monitoring activities are key parts of the investment process. First of all, the portfolio manager diversifies the portfolio's positions and respects investments limits, maximum exposure limits etc. Each investment rarely amount to more than 20%–25% of the portfolio. We also monitor each strategy on the basis of market trends and new macro information available.

## How do I become a client?

You'll need to agree two key things with your adviser before becoming a client:

- your investment requirements including your selected portfolio strategy ; and the process of setting up the portfolio – for example, are
- your assets held in cash or other investments, or are you looking to transfer funds from an existing investment arrangement?

### You'll need to:

- sign the ARIA Harbour Suitability Assessment Report which your adviser will provide. This assessment will also include the discretionary management agreement (you will be guided through the documents by your financial adviser.)
- provide documents such as your passport and a utility bill. This is because the law to prevent money laundering requires firms to check that all new clients are who they claim to be and that their money has not come from criminal activity.

We will generally hold your investments in a nominee company. This will enable them to handle all the administration associated with your investments, such as dividend claims, transfers and rights issues. More details are available in relation to these arrangements, on request.

You remain the beneficial owner of the assets in your portfolio, even though the company register for each asset in your portfolio will show the nominee's name instead of yours. Other investment managers will have broadly similar arrangements.

## What else should I consider in determining the right investment manager to look after my portfolio?

### Ask as many questions as you want

– investment managers are used to explaining what they do and how they do it, and should be happy to answer any queries.

Some common questions to ask include:

- How have you performed in recent years?
- How long has the firm been in business?
- Can they demonstrate their performance particularly given the volatility financial markets in recent years?
- What benchmark do they use to compare their performance too?

You can check whether a firm or individual is registered with the FCA at [www.fca.gov.uk/register/](http://www.fca.gov.uk/register/). Other information sources are listed at the end of this guide under 'Further information'.

# HARBOUR: SUITABILITY ASSESSMENT

## What is ‘suitability’ and ‘risk profiling’?

‘Risk’ is difficult to define and will mean different things to different people. All types of investment, including our portfolio strategies, carry some risk of making a loss. The important thing is to be comfortable that your investments represent, as closely as possible, a level of risk acceptable to you, and continue to do so. That’s why your adviser will want to determine your reasons for investing.

## How do we measure risk?

Investing brings many risks, and therefore the very idea of risk has to be a multi dimensional concept – there are currency risks, liquidity risks and of course risks associated with interest rates. We adopt an approach which attempts to measure the volatility of investments or the degree to which the value of those investments fluctuate. The volatility of a portfolio clearly depends on a number of factors but principal amongst these is the fluctuation in the underlying assets invested into. We build our portfolios with specific volatility targets for a given risk profile – the more adventurous the profile, the greater the return potential but also the greater the variability in portfolio returns and greater potential for loss.

## What is Harbour?

Where it is appropriate to use our services, the online Harbour Suitability tool can assist in matching a particular asset allocation or portfolio strategy to a your specific investing circumstances and facilitates discussion between you and your adviser. Harbour gains

information on your particular risk appetite and circumstances, including capacity for loss, risk tolerance, income considerations and liquidity needs, as well as discussing the many dimensions of risk which aren’t always immediate when considering your portfolio such as currency exposure.

## Why do we ask you and your adviser to employ Harbour in the financial planning process?

We believe that Harbour is a means by which we can gain a very clear idea of your risk appetite and thus an appropriate portfolio strategy for you.

In our view, Harbour provides a framework to discuss objectives, circumstances and tolerances, going beyond a volatility score (or simple number) to highlight the various aspects within investment that can contribute to risk. Hopefully, it generates a comprehensive discussion between all parties, considering a broad spectrum of issues rather than simply an actuarial consideration of risk. The end result should be joined up thinking in the suitability and risk profiling process.

## How does discretionary management affect my pension or offshore bond wrapper?

More often than not when we are managing investments for non UK resident clients, the assets themselves are held within a tax wrapper of sorts - within a SIPP, QROPS or Offshore Bond. Sometimes the offshore bond wrapper may itself be held inside the trust or pension wrapper and ARIA work with all of the major bond providers and a number of trustees globally.

## What is a ‘third party custodian relationship’?

Testament to the strength and corporate governance brought by our private client platform, we have a ‘third party custodian’ relationship with the vast majority of the offshore bond companies. That means that the investments within the offshore bond are transferred to ARIA’s private client platform so that we can be dynamic in managing your portfolio, as well as bringing all the benefits that the platform has to offer, including:

- online valuations, including transaction history, asset allocation views, document library and the ability to message you securely
- custody of your investments with SEI, one of the world’s largest custodians with nearly \$240bn under administration who hold professional indemnity cover for \$80mn.
- access to the UK Financial Services Compensation Scheme
- trading account: 110 stock markets, 55 different currencies and nearly 10,000 funds which can sit alongside your discretionary account.

So whilst we may receive the assets to manage on our platform, this does not impact the tax or bond wrapper that remains in place as well as the tax benefits that these wrappers and financial planning behind it aims to confer.



### What will it cost me?

There are broadly two ways of charging for investment management services:

- fees (based on a percentage of the size of your portfolio); and
- dealing charges, which arise each time an investment is bought or sold on your behalf.

Most discretionary fund managers will charge:

- a) an annual management charge or fee plus dealing charges; or
- b) a (higher) annual management charge or fee alone.

Our annual management charges are 1% per annum, however this does depend on the discretionary service line chosen. Additional charges may apply where we are requested to pay your financial adviser for their work in reviewing the portfolio's performance and providing an independent review of how we're doing.

There will be the charges of the funds or investments in the portfolio too, a portion of which may be paid to us. You should make sure you know what they are and all changes are covered in more detail in our discretionary agreement and on our website.

Dealing charges arise each time an investment is bought or sold. It may be to take advantage of an opportunity, take profits in an investment or alternatively reducing exposure to an asset class if we believe we need to be more defensive.

By virtue of our building block approach we try to keep dealing costs to a minimum, and cap them at one percent or £50, whichever is lower. In year one of course, if the portfolio is 100% in cash and then 100% invested, the dealing charges are highest but once the portfolio asset allocation is established, transactions from there on in will be fewer by definition.

There may be other charges too. They are often small in relation to the main fees and charges, but you should make sure you know what they are. By law, the discretionary investment management firm must explain these properly, so do ask if you are not clear. Full details are available in the relevant fee schedule, and in the 'Guide to services and charges' document available at our website [www.ariacm.com](http://www.ariacm.com) ([www.offshore.ariacm.com](http://www.offshore.ariacm.com)) or on request.

### What information will I receive to keep me informed about my investments?

You'll receive an initial valuation when your account is set up and regularly thereafter, usually half yearly. The key things a valuation should include are:

- a breakdown of the assets in your portfolio;
- details of transactions; and
- performance measurement against a range of benchmarks.

We will also provide you with an online valuation logon, so that you can see your portfolio's valuation online, updated daily. Our website also provides latest market views, fact sheets and information on your holdings to you adviser so that they can monitor the performance of your portfolio.

### DISCLAIMER:

*The material on these pages is provided for information purposes only; it is not an invitation to invest. Income from investments may fluctuate and investors may not recoup the amount originally invested. Please refer to the relevant Fund Offering documents and/or the terms and conditions for any services offered for detailed information. Please seek relevant professional advice before making any investment decision.*

*This document does not constitute an offer or solicitation to sell shares in any of the funds or provide any investment services mentioned, by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.*

*We provide Discretionary Management Services. The suitability of this service for you is determined by your Financial Adviser. We do not assess your suitability for our Discretionary Management Service. We do assess your suitability to determine what Investments would be appropriate for you. In assessing your suitability we rely on the information provided by you and/or your Financial Adviser in our Discretionary Service Agreement. We also ask you, or your Financial Adviser, questions about your income, savings and other circumstances through our online Suitability Assessment tool.*

*The information provided is then considered by us to determine which ARIA model portfolio is suitable for you. Please note we assess your suitability based on information provided to us and only in relation to the model portfolios we offer, these model portfolios may contain investments in related investment funds. We do not assess your suitability in relation to other investment products in the market or management services provided by other 3rd parties.*



### What other information should I receive regularly?

Some investment managers send contract notes when they buy or sell an investment in your portfolio, showing completed transactions as a matter of course. Some firms don't send contract notes automatically but provide a statement of transactions, often attached to their quarterly and half-yearly reports. As it stands we do not send out contract notes for discretionary clients, but we do provide details of transactions online and in the half yearly reports.

Some investors are happy to leave their fund manager to manage their portfolio and may phone them only occasionally. Others prefer to talk to their adviser. We produce a monthly factsheet or newsletter to ensure your adviser is informed about relevant news and our views in relation to your investments.

You should let us, or your financial adviser, know how, and how often, you want to hear about your investments.

### What about information for my tax return?

Typically we will produce a tax pack detailing:

- all the income received from the portfolio; and
- all purchases and sales of investments;

# RISKS ASSOCIATED WITH ATP

## Risk Profiled Portfolio Strategies

The 6 risk profiled strategies are made up of a blend of five building block funds, ETF exposures plus a proportion held in cash. Each of the building block funds focusses on a set asset class which determines its individual risk/return level.

For example, conventionally speaking, the 'fixed income' asset class, including government bonds and corporate bonds, which FA AR Alternative Income Fund focusses on, is considered less risky than international equity exposure offered by FA AR Cautious Multi Asset Fund, but it offers a lower potential return. This means that lower risk investment profiles will have a greater 'fixed income' component compared to higher risk/return investment profiles, which will have a larger 'international equities' component. ATP's risk profiled strategies, in combining the building block funds, bring a diversified blend of investments that match individual investment objectives.

## What is the profile of the typical investor the portfolios are designed for?

These portfolios should be suitable for investors who are seeking a well diversified, actively managed investment exposure to the respective asset classes covered by the different building block funds. These investors are expected to have a good understanding of the investment risk and return parameters of the asset classes the portfolios invest into.

Please note that investors who require extremely high levels of risk or

alternatively do not want to put capital at risk, may not find the All Terrain Portfolio strategy suitable for all their needs. This should be discussed with your financial adviser.

**Market Fluctuations and Absolute Returns** - As markets fluctuate we cannot guarantee the level of capital gains or income that your ATP risk profiled strategy will achieve. The value of investments and the income you derive from them may go down as well as up and you should be prepared that you may not get back the full amount that you invested. Whilst we are focussed on targeting absolute returns over a full market cycle, this does not mean that your capital is guaranteed, or that your portfolio will make positive returns regardless of market conditions. As your financial adviser will explain, when investing into one of the risk profiled ATP strategies, it should be considered a medium to long term investment, and suggested minimum holding periods are detailed along with each portfolio profile.

**Effect of the Initial Charge** - The original amount you invest will be reduced by the initial charge levied by your financial adviser. As a result, if you withdrew your investment at that point you would not get back the amount you originally invested.

**Diversification Risk** - The building block funds will seek to achieve their objectives through investments in a range of collective investment schemes, money market deposits, transferable securities and derivative instruments. Subject to the restrictions set out in the prospectuses for each of the building block funds, the portfolio will typically remain fully invested in these funds. There will, however, be no restrictions

on the underlying investments held, in terms of investment type, geographical or economic sector, other than those imposed by the Prospectuses, meaning that the Fund manager has the absolute discretion to weight the portfolio towards any investment type or sector, including cash, at any time. Unregulated collective investment schemes may be used to the extent permitted by the Prospectuses. The building block funds may hold exchange traded derivatives for investment purposes as well as for efficient portfolio management purposes (including hedging). It is not intended that the use of derivatives in this way will change the risk profiles of the Fund. Borrowing will be permitted up to the levels stated in the Prospectuses.

**Inflation risk** – Inflation will, over time, reduce the value of your investments in real terms.

**Exchange Traded Funds ("ETF")** - The risk profiled portfolio strategies (specifically the Cautious and Conservative profiles) may invest in Exchange Traded Funds, in particular into global government bonds and money market funds. Exchange Traded Funds represent a basket of securities that are traded on an exchange and may not necessarily trade at the net asset value of their underlying holdings. As a result, they may trade at a price that is above or below the value of the underlying portfolio.

## What risk factors affect the Building Block Funds?

Specific risks relating to these Funds are as follows, (please note the following is not exhaustive, and for a full

description of the risks of the building block funds please consult each funds Prospectus):

**Pricing and liquidity** - Where a Fund has exposure to alternative asset classes there is a risk that the price at which an asset is valued may not be realisable in the event of sale. This could be due to a mis-estimation of the asset's value or due to a lack of liquidity in the relevant market. As a result, at times, they may have a delay in acting on instructions to sell investments, and the proceeds on redemption may be materially less than the value implied by the Fund's price.

**Emerging Markets** - Emerging markets tend to be more volatile than more established stock markets and therefore your money is at greater risk. Risk factors such as political and economic conditions, together with potential currency risk, should also be considered. The reliability of trading and settlement systems in some emerging markets may not be equal to that available in more developed markets, which may result in delays in realising investments within the funds. A counterparty may not pay or deliver on time or as expected. Lack of liquidity or efficiency in certain stock markets or foreign exchange markets in certain emerging markets may mean that from time to time the investment adviser may experience more difficulty in purchasing or selling holdings of securities than it would in a more developed market.

**Currency Exchange Rates** - Funds investing in overseas securities are exposed to, and can hold, currencies other than pounds sterling (GBP). As a result, exchange rate movements may cause the value of investments to decrease or increase.

**Counterparty Risk** – Where a Fund enters into a derivative contract it will be exposed to the credit of the other party (usually referred to as ‘counterparty’) and their ability to wholly or partly satisfy the terms of the contract. In the event of a bankruptcy or insolvency of a counterparty, a Fund could experience delays in liquidating the position and may incur significant losses.

The Funds may use one or more counterparties to undertake derivative transactions on behalf of a Fund and may be required to pledge a Fund's assets as collateral against these transactions. There may be a risk that a counterparty will be unable to meet its obligations with regards to the return of the collateral and may not meet other payments due to a Fund.

**Investing in other collective investment schemes** - Each Fund may invest in other regulated collective investment schemes. As an investor of another collective investment scheme, a Fund will bear, along with the other investors, its portion of the expenses of the other collective investment scheme, including management, performance and/or other fees. These fees will be in addition to the management fees and other administrative expenses which a Fund bears directly with its own operations.

Unregulated Collective Investment Schemes As the building block funds within the ATP Offshore strategy are classed as unregulated collective investment schemes these are generally considered to be a higher risk than investment in regulated schemes. An unregulated collective investment scheme is unlikely to be subject to regulations which govern how they are managed. For example, they can utilise higher risk investment techniques, they may borrow to invest, they can suspend calculation of net asset value preventing redemption or otherwise limit redemption, they may not adhere to internationally recognised accounting standards and functions such as pricing and custody may not be subject to any rules

**Derivatives and volatility** - Derivative instruments may be used in the Funds for both investment purposes and the purposes of Efficient Portfolio Management (EPM).

**Modern portfolio theory (MPT) describes how by combining a range of asset classes in one fund, the sharp ups and downs of each asset class can be ‘smoothed out’ by the other asset classes and as a consequence, the portfolio’s overall investment performance becomes steadier and smoother.**

**As well as reducing volatility, MPT illustrates that higher returns can be achieved (on a comparable risk basis with other portfolio’s) by combining non-correlated investments together in one portfolio. In other words, the smoothing effect of multi asset investing does not compromise a portfolio’s ultimate performance potential.**

## Glossary

### Alternative investments

Alternative investments generally include investments that don’t trade publicly on an organised exchange. Examples include partnership funds, which focus on private equity and hedge funds which can include any non-traditional asset class, including works of art, horses, antiques, classic cars and fine wines.

These are generally regarded as higher risk and you should seek higher levels of expertise and advice before buying them.

Two alternative assets that have become increasingly attractive for investment managers looking after private clients are structured products and hedge funds.

- **Structured products** – There is no universal definition for this term, as it covers many different types of investment. Broadly, structured products aim to provide the investor with a preset and expected return based on various assumptions about how markets will perform in future. To do this, they often use futures and options. Most structured products have a fixed life so investors know when they will mature. Many will have some degree of inbuilt capital protection, typically promising a minimum return of 100% of the original investment made at the time of issue. Some will fix a return of less than this but should, therefore, offer greater potential for high returns.

- **Hedge funds** – The term ‘to hedge’ means to manage risk. To do this the underlying hedge funds can employ techniques such as shorting (selling stock they do not own), leveraging (using borrowed money to buy investments) and the use of futures and options. They can also invest in different markets such as currencies, commodities and loans. Their main aim is to produce an overall return that is not closely correlated to, and is less volatile than, that of traditional assets such as equities or bonds.

### Benchmark

A benchmark provides a standard against which the performance of an investment strategy or portfolio can be measured. Benchmarks are compiled by a range of financial institutions and trade bodies to cover specific markets, investment types and so on. The appropriate benchmark to measure a portfolio's performance against will depend on the strategy of that portfolio and the type of assets within it. For example the FTSE-100 or FTSE-All Share benchmarks are common for UK equity portfolios. For private client investment portfolios it is common to use the TSE/APCIMS Private Investor Indices or benchmarks. These benchmarks incorporate a range of asset types – equities, bonds, even ‘alternative investments’ – that would typically make a private client portfolio.

Unfortunately, we believe these benchmarks are still too reliant on equity markets to increase in value, and therefore prefer to adopt a cash related benchmark. Our performance then is judged in absolute terms rather than against a stock market benchmark, which may be falling. Many other investment managers can outperform their client's benchmark's yet still lose them money.

### Beneficial owner

A legal term where the specific property rights of an asset belong to a person even though the legal title of the property belongs to another person. This often applies where the legal title owner has implied trustee duties to the beneficial owner. In the case of nominee accounts this means that the investments are held in the name of the nominee company but the investor retains the rights.

## Glossary continued

### Collective investments/funds

These are investment funds (sometimes referred to as managed funds or mutual funds) such as unit trusts, open-ended investment companies (OEICs), or investment trusts that pool the money of many investors. They invest in a spread of stocks and shares to give investors a well-diversified, professionally managed portfolio. This means they are generally lower risk than individual shares, and they are particularly useful in enabling you to invest in more specialised areas, notably overseas markets and smaller companies.

- **Investment trusts** – An investment trust is a company listed on the Stock Exchange. Since it is a listed company, dividends are paid in a similar way as an individual equity. The underlying share price of the investment trust is subject to supply and demand and may not accurately reflect the underlying value of the assets the company owns (which might range from property to other companies' stock depending on the investment aim or objective). These companies can therefore trade on premiums or, more typically, discounts to their underlying assets; i.e. the share price might rise to a level that values the company (the share price multiplied by the number of shares in issue) at a higher level than the assets it owns (a premium) or they might fall so that the company is valued at less than the assets it holds (a discount). Being a listed company they have the power to borrow (gear) which increases the assets available for investment, but also the risk.

- **Unit trusts/OEICs** – These are similar to investment trusts in that they are diversified portfolios of shares or bonds, but they are known as open-ended.

This means that when investors want to buy into the fund, new units are created; and when they wish to withdraw their money, the units are cancelled in exchange for their cash value. The price of each unit is directly linked to the value of the underlying assets and therefore trades at an asset value with no discount or premium as in investment trusts.

### Fixed-interest investments

Fixed-interest investments pay a set rate of return agreed at the outset. Their stability means they are often part of the portfolios of an investment manager's clients. They are relatively low risk and generally predictable, which is helpful for investors looking for income.

- **Gilts or UK government stocks** – These are the safest form of fixed interest since they are guaranteed by the government. Conventional gilts pay a fixed rate of interest until the government buys back the stock

on a preset date at a preset price. If held to that date, the return they pay is therefore completely predictable and fixed. Their price, however, can rise and fall in the market, mainly depending on interest rates and inflation. Index-linked gilts are particularly low-risk investments since their return is linked to inflation.

The income from them is also indexed but usually modest, which makes them attractive to investors who dislike risk and don't need income.

- **Corporate bonds** – These have similar characteristics to gilts. They are guaranteed by the underlying company rather than the government so are higher risk than gilts but give similar types of return. They'll normally have a higher yield (income return) than gilts, reflecting their higher risk. If a company performs badly or goes bankrupt, the holders of a bond would have priority over ordinary shareholders in receiving repayment or income.

### Futures and options

Futures are a financial contract obliging the buyer to purchase an asset (or the seller to sell an asset), such as a physical commodity or a financial instrument, at a preset future date and price. They are often used to hedge or to speculate on the price movement of the underlying asset. For example, a producer of corn could use futures to lock in a certain price and reduce risk (hedge). On the other hand, anybody could speculate on the price movement of corn by going long or short using futures. The main difference between options and futures is that options enables the holder to buy or sell the

underlying asset at the expiry date, while the holder of a futures contract must fulfil its terms. In real life, few of the underlying goods specified in futures contracts are ever delivered.

### Self-Invested Personal Pension (SIPP)

A type of UK government approved personal pension scheme, which allows individuals to make their own investment decisions from the full range of HM Revenue & Customs (HMRC) approved investments. HMRC rules allow for a greater range of investments to be held in a SIPP than in other personal pension plans such as equities and property. Rules for contributions, benefit withdrawal etc are the same as for other personal pension schemes. SIPPs, in common with personal pension schemes, are tax 'wrappers', allowing tax rebates on contributions in exchange for limits on access.

## About ARIA

We are passionate about protecting and growing the wealth of our clients, taking care of all of their investing requirements. We believe in 'all terrain investment management', which means targeting positive returns in any market environment. We also believe in a fee structure that truly aligns itself with clients' best interests, incentivising us to first maintain, then increase our clients' wealth in real terms. Unfortunately, it appears to us that many managers within the investment management industry have sought to put their interests before those of its customers, by selling investment performance which compares favourably with certain stock market indices but not in absolute terms. This is little noticed when the 'wind is at their backs,' i.e. when stock markets are rising, but is less satisfactory during periods of decline. We will readily concede that benchmarking as a notion has intuitive appeal, but for most clients (in real life) cash or bank deposit rates or, indeed, inflation, are more relevant-to-real life benchmarks. The 'relative return' investing approach, favoured by much of the industry, justifies losing money by comparing itself to a stock market index, such as the FTSE 100.

This is not our approach. We are active, absolute return fund managers. This means that the portfolios we manage are not constrained by any requirement to represent any stock market and we will not buy a particular stock or other holding because it is a prominent constituent of a potentially falling index. Each investment is made on the basis of merit alone: we must genuinely believe that its value is likely to increase and be comfortable that the potential reward justifies any exposure to risk. Importantly, as well, an investment needs to fit with the rest of the portfolio, but whether it is part of the FTSE 100 is, for the most part, irrelevant.

ARIA's investment advisory council collectively possess many years' of experience in the investment business, combining expertise across a wide spectrum of asset classes, including hedge funds, private equity, commodities, as well as more traditional asset classes.

Our investment philosophy is simply all terrain investment management.



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