

# Customer Investment Risks

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# 1 Introduction

We have set out below a summary of the nature and risks associated with the types of investments we may include in your Account, subject to your Objectives as notified to us. This information is not intended to constitute a comprehensive statement of all the risks to which investors might be exposed and there may be others that exist now, or which may arise in the future.

# 2 General Risks

The main general risks associated with investing are as follows:

- past performance is not a reliable indicator of future performance;
- the value of investments may go down as well as up;
- you are not certain to make a profit. You may make a loss. You may lose your entire investment;
- the price or value of investments may fluctuate significantly;
- if there are income distributions, they may also fluctuate significantly.
- market conditions may limit the ability for the investment manager to trade and/or adversely affect the price of an asset; and
- investments in non-UK markets are subject to exchange rate fluctuations.

## 3

# ETFs

### 3.1.

We primarily invest in Exchange Traded Funds (ETFs), although on occasion we may invest in other Exchange Traded Products (ETPs) such as Exchange Traded Commodities (ETCs). For the purposes of this document, these are collectively referred to under the term ETFs. We invest in ETFs listed on recognised stock exchanges in the UK (e.g. the London Stock Exchange) and overseas (e.g. the New York Stock Exchange).

### 3.2.

The main risks associated with investing in ETFs are:

- the prices of the underlying investments of the ETFs will vary according to the markets on which these are listed or traded;
- with regard to funds holding non-UK investments, foreign exchange rates may move in an unfavourable direction affecting adversely the valuation of funds in sterling currency terms.
- dividend growth is not guaranteed, nor are companies in which you invest obliged to pay dividends;
- underlying assets may decline in value;
- ETFs on overseas markets may involve different risks to the UK; and
- as with all funds, ETFs may be suspended from trading due to the closure of the underlying market or due to the winding down of the fund.

4

# Fixed Interest Securities

## 4.1.

We may invest in fixed interest securities issued by governments, governmental bodies, quasi-governmental bodies in the UK (and overseas), UK local authorities and corporates in the UK (and overseas).

## 4.2.

The main risks associated with investing in fixed interest securities are:

- there are few recognised markets in such securities, as the trading is between the issuers, their brokers, and the banks and securities houses making a market in the securities;
- with regard to securities in currencies other than Sterling, foreign exchange rates may move in an unfavourable direction affecting adversely the valuation of investments in base currency terms;
- securities issued by overseas bodies may involve different risks to the UK;
- capital may be lost whether or not held to maturity or in the event of default of the issuer;
- there is a risk of capital erosion in real terms over time due to the effects of inflation; and
- the value of fixed income securities may fall as well as rise due to market movements.

5

# Collective Investment Schemes

## 5.1.

We may invest in units/shares issued by collective investment funds both in the UK and overseas, that are authorised by an approved regulator or are unauthorised.

## 5.2.

The main risks associated with investing in collective investment funds are:

- There are no recognised markets for collective investment funds as units/shares are issued and redeemed by the managers/operators/administrators of the funds;
- Funds may be valued for pricing and dealing purposes either daily, weekly, fortnightly, monthly or even less frequently by the managers/operators/administrators;
- The prices of the underlying investments of the funds will vary according to the markets on which these are listed or traded;
- Unregulated funds are not subject to the supervision by a regulatory body as authorised funds, and some authorised funds are subject to greater supervision than others depending on their structure;
- With regard to funds in currencies other than Sterling foreign exchange rates may move in an unfavourable direction affecting adversely the valuation of investments in base currency terms.

6

## UK and Non-UK Equities

### 6.1.

We may invest in equities, including investment trusts, listed on recognised stock exchanges in the UK (e.g., the London Stock Exchange) and overseas (e.g. the New York Stock Exchange).

### 6.2.

The main specific risks associated with investing in equities include:

- Dividend growth is not guaranteed, nor are companies in which you invest obliged to pay dividends;
- Companies may go bankrupt rendering the original investment valueless;
- Equity markets may decline in value;
- Corporate earnings and financial markets may be volatile;
- If there is no recognised market for equities, then these may be difficult to sell and accurate information about their value may be hard to obtain;
- Smaller company investments may be difficult to sell if there is little liquidity in the market for such equities and there may be substantial differences between the buying price and the selling price;
- Equities on overseas markets may involve different risks to the UK;
- With regard to investments in overseas companies, foreign exchange rates may move in an unfavourable direction affecting adversely the valuation of investments in base currency terms.

## 7

# Investments Denominated in an Alternate Currency

### 7.1.

We may affect transactions on your behalf in an investment denominated in a currency other than the agreed base currency of your Portfolio (which is the currency in which your Portfolio is valued).

### 7.2.

A movement in exchange rates may have a separate effect, unfavourable as well as favourable, on the gain or loss otherwise experienced on the investment concerned. In addition, if you deposit collateral denominated in one currency, you may be subject to margin calls in circumstances where the obligations secured by such collateral are denominated in another currency (in addition to the risk of margin calls for fluctuations in relative values). Some currencies are not freely convertible, and restrictions may be placed on the conversion and/or repatriation of your funds including any profits or dividends.

### 7.3.

The base currency of your Portfolio will be Sterling.

## 8

# Discretionary Investment Manager Risk

### 8.1.

Our principal service is discretionary investment management where your individual Pots are managed in accordance with each customer's requirements as set out in your Account. This means that we have discretion over both asset allocation and individual security selection in relation to the assets held in your Portfolio. This means that your Portfolio and its performance will be specific to you, even when compared to a portfolio with a broadly similar mandate.



## **8.2. Fully Managed and Socially Responsible Investing portfolios**

The Investment objective for each of our portfolios, and the long term expected nature of its holdings can be found in your suitability report.

Our portfolios are managed in accordance with an internal risk management framework that governs the acceptable asset class, long term volatility and tail risk exposures for a given portfolio (using comparative conditional value at risk measures also known as Expected Shortfall). Our Fully Managed, Socially Responsible and Smart Alpha portfolios are monitored against these constraints daily. The investment team may hold assets outside of these ranges, subject to market conditions or where permission is granted by the Company's Compliance and Risk Committee.

## **8.3. Fixed Allocation portfolios**

Fixed allocation portfolios are not actively managed. However, to ensure that the risk of these portfolios stays within acceptable ranges, every portfolio is tested on a weekly basis to assess whether the weights of the holdings have drifted too far from their starting weights. If this is the case, the portfolio is automatically rebalanced back to the starting fixed weights.

## **8.4. Smart Alpha portfolios**

The Investment objective for each of the Smart Alpha portfolios, and the long term expected nature of its holdings can be found in your suitability report. Smart Alpha portfolios are managed in accordance with an internal risk management framework that governs the acceptable asset class, long term volatility and tail risk exposures for a given portfolio (using comparative conditional value at risk measures also known as Expected Shortfall). Our Smart Alpha portfolios are monitored against these constraints daily. The investment team may hold assets outside of these ranges, subject to market conditions or where permission is granted by the Company's Compliance and Risk Committee.

## 9

# Asset Allocation

### 9.1.

We have a core investment and asset allocation process. We regularly monitor portfolios to ensure they behave within an acceptable range of returns and reference Nutmeg performance against comparative benchmarks. Customer performance can differ from the average return for a chosen risk level due to size of customer portfolio, movements of cash in or out and customers changing their risk level.

## 10

# Average Competitor Returns

### 10.1.

Portfolios are monitored against average competitor returns derived from data based on monthly results published by Asset Risk Consultants (ARC) and Macrobond AB. The average returns from discretionary investment managers based on risk profile are computed after fees.

### 10.2. Fully Managed portfolios

#### Average competitor returns

This data is based on monthly results published by Asset Risk Consultants (ARC). ARC compute the average returns from discretionary investment managers based on risk profile, after fees. These include results from firms such as Barclays Wealth & Investment Management, Coutts & Co, JP Morgan Private Bank, UBS, Rathbones, Rothschild Wealth Management, and others. For example, the Sterling Balanced Asset Private Client Index (PCI) is a group of portfolios managed with equity risk aimed at between 40%-60% of volatility of global stock markets. For Nutmeg risk levels 3-4 the Sterling Cautious index (0-40% Equity Risk) is used, for 5-6 the Sterling Balanced Asset index (40%-60% Equity Risk), for 7-8 the Sterling Steady Growth index (60%-80% Equity Risk), and for 9-10 the Sterling Equity Risk Index (80%-120% Equity Risk). ARC do not provide data for portfolios equivalent to Nutmeg risk levels 1-2. Source data: Macrobond AB.

### **10.3. Fixed Allocation portfolios**

#### Average competitor returns

This data is based on monthly results published by Asset Risk Consultants (ARC). ARC compute the average returns from discretionary investment managers based on risk profile, after fees. These include results from firms such as Barclays Wealth & Investment Management, Coutts & Co, JP Morgan Private Bank, UBS, Rathbones, Rothschild Wealth Management, and others. For example, the Sterling Balanced Asset Private Client Index (PCI) is a group of portfolios managed with equity risk aimed at between 40%-60% of volatility of global stock markets. For Nutmeg Fixed Allocation Portfolio 2, the Sterling Cautious index (0-40% Equity Risk) is used, for Portfolio 3, the Sterling Balanced Asset index (40%-60% Equity Risk), for Portfolio 4, the Sterling Steady Growth index (60%-80% Equity Risk), and for Portfolio 5, the Sterling Equity Risk Index (80%-120% Equity Risk). ARC do not provide data for portfolios equivalent to Nutmeg Fully Managed Portfolio 1. Source data: Macrobond AB.

### **10.4. Socially Responsible Investing (SRI) portfolios**

#### Average competitor returns

This data is based on monthly results published by Asset Risk Consultants (ARC). ARC compute the average returns from discretionary investment managers based on risk profile, after fees. These include results from firms such as Barclays Wealth & Investment Management, Coutts & Co, JP Morgan Private Bank, UBS, Rathbones, Rothschild Wealth Management, and others. For example, the Sterling Balanced Asset Private Client Index (PCI) is a group of portfolios managed with equity risk aimed at between 40%-60% of volatility of global stock markets. For Socially Responsible Investment (SRI) Portfolio risk levels 3-4 the Sterling Cautious index (0-40% Equity Risk) is used, for SRI 5-6 the Sterling Balanced Asset index (40%-60% Equity Risk), for SRI 7-8 the Sterling Steady Growth index (60%-80% Equity Risk), and for SRI 9-10 the Sterling Equity Risk Index (80%-120% Equity Risk). ARC do not provide data for portfolios equivalent to SRI risk levels 1-2. Source data: Macrobond AB.

### **10.5. Smart Alpha portfolios**

#### Average competitor returns

This data is based on monthly results published by Asset Risk Consultants (ARC). ARC compute the average returns from discretionary investment managers based on risk profile, after fees. These include results from firms such as Barclays Wealth & Investment Management, Coutts & Co, JP Morgan Private Bank, UBS, Rathbones, Rothschild Wealth Management, and others. For example, the Sterling Balanced Asset Private Client Index (PCI) is a group of portfolios managed with equity risk aimed at between 40%-60% of volatility of global stock markets. For Nutmeg Smart Alpha Portfolio 2, the Sterling Cautious index (0-40% Equity Risk) is used, for Portfolio 3, the Sterling Balanced Asset index (40%-60% Equity Risk), for Portfolio 4, the Sterling Steady Growth index (60%-80% Equity Risk), and for Portfolio 5, the Sterling Equity Risk Index (80%-120% Equity Risk). ARC do not provide data for portfolios equivalent to Nutmeg Smart Alpha Portfolio 1. Source data: Macrobond AB.

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