Canaccord Genuity Wealth Management

Risk profile 6

This short guide provides an overview of your investment risk level and what you might expect, based on past performance.

Our objective over 10 years is to generate a total return equivalent to 80% of the equity benchmark.

You can accept a very high proportion of equity risk in pursuit of returns closer to the longer-term returns available from major equity markets. By the same token, at times of stress, the benchmark has generated losses slightly lower than those from major equity markets. You understand that the strategy is therefore likely to be heavily exposed to equities, which increases the risk of losses that may take some years to recover.

There are a number of ways that it is possible to create a similar client outcome (in terms of return, volatility‡ and drawdown‡). However, for our central process, we adopt the following approach:

The asset allocation of this strategy will fall within the following bands:		
Asset class	Minimum	Maximum
Fixed interest	5.0%	32.5%
Equities	65.0%	95.0%
Alternatives	0.0%	15.0%
Cash	0.0%	25.0%

Other variants of this risk profile may have differing asset allocation bands, although the overall intended outcome should be broadly the same.

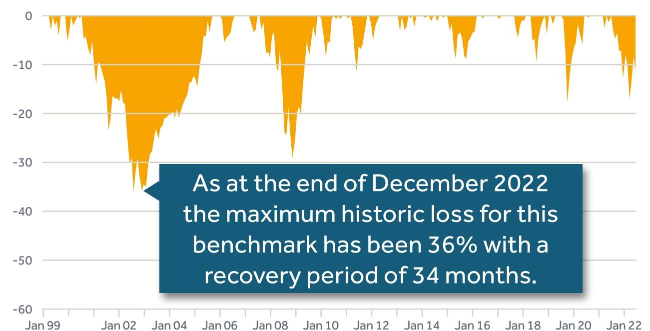
For illustrative purposes, we have created a risk profile 6 composite benchmark index to show its performance, drawdown‡ and volatility‡ since the end of 1998. The benchmark portfolio is made up of 80% equities, 17.5% fixed income assets‡, and 2.5% cash.

Perfectly tracking this index from 30 November 1998 to 31 December 2022 would have turned £100 into £397, the equivalent of a 5.92% compound annual growth rate‡.

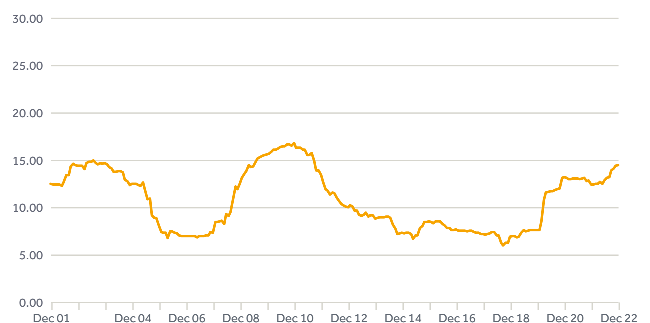
Over the last 10 years the compound growth rate is 7.31%.

Performance rebased to 100

Drawdown‡ %

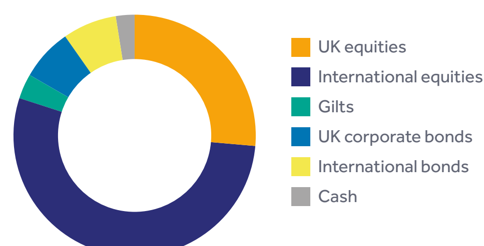


3-year annualised volatility‡ %



Volatility‡	
Minimum 3-year rolling volatility‡	6.00
Maximum 3-year rolling volatility‡	16.90
Last reading as at 31 December 2022	14.60

Benchmark allocation



‡See Glossary overleaf for more detail.

Source: Bloomberg and CGWM.

Past performance is simulated, although using actual data with no assumptions made. Past performance is not a reliable indicator of future returns.

‡Glossary

Compound annual growth rate: A compound annual growth rate (CAGR) represents the rate at which your investment would grow if it had a steady rate of growth i.e. it is an average annual growth rate to show you smoothed annualised returns. For example, an investment may increase in value by 8% in one year, decrease in value by 2% the following year and increase in value by 5% in the next. With this inconsistent annual growth, a CAGR of 3.6% may be used to give a broader picture of an investment's progress.

***Fixed income assets*:** When referring to fixed income assets we mean any type of investment in which real return rates or income are received at regular intervals and at reasonably predictable levels. The most common examples are bonds issued by governments and major corporations. UK government bonds are known as gilts.

Smaller companies: When we talk about investing in small or smaller companies, we mean companies listed on AIM or those with a market capitalisation of less than £2bn, which are not within the FTSE 100. The companies listed on AIM can have market capitalisations above £2bn. In addition, we mean equivalent companies listed outside the UK, although size thresholds may differ from jurisdiction to jurisdiction.

Drawdown helps determine an investment's financial risk. A drawdown from an investment's high to its low is considered its 'drawdown amount'. It is usually recorded during a specific period and quoted as the percentage between the peak and the subsequent trough.

Drawdowns present a significant risk to investors when considering the uptick in investment value/price needed to overcome a drawdown. The greater the loss, the more needed to recover. For example, it may not seem like much if an investment loses 1%, as it only needs an increase of 1.01% to recover to its previously held position. However, a drawdown of 20% requires a 25% return, while a 50% drawdown – seen during the 2008 to 2009 Great Recession – requires a whopping 100% increase to recover the same position.

The ***maximum historic loss*** is the maximum loss from peak to trough in an investment's history.

Annualised volatility is a measure of how much the price or return of an investment fluctuates over a certain period. High volatility means the value of an investment is likely to change dramatically over a short time frame, while low volatility indicates an investment's value will be relatively stable.

***Volatility*:** Volatility is a measure of how far a range of values moves from its average value over a set period of time. We show a three-year period to calculate this since we believe this represents the most appropriate time scale over which to capture the characteristics of the indices used in this document. We use a rolling measure, calculated on a monthly basis, which means we use the previous 36 months of data at any given point in time. The greater the range of returns, the higher the volatility and thus the higher the potential risk of the strategy.

Important information

Investment involves risk. The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. The investments described in this document may not be suitable for all investors. Investors should make their own investment decisions based upon their own financial objectives and financial resources and, if in any doubt, should seek advice from an investment adviser.

Specific risks of the IHT Portfolio Service investing in AIM-listed companies include the potential volatility and illiquidity associated with smaller capitalisation companies. There may be a wide spread between buying and selling prices for AIM-listed shares. If you have to sell these shares immediately you may not get back the full amount invested, due to the wide spread. AIM rules are less demanding than those of the official list of the London Stock Exchange, and companies listed on AIM carry a greater risk than a company with a full listing.

Inheritance tax rates and Business Relief rules are subject to change. In addition, you must be prepared to hold your shares in AIM-listed companies for a minimum of two years or these assets will be considered part of your estate in the IHT calculation.

Smaller company shares can be more volatile than those of larger companies because a small change in the financial performance can have a bigger impact on the company's value. These companies also tend to have less resources to overcome financial difficulties.

Sometimes it can be difficult to buy and sell large volumes of these shares at the market price. Although smaller company shares can be traded on a regulated market, it is common for them to be traded on a less regulated market, or a 'multilateral trading facility', such as London's Alternative Investment Market (AIM). Companies whose shares trade on these markets are subject to less regulation than those on regulated markets.

This document is for information only and is not to be construed as a solicitation or an offer to purchase or sell investments or related financial instruments. This has no regard for the specific investment objectives, financial situation or needs of any specific investor.

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