



Managing your investments



BROWN SHIPLEY
Private Banking

www.brownshipley.com

LONDON | MANCHESTER | LEEDS | BIRMINGHAM | EDINBURGH



Introduction

Brown Shipley's investment service is designed exclusively to help create and preserve wealth. This guide explains how we work, and some of the important decisions you will need to make to help us manage your investments.

Brown Shipley has been in business since 1810. In London we've been at Lothbury, adjacent to The Bank of England, since 1863.

We have come a long way from our beginnings as a trade finance house, financing merchant ships carrying cotton, linen and tobacco across the Atlantic.

In those early years, Brown Shipley was a pioneer of Letters of Credit. And that is the key to understanding the relevance of this long heritage. Because using Letters of Credit in lieu of hard cash relied on absolute trust. At a time when banks were scarcely regulated, reputation was everything. And Brown Shipley's was second to none. Such was our standing in the financial community that on two occasions in the bank's

history, a Brown Shipley Director went on to become Governor of the Bank of England.

Today we are proud to have carried that reputation through 200 years. The established values are still there. Though now they are partnered with a modern vision of global intelligence, investment expertise and technical excellence. Currently the bank manages funds totalling more than £2.5 billion.

As a UK authorised bank and part of KBL's European network of private banks, we have strong foundations and a depth of resource, as well as Europe-wide representation. Together they underpin the modern wealth management and private banking business of Brown Shipley throughout the UK.

The Brown Shipley Investment Service

Brown Shipley's investment service isn't just about where to invest your money. It's also about your investment preferences, your immediate and longer-term objectives, and your appetite for risk.

Investment is all about 'intelligence'. At its heart is the data gathering, charting and analysing that forms the basis for investment decision-making. The range of inputs is wide and includes a constant flow of market data and information from companies, asset managers, analysts and brokers across the UK, and the major financial centres around the world.

However, at Brown Shipley the investment process starts long before we enter the research department or investment dealing room. It starts with the client.

Understanding your needs

The first meeting with your investment manager is all about getting to know you, and you getting to know how we work on your behalf. There are forms to complete, including a detailed Client Profile Form and Investment Management Application Form. These documents are the key to us getting the necessary information about you so that we can properly assess and document the kind of investment strategy that will fit your needs.

Portfolio for spouses

Where you have more than one portfolio or where we act for you and your spouse you can have your portfolios managed as if they constitute a single portfolio. This can only be achieved where the appetite for risk and investment objective is the same for both parties. The benefit comes



Examples of information we need

- Your dependants
- Your income and current assets (including current investments)
- The source of your investment capital and your objectives for it
- Any investment preferences you have
- Whether income is a priority or not
- Whether you have capital commitments like school fees or imminent retirement coming up that we need to take account of
- A measure of your investment experience and appetite for risk

from the potential for enhanced diversification, utilisation of tax allowances and possibly reduced paperwork.

Investment objectives

Only you can decide on your investment objectives. At its simplest it can be a choice between income and capital growth. But it is likely that you will have more complex needs.

And you will need to make an honest assessment of your dependence on either the capital or the income from your investments. What would be the effect on your lifestyle if there was a material adverse fall in either?

Consider, for example, you may need access to capital, or you may want to build up your capital; or it may be simply that you need capital growth to counter the effects of inflation on your hard-earned wealth. If you are investing as an individual, it is also likely that your objectives will be quite different from those of a pension fund, a trust or a charity.

That's why we need to know as much as possible about your objectives. Of course, they must be realistic and naturally we will be straightforward with you. If you have little appetite for risk, but high expectations of returns, we will point out the mismatch. To achieve an ambitious goal, you may need to accept the potential pitfalls of a greater level of risk, or scale back your expectations.

Time Horizon

Your time horizon is another consideration. If you are likely to need to cash in your investments within a certain timeframe, this can influence the choice of investments that are suitable for you. Those with major peaks and troughs are less likely to be appropriate than those with a steady performance, as would be investments with a limited market. No-one would want to be cashing in at the bottom of a trough, or be unable to realise investments when they most need to. Rather, a planned approach where there is more certainty of outcome.

Understanding appetite for risk

This is probably the most important assessment that we need to make, and certainly the most difficult. Indeed, because there is risk in everything even defining how you measure it isn't easy. For us, what is most important is that we understand how much appetite you have for it.

In rising markets people can overestimate their appetite for risk, and vice versa.

To help you judge how you feel, we will advise you to consider the consequences of adverse market movements, sudden falls in value or even loss of income. We will discuss this with you in detail, but you may find it helpful to think about the following:

- By how much would your investments have to fall for you to feel concerned?
- Could you afford the loss of a proportion of your investment or the income derived from it?
- Should you be exposing some of your investment to less risk and less growth potential because it will be part of your retirement fund?
- Have you factored in the risk of not investing, and the effect inflation will have on your capital?
- To spread your risk, how do you feel about diversifying across different asset classes, or different markets or territories?

Questions like these help to focus the mind of even the most sanguine investor. And they shouldn't be considered lightly. This isn't an exhaustive list. We will discuss the risks specific to your circumstances with you to help you understand your appetite for risk.

Even at this stage we will be assessing and documenting how your appetite for risk translates into a practical investment profile in a range that runs from 'cautious' at one extreme through to 'dynamic' at the other.

Volatility

Volatility is another aspect of risk. It is a reminder of the age-old warning that investments can go down as well as up in value. Of course they not only can, they do. Which is why investment timing and time horizons are so important – when to buy, and when to sell. This is where the experience and expertise of professional investment managers is so crucial.

For the longer-term ‘growth’ investor with up to a 10-year horizon, the ups and downs of an investment portfolio in the short-term may be less important because the longer term trend is what is critical. By contrast, the ‘cautious’ investor will tend to keep clear of investments whose value has a greater propensity to fluctuate because they need more predictability.

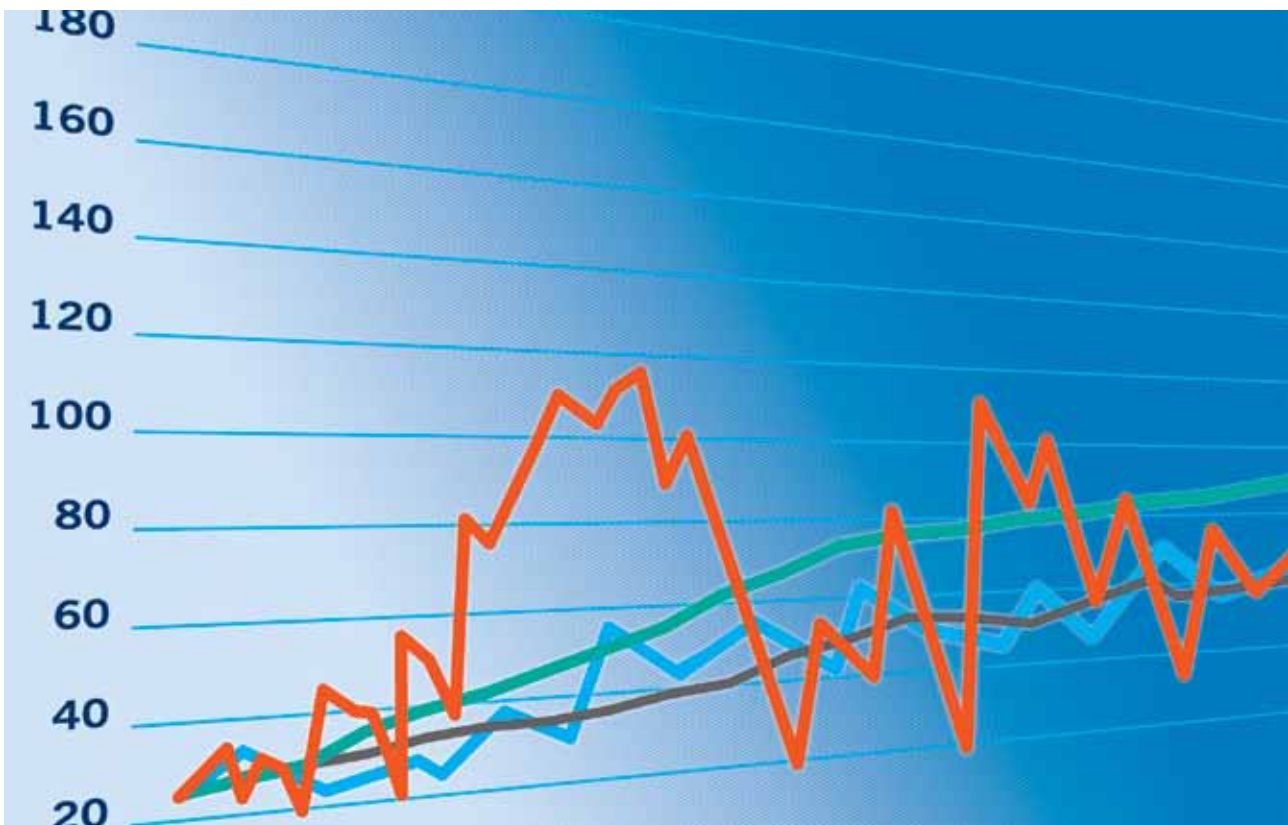
The Investment Process

While your investment manager’s first job is to ensure a proper understanding of your needs, our next responsibility is to translate this into a fully-fledged wealth management plan.

We go through an assessment of your investment preferences, personal circumstances, short and longer term objectives, and your appetite for taking risk. Once complete we will help you to select the investment option that is most suitable for you. We call these Investment Mandates (see pages 8/9).

The Investment Mandate enables us to create a portfolio tailored to your objectives, taking account of everything we have learned about you, your aspirations and your appetite for risk.

Indicative volatility



This chart illustrates the concept of volatility over time. It is not based on actual figures.

We will select the optimum mix of investments (asset classes and stocks). These will form a wholly bespoke portfolio.

Once the mandate has been agreed and the application process, including ID checks has been completed, we can open your account. When you finally transfer the investment monies (or assets), you will be able to do so in complete confidence that your investments will be managed in line with everything that has been agreed

Keeping up to date

We need to keep the information you have given us completely up to date. It is therefore important that you tell us of any changes in circumstances that might affect your investment choices, particularly in relation to your financial circumstances, your appetite for risk, time horizon or income/capital priorities.

Investment Research

At Brown Shipley, the Investment Policy Committee (IPC) oversees everything from asset allocation models to the approval of individual stocks and bonds. The IPC provides a focus for all incoming economic data, research and analysis so that the bank's investment recommendations have a sound and consistent underpinning.

This does not mean that the Committee takes individual investment decisions. Far from it. Like the asset allocations that form the basis for a portfolio, the constituent parts and individual stock selections within a portfolio are put together by the investment manager who is also your main contact. Under the guidance of the IPC, the investment manager's role is to translate your objectives and risk appetite into a coherent portfolio following the recommendations of the IPC.

Investment Administration

Comprehensive client accounting, documentation and portfolio valuations are an integral part of the service. A facility for online information, valuations and downloads is also available.

Brown Shipley works closely with many professional partners and advisers in managing clients' investments. We are confident that any advice we give will be consistent with your overall financial strategy.



The investment universe

Portfolios are constructed using a range of different investment types or asset classes, each with its own risk/reward potential. Here's a brief guide to the principal investment options.



- **Equities**
- **Fixed interest**
 - **Government Bonds**
 - **Corporate Bonds**
- **Alternatives**
 - **Property Funds**
 - **Commodity Funds**
 - **Hedge Funds**
 - **Structured Products**
- **Cash**

Equities

Equities are shares in companies listed on a recognised and/or regulated stock exchange eg. London, New York, Tokyo, Hong Kong. Emerging markets are less developed economies (e.g. Latin America).

- Can be bought in the secondary market via a stock exchange or through an Initial Placing Offer (IPO).
- Returns can come from a rise in the share price (capital growth) as well as dividends paid (income).
- Shares form the base of a company's capital structure ie. the highest risk.

Fixed Interest

Bonds are investments in the debt of either companies or countries as issued by Governments.

- The expected return is from interest payments (known as the coupons), and the return of capital at the end of a fixed term.
- Bonds can be traded on a secondary market but there is no formal exchange as there is for company shares.
- Prices are influenced by interest rates and inflation rates.
- Bonds are regarded as less risky than shares because they rank higher up the capital structure.

Cash

Putting your money on deposit or in a money market account gives liquidity to a portfolio.

- Returns are relative to prevailing interest rates.
- Cash is regarded as a low risk asset.

Alternatives

This expression is used to describe a very wide range of investments, which may be selected because of the desire for diversification. We usually limit the range to the following:

- **Structured Products** – these are investments in products where there is a defined risk and return over a fixed number of years.
- **Hedge Funds** – as pooled investments, Hedge Funds utilise a wide range of opportunities including the principle of selling ‘short’, that is selling an asset they don’t already own. They will also use leverage to enhance returns. Hedge funds are less easily traded than other types of investment.
- **Commodities** – investments in energy, industrial & precious metals and agricultural commodities. Exposure can be via physical commodities or futures.
- **Property** – we use collective investment funds to invest in commercial property. Property is relatively illiquid – it takes a long time to buy and sell a building.

Alternatives can be used in a portfolio for diversification and because these assets have different correlations to other more normal investment assets and therefore may enhance the risk / return behaviour of portfolios by their inclusion. Usually Brown Shipley uses collectives for investment in Hedge Funds, Commodities and Property.

Collectives

Collective investment schemes are vehicles that enable a number of investors to ‘pool’ their assets.

- Collectives can provide an opportunity to access more specialist markets or assets, eg. Emerging Markets.
- Collectives enable investors to spread the risk.

Indices for performance comparison

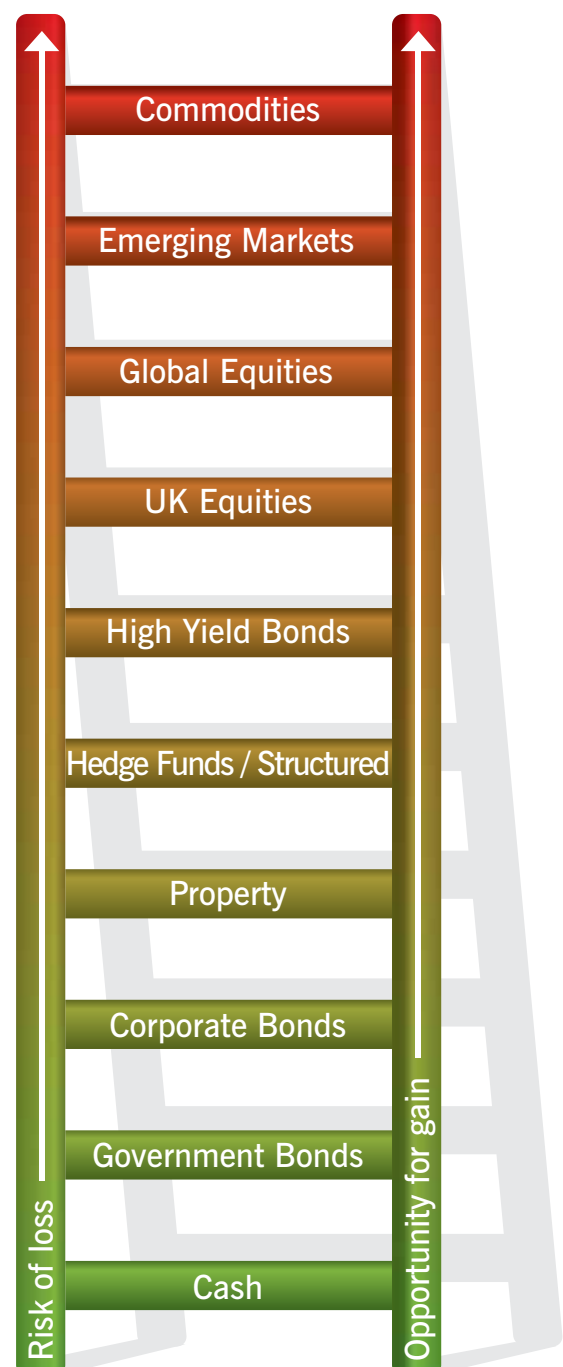
The primary measure of performance for any portfolio is how closely it meets the objectives of the client. However, it may be useful sometimes

to judge the relative performance of a portfolio against an industry standard index. The indices that most closely compare with each of our Investment Mandates include:

- FTSE UK Government All Stocks Index
- APCIMS Income, Balanced or Growth Indices
- FTSE World Index

Risk v Reward

Here is a guide to the relative positions of different investments on the risk/reward scale.



Investment Mandates

Our five Investment Mandates are designed to meet the objectives of a range of different investors. Each Mandate is built around a combination of investment objectives and risk appetite.

The overall structure of your portfolio (the asset allocation) will be governed by your selected Investment Mandate, coupled with your personal objectives and appetite for risk. As a result, your portfolio will be wholly bespoke.

Although we use some generic terms in describing the asset classes, the actual investments contained in your portfolio will reflect your requirements. Exposure to each asset class may be achieved either directly or via collectives.

We will help you to select the Investment Mandate which is most suitable given the information you have provided to us and the discussions we have had.

Please note that the risk to capital increases through each of the mandates, as does the potential for capital appreciation over the investment time horizon.

INDICATIVE ASSET ALLOCATION RANGES (%)

Your portfolio will be made up of a combination of Asset Classes, via direct or collective investments.

| EQUITIES | ALTERNATIVES |
|--------------|--------------|
| FIXED INCOME | CASH |

In the event that your portfolio moves outside of the specified asset allocation for your chosen mandate, subject to prevailing market conditions, capital gains tax considerations, or instructions from you to the contrary, the portfolio will be adjusted. The timing of this adjustment will be decided by your Investment Manager.

1 Cautious

| MIN | MAX |
|-----|-----|
| 15 | 35 |
| 50 | 75 |
| 0 | 10 |
| 0 | 20 |

Returns from a Cautious portfolio will be sought primarily by way of income, with limited opportunities for capital growth. There is a **lower risk** to the capital over the investment time horizon, with the potential for higher returns but higher risk than cash deposits. There is the possibility that the portfolio will be subject to small fluctuations in capital value in the short term, but over the medium to long term capital values are unlikely to fall substantially. The potential for capital growth is limited and inflation could impact upon the real return.

The portfolio will have a substantial exposure to fixed income investments. In addition, the portfolio will include some equity exposure (UK and international) to provide the potential for long term capital and income growth. There may also be a small exposure to alternative assets and cash.

2 Income

| MIN | MAX |
|-----|-----|
| 35 | 55 |
| 25 | 50 |
| 0 | 25 |
| 0 | 20 |

Returns from an Income portfolio will be sought primarily from income, but there will be some potential for capital growth. There is a **below medium risk** to capital over the investment time horizon, with fluctuations in capital value more likely in comparison to a “Cautious” portfolio.

The portfolio will mainly consist of both equity (UK and international) and fixed income exposure. There may also be exposure to alternative assets and cash. In order to maintain the spending power of the investments in real terms, the portfolio may contain higher exposure to equities and a lower exposure to fixed income than for a “Cautious” portfolio.

3 Balanced

| MIN | MAX |
|-----|-----|
| 50 | 70 |
| 10 | 35 |
| 0 | 25 |
| 0 | 20 |

Returns from a Balanced portfolio will be sought by way of a combination of capital appreciation and income. There is a **medium risk** to capital, exceeding that for an “Income” portfolio, but

with increased opportunities for above inflation returns over the investment time horizon. There is a possibility that the investments will display larger and/or more frequent fluctuations in capital value in comparison with an “Income” portfolio over the investment time horizon.

The portfolio will be biased towards equities (UK and international), with a lesser degree of fixed income exposure when compared to an “Income” portfolio. There may also be exposure to alternative assets and cash.

4 Growth

| MIN | MAX |
|-----|-----|
| 65 | 85 |
| 0 | 25 |
| 0 | 25 |
| 0 | 20 |

Returns from a Growth portfolio will be sought primarily by way of capital appreciation. There is an **above medium risk** to capital, but with the potential for a corresponding improvement

in capital growth over the investment time horizon, when compared to a “Balanced” portfolio. There is a possibility of larger, and/or more frequent fluctuations in the capital value over the investment time horizon compared with a “Balanced” portfolio. Consequently there is a possibility that a significant proportion of

the portfolio could be subject to a substantial decline in capital value.

The portfolio will be invested primarily in equities (UK and international) and may include limited exposure to fixed income investments, alternative assets and cash.

5 Dynamic

| MIN | MAX |
|-----|-----|
| 75 | 95 |
| 0 | 15 |
| 0 | 25 |
| 0 | 20 |

The Dynamic portfolio seeks to obtain high rates of return over the investment time horizon, primarily by way of capital appreciation. There is a corresponding **higher risk** to capital when compared to

all other mandates. There is a greater likelihood of larger and/or more frequent fluctuations in the capital value over the investment time horizon compared to the preceding Investment Mandates. Consequently there is a possibility that a large proportion of the portfolio could be subject to a substantial decline in capital value.

The portfolio will be invested primarily in equities (UK and international) and may include limited exposure to fixed income investments and alternative assets which offer growth potential. Cash may also be held within this portfolio.

Investment Policy Statement

Where a client’s investment priorities or preferences do not match any of the above profiles, we will document a specific Investment Policy Statement which outlines all the key elements – objectives, appetite for risk, time horizon, asset allocation etc - so that it can be managed in exactly the same way as the above Mandates.

Investment Mandate Options

| MANDATE | INVESTMENT OBJECTIVE | RISK <small>The risk you are willing to accept to achieve your investment objective.</small> |
|-----------------------------|--|---|
| 5 DYNAMIC | Seeking potential for greater capital growth | HIGHER RISK |
| 4 GROWTH | Seeking capital growth | ABOVE MEDIUM RISK |
| 3 BALANCED | Balanced return from income and growth-seeking above inflation returns | MEDIUM RISK |
| 2 INCOME | Income-seeking modest capital growth | BELOW MEDIUM RISK |
| 1 CAUTIOUS | Income-seeking improved returns to cash deposits | LOWER RISK |



INCREASING RISK OF CAPITAL LOSS

KEY:



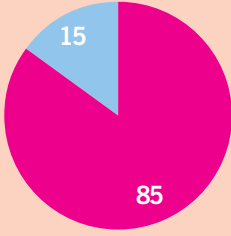
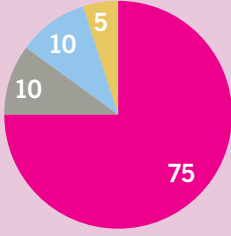
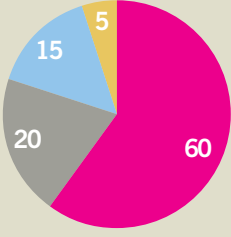
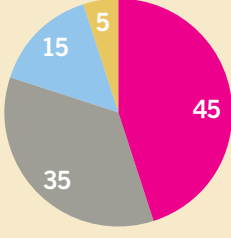
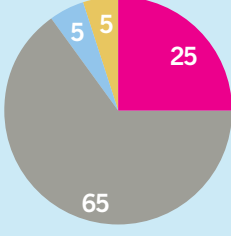
This chart should be read in conjunction with the detailed explanations on pages 8-9.

INDICATIVE ASSET ALLOCATIONS

TIME HORIZON
The minimum period you need to commit your capital

PERFORMANCE COMPARISON

INCREASING OPPORTUNITY FOR CAPITAL GROWTH

| | | |
|---|---|---|
|  | <p>LONG TERM > 10 YEARS</p> | <p>FTSE World Index</p> |
|  | <p>MEDIUM TO LONG > 7 YEARS</p> | <p>APCIMS Growth</p> |
|  | <p>MEDIUM TERM > 5 YEARS</p> | <p>APCIMS Balanced</p> |
|  | <p>MEDIUM TERM > 5 YEARS</p> | <p>APCIMS Income</p> |
|  | <p>SHORT TERM > 3 YEARS</p> | <p>FTSE UK Govt All Stocks</p> |

Your Service Options

Brown Shipley offers its investment services in one of three ways. We will manage an individual portfolio on either a Discretionary basis or a Managed Advisory basis. Alternatively, we offer a range of collective investments, known as Brown Shipley Funds.

Typically, a Discretionary or Managed Advisory portfolio will consist of investments of £250,000 or more. Brown Shipley Funds are designed to provide managed growth or income opportunities on a collective basis for smaller portfolios, or to access specific investment opportunities.

We will help you to select the service level that is most appropriate for you. The two main options are as follows:

Discretionary management – this involves the investment manager in taking care of every aspect of the portfolio from initial asset allocations and stock selections through to all trading decisions in response to market movements and events. This service is most appropriate for those who do not want to manage their investments on a daily basis

The Managed Advisory service differs only in that each recommendation is referred back to the client before it is executed. This service is most appropriate where you would like to be involved in the day to day management of your investments.

Nominee services

All Brown Shipley investments are held by our approved Nominee company or Custodian, in strict accordance with FSA rules. This does not alter your status as legal owner. The purpose is to facilitate prompt settlement and smooth administration for all our investment clients.

The nominee service means all transactions can take place without delay because all paperwork including certificates are kept together in one place; we collect all dividend entitlements on your behalf, and prepare consolidated tax vouchers and, where appropriate, CGT reports for you. We will also receive all communication from the companies in which you are invested and thus be fully informed about corporate changes that might affect the investment.

Valuations and administration

Our systems enable us to monitor closely the performance of your investments and provide detailed information on a regular basis. Contract notes are issued promptly for every transaction. We provide quarterly or six-monthly valuations and are also able to prepare the information needed for annual tax returns. Clients can view their portfolios at any time through our secure online facility - BS OnLine.

Review meetings provide a formal venue for a detailed assessment of each client's portfolio, its performance and any changes in circumstances which might affect future investments.

Fees

Full details of our charges will be provided and agreed with you in advance. There is a choice of two annual charging methods applicable to managed portfolios:

Fee-only tariff

- This is generally levied quarterly and is based on a charge on the portfolio valuation at the due date. The percentage charged is on a reducing scale for larger portfolios.

Fee and Commission tariff

- This is generally levied on a semi-annual basis and includes a lower annual management charge on the portfolio. Commission is levied on individual transactions.

Investment wrappers

Brown Shipley can manage your wealth whether held in a personal portfolio or when investments are held within a 'wrapper' - often to help achieve tax advantages.

Perhaps the most commonly known investment-wrappers are Pension schemes and ISAs. But there are others too which may be appropriate to some clients' circumstances; these include Offshore investments, and AIM investments where there can be tax advantages.

Pension schemes provide significant tax benefits, with tax reliefs available on contributions to a scheme as well as on the gains made by the investments within the scheme. Naturally there are limits to what can be invested in this way, as well as restrictions on taking money out of the scheme.

An Offshore Bond (usually held in the Isle of Man or Dublin) can act as a tax-efficient wrapper for an individually managed portfolio of investments (including cash). It effectively creates a tax-free investment environment within which approved investments can be bought and sold without the constraints imposed by the presence of Income Tax and Capital Gains Tax (CGT).

Even the potential charge to income tax arising when you need to access funds can be mitigated with advance planning. Offshore Bonds are often used in conjunction with trust arrangements for inheritance tax planning.

AIM (the Alternative Investment Market) is the London Stock Exchange's market for smaller growing companies. A wide range of businesses including early stage, as well as more established companies join AIM seeking access to growth capital. The advantage to investors is that as well as the growth potential (albeit with higher risk than conventional equities), an investment can be structured to shelter it from certain taxes.

If you do require information and advice on the suitability of a wrapper for your personal circumstances, please contact your Private Client Manager. The advice given is a separate service to the investment management within a wrapper.

What next?

If you would like to know more about anything included in this guide, please contact your adviser. We are always ready to talk.

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The value of investments and any income from them may fluctuate and are not guaranteed. Investors may not get back the amount originally invested. Past performance is not a reliable indicator of future results. Currency fluctuations may cause the value of underlying investments to go up or down. Changes to interest rates can affect the value of high yielding bonds. The yield generated is subject to fluctuation and is not guaranteed. The value of any tax benefits will be dependent on individual circumstances and may be subject to change.

Investors should be aware that investment in companies listed on AIM carries a higher risk than equities on the main market of the London Stock Exchange.



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