Guide to the GHC Investor Appraisal

For professional business use only

Contents

Introduction

This document is designed to introduce and guide you through the use of the GHC 'Investor Appraisal' document, which is designed to help us asses your client's requirements.

Under the Financial Services and Markets Act 2000 (FSMA 2000) Financial Intermediaries are required to have proper regard for a client's best interests when giving advice. We use the Investor Appraisal as it brings client assessments in line with Treating the Customer Fairly (TCF) and FSMA, by ensuring there is a uniformity to approach in all client assessments. It also means that we can free up more of your time to do what you do best i.e. look after your clients.

GHC Capital Markets Limited is a group of Investment Managers and Stockbrokers. Being totally free from ownership from any other financial organisation means that we are able to make investment decisions without the influence of a larger parent company. Having no external influences allows us to ensure that every decision is made within a client's best interests.

We offer a comprehensive investment process and a range of focussed products and services that are designed to achieve investors and intermediaries goals alike. We provide a wide range of investment services including Discretionary and Advisory Portfolio Management, Stockbroking, ISA wrappers and much more.

Being totally independent from any other financial organisation means that we are able to make investment decisions without the bias of a larger parent company. Having no external influences allows us to ensure that every decision is made in a client's best interests.

We have become known for our progressive attitude towards portfolio and risk management and the key to our success is our ability to work professionally and in partnership with both investors and intermediaries.

Established in 1996, we are an expanding company, with our Head Office based in Leicester and a further office in Bath.

Investor Appraisal Process

GHC's principle investment strategy is to ensure that any portfolio is managed in line with a clients risk tolerances. This overrides any other mandate, as outperforming a benchmark may conflict with the risk a client is willing to accept, and we are conscious that some benchmarks are not as risk adverse as they may suggest. Based on this we prefer to sign up business based on a sophisticated investment appraisal process which links back into our macroeconomic forecasting, historical trends analysis and our risk weighting of various asset classes and investment styles.

The Investor appraisal results in an 'Investment Proposal' which we expect the financial intermediary to review with the client. This document illustrates the asset classes available to the client based on their attitude to risk, and will provide them with the current asset weightings based on our medium term macroeconomic view of the markets, interlinked with any strategic asset allocation adjustments that may be considered relevant for the current market conditions. This asset allocation model is monitored on an ongoing basis, and will be adjusted within the constraints applied to the portfolio model.

On the basis of our conclusion within this report a specific investment service will be recommended in line with an investment style which clearly matches a clients requirements.

We reproduce the 'Investment Proposal' on an annual basis with the current asset allocation and send this to the financial intermediary to review with their client. This allows us to reassess a client's risk tolerance on an ongoing basis and adjust the service they are in accordingly. However, at any time throughout the year the financial intermediary or the client may request a review.

About the Questionnaire

GHC's Investor Appraisal process provides client risk profiling, investment suitability, portfolio construction, and investment proposal generation for the professional intermediary market. It is appropriate for a range of investment services from bespoke asset allocation through model, multi-manager and product-based portfolios to stock level advisory and discretionary accounts.

The core system has been written in conjunction with leading private banks, combined with GHC's independent market and macroeconomic analysis., and is designed to ensure that any investment recommendation is in line with the clients current and future needs.

The questionnaire is designed to do two things. Firstly, to assess and profile the client, and secondly to act as a discussion document that illustrates to the client the impact between risk and return when investing.

In either case, the results are assessed by the profiling algorithm following the completion of the questionnaire.

Note that a separate questionnaire will require completion for separate investments, as a client will have differing attitudes, timescales and objectives for different investments i.e. Investments in an ISA as opposed to a SIPP. However, if the client views this as one investment, then we only need one appraisal.

It is important to understand that joint applications or investments on behalf of a group, such as a Trust, will require a consensus view and not that of one person unless they have been given such authority.

Client Profile

Information only has value if it can be acted upon to influence outcomes, and a questionnaire is no different.

The answers must be assessed in a consistent way, and conclusions drawn. An understanding of the detail is far more valuable than the output of a single average score.

The first assessment is whether the questionnaire has been answered in a consistent way with respect to risk, return, and downside. This is checked on a graphic display, and inconsistent answers analysed in the audit report. Very rapidly the user can check whether they need to clarify any responses.

The second assessment looks at the investable universe. For each of the asset and product classes and model portfolios offered, the results of the scoring algorithm's screening will be shown. Again this is a rapid check for the user that nothing has been excluded that should not have been and vice versa.

Once the profile has been checked, it can be reported back to the client using the Client Questionnaire Report, to illustrate understanding of their profile enabling a full circle of acceptance.

Investor Appraisal Sections

There are several sections in this document, which will require careful consideration by the client. Remember, the advice you give can only be as good as the information provided by your client, and this is also true for us, so please encourage the client to provide as much detail as possible.

Personal Details

This section is fairly standard to all fact finds, bit it may prove useful in assessing other things, such as if they have several dependants, but no life cover or a Will, what provisions should be made.

Occupation is important as it may give essential details as to the source of funds.

Financial Condition

This is an in depth look at the clients financial condition, and for some may appear a little intrusive, but it does help lead to some very important details such as. If the clients only source of income is through a salary, what protection do they have?

Not all clients will want to give you the detail, and as such they are likely only to give total amounts. This is fine, but there are key elements we must have answered or we will be unable to accept their investments.

These are key elements under Mifid 2007 and are:

- Disposable monthly income
- Emergency fund required
- Current emergency fund
- Initial Lump sum to be invested
- Income requirements
- Net asset position

Without these key elements we will not be able to process the Investor Appraisal, as these elements will affect the outcome of any proposal.

Existing Arrangements

It is important as the clients' financial planner that you ensure that the client has suitable protection and future planning. This may be the first meeting you have had with the client, and it is essential that you build a complete picture of any areas of risk they may have. If the client has no income protection plans it is important that you know why. Is this going to be covered by their investments, or do they simply not understand the importance of such cover?

Investment Knowledge and Experience

For some time it has been a requirement to determine a clients knowledge and experience in investments, and rightly so. There is no point recommending a complex investment structure to a client who will not understand it. This will only lead to confusion and ultimately a breakdown in the relationship no matter how outstanding the performance is. Remember, security is often as important as performance, and there is no point exposing a client to an investment structure which contains too much risk as these can equally underperform by as much as their outperformance.

Note that we also provide an 'Understanding Investment Risk & Portfolio Construction' brochure with every 'Investor Appraisal' which in itself should help your client with their understanding of what they are looking at. If you have not received one of these documents please contact us , and we will be happy to send one to you.

Investment Objectives

This section is the one that appears most daunting. However, the questions are not as difficult as they first appear, and are designed to draw out the client's true attitudes and objectives.

The questionnaire is used to establish clients' investment requirements, ascertain their portfolio preferences and identify how they would behave in various situations and in turn establish the level of risk they are prepared to accept.

Around two thirds of the questions are allocated a score. The scores feed through to the algorithm within GHC's Risk Management System and are used to calculate the level of risk the client is prepared to accept and thus allocate an appropriate GHC risk grade (see Investment Risk Grades on page 7 of this document for further details). They are also used to establish if there are inconsistencies in the way the client has answered the questions which may require investigation.

Some of the questions are very similar. This is intentional as they are used to establish if a client is answering in a consistent manner.

There are no right or wrong answers, in fact we want the client to draw out any inconsistencies in what they want. Only then can we resolve these issues to ensure we truly provide what the client wants, and subsequently develop a long lasting relationship based on trust.

There are some key questions in this section where the client may require some explanation. We have provided the following guidance for you to help the client through this, bur It is important to note that these are explanations and not recommendations on how the client should answer the question.

Question 3

The answer selected should be the base currency for the portfolio. GHC's Risk Management System overlays exchange rate volatility on any asset not in the base currency. For example, if the client's base currency is GBP, US equities risk is the risk of US equities market plus USD/GBP exchange rate volatility.

Question 6

This question identifies the level of income the client is looking to generate. Combined with the answers to other questions, the system will establish if the income requirement is realistic and achievable.

Question 7

Where income is a requirement, this question establishes the client's preferred source.

If the client only wants to take income generated by the portfolio, then this question is considered along with question 6 to establish if this is realistic.

Question 8

This question is used to establish if a client may need access to some, or all, of their portfolio in an emergency.

By selecting answer (E), this blocks out the higher risk portfolios.

The cash rate is variable, and is equal to the Bank of England bank Rate. This is the long term average return that can be expected from this asset class.

This question is used to establish the total return the client is looking to achieve over the long-term.

This question is used to establish if the level of return is realistic based on the level of risk the client is prepared to accept.

Questions 10 to 23

Questions 10 to 23 are scenario based questions.

They are designed to establish how a client would behave in various situations.

The numbers and performance of the illustrative portfolios in the questions are there to provide a choice on a relative basis, not to set out how the recommendation will perform.

Each answer carries a score between 1 and 5 and contributes towards establishing the level of risk a client is prepared to accept and the subsequent potential returns they might achieve.

Question 12

The response given to this question is very important, as it may result in certain risk grades being blocked.

For example, response E would suggest that the client is seeking a low risk and return portfolio and therefore portfolios from Risk Grade 4 to Risk Grade 8 will be blocked, as these would not be appropriate.

Question 13

A client who selects answer (A) is likely to be a cautious investor and the answer therefore carries a low score of 1.

A client who selects answer (C) is likely to have a balanced attitude towards investment risk and the answer therefore carries an average score of 3.

A client who selects answer (E) is likely to be an adventurous investor and the answer therefore carries a high score of 5.

Question 16

Portfolio (A) has low volatility, is likely to carry a heavy weighting in cash and fixed interest securities and only a small exposure to equities. This answer therefore carries the lowest score of 1.

Portfolio (C) is balanced and is likely to carry an average exposure to fixed interest securities, property and equities. This answer therefore carries an average score of 3.

Portfolio (E) is highly concentrated & volatile and likely to invest in a single share or equity based fund.

This answer therefore carries the highest score of 5.

Question 18

A client who selects answer (A) is likely to be a cautious investor and the answer therefore carries a low score of 1.

A client who selects answer (C) is likely to have a balanced attitude towards investment risk and the answer therefore carries an average score of 3.

A client who selects answer (E) is likely to be an adventurous investor and the answer therefore carries a high score of 5 .

Question 20

Portfolio (A) is highly concentrated and volatile and likely to invest in a single share or equity based fund.

This answer therefore carries the highest score of 5.

Portfolio (C) is balanced and is likely to carry an average exposure to fixed interest securities, property and equities. This answer therefore caries an average score of 3.

Portfolio (E) has low volatility, is likely to carry a heavy weighting in cash and fixed interest securities and only a small exposure to equities. This answer therefore carries the lowest score of 1.

Question 24

For the Discretionary Service, GHC make the portfolio investment decisions without referral to the client.

For the Advisory Managed Service, GHC will speak to the client before implementing any changes to their portfolio.

The Advisory Dealing Service is suitable for clients wishing to retain control of the investment decisions, but want the advice and support of a client executive as and when required. This is a passive service and in general we will wait for the client to contact GHC for investment advice.

The Managed and Optimised Portfolio Services are only available on a Discretionary Managed basis.

To complete an investment on an Advisory Managed basis, the investment must be for £200,000 or more.

Question 25
This question is used to establish if there is an asset class that the client does not want to include in their portfolio.

If the client does exclude an asset class and has less than £200,000 to invest, because the Managed and Optimised Portfolios are model based, then dependent on the restriction, either higher risk grades will be blocked or an investment into a model portfolio will not be possible.

If the Managed and Optimised portfolios are unavailable due to a restriction, then the Bespoke Portfolio will be utilised. However, there is a minimum investment amount of £200,000.

Question 26
This question is designed for the more sophisticated client who may wish to consider using derivatives in their portfolio.

The minimum investment amount to be able to utilise derivatives would usually be £200,000.

Question 27
This question is designed to establish if the client's investment priority is to maintain capital over the medium to long term or aim to out perform a benchmark.

Supplementary Information
This section allows you to highlight any standard variations that you may wish to use, and also enables us to double check that we are not making a recommendation out of line with the chosen tax wrapper or against the rules. This can be as simple as not recommending AIM stock for a Stocks & Shares ISA.

Indication of whether this is a Trust or Charity will allow us to pre plan for any client setup requirements, especially when it comes to Anti-Money Laundering and instructions.

Notes
Sometimes the questions are not enough, and you may feel that we need to be aware of other factors which may influence our investment decisions. We believe we have left enough space for you to express this, however, please do not be afraid to expand on this where necessary - *It is important that we are fully aware of any investment and financial requirements upfront.*

Other Professional Advisers
This section requires a signature from the client, not only to confirm that the information they have provided is correct, but also to acknowledge that they have received, read and understood the 'Understanding Investment Risk & Portfolio Construction' brochure, as this is integral to ensuring your client understands what they are asking for and how it may behave. If you or you client have not received this document, please contact us and we will ensure one is sent to you.

Declaration
This section requires a signature from the client, not only to confirm that the information they have provided is correct, but also to acknowledge that they have received, read and understood the 'Understanding Investment Risk & Portfolio Construction' brochure. As this is integral to ensuring your client understands what they are asking for and how it may behave. If you or you client have not received this document, please contact us and we will ensure one is sent to you.

Investment Risk Grades

The GHC system of investment risk grades is designed to enable both investors and intermediaries to select the most appropriate investment service based upon a client's attitude towards risk.

Risk Grade 1

For investors seeking investment returns similar to short term bank deposits. Investments will be limited to money market funds, other similar near cash funds and short dated investment grade fixed interest securities. This will limit the potential returns to the portfolio.

Risk Grade 2

For investors seeking investment returns moderately greater than short term bank deposits. Investments will be limited to money market funds, other similar near cash funds and investment grade fixed interest securities. This will limit the potential returns to the portfolio.

Risk Grade 3

For investors seeking greater investment returns and who are prepared to accept an element of volatility in order to enhance the portfolio's longer term income or growth potential. Investments may be in a variety of asset classes including equities. At least 50% of the portfolio will be invested in fixed interest securities or near cash funds and no more than 30% of the portfolio will be invested in equities. The balance of the portfolio may be invested in other asset classes.

Risk Grade 4

For investors who are prepared to accept a greater degree of volatility in order to enhance the portfolio's longer term income or growth potential. No more than 50% of the portfolio will be invested in equities and at least 25% of the portfolio will be invested in fixed interest securities or near cash funds. The balance of the portfolio may be invested in other asset classes.

Risk Grade 5

For investors who are prepared to accept an even greater degree of volatility in order to enhance the portfolio's longer term income and growth potential. No more than 75% of the portfolio will be invested in equities. The balance of the portfolio may be invested in other asset classes.

Risk Grade 6

For investors who are prepared to accept an even greater degree of volatility in order to enhance the portfolio's longer term income or growth potential. The entire portfolio may be invested in equities with no more than 50% in global equities.

Risk Grade 7

For investors who are prepared to accept an even greater degree of volatility in order to enhance the portfolio's longer term income or growth potential. The entire portfolio may be invested in equities with no more than 75% invested in global equities.

Risk Grade 8

For investors who are prepared to accept an even greater degree of volatility in order to enhance the portfolio's longer term income or growth potential. The entire portfolio may be invested in global equities.

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