Risk Categories

"Lessons from History"

April 2023

Introduction

This guide provides advisers and investors with illustrative information to help align expectations of the risks and rewards of investments with historic evidence.

It is important to realise that past performance does not provide any guarantee of future performance. However, it may be useful to understand how the different risk categories have performed in the past and how this relates to future expectations.

The document is designed to promote discussion between an adviser and their investor in order that objectives and expectations are reasonable, based on a historic reality check. The historic period used is from 1 January 1988 and therefore, covers a number of economic and stock markets cycles.

The following information provides a brief description of the elements used for each risk category.

Each category has been designed using a blend of equities in different regions, bonds and cash according to Margetts strategic allocations. The strategic weighting does not change and is designed to be appropriate to each category based on long term data. However, it does not mean that only this mix of assets is appropriate to each category. Active managers may alter the allocation in the short term in order to try and gain an added advantage. Providing risk controls are in place there is no reason why this would not also be appropriate, however it is the responsibility of the financial adviser to assess the suitability of any portfolio to an investor's risk profile.

Category Description
This section provides a descriptive summary of the risk category and the type of investor that is likely to be invested in line with this level of risk.

Discrete Annual Returns
Discrete annual returns show the level of performance that the risk category would have provided over each of the last five calender years.

Assets and Portfolio Construction
This section provides a list of some of the main assets that are likely to appear in a portfolio constructed in line with this risk category. In addition, a brief summary is provided of the maximum weightings in equities or type of assets that will mainly influence the risk category.

The list and summary is not exhaustive and should not be used as a guide to creating a portfolio. It is essential that portfolios are well constructed and diversified, which is outside of the scope of this guide.

Investment Growth
Investment growth illustrates how the value of £1000 would have changed over time had it been invested at the start of the period. Investors should look at the falls in value as well as the overall rate of growth.

Drawdown
The information on the left of the report provides the maximum amount that has been historically lost by this strategy, taking the highest point and the next lowest point. The data also provides the maximum number of months that losses were sustained, the maximum number of months that it has taken to recover from losses, the average drawdown and worst monthly return. You should note that this does not provide any guarantee regarding the maximum loss or the length of time that losses may be sustained.

The chart on the right shows the historic drawdown periods, graphically.

Distribution of Monthly Returns
The chart illustrates the distribution of monthly returns. The vertical axis shows the number of months that the level of return occurred and the horizontal axis shows the monthly return. The more concentrated the returns are around one point, the more predictable the returns have been in the past. If the chart has a wide spread then the return in any one month is likely to be unpredictable.

Risk-Reward

Time Period: 01/04/2013 to 31/03/2023
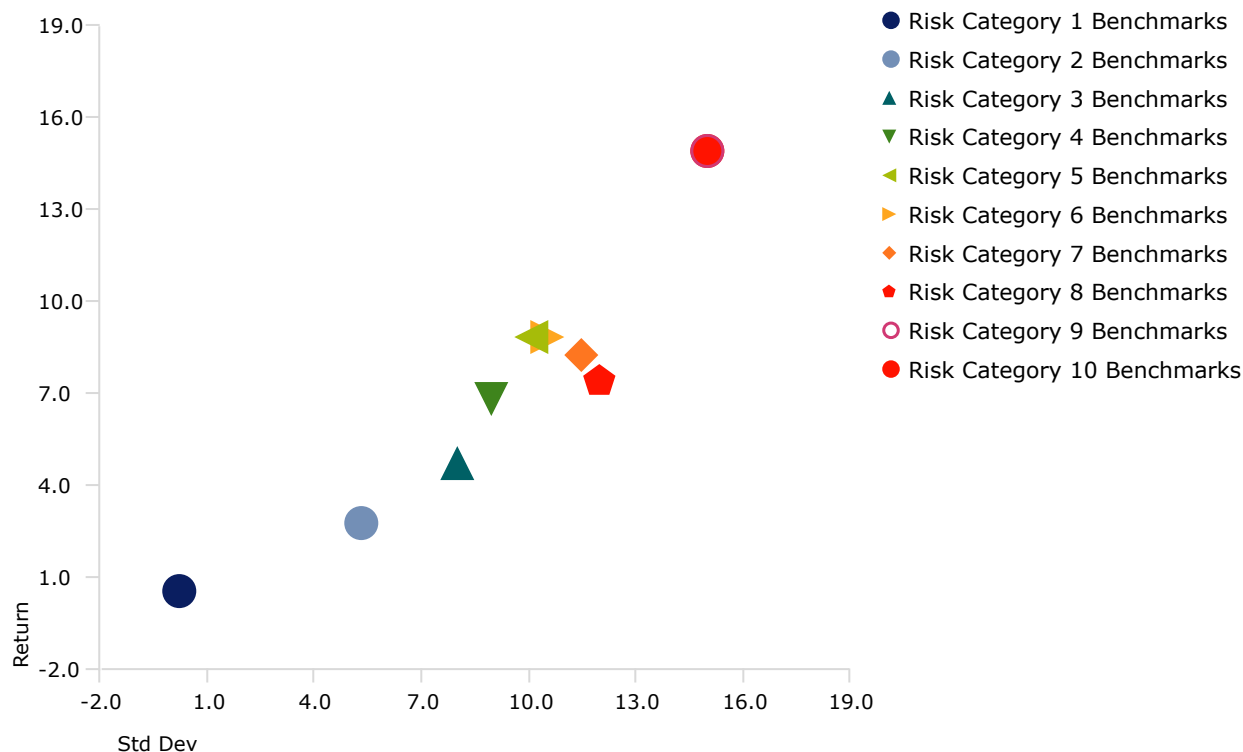
The value of investments can fall as well as rise. Past performance is no guarantee of future performance.

Risk Category 1

Very Little Capital Risk

Category Description

- Investors who are willing or able to take minimal risk with the capital of their portfolio

- Returns will be linked to central bank rates, which can be negative

- Volatility of returns will be very low and investors should not suffer any loss

- The real value of the portfolio may be eroded over time by inflation

- Counterparty risk must be assessed if the portfolio is held on deposit as in the event of a default by the counterparty, capital may be at risk

Discrete Annual Returns

As of Date: 31/03/2023

■ Risk Category 1 Benchmarks

Assets and Portfolio Construction

- Cash Deposits

- Money Market Funds

Investment Growth

Time Period: 31/08/1996 to 31/03/2023

■ Risk Category 1 Benchmarks   1,995.8

Drawdown - Risk Category 1 Benchmarks

Time Period: Since Common Inception (01/09/1996) to 31/03/2023

Max Drawdown	
Max Drawdown # of Periods	
Max Drawdown Recovery # of Periods	
Average Drawdown	0.00
Worst Month	0.00

Drawdown Explanation

The table above shows the maximum drawdown and how many months it lasted, as well as the maximum period to recover losses. In addition, the table shows the average drawdown and worst month. Drawdown is the losses experienced by an investor had they invested at the start of the period, which is shown in the table. The graph to the right illustrates the periods of loss and recovery through time.

Drawdown

Time Period: 01/09/1996 to 31/03/2023

■ Risk Category 1 Benchmarks

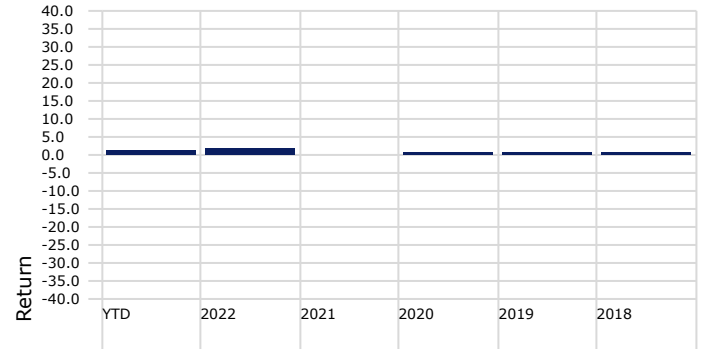## Distribution of Monthly Returns

The chart on the right illustrates the distribution of monthly returns. The vertical axis shows the number of months that have occurred and the horizontal axis shows the monthly return. The more concentrated the returns are around one point, the more predictable the returns have been in the past. If the chart has a wide spread then the return in any one month is likely to be unpredictable.

Return Distribution -

Time Period: 01/09/1996 to 31/03/2023

■ Risk Category 1 Benchmarks

Important Information

Past performance is based on the composition of indices detailed in the appendix.

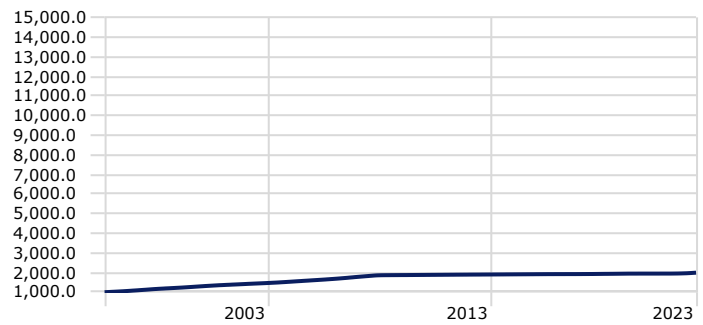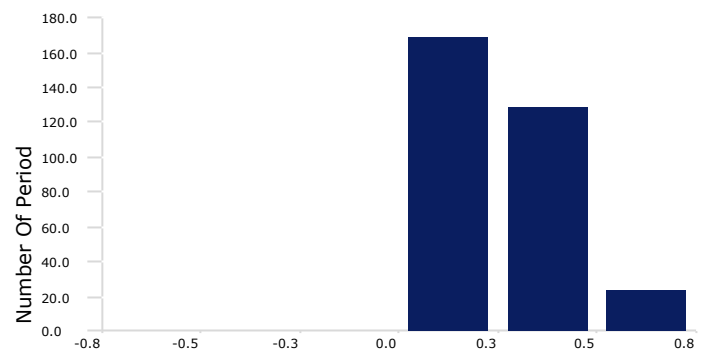The value of investments can fall as well as rise. Past performance is no guarantee of future performance.

Risk Category 2

Very Low Risk

Category Description

- Investors willing and able to take a very low level of risk in order to make additional gains

- Volatility of returns should be low with monthly deviations close to the average

- Short term losses may be experienced, however, they should be low (on average periods of losses have been c. 3% and typically less than 10%. Since 1988 there has been one occassion where losses have exceeded 10%, however, all losses have been recovered within a two year timescale)

- The real value of the portfolio should be preserved over time

Discrete Annual Returns

As of Date: 31/03/2023

■ Risk Category 2 Benchmarks

Assets and Portfolio Construction

- Government Bonds

- Short Dated High Credit Rated Corporate Bonds

- Possible exposure to large dividend paying companies on the UK stock market (less than c. 35%) within a highly diversified portfolio

Investment Growth

Time Period: 01/07/1988 to 31/03/2023

■ Risk Category 2 Benchmarks   10,101.7

Drawdown - Risk Category 2 Benchmarks

Time Period: Since Common Inception (01/02/1986) to 31/03/2023

Max Drawdown	-10.24
Max Drawdown # of Periods	16.00
Max Drawdown Recovery # of Periods	6.00
Average Drawdown	-3.12
Worst Month	-8.01

Drawdown Explanation

The table above shows the maximum drawdown and how many months it lasted, as well as the maximum period to recover losses. In addition, the table shows the average drawdown and worst month. Drawdown is the losses experienced by an investor had they invested at the start of the period, which is shown in the table. The graph to the right illustrates the periods of loss and recovery through time.

Drawdown

Time Period: 01/07/1988 to 31/03/2023

■ Risk Category 2 Benchmarks

Distribution of Monthly Returns

The chart on the right illustrates the distribution of monthly returns. The vertical axis shows the number of months that have occurred and the horizontal axis shows the monthly return. The more concentrated the returns are around one point, the more predictable the returns have been in the past. If the chart has a wide spread then the return in any one month is likely to be unpredictable.

Return Distribution - Risk Category 2 Benchmarks

Time Period: 01/07/1988 to 31/03/2023

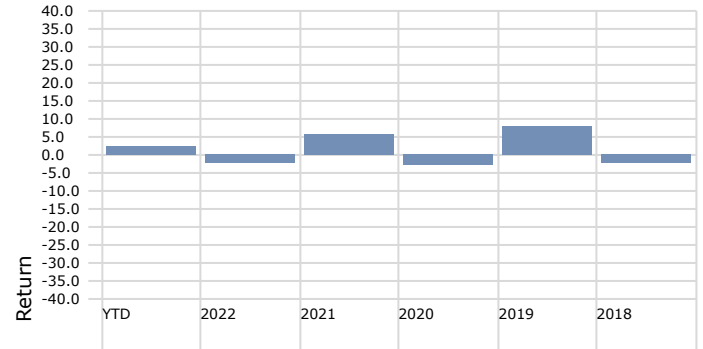■ Risk Category 2 Benchmarks

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Important Information

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Risk Category 3

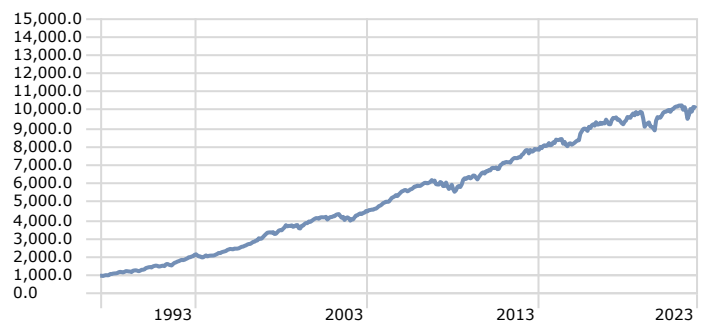Cautious / Low Risk

Category Description

- Investors willing and able to take a low level of risk in order to grow the real value of their portfolio, or to preserve the capital value of the portfolio, whilst taking an income in line with bank base rates

- A degree of volatility should be expected with the majority of monthly returns being within 5% of the average

- Losses may be experienced over the short and medium term (on average periods of losses have been c. 5.5% and typically less than 15%. In the past 20 years there have been two occasions where losses have exceeded 15%, however, all losses have been recovered within a three year timescale)

- A minimum time scale of three years should be considered

- Withdrawing income may erode the capital value and make it more difficult for the portfolio to recover

Discrete Annual Returns

As of Date: 31/03/2023

■Risk Category 3 Benchmarks

Assets and Portfolio Construction

- Long Dated Government Bonds

- Investment Grade Corporate Bonds

- Cautious Managed Funds

- Diversified portfolio with up to c. 60% in equities predominantly in large dividend paying businesses on the UK stock market.

Investment Growth

Time Period: 01/07/1988 to 31/03/2023

■Risk Category 3 Benchmarks   13,766.0

Drawdown - Risk Category 3 Benchmarks

Time Period: Since Common Inception (01/02/1986) to 31/03/2023

Max Drawdown
Max Drawdown # of Periods
Max Drawdown Recovery # of Periods
Average Drawdown
Worst Month

Drawdown Explanation

The table above shows the maximum drawdown and how many months it lasted, as well as the maximum period to recover losses. In addition, the table shows the average drawdown and worst month. Drawdown is the losses experienced by an investor had they invested at the start of the period, which is shown in the table. The graph to the right illustrates the periods of loss and recovery through time.

Drawdown

Time Period: 01/07/1988 to 31/03/2023

■Risk Category 3 Benchmarks

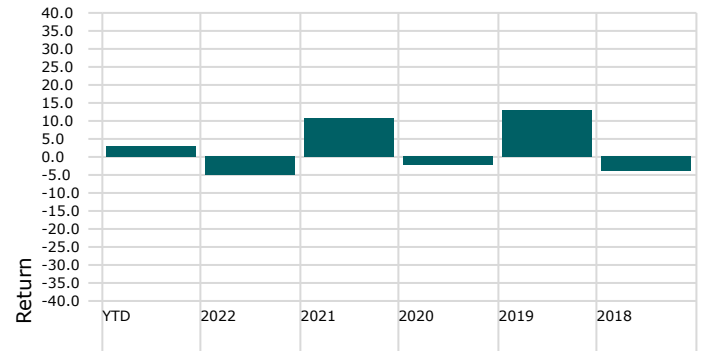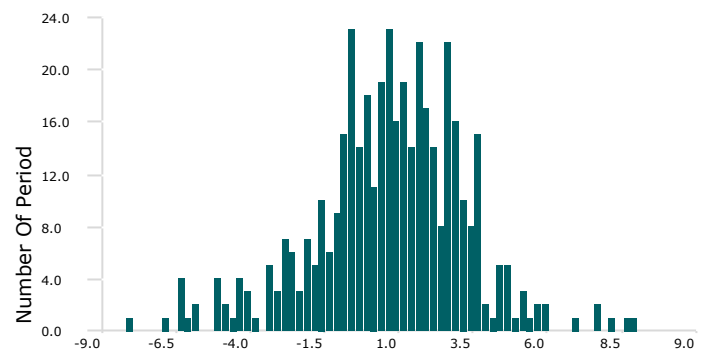## Distribution of Monthly Returns

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Return Distribution -

Time Period: 01/07/1988 to 31/03/2023

■Risk Category 3 Benchmarks

Important Information

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Risk Category 4

Balanced / Medium Risk

Category Description

- Investors willing and able to take a medium level of risk in order to grow the real value of their portfolio

- Volatility will cause the value of the portfolio to frequently rise and fall

- Losses may be experienced over the medium term (on average periods of losses have been c. 7.5% and typically less than 25%. In the past 20 years there have been two occasions where losses have exceeded 25%, however, all losses were recovered within a five year timescale)

- A minimum timescale of four to five years should be considered

- Withdrawing income may erode the capital value and make it more difficult for the portfolio to recover

Discrete Annual Returns

As of Date: 31/03/2023

■ Risk Category 4 Benchmarks

Assets and Portfolio Construction

- Global Bonds

- UK Equity Income funds

- Balanced Managed Funds

- A diversified portfolio with bonds and up to c. 85% in equities predominantly on developed stock markets

Investment Growth

Time Period: 30/06/1988 to 31/03/2023

■ Risk Category 4 Benchmarks   16,044.3

Drawdown - Risk Category 4 Benchmarks

Time Period: 01/07/1988 to 31/03/2023

Max Drawdown	-29.98
Max Drawdown # of Periods	29.00
Max Drawdown Recovery # of Periods	29.00
Average Drawdown	-6.80
Worst Month	-10.01

Drawdown Explanation

The table above shows the maximum drawdown and how many months it lasted, as well as the maximum period to recover losses. In addition, the table shows the average drawdown and worst month. Drawdown is the losses experienced by an investor had they invested at the start of the period, which is shown in the table. The graph to the right illustrates the periods of loss and recovery through time.

Drawdown

Time Period: 01/07/1988 to 31/03/2023

■ Risk Category 4 Benchmarks
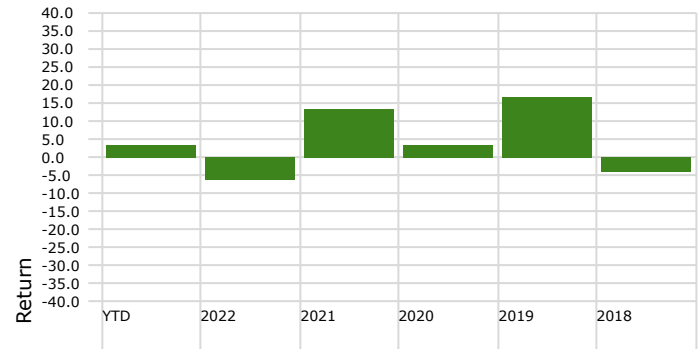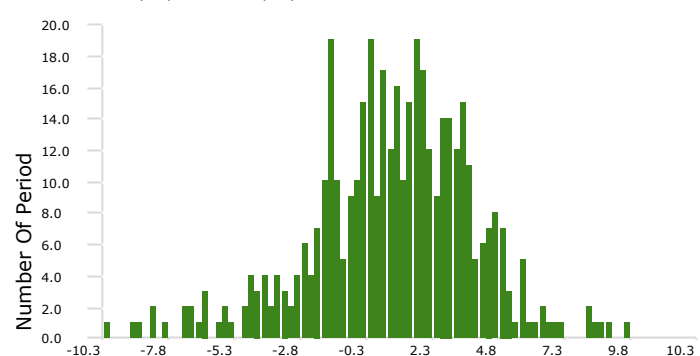
Distribution of Monthly Returns

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Return Distribution -

Time Period: 01/07/1988 to 31/03/2023

■ Risk Category 4 Benchmarks

Important Information

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Risk Category 5

Medium - High Risk

Category Description

- Investors willing and able to take a medium to high level of risk in order to grow the real value of their portfolio

- Volatility may be significant with frequent rises and falls

- Losses may be experienced over the medium term (on average periods of losses have been c. 10% and typically less than 35%. In the past 20 years there has been one occasion where losses have exceeded 35%, however, all losses have been recovered within a six year timescale)

- A minimum time scale of five to six years should be considered

- Withdrawing income may increase the volatility of the portfolio and make it harder to recover value

Discrete Annual Returns

As of Date: 31/03/2023

■ Risk Category 5 Benchmarks

Assets and Portfolio Construction

- Direct UK Equities

- Diversified Global Funds

- A diversified portfolio with up to c.95% global equities

Investment Growth

Time Period: 30/06/1988 to 31/03/2023

■ Risk Category 5 Benchmarks   17,664.0

Drawdown - Risk Category 5 Benchmarks

Time Period: 01/07/1988 to 31/03/2023

Max Drawdown	-40.50
Max Drawdown # of Periods	29.00
Max Drawdown Recovery # of Periods	35.00
Average Drawdown	-8.09
Worst Month	-13.05

Drawdown Explanation

The table above shows the maximum drawdown and how many months it lasted, as well as the maximum period to recover losses. In addition, the table shows the average drawdown and worst month. Drawdown is the losses experienced by an investor had they invested at the start of the period, which is shown in the table. The graph to the right illustrates the periods of loss and recovery through time.

Drawdown

Time Period: 01/07/1988 to 31/03/2023

■ Risk Category 5 Benchmarks

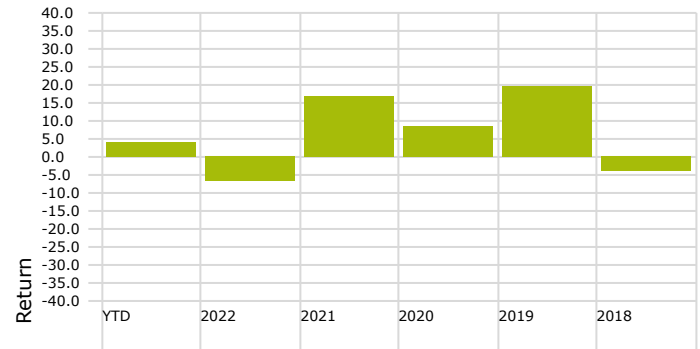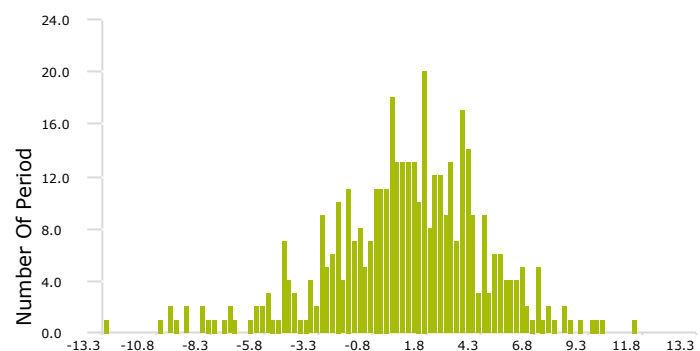## Distribution of Monthly Returns

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Return Distribution -

Time Period: 01/07/1988 to 31/03/2023

■ Risk Category 5 Benchmarks

Important Information

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Risk Category 6

High Risk

Category Description

- Investors willing and able to take a high level of risk in order to achieve higher returns

- Volatility may be high with a wide range of monthly returns

- Significant losses may be experienced in the medium term (on average periods of losses have been c. 11% and typically less than 40%, however, there is greater risk that losses may be higher or may take longer to recover than lower risk portfolios)

- A long time frame should be considered for this risk profile in excess of six to seven years

- It is not advisable to take income

Discrete Annual Returns

As of Date: 31/03/2023

Risk Category 6 Benchmarks

Assets and Portfolio Construction

- Direct Equities in Developed Markets

- Diversified Global Growth Funds

- A diversified portfolio of global equities with a significant proportion in Asia Pacific and Emerging Markets (up to c. 40%)

Investment Growth

Time Period: 30/06/1988 to 31/03/2023

Risk Category 6 Benchmarks   19,556.9

Drawdown - Risk Category 6 Benchmarks

Time Period: 01/07/1988 to 31/03/2023

Max Drawdown	-41.40
Max Drawdown # of Periods	25.00
Max Drawdown Recovery # of Periods	38.00
Average Drawdown	-8.89
Worst Month	-15.57

Drawdown Explanation

The table above shows the maximum drawdown and how many months it lasted, as well as the maximum period to recover losses. In addition, the table shows the average drawdown and worst month. Drawdown is the losses experienced by an investor had they invested at the start of the period, which is shown in the table. The graph to the right illustrates the periods of loss and recovery through time.

Drawdown

Time Period: 01/07/1988 to 31/03/2023

Risk Category 6 Benchmarks
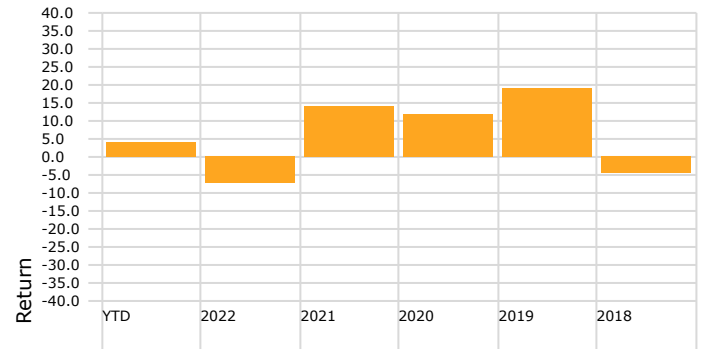
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Return Distribution -

Time Period: 01/07/1988 to 31/03/2023

Risk Category 6 Benchmarks

Important Information

Past performance is based on the composition of indices detailed in the appendix.

The value of investments can fall as well as rise. Past performance is no guarantee of future performance.

Risk Category 7

Very High Risk

Category Description

-Investors willing and able to take a very high level of risk in order to achieve higher returns

- Volatility may be very high with a wide range of monthly returns

- Significant losses may be experienced in the medium term (on average periods of losses have been c. 13% and typically less than 40%, however there is greater risk that losses may be higher or may take longer to recover than lower risk portfolios)

- A long time frame should be considered for this risk profile in excess of seven to eight years

- It is not advisable to take income

Discrete Annual Returns

As of Date: 31/03/2023

Risk Category 7 Benchmarks

Assets and Portfolio Construction

- Equities in emerging overseas markets

- Diversified Global Growth Funds

- A diversified portfolio of global equities with a significant proportion in Asia Pacific and Emerging Markets (up to c. 40%)

Investment Growth

Time Period: 30/06/1988 to 31/03/2023

Risk Category 7 Benchmarks   21,464.6

Drawdown - Risk Category 7 Benchmarks

Time Period: 01/07/1988 to 31/03/2023

Max Drawdown	-42.18
Max Drawdown # of Periods	30.00
Max Drawdown Recovery # of Periods	34.00
Average Drawdown	-10.46
Worst Month	-18.85

Drawdown Explanation

The table above shows the maximum drawdown and how many months it lasted, as well as the maximum period to recover losses. In addition, the table shows the average drawdown and worst month. Drawdown is the losses experienced by an investor had they invested at the start of the period, which is shown in the table. The graph to the right illustrates the periods of loss and recovery through time.

Drawdown

Time Period: 01/07/1988 to 31/03/2023

Risk Category 7 Benchmarks
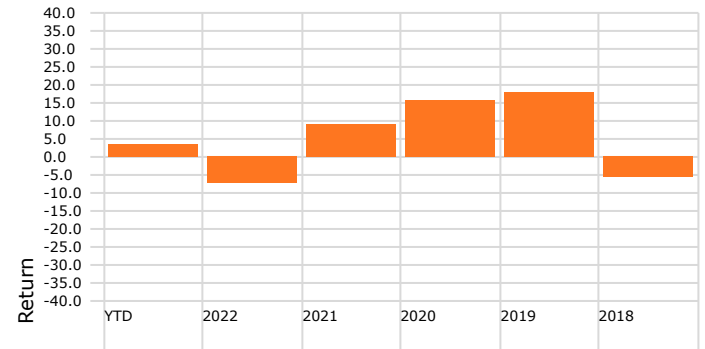
Distribution of Monthly Returns

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Return Distribution -

Time Period: 01/07/1988 to 31/03/2023

Risk Category 7 Benchmarks

Important Information

Past performance is based on the composition of indices detailed in the appendix.

The value of investments can fall as well as rise. Past performance is no guarantee of future performance.

Risk Category 8

Very High Risk

Category Description

- Investors willing and able to take a very high level of risk in order to achieve higher returns

- Volatility may be very high with a wide range of monthly returns

- Significant losses may be experienced in the medium term (on average periods of losses have been c. 14% and typically less than 40%, however there is greater risk that losses may be higher or may take longer to recover than lower risk portfolios)

- A long time frame should be considered for this risk profile in excess of eight to nine years

- Income should not be taken

Discrete Annual Returns

As of Date: 31/03/2023

■ Risk Category 8 Benchmarks

Assets and Portfolio Construction

- Equities in emerging overseas markets

- Diversified Global Growth Funds

- A diversified portfolio of global equities with a significant proportion in Asia Pacific and Emerging Markets (up to c. 70%)

Investment Growth

Time Period: 30/06/1988 to 31/03/2023

■ Risk Category 8 Benchmarks   21,690.1

Drawdown - Risk Category 8 Benchmarks

Time Period: 01/07/1988 to 31/03/2023

Max Drawdown	-45.58
Max Drawdown # of Periods	13.00
Max Drawdown Recovery # of Periods	15.00
Average Drawdown	-11.28
Worst Month	-19.90

Drawdown Explanation

The table above shows the maximum drawdown and how many months it lasted, as well as the maximum period to recover losses. In addition, the table shows the average drawdown and worst month. Drawdown is the losses experienced by an investor had they invested at the start of the period, which is shown in the table. The graph to the right illustrates the periods of loss and recovery through time.

Drawdown

Time Period: 01/07/1988 to 31/03/2023

■ Risk Category 8 Benchmarks

Distribution of Monthly Returns

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Return Distribution - Risk Category 8 Benchmarks

Time Period: 01/07/1988 to 31/03/2023
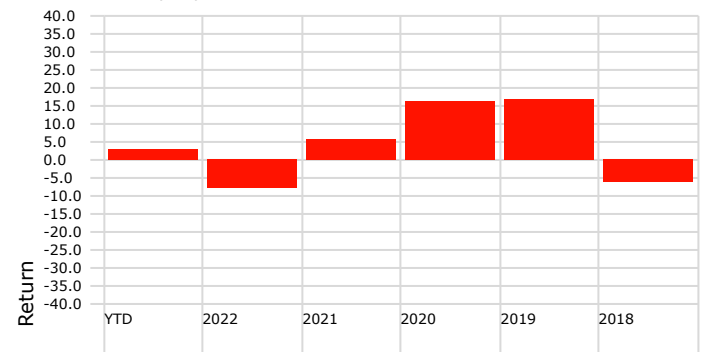

■ Risk Category 8 Benchmarks

Important Information

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Risk Category 9

Speculative

Category Description

- Investors willing and able to take a very high/speculative level of risk in order to achieve higher returns

- Volatility is likely to lead to large swings in valuation

- Extreme losses may be experienced (up to 100%)

- A long time frame should be considered for this risk profile

- Income should not be taken

PLEASE NOTE THAT MARGETTS DO NOT RUN SPECULATIVE PORTFOLIOS. A PORTFOLIO IN THIS CATEGORY MAY NOT BE DIVERSIFIED AND THEREFORE THE DATA IS LESS MEANINGFUL THAN LOWER RISK PORTFOLIOS. THE DATA USED FOR THIS CATEGORY ILLUSTRATES A SECTOR WHICH EXPERIENCED A HIGH LEVEL OF SPECULATION AND PROSPERITY FOLLOWED BY A NOTABLE CRASH.

Discrete Annual Returns

As of Date: 31/03/2023

■Risk Category 9 Benchmarks

Assets and Portfolio Construction

- Equities in emerging markets

- Single sector funds

- Commodities

- A portfolio, which may not be diversified, concentrating on high risk areas of investment of a speculative nature

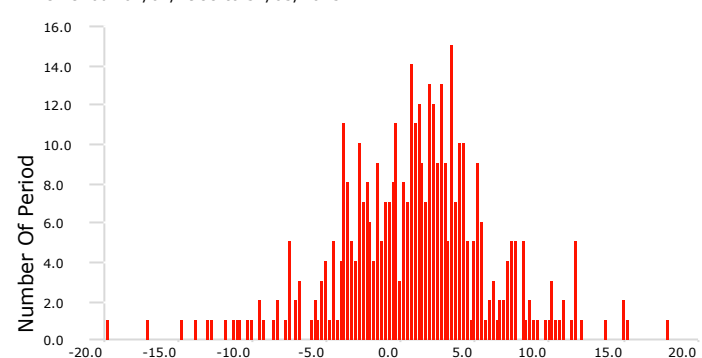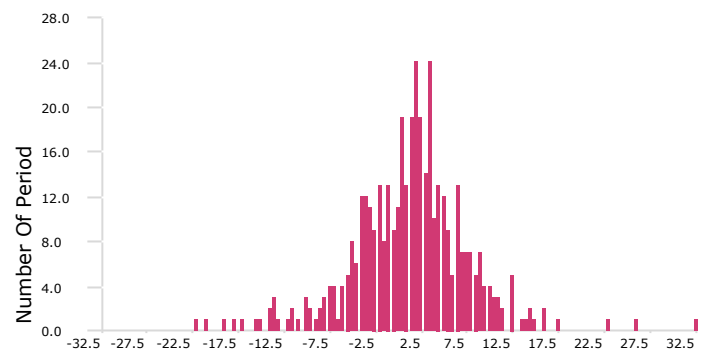### Investment Growth

Time Period: 01/07/1988 to 31/03/2023

■Risk Category 9 Benchmarks   36,598.9

Drawdown - Risk Category 9 Benchmarks

Time Period: 01/07/1988 to 31/03/2023

Max Drawdown	-85.59
Max Drawdown # of Periods	31.00
Max Drawdown Recovery # of Periods	190.00
Average Drawdown	-13.81
Worst Month	-22.26

Drawdown Explanation

The table above shows the maximum drawdown and how many months it lasted, as well as the maximum period to recover losses. In addition, the table shows the average drawdown and worst month. Drawdown is the losses experienced by an investor had they invested at the start of the period, which is shown in the table. The graph to the right illustrates the periods of loss and recovery through time.

Drawdown

Time Period: 01/07/1988 to 31/03/2023

■Risk Category 9 Benchmarks

Distribution of Monthly Returns

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Return Distribution - Risk Category 9 Benchmarks

Time Period: 01/07/1988 to 31/03/2023

■Risk Category 9 Benchmarks

Important Information

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Risk Category 10

Speculative

Category Description

- Investors willing and able to take a speculative level of risk in order to achieve higher returns

- Volatility may mean that the investment value falls to zero or becomes negative due to gearing and will not subsequently recover i.e. a total loss situation or negative equity

PLEASE NOTE THAT MARGETTS DO NOT RUN SPECULATIVE PORTFOLIOS. A PORTFOLIO IN THIS CATEGORY MAY NOT BE DIVERSIFIED AND THEREFORE THE DATA IS LESS MEANINGFUL THAN LOWER RISK PORTFOLIOS. THE DATA USED FOR THIS CATEGORY ILLUSTRATES A SECTOR WHICH EXPERIENCED A HIGH LEVEL OF SPECULATION AND PROSPERITY FOLLOWED BY A NOTABLE CRASH.

Discrete Annual Returns

As of Date: 31/03/2023

■ Risk Category 10 Benchmarks

Assets and Portfolio Construction

- Borrowing to invest in volatile assets such as emerging markets, single sectors or commodities

- A concentrated portfolio with gearing

Investment Growth

Time Period: 01/07/1988 to 31/03/2023

■ Risk Category 10 Benchmarks   36,598.9

Drawdown - Risk Category 10 Benchmarks

Time Period: 01/07/1988 to 31/03/2023

Max Drawdown	-85.59
Max Drawdown # of Periods	31.00
Max Drawdown Recovery # of Periods	190.00
Average Drawdown	-13.81
Worst Month	-22.26

Drawdown Explanation

The table above shows the maximum drawdown and how many months it lasted, as well as the maximum period to recover losses. In addition, the table shows the average drawdown and worst month. Drawdown is the losses experienced by an investor had they invested at the start of the period, which is shown in the table. The graph to the right illustrates the periods of loss and recovery through time.

Drawdown

Time Period: 01/07/1988 to 31/03/2023

■ Risk Category 10 Benchmarks

Distribution of Monthly Returns

The chart on the right illustrates the distribution of monthly returns. The vertical axis shows the number of months that have occurred and the horizontal axis shows the monthly return. The more concentrated the returns are around one point, the more predictable the returns have been in the past. If the chart has a wide spread then the return in any one month is likely to be unpredictable.

Important Information

Past performance is based on the composition of indices detailed in the appendix.
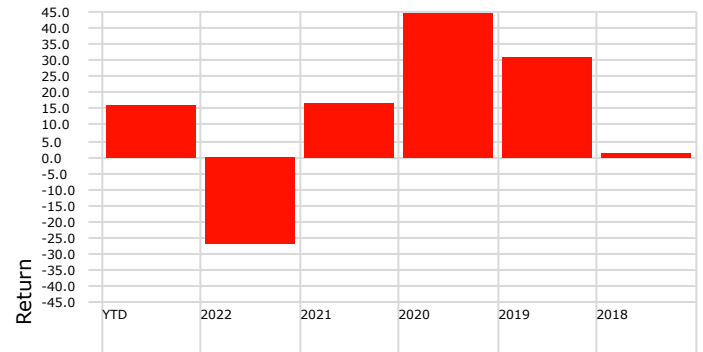
Return Distribution - Risk Category 10 Benchmarks

Time Period: 01/07/1988 to 31/03/2023
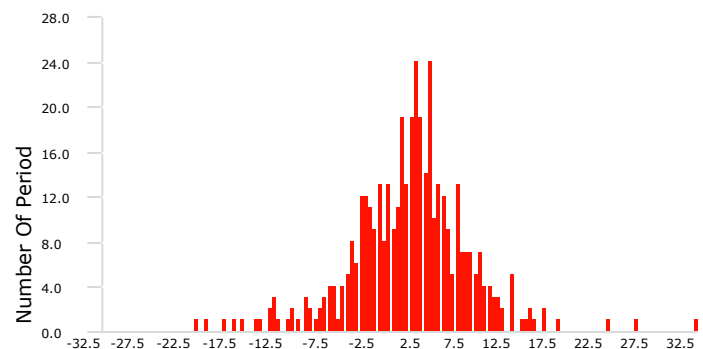
■ Risk Category 10 Benchmarks

The value of investments can fall as well as rise. Past performance is no guarantee of future performance.

Risk Category Indices Composition

	ICE BofA SONIA Overnight bid TR GBP	LIBOR 3 Month GBP	FTSE Gilts All Stocks TR GBP	FTSE 350 Higher Yield TR GBP	FTSE All Share TR GBP	MSCI World GR USD	MSCI AC Asia Ex Japan GR USD	MSCI EM GR
Risk Category 1	100%	0%	0%	0%	0%	0%	0%	0%
Risk Category 2	0%	37.00%	28.00%	35.00%	0.00%	0.00%	0.00%	0.00%
Risk Category 3	0%	8.20%	32.00%	35.00%	9.40%	15.40%	0.00%	0.00%
Risk Category 4	0%	5.80%	19.00%	15.00%	16.50%	37.30%	3.30%	3.20%
Risk Category 5	0%	4.00%	8.00%	0.00%	18.80%	59.50%	5.00%	4.80%
Risk Category 6	0%	4.00%	4.00%	0.00%	9.40%	56.60%	13.20%	12.80%
Risk Category 7	0%	4.00%	0.00%	0.00%	0.00%	44.00%	26.40%	25.60%
Risk Category 8	0%	4.00%	0.00%	0.00%	0.00%	31.00%	33.00%	32.00%
Risk Category 9								
Risk Category 10								

The benchmarks above are converted to GBP and include reinvested income. The portfolios are rebalanced monthly.

Source for all performance data: Morningstar Direct - 1 January 1988 to 30 September 2022

Risk Categories 9 & 10 have been illustrated with an undiversified portfolio consisting of a single (undisclosed) sector, which experienced a high level of previous speculation. Given the speculative nature of the investor, it is unlikely that the experience illustrated is representative; however the aim is to highlight the risks and rewards of speculative investments using real data.

RISK WARNINGS

- The information in this guide is designed to illustrate the Margetts risk categories. It is intended to help investors and advisers match their risk profile with an appropriate portfolio and does not illustrate Margetts past performance.

- Not all risk scales will be the same. This guide illustrates the scale used by Margetts only. Investors and advisers should not use this guide with any risk profiling tool other than that provided by Margetts.

- Please note that the contents are based on the author's opinion and are not intended as investment advice.

- Any information is for research only, does not constitute financial advice or necessarily reflect the views of the author and is subject to change.

- It remains the responsibility of the financial adviser to verify the accuracy of the information and assess whether the fund is suitable and appropriate for their customer.

- Past performance is not a reliable indicator of future performance. The value of investments and the income derived from them can fall as well as rise and investors may get back less than they invested especially in the early years.

- The information is intended to illustrate the experience of a portfolio suitable to each risk profile since 1988. The guide does not provide any guarantee that losses will not exceed the historical losses illustrated or provide an expected future return.

- Investors should consider both their willingness to take risk and their ability to take risk. We strongly recommend that all investors seek financial advice from a qualified adviser before making any investment.