

# MFS

I N D E P E N D E N T F I N A N C I A L A D V I S E R S

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## RISK PROFILE AND CAPACITY FOR LOSS

Client full name

### About this questionnaire

This document has been developed to help you, with the support of your Financial Adviser, to appraise your key investment priorities, your attitude to risk and your capacity for loss. Understanding these fundamentals greatly assists your Financial Adviser in recommending investment products and strategies best suited to you.

### Purpose of the questionnaire

- To determine the level of risk and the capacity for loss you are prepared to accept over a specific term

### Using the questionnaire

Answer the following questions about your investment goals, attitude to risk and expectations. Your answers will provide a score that should indicate your attitude to risk and assist your Financial Adviser in making suitable recommendations.

Also, further on within this questionnaire there are definitions of 5 basic attitudes to risk, ranging from Very Conservative to Speculative. It is important that you appraise your attitude to risk from the questionnaire in the light of the definitions of risk provided and discuss any apparent inconsistency with your Financial Adviser.

If you are not willing to take any risk with any of your assets in order to have the potential of higher returns than from cash, you need to reconsider your investment strategy and direct your money only to cash deposits or National Savings.

When you appraise your attitude to risk and your capacity for loss you should consider the possibility of adverse life events which could impact your ongoing income and capital reserves or cause there to be new demands upon your available income and capital reserves. Such adverse life events might include the premature death of a partner, a prolonged downturn in investment returns, a prolonged increase in inflation, the need to fund residential care home fees etc.

When considering the amount to invest, it is best practice to exclude any planned lump sum expenditure scheduled within the next 5 years (e.g. car/special holiday/property repair/etc) and to keep immediately available an amount of money in case of an emergency. (We suggest this "emergency" fund should be no less than 6 months net expenditure)

### Important information

**Suitability:** It is the responsibility of your Financial Adviser to provide you with a recommendation that is suitable for your personal circumstances, including your risk profile and financial objectives.

**Reviewing and revising:** It is important that you and your Financial Adviser regularly review your investments to ensure that they continue to be suitable for your risk profile and investment objectives, as these are likely to change over time.

# QUESTIONNAIRE

- 1. I enjoy exploring investment opportunities for my money.** Tick one box
- a. Strongly agree
  - b. Tend to agree
  - c. In between
  - d. Tend to disagree
  - e. Strongly disagree
- 2. I look for the best possible return even if there is risk involved.**
- a. Always
  - b. Usually
  - c. Sometimes
  - d. Rarely
  - e. Never
- 3. How would you describe your typical attitude when making important financial decisions**
- a. Very Adventurous
  - b. Fairly adventurous
  - c. Average
  - d. Fairly cautious
  - e. Very cautious
- 4. What amount of risk have you taken with your past financial decisions?**
- a. Very large
  - b. Large
  - c. Moderate
  - d. Small
  - e. Very small

# QUESTIONNAIRE CONTINUED

5. To reach my financial goal I prefer an investment which is safe and grows slowly but steadily, even if it means lower overall growth.

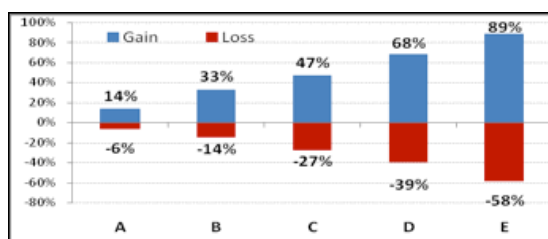
Tick one box

- a. Strongly agree
- b. Tend to agree
- c. In between
- d. Tend to disagree
- e. Strongly disagree


6. You have a choice of investing on one of five portfolios. The chart below demonstrates the potential gain and loss of each over ten years. Which one would you choose?

- Portfolio A
- Portfolio B
- Portfolio C
- Portfolio D
- Portfolio E


7. If you had money to invest, how much would you be willing to place in an investment with possible high returns but also a high-risk element?

- a. All of it
- b. More than half
- c. Half
- d. Less than half
- e. None of it


8. The table below details the sort of return you could potentially receive from an investment portfolio of £10,000 over 10 years. It gives best and worst-case scenario for each portfolio as well as the expected return. Which one would you most likely invest in.

	Potential Gain	Expected Gain	Potential loss
Portfolio A	£4,500	£2,500	£0
Portfolio B	£5,250	£3,500	£1,000
Portfolio C	£6,150	£5,500	£2,250
Portfolio D	£7,650	£6,250	£3,050
Portfolio E	£9,450	£6,950	£4,200

# QUESTIONNAIRE CONTINUED

9. Imagine that you have some money to invest and a choice of two investment products, which option would you choose?

Tick one box

- a. A low average annual return but almost no risk of loss of the initial investment
- b. A higher average annual return but some risk of losing part of the initial investment
- c. A mixture of the two

10. With most investments, you would expect to see swings in performance including falls in value. Assuming you invested £10,000 a year ago, how much loss would you need to experience before you would consider moving to an alternative investment?

- a. £9,500 (5% loss)
- b. £9,000 (10% loss)
- c. £8,500 (15% loss)
- d. £8,000 or less (20% + loss)
- e. I would not consider changing my investment after one year

Do you require ethically based investment? YES  NO

If “yes” what proportion of your TOTAL investment portfolio do you wish to have ethically invested?

**THIS SECTION SHOULD BE COMPLETED BY YOUR FINANCIAL ADVISER**

**Evaluating Your Score and Selecting a Portfolio**

The following section will help your Financial Adviser to determine your risk profile and recommend a suitable investment for your needs.

**Step One - Scoring**

Circle the appropriate value for each response and note the total for each question.

Answer	1	2	3	4	5	6	7	8	9	10
a	10	10	10	10	1	1	10	1	6	1
b	8	8	8	8	4	4	8	4	10	4
c	6	6	6	6	6	6	6	6	8	6
d	4	4	4	4	8	8	4	8		8
e	1	1	1	1	10	10	1	10		10

Total score:  (the total score should equal the sum of values of question 1 through to 10)

**Step Two - Consistency Check**

Before selecting an appropriate investment, please check the questionnaire for consistency to ensure that your client has a realistic set of expectations and attitudes given their personal circumstances.

Please indicate your client's score using the table on the right. If your client has at least one 1 - point answer and at least one 4 - point answer, please stop to evaluate whether their goals and expectations are realistic.

	Total
Number of questions with 1 point	
Number of questions with 4 points	
Number of questions with 6 points	
Number of questions with 8 points	
Number of questions with 10 points	

You should investigate any inconsistencies and, if appropriate, help your client to understand the issues so their expectations are consistent with their risk profile.

Score from questionnaire	Investment risk profile
Up to 25	Very Conservative
26-45	Lower
46-70	Middle
71-90	Higher
91-100	Speculative

## YOUR INVESTMENT EXPERIENCE

Which of the descriptions below best matches your own investment experience?

Please indicate ✓

	✓
I have very little investment knowledge or experience	
I have some investment knowledge and understanding	
I am an experienced private investor with good investment knowledge	
I am a professional investor	

## ATTITUDE TO RISK: DEFINITIONS

Regarding the assessment of your agreed attitude to risk and capacity for loss, please see below for your appraisal the definitions of the various risk categories.

Title	Description
<b>Very Conservative</b>	You do not wish to have any of your funds invested in the stock market and are prepared to accept the inflationary risk that this implies.
<b>Lower Risk</b>	You appreciate the security of cash and fixed interest investment, but are willing to accept a low level of stock market risk to try and combat some of the risks of inflation.
<b>Middle Risk</b>	You are comfortable with a greater proportion of equity investment than would be used for the lower risk investor. The equity investment and fixed interest investment (gilts and corporate bonds) within the portfolio would typically include investment based internationally as well as in the UK. The portfolio may also include commercial property investment. The objective of this diversified investment strategy is to provide, over the medium to longer term, more growth than is available from money held on deposit and in lower risk investments. You appreciate that over some periods of time the value of your investment will fall and that, depending on when an investment is encashed, you might get back less than you invested.
<b>Higher Risk</b>	You are comfortable with a greater proportion of equity investment, including a higher level of exposure to international and specialist investment sectors, than would be used for a middle risk investor, whilst retaining a more modest exposure to Deposit and Fixed Income assets (gilts and corporate bonds). The objective is to increase the potential longer term returns. You appreciate that, with this approach, the ups and downs of the value of your investment will be greater than with a middle risk investment portfolio and that, dependant on the time of encashment, you might get back less than the amount invested.
<b>Speculative</b>	You are willing to accept the possibility of a significant loss of capital in order to gain possible high returns in the long term.

# YOUR CAPACITY FOR LOSS

The following questions do not impact the results of the attitude to risk questions. Where those questions are designed to determine your attitude, the following are designed to establish what risks you can realistically afford to take. Your answers to the following questions are designed to help you and your Adviser determine what type of investment risk and potentially what type of protection would help you to meet your intended goals.

## If you are investing to generate an income

Tick one box

11. How long do you intend to hold this investment before you start drawing an income from it?

- a. Within the first 5 years
- b. Between 5 and 10 years
- c. Over 10 years
- d. I do not have a fixed term

12. How much would your standard of living be affected if the income from this investment were to fall below your expectations?

- a. It would have a significant impact. I cannot afford for this income to decrease and I will struggle financially.
- b. It would cause me to re-assess my standard of living and make some cut-backs
- c. Not much as I have alternative investments to maintain my lifestyle

13. If you needed emergency funds, would you consider taking them from this investment?

- a. I have no other alternative. I would most certainly need to access this investment
- b. I would consider taking funds from this investment if necessary
- c. No. I have other savings that I can use for emergencies.

## If you are investing to generate capital growth

14. How long do you intend to hold this investment before you use it?

- a. Within the first 5 years
- b. Between 5 and 10 years
- c. Over 10 years
- d. I do not have a fixed term

15. How much would your standard of living be affected if this investment were to perform below your expectations? Tick one box

- a. It would have a significant impact. I cannot afford for this investment to not meet my goals.
- b. It would cause me to re-assess my standard of living and make some cut-backs
- c. Not much as I have alternative investments to maintain my lifestyle

16 If you needed emergency funds, would you consider taking them from this investment?

- a. I have no other alternative. I would most certainly need to access this investment
- b. I would consider taking funds from this investment if necessary
- c. No. I have other savings that I can use for emergencies.

### Capacity for Loss Assessment

Circle the appropriate value for each response and note the total for each question.

	Income		
Answer	11	12	13
a	1	1	1
b	4	6	6
c	8	10	10
d	10		

	Capital Growth		
	14	15	16
a	1	1	1
b	4	6	6
c	8	10	10
d	10		

Total score (Income):

Total score (capital):

Please indicate your client's score using the table on the right and see our definitions below. Please note that the table below is based on either the income questions or the capital questions but not both combined.:

#### Low capacity for loss

The client cannot afford for the investment to not meet their objectives as failure to do so could have significant consequences on their standard of living. This may be further compromised as there is higher possibility that they will need access to the money within their investment time-line.

Score from Questionnaire	Capacity for loss
26-30	High
16-25	Medium
3-15	Low

#### Medium capacity for loss

The client may be able to afford some under-performance of the investment but it will cause them to adapt their standard of living.

#### High capacity for loss

The client can afford to take the risks associated with their chosen attitude and can withstand significant under-performance.

#### Client confirmation

I confirm that the answers provided above are accurate and I understand that my Financial Adviser will use my responses to determine my risk profile in order to recommend a suitable investment. I also confirm that I have read and understood the information on page 1 of this document.

Client Name: \_\_\_\_\_ dd/mm/yyyy \_\_\_\_\_

Client's signature: \_\_\_\_\_