Advice letter supplementary notes

This document contains important general notes and commentary relating to our recommendations.

It is held in this supplementary document to reduce the size of our advice letter and because its nature is not specific to any particular client.

It is, however, important that you read this document and discuss with us any issues where you would like more information before making a decision on whether or not to go ahead with our recommendations.

Risk classification of specific investments

Our fund specific risk classification system uses numbers instead of the words-based approach we use for overall portfolio risk. This is structured so "1" is very low risk and "9" is very high risk, which makes "5" average risk.

However, the arithmetic mean of the individual fund risk scores cannot be used to assess the overall portfolio risk score since there are other factors to consider. Details on this are in our "*Guide to Atkins Bland's Fund Specific Risk Classifications*", which is available on request.

Each risk classification is determined on the basis that the investment is held for the minimum recommended holding period of five years. If the holding period is longer than five years, the risk score might be lower, and vice versa.

We normally reserve a score of 9 for individual shares in trading companies or other investments where full loss of capital is possible. Shares in individual trading companies are exposed to the fortunes of just one company, rather than a wide range of companies as applies with an investment fund. This means that an individual company shareholding can become worthless if the company fails, which is not normally possible with an investment in a fund, although there are exceptions to this generalisation.

Please remember that the risk characteristics of an investment can change over time, since prevailing values and the economic climate can both have an impact.

Further information on the general subject of investment risk and its relationship with timeframe is available in our "*Guide to Investment Risk*".

Portfolio construction notes

We normally include some investments which may be more volatile than the overall portfolio target. However, this enables us to widen the spread and when diversification and correlation factors are applied, we believe the overall portfolio risk characteristics is in line with the risk objective.

Illustrations

An “illustration” is structured in a way prescribed by the FCA and is not intended as an accurate guide to what you can expect. It assumes a steady rise whereas, in fact, values will fall as well as rise and results are bound to differ between one year and another.

The concept of predicting the future results from investments where future results cannot possibly be known is fundamentally flawed, but an illustration can be helpful in terms of comparing the costs of different investment solutions.

The structure of the document itself is, though, rather complex and not easy to follow unless close attention is paid to the details in the text.

Fund Key Information Documents (KIDs)

A KID sets out information on a fund in a prescribed format. In some cases, the detail is reasonably comprehensive but, in others, especially with Investment Trusts, the information does not include much of an explanation about the fund’s investment strategy, philosophy or current asset allocation approach. This information is, however, available via the funds ‘fact sheet’.

A KID may show a risk score which differs from our own current classification. This is because our own risk ratings are dynamic, based on current financial conditions, whereas those quoted in KIDs by fund managers are usually fixed, so do not take into consideration current valuation levels or other variable factors.

It is also important to explain that, in many cases, KIDs refer only to the ‘retail’ share class so may show higher charges than apply with the lower cost share classes available to those using a platform or wrap account. This is an aggravation but, since we are obliged to send KIDs out, we must do so, even though some overstate actual costs so are not as accurate as would be ideal.

Where we recommend an investment which is a listed share rather than a collective investment, there are no KIDs or Fund Fact Sheets available, but our research is available on request.

Ongoing charges with listed shares

Where an investment is set up as a listed share, the FCA disclosure regulations for management costs do not apply, so the figure quoted is 0%. However, this does not mean there are no underlying costs for the management of the company and for its operations, as clearly there always are.

Risk warnings

General investment risks

- The value of your investment will go down as well as up and is not guaranteed at any time
- The income from an investment fund can fall as well as rise and is not guaranteed at any particular level
- The way an investment fund has performed in the past is not an accurate guide to how it will perform in the future
- If you cash in some or all of your holdings in any fund, particularly in the early years or when markets are depressed, you may get back less than you paid in
- Costs and expenses will affect the return you receive and there may be times when investments do not perform well enough to cover these
- The tax rules, including the favourable tax treatment of ISAs and pensions, may change in the future, which could affect what you will get back
- Fixed interest investments can be affected by significant changes in interest rates, which could affect the value of your investment
- Any foreign investments may be affected by changes in rates of currency exchange.

Real asset commercial property funds

Where funds invest in real asset property the managers may delay a withdrawal if this is considered necessary to protect the interests of shareholders. This would typically be when there are high levels of withdrawals, and a sale of a property is required to raise the cash needed.

Increasing income yield at expense of capital

Our recommendations will include funds that take their management charges from the capital invested, rather than from the income generated. This results in a higher income distribution than would otherwise be the case but impacts on growth potential and increases the risk of capital erosion, especially where all available income is being withdrawn from the portfolio.

Additional risks with Investment Trusts and other "closed ended" funds

Investment Trusts and other closed ended funds differ from other collective investments funds since they are quoted shares, with prices impacted by supply and demand for the shares in the fund, rather than just by the quoted value of their underlying holdings.

This means they can trade at a price well below their "Net Asset Value" (NAV) or significantly above this, and the difference between the price and NAV can vary substantially over time.

In addition, Investment Trusts are able to borrow money to "gear" their portfolio, which can increase gains if markets are favourable but increase losses if they are unfavourable.

There is, therefore, an additional risk attached to Investments Trusts since the fund's share price can fall more than any drop in the value of the underlying assets. This goes hand in hand with the fact that the share price can also rise more than the increase in the market value of the assets it holds.

We identify funds in this category in our buy recommendations by using the ending "Investment Trust" in the title, even where it is not actually an Investment Trust but a different version of a closed ended fund.

Please be aware that, with these, you are likely to experience larger swings in values than would apply with an equivalent unit trust or OEIC (Open Ended Investment Company) fund.

In extreme cases gearing could result in the premature winding up of an investment trust and total loss of capital.

Our *Guide to Investment Trust Pricing* and *Guide to Investment Vehicles* give additional information on this subject and are available on request.

Investment Trusts are not covered by the Financial Services Compensation Scheme and therefore a shareholder cannot make a claim in the event that the Investment Trust becomes insolvent.

Important notes

Any opinions expressed on the merits or disadvantages of any options are intended as a general comment only and not as specific advice to the reader.

This document is intended as a supplement to full independent advice and not as a replacement for it and should be read in conjunction with any personalised recommendations provided by Atkins Bland Ltd and with any product brochures supplied.

The value of investments will fall as well as rise, as can any income produced or generated. An investor may, therefore, get back less than invested.

Inflation can reduce the real value of capital and the income it generates.

Past investment performance is not a reliable guide to the future.

Investment Trusts are not covered by the Financial Services Compensation Scheme and therefore a shareholder cannot make a claim in the event that the Investment Trust becomes insolvent.

Any reference to taxation, regulation or legislation is based on our current understanding and details should be checked before any reliance is placed upon its accuracy.

The impact of taxation and tax planning depends on individual circumstances and may be subject to change, which can be retrospective.

The Financial Conduct Authority does not regulate Income and capital Gains Tax planning or Estate and Inheritance Tax Planning.

Errors and omission excepted.

Prepared by Atkins Bland Limited – October 2024

Atkins Bland