UNDERSTANDING YOUR INVESTOR RISK PROFILE

Before making decisions about investments, it is important to understand your risk profile as this helps provide a guide to the most appropriate investments and portfolio structure. There are several factors that influence your investor risk profile.

Personal attitude towards risk

History shows investments offering the potential of high returns also carry higher risk, while investments carrying low risk typically only offer the potential of low returns. Some investors are prepared to accept high levels of risk for the possibility of high returns while others accept lower returns as they find comfort knowing they have less risk in terms of decrease of capital value.

Diversification

A key strategy to manage risk is by diversification. Diversification is another way of saying don’t put all your eggs in the one basket.

There are many different assets to allocate investment funds such as in shares, property, fixed interest or cash, all of which have different risk/return characteristics. Diversification reduces investment risk because, when a portfolio has a spread of investments, the chance of a loss of capital due to individual asset or market performance will be offset by the performance of other assets and markets.

Investment time horizon

The interval during which the investment program is to be completed is known as your investment time horizon. It is important for determining the type of investments that should be in your portfolio as higher risk investments are more volatile in the short term and carry more risk than if held over a longer period.

Your risk profile and recommended asset allocation

The structure of the different investment assets used to build a portfolio to meet your objectives is referred to as an *asset allocation.* History shows shares deliver the highest return but also carry the highest level of risk. The movement over time in the price of shares is generally more variable than other investments. The long term movement of property values is less variable but the trade off is historically a lower return than shares. Fixed interest and cash carry the lowest risk, however over the long term returns are lower.

Lowe Lippmann Financial Services has adopted five basic profiles in the provision of investment advice to clients, which are based on personal attitude, adoption of diversified investment portfolios and investment time horizons.

→ Increasing potential for higher returns →

Defensive	**Moderate**	**Balanced**	**Growth**	**High Growth**

→ Increasing risk →

Before any specific investment recommendations are made to clients, it is necessary for the risk profile, or in the case of a couple, risk profiles, to be determined.

All investors have different characteristics, goals and objectives and therefore need their investments to reflect these individual requirements. An individual investor's risk profile will generally be determined through the completion of a risk profile questionnaire and discussion with their financial adviser.

As noted above, we adopted five broad investor profiles, which incorporate the investor's income needs, time horizons and investment objectives. The characteristics of each profile are set out on the following pages.

Defensive

The **Defensive** portfolio is suitable for investors seeking a relatively low-risk investment. They don't want to aim for higher returns if it means their portfolio may decrease significantly in value. It is also suitable for investors who have a short term investment time frame, as they may need access to their funds within three years. The Defensive portfolio will have an allocation of around 30% to growth assets such as shares and property. Capital is not guaranteed and there is some risk of a portfolio decreasing in value, although this is substantially reduced for investments over the recommended minimum investment term of three years.

Moderate

The Moderate portfolio is suitable for investors seeking an investment which balances risk and return. It is also suitable for investors who have a short term investment time frame, as they may need access to their funds within four years. The Moderate portfolio will have an allocation of around 50% to growth assets such as shares and property. Capital is not guaranteed and there may be fluctuations and some negative returns from year to year. There is a risk of a portfolio decreasing in value although this is substantially reduced for investments over the recommended minimum investment term of four years.

Balanced

The **Balanced** portfolio is suitable for investors seeking an investment which balances risk and return. They are prepared to invest for a long term and ride out periods of negative returns provided they may benefit from higher returns. The Balanced portfolio will have a large allocation of around 70% to growth assets such as shares and property. Capital is not guaranteed and there will be large fluctuations and some negative returns from year to year. There is a significant risk of a portfolio decreasing in value in the short term although this is substantially reduced for investments over the recommended minimum investment term of five years.

Growth

The **Growth** portfolio is suitable for investors seeking a higher return investment. They are prepared to invest for a long term and ride out extended periods of negative returns provided they may benefit from higher returns. The Growth portfolio will have a large allocation of around 83% to growth assets such as shares and property. Capital is not guaranteed and there will be large fluctuations and some negative returns from year to year. There is a significant risk of a portfolio decreasing in value in the short term although this is substantially reduced for investments over the recommended minimum investment term of seven years.

High Growth

The **High Growth** portfolio is suitable for investors seeking a higher return investment. They are prepared to invest for a long term and ride out extended periods of negative returns provided they may benefit from higher returns. The High Growth portfolio will have a large allocation of around 100% to growth assets such as shares and property. Capital is not guaranteed and there will be large fluctuations and some negative returns from year to year. There is a significant risk of a portfolio decreasing in value in the short term although this is substantially reduced for investments over the recommended minimum investment term of ten years.

The following tables set out the various characteristics of the five standard investor risk profiles on which investment advice is based.

Benchmark portfolios	Defensive	Moderate	Balanced	Growth	High Growth
Minimum timeframe	2 years	3 years	5 years	7 years	10 years
Asset allocation					
Australian cash	15%	10%	5%	5%	0%
Australian fixed interest	40%	30%	17%	8%	0%
International fixed interest	15%	10%	8%	4%	0%
Total defensive assets	**70%**	**50%**	**30%**	**17%**	**0%**
Australian shares	16%	28%	36%	42%	50%
International shares	9%	16%	25%	31%	45%
Property	5%	6%	9%	10%	5%
Total growth assets	**30%**	**50%**	**70%**	**83%**	**100%**

Probability in any one year of a positive return		98.8%	94.3%	88.6%	84.9%	80.5%
Probability in any one year of a negative return		1.2%	5.7%	11.4%	15.1%	19.5%
Range of returns (p.a.) (98% confidence interval)	1 year	-0.2% to 14.5%	-3.4% to 19.5%	-7.0% to 25.7%	-9.8% to 30.5%	-13.8% to 37.8%
	5 yrs	3.6% to 10.2%	2.5% to 12.7%	1.1% to 15.7%	-0.1% to 17.9%	-1.9% to 21.1%
	10 yrs	4.6 % to 9.2%	3.9% to 11.1%	3.1% to 13.4%	2.4% to 15.0%	1.2% to 17.4%

A benchmark portfolio represents the mix of asset classes which are most likely to produce the best returns with the lowest risk over their minimum timeframe. These provide a starting point in constructing investment portfolios appropriate to your objectives.

The following table sets out the forecast investment return characteristics of the five benchmark investment portfolios.

	Defensive	Moderate	Balanced	Growth	High Growth
Portfolio target return	Inflation + 3%	Inflation + 4%	Inflation + 5 %	Inflation + 5.5%	Inflation + 6%
Forecast average return over the long term (10 yrs plus)	6.9%	7.6%	8.3%	8.9%	9.6%
Value of $100,000 invested for 10 years (90% confidence) $450,000 $400,000 $350,000 $300,000 $250,000 $200,000 $150,000 $100,000	$226,860 **$195,363** $166,785	$260,258 **$207,539** $162,133	$304,474 **$222,736** $155,793	$341,983 **$233,653** $149,996	$399,892 **$249,169** $140,413

Forecast return information

These forecast figures provide a guide as to the likely future behaviour of returns for diversified portfolios and specific asset classes over time. The returns are indicative and in no way provide any guarantees of future performance.

The forecast information in this document has been prepared by St.George investment solutions. Forecast returns and risk for each asset class have been based on the analysis of historical market data and fundamental economic factors and are best estimates of asset class returns and risk.

The forecast returns are based on the strategic long-term view of each asset class as at end February 2008.