MKC Invest

Investment Risk

A guide for clients

“Risks must be taken, because the greatest hazard in life is to risk nothing.”

Leo Buscaglia

Contents

This guide is for you if... 3

What is risk? 4

Our approach to risk 6

Baseline 6 Illustrated

Our risk partner 8

Dorey Limited

Keeping our promises 9

So what can I expect? 10

Mistakes to avoid 12

Panic Selling

Risk Chasing

Final thoughts 14

This guide is for you if...

...you're thinking about investing at all, no matter whose portfolios you might choose.

...you want to understand MKC Invest's own approach to risk.

...you'd like to know more about investment risk and what it might mean for you and your financial plans.

What is risk?

“Risk” is both a noun and a verb.

As a noun it describes an uncertain situation carrying the chance of poor outcomes, whether that means pain, loss, death, disappointment, defeat or anything else negative; as a verb it’s a decision to accept those potential pains in pursuit of something better.

Both meanings matter to investors. To succeed in the markets, you will need to understand how risk applies to your own situation, and then take some level of risk with your eyes fully open. In other words, you must *know* risk, and *do* risk.

At MKC Invest, our three golden rules of risk are:

1 There is no such thing as a risk-free investment.

Every possible store of value carries some type of risk. Bank accounts can fail, or your wealth can be rotted by long-term inflation. Gold can be stolen. Hedge funds can collapse. Share prices can go up and down. Bonds can suffer default. Buildings can be left unoccupied and earn no rent. The list goes on...

The best investors understand the right type of risk to take for their own circumstances.

Anybody selling you a “high return, risk-free” investment is trying to scam you. There is no such thing.

2 Nobody can predict or time the markets.

Markets are wonderful things: chaotic, capricious, and utterly beyond short-term prediction. We urge you to be highly suspicious of any person or firm claiming to have cracked the code and to be capable of getting you “in and out” at precisely the right times. We certainly can’t do that...but that’s not to say we can’t help you succeed in the markets in other ways.

3 Our main job is to honour and to deliver the levels of risk that you have agreed to take.

This is why we only allow access to our portfolios to people who work with a high-quality financial planner. They have the skills and training to help you set clear long-term goals, and they will explain how much risk- if any- you may need to accept to reach them.

Your full financial plan could well involve several different levels of risk, all aimed at different goals you’ve identified. The time horizon of each goal will be a factor in these discussions.

Our approach to risk

Risk is abstract.

You can’t see it or touch it. But it definitely exists!

Our aim is to help you grasp and measure how much risk you’re taking, and what the possible outcomes of that risk might be.

Units of length, like centimetres, and measuring instruments, like rulers, help us to understand distance. Imagine trying to describe a distance without these tools to help. In the same way, MKC Invest uses a simple scale of investment risk: we call it “Baseline”.

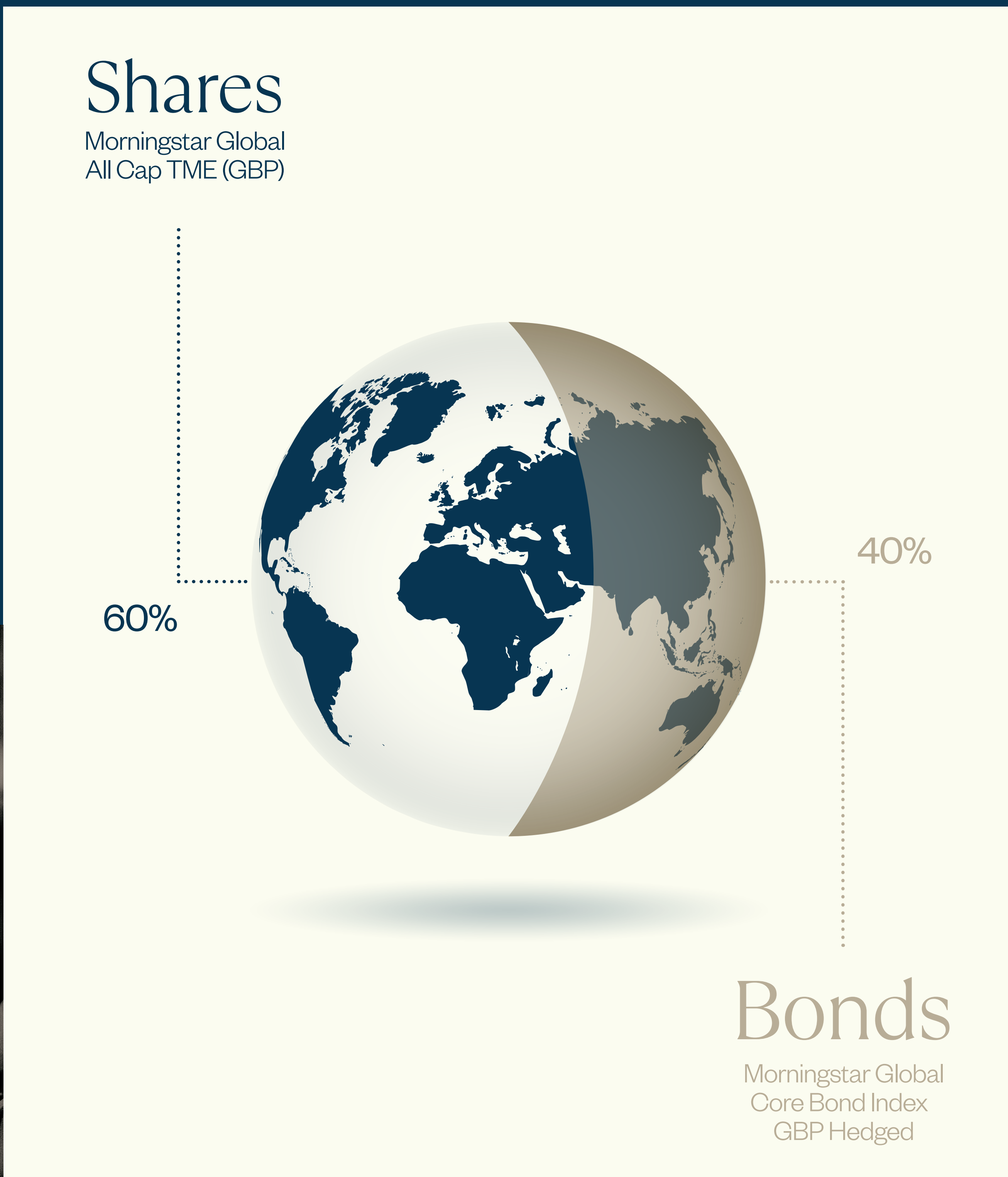
A “Baseline” is a mix of global shares and global bonds. These are the two fundamental investment asset classes, the basic building blocks of business. Shares offer higher reward potential- and present higher risks- than bonds over the longer term.

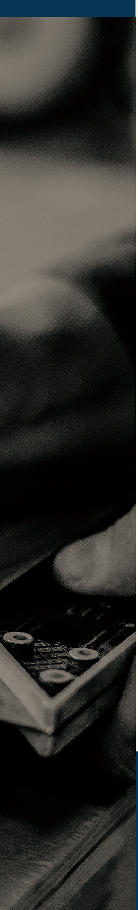
We build ten Baselines. Baseline 1- the lowest risk- represents 10% in shares and 90% in bonds; and at the other end of the scale, Baseline 10 is 100% in shares, offering very high risk and return potential.

This simple idea gives us a vocabulary for risk e.g. “Baseline 6 is riskier than Baseline 3.”

Baseline helps us to explain in clear terms how much risk you will be taking in any of our portfolios. It also helps us set portfolio mandates with strong risk controls, so that you can be confident you will get the “ride” you were promised. It also gives us a way to estimate the future outcomes you might encounter at any point on the Baseline scale. More on this on page 10...

Baseline 6 illustrated





Our risk partner

Dorey Financial Modelling provides us with powerful tools to understand investment risk, both now and in the future.

Their unique approach to forward-looking risk and return projections helps us to guide investors towards risk levels that are right for their financial plans.

Dorey's work supports over £36bn in worldwide assets and includes work for governments as well as for investment firms.

They have expertise in mathematical modelling, and also in technology, fund research, communications, and financial services regulation.

Dorey Limited is a global team:

Guernsey
Actuarial

Cambridge
Actuarial

Edinburgh
Actuarial

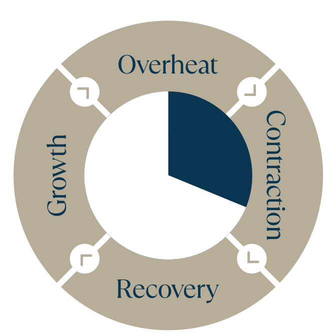
Sydney
Chartered Financial Analyst

Poole
Design

India
User Interface

We rely on Dorey's skill and creativity to help our clients understand what taking risk could mean for them.

Estimated position in the economic cycle



Keeping our promises

The portolio mandate

Every MKC Invest portfolio is governed by one of our Baseline risk benchmarks.

The key is in the name of each portfolio: anything we offer with “4” in the name (Classic Active 4, Fossil Fuel Focus 4...) is designed against Baseline 4.

This is 40% in global shares and 60% in global bonds.

Our strict mandates compel us to always have similar risks to our benchmarks. We can sometimes deviate a little to take advantage of opportunities, but we will never fundamentally change the risk level you agreed with your financial planner.

So what can I expect?

This page is the set of long-range projections and historic analysis of our Baseline benchmarks provided to us by Dorey Financial Modelling in March 2024.

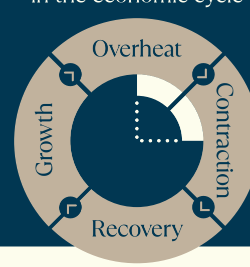
Your financial planner may have access to more recent data, so please don't make any decisions based on this page alone.

Expected returns are long-run averages and should not be taken as an indication of any single year's performance. Actual returns will sometimes exceed and sometimes fall short of these averages. They are not guarantees or promises. They are intended only to help your financial planner match your personal goals to suitable levels of risk.

Baseline Range Assumptions

Calculation Date:	7th February 2024
Assumptions:	Nominal returns and risks
Risk Horizon:	2 Years
Return Horizon:	8 Years
Yield:	Prevailing market rates as at calculation date
Inflation Basis:	UK Market rates from the Bank of England at calculation date
Cycle Basis:	50% Overheat, 50% Contraction

Estimated position in the economic cycle



Notes on returns and risks given in the table below

Portfolio Characteristics

	Baselines									
Forecast Growth	1	2	3	4	5	6	7	8	9	10
Expected Return (per annum) %	4.2	4.7	5.1	5.5	5.9	6.4	6.8	7.2	7.7	8.1
Expected Volatility (per annum) %	2.2	3.3	4.7	6.4	8.1	10.0	11.8	13.7	15.5	17.4
Min Volatility (7 year historical) %	2.6	3.1	3.6	4.3	5.1	5.9	6.8	7.6	8.5	9.4
Max Volatility (7 year historical) %	4.7	5.1	5.6	6.3	7.2	8.2	9.2	10.2	11.3	12.4
Worst Rolling 12 Month Return %	-13.2	-12.5	-11.8	-11.2	-12.7	-16.1	-20.0	-23.7	-27.4	-30.9
Historical Peak to Trough %	-14.1	-13.2	-12.5	-14.2	-20.5	-26.5	-32.1	-37.3	-42.2	-46.8
Historical Best 12 Month Return %	12.1	15.8	19.7	23.6	27.7	31.9	36.1	40.5	44.9	49.4

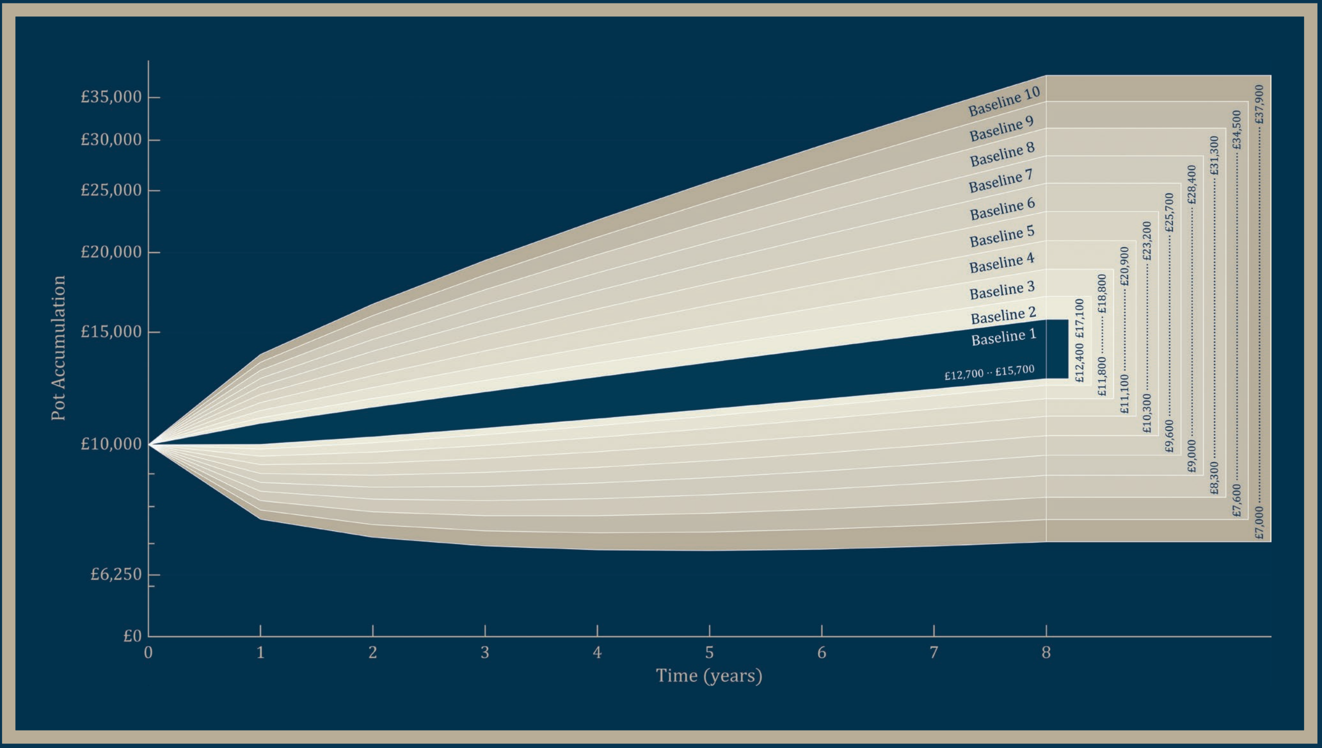
Please note, the above asset allocations are a quarter end snapshot as at Q1 2024.

This diagram is based on the Dorey numbers on the opposite page.

We use it to show that, as the risk level increases, so does the range of possible outcomes you might experience.

The best possible outcomes are more likely if you take the highest level of risk (Baseline 10), but this makes the worst possible outcomes more likely, too.

This trade-off decision is the heart of choosing to take investment risk.



Mistakes to avoid

Panic Selling

The most dangerous time to be an investor is during market crashes, corrections, or crises. These events are quite common, but they can be frightening.

The worst mistake any investor can make is impulsively to offload their portfolio at a discount during these scenarios. This is called “Panic Selling”.

Humans naturally feel like “doing something” in stressful situations, even if that “something” will do lasting harm.

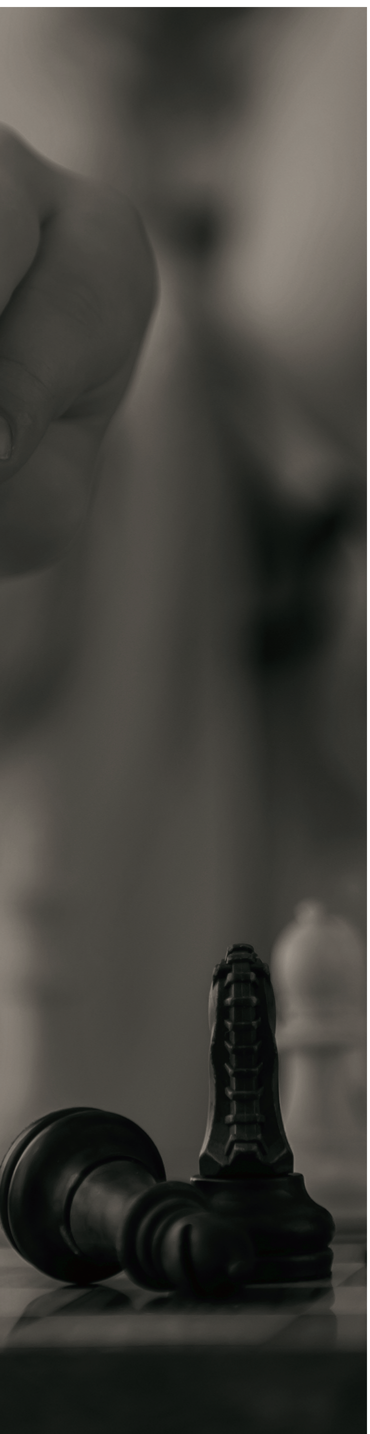
Market falls throughout history have usually been followed by recoveries. You will miss that recovery if you have sold out.

The more you understand investment risk, and the more prepared you are for the next downside event, the more you will be able to take control of your emotional response and hold on to your wealth through the tough times.

Remember: you have worked hard for your assets. Don’t give them away to somebody else for less than they are truly worth.

“In bear markets, stocks return to their rightful owners”

Old Wall Street saying



Mistakes to avoid

Risk Chasing

Markets sometimes seem to be going up and up with no end in sight.

This can feel great...richer every day! But it's also a time to be careful.

The assets going up the fastest are likely to be those with the highest risks. And these high levels of risk might be more than are right for you personally. You may feel tempted to "chase risk" by asking for a higher risk portfolio.

But if you lean into risk during a strongly rising market, you could increase the chance that you fall victim to panic selling when the market direction changes.

Nobody – certainly not us- can predict exactly when markets will fall or rise.

The best approach is to work with your trusted financial planner to make long-term plans, to take only as much risk as you need and can afford, and then to sit back and let your plan take its course over time. Ignore the short-term "noise" of the markets and focus on what YOU want to achieve.

Final thoughts

We hope you found this guide useful and that you can see how seriously we take the subject of risk at MKC Invest.

If you have any questions then please contact your financial planner, or write directly to us as riskguidequestions@mkc-invest.com

MKC Invest
Walsingham House
35 Seething Lane
London, EC3N 4AH

T +44 (0) 207 702 4488
E enquiries@mkc-invest.com
W mkc-invest.com

2023-10-09 2023-12-03

Important Information

Invested.
Together.